UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________to_______

COMMISSION FILE NUMBER 001-33164

DOMTAR CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	**20-5901152**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

234 Kingsley Park Drive, Fort Mill, SC 29715
(Address of principal executive offices)
(zip code)

(803) 802-7500
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value $0.01 Per Share; Common stock traded on the New York Stock Exchange; trading symbol UFS.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation ST (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Small reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

At October 31, 2019, 57,273,106 shares of the issuer's common stock were outstanding.

DOMTAR CORPORATION
FORM 10-Q
For the Quarterly Period Ended September 30, 2019
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PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS (UNAUDITED)

DOMTAR CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME (LOSS)

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
		(Unaudited)		
	$	$	**$**	$
Sales	**1,283**	1,367	**3,976**	4,065
Operating expenses				
Cost of sales, excluding depreciation and amortization	**1,041**	1,059	**3,172**	3,239
Depreciation and amortization	**72**	75	**219**	233
Selling, general and administrative	**94**	115	**322**	343
Impairment of long-lived assets (NOTE 11)	**33**	—	**58**	—
Closure and restructuring costs (NOTE 11)	**11**	—	**23**	—
Other operating loss (income), net (NOTE 6)	**3**	4	**4**	(3)
	1,254	1,253	**3,798**	3,812
Operating income	**29**	114	**178**	253
Interest expense, net	**12**	15	**38**	47
Non-service components of net periodic benefit cost (NOTE 5)	**(2)**	(4)	**(7)**	(13)
Earnings before income taxes and equity loss	**19**	103	**147**	219
Income tax (benefit) expense (NOTE 7)	**(1)**	3	**28**	22
Equity loss, net of taxes	**—**	1	**1**	1
Net earnings	**20**	99	**118**	196
Per common share (in dollars) (NOTE 4)				
Net earnings				
Basic	**0.33**	1.57	**1.89**	3.12
Diluted	**0.32**	1.57	**1.88**	3.11
Weighted average number of common shares outstanding (millions)				
Basic	**61.5**	62.9	**62.5**	62.8
Diluted	**61.7**	63.2	**62.7**	63.1
Cash dividends per common share	**0.46**	0.44	**1.33**	1.29
Net earnings	**20**	99	**118**	196
Other comprehensive (loss) income (NOTE 12):				
Net derivative (losses) gains on cash flow hedges:				
Net (losses) gains arising during the period, net of tax of $4 and $(1), respectively (2018 – $(2) and $3, respectively)	**(9)**	7	**5**	(9)
Less: Reclassification adjustment for losses (gains) included in net earnings, net of tax of $(1) and $(2), respectively (2018 – $(1) and nil, respectively)	**3**	—	**5**	(2)
Foreign currency translation adjustments	**(34)**	12	**(12)**	(49)
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of $(1) and $(3), respectively (2018 – nil and $(2), respectively)	**2**	2	**7**	6
Other comprehensive (loss) income	**(38)**	21	**5**	(54)
Comprehensive (loss) income	**(18)**	120	**123**	142

The accompanying notes are an integral part of the consolidated financial statements.

DOMTAR CORPORATION
CONSOLIDATED BALANCE SHEETS

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	At	
	September 30, 2019	December 31, 2018
	(Unaudited)	
	$	$
Assets		
Current assets		
Cash and cash equivalents	**98**	111
Receivables, less allowances of $8 and $6	**618**	670
Inventories (NOTE 8)	**798**	762
Prepaid expenses	**33**	24
Income and other taxes receivable	**53**	22
Total current assets	**1,600**	1,589
Property, plant and equipment, net	**2,499**	2,605
Operating lease right-of-use assets (NOTE 9)	**77**	—
Intangible assets, net (NOTE 10)	**568**	597
Other assets	**140**	134
Total assets	**4,884**	4,925
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	**1**	—
Trade and other payables	**646**	757
Income and other taxes payable	**28**	25
Operating lease liabilities due within one year (NOTE 9)	**26**	—
Long-term debt due within one year	**1**	1
Total current liabilities	**702**	783
Long-term debt	**938**	853
Operating lease liabilities (NOTE 9)	**68**	—
Deferred income taxes and other	**479**	476
Other liabilities and deferred credits	**258**	275
Commitments and contingencies (NOTE 14)		
Shareholders' equity (NOTE 13)		
Common stock $0.01 par value; authorized 2,000,000,000 shares; issued 65,001,104 and 65,001,104 shares	**1**	1
Treasury stock $0.01 par value; 5,977,255 and 2,086,535 shares	**—**	—
Additional paid-in capital	**1,842**	1,981
Retained earnings	**1,058**	1,023
Accumulated other comprehensive loss	**(462)**	(467)
Total shareholders' equity	**2,439**	2,538
Total liabilities and shareholders' equity	**4,884**	4,925

The accompanying notes are an integral part of the consolidated financial statements.

DOMTAR CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	For the three months ended **September 30, 2019**					
	Issued and outstanding common shares (millions of shares)	Common stock, at par	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
			(Unaudited)			
		$	$	$	$	$
Balance at June 30, 2019	**62.9**	**1**	**1,977**	**1,065**	**(424)**	**2,619**
Stock-based compensation, net of tax	—	—	**2**	—	—	**2**
Net earnings	—	—	—	**20**	—	**20**
Net derivative losses on cash flow hedges:						
Net losses arising during the period, net of tax of $4	—	—	—	—	**(9)**	**(9)**
Less: Reclassification adjustment for losses included in net earnings, net of tax of $(1)	—	—	—	—	**3**	**3**
Foreign currency translation adjustments	—	—	—	—	**(34)**	**(34)**
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of $(1)	—	—	—	—	**2**	**2**
Stock repurchase	**(3.9)**	—	**(137)**	—	—	**(137)**
Cash dividends declared	—	—	—	**(27)**	—	**(27)**
Balance at September 30, 2019	**59.0**	**1**	**1,842**	**1,058**	**(462)**	**2,439**

	For the nine months ended **September 30, 2019**					
	Issued and outstanding common shares (millions of shares)	Common stock, at par	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
			(Unaudited)			
		$	$	$	$	$
Balance at December 31, 2018	**62.9**	**1**	**1,981**	**1,023**	**(467)**	**2,538**
Stock-based compensation, net of tax	**0.2**	—	**6**	—	—	**6**
Net earnings	—	—	—	**118**	—	**118**
Net derivative gains on cash flow hedges:						
Net gains arising during the period, net of tax of $(1)	—	—	—	—	**5**	**5**
Less: Reclassification adjustment for losses included in net earnings, net of tax of $(2)	—	—	—	—	**5**	**5**
Foreign currency translation adjustments	—	—	—	—	**(12)**	**(12)**
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of $(3)	—	—	—	—	**7**	**7**
Stock repurchase	**(4.1)**	—	**(145)**	—	—	**(145)**
Cash dividends declared	—	—	—	**(83)**	—	**(83)**
Balance at September 30, 2019	**59.0**	**1**	**1,842**	**1,058**	**(462)**	**2,439**

The accompanying notes are an integral part of the consolidated financial statements.

DOMTAR CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	For the three months ended September 30, 2018					
	Issued and outstanding common shares (millions of shares)	Common stock, at par	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
			(Unaudited)			
		$	$	$	$	$
Balance at June 30, 2018	62.9	1	1,977	891	(411)	2,458
Stock-based compensation, net of tax	—	—	2	—	—	2
Net earnings	—	—	—	99	—	99
Net derivative gains on cash flow hedges:						
Net gains arising during the period, net of tax of $(2)	—	—	—	—	7	7
Less: Reclassification adjustment for losses included in net earnings, net of tax of $(1)	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	12	12
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of nil	—	—	—	—	2	2
Cash dividends declared	—	—	—	(27)	—	(27)
Balance at September 30, 2018	62.9	1	1,979	963	(390)	2,553

	For the nine months ended September 30, 2018					
	Issued and outstanding common shares (millions of shares)	Common stock, at par	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
			(Unaudited)			
		$	$	$	$	$
Balance at December 31, 2017	62.7	1	1,969	849	(336)	2,483
Stock-based compensation, net of tax	0.2	—	10	—	—	10
Net earnings	—	—	—	196	—	196
Net derivative losses on cash flow hedges:						
Net losses arising during the period, net of tax of $3	—	—	—	—	(9)	(9)
Less: Reclassification adjustment for gains included in net earnings, net of tax of nil	—	—	—	—	(2)	(2)
Foreign currency translation adjustments	—	—	—	—	(49)	(49)
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of $(2)	—	—	—	—	6	6
Cash dividends declared	—	—	—	(82)	—	(82)
Balance at September 30, 2018	62.9	1	1,979	963	(390)	2,553

The accompanying notes are an integral part of the consolidated financial statements.

DOMTAR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS OF DOLLARS)

	For the nine months ended	
	September 30, 2019	September 30, 2018
	(Unaudited)	
	$	$
Operating activities		
Net earnings	**118**	196
Adjustments to reconcile net earnings to cash flows from operating activities		
Depreciation and amortization	**219**	233
Deferred income taxes and tax uncertainties	**1**	3
Impairment of long-lived assets	**58**	—
Net gains on disposals of property, plant and equipment	**—**	(4)
Stock-based compensation expense	**7**	7
Equity loss, net	**1**	1
Changes in assets and liabilities		
Receivables	**50**	(7)
Inventories	**(34)**	(23)
Prepaid expenses	**(4)**	(4)
Trade and other payables	**(111)**	(6)
Income and other taxes	**(27)**	(16)
Difference between employer pension and other post-retirement contributions and pension and other post-retirement expense	**(3)**	(46)
Other assets and other liabilities	**7**	3
Cash flows from operating activities	**282**	337
Investing activities		
Additions to property, plant and equipment	**(157)**	(111)
Proceeds from disposals of property, plant and equipment	**1**	4
Other	**—**	(6)
Cash flows used for investing activities	**(156)**	(113)
Financing activities		
Dividend payments	**(83)**	(81)
Stock repurchase	**(139)**	—
Net change in bank indebtedness	**2**	—
Change in revolving credit facility	**45**	—
Proceeds from receivables securitization facility	**150**	—
Repayments of receivables securitization facility	**(110)**	(25)
Repayments of long-term debt	**(1)**	—
Other	**(1)**	1
Cash flows used for financing activities	**(137)**	(105)
Net (decrease) increase in cash and cash equivalents	**(11)**	119
Impact of foreign exchange on cash	**(2)**	(2)
Cash and cash equivalents at beginning of period	**111**	139
Cash and cash equivalents at end of period	**98**	256
Supplemental cash flow information		
Net cash payments for:		
Interest	**39**	48
Income taxes	**55**	40

The accompanying notes are an integral part of the consolidated financial statements.

INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1.

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of Management, include all adjustments that are necessary for the fair statement of Domtar Corporation's ("the Company") financial position, results of operations, and cash flows for the interim periods presented. Results for the first nine months of the year may not necessarily be indicative of full-year results. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Domtar Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission. The December 31, 2018 Consolidated Balance Sheet, presented for comparative purposes in this interim report, was derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

On January 1, 2019, upon the adoption of ASU 2016-02, "*Leases*", the Company's accounting policy related to leases became as follows:

LEASES

At inception of an arrangement, the Company determines whether the arrangement contains a lease. A lease conveys the right to control the use of identified property, plant, or equipment (asset) for a period of time in exchange for consideration. Control over the use of the identified asset means that the Company has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset.

For each lease arrangement that has an original lease term of more than 12 months, a right-of-use asset and a lease liability are recorded in the Consolidated Balance Sheets. The right-of-use asset represents the Company's right to use an underlying asset for the lease term while the lease liability represents the obligation to make lease payments arising from the lease. The right-of-use asset and the lease liability are initially recorded at the same amount at the lease commencement date based on the present value of the remaining lease payments discounted using the rate implicit in the lease when readily determined or, in most cases, the Company's incremental borrowing rate. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The right-of-use asset is tested for impairment in accordance with ASC 360 – "*Property, Plant and Equipment*".

The terms of a lease arrangement determine how a lease is classified (operating or finance), the resulting recognition pattern in the Consolidated Statements of Earnings and Comprehensive Income (Loss) and the classification in the Consolidated Balance Sheets.

Finance lease expense is represented by the interest on the lease liability determined using the effective interest method and the amortization of the finance lease right-of-use asset calculated using the straight-line method over the estimated useful life of the identified asset. Finance lease related balances are included in the Consolidated Balance Sheets in Property, plant and equipment, net, Long-term debt due within one year and Long-term debt.

Operating lease expense is recorded on a straight-line basis over the lease term by adding interest expense determined using the effective interest method to the amortization of the right-of-use asset. Operating lease related balances are included in the Consolidated Balance Sheets in Operating lease right-of-use assets, Operating lease liabilities due within one year and Operating lease liabilities. Operating lease right-of-use assets are reduced by previously recognized liabilities relating to unfavorable terms of leases acquired as part of a business combination and impairments.

For operating lease arrangements with lease and non-lease components, the Company accounts for the lease and non-lease components as a single lease component.

NOTE 2.

