CREATING NEW POSSIBILITIES

2018 ANNUAL REPORT

Cascades

CASCADES

CASCADES

2018
AT A GLANCE

$462 M

invested in property, plant and equipment, business acquisitions and in our management systems

SALES

$4,649 M

#1

RECYCLED FIBRE COLLECTOR IN CANADA

OIBD[2]

$474 M

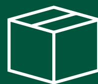
ADJUSTED OIBD[2]

$489 M

Our **MISSION** is to improve the well-being of people, communities and the planet by providing sustainable and innovative solutions that create value.

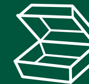
WE CARE.
WE INNOVATE.
WE CREATE VALUE.

Our **VISION** is to be a key contributor to our customers' success by leading the way for sustainable packaging, hygiene and recovery solutions.



CONTAINERBOARD PACKAGING

A Canadian leader
5th largest producer in North America

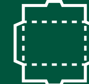


SPECIALTY PRODUCTS

★ A North American leader in industrial and food packaging products[1]

TISSUE PAPERS

A Canadian leader
5th largest producer in North America



BOXBOARD EUROPE[4]

2nd largest producer of coated recycled boxboard in Europe

3.4 M

SHORT TONS OF RECYCLED FIBRE DIVERTED FROM LANDFILLS

11,780

EMPLOYEES IN 6 COUNTRIES

OSHA RATE

1.9[5]

96[3]

FACILITIES ACROSS CANADA, THE UNITED STATES AND EUROPE

1 Through our joint venture Cascades Sonoco.
2 Please refer to the "Forward-looking Statements" and "Supplemental Information on Non-IFRS Measures" sections for more details.
3 Including main associates and joint ventures.
4 Via our 57.95% equity ownership in Reno de Medici S.p.A., an Italian public company traded on the Milan and Madrid stock exchanges.
5 OSHA frequency rate: Number of accidents with lost time or temporary assignments or medical treatments X 200,000 hours/hours worked.

FINANCIAL SNAPSHOT

FINANCIAL SNAPSHOT

(In millions of Canadian dollars, unless otherwise noted)	2018	2017	2016
SALES (AS REPORTED)	**4,649**	**4,321**	4,001
Operating income	**230**	**175**	221
% of sales	**4.9%**	**4.0%**	5.5%
Operating income before depreciation and amortization (OIBD)[1]	**474**	**390**	413
% of sales	**10.2%**	**9.0%**	10.3%
Net earnings	**59**	**507**	135
per common share (in dollars)	**$0.62**	**$5.35**	$1.42
Dividend per share (in dollars)	**$0.16**	**$0.16**	$0.16
ADJUSTED[1]			
Operating income	**245**	**178**	211
% of sales	**5.3%**	**4.1%**	5.3%
Operating income before depreciation and amortization (OIBD)[1]	**489**	**393**	403
% of sales	**10.5%**	**9.1%**	10.1%
Net earnings	**79**	**68**	114
per common share (in dollars)	**$0.83**	**$0.72**	$1.21
Return on assets[1, 2]	**10.6%**	**9.2%**	10.8%
Return on capital employed[1, 3]	**4.6%**	**3.7%**	5.2%
FINANCIAL POSITION (AS AT DECEMBER 31)			
Total assets	**4,951**	**4,427**	3,848
Capital employed[3]	**3,881**	**3,646**	3,142
Net debt[1]	**1,769**	**1,522**	1,532
Net debt/adjusted OIBD[1, 4]	**3.5x**	**3.6x**	3.8x
Equity attributable to shareholders	**1,508**	**1,455**	984
per common share (in dollars)	**$16.01**	**$15.32**	$10.41
Working capital as a % of sales[7]	**10.6%**	**10.1%**	10.6%
KEY INDICATORS			
Total shipments (in thousands of short tons (s.t.))[5]	**3,225**	**3,114**	2,812
Manufacturing capacity utilization rate[6]	**93%**	**93%**	92%
US$/CAN$ - Average exchange rate	**$0.77**	**$0.77**	$0.75

1 See “Forward-looking Statements” and “Supplemental Information on Non-IFRS Measures” sections for more details.

2 Return on assets is a non-IFRS measure defined as the last twelve months' (“LTM”) adjusted OIBD/LTM quarterly average of total assets less cash and cash equivalents. Not adjusted for discontinued operations. Starting in Q2 2017, including Greenpac on a consolidated basis.

3 Return on capital employed is a non-IFRS measure and is defined as the after-tax (30%) amount of the LTM adjusted operating income, including our share of core associates and joint ventures, divided by the LTM quarterly average of capital employed. Capital employed is defined as the quarterly average of total assets less trade and other payables and cash and cash equivalents. Not adjusted for discontinued operations. Including Greenpac as an associate up to Q1 2017 and on a consolidated basis starting in Q2 2017.

4 Ratio including business combinations on a pro-forma basis to include the last twelve months.

5 Shipments do not take into account the elimination of business sector inter-segment shipments. Starting in Q2 2017, including Greenpac. Shipments from our Specialty Products segment are not presented as they use different units of measure.

6 Defined as: Manufacturing internal and external shipments/practical capacity. Excluding discontinued operations and Specialty Products segment manufacturing activities. Starting in Q2 2017, including Greenpac.

7 Working capital includes accounts receivable (excluding the short-term portion of other assets) plus inventories less trade and other payables. Percentage of sales = Average LTM working capital/LTM sales. It includes or excludes significant business acquisitions and disposals. Starting in Q2 2017, including Greenpac.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

SYMBOL: CAS–TSX

(ON THE TORONTO STOCK EXCHANGE)

S&P/TSX INDICES

- COMPOSITE
- SMALL CAP
- DIVIDEND
- CLEAN TECHNOLOGY
- COMPOSITE CANADA REVENUE EXPOSURE

BMO INDICES

- SMALL CAP
- SMALL CAP QUÉBEC

94.2 MILLION
COMMON SHARES OUTSTANDING
as at December 31, 2018

100.5 MILLION
TOTAL NUMBER OF COMMON SHARES TRADED
in 2018

$0.04
QUARTERLY DIVIDEND PER SHARE
in 2018

1.6%
ANNUAL DIVIDEND YIELD
as at December 31, 2018

$16.69
INTRADAY HIGH
in 2018

$9.15
INTRADAY LOW
in 2018

$963.292 MILLION
MARKET CAPITALIZATION
as at December 31, 2018

MOODY'S: Ba2 (STABLE)
S&P: BB- (POSITIVE)
CORPORATE CREDIT RATINGS
as at December 31, 2018

CASCADES' SHARE PRICE EVOLUTION IN 2018

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The annual general shareholders' meeting will be held on Thursday, May 9, 2019, at 11 a.m. EDT at the Centrexpo Cogeco Drummondville, located at 550 Saint-Amant, Drummondville, Québec.

Cascades Inc.'s 2018 Annual Information Form will be available, upon request, from the Corporation's head office as of **March 28, 2019.**

This report is also available on our website at: www.cascades.com.

On peut se procurer la version française du présent rapport annuel en s'adressant au siège social de la Société à l'adresse suivante :

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Cascades inc.
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COMMITMENT

ALAIN LEMAIRE

EXECUTIVE CHAIRMAN OF THE BOARD

NEW OPPORTUNITIES, GREAT SUSTAINABILITY

Dear fellow shareholders,

Throughout history, companies have been formed from an idea, a discovery or a technological breakthrough. Those that have withstood the test of time are the ones that have successfully adapted their early roots to changing market dynamics, built and nurtured a strong corporate culture and expanded strategic and competitive advantages.

The origin of Cascades can be traced to one unused paper mill located in Kingsey Falls, in Québec, and the profound conviction that recovering, recycling and reusing should be something we all do. This notion of sustainable development was well ahead of its time, and to this day remains the nucleus of the Company's culture alongside a deep commitment to its employees, and a drive to provide its customers with innovative solutions and value-added service.

To support the successful renewal of its corporate culture, Cascades has equipped itself to adapt when needed, while remaining firmly anchored by its founding principles. This is driven by the conviction that cultural continuity and effective succession planning go hand in hand. Both are focused on the future, the successful implementation of a long-term strategic vision, consistent messaging and collaboration with all of the company's stakeholders, and good corporate governance practices.

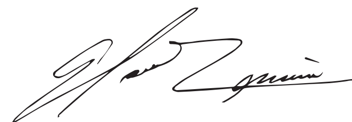
To this end, succession planning touches all levels of the Company, from operations to mid-tier corporate roles, to senior management positions up to and including directors at the Board level. Establishing and maintaining entrepreneurial, engaged and competent team members at every level is both an important competitive advantage and the enduring bedrock that helps convert Cascades' long-term strategic vision into reality.

CULTURAL CONTINUITY AND EFFECTIVE SUCCESSION PLANNING GO HAND IN HAND.

Charged with oversight, it is incumbent on the Board of Directors to ensure that Cascades' succession plans are proactive, focused and effective. In addition to a fresh perspective, strategic thinking, and informed guidance, the Board reviews the roadmap set out by the Company's management team. Together, these efforts reinforce the Company's organizational culture, support the continuity and sustainability of corporate performance, and fuel the engine for meaningful value creation over the long term.

Like all companies, Cascades' culture has evolved with time. This renewal has been successful largely because the essential fabric of the Corporation's culture continues to be refreshed with individuals possessing the right levels of competency, integrity and engagement. The Board, along with Cascades' management team, is focused on continuing to foster a positive culture that supports the roadmap necessary for the future success of the Company and every one of our employees.

On behalf of myself and the Board of Directors, thank you for your ongoing support, interest and trust.



Alain Lemaire
Executive Chairman of the Board of Directors of Cascades

OPPORTUNITIES

MARIO PLOURDE

PRESIDENT AND CHIEF EXECUTIVE OFFICER

SEIZING KEY OPPORTUNITIES FOR GROWTH

Dear fellow shareholders,

Transformation takes time when done right, and we have made excellent progress in our multi-year strategic plan. We have work left to do, however, and to truly understand where Cascades is headed and the motivation behind our capital investment plans, you need look no further than our history. Cascades has always been entrepreneurial at heart, opportunistic by choice and production oriented by nature. Moreover, much of the Company's growth over our 50-year history has been achieved by acquiring and revamping older assets. This approach served us very well for many decades and shaped the strong foundation we have in place today.

The needs of our customers and partners, as well as our competitive realities, have evolved significantly over time, and our assets have required investment and modernization to remain competitive and meet changing market dynamics. We cannot predict the volatility of our markets. We can, however, continue to ensure that our operations are well equipped to optimize performance during the business cycles. On this front, I am certain of our path.

Historically, our investment approach was one that saw capital spread over a myriad of smaller-scale projects that generated incremental benefits across our asset base. Today, with our simpler, more streamlined business model, we are making considerably larger investments that are fewer in number, more meaningful in scope, and designed to deliver important benefits in terms of the long-term performance and competitivity of our operations.

WE ARE MAKING CONSIDERABLY LARGER INVESTMENTS THAT ARE FEWER IN NUMBER, MORE MEANINGFUL IN SCOPE, AND DESIGNED TO DELIVER IMPORTANT BENEFITS IN TERMS OF LONG-TERM PERFORMANCE.

An excellent illustration of the strategic, larger-scale investment approach we are now applying is the capital we began deploying in our containerboard platform a decade ago. It was a contrarian move considering the challenging economic environment of 2008-2009. That said, where others saw risk we saw opportunity, and in 2011 we announced plans to build the Greenpac Mill in Niagara Falls, NY. Five years after its 2013 opening, this facility has become a cornerstone of our containerboard platform, generating first quartile margins. The success of this project can be viewed as a blueprint for the level of operational agility and long-term competitive positioning we are intent on delivering with our strategic and transformative investment plans going forward.

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Which brings me to the investments we are currently making in our tissue operations. Some would question why we are choosing to invest now, at a time when the industry is under significant pressure due to important capacity additions, elevated input costs and a consolidating customer base. The short answer is that we need to. The more substantive answer is that we have a long-term horizon, not a short-term view, and these investments aim to re-equip our tissue platform with modern and competitive assets that will be better able to capture value when more normal market conditions return to the tissue sector.

We advanced our strategic growth plans on several fronts in 2018. Containerboard Packaging acquired the Bear Island, VA facility with a view to converting the paper machine to produce recycled containerboard, and launched production at the newly completed Piscataway, NJ converting facility ahead of schedule. Our Tissue Paper business announced a significant investment at the Wagram, NC converting facility, the first step in the revitalization of this segment's converting assets. Lastly, Specialty Packaging expanded its platform with the acquisition of moulded pulp operations in the US which will strengthen its consumer products business, while our European Boxboard operations extended their operational reach into Spain with the acquisition of Barcelona Cartonboard SAU.

Without question, the fluctuation of our share price over the year is of concern to us. Our investment projects have been designed with the aim of positioning our business groups in their target markets. We are confident that these projects will contribute to the creation of sustainable value for the long term, which will inevitably be reflected in the stock price in the future. Paramount to this is maximizing our operational excellence, nurturing beneficial relationships with our customers and our employees over time, building on our commitment to sustainability, and providing added value via innovative products. The investments we are making will strengthen our position in all these respects.

I am very proud of how our employees have embraced the daily challenges they faced as we rolled out our new business processes and more focused operational approach, and I am very encouraged by what we accomplished in 2018. With our multi-year ERP implementation largely complete, the lion's share of these hurdles are now behind us, and we are focused on optimization and internal appropriation of these tools. Importantly, recent initiatives contributed to the record adjusted OIBD generated by our operations in 2018, and we expect additional benefits will continue to be monetized in the future.

When I look back at the substantial internal changes we have completed over recent years, the strategic investments made, and the powerful business process systems we now have in place, I am very confident for the future of Cascades. Central to this optimism are our more than 11,000 employees, who are the driving force behind Cascades. I would like to thank them for their commitment, and their daily dedication to Cascades' continued success and prosperity.

We will be hosting our Annual General Meeting on Thursday, May 9th. I invite you to join me, along with senior management, our directors and employee shareholders as we discuss our business and our vision for the future.

Thank you for your continued support.

MARIO PLOURDE
President and Chief Executive Officer

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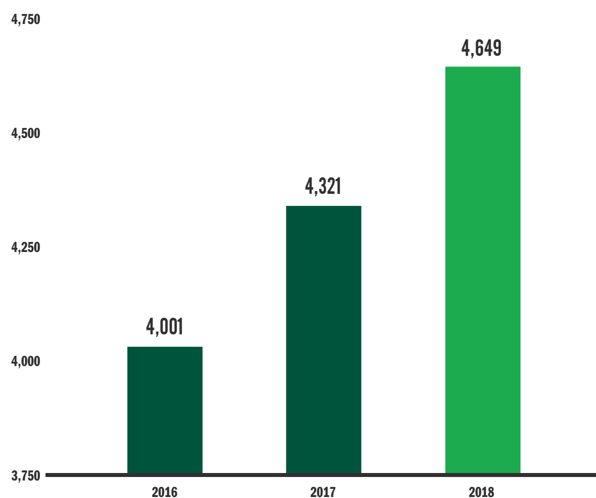
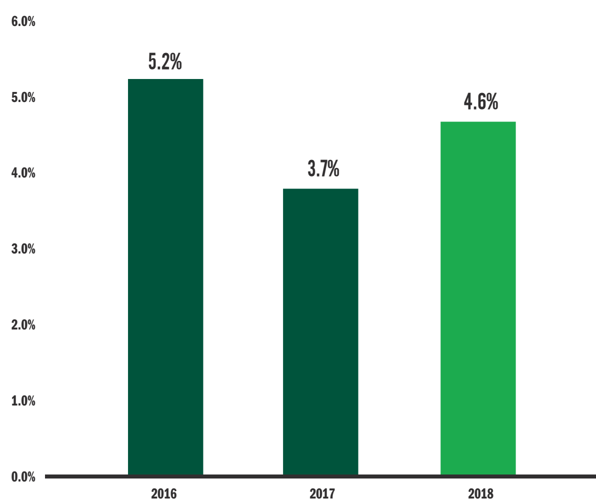
SALES (M$)

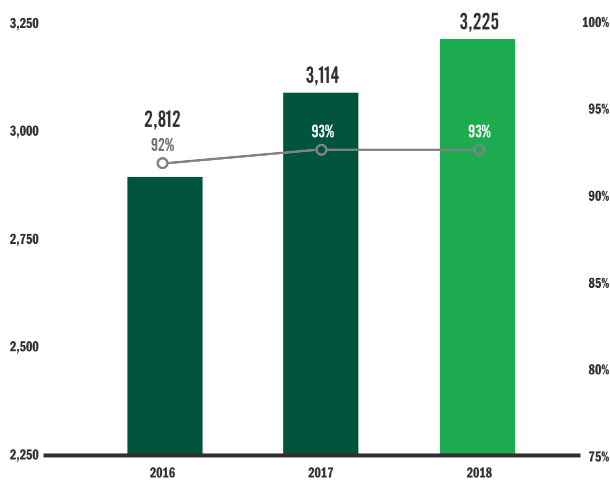


OIBD[1] (M$)

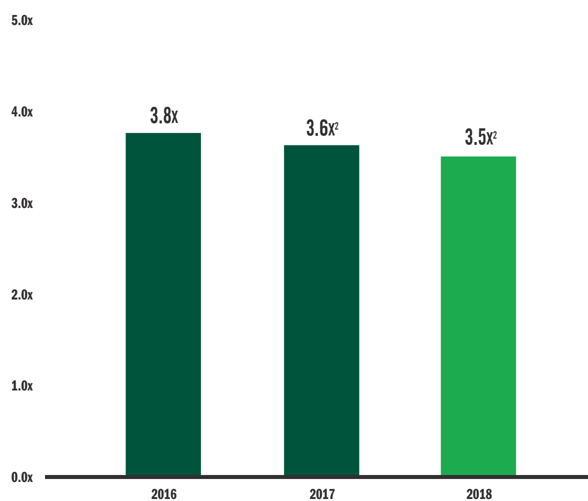
RETURN ON CAPITAL EMPLOYED[1]



TOTAL SHIPMENTS AND MANUFACTURING CAPACITY UTILIZATION RATE ('000 s.t. and %)



NET DEBT / ADJUSTED OIBD[2]



1 Please refer to the "Forward-looking Statements" and "Supplemental Information on Non-IFRS Measures" sections for more details.
2 Ratio including business combinations on a pro-forma basis to include the last twelve months.

FINANCIAL

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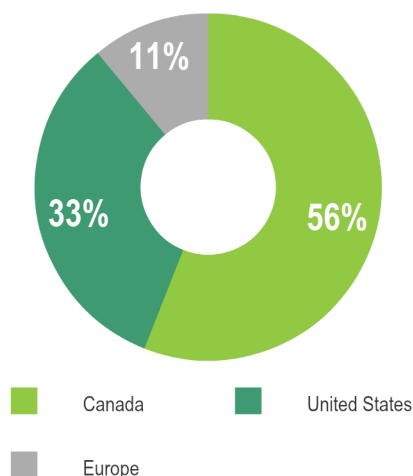
OUR BUSINESS

Cascades Inc. is a paper and packaging company that produces, converts and sells packaging and tissue products composed primarily of recycled fibres. Established in 1964 in Kingsey Falls, Québec, the Corporation was founded by the Lemaire brothers, who saw the economic and social potential of building a company focused primarily on the sustainable development principles of reusing, recovering and recycling. More than 50 years later, Cascades is a multinational business with close to 100 operating facilities[1] and more than 11,700 employees across Canada, the United States and Europe. The Corporation currently operates four business segments:

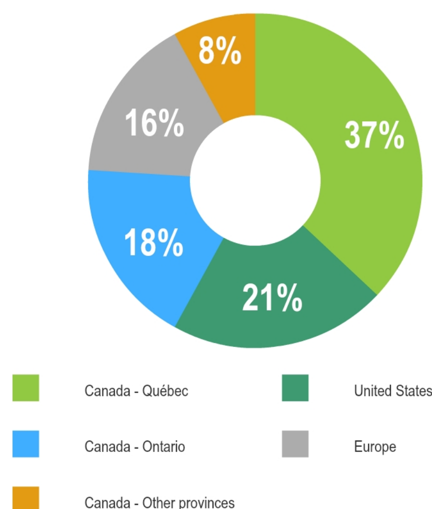
(Business segments)	Number of Facilities[1]	2018 Sales[2] (in M$)	2018 Operating income before depreciation and amortization (OIBD)[2] (in M$)	2018 Adjusted OIBD[2,5] (in M$)	2018 Adjusted OIBD Margin (%)
PACKAGING PRODUCTS					
Containerboard	27	1,840	470	410	22%
Boxboard Europe[3]	8	933	97	97	10%
Specialty Products	40	659	46	40	6%
TISSUE PAPERS	21	1,352	(58)	17	1%

The location of our plants[4] and employees around the world are as follows:

Production units and sorting facilities (in %)



Count of employees worldwide (in %)



1 Including associates and joint ventures.
2 Excluding associates and joint ventures not included in consolidated results. Refer to Note 8 of the 2018 audited consolidated financial statements for more information on associates and joint ventures.
3 Via our 57,95% equity ownership in Reno de Medici S.p.A., a public company traded on the Milan and Madrid stock exchanges.
4 Excluding sales offices, distribution and transportation hubs and corporate offices. Including main associates and joint ventures.
5 Please refer to the “Supplemental Information on Non-IFRS Measures” section for a complete reconciliation.

BUSINESS DRIVERS

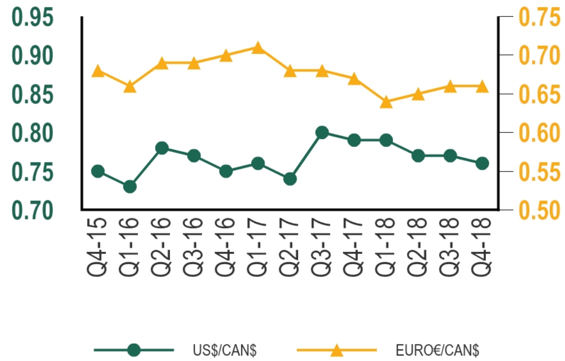
Cascades' results may be impacted by fluctuations in the following:

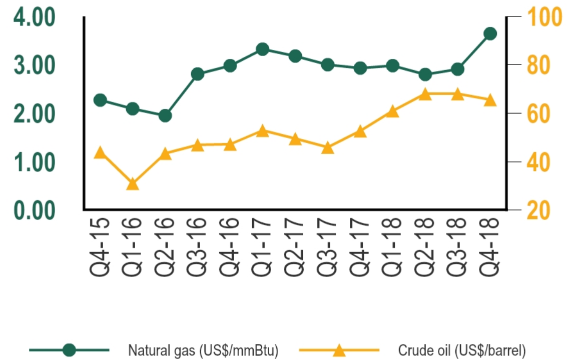
EXCHANGE RATES

On a year-over-year basis, the average value of the Canadian dollar in 2018 remained stable when compared to the US dollar and decreased by 4% compared to the euro.

ENERGY COSTS

The average price of natural gas decreased by 1% in 2018 compared to the previous year. In the case of crude oil, the average 2018 price was 31% higher than in 2017.





	2016					2017					**2018**
	TOTAL	Q1	Q2	Q3	Q4	TOTAL	**Q1**	**Q2**	**Q3**	**Q4**	**TOTAL**
US$/CAN$ - Average rate	$ 0.75	$ 0.76	$ 0.74	$ 0.80	$ 0.79	$ 0.77	**$ 0.79**	**$ 0.77**	**$ 0.77**	**$ 0.76**	**$ 0.77**
US$/CAN$ End of period rate	$ 0.74	$ 0.75	$ 0.77	$ 0.80	$ 0.80	$ 0.80	**$ 0.78**	**$ 0.76**	**$ 0.77**	**$ 0.73**	**$ 0.73**
EURO€/CAN$ - Average rate	$ 0.68	$ 0.71	$ 0.68	$ 0.68	$ 0.67	$ 0.68	**$ 0.64**	**$ 0.65**	**$ 0.66**	**$ 0.66**	**$ 0.65**
EURO€/CAN$ End of period rate	$ 0.71	$ 0.70	$ 0.68	$ 0.68	$ 0.66	$ 0.66	**$ 0.63**	**$ 0.65**	**$ 0.67**	**$ 0.64**	**$ 0.64**
Natural Gas Henry Hub - US$/ mmBtu	$ 2.46	$ 3.32	$ 3.18	$ 3.00	$ 2.93	$ 3.11	**$ 2.98**	**$ 2.80**	**$ 2.91**	**$ 3.64**	**$ 3.09**

Source: Bloomberg

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HISTORICAL MARKET PRICES OF MAIN PRODUCTS AND RAW MATERIAL

These indices should only be used as trend indicators; they may differ from our actual selling prices and purchasing costs.	2016 Year	2017 Q1	Q2	Q3	Q4	Year	2018 Q1	Q2	Q3	Q4	Year	2018 vs 2017 Change	%
Selling prices (average)													
PACKAGING PRODUCTS													
Containerboard (US$/short ton)													
Linerboard 42-lb. unbleached kraft, Eastern US (open market)	625	655	705	705	705	693	**722**	**755**	**755**	**755**	**747**	**54**	**8 %**
Corrugating medium 26-lb. semichemical, Eastern US (open market)	520	540	590	617	620	592	**637**	**670**	**670**	**670**	**662**	**70**	**11 %**
Boxboard Europe (euro/metric ton)													
Recycled white-lined chipboard (WLC) index[1]	656	649	680	680	680	672	**678**	**673**	**673**	**673**	**674**	**2**	**— %**
Virgin coated duplex boxboard (FBB) index[2]	1,045	1,031	1,031	1,031	1,031	1,031	**1,072**	**1,072**	**1,072**	**1,072**	**1,072**	**41**	**4 %**
Specialty Products (US$/short ton)													
Uncoated recycled boxboard - 20-pt. bending chip (series B)	605	622	660	660	640	645	**643**	**680**	**730**	**730**	**696**	**51**	**8 %**
TISSUE PAPERS (US$/short ton)													
Parent rolls, recycled fibres (transaction)	1,013	1,023	1,040	1,053	1,057	1,043	**1,072**	**1,087**	**1,102**	**1,112**	**1,093**	**50**	**5 %**
Parent rolls, virgin fibres (transaction)	1,280	1,297	1,320	1,334	1,339	1,323	**1,366**	**1,388**	**1,404**	**1,422**	**1,395**	**72**	**5 %**
Raw material prices (average)													
RECYCLED PAPER													
North America (US$/short ton)													
Sorted residential papers, No. 56 (SRP - Northeast average)	69	92	76	86	63	79	**59**	**31**	**28**	**28**	**36**	**(43)**	**(50)%**
Old corrugated containers, No. 11 (OCC - Northeast average)	93	142	148	162	99	138	**92**	**71**	**68**	**68**	**74**	**(64)**	**(40)%**
Sorted office papers, No. 37 (SOP - Northeast average)	150	173	172	170	160	169	**165**	**193**	**210**	**203**	**193**	**24**	**14 %**
Europe (euro/metric ton)													
Recovered paper index[3]	127	147	138	147	135	142	**111**	**99**	**103**	**106**	**105**	**(37)**	**(25)%**
VIRGIN PULP (US$/metric ton)													
Northern bleached softwood kraft, Canada	978	1,033	1,093	1,110	1,183	1,105	**1,233**	**1,310**	**1,377**	**1,428**	**1,342**	**237**	**21 %**
Bleached hardwood kraft, mixed, Canada/US	847	853	942	985	1,052	958	**1,077**	**1,125**	**1,192**	**1,213**	**1,152**	**194**	**20 %**

Source: RISI and Cascades.

1 The Cascades Recycled White-Lined Chipboard Selling Price Index is based on published indices and represents an approximation of Cascades' recycled-grade selling prices in Europe. It is weighted by country and has been rebalanced as at January 1, 2018.
2 The Cascades Virgin Coated Duplex Boxboard Selling Price Index is based on published indices and represents an approximation of Cascades' virgin-grade selling prices in Europe. It is weighted by country and has been rebalanced as at January 1, 2018.
3 The Cascades Recovered Paper Index is based on published indices and represents an approximation of Cascades' recovered paper purchase prices in Europe. It is weighted by country, based on the recycled fibre supply mix, and has been rebalanced as at January 1, 2018.

SENSITIVITY TABLE[1]

The following table provides a quantitative estimate of the impact that potential changes in the prices of our main products, the costs of certain raw material, energy and the exchange rates may have on Cascades' annual OIBD, assuming, for each price change, that all other variables remain constant. Estimates are based on Cascades' 2018 manufacturing and converting external shipments and consumption quantities. It is important to note that this table does not consider the Corporations' use of hedging instruments for risk management. These hedging policies and portfolios (see the "Risk Factors" section) should also be considered in order to fully analyze the Corporation's sensitivity to the highlighted factors.

Potential indirect sensitivity to the CAN$/US$ exchange rate is not considered in this table. Some of Cascades' selling prices and raw material costs in Canada are based on U.S. dollar reference prices and costs that are then converted into Canadian dollars. Consequently, fluctuations in the exchange rate may have a direct impact on the value of sales and purchases of Canadian facilities in Canada. However, because it is difficult to measure the precise impact of this fluctuation, we do not take it into consideration in the following table. The impact of the exchange rate on the working capital items and cash positions denominated in currencies other than CAN$ at the Corporations' Canadian units is also excluded. Fluctuations in foreign exchange rates may also impact the translation of the results of our non-Canadian units into CAN$.

	SHIPMENTS/CONSUMPTION ('000 SHORT TONS, '000 MMBTU FOR NATURAL GAS)	INCREASE	OIBD IMPACT (IN MILLIONS OF CAN$)
SELLING PRICE (MANUFACTURING AND CONVERTING)[2]			
North America			
Containerboard Packaging			
Linerboard 42-lb. unbleached kraft, Eastern US	370	US$25/s.t.	**13**
Corrugating medium 26-lb. semichemical, Eastern US	370	US$25/s.t.	**13**
Converting products	740	US$25/s.t.	**25**
	1,480		**51**
Tissue Papers	630	US$25/s.t.	**21**
	2,110		**72**
Europe			
Boxboard	1,370	€25/s.t.	**54**
RAW MATERIAL[2]			
Recycled Papers			
North America			
Brown grades (OCC and others)	1,570	US$15/s.t.	**(32)**
Groundwood grades (SRP and others)	120	US$15/s.t.	**(2)**
White grades (SOP and others)	470	US$15/s.t.	**(10)**
	2,160		**(44)**
Europe			
Brown grades (OCC and others)	970	€15/s.t.	**(23)**
Groundwood grades (SRP and others)	170	€15/s.t.	**(4)**
White grades (SOP and others)	130	€15/s.t.	**(3)**
	1,270		**(30)**
	3,430		**(74)**
Virgin pulp			
North America	160	US$30/s.t.	**(7)**
Europe	80	€30/s.t.	**(4)**
	240		**(11)**
Natural gas			
North America	8,600	US1.00/mmBtu	**(12)**
Europe	5,400	€1.00/mmBtu	**(8)**
	14,000		**(20)**
Exchange rate[3]			
Sales less purchases in US$ from Canadian operations		CAN$/US$ 0.01 change	**1**
U.S. subsidiaries translation		CAN$/US$ 0.01 change	**2**
European subsidiaries translation		CAN$/€ 0.01 change	**1**

1 Sensitivity calculated according to 2018 volumes or consumption with year-end closing exchange rate of CAN$/US$ 1.36 and CAN$/€ 1.56, excluding hedging programs and the impact of related expenses such as discounts, commissions on sales and profit-sharing.

2 Based on 2018 external manufacturing and converting shipments, as well as fibre and pulp consumption. Including purchases sourced internally from our recovery and recycling operations.Adjusted to reflect acquisitions, disposals and closures, if needed.

3 As an example, from CAN$/US$ 1.36 to CAN$/US$ 1.37 and from CAN$/€ 1.56 to CAN$/€ 1.57.

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SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

SPECIFIC ITEMS

The Corporation incurs some specific items that adversely or positively affect its operating results. We believe it is useful for readers to be aware of these items, as they provide additional information to measure performance, compare the Corporation's results between periods, and assess operating results and liquidity, notwithstanding these specific items. Management believes these specific items are not necessarily reflective of the Corporation's underlying business operations in measuring and comparing its performance and analyzing future trends. Our definition of specific items may differ from those of other corporations, and some of them may arise in the future and may reduce the Corporation's available cash.

They include, but are not limited to, charges for (reversals of) impairment of assets, restructuring gains or costs, loss on refinancing and repurchase of long-term debt, some deferred tax asset provisions or reversals, premiums paid on long-term debt refinancing, gains or losses on the acquisition or sale of a business unit, gains or losses on the share of results of associates and joint ventures, unrealized gains or losses on derivative financial instruments that do not qualify for hedge accounting, unrealized gains or losses on interest rate swaps, foreign exchange gains or losses on long-term debt and financial instruments, specific items of discontinued operations and other significant items of an unusual, non-cash or non-recurring nature.

SPECIFIC ITEMS INCLUDED IN OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND NET EARNINGS

The Corporation incurred the following specific items in 2018 and 2017:

GAIN ON ACQUISITIONS, DISPOSALS AND OTHERS

2018

The Containerboard Packaging segment completed the sale of the building and land of its Maspeth plant in NY, USA, and generated a gain of $66 million, net of asset retirement obligations of $2 million. The closure was completed during the year and the segment recorded a $1 million gain following the sale of some equipment.

The Specialty Products segment recorded a gain of $4 million on the acquisition of two moulded pulp plants and a packaging distributor.

2017

The Containerboard Packaging segment sold a piece of land in Ontario, Canada and recorded a gain of $7 million.

The Corporate Activities realized a $1 million gain from the sale of some assets.

INVENTORY ADJUSTMENT RESULTING FROM BUSINESS COMBINATION

2017

During the year, operating results in the Containerboard Packaging segment were negatively impacted by $2 million. This was the result of the inventory acquired at the time of the Greenpac consolidation being recognized at fair value, with no profit recorded on its subsequent sale.

IMPAIRMENT CHARGES (REVERSALS) AND RESTRUCTURING COSTS (GAINS)

2018

Related to the closure of the Maspeth plant in NY, USA, mentioned above, the Containerboard Packaging segment recorded a $3 million charge related to closure provisions and severances, and incurred a $1 million charge related to severances for the closure of two sheet plants in Ontario announced on August 28, 2018.

The Specialty Products segment recorded a gain of $2 million from the dismantling of a building of a plant closed in the previous years.

The Tissue Papers segment reviewed the recoverable value of a few plants and recorded impairment charges of $75 million on assets following sustained production inefficiencies.

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2017
The Containerboard Packaging segment announced the closure of its New York converting plant and recorded severance expenses totaling $2 million (please refer to the "Significant Facts and Developments" section for more details) and recorded an impairment charge of $11 million on deferred revenues related to a management agreement of Greenpac since the beginning of the mill construction and recorded in "Other assets". Following the acquisition and consolidation of Greenpac, expected future cash flows related to this asset did not materialize on a consolidated basis.

The Boxboard Europe segment recorded severance costs of $1 million following the restructuring of its sales activities.

The Tissue Papers segment incurred a $2 million impairment charge from the reevaluation of some unused assets and incurred $2 million of restructuring costs following the review of provisions related to the transfer of the converting operations of the Toronto plant to other Tissue segment sites announced in 2016.

The Corporate Activities recorded a $2 million reversal of impairment following the collection of a note receivable that had been written off in previous years. As well, Corporate Activities recorded a severance cost of $1 million following the closure of a sales division.

DERIVATIVE FINANCIAL INSTRUMENTS
In 2018, the Corporation recorded an unrealized loss of $9 million, compared to an unrealized gain of $8 million in 2017, on certain derivative financial instruments not designated for hedge accounting.

LOSS ON REPURCHASE OF LONG-TERM DEBT
In 2017, the Corporation purchased US$200 million of its unsecured senior notes and recorded early repurchase premiums of $11 million and wrote off $3 million of unamortized financing costs related to these notes.

INTEREST RATE SWAPS
In 2018, the Corporation recorded an unrealized gain of $1 million, compared to an unrealized gain of $2 million in 2017, on interest rate swaps, that are included in financing expenses.

FOREIGN EXCHANGE GAIN ON LONG-TERM DEBT AND FINANCIAL INSTRUMENTS
In 2018, the Corporation recorded a loss of $4 million on its US$-denominated debt and related financial instruments, compared to a gain of $23 million in 2017. This is composed of a gain of $1 million in 2018, compared to a gain of $11 million in 2017, on our US$-denominated long-term debt, net of our net investment hedges in the U.S. and Europe and forward exchange contracts designated as hedging instruments, if any. It also includes a loss of $5 million during the year, compared to a gain of $12 million in 2017, on foreign exchange forward contracts not designated for hedge accounting.

FAIR VALUE REVALUATION GAIN ON INVESTMENTS AND SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

2018
The Boxboard Europe segment completed the acquisition of PAC Service S.p.A. and recorded a revaluation gain of $5 million on its previously held interest. This item is presented in line item "Fair value revaluation gain on investments" in the consolidated statement of earnings.

2017
Containerboard
On April 4, 2017, Cascades and its partners in Greenpac Holding LLC (Greenpac) agreed to modify the equity holders' agreement. These modifications enable Cascades to direct decisions about relevant activities. Therefore, from an accounting standpoint, Cascades now has control over Greenpac, which triggers its deemed acquisition and thus fully consolidates Greenpac since April 4, 2017. The Corporation recorded a revaluation gain on previously held interest of $156 million during the year. Consequently to the acquisition, accumulated other comprehensive loss components of Greenpac totaling $4 million and included in our consolidated balance sheet prior to the acquisition were reclassified to net earnings. These two items are presented in line item "Fair value revaluation gain on investments" in the consolidated statement of earnings.

The Corporation also recorded its share of $3 million on an unrealized gain on certain derivative financial instruments not designated for hedge accounting prior to the acquisition of Greenpac.

Boralex
On January 18, 2017, Boralex issued common shares to partly finance the acquisition of the interest of Enercon Canada Inc. in the Niagara Region Wind Farm. As a result, the Corporation's participation in Boralex decreased to 17.37%, which resulted in a dilution gain of $15 million and is included in line item "Share of results of associates and joint ventures" in the consolidated statement of earnings.

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On March 10, 2017, Boralex announced the appointment of a new Chairman of the Board. This change in Board composition combined with the decrease of our participation discussed above triggered the loss of significant influence of the Corporation over Boralex. Therefore, our investment in Boralex was no longer classified as an associate and considered an available-for-sale financial asset, which is classified in "Other assets." Consequently, our investment in Boralex was reevaluated at fair value on March 10, 2017, and we recorded a gain of $155 million. At the same time, accumulated other comprehensive loss components of Boralex totaling $10 million and included in our consolidated balance sheet were released to net earnings. These two items are presented in line item "Fair value revaluation gain on investments" in the consolidated statement of earnings. Subsequent fair value revaluation of this investment was recorded in accumulated other comprehensive income.

On July 27, 2017, Cascades announced the sale of all of its shares in Boralex to the Caisse de Dépôt et Placement du Québec for an amount of $288 million. The increase in fair value of $18 million from March 10 to July 27, 2017 recorded in accumulated other comprehensive income, materialized during the year and the Corporation recorded a gain of $18 million in line item "Fair value revaluation gain on investments" in the consolidated statement of earnings.

PROVISION FOR INCOME TAXES

2018

During the year, the Corporation reassessed the probability of recovering unrealized capital losses, resulting in the derecognition of tax assets totalling $8 million.

2017

Following the US tax reform adopted in December 2017, the Corporation revalued the net deferred tax liability of its entities in the USA and recorded a gain of $57 million.

The income tax provision on the Boralex revaluation gain was calculated at the rate of capital gains. Also, consequently with the sale of its participation in Boralex in July 2017, the Corporation has reassessed the probability of recovering unrealized capital losses on long-term debt due to foreign exchange fluctuations. As a result, $6 million of tax assets was derecognized and recorded in the statement of earnings.

In conjunction with the acquisition of Greenpac, the Corporation recorded an income tax recovery of $70 million representing deferred income taxes on its investment prior to the acquisition on April 4, 2017. Also, there was no income tax provision recorded on the gain of $156 million generated by the business combination of Greenpac since it is included in the fair value of assets and liabilities acquired as described in Note 5 of the 2018 audited consolidated financial statements.

RECONCILIATION OF NON-IFRS MEASURES

To provide more information for evaluating the Corporation's performance, the financial information included in this analysis contains certain data that are not performance measures under IFRS ("non-IFRS measures"), which are also calculated on an adjusted basis to exclude specific items. We believe that providing certain key performance measures and non-IFRS measures is useful to both management and investors, as they provide additional information to measure the performance and financial position of the Corporation. It also increases the transparency and clarity of the financial information. The following non-IFRS measures are used in our financial disclosures:

- Operating income before depreciation and amortization (OIBD): Used to assess operating performance and contribution of each segment when excluding depreciation & amortization. OIBD is widely used by investors as a measure of a corporation's ability to incur and service debt and as an evaluation metric.
- Adjusted OIBD: Used to assess operating performance and contribution of each segment on a comparable basis.
- Adjusted operating income: Used to assess operating performance of each segment on a comparable basis.
- Adjusted net earnings: Used to assess the Corporation's consolidated financial performance on a comparable basis.
- Adjusted free cash flow: Used to assess the Corporation's capacity to generate cash flows to meet financial obligations and/or discretionary items such as share repurchase, dividend increase and strategic investments.
- Net debt to adjusted OIBD ratio: Used to measure the Corporation's credit performance and evaluate financial leverage.
- Net debt to adjusted OIBD ratio on a pro-forma basis: Used to measure the Corporation's credit performance and evaluate the financial leverage on a comparable basis including significant business acquisitions and excluding significant business disposals, if any.

Non-IFRS measures are mainly derived from the consolidated financial statements, but do not have meanings prescribed by IFRS. These measures have limitations as an analytical tool and should not be considered on their own or as a substitute for an analysis of our results as reported under IFRS. In addition, our definitions of non-IFRS measures may differ from those of other corporations. Any such modification or reformulation may be significant.

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The reconciliation of operating income (loss) to OIBD, to adjusted operating income (loss) and to adjusted OIBD by business segment is as follows:

2018

(in millions of Canadian dollars)	**Containerboard**	**Boxboard Europe**	**Specialty Products**	**Tissue Papers**	**Corporate Activities**	**Consolidated**
Operating income (loss)	**381**	**60**	**24**	**(122)**	**(113)**	**230**
Depreciation and amortization	**89**	**37**	**22**	**64**	**32**	**244**
Operating income (loss) before depreciation and amortization	**470**	**97**	**46**	**(58)**	**(81)**	**474**
Specific items:						
Gain on acquisitions, disposals and others	**(67)**	**—**	**(4)**	**—**	**—**	**(71)**
Impairment charges	**—**	**—**	**—**	**75**	**—**	**75**
Restructuring costs (gain)	**4**	**—**	**(2)**	**—**	**—**	**2**
Unrealized loss on derivative financial instruments	**3**	**—**	**—**	**—**	**6**	**9**
	(60)	**—**	**(6)**	**75**	**6**	**15**
Adjusted operating income (loss) before depreciation and amortization	**410**	**97**	**40**	**17**	**(75)**	**489**
Adjusted operating income (loss)	**321**	**60**	**18**	**(47)**	**(107)**	**245**

2017

(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	164	34	46	28	(97)	175
Depreciation and amortization	74	33	21	62	25	215
Operating income (loss) before depreciation and amortization	238	67	67	90	(72)	390
Specific items :						
Gain on acquisitions, disposals and others	(7)	—	—	—	(1)	(8)
Inventory adjustment resulting from business combination	2	—	—	—	—	2
Impairment charges (reversals)	11	—	—	2	(2)	11
Restructuring costs	2	1	—	2	1	6
Unrealized loss (gain) on derivative financial instruments	1	—	—	—	(9)	(8)
	9	1	—	4	(11)	3
Adjusted operating income (loss) before depreciation and amortization	247	68	67	94	(83)	393
Adjusted operating income (loss)	173	35	46	32	(108)	178

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Net earnings, as per IFRS, is reconciled below with operating income, adjusted operating income and adjusted operating income before depreciation and amortization:

(in millions of Canadian dollars)	2018	2017
Net earnings attributable to Shareholders for the year	**59**	507
Net earnings attributable to non-controlling interests	**35**	15
Provision for (recovery of) income taxes	**49**	(81)
Fair value revaluation gain on investments	**(5)**	(315)
Share of results of associates and joint ventures	**(11)**	(39)
Foreign exchange loss (gain) on long-term debt and financial instruments	**4**	(23)
Financing expense and interest expense on employee future benefits and other liabilities	**99**	111
Operating income	**230**	175
Specific items:		
Gain on acquisitions, disposals and others	**(71)**	(8)
Inventory adjustment resulting from business combination	**—**	2
Impairment charges	**75**	11
Restructuring costs	**2**	6
Unrealized loss (gain) on derivative financial instruments	**9**	(8)
	15	3
Adjusted operating income	**245**	178
Depreciation and amortization	**244**	215
Adjusted operating income before depreciation and amortization	**489**	393

The following table reconciles net earnings and net earnings per share, as per IFRS, with adjusted net earnings and adjusted net earnings per share:

	NET EARNINGS		NET EARNINGS PER SHARE[1]	
(in millions of Canadian dollars, except amount per share)	2018	2017	2018	2017
As per IFRS	**59**	507	**$ 0.62**	$ 5.35
Specific items:				
Gain on acquisitions, disposals and others	**(71)**	(8)	**$ (0.55)**	$ (0.06)
Inventory adjustment resulting from business combination	**—**	2	**—**	$ 0.01
Impairment charges	**75**	11	**$ 0.60**	$ 0.08
Restructuring costs	**2**	6	**$ 0.02**	$ 0.05
Unrealized loss (gain) on derivative financial instruments	**9**	(8)	**$ 0.07**	$ (0.07)
Loss on refinancing of long-term debt	**—**	14	**—**	$ 0.10
Unrealized gain on interest rate swaps	**(1)**	(2)	**$ (0.01)**	$ (0.01)
Foreign exchange loss (gain) on long-term debt and financial instruments	**4**	(23)	**$ 0.03**	$ (0.21)
Fair value revaluation gain on investments	**(5)**	(315)	**$ (0.03)**	$ (3.85)
Share of results of associates and joint ventures	**—**	(18)	**—**	$ (0.15)
Tax effect on specific items, other tax adjustments and attributable to non-controlling interests[1]	**7**	(98)	**$ 0.08**	$ (0.52)
	20	(439)	**$ 0.21**	$ (4.63)
Adjusted	**79**	68	**$ 0.83**	$ 0.72

1 Specific amounts per share are calculated on an after-tax basis and are net of the portion attributable to non-controlling interests. Per share amounts in line item "Tax effect on specific items, other tax adjustments and attributable to non-controlling interests" only include the effect of tax adjustments. Please refer to "Provision for income taxes" above in this section for more details.

