Domtar CORP
Form 10-K/A
March 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014

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.)**

395 de Maisonneuve Blvd. West

Montreal, Quebec, H3A 1L6, Canada

(Address of Principal Executive Offices)(Zip Code)

Registrant s telephone number, including area code: (514) 848-5555

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	**New York Stock Exchange**

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 x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2014, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $2,785,297,306.

Number of shares of common stock outstanding as of February 19, 2015: 63,755,722

DOCUMENTS INCORPORATED BY REFERENCE

None.

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Domtar Corporation

Form 10-K/A Amendment No. 1

Explanatory Note

This Amendment No. 1 on Form 10-K/A (this   Form 10-K/A) to the Annual Report on Form 10-K of Domtar Corporation (the   Company) for the fiscal year ended December 31, 2014, initially filed with the U.S. Securities and Exchange Commission on February 27, 2015 (the   Original Filing), is being filed solely to insert the conformed signature of our independent auditors on their Report of Independent Registered Public Accounting Firm with respect to the audited financial statements of the Company included in the Original Filing, as required by Rule 2-02(a)(2) of Regulation S-X, which conformed signature was inadvertently omitted from the Original Filing.

Except for the foregoing amended information, this Form 10-K/A does not amend or update any other information contained in the Original Filing.

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of Domtar Corporation, together with the report of the Company s independent registered public accounting firm, are included as part of this filing.

The following documents are filed as part of this report:

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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. In order to evaluate the effectiveness of internal control over financial reporting, management has conducted an assessment, including testing, 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 system of 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 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.

Based on the assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014, 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, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Domtar Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings and comprehensive income, shareholders equity and cash flows present fairly, in all material respects, the financial position of Domtar Corporation and its subsidiaries (the Company) at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, 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 these financial statements, on the financial statement schedule and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Charlotte, North Carolina

February 27, 2015

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DOMTAR CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Year ended December 31, 2014 $	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Sales	**5,563**	5,391	5,482
Operating expenses			
Cost of sales, excluding depreciation and amortization	**4,396**	4,361	4,321
Depreciation and amortization	**384**	376	385
Selling, general and administrative	**416**	381	358
Impairment and write-down of property, plant and equipment and intangible assets (NOTE 4)	**4**	22	14
Closure and restructuring costs (NOTE 16)	**28**	18	30
Other operating (income) loss, net (NOTE 8)	**(29)**	72	7
	5,199	5,230	5,115
Operating income	**364**	161	367
Interest expense, net (NOTE 9)	**103**	89	131
Earnings before income taxes and equity loss	**261**	72	236
Income tax (benefit) expense (NOTE 10)	**(170)**	(20)	58
Equity loss, net of taxes		1	6
Net earnings	**431**	91	172
Per common share (in dollars) (NOTE 6)			
Net earnings			
Basic	**6.65**	1.37	2.39
Diluted	**6.64**	1.36	2.39
Weighted average number of common and exchangeable shares outstanding (millions)			
Basic	**64.8**	66.6	72.0
Diluted	**64.9**	66.7	72.1
Cash dividends per common share	**1.30**	1.00	0.80
Net earnings	**431**	91	172
Other comprehensive (loss) income:			
Net derivative losses on cash flow hedges:			
Net losses arising during the period, net of tax of $(15) (2013 $(6); 2012 $1)	**(23)**	(10)	
Less: Reclassification adjustment for losses included in net earnings, net of tax of $(4) (2013 $(3); 2012 $(5))	**8**	5	8
Foreign currency translation adjustments	**(200)**	(56)	23
Change in unrecognized gains (losses) and prior service cost related to pension and post-retirement benefit plans, net of tax of $(2) (2013 $(53); 2012 $30)	**12**	124	(85)
Other comprehensive (loss) income	**(203)**	63	(54)

Comprehensive income	**228**	154	118

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

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DOMTAR CORPORATION

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	At	
	December 31, 2014 $	**December 31, 2013 $**
Assets		
Current assets		
Cash and cash equivalents	**174**	655
Receivables, less allowances of $6 and $4	**628**	601
Inventories (NOTE 11)	**714**	685
Prepaid expenses	**25**	23
Income and other taxes receivable	**54**	61
Deferred income taxes (NOTE 10)	**75**	52
Total current assets	**1,670**	2,077
Property, plant and equipment, at cost	**8,909**	8,883
Accumulated depreciation	**(5,778)**	(5,594)
Net property, plant and equipment (NOTE 13)	**3,131**	3,289
Goodwill (NOTE 12)	**567**	369
Intangible assets, net of amortization (NOTE 14)	**661**	407
Other assets (NOTE 15)	**156**	136
Total assets	**6,185**	6,278
Liabilities and shareholders equity		
Current liabilities		
Bank indebtedness	**10**	15
Trade and other payables (NOTE 17)	**721**	673
Income and other taxes payable	**26**	17
Long-term debt due within one year (NOTE 19)	**169**	4
Total current liabilities	**926**	709
Long-term debt (NOTE 19)	**1,181**	1,510
Deferred income taxes and other (NOTE 10)	**810**	923
Other liabilities and deferred credits (NOTE 20)	**378**	354
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 85,148,956 shares	**1**	
Treasury stock $0.01 par value; 991,017 and 21,434,054 shares		
Exchangeable shares No par value; unlimited shares authorized; issued and held by nonaffiliates: nil and 1,123,020 shares		44
Additional paid-in capital	**2,012**	1,999
Retained earnings	**1,145**	804
Accumulated other comprehensive loss	**(268)**	(65)
Total shareholders equity	**2,890**	2,782

Total liabilities and shareholders equity	**6,185**	6,278

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

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DOMTAR CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Issued and outstanding common and exchangeable shares (millions of shares)	Common stock, at par $	Exchangeable shares $	Additional paid-in capital $	Retained earnings $	Accumulated other comprehensive loss $	Total shareholders equity $
Balance at December 31, 2011	36.8		49	2,326	671	(74)	2,972
Conversion of exchangeable shares			(1)	1			
Stock-based compensation, net of tax				5			5
Net earnings					172		172
Net derivative losses on cash flow hedges:							
Net losses arising during the period, net of tax of $1							
Less: Reclassification adjustments for losses included in net earnings, net of tax of $(5)						8	8
Foreign currency translation adjustments						23	23
Change in unrecognized losses and prior service cost related to pension and post-retirement benefit plans, net of tax of $30						(85)	(85)
Stock repurchase	(2.0)			(157)			(157)
Cash dividends declared					(61)		(61)
Balance at December 31, 2012	34.8		48	2,175	782	(128)	2,877
Conversion of exchangeable shares			(4)	4			
Stock-based compensation, net of tax	0.1			3			3
Net earnings					91		91
Net derivative losses on cash flow hedges:							
Net losses arising during the period, net of tax of $(6)						(10)	(10)
Less: Reclassification adjustments for losses included in net earnings, net of tax of $(3)						5	5
Foreign currency translation adjustments						(56)	(56)
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of $(53)						124	124
Stock repurchase	(2.5)			(183)			(183)
Cash dividends declared					(69)		(69)
Balance at December 31, 2013	32.4		44	1,999	804	(65)	2,782
Conversion of exchangeable shares			(12)	12			
Stock split	32.5	1					1
Redemption of exchangeable shares			(32)	32			
Stock-based compensation, net of tax	0.1			7			7
Net earnings					431		431
Net derivative losses on cash flow hedges:							
Net losses arising during the period, net of tax of $(15)						(23)	(23)
Less: Reclassification adjustments for losses included in net earnings, net of tax of $(4)						8	8

Foreign currency translation adjustments					(200)	(200)
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of $(2)					12	12
Stock repurchase	(1.0)		(38)			(38)
Cash dividends declared				(90)		(90)
Balance at December 31, 2014	**64.0**	**1**	**2,012**	**1,145**	**(268)**	**2,890**

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

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DOMTAR CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS OF DOLLARS)

	Year ended December 31, 2014 $	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Operating activities			
Net earnings	**431**	91	172
Adjustments to reconcile net earnings to cash flows from operating activities			
Depreciation and amortization	**384**	376	385
Deferred income taxes and tax uncertainties (NOTE 10)	**(201)**	(8)	(1)
Impairment and write-down of property, plant and equipment and intangible assets (NOTE 4)	**4**	22	14
Net losses on disposals of property, plant and equipment and sale of business		4	2
Stock-based compensation expense	**4**	5	5
Equity loss, net		1	6
Other	**3**	(2)	(13)
Changes in assets and liabilities, excluding the effects of acquisition and sale of businesses			
Receivables	**39**	(70)	99
Inventories	**(29)**	(8)	5
Prepaid expenses	**1**	1	(3)
Trade and other payables	**(33)**	(11)	(118)
Income and other taxes	**12**	(26)	(4)
Difference between employer pension and other post-retirement contributions and pension and other post-retirement expense	**16**	31	(13)
Other assets and other liabilities	**3**	5	15
Cash flows provided from operating activities	**634**	411	551
Investing activities			
Additions to property, plant and equipment	**(236)**	(242)	(236)
Proceeds from disposals of property, plant and equipment and sale of businesses	**1**	61	49
Acquisition of businesses, net of cash acquired (NOTE 3)	**(546)**	(287)	(293)
Other	**(5)**	(1)	(6)
Cash flows used for investing activities	**(786)**	(469)	(486)
Financing activities			
Dividend payments	**(84)**	(67)	(58)
Net change in bank indebtedness	**(6)**	(3)	11
Change of revolving bank credit facility	**(160)**	160	
Proceeds from receivables securitization facilities	**90**		
Payments on receivables securitization facilities	**(129)**		
Issuance of long-term debt		249	548
Repayment of long-term debt	**(4)**	(102)	(192)
Stock repurchase	**(38)**	(183)	(157)
Other	**5**		
Cash flows (used for) provided from financing activities	**(326)**	54	152

Net (decrease) increase in cash and cash equivalents	**(478)**	(4)	217
Impact of foreign exchange on cash	**(3)**	(2)	
Cash and cash equivalents at beginning of year	**655**	661	444
Cash and cash equivalents at end of year	**174**	655	661
Supplemental cash flow information			
Net cash payments for:			
Interest (including $2 million of redemption premiums and $47 million of tender offer premiums in 2013 and 2012, respectively)	**92**	81	116
Income taxes paid, net	**18**	5	76

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

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

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 the efficient operation of pulp mills, converting fiber into paper grade, fluff and specialty pulps. The majority of this pulp production is consumed internally to make communication papers, specialty and packaging papers and personal care products with the balance sold as a market pulp. Domtar is the largest integrated marketer and manufacturer of uncoated freesheet paper in North America, serving a variety of customers, including merchants, retail outlets, stationers, printers, publishers, converters and end-users. In addition, Domtar is also a leading marketer and producer of a broad line of incontinence care products, marketed primarily under the Attends®, IncoPack® and Indasec® brand names, as well as baby diapers. The Company also owns and operates Ariva®, a network of strategically located paper distribution facilities in Canada.

ACCOUNTING PRINCIPLES

The Company s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of Domtar Corporation and its controlled subsidiaries. Intercompany transactions have been eliminated on consolidation. Investment in an affiliated company, where the Company has joint control over their operations, is accounted for by the equity method.

USE OF ESTIMATES

The consolidated financial statements have been prepared in conformity with GAAP, 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 closure and restructuring costs, income taxes, useful lives, asset impairment charges, goodwill and intangible asset impairment assessment, environmental matters and other asset retirement obligations, pension and other post-retirement benefit plans and, commitments and contingencies, based on currently available information. Actual results could differ from those estimates.

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.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

At December 31, 2014, the accumulated translation adjustment accounts amounted to $(48) million (2013 $152 million).

REVENUE RECOGNITION

Domtar Corporation recognizes revenue when pervasive evidence of an arrangement exists, the customer takes title and assumes the risks and rewards of ownership, the sales price charged is fixed or determinable and when collection is reasonably assured. Revenue is recorded at the time of shipment for 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, when the title and risk of loss are transferred.

SHIPPING AND HANDLING COSTS

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

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 write-downs, 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 at December 31, 2014. Closure and restructuring cost estimates are dependent on 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 Corporation 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

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (benefit) expense or in Other comprehensive (loss) income in the Consolidated Statements of Earnings and Comprehensive Income. 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 percent) 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.

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

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

INVENTORIES

Inventories are stated at the lower of cost or market. Cost includes labor, materials and production overhead. The last-in, first-out (LIFO) method is used to cost certain U.S. raw materials, in process and finished goods inventories. LIFO inventories were $229 million and $215 million at December 31, 2014 and 2013, respectively. The balance of U.S. raw material inventories, all materials and supplies inventories and all foreign inventories are costed 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 $66 million and $72 million greater at December 31, 2014 and 2013, respectively.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation including asset impairment write-downs. Interest costs are capitalized for significant capital projects. For timberlands, the amortization is calculated using the unit of production method. For all other assets, amortization is calculated using the straight-line method over the estimated useful lives of the assets. Buildings and improvements are amortized 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.

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets 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, as measured by comparing the net book value of the asset group to their estimated undiscounted future cash flows. Impaired assets are recorded at estimated fair value, determined principally by using discounted future cash flows expected from their use and eventual disposition (refer to Note 4 Impairment and write-down of property, plant and equipment and intangible assets).

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is not amortized and is evaluated at the beginning of the fourth quarter of every year, or more frequently, whenever indicators of potential impairment exist. The Company performs the impairment test of goodwill at its reporting unit s level.

The Company has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount including goodwill. In performing the qualitative assessment, the Company identifies the relevant drivers of fair value of a reporting unit and the relevant events and circumstances that may have an impact on those drivers of fair value. This process involves significant judgement and assumptions including the assessment of the results of the most recent fair value calculations, the identification of macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, specific events affecting the Company and the business, and making the assessment on whether each relevant factor will impact the impairment test positively or negatively and the magnitude of any such impact. If, after assessing the totality of events or circumstances, the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill, then it performs Step I of the two-step impairment test. The Company can also elect to bypass the qualitative assessment and proceed directly to the Step I of the impairment test.

The first step is to compare the fair value of a reporting unit to its carrying amount, including goodwill. Significant judgement is required to estimate the fair value of a reporting unit.

The Company typically uses an income method to determine the fair value of a reporting unit. Under the income approach, the Company estimates the fair value of a reporting unit based on the present value of estimated future cash flows. The assumptions used in the model requires estimating future sales volumes, selling prices and costs, changes in working capital, investments in property, plant and equipment and the selection of the appropriate discount rate. Sensitivities of these fair value estimates to change in assumptions are also performed. Assumptions used in our impairment evaluations are consistent with internal projections and operating plans. Unanticipated market and macroeconomic events and circumstances may occur and could affect the exactitude and validity of management assumptions and estimates.

In the event that the net carrying amount exceeds the fair value of the business, the second step of the impairment test must be performed in order to determine the amount of the impairment charge. Fair value of goodwill in Step II of the impairment test is estimated in the same way as goodwill was determined at the date of the acquisition in a business combination, that is, the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the business.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All goodwill as of December 31, 2014 resides in the Personal Care reporting segment, and originates from the acquisitions of Attends Healthcare Inc. on September 1, 2011, Attends Healthcare Limited on March 1, 2012, EAM Corporation on May 10, 2012, AHP on July 1, 2013 and Laboratorios Indas on January 2, 2014. Please refer to Note 3 Acquisition of businesses for additional information regarding the most recent acquisition.

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. 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. The qualitative assessment follows the same process as the one performed for goodwill, as described above. If, after assessing the qualitative factors, the Company determines that it is more likely than not that 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®, catalog rights related to Laboratorios Indas S.A.U., and license rights related to Xerox. The Company reviews its indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support indefinite useful lives.

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 licensing 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 that disclosed under impairment of long-lived assets.

Amortization is based mainly 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

OTHER ASSETS

Other assets are recorded at cost. Direct financing costs related to the issuance of long-term debt are deferred and amortized using the effective interest rate method.

ENVIRONMENTAL COSTS AND ASSET RETIREMENT OBLIGATIONS

Environmental expenditures for effluent treatment, air emission, landfill operation and closure, asbestos containment and removal, bark pile management, silvicultural activities and site remediation (together referred to

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

as environmental matters) are expensed or capitalized depending on their future economic benefit. In the normal course of business, Domtar Corporation 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 not discounted, due to uncertainty with respect to timing of expenditures, and are recorded when remediation efforts are probable and can be reasonably estimated.

Asset retirement obligations are recognized, at fair value, in the period in which Domtar Corporation 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 or 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 Corporation recognizes the cost 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 accounted for as equity and based on the quoted market value of each reporting period for awards accounted for as liability. The Company awards are accounted for as compensation expense 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 on the Consolidated Balance Sheets. The par value included in the Additional paid-in-capital component of stock-based compensation is transferred to Common shares upon the issuance of shares of common stock.

Unless otherwise determined at the time of the grant, awards subject to service conditions vest in approximately equal installments over three years beginning on the first anniversary of the grant date and performance-based awards vest based on achievement of pre-determined performance goals over performance periods of three years. The majority of non-qualified stock options and performance share units expire at various dates no later than seven years from the date of grant. Deferred Share Units vest immediately at the grant date and are remeasured at each reporting period, until settlement, using the quoted market value.

Under the 2007 Omnibus Incentive Plan (Omnibus Plan), a maximum of 2,394,415 shares are reserved for issuance in connection with awards granted or to be granted.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE INSTRUMENTS

Derivative instruments are utilized by Domtar Corporation 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 and Comprehensive Income. The change in fair value of the hedged item attributable to the hedged risk is also recorded in the Consolidated Statements of Earnings and Comprehensive Income 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 (loss) income. These amounts are reclassified in the Consolidated Statements of Earnings and Comprehensive Income in the periods in which results are affected by the cash flows of the hedged item within the same line item. Any hedge ineffectiveness is recorded in the Consolidated Statements of Earnings and Comprehensive Income when incurred.

PENSION PLANS

Domtar Corporation s plans include funded and unfunded defined benefit and defined contribution pension plans. Domtar Corporation 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,
- 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 8 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 accrued benefit obligation or market value of plan assets at the beginning of the year over the average remaining service period of approximately 8 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

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Domtar Corporation 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 accrued benefit obligation at the beginning of the year over the average remaining service period of approximately 10 years of the active employee group covered by the plans.

