

Domtar CORP
Form 10-Q
November 03, 2017
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, 2017

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 (State or other jurisdiction of incorporation or organization) 234 Kingsley Park Drive Fort Mill, SC (Address of principal executive offices)	20-5901152 (I.R.S. Employer Identification No.) 29715 (Zip Code)
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Registrant's telephone number, including area code: (803) 802-7500

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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

(Do not check if a small reporting company) 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, 2017, the registrant had 62,693,709 shares of common stock, \$47.32 par value per share, outstanding.

DOMTAR CORPORATION

FORM 10-Q

For the Quarterly Period Ended September 30, 2017

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PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS (UNAUDITED)

DOMTAR CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Three months ended September 2017 (Unaudited) \$	Three months ended September 30, 2016 \$	Nine months ended September 30, 2017 \$	Nine months ended September 30, 2016 \$
Sales	1,292	1,270	3,820	3,824
Operating expenses				
Cost of sales, excluding depreciation and amortization	1,012	969	3,055	3,032
Depreciation and amortization	80	87	239	263
Selling, general and administrative	118	107	337	314
Impairment of property, plant and equipment (NOTE 11)	—	5	—	29
Closure and restructuring costs (NOTE 11)	—	10	—	33
Other operating (income) loss, net (NOTE 6)	(7)	—	(6)	4
	1,203	1,178	3,625	3,675
Operating income	89	92	195	149
Interest expense, net	16	17	50	49
Earnings before income taxes	73	75	145	100
Income tax expense (NOTE 7)	3	16	17	19
Net earnings	70	59	128	81
Per common share (in dollars) (NOTE 4)				
Net earnings				
Basic	1.12	0.94	2.04	1.29
Diluted	1.11	0.94	2.04	1.29
Weighted average number of common shares outstanding (millions)				
Basic	62.7	62.6	62.6	62.6
Diluted	62.9	62.7	62.8	62.7
Cash dividends per common share	0.42	0.42	0.83	1.22
Net earnings	70	59	128	81
Other comprehensive income (NOTE 12):				
Net derivative gains (losses) on cash flow hedges:				
Net gains (losses) arising during the period, net of tax of	9	(6)	11	23

\$(6) and \$(8), respectively (2016 – \$4 and \$(14), respectively)

Less: Reclassification adjustment for (gains) losses

included in net earnings, net of tax of \$2 and \$4,

respectively (2016 – \$(2) and \$(10), respectively) (2) 1 (6) 14

Foreign currency translation adjustments 60 6 142 61

Change in unrecognized gains and prior service cost related to

pension and post-retirement benefit plans, net of tax of

\$(1) and \$(3), respectively (2016 – nil and \$(2), respectively) 2 2 7 5

Other comprehensive income 69 3 154 103

Comprehensive income 139 62 282 184

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,	December 31,
	2017	2016
	(Unaudited)	
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	143	125
Receivables, less allowances of \$7 and \$7	659	613
Inventories (NOTE 8)	787	759
Prepaid expenses	47	40
Income and other taxes receivable	13	31
Total current assets	1,649	1,568
Property, plant and equipment, net	2,774	2,825
Goodwill (NOTE 9)	578	550
Intangible assets, net (NOTE 10)	632	608
Other assets	151	129
Total assets	5,784	5,680
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	—	12
Trade and other payables	687	656
Income and other taxes payable	32	22
Long-term debt due within one year	1	63
Total current liabilities	720	753
Long-term debt	1,164	1,218
Deferred income taxes and other	681	675
Other liabilities and deferred credits	333	358
Commitments and contingencies (NOTE 14)		
Shareholders' equity (NOTE 13)		
Common stock \$0.01 par value; authorized 2,000,000,000 shares; issued:		
65,001,104 and 65,001,104 shares	1	1
Treasury stock \$0.01 par value; 2,308,483 and 2,412,267 shares	—	—
Additional paid-in capital	1,969	1,963
Retained earnings	1,261	1,211
Accumulated other comprehensive loss	(345)	(499)
Total shareholders' equity	2,886	2,676
Total liabilities and shareholders' equity	5,784	5,680

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

DOMTAR CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Issued and outstanding common shares			Retained	Accumulated	Total
	(million of shares)	Common stock, at par (Unaudited)	Additional paid-in capital	earnings	other comprehensive loss	shareholders' equity
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2016	62.6	1	1,963	1,211	(499)	2,676
Stock-based compensation, net of tax	0.1	—	6	—	—	6
Net earnings	—	—	—	128	—	128
Net derivative gains on cash flow hedges: Net gains arising during the period, net of tax						
of \$(8)	—	—	—	—	11	11
Less: Reclassification adjustments for gains						
included in net earnings, net of tax of \$4	—	—	—	—	(6)	(6)
Foreign currency translation adjustments	—	—	—	—	142	142
Change in unrecognized gains and prior service cost						
related to pension and post-retirement benefit						
plans, net of tax of \$(3)	—	—	—	—	7	7
Cash dividends declared	—	—	—	(78)	—	(78)
Balance at September 30, 2017	62.7	1	1,969	1,261	(345)	2,886

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, 2017	September 30, 2016
	(Unaudited)	
	\$	\$
Operating activities		
Net earnings	128	81
Adjustments to reconcile net earnings to cash flows from operating activities		
Depreciation and amortization	239	263
Deferred income taxes and tax uncertainties	(19)	6
Impairment of property, plant and equipment	—	29
Net gains on disposals of property, plant and equipment	(4)	—
Stock-based compensation expense	6	5
Other	1	(3)
Changes in assets and liabilities, excluding the effect of acquisition of business		
Receivables	(28)	19
Inventories	(10)	6
Prepaid expenses	(2)	(5)
Trade and other payables	11	(53)
Income and other taxes	30	(18)
Difference between employer pension and other post-retirement contributions and pension and other post-retirement expense	(33)	(16)
Other assets and other liabilities	5	(4)
Cash flows from operating activities	324	310
Investing activities		
Additions to property, plant and equipment	(111)	(302)
Proceeds from disposals of property, plant and equipment	8	—
Acquisition of business, net of cash acquired	—	(1)
Other	—	1
Cash flows used for investing activities	(103)	(302)
Financing activities		
Dividend payments	(78)	(76)
Stock repurchase	—	(10)
Net change in bank indebtedness	(12)	1
Change in revolving credit facility	(50)	60
Proceeds from receivables securitization facility	25	140
Repayments of receivables securitization facility	(35)	(40)
Repayments of long-term debt	(63)	(40)
Other	1	(3)
Cash flows (used for) provided from financing activities	(212)	32
Net increase in cash and cash equivalents	9	40

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Impact of foreign exchange on cash	9	2
Cash and cash equivalents at beginning of period	125	126
Cash and cash equivalents at end of period	143	168
Supplemental cash flow information		
Net cash payments for:		
Interest	49	50
Income taxes	18	37

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

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

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, 2016, as filed with the Securities and Exchange Commission. The December 31, 2016 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.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 2.

RECENT ACCOUNTING PRONOUNCEMENTS

FUTURE ACCOUNTING CHANGES

REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The core principal of this guidance is that an entity should recognize revenue, to depict the transfer of promised goods or services to customers, in an amount that reflects the consideration for which the entity is entitled to, in exchange for those goods and services. This new guidance will supersede the revenue recognition requirements found in topic 605.

ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017 including interim periods within that reporting period. Early adoption is permitted only for annual and interim periods beginning after December 15, 2016.

Entities are permitted to adopt the new revenue standard by restating all prior periods under the full retrospective approach following ASC 250 "Accounting Changes and Error Corrections" or entities can elect to use a modified retrospective approach. Under the modified retrospective approach, entities will recognize the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings in the period of initial application and comparative prior year periods would not be adjusted.

The Company is currently finalizing its assessment of the impact that the guidance will have on the consolidated financial statements and related disclosures. The Company will adopt the new revenue standards in its first quarter of 2018 utilizing the full retrospective transition method. The Company has identified similar performance obligations under the new guidance as compared with deliverables previously identified. As a result, the Company expects the timing and amount of its revenue to remain substantially the same.

The Company does not expect this new guidance to have a material impact on the consolidated financial statements aside from the additional required disclosures.

FINANCIAL INSTRUMENTS

In January 2016, the FASB issued ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities,” which amends the guidance on the classification and measurement of financial instruments. Although the ASU retains many current requirements, it significantly revises an entity’s accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments.

The amendments in this update are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. To adopt the amendments, companies will be required to make a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year in which the guidance is effective. Early adoption is permitted.

The Company does not expect this new guidance to have a material impact on the consolidated financial statements.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

LEASES

In February 2016, the FASB issued ASU 2016-02, “Leases,” which requires lessees to recognize a right-of-use asset and a lease liability for all of their leases with a lease term greater than 12 months while continuing to recognize expenses in the statement of earnings in a manner similar to current accounting standards. For lessors, the new standard modifies the classification criteria and the accounting for sales-type and direct financing leases.

As a lessee, Domtar’s various leases under existing guidance are classified as operating leases that are not recorded on the balance sheet but are recorded in the statement of earnings as expense is incurred. Upon adoption of the new guidance, the Company will be required to record substantially all leases on the Consolidated Balance Sheets as a right-of-use asset and a lease liability. The timing of expense recognition and classification in the Consolidated Statements of Earnings and Comprehensive Income could change based on the classification of leases as either operating or financing.

This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted as of the beginning of an interim or annual reporting period.

The Company will adopt the ASU on January 1, 2019 using the modified retrospective approach required by the guidance.

The Company has begun its impact assessment, including taking an inventory of its outstanding leases and analyzing all contracts that contain a lease. While the Company’s evaluation of this guidance is in the early stages, the Company currently expects the adoption of this guidance to have a material impact on its consolidated balance sheet.

