

The Tembec logo is displayed in white text on a teal rectangular background. The word "Tembec" is written in a bold, sans-serif font. The letters "T", "e", and "m" are connected, as are "b", "e", and "c".

**Tembec**

## **BAML Leveraged Finance Conference**

**December 1, 2011**

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The logo for Tembec, featuring the word "Tembec" in a bold, white, sans-serif font. The letters are contained within a solid blue rectangular box. The background of the slide is a light blue gradient with a stack of white, textured sheets or papers visible in the upper and lower right corners.

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## Company Overview

## Future Vision of Tembec

- Strong and Stable Earnings: Specialty Dissolving Pulp
- Predictable Earnings: Energy Investments
- Upside: Lumber
- Result:

More stable cash flow throughout the cycle  
and significant upside for shareholders

## Company Update

### Financial

- Balance sheet and liquidity in good shape
- Term Debt maturity – 2018
- New ABL termed out to 2016

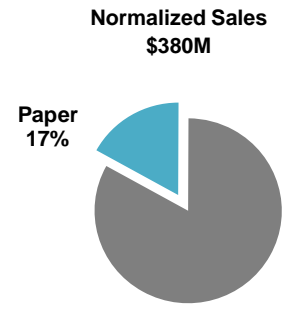
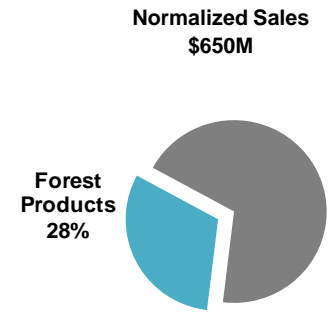
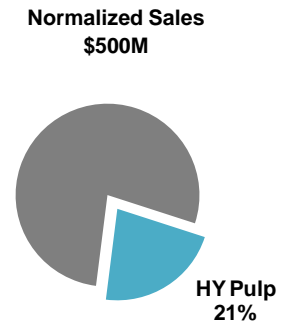
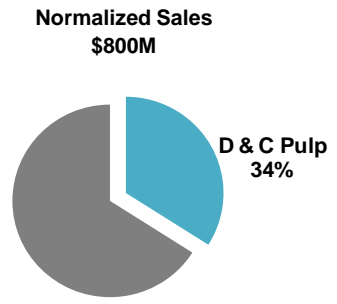
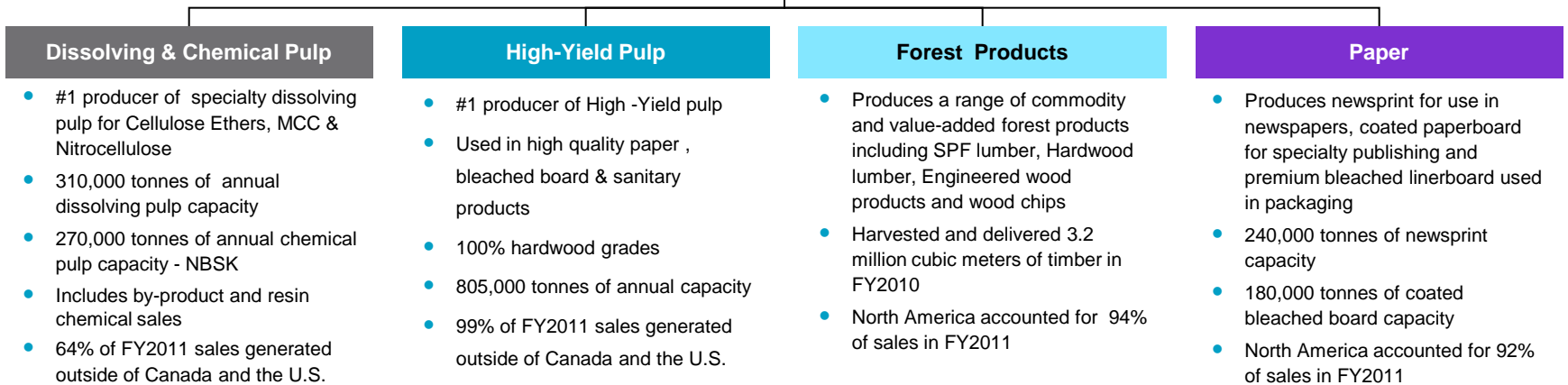
### Operational

- Uncompetitive assets sold/closed – remaining assets low cost or have potential to become low cost
- SGA downsized to new sales level
- Efficiency improvement projects underway
- Higher CAPEX in 2011 will positively impact results in 2012 & 2013

### Strategic

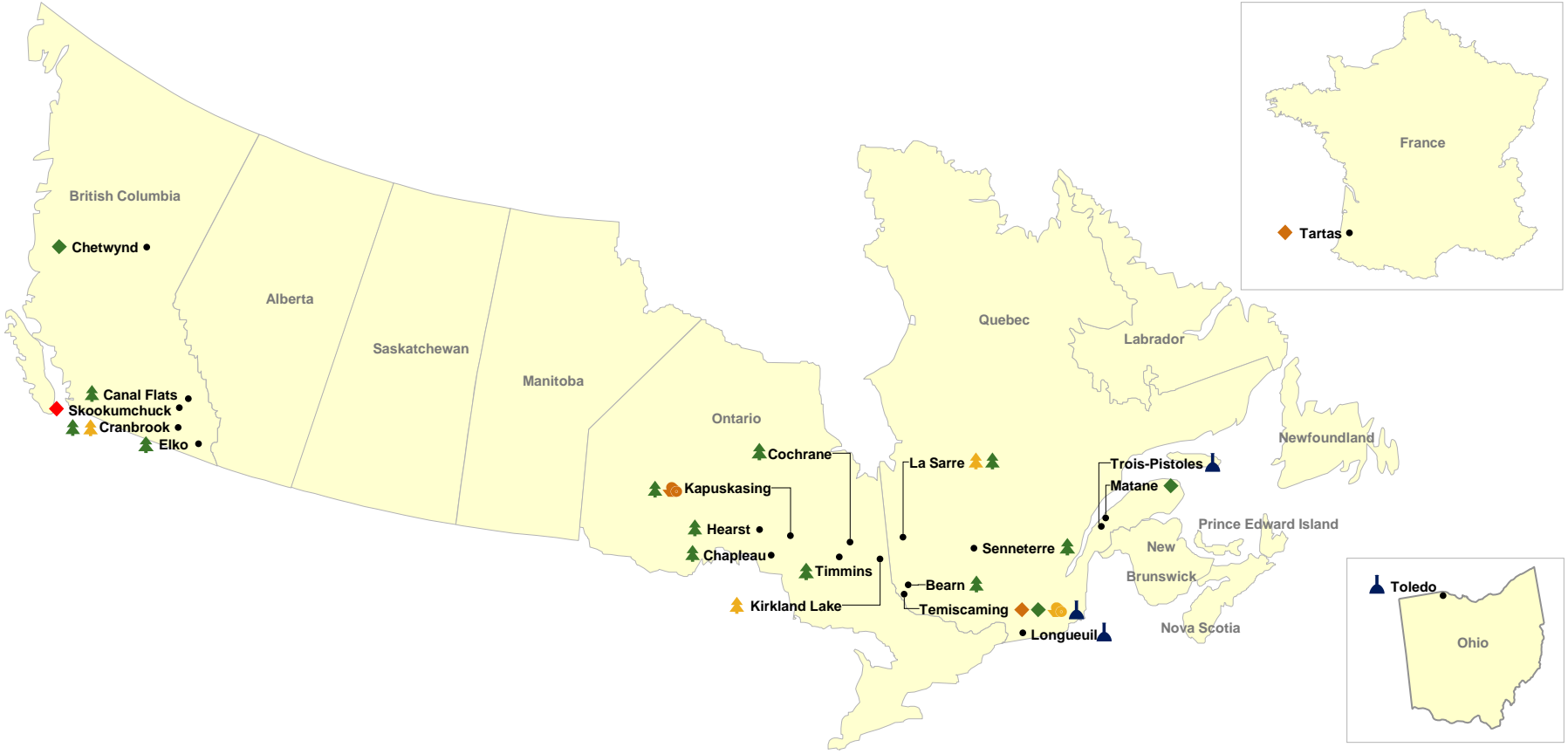
- Transformation of the Company will continue
- Strategic capital investments
- Focus on Specialty Dissolving Pulp