BUSINESS COMBINATION

The Company applies the acquisition method of accounting in a business combination. In general, this methodology requires companies to record assets acquired and liabilities assumed at their respective fair market values at the date of acquisition. The value is determined from the viewpoint of market participants. Any amount of the purchase price paid that is in excess of the estimated fair values of net assets acquired is recorded in the line item goodwill in the consolidated balance sheets. Management s judgment is used to determine the estimated fair values assigned to assets acquired and liabilities assumed, as well as asset useful lives for property, plant and equipment and amortization periods for intangible assets, and can materially affect the Company s results of operations. Transaction costs, as well as costs to reorganize acquired companies, are expensed as incurred in the Company s consolidated statement of income.

GUARANTEES

A guarantee is a contract or an indemnification agreement that contingently requires Domtar Corporation 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

FOREIGN CURRENCY MATTERS

In March 2013, the FASB issued ASU 2013-05, an update to Foreign Currency Matters, which indicates that a cumulative translation adjustment is attached to the parent s investment in a foreign entity and should be released in a manner consistent with the derecognition guidance on investments in entities. Thus, the entire amount of the cumulative translation adjustment associated with the foreign entity would be released when there has been (1) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity; (2) a loss of a controlling financial interest in an investment in a foreign entity; or (3) a step acquisition for a foreign entity. The update does not change the requirement to release a pro rata portion of the cumulative translation adjustment of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity.

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NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The Company adopted the new requirement on January 1, 2014 with no impact on the Company s consolidated financial statements, as no triggering event occurred throughout the period.

INCOME TAXES

In July 2013, the FASB issued ASU 2013-11, which provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 requires entities to present an unrecognized tax benefit as a reduction of a deferred tax asset for a NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This accounting standard update requires entities to assess whether or not to net the unrecognized tax benefit with a deferred tax asset as of the reporting date.

The Company adopted the new requirement on January 1, 2014 with no material impact on the Company s consolidated financial statements except for the change in presentation.

PUSH DOWN ACCOUNTING

In November 2014, the FASB issued ASU 2014-17, an update to business combinations and push down accounting. The amendments in this update provide an acquired entity with an option to apply pushdown in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply push down accounting in the reporting period in which the change in control event occurs.

The Company adopted the new requirement on the effective date with no impact on the Company s consolidated financial statements.

FUTURE ACCOUNTING CHANGES

DISCONTINUED OPERATIONS

In April 2014, the FASB issued ASU 2014-08, an update on Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this update change the requirements for reporting discontinued operations and require additional disclosures for both disposal transactions that meet the criteria for a discontinued operation and disposals that do not meet these criteria. The objective of this update is to reach a greater convergence between the FASB s and IASB s reporting requirements for discontinued operations.

The amendments are effective for interim and annual periods beginning after December 15, 2014 and will not have an impact on the Company s consolidated financial statements unless a disposal transaction occurs after the effective date. Early adoption is permitted.

REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the FASB issued ASU 2014-09, an update on revenue from contracts with customers. The core principal of this guideline is that an entity should recognize revenue, to depict the transfer of promised

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NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

goods or services to customers, in an amount that reflects the consideration for which the entity is entitled to, in exchange for those goods and services. Guidance in this section supersedes the revenue recognition requirements found in topic 605.

The amendment will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating these changes to determine whether they have an impact on the presentation of the consolidated financial statements.

STOCK COMPENSATION

In June 2014, the FASB issued ASU 2014-12, an update on stock compensation. The guideline requires performance targets, which affect vesting and can be achieved after the requisite service period, to be treated as a performance condition. Accordingly, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If achievement of the performance target becomes probable before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period.

The amendments are effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The Company does not expect these changes to have a material impact on the consolidated financial statements.

GOING CONCERN

In August 2014, the FASB issued ASU 2014-15, an update on going concern financial statements disclosure. The amendment requires the entity s management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. Management s evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued.

The amendments in this update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. This amendment is not expected to have an impact on the Company s consolidated financial statements.

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NOTE 3.

ACQUISITION OF BUSINESSES

Acquisition of Laboratorios Indas

On January 2, 2014, Domtar Corporation completed the acquisition of 100% of the outstanding shares of Laboratorios Indas, S.A.U. (Indas), primarily a branded incontinence products manufacturer and marketer in Spain. Indas has approximately 570 employees and operates two manufacturing facilities in Spain. The results of Indas operations have been included in the Personal Care reportable segment as of January 2, 2014. The purchase price was $546 million (399 million) in cash, net of cash acquired of $46 million (34 million). The acquisition was accounted for as a business combination under the acquisition method of accounting, in accordance with the Business Combinations Topic of FASB Accounting Standards Codification (ASC).

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

The table below illustrates the purchase price allocation:

Fair value of net assets acquired at the date of acquisition		
Receivables		$ 101
Inventory		28
Income and other taxes receivable		3
Property, plant and equipment		72
Intangible assets		
Customer relationships [(1)]	*142*	
Trade names [(2)]	*140*	
Catalog rights [(2)]	*46*	
		328
Goodwill		234
Deferred income tax assets		16
Total assets		782
Less: Liabilities		
Trade and other payables		71
Income and other taxes payable		3
Long-term debt (including short-term portion)		42
Deferred income tax liabilities		119

Other liabilities and deferred credits	1
Total liabilities	236
Fair value of net assets acquired at the date of acquisition	546

(1) The useful life of Customer relationships acquired is between 10-20 years.

(2) Indefinite useful life.

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NOTE 3. ACQUISITION OF BUSINESSES (CONTINUED)

Finalization of purchase price allocation

During the quarter ended December 31, 2014, the Company finalized the purchase price allocation of Indas, acquired on January 2, 2014. In the fourth quarter of 2014, management identified an adjustment to its previously reported fair value allocation of the original purchase price between indefinite-lived intangible assets and goodwill. As a result, the Company recorded an increase in intangible assets and deferred tax liabilities and a decrease of goodwill of $76 million, $23 million and $53 million, respectively.

Acquisition of Associated Hygienic Products LLC

On July 1, 2013, Domtar Corporation completed the acquisition of 100% of the outstanding shares of Associated Hygienic Products LLC (AHP). AHP manufactures and markets infant diapers in the United States. AHP has approximately 410 employees and operates two manufacturing facilities, a 376,500 square foot manufacturing facility in Delaware, Ohio and a 312,500 square foot manufacturing facility in Waco, Texas. AHP also operates a distribution center in Duluth, Georgia. The results of AHP s operations are included in the Personal Care reportable segment as of July 1, 2013. The purchase price was $276 million in cash, including working capital, net of cash acquired of $2 million. The acquisition was accounted for as a business combination under the acquisition method of accounting, in accordance with the Business Combinations Topic of FASB ASC.

The total purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on the Company s estimates of their fair value, which are based on information currently available. During the fourth quarter of 2013, the Company completed the evaluation of all assets and liabilities.

The table below illustrates the purchase price allocation:

Fair value of net assets acquired at the date of acquisition		
Receivables		$ 26
Inventory		29
Property, plant and equipment		99
Intangible assets		
Customer relationships [(1)]	*67*	
Licence rights [(2)]	*29*	
		96
Goodwill		103
Total assets		353
Less: Liabilities		
Trade and other payables		37
Intangible lease liability		13
Deferred income tax liabilities		27

Total liabilities	77
Fair value of net assets acquired at the date of acquisition	276

(1) The useful life of the Customer relationships acquired is 20 years.

(2) The useful life of the License rights acquired is 12 years.

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NOTE 3. ACQUISITION OF BUSINESSES (CONTINUED)

Xerox

On June 1, 2013, Domtar Corporation completed the acquisition of Xerox s paper and print media product s assets in the United States and Canada. The transaction includes a broad range of coated and uncoated papers and specialty print media including business forms, carbonless as well as wide-format paper formerly distributed by Xerox. The results of this business are presented in the Pulp and Paper reportable segment. The purchase price was $7 million in cash plus inventory on a dollar for dollar basis. The acquisition was accounted for as a business combination under the acquisition method of accounting, in accordance with the Business Combinations Topic of FASB ASC.

The total purchase price was allocated to tangible and intangible assets acquired based on the Company s estimates of their fair value, which was based on information currently available. During the third quarter of 2013, the Company completed the evaluation of all assets and liabilities.

The table below illustrates the purchase price allocation:

Inventory		$ 4
Intangible assets		
Customer relationships [(1)]	*1*	
License rights [(2)]	*6*	
		7
Total assets		11
Fair value of assets acquired at the date of acquisition		11

(1) The useful life of the Customer relationships acquired is 20 years.

(2) Indefinite useful life.

EAM Corporation

On May 10, 2012, the Company completed the acquisition of 100% of the outstanding shares of EAM Corporation (EAM). EAM manufactures high quality airlaid and ultrathin laminated absorbent cores used in feminine hygiene, adult incontinence, baby diapers, and other medical healthcare and performance packaging solutions. EAM operates a manufacturing, research and development and distribution facility in Jesup, Georgia. EAM has approximately 54 employees. The results of EAM s operations have been included in the consolidated financial statements since May 1, 2012, the effective time of the transaction, and are presented in the Personal Care reportable segment. The purchase price was $61 million in cash, including working capital, net of cash acquired of $1 million. The acquisition was accounted for as a business combination under the acquisition method of accounting, in accordance with the Business Combinations Topic of FASB ASC.

The total purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on the Company s estimates of their fair value, which are based on information currently available. During the fourth quarter of 2012, the Company completed the evaluation of all assets and liabilities.

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NOTE 3. ACQUISITION OF BUSINESSES (CONTINUED)

The table below illustrates the purchase price allocation:

Fair value of net assets acquired at the date of acquisition		
Receivables		$ 6
Inventory		2
Property, plant and equipment		13
Intangible assets		
Customer relationships [(1)]	*19*	
Technology [(2)]	*8*	
Non-compete [(3)]	*1*	
		28
Goodwill		31
Total assets		80
Less: Liabilities		
Trade and other payables		4
Deferred income tax liabilities and unrecognized tax benefits		15
Total liabilities		19
Fair value of net assets acquired at the date of acquisition		61

(1) The useful life of the Customer relationships acquired is 30 years.

(2) The useful lives of the Technology acquired are between 7 and 20 years.

(3) The useful life of the Non-compete acquired is 9 years.

Attends Healthcare Limited

On March 1, 2012, the Company completed the acquisition of 100% of the outstanding shares of Attends Healthcare Limited (Attends Europe). Attends Europe manufactures and supplies adult incontinence care products in Northern Europe. Attends Europe operates a manufacturing, research and development and distribution facility in Aneby, Sweden and also operates a distribution center in Germany. Attends Europe has approximately 458 employees. The results of Attends Europe s operations have been included in the consolidated financial statements since March 1, 2012, and are presented in the Personal Care reportable segment. The purchase price was $232 million (173 million) in cash, including working capital, net of acquired cash of $4 million (3 million). The acquisition was accounted for as a business combination under the acquisition method of accounting, in accordance with the Business Combinations Topic of FASB ASC.

The total purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on the Company s estimates of their fair value, which are based on information currently available. During the fourth quarter of 2012, the Company completed the evaluation of all assets and liabilities.

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NOTE 3. ACQUISITION OF BUSINESSES (CONTINUED)

The table below illustrates the purchase price allocation:

Fair value of net assets acquired at the date of acquisition		
Receivables		$ 21
Inventory		22
Property, plant and equipment		67
Intangible assets		
Trade names [1]	*54*	
Customer relationships [2]	*71*	
		125
Goodwill		71
Total assets		306
Less: Liabilities		
Trade and other payables		27
Capital lease obligation		6
Deferred income tax liabilities and unrecognized tax benefits		38
Pension		3
Total liabilities		74
Fair value of net assets acquired at the date of acquisition		232

(1) Indefinite useful life.

(2) The useful life of the Customer relationships acquired is 30 years.

Goodwill represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. The goodwill is attributable to the general reputation of the business, the assembled workforce, the expected synergies and the expected future cash flows of the business. Disclosed goodwill is not deductible for tax purposes.

NOTE 4.

IMPAIRMENT AND WRITE-DOWN OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Company reviews intangible assets and 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 intangible and long-lived assets may not be recoverable.

Estimates of undiscounted future cash flows used to test the recoverability of the fixed assets included key assumptions related to selling prices, inflation-adjusted cost projections, forecasted exchange rate for the U.S. dollar when applicable and the estimated useful life of the fixed assets.

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NOTE 4. IMPAIRMENT AND WRITE-DOWN OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Ashdown, Arkansas pulp and paper mill Conversion of a paper machine

In the fourth quarter of 2014, the Company announced the conversion of a paper machine at Ashdown, Arkansas Pulp and Paper mill to a high quality fluff pulp line. As a result, the Company recognized $4 million of accelerated depreciation in the fourth quarter of 2014. An additional $108 million of accelerated depreciation is expected to be incurred during 2015 and 2016.

Given the closure of the paper machine, the Company conducted a Step I impairment test on the Ashdown mill s fixed assets and concluded that the undiscounted estimated future cash flows associated with the remaining long-lived assets exceeded their carrying amount.

Changes in the assumptions and estimates may affect the Company s forecasts and may lead to an outcome where impairment charges would be required. In addition, actual results may vary from the Company s forecasts, and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where the Company s conclusions may differ in reflection of prevailing market conditions.

Attends Europe

During the fourth quarter of 2013, the Company recorded a $2 million write-down of property, plant and equipment, due to the replacement of certain equipment at its Attends Europe location, in Impairment and write-down of property, plant and equipment and intangible assets on the Consolidated Statement of Earnings and Comprehensive Income.

Pulp and paper converting site

During the fourth quarter of 2013, the Company recorded a $5 million write-down of property, plant and equipment in one of its converting sites in the pulp and paper segment, in Impairment and write-down of property, plant and equipment and intangible assets on the Consolidated Statement of Earnings and Comprehensive Income.

Ariva U.S.

On July 31, 2013, the Company completed the sale of its Ariva business in the United States (Ariva U.S.). Ariva U.S. had approximately 400 employees in the United States. As a result of this agreement, during the second quarter of 2013, the Company recorded a $5 million impairment of property, plant and equipment at its Ariva U.S. location, in Impairment and write-down of property, plant and equipment and intangible assets on the Consolidated Statement of Earnings and Comprehensive Income.

Kamloops, British Columbia Closure of a pulp machine

On December 13, 2012, the Company announced the permanent shut down of one pulp machine at its Kamloops, British Columbia mill. This decision resulted in a permanent curtailment of Domtar s annual pulp

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NOTE 4. IMPAIRMENT AND WRITE-DOWN OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

production by approximately 120,000 air dried metric tons of sawdust softwood pulp and affected approximately 125 employees. As a result, the Company recognized in 2012, $7 million of accelerated depreciation under Impairment and write-down of property, plant and equipment and intangible assets. The pulp machine ceased production in March 2013. Furthermore, during the first quarter of 2013, the Company recognized $10 million of accelerated depreciation under Impairment and write-down of property, plant and equipment and intangible assets. Given the decision to close the pulp machine, the Company assessed in the fourth quarter of 2012 its ability to recover the carrying value of the Kamloops mill from the undiscounted estimated future cash flows. The Company concluded that the undiscounted estimated future cash flows associated with the long-lived assets exceeded their carrying amount and, as such, no additional impairment charge was required.

Mira Loma, California converting plant

During the first quarter of 2012, the Company recorded a $2 million write-down of property, plant and equipment at its Mira Loma location, in Impairment and write-down of property, plant and equipment and intangible assets.

IMPAIRMENT OF INTANGIBLE ASSETS

Deterioration in sales and operating results of Ariva U.S., a subsidiary included in the Pulp and Paper segment, has led the Company to test the customer relationships of this asset group for recoverability. As of December 31, 2012, the Company recognized an impairment charge of $5 million included in Impairment and write-down of property, plant and equipment and intangible assets related to customer relationships based on the revised long-term forecast. The Company concluded that no further impairment or impairment indicators exist as of December 31, 2012.

Changes in the assumptions and estimates may affect the Company s forecasts and may lead to an outcome where impairment charges would be required. In addition, actual results may vary from the Company s forecasts, and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where the Company s conclusions may differ in reflection of prevailing market conditions.

NOTE 5.

STOCK-BASED COMPENSATION

2007 OMNIBUS INCENTIVE 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 and other stock-based awards. The Company generally grants awards annually and uses, when available, treasury stock to fulfill awards settled in common stock and option exercises.

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NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

PERFORMANCE SHARE UNITS (PSU s)

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 equivalent to the share price 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 December 31, 2016.

PSU	Number of units	Weighted average grant date fair value $
Vested and non-vested at December 31, 2013[1]	350,076	42.60
Granted/issued	175,815	53.97
Forfeited	(33,076)	45.29
Cancelled	(89,622)	49.79
Vested and settled	(92,890)	46.49
Vested and non-vested at December 31, 2014	**310,303**	**45.52**

1 Amounts have been adjusted on a post-split basis (see Note 6 Earnings per common share for further information).

As a result of PSUs granted in 2014, 2013 and 2012 that have performed under their target, the Company cancelled 89,622 units in 2014 with a weighted average grant date fair value of $49.79 (2013 $45.85; 2012 $49.34).

The fair value of PSUs granted in 2014, 2013 and 2012 was estimated at the grant date using a 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:

	2014	2013	2012
Dividend yield	**1.980%**	2.230%	1.383%
Expected volatility 1 year	**31%**	23%	38%
Expected volatility 3 years	**31%**	35%	66%
Risk-free interest rate December 31, 2012			0.993%
Risk-free interest rate December 31, 2013		0.679%	0.662%
Risk-free interest rate December 31, 2014	**0.499%**	0.469%	0.711%

Risk-free interest rate December 31, 2015	**0.447%**	0.549%
Risk-free interest rate December 31, 2016	**0.755%**	

At December 31, 2014, of the total vested and non-vested PSUs, 129,805 are expected to be settled in shares and 180,498 will be settled in cash.

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NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

RESTRICTED STOCK UNITS (RSU s)

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 equivalent to the share price for non-Management Committee members, upon completing service conditions. The awards cliff vest after approximately a three year service period. 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.