DERIVATIVES AND HEDGING

In March 2016, the FASB issued ASU 2016-05, “Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships,” which clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not, in and of itself, be considered a termination of the derivative instrument or a change in a critical term of the hedging relationship. As long as all other hedge accounting criteria in ASC 815 are met, a hedging relationship in which the hedging derivative instrument is novated would not be discontinued or require redesignation. This clarification applies to both cash flow and fair value hedging relationships. This ASU is effective for fiscal years beginning after December 15, 2017, including interim

periods within those fiscal years, with early adoption permitted as of the beginning of an interim or annual reporting period.

The Company does not expect this new guidance to have a material impact on the consolidated financial statements.

CLASSIFICATION OF CASH FLOWS

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows," which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The guidance must be applied retrospectively to all periods presented but it may be applied prospectively if retrospective application would be impracticable. Early adoption is permitted.

The Company does not expect this new guidance to have a material impact on the consolidated financial statements.

GOODWILL IMPAIRMENT

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," which removes the requirement for an entity to calculate the implied fair value of goodwill in measuring a goodwill impairment loss, referred to as the Step II test. As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount for which the carrying value exceeds the reporting unit's fair value. The impairment loss recognized should be recorded against goodwill and should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual or any interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests with measurement dates after January 1, 2017.

The Company expects to adopt this new guidance concurrently with its 2017 annual goodwill impairment test.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

RETIREMENT BENEFITS

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which requires an entity to present the service cost component of the net periodic benefit cost with other employee compensation costs in operating income. Only the service cost components will be eligible for capitalization in assets. The other components of the net periodic benefit cost (i.e., interest expense, expected return on plan assets, amortization of actuarial gains or losses and amortization of prior year service costs) will be presented outside of any subtotal of operating income. An appropriate disclosure of the line(s) used to present other components of net periodic benefit costs is required if the components are not presented separately in the statement of earnings. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance.

The Company will adopt the ASU on January 1, 2018 using a retrospective approach for the presentation of the service cost component and the other components of net periodic benefit costs in the Consolidated Statement of Earnings and prospectively for the capitalization of the service cost component of net periodic benefit costs in assets. The guidance includes a practical expedient that permits an entity to estimate amounts for comparative periods using the information previously disclosed in its pension plans and other post-retirement benefit plans footnote.

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

DERIVATIVES AND HEDGING

In August 2017, the FASB issued ASU 2017-12, “Targeted Improvements to Accounting for Hedging Activities”, which amends the hedge accounting recognition and presentation requirements in ASC 815. The objectives of the ASU are to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity’s risk management activities by better aligning the entity’s financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers.

This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods therein. Entities are permitted to early adopt the new guidance in any interim or annual period after issuance of the ASU. If an entity early adopts the updated guidance in an interim period, any transition adjustments should be reflected as of the beginning of the fiscal year.

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

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 3.

DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT

HEDGING PROGRAMS

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

Upon inception, the Company formally documents the relationship between hedging instruments and hedged items. At inception and quarterly thereafter, the Company formally assesses whether the financial instruments used in hedging transactions are effective at offsetting changes in either the cash flow or the fair value of the underlying exposures. The ineffective portion of the qualifying instrument is immediately recognized to earnings. The amount of ineffectiveness recognized was immaterial for all periods presented. The Company does not hold derivative financial instruments for trading purposes.

CREDIT RISK

The Company is exposed to credit risk on accounts receivables 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, 2017, one of Domtar's Pulp and Paper segment customers located in the U.S. represented 12% or \$82 million (2016 – 12% or \$74 million) of the Company's receivables.

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 long-term debt. The Company's objective in managing

exposure to interest rate changes is to minimize the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. The Company may manage this interest rate exposure through the use of derivative instruments such as interest rate swap contracts, whereby it agrees to exchange the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount.

COST RISK

Cash flow hedges:

The Company is exposed to price volatility for raw materials and energy used in its manufacturing process. The Company manages its exposure to cost risk primarily through the use of supplier contracts. The Company purchases natural gas at the prevailing market price at the time of delivery. To reduce the impact on cash flow and earnings due to pricing volatility, the Company may utilize derivatives to fix the price of forecasted natural gas purchases. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Cost of sales in the period during which the hedged transaction affects earnings. Current contracts are used to hedge a portion of forecasted purchases over the next 57 months.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

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

The following table presents the volumes under derivative financial instruments for natural gas contracts outstanding as of September 30, 2017 to hedge forecasted purchases:

Commodity	Notional contractual quantity under derivative contracts	Notional contractual value under derivative contracts	Percentage of forecasted purchases under derivative contracts
	MMBTU ⁽²⁾	(in millions of dollars)	
Natural Gas			
2017 ⁽¹⁾	2,310,000	\$ 7	33%
2018	12,695,000	\$ 38	49%
2019	11,430,000	\$ 34	44%
2020	8,880,000	\$ 27	34%
2021	3,920,000	\$ 12	15%
2022	2,070,000	\$ 6	8%

⁽¹⁾Represents the remaining three months of 2017

⁽²⁾ MMBTU: Millions of British thermal units

The natural gas derivative contracts were fully effective as of September 30, 2017. There were no amounts reflected in the Consolidated Statements of Earnings and Comprehensive Income for the three and nine months ended September 30, 2017 resulting from hedge ineffectiveness (three and nine months ended September 30, 2016 – nil).

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 the European currencies. The Company's European subsidiaries are also exposed to movements in foreign currency exchange rates on transactions denominated in a currency other than their Euro functional currency. The Company's risk management policy allows it to hedge a significant portion of its exposure to fluctuations in foreign currency exchange rates for periods up to three years. The Company may use derivative financial instruments (currency options and foreign exchange forward contracts) to mitigate its exposure to fluctuations in foreign currency exchange rates.

Derivatives are used to hedge forecasted purchases in Canadian dollars by the Company's Canadian subsidiary over the next 21 months and to hedge a portion of forecasted sales by its U.S. subsidiaries in British pounds over the next 3 months. Derivatives are also currently used to hedge a portion of forecasted sales in British pounds and Norwegian krone and a portion of forecasted purchases in U.S. dollars and Swedish krona by its European subsidiaries over the next 12 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.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

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

The following table presents the currency values under significant currency positions pursuant to currency derivatives outstanding as of September 30, 2017 to hedge forecasted purchases and sales:

Currency exposure hedged	Business Segment	Year of maturity 2017 ⁽¹⁾	Notional contractual value	Percentage of forecasted net exposures under contracts	Average Protection rate	Average Obligation rate
CDN/USD	Pulp and Paper		128 CDN	66%	1 USD = 1.3316	1 USD = 1.3817
USD/Euro	Personal Care		16 USD	74%	1 Euro = 1.1414	1 Euro = 1.1414
		2018				
CDN/USD	Pulp and Paper		424 CDN	55%	1 USD = 1.2922	1 USD = 1.3455
USD/Euro	Personal Care		49 USD	56%	1 Euro = 1.1462	1 Euro = 1.1696
		2019				
CDN/USD	Pulp and Paper		109 CDN	14%	1 USD = 1.2875	1 USD = 1.3451

⁽¹⁾Represents the remaining three months of 2017

The foreign exchange derivative contracts were fully effective as of September 30, 2017. There were no amounts reflected in the Consolidated Statements of Earnings and Comprehensive Income for the three and nine months ended September 30, 2017 resulting from hedge ineffectiveness (three and nine months ended September 30, 2016 – nil).

FAIR VALUE MEASUREMENT

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

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

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

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

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 3. 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, 2017 and December 31, 2016, 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, 2017	Quoted prices in active markets for identical assets	Significant inputs	Significant unobservable inputs	Balance sheet classification
		(Level 1)	(Level 2)	(Level 3)	
	\$	\$	\$	\$	
Derivatives designated as hedging instruments:					
Asset derivatives					
Currency derivatives	22	—	22	—	(a) Prepaid expenses
Natural gas swap contracts	2	—	2	—	(a) Prepaid expenses
Currency derivatives	7	—	7	—	(a) Other assets
Natural gas swap contracts	1	—	1	—	(a) Other assets
Total Assets	32	—	32	—	
Liabilities derivatives					
Currency derivatives	5	—	5	—	(a) Trade and other payables

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Natural gas swap contracts	1	—	1	—	(a) Trade and other payables
Currency derivatives	1	—	1	—	(a) Other liabilities and deferred credits
Natural gas swap contracts	4	—	4	—	(a) Other liabilities and deferred credits
Total Liabilities	11	—	11	—	
Other Instruments:					
Stock-based compensation -					
liability awards	6	6	—	—	Trade and other payables
Stock-based compensation -					
liability awards	16	16	—	—	Other liabilities and deferred credits
Long-term debt	1,241	—	1,241	—	(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, 2017, of which a gain of \$1 million will be recognized in Cost of sales upon maturity of the derivatives over the next 12 months at the then prevailing values, which may be different from those at September 30, 2017.

The net cumulative gain recorded in Accumulated other comprehensive loss relating to currency options and forwards hedging forecasted purchases is \$23 million at September 30, 2017, of which a gain of \$17 million will be recognized in Cost of sales or Sales upon maturity of the derivatives over the next 12 months at the then prevailing values, which may be different from those at September 30, 2017.

DOMTAR CORPORATION

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

Fair Value of financial instruments at:	December 31, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance sheet classification
Derivatives designated as hedging instruments:					
Asset derivatives					
Currency derivatives	18	—	18	—	(a) Prepaid expenses
Natural gas swap contracts	6	—	6	—	(a) Prepaid expenses
Currency derivatives	6	—	6	—	(a) Other assets
Natural gas swap contracts	2	—	2	—	(a) Other assets
Total Assets	32	—	32	—	
Liabilities derivatives					
Currency derivatives	10	—	10	—	(a) Trade and other payables
Natural gas swap contracts	1	—	1	—	(a) Trade and other payables
Currency derivatives	6	—	6	—	(a) Other liabilities and deferred credits
Natural gas swap contracts	4	—	4	—	(a) Other liabilities and deferred credits
Total Liabilities	21	—	21	—	

Other Instruments:

Stock-based compensation -

liability awards	2	2	—	—	Trade and other payables
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Stock-based compensation -

liability awards	17	17	—	—	Other liabilities and deferred credits
------------------	----	----	---	---	--

Long-term debt	1,313	—	1,313	—	(b) Long-term debt
----------------	-------	---	-------	---	--------------------

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

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

(b) Fair value of the Company's long-term debt is measured by comparison to market prices of its debt. The Company's long-term debt is not carried at fair value on the Consolidated Balance Sheets at September 30, 2017 and December 31, 2016. However, fair value disclosure is required. The carrying value of the Company's long-term debt is \$1,165 million and \$1,281 million at September 30, 2017 and December 31, 2016, 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.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(UNAUDITED)

NOTE 4.

