Tembec

# Investor Presentation

August 2010

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# Company Overview

# Corporate Strategy

**Goals**

- Achieve superior results and improve the Company's relative and absolute financial performance
- Streamline operations and position the business to capitalize on normalizing / improving market trends
- Deleverage the balance sheet and maintain appropriate liquidity levels to provide flexibility for cyclical swings in end markets and long-term financial stability

**Operational Goals**

- Focus on core businesses of pulp, forest products and coated paperboard
- Assets in the first or second quartile on the cost curve
- Monetize non-core / non-strategic assets at an accretive value

# Key Investment Considerations

| Industry | Operational | Financial |
| --- | --- | --- |
| • Stable fundamentals in the pulp market support pricing<br>• Wood products benefiting from reduced capacity industry-wide and tight inventories – driving Y-O-Y price improvements<br>• Balanced supply / demand with increasing backlog of orders in coated paperboard drive price increases<br>• Sequential improvement in newsprint pricing | • Goal to be well positioned on the cost curve in all businesses<br>• High return operational improvement opportunities identified<br>• Actively managed non-core and high cost capacity | • Significant operating leverage to price increases and improving volumes<br>• Sequential and Y-O-Y improvements in EBITDA, with Company reporting \$60 million EBITDA in latest quarter<br>• Pro forma total liquidity of over \$150 million<br>• Strong asset coverage of 3.4x<br>• Manageable debt profile |

**A strong financial profile, rationalized manufacturing footprint and further operational improvements position Tembec to benefit from a cyclical recovery in end markets**

Note: CAD in millions.

# Company Overview

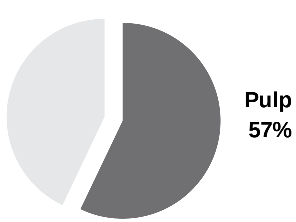
- Tembec is a leading diversified and integrated forest products company
- Tembec is publicly listed on the Toronto Stock Exchange under the symbol “TMB”

Tembec

## Pulp

- #1 producer of High Yield pulp
- #1 producer of Cellulous Ethers pulp, MCC pulp and Nitrocellulose pulp
- 1.4 million tonnes of annual capacity
- 79% of FY2009 sales generated outside of Canada and the U.S.

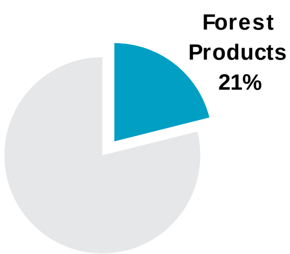
**LTM Sales: $1,174mm**




## Forest Products

- Produces a range of commodity and value-added forest products including SPF lumber, Hardwood lumber, Engineered wood products, Hardwood flooring and wood chips
- Harvested and delivered 3.6 million cubic meters of timber in FY2009
- North America accounted for 99% of sales in FY2009

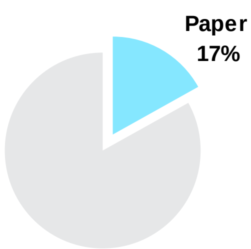
**LTM Sales: $426mm**




## Paper

- Produces newsprint for use in newspapers, coated paperboard for specialty publishing and premium bleached linerboard used in packaging
- 330,000 tonnes of newsprint capacity
- 180,000 tonnes of coated paperboard capacity
- North America accounted for 94% of sales in FY2009

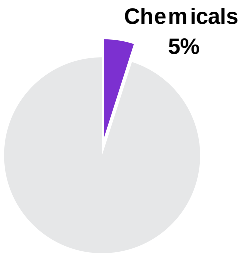
**LTM Sales: $345mm**




## Chemicals

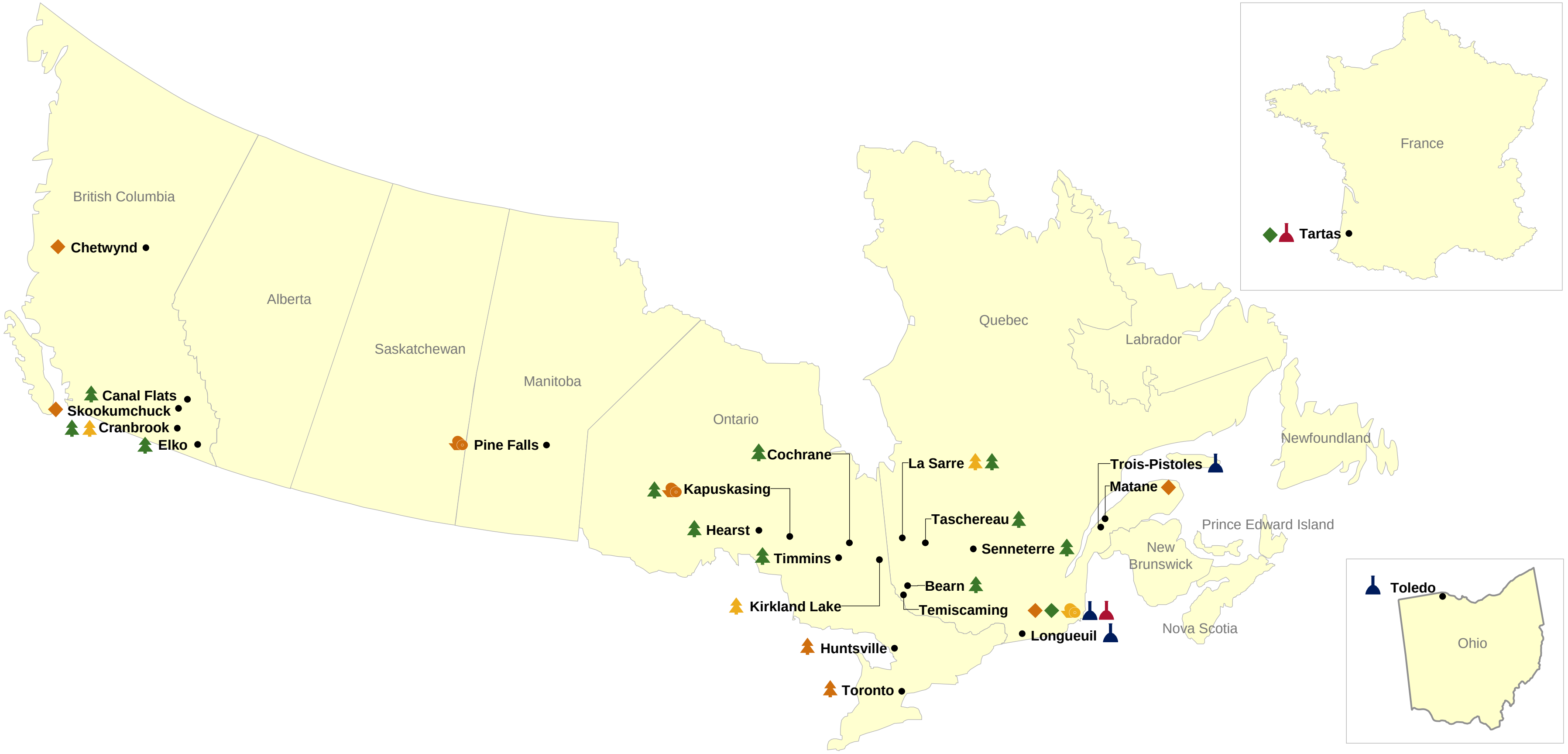
- The Chemicals segment operates in three main areas: resins, lignin and ethanol
- Resin products accounted for 52% of total chemical sales
- Chemicals are designed for the OSB industry, industrial markets and hygiene and cosmetics markets
- 75% of FY2009 sales were in North America

