Domtar CORP
Form 424B3
November 14, 2007
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Filed Pursuant to Rule 424(b)(3)

Registration No. 333-142765

Prospectus Supplement No. 2

(to Prospectus dated June 22, 2007)

This Prospectus Supplement No. 2 supplements and amends the prospectus dated June 22, 2007, as previously supplemented by Prospectus Supplement No. 1, dated August 16, 2007, which we refer to together as the Prospectus. The Prospectus relates to the issuance by us from time to time of an aggregate of 75,004,303 shares of our common stock in exchange for exchangeable shares of our special purpose subsidiary, Domtar (Canada) Paper Inc.

On November 9, 2007, we filed with the Securities and Exchange Commission our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007. A copy of such Quarterly Report on Form 10-Q, without exhibits, is attached to and constitutes an integral part of this Prospectus Supplement No. 2.

This Prospectus Supplement No. 2 should be read in conjunction with the Prospectus, which is to be delivered with this Prospectus Supplement No. 2. This Prospectus Supplement No. 2 is qualified by reference to the Prospectus except to the extent that the information in this Prospectus Supplement No. 2 supersedes the information contained in the Prospectus.

In reviewing the Prospectus and this Prospectus Supplement No. 2, you should carefully consider the risks under Risk Factors beginning on page 9 of the prospectus, dated June 22, 2007, as updated by the risk factors discussed in Item 1A of Part II of the Form 10-Q attached hereto.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if the Prospectus or this Prospectus Supplement No. 2 is truthful or complete. Any representation to the contrary is a criminal offense.

With respect to the unaudited consolidated financial information of Domtar Corporation for the thirteen-week and thirty-nine week periods ended September 30, 2007 PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated November 9, 2007 appearing herein, states that they did not audit and they do not express an opinion on that unaudited consolidated financial information. PricewaterhouseCoopers LLP has not carried out any significant or additional tests beyond those that would have been necessary if their report had not been included. Accordingly, the degree of reliance on their report should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended, for their report on the unaudited consolidated financial information because that report is not a report or a part of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933, as amended.

The date of this Prospectus Supplement No. 2 is November 13, 2007.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from________to_______

COMMISSION FILE NUMBER 001-33164

DOMTAR CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**20-5901152**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

395 de Maisonneuve West, Montreal, Quebec H3A 1L6 Canada

(Address of principal executive offices) (zip code)

(514) 848-5555

(Registrant s telephone number)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

At October 31, 2007, 466,179,860 shares of the issuer s voting common stock were outstanding.

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FORM 10-Q

For the Quarterly Period Ended September 30, 2007

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

DOMTAR CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 30 2007	September 24 2006	September 30 2007	September 24 2006
(In millions of US dollars, unless otherwise noted)		(Unaudited)		
	$	$	$	$
Sales	**1,660**	795	**4,294**	2,433
Operating expenses				
Cost of sales, excluding depreciation and amortization	**1,283**	605	**3,418**	2,023
Depreciation and amortization	**128**	77	**337**	229
Selling, general and administrative	**126**	44	**276**	131
Impairment of goodwill (NOTE 10)				749
	1,537	726	**4,031**	3,132
Operating income (loss)	**123**	69	**263**	(699)
Interest expense	**48**		**106**	
Income (loss) before income taxes	**75**	69	**157**	(699)
Income tax expense (NOTE 7)	**39**	21	**61**	12
Net income (loss)	**36**	48	**96**	(711)
Per common share (in dollars) (NOTE 5)				
Net income (loss)				
Basic	**0.07**	0.17	**0.21**	(2.50)
Diluted	**0.07**	0.17	**0.21**	(2.50)
Weighted average number of common and exchangeable shares outstanding (millions)				
Basic	**515.4**	284.1	**459.6**	284.1
Diluted	**517.8**	284.1	**461.5**	284.1

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

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DOMTAR CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(In millions of US dollars)	As at September 30 2007 (Unaudited) $	 December 31 2006 $
Assets		
Current assets		
Cash and cash equivalents	**136**	1
Receivables, less allowances of $9 and $2 (NOTE 8)	**595**	340
Inventories (NOTE 9)	**1,018**	520
Prepaid expenses	**25**	6
Income and other taxes receivable	**9**	
Deferred income taxes (NOTE 7)	**62**	22
Total current assets	**1,845**	889
Property, plant and equipment, at cost	**10,007**	6,696
Accumulated depreciation	**(4,072)**	(3,631)
Net property, plant and equipment	**5,935**	3,065
Goodwill (NOTE 10)	**141**	14
Intangible assets, net of amortization	**30**	
Other assets (NOTE 11)	**110**	30
Total assets	**8,061**	3,998
Liabilities and shareholders equity		
Current liabilities		
Bank indebtedness	**75**	
Trade and other payables	**750**	250
Income and other taxes payable	**79**	6
Long-term debt due within one year (NOTE 13)	**19**	12
Total current liabilities	**923**	268
Long-term debt (NOTE 13)	**2,356**	32
Deferred income taxes (NOTE 7)	**1,144**	758
Other liabilities and deferred credits (NOTE 14)	**426**	25
Commitments and contingencies (NOTE 16)		
Shareholders equity		
Business Unit equity		2,852
Common stock (NOTE 15)	**5**	
Exchangeable shares (NOTE 15)	**343**	
Additional paid-in capital	**2,497**	
Retained earnings	**73**	
Accumulated other comprehensive income	**294**	63
Total shareholders equity	**3,212**	2,915
Total liabilities and shareholders equity	**8,061**	3,998

