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## CONFERENCE CALL PARTICIPANTS

**Sean Steuart** *TD Securities - Analyst*

**Paul Quinn** *RBC Capital Markets - Analyst*

**Leon Aghazarian** *National Bank Financial - Analyst*

## PRESENTATION

### Operator

Good morning, my name Shanick and I will be your conference operator today. At this time I would like to welcome everyone to the second quarter results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. (Operator Instructions). Mr. Riko Gaudreault, you may begin your conference.

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### Riko Gaudreault - Cascades Inc. - Director of IR

Thank you, Operator, and good morning, everyone. Welcome to our conference call for the second quarter of 2012. Members of our management team are joining me today and you will hear from Alain Lemaire, President and CEO; Mario Plourde, COO; Allan Hogg, Vice President and CFO; Suzanne Blanchet, President and CEO of Cascades' Tissue Group; Marc-Andre Depin, President and COO of Norampac; and Luc Langevin, President and COO of Cascades' Specialty Products Group.

Alain and Mario will begin with their comments followed by Allan and the Group's President. Mario will present a review of our operations in Europe. Following the question period Mr. Lemaire will be back for the conclusion.

During this call certain statements will discuss historical and forward-looking matters. Please note that the accuracy of such statements is subject to a number of risk factors that can have a material impact on our actual results. These factors are listed in our registration statement.

Also the statements in our press release include data that are not measures of performance under IFRS. You can have access to or request a copy of these documents to our website.

I would like to remind the media and Internet users that they can only listen to the call. If you have questions, please feel free to call us after the session. Mr. Lemaire?



**Alain Lemaire** - *Cascades Inc. - President & CEO*

Thank you, Riko. Good morning. Earlier today we released our results for the second quarter of 2012. I would qualify these results as good, not excellent. Once again you can see an improvement over both the previous quarter and the same period last year.

Our second-quarter EBITDA was CAD84 million excluding specific items. This is 17% more than the previous quarter and 35% more better than the second quarter of 2011. Our net earnings were CAD0.08 per share excluding specific item. Allan give you more details later on how our EPS was impacted by the results from (inaudible) and higher income tax rate (inaudible).

All our segments in North America had better EBITDA contribution. However, we still have room for improvement more specifically in Norampac manufacturing operation. Despite the fact that the Containerboard Group posted an increased in EBITDA over the previous quarter, we still need to address operational issues that do not allow [us] to produce the accepted output of some of our sites.

And while we work at this our other sectors are performing very well. Our Tissue Paper Group contributed close to half of the last quarter's EBITDA with CAD39 million. Our specialty Group also showed better results over the last quarter contributing CAD15 million or 36% sequential increase.

In Europe, because of their challenging environment, we can see that the results of our Boxboard operation were lower when we compared them to both the previous quarter and the same period of 2011. Mario will discuss the situation in Europe later, but first I will let him tell you more about the market environment in general and our strategic initiative. I will be back for the closing comments. Mario?

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**Mario Plourde** - *Cascades Inc. - COO*

Thank you, Alain, good morning, everyone. Last quarter we discussed the unusual pricing environment that prevailed for recovered paper. As we speak spreads between white and brown grades have certainly reverted back to more acceptable levels. Recently white recycled paper grade price had slightly increased. This is normal at this time of the year as generation of white paper is lower and tightening supply.

With Asian demand up as strong at the present time supply now seems adequate and we do not expect price increases again in the short-term. Weaker demand from Asia also has a great impact on the state of OCC market. There is sufficient supply at this time and list prices are now at \$110 per short ton, 33% lower than in August 2011.

We are seeing the same situation in Europe. This OCC decline is obviously very good news for us in the short term. As far as other drivers are concerned, we are still facing high costs for other important inputs such as oil and chemical products. And the Canadian dollar remains close to parity with our US counterpart. However, the weakness of the euro is impacting the translation of our earnings from Europe.