**LTM Sales: $94mm**




Source: Company filings. Figures in CAD.
Note: LTM Sales as of June 2010 includes intersegment sales eliminated on consolidation.

# Geographic Footprint



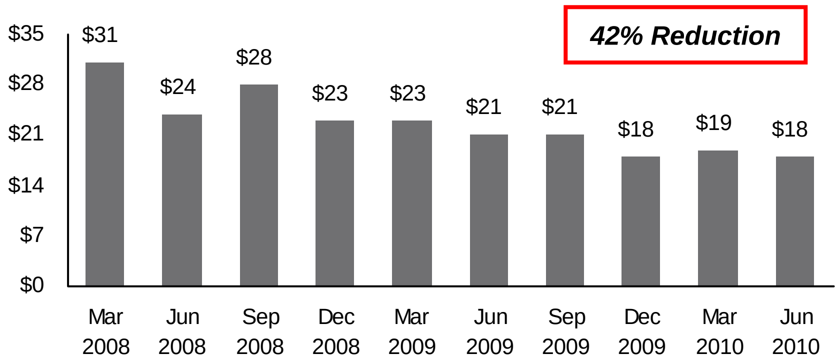

| Forest Products | | | Pulp | | Paper and Paperboard | | Chemicals | |
|---|---|---|---|---|---|---|---|---|
| SPF Lumber | Specialty Wood | Engineered Wood | Paper Pulp | Specialty Pulp | Newsprint and UCGW | Coated Paperboard | Resin Products | Silvichemical Products |

# Restructuring and Cost Saving Initiatives

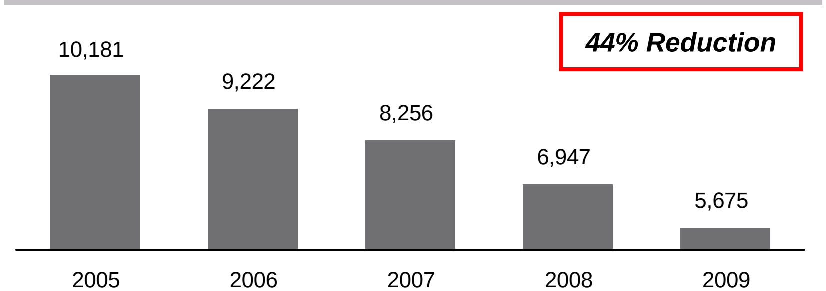
## Asset Sales

| Date | Asset | Acquiror | Consideration |
|---|---|---|---|
| May 2010 | Saint-Gaudens and Tarascon, France Kraft pulp mills | Paper Excellence B.V. | €100 million |
| April 2009 | St. Francisville, Louisiana coated paper mill | West Feliciana Acquisition, LLC | US $16 million |
| September 2009 | 50% equity interest in Temrex Forest Products LP | Société générale de financement du Québec | CAD $12 million |
| Various | Additional Liquidity Initiatives | Various | CAD $23 million |

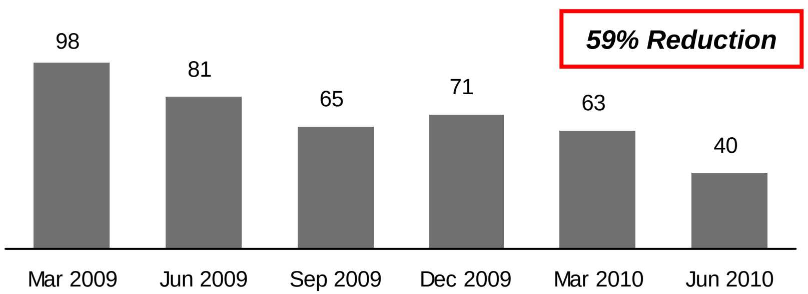
## SG&A




## Headcount History




## Working Capital Days




**Tembec is improving the efficiency of its core pulp, forest products and paperboard businesses and rationalizing non-core / high-cost assets**

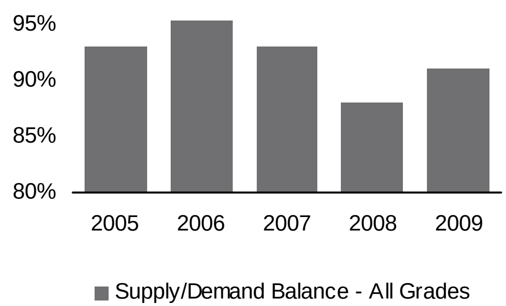
Note: CAD in millions.

Tembec

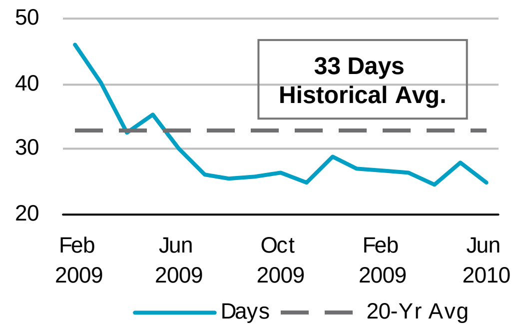
# Industry Overview

# Pulp Industry Dynamics

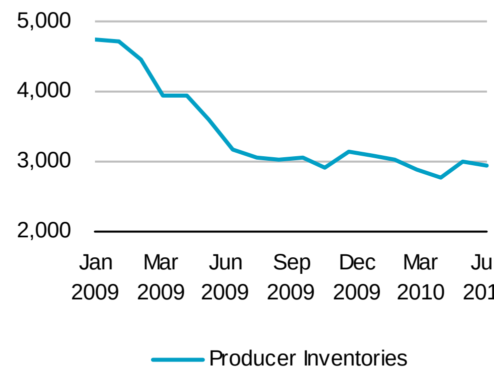
### Supply / Demand Balance – All Grades (5-yr historical) (1)



