

DOMTAR CORPORATION

SECOND QUARTER 2015 EARNINGS CALL

July 30, 2015

(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.

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

Second Quarter 2015

- Solid operational results in all of our businesses
- Strong paper shipments; outperforming broader North American uncoated freesheet market by 2.3% year-to-date
- EBITDA margins expanded 300 basis points to 15% in Personal Care
- Good free cash flow; continued to buy back stock
- Announced the redemption of certain outstanding notes along with a new debt financing in July 2015

FINANCIAL HIGHLIGHTS

Second Quarter 2015

- Net earnings of \$0.60 per diluted share; earnings before items* of \$0.61 per share
- EBITDA before items* of \$158 million
- Cash flow provided from operating activities of \$122 million
- Capital expenditures of \$66 million
- Free cash flow* of \$56 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

2Q'15 vs. 1Q'15 (in millions of dollars)

	1Q'15	2Q'15	
Sales	1,348	1,310	Lower pulp and paper volume and prices
Cost of sales	1,062	1,052	
Depreciation and amortization	90	91	
SG&A	100	99	
Impairment & write-down of PP&E	19	18	Accelerated depreciation of Ashdown paper machine
Closure and restructuring costs	1	1	
Other operating loss (income), net	5	(13)	Bad debt expense in Q1'15; gains on sale of PP&E
Operating income	71	62	
Interest expense, net	26	25	
Income tax expense (benefit)	9	(1)	Recognition of previously unrecognized tax benefits and other discrete items
Net earnings	36	38	