The following table reconciles cash flow from operating activities with operating income and operating income before depreciation and amortization:

(in millions of Canadian dollars)	2018	2017
Cash flow from operating activities	**373**	173
Changes in non-cash working capital components	**(12)**	87
Depreciation and amortization	**(244)**	(215)
Net income taxes paid	**11**	10
Net financing expense paid	**107**	99
Premium paid on long-term debt refinancing	**—**	11
Gain on acquisitions, disposals and others	**71**	8
Impairment charges and restructuring costs	**(77)**	(11)
Unrealized gain (loss) on derivative financial instruments	**(9)**	8
Dividend received, employee future benefits and others	**10**	5
Operating income	**230**	175
Depreciation and amortization	**244**	215
Operating income before depreciation and amortization	**474**	390

The following table reconciles cash flow from operating activities with cash flow from operating activities (excluding changes in non-cash working capital components) and adjusted cash flow from operating activities. It also reconciles adjusted cash flow from operating activities to adjusted free cash flow, which is also calculated on a per share basis:

(in millions of Canadian dollars, except amount per share or as otherwise mentioned)	2018	2017
Cash flow from operating activities	**373**	173
Changes in non-cash working capital components	**(12)**	87
Cash flow from operating activities (excluding changes in non-cash working capital components)	**361**	260
Specific items, net of current income taxes if applicable:		
Restructuring costs	**—**	6
Premium paid on long-term debt refinancing	**—**	11
Adjusted cash flow from operating activities	**361**	277
Capital expenditures, other assets[1] and capital lease payments, net of disposals of $85 million in 2018	**(276)**	(205)
Dividends paid to the Corporation's Shareholders and to non-controlling interests	**(31)**	(20)
Adjusted free cash flow	**54**	52
Adjusted free cash flow per share	**$ 0.57**	$ 0.56
Weighted average basic number of shares outstanding	**94,570,924**	94,680,598

1 Excluding increase in investments

The following table reconciles total debt and net debt with the ratio of net debt to adjusted operating income before depreciation and amortization (adjusted OIBD):

(in millions of Canadian dollars)	December 31, 2018	December 31, 2017
Long-term debt	**1,821**	1,517
Current portion of long-term debt	**55**	59
Bank loans and advances	**16**	35
Total debt	**1,892**	1,611
Less: Cash and cash equivalents	**123**	89
Net debt	**1,769**	1,522
Adjusted OIBD (last twelve months)	**489**	393
Net debt / Adjusted OIBD ratio	**3.6**	3.9
Net debt / Adjusted OIBD ratio on a pro-forma basis[1]	**3.5**	3.6

1 Pro-forma adjusted OIBD of $505 million for 2018 and $422 million for 2017 to include business acquisitions on a last twelve months basis.

MANAGEMENT'S DISCUSSION & ANALYSIS

FINANCIAL OVERVIEW - 2017

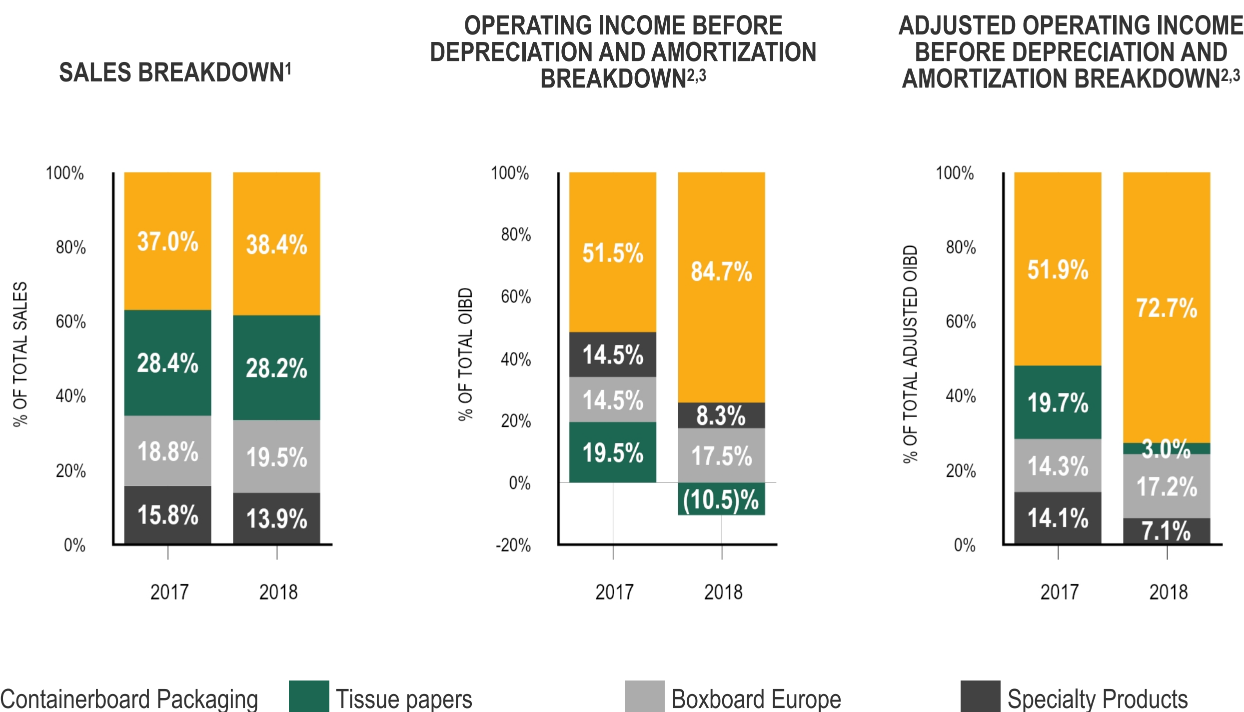
Results for the year reflected strong sales driven by year-over-year increases in shipments for the Boxboard Europe segment and higher average selling prices from all three packaging segments on a same plant basis. Beginning in the second quarter, the consolidation of Greenpac benefited both sales and operating income levels. However, a sharp increase in raw material costs impacted the performance of all our segments, the effects of which were partially offset by the corresponding stronger results generated by our Recovery and Recycling activities. Results from our Tissue segment included costs related to the start-up of the new converting plant on the West Coast of the US, as well as additional costs related to new branding and repositioning efforts of its product lines. Increased capacity in the Tissue market also had a negative impact on shipments. Finally, ERP implementation and business process optimization initiatives at the corporate level also required a higher level of resources during 2017 compared to 2016.

FINANCIAL OVERVIEW - 2018

Results for the year 2018 reflect strong sales levels in the Containerboard Packaging, Tissue Papers and European Boxboard segments. On a consolidated basis, sales increased by $328 million to reach $4,649 million in 2018, compared to $4,321 million in 2017. This reflects business acquisitions in the Boxboard Europe and Specialty Products segments, and improvements in both sales mix and selling price in all segments. Excluding acquisitions, volumes were below prior-year levels in all three packaging businesses, however these were offset to a large degree by a notable volume increase generated by the Tissue segment. While a more favourable exchange rate contributed to stronger results for Europe Boxboard, the Specialty Products' recovery sub-segment generated lower sales as a result of the decrease in brown grade recycled fibre costs.

Operating income before depreciation and amortization (OIBD) reflects strong results in both the Containerboard Packaging and European Boxboard business segments. This was offset by lower results from the Tissue Papers segment, where performance continued to be negatively impacted by elevated costs for virgin pulp and recycled white paper grades, newly added market capacity, and higher logistics and sub-contracting costs, in addition to production inefficiencies in some units. Results in the Specialty Products segment were below prior-year levels largely due to the negative impact of lower brown recycled fibre pricing on the performance of the recovery sub-segment, in addition to higher production costs. Finally, Corporate Activities cost levels decreased year-over-year, as efforts in 2018 were migrated toward optimizing the ERP and business process initiatives that were implemented in 2017.

The following graphics show the breakdown of sales, before inter-segment eliminations, operating income before depreciation and amortization (loss) and adjusted operating income before depreciation and amortization by business segment:



1 Excluding inter-segment sales and Corporate activities.
2 Excluding Corporate activities.
3 Please refer to the "Supplemental Information on Non-IFRS Measures" section for a complete reconciliation.

For 2018, the Corporation posted net earnings of $59 million, or $0.62 per share, compared to net earnings of $507 million, or $5.35 per share in 2017. On an adjusted basis, discussed in detail in the “Supplemental Information on Non-IFRS Measures” section, the Corporation generated net earnings of $79 million during 2018, or $0.83 per share, compared to net earnings of $68 million or $0.72 per share in 2017. The Corporation recorded an operating income before depreciation and amortization of $474 million during the year, compared to $390 million in 2017. On an adjusted basis, operating income before depreciation and amortization stood at $489 million during the year, compared to $393 million in 2017 (see the “Supplemental Information on Non-IFRS Measures” section for reconciliation of these amounts).

The $4.73 decrease in net earnings per share in 2018, compared to 2017, can be explained by the following factors:

(in Canadian dollars)		
Change in specific items (see reconciliation in the "Supplemental Information on Non-IFRS Measures" section)	$	(4.84)
Change in net earnings from operating activities normalized at a 26% income tax rate	$	0.52
Change in tax provision - Other items	$	0.04
Change in share of results of associates and joint ventures	$	(0.24)
Change in non-controlling interest	$	(0.21)
Decrease in net earnings per share	**$**	**(4.73)**

FORWARD-LOOKING STATEMENTS

The following document is the quarterly financial report and Management’s Discussion and Analysis (“MD&A”) of the operating results and financial position of Cascades Inc. (“Cascades” or “the Corporation”), and should be read in conjunction with the Corporation's consolidated financial statements and accompanying notes for the years ended December 31, 2018 and 2017. Information contained herein includes any significant developments as at February 27, 2019, the date on which the MD&A was approved by the Corporation’s Board of Directors. For additional information, readers are referred to the Corporation’s Annual Information Form (“AIF”), which is published separately. Additional information relating to the Corporation is also available on SEDAR at www.sedar.com.

The financial information contained herein, including tabular amounts, is expressed in Canadian dollars, unless otherwise specified, and is prepared in accordance with International Financial Reporting Standards (IFRS), unless otherwise specified. Unless otherwise specified or if required by context, the terms “we”, “our” and “us” refer to Cascades Inc. and all of its subsidiaries, joint ventures and associates.

This MD&A is intended to provide readers with information that Management believes is necessary for an understanding of Cascades' current results and to assess the Corporation's future prospects. Consequently, certain statements herein, including statements regarding future results and performance, are forward-looking statements within the meaning of securities legislation, based on current expectations. The accuracy of such statements is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected, including, but not limited to, the effect of general economic conditions, decreases in demand for the Corporation's products, prices and availability of raw material, changes in relative values of certain currencies, fluctuations in selling prices, and adverse changes in general market and industry conditions. Cascades disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable securities regulations. This MD&A also includes price indices, as well as variance and sensitivity analysis that are intended to provide the reader with a better understanding of the trends with respect to our business activities. These items are based on the best estimates available to the Corporation.

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KEY PERFORMANCE INDICATORS

We use several key performance indicators to monitor our action plan and analyze the progress we are making toward achieving our long-term objectives. These include the following:

	2016					2017					**2018**
	TOTAL	Q1	Q2	Q3	Q4	TOTAL	**Q1**	**Q2**	**Q3**	**Q4**	**TOTAL**
OPERATIONAL											
Total shipments (in '000 s.t.)[1]											
Packaging Products											
Containerboard	1,138	285	375	369	372	1,401	**352**	**385**	**370**	**368**	**1,475**
Boxboard Europe	1,066	296	283	271	270	1,120	**298**	**276**	**259**	**292**	**1,125**
	2,204	581	658	640	642	2,521	**650**	**661**	**629**	**660**	**2,600**
Tissue Papers	608	139	151	157	146	593	**149**	**163**	**164**	**149**	**625**
Total	2,812	720	809	797	788	3,114	**799**	**824**	**793**	**809**	**3,225**
Integration rate[2]											
Containerboard	53%	51%	51%	55%	52%	53%	**56%**	**56%**	**56%**	**58%**	**57%**
Tissue Papers	68%	71%	69%	67%	66%	68%	**67%**	**68%**	**71%**	**75%**	**70%**
Manufacturing capacity utilization rate[3]											
Packaging Products											
Containerboard	93%	96%	94%	91%	92%	93%	**89%**	**100%**	**92%**	**93%**	**93%**
Boxboard Europe	92%	102%	98%	94%	93%	97%	**103%**	**96%**	**90%**	**90%**	**94%**
Tissue Papers	88%	86%	89%	90%	84%	87%	**88%**	**92%**	**92%**	**87%**	**90%**
Consolidated total	92%	96%	95%	92%	91%	93%	**94%**	**97%**	**91%**	**90%**	**93%**
FINANCIAL											
Return on assets[4]											
Packaging Products											
Containerboard	17%	16%	14%	13%	14%	14%	**14%**	**16%**	**18%**	**20%**	**20%**
Boxboard Europe	10%	10%	10%	11%	12%	12%	**14%**	**15%**	**16%**	**15%**	**15%**
Specialty Products	20%	20%	21%	19%	18%	18%	**15%**	**12%**	**11%**	**10%**	**10%**
Tissue Papers	16%	15%	14%	12%	10%	10%	**9%**	**6%**	**4%**	**2%**	**2%**
Consolidated return on assets	10.8%	9.8%	9.1%	8.9%	9.2%	9.2%	**9.5%**	**10.2%**	**10.7%**	**10.6%**	**10.6%**
Return on capital employed[5]	5.2%	4.5%	3.9%	3.7%	3.7%	3.7%	**3.9%**	**4.4%**	**4.7%**	**4.6%**	**4.6%**
Working capital[6]											
In millions of $, at end of period	309	385	429	474	442	442	**513**	**506**	**464**	**455**	**455**
As a percentage of sales[7]	10.6%	10.2%	9.9%	9.9%	10.1%	10.1%	**10.5%**	**10.8%**	**10.7%**	**10.6%**	**10.6%**

1 *Shipments do not take into account the elimination of business sector inter-segment shipments. Starting in Q2 2017, including Greenpac. Shipments from our Specialty Products segment are not presented as they use different units of measure.*

2 *Defined as: Percentage of manufacturing shipments transferred to our converting operations. Starting in Q2 2017, including Greenpac and its sales to its partners which are mostly under contractual agreements.*

3 *Defined as: Manufacturing internal and external shipments/practical capacity. Excluding Specialty Products segment manufacturing activities. Starting in Q2 2017, including Greenpac.*

4 *Return on assets is a non-IFRS measure defined as the last twelve months' ("LTM") adjusted OIBD/LTM quarterly average of total assets less cash and cash equivalents. Including Greenpac on a consolidated basis starting in Q2 2017.*

5 *Return on capital employed is a non-IFRS measure and is defined as the after-tax (30%) amount of the LTM adjusted operating income, including our share of core associates and joint ventures, divided by the LTM quarterly average of capital employed. Capital employed is defined as the quarterly total average assets less trade and other payables and cash and cash equivalents. Including Greenpac as an associate up to Q1 2017 and on a consolidated basis starting in Q2 2017.*

6 *Working capital includes accounts receivable (excluding the short-term portion of other assets) plus inventories less trade and other payables. Starting in Q2 2017, including Greenpac.*

7 *Percentage of sales = Average LTM working capital/LTM sales. It includes or excludes significant business acquisitions and disposals. Starting in Q2 2017, including Greenpac.*

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HISTORICAL FINANCIAL INFORMATION

(in millions of Canadian dollars, unless otherwise noted)	2016					2017					**2018**
	TOTAL	Q1	Q2[2]	Q3	Q4	TOTAL	**Q1**	**Q2**	**Q3**	**Q4**	**TOTAL**
Sales											
Packaging Products											
Containerboard	1,370	346	428	438	440	1,652	**421**	**475**	**472**	**472**	**1,840**
Boxboard Europe	796	211	213	202	212	838	**246**	**232**	**210**	**245**	**933**
Specialty Products	620	173	188	181	161	703	**159**	**164**	**164**	**172**	**659**
Inter-segment sales	(61)	(22)	(27)	(32)	(24)	(105)	**(24)**	**(23)**	**(21)**	**(21)**	**(89)**
	2,725	708	802	789	789	3,088	**802**	**848**	**825**	**868**	**3,343**
Tissue Papers	1,305	306	338	323	301	1,268	**305**	**343**	**364**	**340**	**1,352**
Inter-segment sales and Corporate activities	(29)	(8)	(10)	(9)	(8)	(35)	**(9)**	**(11)**	**(14)**	**(12)**	**(46)**
Total	4,001	1,006	1,130	1,103	1,082	4,321	**1,098**	**1,180**	**1,175**	**1,196**	**4,649**
Operating income (loss)											
Packaging Products											
Containerboard	158	33	30	50	51	164	**121**	**82**	**94**	**84**	**381**
Boxboard Europe	19	5	13	5	11	34	**19**	**22**	**10**	**9**	**60**
Specialty Products	51	13	14	10	9	46	**2**	**4**	**9**	**9**	**24**
	228	51	57	65	71	244	**142**	**108**	**113**	**102**	**465**
Tissue Papers	75	8	17	9	(6)	28	**(2)**	**(9)**	**(11)**	**(100)**	**(122)**
Corporate activities	(82)	(28)	(26)	(23)	(20)	(97)	**(28)**	**(26)**	**(24)**	**(35)**	**(113)**
Total	221	31	48	51	45	175	**112**	**73**	**78**	**(33)**	**230**
Adjusted OIBD[1]											
Packaging Products											
Containerboard	216	45	56	72	74	247	**77**	**105**	**117**	**111**	**410**
Boxboard Europe	53	14	21	14	19	68	**28**	**30**	**19**	**20**	**97**
Specialty Products	65	18	20	15	14	67	**7**	**9**	**14**	**10**	**40**
	334	77	97	101	107	382	**112**	**144**	**150**	**141**	**547**
Tissue Papers	150	23	35	24	12	94	**13**	**7**	**5**	**(8)**	**17**
Corporate activities	(81)	(25)	(25)	(19)	(14)	(83)	**(20)**	**(17)**	**(18)**	**(20)**	**(75)**
Total	403	75	107	106	105	393	**105**	**134**	**137**	**113**	**489**
Net earnings (loss)	135	161	256	33	57	507	**61**	**27**	**36**	**(65)**	**59**
Adjusted[1]	114	12	24	19	13	68	**12**	**29**	**38**	**—**	**79**
Net earnings (loss) per share (in dollars)											
Basic	$ 1.42	$ 1.70	$ 2.70	$ 0.35	$ 0.60	$ 5.35	**$ 0.65**	**$ 0.28**	**$ 0.38**	**$ (0.69)**	**$ 0.62**
Diluted	$ 1.39	$ 1.66	$ 2.61	$ 0.34	$ 0.58	$ 5.19	**$ 0.63**	**$ 0.27**	**$ 0.37**	**$ (0.69)**	**$ 0.58**
Basic, adjusted[1]	$ 1.21	$ 0.13	$ 0.25	$ 0.20	$ 0.14	$ 0.72	**$ 0.13**	**$ 0.30**	**$ 0.40**	**$ —**	**$ 0.83**
Cash flow from operating activities (excluding changes in non-cash working capital components)	316	33	89	61	77	260	**69**	**111**	**92**	**89**	**361**
Net debt[1]	1,532	1,617	1,780	1,469	1,522	1,522	**1,534**	**1,586**	**1,573**	**1,769**	**1,769**

1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.

2 Including Greenpac on a consolidated basis starting in Q2 2017. The purchase price allocation of Greenpac was finalized during the third quarter of 2017. The preliminary estimated deemed consideration of $371 million was revised to $304 million. This change impacted the calculation of the gain on the deemed disposal of the previously held interest and goodwill allocated in the purchase price determination for an amount of $67 million. Adjustments to the preliminary purchase price allocation were recorded retrospectively to the acquisition date as required by IFRS 3. Net earnings per share disclosed in the second quarter were consequently adjusted to $2.70 per share from $3.41 per share.

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BUSINESS HIGHLIGHTS

From time to time, the Corporation enters into transactions to optimize its asset base and streamline its cost structure. The following transactions should be taken into consideration when reviewing the overall and segmented analysis of the Corporation's 2018 and 2017 results.

BUSINESS START UP, ACQUISITION, DISPOSAL AND CLOSURE

CONTAINERBOARD PACKAGING

- On August 28, 2018, the Corporation announced plans to close two corrugated sheet plants located in Barrie and Peterborough, Ontario, Canada, as part of its ongoing efforts to reorganize and optimize its corrugated packaging platform in Ontario. The two plants were closed on November 30, 2018.
- In May 2018, the Corporation started operating its new containerboard converting plant located in Piscataway, NJ, USA. The facility is ramping up as planned while we continue the consolidation of our packaging activities in the Northeastern United States.
- On December 4, 2017, the Corporation announced that it had acquired three converting plants from the Coyle Group in Ontario, Canada, to strengthen its position in the containerboard packaging sector.
- On April 5, 2017, the Corporation announced that results from the Greenpac Mill LLC (Greenpac) would be consolidated with those of the Corporation beginning April 4, 2017.

BOXBOARD EUROPE

- On October 31, 2018, the Corporation's subsidiary, Reno de Medici, announced the closing of the 100% acquisition of Barcelona Cartonboard S.A.U., a Spanish company ranked seventh in Europe for coated cartonboard production.
- On January 1, 2018, the Corporation, through its 57.8% equity ownership in Reno de Medici S.p.A. at that time, acquired 66.67% of PAC Service S.p.A. (PAC Service), a boxboard converter for the packaging, publishing, cosmetics and food industries. The Corporation already had a 33.33% equity participation in PAC Service before the transaction.

SPECIALTY PRODUCTS

- On December 6, 2018, the Corporation acquired the Urban Forest Products and Clarion Packaging plants respectively located in Brook, Indiana, and Clarion, Iowa ; two of the top three egg-producing states in the U.S, which will allow us to double our production capacity of ecological packaging manufactured in moulded pulp. The Corporation also acquired a majority interest in Falcon Packaging, a leader in the distribution of egg packaging.

TISSUE PAPERS

- In the beginning of 2017, the Corporation successfully began production at its new tissue converting facility in Scappoose, Oregon, that houses three new state-of-the-art converting lines. The plant manufactures virgin and recycled bathroom tissue products and paper hand towels for the Cascades Pro brand (Away-from-Home market). The plant is supplied by the Corporation's tissue paper plant located 12 kilometres away in St. Helens.

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SIGNIFICANT FACTS AND DEVELOPMENTS

- On December 21, 2018, the Corporation announced that it has increased its authorized credit facility to approximately CAN$1 billion to incorporate the addition of a US$175 million seven-year term loan. The term loan provides the Company with increased financial flexibility and will reduce financing costs.

- On July 26, 2018, the Corporation announced the acquisition of the White Birch Bear Island manufacturing facility in Virginia, USA, for a cash consideration of US$34 million ($45 million). The newsprint paper machine presently located on the site will be reconfigured to produce high quality recycled lightweight linerboard and medium for the North American market, subject to the approval of the board of directors. The new machine is expected to have an annual production capacity of 400,000 tons. As presently contemplated, the conversion would require an estimated investment of between US$275 million and US$300 million, with production expected to begin in 2021. Additional details of the project will be provided once the project plans have been finalized and approved.

- On June 29, 2018, the Corporation entered into an agreement with its lenders to extend and amend its existing $750 million credit facility. The amendment extends the term of the facility to July 2022. The financial conditions remain unchanged.

- On January 31, 2018, the Corporation completed the sale of the building and land of its Maspeth plant in New York, USA, for US$69 million ($86 million), net of transaction fees[1].

- On December 12, 2017, the Corporation announced the results of tender offers and proceeded with the purchase of US$150 million of its 5.50% unsecured senior notes due 2022 and US$50 million of its 5.75% unsecured senior notes due 2023.

- On March 21, 2017, the Corporation acquired 23% of Containerboard Partners (Ontario) Inc. for a consideration of US$12 million ($16 million). This company is a member of Greenpac Holding LLC, of which it owns 12.1%. On November 30, 2017, the Corporation acquired an additional 30% of Containerboard Partners (Ontario) Inc. for a consideration of $19 million. These transactions add an indirect participation of 6.4% in Greenpac Holding LLC bringing total ownership to 66.1%.

- On July 27, 2017, the Corporation announced the sale of its 17.3% equity holding in Boralex to the Caisse de Dépôt et Placement du Québec for $288 million.

[1] Please refer to Note 24 of the 2018 audited consolidated financial statements for more details.

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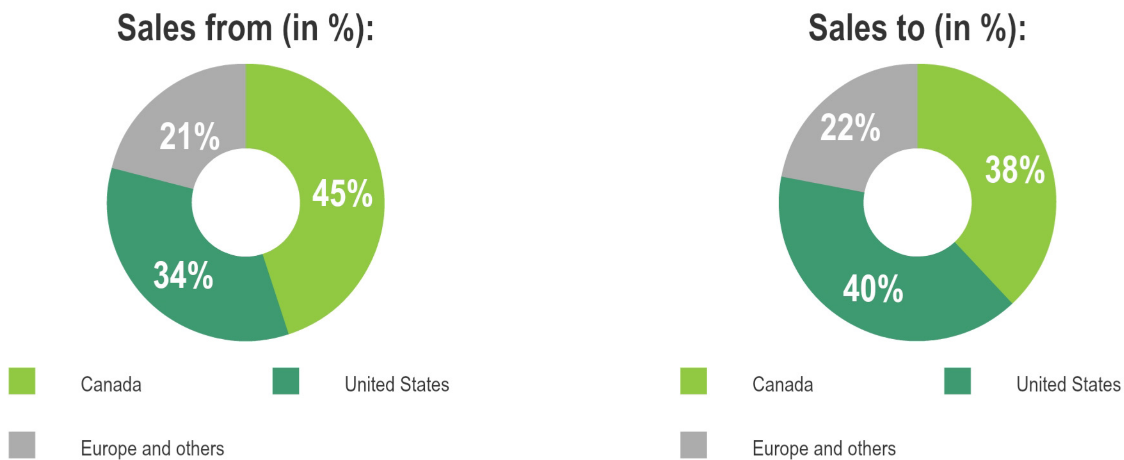
FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018, COMPARED TO THE YEAR ENDED DECEMBER 31, 2017

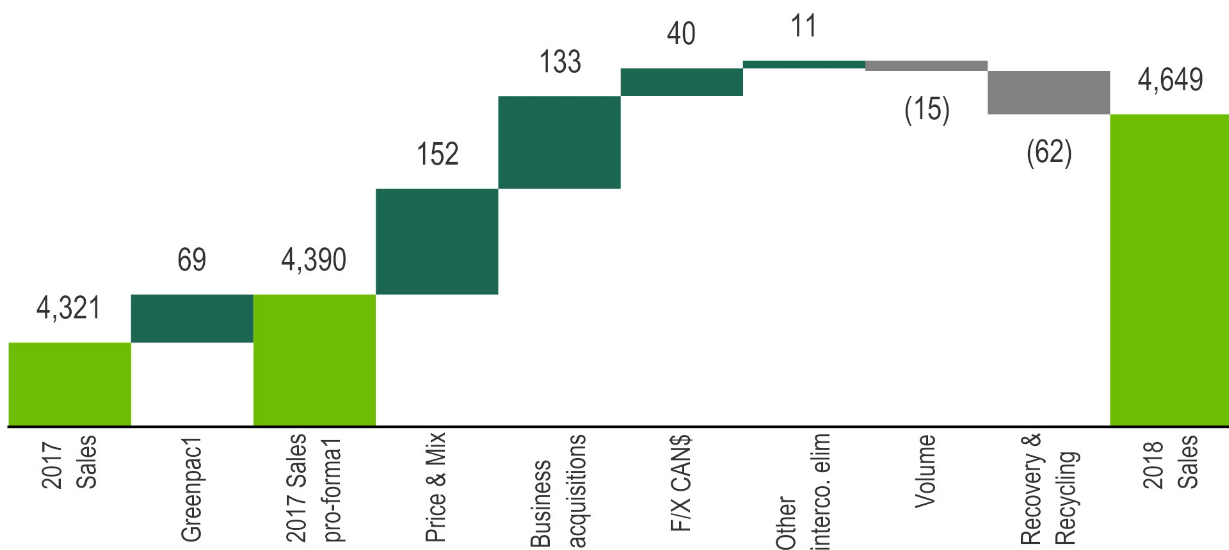
SALES

Sales increased by $328 million, or 8%, to reach $4,649 million in 2018, compared to $4,321 million in 2017. The increase was mainly due to higher average selling prices in all segments and the 4% average depreciation of the Canadian dollar compared to the euro. The acquisition of Greenpac in the second quarter last year, the addition of three containerboard converting plants in Ontario at the end of 2017, the early 2018 acquisition of PAC Service and late 2018 acquisition of Barcelona Cartonboard in Europe, and the moulded pulp U.S. acquisition in the Specialty products segment also contributed to the sales increase as did higher volume in the Tissue papers segment. Partially offsetting these benefits were lower sales from our Recovery and Recycling activities, attributable to lower pricing of recycled brown grades, as well as lower volumes on a same plant basis for the Boxboard Europe and Containerboard segments.

Sales by geographic segment are as follows:



The main variances in sales in 2018, compared to 2017, are shown below (in $M):



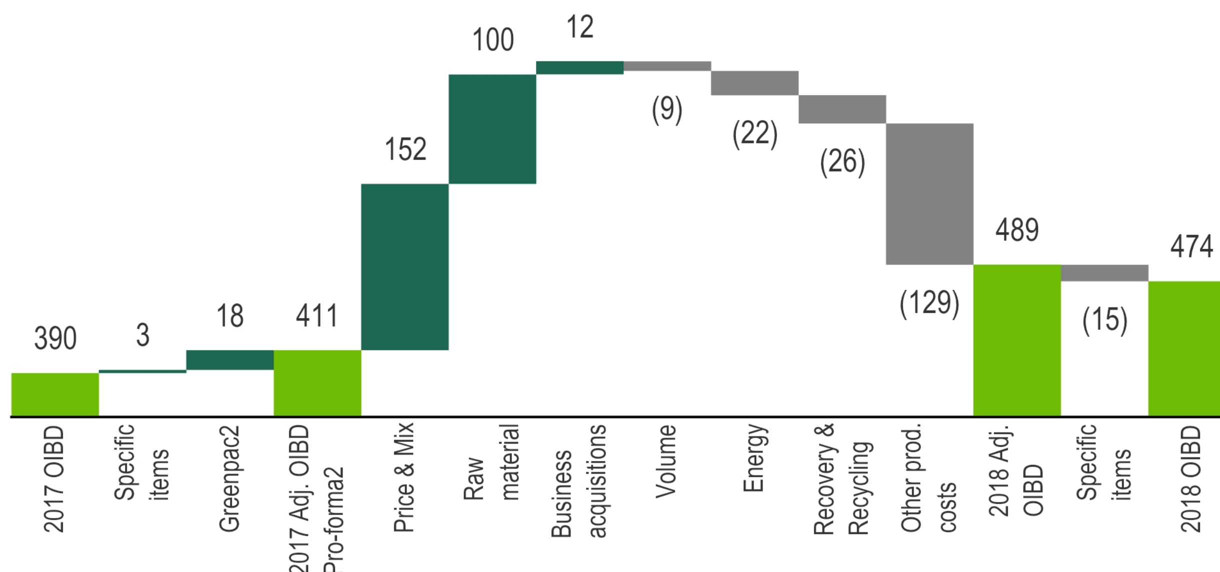
[1] *For variance analysis purposes, adjusted to include Greenpac in Q1-2017 on a pro-forma basis.*

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBD)

The Corporation generated OIBD of $474 million in 2018, compared to $390 million in 2017, an increase of $84 million. Excluding specific items, the improvement was mainly driven by higher sales and lower brown recycled fibre costs for our Containerboard Packaging and Boxboard Europe segments. However, higher prices of virgin pulp and white recycled fibre grades negatively impacted the results of the Tissue Papers segment. Lower contribution from Recovery and Recycling activities, increased energy costs mainly in Boxboard Europe, and higher freight costs in all North American segments also negatively impacted OIBD.

Adjusted operating income before depreciation and amortization[1] was $489 million in 2018 compared to $393 million in 2017.

The main variances in operating income before depreciation and amortization in 2018, compared to 2017, are shown below (in $M):



Adjusted OIBD	*Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*
Raw material (OIBD)	*The impacts of these estimated costs are based on production costs per unit shipped externally or inter-segment, which are affected by yield, product mix changes, inbound freight costs and purchase and transfer prices. In addition to market pulp and recycled fibre, these costs include purchases of external boards and parent rolls for the converting sector, and other raw material such as plastic and wood chips.*
F/X CAN$ (OIBD)	*The estimated impact of the exchange rate is based on the Corporation's Canadian export sales less purchases, denominated in US$, that are impacted by exchange rate fluctuations and by the translation of our non-Canadian subsidiaries OIBD into CAN$. It also includes the impact of exchange rate fluctuations on the Corporation's Canadian units in currency other than the CAN$ working capital items and cash positions, as well as our hedging transactions. It excludes indirect sensitivity (please refer to the "Sensitivity Table" section for further details).*
Other production costs (OIBD)	*These costs include the impact of variable and fixed costs based on production costs per unit shipped externally, which are affected by downtime, efficiency and product mix changes.*
Recovery and Recycling activities (Sales and OIBD)	*While this sub-segment is integrated within the other segments of the Corporation, any variation in the results of Recovery and Recycling of the Specialty Products segment are presented separately and on a global basis in the charts.*

The analysis of variances in segment operating income before depreciation and amortization appears within each business segment review (please refer to the "Business Segment Review" section for more details).

[1] Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.
[2] For variance analysis purposes, adjusted to include Greenpac in Q1-2017 on a pro-forma basis.

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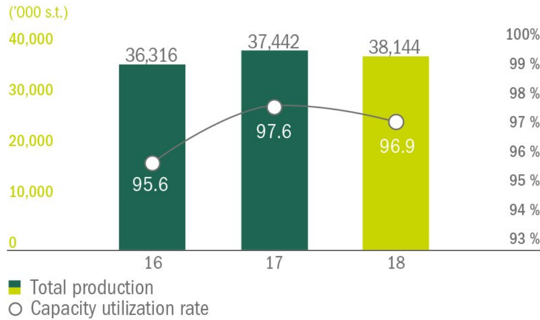
PACKAGING PRODUCTS - CONTAINERBOARD

Our Industry

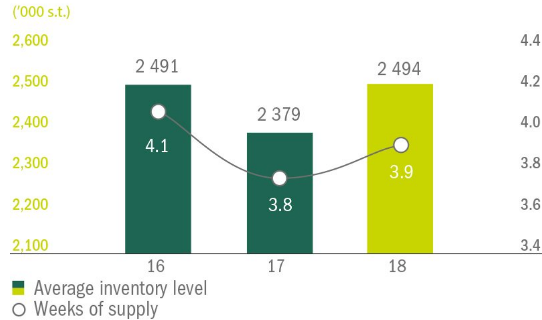
U.S. containerboard industry production and capacity utilization rate [1]

Total U.S.containerboard production increased slightly by 2% in 2018, due to favourable market conditions in part driven by e-commerce. The industry's capacity utilization rate decreased to 96.9% in 2018 from 97.6% in 2017.



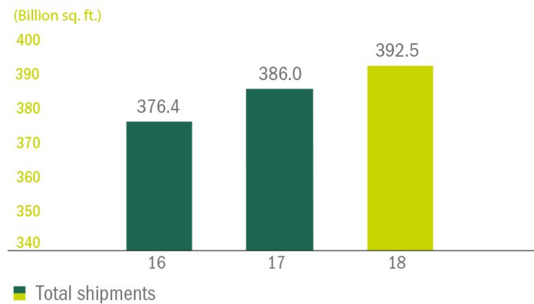
U.S. containerboard inventories at box plants and mills [2]

The average inventory level increased by 5% in 2018, as sales to export markets experienced some downward pressure in the second half of the year, leading to higher domestic inventory levels. The number of weeks of supply in inventory averaged 3.9 for the year.



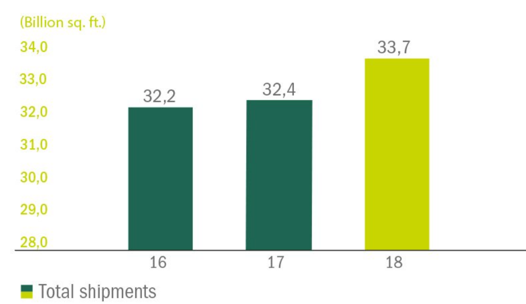
U.S corrugated box industry shipments [2]

Total U.S. corrugated box shipments increased by 2% in 2018 compared to 2017. This reflects continued strength in the economic environment and manufacturing activity, and the growing importance of e-commerce.



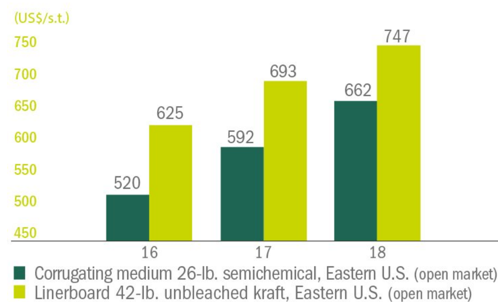
Canadian corrugated box industry shipments [3]

Canadian corrugated box shipments increased for a fifth consecutive year. Favourable market conditions explain the 4% year-over-year increase in 2018 compared to 2017.



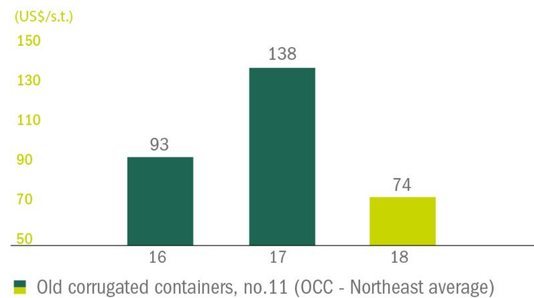
Reference prices - containerboard [1]

Following the implementation of a price increase in October 2016, containerboard producers successfully implemented an additional US$50 per short ton price increase on linerboard and corrugating medium prices in April, 2017, following strong supply and demand fundamentals and e-commerce trends. This was followed by a subsequent US$30 per short ton corrugating medium price increase later in the year. In March 2018, an additional price increase of US$50 per short ton on linerboard and corrugating medium was implemented. As a result, 2018 reference prices for linerboard and corrugating medium increased by 8% and 12%, respectively, compared to 2017.



Reference prices - recovered papers (brown grade) [1]

The average reference price of old corrugated containers no.11 ("OCC") decreased by 46% in 2018 compared to 2017. In the first quarter of 2017, index prices surged due to strong domestic and foreign demand. This was followed by a sharp decrease in index prices in October following China's restriction on recovered paper import permits, which led to an increase in domestic supply, and resulted in a sharp decline in prices during 2018.



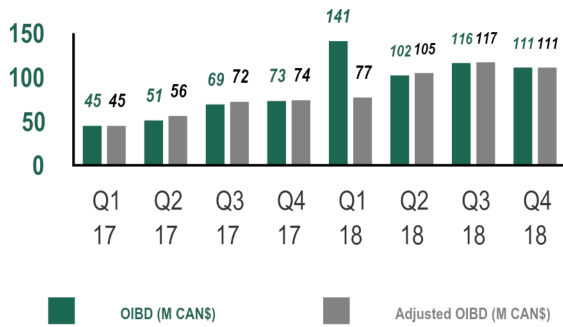
1 Source: RISI

2 Source: Fibre Box Association

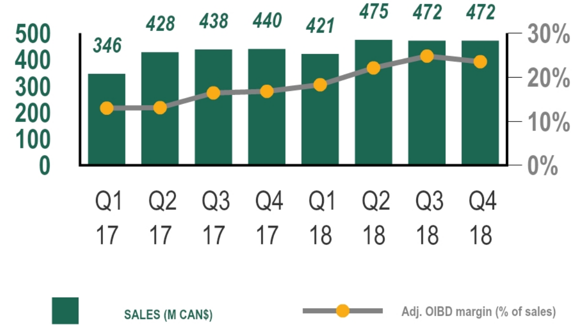
3 Source: Canadian Corrugated and Containerboard Association

Our Performance

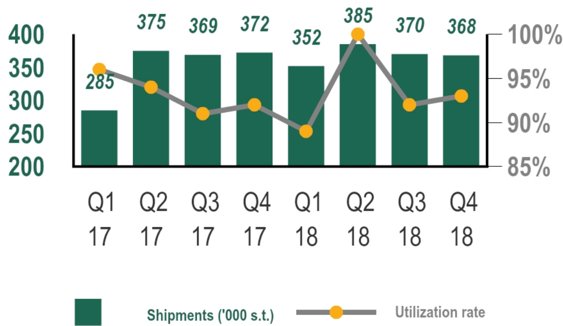
OIBD and adjusted OIBD (M CAN$)



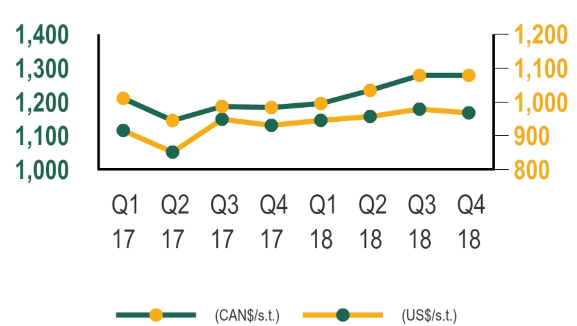
Sales and adjusted OIBD margin



Shipments and manufacturing capacity utilization rate

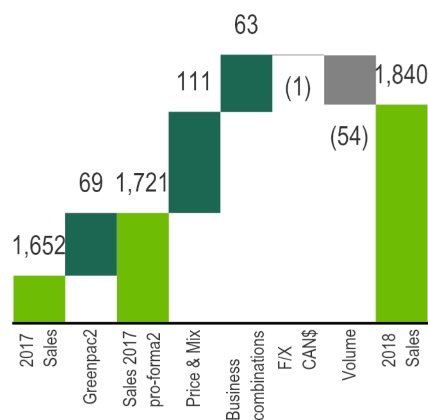


Average selling price

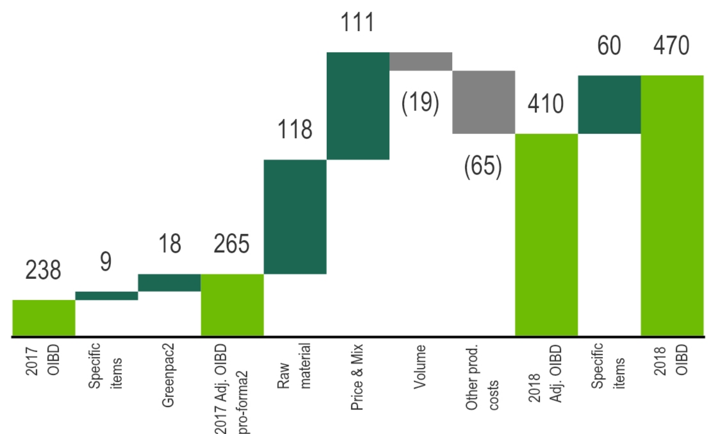


The main variances[1] in sales and operating income before depreciation and amortization for the Containerboard Packaging segment in 2018, compared to 2017, are shown below:

Sales ($M)



OIBD ($M)



[1] For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the year ended December 31, 2018, compared to the year ended December 31, 2017" for more details.

[2] For variance analysis purposes, adjusted to include Greenpac in Q1 2017 on a pro-forma basis.

The Corporation incurred certain specific items in 2018 and 2017 that adversely or positively affected its operating results. Please refer to the "Supplemental Information for Non-IFRS Measures" section for reconciliations and details.

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	2017 As reported	2018	Change in %
Shipments[1] ('000 s.t.)	1,401	1,475	5%
Average Selling Price (CAN$/unit)	1,179	1,247	6%
Sales ($M)	1,652	1,840	11%
OIBD[1] ($M) (as reported)	238	470	97%
% of sales	14%	26%	
(adjusted)[1]	247	410	66%
% of sales	15%	22%	
Operating income ($M) (as reported)	164	381	132%
(adjusted)[1]	173	321	86%

1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.

2 Shipments do not take into account the elimination of business sector inter-segment shipments. Including 12.9 billion square feet in 2018 compared to 12.5 billion square feet in 2017.

3 Up to Q1 2017, the Corporation's interest in Greenpac was recorded under the equity method. All transactions were therefore accounted for as external.