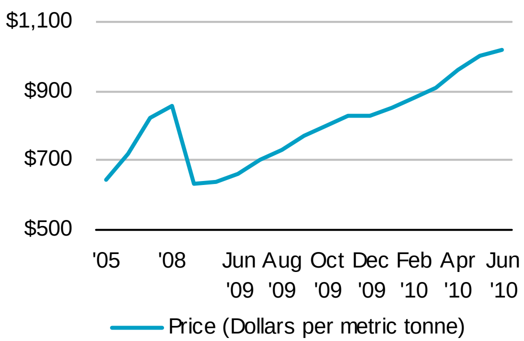

### Days of Supply (2)



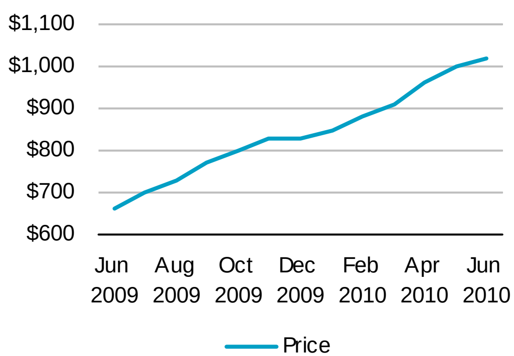

### Producer Inventories ('000 tonnes) (2)




### NBSK Price (5-yr historical) (2)




### NBSK Price (Last year monthly) (2)

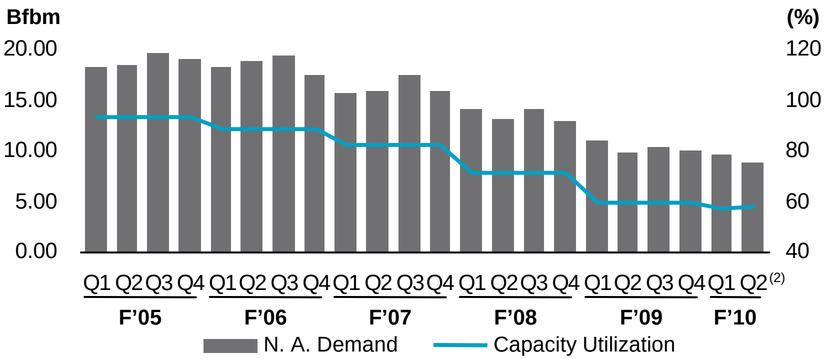



**Tight supply, exacerbated by earthquake in Chile and strikes in Europe, and low inventories pushed North American list NBSK prices to U.S. $1,020 / tonne in June 2010**

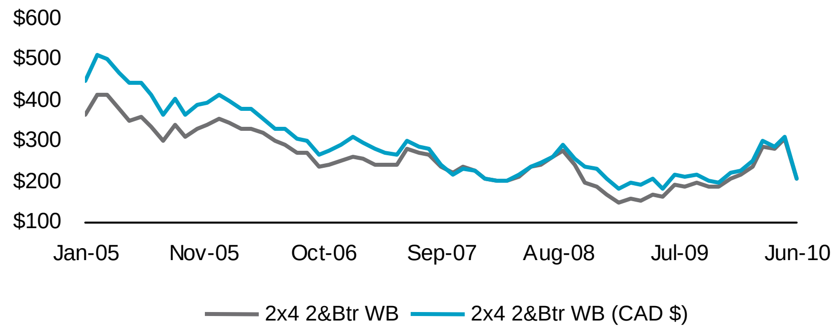
(1) Source: Pulp and Paper Products Council, May 2010.
(2) Source: RISI. Figures denoted in USD.

# Lumber Industry Dynamics

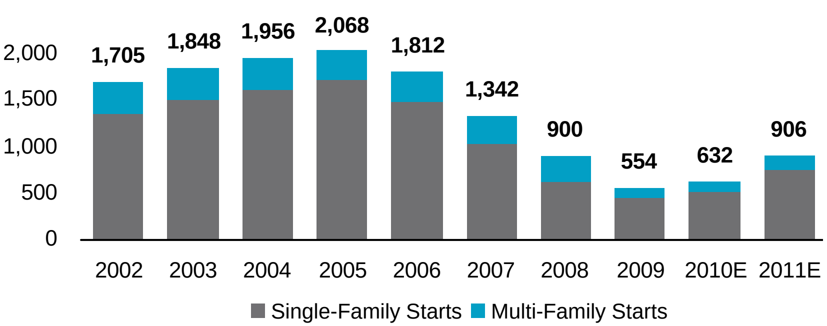
## NA Lumber Demand & Capacity Utilization ('05 – '09) (1)



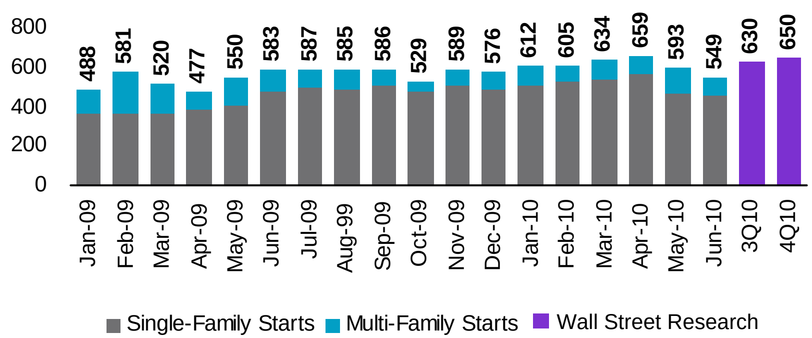

## 2x4 RL 2&Btr Lumber Prices – Western ('05 – '09) (1)




## U.S. Annual Housing Starts (3)




## U.S. Monthly Housing Starts (3)

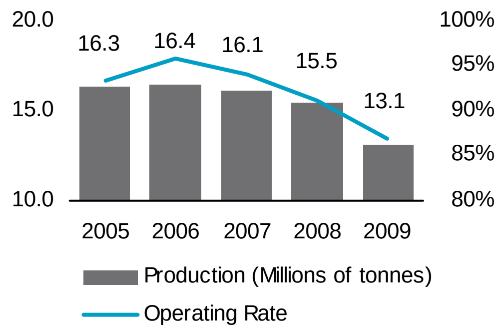



**Demand has stabilized at low levels driving continued production curtailments and low inventories. Consequently, prices have hovered around "breakeven" EBITDA levels**

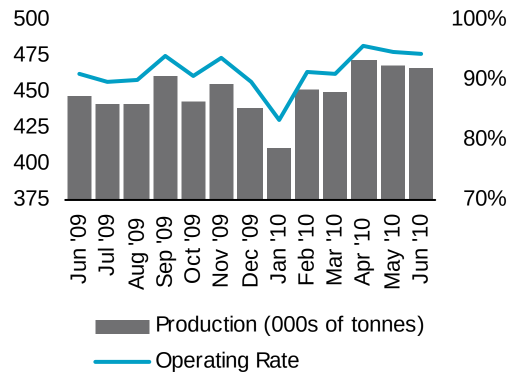
(1) Source: Random Lengths. Figures denoted in USD.
(2) Q2 is pro-rated to 3 months using 2-month data.
(3) Source: National Association of Home Builders. Annualized and seasonally adjusted.