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

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DOMTAR CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(In millions of US dollars, unless otherwise noted)	**Issued and outstanding common and exchangeable stock (millions of shares)**	**Common stock, at par**	**Exchangeable shares**	**Business Unit equity**	**Additional paid-in capital**	**Retained earnings**	**Accumulated other comprehensive income**	**Total shareholders equity**
				(Unaudited)				
		$	**$**	**$**	**$**	**$**	**$**	**$**
Balance as at December 31, 2006				2,852			63	**2,915**
Contribution of Weyerhaeuser fine paper business to Domtar Corporation	284.1	3						**3**
Net income to March 6, 2007				23				**23**
Distribution to Weyerhaeuser Co prior to March 7, 2007				(1,431)				**(1,431)**
Acquisition of Domtar Inc.	231.0	2	500		1,032			**1,534**
Post closing adjustments (NOTE 1)				(138)			5	**(133)**
Transfer of business unit equity				(1,306)	1,306			
Conversion of exchangeable shares			(157)		157			
Issuance of common shares	0.3				2			**2**
Net income from March 7 to September 30, 2007 (NOTE 1)						73		**73**
Foreign currency translation adjustments, net of tax impact							222	**222**
Losses and prior service cost related to pension and postretirement benefit plans							4	**4**
Balance as at September 30, 2007	**515.4**	**5**	**343**		**2,497**	**73**	**294**	**3,212**

COMPREHENSIVE INCOME

(In millions of US dollars)	**Thirteen weeks ended September 30 2007**	**Thirteen weeks ended September 24 2006**	**Thirty-nine weeks ended September 30 2007**	**Thirty-nine weeks ended September 24 2006**
		(Unaudited)		
	$	**$**	**$**	**$**
Net income (loss)	**36**	48	**96**	(711)
Other comprehensive income (loss)				
Foreign currency translation adjustments, net of tax impact	**82**	3	**222**	29
Losses and prior service cost related to pension and postretirement benefit plans			**4**	
Net change in cash flow fair value adjustments, net of tax		(5)		(18)
Comprehensive income (loss)	**118**	46	**322**	(700)

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

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DOMTAR CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 30 2007	September 24 2006	September 30 2007	September 24 2006
(In millions of US dollars)		(Unaudited)		
	$	$	$	$
Operating activities				
Net income (loss)	**36**	48	**96**	(711)
Adjustments to reconcile income to cash flows from operating activities				
Depreciation and amortization	**128**	77	**337**	229
Deferred income taxes	**(10)**	(24)	**(25)**	(22)
Impairment of goodwill				749
Other	**1**	17	**2**	17
Changes in assets and liabilities, net of effects of acquisition				
Receivables	**(70)**	(27)	**(126)**	(28)
Inventories	**5**	(19)	**22**	44
Prepaid expenses	**3**	3	**(4)**	(4)
Trade and other payables	**15**	(46)	**60**	(63)
Income and other taxes	**37**		**68**	
Other assets and other liabilities	**(1)**	1	**(6)**	1
Cash flows provided from operating activities	**144**	30	**424**	212
Investing activities				
Additions to property, plant and equipment	**(19)**	(12)	**(65)**	(53)
Proceeds from disposals of property, plant and equipment	**1**		**23**	
Business acquisitions cash acquired			**573**	
Other	**3**		**(1)**	
Cash flows provided from (used for) investing activities	**(15)**	(12)	**530**	(53)
Financing activities				
Net change in bank indebtedness	**(6)**		**(9)**	
Issuance of short-term debt			**1,350**	
Issuance of long-term debt			**800**	
Repayment of short-term debt			**(1,350)**	
Repayment of long-term debt	**(75)**	(1)	**(156)**	(4)
Debt issue costs			**(24)**	
Distribution to Weyerhaeuser prior to March 7, 2007		(18)	**(1,431)**	(155)
Other			**(5)**	
Cash flows used for financing activities	**(81)**	(19)	**(825)**	(159)
Net increase (decrease) in cash and cash equivalents	**48**	(1)	**129**	
Translation adjustments related to cash and cash equivalents	**8**		**6**	
Cash and cash equivalents at beginning of period	**80**	2	**1**	1
Cash and cash equivalents at end of period	**136**	1	**136**	1

Supplemental cash flow information		
Net cash payments for:		
Interest	**45**	**88**
Income taxes	**17**	**38**

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

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BACKGROUND

Domtar Corporation (the Company or Domtar) was incorporated on August 16, 2006 for the sole purpose of holding the Weyerhaeuser Fine Paper Business (the Business Unit) and consummating the combination of the Business Unit with Domtar Inc. (the Transaction). The Business Unit was operated by Weyerhaeuser Company (Weyerhaeuser) prior to the completion of the Transaction.