EARNINGS PER COMMON SHARE

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net earnings	\$ 70	\$ 59	\$ 128	\$ 81
Weighted average number of common shares				
outstanding (millions)	62.7	62.6	62.6	62.6
Effect of dilutive securities (millions)	0.2	0.1	0.2	0.1
Weighted average number of diluted common shares				
outstanding (millions)	62.9	62.7	62.8	62.7
Basic net earnings per common share (in dollars)	\$ 1.12	\$ 0.94	\$ 2.04	\$ 1.29
Diluted net earnings per common share (in dollars)	\$ 1.11	\$ 0.94	\$ 2.04	\$ 1.29

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

	For the three months ended	For the nine months ended
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	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Options	312,893	412,372	419,161	412,372

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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NOTE 5.

 PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

DEFINED CONTRIBUTION PLANS

The Company has several defined contribution plans and multiemployer plans. The pension expense under these plans is equal to the Company's contribution. For the three and nine months ended September 30, 2017, the pension expense was \$9 million and \$28 million, respectively (2016 – \$11 million and \$29 million, respectively).

DEFINED BENEFIT PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

The Company sponsors both contributory and non-contributory U.S. and non-U.S. defined benefit pension plans. Non-unionized employees in Canada joining the Company after January 1, 1998 participate in a defined contribution pension plan. Salaried employees in the U.S. joining the Company after January 1, 2008 participate in a defined contribution pension plan. Unionized and non-union hourly employees in the U.S. that 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, 2017		For the nine months ended September 30, 2017	
	Pension plans \$	Other post-retirement benefit plans \$	Pension plans \$	Other post-retirement benefit plans \$
Service cost	8	1	23	2
Interest expense	13	—	38	2

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Expected return on plan assets	(20)	—	(60)	—
Amortization of net actuarial loss	2	—	6	—
Amortization of prior year service costs	1	—	4	—
Net periodic benefit cost	4	1	11	4

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, 2016		September 30, 2016	
	Pension plans	Other post-retirement benefit plans	Pension plans	Other post-retirement benefit plans
	\$	\$	\$	\$
Service cost	7	1	23	2
Interest expense	12	—	37	2
Expected return on plan assets	(19)	—	(58)	—
Amortization of net actuarial loss	1	—	3	—
Amortization of prior year service costs	2	—	4	—
Net periodic benefit cost	3	1	9	4

For the three and nine months ended September 30, 2017, the Company contributed \$38 million and \$44 million, respectively (2016 – \$18 million and \$27 million, respectively) to the pension plans and nil and \$2 million, respectively (2016 – \$1 million and \$3 million, respectively) to the other post-retirement benefit plans.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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(UNAUDITED)

NOTE 6.

OTHER OPERATING (INCOME) LOSS, NET

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

	For the three months ended		For the nine months ended	
	September 2017	September 30, 2016	September 2017	September 30, 2016
	\$	\$	\$	\$
Gain on sale of property, plant and equipment	(4)	—	(4)	—
Reversal of contingent consideration	(2)	—	(2)	—
Bad debt expense	—	—	1	—
Environmental provision	—	—	2	—
Litigation settlement	—	—	—	2
Foreign exchange loss	—	1	1	5
Other	(1)	(1)	(4)	(3)
Other operating (income) loss, net	(7)	—	(6)	4

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 7.

INCOME TAXES

In the third quarter of 2017, the Company's income tax expense was \$3 million, consisting of a current income tax expense of \$10 million and a deferred income tax benefit of \$7 million. This compares to an income tax expense of \$16 million in the third quarter of 2016, consisting of a current income tax expense of \$5 million and a deferred income tax expense of \$11 million. The Company made income tax payments, net of refunds, of \$3 million during the third quarter of 2017. The effective tax rate was 4% compared with an effective tax rate of 21% in the third quarter of 2016. The effective tax rate for the third quarter of 2017 was favorably impacted by the recognition of previously unrecognized tax benefits due to the expiration of certain statutes of limitations. The effective tax rates for both the third quarter of 2017 and third quarter of 2016 were impacted by the finalization of certain estimates in connection with the filing of the Company's 2016 and 2015 income tax returns, respectively.

In the first nine months of 2017, the Company's income tax expense was \$17 million, consisting of a current income tax expense of \$36 million and a deferred income tax benefit of \$19 million. This compares to an income tax expense of \$19 million in the first nine months of 2016, consisting of a current income tax expense of \$13 million and a deferred income tax expense of \$6 million. The Company made income tax payments, net of refunds, of \$18 million during the first nine months of 2017. The effective tax rate was 12% compared to an effective tax rate of 19% in the first nine months of 2016. The effective tax rate for the first nine months of 2017 was favorably impacted by the recognition of previously unrecognized tax benefits, due to the expiration of certain statutes of limitations as well as by various enacted law changes in several U.S. states. The effective tax rates for both the first nine months of 2017 and 2016 were impacted by the finalization of certain estimates in connection with the filing of the Company's 2016 and 2015 income tax returns, respectively. Additionally, the effective tax rate for the first nine months of 2016 was impacted by the approval of a state tax credit in the U.S.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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(UNAUDITED)

NOTE 8.

INVENTORIES

The following table presents the components of inventories:

	September 30, 2017	December 31, 2016
	\$	\$
Work in process and finished goods	429	413
Raw materials	133	132
Operating and maintenance supplies	225	214
	787	759

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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NOTE 9.

GOODWILL

Changes in the carrying value of goodwill are as follows:

	September 30, 2017
	\$
Balance at December 31, 2016	550
Effect of foreign currency exchange rate change	28
Balance at end of period	578

The goodwill at September 30, 2017 is entirely related to the Personal Care reporting segment.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 10.

 INTANGIBLE ASSETS

The following table presents the components of intangible assets:

	Estimated useful lives (in years)	September 30, 2017			December 31, 2016		
		Gross		Net	Gross		Net
		carrying	accumulated		carrying	accumulated	
		amount	amortization	\$	amount	amortization	\$
Definite-lived intangible							
assets subject							
to amortization							
Water rights	40	3	(1)	2	3	(1)	2
Customer relationships	10 – 40	389	(75)	314	369	(60)	309
Technology	7 – 20	8	(3)	5	8	(3)	5
Non-Compete	9	1	(1)	—	1	—	1
License rights	12	29	(11)	18	28	(8)	20
		430	(91)	339	409	(72)	337
Indefinite-lived intangible							
assets not subject							
to amortization							
Water rights		4	—	4	4	—	4
Trade names		243	—	243	225	—	225
License rights		6	—	6	6	—	6
Catalog rights		40	—	40	36	—	36
Total		723	(91)	632	680	(72)	608

Amortization expense related to intangible assets for the three and nine months ended September 30, 2017 was \$4 million and \$14 million, respectively (2016 – \$5 million and \$14 million, respectively).

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

	2017	2018	2019	2020	2021
	\$	\$	\$	\$	\$
Amortization expense related to intangible assets	21 ⁽¹⁾	21	21	21	21

⁽¹⁾ Represents twelve months of amortization

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 11.

CLOSURE AND RESTRUCTURING COSTS AND LIABILITY AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Plymouth, North Carolina mill

On September 23, 2016, the Company announced a plan to optimize fluff pulp manufacturing at the Plymouth, North Carolina mill. The restructuring, which is expected to be completed in 2018, includes the permanent closure of a pulp dryer and idling of assets, in addition to a workforce reduction of approximately 100 positions. The streamlining process will right-size the mill to an annualized production target of approximately 380,000 metric tons of fluff pulp. The Company recorded \$5 million of severance and termination costs under Closure and restructuring costs during the third quarter of 2016.

Ashdown, Arkansas mill

On December 10, 2014, the Company announced a project to convert a paper machine at its Ashdown, Arkansas mill to a high quality fluff pulp line used in absorbent applications such as baby diapers, feminine hygiene and adult incontinence products. The Company also invested in a pulp bale line that will provide flexibility to manufacture papergrade softwood pulp, contingent on market conditions. The conversion work commenced during the second quarter of 2016 and the production of bale softwood pulp began in the third quarter of 2016. The fluff pulp line will allow for the production of up to 516,000 metric tons of fluff pulp per year once the machine is in full operation. The project resulted in the permanent reduction of 364,000 short tons of annual uncoated freesheet production capacity on March 31, 2016.

The Company recorded \$5 million and \$29 million for the three and nine months ended September 30, 2016, respectively, of accelerated depreciation under Impairment of property, plant and equipment on the Consolidated Statement of Earnings and Comprehensive Income. The Company also recorded \$5 million and \$26 million of costs related to the fluff pulp conversion outage under Closure and restructuring costs for the three and nine months ended September 30, 2016. During the first quarter of 2016, the Company recorded \$1 million of severance and termination costs under Closure and restructuring costs.

