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, 2020

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, 2020, 55,194,538 shares of the issuer’s common stock were outstanding.

DOMTAR CORPORATION
FORM 10-Q
For the Quarterly Period Ended September 30, 2020
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PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS (UNAUDITED)

DOMTAR CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	For the three months ended		*For the nine months ended*	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
		(Unaudited)		
	$	$	**$**	$
Sales	**1,124**	1,283	**3,414**	3,976
Operating expenses				
Cost of sales, excluding depreciation and amortization	**911**	1,041	**2,831**	3,172
Depreciation and amortization	**71**	72	**214**	219
Selling, general and administrative	**99**	94	**294**	322
Impairment of long-lived assets (NOTE 12)	**111**	33	**111**	58
Closure and restructuring costs (NOTE 12)	**68**	11	**69**	23
Other operating loss (income), net (NOTE 7)	**—**	3	**(2)**	4
	1,260	1,254	**3,517**	3,798
Operating (loss) income	**(136)**	29	**(103)**	178
Interest expense, net	**14**	12	**43**	38
Non-service components of net periodic benefit cost (NOTE 6)	**(4)**	(2)	**(13)**	(7)
(Loss) earnings before income taxes and equity loss	**(146)**	19	**(133)**	147
Income tax (benefit) expense (NOTE 8)	**(55)**	(1)	**(67)**	28
Equity loss, net of taxes	**1**	—	**2**	1
Net (loss) earnings	**(92)**	20	**(68)**	118
Per common share (in dollars) (NOTE 5)				
Net (loss) earnings				
Basic	**(1.67)**	0.33	**(1.23)**	1.89
Diluted	**(1.67)**	0.32	**(1.23)**	1.88
Weighted average number of common shares outstanding (millions)				
Basic	**55.2**	61.5	**55.5**	62.5
Diluted	**55.2**	61.7	**55.5**	62.7
Cash dividends per common share	**—**	0.46	**0.91**	1.33
Net (loss) earnings	**(92)**	20	**(68)**	118
Other comprehensive income (loss) (NOTE 14):				
Net derivative gains (losses) on cash flow hedges:				
Net gains (losses) arising during the period, net of tax of $(7) and nil, respectively (2019 – $4 and $(1), respectively)	**20**	(9)	**—**	5
Less: Reclassification adjustment for losses included in net earnings (loss), net of tax of $(1) and $(5), respectively (2019 – $(1) and $(2), respectively)	**1**	3	**14**	5
Foreign currency translation adjustments	**40**	(34)	**5**	(12)
Change in unrecognized (losses) gains and prior service cost (losses) related to pension and post-retirement benefit plans, net of tax of $12 and $11, respectively (2019 – $(1) and $(3), respectively)	**(38)**	2	**(35)**	7
Other comprehensive income (loss)	**23**	(38)	**(16)**	5
Comprehensive (loss) income	**(69)**	(18)	**(84)**	123

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, 2020	December 31, 2019
	(Unaudited)	
	$	$
Assets		
Current assets		
Cash and cash equivalents	**218**	61
Receivables, less allowances of $11 and $6	**543**	577
Inventories (NOTE 9)	**764**	786
Prepaid expenses	**36**	33
Income and other taxes receivable	**44**	61
Total current assets	**1,605**	1,518
Property, plant and equipment, net	**2,378**	2,567
Operating lease right-of-use assets (NOTE 10)	**72**	81
Intangible assets, net (NOTE 11)	**573**	573
Other assets	**163**	164
Total assets	**4,791**	4,903
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	**—**	9
Trade and other payables	**626**	705
Income and other taxes payable	**37**	23
Operating lease liabilities due within one year (NOTE 10)	**27**	28
Long-term debt due within one year	**13**	1
Total current liabilities	**703**	766
Long-term debt	**1,086**	938
Operating lease liabilities (NOTE 10)	**58**	69
Deferred income taxes and other	**413**	479
Other liabilities and deferred credits	**320**	275
Commitments and contingencies (NOTE 16)		
Shareholders' equity (NOTE 15)		
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; 9,808,481 and 8,120,194 shares	**—**	—
Additional paid-in capital	**1,714**	1,770
Retained earnings	**905**	998
Accumulated other comprehensive loss	**(409)**	(393)
Total shareholders' equity	**2,211**	2,376
Total liabilities and shareholders' equity	**4,791**	4,903

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, 2020**					
	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, 2020	**55.2**	**1**	**1,711**	**997**	**(432)**	**2,277**
Stock-based compensation, net of tax	**—**	**—**	**3**	**—**	**—**	**3**
Net loss	**—**	**—**	**—**	**(92)**	**—**	**(92)**
Net derivative gains on cash flow hedges:						
Net gains arising during the period, net of tax of $(7)	**—**	**—**	**—**	**—**	**20**	**20**
Less: Reclassification adjustment for losses included in net loss, net of tax of $(1)	**—**	**—**	**—**	**—**	**1**	**1**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**40**	**40**
Change in unrecognized losses and prior service cost related to pension and post-retirement benefit plans, net of tax of $12	**—**	**—**	**—**	**—**	**(38)**	**(38)**
Balance at September 30, 2020	**55.2**	**1**	**1,714**	**905**	**(409)**	**2,211**

	For the nine months ended **September 30, 2020**					
	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, 2019	**56.9**	**1**	**1,770**	**998**	**(393)**	**2,376**
Stock-based compensation, net of tax	**0.1**	**—**	**3**	**—**	**—**	**3**
Net loss	**—**	**—**	**—**	**(68)**	**—**	**(68)**
Net derivative gains on cash flow hedges:						
Net losses arising during the period, net of tax of nil	**—**	**—**	**—**	**—**	**—**	**—**
Less: Reclassification adjustment for losses included in net loss, net of tax of $(5)	**—**	**—**	**—**	**—**	**14**	**14**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**5**	**5**
Change in unrecognized losses and prior service cost related to pension and post-retirement benefit plans, net of tax of $11	**—**	**—**	**—**	**—**	**(35)**	**(35)**
Stock repurchase	**(1.8)**	**—**	**(59)**	**—**	**—**	**(59)**
Cash dividends declared	**—**	**—**	**—**	**(25)**	**—**	**(25)**
Balance at September 30, 2020	**55.2**	**1**	**1,714**	**905**	**(409)**	**2,211**

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 CASH FLOWS
(IN MILLIONS OF DOLLARS)

	For the nine months ended	
	September 30, 2020	September 30, 2019
	(Unaudited)	
	$	$
Operating activities		
Net (loss) earnings	**(68)**	118
Adjustments to reconcile net (loss) earnings to cash flows from operating activities		
Depreciation and amortization	**214**	219
Deferred income taxes and tax uncertainties	**(60)**	1
Impairment of long-lived assets	**111**	58
Stock-based compensation expense	**5**	7
Equity loss, net	**2**	1
Changes in assets and liabilities, excluding the effect of acquisition of business		
Receivables	**38**	50
Inventories	**30**	(34)
Prepaid expenses	**9**	(4)
Trade and other payables	**(21)**	(111)
Income and other taxes	**34**	(27)
Difference between employer pension and other post-retirement contributions and pension and other post-retirement expense	**(6)**	(3)
Other assets and other liabilities	**(12)**	7
Cash flows from operating activities	**276**	282
Investing activities		
Additions to property, plant and equipment	**(130)**	(157)
Proceeds from disposals of property, plant and equipment	**—**	1
Acquisition of business, net of cash acquired	**(30)**	—
Cash flows used for investing activities	**(160)**	(156)
Financing activities		
Dividend payments	**(51)**	(83)
Stock repurchase	**(59)**	(139)
Net change in bank indebtedness	**(10)**	2
Change in revolving credit facility	**(80)**	45
Proceeds from receivables securitization facility	**25**	150
Repayments of receivables securitization facility	**(80)**	(110)
Issuance of long-term debt	**300**	—
Repayments of long-term debt	**(3)**	(1)
Other	**(3)**	(1)
Cash flows provided from (used for) financing activities	**39**	(137)
Net increase (decrease) in cash and cash equivalents	**155**	(11)
Impact of foreign exchange on cash	**2**	(2)
Cash and cash equivalents at beginning of period	**61**	111
Cash and cash equivalents at end of period	**218**	98
Supplemental cash flow information		
Net cash payments (refund) for:		
Interest	**44**	39
Income taxes	**(25)**	55

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

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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. It is suggested that these consolidated financial statements 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, 2019, as filed with the Securities and Exchange Commission. The December 31, 2019 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.

NOTE 2.

RECENT ACCOUNTING PRONOUNCEMENTS

ACCOUNTING CHANGES IMPLEMENTED

IMPLEMENTATION COSTS FOR CLOUD COMPUTING ARRANGEMENTS

In August 2018, the FASB issued Accounting Standards Update ("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 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 guidance on presentation and disclosure.

The Company adopted the new guidance on January 1, 2020 with no significant impact on the consolidated financial statements.

RECEIVABLES

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments - Credit Losses*". This ASU added a new impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes an allowance for its estimate of expected credit losses and applies to most debt instruments, trade receivables, lease receivables, financial guarantee contracts, and other loan commitments. The CECL model does not have a minimum threshold for recognition of impairment losses and entities will need to measure expected credit losses on assets that have a low risk of loss.

The Company adopted the new guidance on January 1, 2020 with no significant impact on the consolidated financial statements.

INCOME TAXES

In December 2019, the FASB issued ASU 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*". The ASU simplifies the accounting for income taxes by eliminating certain exceptions in ASC 740 related to the methodology for calculating income taxes in an interim period. It also clarifies and simplifies other aspects of the accounting for income taxes, improving the consistent application and simplification of U.S. GAAP. For public companies, the amendments in this ASU are effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years, with early adoption permitted. The Company elected to early adopt this standard for its interim period ending September 30, 2020, using the methods directed by the standard. The most significant impact to the Company is the removal of a limit on the tax benefit recognized on pre-tax losses in interim periods, which allowed the Company to recognize a higher tax benefit this quarter than previously allowable. The adoption of this ASU will not change the total income tax benefit the Company is expected to recognize for the full year ending December 31, 2020.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

FUTURE ACCOUNTING CHANGES

TRANSITION AWAY FROM INTERBANK OFFERED RATES

On March 12, 2020, the FASB issued ASU 2020-04, "*Facilitation of the Effects of Reference Rate Reform on Financial Reporting*". The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued.

The amendments in the ASU are elective and apply to entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. An entity may elect to apply the amendments prospectively through December 31, 2022.