# Company Overview



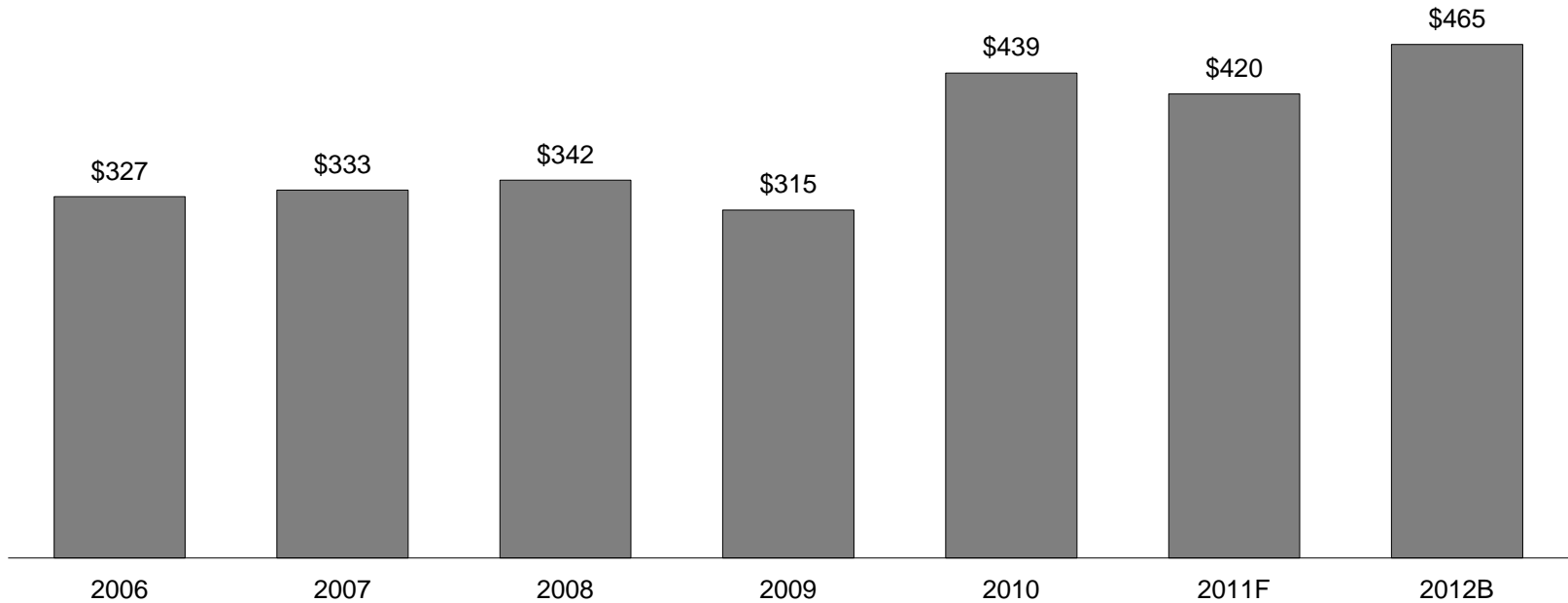
**We are a leading diversified and integrated forest products company with consolidated sales of ~\$2.3 billion**

# Geographic Footprint

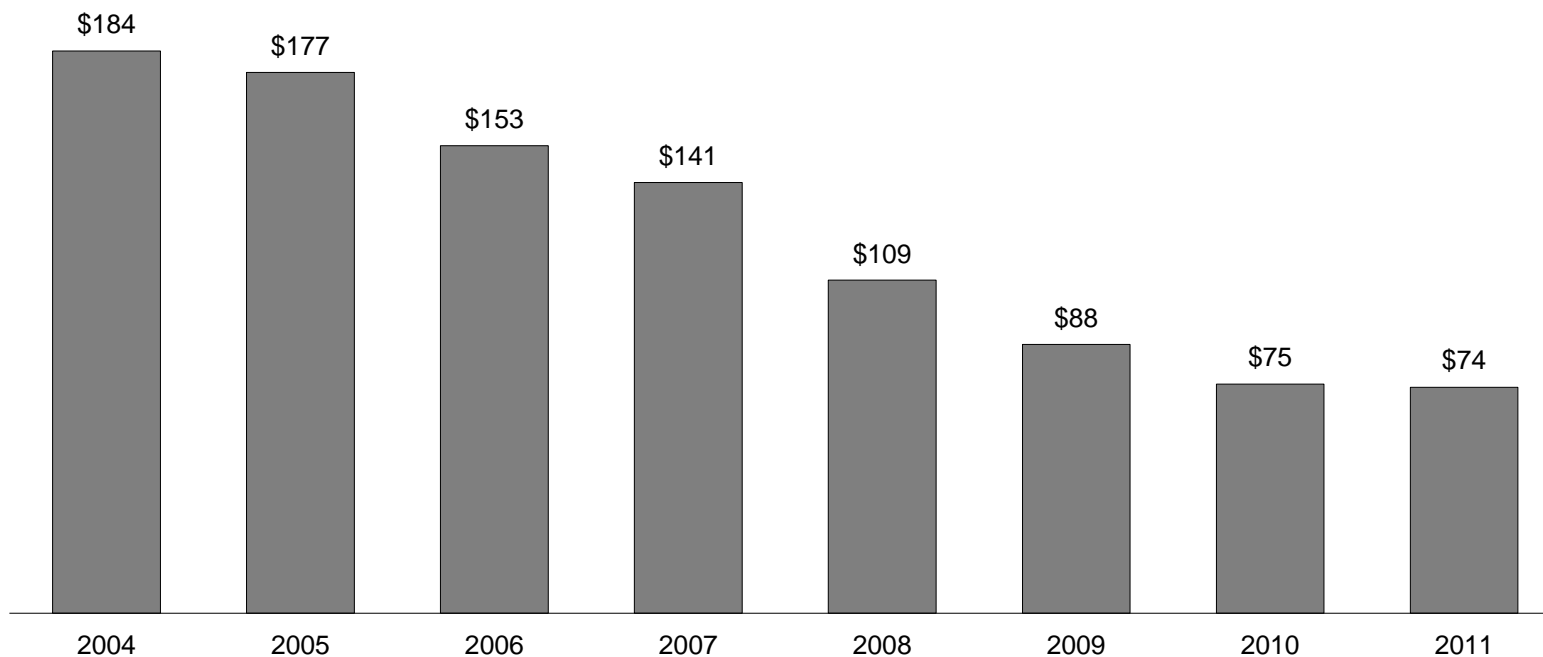


Forest Products		Dissolving & Chemical Pulp		High-Yield Pulp		Paper	
SPF Lumber	Engineered Wood	Dissolving Pulp & Chemical By-Products	Chemical Pulp	Resin Products	High-Yield Pulp	Newsprint and UCGW	Coated Bleached Board

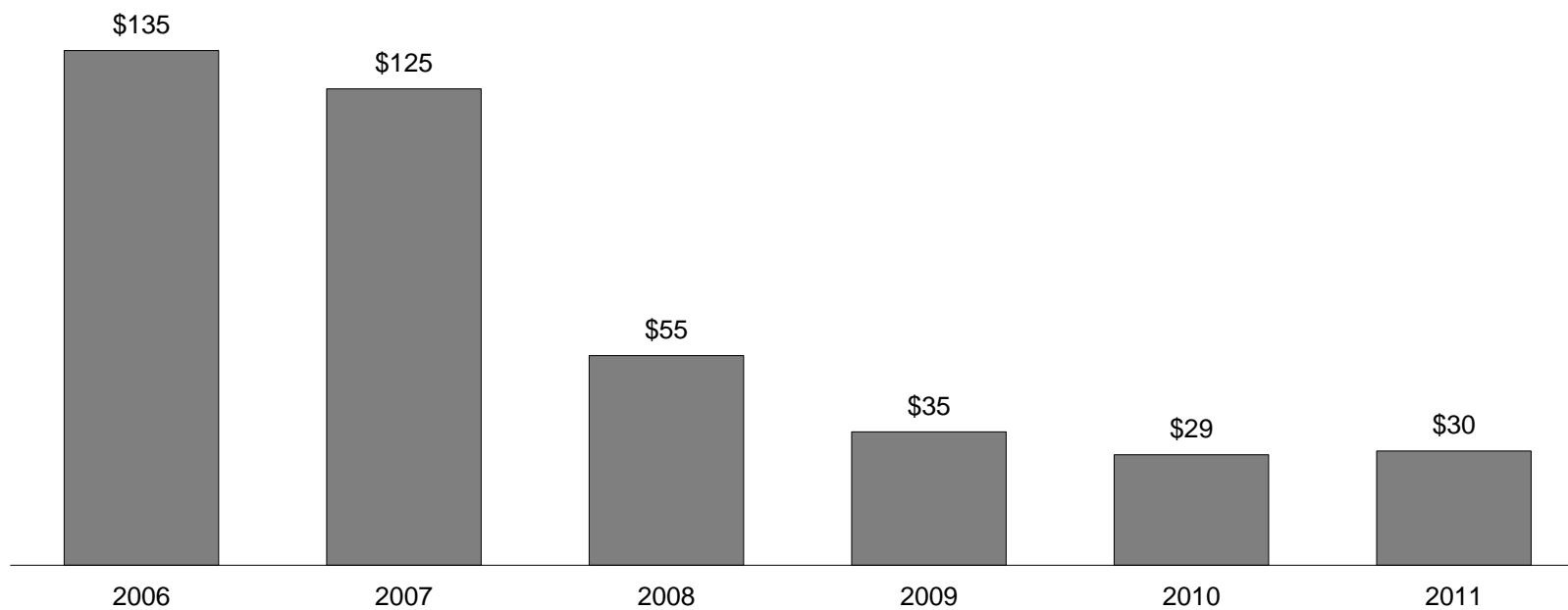
## Improved Productivity - \$000's Sales Per Employee