Other costs

For the three and nine months ended September 30, 2016, other costs related to previous and ongoing closures include nil and \$1 million, respectively, of severance and termination costs related to the Pulp and Paper reporting segment.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 12.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT

The following table presents the changes in Accumulated other comprehensive loss by component⁽¹⁾ for the nine months ended September 30, 2017 and the year ended December 31, 2016:

	Net derivative (losses) gains on		Post-retirement Foreign currency		Total
	cash flow hedges	Pension items ⁽²⁾	benefit items ⁽²⁾	items	
	\$	\$	\$	\$	\$
Balance at December 31, 2015	(30)	(190)	(10)	(271)	(501)
Natural gas swap contracts	4	N/A	N/A	N/A	4
Net investment hedge	(1)	N/A	N/A	N/A	(1)
Currency options	8	N/A	N/A	N/A	8
Foreign exchange forward contracts	16	N/A	N/A	N/A	16
Net gain	N/A	(38)	(1)	N/A	(39)
Foreign currency items	N/A	N/A	N/A	(7)	(7)
Other comprehensive income (loss)					
before reclassifications	27	(38)	(1)	(7)	(19)
Amounts reclassified from Accumulated					
other comprehensive loss	14	7	—	—	21
Net current period other comprehensive					
income (loss)	41	(31)	(1)	(7)	2
Balance at December 31, 2016	11	(221)	(11)	(278)	(499)
Natural gas swap contracts	(3)	N/A	N/A	N/A	(3)

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Currency options	13	N/A	N/A	N/A	13
Foreign exchange forward contracts	1	N/A	N/A	N/A	1
Foreign currency items	N/A	N/A	N/A	142	142
Other comprehensive income					
before reclassifications	11	—	—	142	153
Amounts reclassified from Accumulated					
other comprehensive loss	(6	) 7	—	—	1
Net current period other comprehensive income	5	7	—	142	154
Balance at September 30, 2017	16	(214	) (11	) (136	) (345)

(1) All amounts are after tax. Amounts in parenthesis indicate losses.

(2) The accrued benefit obligation is actuarially determined on an annual basis as of December 31.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table presents reclassifications out of Accumulated other comprehensive loss:

Details about Accumulated other comprehensive loss components	Amounts reclassified from		
	Accumulated other comprehensive loss ⁽¹⁾		
	For the three months ended		
	September 30, 2017	September 30, 2016	
	\$	\$	
Net derivative (losses) gains on cash flow hedge			
Natural gas swap contracts	1	2	(2)
Currency options and forwards	(5)	1	(2)
Total before tax	(4)	3	
Tax benefit (expense)	2	(2)	
Net of tax	(2)	1	
Amortization of defined benefit pension items			
Amortization of net actuarial loss and prior year			
service cost	3	2	(3)
Tax expense	(1)	—	
Net of tax	2	2	

Details about Accumulated other comprehensive loss components Amounts reclassified from

	Accumulated other	
	comprehensive loss ⁽¹⁾	
	For the nine months	
	ended	
	September	September 30,
	2017	2016
	\$	\$
Net derivative (losses) gains on cash flow hedges		
Natural gas swap contracts	—	12
Currency options and forwards	(10)	12
Total before tax	(10)	24
Tax benefit (expense)	4	(10)
Net of tax	(6)	14
Amortization of defined benefit pension items		
Amortization of net actuarial loss and prior year		
service cost	10	7
Tax expense	(3)	(2)
Net of tax	7	5

⁽¹⁾ Amounts in parentheses indicate losses.

⁽²⁾ These amounts are included in Cost of Sales in the Consolidated Statements of Earnings and Comprehensive Income.

⁽³⁾ These amounts are included in the computation of net periodic benefit cost (see Note 5 “Pension Plans and Other Post-Retirement Benefit Plans” for more details).

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NOTE 13.

SHAREHOLDERS' EQUITY

On February 21, 2017, May 3, 2017, and August 1, 2017, the Company's Board of Directors approved a quarterly dividend of \$0.42 per share, respectively, to be paid to holders of the Company's common stock. Dividends of \$26 million were paid on April 17, 2017, July 17, 2017 and October 16, 2017, respectively, to shareholders of record on April 3, 2017, July 3, 2017 and October 2, 2017, respectively.

On October 31, 2017, the Company's Board of Directors approved a quarterly dividend of \$0.42 per share to be paid to holders of the Company's common stock. This dividend is to be paid on January 15, 2018, to shareholders of record on January 2, 2018.

STOCK REPURCHASE PROGRAM

The Company's Board of Directors has authorized a stock repurchase program (the "Program") of up to \$1.3 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 2017, there were no shares repurchased under the Program.

During the first nine months of 2016, the Company repurchased 304,915 shares at an average price of \$32.21 for a total cost of \$10 million.

Since the inception of the Program, the Company has repurchased 24,853,827 shares at an average price of \$39.33 for a total cost of \$977 million. All shares repurchased are recorded as Treasury stock on the Consolidated Balance Sheets under the par value method at \$0.01 per share.

DOMTAR CORPORATION

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NOTE 14.

 COMMITMENTS AND CONTINGENCIES

ENVIRONMENT

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

	September 30, 2017 \$
Balance at beginning of year	50
Additions	3
Environmental spending	(6)
Effect of foreign currency exchange rate change	3
Balance at end of period	50

The Company is subject to environmental laws and regulations enacted by federal, provincial, state and local authorities.

On February 16, 2010, the government of British Columbia issued a Remediation Order to Seaspan International Ltd. (“Seaspan”) and the Company, in order to define and implement a remediation plan to address soil, sediment and groundwater issues. Construction began in January 2017 and is expected to be completed in 2019. The Company previously recorded an environmental reserve to address its estimated exposure. The possible cost in excess of the reserve is not considered to be material for this matter.

The U.S. Environmental Protection Agency (“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.

Climate change regulation

Various national and local laws and regulations have been established or are emerging in jurisdictions where the Company currently has, or may have in the future, manufacturing facilities or investments. The Company does not expect to be disproportionately affected by these measures compared with other pulp and paper producers located in these jurisdictions.

The United States EPA Clean Power Plan regulation is being litigated and has been stayed. EPA is also proposing to repeal the Clean Power Plan in accordance with President Trump's Executive Order issued on March 28, 2017. The EPA has filed a motion with the D.C. Circuit to hold the case in abeyance while it reconsiders the rule, which the D.C. Circuit granted in part to allow time for additional briefing on how and whether the litigation should proceed. Regardless of the outcome for the Clean Power Plan, 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 Government of Canada is reviewing national policies to further reduce greenhouse gases ("GHG") and has announced its intent to impose a cost on carbon emissions. The Company does not expect its facilities to be disproportionately affected by these measures compared with other pulp and paper producers in Canada.

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(UNAUDITED)

NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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, 2017 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.

Spanish Competition Investigation

On October 15, 2015, the Competition Directorate of Spain's National Commission of Markets and Competition ("CNMC") filed a Statement of Objections against a number of industry participants alleging the existence of a series of agreements between manufacturers, distributors and pharmacists to fix prices and to allocate margins for heavy adult incontinence products within the pharmacy channel in Spain during the period from December 1996 through January 2014. Among the parties named in the Statement of Objections was Indas, which the Company acquired in January 2014, and two of its affiliates.

On January 4, 2016, the Competition Directorate issued a proposed decision confirming the allegations of the Statement of Objections. The proposed decision recommended the imposition of fines on the parties without recommending the amount of any fines. The Company recorded a €0.2 million (\$0.2 million) provision in the fourth quarter of 2015 in Other operating (income) loss, net.

On May 26, 2016, the CNMC rendered its final decision, which declared that a number of manufacturers of adult heavy incontinence products, the sector association and certain individuals participated in price fixing during the period from December 1996 through January 2014. Indas and one of its subsidiaries were fined a total of €13.5 million

(\$14.9 million) for their participation. A provision was recorded in the second quarter of 2016 in the amount of €13.3 million (\$14.7 million) in Other operating (income) loss, net.

The sellers of Indas made representations and warranties to the Company in the purchase agreement regarding, among other things, Indas' and its subsidiary's compliance with competition laws. The liability retained by the sellers was backed by a retained purchase price of €3 million (\$3.3 million) and bank guarantees of €9 million (\$9.9 million).

On June 27, 2016, in light of the CNMC decision, the sellers, in terms of their indemnity obligations, agreed to the appropriation by the Company of the retained purchase price and the release of the bank guarantees. Accordingly, a recovery of €12 million (\$13.2 million) was recorded in the second quarter of 2016 and included in Other operating (income) loss, net.

In July 2016, the fines were paid and Indas and two of its affiliates named in the final decision appealed the decision to the Spanish courts.

The Company purchased limited insurance coverage with respect to the purchase agreement, and is seeking to recover the remaining €1.5 million (\$1.7 million) under the insurance policy. Any recovery from the insurers would be recorded in the period when the proceeds are received.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2017, the Company is unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provision has been recorded. These indemnifications have not yielded a significant expense in the past.

Pension Plans

The Company has indemnified and held harmless the trustees of its pension funds, and the respective officers, directors, employees and agents of such trustees, from any and all costs and expenses arising out of the performance of their obligations under the relevant trust agreements, including in respect of their reliance on authorized instructions from the Company or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements. At September 30, 2017, the Company has not recorded a liability associated with these indemnifications, as it does not expect to make any payments pertaining to these indemnifications.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 15.