4 Including sales to other partners in Greenpac.

Shipments increased by 74,000 s.t., or 5%, in 2018. This reflects a 46,000 s.t. increase in external shipments from our containerboard mills. The inclusion of Greenpac for the full year in 2018 compared to only nine months in 2017 contributed to this increase. However, this was partly offset by lower production in several mills in the first two months of 2018 due to mechanical issues which were resolved by the end of the first quarter. Additional machine downtime decreased shipments by approximately 15,000 s.t. compared to last year. On the converting side, shipments increased by 4%, which includes the three Ontario sheet plants acquired in the fourth quarter of 2017.

Mills external shipments decreased by 49,000 s.t., or 6%, in 2018, when including Greenpac on a pro-forma basis, for the full year in 2017. The mill integration rate[4] reached 57% in 2018, up from 53% in 2017, reflecting higher integration. Including sales to associates, the integration rate was 76% compared to 64% last year.

The higher selling price denominated in Canadian dollars reflects increases of $73 per s.t., or 10%, for parent rolls, and $73 per s.t., or 5%, for converted products.

Sales increased by $188 million, or 11%, with the 2017 business acquisitions (including Greenpac) completed in the prior year contributing $132 million in 2018. When including Greenpac for the full year in both periods, sales increased by $119 million, or 7%, compared to last year. The higher average selling price and a favourable mix of products sold added $111 million to sales. The lower volumes negatively impacted sales by $54 million.

Operating income before depreciation and amortization (OIBD) increased by $232 million, or 97% during the year, compared to last year. This increase includes a gain of $66 million on the sale of our NY facility assets in the first quarter of 2018. Including Greenpac on a pro-forma basis in both periods, the remainder of the increase is mainly explained by the $111 million positive impact from the higher average selling price and more favourable mix. Prices of brown recycled fibre grades decreased, adding $118 million to OIBD. These favourable impacts were partly offset by higher freight costs and by lower comparable volume that subtracted, respectively, $23 million and $19 million from OIBD. Higher energy costs negatively impacted results by $4 million. In addition, operational costs subtracted another $42 million from OIBD. Specifically, additional labour and warehousing costs related to inventory management, as well as some manufacturing production inefficiencies negatively impacted results. Other variances added $4 million to OIBD.

The segment incurred some specific items[1] in 2018 and 2017 that affected OIBD. Adjusted OIBD[1] reached $410 million in 2018, compared to $247 million in 2017.

Finally, the Corporation's results for the first quarter of 2017 included its share of results of its then associate Greenpac[3] Mill (59.7%) prior to the consolidation announced on April 5, 2017. In the first quarter of 2017, our share of results of Greenpac stood at $7 million.

PACKAGING PRODUCTS - BOXBOARD EUROPE

Our Industry

European industry order inflow of coated boxboard [1]

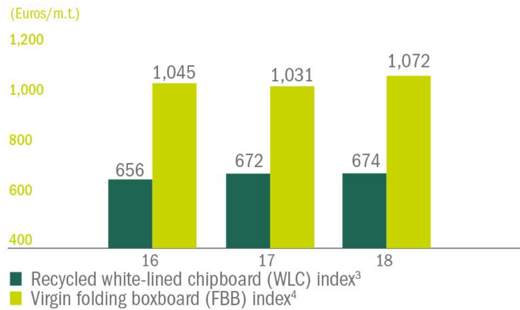
In Europe, order inflows of white-lined chipboard reflected ongoing solid demand throughout 2018, but decreased by 3% from the very strong levels in 2017. Specifically, industry orders were approximately 3.2 million tonnes in 2018. The folding boxboard industry similarly experienced a strong year, with order inflows of approximately 2.3 million tonnes in 2018. This represented an increase of approximately 1%, and followed the very strong 11% increase in 2017.

Coated recycled boxboard industry's order inflow from Europe
(White-lined chipboard (WLC) - 5-week weekly moving average)

Coated virgin boxboard industry's order inflow from Europe
(Folding boxboard (FBB) - 5-week weekly moving average)

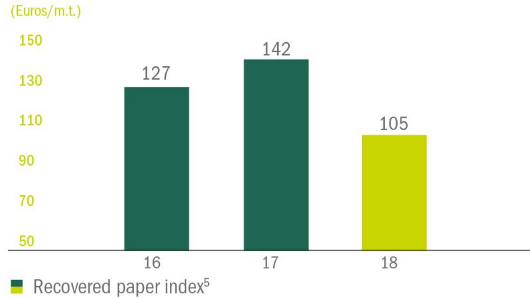
Reference prices - boxboard in Europe [2]

White-lined chipboard prices remained stable in Western European countries in 2018 compared to 2017. Folding boxboard prices increased by 4% throughout the year.



Reference prices - recovered papers in Europe [2]

Recovered paper prices strongly decreased in 2018 compared to 2017, following China's restriction on recovered paper import permits. As a result, the recovered paper reference index in Europe decreased 26% in 2018 compared to 2017, primarily due to the significant decreases in brown grades.



[1] *Source: CEPI Cartonboard*

[2] *Source: RISI*

[3] *The Cascades recycled white-lined chipboard selling prices index represents an approximation of Cascades' recycled grade selling prices in Europe. It is weighted by country. For each country, we use an average of PPI Europe prices for white-lined chipboard.*

[4] *The Cascades virgin coated duplex boxboard selling prices index represents an approximation of Cascades' virgin grade selling prices in Europe. It is weighted by country. For each country, we use an average of PPI Europe prices for coated duplex boxboard.*

[5] *The recovered paper index represents an approximation of Cascades' recovered paper purchase prices in Europe. It is weighted by country. For each country, we use an average of PPI Europe prices for recovered papers. This index should only be used as a trend indicator and may differ from our actual purchasing costs and our purchase mix.*

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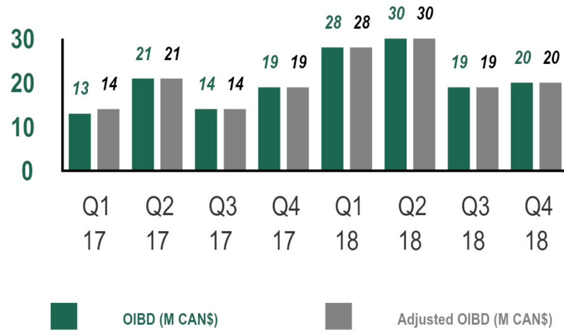
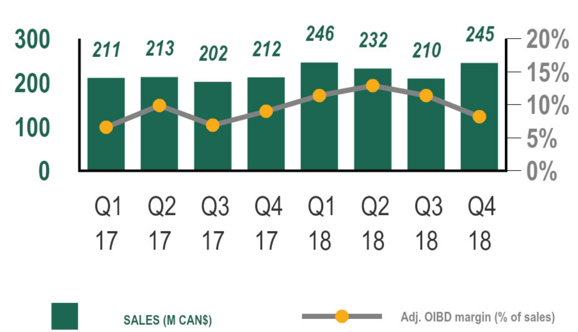
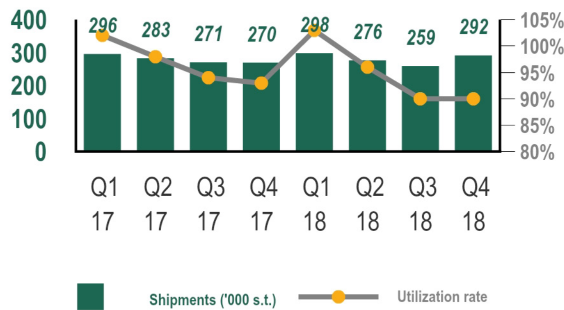
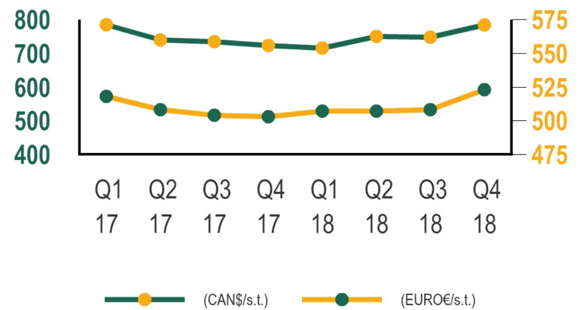
Our Performance

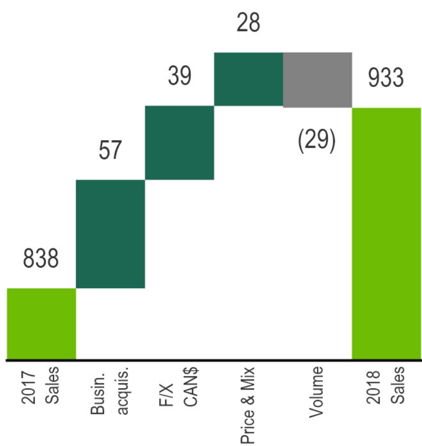


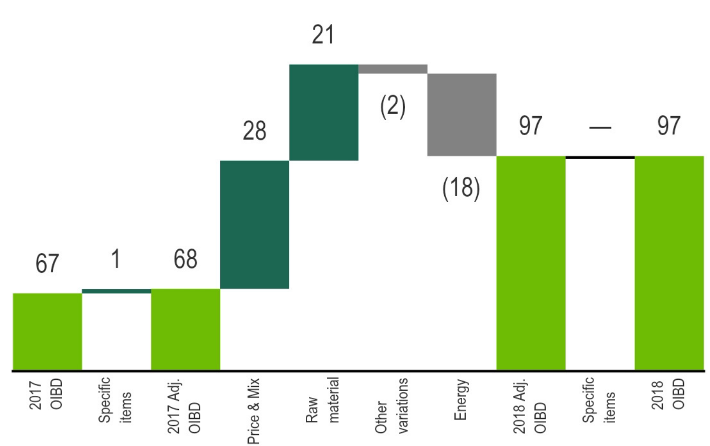






The main variances[1] in sales and operating income before depreciation and amortization for the Boxboard Europe segment in 2018, compared to 2017, are shown below:





[1] For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the year ended December 31, 2018, compared to the year ended December 31, 2017" for more details.

The Corporation incurred certain specific items in 2018 and 2017 that adversely or positively affected its operating results. Please refer to the "Supplemental Information for Non-IFRS Measures" section for reconciliations and details.

2017	2018	Change in %
Shipments[2] ('000 s.t.)		
1,120	1,125	—
Average Selling Price[3]		
(CAN$/unit)		
748	820	10%
(euro€/unit)		
511	536	5%
Sales ($M)		
838	933	11%
OIBD[1] ($M)		
(as reported)		
67	97	45%
% of sales		
8%	10%	
(adjusted)[1]		
68	97	43%
% of sales		
8%	10%	
Operating income ($M)		
(as reported)		
34	60	76%
(adjusted)[1]		
35	60	71%

1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.

2 Shipments do not take into account the elimination of business sector inter-segment shipments.

3 Average selling price is a weighted average of virgin, recycled and converted boxboard shipments only.

External recycled boxboard shipments decreased by 14,000 s.t., or 1%, in 2018 compared to 2017. This reflects lower volumes and an increased integration level with the recently acquired PAC Service. On the other hand, the acquisition of Barcelona Cartonboard positively impacted shipments for 31,000 s.t. while the addition of PAC service contributed another 23,000 s.t. (please refer to "Business Highlights" section for more details). Shipments of virgin boxboard decreased by 4,000 s.t., or 3%.

The average selling price increased in both euro and Canadian dollars year-over-year. This reflects the 4% average year-over-year depreciation of the Canadian dollar compared to the euro, in addition to sales price increases that were implemented for several products and the higher priced shipments from PAC Service. Compared to 2017, the average 2018 selling price of recycled boxboard activities increased by €15, or 3%, while the average selling price of virgin boxboard activities increased by €33, or 5%.

The increase in sales reflects the year-over-year 4% average depreciation of the Canadian dollar against the euro and the higher average selling price which, respectively, added $39 million and $28 million to sales. As well, the first quarter acquisition of PAC Service and subsequent fourth quarter acquisition of Barcelona Cartonboard contributed $57 million to sales in 2018. Conversely, lower volumes, on a same plant basis, reduced sales by $29 million.

Operating income before depreciation and amortization (OIBD) increased by $30 million year-over-year in 2018. This reflects lower raw material prices, which added $21 million, and the higher average selling price, which contributed $28 million. The weaker Canadian dollar also benefited OIBD by $6 million. Conversely, higher natural gas prices partly offset the increases, subtracting $18 million from OIBD.

The segment incurred a specific item[1] in 2017 that affected its OIBD. Adjusted OIBD[1] was $97 million in 2018, compared to $68 million in 2017.

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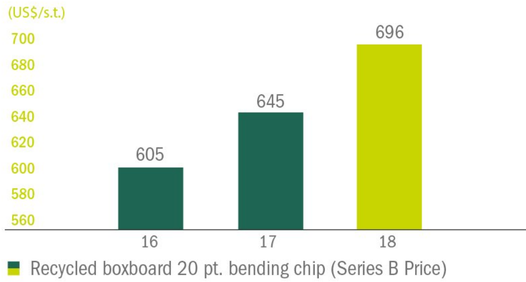
Our Industry

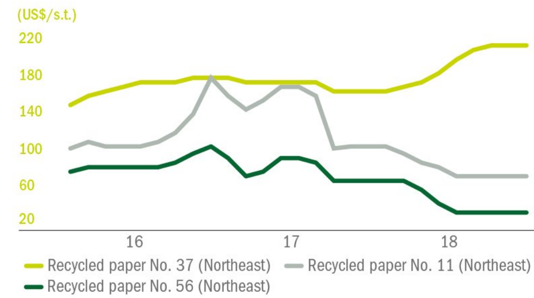
Reference prices - uncoated recycled boxboard [1]

The reference price for uncoated recycled boxboard increased by 8% in 2018 compared to 2017 due to better market conditions, which resulted in a series of price increases throughout the year.



Reference prices - fibre costs in North America [1]

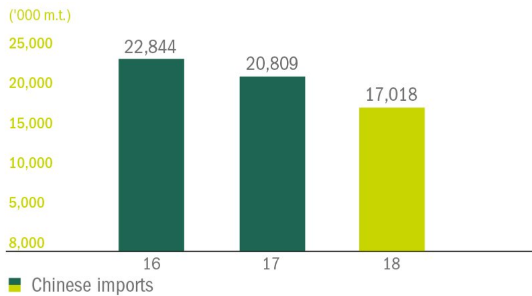
The brown grade recycled paper No. 11 (old corrugated containers, OCC) and the recycled paper No. 56 (sorted residential papers, SRP) index prices decreased by 46% and 54%, respectively, in 2018 compared to 2017. The white grade recycled paper No. 37 (sorted office papers, SOP) increased by 14% in 2018 compared to 2017. Following China's ban on recovered paper import permits in the last quarter of 2017, the old corrugated containers index price gradually declined from US$100 at the end of 2017 to US$68 at the end of 2018. Sorted office papers index prices increased due to lower levels of available recycled office paper.



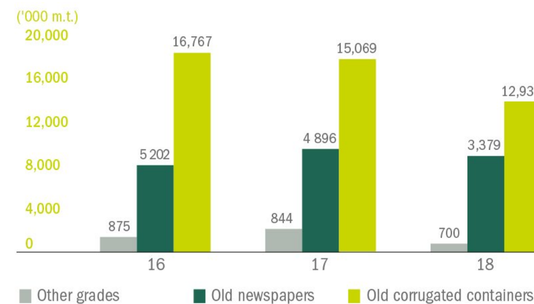
Chinese imports of recycled fibre [1]

Total Chinese imports fell by 18%[1] in 2018 compared to 2017 following the ban on recovered paper import permits by the Chinese government in the last quarter of 2017. On a more detailed basis, both old corrugated container and old newspapers imports were impacted, registering decreases of 14% and 31% respectively.

Total Chinese imports of recycled papers - all grades



Major grades imported by China



1 Source: RISI, excluding mixed papers

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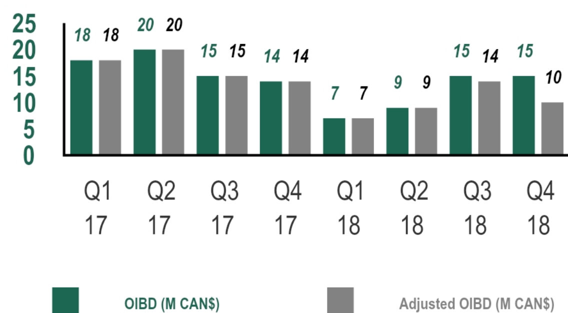
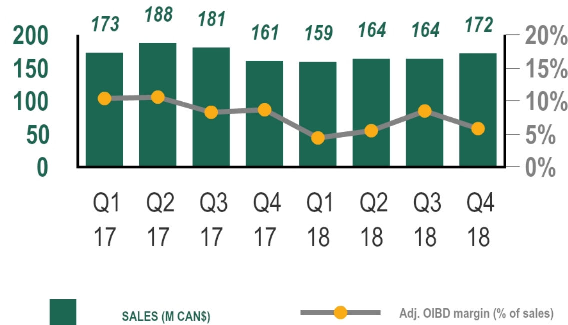
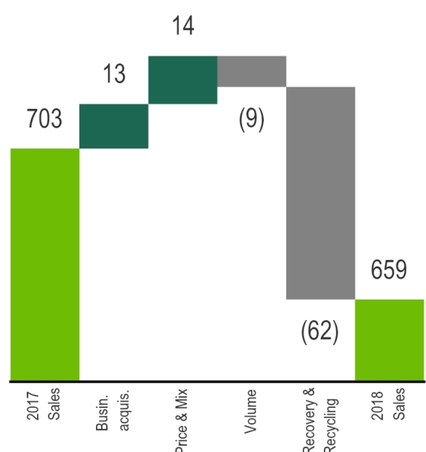
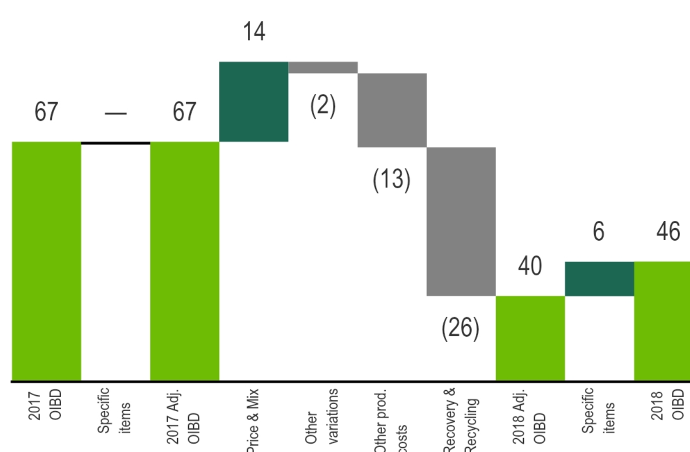
Our Performance





The main variances[1] in sales and operating income before depreciation and amortization for the Specialty Products segment in 2018, compared to 2017, are shown below:





[1] For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the year ended December 31, 2018, compared to the year ended December 31, 2017" for more details.

The Corporation incurred certain specific items in 2018 and 2017 that adversely or positively affected its operating results. Please refer to the "Supplemental Information for Non-IFRS Measures" section for reconciliations and details.

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	2017	2018	Change in %
Sales ($M)	703	659	-6%
OIBD[1] ($M) (as reported)	67	46	-31%
% of sales	10%	7%	
(adjusted)1	67	40	-40%
% of sales	10%	6%	
Operating income ($M) (as reported)	46	24	-48%
(adjusted)[1]	46	18	-61%

1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.

2 Recovery and Recycling activities: Given the level of integration of this sub-segment within the other segments of the Corporation, variances in results are presented excluding the impact of this segment. The variations of this segment are presented separately on a global basis.

Shipments decreased in all of our sub-sectors in 2018. More specifically, shipments decreased in our Recovery and Recycling[2] activities mainly due to the impact of Chinese imports restrictions on the flow of recovered paper. On the other hand, shipments increased in the last month of the year following business acquisition (please refer to "Business Highlights" section for more details).

Sales decreased by $44 million, or 6%, compared to the prior yearly period. This was mainly due to the $62 million lower contribution from the Recovery and Recycling activities caused by the decrease in recycled paper prices and lower volume. In addition, lower sales volume in our packaging activities subtracted $9 million. This was partially offset by higher average selling prices in our Industrial Packaging sub-sector reflecting URB price increases and a favourable product mix as well as additional sales from business acquisition. These factors added an additional $27 million.

Operating income before depreciation and amortization (OIBD) decreased by $21 million in 2018, due primarily to the $26 million decrease in our Recovery and Recycling activities[2] that stems from lower realized spreads (between average selling prices and raw material costs). OIBD levels in other sub-sectors were $1 million lower than 2017, as a result of lower sales volume and higher operating costs, partly offset by higher realized spreads in our Industrial Packaging activities.

The segment incurred some specific items[1] in 2018 that affected OIBD. Adjusted OIBD[1] reached $67 million in 2018, compared to $40 million in 2017.

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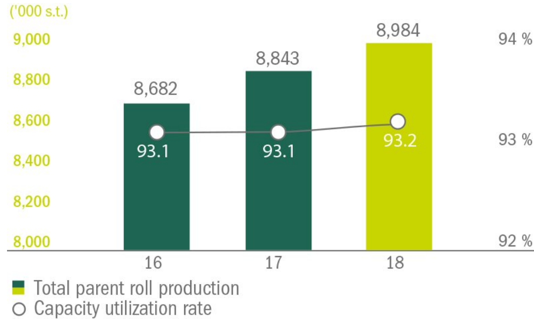
Our Industry

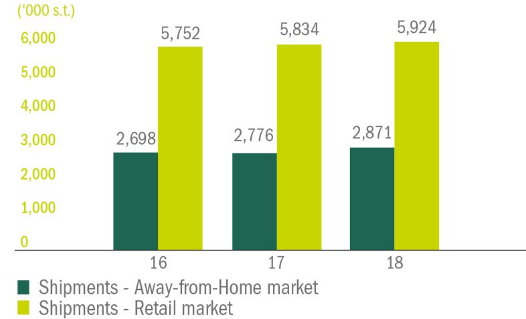
U.S. tissue paper industry production (parent rolls) and capacity utilization rate [1]

Total parent roll production increased by 2% for a fourth consecutive year in 2018. The average capacity utilization rate remained stable at 93% in 2018 compared to 2017. New capacity additions in the market are the main factor for these metrics.



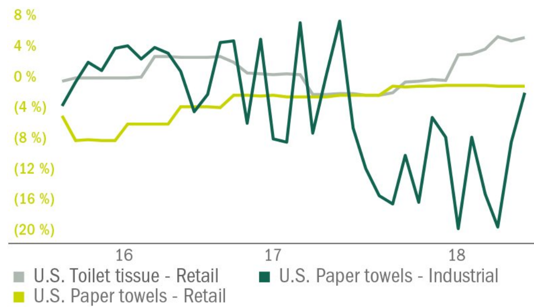
U.S. tissue paper industry converted product shipments [1]

In 2018, shipments for the retail and the away-from-home markets increased by 2% and 3%, respectively, compared to 2017.



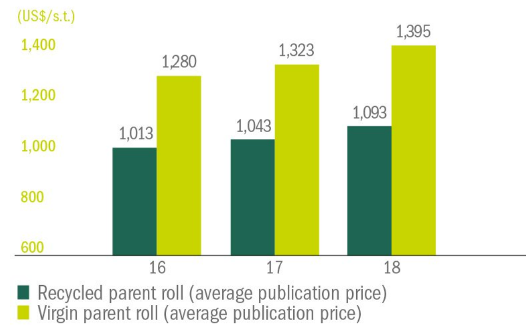
U.S. producer price index - annual changes in converted tissue prices [2]

In the U.S., prices for retail toilet tissue followed a upward trend in 2018. Prices for retail paper towels remained relatively stable throughout the year. Prices for industrial paper towels were very volatile and followed a downward trend in 2018, suggesting aggressive marketing and pricing strategies.



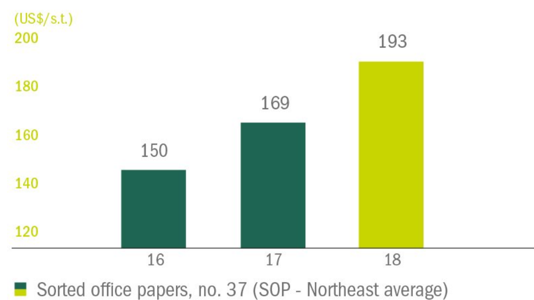
Reference prices - parent rolls [1]

In 2018, the reference price for both recycled and virgin parent rolls increased by 5% compared to 2017, mostly due to rising input costs.



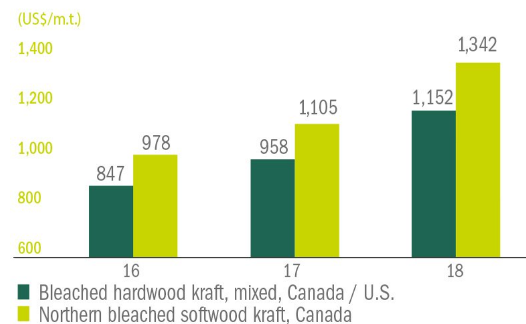
Reference prices - recovered papers (white grade) [1]

The reference price of sorted office papers No.37 ("SOP") was very volatile in 2018, fluctuating between US$160 and US$210, closing at US$195. The average price stood at US$193 in 2018, a 14% increase compared to 2017.



Reference prices - market pulp [1]

In 2018, the reference price for NBSK and NBHK both rose by 21% and 20%, respectively, in 2018 compared to 2017 due to solid demand globally.



1 Source: RISI

2 Source: U.S. Bureau of Labor Statistics

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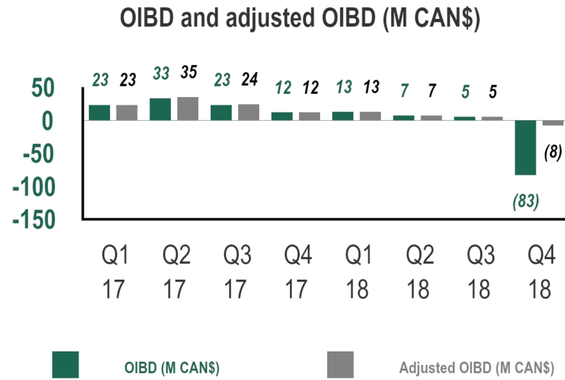
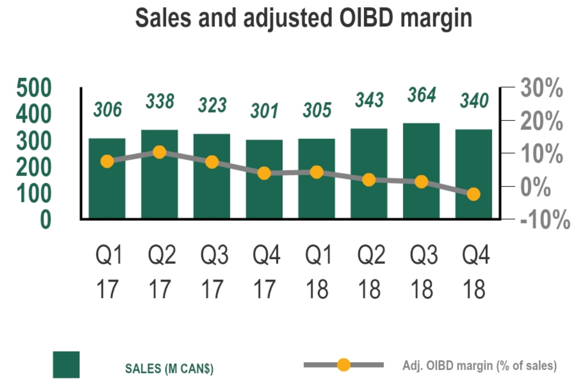
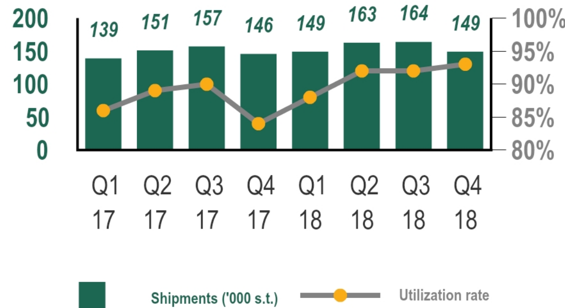
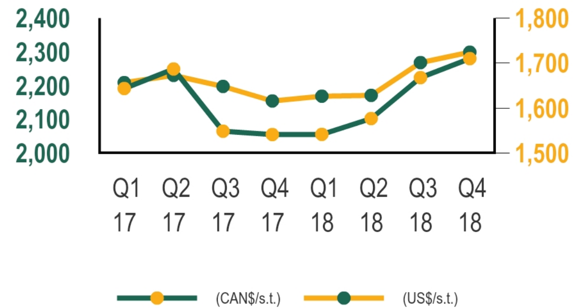
Our Performance

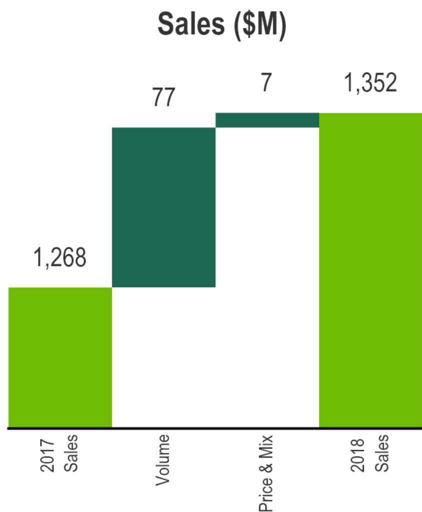


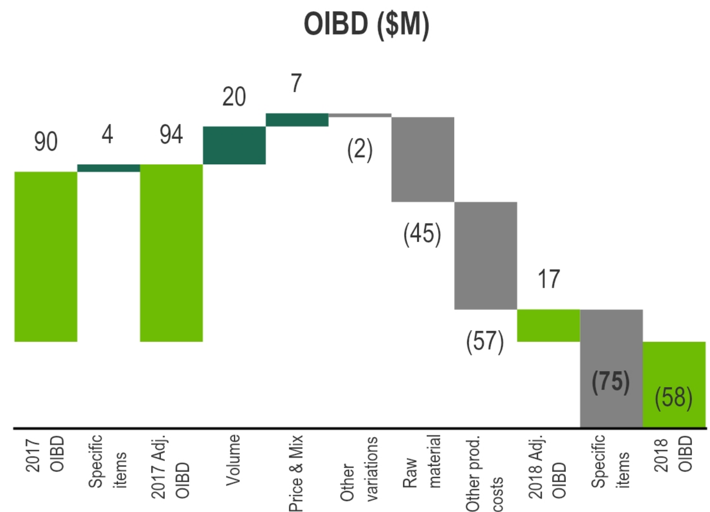






The main variances[1] in sales and operating income (loss) before depreciation and amortization for the Tissue Papers segment in 2018, compared to 2017, are shown below:





[1] For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the year ended December 31, 2018, compared to the year ended December 31, 2017" for more details.

The Corporation incurred certain specific items in 2018 and 2017 that adversely or positively affected its operating results. Please refer to the "Supplemental Information for Non-IFRS Measures" section for reconciliations and details.

	2017	2018	Change in %
Shipments[2] ('000 s.t.)	593	625	5%
Average Selling Price (CAN$/unit)	2,138	2,165	1%
Sales ($M)	1,268	1,352	7%
OIBD ($M) (as reported)	90	(58)	-164%
% of sales	7%	(4)%	
(adjusted)[1]	94	17	-82%
% of sales	7%	1%	
Operating income (loss) ($M) (as reported)	28	(122)	-536%
(adjusted)[1]	32	(47)	-247%

1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.

2 Shipments do not take into account the elimination of business sector inter-segment shipments.

External manufacturing shipments increased by 3,000 s.t., or 2%, year-over-year in 2018. This was mainly due to increased market demand, inventory level reduction strategies and product diversification. The integration rate also increased from 68% to 70% in 2018 reflecting higher total production. External converting shipments increased by 29,000 s.t., or 7%, compared to last year, mainly driven by the Away-from-Home and retail sub-segments.

The 1% increase in the average Canadian dollar selling price was positively impacted by price increases in all markets.

The 7% increase in sales compared to last year, was largely driven by an increase in volume, higher selling prices and a favourable sales mix of parent rolls to converted products.

The decrease in operating income before depreciation and amortization is mainly attributable to a significant increase in virgin fibre and recycled white grade paper costs, as well as higher logistics and energy costs. Higher freight costs are the result of tight transportation market conditions but also of additional product transfers following the interruption of operations in our North Carolina facility caused by Hurricane Florence and a fire that occurred in the fourth quarter. These incidents had major volume impacts which forced us to supply our customers from our other facilities further away. In addition, a third-party gas pipeline failure on the West Coast in October led to higher energy costs. These were partially offset by higher volume, which had a positive impact on overall operational cost levels due to better cost absorption and price increases as already mentioned above.

OIBD of the Oregon converting activities improved compared to last year but is still not at the level expected. We are seeing positive trends in terms of sales, which has a positive impact compared to last year. Unfortunately, operational difficulties at our St. Helens mill are having a negative impact on the ramp up of our Oregon converting plant, as these facilities are highly integrated. An action plan is ongoing to mitigate the situation and we are already seeing positive impacts.

The segment incurred some specific items[1] in 2018 and in 2017 that affected its OIBD. Adjusted OIBD[1] reached $17 million in 2018, compared to $94 million in 2017.

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CORPORATE ACTIVITIES

Operating loss before depreciation and amortization in 2018 includes an unrealized loss of $6 million on financial instruments. This compares to an unrealized gain of $9 million in 2017. In 2017, a gain of $1 million on the sale of assets is also included in operating loss before depreciation and amortization.

Also in 2017, Corporate Activities recorded a $2 million reversal of impairment following the collection of a note receivable that had been written off in previous years. As well, Corporate Activities recorded a severance cost of $1 million following the closure of a sales division.

As planned, activities related to our ERP system implementation and business process optimization are slowing as targets continue to be realized. As such, costs related to these activities decreased year-over-year and efforts are now focused on stabilization and optimization.

STOCK-BASED COMPENSATION EXPENSE

Share-based compensation expense recognized in Corporate Activities amounted to $5 million in both 2018 and 2017. For more details on stock-based compensation, please refer to Note 19 of the 2018 audited consolidated financial statements.

OTHER ITEMS ANALYSIS

DEPRECIATION AND AMORTIZATION

The depreciation and amortization expense increased by $29 million to $244 million in 2018, compared to $215 million in 2017. The increase is mainly attributable to business acquisitions, the start-ups of the Oregon tissue and New Jersey containerboard converting facilities and the completion of the ERP system implementation in 2017.

FINANCING EXPENSE AND INTEREST ON EMPLOYEE FUTURE BENEFITS

The financing expense and interest on employee future benefits and other liabilities amounted to $99 million in 2018, compared to $111 million in 2017, a decrease of $12 million. In 2017, the Corporation recorded $11 million of premiums and wrote off $3 million of capitalized financing fees following the purchase of US$200 million of unsecured senior notes. Excluding these items, financing expenses increased by $2 million. Additional financing expense from business acquisitions and capital expenditures completed in 2017 and in 2018 was offset by the impact of the sale of our Boralex stake in 2017, the redemption of US$200 million of unsecured senior notes completed in late 2017 and higher capitalized interest related to major projects completed during the year. In addition, financing expense also increased in 2018 by $4 million for the recognition to expense of the fair value variation of the Greenpac equity holder put option (see Note 5 of the 2018 audited consolidated financial statements).

During 2018, S&P Global Ratings revised the Corporation's outlook to “positive” from “stable” on improving credit measures; our corporate rating of BB- was affirmed.

PROVISION FOR (RECOVERY OF) INCOME TAXES

In 2018, the Corporation recorded an income tax provision of $49 million. This compares to an income tax recovery of $81 million in the same period of 2017.

(in millions of Canadian dollars)	NOTE	**2018**	2017
Provision for income taxes based on the combined basic Canadian and provincial income tax rate		**38**	117
Adjustment for income taxes arising from the following:			
Difference in statutory income tax rate of foreign operations		**(1)**	10
Prior years reassessment		**2**	3
Reversal of deferred income tax liabilities related to our previously held investment in Greenpac	5	**—**	(70)
Permanent difference on revaluation of previously held equity interest - Greenpac associate	5	**—**	(57)
Non-taxable portion of capital gain on revaluation of previously held equity interest - Boralex associate	8	**—**	(24)
Change in future income taxes resulting from enacted tax rate change		**—**	(57)
Unrealized capital gain on long-term debt		**—**	(3)
Reversal of deferred tax assets on tax losses		**3**	—
Permanent differences		**(1)**	(6)
Change in deferred income tax assets relating to capital tax loss		**8**	6
		11	(198)
Provision for (recovery of) income taxes		**49**	(81)

In 2017, in conjunction with the acquisition of Greenpac, the Corporation recorded an income tax recovery of $70 million representing deferred income taxes on its investment prior to the acquisition on April 4, 2017. Also, there was no income tax provision recorded on the gain of $156 million generated by the business combination of Greenpac, since it is included in the fair value of assets and liabilities acquired as described in Note 5 of the 2018 audited consolidated financial statements.

Following the US tax reform adopted in December 2017, the Corporation revalued the net deferred tax liability of its US entities and recorded a gain of $57 million.

The income tax provision on the Boralex revaluation gain was calculated at the rate of capital gains. Also, consequently with the sale of its participation in Boralex in July 2017, the Corporation has reassessed the probability of recovering unrealized capital losses on long-term debt due to foreign exchange fluctuations. The tax provision or recovery on foreign exchange gains or losses on long-term debt and related financial instruments in addition to some share of results of Canadian associates and joint ventures is calculated at the rate of capital gains. The decrease in the US federal tax rate from 35% to 21% at the end of 2017 had a positive impact on tax expense in 2018 compared to last year.

The Corporation's share of results from its US-based joint ventures and associates, which were mostly composed of its share of results from Greenpac through the first quarter of 2017, is taxed at the same rate as the Corporation’s statutory tax rate. Moreover, as Greenpac is a limited liability company (LLC), partners agreed to account for it as a disregarded entity for tax purposes. Consequently, income taxes associated with Greenpac net earnings are proportionately recorded by each partner based on its respective share in the LLC, and no income tax provision is included in Greenpac's net earnings. As such, although Greenpac has been fully consolidated in the Corporation's results since the second quarter of 2017, only 71.8% of pre-tax book income is considered for tax provision purposes.

The effective tax rate and income taxes are affected by the results of certain subsidiaries and joint ventures located in countries where the income tax rates are different compared to Canada, notably the United States, France and Italy. The normal effective tax rate is expected to be in the range of 26% to 28%. The weighted-average applicable tax rate was 25.8% in 2018.

SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

Until March 10, 2017, the share of results of associates and joint ventures included our 17.37% interest in Boralex Inc. (“Boralex”), a Canadian public corporation. Boralex is a producer of electricity whose core business is the development and operation of power stations that generate renewable energy, with operations in the Northeastern United States, Canada and France.

On January 18, 2017, Boralex issued common shares to partly finance the acquisition of the interest of Enercon Canada Inc. in the Niagara Region Wind Farm. As a result, the Corporation's participation in Boralex decreased to 17.37%. This resulted in a dilution gain of $15 million, which is included in line item “Share of results of associates and joint ventures” in the consolidated statement of earnings.

On March 10, 2017, Boralex announced the appointment of a new Chairman of the Board. This change in the Board composition combined with the decrease of our participation discussed above triggered the loss of significant influence of the Corporation over Boralex. Therefore, our investment in Boralex was no longer classified as an associate and was considered as an available-for-sale financial asset, which was classified in “Other assets.” Consequently, our investment in Boralex was revaluated at fair value on March 10, 2017 and we recorded a gain of $155 million. At the same time, accumulated other comprehensive loss components of Boralex, totaling $10 million and included in our consolidated balance sheet, were released to net earnings. These two items are presented in line item “Fair value revaluation gain on investments” in the consolidated statement of earnings.

On April 5, 2017, the Corporation announced the inclusion of Greenpac's results on a consolidated basis starting on April 4, 2017. The transaction resulted in a gain of $156 million on the revaluation of previously held interests. As a result of the acquisition, accumulated other comprehensive loss components of Greenpac, totaling $4 million and included in our consolidated balance sheet prior to the acquisition, were reclassified to net earnings. These two items are presented in line item “Fair value revaluation gain on investments” in the consolidated statement of earnings (please refer to Note 5 of the 2017 audited consolidated financial statements for more details).

On July 27, 2017, Cascades announced the sale of all of its shares in Boralex to the Caisse de Dépôt et Placement du Québec for an amount of $288 million. The increase in fair value of $18 million from March 10 to July 27, 2017, recorded in accumulated other comprehensive income materialized and the Corporation recorded a gain of $18 million during the year in line item “Fair value revaluation gain on investments” in the consolidated statement of earnings.

In the first quarter of 2017, prior to the consolidation of Greenpac announced in the third quarter of 2017 (please refer to the “Business Highlights” section for more details), the Corporation recorded its 59.7% share of the Greenpac Mill results as an associate. As such, contribution to earnings before income taxes stood at $7 million. No provision for income taxes was included in our Greenpac share of results, as it is a disregarded entity for tax purposes (see the “Provision for income taxes” section above for more details).

For more information on specific items, please refer to the “Supplemental Information on Non-IFRS Measures” section.

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LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities generated $373 million of liquidity in 2018, compared to $173 million generated in 2017. Changes in non-cash working capital components generated $12 million of liquidity in 2018, versus $87 million used in 2017.

In 2018, excluding the impact of business acquisitions, lower trade receivables at the end of the year generated higher liquidity than last year but were offset by the increase in inventory value in all business segments. In 2017, higher inventory levels in our Containerboard and Tissue segments in addition to higher accounts receivable due to higher sales following business combinations and higher selling prices, as well as lower trade and other payables are the main factors leading to the use of liquidity.

As at December 31, 2018, average LTM working capital as a percentage of LTM sales stood at 10.6%, compared to 10.1% as at December 31, 2017.

Cash flow from operating activities, excluding changes in non-cash working capital components, stood at $361 million in 2018, compared to $260 million in 2017. This cash flow measurement is relevant to the Corporation's ability to pursue its capital expenditure program and reduce its indebtedness.

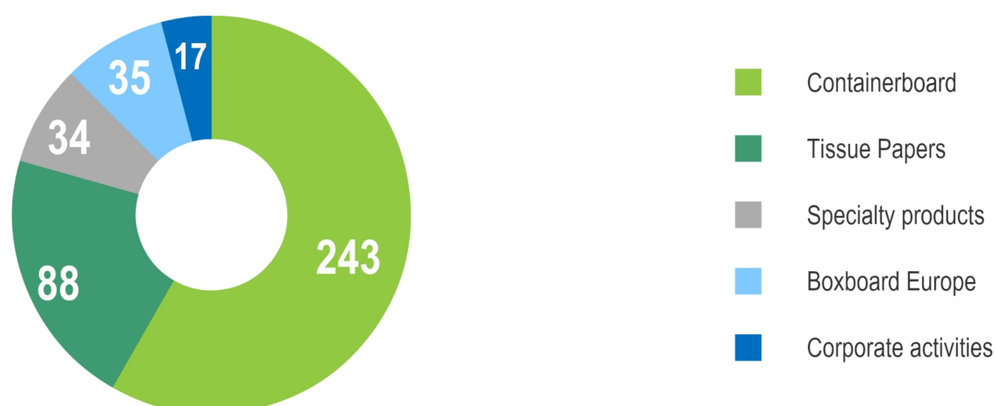
INVESTING ACTIVITIES

Investing activities used $370 million in 2018, compared to $70 million generated in 2017, which included the proceeds from the disposal of our investment in Boralex for $288 million. Payments for property, plant and equipment totaled $338 million in 2018, including the purchase of the White Birch Bear Island assets in Virginia, USA (please refer to the "Significant facts and developments" section for more details), compared to $193 million in 2017. Proceeds from disposals of property, plant and equipment stood at $85 million in 2018, including the sale of the building and land of our containerboard plant in Maspeth, NY, USA (please refer to the "Significant facts and developments" section for more details), compared to $15 million in 2017.

PAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

Payments for property, plant and equipment in 2018 were $338 million, compared to $193 million in 2017. However, new capital expenditure projects, including capital leases, amounted to $417 million in 2018, compared to $207 million in 2017. The variance in the amounts is related to purchases of property, plant and equipment, included in "Trade and Other Payables", and other debts as well as capital lease acquisitions.

New capital expenditure projects by segment in 2018 were as follows (in M$):



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The major capital projects that were initiated, are in progress or were completed in 2018 are as follows:

CONTAINERBOARD PACKAGING

- Investments for the construction of a new containerboard packaging plant in Piscataway, NJ, USA (please refer to the "Significant Facts and Developments" section for more details) and for other strategic initiatives. Project costs include a non-cash amount of $56 million for the capital lease of the building.
- Purchase of the assets of White Birch (Bear Island) in Virginia, USA (please refer to the "Significant Facts and Developments" section for more details).

SPECIALTY PRODUCTS

- Investment for a new printing press at our Flexible Packaging plant located in Mississauga, Ontario, Canada.

TISSUE PAPERS

- Down payments made on the acquisition of new modern converting equipments.

INVESTMENTS IN ASSOCIATES & JOINT VENTURES AND CHANGE IN INTANGIBLE AND OTHER ASSETS

The main items were as follows:

2018
During the year, the Corporation invested $15 million for its ERP technology system and other softwares. Also during the period, the Corporation paid a $2 million purchase price adjustment related to the acquisition of a joint-venture participation in 2017 and invested $2 million in the development of new products. Finally, we received $3 million related to a notes receivable for a plant sold in previous years.

2017
The Corporation sold its investment in Boralex for an amount of $288 million (please refer to the "Significant Facts and Developments" section for more details).

At the end of the first quarter, the Corporation announced the acquisition of a minority stake in Containerboard Partners (Ontario) Inc., which owns 12% of Greenpac, for a consideration of US$12 million ($16 million). This transaction increased the Corporation's total participation in Greenpac by 2.8% to 62.5% at that time via the acquired additional indirect ownership.

The Corporation invested $23 million in intangible and other assets related to our ERP information technology system and additional softwares needed to support our business process optimization.