The Company has begun its impact assessment and while its evaluation of this guidance is in the early stages, the Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

NOTE 3.

ACQUISITION OF BUSINESS

Purchase of Appvion Point of Sale business

On April 27, 2020, Domtar Corporation completed the acquisition of the Point of Sale paper business from Appvion Operation Inc. The business includes the coater and related equipment located at Appvion's West Carrollton, Ohio, facility as well as a license for all corresponding intellectual property and assumed liabilities related to post-retirement benefits. The results of this business have been included in the consolidated financial statements as of April 27, 2020 and are presented in the Pulp and Paper reportable segment. The purchase price was $20 million in cash plus the book value of raw materials and finished goods inventory, subject to post-closing adjustments. The acquisition was accounted for as a business combination under the acquisition method of accounting. The total purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on the Company's estimates of their fair value, which are based on information currently available.

The table below illustrates the purchase price allocation:

Fair value of net assets acquired at the date of acquisition		
Inventories	$	11
Property, plant and equipment		23
Operating lease right-of-use assets		2
Total assets		36
Less: Assumed Liabilities		6
Fair value of net assets acquired at the date of acquisition		30

NOTE 4.

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, interest rates and prices of the Company's common stock with regard to the Company's stock-based compensation program. 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 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, 2020, two Pulp and Paper segment customers located in the U.S. represented 11% or $62 million, and 10% or $55 million, respectively, of the Company's receivables (December 31, 2019 – two Pulp and Paper segment customers located in the U.S. represented 11% or $66 million, and 11% or $65 million, respectively).

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.

EQUITY RISK

The Company is exposed to changes in share prices with regard to its stock-based compensation program. The Company manages its exposure through the use of derivative instruments such as equity swap contracts. In March 2020, the Company entered into a total return swap agreement covering 500,000 common shares maturing on March 4, 2022.

NOTE 4. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

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 39 months.

The following table presents the volumes under derivative financial instruments for natural gas contracts outstanding as of September 30, 2020 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			
2020 (1)	2,384,843	$7	35%
2021	9,270,000	$27	39%
2022	9,270,000	$25	37%
2023	4,210,000	$12	16%

(1) Represents the remaining three months of 2020
(2) MMBtu: Millions of British thermal units

The natural gas derivative contracts were effective as of September 30, 2020.

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.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 4. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

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, 2020 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	2020 (1)	226 CAD	95%	1 USD = 1.3259	1 USD = 1.3426
CAD/USD	Pulp and Paper	2021	721 CAD	76%	1 USD = 1.3412	1 USD = 1.3558
CAD/USD	Pulp and Paper	2022	304 CAD	32%	1 USD = 1.3606	1 USD = 1.3606

(1) Represents the remaining three months of 2020

The foreign exchange derivative contracts were effective as of September 30, 2020.

FAIR VALUE MEASUREMENT

The accounting standards for fair value measurements and disclosures establish 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.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 4. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

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, 2020 and December 31, 2019, 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, 2020	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	**10**	—	10	—	(a)	Prepaid expenses
Natural gas swap contracts	**1**	—	1	—	(a)	Prepaid expenses
Currency derivatives	**6**	—	6	—	(a)	Other assets
Natural gas swap contracts	**1**	—	1	—	(a)	Other assets
Total Assets	**18**	—	18	—		
Liabilities derivatives						
Currency derivatives	**5**	—	5	—	(a)	Trade and other payables
Natural gas swap contracts	**2**	—	2	—	(a)	Trade and other payables
Currency derivatives	**1**	—	1	—	(a)	Other liabilities and deferred credits
Natural gas swap contracts	**2**	—	2	—	(a)	Other liabilities and deferred credits
Total Liabilities	**10**	—	10	—		
Other instruments:						
Stock-based compensation - liability awards	**5**	5	—	—		Trade and other payables
Stock-based compensation - liability awards	**13**	13	—	—		Other liabilities and deferred credits
Equity swap contracts	**1**	1	—	—		Other liabilities and deferred credits
Long-term debt	**1,192**	—	1,192	—	(b)	Long-term debt

The net cumulative loss recorded in Accumulated other comprehensive loss relating to natural gas contracts is $2 million at September 30, 2020, of which a loss of $1 million is expected to 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, 2020.

The net cumulative gain recorded in Accumulated other comprehensive loss relating to currency options and forwards hedging forecasted purchases is $10 million at September 30, 2020, of which a gain of $5 million is expected to 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, 2020.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 4. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

Fair Value of financial instruments at:	December 31, 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	**4**	—	4	—	(a)	Prepaid expenses
Currency derivatives	**4**	—	4	—	(a)	Other assets
Total Assets	**8**	—	8	—		
Liabilities derivatives						
Currency derivatives	**2**	—	2	—	(a)	Trade and other payables
Natural gas swap contracts	**9**	—	9	—	(a)	Trade and other payables
Natural gas swap contracts	**8**	—	8	—	(a)	Other liabilities and deferred credits
Total Liabilities	**19**	—	19	—		
Other Instruments:						
Stock-based compensation - liability awards	**7**	7	—	—		Trade and other payables
Stock-based compensation - liability awards	**18**	18	—	—		Other liabilities and deferred credits
Long-term debt	**1,030**	—	1,030	—	(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: Foreign currency forward and option contracts are valued using standard valuation models. 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, 2020 and December 31, 2019. The carrying value of the Company’s long-term debt is $1,099 million and $939 million at September 30, 2020 and December 31, 2019, 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 5.

EARNINGS (LOSS) PER COMMON SHARE

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

	For the three months ended		*For the nine months ended*	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Net (loss) earnings	**$ (92)**	$ 20	**$ (68)**	$ 118
Weighted average number of common shares outstanding (millions)	**55.2**	61.5	**55.5**	62.5
Effect of dilutive securities (millions)	**—**	0.2	**—**	0.2
Weighted average number of diluted common shares outstanding (millions)	**55.2**	61.7	**55.5**	62.7
Basic net (loss) earnings per common share (in dollars)	**$ (1.67)**	$ 0.33	**$ (1.23)**	$ 1.89
Diluted net (loss) earnings per common share (in dollars)	**$ (1.67)**	$ 0.32	**$ (1.23)**	$ 1.88

The following table provides the securities that could potentially dilute basic (loss) earnings per common share in the future, but were not included in the computation of diluted (loss) 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, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
Options to purchase common shares	**407,662**	398,869	**407,662**	325,757

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 6.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

DEFINED CONTRIBUTION PLANS

The Company has several defined contribution plans, including multiemployer plans. The pension expense under these plans is equal to the Company's contribution. For the three and nine months ended September 30, 2020, the pension expense was $11 million and $32 million, respectively (2019 – $10 million and $33 million, respectively).

DEFINED BENEFIT PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

The Company sponsors both contributory and non-contributory 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, 2020**		*For the nine months ended* **September 30, 2020**	
	Pension plans	**Other post-retirement benefit plans**	**Pension plans**	**Other post-retirement benefit plans**
	$	$	$	$
Service cost	**7**	**—**	**21**	**1**
Interest expense	**10**	**—**	**30**	**1**
Expected return on plan assets	**(17)**	**—**	**(51)**	**—**
Amortization of net actuarial loss (gain)	**3**	**—**	**7**	**(1)**
Curtailment loss (1)	**2**	**—**	**2**	**—**
Amortization of prior year service costs	**—**	**—**	**1**	**—**
Net periodic benefit cost	**5**	**—**	**10**	**1**

(1) During the third quarter of 2020, the Company recorded $2 million of pension curtailment under Closure and restructuring costs on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss) related to a cost savings program (see Note 12 "Closure and Restructuring Costs and Impairment of Long-Lived Assets" for more details).

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 6. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

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

	For the three months ended		*For the nine months ended*	
	September 30, 2019		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

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

For the three and nine months ended September 30, 2020, the Company contributed $8 million and $12 million, respectively (2019 – $7 million and $14 million, respectively) to the pension plans and $1 million and $3 million, respectively (2019 – $1 million and $3 million, respectively) to the other post-retirement benefit plans.

NOTE 7.

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, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
	$	$	**$**	$
Bad debt expense	**—**	1	**5**	2
Environmental provision	**—**	1	**1**	2
Non-production agreement terminated	**—**	—	**(7)**	—
Foreign exchange loss	**1**	1	**1**	3
Other	**(1)**	—	**(2)**	(3)
Other operating loss (income), net	**—**	3	**(2)**	4

NOTE 8.

INCOME TAXES

For the third quarter of 2020, the Company’s income tax benefit was $55 million, consisting of a current income tax benefit of $7 million and a deferred income tax benefit of $48 million. This compares to an income tax benefit of $1 million in the third quarter of 2019, consisting of a current income tax benefit of $3 million and a deferred income tax expense of $2 million. The Company received income tax refunds, net of payments of $1 million during the third quarter of 2020. The effective tax rate was 38% compared with an effective tax rate of -5% in the third quarter of 2019. 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 2020 was significantly impacted by such an adjustment, mainly due to a change in the mix of earnings or loss between tax jurisdictions. The effective tax rate for the third quarter of 2020 was also favorably impacted by the CARES Act, which granted companies the ability to carry back tax losses generated in the U.S. in 2020 to a tax year with earnings that were taxed at a higher statutory tax rate. 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 and by the finalization of certain estimates in connection with the filing of the Company’s 2018 income tax returns.

For the first nine months of 2020, the Company’s income tax benefit was $67 million, consisting of a current income tax benefit of $7 million and a deferred income tax benefit of $60 million. This compares to an income tax expense of $28 million in the first nine months of 2019, consisting of a current income tax expense of $27 million and a deferred income tax expense of $1 million. The Company received refunds, net of income tax payments, of $25 million during the first nine months of 2020. The effective tax rate was 50% compared to an effective tax rate of 19% in the first nine months of 2019. The effective tax rate for the first nine months of 2020 was significantly impacted by the mix of earnings or loss in the Company’s major jurisdictions, by the recognition of additional tax credits in various jurisdictions, and by the ability to carry back U.S. tax losses generated in 2020 to a tax year with earnings that were taxed at a higher statutory tax rate. These favorable impacts were partially offset by an increase in the valuation allowance related to the expected realization of certain U.S. state tax credits. 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 and by the finalization of certain estimates in connection with the filing of the Company’s 2018 income tax returns.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 9.