RSU	Number of units	Weighted average grant date fair value
		$
Non-vested at December 31, 2013[1]	374,414	41.46
Granted/issued	130,045	49.95
Forfeited	(29,230)	44.37
Vested and settled	(161,009)	41.27
Non-vested at December 31, 2014	**314,220**	**44.80**

[1] Amounts have been adjusted on a post-split basis (see Note 6 Earnings per common share for further information).

At December 31, 2014, of the total non-vested RSUs, 143,941 are expected to be settled in shares and 170,279 will be settled in cash.

DEFERRED SHARE UNITS (DSU s)

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. The grant date fair value of DSUs awards is equal to the market value of the Company s stock on the date the awards are granted.

Management committee members may elect to defer awards earned under another program into DSUs. In 2014, 6,799 vested awards were deferred to DSUs (2013 7,680), and those DSUs can be settled in shares of common stock beginning February 2017.

DSU	Number of units	Weighted average grant date fair value

		$
Vested at December 31, 2013[1]	271,742	25.54
Granted/issued	39,165	44.25
Settled	(48,186)	32.17
Vested at December 31, 2014	**262,721**	**27.11**

1 Amounts have been adjusted on a post-split basis (see Note 6 Earnings per common share for further information).

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NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

NON-QUALIFIED & PERFORMANCE STOCK OPTIONS

Stock options are granted to Management Committee and non-Management Committee members. The stock options vest at various dates up to May 1, 2017 subject to service conditions for non-qualified stock options and, for performance stock options, if certain market conditions are met in addition to the service period. The options expire at various dates no later than seven years from the date of grant.

The fair value of the stock options granted in 2014 (except for the stock options granted on May 1, 2014) and 2013 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:

	2014	2013
Dividend yield	**2.62%**	2.67%
Expected volatility	**32%**	35%
Risk-free interest rate	**1.34%**	0.76%
Expected life	**4.5 years**	4.5 years
Strike price	**$ 53.12**	$ 38.35

The grant date fair value of the non-qualified options granted in 2014, was $11.60 (2013 $8.86).

On May 1, 2014, the Company granted 29,002 options to Michael Garcia, President Pulp and Paper, as part of his employment conditions, and the following assumptions were used in calculating the fair value of the options granted:

	2014
Dividend yield	**2.80%**
Expected volatility	**33%**
Risk-free interest rate	**1.485%**
Expected life	**4.5 years**
Strike price	**$ 47.08**

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NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

The grant date fair value of the non-qualified options granted on May 1, 2014 was $10.52.

OPTIONS (including Performance options) [1]	Number of options	Weighted average exercise price $	Weighted average remaining life (in years)	Aggregate intrinsic value (in millions) $
Outstanding at December 31, 2011	707,322	34.45	3.1	7.0
Exercised	(132,832)	15.30		
Forfeited/expired	(103,308)	30.15		
Outstanding at December 31, 2012	471,182	40.78	2.2	4.2
Options exercisable at December 31, 2012	272,056	30.68	2.4	2.8
Outstanding at December 31, 2012	471,182	40.78	2.2	4.2
Granted	135,174	38.35	6.1	1.2
Exercised	(101,852)	19.40		
Forfeited/expired	(38,830)	50.62		
Outstanding at December 31, 2013	465,674	43.93	2.6	3.3
Options exercisable at December 31, 2013	200,274	36.83	1.7	2.1
Outstanding at December 31, 2013	465,674	43.93	2.6	3.3
Granted	270,028	52.48	6.2	
Exercised	(131,312)	37.02		
Forfeited/expired	(186,267)	55.67		
Outstanding at December 31, 2014	418,123	46.39	4.6	
Options exercisable at December 31, 2014	**93,027**	**37.40**	**2.0**	

[1] Amounts have been adjusted on a post-split basis (see Note 6 Earnings per common share for further information).

In addition to the above noted outstanding options, the Company has 2,352 (2013 5,922) outstanding and exercisable stock appreciation rights at December 31, 2014 with a weighted average exercise price of $38.80 (2013 $39.96).

The total intrinsic value of options exercised in 2014 was $2 million (2013 $2 million). Based on the Company s closing year-end stock price of $40.22, the aggregate intrinsic value of options outstanding and options exercisable is nil.

For the year ended December 31, 2014, stock-based compensation expense recognized in the Company s results of operations was $9 million (2013 $13 million; 2012 $20 million) for all of the outstanding awards. Compensation costs not yet recognized amounted to $14 million (2013 $11 million; 2012 $12 million) and will be recognized over the remaining service period of approximately 28 months. The aggregate value of

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NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

liability awards settled in 2014 was $12 million. The total fair value of equity awards settled in 2014 was $10 million, representing the fair value at the time of settlement. 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 or stock appreciation rights in the 12 months prior to the date the 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 Corporation policy implemented as required by applicable law, regulation or stock exchange rule as may from time to time be in effect.

NOTE 6.

EARNINGS PER COMMON SHARE

On April 30, 2014, the Company s Board of Directors approved a 2-for-1 split of its common stock to be effected through a stock dividend. Shareholders of record on June 10, 2014 were entitled to receive one additional share for every share they owned on that date.

The calculation of basic earnings per common share for the year ended December 31, 2014 is based on the weighted average number of Domtar common shares outstanding during the year. The calculation for diluted earnings per common share recognizes the effect of all potential dilutive common securities.

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

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Net earnings	**$ 431**	$ 91	$ 172
Weighted average number of common and exchangeable shares outstanding (millions)	**64.8**	66.6	72.0
Effect of dilutive securities (millions)	**0.1**	0.1	0.1

Weighted average number of diluted common and exchangeable shares outstanding (millions)		**64.9**		66.7		72.1
Basic net earnings per common share (in dollars)	**$**	**6.65**	$	1.37	$	2.39
Diluted net earnings per common share (in dollars)	**$**	**6.64**	$	1.36	$	2.39

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NOTE 6. EARNINGS PER COMMON SHARE (CONTINUED)

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

	December 31, 2014	December 31, 2013	December 31, 2012
Options	**247,152**	194,836	210,410

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, 2014, the related pension expense was $28 million (2013 $29 million; 2012 $24 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 June 1, 2000 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. Most unionized employees in the U.S. and all U.S. non-hourly employees 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 benefits payments.

The Company expects to contribute a minimum total amount of $14 million in 2015 compared to $29 million in 2014 (2013 $35 million; 2012 $86 million) to the pension plans. The Company expects to contribute a minimum total amount of $5 million in 2015 compared to $5 million in 2014 to the other post-retirement benefit plans (2013 $10 million; 2012 $7 million).

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

CHANGE IN ACCRUED BENEFIT OBLIGATION

The following table represents the change in the accrued benefit obligation as of December 31, 2014 and December 31, 2013, the measurement date for each year:

	December 31, 2014		December 31, 2013	
	Pension plans $	**Other post-retirement benefit plans $**	Pension plans $	Other post-retirement benefit plans $
Accrued benefit obligation at beginning of year	**1,715**	**103**	1,914	124
Service cost for the year	**35**	**2**	42	3
Interest expense	**77**	**5**	75	4
Plan participants contributions	**6**		7	
Actuarial loss (gain)	**158**	**9**	(78)	(11)
Plan amendments	**1**			
Benefits paid	**(87)**		(91)	(1)
Direct benefit payments	**(5)**	**(5)**	(4)	(5)
Settlement	**(60)**		(52)	(4)
Effect of foreign currency exchange rate change	**(117)**	**(9)**	(98)	(7)
Accrued benefit obligation at end of year	**1,723**	**105**	1,715	103

CHANGE IN FAIR VALUE OF ASSETS

The following table represents the change in the fair value of assets reflecting the actual return on plan assets, the contributions and the benefits paid during the year:

	December 31, 2014 Pension plans $	December 31, 2013 Pension plans $
Fair value of assets at beginning of year	**1,709**	1,767
Actual return on plan assets	**253**	144
Employer contributions	**29**	35
Plan participants contributions	**6**	7
Benefits paid	**(92)**	(95)
Settlement	**(60)**	(52)

Effect of foreign currency exchange rate change	**(124)**	(97)
Fair value of assets at end of year	**1,721**	1,709

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

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

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 issuer 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.

The following table shows the allocation of the plan assets, based on the fair value of the assets held and the target allocation for 2014:

	Target allocation	**Percentage of plan assets at December 31, 2014**	Percentage of plan assets at December 31, 2013
Fixed income			
Cash and cash equivalents	0% - 9%	**3%**	3%
Bonds	52% - 62%	**57%**	55%
Equity			
Canadian Equity	3% - 11%	**6%**	7%
US Equity	9% - 19%	**15%**	14%
International Equity	16% - 26%	**19%**	21%
Total (1)		**100%**	100%

(1) Approximately 82% of the pension plans assets relate to Canadian plans and 18% relate to U.S. plans.

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

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 accrued 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, 2014		December 31, 2013	
	Pension plans $	**Other post-retirement benefit plans $**	Pension plans $	Other post-retirement benefit plans $
Accrued benefit obligation at end of year	**(1,723)**	**(105)**	(1,715)	(103)
Fair value of assets at end of year	**1,721**		1,709	
Funded status	**(2)**	**(105)**	(6)	(103)

The funded status includes $53 million of accrued benefit obligation ($53 million at December 31, 2013) related to supplemental unfunded defined benefit and defined contribution plans.

	December 31, 2014		December 31, 2013	
	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)	**(123)**	**(100)**	(102)	(98)
Other assets (Note 15)	**121**		96	
Net amount recognized in the Consolidated Balance Sheets	**(2)**	**(105)**	(6)	(103)

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

	Year ended December 31, 2014		Year ended December 31, 2013		Year ended December 31, 2012	
	Pension plans $	**Other post-retirement benefit plans $**	Pension plans $	Other post-retirement benefit plans $	Pension plans $	Other post-retirement benefit plans $
Prior service credit	**(1)**				3	
Amortization of prior year service cost (credit)	**3**		3	(1)	4	(9)
Net (loss) gain	**(8)**	**(8)**	126	10	(122)	(11)
Amortization of net actuarial loss	**28**		38	1	19	1
Net amount recognized in other comprehensive income (loss) (pre-tax)	**22**	**(8)**	167	10	(96)	(19)

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

An estimated amount of $10 million for pension plans and nil for other post-retirement benefit plans will be amortized from Accumulated other comprehensive loss into net periodic benefit cost in 2015.

At December 31, 2014, the accrued benefit obligation and the fair value of defined benefit plan assets with an accrued benefit obligation in excess of fair value of plan assets were $412 million and $290 million, respectively (2013 $1,075 million and $973 million, respectively).

Components of net periodic benefit cost for pension plans	Year ended December 31, 2014 $	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Service cost for the year	**35**	42	40
Interest expense	**77**	75	85
Expected return on plan assets	**(101)**	(96)	(97)
Amortization of net actuarial loss	**9**	25	18
Curtailment loss [(a)]		1	1
Settlement loss [(b)]	**19**	13	1
Amortization of prior year service costs	**3**	3	3
Net periodic benefit cost	**42**	63	51

Components of net periodic benefit cost for other post-retirement benefit plans	Year ended December 31, 2014 $	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Service cost for the year	**3**	3	3
Interest expense	**5**	5	6
Amortization of net actuarial loss			1
Curtailment gain [(c)]			(12)
Amortization of prior year service costs			(1)
Net periodic benefit cost	**8**	8	(3)

(a) The curtailment loss for the year ended December 31, 2013 of $1 million is related to a U.S. hourly plan. The curtailment loss for the year ended December 31, 2012 of $1 million is related to certain U.S. employees who elected to convert from defined benefit to defined contribution plans.

(b) The settlement loss of $19 million in the pension plans for the year ended December 31, 2014 is related to the previously closed Ottawa, Ontario paper mill. The settlement loss of $13 million in the pension plans for the year ended December 31, 2013 is related to the previously closed Big River and Dryden mills for $6 million and $7 million, respectively (see Note 16 Closure and restructuring costs and liability). The settlement loss for the year ended December 31, 2012 of $1 million is related to the sale of hydro assets in Ottawa, Ontario and Gatineau, Quebec.

(c) The curtailment gain of $12 million for the year ended December 31, 2012 is a result of the curtailment of benefits related to the majority of employees covered by the plan.

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

WEIGHTED-AVERAGE ASSUMPTIONS

The Company used the following key assumptions to measure the accrued 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, 2014**	December 31, 2013	December 31, 2012
Accrued benefit obligation			
Discount rate	**3.9%**	4.1%	4.1%
Rate of compensation increase	**2.7%**	2.7%	2.7%
Net periodic benefit cost			
Discount rate	**4.7%**	4.2%	4.8%
Rate of compensation increase	**2.7%**	2.8%	2.8%
Expected long-term rate of return on plan assets	**6.4%**	5.8%	6.0%

Discount rate for Canadian plans: 3.9% based on a model whereby cash flows are projected for hypothetical plans and are discounted using a spot rate yield curve developed from bond yield data for AA corporate bonds. Specifically, 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. The spread is based on the observed spreads between AA rated corporate bonds and AA rated provincial bonds in three sections of the yield curve.

Discount rate for U.S. plans: 3.85% obtained by incorporating the Company s qualified plans expected cash flows in the Mercer Yield Curve which is based on bonds rated AA or better by Moody s or Standard & Poor s, excluding callable bonds, bonds of less than a minimum issue size, and certain other bonds. Effective December 2012, the universe of bonds also includes private placement (traded in reliance on Rule 144A and with at least two years to maturity), make whole, and foreign corporation (denominated in US dollars) bonds.

Effective January 1, 2015, the Company will use 5.6% (2014 6.4%; 2013 5.8%) 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.

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

Other post-retirement benefit plans	**December 31, 2014**	December 31, 2013	December 31, 2012
Accrued benefit obligation			
Discount rate	**3.9%**	4.8%	4.2%
Rate of compensation increase	**2.8%**	2.8%	2.8%
Net periodic benefit cost			
Discount rate	**4.8%**	4.2%	2.9%
Rate of compensation increase	**2.7%**	2.8%	2.8%

For measurement purposes, a 5.2% weighted average annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014. The rate was assumed to decrease gradually to 4.1% by 2033 and remain at that level thereafter. 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	1	(1)
Impact on accrued benefit obligation	9	(8)

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.

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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, 2014, by asset category:

		Fair Value Measurements at December 31, 2014		
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	72	72		
Asset backed notes [1]	180		165	15
Canadian government bonds	93	93		
Canadian corporate debt securities	4		4	
Bond index funds [2 & 3]	691		691	
Canadian equities [4]	116	116		
U.S. equities [5]	42	42		
International equities [6]	255	255		
U.S. stock index funds [3 & 7]	256		256	
Insurance contracts [8]	8			8
Derivative contracts [9]	4		4	
Total	1,721	578	1,120	23

(1) This category is described in the section Asset Backed Notes.

(2) This category represents two Canadian bond index fund not actively managed that tracks the FTSE TMX Long-term bond index, and the FTSE TMX Universe bond index and a U.S. actively managed bond fund that is benchmarked to the Barclays Capital Long-term Government/Credit index.

(3)

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.

(4) This category represents an active segregated, large capitalization Canadian equity portfolios with the ability to purchase small and medium capitalized companies and $6 million of Canadian equities held within an active segregated global equity portfolio.

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

(6) 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.

(7) This category represents equity index funds, not actively managed, that track the Standard & Poor s 500 (S&P 500).

(8) This category represents insurance contracts with a minimum guarantee rate.

(9) The fair value of the derivative contracts are classified as Level 2 (inputs that are observable, directly or indirectly) as they are measured using long-term bond indices.

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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, 2013, by asset category:

Asset Category	Total $	Fair Value Measurements at December 31, 2013 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	74	74		
Asset backed notes [1]	203		186	17
Canadian government bonds	273	273		
Canadian corporate debt securities	4		4	
Bond index funds [2 & 3]	445		445	
Canadian equities [4]	126	126		
U.S. equities [5]	37	37		
International equities [6]	295	295		
U.S. stock index funds [3 & 7]	243		243	
Insurance contracts [8]	8			8
Derivative contracts [9]	1		1	
Total	1,709	805	879	25

(1) This category is described in the section Asset Backed Notes .

(2) This category represents a Canadian bond index fund not actively managed that tracks the DEX Long-term bond index and a U.S. actively managed bond fund that is benchmarked to the Barclays Capital Long-term Government/Credit index.

(3) 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.

(4) This category represents active segregated, large capitalization Canadian equity portfolios with the ability to purchase small and medium capitalized companies and $5 million of Canadian equities held within an active segregated global equity portfolio.

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

(6) 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.

(7) This category represents equity index funds, not actively managed, that track the Standard & Poor s 500 (S&P 500).

(8) This category represents insurance contracts with a minimum guarantee rate.

(9) The fair value of the derivative contracts are classified as Level 2 (inputs that are observable, directly or indirectly) as they are measured using long-term bond indices.

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

ASSET BACKED NOTES

At December 31, 2014, Domtar Corporation s Canadian defined benefit pension funds held restructured asset backed notes (ABN) (formerly asset backed commercial paper) valued at $180 million (CDN $209 million). At December 31, 2013, the plans held ABN valued at $203 million (CDN $216 million). During 2014, the total value of the ABN benefited from an increase in value of $18 million (CDN $20 million). For the same period, the total value of ABN was reduced by repayments and sales totalling $24 million (CDN $27 million), and by a $17 million impact of a decrease in the value of the Canadian dollar.

Most of these ABN, with a current value of $171 million (2012 and 2013, respectively $193 million), were subject to restructuring under the court order governing the Montreal Accord that was completed in January 2009. About $165 million of these notes are expected to mature in two years. These notes are valued based upon current market quotes and auction results. The market values are supported by the value of the underlying investments held by the issuing conduit. The values for the $6 million of remaining ABN, that also were subject to the Montreal Accord, were sourced either from the asset manager of the ABN, or from trading values for similar securities of similar credit quality.

An additional $9 million of ABN were restructured separately from the Montreal Accord. They are valued based upon the value of the collateral investments held in the conduit issuer, reduced by the negative value of credit default derivatives, with an additional discount (equivalent 1.75% per annum) applied for illiquidity. They are expected to mature in two years.