Effective January 1, 2018, the Corporation, through its equity ownership in Reno de Medici S.p.A., acquired 66.67% of PAC Service S.p.A., a boxboard converter for the packaging, publishing, cosmetics and food industries. The Corporation already had a 33.33% equity participation. The consideration for the acquisition of the remaining 66.67% shares consisted of cash totaling €10 million ($15 million) and was deposited on December 19, 2017 and recorded in other assets.

NET CASH ACQUIRED (PAID) IN BUSINESS COMBINATIONS

2018
During the year, the Corporation paid $54 million for the acquisition of Barcelona Cartonboard S.A.U., in the Boxboard Europe segment, and $51 million for the acquisition of Urban Forest Products and Clarion Packaging, two moulded pulp plants, in the Specialty products segment. As well, the Corporation acquired $4 million in cash through the business combination of PAC Service and $2 million from the acquisition of Barcelona Cartonboard S.A.U., as described in Note 5 of the audited consolidated financial statements of 2018. The Corporation also paid $1 million for the working capital purchase price adjustment of its Coyle containerboard plants acquisition completed in 2017.

All in all, net cash consideration amounted to $100 million and the Corporation also assumed $27 million of debt related to these acquisitions.

2017
During the year, the Corporation acquired $34 million from the business combination of Greenpac and paid $25 million for the acquisition of the Coyle Group, in Ontario, in the containerboard segment.

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FINANCING ACTIVITIES

Financing activities, including $15 million of dividends paid to the Corporation's Shareholders, debt repayment and the change in our revolving facility generated $25 million in liquidity during 2018, compared to $218 million used in 2017.

Cascades issued 714,937 shares at an average price of $7.00 as a result of the exercise of stock options in 2018, representing an aggregate amount of $5 million. As well, the Corporation purchased 1,539,380 shares for cancellation at an average price of $13.12 for an amount of $20 million.

During the year, the Corporation also paid $1 million for the settlement of derivative financial instruments on long-term debt, compared to $12 million in 2017. Dividends paid to non-controlling interests amounted to $17 million in 2018 compared to $5 million in 2017. These payments are the results of dividends paid to the non-controlling shareholders of Greenpac and/or Reno de Medici. Non-controlling interests also contributed $1 million to the capital of Greenpac during the year, representing the reinvestment of investment tax credits received by the partners.

On December 4, 2017, the Corporation announced the acquisition of an additional 30% interest in Containerboard Partners (Ontario) Inc. for a consideration of US$15 million ($19 million). This transaction increased the Corporation's total participation in Greenpac by 3.6% to 66.1%. Containerboard Partners is now fully consolidated in our financial statements.

On December 12, 2017, the Corporation repurchased US$150 million of its 5.50% unsecured senior notes due in 2022 for an amount of $193 million and US$50 million of its 5.75% unsecured senior notes due in 2023 for an amount of $64 million.

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CONSOLIDATED FINANCIAL POSITION

AS AT DECEMBER 31, 2018, 2017 AND 2016

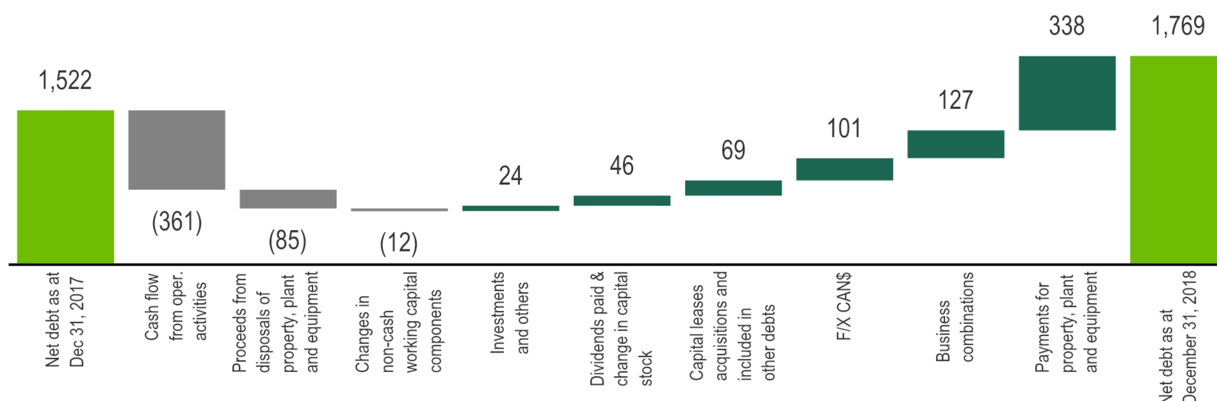
The Corporation's financial position and ratios are as follows:

(in millions of Canadian dollars, unless otherwise noted)	December 31, 2018	December 31, 2017	December 31, 2016
Cash and cash equivalents	**123**	89	62
Working capital[1]	**455**	442	309
As a percentage of sales[2]	**10.6%**	10.1%	10.6%
Bank loans and advances	**16**	35	28
Current portion of long-term debt	**55**	59	36
Long-term debt	**1,821**	1,517	1,530
Total debt	**1,892**	1,611	1,594
Net debt (total debt less cash and cash equivalents)	**1,769**	1,522	1,532
Equity attributable to Shareholders	**1,508**	1,455	984
Non-controlling interests	**180**	146	90
Total equity	**1,688**	1,601	1,074
Total equity and net debt	**3,457**	3,123	2,606
Ratio of net debt/(total equity and net debt)	**51.2%**	48.7%	58.8%
Shareholders' equity per share (in dollars)	**$ 16.01**	$ 15.32	$ 10.41

1 Working capital includes accounts receivable (excluding the short-term portion of other assets) plus inventories less trade and other payables.
2 Percentage of sales = Average LTM working capital/LTM sales. It includes or excludes significant business acquisitions and disposals, respectively, of the last twelve months.

NET DEBT[1] RECONCILIATION

The variances in the net debt (total debt less cash and cash equivalents) in 2018 are shown below (in millions of dollars), with the applicable financial ratios included.



393	Adjusted OIBD[1] (last twelve months)	**489**
3.6	Net debt/Adjusted OIBD[1,2]	**3.5**

Liquidity available via the Corporation's credit facilities, along with the expected cash flow generated by its operating activities, will provide sufficient funds to meet our financial obligations and to fulfill our capital expenditure program for at least the next twelve months. Net capital expenditures are expected to be in a range of $330-$400 million in 2019. This amount is subject to change, depending on the Corporation's operating results and on general economic conditions. As at December 31, 2018, the Corporation had $651 million (net of letters of credit in the amount of $13 million) available on its $750 million credit facility (excluding our subsidiaries Greenpac and Reno de Medici's credit facilities). Cash and cash equivalents as at December 31, 2018, are composed as follows: $23 million in the Parent Company, and $100 million in Greenpac and Reno de Medici.

1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.
2 Adjusted OIBD (last twelve months) including business combinations of 2017 and 2018 on a pro-forma basis.

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EMPLOYEE FUTURE BENEFITS

The Corporation's employee future benefits assets and liabilities amounted to $445 million and $579 million respectively as at December 31, 2018, including an amount of $99 million for post-retirement benefits other than pension plans. The pension plans include an amount of $63 million, which does not require any funding by the Corporation until it is paid to the employees. This amount is not expected to increase, as the Corporation has reviewed its benefits program to phase out some of them for future retirees.

With regard to pension plans, the Corporation's risk is limited, since all defined benefit pension plans are closed to new employees and less than 10% of its active employees are subject to those pension plans, while the remaining employees are part of the Corporation's defined-contribution plans, such as group RRSPs or 401(k). Based on their balances as at December 31, 2018, 49% of the Corporation pension plans have been evaluated on December 31, 2017 (44% in 2016). Where applicable, we used the measurement relief allowed by law in order to reduce the impact of its increased current contributions.

Considering the assumptions used and the asset ceiling limit, the deficit status for accounting purposes of its pension plans amounted to $55 million as at December 31, 2018, compared to $36 million in 2017. The 2018 pension plan expense was $8 million and the cash outflow was $8 million. Due to the investment returns in 2018 and the change in the assumptions, the expected expense for these pension plans is $7 million in 2019. As for the cash flow requirements, these pension plans are expected to require a net contribution of approximately $8 million in 2019. Finally, on a consolidated basis, the solvency ratio of the Corporation's pension plans has remained stable at approximately 100%.

COMMENTS ON THE FOURTH QUARTER OF 2018

Sales of $1,196 million increased by $114 million or 11% compared to the same period last year. This was driven by a 13% increase in the Tissue segment reflecting volume improvements, and a more favourable sales mix, exchange rate and average selling price during the period. A 7% increase in the Containerboard Packaging group similarly benefited sales, and was driven by higher selling prices and the acquisition of converting facilities in Ontario at the end of 2017. Sales generated by the European Boxboard segment were up by 16% compared to the prior year, reflecting higher shipments, acquisitions in the last twelve months, and a more favourable Canadian dollar - euro exchange rate. Finally, fourth quarter sales in the Specialty Products segment improved 7% from prior year levels, as the benefits of the recent acquisition and slight improvements in selling price and sales mix were slightly offset by lower sales in recovery activities following the year-over-year decrease in brown recycled fibres prices.

The Corporation generated an operating income before depreciation and amortization (OIBD) of $37 million in the fourth quarter of 2018. This compared to the $104 million generated in the comparable period last year. In addition to the $75 million impairment charge recorded in the Tissue segment during the period, the variance reflects higher production costs in all segments, higher energy costs in European Boxboard and Tissue, slightly lower volume in both Containerboard and Boxboard Europe (excluding acquisitions), and a lower contribution from recovery operations within the Specialty Products segment related to changes in raw material pricing. These were offset by improvements generated from higher selling prices and more favourable sales mix in all business segments, and business acquisitions in the last twelve months. Operating income before depreciation and amortization similarly benefited from favourable raw material prices on a net basis, as the beneficial impact of lower OCC pricing on Containerboard results outweighed the significant consequence of higher year-over-year white recycled fibre and pulp pricing on Tissue segment results.

On an adjusted basis[1], fourth quarter OIBD stood at $113 million, versus $105 million in the prior year.

The specific items, before income taxes, that impacted our fourth quarter 2018 results were:

- a $75 million impairment charge related to revaluation of certain assets in our Tissue papers segment (OIBD and net loss)
- a $8 million foreign exchange loss on long-term debt and financial instruments (net loss)
- a $4 million unrealized loss on financial instruments (OIBD and net loss)
- a $3 million gain on other items (OIBD and net loss)

For the three-month period ended December 31, 2018, the Corporation posted a net loss of $65 million, or $0.69 per share, compared to net earnings of $57 million, or $0.60 per share, in the same period of 2017. On an adjusted basis[1], the Corporation generated break even net earnings in the fourth quarter of 2018, or $0.00 per share, compared to net earnings of $13 million, or $0.14 per share, in the same period of 2017.

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The reconciliation of operating income (loss) to OIBD, to adjusted operating income (loss) and to adjusted OIBD by business segment is as follows:

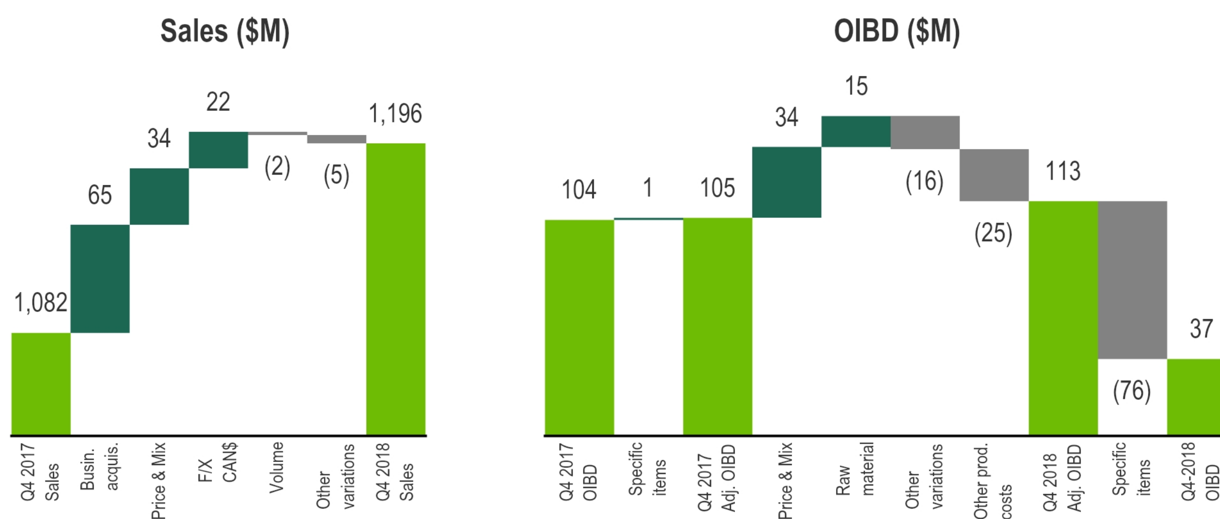
For the 3-month period ended December 31, 2018

(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	**84**	**9**	**9**	**(100)**	**(35)**	**(33)**
Depreciation and amortization	**27**	**11**	**6**	**17**	**9**	**70**
Operating income (loss) before depreciation and amortization	**111**	**20**	**15**	**(83)**	**(26)**	**37**
Specific items:						
Gain on acquisitions, disposals and others	**(1)**	**—**	**(4)**	**—**	**—**	**(5)**
Impairment charges	**—**	**—**	**—**	**75**	**—**	**75**
Restructuring costs (reversals)	**3**	**—**	**(1)**	**—**	**—**	**2**
Unrealized loss (gain) on derivative financial instruments	**(2)**	**—**	**—**	**—**	**6**	**4**
	—	**—**	**(5)**	**75**	**6**	**76**
Adjusted operating income (loss) before depreciation and amortization	**111**	**20**	**10**	**(8)**	**(20)**	**113**
Adjusted operating income (loss)	**84**	**9**	**4**	**(25)**	**(29)**	**43**

For the 3-month period ended December 31, 2017

(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	51	11	9	(6)	(20)	45
Depreciation and amortization	22	8	5	18	6	59
Operating income (loss) before depreciation and amortization	73	19	14	12	(14)	104
Specific items:						
Impairment reversal	—	—	—	—	(2)	(2)
Restructuring costs	—	—	—	—	1	1
Unrealized loss on derivative financial instruments	1	—	—	—	1	2
	1	—	—	—	—	1
Adjusted operating income (loss) before depreciation and amortization	74	19	14	12	(14)	105
Adjusted operating income (loss)	52	11	9	(6)	(20)	46

The main variances[1] in sales and operating income before depreciation and amortization in the fourth quarter of 2018, compared to the same period of 2017, are shown below:



[1] For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the year ended December 31, 2018, compared to the year ended December 31, 2017" for more details.

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NEAR-TERM OUTLOOK

We expect stable near-term performance from the Containerboard segment, with lower raw material pricing providing some counterbalance to seasonally softer demand levels and a slight decrease in medium selling prices. Given the sound economic metrics in North America, our near-term outlook for this segment remains positive. The outlook for Tissue is not as robust in the near-term. While recent decreases in raw material pricing and the continued implementation of announced price increases in some product sub-segments are positive for this business, any resulting benefits are being counterbalanced by difficult industry-wide market dynamics and operational challenges at our St. Helens mill, in Oregon. As such, we expect financial performance will remain under pressure. Management is focused on the resolution of these issues, and is currently implementing the actions required - in addition to the modernization efforts already underway - to successfully realign the tissue segment's operational performance with targeted profitability levels. In Europe, in addition to acquisitions completed in 2018, macro-economic and political factors support a moderately positive near term outlook. Specifically, demand softness is expected to be counterbalanced by favourable raw material pricing, expectations of slightly lower energy costs, and the implementation of price increases in virgin boxboard, offset by pricing pressure in the recycled boxboard business.

On a broader company-wide scale, focus is centered on implementing the 2019 investment program, currently estimated to be $330 million to $400 million contingent on economic conditions, optimizing operational performance across all segments, and completing analysis of the Bear Island containerboard project in Virginia. Cascades' longer-term goals remain grounded on maximizing the financial and strategic returns generated by capital allocation decisions, diligently managing balance sheet and leverage, and positioning business platforms for long term success and sustainable value creation.

CAPITAL STOCK INFORMATION

SHARE TRADING

Cascades' stock is traded on the Toronto Stock Exchange under the ticker symbol "CAS". From January 1, 2018 to December 31, 2018, Cascades' share price fluctuated between $9.54 and $16.55. During the same period, 54.9 million Cascades shares were traded on the Toronto Stock Exchange. On December 31, 2018, Cascades shares closed at $10.23. This compares to a closing price of $13.62 on the last day of 2017.

SHARES OUTSTANDING

As at December 31, 2018, the Corporation's issued and outstanding capital stock consisted of 94,163,515 shares (94,987,958 as at December 31, 2017), and 4,409,358 issued and outstanding stock options (4,990,120 as at December 31, 2017). In 2018, the Corporation purchased 1,539,380 shares for cancellation, while 714,937 stock options were exercised, 175,749 stock options were granted and 41,574 stock options were forfeited. As at February 27, 2019, issued and outstanding capital stock consisted of 94,173,515 shares and 4,391,798 stock options.

NORMAL COURSE ISSUER BID PROGRAM

The current normal course issuer bid enables the Corporation to purchase for cancellation up to 1,903,282 shares between March 19, 2018 and March 18, 2019. During the period from March 19, 2018 to February 27, 2019, the Corporation purchased 1,361,000 shares for cancellation.

DIVIDEND POLICY

On February 27, 2019, Cascades' Board of Directors declared a quarterly dividend of $0.04 per share to be paid on March 28, 2019, to shareholders of record at the close of business on March 13, 2019. This $0.04 per share dividend is in line with the previous quarter and the same quarter last year. On February 27, 2019, dividend yield was 1.6%.

	2016				2017				**2018**
TSX Ticker: CAS	Q4	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Shares outstanding (in millions) [1]	94.5	94.7	94.7	94.7	95.0	**95.0**	**94.6**	**94.2**	**94.2**
Closing price [1]	$ 12.10	$ 13.71	$ 17.69	$ 14.96	$ 13.62	**$ 13.33**	**$ 11.77**	**$ 12.61**	**$ 10.23**
Average daily volume [2]	118,554	182,011	362,191	214,545	208,984	**246,940**	**201,563**	**215,882**	**218,696**
Dividend yield [1]	1.3%	1.2%	0.9%	1.1%	1.2%	**1.2%**	**1.4%**	**1.3%**	**1.6%**

1 On the last day of the quarter.
2 Average daily volume on the Toronto Stock Exchange.

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CASCADES' SHARE PRICE FOR THE PERIOD FROM JANUARY 1, 2017 TO DECEMBER 31, 2018

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The Corporation's principal contractual obligations and commercial commitments relate to outstanding debt, operating leases and obligations for its pension and post-employment benefit plans. The following table summarizes these obligations as at December 31, 2018:

CONTRACTUAL OBLIGATIONS

Payment due by period (in millions of Canadian dollars)	TOTAL	LESS THAN A YEAR	BETWEEN 1-5 YEARS	OVER 5 YEARS
Long-term debt and capital-leases, including capital and interest	2,200	139	1,731	330
Operating leases	117	38	66	13
Pension plans and other post-employment benefits[1]	1,002	36	160	806
Total contractual obligations	**3,319**	**213**	**1,957**	**1,149**

[1] These amounts represent all the benefits payable to current members during the following years and thereafter without limitations. The majority of benefit payments are payable from trustee-administered funds. The difference will come from future investment returns expected on plan assets and future contributions that will be made by the Corporation for services rendered after December 31, 2018.

FACTORING OF ACCOUNTS RECEIVABLE

The Corporation sells its accounts receivable from one of its European subsidiaries through a factoring contract with a financial institution. The Corporation uses factoring of receivables as a source of financing by reducing its working capital requirements. When the receivables are sold, the Corporation removes them from the balance sheet, recognizes the amount received as the consideration for the transfer and records a loss on factoring which is included in Financing expense. As at December 31, 2018, the off-balance sheet impact of the factoring of receivables amounted to $50 million (€32 million). The Corporation expects to continue to sell receivables on an ongoing basis. Should it decide to discontinue this contract, its working capital and bank debt requirements would increase.

TRANSACTIONS WITH RELATED PARTIES

The Corporation has also entered into various agreements with its joint-venture partners, significantly influenced companies and entities that are affiliated with one or more of its directors for the supply of raw material including recycled paper, virgin pulp and energy, as well as the supply of unconverted and converted products, and other agreements entered into in the normal course of business. Aggregate sales by the Corporation to its joint-venture partners and other affiliates totaled $322 million and $295 million for 2018 and 2017 respectively. Aggregate sales to the Corporation from its joint-venture partners and other affiliates came to $82 million and $117 million for 2018 and 2017 respectively.

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CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

In 2018, the Corporation changed the classification of some Corporate Activities expenses totaling $59 million (2017 - $62 million). Those costs were previously presented under "Selling and administrative expenses" and are now presented under "Cost of sales" since they are necessary for bringing finished goods to their present location and condition.

A) NEW IFRS ADOPTED

IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15 establishes a comprehensive framework for determining how much and when revenue is recognized. It replaces all previous revenue recognition standards, including IAS 18 *Revenue, and related interpretations* such as IFRIC 13 *Customer Loyalty Programs.*

Impact of adoption

The Corporation adopted IFRS 15 using the full retrospective application. The adoption of this standard did not result in any adjustment in the amounts previously recognized in the consolidated balance sheet, as contract costs were already recognized under other assets and depreciated over the contract term, while contract liabilities, consisting primarily of volume rebates provision, were already accrued using the most likely amount methodology. As well, the timing in the recognition of sales was not impacted by the new standard, as our previous revenue recognition policy already included control indicators defined in IFRS 15. Consequently, neither the consolidated statement of earnings, consolidated statement of comprehensive income, consolidated statement of equity nor consolidated statement of cash flows were adjusted.

The only impact on the consolidated balance sheet pertains to the classification of contract liabilities, which can no longer be netted against "Accounts receivable" under IFRS 15. Contract liabilities, composed of volume rebates, are now presented on the line item "Trade and other payables". As at December 31, 2018, contract liabilities balance was at $50 million (2017 - 45 million). As well, to comply with IFRS 15 disclosure requirements, Note 21 "Revenue" was added whereas Note 12 "Trade and Other Payables was modified".

IFRS 9 *FINANCIAL INSTRUMENTS*

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments : Recognition and Measurement*.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The following table presents the initial IAS 39 classification and the new IFRS 9 classification for all financial instruments held by the Corporation as at January 1, 2018.

Financial assets and liabilities	IAS 39 classification	IFRS 9 classification
Cash and cash equivalents	Loans and receivables (amortized cost)	Amortized cost
Accounts receivable	Loans and receivables (amortized cost)	Amortized cost
Equity investments	Available for sale (FVOCI)	FVTPL
Financial instruments used for hedging	FV — hedging instrument (FVOCI)	FV — hedging instrument (FVOCI)
Other current and non current financial assets	FVTPL	FVTPL
Bank loans and advances	Other financial liabilities (amortized cost)	Amortized cost
Trade and other payables	Other financial liabilities (amortized cost)	Amortized cost
Revolving credit facility	Other liabilities (amortized cost)	Amortized cost
Unsecured senior notes	Other liabilities (amortized cost)	Amortized cost
Other current and non current financial liabilities	FVTPL	FVTPL

As allowed by IFRS 9, the Corporation adopted the simplified expected credit loss model for trade receivables.

Impact of adoption

The change in the fair value of our equity investment in shares can no longer be recognized through other comprehensive income. As described above, equity investment must now be classified as FVTPL. Consequently, the balance of $2 million previously recorded in other comprehensive income was reclassified to retained earnings as at January 1, 2018.

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B) RECENT IFRS PRONOUNCEMENT NOT YET ADOPTED

IIFRS 16 *LEASES*

In January 2016, the IASB released IFRS 16 *Leases*, which supersedes IAS 17 *Leases*, and the related interpretations on leases: IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after January 1, 2019. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all leases contracts, and record it on the balance sheet, except with respect to lease contracts that meet limited exception criteria, such as when the underlying asset is of low value or the maturity of the lease is short term. Depreciation expense on the "right-of-use asset" and interest expense on the lease liability will replace the operating lease expense.

The Corporation will apply IFRS 16 *Leases* retrospectively with no restatement of comparative information as allowed by the Standard. At the date of initial application, lease liability for leases previously classified as an operating lease under IAS 17 *Leases* equals the present value of the remaining lease payments, discounted using the Corporation's incremental borrowing rate. As for the underlying "right-of-use asset", the Corporation will elect to measure it at an amount equal to the lease liability. Therefore, the application of IFRS 16 *Leases* will not result in any adjustment to the opening retained earnings except for units whose assets are valued at fair market value following an impairment provision. When applying IFRS 16, the Corporation will use the low value exception as well as the short term exception on all categories of assets but buildings as allowed by IFRS 16. The Corporation is finalizing the calculation of the additional lease liabilities and underlying "right-of-use assets" resulting from the adoption of the Standard.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and disclosure of contingencies at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, Management reviews its estimates, including those related to environmental costs, employee future benefits, collectability of accounts receivable, financial instruments, contingencies, income taxes, useful life and residual value of property, plant and equipment and impairment of property, plant and equipment and intangible assets. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

A. IMPAIRMENT OF LONG-LIVED ASSETS, INTANGIBLE ASSETS AND GOODWILL

In determining the recoverable amount of an asset or a cash generating unit (CGU), the Corporation uses several key assumptions based on external information on the industry when available, including estimated production levels, selling prices, volume, raw material costs, foreign exchange rates, growth rates, discounting rates and capital spending.

The Corporation believes its assumptions are reasonable. Based on available information at the assessment date, however, these assumptions involve a high degree of judgment and complexity. Management believes that the following assumptions are the most susceptible to change and therefore could impact the valuation of the assets in the next year.

DESCRIPTION OF SIGNIFICANT IMPAIRMENT TESTING ASSUMPTIONS (see Note 25 of consolidated financial statements)

REVENUES, OPERATING INCOME BEFORE DEPRECIATION (OIBD) MARGINS, CASH FLOWS AND GROWTH RATES

The assumptions used were based on the Corporation's internal budget. Revenues, OIBD margins and cash flows were projected for a period of five years and a perpetual long-term growth rate was applied thereafter. In arriving at its forecasts, the Corporation considers past experience, economic trends such as gross domestic product growth and inflation, as well as industry and market trends.

DISCOUNT RATES

The Corporation assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represents a weighted average cost of capital (WACC) for comparable companies operating in similar industries of the applicable CGU, group of CGUs or reportable segment based on publicly available information.

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FOREIGN EXCHANGE RATES

When estimating the fair value less cost of disposal, foreign exchange rates are determined using the financial institution's average forecast for the first two years of forecasting. For the following three years, the Corporation uses the last five years' historical average of the foreign exchange rate. Terminal rate is based on historical data of the last 20 years and adjusted to reflect Management's best estimate.

SHIPMENTS

The assumptions used are based on the Corporation's internal budget for the next year and are usually held constant for the forecast period. In arriving at its budgeted shipments, the Corporation considers past experience, economic trends as well as industry and market trends.

Considering the sensitivity of the key assumptions used, there is measurement uncertainty since adverse changes in one or a combination of the Corporation's key assumptions could cause a significant change in the carrying amounts of these assets.

B. INCOME TAXES

The Corporation is required to estimate the income taxes in each jurisdiction in which it operates. This includes estimating a value for existing tax losses based on the Corporation's assessment of its ability to use them against future taxable income before they expire. If the Corporation's assessment of its ability to use the tax losses proves inaccurate in the future, more or less of the tax losses might be recognized as assets, which would increase or decrease the income tax expense and, consequently, affect the Corporation's results in the relevant year.

C. EMPLOYEE BENEFITS

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on years of service and Management's best estimate of expected plan investment performance, salary escalations, retirement ages of employees and expected health care costs. The accrued benefit obligation is evaluated using the market interest rate at the evaluation date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed annually.

D. GOODWILL, INTANGIBLE ASSETS AND BUSINESS COMBINATIONS

Goodwill and client lists have arisen as a result of business combinations. The acquisition method, which also requires significant estimates and judgments, is used to account for these business combinations. As part of the allocation process in a business combination, estimated fair values are assigned to the net assets acquired. These estimates are based on forecasts of future cash flows, estimates of economic fluctuations and an estimated discount rate. The excess of the purchase price over the estimated fair value of the net assets acquired is then assigned to goodwill. In the event that actual net assets fair values are different from estimates, the amounts allocated to the net assets could differ from what is currently reported. This would then have a direct impact on the carrying value of goodwill. Differences in estimated fair values would also have an impact on the amortization of definite life intangibles.

CRITICAL JUDGMENTS IN APPLYING THE CORPORATION'S ACCOUNTING POLICIES

SUBSIDIARIES AND EQUITY ACCOUNTED INVESTMENTS

Significant judgment is applied in assessing whether certain investment structures result in control, joint control or significant influence over the operations of the investment. Management's assessment of control, joint control or significant influence over an investment will determine the accounting treatment for the investment. The Corporation has a 59.7% direct interest in Greenpac. Greenpac's Shareholders agreement required a majority of 80% for all decision-making related to relevant activities. Consequently, the Corporation did not have power over relevant activities of Greenpac and its participation was accounted for as an associate. On April 4, 2017, Cascades and its partners in Greenpac Holding LLC (Greenpac) agreed to modify the equity holders' agreement. These modifications enable Cascades to direct decisions about relevant activities. Therefore, from an accounting standpoint, Cascades now has control over Greenpac, which triggered its deemed acquisition and thus fully consolidates Greenpac since April 4, 2017. Please refer to Notes 5 and 8 of the consolidated financial statements for more details.

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CONTROLS AND PROCEDURES

EVALUATION OF THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation's President and Chief Executive Officer, and its Vice-President and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures (DC&P), and internal controls over financial reporting (ICFR) as defined in National Instrument 52-109, “Certification of Disclosure in Issuer's Annual and Interim Filings”.

The DC&P have been designed to provide reasonable assurance that material information relating to the Corporation is made known to the President and Chief Executive Officer, and the Vice-President and Chief Financial Officer by others, and that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. They have limited the scope of their design of DC&P and ICFR to exclude controls, policies and procedures of the Corporation's 2018 business combinations. The design and evaluation of the operating effectiveness of the 2018 business combinations' DC&P and ICFR will be completed within 365 days from the date of acquisition. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have concluded, based on their evaluation, that the Corporation's DC&P were effective as at December 31, 2018.

Business combinations' balance sheet and results are included in our consolidated financial statements since the combination date. They constituted approximately 3.1% of total consolidated assets as of December 31, 2018 while they represented approximately 1.6% of consolidated sales and approximately 1.7% of consolidated net earnings attributable to Shareholders for the year ended December 31, 2018.

Further details on these business combinations are disclosed in Note 5 of the Corporation’s audited consolidated financial statements.

The ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The President and Chief Executive Officer, and the Vice-President and Chief Financial Officer have assessed the effectiveness of the ICFR as at December 31, 2018, based on the control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework). Based on this assessment, they have concluded that the Corporation’s ICFR were effective as at December 31, 2018 and expect to certify the Corporation’s annual filings with the U.S. Securities and Exchange Commission on Form 40-F, as required by the United States Sarbanes-Oxley Act.

During the quarter ended December 31, 2018, there were no changes to the Corporation's ICFR that materially affected, or are reasonably likely to materially affect, its ICFR.

RISK FACTORS

As part of its ongoing business operations, the Corporation is exposed to certain market risks, including risks ensuing from changes in selling prices for its principal products, costs of raw material, interest rates and foreign currency exchange rates, all of which impact the Corporation’s financial position, operating results and cash flows. The Corporation manages its exposure to these and other market risks through regular operating and financing activities and, on a limited basis, through the use of derivative financial instruments. We use these derivative financial instruments as risk management tools, not for speculative investment purposes. The following is a discussion of key areas of business risks and uncertainties that we have identified, and our mitigating strategies. The risk areas below are listed in no particular order, as risks are evaluated based on both severity and probability. Readers are cautioned that the following is not an exhaustive list of all the risks we are exposed to, nor will our mitigation strategies eliminate all risks listed.

a) The markets for some of the Corporation’s products tend to be cyclical in nature and prices for some of its products, as well as raw material and energy costs, may fluctuate significantly, which can adversely affect its business, operating results, profitability and financial position.

The markets for some of the Corporation’s products, particularly containerboard and boxboard, are cyclical. As a result, prices for these types of products and for its two principal raw material, recycled paper and virgin fibre, have fluctuated significantly in the past and will likely continue to fluctuate significantly in the future, principally due to market imbalances between supply and demand. Demand is heavily influenced by the strength of the global economy and the countries or regions in which Cascades does business, particularly Canada and the United States, the Corporation’s two primary markets. Demand is also influenced by fluctuations in inventory levels held by customers and consumer preferences. Supply depends primarily on industry capacity and capacity utilization rates. In periods of economic weakness, reduced spending by consumers and businesses results in decreased demand, which can potentially cause downward price pressure. Industry participants may also, at times, add new capacity or increase capacity utilization rates, potentially causing supply to exceed demand and exerting downward

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price pressure. Depending on market conditions and related demand, Cascades may have to take market-related downtime. In addition, the Corporation may not be able to maintain current prices or implement additional price increases in the future. If Cascades is unable to do so, its revenues, profitability and cash flows could be adversely affected. In addition, other participants may introduce new capacity or increase capacity utilization rates, which could also adversely affect the Corporation's business, operating results and financial position. Prices for recycled and virgin fibre also fluctuate considerably. The costs of these material present a potential risk to the Corporation's profit margins, in the event that it is unable to pass along price increases to its customers on a timely basis. Although changes in the price of recycled fibre generally correlate with changes in the price of products made from recycled paper, this may not always be the case. If Cascades were unable to implement increases in the selling prices for its products to compensate for increases in the price of recycled or virgin fibre, the Corporation's profitability and cash flows would be adversely affected. In addition, Cascades uses energy, mainly natural gas and fuel oil, to generate steam, which it then uses in the production process and to operate machinery. Energy prices, particularly for natural gas and fuel oil, have continued to remain very volatile. Cascades continues to evaluate its energy costs and consider ways to factor energy costs into its pricing. However, should energy prices increase, the Corporation's production costs, competitive position and operating results would be adversely affected. A substantial increase in energy costs would adversely affect the Corporation's operating results and could have broader market implications that could further adversely affect the Corporation's business or financial results.

To mitigate price risk, our strategies include the use of various derivative financial instrument transactions, whereby it sets the price for notional quantities of old corrugated containers, electricity and natural gas.

Additional information on our North American electricity and natural gas hedging programs as at December 31, 2018 is set out below:

NORTH AMERICAN ELECTRICITY HEDGING

	UNITED STATES	CANADA
Electricity consumption	50%	50%
Electricity consumption in a regulated market	45%	61%
% of consumption hedged in a de-regulated market (2019)	9%	—
Average prices (2019) (in US$, per KWh)	$ 0.03	—
Fair value as at December 31, 2018 (in millions of CAN$)	$ —	—

NORTH AMERICAN NATURAL GAS HEDGING

	UNITED STATES	CANADA
Natural gas consumption	49%	51%
% of consumption hedged (2019)	29%	8%
Average prices (2019 - 2023) (in US$, per mmBTU) (in CAN$, per GJ)	$ 2.79	$ 3.60
Fair value as at December 31, 2018 (in millions of CAN$)	$ (1)	—

b) Cascades faces significant competition and some of its competitors may have greater cost advantages or be able to achieve greater economies of scale, or be able to better withstand periods of declining prices and adverse operating conditions, which could negatively affect the Corporation's market share and profitability.

The markets for the Corporation's products are highly competitive. In some of the markets in which Cascades competes, such as tissue papers, it competes with a small number of other producers. In some businesses, such as the containerboard industry, competition tends to be global. In others, such as the tissue industry, competition tends to be regional. In the Corporation's packaging products segment, it also faces competition from alternative packaging materials, such as vinyl, plastic and Styrofoam, which can lead to excess capacity, decreased demand and pricing pressures. Competition in the Corporation's markets is primarily based on price, as well as customer service and the quality, breadth and performance characteristics of its products. The Corporation's ability to compete successfully depends on a variety of factors, including:

- its ability to maintain high plant efficiency, operating rates and lower manufacturing costs
- the availability, quality and cost of raw material, particularly recycled and virgin fibre, labour, and
- the cost of energy.

Some of the Corporation's competitors may, at times, have lower fibre, energy and labour costs, and less restrictive environmental and governmental regulations to comply with than Cascades. For example, fully integrated manufacturers, or those whose requirements for pulp or other fibre are met fully from their internal sources, may have some competitive advantages over manufacturers that are not fully integrated, such as Cascades, in periods of relatively high raw material pricing, in that the former are able to ensure a steady source of these raw material at costs that may be lower than prices in the prevailing market. In contrast, competitors that are less integrated than Cascades may have cost advantages in periods of relatively low pulp or fibre prices because they may be able to purchase pulp or fibre at prices lower than the costs

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the Corporation incurs in the production process. Other competitors may be larger in size or scope than Cascades, which may allow them to achieve greater economies of scale on a global basis or to better withstand periods of declining prices and adverse operating conditions. In addition, there has been an increasing trend among the Corporation's customers towards consolidation. With fewer customers in the market for the Corporation's products, the strength of its negotiating position with these customers could be weakened, which could have an adverse effect on its pricing, margins and profitability.

To mitigate competition risk, Cascades' targets are to offer quality products that meet customers' needs at competitive prices and to provide good customer service.

c) Because of the Corporation's international operations, it faces political, social and exchange rate risks that can negatively affect its business, operating results, profitability and financial condition.

Cascades has customers and operations located outside Canada. In 2018, sales outside Canada, in Canadian dollars, represented approximately 62% of the Corporation's consolidated sales, including 40% in the United States. In 2018, 22% of sales from Canadian operations were made to the United States.

The Corporation's international operations present it with a number of risks and challenges, including:

- effective product marketing in other countries
- tariffs and other trade barriers, and
- different regulatory schemes and political environments applicable to the Corporation's operations in areas such as environmental and health and safety compliance.

In addition, the Corporation's consolidated financial statements are reported in Canadian dollars, while a portion of its sales is made in other currencies, primarily the U.S. dollar and the euro. The variation of the Canadian dollar against the U.S. dollar may adversely or positively affect the Corporation's reported operating results and financial condition. This has a direct impact on export prices and also contributes to the impact on Canadian dollar prices in Canada, because several of the Corporation's product lines are priced in U.S. dollars. As well, a substantial portion of the Corporation's debt is also denominated in currencies other than the Canadian dollar. The Corporation has senior notes outstanding and also some borrowings under its credit facility that are denominated in U.S. dollars and in euros, in the amounts of US$1,045 million and €97 million respectively as at December 31, 2018.

Moreover, in some cases, the currency of the Corporation's sales does not match the currency in which it incurs costs, which can negatively affect the Corporation's profitability. Fluctuations in exchange rates can also affect the relative competitive position of a particular facility, where the facility faces competition from non-local producers, as well as the Corporation's ability to successfully market its products in export markets. As a result, if the Canadian dollar were to remain permanently strong compared to the U.S. dollar and the euro, it could affect the profitability of the Corporation's facilities, which could lead Cascades to shut down facilities either temporarily or permanently, all of which could adversely affect its business or financial results. To mitigate the risk of currency rises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations, which are partially covered by purchases and debt, Management has implemented a policy for managing foreign exchange risk against the relevant functional currency.

The Corporation uses various foreign exchange forward contracts and related currency option instruments to anticipate sales net of purchases, interest expenses and debt repayment. Gains or losses from the derivative financial instruments designated as hedges are recorded under "Other comprehensive income (loss)" and are reclassified under earnings in accordance with the hedge items.

Additional information on our North American foreign exchange hedging program is set out below:

NORTH AMERICAN FOREIGN EXCHANGE HEDGING [1]

Sell contracts and currency options on net exposure to US$:	2019	2020	2021
Total amount (in millions of US$)	$ 48 to 65	$ 40 to 68	$ 5 to 15
Estimated % of sales, net of expenses from Canadian operations (excluding subsidiaries with non-controlling interests)	44% to 60%	37% to 63%	5% to 14%
Average rate (US$/CAN$)	0.75	0.76	0.75
Fair value as at December 31, 2018 (in millions of CAN$)	$ (2)	—	$ (3)

1 See Note 27 of the audited consolidated financial statements for more details on financial instruments.

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d) The Corporation's operations are subject to comprehensive environmental regulations and involve expenditures that may be material in relation to its operating cash flow.

The Corporation is subject to environmental laws and regulations imposed by the various governments and regulatory authorities in all countries in which it operates. These environmental laws and regulations impose stringent standards on the Corporation regarding, among other things:

- air emissions
- water discharges
- use and handling of hazardous materials
- use, handling and disposal of waste, and
- remediation of environmental contamination.

The Corporation is also subject to the U.S. Federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") as well as to other applicable legislation in the United States, Canada and Europe that holds companies accountable for the investigation and remediation of hazardous substances. The Corporation's European subsidiaries and some of our Québec plants are also subject to an emissions market, aimed at reducing worldwide CO_2 emissions. Each unit has been allocated emission rights ("CO_2 quota"). On a calendar-year basis, the Corporation must buy the necessary credits to cover its deficit, on the open market, if its emissions are higher than quota.

The Corporation's failure to comply with applicable environmental laws, regulations or permit requirements may result in civil or criminal fines, penalties or enforcement actions. These may include regulatory or judicial orders enjoining or curtailing operations, or requiring corrective measures, the installation of pollution control equipment or remedial actions, any of which could entail significant expenditures. It is difficult to predict the future development of such laws and regulations, or their impact on future earnings and operations, but these laws and regulations may require capital expenditures to ensure compliance. In addition, amendments to, or more stringent implementation of, current laws and regulations governing the Corporation's operations could have a material adverse effect on its business, operating results or financial position. Furthermore, although Cascades generally tries to plan for capital expenditures relating to environmental and health and safety compliance on an annual basis, actual capital expenditures may exceed those estimates. In such an event, Cascades may be forced to curtail other capital expenditures or other activities. In addition, the enforcement of existing environmental laws and regulations has become increasingly strict. The Corporation may discover currently unknown environmental problems or conditions in relation to its past or present operations, or may face unforeseen environmental liabilities in the future.

These conditions and liabilities may:

- require site remediation or other costs to maintain compliance or correct violations of environmental laws and regulations, or
- result in governmental or private claims for damage to persons, property or the environment.

Either of these possibilities could have a material adverse effect on the Corporation's financial condition or operating results.

Cascades may be subject to strict liability and, under specific circumstances, joint and several (solidary) liability for the investigation and remediation of soil, surface and groundwater contamination, including contamination caused by other parties on properties that it owns or operates, and on properties where the Corporation or its predecessors have arranged for the disposal of regulated materials. As a result, the Corporation is involved from time to time in administrative and judicial proceedings and inquiries relating to environmental matters. The Corporation may become involved in additional proceedings in the future, the total amount of future costs and other environmental liabilities of which could be material.

To date, the Corporation is in compliance, in all material respects, with all applicable environmental legislation or regulations. However, we expect to incur ongoing capital and operating expenses in order to achieve and maintain compliance with applicable environmental requirements.

EMISSIONS MARKET

The Corporation is exposed to the emissions trading market and has to hold carbon credits equivalent to its emissions. Depending on circumstances, the Corporation may have to buy credits on the market or could sell some in the future. At short or medium term, these transactions would have no significant effect on the financial position of the Corporation and it is not anticipated that this will change in the future.

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e) Cascades may be subject to losses that might not be covered in whole or in part by its insurance coverage.

Cascades carries comprehensive liability, fire and extended coverage insurance on most of its facilities, with policy specifications and insured limits customarily carried in its industry for similar properties. In addition, some types of losses, such as losses resulting from wars, acts of terrorism or natural disasters, are generally not insured because they are either uninsurable or not economically practical. Moreover, insurers have recently become more reluctant to insure against these types of events. Should an uninsured loss or a loss in excess of insured limits occur, Cascades could lose capital invested in that property, as well as the anticipated future revenues derived from the manufacturing activities conducted on that property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. Any such loss could adversely affect its business, operating results or financial condition.

To mitigate the risk subject to insurance coverage, the Corporation reviews its strategy annually with the Board of Directors and is seeking different alternatives to achieve more efficient forms of insurance coverage at the lowest costs possible.

f) Labour disputes could have a material adverse effect on the Corporation's cost structure and ability to run its mills and plants.

As at December 31, 2018, the Corporation employed approximately 11,700 employees, of whom roughly 9,900 were employees of its Canadian and United States operations. Approximately 28% of the Corporation's Canadian and United States workforce is unionized under 29 separate collective bargaining agreements. In addition, in Europe, some of the Corporation's operations are subject to national industry collective bargaining agreements that are renewed on an annual basis. The Corporation's inability to negotiate acceptable contracts with these unions upon expiration of an existing contract could result in strikes or work stoppages by the affected workers, and increased operating costs as a result of higher wages or benefits paid to union members. If the unionized workers were to engage in a strike or another form of work stoppage, Cascades could experience a significant disruption in operations or higher labour costs, which could have a material adverse effect on its business, financial condition, operating results and cash flow. Of the 29 collective bargaining agreements in North America, 4 are expired and are currently under negotiation, 8 will expire in 2019 and 4 will expire in 2020.

The Corporation generally begins the negotiation process several months before agreements are due to expire and is currently in the process of negotiating with the unions where the agreements have expired or will soon expire. However, Cascades may not be successful in negotiating new agreements on satisfactory terms, if at all.

g) Cascades may make investments in entities that it does not control and may not receive dividends or returns from those investments in a timely fashion or at all.