Now updating you on our action plan, we have been active in implementing the initiative announced over the last few quarters. More notably Marc-Andre and his team are in the middle of consolidation of our corrugated product sector in Ontario with the integration of Bird Packaging and current investments totaling CAD30 million.

Our two major projects, development of our ERP system and the contribution of Greenpac, are progressing as planned. And the Tissue Paper Group, small investments were made in other are in the final stage of approval. Nothing major at this time, but we are evaluating a few good projects to continue to improve our asset base, mainly on the converting front.

In Europe significant equipment upgrade will be finalized in the first quarter. Overall we have started a new project for CAD65 million in capital expenditures so far in 2012, in line with our CAD150 million budget for the year 2012, which remains unchanged for the moment.

I will thank you for your attention. I will now ask Allan to give you more specific data information on our financial performance.

**Allan Hogg** - *Cascades Inc. - VP & CFO*

Thank you, Mario, and good morning, everyone. The 5% decrease in our sales compared to Q2 2011, it is due to lower average selling prices and lower volumes. Our shipments decreased by 5% or 40,000 tons when excluding assets acquired or closed. Sequentially our sales increased by 6% due to a 4% increase in volume.

EBITDA for this quarter is up 35% compared to last year on lower raw materials costs. A favorable exchange rate and the impact of businesses acquired or closed which were offset by a decrease in volume and lower average selling prices mainly in Europe.

Sequentially, despite lower average selling prices and higher raw material costs mainly in Tissue, our EBITDA increased 17% due to higher volume in each of our business segments.

Slides 13 and 14 illustrate the impact of specific items that affected our results during the period. Specific items mainly come from restructuring initiatives announced in Ontario by our Containerboard Group at the beginning of the second quarter.

Now moving to slide 15, with a CAD12 million increase in EBITDA our net earnings should have stood at approximately CAD11 million or CAD0.12 per share. A higher tax rate mainly in Europe and a lower contribution from our share of results of associates and JVs, mainly (inaudible), explain why our earnings per share came in lower than what we expected.

On page 16 cash flow from operations amounted to CAD40 million, slightly lower than Q1, due to interest payments during the quarter. Free cash flow was slightly negative for the second quarter.

Turning now to our KPIs, on a same asset base comparison shipments were down 5% versus last year where on a sequential basis shipments were up 4%. Working capital was higher during the quarter as accounts receivable increased resulting from better volume. This was offset by the decrease in inventory in our Tissue Papers and Containerboard Groups.

Net debt increased 5% over last quarter. This increase of CAD61 million is due to an unfavorable exchange rate at the end of the quarter, the cash required for the acquisition of Bird Packaging and the final funding required for the Greenpac project. Of this amount CAD134 million is nonrecourse.

Regarding our cash availability, and taking into account our letters of credit, we had approximately CAD300 million available at the end of the quarter. In terms of financial ratios, our debt to capitalization ratio rose to 61%. As to our net debt to EBITDA, it decreased to 5.4 times when including the recent acquisition's LTM numbers.

I thank you for your attention and I will ask Suzanne to discuss the Tissue Paper results. Suzanne?

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**Suzanne Blanchet** - *Cascades Inc. - President & CEO of Tissue Group*

Thank you, Allan, good morning, everyone. As you can see from the results released today, the performance of the Tissue Group continue to be excellent as our operations are performing well and business conditions continue to be favorable.

Looking at our second-quarter results, our sales increased by 12% for the period compared to the first quarter to reach CAD255 million. Both the away from home and at-home segments have grown their sales over the previous quarter which is in line with our historical seasonality.

We also benefit from growth in our (inaudible) sales as well as positive Canadian currency impact. However, our good overall performance on shipments was partially offset by lower average selling prices primarily due to a lower integration rate.

