

# CASCADES INC.

Review of  
Q2 2012  
financial results



**GREEN BY NATURE™**

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# DISCLAIMER

Certain statements in this presentation, including statements regarding future results and performance, are forward-looking statements within the meaning of securities legislation based on current expectations. The accuracy of such statements is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected, including, but not limited to, the effect of general economic conditions, decreases in demand for the Corporation's products, the prices and availability of raw materials, changes in the relative values of certain currencies, fluctuations in selling prices and adverse changes in general market and industry conditions. This presentation may also include price indices as well as variance and sensitivity analyses that are intended to provide the reader with a better understanding of the trends related to our business activities. These items are based on the best estimates available to the Corporation.

The financial information included in this presentation also contains certain data that are not measures of performance under IFRS ("non-IFRS measures"). For example, the Corporation uses earnings before interest, taxes, depreciation and amortization (EBITDA) because it is the measure used by management to assess the operating and financial performance of the Corporation's operating segments. Such information is reconciled to the most directly comparable financial measures, as set forth in the "Supplemental Information on Non-IFRS Measures" section of our most recent quarterly report or annual report.

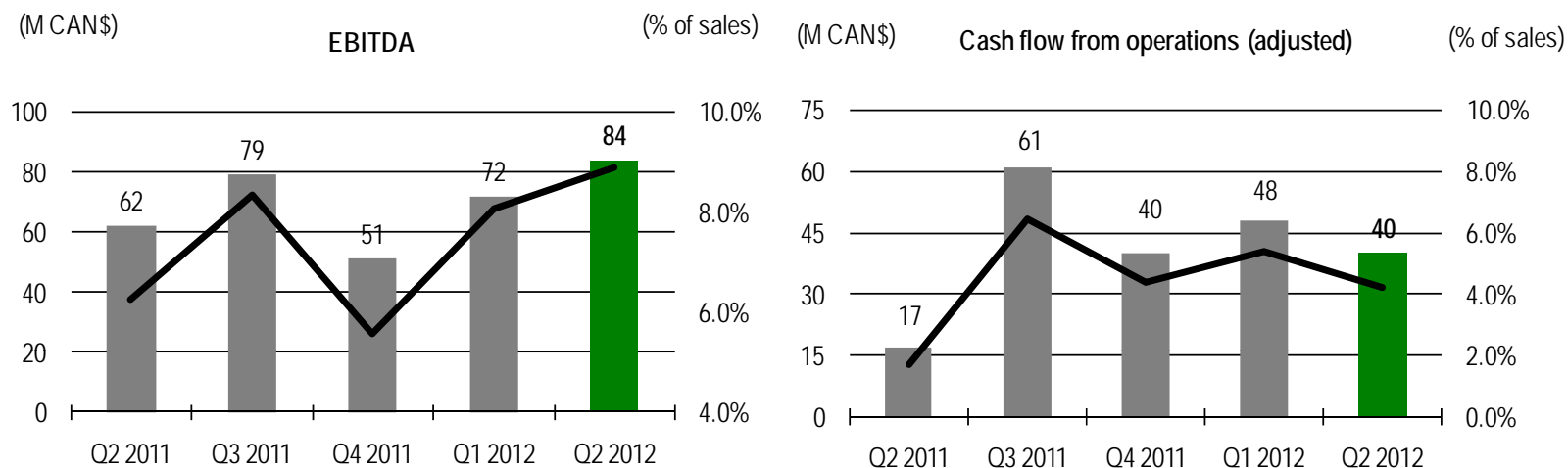
Specific items are defined as items such as charges for impairment of assets, for facility or machine closures, accelerated depreciation of assets due to restructuring measures, debt restructuring charges, gains or losses on sales of business units, unrealized gains or losses on derivative financial instruments that do not qualify for hedge accounting, foreign exchange gains or losses on long-term debt and other significant items of an unusual or non-recurring nature.

All amounts in this presentation are in Canadian dollars unless otherwise indicated.



# OPENING REMARKS

# SUMMARY OF FINANCIAL RESULTS

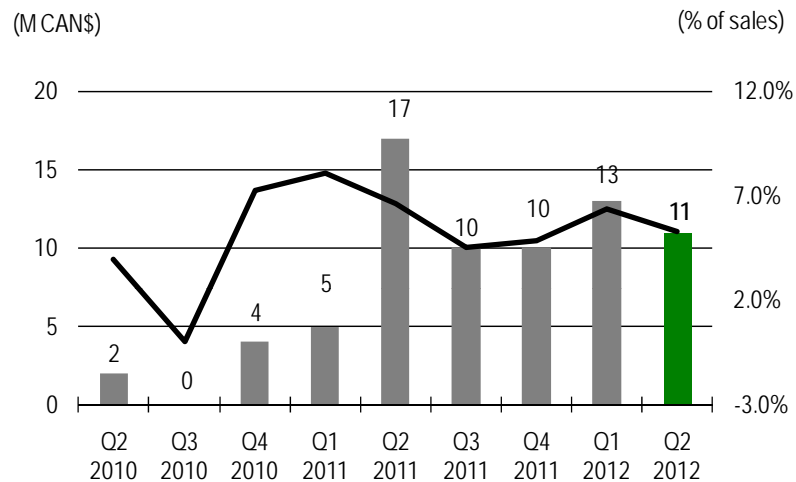


(In millions of CAN\$, except amount per share)	2011					2012	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
<b>Financial results</b>							
Sales	774	991	947	913	3,625	891	<b>944</b>
Excluding specific items							
EBITDA	37	62	79	51	229	72	<b>84</b>
Net earnings (loss)	1	(9)	(2)	(4)	(14)	4	<b>7</b>
Net earnings (loss) per share	0.01	(0.09)	(0.02)	(0.04)	(0.14)	0.04	<b>0.08</b>
Cash flow from operations (adjusted)	15	17	61	40	133	48	<b>40</b>

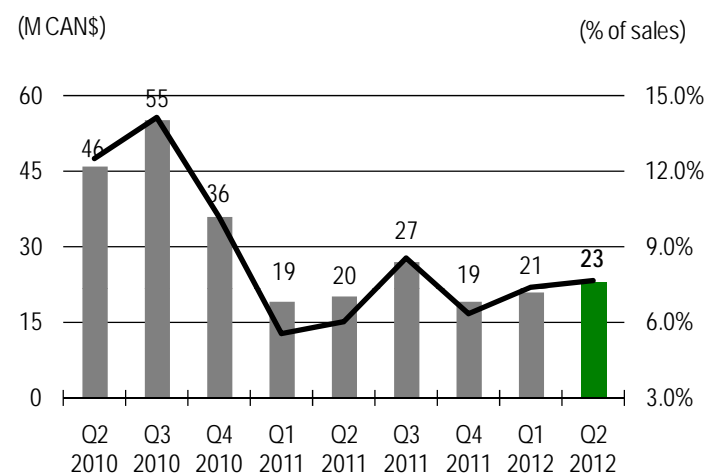
**Significant improvement in EBITDA: +17% QoQ and +35% YoY**

# SEGMENTED EBITDA

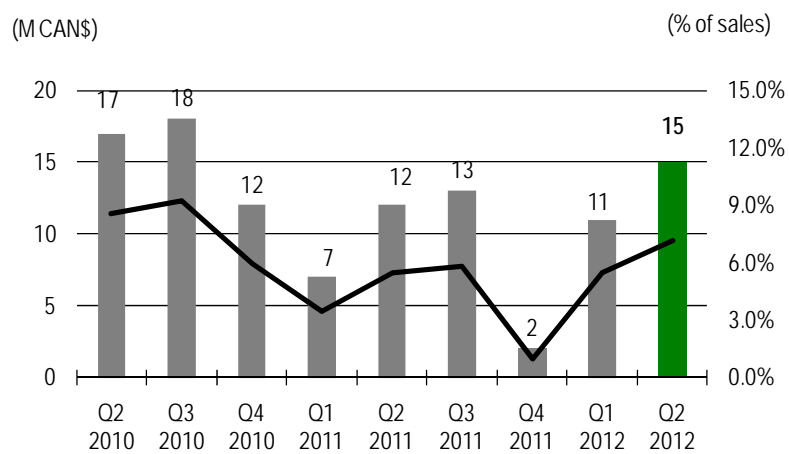
## Boxboard Europe – Difficult market environment



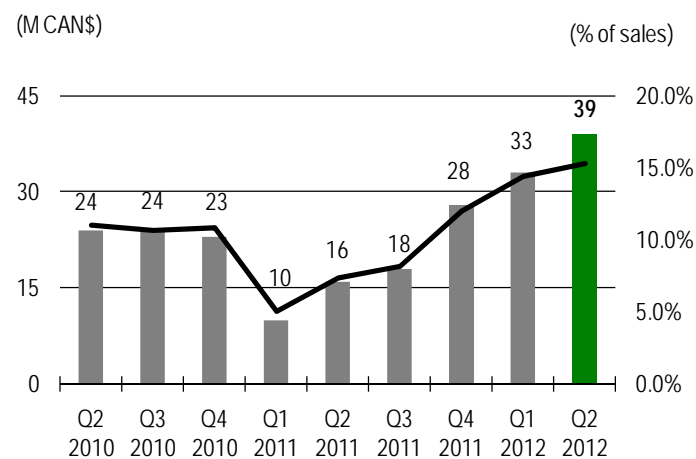
## Containerboard – Productivity needs to increase



