SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

BOWATER INC	Mailing Address	Business Address
CIK:**743368**| IRS No.: **620721803** | State of Incorp.:**DE** | Fiscal Year End: **1231**	*55 EAST CAMPERDOWN WAY*	*55 EAST CAMPERDOWN WAY*
Type: **10-K405** | Act: **34** | File No.: **001-08712** | Film No.: **99573424**	*P O BOX 1028*	*P O BOX 1028*
SIC: **2621** Paper mills	*GREENVILLE SC 29601*	*GREENVILLE SC 29601*
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 COMMISSION FILE NO. 1-8712

BOWATER INCORPORATED
(Exact name of registrant as specified in its charter)

<TABLE>
<S> <C>

DELAWARE	62-0721803
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

</TABLE>

55 EAST CAMPERDOWN WAY
P. O. BOX 1028
GREENVILLE, SOUTH CAROLINA 29602
(Address of principal executive offices)

(864) 271-7733
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

<TABLE>
<CAPTION>
<S> <C>

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $1 per share	New York Stock Exchange, Inc.
	Pacific Exchange, Inc.
	The London Stock Exchange

</TABLE>

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
None

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 if the 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 the 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. [X]

The aggregate market value of the voting common equity held by nonaffiliates of the registrant as of March 22, 1999, was $2,356,937,030.

As of March 22, 1999, there were 51,677,241 shares of the registrant's Common Stock outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the parts of this report indicated below:

<TABLE>

<S>	<C>
Annual Report to Shareholders for the year ended December 31, 1998	Parts I, II and IV
Proxy Statement with respect to the Annual Meeting of Shareholders to be held on May 12, 1999	Part III

</TABLE>

PART I

ITEM 1. BUSINESS

GENERAL

Bowater Incorporated (together with its consolidated subsidiaries, the "Company") is engaged in the manufacture, sale and distribution of newsprint, directory paper, uncoated groundwood specialties, coated groundwood paper, market pulp, lumber, and timber. The Company operates facilities in the United States, Canada, and South Korea and, as of December 31, 1998, managed and controlled approximately 16.4 million acres of timberlands to support these facilities. This excludes the 1.6 million acres of Maine timberlands the Company has sold or agreed to sell to third parties. The Company markets and distributes its various products in North America and overseas.

In July 1998, the Company completed the acquisition of a South Korean newsprint mill, which is located in the Daebul Industrial Complex on the southwest coast of South Korea. The mill has an annual production capacity of 250,000 metric tons of recycled newsprint. Information regarding the Company's acquisition of this mill is incorporated herein by reference to pages 24 and 38 of the Company's 1998 Annual Report ("Annual Report").

In July 1998, the Company also acquired 100 percent of the stock of Avenor Inc. ("Avenor"). Avenor owned or had significant ownership interests in pulp and paper mills at: Dalhousie, New Brunswick; Gatineau, Quebec; Thunder Bay, Ontario; Dryden, Ontario; Usk, Washington; and Gold River, British Columbia. Avenor also owned sawmills in Maniwaki, Quebec; Dryden, Ontario; and Ear Falls, Ontario. Following the acquisition, the Company sold the Dryden white paper mill, the Dryden sawmill, the Ear Falls sawmill and associated cutting rights. In February 1999, the Company permanently closed its Gold River pulp mill in British Columbia, which had been closed due to market conditions since August 1998. Information regarding the Company's acquisition of Avenor is incorporated herein by reference to pages 24-25 and 37-38 of the Company's Annual Report.

In the fourth quarter of 1998, the Company agreed to sell approximately 1.6 million acres of timberlands in the state of Maine, including the Pinkham Lumber Company. Information regarding sales of real property is incorporated herein by reference to pages 24-25 and 38 of the Annual Report.

The Company was incorporated in Delaware in 1964. The Company's principal executive offices are located at 55 East Camperdown Way, Greenville, South Carolina 29602, and its telephone number at that address is (864) 271-7733.

Information regarding the Company's segments, which includes net sales by product line and geographic information about net sales and long-lived assets, is incorporated herein by reference to pages 21-22 and 49-51 of the Annual Report. Information regarding the Company's fixed assets is incorporated herein by reference to page 40 of the Annual Report.

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Information regarding the Company's liquidity and capital resources is incorporated herein by reference to pages 23-25 and 28-29 of the Annual Report.

OPERATING DIVISIONS

The Company operates through four divisions: the Newsprint and Directory Division, the Coated Paper Division, the Pulp Division and the Forest Products Division. In 1997, the Company consolidated its directory paper business into the former Newsprint Division, replacing the Great Northern Paper Division. In addition, the Company reorganized its United States and Canadian forest and wood products operations into a new division called the Forest Products Division. In 1998, the Company reorganized its pulp operations into a new division called the Pulp Division.

The Newsprint and Directory Division, headquartered in Greenville, South Carolina, consists of the following manufacturing facilities: the Calhoun Operations and Calhoun Newsprint Company ("CNC") (which is owned approximately 51 percent by the Company and approximately 49 percent by Herald

Company, Inc.) located in Calhoun, Tennessee; Bowater Mersey Paper Company Limited ("Mersey Operations") (which is owned 51 percent by the Company and 49 percent by The Washington Post Company) located in Liverpool, Nova Scotia; Great Northern Paper, Inc. ("GNP"), consisting of the East Millinocket Operations located in East Millinocket, Maine, and the Millinocket Operations located in Millinocket, Maine; Avenor Maritimes Inc. ("Dalhousie Operations") (which is owned 67 percent by the Company, 25 percent by Oji Paper Co., Ltd. and 8 percent by Mitsui & Co., Ltd.) located in Dalhousie, New Brunswick; the Gatineau Operations located in Gatineau, Quebec; the Thunder Bay Operations located in Thunder Bay, Ontario; Ponderay Newsprint Company ("Ponderay Operations") (which is a partnership in which the Company has a 40 percent interest and is the managing partner; the balance of the partnership is held by subsidiaries of five newspaper publishers) located in Usk, Washington; and the Mokpo Operations, located in Mokpo, South Korea. This division is also supported by six domestic sales offices, which are responsible for marketing all of the Company's North American newsprint, directory paper and some uncoated groundwood specialties. International marketing of newsprint, directory paper and some uncoated groundwood specialties is supported by offices in Singapore, England, Brazil, Korea and Japan.

The Coated Paper Division, headquartered in Charlotte, North Carolina, consists of the Catawba Operations located in Catawba, South Carolina, and three sales offices. This division is responsible for selling all of the Company's coated groundwood paper and some uncoated groundwood specialties.

The Pulp Division, headquartered in Burlington, Ontario, consists of two sales offices. This division is responsible for marketing all of the Company's market pulp, which is produced at the Thunder Bay, Catawba and Calhoun Operations. Previously, this division included the Gold River pulp mill in British Columbia, which was permanently closed in February 1999.

The Forest Products Division, headquartered in Calhoun, Tennessee, consists of three manufacturing facilities: Bowater Lumber Company located in Albertville, Alabama; Bowater Mersey Paper Company Limited Oakhill Sawmill (which is owned 51 percent by the Company and 49 percent by The Washington Post Company) located in Bridgewater, Nova Scotia; and Manifor Inc., a sawmill located in Maniwaki, Quebec. In March 1999, the Company sold the Pinkham Lumber Company located in Ashland, Maine. The Forest Products Division is supported by seven business offices and is responsible for managing the Company's timberlands and selling all of the Company's timber, softwood lumber and non-strategic timberlands.

Additional information regarding the Company's divisions is incorporated herein by reference to the inside front cover of the Annual Report.

NEWSPRINT, DIRECTORY PAPER AND UNCOATED GROUNDWOOD SPECIALTIES

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The Company is the largest manufacturer of newsprint and directory paper in the United States. Its market share in the United States is approximately 14 percent. Including its Mersey, Dalhousie, and Ponderay Operations, the Company's annual production capacity of newsprint, directory paper and uncoated groundwood specialties is approximately 3.1 million metric tons, or approximately 18 percent of the North American capacity total. Including the South Korean newsprint mill, the Company's annual production capacity of these products is approximately 3.4 million metric tons or approximately 8 percent of the worldwide capacity total. These amounts were generated internally using data from various publications including Paper Trader, a monthly publication of Resource Information System, Inc.

The Calhoun Operations, one of the largest and most productive newsprint mills in North America, are located on the Hiwassee River in Tennessee. This facility operates four paper machines, which produced 548,000 metric tons of newsprint and uncoated groundwood specialties in 1998. Also located at this facility is CNC's paper machine, which produced 221,000 metric tons of newsprint in 1998. Although the Company manages and operates the entire facility, CNC also owns 68.4 percent of the thermomechanical pulp ("TMP") mill and 100 percent of the recycled fiber plant at the facility. The Company owns the remaining 31.6 percent of the TMP mill and all of the other assets at this location, which include a kraft pulp mill and other support equipment necessary to produce the finished product. The Company is currently in the process of expanding the TMP mill at this location.

The Mokpo Operations, located in the Daebul Industrial Complex on the southwest coast of South Korea, have one paper machine that produces recycled content newsprint. This facility began production in late 1996 and is one of the lowest-cost newsprint mills in Asia. The mill produced approximately 228,000 metric tons of recycled newsprint in 1998. The facility also includes a recycling plant with an annual capacity of approximately 250,000 metric tons of deinked pulp and has year-round deep-sea docking facilities.

The Dalhousie Operations, located in the Canadian Province of New Brunswick, have two newsprint machines. These machines were rebuilt in 1982 and produced 222,000 metric tons of newsprint in 1998. A modernization program was completed in 1996 with the construction of a secondary effluent treatment plant and a TMP mill. This operation also has year-round deep-sea docking facilities that can accommodate large ocean freighters, providing economical access to ports along the eastern seaboard of the United States and throughout the world.

The Gatineau Operations, located on the north bank of the Ottawa River in the Canadian Province of Quebec, consist of three paper machines, which produced 435,000 metric tons of high-quality recycled content newsprint in 1998. This facility also includes a recycling plant with an annual capacity of 180,000 metric tons of deinked pulp, a refuse boiler, a TMP mill, and a secondary effluent treatment facility.

The Mersey Operations, located in the Canadian Province of Nova Scotia on an ice-free port providing economical access to ports along the eastern seaboard of the United States and throughout the world, have two paper machines. Built in 1929, they were rebuilt between 1983 and 1985 and produced 236,000 metric tons of newsprint in 1998. This facility also operates a TMP mill, a wastewater treatment facility and other support equipment required to produce the finished product.

The Ponderay Operations, located on the Pend Oreille River in the State of Washington, consist of one newsprint machine, which began production in 1989 and produced 243,000 metric tons of recycled newsprint in 1998. This facility also operates a TMP mill, a recycling plant, a wastewater treatment facility and other support equipment required to produce the finished product.

The Thunder Bay Operations, located beside the Kaministiquia River in the Canadian Province of Ontario, include three newsprint machines and two kraft pulp mills. This facility produced 536,000 metric tons of newsprint and 543,000 metric tons of market pulp in 1998. A newsprint machine with a capacity of

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240,000 metric tons per year was installed at this site in 1991. This facility also includes a TMP mill with an annual capacity of 316,000 metric tons and a recycling plant with an annual capacity of 125,000 metric tons of deinked pulp. A chip handling system and secondary effluent treatment plant were installed in 1995.

Newsprint, directory paper and uncoated groundwood specialties are also produced at three other Company locations. The newsprint machine at the Catawba Operations, located on the Catawba River in South Carolina, produced 216,000 metric tons in 1998. The East Millinocket Operations, located on the West Branch of the Penobscot River in northern Maine, have two paper machines that were built in 1954 and rebuilt in 1986. These two machines produced a total of 259,000 metric tons of newsprint, directory paper and uncoated groundwood specialties in 1998. This facility also operates a groundwood pulp mill, a recycled fiber plant and other support equipment required to produce the finished product. Beginning in 1999, the Company plans to modernize this facility over a two-year period at an estimated cost of $220 million. The Millinocket Operations, located eight miles from the East Millinocket Operations, have four paper machines that produced 119,000 metric tons of directory paper and uncoated groundwood specialties in 1998. These paper grades are used in directories, catalogs, newspaper advertising inserts and magazines, and are sold primarily to customers east of the Mississippi River. The Millinocket site is currently available for sale.

The Newsprint and Directory Division has over 40 percent of its newsprint capacity located in Canada and a significant newsprint facility located in South Korea. The Company's international operations are subject to typical risks of doing business abroad such as possible revaluation of currencies, currency fluctuations, changes in international trade regimes such as GATT or NAFTA, dependence on local markets for supply, export duties, quotas, restrictions on the transfer of funds and foreign ownership of property, and political and economic instability. To date, the Company's results of operations have not been materially

affected by any of these risks, but the Company cannot predict the likelihood of any of these risks having a material effect on the Company's results of operations in the future.

North American newsprint, directory paper and uncoated groundwood specialty paper are sold directly by the Company through its regional sales offices located near major metropolitan areas. Sales to Southeast Asia and Pacific Rim countries are made through Bowater Asia Pte Ltd. Sales to Europe and the Middle East are made through Bowater Europe Ltd., while sales to South America are supported by Bowater S. America Ltda. and sales to Japan and South Korea are supported by Bowater Japan Ltd. and Bowater-Halla Paper Co., Ltd., respectively. The Company distributes newsprint, directory paper and uncoated groundwood specialties by rail, truck, ship and barge.

In 1998, the Company sold newsprint to various related parties. During 1998, CNC's minority shareholder and its affiliates purchased in excess of CNC's annual output. In addition, the Company's other joint venture partners purchased an aggregate of approximately 350,000 metric tons during 1998. No single customer, related or otherwise, accounted for 10 percent or more of the Company's 1998 consolidated net sales.

COATED GROUNDWOOD PAPER

The Company is one of the largest producers of coated groundwood paper in the United States and North America, with a capacity of 494,000 short tons, or approximately 11 percent and 9 percent of the United States and North American capacity, respectively. These amounts were generated internally using data from the American Forest and Paper Association. Coated groundwood paper produced by the Company is primarily light weight coated paper and is used in magazines, catalogs, advertising pieces, textbooks, direct mail pieces and coupons.

The Company manufactures a variety of coated paper grades on two paper

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machines at the Catawba Operations and on three of the four paper machines at the Millinocket Operations. Both machines at the Catawba Operations utilize off-machine blade coaters. At the Millinocket Operations, two machines produce a base stock that is coated on an off-machine blade coater while the third machine has an on-machine roll coater. In 1998, the two coated paper machines at the Catawba Operations produced 352,000 short tons of coated groundwood paper, and the three machines at the Millinocket Operations produced 134,000 short tons of coated groundwood paper. The Catawba Operations include a kraft pulp mill, a TMP mill and other support equipment required to produce the finished product. The Millinocket Operations include a sulfite pulp mill and other support equipment required to produce the finished product.

Coated groundwood paper is sold domestically by the Company and through paper brokers to major printers, publishers, and catalogers. It is distributed by truck and rail from the Catawba and Millinocket facilities. These facilities are strategically located to supply the southeastern and northeastern United States, respectively, and they jointly serve the midwestern market. Export markets are serviced primarily through international agents. As discussed above, the Millinocket site is currently available for sale.

MARKET PULP

The Pulp Division markets the output from the Company's pulp mills. In addition to furnishing substantially all of the Company's internal pulp requirements, these pulp mills produce softwood and hardwood market pulp. The Company is the sixth largest producer of paper grade market pulp in North America and has a North American market share of approximately 11 percent. These numbers were generated internally using data from the Canadian Pulp and Paper Association. Market pulp is used by manufacturers of fine paper, tissues and other paper products.

In 1998, the Catawba Operations produced 227,000 metric tons of softwood market pulp; the Calhoun Operations produced 133,000 metric tons of hardwood market pulp; and the Thunder Bay Operations produced 177,000 metric tons of hardwood market pulp and 365,000 metric tons of softwood market pulp.

North American sales are made directly by the Company, while export sales are made through international sales agents local to their markets. The Company distributes market pulp primarily by truck, rail and ship.

FOREST PRODUCTS

In addition to market pulp and paper, the Company sells pulpwood, sawtimber, lumber and wood chips to a variety of customers located in the eastern United States and Canada. The Company also sells non-strategic timberland tracts and provides its manufacturing facilities with a portion of the wood needed for pulp, paper and lumber production.

At December 31, 1998, the Company owned, leased, or possessed cutting rights on approximately 18.0 million acres of timberlands throughout the United States and Canada. Approximately 2 million acres of these timberlands (of which the Company has sold or agreed to sell 1.6 million acres) are located in the State of Maine, 900,000 acres in the southeastern United States, 8.3 million acres in Ontario, 4.9 million acres in Quebec, 1.3 million acres in New Brunswick and 600,000 acres in Nova Scotia. This timberland base supplies a portion of the needs of the Company's paper mills and sawmills, as well as many independently owned forest products businesses. The Company maintains two nurseries and contracts with numerous other nurseries in order to replace trees harvested from its timberlands and from the timberlands of small private landowners. The Company also uses harvest practices designed to promote natural regeneration.

In 1998, the Company consumed 10.3 million tons of wood for pulp, paper and lumber production. Of this amount, 4.3 million tons of wood were harvested from Company-owned or leased properties, while 6.0 million tons were purchased, primarily under contract, from local wood producers, private landowners and

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sawmills (in the form of residual chips) at market prices. In addition, the Company harvested 2.5 million tons of wood from Company-owned or leased properties to sell to other sawmills and paper companies.

The Company operates three sawmills that produce construction grade lumber. Bowater Lumber Company produced 95.1 million board feet of lumber in 1998. It sells its lumber in the southeastern and mid-western United States. The Bowater Mersey Paper Company Limited Oakhill Sawmill, which produced 36.8 million board feet of lumber in 1998, sells to customers in eastern Canada and the northeastern United States. The Manifor Inc. sawmill, which produced 66.2 million board feet of lumber in 1998, sells mainly to customers in eastern Canada. The Pinkham Lumber Company, which the Company sold in the first quarter of 1999, produced 75.7 million board feet of lumber in 1998. This lumber was sold to customers in eastern Canada and the northeastern United States. The Company distributes lumber by truck and rail.

RECYCLING CAPABILITY

The Company has focused its efforts in recent years on meeting the demand for recycled-content paper products, providing an environmental benefit in reducing solid waste landfill deposits. In addition, this effort allows publishers and other customers to meet recycled-content standards.

The Company operates recycling plants at its Calhoun, Mokpo, East Millinocket, Gatineau, Ponderay and Thunder Bay Operations. Taking a mixture of old newspapers and old magazines ("recovered paper"), these plants utilize advanced mechanical and chemical processes to manufacture high quality pulp. The recycled fiber pulp is combined with virgin fiber pulp. The resulting products, which include recycled-content newsprint, directory paper, coated groundwood paper and uncoated groundwood specialties, are comparable in quality to paper produced with 100 percent virgin fiber pulp. In 1998, the Company processed 1.2 million short tons of recovered paper.

The Company purchases recovered paper from suppliers in the regions of the Company's recycling plants. These suppliers collect, sort and bale the material before selling it to the Company, primarily under long-term contracts, with prices and quantities fluctuating according to market conditions. The Company is one of the largest purchasers of recovered paper in North America.

COMPETITION

In general, the Company's products are globally-traded commodities, and the markets in which the Company competes are highly competitive. The Company's operating results reflect the general cyclical pattern of the pulp and paper industry. Pricing and the level of shipments of the Company's products are influenced by the balance between supply and demand as affected by global economic conditions, changes in consumption and capacity, the level of customer and producer inventories, and fluctuations in exchange rates. Any material decline in prices for the Company's products or other adverse developments in the market for the Company's products could have a material adverse effect on the Company.

Newsprint, one of the Company's principal products, is produced by numerous worldwide manufacturers. Aside from quality specifications to meet customer needs, the production of newsprint does not depend upon a proprietary process or formula. The Company competes with approximately 20 major worldwide producers of newsprint. In addition, the Company faces actual and potential competition from numerous smaller producers located around the world. Price, quality, service and the ability to produce paper with recycled content are important competitive determinants.

The Company competes with approximately 10 market pulp companies of similar size in North America. Like newsprint, market pulp is one of the Company's principal products and is a globally-traded commodity in which competition exists in all major markets. Market pulp prices historically have been volatile. Aside from quality specifications to meet customer needs, the production of

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market pulp does not depend on a proprietary process or formula. The Company produces four out of the six major grades of market pulp and competes with other producers from South America (eucalyptus hardwood pulp and radiata pine softwood pulp), Europe (northern softwood pulp and northern hardwood pulp), and Asia (mixed tropical hardwood pulp). Price, quality and service are considered the main competitive determinants.

The Company competes with approximately 13 coated groundwood producers located in North America. In addition, approximately six major offshore suppliers of coated groundwood paper sell into the North American market. As a major supplier to printers in North America, the Company also competes with numerous worldwide suppliers of other grades of paper such as coated freesheet, supercalendered and uncoated groundwood papers. Price, quality and service are important competitive determinants, but a degree of proprietary knowledge is required in both the manufacture and use of this product, which requires close customer-supplier relationships.

The Company competes with three major worldwide producers and several smaller producers of directory paper. Price, quality and service, as well as the ability to produce lower basis weights and recycled products, are all important competitive determinants.

The Company is not a major producer in the uncoated groundwood specialties or lumber markets.

As with other globally manufactured and sold commodities, the competitive position of the Company's products is significantly affected by the volatility of currency exchange rates. See "Quantitative and Qualitative Disclosures About Market Risk" on pages 12-13 of this Form 10-K. The Company has significant operations in the United States, Canada and South Korea, with several of its primary competitors located in Canada, Sweden and Finland. Accordingly, the relative rates of exchange between those countries' currencies and the United States dollar can have a substantial effect on the Company's ability to compete. In addition, the degree to which the Company competes with foreign producers depends in part on the level of demand abroad. Shipping costs generally cause producers to prefer to sell in local markets when the demand is sufficient in those markets.

Trends in electronic data transmission and storage could adversely affect traditional print media, including products of the Company's customers; however, neither the timing nor the extent of those trends can be predicted with certainty. Industry reports indicate that the Company's newspaper publishing customers in North America have experienced some loss of market share to other forms of media and advertising, such as direct mailings and newspaper inserts (both of which are end uses for several of the Company's products), television and the Internet. Some of these customers are also facing a decline in newspaper readership, circulation and advertising lineage. The Company does not believe that this is the case in most overseas

markets. The Company's magazine and catalog publishing customers have also been adversely affected by the use of electronic media for merchandising products, while they have benefited from the increase in magazine and catalog publications whose content is driven by electronic media, especially computer hardware and software.

Part of the Company's competitive strategy is to be a lower-cost producer of its products while maintaining strict quality standards and responding to environmental concerns. Currently, some of the Company's competitors are lower-cost producers of some of the businesses in which the Company operates, including newsprint. The Company's six recycling facilities have enhanced its competitive position by enabling it to respond to customer demand for recycled-content newsprint, directory paper, coated groundwood paper and uncoated groundwood specialties.

RAW MATERIALS AND ENERGY

The manufacture of pulp and paper requires significant amounts of wood and

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energy. The wood needed for pulp, paper and lumber production is obtained from Company-owned or leased properties and is purchased from local producers. The Company also uses recovered paper as raw material when producing recycled-content paper grades. See "Forest Products" and "Recycling Capability" on page 5 of this Form 10-K for information regarding the Company's procurement and use of raw materials.

Steam and electrical power are the primary forms of energy used in pulp and paper production. Process steam is produced in boilers using a variety of fuel sources. All of the Company's mills produce all of their steam requirements with the exception of the Mersey Operations, which purchase all of its steam from a third-party supplier. The Gatineau, Mersey and Mokpo Operations purchase all of their electrical power requirements. The Thunder Bay Operations produce one-third of its electrical requirements, while the Calhoun and Catawba Operations produce more than two-thirds of their electrical requirements. The balance of their requirements is purchased. GNP has the capacity to be totally self-sufficient electrically with six hydroelectric facilities (containing 31 hydroelectric generators) located on the West Branch of the Penobscot River and seven steam turbine generators located in the mill power plants.

