BUILDING ON OUR CAPABILITIES

2019 ANNUAL REPORT

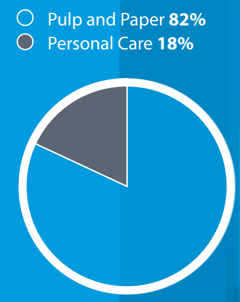
Domtar

SELECTED FINANCIAL FIGURES

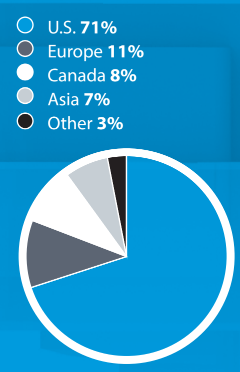
Years ended December 31	2017	2018	2019
(In millions of dollars unless otherwise noted)			
Consolidated sales per segment			
Pulp and Paper	4,216	4,523	**4,332**
Intersegment sales	(64)	(68)	**(65)**
Personal Care	996	1,000	**953**
Consolidated sales	5,148	5,455	**5,220**
Operating income (loss) per segment			
Pulp and Paper	237	438	**225**
Personal Care	(527)	(5)	**(15)**
Corporate	(38)	(47)	**(47)**
Operating income (loss)	(328)	386	**163**
Net earnings (loss)	(258)	283	**84**
Cash flows from operating activities	449	554	**442**
Capital expenditures	182	195	**255**
Free cash flow[1]	267	359	**187**
Total assets	5,212	4,925	**4,903**
Long-term debt, including current portion	1,130	854	**939**
Net debt-to-total capitalization ratio[1]	29%	23%	**27%**
Total shareholders' equity	2,483	2,538	**2,376**
Weighted average number of common shares outstanding in millions (diluted)	62.7	63.1	**61.4**

1 Non-GAAP financial measure. Please see "Reconciliation of non-GAAP Financial Measures" at the end of this document.

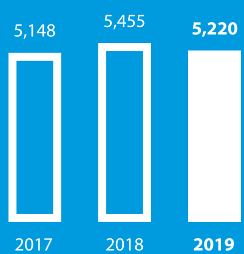
2019 SALES BY BUSINESS SEGMENT



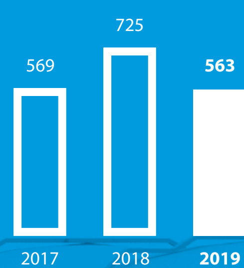
2019 SALES BY REGION



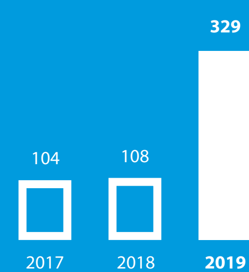
SALES
(In millions of dollars)



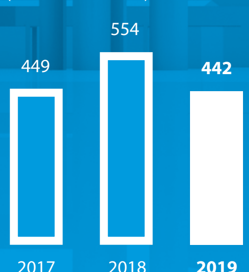
EBITDA BEFORE ITEMS[1]
(In millions of dollars)



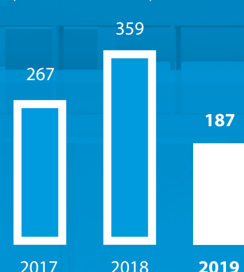
CASH RETURNED TO SHAREHOLDERS
(In millions of dollars)



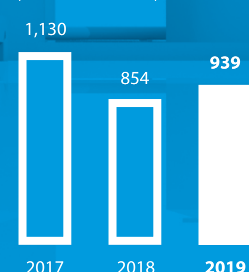
CASH FLOWS FROM OPERATING ACTIVITIES
(In millions of dollars)



FREE CASH FLOW[1]
(In millions of dollars)



LONG-TERM DEBT, INCLUDING CURRENT PORTION
(In millions of dollars)



BUILDING ON OUR CAPABILITIES

DOMTAR CONTINUES TO BUILD ON ITS CAPABILITIES AND EXECUTE A WELL-DEFINED STRATEGY TO MAXIMIZE THE VALUE OF EACH OF ITS BUSINESSES.

Led by a strong team, Domtar is well positioned to drive growth, return capital to shareholders and reach the next stage in its evolution as a leading North American pulp and paper company and a recognized personal care products supplier.

Despite market challenges in 2019, we showed resilience and delivered strong results, including $442 million in cash flows from operating activities. The businesses in which we operate are adjusting to market volatility, and we continue to be agile and flexible in these changing market conditions. Our solid financial position allowed us to return $329 million to our shareholders for the year through dividends and share buy-backs, while we continue to invest strategically in our assets.

Our commitment to operating responsibly and sustainably remains steadfast. Versatile and renewable wood fiber is the foundation of our business. As a fiber innovator, we are proud of our record as a sustainability leader for the benefit of our people, our communities and our planet.

RESILIENT PAPER BUSINESS

Our paper business EBITDA margins[1] improved in 2019 compared to the prior year due to pricing and improved product mix. We continue to provide best-in-class service to our customers and to increase our share of wallet with them, while pursuing new sales opportunities.

We remain committed to balancing our supply with customer demand, maintaining lower inventories and minimizing our downtime costs. We took approximately 300,000 short tons of market downtime during the year to match our capacity with customer demand before permanently idling 204,000 short tons of paper capacity. Our ability to adjust quickly to changing market conditions reflects both the agility of our team and the optionality of our asset base. We have shown that we can find creative uses for our paper assets as demand declines, and we have identified repurposing optionality for approximately half of our remaining paper capacity.

We continue to invest in projects that strengthen our best-performing mills, reduce our cost structure and support new capabilities. As we accelerate our efforts in the development of innovative products for plastic substitution and other emerging markets, we remain focused on being North America's uncoated freesheet market leader and supplier of choice for our paper customers.

EXPANDING MARKET PULP BUSINESS

While 2019 was a challenging year for pulp pricing, our growth plans remain on track. We made progress toward improving our cost position through targeted investments and continuous improvement projects, while aligning our business with winning customers and markets. Tissue, hygiene and select specialty pulp markets are showing global demand growth, and our product mix evolved further in their direction during the year.

1 Non-GAAP financial measure. Please see "Reconciliation of non-GAAP Financial Measures" at the end of this document.

“WHETHER IT’S THE QUALITY OF OUR ASSETS, THE MARKETS IN WHICH WE OPERATE, OR THE STRENGTH AND CREATIVITY OF OUR PEOPLE, DOMTAR IS WELL POSITIONED FOR LONG-TERM SUCCESS.”

Domtar is a major pulp supplier with high-performing, low-cost mills and has the ability to meet customer needs for high-quality products in North America and globally. We plan to continue improving customer and product mix, enhancing our value proposition and increasing productivity so that we can fully realize the capability of our assets.

FOCUSED PERSONAL CARE BUSINESS

In Personal Care, we improved EBITDA margins[1] when compared to the prior year, and we simplified and stabilized the business to compete more effectively in a challenging global market. These actions included consolidating our North American manufacturing footprint, streamlining expenses, and simplifying our operating structure and work processes, which resulted in productivity improvements and supply chain efficiencies. While executing our margin improvement plan, we also achieved some important wins in our infant diaper business that will scale up this year.

We have built the foundation for a lower cost position and established the commercial focus required to unlock future growth and profitability. Looking ahead, we will focus on delivering on our commercial commitments, developing our strategic customer relationships and investing to serve our customers in the longer term.

DISCIPLINED CAPITAL ALLOCATION

The shareholder returns consistently generated by Domtar through the years are driven by a successful and sustainable business strategy underpinned by disciplined capital allocation. Across our businesses, our objective is to make sound investments that will help sustain earnings throughout the business cycle.

In paper, we maximize value by providing best-in-class service and keeping our supply in line with our customers' demand. Capital is judiciously allocated to projects that increase productivity and efficiency across our operations in support of higher profitability. Paper manufacturing assets no longer required to serve our customers will be repurposed in a timely manner to their next best use, being either low-cost pulp or competitive containerboard. In our growing pulp business, we are investing strategically to strengthen the long-term competitiveness of our assets, while the priority in Personal Care is to reach the profitability potential of our current asset base.

With strong cash generation and a solid balance sheet, we also have the capacity to consider value-creating acquisitions. In terms of targets, we will favor only meaningful, fiber-based opportunities with a strong overlap with our existing businesses.

We will maintain a balanced capital allocation approach by returning the majority of future free cash flows[1] to shareholders, while maintaining the flexibility to deploy capital to the highest value-creating options.

CREATING A SUSTAINABLE FUTURE

While striving to make Domtar even more resilient and successful, we are also committed to operating responsibly. Wood fiber, the building block of all our products, is a highly versatile and renewable resource. Our unwavering support for sustainable forestry is evidenced by our actions in both Domtar-owned lands and in our continuing efforts to help small landowners achieve certification for their forest management. Additionally, we are among the leaders in the use of renewable energy to power our mills and the beneficial reuse of manufacturing by-products. Each year, our goal is to outperform industry benchmarks and other key sustainability performance indicators, including the safety of our workplaces and well-being of our people.

1 Non-GAAP financial measure. Please see "Reconciliation of non-GAAP Financial Measures" at the end of this document.

Our latest sustainability report was published last year, and it provides a full picture of our approach and performance. Operating responsibly, ethically and sustainably is embedded in Domtar's culture, and we will continue to report with candor and transparency on the issues that matter most to our stakeholders.

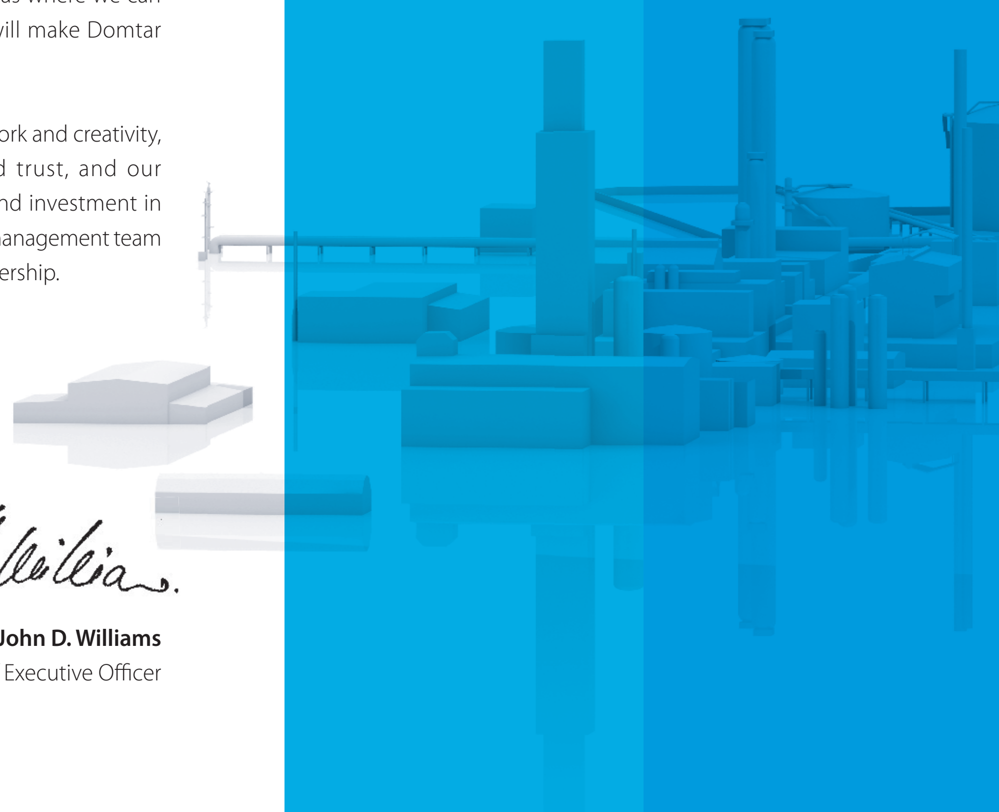
TAKING DOMTAR TO THE NEXT LEVEL

We are focused on transforming Domtar into a growth company while living up to our values of agility, caring and innovation.

I am confident that we have the capabilities to move forward on our current path, while driving value for all our stakeholders. Our readiness and adaptability are reflected in the strength of our team and the potential opportunities we have identified. By remaining focused and disciplined in areas where we can add value and improve our business, we will make Domtar even stronger.

Thank you to our employees for their hard work and creativity, our customers for their partnership and trust, and our shareholders for their continued support and investment in Domtar. I also recognize and appreciate our management team and Board members for their vision and leadership.

Sincerely,



John D. Williams
President and Chief Executive Officer

MANAGEMENT COMMITTEE AND
BOARD OF DIRECTORS

LEADERSHIP AND CORPORATE GOVERNANCE

Domtar upholds the highest standards of business integrity and corporate social responsibility. These are reflected in our wide range of policies, regularly reviewed and updated, to promote strong governance, best practices, diversity and sustainability.

Our commitment to operating responsibly is supported by our *Code of Business Conduct and Ethics* applicable to all employees and Board members. Strict Corporate Governance Guidelines are the basis for our robust compliance program. For more information on our governance practices, or to consult our proxy statement, please visit **domtar.com**.

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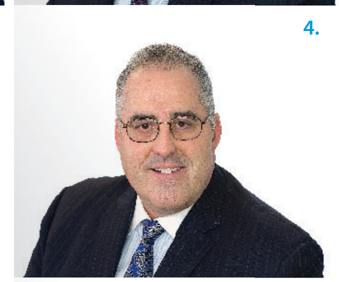
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MANAGEMENT COMMITTEE

1. John D. Williams
President and
Chief Executive Officer

2. Daniel Buron
Senior Vice President and
Chief Financial Officer

3. Michael D. Garcia
President
Pulp and Paper
Division

4. Michael Fagan
President
Personal Care
Division

5. Zygmunt Jablonski
Senior Vice President and
Chief Legal and
Administrative Officer

6. Patrick Loulou
Senior Vice President
Corporate
Development

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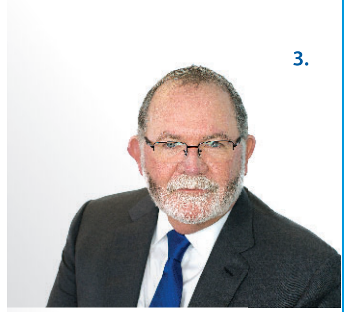

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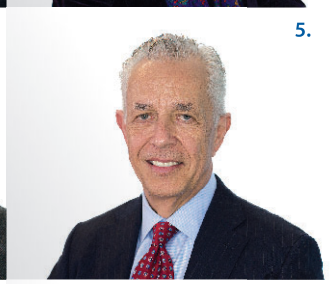

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BOARD OF DIRECTORS

1. Robert E. Apple
Chief Operating Officer
MasTec, Inc.
Miami, Florida
Member of our Board of Directors since 2012 and Chairman of the Board since 2017

2. Giannella Alvarez
Corporate Director
Atlanta, Georgia
Member of our Board of Directors since 2012

3. David J. Illingworth
Corporate Director
Orchid, Florida
Member of our Board of Directors since 2013

4. Brian M. Levitt
Chairman of the Board
The Toronto Dominion Bank
Kingston, Ontario
Member of our Board of Directors since 2007

5. David G. Maffucci
Corporate Director
Isle of Palms, South Carolina
Member of our Board of Directors since 2011

6. Pamela B. Strobel
Corporate Director
Chicago, Illinois
Member of our Board of Directors since 2007

7. Denis Turcotte
Managing Partner and Chief Operating Officer
Brookfield Asset Management Inc.
Toronto, Ontario
Member of our Board of Directors since 2007

8. John D. Williams
President and Chief Executive Officer
Domtar Corporation
Charlotte, North Carolina
Member of our Board of Directors since 2009

9. Mary A. Winston
President
WinsCo Enterprises, Inc.
Charlotte, North Carolina
Member of our Board of Directors since 2015

COMMITTEE MEMBERSHIPS

Audit Committee
David G. Maffucci, Chair
David J. Illingworth
Mary A. Winston

Environmental, Health, Safety and Sustainability Committee
Denis Turcotte, Chair
Giannella Alvarez
David J. Illingworth

Finance Committee
Brian M. Levitt, Chair
David G. Maffucci
Denis Turcotte
Mary A. Winston

Human Resources Committee
Pamela B. Strobel, Chair
Giannella Alvarez
Brian M. Levitt
Denis Turcotte

Nominating and Corporate Governance Committee
Robert E. Apple, Chair
Brian M. Levitt
David G. Maffucci
Pamela B. Strobel

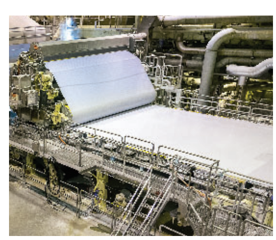
PULP AND PAPER

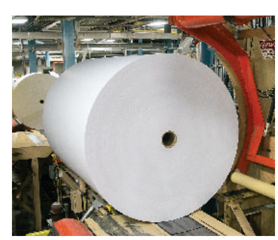
Domtar is the largest integrated manufacturer and marketer of uncoated freesheet paper in North America and an important supplier of specialty and packaging papers, with an annual paper production capacity of 2.9 million short tons. We are also one of the largest global pulp manufacturers, and a major supplier of high-quality papergrade, fluff and specialty pulp. We produce over 4 million air-dried metric tons of pulp in total, approximately half for internal use and the balance for sale to third parties.

TRUSTED PAPER PARTNER

Maintaining our position as the leading North American uncoated freesheet paper manufacturer, Domtar sold just over 2.8 million short tons of paper in 2019. We provide a wide range of communication, specialty and packaging papers to a variety of customers, primarily in the United States, including merchants, retail outlets, stationers, printers, converters and end-users. Domtar is committed to remaining the long-term paper supplier of choice for its customers.

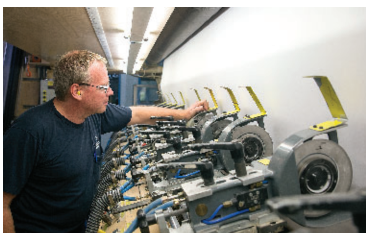
Our pulp and paper business is built on a network of wood fiber converting assets strategically located across the United States and Canada. Over the past decade, we have repurposed 1.7 million short tons of our paper capacity to manufacture products for growing markets. We invest annually in projects that strengthen our best-performing mills while actively seeking new opportunities to redeploy assets no longer needed for paper production.





DOMTAR PAPER PRODUCTS AND APPLICATIONS

	Communication Papers		Specialty and Packaging Papers
CATEGORY	Business Papers	Commercial Printing and Publishing Papers	
GRADE	• Copy • Premium imaging • Technology papers	• Offset • Tag • Premium opaques • Colors • Bristol • Lightweight • Index • Opaques • Tradebook	• Thermal papers • Imaging papers • Food packaging • Label papers • Bag stock • Medical disposables • Security papers
APPLICATION	• Photocopies • Presentations • Office documents • Reports	• Commercial printing • Pamphlets • Cards • Forms and Envelopes • Brochures • Posters • Annual reports • Books • Direct mail • Catalogs	• Food and candy packaging • Check and security papers • Fast food takeout bag stock • Surgical gowns



Communication papers

Communication papers represent the majority of our total sales, with business papers being the largest product offering within this category. They are sold mainly to major North American retailers, independent office supply dealers and paper merchants. We offer a selection of our own recognized business paper brands, including Xerox® Paper and Specialty Media, ImagePrint® MultiUse and EarthChoice® Office Paper, and we also assist our customers in developing their own store brands.

Our communication papers are also used for commercial printing and publishing. In this category, customers are primarily paper merchants and converters who further process the paper to its final end-use state such as into books, pamphlets or envelopes, depending on the application. Cougar®, Lynx® Opaque Ultra and Husky® Opaque Offset are among our most recognized brands in this category.

Specialty and packaging papers

We manufacture specialty and packaging papers destined for applications as far ranging as food packaging and medical supplies. In addition, we supply base stock for thermal papers used to make cash register receipts, ATM print outs and lottery tickets, as well as an extensive range of industrial papers for applications such as sandpaper or tile backing, among other uses.

We continue to leverage our innovation and new product development pipeline to grow our position in specialty papers. We see an opportunity in this category to use specialty paper as a substitution for single-use plastics as customers increasingly seek alternatives for such items as straws and food packaging.

Right-sizing our paper production capacity

We produce paper at 10 mills in the United States and Canada, supported by an efficient network of 13 offsite and onsite converting and forms manufacturing operations. In 2019, we permanently shut down two paper machines located in the United States, thereby reducing our uncoated freesheet production capacity by 204,000 short tons, in addition to taking approximately 300,000 short tons of market-related downtime during the year, to balance supply with our customers' demand.

PAPER MARKET DYNAMICS

In 2019, 6.5 million short tons of uncoated freesheet paper were manufactured in North America, representing an approximately 10% decline compared to the previous year. This reflects market-related downtime and permanent paper production capacity reductions in response to the market developments.

North American demand was nearly 7 million short tons, an 8.4% decrease compared to 2018. This decline exceeded the long-term secular trend due mostly to customer destocking. For its part, the North American specialty papers market is expected to continue to grow in line with population growth, and the manufacturing and construction sectors.

FOCUSED ON GROWTH IN MARKET PULP

Domtar is a major global producer of softwood and fluff pulp. We operate two stand-alone pulp mills in Canada and one in the Southern United States, and we produce market pulp in six of our integrated North American pulp and paper mills. In 2019, we shipped 1.6 million air-dried metric tons of papergrade, fluff and specialty pulp to a diverse range of customers in over 50 countries around the world, in line with shipments in prior years. In 2020, we expect volume growth driven by our strategic investments, the restart of our Espanola, Ontario, mill and additional market pulp from our Ashdown, Arkansas, mill following the paper machine closure late last year.

Most of the pulp we sell is used in products that serve growing end-use markets. Our papergrade pulp is used for manufacturing consumer products

such as bathroom and facial tissue, and paper towels. Domtar Lighthouse® fluff pulp is mainly used in the absorbent core of infant diapers, adult incontinence products, feminine hygiene products and airlaid nonwovens. Our specialty pulp customers produce a wide variety of products ranging from specialty and packaging papers to electrical insulating papers and building products.

DOMTAR PULP SHIPMENTS BY END USES[1]

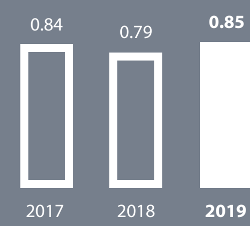
End Use	% of Total Shipments
Absorbent Hygiene	43%
Towel and Tissue	34%
Specialty Paper and Materials	18%
Printing and Writing	5%

1 Includes pulp shipments to Personal Care

HEALTH AND SAFETY

Domtar made significant progress during the past decade in reducing total injury frequency rates and the severity of injuries in Pulp and Paper. Over the past three years, our performance has been stable as we strive to eliminate workplace injuries through a comprehensive accident prevention strategy.

PULP AND PAPER TOTAL INJURY FREQUENCY RATES



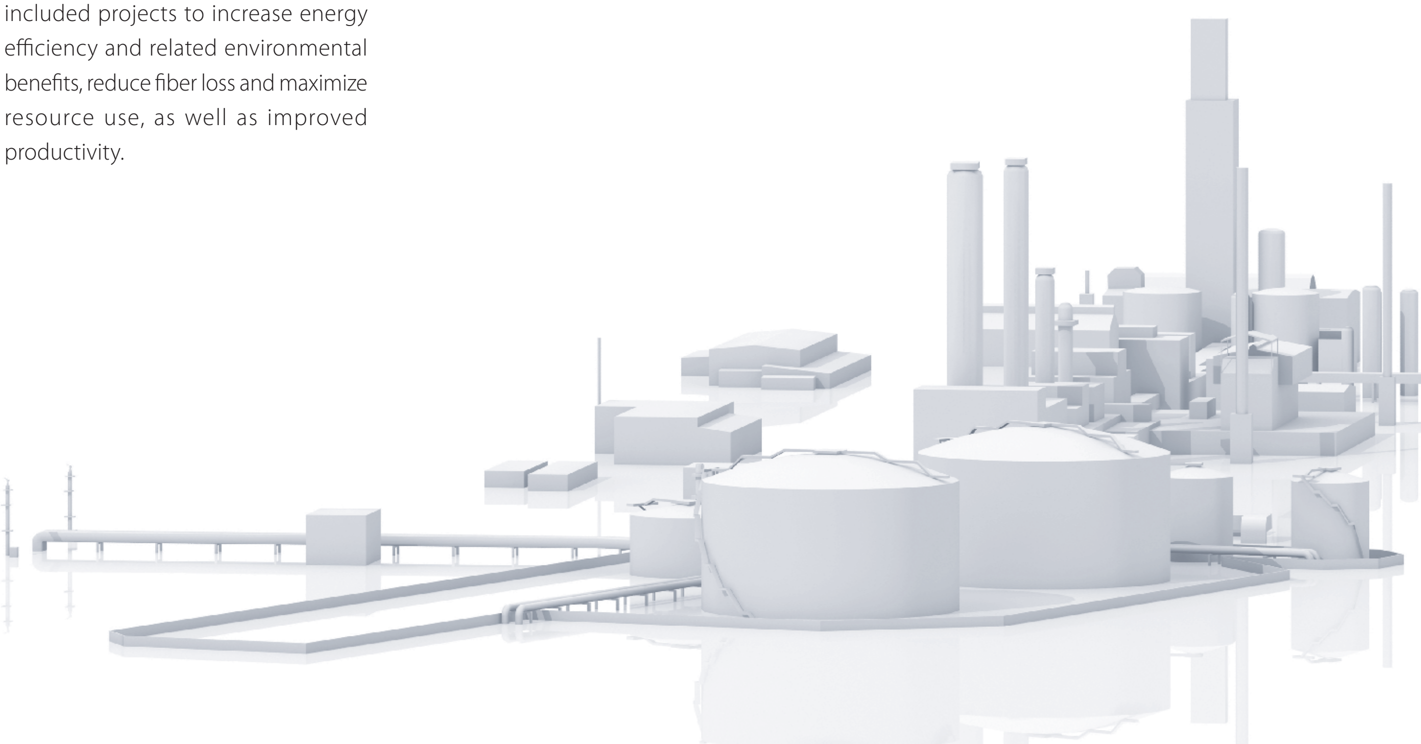
Market pulp is subject to short-term fluctuations in selling prices, and 2019 was a challenging year in both domestic and global markets. However, the historical trend in average prices over a period of consecutive years has been positive. Our growing pulp business is well-positioned in attractive markets with a favorable medium to long-term outlook.

In 2019, we invested in strategic projects at several mills to improve our overall competitive position in the global pulp market. These investments included projects to increase energy efficiency and related environmental benefits, reduce fiber loss and maximize resource use, as well as improved productivity.

LEADING THE SHIFT TO A BIO-BASED ECONOMY

As a fiber innovator working with one of the world's most renewable resources, Domtar has extensive experience turning wood fiber into useful, sustainable products. In recent years, we have accelerated our fiber-based product development activities to create new revenue opportunities from biomaterials, as the world shifts to a bio-based economy.

We have developed BioChoice® Lignin, a kraft lignin that can be used in the production of resins, thermoplastics and other chemicals, and to produce products as an alternative to common petroleum-based products, including plastics. We are also a major partner in CelluForce, a world leader in the commercial production of CelluForce NCC®, which is a form of Cellulose NanoCrystals. Produced from the cellulose in trees, it is abundant, renewable and biodegradable. Its properties help improve product performance in materials for the oil and gas, health care, and food and beverage industries, among others.



BUSINESS OVERVIEW
PULP AND PAPER SEGMENT

PULP MARKET DYNAMICS

Global demand for chemical market pulp in 2019 was approximately 64.2 million air-dried metric tons, compared to 61.2 million tons in 2018. North American demand was 7.4 million tons, a 0.5% increase, while demand in China was 23.9 million tons, a 16% increase when compared to 2018.

Papergrade wood pulp consumption is expected to grow by an average of 1.6% per year for 2020-2023. Demand for wood pulp in China is projected to generate the largest portion of this growth, with an expected annual growth rate of 3.1% during the same period. For 2020-2023, global tissue demand is expected to grow on average 2.7% per year. As a result, global tissue demand is projected to rise well over 4 million tons, fueling demand for chemical market pulp.

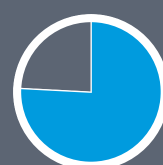
World fluff pulp demand is forecast to expand at a 2.4% annual rate over the next five years. This is expected to be driven by the growth in the use of disposable diapers in less developed economies and incontinence products in developed economies as the population ages. Worldwide demand for absorbent hygiene products by units is expected to grow 2.9% over the same period.

PULP AND PAPER SEGMENT
KEY FIGURES

Years ended December 31	2017	2018	**2019**
(In millions of dollars)			
Sales (including sales to Personal Care)	4,216	4,523	**4,332**
Operating income (loss)	237	438	**225**
Depreciation and amortization	254	238	**228**
Capital expenditures	128	164	**220**
Total assets	3,649	3,475	**3,507**
Paper shipments – manufactured ('000 ST)	2,891	2,971	**2,745**
Market pulp shipments ('000 ADMT)	1,722	1,536	**1,539**

MANUFACTURING CAPACITY BY REGION

PAPER



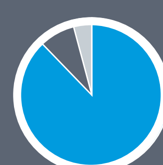
- U.S. **76%**
- Canada **24%**

MARKET PULP

- U.S. **54%**
- Canada **46%**

SALES BY REGION

PAPER



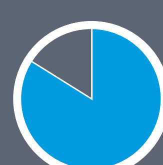
- U.S. **88%**
- Canada **8%**
- Europe **4%**

MARKET PULP

- U.S. **40%**
- China **24%**
- Other **16%**
- Europe **11%**
- Mexico **7%**
- Canada **2%**

SHIPMENTS BY GRADE

PAPER – MANUFACTURED



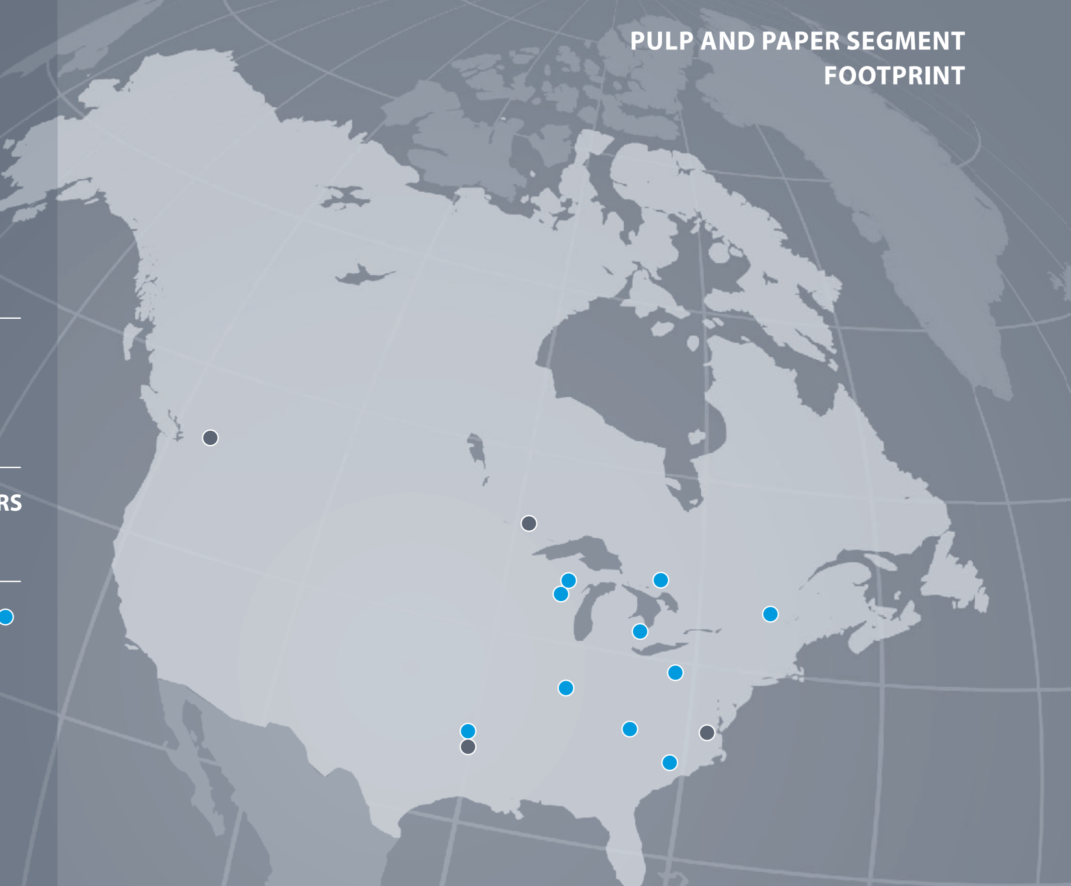
- Communication **84%**
- Specialty and Packaging **16%**

MARKET PULP[1]

- Softwood **54%**
- Fluff **42%**
- Hardwood **4%**

1 Includes pulp shipments to Personal Care

PULP AND PAPER SEGMENT FOOTPRINT



CORPORATE OFFICES

Fort Mill, South Carolina

Montreal, Quebec

DIVISION HEADQUARTERS

Fort Mill, South Carolina

UNCOATED FREESHEET ●

(Annual paper manufacturing capacity in short tons)

Ashdown, Arkansas
(200,000 tons)

Espanola, Ontario
(69,000 tons)

Hawesville, Kentucky
(596,000 tons)

Johnsonburg, Pennsylvania
(344,000 tons)

Kingsport, Tennessee
(426,000 tons)

Marlboro (Bennettsville), South Carolina (274,000 tons)

Nekoosa, Wisconsin
(168,000 tons)

Port Huron, Michigan
(95,000 tons)

Rothschild, Wisconsin
(131,000 tons)

Windsor, Quebec
(642,000 tons)

MARKET PULP ○

(Annual pulp manufacturing capacity in air-dried metric tons)

Ashdown, Arkansas
(586,000 tons)[2]

Dryden, Ontario
(327,000 tons)

Kamloops, British Columbia
(408,000 tons)

Plymouth, North Carolina
(390,000 tons)

CHIP MILLS

Hawesville, Kentucky

Johnsonburg, Pennsylvania

Kingsport, Tennessee

Marlboro (Bennettsville), South Carolina

CONVERTING AND DISTRIBUTION – ONSITE

Ashdown, Arkansas

Rothschild, Wisconsin

Windsor, Quebec

CONVERTING AND FORMS MANUFACTURING

Addison, Illinois

Brownsville, Tennessee

Dallas, Texas

DuBois, Pennsylvania

Griffin, Georgia

Owensboro, Kentucky

Ridgefields, Tennessee

Rock Hill, South Carolina

Tatum, South Carolina

Washington Court House, Ohio

ARIVA – CANADA

Halifax, Nova Scotia

Montreal, Quebec

Mount Pearl, Newfoundland and Labrador

Ottawa, Ontario

Quebec City, Quebec

Toronto, Ontario

REGIONAL REPLENISHMENT CENTERS – UNITED STATES

Charlotte, North Carolina

Chicago, Illinois

Dallas, Texas

Delran, New Jersey

Indianapolis, Indiana

Jacksonville, Florida

Mira Loma, California

Seattle, Washington

REGIONAL REPLENISHMENT CENTERS – CANADA

Richmond, Quebec

Toronto, Ontario

Winnipeg, Manitoba

REPRESENTATIVE OFFICE – INTERNATIONAL

Hong Kong, China

LOCAL DISTRIBUTION CENTERS

Buffalo, New York

Cincinnati, Ohio

Cleveland, Ohio

Denver, Colorado

Des Moines, Iowa

Houston, Texas

Kansas City, Kansas

Minneapolis, Minnesota

Omaha, Nebraska

Phoenix, Arizona

Plain City, Ohio

Richmond, Virginia

Salt Lake City, Utah

San Antonio, Texas

San Lorenzo, California

St. Louis, Missouri

Vancouver, Washington

Walton, Kentucky

Wayne, Michigan

Wisconsin Rapids, Wisconsin

2 This reflects an incremental 70,000 tons of softwood and fluff pulp production expected as a result of the closure of a paper machine in November of 2019.

PERSONAL CARE

Domtar is a recognized manufacturer of high-quality and innovative absorbent hygiene products, which we also design, market and distribute. We are one of the leading suppliers of adult incontinence products sold into North America and Europe. We are also a recognized supplier of infant diaper products and engineered absorbent materials.

Our five manufacturing plants are supported by a sales force in Europe and the United States. We sell our products primarily in North America and Europe, as well as in other countries around world.

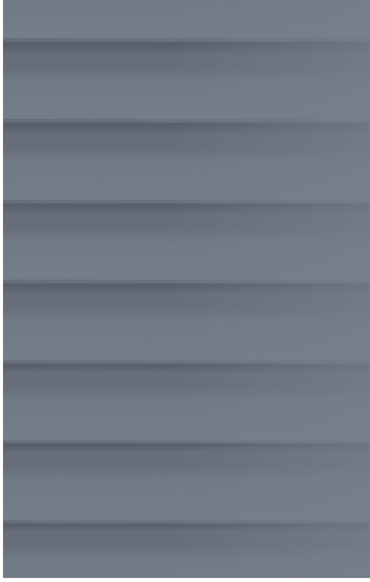
IMPROVING QUALITY OF LIFE

Our vision is to be a global leader in absorbent hygiene markets by meeting the diverse needs of consumers through effective, affordable and widely available personal care solutions. Each year, we manufacture and ship billions of products for adults, infants and children that help improve their quality of life. Our products are designed with the consumer in mind, focused on leakage protection, absorbency, comfort, fit and aesthetics.