INVENTORIES

The following table presents the components of inventories:

	September 30, 2020	December 31, 2019
	$	$
Work in process and finished goods	**405**	401
Raw materials	**147**	153
Operating and maintenance supplies	**212**	232
	764	786

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 10.

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 12 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.

The components of lease expense were as follows:

	For the three months ended		*For the nine months ended*	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
	$	$	**$**	$
Operating lease expense	**8**	8	**24**	22
Finance lease expense:				
Amortization of right-of-use assets	**1**	1	**1**	1
Interest on lease liabilities	**—**	—	**—**	—
Total finance lease expense	**1**	1	**1**	1

Supplemental cash flow information related to leases was as follows:

	For the nine months ended	
	September 30, 2020	September 30, 2019
	$	$
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**25**	23
Operating cash flows from finance leases	**1**	1
Financing cash flows from finance leases	**1**	1
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	**7**	24
Finance leases	**—**	—

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 10. LEASES (CONTINUED)

Supplemental balance sheet information related to leases was as follows:

	September 30, 2020	December 31, 2019
	$	$
Operating leases		
Operating leases right-of-use assets	**72**	81
Lease liabilities due within one year	**27**	28
Operating lease liabilities	**58**	69
	85	97
Finance leases		
Property, plant and equipment	**14**	15
Accumulated depreciation	**(7)**	(7)
	7	8
Long-term debt due within one year	**1**	1
Long-term debt	**8**	9
	9	10
Weighted-average remaining lease term		
Operating leases	**4.5 years**	4.9 years
Finance leases	**9.3 years**	10 years
Weighted-average discount rate		
Operating leases	**4.5%**	4.6%
Finance leases	**6.3%**	6.7%

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 10. LEASES (CONTINUED)

Maturities of lease liabilities September 30, 2020 were as follows:

	Operating leases	*Finance leases*
	September 30, 2020	**September 30, 2020**
	$	**$**
2020 (1)	**7**	**—**
2021	**26**	**2**
2022	**21**	**2**
2023	**16**	**1**
2024	**9**	**1**
Thereafter	**15**	**6**
Total lease payments	**94**	**12**
Less: Imputed interest	**9**	**3**
Total lease liabilities	**85**	**9**

(1) Represents the remaining three months of 2020.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 11.

INTANGIBLE ASSETS

The following table presents the components of intangible assets:

		September 30, 2020			December 31, 2019		
	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	**388**	**(123)**	**265**	380	(108)	272
Technology	7 – 20	**8**	**(5)**	**3**	8	(5)	3
Non-Compete	9	**1**	**(1)**	**—**	1	(1)	—
License rights	12	**28**	**(17)**	**11**	29	(16)	13
		428	**(147)**	**281**	421	(131)	290
Indefinite-lived intangible assets not subject to amortization							
Water rights		**4**	**—**	**4**	4	—	4
Trade names		**242**	**—**	**242**	235	—	235
License rights		**6**	**—**	**6**	6	—	6
Catalog rights		**40**	**—**	**40**	38	—	38
Total		**720**	**(147)**	**573**	704	(131)	573

Amortization expense related to intangible assets for the three and nine months ended September 30, 2020 was $5 million and $14 million, respectively (2019 – $5 million and $14 million, respectively).

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

	2020	2021	2022	2023	2024
	$	$	$	$	$
Amortization expense related to intangible assets	21 (1)	21	21	20	20

(1) Represents twelve months of amortization

NOTE 12.

CLOSURE AND RESTRUCTURING COSTS AND IMPAIRMENT OF LONG-LIVED ASSETS

Cost reduction program

The Company is implementing a cost savings program. As part of this program, on August 7, 2020, the Company announced the permanent closure of the uncoated freesheet manufacturing at the Kingsport, Tennessee and Port Huron, Michigan mills, the remaining paper machine at the Ashdown, Arkansas mill and the converting center in Ridgefields, Tennessee. These actions will reduce the Company's annual uncoated freesheet paper capacity by approximately 721,000 short tons, and will result in a workforce reduction of approximately 750 employees. The Kingsport and Ashdown paper machines, which have been idled since April 2020, did not recommence operations. The Ridgefields converting center ceased operations at the end of the third quarter of 2020, while the Port Huron mill is expected to shut down by the end of the first quarter of 2021.

The Company plans to enter the linerboard market with the conversion of the Kingsport paper machine. Domtar estimates the conversion cost to be between $300 and $350 million. As a result of the decision to change the nature and use of the Kingsport, Tennessee mill, the carrying amount of the remaining assets of the Kingsport mill has been tested for impairment and resulted in no additional impairment charge in the quarter. The carrying amount of these assets was approximately $80 million at September 30, 2020. The Company is also completing the conversion of the Ashdown mill to 100% softwood and fluff pulp, which is requiring $15 to $20 million of capital investments and is expected to be completed within nine to twelve months. During the third quarter of 2020, the Company recorded $111 million of accelerated depreciation under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). Additionally, the Company recorded $29 million of severance and termination costs, $31 million of inventory obsolescence, $2 million of pension curtailment loss and $6 million of other costs, under Closure and restructuring costs on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss).

Ashdown, Arkansas mill and Port Huron, Michigan mill

On September 27, 2019, the Company's Board of Directors approved the decision to permanently shut down two paper machines, which was announced on October 3, 2019. The closures took place at the Ashdown, Arkansas pulp and paper mill and the Port Huron, Michigan paper mill. As a result, the Company recorded, in the third quarter of 2019, $32 million of accelerated depreciation under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) 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 (Loss) 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.

Other costs

For the three and nine months ended September 30, 2020, other costs related to previous and ongoing closures and restructuring included nil and $1 million, respectively, of severance and termination costs (2019 – nil).

NOTE 13.

LONG-TERM DEBT

TERM LOAN

On May 5, 2020, the Company entered into a $300 million Term Loan Agreement (the "Term Loan Agreement") that matures on May 5, 2025. The Company used borrowings under the Term Loan Agreement to repay other debt and to pay related fees and expenses. Borrowings under the Term Loan Agreement bear interest at LIBOR plus a margin of 2.5% and require principal repayments of $3 million each quarter. The Term Loan Agreement contains customary covenants, including two financial covenants: (i) an interest coverage ratio, as defined in the Term Loan Agreement, that must be maintained at a level of not less than 3 to 1 and (ii) a leverage ratio, as defined in the Term Loan Agreement that must be maintained at a level of not greater than 3.75 to 1. All borrowings under the Term Loan are unsecured. Certain domestic subsidiaries of the Company guarantee the obligations arising under the Term Loan Agreement.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 14.

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, 2020 and the year ended December 31, 2019:

	Net derivative gains (losses) on cash flow hedges $	Pension items[2] $	Post-retirement benefit items[2] $	Foreign currency items $	Total $
Balance at December 31, 2018	(24)	(231)	11	(223)	**(467)**
Natural gas swap contracts	(10)	N/A	N/A	N/A	**(10)**
Currency options	5	N/A	N/A	N/A	**5**
Foreign exchange forward contracts	16	N/A	N/A	N/A	**16**
Net gain	N/A	1	1	N/A	**2**
Foreign currency items	N/A	N/A	N/A	21	**21**
Other comprehensive income before reclassifications	11	1	1	21	**34**
Amounts reclassified from Accumulated other comprehensive loss	8	33	(1)	—	**40**
Net current period other comprehensive income	19	34	—	21	**74**
Balance at December 31, 2019	(5)	(197)	11	(202)	**(393)**
Natural gas swap contracts	3	N/A	N/A	N/A	**3**
Currency options	(1)	N/A	N/A	N/A	**(1)**
Foreign exchange forward contracts	(2)	N/A	N/A	N/A	**(2)**
Net loss	N/A	(41)	—	N/A	**(41)**
Foreign currency items	N/A	N/A	N/A	5	**5**
Other comprehensive (loss) income before reclassifications	—	(41)	—	5	**(36)**
Amounts reclassified from Accumulated other comprehensive loss	14	7	(1)	—	**20**
Net current period other comprehensive income (loss)	14	(34)	(1)	5	**(16)**
Balance at September 30, 2020	9	(231)	10	(197)	**(409)**

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

NOTE 14. 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, 2020 and 2019:

Details about Accumulated other comprehensive loss components	Amounts reclassified from Accumulated other comprehensive loss	
	For the three months ended	
	September 30, 2020	September 30, 2019
	$	$
Net derivative losses on cash flow hedge		
Natural gas swap contracts (1)	**(2)**	(2)
Currency options and forwards (1)	**—**	(2)
Total before tax	**(2)**	(4)
Tax benefit	**1**	1
Net of tax	**(1)**	(3)
Amortization of defined benefit pension items		
Amortization of net actuarial loss (2)	**(3)**	(2)
Curtailment loss (2)	**(2)**	—
Amortization of prior year service costs (2)	**—**	(1)
Total before tax	**(5)**	(3)
Tax benefit	**2**	1
Net of tax	**(3)**	(2)
Amortization of other post-retirement benefit items		
Amortization of net actuarial gain (2)	**—**	—
Amortization of prior year service costs (2)	**—**	—
Total before tax	**—**	—
Tax expense	**—**	—
Net of tax	**—**	—

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 14. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT (CONTINUED)

	Amounts reclassified from Accumulated other comprehensive loss	
	For the nine months ended	
	September 30, 2020	September 30, 2019
	$	$
Net derivatives losses on cash flow hedge		
Natural gas swap contracts (1)	**(10)**	(2)
Currency options and forwards (1)	**(9)**	(5)
Total before tax	**(19)**	(7)
Tax benefit	**5**	2
Net of tax	**(14)**	(5)
Amortization of defined benefit pension items		
Amortization of net actuarial loss (2)	**(7)**	(7)
Curtailment loss (2)	**(2)**	—
Amortization of prior year service costs (2)	**(1)**	(4)
Total before tax	**(10)**	(11)
Tax benefit	**3**	3
Net of tax	**(7)**	(8)
Amortization of other post-retirement benefit items		
Amortization of net actuarial gain (2)	**1**	1
Amortization of prior year service costs (2)	**—**	—
Total before tax	**1**	1
Tax expense	**—**	—
Net of tax	**1**	1

(1) These amounts are included in Cost of Sales in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).
(2) These amounts are included in the computation of net periodic benefit cost (see Note 6 “Pension Plans and Other Post-Retirement Benefit Plans” for more details).

NOTE 15.

SHAREHOLDERS' EQUITY

DIVIDENDS

On February 18, 2020, 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. Total dividends of approximately $25 million were paid on April 15, 2020 to shareholders of record on April 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. 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 2020, the Company repurchased 1,798,306 shares at an average price of $33.05 for a total cost of $59 million.