On the converted product side, away from home and at-home business grew by 9% and 8% respectfully. For away from home usual seasonality and good inroads with major customers explained the increase compared to the first quarter. The at-home business has been positively impacted



by major promotional activities with key US customers and additional promotion and incentive for our national Canadian Cascade brand. Also the 22% increase in our sales of [parent rolls] segment can be explained by seasonality in strategic inventory reduction initiatives.

On an average selling price basis both the way from home and at-home market selling price remained stable in the second quarter, but the lower proportion of converted products sold relative to parent rolls has been the main driver of [overall] average selling price versus the first quarter.

In terms of (inaudible) our EBITDA increased to CAD39 million, an 18% improvement over the previous quarter. Our margin also improved and reached 15% of sales. The gross margins on additional shipments have more than offset the unfavorable impact of raw material cost increases.

To conclude, entering the third quarter we are expecting market conditions to remain favorable led by [recent] recycled fiber price increases. Selling price should remain stable in all segments and we expect city, away from home and consumer product demand. In this context we are confident to maintain a good profitability level for the upcoming quarter.

Thank you. And now I will let Marc-Andre Depin present the Container Group results. Marc-Andre?

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**Marc-Andre Depin** - *Cascades Inc. - President & CEO of Norampac*

Good morning, everyone, thank you, Suzanne. Turning now to the results of our Containerboard operations. On page 22 you can see that our shipments have improved by 3% compared to the previous period to reach 300,000 short tons. External sales of paper of our manufacturing sector went up by 4% compared to the first quarter of 2012 representing an improvement of 4,000 tons. More tons were available for the external market since we have reduced our roll stock inventory by 8,000 tons.

Unfortunately during the quarter we have continued to experience production shortfalls due to mechanical issues. This represents 12,000 tons excluding planned maintenance down time compared to 21,000 ton in the first quarter.

Also the loss of an important client in our Boxboard business has forced us to take 29 days of down time representing a loss of production of 10,000 short tons. In the previous quarter the down time taken for that specific event represented 22 days or 8,000 short tons of production.

In our converting segment for a second quarter in a row we have increased our shipments. (inaudible) increase of 2.2% in the first quarter we have not experienced a sequential improvement of 3.9%. Shipment of our Boxboard (inaudible) converting operation in our corrugated product plants located in the US were respectively lower by 6.4% and 7% due to general economic environment and management decision to decrease low margin volume.

On the other hand, our Canadian (inaudible) product plants increased our volume by 8% compared to 6.8% for the Canadian industry, which resulted in an overall shipment improvement for our converting segment.

A consequence of the external shipment improvement, the [EBITDA] of our Containerboard segment increased by CAD2 million to reach CAD23 million compared to the previous quarter representing a margin of 8% on sales. Compared to the second quarter of 2011 we also have improved EBITDA by CAD3 million. Essentially the volume impact previously mentioned improved profitability by CAD4 million, while all strategic announcements made during the quarter already benefited us for CAD1 million during the period.

Finally, no significant gains were made related to the OCC pricing environment in the quarters since average OCC prices were similar for both quarters despite a price decline in May and June.

We are happy to announce on May 29 that our Trenton semi-chemical Containerboard mill will remain open as will reach an agreement with the employees. Consequently, we will avoid all related closure costs and we will continue to work to improve the mill performance.

On the strategic front, the consolidation of our corrugated product (inaudible) in Ontario is moving ahead according to plan. And we are still expecting the benefits from these actions starting in the fourth quarter of 2012.



Also, during the quarter we have completed the payment of our commitment for a (inaudible) project. The start-up of the machine is still expected in July 2013 and the cost of the project remains within the budget and planned contingencies.

To conclude, with regard to the outlook for the next quarters, the announcement of a \$50 per short tons price increase on linerboard and medium and a price increase of 8% to 10% on corrugated product allows for a certain amount of optimism for the coming quarters. We should start to benefit from those increases progressively in the last year of the third quarter and in the fourth quarter depending on the contract terms.

Also, the recent price decrease on OCC should be beneficial to the Containerboard operation even if we remain cautious given the continuing volatility in the price of this raw material.