On August 22, 2006, Weyerhaeuser and certain wholly owned subsidiaries entered into an agreement with Domtar Inc. providing for:

- A series of transfers and other transactions resulting in the Business Unit becoming wholly owned by the Company (the Contribution);
- The distribution of shares of the Company to Weyerhaeuser shareholders (the Distribution); and
- The combination of Domtar Inc., treated as a purchase for accounting purposes, with the Company.

The Transaction was consummated on March 7, 2007. Domtar Corporation had no operations prior to March 7, 2007 when, upon the completion of the Transaction, it became an independent public holding company that, directly or indirectly through its subsidiaries, owns the Business Unit and Domtar Inc. As of the date of consummation of the Transaction Domtar Corporation is referred to as the Successor.

Domtar Inc. is an integrated manufacturer of uncoated free sheet with pulp, paper and converting facilities in Canada and the United States. Domtar Inc. s paper business is the most significant segment. In addition to the paper business, Domtar Inc. manufactures and markets lumber and wood-based value-added products and engages in the paper merchants business, which involves the purchasing, warehousing, sale and distribution of various paper products made by Domtar Inc. and by other manufacturers.

The Business Unit consists of pulp and paper mills, converting operations, sawmills, forest management licenses and related assets. These facilities are principally engaged in the harvesting of timber and the manufacture, distribution and sale of paper, pulp, and forest products, including softwood lumber.

Although Weyerhaeuser Company does not have a continuing proprietary interest in Domtar Corporation, the Company entered into several agreements with Weyerhaeuser Company and/or certain of its subsidiaries in connection with the Transaction, including a tax sharing agreement, an intellectual property licensing agreement, a transition services agreement, fiber and pulp supply agreements and site services agreements. These agreements enable the Company to continue to operate the Business Unit efficiently following the completion of the Transaction.

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION

The Contribution constituted a transfer of net assets between entities under common control, and as a result, the Company reports the accounts of the Business Unit at their historical cost or carry over basis as of the date of the Contribution. The agreements giving effect to the spin-off of the Business Unit, provide for various post-closing transaction adjustments and the resolution of outstanding matters, which are expected to be addressed by the parties during 2007. The post-closing adjustments made through September 30, 2007 are as follows: $41 million increase in long-term liabilities and decrease in Business Unit equity related to the recognition of post-retirement benefit obligations that were assumed as part of the Transaction but were not reflected in the historical carve out financial statements of the Weyerhaeuser Fine Paper Business; assumed $48 million increase in deferred tax liabilities and decrease in Business Unit equity related to the contribution of Canadian assets with a tax basis that was different Post-Transaction than was assumed in the carve out financial statements; $44 million decrease in property, plant and equipment related to differences in the carve out basis of shared assets versus the basis of assets actually transferred in the transaction. Certain balance sheet matters remain under discussion with Weyerhaeuser. Resolution of these discussions may lead to an adjustment to additional paid-in capital or results of operations.

The combination of Domtar Inc. with the Company constituted, for accounting purposes, the acquisition of Domtar Inc. by Domtar Corporation and, as a result, the Company reports the results of Domtar Inc. starting on March 7, 2007.

For accounting and financial reporting purposes, the Business Unit is considered to be the surviving entity following the Transaction and, as a result, the Company is required to present historical financial statements as though it owned only the Business Unit and not Domtar Inc. prior to the Transaction, because the Company had no operations and substantially no assets prior to the Contribution, the Predecessor financial statements are those of the Business Unit. Accordingly, the results reported for the thirty-nine weeks ended September 24, 2006 include only the results of operations of the Predecessor for the entire period and the results reported for the thirty-nine weeks ended September 30, 2007 include the results of operations of the Predecessor for the period from January 1, 2007 to March 6, 2007 and the results of operations of the Successor for the period from March 7, 2007 to September 30, 2007.

