

DOMTAR CORPORATION

FOURTH QUARTER & FISCAL YEAR 2015

EARNINGS CALL

February 5, 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, 2014 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-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

Fourth Quarter 2015

- Best EBITDA before items* performance in 2015
- Strong pulp and paper shipments
- Operations ran exceptionally well with productivity gains across the mill system
- Best Personal Care same currency sales performance to date
- Strong operating cash flow quarter

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

FINANCIAL HIGHLIGHTS

Fourth Quarter 2015

- Net earnings of \$0.91 per diluted share; earnings before items* of \$1.11 per share
- EBITDA before items* of \$204 million
- Cash flow provided from operating activities of \$137 million
- Capital expenditures of \$87 million
- Free cash flow* of \$50 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

4Q'15 vs. 3Q'15 (in millions of dollars)

	3Q'15	4Q'15	
Sales	1,292	1,314	Higher volumes in all of our businesses; lower pulp and paper prices
Cost of sales	1,026	1,007	
Depreciation and amortization	89	89	
SG&A	95	100	Higher bonus accrual and sales activities
Impairment & write-down of PP&E	20	20	Accelerated depreciation of Ashdown paper machine
Closure and restructuring costs	1	1	
Other operating income, net	-	3	
Operating income	61	94	
Interest expense, net	64	17	Debt refinancing costs in 3Q'15
Income tax expense (benefit)	(14)	20	26% tax rate
Net earnings	11	57	