Possible changes that could impact the future value of ABN include: (1) changes in the value of the underlying assets and the related derivative transactions, (2) developments related to the liquidity of the ABN market, (3) a severe and prolonged economic slowdown in North America and the bankruptcy of referenced corporate credits, and (4) the passage of time, as most of the notes will mature in approximately two years.

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)		
	ABN [1] $	Insurance contracts $	TOTAL $
Balance at December 31, 2012	36	7	43
Purchases/(Settlements)	(19)		(19)
Return on plan assets	2	1	3
Effect of foreign currency exchange rate change	(2)		(2)
Balance at December 31, 2013	17	8	25
Purchases/(Settlements)	(14)	1	(13)
Return on plan assets	13	1	14
Effect of foreign currency exchange rate change	(1)	(2)	(3)

Balance at December 31, 2014	15	8	23

[1] Includes $6 million of Montreal Accord in 2014 (2013 $7 million)

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

ESTIMATED FUTURE BENEFIT PAYMENTS FROM THE PLANS

Estimated future benefit payments from the plans for the next 10 years at December 31, 2014 are as follows:

	Pension plans $	Other post-retirement benefit plans $
2015	90	5
2016	93	5
2017	97	5
2018	100	5
2019	104	5
2020 2024	548	26

MULTIEMPLOYER PLANS

Domtar contributed to seven multiemployer defined benefit pension plans under the terms of collective agreements that cover certain Canadian and U.S. unionized employees. As of December 31, 2014, the Company had withdrawn from all five U.S. multiemployer plans, and continued to participate in the two Canadian plans. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

(a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;

(b) for the U.S. multiemployer plans, if a participating employer stops contributing to the plan, the unfunded obligations of the plan are borne by the remaining participating employers; and

(c) for the U.S. multiemployer plans, if Domtar chooses to stop participating in some of its multiemployer plans, Domtar may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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

Domtar s participation in these plans for the annual periods ended December 31 is outlined in the table below. The plan s 2014, 2013 and 2012 actuarial status certification was completed as of January 1, 2014, January 1, 2013 and January 1, 2012, respectively, and is based on the plan s actuarial valuation as of December 31, 2013, December 31, 2012 and December 31, 2011, respectively. This represents the most recent Pension Protection Act zone status available. The zone status is based on information received from the plan and is certified by the plan s actuary.

Pension Fund	EIN / Pension Plan Number	Pension Protection Act Zone Status 2014	2013	FIP / RP Status Pending / Implemented		Contributions from Domtar to Multiemployer (c) 2014 $	2013 $	2012 $	Surcharge imposed	Expiration date of collective bargaining agreement
U.S. Multiemployer Plans										
PACE Industry Union-Management Pension Fund [a]	11-6166763-001	Red	Red	Yes	Implemented			3	Yes	January 27, 2015
Canadian Multiemployer Plans										
Pulp and Paper Industry Pension Plan [b]	N/A	N/A	N/A	N/A		2	2	2	N/A	April 30, 2017
					Total	2	2	5		
					Total contributions made to all plans that are not individually significant (d)		1	1		
					Total contributions made to all plans	2	3	6		

(a) Domtar withdrew from PACE Industry Union-Management Pension Fund effective December 31, 2012.

(b) In the event that the Canadian multiemployer plan is underfunded, the monthly benefit amount can be reduced by the trustees of the plan. Moreover, Domtar is not responsible for the underfunded status of the plan because the Canadian multiemployer plans do not require participating employers to pay a withdrawal liability or penalty upon withdrawal.

(c) For each of the three years presented, Domtar s contributions to each multiemployer plan do not represent more than 5% of total contributions to each plan as indicated in the plan s most recently available annual report.

(d) On July 31, 2013, Domtar withdrew from all remaining U.S. multiemployer plans.

In relation to the withdrawal from one of the Company s multiemployer pension plans in 2011, the Company recorded an additional charge to earnings of $1 million due to a change in the estimated withdrawal liability during the first quarter of 2013. During the second and third quarter of 2013, the Company withdrew from its remaining U.S. multiemployer pension plans and recorded a withdrawal liability and a charge to earnings of $14 million, of which $3 million is recorded in Closure and restructuring costs and $11 million related to the sale of its Ariva U.S. business included in Other operating (income) loss, net on the Consolidated Statement of Earnings and Comprehensive Income. At December 31, 2014, the total provision for the withdrawal liabilities is $60 million. While this is the Company s best estimate of the ultimate cost of the withdrawal from these plans at December 31, 2014, additional withdrawal liabilities may be incurred based on the final fund assessment and in the event of a mass withdrawal, as defined by statute, occurring anytime within the next two years (See Note 16 Closure and Restructuring Costs and Liability).

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8.

OTHER OPERATING (INCOME) LOSS, NET

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

	Year ended December 31, 2014 $	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Alternative fuel tax credits (Note 10)	**(18)**	26	
Loss on sale of business [(1)]		20	
Net (gain) loss on sale of property, plant and equipment [(2)]		(16)	2
Environmental provision	**1**	(1)	2
Foreign exchange (gain) loss	**(1)**	(9)	3
Weston litigation [(3)]		49	
Proceeds from insurance claims on machinery and equipment	**(11)**		
Other		3	
Other operating (income) loss, net	**(29)**	72	7

(1) On July 31, 2013, the Company completed the sale of its Ariva U.S. business. The Company recorded a loss on sale of business of $20 million in 2013.

(2) On March 22, 2013, the Company sold the building, remaining equipment and related land of the closed pulp and paper mill in Port Edwards, Wisconsin and recorded a gain on the sale of approximately $10 million. The transaction included specific machinery, equipment, furniture, parts, supplies, tools, real estate, land improvements, and other fixed or tangible assets. The assets were sold as is for proceeds of approximately $9 million and the environmental provision of $3 million related to these assets was contractually passed on to the buyer and released from the Company s liabilities. The net book value of the assets sold was approximately $2 million. In November 2013, the Company sold its land in Cornwall, Ontario and recorded a gain on the sale of approximately $6 million.

On November 20, 2012, the Company sold its hydro assets in Ottawa, Ontario and Gatineau, Quebec for approximately $46 million (CDN $46 million) and included three power stations (21M megawatts of installed capacity), water rights in the area, as well as Domtar Inc. s equity stake in the Chaudière Water Power Inc., a ring dam consortium. As a result, the Company incurred a loss relating to the curtailment of the pension plan of $2 million and legal fees of $1 million.

(3) On June 24, 2013, the parties agreed to settle the Weston litigation for a payment by Domtar to Weston of $49 million (CDN $50 million).

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NOTE 9.

INTEREST EXPENSE, NET

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

	Year ended December 31, 2014 $	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Interest on long-term debt [1]	**95**	81	76
Loss on repurchase of long-term debt		2	47
Reversal of fair value decrement (increment) on debentures		1	(2)
Receivables securitization	**1**	1	1
Interest on withdrawal from multiemployer plans	**3**		
Amortization of debt issue costs and other	**4**	4	9
	103	89	131

(1) The Company capitalized $3 million of interest expense in 2014 ($3 million in 2013 and 2012, respectively).

NOTE 10.

INCOME TAXES

The Company s earnings before income taxes by taxing jurisdiction were:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012

	$	$	$
U.S. earnings	**86**	37	116
Foreign earnings	**175**	35	120
Earnings before income taxes	**261**	72	236

Provisions for income taxes include the following:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
	$	$	$
U.S. Federal and State:			
Current	**20**	(13)	68
Deferred	**(213)**	(22)	(34)
Foreign:			
Current	**11**	1	1
Deferred	**12**	14	23
Income tax (benefit) expense	**(170)**	(20)	58

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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 35% to earnings before income taxes due to the following:

	Year ended December 31, 2014 **$**	Year ended December 31, 2013 $	Year ended December 31, 2012 $
U.S. federal statutory income tax	**91**	25	83
Reconciling Items:			
State and local income taxes, net of federal income tax benefit	**3**	1	1
Foreign income tax rate differential	**(18)**	(6)	(8)
Tax credits and special deductions	**(18)**	(54)	(8)
Alternative fuel tax credit (income) expense	**(6)**	9	
Non-deductible litigation payments		13	
Tax rate changes	**(16)**	(3)	(3)
Uncertain tax positions	**(194)**	(3)	6
U.S. manufacturing deduction	**(9)**	(5)	(10)
Functional currency differences	**(5)**		
Valuation allowance on deferred tax assets	**7**	5	1
Other	**(5)**	(2)	(4)
Income tax (benefit) expense	**(170)**	(20)	58

In 2014, the IRS completed its ongoing U.S. federal income tax audit for tax years 2009, 2010, and 2011, and the Company filed related amended state tax returns. As a result of the audit completion, the Company recognized previously unrecognized gross tax benefits of $223 million and reversed related deferred tax assets of $23 million for a net tax benefit of $200 million for 2014. This $200 million benefit, less $6 million of expense for other 2014 activity, impacted the 2014 effective tax rate and is included in the table above in the Uncertain tax positions benefit of $194 million. The audit closure also resulted in an additional $7 million benefit related to the U.S. manufacturing deduction which impacted the effective tax rate for 2014 and is included in the $9 million for that line item above. The effective tax rate was also impacted by the recognition of $18 million of Alternative Fuel Tax Credits (AFTC) with no related tax expense. During 2014, the Company recorded $18 million of tax credits, mainly research and experimentation credits pertaining to current and prior years. The effective tax rate for 2014 was also significantly impacted by an enacted tax rate decrease in Spain and tax losses related to functional currency differences.

During 2013, the Company recorded $54 million of various tax credits pertaining to current and prior years. These credits included the conversion of $26 million of AFTC into $55 million of Cellulosic Biofuel Producer Credits (CBPC) resulting in an after-tax benefit of $33 million for the new credit, as well as research and experimentation credits and other federal and state credits. Also, the Company s effective tax rate is being reduced in 2013 by the impact of the U.S. manufacturing deduction and enacted law changes in certain states and provinces. The effective tax rate is being increased by the impact of certain non-deductible payments, mainly the Weston litigation settlement and the AFTC repayment, and an increase in the valuation allowance on certain losses. Additionally, the effective tax rate is being impacted by an $8 million reduction in unrecognized tax benefits pertaining to the AFTC which was converted to CBPC, partially offset by $5 million of accrued interest on uncertain tax positions.

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NOTE 10. INCOME TAXES (CONTINUED)

The Company recognized a tax benefit of $10 million for the manufacturing deduction in the U.S. in 2012 which impacted the effective tax rate for 2012. Additionally, the Company recorded an $8 million tax benefit related to federal, state, and provincial credits and special deductions which reduced the effective rate. The effective tax rate for 2012 was also impacted by an increase in the Company s unrecognized tax benefits of $6 million, mainly accrued interest, and a $3 million benefit related to enacted tax law changes, mainly a tax rate reduction in Sweden, which was partially offset by U.S. tax law changes in several states.

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.

ALTERNATIVE FUEL TAX CREDITS

As of December 31, 2014, the Company has no remaining gross unrecognized tax benefits and interest or related deferred tax assets associated with the AFTC claimed on its 2009 tax return. These benefits amounting to $198 million were recognized, reduced by the reversal of related deferred tax assets of $20 million, or $178 million net of deferred taxes, during 2014, thus impacting the effective tax rate.

DEFERRED TAX ASSETS AND LIABILITIES

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, 2014 and December 31, 2013 are comprised of the following:

	December 31, 2014 $	December 31, 2013 $
Accounting provisions	**56**	62
Net operating loss carryforwards and other deductions	**78**	107
Pension and other employee future benefit plans	**61**	58
Inventory	**15**	6
Tax credits	**34**	62
Other	**10**	23
Gross deferred tax assets	**254**	318
Valuation allowance	**(25)**	(19)
Net deferred tax assets	**229**	299
Property, plant and equipment	**(734)**	(735)
Deferred income		(41)

Impact of foreign exchange on long-term debt and investments	**(10)**	(11)
Intangible assets	**(170)**	(109)
Total deferred tax liabilities	**(914)**	(896)
Net deferred tax liabilities	**(685)**	(597)
Included in:		
Deferred income tax assets	**75**	52
Other assets (Note 15)	**4**	15
Deferred income taxes and other	**(764)**	(664)
Total	**(685)**	(597)

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NOTE 10. INCOME TAXES (CONTINUED)

With the acquisition of AHP on July 1, 2013, and Attends US on September 1, 2011, the Company acquired additional federal net operating loss carryforwards of $48 million and $2 million, respectively. These U.S. federal net operating losses are subject to annual limitations under Section 382 of the Internal Revenue Code of 1986, as amended (the Code), that can vary from year to year. At December 31, 2014, the Company had $6 million of federal net operating loss carryforward remaining which expires in 2032. Canadian scientific research and experimental development expenditures not previously deducted represent an amount of $99 million. The Canadian federal losses have been fully utilized as of December 31, 2014, and there is no expiration date on the scientific research and experimental development expenditures. The Company also has other foreign net operating loss carryforwards of $23 million, of which $5 million will begin to expire in 2017, $76 million, which may be carried forward indefinitely, and $11 million of finance expenditures not previously deducted.

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, we evaluated the following items:

- Historical income / (losses) particularly the most recent three-year period
- Reversals of future taxable temporary differences
- 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 in the U.S., with the exception of certain state credits for which a valuation allowance of $4 million exists at December 31, 2014, and certain foreign loss carryforwards for which a valuation allowance of $21 million exists at December 31, 2014. Of this amount, $7 million impacted tax expense and the effective tax rate for 2014 ($5 million 2013; $1 million 2012).

The Company does not provide for a U.S. income tax liability on undistributed earnings of our foreign subsidiaries. The earnings of the foreign subsidiaries, which reflect full provision for income taxes, are currently indefinitely reinvested in foreign operations. No provision is made for income taxes that would be payable upon the distribution of earnings from foreign subsidiaries as computation of these amounts is not practicable.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

At December 31, 2014, the Company had gross unrecognized tax benefits of approximately $48 million ($259 million and $254 million for 2013 and 2012 respectively). If recognized in 2015, 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.

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NOTE 10. INCOME TAXES (CONTINUED)

	December 31, 2014 $	December 31, 2013 $	December 31, 2012 $
Balance at beginning of year	**259**	254	253
Additions based on tax positions related to current year	**3**	3	1
Additions for tax positions of prior years	**10**	9	1
Reductions for tax positions of prior years		(10)	
Reductions related to settlements with taxing authorities	**(223)**	(2)	(10)
Expirations of statutes of limitations	**(4)**		
Interest	**4**	5	9
Foreign exchange impact	**(1)**		
Balance at end of year	**48**	259	254

As a result of the acquisition of Indas on January 2, 2014 and AHP on July 1, 2013, the Company recorded unrecognized tax benefits which are shown as additions for tax positions of prior years in the table above.

The Company recorded $4 million of accrued interest associated with unrecognized tax benefits for the period ending December 31, 2014 ($5 million and $9 million for 2013 and 2012, respectively). The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of tax expense.

The major jurisdictions where the Company and its subsidiaries will file tax returns for 2014, 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 states and provinces. At December 31, 2014, the Company s subsidiaries are subject to foreign federal income tax examinations for the tax years 2007 through 2012, with federal years prior to 2009 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, except as mentioned below.

During the third quarter of 2014, the IRS completed an audit of the Company s 2009, 2010, and 2011 U.S. income tax returns. As a result of the audit closure, the Company recognized previously unrecognized gross tax benefits of $223 million and reversed related deferred tax assets of $23 million for a net tax benefit of $200 million for 2014. The recognition of these benefits, $200 million net of deferred taxes, impacted the effective tax rate for 2014. Included in the above amounts are previously unrecognized tax benefits and interest of $198 million and the reversal of related deferred assets (expense) of $20 million, a $178 million benefit net of deferred taxes, related to AFTC. As of December 31, 2014, the Company has no remaining gross unrecognized tax benefits and interest or related deferred tax assets associated with the AFTC claimed on its 2009 tax return.

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NOTE 11.

INVENTORIES

The following table presents the components of inventories:

	December 31, 2014 $	December 31, 2013 $
Work in process and finished goods	**395**	386
Raw materials	**123**	102
Operating and maintenance supplies	**196**	197
	714	685

NOTE 12.

GOODWILL

The carrying value and any changes in the carrying value of goodwill are as follows:

	December 31, 2014 $	December 31, 2013 $
Balance at beginning of year	**369**	263
Acquisition of Laboratorios Indas	**234**	
Acquisition of AHP		103
Effect of foreign currency exchange rate change	**(36)**	3
Balance at end of year	**567**	369

The goodwill at December 31, 2014 is entirely related to the Personal Care reporting segment. (See Note 3 Acquisition of Businesses for further information on the increase in 2014).

The Company performed its annual goodwill impairment testing at October 1, 2014 and 2013 and determined that the estimated fair value of the reporting units exceeded their carrying values. On October 1, 2012, the Company assessed qualitative factors to determine whether it was more likely than not that the fair value of the reporting unit was less than its carrying amount. After assessing the totality of events and circumstances, the Company determined that it was more likely than not that the fair value of the reporting unit was greater than its carrying amount. As a result, no impairment charges were recorded during 2014, 2013 or 2012.

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NOTE 13.

PROPERTY, PLANT AND EQUIPMENT

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

	Range of useful lives		December 31, 2014 $	December 31, 2013 $
Machinery and equipment	3	20	**7,537**	7,506
Buildings and improvements	10	40	**1,005**	982
Timberlands			**243**	255
Assets under construction			**124**	140
			8,909	8,883
Less: Allowance for depreciation and amortization			**(5,778)**	(5,594)
			3,131	3,289

Depreciation expense related to property, plant and equipment for the year ended December 31, 2014 was $363 million (2013 $366 million; 2012 $377 million).

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NOTE 14.

INTANGIBLE ASSETS

The following table presents the components of intangible assets:

	Estimated useful lives (in years)	December 31, 2014 Gross carrying amount $	Accumulated amortization $	Net $	December 31, 2013 Gross carrying amount $	Accumulated amortization $	Net $
Intangible assets subject to amortization							
Water rights	40	**8**	**(1)**	**7**	8	(1)	7
Customer relationships [1]	10 40	**374**	**(32)**	**342**	256	(14)	242
Technology	7 20	**8**	**(2)**	**6**	8	(1)	7
Non-Compete	9	**1**		**1**	1		1
License rights	12	**29**	**(4)**	**25**	29	(1)	28
		420	**(39)**	**381**	302	(17)	285
Intangible assets not subject to amortization							
Trade names [1]		**233**		**233**	116		116
License rights		**6**		**6**	6		6
Catalog rights [1]		**41**		**41**			
Total		**700**	**(39)**	**661**	424	(17)	407

Amortization expense related to intangible assets for the year ended December 31, 2014 was $21 million (2013 $10 million; 2012 $8 million).