The accompanying unaudited interim consolidated financials statements of the Company, prepared in accordance with the applicable rules of the Securities and Exchange Commission, contain all adjustments necessary to present fairly Domtar Corporation s financial position as at September 30, 2007 and as at December 31, 2006 as well as the results of operations and the cash flows for the thirteen and thirty-nine week periods ended September 30, 2007 and September 24, 2006. The results of operations for the thirteen and thirty-nine week periods ended September 30, 2007 and September 24, 2006, should not be regarded as necessarily indicative of the results that may be expected for the full year. While management believes that the disclosures presented are adequate, these unaudited interim consolidated financial statements and notes do not include all of the information and disclosures required by generally accepted accounting principles in the United States of America for annual financial statements. Additional information is contained in the Predecessor annual combined financial statements and notes, filed on Form 8-K/A on June 22, 2007.

To conform with the basis of presentation adopted in the current period, certain figures previously reported in 2006 have been reclassified. For purposes of comparability between periods as well as ease of readability, the Predecessor financial statements included herein have been renamed to conform to the conventions used for the September 30, 2007 interim financial statements including the reference to consolidated financial statements. The consolidated financial statements include the accounts of Domtar Corporation and all wholly-owned subsidiaries.

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PREDECESSOR FINANCIAL STATEMENTS FOR PERIODS PRIOR TO MARCH 7, 2007

The combined financial statements of the Business Unit have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for the purpose of presenting the Business Unit s financial position, results of operations and cash flows. Other than the audited carve out financial statements for the periods of 2003 through 2006, separate financial statements historically have not been prepared for the Business Unit. The combined financial statements have been derived from historical accounting records of Weyerhaeuser. The historical operating results and cash flows of the Business Unit may not be indicative of what they would have been had the Business Unit been a stand-alone entity, nor are they necessarily indicative of what the Business Unit s operating results and cash flows may be in the future.

The combined statements of operations for the Business Unit include allocations of certain costs from Weyerhaeuser directly related to the operations of the Business Unit, including an apportionment of certain centralized general and administrative costs for accounting, human resources, purchasing, information systems, transaction services, payroll processing costs, legal fees and other overhead costs. These centralized costs were allocated to the Business Unit using a three-part apportionment factor based on relative headcount, assets and certain revenue. Weyerhaeuser pension and post-retirement benefits expense was allocated based on relative salaried headcount, with the exception of pension expense of four Canadian pension plans related solely to the Business Unit which are directly included in the combined statements of operations.

Management believes the methodology applied for the allocation of these costs is reasonable. Except for an immaterial amount of interest on capital leases and debt that was assumed by the Company, interest expense has not been allocated to the Business Unit.

Certain of the Business Unit s working capital assets and liabilities were common assets and liabilities shared with Weyerhaeuser facilities not part of the Business Unit. Allocations were performed in order to reflect the appropriate portion of each asset and liability in the accounts of the Business Unit. The allocations were based on third party sales percentages, headcount percentages or a three-part apportionment factor based on relative headcount, assets and certain revenue. Goodwill is allocated based on relative fair value. Management believes the methodology used for the asset and liability allocations is reasonable.

Significant differences in the funding and operation of the Business Unit may have existed if it operated as an independent, stand-alone entity, including the need for debt and the incurrence of interest expense, which could have had a significant impact on the financial position and results of operations.

USE OF ESTIMATES

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which require 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, including those related to environmental matters, useful lives, impairment of long-lived assets and goodwill, pension and other employee future benefit plans, income taxes, closure and restructuring costs and asset retirement obligations, based on currently available information. Actual results could differ from those estimates.

DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TRANSLATION OF FOREIGN CURRENCIES

Self-Sustaining Foreign Operations

The local currency is considered the functional currency for the company s operations outside the United States. For foreign subsidiaries that are considered financially and operationally self-sustaining, the current rate method of translation of foreign currencies has been used. Under this method, assets and liabilities are translated into U.S. dollars at the rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rates during the year. All gains and losses arising from the translation of the financial statements of these foreign subsidiaries are included in the Accumulated other comprehensive income account under Shareholders equity.

VARIABLE INTEREST ENTITIES

Variable interest entities (VIE) are entities in which equity investors do not have a controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. Domtar Corporation consolidates the VIE if Domtar Corporation is considered the VIE s primary beneficiary, defined as the party that receives the majority of the expected residual returns and/or that absorbs the majority of the entity s expected losses. As a result, Domtar Corporation consolidates the operations of Wapawekka Lumber LP (Wapawekka). Wapawekka is a 51% owned limited partnership that operates a sawmill in Saskatchewan, Canada.

REVENUE RECOGNITION

Domtar Corporation recognizes revenue when persuasive evidence of an arrangement exists, when goods are shipped, when there are no uncertainties surrounding product acceptance, when the related revenue is fixed or determinable, when collection is considered reasonably assured and when the customer takes title and assumes the majority of the risks and rewards of ownership.

SHIPPING AND HANDLING COSTS

The Company classifies shipping and handling costs as a component of cost of sales in the consolidated statements of income.