On the Boxboard manufacturing operating front we have invested in new equipment during the quarter. This will (inaudible) broaden the product offering of that sub segment with the midterm objective to reduce related down time.

Finally, we are continuing to put tremendous effort to bring back our Containerboard manufacturing operation to produce in line with the usual standards which will improve our results. I thank you for your attention. I will now ask Mario to give you an overview of our Boxboard operation in Europe. Mario?

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**Mario Plourde** - *Cascades Inc. - COO*

Thank you, Marc-Andre. Before I start let me remind you that (inaudible) release is second-quarter result last week and these are publicly available. The European market in general remains difficult with a very slow start in 2012. Compared to last year shipments are down 10%. However, order inflow has picked up in May and June.

This results in sequential increases in shipments of recycle-based product compared to the first quarter, but virgin base product experienced slight decrease in shipments. Average selling prices were 2% lower than in the first quarter. This decrease is essentially linked to the weakness of the euro against the Canadian dollar during the second quarter.

For the three-month period ended June 30, the Boxboard in Europe sector posted EBITDA of CAD11 million, 15% less than in the first quarter. Higher volumes were more than offset by an increase in energy costs in Italy, higher raw material costs and lower average selling price.

Looking ahead, raw material prices have been decreasing since June. This [stood] out as recycled Boxboard price increases announced in May have not been implemented yet. The current economic environment makes it hard to predict short-term demand given the political, financial uncertainty that prevails in Europe.

And the third quarter in Europe is usually one of the weakest with the usual summer down time. Reno and Cascades will take this opportunity this year to make an important investment upgrade in Cascades La Rochette Mills and Reno, Villa Santa Lucia Mills. So thank you. I will now ask Luc to follow up with his overview of the performance of the Specialty Products.

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**Luc Langevin** - *Cascades Inc. - President & COO of Specialty Products Group*

Thank you, Mario, good morning, everyone. Sales for the Specialty Products Group increased by 3% during the second quarter from CAD202 million to CAD209 million. Globally volumes went up with gains in our recovery and Consumer Packaging sectors. These gains were partly offset by lower volume in our Specialty paper segment sector.

Neither the product mix nor variation of the selling price had significant impact on our top line this quarter. Our profitability continued to improve and we recorded an EBITDA of CAD15 million, a 36% sequential increase and 25% higher than in Q2, 2011. A slightly more favorable foreign exchange contributed close to CAD2 million of the sequential positive volumes. The remainder can be explained by higher volumes, better spreads and reduced operating costs.



Looking more specifically at our four segments, the industrial packaging delivered stable results. In June we proceeded with the closure of our Cascades (inaudible) Toronto plant and we relocated the business to our two other facilities in Quebec and Michigan. All related closure costs were accounted in this last quarter and offset most of the gains achieved in volumes and operating costs.

Our Consumer Packaging sector's EBITDA continued to improve and delivered CAD1 million than during the previous quarter. Both our model pulp and plastic operations benefited from higher volumes, taking advantage of the normal seasonal pickup in demand and the growing volume in general.

In line with our growth strategy in the Consumer Packaging sector, the CAD2.4 million and investments in new extrusion capacity in our Warrenton plant in Missouri was approved during the quarter. The added capacity will become available by year end to support the growing volumes in this segment. To conclude with this sector, the film extrusion capacity had and throughout the last year is now running at cruising speed.

Moving now to our Specialty Papers sector, it maintained its profitability during the last quarter. Despite the lower seasonal volume in our fine paper operation, our continuous improvement initiatives contributed to improved efficiency and reduced operating costs in general. We also benefited from a slightly more favorable foreign exchange during the quarter.

In our recovery and recycling division financial result rebounded nicely. We recorded a CAD3 million increase of our EBITDA. During the quarter we benefited from higher volume, improving spreads and controlled operating costs. No significant movement in the pricing of [white] paper impacted our results in this period.