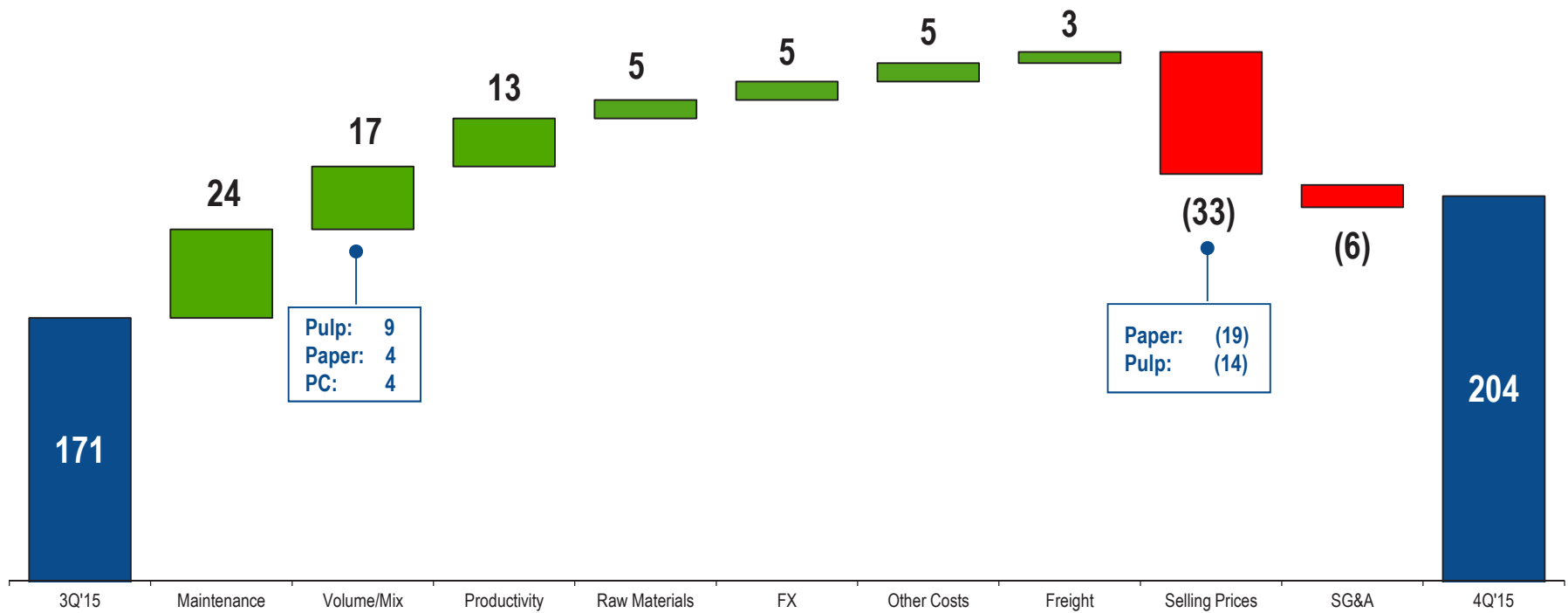
CASH FLOW STATEMENT

4Q'15 vs. 4Q'14 *(in millions of dollars)*

	4Q'14	4Q'15
Net earnings	71	57
Depreciation & amortization	93	89
Deferred income taxes and tax uncertainties	1	(6)
Impairment and write-down of PP&E	4	20
Changes in assets and liabilities		
Changes in working capital	(5)	(17)
Pension expense over contribution	16	(3)
Other	6	(3)
Cash flows provided from operating activities	186	137
Additions to PP&E	(79)	(87)
Other	(10)	1
Cash flows used for investing activities	(89)	(86)
Dividend payments and stock repurchases	(43)	(25)
Changes in borrowings	(13)	(27)
Cash flows used for financing activities	(56)	(52)

EBITDA BEFORE ITEMS*

4Q'15 vs. 3Q'15 (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)

	4Q'15	vs. 3Q'15	vs. 4Q'14
Sales	\$1,110	2%	4%
EBITDA before items *	\$180	\$30	\$15

- Strong pulp and paper shipments
- Strong operational performance with productivity gains across the mill system
- Concluded a four year master agreement with the USW covering 3,000 Domtar employees
- Plymouth and Marlboro mills honored at AF&PA's "Better Practices, Better Planet 2020" campaign

* 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)*

	4Q'15	vs. 3Q'15	vs. 4Q'14
Sales	\$850	↓ 1%	↓ 4%
EBITDA before items *	\$135	↑ \$32	↓ \$13
	4Q'15	vs. 3Q'15	vs. 4Q'14
Shipments <i>(manufactured, in thousands of short tons)</i>	797	↑ 2%	↑ 2%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↓ \$24	↓ \$52