The Company operates its Maine hydroelectric facilities pursuant to long-term licenses granted by the Federal Energy Regulatory Commission ("FERC"). The licenses for certain dams expired at the end of 1993, and the Company continued to operate those dams under interim licenses. In October 1996, FERC issued new 30-year licenses allowing the Company to continue operating its hydroelectric facilities with substantially similar terms and conditions as the old licenses. In November 1996, five intervenors filed requests for a rehearing, generally rearguing issues already considered by FERC. The requests were denied in November 1998. Several interveners filed motions with FERC requesting reconsideration of the denial. Others filed a petition for review with the U.S. Court of Appeals. These requests and this petition are pending, and, although no assurances can be given, management believes that the requests and petition should not result in any material adverse change to the terms or conditions of the licenses.

EMPLOYEES

As of December 31, 1998, the Company employed 8,300 people, of whom 5,900 were represented by bargaining units. The labor contract at the Catawba Operations, which covers all of the plant's hourly employees, expires in April 2003. The labor contract with most of the plant's hourly employees at the Calhoun Operations expires in July 2002. The labor agreement for the majority of unionized employees at GNP expires in July 2001, while all other labor agreements there expire during 2002. The labor contract covering all unionized employees at the Dalhousie, Gatineau, Thunder Bay, and Mersey Operations expired in April 1998. These Operations continue to operate under the terms of the expired agreements pending the outcome of the ongoing negotiations at each location. Negotiations for each of these locations were initiated during January and February 1999, following the establishment and validation of a pattern agreement for the Canadian Paper Industry in December 1998. All plant facilities are situated in areas where adequate labor pools exist. Relations with employees are considered good.

TRADEMARKS AND LICENSES

The Company owns the trademarked Company logo exclusively throughout the world. Effective June 30, 1997, the Company obtained from the former Bowater plc, now Rexam plc, ownership of the name "Bowater" in connection with the sale of all of the Company's products exclusively throughout the world, with a limited exception for a few non-conflicting uses by Rexam plc. The Company considers its interests in the Company logo and name to be valuable and necessary to the conduct of its business.

ENVIRONMENTAL MATTERS

Information regarding environmental matters is incorporated herein by

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reference to pages 17 and 25 of the Annual Report.

The Company believes that its United States, Canadian and South Korean operations are in substantial compliance with all applicable federal, state, provincial, and local environmental regulations and that all currently-required control equipment is in operation. While it is impossible to predict future environmental regulations that may be established, the Company believes that it will not be at a competitive disadvantage with regard to meeting future United States, Canadian or South Korean standards.

The Company has taken positive action to address concerns about municipal solid waste by constructing recycled fiber plants at its Calhoun and East Millinocket Operations. Through acquisitions in 1998, the Company added four recycling plants at the Mokpo, Gatineau, Ponderay, and Thunder Bay Operations. See "Recycling Capability" on page 5 of this Form 10-K.

ITEM 2. PROPERTIES

Information regarding the Company's properties is incorporated herein by reference to the material included in Item 1, "Business" of this Form 10-K, and on the inside front cover, page 56 and the back cover page of the Annual Report.

In addition to the properties that it owns, the Company also leases under long-term leases certain timberlands, office premises, and office and transportation equipment and has cutting rights with respect to certain timberlands. Information regarding timberland leases, operating leases and cutting rights is incorporated herein by reference to pages 48-49 of the Annual Report.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings relating to contracts, commercial disputes, taxes, environmental issues, employment and workers' compensation claims and other matters. The Company's management believes that the ultimate disposition of these matters will not have a material adverse effect on the Company's operations or its financial condition taken as a whole.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 1998.

EXECUTIVE OFFICERS OF THE REGISTRANT AS OF MARCH 22, 1999

The Company's executive officers, who are elected by the Board of Directors to serve one-year terms, are listed below. There are no family relationships among officers and no arrangements or understandings between any officer and any other person pursuant to which the officer was selected.

<TABLE>
<CAPTION>

NAME	AGE	POSITION	SERVED AS OFFICER SINCE
Arnold M. Nemirow	55	Chairman, President and Chief Executive Officer	1994
Arthur D. Fuller	54	Executive Vice President and President -- Newsprint and Directory Division	1995
Anthony H. Barash	56	Senior Vice President -- Corporate Affairs and General Counsel	1996
James H. Dorton	42	Vice President -- Corporate Development and Strategy	1996
E. Patrick Duffy	57	Senior Vice President and President -- Coated Paper Division	1995
Jerry R. Gilmore	50	Vice President	1999
Richard K. Hamilton	50	Vice President and President -- Forest Products	1997

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		Division	
William G. Harvey	41	Vice President and Treasurer	1998
Steven G. Lanzl	50	Vice President -- Information Technology	1996
David G. Maffucci	48	Senior Vice President and Chief Financial Officer	1992
Donald G. McNeil	48	Senior Vice President and President -- Great Northern Paper, Inc.	1995
Robert A. Moran	54	Vice President -- Manufacturing Services	1992
R. Donald Newman	52	Vice President	1999
Michael F. Nocito	43	Vice President and Controller	1993
Wendy C. Shiba	48	Vice President, Secretary and Assistant General Counsel	1993
David J. Steuart	53	Vice President and President -- Pulp Division	1998
James T. Wright	52	Vice President -- Human Resources	1999

</TABLE>

Arnold M. Nemirow became Chairman in March 1996, and Chief Executive Officer in March 1995. He has been President and a director of the Company since September 1994 and was Chief Operating Officer from September 1994 through February 1995. Previously he was President, Chief Executive Officer and a director of Wausau Paper Mills Company, a pulp and paper company, from 1990 through 1994, Chairman, President, Chief Executive Officer and a director of Nekoosa Papers, Inc., the business papers division of Great Northern Nekoosa Corporation, from 1988 to 1990 and Vice President of Great Northern Nekoosa Corporation from 1984 to 1990.

Arthur D. Fuller became Executive Vice President and President -- Newsprint and Directory Division in 1997. From 1995 to 1997, he was Senior Vice President and President -- Newsprint Division. He was Vice President Finance, Planning & Administration of MacMillan Bloedel Packaging Inc., the containerboard and packaging business of MacMillan Bloedel Ltd., from 1994 to 1995. From 1991 to 1993 he was a partner of Nukraft, which sought to develop a recycled linerboard mill, and from 1987 to 1990 he was Vice President and General Manager of Great Southern Paper Company, the containerboard division of Great Northern Nekoosa Corporation. Earlier he held various management positions with Great Southern Paper Company.

Anthony H. Barash became Senior Vice President -- Corporate Affairs and General Counsel in 1996. From 1993 through 1996, he was a partner of the law firm Seyfarth, Shaw, Fairweather & Geraldson, where he was a member of the firm's Business Law and Real Estate Group. From 1980 to 1993, he was a senior partner of the law firm Barash & Hill, where he also concentrated in business and real estate law.

James H. Dorton became Vice President -- Corporate Development and Strategy in August 1998. He served as Vice President and Treasurer from 1996 to 1998. From 1990 through 1996, he was Treasurer of

Intergraph Corporation, a manufacturer and designer of computers and software for engineering applications, where he was responsible for treasury management, corporate finance and shareholder relations. He was Assistant Treasurer of Intergraph Corporation from 1986 to 1990.

E. Patrick Duffy became Senior Vice President and President -- Coated Paper Division in 1995. He was President of the Telecommunications Business Unit of R.R. Donnelly and Sons, a printing company, from 1993 to 1995, where he was responsible for the sale and manufacture of printed products, and President of its Catalog Group from 1990 to 1992. Previously he was a Senior Vice President of R.R. Donnelly and Sons.

Jerry R. Gilmore became Vice President of the Company in January 1999. He has been Vice President -- United States and Korean Operations of the Newsprint and Directory Division since October 1998. Previously he held other positions in the Newsprint and Directory Division, as Vice President -- Administration and Planning from 1995 to April 1998 and as Vice President with responsibility for the integration of recent acquisitions from April to October 1998. Prior to

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joining the Company in 1994, he held financial and management positions with Georgia-Pacific Corporation and Great Northern Nekoosa Corporation, both forest products companies.

Richard K. Hamilton became Vice President and President -- Forest Products Division in 1997. He was Vice President Wood Products -- Newsprint Division from 1995 to 1997. From 1993 to 1995, he was Group Manager -- Forest Resources Division of Georgia-Pacific Corporation, a forest products company, where he was responsible for a woodlands organization management of about 340,000 acres of timberland and the procurement, production and sale of pulpwood, logs and wood chips. Previously, he held various woodlands positions with Great Southern Paper Company and Scott Paper Company.

William G. Harvey became Vice President and Treasurer in August 1998. Previously he was employed by Avenor, a pulp and paper company, as Vice President and Treasurer from 1995 to 1998, Director of Finance from 1994 to 1995 and Manager of Finance during 1994. These were positions of increasing responsibility performing cash management, corporate finance, investor relations and various other treasury functions.

Steven G. Lanzl became Vice President -- Information Technology in 1996. From 1992 to 1996, he was with E.I. du Pont de Nemours and Company, a diversified chemical and petroleum products company, where he was responsible for planning information system initiatives. Earlier he was with DuPont Asia Pacific, Ltd. in Japan as Manager of Information Systems Planning.

David G. Maffucci became Senior Vice President and Chief Financial Officer in 1995. He had served as Vice President -- Treasurer since 1993 and Treasurer from 1992 to 1993 and relinquished the title of Treasurer in 1996. From 1977 to 1992, he held various positions of increasing responsibility in the Company's Finance Department.

Donald G. McNeil became Senior Vice President in 1995, and has been President of GNP since 1994. He was President and General Manager of Bowater Mersey Paper Company, a subsidiary of the Company ("Mersey"), from 1992 to 1994. He was General Manager of Mersey from 1991 to 1992 and Assistant General Manager from 1990 to 1991. From 1977 to 1989, he held various engineering and management positions with Mersey.

Robert A. Moran became Vice President -- Manufacturing Services in 1996 and was Vice President -- Pulp and Paper Manufacturing Services from 1992 to 1996. He was Vice President -- Manufacturing Services for the Pulp and Paper Group from 1991 and Director of Planning and Development for the Pulp and Paper Group from 1988 to 1991. He also served as Assistant General Manager of the Catawba Operations during 1988.

R. Donald Newman became Vice President of the Company in January 1999. He has been Vice President -- Canadian Newsprint Operations of the Newsprint and Directory Division since July 1998. Previously he held other positions in the Newsprint and Directory Division, as Vice President -- Operations and Resident Manager of the Calhoun Operations from 1995 to 1998, and as Vice President and Operations Manager of the Calhoun Operations from 1994 to 1995.

Michael F. Nocito became Vice President and Controller in 1993. He was Controller of the Calhoun Operations from 1992 to 1993 and Assistant Controller of the Calhoun Operations from 1988 to 1992. From 1978 to 1988 he held various positions of increasing responsibility in the Company's Finance Department.

Wendy C. Shiba became Vice President in 1997 and has been Secretary and Assistant General Counsel since 1993. From 1992 to 1993, she was Corporate Chair of the City of Philadelphia Law Department where she managed the Corporate Group. She was Associate Professor of Law from 1990 to 1993 and Assistant Professor of Law from 1985 to 1990 at Temple University School of Law. Earlier she practiced corporate law in the private sector.

David J. Steuart became Vice President of the Company in January 1999. He

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has been President of the Pulp Division since July 1998. He was President, Pulp Group of Avenor from 1994 until its acquisition by the Company in July 1998. In this position he had profit/loss responsibility for the Pulp Group and performed related manufacturing and marketing functions.

James T. Wright became Vice President -- Human Resources in March 1999. He was Vice President -- Human Resources for Georgia-Pacific Corporation from 1993 to 1999. Prior to 1993, he held human resource and labor relations positions with Georgia-Pacific Corporation and Weyerhaeuser Company, both forest products companies.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

(a) The Company's common stock, $1 par value ("Common Stock"), is listed on the New York Stock Exchange (stock symbol BOW), the Pacific Exchange, Inc., and the London Stock Exchange. Price information with respect to the Company's Common Stock on the inside back cover of the Annual Report is incorporated herein by reference.

(b) As of March 22, 1999, there were 4,902 holders of record of the Company's Common Stock.

(c) The Company has paid consecutive quarterly dividends of $.20 per share of Common Stock during 1997 and 1998. Future declarations of dividends on the Company's Common Stock are discretionary with the Board of Directors, and the declaration of any dividends will depend upon, among other things, the Company's earnings, capital requirements and financial condition. In addition, the Company's ability to pay dividends on its Common Stock depends on its maintaining adequate net worth and compliance with the required ratio of total debt to total capital as defined in and required by the Company's current credit agreement (the "Credit Agreement"). The Credit Agreement requires the Company to maintain a minimum consolidated net worth (generally defined therein as common shareholders' equity plus any outstanding preferred stock) of $1.5 billion as of December 31, 1998. In addition, the Credit Agreement imposes a maximum 65 percent ratio of total debt to total capital (defined therein as total debt plus net worth). At December 31, 1998, the consolidated net worth of the Company and the ratio of total debt to total capital as defined under the Credit Agreement were $1.8 billion and 51 percent, respectively.

In connection with the Company's acquisition of Avenor on July 24, 1998, the Company issued an aggregate of 12,301,286 shares of its Common Stock to Avenor shareholders, and the Company's subsidiary, Bowater Canada Inc., issued an aggregate of 3,773,547 Exchangeable Shares to the former Avenor shareholders. The Exchangeable Shares are exchangeable, at the option of the holder, into shares of Bowater Common Stock on a one-for-one basis. The shares were issued pursuant to an order of arrangement approved by the Ontario Court of Justice (General Division) in exchange for all of the outstanding shares of common stock of Avenor. Accordingly, the issuance was exempt from registration pursuant to Section 3(a)(10) of the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

Information regarding the Company's financial position and operating record is incorporated herein by reference to pages 54-55 of the Annual Report.

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

Information regarding the Company's business and financial results is incorporated herein by reference to pages 19-29 of the Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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Subsequent to the purchase of Avenor in July 1998, the Company's exposure to fluctuations in the Canadian dollar has increased. The newly acquired Canadian operations have costs that are primarily denominated in Canadian dollars. As a result, the Company's earnings will be affected, to a greater extent than in the past, by increases or decreases in the value of the Canadian dollar. Increases in the value of the Canadian dollar versus the U.S. dollar will tend to reduce reported earnings in U.S. dollar terms, and decreases in the value of the Canadian dollar will tend to increase reported earnings.

Using Canadian dollar range forward contracts, the Company actively hedges against the risk of a rising Canadian dollar. At December 31, 1998, the Company had approximately $1.3 billion of Canadian dollar contracts. Information regarding the carrying value and fair market value of the contracts is incorporated by reference to Note 11 on page 42 of the Annual Report. Information regarding the range of exchange rates by maturity date is summarized in the table below:

<TABLE>
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FOREIGN CURRENCY EXCHANGE AGREEMENTS AND OPTIONS	NOTIONAL AMOUNT OF DERIVATIVES	LIABILITY CARRYING AMOUNT	LIABILITY FAIR MARKET VALUE	RANGE OF CANADIAN$/US$ EXCHANGE RATES
	(IN MILLIONS OF US$)			
<S>	<C>	<C>	<C>	<C>
Buy Currency:				
Canadian dollar				
Due in 1999	$ 647.1	$ 54.3	$ 54.3	1.2820 - 1.4978
Due in 2000	457.8	42.1	42.1	1.2975 - 1.4853
Due in 2001	183.0	8.7	8.7	1.3625 - 1.5083
Total	$1,287.9	$105.1	$105.1	1.2820 - 1.5083

</TABLE>

In 1998, the Company also purchased a South Korean newsprint mill, subjecting it to fluctuations in the Korean won/U.S. dollar exchange rate, since certain expenses and some purchases by the mill are denominated in won. However, many of the cash flows for purchases and sales are in U.S. dollars, thereby mitigating a majority of the currency risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Item 8 is incorporated herein by reference to pages 30-53 of the Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the Company's directors is incorporated herein by reference to the material under the heading "Election of Directors -- Information on Nominees and Directors" in the Company's Proxy Statement with respect to the Annual Meeting of Shareholders scheduled to be held May 12, 1999 (the "Proxy Statement"), filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

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Information regarding the Company's executive officers is provided under the caption "Executive Officers of the Registrant as of March 22, 1999" on pages 9-11 of this Form 10-K.

Information regarding Section 16(a) beneficial ownership reporting compliance is incorporated herein by reference to the material under the heading "Executive Compensation -- Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated herein by reference to the material under the headings "Election of Directors -- Information on Nominees and Directors -- Director Compensation", "Human Resources and Compensation Committee Report on Executive Compensation", "Total Shareholder Return" and "Executive Compensation" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning (1) any person or group known to the Company to be the beneficial owner of more than 5 percent of the Company's voting stock, and (2) ownership of the Company's equity securities by management is incorporated herein by reference to the material under the heading "Certain Information Concerning Stock Ownership" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is incorporated herein by reference to the material under the heading "Related Party Transactions" in the Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following are filed as a part of this Report on Form 10-K:

(1) The following are included at the indicated page in the Annual Report and are incorporated by reference herein:

<TABLE>
<CAPTION>

<S>	PAGE(S) <C>
Consolidated Statement of Operations for Each of the Years in the Three-Year Period Ended December 31, 1998..........	30
Consolidated Balance Sheet at December 31, 1998 and 1997....	31
Consolidated Statement of Capital Accounts for Each of the Years in the Three-Year Period Ended December 31, 1998....	32-33
Consolidated Statement of Cash Flows for Each of the Years in the Three-Year Period Ended December 31, 1998..........	34
Notes to Consolidated Financial Statements..................	35-52
Management's Statement of Responsibility and Independent Auditors' Report..	53

</TABLE>

(2) The following financial statement schedule for the year ended December 31, 1998 is submitted herewith:

<TABLE>

<S>	<C>
Schedule II -- Valuation and Qualifying Accounts...........	F-1
Independent Auditors' Report on Schedule II.................	F-2

</TABLE>

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All other financial statement schedules are omitted because they are not applicable, the amounts associated with them are immaterial, or because the required information is included in the financial statements or notes thereto.

(3) Exhibits (numbered in accordance with Item 601 of Regulation S-K):

EXHIBIT NO.	DESCRIPTION
2.1	Amended and Restated Arrangement Agreement, dated as of March 9, 1998, by and between the Company and Avenor Inc. (incorporated by reference to Exhibit 2.1 to Annex D of the Joint Management Information Circular and Proxy Statement filed on June 18, 1998, on Schedule 14A for the Company, File No. 1-8712 (the "Schedule 14A")).
2.2	Asset Purchase Agreement, dated August 4, 1998, by and between Bowater Pulp and Paper Canada Inc., the Company, Weyerhaeuser Canada Ltd. and Weyerhaeuser Company (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated October 15, 1998, File No. 1-8712 (the "October 1998 8-K")).
2.2.1	Amending Agreement, dated September 30, 1998, by and between Bowater Pulp and Paper Canada Inc., the Company, Weyerhaeuser Canada Ltd. and Weyerhaeuser Company (incorporated by reference to Exhibit 2.1.1 to the October 1998 8-K).
3.1	Restated Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement No. 33-51569).
3.2	Certificate of Designations of the 7% PRIDES, Series B Convertible Preferred Stock of the Company (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated February 1, 1994, File No. 1-8712 (the "February 1994 8-K")).
3.3	Certificate of Designations of the 8.40% Series C Cumulative Preferred Stock of the Company (incorporated by reference to Exhibit 4.2 to the February 1994 8-K).
3.4	Certificate of Designation of the special voting stock of the Company (incorporated by reference to Exhibit 4.11 to Amendment No. 1 to the Company's Registration Statement No. 333-57839 (the "Amendment No. 1 to the Registration Statement")).

EXHIBIT NO.	DESCRIPTION
3.5	Bylaws of the Company amended and restated as of May 20, 1998 (incorporated by reference to Exhibit 4.12 to Amendment No. 1 to the Registration Statement).
4.1	Agreement pursuant to S-K Item 601(b)(4)(iii)(A) to provide the Commission upon request copies of certain other instruments with respect to long-term debt not being registered where the amount of securities authorized under each such instrument does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement No. 2-93455).

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4.2	See Exhibits 3.1, 3.4 and 3.5.
+10.1	Employment Agreement, dated as of July 20, 1994, by and between the Company and Arnold M. Nemirow (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the period ending December 31, 1994, File No. 1-8712 (the "1994 10-K")).
+10.2	Employment Agreement, dated as of October 21, 1996, by and between the Company and Steven G. Lanzl (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the period ending December 31, 1996, File No. 1-8712 (the "1996 10-K")).
+10.3	Employment Agreement, dated as of April 1, 1995, by and between the Company and E. Patrick Duffy (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ending March 31, 1995, File No. 1-8712).
+10.4	Form of Employment Agreement by and between the Company and each of Robert A. Moran and Michael F. Nocito (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the period ending December 31, 1993, File No. 1-8712).
+10.5	Form of Change in Control Agreement, by and between the Company and each of Edward Patrick Duffy, David G. Maffucci, Donald G. McNeil, Robert A. Moran, Arnold M. Nemirow, and Michael F. Nocito (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the period ending December 31, 1995, File No. 1-8712 (the "1995 10-K")).
+10.6	Form of Change in Control Agreement by and between the Company and each of Anthony H. Barash and Steven G. Lanzl (incorporated by reference to Exhibit 10.6 to the 1996 10-K).
+10.7	Employment Agreement, dated as of May 21, 1997, by and between the Company and Wendy C. Shiba (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ending June 30, 1997, File No. 1-8712 (the "June 1997 10-Q")).
+10.8	Change in Control Agreement, dated as of May 21, 1997, by and between the Company and Wendy C. Shiba (incorporated by reference to Exhibit 10.2 to the June 1997 10-Q).
+10.9	Employment Agreement, dated as of August 1, 1998, by and between the Company and James H. Dorton (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ending September 30, 1998, File No. 1-8712 (the "September 1998 10-Q")).
+10.10	Change in Control Agreement, dated as of August 1, 1998, by and between the Company and James H. Dorton (incorporated by reference to Exhibit 10.2 to the September 1998 10-Q).
+10.11	Employment Agreement, dated as of August 1, 1997, by and between the Company and Arthur D. Fuller (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ending September 30, 1997, File No. 1-8712 (the "September 1997 10-Q")).
+10.12	Change in Control Agreement, dated as of August 1, 1997, by and between the Company and Arthur D. Fuller (incorporated by reference to Exhibit 10.2 to the September 1997 10-Q).
+10.13	Employment Agreement, dated as of November 1, 1995, by and between the Company and David G. Maffucci (incorporated by reference to Exhibit 10.12 to the 1995 10-K).