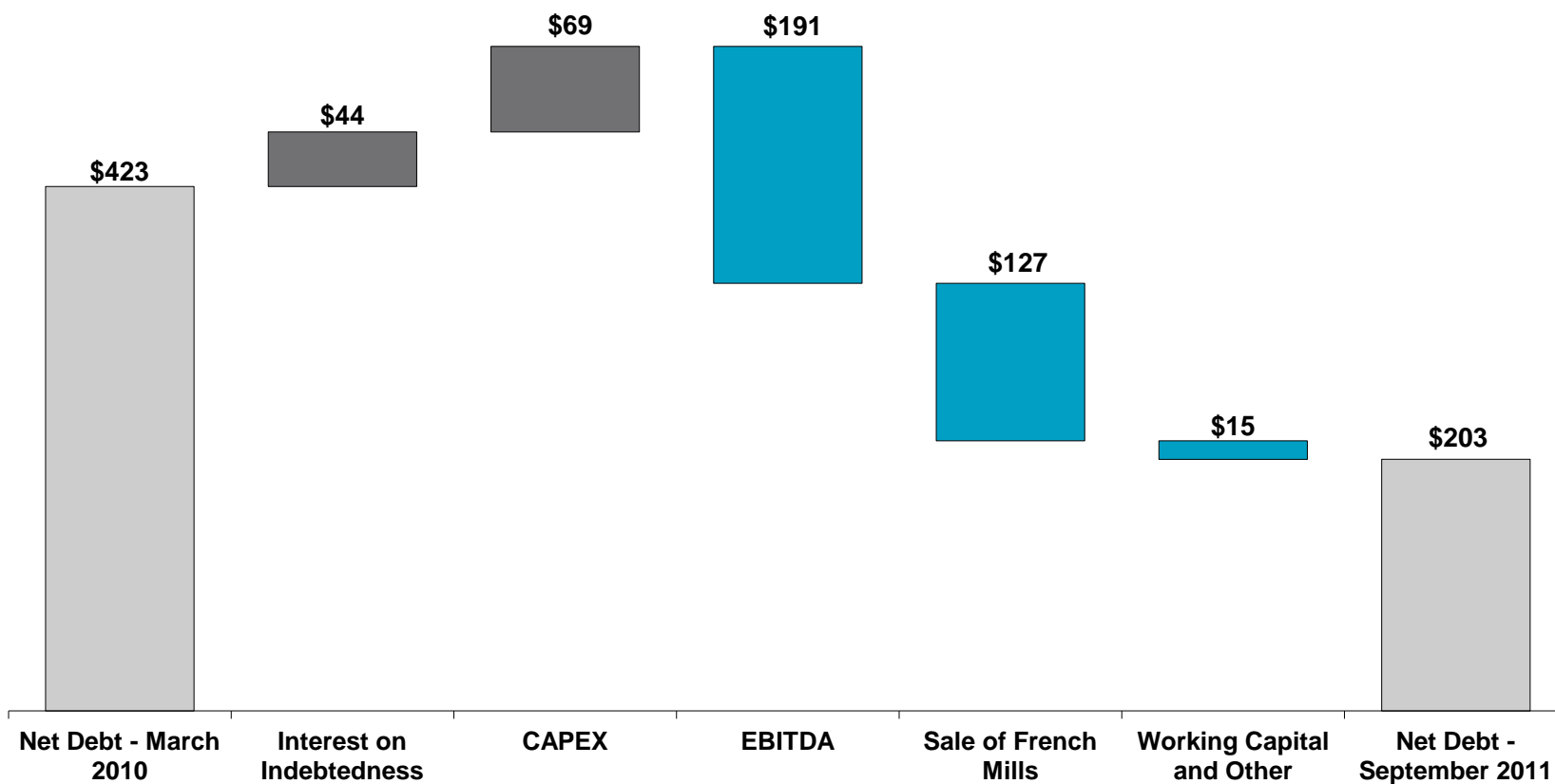
## Consolidated SGA Expense - \$ Millions



## Annual Interest Expense - \$ Millions



## Debt Reduced By \$220 Million



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**Strategic Capital Investments**

## Strategic Capital Investments

- Industry/Company circumstances have led to low re-investment since 2005
- Closed/divested facilities to focus capital investments
- Company has developed detailed multi-year CAPEX plan for remaining facilities
- High returning projects – proven technology/equipment
- Two main categories
  - ❖ Green Energy
  - ❖ Business Improvement Plan (BIP) – Cost reduction & productivity increases
- Focus on Specialty Dissolving Pulp

## Green Energy

<b>Completed/Approved</b>		<b>CAPEX</b>	<b>Startup</b>	<b>Annual EBITDA \$M</b>
Skookumchuck BC NBSK Mill	38 MW Biomass Cogen - New Contract	\$2M	Aug 2010	\$10M
Matane QC Hardwood High-Yield Mill	Methane Biogas Displace Fossil Fuel	\$25M/Net \$1M	June 2012	\$6M
Tartas France Dissolving Pulp Mill	8 - 9 MW Biomass Turbine - New Contract	\$21M	June 2012	\$8M
<b>Pending</b>				
Temiscaming QC Dissolving Pulp Mill	30 - 40 MW Waste Liquor Cogen - New Contract	\$190M	Dec 2013	\$42M
Skookumchuck BC NBSK Mill	Hog Boiler Optimization - 7 MW	\$13M/Net \$9M	2012-2013	\$5M
<b>Under Study</b>				
Temiscaming QC Dissolving Pulp Mill	30,000 TPY Expansion 10 MW Waste Liquor Cogen	\$100M	Dec 2015	\$41M

- Significant cost reduction
- Applying Green Transformation Credits to Matane biogas project and Skookumchuck hog boiler
- Focus on two dissolving pulp mills – 96% of green energy CAPEX

## Temiscaming COGEN Project

- Specialty dissolving mill is currently very profitable despite current cost structure
- Three old low pressure boilers approaching end of useful life – high maintenance – require \$20M to extend life
- Cornerstone of project is “Green” Purchase Power Agreement (PPA) with Hydro Quebec – 50 Megawatts
- Boiler/turbine to be sized to allow for a 30,000 TPY capacity expansion
- Very attractive rates on project financing
- Leverage/debt service will remain at very manageable levels

### Project Details – \$ Millions

<b>PROJECT COST</b>	
Gross CAPEX Investment - 2012 to 2013	\$190
Net Incremental Capex	\$170
<b>FUNDING</b>	
New Project Term Debt	\$105
Internal Funds - Free Cash Flow	\$85
<b>ANNUAL EBITDA IMPACT</b>	
Electricity Revenues	\$31
Productivity (5,000 TPY)	\$6
Cost Reduction	\$5
Total	\$42
<b>PAYBACK - YEARS</b>	
	<b>4.0</b>

## Temiscaming Expansion Project

- Increase dissolving pulp production by 30,000 tonnes per year and electricity production by a further 10 Megawatts
- COGEN project will ensure boiler/turbine/PPA sized for the expansion
- Replace 11 original digesters (pressure cooking vessels) with 10 new larger stainless steel digesters
- Funding provided by COGEN cash flow
- Initial incremental production to commodity dissolving – gradual increase to specialty dissolving to minimize market impact

### Project Details – \$ Millions

<b>PROJECT COST</b>	
CAPEX Investment - 2014 to 2015	\$100
<b>FUNDING</b>	
Internal Funds - Free Cash Flow	\$100
<b>ANNUAL EBITDA IMPACT</b>	
Electricity Revenues	\$7
Productivity (30,000 TPY)	\$27
Cost Reduction	\$7
Total	\$41
<b>PAYBACK - YEARS</b>	
	<b>2.4</b>

## Business Improvement Plan (BIP) Objectives

- Enhance the existing competitive position of each operating facility
- All facilities ranked by priority
- Secure 1<sup>st</sup> or 2<sup>nd</sup> quartile cost position for each operating facility
- Funded by operating cash flows
- 4 to 5 year timeline – can be accelerated if capital available
- Increase enterprise value of the Company – high return projects

## Strategic Capital Investments

- The \$198M in BIP projects represents 83 different CAPEX investments
- Low execution risk – relatively small and proven technology
- Very short payback – mainly cost reduction
- Timing of BIP projects limited by cash flow generation and focus on Green Energy projects
- Approximately \$343M (66%) earmarked for the specialty dissolving pulp mills – goal is to have 2 of the most modern facilities in the world
- Overall plan repositions the company's entire cost structure

### Financial Impact - \$ Millions

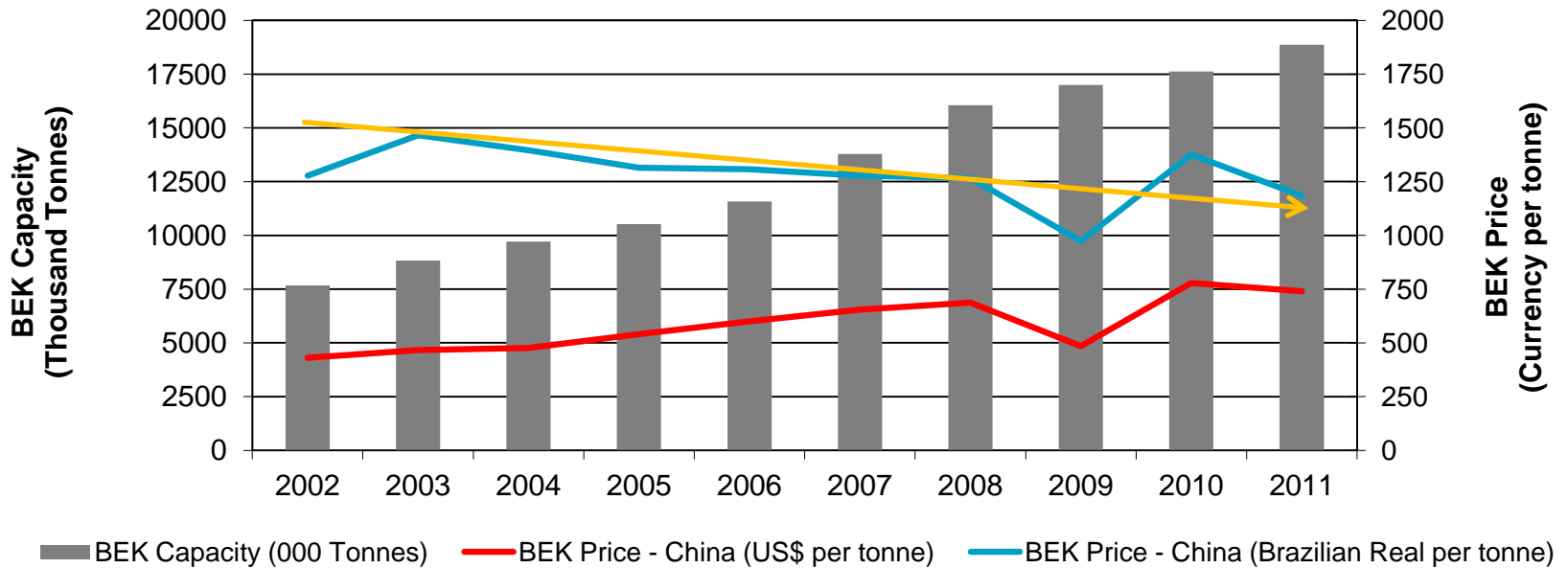
	CAPEX	EBITDA IMPACT	PAYBACK YEARS
BIP	\$198	\$134	1.5
Green Energy	\$321	\$102	3.1
<b>TOTAL</b>	<b>\$519</b>	<b>\$236</b>	<b>2.2</b>