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PULP AND PAPER SEGMENT

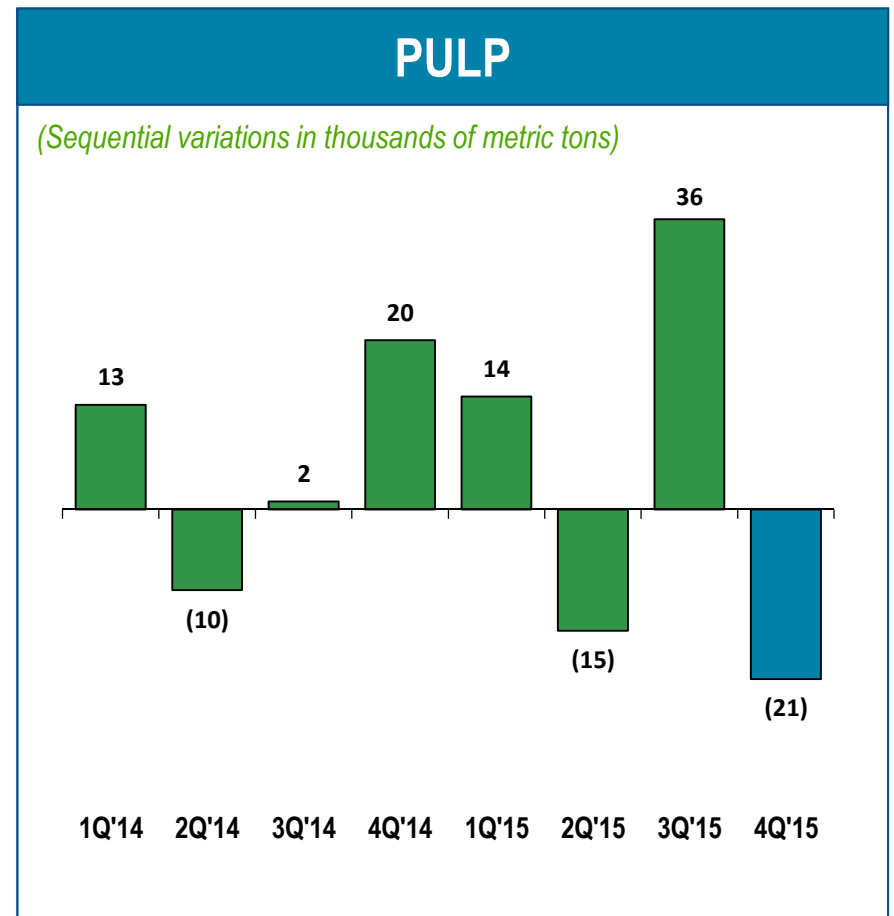
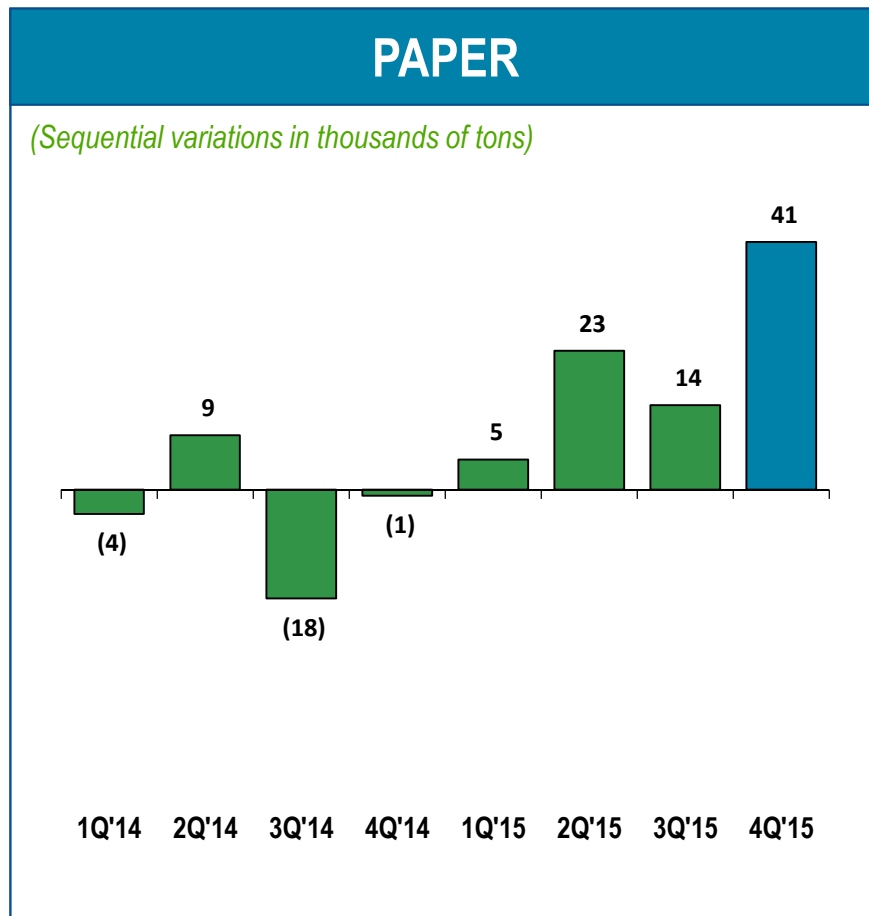
PULP *(in millions of dollars)*

	4Q'15	vs. 3Q'15	vs. 4Q'14
Sales <i>(incl. intersegment sales)</i>	\$260	10%	4%
EBITDA before items *	\$45	\$2	\$2
	4Q'15	vs. 3Q'15	vs. 4Q'14
Shipments <i>(in thousands of ADMT)</i>	386	16%	4%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		\$35	\$74

* 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)