To conclude, we expect relatively stable business conditions in most of our sectors in the short term. Volumes should slightly pick up in our Specialty Papers sector and remain at least stable in the other sectors. The recent restructuring measures undertaken in the industrial packaging sector should also have a positive impact. Thank you for your attention and I will not turn the conference back to the operator for the question period.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Sean Steuart, TD Securities.

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### Sean Steuart - TD Securities - Analyst

I have a couple of questions, I guess first for Suzanne. Just trying to gauge the Tissue shipments this quarter, you noted there was a lot of de-stocking I guess of parent roles. Would you say this is typical seasonal de-stocking or it may be more of a significant effort than we might see in the second quarter? And can you speak to where your inventories are at this point?

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### Suzanne Blanchet - Cascades Inc. - President & CEO of Tissue Group

Sean, yes, we have de-stocked, but usually the second quarter is higher in demand for the finished goods. And we have mentioned we have grown by 8% and 9%. But also the same thing, for our parent roll business converters and (inaudible) at more high -- I mean the demand is higher. And it should continue the third-quarter. Usually the second and third-quarter very high in finished goods and consequently on the parent roll side.

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### Sean Steuart - TD Securities - Analyst

Okay. And then the second question regards I guess balance sheet management. You have spoken before about I guess a long-term target of net debt to EBITDA of three times. You obviously have capital you would like to spend. Can you talk about the time frame towards -- the time frame over which you plan to get to that three times target?



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**Allan Hogg** - *Cascades Inc. - VP & CFO*

How we stated that, it was a midterm objective. So with our plan in the next two to three years I think the objective is to be at a run rate of three times EBITDA in that period within two to three years. So EBITDA is picking up, but we need to complete the capital investment we need to do. So that's how we look at it.

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**Sean Stuart** - *TD Securities - Analyst*

Okay, that's all I had. Thanks, everyone.

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**Operator**

(Operator Instructions). Paul Quinn, RBC Capital Markets.

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**Paul Quinn** - *RBC Capital Markets - Analyst*

Just a question, you were impacted by an unfavorable tax rate in the quarter. Is that something that we can expect going forward?

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**Allan Hogg** - *Cascades Inc. - VP & CFO*

No, it was mainly in Europe due to the mix of losses in the different countries. But it is slightly higher, but given the -- it was CAD2 million, so -- but no, we do not expect that. Normally depending on the mix of revenue, of profit, it is around 35%, it is what we should expect.

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**Paul Quinn** - *RBC Capital Markets - Analyst*

And then just on the raw material cost side, it looks like the spread between white and brown are sort of getting back to normalized levels. But it looks -- appears in the guidance you're giving is brown prices should be coming down. How much visibility have you got on that? And do you think that holds right to the end of the year?

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**Mario Plourde** - *Cascades Inc. - COO*

Right now with the activity in the market we feel that in the next quarter white grade should go down a little bit because normally generation is picking up. And at the same time what we feel that we see right now in the market is the demand for the OCC grade is quite low, so there is plenty of offer in the markets. We might see again another decrease, so the spread that you see now between the two grades probably will remain in the third quarter. That is our guess.

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**Paul Quinn** - *RBC Capital Markets - Analyst*

Okay, and then just lastly on the Containerboard price increase. What have you guys experienced between you and your customers on that price increase going through?

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**Marc-Andre Depin** - *Cascades Inc. - President & CEO of Norampac*

As you know, it's been like close to 30 months without having a price increase on the Box side or Containerboard which goes together. And as you know, there is a lot of increases of everything, salaries and energies and all.



So far our backlogs on the Containerboard side are good for us and our customers are receiving this increase as any other increases. Nobody likes price increases, but they realize it has been 30 months without having an increase. So that is the way they are taking it.

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**Paul Quinn** - *RBC Capital Markets - Analyst*

Okay, that's all I have. Good luck, guys.