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

	2015 $	2016 $	2017 $	2018 $	2019 $
Amortization expense related to intangible assets	20	20	20	19	19

(1) Increase relates to the acquisition of Indas on January 2, 2014.

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NOTE 14. INTANGIBLE ASSETS (CONTINUED)

The Company performed its annual impairment test on its indefinite-lived intangible assets at October 1, 2014, using a quantitative approach, and determined that the estimated fair values of its indefinite-lived intangible assets significantly exceeded their carrying amounts. On October 1, 2013 and 2012, the Company performed the qualitative assessment of indefinite-lived intangible assets. After assessing the totality of events and circumstances, the Company determined that it was more likely than not that the fair values of the indefinite-lived intangible assets was greater than their respecting carrying amounts. Thus, performing the Step I impairment test was unnecessary. No impairment charge was recorded for indefinite-lived intangible assets during 2014, 2013 or 2012.

NOTE 15.

OTHER ASSETS

The following table presents the components of other assets:

	December 31, 2014 **$**	December 31, 2013 $
Pension asset defined benefit pension plans (Note 7)	**121**	96
Unamortized debt issue costs	**14**	15
Deferred income tax assets (Note 10)	**4**	15
Asset-backed notes	**10**	6
Other	**7**	4
	156	136

NOTE 16.

CLOSURE AND RESTRUCTURING COSTS AND LIABILITY

The Company regularly reviews its overall production capacity with the objective of aligning its production capacity with anticipated long-term demand, which in some cases could result in closure or impairment costs being recorded in earnings.

In relation to the withdrawal from one of the Company s multiemployer pension plans in 2011, the Company recorded a charge to earnings of $14 million in 2012, as a result of a revision in the estimated withdrawal liability. Also in 2012, the Company withdrew from a second multiemployer pension plan and recorded a withdrawal liability and a charge to earnings of $1 million. In the first quarter of 2013, as a result of another revision in the estimated withdrawal liability, the Company recorded a further charge to earnings of $1 million. During the second and third quarter of 2013, the Company withdrew from its remaining U.S. multiemployer pension plans and recorded a withdrawal liability and a charge to earnings of $14 million, of

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

which $3 million is recorded in Closure and restructuring costs and $11 million related to the sale of its Ariva U.S. business in Other operating (income) loss, net on the Consolidated Statement of Earnings and Comprehensive Income. At December 31, 2014, the total provision for the withdrawal liabilities is $60 million. At December 31, 2014, this is the Company s best estimate of the ultimate cost of the withdrawal from these plans. Further, the Company remains liable for potential additional withdrawal liabilities to the fund in the event of a mass withdrawal, as defined by statute, occurring anytime up to the next two years.

During the fourth quarter of 2014, the Company incurred pension settlement costs in the amount of $19 million related to the previously closed Ottawa paper mill.

During the second quarter of 2013, the Company incurred pension settlement costs in the amount of $13 million related to the previously closed Big River sawmill and Dryden paper mill for $6 million and $7 million, respectively.

Ashdown, Arkansas mill

On December 10, 2014, the Company announced that its Board of Directors has approved a $160 million capital project to convert a paper machine at the Ashdown, Arkansas mill to a high quality fluff pulp line used in absorbent applications such as baby diapers, feminine hygiene and adult incontinence products. The planned conversion is expected to come online by the third quarter 2016 and will allow for the production of up to 516,000 metric tons of fluff pulp per year once the machine is in full operation. The project will also result in the permanent reduction of 364,000 short tons of annual uncoated freesheet production capacity in the second quarter of 2016.

The conversion work is expected to commence during the second quarter of 2016 and the fluff pulp line is scheduled to startup by the third quarter 2016. The cost of conversion will be approximately $160 million of which $40 million is expected to be invested in 2015 and $120 million in 2016. The Company will also invest $40 million in a pulp bale line that will provide flexibility to manufacture papergrade softwood pulp, contingent on market conditions.

The aggregate pre-tax earnings charge in connection with this conversion is estimated to be $120 million which includes an estimated $117 million in non-cash charges relating to accelerated depreciation of the carrying amounts of the manufacturing equipment as well as the write-off of related spare parts. Of the estimated pre-tax charge of $120 million, $3 million relates to estimated cash severance, employee benefits and training. Of the estimated total pre-tax charge of $120 million, $113 million is expected to be incurred during 2015 and 2016. As a result of the fourth quarter decision to convert a paper machine to a fluff pulp line at its Ashdown, Arkansas mill, the Company recorded in the fourth quarter of 2014 $4 million of accelerated depreciation under Impairment and write-down of property, plant and equipment on the Consolidated Statement of Earnings and Comprehensive Income and $3 million of inventory obsolescence under closure and restructuring costs.

Indianapolis, Indiana Converting

On October 13, 2014, the Company announced the closure of its Indianapolis, Indiana plant and the shutdown affected approximately 60 employees. As a result, during the fourth quarter of 2014, the Company recorded $2 million of closure and termination costs and $1 million of inventory obsolescence.

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

Attends Europe

During the fourth quarter of 2013, the Company recorded a $2 million write-down of property, plant and equipment due to the replacement of certain equipment at its Attends Europe location, in Impairment and write-down of property, plant and equipment and intangible assets on the Consolidated Statement of Earnings and Comprehensive Income.

Pulp and paper converting site

During the fourth quarter of 2013, the Company recorded a $5 million write-down of property, plant and equipment at one of its converting sites in the pulp and paper segment, in Impairment and write-down of property, plant and equipment and intangible assets on the Consolidated Statement of Earnings and Comprehensive Income.

Ariva U.S.

On July 31, 2013, the Company completed the sale of its Ariva U.S. business which had approximately 400 employees in the United States. As a result of this agreement, during the second quarter of 2013, the Company recorded a $5 million impairment of property, plant and equipment at its Ariva U.S. location, in Impairment and write-down of property, plant and equipment on the Consolidated Statement of Earnings and Comprehensive Income.

Kamloops, British Columbia pulp facility

On December 13, 2012, the Company announced the permanent shut down of one pulp machine at its Kamloops, British Columbia mill. This decision resulted in a permanent curtailment of Domtar s annual pulp production by approximately 120,000 air dried metric tons of sawdust softwood pulp and affected approximately 125 employees.

As a result, the Company recognized in 2012, $7 million of accelerated depreciation under Impairment and write-down of property, plant and equipment and intangibles assets, $5 million of severance and termination costs and a $4 million write-down of inventory. The pulp machine ceased production in March 2013. Furthermore, during the first quarter of 2013, the Company recognized $10 million of accelerated depreciation under Impairment and write-down of property, plant and equipment, and reversed $1 million of severance and termination costs. During the second quarter of 2013, the Company reversed an additional $1 million of severance and termination costs, reversed $1 million of inventory obsolescence, and incurred $2 million of other costs.

Mira Loma, California converting plant

During the first quarter of 2012, the Company recorded a $2 million write-down of property, plant and equipment at its Mira Loma location in California, in Impairment and write-down of property, plant and equipment and intangible assets on the Consolidated Statement of Earnings and Comprehensive Income.

Lebel-sur-Quévillon pulp mill and sawmill

Operations at the pulp were indefinitely idled in November 2005 due to unfavorable economic conditions and the sawmill was indefinitely idled since 2006 and then permanently closed in 2008. At the time, the pulp mill and

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

sawmill employed approximately 425 and 140 employees, respectively. The Lebel-sur-Quévillon pulp mill had an annual production capacity of 300,000 metric tons. During the second quarter of 2012, the Company concluded the sale of its pulp and sawmill assets to Fortress Paper Ltd., and its land related to those assets to a subsidiary of the Government of Quebec for net proceeds of $1.

Other costs

During 2014, other costs related to previous and ongoing closures include $3 million of severance and termination costs.

During 2013, other costs related to previous and ongoing closures include $2 million of severance and termination costs.

During 2012, other costs related to previous and ongoing closures include $1 million in severance and termination costs, a $1 million write-down of inventory, $1 million in pension and $3 million in other costs.

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

		Year ended December 31, 2014	
	Pulp and Paper	**Personal Care**	**Total**
	$	**$**	**$**
Severance and termination costs	**4**	**1**	**5**
Inventory write-down	**4**		**4**
Pension settlement and withdrawal liability	**19**		**19**
Closure and restructuring costs	**27**	**1**	**28**

		Year ended December 31, 2013		
	Pulp and Paper	Personal Care	Corporate	Total
	$	$	$	$
Severance and termination costs	(2)	2		
Inventory obsolescence reversal	(1)			(1)
Pension settlement and withdrawal liability	11		6	17
Other	2			2
Closure and restructuring costs	10	2	6	18

	Year ended December 31, 2012		
	Pulp and Paper $	Personal Care $	Total $
Severance and termination costs	6		6
Inventory write-down	5		5
Loss on curtailment of pension benefits and pension withdrawal liability	16		16
Other	2	1	3
Closure and restructuring costs	29	1	30

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

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

	December 31, 2014 $	December 31, 2013 $
Balance at beginning of year	**3**	10
Additions	**4**	1
Payments	**(5)**	(5)
Pension provision (reflected in Accrued benefit obligation)		(3)
Reversal	**(1)**	
Acquisition of business	**1**	
Balance at end of year	**2**	3

The $2 million provision comprised of severance and termination costs is in the Pulp and Paper segment.

Closure and restructuring costs are based on management s best estimates at December 31, 2014. 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 write-downs may be required in future periods.

NOTE 17.

TRADE AND OTHER PAYABLES

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

	December 31, 2014 $	December 31, 2013 $
Trade payables	**374**	370
Payroll-related accruals	**149**	148
Accrued interest	**26**	21

Payables on capital projects	**21**	6
Rebate accruals	**68**	62
Liability pension and other post-retirement benefit plans (Note 7)	**5**	5
Provision for environment and other asset retirement obligations (Note 22)	**16**	19
Closure and restructuring costs liability (Note 16)	**2**	3
Derivative financial instruments (Note 23)	**27**	10
Dividends payable (Note 21)	**24**	17
Stock-based compensation liability awards	**3**	8
Other	**6**	4
	721	673

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NOTE 18.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT

The following table presents the changes in Accumulated other comprehensive income (loss) by component [(1)] for the period ended December 31 2014 and 2013.

	Net derivative gains (losses) on cash flow hedges	Pension items [(2)]	Post-retirement benefit items [(2)]	Foreign currency items	Total
Balance at December 31, 2012	5	(326)	(15)	208	**(128)**
Natural gas swap contracts		N/A	N/A	N/A	
Currency options	(8)	N/A	N/A	N/A	**(8)**
Net investment hedge	(2)	N/A	N/A	N/A	**(2)**
Prior service cost	N/A			N/A	
Net loss	N/A	86	7	N/A	**93**
Foreign currency items	N/A	N/A	N/A	(56)	**(56)**
Other comprehensive (loss) income before reclassifications	(10)	86	7	(56)	**27**
Amounts reclassified from Accumulated other comprehensive loss	5	30	1		**36**
Net current period other comprehensive (loss) income	(5)	116	8	(56)	**63**
Balance at December 31, 2013		(210)	(7)	152	**(65)**
Balance at December 31, 2013		(210)	(7)	152	**(65)**
Natural gas swap contracts	(10)	N/A	N/A	N/A	**(10)**
Currency options	(15)	N/A	N/A	N/A	**(15)**
Forward contracts	2	N/A	N/A	N/A	**2**
Net gain	N/A	(4)	(6)	N/A	**(10)**
Foreign currency items	N/A	N/A	N/A	(200)	**(200)**

Other comprehensive loss before reclassifications	(23)	(4)	(6)	(200)	**(233)**
Amounts reclassified from Accumulated other comprehensive loss	8	22			**30**
Net current period other comprehensive (loss) income	(15)	18	(6)	(200)	**(203)**
Balance at December 31, 2014	(15)	(192)	(13)	(48)	**(268)**

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

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

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

The following table presents reclassifications out of Accumulated other comprehensive income [(1)]:

Details about Accumulated other comprehensive income components	**Amount reclassified from Accumulated other comprehensive income Year ended December 31**	
	2014	2013
Net derivative gains (losses) on cash flow hedge		
Natural gas swap contracts	(4)	4[(2)]
Currency options and forwards	16	4[(2)]
Total before tax	12	8
Tax benefit	(4)	(3)
Net of tax	8	5
Amortization of defined benefit pension items		
Amortization of prior year service cost (credit)	22	17 [(3)]
Amortization of net actuarial loss	9	25 [(3)]
Total before tax	31	42
Tax benefit	(9)	(12)
Net of tax	22	30
Amortization of other post-retirement benefit plans items		
Amortization of prior year service cost (credit)		
Amortization of net actuarial loss		1[(3)]
Total before tax		1
Tax benefit		
Net of tax		1

(1) Amounts in parentheses indicate losses.

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

(3) These amounts are included in the computation of net periodic pension cost. (see Note 7 Pension Plans and Other Post-retirement benefit plans for more details)

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NOTE 19.

LONG-TERM DEBT

	Maturity	Par Amount $	Currency	December 31, 2014 $	December 31, 2013 $
Unsecured notes					
7.125% Notes	2015	167	US	**166**	166
9.5% Notes	2016	94	US	**96**	97
10.75% Notes	2017	278	US	**275**	273
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	2019		US		160
Capital lease obligations and other	2015 2028			**15**	20
				1,350	1,514
Less: Due within one year				**169**	4
				1,181	1,510

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

	Long-term debt $	Capital leases and other $
2015	167	4
2016	94	3
2017	278	2
2018		1
2019		1
Thereafter	800	10
	1,339	21
Less: Amounts representing interest		6

Total payments	1,339	15

UNSECURED NOTES

During the first quarter of 2013, the Company redeemed its outstanding 5.375% Notes due 2013, for par value of $71 million. The Company incurred $2 million of premiums paid and additional charges of $1 million, included in Interest expense, net on the Consolidated Statement of Earnings and Comprehensive Income. The Company also repaid $23 million of capital lease obligations to purchase the land and buildings, related to the Greenville, North Carolina site, in the Personal Care segment.

As a result of a cash tender offer during the first quarter of 2012, the Company repurchased $1 million of the 5.375% Notes due 2013, $47 million of the 7.125% Notes due 2015, $31 million of the 9.5% Notes due 2016 and $107 million of the 10.75% Notes due 2017. The Company incurred tender premiums of $47 million and additional charges of $3 million as a result of this extinguishment, both of which were included in Interest expense, net on the Consolidated Statements of Earnings and Comprehensive Income.

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NOTE 19. LONG-TERM DEBT (CONTINUED)

SENIOR NOTES OFFERING

On November 30, 2013, the Company issued $250 million 6.75% Notes due 2044 for net proceeds of $249 million. The net proceeds from the offering were used to fund a portion of the purchase price of the acquisition of Indas.

On August 20, 2012, the Company issued $250 million 6.25% Notes due 2042 for net proceeds of $247 million. The net proceeds from the offering of the Notes were used for general corporate purposes.

On March 7, 2012, the Company issued $300 million 4.4% Notes due 2022 for net proceeds of $297 million. The net proceeds from the offering of the Notes were used to fund the portion of the purchase of the 5.375% Notes due 2013, 7.125% Notes due 2015, 9.5% Notes due 2016 and 10.75% Notes due 2017 tendered and accepted by the Company pursuant to a tender offer, including the payment of accrued interest and applicable early tender premiums, not funded with cash on hand, as well as for general corporate purposes.

The Notes are redeemable, in whole or in part, at the Company s option at any time. In the event of a change in control, each holder will have the right to require the Company to repurchase all or any part of such holder s Notes at a purchase price in cash equal to 101% of the principal amount of the Notes, plus any accrued and unpaid interest. The Notes are unsecured obligations and rank equally with existing and future unsecured and unsubordinated indebtedness. The Notes are fully and unconditionally guaranteed on an unsecured basis by certain U.S. 100% owned subsidiaries, which currently guarantee indebtedness under the Credit Agreement.

BANK FACILITY

On October 3, 2014, the Company entered into a $600 million amended and restated Credit Agreement that matures on October 3, 2019. This amended credit facility was scheduled to mature June 15, 2017. The Credit Agreement provides for a revolving credit facility (including a letter of credit sub-facility and a swingline sub-facility), which may be borrowed in U.S. Dollars, Canadian Dollars (in an amount up to the Canadian Dollar equivalent of $150 million) and Euros (in an amount up to the Euro equivalent of $200 million). The Company may increase the maximum aggregate amount of availability under the Credit Agreement by up to $400 million, borrow this increased amount as a term loan, and extend the final maturity of the Credit Agreement by one year, subject to the agreement of applicable lenders.

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

The Credit Agreement contains customary covenants, 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. At December 31, 2014, the Company was in compliance with the covenants, and no amounts were borrowed (December 31, 2013 $160 million). At December 31, 2014, the Company had no outstanding letters of credit under this credit facility (December 31, 2013 $1 million).

All borrowings under the Credit Agreement are unsecured. However, certain domestic subsidiaries of the Company unconditionally guarantee any obligations from time to time arising under the Credit Agreement, and

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NOTE 19. LONG-TERM DEBT (CONTINUED)

certain subsidiaries of the Company that are not organized in the United States unconditionally guarantee any obligations of Domtar Inc., the Canadian subsidiary borrower, or of additional borrowers that are not organized in the United States, under the Credit Agreement, in each case, subject to the provisions of the Credit Agreement.

RECEIVABLES SECURITIZATION

The Company uses securitization of certain receivables to provide additional liquidity to fund its operations. The costs under the program may vary based on changes in interest rates. The Company s securitization 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 the issue of letters of credit or borrowings.

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

At December 31, 2014, the Company had no borrowings and $45 million of letters of credit outstanding under the program (2013 nil and $46 million, respectively). Sales of receivables under this program are accounted for as secured borrowings.