Cascades has established joint ventures, made investments in associates and acquired significant participation in subsidiaries in order to increase its vertical integration, enhance customer service and increase efficiency in its marketing and distribution in the United States and other markets. The Corporation's principal joint ventures, associates and significant participations in subsidiaries are:

- two 50%-owned joint ventures with Sonoco Products Corporation, of which one is in Canada (two plants) and one in the United States (two plants), that produce specialty paper packaging products such as headers, rolls and wrappers;
- a 57.95%-owned subsidiary, Reno de Medici S.p.A. (RDM), a European manufacturer of recycled boxboard; and
- a 66.1%-owned subsidiary, Greenpac Holding LLC, a North American manufacturer of linerboard (including indirect ownership).

Apart from RDM and Greenpac, Cascades does not have effective control over these entities. The Corporation's inability to control entities in which it invests may affect its ability to receive distributions from these entities or to fully implement its business plan. The incurrence of debt or entrance into other agreements by an entity not under the Corporation's control may result in restrictions or prohibitions on that entity's ability to pay distributions to the Corporation. Even where these entities are not restricted by contract or by law from paying dividends or making distributions to Cascades, the Corporation may not be able to influence the payout or timing of these dividends or distributions. In addition, if any of the other investors in a non-controlled entity fails to observe their commitments, the entity may not be able to operate according to its business plan or Cascades may be required to increase its level of commitment. If any of these events were to transpire, the Corporation's business, operating results, financial condition and ability to make payments on the notes could be adversely affected.

In addition, the Corporation has entered into various shareholder agreements relating to its joint ventures and equity investments. Some of these agreements contain "shotgun" provisions, which provide that if one Shareholder offers to buy all the shares owned by the other parties to the agreement, the other parties must either accept the offer or purchase all the shares owned by the offering Shareholder at the same price and conditions. Some of the agreements also stipulate that, in the event that a Shareholder is subject to bankruptcy proceedings or otherwise defaults on any indebtedness, the non-defaulting parties to that agreement are entitled to invoke the "shotgun" provision or sell their shares to a third party. The Corporation's ability to purchase the other Shareholders' interests in these joint ventures if they were to exercise these "shotgun" provisions could be limited by the covenants in the Corporation's credit facility and the indenture. In addition, Cascades may not have sufficient funds to accept the offer or the ability to raise adequate financing should the need arise, which could result in the Corporation having to sell its interests in these entities or otherwise alter its business plan.

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h) Acquisitions have been, and are expected to continue to be a substantial part of the Corporation's growth strategy, which could expose the Corporation to difficulties in integrating the acquired operation, diversion of management time and resources, and unforeseen liabilities, among other business risks.

Acquisitions have been a significant part of the Corporation's growth strategy. Cascades expects to continue to selectively seek strategic acquisitions in the future. The Corporation's ability to consummate and to effectively integrate any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on its resources and, to the extent necessary, its ability to obtain financing on satisfactory terms, if at all. Acquisitions may expose the Corporation to additional risks, including:

- difficulty in integrating and managing newly acquired operations and in improving their operating efficiency
- difficulty in maintaining uniform standards, controls, procedures and policies across all of the Corporation's businesses
- entry into markets in which Cascades has little or no direct prior experience
- the Corporation's ability to retain key employees of the acquired corporation
- disruptions to the Corporation's ongoing business, and
- diversion of Management's time and resources.

In addition, future acquisitions could result in Cascades' incurring additional debt to finance the acquisition or possibly assuming additional debt as part of it, as well as costs, contingent liabilities and amortization expenses. The Corporation may also incur costs and divert Management's attention from potential acquisitions that are never consummated. For acquisitions Cascades does consummate, expected synergies may not materialize. The Corporation's failure to effectively address any of these issues could adversely affect its operating results, financial condition and ability to service debt, including its outstanding senior notes.

Although Cascades generally performs a due diligence investigation of the businesses or assets that it acquires and anticipates continuing to do so for future acquisitions, the acquired business or assets may have liabilities that Cascades fails or is unable to uncover during its due diligence investigation and for which the Corporation, as a successor owner, may be responsible. When feasible, the Corporation seeks to minimize the impact of these types of potential liabilities by obtaining indemnities and warranties from the seller, which may in some instances be supported by deferring payment of a portion of the purchase price. However, these indemnities and warranties, if obtained, may not fully cover the liabilities because of their limited scope, amount or duration, or the financial resources of the indemnitor or warrantor, or for other reasons.

i) The Corporation undertakes impairment tests, which could result in a write-down of the value of assets and, as a result, have a material adverse effect.

IFRS requires that Cascades regularly undertake impairment tests of long-lived assets and goodwill to determine whether a write-down of such assets is required. A write-down of asset value as a result of impairment tests would result in a non-cash charge that reduces the Corporation's reported earnings. Furthermore, a reduction in the Corporation's asset value could have a material adverse effect on the Corporation's compliance with total debt-to-capitalization tests under its current credit facilities and, as a result, limit its ability to access further debt capital.

j) Certain Cascades insiders collectively own a substantial percentage of the Corporation's shares.

Messrs. Bernard, Laurent and Alain Lemaire ("the Lemaires") collectively own a substantive percentage of the shares of the Corporation, and there may be situations in which their interests and the interests of other holders of shares do not align. Because the Corporation's remaining shares are widely held, the Lemaires may be effectively able to:

- elect all of the Corporation's directors and, as a result, control matters requiring Board approval
- control matters submitted to a Shareholder vote, including mergers, acquisitions and consolidations with third parties, and the sale of all or substantially all of the Corporation's assets, and
- otherwise control or influence the Corporation's business direction and policies.

In addition, the Lemaires may have an interest in pursuing acquisitions, divestitures or other transactions that, in their judgment, could enhance the value of their equity investment, even though the transactions might involve increased risk to the holders of the shares.

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k) If Cascades is not successful in retaining or replacing its key personnel, including its Chief Executive Officer, its Vice-President and Chief Financial Officer, its Chief Legal Officer and Corporate Secretary and its Executive Chairman of the Board and co-founder Alain Lemaire, the Corporation's business, financial condition or operating results could be adversely affected.

Although Cascades believes that its key personnel will remain active in the business and that Cascades will continue to be able to attract and retain other talented personnel and replace key personnel should the need arise, competition in recruiting replacement personnel could be significant. Cascades does not carry key-man insurance on the members of its senior management.

l) Risks relating to the Corporation's indebtedness and liquidity.

The significant amount of the Corporation's debt could adversely affect its financial health and prevent it from fulfilling its obligations under its outstanding indebtedness. The Corporation has a significant amount of debt. As at December 31, 2018, it had $1,769 million in outstanding total net debt on a consolidated basis, including capital-lease obligations. The Corporation also had $651 million available under its revolving credit facility. On the same basis, its consolidated ratio of net debt to total equity as of December 31, 2017 was 51.2%. The Corporation's actual financing expense, including interest on employees' future benefits and loss on repurchase of long-term debt, was $99 million. Cascades also has significant obligations under operating leases, as described in its audited consolidated financial statements that are incorporated by reference herein.

On December 21, 2018, the Corporation announced that it has increased its authorized credit facility to approximately CAN$1 billion to incorporate the addition of a US$175 million seven-year term loan. The term loan provides the Company with increased financial flexibility and will reduce financing costs.

On December 12, 2017, the Corporation announced the results of tender offers and proceeded with the purchase of US$150 million of its 5.50% unsecured senior notes due 2022 and US$50 million of its 5.75% unsecured senior notes due 2023.

On June 1, 2017, the Corporation entered into an agreement with its lenders to extend and amend its existing $750 million credit facility. The amendment extends the term of the facility to July 2021. The financial conditions remain essentially unchanged.

The Corporation has outstanding senior notes rated by Moody's Investor Service ("Moody's") and Standard & Poor's ("S&P").

The following table reflects the Corporation's secured debt rating/corporate rating/unsecured debt rating as at the date on which this MD&A was approved by the Board of Directors, and the evolution of these ratings compared to past years:

Credit rating (outlook)	MOODY'S	STANDARD & POOR'S
2004	Ba1/Ba2/Ba3 (stable)	BBB-/BB+/BB+ (negative)
2005 - 2006	Ba1/Ba2/Ba3 (stable)	BB+/BB/BB- (negative)
2007	Baa3/Ba2/Ba3 (stable)	BBB-/BB/BB- (stable)
2008	Baa3/Ba2/Ba3 (negative)	BB+/BB-/B+ (negative)
2009 - 2010	Baa3/Ba2/Ba3 (stable)	BB+/BB-/B+ (stable)
2011	Baa3/Ba2/Ba3 (stable)	BB+/BB-/B+ (positive)
2012	Baa3/Ba2/Ba3 (stable)	BB+/BB-/B+ (negative)
2013	Baa3/Ba2/Ba3 (stable)	BB/B+/B (stable)
2014	Baa3/Ba2/Ba3 (stable)	BB/B+/B+ (stable)
2015	Baa3/Ba2/Ba3 (stable)	BB/B+/B+ (stable)
2016	Baa3/Ba2/Ba3 (stable)	BB+/BB-/BB- (stable)
2017	Baa3/Ba2/Ba3 (stable)	BB+/BB-/BB- (stable)
2018	**Baa3/Ba2/Ba3 (stable)**	**BB+/BB-/BB- (positive)**

During 2018, S&P Global Ratings revised the Corporation's outlook to "positive" from "stable" on improving credit measures; corporate rating of BB- was affirmed.

This facility is in place with a core group of highly rated international banks. The Corporation may decide to enter into certain derivative instruments to reduce interest rates and foreign exchange exposure.

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The Corporation's leverage could have major consequences for holders of its shares. For example, it could:

- make it more difficult for the Corporation to satisfy its obligations with respect to its indebtedness
- increase the Corporation's vulnerability to competitive pressures and to general adverse economic or market conditions, and require it to dedicate a substantial portion of its cash flow from operations to servicing debt, reducing the availability of its cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes
- limit its flexibility in planning for, or reacting to, changes in its business and industry, and
- limit its ability to obtain additional sources of financing.

Cascades may incur additional debt in the future, which would intensify the risks it now faces as a result of its leverage as described above. Even though we are substantially leveraged, we and our subsidiaries will be able to incur substantial additional indebtedness in the future. Although our credit facility and the indentures governing the notes restrict us and our restricted subsidiaries from incurring additional debt, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we and they now face as a result of our leverage could intensify.

The Corporation's operations are substantially restricted by the terms of its debt, which could limit its ability to plan for or react to market conditions, or to meet its capital needs. The Corporation's credit facilities and the indenture governing its senior notes include a number of significant restrictive covenants. These covenants restrict, among other things, the Corporation's ability to:

- borrow money
- pay dividends on stock or redeem stock or subordinated debt
- make investments
- sell assets, including capital stock in subsidiaries
- guarantee other indebtedness
- enter into agreements that restrict dividends or other distributions from restricted subsidiaries
- enter into transactions with affiliates
- create or assume liens
- enter into sale and leaseback transactions
- engage in mergers or consolidations, and
- enter into a sale of all or substantially all of our assets.

These covenants could limit the Corporation's ability to plan for or react to market conditions, or to meet its capital needs. The Corporation's current credit facility contains other, more restrictive covenants, including financial covenants that require it to achieve certain financial and operating results, and maintain compliance with specified financial ratios. The Corporation's ability to comply with these covenants and requirements may be affected by events beyond its control, and it may have to curtail some of its operations and growth plans to maintain compliance. The restrictive covenants contained in the Corporation's senior note indenture, along with the Corporation's credit facility, do not apply to its subsidiaries with non-controlling interests.

The Corporation's failure to comply with the covenants contained in its credit facility or its senior note indenture, including as a result of events beyond its control or due to other factors, could result in an event of default that could cause accelerated repayment of the debt. If Cascades is not able to comply with the covenants and other requirements contained in the indenture, its credit facility or its other debt instruments, an event of default under the relevant debt instrument could occur. If an event of default does occur, it could trigger a default under its other debt instruments, Cascades could be prohibited from accessing additional borrowings and the holders of the defaulted debt could declare amounts outstanding with respect to that debt, which would then be immediately due and payable. The Corporation's assets and cash flow may not be sufficient to fully repay borrowings under its outstanding debt instruments. In addition, the Corporation may not be able to re-finance or re-structure the payments on the applicable debt. Even if the Corporation were able to secure additional financing, it might not be available on favourable terms. A significant or prolonged downtime in general business and difficult economic conditions may affect the Corporation's ability to comply with its covenants, and could require it to take actions to reduce its debt or to act in a manner contrary to its current business objectives.

m) Cascades is a holding corporation and depends on its subsidiaries to generate sufficient cash flow to meet its debt service obligations.

Cascades is structured as a holding corporation and its only significant assets are the capital stock or other equity interests in its subsidiaries, joint ventures and minority investments. As a holding corporation, Cascades conducts substantially all of its business through these entities. Consequently, the Corporation's cash flow and ability to service its debt obligations are dependent on the earnings of its subsidiaries, joint ventures and minority investments, and the distribution of those earnings to Cascades, or on loans, advances or other payments made by these entities to Cascades. The ability of these entities to pay dividends or make other payments or advances to Cascades will depend on their operating results and will be subject to applicable laws and contractual restrictions contained in the instruments governing their debt. In

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the case of the Corporation's joint ventures, associates and minority investments, Cascades may not exercise sufficient control to cause distributions to itself. Although its credit facility and the indenture, respectively, limit the ability of its restricted subsidiaries to enter into consensual restrictions on their ability to pay dividends and make other payments to the Corporation, these limitations do not apply to its joint ventures, associates or minority investments. The limitations are also subject to important exceptions and qualifications.

The ability of the Corporation's subsidiaries to generate cash flow from operations that is sufficient to allow the Corporation to make scheduled payments on its debt obligations will depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of the Corporation's control. If the Corporation's subsidiaries do not generate sufficient cash flow from operations to satisfy the Corporation's debt obligations, Cascades may have to undertake alternative financing plans, such as re-financing or re-structuring its debt, selling assets, reducing or delaying capital investments, or seeking to raise additional capital. Re-financing may not be possible, and assets may not be able to be sold, or, if they are sold, Cascades may not realize sufficient amounts from those sales. Additional financing may not be available on acceptable terms, if at all, or the Corporation may be prohibited from incurring it, if available, under the terms of its various debt instruments in effect at the time. The Corporation's inability to generate sufficient cash flow to satisfy its debt obligations, or to re-finance its obligations on commercially reasonable terms, would have an adverse effect on its business, financial condition and operating results. The earnings of the Corporation's operating subsidiaries and the amount that they are able to distribute to the Corporation as dividends or otherwise may not be adequate for the Corporation to service its debt obligations.

n) Risks related to the shares.

The market price of the shares may fluctuate, and purchasers may not be able to re-sell the shares at or above the purchase price.
The market price of the shares may fluctuate due to a variety of factors relative to the Corporation's business, including announcements of new developments, fluctuations in the Corporation's operating results, sales of the shares in the marketplace, failure to meet analysts' expectations, general conditions in all of our segments or the worldwide economy. In recent years, the shares, the stock of other companies operating in the same sectors and the stock market in general have experienced significant price fluctuations, which have been unrelated to the operating performance of the affected companies. There can be no assurance that the market price of the shares will not continue to experience significant fluctuations in the future, including fluctuations that are unrelated to the Corporation's performance.

o) Cash-flow and fair-value interest rate risks.
As the Corporation has no significant interest-bearing assets, its earnings and operating cash flows are substantially independent of changes in market interest rates.

The Corporation's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Corporation to a cash-flow interest rate risk. Borrowings issued at a fixed rate expose the Corporation to a fair-value interest rate risk.

p) Credit risk.
Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Corporation reduces this risk by dealing with creditworthy financial institutions.

The Corporation is exposed to credit risk on accounts receivable from its customers. In order to reduce this risk, the Corporation's credit policies include the analysis of a customer's financial position and a regular review of its credit limits. The Corporation also believes that no particular concentration of credit risks exists due to the geographic diversity of its customers and the procedures in place for managing commercial risks. Derivative financial instruments include an element of credit risk, should the counterparty be unable to meet its obligations.

q) Cyber security
The Corporation relies on information technology to process, transmit and store electronic data in its daily business activities. Any potential information technology security incident as a result of malicious misbehavior or involuntary in nature could have negative repercussions on business activities, intellectual property, operating results and financial position of the Corporation. Cyber security represents a Company-wide challenge and the related risks are part of the corporate risk management program that is presented to the Audit and Finance committee of the Corporation. To limit Corporation exposure to incidents that may affect confidentiality, integrity and availability of information, the Corporation has put in place control measures that are based on industry best practices.

r) Climate change
The Corporation operates plants and delivers products to clients in locations that may be subject to climate stress events such as sea-level rise and increased storm frequency or intensity. Caused by climate change or not, the occurrence of one or more natural disasters, such as hurricanes, fires or floods, could cause considerable damage to our buildings, disrupt operations, increase operating costs such as freight and energy and have a negative impact on sales. Climate changes could require higher remediation and insurance costs for the Corporation.

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MANAGEMENT'S REPORT
TO THE SHAREHOLDERS OF CASCADES INC.

February 27, 2019

The accompanying consolidated financial statements are the responsibility of the management of Cascades Inc., and have been reviewed by the Audit and Finance Committee, and approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and include certain estimates that reflect Management's best judgment.

The Management of the Corporation is also responsible for all other information included in this Annual Report and for ensuring that this information is consistent with the Corporation's consolidated financial statements and business activities.

The Management of the Corporation is responsible for the design, establishment and maintenance of appropriate internal controls and procedures for financial reporting, to ensure that financial statements for external purposes are fairly presented in conformity with IFRS. Such internal control systems are designed to provide reasonable assurance on the reliability of the financial information and the safeguarding of assets.

Independent auditor and internal auditors have free and independent access to the Audit and Finance Committee, which comprises outside independent directors. The Audit and Finance Committee, which meets regularly throughout the year with members of management and the external and internal auditors, reviews the consolidated financial statements and recommends their approval to the Board of Directors.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, whose report is provided below.

Mario Plourde
President and Chief Executive Officer - Kingsey Falls, Canada

Allan Hogg
Vice-President and Chief Financial Officer - Kingsey Falls, Canada

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CASCADES INC.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Cascades Inc. and its subsidiaries, (together, the Corporation) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board (IFRS).

What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of earnings for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

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Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Jean-François Lecours.

PricewaterhouseCoopers LLP[1]

Montréal, Québec
March 5, 2019

1 CPA auditor, CA, public accountancy permit No. A126402

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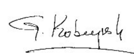
CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)	NOTE	December 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		**123**	89
Accounts receivable	3, 6 and 14	**635**	608
Current income tax assets		**29**	18
Inventories	7 and 14	**605**	523
Current portion of financial assets	27	**10**	9
Assets held for sale	24	**—**	13
		1,402	1,260
Long-term assets			
Investments in associates and joint ventures	8	**81**	78
Property, plant and equipment	9 and 14	**2,506**	2,104
Intangible assets with finite useful life	10	**211**	212
Financial assets	27	**20**	23
Other assets	5, 11 and 29	**42**	73
Deferred income tax assets	17	**134**	149
Goodwill and other intangible assets with indefinite useful life	5 and 10	**555**	528
		4,951	4,427
Liabilities and Equity			
Current liabilities			
Bank loans and advances	26	**16**	35
Trade and other payables	3 and 12	**782**	683
Current income tax liabilities		**23**	6
Current portion of long-term debt	14, 26 and 27	**55**	59
Current portion of provisions for contingencies and charges	13	**6**	7
Current portion of financial liabilities and other liabilities	15 and 27	**101**	101
		983	891
Long-term liabilities			
Long-term debt	14, 26 and 27	**1,821**	1,517
Provisions for contingencies and charges	13	**42**	36
Financial liabilities	27	**14**	18
Other liabilities	5 and 15	**202**	178
Deferred income tax liabilities	17	**201**	186
		3,263	2,826
Equity attributable to Shareholders			
Capital stock	18	**490**	492
Contributed surplus	19	**16**	16
Retained earnings	3	**1,000**	982
Accumulated other comprehensive income (loss)	3 and 20	**2**	(35)
		1,508	1,455
Non-controlling interests	8	**180**	146
Total equity		**1,688**	1,601
		4,951	4,427

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

Approved by the Board of Directors

Alain Lemaire



Georges Kobrynsky

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions of Canadian dollars, except per common share amounts and number of common shares)	NOTE	2018	2017
Sales	21	**4,649**	4,321
Cost of sales and expenses			
Cost of sales (including depreciation and amortization of $244 million (2017 — $215 million))	3 and 22	**3,997**	3,770
Selling and administrative expenses	3 and 22	**410**	378
Gain on acquisitions, disposals and others	5 and 24	**(71)**	(8)
Impairment charges and restructuring costs	25	**77**	17
Foreign exchange gain		**(2)**	(5)
Loss (gain) on derivative financial instruments	27	**8**	(6)
		4,419	4,146
Operating income		**230**	175
Financing expense	26	**84**	86
Interest expense on employee future benefits and other liabilities	26	**15**	11
Loss on repurchase of long-term debt	14, 26 and 27	**—**	14
Foreign exchange loss (gain) on long-term debt and financial instruments		**4**	(23)
Fair value revaluation gain on investments	5 and 8	**(5)**	(315)
Share of results of associates and joint ventures	8	**(11)**	(39)
Earnings before income taxes		**143**	441
Provision for (recovery of) income taxes	17	**49**	(81)
Net earnings including non-controlling interests for the year		**94**	522
Net earnings attributable to non-controlling interests	8	**35**	15
Net earnings attributable to Shareholders for the year		**59**	507
Net earnings per common share			
Basic		**$ 0.62**	$ 5.35
Diluted		**$ 0.58**	$ 5.19
Weighted average basic number of common shares outstanding		**94,570,924**	94,680,598
Weighted average number of diluted common shares		**96,933,681**	97,598,900

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)	NOTE	2018	2017
Net earnings including non-controlling interests for the year		**94**	522
Other comprehensive income (loss)			
Items that may be reclassified subsequently to earnings			
Translation adjustments	20		
Change in foreign currency translation of foreign subsidiaries		**96**	(43)
Change in foreign currency translation related to net investment hedging activities		**(58)**	33
Cash flow hedges	20		
Change in fair value of foreign exchange forward contracts		**(2)**	1
Change in fair value of interest rate swaps		**1**	—
Change in fair value of commodity derivative financial instruments		**6**	1
Equity investment	3 and 8	**—**	(1)
Share of other comprehensive income of associates	5 and 8	**—**	21
Recovery of (provision for) income taxes		**2**	(13)
		45	(1)
Items that are not released to earnings			
Actuarial loss on employee future benefits	16	**(16)**	(13)
Recovery of income taxes	17	**4**	3
		(12)	(10)
Other comprehensive income (loss)		**33**	(11)
Comprehensive income including non-controlling interests for the year		**127**	511
Comprehensive income attributable to non-controlling interests for the year		**45**	18
Comprehensive income attributable to Shareholders for the year		**82**	493

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

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CONSOLIDATED STATEMENTS OF EQUITY

For the year ended December 31, 2018

(in millions of Canadian dollars)	NOTE	CAPITAL STOCK	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance - Beginning of year		**492**	**16**	**982**	**(35)**	**1,455**	**146**	**1,601**
Adoption of new accounting standard	3	**—**	**—**	**(2)**	**2**	**—**	**—**	**—**
Adjusted Balance - Beginning of period		**492**	**16**	**980**	**(33)**	**1,455**	**146**	**1,601**
Comprehensive income (loss)								
Net earnings		**—**	**—**	**59**	**—**	**59**	**35**	**94**
Other comprehensive income (loss)		**—**	**—**	**(12)**	**35**	**23**	**10**	**33**
		—	**—**	**47**	**35**	**82**	**45**	**127**
Business combinations	5	**—**	**—**	**—**	**—**	**—**	**5**	**5**
Dividends		**—**	**—**	**(15)**	**—**	**(15)**	**—**	**(15)**
Stock options expense		**—**	**1**	**—**	**—**	**1**	**—**	**1**
Issuance of common shares upon exercise of stock options		**6**	**(1)**	**—**	**—**	**5**	**—**	**5**
Redemption of common shares		**(8)**	**—**	**(12)**	**—**	**(20)**	**—**	**(20)**
Capital contribution from a non-controlling interests		**—**	**—**	**—**	**—**	**—**	**1**	**1**
Acquisition of non-controlling interests		**—**	**—**	**—**	**—**	**—**	**(1)**	**(1)**
Dividends paid to non-controlling interests		**—**	**—**	**—**	**—**	**—**	**(16)**	**(16)**
Balance - End of year		**490**	**16**	**1,000**	**2**	**1,508**	**180**	**1,688**

For the year ended December 31, 2017

(in millions of Canadian dollars)	NOTE	CAPITAL STOCK	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance - Beginning of year		487	16	512	(31)	984	90	1,074
Comprehensive income (loss)								
Net earnings		—	—	507	—	507	15	522
Other comprehensive income (loss)		—	—	(10)	(4)	(14)	3	(11)
		—	—	497	(4)	493	18	511
Business combinations	5	—	—	—	—	—	57	57
Dividends		—	—	(15)	—	(15)	—	(15)
Stock options expense		—	1	—	—	1	—	1
Issuance of common shares upon exercise of stock options		5	(1)	—	—	4	—	4
Partial disposal of a subsidiary to non-controlling interests		—	—	(1)	—	(1)	1	—
Acquisition of non-controlling interests		—	—	(11)	—	(11)	(15)	(26)
Dividends paid to non-controlling interests		—	—	—	—	—	(5)	(5)
Balance - End of year		492	16	982	(35)	1,455	146	1,601

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars)	NOTE	2018	2017
Operating activities			
Net earnings attributable to Shareholders for the year		**59**	507
Adjustments for:			
Financing expense and interest expense on employee future benefits and other liabilities	26	**99**	97
Loss on repurchase of long-term debt	14, 26 and 27	**—**	14
Depreciation and amortization		**244**	215
Gain on acquisitions, disposals and others	5 and 24	**(71)**	(8)
Impairment charges and restructuring costs	25	**77**	11
Unrealized loss (gain) on derivative financial instruments		**9**	(8)
Foreign exchange loss (gain) on long-term debt and financial instruments		**4**	(23)
Provision for (recovery of) income taxes	17	**49**	(81)
Fair value revaluation gain on investments	5 and 8	**(5)**	(315)
Share of results of associates and joint ventures		**(11)**	(39)
Net earnings attributable to non-controlling interests		**35**	15
Net financing expense paid		**(107)**	(99)
Premium paid on long-term debt repurchase	14	**—**	(11)
Net income taxes paid		**(11)**	(10)
Dividends received	8	**6**	12
Employee future benefits and others		**(16)**	(17)
		361	260
Changes in non-cash working capital components	26	**12**	(87)
		373	173
Investing activities			
Investments in associates and joint ventures	8	**(2)**	(17)
Payments for property, plant and equipment	5 and 9	**(338)**	(193)
Proceeds from disposals of property, plant and equipment	24	**85**	15
Change in intangible and other assets	8 and 10	**(15)**	256
Net cash acquired (paid) in business combinations	5	**(100)**	9
		(370)	70
Financing activities			
Bank loans and advances		**(22)**	8
Change in credit facilities		**(126)**	114
Increase in term loan	14 and 26	**235**	—
Repurchase of unsecured senior notes	14, 26 and 27	**—**	(257)
Increase in other long-term debt		**66**	11
Payments of other long-term debt		**(81)**	(47)
Settlement of derivative financial instruments		**(1)**	(12)
Issuance of common shares upon exercise of stock options	18	**5**	4
Redemption of common shares	18	**(20)**	—
Dividends paid to non-controlling interests and acquisition of non-controlling interests	5 and 8	**(17)**	(24)
Capital contribution from non-controlling interests		**1**	—
Dividends paid to the Corporation's Shareholders		**(15)**	(15)
		25	(218)
Change in cash and cash equivalents during the year		**28**	25
Currency translation on cash and cash equivalents		**6**	2
Cash and cash equivalents - Beginning of year		**89**	62
Cash and cash equivalents - End of year		**123**	89

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

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SEGMENTED INFORMATION

The Corporation analyzes the performance of its operating segments based on their operating income before depreciation and amortization, which is not a measure of performance under International Financial Reporting Standards (IFRS); however, the chief operating decision-maker (CODM) uses this performance measure to assess the operating performance of each reportable segment. Earnings for each segment are prepared on the same basis as those of the Corporation. Intersegment operations are recorded on the same basis as sales to third parties, which are at fair market value. The accounting policies of the reportable segments are the same as the Corporation's accounting policies described in Note 2.

The Corporation's operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The Chief Executive Officer has authority for resource allocation and management of the Corporation's performance, and is therefore the CODM.

The Corporation's operations are managed in four segments: Containerboard, Boxboard Europe and Specialty Products (which constitutes the Corporation's Packaging Products), and Tissue Papers.

	SALES	
(in millions of Canadian dollars)	**2018**	2017
Packaging Products		
Containerboard	**1,840**	1,652
Boxboard Europe	**933**	838
Specialty Products	**659**	703
Intersegment sales	**(89)**	(105)
	3,343	3,088
Tissue Papers	**1,352**	1,268
Intersegment sales and Corporate Activities	**(46)**	(35)
	4,649	4,321

	OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	
(in millions of Canadian dollars)	**2018**	2017
Packaging Products		
Containerboard	**470**	238
Boxboard Europe	**97**	67
Specialty Products	**46**	67
	613	372
Tissue Papers	**(58)**	90
Corporate Activities	**(81)**	(72)
Operating income before depreciation and amortization	**474**	390
Depreciation and amortization	**(244)**	(215)
Financing expense and interest expense on employee future benefits and other liabilities	**(99)**	(97)
Loss on repurchase of long-term debt	**—**	(14)
Foreign exchange gain (loss) on long-term debt and financial instruments	**(4)**	23
Fair value revaluation gain on investments	**5**	315
Share of results of associates and joint ventures	**11**	39
Earnings before income taxes	**143**	441

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(in millions of Canadian dollars)	PAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT 2018	2017
Packaging Products		
Containerboard	**243**	65
Boxboard Europe	**35**	27
Specialty Products	**34**	32
	312	124
Tissue Papers	**88**	64
Corporate Activities	**17**	19
Total acquisitions	**417**	207
Proceeds from disposals of property, plant and equipment	**(85)**	(15)
Capital lease acquisitions and included in other debts and liabilities	**(70)**	(11)
	262	181
Acquisitions for property, plant and equipment included in “Trade and other payables”		
Beginning of year	**28**	25
End of year	**(37)**	(28)
Payments for property, plant and equipment net of proceeds from disposals	**253**	178

(in millions of Canadian dollars)	TOTAL ASSETS December 31, 2018	December 31, 2017
Packaging Products		
Containerboard	**2,253**	2,016
Boxboard Europe	**786**	609
Specialty Products	**473**	386
	3,512	3,011
Tissue Papers	**982**	940
Corporate Activities	**428**	460
Intersegment eliminations	**(56)**	(68)
	4,866	4,343
Investments in associates and joint ventures	**81**	78
Other investments	**4**	6
	4,951	4,427

Information by geographic segment is as follows:

(in millions of Canadian dollars)	PROPERTY, PLANT AND EQUIPMENT December 31, 2018	December 31, 2017
Canada	**835**	837
United States	**1,279**	970
Italy	**197**	183
Other countries	**195**	114
	2,506	2,104

(in millions of Canadian dollars)	GOODWILL, CUSTOMER RELATIONSHIPS AND CLIENT LISTS, AND OTHER FINITE AND INDEFINITE USEFUL LIFE INTANGIBLE ASSETS December 31, 2018	December 31, 2017
Canada	**430**	449
United States	**308**	278
Italy	**27**	13
Other countries	**1**	—
	766	740

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions of Canadian dollars, except per common share and option amounts and number of common shares and options)

NOTE 1
GENERAL INFORMATION

Cascades Inc. and its subsidiaries (together "Cascades" or the "Corporation") produce, convert and market packaging and tissue products composed mainly of recycled fibres. Cascades Inc. is incorporated and domiciled in Québec, Canada. The address of its registered office is 404, Marie-Victorin Boulevard, Kingsey Falls. Its shares are listed on the Toronto Stock Exchange.

The Board of Directors approved the consolidated financial statements on February 27, 2019.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) as set forth in Part I of the *Chartered Professional Accountants of Canada* (CPA Canada) Handbook – *Accounting*, which incorporates IFRS as issued by the *International Accounting Standards Board*. The key accounting policies applied in the preparation of these consolidated financial statements are described below. These policies have been consistently applied to all years presented, unless otherwise stated.

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and liabilities, including derivative instruments, which are measured at fair value.

BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Corporation, which include:

A. SUBSIDIARIES

Subsidiaries are all entities over which the Corporation has control, where control is defined as the power to direct decisions about relevant activities. The Corporation does not have any interest in a structured entity. The existence and effect of potential voting rights that are exercisable or convertible are considered when assessing whether the Corporation controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. They are deconsolidated from the date on which control ceases. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Corporation. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Corporation. Results of operations are consolidated commencing on the date of acquisition. The purchase consideration is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The transaction costs directly attributable to the acquisition are expensed. Identifiable assets acquired, as well as liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the purchase consideration over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. If the purchase consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of earnings. Intercompany transactions, balances and unrealized gains on transactions between subsidiaries are eliminated.

The following are the principal subsidiaries of the Corporation:

	PERCENTAGE OWNED (%)	JURISDICTION
Cascades Canada ULC	100	Canada
Cascades USA Inc.	100	Delaware
Greenpac Holding LLC [1]	59.7	Delaware
Reno de Medici S.p.A. (RDM)	57.95	Italy

1 For accounting purposes, percentage stands at 82.83%, including indirect ownership. See Notes 5 and 8 B. for more details.

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B. TRANSACTIONS AND CHANGE IN OWNERSHIP

Acquisitions or disposals of equity interests in subsidiaries that do not result in the Corporation obtaining or losing control are treated as equity transactions. When the Corporation obtains or loses control, the revaluation of the previously held interest or the non-controlling interests that results in gains or losses for the Corporation is recognized in the consolidated statement of earnings.

C. ASSOCIATES

Associates are all entities over which the Corporation has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Corporation's investment from associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Unrealized gains on transactions between the Corporation and its associates are eliminated to the extent of the Corporation's interest in the associates. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Corporation. Dilution gains and losses arising in investments in associates are recognized in the consolidated statement of earnings.

The Corporation assesses, at each year-end, whether there is any objective evidence that its interest in associates is impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost of disposal or value in use) and charged to the consolidated statement of earnings.

D. JOINT VENTURES

A joint venture is an entity in which the Corporation holds a long-term interest and for which it shares joint control over decisions regarding relevant activities. The Corporation reports its interests in joint ventures using the equity method. Accounting policies of joint ventures have been adjusted where necessary to ensure consistency with the policies adopted by the Corporation.

REVENUE RECOGNITION

The revenues of the Corporation come mainly from the sale of packaging and tissue products that are recognized at a point in time. Sales of goods in the consolidated statement of earnings are recognized by the Corporation when control of the goods has been transferred, being when the goods are delivered to customers and when all obligations have been fulfilled.

The amounts recognized as sales of goods represent the fair values of the considerations received or receivable from third parties on the sales of goods to customers, net of returns, rebates and discounts, at which time there are no conditions for the payment to become due other than the passage of time. Historical experience is used to estimate and provide for discounts and returns (expected value method), whereas volumes discounts are assessed based on anticipated annual sales (most likely amount method). The transaction price is not adjusted for the time value of money since all sales are cashed within 12 months.

FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

CLASSIFICATION

On initial recognition, the Corporation determines the financial instruments classification as per the following categories:

- instruments measured at amortized cost;
- instruments measured at fair value through other comprehensive income (FVOCI) or through net income (FVTPL).

The financial instruments' classification under IFRS 9 is based on the business model in which a financial asset is managed and on its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial instrument in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments held for trading are classified as FVTPL. For all other equity investments that are not held for trading, the Corporation, on initial recognition, may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

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Financial liabilities are measured at amortized cost unless they must be measured at FVTPL (such as derivatives) or if the Corporation elects to measure them at FVTPL.

EVALUATION

Financial instruments at amortized cost

Financial instruments at amortized cost are initially measured at fair value, and subsequently at amortized cost, using the effective interest method, less any impairment loss. Interest income, foreign exchange gains and losses and impairment are recognized in the consolidated statement of earnings.

Financial instruments at fair value

Financial instruments are initially and subsequently measured at fair value and transaction costs are accounted for in the consolidated statement of earnings. When the Corporation elects to measure a financial liability at FVTPL, gains or losses related to the Corporation's own credit risk are accounted for in the consolidated statement of earnings.

IMPAIRMENT

Since January 1, 2018, the Corporation prospectively estimates the expected credit losses associated with the debt instruments accounted for at amortized cost or FVOCI. The impairment methodology used depends on whether there is a significant increase in the credit risk or not. For trade receivables, the Corporation measures loss allowances at an amount equal to lifetime expected credit loss (ECL) as allowed by IFRS 9 under the simplified method.

DERECOGNITION

Financial assets

The Corporation derecognizes a financial asset when, and only when, the contractual rights to the cash flows from the financial asset have expired or when contractual rights to the cash flows have been transferred.

Financial liabilities

The Corporation derecognizes a financial liability when, and only when, it is extinguished, meaning when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of the extinguished financial liability and the consideration paid or payable, including non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of earnings.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The Corporation designates certain derivative financial instruments as either:

i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
ii) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
iii) hedges of a net investment in a foreign operation (net investment hedge).

The Corporation formally documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a long-term asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

A. FAIR VALUE HEDGE

The periodic change in fair value of the hedging derivative is recorded in net earnings. The periodic change in the cumulative gain or loss on the hedged item is recorded as an adjustment to its carrying amount on the balance sheet and is also recorded in net earnings. Hedging ineffectiveness is automatically recorded to net earnings as the difference between the above amounts recorded in net earnings. Realized gains and losses on the hedging item, resulting from the difference between the interest payments on the receive leg and the pay leg of the hedging derivative, are recorded on an accrual basis in net earnings as interest income or expense.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity using a recalculated effective interest rate.

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B. CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of earnings.

Amounts accumulated in equity are reclassified to profit or loss against the gain (loss) on the hedged item when the latter is realized (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of earnings. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of earnings.

C. NET INVESTMENT HEDGE

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in the statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of earnings. Gains and losses accumulated in equity are included in the consolidated statement of earnings when the foreign operation is partially disposed of or sold.

The Corporation also uses cross-currency interest rate swaps to manage the currency fluctuations risk associated with forecasted cash flows in foreign currency. These cross-currency interest rate swaps are designated as a foreign exchange hedge of its net investment in foreign operations. The portion of the gains and losses arising from the translation of those derivatives that are determined to be an effective hedge is recognized in other comprehensive income, counterbalancing gains and losses arising from the translation of the Corporation's net investment in its foreign operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, bank balances and short-term liquid investments with original maturities of three months or less.

ACCOUNTS RECEIVABLE

Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less a loss allowance that is based on expected collectability.

INVENTORIES

Inventories of finished goods are valued at the lower of cost, which is established using the average production cost, and net realizable value. Inventories of raw materials as well as supplies and spare parts are valued at the lower of cost and replacement value, which is the best available measure of their net realizable value. Cost for both raw materials and supplies and spare parts is determined using the average cost. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded at cost less accumulated depreciation and net impairment losses, including capitalized interest incurred during the construction period of qualifying property, plant and equipment. Repairs and maintenance costs are charged to the consolidated statement of earnings during the period in which they are incurred. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

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Depreciation is calculated on a straight-line basis as follows:

Buildings	Between 10 and 33 years
Machinery and equipment	Between 3 and 30 years
Automotive equipment	Between 5 and 10 years
Other property, plant and equipment	Between 3 and 10 years

GRANTS AND INVESTMENT TAX CREDITS

Grants and investment tax credits for property, plant and equipment are accounted for using the cost reduction method and are amortized to earnings as a reduction of depreciation, using the same basis as that used to depreciate the related property, plant and equipment.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until all the activities necessary to prepare the asset for its intended use are complete. All other borrowing costs are recognized in the consolidated statement of earnings in the period in which they are incurred.

INTANGIBLE ASSETS

Intangible assets consist primarily of customer relationships and client lists, application software and favourable leases. They are recorded at cost less accumulated amortization and impairment losses and amortized on a straight-line basis over the estimated useful lives as follows:

Customer relationships and client lists	Between 2 and 20 years
Other intangible assets with finite useful life	Between 2 and 20 years
Application software	Between 3 and 10 years
Enterprise Resource Planning (ERP)	7 years
Favourable leases	Term of the lease

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

IMPAIRMENT

A. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE USEFUL LIFE

At the end of each reporting period, the Corporation assesses whether there is an indicator that the carrying amount of an asset or a group of assets may be higher than its recoverable amount which is described in section C hereunder. For that purpose, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units (CGUs)). If there is any indication that an individual asset may be impaired, the recoverable amount shall be estimated for the individual asset.

When the recoverable amount is lower than the carrying amount, the carrying amount is reduced to the recoverable amount. Impairment losses are recorded immediately in the consolidated statement of earnings in the line item Impairment charges and restructuring costs. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration. The revalued carrying value is the lower of the estimated recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized and depreciation had been taken previously on the asset or CGU. A reversal of impairment loss is recorded directly in the consolidated statement of earnings in the line item “Impairment charges and restructuring costs”.

B. GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

Goodwill and other intangible assets with an indefinite useful life are recognized at cost less any accumulated impairment losses. They have an indefinite useful life due to their permanent nature since they are acquired rights or not subject to wear and tear. They are reviewed for impairment annually on December 31 or when an event or a circumstance occurs and indicates that the value could be permanently impaired. Goodwill is allocated to CGUs for the purpose of impairment testing based on the level at which Management monitors it, which is not higher than an operating segment. The allocation is made to CGUs that are expected to benefit from the business combination in which the goodwill and other intangible assets with an indefinite useful life arose. Impairment loss on goodwill is not reversed.

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C. RECOVERABLE AMOUNTS

A recoverable amount is the higher of fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. When determining fair value less cost of disposal, the Corporation considers if there is a market price for the asset being evaluated. Otherwise, the Corporation uses the income approach.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of earnings on a straight-line basis over the term of the lease.

The Corporation leases certain property, plant and equipment. Leases of property, plant and equipment for which the Corporation has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments. Property, plant and equipment acquired under a finance lease are depreciated over the shorter of the estimated useful life of the asset or the lease term using the straight-line method. Each lease payment is allocated between the liability and the financing expense so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of financing expense, are included in long-term debt.

PROVISIONS FOR CONTINGENCIES AND CHARGES

Provisions for contingencies include mainly legal and other claims. A provision is recognized when the Corporation has a legal or constructive obligation as a result of a past event and it is probable that settlement of the obligation will require a financial payment or cause a financial loss, and a reliable estimate of the amount of the obligation can be made.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated balance sheet as a separate asset, but only if it is virtually certain that the reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense.

ENVIRONMENTAL RESTORATION OBLIGATIONS AND ENVIRONMENTAL COSTS

An obligation to incur restoration and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a plant or landfill site. Such costs arising from the installation of a plant and other site preparation work are provided for and capitalized at the start of each project, or as soon as the obligation to incur such costs arises. Decommissioning costs are recorded at the estimated amount at which the obligation could be settled at the consolidated balance sheet date, and are charged against profit over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Costs for restoring subsequent site damage which is created on an ongoing basis during production are provided for at their present values and charged against profit as the obligation arises.

Changes in the measurement of a liability relating to the decommissioning of a plant or other site preparation work that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate are added to or deducted from the cost of the related asset in the current year. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of earnings. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy for impairment testing.

LONG-TERM DEBT

Long-term debt is recognized initially at fair value, net of financing costs incurred. Long-term debt is subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of earnings over the period of the term of the debt using the effective interest method.

Financing costs paid on establishment of the revolving credit facility are recognized as deferred financing costs and amortized on a straight-line basis over the anticipated period of the credit facility.

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EMPLOYEE BENEFITS

The Corporation offers funded and unfunded defined benefit pension plans, defined contribution pension plans and group registered retirement savings plans (RRSPs) that provide retirement benefit payments for most of its employees. The defined benefit pension plans are usually contributory and are based on the number of years of service and, in most cases, the average salaries or compensation at the end of a career. Retirement benefits are not adjusted based on inflation. The Corporation also offers its employees some post-employment benefit plans, such as a retirement allowance, group life insurance and medical and dental plans. However, these benefits, other than pension plans, are not funded. Furthermore, the medical and dental plans upon retirement are being phased out and are no longer offered to the majority of new retirees and the retirement allowance is not offered to those who do not meet certain criteria.

The liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated at least every three years by independent actuaries using the projected unit credit method and updated regularly by Management for any material transactions and changes in circumstances, including changes in market prices and interest rates up to the end of the reporting period.

As well, when an asset is recorded for a pension plan, its carrying value cannot be greater than the future economic benefit that the Corporation will get from the asset. The future economic benefit includes the suspension of contribution if the pension plan provisions allow for it under the minimum funding requirements. When there is a minimum funding requirement, it can increase the liability recorded. All special contributions legally required to fund a plan deficit are considered. For plans for which an actuarial evaluation is required as at December 31, 2018, a schedule of contributions is estimated to establish the minimum funding requirement. For other plans, we have used contributions from the most recent actuarial report.

Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recorded in the statement of other comprehensive income and recognized immediately in retained earnings without recycling to the consolidated statement of earnings. Past service costs are recognized immediately in the consolidated statement of earnings.

When restructuring a plan results in a curtailment and settlement occurring at the same time, the curtailment is accounted for before the settlement.

Interest costs on pension and other post-employment benefits are recognized in the consolidated statement of earnings as Interest expense on employee future benefits. The measurement date of employee future benefit plans is December 31 of each year. An actuarial evaluation is performed at least every three years. Based on their balances as at December 31, 2018, 58% of the plans were evaluated on December 31, 2017 (36% in 2016).