</TABLE>

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EXHIBIT NO.	DESCRIPTION

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<C> <C> <S>

+10.14	Employment Agreement, dated as of March 1, 1995, by and between the Company and Donald G. McNeil (incorporated by reference to Exhibit 10.12 to the 1994 10-K).
+10.15	Employment Agreement, dated as of April 1, 1996, by and between the Company and Anthony H. Barash (incorporated by reference to Exhibit 10.14 to the 1995 10-K).
+10.16	Employment Agreement, dated as of August 1, 1997, by and between the Company and Richard K. Hamilton (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the period ending December 31, 1997, File No. 1-8712 (the "1997 10-K")).
+10.17	Change in Control Agreement, dated as of August 1, 1997, by and between the Company and Richard K. Hamilton (incorporated by reference to Exhibit 10.17 to the 1997 10-K).
+10.18	Employment Agreement, dated as of August 1, 1998, by and between the Company and William G. Harvey (incorporated by reference to Exhibit 10.3 to the September 1998 10-Q).
+10.19	Change in Control Agreement, dated as of August 1, 1998, by and between the Company and William G. Harvey (incorporated by reference to Exhibit 10.4 to the September 1998 10-Q).
+10.20	Employment Agreement, dated as of July 24, 1998, by and between the Company and David J. Steuart (incorporated by reference to Exhibit 10.5 to the September 1998 10-Q).
+10.21	Change in Control Agreement, dated as of July 24, 1998, by and between the Company and David J. Steuart (incorporated by reference to Exhibit 10.6 to the September 1998 10-Q).
+10.22*	Employment Agreement, dated as of November 1, 1995, by and between the Company and Robert D. Newman.
+10.23*	Change in Control Agreement, dated as of November 1, 1995, by and between the Company and Robert D. Newman.
+10.24*	Employment Agreement, dated as of August 1, 1997, by and between the Company and Jerry R. Gilmore.
+10.25*	Change in Control Agreement, dated as of August 1, 1997, by and between the Company and Jerry R. Gilmore.
+10.26	Compensatory Benefits Plan of the Company, as amended and restated as of April 30, 1991 (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the period ending December 31, 1991, File No. 1-8712 (the "1991 10-K")).
+10.26.1	Amendment, effective as of January 1, 1996, to the Compensatory Benefits Plan of the Company (incorporated by reference to Exhibit 10.15.1 to the 1996 10-K).
+10.26.2	Second Amendment, effective as of January 1, 1997, to the Compensatory Benefits Plan of the Company (incorporated by reference to Exhibit 10.18.2 to the 1997 10-K).
+10.26.3*	Third Amendment, effective April 15, 1998, to the Compensatory Benefits Plan of the Company.
+10.27	Annual Bonus Plan of the Company (incorporated by reference to Exhibit 10.16 to the 1994 10-K).
+10.28	Deferred Compensation Plan for Outside Directors of the Company, as amended and restated effective January 1, 1997 (incorporated by reference to Exhibit 10.18.1 to the 1996 10-K).
+10.29	Retirement Plan for Outside Directors of the Company, effective as of July 1, 1988 (incorporated by reference to Exhibit 10.19 to the 1995 10-K).
+10.29.1	First Amendment to Retirement Plan for Outside Directors (incorporated by reference to Exhibit 10.19.1 to the 1995 10-K).
+10.29.2	Second Amendment to Retirement Plan for Outside Directors (incorporated by reference to Exhibit 10.21.2 to the 1997 10-K).
+10.29.3*	Third Amendment to Retirement Plan for Outside Directors.

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EXHIBIT NO.	DESCRIPTION
<C> <C>	<S>
+10.30	Supplemental Benefit Plan for Designated Employees of Bowater Incorporated and Affiliated Companies, as amended and restated effective as of November 1, 1995 (incorporated by reference to Exhibit 10.20 to the 1995 10-K).
+10.30.1	First Amendment, dated as of March 18, 1996, to the Supplemental Benefit Plan for Designated Employees of Bowater Incorporated and Affiliated Companies, as amended and restated effective as of November 1, 1995 (incorporated by reference to Exhibit 10.20.1 to the 1995 10-K).
+10.30.2*	Second Amendment, effective April 15, 1998, to the Supplemental Benefit Plan for Designated Employees of Bowater Incorporated and Affiliated Companies as amended and restated effective November 1, 1995.
+10.31*	Equity Participation Rights Plan, amended and restated as of January 1, 1999.
+10.32	1988 Stock Incentive Plan of the Company (incorporated by reference to the Company's Proxy Statement for 1988, File No. 1-8712).
+10.32.1	Amendment to 1988 Stock Incentive Plan of the Company, dated as of August 23, 1989 (incorporated by reference to Exhibit 10.16A to the Company's Annual Report on Form 10-K for the period ending December 31, 1989, File No. 1-8712).
+10.32.2*	Second Amendment, effective April 15, 1998, to the 1988 Stock Incentive Plan of the Company.
+10.33	Amended and Restated Benefit Plan Grantor Trust of the Company, effective as of April 15, 1998 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ending June 30, 1998, File No. 1-8712 (the "June 1998 10-Q")).
+10.34	Amended and Restated Executive Severance Grantor Trust of the Company, effective as of April 15, 1998 (incorporated by reference to Exhibit 10.3 to the June 1998 10-Q).
+10.35	Amended and Restated Outside Directors Benefit Plan Grantor Trust of the Company, effective as of April 15, 1998 (incorporated by reference to Exhibit 10.2 to the June 1998 10-Q).
+10.36	Benefits Equalization Plan, dated as of August 22, 1990 (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the period ending December 31, 1990, File No. 1-8712).
+10.36.1	First Amendment to Bowater Incorporated Benefits Equalization Plan, effective as of January 1, 1996 (incorporated by reference to Exhibit 10.28.1 to the 1996 10-K).
+10.36.2*	Second Amendment to Bowater Incorporated Benefits Equalization Plan, effective April 15, 1998.
+10.37	1992 Stock Incentive Plan (incorporated by reference to Exhibit 10.23 to the 1991 10-K).
+10.37.1*	First Amendment, effective April 15, 1998, to the 1992 Stock Incentive Plan.
+10.38	Bowater Incorporated 1997 Stock Option Plan, effective as of January 1, 1997, as amended and restated (incorporated by reference to Exhibit 10.31 to the 1996 10-K).
+10.38.1*	First Amendment, effective April 15, 1998, to the Bowater Incorporated 1997 Stock Option Plan, effective as of January 1, 1997, as amended and restated.
+10.39	Bowater Incorporated 1997-1999 Long-Term Incentive Plan, effective as of January 1, 1997, as amended and restated (incorporated by reference to Exhibit 10.32 to the 1996 10-K).
+10.39.1*	First Amendment, effective April 15, 1998, to the Bowater Incorporated 1997-1999 Long-Term Incentive Plan, effective

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	as of January 1, 1997, as amended and restated.
+10.40*	Senior Executive Retirement Plan of the Company's subsidiary, Bowater Pulp and Paper Canada Inc. (formerly Avenor Inc.), effective as of November 28, 1997.
10.41	Licensing Agreement, dated as of December 30, 1976, as amended, between the Company and Bowater Industries plc (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement No. 2-90172).

EXHIBIT NO.	DESCRIPTION
10.42	Trademark Agreement, dated May 8, 1984, between the Company and Bowater Corporation plc (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement No. 2-90172).
10.43	World-Wide Trademark Ownership, Use and Assignment Agreement, effective as of June 30, 1997, by and between the Company and Rexam plc (formerly Bowater plc) (incorporated by reference to Exhibit 10.40 to the 1997 10-K).
10.44	364-Day Credit Agreement, dated as of June 24, 1998, among the Company, The Chase Manhattan Bank, as Administrative Agent, and the lenders signatory thereto (incorporated by reference to Exhibit 1.1 to the Schedule 13D filed on August 3, 1998, by the Company, Bowater Canadian Holdings Incorporated and Bowater Canada Inc. with respect to the common shares of Avenor Inc. (the "Schedule 13D")).
10.45	Five Year Credit Agreement, dated as of June 24, 1998, among the Company, The Chase Manhattan Bank, as Administrative Agent, and the lenders signatory thereto (incorporated by reference to Exhibit 1.2 to the Schedule 13D).
10.46	Support Agreement, dated as of July 24, 1998, between the Company, Bowater Canadian Holdings Incorporated and Bowater Canada Inc. (incorporated by reference to Annex G of the Schedule 14A).
10.47	Voting and Exchange Trust Agreement, dated as of July 24, 1998, between the Company, Bowater Canadian Holdings Incorporated, Bowater Canada Inc. and Montreal Trust Company of Canada (incorporated by reference to Annex F of the Schedule 14A).
13.1*	Copy of the Company's 1998 Annual Report to Stockholders (except for those portions that are expressly incorporated by reference in this Report on Form 10-K, this exhibit is furnished for the information of the Commission and is not deemed to be filed as part hereof).
21.1*	Subsidiary Listing.
23.1*	Consent of Independent Auditors.
27.1*	Financial Data Schedule (electronic filing only).

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* Filed herewith

+ This is a management contract or compensatory plan or arrangement.

(b) On October 15, 1998, the Company filed a Current Report on Form 8-K, dated September 30, 1998, File No. 1-8712, including pro forma financial information, to report the disposition of the facility known as the Dryden Mill and related assets.

(c) The response to this portion of Item 14 is submitted as a separate

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section of this report.

(d) The response to this portion of Item 14 is submitted as a separate section of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BOWATER INCORPORATED

By: /s/ ARNOLD M. NEMIROW
ARNOLD M. NEMIROW
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Date: March 25, 1999

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 Company and in the capacities indicated, as of March 25, 1999.

<TABLE>
<CAPTION>

SIGNATURE	TITLE
<C>	<S>
/s/ ARNOLD M. NEMIROW ARNOLD M. NEMIROW	Director, Chairman, President and Chief Executive Officer
/s/ DAVID G. MAFFUCCI DAVID G. MAFFUCCI	Senior Vice President and Chief Financial Officer
/s/ MICHAEL F. NOCITO MICHAEL F. NOCITO	Vice President and Controller
/s/ FRANCIS J. AGUILAR FRANCIS J. AGUILAR	Director
/s/ H. DAVID AYCOCK H. DAVID AYCOCK	Director
/s/ RICHARD BARTH RICHARD BARTH	Director
/s/ KENNETH M. CURTIS KENNETH M. CURTIS	Director
/s/ CHARLES J. HOWARD CHARLES J. HOWARD	Director
/s/ JAMES L. PATE JAMES L. PATE	Director

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/s/ JOHN A. ROLLS Director

JOHN A. ROLLS

/s/ ARTHUR R. SAWCHUK Director

ARTHUR R. SAWCHUK

</TABLE>

BOWATER INCORPORATED

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
YEAR ENDED DECEMBER 31, 1998

	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	ADDITIONS	DEDUCTIONS	BALANCE AT END OF YEAR
				(IN MILLIONS)	
Restructuring Reserve	$ --	$ --	$ 63.4(1)	$(10.4)	$53.0

----

(1) Recorded in purchase accounting upon the acquisition of Avenor Inc.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Bowater Incorporated

Under date of February 12, 1999, we reported on the consolidated balance sheets of Bowater Incorporated and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, capital accounts, and cash flows for each of the years in the three-year period ended December 31, 1998, as contained in the annual report on Form 10-K for the year 1998. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audit.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG PEAT MARWICK

Greenville, South Carolina
February 12, 1999

EXHIBIT INDEX

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EXHIBIT NO.	DESCRIPTION
2.1	Amended and Restated Arrangement Agreement, dated as of March 9, 1998, by and between the Company and Avenor Inc. (incorporated by reference to Exhibit 2.1 to Annex D of the Joint Management Information Circular and Proxy Statement filed on June 18, 1998, on Schedule 14A for the Company, File No. 1-8712 (the "Schedule 14A")).
2.2	Asset Purchase Agreement, dated August 4, 1998, by and between Bowater Pulp and Paper Canada Inc., the Company, Weyerhaeuser Canada Ltd. and Weyerhaeuser Company (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated October 15, 1998, File No. 1-8712 (the "October 1998 8-K")).
2.2.1	Amending Agreement, dated September 30, 1998, by and between Bowater Pulp and Paper Canada Inc., the Company, Weyerhaeuser Canada Ltd. and Weyerhaeuser Company (incorporated by reference to Exhibit 2.1.1 to the October 1998 8-K).
3.1	Restated Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement No. 33-51569).
3.2	Certificate of Designations of the 7% PRIDES, Series B Convertible Preferred Stock of the Company (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated February 1, 1994, File No. 1-8712 (the "February 1994 8-K")).
3.3	Certificate of Designations of the 8.40% Series C Cumulative Preferred Stock of the Company (incorporated by reference to Exhibit 4.2 to the February 1994 8-K).
3.4	Certificate of Designation of the special voting stock of the Company (incorporated by reference to Exhibit 4.11 to Amendment No. 1 to the Company's Registration Statement No. 333-57839 (the "Amendment No. 1 to the Registration Statement")).
3.5	Bylaws of the Company amended and restated as of May 20, 1998 (incorporated by reference to Exhibit 4.12 to Amendment No. 1 to the Registration Statement).
4.1	Agreement pursuant to S-K Item 601(b)(4)(iii)(A) to provide the Commission upon request copies of certain other instruments with respect to long-term debt not being registered where the amount of securities authorized under each such instrument does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement No. 2-93455).
4.2	See Exhibits 3.1, 3.4 and 3.5.
+10.1	Employment Agreement, dated as of July 20, 1994, by and between the Company and Arnold M. Nemirow (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the period ending December 31, 1994, File No. 1-8712 (the "1994 10-K")).
+10.2	Employment Agreement, dated as of October 21, 1996, by and between the Company and Steven G. Lanzl (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the period ending December 31, 1996, File No. 1-8712 (the "1996 10-K")).
+10.3	Employment Agreement, dated as of April 1, 1995, by and between the Company and E. Patrick Duffy (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ending March 31, 1995, File No. 1-8712).
+10.4	Form of Employment Agreement by and between the Company and each of Robert A. Moran and Michael F. Nocito (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the period ending December 31, 1993, File

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	No. 1-8712).
+10.5	Form of Change in Control Agreement, by and between the Company and each of Edward Patrick Duffy, David G. Maffucci, Donald G. McNeil, Robert A. Moran, Arnold M. Nemirow, and Michael F. Nocito (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the period ending December 31, 1995, File No. 1-8712 (the "1995 10-K")).

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EXHIBIT NO.	DESCRIPTION
+10.6	Form of Change in Control Agreement by and between the Company and each of Anthony H. Barash and Steven G. Lanzl (incorporated by reference to Exhibit 10.6 to the 1996 10-K).
+10.7	Employment Agreement, dated as of May 21, 1997, by and between the Company and Wendy C. Shiba (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ending June 30, 1997, File No. 1-8712 (the "June 1997 10-Q")).
+10.8	Change in Control Agreement, dated as of May 21, 1997, by and between the Company and Wendy C. Shiba (incorporated by reference to Exhibit 10.2 to the June 1997 10-Q).
+10.9	Employment Agreement, dated as of August 1, 1998, by and between the Company and James H. Dorton (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ending September 30, 1998, File No. 1-8712 (the "September 1998 10-Q")).
+10.10	Change in Control Agreement, dated as of August 1, 1998, by and between the Company and James H. Dorton (incorporated by reference to Exhibit 10.2 to the September 1998 10-Q).
+10.11	Employment Agreement, dated as of August 1, 1997, by and between the Company and Arthur D. Fuller (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ending September 30, 1997, File No. 1-8712 (the "September 1997 10-Q")).
+10.12	Change in Control Agreement, dated as of August 1, 1997, by and between the Company and Arthur D. Fuller (incorporated by reference to Exhibit 10.2 to the September 1997 10-Q).
+10.13	Employment Agreement, dated as of November 1, 1995, by and between the Company and David G. Maffucci (incorporated by reference to Exhibit 10.12 to the 1995 10-K).
+10.14	Employment Agreement, dated as of March 1, 1995, by and between the Company and Donald G. McNeil (incorporated by reference to Exhibit 10.12 to the 1994 10-K).
+10.15	Employment Agreement, dated as of April 1, 1996, by and between the Company and Anthony H. Barash (incorporated by reference to Exhibit 10.14 to the 1995 10-K).
+10.16	Employment Agreement, dated as of August 1, 1997, by and between the Company and Richard K. Hamilton (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the period ending December 31, 1997, File No. 1-8712 (the "1997 10-K")).
+10.17	Change in Control Agreement, dated as of August 1, 1997, by and between the Company and Richard K. Hamilton (incorporated by reference to Exhibit 10.17 to the 1997 10-K).
+10.18	Employment Agreement, dated as of August 1, 1998, by and between the Company and William G. Harvey (incorporated by reference to Exhibit 10.3 to the September 1998 10-Q).
+10.19	Change in Control Agreement, dated as of August 1, 1998, by and between the Company and William G. Harvey (incorporated by reference to Exhibit 10.4 to the September 1998 10-Q).

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+10.20	Employment Agreement, dated as of July 24, 1998, by and between the Company and David J. Steuart (incorporated by reference to Exhibit 10.5 to the September 1998 10-Q).
+10.21	Change in Control Agreement, dated as of July 24, 1998, by and between the Company and David J. Steuart (incorporated by reference to Exhibit 10.6 to the September 1998 10-Q).
+10.22*	Employment Agreement, dated as of November 1, 1995, by and between the Company and Robert D. Newman.
+10.23*	Change in Control Agreement, dated as of November 1, 1995, by and between the Company and Robert D. Newman.
+10.24*	Employment Agreement, dated as of August 1, 1997, by and between the Company and Jerry R. Gilmore.
+10.25*	Change in Control Agreement, dated as of August 1, 1997, by and between the Company and Jerry R. Gilmore.

</TABLE>

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EXHIBIT NO.	DESCRIPTION
+10.26	Compensatory Benefits Plan of the Company, as amended and restated as of April 30, 1991 (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the period ending December 31, 1991, File No. 1-8712 (the "1991 10-K")).
+10.26.1	Amendment, effective as of January 1, 1996, to the Compensatory Benefits Plan of the Company (incorporated by reference to Exhibit 10.15.1 to the 1996 10-K).
+10.26.2	Second Amendment, effective as of January 1, 1997, to the Compensatory Benefits Plan of the Company (incorporated by reference to Exhibit 10.18.2 to the 1997 10-K).
+10.26.3*	Third Amendment, effective April 15, 1998, to the Compensatory Benefits Plan of the Company.
+10.27	Annual Bonus Plan of the Company (incorporated by reference to Exhibit 10.16 to the 1994 10-K).
+10.28	Deferred Compensation Plan for Outside Directors of the Company, as amended and restated effective January 1, 1997 (incorporated by reference to Exhibit 10.18.1 to the 1996 10-K).
+10.29	Retirement Plan for Outside Directors of the Company, effective as of July 1, 1988 (incorporated by reference to Exhibit 10.19 to the 1995 10-K).
+10.29.1	First Amendment to Retirement Plan for Outside Directors (incorporated by reference to Exhibit 10.19.1 to the 1995 10-K).
+10.29.2	Second Amendment to Retirement Plan for Outside Directors (incorporated by reference to Exhibit 10.21.2 to the 1997 10-K).
+10.29.3*	Third Amendment to Retirement Plan for Outside Directors.
+10.30	Supplemental Benefit Plan for Designated Employees of Bowater Incorporated and Affiliated Companies, as amended and restated effective as of November 1, 1995 (incorporated by reference to Exhibit 10.20 to the 1995 10-K).
+10.30.1	First Amendment, dated as of March 18, 1996, to the Supplemental Benefit Plan for Designated Employees of Bowater Incorporated and Affiliated Companies, as amended and restated effective as of November 1, 1995 (incorporated by reference to Exhibit 10.20.1 to the 1995 10-K).
+10.30.2*	Second Amendment, effective April 15, 1998, to the Supplemental Benefit Plan for Designated Employees of Bowater Incorporated and Affiliated Companies as amended and restated effective November 1, 1995.
+10.31*	Equity Participation Rights Plan, amended and restated as of January 1, 1999.
+10.32	1988 Stock Incentive Plan of the Company (incorporated by reference to the Company's Proxy Statement for 1988, File

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	No. 1-8712).
+10.32.1	Amendment to 1988 Stock Incentive Plan of the Company, dated as of August 23, 1989 (incorporated by reference to Exhibit 10.16A to the Company's Annual Report on Form 10-K for the period ending December 31, 1989, File No. 1-8712).
+10.32.2*	Second Amendment, effective April 15, 1998, to the 1988 Stock Incentive Plan of the Company.
+10.33	Amended and Restated Benefit Plan Grantor Trust of the Company, effective as of April 15, 1998 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ending June 30, 1998, File No. 1-8712 (the "June 1998 10-Q")).
+10.34	Amended and Restated Executive Severance Grantor Trust of the Company, effective as of April 15, 1998 (incorporated by reference to Exhibit 10.3 to the June 1998 10-Q).
+10.35	Amended and Restated Outside Directors Benefit Plan Grantor Trust of the Company, effective as of April 15, 1998 (incorporated by reference to Exhibit 10.2 to the June 1998 10-Q).
+10.36	Benefits Equalization Plan, dated as of August 22, 1990 (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the period ending December 31, 1990, File No. 1-8712).

</TABLE>

<TABLE>
<CAPTION>

EXHIBIT NO.	DESCRIPTION
<C> <C>	<S>
+10.36.1	First Amendment to Bowater Incorporated Benefits Equalization Plan, effective as of January 1, 1996 (incorporated by reference to Exhibit 10.28.1 to the 1996 10-K).
+10.36.2*	Second Amendment to Bowater Incorporated Benefits Equalization Plan, effective April 15, 1998.
+10.37	1992 Stock Incentive Plan (incorporated by reference to Exhibit 10.23 to the 1991 10-K).
+10.37.1*	First Amendment, effective April 15, 1998, to the 1992 Stock Incentive Plan.
+10.38	Bowater Incorporated 1997 Stock Option Plan, effective as of January 1, 1997, as amended and restated (incorporated by reference to Exhibit 10.31 to the 1996 10-K).
+10.38.1*	First Amendment, effective April 15, 1998, to the Bowater Incorporated 1997 Stock Option Plan, effective as of January 1, 1997, as amended and restated.
+10.39	Bowater Incorporated 1997-1999 Long-Term Incentive Plan, effective as of January 1, 1997, as amended and restated (incorporated by reference to Exhibit 10.32 to the 1996 10-K).
+10.39.1*	First Amendment, effective April 15, 1998, to the Bowater Incorporated 1997-1999 Long-Term Incentive Plan, effective as of January 1, 1997, as amended and restated.
+10.40*	Senior Executive Retirement Plan of the Company's subsidiary, Bowater Pulp and Paper Canada Inc. (formerly Avenor Inc.), effective as of November 28, 1997.
10.41	Licensing Agreement, dated as of December 30, 1976, as amended, between the Company and Bowater Industries plc (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement No. 2-90172).
10.42	Trademark Agreement, dated May 8, 1984, between the Company and Bowater Corporation plc (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement No. 2-90172).
10.43	World-Wide Trademark Ownership, Use and Assignment Agreement, effective as of June 30, 1997, by and between the Company and Rexam plc (formerly Bowater plc) (incorporated

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	by reference to Exhibit 10.40 to the 1997 10-K).
10.44	364-Day Credit Agreement, dated as of June 24, 1998, among the Company, The Chase Manhattan Bank, as Administrative Agent, and the lenders signatory thereto (incorporated by reference to Exhibit 1.1 to the Schedule 13D filed on August 3, 1998, by the Company, Bowater Canadian Holdings Incorporated and Bowater Canada Inc. with respect to the common shares of Avenor Inc. (the "Schedule 13D")).
10.45	Five Year Credit Agreement, dated as of June 24, 1998, among the Company, The Chase Manhattan Bank, as Administrative Agent, and the lenders signatory thereto (incorporated by reference to Exhibit 1.2 to the Schedule 13D).
10.46	Support Agreement, dated as of July 24, 1998, between the Company, Bowater Canadian Holdings Incorporated and Bowater Canada Inc. (incorporated by reference to Annex G of the Schedule 14A).
10.47	Voting and Exchange Trust Agreement, dated as of July 24, 1998, between the Company, Bowater Canadian Holdings Incorporated, Bowater Canada Inc. and Montreal Trust Company of Canada (incorporated by reference to Annex F of the Schedule 14A).
13.1*	Copy of the Company's 1998 Annual Report to Stockholders (except for those portions that are expressly incorporated by reference in this Report on Form 10-K, this exhibit is furnished for the information of the Commission and is not deemed to be filed as part hereof).
21.1*	Subsidiary Listing.

</TABLE>

<TABLE>
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EXHIBIT NO.	DESCRIPTION
<C> <C>	<S>
23.1*	Consent of Independent Auditors.
27.1*	Financial Data Schedule (electronic filing only).

</TABLE>

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* Filed herewith

\+ This is a management contract or compensatory plan or arrangement.

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EXHIBIT 10.22

EMPLOYMENT AGREEMENT

THIS AGREEMENT, is made as of this 1st day of November, 1995, by and between BOWATER INCORPORATED, a Delaware corporation having a mailing address of 55 East Camperdown Way, Greenville, South Carolina 29602 (the "Corporation"), and Robert D. Newman, Post Office Box 4583, Cleveland, TN 37311 (the "Executive").

WHEREAS, the Corporation desires to employ the Executive as Vice President Operations and Resident Manager, Newsprint Division; and

WHEREAS, the Executive is desirous of serving the Corporation in such capacity;

NOW, THEREFORE, the parties hereto agree as follows:

1. Employment. During the term of this Agreement the Corporation agrees to continue to employ the Executive, and the Executive agrees to continue in the employ of the Corporation, in accordance with and subject to the provisions of this Agreement.