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 bases of the assets and liabilities. The change in the net deferred tax asset or liability is included in earnings. Deferred tax assets and liabilities are measured using enacted tax rates and laws expected to apply in the years in which the assets and liabilities are expected to be recovered or settled.

The Company recognizes interest and penalties related to income tax matters in Income tax expense.

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.

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECEIVABLES

Receivables are recorded at cost net of a provision for doubtful accounts that is based on expected collectibility. Gains or losses on securitization of receivables are calculated as the difference between the carrying amount of the receivables sold and the sum of the cash proceeds on sale and the fair value of the retained subordinate interest in such receivables on the date of transfer. Fair value is determined on a discounted cash flow basis. Costs related to the sales of receivables are recognized in earnings under Interest expense in the period when the sale occurs.

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 domestic raw materials, in process and finished goods inventories. The balance of domestic 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.

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 timber limits and timberlands, 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 are amortized over periods of 10 to 40 years and machinery and equipment over periods of 3 to 20 years. The depreciation expense is reported net of the amount of the amortization of deferred credits related to property, plant and equipment. No depreciation is recorded on assets under construction.

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 their net book value 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.

GOODWILL

Goodwill is not amortized and is subject to an annual impairment test, or more frequently if events or changes in circumstances indicate that it might be impaired. Testing for impairment is accomplished mainly by determining whether the fair value of a reporting unit, based upon discounted cash flows, exceeds the net carrying amount of that reporting unit as of the assessment date. If the fair value is greater than the net carrying amount, no impairment is necessary. In the event that the net carrying amount exceeds the sum of the discounted cash flows, a second test must be performed whereby the fair value of the reporting unit s goodwill must be estimated to determine if it is less than its net carrying amount. Fair value of goodwill 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 reporting unit.

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.

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ENVIRONMENTAL COSTS

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 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 and are recorded when remediation efforts are likely and can be reasonably determined.

ASSET RETIREMENT OBLIGATIONS

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. 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 a credit adjusted risk-free interest rate.

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Domtar Corporation uses the fair value based approach of accounting for stock-based payments to directors and employees and for stock options granted to the employees. Any consideration paid by plan participants on the exercise of share options or the purchase of shares is credited to additional paid-in capital.

Unless otherwise determined at the time of the grant, time-based awards vest in approximately equal instalments over four 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. Awards may be subject to both performance and time-based vesting. The contributed surplus component of the stock-based compensation is transferred to common shares upon the issuance of shares of common stock.

Deferred Share Units vest immediately at the grant date and are remeasured at each reporting period, until settlement, using the quoted market value. The cost of the common stock acquired by the Company under the Restricted Stock Plan is amortized over the restricted period. Deferred Share Units and common stock acquired under the Restricted Stock Plan are accounted for in compensation expense, in Other liabilities and deferred credits and Other assets.

DERIVATIVE INSTRUMENTS

Derivative instruments are contracts that require or provide an option to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts. Derivative instruments are utilized by Domtar Corporation in the management of the foreign currency price risk on certain purchases and sales and interest rate exposures.

DERIVATIVES DESIGNATED FOR HEDGE ACCOUNTING

In order for a derivative to qualify for hedge accounting, the hedge relationship must be designated and formally documented at its inception, outlining the particular risk management objective and strategy, the specific asset, liability or cash flow being hedged, as well as how effectiveness is assessed. The derivative must be effective in accomplishing the objective of offsetting either changes in the fair value or cash flow attributable to the risk being hedged both at inception and over the term of the hedging relationship.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 to these derivative instruments.

In a fair value hedge, hedging activities are carried at fair value, with changes in fair value recognized in the consolidated statement of income. The changes in fair value of the hedged item attributable to the hedged risk is also recorded in the consolidated statement of income by way of a corresponding adjustment of the carrying amount of the hedged items recognized in the consolidated balance sheet.

In a cash flow hedge, the changes in fair value of derivative financial instruments is recorded in other comprehensive income. These amounts are reclassified in the consolidated statement of income in the periods in which results are affected by the cash flows of the hedged item. Hedges of net investments in self-sustaining operations are treated in a manner similar to cash flow hedges. Any hedge ineffectiveness is recorded in the consolidated statement of income.

DERIVATIVES NOT DESIGNATED FOR HEDGE ACCOUNTING

In conjunction with the Transaction, the various financial instruments of Domtar Inc. were recorded at fair value and, as such, did not meet the requirements for hedge accounting. As a result, Domtar Corporation accounts for these contracts at their fair value with resulting gains and losses being included in Selling, general and administrative expenses.

PENSIONS

Domtar Corporation s plans include funded and unfunded defined benefit pension plans and defined contribution plans. Domtar Corporation recognizes the overfunded or underfunded status of defined benefit 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-related value determined using a five-year moving average market value for equity securities and fair value for other asset classes,
- 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 13 years of the active employee group covered by the plans,

The amortization of cumulative net actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or market-related value of plan assets at the beginning of the year over the average remaining service period of approximately 13 years of the active employee group covered by the plans.