Adult incontinence products

We produce high-quality branded and partner-branded products for people – both young and old – living with light to heavy incontinence. Our proprietary brands include Attends®, Indasec®, IndasSlip® and Reassure®. Additionally, we make partner brands for major retailers around the world.

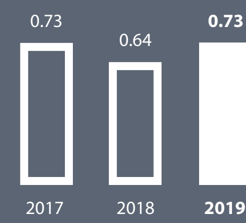
We serve institutional and consumer channels with products available online, in pharmacies and stores, and through healthcare services. In 2019, we shipped over 2.6 billion units of adult diapers, a 3% increase when compared to 2018 reflecting strong product and customer growth.



HEALTH AND SAFETY

Ongoing attention to the prevention of hand injuries has enabled a major reduction in total injury frequency rates in Personal Care during the past decade. In 2019, our performance improved during the first 11 months of the year before suffering a setback in December.

PERSONAL CARE TOTAL INJURY FREQUENCY RATES



Infant, child and youth products

We design and make baby diapers, training, youth pants and bed mats. Our brand names include Comfees®, Chelino™, Nene™ and Bambino™. We also work closely with major retailers supplying partner brand diapers for their own stores. In 2019, we shipped nearly 1.5 billion units of baby diapers, which was lower than in 2018 largely due to the planned exit of unprofitable customers.

Engineered absorbent materials

We are also innovators in producing ultrathin, disposable absorbent composites for manufacturing companies worldwide. Some of the world's largest branded and private label manufacturers – including Domtar – incorporate our NovaThin® and NovaZorb® brand cores into a wide range of consumer products. These include feminine hygiene, adult incontinence, baby diapers, medical and healthcare applications, and food packaging.

POSITIONING FOR SUCCESS

In 2019, our personal care business was focused on margin improvement in a challenging global market. We consolidated our manufacturing footprint with the closure of our Waco, Texas, facility in the second quarter of 2019, and further optimized our production lines and capabilities across the network. We made solid progress in our asset repositioning and start-up activities in North America.

We also continued to adjust our product and customer mix in order to reduce complexity and align ourselves with strategic, long-term customers. This has enabled us to lower our cost position and create opportunities for future growth and profitability. While executing our margin improvement plan, we achieved some important customer wins in our infant diaper business that will scale up in 2020.

MARKET DYNAMICS

The adult incontinence category continues to show solid growth, estimated at 3% to 5% annually, as the world's population ages. It is expected that in 10 years' time over 12% of the projected total world population will be 65 or older. Lower pricing in this product category is in large part driven by pressure to reduce public spending on healthcare costs and on the availability of reimbursement programs. This category represents about two-thirds of Personal Care's total sales, and our strategy for 2020 is to focus on higher margin segments, install and ramp-up new capacity to support growth and capture insource savings.

The infant diaper market is currently experiencing flat to declining demand due to low birth rates, but the importance of this category to key retailers is expected to remain strong given the purchasing power of the infant diaper shopper. Oversupply is also driving pricing pressure. We are focused on growing our partner branded opportunities and expanding our relationships with major retailers that are committed to this space.

In 2020, we will remain focused on developing and scaling strategic customer, channel and supplier partnerships both in the adult incontinence and infant categories to capture opportunities for growth.

PERSONAL CARE SEGMENT KEY FIGURES

Years ended December 31	2017	2018	**2019**
(In millions of dollars)			
Sales	996	1,000	**953**
Operating income (loss)	(527)	(5)	**(15)**
Depreciation and amortization	67	70	**65**
Capital expenditures	48	37	**41**
Total assets	1,406	1,331	**1,258**

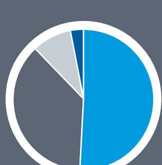
SALES BY PRODUCT CATEGORY

- Adult Incontinence **69%**
- Infant **23%**
- Other **8%**

SALES BY REGION

- U.S. **52%**
- Europe **46%**
- Asia **1%**
- Other **1%**

SALES BY CHANNEL



- Healthcare **51%**
- Retail **37%**
- Direct-to-consumer **9%**
- Other **3%**

PERSONAL CARE SEGMENT FOOTPRINT

CORPORATE OFFICES

Fort Mill, South Carolina
Montreal, Quebec

DIVISION HEADQUARTERS

Raleigh, North Carolina

MANUFACTURING AND DISTRIBUTION FACILITIES

Aneby, Sweden
Delaware, Ohio
Greenville, North Carolina
Jesup, Georgia
Toledo, Spain

SALES OFFICES

Bodö, Norway
Bourgoin Jallieu, France
Daytona Beach, Florida
Tuitjenhorn, The Netherlands
Olivette, Missouri
Oslo, Norway
Linz, Austria
Madrid, Spain
Rheinfelden, Switzerland
Schwalbach am Taunus, Germany
Stockholm, Sweden
Texarkana, Arkansas
Wakefield, United Kingdom

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

FORM 10-K

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

For the fiscal year ended December 31, 2019

or

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-33164

Domtar Corporation
(Exact name of registrant as specified in its charter)

Delaware	**20-5901152**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
234 Kingsley Park Drive Fort Mill, SC	**29715**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (803) 802-7500

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ NO ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The New York Stock Exchange on June 30, 2019, was $2,801,211,465.

The number of shares of Registrant's Common Stock outstanding as of February 17, 2020 was 56,273,429.

Portions of the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders, scheduled to be held on May 6, 2020, are incorporated by reference into Part III of this Report.

DOMTAR CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2019

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

GENERAL

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

We operate the following business segments: Pulp and Paper and Personal Care. We had revenues of $5.2 billion in 2019, of which approximately 82% was from the Pulp and Paper segment and approximately 18% was from the Personal Care segment.

Throughout this Annual Report on Form 10-K, unless otherwise specified, “Domtar Corporation,” “the Company,” “Domtar,” “we,” “us” and “our” refer to Domtar Corporation, its subsidiaries, as well as its investments.

AVAILABILITY OF INFORMATION

In this Annual Report on Form 10-K, we incorporate by reference certain information contained in other documents filed with the Securities and Exchange Commission (“SEC”) and we refer you to such information. We file annual, quarterly and current reports and other information with the SEC. The SEC maintains a website at www.sec.gov that contains our quarterly and current reports, proxy and information statements, and other information we file electronically with the SEC. You may also access, free of charge, our reports filed with the SEC through our website. Reports filed or furnished to the SEC will be available through our website as soon as reasonably practicable after they are filed or furnished to the SEC. The information contained on or connected to our website, www.domtar.com, is not incorporated by reference into this Form 10-K and should in no way be construed as a part of this or any other report that we filed with or furnished to the SEC.

OUR CORPORATE STRUCTURE

At December 31, 2019, Domtar Corporation had a total of 56,880,910 shares of common stock issued and outstanding.

Our common stock is traded on the New York Stock Exchange and the Toronto Stock Exchange under the symbol “UFS”.

Information regarding our common stock is included in Item 8, Financial Statements and Supplementary Data under Note 21 “Shareholders’ Equity”.

OUR BUSINESS SEGMENTS

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

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

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

Information regarding our reportable segments is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as Item 8, Financial Statements and Supplementary Data under Note 24 "Segment Disclosures". Geographic information is also included under Note 24 of the Financial Statements and Supplementary Data.

PULP AND PAPER

Our Manufacturing Operations

We produce approximately 4 million metric tons of softwood, fluff and hardwood pulp at 12 of our 13 mills (Port Huron being a non-integrated paper mill). More than 50% of our pulp is consumed internally to manufacture paper, with the balance being sold as market pulp. We also purchase limited papergrade pulp from third parties for specific grades and to optimize the logistics of our pulp capacity while reducing transportation costs.

We are the largest integrated manufacturer and marketer of uncoated freesheet paper in North America. We have nine integrated pulp and paper mills and one non-integrated paper mill (eight in the United States and two in Canada), with an annual paper production capacity of approximately 2.9 million tons of uncoated freesheet paper. Our paper manufacturing operations are supported by 13 converting and forms manufacturing operations (including a network of 10 plants located offsite from our paper making operations). Approximately 76% of our paper production capacity is in the United States and 24% is located in Canada.

We produce market pulp in excess of our internal requirements at our pulp and paper mills in Ashdown, Espanola, Hawesville, Windsor, Marlboro and Nekoosa. We also produce papergrade, fluff and specialty pulps at our three stand-alone pulp mills in Kamloops, Dryden and Plymouth. We can sell approximately 1.9 million metric tons of pulp per year depending on market conditions. Approximately 54% of our trade pulp production capacity is in the U.S., and 46% is located in Canada.

The table below lists our operating pulp and paper mills and their annual production capacity:

Production Facility	Fiberline Pulp Capacity		Saleable Paper (1)		
	# lines	('000 ADMT) (2)	# machines	Category (3)	('000 ST) (2)
Uncoated freesheet					
Ashdown, Arkansas	3	707	1	Communication	200
Windsor, Quebec	1	447	2	Communication	642
Hawesville, Kentucky	1	412	2	Communication	596
Kingsport, Tennessee	1	304	1	Communication	426
Marlboro, South Carolina	1	320	1	Specialty & Packaging	274
Johnsonburg, Pennsylvania	1	228	2	Communication	344
Nekoosa, Wisconsin	1	155	3	Specialty & Packaging	168
Rothschild, Wisconsin	1	65	1	Communication	131
Port Huron, Michigan	—	—	3	Specialty & Packaging	95
Espanola, Ontario	2	300	2	Specialty & Packaging	69
Total Uncoated freesheet	12	2,938	18		2,945
Pulp					
Kamloops, British Columbia	1	408	—		—
Dryden, Ontario	1	327	—		—
Plymouth, North Carolina	1	390	—		—
Total Pulp	3	1,125	—		—
Total	15	4,063	18		2,945
Total Trade Pulp (4)		**1,922**			

(1) Paper capacity is based on an operating schedule of 360 days and the production at the winder.
(2) ADMT refers to an air dry metric ton and ST refers to short ton.

(3) Represents the majority of the capacity at each of these facilities.
(4) Estimated third-party shipments dependent upon market conditions. This also includes shipments to our Personal Care segment.

Our Raw Materials

The manufacturing of pulp and paper requires wood fiber, chemicals and energy. We discuss these three major raw materials used in our manufacturing operations below.

Wood Fiber

United States pulp and paper mills

The fiber used by our pulp and paper mills in the U.S. is softwood and hardwood, both readily available in the market from multiple third-party sources. The mills obtain fiber from a variety of sources, depending on their location. These sources include a combination of supply contracts, wood lot management arrangements, advance stumpage purchases and spot market purchases.

Canadian pulp and paper mills

The fiber used at our Windsor pulp and paper mill is hardwood originating from a variety of sources, including purchases on the open market in Canada and the U.S., contracts with Quebec wood producers' marketing boards, public land where we have wood supply allocations and from Domtar's private lands. The softwood and hardwood fiber for our Espanola pulp and paper mill and the softwood fiber for our Dryden pulp mill, are obtained from third parties, directly or indirectly from public lands and through designated wood supply allocations. The fiber used at our Kamloops pulp mill is all softwood, originating mostly from third-party sawmill operations in the southern-interior part of British Columbia.

Cutting rights on public lands related to our pulp and paper mills in Canada represent about 1.5 million cubic meters of softwood and 1.0 million cubic meters of hardwood per year. Access to harvesting of fiber on public lands in Ontario and Quebec is subject to licenses and review by the respective governmental authorities.

During 2019, the cost of wood fiber relating to our Pulp and Paper segment comprised approximately 20% of the total consolidated cost of sales.

Chemicals

We use various chemical compounds in our pulp and paper manufacturing operations that we purchase, primarily on a centralized basis, through contracts varying between one and ten years in length to ensure product availability. Most of the contracts have pricing that fluctuates based on prevailing market conditions. For pulp manufacturing, we use numerous chemicals including caustic soda, sodium chlorate, sulfuric acid, lime and peroxide. For paper manufacturing, we also use several chemical products including starch, precipitated calcium carbonate, optical brighteners, dyes and aluminum sulfate.

During 2019, the cost of chemicals relating to our Pulp and Paper segment comprised approximately 11% of the total consolidated cost of sales.

Energy

Our operations produce and consume substantial amounts of energy. Our primary energy sources include: biomass, natural gas and electricity. Approximately 72% of the total energy required to manufacture our products comes from renewable fuels such as bark and spent pulping liquor, generated as byproducts from our manufacturing processes. The remainder of the energy comes from smaller amounts of other fossil fuels and purchased steam procured under supply contracts. Under most of these contracts, suppliers are committed to provide quantities within pre-determined ranges that provide us with our needs for a particular type of fuel at a specific facility. Most of these contracts have pricing that fluctuate based on prevailing market conditions. Biomass and fossil fuels are consumed primarily to produce steam that is used in the manufacturing process and, to a lesser extent, to provide direct heat used in the chemical recovery process.

We have cogenerating assets at all of our integrated pulp and paper mills, as well as hydro assets at three locations: Espanola, Nekoosa and Rothschild. These generating assets produce approximately 67% of the electricity requirements of this business segment, with the balance supplied from local utilities. Electricity is primarily used to drive motors, pumps and other equipment, as well as provide lighting.

During 2019, net energy costs relating to our Pulp and Paper segment comprised approximately 5% of the total consolidated cost of sales.

Our Transportation

Transportation of raw materials, wood fiber, chemicals and pulp into our mills is mostly done by rail and trucks, although barges are used in certain circumstances. We rely strictly on third parties for the transportation of our pulp and paper products between our mills, converting operations, distribution centers and customers. Our paper products are shipped mostly by truck and logistics are managed centrally in collaboration with each location. Our pulp is either shipped by vessel, rail or truck depending on destination and customer preference. We work with all major railroads and approximately 300 trucking companies in the U.S. and Canada. Service agreements are typically negotiated on an annual basis. We pay diesel fuel surcharges which vary depending on the mode of transportation used and the cost of diesel fuel.

During 2019, outbound transportation costs relating to our Pulp and Paper segment comprised approximately 10% of the total consolidated cost of sales.

Our Product Offering and Go-to-Market Strategy

Paper

Our uncoated freesheet papers are categorized into both communication papers and specialty and packaging papers. Communication papers are further categorized into business papers and commercial printing and publishing papers.

Our business papers include copy and electronic imaging papers, which are used with inkjet and laser printers, photocopiers and plain-paper fax machines, as well as computer papers, preprinted forms and digital papers. These products are primarily for office and home use. Business papers accounted for approximately 51% of our shipments of paper products in 2019.

Our commercial printing and publishing papers include uncoated freesheet papers, such as offset papers and opaques. These uncoated freesheet grades are used in sheet and roll fed offset presses across the spectrum of commercial printing end-uses, including digital printing. Our publishing papers include tradebook and lightweight uncoated papers used primarily in book publishing applications such as textbooks, dictionaries, catalogs, magazines, hard cover novels and financial documents. These products also include converting papers, such as envelopes, tablets, business forms and data processing/computer forms. Commercial printing and publishing papers accounted for approximately 33% of our shipments of paper products in 2019.

Our specialty and packaging papers include papers used for thermal printing, flexible packaging, food packaging, medical packaging, medical gowns and drapes, sandpaper backing, carbonless printing, labels and other papers used for coating and laminating applications. We also manufacture papers for industrial and specialty applications including carrier papers, treated papers, security papers and specialized printing and converting applications. These specialty and packaging papers accounted for approximately 16% of our shipments of paper products in 2019. These grades of papers require a certain amount of innovation and agility in the manufacturing system.

The chart below illustrates our main uncoated freesheet paper products and their applications:

	Communication Papers				**Specialty and Packaging Papers**
Category	**Business Papers**		**Commercial Printing and Publishing Papers**		
Grade	Copy	Premium imaging Technology papers	Offset Colors Index Tag Bristol	Opaques Premium opaques Lightweight Tradebook	Thermal papers Food packaging Bag stock Security papers Imaging papers Label papers Medical disposables
Application	Photocopies Office documents Presentations	Presentations Reports	Commercial printing Direct mail Pamphlets Brochures Cards Posters	Stationery Brochures Annual reports Books Catalogs Forms & Envelopes	Food & candy packaging Fast food takeout bag stock Check and security papers Surgical gowns

Our paper sales channels are aligned to efficiently bring a competitive and complete product offering to our varied customers. Our customer service personnel work closely with sales, marketing and production staff to provide service and support to merchants, converters, end-users, stationers, printers and retailers. We sell our products directly to end-users and others who influence paper purchasing decisions in order to enhance brand recognition and increase product demand. In addition, our sales representatives work closely with mill-based product development personnel and undertake joint marketing initiatives with customers in order to better understand their business needs and to support their future requirements.

We sell business papers primarily to paper stationers, merchants, office equipment manufacturers and retail outlets. We distribute uncoated commercial printing and publishing papers to end-users and commercial printers, mainly through paper merchants, as well as selling directly to converters. We sell our specialty and packaging papers mainly to converters, who apply a further production process such as coating, laminating, folding or waxing to our papers before selling them to a variety of specialized end-users.

The chart below illustrates our channels of distribution for our paper products:

	Communication Papers						**Specialty and Packaging Papers**
Category	**Business Papers**			**Commercial Printing and Publishing Papers**			
Domtar sells to:	Retailers ↓	Merchants ↓	Office Equipment Manufacturers / Stationers ↓	Merchants ↓	Converters ↓	End-Users	Converters ↓
Customer sells to:	Printers / End-users	Printers / Retailers / End-users	Retailers / Stationers / End-users	Printers / Converters / End-users	Merchants / Retailers		End-users

Pulp

Our pulp products are comprised of softwood, fluff and hardwood kraft. These grades are sold to customers in over 50 countries worldwide. Our pulp is used in a variety of end products, such as diapers and personal hygiene products, bathroom and facial tissue, specialty and packaging papers, customers who make printing and writing grades, building products and electrical insulating papers.

We sell market pulp to customers in North America mainly through a North American sales force while sales to most overseas customers are made directly or through commission agents. We maintain pulp supplies at strategically located warehouses, which allow us to respond to customer orders on short notice.

Our Customers

Our ten largest customers represented approximately 46% of our Pulp and Paper segment sales or approximately 37% of our total sales in 2019. In 2019, Staples, a customer of our Pulp and Paper segment, represented approximately 11% of our total sales. The majority of our customers purchase products through individual purchase orders. In 2019, approximately 75% of our Pulp and Paper segment sales were in the United States, 10% were in Canada, and 15% were in other countries.

PERSONAL CARE

Our Operations

Our Personal Care business consists of the design, manufacturing, marketing and distribution of absorbent hygiene products, including adult incontinence and infant diaper products. We are one of the leading suppliers of adult incontinence and infant diaper products sold into North America and Europe, servicing institutional and consumer channels, marketed primarily under our Attends®, IncoPack®, Indasec®, Reassure®, Chelino and Comfees® brands, in addition to our customers' brands.

We operate five manufacturing facilities located in the U.S. and Europe, with the ability to produce multiple product categories including our Jesup, Georgia facility, which manufactures high quality airlaid and ultrathin laminated absorbent cores. We have research and development capabilities across our manufacturing footprint to maintain quality assurance and drive product innovation. Our operations are supported by our divisional headquarters located in Raleigh, North Carolina.

Our Industry Dynamics

Aging population

We compete in an industry with fundamental drivers for long-term growth. The worldwide aging population suggests that adult incontinence will become much more prevalent over the next several decades, as baby boomers enter their senior years and medical advances continue to extend the average lifespan. By the year 2030, approximately one billion people worldwide are estimated to be 65 years old or older, representing 12% of the projected total world population.

Increased healthcare spending

While we are expected to benefit from the overall increase in healthcare spending due to an aging population, the pressure to limit public spending on healthcare may impact overall consumption or the channels in which consumption occurs.

Infant products

We compete mainly within the competitive store brand segment of infant diapers and training pants. Future unit demand growth based on birth rate and demographic trends is forecasted to be limited in North America and Europe. The focus is on driving category value by offering new benefits and by marketing to shift product mix to higher priced segments. The importance of the category to key retailers is expected to remain strong given the purchasing power and strategic importance of the infant diaper shopper. Today, our business is focused on securing multiyear contracts with large retailers that control the majority of volume, leading to intense competition with other manufacturers in the industry.

Our focus on insight and innovation provides our customers with competitive products and services at a scale required to meet their national distribution requirements.

Our Raw Materials

The primary raw materials used in our manufacturing process are fluff pulp, nonwovens and super absorbent polymers. A significant portion of the fluff pulp used in our Personal Care business is supplied internally from our Pulp and Paper business. The majority of our nonwoven and super absorbent polymers are purchased centrally based on multiyear contracts with pricing that fluctuates with market conditions. Other raw materials used in our manufacturing process include polypropylene film, elastics and adhesives which are also purchased with multiyear contracts.

Our Product Offering and Go-to-Market Strategy

We supply a variety of products, which include branded and private label briefs, bladder control pads, protective underwear, underpads and washcloths, as well as baby diapers, change mats, youth pants and training pants. They are available in a variety of sizes, differing performance levels and product attributes. Our broad product portfolio covers most price points across each category.

Our Product Development

We currently offer a comprehensive, full line of products, and we continue to focus on product development to improve comfort, dryness and leakage protection for our consumers. We continue to explore new materials, designs and processes that will allow us to improve future performance and value to meet global market needs.

OUR STRATEGIC INITIATIVES AND FINANCIAL PRIORITIES

As a leading fiber-based technology company, Domtar is focused on driving innovation, enhancing our operating platforms, and delivering high quality products. To further bolster our position and drive enhanced value for our stockholders, Domtar is focused on four key business objectives: (1) driving value in our Pulp and Paper business through strategic investment; (2) building on our core competencies in wood fiber to diversify and expand Domtar's footprint in growth markets and industries; (3) maintaining a balanced and disciplined approach to capital allocation that allows for investments in growth opportunities and rewards stockholders with capital returns; and (4) operating with a focus on environmental responsibility and sustainability. We are confident that the continued focus on these objectives will bolster the competitive position of our business and drive value for our stakeholders, including stockholders, customers and employees.

Driving value in our Pulp and Paper business. Domtar's Pulp and Paper business remains an important part of our growth plan, and we have strategies and operating priorities designed to maximize the value of the business. Our key priorities include: increasing productivity in our pulp business, pursuing new sources of paper consumption, pursuing asset repurposing opportunities and operating an optimal portfolio of strategic assets. We believe that execution on these priorities will enable Domtar to expand into complementary growth areas and protect its market position in Pulp and Paper.

Expanding into areas of growth and leveraging our fiber expertise. We are focused on optimizing and expanding our operations in markets with positive demand dynamics through investments for organic growth, the repurposing of assets and strategic acquisitions. Domtar has a history of proactively adapting to changing market conditions, and today, we are repositioning the Company towards areas of growth. We are well positioned to capitalize on new opportunities in the wood fiber market. The Company already has the financial resources, infrastructure, raw materials, technologies and expertise necessary to deliver new products. We believe that we have built a strong foundation for diversification and continue to make important, but disciplined, progress.

Maintaining a balanced and disciplined approach to capital allocation that allows for investments in growth opportunities and rewards stockholders with capital returns. We believe in a balanced and disciplined approach to capital allocation, and we are committed to deploying capital only to the areas that will achieve the best possible return for our stockholders. Domtar's free cash flow allows us to invest in growth opportunities and maintain a strong and flexible financial position for operating and strategic initiatives, while still returning capital to our stockholders. To continue generating free cash flow, we are focused on assigning our capital expenditures effectively and minimizing working capital requirements by reducing discretionary spending, reviewing procurement costs and pursuing the balance of production and inventory control.

Operating responsibly on behalf of all of Domtar's stakeholders. We try to make a positive difference every day by pursuing sustainable growth, valuing relationships, and responsibly managing our resources. We aim to care for our customers, end-users and stakeholders in the communities where we operate, all seeking assurances that resources are managed in a sustainable manner. We strive to provide these assurances by certifying our distribution and manufacturing operations and measuring our performance against internationally recognized benchmarks. Domtar is committed to the responsible use of forest resources across our operations, and we are enrolled in programs and initiatives to encourage landowners to pursue certification to improve their market access and increase their revenue opportunities. We believe that each of these initiatives also creates value for our stockholders and is part of our larger business strategy and commitment to environmental sustainability.

OUR COMPETITION

The markets in which our businesses operate are highly competitive with well-established domestic and foreign manufacturers.

In the paper business, our paper production does not rely on proprietary processes or formulas, except in highly specialized papers or customized products. In uncoated freesheet, we compete primarily on the basis of product quality, breadth of offering, service solutions and competitively priced paper products, which include an extensive offering of high quality Forest Stewardship Council ("FSC")-certified paper products. While we have a leading position in the North American uncoated freesheet market, we also compete with other paper grades, including coated freesheet, and with electronic transmission and document storage alternatives. As the use of these alternative products continues to grow, we continue to see a decrease in the overall demand for paper products. All of our pulp and paper manufacturing facilities are located in the U.S. or in Canada where we sell approximately 85% of our products. The five largest manufacturers of uncoated freesheet papers in North America (including Domtar) represent approximately 82% of total production capacity. On a global basis, there are hundreds of manufacturers that produce and sell uncoated freesheet paper. The level of competitive pressures from foreign producers in the North American market is highly dependent upon exchange rates, particularly the rate between the U.S. dollar and the Euro as well as the U.S. dollar and the Brazilian real.

The market pulp we sell is fluff, softwood or hardwood pulp. The pulp market is highly fragmented with many manufacturers competing worldwide. Competition is primarily on the basis of access to low-cost wood fiber, product quality and competitively priced pulp products. The fluff pulp we sell is used in absorbent products, incontinence products, diapers and feminine hygiene products. The softwood and hardwood pulp we sell is primarily slow growth northern bleached softwood and hardwood kraft, and we produce specialty engineered pulp grades with a pre-determined mix of wood species. Our softwood and hardwood pulps are sold to customers who make a variety of products for specialty paper, packaging, tissue and industrial applications, and customers who make printing and writing grades. We also seek product differentiation through the certification of our pulp mills to the FSC chain-of-custody standard and the procurement of FSC-certified virgin fiber. All of our market pulp production capacity is located in the U.S. or in Canada, and we sell approximately 58% of our pulp to other countries.

In the adult incontinence business, competition is primarily faced across four major product categories: protective underwear, pads, briefs and underpads, with customers served through the healthcare, retail (mass retailers, drug stores, dollar stores, supermarkets, warehouse clubs), and emerging direct to consumer channels. In North America, the market is split equally between retail and institutional/healthcare sectors. In Europe, approximately 68% of market demand is served through institutional/reimbursed channels, with the retail sector delivering lower sales through a more fragmented mix of players than in North America.

In the infant business, competition is primarily across three major product categories: diapers, training pants and youth pants with customers served through the retail (mass retailers, hypermarkets, drug stores, dollar stores, supermarkets, warehouse clubs) and direct to consumer channels. In North America, branded labels represent the majority of the infant market with the top two manufacturers supplying a significant portion of the branded demand. The remaining supply is represented by private label, and is split among the competition. In Europe, the top manufacturer supplies approximately half of the demand with branded labels, and the remainder is represented by private label and niche lifestyle brands.

In both the adult incontinence and infant diaper industries, the principal levers of competition remain brand loyalty, product innovation, quality, price and marketing and distribution capabilities. Competitive market pressures in both the healthcare and retail sectors have increased in recent years, including increased competition in the private label category, excess industry capacity and the pressure to limit public healthcare spending.

OUR EMPLOYEES

We have approximately 10,000 employees, of which approximately 60% are employed in the United States, 28% in Canada and 12% in Europe. Approximately 44% of our employees are covered by collective bargaining agreements, generally on a facility-by-facility basis. Certain agreements will expire in 2020 and others will expire between 2021 and 2022.

OUR APPROACH TO SUSTAINABILITY

Domtar aims to deliver value to our customers, employees, shareholders and communities by viewing our business decisions within the larger context of sustainability. We take a long-term view on managing natural resources for the future. We strive to minimize waste and encourage recycling. We aim to have the highest standards for ethical conduct, for caring about the health and safety of each other, and for maintaining the environmental quality in the communities where we live and work. We value the partnerships we have formed with non-governmental organizations and believe they make us a better company. We focus on agility to respond to new opportunities, and we are committed to turning innovation into value creation. By embracing sustainability as our operating philosophy, we seek to internalize the fact that the choices we have and the impact of the decisions we make on our stakeholders are all interconnected. We believe that our business and the people and communities who depend on us are better served as we weave this focus on sustainability into the things we do.

Domtar executes this commitment to sustainability at every level and every location across the company. With the support of the Board of Directors, our Management Committee empowers senior managers from manufacturing, technology, finance, sales and marketing and corporate staff functions to regularly come together and establish key sustainability performance metrics, and to routinely assess and report on progress. We have a vice-president position to help lead this effort, allowing the company's organizational structure to better reflect the priority the company places on sustainable performance. We believe that weaving sustainability into our business better positions Domtar for the future.

OUR ENVIRONMENTAL COMPLIANCE

Our business is subject to a wide range of general and industry-specific laws and regulations in the U.S. and other countries where we have operations, relating to the protection of the environment, including those governing wood harvesting, air emissions, climate change, waste water discharges, storage, management and disposal of hazardous substances and wastes, contaminated sites, landfill operation and closure obligations and health and safety matters. Compliance with these laws and regulations is a significant factor in the operation of our business. We may encounter situations in which our operations fail to maintain full compliance with applicable environmental requirements, possibly leading to civil or criminal fines, penalties or enforcement actions, including those that could result in governmental or judicial orders that stop or interrupt our operations or require us to take corrective measures at substantial costs, such as the installation of additional pollution control equipment or other remedial actions.

Compliance with environmental laws and regulations involves capital expenditures as well as additional operating costs. Additional information regarding environmental matters is included in Item 8, Financial Statements and Supplementary Data under Note 22 "Commitments and Contingencies" and in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations under the section of Critical accounting estimates and policies, caption "Environmental matters and asset retirement obligations."

OUR INTELLECTUAL PROPERTY

Many of our brand name products are protected by registered trademarks. Our key trademarks include Cougar®, Lynx® Opaque Ultra, Husky® Opaque Offset, First Choice®, EarthChoice®, Ariva®, Attends®, NovaThin®, NovaZorb®, IncoPack®, Indasec®, Reassure®, Chelino and Comfees®. These brand names and trademarks are important to our business. Our numerous trademarks have been registered in the U.S. and/or in other countries where our products are sold. The current registrations of these trademarks are effective for various periods of time. These trademarks may be renewed periodically, provided that we, as the registered owner, and/or licensee comply with all applicable renewal requirements, including the continued use of the trademarks in connection with similar goods.

We own U.S. and foreign patents and have several pending patent applications. Our management regards these patents and patent applications as important but does not consider any single patent or group of patents to be materially important to our business as a whole.

OUR EXECUTIVE OFFICERS ("MANAGEMENT COMMITTEE")

Name	Age	Position and Business Experience
John D. Williams	65	President and Chief Executive Officer of the Company since January 2009. He is also a member of the Board of Directors. Previously, Mr. Williams served as President of SCA Packaging Europe between 2005 and 2008. Prior to assuming his leadership position with SCA Packaging Europe, Mr. Williams held increasingly senior management and operational roles in the packaging business and related industries. Mr. Williams is Lead Independent Director of the Board of Directors of Owens Corning and the Non-Executive Chairman of Form Technologies, Inc., a privately-held leading global group of precision component manufacturers based in Charlotte, North Carolina.
Daniel Buron	56	Senior Vice President and Chief Financial Officer of the Company since March 2007. Mr. Buron was previously Senior Vice-President and Chief Financial Officer of Domtar Inc. since May 2004. He joined Domtar Inc. in 1999. Prior to May 2004, he was Vice-President, Finance, Pulp and Paper sales division and, prior to September 2002, he was Vice-President and Controller. He has over 30 years of experience in finance. Mr. Buron is a Director of the McGill University Health Centre Foundation and also serves on the Board of Directors of Semafo Inc. and Nouveau Monde Graphite Inc.
Michael D. Garcia	55	President, Pulp and Paper Division of the Company. Mr. Garcia joined Domtar in 2014. Prior to joining the Company, he was the chief executive officer at EVRAZ Highveld Steel & Vanadium Co., South Africa's second largest steel producer. Mr. Garcia has more than 25 years of international management experience in paper, steel, and aluminum manufacturing and marketing. He has broad global experience, including executive assignments in Asia and Africa. Mr. Garcia is a Director of the Federal Reserve Bank of Richmond, Charlotte Branch, and of the USO of North Carolina. He also serves on the Board of Directors of Alliant Energy Corp.
Michael Fagan	58	President, Personal Care Division of the Company. Mr. Fagan joined Domtar in 2011, following the acquisition of Attends Healthcare Products, Inc. Mr. Fagan has been with Attends since 1999, when he was hired as Senior Vice-President of Sales and Marketing. He was promoted to President and CEO in 2006. Prior to joining Attends, Mr. Fagan held a variety of sales development roles with Procter & Gamble, the previous owners of the Attends line of products.
Zygmunt Jablonski	66	Senior Vice President and Chief Legal and Administrative Officer of the Company. Mr. Jablonski joined Domtar in 2008, after serving in various in-house counsel positions for major manufacturing and distribution companies in the paper industry for 13 years. From 1985 to 1994, he practiced law in Washington, DC.
Patrick Loulou	51	Senior Vice President, Corporate Development since he joined the Company in March 2007. Previously, he held a number of positions in the telecommunications sector as well as in management consulting. His over 20 year career has spanned a number of areas and functions such as corporate strategy, M&A, operations, business transformation and business development.

FORWARD-LOOKING STATEMENTS

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

- continued decline in usage of fine paper products in our core North American market;
- our ability to implement our business diversification initiatives, including repurposing of assets and strategic acquisitions;
- product selling prices;
- raw material prices, including wood fiber, chemical and energy;
- conditions in the global capital and credit markets, and the economy generally, particularly in the U.S., Canada and Europe;
- performance of our manufacturing operations, including unexpected maintenance requirements;
- the level of competition from domestic and foreign producers;
- cyberattack or other security breaches;
- the effect of, or change in, forestry, land use, environmental and other governmental regulations and accounting regulations;
- the effect of weather and the risk of loss from fires, floods, windstorms, hurricanes and other natural disasters;
- transportation costs;
- the loss of current customers or the inability to obtain new customers;
- legal proceedings;
- changes in asset valuations, including impairment of property, plant and equipment, inventory, accounts receivable or other assets for impairment or other reasons;
- changes in currency exchange rates, particularly the relative value of the U.S. dollar to the Canadian dollar and European currencies;
- the effect of timing of retirements and changes in the market price of Domtar Corporation's common stock on charges for stock-based compensation;
- performance of pension fund investments and related derivatives, if any; and
- the other factors described under "Risk Factors," Item 1A.

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

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below in addition to the other information presented in this Annual Report on Form 10-K.

The Company faces intense competition in its markets, and the failure to compete effectively could have a material adverse effect on its business and results of operations.

The Company competes with U.S., Canadian, European and Asian producers and, for many of its product lines with global producers, some of which may have greater financial resources and lower production costs than the Company. The principal basis for competition is selling price. The Company's ability to maintain satisfactory margins depends largely on its ability to control its costs. Our industries also are particularly sensitive to other factors including innovation, design, quality and service, with varying emphasis on these factors depending on the product line. The Company cannot provide assurance that it will compete effectively and maintain current levels of sales and profitability. If the Company cannot compete effectively, such failure could have a material adverse effect on its business and results of operations.

Conditions in the global political and economic environment, including the global capital and credit markets, can adversely affect the Company's business, results of operations and financial position.

A significant or prolonged downturn in the general economic environment may affect the Company's sales and profitability. The Company has exposure to counterparties with which it routinely executes transactions. Such counterparties include commercial banks, insurance companies and other financial institutions, some of which may be exposed to bankruptcy or liquidity risks. A bankruptcy or illiquidity event by one of its significant counterparties may materially and adversely affect the Company's access to capital, future business and results of operations. In addition, the Company's customers and suppliers may be adversely affected by severe economic conditions. This could result in reduced demand for its products or its inability to obtain necessary supplies at reasonable costs, or at all.

The Company may be negatively impacted by political issues or crisis in individual countries or regions, including sovereign risk related to a default by or deterioration in the credit worthiness of local governments. Any of these effects, and others the Company cannot anticipate, may have a negative effect and may adversely affect the Company's business.

Certain countries in Europe provide medicare coverage for adult incontinence products. The governments of these countries may decide to no longer reimburse part or all of the costs of adult incontinence products, and this may have a negative impact on the Company's operating results in the future.

Failure to successfully implement the Company's business diversification initiatives could have a material adverse effect on its business, results of operations and financial position.

The Company is pursuing strategic initiatives that management considers important to our long-term success. The intent of these initiatives is to help grow the business and counteract the secular decline in our North American paper business. These initiatives may involve organic growth, select joint ventures and strategic acquisitions. The success of these initiatives will depend on, among other things, our ability to identify potential strategic initiatives, understand the key trends and principal drivers affecting those businesses and to execute the initiatives in a cost effective manner. There are significant risks involved with the execution of such initiatives, including significant business, economic and competitive uncertainties, many of which are outside the Company's control.