2. Term.

(a) Subject to the provisions of subparagraphs (b) and (c) of this Section 2, the term of this Agreement shall begin on the Date hereof and shall continue thereafter until terminated by either party by written notice given to the other party at least thirty (30) days prior to the effective date of any such termination. The effective date of the termination shall be the date stated in such notice, provided that if the Corporation specifies an effective date that is more than (30)

days following the date of such notice, the Executive may, upon thirty (30) days' written notice to the Corporation, accelerate the effective date of such termination.

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(b) Notwithstanding Section 2(a), upon the occurrence of a Change in Control as defined in the Change in Control Agreement of even date herewith between the Corporation and the Executive (the "Change in Control Agreement"), the term of this Agreement shall be deemed to continue until terminated, but in any event, for a period of not less than three (3) years following the date of the Change in Control, unless such termination shall be at the Executive's election for other than "Good Reason" as that term is defined in the Change in Control Agreement.

(c) Notwithstanding Section 2(a), the term of this Agreement shall end upon:

(i) the death of the Executive;

(ii) the inability of the Executive to perform his duties properly, whether by reason of ill-health, accident or other cause, for a period of one hundred and eighty (180) consecutive days or for periods totaling one hundred and eighty (180) days occurring within any twelve (12) consecutive calendar months; or

(iii) the executive's retirement on his early or normal retirement date.

3. Position and Duties. Throughout the term hereof, the Executive shall be employed as Vice President Operations and Resident Manager, Newsprint Division, with the duties and responsibilities customarily attendant to that office, provided that the Executive shall undertake such other and further assignments and responsibilities of at least comparable status as the Board of Directors may direct. The Executive shall diligently and faithfully devote his full working time and best efforts to the performance of the services under this Agreement and to the furtherance of the best interests of the Corporation.

4. Place of Employment. The Executive will be employed at the Corporation's offices in Calhoun, Tennessee or at such other place as the Corporation shall designate from time to time, provided, however, that if the Executive is transferred to another place of employment, necessitating a change in his residence, the Executive shall be entitled to financial assistance in

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accordance with the terms of the Corporation's relocation policy then in effect.

5. Compensation and Benefits.

(a) Base Salary. The Corporation shall pay to the Executive a base salary of $170,000 payable in substantially equal periodic installments on the Corporation's regular payroll dates. The Executive's base salary shall be reviewed at least annually and from time to time may be increased (or reduced, if such reduction is effected pursuant to across-the-board salary reductions similarly affecting all management personnel of the Corporation).

(b) Bonus Plan. In addition to his base salary, the Executive shall be entitled to receive a bonus under the Corporation's bonus plan in effect from time to time determined in the manner, at the time, and in the amounts set forth under such plan.

(c) Benefit Plans. The Corporation shall make contributions on the Executive's behalf to the various benefit plans and programs of the Corporation in which the Executive is eligible to participate in accordance with the provisions thereof as in effect from time to time.

(d) Vacations. The Executive shall be entitled to paid vacation, in keeping with the Corporate policy as in effect from time to time, to be taken at such time or times as may be approved by the Corporation.

(e) Expenses. The Corporation shall reimburse the Executive for all reasonable expenses properly incurred, and appropriately documented, by the Executive in connection with the business of the Corporation.

(f) Perquisites. The Corporation shall make available to the Executive all perquisites to which he is entitled by virtue of his position.

6. Nondisclosure. During and after the term of this Agreement, the

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Executive shall not, without the written consent of the Board of Directors of the Corporation, disclose or use directly or indirectly, (except in the course of employment hereunder and in furtherance of the business of the Corporation or any of its subsidiaries and affiliates) any of the trade secrets or other confidential information or proprietary data of the Corporation or its subsidiaries or affiliates; provided, however, that confidential information shall not include any information known generally to the public (other than as a result of unauthorized disclosure by the Executive) or any information of a type not otherwise considered confidential by persons engaged in the same or similar businesses.

7. Noncompetition. During the term of this Agreement, and for a period of one (1) year after the date the Executive's employment terminates, the Executive shall not, without the prior approval of the Board of Directors of the Corporation in the same or a similar capacity engage in or invest in, or aid or assist anyone else in the conduct of any business (other than the businesses of the Corporation and its subsidiaries and affiliates) which directly competes with the business of the Corporation and its subsidiaries and affiliates as conducted during the term hereof. If any court of competent jurisdiction shall determine that any of the provisions of this Section 7 shall not be enforceable because of the duration or scope thereof, the parties hereto agree that said court shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable and this Agreement in its reduced form shall be valid and enforceable to the extent permitted by law. The Executive acknowledges that the Corporation's remedy at law for a breach by the Executive of the provisions of this Section 7 will be inadequate. Accordingly, in the event of the breach or threatened breach by the Executive of this Section 7, the Corporation shall be entitled to injunctive relief in addition to any other remedy it may have.

8. Severance Pay. If the Executive's employment hereunder is involuntarily terminated for any reason other than those set forth in Section 2(c) hereof, then unless the Corporation shall have terminated the Executive for "Cause", the Corporation shall pay the Executive severance pay in an amount equal to twelve (12) months of the Executive's base salary on the effective date of the termination, plus 1/12 of the amount of the last bonus paid to the Executive under the Corporation's bonus plan applicable to the Executive for each month in the period beginning on January 1 of the year in which the date of the termination occurs and ending on the date of the termination and for each months' base salary to which the Executive is entitled under this Section 8, provided,

however, that any amount paid to the Executive by the Corporation for services rendered subsequent to the thirtieth (30th) day following the communication to the Executive of notice of termination shall be deducted from the severance pay

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otherwise due hereunder. Such payment shall be made in a lump sum within ten (10) business days following the effective date of the termination. The severance pay shall be in lieu of all other compensation or payments of any kind relating to the termination of the Executive's employment hereunder; provided that the Executive's entitlement to compensation or payments under the Corporation's retirement plans, stock option or incentive plans, savings plans or bonus plans attributable to service rendered prior to the effective date of the termination shall not be affected by this clause and shall continue to be governed by the applicable provisions of such plans; and further provided that in lieu hereof, at his election, the Executive shall be entitled to the benefits of the Change in Control Agreement of even date hereof between the Corporation and the Executive, if termination occurs in a manner and at a time when such Severance Agreement is applicable. For purposes of this Agreement, the term for "Cause" shall mean because of gross negligence or willful misconduct by the Executive either in the course of his employment hereunder or which has a material adverse effect on the Corporation or the Executive's ability to perform adequately and effectively his duties hereunder.

9. Notices. Any notices required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered or mailed, by registered or certified mail, return receipt requested to the respective addresses of the parties set forth above, or to such other address as any party hereto shall designate to the other party in writing pursuant to the terms of this Section 9.

10. Severability. The provisions of this Agreement are severable, and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of any other provision.

11. Governing Law. This Agreement shall be governed by and interpreted in accordance with the substantive laws of the State of Delaware.

12. Supersedure. This Agreement shall cancel and supersede all prior agreements relating to employment between the Executive and the Corporation, except the Change in Control Agreement.

13. Waiver of Breach. The waiver by a party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any prior or subsequent breach by any of the parties hereto.

14. Binding Effect. The terms of this Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Corporation and the heirs, executors, administrators and successors of the Executive, but this Agreement may not be assigned by the Executive.

IN WITNESS WHEREOF, the Corporation and the Executive have executed

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this Agreement as of the day and year first above written.

BOWATER INCORPORATED

By: /s/ Richard F. Frisch

Richard F. Frisch,
Vice President - Human Resources

/s/ Robert D. Newman

Robert D. Newman

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EXHIBIT 10.23

CHANGE IN CONTROL AGREEMENT

THIS AGREEMENT, made as of the 1st day of November, 1995, by and between Bowater Incorporated, a Delaware corporation having a mailing address of 55 East Camperdown Way, Greenville, South Carolina 29602 (the "Corporation"), and Robert D. Newman, Post Office Box 4583, Cleveland, TN 37311 (the "Executive").

WHEREAS, the Corporation considers it essential to the best interests of its stockholders to foster the continued employment of key management personnel; and

WHEREAS, the uncertainty attendant to a change in control of the Corporation may result in the departure or distraction of management personnel to the detriment of the Corporation and its stockholders; and

WHEREAS, the Board of Directors of the Corporation (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Corporation's management, including Executive, to their assigned duties in the event of a change in control of the Corporation.

NOW THEREFORE, it is hereby agreed as follows:

1. DEFINITIONS

The following terms when used herein shall have the meanings assigned to them below. Whenever applicable throughout this Agreement, the masculine pronoun shall include the feminine pronoun and the singular shall include the plural.

(a) "Acquiring Person" shall mean any Person who is or becomes a "beneficial owner" (as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") of securities of the Corporation representing twenty percent (20%) or more of the combined voting power of the Corporation's then outstanding voting securities, unless such Person has filed Schedule 13G and all required amendments thereto with respect to its holdings and continues to hold such securities for investment in a

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manner qualifying such Person to utilize Schedule 13G for reporting of ownership.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on the date hereof.

(c) "Cause" shall mean and be limited to the Executive's gross negligence, willful misconduct or conviction of a felony, which negligence, misconduct or conviction has a demonstrable and material adverse effect upon the Corporation, provided that, to the extent that the Corporation contends that Cause exists by virtue of Executive's gross negligence or willful misconduct, and such gross negligence or willful misconduct is capable of being cured, the Corporation shall have given the Executive written notice of the alleged negligence or misconduct and the Executive shall have failed to cure such negligence or misconduct within thirty (30) days after his receipt of such notice. The Executive shall be deemed to have been terminated for Cause effective upon the effective date stated in a written notice of such termination delivered by the Corporation to the Executive (which notice shall not be delivered before the end of the thirty (30) day period described in the preceding sentence, if applicable) and accompanied by a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board (after reasonable notice to the Executive and an opportunity for the Executive, with his counsel present, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct constituting Cause hereunder and setting forth in reasonable detail the facts and circumstances claimed to provide the basis for the Executive's termination, provided that the effective date shall not be less than thirty (30) days from the date such notice is given.

(d) "Change in Control" of the Corporation shall be deemed to have occurred if:

(i) any Person is or becomes an Acquiring Person;

(ii) less than two-thirds (2/3) of the total membership of the Board shall be Continuing Directors; or

(iii) the stockholders of the Corporation shall approve a merger or consolidation of the Corporation or a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation's assets.

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(e) "Commencement Date" shall mean the date of this Agreement, which shall be the beginning date of the term of this Agreement.

(f) "Continuing Directors" shall mean any member of the Board who was a member of the Board immediately prior to the date hereof, and any successor of a Continuing Director while such successor is a member of the Board who is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person or of any such Affiliate or Associate and is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors.

(g) "Disability" shall mean the Executive's total and permanent disability as defined in the Corporation's long term disability insurance policy covering the Executive immediately prior to the Change in Control.

(h) "Good Reason" shall mean:

(i) an adverse change in the Executive's status, duties or responsibilities as an executive of the Corporation as in effect immediately prior to the Change in Control, provided that the Executive shall have given the Corporation written notice of the alleged adverse change and the Corporation shall have failed to cure such change within thirty (30) days after its receipt of such notice;

(ii) failure of the Corporation to pay or provide the Executive in a timely fashion the salary or benefits to which he is entitled under any Employment Agreement between the Corporation and the Executive in effect on the date of the Change in Control, or under any benefit plans or policies in which the Executive was participating at the time of the Change in Control (including, without limitation, any incentive, bonus, stock option, restricted stock, health, accident, disability, life insurance, thrift, vacation pay, deferred compensation and retirement plans or policies);

(iii) the reduction of the Executive's salary as in effect on the date of the Change in Control;

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(iv) the taking of any action by the Corporation (including the elimination of a plan without providing substitutes therefor, the reduction of the Executive's awards thereunder or failure to continue the Executive's participation therein) that would substantially diminish the aggregate projected value of the Executive's awards or benefits under the Corporation's benefit plans or policies described in Section 1(g)(ii) in which the Executive was participating at the time of the Change in Control;

(v) a failure by the Corporation to obtain from any successor the assent to this Agreement contemplated by Section 5 hereof; or

(vi) the relocation of the principal office at which the Executive is to perform his services on behalf of the Corporation to a location more than thirty-five (35) miles from its location immediately prior to the Change in Control or a substantial increase in the Executive's business travel obligations subsequent to the Change in Control.

Any circumstance described in this Section 1(g) shall constitute Good Reason even if such circumstance would not constitute a breach by the Corporation of the terms of the Employment Agreement between the Corporation and the Executive in effect on the date of the Change in Control. The Executive shall be deemed to have terminated his employment for Good Reason effective upon the effective date stated in a written notice of such termination given by him to the Corporation (which notice shall not be given, in circumstances described in Section 1(g)(i), before the end of the thirty (30) day period described therein) setting forth in reasonable detail the facts and circumstances claimed to provide the basis for termination, provided that the effective date may not precede, nor be more than sixty (60) days from, the date such notice is given. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason hereunder.

(i) "Normal Retirement Date" shall have the meaning given to such term in the Corporation's basic qualified pension plan in which the Executive is a participant as in effect on the date

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hereof or any successor or substitute plan adopted prior to a Change in Control.

(j) "Person" shall mean any individual, corporation, partnership, group, association or other "person" as such term is used in Section 13(d) and 14(d) of the Exchange Act.

2. TERM OF AGREEMENT

(a) The term of this Agreement shall initially be for the period beginning on the Commencement Date and ending on the day before the third anniversary of the Commencement Date. The term of this Agreement shall automatically be extended on the first anniversary of the Commencement Date until the day before the fourth anniversary of the Commencement Date without further action by the parties, and shall be automatically extended by an additional year on each succeeding anniversary of the Commencement Date, unless either the Corporation or the Executive shall have served notice upon the other party prior to such anniversary of its or his intention either that the term of this Agreement shall not be extended, or that the Executive's Employment Agreement is terminated, provided, however, that if a Change in Control of the Corporation shall occur during the term of this Agreement, this Agreement shall continue in effect until it expires in accordance

with the foregoing, but in any event for a period of not less than three (3) years from the date of the Change in Control.

(b) Notwithstanding Section 2(a), the term of this Agreement shall end upon the termination of the Executive's employment if, prior to a Change in Control of the Corporation, the Executive's employment with the Corporation shall have terminated under the provisions of any Employment Agreement between the Corporation and the Executive then in effect.

3. COMPENSATION UPON CHANGE IN CONTROL FOLLOWED BY A TERMINATION

If a Change in Control of the Corporation shall have occurred and, thereafter and during the term of this Agreement, the Executive's employment by the Corporation is terminated for any reason other than his death, his Disability, his retirement on his Normal Retirement Date, by the Corporation for Cause, or by the Executive without Good Reason, the Executive shall be under no further obligation to perform services for the Corporation and shall be entitled to receive the following payments:

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(a) The Corporation shall pay to the Executive his full base salary through the effective date of the termination within five (5) business days thereafter and all benefits and awards (including both the cash and stock components) to which the Executive is entitled under any benefit plans or policies in which the Executive was a participant prior to the Change in Control (or, if more favorable, at the effective date of termination), at the time such payments are due pursuant to the terms of such benefit plans or policies as in effect immediately prior to the Change in Control (or, if more favorable, at the effective date of termination).

(b) At the election of the Executive, in addition to the entitlements set forth in Section 3(a) but in lieu of any payment to the Executive of any salary or severance payments or benefits to which the Executive would be entitled under the provisions of any Employment Agreement between the Corporation and the Executive then in effect (if any), the Corporation shall pay to the Executive, in a lump sum not later than ten (10) business days following the effective date of the termination:

(i) an amount equal to three (3) times the Executive's annual base salary on the effective date of the termination or, if higher, immediately prior to the Change in Control;

(ii) an amount equal to three (3) times the greater of (x) the highest amount of the actual bonus awarded to the Executive in the five (5) fiscal years immediately preceding the year in which the Change in Control occurred and (y) an amount equal to the amount the Executive would have been awarded under the Corporation's bonus plan in effect immediately prior to

the Change in Control for the fiscal year in which the Change in Control occurred had the Executive continued to render services to the Corporation at the same level of performance, at the same level of salary, and in the same position as immediately prior to the Change in Control;

(iii) an amount equal to three (3) times the greater of (x)

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the largest annual contribution made by the Corporation to the Corporation's Savings Plan on the Executive's behalf during the five (5) fiscal years immediately preceding the year in which the Change in Control occurred and (y) an amount equal to the contribution the Corporation would have made to said Plan on the Executive's behalf for the fiscal year in which the Change in Control occurred had he participated in said Plan for the entire fiscal year, received a base salary equal to the salary he was receiving immediately prior to the Change in Control and had he elected to contribute to the Plan the same percentage of his base salary as he was contributing on said date;

(iv) an amount equal to thirty percent (30%) of the Executive's annual base salary on the effective date of the termination or, if higher, immediately prior to the Change in Control (as compensation for medical, life insurance and other benefits lost as a result of termination of the Executive's employment); and

(v) For each full or partial month in the period beginning on January 1st of the year in which the date of the termination occurs and ending on the date of the termination, one-twelfth of the greater of (x) the highest amount of the actual bonus awarded to the Executive in the five (5) fiscal years immediately preceding the year in which the Change in Control occurred and (y) an amount equal to the amount the Executive would have been awarded under the Corporation's bonus plan in effect immediately prior to the Change in Control for the fiscal year in which the Change in Control occurred had the Executive continued to render services to the Corporation at the same level of performance, at the same level of salary, and in the same position as immediately prior to the Change in Control.

(vi) If a payment may be increased by reference to an alternate calculation which cannot be made by the time the payment is due, payment of the lesser, known amount shall be made when due, and if any additional amount becomes due, such additional amount shall be paid within ten (10) days after the information upon which calculation of such payment is dependent first becomes available.

The amount of all payments due to the Executive pursuant to this Section 3(b) shall be reduced by 1/36 for each full

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calendar month by which the date which is three (3) years from the effective date of the Executive's termination extends beyond the Executive's Normal Retirement Date.

Upon entering into this Agreement and for a period of fourteen (14) days following each anniversary of the date hereof (the "Election Period"), the Executive may, in writing, direct the Corporation to pay any amounts to which he is entitled under this Section 3(b) in equal annual installments (not to exceed ten (10) annual installments), with the first such installment payable within ten (10) business days of the effective date of the termination and each successive installment payable on the anniversary of the effective date of the termination or the next following business day if such date is not a business day (the "Deferred Payment Election"). A Deferred Payment Election, once made, cannot be revoked except during an Election Period; provided, however, no Deferred Payment Election can be made or revoked by the Executive during an Election Period that occurs after a Change in Control or at a time when, in the judgment of the Corporation, a Change in Control may occur within sixty (60) days of such Election Period.

(c) The Corporation shall pay or provide to the Executive or his surviving spouse or children, as the case may be, such amounts and benefits as may be required so that the pension and other post-retirement benefits paid or made available to the Executive, his surviving spouse, and his children are equal to those, if any, which would have been paid under the Corporation's Basic and Supplemental Pension (Benefit) Plans in effect immediately prior to the Change in Control, assuming the Executive continued in the employ of the Corporation at the same compensation until the third anniversary of the effective date of the termination of the Executive's employment or until his Normal Retirement Date, whichever is earlier. Notwithstanding any conflicting restrictions in the Plans or the fact of the termination of the Executive's employment, until the Executive's Normal Retirement Date, the Executive or his surviving spouse and his children shall maintain a continuing right to receive the pension and other benefits under the above Plans with payments to begin upon retirement and to elect an imputed retirement on the Executive's 50th birthdate or any of his birthdates thereafter until his Normal Retirement Date, such election to be made by so notifying the Corporation within one (1) year after

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termination of his employment.

(d) The Corporation shall pay for or provide the Executive individual out-placement assistance as offered by a member firm of the Association of Out-Placement Consulting Firms.

(e) If any payment or benefit to or for the benefit of the Executive in connection with a Change in Control of the Corporation or termination of the Executive's employment following a Change in Control of the Corporation (whether pursuant to the terms of this Agreement, or any other plan or arrangement or agreement with the Corporation, any Person whose actions result in a Change in Control of the Corporation or any Affiliate or Associate of the Corporation or any such Person) is subject to the Excise Tax (as hereinafter defined), the Corporation shall

pay to the Executive an additional amount such that the total amount of all such payments and benefits (including payments made pursuant to this Section 3(e) net of the Excise Tax and all other applicable federal, state and local taxes) shall equal the total amount of all such payments and benefits to which the Executive would have been entitled, but for this Section 3(e), net of all applicable federal, state and local taxes except the Excise Tax. For purposes of this Section 3(e), the term "Excise Tax" shall mean the tax imposed by Section 4999 of the Internal Revenue Code of 1986 (the "Code") and any similar tax that may hereafter be imposed.

The amount of the payment to the Executive under this Section 3(e) shall be estimated by a nationally recognized firm of certified public accountants, which firm may not have provided services to the Corporation or any Affiliate of the Corporation within the previous three years and shall not provide services thereto in the following three years, based upon the following assumptions:

(i) all payments and benefits to or for the benefit of the Executive in connection with a Change in Control of the Corporation or termination of the Executive's employment following a Change in Control of the Corporation shall be deemed to be "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" shall be deemed to be subject to the Excise Tax except to

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the extent that, in the opinion of tax counsel selected by the firm of certified public accountants charged with estimating the payment to the Executive under this Section 3(e), such payments or benefits are not subject to the Excise Tax; and

(ii) the Executive shall be deemed to pay federal, state and local taxes at the highest marginal rate of taxation for the applicable calendar year.

The estimated amount of the payment due the Executive pursuant to this Section 3(e) shall be paid to the Executive in a lump sum not later than thirty (30) business days following the effective date of the termination. In the event that the amount of the estimated payment is less than the amount actually due to the Executive under this Section 3(e), the amount of any such shortfall shall be paid to the Executive within ten (10) days after the existence of the shortfall is discovered.

(f) The Executive shall not be required to mitigate the amount of any payment provided in this Section 3, nor shall any payment or benefit provided for in this Section 3 be offset by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, or by offset against any amount claimed to be owed by the Executive to the Corporation, or otherwise.

(g) If any payment to the Executive required by this Section 3 is not made within the time for such payment specified herein, the Corporation shall pay to the Executive interest on such payment at the legal rate payable from time to time upon

judgments in the State of Delaware from the date such payment is payable under terms hereof until paid.

4. EXECUTIVE'S EXPENSES

The Corporation shall pay or reimburse the Executive for all costs, including reasonable attorney's fees and expenses of either litigation or arbitration, incurred by the Executive in contesting or disputing any termination of his employment following a Change in Control or in seeking to obtain or enforce any right or benefit provided by this Agreement.

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5. BINDING AGREEMENT

This Agreement shall inure to the benefit of and be enforceable by the Executive, his heirs, executors, administrators, successors and assigns. This Agreement shall be binding upon the Corporation, its successors and assigns. The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation expressly to assume and agree to perform this Agreement in accordance with its terms. The Corporation shall obtain such assumption and agreement prior to the effectiveness of any such succession.

6. NOTICE

Any notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when delivered or mailed, by certified or registered mail, return receipt requested, postage prepaid addressed to the respective addresses set forth on the first page of this Agreement or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt. All notices to the Corporation shall be addressed to the attention of the Board with a copy to each of the General Counsel, the Vice President-Human Resources and the Secretary of the Corporation.

7. AMENDMENTS; WAIVERS

No provision of this Agreement may be modified, waived or discharged except in a writing specifically referring to such provision and signed by the party against which enforcement of such modification, waiver or discharge is sought. No waiver by either party hereto of the breach of any condition or provision of this Agreement shall be deemed a waiver of any other condition or provision at the same or any other time.

8. GOVERNING LAW

The validity, interpretation, construction and performance of this Agreement shall be governed by the substantive laws of the State of Delaware.