The defined benefit plans obligations are determined in accordance with the projected benefit method prorated on services.

OTHER EMPLOYEE FUTURE BENEFIT PLANS

Domtar Corporation recognizes the underfunded status of other post-retirement plans (other than multiemployer plans) as an asset or liability in the statement of financial position. These benefits, which are funded by Domtar Corporation as they become due, include life insurance programs, medical and dental benefits and short-term and long-term disability programs. Domtar Corporation 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 15 years of the active employee group covered by the plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT TAX CREDITS

Investment tax credits are recognized in earnings as a reduction of income tax expenses when Domtar Corporation has made the qualifying expenditures and has a reasonable assurance that the credits will be realized.

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 are accounted for at fair value.

NOTE 2. ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

ACCOUNTING FOR PLANNED MAJOR MAINTENANCE

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Staff Position AUG AIR-1, Accounting for Planned Major Maintenance Activities. This Staff Position prohibits the use of the previously acceptable accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The three accounting methods permitted under the Staff Position are: 1) direct expensing method, 2) built-in overhaul method and 3) deferral method. On January 1, 2007, the Company adopted retroactively with restatement of prior periods the direct expensing method. The Company previously used the accrue-in-advance method for interim periods. The adoption of this Staff Position had no significant impact on the annual consolidated financial statements.

UNCERTAINTY IN INCOME TAXES

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48). This interpretation, which the Company adopted on January 1, 2007, clarifies the accounting for uncertain tax positions recognized in a company s financial statements in accordance with Statement 109. FIN 48 prescribes a more likely than not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification of a liability for unrecognized tax benefits, accounting for interest and penalties, accounting in interim periods, and expanded income tax disclosures. The adoption of this Interpretation had no significant impact on the consolidated financial statements.

IMPACT OF ACCOUNTING PRONOUNCEMENTS NOT YET IMPLEMENTED

Fair Value Option

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value. Under FAS 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions, as long as it is applied to the instrument in its entirety. The Company is currently evaluating the effect that FAS 159 will have on the financial position and results of operations for fair value measurements incurred after the adoption in fiscal 2008.

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 2. ACCOUNTING CHANGES (CONTINUED)

Fair Value Measurements

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (FAS 157). FAS 157 establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The Company is currently evaluating the effect that FAS 157 will have on the financial position and results of operations for fair value measurements incurred after the adoption in fiscal 2008.

NOTE 3. BUSINESS COMBINATION

As discussed in Note 1, on March 7, 2007, Domtar Corporation completed the Transaction to combine the Weyerhaeuser Fine Paper Business with Domtar Inc. Under the Transaction, Domtar Corporation issued 155,947,307 common stock and 75,004,303 exchangeable shares to acquire Domtar Inc. Domtar Inc. is an integrated manufacturer of uncoated freesheet in North America with four pulp and paper mills in Canada and five in the United States. This Transaction was considered, for accounting purposes, as the acquisition of Domtar Inc. by Domtar Corporation and has been accounted for using the purchase method. Accordingly, the purchase price is based upon the estimated fair value of Domtar Corporation common stock issued plus acquisition costs directly related to the Transaction. Since no quoted market price existed for the shares of the Company s common stock, the purchase price is based on the fair value of the net assets acquired on August 23, 2006, the date on which the terms of the Transaction were agreed to and announced. The fair value of Domtar Inc. common shares of $6.63 per share used in the calculation of the purchase price is based upon the average closing price of Domtar Inc. common shares on the Toronto Stock Exchange for the five trading days beginning August 21, 2006 and ended August 25, 2006, converted at the average daily foreign exchange rate of the Bank of Canada. The number of outstanding Domtar Inc. common shares used in the calculation of the fair value is based on the same periods.

The following table summarizes the components of the total purchase price (in millions of dollars):

	(Unaudited) $
231,436,850 common shares of Domtar Inc. outstanding at an average closing price of $6.63 per share	1,534
Direct acquisition costs	28
Estimated total purchase price, net of assumed debt	**1,562**

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 3. BUSINESS COMBINATION (CONTINUED)

The total purchase price is allocated to tangible and intangible assets acquired and liabilities assumed based on the Company s preliminary estimates of their fair value, which are based on information currently available. The Company is in the process of completing the valuation of certain assets and liabilities and expects to complete such valuation in the fourth quarter of 2007. Accordingly, the final allocation of the fair value to the assets acquired and liabilities assumed could differ materially from the amounts presented in the consolidated financial statements. The principal significant elements for which the fair value could be modified include stores inventories, property, plant and equipment, intangible assets, goodwill, deferred income taxes, pension plans and other employee future benefit plans.