In addition, in the past we have converted paper mills to fluff pulp production facilities. If circumstances warrant, in the future we may again convert paper mills to produce pulp or other products. Conversions can be capital intensive and can involve the shutdown of a facility for an extended period of time, followed by an extended ramp-up and customer certification process. In addition, the success of a conversion depends upon demand over time for the new product relative to the previously produced paper products, as well as costs and other factors, and there can be no assurance that a conversion will be as successful as expected.

Strategic acquisitions may expose the Company to additional risks. The Company may have to compete for acquisition targets and any acquisition it makes may fail to accomplish our strategic objectives or may not perform as expected. In addition, the costs of integrating an acquired business may exceed our estimates and may require significant time and attention from senior management. Accordingly, the Company cannot predict whether it will succeed in implementing these strategic initiatives. If it fails to successfully diversify our business, it may have a material adverse effect on the Company's competitive position, financial condition and operating results.

The Company's paper products are vulnerable to long-term declines in demand due to competing technologies or materials.

The Company's paper business competes with electronic transmission and document storage alternatives, as well as with paper grades it does not produce, such as uncoated groundwood. As a result of such competition, the Company is experiencing ongoing decreasing demand for most of its existing paper products. As the use of these alternatives grows, demand for paper products is likely to decline further. Declines in demand for our paper products may adversely affect the Company's business, results of operations and financial position.

The pulp and paper industry is highly cyclical. Fluctuations in the prices of and the demand for the Company's pulp and paper products could result in lower sales volumes and smaller profit margins.

The pulp and paper industry is highly cyclical. Historically, economic and market shifts, fluctuations in capacity and changes in foreign currency exchange rates have created cyclical changes in prices, sales volume and margins for the Company's pulp and paper products. The length and magnitude of industry cycles have varied over time and by product, but generally reflect changes in macroeconomic conditions and levels of industry capacity. Most of the Company's paper products are commodities that are widely available from other producers. Because commodity products have few distinguishing qualities from producer to producer, competition for these products is based primarily on price, which is determined by supply relative to demand.

The overall levels of demand for the pulp and paper products that the Company manufactures and distributes, and consequently its sales and profitability, reflect fluctuations in levels of end-user demand, which depend in part on general macroeconomic conditions in North America and worldwide, the continuation of the current level of service and cost of postal services, as well as competition from electronic substitution. See "Conditions in the global political and economic environment, including the global capital and credit markets, can adversely affect the Company's business, results of operations and financial position" and "The Company's paper products are vulnerable to long-term declines in demand due to competing technologies or materials".

Industry supply of pulp and paper products is also subject to fluctuation, as changing industry conditions can influence producers to idle or permanently close individual machines or entire mills. Such closures can result in significant cash and/or non-cash charges. In addition, to avoid substantial cash costs in connection with idling or closing a mill, some producers will choose to continue to operate at a loss, sometimes even a cash loss, which could prolong weak pricing environments due to oversupply. Oversupply can also result from producers introducing new capacity in response to favorable pricing trends.

Industry supply of pulp and paper products is also influenced by overseas production capacity, which has grown in recent years and is expected to continue to grow.

As a result, prices for all of the Company's pulp and paper products are driven by many factors outside of its control, and the Company has little influence over the timing and extent of price changes, which are often volatile. Because market conditions beyond the Company's control determine the prices for its commodity products, the price for any one or more of these products may fall below its cash production costs, requiring the Company to either incur cash losses on product sales or cease production at one or more of its pulp and paper manufacturing facilities. The Company continuously evaluates potential adjustments to its production capacity, which may include additional closures of machines or entire mills, and the Company could recognize significant cash and/or non-cash charges relating to any such closures in future periods. Refer to Item 8, Financial Statements and Supplementary Data under Note 16 "Closure and restructuring costs and liability" for more details. Therefore, the Company's profitability with respect to these products depends on managing its cost structure, particularly wood fiber, chemical, transportation and energy costs, which represent the largest components of its operating costs and can fluctuate based upon factors beyond its control. If the prices or demand for its pulp and paper products decline, or if its wood fiber, chemical, transportation or energy costs increase, or both, this could adversely affect the Company's results of operations and financial position.

The Company is affected by changes in currency exchange rates.

The Company has manufacturing operations in the U.S., Canada, Sweden and Spain. As a result, it is exposed to movements in foreign currency exchange rates in Canada and Europe. Moreover, certain assets and liabilities are denominated in currencies other than the U.S. dollar and are exposed to foreign currency movements. As a result, the Company's earnings are affected by increases or decreases in the value of the Canadian dollar and of other European currencies relative to the U.S. dollar. The Company's European subsidiaries are exposed to movements in foreign currency exchange rates on transactions denominated in a different currency than their Euro functional currency. Additionally, there has been, and may continue to be, volatility in currency exchange rates. The Company's risk management policy allows hedging a significant portion of its exposure to fluctuations in foreign currency exchange rates for periods up to three years. The Company may use foreign exchange derivative instruments to mitigate its exposure to fluctuations in foreign currency exchange rates. There can be no assurance that the Company will be protected against substantial foreign currency fluctuations. Currency exchange rates could adversely affect the Company's results of operations and financial position.

The Company relies heavily on a small number of significant customers, including one customer that represented approximately 11% of the Company's sales in 2019. A significant change in customer relationships or in customer demand for our products could materially adversely affect the Company's business, financial condition or results of operations.

The Company heavily relies on a small number of significant customers. The Company's largest customer, Staples, represented approximately 11% of the Company's sales in 2019. A significant reduction in sales to any of the Company's key customers could materially adversely affect the Company's business, financial condition or results of operations, could result from such customers further diversifying their product sourcing, or experiencing financial difficulty or consolidating with each other.

The Company's operations require substantial capital, and it may not have adequate capital resources to provide for all of its capital requirements.

The Company's businesses are capital intensive and require ongoing capital expenditures in order to maintain its equipment, increase its operating efficiency and comply with environmental laws. In 2019, the Company's total capital expenditures were $255 million.

If the Company's available cash resources and cash generated from operations are not sufficient to fund its operating needs and capital expenditures, the Company would have to obtain additional funds from borrowings or other available sources or reduce or delay its capital expenditures. The Company may not be able to obtain additional funds on favorable terms, or at all. In addition, the Company's debt service obligations will reduce its available cash flows. If the Company cannot maintain or upgrade its equipment as it requires or allocate funds to ensure environmental compliance, it could be required to curtail or cease some of its manufacturing operations, or it may become unable to manufacture products that compete effectively in one or more of its product lines.

The Company and its subsidiaries may incur substantially more debt. This could increase risks associated with its leverage.

The Company and its subsidiaries may incur substantial additional indebtedness in the future. Although the revolving credit facility contains restrictions on the incurrence of additional indebtedness, including secured indebtedness, these restrictions are subject to a number of qualifications and exceptions, and additional indebtedness incurred in compliance with these restrictions could be substantial. Refer to Item 8, Financial Statements and Supplementary Data under Note 19 "Long-term debt" for more details.

The Company's ability to generate the significant amount of cash needed to pay interest and principal on the Company's unsecured long-term notes and service its other debt and financial obligations and its ability to refinance all or a portion of its indebtedness or obtain additional financing depends on many factors beyond the Company's control.

In 2019, the Company paid approximately $47 million in interest and principal payments. The Company's ability to make payments on and refinance its debt, including the Company's unsecured long-term notes and amounts borrowed under its revolving credit facility and term loan, if any, and other financial obligations and to fund its operations will depend on its ability to generate substantial operating cash flow. The Company's cash flow generation will depend on its future performance, which will be subject to prevailing economic conditions and to financial, business and other factors, many of which are beyond its control.

The Company's business may not generate sufficient cash flow from operations and future borrowings may not be available to the Company under its revolving credit facility or otherwise in amounts sufficient to enable the Company to service its indebtedness, including the Company's unsecured long-term notes, and borrowings, if any, under its revolving credit facility and securitization or to fund its other liquidity needs. If the Company cannot service its debt, the Company will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing its debt or seek additional equity capital. Any of these remedies may not be executed on commercially reasonable terms, or at all, and may impede the implementation of its business strategy. Furthermore, the revolving credit facility may restrict the Company from adopting any of these alternatives. Because of these and other factors that may be beyond its control, the Company may be unable to service its indebtedness.

The Company could incur substantial costs as a result of compliance with, violations of or liabilities under applicable environmental laws and regulations. It could also incur costs as a result of asbestos-related personal injury litigation.

The Company is subject to a wide range of general and industry-specific laws and regulations in the United States and other countries where we have operations, relating to the protection of the environment and natural resources, including those governing air emissions, greenhouse gases and climate change, wastewater discharges, harvesting, silvicultural activities, storage, management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, landfill operation and closure obligations, forestry operations and endangered species habitat, and health and safety matters. In particular, the pulp and paper industry in the U.S. is subject to the United States Environmental Protection Agency's ("EPA") Cluster Rules.

The Company has incurred, and expects that it will continue to incur, significant capital, operating and other expenditures complying with applicable environmental laws and regulations as a result of remedial obligations. The Company incurred $71 million of operating expenses and $19 million of capital expenditures in connection with environmental compliance and remediation in 2019. As of December 31, 2019, the Company had a provision of $35 million for environmental expenditures, including certain asset retirement obligations (such as for landfill capping).

The Company could also incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions (including orders limiting its operations or requiring corrective measures, installation of pollution control equipment or other remedial actions), cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The Company's ongoing efforts to identify potential environmental concerns that may be associated with its past and present properties may lead to future environmental investigations. Those efforts may result in the determination of additional environmental costs and liabilities which cannot be reasonably estimated at this time.

As the owner and operator of real estate, the Company may be liable under environmental laws for cleanup, closure and other damages resulting from the presence and release of hazardous substances, including asbestos, on or from its properties or operations, including properties that it no longer owns. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Company's liability may be imposed without regard to contribution or to whether it knew of, or caused, the release of hazardous substances and may exceed forecasted amounts or the value of the property itself. The discovery of additional contamination or the imposition of additional cleanup obligations at the Company's or third-party sites may result in significant additional costs. Any material liability the Company incurs could adversely impact its financial condition or preclude it from making capital expenditures that would otherwise benefit its business.

In addition, the Company may be subject to asbestos-related personal injury litigation arising out of exposure to asbestos on or from its properties or operations, and may incur substantial costs as a result of any defense, settlement, or adverse judgment in such litigation. The Company may not have access to insurance proceeds to cover costs associated with asbestos-related personal injury litigation.

Enactment of new environmental laws or regulations or changes in existing laws or regulations (such as changes in climate change regulation), or interpretation thereof, might require significant expenditures. For additional information, refer to Item 8, Financial Statements and Supplementary Data under Note 22 "Commitments and Contingencies". The Company may be unable to generate funds or other sources of liquidity and capital to fund environmental liabilities or expenditures.

Failure to comply with applicable laws and regulations could have a material adverse effect on our business, financial results or condition.

In addition to environmental laws, the Company's business and operations are subject to a broad range of other laws and regulations in the U.S. and Canada as well as other jurisdictions in which the Company operates, including antitrust and competition laws, occupational health and safety laws, healthcare reimbursement laws, such as Medicare and Medicaid, and employment laws. Many of these laws and regulations are complex and subject to evolving and differing interpretation. If the Company is determined to have violated any such laws or regulations, whether inadvertently or willfully, it may be subject to civil and criminal penalties, including substantial fines, loss of authorizations to participate in or exclusion from government programs, claims for damages by third parties or fines or monetary penalties which may have a material adverse effect on the Company's financial position, results of operations or cash flows. For additional information, refer to Item 8, Financial Statements and Supplementary Data under Note 22 "Commitments and Contingencies."

The Company's financial results could be affected by changes in U.S. and foreign tax laws or in the mix of our U.S. and foreign earnings, as well as adjustments to our estimates of uncertain tax issues or results from audits by U.S. or foreign tax authorities.

The Company is subject to U.S. and foreign tax laws and regulations. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change, with or without notice, due to economic, political and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. International tax norms governing each country's jurisdiction to tax cross-border international trade have evolved partly due to the Base Erosion and Profit Shifting project led by the

Organization for Economic Cooperation and Development and supported by the G20. Changes in these laws and regulations, or any change in the position of tax authorities regarding their application, administration or interpretation could adversely affect the Company's financial results. In addition, a number of countries are actively pursuing changes to their tax laws applicable to multinational corporations, such as the U.S. Tax Cuts and Jobs Acts ("U.S. Tax Reform"), enacted in 2017. Finally, foreign governments may enact tax laws in response to the U.S. Tax Reform that could result in further changes to global taxation and materially impact the Company's financial results.

The U.S. Tax Reform significantly changes how the U.S. taxes corporations. The U.S. Tax Reform requires complex computations to be performed that were not previously required under U.S. tax law, significant judgments to be made in interpretation of the provisions of the U.S Tax Reform and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the U.S. Tax Reform will be applied or otherwise administered that is different from the Company's interpretation.

The Company's effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates or changes in the valuation of deferred tax assets and liabilities. The Company is also subject to the examination of its tax returns and other matters by tax authorities and governmental bodies. The Company regularly assesses the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for taxes and as of December 31, 2019, has a reserve for liabilities relating to uncertain tax positions of $29 million. Taxing authorities may disagree with the positions the Company has taken regarding the tax treatment or characterization of its transactions. If any tax authorities were successful in challenging the tax treatment or characterization of any of the Company's transactions, it could also adversely affect its financial results.

The Company's Pulp and Paper business may have difficulty obtaining wood fiber at favorable prices, or at all.

Wood fiber is the principal raw material used by the Company's Pulp and Paper business, comprising approximately 20% of the consolidated cost of sales in 2019. Wood fiber is a commodity, and prices historically have been impacted by a variety of factors. The primary source for wood fiber is timber. Environmental litigation and regulatory developments, alternative use for energy production and reduction in harvesting related to the housing market, have caused, and may cause in the future, significant reductions in the amount of timber available for commercial harvest in the U.S. and Canada. In addition, future domestic or foreign legislation and litigation concerning the use of timberlands, the protection of endangered species, the promotion of forest health and the response to and prevention of catastrophic wildfires could also affect timber supplies. Availability of harvested timber may be further limited by adverse weather, fire, insect infestation, disease, ice storms, wind storms, flooding and other natural and man-made causes, thereby reducing supply and increasing prices. Wood fiber pricing is subject to regional market influences, and the Company's cost of wood fiber may increase in particular regions due to market shifts in those regions. Any sustained increase in wood fiber prices would increase the Company's operating costs, and the Company may be unable to increase prices for its products in response to increased wood fiber costs due to additional factors affecting the demand or supply of these products.

The Company currently meets its wood fiber requirements by purchasing wood fiber from third parties and by harvesting timber pursuant to its forest licenses and forest management agreements. If the Company's cutting rights, pursuant to its forest licenses or forest management agreements are reduced, or any third-party supplier of wood fiber stops selling or is unable to sell wood fiber to the Company, its financial condition or results of operations could be materially and adversely affected.

An increase in the cost of the Company's purchased energy or other raw materials would lead to higher manufacturing costs, thereby reducing its margins.

The Company's operations consume substantial amounts of energy such as biomass, natural gas and electricity. Energy prices, particularly for electricity, natural gas and fuel oil, have been volatile in recent years. As a result, fluctuations in energy prices will impact the Company's manufacturing costs and contribute to earnings volatility. While the Company purchases substantial portions of its energy under supply contracts, most of these contracts are based on market pricing.

Other raw materials the Company uses include various chemical compounds, such as precipitated calcium carbonate, sodium chlorate, sulfuric acid, dyes, peroxide, methanol and aluminum sulfate, super absorbent polymers and nonwovens. The costs of these other raw materials have been volatile historically, and they are influenced by capacity utilization, energy prices and other factors beyond the Company's control.

Due to the commodity nature of the Company's products, the relationship between supply and demand for these products, rather than changes in the cost of raw materials or purchased energy, will determine the Company's ability to increase prices. Consequently, the Company may be unable to pass on increases in its operating costs to its customers. Any sustained increase in raw material or energy prices without any corresponding increase in product pricing would reduce the Company's operating margins and may have a material adverse effect on its business and results of operations.

The Company depends on third parties for transportation services.

The Company relies primarily on third parties for transportation of the products it manufactures and/or distributes, as well as delivery of its raw materials. In particular, a significant portion of the goods it manufactures and raw materials it uses are transported by railroad or trucks, which are highly regulated. If any of its third-party transportation providers were to fail to deliver the goods that the Company manufactures or distributes in a timely manner, the Company may be unable to sell those products at full value, or at all. Similarly, if any of these providers were to fail to deliver raw materials to the Company in a timely manner, it may be unable to manufacture its products in response to customer demand. In addition, if any of these third parties were to cease operations or cease doing business with the Company, it may be unable to replace them at reasonable cost. Any failure of a third-party transportation provider to deliver raw materials or finished products in a timely manner could harm the Company's reputation, negatively impact its customer relationships and may have a material adverse effect on its financial condition and results of operations.

The Company could experience disruptions in operations and/or increased labor costs due to labor disputes.

Employees at 17 of the Company's facilities, representing approximately 44% of the Company's employees, are represented by unions through collective bargaining agreements generally negotiated on a facility-by-facility basis. In the future, the Company may not be able to negotiate acceptable new collective bargaining agreements, which could result in strikes or work stoppages or other labor disputes by affected workers. Renewal of collective bargaining agreements could also result in higher wages or benefits paid to union members. In addition, labor organizing activities could occur at any of the Company's facilities. Therefore, the Company could experience a disruption of its operations or higher ongoing labor costs, which could have a material adverse effect on its business and results of operations.

A material disruption in the Company supply chain, manufacturing or distribution operations could prevent it from meeting customer demand, reduce its sales and/or negatively impact its results of operations.

The Company's ability to manufacture, distribute and sell products is critical to its operations. These activities are subject to inherent risks such as:

- unscheduled maintenance outages;

- prolonged power failures;
- equipment failure;
- chemical spill or release;
- malfunction of a boiler;
- the effect of a drought or reduced rainfall on its water supply;
- labor disputes;
- government regulations;
- disruptions in the transportation infrastructure, including roads, bridges, railroad tracks and tunnels;
- adverse weather, fires, floods, earthquakes, hurricanes or other catastrophes;
- cyberattack or other security breaches;
- failure of our IT systems, including any failure of our current systems and/or as a result of transitioning to additional or replacement IT system;
- public health crises that impact trade or the general economy, including the COVID-19 and other viruses, diseases or illnesses;
- terrorism or threats of terrorism; or
- other operational problems, including those resulting from the risks described in this section.

Events such as those listed above could disrupt the Company's supply chain and impair its ability to manufacture or sell its products and have resulted in operating losses in the past. Any interruption or facility damage could prevent the Company from meeting customer demand for its products as well as require additional resources and/or require unplanned expenditures. If one or more of these machines or facilities were to incur significant downtime, it may have a material adverse effect on the Company's results of operations and financial position.

The efficiency of our operations could be adversely affected by disruptions to our Information Technology (IT) Services.

The Company's IT systems, some of which are dependent on services provided by third parties, serve an important role in the efficient operation of its business. The protection of customers, employees and company data is critical to the Company's business. This role includes ordering and managing materials from suppliers, managing its inventory, converting materials to finished products, facilitating order entry and fulfillment and processing of transactions, summarizing and reporting its financial results, facilitating internal and external communications, administering human resources functions, retaining certain personal information and providing other processes necessary to manage its business. The failure of the Company's IT systems, including any failure of the Company's current systems and/or as a result of transitioning to additional or replacement IT systems, as the case may be, to perform as the Company anticipates could disrupt the Company's business and could result in, among other things, transactions errors, processing inefficiencies, disruption of production and/or deliveries, loss of data and the loss of sales and customers, which could have a material adverse effect on the Company's business, financial position and results of operations and the effectiveness of our internal control over financial reporting could be negatively impact.

The Company is exposed to the risk of cyber incidents in the normal course of business. Cyber incidents may be deliberate attacks for the theft of intellectual property or other sensitive information or may be the result of unintentional events. Like most companies, the Company's information technology systems may be vulnerable to interruption due to a variety of events beyond the Company's control, including, but not limited to, natural disasters, terrorist attacks, power and/or telecommunications failures, computer viruses, hackers and other security issues. The Company has technology security initiatives and disaster recovery plans in place to mitigate the Company's risk to these vulnerabilities, including protection of confidential or personal information, but these measures may not be adequate or implemented properly to ensure that the Company's operations are not disrupted. The Company's IT systems have been, and will likely continue to be, subject to computer viruses or other malicious codes, unauthorized access attempts, phishing and other cyber-incidents. The Company cannot guarantee that its security efforts will prevent breaches or breakdowns to its IT systems or those of its third party providers. Potential consequences of a material cyber incident, which could result in confidential or personal information being accessed, obtained, damaged or used by unauthorized or improper persons, include damage to the Company's reputation, litigation, inefficiencies or production downtimes and increased cyber security protection and remediation costs. Such consequences could have a negative impact on the Company's ability to meet customers' orders, resulting in a delay or decrease to its revenue and a reduction to its operating margins.

The Company could encounter difficulties restructuring operations or closing or disposing of facilities.

The Company is continuously seeking the most cost-effective means and structure to serve our customers and to respond to changes in our markets. Accordingly, from time to time, the Company has, and is likely to again close facilities, sell non-core assets and otherwise restructure operations in an effort to improve cost competitiveness and profitability. As a result, restructuring and divesture costs have been, and are expected to be, a recurring component of our operating costs, and may vary significantly from year to year depending on the scope of such activities. Divestures and restructuring may also result in significant financial charges for the impairment of assets, including intangible assets. Furthermore, such activities may divert the attention of management, disrupt our ordinary operations, or result in a reduction in the volume of products produced and sold. There is no guarantee that any such activities will achieve its goal, and if the Company cannot successfully manage the associated risks, its financial condition and results of operations could be adversely affected.

The Company has liabilities with respect to its pension plans and the actual cost of its pension plan obligations could exceed current provisions. As of December 31, 2019, the Company's defined benefit plans had a surplus of $141 million on certain plans and a deficit of $105 million on others.

Since pension fund obligations are primarily long-term in nature, losses in pension fund investments, if any, would result in increased contributions by the Company, to be paid over 5 year or 10 year periods, depending upon the applicable legislation for funding pension deficits. Losses, if any, would also impact the Company's results over a longer period of time and immediately increase liabilities and reduce equity.

The Company's future funding obligations for its defined benefit pension plans depend upon changes to the level of benefits provided by the plans, the future performance of assets set aside in trusts for these plans, the level of interest rates used to determine minimum funding levels, actuarial data and experience, and any changes in government laws and regulations. As of December 31, 2019, the Company's defined benefit pension plans held assets with a fair value of $1,475 million.

The Company's intellectual property rights are valuable, and any inability to protect them could reduce the value of its products and its brands.

The Company relies on patent, trademark and other intellectual property laws of the U.S. and other countries to protect its intellectual property rights. However, the Company may be unable to prevent third parties from using its intellectual property without its authorization, which may reduce any competitive advantage it has developed. If the Company had to litigate to protect these rights, any proceedings could be costly, and it may not prevail. The Company cannot guarantee that any U.S. or foreign patents, issued or pending, will provide it with any competitive advantage or will not be challenged by third parties. Additionally, the Company has obtained and applied for U.S. and foreign trademark registrations, and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. The Company cannot guarantee that any of its pending patent or trademark applications will be approved by the applicable governmental authorities and, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. The failure to secure any pending patent or trademark applications may limit the Company's ability to protect the intellectual property rights that these applications were intended to cover.

If the Company is unable to successfully retain and develop executive leadership and other key personnel, it may be unable to fully realize critical organizational strategies, goals and objectives.

The success of the Company is substantially dependent on the efforts and abilities of its key personnel, including its executive management team, to develop and implement its business strategies and manage its operations. The failure to retain key personnel or to develop successors with appropriate skills and experience for key positions in the Company could adversely affect the development and achievement of critical organizational strategies, goals and objectives. There can be no assurance that the Company will be able to retain or develop the key personnel it needs and the failure to do so may adversely affect its financial condition and results of operations.

The Company's balance sheet includes a significant amount of intangible assets. The Company may be required to record a material charge to earnings due to impairment of intangible assets carried on its balance sheet.

As a result of business acquisitions in the past years, mostly in the Personal Care segment, the Company carries on its balance sheet intangible assets. As of December 31, 2019, the Company's balance sheet included intangible assets of $573 million, of which $290 million related to definite-lived intangible assets subject to amortization and $283 million related to indefinite-lived intangible assets. The Company performs annual evaluations or more frequently if indicators arise, for potential impairment of the carrying value of its intangible assets. Impairment assessments inherently involve management judgment as to the assumptions used to estimate fair value of the intangible asset being evaluated. Changes in assumptions or estimates can materially affect the determination of fair value. The major factors that influence the analysis of fair value are the Company's assessment of industry and market conditions, estimates for future revenue growth rates, royalty rates, economic indicators, tax rates and the discount rate associated with the asset being tested.

In connection with the Company's annual impairment evaluation performed in the fourth quarter of 2019, the Company performed a quantitative assessment for each indefinite-lived intangible asset (trade names and catalog rights) of the Personal Care segment. The tests indicated that the indefinite-lived intangible assets had fair values that exceeded their carrying amounts. One Personal Care segment indefinite-lived intangible asset is considered to be at risk for future impairment given its respective fair values exceeded its respective carrying value by 18% at the time the test was performed. As of December 31, 2019, the carrying value of these indefinite-lived intangible assets was $115 million. If assumed revenue growth is not achieved in future periods and/or events occur that lead to a royalty rate decrease and/or there is an increase to the rate used to discount the estimated cash flows, there is the potential for partial or full impairment related to the indefinite-lived intangible assets. If the Company is required to impair all or a significant amount of the carrying value of related intangible assets, and consequently record a non-cash impairment charge, the Company's net earnings could be materially and adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

A description of our mills and related properties is included in Item I, Business.

Production facilities

We own substantially all of our production facilities with the exception of some production facilities where a certain portion is subject to a lease in connection with an industrial development bond arrangement, or are leased with a third party or are fee-in-lieu-of-tax agreements, and lease substantially all of our sales offices, regional replenishment centers and warehouse facilities. We believe our properties are in good operating condition and are suitable and adequate for the operations for which they are used. We own substantially all of the equipment used in our facilities.

Forestlands

We efficiently manage approximately 5 million acres of forestlands that are directly licensed or owned by Domtar in Canada, through the application of certified sustainable forest management practices. We also have access to fiber from an additional 25 million acres of public forestlands in Canada that are licensed and managed by third parties. We believe that these forestlands will provide a continuous supply of wood for future needs.

Listing of facilities and locations

CORPORATE OFFICES
Fort Mill, South Carolina
Montreal, Quebec

PULP & PAPER DIVISION HEADQUARTERS
Fort Mill, South Carolina

Uncoated Freesheet
Ashdown, Arkansas
Espanola, Ontario
Hawesville, Kentucky
Johnsonburg, Pennsylvania
Kingsport, Tennessee
Marlboro (Bennettsville), South Carolina
Nekoosa, Wisconsin
Port Huron, Michigan
Rothschild, Wisconsin
Windsor, Quebec

Pulp
Dryden, Ontario
Kamloops, British Columbia
Plymouth, North Carolina

Chip Mills
Hawesville, Kentucky
Johnsonburg, Pennsylvania
Kingsport, Tennessee
Marlboro (Bennettsville), South Carolina

Converting and Distribution—Onsite
Ashdown, Arkansas
Rothschild, Wisconsin
Windsor, Quebec

Converting and Forms Manufacturing
Addison, Illinois
Brownsville, Tennessee
Dallas, Texas
DuBois, Pennsylvania
Griffin, Georgia
Owensboro, Kentucky
Ridgefields, Tennessee
Rock Hill, South Carolina
Tatum, South Carolina
Washington Court House, Ohio

Local Distribution Centers
Buffalo, New York
Cincinnati, Ohio
Cleveland, Ohio
Denver, Colorado
Des Moines, Iowa
Houston, Texas
Kansas City, Kansas
Minneapolis, Minnesota
Omaha, Nebraska
Phoenix, Arizona
Plain City, Ohio
Richmond, Virginia
Salt Lake City, Utah
San Antonio, Texas
San Lorenzo, California
St. Louis, Missouri
Vancouver, Washington
Walton, Kentucky
Wayne, Michigan
Wisconsin Rapids, Wisconsin

Regional Replenishment Centers—United States
Charlotte, North Carolina
Chicago, Illinois
Dallas, Texas
Delran, New Jersey
Indianapolis, Indiana
Jacksonville, Florida
Mira Loma, California
Seattle, Washington

Regional Replenishment Centers—Canada
Richmond, Quebec
Toronto, Ontario
Winnipeg, Manitoba

Representative Office—International
Hong Kong, China

Ariva—Canada
Halifax, Nova Scotia
Montreal, Quebec
Mount Pearl, Newfoundland and Labrador
Ottawa, Ontario
Quebec City, Quebec
Toronto, Ontario

PERSONAL CARE DIVISION HEADQUARTERS
Raleigh, North Carolina

Personal Care—Manufacturing and Distribution

NORTH AMERICA
Delaware, Ohio
Jesup, Georgia
Greenville, North Carolina

EUROPE
Aneby, Sweden
Toledo, Spain

Personal Care—Sales offices
Bodö, Norway
Bourgoin Jallieu, France
Daytona Beach, Florida
Linz, Austria
Madrid, Spain
Olivette, Missouri
Oslo, Norway
Rheinfelden, Switzerland
Schwalbach am Taunus, Germany
Stockholm, Sweden
Texarkana, Arkansas
Tuitjenhorn, The Netherlands
Wakefield, United Kingdom

ITEM 3. LEGAL PROCEEDINGS

In the normal course of operations, the Company becomes involved in various legal actions mostly related to contract disputes, patent infringements, environmental and product warranty claims, and labor issues. The Company periodically reviews the status of these proceedings and assesses the likelihood of any adverse judgments or outcomes of these legal proceedings, as well as analyzes probable losses. Although the final outcome of any legal proceeding is subject to a number of variables and cannot be predicted with any degree of certainty, management currently believes that the ultimate outcome of current legal proceedings will not have a material adverse effect on the Company's long-term results of operations, cash flow or financial position. However, an adverse outcome in one or more of the significant legal proceedings could have a material adverse effect on the Company's results, financial condition or cash flow in a given quarter or year.

For a discussion of commitments, legal proceedings and related contingencies, refer to Item 8, Financial Statements and Supplementary Data under Note 22 "Commitments and Contingencies" for more details.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Domtar Corporation's common stock is traded on the New York Stock Exchange and the Toronto Stock Exchange under the symbol "UFS".

HOLDERS

At December 31, 2019, the number of shareholders of record (registered and non-registered) of Domtar Corporation common stock was approximately 27,362.

DIVIDENDS AND STOCK REPURCHASE PROGRAM

During 2019, the Company declared one quarterly dividend of $0.435 and three quarterly dividends of $0.455 per share, to holders of the Company's common stock. Dividends aggregating $28 million, $28 million, $27 million and $26 million were paid on April 15, 2019, July 16, 2019, October 15, 2019 and January 15, 2020, respectively, to shareholders of record as of April 2, 2019, July 2, 2019, October 2, 2019 and January 2, 2020, respectively.

During 2018, the Company declared four quarterly dividends of $0.435 per share, to holders of the Company's common stock. Dividends of $27 million, $28 million, $27 million and $27 million were paid on April 16, 2018, July 16, 2018, October 15, 2018 and January 15, 2019, respectively, to shareholders of record as of April 2, 2018, July 3, 2018, October 2, 2018 and January 2, 2019, respectively.

On February 18, 2020, the Company's Board of Directors approved a quarterly dividend of $0.455 per share, to be paid to holders of the Company's common stock. This dividend is to be paid on April 15, 2020 to shareholders of record on April 2, 2020.

The Company's Board of Directors has authorized a stock repurchase program ("the Program") of up to $1.3 billion. On November 5, 2019, the Company's Board of Directors approved an increase to the Program from $1.3 billion to $1.6 billion. At December 31, 2019, the Company had approximately $403 million of remaining availability under the Program. Under the Program, the Company is authorized to repurchase, from time to time, shares of its outstanding common stock on the open market or in privately negotiated transactions. The timing and amount of stock repurchases will depend on a variety of factors, including the market conditions as well as corporate and regulatory considerations. The Program may be suspended, modified or discontinued at any time, and the Company has no obligation to repurchase any amount of its common stock under the Program. The Program has no set expiration date. The Company repurchases its common stock in part to reduce the dilutive effects of our stock options, awards, and to improve shareholders' returns.

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

During 2019, the Company repurchased 6,220,658 shares at an average price of $35.29 for a total cost of $219 million.

During 2018, there were no shares repurchased under the Program.

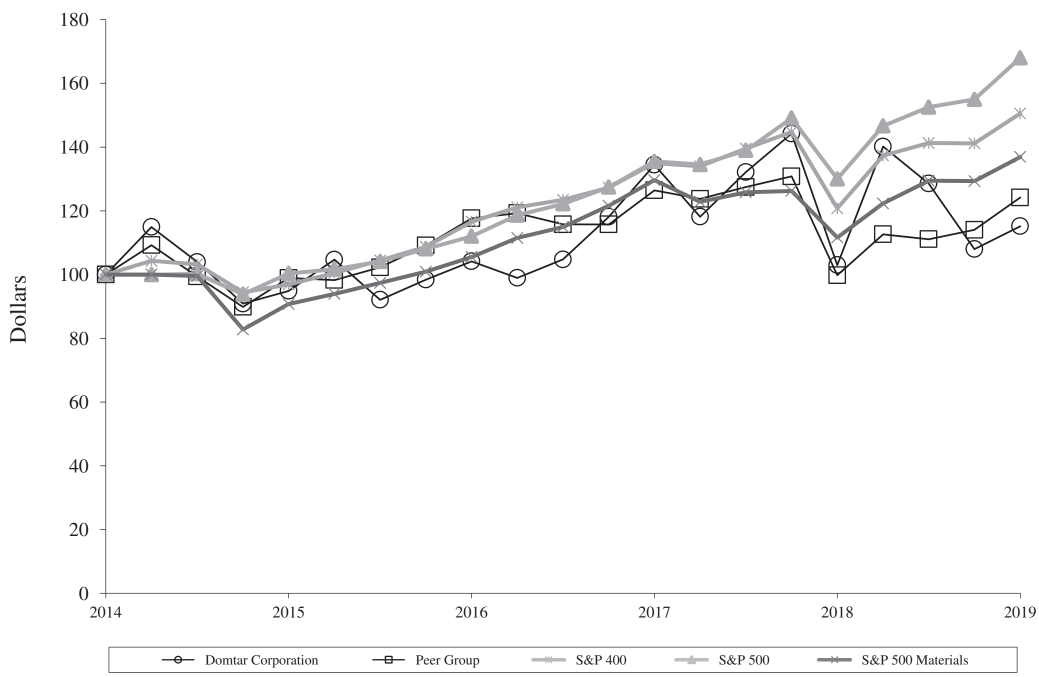
Share repurchase activity under our share repurchase program was as follows during the year ended December 31, 2019:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs (in 000s)
January 1 through March 31, 2019	—	$ —	—	$322,572
April 1 through June 30, 2019	194,407	$42.26	194,407	$314,356
July 1 through September 30, 2019	3,882,316	$35.13	3,882,316	$177,968
October 1 through October 31, 2019	1,751,643	$34.27	1,751,643	$117,942
November 1 through November 30, 2019	391,792	$37.98	391,792	$403,061
December 1 through December 31, 2019	500	$38.01	500	$403,042
	6,220,658	$35.29	6,220,658	

PERFORMANCE GRAPH

This graph compares the return on a $100 investment in the Company's common stock on December 31, 2014 with a $100 investment in an equally-weighted portfolio of a peer group(1), and a $100 investment in the S&P 400 MidCap Index. This graph assumes that returns are in local currencies and assumes quarterly reinvestment of dividends. The measurement dates are the last trading day of the period as shown.

Return on $100 Investment



(1) On May 18, 2007, the Human Resources Committee of the Board of Directors established performance measures as part of the Performance Conditioned Restricted Stock Units ("PCRSUs") Agreement including the achievement of a total shareholder return compared to a peer group.

The peer group includes: WestRock Company, Ontex Group NV, Glatfelter Corporation, International Paper Co., Kimberly-Clark Corporation, Neenah Paper, Inc., Packaging Corp. of America, Resolute Forest Products Inc., SCA, Sonoco Products Company, Stora Enso Oyj and UPM-Kymmene Corp.

ITEM 6. SELECTED FINANCIAL DATA

The following sets forth selected historical financial data of the Company for the periods and as of the dates indicated. The selected financial data as of and for the fiscal years then ended have been derived from the audited financial statements of Domtar Corporation.

The following table should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data.