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.

SUSPENSION OF CAPITAL RETURN PROGRAM

On May 5, 2020, due to the unprecedented market conditions and uncertainty caused by COVID-19, the Company suspended the payment of its regular quarterly dividend and stock repurchase program in order to preserve cash and provide additional flexibility in the current environment. The Board of Directors will continue to evaluate the Company's capital return program based upon customary considerations, including market conditions.

NOTE 16.

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.

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 subsequently was assigned to the Company in connection with its 2007 purchase of the Dryden Property.

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

The Province issued a Director's order under environmental laws to certain prior owners of the Dryden Property in connection with a nearby waste disposal site that has never been owned by the Company. The Director's order required certain work to be conducted by those prior owners. The prior owners asserted that the Indemnity covered the work required by the Director's order. Following extensive litigation, the Supreme Court of Canada found, among other things, that the Indemnity covered third-party claims, but not first-party claims, such as the Director's order.

In the future, the Province may challenge whether the Company has the benefit of the Indemnity. In addition to the Indemnity, the Company has other recourses relating to the historical contamination.

The situation involving the historical contamination is continuing to develop, and the Company cannot predict its outcome. While the Company currently does not believe that it will be required to incur costs that would have a material impact on its results of operations or financial condition, there is no certainty that this is in fact the case.

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

	September 30, 2020
	$
Balance at beginning of year	35
Additions and other changes	4
Environmental spending	(2)
Effect of foreign currency exchange rate change	(1)
Balance at end of period	36

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 16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2020, 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, 2020, 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. As of September 30, 2020, the Company has not recorded a liability associated with these indemnifications, as it does not expect to make any payments pertaining to these indemnifications.

GENERAL RISK FACTORS

Climate change and air quality 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.

The EPA repealed the Clean Power Plan and replaced 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 has been challenged in the U.S. Court of Appeals for the D.C. Circuit. Regardless of the outcome for the ACE rule, 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 system 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 has imposed its carbon pricing program for regulating GHG emissions in Ontario, which took effect on January 1, 2019. To reduce GHG emissions and recognize the unique circumstances of the province’s diverse economy, Ontario finalized its own GHG Emission Performance Standards regulation. The Ontario Government has been in discussions with the Canadian Government to replace the federal program in Ontario with its provincial program. The Ontario Government has announced the federal government will accept its program as an alternative to the federal program. Timing for this transition and any additional environmental costs that may result from this effort cannot be reasonably estimated at this time.

NOTE 16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The EPA proposed to revise its Industrial Boiler Maximum Achievable Control Technology Standard (“MACT”), or Boiler MACT, in a notice published on August 24, 2020. The proposed rule is a response to two court decisions that remanded certain issues for further review by the EPA, and it includes revisions to 34 different emission limitations that could apply to some of the Company’s facilities. Although the EPA has indicated that a small number of facilities may need to reduce emissions further compared to the current limits, the Company does not expect its facilities to be disproportionately affected compared to other U.S. pulp and paper producers.

NOTE 17.

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.

As a result of changes in Domtar's organization structure, the Company has changed its segment reporting. Starting January 1, 2020, Domtar's materials business, EAM Corporation, a manufacturer of high quality airlaid and ultrathin laminated cores, previously reported under its Personal Care segment is now presented under its Pulp and Paper segment. Prior period segment results have been restated to the new segment presentation with no significant impact on segment results. There were no changes to the Company's consolidated sales or operating income.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 17. SEGMENT DISCLOSURES (CONTINUED)

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

SEGMENT DATA	*For the three months ended* **September 30, 2020**	*For the three months ended* September 30, 2019	*For the nine months ended* **September 30, 2020**	*For the nine months ended* September 30, 2019
	$	$	$	$
Sales by segment				
Pulp and Paper	**899**	1,079	**2,732**	3,342
Personal Care	**243**	219	**738**	686
Total for reportable segments	**1,142**	1,298	**3,470**	4,028
Intersegment sales	**(18)**	(15)	**(56)**	(52)
Consolidated sales	**1,124**	1,283	**3,414**	3,976
Sales by product group				
Communication papers	**483**	635	**1,491**	1,963
Specialty and packaging papers	**148**	159	**425**	490
Market pulp	**242**	262	**734**	812
Absorbent hygiene products	**251**	227	**764**	711
Consolidated sales	**1,124**	1,283	**3,414**	3,976
Depreciation and amortization				
Pulp and Paper	**56**	57	**170**	174
Personal Care	**15**	15	**44**	45
Total for reportable segments	**71**	72	**214**	219
Impairment of long-lived assets - Pulp and Paper	**111**	32	**111**	32
Impairment of long-lived assets - Personal Care	**—**	1	**—**	26
Consolidated depreciation and amortization and impairment of long-lived assets	**182**	105	**325**	277
Operating (loss) income (1)				
Pulp and Paper	**(140)**	31	**(133)**	237
Personal Care	**16**	2	**54**	(24)
Corporate	**(12)**	(4)	**(24)**	(35)
Consolidated operating (loss) income	**(136)**	29	**(103)**	178
Interest expense, net	**14**	12	**43**	38
Non-service components of net periodic benefit cost	**(4)**	(2)	**(13)**	(7)
(Loss) earnings before income taxes and equity loss	**(146)**	19	**(133)**	147
Income tax (benefit) expense	**(55)**	(1)	**(67)**	28
Equity loss, net of taxes	**1**	—	**2**	1
Net (loss) earnings	**(92)**	20	**(68)**	118

(1) The Government of Canada created the Canada Emergency Wage Subsidy ("CEWS") to provide financial support for businesses during the COVID-19 pandemic and prevent large layoffs. CEWS allows eligible entities to receive a subsidy retroactive to March 15, 2020. The Company qualified and applied for the first seven periods identified under CEWS, from March 15 through September 26, 2020. For the three months ended September 30, 2020, the Company recognized $9 million of income (CDN $12 million) ($8 million in Cost of sales (CDN $10 million) and $1 million in Selling, general and administrative (CDN $2 million)) related to this program. For the nine months ended September 30, 2020, the Company recognized $34 million of income (CDN $46 million) ($29 million in Cost of sales (CDN $38 million) and $5 million in Selling, general and administrative (CDN $8 million)) related to this program.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 18.

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, 2020 and December 31, 2019, the Statements of Earnings (Loss) and Comprehensive Income (Loss) for the three and nine months ended September 30, 2020 and 2019 and the Statements of Cash Flows for the nine months ended September 30, 2020 and 2019 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, 2020				
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated**
	$	$	$	$	$
Sales	—	918	458	(252)	1,124
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	814	349	(252)	911
Depreciation and amortization	—	49	22	—	71
Selling, general and administrative	2	8	89	—	99
Impairment of long-lived assets	—	111	—	—	111
Closure and restructuring costs	—	64	4	—	68
	2	1,046	464	(252)	1,260
Operating loss	(2)	(128)	(6)	—	(136)
Interest expense (income), net	17	18	(21)	—	14
Non-service components of net periodic benefit cost	—	(1)	(3)	—	(4)
(Loss) earnings before income taxes and equity loss	(19)	(145)	18	—	(146)
Income tax expense (benefit)	59	11	(125)	—	(55)
Equity loss, net of taxes	—	—	1	—	1
Share in (loss) earnings of equity accounted investees	(14)	142	—	(128)	—
Net (loss) earnings	(92)	(14)	142	(128)	(92)
Other comprehensive income	23	16	41	(57)	23
Comprehensive (loss) income	(69)	2	183	(185)	(69)

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 18. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	*For the nine months ended* September 30, 2020 Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Sales	**—**	**2,775**	**1,342**	**(703)**	**3,414**
Operating expenses					
Cost of sales, excluding depreciation and amortization	**—**	**2,504**	**1,030**	**(703)**	**2,831**
Depreciation and amortization	**—**	**150**	**64**	**—**	**214**
Selling, general and administrative	**7**	**80**	**207**	**—**	**294**
Impairment of long-lived assets	**—**	**111**	**—**	**—**	**111**
Closure and restructuring costs	**—**	**65**	**4**	**—**	**69**
Other operating loss (income), net	**1**	**4**	**(7)**	**—**	**(2)**
	8	**2,914**	**1,298**	**(703)**	**3,517**
Operating (loss) income	**(8)**	**(139)**	**44**	**—**	**(103)**
Interest expense (income), net	**49**	**56**	**(62)**	**—**	**43**
Non-service components of net periodic benefit cost	**—**	**(5)**	**(8)**	**—**	**(13)**
(Loss) earnings before income taxes and equity loss	**(57)**	**(190)**	**114**	**—**	**(133)**
Income tax (benefit) expense	**(35)**	**(89)**	**57**	**—**	**(67)**
Equity loss, net of taxes	**—**	**1**	**1**	**—**	**2**
Share in (loss) earnings of equity accounted investees	**(46)**	**56**	**—**	**(10)**	**—**
Net (loss) earnings	**(68)**	**(46)**	**56**	**(10)**	**(68)**
Other comprehensive (loss) income	**(16)**	**(27)**	**8**	**19**	**(16)**
Comprehensive (loss) income	**(84)**	**(73)**	**64**	**9**	**(84)**

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME (LOSS)	*For the three months ended* September 30, 2019 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 18. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	For the nine months ended September 30, 2019				
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	**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

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 18. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	September 30, 2020				
CONDENSED CONSOLIDATING BALANCE SHEET	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Assets					
Current assets					
Cash and cash equivalents	129	9	80	—	218
Receivables	—	146	397	—	543
Inventories	—	517	247	—	764
Prepaid expenses	5	20	11	—	36
Income and other taxes receivable	69	30	22	(77)	44
Intercompany accounts	594	661	311	(1,566)	—
Total current assets	797	1,383	1,068	(1,643)	1,605
Property, plant and equipment, net	—	1,528	850	—	2,378
Operating lease right-of-use assets	—	57	15	—	72
Intangible assets, net	—	237	336	—	573
Investments in affiliates	3,555	2,505	—	(6,060)	—
Intercompany long-term advances	5	1	1,503	(1,509)	—
Other assets	14	23	139	(13)	163
Total assets	4,371	5,734	3,911	(9,225)	4,791
Liabilities and shareholders' equity					
Current liabilities					
Trade and other payables	19	379	228	—	626
Intercompany accounts	437	359	770	(1,566)	—
Income and other taxes payable	26	17	71	(77)	37
Operating lease liabilities due within one year	—	21	6	—	27
Long-term debt due within one year	12	—	1	—	13
Total current liabilities	494	776	1,076	(1,643)	703
Long-term debt	1,077	—	9	—	1,086
Operating lease liabilities	—	49	9	—	58
Intercompany long-term loans	563	945	1	(1,509)	—
Deferred income taxes and other	4	252	170	(13)	413
Other liabilities and deferred credits	22	157	141	—	320
Shareholders' equity	2,211	3,555	2,505	(6,060)	2,211
Total liabilities and shareholders' equity	4,371	5,734	3,911	(9,225)	4,791