INCOME TAXES

The Corporation uses the liability method to recognize deferred income taxes. According to this method, deferred income taxes are determined using the difference between the accounting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the consolidated balance sheet date that are expected to apply when the deferred income taxes are expected to be recovered or settled. Deferred income tax assets are recognized when it is probable that the asset will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the business unit operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars, which is Cascades' functional currency.

A. FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in currencies other than the business unit's functional currency are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the consolidated balance sheet date. Unrealized gains and losses on translation of monetary assets and liabilities are reflected in the consolidated statement of earnings.

B. FOREIGN OPERATIONS

The assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing at the consolidated balance sheet date. Revenues and expenses are translated at the average monthly exchange rate. Translation gains or losses are deferred and included in “Accumulated other comprehensive income”.

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SHARE-BASED PAYMENTS

The Corporation uses the fair value method of accounting for stock-based compensation awards granted to officers and key employees. This method consists in recording expenses to earnings based on the vesting period of each tranche of options granted. The fair value of each tranche is calculated based on the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. When stock options are exercised, any considerations paid by employees, as well as the related stock-based compensation, are credited to capital stock.

DIVIDEND DISTRIBUTION

Dividend distribution to the Corporation's Shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Corporation's Board of Directors.

EARNINGS PER COMMON SHARE

Basic earnings per common share are determined using the weighted average number of common shares outstanding during the period. Diluted earnings per common share are determined by adjusting the weighted average number of common shares outstanding for dilutive instruments, which are primarily stock options, using the treasury stock method to evaluate the dilutive effect of stock options. Under this method, instruments with a dilutive effect, which is when the average market price of a share for the period exceeds the exercise price, are considered to have been exercised at the beginning of the period and the proceeds received are considered to have been used to redeem common shares of the Corporation at the average market price for the period.

NOTE 3
CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

In 2018, the Corporation changed the classification of some Corporate Activities expenses totaling $59 million (2017 - $62 million). Those costs were previously presented under “Selling and administrative expenses” and are now presented under “Cost of sales” since they are necessary for bringing finished goods to their present location and condition.

A) NEW IFRS ADOPTED

IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15 establishes a comprehensive framework for determining how much and when revenue is recognized. It replaces all previous revenue recognition standards, including IAS 18 *Revenue, and related interpretations* such as IFRIC 13 *Customer Loyalty Programs.*

Impact of adoption

The Corporation adopted IFRS 15 using the full retrospective application. The adoption of this standard did not result in any adjustment in the amounts previously recognized in the consolidated balance sheet, as contract costs were already recognized under other assets and depreciated over the contract term, while contract liabilities, consisting primarily of volume rebates provision, were already accrued using the most likely amount methodology. As well, the timing in the recognition of sales was not impacted by the new standard, as our previous revenue recognition policy already included control indicators defined in IFRS 15. Consequently, neither the consolidated statement of earnings, consolidated statement of comprehensive income, consolidated statement of equity nor consolidated statement of cash flows were adjusted.

The only impact on the consolidated balance sheet pertains to the classification of contract liabilities, which can no longer be netted against “Accounts receivable” under IFRS 15. Contract liabilities, composed of volume rebates, are now presented on the line item “Trade and other payables”. As at December 31, 2018, contract liabilities balance was at $50 million (2017 - $45 million). As well, to comply with IFRS 15 disclosure requirements, Note 21 "Revenue" was added whereas Note 12 "Trade and Other Payables was modified".

IFRS 9 *FINANCIAL INSTRUMENTS*

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments : Recognition and Measurement*.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

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The following table presents the initial IAS 39 classification and the new IFRS 9 classification for all financial instruments held by the Corporation as at January 1, 2018.

Financial assets and liabilities	IAS 39 classification	IFRS 9 classification
Cash and cash equivalents	Loans and receivables (amortized cost)	Amortized cost
Accounts receivable	Loans and receivables (amortized cost)	Amortized cost
Equity investments	Available for sale (FVOCI)	FVTPL
Financial instruments used for hedging	FV — hedging instrument (FVOCI)	FV — hedging instrument (FVOCI)
Other current and non current financial assets	FVTPL	FVTPL
Bank loans and advances	Other financial liabilities (amortized cost)	Amortized cost
Trade and other payables	Other financial liabilities (amortized cost)	Amortized cost
Revolving credit facility	Other liabilities (amortized cost)	Amortized cost
Unsecured senior notes	Other liabilities (amortized cost)	Amortized cost
Other current and non current financial liabilities	FVTPL	FVTPL

As allowed by IFRS 9, the Corporation adopted the simplified expected credit loss model for trade receivables.

Impact of adoption

The change in the fair value of our equity investment in shares can no longer be recognized through other comprehensive income. As described above, equity investment must now be classified as FVTPL. Consequently, the balance of $2 million previously recorded in other comprehensive income was reclassified to retained earnings as at January 1, 2018.

B) RECENT IFRS PRONOUNCEMENT NOT YET ADOPTED

IIFRS 16 *LEASES*

In January 2016, the IASB released IFRS 16 *Leases*, which supersedes IAS 17 *Leases*, and the related interpretations on leases: IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after January 1, 2019. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all leases contracts, and record it on the balance sheet, except with respect to lease contracts that meet limited exception criteria, such as when the underlying asset is of low value or the maturity of the lease is short term. Depreciation expense on the "right-of-use asset" and interest expense on the lease liability will replace the operating lease expense.

The Corporation will apply IFRS 16 *Leases* retrospectively with no restatement of comparative information as allowed by the Standard. At the date of initial application, lease liability for leases previously classified as an operating lease under IAS 17 *Leases* equals the present value of the remaining lease payments, discounted using the Corporation's incremental borrowing rate. As for the underlying "right-of-use asset", the Corporation will elect to measure it at an amount equal to the lease liability. Therefore, the application of IFRS 16 *Leases* will not result in any adjustment to the opening retained earnings except for units whose assets are valued at fair market value following an impairment provision. When applying IFRS 16, the Corporation will use the low value exception as well as the short term exception on all categories of assets but buildings as allowed by IFRS 16. The Corporation is finalizing the calculation of the additional lease liabilities and underlying "right-of-use assets" resulting from the adoption of the Standard.

NOTE 4
CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and disclosure of contingencies at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, Management reviews its estimates, including those related to environmental costs, employee future benefits, collectability of accounts receivable, financial instruments, contingencies, income taxes, useful life and residual value of property, plant and equipment and impairment of property, plant and equipment

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and intangible assets. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

A. IMPAIRMENT OF LONG-LIVED ASSETS, INTANGIBLE ASSETS AND GOODWILL

In determining the recoverable amount of an asset or a cash generating unit (CGU), the Corporation uses several key assumptions based on external information on the industry when available, including estimated production levels, selling prices, volume, raw material costs, foreign exchange rates, growth rates, discounting rates and capital spending.

The Corporation believes its assumptions are reasonable. Based on available information at the assessment date, however, these assumptions involve a high degree of judgment and complexity. Management believes that the following assumptions are the most susceptible to change and therefore could impact the valuation of the assets in the next year.

DESCRIPTION OF SIGNIFICANT IMPAIRMENT TESTING ASSUMPTIONS (see Note 25 of consolidated financial statements)

REVENUES, OPERATING INCOME BEFORE DEPRECIATION (OIBD) MARGINS, CASH FLOWS AND GROWTH RATES

The assumptions used were based on the Corporation's internal budget. Revenues, OIBD margins and cash flows were projected for a period of five years and a perpetual long-term growth rate was applied thereafter. In arriving at its forecasts, the Corporation considers past experience, economic trends such as gross domestic product growth and inflation, as well as industry and market trends.

DISCOUNT RATES

The Corporation assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represents a weighted average cost of capital (WACC) for comparable companies operating in similar industries of the applicable CGU, group of CGUs or reportable segment based on publicly available information.

FOREIGN EXCHANGE RATES

When estimating the fair value less cost of disposal, foreign exchange rates are determined using the financial institution's average forecast for the first two years of forecasting. For the following three years, the Corporation uses the last five years' historical average of the foreign exchange rate. Terminal rate is based on historical data of the last 20 years and adjusted to reflect Management's best estimate.

SHIPMENTS

The assumptions used are based on the Corporation's internal budget for the next year and are usually held constant for the forecast period. In arriving at its budgeted shipments, the Corporation considers past experience, economic trends as well as industry and market trends.

Considering the sensitivity of the key assumptions used, there is measurement uncertainty since adverse changes in one or a combination of the Corporation's key assumptions could cause a significant change in the carrying amounts of these assets.

B. INCOME TAXES

The Corporation is required to estimate the income taxes in each jurisdiction in which it operates. This includes estimating a value for existing tax losses based on the Corporation's assessment of its ability to use them against future taxable income before they expire. If the Corporation's assessment of its ability to use the tax losses proves inaccurate in the future, more or less of the tax losses might be recognized as assets, which would increase or decrease the income tax expense and, consequently, affect the Corporation's results in the relevant year.

C. EMPLOYEE BENEFITS

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on years of service and Management's best estimate of expected plan investment performance, salary escalations, retirement ages of employees and expected health care costs. The accrued benefit obligation is evaluated using the market interest rate at the evaluation date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed annually.

D. GOODWILL, INTANGIBLE ASSETS AND BUSINESS COMBINATIONS

Goodwill and client lists have arisen as a result of business combinations. The acquisition method, which also requires significant estimates and judgments, is used to account for these business combinations. As part of the allocation process in a business combination, estimated fair values are assigned to the net assets acquired. These estimates are based on forecasts of future cash flows, estimates of economic fluctuations and an estimated discount rate. The excess of the purchase price over the estimated fair value of the net assets acquired is then assigned to goodwill. In the event that actual net assets fair values are different from estimates, the amounts allocated to the net assets could

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differ from what is currently reported. This would then have a direct impact on the carrying value of goodwill. Differences in estimated fair values would also have an impact on the amortization of definite life intangibles.

CRITICAL JUDGMENTS IN APPLYING THE CORPORATION'S ACCOUNTING POLICIES

SUBSIDIARIES AND EQUITY ACCOUNTED INVESTMENTS

Significant judgment is applied in assessing whether certain investment structures result in control, joint control or significant influence over the operations of the investment. Management's assessment of control, joint control or significant influence over an investment will determine the accounting treatment for the investment. The Corporation has a 59.7% direct interest in Greenpac. Greenpac's Shareholders agreement required a majority of 80% for all decision-making related to relevant activities. Consequently, the Corporation did not have power over relevant activities of Greenpac and its participation was accounted for as an associate. On April 4, 2017, Cascades and its partners in Greenpac Holding LLC (Greenpac) agreed to modify the equity holders' agreement. These modifications enable Cascades to direct decisions about relevant activities. Therefore, from an accounting standpoint, Cascades now has control over Greenpac, which triggered its deemed acquisition and thus fully consolidates Greenpac since April 4, 2017. Please refer to Notes 5 and 8 of the consolidated financial statements for more details.

NOTE 5
BUSINESS COMBINATIONS AND ASSET ACQUISITION

2018

Urban Forest Products LLC, Clarion Packaging LLC and Falcon Packaging LLC

On December 6, 2018, the Corporation acquired all the assets of Urban Forest Products LLC (UFP) and Clarion Packaging LLC (Clarion) respectively located in Brook, Indiana and Clarion, Iowa. Both plants manufacture molded pulp protective packaging that primarily serves the egg and quick service restaurant industries. Concurrently, the Specialty Products segment also acquired 75% of the membership units of Falcon Packaging LLC, a leader in the distribution of egg and other packaging located in Ohio, Iowa and Georgia. These acquisitions are in line with the Corporation's objective to expand molded pulp activities, which produce a recycled, recyclable, compostable and biodegradable packaging product that offers highly interesting opportunities against a backdrop of expanding interest in the circular economy. Total consideration for the business acquisition was $58 million and consisted of US$38 million ($51 million) in cash, a non-cash provision of $1 million and assumed debts of $6 million. These acquisitions were treated as a single business combination since the substance of the transaction was the acquisition of integrated businesses.

The $10 million fair value of accounts receivables is equal to gross contractual cash flows, which were all expected to be collected at the time of the acquisition.

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The purchase price allocation is preliminary as of December 31, 2018. Assets acquired and liabilities assumed were as follows:

(in millions of Canadian dollars)	2018
BUSINESS SEGMENT:	SPECIALTY PRODUCTS
ACQUIRED COMPANIES:	UFP, Clarion & Falcon Packaging
Fair values of identifiable assets acquired and liabilities assumed:	
Accounts receivable	10
Inventories	8
Property, plant and equipment	48
Client list	10
Total assets	76
Bank loan	(2)
Trade and other payables	(9)
Long-term debt	(4)
Deferred income tax liabilities	(1)
Net assets acquired	60
Non-controlling interests	(5)
Gain on business combination (net of income taxes of $1 million)	(3)
	52
Cash paid	51
Non-cash provision for working capital adjustment	1
Total consideration	52

The acquired business, since the date of acquisition, represents sales amounting to $11 million on a stand-alone basis ($11 million on a consolidated basis) and the contribution to net earnings attributable to Shareholders is nil on a stand-alone basis ($3 million on a consolidated basis including the gain on business combination, net of income tax). Had the acquisition occurred on January 1, 2018, consolidated sales would have been $4,773 million and net earnings attributable to Shareholders would have been $59 million including the gain on business acquisition, net of income tax.

PAC Service S.p.A.

On January 1, 2018, the Corporation acquired PAC Service S.p.A., a boxboard converter for the packaging, publishing, cosmetics and food industries and has been fully consolidated since then. The Corporation already had a 33.33% equity participation through its 58% equity ownership in Reno de Medici S.p.A. in the Boxboard Europe segment. The consideration for the acquisition of the remaining 66.67% shares consisted of cash totaling €10 million ($15 million) and was deposited on December 19, 2017. The excess of consideration over the net fair value of the assets acquired and the liabilities assumed resulted in a non-deductible goodwill of $7 million and has been allocated to the Boxboard Europe segment cash generating unit (CGU). The transaction is expected to create synergies, since Reno de Medici is already a strategic supplier of PAC Service.

Barcelona Cartonboard S.A.U.

On October 31, 2018, the Corporation acquired Barcelona Cartonboard S.A.U., a paperboard manufacturer on the Iberian Peninsula. The consideration for the acquisition consisted of cash totaling €36 million ($54 million) and €10 million ($14 million) of net debt assumed. The excess of the consideration over the net fair value of the assets acquired and the liabilities assumed resulted in a non-deductible goodwill of $1 million and has been allocated to the Boxboard Europe segment.The acquisition will allow Reno de Medici to strengthen its presence in a well-known market, to optimize its products portfolio and to further improve the level of service to current customers and new ones, as the Barcelona plant is located near some of the major European converters.

The $37 million fair value of total accounts receivables acquired is equal to the gross contractual cash flows, which were all expected to be collected at the time of the acquisition.

The purchase price allocation was finalized during the second quarter of 2018 for Pac Service S.p.A. and the one for Barcelona Cartonboard S.A.U. is preliminary as of December, 31, 2018.

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Assets acquired and liabilities assumed were as follows:

				2018
	BUSINESS SEGMENT:			BOXBOARD EUROPE
(in millions of Canadian dollars)	ACQUIRED COMPANIES:	BARCELONA CARTONBOARD S.A.U.	PAC SERVICE S.p.A.	TOTAL
Fair values of identifiable assets acquired and liabilities assumed:				
Cash and cash equivalents		2	4	6
Accounts receivable		25	12	37
Inventories		21	7	28
Property, plant and equipment		72	9	81
Other intangible assets with finite useful life		2	—	2
Other assets		1	—	1
Goodwill		1	7	8
Total assets		124	39	163
Trade and other payables		(50)	(9)	(59)
Current portion of long-term debt		(4)	(3)	(7)
Long-term debt		(12)	(2)	(14)
Provision for contingencies and charges		(1)	—	(1)
Employee future benefits		—	(1)	(1)
Deferred income tax liabilities		(3)	(1)	(4)
Net assets acquired		54	23	77
Cash paid in 2018		54	—	54
Cash paid in 2017 (included in other assets as at December 31, 2017)		—	15	15
Previously held interest		—	3	3
Revaluation gain on previously held interest on January 1, 2018		—	5	5
Total consideration		54	23	77

The acquisition of PAC Service S.p.A, since the date of acquisition, represents sales amounting to $33 million on a stand-alone basis ($23 million on a consolidated basis) and the contribution to net earnings attributable to Shareholders is $1 million on a stand-alone basis ($1 million on a consolidated basis) whereas the Barcelona acquisition, since the date of acquisition, generated sales amounting to $33 million on a stand-alone basis ($33 million on a consolidated basis) and a contribution to net earnings attributable to Shareholders of nil on a stand-alone basis (nil on a consolidated basis). Had the Barcelona acquisition occurred on January 1, 2018, consolidated sales would have been $4,816 million and net earnings attributable to Shareholders would have been $60 million.

2017

Coyle containerboard converting plants

On November 30, 2017, the Containerboard Packaging segment purchased, from the Coyle family, three converting plants located in Ontario and specialized in the manufacturing of boxes and specialty products. Total consideration was $30 million and consisted of $25 million in cash, $1 million for working capital purchase price adjustment and $4 million of assumed debts. The excess of the consideration paid over the net fair value of the assets acquired resulted in a tax-deductible goodwill of $3 million and has been allocated to the Containerboard Packaging segment CGU. The transaction is expected to create synergies since a significant portion of their procurement is realized through our newly acquired Tencorr joint venture, which has a supply agreement with Greenpac.

The $12 million fair value of accounts receivables is equal to gross contractual cash flows, which were all expected to be collected at the time of acquisition.

The purchase price was finalized during the first quarter of 2018 and the Corporation paid working capital purchase price adjustment of $1 million. There were no significant changes recorded to the preliminary amounts reported.

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Assets acquired and liabilities assumed were as follows:

(in millions of Canadian dollars)		2017
	BUSINESS SEGMENT:	CONTAINERBOARD PACKAGING
	ACQUIRED COMPANY:	Coyle Plants
Fair values of identifiable assets acquired and liabilities assumed:		
Accounts receivable		12
Inventories		1
Property, plant and equipment		10
Intangible assets with finite useful life (client list)		7
Goodwill		4
Total assets		34
Trade and other payables		(4)
Current portion of long-term debt		(1)
Long-term debt		(3)
Net assets acquired		26
Cash paid in 2017		25
Working capital purchase price adjustment paid in 2018		1
Total consideration		26

Greenpac Holding LLC

On April 4, 2017, Cascades and its partners in Greenpac Holding LLC (Greenpac) agreed to modify the Limited Partnership Agreement. These modifications enable Cascades to direct decisions about relevant activities. Therefore, from an accounting standpoint, Cascades has control over Greenpac, which triggered its deemed acquisition and thus fully consolidates Greenpac since April 4, 2017.

There were no cash considerations for the acquisition and there was no change of participation of each partner in Greenpac. Consideration transferred for the acquisition was the fair value of Cascades' investment in Greenpac based on the income approach, less net liabilities with acquiree, which settled as a result of the transaction. The excess of the consideration over the net fair value of the assets acquired and the liabilities assumed resulted in a non-deductible goodwill of $190 million and has been allocated to the Containerboard Packaging segment CGU. The consolidation enables Cascades to better reflect its presence in the North American containerboard market.

One of the partners in Greenpac has a put option whereby the partner can require other partners or Greenpac itself to repurchase its shares at a price including a predetermined return on its investment. Under IFRS, this option gives the equity participation of this partner the characteristics of liability more than equity. As such, this partner's participation is classified in the current portion of other liabilities at an initial fair value of $85 million at the acquisition date.

For accounting purposes, the Corporation's share of Greenpac stands at 82.83% as at December 31, 2017 (78.3% for the period of April 4 to November 30, 2017), while legal ownership is 59.7%. The Corporation records income taxes on 71.8% of Greenpac's profit before taxes, as it is a flow-through entity for tax purposes (62.5% for the period of April 4 to November 30, 2017). See Note 8 for details.

The change in control provides for the revaluation of the previously held interest to its fair market value. As such, a gain of $156 million was recognized in the consolidated statement of earnings in the second quarter. Also, consequent to the acquisition, our share of accumulated other comprehensive loss components of Greenpac totaling $4 million and included in Cascades' consolidated balance sheet prior to the acquisition was reclassified to net earnings. These two items are presented in line item “Fair value revaluation gain on investments” in the consolidated statement of earnings.

The Corporation has reversed its deferred income tax liability related to its Greenpac investment and recorded an income tax recovery of $70 million. The investment in Greenpac is considered as the consideration transferred for the Greenpac acquisition and, as a result, is accounted for as a deemed disposal for tax accounting purposes.

The $20 million fair value of accounts receivables is equal to gross contractual cash flows, which were all expected to be collected at the time of acquisition.

The purchase price allocation of Greenpac was finalized during the third quarter of 2017.

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Assets acquired and liabilities assumed were as follows:

		2017
	BUSINESS SEGMENT:	CONTAINERBOARD PACKAGING
(in millions of Canadian dollars)	ACQUIRED COMPANY:	Greenpac Holding LLC
Fair values of identifiable assets acquired and liabilities assumed:		
Cash and cash equivalents		34
Accounts receivable		20
Inventories		23
Current portion of financial assets		4
Property, plant and equipment		512
Financial assets		16
Intangible assets with finite useful life (client list)		39
Goodwill		190
Total assets		838
Trade and other payables		(39)
Current portion of long-term debt		(15)
Current portion of financial liabilities and other liabilities		(90)
Long-term debt		(238)
Financial liabilities		(4)
Deferred income tax liabilities		(91)
Net assets acquired		361
Non-controlling interests		(57)
		304
Total non-cash consideration		
Previously held interest		187
Revaluation gain on previously held interest on April 4, 2017		156
Settlement of net liabilities with acquiree before the transaction		(39)
		304

On November 30, 2017, the Corporation increased its participation in Containerboard Partners (Ontario) Inc. from 23% to 53% through the acquisition of 90 common shares for a cash consideration of US$15 million ($19 million). The transaction increases the Corporation's indirect ownership in Greenpac to 6.4% from 3.6%. Since there are no activities in Containerboard Partners (Ontario) Inc. other than its investment in Greenpac, the transaction is accounted as the acquisition of a non-controlling interest.

ASSET AQUISITION

2018

Bear Island

On July 26, 2018, the Containerboard Packaging segment acquired the White Birch's Bear Island manufacturing facility in Virginia, USA for a cash consideration of US$35 million ($46 million) (including transaction fees). Upon the approval of the Corporation's Board, the newsprint paper machine presently located on the site will be reconfigured to produce high-quality recycled lightweight linerboard and medium for the North American market. Production is expected to begin in 2021. During the period prior to conversion, White Birch will temporarily operate the site as a newsprint mill under a 27-month free net lease having an estimated value of $8 million and accounted for as deferred revenues and added to the consideration.

As part of the agreement, the Corporation granted to White Birch a one-time option to purchase an interest of up to 10% in the Bear Island containerboard mill project provided that the mill conversion project is approved by the Corporation's Board of Directors and can be exercised in the twelve month period beginning July 26, 2020. The option has an estimated value of $13 million and is added to the assets' purchase price.

The transaction is accounted for as an asset acquisition as it does not meet the definition of a business combination. The acquired facility includes landfills for which the Corporation recorded an asset retirement obligation amounting to $5 million. Finally, as part of the agreement, the Corporation committed to pay White Birch US$4 million ($5 million) in the next 27 months to cover property and building maintenance costs.

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	BUSINESS SEGMENT:	CONTAINERBOARD
		2018
(in millions of Canadian dollars)	ACQUIRED ASSETS :	Bear Island
Fair values of identifiable assets acquired and liabilities assumed:		
Property, plant and equipment		**77**
Total assets		**77**
Asset retirement obligation		**(5)**
Net assets acquired		**72**
Cash paid		**46**
Purchase option fair value issued to White Birch		**13**
Favourable lease fair value		**8**
Carrying costs commitment		**5**
Total consideration		**72**

NOTE 6
ACCOUNTS RECEIVABLE

(in millions of Canadian dollars)	NOTE	**2018**	2017
Accounts receivable - Trade		**570**	526
Receivables from related parties	29	**34**	35
Less: loss allowance		**(15)**	(7)
Trade receivables - net		**589**	554
Other		**46**	54
		635	608

As at December 31, 2018, trade receivables of $145 million (December 31, 2017 - $143 million) were past due but not impaired.

The aging of these trade receivables at each reporting date is as follows:

(in millions of Canadian dollars)	**2018**	2017
Past due 1-30 days	**79**	73
Past due 31-60 days	**20**	30
Past due 61-90 days	**12**	10
Past due 91 days and over	**34**	30
	145	143

Movements in the Corporation's loss allowance are as follows:

(in millions of Canadian dollars)	**2018**	2017
Balance at beginning of year	**7**	6
Provision for doubtful accounts, net of unused beginning balance	**5**	2
Receivables written off during the year as uncollectable	**(1)**	(1)
Other	**4**	—
Balance at end of year	**15**	7

The change in the provision for doubtful accounts has been included in “Selling and administrative expenses” in the consolidated statement of earnings.

The maximum exposure to credit risk at the reporting date approximates the carrying value of each class of receivable mentioned above.

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NOTE 7
INVENTORIES

(in millions of Canadian dollars)	2018	2017
Finished goods	294	249
Raw materials	132	124
Supplies and spare parts	179	150
	605	523

As at December 31, 2018, finished goods, raw materials and supplies and spare parts were adjusted to net realizable value (NRV) by $12 million, nil and nil, respectively (December 31, 2017 - $8 million, $1 million, and nil).

The Corporation has sold all the goods that were written down in 2018. No reversal of previously written-down inventory occurred in 2018 or 2017. The cost of raw materials and supplies and spare parts included in “Cost of sales” amounted to $1,713 million (2017 - $1,776 million).

NOTE 8
INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

A. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES ARE DETAILED AS FOLLOWS:

(in millions of Canadian dollars)	2018	2017
Investments in associates	12	16
Investments in joint ventures	69	62
	81	78

Investments in associates and joint ventures as at December 31, 2018, include goodwill of $3 million (December 31, 2017 - $3 million).

B. INVESTMENTS IN ASSOCIATES

Hereunder are the principal associates of the Corporation in 2017. The Corporation did not hold any significant participation in associates in 2018.

Boralex

On January 18, 2017, Boralex issued common shares to partly finance the acquisition of the interest of Enercon Canada Inc. in the Niagara Region Wind Farm. As a result, the Corporation's participation in Boralex decreased to 17.37%, which resulted in a dilution gain of $15 million and is included in line item “Share of results of associates and joint ventures” in the consolidated statement of earnings.

On March 10, 2017, Boralex announced the appointment of a new Chairman of the Board. This change in the Board composition combined with the decrease of our participation discussed above triggered the loss of significant influence of the Corporation over Boralex. Starting March 10, 2017, the investment in Boralex was no longer classified as an associate and was considered as an available-for-sale financial asset. Consequently, the Corporation's investment in Boralex was re-evaluated at fair value on March 10, 2017, and a gain of $155 million was recorded. At the same time, accumulated other comprehensive loss components of Boralex totaling $10 million and included in our consolidated balance sheet were reclassified to net earnings. These two items are presented in line item “Fair value revaluation gain on investments” in the consolidated statement of earnings. Subsequent fair value revaluation of this investment is recorded in ”Accumulated other comprehensive income”.

On July 27, 2017, the Corporation announced the sale of all of its shares in Boralex to the Caisse de Dépôt et Placement du Québec for an amount of $288 million. The increase in fair value of $18 million from March 10 to July 27, 2017, recorded in “Accumulated other comprehensive income” materialized, and the Corporation recorded a gain of $18 million in the third quarter in line item “Fair value revaluation gain on investments” in the consolidated statement of earnings. The Corporation also received $2 million of dividends while Boralex was considered an available-for-sale financial assets.

Greenpac Holding LLC

On April 4, 2017, the Corporation gained control over its associate Greenpac, which triggered its acquisition for accounting purposes. See Note 5 for more details.

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On March 21, 2017, the Corporation acquired 23% of Containerboard Partners (Ontario) Inc. for a consideration of US$12 million ($16 million). This company is a member of Greenpac Holding LLC, of which it owns 12.1%. On November 30, 2017, the Corporation acquired an additional 30% of Containerboard Partners (Ontario) for a consideration of $19 million. These transactions add an indirect participation of 6.4% in Greenpac Holding LLC, bringing total legal ownership to 66.1%. However, in line with the deemed acquisition of Greenpac discussed above, the portion of our Containerboard Partners (Ontario) share of results pertaining to Greenpac is reversed for consolidation purposes.

The Corporation's financial information from its principal associates (100%), translated in millions of Canadian dollars if required, is as follows:

	2017	
(in millions of Canadian dollars)	BORALEX INC. (results up to March 10, 2017)	GREENPAC HOLDING LLC (results up to April 4, 2017)
Condensed statements of earnings		
Sales	96	99
Depreciation and amortization	31	7
Financing expense	19	3
Provision for income taxes	6	—
Net earnings	13	9
Other comprehensive income (loss)		
Translation adjustment	1	—
Cash flow hedges	(1)	1
	—	1
Total comprehensive income (loss)	13	10
Condensed cash flow		
Dividends received from associates	2	—

C. INVESTMENT IN JOINT VENTURES

The following are the principal joint ventures of the Corporation and the Corporation's percentage of equity owned:

	2018-2017 PERCENTAGE EQUITY OWNED (%)	PRINCIPAL ESTABLISHMENT
Cascades Sonoco US Inc.[1]	50	Birmingham, Alabama and Tacoma, Washington, United States
Cascades Sonoco inc.[1]	50	Kingsey Falls and Berthierville, Québec, Canada
Maritime Paper Products Limited Partnership (MPPLP) [2]	40	Dartmouth, Nova Scotia, Canada
Tencorr Holdings Corporation [3]	33.3	Brampton, Ontario, Canada

1 Joint ventures producing specialty paper packaging products such as headers, rolls and wrappers.
2 MPPLP is a Canadian corporation converting containerboard.
3 Tencorr Holdings Corporation operates as a supplier of corrugated sheet stock.

Tencorr Holdings Corporation

On November 30, 2017, the Corporation acquired 33.3% of the outstanding shares of Tencorr Holdings Corporation (Tencorr), a corrugated sheets manufacturer, for a consideration of $5 million, of which $2 million was paid in 2018. Tencorr is classified as a joint venture and, accordingly our share of results is recorded using the equity method.

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The Corporation's joint ventures information (100%), translated in millions of Canadian dollar if required, is as follows:

				2018
(in millions of Canadian dollars)	CASCADES SONOCO US INC.	CASCADES SONOCO INC.	MARITIME PAPER PRODUCTS LIMITED PARTNERSHIP	TENCORR HOLDINGS CORPORATION
Condensed balance sheet				
Cash and cash equivalents	**1**	**1**	**—**	**—**
Current assets (other than cash and cash equivalents and current financial assets)	**32**	**32**	**26**	**20**
Long-term assets (other than long-term financial assets)	**38**	**15**	**29**	**10**
Current liabilities (other than current financial liabilities)	**10**	**10**	**5**	**15**
Current financial liabilities	**4**	**1**	**1**	**3**
Long-term liabilities (other than long-term financial liabilities)	**6**	**3**	**—**	**3**
Long-term financial liabilities	**14**	**—**	**3**	**—**
Condensed statement of earnings				
Sales	**119**	**97**	**108**	**137**
Depreciation and amortization	**2**	**2**	**2**	**1**
Financing expense	**1**	**—**	**—**	**—**
Provision for income taxes	**2**	**2**	**—**	**1**
Net earnings	**6**	**6**	**3**	**1**
Other comprehensive income (loss)				
Translation adjustment	**3**	**—**	**—**	**—**
Total comprehensive income	**9**	**6**	**3**	**1**
Condensed cash flow				
Dividends received from joint ventures	**2**	**2**	**—**	**—**

				2017
(in millions of Canadian dollars)	CASCADES SONOCO US INC.	CASCADES SONOCO INC.	MARITIME PAPER PRODUCTS LIMITED PARTNERSHIP	TENCORR HOLDINGS CORPORATION
Condensed balance sheet				
Current assets (other than cash and cash equivalents and current financial assets)	30	28	25	20
Long-term assets (other than long-term financial assets)	31	17	28	12
Current liabilities (other than current financial liabilities)	10	6	4	14
Current financial liabilities	2	1	1	5
Long-term liabilities (other than long-term financial liabilities)	4	3	—	—
Long-term financial liabilities	14	3	4	1
Condensed statement of earnings				
Sales	119	96	102	111
Depreciation and amortization	2	2	2	2
Financing expense	1	—	—	—
Provision for income taxes	1	1	—	—
Net earnings	8	4	7	1
Other comprehensive income (loss)				
Translation adjustment	(2)	—	—	—
Total comprehensive income	6	4	7	1
Condensed cash flow				
Dividends received from joint ventures	4	1	1	—

There is about $1 million in commitments in the joint ventures.

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D. SUBSIDIARIES WITH NON-CONTROLLING INTERESTS

The Corporation's information for its subsidiaries with significant non-controlling interests is as follows:

	2018		2017	
(in millions of Canadian dollars, unless otherwise noted)	RENO DE MEDICI S.p.A.	GREENPAC HOLDING LLC	RENO DE MEDICI S.p.A.	GREENPAC HOLDING LLC (since April 4, 2017)
Principal establishment	Milan, Italy	New York, United States	Milan, Italy	New York, United States
Percentage of shares held by non-controlling interests (accounting basis)	**42.05%**	**17.17%**	42.18%	17.17%
Net earnings attributable to non-controlling interests	**18**	**18**	9	5
Non-controlling interests accumulated at the end of the year	**127**	**50**	105	42
Dividends paid to non-controlling interests	**1**	**15**	1	4
Condensed balance sheet				
Cash and cash equivalents	**49**	**37**	29	38
Current assets (other than cash and cash equivalents and current financial assets)	**315**	**109**	254	100
Current financial assets	**—**	**3**	—	3
Long-term assets (other than long-term financial assets)	**425**	**589**	335	568
Long-term financial assets	**—**	**13**	—	14
Current liabilities (other than current financial liabilities)	**257**	**33**	195	31
Current financial liabilities	**32**	**77**	30	106
Long-term liabilities (other than long-term financial liabilities)	**76**	**—**	72	—
Long-term financial liabilities	**119**	**208**	67	209
Condensed statement of earnings				
Sales	**933**	**429**	838	278
Depreciation and amortization	**36**	**30**	33	22
Provision for income taxes	**20**	**—**	9	—
Net earnings	**42**	**105**	21	21
Condensed cash flow				
Cash flows from operating activities	**80**	**123**	49	39
Cash flows used for investing activities	**(85)**	**(3)**	(48)	(3)
Cash flows used for financing activities	**26**	**(123)**	(17)	(30)

E. NON-SIGNIFICANT ASSOCIATES AND JOINT VENTURES

The carrying value of investments in associates and joint ventures that are not significant for the Corporation is as follows:

(in millions of Canadian dollars)	**2018**	2017
Non-significant associates	**12**	16
Non-significant joint ventures	**18**	16
	30	32

The shares of results of non-significant associates and joint ventures for the Corporation are as follows:

(in millions of Canadian dollars)	**2018**	2017
Non-significant associates	**(1)**	1
Non-significant joint ventures	**3**	3
	2	4

The Corporation received dividends of $2 million from these associates and joint ventures as at December 31, 2018 (December 31, 2017 - $2 million).

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NOTE 9
PROPERTY, PLANT AND EQUIPMENT

(in millions of Canadian dollars)	NOTE	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	AUTOMOTIVE EQUIPMENT	OTHERS	TOTAL
As at January 1, 2017							
Cost		110	740	2,553	126	299	3,828
Accumulated depreciation and impairment		—	353	1,642	71	127	2,193
Net book amount		110	387	911	55	172	1,635
Year ended December 31, 2017							
Opening net book amount		110	387	911	55	172	1,635
Additions		11	6	24	18	148	207
Disposals		(3)	(2)	(1)	(1)	(1)	(8)
Depreciation		—	(31)	(132)	(15)	(11)	(189)
Business combinations	5	7	90	397	1	27	522
Assets held for sale	24	(1)	(8)	—	—	(4)	(13)
Impairment charges	25	—	—	—	—	(2)	(2)
Others		(1)	55	77	(1)	(131)	(1)
Exchange differences		1	(11)	(29)	(1)	(7)	(47)
Closing net book amount		124	486	1,247	56	191	2,104
As at December 31, 2017							
Cost		124	841	3,026	142	314	4,447
Accumulated depreciation and impairment		—	355	1,779	86	123	2,343
Net book amount		124	486	1,247	56	191	2,104
Year ended December 31, 2018							
Opening net book amount		**124**	**486**	**1,247**	**56**	**191**	**2,104**
Additions and asset acquisition	5	**11**	**92**	**91**	**18**	**236**	**448**
Disposals		**—**	**—**	**(1)**	**—**	**—**	**(1)**
Depreciation		**—**	**(35)**	**(150)**	**(17)**	**(10)**	**(212)**
Business combinations	5	**34**	**23**	**67**	**3**	**2**	**129**
Impairment charges	25	**—**	**(6)**	**(67)**	**(1)**	**—**	**(74)**
Others		**—**	**26**	**145**	**4**	**(165)**	**10**
Exchange differences		**6**	**23**	**64**	**1**	**8**	**102**
Closing net book amount		**175**	**609**	**1,396**	**64**	**262**	**2,506**
As at December 31, 2018							
Cost		**175**	**1,015**	**3,398**	**164**	**391**	**5,143**
Accumulated depreciation and impairment		**—**	**406**	**2,002**	**100**	**129**	**2,637**
Net book amount		**175**	**609**	**1,396**	**64**	**262**	**2,506**

Other property, plant and equipment include buildings and machinery and equipment in the process of construction or installation with a book value of $99 million (December 31, 2017 - $81 million) and deposits on purchases of machinery and equipment amounting to $34 million (December 31, 2017 - $18 million). The carrying value of finance-lease assets is $88 million (December 31, 2017 - $31 million).

In 2018, $3 million (2017 - $2 million) of interest incurred on qualifying assets was capitalized. The weighted average capitalization rate on funds borrowed in 2018 was 5.52% (2017 - 5.56%).

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NOTE 10

GOODWILL AND OTHER INTANGIBLE ASSETS WITH FINITE AND INDEFINITE USEFUL LIFE

(in millions of Canadian dollars)	NOTE	APPLICATION SOFTWARE AND ERP	CUSTOMER RELATIONSHIPS AND CLIENT LISTS	OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIFE	TOTAL INTANGIBLE ASSETS WITH FINITE USEFUL LIFE	GOODWILL	OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE	TOTAL INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE
As at January 1, 2017								
Cost		126	171	35	332	349	7	356
Accumulated amortization and impairment		43	87	31	161	5	1	6
Net book amount		83	84	4	171	344	6	350
Year ended December 31, 2017								
Opening net book amount		83	84	4	171	344	6	350
Additions		24	—	—	24	—	—	—
Business combinations	5	—	46	—	46	194	—	194
Amortization		(13)	(11)	(2)	(26)	—	—	—
Exchange differences		—	(3)	—	(3)	(17)	1	(16)
Closing net book amount		94	116	2	212	521	7	528
As at December 31, 2017								
Cost		150	208	32	390	523	7	530
Accumulated amortization and impairment		56	92	30	178	2	—	2
Net book amount		94	116	2	212	521	7	528
Year ended December 31, 2018								
Opening net book amount		**94**	**116**	**2**	**212**	**521**	**7**	**528**
Additions		**12**	**—**	**—**	**12**	**—**	**—**	**—**
Business combinations	5	**2**	**10**	**—**	**12**	**8**	**—**	**8**
Amortization		**(16)**	**(13)**	**(3)**	**(32)**	**—**	**—**	**—**
Others		**—**	**—**	**3**	**3**	**—**	**(1)**	**(1)**
Exchange differences		**1**	**3**	**—**	**4**	**20**	**—**	**20**
Closing net book amount		**93**	**116**	**2**	**211**	**549**	**6**	**555**
As at December 31, 2018								
Cost		**158**	**221**	**34**	**413**	**552**	**7**	**559**
Accumulated amortization and impairment		**65**	**105**	**32**	**202**	**3**	**1**	**4**
Net book amount		**93**	**116**	**2**	**211**	**549**	**6**	**555**

NOTE 11

OTHER ASSETS

(in millions of Canadian dollars)	NOTE	**2018**	2017
Notes receivable from business disposals		**3**	6
Other investments		**4**	6
Other assets		**21**	30
Employee future benefits	16	**16**	37
		44	79
Less: Current portion, included in accounts receivables		**(2)**	(6)
		42	73

In December 2017, the Corporation deposited €10 million ($15 million) for the acquisition of PAC Service S.p.A in the Boxboard Europe segment. See Note 5 for more details.

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NOTE 12
TRADE AND OTHER PAYABLES

(in millions of Canadian dollars)	NOTE	2018	2017
Trade payables		**566**	488
Payables to related parties	29	**4**	7
Provisions for volume rebates	3	**50**	45
Accrued expenses		**162**	143
		782	683

Movements in the Corporation's provision for volume rebates are as follows:

(in millions of Canadian dollars)	NOTE	2018	2017
Balance at beginning of year		**45**	35
Provision for volume rebates, net of unused beginning balance		**111**	102
Business combinations	5	**1**	—
Volume rebates payments		**(104)**	(93)
Exchange differences		**(3)**	1
Balance at end of year		**50**	45

NOTE 13
PROVISIONS FOR CONTINGENCIES AND CHARGES

(in millions of Canadian dollars)	NOTE	ENVIRONMENTAL RESTORATION OBLIGATIONS	ENVIRONMENTAL COSTS	LEGAL CLAIMS	SEVERANCES	ONEROUS CONTRACT	OTHERS	TOTAL PROVISIONS
As at January 1, 2017		8	16	3	3	6	7	43
Additional provision		(1)	—	2	5	—	2	8
Payments		—	—	(1)	(5)	(3)	(2)	(11)
Other		—	—	—	—	—	3	3
As at December 31, 2017		7	16	4	3	3	10	43
Additional provision		**—**	**—**	**—**	**2**	**—**	**—**	**2**
Payments		**—**	**—**	**(1)**	**(3)**	**(2)**	**(2)**	**(8)**
Revaluation		**5**	**—**	**—**	**—**	**—**	**—**	**5**
Business combinations and assets acquisition	5	**5**	**—**	**—**	**—**	**—**	**1**	**6**
As at December 31, 2018		**17**	**16**	**3**	**2**	**1**	**9**	**48**

Analysis of total provisions:

(in millions of Canadian dollars)	2018	2017
Long-term	**42**	36
Current	**6**	7
	48	43

ENVIRONMENTAL RESTORATION

The Corporation uses some landfill sites. A provision has been recognized at fair value for the costs to be incurred for the restoration of these sites.

ENVIRONMENTAL COSTS

An environmental provision is recorded when the Corporation has an obligation caused by its ongoing or abandoned operations.

LEGAL CLAIMS

In the normal course of operations, the Corporation is party to various legal actions and contingencies related to contract disputes and labour issues.

In the normal course of operations, the Corporation is party to various legal actions and contingencies, mostly related to contract disputes, environmental and product warranty claims, and labour issues. While the final outcome with respect to legal actions outstanding or pending as at December 31, 2018 cannot be predicted with certainty, it is Management's opinion that the outcome will not have a material adverse effect on the Corporation's consolidated financial position, the results of its operations or its cash flows.

The Corporation is currently working with representatives of the Ontario Ministry of the Environment (MOE) - Northern Region and Environment Canada - Great Lakes Sustainability Fund in Toronto regarding its potential responsibility for an environmental impact identified at its former Thunder Bay facility. Both authorities have requested that the Corporation look into a site management plan relating to the sediment quality adjacent to Thunder Bay's lagoon. Several meetings have been held during the past years with the MOE and Environment Canada, and a management plan based on sediment dredging has been proposed by a third party consultant. Both governments are looking at this proposal with stakeholders to agree on this remediation action plan that would likely be implemented in the coming years.

The Corporation is also in discussions with representatives of the MOE regarding its potential responsibility for an environmental impact identified at Thunder Bay. This facility was sold to Thunder Bay Fine Papers Inc. (Fine Papers) in 2007. Fine Papers has since sold the facility to Superior Fine Papers Inc. (Superior), which recently sold it to Wilderness North. The MOE has requested that the Corporation, together with the former owner Fine Papers and Superior, submit a closure plan for the Waste Disposal Site and a decommissioning plan for the closure and long-term monitoring of the Sewage Works (the Plans). Although the Corporation recognizes that there may be an outflow of resources embodying future economic benefits in settlement of a possible obligation, it is not possible at this time to estimate the Corporation's obligation, since Superior has not submitted all of the Plans and related costs to allow the Corporation to perform an evaluation, nor does the Corporation have access to the site. The Corporation is pursuing all available legal remedies to resolve the situation. In any event, Management does not consider the Corporation's potential obligation to be material.

The Corporation has recorded an environmental reserve to address its estimated exposure for these matters.