# Coated Bleached Board Industry Dynamics

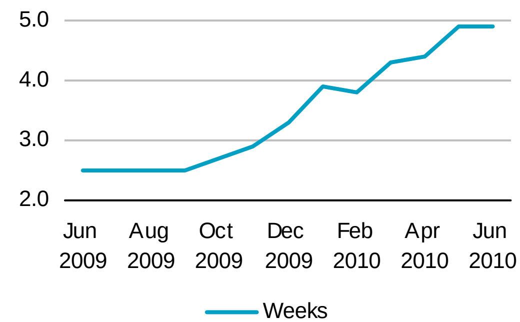
**NA Production & Operating Rate (5-yr historical)**



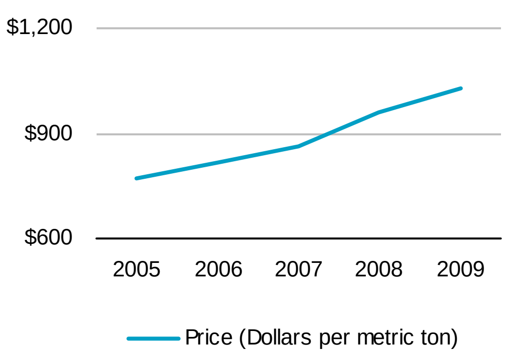

**NA Production & Operating Rate (Monthly)**




**Weeks of Backlog**




**15 Pt. Clay Coated Bleached Folding (5-yr historical) (1)**



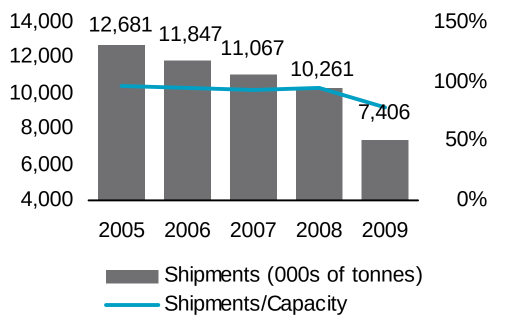

**15 Pt. Clay Coated Bleached Folding (Last year monthly) (1)**


**Supply and demand remain balanced while backlog and prices continue to increase**

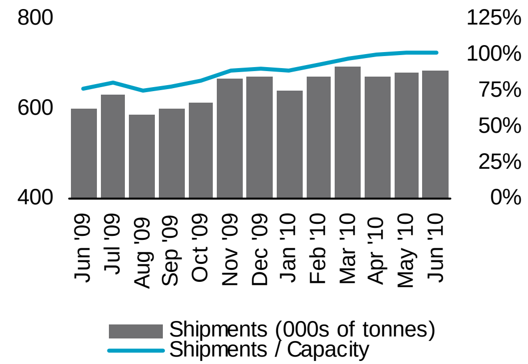
Source: RISI.
(1) Figures denoted in USD.

# Newsprint Industry Dynamics

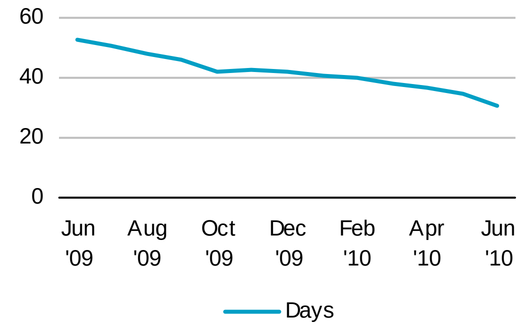
### NA Newsprint Shipments & Shipments To Capacity (5-yr historical)



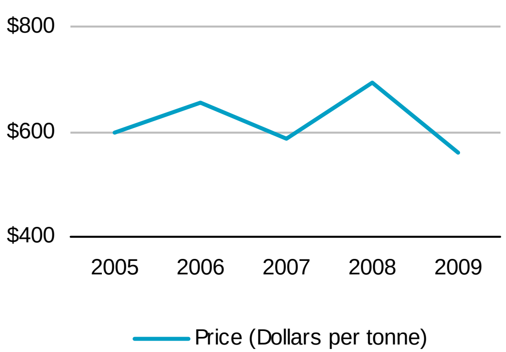

### NA Newsprint Shipments & Shipments to Capacity (Monthly)



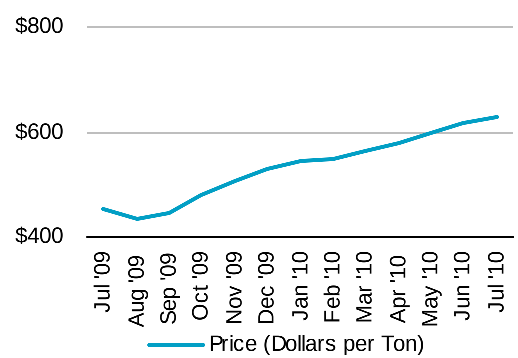

### Days of Supply



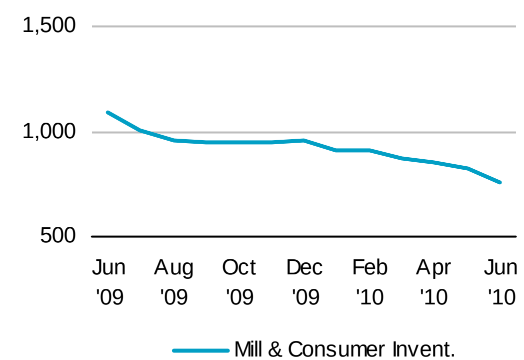

### 48.8g Newsprint Price – Eastern U.S. (5-yr historical) (1)




### 48.8g Newsprint Price - Eastern U.S. (Last year monthly) (1)




### Mill & U.S. Consumer Inventories ('000 tonnes)




**North American demand continues to struggle. However, due to capacity closures and high operating rates, price increases were achieved at the end of 2009 and continue to be implemented throughout 2010**

Source: RISI.