	Year ended				
FIVE YEAR FINANCIAL SUMMARY	**December 31, 2019**	**December 31, 2018**	**December 31, 2017**	**December 31, 2016**	**December 31, 2015**
(In millions of dollars, except per share figures)					
Statement of Income Data:					
Sales	**$5,220**	$5,455	$5,148	$5,090	$5,257
Closure and restructuring costs and impairment of long-lived assets and goodwill [1,2]	**100**	15	580	61	81
Depreciation and amortization	**293**	308	321	348	359
Operating income (loss) [1,2]	**163**	386	(328)	208	276
Net earnings (loss) [3]	**84**	283	(258)	128	142
Net earnings (loss) per common share—Basic	**$ 1.37**	$ 4.50	$ (4.11)	$ 2.04	$ 2.24
Net earnings (loss) per common share—Diluted	**$ 1.37**	$ 4.48	$ (4.11)	$ 2.04	$ 2.24
Cash dividends paid per common share	**$ 1.78**	$ 1.72	$ 1.66	$ 1.63	$ 1.58
Balance Sheet Data:					
Cash and cash equivalents	**$ 61**	$ 111	$ 139	$ 125	$ 126
Property, plant and equipment, net	**2,567**	2,605	2,765	2,825	2,825
Total assets	**4,903**	4,925	5,212	5,680	5,654
Long-term debt due within one year	**1**	1	1	63	41
Long-term debt	**938**	853	1,129	1,218	1,210
Total shareholders' equity	**2,376**	2,538	2,483	2,676	2,652

1 In 2019, we recorded $32 million of accelerated depreciation under Impairment of long-lived assets related to our decision to permanently close two paper machines in our Pulp and Paper segment and $26 million of accelerated depreciation and impairment of operating lease right-of-use assets under Impairment of long-lived assets, related to our margin improvement plan in our Personal Care segment. In addition, we recorded $42 million of Closure and restructuring costs in 2019 related to the aforementioned. For additional information, refer to Item 8, Financial Statement and Supplementary Data under Note 4 "Impairment of Long-Lived Assets" and Note 16 "Closure and Restructuring Costs and Liability."

2 In 2017, we recorded a non-cash goodwill impairment charge associated with our Personal Care segment of $578 million. For additional information, refer to Item 8, Financial Statement and Supplementary Data under Note 4 "Impairment of Long-Lived Assets."

3 In 2017, we recorded a net tax benefit of $140 million related to the U.S. Tax Reform of 2017, which is composed of a benefit of $186 million for the remeasurement of deferred tax assets and liabilities and a charge of $46 million for the repatriation tax. During 2018, we recorded an additional tax benefit of $13 million, $7 million related to adjustments to the repatriation tax and $6 million related to the revaluation of net deferred tax liabilities. Also, the net earnings for 2018 included a tax expense of $10 million related to the U.S. Tax Reform. For additional information, refer to Item 8, Financial Statement and Supplementary Data under Note 10 "Income Taxes."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with Domtar Corporation's audited consolidated financial statements and notes thereto included in Item 8, Financial Statements and Supplementary Data. Throughout this MD&A, unless otherwise specified, "Domtar Corporation," "the Company," "Domtar," "we," "us" and "our" refers to Domtar Corporation and its subsidiaries. Domtar Corporation's common stock is listed on the New York Stock Exchange and the Toronto Stock Exchange. Except where otherwise indicated, all financial information reflected herein is determined on the basis of accounting principles generally accepted in the United States.

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

In accordance with industry practice, in this report, the term "ton" or the symbol "ST" refers to a short ton, an imperial unit of measurement equal to 0.9072 metric tons. The term "metric ton" or the symbol "ADMT" refers to an air dry metric ton. In this report, unless otherwise indicated, all dollar amounts are expressed in U.S. dollars, and the term "dollars" and the symbol "$" refer to U.S. dollars. In the following discussion, unless otherwise noted, references to increases or decreases in income and expense items, prices, contribution to net earnings (loss), and shipment volumes are based on the twelve-month periods ended December 31, 2019 and 2018. The twelve month periods are also referred to as 2019 and 2018. References to notes refer to footnotes to the consolidated financial statements and notes thereto included in Item 8, Financial Statements and Supplementary Data.

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

- Overview
- 2019 Highlights
- Outlook
- Consolidated Results of Operations and Segment Review
- Liquidity and Capital Resources
- Recent Accounting Pronouncements and Critical Accounting Estimates and Policies

For a discussion of the year ended December 31, 2018 compared to the year ended December 31, 2017, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2018 (filed with the SEC on February 22, 2019).

OVERVIEW

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

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

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

2019 HIGHLIGHTS

- Operating income and net earnings decreased by 58% and 70%, respectively from 2018
- Sales decreased by 4% from 2018. Net average selling prices for pulp were down while net average selling prices for paper were up from 2018. Our manufactured paper volume was down and our Personal Care business had lower volume when compared to 2018
- Recognition of a closure and restructuring charge and accelerated depreciation associated with our decision to permanently close two paper machines within our Pulp and Paper segment of $22 million and $32 million, respectively. Recognition of a closure and restructuring charge and accelerated depreciation and impairment of operating lease right-of-use assets within our Personal Care segment of $20 million and $26 million, respectively related to our margin improvement plan
- We repurchased $219 million of our common stock and paid $110 million in dividends
- Non-cash pension settlement charge of $30 million related to partial settlement from annuity buy-out contracts

	Twelve months ended		Variance 2019 vs. 2018	
FINANCIAL HIGHLIGHTS	**December 31, 2019**	**December 31, 2018**	**$**	**%**
(In millions of dollars, unless otherwise noted)				
Sales	**$5,220**	$5,455	$ (235)	-4%
Operating income [1]	**163**	386	(223)	-58%
Net earnings	**84**	283	(199)	-70%
Net earnings per common share (in dollars) [2]:				
Basic	**$ 1.37**	$ 4.50	$ (3.13)	
Diluted	**$ 1.37**	$ 4.48	$ (3.11)	

	At December 31, 2019	At December 31, 2018
Total assets	**$4,903**	$4,925
Total long-term debt, including current portion	**$ 939**	$ 854

1 As a result of our decision to permanently close two paper machines within our Pulp and Paper segment, we recognized closure and restructuring charges and accelerated depreciation under Impairment of long-lived assets of $22 million and $32 million, respectively. We also recognized closure and restructuring charges and accelerated depreciation and impairment of operating lease right-of-use assets under Impairment of long-lived assets of $20 million and $26 million, respectively related to the margin improvement plan within our Personal Care segment (2018 – $8 million and $7 million, respectively). See Item 8, Financial Statements and Supplementary Data under Note 16 “Closure and Restructuring Costs and Liability” and Note 4 “Impairment of Long-lived Assets”, for more information.

2 See Item 8, Financial Statements and Supplementary Data under Note 6 “Earnings (loss) per Common Share” for more information on the calculation of net earnings per common share.

OUTLOOK

In 2020, our paper volumes are expected to trend with market demand while pulp volumes will increase due to higher pulp productivity at our Espanola and Ashdown mills. Our Pulp and Paper business will benefit from lower planned maintenance costs. Personal Care is expected to benefit from their margin improvement plan and higher sales following new customer wins. Overall, we anticipate costs, including freight, labor and raw materials, to marginally increase.

CONSOLIDATED RESULTS OF OPERATIONS AND SEGMENT REVIEW

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

ANALYSIS OF NET SALES

By Business Segment	Twelve months ended December 31, 2019	Twelve months ended December 31, 2018	Variance 2019 vs. 2018 $	Variance 2019 vs. 2018 %
Pulp and Paper	**$4,332**	$4,523	*(191)*	*-4%*
Personal Care	**953**	1,000	*(47)*	*-5%*
Total for reportable segments	**5,285**	5,523	*(238)*	*-4%*
Intersegment sales	**(65)**	(68)	*3*	
Consolidated	**5,220**	5,455	*(235)*	*-4%*
Shipments				
Paper—manufactured (in thousands of ST)	**2,745**	2,971	*(226)*	*-8%*
Communication Papers	**2,299**	2,446	*(147)*	*-6%*
Specialty and Packaging papers	**446**	525	*(79)*	*-15%*
Paper—sourced from third parties (in thousands of ST)	**93**	109	*(16)*	*-15%*
Paper—total (in thousands of ST)	**2,838**	3,080	*(242)*	*-8%*
Pulp (in thousands of ADMT)	**1,539**	1,536	*3*	*— %*

ANALYSIS OF CHANGE IN SALES

	2019 vs. 2018 % Change in Net Sales due to			
	Net Price	Volume / Mix	Currency	Total
Pulp and Paper	1%	-5%	— %	**-4%**
Personal Care	— %	-3%	-2%	**-5%**
Consolidated sales	1%	-5%	— %	**-4%**

ANALYSIS OF OPERATING INCOME (LOSS)

By Business Segment	Twelve months ended December 31, 2019 [(a)]	Twelve months ended December 31, 2018 [(b)]	2019 vs. 2018 Variance $	2019 vs. 2018 Variance %
Operating income (loss)				
Pulp and Paper	**$225**	$438	*(213)*	*-49%*
Personal Care	**$ (15)**	$ (5)	*(10)*	*-200%*
Corporate	**$ (47)**	$ (47)	—	*— %*
Consolidated operating income (loss)	**$163**	$386	*(223)*	*-58%*

(a) Includes closure and restructuring charges as well as accelerated depreciation under Impairment of long-lived assets, related to our paper machine closures within our Pulp and Paper segment, of $22 million and $32 million, respectively. Includes closure and restructuring charges as well as accelerated depreciation and impairment of operating lease right-of-use assets under Impairment of long-lived assets, related to our announced margin improvement plan within our Personal Care segment, of $20 million and $26 million, respectively.

(b) Includes closure and restructuring charges as well as accelerated depreciation under Impairment of long-lived asset, related to our announced margin improvement plan within our Personal Care segment of $8 million and $7 million, respectively.

2019 VS. 2018

	$ Change in Segmented Operating Income (Loss) due to								
	Volume/ Mix	Net Price	Input Costs [a]	Operating Expenses [b]	Currency	Depreciation/ Impairment [c]	Restructuring [d]	Other Income/ Expense [e]	Total
Pulp and Paper	(43)	52	(46)	(128)	8	(23)	(22)	(11)	**(213)**
Personal Care	(3)	3	16	3	(1)	(16)	(12)	—	**(10)**
Corporate	—	—	—	(6)	—	—	—	6	**—**
Consolidated operating income (loss)	(46)	55	(30)	(131)	7	(39)	(34)	(5)	**(223)**

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

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

(c) Depreciation charges were lower by $12 million in 2019, excluding foreign currency impact. In our Pulp and Paper segment, we recorded $32 million of accelerated depreciation under Impairment of long-lived assets related to our decision to permanently close two paper machines (2018 – nil). In our Personal Care segment, in 2019, we recorded $26 million of accelerated depreciation and impairment of operating lease right-of-use assets under Impairment of long-lived assets, related to our margin improvement plan (2018 – $7 million).

(d)

2019 restructuring charges relate to:
—Severance and termination costs ($21 million)
—Inventory write-down ($6 million)
—Asset relocation and other costs ($15 million)

2018 restructuring charges relate to:
—Inventory write-down ($4 million)
—Severance and termination costs ($3 million)
—Other costs ($1 million)

(e)

2019 operating expenses/income includes:
—Foreign exchange loss ($3 million)
—Environmental provision ($4 million)
—Bad debt expense ($2 million)
—Other income ($4 million)

2018 operating expenses/income includes:
—Net gain on sale of property, plant and equipment ($4 million)
—Foreign exchange gain ($2 million)
—Environmental provision ($5 million)
—Bad debt expense ($2 million)
—Other income ($1 million)

Commentary—2019 vs. 2018

Interest Expense, net

We incurred $52 million of net interest expense in 2019, a decrease of $10 million compared to net interest expense of $62 million in 2018. The net interest expense was impacted by the repayment of the $300 million Term Loan in the fourth quarter of 2018.

Income Taxes

We recorded an income tax expense of $2 million in 2019 compared to an income tax expense of $57 million in 2018, which yielded an effective tax rate of 2% and 17% for 2019 and 2018, respectively.

During 2019, we recorded $20 million of tax credits, mainly research and experimentation credits, which impacted the effective tax rate. Arkansas legislation changes were passed in 2019 which reduced the state tax rate and changed how the apportionment factor is calculated. This resulted in a deferred state tax benefit of $4 million. Additionally, a valuation allowance of $5 million was recorded on state attributes we do not expect to utilize before they expire.

During 2018, we recorded $19 million of tax credits, mainly research and experimentation credits, which impacted our effective tax rate. The effective tax rate was also impacted by the cancellation of $9 million, after-tax, of net operating losses in a foreign jurisdiction. This was offset by the reversal of $9 million of valuation allowance on these same net operating losses. Additionally, a valuation allowance of $1 million was recorded on new operating losses in 2018 for a net benefit pertaining to valuation allowance movement of $8 million.

On December 22, 2017, the U.S. Tax Reform was signed into law. The U.S. Tax Reform significantly changed U.S. tax law for businesses by, among other things, lowering the maximum federal corporate income tax rate from 35% to 21% effective January 1, 2018, implementing a territorial tax system, and imposing a one-time deemed repatriation tax on accumulated foreign earnings. As a result of the U.S. Tax Reform, we recorded a net tax benefit of $140 million in 2017 when the legislation was enacted. This consisted of a provisional tax benefit of $186 million relating to the revaluation of our ending net deferred tax liabilities and a provisional expense of $46 million related to the deemed repatriation tax. Additionally, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application in situations when a registrant did not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Reform. The end of the measurement period for SAB 118 purposes was December 22, 2018. We completed our analysis, including currently available legislative updates, and recorded an additional tax benefit of $13 million for the year ended December 31, 2018. Of this benefit, $7 million related to adjustments to the deemed mandatory repatriation tax and $6 million related to the revaluation of our net deferred tax liabilities. Both of these amounts impacted the effective tax rate for 2018.

As a result of the deemed mandatory repatriation tax requirement of the U.S. Tax Reform, we have taxed our undistributed foreign earnings as of December 31, 2017, at reduced tax rates. After completing our evaluation of the U.S. Tax Reform's impact on business operations, we have determined that we are no longer indefinitely reinvested in these undistributed foreign earnings as well as foreign earnings after December 31, 2017. Therefore, as of December 31, 2019, we have recorded a deferred tax liability of $12 million ($10 million as December 31, 2018) for foreign withholding tax and various state income taxes associated with future repatriation of these earnings. This additional $2 million of tax expense impacted the effective tax rate for 2019. We have not provided for deferred taxes on outside basis differences in our investments in foreign subsidiaries that are unrelated to unremitted earnings as we estimate that the deferred tax liability recorded in 2019 in combination with the repatriation tax amount covers all tax liabilities with foreign investments to date. We remain indefinitely reinvested in the outside basis differences of our foreign subsidiaries.

The U.S. Tax Reform also includes a base erosion provision for Global Intangible Low-Taxed Income ("GILTI"). Beginning in 2018, the GILTI provisions require us to include in our U.S. income tax return, earnings of foreign subsidiaries that are in excess of an allowable return on the tangible assets of the foreign subsidiaries. We are required to make an accounting policy election to either (1) treat taxes due related to GILTI as a current-period expense when incurred or (2) factor such amounts into the measurement of deferred taxes. We have elected to account for any taxes associated with GILTI in accordance with the current-period expense method.

Commentary—Segment Review

Pulp and Paper Segment

2019 vs. 2018

Sales in our Pulp and Paper segment decreased by $191 million, or 4% when compared to sales in 2018. This decrease in sales is mostly due to a decrease in our paper sales volumes and a decrease in net average selling price for pulp. This decrease was partially offset by an increase in net average selling price for paper as well as an increase in our pulp sales volumes.

Operating income in our Pulp and Paper segment amounted to $225 million in 2019, a decrease of $213 million, when compared to operating income of $438 million in 2018. Our results were negatively impacted by:

- Higher operating expenses ($128 million) mostly due to lower production as well as higher maintenance and fixed costs due to timing of major maintenance
- Higher input costs ($46 million) mostly related to higher costs of fiber due mostly to severe weather conditions as well as unfavorable market conditions, partially offset by lower costs of chemicals and energy
- Lower volume and mix ($43 million) mostly related to lower volume of paper, partially offset by higher volume of pulp
- Higher depreciation/impairment charges ($23 million) mostly due to our decision to permanently close two paper machines
- Higher restructuring charges ($22 million) due to our decision to permanently close two paper machines
- Higher other income/expense ($11 million)

These decreases were partially offset by:

- Higher average selling prices for paper partially offset by lower average selling prices for pulp ($52 million)
- Positive impact of a weaker Canadian dollar on our Canadian denominated expenses, net of our hedging program ($8 million)

Our Espanola pulp and specialty paper mill underwent an extensive audit and inspection of major components during its outage in June 2019. Following the inspection and given the cyclically low pulp prices, we made the decision to fast-track some maintenance work that was originally planned for 2020 in order to address some reliability risks. This extended shutdown impacted mostly our second half of 2019 by adding approximately $36 million of maintenance costs and lowering our total production by approximately 60,000 tonnes.

Paper machine closures

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

Our Ashdown mill continues to operate one paper machine with an annual uncoated freesheet paper production capacity of 200,000 ST. Additionally, the mill operates a fluff pulp machine with the flexibility to produce softwood pulp depending on market conditions. As a result of the closure of the paper machine, the mill will produce an incremental 70,000 ADMT of softwood and fluff pulp, which will ramp up over the course of 2020.

The Port Huron mill continues to produce a variety of technical and specialty papers for a broad range of customers utilizing three machines with a total annual production capacity of 95,000 ST.

During 2019, we recorded $32 million of accelerated depreciation under Impairment of long-lived assets and $1 million of accelerated depreciation under Depreciation and amortization, on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). Additionally, we recorded $3 million of severance and termination costs, $4 million of inventory obsolescence and $2 million of other costs, under Closure and restructuring costs in relation to the paper machine closures.

Concurrently, with the Ashdown paper machine closure and related workforce reduction, management negotiated a voluntary early retirement program to reduce costs and put the mill in a stronger cost position in the long-term. We additionally recorded $13 million of severance and termination costs under Closure and restructuring costs.

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

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

In 2020, our paper volumes are expected to trend with market demand while pulp volumes will increase due to higher pulp productivity at our Espanola and Ashdown mills. Our Pulp and Paper business will benefit from lower planned maintenance costs.

Personal Care

2019 vs. 2018

Sales in our Personal Care segment decreased by $47 million, or 5% when compared to sales in 2018. This decrease in sales was driven by lower volume and unfavorable foreign currency exchange, partly offset by favorable mix.

Operating income decreased by $10 million compared to 2018. Our results were negatively impacted by:

- Higher depreciation/impairment charges ($16 million) mostly related to our margin improvement plan
- Higher closure and restructuring charges ($12 million) related to our margin improvement plan
- Lower volume partially offset by favorable mix ($3 million)
- Unfavorable foreign exchange ($1 million), mostly between the Euro and the U.S. dollar, net of our hedging program

These decreases were partially offset by:

- Lower input costs ($16 million) mostly due to lower raw materials pricing

- Favorable average net selling prices ($3 million)
- Lower operating expenses mostly due to favorable SG&A expenses ($3 million)

In our absorbent hygiene products business, we compete in an industry with fundamental drivers for long-term growth; however, competitive market pressures in the healthcare and retail markets have grown significantly in recent years.

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

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

In 2020, we expect to benefit from our margin improvement plan and higher sales following new customer wins.

Margin Improvement Plan

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

In 2019, we recorded $26 million of accelerated depreciation and impairment of operating lease right-of-use, under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss) compared to $7 million of accelerated depreciation in 2018. We also recorded $5 million of severance and termination costs (2018 – $3 million); $2 million of inventory obsolescence (2018 – $4 million); $13 million of asset relocation and other costs (2018 – $1 million of other costs), under Closure and restructuring costs.

STOCK-BASED COMPENSATION EXPENSE

Under the Omnibus Plan, we may award to key employees and non-employee directors, at the discretion of the Human Resources Committee of the Board of Directors, non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock units, performance-conditioned restricted stock units, performance share units, deferred share units (“DSUs”) and other stock-based awards. The non-employee directors only receive DSUs. We generally grant awards annually and use, when available, treasury stock to fulfill awards settled in common stock and options exercised.

For the year ended December 31, 2019, stock-based compensation expense recognized in our results of operations was $22 million (2018 – $10 million) for all of the outstanding awards. Compensation costs not yet recognized amounted to $16 million (2018 – $17 million) and will be recognized over the remaining service period of approximately 14 months. The aggregate value of liability awards settled in 2019 was $12 million (2018 – $8 million). The total fair value of equity awards settled in 2019 was $11 million (2018 – $6 million), representing the fair value at the time of settlement. The fair value at the grant date for these settled equity awards was $6 million (2018 – $7 million). Compensation costs for performance awards are based on management’s best estimate of the final performance measurement.

LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements are for ongoing operating costs, pension contributions, working capital and capital expenditures, as well as principal and interest payments on our debt and income tax payments. We expect to fund our liquidity needs primarily with internally generated funds from our operations and, to the extent necessary, through borrowings under our contractually committed $700 million credit facility, of which $620 million is currently undrawn and available, or through our $150 million receivables securitization facility, of which $25 million is currently undrawn and available. Under adverse market conditions, there can be no assurance that these agreements would be available or sufficient. See “Capital Resources” below.

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

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

Operating Activities

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

Cash flows from operating activities totaled $442 million in 2019, a $112 million decrease compared to cash flows from operating activities of $554 million in 2018. This decrease in cash flows from operating activities is primarily due to a decrease in profitability as well as an increase in cash flow from working capital elements in 2019 when compared to 2018. We made income tax payments, net of refunds, of $59 million in 2019 compared to income tax payments, net of refunds of $71 million in 2018. We paid $1 million of employer pension and other post-retirement contributions in excess of pension and other post-retirement expense when excluding our non-cash pension settlement loss of $30 million in 2019 compared to 2018 when we paid $46 million of employer pension and other post-retirement contributions in excess of pension and other post-retirement expense.

Investing Activities

Cash flows used for investing activities in 2019 amounted to $254 million, a $58 million increase compared to cash flows used for investing activities of $196 million in 2018.

The use of cash in 2019 was attributable to additions to property, plant and equipment of $255 million. This use of cash was partially offset by the proceeds from disposal of property, plant and equipment of $1 million.

The use of cash in 2018 was attributable to additions to property, plant and equipment of $195 million. Also, in 2018, we made an additional investment of $4 million in our joint venture CelluForce (a company that develops and manufactures nanocrystalline cellulose, a recyclable and renewable nanomaterial) and a $2 million investment in Prisma Renewable Composites, LLC (a company focused on developing advanced materials from lignin and other natural resources). These uses of cash were partially offset by the proceeds from disposal of property, plant and equipment of $5 million.

Our annual capital expenditures for 2020 are expected to be between $230 million and $260 million.

Financing Activities

Cash flows used for financing activities totaled $237 million in 2019 compared to cash flows used for financing activities of $382 million in 2018.

The use of cash in 2019 was primarily the result of the repurchase of our common stock ($219 million) and dividend payments ($110 million). This was partially offset by the net increase of borrowings under our credit facilities (revolver and receivables securitization) ($85 million).

The use of cash in 2018 was primarily the result of the repayment of our term loan ($300 million) and dividend payments ($108 million), partially offset by the net proceeds of borrowings under our receivables securitization ($25 million).

Capital Resources

Net indebtedness, consisting of long-term debt, net of cash and cash equivalents, was $887 million as of December 31, 2019 compared to $743 million as of December 31, 2018.

Revolving Credit Facility

In August 2018, we amended and restated our unsecured $700 million revolving credit facility (the "Credit Agreement") with certain domestic and foreign banks, extending the Credit Agreement's maturity date from August 18, 2021 to August 22, 2023.

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

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

The Credit Agreement contains customary covenants and events of default for transactions of this type, including two financial covenants: (i) an interest coverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not less than 3 to 1 and (ii) a leverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not greater than 3.75 to 1 (or 4.00 to 1 upon the occurrence of certain qualifying material acquisitions). At December 31, 2019, we were in compliance with these financial covenants, and borrowings under the Credit Agreement amounted to $80 million (December 31, 2018 – nil). At December 31, 2019, we had no outstanding letters of credit (December 31, 2018 – nil), leaving $620 million unused and available under this facility.

Receivables Securitization

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

At December 31, 2019, borrowings under the receivables securitization facility amounted to $55 million and we had $53 million of letters of credit under the program (December 31, 2018 – $50 million and $52 million, respectively). The program contains certain termination events, which include, but are not limited to, matters related to receivable performance, certain defaults occurring under the Credit Agreement or our failure to repay or satisfy material obligations. At December 31, 2019, we had $25 million unused and available under this facility.

Term Loan

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

Common Stock

During 2019, we declared one quarterly dividend of $0.435 and three quarterly dividends of $0.455 per share, to holders of our common stock. Dividends aggregating $28 million, $28 million, $27 million and $26 million were paid on April 15, 2019, July 16, 2019, October 15, 2019 and January 15, 2020, respectively, to shareholders of record as of April 2, 2019, July 2, 2019, October 2, 2019 and January 2, 2020, respectively.

During 2018, we declared four quarterly dividends of $0.435 per share, to holders of our common stock. Dividends of $27 million, $28 million, $27 million and $27 million were paid on April 16, 2018, July 16, 2018, October 15, 2018 and January 15, 2019, respectively, to shareholders of record as of April 2, 2018, July 3, 2018, October 2, 2018 and January 2, 2019, respectively.

On February 18, 2020, our Board of Directors approved a quarterly dividend of $0.455 per share, to be paid to holders of our common stock. This dividend is to be paid on April 15, 2020 to shareholders of record on April 2, 2020.

GUARANTEES

Indemnifications

In the normal course of business, we offer indemnifications relating to the sale of our businesses and real estate. In general, these indemnifications may relate to claims from past business operations, the failure to abide by covenants and the breach of representations and warranties included in sales agreements. Typically, such representations and warranties relate to taxation, environmental, product and employee matters. The terms of these indemnification agreements are generally for an unlimited period of time. At December 31, 2019, we were unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provision has been recorded. These indemnifications have not yielded significant expenses in the past.

Pension Plans

We have indemnified and held harmless the trustees of our pension funds, and the respective officers, directors, employees and agents of such trustees, from any and all costs and expenses arising out of the performance of their obligations under the relevant trust agreements, including in respect of their reliance on authorized instructions from us or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements. At December 31, 2019, we have not recorded a liability associated with these indemnifications, as we do not expect to make any payments pertaining to these indemnifications.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

In the normal course of business, we enter into certain contractual obligations and commercial commitments. The following tables provide our obligations and commitments at December 31, 2019:

CONTRACT TYPE (in millions of dollars)	2020	2021	2022	2023	2024	THEREAFTER	TOTAL
Long-term debt (excluding interest)	—	55	300	80	—	$500	$ 935
Finance leases and other (including interest)	1	2	2	2	2	6	15
Operating leases	29	24	19	14	8	14	108
Long-term income taxes payable (1)	3	3	3	6	8	10	33
Total obligations	$ 33	$84	$324	$102	$ 18	$530	1,091

COMMITMENT TYPE (in millions of dollars)	2020	2021	2022	2023	2024	THEREAFTER	TOTAL
Other commercial commitments (2)	$117	$16	$ 9	6	5	2	$ 155

(1) In connection with the U.S. Tax Reform, we have remaining liabilities of $33 million in repatriation tax to pay through 2025. See Note 10 "Income Taxes" for additional information on the U.S. Tax Reform.

(2) Includes commitments to purchase property, plant and equipment, roundwood, wood chips, gas and certain chemicals. Purchase orders in the normal course of business are excluded.

In addition, we expect to contribute a minimum total amount of $11 million to the pension plans in 2020 and a minimum total amount of $4 million in 2020 to the other post-retirement benefits plans.

For 2020 and the foreseeable future, we expect cash flows from operations and from our various sources of financing to be sufficient to meet our contractual obligations and commercial commitments.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Item 8, Financial Statements and Supplementary Data under Note 2 "Recent Accounting Pronouncements".

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Our principal accounting policies are described in Item 8, Financial Statements and Supplementary Data under Note 1 "Summary of Significant Accounting Policies". Notes referenced in this section are included in Item 8, Financial Statements and Supplementary Data.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, assumptions and choices amongst acceptable accounting methods that affect our reported results of operations and financial position. Critical accounting estimates pertain to matters that contain a significant level of management estimates about future events, encompass the most complex and subjective judgments and are subject to a fair degree of measurement uncertainty. On an ongoing basis, management reviews its estimates, including those related to environmental matters and asset retirement obligations, impairment and useful lives of long-lived assets, closure and restructuring costs, intangible assets impairment, pension and other post-retirement benefit plans, income taxes and contingencies related to legal claims. These critical accounting estimates and policies have been reviewed with the Audit Committee of our Board of Directors. We believe these accounting policies, and others as set forth in Note 1 "Summary of Significant Accounting Policies", should be reviewed as they are essential to understanding our results of operations, cash flows and financial condition. Actual results could differ from those estimates.

Environmental Matters and Asset Retirement Obligations

We maintain provisions for estimated environmental costs when remedial efforts are probable and can be reasonably estimated. Environmental provisions relate mainly to air emissions, effluent treatment, silvicultural activities and site remediation (together referred to as "environmental matters"). The environmental cost estimates reflect assumptions and judgments as to probable nature, magnitude and timing of required investigation, remediation and monitoring activities, as well as contribution by other responsible parties. Additional information regarding environmental matters is available in Note 22 "Commitments and Contingencies".

While we believe that we have determined the costs for environmental matters likely to be incurred, based on known information, our ongoing efforts to identify potential environmental concerns that may be associated with the properties may lead to future environmental investigations. These efforts may result in the determination of additional environmental costs and liabilities, which cannot be reasonably estimated at this time. In addition, environmental laws and regulations and interpretation by regulatory authorities could change which could result in significant changes to our estimates. For further details on "Climate change regulation" and other environmental matters refer to Note 22 "Commitments and Contingencies".

Asset retirement obligations are mainly associated with landfill operation and closure, dredging of settling ponds and bark pile management. We recognize asset retirement obligations, at fair value, in the period in which we incur a legal obligation associated with the retirement of an asset. The fair value is based on the expected cash flow approach, in which multiple cash flow scenarios that reflect a range of possible outcomes are considered. Probabilities are applied to each of the cash flow scenarios to arrive at an expected cash flow. The estimated cash flows are then discounted using a credit adjusted risk-free interest rate in combination with business-specific and other relevant risks to discount the cash flow. The rates used vary between 4.7% and 12.0%.

Cash flow estimates incorporate assumptions that marketplace participants would use in their estimates of fair value, whenever that information is available without undue cost and effort. If unavailable, assumptions are based on internal experts, third-party engineers' studies and historical experience in remediation work. As at December 31, 2019, we had an asset retirement obligation provision of $13 million for 12 locations (2018 – $12 million).

As at December 31, 2019, we had a total provision of $35 million for environmental matters and asset retirement obligations (2018 – $37 million). Certain of these amounts have been discounted due to more certainty of the timing of expenditures using the credit adjusted risk-free interest rate for the corresponding period until the settlement date. The rates used vary, based on the prevailing rate at the moment of recognition of the liability and on its settlement period. Additional costs, not known or identified, could be incurred for remediation efforts. Based on policies and procedures in place to monitor environmental exposure, management believes that such additional remediation costs would not have a material adverse effect on our financial position, result of operations or cash flows.

Impairment of Property Plant and Equipment, Operating lease right-of-use assets and Definite-Lived Intangible Assets

Property, plant and equipment, operating lease right-of-use assets and definite-lived intangible assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that, at the lowest level of determinable cash flows, the carrying value of the assets may not be recoverable. Step I of the impairment test assesses if the carrying value of the assets exceeds their estimated undiscounted future cash flows in order to assess if the property, plant and equipment, operating lease right-of-use assets and definite-lived intangible assets are impaired. In the event the estimated undiscounted future cash flows are lower than the net book value of the assets, a Step II impairment test must be carried out to determine the impairment charge. In Step II, the assets are written down to their estimated fair values. Given that there is generally no readily available quoted value for our property, plant, operating lease right-of-use assets and equipment and definite-lived intangible assets, we determine fair value of our assets based on the present value of estimated future cash flows expected from their use and eventual disposition, and by using the liquidation or salvage value in the case of idled assets. The fair value estimate in Step II is based on the undiscounted cash flows used in Step I.

Estimates of undiscounted future cash flows used to test the recoverability of the property, plant and equipment, operating lease right-of use assets and definite-lived intangible assets includes key assumptions related to selling prices, inflation-adjusted cost projections, forecasted exchange rates (when applicable) and estimated useful life. Changes in our assumptions and estimates may affect our forecasts and may lead to an outcome where impairment charges would be required. In addition, actual results may vary from our forecasts, and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where our conclusions may differ in reflection of prevailing market conditions.

Useful Lives

On a regular basis, we review the estimated useful lives of our property, plant and equipment and our definite-lived intangible assets. Assessing the reasonableness of the estimated useful lives of property, plant and equipment and definite-lived intangible assets requires judgment and is based on currently available information. Changes in circumstances such as technological advances, changes to our business strategy, changes to our capital strategy or changes in regulation can result in useful lives differing from our estimates. Revisions to the estimated useful lives of property, plant and equipment and definite-lived intangible assets constitute a change in accounting estimate and are dealt with prospectively by amending depreciation and amortization rates.

A change in the remaining estimated useful life of a group of assets, or their estimated net salvage value, will affect the depreciation or amortization rate used to depreciate or amortize the group of assets and thus affect depreciation or amortization expense as reported in our results of operations. In 2019, we recorded depreciation and amortization expense of $293 million compared to $308 million in 2018. At December 31, 2019, we had property, plant and equipment with a net book value of $2,567 million (2018 – $2,605 million) and definite-lived intangible assets, net of amortization, of $290 million (2018 – $311 million).

In the third quarter of 2019, we announced the permanent closure of two paper machines. These closures took place at our Ashdown, Arkansas pulp and paper mill and our Port Huron, Michigan paper mill. As a result, we recognized $32 million of accelerated depreciation in 2019 (2018 – nil).

In the fourth quarter of 2018, we announced the permanent closure of our Waco, Texas Personal Care manufacturing and distribution facility, the relocation of certain of our manufacturing assets and a workforce reduction across the division. As a result, we recognized $26 million of accelerated depreciation in 2019 (2018 – $7 million).

Closure and Restructuring Costs

Closure and restructuring costs are recognized as liabilities in the period when they are incurred and are measured at their fair value. For such recognition to occur, management, with the appropriate level of authority, must have approved and committed to a firm plan and appropriate communication to those affected must have occurred. These provisions may require an estimation of costs such as severance and termination benefits, pension and related curtailments, environmental remediation and may also include expenses related to demolition and outplacement. Actions taken may also require an evaluation of any remaining assets to determine required impairments, if any, and a review of estimated remaining useful lives which may lead to accelerated depreciation expense.

Estimates of cash flows and fair value relating to closures and restructuring require judgment. Closure and restructuring liabilities are based on management’s best estimates of future events. Although we do not anticipate significant changes, actual costs may differ from these estimates due to subsequent business developments. As such, additional costs and further impairment charges may be required in future periods.

During 2019, we recorded $32 million of accelerated depreciation under Impairment of long-lived assets and $1 million of accelerated depreciation under Depreciation and amortization, on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). Additionally, we recorded $3 million of severance and termination costs, $4 million of inventory obsolescence and $2 million of other costs, under Closure and restructuring costs in relation to the paper machine closures. Concurrently, with the Ashdown paper machine closure and related workforce reduction, management negotiated a voluntary early retirement program to reduce costs and put the mill in a stronger cost position in the long-term. We additionally recorded $13 million of severance and termination costs under Closure and restructuring costs. In 2019, in connection with our 2018 announced plan to permanently close our Waco, Texas Personal Care manufacturing and distribution facility, we recognized a $2 million of inventory obsolescence (2018 – $4 million), $5 million of severance and termination costs (2018 – $3 million) and $13 million of assets relocation and other costs (2018 – $1 million of other costs) under Closure and restructuring costs.

Additional information can be found under Note 16 “Closure and Restructuring Costs and Liability”.

Indefinite-lived intangible assets impairment assessment

Indefinite-lived intangible assets consist of trade names ($235 million) and catalog rights ($38 million) following the business acquisitions in the Personal Care segment, license rights ($6 million) and water rights ($4 million) in our Pulp and Paper segment.

We test indefinite-lived intangible assets at the asset level. Indefinite-lived intangible assets are not amortized and are evaluated at the beginning of the fourth quarter of every year or more frequently whenever indicators of potential impairment exist. In connection with the Company’s annual impairment testing in the fourth quarter of 2019, we performed a quantitative assessment for each indefinite-lived intangible asset (trade names and catalog rights) of the Personal Care segment.

In performing the quantitative assessment, fair value of the indefinite-lived intangible assets is derived using an income approach. Under this approach, we estimate the fair value of indefinite-lived intangible assets based on the present value of estimated future cash flows (a relief from royalty model). Considerable management judgment is necessary to estimate future cash flows used to measure the fair value. Key estimates supporting the cash flow projections include, but are not limited to, management’s assessment of industry and market conditions as well as estimates of revenue growth rates, royalty rates and tax rates. Financial forecasts are consistent with our operating plans and are prepared for each indefinite-lived intangible asset assessment.

The discount rate assumptions used are based on the weighted-average cost of capital adjusted for business-specific and other relevant risks. If the carrying amounts of the indefinite-lived intangible assets exceed their respective fair values, an impairment loss is recognized in an amount equal to that excess.

The quantitative assessments performed in the fourth quarter of 2019 indicated that the indefinite-lived intangible assets had fair values that exceeded their carrying amounts. One Personal Care segment indefinite-lived intangible asset is considered to be at risk for future impairment given its respective fair value exceeded its respective carrying value by 18% at the time the test was performed. As of December 31, 2019, the carrying value of this indefinite-lived intangible asset was $115 million.