## Specialty Products – Meeting expectations



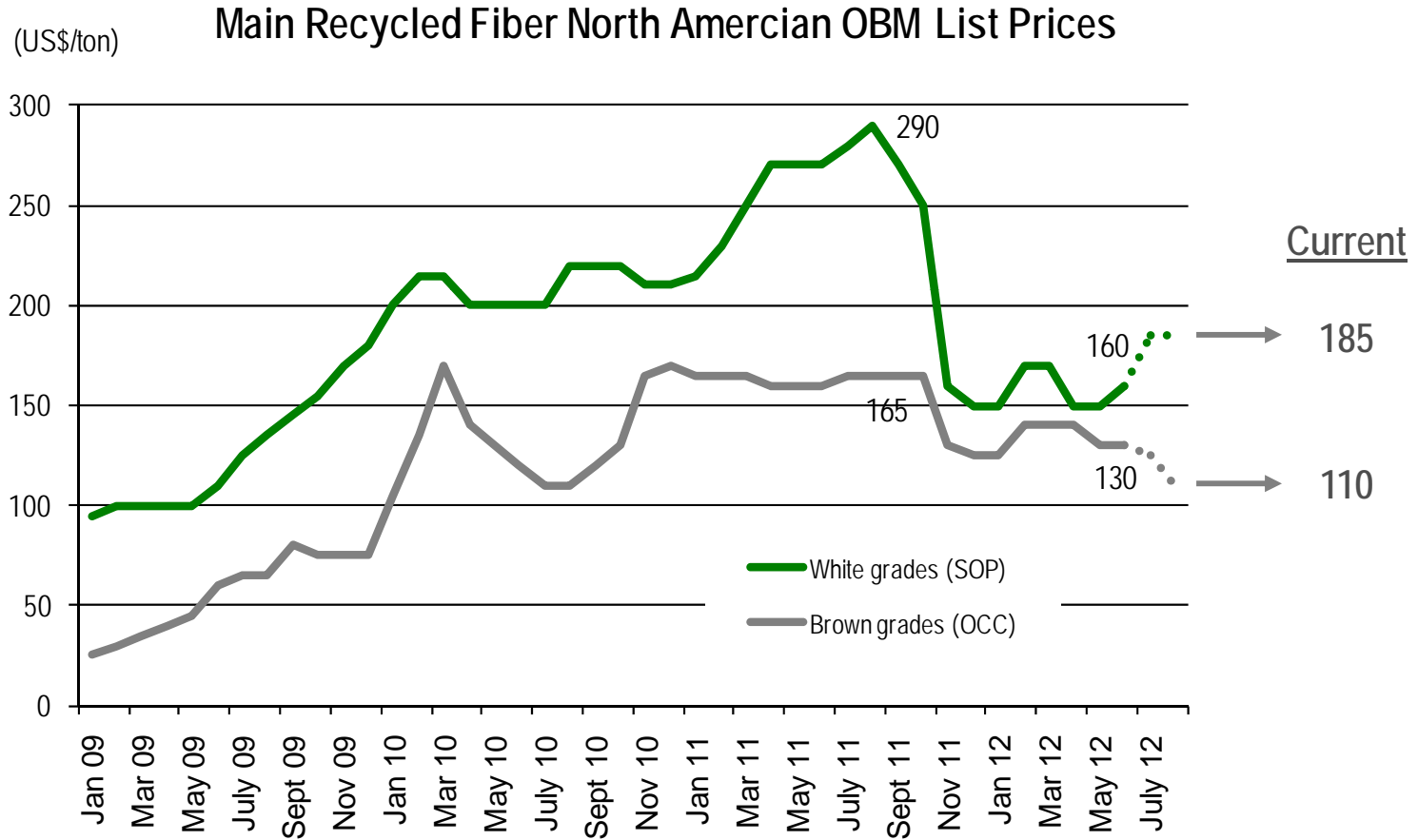
## Tissue – Good quarter





# MARKET DYNAMICS

# RAW MATERIAL COSTS



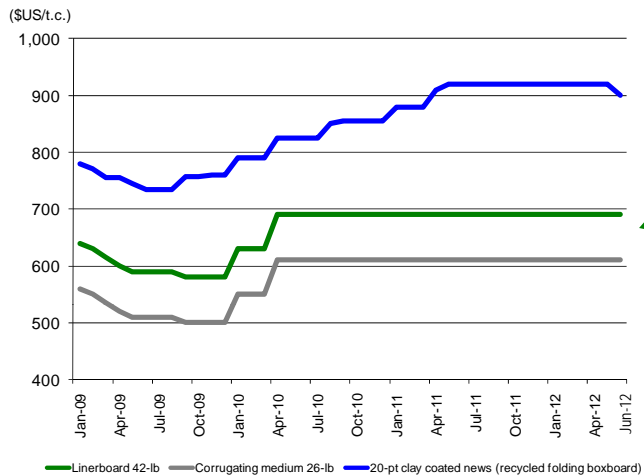
No price increases expected in the short term due to sufficient supply



Sources: RISI, Bloomberg.

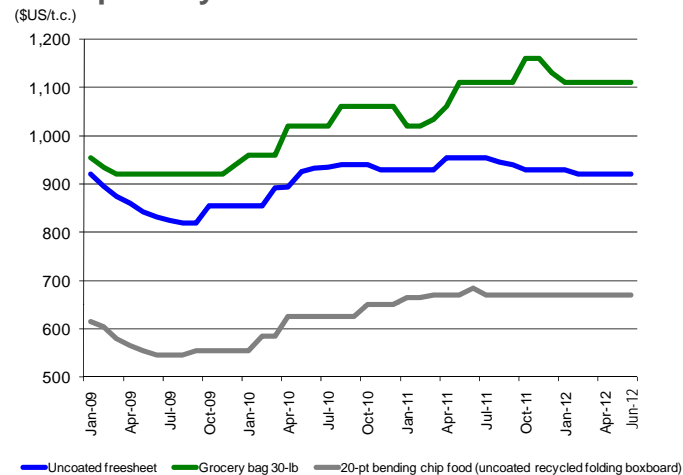
# PRODUCT PRICES

## Containerboard - Selected Products

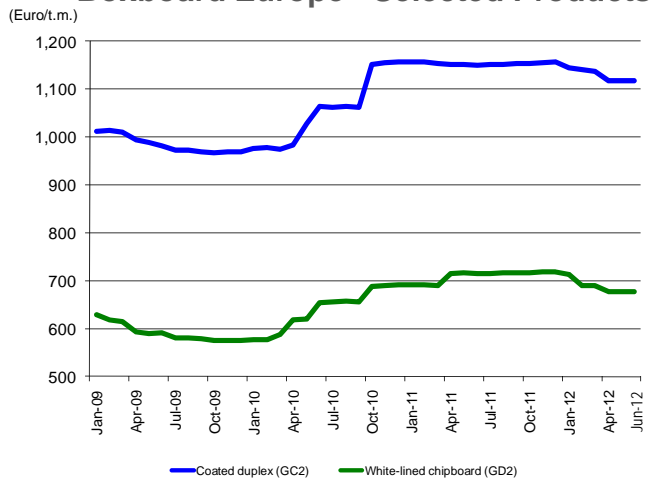


\$50/s.t. announced by most manufacturers (applicable in August) along with following box price increases

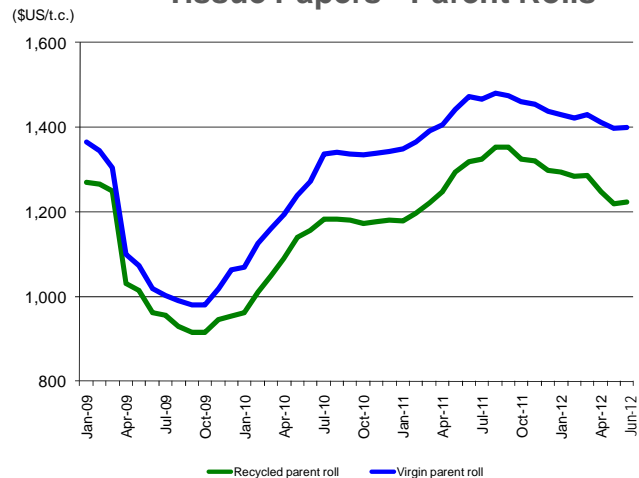
## Specialty Products - Selected Products