9. VALIDITY

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

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10. ARBITRATION

If the Executive so elects, any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in the city nearest to the Executive's principal residence (or, at the Executive's election, in the city within the state in which the Executive's principal residence is located nearest to such principal residence) which has an office of the American Arbitration Association by one arbitrator in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The Corporation hereby waives its right to contest the personal jurisdiction or venue of any court, federal or state, in an action brought to enforce this Agreement or any award of an arbitrator hereunder which action is brought in the jurisdiction in which such arbitration was conducted, or, if no arbitration was elected, in which arbitration could have been conducted pursuant to this provision.

11. COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

12. SUPERSEDURE

This Agreement shall cancel and supersede any and all prior agreements between the Executive and the Corporation entitled "Severance Agreement".

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

BOWATER INCORPORATED

/s/ Richard F. Frisch

By: Richard F. Frisch
Its: Vice President - Human Resources

/s/ Robert D. Newman

Robert D. Newman

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EXHIBIT 10.24

EMPLOYMENT AGREEMENT

THIS AGREEMENT, is made as of this 1st day of August, 1997, by and between BOWATER INCORPORATED, a Delaware corporation having a mailing address of 55 East Camperdown Way, Greenville, South Carolina 29601 (the "Corporation"), and Jerry R. Gilmore, 1219 Shadow Way, Greenville, SC 29615 (the "Executive").

WHEREAS, the Corporation desires to employ the Executive as Vice President, Administration & Planning, of the Newsprint and Directory Division; and

WHEREAS, the Executive is desirous of serving the Corporation in such capacity;

NOW, THEREFORE, the parties hereto agree as follows:

1. Employment. During the term of this Agreement the Corporation agrees to continue to employ the Executive, and the Executive agrees to continue in the employ of the Corporation, in accordance with and subject to the provisions of this Agreement.

2. Term.

(a) Subject to the provisions of subparagraphs (b) and (c) of this Section 2, the term of this Agreement shall begin on the Date hereof and shall continue thereafter until terminated by either party by written notice given to the other party at least thirty (30) days prior to the effective date of any such termination. The effective date of the termination shall be the date stated in such notice, provided that if the Corporation specifies an effective date that is more than thirty (30) days following the date of such notice, the Executive may, upon thirty (30) days' written notice to the Corporation, accelerate the effective date of such termination.

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(b) Notwithstanding Section 2(a), upon the occurrence of a Change in Control as defined in the Change in Control Agreement of even date herewith between the Corporation and the Executive (the "Change in Control Agreement"), the term of this Agreement shall be deemed to continue until terminated, but in any event, for a period of not less than three (3) years following the date of the Change in Control, unless such termination shall be at the Executive's election for other than "Good Reason" as that term is defined in the Change in Control Agreement.

(c) Notwithstanding Section 2(a), the term of this Agreement shall end upon:

(i) the death of the Executive;

(ii) the inability of the Executive to perform his duties properly, whether by reason of ill-health, accident or other cause, for a period of one hundred and eighty (180) consecutive days or for periods totaling one hundred and eighty (180) days occurring within any twelve (12) consecutive calendar months; or

(iii) the executive's retirement on his early or normal retirement date.

3. Position and Duties. Throughout the term hereof, the Executive shall be employed as Vice President, Administration & Planning, of the Newsprint and Directory Division (Salary Grade 32), with the duties and responsibilities customarily attendant to that office, provided that the Executive shall undertake such other and further assignments and responsibilities of at least comparable status as the Board of Directors may direct. The Executive shall diligently and faithfully devote his full working time and best efforts to the performance of the services under this Agreement and to the furtherance of the best interests of the Corporation.

4. Place of Employment. The Executive will be employed at the corporate offices in the City of Greenville, South Carolina or at such other place as the Corporation shall designate from time to time, provided, however, that if the Executive is transferred to another place of employment, necessitating a change in his residence, the Executive shall be entitled to financial assistance in accordance with the terms of the Corporation's relocation policy then in effect.

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5. Compensation and Benefits.

(a) Base Salary. The Corporation shall pay to the Executive a base salary of $196,000 payable in substantially equal periodic installments on the Corporation's regular payroll dates. The Executive's base salary shall be reviewed at least annually and from time to time may be increased (or reduced, if such reduction is effected pursuant to across-the-board salary reductions similarly affecting all management personnel of the Corporation).

(b) Bonus Plan. In addition to his base salary, the Executive shall be entitled to receive a bonus under the Corporation's bonus plan in effect from time to time determined in the manner, at the time, and in the amounts set forth under such plan.

(c) Benefit Plans. The Corporation shall make contributions on the Executive's behalf to the various benefit plans and programs of the Corporation in which the Executive is eligible to participate in accordance with the provisions thereof as in effect from time to time.

(d) Vacations. The Executive shall be entitled to paid vacation, in keeping with the Corporate policy as in effect from time to time, to be taken at such time or times as may be approved by the Corporation.

(e) Expenses. The Corporation shall reimburse the Executive for all reasonable expenses properly incurred, and appropriately documented, by the Executive in connection with the business of the Corporation.

(f) Perquisites. The Corporation shall make available to the Executive all perquisites to which he is entitled by virtue of his position.

6. Nondisclosure. During and after the term of this Agreement, the Executive shall not, without the written consent of the Board of Directors of the Corporation, disclose or use directly or indirectly, (except in the course of employment hereunder and in furtherance of the business of the Corporation or any of its subsidiaries and affiliates) any of the trade secrets or other confidential information or proprietary data of the Corporation or its subsidiaries or affiliates; provided, however, that confidential information shall not include any information known generally to the public (other than as

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a result of unauthorized disclosure by the Executive) or any information of a type not otherwise considered confidential by persons engaged in the same or similar businesses.

7. Noncompetition. During the term of this Agreement, and for a period of one (1) year after the date the Executive's employment terminates, the Executive shall not, without the prior approval of the Board of Directors of the Corporation in the same or a similar capacity engage in or invest in, or aid or assist anyone else in the conduct of any business (other than the businesses of the Corporation and its subsidiaries and affiliates) which directly competes with the business of the Corporation and its subsidiaries and affiliates as conducted during the term hereof. If any court of competent jurisdiction shall determine that any of the provisions of this Section 7 shall not be enforceable because of the duration or scope thereof, the parties hereto agree that said court shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable and this Agreement in its reduced form shall be valid and enforceable to the extent permitted by law. The Executive acknowledges that the Corporation's remedy at law for a breach by the Executive of the provisions of this Section 7 will be inadequate. Accordingly, in the event of the breach or threatened breach by the Executive of this Section 7, the Corporation shall be entitled to injunctive relief in addition to any other remedy it may have.

8. Severance Pay. If the Executive's employment hereunder is involuntarily terminated for any reason other than those set forth in Section 2(c) hereof, then unless the Corporation shall have terminated the Executive for "Cause", the Corporation shall pay the Executive severance pay in an amount equal to twenty-four (24) months of the Executive's base salary on the effective date of the termination, plus 1/12 of the amount of the last bonus paid to the Executive under the Corporation's bonus plan applicable to the Executive for each month in the period beginning on January 1 of the year in which the date of the termination occurs and ending on the date of the termination and for each months' base salary to which the Executive is entitled under this Section 8, provided, however, that any amount paid to the Executive by the Corporation for services rendered subsequent to the thirtieth (30th) day following the communication to the Executive of notice of termination shall be deducted from the severance pay otherwise due hereunder. Such payment shall be made in a lump sum within ten (10) business days following the effective date of the termination. The severance pay shall be in lieu of all other compensation or payments of any kind relating to the termination of the Executive's employment hereunder; provided that the Executive's entitlement to compensation or payments under the Corporation's retirement plans, stock option or incentive plans, savings plans or bonus plans attributable to service rendered prior to the effective date of

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the termination shall not be affected by this clause and shall continue to be governed by the applicable provisions of such plans; and further provided that in lieu hereof, at his election, the Executive shall be entitled to the benefits of the Change in Control Agreement of even date hereof between the Corporation and the Executive, if termination occurs in a manner and at a time when such Change in Control Agreement is applicable. For purposes of this Agreement, the term for "Cause" shall mean because of gross negligence or willful misconduct by the Executive either in the course of his employment hereunder or which has a material adverse effect on the Corporation or the Executive's ability to perform adequately and effectively his duties hereunder.

9. Notices. Any notices required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered or mailed, by registered or certified mail, return receipt requested to the respective addresses of the parties set forth above, or to such other address as any party hereto shall designate to the other party in writing pursuant to the terms of this Section 9.

10. Severability. The provisions of this Agreement are severable, and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of any other provision.

11. Governing Law. This Agreement shall be governed by and interpreted in accordance with the substantive laws of the State of Delaware.

12. Supersedure. This Agreement shall cancel and supersede all prior agreements relating to employment between the Executive and the Corporation, except the Change in Control Agreement.

13. Waiver of Breach. The waiver by a party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any prior or subsequent breach by any of the parties hereto.

14. Binding Effect. The terms of this Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Corporation and the heirs, executors, administrators and successors of the Executive, but this Agreement may not be assigned by the Executive.

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IN WITNESS WHEREOF, the Corporation and the Executive have executed this Agreement as of the day and year first above written.

BOWATER INCORPORATED

By /s/ Richard F. Frisch	/s/ Jerry R. Gilmore
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Richard F. Frisch, Vice President - Human Resources	Jerry R. Gilmore

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EXHIBIT 10.25

CHANGE IN CONTROL AGREEMENT

THIS AGREEMENT, made as of the 1st day of August, 1997, by and between Bowater Incorporated, a Delaware corporation having a mailing address of 55 East Camperdown Way, Greenville, South Carolina 29601 (the "Corporation"), and Jerry R. Gilmore, 1219 Shadow Way, Greenville, SC 29615 (the "Executive").

WHEREAS, the Corporation considers it essential to the best interests of its stockholders to foster the continued employment of key management personnel; and

WHEREAS, the uncertainty attendant to a change in control of the Corporation may result in the departure or distraction of management personnel to the detriment of the Corporation and its stockholders; and

WHEREAS, the Board of Directors of the Corporation (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Corporation's management, including Executive, to their assigned duties in the event of a change in control of the Corporation.

NOW THEREFORE, it is hereby agreed as follows:

1. DEFINITIONS

The following terms when used herein shall have the meanings assigned to them below. Whenever applicable throughout this Agreement, the masculine pronoun shall include the feminine pronoun and the singular shall include the plural.

(a) "Acquiring Person" shall mean any Person who is or becomes a beneficial owner" (as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") of securities of the Corporation representing twenty percent (20%) or more of the combined voting power of the Corporation's then outstanding voting securities, unless such Person has filed Schedule 13G and all required amendments

thereto with respect to its holdings and continues to hold such securities for investment in a manner qualifying such

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Person to utilize Schedule 13G for reporting of ownership.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on the date hereof.

(c) "Cause" shall mean and be limited to the Executive's gross negligence, willful misconduct or conviction of a felony, which negligence, misconduct or conviction has a demonstrable and material adverse effect upon the Corporation, provided that, to the extent that the Corporation contends that Cause exists by virtue of Executive's gross negligence or willful misconduct, and such gross negligence or willful misconduct is capable of being cured, the Corporation shall have given the Executive written notice of the alleged negligence or misconduct and the Executive shall have failed to cure such negligence or misconduct within thirty (30) days after his receipt of such notice. The Executive shall be deemed to have been terminated for Cause effective upon the effective date stated in a written notice of such termination delivered by the Corporation to the Executive (which notice shall not be delivered before the end of the thirty (30) day period described in the preceding sentence, if applicable) and accompanied by a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board (after reasonable notice to the Executive and an opportunity for the Executive, with his counsel present, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct constituting Cause hereunder and setting forth in reasonable detail the facts and circumstances claimed to provide the basis for the Executive's termination, provided that the effective date shall not be less than thirty (30) days from the date such notice is given.

(d) "Change in Control" of the Corporation shall be deemed to have occurred if:

(i) any Person is or becomes an Acquiring Person;

(ii) less than two-thirds (2/3) of the total membership of the Board shall be Continuing Directors; or

(iii) the stockholders of the Corporation shall approve a merger or consolidation of the Corporation or a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation's assets.

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(e) "Commencement Date" shall mean the date of this Agreement, which shall be the beginning date of the term of this Agreement.

(f) "Continuing Directors" shall mean any member of the Board who was a member of the Board immediately prior to the date hereof, and any successor of a Continuing Director while such successor is a member of the Board who is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person or of any such Affiliate or Associate and is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors.

(g) "Disability" shall mean the Executive's total and permanent disability as defined in the Corporation's long term disability insurance policy covering the Executive immediately prior to the Change in Control.

(h) "Good Reason" shall mean:

(i) an adverse change in the Executive's status, duties or responsibilities as an executive of the Corporation as in effect immediately prior to the Change in Control, provided that the Executive shall have given the Corporation written notice of the alleged adverse change and the Corporation shall have failed to cure such change within thirty (30) days after its receipt of such notice;

(ii) failure of the Corporation to pay or provide the Executive in a timely fashion the salary or benefits to which he is entitled under any Employment Agreement between the Corporation and the Executive in effect on the date of the Change in Control, or under any benefit plans or policies in which the Executive was participating at the time of the Change in Control (including, without limitation, any incentive, bonus, stock option, restricted stock, health, accident, disability, life insurance, thrift, vacation pay, deferred compensation and retirement plans or policies);

(iii) the reduction of the Executive's salary as in effect on the date of the Change in Control;

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(iv) the taking of any action by the Corporation (including the elimination of a plan without providing substitutes therefor, the reduction of the Executive's awards thereunder or failure to continue the Executive's participation therein) that would substantially diminish the aggregate projected value of the

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Executive's awards or benefits under the Corporation's benefit plans or policies described in Section 1(h)(ii) in which the Executive was participating at the time of the Change in Control;

(v) a failure by the Corporation to obtain from any successor the assent to this Agreement contemplated by Section 5 hereof; or

(vi) the relocation of the principal office at which the Executive is to perform his services on behalf of the Corporation to a location more than thirty-five (35) miles from its location immediately prior to the Change in Control or a substantial increase in the Executive's business travel obligations subsequent to the Change in Control.

Any circumstance described in this Section 1(h) shall constitute Good Reason even if such circumstance would not constitute a breach by the Corporation of the terms of the Employment Agreement between the Corporation and the Executive in effect on the date of the Change in Control. The Executive shall be deemed to have terminated his employment for Good Reason effective upon the effective date stated in a written notice of such termination given by him to the Corporation (which notice shall not be given, in circumstances described in Section 1(h)(i), before the end of the thirty (30) day period described therein) setting forth in reasonable detail the facts and circumstances claimed to provide the basis for termination, provided that the effective date may not precede, nor be more than sixty (60) days from, the date such notice is given. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason hereunder.

(i) "Normal Retirement Date" shall have the meaning given to such

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term in the Corporation's basic qualified pension plan in which the Executive is a participant as in effect on the date hereof or any successor or substitute plan adopted prior to a Change in Control.

(j) "Person" shall mean any individual, corporation, partnership, group, association or other "person" as such term is used in Section 13(d) and 14(d) of the Exchange Act.

2. TERM OF AGREEMENT

(a) The term of this Agreement shall initially be for the period beginning on the Commencement Date and ending on the day before the third anniversary of the Commencement Date. The term of this Agreement shall automatically be extended on the first anniversary of the Commencement Date until the day before the fourth anniversary of the Commencement Date without further action

by the parties, and shall be automatically extended by an additional year on each succeeding anniversary of the Commencement Date, unless either the Corporation or the Executive shall have served notice upon the other party prior to such anniversary of its or his intention either that the term of this Agreement shall not be extended, or that the Executive's Employment Agreement is terminated, provided, however, that if a Change in Control of the Corporation shall occur during the term of this Agreement, this Agreement shall continue in effect until it expires in accordance with the foregoing, but in any event for a period of not less than three (3) years from the date of the Change in Control.

(b) Notwithstanding Section 2(a), the term of this Agreement shall end upon the termination of the Executive's employment if, prior to a Change in Control of the Corporation, the Executive's employment with the Corporation shall have terminated under the provisions of any Employment Agreement between the Corporation and the Executive then in effect.

3. COMPENSATION UPON CHANGE IN CONTROL FOLLOWED BY A TERMINATION

If a Change in Control of the Corporation shall have occurred and, thereafter and during the term of this Agreement, the Executive's employment by the Corporation is terminated for any reason other than

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his death, his Disability, his retirement on his Normal Retirement Date, by the Corporation for Cause, or by the Executive without Good Reason, the Executive shall be under no further obligation to perform services for the Corporation and shall be entitled to receive the following payments:

(a) The Corporation shall pay to the Executive his full base salary through the effective date of the termination within five (5) business days thereafter and all benefits and awards (including both the cash and stock components) to which the Executive is entitled under any benefit plans or policies in which the Executive was a participant prior to the Change in Control (or, if more favorable, at the effective date of termination), at the time such payments are due pursuant to the terms of such benefit plans or policies as in effect immediately prior to the Change in Control (or, if more favorable, at the effective date of termination).

(b) At the election of the Executive, in addition to the entitlements set forth in Section 3(a) but in lieu of any payment to the Executive of any salary or severance payments or benefits to which the Executive would be entitled under the provisions of any Employment Agreement between the Corporation and the Executive then in effect (if any), the Corporation shall pay to the Executive, in a lump sum not later than ten (10) business days following the effective date of the termination:

(i) an amount equal to three (3) times the Executive's annual base salary on the effective date of the termination or, if higher, immediately prior to the Change in Control;

(ii) an amount equal to three (3) times the greater of (x) the highest amount of the actual bonus awarded to the Executive in the five (5) fiscal years immediately preceding the year in which the Change in Control occurred and (y) an amount equal to the amount the Executive would have been awarded under the Corporation's bonus plan in effect immediately prior to the Change in Control for the fiscal year in which the Change in Control occurred had the Executive continued to render services to the Corporation at the same level of performance, at the same level of salary, and in the same position as immediately prior

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to the Change in Control;

(iii) an amount equal to three (3) times the greater of (x) the largest annual contribution made by the Corporation to the Corporation's Savings Plan on the Executive's behalf during the five (5) fiscal years immediately preceding the year in which the Change in Control occurred and (y) an amount equal to the contribution the Corporation would have made to said Plan on the Executive's behalf for the fiscal year in which the Change in Control occurred had he participated in said Plan for the entire fiscal year, received a base salary equal to the salary he was receiving immediately prior to the Change in Control and had he elected to contribute to the Plan the same percentage of his base salary as he was contributing on said date;

(iv) an amount equal to thirty percent (30%) of the Executive's annual base salary on the effective date of the termination or, if higher, immediately prior to the Change in Control (as compensation for medical, life insurance and other benefits lost as a result of termination of the Executive's employment); and

(v) For each full or partial month in the period beginning on January 1st of the year in which the date of the termination occurs and ending on the date of the termination, one-twelfth of the greater of (x) the highest amount of the actual bonus awarded to the Executive in the five (5) fiscal years immediately preceding the year in which the Change in Control occurred and (y) an amount equal to the amount the Executive would have been awarded under the Corporation's bonus plan in effect immediately prior to the Change in Control for the fiscal year in which the Change in Control occurred had the Executive continued to render services to the Corporation at the same level of performance, at the same level of salary, and in the same position as immediately prior to the Change in Control.

(vi) If a payment may be increased by reference to an alternate calculation which cannot be made by the

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time the payment is due, payment of the lesser, known amount shall be made when due, and if any additional amount becomes due, such additional amount shall be paid within ten (10) days after the information upon which calculation of such payment is dependent first becomes available.

The amount of all payments due to the Executive pursuant to this Section 3(b) shall be reduced by 1/36 for each full calendar month by which the date which is three (3) years from the effective date of the Executive's termination extends beyond the Executive's Normal Retirement Date.

Upon entering into this Agreement and for a period of fourteen (14) days following each anniversary of the date hereof (the "Election Period"), the Executive may, in writing, direct the Corporation to pay any amounts to which he is entitled under this Section 3(b) in equal annual installments (not to exceed ten (10) annual installments), with the first such installment payable within ten (10) business days of the effective date of the termination and each successive installment payable on the anniversary of the effective date of the termination or the next following business day if such date is not a business day (the "Deferred Payment Election"). A Deferred Payment Election, once made, cannot be revoked except during an Election Period; provided, however, no Deferred Payment Election can be made or revoked by the Executive during an Election Period that occurs after a Change in Control or at a time when, in the judgment of the Corporation, a Change in Control may occur within sixty (60) days of such Election Period.

(c) The Corporation shall pay or provide to the Executive or his surviving spouse or children, as the case may be, such amounts and benefits as may be required so that the pension and other post-retirement benefits paid or made available to the Executive, his surviving spouse, and his children are equal to those, if any, which would have been paid under the Corporation's Basic and Supplemental Pension (Benefit) Plans in effect immediately prior to the Change in Control, assuming the Executive continued in the employ of the Corporation at the same compensation until the third anniversary of the effective date of the termination of the Executive's employment or until his Normal Retirement Date, whichever is earlier. Notwithstanding any conflicting restrictions in the Plans or the fact of the termination of the Executive's employment, until the Executive's Normal Retirement Date, the Executive or his surviving spouse and his children shall maintain a continuing right to receive the pension and other benefits under the above Plans with payments to begin upon retirement and to elect an imputed retirement on the

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Executive's 50th birthdate or any of his birthdates thereafter until his Normal Retirement Date, such election to be made by so notifying the Corporation within one (1) year after termination of his employment.

(d) The Corporation shall pay for or provide the Executive individual out-placement assistance as offered by a member firm of the Association of Out-Placement Consulting Firms.

(e) If any payment or benefit to or for the benefit of the Executive in connection with a Change in Control of the Corporation or termination of the Executive's employment following a Change in Control of the Corporation (whether pursuant to the terms of this Agreement, or any other plan or arrangement or agreement with the Corporation, any Person whose actions result in a Change in Control of the Corporation or any Affiliate or Associate of the Corporation or any such Person) is subject to the Excise Tax (as hereinafter defined), the Corporation shall pay to the Executive an additional amount such that the total amount of all such payments and benefits (including payments made pursuant to this Section 3(e) net of the Excise Tax and all other applicable federal, state and local taxes) shall equal the total amount of all such payments and benefits to which the Executive would have been entitled, but for this Section 3(e), net of all applicable federal, state and local taxes except the Excise Tax. For purposes of this Section 3(e), the term "Excise Tax" shall mean the tax imposed by Section 4999 of the Internal Revenue Code of 1986 (the "Code") and any similar tax that may hereafter be imposed.

The amount of the payment to the Executive under this Section 3(e) shall be estimated by a nationally recognized firm of certified public accountants, which firm may not have provided services to the Corporation or any Affiliate of the Corporation within the previous three years and shall not provide services thereto in the following three years, based upon the following assumptions:

(i) all payments and benefits to or for the benefit of the Executive in connection with a Change in Control of the Corporation or termination of the Executive's employment following a Change in Control of the Corporation shall be deemed to be "parachute

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payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" shall be deemed to be subject to the Excise Tax except to the extent that, in the opinion of tax counsel selected by the firm of certified public accountants charged with estimating the payment to the Executive under this Section 3(e), such payments or benefits are not subject to the Excise Tax; and

(ii) the Executive shall be deemed to pay federal, state and local taxes at the highest marginal rate of taxation for the applicable calendar year.

The estimated amount of the payment due the Executive pursuant to this Section 3(e) shall be paid to the Executive in a lump sum not later than thirty (30) business days following the effective date of the termination. In the event that

the amount of the estimated payment is less than the amount actually due to the Executive under this Section 3(e), the amount of any such shortfall shall be paid to the Executive within ten (10) days after the existence of the shortfall is discovered.

(f) The Executive shall not be required to mitigate the amount of any payment provided in this Section 3, nor shall any payment or benefit provided for in this Section 3 be offset by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, or by offset against any amount claimed to be owed by the Executive to the Corporation, or otherwise.

(g) If any payment to the Executive required by this Section 3 is not made within the time for such payment specified herein, the Corporation shall pay to the Executive interest on such payment at the legal rate payable from time to time upon judgments in the State of Delaware from the date such payment is payable under terms hereof until paid.

4. EXECUTIVE'S EXPENSES

The Corporation shall pay or reimburse the Executive for all costs, including reasonable attorney's fees and expenses of either litigation or arbitration, incurred by the Executive in contesting or disputing any termination of his employment following a Change in Control or in

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seeking to obtain or enforce any right or benefit provided by this Agreement.