RECENT ACCOUNTING PRONOUNCEMENTS

ACCOUNTING CHANGES IMPLEMENTED

LEASES

In February 2016, the FASB issued ASU 2016-02, "*Leases*", which requires lessees to recognize right-of-use assets and lease liabilities for all of their operating leases while continuing to recognize expenses in the Consolidated Statement of Earnings and Comprehensive Income (Loss) in a manner similar to previous accounting standards. Under the new standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For a more complete discussion of the standard, see Note 1 "Basis of Presentation".

The Company elected to initially apply the new leases standard as of January 1, 2019 with certain available practical expedients which are discussed below.No cumulative-effect adjustments on retained earnings were necessary as of January 1, 2019. The most significant impact of adopting the new standard was the recognition of right-of-use assets and lease liabilities for operating leases. The accounting for finance leases remains substantially unchanged.

In transitioning to the new standard, the Company elected to use the practical expedient package. Accordingly, the Company did not reassess the following:

- Whether existing or expired contracts are, or contained, a lease (including executory contracts).
- The lease classification of existing or expired leases previously made by management.
- Whether initial direct costs for existing leases would qualify under the new standard.

Furthermore, the Company elected to use the hindsight practical expedient in determining the lease term and assessing impairment of the right-of-use assets.

For all comparative periods prior to the adoption of the new leases standard, the Company will continue to report operating leases in the consolidated financial statements under ASC 840 "*Leases*" and provide the related required disclosures.

COMPREHENSIVE INCOME

In February 2018, the FASB issued ASU 2018-02, "*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*", regarding the reclassification of certain income tax effects reported in accumulated comprehensive income (loss) in response to the U.S. Tax Cuts and Jobs Acts ("U.S. Tax Reform") enacted on December 22, 2017. For businesses, one of the main provisions of the U.S. Tax Reform was the reduction in the corporate federal income tax rate to 21% from 35%. Under current income tax accounting requirements, an entity was required to remeasure applicable U.S. deferred tax assets and deferred tax liabilities at the 21% tax rate effective on the U.S. Tax Reform enactment date. This remeasurement was required to be recognized in an entity's income tax provision in its income statement. However, certain of these deferred tax assets and deferred tax liabilities relate to income tax effects initially recognized at the 35% tax rate through other comprehensive income (loss) on items reported within accumulated other comprehensive income (loss) on an entity's balance sheet. Consequently, an entity's financial statements will reflect an inconsistency between the deferred tax assets and deferred tax liabilities measured at 21% and the related income tax effects in accumulated other comprehensive income (loss) recorded at 35%. Accordingly, this guidance provides a one-time option to remeasure the income tax effects within accumulated other comprehensive income (loss) at the 21% income tax rate. The impact from this remeasurement is to be recorded directly in retained earnings on an entity's balance sheet.

This guidance became effective for the Company on January 1, 2019. The Company has decided not to elect this option, as permitted in the new guidance.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

FUTURE ACCOUNTING CHANGES

IMPLEMENTATION COSTS FOR CLOUD COMPUTING ARRANGEMENTS

In August 2018, the FASB issued ASU 2018-15, "*Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*". Under the guidance, implementation costs for cloud computing arrangements ("CCA") should be evaluated for capitalization using the same approach as implementation costs associated with internal-use software and expensed over the term of the hosting arrangement. The ASU also provides the following guidance on presentation and disclosure:

- Capitalized implementation costs should be presented in the same line item on the balance sheet as amounts prepaid for the hosted CCA service, if any (generally as an "other asset").
- The amortization of capitalized implementation costs should be presented in the same statement of earnings line item as the fees associated with the hosted CCA service. Accordingly, the amortization of capitalized implementation costs should not be included with depreciation or amortization expense related to property, plant, and equipment or intangible assets.
- Cash flows related to capitalized implementation costs should be presented as operating activities, consistent with the presentation of cash flows for the fees related to the hosted CCA service.
- Entities are required to disclose the nature of the hosting arrangements that are service contracts and significant judgments made when applying the guidance. Additionally, companies are required to provide quantitative disclosures, including amounts capitalized, amortized, and impaired.

This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.

While the Company is still evaluating the impact of adopting the new standard, it does not expect this new guidance to have a material impact on the consolidated financial statements.

NOTE 3.

DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT

HEDGING PROGRAMS

The Company is exposed to market risk, such as changes in currency exchange rates, commodity prices, and interest rates. To the extent the Company decides to manage the volatility related to these exposures, the Company may enter into various financial derivatives that are accounted for under the derivatives and hedging guidance. These transactions are governed by the Company's hedging policies which provide direction on acceptable hedging activities, including instrument type and acceptable counterparty exposure.

Upon inception, the Company formally documents the relationship between hedging instruments and hedged items. At inception and quarterly thereafter, the Company formally assesses whether the financial instruments used in hedging transactions are effective at offsetting changes in either the cash flow or the fair value of the underlying exposures. The Company does not hold derivative financial instruments for trading purposes.

CREDIT RISK

The Company is exposed to credit risk on the accounts receivable from its customers. In order to reduce this risk, the Company reviews new customers' credit history before granting credit and conducts regular reviews of existing customers' credit performance. As of September 30, 2019, two of Domtar's Pulp and Paper segment customers located in the U.S. represented 14% or $87 million, and 11% or $70 million, respectively, of the Company's receivables (December 31, 2018 – one Pulp and Paper segment customer located in the U.S. represented 10% or $67 million).

The Company is exposed to credit risk in the event of non-performance by counterparties to its financial instruments. The Company attempts to minimize this exposure by entering into contracts with counterparties that are believed to be of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. The credit standing of counterparties is regularly monitored.

INTEREST RATE RISK

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash and cash equivalents, bank indebtedness, revolving credit facility and securitization, term loan and long-term debt. The Company's objective in managing exposure to interest rate changes is to minimize the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. The Company may manage this interest rate exposure through the use of derivative instruments such as interest rate swap contracts, whereby it agrees to exchange the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount.

COST RISK

Cash flow hedges:

The Company is exposed to price volatility for raw materials and energy used in its manufacturing process. The Company manages its exposure to cost risk primarily through the use of supplier contracts. The Company purchases natural gas at the prevailing market price at the time of delivery. To reduce the impact on cash flow and earnings due to pricing volatility, the Company may utilize derivatives to fix the price of forecasted natural gas purchases. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Cost of sales in the period during which the hedged transaction affects earnings. Current contracts are used to hedge a portion of forecasted purchases over the next 51 months.

NOTE 3. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

The following table presents the volumes under derivative financial instruments for natural gas contracts outstanding as of September 30, 2019 to hedge forecasted purchases:

Commodity	Notional contractual quantity under derivative contracts MMBtu(2)	Notional contractual value under derivative contracts (in millions of dollars)	Percentage of forecasted purchases under derivative contracts
Natural gas			
2019 (1)	3,915,000	$ 12	53%
2020	11,165,000	$ 34	40%
2021	9,270,000	$ 27	33%
2022	9,270,000	$ 25	33%
2023	4,210,000	$ 11	15%

(1) Represents the remaining three months of 2019
(2) MMBtu: Millions of British thermal units

The natural gas derivative contracts were effective as of September 30, 2019.

FOREIGN CURRENCY RISK

Cash flow hedges:

The Company has manufacturing operations in the United States, Canada and Europe. As a result, it is exposed to movements in foreign currency exchange rates in Canada and Europe. Moreover, certain assets and liabilities are denominated in currencies other than the U.S. dollar and are exposed to foreign currency movements. Accordingly, the Company's earnings are affected by increases or decreases in the value of the Canadian dollar and European currencies. The Company's European subsidiaries are also exposed to movements in foreign currency exchange rates on transactions denominated in a currency other than their Euro functional currency. The Company's risk management policy allows it to hedge a significant portion of its exposure to fluctuations in foreign currency exchange rates for periods up to three years. The Company may use derivative financial instruments (currency options and foreign exchange forward contracts) to mitigate its exposure to fluctuations in foreign currency exchange rates.

Derivatives are used to hedge forecasted purchases in Canadian dollars by the Company's Canadian subsidiary over the next 24 months. Such derivatives are designated as cash flow hedges. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Sales or Cost of sales in the period during which the hedged transaction affects earnings.

The following table presents the currency values under significant currency positions pursuant to currency derivatives outstanding as of September 30, 2019 to hedge forecasted purchases and sales:

Currency exposure hedged	**Business Segment**	**Year of maturity**	**Notional contractual value**	**Percentage of forecasted net exposures under contracts**	**Average Protection rate**	**Average Obligation rate**
CAD/USD	Pulp and Paper	2019 (1)	174 CAD	77%	1 USD = 1.2945	1 USD = 1.3152
CAD/USD	Pulp and Paper	2020	557 CAD	62%	1 USD = 1.2966	1 USD = 1.3155
CAD/USD	Pulp and Paper	2021	237 CAD	26%	1 USD = 1.3185	1 USD = 1.3185

(1) Represents the remaining three months of 2019

The foreign exchange derivative contracts were effective as of September 30, 2019.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 3. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

FAIR VALUE MEASUREMENT

The accounting standards for fair value measurements and disclosures, establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement.

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The following tables present information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis (except Long-term debt, see (b) below) at September 30, 2019 and December 31, 2018, in accordance with the accounting standards for fair value measurements and disclosures and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Fair Value of financial instruments at:	**September 30, 2019**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Balance sheet classification**
	$	**$**	**$**	**$**	
Derivatives designated as hedging instruments:					
Asset derivatives					
Currency derivatives	**2**	—	2	—	(a) Prepaid expenses
Currency derivatives	**—**	—	—	—	(a) Other assets
Total Assets	**2**	—	2	—	
Liabilities derivatives					
Currency derivatives	**8**	—	8	—	(a) Trade and other payables
Natural gas swap contracts	**7**	—	7	—	(a) Trade and other payables
Currency derivatives	**2**	—	2	—	(a) Other liabilities and deferred credits
Natural gas swap contracts	**7**	—	7	—	(a) Other liabilities and deferred credits
Total Liabilities	**24**	—	24	—	
Other Instruments:					
Stock-based compensation - liability awards	**6**	6	—	—	Trade and other payables
Stock-based compensation - liability awards	**16**	16	—	—	Other liabilities and deferred credits
Long-term debt	**960**	—	960	—	(b) Long-term debt

The net cumulative loss recorded in Accumulated other comprehensive loss relating to natural gas contracts is $14 million at September 30, 2019, of which a loss of $7 million will be recognized in Cost of sales upon maturity of the derivatives over the next 12 months at the then prevailing values, which may be different from those at September 30, 2019.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 3. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

The net cumulative loss recorded in Accumulated other comprehensive loss relating to currency options and forwards hedging forecasted purchases is $8 million at September 30, 2019, of which a loss of $6 million will be recognized in Cost of sales or Sales upon maturity of the derivatives over the next 12 months at the then prevailing values, which may be different from those at September 30, 2019.

Fair Value of financial instruments at:	December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		Balance sheet classification
	$	$	$	$		
Derivatives designated as hedging instruments:						
Asset derivatives						
Currency derivatives	**1**	—	1	—	(a)	Prepaid expenses
Natural gas swap contracts	**1**	—	1	—	(a)	Prepaid expenses
Total Assets	**2**	—	2	—		
Liabilities derivatives						
Currency derivatives	**19**	—	19	—	(a)	Trade and other payables
Natural gas swap contracts	**2**	—	2	—	(a)	Trade and other payables
Currency derivatives	**11**	—	11	—	(a)	Other liabilities and deferred credits
Natural gas swap contracts	**5**	—	5	—	(a)	Other liabilities and deferred credits
Total Liabilities	**37**	—	37	—		
Other Instruments:						
Stock-based compensation - liability awards	**6**	6	—	—		Trade and other payables
Stock-based compensation - liability awards	**17**	17	—	—		Other liabilities and deferred credits
Long-term debt	**858**	—	858	—	(b)	Long-term debt

(a) Fair value of the Company’s derivatives are classified under Level 2 (inputs that are observable; directly or indirectly) as it is measured as follows:

- For currency derivatives: Fair value is measured using techniques derived from the Black-Scholes pricing model. Interest rates, forward market rates and volatility are used as inputs for such valuation techniques.
- For natural gas contracts: Fair value is measured using the discounted difference between contractual rates and quoted market future rates.

(b) Fair value of the Company’s long-term debt is measured by comparison to market prices of its debt. The Company’s long-term debt is not carried at fair value on the Consolidated Balance Sheets at September 30, 2019 and December 31, 2018. However, fair value disclosure is required. The carrying value of the Company’s long-term debt is $939 million and $854 million at September 30, 2019 and December 31, 2018, respectively.

Due to their short-term maturity, the carrying amounts of cash and cash equivalents, receivables, bank indebtedness, trade and other payables and income and other taxes approximate their fair values.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 4.

EARNINGS PER COMMON SHARE

The following table provides the reconciliation between basic and diluted earnings per common share:

	For the three months ended		*For the nine months ended*	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Net earnings	**$ 20**	$ 99	**$ 118**	$ 196
Weighted average number of common shares outstanding (millions)	**61.5**	62.9	**62.5**	62.8
Effect of dilutive securities (millions)	**0.2**	0.3	**0.2**	0.3
Weighted average number of diluted common shares outstanding (millions)	**61.7**	63.2	**62.7**	63.1
Basic net earnings per common share (in dollars)	**$ 0.33**	$ 1.57	**$ 1.89**	$ 3.12
Diluted net earnings per common share (in dollars)	**$ 0.32**	$ 1.57	**$ 1.88**	$ 3.11

The following table provides the securities that could potentially dilute basic earnings per common share in the future, but were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive:

	For the three months ended		*For the nine months ended*	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Options to purchase common shares	**398,869**	201,599	**325,757**	201,599

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 5.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

DEFINED CONTRIBUTION PLANS

The Company has several defined contribution plans and multiemployer plans. The pension expense under these plans is equal to the Company's contribution. For the three and nine months ended September 30, 2019, the pension expense was $10 million and $33 million, respectively (2018 – $18 million and $40 million, respectively).