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 18. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	December 31, 2019				
CONDENSED CONSOLIDATING BALANCE SHEET	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Assets					
Current assets					
Cash and cash equivalents	1	11	49	—	61
Receivables	—	146	431	—	577
Inventories	—	543	243	—	786
Prepaid expenses	5	17	11	—	33
Income and other taxes receivable	34	—	27	—	61
Intercompany accounts	538	547	237	(1,322)	—
Total current assets	578	1,264	998	(1,322)	1,518
Property, plant and equipment, net	—	1,689	878	—	2,567
Operating lease right-of-use assets	—	63	18	—	81
Intangible assets, net	—	245	328	—	573
Investments in affiliates	3,627	2,493	—	(6,120)	—
Intercompany long-term advances	5	1	1,482	(1,488)	—
Other assets	14	30	131	(11)	164
Total assets	4,224	5,785	3,835	(8,941)	4,903
Liabilities and shareholders' equity					
Current liabilities					
Bank indebtedness	—	9	—	—	9
Trade and other payables	57	390	258	—	705
Intercompany accounts	344	299	679	(1,322)	—
Income and other taxes payable	1	12	10	—	23
Operating lease liabilities due within one year	—	21	7	—	28
Long-term debt due within one year	—	—	1	—	1
Total current liabilities	402	731	955	(1,322)	766
Long-term debt	873	—	65	—	938
Operating lease liabilities	—	58	11	—	69
Intercompany long-term loans	541	946	1	(1,488)	—
Deferred income taxes and other	—	324	166	(11)	479
Other liabilities and deferred credits	32	99	144	—	275
Shareholders' equity	2,376	3,627	2,493	(6,120)	2,376
Total liabilities and shareholders' equity	4,224	5,785	3,835	(8,941)	4,903

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 18. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	For the nine months ended September 30, 2020				
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated**
	$	$	$	$	$
Operating activities					
Net (loss) earnings	(68)	(46)	56	(10)	(68)
Changes in operating and intercompany assets and liabilities and non-cash items, included in net (loss) earnings	41	81	212	10	344
Cash flows (used for) provided from operating activities	(27)	35	268	—	276
Investing activities					
Additions to property, plant and equipment	—	(75)	(55)	—	(130)
Acquisition of business, net of cash acquired	—	—	(30)	—	(30)
Cash flows used for investing activities	—	(75)	(85)	—	(160)
Financing activities					
Dividend payments	(51)	—	—	—	(51)
Stock repurchase	(59)	—	—	—	(59)
Net change in bank indebtedness	—	(10)	—	—	(10)
Change in revolving credit facility	(80)	—	—	—	(80)
Proceeds from receivables securitization facility	—	—	25	—	25
Repayments of receivables securitization facility	—	—	(80)	—	(80)
Issuance of long-term debt	300	—	—	—	300
Repayments of long-term debt	(3)	—	—	—	(3)
Increase in long-term advances to related parties	—	—	(100)	100	—
Decrease in long-term advances to related parties	52	48	—	(100)	—
Other	(4)	—	1	—	(3)
Cash flows provided from (used for) financing activities	155	38	(154)	—	39
Net increase (decrease) in cash and cash equivalents	128	(2)	29	—	155
Impact of foreign exchange on cash	—	—	2	—	2
Cash and cash equivalents at beginning of period	1	11	49	—	61
Cash and cash equivalents at end of period	129	9	80	—	218

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 18. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	For the nine months ended September 30, 2019				
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	**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

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, 2019, filed with the Securities and Exchange Commission ("SEC") on February 25, 2020. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed below under "Forward-looking statements", as well as in Part II, Item 1A, Risk Factors, in this report. 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, 2020 and September 30, 2019. The three month and nine month periods are also referred to as the third quarter and first nine months of 2020 and 2019. Reference to notes refers to footnotes to the consolidated financial statements and notes thereto included in Part I, Item 1 in this report.

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, 2020
- Impact of the COVID-19 Pandemic and Outlook
- Cost Reduction Program
- Consolidated Results of Operations and Segment Review
- Liquidity and Capital Resources

Purchase of Appvion Point of Sale Business

On April 27, 2020, we completed the acquisition of the Point of Sale paper business from Appvion Operation Inc. The business includes the coater and related equipment located at Appvion's West Carrollton, Ohio, facility as well as a license for all corresponding intellectual property and assumed liabilities related to post-retirement benefits. The results of this business have been included in the consolidated financial statements as of April 27, 2020 and are presented in the Pulp and Paper reportable segment. For more information, refer to Note 3 "Acquisition of Business" of the financial statements in this Quarterly Report on Form 10-Q.

Change in Segment Reporting for EAM Corporation

As a result of changes in our organizational structure, we have changed our segment reporting. Starting January 1, 2020, our materials business, EAM Corporation, a manufacturer of high quality airlaid and ultrathin laminated cores, previously reported under our Personal Care segment is now presented under our Pulp and Paper segment. There were no changes to our consolidated sales or operating income. Prior period segment results have been restated to the new segment presentation with no significant impact on segment results. For more information, refer to Note 17 "Segment Disclosures" of the financial statement 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. Approximately 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, 2020

- Operating income and net earnings decreased by 569% and 560%, respectively, from the third quarter of 2019
- Sales decreased by 12% from the third quarter of 2019. Net average selling prices for pulp and paper were down from the third quarter of 2019. Our manufactured paper volume and pulp volume were down when compared to the third quarter of 2019. Our Personal Care business had higher volume when compared to the third quarter of 2019
- Recognition of closure and restructuring charges and accelerated depreciation under Impairment of long-lived assets, of $68 million and $111 million, respectively, mostly related to our announced cost reduction program within our Pulp and Paper segment
- Recognition of $9 million (CDN $12 million) from the Canada Emergency Wage Subsidy ("CEWS") in the third quarter of 2020. This program was created by the Government of Canada to provide financial support for businesses during the COVID-19 pandemic to prevent large layoffs

HIGHLIGHTS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2020

- Operating income and net earnings decreased by 158% and 158%, respectively, from the first nine months of 2019
- Sales decreased by 14% from the first nine months of 2019. Net average selling prices for pulp and paper were down from the first nine months of 2019. Our manufactured paper volume was down while our pulp volume as well as our Personal Care business was up when compared to the first nine months of 2019
- Recognition of closure and restructuring charges and accelerated depreciation under Impairment of long-lived assets, of $69 million and $111 million, respectively, mostly related to our announced cost reduction program within our Pulp and Paper segment
- Recognition of $34 million (CDN $46 million) from the CEWS and received a $7 million payment from lifting the non-production clause related to the sale agreement of our Lebel-sur-Quévillon kraft pulp mill in 2012
- We repurchased $59 million of our common stock and paid $51 million in dividends. Our capital return program, which includes our regular quarterly dividend and stock repurchase program, was suspended in the second quarter of 2020

FINANCIAL HIGHLIGHTS *(In millions of dollars, unless otherwise noted)*	Three months ended **September 30, 2020**	Three months ended September 30, 2019	Variance $	Variance %	Nine months ended **September 30, 2020**	Nine months ended September 30, 2019	Variance $	Variance %
Sales	**$ 1,124**	$ 1,283	(159)	-12%	**$ 3,414**	$ 3,976	(562)	-14%
Operating (loss) income	**(136)**	29	(165)	-569%	**(103)**	178	(281)	-158%
Net (loss) earnings	**(92)**	20	(112)	-560%	**(68)**	118	(186)	-158%
Net (loss) earnings per common share (in dollars)[1]:								
Basic	**$ (1.67)**	$ 0.33	(2.00)	-606%	**$ (1.23)**	$ 1.89	(3.12)	-165%
Diluted	**$ (1.67)**	$ 0.32	(1.99)	-622%	**$ (1.23)**	$ 1.88	(3.11)	-165%

	At September 30, 2020	At December 31, 2019
Total assets	**$ 4,791**	$ 4,903
Total long-term debt, including current portion	**$ 1,099**	$ 939

1 See Note 5 "Earnings (Loss) 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.

IMPACT OF THE COVID-19 PANDEMIC

With the unprecedented and rapid spread of COVID-19 and social distancing measures implemented throughout the world due to the pandemic, this virus has had a profound impact on human health, the global economy and society in general. We are actively monitoring the impact of COVID-19 on all aspects of our business, including how it is impacting our employees, operations, customers, suppliers, liquidity and capital resources.

Our operations are considered to be essential services in the jurisdictions where we operate. Certain of our paper products are used in the testing for COVID-19 as well as for personal protection medical gowns, and our personal care products are essential to the daily lives of consumers. However, demand for our paper has declined significantly since the beginning of April, largely due to work-from-home rules and the overall economic slowdown. The length and severity of the reduction in paper demand is uncertain; at the current time, we expect the adverse impact to continue through to the fourth quarter of 2020. Beyond the fourth quarter of 2020, paper demand will depend largely on when, and the extent to which, work-from-home subsides and on the timing of the return to normal global economic activities.

Effects from COVID-19 began for us at the end of the first quarter of 2020 but were not material to the three-month's results ended March 31, 2020. Shipments of paper were lower by approximately 19% in the third quarter of 2020 when compared to the third quarter of 2019 and lower by approximately 19% in the first nine months of 2020 when compared to the first nine months of 2019. As a result of the decrease in demand, on August 7, 2020, we announced the permanent closure of the uncoated freesheet manufacturing at our Kingsport, Tennessee and Port Huron, Michigan mills, the remaining paper machine at our Ashdown, Arkansas mill and the converting center in Ridgefields, Tennessee. These actions will reduce our annual uncoated freesheet paper capacity by approximately 721,000 short tons, and will result in a workforce reduction of approximately 750 employees. The Kingsport and Ashdown paper machines, which have been idled since April 2020, did not recommence operations.