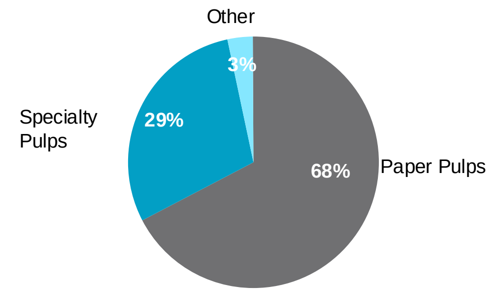
(1) Figures denoted in USD.

# Segment Overview

# Pulp

- Six manufacturing facilities producing:
  - Paper pulps (softwood kraft and high yield pulps)
  - Specialty pulps (specialty cellulose, fluff and dissolving pulps)
- #1 producer of high yield pulp; #1 producer of cellulose ethers pulp, MCC pulp and nitrocellulose pulp
- Largest producer in the world of FSC-certified pulp
- Paper pulps used to produce high-quality paper products with specific brightness, bulk and strength characteristics
- Specialty pulps used in a variety of applications including textiles, pharmaceuticals, food additives, diapers and other disposable sanitary products
- Maintains sales or representative offices in Toronto, Canada, San Sebastian, Spain and Beijing, China


## FY2009 Sales by Product




**Total Sales: $1,010**

Note  Sales in millions of CAD.

# Pulp Sector Events

**Paper Pulp**

- Significant inventory reductions took place throughout the supply chain, drastically impacting demand for packaging, paper, and ultimately, pulp products
- Permanent, indefinite and temporary closures of pulp mills reached historic levels globally. Closures represented ~15% of global capacity
- Credit crisis has caused major delays in construction of new pulp capacity in South America
- Global inventories of paper pulp peaked at 48 days of supply in 2009, and then dropped to 25 days by June 2010. The average for the last twenty years has been 33 days
- Prices began to rise in the spring of 2009 and peaked in the May – June period
- The earthquake in Chile and strikes in Europe exacerbated an already tight market; supply disruptions have been largely resolved
- Further price increases in spring and summer 2010 have pushed North American List NBSK prices to U.S. $1,020 / tonne as of June
- Although NBSK prices are expected to moderate in the coming quarters, good demand fundamentals should ensure that prices will still be attractive for the Company

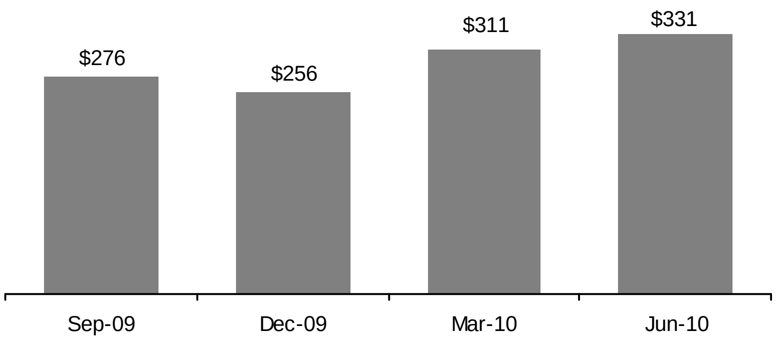
# Pulp Sector Events (cont'd)

**Specialty and Commodity Dissolving Pulp**

- Recession impacted markets for specialty and commodity dissolving pulp in a similar fashion, but these markets also recovered in the second half of 2009
- Rapid expansion in viscose rayon capacity requiring new supply of commodity dissolving pulp
- Tight supply of commodity dissolving pulp has driven spot prices to record highs
- Contract prices of specialty dissolving pulp prices driven up by the commodity grade and improved demand for specialty grade

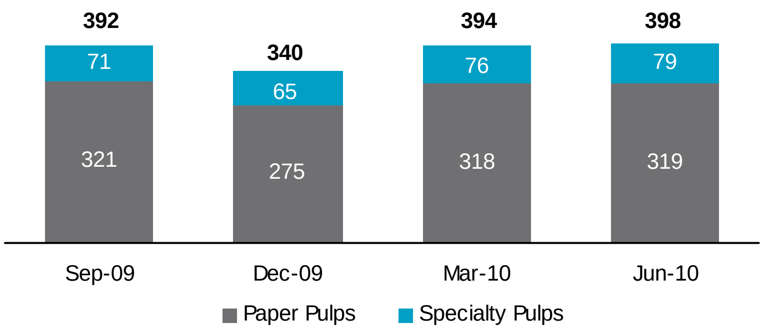
# Pulp Operating Trends

## Sales

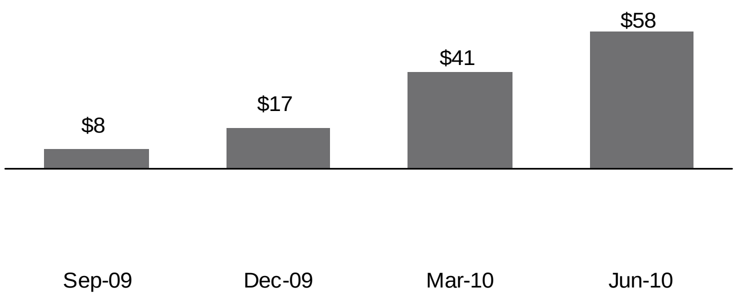



## Pricing (1)


## Shipments (2)




## EBITDA

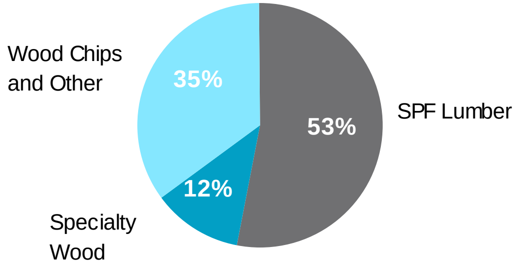



Note: CAD in millions.
(1) NBSK – delivered U.S. (US$ per tonne).
(2) Shipments in 000's of tonnes.

# Forest Products

- Produces a wide range of commodity forest products used primarily for residential and commercial construction
- Segment divided into two main areas of activity:
  - Forest Resource Management
  - Manufacturing Operations
- Manufactured products include SPF lumber, Hardwood lumber, Engineered wood products, Hardwood flooring and wood chips
- Highly diversified customer base
- Largest producer of FSC-certified wood products

## FY2009 Sales by Product




**Total Sales: $407 (1)**

Note: Sales in millions of CAD.
(1) Engineered wood contributed less than 1% to segment sales.