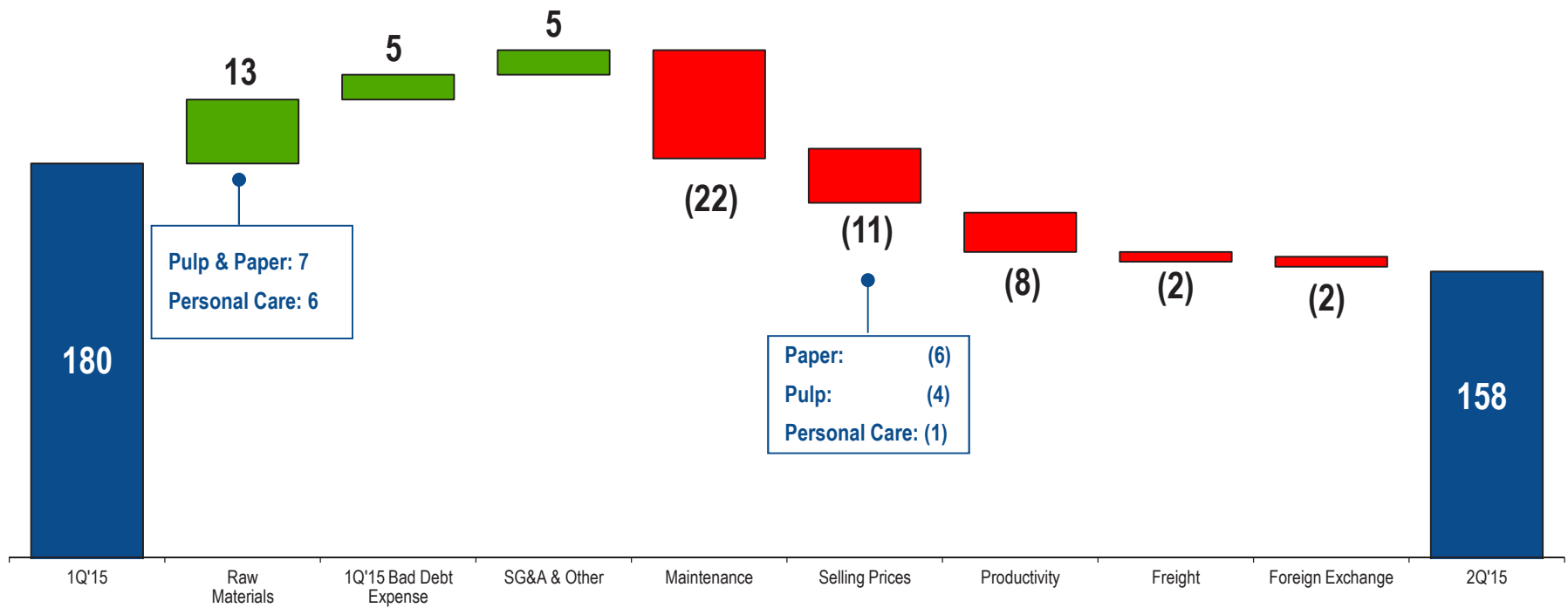
CASH FLOW STATEMENT

2Q'15 vs. 2Q'14 *(in millions of dollars)*

	2Q'14	2Q'15
Net earnings	40	38
Depreciation & amortization	96	91
Deferred income taxes and tax uncertainties	(6)	(17)
Net gains on disposal of PP&E	-	(14)
Impairment and write-down of PP&E	-	18
Changes in assets and liabilities		
Changes in working capital	(18)	4
Pension expense over contribution	(4)	1
Other	(4)	1
Cash flows provided from operating activities	104	122
Additions to PP&E	(56)	(66)
Other	1	15
Cash flows used for investing activities	(55)	(51)
Dividend payments and stock repurchases	(18)	(43)
Changes in borrowings	(81)	(6)
Other	3	-
Cash flows used for financing activities	(96)	(49)

EBITDA BEFORE ITEMS*

2Q'15 vs. 1Q'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)

	2Q'15	vs. 1Q'15	vs. 2Q'14
Sales	\$1,110	↓ 3%	↓ 4%
EBITDA before items *	\$135	↓ \$33	↓ \$18