Our pulp shipments were lower by approximately 5% in the third quarter of 2020 when compared to the third quarter of 2019 and were higher by approximately 7% in the nine months ended September 30, 2020 when compared to the nine months ended September 30, 2019. We expect near-term pulp markets to continue to gradually improve driven by better demand, maintenance outages and restocking in China.

Our Personal care business experienced minimal impacts due to COVID-19 during the three months and nine months ended September 30, 2020. We expect to see continued strong demand for some of our products from higher usage and the impact from new customer wins. The ultimate timing and impact of this demand volatility will depend on the duration and scope of COVID-19, global economic conditions and consumer preferences.

Below we further describe specific impacts and the measures we have taken since March 2020.

<u>Health and Safety of our Employees</u>
The safety of our employees continues to be our primary focus. As COVID-19 has evolved, we have taken numerous steps to protect the health and safety of our employees, including: social distancing, providing personnel protection and thermal scanning, health monitoring, contact tracing and enhanced cleaning measures. In addition, we implemented travel restrictions and work-from-home policies for employees who have the ability to work remotely.

<u>Operations and Supply Chain</u>
We continue to operate in compliance with the orders and restrictions imposed by government authorities in each of our locations, and we are working with our customers to meet their specific shipment needs. We continue to place a priority on business continuity and contingency planning, including potential planning for extended closures of any key facilities, whether because of government action or workforce disruption, or because of disruptions related to our key suppliers that might arise related to COVID-19. At this point, we have experienced only minor disruptions. We are actively monitoring our supply chain, and we may experience disruptions in our supply chain as the pandemic continues. We cannot reasonably estimate the potential impacts or timing of those events, nor can we reasonably estimate our ability to mitigate such impacts.

<u>Cost Reduction Program</u>
On August 7, 2020 we announced the implementation of a cost reduction program targeting $200 million in annual run-rate cost savings to be realized by the end of 2021. The goal of the program is to build a stronger business operation, enhance our cost efficiency, improve operating margins and maximize productivity and cash flow. The cost saving initiatives includes capacity reduction and asset closures (noted above), mill-level cost savings and rightsizing of support functions. See Cost Reduction Program below for more information on this program.

Liquidity and Capital Resources

We have taken actions and may take other actions, intended to increase our cash position and preserve financial flexibility in light of the current uncertainty in the global markets. On May 5, 2020, we entered into a five-year $300 million term loan. We have also suspended our regular quarterly dividend and stock repurchase program until further notice. In addition, we completed a review of all planned capital expenditures for 2020 and reduced or delayed spending without compromising on safety or regulatory compliance. Our capital expenditures for 2020 are expected to be between $160 million and $170 million, a decrease of approximately $80 million compared to our planned spending.

Government Assistance

The U.S. and Canadian governments have launched several support programs to provide assistance to companies during the COVID-19 pandemic. We continue to review the details of the various programs to determine whether we might qualify.

The Government of Canada created the CEWS to provide financial support for businesses during the COVID-19 pandemic and to prevent large layoffs. CEWS allows eligible entities to receive a subsidy retroactive to March 15, 2020. We qualified and applied for the first seven periods identified under CEWS, from March 15 through September 26, 2020. We recognized $9 million (CDN $12 million) of income related to this subsidy in the third quarter of 2020 and $34 million (CDN $46 million) for the nine months period ending September 30, 2020.

OUTLOOK

In the fourth quarter, paper volume is expected to be flat quarter-over-quarter while mix should be unfavorable due to the usual seasonality. We expect near-term pulp markets to continue to gradually improve driven by better demand, maintenance outages and restocking in China. We expect Personal Care to continue to benefit from higher usage and the impact from new customer wins. Overall raw material costs are expected to remain stable while planned maintenance costs will be lower.

COST REDUCTION PROGRAM

On August 7, 2020, we announced the implementation of a cost reduction program, targeting $200 million in annual run-rate cost savings to be realized by the end of 2021. The goal of the program is to build a stronger business operation, enhance our cost efficiency, improve operating margins and maximize productivity and cash flow. The costs saving initiatives include capacity reduction and asset closures, mill-level cost savings and rightsizing support functions. The leaner organizational structure is also expected to improve communication flow and cross-functional collaboration, leveraging more efficient business processes.

As part of this program, we announced the permanent closure of the uncoated freesheet manufacturing at our Kingsport, Tennessee and Port Huron, Michigan mills, the remaining paper machine at our Ashdown, Arkansas mill and our converting center in Ridgefields, Tennessee. These actions will reduce our annual uncoated freesheet paper capacity by approximately 721,000 short tons, and will result in a workforce reduction of approximately 750 employees. Our Kingsport and Ashdown paper machines, which have been idled since April 2020, did not recommence operations. Our Ridgefields converting center ceased operations at the end of the third quarter of 2020, while our Port Huron mill is expected to shut down by the end of the first quarter of 2021.

During the third quarter of 2020, we recorded $111 million of accelerated depreciation under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). Additionally, we recorded $29 million of severance and termination costs, $31 million of inventory obsolescence, $2 million of pension curtailment and $6 million of other costs, under Closure and restructuring costs on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss).

The aggregate pre-tax earnings charge in connection with these closures is estimated to be $200 million. Of the estimated total pre-tax charge of approximately $200 million, $179 million has been recognized in the third quarter of 2020 and the remaining $21 million is expected to be incurred by the end of the first quarter of 2021.

Kingsport, Tennessee mill

We plan to enter the linerboard market with the conversion of our Kingsport paper machine. Once in full operation, the mill will produce and market approximately 600,000 tons annually of high-quality recycled linerboard and medium, providing us with a strategic footprint in a growing adjacent market. The conversion is expected to be completed by the end of 2022.

We estimate the conversion cost to be between $300 and $350 million. Once fully operational, the mill is expected to be a low-cost, first quartile recycled linerboard mill in North America. The converted mill is expected to directly employ approximately 160 employees.

Ashdown, Arkansas mill

We will complete the conversion of our Ashdown mill to 100% softwood and fluff pulp, which will require $15 to $20 million of capital investments and is expected to be completed within nine to twelve months. The mill will produce additional market hardwood pulp until it converts the fiberline to softwood pulp. The conversion of the fiberline to 100% softwood is also necessary for an eventual expansion into containerboard. Following the fiberline conversion, Ashdown will have annual production capacity of 775,000 tons of fluff and softwood pulp.

See Note 12 "Closure and Restructuring Costs and Impairment of Long-Lived Assets" of the financial statements in this Quarterly Report on Form 10-Q for more information.

CONSOLIDATED RESULTS OF OPERATIONS AND SEGMENT REVIEW

This section presents a discussion and analysis of our third quarter and first nine months of 2020 and 2019 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, 2020	September 30, 2019	$	%	**September 30, 2020**	September 30, 2019	$	%
Pulp and Paper	**$ 899**	$ 1,079	*(180)*	*-17%*	**$ 2,732**	$ 3,342	*(610)*	*-18%*
Personal Care	**243**	219	*24*	*11%*	**738**	686	*52*	*8%*
Total for reportable segments	**1,142**	1,298	*(156)*	*-12%*	**3,470**	4,028	*(558)*	*-14%*
Intersegment sales	**(18)**	(15)	*(3)*		**(56)**	(52)	(4)	
Consolidated	**1,124**	1,283	*(159)*	*-12%*	**3,414**	3,976	*(562)*	*-14%*
Shipments								
Paper - manufactured (in thousands of ST)	**550**	672	*(122)*	*-18%*	**1,688**	2,089	*(401)*	*-19%*
Communication Papers	**449**	563	*(114)*	*-20%*	**1,384**	1,745	*(361)*	*-21%*
Specialty and Packaging	**101**	109	*(8)*	*-7%*	**304**	344	*(40)*	*-12%*
Paper - sourced from third parties (in thousands of ST)	**16**	25	(9)	*-36%*	**50**	69	(19)	*-28%*
Paper - total (in thousands of ST)	**566**	697	*(131)*	*-19%*	**1,738**	2,158	*(420)*	*-19%*
Pulp (in thousands of ADMT)	**396**	416	*(20)*	*-5%*	**1,212**	1,135	*77*	*7%*

ANALYSIS OF CHANGES IN SALES

	Third quarter of 2020 versus Third quarter of 2019 % Change in Net Sales due to				First nine months of 2020 versus First nine months of 2019 % Change in Net Sales due to			
	Net Price	Volume / Mix	Currency	**Total**	Net Price	Volume / Mix	Currency	**Total**
Pulp and Paper	-3%	-14%	-%	**-17%**	-6%	-12%	-%	**-18%**
Personal Care	-%	8%	3%	**11%**	-%	8%	-%	**8%**
Consolidated sales	-2%	-10%	-%	**-12%**	-5%	-9%	-%	**-14%**

ANALYSIS OF OPERATING INCOME (LOSS)

By Business Segment	Three months ended				Nine months ended			
			Variance				*Variance*	
	September 30, 2020 (a)	September 30, 2019 (b)	$	%	**September 30, 2020** (c)	September 30, 2019 (d)	$	%
Operating (loss) income								
Pulp and Paper	**$ (140)**	$ 31	*(171)*	*-552%*	**$ (133)**	$ 237	*(370)*	*-156%*
Personal Care	**16**	2	*14*	*700%*	**54**	(24)	*78*	*325%*
Corporate	**(12)**	(4)	*(8)*	*-200%*	**(24)**	(35)	*11*	*31%*
Consolidated operating (loss) income	**(136)**	29	(165)	*-569%*	**(103)**	178	*(281)*	*-158%*

(a) Includes closure and restructuring charges and accelerated depreciation under Impairment of long-lived assets related to our announced cost reduction program within our Pulp and Paper segment of $67 million and $111 million, respectively and within our Corporate segment of $1 million and nil, respectively.

(b) Includes closure and restructuring charges and 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 and accelerated depreciation under Impairment of long-lived assets, related to two paper machine closures within our Pulp and Paper segment, of $5 million and $32 million, respectively.

(c) Includes closure and restructuring charges and accelerated depreciation under Impairment of long-lived assets related to our announced cost reduction program within our Pulp and Paper segment of $68 million and $111 million, respectively and within our Corporate segment of $1 million and nil, respectively.

(d) Includes closure and restructuring charges and 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 and accelerated depreciation under Impairment of long-lived assets, related to two paper machine closures within our Pulp and Paper segment, of $5 million and $32 million, respectively.