Variations in our assumptions and estimates, particularly in the expected growth rates and royalty rates embedded in our cash flow projections, and the discount rate could have a significant impact on fair value. Specifically, regarding the indefinite-lived intangible asset noted above with a carrying value of $115 million and a fair value that exceeded the carrying value by 18%, either a 418 basis points (“bps”) decrease in expected growth rates, a 83 bps decrease in royalty rate or a 141 bps increase in the discount rate would have the effect of making the fair value equal to the carrying value. A significant reduction in the estimated fair values could result in significant non-cash impairment charges in the future.

Pension Plans and Other Post-Retirement Benefit Plans

We have several defined contribution plans and multiemployer plans. The pension expense under these plans is equal to our contribution. Defined contribution pension expense was \$42 million for the year ended December 31, 2019 (2018 – \$50 million).

We sponsor both contributory and non-contributory U.S. and non-U.S. defined benefit pension plans. We also sponsor a number of other post-retirement benefit plans for eligible U.S. and non-U.S. employees; the plans are unfunded and include life insurance programs and medical and dental benefits. In addition, we provide supplemental unfunded defined benefit pension plans and supplemental unfunded defined contribution pension plans to certain senior management employees.

We account for pensions and other post-retirement benefits in accordance with Compensation-Retirement Benefits Topic of the Financial Accounting Standards Board-Accounting Standards Committee which requires employers to recognize the overfunded or underfunded status of defined benefit pension plans as an asset or liability in its Consolidated Balance Sheets. Pension and other post-retirement benefit charges require assumptions in order to estimate the projected and accumulated benefit obligations. These assumptions require considerable management judgment and include:

- Expected long-term rate of return on plan assets—used to estimate the growth and expected return on assets
- Discount rate—used to determine interest costs and the net present value of our obligations
- Rate of compensation increase—used to calculate the impact of future increases on our obligations
- Health care cost trends—used to calculate the impact of future health care costs on our obligations
- Employee related factors, such as mortality rates, turnover, retirement age and disabilities—used to determine the extent of our obligations

Changes in these assumptions result in actuarial gains or losses, which are amortized over the expected average remaining service life of the active employee group covered by the plans, only to the extent that the unrecognized net actuarial gains and losses are in excess of 10% of the greater of the projected benefit obligation and the market value of assets, over the average remaining service period of approximately ten years of the active employee group covered by the pension plans, and 12 years of the active employee group covered by the other post-retirement benefits plans.

An expected rate of return on plan assets of 5.2% was considered appropriate by management for the determination of pension expense for 2019. Effective January 1, 2020, we will use 4.8% as the expected return on plan assets, which reflects the current view of long-term investment returns. The overall expected long-term rate of return on plan assets is based on management's best estimate of the long-term returns of the major asset classes (cash and cash equivalents, equities and bonds) weighted by the actual allocation of assets at the measurement date, net of expenses. This rate includes an equity risk premium over government bond returns for equity investments and a value-added premium for the contribution to returns from active management. The sources used to determine management's best estimate of long-term returns are numerous and include country specific bond yields, which may be derived from the market using local bond indices or by analysis of the local bond market, and country-specific inflation and investment market expectations derived from market data and analysts' or governments' expectations, as applicable.

We set our discount rate assumption annually to reflect the rates available on high-quality, fixed income debt instruments, with a duration that is expected to match the timing and amount of expected benefit payments. High-quality debt instruments are corporate bonds with a rating of AA or better. The discount rates at December 31, 2019 for pension plans were estimated at 3.1% for the projected benefit obligation and 3.8% for the net periodic benefit cost for 2019 and for post-retirement benefit plans were estimated at 3.1% for the projected benefit obligation and 3.7% for the net periodic benefit cost for 2019.

We used a full yield curve approach to estimate the current service and interest cost components of net periodic benefit cost for Canadian pension plans and U.S. funded pension plans. The estimate of these components is made by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We used this approach to provide a more precise measurement of current service and interest cost components by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates.

The rate of compensation increase is another significant assumption in the actuarial model for pension (set at 2.7% for the projected benefit obligation and 2.6% for the net periodic benefit cost) and for post-retirement benefit plans (set at 2.8% for the projected benefit obligation and 2.7% for the net periodic benefit cost) and is determined based upon our long-term plans for such increases.

For employee related factors, mortality rate tables tailored to our industry were used and the other factors reflect our historical experience and management's best estimate regarding future expectations.

For measurement purposes, a 3.4% weighted average annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019.

The following table provides a sensitivity analysis of the key weighted average economic assumptions used in measuring the projected pension benefit obligation, the accrued other post-retirement benefit obligation and related net periodic benefit cost for 2019. The sensitivity analysis should be used with caution as it is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of each other.

	Pension		Other Post-Retirement Benefit	
PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS	**Projected Benefit Obligation**	**Net Periodic Benefit Cost**	**Projected Benefit Obligation**	**Net Periodic Benefit Cost**
(In millions of dollars)				
Expected rate of return on assets				
Impact of:				
1% increase	N/A	(15)	N/A	N/A
1% decrease	N/A	16	N/A	N/A
Discount rate				
Impact of:				
1% increase	(169)	(8)	(7)	—
1% decrease	209	17	9	—
Assumed overall health care cost trend				
Impact of:				
1% increase	N/A	N/A	3	—
1% decrease	N/A	N/A	(3)	—

Our pension plan funding policy is to contribute annually the amount required to provide for benefits earned in the year and to fund solvency deficiencies, funding shortfalls and past service obligations over periods not exceeding those permitted by the applicable regulatory authorities. Past service obligations primarily arise from improvements to plan benefits. The other post-retirement benefit plans are not funded and contributions are made annually to cover benefit payments.

We expect to contribute a minimum total amount of $11 million in 2020 compared to $18 million in 2019 (2018 – $57 million) to the pension plans. We expect to contribute a minimum total amount of $4 million in 2020 compared to $4 million in 2019 to the other post-retirement benefit plans (2018 – $4 million).

Benefit obligations and fair values of plan assets as of December 31, 2019 for our pension and post-retirement plans were are follows:

	December 31, 2019		December 31, 2018	
	Pension plans	Other post-retirement benefit plans	Pension plans	Other post-retirement benefit plans
	$	$	$	$
Projected benefit obligation at end of year	**(1,439)**	**(63)**	(1,569)	(62)
Fair value of assets at end of year	**1,475**	**—**	1,588	—
Funded status	**36**	**(63)**	19	(62)

For additional details on our pension plans and other post-retirement benefit plans, refer to Note 7 "Pension Plans and Other Post-Retirement Benefit Plans".

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. The change in the net deferred tax asset or liability is included in earnings. Deferred tax assets and liabilities are measured using enacted tax rates and laws expected to apply in the years in which assets and liabilities are expected to be recovered or settled. Deferred tax assets and liabilities are classified as non-current items on the Consolidated Balance Sheets. For these years, a projection of taxable income and an assumption of the ultimate recovery or settlement period for temporary differences are required. The projection of future taxable income is based on management's best estimate and may vary from actual taxable income.

On a quarterly basis, we assess the need to establish a valuation allowance for deferred tax assets and, if it is deemed more likely than not that our deferred tax assets will not be realized based on these taxable income projections, a valuation allowance is recorded. In general, "realization" refers to the incremental benefit achieved through the reduction in future taxes payable or an increase in future taxes refundable from the deferred tax assets. Evaluating the need for an amount of a valuation allowance for deferred tax assets often requires significant judgment. All available evidence, both positive and negative, should be considered to determine whether, based on the weight of that evidence, a valuation allowance is needed.

In our evaluation process, we give the most weight to historical income or losses. After evaluating all available positive and negative evidence, although realization is not assured, we determined that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets, with the exception of certain state credits and losses for which a valuation allowance of $11 million exists at December 31, 2019, and certain foreign loss carryforwards for which a valuation allowance of $10 million exists at December 31, 2019. Of this amount, $5 million unfavorably impacted tax expense and the effective tax rate for 2019 (2018 – ($8) million).

Our deferred tax assets are mainly composed of temporary differences related to various accruals, accounting provisions, pension and post-retirement benefit liabilities, net operating loss carryforwards, and available tax credits. Our deferred tax liabilities are mainly composed of temporary differences pertaining to property, plant and equipment, intangible assets, leases and other items. Estimating the ultimate settlement period requires judgment. The reversal of timing differences is expected at enacted tax rates, which could change due to changes in income tax laws or the introduction of tax changes through the presentation of annual budgets by different governments. As a result, a change in the timing and the income tax rate at which the components will reverse could materially affect deferred tax expense in our future results of operations.

In addition, U.S. and foreign tax rules and regulations are subject to interpretation and require judgment that may be challenged by taxation authorities. To the best of our knowledge, we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law. In accordance with Income Taxes Topic of FASB ASC 740, we evaluate new tax positions that result in a tax benefit to us and determine the amount of tax benefits that can be recognized. The remaining unrecognized tax benefits are evaluated on a quarterly basis to determine if changes in recognition or classification are necessary. Significant changes in the amount of unrecognized tax benefits expected within the next 12 months are disclosed quarterly. Future recognition of unrecognized tax benefits would impact the effective tax rate in the period the benefits are recognized. At December 31, 2019, we had gross unrecognized tax benefits of $29 million (2018 – $32 million). These amounts represent the gross amount of exposure in individual jurisdictions and do not reflect any additional benefits expected to be realized if such positions were sustained, such as federal deduction that could be realized if an unrecognized state deduction was not sustained. As of December 31, 2019, we believe it is reasonably possible that up to $6 million of our unrecognized tax benefits may be recognized in 2020, which could significantly impact the effective tax rate. However, the amount and timing of the recognition of these benefits is subject to some uncertainty. In addition, a number of countries are actively pursuing changes to their tax laws applicable to corporation multinationals, such as the U.S. Tax Reform, enacted in 2017. Finally, foreign governments may enact tax laws in response to the U.S. Tax Reform that could result in further changes to global taxation and materially impact our financial results.

We operate in multiple jurisdictions with complex tax policy and regulatory environments. U.S. and foreign tax rules and regulations are subject to interpretation and require judgment that may be challenged by taxation authorities. The U.S. Tax Reform significantly changes how the U.S. taxes corporations. The U.S. Tax Reform requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provision of the U.S Tax Reform and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the U.S. Tax Reform will be applied or otherwise administered that is different from our interpretation.

Tax audits by their nature are often complex and can require several years to resolve. We have a number of audits in process in various jurisdictions. Although the resolution of these tax positions is uncertain, based on currently available information, we believe that we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law, and we believe that the ultimate outcomes will not have a material adverse effect on our financial position, results of operations or cash flows. For further details refer to Note 10 “Income Taxes”.

Contingencies related to legal claims

As discussed in Item 1A Risk Factors, under the risk “Failure to comply with applicable laws and regulations could have a material adverse effect on our business, financial results or condition” and in Note 22 “Commitments and Contingencies”, we are subject to various legal proceedings and claims that arise in the ordinary course of business. We record a liability when it is probable that a loss has been incurred, and the amount is reasonably estimable. The most likely cost to be incurred is accrued based on an evaluation of the then available facts with respect to each matter. When no amount within a range of estimates is more likely, the minimum is accrued. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. For further details on “Contingencies” and legal claims refer to Note 22 “Commitments and Contingencies”.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our operating income can be impacted by the following sensitivities:

SENSITIVITY ANALYSIS	
(In millions of dollars, unless otherwise noted)	
Each $10/unit change in the selling price of the following products [1]:	
Papers	
Business Papers	$14
Commercial Print & Publishing Papers	9
Specialty & Packaging Papers	5
Pulp—net position	
Softwood	$11
Fluff	7
Hardwood	1
Foreign exchange	
(US $0.01 change in relative value to the Canadian dollar before hedging)	11
(US $0.01 change in relative value to the EURO before hedging)	2
Energy [2]	
Natural gas: $0.25/MMBtu change in price before hedging	6

1 Based on estimated 2020 capacity (ST or ADMT).

2 Based on estimated 2020 consumption levels. The allocation between energy sources may vary during the year in order to take advantage of market conditions.

Note that we may, from time to time, hedge part of our foreign exchange, and energy positions, which may therefore impact the above sensitivities.

In the normal course of business, we are exposed to certain financial risks. We do not use derivative instruments for speculative purposes; although all derivative instruments purchased to minimize risk may not qualify for hedge accounting.

CREDIT RISK

We are exposed to credit risk on accounts receivables from our customers. In order to reduce this risk, we review new customers' credit history before granting credit and conduct regular reviews of existing customers' credit performance. As of December 31, 2019, two of our Pulp and Paper segment customers located in the U.S. represented 11% or $66 million, and 11% or $65 million, respectively, of our receivables (December 31, 2018 – one Pulp and Paper segment customer located in the U.S. represented 10% or $67 million).

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

INTEREST RATE RISK

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

The Financial Conduct Authority in the United Kingdom plans to phase out LIBOR by the end of 2021. We do not anticipate a significant impact to our financial position from the planned phase out of LIBOR.

COST RISK

Cash flow hedges

We are exposed to price volatility for raw materials and energy used in our manufacturing process. We manage our exposure to cost risk primarily through the use of supplier contracts. We purchase natural gas at the prevailing market price at the time of delivery. To reduce the impact on cash flow and earnings due to pricing volatility, we may utilize derivatives to fix the price of forecasted natural gas purchases. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Cost of sales in the period during which the hedged transaction affects earnings. Current contracts are used to hedge a portion of forecasted purchases over the next 48 months.

FOREIGN CURRENCY RISK

Cash flow hedges

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

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

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Reports to Shareholders of Domtar Corporation

Management's Report on Financial Statements and Practices

The accompanying Consolidated Financial Statements of Domtar Corporation and its subsidiaries (the "Company") were prepared by management. The statements were prepared in accordance with accounting principles generally accepted in the United States of America and include amounts that are based on management's best judgments and estimates. Management is responsible for the completeness, accuracy and objectivity of the financial statements. The other financial information included in the annual report is consistent with that in the financial statements.

Management has established and maintains a system of internal accounting and other controls for the Company and its subsidiaries. This system and its established accounting procedures and related controls are designed to provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions, that policies and procedures are implemented by qualified personnel, and that published financial statements are properly prepared and fairly presented. The Company's system of internal control is supported by written policies and procedures, contains self-monitoring mechanisms, and is audited by the internal audit function. Appropriate actions are taken by management to correct deficiencies as they are identified.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has evaluated the effectiveness of internal control over financial reporting, using the criteria established in 2013 *Internal Control – Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on the assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2019, based on criteria in *Internal Control – Integrated Framework* issued in 2013 by the COSO.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Domtar Corporation:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Domtar Corporation and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of earnings (loss) and comprehensive income (loss), of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2019 appearing after the list of exhibits under Item 15(a)(3) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Indefinite-Lived Intangible Assets Impairment Assessment – Personal Care Segment

As described in Notes 1 and 14 to the consolidated financial statements, the Company's consolidated indefinite-lived intangible assets balance was $283 million as of December 31, 2019, and the indefinite-lived intangible assets associated with the Personal Care segment was $273 million, which includes trade names and catalog rights. Management evaluates indefinite-lived intangible assets for impairment at the beginning of the fourth quarter, or more frequently whenever indicators of potential impairment exist. Management performed a quantitative impairment test for each Personal Care indefinite-lived intangible asset, which consisted of comparing the fair value of the indefinite-lived intangible asset to its carrying amount. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. As disclosed by management, fair value of the indefinite-lived trade names and catalog rights intangible assets is derived using an income approach that is a relief from royalty model. Key estimates supporting the cash flow projections include, but are not limited to, management's assessment of industry and market conditions, as well as its estimates of revenue growth rates, royalty rates, tax rates and discount rates.

The principal considerations for our determination that performing procedures relating to the indefinite-lived intangible assets impairment assessment for the Personal Care segment is a critical audit matter are (i) there was a high degree of auditor judgment and subjectivity in applying our procedures relating to the fair value of the indefinite-lived intangible assets due to the significant amount of judgment required by management when developing these estimates, (ii) significant audit effort was required in evaluating the significant assumptions relating to the indefinite-lived intangible assets, such as revenue growth rates, royalty rates, tax rates and discount rates, and (iii) our audit effort included the involvement of professionals with specialized skill and knowledge to assist in performing procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the Company's determination of the fair value of the indefinite-lived intangible assets and evaluation for potential impairment. These procedures also included, among others, testing management's process for developing the fair value estimates of the Personal Care segment indefinite-lived intangible assets, ensuring the completeness and accuracy of the underlying data supporting the cash flow projections, and evaluating the appropriateness of the model and the significant assumptions, including revenue growth rates, royalty rates, tax rates and discount rates used by management in developing the fair value estimates of the Personal Care segment indefinite-lived intangible assets. Evaluating the reasonableness of the assumptions related to revenue growth rates and royalty rates involved considering the Company's past performance and whether these assumptions were consistent with evidence obtained in other areas of the audit. Evaluating the reasonableness of the tax rates involved considering the respective jurisdictions in which the Company conducts business and whether the tax rates were consistent throughout the model and with evidence obtained in other areas of the audit. Evaluating the reasonableness of the discount rates involved considering current economic conditions and certain Company-specific factors. In addition, professionals with specialized skill and knowledge assisted in evaluating the Company's relief from royalty model and certain assumptions, including the royalty rates and discount rates.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina
February 25, 2020

We have served as the Company's auditor since 2007.

DOMTAR CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
Sales	**5,220**	5,455	5,148
Operating expenses			
Cost of sales, excluding depreciation and amortization	**4,225**	4,303	4,145
Depreciation and amortization	**293**	308	321
Selling, general and administrative	**434**	443	444
Impairment of long-lived assets (NOTE 4)	**58**	7	578
Closure and restructuring costs (NOTE 16)	**42**	8	2
Other operating loss (income), net (NOTE 8)	**5**	—	(14)
	5,057	5,069	5,476
Operating income (loss)	**163**	386	(328)
Interest expense, net (NOTE 9)	**52**	62	66
Non-service components of net periodic benefit cost (NOTE 7)	**23**	(18)	(11)
Earnings (loss) before income taxes and equity loss	**88**	342	(383)
Income tax expense (benefit) (NOTE 10)	**2**	57	(125)
Equity loss, net of taxes	**2**	2	—
Net earnings (loss)	**84**	283	(258)
Per common share (in dollars) (NOTE 6)			
Net earnings (loss)			
Basic	**1.37**	4.50	(4.11)
Diluted	**1.37**	4.48	(4.11)
Weighted average number of common shares outstanding (millions)			
Basic	**61.2**	62.9	62.7
Diluted	**61.4**	63.1	62.7
Cash dividends per common share	**1.78**	1.72	1.66
Net earnings (loss)	**84**	283	(258)
Other comprehensive income (loss):			
Net derivative gains (losses) on cash flow hedges:			
Net gains (losses) arising during the period, net of tax $(3) (2018 – $10; 2017 – $(5))	**11**	(30)	6
Less: Reclassification adjustment for losses (gains) included in net earnings (loss), net of tax of $(3) (2018 – $1; 2017 – $5)	**8**	(2)	(9)
Foreign currency translation adjustments	**21**	(91)	146
Change in unrecognized gains (losses) and prior service cost related to pension and post-retirement benefit plans, net of tax of $(13) (2018 – $3; 2017 – $(5))	**34**	(8)	20
Other comprehensive income (loss)	**74**	(131)	163
Comprehensive income (loss)	**158**	152	(95)

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

DOMTAR CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	At	
	December 31, 2019	December 31, 2018
	$	$
Assets		
Current assets		
Cash and cash equivalents	**61**	111
Receivables, less allowances of $6 and $6	**577**	670
Inventories (NOTE 11)	**786**	762
Prepaid expenses	**33**	24
Income and other taxes receivable	**61**	22
Total current assets	**1,518**	1,589
Property, plant and equipment, net (NOTE 12)	**2,567**	2,605
Operating lease right-of-use assets (NOTE 13)	**81**	—
Intangible assets, net (NOTE 14)	**573**	597
Other assets (NOTE 15)	**164**	134
Total assets	**4,903**	4,925
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	**9**	—
Trade and other payables (NOTE 17)	**705**	757
Income and other taxes payable	**23**	25
Operating lease liabilities due within one year (NOTE 13)	**28**	—
Long-term debt due within one year (NOTE 19)	**1**	1
Total current liabilities	**766**	783
Long-term debt (NOTE 19)	**938**	853
Operating lease liabilities (NOTE 13)	**69**	—
Deferred income taxes and other (NOTE 10)	**479**	476
Other liabilities and deferred credits (NOTE 20)	**275**	275
Commitments and contingencies (NOTE 22)		
Shareholders' equity (NOTE 21)		
Common stock $0.01 par value; authorized 2,000,000,000 shares; issued 65,001,104 and 65,001,104 shares	**1**	1
Treasury stock $0.01 par value; 8,120,194 and 2,086,535 shares	**—**	—
Additional paid-in capital	**1,770**	1,981
Retained earnings	**998**	1,023
Accumulated other comprehensive loss	**(393)**	(467)
Total shareholders' equity	**2,376**	2,538
Total liabilities and shareholders' equity	**4,903**	4,925

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

DOMTAR CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Issued and outstanding common shares (millions of shares)	Common stock, at par	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
		$	$	$	$	$
Balance at December 31, 2016	62.6	1	1,963	1,211	(499)	2,676
Stock-based compensation, net of tax	0.1	—	6	—	—	6
Net loss	—	—	—	(258)	—	(258)
Net derivative losses on cash flow hedges:						
Net gains arising during the period, net of tax of $(5)	—	—	—	—	6	6
Less: Reclassification adjustment for gains included in net loss, net of tax of $5	—	—	—	—	(9)	(9)
Foreign currency translation adjustments	—	—	—	—	146	146
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of $(5)	—	—	—	—	20	20
Cash dividends declared	—	—	—	(104)	—	(104)
Balance at December 31, 2017	62.7	1	1,969	849	(336)	2,483
Stock-based compensation, net of tax	0.2	—	12	—	—	12
Net earnings	—	—	—	283	—	283
Net derivative losses on cash flow hedges:						
Net losses arising during the period, net of tax of $10	—	—	—	—	(30)	(30)
Less: Reclassification adjustment for gains included in net earnings, net of tax of $1	—	—	—	—	(2)	(2)
Foreign currency translation adjustments	—	—	—	—	(91)	(91)
Change in unrecognized losses and prior service cost related to pension and post-retirement benefit plans, net of tax of $3	—	—	—	—	(8)	(8)
Cash dividends declared	—	—	—	(109)	—	(109)
Balance at December 31, 2018	62.9	1	1,981	1,023	(467)	2,538
Stock-based compensation, net of tax	**0.2**	**—**	**8**	**—**	**—**	**8**
Net earnings	**—**	**—**	**—**	**84**	**—**	**84**
Net derivative gains on cash flow hedges:						
Net gains arising during the period, net of tax of $(3)	**—**	**—**	**—**	**—**	**11**	**11**
Less: Reclassification adjustment for losses included in net earnings, net of tax of $(3)	**—**	**—**	**—**	**—**	**8**	**8**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**21**	**21**
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of $(13)	**—**	**—**	**—**	**—**	**34**	**34**
Stock repurchase	**(6.2)**	**—**	**(219)**	**—**	**—**	**(219)**
Cash dividends declared	**—**	**—**	**—**	**(109)**	**—**	**(109)**
Balance at December 31, 2019	**56.9**	**1**	**1,770**	**998**	**(393)**	**2,376**

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

DOMTAR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS OF DOLLARS)

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
	$	**$**	**$**
Operating activities			
Net earnings (loss)	**84**	283	(258)
Adjustments to reconcile net earnings (loss) to cash flows from operating activities			
Depreciation and amortization	**293**	308	321
Deferred income taxes and tax uncertainties (NOTE 10)	**(16)**	13	(207)
Impairment of long-lived assets (NOTE 4)	**58**	7	578
Net gains on disposals of property, plant and equipment	**—**	(4)	(13)
Stock-based compensation expense	**9**	8	6
Equity loss, net	**2**	2	—
Other	**—**	(1)	2
Changes in assets and liabilities, excluding the effect of acquisition of business			
Receivables	**96**	18	(72)
Inventories	**(16)**	(24)	21
Prepaid expenses	**2**	2	5
Trade and other payables	**(67)**	24	35
Income and other taxes	**(43)**	(32)	12
Difference between employer pension and other post-retirement contributions and pension and other post-retirement expense	**29**	(46)	(32)
Other assets and other liabilities	**11**	(4)	51
Cash flows from operating activities	**442**	554	449
Investing activities			
Additions to property, plant and equipment	**(255)**	(195)	(182)
Proceeds from disposals of property, plant and equipment and sale of business	**1**	5	19
Acquisition of business, net of cash acquired (NOTE 3)	**—**	—	(8)
Other	**—**	(6)	—
Cash flows used for investing activities	**(254)**	(196)	(171)
Financing activities			
Dividend payments	**(110)**	(108)	(104)
Stock repurchase	**(219)**	—	—
Net change in bank indebtedness	**9**	—	(12)
Change in revolving credit facility	**80**	—	(50)
Proceeds from receivables securitization facility	**205**	85	45
Repayments of receivables securitization facility	**(200)**	(60)	(90)
Repayments of long-term debt	**(1)**	(301)	(64)
Other	**(1)**	2	1
Cash flows used for financing activities	**(237)**	(382)	(274)
Net (decrease) increase in cash and cash equivalents	**(49)**	(24)	4
Impact of foreign exchange on cash	**(1)**	(4)	10
Cash and cash equivalents at beginning of year	**111**	139	125
Cash and cash equivalents at end of year	**61**	111	139
Supplemental cash flow information			
Net cash payments for:			
Interest	**46**	57	58
Income taxes	**59**	71	33

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

DOMTAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Domtar designs, manufactures, markets and distributes a wide variety of fiber-based products including communication papers, specialty and packaging papers and absorbent hygiene products. The foundation of its business is a network of wood fiber converting assets that produce paper grade, fluff and specialty pulp. The majority of this pulp production is consumed internally to manufacture paper and other consumer products with the balance sold as market pulp. Domtar is the largest integrated marketer of uncoated freesheet paper in North America serving a variety of customers, including merchants, retail outlets, stationers, printers, publishers, converters and end-users. Domtar also designs, manufactures, markets and distributes a broad line of absorbent hygiene products, as well as infant diapers.

BASIS OF PRESENTATION

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the year, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. On an ongoing basis, management reviews the estimates and assumptions, including but not limited to those related to environmental matters and asset retirement obligations, impairment and useful lives of long-lived assets, closure and restructuring costs, pension and other post-retirement benefit plans, income taxes, business combinations and contingencies, based on currently available information. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Domtar and its controlled subsidiaries. Intercompany transactions have been eliminated on consolidation. The equity method of accounting is used for investments in affiliates over which the Company has significant influence but does not have effective control.

TRANSLATION OF FOREIGN CURRENCIES

The Company determines its international subsidiaries' functional currency by reviewing the currencies in which their respective operating activities occur. The Company translates assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using the rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rates during the year. Foreign currency translation gains and losses are included in Shareholders' equity as a component of Accumulated other comprehensive loss in the accompanying Consolidated Balance Sheets.

Monetary assets and liabilities denominated in a currency that is different from a reporting entity's functional currency must first be remeasured from the applicable currency to the legal entity's functional

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

currency. The effect of this remeasurement process is recognized in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) and is partially offset by the Company's hedging program (refer to Note 23 "Derivatives and hedging activities and fair value measurement").

At December 31, 2019, the accumulated translation adjustment accounts amounted to \$(202) million (2018 – \$(223) million).

REVENUE RECOGNITION

The Company's revenue is generated from the sale of finished goods to customers. Revenue is recognized at a single point in time when the performance obligation is satisfied which occurs when the control over the goods is transferred to customers. For shipping and handling activities performed after customers obtain control of the goods, the Company elected to account for these activities as fulfillment activities rather than assessing such activities as separate performance obligations. Accordingly, the sale of goods to customers represents a single performance obligation to which the entire transaction price is allocated.

The point in time when the control of goods is transferred to customers is largely dependent on delivery terms. Revenue is recorded at the time of shipment for delivery terms designated free on board ("f.o.b.") shipping point. For sales transactions designated f.o.b. destination, revenue is recorded when the product is delivered to the customer's delivery site.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for goods transferred to customers. Revenue is recognized net of variable consideration in the form of rebates, discounts and other commercial incentives extended to customers. Variable consideration is recognized using the most likely amounts which are based on an analysis of historical experience and current period expectations. The Company includes estimated amounts of variable consideration in revenue to the extent that it is probable that there will not be a significant reversal of recognized revenue when the uncertainty related to that variable consideration is resolved.

For all the Company's contracts, customer payments are due in less than one year. Accordingly, the Company does not adjust the amount of revenue recognized for the effects of a significant financing component.

Sales taxes, and other similar taxes, collected from customers are excluded from revenue.

SHIPPING AND HANDLING COSTS

The Company classifies shipping and handling costs as a component of Cost of sales in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

CLOSURE AND RESTRUCTURING COSTS

Closure and restructuring costs are recognized as liabilities in the period when they are incurred and are measured at their fair value. For such recognition to occur, management, with the appropriate level of authority, must have approved and committed to a firm plan and appropriate communication to those affected must have occurred. These provisions may require an estimation of costs such as severance and termination benefits,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

pension and related curtailments, environmental remediation and may also include expenses related to demolition and outplacement. Actions taken may also require an evaluation of any remaining assets to determine required impairments, if any, and a review of estimated remaining useful lives which may lead to accelerated depreciation expense.

Estimates of cash flows and fair value relating to closures and restructurings require judgment. Closure and restructuring liabilities are based on management's best estimates of future events. Although the Company does not anticipate significant changes, the actual costs may differ from these estimates due to subsequent developments such as the results of environmental studies, the ability to find a buyer for assets set to be dismantled and demolished and other business developments. As such, additional costs and further working capital adjustments may be required in future periods.

INCOME TAXES

Domtar uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. The Company records its worldwide tax provision based on the respective tax rules and regulations for the jurisdictions in which it operates. The change in the net deferred tax asset or liability is included in Income tax expense (benefit) or in Other comprehensive income (loss) in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss). Deferred tax assets and liabilities are measured using enacted tax rates and laws expected to apply in the years in which the assets and liabilities are expected to be recovered or settled. Uncertain tax positions are recorded based upon the Company's evaluation of whether it is "more likely than not" (a probability level of more than 50%) that, based upon its technical merits, the tax position will be sustained upon examination by the taxing authorities.

The Company establishes a valuation allowance for deferred tax assets when it is more likely than not that they will not be realized. In general, "realization" refers to the incremental benefit achieved through the reduction in future taxes payable or an increase in future taxes refundable from the deferred tax assets. Deferred tax assets and liabilities are classified as non-current items on the Consolidated Balance Sheets.

The Company recognizes interest and penalties related to income tax matters as a component of Income tax expense (benefit) in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

If and when incurred, the Company accounts for any taxes associated with Global Intangible Low-Taxed Income ("GILTI") as a period cost.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term investments with original maturities of less than three months and are presented at cost which approximates fair value.

RECEIVABLES

Receivables are recorded net of a provision for doubtful accounts that is based on expected collectability. The securitization of receivables is accounted for as secured borrowings. Accordingly, financing expenses related

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

to the securitization of receivables are recognized in earnings as a component of Interest expense, net in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Cost includes labor, materials and production overhead. The last-in, first-out ("LIFO") method is used to account for certain domestic raw materials, in process and finished goods inventories. LIFO inventories were $242 million and $227 million at December 31, 2019 and 2018, respectively. The balance of domestic raw material inventories, all materials and supplies inventories and all foreign inventories are recorded at either the first-in, first-out ("FIFO") or average cost methods. Had the inventories for which the LIFO method is used been valued under the FIFO method, the amounts at which product inventories are stated would have been $69 million and $61 million greater at December 31, 2019 and 2018, respectively.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation including asset impairments. Costs for repair and maintenance activities are expensed as incurred under the direct expense method of accounting. Interest costs are capitalized for significant capital projects. For timberlands, the amortization is calculated using the unit of production method. For all other assets, depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Buildings and improvements are depreciated over periods of 10 to 40 years and machinery and equipment over periods of 3 to 20 years. No depreciation is recorded on assets under construction.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, by comparing the net book value of the asset group to their estimated undiscounted future cash flows expected from their use and eventual disposition. Impaired assets are recorded at estimated fair value, determined principally by using the present value of estimated future cash flows expected from their use and eventual disposition (refer to Note 4 "Impairment of long-lived assets").

LEASES

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

For each lease arrangement that has an original lease term of more than 12 months, a right-of-use asset and a lease liability are recorded in the Consolidated Balance Sheets. The right-of-use asset represents the Company's right to use an underlying asset for the lease term while the lease liability represents the obligation to make lease

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

payments arising from the lease. The right-of-use asset and the lease liability are initially recorded at the same amount at the lease commencement date based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The right-of-use asset is tested for impairment in accordance with ASC 360 – "*Property, Plant and Equipment*".

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

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

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

INTANGIBLE ASSETS

Indefinite-lived intangible assets are not amortized and are evaluated for impairment individually at the beginning of the fourth quarter of every year, or more frequently whenever indicators of potential impairment exist. The Company has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of indefinite-lived intangible assets are less than their carrying amounts. To carry out the qualitative assessment, the Company considers elements such as the results of recent fair value assessments, macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, specific events affecting the Company and the business. The identification and impact assessment of events and circumstances on the fair value involves significant judgment and assumptions. If a qualitative assessment is performed and after assessing the qualitative factors, the Company determines that it is more likely than not that the fair value of the indefinite-lived intangible assets are less than their carrying amounts, then a quantitative impairment test is required. The Company can also elect to proceed directly to the quantitative test. The quantitative impairment test consists of comparing the fair value of the indefinite-lived intangible assets determined using a variety of methodologies to their carrying amount. If the carrying amounts of the indefinite-lived intangible assets exceed their fair value, an impairment loss is recognized in an amount equal to that excess.

Indefinite-lived intangible assets include trade names related to Attends®, IncoPack®, Indasec® and Reassure®, catalog rights related to Laboratorios Indas S.A.U., license rights related to Xerox and water rights. The Company reviews its indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support indefinite useful lives.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Definite-lived intangible assets are stated at cost less amortization and are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Definite-lived intangible assets include water rights, customer relationships, technology, non-compete agreements as well as license rights, which are being amortized using the straight-line method over their respective estimated useful lives. Any potential impairment for definite-lived intangible assets will be calculated in the same manner as disclosed under impairment of long-lived assets.

Amortization is based on the following useful lives:

	Useful life
Water rights	40 years
Customer relationships	10 to 40 years
Technology	7 to 20 years
Non-Compete agreements	9 years
Licence rights	12 years

DEBT ISSUANCE COSTS

Debt issuance costs are presented in the Consolidated Balance Sheets as a deduction from the carrying value of long-term debt. Debt issuance costs associated with revolving credit arrangements are presented in Other assets in the Consolidated Balance Sheets. Debt issuance costs are amortized using the effective rate method over the term of the related debt and included in Interest expense, net in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

ENVIRONMENTAL COSTS AND ASSET RETIREMENT OBLIGATIONS

Environmental expenditures for effluent treatment, air emission, silvicultural activities and site remediation (together referred to as environmental matters) are expensed or capitalized depending on their future economic benefit. In the normal course of business, Domtar incurs certain operating costs for environmental matters that are expensed as incurred. Expenditures for property, plant and equipment that prevent future environmental impacts are capitalized and amortized on a straight-line basis over 10 to 40 years. Provisions for environmental matters are recorded when remediation efforts are probable and can be reasonably estimated. Provisions for environmental matters are generally not discounted, due to uncertainty with respect to timing of expenditures.

Asset retirement obligations are mainly associated with landfill operation and closure, dredging of settling ponds and bark pile management and are recognized, at fair value, in the period in which Domtar incurs a legal obligation associated with the retirement of an asset. Conditional asset retirement obligations are recognized, at fair value, when the fair value of the liability can be reasonably estimated on a probability-weighted discounted cash flow estimate. The associated costs are capitalized as part of the carrying value of the related asset and depreciated over its remaining useful life. The liability is accreted using the credit adjusted risk-free interest rate used to discount the cash flow.

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Domtar recognizes the cost (net of estimated forfeitures) of employee services received in exchange for awards of equity instruments over the requisite service period, based on their grant date fair value for awards

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

accounted for as equity and based on the quoted market value at the end of each reporting period for awards accounted for as liability. The Company awards are accounted for as compensation expense in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) and presented in Additional paid-in capital on the Consolidated Balance Sheets for equity type awards and presented in Other liabilities and deferred credits on the Consolidated Balance Sheets for liability type awards.

The Company's awards may be subject to market, performance and/or service conditions. Any consideration paid by plan participants on the exercise of stock options or the purchase of shares is credited to Additional paid-in capital in the Consolidated Balance Sheets. The par value included in the Additional paid-in capital component of stock-based compensation is transferred to Common stock upon the issuance of shares of common stock.

Stock options subject to service conditions vest pro rata on the first three anniversaries of the grant and have a seven-year term. Service and performance-based awards vest on the third anniversary of the grant. The performance-based awards have an additional feature where the ultimate number of units that vest will be determined by the Company's performance results or shareholder return in relation to a predetermined target over the vesting period. Deferred Share Units vest immediately at the grant date and are remeasured at the end of each reporting period, until settlement, using the quoted market value.