In 2014, a net charge of $1 million (2013 $1 million; 2012 $1 million) resulted from the program described above and was included in Interest expense in the Consolidated Statements of Earnings and Comprehensive Income.

NOTE 20.

OTHER LIABILITIES AND DEFERRED CREDITS

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

	December 31, 2014	December 31, 2013
	$	$
Liability other post-retirement benefit plans (Note 7)	**100**	98
Pension liability defined benefit pension plans (Note 7)	**123**	102
Pension liability multiemployer plan withdrawal (Note 7)	**58**	63
Provision for environmental and asset retirement obligations (Note 22)	**44**	48
Stock-based compensation liability awards	**14**	17

Derivative Financial Instruments	**15**	1
Other	**24**	25
	378	354

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NOTE 20. OTHER LIABILITIES AND DEFERRED CREDITS (CONTINUED)

ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations are principally linked to landfill capping obligations, asbestos removal obligations and demolition of certain abandoned buildings. At December 31, 2014, Domtar estimated the net present value of its asset retirement obligations to be $20 million (2013 $21 million); the present value is based on probability weighted undiscounted cash outflows of $64 million (2013 $66 million). The majority of the asset retirement obligations are estimated to be settled prior to December 31, 2033. However, some settlement scenarios call for obligations to be settled as late as December 31, 2053. 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 5.5% 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, 2014	December 31, 2013
	$	$
Asset retirement obligations, beginning of year	**21**	33
Revisions to estimated cash flows		(2)
Sale of closed facility [1]		(3)
Reversal of provision		(5)
ARO Spending	**(2)**	(3)
Accretion expense	**2**	1
Effect of foreign currency exchange rate change	**(1)**	
Asset retirement obligations, end of year	**20**	21

(1) The sale of facility in 2013, relates to the sale of Port Edward.

NOTE 21.

SHAREHOLDERS EQUITY

On April 30, 2014, the Company s Board of Directors approved a 2-for-1 split of its common stock to be effected through a stock dividend. Shareholders of record on June 10, 2014 received one additional share for every share they owned on that date. As a result of the stock split, total shares of the Company s common stock outstanding increased from approximately 32.5 million to 65 million.

In addition, the Company s Board of Directors approved an increase in the quarterly dividend on its common stock on a post-split basis, from $0.275 to $0.375 per share. This is equivalent to, on a pre-split basis, an increase of $0.20 per share (36%) per quarter.

During 2014, the Company declared one quarterly dividend of $0.275 per share to holders of the Company s common stock, as well as holders of exchangeable shares of Domtar (Canada) Paper Inc and three quarterly

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NOTE 21. SHAREHOLDERS EQUITY (CONTINUED)

dividends of $0.375 per share, to holders of the Company s common stock. The total dividends of approximately $18 million, $24 million, $24 million and $24 million were paid on April 15, 2014, July 15, 2014, October 15, 2014 and January 15, 2015, respectively, to shareholders of record as of March 14, 2014, July 2, 2014, October 2, 2014 and January 2, 2015, respectively.

During 2013, the Company declared one quarterly dividend of $0.225 per share, on a post-split basis, and three quarterly dividends of $0.275 per share, on a post-split basis, to holders of the Company s common stock, as well as holders of exchangeable shares of Domtar (Canada) Paper Inc. The total dividends of approximately $15 million, $19 million, $18 million and $17 million were paid on April 15, 2013, July 15, 2013, October 15, 2013 and January 15, 2014, respectively, to shareholders of record as of March 15, 2013, June 14, 2013, September 13, 2013 and December 13, 2013, respectively.

On February 23, 2015, the Company s Board of Directors approved a quarterly dividend of $0.40 per share to be paid to holders of the Company s common stock. This dividend is to be paid on April 15, 2015 to shareholders of record on April 2, 2015.

STOCK REPURCHASE PROGRAM

In 2010, the Company s Board of Directors authorized a stock repurchase program (the Program) of up to $1 billion of Domtar Corporation s common stock. On February 23, 2015, the Company s Board of Directors approved an increase to the Program from $1 billion to $1.3 billion. Under the Program, the Company is authorized to repurchase from time to time shares of its outstanding common stock on the open market or in privately negotiated transactions in the United States. 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, from time to time, in part to reduce the dilutive effects of 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 enters 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 require the Company to make up-front payments to the counterparty financial institutions which results 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 2014, the Company repurchased 996,967 shares (2013 5,019,606; 2012 4,001,850 shares) at an average price of $38.59 (2013 $36.55; 2012 $39.16) for a total cost of $38 million (2013 $183 million; 2012 $157 million).

Since the inception of the Program, the Company repurchased 23,337,980 shares at an average price of $39.21 for a total cost of $915 million. All shares repurchased are recorded as Treasury stock on the Consolidated Balance Sheets under the par value method at $0.01 per share.

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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, 2014 or December 31, 2013.

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, 2014 and December 31, 2013, were as follows:

	December 31, 2014		December 31, 2013	
Common stock	**Number of shares**	**$**	Number of shares	$
Balance at beginning of year	**31,857,451**		34,238,604	
Shares issued				
Stock options			4,278	
Conversion of exchangeable shares	**561,510**		46,304	
Stock split (2:1) [(1)]	**32,500,552**	**1**		
Treasury stock [(1)]	**(909,426)**		(2,431,735)	
Balance at end of year	**64,010,087**	**1**	31,857,451	

(1) The Company issued 10,635,436 shares out of Treasury stock in order to complete the transaction. During 2014, the Company repurchased 996,967 shares (2013 5,019,606) and issued 87,541 shares (2013 156,136) out of Treasury stock in conjunction with the exercise of stock-based compensation awards.

Domtar (Canada) Paper Inc. Exchangeable Shares

Upon the consummation of a series of transactions whereby the Fine Paper Business of Weyerhaeuser Company was transferred to the Company and it acquired Domtar Inc. on March 7, 2007 (Domtar Inc. shareholders had the option to receive either common stock of the Company or shares of Domtar (Canada) Paper Inc., a subsidiary of Domtar Corporation, that were exchangeable for common stock of the Company. The exchangeable shares of Domtar (Canada) Paper Inc. were intended to be substantially the economic equivalent to shares of the Company s common stock. These shareholders could exchange the exchangeable shares for shares of Domtar Corporation common stock on a one-for-one basis at any time.

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NOTE 21. SHAREHOLDERS EQUITY (CONTINUED)

On June 2, 2014 (the Redemption Date), Domtar (Canada) Paper Inc. redeemed all of its outstanding exchangeable shares from the holders thereof. On the Redemption Date, holders of exchangeable shares received, in exchange for each exchangeable share, one share of common stock of Domtar Corporation (plus cash in the amount of all declared and unpaid dividends, if any, provided that the record date for the payment of such dividends was prior to the Redemption Date).

As a result of the redemption of exchangeable shares, the Company reclassified $32 million from Exchangeable shares to Additional paid-in capital.

NOTE 22.

COMMITMENTS AND CONTINGENCIES

ENVIRONMENT

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

In 2014, the Company s operating expenses for environmental matters, as described in Note 1, amounted to $68 million (2013 $69 million; 2012 $64 million).

The Company made capital expenditures for environmental matters of $14 million in 2014 (2013 $4 million; 2012 $4 million). No amounts were spent under the Pulp and Paper Green Transformation Program in 2014 as all projects were completed in 2013, and reimbursed by the Government of Canada (2013 nil; 2012 $6 million), for the improvement of air emissions and energy efficiency, effluent treatment and remedial actions to address environmental compliance.

An action was commenced by Seaspan International Ltd. (Seaspan) in the Supreme Court of British Columbia, on March 31, 1999 against the Company and others with respect to alleged contamination of Seaspan s site bordering Burrard Inlet in North Vancouver, British Columbia, including contamination of sediments in Burrard Inlet, due to the presence of creosote and heavy metals. Beyond the filing of preliminary pleadings, no steps have been taken by the parties in this action. On February 16, 2010, the government of British Columbia issued a Remediation Order to Seaspan and the Company (responsible persons) in order to define and implement an action plan to address soil, sediment and groundwater issues. This Order was appealed to the Environmental Appeal Board (Board) on March 17, 2010 but there is no suspension in the execution of this Order unless the Board orders otherwise. The relevant government authorities selected a remediation approach on July 15, 2011, and on January 8, 2013, the same authorities decided that each responsible persons implementation plan is satisfactory and that the responsible persons should decide which plan is to be used. Most of the remaining appeals that were to be heard before the Board were abandoned by the parties during the course of the Board proceedings which were held in the fall of 2013. Seaspan and Domtar have selected a remedial plan and have applied to the Vancouver Fraser Port Authority for permitting approval. The Company has recorded an environmental reserve to address its estimated exposure. The possible loss in excess of the reserve is not considered to be material for this matter.

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NOTE 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

	December 31, 2014 $	December 31, 2013 $
Balance at beginning of year	**67**	83
Additions	**2**	3
Sale of business and closed facility		(3)
Reversal of provision		(7)
Environmental spending	**(8)**	(8)
Accretion	**2**	2
Effect of foreign currency exchange rate change	**(3)**	(3)
Balance at end of year	**60**	67

At December 31, 2014, anticipated undiscounted payments in each of the next five years are as follows:

	2015 $	**2016 $**	**2017 $**	**2018 $**	**2019 $**	**Thereafter $**	**Total $**
Environmental provision and other asset retirement obligations	16	14	1	1	2	70	104

The Company is also a party to various proceedings relating to the cleanup of hazardous waste sites under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as Superfund, and similar state laws. The U.S. Environmental Protection Agency (EPA) and/or various state agencies have notified the Company that it may be a potentially responsible party with respect to other hazardous waste sites as to which no proceedings have been instituted against the Company. The Company continues to take remedial action under its Care and Control Program at its former wood preserving sites, and at a number of operating sites due to possible soil, sediment or groundwater contamination. The investigation and remediation process is lengthy and subject to the uncertainties of changes in legal requirements, technological developments and, if and when applicable, the allocation of liability among potentially responsible parties.

Climate change regulation

In response to the Kyoto Protocol, which calls for reductions of certain emissions that may contribute to increases in atmospheric greenhouse gas (GHG) concentrations, various international, national and local laws have been proposed or implemented focusing on reducing GHG emissions. These actual or proposed laws do or may apply in the jurisdictions where the Company currently has, or may have in the future, manufacturing facilities or investments.

In the United States, Congress has considered legislation to reduce emissions of GHGs. Although the legislation has not passed, the U.S. government is promulgating resolutions under the existing Clean Air Act to reduce GHG emissions from public utilities and certain other emitters. The EPA has adopted and implemented

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NOTE 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

GHG permitting requirements for certain new sources and modifications of existing industrial facilities and has proposed GHG performance standards for newly constructed, reconstructed and modified electric utilities. The EPA has also relied on the existing Clean Air Act to propose a Clean Power Plan that will set emission guidelines for existing electric utilities and require states to develop plans for reducing GHG emissions by making significant changes to the energy resources utilized within the state. The EPA has developed a biogenic carbon accounting framework to account for carbon dioxide emissions from biomass fuels for Clean Air Act permitting purposes. The EPA references this framework in the proposals addressing GHG performance standards for the electric utilities. Furthermore, several states are already regulating GHG emissions from public utilities and certain other significant emitters, primarily through regional GHG cap-and-trade programs or renewable energy requirements.

The U.S. Supreme Court held on June 23, 2014 that the EPA had exceeded its statutory authority in establishing its GHG permitting program. Specifically, the Court determined that the EPA could not impose GHG permitting requirements on a source unless that source had already triggered permitting requirements for other non-GHG pollutants. However, for sources already subject to permitting, the Court held that the Clean Air Act did not preclude the EPA from requiring those sources to install best available control technology for GHGs.

Passage of GHG legislation by Congress or individual states, or the adoption of regulations by the EPA or analogous state agencies, that restrict emissions of GHGs in areas in which the Company conducts business could have a variety of impacts upon the Company, including requiring it to implement GHG reduction programs or to pay taxes or other fees with respect to its GHG emissions. This, in turn, could increase the Company s operating costs and capital spending. The Company does not expect to be disproportionately affected by these measures compared with other pulp and paper producers in the United States.

The Government of Canada has committed to reducing Canada s greenhouse gases by 17 percent from 2005 levels by 2020. A sector-by-sector approach is being used to set performance standards to reduce greenhouse gases. The Government of Canada has implemented regulations intended to regulate emissions from motor vehicles and has enacted regulations to reduce GHG emissions from coal-fired electrical generators which are scheduled to become effective July 1, 2015. Proposed regulations relating to GHG emissions from the oil and gas sector are currently in consultation and are expected to come into force in 2016. Performance standards for industrial sectors will also be developed. The pulp and paper sector is currently undergoing review. The Company does not expect the performance standards to be disproportionately affected by these future measures compared with other pulp and paper producers in Canada.

The province of Quebec initiated a GHG cap-and-trade system on January 1, 2012. Reduction targets for Quebec became effective January 1, 2013. The Company does not expect the cost of compliance will have a material impact on the Company s financial position, results of operations or cash flows. British Columbia imposed a carbon tax in 2008, which applies to the purchase of fossil fuels within the province. There are currently no other federal or provincial statutory or regulatory obligations that affect the emission of GHGs for the Company s pulp and paper operations elsewhere in Canada. The Province of Ontario is expected to initiate development of a regulatory program for GHG emission reductions in early 2015.

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NOTE 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

While it is likely that there will be increased regulation relating to GHG emissions in the future, at this time it is not possible to estimate either a timetable for the promulgation or implementation of any new regulations or the Company s cost of compliance to said regulations. The impact could, however, be material.

Industrial Boiler Maximum Achievable Control Technology Standard (MACT)

The EPA published in the Federal Register on January 31, 2013, for major sources, a new set of standards related to emissions from boilers and process heaters included in some of the Company s manufacturing processes. These standards are generally referred to as Boiler MACT and seek to require reductions in the emission of certain hazardous air pollutants or surrogates of hazardous air pollutants. The EPA announced the final rule on December 20, 2012 and it was subsequently published in the Federal Register on January 31, 2013 for major sources. The Company is developing plans to bring facilities affected by the Boiler MACT rule into compliance by the January 2016 regulatory deadline for major sources. The Company expects that the capital cost required to comply with the Boiler MACT rules is between $18 million and $25 million. Of this amount, in 2014, the Company has spent $10 million for costs related to Boiler MACT compliance. The Company is currently assessing the associated increase in operating costs as well as alternate compliance strategies.

The EPA has agreed to reconsider a limited number of issues in the most recent Boiler MACT rule, and elements of the EPA s rule have been legally challenged. Since the consequences of these activities cannot be predicted, adjustments to compliance plans may be needed to accommodate any changes to the final rule.

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, 2014, cannot be predicted with certainty, it is management s opinion that, except as noted below, their resolution will not have a material adverse effect on the Company s financial position, results of operations or cash flows.

Spanish Competition Investigation

In September 2014, following preliminary inquiries commenced in January 2014, Spain s National Commission of Markets and Competition initiated a formal investigation of several companies and their parent companies, including Indas (a subsidiary of the Company, acquired on January 2, 2014), and two of its affiliates, as well as an industry association, Federacion Espanola de Empresas de Tecnologia Sanitaria (FENIN), with respect to possible unlawful conduct, consisting of fixing prices, commercial terms and dispensation of heavy adult incontinence products in the Spanish market. The activities under investigation predate the acquisition of Indas by the Company. The sellers of Indas made representations and warranties to the Company in the purchase agreement regarding, among other things, Indas and its subsidiary s compliance with competition laws. The liability retained by the sellers is backed by bank guarantees, and limited insurance coverage has been purchased with regards to excess liability. As a result, while the final outcome with respect to the investigation cannot be predicted with certainty, it is management s opinion that its resolution will not have a material adverse effect on the Company s financial position, results of operations or cash flows.

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NOTE 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEASE AND OTHER COMMERCIAL COMMITMENTS

The Company has entered into operating leases for property, plant and equipment. The Company also 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 operating leases and other commercial commitments, determined at December 31, 2014, were as follows:

	2015 $	2016 $	2017 $	2018 $	2019 $	Thereafter $	Total $
Operating leases	25	19	14	13	10	53	134
Other commercial commitments	89	5	4	1			99

Total operating lease expense amounted to $32 million in 2014 ($32 million in 2013 and $34 million in 2012).

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, 2014, the Company is unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provision has been recorded. These indemnifications have not yielded a significant expense in the past.

Pension Plans

The Company has indemnified and held harmless the trustees of its pension funds, and the respective officers, directors, employees and agents of such trustees, from any and all costs and expenses arising out of the performance of their obligations under the relevant trust agreements, including in respect of their reliance on authorized instructions from the Company or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements. At December 31, 2014 the Company has not recorded a liability associated with these indemnifications, as it does not expect to make any payments pertaining to these indemnifications.

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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, and interest rates. To the extent we decide to manage the volatility related to these exposures, the Company may enter into various financial derivatives that are accounted for under the derivatives and hedging guidance. These transactions are governed by the Company s hedging policies which provide direction on acceptable hedging activities, including instrument type and acceptable counterparty exposure.

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

CREDIT RISK

The Company is exposed to credit risk on the accounts receivable from its customers. In order to reduce this risk, the Company reviews new customers credit history before granting credit and conducts regular reviews of existing customers credit performance. As of December 31, 2014, one of Domtar s Pulp and Paper segment customers located in the United States represented 10% ($64 million) (2013 12% ($73 million)) of the Company s receivables.

The Company is exposed to credit risk in the event of non-performance by counterparties to its financial instruments. The Company minimizes 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, bank credit facility and long-term debt. The Company s objective in managing exposure to interest rate changes is to minimize the impact of interest rate changes on earnings and cash flows and to lower our 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. On December 18, 2014, the Company entered into a $100 million notional 2.5 year fixed to floating interest rate swap to receive fixed (1.0225%) and pay the 3 month LIBOR. This swap was designated as a fair value hedge for a portion of our 10.75% notes due June 2017. The changes in fair value of both the hedging and the hedged item are immediately recognized in interest expense. No amount has been recorded in 2014 related to the interest rate swap entered into in December 2014.

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NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

COST RISK

Cash flow hedges:

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 three years.