DEFINED BENEFIT PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

The Company sponsors both contributory and non-contributory U.S. and non-U.S. defined benefit pension plans. Non-unionized employees in Canada joining the Company after January 1, 1998 participate in a defined contribution pension plan. Salaried employees in the U.S. joining the Company after January 1, 2008 participate in a defined contribution pension plan. Unionized and non-union hourly employees in the U.S. who are not grandfathered under the existing defined benefit pension plans, participate in a defined contribution pension plan for future service. The Company also sponsors a number of other post-retirement benefit plans for eligible U.S. and non-U.S. employees; the plans are unfunded and include life insurance programs and medical and dental benefits. The Company also provides supplemental unfunded defined benefit pension plans and supplemental unfunded defined contribution pension plans to certain senior management employees.

Components of net periodic benefit cost for pension plans and other post-retirement benefit plans:

	For the three months ended **September 30, 2019**		*For the nine months ended* **September 30, 2019**	
	Pension plans	**Other post-retirement benefit plans**	**Pension plans**	**Other post-retirement benefit plans**
	$	**$**	**$**	**$**
Service cost	**6**	**—**	**21**	**1**
Interest expense	**14**	**—**	**41**	**1**
Expected return on plan assets	**(19)**	**—**	**(59)**	**—**
Amortization of net actuarial loss (gain)	**2**	**—**	**7**	**(1)**
Amortization of prior year service costs	**1**	**—**	**4**	**—**
Net periodic benefit cost	**4**	**—**	**14**	**1**

Components of net periodic benefit cost for pension plans and other post-retirement benefit plans:

	For the three months ended September 30, 2018		*For the nine months ended* September 30, 2018	
	Pension plans	Other post-retirement benefit plans	Pension plans	Other post-retirement benefit plans
	$	$	$	$
Service cost	8	—	25	1
Interest expense	14	1	41	2
Expected return on plan assets	(22)	—	(65)	—
Amortization of net actuarial loss	2	—	6	—
Amortization of prior year service costs	1	—	4	(1)
Net periodic benefit cost	3	1	11	2

NOTE 5. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

The components of net periodic benefit cost for pension plans and other post-retirement benefits plans, other than service cost, are presented in Non-service components of net periodic benefit cost on the Consolidated Statement of Earnings and Comprehensive Income (Loss).

For the three and nine months ended September 30, 2019, the Company contributed $7 million and $14 million, respectively (2018 – $48 million and $55 million, respectively) to the pension plans and $1 million and $3 million, respectively (2018 – $1 million and $3 million, respectively) to the other post-retirement benefit plans.

NOTE 6.

OTHER OPERATING LOSS (INCOME), NET

Other operating loss (income), net is an aggregate of both recurring and non-recurring loss or income items and, as a result, can fluctuate from period to period. The Company's other operating loss (income), net includes the following:

	For the three months ended		*For the nine months ended*	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
	$	$	**$**	$
Gain on sale of property, plant and equipment	**—**	—	**—**	(4)
Bad debt expense	**1**	—	**2**	1
Environmental provision	**1**	2	**2**	2
Foreign exchange loss (gain)	**1**	2	**3**	(1)
Other	**—**	—	**(3)**	(1)
Other operating loss (income), net	**3**	4	**4**	(3)

NOTE 7.

INCOME TAXES

For the third quarter of 2019, the Company's income tax benefit was $1 million, consisting of a current income tax benefit of $3 million and a deferred income tax expense of $2 million. This compares to an income tax expense of $3 million in the third quarter of 2018, consisting of a current income tax benefit of $5 million and a deferred income tax expense of $8 million. The Company made income tax payments, net of refunds, of $5 million during the third quarter of 2019. The effective tax rate was -5% compared with an effective tax rate of 3% in the third quarter of 2018. The effective tax rate for the third quarter of 2019 was favorably impacted by additional R&D tax credits in the U.S. and Spain. The effective tax rate for the third quarter of 2018 was favorably impacted by the income tax effects of the U.S. Tax Reform, including the benefit related to an additional pension contribution, as well as the recognition of previously unrecognized tax benefits due to the expiration of certain statutes of limitations. The effective tax rates for both the third quarter of 2019 and the third quarter of 2018 were favorably impacted by the finalization of certain estimates in connection with the filing of the Company's 2018 and 2017 income tax returns, respectively.

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate and then making adjustments for discrete items arising in that quarter. In each interim quarter the Company updates its estimate of the annual effective tax rate and, if the estimated annual tax rate changes, makes a cumulative adjustment in that quarter. The effective tax rate for the third quarter of 2019 was favorably impacted by such an adjustment.

For the first nine months of 2019, the Company's income tax expense was $28 million, consisting of a current income tax expense of $27 million and a deferred income tax expense of $1 million. This compares to an income tax expense of $22 million in the first nine months of 2018, consisting of a current income tax expense of $19 million and a deferred income tax expense of $3 million. The Company made income tax payments, net of refunds, of $55 million during the first nine months of 2019. The effective tax rate was 19% compared to an effective tax rate of 10% in the first nine months of 2018. The effective tax rate for the first nine months of 2019 was favorably impacted by the recognition of additional R&D credits in the U.S. and Spain and by an enacted law change in the state of Arkansas, which were mostly offset by the recording of a valuation allowance against certain state tax credit carryforwards. The effective tax rate for the first nine months of 2018 was favorably impacted by the income tax effects of the U.S. Tax Reform, including the benefit related to an additional pension contribution, the recognition of previously unrecognized tax benefits due to the expiration of certain statutes of limitations, as well as by enacted law changes in Sweden and several U.S. states. The effective tax rates for both the first nine months of 2019 and the first nine months of 2018 were favorably impacted by the finalization of certain estimates in connection with the filing of the Company's 2018 and 2017 income tax returns, respectively.

During the second quarter of 2019, the Internal Revenue Service (the "IRS") proposed additional Global Intangible Low-Taxed Income ("GILTI") regulations, which are still pending approval. While the Company is still evaluating the impact, it does not expect those proposed regulations to have a material impact on the consolidated financial statements.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 8.

INVENTORIES

The following table presents the components of inventories:

	September 30, 2019	December 31, 2018
	$	$
Work in process and finished goods	**423**	410
Raw materials	**143**	126
Operating and maintenance supplies	**232**	226
	798	762

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 9.

LEASES

In the normal course of business, the Company enters into operating and finance leases mainly for manufacturing and warehousing facilities, corporate offices, motor vehicles, mobile equipment and manufacturing equipment.

While the Company’s lease payments are generally fixed over the lease term, some leases may include price escalation terms that are fixed at the lease commencement date.

The Company has remaining lease terms ranging from 1 year to 14 years, some of which may include options to extend the leases for up to 10 years, and some of which may include options to terminate the leases within 1 year.

During the second quarter of 2019, the Company recorded $9 million of impairment of operating lease right-of-use assets under Impairment of long-lived assets on the Consolidated Statement of Earnings and Comprehensive Income (Loss).

The components of lease expense were as follows:

	For the three months ended **September 30, 2019**	*For the nine months ended* **September 30, 2019**
	$	**$**
Operating lease expense	8	22
Finance lease expense:		
Amortization of right-of-use assets	1	1
Interest on lease liabilities	—	—
Total finance lease expense	1	1

For the three and nine months ended September 30, 2018, total operating lease expense amounted to $8 million and $22 million, respectively.

Supplemental cash flow information related to leases was as follows:

	For the nine months ended **September 30, 2019**
	$
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	23
Operating cash flows from finance leases	1
Financing cash flows from finance leases	1
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	24
Finance leases	—

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 9. LEASES (CONTINUED)

Supplemental balance sheet information related to leases was as follows:

	September 30, 2019
	$
Operating leases	
Operating leases right-of-use assets	77
Lease liabilities due within one year	26
Operating lease liabilities	68
	94
Finance leases	
Property, plant and equipment	14
Accumulated depreciation	(6)
	8
Long-term debt due within one year	1
Long-term debt	9
	10
Weighted-average remaining lease term	
Operating leases	5 years
Finance leases	10.2 years
Weighted-average discount rate	
Operating leases	4.5%
Finance leases	6.7%

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 9. LEASES (CONTINUED)

Maturities of lease liabilities at September 30, 2019 were as follows:

	Operating leases	Finance leases
	$	$
2019 (1)	8	—
2020	26	2
2021	22	2
2022	16	2
2023	12	1
Thereafter	22	7
Total lease payments	106	14
Less: Imputed interest	12	4
Total lease liabilities	94	10

(1) Represents the remaining three months of 2019.

As of September 30, 2019, the Company has an additional $3 million of operating leases, primarily for office space and manufacturing equipment, which have not yet commenced. These operating leases will commence between 2019 and 2020, with terms between 3 and 5 years.

Maturities of lease commitments at December 31, 2018 were as follows:

	Operating leases	Capital leases
	$	$
2019	26	2
2020	21	2
2021	17	2
2022	12	1
2023	10	1
Thereafter	17	7
Total lease payments	103	15
Less: Imputed interest	N/A	4
Total lease liabilities	N/A	11

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 10.

INTANGIBLE ASSETS

The following table presents the components of intangible assets:

		September 30, 2019			December 31, 2018		
	Estimated useful lives (in years)	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
		$	$	$	$	$	$
Definite-lived intangible assets subject to amortization							
Water rights	40	**3**	**(1)**	**2**	3	(1)	2
Customer relationships	10 – 40	**375**	**(103)**	**272**	384	(94)	290
Technology	7 – 20	**8**	**(5)**	**3**	8	(4)	4
Non-Compete	9	**1**	**(1)**	**—**	1	(1)	—
License rights	12	**29**	**(15)**	**14**	28	(13)	15
		416	**(125)**	**291**	424	(113)	311
Indefinite-lived intangible assets not subject to amortization							
Water rights		**4**	**—**	**4**	4	—	4
Trade names		**230**	**—**	**230**	238	—	238
License rights		**6**	**—**	**6**	6	—	6
Catalog rights		**37**	**—**	**37**	38	—	38
Total		**693**	**(125)**	**568**	710	(113)	597

Amortization expense related to intangible assets for the three and nine months ended September 30, 2019 was $5 million and $14 million, respectively (2018 – $4 million and $14 million, respectively).

Amortization expense for the next five years related to intangible assets is expected to be as follows:

	2019	2020	2021	2022	2023
	$	$	$	$	$
Amortization expense related to intangible assets	21 (1)	21	21	20	20

(1) Represents twelve months of amortization

NOTE 11.

CLOSURE AND RESTRUCTURING COSTS AND IMPAIRMENT OF LONG-LIVED ASSETS

Ashdown, Arkansas mill and Port Huron, Michigan mill

On September 27, 2019, the Company's Board of Directors approved the decision to permanently shut downtwo paper machines, which was announced on October 3, 2019. The closures will take place at the Ashdown, Arkansas pulp and paper mill and the Port Huron, Michigan paper mill. These measures will reduce the Company's annual uncoated freesheet paper capacity by approximately 204,000 short tons, and will result in a workforce reduction of approximately100 employees.

The Ashdown mill will continue to operateone paper machine with an annual uncoated freesheet paper production capacity of200,000 short tons. Additionally, the mill operates a fluff pulp machine with the flexibility to produce softwood pulp depending on market conditions. As a result of the closure of the paper machine, the mill will produce an incremental 70,000 ADMT of softwood and fluff pulp, which will ramp up over the next 12 months.

The closure of the Port Huron paper machine will take effect by mid-November. The Port Huron mill will continue to produce a variety of technical and specialty papers for a broad range of customers utilizing three machines with a total annual production capacity of95,000 short tons.

During the third quarter of 2019, the Company recorded $32 million of accelerated depreciation under Impairment of long-lived assets on the Consolidated Statement of Earnings and Comprehensive Income (Loss). Additionally, the Company recorded $ 1 million of severance and termination costs and $4 million of inventory obsolescence, under Closure and restructuring costs.

Waco, Texas facility

On November 1, 2018, the Company announced a margin improvement plan within the Personal Care Division. As part of this plan, the Board of Directors approved the permanent closure of its Waco, Texas Personal Care manufacturing and distribution facility, the relocation of certain of its manufacturing assets and a workforce reduction across the division. The Waco, Texas facility ceased operations during the second quarter of 2019.