SEGMENT DISCLOSURES

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

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

Personal Care – consists of the design, manufacturing, marketing and distribution of absorbent hygiene products. An analysis and reconciliation of the Company's business segment information to the respective information in the financial statements is as follows:

SEGMENT DATA	For the three months ended		For the nine months ended	
	September 2017	September 2016	September 2017	September 2016
	\$	\$	\$	\$
Sales by segment				
Pulp and Paper	1,054	1,054	3,126	3,193
Personal Care	253	231	743	675
Total for reportable segments	1,307	1,285	3,869	3,868
Intersegment sales	(15)	(15)	(49)	(44)
Consolidated sales	1,292	1,270	3,820	3,824
Sales by product group				
Communication papers	597	638	1,798	1,952
Specialty and packaging papers	167	172	486	518
Market pulp	275	229	793	679
Absorbent hygiene products	253	231	743	675
Consolidated sales	1,292	1,270	3,820	3,824

Depreciation and amortization				
of property, plant and equipment				
Pulp and Paper	63	71	190	216
Personal Care	17	16	49	47
Total for reportable segments	80	87	239	263
Impairment of property, plant and				
equipment - Pulp and Paper				
	—	5	—	29
Consolidated depreciation and amortization and impairment				
of property, plant and equipment				
	80	92	239	292
Operating income (loss)				
Pulp and Paper	93	89	192	143
Personal Care	8	15	37	44
Corporate	(12)	(12)	(34)	(38)
Consolidated operating income	89	92	195	149
Interest expense, net	16	17	50	49
Earnings before income taxes	73	75	145	100
Income tax expense	3	16	17	19
Net earnings	70	59	128	81

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 16.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

The following information is presented as required under Rule 3-10 of Regulation S-X, in connection with the Company's issuance of debt securities that are fully and unconditionally guaranteed by Domtar Paper Company, LLC, a 100% owned subsidiary of the Company, 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., all 100% owned subsidiaries of the Company ("Guarantor Subsidiaries"), on a joint and several basis. Pursuant to the amendment and restatement of the 2016 Credit Agreement on August 18, 2016, the Guaranteed Debt will not be guaranteed by certain of Domtar's 100% owned subsidiaries; including Domtar Delaware Holdings Inc. and its foreign subsidiaries, including Attends Healthcare Limited, Domtar Inc. and Laboratorios Indas. S.A.U.. Also excluded are Ariva Distribution Inc., Domtar Delaware Investments Inc., Domtar Delaware Holdings LLC, Domtar AI Inc., Domtar Personal Care Absorbent Hygiene Inc., Domtar Wisconsin Dam Corp. and Palmetto Enterprises LLC, (collectively the "Non-Guarantor Subsidiaries"). The 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, 2017 and December 31, 2016, the Statements of Earnings and Comprehensive Income for the three and nine months ended September 30, 2017 and 2016 and the Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 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, 2017

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	Non-				Consolidated
	Parent	Guarantor Subsidiaries	Guarantor Subsidiaries	Adjustments	
	\$	\$	\$	\$	\$
Sales	—	1,059	522	(289)	1,292
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	901	400	(289)	1,012
Depreciation and amortization	—	58	22	—	80
Selling, general and administrative	4	37	77	—	118
Other operating income, net	—	—	(7)	—	(7)
	4	996	492	(289)	1,203
Operating (loss) income	(4)	63	30	—	89
Interest expense (income), net	15	21	(20)	—	16
(Loss) earnings before income taxes	(19)	42	50	—	73
Income tax (benefit) expense	(4)	(4)	11	—	3
Share in earnings of equity accounted investees	85	39	—	(124)	—
Net earnings	70	85	39	(124)	70
Other comprehensive income	69	69	61	(130)	69
Comprehensive income	139	154	100	(254)	139

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	For the nine months ended September 30, 2017				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	\$	\$	\$	\$	\$
Sales	—	3,156	1,537	(873)	3,820
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	2,749	1,179	(873)	3,055
Depreciation and amortization	—	175	64	—	239
Selling, general and administrative	8	101	228	—	337
Other operating income, net	—	(2)	(4)	—	(6)
	8	3,023	1,467	(873)	3,625
Operating (loss) income	(8)	133	70	—	195
Interest expense (income), net	48	63	(61)	—	50
(Loss) earnings before income taxes	(56)	70	131	—	145
Income tax (benefit) expense	(13)	1	29	—	17
Share in earnings of equity accounted investees	171	102	—	(273)	—
Net earnings	128	171	102	(273)	128
Other comprehensive income	154	163	146	(309)	154
Comprehensive income	282	334	248	(582)	282

For the three months ended
September 30, 2016

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	For the three months ended September 30, 2016				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	\$	\$	\$	\$	\$

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Sales	—	1,044	516	(290)	1,270
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	879	380	(290)	969
Depreciation and amortization	—	65	22	—	87
Selling, general and administrative	3	28	76	—	107
Impairment of property, plant and equipment	—	5	—	—	5
Closure and restructuring costs	—	10	—	—	10
Other operating (income) loss, net	—	(1)	1	—	—
	3	986	479	(290)	1,178
Operating (loss) income	(3)	58	37	—	92
Interest expense (income), net	16	14	(13)	—	17
(Loss) earnings before income taxes	(19)	44	50	—	75
Income tax (benefit) expense	(4)	(3)	23	—	16
Share in earnings of equity accounted investees	74	27	—	(101)	—
Net earnings	59	74	27	(101)	59
Other comprehensive income	3	7	7	(14)	3
Comprehensive income	62	81	34	(115)	62

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	For the nine months ended September 30, 2016				Consolidated
	Parent	Non- Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	
	\$	\$	\$	\$	\$
Sales	—	3,150	1,535	(861)	3,824
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	2,725	1,168	(861)	3,032
Depreciation and amortization	—	193	70	—	263
Selling, general and administrative	13	80	221	—	314
Impairment of property, plant and equipment	—	29	—	—	29
Closure and restructuring costs	—	33	—	—	33
Other operating loss (income), net	1	(2)	5	—	4
	14	3,058	1,464	(861)	3,675
Operating (loss) income	(14)	92	71	—	149
Interest expense (income), net	48	30	(29)	—	49
(Loss) earnings before income taxes	(62)	62	100	—	100
Income tax (benefit) expense	(14)	1	32	—	19
Share in earnings of equity accounted investees	129	68	—	(197)	—
Net earnings	81	129	68	(197)	81
Other comprehensive income	103	97	63	(160)	103
Comprehensive income	184	226	131	(357)	184

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET	September 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	\$	\$	\$	\$	\$
Assets					
Current assets					
Cash and cash equivalents	10	3	130	—	143
Receivables	—	335	324	—	659
Inventories	—	536	251	—	787
Prepaid expenses	11	27	9	—	47
Income and other taxes receivable	—	3	14	(4)	13
Intercompany accounts	292	367	85	(744)	—
Total current assets	313	1,271	813	(748)	1,649
Property, plant and equipment, net	—	1,888	886	—	2,774
Goodwill	—	313	265	—	578
Intangible assets, net	—	270	362	—	632
Investments in affiliates	4,310	2,898	—	(7,208)	—
Intercompany long-term advances	6	81	1,466	(1,553)	—
Other assets	36	28	134	(47)	151
Total assets	4,665	6,749	3,926	(9,556)	5,784
Liabilities and shareholders' equity					
Current liabilities					
Trade and other payables	47	405	235	—	687
Intercompany accounts	299	97	348	(744)	—
Income and other taxes payable	11	—	25	(4)	32
Long-term debt due within one year	—	—	1	—	1
Total current liabilities	357	502	609	(748)	720

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Long-term debt	792	299	73	—	1,164
Intercompany long-term loans	610	942	1	(1,553)	—
Deferred income taxes and other	—	558	170	(47)	681
Other liabilities and deferred credits	20	138	175	—	333
Shareholders' equity	2,886	4,310	2,898	(7,208)	2,886
Total liabilities and shareholders' equity	4,665	6,749	3,926	(9,556)	5,784

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET	December 31, 2016				
	Guarantor		Non-Guarantor	Consolidating	
	Parent	Subsidiaries	Subsidiaries	Adjustments	Consolidated
	\$	\$	\$	\$	\$
Assets					
Current assets					
Cash and cash equivalents	17	14	94	—	125
Receivables	—	305	308	—	613
Inventories	—	548	211	—	759
Prepaid expenses	15	19	6	—	40
Income and other taxes receivable	—	16	15	—	31
Intercompany accounts	331	184	47	(562)	—
Total current assets	363	1,086	681	(562)	1,568
Property, plant and equipment, net	—	2,000	825	—	2,825
Goodwill	—	313	237	—	550
Intangible assets, net	—	279	329	—	608
Investments in affiliates	3,976	2,678	—	(6,654)	—
Intercompany long-term advances	6	80	1,411	(1,497)	—
Other assets	15	18	103	(7)	129
Total assets	4,360	6,454	3,586	(8,720)	5,680
Liabilities and shareholders' equity					
Current liabilities					
Bank indebtedness	—	12	—	—	12
Trade and other payables	48	391	217	—	656
Intercompany accounts	136	115	311	(562)	—
Income and other taxes payable	16	—	6	—	22
Long-term debt due within one year	63	—	—	—	63

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Total current liabilities	263	518	534	(562)	753
Long-term debt	841	299	78	—	1,218
Intercompany long-term loans	560	937	—	(1,497)	—
Deferred income taxes and other	—	556	126	(7)	675
Other liabilities and deferred credits	20	168	170	—	358
Shareholders' equity	2,676	3,976	2,678	(6,654)	2,676
Total liabilities and shareholders' equity	4,360	6,454	3,586	(8,720)	5,680

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF	For the nine months ended September 30, 2017				
			Non-		
	Parent	Subsidiaries	Guarantor	Guarantor	Consolidating
CASH FLOWS	Parent	Subsidiaries	Subsidiaries	Adjustments	Consolidated
	\$	\$	\$	\$	\$
Operating activities					
Net earnings	128	171	102	(273)	128
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	43	(176)	56	273	196
Cash flows provided from (used for) operating activities	171	(5)	158	—	324
Investing activities					
Additions to property, plant and equipment	—	(61)	(50)	—	(111)
Proceeds from disposals of property, plant and equipment	—	—	8	—	8
Cash flows used for investing activities	—	(61)	(42)	—	(103)
Financing activities					
Dividend payments	(78)	—	—	—	(78)
Net change in bank indebtedness	—	(12)	—	—	(12)
Change in revolving credit facility	(50)	—	—	—	(50)
Proceeds from receivables securitization facility	—	—	25	—	25
Repayments of receivables securitization facility	—	—	(35)	—	(35)
Repayments of long-term debt	(63)	—	—	—	(63)
Increase in long-term advances to related parties	—	—	(79)	79	—

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Decrease in long-term advances to related parties	12	67	—	(79)	—
Other	1	—	—	—		1
Cash flows (used for) provided from financing activities	(178)	55	(89)	—	(212
Net (decrease) increase in cash and cash equivalents	(7	)	(11	)	27	—
Impact of foreign exchange on cash	—	—	9	—		9
Cash and cash equivalents at beginning of period	17	14	94	—		125
Cash and cash equivalents at end of period	10	3	130	—		143