Under the amended and restated Domtar Corporation 2007 Omnibus Incentive Plan ("Omnibus Plan"), a maximum of 1,112,295 shares are reserved for issuance in connection with awards to be granted.

DERIVATIVE INSTRUMENTS

Derivative instruments may be utilized by Domtar as part of the overall strategy to manage exposure to fluctuations in foreign currency, interest rate and commodity price on certain purchases. As a matter of policy, derivatives are not used for trading or speculative purposes. All derivatives are recorded at fair value either as assets or liabilities. When derivative instruments have been designated within a hedge relationship and are highly effective in offsetting the identified risk characteristics of specific financial assets and liabilities or group of financial assets and liabilities, hedge accounting is applied. In a fair value hedge, changes in fair value of derivatives are recognized in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss). The change in fair value of the hedged item attributable to the hedged risk is also recorded in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) by way of a corresponding adjustment of the carrying amount of the hedged item recognized in the Consolidated Balance Sheets. In a cash flow hedge, changes in fair value of derivative instruments are recorded in Other comprehensive income (loss). These amounts are reclassified in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) in the periods in which results are affected by the cash flows of the hedged item within the same line item.

PENSION PLANS

Domtar's plans include funded and unfunded defined benefit and defined contribution pension plans. Domtar recognizes the overfunded or underfunded status of defined benefit and underfunded defined contribution pension plans as an asset or liability in the Consolidated Balance Sheets. The net periodic benefit cost includes the following:

- The cost of pension benefits provided in exchange for employees' services rendered during the period,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The interest cost of pension obligations,
- The expected long-term return on pension fund assets based on a market value of pension fund assets,
- Gains or losses on settlements and curtailments,
- The straight-line amortization of past service costs and plan amendments over the average remaining service period of approximately ten years of the active employee group covered by the plans, and
- The amortization of cumulative net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation and the market value of assets over the average remaining service period of approximately ten years of the active employee group covered by the plans.

The defined benefit plan obligations are determined in accordance with the projected unit credit actuarial cost method.

OTHER POST-RETIREMENT BENEFIT PLANS

The Company recognizes the unfunded status of other post-retirement benefit plans (other than multiemployer plans) as a liability in the Consolidated Balance Sheets. These benefits, which are funded by Domtar as they become due, include life insurance programs, medical and dental benefits and short-term and long-term disability programs. The Company amortizes the cumulative net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation and the market value of assets over the average remaining service period of approximately 12 years of the active employee group covered by the plans.

GUARANTEES

A guarantee is a contract or an indemnification agreement that contingently requires Domtar to make payments to the other party of the contract or agreement, based on changes in an underlying item that is related to an asset, a liability or an equity security of the other party or on a third party's failure to perform under an obligating agreement. It could also be an indirect guarantee of the indebtedness of another party, even though the payment to the other party may not be based on changes in an underlying item that is related to an asset, a liability or an equity security of the other party. Guarantees, when applicable, are accounted for at fair value.

NOTE 2.

RECENT ACCOUNTING PRONOUNCEMENTS

ACCOUNTING CHANGES IMPLEMENTED

LEASES

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

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

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

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

COMPREHENSIVE INCOME

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

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

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

FUTURE ACCOUNTING CHANGES

IMPLEMENTATION COSTS FOR CLOUD COMPUTING ARRANGEMENTS

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

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

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

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

RECEIVABLES

In June 2016, the FASB issued ASU 2016-13, *"Financial Instruments—Credit Losses"*. This ASU added a new impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes an allowance for its estimate of expected credit losses and applies to most debt instruments, trade receivables, lease receivables, financial guarantee contracts, and other loan commitments. The CECL model does not have a minimum threshold for recognition of impairment losses and entities will need to measure expected credit losses on assets that have a low risk of loss. These changes become effective on January 1, 2020.

The Company does not expect a material impact from the adoption of this guidance, as the current loss models used by the Company incorporate both historic and forward-looking information.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 3.

ACQUISITION OF BUSINESS

Acquisition of Home Delivery Incontinent Supplies Co.

On October 1, 2016, Domtar completed the acquisition of 100% of the outstanding shares of Home Delivery Incontinent Supplies Co. ("HDIS"). HDIS is a leading national direct-to-consumer provider of adult incontinence and related products. Based in Olivette, Missouri, HDIS provides customers with high-quality products and a personalized service for all of their incontinence needs. HDIS operates a distribution center in Olivette, Missouri, as well as two retail locations, in Texarkana, Arkansas and Daytona Beach, Florida and has approximately 240 employees. The results of HDIS's operations are included in the Personal Care reportable segment starting on October 1, 2016. The purchase price was $52 million, net of cash acquired of $3 million and included a potential earn-out payment of up to $10 million to be settled after the first anniversary of the acquisition. The final amount of the earn-out was $8 million and was paid in the last quarter of 2017.

The total purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on the Company's estimates of their fair value, which were based on information available at that time.

The table below illustrates the purchase price allocation:

Fair value of net assets acquired at the date of acquisition		
Receivables		$ 4
Inventory		4
Property, plant and equipment		1
Intangible assets		
Customer relationships (1)	*21*	
Trade names (2)	*13*	
		34
Goodwill		17
Deferred income tax assets		2
Total assets		62
Less: Liabilities		
Trade and other payables		10
Total liabilities		10
Fair value of net assets acquired at the date of acquisition		52

(1) The useful life of the Customer relationships acquired is estimated at 10 years (as of the date of acquisition).

(2) Indefinite useful life.

NOTE 4.

IMPAIRMENT OF LONG-LIVED ASSETS

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, AND OPERATING LEASE RIGHT-OF-USE ASSETS

The Company reviews property, plant and equipment for impairment upon the occurrence of events or changes in circumstances indicating that, at the lowest level of determinable cash flows, the carrying value of the asset group may not be recoverable.

Estimates of undiscounted future cash flows used to test the recoverability of the asset group includes key assumptions related to selling prices, inflation-adjusted cost projections, forecasted exchange rates when applicable and the estimated useful life of the asset group.

Waco, Texas facility

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

For the year ended December 31, 2019, the Company recorded $26 million of accelerated depreciation and impairment of operating lease right-of-use assets under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss) (2018 – $7 million of accelerated depreciation).

Ashdown, Arkansas mill and Port Huron, Michigan mill

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

The closure of the Ashdown paper machine took effect immediately. The Ashdown mill will continue to operate one paper machine with an annual uncoated freesheet paper production capacity of 200,000 short tons. Additionally, the mill operates a fluff pulp machine with the flexibility to produce softwood pulp depending on market conditions. As a result of the closure of the paper machine, the mill will produce an incremental 70,000 ADMT of softwood and fluff pulp, which will ramp up over the course of 2020.

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

NOTE 4. IMPAIRMENT OF LONG-LIVED ASSETS (CONTINUED)

For the year ended December 31, 2019, the Company recorded $32 million of accelerated depreciation under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss).

IMPAIRMENT OF GOODWILL

In 2017, the Company performed its annual goodwill impairment testing at October 1. At that date, total goodwill amounting to $578 million resided in the Personal Care reporting unit. Management proceeded directly to the quantitative impairment test for the Personal Care reporting unit. The estimated fair value, determined by the present value of estimated future cash flows was lower than the reporting unit's carrying value and as such the Company recognized a non-cash impairment charge of $578 million, representing the entire amount of goodwill related to the Personal Care reporting unit.

Growing competitive market pressures in the healthcare and retail markets throughout 2017, including the entry of new competitors in the private label category, excess industry capacity and the pressure to limit healthcare spending by governmental agencies, resulted in lower than previously anticipated sales and operating margin. In light of this weakened market outlook, the Company's business forecast was not sufficient to derive a fair value able to support the carrying value of the goodwill associated with the Personal Care reporting unit, leading to the impairment of goodwill.

NOTE 5.

STOCK-BASED COMPENSATION

OMNIBUS PLAN

Under the Omnibus Plan, the Company may award to key employees and non-employee directors, at the discretion of the Human Resources Committee of the Board of Directors, non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock units, performance-conditioned restricted stock units, performance share units, deferred share units ("DSUs") and other stock-based awards. The non-employee directors only receive DSUs. The Company generally grants awards annually and uses, when available, treasury stock to fulfill awards settled in common stock and option exercises.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

PERFORMANCE SHARE UNITS ("PSUs")

PSUs are granted to Management Committee and non-Management Committee members. These awards will be settled in shares for Management Committee members and in cash for non-Management Committee members, based on market conditions and/or performance and service conditions. These awards have an additional feature where the ultimate number of units that vest will be determined by the Company's performance results or shareholder return in relation to a predetermined target over the vesting period. No awards vest when the minimum thresholds are not achieved. The performance measurement date will vary depending on the specific award. These awards will cliff vest at various dates up to February 19, 2022.

PSUs	Number of units	Weighted average grant date fair value
		$
Vested and non-vested at December 31, 2016	517,281	38.98
Granted	256,078	39.04
Forfeited	(24,581)	37.59
Cancelled	(75,710)	38.78
Vested and settled	(50,600)	54.95
Vested and non-vested at December 31, 2017	622,468	37.78
Granted	238,537	41.39
Forfeited	(36,932)	38.09
Issued	52,563	41.05
Vested and settled	(154,178)	44.22
Vested and non-vested at December 31, 2018	722,458	37.82
Granted	**192,261**	**61.46**
Forfeited	**(24,980)**	**45.54**
Cancelled	**(41,399)**	**57.09**
Vested and settled	**(222,019)**	**32.39**
Vested and non-vested at December 31, 2019	**626,321**	**45.42**

The fair value of PSUs granted in 2019, 2018 and 2017 was estimated at the grant date using the Monte Carlo simulation methodology. The Monte Carlo simulation creates artificial futures by generating numerous sample paths of potential outcomes. The following assumptions were used in calculating the fair value of the units granted:

	2019	2018	2017
Dividend yield	**4.707%**	3.800%	4.130%
Expected volatility 1 year	**29%**	22%	28%
Expected volatility 3 years	**28%**	26%	28%
Risk-free interest rate December 31, 2017	**—**	—	1.614%
Risk-free interest rate December 31, 2018	**—**	2.233%	1.606%
Risk-free interest rate December 31, 2019	**2.849%**	2.461%	1.751%
Risk-free interest rate December 31, 2020	**2.646%**	2.607%	—
Risk-free interest rate December 31, 2021	**2.561%**	—	—

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

At December 31, 2019, of the total vested and non-vested PSUs, 316,468 are expected to be settled in shares and 309,853 will be settled in cash.

RESTRICTED STOCK UNITS ("RSUs")

RSUs are granted to Management Committee and non-Management Committee members. These awards will be settled in shares for Management Committee members and in cash for non-Management Committee members, upon completing service conditions. The awards cliff vest after a service period of approximately three years. Additionally, the RSUs are credited with dividend equivalents in the form of additional RSUs when cash dividends are paid on the Company's stock. The grant date fair value of RSUs is equal to the market value of the Company's stock on the date the awards are granted.

RSUs	Number of units	Weighted average grant date fair value
		$
Non-vested at December 31, 2016	418,670	40.90
Granted/issued	182,937	39.83
Forfeited	(19,194)	37.97
Vested and settled	(121,750)	48.72
Non-vested at December 31, 2017	460,663	38.56
Granted/issued	157,502	44.04
Forfeited	(27,251)	39.91
Vested and settled	(135,323)	42.54
Non-vested at December 31, 2018	455,591	39.16
Granted/issued	**156,417**	**51.07**
Forfeited	**(21,203)**	**42.86**
Vested and settled	**(174,353)**	**34.96**
Non-vested at December 31, 2019	**416,452**	**45.20**

At December 31, 2019, of the total non-vested RSUs, 187,322 are expected to be settled in shares and 229,130 will be settled in cash.

DEFERRED SHARE UNITS

DSUs are granted to the Company's Directors. The DSUs granted to the Directors vest immediately on the grant date. The DSUs are credited with dividend equivalents in the form of additional DSUs when cash dividends are paid on the Company's stock. For Directors' DSUs, the Company will deliver at the option of the holder either one share of common stock or the cash equivalent of the fair market value on settlement of each outstanding DSU (including dividend equivalents accumulated) upon termination of service. Directors who attained the share ownership requirements may elect to receive the equity component of their annual retainer in DSUs that may be settled in either cash or stock one year after the grant date. The grant date fair value of DSU awards is equal to the market value of the Company's stock on the date the awards are granted.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

Management Committee members may elect to defer awards earned under another program into DSUs. In 2019, no vested awards were deferred to DSUs (2018 – nil; 2017 – nil).

DSUs	Number of units	Weighted average grant date fair value
		$
Vested at December 31, 2016	321,074	29.01
Granted/issued	36,215	40.68
Settled	(85,055)	32.27
Vested at December 31, 2017	272,234	29.55
Granted/issued	31,691	44.64
Settled	(9,752)	40.95
Vested at December 31, 2018	294,173	30.79
Granted/issued	**35,596**	**41.32**
Settled	**(12,606)**	**43.90**
Vested at December 31, 2019	**317,163**	**31.45**

NON-QUALIFIED STOCK OPTIONS

Stock options are granted to Management Committee and non-Management Committee members. The stock options vest at various dates up to February 20, 2021 subject to service conditions. The options expire at various dates no later than seven years from the date of grant. In 2019, no stock options were granted.

The fair value of the stock options granted in 2018 and 2017 was estimated at the grant date using a Black-Scholes based option pricing model or an option pricing model that incorporated the market conditions when applicable. The following assumptions were used in calculating the fair value of the options granted:

	2018	2017
Dividend yield	3.27%	3.48%
Expected volatility	29%	28%
Risk-free interest rate	2.62%	1.86%
Expected life	4.5 years	4.5 years
Strike price	$ 43.66	$ 39.81

NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

The grant date fair value of the non-qualified options granted in 2018 and 2017 was $8.65 and $7.05, respectively.

OPTIONS	Number of options	Weighted average exercise price	Weighted average remaining life (in years)	Aggregate intrinsic value (in millions)
		$		$
Outstanding at December 31, 2016	522,227	44.39	4.5	0.7
Granted	106,268	39.81	6.2	—
Exercised	(65,430)	36.33	—	—
Outstanding at December 31, 2017	563,065	44.46	4.1	3.6
Options exercisable at December 31, 2017	359,960	48.02	3.2	1.3
Outstanding at December 31, 2017	563,065	44.46	4.1	3.6
Granted	104,086	43.66	6.2	—
Exercised	(147,397)	39.42	—	—
Forfeited/expired	(6,102)	50.05	—	—
Outstanding at December 31, 2018	513,652	45.68	3.6	0.1
Options exercisable at December 31, 2018	303,055	49.15	2.3	—
Outstanding at December 31, 2018	513,652	45.68	3.6	0.1
Exercised	**(88,682)**	**39.46**	**—**	**—**
Forfeited/expired	**(3,616)**	**53.13**	**—**	**—**
Outstanding at December 31, 2019	**421,354**	**46.92**	**2.5**	**0.1**
Options exercisable at December 31, 2019	**316,530**	**48.44**	**1.8**	**0.1**

The total intrinsic value of options exercised in 2019 was $1 million (2018 – $1 million; 2017 – nil). Based on the Company's closing year-end stock price of $38.24 (2018 – $35.13; 2017 – $49.52), the aggregate intrinsic value of options outstanding and options exercisable is nil.

For the year ended December 31, 2019, stock-based compensation expense recognized in the Company's results of operations was $22 million (2018 – $10 million; 2017 – $20 million) for all of the outstanding awards. Compensation costs not yet recognized amounted to $16 million (2018 – $17 million; 2017 – $20 million) and will be recognized over the remaining service period of approximately 14 months. The aggregate value of liability awards settled in 2019 was $12 million (2018 – $8 million; 2017 –$7 million). The total fair value of equity awards settled in 2019 was $11 million (2018 – $6 million), representing the fair value at the time of settlement. The fair value at the grant date for these settled equity awards was $6 million (2018 – $7 million). Compensation costs for performance awards are based on management's best estimate of the final performance measurement.

CLAWBACK FOR FINANCIAL REPORTING MISCONDUCT

If a participant in the Omnibus Plan knowingly or grossly negligently engages in financial reporting misconduct, then all awards and gains from the exercise of options in the 12 months prior to the date the

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

misleading financial statements were issued as well as any awards that vested based on the misleading financial statements will be disgorged to the Company. In addition, the Company may cancel or reduce, or require a participant to forfeit and disgorge to the Company or reimburse the Company for, any awards granted or vested, and bonus granted or paid, and any gains earned or accrued, due to the exercise, vesting or settlement of awards or sale of any common stock, to the extent permitted or required by, or pursuant to any Company policy implemented as required by applicable law, regulation or stock exchange rule as may from time to time be in effect.

NOTE 6.

EARNINGS (LOSS) PER COMMON SHARE

The calculation of basic earnings (loss) per common share is based on the weighted average number of Domtar common shares outstanding during the year. The calculation for diluted earnings (loss) per common share recognizes the effect of all potential dilutive common securities.

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

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Net earnings (loss)	**$ 84**	$ 283	$ (258)
Weighted average number of common shares outstanding (millions)	**61.2**	62.9	62.7
Effect of dilutive securities (millions)	**0.2**	0.2	—
Weighted average number of diluted common shares outstanding (millions)	**61.4**	63.1	62.7
Basic net earnings (loss) per common share (in dollars)	**$1.37**	$4.50	$(4.11)
Diluted net earnings (loss) per common share (in dollars)	**$1.37**	$4.48	$(4.11)

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

	December 31, 2019	December 31, 2018	December 31, 2017
Options to purchase common shares	**324,413**	227,221	312,893

NOTE 7.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

DEFINED CONTRIBUTION PLANS

The Company has several defined contribution plans and multiemployer plans. The pension expense under these plans is equal to the Company's contribution. For the year ended December 31, 2019, the related pension expense was $42 million (2018 – $50 million; 2017 – $39 million).

DEFINED BENEFIT PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

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

Related pension and other post-retirement plan expenses and the corresponding obligations are actuarially determined using management's most probable assumptions.

The Company's pension plan funding policy is to contribute annually the amount required to provide for benefits earned in the year and to fund solvency deficiencies, funding shortfalls and past service obligations over periods not exceeding those permitted by the applicable regulatory authorities. Past service obligations primarily arise from improvements to plan benefits. The other post-retirement benefit plans are not funded and contributions are made annually to cover benefit payments.

The Company expects to contribute a minimum total amount of $11 million in 2020 compared to $18 million in 2019 (2018 – $57 million; 2017 – $47 million) to the pension plans. The Company expects to contribute a minimum total amount of $4 million in 2020 compared to $4 million in 2019 (2018 – $4 million; 2017 – $3 million) to the other post-retirement benefit plans.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

CHANGE IN PROJECTED BENEFIT OBLIGATION

The following table represents the change in the projected benefit obligation as of December 31, 2019 and December 31, 2018, the measurement date for each year:

	December 31, 2019		December 31, 2018	
	Pension plans	Other post-retirement benefit plans	Pension plans	Other post-retirement benefit plans
	$	$	$	$
Projected benefit obligation at beginning of year	1,569	62	1,764	76
Service cost for the year	29	1	34	1
Interest expense	57	2	53	2
Plan participants' contributions	6	—	6	—
Actuarial loss (gain)	171	(1)	(80)	(8)
Benefits paid	(96)	—	(101)	—
Direct benefit payments	(4)	(4)	(3)	(4)
Settlement [(1)]	(348)	—	—	—
Effect of foreign currency exchange rate change	55	3	(104)	(5)
Projected benefit obligation at end of year	1,439	63	1,569	62

CHANGE IN FAIR VALUE OF ASSETS

The following table represents the change in the fair value of assets, as of December 31, 2019 and December 31, 2018, reflecting the actual return on plan assets, the contributions and the benefits paid for each year:

	December 31, 2019 Pension plans	December 31, 2018 Pension plans
	$	$
Fair value of assets at beginning of year	1,588	1,765
Actual return on plan assets	253	(27)
Employer contributions	18	57
Plan participants' contributions	6	6
Benefits paid	(100)	(104)
Settlement [(1)]	(348)	—
Effect of foreign currency exchange rate change	58	(109)
Fair value of assets at end of year	1,475	1,588

(1) On November 26, 2019, the Company entered into agreements with Sun Life Assurance Company of Canada to purchase group annuity buy-out contracts and transfer approximately $272 million (CDN $360 million) of its Ontario, Canada defined benefit plans' projected benefit obligations. The transactions closed on December 5, 2019 and were funded with pension plan assets. Additionally, the Company entered into agreements with existing insurers to convert $76 million (CDN $101 million) of existing buy-in annuity contracts to buy-out annuity contracts to complete the full transfer of these obligations. These annuity

NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

buy-out transactions transferred responsibility for pension benefits for approximately 1,265 retirees and their beneficiaries. Settlement accounting rules required a remeasurement of the plans as of November 26, 2019 and the Company recognized a non-cash pension settlement charge of $30 million before tax in the fourth quarter of 2019.

INVESTMENT POLICIES AND STRATEGIES OF THE PLAN ASSETS

The assets of the pension plans are held by a number of independent trustees and are accounted for separately in the Company's pension funds. The investment strategy for the assets in the pension plans is to maintain a diversified portfolio of assets, invested in a prudent manner to maintain the security of funds while maximizing returns within the guidelines provided in the investment policy. Diversification of the pension plans' holdings is maintained in order to reduce the pension plans' annual return variability, reduce market and credit exposure to any single asset and to any single component of the capital markets, reduce exposure to unexpected inflation, enhance the long-term risk-adjusted return potential of the pension plans and reduce funding risk.

Over the long-term, the performance of the pension plans is primarily determined by the long-term asset mix decisions. To manage the long-term risk of not having sufficient funds to match the obligations of the pension plans, the Company conducts asset/liability studies. These studies lead to the recommendation and adoption of a long-term asset mix target that sets the expected rate of return and reduces the risk of adverse consequences to the plans from increases in liabilities and decreases in assets. In identifying the asset mix target that would best meet the investment objectives, consideration is given to various factors, including (a) each plan's characteristics, (b) the duration of each plan's liabilities, (c) the solvency and going concern financial position of each plan and their sensitivity to changes in interest rates and inflation, and (d) the long-term return and risk expectations for key asset classes.

The investments of each plan can be done directly through cash investments in equities or bonds or indirectly through derivatives or pooled funds. The use of derivatives must be in accordance with an approved mandate and cannot be used for speculative purposes.

The Company's pension funds are not permitted to directly own any of the Company's shares or debt instruments.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

The following table shows the allocation of the plan assets, based on the fair value of the assets held and the target allocation for 2019:

	Target allocation	**Percentage of plan assets at December 31, 2019**	Percentage of plan assets at December 31, 2018
Fixed income			
Cash and cash equivalents	0% - 9%	**2%**	2%
Bonds	49% - 58%	**53%**	52%
Insurance contracts	1%	**1%**	5%
Equity			
Canadian Equity	3% - 10%	**6%**	6%
U.S. Equity	9% - 19%	**15%**	13%
International Equity	18% - 29%	**23%**	22%
Total (1)		**100%**	100%

(1) Approximately 71% of the pension plans' assets relate to Canadian plans, 28% relate to U.S. plans and 1% relate to European plans.

RECONCILIATION OF FUNDED STATUS TO AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS

The following table presents the difference between the fair value of assets and the actuarially determined projected benefit obligation. This difference is also referred to as either the deficit or surplus, as the case may be, or the funded status of the plans. The table further reconciles the amount of the surplus or deficit (funded status) to the net amount recognized in the Consolidated Balance Sheets.

	December 31, 2019		December 31, 2018	
	Pension plans	**Other post-retirement benefit plans**	Pension plans	Other post-retirement benefit plans
	$	**$**	$	$
Projected benefit obligation at end of year	**(1,439)**	**(63)**	(1,569)	(62)
Fair value of assets at end of year	**1,475**	**—**	1,588	—
Funded status	**36**	**(63)**	19	(62)

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

The funded status includes $55 million of projected benefit obligation ($49 million at December 31, 2018) related to supplemental unfunded defined benefit and defined contribution plans.

	December 31, 2019		December 31, 2018	
	Pension plans	**Other post-retirement benefit plans**	Pension plans	Other post-retirement benefit plans
	$	**$**	$	$
Trade and other payables (Note 17)	**—**	**(5)**	—	(5)
Other liabilities and deferred credits (Note 20)	**(105)**	**(58)**	(88)	(57)
Other assets (Note 15)	**141**	**—**	107	—
Net amount recognized in the Consolidated Balance Sheets	**36**	**(63)**	19	(62)

The following table presents the pre-tax amounts included in Other comprehensive income (loss):

	Year ended December 31, 2019		Year ended December 31, 2018		Year ended December 31, 2017	
	Pension plans	**Other post-retirement benefit plans**	Pension plans	Other post-retirement benefit plans	Pension plans	Other post-retirement benefit plans
	$	**$**	$	$	$	$
Prior service (cost) credit	**—**	**—**	—	—	(1)	5
Amortization of prior year service cost (credit)	**5**	**(1)**	5	—	5	—
Net gain (loss)	**3**	**1**	(31)	8	(10)	17
Amortization of net actuarial loss (gain) (1)	**40**	**(1)**	8	(1)	9	—
Net amount recognized in other comprehensive income (loss) (pre-tax)	**48**	**(1)**	(18)	7	3	22

An estimated gain of $10 million for pension plans and loss of $2 million for other post-retirement benefit plans will be amortized from Accumulated other comprehensive loss into net periodic benefit cost in 2020.

(1) Includes the non-cash pension settlement charge of $30 million recognized in the fourth quarter of 2019.

At December 31, 2019, the projected benefit obligation and the fair value of plan assets with a projected benefit obligation in excess of fair value of plan assets were $846 million and $742 million, respectively (2018 – $731 million and $643 million, respectively).

Components of net periodic benefit cost for pension plans	**Year ended December 31, 2019**	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
Service cost for the year	**29**	34	30
Interest expense	**57**	53	52
Expected return on plan assets	**(79)**	(85)	(81)
Amortization of net actuarial loss	**10**	8	9
Settlement loss	**30**	—	—
Amortization of prior year service cost	**5**	5	5
Net periodic benefit cost	**52**	15	15

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

Components of net periodic benefit cost for other post-retirement benefit plans	**Year ended December 31, 2019**	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
Service cost for the year	**1**	1	2
Interest expense	**2**	2	4
Amortization of net actuarial gain	**(1)**	(1)	—
Amortization of prior year service credit	**(1)**	—	—
Net periodic benefit cost	**1**	2	6

WEIGHTED-AVERAGE ASSUMPTIONS

The Company used the following key assumptions to measure the projected benefit obligation and the net periodic benefit cost. These assumptions are long-term, which is consistent with the nature of employee future benefits.

Pension plans	**December 31, 2019**	December 31, 2018	December 31, 2017
Projected benefit obligation			
Discount rate	**3.1%**	3.8%	3.5%
Rate of compensation increase	**2.7%**	2.7%	2.7%
Net periodic benefit cost			
Discount rate	**3.8%**	3.5%	3.9%
Rate of compensation increase	**2.6%**	2.8%	2.8%
Expected long-term rate of return on plan assets	**5.2%**	5.2%	5.3%

The Company used a full yield curve approach to estimate the current service and interest cost components of net periodic benefit cost for Canadian pension plans and U.S. funded pension plans. The estimate of these components is made by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows.

For the U.S. unfunded pension plan and other post-retirement benefits, given materiality, the current service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve for each unfunded pension plan or based on each post-retirement plans' projected cash flows. The discount rate of 4.2% for U.S. unfunded plans is obtained by incorporating the plans' expected cash flows in the Mercer Yield Curve.

For Canadian plans, short-term yields to maturity are derived from actual AA rated corporate bond yield data. For longer terms, extrapolated data is used. The extrapolated data are created by adding a term-based spread over long provincial bond yields. For U.S. funded plans, the rates are taken from the Mercer Yield Curve which is based on bonds rated AA by Moody's or Standard & Poor's, excluding callable bonds, bonds of less than a minimum issue size, and certain other bonds. The universe of bonds also includes private placement (traded in reliance on Rule 144A and which are at least two years from issuance), make whole, and foreign corporation (denominated in U.S. dollars) bonds.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

Effective January 1, 2020, the Company will use 4.8% (2019 – 5.2%; 2018 – 5.2%) as the expected return on plan assets, which reflects the current view of long-term investment returns. The overall expected long-term rate of return on plan assets is based on management's best estimate of the long-term returns of the major asset classes (cash and cash equivalents, equities, and bonds) weighted by the actual allocation of assets at the measurement date, net of expenses. This rate includes an equity risk premium over government bond returns for equity investments and a value-added premium for the contribution to returns from active management. The sources used to determine management's best estimate of long-term returns are numerous and include country specific bond yields, which may be derived from the market using local bond indices or by analysis of the local bond market, and country-specific inflation and investment market expectations derived from market data and analysts' or governments' expectations, as applicable.

Other post-retirement benefit plans	**December 31, 2019**	December 31, 2018	December 31, 2017
Projected benefit obligation			
Discount rate	**3.1%**	3.8%	3.5%
Rate of compensation increase	**2.8%**	2.8%	2.8%
Net periodic benefit cost			
Discount rate	**3.7%**	3.5%	3.8%
Rate of compensation increase	**2.7%**	2.7%	2.8%

For measurement purposes, a 3.4% weighted average annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019. An increase or decrease of 1% of this rate would have the following impact:

	Increase of 1%	Decrease of 1%
	$	$
Impact on net periodic benefit cost for other post-retirement benefit plans	—	—
Impact on accrued benefit obligation	3	(3)

FAIR VALUE MEASUREMENT

Fair Value Measurements and Disclosures Topic of FASB ASC 820 establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement.

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

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

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

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

The following table presents the fair value of the plan assets at December 31, 2019, by asset category:

	Fair Value Measurements at December 31, 2019			
Asset Category	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	$	$	$	$
Cash and short-term investments	**66**	**24**	**42**	**—**
Canadian provincial government bonds	**454**	**453**	**1**	**—**
Canadian corporate debt securities	**119**	**91**	**28**	**—**
U.S. corporate debt securities	**21**	**21**	**—**	**—**
International corporate debt securities	**13**	**13**	**—**	**—**
Bond fund (1 & 2)	**167**	**—**	**167**	**—**
Canadian equities (3)	**93**	**93**	**—**	**—**
U.S. equities (4)	**86**	**86**	**—**	**—**
International equities (5)	**231**	**231**	**—**	**—**
U.S. stock index funds (2 & 6)	**215**	**—**	**215**	**—**
Insurance contracts (7)	**10**	**—**	**—**	**10**
Total	**1,475**	**1,012**	**453**	**10**

(1) This category represents a U.S. actively managed bond fund that is benchmarked to the Barclays Capital Long-term Government/Credit index.

(2) The fair value of these plan assets are classified as Level 2 (inputs that are observable, directly or indirectly) as they are measured based on quoted prices in active markets and can be redeemed at the measurement date or in the near term.

(3) This category represents an active segregated large capitalization Canadian equity portfolio with the ability to purchase small and medium capitalized companies and the Canadian equity portion of an active segregated global equity portfolio.

(4) This category represents U.S. equities held within an active segregated global equity portfolio and an active international equity portfolio.

(5) This category represents an active segregated non-North American multi-capitalization equity portfolio and the non-North American portion of an active segregated global equity portfolio.

(6) This category represents two equity index funds, not actively managed, that track the Russell 3000 index.

(7) This category includes insurance contracts with a minimum guarantee rate.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

The following table presents the fair value of the plan assets at December 31, 2018, by asset category:

	Fair Value Measurements at December 31, 2018			
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	$	$	$	$
Cash and short-term investments	68	23	45	—
Canadian provincial government bonds	493	492	1	—
Canadian corporate debt securities	123	100	23	—
U.S. corporate debt securities	37	37	—	—
International corporate debt securities	9	9	—	—
Bond fund (1 & 2)	156	—	156	—
Canadian equities (3)	94	94	—	—
U.S. equities (4)	91	91	—	—
International equities (5)	233	233	—	—
U.S. stock index funds (2 & 6)	200	—	200	—
Insurance contracts (7)	84	—	—	84
Total	1,588	1,079	425	84

In the above presentation of the fair value of plan assets at December 31, 2018, the Company has decreased the Level 1 cash and short-term investments by $45 million and increased the Level 2 cash and short-term investments by a corresponding $45 million to correct the classification of these investments from what was previously presented.

(1) This category represents a U.S. actively managed bond fund that is benchmarked to the Barclays Capital Long-term Government/Credit index.

(2) The fair value of these plan assets are classified as Level 2 (inputs that are observable, directly or indirectly) as they are measured based on quoted prices in active markets and can be redeemed at the measurement date or in the near term.

(3) This category represents an active segregated large capitalization Canadian equity portfolio with the ability to purchase small and medium capitalized companies and the Canadian equity portion of an active segregated global equity portfolio.

(4) This category represents U.S. equities held within an active segregated global equity portfolio and an active international equity portfolio.

(5) This category represents an active segregated non-North American multi-capitalization equity portfolio and the non-North American portion of an active segregated global equity portfolio.

(6) This category represents equity two equity index funds, not actively managed, that track the Russell 3000 index.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

(7) This category includes: 1) two group annuity contracts totaling $75 million purchased through an insurance company that are held in the pension plans' name as an asset within the pension plans. These insurance contracts cover pension entitlements associated with specific groups of retired members of the pension plans and 2) $9 million of insurance contracts with a minimum guarantee rate.

The following table presents changes during the period for Level 3 fair value measurements of plan assets:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Insurance contracts	**Other**	**TOTAL**
	$	**$**	**$**
Balance at December 31, 2017	94	1	95
Settlements	(5)	(1)	(6)
Return on plan assets	2	—	2
Effect of foreign currency exchange rate change	(7)	—	(7)
Balance at December 31, 2018	84	—	84
Settlements	**(83)**	**—**	**(83)**
Return on plan assets	**7**	**—**	**7**
Effect of foreign currency exchange rate change	**2**	**—**	**2**
Balance at December 31, 2019	**10**	**—**	**10**

ESTIMATED FUTURE BENEFIT PAYMENTS FROM THE PLANS

Estimated future benefit payments from the plans for the next 10 years at December 31, 2019 are as follows:

.	**Pension plans**	**Other post-retirement benefit plans**
	$	**$**
2020	88	4
2021	87	4
2022	86	4
2023	87	4
2024	89	4
2025 – 2029	439	20

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 8.

OTHER OPERATING LOSS (INCOME), NET

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

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
Environmental provision	**4**	5	3
Foreign exchange loss (gain)	**3**	(2)	1
Bad debt expense	**2**	2	1
Net gain on sale of property, plant and equipment	**—**	(4)	(13)
Reversal of contingent consideration	**—**	—	(2)
Other	**(4)**	(1)	(4)
Other operating loss (income), net	**5**	—	(14)

NOTE 9.

INTEREST EXPENSE, NET

The following table presents the components of interest expense, net:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
Interest on long-term debt [1]	**45**	56	59
Interest on receivables securitization	**2**	1	2
Interest on withdrawal liabilities for multiemployer plans	**3**	2	3
Amortization of debt issuance costs and other	**2**	3	2
	52	62	66

(1) The Company capitalized $3 million of interest expense in 2019 (2018 – $1 million; 2017 – $1 million).

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 10.

INCOME TAXES

The Company's earnings (loss) before income taxes by taxing jurisdiction were:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
U.S. earnings (loss)	**32**	216	(209)
Foreign earnings (loss)	**56**	126	(174)
Earnings (loss) before income taxes	**88**	342	(383)

Provisions for income taxes include the following:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
U.S. Federal and State:			
Current	**11**	32	73
Deferred	**(15)**	(6)	(208)
Foreign:			
Current	**7**	12	9
Deferred	**(1)**	19	1
Income tax expense (benefit)	**2**	57	(125)

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 10. INCOME TAXES (CONTINUED)

The Company's provision for income taxes differs from the amounts computed by applying the statutory income tax rate of 21%, for 2019 and 2018, (35% for December 31, 2017) to earnings (loss) before income taxes due to the following:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
U.S. federal statutory income tax	**18**	72	(134)
Reconciling Items:			
State and local income taxes, net of federal income tax benefit	**3**	8	2
Foreign income tax rate differential	**(2)**	1	(16)
Tax credits and special deductions	**(20)**	(19)	(24)
Goodwill impairment	**—**	—	200
Tax rate changes	**(4)**	(9)	(188)
Deemed mandatory repatriation tax	**—**	(7)	46
Uncertain tax positions	**(3)**	(4)	(6)
U.S. manufacturing deduction	**—**	—	(4)
Deferred taxes on foreign earnings	**2**	10	—
Net operating loss cancellation	**—**	9	—
Valuation allowance on deferred tax assets	**5**	(8)	3
Nondeductible expenses	**3**	—	—
Other	**—**	4	(4)
Income tax expense (benefit)	**2**	57	(125)

During 2019, the Company recorded $20 million of tax credits, mainly research and experimentation credits, which impacted the effective tax rate. Arkansas legislation changes were passed in 2019 which reduced the state tax rate and changed how the apportionment factor is calculated. This resulted in a deferred state tax benefit of $4 million for the Company. Additionally, a valuation allowance of $5 million was recorded on state attributes the Company does not expect to utilize before they expire.