The background of the slide features two large stacks of white paper sheets, one in the upper right and one in the lower left, both slightly out of focus. A solid blue horizontal band runs across the middle of the image, containing the company logo and title.

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**Commodity Paper Pulp**

## BEK Price versus Capacity

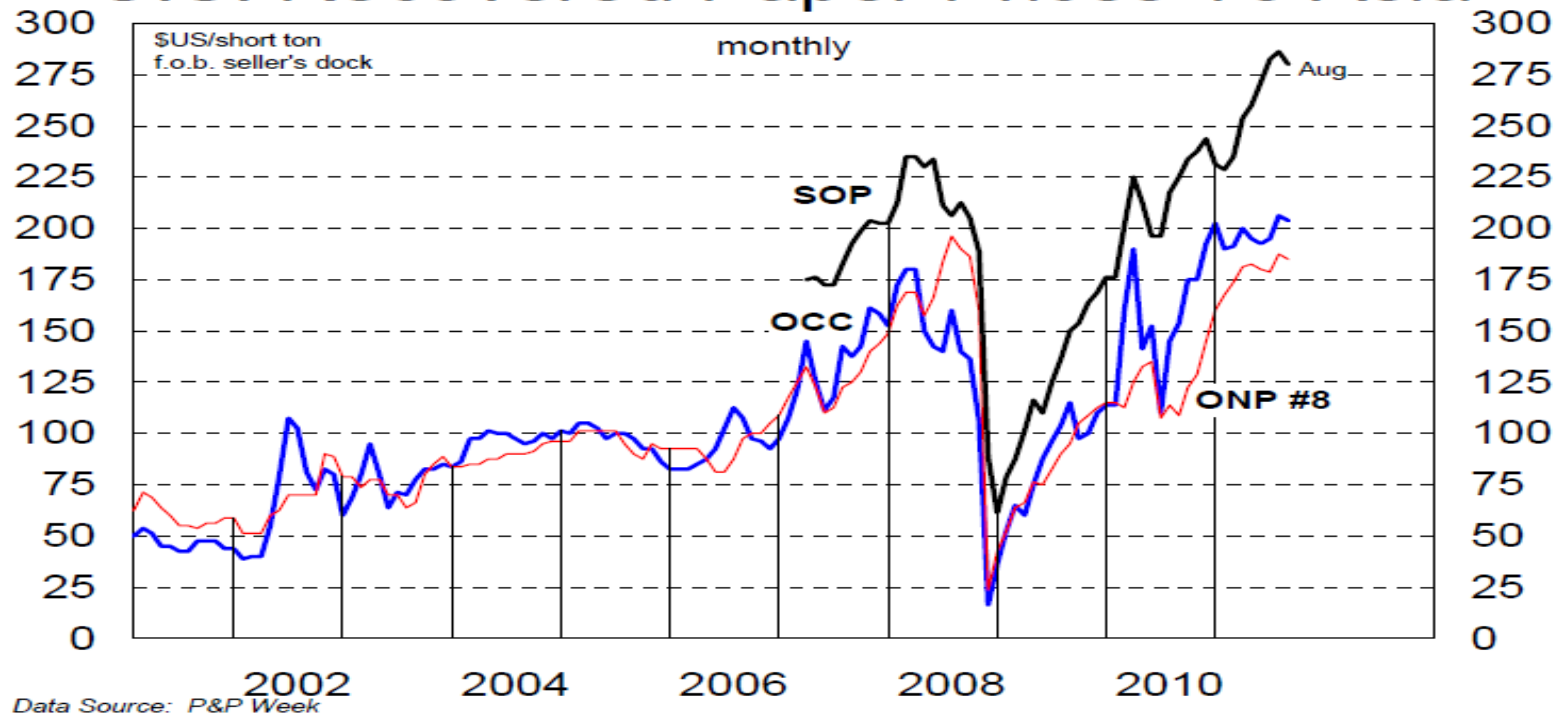


Sources: Pulp and Paper Products Council, Terrachoice

- While US \$ pricing of BEK has been trending upwards, Brazilian local currency pricing of BEK has actually been trending down