5. BINDING AGREEMENT

This Agreement shall inure to the benefit of and be enforceable by the Executive, his heirs, executors, administrators, successors and assigns. This Agreement shall be binding upon the Corporation, its successors and assigns. The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation expressly to assume and agree to perform this Agreement in accordance with its terms. The Corporation shall obtain such assumption and agreement prior to the effectiveness of any such succession.

6. NOTICE

Any notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when delivered or mailed, by certified or registered mail, return receipt requested, postage prepaid addressed to the respective

addresses set forth on the first page of this Agreement or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt. All notices to the Corporation shall be addressed to the attention of the Board with a copy to each of the General Counsel, the Vice President-Human Resources and the Secretary of the Corporation.

7. AMENDMENTS; WAIVERS

No provision of this Agreement may be modified, waived or discharged except in a writing specifically referring to such provision and signed by the party against which enforcement of such modification, waiver or discharge is sought. No waiver by either party hereto of the breach of any condition or provision of this Agreement shall be deemed a waiver of any other condition or provision at the same or any other time.

8. GOVERNING LAW

The validity, interpretation, construction and performance of this Agreement shall be governed by the substantive laws of the State of Delaware.

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9. VALIDITY

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. ARBITRATION

If the Executive so elects, any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in the city nearest to the Executive's principal residence (or, at the Executive's election, in the city within the state in which the Executive's principal residence is located nearest to such principal residence) which has an office of the American Arbitration Association by one arbitrator in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The Corporation hereby waives its right to contest the personal jurisdiction or venue of any court, federal or state, in an action brought to enforce this Agreement or any award of an arbitrator hereunder which action is brought in the jurisdiction in which such arbitration was conducted, or, if no arbitration was elected, in which arbitration could have been conducted pursuant to this provision.

11. COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

12. SUPERSEDURE

This Agreement shall cancel and supersede any and all prior agreements between the Executive and the Corporation entitled "Severance Agreement" or "Change in Control Agreement".

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

BOWATER INCORPORATED

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By /s/ Richard F. Frisch	/s/ Jerry R. Gilmore
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Richard F. Frisch	Jerry R. Gilmore
Its: Vice President - Human Resources	

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EXHIBIT 10.26.3

THIRD AMENDMENT
TO THE BOWATER INCORPORATED
COMPENSATORY BENEFITS PLAN
AS AMENDED AND RESTATED
EFFECTIVE APRIL 30, 1991

WHEREAS, Bowater Incorporated, a Delaware corporation (the "Company"), established the Bowater Incorporated Compensatory Benefits Plan (the "Plan"), and amended and restated the Plan in its entirety, effective April 30, 1991; and

WHEREAS, the Company desires to amend the Plan, to change the definition of "Change in Control," thereunder;

NOW, THEREFORE, the material between the first and last paragraphs of Section 7(c) of the Plan is hereby amended, effective April 15, 1998, to read as follows:

"Anything in this Plan to the contrary notwithstanding, upon and following a Change in Control, the vested value of an Eligible Employee's Book Account shall be the value of the Eligible Employee's Book Account. The following definitions apply for purposes of this Section 7(c):

(i) 'Acquiring Person' means, the Beneficial Owner, directly or indirectly, of Common Stock representing 20% or more of the combined voting power of the Company's then outstanding securities, not including (except as provided in clause (A) of the next sentence) securities of such Beneficial Owner acquired pursuant to an agreement allowing the acquisition of up to and including 50% of such voting power approved by two-thirds of the members of the Board who are Board members before the Person becomes Beneficial Owner, directly or indirectly, of Common Stock representing 5% or more of the combined voting power of the Company's then outstanding securities. Notwithstanding the foregoing, (A) securities acquired pursuant to an agreement described in the preceding sentence will be included in determining whether a Beneficial Owner is an Acquiring Person if, subsequent to the approved acquisition, the Beneficial Owner acquires 5% or more of such voting power other than pursuant to such an agreement so approved; and (B) a Person shall not be an Acquiring Person if such Person is eligible to and files a Schedule 13G with respect to such Person's status as a Beneficial Owner of all Common Stock of the Company of which the Person is a Beneficial Owner.

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(ii) 'Affiliate' and 'Associate' shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934.

(iii) A 'Beneficial Owner' of Common Stock means (A) a Person who beneficially owns such Common Stock, directly or indirectly, or (B) a Person who has the right to acquire such Common Stock (whether such right is exercisable immediately or only with the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise.

(iv) 'Board' shall mean the Board of Directors of the Company.

(v) A 'Change in Control' shall occur upon:

(A) the date that any Person is or becomes an Acquiring Person;

(B) the date that the Company's shareholders approve a merger, consolidation or reorganization of the Company with another corporation or other Person, unless, immediately following such merger, consolidation or reorganization, (I) at least 50% of the combined voting power of the outstanding securities of the resulting entity would be held in the aggregate by the shareholders of the Company as of such record date for such approval (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Company, but shall be counted as outstanding securities for purposes of this determination), or (II) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors;

(C) the date the Company sells or otherwise transfers all or substantially all of its assets to another corporation or other Person, unless, immediately after such sale or transfer, (I) at least 50% of the combined voting power of the then-outstanding securities of the resulting entity immediately following such transaction is held in the aggregate by the Company's shareholders as determined

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immediately prior to such transaction (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Company, but shall be counted as outstanding securities for purposes of this determination), or (II) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors; or

(D) the date on which less than two-thirds (2/3) of the total membership of the Board consists of Continuing Directors.

(vi) 'Continuing Director' means any member of the Board who (A) was a member of the Board prior to the date of the event that would constitute a Change in Control, and any successor of a Continuing Director while such successor is a member of the Board, (B) is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, and (C) is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors.

(vii) 'Person' means any individual, firm, corporation, partnership, trust or other entity.

The provisions of this Section 7(c) related to a Change in Control shall not be amended upon or following a Change in Control in any manner that might have the effect of reducing the vested value of an Eligible Employee's Book Account under the Plan. Nothing in this Section 7(c) shall be construed to prohibit, prior to a Change in Control, any amendment to the Plan, including to this Section 7(c), or any termination of the Plan pursuant to its terms."

IN WITNESS WHEREOF, the Company has caused this Third Amendment to be executed by its duly authorized officer this 16th day of February, 1999.

BOWATER INCORPORATED

By: /s/ Anthony H. Barash

Anthony H. Barash

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Title: Sr. Vice President, Corporate Affairs
and General Counsel

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EXHIBIT 10.29.3

THIRD AMENDMENT TO
THE RETIREMENT PLAN FOR OUTSIDE DIRECTORS

WHEREAS, the Bowater Incorporated Retirement Plan for Outside Directors, as amended to date (the "Plan") was established, effective July 1, 1988, for the benefit of Directors of Bowater Incorporated (the "Company") who are not employees of the Company; and

WHEREAS, the Company desires to amend the Plan, to change the definition of "Change in Control," thereunder,

NOW, THEREFORE, pursuant to and in accordance with Section 8.06 of the Plan, the Plan is hereby amended effective April 15, 1998, as follows:

Section 1.03 of the Plan is hereby amended to read as follows:

"1.03 CHANGE IN CONTROL:

A 'Change in Control' shall be deemed to have occurred upon:

(a) The date that any Person is or becomes an Acquiring Person.

(b) The date that the Corporation's shareholders approve a merger, consolidation or reorganization of the Corporation with another corporation or other Person, unless, immediately following such merger, consolidation or reorganization, (i) at least 50% of the combined voting power of the outstanding securities of the resulting entity would be held in the aggregate by the shareholders of the Corporation as of the record date for such approval (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (ii) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors.

(c) The date the Corporation sells or otherwise transfers all or substantially all of its assets to another corporation or other Person, unless, immediately after such sale or transfer, (i) at least 50% of the combined voting power of the then-outstanding securities of the resulting entity immediately following such transaction is held in the

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aggregate by the Corporation's shareholders as determined immediately prior to such transaction, (provided that securities held by an individual or entity that is an Acquiring Person, or who would be an

Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term), or (ii) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors.

(d) The date on which less than two-thirds (2/3) of the total membership of the Board consists of Continuing Directors.

For purposes of this definition:

(i) 'Affiliate' and 'Associate' shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934 (the "Act").

(ii) 'Acquiring Person' means the Beneficial Owner, directly or indirectly, of Common Stock representing 20% or more of the combined voting power of the Corporation's then outstanding securities, not including (except as provided in clause (i) of the next sentence) securities of such Beneficial Owner acquired pursuant to an agreement allowing the acquisition of up to and including 50% of such voting power approved by two-thirds of the members of the Board who are Board members before the Person becomes Beneficial Owner, directly or indirectly, of Common Stock representing 5% or more of the combined voting power of the Corporation's then outstanding securities. Notwithstanding the foregoing, (i) securities acquired pursuant to an agreement described in the preceding sentence will be included in determining whether a Beneficial Owner is an Acquiring Person if, subsequent to the approved acquisition, the Beneficial Owner acquires 5% or more of such voting power other than pursuant to such an agreement so approved and (ii) a Person shall not be an Acquiring Person if such Person is eligible to and

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files a Schedule 13G with respect to such Person's status as a Beneficial Owner of all Common Stock of the Corporation of which the Person is a Beneficial Owner.

(iii) A 'Beneficial Owner' of Common Stock means (A) a Person who beneficially owns such Common Stock, directly or indirectly, or (B) a Person who has the right to acquire such Common Stock (whether such right is exercisable immediately or only with the

passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise.

(iv) 'Continuing Directors' means any member of the Board who (A) was a member of the Board prior to the date of the event that would constitute a Change in Control, and any successor of a Continuing Director while such successor is a member of the Board, (B) is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, and (C) is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors.

(v) 'Person' means any individual, firm, corporation, partnership, trust or other entity."

In all other respects the Plan shall remain unchanged.

IN WITNESS WHEREOF, Bowater Incorporated has caused this Third Amendment to be executed by its duly authorized officer this 16th day of February 1999.

BOWATER INCORPORATED

By: /s/ Anthony H. Barash

Anthony H. Barash
Title: Sr. Vice President, Corporate Affairs and General Counsel
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EXHIBIT 10.30.2

SECOND AMENDMENT
TO THE
SUPPLEMENTAL BENEFIT PLAN
FOR DESIGNATED EMPLOYEES OF BOWATER
INCORPORATED AND AFFILIATED COMPANIES
AS AMENDED AND RESTATED
EFFECTIVE NOVEMBER 1, 1995

WHEREAS, Bowater Incorporated, a Delaware corporation (the "Corporation"), established the Supplemental Benefit Plan For Designated Employees of Bowater Incorporated and Affiliated Companies (the "Plan"), and amended and restated the Plan in its entirety, effective November 1, 1995; and

WHEREAS, the Corporation desires to amend the Plan to change the definition of "Change in Control," thereunder;

NOW, THEREFORE, the Plan is hereby amended, effective April 15, 1998, as follows:

1. Section 1.01 of the Plan is amended to read as follows:

"1.01 'Acquiring Person' shall mean the Beneficial Owner, directly or indirectly, of Common Stock representing 20% or more of the combined voting power of the Corporation's then outstanding securities, not including (except as provided in clause (i) of the next sentence) securities of such Beneficial Owner acquired pursuant to an agreement allowing the acquisition of up to and including 50% of such voting power approved by two-thirds of the members of the Board who are Board members before the Person becomes Beneficial Owner, directly or indirectly, of Common Stock representing 5% or more of the combined voting power of the Corporation's then outstanding securities. Notwithstanding the foregoing, (i) securities acquired pursuant to an agreement described in the preceding sentence will be included in determining whether a Beneficial Owner is an Acquiring Person if, subsequent to the approved acquisition, the Beneficial Owner acquires 5% or more of such voting power other than pursuant to such an agreement so approved; and (ii) a Person shall not be an Acquiring Person if such Person is eligible to and files a Schedule 13G with respect to such Person's status as a Beneficial Owner of all Common Stock of the Corporation of which the Person is a Beneficial Owner."

2. A new Section 1.02 is added to the Plan to read as follows, and

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succeeding subsections are redesignated accordingly:

"1.02 'Affiliate' and 'Associate' shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities and Exchange Act of 1934."

3. A new Section 1.05 is added to the Plan to read as follows, and succeeding subsections are redesignated accordingly:

"1.05 'Beneficial Owner' of Common Stock means (i) a Person who beneficially owns such Common Stock, directly or indirectly, or (ii) a Person who has the right to acquire such Common Stock (whether such right is exercisable immediately or only with the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise."

4. Section 1.08 (as redesignated) of the Plan is amended to read as follows:

"1.08 A 'Change in Control' shall be deemed to have occurred upon:

(a) the date that any Person is or becomes an Acquiring Person;

(b) the date that the Corporation's shareholders approve a merger, consolidation or reorganization of the Corporation with another corporation or other Person, unless, immediately following such merger, consolidation or reorganization, (I) at least 50% of the combined voting power of the outstanding securities of the resulting entity would be held in the aggregate by the shareholders of the Corporation as of such record date for such approval (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (II) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors;

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(c) the date the Corporation sells or otherwise transfers all or substantially all of its assets to another corporation or other Person, unless, immediately after such sale or transfer, (I) at least 50% of the combined voting power of the then-outstanding securities of the resulting entity immediately following such transaction is held in the aggregate by the Corporation's shareholders as determined immediately prior to such transaction (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were

substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (II) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors; or

(d) the date on which less than two-thirds (2/3) of the total membership of the Board consists of Continuing Directors."

5. Section 1.13 (as redesignated) of the Plan is amended to read as follows:

"1.13 'Continuing Director' shall mean any member of the Board who (A) was a member of the Board prior to the date of the event that would constitute a Change in Control, and any successor of a Continuing Director while such successor is a member of the Board, (B) is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, and (C) is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors."

6. Section 1.27 (as redesignated) of the Plan is amended to read as follows:

"1.27 'Person' means any individual, firm, corporation, partnership, trust or other entity."

IN WITNESS WHEREOF, the Corporation has caused this Second Amendment to be executed by its duly authorized officer this 16th day of February, 1999.

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BOWATER INCORPORATED

By: /s/ Anthony H. Barash

Anthony H. Barash

Title: Sr. Vice President, Corporate Affairs and General Counsel
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EXHIBIT 10.31

BOWATER INCORPORATED

EQUITY PARTICIPATION RIGHTS PLAN

Amended and Restated
as of January 1, 1999

BOWATER INCORPORATED

EQUITY PARTICIPATION RIGHTS PLAN

AMENDED AND RESTATED AS OF JANUARY 1, 1999

1. PURPOSES.

The purpose of the Bowater Incorporated Equity Participation Rights Plan (the "Plan") is to promote the interests of Bowater Incorporated (the "Corporation") and its stockholders by attracting, retaining and stimulating the performance of selected employees by giving such employees the opportunity to earn additional compensation related to the success of the Corporation's business based upon appreciation in the Company's stock price.

2. DEFINITIONS.

Unless the context clearly indicates otherwise, the following terms have the meanings set forth below.

"Acceleration Price" means the excess over the reference price of an Equity Participation Right of the highest of (A) through (D), on the date of a Change in Control:

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(A) The highest reported sales price of the Common Stock within the sixty (60) days preceding the date of the Change in Control, as reported on any securities exchange upon which the Common Stock is listed,

(B) The highest price of the Common Stock as reported in a Schedule 13D or an amendment thereto that is paid within the sixty (60) days preceding the date of the Change in Control,

(C) The highest tender offer price paid for the Common Stock, and

(D) Any cash merger or similar price.

"Board of Directors" or "Board" means the Board of Directors of the Corporation.

A "Change in Control" shall be deemed to have occurred upon:

(a) The date that any Person is or becomes an Acquiring Person.

(b) The date that the Corporation's shareholders approve a merger, consolidation or reorganization of the Corporation with another corporation or other Person, unless, immediately following such merger, consolidation or reorganization, (i) at least 50% of the combined voting power of the outstanding securities of the resulting entity would be held in the aggregate by the shareholders of the Corporation as of the record date for such approval (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (ii) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors.

(c) The date the Corporation sells or otherwise transfers all or substantially all of its assets to another corporation or other Person, unless, immediately after such sale or transfer, (i) at least 50% of the

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combined voting power of the then-outstanding securities of the resulting entity immediately following such transaction is held in the aggregate by the Corporation's shareholders as determined immediately prior to such transaction (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (ii) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors.

(d) The date on which less than two-thirds (2/3) of the total membership of the Board consists of Continuing Directors.

For purposes of this Definition:

(i) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934 (the "Act").

(ii) "Acquiring Person" means the Beneficial Owner, directly or indirectly, of Common Stock representing 20% or more of the combined voting power of the Corporation's then outstanding securities, not including (except as provided in clause (i) of the

next sentence) securities of such Beneficial Owner acquired pursuant to an agreement allowing the acquisition of up to and including 50% of such voting power approved by two-thirds of the members of the Board who are Board members before the Person becomes Beneficial Owner, directly or indirectly, of Common Stock representing 5% or more of the combined voting power of the Corporation's then outstanding securities.

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Notwithstanding the foregoing, (i) securities acquired pursuant to an agreement described in the preceding sentence will be included in determining whether a Beneficial Owner is an Acquiring Person if, subsequent to the approved acquisition, the Beneficial Owner acquires 5% or more of such voting power other than pursuant to such an agreement so approved and (ii) a Person shall not be an Acquiring Person if such Person is eligible to and files a Schedule 13G with respect to such Person's status as a Beneficial Owner of all Common Stock of the Corporation of which the Person is a Beneficial Owner.

(iii) A "Beneficial Owner" of Common Stock means (A) a Person who beneficially owns such Common Stock, directly or indirectly, or (B) a Person who has the right to acquire such Common Stock (whether such right is exercisable immediately or only with the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange, rights, warrants, options or otherwise.

(iv) "Continuing Directors" means any member of the Board who (A) was a member of the Board prior to the date of the event that would constitute a Change in Control, and any successor of a Continuing Director while such successor is a member of the Board, (B) is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, and (C) is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors.

(v) "Person" means any individual, firm, corporation, partnership, trust or other entity.

"Code" means the Internal Revenue Code of 1986, as amended.

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"Committee" means the Human Resources and Compensation Committee of the Board. A majority of the members of the Committee shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination of the Committee reduced to writing and signed by all of the members of the Committee shall be fully as effective as if it had been made at a meeting duly called and held.

"Common Stock" means the common stock of Bowater Incorporated, $1 par value.

"Disability", as applied to a Grantee, shall have the meaning contained in the Company's long-term disability plan.

"Equity Participation Right" means a contractual right to receive a cash payment determined with reference to the increase in Fair Market Value of a share of Common Stock subject to the terms and conditions hereof.

"Fair Market Value" of a share of Common Stock on any particular date is (1) the simple arithmetic mean between the highest and lowest prices per share at which the Common Stock is traded on the New York Stock Exchange Composite Transactions as reported in the Eastern Edition of the Wall Street Journal for that date or, if not so traded, (2) the simple arithmetic mean between the closing bid-and-asked prices thereof as reported on such Exchange on that date.

"Grant Date" means the date on which an Equity Participation Right is granted by the Committee pursuant to the Plan.

"Grantee" means the individual to whom an Equity Participation Right is granted pursuant to the Plan.

"Plan" means the Bowater Incorporated Equity Participation Rights Plan as set forth herein and as amended from time to time.

"Retirement" means the status of having terminated employment and being immediately eligible for the payment of normal or early retirement benefits under the qualified pension plan of the Company or Subsidiary applicable to the Grantee.

"Subsidiary" means each entity with respect to which the Company owns directly or indirectly interests embodying at least 40% of the voting power.

Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

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3. ADMINISTRATION.

(a) The Committee shall have all the powers vested in it by the terms of the Plan, including exclusive authority (within the limitations described herein) to select the employees to be granted Equity Participation Rights under the Plan, to determine the type, size and terms of awards to be made to each employee selected, to determine the time when Equity Participation Rights will be granted to employees and, to establish objectives and conditions, if any, for earning such awards. The Committee shall have full power and authority to administer and interpret the Plan and to adopt such rules, regulations, agreements, guidelines and instruments for the administration of the Plan and for the conduct of its business as the Committee deems necessary or advisable. The Committee's interpretation of the Plan and all actions taken and determinations made by the Committee pursuant to the powers vested in it hereunder shall be conclusive and binding on all parties concerned, including the Corporation, its stockholders, any Grantees and any other employee of the Corporation or any of its Subsidiaries.

(b) Equity Participation Rights shall be evidenced by written agreements which shall contain such terms and conditions consistent with the Plan as may be determined by the Committee.

(c) All decisions made by the Committee pursuant to the provisions of the Plan shall be final and conclusive.

4. ELIGIBILITY AND PARTICIPATION.

The participants in the Plan shall consist of selected employees or officers of the Corporation or its present or future parent or Subsidiaries, who serve in executive, administrative or professional capacities, as may from time to time be so designated by the Committee.

5. EFFECTIVE DATE OF THE PLAN AND TERM OF EXERCISE PERIOD.

This amended and restated Plan shall become effective upon its adoption by the Committee. Subject to the provisions of Article 12 hereof, the period during which an Equity Participation Right granted under the Plan may be exercised shall be the period, expiring not later than the tenth anniversary of the Grant Date of the award, as may be determined by the Committee.

6. AWARDS.

(a) Types. Awards under the Plan shall consist of Equity Participation Rights.

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(b) Performance Goals. The Committee may, but need not, establish performance goals to be achieved within such performance periods as may be selected by it in its sole discretion, using such measures of the performance of the Corporation and/or its Subsidiaries as it may select.

(c) Guidelines. From time to time, the Committee may adopt written policies implementing the Plan. Such policies may include, but need not be limited to, the type, size and terms of awards to be made to employees and the conditions for payment of such awards. Grantees of Equity Participation Rights must accept such awards by execution of a written agreement with the Corporation in such form as the Committee determines not more than sixty (60) days following the Grant Date or such rights shall expire.

(d) Maximum Awards. A Grantee may be granted multiple awards under the Plan.

7. EQUITY PARTICIPATION RIGHTS.

(a) An Equity Participation Right shall not be exercisable after the expiration of the exercise period set forth in its related Equity Participation Right Agreement. The Committee may provide in such Agreement for the lapse of the Equity Participation Right prior to expiration of the exercise period upon the occurrence of any event specified by the Committee.

(b) The Common Stock price referenced in an Equity Participation Right granted under the Plan shall not be less than the Fair Market Value per share of Common Stock on the Grant Date.

(c) Upon exercise of an Equity Participation Right, the Grantee shall be entitled to receive, subject to the provisions of the Plan and such rules and regulations as may be established by the Committee, a cash payment equal to the product of (A) the excess of (i) the Fair Market Value of one share of Common Stock at the time of such exercise over (ii) the reference price per share specified in the related Equity Participation Rights Agreement, times (B) the number of shares specified in such Equity Participation Rights Agreement or the portion thereof being exercised. Except as provided in Article 10, an Equity Participation Right held by a Grantee shall not be exercisable during the first six months from the Grant Date of the Equity Participation Right.

8. EXERCISES.

(a) Each Equity Participation Right granted shall be exercisable in whole or in part at any time, or from time to time, during the period as the Committee may determine and specify in the agreement pursuant to which such Equity Participation Right is granted, provided that the election to exercise an

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Equity Participation Right shall be made in accordance with applicable Federal laws and regulations.

(b) No right may at any time be exercised with respect to a fractional share or exercised in part with respect to fewer than one hundred shares.

9. WITHHOLDING TAXES FOR AWARDS.

The Corporation shall withhold from amounts otherwise payable hereunder the amount, if any, required to be withheld under applicable Federal and State income tax laws.

10. CHANGE IN CONTROL.

Upon the occurrence of a Change in Control all Equity Participation Rights shall become immediately exercisable and shall be deemed exercised in full for cash for the difference between the Acceleration Price and the reference price per share, which amount shall be paid by the Corporation within a period of thirty days following a Change in Control.