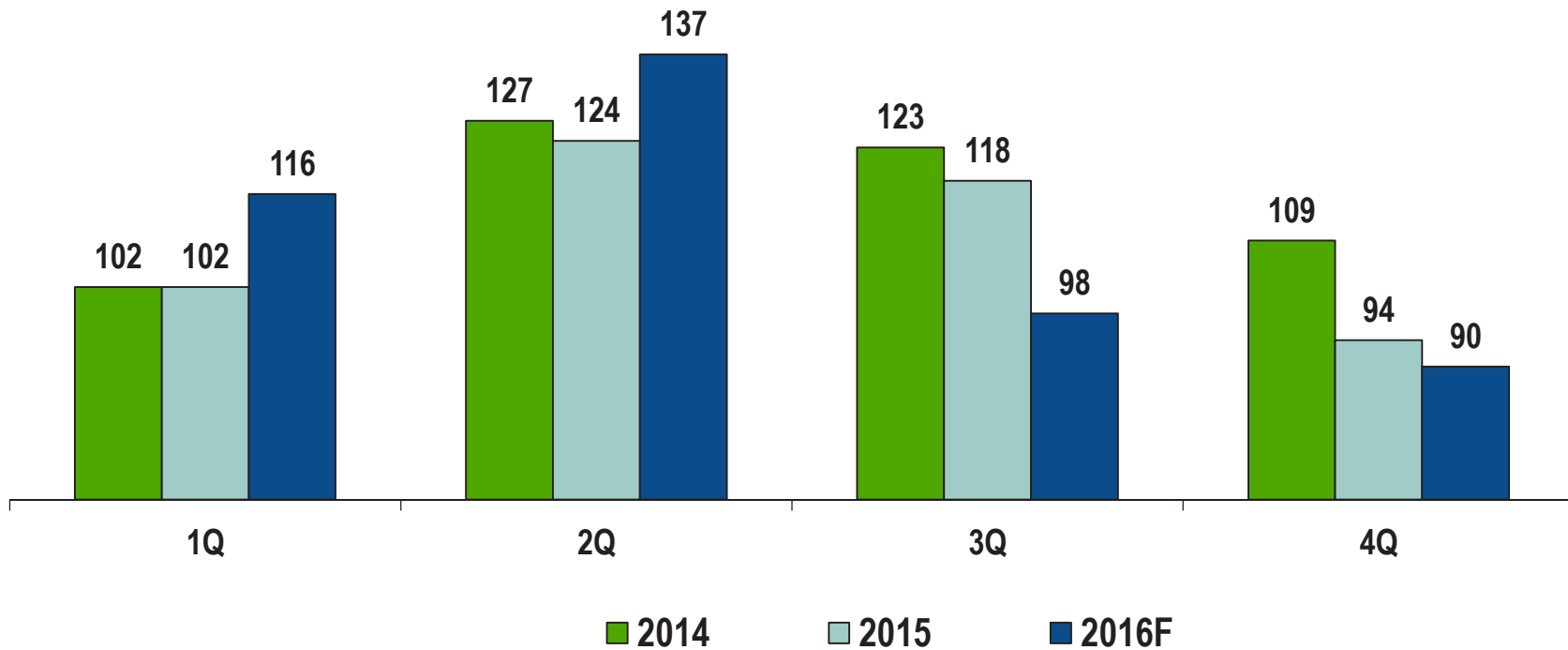
	4Q'15	vs. 3Q'15	vs. 4Q'14
Sales	\$221	 3%	 4%
EBITDA before items*	\$32		 \$6
Same Currency Sales <small>(@3Q'15 FX rate)</small>	\$222	 4%	-
Same Currency Sales <small>(@4Q'14 FX rate)</small>	\$235	-	 2%

- Best same-currency sales performance to date
- EBITDA* increased 23% when compared to same quarter last year
- North American business delivered its best EBITDA* quarter to date
- Relunched light incontinence brand in Spain
- Conducted consumer testing for innovations that will be launched in Q1'16

*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.