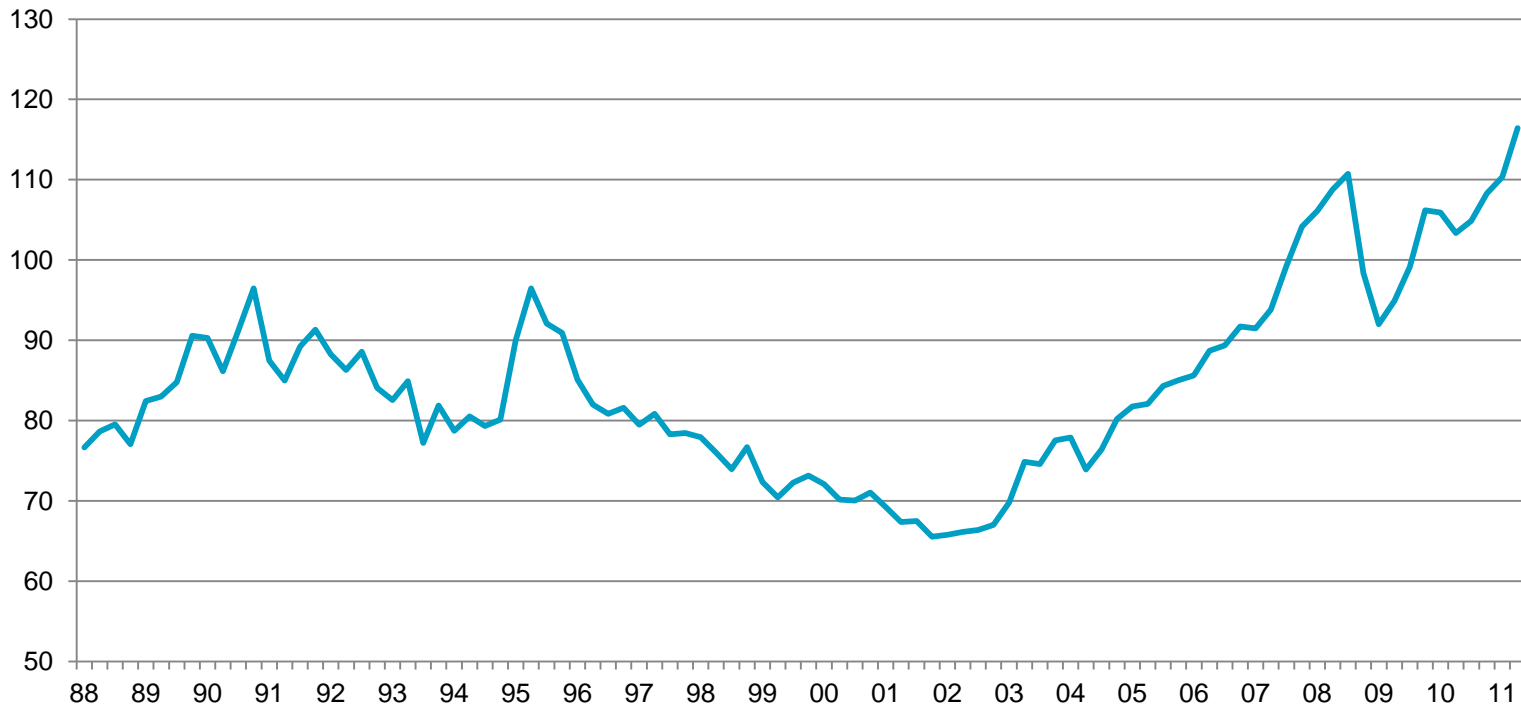
# Wastepaper Prices

## U.S. Recovered Paper Prices To Asia



- High wastepaper prices support higher pulp prices

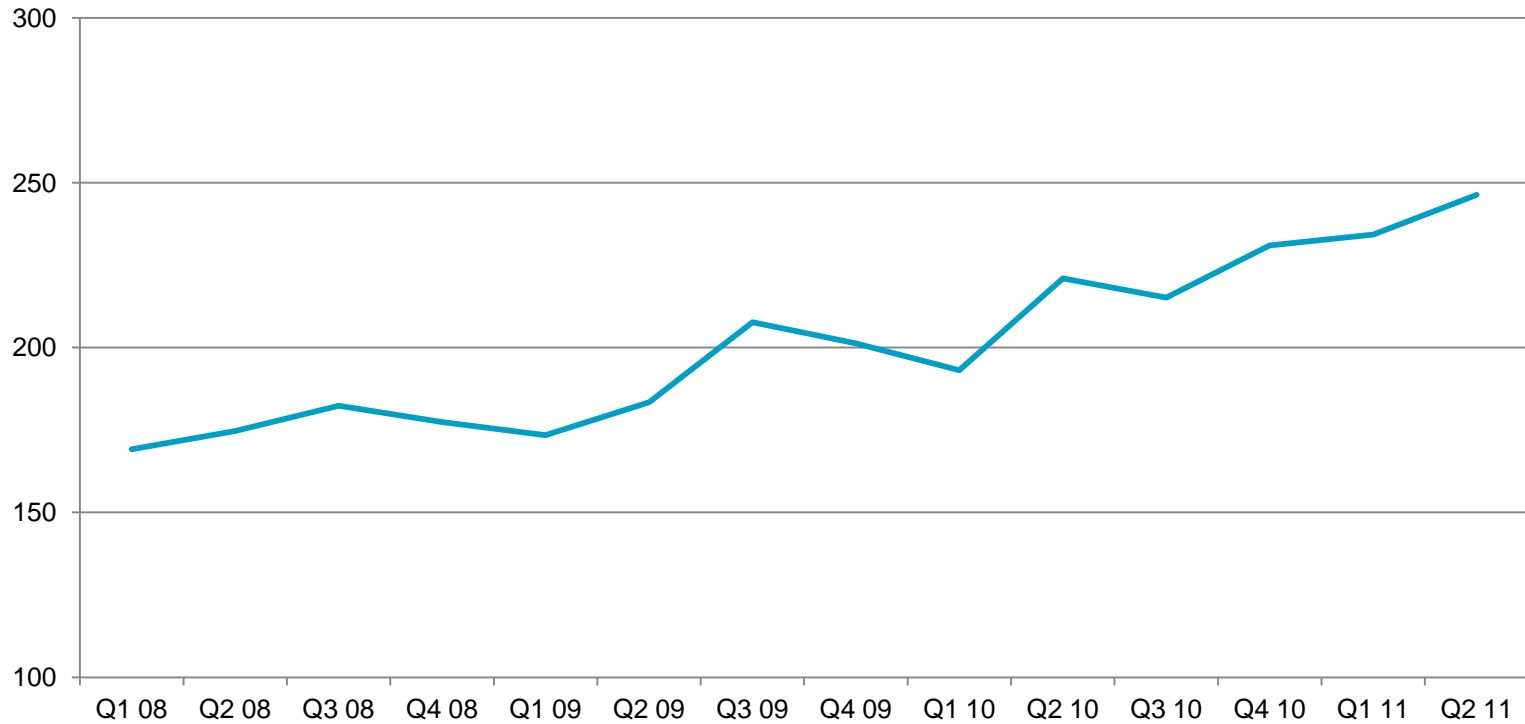
## Hardwood Fiber Price Index (HFPI) – US\$/ODMT



Data Source: Wood Resources Quarterly

- Virgin fibre also becoming more expensive

## Eucalyptus Pulpwood Prices – China – US\$ ODMT



Data Source: Wood Resources Quarterly

- Prices have increased by approximately 45% over the last 3 years

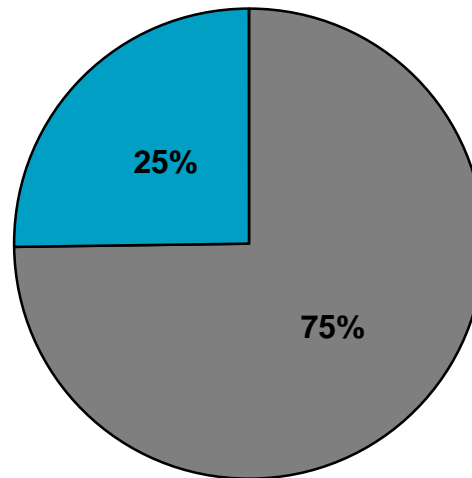
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**Dissolving Pulp**

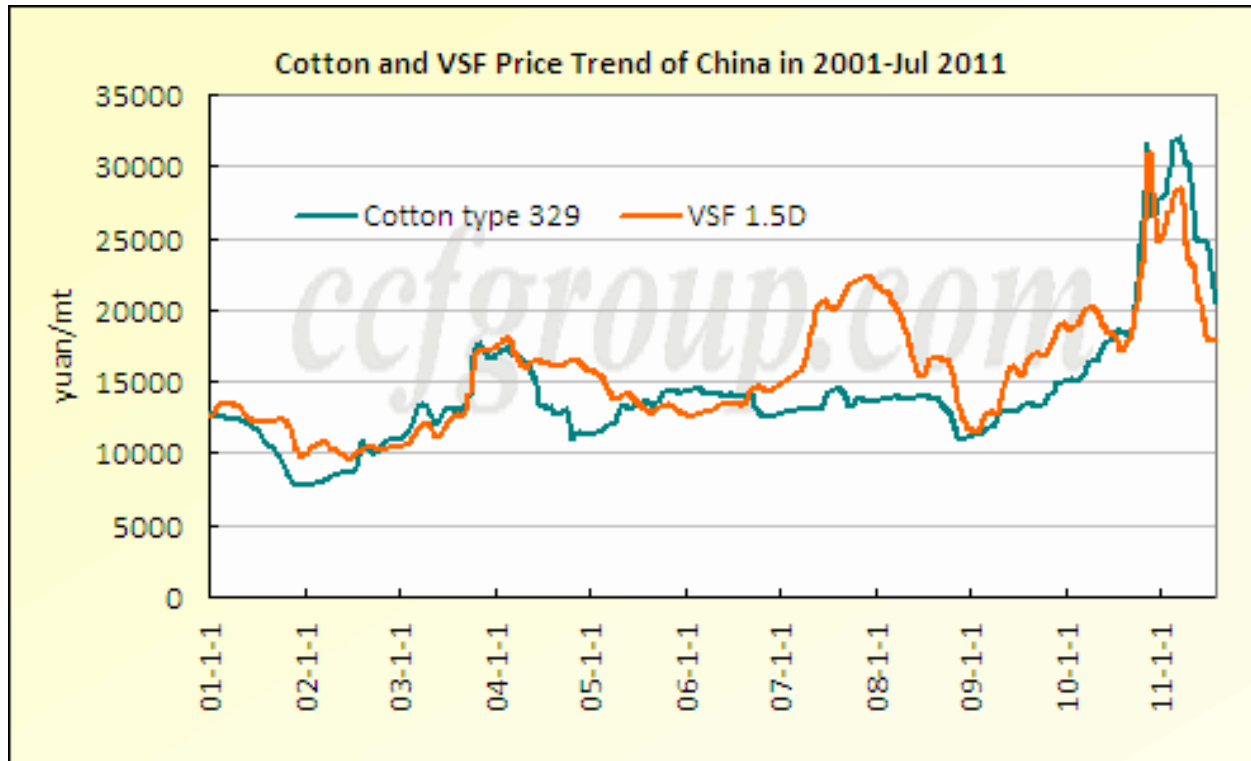
## Global Dissolving & Cotton Linter Pulp