- Good execution during planned maintenance outages
- Paper outperforming the broader North American uncoated freesheet market by 2.3%
- Department of Commerce announced preliminary countervailing duties on imports from China and Indonesia
- Expect some pricing volatility in pulp by late-summer as normal seasonal factors in certain markets take hold

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PULP AND PAPER SEGMENT

PAPER *(in millions of dollars)*

	2Q'15	vs. 1Q'15	vs. 2Q'14
Sales	\$860	↓ 3%	↓ 5%
EBITDA before items *	\$123	↓ \$9	↓ \$19
	2Q'15	vs. 1Q'15	vs. 2Q'14
Shipments <i>(manufactured, in tons)</i>	783	↓ 3%	↑ 1%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↓ \$7	↓ \$44

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PULP AND PAPER SEGMENT

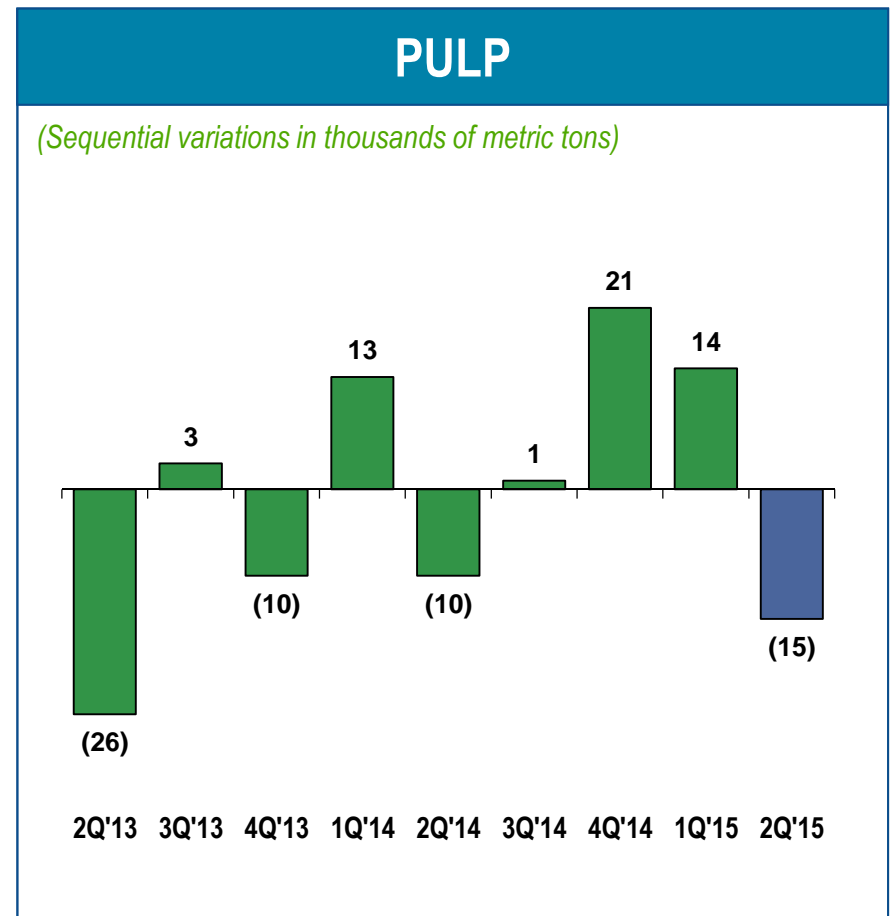
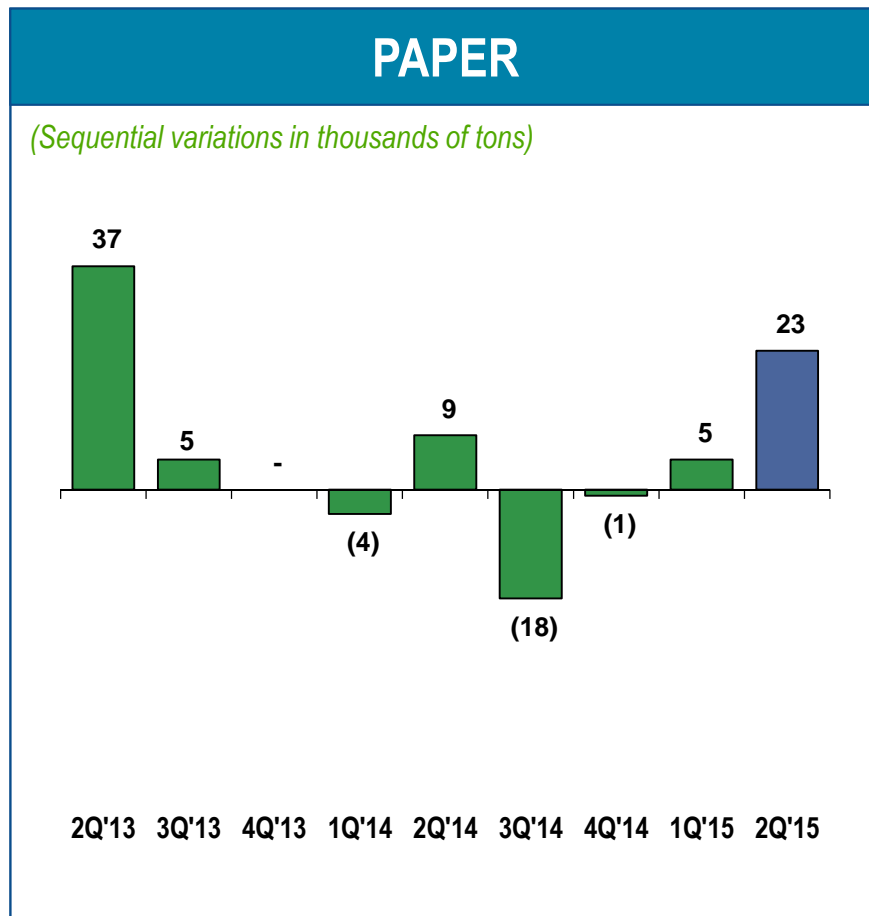
PULP *(in millions of dollars)*