The Company has refined the preliminary purchase price allocation in the third quarter of 2007. This refinement did not result in a significant variation in the preliminary purchase price allocation compared to the allocation previously reported as of July 1, 2007.

The table below illustrates the preliminary purchase price allocation:

(In millions of US dollars)	**(Unaudited)** **$**
Fair value of net assets acquired at the date of acquisition	
Cash and cash equivalents	**573**
Receivables	**166**
Inventories	**495**
Prepaid expenses	**12**
Income and other taxes receivable	**7**
Deferred income taxes current	**18**
Property, plant and equipment	**2,822**
Intangible assets	**29**
Deferred income tax assets non-current	**107**
Goodwill	**106**
Other assets	**60**
Total assets	**4,395**
Less: Liabilities	
Bank indebtedness	**67**
Trade and other payables	**388**
Income and other taxes payable	**15**
Long-term debt due within one year	**1**
Long-term debt	**1,660**
Deferred income tax liability non-current	**363**
Other liabilities and deferred credits	**311**
Minority interests	**28**
Total liabilities	**2,833**
Fair value of net assets acquired at the date of acquisition	**1,562**

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DOMTAR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 3. BUSINESS COMBINATION (CONTINUED)

The two main components of the preliminary intangible asset amount are $10 million for customer relationships and $19 million for favorable natural gas contracts. The intangible assets related to customer relationships are amortized on a straight line basis over the estimated useful life of 5 years and the natural gas contracts will be amortized over a period of 3 years based on the life of the contracts.

The following unaudited information for the thirteen weeks ended September 30, 2007 and the unaudited pro-forma information for the thirty-nine weeks ended September 30, 2007, the thirteen weeks ended September 24, 2006 and the thirty-nine weeks ended September 24, 2006 presents a summary of consolidated results of operations of the Company as if the combination had occurred at the beginning of the respective fiscal periods. These pro forma results have been prepared for comparative purposes only.

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 30 2007	September 24 2006	September 30 2007	September 24 2006
(In millions of US dollars, unless otherwise noted)		(Unaudited)		
	$	$	$	$
Sales	**1,634**	1,689	**4,878**	5,076
Operating expenses, excluding depreciation and amortization	**1,383**	1,416	**4,248**	5,309
Depreciation and amortization	**128**	124	**376**	367
Operating income (loss)	**123**	149	**254**	(600)
Income (loss) before income taxes	**75**	90	**117**	(752)
Net income (loss) applicable to common stock	**36**	69	**63**	(739)
Basic income (loss) per share	**0.07**	0.13	**0.12**	(1.43)
Diluted income (loss) per share	**0.07**	0.13	**0.12**	(1.43)
Basic weighted average number of common shares outstanding (millions)	**515.4**	515.1	**515.1**	515.1
Diluted weighted average number of common shares outstanding (millions)	**517.8**	515.1	**515.1**	515.1

The above includes a charge of $749 million for the impairment of goodwill in the first quarter of 2006, not deductible for tax. The above also includes a charge of $29 million for transaction related costs of Domtar Inc. incurred in the first quarter of 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 4. STOCK-BASED COMPENSATION

2007 OMNIBUS STOCK INCENTIVE PLAN

Under the Omnibus Stock Incentive Plan (the Omnibus Plan), the Company may award to executives and other key employees non-qualified stock options, incentive stock options, stock appreciation rights, shares of restricted stock, restricted stock units, performance conditioned restricted stock units, performance shares, deferred share units and other stock-based awards. A total of 20,000,000 common shares are reserved for issuance in connection with awards granted under the Omnibus Plan. Unless otherwise determined at the time of the grant, time-based awards vest in approximately equal installments over four 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. Awards may be subject to both performance and time-based vesting.

The exercise price of options and stock appreciation rights is equal to the closing price per share of the Company s common stock on the New York Stock Exchange on the date of grant.

During the second quarter of 2007, the Company granted awards under the Omnibus Plan as follows:

Performance Conditioned Restricted Stock Units (PCRSUs)

On June 27, 2007, the Company granted 1,381,100 PCRSUs to management committee members having a weighted average grant date fair value of $10.44 and a weighted average remaining contractual life of approximately 21 months. Each PCRSU is equivalent in value to one common share and is subject to a service condition as well as a performance or market condition. 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 period to vesting. No awards vest when the minimum thresholds are not achieved. The performance measurement date will vary depending on the specific award. Upon vesting, the participants will receive common shares of the Company or in certain instances cash of an equivalent value. As of September 30, 2007, none of the performance or market conditions were met.

Restricted Stock Units (RSUs)

On June 27, 2007, the Company granted 818,250 RSUs having a weighted average grant date fair value of $10.64 and a weighted average remaining contractual life of approximately 23 months. The Company will deliver one share of common stock in settlement of each outstanding RSU (including dividend equivalents) that has vested in accordance with the stipulated service conditions. The awards cliff vest at various dates up to February 28, 2010.