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

(UNAUDITED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF	For the nine months ended September 30, 2016				
	Parent	Subsidiaries	Non- Subsidiaries	Consolidating Adjustments	Consolidated
CASH FLOWS	\$	\$	\$	\$	\$
Operating activities					
Net earnings	81	129	68	(197)	81
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	(4,288)	4,205	115	197	229
Cash flows (used for) provided from operating activities	(4,207)	4,334	183	—	310
Investing activities					
Additions to property, plant and equipment	—	(246)	(56)	—	(302)
Acquisition of business, net of cash acquired	—	(1)	—	—	(1)
Other	—	—	1	—	1
Cash flows used for investing activities	—	(247)	(55)	—	(302)
Financing activities					
Dividend payments	(76)	—	—	—	(76)
Stock repurchase	(10)	—	—	—	(10)
Net change in bank indebtedness	—	1	—	—	1
Change in revolving credit facility	60	—	—	—	60
Proceeds from receivables securitization facility	—	—	140	—	140
Repayments of receivables securitization facility	—	—	(40)	—	(40)
Repayments of long-term debt	(38)	(1)	(1)	—	(40)

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Increase in long-term advances to related parties	—	(4,089)	(172)	4,261	—
Decrease in long-term advances to related parties	4,261	—	—	(4,261)	—
Other	(3)	—	—	—	(3)
Cash flows provided from (used for) financing					
activities	4,194	(4,089)	(73)	—	32
Net (decrease) increase in cash and cash equivalents	(13)	(2)	55	—	40
Impact of foreign exchange on cash	—	—	2	—	2
Cash and cash equivalents at beginning of period	49	2	75	—	126
Cash and cash equivalents at end of period	36	—	132	—	168

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, 2016, filed with the Securities and Exchange Commission ("SEC") on February 24, 2017. Throughout this MD&A, unless otherwise specified, "Domtar Corporation," "the Company," "Domtar," "we," "us" and "our" refers 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 three and nine months ended September 30, 2017 and 2016. The three month and nine month periods are also referred to as the third quarter and first nine months of 2017 and 2016. Reference to notes refers to footnotes to the consolidated financial statements and notes thereto included in Item 1 of this Form 10-Q.

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

- Overview

- Highlights for the three month and nine month periods ended September 30, 2017

- Outlook

- Consolidated Results of Operations and Segment Review

- Liquidity and Capital Resources

OVERVIEW

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

We have two reportable segments as described below, which also represent our two operating segments. Each reportable segment offers different products and services and requires different manufacturing processes, technology and 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, 2017

Operating income decreased by 3% while net earnings increased by 19%, from the third quarter of 2016.

Sales increased by 2% from the third quarter of 2016, mostly due to the inclusion of results of Home Delivery Incontinent Supplies (“HDIS”), acquired on October 1, 2016. Net average selling prices for paper were down from the third quarter of 2016 while net average selling prices for pulp were up. Our manufactured paper volumes were down while our pulp volumes were up when compared to the third quarter of 2016.

We paid \$26 million in dividends.

HIGHLIGHTS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2017

Operating income and net earnings increased by 31% and 58%, respectively, from the first nine months of 2016.

Sales were relatively flat as compared to the first nine months of 2016. Net average selling prices for paper were down from the first nine months of 2016 while net average selling prices for pulp were up. Our manufactured paper volumes were down while our pulp volumes were up when compared to the first nine months of 2016. Our Personal Care sales were up, in part due to the acquisition of HDIS.

We paid \$78 million in dividends.

FINANCIAL HIGHLIGHTS (In millions of dollars, unless otherwise noted)	Three months ended				Nine months ended					
	September 30,		Variance		September 30,		Variance			
	2017	2016	\$	%	2017	2016	\$	%		
Sales	\$1,292	\$ 1,270	\$22	2 %	\$3,820	\$ 3,824	\$(4)	- %		
Operating income	89	92	(3)	(3 %)	195	149	46	31 %		
Net earnings	70	59	11	19%	128	81	47	58 %		
Net earnings per common share	(in dollars) ¹ :									
Basic	\$1.12	\$ 0.94	\$0.18	19%	\$2.04	\$ 1.29	\$0.75	58 %		
Diluted	\$1.11	\$ 0.94	\$0.17	18%	\$2.04	\$ 1.29	\$0.75	58 %		
Total assets							At September 30, 2017	At December 31, 2016		
Total long-term debt, including current portion							\$5,784	\$ 5,680		
							\$1,165	\$ 1,281		

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

OUTLOOK

In the fourth quarter, we expect higher maintenance costs in Pulp and Paper. Paper is expected to be negatively impacted by seasonally unfavorable mix while Pulp should continue to realize higher prices following recently announced price increases. Personal Care should benefit from higher volume, favorable raw material costs and seasonally lower marketing expenses.

CONSOLIDATED RESULTS OF OPERATIONS AND SEGMENT REVIEW

This section presents a discussion and analysis of our third quarter and first nine months of 2017 and 2016 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			
	September 30,		Variance		September 30,		Variance	
	2017	2016	\$	%	2017	2016	\$	%
Pulp and Paper	\$1,054	\$ 1,054	-	-%	\$3,126	\$ 3,193	(67)	-2%
Personal Care	253	231	22	10%	743	675	68	10%
Total for reportable segments	1,307	1,285	22	2%	3,869	3,868	1	-%
Intersegment sales	(15)	(15)	-		(49)	(44)	(5)	
Consolidated	1,292	1,270	22	2%	3,820	3,824	(4)	-%

Shipments

Paper - manufactured								
(in thousands of ST)	722	744	(22)	-3%	2,165	2,282	(117)	-5%
Communication papers	597	620	(23)	-4%	1,801	1,904	(103)	-5%
Specialty and Packaging papers	125	124	1	1%	364	378	(14)	-4%
Paper - sourced from third parties								
(in thousands of ST)	29	35	(6)	-17%	84	96	(12)	-13%
Paper - total (in thousands of ST)	751	779	(28)	-4%	2,249	2,378	(129)	-5%
Pulp (in thousands of ADMT)	424	369	55	15%	1,260	1,098	162	15%

ANALYSIS OF CHANGES IN SALES

	Third quarter of 2017 versus Third quarter of 2016							First nine months of 2017 versus First nine months of 2016						
	% Change in Net Sales due to							% Change in Sales due to						
	Price	Mix	Currency	Total	Price	Mix	Currency	Total	Price	Mix	Currency	Total		
Pulp and Paper	- %	- %	- %	- %	- %	- %	- %	-1 %	-1 %	- %	- %	-2 %		
Personal Care	-1 %	9 %	(a)	2 %	10 %	-2 %	13 %	(a)	-1 %	10 %	10 %			

Consolidated sales	-	%	2	%	-	%	2	%	-1	%	1	%	-	%	-	%
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Commentary:

(a) Includes sales of HDIS acquired on October 1, 2016.

ANALYSIS OF OPERATING INCOME
(LOSS)

By Business Segment	Three months ended				Nine months ended			
	September 30,		Variance		September 30,		Variance	
	2017	2016	\$	%	2017	2016	\$	%
Operating income (loss)								
Pulp and Paper	93	89	4	4 %	192	143	49	34 %
Personal Care	8	15	(7)	-47 %	37	44	(7)	-16 %
Corporate	(12)	(12)	-	- %	(34)	(38)	4	11 %
Consolidated operating income (loss)	89	92	(3)	-3 %	195	149	46	31 %

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Third quarter of 2017 versus Third quarter of 2016

	\$ Change in Segmented Operating Income (Loss) due to								
	Volume	Net Price/ Mix	Input Costs	Operating Expenses	Currency	Depreciation/ Impairment	Restructuring	Other Income/ Expense	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Pulp and Paper	2	(4)	3	(25)	(1)	14	10	5	4
Personal Care	— ^(a)	(3)	(2)	(1)	(1)	—	—	—	(7)
Corporate	—	—	—	(2)	—	—	—	2	—
Consolidated operating income (loss)	2	(7)	1	(28)	(2)	14	10	7	(3)

(a) Includes results of HDIS acquired on October 1, 2016.

(b) Includes raw material (such as fiber, chemicals, nonwovens and super absorbent polymers) and energy expenses.

(c) Includes maintenance, freight costs, selling, general and administrative (“SG&A”) expenses and other costs.

(d) In the third quarter of 2017, we did not record any accelerated depreciation compared to \$5 million of accelerated depreciation in the third quarter of 2016 related to the conversion of a paper machine to a high quality fluff pulp line at our Ashdown mill. Depreciation charges were lower by \$9 million in the third quarter of 2017, excluding foreign currency impact.

(e) In the third quarter of 2017, there were no restructuring charges. In the third quarter of 2016, we incurred restructuring charges of \$10 million related to the conversion at Ashdown described above (\$5 million) and the announced closure of a pulp dryer and idling of related assets at our Plymouth mill (\$5 million) related to our plan to optimize fluff pulp manufacturing.

(f)

Third quarter of 2017 other operating income/

Third quarter of 2016 other operating income/

expense includes:

- Gain on sale of property, plant and equipment

(\$4 million)

- Reversal of contingent consideration (\$2 million)

- Other income (\$1 million)

expense includes:

- Foreign exchange loss of working capital items (\$1 million)

- Other income (\$1 million)

Commentary –Third quarter of 2017 compared to Third quarter of 2016

Interest Expense, net

We incurred \$16 million of net interest expense in the third quarter of 2017, a decrease of \$1 million compared to net interest expense of \$17 million in the third quarter of 2016. This decrease is mostly due to a decrease in interest expense as a result of the repayment at maturity of the 9.5% Notes due in August 2016 and of the 10.75% Notes due in June 2017 and a reduction in the amortization of debt issue costs. This decrease was partially offset by a reduction in capitalized interest and an increase in interest expense related to the Term Loan Agreement.