NOTE 14
LONG-TERM DEBT

(in millions of Canadian dollars)	NOTE	MATURITY	2018	2017
Revolving credit facility, weighted average interest rate of 4.53% as at December 31, 2018, consists of $4 million and US$60 million (December 31, 2017 - $5 million and US$151 million)	14(b)	2022	**86**	195
5.50% Unsecured senior notes of $250 million		2021	**250**	250
5.50% Unsecured senior notes of US$400 million	14(c)	2022	**545**	503
5.75% Unsecured senior notes of US$200 million	14(c)	2023	**273**	252
Term loan of US$175 million, interest rate of 4.61% as at December 31, 2018	14(a)	2025	**239**	—
Other debts of subsidiaries			**129**	66
Other debts without recourse to the Corporation			**364**	320
			1,886	1,586
Less: Unamortized financing costs			**10**	10
Total long-term debt			**1,876**	1,576
Less:				
Current portion of debts of subsidiaries			**15**	14
Current portion of debts without recourse to the Corporation			**40**	45
			55	59
			1,821	1,517

a. On December 21, 2018, the Corporation secured a US$175 million seven-year variable interest term loan. The financial conditions and covenants of the Company's existing credit facility are unchanged, and no additional assets were required as security. The term loan, which can be repaid at any time, provides the Corporation with increased financial flexibility and will reduce financing costs. As such, the term loan proceeds have been used to repay certain of the Company's outstanding borrowings under its existing credit facility. Fees amounting to US$1 million ($1 million) were incurred to conclude the agreement.

b. On June 29, 2018, the Corporation entered into an agreement with its lenders to extend and amend its existing $750 million credit facility. The amendment extends the term of the facility to July 2022. The financial conditions remain unchanged.

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c. On December 12, 2017, the Corporation repurchased US$150 million of its 5.50% unsecured senior notes due in 2022 for an amount of US$156 million ($201 million) and US$50 million of its 5.75% unsecured senior notes due in 2023 for an amount of US$52 million ($67 million), including premiums of US$6 million ($8 million) and US$2 million ($3 million). The Corporation also wrote off $3 million of unamortized financing costs related to these notes.

d. As at December 31, 2018, accounts receivable and inventories totaling approximately $752 million (December 31, 2017 - $748 million) as well as property, plant and equipment totaling approximately $223 million (December 31, 2017 - $237 million) were pledged as collateral for the Corporation's revolving credit facility.

e. The Corporation has finance leases for various items of property, plant and equipment. Renewals and purchase options are specific to the entity that holds the lease. Lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2018		2017	
(in millions of Canadian dollars)	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS
Within one year	**16**	**11**	11	9
Later than one year but no later than five years	**40**	**23**	22	18
More than five years	**89**	**61**	6	6
Total minimum lease payments	**145**	**95**	39	33
Less: amounts representing finance charges	**50**	**—**	6	—
Present value of minimum lease payments	**95**	**95**	33	33

NOTE 15
OTHER LIABILITIES

(in millions of Canadian dollars)	NOTE	**2018**	2017
Employee future benefits	16	**170**	174
Greenpac equity holder put option (see Note 5 for more details)		**76**	80
Other		**35**	6
		281	260
Less: Current portion		**(79)**	(82)
		202	178

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NOTE 16
EMPLOYEE FUTURE BENEFITS

The Corporation operates various post-employment plans, including both defined benefit and defined contribution pension plans and post-employment benefit plans, such as retirement allowance, group life insurance and medical and dental plans. The table below outlines where the Corporation's post-employment amounts and activity are included in the consolidated financial statements.

(in millions of Canadian dollars)	NOTE	2018	2017
Consolidated balance sheet obligations for			
Defined pension benefits	16(a)	**55**	36
Post-employment benefits other than defined benefit pension plans	16(b)	**99**	101
Net long-term liabilities on consolidated balance sheet		**154**	137
Income statement charge for			
Defined pension benefits		**8**	7
Defined contribution benefits		**22**	21
Post-employment benefits other than defined benefit pension plans		**6**	4
		36	32
Remeasurements for			
Defined pension benefits	16(a)	**19**	14
Post-employment benefits other than defined benefit pension plans	16(b)	**(3)**	(1)
		16	13

A. DEFINED BENEFIT PENSION PLANS

The Corporation offers funded and unfunded defined benefit pension plans, defined contribution pension plans and group RRSPs that provide retirement benefit payments for most of its employees. The defined benefit pension plans are usually contributory and are based on the number of years of service and, in most cases, the average salaries or compensation at the end of a career. Retirement benefits are not partially adjusted based on inflation.

The majority of benefit payments are payable from trustee administered funds; however, for the unfunded plans, the Corporation meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practices in each country. Responsibility for governance of the plans - overseeing all aspects of the plans, including investment decisions and contribution schedules - lies with the Corporation. The Corporation has established Investment Committees to assist in the management of the plans and has also appointed experienced, independent professional experts such as investments managers, investment consultants, actuaries and custodians.

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The movement in the net defined benefit obligation and fair value of plan assets of pension plans over the year is as follows:

(in millions of Canadian dollars)	PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSETS	TOTAL	IMPACT OF MINIMUM FUNDING REQUIREMENT (ASSET CEILING)	TOTAL
As at January 1, 2017	482	(460)	22	—	22
Current service cost	5	—	5	—	5
Interest expense (income)	17	(15)	2	—	2
Impact on profit or loss	22	(15)	7	—	7
Remeasurements					
Return on plan assets, excluding amounts included in interest expense (income)	—	(14)	(14)	—	(14)
Loss from change in demographic assumptions	2	—	2	—	2
Loss from change in financial assumptions	14	—	14	—	14
Experience loss	12	—	12	—	12
Impact of remeasurements on other comprehensive income	28	(14)	14	—	14
Exchange differences	1	—	1	—	1
Contributions					
Employers	—	(8)	(8)	—	(8)
Plan participants	2	(2)	—	—	—
Benefit payments	(27)	27	—	—	—
As at December 31, 2017	508	(472)	36	—	36
Current service cost	**6**	**—**	**6**	**—**	**6**
Interest expense (income)	**16**	**(14)**	**2**	**—**	**2**
Impact on profit or loss	**22**	**(14)**	**8**	**—**	**8**
Remeasurements					
Return on plan assets, excluding amounts included in interest expense (income)	**—**	**20**	**20**	**—**	**20**
Gain from change in financial assumptions	**(22)**	**—**	**(22)**	**—**	**(22)**
Experience loss	**1**	**—**	**1**	**—**	**1**
Change in asset ceiling, excluding amounts included in interest expense	**—**	**—**	**—**	**20**	**20**
Impact of remeasurements on other comprehensive income	**(21)**	**20**	**(1)**	**20**	**19**
Exchange differences	**1**	**(1)**	**—**	**—**	**—**
Contributions					
Employers	**—**	**(8)**	**(8)**	**—**	**(8)**
Plan participants	**1**	**(1)**	**—**	**—**	**—**
Benefit payments	**(31)**	**31**	**—**	**—**	**—**
As at December 31, 2018	**480**	**(445)**	**35**	**20**	**55**

The defined benefit obligation and plan assets are composed by country and by sector as follows:

				2018
(in millions of Canadian dollars)	CANADA	UNITED STATES	EUROPE	TOTAL
Present value of funded obligations	**408**	**9**	**—**	**417**
Fair value of plan assets	**438**	**7**	**—**	**445**
Deficit (surplus) of funded plans	**(30)**	**2**	**—**	**(28)**
Impact of minimum funding requirement (asset ceiling)	**20**	**—**	**—**	**20**
Present value of unfunded obligations	**35**	**—**	**28**	**63**
Liabilities on consolidated balance sheet	**25**	**2**	**28**	**55**

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(in millions of Canadian dollars)	CONTAINERBOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	TISSUE PAPERS	CORPORATE	TOTAL
						2018
Present value of funded obligations	**381**	**—**	**—**	**35**	**1**	**417**
Fair value of plan assets	**412**	**—**	**—**	**32**	**1**	**445**
Deficit (surplus) of funded plans	**(31)**	**—**	**—**	**3**	**—**	**(28)**
Impact of minimum funding requirement (asset ceiling)	**20**	**—**	**—**	**—**	**—**	**20**
Present value of unfunded obligations	**8**	**28**	**1**	**2**	**24**	**63**
Liabilities (assets) on consolidated balance sheet	**(3)**	**28**	**1**	**5**	**24**	**55**

(in millions of Canadian dollars)	CANADA	UNITED STATES	EUROPE	TOTAL
				2017
Present value of funded obligations	433	10	—	443
Fair value of plan assets	466	6	—	472
Deficit (surplus) of funded plans	(33)	4	—	(29)
Present value of unfunded obligations	37	—	28	65
Liabilities on consolidated balance sheet	4	4	28	36

(in millions of Canadian dollars)	CONTAINERBOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	TISSUE PAPERS	CORPORATE	TOTAL
						2017
Present value of funded obligations	405	—	—	37	1	443
Fair value of plan assets	437	—	—	34	1	472
Deficit (surplus) of funded plans	(32)	—	—	3	—	(29)
Present value of unfunded obligations	8	28	2	2	25	65
Liabilities (assets) on consolidated balance sheet	(24)	28	2	5	25	36

The significant actuarial assumptions are as follows:

	2018			2017		
	CANADA	UNITED STATES	EUROPE	CANADA	UNITED STATES	EUROPE
Discount rate obligation (ending period)	**3.80%**	**3.90%**	**1.90%**	3.40%	3.31%	1.60%
Discount rate obligation (beginning period)	**3.40%**	**3.30%**	**1.60%**	3.70%	3.73%	1.90%
Discount rate (current service cost)	**3.90%**	**3.90%**	**1.90%**	3.50%	3.73%	1.90%
Salary growth rate	**Between 2.00% and 2.75%**	**N/A**	**N/A**	Between 2.00% and 2.75%	N/A	N/A
Inflation rate	**2.25%**	**N/A**	**1.75%**	2.25%	N/A	1.75%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. For Canadian pension plans, which represent 87% of all pension plans, these assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2018	2017
Retiring at the end of the year		
Male	**21.8**	21.7
Female	**24.2**	24.1
Retiring 20 years after the end of the reporting year		
Male	**22.8**	22.8
Female	**25.1**	25.1

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The sensitivity of the Canadian defined benefit obligation to changes in assumptions is set out below. The effects on each plan of a change in an assumption are weighted proportionately to the total plan obligations to determine the total impact for each assumption presented.

		IMPACT ON DEFINED BENEFIT OBLIGATION	
	CHANGE IN ASSUMPTION	INCREASE IN ASSUMPTION	DECREASE IN ASSUMPTION
Discount rate	**0.25%**	**(2.80)%**	**2.90 %**
Salary growth rate	**0.25%**	**0.30 %**	**(0.30)%**

	INCREASE / DECREASE BY 1 YEAR IN ASSUMPTION
Life expectancy	**3.00 %**

Plan assets, which are funding the Corporation's defined pension plans, are comprised as follows:

					2018
(in millions of Canadian dollars)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	%
Cash and short-term investments	**5**	**—**	**—**	**5**	**1.1 %**
Bonds					
Canadian bonds	**70**	**52**	**—**	**122**	**27.4 %**
Shares					
Canadian shares	**24**	**—**	**—**	**24**	
Foreign shares	**4**	**—**	**—**	**4**	
	28	**—**	**—**	**28**	**6.3 %**
Mutual funds					
Foreign bond mutual funds	**—**	**6**	**—**	**6**	
Canadian equity mutual funds	**5**	**1**	**—**	**6**	
Foreign equity mutual funds	**—**	**35**	**—**	**35**	
Alternative investments funds	**—**	**24**	**—**	**24**	
	5	**66**	**—**	**71**	**16.0 %**
Other					
Insured annuities	**—**	**219**	**—**	**219**	
	—	**219**	**—**	**219**	**49.2 %**
	108	**337**	**—**	**445**	

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(in millions of Canadian dollars)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	2017 %
Cash and short-term investments	5	—	—	5	1.1 %
Bonds					
Canadian bonds	92	81	—	173	36.7 %
Shares					
Canadian shares	34	—	—	34	
Foreign shares	6	—	—	6	
	40	—	—	40	8.5 %
Mutual funds					
Foreign bond mutual funds	—	6	—	6	
Canadian equity mutual funds	7	1	—	8	
Foreign equity mutual funds	—	54	—	54	
Alternative investments funds	—	22	—	22	
	7	83	—	90	19.1 %
Other					
Insured annuities	—	164	—	164	
	—	164	—	164	34.6 %
	144	328	—	472	

The plan assets include shares of the Corporation for an amount of less than $1 million. These shares were bought by one of the asset managers. Annual benefit annuities of an approximate value of $219 million are pledged by insurance contracts.

B. POST-EMPLOYMENT BENEFITS OTHER THAN DEFINED BENEFIT PENSION PLANS

The Corporation also offers its employees some post-employment benefit plans, such as retirement allowance, group life insurance and medical and dental plans. However, these benefits, other than pension plans, are not funded. Furthermore, the medical and dental plans upon retirement are being phased out and are no longer offered to the majority of new retirees, and the retirement allowance is not offered to the majority of employees hired after 2002.

The amounts recognized in the consolidated balance sheet composed by country and by sector are determined as follows:

(in millions of Canadian dollars)	CANADA	UNITED STATES	EUROPE	**2018** TOTAL
Present value of unfunded obligations	**71**	**4**	**24**	**99**
Liabilities on consolidated balance sheet	**71**	**4**	**24**	**99**

(in millions of Canadian dollars)	CONTAINERBOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	TISSUE PAPERS	CORPORATE	**2018** TOTAL
Present value of unfunded obligations	**36**	**24**	**6**	**12**	**21**	**99**
Liabilities on consolidated balance sheet	**36**	**24**	**6**	**12**	**21**	**99**

(in millions of Canadian dollars)	CANADA	UNITED STATES	EUROPE	2017 TOTAL
Present value of unfunded obligations	73	4	24	101
Liabilities on consolidated balance sheet	73	4	24	101

(in millions of Canadian dollars)	CONTAINERBOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	TISSUE PAPERS	CORPORATE	2017 TOTAL
Present value of unfunded obligations	38	24	6	12	21	101
Liabilities on consolidated balance sheet	38	24	6	12	21	101

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The movement in the net defined benefit obligation for post-employment benefits over the year is as follows:

(in millions of Canadian dollars)	PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSET	TOTAL
As at January 1, 2017	106	—	106
Current service cost	2	—	2
Interest expense	3	—	3
Curtailments	(1)	—	(1)
Impact on profit or loss	4	—	4
Remeasurements			
Loss from change in financial assumptions	1	—	1
Experience gains	(2)	—	(2)
Impact of remeasurements on other comprehensive income	(1)	—	(1)
Exchange differences	1	—	1
Contributions and premiums paid by the employer	—	(9)	(9)
Benefit payments	(9)	9	—
As at December 31, 2017	101	—	101
Current service cost	**2**	**—**	**2**
Interest expense	**3**	**—**	**3**
Business acquisitions, disposals and closures	**1**	**—**	**1**
Impact on profit or loss	**6**	**—**	**6**
Remeasurements			
Gain from change in financial assumptions	**(4)**	**—**	**(4)**
Experience loss	**1**	**—**	**1**
Impact of remeasurements on other comprehensive income	**(3)**	**—**	**(3)**
Exchange differences	**1**	**—**	**1**
Benefit payments	**(6)**	**—**	**(6)**
As at December 31, 2018	**99**	**—**	**99**

The method of accounting, assumptions relating to discount rate and life expectancy, and the frequency of valuations for post-employment benefits are similar to those used for defined benefit pension plans, with the addition of actuarial assumptions relating to the long-term increase in health care costs of 4.50% a year (2017 - 4.50%).

The sensitivity of the defined benefit obligation to changes in assumptions is set out below. The effects on each plan of a change in an assumption are weighted proportionately to the total plan obligations to determine the total impact for each assumption presented.

		IMPACT ON OBLIGATION FOR POST-EMPLOYMENT BENEFITS	
	CHANGE IN ASSUMPTION	INCREASE IN ASSUMPTION	DECREASE IN ASSUMPTION
Discount rate	**0.25%**	**(2.10)%**	**2.10 %**
Salary growth rate	**0.25%**	**0.50 %**	**(0.40)%**
Health care cost increase	**1.00%**	**1.40 %**	**(1.10)%**

	INCREASE / DECREASE BY 1 YEAR IN ASSUMPTION
Life expectancy	**0.80 %**

C. RISKS AND OTHER CONSIDERATIONS RELATIVE TO POST-EMPLOYMENT BENEFITS

Through its defined benefit plans, the Corporation is exposed to a number of risks, the most significant of which are detailed below.

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields and if plan assets underperform this yield, it will create an experience loss. Both the Canadian and U.S. plans hold a proportion of equities, which are expected to outperform corporate bonds in the long term while contributing volatility and risk in the short term.

The Corporation intends to reduce the level of investment risk by investing more in assets that better match the liabilities when the financial situation of the plans improves and/or the rate of return on bonds used for solvency valuations increases.

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As at December 31, 2018, 67% of the plan's invested assets are in bonds. As at December 31, 2018, the total value of insured annuities is $219 million.

However, the Corporation believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the Corporation's long-term strategy to manage the plans efficiently. Plan assets are diversified, so the failure of an individual stock would not have a big impact on the plan assets taken as a whole. The pension plans do not face a significant currency risk.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings, particularly for plans in a good financial position that have a greater proportion of bonds.

Inflation risk

The benefits paid are not indexed. Only future benefits for active members are based on salaries. Therefore, this risk is not significant.

Life expectancy

The majority of the plans' obligations are to provide benefits for the member's lifetime, so increases in life expectancy will result in an increase in the plans' liabilities.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated using the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the consolidated balance sheet.

As at December 31, 2018, the aggregate net surplus of the Corporation's funded pension plans (mostly in Canada) amounted to $28 million (a surplus of $29 million as at December 31, 2017). Current agreed expected service contributions amount to $8 million and will be made in the normal course of business. As for the cash flow requirement, these pension plans are expected to require a net contribution of approximately $8 million in 2019.

The weighted average duration of the defined benefit obligation is 12 years (2017 - 11 years).

Expected maturity analysis of undiscounted pension and other post-employment benefits:

(in millions of Canadian dollars)	LESS THAN A YEAR	BETWEEN ONE AND TWO YEARS	BETWEEN TWO AND FIVE YEARS	OVER FIVE YEARS	TOTAL
Pension benefits	**31**	**32**	**96**	**707**	**866**
Post-employment benefits other than defined benefit pension plans	**5**	**8**	**24**	**99**	**136**
As at December 31, 2018	**36**	**40**	**120**	**806**	**1,002**

These amounts represent all the benefits payable to current members during the following years and thereafter without limitations. The majority of benefit payments are payable from trustee administered funds. The difference will come from future investment returns expected on plan assets and future contributions that will be made by the Corporation for services rendered after December 31, 2018.

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NOTE 17
INCOME TAXES

a. The provision for (recovery of) income taxes is as follows:

(in millions of Canadian dollars)	2018	2017
Current taxes	**22**	10
Deferred taxes	**27**	(91)
	49	(81)

b. The provision for (recovery of) income taxes based on the effective income tax rate differs from the provision for income taxes based on the combined basic rate for the following reasons:

(in millions of Canadian dollars)	NOTE	2018	2017
Provision for income taxes based on the combined basic Canadian and provincial income tax rate		**38**	117
Adjustment for income taxes arising from the following:			
Difference in statutory income tax rate of foreign operations		**(1)**	10
Prior years reassessment		**2**	3
Reversal of deferred income tax liabilities related to our previously held investment in Greenpac	5	**—**	(70)
Permanent difference on revaluation of previously held equity interest - Greenpac associate	5	**—**	(57)
Non-taxable portion of capital gain on revaluation of previously held equity interest - Boralex associate	8	**—**	(24)
Change in future income taxes resulting from enacted tax rate change		**—**	(57)
Unrealized capital gain on long-term debt		**—**	(3)
Reversal of deferred tax assets on tax losses		**3**	—
Permanent differences		**(1)**	(6)
Change in deferred income tax assets relating to capital tax loss		**8**	6
		11	(198)
Provision for (recovery of) income taxes		**49**	(81)

Weighted average income tax rate for the year ended December 31, 2018 was 25.8% (2017 - 28.6%).

In conjunction with the acquisition of Greenpac, the Corporation recorded an income tax recovery of $70 million representing deferred income taxes on its investment prior to the acquisition on April 4, 2017. Also, there was no income tax provision recorded on the gain of $156 million generated by the business combination of Greenpac, since it is included in the fair value of assets and liabilities acquired, as described in Note 5.

The income tax provision on the Boralex revaluation gain was calculated at the rate of capital gains. Also, consequently with the sale of its participation in Boralex in July 2017, the Corporation has reassessed the probability of recovering unrealized capital losses on long-term debt due to foreign exchange fluctuations.

Under the Tax Cuts and Jobs Act, which was substantially enacted on December 22, 2017, the U.S. statutory federal income tax rate was reduced to 21% from the previous rate of 35%. The impact of the change in tax rate resulted in a reduction of $57 million of the net deferred tax liability position for the year ended December 31, 2017.

c. The provision for (recovery of) income taxes relating to components of other comprehensive income is as follows:

(in millions of Canadian dollars)	2018	2017
Foreign currency translation related to hedging activities	**(4)**	4
Cash flow hedge	**2**	—
Included in share of other comprehensive income of associates	**—**	3
Actuarial loss on post-employment benefit obligations	**(4)**	(3)
Provision for (recovery of) income taxes	**(6)**	4

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d. The analysis of deferred tax assets and deferred tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(in millions of Canadian dollars)	2018	2017
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than twelve months	**228**	223
Deferred income tax liabilities:		
Deferred income tax liabilities to be used after more than twelve months	**295**	260
	(67)	(37)

The movement of the deferred income tax account is as follows:

(in millions of Canadian dollars)	NOTE	2018	2017
As at January 1		**(37)**	(40)
Through statement of earnings		**(27)**	91
Variance of income tax credit, net of related income tax		**5**	4
Through statement of comprehensive income		**6**	(4)
Through business combinations	5	**(5)**	(91)
Others		**—**	(7)
Exchange differences		**(9)**	10
As at December 31		**(67)**	(37)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

DEFERRED INCOME TAX ASSET

(in millions of Canadian dollars)	RECOGNIZED TAX BENEFIT ARISING FROM INCOME TAX LOSSES	EMPLOYEE FUTURE BENEFITS	EXPENSE ON RESEARCH	UNUSED TAX CREDITS	FINANCIAL INSTRUMENTS	FOREIGN EXCHANGE LOSS ON LONG-TERM DEBT	OTHERS	TOTAL
As at January 1, 2017	159	24	15	41	5	19	16	279
Through statement of earnings	(25)	(6)	(10)	(6)	(5)	(12)	5	(59)
Variance of income tax credit	—	—	—	4	—	—	—	4
Through statement of comprehensive income	—	3	—	—	1	(5)	—	(1)
As at December 31, 2017	134	21	5	39	1	2	21	223
Through statement of earnings	**(29)**	**2**	**—**	**(2)**	**3**	**(6)**	**26**	**(6)**
Variance of income tax credit	**—**	**—**	**—**	**5**	**—**	**—**	**—**	**5**
Through statement of comprehensive income	**—**	**4**	**—**	**—**	**(2)**	**4**	**—**	**6**
As at December 31, 2018	**105**	**27**	**5**	**42**	**2**	**—**	**47**	**228**

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DEFERRED INCOME TAX LIABILITIES

(in millions of Canadian dollars)	NOTE	PROPERTY, PLANT AND EQUIPMENT	FOREIGN EXCHANGE LOSS ON LONG-TERM DEBT	INTANGIBLE ASSETS	INVESTMENTS	OTHERS	TOTAL
As at January 1, 2017		180	—	53	85	1	319
Through statement of earnings		(51)	—	(14)	(85)	—	(150)
Included in share of other comprehensive income of associates		—	—	—	3	—	3
Through business combinations	5	80	—	11	—	—	91
Others		5		2	—	—	7
Exchange differences		(9)	—	(1)	—	—	(10)
As at December 31, 2017		205	—	51	3	1	260
Through statement of earnings		**1**	**2**	**5**	**13**	**—**	**21**
Through business combinations	5	**5**	**—**	**—**	**—**	**—**	**5**
Exchange differences		**9**	**—**	**—**	**—**	**—**	**9**
As at December 31, 2018		**220**	**2**	**56**	**16**	**1**	**295**

When taking into consideration the offsetting of balances within the same tax jurisdiction, the net deferred tax liability of $67 million is presented on the consolidated balance sheet as $134 million of "Deferred income tax asset" amounts and $201 million of "Deferred income tax liabilities".

e. The Corporation has recognized accumulated losses for income tax purposes amounting to approximately $408 million, which may be carried forward to reduce taxable income in future years. The future tax benefit of $105 million resulting from the deferral of these losses has been recognized in the accounts as a deferred income tax asset. Deferred income tax assets are recognized for tax loss carry forward to the extent that the realization of the related tax benefits through future taxable profits is probable. Income tax losses as at December 31, 2018 are detailed as follows:

(in millions of Canadian dollars)	RECOGNIZED TAX LOSSES	MATURITY
Canada	**8**	**2026**
	14	**2027**
	28	**2034**
	62	**2035**
	53	**2036**
	5	**2037**
	147	**2038**
	317	
United States	**8**	**2033**
	3	**2034**
	12	**2035**
	68	**2037**
	91	
	408	

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NOTE 18
CAPITAL STOCK

A. CAPITAL MANAGEMENT

Capital is defined as long-term debt, bank loans and advances net of cash and cash equivalents and Shareholders' equity, which includes capital stock.

(in millions of Canadian dollars)	**2018**	2017
Cash and cash equivalents	**(123)**	(89)
Bank loans and advances	**16**	35
Long-term debt, including current portion	**1,876**	1,576
	1,769	1,522
Total equity	**1,688**	1,601
Total capital	**3,457**	3,123

The Corporation's objectives when managing capital are:

- to safeguard the Corporation's ability to continue as a going concern in order to provide returns to Shareholders;
- to maintain an optimal capital structure and reduce the cost of capital;
- to make proper capital investments that are significant to ensure that the Corporation remains competitive; and
- to redeem common shares based on an annual redemption program.

The Corporation sets the amount of capital in proportion to risk. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares and acquire or sell assets to improve its financial performance and flexibility.

The Corporation monitors capital on a monthly and quarterly basis based on different financial ratios and non-financial performance indicators. Also, the Corporation must conform to certain financial ratios under its various credit agreements. These ratios are calculated on an adjusted consolidated basis of restricted subsidiaries only. These are a maximum ratio of funded debt to capitalization of 65% and a minimum interest coverage ratio of 2.25x. The Corporation must also comply with a consolidated interest coverage ratio to incur additional debt. Funded debt is defined as liabilities as per the consolidated balance sheet, including guarantees and liens granted in respect of funded debt of another person but excluding other long-term liabilities, trade accounts payable, obligations under operating leases and other accrued obligations (2018 - $1,549 million; 2017 - $1,307 million). The capitalization ratio is calculated as “Shareholders' equity” as shown in the consolidated balance sheet plus the funded debt. Shareholders' equity is adjusted to add back the effect of IFRS adjustments as at December 31, 2010, in the amount of $208 million. The interest coverage ratio is defined as operating income before depreciation and amortization (OIBD) to financing expense. The OIBD is defined as net earnings of the last four quarters plus financing expense, income taxes, amortization and depreciation, expense for stock options and dividends received from a person who is not a credit party (2018 - $321 million; 2017 - $296 million). Excluded from net earnings are the share of results of equity investments and gains or losses from non-recurring items. Financing expense is calculated as interest and financial charges determined in accordance with IFRS plus any capitalized interest, but excluding the amortization of deferred financing costs, up-front and financing costs and unrealized gains or losses arising from hedging agreements. It also excludes any gains or losses on the translation of long-term debt denominated in a foreign currency. The consolidated interest coverage ratio to incur additional debt is calculated as defined in the Senior notes indentures dated June 19, 2014 and May 19, 2015.

As at December 31, 2018, the funded debt-to-capitalization ratio stood at 47.44% and the interest coverage ratio was 4.43x. The Corporation is in compliance with the ratio requirements of its lenders.

The Corporation's credit facility is subject to terms and conditions for loans of this nature, including limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders.

The unsecured senior notes are subject to customary covenants restricting the Corporation's ability to, among other things, incur additional debt, pay dividends and make other restricted payments as defined in the Indentures dated June 19, 2014 and May 19, 2015.

The Corporation historically invests between $150 million and $250 million annually on purchases of property, plant and equipment, excluding major strategic projects. These amounts are carefully reviewed during the course of the year in relation to operating results and strategic actions approved by the Board of Directors. These investments, combined with annual maintenance, enhance the stability of the Corporation's business units and improve cost competitiveness through new technology and improved process procedures.

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The Corporation has an annual share redemption program in place to redeem its outstanding common shares when the market price is judged appropriate by Management. In addition to limitations on the normal course issuer bid, the Corporation's ability to redeem common shares is limited by its senior notes indenture.

B. ISSUED AND OUTSTANDING

The authorized capital stock of the Corporation consists of an unlimited number of common shares without nominal value and an unlimited number of Class A and B shares issuable in series without nominal value. Over the past two years, the common shares have fluctuated as follows:

		2018		2017	
	NOTE	NUMBER OF COMMON SHARES	IN MILLIONS OF CANADIAN DOLLARS	NUMBER OF COMMON SHARES	IN MILLIONS OF CANADIAN DOLLARS
Balance - beginning of year		**94,987,958**	**492**	94,526,516	487
Common shares issued on exercise of stock options	18(d)	**714,937**	**6**	461,442	5
Redemption of common shares	18(c)	**(1,539,380)**	**(8)**	—	—
Balance - end of year		**94,163,515**	**490**	94,987,958	492

C. REDEMPTION OF COMMON SHARES

In 2018, in the normal course of business, the Corporation renewed its redemption program of a maximum of 1,903,282 common shares with the Toronto Stock Exchange, said shares representing approximately 2% of issued and outstanding common shares. The redemption authorization is valid from March 19, 2018 to March 18, 2019. In 2018, the Corporation redeemed 1,539,380 common shares under this program for an amount of $20 million (2017 - nil common share).

D. COMMON SHARE ISSUANCE

The Corporation issued 714,937 common shares upon the exercise of options for an amount of $5 million (2017 - $4 million for 461,442 common shares issued).

E. NET EARNINGS PER COMMON SHARE

The basic and diluted net earnings per common share are calculated as follows:

	2018	2017
Net earnings available to common shareholders (in millions of Canadian dollars)	**59**	507
Weighted average number of basic common shares outstanding (in millions)	**95**	95
Weighted average number of diluted common shares outstanding (in millions)	**97**	98
Basic net earnings per common share (in Canadian dollars)	**$ 0.62**	$ 5.35
Diluted net earnings per common share (in Canadian dollars)	**$ 0.58**	$ 5.19

As at December 31, 2018, 400,691 stock options have an antidilutive effect (2017 - 240,880). As of February 27, 2019, no common share had been redeemed by the Corporation since the beginning of the financial year.

F. DETAILS OF DIVIDENDS DECLARED PER COMMON SHARE ARE AS FOLLOWS

	2018	2017
Dividends declared per common share	**$ 0.16**	$ 0.16

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NOTE 19
STOCK-BASED COMPENSATION

a. Under the terms of a share option plan adopted on December 15, 1998, amended on March 15, 2013, and approved by Shareholders on May 8, 2013, a remaining balance of 1,856,379 common shares is specifically reserved for issuance to officers and key employees of the Corporation. Each option will expire at a date not to exceed 10 years following the grant date of the option. The exercise price of an option shall not be lower than the market value of the share at the date of grant, determined as the average of the closing price of the share on the Toronto Stock Exchange on the five trading days preceding the date of grant. The terms for exercising the options are 25% of the number of shares under option within 12 months after the first anniversary date of grant, and up to an additional 25% every 12 months after the second, third and fourth anniversaries of grant date. Options cannot be exercised if the market value of the share at exercise date is lower than the book value at the date of grant. Options exercised are settled in shares. The stock-based compensation cost related to these options amounted to $1 million in 2018 (2017 - $1 million).

Changes in the number of options outstanding as at December 31, 2018 and 2017 are as follows:

	2018		2017	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE ($)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE ($)
Beginning of year	**4,990,120**	**6.35**	5,216,063	6.16
Granted	**175,749**	**12.39**	240,880	14.28
Exercised	**(714,937)**	**7.00**	(461,442)	8.28
Forfeited	**(41,574)**	**10.79**	(5,381)	9.75
End of year	**4,409,358**	**6.45**	4,990,120	6.35
Options vested - end of year	**3,807,511**	**5.66**	4,170,259	5.63

The weighted average share price at the time of exercise of the options was $12.89 (2017 - $14.23).

The following options were outstanding as at December 31, 2018:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE		
YEAR GRANTED	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE ($)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE ($)	EXPIRATION DATE
2009	**782,017**	**3.92**	**782,017**	**3.92**	**2019**
2010	**438,124**	**6.43**	**438,124**	**6.43**	**2020**
2011	**489,997**	**6.26**	**489,997**	**6.26**	**2020 - 2021**
2012	**792,125**	**4.46**	**792,125**	**4.46**	**2020 - 2022**
2013	**410,282**	**5.18**	**410,282**	**5.18**	**2020 - 2023**
2014	**407,599**	**6.10**	**407,599**	**6.10**	**2020 - 2024**
2015	**368,421**	**7.66**	**271,267**	**7.66**	**2020 - 2025**
2016	**320,102**	**9.75**	**159,433**	**9.75**	**2020 - 2026**
2017	**226,720**	**14.28**	**56,667**	**14.28**	**2027**
2018	**173,971**	**12.39**	**—**	**—**	**2028**
	4,409,358		**3,807,511**		

FAIR VALUE OF THE SHARE OPTIONS GRANTED

Options were priced using the Black-Scholes option pricing model. Expected volatility is based on the historical share price volatility over the past six years. The following weighted average assumptions were used to estimate the fair value of $3.91 (2017 - $4.22) as at the date of grant of each option issued to employees:

	2018	2017
Grant date share price	**$ 12.57**	$ 14.26
Exercise price	**$ 12.39**	$ 14.28
Risk-free interest rate	**2.3%**	1.77%
Expected dividend yield	**1.27%**	1.12%
Expected life of options	**6 years**	6 years
Expected volatility	**32%**	32%

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b. The Corporation offers its Canadian employees a share purchase plan for its common shares. Employees can voluntarily contribute up to a maximum of 5% of their salary and, if certain conditions are met, the Corporation will contribute 25% of the employee's contribution to the plan.

The shares are purchased on the market on a predetermined date each month. For the year ended December 31, 2018, the Corporation's contribution to the plan amounted to $1 million (2017 - $1 million).

c. The Corporation has a Performance Share Unit (PSU) Plan for the benefit of officers and key employees, allowing them to receive a portion of their annual compensation in the form of PSUs. A PSU is a notional unit equivalent in value to the Corporation's common share. Periodically, the number of PSUs forming part of the award shall be adjusted depending upon the three-year average return on capital employed of the Corporation (ROCE). Such adjusted number shall be obtained by multiplying the number of PSUs forming part of the award by the applicable multiplier based on the ROCE level. Participants are entitled to receive the payment of their PSUs in the form of cash based on the average price of the Corporation's common shares as traded on the open market during the five days before the vesting date.

The PSUs vest over a period of two years starting on the award date. The expense and the related liability are recorded during the vesting period. The liability is adjusted periodically to reflect any variation in the market value of the common shares, the expected average ROCE and the passage of time. As at December 31, 2018, the Corporation had a total of 520,070 PSUs outstanding (2017 - 581,785 PSUs), for a fair value of less than $1 million (2017- $1 million). In 2018, the Corporation made payments totaling $2 million in relation to PSUs (2017 - $7 million).

d. The Corporation has a Deferred Share Unit Plan for the benefit of its external directors, officers and key employees, allowing them to receive all or a portion of their annual compensation in the form of Deferred Share Units (DSUs). A DSU is a notional unit equivalent in value to the Corporation's common share. Upon resignation from the Board of Directors, participants are entitled to receive the payment of their cumulated DSUs in the form of cash based on the average price of the Corporation's common shares as traded on the open market during the five days before the date of the participant's resignation.

The DSU expense and the related liability are recorded at the grant date. The liability is adjusted periodically to reflect any variation in the market value of the common shares. As at December 31, 2018, the Corporation had a total of 409,757 DSUs outstanding (2017 - 247,276 DSUs), representing a long-term liability of $6 million (2017 - $4 million). On January 15, 2019, the Corporation issued 61,030 DSUs .

NOTE 20
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(in millions of Canadian dollars)	**2018**	2017
Foreign currency translation, net of hedging activities and related income tax of $16 million (December 31, 2017 - $12 million)	**2**	(30)
Unrealized gain (loss) arising from foreign exchange forward contracts designated as cash flow hedges, net of related income taxes of nil (December 31, 2017 - nil)	**(1)**	1
Unrealized loss arising from commodity derivative financial instruments designated as cash flow hedges, net of related income taxes of nil (December 31, 2017 - $2 million)	**—**	(4)
Unrealized gain arising from interest rate swaps designated as cash flow hedges, net of related income taxes of nil (December 31, 2017 - nil)	**1**	—
Unrealized loss on available-for-sale financial assets, net of related income taxes of nil (December 31, 2017 - nil)	**—**	(2)
	2	(35)

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NOTE 21
REVENUE

Information by geographic segment is as follows:

SALES

	Canada		United States		Italy		Other countries		Total	
(in millions of Canadian dollars)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Packaging Products										
Containerboard	**1,118**	1,089	**720**	558	**—**	—	**2**	5	**1,840**	1,652
Boxboard Europe	**—**	—	**—**	—	**313**	279	**620**	559	**933**	838
Specialty Products	**356**	394	**234**	246	**2**	2	**67**	61	**659**	703
Intersegment sales	**(84)**	(104)	**(5)**	(1)	**—**	—	**—**	—	**(89)**	(105)
	1,390	1,379	**949**	803	**315**	281	**689**	625	**3,343**	3,088
Tissue Papers	**372**	335	**980**	933	**—**	—	**—**	—	**1,352**	1,268
Intersegment sales and Corporate Activities	**(34)**	(30)	**(12)**	(11)	**—**	(5)	**—**	11	**(46)**	(35)
	1,728	1,684	**1,917**	1,725	**315**	276	**689**	636	**4,649**	4,321

NOTE 22
COST OF SALES BY NATURE

(in millions of Canadian dollars)	**2018**	2017
Raw materials	**1,713**	1,776
Wages and employee benefits expenses	**754**	689
Energy	**302**	259
Delivery	**487**	356
Depreciation and amortization	**244**	215
Other	**497**	475
	3,997	3,770

SELLING AND ADMINISTRATIVE EXPENSES BY NATURE

(in millions of Canadian dollars)	**2018**	2017
Wages and employee benefits expenses	**314**	287
Information technology	**29**	24
Publicity and marketing	**17**	16
Other	**50**	51
	410	378

NOTE 23
EMPLOYEE BENEFITS EXPENSES

(in millions of Canadian dollars)	NOTE	**2018**	2017
Wages and employee benefits expenses	22	**1,068**	976
Share options granted to directors and employees	19(a)	**1**	1
Pension costs - defined benefit plans	16	**8**	7
Pension costs - defined contribution plans	16	**22**	21
Post-employment benefits other than defined benefit pension plans	16	**6**	4
		1,105	1,009

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KEY MANAGEMENT COMPENSATION

Key management includes the members of the Board of Directors, Presidents and Vice Presidents of the Corporation. The compensation paid or payable to key management for their services is shown below:

(in millions of Canadian dollars)	**2018**	2017
Salaries and other short-term benefits	**9**	11
Post-employment benefits	**1**	1
Share-based payments	**4**	6
	14	18

NOTE 24

GAIN ON ACQUISITIONS, DISPOSALS AND OTHERS

(in millions of Canadian dollars)	**2018**	2017
Gain on business acquisition	**(4)**	—
Gain on disposal of assets	**(67)**	(8)

2018

The Specialty Products segment generated a gain of $4 million on the business combination of Urban Forest Products LLC, Clarion Packaging LLC and Falcon Packaging LLC. See note 5 for details.

The Containerboard segment completed the sale of the building and land of its plant located in Maspeth, New York, USA for US$69 million ($86 million) net of transaction fees of US$3 million ($4 million). An amount of US$4 million ($5 million) was put in escrow and will be released to the Corporation in the third quarter of 2020 if certain conditions are met. Since the conditions are not under the Corporation's control, the gain on this amount is deferred until the conditions are met. The transaction resulted in a gain of $66 million, net of asset retirement obligation costs of $2 million. In the wake of the sale of the plant, the Containerboard segment also sold equipments for US$2 million ($2 million) which generated a gain of $1 million.

2017

The Containerboard Packaging segment sold a piece of land in Ontario, Canada, and recorded a gain of $7 million.

The Corporate Activities realized a $1 million gain from the sale of some assets.

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NOTE 25
IMPAIRMENT CHARGES (REVERSALS) AND RESTRUCTURING COSTS (GAINS)

A. IMPAIRMENT CHARGES (REVERSALS) ON PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS WITH FINITE USEFUL LIFE AND OTHER ASSETS

The Corporation recorded impairment charges totaling $75 million in 2018 and $11 million in 2017. The recoverable amount of CGUs was determined using a fair value less cost of disposal sell model based on the income approach, unless otherwise indicated. Level 2 inputs are used to measure fair value. Impairments are detailed as follows:

							2018
	PACKAGING PRODUCTS						
(in millions of Canadian dollars)	CONTAINER-BOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	SUB-TOTAL	TISSUE PAPERS	CORPORATE ACTIVITIES	TOTAL
Property, plant and equipment	**—**	**—**	**—**	**—**	**74**	**—**	**74**
Intangible assets with finite useful life and other assets	**—**	**—**	**—**	**—**	**1**	**—**	**1**
	—	**—**	**—**	**—**	**75**	**—**	**75**

							2017
	PACKAGING PRODUCTS						
(in millions of Canadian dollars)	CONTAINER-BOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	SUB-TOTAL	TISSUE PAPERS	CORPORATE ACTIVITIES	TOTAL
Property, plant and equipment	—	—	—	—	2	—	2
Intangible assets with finite useful life and other assets	11	—	—	11	—	(2)	9
	11	—	—	11	2	(2)	11

2018

The Tissue Papers segment recorded impairment charges totaling $75 million on the assets of four CGUs, as their recoverable amount was lower than their carrying amount. Sustained production inefficiencies led to insufficient profitability to support the carrying value of the assets. Recoverable amount of the assets was based on their fair value less cost of disposal.

2017

The Containerboard Packaging segment recorded an impairment charge of $11 million on deferred revenues related to the management agreement of Greenpac since the beginning of the mill construction, which was recorded in “Other assets”. Following the acquisition and consolidation of Greenpac described in Note 5, expected future cash flows related to this asset did not materialize on a consolidated basis.

The Tissue Papers segment incurred a $2 million impairment charge on unused assets following the reassessment of its recoverable amount based on estimated selling price of the assets.

The Corporate Activities recorded a $2 million reversal of impairment following the collection of a note receivable that had been written off in previous years.

B. GOODWILL AND OTHER INDEFINITE USEFUL LIFE INTANGIBLE ASSETS

Allocation of goodwill and other indefinite useful life intangible assets is as follows:

- Containerboard Packaging segment goodwill of $489 million is allocated to the Containerboard segment;
- Specialty Products segment goodwill is allocated to all recovery and recycling sub-segment for $13 million and the partitioning activities sub-segment for $3 million;
- Tissue Papers segment goodwill of $36 million is allocated to the Tissue Papers segment;
- Boxboard Europe segment goodwill of $8 million is allocated to the segment;
- Water rights of $6 million are allocated to the Boxboard Europe segment.

Annually, the Corporation must test all of its goodwill for impairment.

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The Corporation tested its Containerboard Packaging segment goodwill for impairment. As a result of this impairment test, the Corporation concluded that the recoverable amount of the segment was in excess of $1,676 million over its carrying amount, thus no impairment charge was necessary. With all other variables held constant, a decrease of 13% in the terminal OIBD margin would reduce the excess of $1,676 million to nil whereas a rise in the discounting rate of 11% would also reduce the excess to nil.

The Corporation also tested for impairment the goodwill allocated to the recovery and recycling sub-segment. The impairment test resulted in the recoverable amount of the sub-segment being $19 million over its carrying amount, thus no impairment charge was necessary. With all other variables held constant, a decrease of 1% in the terminal OIBD margin would reduce to nil the excess of $19 million whereas a rise in the discounting rate of 1% would also reduce the excess to nil.

The Corporation tested its Tissue Papers segment goodwill for impairment. As a result of this impairment test, the Corporation concluded that the recoverable amount of the segment was in excess of $114 million over its carrying amount, thus no impairment charge was necessary. With all other variables held constant, a decrease in terminal OIBD margin of 1% would reduce the excess of $114 million to nil.

The Corporation applied the income approach in determining fair value less cost of disposal and used the following key assumptions (level 2 inputs):

	CONTAINERBOARD PACKAGING	SPECIALTY PRODUCTS	TISSUE PAPERS
Discounting rate	9.5%	9.5%	10.5%
Terminal exchange rate (CA$/US$)	$ 1.24	$ 1.24	$ 1.24
Terminal OIBD margin	16.2%	5.4%	9.2%

C. RESTRUCTURING COSTS (GAINS)

Restructuring costs (gains) are detailed as follows:

(in millions of Canadian dollars)	**2018**	2017
Containerboard	**4**	2
Boxboard Europe	**—**	1
Specialty Products	**(2)**	—
Tissue Papers	**—**	2
Corporate Activities	**—**	1
	2	6

2018

The Containerboard Packaging segment ceased activities at its Maspeth plant. A withdrawal liability from the multi-employer pension plan of $2 million was recorded following the departure of the last employees. As well, costs totaling $1 million were incurred to remit the building to the new owner.

The Containerboard Packaging segment incurred a $1 million charge related to severances for the closure in December 2018 of two sheets plants in Ontario.

The Specialty Products segment recorded a gain of $2 million from the dismantling of a building of a plant closed in the previous years.