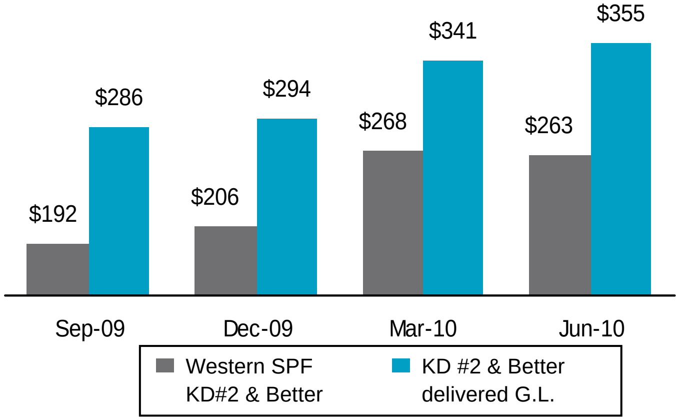
# Forest Products Sector Events

- While impacted by the sub-prime mortgage crisis, the U.S. housing market, and therefore demand for forest products, have been adversely impacted by the recession and worsening credit markets
- New U.S. home inventories spiked in January 2009 to a record 12.4 months of supply (3-4 months is normal)
- U.S. housing starts bottomed at 477,000 on a seasonally adjusted annual rate in April 2009, then rose to 500 – 600k in the second half of 2009 (65% below trend line)
- Significant destocking occurred throughout the lumber supply chain, exacerbating the poor demand environment
- Lumber prices plummeted in January 2009, then slowly stabilized due to significant production curtailments
- Modest increases in demand in early 2010
- Prices remain volatile, but in a range higher than 2009

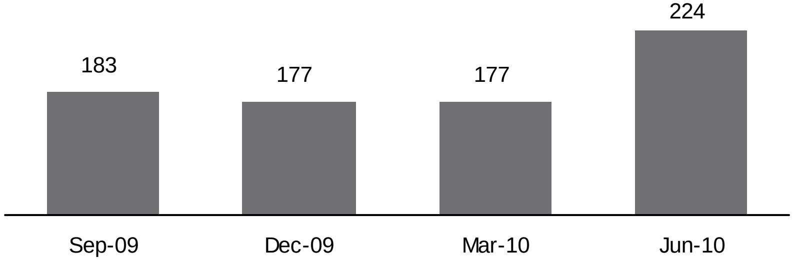
# Forest Products Operating Trends

## Sales

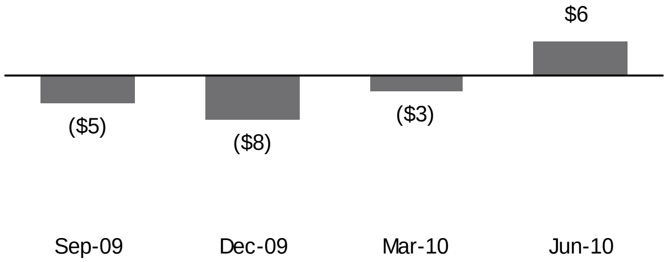

## Pricing (1)




## Shipments – SPF Lumber (2)




## EBITDA

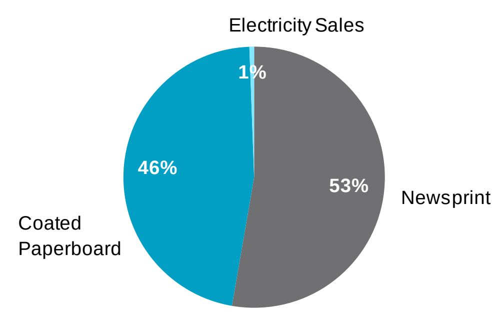



Note Sales and EBITDA in millions of CAD.
(1) Pricing in US$ per mbf.
(2) Shipments in mmbf.

# Paper

- Paper segment is divided into two main categories:
  - Specialty Coated Paperboard: Focus on lightweight, fully bleached coated board used in commercial printing, publishing, prestige packaging, high-impact graphic corrugated containers, point-of-purchase displays and litho-laminated packaging
  - Newsprint: Primarily used for the publication of daily newspapers
- North America accounted for 94% of sales in 2009, with the U.S. representing 77% of sales
- In fiscal 2009, newsprint shipments / capacity was 62% while coated paperboard was 88%
- Paperboard benefited from a decline in major input costs including pulp and chemicals
- Thus far in 2010, the Paperboard market has been balanced, but higher pulp prices have negatively impacted costs
- Largest North American producer of FSC-certified paper products


**FY2009 Sales by Product**




**Total Sales: $452**

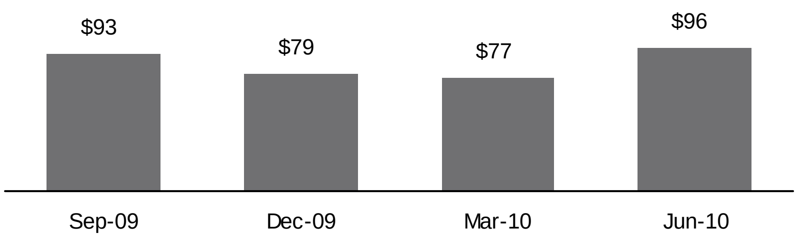
Note Sales in millions of CAD.

# Paper Sector Events

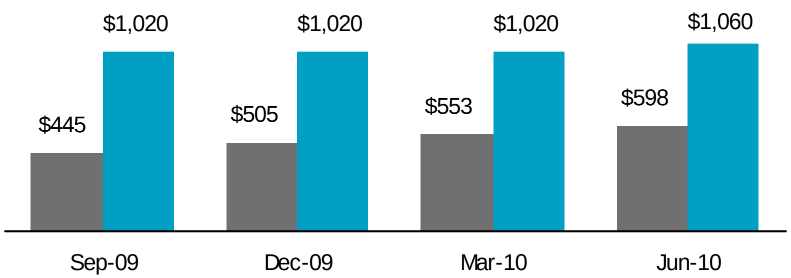
- Coated paperboard market conditions remain positive with capacity closures and improving advertising markets
- Coated paperboard price increases were achieved in the spring of 2010
- Additional price increases have been implemented in the summer of 2010
- Newsprint demand experiencing multi-year structural decline.  Recession added to the troubles of the already ailing industry
- Nearly 50% decline in North American newsprint demand since 2000
- Prices reached bottom in August 2009 at approximately US$450 per tonne
- AbitibiBowater and White Birch Paper, representing approximately two thirds of North American capacity, are under creditor protection
- Price increases were achieved in the fall of 2009 and spring of 2010
- Additional price increases are expected to continue throughout the year and into 2011