## Boxboard Europe - Selected Products



## Tissue Papers - Parent Rolls

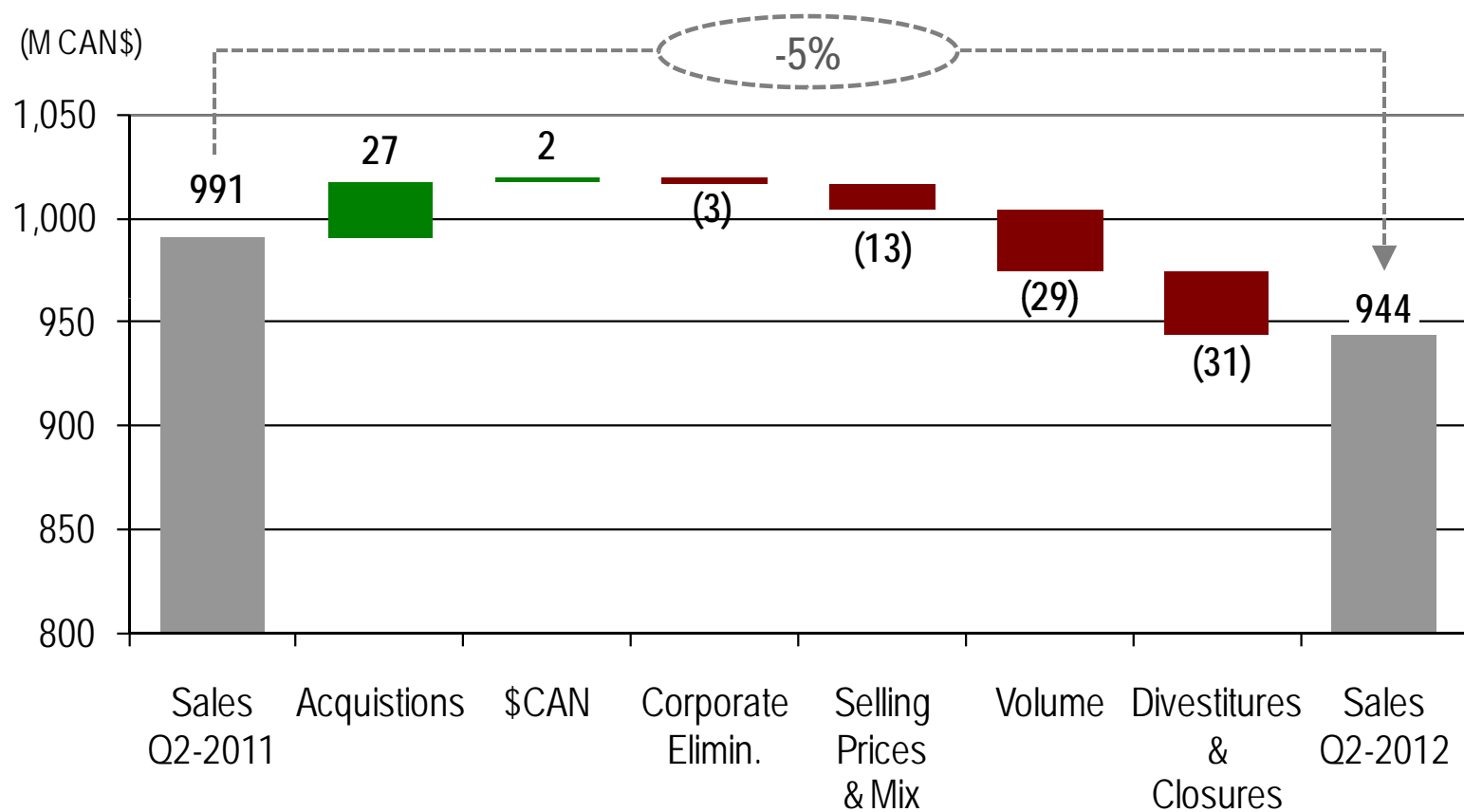






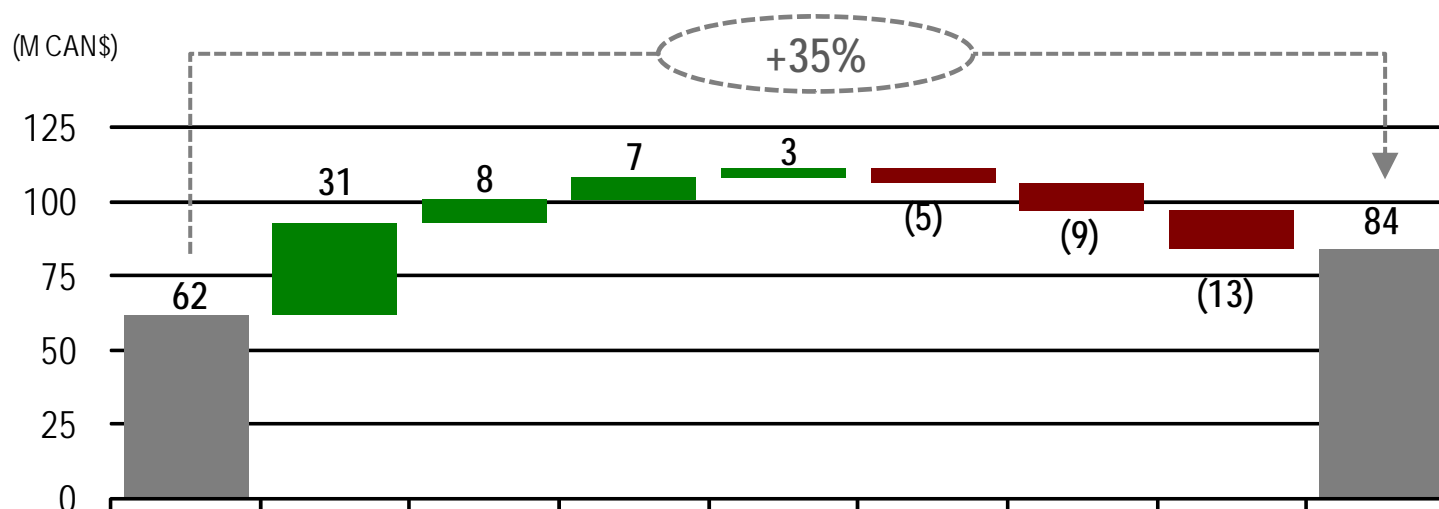
# FINANCIAL REVIEW

# Q2-2011 – Q2-2012 SALES RECONCILIATION



Decrease in sales resulting from lower volume and divestitures/closures

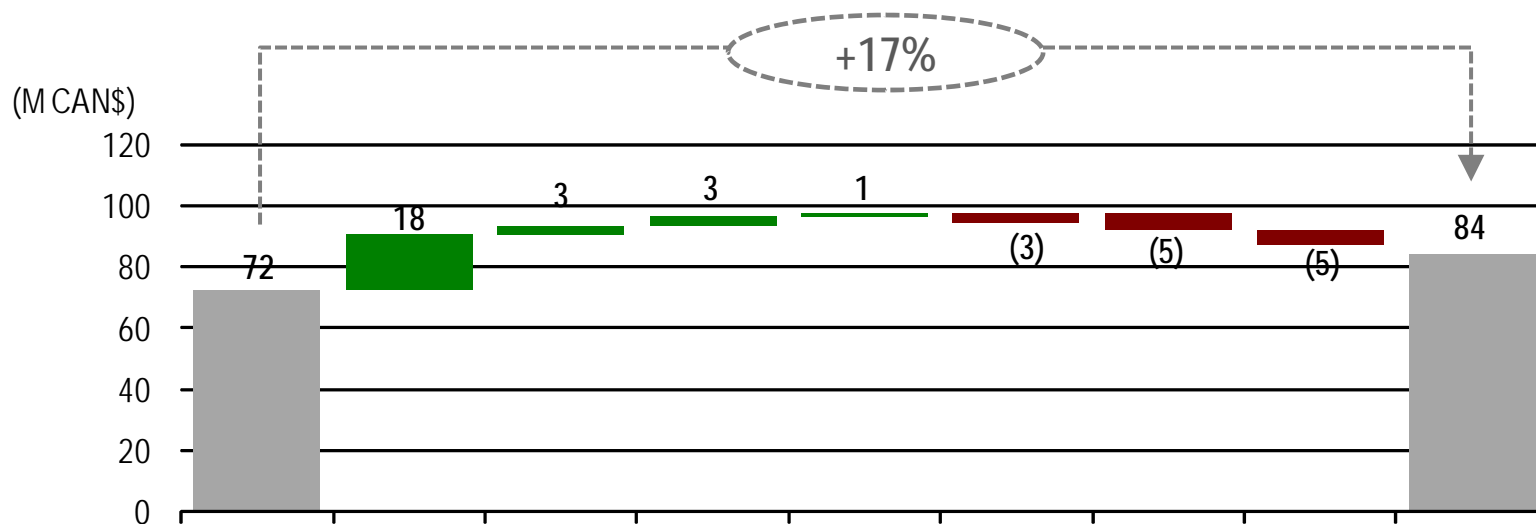
# Q2-2011 – Q2-2012 EBITDA VARIANCE ANALYSIS



(M CAN\$)	Q2-2011	Raw Materials	\$CAN	Business Acq. & Disposals	Energy	Volume	Other Costs	Selling Prices & Mix	Q2-2012
Containerboard	20	3	1	3	1	(3)	(1)	(1)	23
Boxboard Europe	17	13				(6)	(4)	(9)	11
Specialty Products	12	3	3				(1)	(2)	15
Tissue Papers	16	12	2	4	2	4		(1)	39
Corporate	(3)		2				(3)		(4)
<b>Total</b>	<b>62</b>	<b>31</b>	<b>8</b>	<b>7</b>	<b>3</b>	<b>(5)</b>	<b>(9)</b>	<b>(13)</b>	<b>84</b>

**Fibre costs, FX and acquisitions offset volumes and prices**

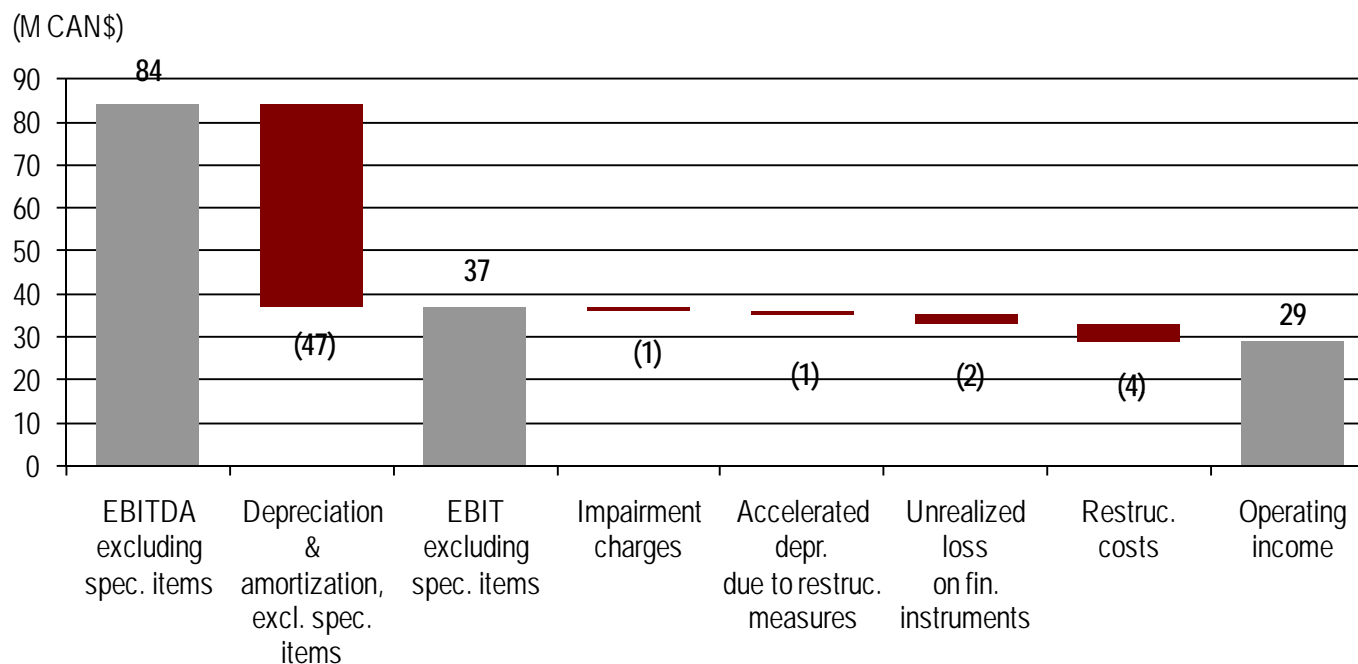
# Q1-2012 – Q2-2012 EBITDA VARIANCE ANALYSIS