As a result of the deemed mandatory repatriation tax requirement of the U.S. Tax Reform, the Company has taxed its undistributed foreign earnings as of December 31, 2017, at reduced tax rates. After completing its evaluation of the U.S. Tax Reform's impact on its business operations, the Company has determined that it is no longer indefinitely reinvested in these undistributed foreign earnings as well as foreign earnings after December 31, 2017. As such, as of December 31, 2019, the Company has recorded a deferred tax liability of $12 million ($10 million at December 31, 2018) for foreign withholding tax and various state income taxes associated with future repatriation of these earnings. This additional $2 million tax expense impacted the effective tax rate for 2019 ($10 million for 2018).

During 2018, the Company recorded $19 million of tax credits, mainly research and experimentation credits, which impacted the effective tax rate. The effective tax rate was also impacted by the cancellation of $9 million, after-tax, of net operating losses in a foreign jurisdiction. This was offset by the reversal of $9 million of valuation allowance on these same net operating losses. Additionally, a valuation allowance of $1 million was

NOTE 10. INCOME TAXES (CONTINUED)

recorded on new operating losses in 2018 for a net benefit pertaining to valuation allowance movements of $8 million.

On December 22, 2017, the U.S. Tax Reform was signed into law. The U.S. Tax Reform significantly changed U.S. tax law for businesses by, among other things, lowering the maximum federal corporate income tax rate from 35% to 21% effective January 1, 2018, implementing a territorial tax system, and imposing a one-time deemed repatriation tax on accumulated foreign earnings. As a result of the U.S. Tax Reform, the Company recorded a net tax benefit of $140 million in 2017 when the legislation was enacted. This consisted of a provisional tax benefit of $186 million relating to the revaluation of the Company's ending net deferred tax liabilities and a provisional expense of $46 million related to the deemed repatriation tax, which the Company elected to pay over eight years. Additionally, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Reform. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. As such, the Company completed its analysis, including currently available legislative updates, and recorded an additional tax benefit of $13 million for the year ended December 31, 2018. Of this benefit, $7 million related to adjustments to the deemed mandatory repatriation tax and $6 million related to the revaluation of the Company's net deferred tax liabilities. The $6 million benefit for the revaluation of the net deferred tax liabilities is included in the "Tax rate changes" above, along with $3 million of additional tax benefits relating to 2018 law changes in Sweden and various U.S. states.

During 2017, the Company recorded a goodwill impairment of $578 million with minimal tax benefit which impacted the effective tax rate by $200 million. The effective tax rate for 2017 was also significantly impacted by the Company's foreign operations being taxed at lower statutory tax rates and by the Company recording $24 million of current tax credits, mainly research and experimentation credits.

As a result of the corporate tax rate reduction, from 35% to 21%, due to the U.S. Tax Reform, the Company revalued its ending net deferred tax liabilities, and recognized a provisional tax benefit of $186 million in the Company's Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss) for the year ended December 31, 2017. This, combined with a $2 million tax benefit from other changes in law in certain U.S. states earlier in the year, impacted the effective tax rate for 2017.

On December 22, 2017, the SEC staff issued SAB 118 to address the application in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Reform. SAB 118 provides guidance which allows companies to use a measurement period, similar to that used in business combinations, to account for the impacts of the U.S. Tax Reform. The U.S. Tax Reform provides for a mandatory one-time deemed repatriation tax on the Company's undistributed foreign earnings and profits. The Company recorded a provisional repatriation tax amount of $46 million, which impacted the 2017 tax rate.

Deferred tax assets and liabilities are based on tax rates that are expected to be in effect in future periods when deferred items are expected to reverse. Changes in tax rates or tax laws affect the expected future benefit or expense. The effect of such changes that occurred during each of the last three fiscal years is included in "Tax rate changes" disclosed under the effective income tax rate reconciliation shown above.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 10. INCOME TAXES (CONTINUED)

DEFERRED TAX ASSETS AND LIABILITIES

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, 2019 and December 31, 2018 are comprised of the following:

	December 31, 2019	December 31, 2018
	$	$
Accounting provisions	**31**	38
Net operating loss carryforwards and other deductions	**38**	36
Pension and other employee future benefit plans	**17**	22
Inventory	**13**	10
Tax credits	**24**	21
Gross deferred tax assets	**123**	127
Valuation allowance	**(21)**	(16)
Net deferred tax assets	**102**	111
Property, plant and equipment	**(416)**	(422)
Intangible assets	**(117)**	(122)
Other	**(18)**	(10)
Total deferred tax liabilities	**(551)**	(554)
Net deferred tax liabilities	**(449)**	(443)
Included in:		
Other assets (Note 15)	**1**	1
Deferred income taxes and other	**(450)**	(444)
Total	**(449)**	(443)

At December 31, 2019, the Company has no federal net operating loss carryforwards remaining. The Company has other foreign net operating losses and deduction limitations of $195 million which may be carried forward indefinitely.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which temporary differences become deductible.

The Company evaluates the realization of deferred tax assets on a quarterly basis. Evaluating the need for an amount of a valuation allowance for deferred tax assets often requires significant judgment. All available evidence, both positive and negative, is considered when determining whether, based on the weight of that evidence, a valuation allowance is needed. Specifically, the Company evaluated the following items:

- Historical income / (losses) – particularly the most recent three-year period
- Reversals of future taxable temporary differences

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 10. INCOME TAXES (CONTINUED)

- Projected future income / (losses)
- Tax planning strategies
- Divestitures

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets, with the exception of certain state credits for which a valuation allowance of $11 million exists at December 31, 2019, and certain foreign loss carryforwards for which a valuation allowance of $10 million exists at December 31, 2019. Of this amount, $5 million unfavorably impacted tax expense and the effective tax rate for 2019 (2018 – $(8) million; 2017 – $3 million).

As of December 31, 2019, the Company has recorded a deferred tax liability of $12 million for foreign withholding tax and various state income taxes associated with the repatriation of earnings subject to the repatriation tax as well as future repatriation of its unremitted foreign earnings. The Company has not provided for deferred taxes on the outside basis differences in its investments in its foreign subsidiaries that are unrelated to unremitted earnings as it estimates that the deferred tax liability, in combination with the repatriation tax amount, covers all tax liabilities with foreign investments to date. The Company remains indefinitely reinvested in the outside basis differences of its foreign subsidiaries.

The U.S. Tax Reform also includes a base erosion provision for GILTI. Beginning in 2018, the GILTI provisions require the Company to include in its U.S. income tax return, earnings of foreign subsidiaries that are in excess of an allowable return on the tangible assets of the foreign subsidiaries. The Company is required to make an accounting policy election to either (1) treat taxes due related to GILTI as a current period expense when incurred or (2) factor such amounts into the measurement of deferred taxes. The Company has elected to account for any taxes associated with GILTI as a period cost.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

At December 31, 2019, the Company had gross unrecognized tax benefits of approximately $29 million ($32 million and $37 million for 2018 and 2017, respectively). If recognized in 2020, these tax benefits would impact the effective tax rate. These amounts represent the gross amount of exposure in individual jurisdictions and do not reflect any additional benefits expected to be realized if such positions were sustained, such as federal deduction that could be realized if an unrecognized state deduction was not sustained. These amounts are included in Deferred income taxes and other on the Consolidated Balance Sheets.

	December 31, 2019	December 31, 2018	December 31, 2017
	$	$	$
Balance at beginning of year	**32**	37	43
Additions based on tax positions related to current year	**3**	3	3
Additions for tax positions of prior years	**2**	4	4
Reductions related to settlements with taxing authorities	**—**	—	(1)
Expirations of statutes of limitations	**(9)**	(12)	(13)
Interest	**1**	1	1
Foreign exchange impact	**—**	(1)	—
Balance at end of year	**29**	32	37

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 10. INCOME TAXES (CONTINUED)

The Company recorded $1 million of accrued interest associated with unrecognized tax benefits for the period ending December 31, 2019 ($1 million and $1 million for 2018 and 2017, respectively). The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of tax expense. The Company believes it is reasonably possible that up to $6 million of its unrecognized tax benefits may be recognized by December 31, 2020, which could significantly impact the effective tax rate. However, the amount and timing of the recognition of these benefits is subject to some uncertainty.

The major jurisdictions where the Company and its subsidiaries will file tax returns for 2019, in addition to filing one consolidated U.S. federal income tax return, are Canada, Sweden and Spain. The Company and its subsidiaries will also file returns in various other countries in Europe and Asia as well as various U.S. states and Canadian provinces. At December 31, 2019, the Company's subsidiaries are subject to foreign federal income tax examinations for the tax years 2008 through 2018, with federal years prior to 2016 being closed from a cash tax liability standpoint in the U.S., but the loss carryforwards can be adjusted in any open year where the loss has been utilized. The Company does not anticipate that adjustments stemming from these audits would result in a significant change to the results of its operations and financial condition.

NOTE 11.

INVENTORIES

The following table presents the components of inventories:

	December 31, 2019	December 31, 2018
	$	$
Work in process and finished goods	**401**	410
Raw materials	**153**	126
Operating and maintenance supplies	**232**	226
	786	762

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 12.

PROPERTY, PLANT AND EQUIPMENT

The following table presents the components of property, plant and equipment:

	Range of useful lives (in years)	**December 31, 2019**	December 31, 2018
		$	$
Machinery and equipment	3 – 20	**7,872**	7,655
Buildings and improvements	10 – 40	**1,060**	1,043
Timberlands	(1)	**200**	193
Assets under construction	—	**178**	131
		9,310	9,022
Less: Accumulated depreciation		**(6,743)**	(6,417)
		2,567	2,605

(1) Amortization is calculated using the unit of production method.

Depreciation expense related to property, plant and equipment for the year ended December 31, 2019 was $274 million (2018 – $289 million; 2017 – $302 million).

NOTE 13.

LEASES

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

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

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

During the year ended December 31, 2019, the Company recorded $9 million of impairment of operating lease right-of-use assets under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss).

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 13. LEASES (CONTINUED)

The components of lease expense were as follows:

	Year ended December 31, 2019
	$
Operating lease expense	30
Finance lease expense:	
Amortization of right-of-use assets	1
Interest on lease liabilities	—
Total finance lease expense	1

For the years ended December 31, 2018 and 2017, total operating lease expense amounted to $29 million and $31 million, respectively.

Supplemental cash flow information related to leases was as follows:

	Year ended December 31, 2019
	$
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	32
Operating cash flows from finance leases	1
Financing cash flows from finance leases	1
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	34
Finance leases	—

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 13. LEASES (CONTINUED)

Supplemental balance sheet information related to leases was as follows:

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

Maturities of lease liabilities at December 31, 2019 were as follows:

	Operating leases
	$
2020	29
2021	24
2022	19
2023	14
2024	8
Thereafter	14
Total lease payments	108
Less: Imputed interest	11
Total lease liabilities	97

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 14.

INTANGIBLE ASSETS

The following table presents the components of intangible assets:

	Estimated useful lives (in years)	**December 31, 2019**			December 31, 2018		
		Gross carrying amount	**Accumulated amortization**	**Net**	Gross carrying amount	Accumulated amortization	Net
		$	**$**	**$**	$	$	$
Definite-lived intangible assets subject to amortization							
Water rights	40	**3**	**(1)**	**2**	3	(1)	2
Customer relationships	10 – 40	**380**	**(108)**	**272**	384	(94)	290
Technology	7 – 20	**8**	**(5)**	**3**	8	(4)	4
Non-Compete	9	**1**	**(1)**	**—**	1	(1)	—
License rights	12	**29**	**(16)**	**13**	28	(13)	15
		421	**(131)**	**290**	424	(113)	311
Indefinite-lived intangible assets not subject to amortization							
Water rights		**4**	**—**	**4**	4	—	4
Trade names		**235**	**—**	**235**	238	—	238
License rights		**6**	**—**	**6**	6	—	6
Catalog rights		**38**	**—**	**38**	38	—	38
Total		**704**	**(131)**	**573**	710	(113)	597

Amortization expense related to intangible assets for the year ended December 31, 2019 was $19 million ($19 million in 2018 and 2017, respectively).

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

	2020	**2021**	**2022**	**2023**	**2024**
	$	**$**	**$**	**$**	**$**
Amortization expense related to intangible assets	21	21	21	20	20

The Company performed its annual impairment test on its indefinite-lived intangible assets at October 1, 2019, 2018 and 2017, using a quantitative approach, except for the license rights and water rights, where the Company used a qualitative approach, and determined that the estimated fair values of its indefinite-lived intangible assets exceeded their carrying amounts. No impairment charge was recorded for indefinite-lived intangible assets during 2019, 2018 or 2017.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 15.

OTHER ASSETS

The following table presents the components of other assets:

	December 31, 2019	December 31, 2018
	$	$
Pension asset—defined benefit pension plans (Note 7)	**141**	107
Investment tax credits receivable	**5**	5
Unamortized debt issuance costs	**3**	4
Deferred income tax assets (Note 10)	**1**	1
Investments and advances	**5**	6
Other	**9**	11
	164	134

NOTE 16.

CLOSURE AND RESTRUCTURING COSTS AND LIABILITY

At December 31, 2019, the Company's total provision for the withdrawal liabilities of its U.S. multiemployer plans was $44 million.

Ashdown, Arkansas mill and Port Huron, Michigan mill

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

The closure of the Ashdown paper machine took effect immediately. The Ashdown mill will continue to operate one paper machine with an annual uncoated freesheet paper production capacity of 200,000 short tons. Additionally, the mill operates a fluff pulp machine with the flexibility to produce softwood pulp depending on market conditions. As a result of the closure of the paper machine, the mill will produce an incremental 70,000 ADMT of softwood and fluff pulp, which will ramp up over the course of 2020.

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

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. CLOSURE AND RESTRUCTURING COSTS AND LIABILITY (CONTINUED)

For the year ended December 31, 2019, the Company recorded $32 million of accelerated depreciation under Impairment of long-lived assets and $1 million of accelerated depreciation under Depreciation and amortization, on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). Additionally, the Company recorded $3 million of severance and termination costs, $4 million of inventory obsolescence, and $2 million of other costs, under Closure and restructuring costs.

Concurrently, with the Ashdown paper machine closure and related workforce reduction, management negotiated a voluntary early retirement program to reduce costs and put the mill in a stronger cost position in the long-term. The Company additionally recorded $13 million of severance and termination costs under Closure and restructuring costs.

Waco, Texas facility

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

For the year ended December 31, 2019, the Company recorded $26 million of accelerated depreciation and impairment of operating lease right-of-use assets under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss) (2018 – $7 million of accelerated depreciation). For the year ended December 31, 2019, the Company also recorded $5 million of severance and termination costs (2018 – $3 million); $2 million of inventory obsolescence (2018 – $4 million); and $13 million of asset relocation and other costs (2018 – $1 million of other costs), under Closure and restructuring costs.

Other costs

During 2019 and 2018, there were no other costs related to previous and ongoing closures and restructuring (severance and termination costs of $2 million in 2017).

The following tables provide the components of closure and restructuring costs by segment:

	Year ended December 31, 2019		
	Pulp and Paper	**Personal Care**	**Total**
	$	$	$
Severance and termination costs	**16**	**5**	**21**
Inventory write-down	**4**	**2**	**6**
Asset relocation and other costs	**2**	**13**	**15**
Closure and restructuring costs	**22**	**20**	**42**

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. CLOSURE AND RESTRUCTURING COSTS AND LIABILITY (CONTINUED)

	Year ended December 31, 2018		
	Pulp and Paper	Personal Care	Total
	$	$	$
Severance and termination costs	—	3	3
Inventory write-down	—	4	4
Other	—	1	1
Closure and restructuring costs	—	8	8

	Year Ended December 31, 2017		
	Pulp and Paper	Personal Care	Total
	$	$	$
Severance and termination costs	—	2	2
Closure and restructuring costs	—	2	2

The following table provides the activity in the closure and restructuring liability:

	December 31, 2019	December 31, 2018
	$	$
Balance at beginning of year	**6**	7
Additions	**15**	4
Payments	**(6)**	(5)
Reversal	**(1)**	—
Balance at end of year	**14**	6

The $14 million provision is comprised of severance and termination costs, of which $12 million and $2 million relate to the Pulp and Paper segment and Personal Care segment, respectively.

Closure and restructuring costs are based on management's best estimates at December 31, 2019. Actual costs may differ from these estimates due to subsequent developments such as the results of environmental studies, the ability to find a buyer for assets set to be dismantled and demolished and other business developments. As such, additional costs and further impairment charges may be required in future periods.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 17.

TRADE AND OTHER PAYABLES

The following table presents the components of trade and other payables:

	December 31, 2019	December 31, 2018
	$	$
Trade payables	**406**	404
Payroll-related accruals	**118**	173
Accrued interest	**16**	16
Payables on capital projects	**30**	21
Rebate accruals	**58**	64
Liability—pension and other post-retirement benefit plans (Note 7)	**5**	5
Liability—multiemployer plan withdrawal	**2**	2
Provision for environment and other asset retirement obligations (Note 22)	**8**	10
Closure and restructuring costs liability (Note 16)	**14**	6
Derivative financial instruments (Note 23)	**11**	21
Dividends payable (Note 21)	**26**	27
Stock-based compensation—liability awards (Note 23)	**7**	6
Other	**4**	2
	705	757

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 18.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT

The following table presents the changes in Accumulated other comprehensive loss by component(1) for the period ended December 31, 2019 and 2018.

	Net derivative gains (losses) on cash flow hedges	Pension items (2)	Post-retirement benefit items (2)	Foreign currency items	Total
	$	$	$	$	$
Balance at December 31, 2017	8	(218)	6	(132)	**(336)**
Natural gas swap contracts	1	N/A	N/A	N/A	**1**
Currency options	(12)	N/A	N/A	N/A	**(12)**
Foreign exchange forward contracts	(19)	N/A	N/A	N/A	**(19)**
Net (loss) gain	N/A	(23)	6	N/A	**(17)**
Foreign currency items	N/A	N/A	N/A	(91)	**(91)**
Other comprehensive (loss) income before reclassifications	(30)	(23)	6	(91)	**(138)**
Amounts reclassified from Accumulated other comprehensive loss	(2)	10	(1)	—	**7**
Net current period other comprehensive (loss) income	(32)	(13)	5	(91)	**(131)**
Balance at December 31, 2018	(24)	(231)	11	(223)	**(467)**
Natural gas swap contracts	(10)	N/A	N/A	N/A	**(10)**
Currency options	5	N/A	N/A	N/A	**5**
Foreign exchange forward contracts	16	N/A	N/A	N/A	**16**
Net gain	N/A	1	1	N/A	**2**
Foreign currency items	N/A	N/A	N/A	21	**21**
Other comprehensive income before reclassifications	11	1	1	21	**34**
Amounts reclassified from Accumulated other comprehensive loss	8	33	(1)	—	**40**
Net current period other comprehensive income	19	34	—	21	**74**
Balance at December 31, 2019	(5)	(197)	11	(202)	**(393)**

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

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

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 18. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT (CONTINUED)

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

Details about Accumulated other comprehensive loss components	Amount reclassified from Accumulated other comprehensive loss		
	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
	$	**$**	**$**
Net derivative (losses) gains on cash flow hedge			
Natural gas swap contracts [1]	**(4)**	2	—
Currency options and forwards [1]	**(7)**	1	14
Total before tax	**(11)**	3	14
Tax benefit (expense)	**3**	(1)	(5)
Net of tax	**(8)**	2	9
Amortization of defined benefit pension items			
Amortization of net actuarial loss [2][3]	**(40)**	(8)	(9)
Amortization of prior year service cost [2]	**(5)**	(5)	(5)
Total before tax	**(45)**	(13)	(14)
Tax benefit	**12**	3	5
Net of tax	**(33)**	(10)	(9)
Amortization of other post-retirement benefit items			
Amortization of net actuarial gain [2]	**1**	1	—
Amortization of prior year service credit [2]	**1**	—	—
Total before tax	**2**	1	—
Tax expense	**(1)**	—	—
Net of tax	**1**	1	—

(1) These amounts are included in Cost of sales in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

(2) These amounts are included in the computation of net periodic benefit cost (see Note 7 “Pension Plans and Other Post-Retirement Benefit Plans” for more details).

(3) Includes the non-cash pension settlement charge of $30 million recognized in the fourth quarter of 2019.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 19.

LONG-TERM DEBT

	Maturity	Par Amount	Currency	December 31, 2019	December 31, 2018
		$		$	$
Unsecured notes					
4.4% Notes	2022	300	US	**300**	300
6.25% Notes	2042	250	US	**249**	249
6.75% Notes	2044	250	US	**249**	249
Revolving Credit Facility	2023	80	US	**80**	—
Securitization	2021	55	US	**55**	50
Finance lease obligations and other	2020 – 2032			**11**	11
				944	859
Less: Unamortized debt issuance costs				**5**	5
Less: Due within one year				**1**	1
				938	853

Principal long-term debt repayments, including finance lease obligations, in each of the next five years will amount to:

	Long-term debt	Finance leases and other
	$	$
2020	—	1
2021	55	2
2022	300	2
2023	80	2
2024	—	2
Thereafter	500	6
	935	15
Less: Amounts representing interest	—	4
Total payments	935	11

UNSECURED NOTES

The Company's 10.75% Notes, in the aggregate principal amount of $63 million, matured on June 1, 2017.

REVOLVING CREDIT FACILITY

In August 2018, the Company amended and restated its $700 million unsecured revolving credit facility (the "Credit Agreement") with certain domestic and foreign banks. The amendment extended the Credit Agreement's maturity date from August 18, 2021 to August 22, 2023. The maturity date of the facility may be extended by one year and the lender commitments may be increased by up to $400 million, subject to lender approval and customary requirements.

NOTE 19. LONG-TERM DEBT (CONTINUED)

Borrowings by the Company under the Credit Agreement are guaranteed by its significant domestic subsidiaries. Borrowings by certain foreign subsidiaries under the Credit Agreement are guaranteed by the Company, the Company's significant domestic subsidiaries and certain of the Company's significant foreign subsidiaries.

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

The Credit Agreement contains customary covenants and events of default for transactions of this type, including two financial covenants: (i) an interest coverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not less than 3 to 1 and (ii) a leverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not greater than 3.75 to 1 (or 4.00 to 1 upon the occurrence of certain qualifying material acquisitions). At December 31, 2019, the Company was in compliance with these financial covenants, and had $80 million of borrowings outstanding under this facility (December 31, 2018 – nil), leaving $620 million available under this facility.

TERM LOAN

In the third quarter of 2015, a wholly-owned subsidiary of Domtar borrowed $300 million under an unsecured 10 year Term Loan Agreement with certain domestic banks.

In the fourth quarter of 2018, the Term Loan was fully repaid.

RECEIVABLES SECURITIZATION

The Company has a $150 million receivables securitization facility. This facility was amended in November 2018 to extend the maturity date from March 2019 to November 2021. This facility provides additional liquidity to the Company to fund its operations or issue letters of credit. The costs under the program vary based on changes in interest rates and amounts utilized.

Sales of receivables under this program are accounted for as secured borrowings. The program consists of the ongoing sale of most of the receivables of its domestic subsidiaries to a bankruptcy remote consolidated subsidiary which, in turn, transfers a senior beneficial interest in them to a special purpose entity managed by a financial institution for multiple sellers of receivables to support borrowings or the issue of letters of credit by the Company.

The program contains certain termination events, which include, but are not limited to, matters related to receivable performance, certain defaults occurring under the Credit Agreement, or the failure by Domtar to satisfy material obligations.

At December 31, 2019, $55 million was borrowed and $53 million of letters of credit were outstanding under this facility (2018 – $50 million and $52 million, respectively). At December 31, 2019, the Company had $25 million unused and available under this facility.

In 2019, a net charge of $2 million (2018 – $1 million; 2017 – $2 million) resulted from the program described above and was included in Interest expense, net in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 20.

OTHER LIABILITIES AND DEFERRED CREDITS

The following table presents the components of other liabilities and deferred credits:

	December 31, 2019	December 31, 2018
	$	$
Liability—other post-retirement benefit plans (Note 7)	**58**	57
Pension liability—defined benefit pension plans (Note 7)	**105**	88
Pension liability—multiemployer plan withdrawal	**42**	45
Long-term income taxes payable	**9**	9
Provision for environmental and asset retirement obligations (Note 22)	**27**	27
Stock-based compensation—liability awards (Note 23)	**18**	17
Derivative financial instruments (Note 23)	**8**	16
Other	**8**	16
	275	275

ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations are principally linked to landfill capping obligations and demolition of certain abandoned buildings. At December 31, 2019, Domtar estimated the net present value of its asset retirement obligations to be $13 million (2018 – $12 million); the present value is based on probability weighted undiscounted cash outflows of $58 million (2018 – $59 million). The majority of the asset retirement obligations are estimated to be settled prior to December 31, 2059. Domtar's credit adjusted risk-free rates were used to calculate the net present value of the asset retirement obligations. The rates used vary between 4.7% and 12.0%, based on the prevailing rate at the moment of recognition of the liability and on its settlement period.

The following table reconciles Domtar's asset retirement obligations:

	December 31, 2019	December 31, 2018
	$	$
Asset retirement obligations, beginning of year	**12**	15
Asset retirement obligation payments	**—**	(3)
Accretion expense	**1**	1
Effect of foreign currency exchange rate change	**—**	(1)
Asset retirement obligations, end of year	**13**	12

NOTE 21.

SHAREHOLDERS' EQUITY

DIVIDENDS

During 2019, the Company declared one quarterly dividend of $0.435 and three quarterly dividends of $0.455 per share, to holders of the Company's common stock. Dividends aggregating $28 million, $28 million, $27 million and $26 million were paid on April 15, 2019, July 16, 2019, October 15, 2019 and January 15, 2020, respectively, to shareholders of record as of April 2, 2019, July 2, 2019, October 2, 2019 and January 2, 2020, respectively.

During 2018, the Company declared four quarterly dividends of $0.435 per share, to holders of the Company's common stock. Dividends of $27 million, $28 million, $27 million and $27 million were paid on April 16, 2018, July 16, 2018, October 15, 2018 and January 15, 2019, respectively, to shareholders of record as of April 2, 2018, July 3, 2018, October 2, 2018 and January 2, 2019, respectively.

On February 18, 2020, the Company's Board of Directors approved a quarterly dividend of $0.455 per share, to be paid to holders of the Company's common stock. This dividend is to be paid on April 15, 2020 to shareholders of record on April 2, 2020.

STOCK REPURCHASE PROGRAM

The Company's Board of Directors has authorized a stock repurchase program ("the Program") of up to $1.3 billion. On November 5, 2019, the Company's Board of Directors approved an increase to the Program from $1.3 billion to $1.6 billion. At December 31, 2019, the Company had approximately $403 million of remaining availability under the Program. Under the Program, the Company is authorized to repurchase, from time to time, shares of its outstanding common stock on the open market or in privately negotiated transactions. The timing and amount of stock repurchases will depend on a variety of factors, including the market conditions as well as corporate and regulatory considerations. The Program may be suspended, modified or discontinued at any time, and the Company has no obligation to repurchase any amount of its common stock under the Program. The Program has no set expiration date. The Company repurchases its common stock in part to reduce the dilutive effects of stock options and awards, and to improve shareholders' returns.

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

During 2019, the Company repurchased 6,220,658 shares at an average price of $35.29 for a total cost of $219 million.

During 2018, there were no shares repurchased under the Program.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 21. SHAREHOLDERS' EQUITY (CONTINUED)

The authorized stated capital consists of the following:

PREFERRED SHARES

The Company is authorized to issue 20 million preferred shares, par value $0.01 per share. The Board of Directors of the Company will determine the voting powers (if any) of the shares, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares at the time of issuance. No preferred shares were outstanding at December 31, 2019 or December 31, 2018.

COMMON STOCK

The Company is authorized to issue two billion shares of common stock, par value $0.01 per share. Holders of the Company's common stock are entitled to one vote per share.

The changes in the number of outstanding common stock and their aggregate stated value during the years ended December 31, 2019 and December 31, 2018, were as follows:

	December 31, 2019		December 31, 2018	
Common stock	**Number of shares**	**$**	Number of shares	$
Balance at beginning of year	**62,914,569**	**1**	62,695,685	1
Shares issued				
Treasury stock (1)	**(6,033,659)**	**—**	218,884	—
Balance at end of year	**56,880,910**	**1**	62,914,569	1

(1) During 2019, the Company repurchased 6,220,658, and issued 186,999 shares out of Treasury stock in conjunction with the exercise of stock-based compensation awards.

NOTE 22.

COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

NOTE 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

In 2019, the Company's operating expenses for environmental matters amounted to $71 million (2018 – $68 million; 2017 – $67 million).

The Company made capital expenditures for environmental matters of $19 million in 2019 (2018 – $8 million; 2017 – $2 million).

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

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

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

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

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

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

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

	December 31, 2019	December 31, 2018
	$	$
Balance at beginning of year	**37**	44
Additions and other changes	**4**	4
Environmental spending	**(7)**	(9)
Effect of foreign currency exchange rate change	**1**	(2)
Balance at end of year (1)	**35**	37

(1) At December 31, 2019, $8 million is shown in Trade and other payables (see Note 17) and $27 million is shown in Other liabilities and deferred credits (see Note 20).

At December 31, 2019, anticipated undiscounted payments in each of the next five years are as follows:

	2020	**2021**	**2022**	**2023**	**2024**	**Thereafter**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Environmental provision and asset retirement obligations	8	2	1	2	6	61	80

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

Climate change regulation

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

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

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

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

CONTINGENCIES

In the normal course of operations, the Company becomes involved in various legal actions mostly related to contract disputes, patent infringements, environmental and product warranty claims, and labor issues. While the final outcome with respect to actions outstanding or pending at December 31, 2019, cannot be predicted with certainty, it is management's opinion that their resolution will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

OTHER COMMERCIAL COMMITMENTS

The Company has commitments to purchase property, plant and equipment, roundwood, wood chips, gas and certain chemicals. Purchase orders in the normal course of business are excluded from the table below. Any amounts for which the Company is liable under purchase orders are reflected in the Consolidated Balance Sheets as Trade and other payables. Minimum future payments under these other commercial commitments, determined at December 31, 2019, were as follows:

	2020	2021	2022	2023	2024	Thereafter	Total
	$	$	$	$	$	$	$
Other commercial commitments	117	16	9	6	5	2	155

INDEMNIFICATIONS

In the normal course of business, the Company offers indemnifications relating to the sale of its businesses and real estate. In general, these indemnifications may relate to claims from past business operations, the failure to abide by covenants and the breach of representations and warranties included in the sales agreements. Typically, such representations and warranties relate to taxation, environmental, product and employee matters. The terms of these indemnification agreements are generally for an unlimited period of time. At December 31, 2019, the Company is unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provision has been recorded. These indemnifications have not yielded a significant expense in the past.

Pension Plans

The Company has indemnified and held harmless the trustees of its pension funds, and the respective officers, directors, employees and agents of such trustees, from any and all costs and expenses arising out of the

NOTE 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

performance of their obligations under the relevant trust agreements, including in respect of their reliance on authorized instructions from the Company or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements. At December 31, 2019 the Company has not recorded a liability associated with these indemnifications, as it does not expect to make any payments pertaining to these indemnifications.

NOTE 23.

DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT

HEDGING PROGRAMS

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

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

CREDIT RISK

The Company is exposed to credit risk on accounts receivables from its customers. In order to reduce this risk, the Company reviews new customers' credit history before granting credit and conducts regular reviews of existing customers' credit performance. As of December 31, 2019, two of Domtar's Pulp and Paper segment customers located in the U.S. represented 11% or $66 million, and 11% or $65 million, respectively, of the Company's receivables (December 31, 2018 – one Pulp and Paper segment customer located in the U.S. represented 10% or $67 million).

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

INTEREST RATE RISK

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash and cash equivalents, bank indebtedness, revolving credit facility and securitization, term loan and long-term debt. The

NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

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

COST RISK

Cash flow hedges:

The Company is exposed to price volatility for raw materials and energy used in its manufacturing process. The Company manages its exposure to cost risk primarily through the use of supplier contracts. The Company purchases natural gas at the prevailing market price at the time of delivery. To reduce the impact on cash flow and earnings due to pricing volatility, the Company may utilize derivatives to fix the price of forecasted natural gas purchases. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Cost of sales in the period during which the hedged transaction affects earnings. Current contracts are used to hedge a portion of forecasted purchases over the next 48 months.

The following table presents the volumes under derivative financial instruments for natural gas contracts outstanding as of December 31, 2019 to hedge forecasted purchases:

Commodity	Notional contractual quantity under derivative contracts MMBtu (1)	Notional contractual value under derivative contracts (in millions of dollars)	Percentage of forecasted purchases under derivative contracts
Natural gas			
2020	11,165,000	$34	44%
2021	9,270,000	$27	36%
2022	9,270,000	$25	36%
2023	4,210,000	$12	16%

(1) MMBtu: Millions of British thermal units

The natural gas derivative contracts were effective as of December 31, 2019.

FOREIGN CURRENCY RISK

Cash flow hedges:

The Company has manufacturing operations in the United States, Canada and Europe. As a result, it is exposed to movements in foreign currency exchange rates in Canada and Europe. Moreover, certain assets and liabilities are denominated in currencies other than the U.S. dollar and are exposed to foreign currency movements. Accordingly, the Company's earnings are affected by increases or decreases in the value of the Canadian dollar and European currencies. The Company's European subsidiaries are also exposed to movements in foreign currency exchange rates on transactions denominated in a currency other than their Euro functional

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

currency. The Company's risk management policy allows it to hedge a significant portion of its exposure to fluctuations in foreign currency exchange rates for periods up to three years. The Company may use derivative financial instruments (currency options and foreign exchange forward contracts) to mitigate its exposure to fluctuations in foreign currency exchange rates.

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

The following table presents the currency values under significant currency positions pursuant to currency derivatives outstanding as of December 31, 2019 to hedge forecasted purchases and sales:

Currency exposure hedged	Business Segment	Year of maturity	Notional contractual value	Percentage of forecasted net exposures under contracts	Average Protection rate	Average Obligation rate
CAD/USD	Pulp and Paper	2020	653 CAD	69%	1 USD = 1.2969	1 USD = 1.3186
CAD/USD	Pulp and Paper	2021	335 CAD	35%	1 USD = 1.3201	1 USD = 1.3201

The foreign exchange derivative contracts were effective as of December 31, 2019.

FAIR VALUE MEASUREMENT

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

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

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

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

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

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

Fair Value of financial instruments at:	December 31, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		Balance sheet classification
	$	$	$	$		
Derivatives designated as hedging instruments:						
Asset derivatives						
Currency derivatives	**4**	—	4	—	(a)	Prepaid expenses
Currency derivatives	**4**	—	4	—	(a)	Other assets
Total Assets	**8**	—	8	—		
Liabilities derivatives						
Currency derivatives	**2**	—	2	—	(a)	Trade and other payables
Natural gas swap contracts	**9**	—	9	—	(a)	Trade and other payables
Natural gas swap contracts	**8**	—	8	—	(a)	Other liabilities and deferred credits
Total Liabilities	**19**	—	19	—		
Other Instruments:						
Stock-based compensation—liability awards	**7**	7	—	—		Trade and other payables
Stock-based compensation—liability awards	**18**	18	—	—		Other liabilities and deferred credits
Long-term debt	**1,030**	—	1,030	—	(b)	Long-term debt

The net cumulative loss recorded in Accumulated other comprehensive loss relating to natural gas contracts is $17 million at December 31, 2019, of which a loss of $9 million will be recognized in Cost of sales upon maturity of the derivatives over the next 12 months at the then prevailing values, which may be different from those at December 31, 2019.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

The net cumulative gain recorded in Accumulated other comprehensive loss relating to currency options and forwards hedging forecasted purchases is $6 million at December 31, 2019, of which a gain of $2 million will be recognized in Cost of sales or Sales upon maturity of the derivatives over the next 12 months at the then prevailing values, which may be different from those at December 31, 2019.

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

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

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

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

NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

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

NOTE 24.

SEGMENT DISCLOSURES

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

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

The accounting policies of the reportable segments are the same as those described in Note 1. The Company evaluates segment performance based on operating income. Transfer prices between segments are based on market prices. Certain Corporate general and administrative costs are allocated to the segments. Corporate costs that are not related to segment activities, as well as the mark-to-market impact on stock-based compensation awards, are presented on the Corporate line. The Company does not allocate interest expense and income taxes to the segments. Segment assets are those directly used in segment operations.

The Company attributes sales to customers in different geographical areas on the basis of the location of the customer.