Income Taxes

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In the third quarter of 2017, our income tax expense was \$3 million, consisting of current income tax expense of \$10 million and a deferred income tax benefit of \$7 million. This compares to an income tax expense of \$16 million in the third quarter of 2016, consisting of a current income tax expense of \$5 million and a deferred income tax expense of \$11 million. We made income tax payments, net of refunds, of \$3 million during the third quarter of 2017. Our effective tax rate was 4% compared with an effective tax rate of 21% in the third quarter of 2016. The effective tax rate for the third quarter of 2017 was favorably impacted by the recognition of previously unrecognized tax benefits due to the expiration of certain statutes of limitations. The effective tax rates for both the third quarter of 2017 and third quarter of 2016 were impacted by the finalization of certain estimates in connection with the filing of our 2016 and 2015 income tax returns, respectively.

First nine months of 2017 versus First
nine months of 2016

	\$ Change in Segmented Operating Income (Loss) due to									
	Volume	Mix	Price ^(b)	Input Costs	Operating Expenses ^(c)	Currency	Depreciation/ Impairment ^(d)	Restructuring	Other Income/ Expense ^(e)	Total
Pulp and Paper	(18)	(32)	) 14	(23)	) 13	55	33	7	49
Personal Care	7	(a) (11)	) 4	(4)	) (3)	—	—	—	(7)
Corporate	—	—	—	2	(1)	—	—	3	4	
Consolidated operating income (loss)	(11)	(43)) 18	(25)) 9	55	33	10	46	

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- (a) Includes results of HDIS acquired on October 1, 2016.
- (b) Includes raw material (such as fiber, chemicals, nonwovens and super absorbent polymers) and energy expenses.
- (c) Includes maintenance, freight costs, SG&A expenses and other costs.
- (d) In the first nine months of 2017, we did not record any accelerated depreciation compared to \$29 million of accelerated depreciation related to the conversion of a paper machine to a high quality fluff pulp line at our Ashdown mill, recorded in the first nine months of 2016. Depreciation charges were lower by \$26 million in the first nine months of 2017, excluding foreign currency impact.
- (e) In the first nine months of 2017, there were no restructuring charges. In the first nine months of 2016, we incurred restructuring charges of \$33 million mostly related to the conversion at Ashdown described above and the closure of a pulp dryer and idling of related assets at our Plymouth mill, related to our plan to optimize fluff pulp manufacturing.
- (f)

First nine months of 2017 other operating income/ First nine months of 2016 other operating income/

expense includes:

- Gain on sale of property, plant and equipment

(\$4 million)

- Reversal of contingent consideration (\$2 million)

- Environmental provision (\$2 million)

- Bad debt expense (\$1 million)

- Foreign exchange loss on working capital items

(\$1 million)

- Other income (\$4 million)

expense includes:

- Foreign exchange loss on working capital items (\$5 million)

- Litigation settlement (\$2 million)

- Other income (\$3 million)

Commentary – First nine months of 2017 compared to first nine months of 2016

Interest Expense, net

We incurred \$50 million of net interest expense in the first nine months of 2017, an increase of \$1 million compared to net interest expense of \$49 million in the first nine months of 2016. This increase was mostly due to a reduction in capitalized interest and an increase in interest expense related to the Term Loan Agreement. This increase was partially offset by the repayment at maturity of the 9.5% Notes due in August 2016 and of the maturity of the 10.75% Notes due in June 2017.

Income Taxes

In the first nine months of 2017, our income tax expense was \$17 million, consisting of current income tax expense of \$36 million and a deferred income tax benefit of \$19 million. This compares to an income tax expense of \$19 million in the first nine months of 2016, consisting of a current income tax expense of \$13 million and a deferred income tax expense of \$6 million. We made income tax payments, net of refunds, of \$18 million during the first nine months of

2017. Our effective tax rate was 12% compared to an effective tax rate of 19% in the first nine months of 2016. The effective tax rate for the first nine months of 2017 was favorably impacted by the recognition of previously unrecognized tax benefits due to the expiration of certain statutes of limitations as well as by various enacted law changes in several U.S. states. The effective tax rates for both the first nine months of 2017 and the first nine months of 2016 were impacted by the finalization of certain estimates in connection with the filing of our 2016 and 2015 income tax returns, respectively. Additionally, the effective tax rate for the first nine months of 2016 was impacted by the approval of a state tax credit in the U.S.

Commentary – Segment Review

Pulp and Paper Segment

Sales in our Pulp and Paper segment remained relatively flat when compared to sales in the third quarter of 2016. Our net average selling price for paper decreased while our net average selling price for pulp increased. Paper sales volume decreased from the third quarter of 2016 while pulp sales volume increased from the third quarter of 2016.

Operating income in our Pulp and Paper segment amounted to \$93 million in the third quarter of 2017, an increase of \$4 million, when compared to operating income of \$89 million in the third quarter of 2016. Our results were positively impacted by:

- Lower depreciation charges (\$14 million) due to accelerated depreciation related to our 2014 decision to convert a paper machine at our Ashdown facility to a high quality fluff pulp line in the third quarter of 2016 and lower depreciation charges due to certain assets being fully depreciated
- Lower restructuring costs mostly related to the conversion of a paper machine to a high quality fluff pulp line at our Ashdown mill, recorded in the third quarter of 2016 (\$5 million) and the announced closure of a pulp dryer and idling of related assets at our Plymouth mill (\$5 million) related to our plan to optimize fluff pulp manufacturing
- Lower other operating income/expense (\$5 million)
- Lower input costs (\$3 million) mostly related to lower energy costs due to a boiler conversion and lower fiber costs as a result of improved yields, partially offset by higher chemical costs
- Higher volume/mix (\$2 million) mostly related to higher volume of pulp partially offset by lower volume of paper

This increase was partially offset by:

- Higher operating expenses (\$25 million) mostly due to higher maintenance costs as a result of timing of outages
- Lower average selling prices for paper partially offset by higher average selling prices for pulp (\$4 million)
- Negative impact of a stronger Canadian dollar on our Canadian denominated expenses, partially offset by our hedging program (\$1 million)

Sales in our Pulp and Paper segment decreased by \$67 million, or 2% when compared to sales in the first nine months of 2016. This decrease in sales is mostly due to a decrease in net average selling prices for paper as well as a decrease in our paper sales volumes. This decrease was partially offset by an increase in our pulp sales volumes and an increase in net average selling prices for pulp.

Operating income in our Pulp and Paper segment amounted to \$192 million in the first nine months of 2017, an increase of \$49 million, when compared to operating income of \$143 million in the first nine months of 2016. Our results were positively impacted by:

- Lower depreciation charges (\$55 million) due to accelerated depreciation related to our 2014 decision to convert a paper machine at our Ashdown facility to a high quality fluff pulp line in the first nine months of 2016 and lower depreciation charges due to certain assets being fully depreciated
- Lower restructuring costs mostly related to the conversion of a paper machine to a high quality fluff pulp line at our Ashdown mill and the announced closure of a pulp dryer and idling of related assets at our Plymouth mill related to our plan to optimize fluff pulp manufacturing, recorded in the first nine months of 2016 (\$33 million)
- Lower input costs (\$14 million) mostly related to lower fiber costs as a result of improved yields and better weather and lower energy costs, partially offset by higher chemicals costs

Positive impact of our hedging program, partially offset by a stronger Canadian dollar on our Canadian denominated expenses (\$13 million)

Lower other operating income/expense (\$7 million)

This increase was partially offset by:

Lower average selling prices for paper, partially offset by higher average selling prices for pulp (\$32 million)

Higher operating expenses (\$23 million) mostly due to higher freight, packaging and compensation costs and partially offset by lower maintenance costs

Lower volume/mix (\$18 million) mostly related to lower volume of paper, partially offset by higher volume of pulp
The markets in which our pulp and paper business operate are highly competitive with well-established domestic and foreign manufacturers. In uncoated freesheet, we compete primarily on the basis of product quality, breadth of offering, service solutions and competitively priced paper products. We also compete with 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. Most of our products are commodities and 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.

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.

In the fourth quarter, we expect higher maintenance costs. Paper is expected to be negatively impacted by seasonally unfavorable mix while Pulp should continue to realize higher prices following recently announced price increases.

Personal Care Segment

Sales in our Personal Care segment increased by \$22 million, or 10% when compared to sales in the third quarter of 2016. This increase in sales was driven by higher sales volume/mix of 9% mostly due to the acquisition of HDIS on October 1, 2016 and favorable foreign currency of 2%, net of our hedging program, mostly between the Euro and U.S Dollar. This increase was partially offset by lower selling prices of 1%.

Operating income decreased by \$7 million or 47% in the third quarter of 2017 compared to the third quarter of 2016. Our results were negatively impacted by:

- Lower average net selling prices (\$3 million)
- Higher input costs (\$2 million) mostly due to higher raw material indices and usage of fluff
- Higher operating expenses (\$1 million) mostly due to higher salaries and wages and higher SG&A expenses
- Negative impact of our hedging program partially offset by favorable foreign exchange mostly between the U.S. Dollar and Euro (\$1 million)

Sales in our Personal Care segment increased by \$68 million, or 10% when compared to sales in the first nine months of 2016. This increase in sales was driven by higher sales volume/mix of 13% mostly due to the acquisition of HDIS on October 1, 2016, partially offset by lower selling prices of 2% and unfavorable foreign currency rates of 1% due to fluctuations between European currencies.

Operating income decreased \$7 million, or 16% in the first nine months of 2017 when compared to the first nine months of 2016.

Our results were negatively impacted by:

- Lower average net selling prices (\$11 million)
 - Higher operating expenses (\$4 million) mostly due to higher salaries and wages and higher SG&A expenses
 - Unfavorable foreign exchange mostly between the GBP and Euro, net of our hedging program (\$3 million)
- This decrease was partially offset by:

- Higher sales volume and mix (\$7 million)
 - Lower input costs (\$4 million) mostly due to favorable pricing as a result of lower negotiated contract pricing
- In our absorbent hygiene products business, we compete in an industry with fundamental drivers for long-term growth. While we are expected to benefit from the overall increase in healthcare spending due to an aging population, it is not clear how recent administrative changes in the various national governments may impact the source of the funding. Changes in the balance of public versus private funding may be forthcoming and these could impact overall

consumption or the channels in which consumption occurs. The principal methods and elements of competition include brand recognition and loyalty, product innovation, quality and performance, price and marketing and distribution capabilities.