Third quarter of 2020 versus Third quarter of 2019

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	(34)	(29)	24	3	3	(78)	(62)	2	**(171)**
Personal Care	3	—	3	—	1	1	6	—	**14**
Corporate	—	—	—	(8)	—	—	(1)	1	**(8)**
Consolidated operating income (loss)	(31)	(29)	27	(5)	4	(77)	(57)	3	**(165)**

(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 $1 million in the third quarter of 2020, excluding foreign currency impact. In the third quarter of 2020, we recorded $111 million of accelerated depreciation under Impairment of long-lived assets related to our cost reduction program within our Pulp and Paper segment. In the third quarter 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 $1 million of accelerated depreciation under Impairment of long-lived assets, related to our margin improvement plan in our Personal Care segment.

(d) Third quarter of 2020 restructuring charges relate to:
- Inventory write-down ($31 million)
- Severance and termination costs ($29 million)
- Pension curtailment and other costs ($8 million)

Third quarter of 2019 restructuring charges relate to:
- Inventory write-down ($5 million)
- Severance and termination costs ($2 million)
- Asset relocation and other costs ($4 million)

(e) Third quarter of 2020 other operating income/expense includes:
- Foreign currency loss on working capital items ($1 million)
- Other income ($1 million)

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)

Commentary – Third quarter of 2020 compared to Third quarter of 2019

Interest Expense, net

We incurred $14 million of net interest expense in the third quarter of 2020, an increase of $2 million compared to net interest expense of $12 million in the third quarter of 2019. The net interest expense was impacted by the $300 million Term Loan entered into on May 5, 2020.

Income Taxes

For the third quarter of 2020, our income tax benefit was $55 million, consisting of a current income tax benefit of $7 million and a deferred income tax benefit of $48 million. This compares to an income tax benefit of $1 million in the third quarter of 2019, consisting of a current income tax benefit of $3 million and a deferred income tax expense of $2 million. We received income tax refunds, net of payments, of $1 million during the third quarter of 2020. The effective tax rate for the third quarter of 2020 was 38% compared with an effective tax rate of -5% in the third quarter of 2019. 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 our annual effective tax rate and, if the estimated annual tax rate changes, make a cumulative adjustment in that quarter. Our effective tax rate for the third quarter of 2020 was significantly impacted by such an adjustment, mainly due to a change in the mix of earnings or loss between tax jurisdictions. Our effective tax rate for the third quarter of 2020 was also favorably impacted by the CARES Act, which granted companies the ability to carry back tax losses generated in the U.S. in 2020 to a tax year with earnings that were taxed at a higher statutory tax rate. 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 and by the finalization of certain estimates in connection with filing our 2018 income tax returns.

First nine months of 2020 versus First nine months of 2019

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	(93)	(195)	60	(15)	5	(76)	(63)	7	**(370)**
Personal Care	11	1	16	6	(1)	27	18	—	**78**
Corporate	—	—	—	13	—	—	(1)	(1)	**11**
Consolidated operating income (loss)	(82)	(194)	76	4	4	(49)	(46)	6	**(281)**

(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 $4 million in the first nine months of 2020, excluding foreign currency impact. In the first nine months of 2020, we recorded $111 million of accelerated depreciation under Impairment of long-lived assets related to our cost reduction program within our Pulp and Paper segment. 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) First nine months of 2020 restructuring charges relate to:
- Inventory write-down ($31 million)
- Severance and termination costs ($30 million)
- Pension curtailment and other costs ($8 million)

First nine months of 2019 restructuring charges relate to:
- Inventory write-down ($6 million)
- Severance and termination costs ($6 million)
- Asset relocation and other costs ($11 million)

(e) First nine months of 2020 other operating income/ expense includes:
- Income from termination of non-production agreement ($7 million)
- Bad debt expense ($5 million)
- Foreign currency loss on working capital items ($1 million)
- Environmental provision ($1 million)
- Other income ($2 million)

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

Commentary – First nine months of 2020 compared to first nine months of 2019

Interest Expense, net

We incurred $43 million of net interest expense in the first nine months of 2020, an increase of $5 million compared to net interest expense of $38 million in the first nine months of 2019. The net interest expense was impacted by the $300 million Term Loan entered into on May 5, 2020 as well as an increase in borrowing under the revolving credit facility.

Income Taxes

For the first nine months of 2020, our income tax benefit was $67 million, consisting of a current income tax benefit of $7 million and a deferred income tax benefit of $60 million. This compares to an income tax expense of $28 million in the first nine months of 2019, consisting of a current income tax expense of $27 million and a deferred income tax expense of $1 million. We received income tax refunds, net of payments, of $25 million during the first nine months of 2020. Our effective tax rate was 50% compared to an effective tax rate of 19% in the first nine months of 2019. The effective tax rate for the first nine months of 2020 was significantly impacted by our mix of earnings or loss in our major jurisdictions, by our recognition of additional tax credits in various jurisdictions, and by our ability to carry back U.S. tax losses generated in 2020 to a tax year with earnings that were taxed at a higher statutory tax rate. These favorable impacts were partially offset by an increase in the valuation allowance related to the expected realization of certain U.S. state tax credits. 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 and by the finalization of certain estimates in connection with filing our 2018 income tax returns.

Commentary – Segment Review

Pulp and Paper Segment

EAM’s results of operations, previously reported under our Personal Care segment, are now presented under our Pulp and Paper segment with no significant impact on our segment results. Prior period segment results have been restated to the new segment presentation.

Sales in our Pulp and Paper segment decreased by $180 million, or 17%, when compared to sales in the third quarter of 2019. This decrease in sales is mostly due to a decrease in our pulp and paper sales volumes and a decrease in our net average selling prices for pulp and paper.

Operating loss in our Pulp and Paper segment amounted to $140 million in the third quarter of 2020, a decrease of $171 million, when compared to operating income of $31 million in the third quarter of 2019. Our results were negatively impacted by:

- Higher depreciation/impairment charges ($78 million). We recorded $111 million of accelerated depreciation under Impairment of long-lived assets, related to our cost reduction program in the third quarter of 2020 compared to $32 million of accelerated depreciation under Impairment of long-lived assets, related to our decision to permanently close two paper machines in the third quarter of 2019. Depreciation charges were lower by $1 million when compared to the third quarter of 2019
- Higher restructuring charges ($62 million) in the third quarter of 2020 as a result of the cost reduction program ($67 million) compared to the decision to permanently close two paper machines in the third quarter of 2019 ($5 million)
- Lower volume/mix ($34 million)
- Lower net average selling prices for pulp and paper ($29 million)

These decreases were partially offset by:

- Lower input costs ($24 million) mostly related to lower cost of fiber due, in part, to better weather as well as favorable market conditions compared to the third quarter of 2019
- Lower operating expenses ($3 million) mostly due to lower maintenance and other costs due to our cash conservation initiatives (including our cost reduction program) in light of the COVID-19 pandemic and amounts recognized from the CEWS when compared to the third quarter of 2019, partially offset by lower production
- Positive impact of a weaker Canadian dollar on our Canadian denominated expenses, net of our hedging program ($3 million)
- Higher other income ($2 million)

Sales in our Pulp and Paper segment decreased by $610 million, or 18%, when compared to sales in the first nine months of 2019. This decrease in sales is mostly due to a decrease in our paper sales volumes as well as a decrease in our net average selling prices for pulp and paper. These decreases were partially offset by an increase in pulp sales volumes.

Operating loss in our Pulp and Paper segment amounted to $133 million in the first nine months of 2020, a decrease of $370 million, when compared to operating income of $237 million in the first nine months of 2019. Our results were negatively impacted by:

- Lower net average selling prices for pulp and paper ($195 million)
- Lower volume/mix ($93 million)

- Higher depreciation/impairment charges ($76 million). We recorded $111 million of accelerated depreciation under Impairment of long-lived assets, related to our cost reduction program in the first nine months of 2020 compared to $32 million of accelerated depreciation under Impairment of long-lived assets, related to our decision to permanently close two paper machines in the first nine months of 2019. Depreciation charges were lower by $3 million when compared to the first nine months of 2019
- Higher restructuring charges ($63 million) in the first nine months of 2020 as a result of the cost reduction program ($68 million) compared to the decision to permanently close two paper machines in the first nine months of 2019 ($5 million)
- Higher operating expenses ($15 million) related to lower production, partially offset by lower maintenance and other costs due to our cash conservation initiatives (including our cost reduction program) in light of the COVID-19 pandemic and amounts recognized from the CEWS when compared to the first nine months of 2019

These decreases were partially offset by:

- Lower input costs ($60 million) mostly related to lower cost of fiber due, in part, to better weather and favorable market conditions compared to the first nine months of 2019
- Higher other income ($7 million)
- Positive impact of a weaker Canadian dollar on our Canadian denominated expenses, net of our hedging program ($5 million)

Economic conditions and uncertainties

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. In addition, current global economic conditions are highly volatile due to the COVID-19 pandemic, resulting in both market size contractions in certain countries due to economic slowdowns and government restrictions on movement.

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.

The high degree of uncertainty and volatility day-to-day and the longer term potential impacts of the economic slowdown remain unclear. In the fourth quarter, paper volume is expected to be flat quarter-over-quarter while mix should be unfavorable due to the usual seasonality. We expect near-term pulp markets to continue to gradually improve driven by better demand, maintenance outages and restocking in China. Overall raw material costs are expected to remain stable while planned maintenance costs will be lower.

Personal Care Segment

Sales in our Personal Care segment increased by $24 million, or 11%, when compared to sales in the third quarter of 2019. This increase was mainly driven by higher volume as well as by favorable foreign exchange when compared to the third quarter of 2019.

Operating income increased by $14 million, in the third quarter of 2020 compared to the third quarter of 2019. Our results were positively impacted by:

- Lower closure and restructuring charges ($6 million) due to charges related to our margin improvement plan recorded in the third quarter of 2019
- Higher sales volume partially offset by unfavorable mix ($3 million)
- Favorable input costs ($3 million) mostly due to lower raw material pricing
- Lower depreciation/impairment charges ($1 million) due to charges related to our margin improvement plan in the third quarter of 2019
- Favorable foreign exchange ($1 million) mostly between the Euro and the U.S. dollar, net of our hedging program

Sales in our Personal Care segment increased by $52 million, or 8%, when compared to sales in the first nine months of 2019. This increase in sales was driven by higher volume when compared to the first nine months of 2019.