For the three and nine months ended September 30, 2019, the Company recorded $1 million of accelerated depreciation and $26 million of accelerated depreciation and impairment of operating lease right-of-use assets, respectively, under Impairment of long-lived assets on the Consolidated Statement of Earnings and Comprehensive Income (Loss). For the three and nine months ended September 30, 2019, the Company also recorded $1 million and $5 million, respectively, of severance and termination costs; $1 million and $2 million, respectively, of inventory obsolescence; and $4 million and $11 million, respectively, of asset relocation and other costs, under Closure and restructuring costs.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 12.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT

The following table presents the changes in Accumulated other comprehensive loss by component[1] for the nine months ended September 30, 2019 and the year ended December 31, 2018:

	Net derivative gains (losses) on cash flow hedges $	Pension items[2] $	Post-retirement benefit items[2] $	Foreign currency items $	Total $
Balance at December 31, 2017	8	(218)	6	(132)	**(336)**
Natural gas swap contracts	1	N/A	N/A	N/A	**1**
Currency options	(12)	N/A	N/A	N/A	**(12)**
Foreign exchange forward contracts	(19)	N/A	N/A	N/A	**(19)**
Net (gain) loss	N/A	(23)	6	N/A	**(17)**
Foreign currency items	N/A	N/A	N/A	(91)	**(91)**
Other comprehensive (loss) income before reclassifications	(30)	(23)	6	(91)	**(138)**
Amounts reclassified from Accumulated other comprehensive loss	(2)	10	(1)	—	**7**
Net current period other comprehensive (loss) income	(32)	(13)	5	(91)	**(131)**
Balance at December 31, 2018	(24)	(231)	11	(223)	**(467)**
Natural gas swap contracts	(8)	N/A	N/A	N/A	**(8)**
Currency options	4	N/A	N/A	N/A	**4**
Foreign exchange forward contracts	9	N/A	N/A	N/A	**9**
Foreign currency items	N/A	N/A	N/A	(12)	**(12)**
Other comprehensive income (loss) before reclassifications	5	—	—	(12)	**(7)**
Amounts reclassified from Accumulated other comprehensive loss	5	8	(1)	—	**12**
Net current period other comprehensive income (loss)	10	8	(1)	(12)	**5**
Balance at September 30, 2019	(14)	(223)	10	(235)	**(462)**

(1) All amounts are after tax. Amounts in parentheses indicate losses.
(2) The accrued benefit obligation is actuarially determined on an annual basis as of December 31.

NOTE 12. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT (CONTINUED)

The following tables present reclassifications out of Accumulated other comprehensive loss for the three and nine months ended September 30, 2019 and 2018:

Details about Accumulated other comprehensive loss components	**Amounts reclassified from Accumulated other comprehensive loss(1)**	
	For the three months ended	
	September 30, 2019	September 30, 2018
	$	$
Net derivative gains on cash flow hedge		
Natural gas swap contracts (2)	**2**	—
Currency options and forwards (2)	**2**	1
Total before tax	**4**	1
Tax expense	**(1)**	(1)
Net of tax	**3**	—
Amortization of defined benefit pension items		
Amortization of net actuarial loss (3)	**2**	2
Amortization of prior year service cost (3)	**1**	1
Total before tax	**3**	3
Tax expense	**(1)**	(1)
Net of tax	**2**	2
Amortization of other post-retirement benefit items		
Amortization of net actuarial loss (3)	**—**	—
Amortization of prior year service cost (3)	**—**	—
Total before tax	**—**	—
Tax benefit	**—**	—
Net of tax	**—**	—

NOTE 12. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT (CONTINUED)

	Amounts reclassified from Accumulated other comprehensive loss[1]	
	For the nine months ended	
	September 30, 2019	September 30, 2018
	$	$
Net derivatives gains (losses) on cash flow hedge		
Natural gas swap contracts [2]	**2**	—
Currency options and forwards [2]	**5**	(2)
Total before tax	**7**	(2)
Tax expense	**(2)**	—
Net of tax	**5**	(2)
Amortization of defined benefit pension items		
Amortization of net actuarial loss [3]	**7**	6
Amortization of prior year service cost [3]	**4**	4
Total before tax	**11**	10
Tax expense	**(3)**	(3)
Net of tax	**8**	7
Amortization of other post-retirement benefit items		
Amortization of net actuarial loss [3]	**(1)**	—
Amortization of prior year service cost [3]	**—**	(1)
Total before tax	**(1)**	(1)
Tax benefit	**—**	—
Net of tax	**(1)**	(1)

(1) Amounts in parentheses indicate losses.
(2) These amounts are included in Cost of Sales in the Consolidated Statements of Earnings and Comprehensive Income (Loss).
(3) These amounts are included in the computation of net periodic benefit cost (see Note 5 “Pension Plans and Other Post-Retirement Benefit Plans” for more details).

NOTE 13.

SHAREHOLDERS' EQUITY

DIVIDENDS

On February 19, 2019, May 8, 2019, and August 6, 2019, the Company's Board of Directors approved a quarterly dividend of $0.435, $0.455, and $0.455 per share, respectively, to be paid to holders of the Company's common stock. Dividends aggregating $28 million were paid on each of April 15, 2019, and July 16, 2019, and dividends aggregating $27 million were paid on October 15, 2019, to shareholders of record on April 2, 2019, July 2, 2019, and October 2, 2019, respectively.

On November 5, 2019, the Company's Board of Directors approved a quarterly dividend of $0.455 per share to be paid to holders of the Company's common stock. This dividend is to be paid on January 15, 2020, to shareholders of record on January 2, 2020.

STOCK REPURCHASE PROGRAM

The Company's Board of Directors has authorized a stock repurchase program (the "Program") of up to $1.3 billion. At September 30, 2019, the Company had approximately $178 million of remaining availability under the Program. On November 5, 2019, the Company's Board of Directors approved an increase to the Program from $1.3 billion to $1.6 billion. Under the Program, the Company is authorized to repurchase, from time to time, shares of its outstanding common stock on the open market or in privately negotiated transactions. The timing and amount of stock repurchases will depend on a variety of factors, including the market conditions as well as corporate and regulatory considerations. The Program may be suspended, modified or discontinued at any time, and the Company has no obligation to repurchase any amount of its common stock under the Program. The Program has no set expiration date. The Company repurchases its common stock in part to reduce the dilutive effects of stock options and awards, and to improve shareholders' returns.

The Company makes open market purchases of its common stock using general corporate funds. Additionally, the Company may enter into structured stock repurchase agreements with large financial institutions using general corporate funds in order to lower the average cost to acquire shares. The agreements would require the Company to make up-front payments to the counterparty financial institutions, which would result in either the receipt of stock at the beginning of the term of the agreements followed by a share adjustment at the maturity of the agreements, or the receipt of either stock or cash at the maturity of the agreements, depending upon the price of the stock.

During the first nine months of 2019, the Company repurchased 4,076,723 shares at an average price of $35.47 for a total cost of $145 million.

During the first nine months of 2018, there were no shares repurchased under the Program.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 14.

COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

The Company is subject to environmental laws and regulations enacted by federal, provincial, state and local authorities. The Company may also incur substantial costs in relation to enforcement actions (including orders requiring corrective measures, installation of pollution control equipment or other remedial actions) as a result of violations of, or liabilities under, environmental laws and regulations applicable to its past and present properties. The Company's ongoing efforts to identify potential environmental concerns that may be associated with such properties may result in additional environmental costs and liabilities which cannot be reasonably estimated at this time.

In connection with contamination of a site bordering Burrard Inlet in North Vancouver, on February 16, 2010, the government of British Columbia issued a Remediation Order to Seaspan International Ltd. and the Company, in order to define and implement an action plan to address soil, sediment and groundwater issues. Construction began in January 2017 and was completed in the first quarter of 2019. The Company previously recorded an environmental reserve to address its estimated exposure.

A former owner of the Company's Dryden, Ontario manufacturing site (the "Dryden Property") operated a chlor-alkali plant during the 1960s and 1970s, during which time, mercury and other pollutants were used and discharged into the natural environment. In conjunction with the sale and redevelopment of the Dryden Property, the Province of Ontario (the "Province") provided a broad indemnity (the "Indemnity") in 1985 to the then purchaser of the Dryden Property and its successors and assigns with respect to the discharge of any pollutant, including mercury, by the historical operators of the Dryden Property. This Indemnity was subsequently assigned to the Company in connection with its 2007 purchase of the Dryden Property.

As the current owner of the Dryden Property, Domtar is actively engaged with the Province with respect to the management of the historical contamination.

The Province has challenged whether certain owners of the Dryden Property prior to Domtar can benefit from the Indemnity in relation to the historic contamination. The Province was unsuccessful in the lower courts and has appealed to the Supreme Court of Canada, whose decision is pending.

The Province may also challenge whether Domtar has the benefit of the Indemnity. Should it be determined that Domtar does not have the benefit of the Indemnity, Domtar may be exposed to future costs that could have a material financial impact on the Company's results of operations and financial condition.

The following table reflects changes in the reserve for environmental remediation and asset retirement obligations:

	September 30, 2019
	$
Balance at beginning of year	37
Additions and other changes	3
Environmental spending	(5)
Effect of foreign currency exchange rate change	—
Balance at end of period	35

The U.S. Environmental Protection Agency (the "EPA") and/or various state agencies have notified the Company that it may be a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as "Superfund", and similar state laws with respect to other hazardous waste sites as to which no proceedings have been instituted against the Company. The Company continues to take remedial action under its Care and Control Program at its former wood preserving sites, and at a number of operating sites, due to possible soil, sediment or groundwater contamination.

NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Climate change regulation

Various national and local laws and regulations relating to climate change have been established or are emerging in jurisdictions where the Company currently has, or may have in the future, manufacturing facilities or investments.

On July 8, 2019, the EPA published a final rule to repeal the Clean Power Plan and replace it with the "Affordable Clean Energy" ("ACE") rule. Unlike the Clean Power Plan, which would have required significant changes across the entire power sector, ACE only requires states to develop plans for efficiency improvements at coal-fired electric utility generating units. The rule was immediately challenged in the U.S. Court of Appeals for the D.C. Circuit. Regardless of the outcome for the Clean Power Plan and ACE, the Company does not expect to be disproportionately affected compared with other pulp and paper producers located in the states where the Company operates.

The province of Quebec has a greenhouse gases ("GHG") cap-and-trade systems with reduction targets. British Columbia has a carbon tax that applies to the purchase of fossil fuels within the province. The Company does not expect its facilities to be disproportionately affected by these measures compared to the other pulp and paper producers located in these provinces.

The Government of Canada has established a federal carbon pricing system in provinces that do not already impose a cost on carbon emissions. The Government of Canada will be imposing its carbon pricing program for regulating GHG emissions in Ontario. This regulatory system took effect in Ontario on January 1, 2019. To reduce GHG emissions and recognize the unique circumstances of the province's diverse economy, Ontario recently finalized its own GHG Emission Performance Standards regulation. The Ontario Government is in discussions with the Canadian Government to replace the federal program in Ontario with its provincial program. Additional environmental costs may result from this effort which cannot be reasonably estimated at this time.

CONTINGENCIES

In the normal course of operations, the Company becomes involved in various legal actions mostly related to contract disputes, patent infringements, environmental and product warranty claims, and labor issues. While the final outcome with respect to actions outstanding or pending at September 30, 2019, cannot be predicted with certainty, it is management's opinion that their resolution will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

INDEMNIFICATIONS

In the normal course of business, the Company offers indemnifications relating to the sale of its businesses and real estate. In general, these indemnifications may relate to claims from past business operations, the failure to abide by covenants and the breach of representations and warranties included in the sales agreements. Typically, such representations and warranties relate to taxation, environmental, product and employee matters. The terms of these indemnification agreements are generally for an unlimited period of time. At September 30, 2019, the Company is unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provision has been recorded. These indemnifications have not yielded a significant expense in the past.

Pension Plans

The Company has indemnified and held harmless the trustees of its pension funds, and the respective officers, directors, employees and agents of such trustees, from any and all costs and expenses arising out of the performance of their obligations under the relevant trust agreements, including in respect of their reliance on authorized instructions from the Company or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements. At September 30, 2019, the Company has not recorded a liability associated with these indemnifications, as it does not expect to make any payments pertaining to these indemnifications.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 15.

SEGMENT DISCLOSURES

The Company's two reportable segments described below also represent its two operating segments. Each reportable segment offers different products and services and requires different manufacturing processes, technology and/or marketing strategies. The following summary briefly describes the operations included in each of the Company's reportable segments:

- **Pulp and Paper –** consists of the design, manufacturing, marketing and distribution of communication, specialty and packaging papers, as well as softwood, fluff and hardwood market pulp.
- **Personal Care –** consists of the design, manufacturing, marketing and distribution of absorbent hygiene products.