Long-lived assets consist of property, plant and equipment, operating lease right-of-use assets and intangible assets used in the generation of sales in the different geographical areas.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 24. SEGMENT DISCLOSURES (CONTINUED)

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

SEGMENT DATA	**Year ended December 31, 2019**	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
Sales			
Pulp and Paper	**4,332**	4,523	4,216
Personal Care	**953**	1,000	996
Total for reportable segments	**5,285**	5,523	5,212
Intersegment sales	**(65)**	(68)	(64)
Consolidated sales (1)	**5,220**	5,455	5,148
Sales by product group			
Communication papers	**2,571**	2,548	2,382
Specialty and packaging papers	**637**	710	651
Market pulp	**1,059**	1,197	1,119
Absorbent hygiene products	**953**	1,000	996
Consolidated sales (1)	**5,220**	5,455	5,148
Depreciation and amortization			
Pulp and Paper	**228**	238	254
Personal Care	**65**	70	67
Total for reportable segments	**293**	308	321
Impairment of long-lived assets—Pulp and Paper	**32**	—	—
Impairment of long-lived assets—Personal Care	**26**	7	578
Consolidated depreciation and amortization and impairment of long-lived assets	**351**	315	899
Operating income (loss)			
Pulp and Paper	**225**	438	237
Personal Care	**(15)**	(5)	(527)
Corporate	**(47)**	(47)	(38)
Consolidated operating income (loss)	**163**	386	(328)
Interest expense, net	**52**	62	66
Non-service components of net periodic benefit cost	**23**	(18)	(11)
Earnings (loss) before income taxes and equity loss	**88**	342	(383)
Income tax expense (benefit)	**2**	57	(125)
Equity loss, net of taxes	**2**	2	—
Net earnings (loss)	**84**	283	(258)

(1) In 2019 and 2018, Staples, one of the Company's largest customers in the Pulp and Paper segment, represented approximately 11% (2018 – 10%) of the total sales.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 24. SEGMENT DISCLOSURES (CONTINUED)

	December 31, 2019	December 31, 2018
	$	$
Segment assets		
Pulp and Paper	**3,507**	3,475
Personal Care	**1,258**	1,331
Total for reportable segments	**4,765**	4,806
Corporate	**138**	119
Consolidated assets	**4,903**	4,925

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
Additions to property, plant and equipment			
Pulp and Paper	**220**	164	128
Personal Care	**41**	37	48
Total for reportable segments	**261**	201	176
Corporate	**3**	2	4
Consolidated additions to property, plant and equipment	**264**	203	180
Add: Change in payables on capital projects	**(9)**	(8)	2
Consolidated additions to property, plant and equipment per Consolidated Statements of Cash Flows	**255**	195	182

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
	$	$	$
Geographic information			
Sales			
United States	**3,717**	3,669	3,486
Canada	**419**	480	474
Europe	**583**	682	610
Asia	**370**	489	444
Other foreign countries	**131**	135	134
	5,220	5,455	5,148

	December 31, 2019	December 31, 2018
	$	$
Long-lived assets		
United States	**2,004**	2,056
Canada	**691**	604
Europe	**526**	542
	3,221	3,202

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 25.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

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

The following supplemental condensed consolidating financial information sets forth, on an unconsolidated basis, the Balance Sheets at December 31, 2019 and 2018 and the Statements of Earnings (Loss) and Comprehensive Income (Loss) and Cash Flows for the years ended December 31, 2019, 2018 and 2017 for Domtar Corporation (the "Parent"), and on a combined basis for the Guarantor Subsidiaries and, on a combined basis, the Non-Guarantor Subsidiaries. The supplemental condensed consolidating financial information reflects the investments of the Parent in the Guarantor Subsidiaries, as well as the investments of the Guarantor Subsidiaries in the Non-Guarantor Subsidiaries, using the equity method.

	Year ended December 31, 2019				
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated**
	$	$	$	$	$
Sales	—	4,292	1,944	(1,016)	5,220
Operating expenses					
Cost of sales, excluding depreciation and amortization	1	3,650	1,590	(1,016)	4,225
Depreciation and amortization	—	207	86	—	293
Selling, general and administrative	9	244	181	—	434
Impairment of long-lived assets	—	58	—	—	58
Closure and restructuring costs	—	40	2	—	42
Other operating (income) loss, net	—	(3)	8	—	5
	10	4,196	1,867	(1,016)	5,057
Operating (loss) income	(10)	96	77	—	163
Interest expense (income), net	69	80	(97)	—	52
Non-service components of net periodic benefit cost	—	2	21	—	23
(Loss) earnings before income taxes and equity loss	(79)	14	153	—	88
Income tax (benefit) expense	(17)	(12)	31	—	2
Equity loss, net of taxes	—	1	1	—	2
Share in earnings of equity accounted investees	146	121	—	(267)	—
Net earnings	84	146	121	(267)	84
Other comprehensive income	74	81	49	(130)	74
Comprehensive income	158	227	170	(397)	158

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	Year ended December 31, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Sales	—	4,411	2,226	(1,182)	5,455
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	3,782	1,703	(1,182)	4,303
Depreciation and amortization	—	216	92	—	308
Selling, general and administrative	11	108	324	—	443
Impairment of long-lived assets	—	7	—	—	7
Closure and restructuring costs	—	6	2	—	8
Other operating (income) loss, net	—	(1)	1	—	—
	11	4,118	2,122	(1,182)	5,069
Operating (loss) income	(11)	293	104	—	386
Interest expense (income), net	62	91	(91)	—	62
Non-service components of net periodic benefit cost	—	1	(19)	—	(18)
(Loss) earnings before income taxes and equity loss	(73)	201	214	—	342
Income tax (benefit) expense	(20)	30	47	—	57
Equity loss, net of taxes	—	1	1	—	2
Share in earnings of equity accounted investees	336	166	—	(502)	—
Net earnings	283	336	166	(502)	283
Other comprehensive loss	(131)	(133)	(110)	243	(131)
Comprehensive income	152	203	56	(259)	152

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	Year ended December 31, 2017				
CONDENSED CONSOLIDATING STATEMENT OF LOSS AND COMPREHENSIVE INCOME (LOSS)	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated**
	$	$	$	$	$
Sales	—	4,243	2,053	(1,148)	5,148
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	3,688	1,605	(1,148)	4,145
Depreciation and amortization	—	233	88	—	321
Selling, general and administrative	9	142	293	—	444
Impairment of long-lived assets	—	313	265	—	578
Closure and restructuring costs	—	2	—	—	2
Other operating loss (income), net	—	1	(15)	—	(14)
	9	4,379	2,236	(1,148)	5,476
Operating loss	(9)	(136)	(183)	—	(328)
Interest expense (income), net	63	86	(83)	—	66
Non-service components of net periodic benefit cost	—	1	(12)	—	(11)
Loss before income taxes	(72)	(223)	(88)	—	(383)
Income tax expense (benefit)	9	(179)	45	—	(125)
Share in earnings of equity accounted investees	(177)	(133)	—	310	—
Net loss	(258)	(177)	(133)	310	(258)
Other comprehensive income	163	175	170	(345)	163
Comprehensive (loss) income	(95)	(2)	37	(35)	(95)

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

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

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

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

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

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	Year ended December 31, 2019				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Operating activities					
Net earnings	84	146	121	(267)	84
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	32	(93)	152	267	358
Cash flows provided from operating activities	116	53	273	—	442
Investing activities					
Additions to property, plant and equipment	—	(137)	(118)	—	(255)
Proceeds from disposals of property, plant and equipment	—	1	—	—	1
Cash flows used for investing activities	—	(136)	(118)	—	(254)
Financing activities					
Dividend payments	(110)	—	—	—	(110)
Stock repurchase	(219)	—	—	—	(219)
Net change in bank indebtedness	—	9	—	—	9
Change in revolving credit facility	80	—	—	—	80
Proceeds from receivables securitization facilities	—	—	205	—	205
Repayments of receivables securitization facilities	—	—	(200)	—	(200)
Repayments of long-term debt	—	—	(1)	—	(1)
Increase in long-term advances to related parties	—	—	(220)	220	—
Decrease in long-term advances to related parties	135	85	—	(220)	—
Other	(1)	—	—	—	(1)
Cash flows (used for) provided from financing activities	(115)	94	(216)	—	(237)
Net increase (decrease) in cash and cash equivalents	1	11	(61)	—	(49)
Impact of foreign exchange on cash	—	—	(1)	—	(1)
Cash and cash equivalents at beginning of year	—	—	111	—	111
Cash and cash equivalents at end of year	1	11	49	—	61

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	Year ended December 31, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Operating activities					
Net earnings	283	336	166	(502)	283
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	(557)	434	(108)	502	271
Cash flows (used for) provided from operating activities	(274)	770	58	—	554
Investing activities					
Additions to property, plant and equipment	—	(142)	(53)	—	(195)
Proceeds from disposals of property, plant and equipment	—	1	4	—	5
Other	—	(2)	(4)	—	(6)
Cash flows used for investing activities	—	(143)	(53)	—	(196)
Financing activities					
Dividend payments	(108)	—	—	—	(108)
Proceeds from receivables securitization facilities	—	—	85	—	85
Repayments of receivables securitization facilities	—	—	(60)	—	(60)
Repayments of long-term debt	—	(300)	(1)	—	(301)
Increase in long-term advances to related parties	—	(341)	(36)	377	—
Decrease in long-term advances to related parties	377	—	—	(377)	—
Other	2	—	—	—	2
Cash flows provided from (used for) financing activities	271	(641)	(12)	—	(382)
Net decrease in cash and cash equivalents	(3)	(14)	(7)	—	(24)
Impact of foreign exchange on cash	—	—	(4)	—	(4)
Cash and cash equivalents at beginning of year	3	14	122	—	139
Cash and cash equivalents at end of year	—	—	111	—	111

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	Year ended December 31, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Operating activities					
Net loss	(258)	(177)	(133)	310	(258)
Changes in operating and intercompany assets and liabilities and non-cash items, included in net loss	287	259	471	(310)	707
Cash flows provided from operating activities	29	82	338	—	449
Investing activities					
Additions to property, plant and equipment	—	(99)	(83)	—	(182)
Proceeds from disposals of property, plant and equipment and sale of business	—	—	19	—	19
Acquisition of business, net of cash acquired	—	—	(8)	—	(8)
Cash flows used for investing activities	—	(99)	(72)	—	(171)
Financing activities					
Dividend payments	(104)	—	—	—	(104)
Net change in bank indebtedness	—	(12)	—	—	(12)
Change in revolving credit facility	(50)	—	—	—	(50)
Proceeds from receivables securitization facilities	—	—	45	—	45
Repayments of receivables securitization facilities	—	—	(90)	—	(90)
Repayments of long-term debt	(63)	—	(1)	—	(64)
Increase in long-term advances to related parties	—	—	(202)	202	—
Decrease in long-term advances to related parties	173	29	—	(202)	—
Other	1	—	—	—	1
Cash flows (used for) provided from financing activities	(43)	17	(248)	—	(274)
Net (decrease) increase in cash and cash equivalents	(14)	—	18	—	4
Impact of foreign exchange on cash	—	—	10	—	10
Cash and cash equivalents at beginning of year	17	14	94	—	125
Cash and cash equivalents at end of year	3	14	122	—	139

Domtar Corporation
Interim Financial Results (Unaudited)
(In millions of dollars, unless otherwise noted)

2019	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
Sales	$1,376	$1,317	$1,283	$1,244	$5,220
Operating income (loss)	115 (a)	34 (b)	29 (c)	(15) (d)	163
Earnings (loss) before income taxes and equity loss	105	23	19	(59) (e)	88
Net earnings (loss)	80	18	20	(34)	84
Basic net earnings (loss) per common share	1.27	0.29	0.33	(0.59)	1.37
Diluted net earnings (loss) per common share	1.27	0.28	0.32	(0.59)	1.37

2018	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
Sales	$1,345	$1,353	$1,367	$1,390	$5,455
Operating income	77 (f)	62 (g)	114	133 (i)	386
Earnings before income taxes and equity loss	65	51	103	123	342
Net earnings	54	43	99 (h)	87 (j)	283
Basic net earnings per common share	0.86	0.68	1.57	1.38	4.50
Diluted net earnings per common share	0.86	0.68	1.57	1.38	4.48

(a) The operating income for the first Quarter of 2019 included closure and restructuring costs of $4 million and impairment of long-lived assets of $10 million, both related to our Personal Care segment.

(b) The operating income for the second Quarter of 2019 included closure and restructuring costs of $8 million and impairment of long-lived assets of $15 million, both related to our Personal Care segment.

(c) The operating income for the third Quarter of 2019 included closure and restructuring costs of $5 million and impairment of long-lived assets of $32 million, both related to our Pulp and Paper segment.

The Company also recorded closure and restructuring costs of $6 million and impairment of long-lived assets of $1 million, both related to our Personal Care segment.

(d) The operating loss for the fourth Quarter of 2019 included closure and restructuring costs of $17 million related to our Pulp and Paper segment.

The Company also recorded closure and restructuring costs of $2 million related to our Personal Care segment.

(e) The loss before income taxes and equity loss for the fourth Quarter of 2019 included a pension settlement loss of $30 million related to our Pulp and Paper segment.

(f) The operating income for the first Quarter of 2018 included a gain on disposal of property, plant and equipment of $1 million related to our Pulp and Paper segment.

The Company also recorded a litigation settlement of $2 million related to our Corporate segment.

(g) The operating income for the second Quarter of 2018 included a gain on disposal of property, plant and equipment of $3 million related to our Pulp and Paper segment.

(h) The net earnings for the third Quarter of 2018 included a tax benefit of $7 million related to the U.S. Tax Reform.

(i) The operating income for the fourth Quarter of 2018 included closure and restructuring costs of $8 million and impairment of long-lived assets of $7 million, both related to our Personal Care segment.

(j) The net earnings for the fourth Quarter of 2018 included a tax expense of $10 million related to the U.S. Tax Reform.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has nothing to report under this item.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports under the Securities and Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of December 31, 2019, an evaluation was performed by members of management, at the direction and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as at December 31, 2019, our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

The information called for by this item is incorporated herein by reference to "Management's Report on Internal Control Over Financial Reporting", and the attestation regarding internal controls over financial reporting included in the "Report of Independent Registered Public Accounting Firm" included in Item 8 of this Report.

Change in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the fourth quarter ended December 31, 2019.

ITEM 9B. OTHER INFORMATION

The Company has nothing to report under this item.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information included under the captions "Governance of the Corporation" and "Election of Directors" in our Proxy Statement for the 2020 Annual Meeting of Stockholders, to be filed on or about April 6, 2020, is incorporated herein by reference.

Information regarding our executive officers is presented in Item 1, Business, under the caption "Our Executive Officers".

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the caption "Compensation Discussion and Analysis", "Executive Compensation" and "Director Compensation" in our Proxy Statement for the 2020 Annual Meeting of Stockholders, to be filed on or about April 6, 2020, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing under the caption "Security Ownership of Certain Beneficial Owners, Directors and Officers" in our Proxy Statement for the 2020 Annual Meeting of Stockholders, to be filed on or about April 6, 2020, is incorporated herein by reference.

The following table sets forth the number of shares of our stock reserved for issuance under our equity compensation plans as of December 31, 2019:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)	Weighted average exercise price of outstanding options, warrants and rights ($)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (#)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,561,152 (1)	$46.93 (2)	1,112,295 (3)
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	1,561,152	$46.93	1,112,295

(1) Represents the total number of shares associated with options, restricted stock units ("RSUs"), performance share units ("PSUs"), deferred share units ("DSUs") and dividends equivalent units ("DEUs") outstanding as of December 31, 2019 that may or will be settled in equity. This number assumes that PSUs will vest at the "maximum" performance level, and that any performance requirements applicable to options will be satisfied.

(2) Represents the weighted average exercise price of options disclosed in column (a).

(3) Represents the number of shares remaining available for issuance in settlement of future awards under the Omnibus Incentive Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information appearing under the captions "Governance of the Corporation – Board Independence and Other Determinations" in our Proxy Statement for the 2020 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information appearing under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm" and "Independent Registered Public Accounting Firm Fees" in our Proxy Statement for the 2020 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements—See Item 8, Financial Statements and Supplementary Data.

2. Schedule II—Valuation and Qualifying Accounts

All other schedules are omitted as the information required is either included elsewhere in the consolidated financial statements in Item 8, Financial Statements and Supplementary Data—or is not applicable.

3. Exhibits:

		Incorporated by reference to:		
Exhibit Number	**Exhibit Description**	**Form**	**Exhibit**	**Filing Date**
3.1	Amended and Restated Certificate of Incorporation	10-Q	3.1	08/08/2008
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation	8-K	3.1	06/08/2009
3.3	Amended and Restated By-Laws	8-K	3.1	02/24/2016
4.1	Form of Indenture between Domtar Corp. and the Bank of New York, as trustee, relating to Domtar Corp.'s (i) 7.125% Notes due 2015, (ii) 5.375% Notes due 2013, (iii) 7.875% Notes due 2011, (iv) 9.5% Notes due 2016 to be issued as part of a debt exchange	S-4	4.1	10/16/2007
4.2	Supplemental Indenture, dated February 15, 2008, among Domtar Corp., Domtar Paper Company LLC, The Bank of New York, as Trustee, and the new subsidiary guarantors as parties thereto, relating to the guarantee by the new subsidiary guarantors of the obligations under the Indenture	8-K	4.1	02/21/2008
4.3	Supplemental Indenture, dated September 7, 2011, among Domtar Corporation, Attends Healthcare Products Inc., and The Bank of New York Mellon (formerly the Bank of New York), as trustee, relating to the guarantee by Attends Healthcare Products Inc. of the obligations under the Indenture	10-Q	4.1	11/04/2011
4.4	Supplemental Indenture, dated as of March 16, 2012, among Domtar Corporation, the subsidiary guarantors party thereto, and The Bank of New York Mellon (formerly known as The Bank of New York), as trustee, providing for Domtar Corporation's 4.40% Notes due 2022	8-K	4.1	03/16/2012
4.5	Supplemental Indenture, dated May 21, 2012, among Domtar Corporation, EAM Corporation, and The Bank of New York Mellon, as trustee, relating to EAM Corporation's guarantee of the obligations under the Indenture	S-3	4.8	08/20/2012
4.6	Supplemental Indenture, dated as of August 23, 2012, among Domtar Corporation, the subsidiary guarantors party thereto, and The Bank of New York Mellon (formerly the Bank of New York), as trustee, providing for Domtar Corporation's 6.25% Notes due 2042	8-K	4.1	08/23/2012

Exhibit Number	Exhibit Description	Incorporated by reference to: Form	Exhibit	Filing Date
4.7	Supplemental Indenture, dated as of July 31, 2013, among Domtar Corporation, Associated Hygienic Products LLC, and The Bank of New York Mellon (formerly the Bank of New York), as trustee, relating to the guarantee by Associated Hygienic Products LLC of the obligations under the Indenture	S-3ASR	4.10	10/01/2013
4.8	Supplemental Indenture, dated as of November 26, 2013, among Domtar Corporation, the subsidiary guarantors party thereto, and The Bank of New York Mellon (formerly the Bank of New York), as trustee, providing for Domtar Corporation's 6.75% Notes due 2044	8-K	4.1	11/26/2013
4.9	Supplemental Indenture, dated as of January 23, 2017, among Home Delivery Incontinent Supplies Co, Domtar Corporation and The Bank of New York Mellon, as trustee, relating to Home Delivery Incontinent Supplies Co's guarantee of the obligations under the Indenture	10-Q	4.1	05/05/2017
10.1*	Domtar Corporation Deferred Share Unit Plan for Outside Directors (for former directors of Domtar Inc.)	10-K	10.30	02/27/2009
10.2*	Director Deferred Stock Unit Agreement	8-K	10.1	05/24/2007
10.3*	Non-Qualified Stock Option Agreement	10-K	10.4	02/22/2019
10.4*	Restricted Stock Unit Agreement			
10.5*	Performance Share Unit Agreement			
10.6*	Amended and Restated Severance Program for Management Committee Members			
10.7*	Amended and Restated DB SERP for Management Committee Members of Domtar	10-Q	10.1	08/04/2017
10.8*	Amended and Restated DC SERP for Designated Executives of Domtar			
10.9*	Form of Indemnification Agreement for members of Pension Administration Committee of Domtar Corporation	10-K	10.50	02/27/2009
10.10	Amended and Restated Domtar Corporation 2007 Omnibus Incentive Plan			
10.11	Domtar Corporation Annual Incentive Plan for Members of the Management Committee			
10.12*	Employment agreement of Mr. Michael Fagan	10-K	10.48	02/28/2013
10.13*	Amended and Restated Supplementary Pension Plan for Designated Managers of Domtar Inc.	10-Q	10.3	08/04/2017
10.14*	Amended and Restated Employment Agreement of Mr. John D. Williams	10-Q	10.1	08/02/2013
10.15*	Amended and Restated DC SERP for Designated Executives of Domtar Personal Care			

Exhibit Number	Exhibit Description	Incorporated by reference to: Form	Exhibit	Filing Date
10.16*	Employment agreement of Mr. Michael D. Garcia	10-Q	10.1	08/01/2014
10.17	Third Amended and Restated Credit Agreement dated as of August 22, 2018.	10-Q	10.1	11/08/2018
21	Subsidiaries of Domtar Corporation			
23	Consent of Independent Registered Public Accounting Firm			
24.1	Powers of Attorney (included in signature page)			
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
101.INS	XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.			
101.SCH	Inline XBRL Taxonomy Extension Schema			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase			
101.PRE	Inline XBRL Extension Presentation Linkbase			
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)			

* Indicates management contract or compensatory arrangement

FINANCIAL STATEMENT SCHEDULE

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

For the three years ended:

	Balance at beginning of year	Charged to income	Deductions from reserve	Balance at end of year
	$	$	$	$
Allowances deducted from related asset accounts:				
Doubtful accounts—Accounts receivable				
2019	6	2	(2)	6
2018	7	2	(3)	6
2017	7	1	(1)	7

	Balance at beginning of year	Charged to income	Deductions from reserve	Balance at end of year
	$	$	$	$
Valuation Allowance on Deferred Tax Assets				
2019	16	5	—	21
2018	25	(8)	(1)	16
2017	22	3	—	25

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Fort Mill, South Carolina, United States, on February 25, 2020

DOMTAR CORPORATION

by /s/ John D. Williams

Name: John D. Williams
Title: President and Chief Executive Officer

We, the undersigned directors and officers of Domtar Corporation, hereby severally constitute Zygmunt Jablonski and Razvan L. Theodoru, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John D. Williams John D. Williams	President and Chief Executive Officer (Principal Executive Officer) and Director	February 25, 2020
/s/ Daniel Buron Daniel Buron	Senior Vice-President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 25, 2020
/s/ Giannella Alvarez Giannella Alvarez	Director	February 25, 2020
/s/ Robert E. Apple Robert E. Apple	Director	February 25, 2020
/s/ David J. Illingworth David J. Illingworth	Director	February 25, 2020
/s/ Brian M. Levitt Brian M. Levitt	Director	February 25, 2020
/s/ David G. Maffucci David G. Maffucci	Director	February 25, 2020
/s/ Pamela B. Strobel Pamela B. Strobel	Director	February 25, 2020
/s/ Denis Turcotte Denis Turcotte	Director	February 25, 2020
/s/ Mary A. Winston Mary A. Winston	Director	February 25, 2020

Exhibit 31.1

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

I, John D. Williams, certify that:

1. I have reviewed this annual report on Form 10-K of Domtar Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2020

/S/ JOHN D. WILLIAMS

John D. Williams
President and Chief Executive Officer

Exhibit 31.2

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

I, Daniel Buron, certify that:

1. I have reviewed this annual report on Form 10-K of Domtar Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2020

/s/ Daniel Buron

Daniel Buron
Senior Vice-President and Chief Financial Officer

Exhibit 32.1

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

The undersigned hereby certifies that to his knowledge, the Company's Annual Report on Form 10-K for the period ended December 31, 2019 (the "Form 10-K") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 25, 2020

/s/ JOHN D. WILLIAMS

John D. Williams
President and Chief Executive Officer

Exhibit 32.2

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

The undersigned hereby certifies that to his knowledge, the Company's Annual Report on Form 10-K for the period ended December 31, 2019 (the "Form 10-K") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 25, 2020

/s/ DANIEL BURON

Daniel Buron
Senior Vice-President and Chief Financial Officer

DIVIDENDS DECLARED IN 2019

Declared	Record Date	Payable Date	Amount
Feb. 20, 2019	April 2, 2019	April 15, 2019	0.435
May 8, 2019	July 2, 2019	July 16, 2019	0.455
Aug. 7, 2019	Oct. 2, 2019	Oct. 15, 2019	0.455
Nov. 6, 2019	Jan. 2, 2020	Jan. 15, 2020	0.455

EXCHANGE LISTINGS

NYSE: UFS
TSX: UFS

DIVIDEND POLICY

Subject to approval by its Board of Directors, Domtar pays a quarterly dividend on its common stock.

TRANSFER AGENT AND REGISTRAR

By regular mail
Computershare
PO Box 505000
Louisville, KY 40233-5000

By overnight delivery
Computershare
462 South 4th Street, Suite 1600
Louisville, KY 40202

North American Toll Free Number:
1-877-282-1168
Tel.: 1-781-575-2879
computershare.com/investor

ANNUAL MEETING

Wednesday, May 6, 2020, 07:45 a.m. ET
Domtar Corporate Office
234 Kingsley Park Drive
Fort Mill, SC 29715

INVESTOR RELATIONS

Investor Relations Department
Domtar Corporation
395 de Maisonneuve Blvd. West
Montreal, QC H3A 1L6
Tel.: 514-848-5049
Email: ir@domtar.com

Electronic versions of this report, SEC filings and other publications are available at **domtar.com**

2020 EARNINGS RELEASE SCHEDULE

First Quarter 2020: Thursday, April 30, 2020
Second Quarter 2020: Thursday, July 30, 2020
Third Quarter 2020: Thursday, October 29, 2020
Fourth Quarter 2020: Thursday, February 11, 2021

Each quarterly earnings release with accompanying financial tables will be issued before markets open, followed by a 10:00 a.m. ET conference call to discuss results. The above-mentioned dates are tentative and will be confirmed approximately three weeks prior to the official earnings release date.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The following table sets forth certain non-U.S. generally accepted accounting principles ("GAAP") financial metrics identified in bold as "Earnings before items", "Earnings before items per diluted share", "EBITDA", "EBITDA margin", "EBITDA before items", "EBITDA margin before items", "Free cash flow", "Net debt" and "Net debt-to-total capitalization". Management believes that the financial metrics are useful to understand our operating performance and benchmark with peers within the industry. The Company calculates "Earnings before items" and "EBITDA before items" by excluding the after-tax (pre-tax) effect of specified items. These metrics are presented as a complement to enhance the understanding of operating results but not in substitution for GAAP results.

(In millions of dollars, unless otherwise noted)			2017	2018	**2019**
Reconciliation of "Earnings before items" to Net earnings (loss)					
	Net earnings (loss)	($)	(258)	283	**84**
(+)	Pension settlement loss	($)	—	—	**22**
(+)	Impairment of long-lived assets	($)	573	5	**46**
(+)	Closure and restructuring costs	($)	1	6	**32**
(+)	Litigation settlement	($)	—	2	**—**
(-)	Net gains on disposals of property, plant and equipment	($)	(11)	(3)	**—**
(-)	Reversal of contingent consideration	($)	(2)	—	**—**
(-)	U.S. Tax Reform	($)	(140)	(2)	**—**
(=)	**Earnings before items**	($)	163	291	**184**
(/)	Weighted avg. number of common shares outstanding (diluted)	(millions)	62.7	63.1	**61.4**
(=)	**Earnings before items per diluted share**	($)	2.60	4.61	**3.00**
Reconciliation of "EBITDA" and "EBITDA before items" to Net earnings (loss)					
	Net earnings (loss)	($)	(258)	283	**84**
(+)	Equity loss, net of taxes	($)	—	2	**2**
(+)	Income tax expense (benefit)	($)	(125)	57	**2**
(+)	Interest expense, net	($)	66	62	**52**
(+)	Depreciation and amortization	($)	321	308	**293**
(+)	Impairment of long-lived assets	($)	578	7	**58**
(-)	Net gains on disposals of property, plant and equipment	($)	(13)	(4)	**—**
(=)	**EBITDA**	($)	569	715	**491**
(/)	Sales	($)	5,148	5,455	**5,220**
(=)	**EBITDA margin**	(%)	11%	13%	**9%**
	EBITDA	($)	569	715	**491**
(+)	Pension settlement loss	($)	—	—	**30**
(+)	Closure and restructuring costs	($)	2	8	**42**
(+)	Litigation settlement	($)	—	2	**—**
(-)	Reversal of contingent consideration	($)	(2)	—	**—**
(=)	**EBITDA before items**	($)	569	725	**563**
(/)	Sales	($)	5,148	5,455	**5,220**
(=)	**EBITDA margin before items**	(%)	11%	13%	**11%**
Reconciliation of "Free cash flow" to Cash flows from operating activities					
	Cash flows from operating activities	($)	449	554	**442**
(-)	Additions to property, plant and equipment	($)	(182)	(195)	**(255)**
(=)	**Free cash flow**	($)	267	359	**187**
"Net debt-to-total capitalization" computation					
	Bank indebtedness	($)	—	—	**9**
(+)	Long-term debt due within one year	($)	1	1	**1**
(+)	Long-term debt	($)	1 129	853	**938**
(=)	Debt	($)	1 130	854	**948**
(-)	Cash and cash equivalents	($)	(139)	(111)	**(61)**
(=)	**Net debt**	($)	991	743	**887**
(+)	Shareholders' equity	($)	2,483	2,538	**2,376**
(=)	Total capitalization	($)	3,474	3,281	**3,263**
	Net debt	($)	991	743	**887**
(/)	Total capitalization	($)	3,474	3,281	**3,263**
(=)	**Net debt-to-total capitalization**	(%)	29%	23%	**27%**

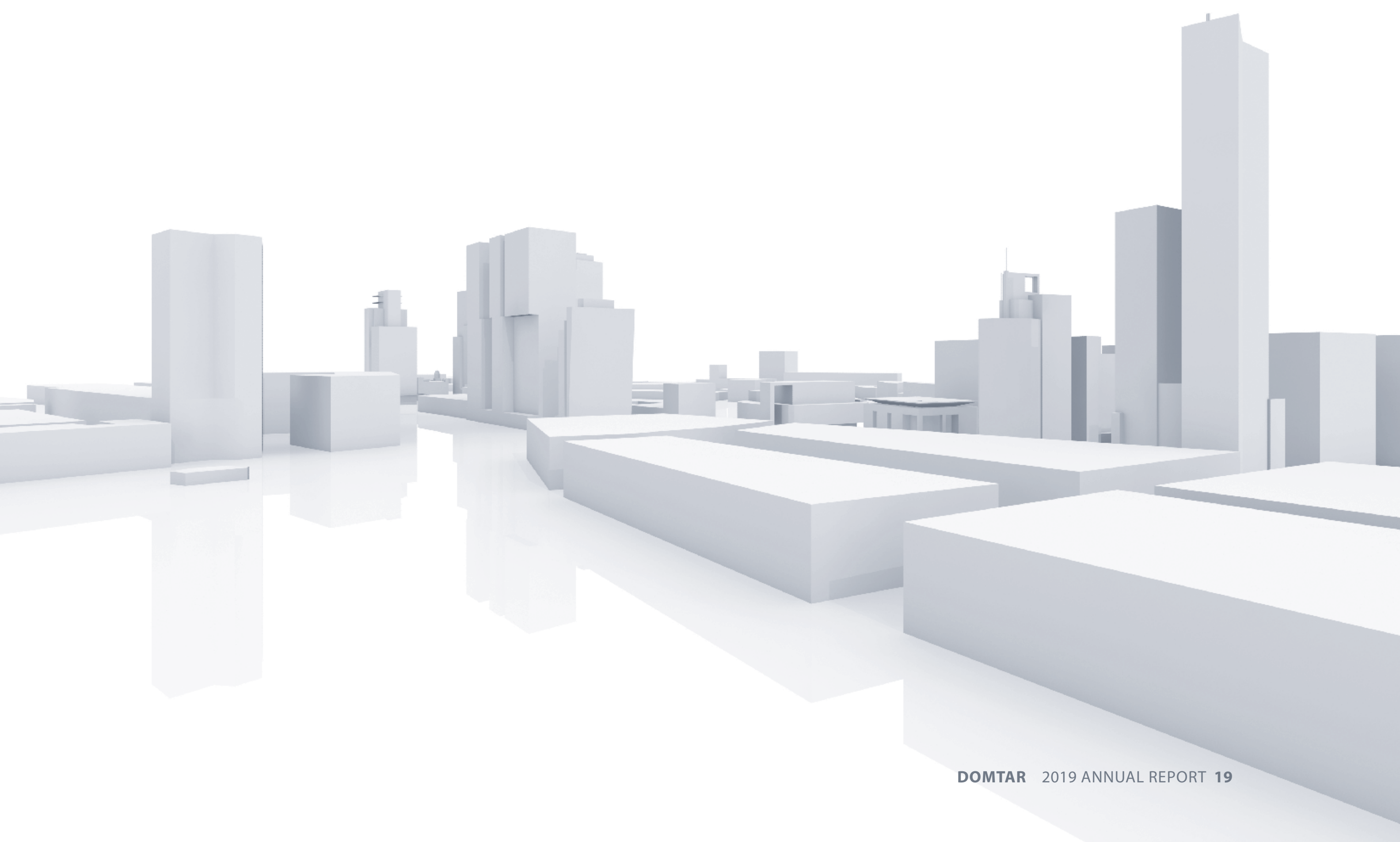
"Earnings before items", "Earnings before items per diluted share", "EBITDA", "EBITDA margin", "EBITDA before items", "EBITDA margin before items", "Free cash flow", "Net debt" and "Net debt-to-total capitalization" have no standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation or as a substitute for Net earnings (loss) or any other earnings statement, cash flow statement or balance sheet financial information prepared in accordance with GAAP. It is important for readers to understand that certain items may be presented in different lines by different companies on their financial statements, thereby leading to different measures for different companies.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES BY SEGMENT

The following table sets forth certain non-U.S. generally accepted accounting principles ("GAAP") financial metrics identified in bold as "Operating income (loss) before items", "EBITDA before items" and "EBITDA margin before items" by reportable segment. Management believes that the financial metrics are useful to understand our operating performance and benchmark with peers within the industry. The Company calculates the segmented "Operating income (loss) before items" by excluding the pre-tax effect of specified items. These metrics are presented as a complement to enhance the understanding of operating results but not in substitution for GAAP results.

		Pulp and Paper			Personal Care			Corporate		
(In millions of dollars, unless otherwise noted)		2017	2018	**2019**	2017	2018	**2019**	2017	2018	**2019**
Reconciliation of Operating income (loss) to "Operating income (loss) before items"										
Operating income (loss)	($)	237	438	**225**	(527)	(5)	**(15)**	(38)	(47)	**(47)**
(+) Impairment of long-lived assets	($)	—	—	**32**	578	7	**26**	—	—	**—**
(-) Net gains on disposals of property, plant and equipment	($)	(4)	(4)	**—**	—	—	**—**	(9)	—	**—**
(+) Closure and restructuring costs	($)	—	—	**22**	2	8	**20**	—	—	**—**
(+) Litigation settlement	($)	—	—	**—**	—	—	**—**	—	2	**—**
(-) Reversal of contingent consideration	($)	—	—	**—**	—	—	**—**	(2)	—	**—**
(=) **Operating income (loss) before items**	($)	233	434	**279**	53	10	**31**	(49)	(45)	**(47)**
Reconciliation of "Operating income (loss) before items" to "EBITDA before items"										
Operating income (loss) before items	($)	233	434	**279**	53	10	**31**	(49)	(45)	**(47)**
(+) Pension settlement loss	($)	—	—	**30**	—	—	**—**	—	—	**—**
(+) Non-service components of net periodic benefit cost	($)	13	19	**(20)**	—	—	**—**	(2)	(1)	**(3)**
(+) Depreciation and amortization	($)	254	238	**228**	67	70	**65**	—	—	**—**
(=) **EBITDA before items**	($)	500	691	**517**	120	80	**96**	(51)	(46)	**(50)**
(/) Sales	($)	4,216	4,523	**4,332**	996	1,000	**953**	—	—	**—**
(=) **EBITDA margin before items**	(%)	12%	15%	**12%**	12%	8%	**10%**	—	—	**—**

"Operating income (loss) before items", "EBITDA before items" and "EBITDA margin before items" have no standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation or as a substitute for Operating income (loss) or any other earnings statement, cash flow statement or balance sheet financial information prepared in accordance with GAAP. It is important for readers to understand that certain items may be presented in different lines by different companies on their financial statements, thereby leading to different measures for different companies.



FORWARD-LOOKING STATEMENTS

Statements in this document about our plans, expectations and future performance are "forward-looking statements." Actual results may differ materially from those suggested by these statements for a number of reasons, including changes in customer demand and pricing, changes in manufacturing costs, future acquisitions and divestitures, including facility closings, and the other reasons identified under "Risk Factors" in our Form 10-K for 2019 as filed with the SEC and as updated by subsequently filed Form 10-Qs. Except to the extent required by law, we expressly disclaim any obligation to update or revise these forward-looking statements to reflect new events or circumstances or otherwise.

PRODUCTION NOTES

Paper

Cover printed on 80 lb. Cougar® Cover, Smooth Finish. Insert printed on 70 lb. Cougar® Text, Smooth Finish.

Printing

Cover and insert printed with UV inks on a Heidelberg Speedmaster CD 102 press 6-color units with in-line coater and full inter-deck and end-of-press extended delivery UV drying systems.

WWF

$425,000

Donated to World Wildlife Fund each year from the sale of FSC® Certified products.

Domtar is pleased to make this annual contribution to support the organization's efforts to protect forests and other critical ecosystems.

10%

Cougar® paper contains 10% post-consumer fiber

FSC
www.fsc.org
FSC® C001844

The mark of responsible forestry

RAINFOREST ALLIANCE CERTIFIED

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