(M CAN\$)	Q1-2012	Volume	Energy	\$CAN	Acq. and Divestitures	Selling Prices & Mix	Other Costs	Raw Materials	Q2-2012
Containerboard	21	4	1		1	2	(5)	(1)	23
Boxboard Europe	13	1	(2)	1				(2)	11
Specialty Products	11	1	1	2		(1)	(1)	2	15
Tissue Papers	33	12	3			(4)	(1)	(4)	39
Corporate	(6)						2		(4)
<b>Total</b>	<b>72</b>	<b>18</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>(3)</b>	<b>(5)</b>	<b>(5)</b>	<b>84</b>

**Volume, energy and FX more than offset raw material costs and prices**

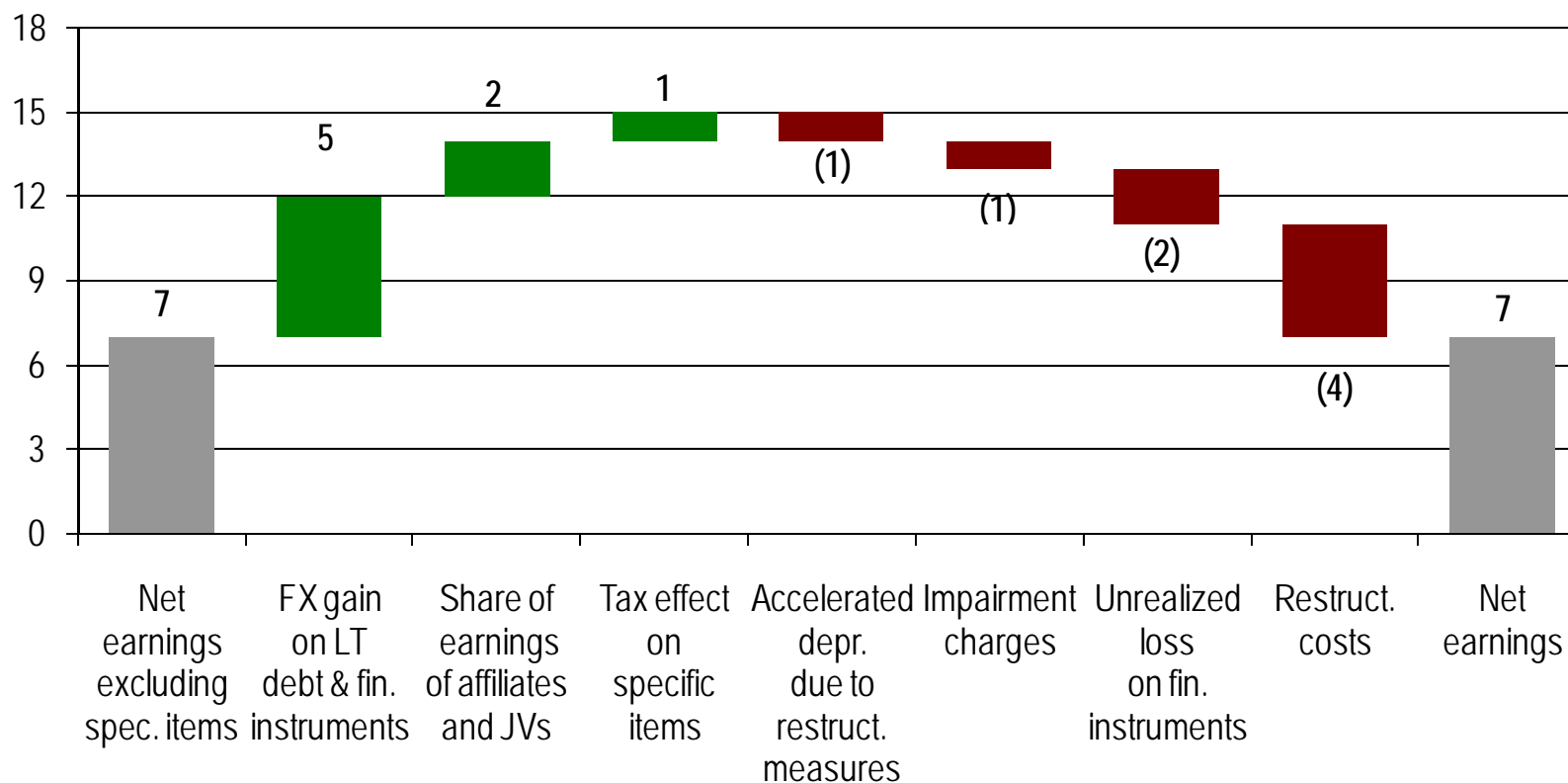
## Q2-2012 EBITDA TO OPERATING INCOME RECONCILIATION



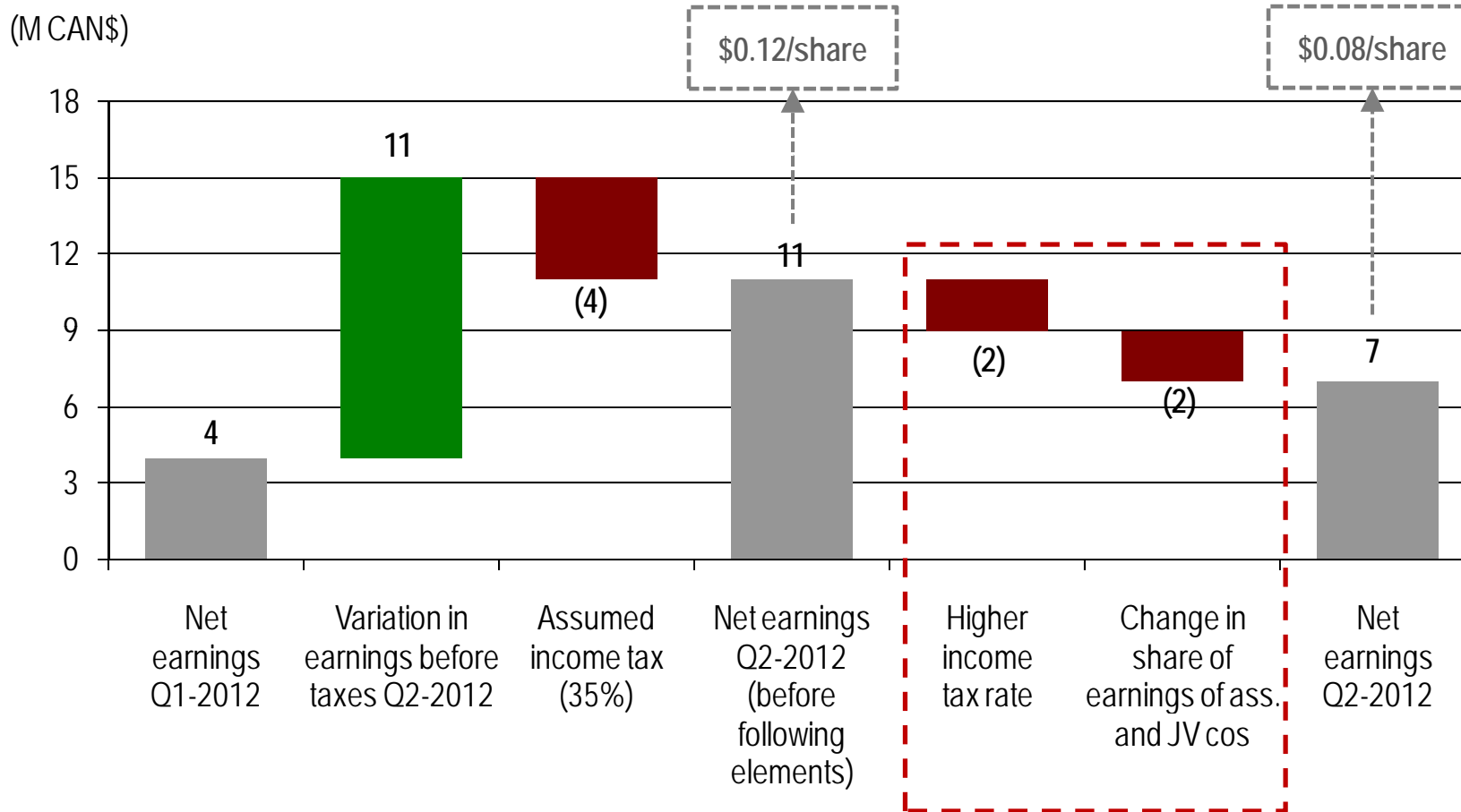
(M CAN\$)	Container-board	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Total
<b>Operating income (loss)</b>	(1)	-	8	26	(4)	<b>29</b>
Specific items:						
Restructuring costs	4	-	-	-	-	4
Impairment charges	1	-	-	-	-	1
Accelerated depreciation due to restr. measures	1	-	-	-	-	1
Unrealized loss (gain) on financial instruments	1	2	-	1	(2)	2
Total specific items	7	2	-	1	(2)	8
<b>Operating income (loss) excluding specific items</b>	<b>6</b>	<b>2</b>	<b>8</b>	<b>27</b>	<b>(6)</b>	<b>37</b>
Depreciation, excluding specific items	17	9	7	12	2	47
<b>EBITDA excluding specific items</b>	<b>23</b>	<b>11</b>	<b>15</b>	<b>39</b>	<b>(4)</b>	<b>84</b>