Deferred Stock Units (DSUs)

The Company delivers, on a quarterly basis, DSUs to its Directors that vest immediately on the grant date. 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.

Non-qualified Stock Options

On June 27, 2007, the Company granted 615,900 stock options, having an exercise price of $10.64 and grant date fair value of $2.88. The stock options vest at various dates up to February 28, 2010 if certain market conditions are met in addition to a service period. Upon exercise, the option holders may elect to proceed with a cashless exercise and receive common shares net of the deduction for cashless exercise. The options expire at various dates no later than seven years from the date of grant.

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DOMTAR CORPORATION

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THIRD QUARTER 2007 (IN MILLIONS OF US DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 4. STOCK-BASED COMPENSATION (CONTINUED)

GENERAL TERMS OF AWARDS UNDER THE OMNIBUS

Termination of Employment

Upon a termination due to death, time-based awards vest in full and performance-based awards vest at target levels, and options and stock appreciation rights remain exercisable for one year. Upon a termination due to disability, time-based awards vest in full and performance-based awards continue to vest in accordance with the original vesting schedule, and options and stock appreciation rights remain exercisable for one year. Upon retirement, a pro-rated portion of time-based awards vest and a pro-rated portion of performance-based awards continue to vest based on actual performance during the applicable performance period, and all awards remain outstanding for 5 years. Upon a termination for cause or a voluntary termination by a plan participant, all awards, including vested but unexercised awards, are forfeited without payment. Upon an involuntary termination for any reason other than cause, vested awards remain outstanding for 90 days and unvested awards are forfeited.

Change in Control

Upon a change in control, unless otherwise determined by the Company, a participant s awards will be replaced with awards of the acquiring company having the same or better terms. If there is a change in control and a participant s employment is terminated for business reasons in the three months prior to or twenty-four months after the change in control, his or her time-based awards will fully vest and performance-based awards will vest to the extent the applicable performance goals have been achieved as of the date of the change in control or the end of the fiscal quarter immediately prior to the date of termination, whichever is greater.

If replacement awards are not available, unless the Company determines otherwise, all time-based awards fully vest and performance-based awards vest to the extent the performance goals related to the award have been achieved as of the date of the change in control. Alternatively, the Committee may determine that vested awards will be cancelled in exchange for a cash payment (or other form of change in control consideration) based on the value of the change in control payment and that unvested awards will be forfeited. The Company s Board of Directors may also accelerate the vesting of any or all awards upon a change in control.

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.

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NOTE 4. STOCK-BASED COMPENSATION (CONTINUED)

Replacement Plans For Awards to Former Employees of Weyerhaeuser

Prior to the consummation of the Transaction, employees of Weyerhaeuser who were being transferred to the Company were given the opportunity to exchange their outstanding Weyerhaeuser equity awards for awards of the Company having the same terms and conditions as their prior Weyerhaeuser awards. The Company has adopted three plans to provide for the grant of the Company s equity awards in exchange for the prior plan awards. The Restricted Share Units (RSU), Stock Appreciation Rights (SAR) and Stock Options mirror the three Weyerhaeuser plans under which the prior plan awards were initially granted.

Awards were made under these plans in connection with the consummation of the Transaction only to those employees who elected to exchange their prior plan awards for the Company s equity awards.

Replacement Plans For Former Domtar Inc. Awards

Options granted to Domtar Inc. employees, whether vested or unvested, were exchanged on the same terms and conditions for an option to purchase a number of shares of common stock of Domtar Corporation equal to the number of the Company s common shares or of equivalent value determined using the Black-Scholes option-pricing model, depending if the exercise price was higher, equal or less than the market value at the time of the exchange.

Each outstanding award of restricted Domtar Inc. common shares were exchanged on a one-for-one basis, and on the same terms and conditions as applied to Domtar Inc. restricted share awards, for awards of restricted shares of the Company s common shares (RSA). On March 7, 2007, 654,935 common shares were acquired and are held in trust in exchange for the former Domtar Inc. restricted awards.

Each outstanding grant of DSUs with respect to Domtar Inc. common shares were exchanged on a one-for-one basis, on the same terms and conditions as applied to the Domtar Inc. DSUs, for DSUs with respect to shares of the Company s common stock. On March 7, 2007, 351,718 DSUs and 54,815 DSUs were issued to outside directors and executives, respectively, in exchange for Domtar Inc. DSUs.

No new awards have been or will be made under any of the replacement plans.

For the thirteen and thirty-nine weeks ended September 30, 2007, compensation expense recognized in the Company s results of operations was approximately $3 and $7 million respectively for all of the outstanding awards. Compensation cost not yet recognized amount to approximately $24 million and will be recognized over the remaining service period. Compensation costs for performance awards are based on management s best estimate of the final performance measurement.

Table o