The following table presents the volumes under derivative financial instruments for natural gas contracts outstanding as of December 31, 2014 to hedge forecasted purchases:

Commodity	Notional contractual quantity under derivative contracts		Notional contractual value under derivative contracts (in millions of dollars)		Percentage of forecasted purchases under derivative contracts for
Natural gas					
2015	11,415,000	MMBTU (1)	$	47	58%
2016	7,995,000	MMBTU (1)	$	33	41%
2017	2,340,000	MMBTU (1)	$	10	12%

(1) MMBTU: Millions of British thermal units

The natural gas derivative contracts were fully effective as of December 31, 2014. There were no amounts reflected in the Consolidated Statements of Earnings and Comprehensive Income for the year ended December 31, 2014 resulting from hedge ineffectiveness (2013 and 2012 nil).

FOREIGN CURRENCY RISK

Cash flow hedges:

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

Company may use derivative financial instruments (currency options and foreign exchange forward contracts) to mitigate its exposure to fluctuations in foreign currency exchange rates.

Derivatives are used to hedge forecasted purchases in Canadian dollars by its Canadian subsidiary over the next 24 months. Derivatives are also used to hedge forecasted sales in British pounds and Norwegian krone and forecasted purchases in U.S. dollars and Swedish krona by its European subsidiaries over the next 12 months.

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NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

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 contracts pursuant to currency options outstanding as of December 31, 2014 to hedge forecasted purchases and sales:

Currency exposure hedged	Year	Notional contractual value	Percentage of forecasted net exposures under contracts	Protection rate	Obligation rate
	2015				
CDN/USD		390 CDN	50%	1 USD = 1.0997	1 USD = 1.1345
USD/Euro		58 USD	74%	1 Euro = 1.3271	1 Euro = 1.3328
GBP/Euro		13 GBP	77%	1 Euro = 0.8253	1 Euro = 0.7993
SEK/Euro		155 SEK	50%	1 Euro = 9.1692	1 Euro = 9.1692
NOK/Euro		35 NOK	48%	1 Euro = 8.4203	1 Euro = 8.4203
	2016				
CDN/USD		195 CDN	25%	1 USD = 1.1083	1 USD = 1.1491

The foreign exchange derivative contracts were fully effective as of December 31, 2014. There were no amounts reflected in the Consolidated Statements of Earnings and Comprehensive Income for the year ended December 31, 2014 resulting from hedge ineffectiveness (2013 and 2012 - nil).

FAIR VALUE MEASUREMENT

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

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

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

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

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 (c) below) at December 31, 2014 and December 31, 2013, 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.

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NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

Fair Value of financial instruments at:	December 31, 2014	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 under the Derivatives and Hedging Topic of FASB ASC:	**$**	**$**	**$**	**$**	
Asset derivatives					
Currency derivatives	**7**		7		(a) Prepaid expenses
Currency derivatives	**3**		3		(a) Intangible assets and deferred charges
Total Assets	**10**		10		
Liabilities derivatives					
Currency derivatives	**14**		14		(a) Trade and other payables
Currency derivatives	**9**		9		(a) Other liabilities and deferred credits
Natural gas swap contracts	**13**		13		(a) Trade and other payables
Natural gas swap contracts	**6**		6		(a) Other liabilities and deferred credits
Total Liabilities	**42**		42		
Other Instruments:					
Asset backed notes	**11**		10	1	(b) Other assets
Long-term debt	**1,475**		1,475		(c) Long-term debt

The cumulative loss recorded in Other comprehensive (loss) income relating to natural gas contracts of $19 million at December 31, 2014, will be recognized in Cost of sales upon maturity of the derivatives over the next 36 months at the then prevailing values, which may be different from those at December 31, 2014.

The cumulative loss recorded in Other comprehensive (loss) income relating to currency options and forwards hedging forecasted purchases of $13 million at December 31, 2014, will be recognized in Cost of sales or Sales upon maturity of the derivatives over the next 21 months at the then prevailing values, which may be different from those at December 31, 2014.

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Fair Value of financial instruments at:	December 31, 2013	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 under the Derivatives and Hedging Topic of FASB ASC:	$	$	$	$	
Asset derivatives					
Currency derivatives	3		3		(a) Prepaid expenses
Natural gas swap contracts	2		2		(a) Prepaid expenses
Natural gas swap contracts	1		1		(a) Intangible assets and deferred charges
Total Assets	6		6		
Liabilities derivatives					
Currency derivatives	10		10		(a) Trade and other payables
Natural gas swap contracts	1		1		(a) Other liabilities and deferred credits
Total Liabilities	11		11		
Other Instruments					
Asset backed notes	6		5	1	(b) Other assets
Long-term debt	1,620	1,620			(c) 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) ABN are reported at fair value utilizing Level 2 or Level 3 inputs. Fair value of ABN reported under Level 2 is based on current market quotes. Fair value of ABN reported under Level 3 is based on the value of the collateral investments held in the conduit issuer, reduced by the negative value of credit default derivatives, with an additional discount applied for illiquidity. These ABN are held outside of the Company s pension plans.

(c) Fair value of the Company s long-term debt is measured by comparison to market prices of its debt. The debt transferred from Level 1 to Level 2 was due to lower trading activities. In accordance with

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NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

US GAAP, the Company s long-term debt is not carried at fair value on the Consolidated Balance Sheets at December 31, 2014 and December 31, 2013. However, fair value disclosure is required. The carrying value of the Company s long-term debt is $1,350 million and $1,514 million at December 31, 2014 and December 31, 2013, respectively.

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

NOTE 24.

SEGMENT DISCLOSURES

The Company operates in the two reportable segments described below. 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 Segment comprises the design, manufacturing, marketing and distribution of communication, specialty and packaging papers, as well as softwood, fluff and hardwood market pulp.

Personal Care Segment consists of the manufacturing, marketing and distribution of absorbent hygiene products.

The accounting policies of the reportable segments are the same as described in Note 1. The Company evaluates performance based on operating income, which represents sales, reflecting transfer prices between segments at fair value, less allocable expenses before interest expense and income taxes. 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, intangible assets and goodwill used in the generation of sales in the different geographical areas.

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DOMTAR CORPORATION

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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, 2014 $**	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Sales			
Pulp and Paper	**4,674**	4,843	5,088
Personal Care	**928**	566	399
Total for reportable segments	**5,602**	5,409	5,487
Intersegment sales Pulp and Paper	**(39)**	(18)	(5)
Consolidated sales [(1)]	**5,563**	5,391	5,482
Depreciation and amortization and impairment and write-down of property, plant and equipment and intangible assets			
Pulp and Paper	**319**	345	365
Personal Care	**65**	31	20
Total for reportable segments	**384**	376	385
Impairment and write-down of property, plant and equipment and intangible assets Pulp and Paper	**4**	20	14
Impairment and write-down of property, plant and equipment Personal Care		2	
Consolidated depreciation and amortization and impairment and write-down of property, plant and equipment and intangible assets	**388**	398	399
Operating income (loss)			
Pulp and Paper	**323**	171	330
Personal Care	**54**	43	45
Corporate	**(13)**	(53)	(8)
Consolidated operating income	**364**	161	367
Interest expense, net	**103**	89	131
Earnings before income taxes and equity loss	**261**	72	236
Income tax (benefit) expense	**(170)**	(20)	58

Equity loss, net of taxes		1	6
Net earnings	**431**	91	172

(1) In 2014 and 2013, Staples, one of the Company s largest customers in the Pulp and Paper segment, represented approximately 9% (2013 10%) of the total sales.

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NOTE 24. SEGMENT DISCLOSURES (CONTINUED)

SEGMENT DATA (CONTINUED)	December 31, 2014 $	December 31, 2013 $
Segment assets		
Pulp and Paper	**4,102**	4,363
Personal Care	**1,967**	1,272
Total for reportable segments	**6,069**	5,635
Corporate	**116**	643
Consolidated assets	**6,185**	6,278

	Year ended December 31, 2014 $	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Additions to property, plant and equipment			
Pulp and Paper	**161**	147	183
Personal Care	**86**	91	44
Total for reportable segments	**247**	238	227
Corporate	**5**	6	12
Consolidated additions to property, plant and equipment	**252**	244	239
Add: Change in payables on capital projects	**(16)**	(2)	(3)
Consolidated additions to property, plant and equipment per Consolidated Statements of Cash Flows	**236**	242	236

	Year ended December 31, 2014 $	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Geographic information			
Sales			
United States	**3,910**	3,992	4,086
Canada	**591**	638	716

Europe	**659**	375	250
Asia	**257**	281	209
Other foreign countries	**146**	105	221
	5,563	5,391	5,482

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(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 24. SEGMENT DISCLOSURES (CONTINUED)

	December 31, 2014 **$**	December 31, 2013 $
Long-lived assets		
United States	**2,691**	2,800
Canada	**823**	943
Europe	**845**	322
	4,359	4,065

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 Paper Company, LLC, a 100% owned subsidiary of the Company, Domtar Industries LLC (and subsidiaries, excluding Domtar Funding LLC), Ariva Distribution Inc., Domtar Delaware Investments Inc., Domtar Delaware Holdings, LLC, Domtar A.W. LLC (and subsidiary), Domtar AI Inc., Attends Healthcare Products Inc., EAM Corporation, Domtar Personal Care Absorbent Hygiene Inc, and Associated Hygienic Products LLC., all 100% owned subsidiaries of the Company (Guarantor Subsidiaries), on a joint and several basis. The Guaranteed Debt will not be guaranteed by certain of Domtar s own 100% owned subsidiaries; including Domtar Delaware Holdings Inc. and its foreign subsidiaries, including Attends Healthcare Limited, Domtar Inc. and Laboratorios Indas. S.A.U., (collectively the Non-Guarantor Subsidiaries). The subsidiary s guarantee may be released in certain customary circumstances, such as if the subsidiary is sold or sells all of its assets, if the subsidiary s guarantee of the Credit Agreement is terminated or released and if the requirements for legal defeasance to discharge the indenture have been satisfied.

The following supplemental condensed consolidating financial information sets forth, on an unconsolidated basis, the Balance Sheets at December 31, 2014 and December 31, 2013 and the Statements of Earnings and Comprehensive Income and Cash Flows for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 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.

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NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	Year ended December 31, 2014 Parent $	Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $	Consolidating Adjustments $	Consolidated $
Sales		4,440	2,250	(1,127)	5,563
Operating expenses					
Cost of sales, excluding depreciation and amortization		3,762	1,761	(1,127)	4,396
Depreciation and amortization		264	120		384
Selling, general and administrative	29	209	178		416
Impairment and write-down of property, plant and equipment		4			4
Closure and restructuring costs		7	21		28
Other operating loss (income), net	2	(26)	(5)		(29)
	31	4,220	2,075	(1,127)	5,199
Operating (loss) income	(31)	220	175		364
Interest expense (income), net	101	26	(24)		103
(Loss) earnings before income taxes	(132)	194	199		261
Income tax (benefit) expense	(51)	(151)	32		(170)
Share in earnings of equity accounted investees	512	167		(679)	
Net earnings	431	512	167	(679)	431
Other comprehensive loss	(203)	(194)	(168)	362	(203)
Comprehensive income	228	318	(1)	(317)	228

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NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	Year ended December 31, 2013				
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	**Parent $**	**Guarantor Subsidiaries $**	**Non-Guarantor Subsidiaries $**	**Consolidating Adjustments $**	**Consolidated $**
Sales		4,461	1,986	(1,056)	5,391
Operating expenses					
Cost of sales, excluding depreciation and amortization		3,752	1,665	(1,056)	4,361
Depreciation and amortization		266	110		376
Selling, general and administrative	26	245	110		381
Impairment and write-down of property, plant and equipment		10	12		22
Closure and restructuring costs		6	12		18
Other operating (income) loss, net	(3)	40	35		72
	23	4,319	1,944	(1,056)	5,230
Operating (loss) income	(23)	142	42		161
Interest expense (income), net	96	20	(27)		89
(Loss) earnings before income taxes and equity loss	(119)	122	69		72
Income tax (benefit) expense	(54)	7	27		(20)
Equity loss, net of taxes			1		1
Share in earnings of equity accounted investees	156	41		(197)	
Net earnings	91	156	41	(197)	91
Other comprehensive income	4	26	33		63
Comprehensive income	95	182	74	(197)	154

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NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	Year ended December 31, 2012				
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated**
	$	**$**	**$**	**$**	**$**
Sales		4,550	1,918	(986)	5,482
Operating expenses					
Cost of sales, excluding depreciation and amortization		3,682	1,625	(986)	4,321
Depreciation and amortization		298	87		385
Selling, general and administrative	29	285	44		358
Impairment and write-down of property, plant and equipment and intangible assets		7	7		14
Closure and restructuring costs		19	11		30
Other operating loss (income), net		(16)	23		7
	29	4,275	1,797	(986)	5,115
Operating (loss) income	(29)	275	121		367
Interest expense (income), net	137	19	(25)		131
(Loss) earnings before income taxes and equity loss	(166)	256	146		236
Income tax (benefit) expense	(65)	90	33		58
Equity loss, net of taxes			6		6
Share in earnings of equity accounted investees	273	107		(380)	
Net earnings	172	273	107	(380)	172
Other comprehensive income (loss)	2	(2)	(54)		(54)
Comprehensive income	174	271	53	(380)	118

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NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET	December 31, 2014				
	Parent $	Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $	Consolidating Adjustments $	Consolidated $
Assets					
Current assets					
Cash and cash equivalents	79	18	77		174
Receivables		370	258		628
Inventories		495	219		714
Prepaid expenses	11	7	7		25
Income and other taxes receivable	37		17		54
Intercompany accounts	977	4,613	13	(5,603)	
Deferred income taxes		40	35		75
Total current assets	1,104	5,543	626	(5,603)	1,670
Property, plant and equipment, at cost		6,119	2,790		8,909
Accumulated depreciation		(3,985)	(1,793)		(5,778)
Net property, plant and equipment		2,134	997		3,131
Goodwill		296	271		567
Intangible assets, net of amortization		263	398		661
Investments in affiliates	8,015	2,153		(10,168)	
Intercompany long-term advances	6	80	434	(520)	
Other assets	31	11	135	(21)	156
Total assets	9,156	10,480	2,861	(16,312)	6,185
Liabilities and shareholders equity					
Current liabilities					
Bank indebtedness		10			10
Trade and other payables	69	409	243		721
Intercompany accounts	4,582	925	96	(5,603)	
Income and other taxes payable	2	9	15		26
Long-term debt due within one year	166	2	1		169
Total current liabilities	4,819	1,355	355	(5,603)	926
Long-term debt	1,168	2	11		1,181
Intercompany long-term loans	260	260		(520)	
Deferred income taxes and other		675	156	(21)	810
Other liabilities and deferred credits	19	173	186		378
Shareholders equity	2,890	8,015	2,153	(10,168)	2,890

Total liabilities and shareholders equity	**9,156**	**10,480**	**2,861**	**(16,312)**	**6,185**

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NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	December 31, 2013				
CONDENSED CONSOLIDATING BALANCE SHEET	**Parent $**	**Guarantor Subsidiaries $**	**Non-Guarantor Subsidiaries $**	**Consolidating Adjustments $**	**Consolidated $**
Assets					
Current assets					
Cash and cash equivalents	439	22	194		655
Receivables		402	199		601
Inventories		480	205		685
Prepaid expenses	7	7	9		23
Income and other taxes receivable	47	1	13		61
Intercompany accounts	590	3,951	28	(4,569)	
Deferred income taxes		31	21		52
Total current assets	1,083	4,894	669	(4,569)	2,077
Property, plant and equipment, at cost		5,968	2,915		8,883
Accumulated depreciation		(3,734)	(1,860)		(5,594)
Net property, plant and equipment		2,234	1,055		3,289
Goodwill		297	72		369
Intangible assets, net of amortization		272	135		407
Investments in affiliates	7,650	2,097		(9,747)	
Intercompany long-term advances	6	79	654	(739)	
Other assets	28	12	112	(16)	136
Total assets	8,767	9,885	2,697	(15,071)	6,278
Liabilities and shareholders equity					
Current liabilities					
Bank indebtedness	1	13	1		15
Trade and other payables	49	422	202		673
Intercompany accounts	3,941	537	91	(4,569)	
Income and other taxes payable		12	5		17
Long-term debt due within one year		3	1		4
Total current liabilities	3,991	987	300	(4,569)	709
Long-term debt	1,494	4	12		1,510
Intercompany long-term loans	527	212		(739)	
Deferred income taxes and other		891	44	(12)	923
Other liabilities and deferred credits	17	141	200	(4)	354
Shareholders equity	2,738	7,650	2,141	(9,747)	2,782

Total liabilities and shareholders equity	8,767	9,885	2,697	(15,071)	6,278

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NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	December 31, 2014				
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	**Parent $**	**Guarantor Subsidiaries $**	**Non-Guarantor Subsidiaries $**	**Consolidating Adjustments $**	**Consolidated $**
Operating activities					
Net earnings	**431**	**512**	**167**	**(679)**	**431**
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	**(220)**	**(380)**	**124**	**679**	**203**
Cash flows provided from operating activities	**211**	**132**	**291**		**634**
Investing activities					
Additions to property, plant and equipment		**(139)**	**(97)**		**(236)**
Proceeds from disposals of property, plant and equipment			**1**		**1**
Acquisition of business, net of cash acquired			**(546)**		**(546)**
Other			**(5)**		**(5)**
Cash flows used for investing activities		**(139)**	**(647)**		**(786)**
Financing activities					
Dividend payments	**(84)**				**(84)**
Net change in bank indebtedness	**(1)**	**(4)**	**(1)**		**(6)**
Change of revolving bank credit facility	**(160)**				**(160)**
Proceeds from receivables securitization facilities			**90**		**90**
Payments on receivables securitization facilities			**(129)**		**(129)**
Repayment of long-term debt		**(3)**	**(1)**		**(4)**
Stock repurchase	**(38)**				**(38)**
Increase in long-term advances to related parties	**(292)**			**292**	
Decrease in long-term advances to related parties		**10**	**282**	**(292)**	
Other	**4**		**1**		**5**
Cash flows (used for) provided from financing activities	**(571)**	**3**	**242**		**(326)**
Net decrease in cash and cash equivalents	**(360)**	**(4)**	**(114)**		**(478)**
Impact of foreign exchange on cash			**(3)**		**(3)**
Cash and cash equivalents at beginning of year	**439**	**22**	**194**		**655**
Cash and cash equivalents at end of year	**79**	**18**	**77**		**174**