# Q2-2012 NET EARNINGS RECONCILIATION

(M CAN\$)

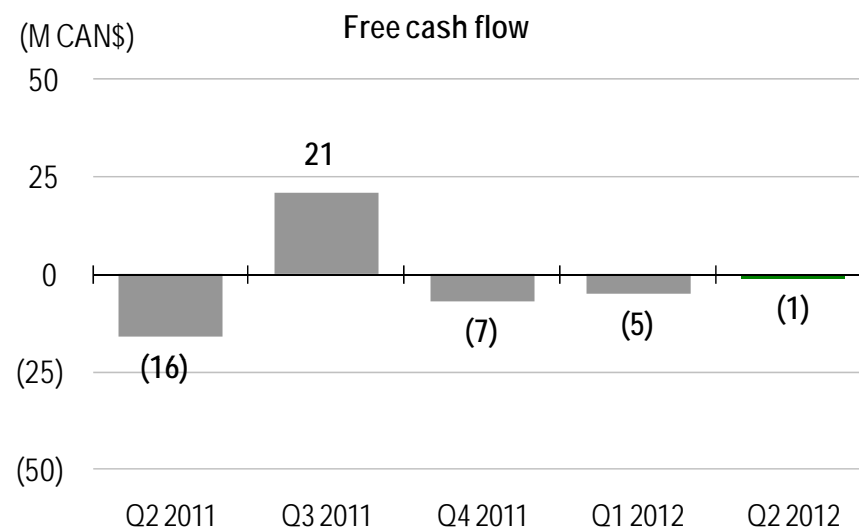
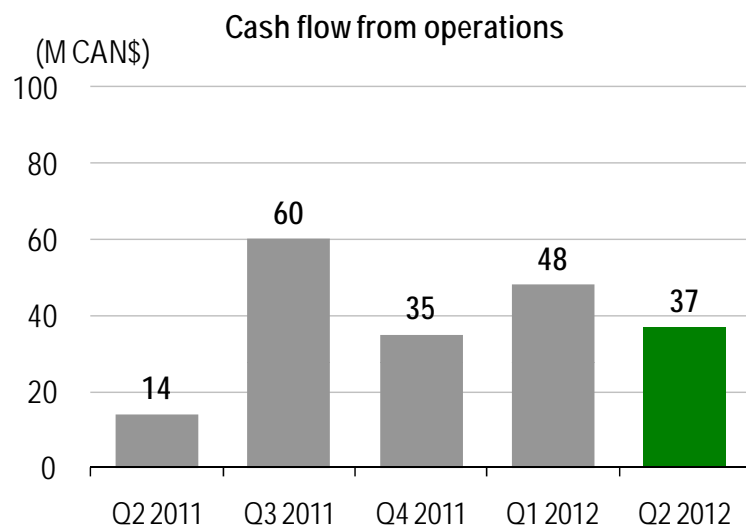


# NET EARNINGS ANALYSIS



**-\$0.04/share due to higher tax rate and earnings of associates and JV companies**

# CASH FLOW OVERVIEW

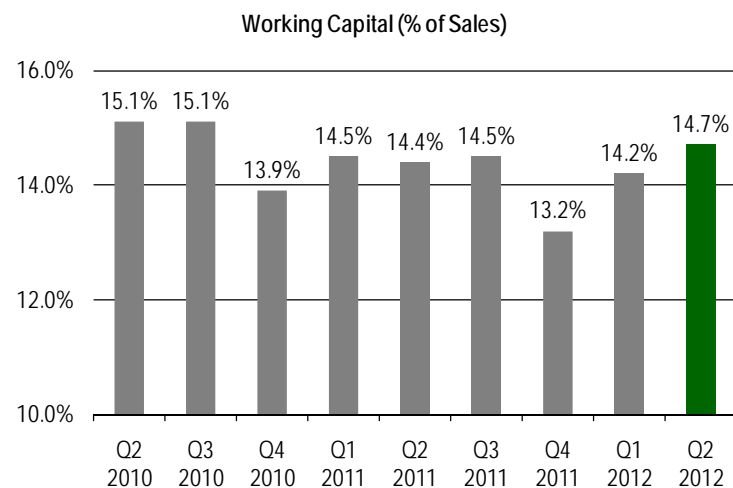
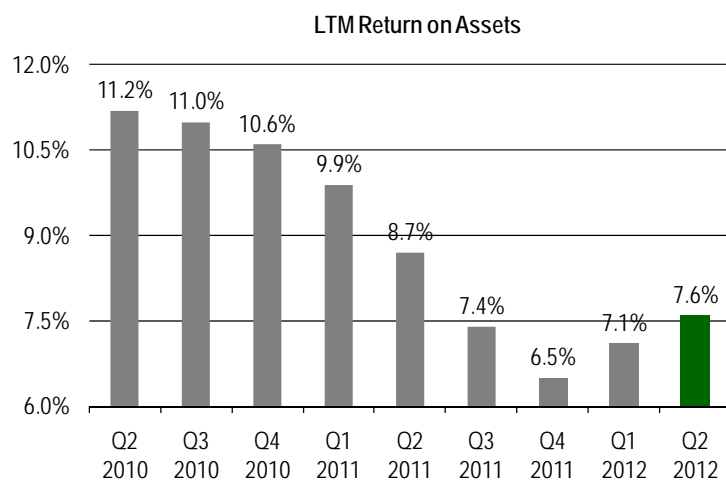
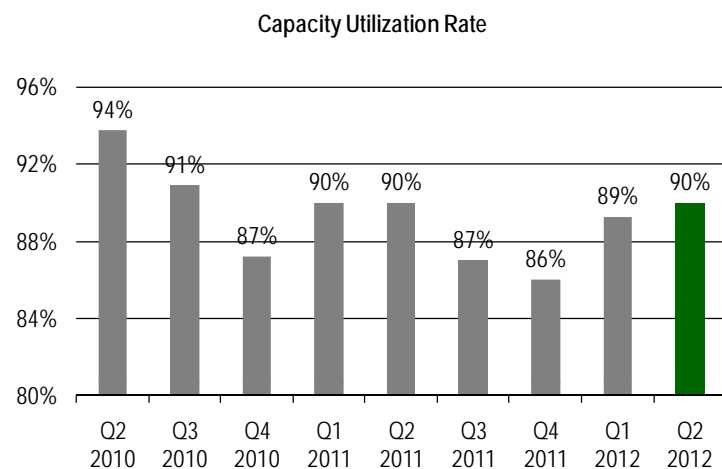
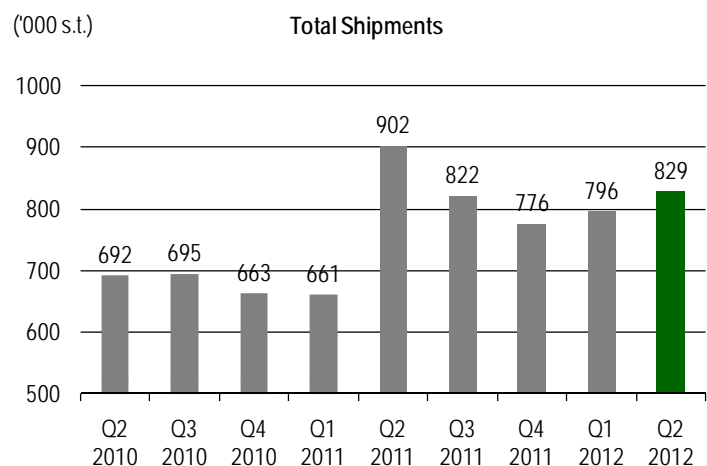


(in millions of CAN\$)	2011					2012	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
Cash flow from operations	22	14	60	35	131	48	37
Capital expenditures & other assets <sup>1</sup>	(37)	(24)	(31)	(35)	(127)	(47)	(34)
Dividend & share buyback	(5)	(6)	(8)	(7)	(26)	(6)	(4)
Free cash flow	(20)	(16)	21	(7)	(22)	(5)	(1)
Free cash flow per share	\$(0.21)	\$(0.17)	\$0.22	\$(0.07)	\$(0.23)	\$(0.05)	\$(0.01)