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**Operator**

Leon Aghazarian, National Bank.

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**Leon Aghazarian** - *National Bank Financial - Analyst*

My question regarding Containerboards again. You had mentioned that there was an important client loss. Could you maybe comment on that? And then secondly, there were some mechanical issues in the Containerboard segment as well. So maybe the scrub of the effect was on the quarter regarding that?

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**Marc-Andre Depin** - *Cascades Inc. - President & CEO of Norampac*

Yes, we have -- one of our Boxboard mills had a large customer which represented close to 20% and this customer has moved his product line towards another product line which doesn't require our product anymore. So we lost this, so we are on a verge of -- do an investment to replace this volume with the different product mix which is going to reduce the risk of having this large customer.

So we were on the middle of switching this product line. So we are going to -- and we feel that it's going to be beneficial for this mill. On the operating front on the Containerboard side we have mainly two mills that have not been producing at the tonnage that they are supposed to be producing on a budget basis between 5% and 10% lower production on those two mills, which are the largest two mills we have.

And it is all those -- it is operating issues related to various things which they are to explain. No major breakdown, just all sorts of different things from bad OCC quality, which contaminated the system to a mechanical breakdown on some presses. So it is all over. It is improving now, July was way better. So August seems to be improving. So it is looking good.

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**Leon Aghazarian** - *National Bank Financial - Analyst*

And then secondly, I have a follow-up question for the price increase on the Containerboard side. In past presentations we have noticed that, all else being equal, a CAD50 per ton hike can have a potential impact on EBITDA roughly of CAD45 million, is that still accurate?

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**Marc-Andre Depin** - *Cascades Inc. - President & CEO of Norampac*

Yes. You have to realize that the tonnage that you see in the numbers you have both product Containerboard and boxboard in. So the CAD50 applies only on the Containerboard portion of it.

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**Alain Lemaire** - *Cascades Inc. - President & CEO*

And it assumes that is going through all the boxboard -- the box system as well, so it is a flow through.



**Marc-Andre Depin** - *Cascades Inc. - President & CEO of Norampac*

Yes, so if we increase Containerboard sales price to our own box than to the external box -- to the external customer, so external customer will get the benefit right away. And on the box side we need to increase our box price according to the CAD50 increase minimum just to get the full benefit.

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**Leon Aghazarian** - *National Bank Financial - Analyst*

And then I guess last question I would have is regarding Europe. You had mentioned in the press release that, I mean although Europe had -- the economic situation is a bit difficult, you mentioned that order flow and then backlogs have returned to more acceptable levels. Can you maybe comment on that as to what happened necessarily there or what is the expectation there?

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**Mario Plourde** - *Cascades Inc. - COO*

Yes, the second quarter was quite low and people have -- took some down time at the moment. So probably now the inventory level is adjusted and now what we have seen coming in the third quarter is the inflow of orders has really picked up. So we feel that we should benefit from it.

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**Alain Lemaire** - *Cascades Inc. - President & CEO*

But we have some shutdown at the moment for -- mechanical shutdown and some improvement of capital investment over there.

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**Leon Aghazarian** - *National Bank Financial - Analyst*

Okay, thank you. That's it for me.

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**Operator**

There are no further questions at this time. I turn the call back over to the presenters.

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**Alain Lemaire** - *Cascades Inc. - President & CEO*

So, thank you, everyone, for your nice questions and feel free to call us if you need it. In conclusion, looking ahead to the next quarter, we expect shipments to improve as we resolve some of our operational issues and benefit from the usual favorable seasonal impact. The environment for recycled fiber costs should also be more positive and the announced price increase in the Containerboard market is very good news after 30 months of stable prices.

Finally, the initiatives we undertook under the strategy plan are starting to bear fruit and they will be even more compelling over time. Thank you again for your continued support, we hope that you are having a great summer time. Thank you very much.

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**Operator**

This concludes today's conference call. You may now disconnect.

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