# Paper Operating Trends

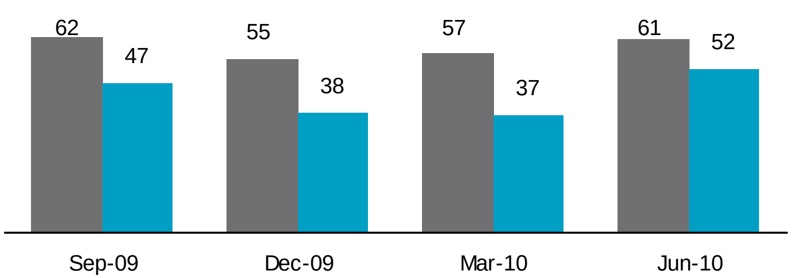
## Sales



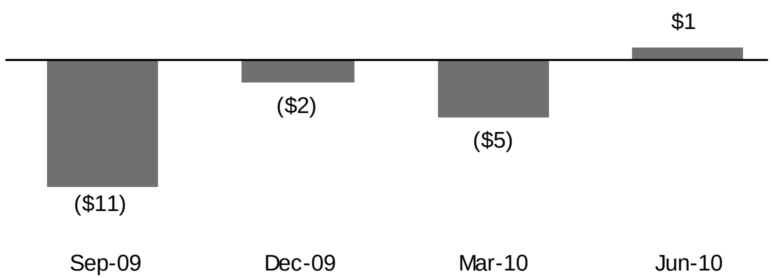

## Pricing (1)




## Shipments (2)




## EBITDA



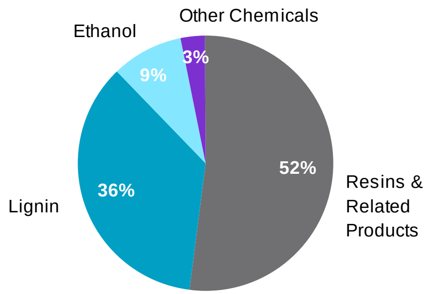

Newsprint-48.8g East Coast
15 pt. Coated Bleached Board

Note: CAD in millions.
(1) Newsprint pricing in USD per tonne. Coated Bleached Board pricing in USD per short ton.
(2) Shipments in 000's of tonnes.

# Chemicals

- Transforms the waste generated by the pulping process into value-added chemical products and simultaneously helps to alleviate the environmental impact
- Operates in three main areas of activity:
  - Resin: Produces powder and liquid resins
  - Lignin: Uses residual sulphite liquor produced by the specialty pulp mills to create lignin products sold in liquid and powder form
  - Ethanol: Converts pulp mill residuals into ethanol products sold into the Canadian vinegar, hygiene and cosmetics markets
- Products sold primarily in North America with sales representing 75% of consolidated segment sales in 2009

**FY2009 Sales by Product**

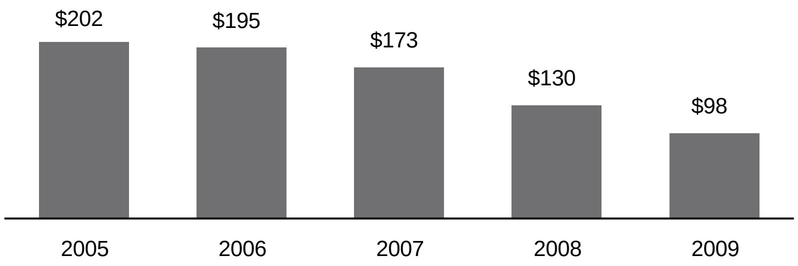



**Total Sales: $98**

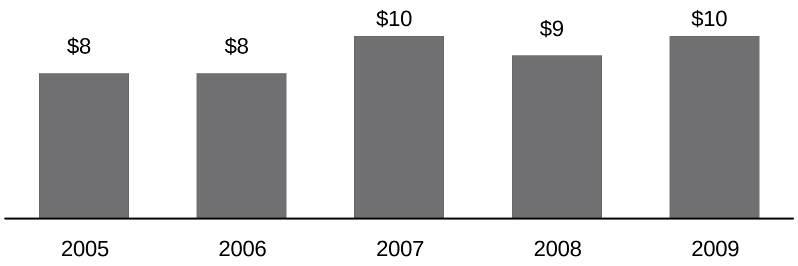
Note Sales in millions of CAD.

# Chemicals Operating Trends

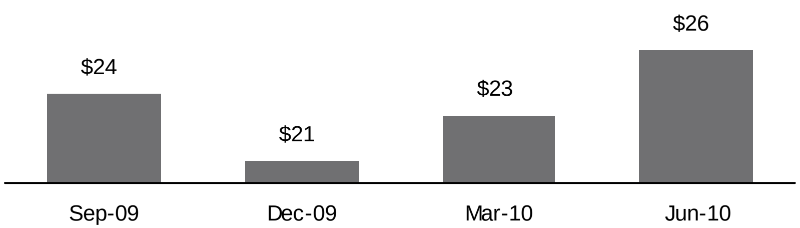
## Annual Sales




## Annual EBITDA




## Quarterly Sales



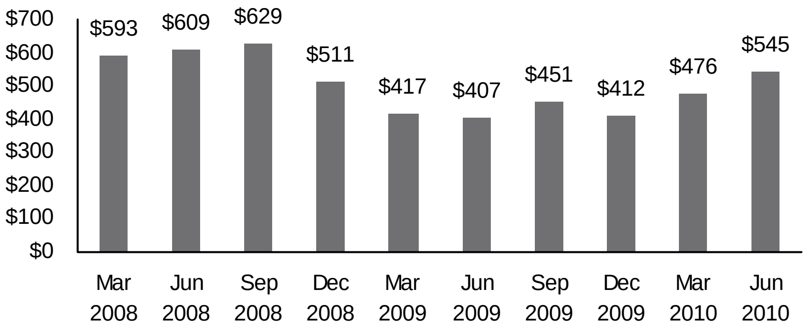

## Quarterly EBITDA


Note: CAD in millions.