**Prudent cash flow management during modernization plan; interest paid in Q2**

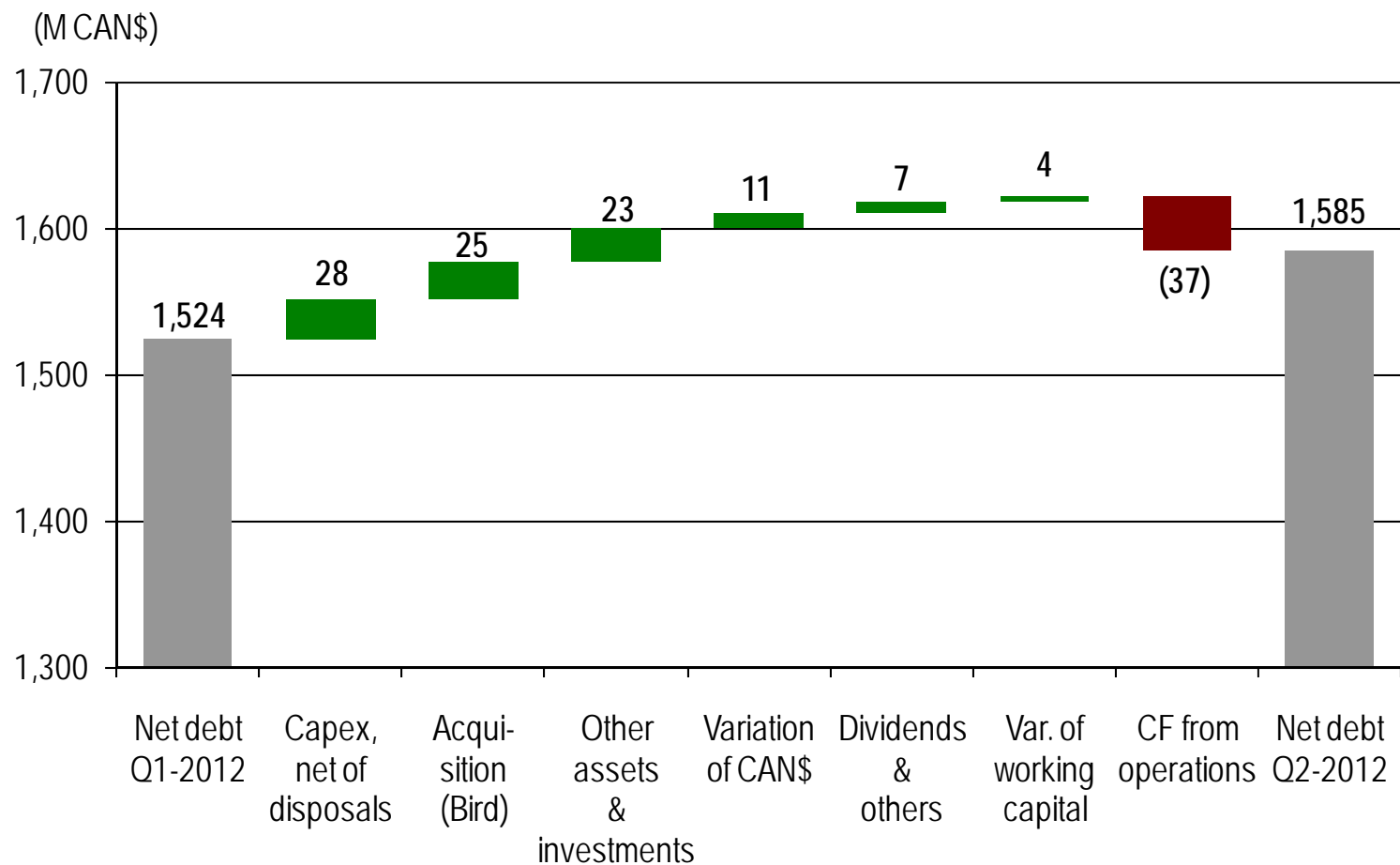


# KEY PERFORMANCE INDICATORS (KPIs)



Progressing on all fronts, except for working capital

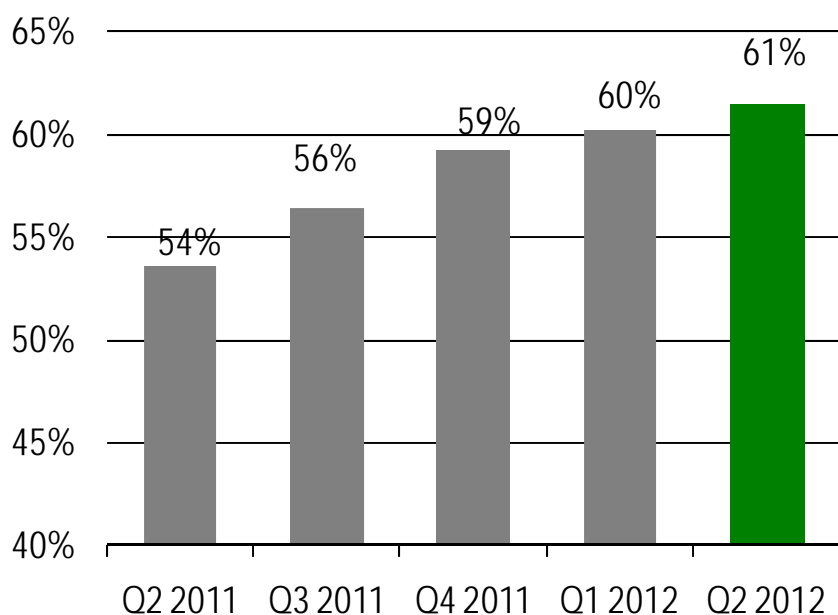
# NET DEBT RECONCILIATION



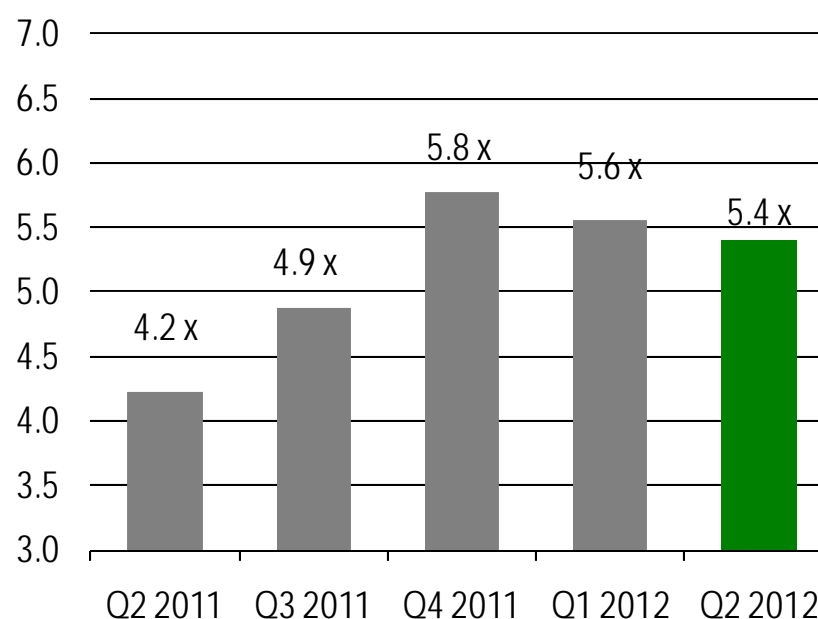
**Net debt up mostly due to capex and acquisitions**

# BALANCE SHEET & KEY FINANCIAL RATIOS

## Debt / Debt + Equity



## Net debt / LTM EBITDA





# SEGMENTED REVIEW

# TISSUE PAPERS

Results  
Q2 2012

Change vs.  
Q1 2012 Q2 2011

Comments on sequential performance

Shipments ('000 s.t.) <b>146</b>	+12%	+9%
-------------------------------------	------	-----

Average Selling Price (CDN\$/unit) <b>1,749</b>	-1%	+7%
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Sales (M\$) <b>255</b>	+11%	+17%
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EBITDA (M\$) <b>39</b> % of sales 15%	+18%	+144%
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- ▶ Important increase of parent roll shipments (+22%); resulting from destocking necessary following good operational performance during Q1-2012
- ▶ Increased shipments for Retail (+8%) and Away-from-Home (+9%)
- ▶ Operational performance maintained during Q2-2012

- ▶ Lower integration rate resulting in an unfavorable product mix with a greater share of parent rolls
- ▶ Product mix also unfavorable for converted products

- ▶ EBITDA increase despite higher marketing costs and higher raw material costs
- ▶ Lower energy and production supply expenses
- ▶ Favorable FX change

EBITDA excluding specific items

# PACKAGING / CONTAINERBOARD

Results Q2 2012	Change vs. Q1 2012 Q2 2011		Comments on sequential performance
Shipments ('000 s.t.) <b>300</b>	+3%	-15%	
Average Selling Price (CDN\$/unit) <b>531</b>	-3%	-2%	<ul style="list-style-type: none"> <li>▶ Higher average selling prices for folding carton</li> <li>▶ Positive seasonal impact in the containerboard segment</li> <li>▶ Decline in average selling price for manufacturing operations reflects transfer price adjustment to reflect market prices</li> </ul>
Sales (M\$) <b>300</b>	+6%	-10%	
EBITDA (M\$) <b>23</b> % of sales 8%	+10%	+15%	<ul style="list-style-type: none"> <li>▶ EBITDA improvement linked to higher shipments (+\$4M), the net impact of acquisitions over closures (+\$1M) and higher average selling prices (+2M\$)</li> </ul>

# PACKAGING / BOXBOARD EUROPE

Results Q2 2012	Change vs. Q1 2012 Q2 2011		Comments on sequential performance
Shipments ('000 s.t.) <b>286</b>	+3%	-10%	<ul style="list-style-type: none"> <li>▶ Order inflows have picked up in May and June</li> <li>▶ Increase in shipments of recycled based products</li> <li>▶ Slight decrease in shipments of virgin based products</li> </ul>
Average Selling Price (CDN\$/unit) <b>725</b> (Euro/unit) <b>560</b>	-2%	-10%	<ul style="list-style-type: none"> <li>▶ Lower prices due to the strengthening of the Canadian dollar</li> <li>▶ Price increases announced for May have not been implemented</li> </ul>
	-0%	-3%	
Sales (M\$) <b>208</b>	+2%	-19%	
EBITDA (M\$) <b>11</b> % of sales 5%	-15%	-35%	<ul style="list-style-type: none"> <li>▶ Higher volumes more than offset by increased energy costs in Italy, higher raw material costs and lower average selling prices</li> <li>▶ Raw material prices decreasing since June</li> </ul>