In the fourth quarter, we expect to benefit from higher volume, favorable raw material costs and seasonally lower marketing expenses.

STOCK-BASED COMPENSATION EXPENSE

For the first nine months of 2017, stock-based compensation expense recognized in our results of operations was \$15 million for all outstanding awards which includes the mark-to-market expense related to liability awards of \$1 million. This compares to a stock-based compensation expense of \$11 million for all outstanding awards which includes the mark-to-market recovery related to liability awards of \$2 million in the first nine months of 2016. Compensation costs for performance awards are based on management's best estimate of the final performance measurement.

LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements are for ongoing operating costs, pension contributions, working capital and capital expenditures, as well as principal and interest payments on our debt and income tax payments. We expect to fund our liquidity needs primarily with internally generated funds from our operations and, to the extent necessary, through borrowings under our contractually committed \$700 million credit facility, of which \$700 million is currently undrawn and available, or through our \$150 million receivables securitization facility, of which \$39 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, which reflect full provision for local income taxes, are currently indefinitely reinvested in foreign operations. We do not intend on repatriating those funds and no provision is made for income taxes that would be payable upon the distribution of earnings from foreign subsidiaries as computation of these amounts is not practical.

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 \$324 million in the first nine months of 2017, a \$14 million increase compared to cash flows from operating activities of \$310 million in the first nine months of 2016. This increase in cash flows provided from operating activities is primarily due to a decrease in working capital requirements in the first nine months of 2017 when compared to the first nine months of 2016 as well as an increase in profitability (excluding the non-cash impairment charge of \$29 million in the first nine months of 2016). We made income tax payments, net of refunds of \$18 million in the first nine months of 2017 compared to income tax payments, net of refunds of \$37 million during the first nine months of 2016. We paid \$33 million of employer pension and other post-retirement contribution in excess of pension and other post-retirement expense in the first nine months of 2017 compared to \$16 million in the first nine months of 2016.

Investing Activities

Cash flows used for investing activities in the first nine months of 2017 amounted to \$103 million, a \$199 million decrease compared to cash flows used for investing activities of \$302 million in the first nine months of 2016.

The use of cash in the first nine months of 2017 was attributable to additions to property, plant and equipment of \$111 million, partially offset by proceeds from disposals of property, plant and equipment of \$8 million.

The use of cash in the first nine months of 2016 was attributable to additions to property, plant and equipment of \$302 million.

Our capital expenditures for 2017 are expected to be approximately between \$185 million and \$190 million.

Financing Activities

Cash flows used for financing activities totaled \$212 million in the first nine months of 2017 compared to cash flows provided from financing activities of \$32 million in the first nine months of 2016.

The use of cash in the first nine months of 2017 was primarily the result of dividend payments (\$78 million), the net repayments of borrowings under our credit facilities (revolver and receivable securitization) and long-term debt (\$123 million) and a decrease in our bank indebtedness (\$12 million).

The cash flows provided from financing activities in the first nine months of 2016 was primarily the result of net proceeds from borrowings under our credit facilities (revolver and receivable securitization) (\$120 million) and an increase in our bank indebtedness (\$1 million). These were partially offset by dividend payments (\$76 million) and the repurchase of our common stock (\$10 million).

Capital Resources

Net indebtedness, consisting of bank indebtedness and long-term debt, net of cash and cash equivalents, was \$1,022 million as of September 30, 2017 compared to \$1,168 million as of December 31, 2016.

Notes Maturity

Our 9.5% Notes, in aggregate principal amount of \$39 million, matured on August 1, 2016.

Our 10.75% Notes, in aggregate principal amount of \$63 million, matured on June 1, 2017.

Term Loan

In the third quarter of 2015, a wholly owned subsidiary of Domtar borrowed \$300 million under an unsecured 10-year Term Loan Agreement that matures on July 20, 2025, with certain domestic banks. The Company and certain significant domestic subsidiaries of the Company unconditionally guarantee any obligations from time to time arising under the Term Loan Agreement. On August 18, 2016, Domtar entered into an amendment to its Term Loan Agreement, pursuant to which, among other things, certain insignificant subsidiaries were released from their guarantees of the borrower's obligations under the Term Loan Agreement.

Borrowings under the Term Loan Agreement bear interest at LIBOR plus a margin of 1.875%. 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. At September 30, 2017, we were in compliance with these financial covenants.

Revolving Credit Facility

In August 2016, we amended and restated our unsecured revolving credit facility (the "Credit Agreement") with certain domestic and foreign banks, increasing the amount available from \$600 million to \$700 million and extending the Credit Agreement's maturity date from October 3, 2019 to August 18, 2021. The amendment also allows certain foreign subsidiaries to be borrowers under the facility. The maturity date of the facility may be extended by one year and the lender commitments may be increased by up to \$400 million, subject to lender approval and customary requirements.

Borrowings by the Company under the Credit Agreement are guaranteed by our significant domestic subsidiaries. Borrowings by foreign borrowers under the Credit Agreement are guaranteed by the Company, our significant domestic subsidiaries and certain of our foreign significant subsidiaries. The amendment allowed certain insignificant domestic subsidiaries that were previously guarantors, to be released from their guarantees of any obligations under the credit facility.

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

The Credit Agreement contains customary covenants and events of default for transactions of this type, including two financial covenants: (i) an interest coverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not less than 3 to 1 and (ii) a leverage ratio, as defined in the Credit Agreement that must be maintained at a level of not greater than 3.75 to 1 (or 4.00 to 1 upon the occurrence of certain qualifying material acquisitions). At September 30, 2017, we were in compliance with these financial covenants. At September 30, 2017, we had no borrowings (September 30, 2016 – \$110 million) and no outstanding letters of credit (September 30, 2016 – nil), leaving \$700 million unused and available under this facility.

Receivables Securitization

We have a \$150 million receivables securitization facility that matures in March 2019.

At September 30, 2017, borrowings under the receivables securitization facility amounted to \$60 million and \$51 million of letters of credit were issued under the program (September 30, 2016 – \$100 million and \$48 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 facility or our failure to repay or satisfy material obligations. At September 30, 2017, we had \$39 million unused and available under this facility.

Common Stock

On February 21, 2017, May 3, 2017 and August 1, 2017, our Board of Directors approved a quarterly dividend of \$0.42 per share, respectively, to be paid to holders of our common stock. Dividends of \$26 million were paid on April 17, 2017, July 17, 2017 and October 16, 2017, respectively, to shareholders of record on April 3, 2017, July 3, 2017 and October 2, 2017, respectively.

On October 31, 2017, our Board of Directors approved a quarterly dividend of \$0.42 per share to be paid to holders of our common stock. This dividend is to be paid on January 15, 2018, to shareholders of record on January 2, 2018.

OFF BALANCE SHEET ARRANGEMENTS

In the normal course of business, we finance certain of our activities off balance sheet through operating leases.

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, 2017, 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, 2017, 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, goodwill and intangible assets impairment, pension and other post-retirement benefit plans, income taxes, business combinations 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.

There has not been any material change to our policies since December 31, 2016. For more details on critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2016.

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 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" 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 strategic acquisitions;
- product selling prices;
- raw material prices, including fiber, chemical and energy;
- conditions in the global capital and credit markets, and the economy generally, particularly in the U.S., Canada and Europe;
- performance of Domtar Corporation's manufacturing operations, including unexpected maintenance requirements;
- the level of competition from domestic and foreign producers;
- the effect of, or change in, forestry, land use, environmental and other governmental regulations (including tax), 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 goodwill, property, plant and equipment, inventory, accounts receivable or other assets for impairment or other reasons;
- changes in currency exchange rates, particularly the relative value of the U.S. dollar to the Canadian dollar and European currencies;
- the effect of timing of retirements and changes in the market price of Domtar Corporation's common stock on charges for stock-based compensation;
- performance of pension fund investments and related derivatives, if any; and
- the other factors described under "Risk Factors", in item 1A of our Annual Report on Form 10-K, for the year ended December 31, 2016.

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, 2016. There have been no material changes in our exposure to market risk since December 31, 2016. A full discussion on Quantitative and Qualitative Disclosure about Market Risk, is found in Note 3 “Derivatives and Hedging Activities and Fair Value Measurement,” of the financial statements in this Quarterly Report on Form 10-Q.

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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, 2017, 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, 2017, our disclosure controls and procedures were effective.

Change in Internal Control over Financial Reporting

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

For a description of previously reported legal proceedings refer to Part I, Item 3, “Legal Proceedings,” of our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the year ended December 31, 2016, contains important risk factors that could cause our actual results to differ materially from those projected in any forward-looking statement. There have been no material changes from the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

During the third quarter and the first nine months of 2017, we did not repurchase any shares under our stock repurchase program (the “Program”). We currently have \$323 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 under the Program. The Program has no set expiration date. We repurchase our common stock, from time to time, in part to reduce the dilutive effects of our stock options and awards and to improve shareholders’ returns. The timing and amount of stock repurchases will depend on a variety of factors, including market conditions, availability under the program as well as corporate and regulatory considerations. All shares repurchased are recorded as Treasury stock on the Consolidated Balance Sheets under the par value method at \$0.01 per share.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

		Incorporated by reference to:
Exhibit		
Number	Exhibit Description	Form Exhibit Filing Date
12.1	<u>Computation of Ratio of Earnings to Fixed Charges</u>	
31.1	<u>Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	
31.2	<u>Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	
32.1	<u>Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	
32.2	<u>Certification of the Chief</u>	

Financial
Officer Pursuant
to Section 906
of the
Sarbanes-Oxley
Act of 2002

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Extension Presentation Linkbase

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 3, 2017

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