	2Q'15	vs. 1Q'15	vs. 2Q'14
Sales <i>(incl. intrasegment sales)</i>	\$298	↓ 1%	↓ 4%
EBITDA before items *	\$12	↓ \$24	↑ \$1
	2Q'15	vs. 1Q'15	vs. 2Q'14
Shipments <i>(in ADMT)</i>	345	↓ 1%	↑ 3%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		↓ \$10	↓ \$43

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PULP AND PAPER SEGMENT

INVENTORIES



PERSONAL CARE SEGMENT

(in millions of dollars)

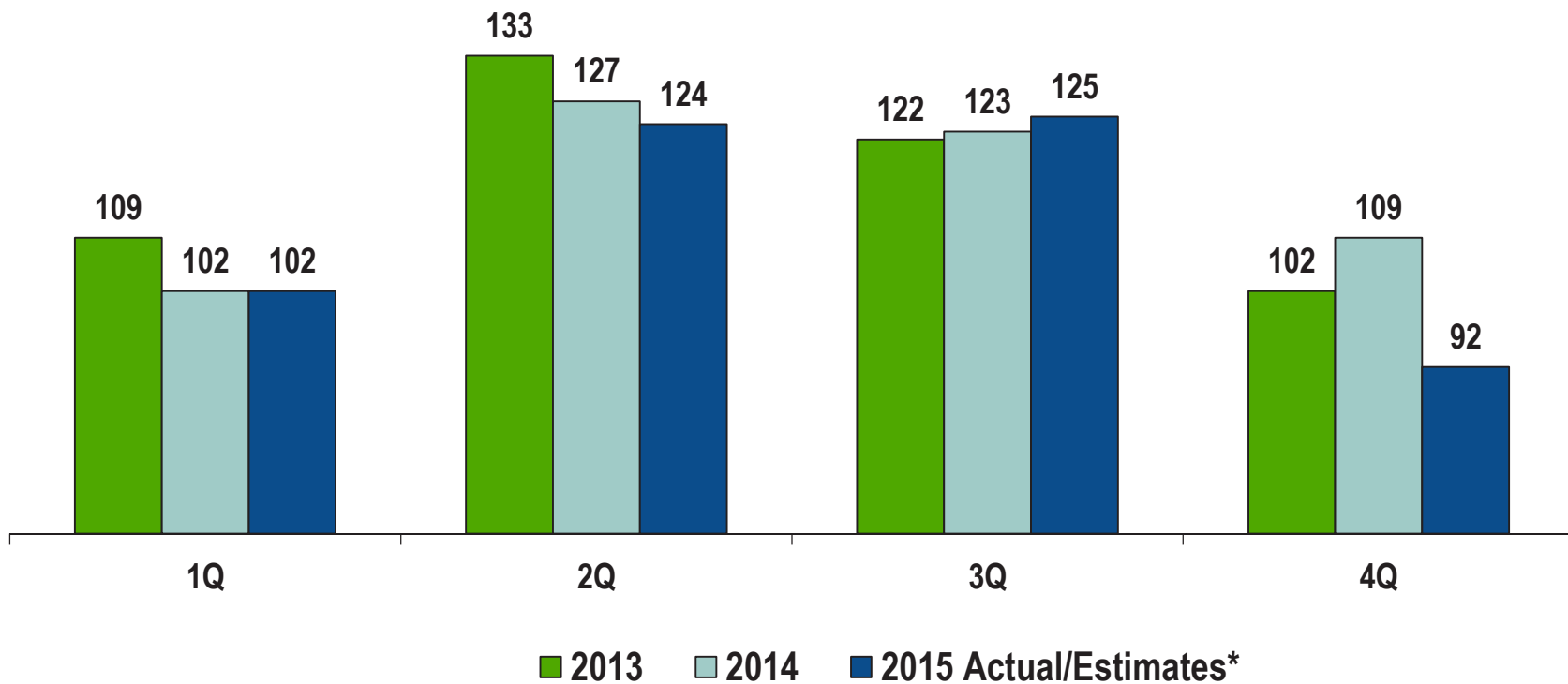
	2Q'15	vs. 1Q'15	vs. 2Q'14
Sales	\$216	↓ 1%	↓ 8%
EBITDA before items*	\$33	↑ \$6	↑ \$4
Same Currency Sales (@1Q'15 FX rate)	\$218	↔	-
Same Currency Sales (@2Q'14 FX rate)	\$241	-	↑ 3%

- EBITDA before items 14% higher year over year
- 300 basis point EBITDA margin increase to 15%
- Same currency sales increased 3% when compared to 2Q'14
- Protective underwear and baby diapers achieved record output levels during the quarter
- Significant year over year improvement in baby diapers

*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

\$10

Converting & Publishing

\$7

Commercial Printing

\$6

Other

\$8

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

Softwood

\$11

Fluff

\$5

Hardwood

\$1

Foreign exchange

US \$0.01 change in relative value to the Canadian dollar

\$9

Euro 0.01 change in relative value to the US dollar

\$2

Energy *(Natural gas: \$0.25/MMBtu change in price)*

\$5

* Before hedging

OUTLOOK

- Paper shipments are expected to trend with market demand but we should benefit from lower import volumes in North America
- Pricing volatility in pulp is expected in the coming months as normal seasonal factors in certain markets take hold
- Inflation on input costs is expected to be relatively flat; fiber costs will remain high in certain markets but are not expected to increase further while energy costs should remain favorable
- Personal Care is expected to benefit from further cost savings and market growth but the segment will be impacted by some seasonality in the third quarter



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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
Paper	936	906	914	889	889	860
Pulp (incl. intrasegment sales)	289	309	322	316	301	298
Intrasegment sales – Pulp	(57)	(55)	(50)	(45)	(44)	(48)
Pulp	232	254	272	271	257	250
SALES	1,168	1,160	1,186	1,160	1,146	1,110
Paper	140	142	139	148	132	123
Pulp	32	11	43	47	36	12
EBITDA before items*	172	153	182	195	168	135
Paper Shipments – Manufactured	804	779	776	786	804	783
Paper Shipments – Sourced from 3rd parties	50	42	47	34	35	29
PAPER SHIPMENTS	854	821	823	820	839	812
PULP SHIPMENTS	318	336	367	370	350	345
PERSONAL CARE SEGMENT						
<i>(In millions of dollars)</i>	1Q'14	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15
SALES	233	234	231	230	218	216
EBITDA before items*	34	29	29	26	27	33
CORPORATE						
<i>(In millions of dollars)</i>	1Q'14	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15
EBITDA before items*	(24)	(7)	(11)	(13)	(15)	(10)

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THE FIBER of Domtar

AGILE | CARING | INNOVATIVE



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