2010 DP & CLP Demand – 5.3M TPY



- The high purity cellulose market is dominated by the Commodity (VSF) segment

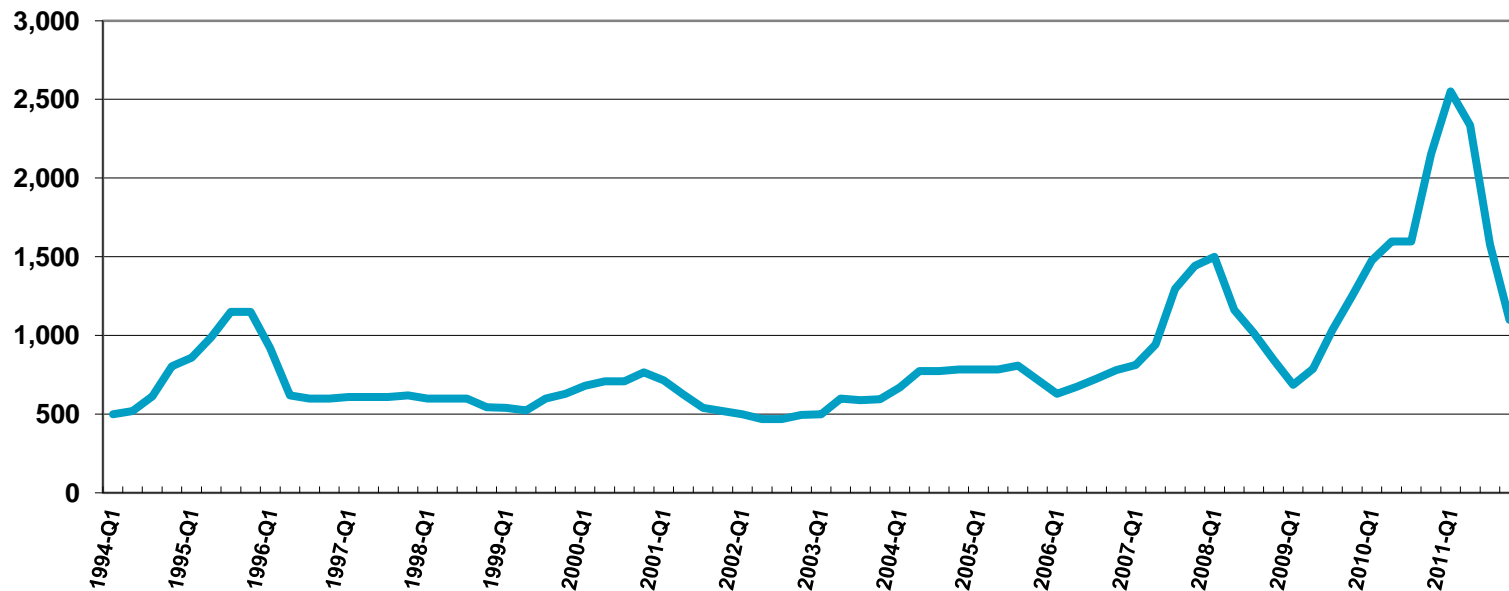
## Cotton pricing versus VSF pricing



- VSF pricing generally tracks cotton – high correlation

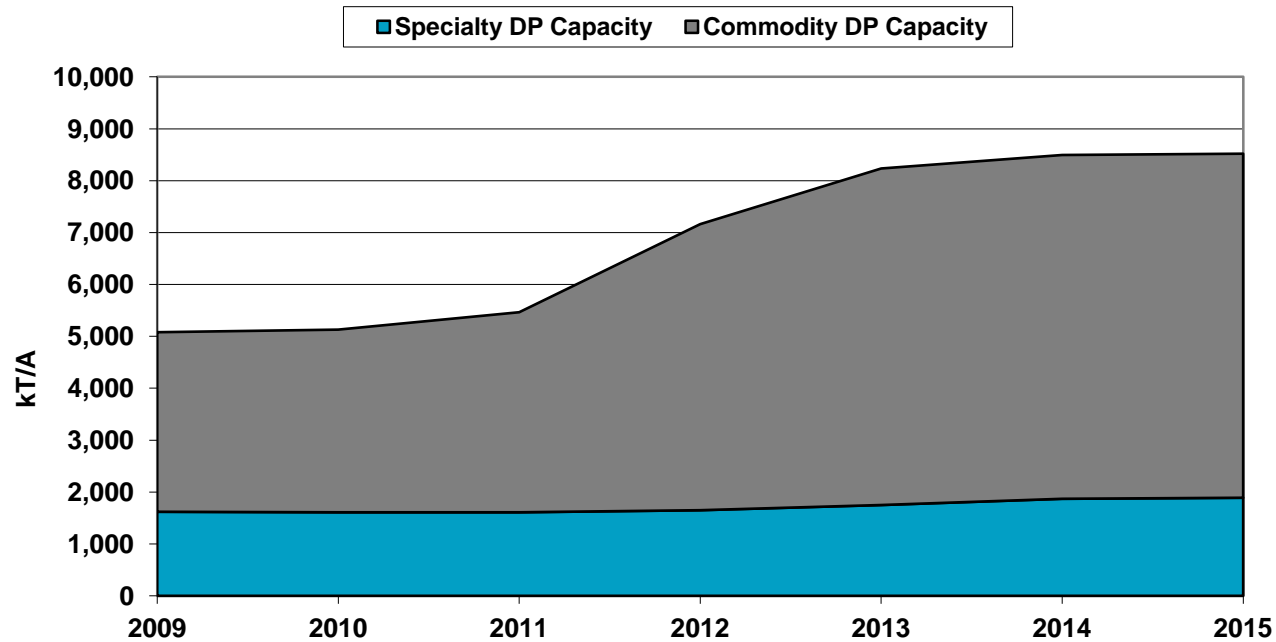
# Commodity Dissolving Pulp Spot Pricing

US\$/Tonne



- The spike in cotton and VSF prices and a shortage of DP pulp led to DP prices of over US\$ 2,500 per tonne
- Spot pricing has since dropped to US\$ 1,100 per tonne

# Total DP Capacity Forecast



The diagram assumes only 50% of announced Chinese DP expansions from 2012-2015 will be realized  
 (announced incremental Chinese capacity increases are ~1800 kT in 2012 which increases by ~1000 kT by 2015).

- The very high DP prices led to many announcements of DP capacity increases
- The vast majority of these expansions are conversions into commodity DP



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**Specialty Dissolving Pulp**

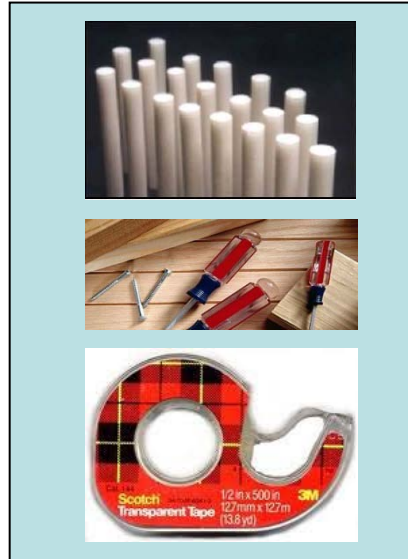


## Principal End-Use Applications

### Cellulose Ethers



### Cellulose Acetate



### Nitrocellulose



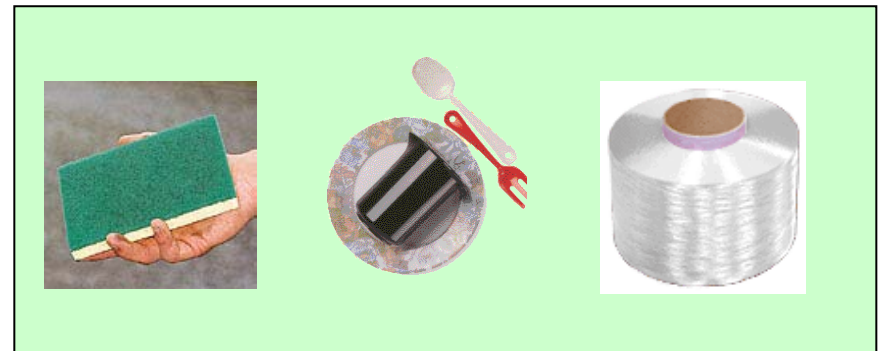
### MCC



### Specialty Fluff



### Some Others



## Financially Healthy Customer Base

	Industry	EBITDA Margin (%)		Pulp cost as % of Sales
		2009	2010	
Customer 1	Acetate	32%	34%	24%
Customer 2	Acetate	34%	33%	25%
Customer 3	Acetate	24%	24%	24%
Customer 4	Ethers	27%	32%	29%
Customer 5	Ethers	22%	23%	24%
Customer 6	Ethers	27%	23%	29%
Customer 7	Ethers	14%	16%	33%
Customer 8	MCC	26%	26%	32%

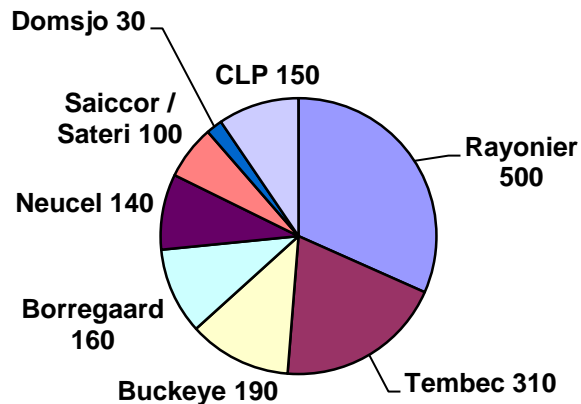
<b>Total SDP demand - 8 Customers</b>	<b>800 KTPY</b>
<b>Total 2010 Specialty Cellulose Demand</b>	<b>1,327 KTPY</b>
<b>Percent of SDP</b>	<b>60%</b>

# Specialty Dissolving Pulp Capacity – 000's Tonnes per year

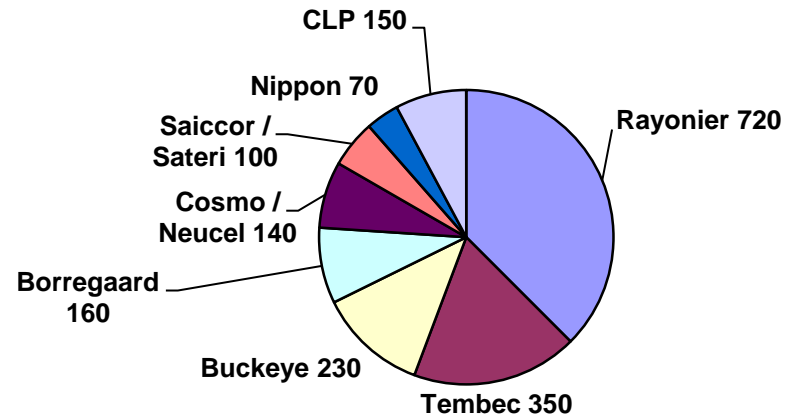
SPECIALTY 2009	
Rayonier	500
Tembec	310
Buckeye	190
Borregaard	160
Neucel	140
Saiccor / Sateri	100
Domsjo	30
CLP	150
<b>TOTAL</b>	<b>1580</b>
<b>Demand</b>	<b>1306</b>
<b>Utilization</b>	<b>83%</b>