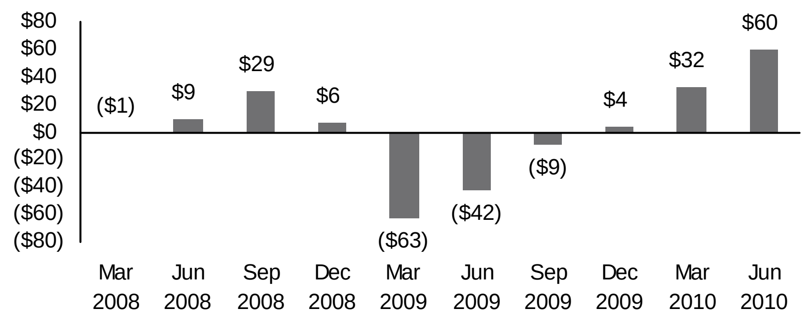
# Financial Performance

# Quarterly Historical Financials

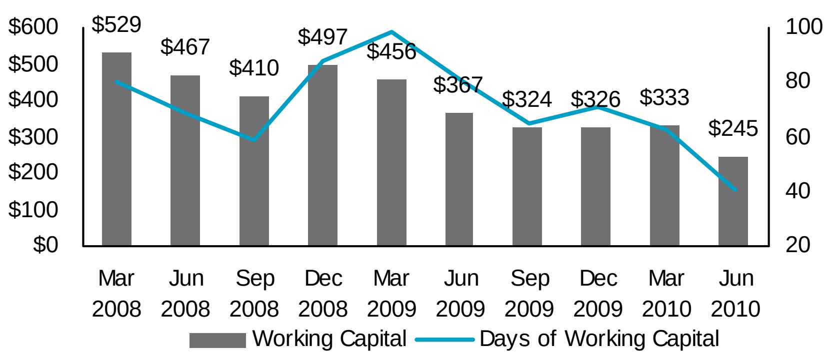
## Consolidated Sales



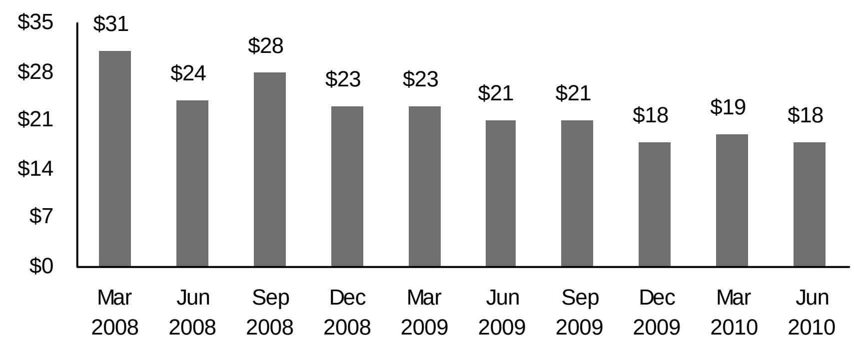

## EBITDA




## Working Capital

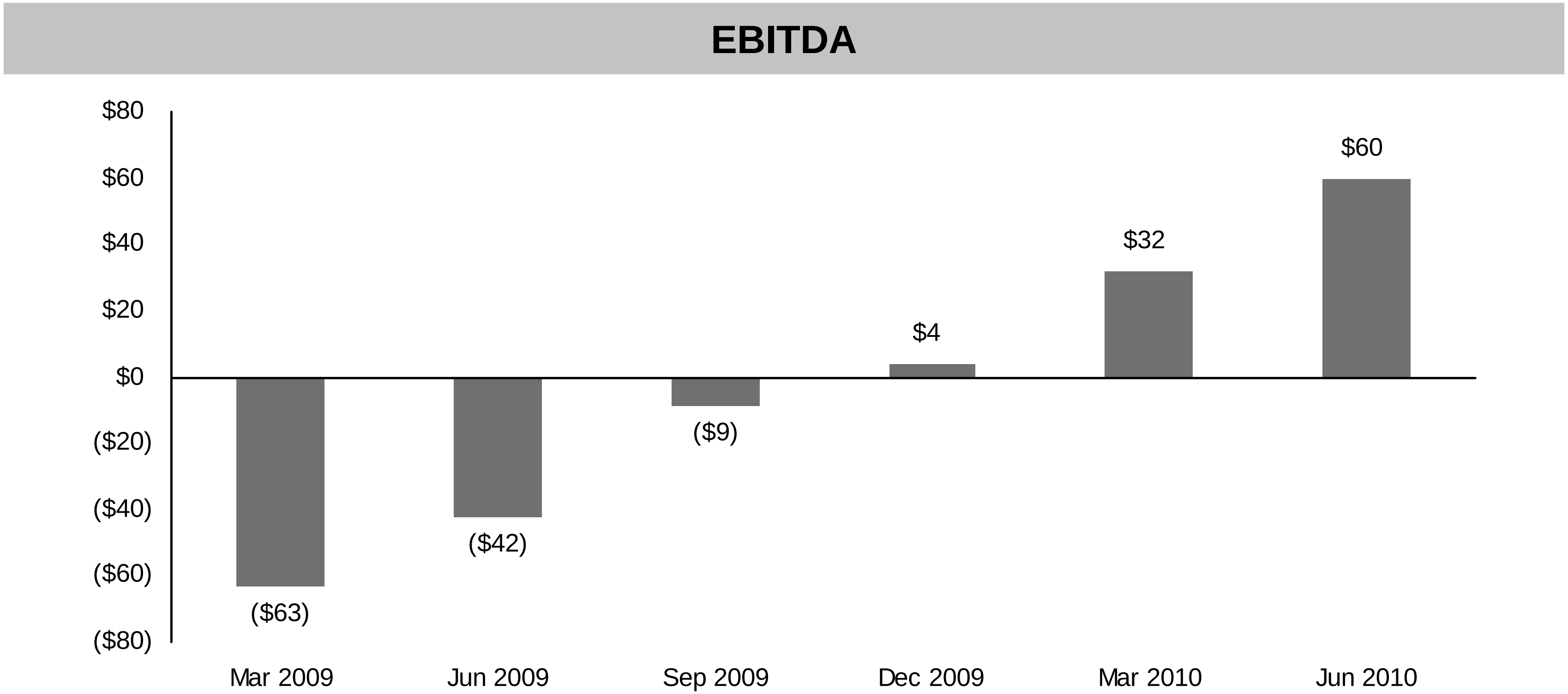



## SG&A




Note: CAD in millions.

# Recent Quarterly Performance




| | Mar 2009 | Jun 2009 | Sep 2009 | Dec 2009 | Mar 2010 | Jun 2010 |
|---|---|---|---|---|---|---|
| ***EBITDA Margin*** | ***NM*** | ***NM*** | ***NM*** | ***1%*** | ***6%*** | ***11%*** |

**Signs of successful restructuring initiatives and normalizing market trends are evident in Tembec's recent EBITDA performance**

Note: CAD in millions.

# Conclusion

| | |
|---|---|
| **Key Conclusion** | • Tembec is operating with positive momentum given the rebound in global commodities pricing and strategic actions taken by Management |
| **Goals** | • Achieve superior results and improve the Company’s relative and absolute financial performance<br>• Streamline operations and position the business to capitalize on normalizing / improving market trends<br>• Deleverage the balance sheet and maintain appropriate liquidity levels to provide flexibility for cyclical swings in end markets and long-term financial stability |
| **Operational Goals** | • Focus on core businesses of pulp, forest products and coated paperboard<br>• Assets in the first or second quartile on the cost curve<br>• Monetize non-core / non-strategic assets at an accretive value |