An analysis and reconciliation of the Company's business segment information to the respective information in the financial statements is as follows:

	For the three months ended		*For the nine months ended*	
SEGMENT DATA	**September 30, 2019**	September 30, 2018	**September 30, 2019**	September 30, 2018
	$	$	**$**	$
Sales by segment				
Pulp and Paper	**1,071**	1,146	**3,314**	3,369
Personal Care	**227**	237	**711**	746
Total for reportable segments	**1,298**	1,383	**4,025**	4,115
Intersegment sales	**(15)**	(16)	**(49)**	(50)
Consolidated sales	**1,283**	1,367	**3,976**	4,065
Sales by product group				
Communication papers	**635**	639	**1,963**	1,904
Specialty and packaging papers	**159**	181	**490**	536
Market pulp	**262**	310	**812**	879
Absorbent hygiene products	**227**	237	**711**	746
Consolidated sales	**1,283**	1,367	**3,976**	4,065
Depreciation and amortization				
Pulp and Paper	**56**	58	**171**	180
Personal Care	**16**	17	**48**	53
Total for reportable segments	**72**	75	**219**	233
Impairment of long-lived assets - Pulp and Paper	**32**	—	**32**	—
Impairment of long-lived assets - Personal Care	**1**	—	**26**	—
Consolidated depreciation and amortization and impairment of long-lived assets	**105**	75	**277**	233
Operating income (loss)				
Pulp and Paper	**31**	135	**237**	290
Personal Care	**2**	(3)	**(24)**	7
Corporate	**(4)**	(18)	**(35)**	(44)
Consolidated operating income	**29**	114	**178**	253
Interest expense, net	**12**	15	**38**	47
Non-service components of net periodic benefit cost	**(2)**	(4)	**(7)**	(13)
Earnings before income taxes and equity loss	**19**	103	**147**	219
Income tax (benefit) expense	**(1)**	3	**28**	22
Equity loss, net of taxes	**—**	1	**1**	1
Net earnings	**20**	99	**118**	196

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

The following information is presented as required under Rule 3-10 of Regulation S-X, in connection with the Company's issuance of debt securities that are fully and unconditionally guaranteed by Domtar's significant 100% owned domestic subsidiaries, including Domtar Paper Company, LLC, Domtar Industries LLC (and subsidiaries, excluding Domtar Funding LLC), Domtar A.W. LLC, Attends Healthcare Products Inc., EAM Corporation, Associated Hygienic Products LLC and Home Delivery Incontinent Supplies Co., ("Guarantor Subsidiaries"), on a joint and several basis. The Guaranteed Debt is not guaranteed by certain of Domtar's foreign and non-significant domestic subsidiaries, all 100% owned, (collectively the "Non-Guarantor Subsidiaries"). A subsidiary's guarantee may be released in certain customary circumstances, such as if the subsidiary is sold or sells all of its assets, if the subsidiary's guarantee of the Credit Agreement is terminated or released and if the requirements for legal defeasance to discharge the indenture have been satisfied.

The following supplemental condensed consolidating financial information sets forth, on an unconsolidated basis, the Balance Sheets at September 30, 2019 and December 31, 2018, the Statements of Earnings and Comprehensive Income (Loss) for the three and nine months ended September 30, 2019 and 2018 and the Statements of Cash Flows for the nine months ended September 30, 2019 and 2018 for Domtar Corporation (the "Parent"), and on a combined basis for the Guarantor Subsidiaries and, on a combined basis, the Non-Guarantor Subsidiaries. The supplemental condensed consolidating financial information reflects the investments of the Parent in the Guarantor Subsidiaries, as well as the investments of the Guarantor Subsidiaries in the Non-Guarantor Subsidiaries, using the equity method.

	For the three months ended September 30, 2019				
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME (LOSS)	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated**
	$	$	$	$	$
Sales	—	1,060	459	(236)	1,283
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	891	386	(236)	1,041
Depreciation and amortization	—	51	21	—	72
Selling, general and administrative	—	59	35	—	94
Impairment of long-lived assets	—	33	—	—	33
Closure and restructuring costs	—	11	—	—	11
Other operating loss, net	—	1	2	—	3
	—	1,046	444	(236)	1,254
Operating income	—	14	15	—	29
Interest expense (income), net	18	18	(24)	—	12
Non-service components of net periodic benefit cost	—	1	(3)	—	(2)
(Loss) earnings before income taxes	(18)	(5)	42	—	19
Income tax (benefit) expense	(4)	(2)	5	—	(1)
Share in earnings of equity accounted investees	34	37	—	(71)	—
Net earnings	20	34	37	(71)	20
Other comprehensive loss	(38)	(37)	(33)	70	(38)
Comprehensive (loss) income	(18)	(3)	4	(1)	(18)

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	*For the nine months ended* September 30, 2019 Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Sales	**—**	**3,268**	**1,478**	**(770)**	**3,976**
Operating expenses					
Cost of sales, excluding depreciation and amortization	**—**	**2,746**	**1,196**	**(770)**	**3,172**
Depreciation and amortization	**—**	**155**	**64**	**—**	**219**
Selling, general and administrative	**7**	**170**	**145**	**—**	**322**
Impairment of long-lived assets	**—**	**58**	**—**	**—**	**58**
Closure and restructuring costs	**—**	**21**	**2**	**—**	**23**
Other operating (income) loss, net	**—**	**(3)**	**7**	**—**	**4**
	7	**3,147**	**1,414**	**(770)**	**3,798**
Operating (loss) income	**(7)**	**121**	**64**	**—**	**178**
Interest expense (income), net	**52**	**60**	**(74)**	**—**	**38**
Non-service components of net periodic benefit cost	**—**	**1**	**(8)**	**—**	**(7)**
(Loss) earnings before income taxes and equity loss	**(59)**	**60**	**146**	**—**	**147**
Income tax (benefit) expense	**(13)**	**12**	**29**	**—**	**28**
Equity loss, net of taxes	**—**	**—**	**1**	**—**	**1**
Share in earnings of equity accounted investees	**164**	**116**	**—**	**(280)**	**—**
Net earnings	**118**	**164**	**116**	**(280)**	**118**
Other comprehensive income (loss)	**5**	**11**	**(8)**	**(3)**	**5**
Comprehensive income	**123**	**175**	**108**	**(283)**	**123**

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	*For the three months ended* September 30, 2018 Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Sales	—	1,115	559	(307)	1,367
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	954	412	(307)	1,059
Depreciation and amortization	—	53	22	—	75
Selling, general and administrative	4	31	80	—	115
Other operating (income) loss, net	—	(1)	5	—	4
	4	1,037	519	(307)	1,253
Operating (loss) income	(4)	78	40	—	114
Interest expense (income), net	15	23	(23)	—	15
Non-service components of net periodic benefit cost	—	1	(5)	—	(4)
(Loss) earnings before income taxes	(19)	54	68	—	103
Income tax (benefit) expense	(11)	—	14	—	3
Equity loss, net of taxes	—	—	1	—	1
Share in earnings of equity accounted investees	107	53	—	(160)	—
Net earnings	99	107	53	(160)	99
Other comprehensive income	21	21	13	(34)	21
Comprehensive income	120	128	66	(194)	120

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	*For the nine months ended* September 30, 2018 Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Sales	—	3,287	1,671	(893)	4,065
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	2,840	1,292	(893)	3,239
Depreciation and amortization	—	164	69	—	233
Selling, general and administrative	11	99	233	—	343
Other operating income, net	—	(2)	(1)	—	(3)
	11	3,101	1,593	(893)	3,812
Operating (loss) income	(11)	186	78	—	253
Interest expense (income), net	47	68	(68)	—	47
Non-service components of net periodic benefit cost	—	1	(14)	—	(13)
(Loss) earnings before income taxes	(58)	117	160	—	219
Income tax (benefit) expense	(19)	12	29	—	22
Equity loss, net of taxes	—	—	1	—	1
Share in earnings of equity accounted investees	235	130	—	(365)	—
Net earnings	196	235	130	(365)	196
Other comprehensive loss	(54)	(54)	(47)	101	(54)
Comprehensive income	142	181	83	(264)	142

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	September 30, 2019				
CONDENSED CONSOLIDATING BALANCE SHEET	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Assets					
Current assets					
Cash and cash equivalents	—	4	99	(5)	98
Receivables	—	148	470	—	618
Inventories	—	555	243	—	798
Prepaid expenses	9	15	9	—	33
Income and other taxes receivable	59	12	27	(45)	53
Intercompany accounts	436	465	155	(1,056)	—
Total current assets	504	1,199	1,003	(1,106)	1,600
Property, plant and equipment, net	—	1,693	806	—	2,499
Operating lease right-of-use assets	—	63	14	—	77
Intangible assets, net	—	248	320	—	568
Investments in affiliates	3,821	2,705	—	(6,526)	—
Intercompany long-term advances	5	1	1,684	(1,690)	—
Other assets	20	35	113	(28)	140
Total assets	4,350	5,944	3,940	(9,350)	4,884
Liabilities and shareholders' equity					
Current liabilities					
Bank indebtedness	5	1	—	(5)	1
Trade and other payables	58	371	217	—	646
Intercompany accounts	245	222	589	(1,056)	—
Income and other taxes payable	2	45	26	(45)	28
Operating lease liabilities due within one year	—	20	6	—	26
Long-term debt due within one year	—	—	1	—	1
Total current liabilities	310	659	839	(1,106)	702
Long-term debt	838	—	100	—	938
Operating lease liabilities	—	59	9	—	68
Intercompany long-term loans	733	956	1	(1,690)	—
Deferred income taxes and other	—	351	156	(28)	479
Other liabilities and deferred credits	30	98	130	—	258
Shareholders' equity	2,439	3,821	2,705	(6,526)	2,439
Total liabilities and shareholders' equity	4,350	5,944	3,940	(9,350)	4,884

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	December 31, 2018				
CONDENSED CONSOLIDATING BALANCE SHEET	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Assets					
Current assets					
Cash and cash equivalents	—	—	111	—	111
Receivables	—	146	524	—	670
Inventories	—	525	237	—	762
Prepaid expenses	6	12	6	—	24
Income and other taxes receivable	1	3	18	—	22
Intercompany accounts	498	392	35	(925)	—
Total current assets	505	1,078	931	(925)	1,589
Property, plant and equipment, net	—	1,802	803	—	2,605
Intangible assets, net	—	256	341	—	597
Investments in affiliates	3,645	2,611	—	(6,256)	—
Intercompany long-term advances	5	1	1,569	(1,575)	—
Other assets	18	26	104	(14)	134
Total assets	4,173	5,774	3,748	(8,770)	4,925
Liabilities and shareholders' equity					
Current liabilities					
Trade and other payables	52	464	241	—	757
Intercompany accounts	125	264	536	(925)	—
Income and other taxes payable	1	12	12	—	25
Long-term debt due within one year	—	—	1	—	1
Total current liabilities	178	740	790	(925)	783
Long-term debt	793	—	60	—	853
Intercompany long-term loans	636	938	1	(1,575)	—
Deferred income taxes and other	—	335	155	(14)	476
Other liabilities and deferred credits	28	116	131	—	275
Shareholders' equity	2,538	3,645	2,611	(6,256)	2,538
Total liabilities and shareholders' equity	4,173	5,774	3,748	(8,770)	4,925

The Company has revised the Receivables balance within the December 31, 2018 Guarantor Subsidiaries column (decreased) and Non-Guarantor Subsidiaries column (increased) by $198 million, respectively, as receivables from third parties for the Guarantor Subsidiaries were netted with intercompany receivables.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	*For the nine months ended* September 30, 2019 Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Operating activities					
Net earnings	118	164	116	(280)	118
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	(20)	(122)	26	280	164
Cash flows from operating activities	98	42	142	—	282
Investing activities					
Additions to property, plant and equipment	—	(92)	(65)	—	(157)
Proceeds from disposals of property, plant and equipment	—	1	—	—	1
Cash flows used for investing activities	—	(91)	(65)	—	(156)
Financing activities					
Dividend payments	(83)	—	—	—	(83)
Stock repurchase	(139)	—	—	—	(139)
Net change in bank indebtedness	5	1	1	(5)	2
Change in revolving credit facility	45	—	—	—	45
Proceeds from receivables securitization facility	—	—	150	—	150
Repayments of receivables securitization facility	—	—	(110)	—	(110)
Repayments of long-term debt	—	—	(1)	—	(1)
Increase in long-term advances to related parties	—	—	(127)	127	—
Decrease in long-term advances to related parties	75	52	—	(127)	—
Other	(1)	—	—	—	(1)
Cash flows (used for) provided from financing activities	(98)	53	(87)	(5)	(137)
Net increase (decrease) in cash and cash equivalents	—	4	(10)	(5)	(11)
Impact of foreign exchange on cash	—	—	(2)	—	(2)
Cash and cash equivalents at beginning of period	—	—	111	—	111
Cash and cash equivalents at end of period	—	4	99	(5)	98

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	*For the nine months ended* September 30, 2018 Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Operating activities					
Net earnings	196	235	130	(365)	196
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	(376)	202	(50)	365	141
Cash flows (used for) provided from operating activities	(180)	437	80	—	337
Investing activities					
Additions to property, plant and equipment	—	(73)	(38)	—	(111)
Proceeds from disposals of property, plant and equipment	—	—	4	—	4
Other	—	(2)	(4)	—	(6)
Cash flows used for investing activities	—	(75)	(38)	—	(113)
Financing activities					
Dividend payments	(81)	—	—	—	(81)
Repayments of receivables securitization facility	—	—	(25)	—	(25)
Increase in long-term advances to related parties	—	(368)	(61)	429	—
Decrease in long-term advances to related parties	429	—	—	(429)	—
Other	1	—	—	—	1
Cash flows provided from (used for) financing activities	349	(368)	(86)	—	(105)
Net increase (decrease) in cash and cash equivalents	169	(6)	(44)	—	119
Impact of foreign exchange on cash	—	—	(2)	—	(2)
Cash and cash equivalents at beginning of period	3	14	122	—	139
Cash and cash equivalents at end of period	172	8	76	—	256

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with Domtar Corporation's unaudited interim financial statements and notes thereto included in this Quarterly Report on Form 10-Q. This MD&A should also be read in conjunction with the historical financial information contained in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission ("SEC") on February 22, 2019. Throughout this MD&A, unless otherwise specified, "Domtar Corporation," "the Company," "Domtar," "we," "us" and "our" refer to Domtar Corporation and its subsidiaries. Domtar Corporation's common stock is listed on the New York Stock Exchange and the Toronto Stock Exchange. Except where otherwise indicated, all financial information reflected herein is determined on the basis of accounting principles generally accepted in the United States.