11. TRANSFER OF AWARDS.

Awards granted under the Plan may not be transferred except by will or the laws of descent and distribution, and, during the Grantee's lifetime, may be exercised only by said Grantee or by said Grantee's guardian or legal representative.

12. DEATH, DISABILITY, RETIREMENT AND TERMINATION OF EMPLOYMENT.

(a) If a Grantee's employment with the Company and all of its Subsidiaries terminates:

(i) If such employment terminates involuntarily and for good cause (as determined by the Company), all Equity Participation Rights held by the Grantee will expire immediately.

(ii) If such employment terminates involuntarily without cause or voluntarily for any reason, except in the case of the Grantee's Disability, Retirement or death, (A) all unexercisable Equity Participation Rights held by the Grantee will expire immediately; and (B) all exercisable Equity Participation Rights held by the Grantee will expire three months after termination (unless their expiration date is earlier).

(iii) If such employment terminates because of Disability or Retirement, the Grantee will be treated under all awards as if employment with the Company or Subsidiary continued for five years.

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(iv) If a Grantee dies while employed or during the five-year period described in paragraph (iii), all Equity Participation Rights held by the Grantee will become exercisable (and remain exercisable for two years unless their expiration date is earlier).

(b) The Committee may provide (i) that an award will not terminate or be forfeited as a result of the termination of the Grantee's employment; and (ii) for additional opportunities for the exercise of an Equity Participation Right after a Grantee's termination of employment, in addition to (a), above.

(c) For all purposes of the Plan, the employment of a Grantee will not be considered to be terminated if the Grantee is receiving periodic severance payments from the Company or a Subsidiary. Leaves of absence for periods and purposes conforming to the policy of the Company shall not be deemed terminations or interruptions of employment.

13. CHANGES IN COMMON STOCK.

In the event of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, or other changes in corporate structure or capitalization affecting the Common Stock, such appropriate adjustment shall be made in the number, kind, exercise price, etc., of shares subject to Equity Participation Rights granted under the Plan, as may be determined by the Committee.

14. NO RIGHT TO EMPLOYMENT.

Nothing in the Plan or any instrument executed pursuant hereto shall confer upon any employee any right to continue in the employ of the Corporation nor shall anything in the Plan affect the right of the Corporation to terminate the employment of any employee, with or without cause.

15. LEGAL RESTRICTIONS.

The Corporation will not be obligated to make any payment if counsel to the Corporation determines that such issuance or payment would violate any law or regulation of any governmental authority or any agreement between the Corporation and any national securities exchange upon which the Common Stock is listed. The Corporation shall in no event be obliged to take any action in order to cause the exercise of any award under the Plan.

16. NO RIGHTS AS SHAREHOLDERS.

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No Grantee, and no beneficiary or other person claiming through a Grantee, shall have any interest in any shares of Common Stock allocated for the purposes of the Plan or subject to any award. Furthermore, the existence of awards under the Plan shall not affect the right or

power of the Corporation or its stockholders to make adjustments, recapitalizations, reorganizations or other changes in the Corporation's capital structure; the dissolution or liquidation of the Corporation, or the sale or transfer of any part of its assets or business; or any other corporate act, whether of a similar character or otherwise. No shares of Common Stock may be delivered or purchased under the Plan.

17. CHOICE OF LAW.

The validity, interpretation and administration of the Plan and of any rules, regulations, determinations or decisions made thereunder, and the rights of any and all persons having or claiming to have any interest therein or thereunder, shall be determined exclusively in accordance with the laws of the State of Delaware and without without giving effect to the choice of law provisions thereof.

18. AMENDMENT AND DISCONTINUANCE.

The Committee may alter, suspend, or discontinue the Plan, but may not materially and adversely affect any outstanding award without the consent of the holder thereof.

IN WITNESS WHEREOF, this Plan has been amended and restated and executed on behalf of the Corporation by its duly authorized officers as of the 1st day of January, 1999.

BOWATER INCORPORATED

By: /s/ Richard F. Frisch

Name: Richard F. Frisch

Title: Vice President - Human Resources

Date Signed: February 5, 1999

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EXHIBIT 10.32.2

SECOND AMENDMENT
TO THE
BOWATER INCORPORATED
1988 STOCK INCENTIVE PLAN

WHEREAS, Bowater Incorporated, a Delaware corporation (the "Corporation"), established the Bowater Incorporated 1988 Stock Incentive Plan (the "Plan"); and

WHEREAS, the Corporation desires to amend the Plan, to change the definition of "Change in Control," thereunder;

NOW, THEREFORE, the Plan is hereby amended, effective April 15, 1998, as follows:

1. Section 16(c) is amended to read as follows:

"(c) A 'Change in Control' shall be deemed to have occurred upon:

(1) the date that any Person is or becomes an Acquiring Person;

(2) the date that the Corporation's shareholders approve a merger, consolidation or reorganization of the Corporation with another corporation or other Person, unless, immediately following such merger, consolidation or reorganization, (i) at least 50% of the combined voting power of the outstanding securities of the resulting entity would be held in the aggregate by the shareholders of the Corporation as of such record date for such approval (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (ii) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors;

(3) the date the Corporation sells or otherwise transfers all or substantially all of its assets to another

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corporation or other Person, unless, immediately after such sale or transfer, (i) at least 50% of the combined voting power of the then-outstanding securities of the resulting entity immediately following such transaction is held in the aggregate by the Corporation's shareholders as determined immediately prior to such transaction (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted

as outstanding securities for purposes of this determination), or (ii) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors; or

(4) the date on which less than two-thirds (2/3) of the total membership of the Board consists of Continuing Directors."

2. Section 16(d) of the Plan is amended in its entirety to read as follows:

"(1) 'Acquiring Person' means, the Beneficial Owner, directly or indirectly, of Common Stock representing 20% or more of the combined voting power of the Corporation's then outstanding securities, not including (except as provided in clause (i) of the next sentence) securities of such Beneficial Owner acquired pursuant to an agreement allowing the acquisition of up to and including 50% of such voting power approved by two-thirds of the members of the Board who are Board members before the Person becomes Beneficial Owner, directly or indirectly, of Common Stock representing 5% or more of the combined voting power of the Corporation's then outstanding securities. Notwithstanding the foregoing, (i) securities acquired pursuant to an agreement described in the preceding sentence will be included in determining whether a Beneficial Owner is an Acquiring Person if, subsequent to the approved acquisition, the Beneficial Owner acquires 5% or more of such voting power other than pursuant to such an agreement so approved; and (ii) a Person shall not be an Acquiring Person if such Person is eligible to and files a Schedule 13G with

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respect to such Person's status as a Beneficial Owner of all Common Stock of the Corporation of which the Person is a Beneficial Owner.

(2) 'Affiliate' and 'Associate' shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934.

(3) 'Beneficial Owner' of Common Stock means (i) a Person who beneficially owns such Common Stock, directly or indirectly, or (ii) a Person who has the right to acquire such Common Stock (whether such right is exercisable immediately or only with the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise.

(4) 'Continuing Director' means any member of the Board who (i) was a member of the Board prior to the date of the event that would constitute a Change in Control, and any successor of a Continuing Director while such successor is a member of the Board, (ii) is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, and (iii) is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors.

(5) 'Person' means any individual, firm, corporation, partnership, trust or other entity."

IN WITNESS WHEREOF, Bowater Incorporated has caused this Second Amendment to be executed by its duly authorized officer this 16th day of February, 1999.

BOWATER INCORPORATED

By: /s/ Anthony H. Barash

Anthony H. Barash

Title: Sr. Vice President, Corporate Affairs and General Counsel
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EXHIBIT 10.36.2

SECOND AMENDMENT
TO THE
BOWATER INCORPORATED
BENEFITS EQUALIZATION PLAN

WHEREAS, Bowater Incorporated, a Delaware corporation (the "Company"), established the Bowater Incorporated Benefits Equalization Plan (the "Plan"), effective August 22, 1990; and

WHEREAS, the Company desires to amend the Plan to change the definition of "Change in Control," thereunder;

NOW, THEREFORE, Section 6 of the Plan is hereby amended, effective April 15, 1998, by deleting the section added by the First Amendment and replacing it with the following:

"Anything in this Plan to the contrary notwithstanding, upon and following a Change in Control, an Eligible Employee shall have a non-forfeitable interest in benefits payable under the Plan. The following definitions apply for purposes of this Section 6:

(i) 'Acquiring Person' means, the Beneficial Owner, directly or indirectly, of Common Stock representing 20% or more of the combined voting power of the Company's then outstanding securities, not including (except as provided in clause (A) of the next sentence) securities of such Beneficial Owner acquired pursuant to an agreement allowing the acquisition of up to and including 50% of such voting power approved by two-thirds of the members of the Board who are Board members before the Person becomes Beneficial Owner, directly or indirectly, of Common Stock representing 5% or more of the combined voting power of the Company's then outstanding securities. Notwithstanding the foregoing, (A) securities acquired pursuant to an agreement described in the preceding sentence will be included in determining whether a Beneficial Owner is an Acquiring Person if, subsequent to the approved acquisition, the Beneficial Owner acquires 5% or more of such voting power other than pursuant to such an agreement so approved; and (B) a Person shall not be an Acquiring Person if such Person is eligible to and files a Schedule 13G with respect to such Person's status as a Beneficial Owner of all Common Stock of the Company of which the Person is a Beneficial Owner.

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(ii) 'Affiliate' and 'Associate' shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934.

(iii) A 'Beneficial Owner' of Common Stock shall mean (A) a Person who beneficially owns such Common Stock, directly or indirectly, or (B) a Person who has the right to acquire such Common Stock (whether such right is exercisable

immediately or only with the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise.

(iii) 'Board' shall mean the Board of Directors of the Company.

(iv) A 'Change in Control' shall be deemed to have occurred upon:

(A) the date that any Person is or becomes an Acquiring Person;

(B) the date that the Company's shareholders approve a merger, consolidation or reorganization of the Company with another corporation or other Person, unless, immediately following such merger, consolidation or reorganization, (I) at least 50% of the combined voting power of the outstanding securities of the resulting entity would be held in the aggregate by the shareholders of the Company as of such record date for such approval (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Company, but shall be counted as outstanding securities for purposes of this determination), or (II) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors;

(C) the date the Company sells or otherwise transfers all or substantially all of its assets to another corporation or other Person, unless, immediately after such sale or transfer, (I) at least 50% of the combined voting power of the then-outstanding securities of the resulting entity immediately following such transaction is held in the aggregate

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by the Company's shareholders as determined immediately prior to such transaction (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Company, but shall be counted as outstanding securities for purposes of this determination), or (II) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors; or

(D) the date on which less than two-thirds (2/3) of the total membership of the Board consists of Continuing Directors.

(vi) 'Continuing Director' shall mean any member of the Board who (A) was a member of the Board prior to the date of the event that would constitute a Change in Control, and any successor of a Continuing Director while such successor is a member of the Board, (B) is not an Acquiring Person or an Affiliate or Associate

of an Acquiring Person, and (C) is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors.

(vii) 'Person' shall mean any individual, firm, corporation, partnership, trust or other entity.

The provisions of this Section 6 related to a Change in Control shall not be amended upon or following a Change in Control in any manner that might have the effect of reducing the non-forfeitable interest of an Eligible Employee in benefits payable under the Plan. Nothing in this Section 6 shall be construed to prohibit, prior to Change in Control, any amendment to the Plan, including to this Section 6, or any termination of the Plan pursuant to its terms."

IN WITNESS WHEREOF, Bowater Incorporated has caused this Second Amendment to be executed by its duly authorized officer this 16th day of February, 1999.

BOWATER INCORPORATED

By: /s/ Anthony H. Barash

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Anthony H. Barash

Title: Sr. Vice President, Corporate Affairs and General Counsel
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EXHIBIT 10.37.1

FIRST AMENDMENT
TO THE
BOWATER INCORPORATED
1992 STOCK INCENTIVE PLAN

WHEREAS, Bowater Incorporated, a Delaware corporation (the "Corporation"), established the Bowater Incorporated 1992 Stock Incentive Plan (the "Plan"); and

WHEREAS, the Corporation desires to amend the Plan, to change the definition of "Change in Control," thereunder;

NOW, THEREFORE, the Plan is hereby amended, effective April 15, 1998, as follows:

1. Section 16(c) is amended to read as follows:

"(c) A 'Change in Control' shall be deemed to have occurred upon:

(1) the date that any Person is or becomes an Acquiring Person;

(2) the date that the Corporation's shareholders approve a merger, consolidation or reorganization of the Corporation with another corporation or other Person, unless, immediately following such merger, consolidation or reorganization, (A) at least 50% of the combined voting power of the outstanding securities of the resulting entity would be held in the aggregate by the shareholders of the Corporation as of such record date for such approval (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (B) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors;

(3) the date the Corporation sells or otherwise transfers all or substantially all of its assets to another corporation or other Person, unless, immediately

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after such sale or transfer, (A) at least 50% of the combined voting power of the then-outstanding securities of the resulting entity immediately following such transaction is held in the aggregate by the Corporation's shareholders as determined immediately prior to such transaction (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (B) at least

50% of the board of directors or similar body of the resulting entity are Continuing Directors; or

(4) the date on which less than two-thirds (2/3) of the total membership of the Board consists of Continuing Directors."

2. Section 16(d) of the Plan is amended to read as follows:

"(1) 'Acquiring Person' means, the Beneficial Owner, directly or indirectly, of Common Stock representing 20% or more of the combined voting power of the Corporation's then outstanding securities, not including (except as provided in clause (A) of the next sentence) securities of such Beneficial Owner acquired pursuant to an agreement allowing the acquisition of up to and including 50% of such voting power approved by two-thirds of the members of the Board who are Board members before the Person becomes Beneficial Owner, directly or indirectly, of Common Stock representing 5% or more of the combined voting power of the Corporation's then outstanding securities. Notwithstanding the foregoing, (A) securities acquired pursuant to an agreement described in the preceding sentence will be included in determining whether a Beneficial Owner is an Acquiring Person if, subsequent to the approved acquisition, the Beneficial Owner acquires 5% or more of such voting power other than pursuant to such an agreement so approved; and (B) a Person shall not be an Acquiring Person if such Person is eligible to and files a Schedule 13G with respect to such Person's status as a Beneficial Owner of all Common Stock of the Corporation of which the Person is a Beneficial Owner.

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(2) 'Affiliate' and 'Associate' shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934.

(3) 'Beneficial Owner' of Common Stock means (A) a Person who beneficially owns such Common Stock, directly or indirectly, or (B) a Person who has the right to acquire such Common Stock (whether such right is exercisable immediately or only with the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise.

(4) 'Continuing Director' means any member of the Board who (A) was a member of the Board prior to the date of the event that would constitute a Change in Control, and any successor of a Continuing Director while such successor is a member of the Board, (B) is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, and (C) is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors.

(5) 'Person' means any individual, firm, corporation, partnership, trust or other entity."

IN WITNESS WHEREOF, Bowater Incorporated has caused this First Amendment to be executed by its duly authorized officer this 16th day of February, 1999.

BOWATER INCORPORATED

By: /s/ Anthony H. Barash

Anthony H. Barash

Title: Sr. Vice President, Corporate Affairs and General Counsel
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EXHIBIT 10.38.1

FIRST AMENDMENT
TO THE
BOWATER INCORPORATED
1997 STOCK OPTION PLAN
AS AMENDED AND RESTATED JANUARY 1, 1997

WHEREAS, Bowater Incorporated, a Delaware corporation (the "Company"), established the Bowater Incorporated 1997 Stock Option Plan (the "Plan"), and amended and restated the Plan in its entirety, effective January 1, 1997; and

WHEREAS, the Company desires to amend the Plan, to change the definition of "Change in Control," thereunder;

NOW, THEREFORE, the Plan is hereby amended, effective April 15, 1998, as follows:

1. Section 1(c) of the Plan is amended to read as follows:

"(c) 'Acquiring Person' means, the Beneficial Owner, directly or indirectly, of Common Stock representing 20% or more of the combined voting power of the Company's then outstanding securities, not including (except as provided in clause (i) of the next sentence) securities of such Beneficial Owner acquired pursuant to an agreement allowing the acquisition of up to and including 50% of such voting power approved by two-thirds of the members of the Board who are Board members before the Person becomes Beneficial Owner, directly or indirectly, of Common Stock representing 5% or more of the combined voting power of the Company's then outstanding securities. Notwithstanding the foregoing, (i) securities acquired pursuant to an agreement described in the preceding sentence will be included in determining whether a Beneficial Owner is an Acquiring Person if, subsequent to the approved acquisition, the Beneficial Owner acquires 5% or more of such voting power other than pursuant to such an agreement so approved; and (ii) a Person shall not be an Acquiring Person if such Person is eligible to and files a Schedule 13G with respect to such Person's status as a Beneficial Owner of all Common Stock of the Company of which the Person is a Beneficial Owner."

2. A new Section 1(f) is added to the Plan to read as follows, and succeeding subsections are redesignated accordingly:

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"(f) 'Beneficial Owner' of Common Stock means (i) a Person who beneficially owns such Common Stock, directly or indirectly, or (ii) a Person who has the right to acquire such Common Stock (whether such right is exercisable immediately or

only with the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise."

3. Section 1(h) (as redesignated) of the Plan is amended to read as follows:

"(g) 'Change in Control' shall be deemed to have occurred upon:

(i) the date that any Person is or becomes an Acquiring Person;

(ii) the date that the Company's shareholders approve a merger, consolidation or reorganization of the Company with another corporation or other Person, unless, immediately following such merger, consolidation or reorganization, (A) at least 50% of the combined voting power of the outstanding securities of the resulting entity would be held in the aggregate by the shareholders of the Company as of such record date for such approval (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (B) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors;

(iii) the date the Company sells or otherwise transfers all or substantially all of its assets to another corporation or other Person, unless, immediately after such sale or transfer, (A) at least 50% of the combined voting power of the then-outstanding securities of the resulting entity immediately following such transaction is held in the aggregate by the Company's shareholders as determined

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immediately prior to such transaction (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (B) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors; or

(iv) the date on which less than two-thirds (2/3) of the total membership of the Board consists of Continuing Directors."

4. Section 1(m) (as redesignated) of the Plan is amended to read as follows:

"(m) 'Continuing Director' means any member of the Board who (i) was a member of the Board prior to the date of the event that would constitute a Change in Control, and any successor of a Continuing Director while such successor is a member of the Board, (ii) is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, and (iii) is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors."

5. Section 1(x) (as redesignated) of the Plan is amended to read as follows:

"(x) 'Person' means any individual, firm, corporation, partnership, trust or other entity."

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed by its duly authorized officer this 16th day of February, 1999.

BOWATER INCORPORATED

By: /s/ Anthony H. Barash

Anthony H. Barash

Title: Sr. Vice President, Corporate Affairs and General Counsel
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EXHIBIT 10.39.1

FIRST AMENDMENT
TO THE
BOWATER INCORPORATED
1997-1999 LONG-TERM INCENTIVE PLAN
EFFECTIVE JANUARY 1, 1997

WHEREAS, Bowater Incorporated, a Delaware corporation ("the Company"), established the Bowater Incorporated 1997-1999 Long-Term Incentive Plan (the "Plan"), and amended and restated the Plan in its entirety, effective January 1, 1997; and

WHEREAS, the Company desires to amend the Plan, to change the definition of "Change in Control," thereunder;

NOW, THEREFORE, the Plan is hereby amended effective April 15, 1998, as follows:

1. The definition of "Acquiring Person" in Section 2 of the Plan is amended to read as follows:

"'Acquiring Person' means, the Beneficial Owner, directly or indirectly, of Common Stock representing 20% or more of the combined voting power of the Company's then outstanding securities, not including (except as provided in clause (i) of the next sentence) securities of such Beneficial Owner acquired pursuant to an agreement allowing the acquisition of up to and including 50% of such voting power approved by two-thirds of the members of the Board who are Board members before the Person becomes Beneficial Owner, directly or indirectly, of Common Stock representing 5% or more of the combined voting power of the Company's then outstanding securities. Notwithstanding the foregoing, (i) securities acquired pursuant to an agreement described in the preceding sentence will be included in determining whether a Beneficial Owner is an Acquiring Person if, subsequent to the approved acquisition, the Beneficial Owner acquires 5% or more of such voting power other than pursuant to such an agreement so approved; and (ii) a Person shall not be an Acquiring Person if such Person is eligible to and files a Schedule 13G with respect to such Person's status as a Beneficial Owner of all Common Stock of the Company of which the Person is a Beneficial Owner."

2. A new definition of "Beneficial Owner" is added to Section 2 of the Plan to read as follows:

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"'Beneficial Owner' of Common Stock means (i) a Person who beneficially owns such Common Stock, directly or indirectly, or (ii) a Person who has the right to acquire such Common Stock (whether such right is exercisable immediately or only with the passage

of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, warrants, options or otherwise."

3. The definition of "Change in Control" in Section 2 of the Plan is amended to read as follows:

"'Change in Control' shall be deemed to have occurred upon:

(i) the date that any Person is or becomes an Acquiring Person;

(ii) the date that the Company's shareholders approve a merger, consolidation or reorganization of the Company with another corporation or other Person, unless, immediately following such merger, consolidation or reorganization, (A) at least 50% of the combined voting power of the outstanding securities of the resulting entity would be held in the aggregate by the shareholders of the Company as of such record date for such approval (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (B) at least 50% of the board of directors or similar body of the resulting entity are Continuing Directors;

(iii) the date the Company sells or otherwise transfers all or substantially all of its assets to another corporation or other Person, unless, immediately after such sale or transfer, (A) at least 50% of the combined voting power of the then-outstanding securities of the resulting entity immediately following such transaction is held in the aggregate by the Company's shareholders as determined immediately prior to such transaction (provided that securities held by any individual or entity that is an Acquiring Person, or who would be an Acquiring Person if 5% were substituted for 20% in the definition of such term, shall not be counted as securities held by the shareholders of the Corporation, but shall be counted as outstanding securities for purposes of this determination), or (B) at least 50% of

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the board of directors or similar body of the resulting entity are Continuing Directors; or

(iv) the date on which less than two-thirds (2/3) of the total membership of the Board consists of Continuing Directors."

4. The definition of "Continuing Director" in Section 2 of the Plan is amended to read as follows:

"'Continuing Director' means any member of the Board who (i) was a member of the Board prior to the date of the event that would constitute a Change in Control, and any successor of a Continuing Director while such successor is a member of the Board, (ii) is not an Acquiring Person or an Affiliate or Associate of an Acquiring Person, and (iii) is recommended or elected to succeed the Continuing Director by a majority of the Continuing Directors."

5. The definition of "Person" in Section 2 of the Plan is amended to read as follows:

"'Person' means any individual, firm, corporation, partnership, trust or other entity."

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed by its duly authorized officer this 16th day of February, 1999.

BOWATER INCORPORATED

By: /s/ Anthony H. Barash

Anthony H. Barash

Title: Sr. Vice President, Corporate Affairs and General Counsel
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EXHIBIT 10.40

SENIOR EXECUTIVE RETIREMENT PLAN (SERP)

(EFFECTIVE AS OF NOVEMBER 28, 1997)

Approved by the Board of Directors of Avenor Inc.
on November 28, 1997

/s/ Arthur R. Sawchuk	/s/ Marc Regnier
President and Chief Executive Officer	Secretary

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SECTION 1 - PURPOSE

1.01 The purpose of the Senior Executive Retirement Plan (SERP) (hereinafter the "Supplemental Plan") is to provide to the eligible employees retirement benefits in addition to those payable from any registered plan of the Corporation.

1.02 This Supplemental Plan is effective as of November 28, 1997 and as of such date replaces and cancels the application of any prior plan or agreement, whether oral or written, between a participant therein and the Corporation and providing for supplemental retirement benefits to be paid to such participant in addition to those payable from any registered pension plan of the Corporation. However, this Supplemental Plan shall not apply to or otherwise modify benefits payable or the terms and conditions for payment of such benefits to any former employee who has retired from or otherwise terminated his employment with Avenor Inc. or its predecessors or their affiliates prior to the effective date of this Supplemental Plan.