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NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	Year ended December 31, 2013				
	Parent $	Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $	Consolidating Adjustments $	Consolidated $
Operating activities					
Net earnings	91	156	41	(197)	91
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	134	(52)	41	197	320
Cash flows provided from operating activities	225	104	82		411
Investing activities					
Additions to property, plant and equipment		(153)	(89)		(242)
Proceeds from disposals of property, plant and equipment and sale of business		55	6		61
Acquisition of businesses, net of cash acquired		(283)	(4)		(287)
Other			(1)		(1)
Cash flows used for investing activities		(381)	(88)		(469)
Financing activities					
Dividend payments	(67)				(67)
Net change in bank indebtedness	1	(5)	1		(3)
Change of revolving bank credit facility	160				160
Issuance of long-term debt	249				249
Repayment of long-term debt	(71)	(28)	(3)		(102)
Stock repurchase	(183)				(183)
Increase in long-term advances to related parties	(150)		(110)	260	
Decrease in long-term advances to related parties		260		(260)	
Cash flows (used for) provided from financing activities	(61)	227	(112)		54
Net increase (decrease) in cash and cash equivalents	164	(50)	(118)		(4)
Impact of foreign exchange on cash			(2)		(2)
Cash and cash equivalents at beginning of year	275	72	314		661
Cash and cash equivalents at end of year	439	22	194		655

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NOTE 25. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	Year ended December 31, 2012				
	Parent $	Guarantor Subsidiaries $	Non-Guarantor Subsidiaries $	Consolidating Adjustments $	Consolidated $
Operating activities					
Net earnings	172	273	107	(380)	172
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	(87)	(67)	153	380	379
Cash flows provided from operating activities	85	206	260		551
Investing activities					
Additions to property, plant and equipment		(182)	(54)		(236)
Proceeds from disposals of property, plant and equipment		1	48		49
Acquisition of businesses, net of cash acquired		(61)	(232)		(293)
Other			(6)		(6)
Cash flows used for investing activities		(242)	(244)		(486)
Financing activities					
Dividend payments	(58)				(58)
Net change in bank indebtedness		11			11
Issuance of long-term debt	548				548
Repayment of long-term debt	(186)	(5)	(1)		(192)
Stock repurchase	(157)				(157)
Increase in long-term advances to related parties	(47)		(52)	99	
Decrease in long-term advances to related parties		99		(99)	
Other	(1)	1			
Cash flows provided from (used for) financing activities	99	106	(53)		152
Net increase (decrease) in cash and cash equivalents	184	70	(37)		217
Cash and cash equivalents at beginning of year	91	2	351		444
Cash and cash equivalents at end of year	275	72	314		661

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Domtar Corporation

Interim Financial Results (Unaudited)

(in millions of dollars, unless otherwise noted)

2014	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Year**
Sales	$ 1,394	$ 1,385	$ 1,405	$ 1,379	$ 5,563
Operating income	79 (a)	79	120 (b)	86 (c)	364
Earnings before income taxes and equity earnings	54	53	95	59	261
Net earnings	39	40	281 (d)	71	431
Basic net earnings per common share	0.60	0.62	4.34	1.10	6.65
Diluted net earnings per common share	0.60	0.61	4.33	1.10	6.64

2013	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Year**
Sales	$ 1,345	$ 1,312	$ 1,375	$ 1,359	$ 5,391
Operating income (loss)	49 (e)	(30) (f)	49 (g)	93 (h)	161
Earnings (loss) before income taxes and equity earnings	24	(51)	28	71	72
Net earnings (loss)	45	(46)	27	65	91
Basic net earnings (loss) per common share	0.65	(0.69)	0.41	1.00	1.37
Diluted net earnings (loss) per common share	0.65	(0.69)	0.41	1.00	1.36

(a) The operating income for the first Quarter of 2014 includes closure and restructuring costs of $1 million related to our Personal Care segment.

(b) In the third Quarter of 2014, the Company incurred an additional $2 million of closure and restructuring costs related to our Pulp & Paper segment.
In addition, the Company recognized $18 million of Alternative Fuel Tax Credits in income, with no related tax expense.

(c) In the fourth Quarter of 2014, the Company incurred pension settlement costs in the amount of $19 million related to the previously closed Ottawa paper mill.
In addition, the Company recorded $2 million of closure and termination costs and $1 million of inventory obsolescence at its Indianapolis, Indiana converting site.

The company also recorded $3 million inventory obsolescence and $4 million of accelerated depreciation at its Ashdown, Arkansas mill, due to a conversion of a paper machine to a fluff pulp line.

(d) The net earnings for the third Quarter of 2014 includes the recognition of previously unrecognized tax benefits of approximately $204 million as a result of the closure of U.S. federal tax audits for tax years 2009 through 2011, as well as the impact of recognizing $18 million of AFTC income with no related tax expense.

(e) The operating income for the first Quarter of 2013 includes a write-down of property, plant and equipment relating to its Kamloops location of $10 million.

On March 22, 2013, the Company sold the building, remaining equipment and related land of the closed pulp and paper mill in Port Edwards, Wisconsin and recorded a gain on the sale of approximately $10 million. Also, the income for the first quarter of 2013 includes an additional withdrawal liability and charge to earnings of $1 million.

(f) The operating loss for the second Quarter of 2013 includes a settlement of the Weston litigation for a payment by Domtar of $49 million (CDN $50 million).

(g) In the third Quarter of 2013, the Company completed the sale of its Ariva U.S business. The transaction closed at the end of July 2013.

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The Company recorded a loss on sale of business of its Ariva U.S. business of $19 million in the third quarter of 2013.

(h) The operating income for the fourth Quarter of 2013 includes a write-down of property, plant and equipment relating to one of its Pulp and Paper converting locations of $5 million and $2 million relating to its Attends Europe location. The Company recorded an additional loss on sale of business of Ariva U.S. of $1 million in the fourth quarter of 2013.

Also, the Company recorded a gain on sale of land relating to its previously closed Cornwall, Ontario location of $6 million.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this report:

(a) 1. Financial Statements See Part II, 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 Part II, Item 8 or is not applicable.

3. Exhibits:

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q filed with the SEC on August 8, 2008)
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed with the SEC on June 8, 2009)
3.3	Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2009)
4.1	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 parties thereto, 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 (incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed with the SEC on February 21, 2008)
4.2	Second Supplemental Indenture, dated February 20, 2008, among Domtar Corp., Domtar Paper Company, LLC, The Bank of New York, as Trustee, and the new subsidiary guarantor party thereto, 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 (incorporated by reference to Exhibit 4.2 to the Company s Form 8-K filed with the SEC on February 21, 2008)
4.3	Third Supplement Indenture, dated June 9, 2009, among Domtar Corp., The Bank of New York Mellon, as Trustee, and the subsidiary guarantors party thereto, relating to Domtar Corp. s 10.75% Senior Notes due 2017 (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed with the SEC on June 9, 2009)
4.4	Fourth Supplemental Indenture, dated June 23, 2011, among Domtar Corporation, Domtar Delaware Investments Inc., and Domtar Delaware Holdings, LLC and The Bank of New York Melon, as trustee, relating to the Company s 7.125% Notes due 2015, 5.375% Notes due 2013, 9.5% Notes due 2016 and 10.75% Notes due 2017 (incorporated by reference to Exhibit 4.1 to the Company s Form 10-Q filed with the SEC on August 4, 2011)
4.5	Fifth Supplemental Indenture, dated September 7, 2011, among Domtar Corporation, Domtar Delaware Investments Inc. and Domtar Delaware Holdings, LLC, and The Bank of New York Melon, as trustee, relating to the Company s 7.125% Notes due 2015, 5.375% Notes due 2013, 9.5% Notes due 2016 and 10.75% Notes due 2017 (incorporated by reference to Exhibit 4.1 to the Company s Form 10-Q filed with the SEC on November 4, 2011)
9.1	Form of Voting and Exchange Trust Agreement (incorporated by reference to Exhibit 9.1 to the Company s Registration Statement on Form 10, Amendment No. 2 filed with the SEC on January 26, 2007)
10.1	Form of Tax Sharing Agreement (incorporated by reference to Exhibit 10.1 to the Company s Registration Statement on Form 10, Amendment No. 2 filed with the SEC on January 26, 2007)

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Exhibit Number	Exhibit Description
10.2	Form of Transition Services Agreement (incorporated by reference to Exhibit 10.2 to the Company s Registration Statement on Form 10, Amendment No. 2 filed with the SEC on January 26, 2007)
10.3	Form of Site Services Agreement (Plymouth, North Carolina) (incorporated by reference to Exhibit 10.7 to the Company s Registration Statement on Form 10, Amendment No. 2 filed with the SEC on January 26, 2007)
10.4	Form of Fiber Supply Agreement (Princeton, British Columbia) (incorporated by reference to Exhibit 10.10 to the Company s Registration Statement on Form 10, Amendment No. 2 filed with the SEC on January 26, 2007)
10.5	Form of Site Services Agreement (Utilities) (Plymouth, North Carolina) (incorporated by reference to Exhibit 10.17 to the Company s Registration Statement on Form 10, Amendment No. 2 filed with the SEC on January 26, 2007)
10.7	Hog Fuel Supply Agreement (Kenora, Ontario) (incorporated by reference to Exhibit 10.25 to the Company s Registration Statement on Form S-1 filed with the SEC on May 9, 2007)
10.8	Fiber Supply Agreement (Trout Lake and Wabigoon, Ontario) (incorporated by reference to Exhibit 10.26 to the Company s Registration Statement on Form S-1 filed with the SEC on May 9, 2007)
10.9	Form of Intellectual Property License Agreement (incorporated by reference to Exhibit 10.18 to the Company s Registration Statement on Form 10, Amendment No. 2 filed with the SEC on January 26, 2007)
10.10	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.28 to the Company s Registration Statement on Form S-1 filed with the SEC on May 9, 2007)
10.11	Domtar Corporation 2004 Replacement Long-Term Incentive Plan for Former Employees of Weyerhaeuser Company (incorporated by reference to Exhibit 10.30 to the Company s Registration Statement on Form S-1 filed with the SEC on May 9, 2007)*
10.12	Domtar Corporation 1998 Replacement Long-Term Incentive Compensation Plan for Former Employees of Weyerhaeuser Company (incorporated by reference to Exhibit 10.31 to the Company s Registration Statement on Form S-1 filed with the SEC on May 9, 2007)*
10.13	Domtar Corporation Replacement Long-Term Incentive Compensation Plan for Former Employees of Weyerhaeuser Company (incorporated by reference to Exhibit 10.32 to the Company s Registration Statement on Form S-1 filed with the SEC on May 9, 2007)*
10.14	Domtar Corporation Executive Stock Option and Share Purchase Plan (applicable to eligible employees of Domtar Inc. for grants prior to March 7, 2007) (incorporated by reference to Exhibit 10.33 to the Company s Registration Statement on Form S-1 filed with the SEC on May 9, 2007)*
10.15	Domtar Corporation Executive Deferred Share Unit Plan (applicable to members of the Management Committee of Domtar Inc. prior to March 7, 2007) (incorporated by reference to Exhibit 10.29 to the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2009)*
10.16	Domtar Corporation Deferred Share Unit Plan for Outside Directors (for former directors of Domtar Inc.) (incorporated by reference to Exhibit 10.30 to the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2009)*
10.17	Supplementary Pension Plan for Senior Executives of Domtar Corporation (for certain designated senior executives) (incorporated by reference to Exhibit 10.36 to the Company s Registration Statement on Form S-1 filed with the SEC on May 9, 2007)*

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Exhibit Number	Exhibit Description
10.18	Supplementary Pension Plan for Designated Managers of Domtar Corporation (for certain designated management employees) (incorporated by reference to Exhibit 10.32 to the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2009)*
10.19	Domtar Retention Plan (incorporated by reference to Exhibit 10.38 to the Company s Registration Statement on Form S-1 filed with the SEC on May 9, 2007)*
10.20	Domtar Corporation Restricted Stock Plan (applicable to eligible employees of Domtar Inc. for grants prior to March 7, 2007) (incorporated by reference to Exhibit 10.39 to the Company s Registration Statement on Form S-1 filed with the SEC on May 9, 2007)*
10.21	Director Deferred Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on May 24, 2007)*
10.22	Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed with the SEC on May 24, 2007)*
10.23	Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed with the SEC on May 24, 2007)*
10.24	Senior Executive Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed with the SEC on May 24, 2007)*
10.25	Indenture between Domtar Inc. and the Bank of New York dated as of July 31, 1996 relating to Domtar s $125,000,000 9.5% debentures due 2016 (incorporated by reference to Exhibit 10.20 to the Company s registration statement on Form 10, Amendment No. 2 filed with the SEC on January 26, 2007)
10.26	Severance Program for Management Committee Members (incorporated by reference to Exhibit 10.43 to the Company s Annual Report on Form 10-K filed with the SEC on February 25, 2011)*
10.27	Amended and Restated DB SERP for Management Committee Members of Domtar*
10.28	Amended and Restated DC SERP for Designated Executives of Domtar*
10.29	Supplementary Pension Plan for Steven Barker (incorporated by reference to Exhibit 10.48 to the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2009)*
10.30	Form of Indemnification Agreement for members of Pension Administration Committee of Domtar Corporation (incorporated by reference to Exhibit 10.50 to the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2009)*
10.31	Stock Purchase Agreement by and among Attends Healthcare Holdings, LLC, Attends Healthcare, Inc. and Domtar Corporation dated as of August 12, 2011 (incorporated by reference to Exhibit 2.1 to the Company s Form 10-Q filed with the SEC on November 4, 2011)
10.32	Sixth 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 (incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed with the SEC on March 16, 2012)

Exhibit Number	Exhibit Description
10.33	Seventh 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 (incorporated by reference to Exhibit 4.8 to the Company s Form S-3 filed with the SEC on August 20, 2012)
10.34	Eighth 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 (incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed with the SEC on August 23, 2012)
10.35	Amended and Restated Credit Agreement, dated as of October 3, 2014, among the Company, Domtar Paper Company, LLC, Domtar Inc., Canadian Imperial Bank of Commerce, Goldman Sachs Bank USA and Royal Bank of Canada, as co-documentation agents, The Bank of Nova Scotia and Bank of America, N.A., as syndication agents and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company Form 10-Q files with the SEC on October 31, 2014)
10.36	Amended and Restated Domtar Corporation 2007 Omnibus Incentive Plan (incorporated by reference to Annex A to the Corporation s definitive proxy statement filed on Schedule 14A filed with the SEC on March 30, 2012)
10.37	Domtar Corporation Annual Incentive Plan (incorporated by reference to Annex B to the Corporation s definitive proxy statement filed on Schedule 14A filed with the SEC on March 30, 2012)
10.38	Employment agreement of Mr. Michael Fagan* (incorporated by reference to Exhibit 10.48 to the Company s form 10-K filed with the SEC on February 28, 2013)
10.39	Amended and Restated Supplementary Pension Plan for Designated Managers of Domtar Corporation (for certain designated management employees)*
10.40	Amended and Restated DB SERP for Management Committee Members of Domtar*
10.41	Amended and Restated DC SERP for Designated Executives of Domtar*
10.42	Amended and Restated Employment Agreement of Mr. John D. Williams* (incorporated by reference to Exhibit 10.1 to the Company s form 10-Q filed with the SEC on August 2, 2013)
10.43	Retirement Agreement of Mr. Michael Edwards*
10.44	First amendment, dated as of September 13, 2013, to the Amended and Restated Credit Agreement among the Company, Domtar Paper Company, LLC, Domtar Inc., Canadian Imperial Bank of Commerce, Goldman Sachs Lending Partners LLC and Royal Bank of Canada, as co-documentation agents, The Bank of Nova Scotia and Bank of America, N.A., as syndication agents and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company Form 10-Q filed with the SEC on November 1, 2013)
10.45	Ninth Supplemental Indenture, dated as of July 31, 2013, among Domtar Corporation, the subsidiary guarantors party thereto, and The Bank of New York Mellon (formerly the Bank of New York), as trustee, relating to the guarantee by Domtar Personal Care Absorbent Hygiene Inc. and Associated Hygienic Products LLC of the obligations under the Indenture (incorporated by reference to Exhibit 4.10 to the Company s Form S-3ASR filed with the SEC on October 1, 2013)

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Exhibit Number	Exhibit Description
10.46	Tenth 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 (incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed with the SEC on November 26, 2013)
10.47	DC SERP for Designated Executives of Domtar Personal Care*
10.48	Employment agreement of Mr. Michael D. Garcia* (incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q filed with the SEC on August 1, 2014)
12.1	Computation of Ratio of Earnings to Fixed Charges
21.1	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
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Extension Presentation Linkbase

* Indicates management contract or compensatory arrangement
** Filed herewith.

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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				
2014	4	2		6
2013	4	2	(2)	4
2012	5	1	(2)	4

	Balance at beginning of year $	Charged to income $	Deductions from reserve $	Balance at end of year $
Valuation Allowance on Deferred Tax Assets				
2014	19	7	(1)	25
2013	14	5		19
2012	4	1	9	14

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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 Montreal, Quebec, Canada, on March 6, 2015.

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 the 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	March 6, 2015
/s/ Daniel Buron Daniel Buron	Senior Vice-President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 6, 2015
/s/ Giannella Alvarez Giannella Alvarez	Director	March 6, 2015
/s/ Robert E. Apple Robert E. Apple	Director	March 6, 2015
/s/ Louis P. Gignac Louis P. Gignac	Director	March 6, 2015
/s/ David J. Illingworth David J. Illingworth	Director	March 6, 2015
/s/ Brian M. Levitt Brian M. Levitt	Director	March 6, 2015
/s/ David G. Maffucci David G. Maffucci	Director	March 6, 2015
/s/ Domenic Pilla Domenic Pilla	Director	March 6, 2015

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Signature	Title	Date
/s/ Robert J. Steacy Robert J. Steacy	Director	March 6, 2015
/s/ Pamela B. Strobel Pamela B. Strobel	Director	March 6, 2015
/s/ Denis Turcotte Denis Turcotte	Director	March 6, 2015