SPECIALTY 2016	
Rayonier	720
Tembec	350
Buckeye	230
Borregaard	160
Cosmo / Neucel	140
Saiccor / Sateri	100
Nippon	70
CLP	150
<b>TOTAL</b>	<b>1920</b>
<b>Demand</b>	<b>1604</b>
<b>Utilization</b>	<b>84%</b>

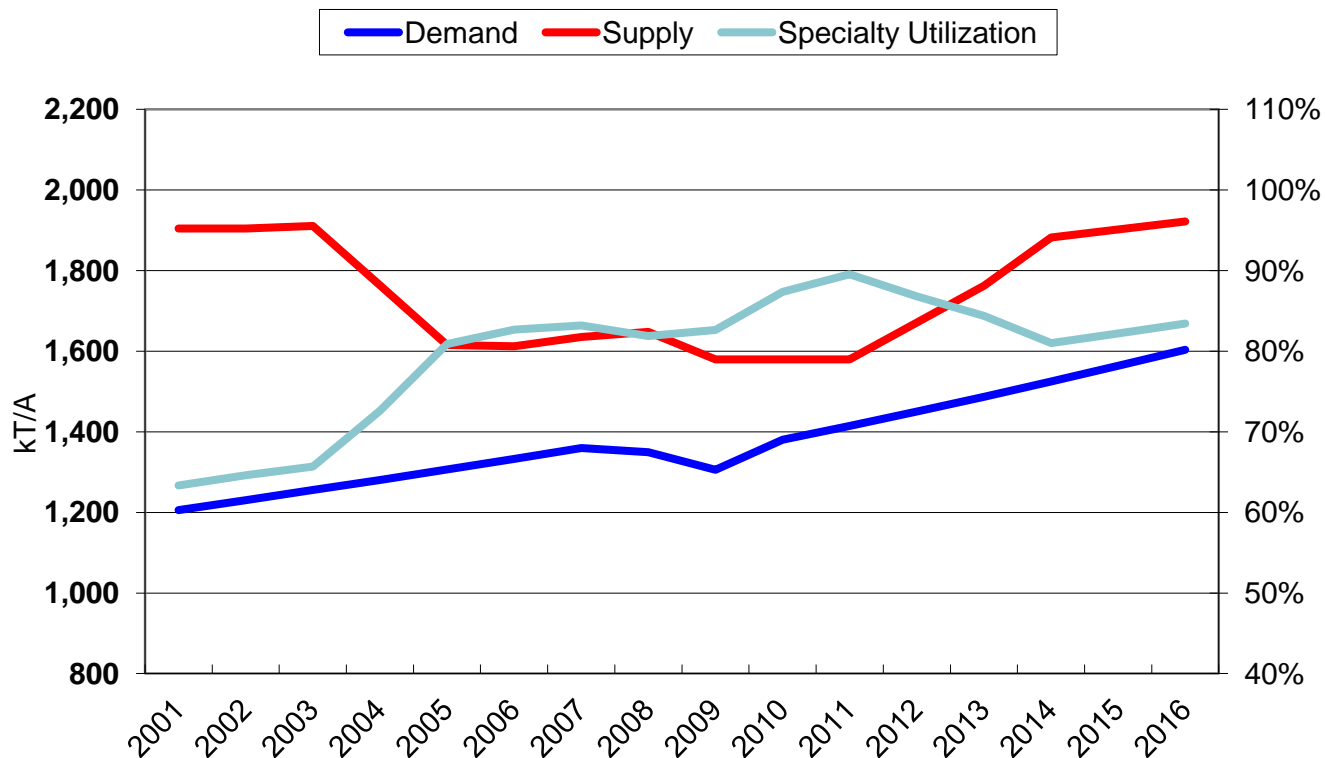
Specialty Pulp Producers 2009 (kT/A)



Specialty Pulp Producers 2016 (kT/A)

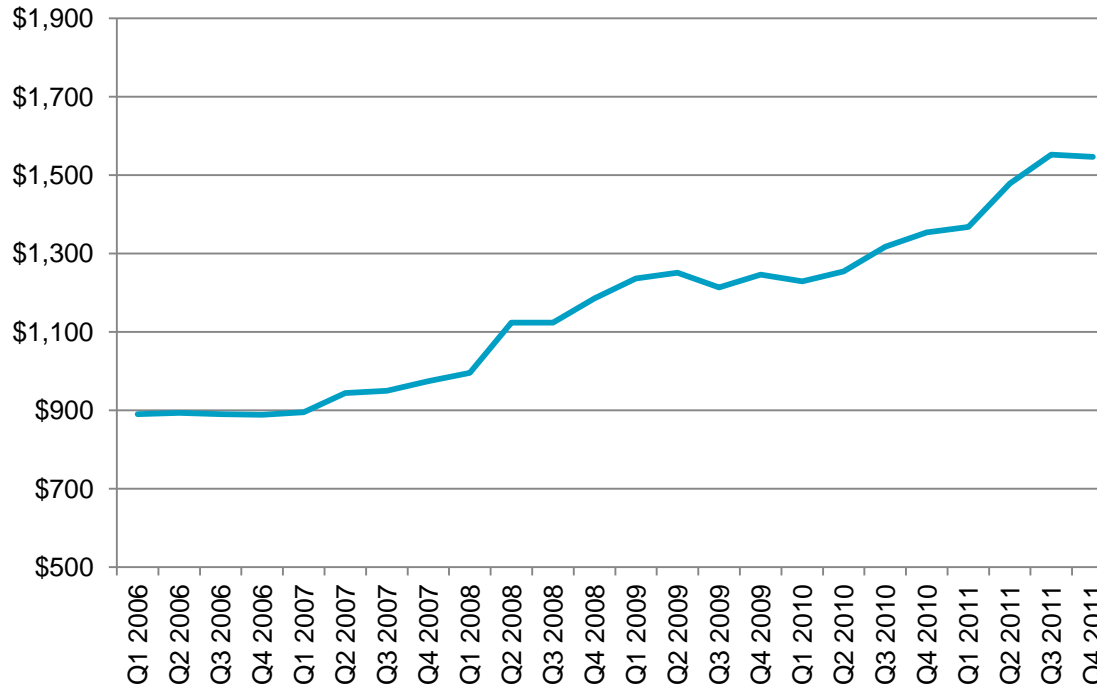


# Specialty Dissolving Pulp Capacity Utilization



- Operating rates in excess of 80% are generally favourable to producers

## Specialty Dissolving Prices - \$US per tonne



- Recession of 09 saw drop in commodity prices AND volume – specialty volume declined but not prices

## Outlook – Medium Term (3 years)

- Increased capital investment - \$70-\$80M per year excluding Temiscaming COGEN
- Continue to reposition the Company
- Specialty dissolving pulp is main driver of earnings/cash flow
- Energy investments become a game changer
- BIP projects gradually increase margins as they are completed
- Maintain strong balance sheet

## Outlook – Short Term (12 months)

- EBITDA expected to increase in fiscal 2012
- Specialty dissolving pulp, high-yield pulp & lumber should improve
- Matane and Tartas energy projects operational in September 2012 quarter
- Higher capital investment - \$80M excluding Temiscaming COGEN
- Maintain strong liquidity - \$200M

# Questions

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## **Exhibit – Financial Highlights**

# Historical Financial Results

- High maintenance expenses impacted September 11 quarterly results
- Refinanced US\$300M term loan with US\$255M Senior Secured Notes maturing December 2018
- New \$200M ABL maturing in 2016