EBITDA excluding specific items

# PACKAGING / SPECIALTY PRODUCTS

Results Q2 2012	Change vs. Q1 2012 Q2 2011		Comments on sequential performance
Shipments ('000 s.t.) <b>97</b>	-1%	-1%	
Average Selling Price (CDN\$/unit) <b>906</b>	-3%	+1%	<ul style="list-style-type: none"> <li>▶ Average selling prices have remained relatively stable</li> <li>▶ No significant impact from product mix and average selling price variations</li> </ul>
Sales (M\$) <b>209</b>	+3%	-5%	
EBITDA (M\$) <b>15</b> % of sales 7%	+36%	+25%	<ul style="list-style-type: none"> <li>▶ Higher volumes in the Recovery sector</li> <li>▶ Favorable FX variation</li> <li>▶ Positive impact of lower raw material costs</li> <li>▶ Improved operational efficiency lowering production costs</li> </ul>





**Q&A**

**AND**

**CONCLUDING REMARKS**

# NEAR TERM OUTLOOK: Confidence

+

- Lower to stable raw material costs
- Announced price increase in containerboard sector
- Impacts of restructuring and optimization measures
- Potential to improve utilization rate
- Additional contribution from Papersource and Bird

-

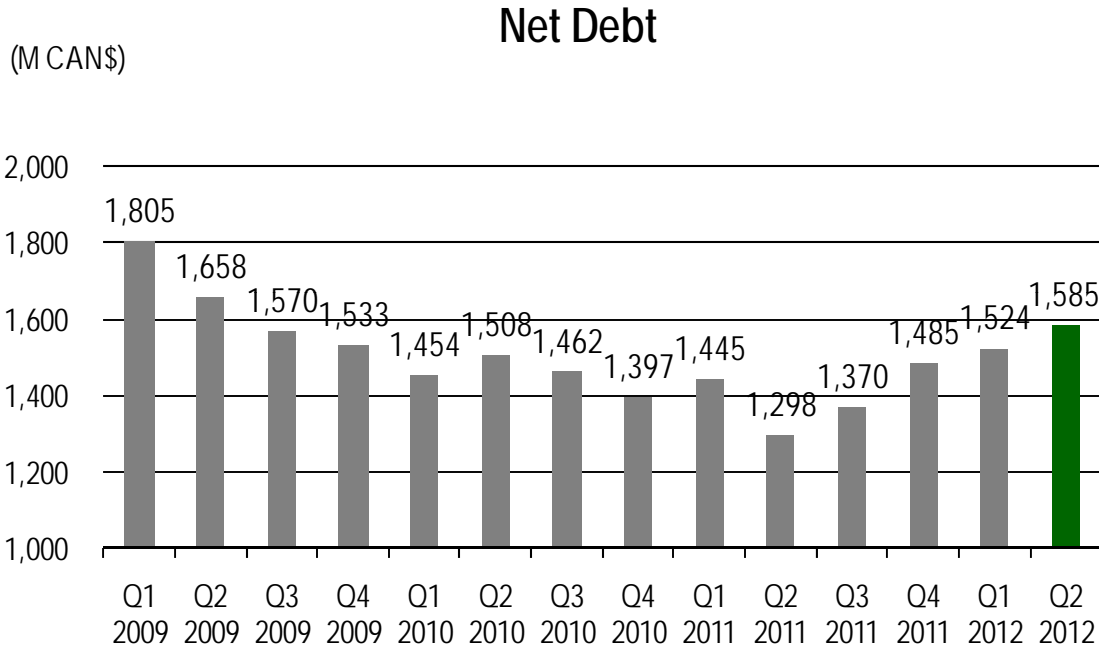
- Economic uncertainty, particularly in Europe
- Higher demand volatility
- Recent recycled white paper price increase
- Energy and chemical costs remaining high

	Boxboard Europe	Containerboard	Specialty Products	Tissue Papers
Volume	Slight increase ↗	Slight increase ↗	Slight increase ↗	Slight increase ↗
Selling prices	Stable ↔	Slight increase ↗	Stable ↔	Stable ↔
Raw material costs	Slight decrease ↘	Slight decrease ↘	Slight decrease ↘	Slight increase ↗
CDN \$ vs other currency	Stable ↔	Stable ↔		
Energy costs	Stable ↔	Stable ↔		

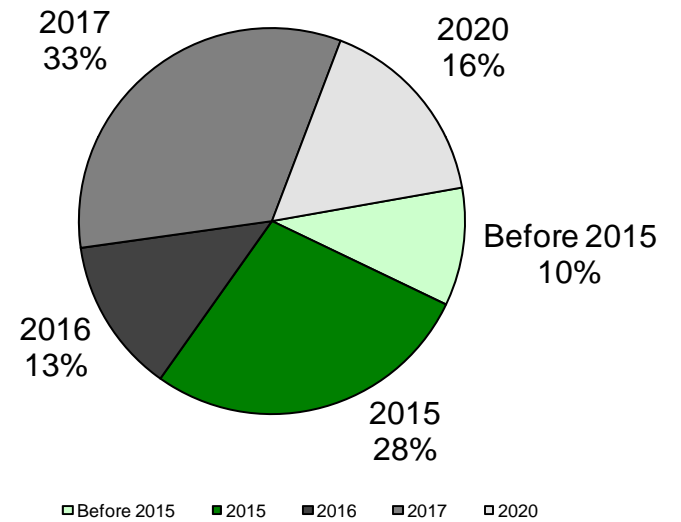


# APPENDICES

# DEBT PROFILE

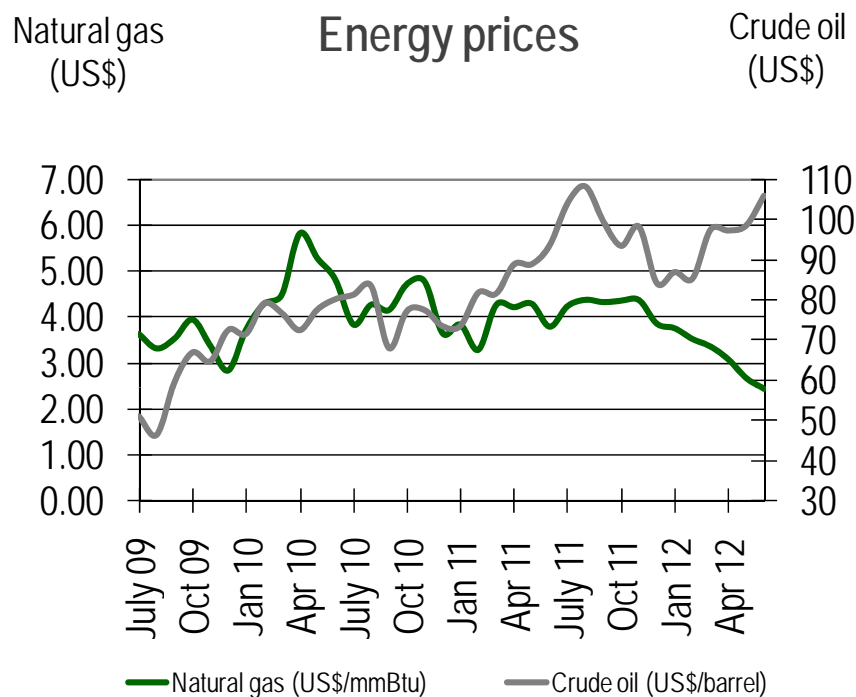


### Long-term Debt Maturities Distribution



**90% of debt maturing after 2015**

# ENERGY PRICES



## Hedging Program - Natural gas

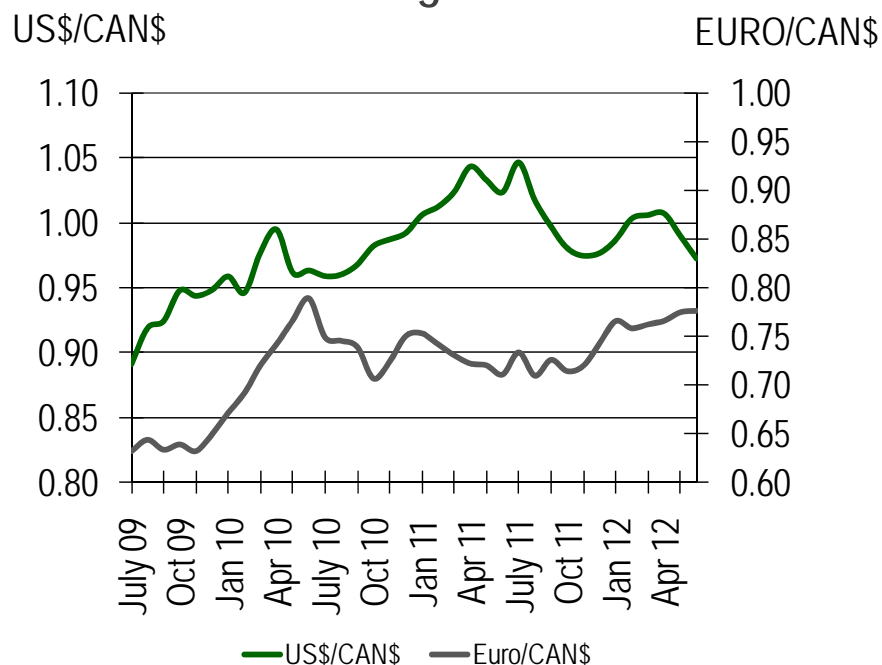
- Canada:
  - 2012: 65% at 5.97 CAN\$/GJ
  - 2013: 70% at 5.48 CAN\$/GJ
- U.S.:
  - 2012: 58% at 6.30 US\$/mmBtu
  - 2013: 52% at 5.84 US\$/mmBtu