Operating income increased by $78 million, in the first nine months of 2020 when compared to the first nine months of 2019. Our results were positively impacted by:

- Lower depreciation/impairment charges ($27 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
- Lower closure and restructuring charges ($18 million) due to charges related to our margin improvement plan recorded in the first nine months of 2019
- Favorable input costs ($16 million) mostly due to lower raw material pricing
- Higher sales volume partially offset by unfavorable mix ($11 million)
- Lower operating expenses ($6 million) mostly due to higher production and lower SG&A
- Higher net average selling prices ($1 million)

These increases were partially offset by:

- Unfavorable foreign exchange, net of our hedging program ($1 million)

Economic conditions and uncertainties

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.

While we are expected 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 including the infant and adult private label retail.

The principal levers of competition remain brand loyalty, product innovation, quality, price and marketing and distribution capabilities.

In the fourth quarter, we expect Personal Care to continue to benefit from higher usage and the impact from new customer wins. Overall raw material costs are expected to remain stable.

Margin Improvement Plan

On November 1, 2018, we announced a margin improvement plan within our Personal Care Division. As part of this plan, our Board of Directors approved the permanent closure of our Waco, Texas 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 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, 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 2020, stock-based compensation expense recognized in our results of operations was $4 million for all outstanding awards which includes the mark-to-market recovery related to liability awards of $9 million. This compares to a stock-based compensation expense of $17 million for all outstanding awards which includes the mark-to-market expense related to liability awards of $4 million in the first nine months of 2019. 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 $700 million credit facility, of which $649 million is currently undrawn and available, or through our $150 million receivables securitization facility, of which $139 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.

A portion of our cash is held outside the U.S. by foreign subsidiaries. The earnings of the foreign subsidiaries reflect full provision for local income taxes. The U.S. Tax Reform includes a mandatory one-time tax on accumulated earnings of foreign subsidiaries for which we recorded a provisional repatriation tax amount of $46 million in 2017 and adjusted by $7 million in 2018. After completing our evaluation of the U.S. Tax Reform's impact on the business operations, we have determined that we are no longer indefinitely reinvested in these undistributed foreign earnings as well as foreign earnings after December 31, 2017. We remain indefinitely reinvested in the outside basis differences of our foreign subsidiaries.

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 $276 million in the first nine months of 2020, a $6 million decrease compared to cash flows from operating activities of $282 million in the first nine months of 2019. This decrease in cash flows from operating activities is primarily due to a decrease in profitability. This decrease was partially offset by an improvement in cash flow from working capital requirements. We received income tax refunds, net of payments, of $25 million during the first nine months of 2020 compared to income tax payments, net of refunds, of $55 million in the first nine months of 2019.

Investing Activities

Cash flows used for investing activities in the first nine months of 2020 amounted to $160 million, a $4 million increase compared to cash flows used for investing activities of $156 million in the first nine months of 2019.

The use of cash in the first nine months of 2020 was attributable to additions to property, plant and equipment of $130 million and the acquisition of the Appvion Point of Sale Business in the second quarter of 2020 ($30 million).

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 of disposals of property, plant and equipment of $1 million.

Our capital expenditures for 2020 are expected to be between $160 million and $170 million.

Financing Activities

Cash flows provided from financing activities totaled $39 million in the first nine months of 2020 compared to cash flows used for financing activities of $137 million in the first nine months of 2019.

The primary source of cash flows provided from financing activities was from proceeds of the term loan in the first nine months of 2020 ($297 million). This was partially offset by the decrease in borrowings under our credit facilities (revolver and receivables securitization) ($135 million), the repurchase of our common stock ($59 million), dividend payments ($51 million) and a decrease in bank indebtedness ($10 million).

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

Capital Resources

Net indebtedness, consisting of bank indebtedness and long-term debt, net of cash and cash equivalents, was $881 million as of September 30, 2020 compared to $887 million as of December 31, 2019.

Term Loan

On May 5, 2020, we entered into a $300 million Term Loan Agreement that matures on May 5, 2025. We used borrowings under the Term Loan Agreement to repay other debt, to pay related fees and expenses. A mandatory repayment of $3 million was made on September 30, 2020. For more information, refer to Note 13 “Long-Term Debt” of the financial statements in this Quarterly Report on Form 10-Q for more information.

Revolving Credit Facility

We have an unsecured $700 million revolving credit facility (the “Credit Agreement”) with certain domestic and foreign banks that matures on August 22, 2023.

Borrowings by the Company under the Credit Agreement are guaranteed by our significant domestic subsidiaries. Borrowings by certain foreign subsidiaries under the Credit Agreement are guaranteed by the Company, our significant domestic subsidiaries and certain of our significant foreign 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 Financial Conduct Authority in the United Kingdom plans to phase out LIBOR by the end of 2021. We do not anticipate a significant impact to our financial position from the planned phase out of LIBOR.

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, 2020 and September 30, 2019, we were in compliance with these financial covenants, and had no borrowings under the Credit Agreement (September 30, 2019 – $45 million). At September 30, 2020 and September 30, 2019, our interest coverage ratio was 7.4 and 14.7, respectively, and our leverage ratio was 2.4 and 1.3, respectively. At September 30, 2020 and September 30, 2019, we had $51 million and nil, respectively, of outstanding letters of credit, leaving $649 million unused and available under this facility (September 30, 2019 – $655 million).

Receivables Securitization

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

At September 30, 2020, we had no borrowings under the receivables securitization facility, and we had no outstanding letters of credit under the program (September 30, 2019 – $90 million and $50 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, 2020, we had $139 million unused and available under the receivable securitization facility.

Common Stock

On May 5, 2020, we suspended the distribution of our regular quarterly dividend and stock repurchase program in light of current uncertainty in the global markets. Our Board of Directors will continue to evaluate our capital return program based upon customary considerations, including market conditions.

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, 2020, 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, 2020, 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 of America 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, 2019.

There has not been any material change to our policies since December 31, 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 or divestitures, including facility closures;
- failure to achieve our cost containment goals, costs of conversion in excess of our expectations and demand for linerboard;
- 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 our manufacturing operations, including unexpected maintenance requirements;
- the level of competition from domestic and foreign producers;
- cyberattacks 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 long-lived assets, 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;
- a material disruption in our supply chain, manufacturing, distribution operations or customer demand such as public health crises that impact trade or the general economy, including COVID-19 and other viruses, diseases or illnesses; 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, 2019.

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, 2019. Except for the addition of "Equity Risk", there has not been any material change in our exposure to market risk since December 31, 2019. A full discussion on Quantitative and Qualitative Disclosure about Market Risk, is found in Note 4 "Derivatives and Hedging Activities and Fair Value Measurement," of the financial statements in this Quarterly Report on Form 10-Q.

EQUITY RISK

We are exposed to changes in share price with regard to our stock-based compensation program. We manage our exposure through the use of derivative instruments such as equity swap contracts. In March 2020, we entered into a total return swap agreement, maturing on March 4, 2022, covering 500,000 common shares.

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, 2020, 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, 2020, 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 16 “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, 2019.

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the year ended December 31, 2019, contains important risk factors that could cause our actual results to differ materially from those projected in any forward-looking statement. Except as stated below, there were no material changes to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2019.

A global pandemic (or any disease outbreak, including epidemics, pandemics, or similar widespread public health concerns such as the recent COVID-19 pandemic) could have a material adverse effect on the Company’s business operations, results of operations, cash flows and financial position

The Company’s business may be negatively impacted by the fear of exposure to or actual effects of a disease outbreak, epidemic, pandemic, or similar widespread public health concern, such as travel restrictions or recommendations or mandates from governmental authorities to avoid large gatherings or to self-quarantine. These impacts include, but are not limited to:

- Significant reductions in demand or significant volatility in demand for one or more of the Company’s products, which may be caused by, among other things: the closing of offices and schools where paper is used extensively, the temporary inability of consumers to purchase the Company’s products due to illness, quarantine or other travel restrictions, financial hardship, shifts in demand away from one or more of our more discretionary or higher priced products to lower priced products or use of alternatives, stockpiling or similar pantry-loading activity; if prolonged, such impacts can further increase the difficulty of planning for operations and may adversely impact the Company’s results;
- Inability to meet the Company’s customers’ needs and achieve cost targets due to disruptions in the Company’s manufacturing and supply arrangements caused by constrained workforce capacity or the loss or disruption of other essential manufacturing and supply elements such as raw materials or other finished product components, transportation, or other manufacturing and distribution capability;
- Failure of third parties on which the Company relies, including the Company’s suppliers, distributors, contractors or commercial banks, to meet their obligations to the Company, or significant disruptions in their ability to do so, which may be caused by their own financial or operational difficulties and may adversely impact the Company’s operations; or
- Significant changes in the political conditions in the markets in which the Company manufactures, sells or distributes its products, including quarantines, import/export restrictions, price controls, or governmental or regulatory actions, closures or other restrictions that limit or close the Company’s operating and manufacturing facilities, restrict the Company’s employees’ ability to travel or perform necessary business functions, or otherwise prevent the Company’s suppliers or customers from sufficiently staffing operations, including operations necessary for the production, distribution and sale of the Company’s products, which could adversely impact the Company’s results.

Despite the Company's efforts to manage and remedy these impacts to the Company, their ultimate impact also depends on factors beyond our knowledge or control, including the duration and severity of any such outbreak as well as third-party actions taken to contain its spread and mitigate its public health effects.

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

On May 5, 2020, due to the unprecedented market conditions and uncertainty caused by the COVID-19 pandemic, we suspended our regular quarterly dividend and stock repurchase program, in order to preserve cash and provide additional flexibility in the current environment. Our Board of Directors will continue to evaluate our capital return program based upon customary considerations, including market conditions.

Share repurchase activity under our share repurchase program was as follows during the three-month period ended September 30, 2020:

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, 2020	—	$ —	—	$ 343,601
August 1 through August 31, 2020	—	$ —	—	$ 343,601
September 1 through September 30, 2020	—	$ —	—	$ 343,601
	—	$ —	—	

During the third quarter of 2020, we did not repurchase any shares under our share repurchase program (the "Program"). As of September 30, 2020, we had $344 million of remaining availability under our Program. The Program may be suspended, modified or discontinued at any time and we have no obligation to repurchase any amount of our common stock. The Program has no set expiration date. We repurchase our common stock, 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 the first nine months of 2020, we repurchased 1,798,306 shares at an average price of $33.05 for a total cost of $59 million.

During the first nine months of 2019, we repurchased 4,076,723 shares at an average price of $35.47 for a total cost of $145 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 6, 2020

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 6, 2020

/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 6, 2020

/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, 2020 (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 6, 2020

/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, 2020 (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 6, 2020

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