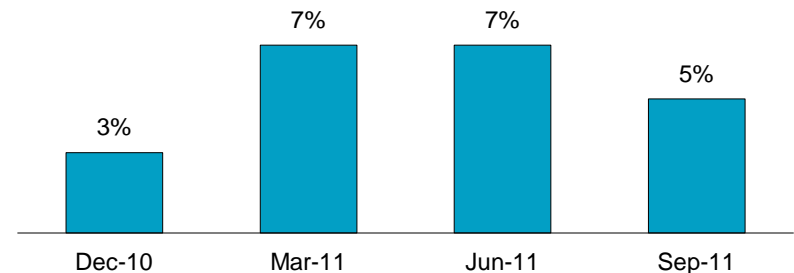
## EBITDA – \$ Millions



## Consolidated Sales – \$ Millions

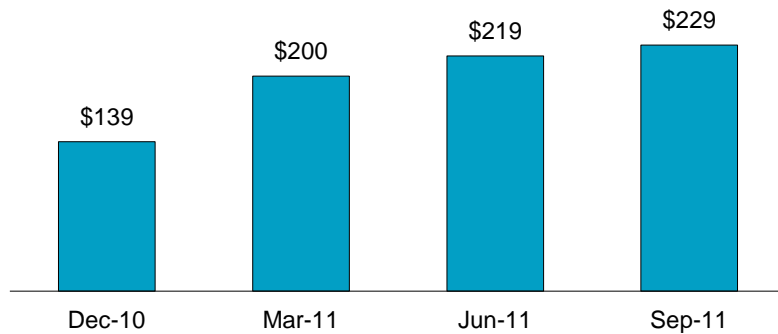


## EBITDA Margins – %

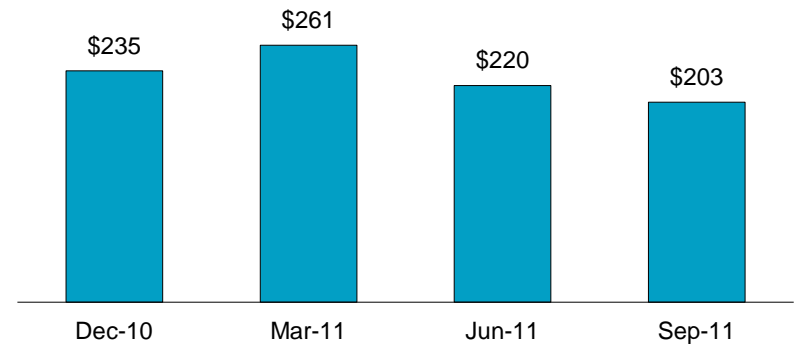


# Credit Statistics

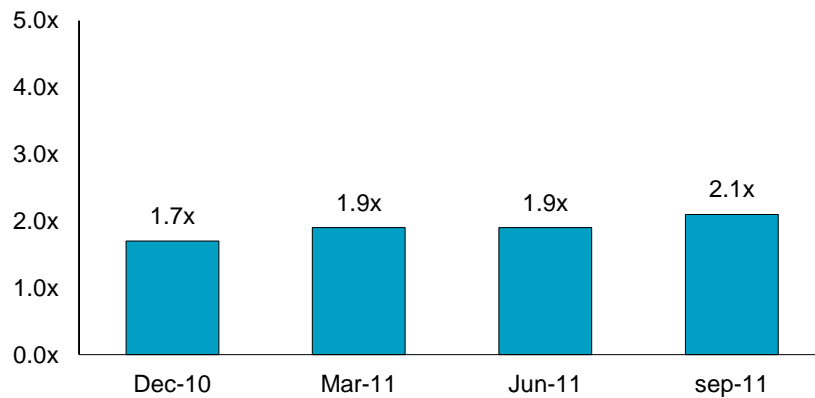
**Liquidity - \$ Millions**



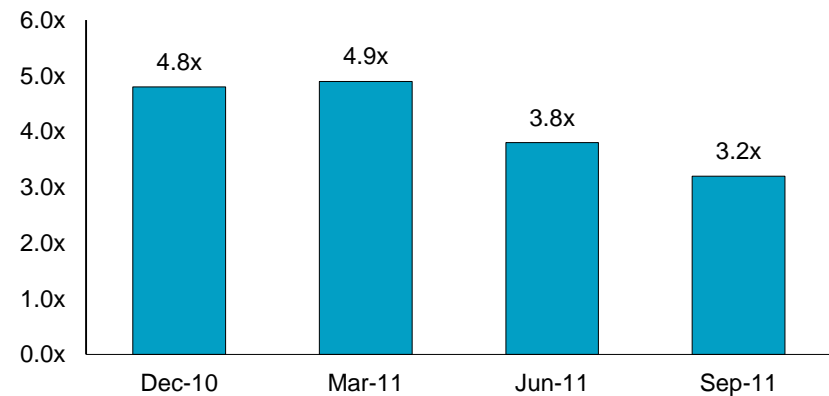
**Net Debt - \$ Millions**



**Net Debt / LTM EBITDA (times)**

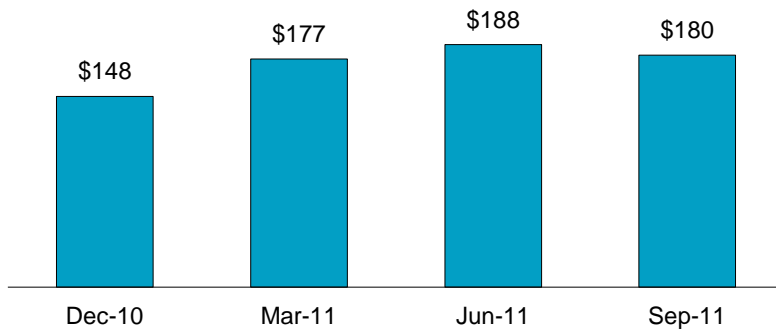


**LTM EBITDA / Interest Expense (times)**

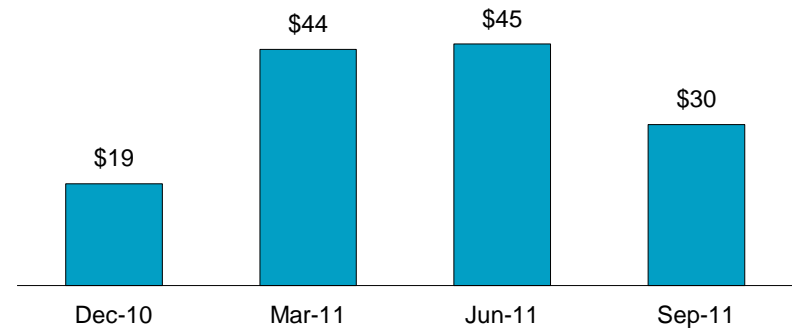


# Pulp Operating Trends - \$ Millions

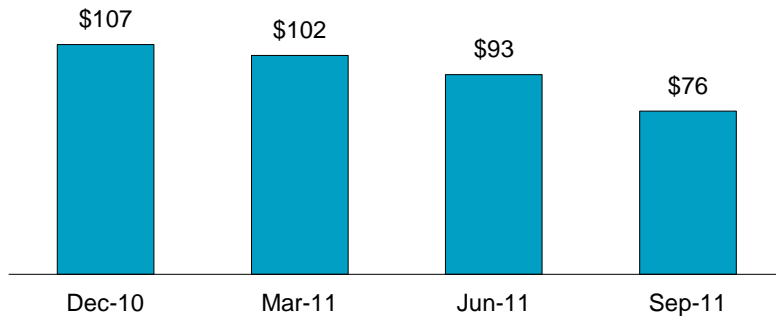
## Dissolving & Chemical Pulp Sales



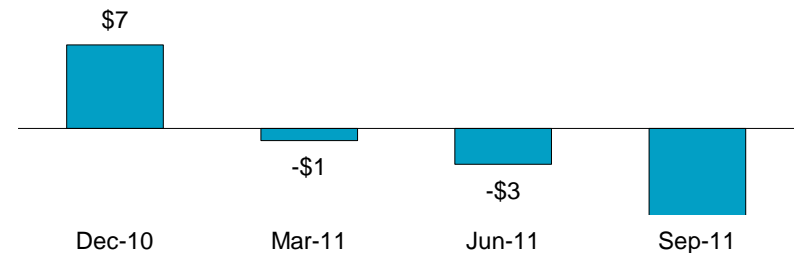
## Dissolving & Chemical Pulp EBITDA



## High-Yield Pulp Sales

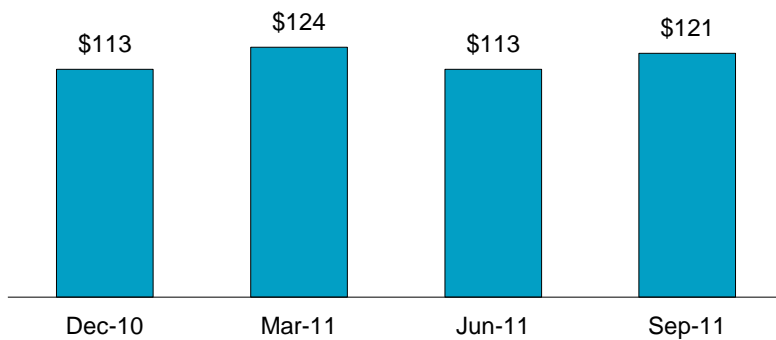


## High-Yield Pulp EBITDA

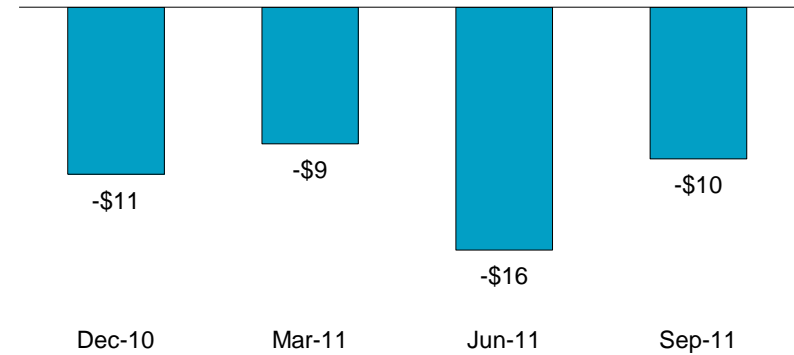


# Forest Products and Paper Operating Trends - \$ Millions

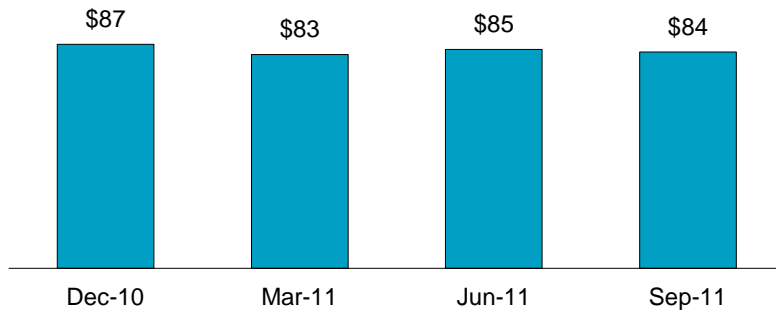
## Forest Products Sales



## Forest Products EBITDA



## Paper Sales



## Paper EBITDA