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

\$5

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

Softwood

\$11

Fluff

\$5

Hardwood

-

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


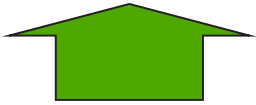
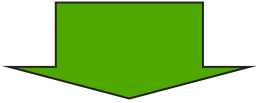
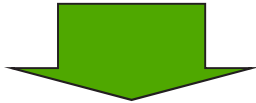
Natural gas: \$0.25/MMBtu change in price before hedging

\$6

MANAGEMENT'S FINANCIAL ASSUMPTIONS

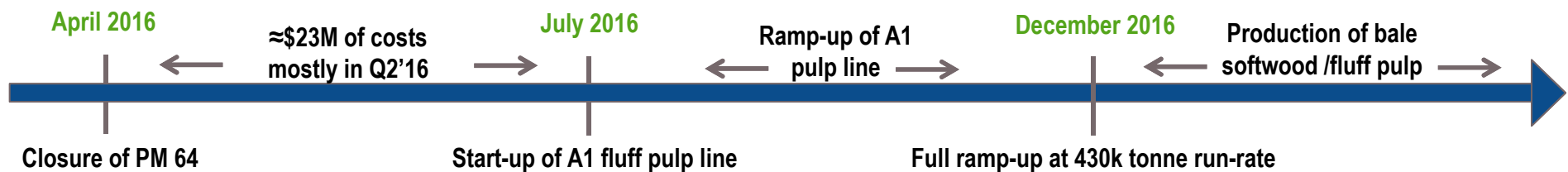
ACTUAL 2015/ ESTIMATES 2016

(in millions of dollars)

	2015A	2016E	Variation
Planned maintenance costs	\$438	\$441	
Negative impact from Ashdown conversion outage	-	\$23	
CAPEX	\$289	\$330-350	
Depreciation and amortization*	\$359	\$345-355	
Interest expense	\$132	\$68-72	
Income tax rate	9%	24-26%	

* Excludes accelerated depreciation of \$77 million in 2015 and approximately \$25 million in 2016 related to the conversion of the Ashdown paper machine to fluff pulp

ASHDOWN CONVERSION UPDATE



- Major equipment purchased and fabricated, with delivery expected in Q1'16
- Expected closure of PM 64 (364k tons) in early April
- Negative impact of approximately \$23 million related to the outage at our Ashdown mill
- Fluff pulp line is scheduled to start-up in early Q3'16
- Expected full ramp-up to be completed over a six month period
- Target is to produce 50% fluff output by early 2017

OUTLOOK

- We expect our paper shipments to be in-line with market demand, while pulp shipments should be higher due to the conversion of a paper machine to a fluff pulp line
- We anticipate some volatility in softwood and fluff pulp markets due to the strengthening of the U.S. dollar and announced new capacity additions
- Negative impact of approximately \$23 million related to the fluff pulp conversion outage at our Ashdown mill mostly in Q2'16
- New customer wins are expected to generate above-market revenue growth in Personal Care
- Costs for raw materials are expected to marginally increase



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Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

PULP & PAPER SEGMENT								
<i>(In millions of dollars)</i>	1Q'14	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15
Paper	936	906	914	889	889	860	855	850
Pulp (incl. intrasegment sales)	289	309	322	316	301	298	277	301
Intrasegment sales – Pulp	(57)	(55)	(50)	(45)	(44)	(48)	(40)	(41)
Pulp	232	254	272	271	257	250	237	260
SALES	1,168	1,160	1,186	1,160	1,146	1,110	1,092	1,110
Paper	140	142	139	148	132	123	103	135
Pulp	32	11	43	47	36	12	47	45
EBITDA before items*	172	153	182	195	168	135	150	180
Paper Shipments – Manufactured	807	779	777	785	804	783	779	797
Paper Shipments – Sourced from 3rd parties	47	42	46	35	35	29	35	28
Paper Shipments	854	821	823	820	839	812	814	825
Pulp Shipments	318	336	367	370	350	345	333	386
PERSONAL CARE SEGMENT								
<i>(In millions of dollars)</i>	1Q'14	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15
SALES	233	234	231	230	218	216	214	221
EBITDA before items*	34	29	29	26	27	33	32	32
CORPORATE								
<i>(In millions of dollars)</i>	1Q'14	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15
EBITDA before items*	(24)	(7)	(11)	(13)	(15)	(10)	(11)	(8)

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THE FIBER of Domtar

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