	2010		2011		2012		Change	
	Year	Year	Q1	Q2	Q2 2012 Q2 2011	Q2 2012 Q1 2012		
<i>Averages</i>								
<b>Energy prices</b>								
Natural gas Henry Hub (US\$/mmBtu)	4.39	4.04	2.74	2.22	-49%	-19%		
Crude oil WTI (US\$/barrel)	77.32	94.01	100.51	100.11	-4%	0%		

Source: Bloomberg

# FOREIGN EXCHANGE

Exchange rates



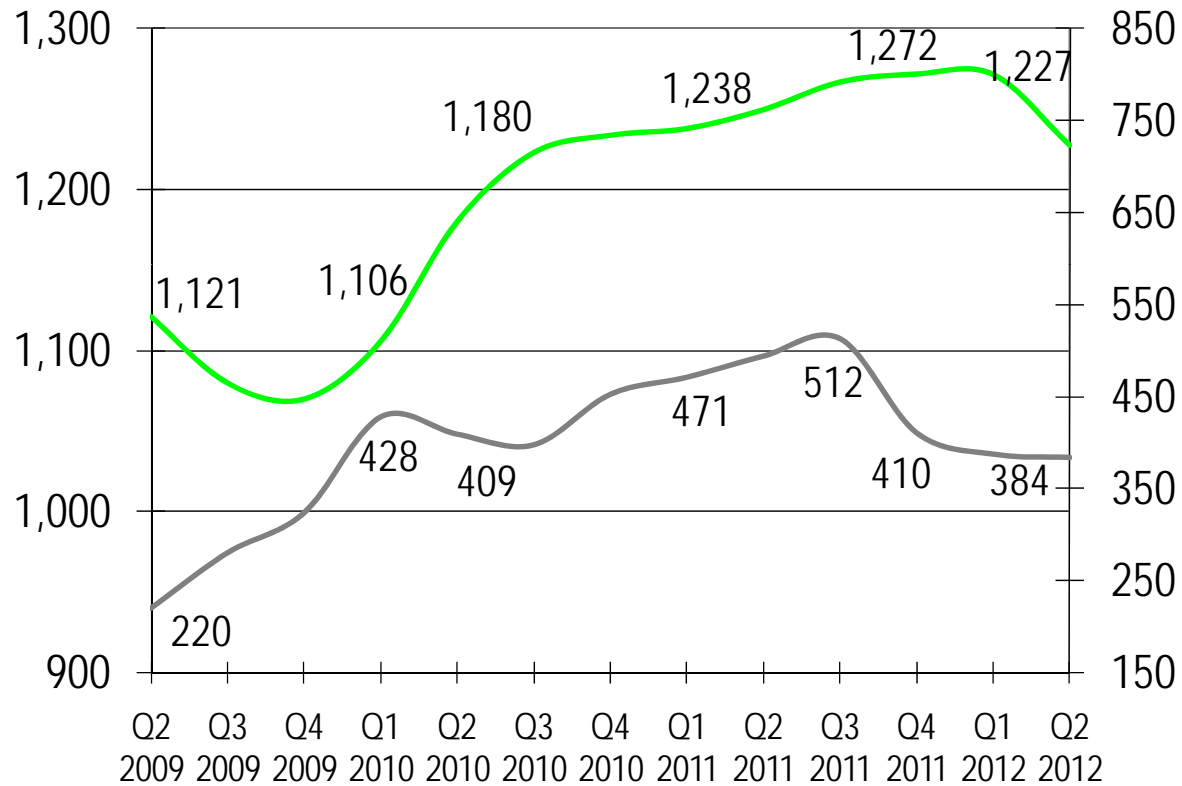
## Hedging Program - Cash flow USD:

- 2012  
31 to 43% (with options) of exposure hedged at an average rate of 1.033CAN\$/US\$ to 1.068CAN\$/US\$
- 2013  
17 to 38% (with options) of exposure hedged at an average rate of 1.038CAN\$/US\$ to 1.078CAN\$/US\$

	2010	2011	2012		Change	
Averages	Year	Year	Q1	Q2	Q2 2012 Q2 2011	Q2 2012 Q1 2012
<b>Foreign exchange rates</b>						
US\$/CAN\$	0.971	1.011	0.999	0.990	-4%	-1%
EURO/CAN\$	0.733	0.727	0.762	0.772	8%	1%

Source: Bloomberg

# NORTH AMERICAN MANUFACTURING SPREAD



Manufacturing spread in CAN\$ in Q2/12: -4% vs Q1/12 and +17% vs Q2/11

# MARKET PRICES AND COSTS SUMMARY

These indexes should only be used as indicator of trends and they be different than our actual selling prices or purchasing costs.	2010		2011				2012		Q2 2012 over Q2 2011		Q2 2012 over Q1 2012	
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	(units)	(%)	(units)	(%)
<b>Selling prices (average)</b>												
Cascades North American US\$ index (index 2005 = 1,000) <sup>1</sup>	1,186	1,238	1,250	1,267	1,272	1,256	1,271	1,227	-22	-2%	-44	-3%
<b>PACKAGING</b>												
<b>Boxboard</b>												
North America (US\$/ton)												
Recycled boxboard - 20pt. Clay coated news (transaction)	828	880	917	920	920	909	920	913	-3	0%	-7	-1%
Europe (Euro/tonne)												
Recycled white-lined chipboard (GD2) index <sup>2</sup>	639	690	716	716	718	710	698	677	-39	-5%	-21	-3%
Virgin coated duplex boxboard (GC2) index <sup>3</sup>	1,055	1,155	1,151	1,152	1,155	1,153	1,141	1,118	-33	-3%	-23	-2%
<b>Containerboard (US\$/ton)</b>												
Linerboard 42-lb. unbleached kraft, East US (transaction)	625	640	640	640	640	640	640	640	0	0%	0	0%
Corrugating medium 26-lb. Semichemical, East U.S. (transaction)	595	610	610	610	610	610	610	610	0	0%	0	0%
<b>Specialty products (US\$/ton, tonne for deinked pulp)</b>												
Recycled boxboard - 20pt. Bending chip (transaction)	619	667	675	670	670	670	670	670	-5	-1%	0	0%
Deinked pulp (f.o.b; U.S. air-dried & wet-lap, post-consumer)	743	748	768	812	725	763	663	675	-93	-12%	12	2%
Unbleached kraft paper, Grocery bag 30-lb.	1,022	1,025	1,093	1,110	1,150	1,095	1,110	1,110	17	2%	0	0%
Uncoated white 50-lb. offset, rolls	914	930	955	947	930	940	923	923	-32	-3%	0	0%
<b>TISSUE PAPERS</b>												
Cascades Tissue papers (index 1999 = 1,000) <sup>4</sup>	1,619	1,631	1,662	1,718	1,664	1,669	1,612	1,610	-52	-3%	-2	0%
<b>Raw materials (average)</b>												
Cascades North American US\$ index (index 2005 = 300) <sup>5</sup>	421	471	494	512	410	472	387	384	-110	-22%	-4	-1%
<b>RECYCLED PAPER</b>												
<b>North America (US\$/ton)</b>												
Corrugated containers, no. 11 (New England)	149	182	178	179	155	174	152	151	-26	-15%	-1	-1%
Special news, no. 8 (ONP - Chicago & NY average)	88	128	139	135	103	126	85	90	-49	-35%	5	5%
Sorted office papers, no. 37 (SOP - Chicago & NY average)	214	223	263	283	164	233	145	151	-111	-42%	6	4%
<b>Europe (Euro/tonne)</b>												
Recovered paper index <sup>6</sup>	120	146	158	147	107	140	113	118	-41	-26%	5	4%
<b>VIRGIN PULP (US\$/tonne)</b>												
Bleached softwood kraft Northern, East U.S.	960	970	1,027	993	920	978	873	900	-127	-12%	27	3%
Bleached hardwood kraft Northern mixed, East U.S.	856	820	850	823	738	808	714	778	-73	-9%	63	9%
<b>WOODCHIPS - Conifer eastern Canada (US\$/odmt)</b>												
	123	123	125	125	134	127	130	121	-4	-3%	-9	-7%



# NOTES

1. The Cascades North American selling prices index represents an approximation of the Corporation's manufacturing selling prices in North America (excluding converting). It is weighted according to shipments and is based on the average selling price of our North American manufacturing operations of boxboard, containerboard, speciality products and tissue paper. It considers the change in the mix of products sold. This index should only be used as a trend indicator.
2. The Cascades recycled white-lined chipboard selling prices index represents an approximation of Cascades' recycled grades selling prices in Europe. It is weighted by country.
3. The Cascades virgin coated duplex boxboard selling prices index represents an approximation of Cascades' virgin grades selling prices in Europe. It is weighted by country.
4. The Cascades Tissue Papers selling prices index represents a mix of primary and converted products, and is based on the product mix at the end of 2006.
5. The Cascades North American raw materials index is based on publication prices and the average weighted cost paid for some of our manufacturing raw materials, namely recycled fibre, virgin pulp and woodchips, in North America. It is weighted according to purchase volume. This index should only be used as a trend indicator, as it may differ from our actual manufacturing purchasing costs and our purchase mix.
6. The Cascades recovered paper index represents an approximation of Cascades' recovered paper purchase prices in Europe. It is weighted by country based on the recycled fibre supply mix of 2009.

The capacity utilization rate is defined as: Shipments/Practical capacity. Paper manufacturing only.

Return on assets is a non-IFRS measure and is defined as: LTM EBITDA excluding specific items/ LTM Average of total quarterly assets. It includes discontinued operations.

Working capital includes accounts receivable plus inventories less accounts payable. It excludes an unpaid provision for closure and restructuring costs. It also excludes the current portion of derivatives financial instruments and the current portion of future taxes liability.