The information contained on our website, www.domtar.com, is not incorporated by reference into this Form 10-Q and should in no way be construed as a part of this or any other report that we file with or furnish to the SEC.

In accordance with industry practice, in this report, the term "ton" or the symbol "ST" refers to a short ton, an imperial unit of measurement equal to 0.9072 metric tons. The term "metric ton" or the symbol "ADMT" refers to an air dry metric ton. In this report, unless otherwise indicated, all dollar amounts are expressed in U.S. dollars, and the term "dollars" and the symbol "$" refer to U.S. dollars. In the following discussion, unless otherwise noted, references to increases or decreases in income and expense items, prices, contribution to net earnings (loss), and shipment volumes are based on the three and nine months ended September 30, 2019 and 2018. The three month and nine month periods are also referred to as the third quarter and first nine months of 2019 and 2018. References to notes refer to footnotes to the consolidated financial statements and notes thereto included in Item 1 of this Form 10-Q.

This MD&A is intended to provide investors with an understanding of our recent performance, financial condition and outlook. Topics discussed and analyzed include:

- Overview
- Highlights for the three month and nine month periods ended September 30, 2019
- Outlook
- Consolidated Results of Operations and Segment Review
- Liquidity and Capital Resources

In February 2016, the FASB issued ASU 2016-02, "Leases", which requires lessees to recognize right-of-use assets and lease liabilities for all of their operating leases while continuing to recognize expenses in the Consolidated Statement of Earnings and Comprehensive Income (Loss) in a manner similar to previous accounting standards. We elected to initially apply the new leases standard as of January 1, 2019 with certain available practical expedients. No cumulative-effect adjustments on retained earnings were necessary as of January 1, 2019. The most significant impact of adopting the new standard was the recognition of right-of-use assets and lease liabilities for operating leases. The accounting for finance leases remains substantially unchanged. For all comparative periods prior to the adoption of the new leases standard, we will continue to report operating leases in the consolidated financial statements under ASC 840 "Leases" and provide the related required disclosures.

For more details, refer to Note 2 "Recent Accounting Pronouncements" and Note 9 "Leases" of the financial statements in this Quarterly Report on Form 10-Q.

OVERVIEW

We design, manufacture, market and distribute a wide variety of fiber-based products, including communication papers, specialty and packaging papers, and absorbent hygiene products. The foundation of our business is a network of wood fiber converting assets that produce paper grade, fluff and specialty pulp. More than 50% of our pulp production is consumed internally to manufacture paper and other consumer products, with the balance sold as market pulp. We are the largest integrated marketer of uncoated freesheet paper in North America serving a variety of customers, including merchants, retail outlets, stationers, printers, publishers, converters and end users. We are also a marketer and producer of a broad line of incontinence care products as well as infant diapers. To learn more, visit www.domtar.com.

We have two reportable segments as described below, which also represent our two operating segments. Each reportable segment offers different products and services and requires different manufacturing processes, technology and/or marketing strategies. The following summary briefly describes the operations included in each of our reportable segments.

Pulp and Paper: Our Pulp and Paper segment consists of the design, manufacturing, marketing and distribution of communication, specialty and packaging papers, as well as softwood, fluff and hardwood market pulp.

Personal Care: Our Personal Care segment consists of the design, manufacturing, marketing and distribution of absorbent hygiene products.

HIGHLIGHTS FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2019

- Operating income and net earnings decreased by 75% and 80%, respectively, from the third quarter of 2018
- Sales decreased by 6% from the third quarter of 2018. Net average selling prices for pulp were down while net average selling prices for paper were up from the third quarter of 2018. Our manufactured paper volume was down while our pulp volume was up when compared to the third quarter of 2018. Our Personal Care business had lower volume when compared to third quarter of 2018
- Recognition of a closure and restructuring charge and accelerated depreciation associated with our decision to permanently close two paper machines within our Pulp and Paper segment of $5 million and $32 million, respectively
- We repurchased $131 million of our common stock (cash portion) and paid $28 million in dividends

HIGHLIGHTS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

- Operating income and net earnings decreased by 30% and 40%, respectively, from the first nine months of 2018
- Sales decreased by 2% from the first nine months of 2018. Net average selling prices for paper were up whereas net average selling prices for pulp were down from the first nine months of 2018. Our manufactured paper volume was down and our Personal Care business had lower volume when compared to the first nine months of 2018
- Recognition of a closure and restructuring charge and accelerated depreciation associated with our decision to permanently close two paper machine within our Pulp and Paper segment in the third quarter of 2019, of $5 million and $32 million, respectively
- We repurchased $139 million of our common stock (cash portion) and paid $83 million in dividends

	Three months ended				**Nine months ended**			
			Variance				Variance	
FINANCIAL HIGHLIGHTS	**September 30, 2019**	September 30, 2018	$	%	**September 30, 2019**	September 30, 2018	$	%
(In millions of dollars, unless otherwise noted)								
Sales	**$ 1,283**	$ 1,367	(84)	-6%	**$ 3,976**	$ 4,065	(89)	-2%
Operating income	**29**	114	(85)	-75%	**178**	253	(75)	-30%
Net earnings	**20**	99	(79)	-80%	**118**	196	(78)	-40%
Net earnings per common share (in dollars)[1]:								
Basic	**$ 0.33**	$ 1.57	(1.24)	-79%	**$ 1.89**	$ 3.12	(1.23)	-39%
Diluted	**$ 0.32**	$ 1.57	(1.25)	-80%	**$ 1.88**	$ 3.11	(1.23)	-40%

	At September 30, 2019	At December 31, 2018
Total assets	**$ 4,884**	$ 4,925
Total long-term debt, including current portion	**$ 939**	$ 854

1 See Note 4 “Earnings per Common Share” of the financial statements in this Quarterly Report on Form 10-Q for more information on the calculation of net earnings per common share.

OUTLOOK

For the fourth quarter, maintenance is expected to be higher while paper is expected to be negatively impacted in part by a seasonally unfavorable mix. We anticipate some volatility in softwood and fluff pulp markets while Personal Care is expected to benefit from our margin improvement plan and increased sales driven by a stronger order book.

CONSOLIDATED RESULTS OF OPERATIONS AND SEGMENT REVIEW

This section presents a discussion and analysis of our third quarter and first nine months of 2019 and 2018 sales, operating income (loss) and other information relevant to the understanding of our results of operations.

ANALYSIS OF NET SALES

By Business Segment	Three months ended				Nine months ended			
			Variance				Variance	
	September 30, 2019	September 30, 2018	$	%	**September 30, 2019**	September 30, 2018	$	%
Pulp and Paper	**$ 1,071**	$ 1,146	*(75)*	*-7%*	**$ 3,314**	$ 3,369	*(55)*	*-2%*
Personal Care	**227**	237	*(10)*	*-4%*	**711**	746	*(35)*	*-5%*
Total for reportable segments	**1,298**	1,383	*(85)*	*-6%*	**4,025**	4,115	*(90)*	*-2%*
Intersegment sales	**(15)**	(16)	*1*		**(49)**	(50)	1	
Consolidated	**1,283**	1,367	*(84)*	*-6%*	**3,976**	4,065	*(89)*	*-2%*
Shipments								
Paper – manufactured (in thousands of ST)	**672**	727	*(55)*	*-8%*	**2,089**	2,250	*(161)*	*-7%*
Communication Papers	**563**	596	*(33)*	*-6%*	**1,745**	1,851	*(106)*	*-6%*
Specialty and Packaging	**109**	131	*(22)*	*-17%*	**344**	399	*(55)*	*-14%*
Paper - sourced from third parties (in thousands of ST)	**25**	30	(5)	*-17%*	**69**	84	(15)	*-18%*
Paper - total (in thousands of ST)	**697**	757	*(60)*	*-8%*	**2,158**	2,334	*(176)*	*-8%*
Pulp (in thousands of ADMT)	**416**	390	*26*	*7%*	**1,135**	1,141	*(6)*	*-1%*

ANALYSIS OF CHANGES IN SALES

By Business Segment	Third quarter of 2019 versus Third quarter of 2018 % Change in Net Sales due to				First nine months of 2019 versus First nine months of 2018 % Change in Net Sales due to			
	Net Price	Volume / Mix	Currency	**Total**	Net Price	Volume / Mix	Currency	**Total**
Pulp and Paper	-3%	-4%	-%	**-7%**	4%	-6%	-%	**-2%**
Personal Care	-%	-2%	-2%	**-4%**	-%	-2%	-3%	**-5%**
Consolidated sales	-2%	-3%	-1%	**-6%**	3%	-4%	-1%	**-2%**

ANALYSIS OF OPERATING INCOME (LOSS)

By Business Segment	Three months ended				Nine months ended			
			Variance				Variance	
	September 30, 2019 (a)	September 30, 2018	$	%	**September 30, 2019** (b)	September 30, 2018	$	%
Operating income (loss)								
Pulp and Paper	**$ 31**	$ 135	*(104)*	*-77%*	**$ 237**	$ 290	*(53)*	*-18%*
Personal Care	**2**	(3)	*5*	*167%*	**(24)**	7	*(31)*	*-443%*
Corporate	**(4)**	(18)	*14*	*78%*	**(35)**	(44)	*9*	*20%*
Consolidated operating income	**29**	114	(85)	*-75%*	**178**	253	*(75)*	*-30%*

(a) Includes closure and restructuring charges as well as accelerated depreciation under Impairment of long-lived assets, related to our announced margin improvement plan within our Personal Care segment, of $6 million and $1 million, respectively. Includes closure and restructuring charges as well as accelerated depreciation under Impairment of long-lived assets, related to our paper machine closures within our Pulp and Paper segment, of $5 million and $32 million, respectively.

(b) Includes closure and restructuring charges as well as accelerated depreciation and impairment of operating lease right-of-use assets under Impairment of long-lived assets, related to our announced margin improvement plan within our Personal Care segment, of $18 million and $26 million, respectively. Includes closure and restructuring charges as well as accelerated depreciation under Impairment of long-lived assets, related to our paper machine closures within our Pulp and Paper segment, of $5 million and $32 million, respectively.

Third quarter of 2019 versus Third quarter of 2018

By Business Segment

	$ Change in Segmented Operating Income (Loss) due to								
	Volume/Mix	Net Price	Input Costs (a)	Operating Expenses (b)	Currency	Depreciation/ Impairment (c)	Restructuring (d)	Other Income/ Expense (e)	**Total**
Pulp and Paper	(6)	(31)	(18)	(16)	2	(30)	(5)	—	**(104)**
Personal Care	2	—	8	1	—	—	(6)	—	**5**
Corporate	—	—	—	13	—	—	—	1	**14**
Consolidated operating income (loss)	(4)	(31)	(10)	(2)	2	(30)	(11)	1	**(85)**

(a) Includes raw materials (such as fiber, chemicals, nonwovens and super absorbent polymers) and energy costs.

(b) Includes maintenance, freight costs, selling, general and administrative ("SG&A") expenses and other costs.

(c) Depreciation charges were lower by $3 million in the third quarter of 2019, excluding foreign currency impact. In the third quarter of 2019, werecorded $32 million of accelerated depreciation under Impairment of long-lived assets related to our decision to permanently close two paper machines in our Pulp and Paper segment and $1 million of accelerated depreciation under Impairment of long-lived asset, related to our margin improvement plan in our Personal Care segment.

(d) We recorded $5 million of inventory obsolescence, $4 million of asset relocation and other costs and $2 million of severance and termination costs under Closure and restructuring costs in the third quarter of 2019 related to our announced margin improvement plan within the Personal Care segment as well as our decision to permanently close two paper machines in our Pulp and Paper segment. There were no restructuring charges in the third quarter of 2018.

(e)

Third quarter of 2019 other operating income/expense includes:
- Bad debt expense ($1 million)
- Environmental provision ($1 million)
- Foreign currency loss on working capital items ($1 million)

Third quarter of 2018 other operating income/expense includes:
- Environmental provision ($2 million)
- Foreign currency loss on working capital items ($2 million)

Commentary –Third quarter of 2019 compared to Third quarter of 2018

Interest Expense, net

We incurred $12 million of net interest expense in the third quarter of 2019, a decrease of $3 million compared to net interest expense of $15 million in the third quarter of 2018. The net interest expense was impacted by the repayment of the $300 million Term Loan in the fourth quarter of 2018.