2017

The Containerboard Packaging segment recorded severance expenses totaling $2 million following the announcement of its New York converting plant closure scheduled and realized in 2018.

The Boxboard Europe segment recorded severances costs of $1 million following the restructuring of its sales activities.

The Tissue Papers segment incurred $2 million of restructuring costs following the review of provisions related to the transfer of the converting operations of the Toronto plant to other Tissue segment sites announced in 2016.

The Corporate Activities recorded a severance cost of $1 million following the closure of a sales division.

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NOTE 26
ADDITIONAL INFORMATION

A. CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS ARE DETAILED AS FOLLOWS:

(in millions of Canadian dollars)	**2018**	2017
Accounts receivable	**46**	11
Current income tax assets	**(9)**	—
Inventories	**(26)**	(46)
Trade and other payables	**(5)**	(51)
Current income tax liabilities	**6**	(1)
	12	(87)

B. FINANCING EXPENSE AND INTEREST EXPENSE ON EMPLOYEE FUTURE BENEFITS

(in millions of Canadian dollars)	**2018**	2017
Interest on long-term debt	**77**	83
Interest income	**—**	(3)
Amortization of financing costs	**3**	3
Other interest and banking fees	**4**	3
Interest expense on employee future benefits and other liabilities	**15**	11
	99	97

C. TOTAL LIABILITIES FROM FINANCING ACTIVITIES

(in millions of Canadian dollars)	CASH AND CASH EQUIVALENT	BANK LOANS AND ADVANCES	LONG-TERM DEBT	NET DEBT
As at January 1, 2017	(62)	28	1,566	1,532
Cash flow				
Change in cash and cash equivalents	(25)	—	—	(25)
Bank loans and advances	—	8	—	8
Change in credit facilities	—	—	114	114
Repurchase of unsecured senior notes	—	—	(257)	(257)
Increase in other long-term debt	—	—	11	11
Payments of other long-term debt	—	—	(47)	(47)
Non-cash changes				
Business combinations	—	—	257	257
Foreign exchange loss on long-term debt and financial instruments	—	—	(62)	(62)
Capital lease acquisitions and included in other debts and liabilities	—	—	11	11
Amortization of financing costs	—	—	2	2
Write off of unamortized financing costs following repurchase of unsecured senior notes	—	—	3	3
Other	—	—	(1)	(1)
Exchange differences	(2)	(1)	(21)	(24)
As at December 31, 2017	(89)	35	1,576	1,522
Cash flow				
Change in cash and cash equivalents	**(28)**	**—**	**—**	**(28)**
Bank loans and advances	**—**	**(22)**	**—**	**(22)**
Change in credit facilities	**—**	**—**	**(126)**	**(126)**
Increase in term loan	**—**	**—**	**235**	**235**
Increase in other long-term debt	**—**	**—**	**66**	**66**
Payments of other long-term debt	**—**	**—**	**(81)**	**(81)**
Non-cash changes				
Business combinations	**—**	**2**	**25**	**27**
Foreign exchange loss on long-term debt and financial instruments	**—**	**—**	**65**	**65**
Capital lease acquisitions and included in other debts and liabilities	**—**	**—**	**70**	**70**
Amortization of financing costs	**—**	**—**	**2**	**2**
Exchange differences	**(6)**	**1**	**44**	**39**
As at December 31, 2018	**(123)**	**16**	**1,876**	**1,769**

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NOTE 27
FINANCIAL INSTRUMENTS

27.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

The classification of financial instruments as at December 31, 2018 and 2017, along with the respective carrying amounts and fair values, is as follows:

(in millions of Canadian dollars)	NOTE	2018		2017	
		CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets at fair value through profit or loss					
Derivatives	26.4	**23**	**23**	27	27
Equity investments		**1**	**1**	1	1
Financial liabilities at fair value through profit or loss					
Derivatives	26.4	**(12)**	**(12)**	(4)	(4)
Financial liabilities at amortized cost					
Long-term debt		**(1,876)**	**(1,871)**	(1,576)	(1,626)
Derivatives designated as hedge					
Asset derivatives		**7**	**7**	4	4
Liability derivatives		**(24)**	**(24)**	(33)	(33)

27.2 DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as at the measurement date.

(i) The fair value of cash and cash equivalents, accounts receivable, notes receivable, bank loans and advances, trade and other payables and provisions approximate their carrying amounts due to their relatively short maturities.
(ii) The fair value of investment in shares is based on observable market data and is quoted on the Toronto Stock Exchange and classified as level 1.
(iii) The fair value of long-term debt and some other liabilities is based on observable market data and on the calculation of discounted cash flows. Discount rates were determined based on local government bond yields adjusted for the risks specific to each of the borrowings and for the credit market liquidity conditions and are classified as levels 1 and 3.

27.3 HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The following table presents information about the Corporation's financial assets and financial liabilities measured at fair value on a recurring basis as at December 31, 2018 and 2017 and indicates the fair value hierarchy of the Corporation's valuation techniques to determine such fair value. Three levels of inputs that may be used to measure fair value are:

Level 1 - Quoted prices in active markets for identical assets or liabilities
Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3 - Inputs that are generally unobservable and typically reflect Management's estimates of assumptions that market participants would use in pricing the asset or liability.

(in millions of Canadian dollars)	2018			
	CARRYING AMOUNT	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Financial assets				
Equity investments	**1**	**1**	**—**	**—**
Derivative financial assets	**30**	**—**	**30**	**—**
	31	**1**	**30**	**—**
Financial liabilities				
Derivative financial liabilities	**(36)**	**—**	**(36)**	**—**
	(36)	**—**	**(36)**	**—**

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(in millions of Canadian dollars)	CARRYING AMOUNT	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
				2017
Financial assets				
Equity investments	1	1	—	—
Derivative financial assets	31	—	31	—
	32	1	31	—
Financial liabilities				
Derivative financial liabilities	(37)	—	(37)	—
	(37)	—	(37)	—

27.4 FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department and a management committee acting under policies approved by the Board of Directors. They identify, evaluate and hedge financial risks in close cooperation with the business units. The Board provides guidance for overall risk management, covering specific areas, such as foreign exchange risk, interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Summary

(in millions of Canadian dollars)		ASSETS			LIABILITIES		**2018**
RISK	NOTE	SHORT-TERM	LONG-TERM	TOTAL	SHORT-TERM	LONG-TERM	TOTAL
Currency risk	26.4 A) (i)	**6**	**—**	**6**	**(18)**	**(12)**	**(30)**
Price risk	26.4 A) (ii)	**4**	**19**	**23**	**(2)**	**—**	**(2)**
Interest risk	26.4 A) (iii)	**—**	**1**	**1**	**(1)**	**(2)**	**(3)**
Other risk	26.4 iv)	**—**	**—**	**—**	**(1)**	**—**	**(1)**
		10	**20**	**30**	**(22)**	**(14)**	**(36)**

(in millions of Canadian dollars)		ASSETS			LIABILITIES		2017
RISK	NOTE	SHORT-TERM	LONG-TERM	TOTAL	SHORT-TERM	LONG-TERM	TOTAL
Currency risk	26.4 A) (i)	5	1	6	(10)	(15)	(25)
Price risk	26.4 A) (ii)	4	21	25	(7)	(1)	(8)
Interest risk	26.4 A) (iii)	—	—	—	(2)	(2)	(4)
		9	22	31	(19)	(18)	(37)

A. MARKET RISK

(i) Currency risk

The Corporation operates internationally and is exposed to foreign exchange risks arising from various currencies as a result of its export of goods produced in Canada, the United States, France, Italy, Spain and Germany. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations. These risks are partially covered by purchases and debt.

The Corporation manages the foreign exchange exposure by entering into various foreign exchange forward contracts and currency option instruments related to anticipated sales, purchases, interest expense and repayment of long-term debt. Management has implemented a policy for managing foreign exchange risk against its functional currency. The Corporation's risk management policy is to hedge 25% to 90% of anticipated cash flows in each major foreign currency for the next 12 months and to hedge 0% to 75% for the subsequent 24 months. The Corporation may designate these foreign exchange forward contracts as a cash flow hedge of future anticipated sales, cost of sales, interest expense and repayment of long-term debt denominated in foreign currencies. Gains or losses from these derivative financial instruments designated as hedges are recorded in “Accumulated other comprehensive income” net of related income taxes and are reclassified to earnings

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as adjustments to sales, cost of sales, interest expense or foreign exchange loss (gain) on long-term debt in the period in which the respective hedged item affected earnings.

In 2018, approximately 22% of sales from Canadian operations were made to the United States and 13% of sales from European operations were made in countries whose currencies were other than the euro.

The following table summarizes the Corporation's commitments to buy and sell foreign currencies as at December 31, 2018 and 2017:

					2018
	EXCHANGE RATE	MATURITY	NOTIONAL AMOUNT (IN MILLIONS)		FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Repayment of long-term debt					
Derivatives at fair value through profit or loss and classified in Foreign exchange loss (gain) on long-term debt:					
Currency option sold to buy US$ for CAN$	**1.0225**	**January 2020**	**US$**	**200**	**—**
Currency option instruments to sell US$ for CAN$	**1.3290**	**July 2023**	**US$**	**21 to 132**	**(6)**
Cross-currency swap US$ for CAN$	**1.3290**	**July 2023**	**US$**	**102**	**(2)**
					(8)
Net investment hedge					
Cross-currency swap CAN$ for €	**1.4824**	**December 2019**	**€**	**145**	**(11)**
Forecasted sales and purchases					
Derivatives at fair value through profit or loss and classified in Loss on derivative financial instruments:					
Foreign exchange forward contracts to sell US$ for CAN$	**1.3087**	**0 to 12 months**	**US$**	**15**	**(1)**
Foreign exchange forward contracts to buy € for US$	**1.1653**	**0 to 12 months**	**€**	**2**	**—**
Foreign exchange forward contracts to sell US$ for CAN$	**1.3188**	**13 to 36 months**	**US$**	**15**	**—**
Currency option instruments to sell US$ for CAN$	**1.3395**	**0 to 12 months**	**US$**	**33 to 50**	**(1)**
Currency option instruments to buy € for US$	**1.0985**	**0 to 12 months**	**€**	**7**	**—**
Currency option instruments to sell US$ for CAN$	**1.3269**	**13 to 36 months**	**US$**	**30 to 68**	**(3)**
					(5)
					(24)

During the year, the Corporation paid $1 million related to the settlement of a portion of its 2020 derivatives related to repayment of long-term debt.

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			2017	
	EXCHANGE RATE	MATURITY	NOTIONAL AMOUNT (IN MILLIONS)	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Repayment of long-term debt				
Derivatives at fair value through profit or loss and classified in Foreign exchange loss (gain) on long-term debt:				
Foreign exchange forward contracts to buy US$ for CAN$	1.06	January 2020	US$ 50	9
Currency option sold to sell US$ for CAN$	1.15	January 2020	US$ 100	(11)
Currency option sold to sell US$ for CAN$	1.0225	January 2020	US$ 200	(1)
Cross-currency swap US$ for CAN$	1.33	July 2023	US$ 102	(12)
				(15)
Net investment hedge				
Cross-currency swap CAN$ for €	1.4263	December 2018	€ 95	(6)
Forecasted sales				
Derivatives at fair value through profit or loss and classified in Loss on derivative financial instruments:				
Foreign exchange forward contracts to buy US$ for CAN$	1.3260	0 to 12 months	US$ 10	1
Foreign exchange forward contracts to buy US$ for CAN$	1.3260	13 to 24 months	US$ 5	—
Currency option instruments to sell US$ for CAN$	1.3171	0 to 12 months	US$ 48 to 70	2
Currency option instruments to sell US$ for CAN$	1.3214	13 to 36 months	US$ 43 to 80	—
				3
				(18)

In 2017, the Corporation offset $9 million in derivative assets against $11 million in derivative liabilities as we intend to settle the derivatives on a net basis with one counterparty. During the year, the Corporation also paid $12 million related to the settlement of a portion of its 2017 derivatives related to repayment of long-term debt.

The fair values of foreign exchange forward contracts and currency options are determined using the discounted value of the difference between the value of the contract at expiry, calculated using the contracted exchange rate and the exchange rate the financial institution would use if it renegotiated the same contract under the same conditions as at the consolidated balance sheet date. The discount rates are adjusted for the credit risk of the Corporation or of the counterparty, as applicable. When determining credit risk adjustments, the Corporation considers master netting agreements, if applicable.

In 2018, if the Canadian dollar had strengthened by $0.01 against the US dollar on average for the year with all other variables held constant, operating income before depreciation and amortization for the year would have been approximately $3 million lower. This is based on the net exposure of total US sales less US purchases of the Corporation's Canadian operations and operating income before depreciation and amortization of the Corporation's US operations, but excludes the effect of this change on the denominated working capital components. The interest expense would have remained relatively stable.

In 2018, if the Canadian dollar had strengthened by $0.02 against the euro with all other variables held constant, operating income before depreciation and amortization for the year would have been approximately $1 million lower following the translation of operating income of the Corporation's European operations.

CURRENCY RISK ON TRANSLATION OF SELF-SUSTAINING FOREIGN SUBSIDIARIES

The Corporation has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. The Corporation may designate part of its long-term debt denominated in foreign currencies as a hedge of the net investment in self-sustaining foreign subsidiaries. Gains or losses resulting from the translation to Canadian dollars of long-term debt denominated in foreign currencies and designated as net investment hedges are recorded in “Accumulated other comprehensive income”, net of related income taxes.

The table below shows the effect on consolidated equity of a 10% change in the value of the Canadian dollar against the US dollar and the euro as at December 31, 2018 and 2017. The calculation includes the effect of currency hedges of net investment in US foreign entities and assumes that no changes occurred other than a single currency exchange rate movement.

The exposures used in the calculations are the foreign currency-denominated equity and the hedging level as at December 31, 2018 and 2017, with the hedging instruments being the long-term debt denominated in US dollars.

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Consolidated Shareholders' equity: Currency effect before tax of a 10% change:

	2018			2017		
(in millions of Canadian dollars)	BEFORE HEDGES	HEDGES	NET IMPACT	BEFORE HEDGES	HEDGES	NET IMPACT
10% change in the CAN$/US$ rate	**82**	**82**	**—**	75	75	—
10% change in the CAN$/euro rate	**19**	**17**	**2**	16	14	2

(ii) Price risk

The Corporation is exposed to commodity price risk on old corrugated containers, commercial pulp, electricity and natural gas. The Corporation uses derivative commodity contracts to help manage its production costs. The Corporation may designate these derivatives as cash flow hedges of anticipated purchases of raw material and energy. Gains or losses from these derivative financial instruments designated as hedges are recorded in "Accumulated other comprehensive income" net of related income taxes and are reclassified to earnings as adjustments to "Cost of sales" in the same period, as the respective hedged item affects earnings.

The fair value of these contracts is as follows:

			2018
	QUANTITY	MATURITY	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Forecasted purchases			
Derivatives designated as held for trading and reclassified in "Cost of sales"			
Electricity	**39,420 MW**	**2019**	**—**
Derivatives designated as cash flow hedges and reclassified in "Cost of sales" (effective portion)			
Natural gas:			
Canadian portfolio	**364,800 GJ**	**2019**	**—**
US portfolio	**1,217,640 mmBtu**	**2019 to 2023**	**(1)**
			(1)

			2017
	QUANTITY	MATURITY	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Forecasted purchases			
Derivatives designated as held for trading and reclassified in "Cost of sales"			
Electricity	197,100 MW	2018 to 2019	(1)
Derivatives designated as cash flow hedges and reclassified in "Cost of sales" (effective portion)			
Natural gas:			
Canadian portfolio	3,095,029 GJ	2018 to 2022	(5)
US portfolio	4,847,660 mmBtu	2018 to 2023	(1)
			(7)

In 2013, the Corporation entered into an agreement to purchase steam. The agreement includes an embedded derivative and the fair value as at December 31, 2018 was an asset of $8 million (2017 - $8 million). Greenpac also has an agreement to purchase steam that includes an embedded derivative with a positive fair value of $15 million as at December 31, 2018 (2017 - $16 million).

The fair value of derivative financial instruments other than options is established utilizing a discounted future expected cash flows method. Future expected cash flows are determined by reference to the forward price or rate prevailing on the assessment date of the underlying financial index (exchange or interest rate or commodity price) according to the contractual terms of the instrument. Future expected cash flows are discounted at an interest rate reflecting both the maturity of each flow and the credit risk of the party to the contract for which it represents a liability (subject to the application of relevant credit support enhancements). The fair value of derivative financial instruments that represent options is established utilizing similar methods that reflect the impact of the potential volatility of the financial index underlying the option on future expected cash flows.

The table below shows the effect of changes in the price of old corrugated containers, natural gas and electricity as at December 31, 2018 and 2017. The calculation includes the effect of price hedges of these commodities and assumes that no changes occurred other than a single change in price.

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The exposures used in the calculations are the commodity consumption and the hedging level as at December 31, 2018 and 2017, with the hedging instruments being derivative commodity contracts.

Consolidated commodity consumption: Price change effect before tax:

	2018			2017		
(in millions of Canadian dollars[1])	BEFORE HEDGES	HEDGES	NET IMPACT	BEFORE HEDGES	HEDGES	NET IMPACT
US$15/s.t. change in brown grades recycled paper price	**49**	**—**	**49**	44	—	44
US$30/s.t. change in commercial pulp price	**10**	**—**	**10**	9	—	9
US$1/mmBTU. change in natural gas price	**12**	**2**	**10**	10	5	5
US$1/MWh change in electricity price	**2**	**—**	**2**	2	—	2

1 Sensitivity calculated with an exchange rate of 1.36 CAN$/US$ for 2018 and 1.26 CAN$/US$ for 2017.

(iii) Interest rate risk

The Corporation has no significant interest-bearing assets.

The Corporation's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Corporation to cash flow interest rate risk. Borrowings issued at fixed rates expose the Corporation to fair value interest rate risk.

When appropriate, the Corporation analyzes its interest rate risk exposure. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Corporation calculates the impact on earnings of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. As at December 31, 2018, approximately 28% (2017 - 29%) of the Corporation's long-term debt was at variable rates.

Based on the outstanding long-term debt as at December 31, 2018, the impact on interest expense of a 1% change in rate would be approximately $5 million (impact on net earnings is approximately $4 million).

The Corporation holds interest rate swaps through RDM and Greenpac. RDM swaps are contracted to fix the interest rate on a notional amount of €59 million and are maturing from 2020 to 2024. Greenpac swaps are contracted to fix the interest rate on a notional amount of US$66 million maturing in 2020. Some of these swaps have decreasing notional amount to match expected debt level. Fair value of these agreements is a liability of $2 million as at December 31, 2018 (December 31, 2017 - $3 million).

(iv) Loss (gain) on derivative financial instruments is as follows:

(in millions of Canadian dollars)	2018	2017
Unrealized loss (gain) on derivative financial instruments	**9**	(8)
Realized loss (gain) on derivative financial instruments	**(1)**	2
	8	(6)

B. CREDIT RISK

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Corporation reduces this risk by dealing with credit-worthy financial institutions.

The Corporation is exposed to credit risk on the accounts receivable from its customers. In order to reduce this risk, the Corporation's credit policies include the analysis of the financial position of its customers and the regular review of their credit limits. In addition, the Corporation believes there is no particular concentration of credit risk due to the geographic diversity of customers and the procedures for the management of commercial risks. Derivative financial instruments include an element of credit risk should the counterparty be unable to meet its obligations.

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less loss allowance. An allowance for doubtful accounts of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Each trade receivable balance is evaluated separately to identify impairment. The amount of the allowance for doubtful accounts is the difference between the asset's carrying amount and the present value of estimated cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recorded in the consolidated statement of earnings in “Selling and administrative expenses”. When a trade receivable is not collectable, it is written off against the loss allowance.

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Subsequent recoveries of amounts previously written off are credited against “Selling and administrative expenses” in the consolidated statement of earnings.

Loans and notes receivables from business disposals are recognized at fair value. There is no past due amount as at December 31, 2018.

C. LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at December 31, 2018 and 2017:

						2018
(in millions of Canadian dollars)	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	BETWEEN ONE AND TWO YEARS	BETWEEN TWO AND FIVE YEARS	MORE THAN FIVE YEARS
Non-derivative financial liabilities:						
Bank loans and advances	**16**	**16**	**16**	**—**	**—**	**—**
Trade and other payables	**782**	**782**	**782**	**—**	**—**	**—**
Revolving credit facility	**86**	**100**	**4**	**4**	**92**	**—**
Term loan	**239**	**305**	**18**	**18**	**55**	**214**
Unsecured senior notes	**1,068**	**1,244**	**59**	**60**	**1,125**	**—**
Other debts of subsidiaries	**129**	**186**	**21**	**20**	**49**	**96**
Other debts without recourse to the Corporation	**364**	**365**	**37**	**34**	**274**	**20**
Derivative financial liabilities	**36**	**36**	**22**	**4**	**10**	**—**
	2,720	**3,034**	**959**	**140**	**1,605**	**330**

						2017
(in millions of Canadian dollars)	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	BETWEEN ONE AND TWO YEARS	BETWEEN TWO AND FIVE YEARS	MORE THAN FIVE YEARS
Non-derivative financial liabilities:						
Bank loans and advances	35	35	35	—	—	—
Trade and other payables	638	638	638	—	—	—
Revolving credit facility	195	218	7	6	205	—
Unsecured senior notes	1,004	1,284	56	56	906	266
Other debts of subsidiaries	66	77	16	13	31	17
Other debts without recourse to the Corporation	321	329	44	41	230	14
Derivative financial liabilities	37	37	19	2	4	12
	2,296	2,618	815	118	1,376	309

As at December 31, 2018, the Corporation had unused credit facilities of $766 million (December 31, 2017 - $651 million), net of outstanding letters of credit of $23 million (December 31, 2017 - $24 million).

D. OTHER RISK

FACTORING OF ACCOUNTS RECEIVABLE

The Corporation sells its accounts receivable from one of its European subsidiaries through a factoring contract with a financial institution. The Corporation uses factoring of accounts receivable as a source of financing by reducing its working capital requirements. When the accounts receivable are sold, the Corporation removes them from the balance sheet, recognizes the amount received as the consideration for the transfer and records a loss on factoring, which is included in “Financing expense”. As at December 31, 2018, the off-balance sheet impact of the factoring of accounts receivable amounted to $50 million (€32 million). The Corporation expects to continue to sell accounts receivable on an ongoing basis. Should it decide to discontinue this contract, its working capital and bank debt requirements would increase.

STOCK-BASED COMPENSATION

In 2018, the Corporation entered into an agreement to hedge the share price volatility related to its Deferred Share Units and Performance Share Unit plans. As at December 31, 2018, the agreement's notional amount was 566,000 shares at a price of $12,15. The fair value as at December 31, 2018 was a liability of $1 million.

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NOTE 28
COMMITMENTS

a. The Corporation leases various properties, vehicles, equipment and others under non-cancellable operating lease agreements.

Future minimum payments under operating leases are as follows:

(in millions of Canadian dollars)	**2018**	2017
No later than one year	**38**	31
Later than one year but no later than five years	**66**	40
More than five years	**13**	5
	117	76

b. Capital and raw materials commitments

Capital expenditures and raw material contracted at the end of the reporting date but not yet incurred are as follows:

	2018		2017	
(in millions of Canadian dollars)	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS
No later than one year	**84**	**8**	51	8
Later than one year but no later than five years	**8**	**6**	—	14
More than five years	**—**	**—**	—	—
	92	**14**	51	22

NOTE 29
RELATED PARTY TRANSACTIONS

The Corporation entered into the following transactions with related parties:

(in millions of Canadian dollars)	JOINT VENTURES	ASSOCIATES
2018		
Sales to related parties	**245**	**77**
Purchases from related parties	**32**	**50**
2017		
Sales to related parties	210	85
Purchases from related parties	27	90

These transactions occurred in the normal course of operations and are measured at fair value.

The following balances were outstanding at the end of the reporting period:

(in millions of Canadian dollars)	**December 31, 2018**	December 31, 2017
Receivables from related parties		
Joint ventures	**12**	13
Associates	**22**	22
Payables to related parties		
Joint ventures	**2**	3
Associates	**2**	4

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest. There are no provision held against receivables from related parties. The payables to related parties arise mainly from purchase transactions. The payables bear no interest.

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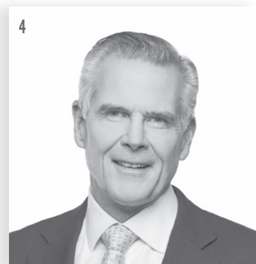
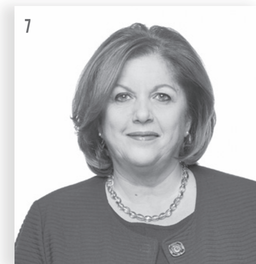
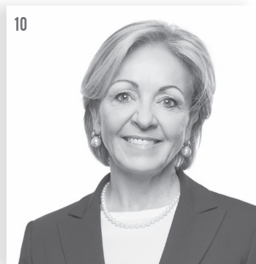
BOARD OF DIRECTORS

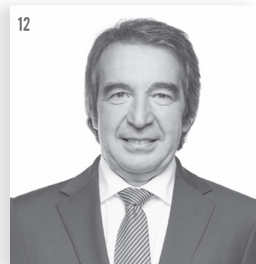
Cascades' Board of Directors (BoD) and management believe that quality corporate governance helps ensure that the Corporation is run efficiently and that investor confidence is maintained. In order to stay the course in this regard, Cascades regularly reviews its governance practices to remain in compliance with applicable legislation and to improve efficiency.

The composition of the Board of Directors must be carefully determined since its responsibilities include ensuring good corporate governance, among other things. Cascades draws on the expertise of a highly experienced team of directors while recognizing the importance of independent directors. As of December 31, 2018, eight of the twelve Board members were independent. They meet at least once yearly with no related directors or senior managers present. New BoD members are also offered an orientation and training program, to familiarize themselves with Cascades' activities as well as the issues and challenges it faces.









1
Alain Lemaire
Executive Chairman
of the Board
Kingsey Falls, Québec Canada
Director since 1967
Non-Independent

2
Louis Garneau
President
Louis Garneau Sports Inc.
Saint-Augustin-de-Desmaures
Québec Canada
Director since 1996
Independent

3
Sylvie Lemaire
Director of companies
Otterburn Park, Québec Canada
Director since 1999
Non-Independent

4
David McAusland
Partner
McCarthy Tétrault
Baie d'Urfé, Québec Canada
Director since 2003
Independent

5
Georges Kobrynsky
Director of companies
Outremont, Québec Canada
Director since 2010
Independent

6
Élise Pelletier
Director
Sutton, Québec Canada
Director since 2011
Independent

7
Sylvie Vachon
President and Chief
Executive Officer of
The Montréal Port Authority
Longueuil, Québec Canada
Director since 2013
Independent

8
Laurence Sellyn
Business Advisor and Consultant,
Corporate Director
Pointe-Claire, Québec Canada
Director since 2013
Independent

9
Mario Plourde
President and Chief Executive
Officer of Cascades Inc.
Kingsey Falls, Québec Canada
Director since 2014
Non-Independent

10
Michelle Cormier
Associate, Wynnchurch
Capital Canada
Montréal, Québec Canada
Director since 2016
Independent

11
Martin Couture
President and Chief Executive
Officer, Sanimax Inc. (Canada)
Montréal, Québec Canada
Director since 2016
Independent

12
Patrick Lemaire
President and Chief Executive
Officer, Boralex Inc.
Kingsey Falls, Québec Canada
Director since 2016
Non-Independent

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HISTORICAL FINANCIAL INFORMATION - 10 YEARS

For the years ended December 31, (in millions of Canadian dollars, except per common share amounts and ratios) (unaudited) Financial information is not adjusted to reclassify the impact of discontinued operations, if any, and IFRS for years ended prior to 2011.	IFRS **2018**	IFRS 2017
Highlights - Consolidated Results		
Sales	**4,649**	4,321
Cost of sales and expenses	**4,160**	3,928
Adjusted operating income before depreciation and amortization (OIBD adjusted)	**489**	393
Depreciation and amortization	**244**	215
Adjusted operating income	**245**	178
Financing expense and interest expense on employee future benefits	**99**	97
Foreign exchange loss (gain) on long-term debt and financial instruments	**4**	(23)
Specific items	**10**	(298)
	132	402
Provision for (recovery of) income taxes	**49**	(81)
Share of results of associates and joint ventures	**(11)**	(39)
Net earnings (loss) attributable to non-controlling interests	**35**	15
Net earnings (loss)	**59**	507
Net earnings (loss) per common share	**$ 0.62**	$ 5.35
Highlights - Consolidated Cash Flow		
Cash flow generated by operating activities	**373**	173
Cash flow from operations	**361**	260
per common share	**$ 3.82**	$ 2.75
Payments for property, plant and equipment net of proceeds from disposals	**253**	178
Business combinations and cash from a joint venture	**(100)**	9
Proceed from business disposals	**—**	—
Net change in long-term debt	**94**	179
Dividends on common shares	**15**	15
per common share	**$ 0.16**	$ 0.16
Dividend yield	**1.6%**	1.2%
Highlights - Consolidated Balance Sheet (As at December 31)		
Current assets less current liabilities	**419**	356
Property, plant & equipment	**2,506**	2,117
Total assets	**4,951**	4,427
Total long-term debt	**1,876**	1,576
Non-controlling interests	**180**	146
Shareholders' equity	**1,508**	1,455
per common share	**$ 16.01**	$ 15.32
Stock Market Highlights		
Shares issued and outstanding (in millions)	**94.2**	95.0
Trading volume (in millions)	**54.9**	57.5
Market capitalization	**963**	1,294
Closing price	**$ 10.23**	$ 13.62
High	**$ 16.55**	$ 18.20
Low	**$ 9.54**	$ 11.43
Key Financial Ratios		
Net earnings (loss)/sales	**1.3%**	11.7%
Sales/total assets*	**0.9x**	1.0x
Total assets/average Shareholders' equity*	**3.3x**	3.6x
Return on Shareholder's equity*	**4.0%**	41.6%
Return on total assets (OIBD/average total assets)*	**10.4%**	9.5%
OIBD/sales	**10.5%**	9.1%
OIBD/interest	**4.9x**	4.1x
Current assets less current liabilities/sales*	**9.0%**	8.2%
Net debt/OIBD*	**3.6x**	3.9x
Total debt/total debt + Shareholders' equity	**55.6%**	52.5%
Price to earnings	**16.5x**	2.5x
Price to book value	**0.6x**	0.9x

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IFRS	IFRS	IFRS	IFRS	IFRS	IFRS		
2016	2015	2014	2013	2012	2011	2010	2009
4,001	3,885	3,953	3,849	3,645	3,760	3,959	3,877
3,598	3,462	3,595	3,497	3,341	3,517	3,561	3,412
403	423	358	352	304	243	398	465
192	190	183	182	199	186	212	218
211	233	175	170	105	57	186	247
93	97	108	115	115	100	112	118
(22)	91	30	(2)	(8)	(4)	4	31
(10)	99	191	28	33	(148)	65	33
150	(54)	(154)	29	(35)	109	5	65
45	39	(11)	12	(4)	27	—	23
(32)	(37)	—	3	(2)	(14)	(15)	(17)
2	9	4	3	(7)	(3)	3	(1)
135	(65)	(147)	11	(22)	99	17	60
$ 1.42	$ (0.69)	$ (1.57)	$ 0.11	$ (0.23)	$ 1.03	$ 0.18	$ 0.61
372	270	250	232	199	115	228	355
316	307	251	226	154	121	246	303
$ 3.34	$ 3.25	$ 2.67	$ 2.41	$ 1.64	$ 1.26	$ 2.54	$ 3.10
177	156	172	136	141	110	131	171
16	—	—	—	14	60	3	69
—	(40)	(36)	—	—	(292)	—	—
153	100	88	(30)	(54)	143	30	59
15	15	15	15	15	15	16	16
$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16
1.3%	1.3 %	2.3 %	2.3%	3.9 %	3.6%	2.4%	1.8%
299	398	308	414	295	400	479	484
1,635	1,625	1,592	1,684	1,659	1,703	1,777	1,912
3,813	3,848	3,673	3,831	3,694	3,728	3,724	3,792
1,566	1,744	1,596	1,579	1,475	1,407	1,395	1,469
90	96	110	113	116	136	24	21
984	867	893	1,081	978	1,029	1,257	1,304
$ 10.41	$ 9.10	$ 9.48	$ 11.52	$ 10.42	$ 10.87	$ 13.01	$ 13.41
94.5	95.3	94.2	93.9	93.9	94.6	96.6	97.2
43.5	39.7	45.0	25.2	20.2	33.8	57.7	79.8
1,144	1,211	661	646	385	419	647	869
$ 12.10	$ 12.71	$ 7.02	$ 6.88	$ 4.10	$ 4.43	$ 6.70	$ 8.94
$ 13.67	$ 13.00	$ 7.60	$ 6.92	$ 5.18	$ 7.75	$ 9.80	$ 9.10
$ 7.72	$ 6.49	$ 5.64	$ 4.07	$ 3.85	$ 3.51	$ 5.71	$ 1.70
3.4%	(1.7)%	(3.7)%	0.3%	(0.6)%	2.6%	0.4%	1.5%
1.0x	1.0x	1.1x	1.0x	1.0x	1.0x	1.1x	1.0x
4.1x	4.4x	3.7x	3.7x	3.7x	3.3x	2.9x	3.0x
14.6%	(7.4)%	(14.9)%	1.1%	(2.2)%	8.7%	1.3%	4.7%
10.5%	11.2 %	9.5 %	9.4%	8.2 %	6.5%	10.6%	11.9%
10.1%	10.9 %	9.1 %	9.1%	8.3 %	6.5%	10.1%	12.0%
4.3x	4.4x	3.3x	3.1x	2.6x	2.4x	3.6x	3.9x
7.5%	10.2 %	7.8 %	10.8%	8.1 %	10.6%	12.1%	12.5%
3.8x	4.1x	4.5x	4.6x	5.0x	6.1x	3.6x	3.3x
61.8%	67.3 %	64.8 %	60.2%	61.4 %	59.3%	53.7%	54.3%
8.5x	N/A	N/A	62.5x	N/A	4.3x	37.2x	14.7x
1.2x	1.4x	0.7x	0.6x	0.4x	0.4x	0.5x	0.7x

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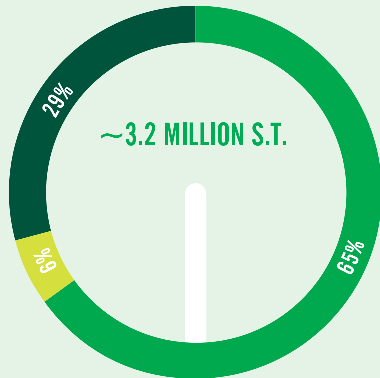
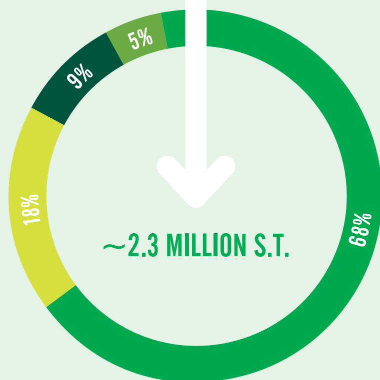
RAW MATERIALS

RAW MATERIALS



NORTH AMERICAN FIBRE: PURCHASED AND COLLECTED BY CASCADES

- Recycled fibre used by Cascades – 65%
- Pulp used by Cascades – 6%
- Fibre sold externally – 29%



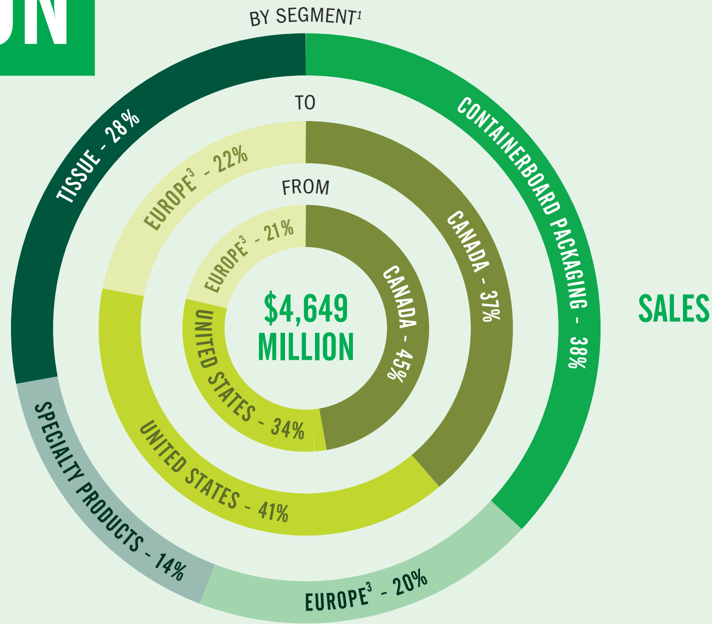
FIBRE CONSUMED BY CASCADES IN NORTH AMERICA

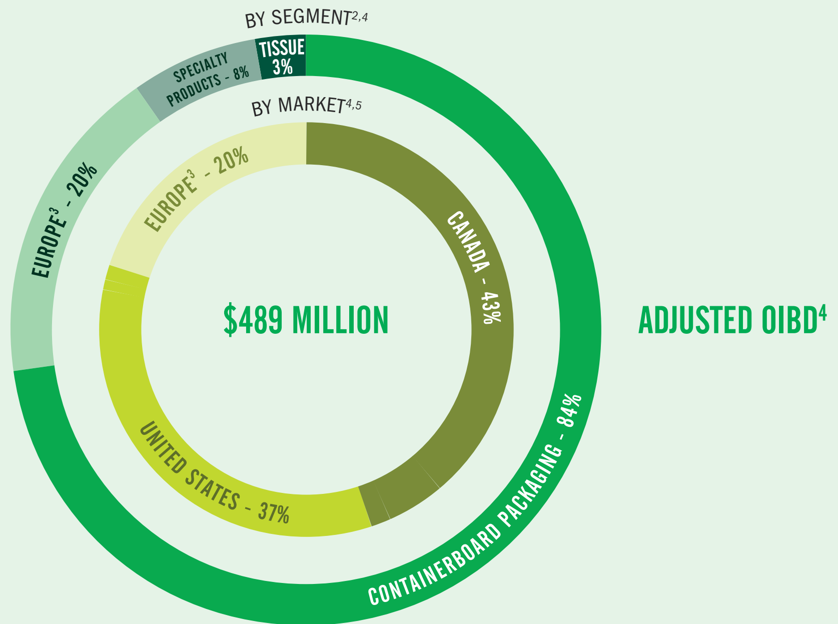
- Brown recycled fibre – 68%
- White recycled fibre – 18%
- Pulp – 9%
- Groundwood recycled fibre – 5%

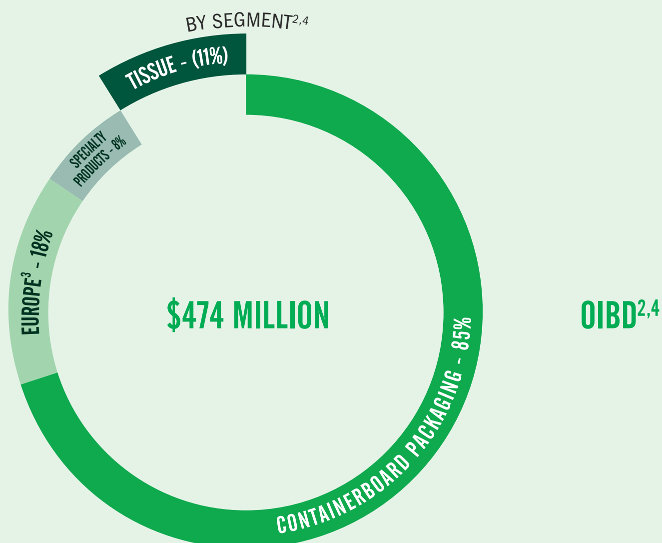
In Europe, we use approximately 1.3 M s.t. of additional recycled and virgin fibres in our annual production of boxboard.

DISTRIBUTION

OF OUR RESULTS







1 Before inter-segment sales and corporate activities.

2 Percentage excluding corporate activities.

3 Including our 57.95% equity ownership in Reno de Medici S.p.A., an Italian public company traded on the Milan and Madrid stock exchanges.

4 Please refer to the “Forward-looking Statements” and “Supplemental Information on Non-IFRS Measures” sections for more details.

5 Including corporate activities.

Prince George, BC R
R Edmonton, AB
Nanaimo, BC R
R Vancouver, BC
C R Surrey, BC
Victoria, BC R
Richmond, BC
C
R Calgary, AB
R Kelowna, BC
C R Winnipeg, MB
Kingsey Falls, QC
Tacoma, WA C
St. Helens, OR M
Scappoose, OR C
Eau Claire, WI CM
Grand Rapids, MI C
Clarion, IA M
Aurora, IL C
M Brook, IN
Warrenton, MO C
C Kingman, AZ
Brownsville, TN C
Memphis, TN M
Rockingham, NC C M
C Kinston, NC
C Wagram, NC
C Birmingham, AL
C Grand Prairie, TX

NORTH AMERICA

CASCADES WORLDWIDE[1]

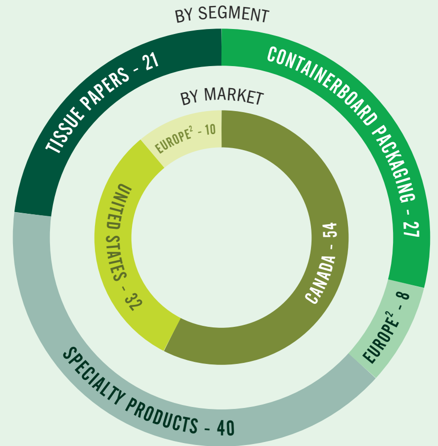
LEGEND

- Head Office
- Containerboard Packaging
- Boxboard Europe[2]
- Specialty Products
- Tissue Papers

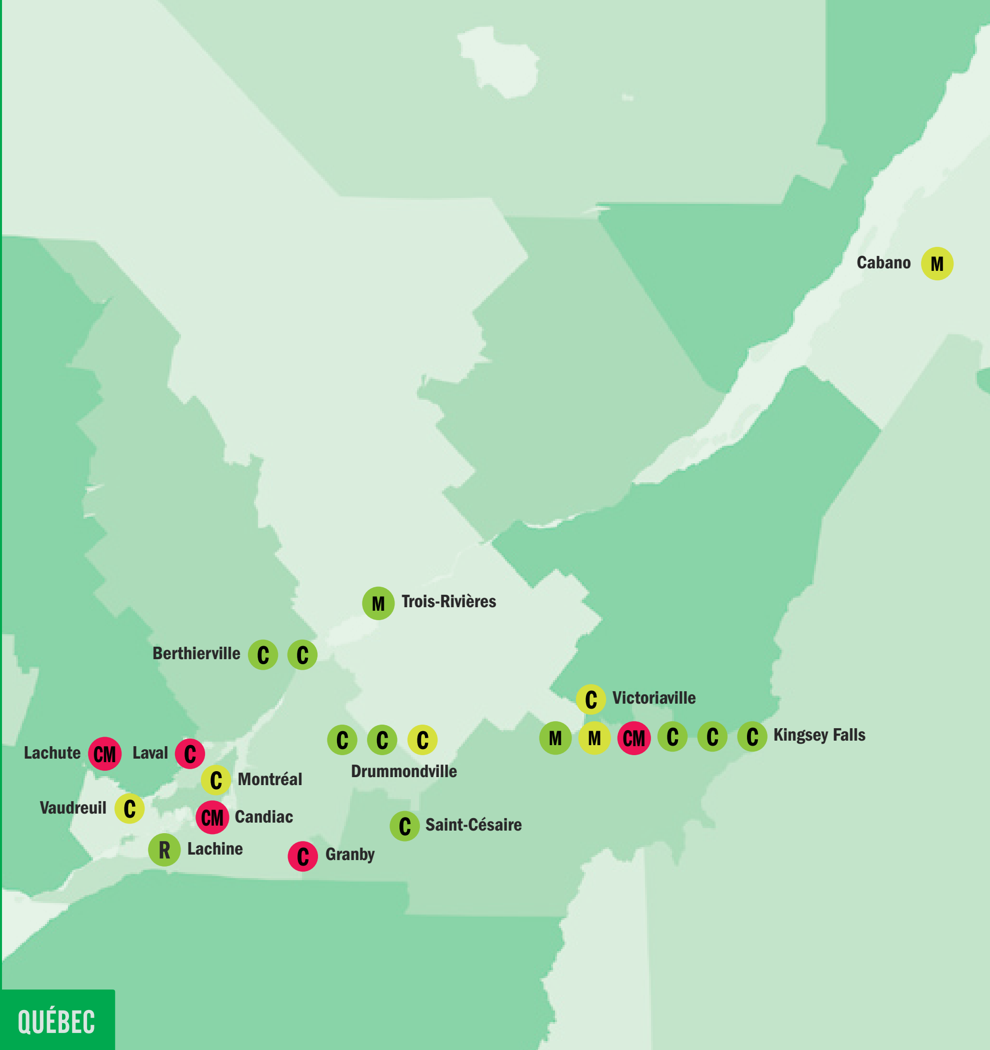
M Manufacturing facility
C Converting facility
CM Converting and manufacturing facility
R Recovery facility

1 Including main associates and joint ventures.
2 Via our 57.95% equity ownership in Reno de Medici S.p.A., an Italian public company traded on the Milan and Madrid stock exchanges.

96 PRODUCTION FACILITIES[1]



1 Including associates and joint ventures.
2 Including our 57.95% equity ownership in Reno de Medici S.p.A., an Italian public company traded on the Milan and Madrid stock exchanges.



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