Income Taxes

For the third quarter of 2019, our income tax benefit was $1 million, consisting of a current income tax benefit of $3 million and a deferred income tax expense of $2 million. This compares to an income tax expense of $3 million in the third quarter of 2018, consisting of a current income tax benefit of $5 million and a deferred income tax expense of $8 million. We made income tax payments, net of refunds, of $5 million during the third quarter of 2019. The effective tax rate was -5% compared with an effective tax rate of 3% in the third quarter of 2018. Our effective tax rate for the third quarter of 2019 was favorably impacted by additional R&D tax credits in the U.S. and Spain. Our effective tax rate for the third quarter of 2018 was favorably impacted by the income tax effects of the U.S. Tax Cuts and Jobs Act (the "U.S. Tax Reform"), including the benefit related to an additional pension contribution, as well as the recognition of previously unrecognized tax benefits due to the expiration of certain statutes of limitations. The effective tax rates for both the third quarter of 2019 and the third quarter of 2018 were favorably impacted by the finalization of certain estimates in connection with the filing of our 2018 and 2017 income tax returns, respectively.

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate and then making adjustments for discrete items arising in that quarter. In each interim quarter, we update our estimate of the annual effective tax rate and, if our estimated annual tax rate changes, we make a cumulative adjustment in that quarter. The effective tax rate for the third quarter of 2019 was favorably impacted by such an adjustment.

First nine months of 2019 versus First nine months of 2018

By Business Segment

	$ Change in Segmented Operating Income (Loss) due to								
	Volume/Mix	Net Price	Input Costs (a)	Operating Expenses (b)	Currency	Depreciation/ Impairment (c)	Restructuring (d)	Other Income/ Expense (e)	**Total**
Pulp and Paper	(32)	123	(54)	(61)	9	(24)	(5)	(9)	**(53)**
Personal Care	(3)	1	9	7	(5)	(21)	(18)	(1)	**(31)**
Corporate	—	—	—	6	—	—	—	3	**9**
Consolidated operating income (loss)	(35)	124	(45)	(48)	4	(45)	(23)	(7)	**(75)**

(a) Includes raw materials (such as fiber, chemicals, nonwovens and super absorbent polymers) and energy costs.
(b) Includes maintenance, freight costs, SG&A expenses and other costs.
(c) Depreciation charges were lower by $13 million in the first nine months of 2019, excluding foreign currency impact. In the first nine months of 2019, we recorded $32 million of accelerated depreciation under Impairment of long-lived assets related to our decision to permanently close two paper machines in our Pulp and Paper segment and $26 million of accelerated depreciation and impairment of operating lease right-of-use assets under Impairment of long-lived assets, related to our margin improvement plan in our Personal Care segment.
(d) We recorded $11 million of asset relocation and other costs, $6 million of severance and termination costs and $6 million of inventory obsolescence under Closure and restructuring costs in the first nine months of 2019 related to our announced margin improvement plan within the Personal Care segment as well as our decision to permanently close two paper machines in our Pulp and Paper segment. There were no restructuring charges in the first nine months of 2018.
(e)

First nine months of 2019 other operating income/ expense includes:
- Foreign exchange loss on working capital items ($3 million)
- Environmental provision ($2 million)
- Bad debt expense ($2 million)
- Other income ($3 million)

First nine months of 2018 other operating income/ expense includes:
- Gain on sale of property, plant and equipment ($4 million)
- Foreign exchange gain on working capital items ($1 million)
- Environmental provision ($2 million)
- Bad debt expense ($1 million)
- Other income ($1 million)

Commentary – First nine months of 2019 compared to first nine months of 2018

Interest Expense, net

We incurred $38 million of net interest expense in the first nine months of 2019, a decrease of $9 million compared to net interest expense of $47 million in the first nine months of 2018. The net interest expense was impacted by the repayment of the $300 million Term Loan in the fourth quarter of 2018.

Income Taxes

For the first nine months of 2019, our income tax expense was $28 million, consisting of a current income tax expense of $27 million and a deferred income tax expense of $1 million. This compares to an income tax expense of $22 million in the first nine months of 2018, consisting of a current income tax expense of $19 million and a deferred income tax expense of $3 million. We made income tax payments, net of refunds, of $55 million during the first nine months of 2019. The effective tax rate was 19% compared to an effective tax rate of 10% in the first nine months of 2018. Our effective tax rate for the first nine months of 2019 was favorably impacted by the recognition of additional R&D credits in the U.S. and Spain and by an enacted law change in the state of Arkansas, which were mostly offset by the recording of a valuation allowance against certain state tax credit carryforwards. Our effective tax rate for the first nine months of 2018 was favorably impacted by the income tax effects of the U.S. Tax Reform, including the benefit related to an additional pension contribution, the recognition of previously unrecognized tax benefits due to the expiration of certain statutes of limitations, as well as by enacted law changes in Sweden and several U.S. states. The effective tax rates for both the first nine months of 2019 and the first nine months of 2018 were favorably impacted by the finalization of certain estimates in connection with the filing of our 2018 and 2017 income tax returns, respectively.

During the second quarter of 2019, the IRS proposed additional GILTI regulations, which are still pending approval. While we are still evaluating the impact, we do not expect those proposed regulations to have a material impact on our consolidated financial statements.

Commentary – Segment Review

Pulp and Paper Segment

Sales in our Pulp and Paper segment decreased by $75 million, or 7%, when compared to sales in the third quarter of 2018. This decrease in sales is mostly due to a decrease in net average selling prices for pulp as well as a decrease in our paper sales volumes. This decrease was partially offset by an increase in net average selling prices for paper and increase in pulp sales volumes.

Operating income in our Pulp and Paper segment amounted to $31 million in the third quarter of 2019, a decrease of $104 million, when compared to operating income of $135 million in the third quarter of 2018. Our results were negatively impacted by:

- Lower net average selling prices for pulp partially offset by higher net average selling prices for paper ($31 million)
- Higher depreciation/impairment charges ($30 million) mostly due to our decision to permanently close two paper machines
- Higher input costs ($18 million) mostly related to higher costs of fiber due tounfavorable market conditions
- Higher operating expenses ($16 million) mostly due to higher maintenance and fixed costs due to timing of major maintenance and lower production, partially offset by lower freight costs when compared to the third quarter of 2018
- Lower volume/mix ($6 million)
- Higher restructuring charges ($5 million) due to our decision to permanently close two paper machines

These decreases were partially offset by:

- Positive impact of a weaker Canadian dollar on our Canadian denominated expenses, net of our hedging program ($2 million)

Sales in our Pulp and Paper segment decreased by $55 million, or 2%, when compared to sales in the first nine months of 2018. This decrease in sales is mostly due to decrease in our paper sales volumes as well as a decrease in net average selling prices for pulp. This decrease was partially offset by an increase in net average selling prices for paper.

Operating income in our Pulp and Paper segment amounted to $237 million in the first nine months of 2019, a decrease of $53 million, when compared to operating income of $290 million in the first nine months of 2018. Our results were negatively impacted by:

- Higher operating expenses ($61 million) mostly related to higher maintenance and fixed costs due to timing of major maintenance and lower production when compared to the first nine months of 2018
- Higher input costs ($54 million) mostly related to higher costs of fiber due, in part, to wet weather in the first nine months of 2019 as well as unfavorable market conditions, partially offset by lower chemicals and energy costs
- Lower volume/mix ($32 million)
- Higher depreciation/impairment charges ($24 million) due to our decision to permanently close two paper machines, partially offset by certain assets being fully depreciated
- Higher other expense ($9 million)
- Higher restructuring charges ($5 million)

These decreases were partially offset by:

- Higher net average selling prices for paper, partially offset by lower net average selling prices for pulp ($123 million)
- Positive impact of a weaker Canadian dollar on our Canadian denominated expenses, net of our hedging program ($9 million)

The markets in which our pulp and paper business operate are highly competitive with well-established domestic and foreign manufacturers. Most of our products are commodities that are widely available from other producers as well. Because commodity products have few distinguishing qualities from producer to producer, competition for these products is based primarily on price, which is determined by supply relative to demand. We also compete on the basis of product quality, breadth of offering and service solutions. Further, we compete against electronic transmission and document storage alternatives. As a result of such competition, we are experiencing ongoing decreasing demand for most of our existing paper products.

The pulp market is highly fragmented with many manufacturers competing worldwide. Competition is primarily on the basis of access to low-cost wood fiber, product quality and competitively priced pulp products.

For the fourth quarter, maintenance is expected to be higher while paper is expected to be negatively impacted in part by a seasonally unfavorable mix. We anticipate some volatility in softwood and fluff pulp markets.

Paper machine closures

On September 27, 2019, our Board of Directors approved the decision to permanently shut down two paper machines, which was announced on October 3, 2019. The closures will take place at our Ashdown, Arkansas pulp and paper mill and our Port Huron, Michigan paper mill. These measures will reduce our annual uncoated freesheet paper capacity by approximately 204,000 short tons, and will result in a workforce reduction of approximately 100 employees.

Our Ashdown mill will continue to operate one paper machine with an annual uncoated freesheet paper production capacity of 200,000 short tons. Additionally, the mill operates a fluff pulp machine with the flexibility to produce softwood pulp depending on market conditions. As a result of the closure of the paper machine, the mill will produce an incremental 70,000 ADMT of softwood and fluff pulp, which will ramp up over the next 12 months.

The closure of our Port Huron paper machine will take effect by mid-November. The Port Huron mill will continue to produce a variety of technical and specialty papers for a broad range of customers utilizing three machines with a total annual production capacity of 95,000 short tons.

During the third quarter of 2019, we recorded $32 million of accelerated depreciation under Impairment of long-lived assets on the Consolidated Statement of Earnings and Comprehensive Income (Loss). Additionally, we recorded $1 million of severance and termination costs and $4 million of inventory obsolescence, under Closure and restructuring costs.

Personal Care Segment

Sales in our Personal Care segment decreased by $10 million, or 4%, when compared to sales in the third quarter of 2018. Thisdecrease was mainly driven by lower volume and unfavorable foreign exchange, partially offset by favorable mix when compared to the third quarter of 2018.

Operating income increased by $5 million, in the third quarter of 2019 compared to the third quarter of 2018.Our results were positively impacted by:

- Favorable input costs ($8 million) mostly due to lower raw material pricing
- Favorable mix partially offset by lower sales volume ($2 million)
- Lower operating expenses ($1 million)

These increases were partially offset by:

- Higher closure and restructuring charges ($6 million) related to our margin improvement plan

Sales in our Personal Care segment decreased by $35 million, or 5%, when compared to sales in the first nine months of 2018.This decrease in sales was driven by lower volume as well as unfavorable foreign exchange, mostly due to the fluctuation between the U.S. dollar and the Euro, partially offset by favorable mix.

Operating income decreased by $31 million, in the first nine months of 2019 when compared to the first nine months of 2018. Our results were negatively impacted by:

- Higher depreciation/impairment charge ($21 million) mostly due to the non-cash impairment of long-lived assets charge of $26 million recorded in the first nine months of 2019, related to our margin improvement plan
- Higher closure and restructuring charges ($18 million) related to our margin improvement plan
- Lower sales volume partially offset by favorable mix ($3 million)
- Unfavorable foreign exchange ($5 million) mostly between the Euro and the U.S. dollar, net of our hedging program
- Higher other expense ($1 million)

These decreases were partially offset by:

- Favorable input costs ($9 million) mostly due to lower raw material pricing as well as insourcing initiatives
- Lower operating expenses ($7 million) mostly due to lower SG&A expenses
- Higher net average selling prices ($1 million)

In our absorbent hygiene products business, we compete in an industry with fundamental drivers for long-term growth; however, competitive market pressures in the healthcare and retail markets have grown significantly in recent years. Although the impact of such pressures presents some uncertainties, we expect them to result in lower than previously anticipated sales and operating margins.

While we expect to benefit from the overall increase in healthcare spending due to an aging population, the pressures to limit spending on healthcare may impact overall consumption or the channels in which consumption occurs. Additionally, excess industry capacity has increased pricing pressure in all markets and instigated a shift in the infant and adult private label retail space as competitors historically almost absent in our markets have increased their presence in such markets.

The principal methods and elements of competition remain brand recognition and loyalty, product innovation, quality and performance, price and marketing and distribution capabilities.

For the fourth quarter, Personal Care is expected to benefit from our margin improvement plan and increased sales driven by a stronger order book.

Margin Improvement Plan
On November 1, 2018, we announced a margin improvement plan within our Personal Care segment. As part of this plan, our Board of Directors approved the permanent closure of our Waco, Texas Personal Care manufacturing and distribution facility, the relocation of certain of our manufacturing assets and a workforce reduction across the division. The Waco, Texas facility ceased operations during the second quarter of 2019.

For the three and nine months ended September 30, 2019, we recorded $1 million of accelerated depreciation and $26 million of accelerated depreciation and impairment of operating lease right-of-use, respectively, under Impairment of long-lived assets on the Consolidated Statement of Earnings and Comprehensive Income (Loss). For the three and nine months ended September 30, 2019, we also recorded $1 million and $5 million, respectively, of severance and termination costs; $1 million and $2 million, respectively, of inventory obsolescence; and $4 million and $11 million, respectively, of asset relocation and other costs, under Closure and restructuring costs.

STOCK-BASED COMPENSATION EXPENSE

For the first nine months of 2019, stock-based compensation expense recognized in our results ofoperations was $17 million for all outstanding awards which includes the mark-to-market expense related to liability awards of $4 million. This compares to a stock-based compensation expense of $19 million for all outstanding awards which includes the mark-to-market expense related to liability awards of $7 million in the first nine months of 2018. Compensation costs for performance awards are based on management’s best estimate of the final performance measurement.

LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements are for ongoing operating costs, pension contributions, working capital and capital expenditures, as well as principal and interest payments on our debt and income tax payments. We expect to fund our liquidity needs primarily with internally generated funds from our operations and, to the extent necessary, through borrowings under our contractually committed $700 million credit facility, of which $655 million is currently undrawn and available, or through our $150 million receivables securitization facility, of which $2 million is currently undrawn and available. Under adverse market conditions, there can be no assurance that these agreements would be available or sufficient. See “Capital Resources” below.

Our ability to make payments on the requirements mentioned above will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our credit and receivable securitization facilities and debt indentures impose various restrictions and covenants on us that could limit our ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities.

Operating Activities

Our operating cash flow requirements are primarily for salaries and benefits, the purchase of raw materials, including fiber and energy, and other expenses such as income tax and property taxes.

Cash flows from operating activities totaled $282 million in the first nine months of 2019, a $55 million decrease compared to cash flows fromoperating activities of $337 million in the first nine months of 2018. This decrease in cash flows from operating activities is primarily due to a decrease in profitability as well as an increase in working capital requirements. We made income tax payments, net of refunds, of $55 million in the first nine months of 2019 compared to income tax payments, net of refunds, of $40 million during the first nine months of 2018. We paid $3 million of employer pension and other post-retirement contribution in excess of pension and other post-retirement expense in the first nine months of 2019 compared to $46 million in the first nine months of 2018.

Investing Activities

Cash flows used for investing activities in the first nine months of 2019 amounted to $156 million, a $43 million increase compared to cash flows used for investing activities of $113 million in the first nine months of 2018.

The use of cash in the first nine months of 2019 was attributable to additions to property, plant and equipment of $157 million. This use of cash was partially offset by proceeds from disposals of property, plant and equipment of $1 million.

The use of cash in the first nine months of 2018 was attributable to additions to property, plant and equipment of $111 million. Also, in the first nine months of 2018, we made an additional investment of $4 million in our joint venture CelluForce (a company that develops and manufactures nanocrystalline cellulose, a recyclable and renewable nanomaterial) and a $2 million investment in Prisma Renewable Composites, LLC (a company focused on developing advanced materials from lignin and other natural resources). These uses of cash were partially offset by proceeds of disposals of property, plant and equipment of $4 million.

Our capital expenditures for 2019 are expected to be between $210 million and $230 million.

Financing Activities

Cash flows used for financing activities totaled $137 million in the first nine months of 2019 compared to cash flows used for financing activities of $105 million in the first nine months of 2018.

The use of cash in the first nine months of 2019 was primarily the result ofthe repurchase of our common stock ($139 million) and dividend payments ($83 million). This was partially offset by the net increase of borrowings under our credit facilities (revolver and receivable securitization) ($85 million).

The use of cash in the first nine months of 2018 was primarily the result of dividend payments ($81 million) and the net repayments of borrowings under our receivable securitization ($25 million).

Capital Resources

Net indebtedness, consisting of bank indebtedness and long-term debt, net of cash and cash equivalents, was $842 million as of September 30, 2019 compared to $743 million as of December 31, 2018.

Revolving Credit Facility

In August 2018, we amended and restated our unsecured revolving credit facility (the “Credit Agreement”) with certain domestic and foreign banks, extending the Credit Agreement’s maturity date from August 18, 2021 to August 22, 2023. The amount available under the Credit Agreement remained at $700 million.

Borrowings by the Company under the Credit Agreement are guaranteed by our significant domestic subsidiaries. Borrowings by foreign borrowers under the Credit Agreement are guaranteed by the Company, our significant domestic subsidiaries and certain of our foreign significant subsidiaries.

Borrowings under the Credit Agreement bear interest at the LIBOR, EURIBOR, Canadian bankers’ acceptance or prime rate, as applicable, plus a margin linked to our credit rating. In addition, we pay facility fees quarterly at rates dependent on our credit ratings.

The Credit Agreement contains customary covenants and events of default for transactions of this type, including two financial covenants: (i) an interest coverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not less than 3 to 1 and (ii) a leverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not greater than 3.75 to 1 (or 4.00 to 1 upon the occurrence of certain qualifying material acquisitions). At September 30, 2019, we were in compliance with these financial covenants, and borrowings under the Credit Agreement amount to $45 million (September 30, 2018 – nil). At September 30, 2019, we had no outstanding letters of credit, leaving $655 million unused and available under this facility (September 30, 2018 – $700 million).

Receivables Securitization

We have a $150 million receivables securitization facility that matures in November 2021.

At September 30, 2019, borrowings under the receivables securitization facility amounted to $90 million, and we had $50 million of letters of credit under the program (September 30, 2018 – nil and $52 million, respectively). The program contains certain termination events, which include, but are not limited to, matters related to receivable performance, certain defaults occurring under the Credit Agreement or our failure to repay or satisfy material obligations. At September 30, 2019, we had $2 million unused and available under the receivable securitization facility.

Term Loan

In the fourth quarter of 2018, we repaid the $300 million unsecured Term Loan that had been entered into in 2015 by a wholly-owned subsidiary of Domtar with certain domestic banks.

Common Stock

On February 19, 2019, May 8, 2019 and August 6, 2019, our Board of Directors approved a quarterly dividend of $0.435, $0.455 and $0.455 per share, respectively, to be paid to holders of our common stock. Dividends aggregating $28 million were paid on each of April 15, 2019 and July 16, 2019, and dividends aggregating $27 million were paid on October 15, 2019, to shareholders of record on April 2, 2019, July 2, 2019, and October 2, 2019, respectively.

On November 5, 2019, our Board of Directors approved a quarterly dividendof $0.455 per share to be paid to holders of our common stock. This dividend is to be paid on January 15, 2020, to shareholders of record on January 2, 2020.

GUARANTEES

Indemnifications

In the normal course of business, we offer indemnifications relating to the sale of our businesses and real estate. In general, these indemnifications may relate to claims from past business operations, the failure to abide by covenants and the breach of representations and warranties included in sales agreements. Typically, such representations and warranties relate to taxation, environmental, product and employee matters. The terms of these indemnification agreements are generally for an unlimited period of time. At September 30, 2019, we were unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provision has been recorded. These indemnifications have not yielded significant expenses in the past.

Pension Plans

We have indemnified and held harmless the trustees of our pension funds, and the respective officers, directors, employees and agents of such trustees, from any and all costs and expenses arising out of the performance of their obligations under the relevant trust agreements, including in respect of their reliance on authorized instructions from us or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements. At September 30, 2019, we have not recorded a liability associated with these indemnifications, as we do not expect to make any payments pertaining to these indemnifications.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note 2 “Recent Accounting Pronouncements,” of the financial statements in this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions and choices amongst acceptable accounting methods that affect our reported results of operations and financial position. Critical accounting estimates pertain to matters that contain a significant level of management estimates about future events, encompass the most complex and subjective judgments and are subject to a fair degree of measurement uncertainty. On an ongoing basis, management reviews its estimates, including those related to environmental matters and asset retirement obligations, impairment and useful lives of long-lived assets, closure and restructuring costs, intangible assets impairment, pension and other post-retirement benefit plans, income taxes, and contingencies related to legal claims. These critical accounting estimates and policies have been reviewed with the Audit Committee of our Board of Directors. We believe these accounting policies, and others, should be reviewed as they are essential to understanding our results of operations, cash flows and financial condition. Actual results could differ from those estimates.

For more details on critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2018.

There has not been any material change to our policies since December 31, 2018 except for the adoption of ASU 2016-02, "*Leases*" on January 1, 2019. For more details, refer to Note 2 "Recent Accounting Pronouncements" of the financial statements in this Quarterly Report on Form 10-Q.

FORWARD-LOOKING STATEMENTS

The information included in this Quarterly Report on Form 10-Q, contains forward-looking statements relating to trends in, or representing management's beliefs about, Domtar Corporation's future growth, results of operations, performance, liquidity and business prospects and opportunities. These forward-looking statements are generally denoted by the use of words such as "anticipate", "believe", "expect", "intend", "aim", "target", "plan", "continue", "estimate", "project", "may", "will", "should" and similar expressions. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to known and unknown risks and uncertainties and other factors that could cause actual results to differ materially from historical results or those anticipated. Accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will occur, or if any occurs, what effect they will have on Domtar Corporation's results of operations or financial condition. These factors include, but are not limited to:

- continued decline in usage of fine paper products in our core North American market;
- our ability to implement our business diversification initiatives, including repurposing of assets and strategic acquisitions;
- product selling prices;
- raw material prices, including wood fiber, chemical and energy;
- conditions in the global capital and credit markets, and the economy generally, particularly in the U.S., Canada and Europe;
- performance of Domtar Corporation's manufacturing operations, including unexpected maintenance requirements;
- the level of competition from domestic and foreign producers;
- cyberattack or other security breaches;
- the effect of, or change in, forestry, land use, environmental and other governmental regulations and accounting regulations;
- the effect of weather and the risk of loss from fires, floods, windstorms, hurricanes and other natural disasters;
- transportation costs;
- the loss of current customers or the inability to obtain new customers;
- legal proceedings;
- changes in asset valuations, including impairment of property, plant and equipment, inventory, accounts receivable or other assets for impairment or other reasons;
- changes in currency exchange rates, particularly the relative value of the U.S. dollar to the Canadian dollar and European currencies;

- the effect of timing of retirements and changes in the market price of Domtar Corporation's common stock on charges for stock-based compensation;
- performance of pension fund investments and related derivatives, if any; and
- the other factors described under "Risk Factors", in item 1A of our Annual Report on Form 10-K, for the year ended December 31, 2018.

You are cautioned not to unduly rely on such forward-looking statements, which speak only as of the date made, when evaluating the information presented in this Quarterly Report on Form 10-Q. Unless specifically required by law, Domtar Corporation disclaims any obligation to update or revise these forward-looking statements to reflect new events or circumstances.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Information relating to quantitative and qualitative disclosure about market risk is contained in our Annual Report on Form 10-K for the year ended December 31, 2018. There has not been any material change in our exposure to market risk since December 31, 2018. A full discussion on Quantitative and Qualitative Disclosure about Market Risk, is found in Note 3 "Derivatives and Hedging Activities and Fair Value Measurement," of the financial statements in this Quarterly Report on Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports under the Securities and Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of September 30, 2019, an evaluation was performed by members of management, at the direction and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2019, our disclosure controls and procedures were effective.

Change in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the period covered by this report.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 14 "Commitments and Contingencies" of the financial statements in this Quarterly Report on Form 10-Q for the discussion regarding legal proceedings.

For a description of previously reported legal proceedings refer to Part I, Item 3, "Legal Proceedings," of our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the year ended December 31, 2018, contains important risk factors that could cause our actual results to differ materially from those projected in any forward-looking statement. There were no material changes to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share repurchase activity under our share repurchase program was as follows during the three-month period ended September 30, 2019:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs (in 000s)
July 1 through July 31, 2019	322,813	$ 41.61	322,813	$ 300,925
August 1 through August 31, 2019	1,918,000	$ 34.39	1,918,000	$ 234,971
September 1 through September 30, 2019	1,641,503	$ 34.73	1,641,503	$ 177,968
	3,882,316	$ 35.13	3,882,316	

During the third quarter, we repurchased 3,882,316 shares at an average price of $35.13 per share, for a total cost of approximately $137 million under our stock repurchase program (the “Program”). As of September 30, 2019, we had approximately $178 million of remaining availability under our Program. On November 5, 2019, our Board of Directors approved an increase to the Program from $1.3 billion to $1.6 billion. The Program may be suspended, modified or discontinued at any time and we have no obligation to repurchase any amount of our common stock under the Program. The Program has no set expiration date. We repurchase our common stock, from time to time, in part to reduce the dilutive effects of our stock options and awards and to improve shareholders’ returns. The timing and amount of stock repurchases will depend on a variety of factors, including market conditions, availability under the program as well as corporate and regulatory considerations. All shares repurchased are recorded as Treasury stock on the Consolidated Balance Sheets under the par value method at $0.01 per share. During October 2019, we repurchased 1,751,643 shares at an average price of $34.27 per share, for a total cost of approximately $60 million.

During 2018, there were no shares repurchased under the Program. As of December 31, 2018, the approximate dollar value of shares that may yet be purchased under the Program was $323 million.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by reference to: Form	Exhibit	Filing Date
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.			
101.SCH	Inline XBRL Taxonomy Extension Schema			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase			
101.PRE	Inline XBRL Extension Presentation Linkbase			
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)			

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

DOMTAR CORPORATION

Date: November 7, 2019

By: /s/ Daniel Buron
Daniel Buron
Senior Vice-President and Chief Financial Officer

By: /s/ Razvan L. Theodoru
Razvan L. Theodoru
Vice-President, Corporate Law and Secretary

Exhibit 31.1

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John D. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Domtar Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ John D. Williams
John D. Williams
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Daniel Buron, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Domtar Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Daniel Buron
Daniel Buron
Senior Vice-President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies that to his knowledge, the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2019 (the "Form 10-Q") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2019

/s/ John D. Williams

John D. Williams
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies that to his knowledge, the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2019 (the "Form 10-Q") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2019

/s/ Daniel Buron
Daniel Buron
Senior Vice-President and Chief Financial Officer