SECTION 2 - DEFINITIONS

In this Supplemental Plan, the following words and phrases shall have the following meaning, respectively, unless a different meaning is specifically required by the context:

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2.01 CONTINUOUS SERVICE shall have the same meaning as defined in the Registered Plan of which the Participant is a member, provided that:

a) for the purpose of Subsections 5.02, 6.02, 8.01, 10.01, 11.01 and 11.02 of this Supplemental Plan, it shall exclude any period of service with a prior employer other than the Corporation, whether or not such period of service with a prior employer is recognized under the Registered Plan;

b) for the purpose of Subsections 6.03, 6.04 and 8.02 of this Supplemental Plan, it shall include such additional service with a prior employer other than the Corporation as defined in Appendix A hereto and which is not recognized for the purpose of the Registered Plan.

2.02 PARTICIPANT shall mean an Employee who is eligible to participate in this Supplemental Plan in accordance with Section 3 herein.

2.03 PRIOR SUPPLEMENTAL PLAN shall mean the Supplementary Retirement Benefit Plan established by the Corporation effective July 16, 1993, which is being replaced by this Supplemental Plan in respect of a Participant herein.

2.04 REGISTERED PLAN shall mean any of the following:

a) the "Executive Staff Retirement Plan (1976) of Avenor Inc."

b) the "Supervisory Employees' Retirement Plan (1976) of Avenor Inc.", and

c) the "Employees' Retirement Plan (1988) of Avenor Inc."

Any reference to the Registered Plan shall, in respect of a given Participant, be deemed to be a reference to the Registered Plan of which he is a member.

2.05 SENIOR EXECUTIVE POSITION shall mean the President and CEO of the Corporation or a position reporting directly to it and considered as such by the Corporation.

2.06 The terms ACTUARIAL EQUIVALENT, AVERAGE STIP TARGET, COMMUTED VALUE, CORPORATION, EMPLOYEE, FINAL AVERAGE EARNINGS, SPOUSE AND TOTAL AND PERMANENT DISABILITY when used herein, shall have the same meaning as defined in the Registered Plan of which the Participant is a member.

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The term CREDITED SERVICE, when used in relation to a Participant who is a member of a Registered Plan which is either the "Executive Staff Retirement Plan (1976) of Avenor Inc." or the "Supervisory Employees' Retirement Plan (1976) of Avenor Inc." shall have the same meaning as defined in the applicable Registered Plan, and when used in relation to a Participant who is a member of the Registered Plan which is the "Employees' Retirement Plan (1988) of Avenor Inc." shall have the same meaning as the term Creditable Service as defined in such Registered Plan. CREDITED SERVICE shall also include such additional service with a prior employer other than the Corporation which is not recognized for the purpose of the Registered Plan, but which is recognized as such for the purpose of this Supplemental Plan, as defined in Appendix A hereto.

In this Supplemental Plan, reference to the male gender will include the female gender unless the context requires otherwise and words importing the singular number may be construed to extend to and include the plural number and vice versa.

SECTION 3 - ELIGIBILITY

3.01 An Employee shall automatically become a Participant in this Supplemental Plan if he occupies a Senior Executive Position with the Corporation.

3.02 The Vice President, Human Resources, of the Corporation shall inform such Employee as soon as practical of his having become a Participant under this Supplemental Plan.

3.03 Such Employee shall remain a Participant as long as he continues to be entitled to receive benefits under this Supplemental Plan.

3.04 In the event that a Participant remains an employee of the Corporation but no longer occupies a Senior Executive Position, and unless he is otherwise designated by the Corporation as eligible to continue to accrue Credited Service under this Supplemental Plan, the benefits otherwise payable to or in respect of such Participant under this Supplemental Plan shall be payable as of the Participant's retirement date, date of death or date of termination of employment, as the case may be, but shall be based on such Participant's Credited Service up to the date as of which he no longer occupies a Senior Executive position or as of such later date specified by the Corporation.

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SECTION 4 - CONTRIBUTIONS

4.01 No contribution shall be required from a Participant in respect of benefits payable under this Supplemental Plan.

4.02 The benefits payable under this Supplemental Plan shall, unless decided otherwise by Avenor Inc. at its entire discretion, be payable by the Corporation out of its operating funds as they become due and the Corporation shall be under no obligation whatsoever to pay contributions in advance to fund such benefits.

4.03 Notwithstanding Subsection 4.02, the Corporation will arrange for the payment of benefits provided under the Supplemental Plan to be secured through a letter of credit from a financial institution.

SECTION 5 - NORMAL RETIREMENT DATE AND RETIREMENT BENEFITS

5.01 For the purpose of this Supplemental Plan, the Normal Retirement Date of a Participant will be the first day of the month coinciding with or next following his attainment of age 65.

5.02 Each Participant who retires on his Normal Retirement Date shall, provided he has completed 2 or more years of Continuous Service, be entitled to receive an annual supplementary retirement allowance payable in equal monthly instalments and commencing on his Normal Retirement Date in an amount equal to the excess, if any, of (a) over (b) below:

(a) the aggregate of 2% of his Final Average Earnings and 2% of his Final Average Earnings times 50% of his Average STIP Target, multiplied by his number of years and fractions of year of Credited Service, provided that with respect to such portion of a Participant's Credited Service which relates to service with an employer other than the Corporation, whether it is recognized or not under the Registered Plan as defined in Appendix A hereto, the percentage of 2% shall be replaced by a percentage of 1.6% in respect of such portion of the Participant's Credited Service,

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over

(b) the aggregate of

(i) the annual amount of the lifetime pension or equivalent value thereof payable to the Participant under the Registered Plan of which he is a member, determined as if the Participant had elected that such lifetime pension be paid on a lifetime basis with a 60% survivor pension, in the

case of a Participant who has a surviving Spouse or with a 120 month guarantee in the case of a Participant who does not have a surviving Spouse or, where applicable, the annual amount of such lifetime pension that would have been so payable to the Participant under such Registered Plan if there had not been a division between the Participant and his Spouse or former spouse of retirement benefits otherwise payable thereunder as a result of divorce, separation or annulment of marriage; and

(ii) the annual amount or the aggregate of the annual amounts, as the case may be, of the other lifetime pension or equivalent value thereof, if any, that the Participant is entitled to receive under any pension plan or plans, or similar arrangement if any, of the Corporation or of a prior employer on account of service recognized for the purpose of calculating the supplementary retirement allowance payable under this Supplemental Plan and before election by the Participant of any prescribed optional form of payment as provided under such pension plan or plans or, where applicable, the annual amount or the aggregate of the annual amounts, as the case may be, of such other lifetime pension or pensions that would have been so payable to the Participant if there had not been a division between the Participant and his Spouse or former Spouse of retirement benefits otherwise payable thereunder as a result of divorce, separation or annulment of marriage. For sake of clarity, these amounts are described in Appendix B.

In the event that the difference in the ages of the Participant and the

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Participant's Spouse exceeds 10 years, the amount in 5.02 (a) shall be adjusted on an actuarial equivalent basis, taking into account the form of payment specified in Section 9.01 (i), on account of the excess of this difference over a difference of 10 years.

SECTION 6 - EARLY RETIREMENT DATES AND RETIREMENT BENEFITS

6.01 A Participant may retire on the first day of any month during the 10 year period preceding his Normal Retirement Date. For the purpose of this Supplemental Plan, his Early Retirement Date shall be the first day of the month in which such retirement occurs.

6.02 Each Participant who retires early in accordance with Subsection 6.01 shall, provided he has completed 2 or more years of Continuous Service, be entitled to receive an annual supplementary retirement allowance, payable in equal monthly instalments and commencing on his Early Retirement Date, equal to the amount determined in accordance with Section 5 where the amount in 5.02 (a) is reduced in the same manner and subject to the same conditions of payment as the lifetime pension payable from the Registered Plan of which such Participant is a member, notwithstanding the maximum pension rules, taking into consideration all service with an employer other than the Corporation recognized as per Appendix A, whether such service has been recognized under the Registered Plan or not.

6.03 Notwithstanding anything in the Supplemental Plan to the contrary, in the case of a Corporation initiated termination of employment, the Corporation reserves the right to retire a Participant at any age, provided the sum of his age and number of years of Continuous Service, each calculated in years and months, shall total 80 or more.

Each such Participant shall retire on the first day of any month preceding his Normal Retirement Date and receive an annual supplementary allowance equal to the full normal retirement supplementary allowance accrued to his early retirement date and calculated in accordance with Subsection 5.02, without reduction on account of early retirement.

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6.04 In the event a Participant's Credited Service includes service with a prior employer other than the Corporation as defined in Appendix A hereto and which is not recognized for purposes of the Registered Plan of which he is a member, such Participant who retires early in accordance with subsection 6.01 after completion of 15 years of Continuous Service shall receive, in respect of such portion of his Credited Service, an annual supplementary retirement allowance equal to 1/35 of the maximum annual retirement pension payable under the Canada or Quebec Pension Plan in effect in the year of retirement, multiplied by the number of years and fraction of year of such portion of his Credited Service, for a maximum of 35 years including the portion of his Credited Service in respect of which a supplementary pension benefit is payable under the Registered Plan of which he is a member, and payable in equal monthly instalments commencing on the later of his Early Retirement Date or age 60 and ceasing with the payment immediately preceding or coincident with the earlier of:

(a) his Normal Retirement Date, and

(b) the date of his death.

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SECTION 7 - POSTPONED RETIREMENT DATES AND RETIREMENT BENEFITS

7.01 In the event a Participant remains in the employ of the Corporation after his Normal Retirement Date, he shall be entitled to receive an annual supplementary retirement allowance, payable in equal monthly instalments and commencing on the first day of the month following his actual retirement date, equal to the amount determined in accordance with Section 5 based on his Credited Service up to his actual retirement date.

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SECTION 8 - TOTAL AND PERMANENT DISABILITY

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8.01 A Participant who retires on an early retirement date for Total and Permanent Disability shall, provided he has completed 2 or more years of Continuous Service, be entitled to receive an annual supplementary disability allowance, payable in equal monthly instalments and commencing on such early retirement date, which shall be equal to the Actuarial Equivalent of the amount of the supplementary retirement allowance determined in accordance with Section 5 and computed on the basis of his Final Average Earnings and Credited Service to such early retirement date.

8.02 If, however, such Participant has completed 15 years of Continuous Service at the time he suffers a Total and Permanent Disability, he shall be entitled to receive an annual supplementary disability allowance, payable in equal monthly instalments and commencing on such early retirement date, in an amount which shall be equal to the amount of the supplementary retirement allowance determined in accordance with Section 5 and computed on the basis of his Final Average Earnings and Credited Service to such early retirement date, without reduction on account of early retirement.

SECTION 9 - PAYMENT OF RETIREMENT INCOME

9.01 The annual supplementary allowance payable to the Participant under Sections 5, 6, 7 or 8, as the case may be, of this Supplemental Plan shall be paid during the lifetime of the Participant. Following the death of the Participant, the Participant's Spouse shall be entitled to receive during his or her lifetime an annual supplementary survivor allowance, payable in equal monthly instalments and commencing on the first day of the month following the month in which the Participant dies, equal to the excess of (i) over (ii) below:

(i) 60% of the annual supplementary allowance that would have been paid to the Participant at the time of his death if the annual supplementary allowance calculated pursuant to Subsection 5.02(a) did not have to be reduced by the amount determined under Subsection 5.02(b),

over

(ii) any survivor pension payable to the Spouse under the Registered Plan following the death of the Participant.

9.02 In the event of there being no Spouse at time of retirement, should the

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Participant die before 120 monthly payments of the supplementary allowance have been made to him, his estate shall receive a lump sum equal to the Commuted Value of the excess of (i) over (ii) below:

(i) the balance of the 120 monthly payments of the supplementary allowance determined as if such supplementary allowance calculated pursuant to Subsection 5.02(a) did not have to be reduced by the amount determined in Subsection 5.02(b)

over

(ii) any amount still payable under the Registered Plan following the death of the Participant.

9.03 If the form of pension received by the Participant under the Registered Plan of which he is a member is different than the form described in Subsection 9.01 above, or 9.02, as the case may be, he shall be deemed to have elected the same form of pension for purposes of this Supplemental Plan. In such case, the supplementary allowance payable under this Supplemental Plan shall be the Actuarial Equivalent of the form of pension described in Subsection 9.01 or 9.02 above, as applicable.

9.04 In the case of a Participant who was a participant (as defined therein) in the Prior Supplemental Plan on June 30, 1995, the portion of the annual supplementary allowance payable to such Participant under Section 5, 6 or 7, as the case may be, of this Supplemental Plan and which can reasonably be considered to relate to his Credited Service up to June 30, 1995 shall be augmented, if required, so as not to be less than the annual supplementary benefit accrued to such Participant up to June 30, 1995 under the terms of the Prior Supplemental Plan, taking into account that under such Prior Supplemental Plan, the annual supplementary benefit was payable for life with a five year guarantee.

SECTION 10 - DEATH PRIOR TO RETIREMENT

10.01 In the event that a Participant dies while in service of the Corporation prior to having reached age 55 and after having completed 2

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years of Continuous Service, his Spouse or, in the absence of a Spouse, his estate, shall be entitled to receive a death benefit equal to the Commuted Value of the deferred supplementary retirement allowance accrued to such Participant under this Supplemental Plan and determined as if the Participant had terminated his employment pursuant to Section 11 hereunder on the day of his death. Such death benefit shall, subject to applicable legislation, be paid in the same manner and subject to same conditions as the death benefit payable in similar circumstances under the Registered Plan of which the Participant is a member, provided that any such benefit payable in a lump sum basis shall be paid in cash to the person entitled to such benefit.

10.02 (a) In the event that a Participant dies while in service of the Corporation after having reached age 55, his Spouse shall be entitled to receive an annual supplementary survivor allowance equal to 60% of the annual lifetime supplementary retirement allowance that would have been payable to the Participant in accordance with Section 5, 6 or 7 as the case may be, determined as if he had retired on the date of his death, such supplementary survivor allowance to be actuarially adjusted, notwithstanding the last paragraph of Section 5.02, to reflect any age difference between Participant and his Spouse. Such supplementary survivor allowance shall commence on the first day of the month following the date of the Participant's death and shall be payable in equal monthly instalments until the date of the Spouse's death.

(b) Notwithstanding anything to the contrary, the surviving Spouse of such a Participant shall receive a death benefit equal to the greater of that provided under this Section 10.02 (a) and that which would have been provided under Section 10.01 had the Participant not attained age 55 prior to his death.

(c) Without a Surviving Spouse
In the event such Participant had no surviving Spouse at his date of death, the Participant's estate will receive a death benefit as described under Subsection 10.01, as if the Participant had not attained age 55 prior to his death.

10.03 In the event a Participant entitled to a deferred supplementary retirement allowance following his termination of employment pursuant to Section 11 of this Supplemental Plan dies prior to the commencement of payment of such deferred supplementary retirement allowance, his Spouse, or in absence of a Spouse, his estate, shall be entitled to receive a death benefit equal to the Commuted Value of the deferred supplementary retirement allowance accrued to such Participant under

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this Supplemental Plan. Such death benefit shall, subject to applicable legislation, be paid in the same manner and subject to the same conditions as the death benefit payable in similar circumstances under the Registered Plan of which the Participant is a member, provided that any such benefit payable in a lump sum basis shall be paid in cash to the person entitled to such benefit.

SECTION 11 - BENEFITS ON TERMINATION OF EMPLOYMENT

11.01 A Participant who terminates his service with the Corporation for any reason, other than retirement pursuant to Subsection 6.03 of this Supplemental Plan, prior to his 55th birthday and who has completed 2 or more years of Continuous Service as of the date of such termination of service shall be entitled to receive a deferred supplementary retirement allowance commencing on the date he could have taken Normal Retirement, in an amount calculated as specified in Subsection 5, based upon his Credited Service as at the date of such termination of his service. Such supplementary retirement allowance shall, subject to applicable legislation, be payable in the same manner and subject to the same condition as the deferred retirement benefit payable in similar circumstances under the Registered Plan of which such Participant is a member, provided that any such benefit payable in a lump sum basis shall be paid in cash to the person entitled to such benefit.

11.02 No benefit shall be payable under this Supplemental Plan to a Participant who terminates his service with the Corporation prior to his 55th birthday and who has not completed 2 or more years of Continuous Service as of the date of such termination of service.

SECTION 12 - INCREASE IN BENEFITS

12.01 If and when the pension benefits paid to the Participant (or, in the case of death, to the Spouse of the Participant) from the Registered Plan are increased, the same proportional increase shall also apply to the supplementary allowance payable hereunder to the Participant or

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following his death, to his Spouse.

SECTION 13 - GENERAL PROVISIONS

13.01 PROOF OF AGE

Any Participant or Spouse of such Participant entitled to benefits hereunder shall, upon request, furnish proof of age satisfactory to the Corporation. In the case that the age of the Participant or his Spouse is found to be inexact, the Corporation is authorized to adjust benefits accordingly.

13.02 EMPLOYEE RIGHTS

The implementation of this Supplemental Plan shall not constitute an enlargement of any rights which a Participant had apart from his membership in the Supplemental Plan. The benefits conferred herein shall not be used to increase damages in respect of the dismissal or termination of employment of any Employee.

13.03 NON-ALIENATION

Subject to any applicable legal requirement, all benefits payable under the terms of this Supplemental Plan are for the Participant's own use and are subject to the following restrictions:

1) Non-Enforceable Transactions

Any transaction that purports to assign, charge, anticipate, surrender, or give as security any right of a person under the Supplemental Plan or benefit payable under the Supplemental Plan shall not be enforceable against the Supplemental Plan; and

2) Exemption from Seizure

Any benefit payable under the Supplemental Plan is exempt from execution, seizure or attachment.

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13.04 NON-COMMUTABILITY OF BENEFITS

The benefits provided under the terms of this Supplemental Plan shall not be capable of surrender or commutation except as provided in the Supplemental Plan.

13.05 RECORDS

Wherever the records of the Corporation are used for the purpose of this Supplemental Plan, such records shall be considered conclusive of the facts with which they are concerned unless and until they are proven to be in error.

13.06 INCOMPETENCY

If, in the opinion of the Corporation, any person receiving a benefit under the terms of this Supplemental Plan is, as a result of physical or mental infirmity, incapable of managing his affairs and no guardian, committee or other representative of the estate of such person has been duly appointed by a court of competent jurisdiction, the Corporation may authorize any payment to which such person is entitled be made to his Spouse, child or other person on his behalf and such payment shall be a complete discharge of the obligation of the Corporation under this Supplemental Plan to make such payment.

13.07 NOTICES

Any notice or election to be given, made or communicated pursuant to or for any purpose of the Supplemental Plan shall be given, made or communicated, as the case may be, in such manner as the Corporation shall determine.

13.08 INTERPRETATION

a) This provision of this Supplemental Plan shall be interpreted in accordance with the laws of the Province of Quebec and shall be binding upon and enure to the benefit of the Corporation and its successors and assigns.

b) Headings wherever used herein are for reference purposes only, and do not limit or extend the meaning of any of the provisions of this Supplemental Plan.

13.09 SEVERABILITY

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Should any of the provisions of this Supplemental Plan and/or its conditions be illegal or not enforceable, it or they shall be considered severable and the Supplemental Plan and the remaining conditions shall remain in full force and effect and be binding upon the parties as though the said provision or provisions had never been included.

13.10 TAXIBILITY OF BENEFITS

All benefits under this Supplemental Plan are expressed on a pre-tax basis and shall be subject to applicable withholding tax and reporting pursuant to the Income Tax Act (Canada) and any other applicable law.

SECTION 14 - ADMINISTRATION

14.01 The Corporation shall decide on all matters relating to the interpretation, administration and application of this Supplemental Plan, consistently with the text of the Supplemental Plan.

14.02 To facilitate any action required to be taken by the Corporation under the Supplemental Plan, the Board of Directors of the Corporation may, at its discretion, delegate the responsibility for administration of the Supplemental Plan to any person(s) appointed specifically for this purpose to act on behalf of the Corporation.

SECTION 15 - FUTURE OF THE PLAN

15.01 Notwithstanding anything to the contrary herein, the Corporation reserves the right to make amendments to this Supplemental Plan. Any such amendment shall be communicated in writing by the Corporation to the Participants indicating the effective date of such amendment which, subject to Subsection 15.02 below, shall not precede the date that such communication is deemed to have been received by the Participants pursuant to Subsection 13.07 hereunder. Furthermore, the Corporation will not have the right to make such amendment only in respect of one

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or more Participants but such amendment shall have to be made in respect of all Participants, excluding those Participants who have already commenced to receive benefits hereunder.

15.02 When an amendment is made to this Supplemental Plan pursuant to Subsection 15.01 above as a result of a corresponding amendment to the Registered Plan, such amendment shall take effect as of the same effective date as applicable in respect of the corresponding amendment to the Registered Plan.

15.03 No amendment made to this Supplemental Plan by the Corporation pursuant to this Section 15 can have the effect of reducing the amount or value of the benefits accrued by the Participants under this Supplemental Plan prior to the effective date of such amendment.

15.04 In the event that an amendment is made pursuant to this Section 15 to the effect that only the Participants' Credited Service before a given date (hereinafter called "Cessation Date") will be used in the calculation of supplementary benefits payable under this Supplemental Plan, the benefits provided herein will be payable in respect of a Participant as of his retirement date or following his termination of employment or death in accordance with the rules of this Supplemental Plan, and shall be based on the Participant's final Average Earnings and Average STIP Target as of the date of his retirement, termination of employment or death, as the case may be, and on his Credited Service up to the Cessation Date only.

APPENDIX A - SERVICE WITH AN EMPLOYER OTHER THAN THE CORPORATION

NOT RECOGNIZED UNDER THE REGISTERED PLAN

Collin, Emmanuelle	14 years and 6 months
Madill, Darrell	10.4 years
Marchant, James R.	30 years and 6 months
Regnier, Marc C.	11 years and 6 months
Roy, Francois	17.3 years
Vrooman, Wallace	18 years and 4 months

RECOGNIZED UNDER THE REGISTERED PLAN

Aubin, Denis	7 years and 2 months
Madill, Darrell	4.5833 years

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Steuart, David J.   23 years and 8 months

APPENDIX B - PENSION FROM AN EMPLOYER OTHER THAN THE CORPORATION

Collin, Emmanuelle	none
Madill, Darrell	pension which is actuarially equivalent to $112,157.02 as at June 30, 1996 accumulated with interest at 7% per year to date of retirement, plus $6,362 per year
Marchant, James R.	$21,762 per year
Regnier, Marc C.	none
Roy, Francois	pension which is actuarially equivalent to $27,868 as at June 20, 1990 accumulated with interest at 7% per year to date of retirement, plus an estimated pension of $24,816 per year
Vrooman, Wallace	$19,943 per year

*   These pensions are deemed payable from age 65 under the normal form, i.e. joint and 60% survivor or life with 10 year guarantee as the case may be. If this is not the case, an actuarial equivalent will be sued to calculate the offset referred to in 5.02 (b)(ii).

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EXHIBIT 13

[LOGO]BOWATER

Incorporated

[Graphic of roll of paper with embossed Bowater logo.]

1998 Annual Report

Bowater Incorporated, headquartered in Greenville, South Carolina, is a global leader in the production of newsprint used by publishers around the world. In addition, we make coated and uncoated groundwood papers including directory papers, bleached kraft pulp and lumber products. Bowater has 10 pulp and paper mills and three sawmills in the United States, Canada and South Korea. These operations are supported by more than 2.4 million acres of timberlands owned or leased in the United States and Canada and over 14 million acres of timber cutting rights in Canada. The company is one of the world's largest recyclers of old newspapers and magazines. Bowater employs about 8,300 people. We have sales offices located throughout North America and in Brazil, England, Japan, Singapore and South Korea and ship our products to customers on every continent.

Newsprint & Directory Division

This Division operates nine manufacturing sites in the United States, Canada and South Korea. The principal product line at these sites is newsprint, but the sites also produce directory paper, market pulp, coated groundwood paper and uncoated groundwood specialties. The Division is responsible for the worldwide marketing and sales of newsprint, directory paper and uncoated groundwood specialties and the operation of its designated manufacturing sites.

Coated Paper Division

This Division operates one site in Catawba, South Carolina, which produces coated groundwood paper, newsprint, market pulp and uncoated groundwood specialties. This Division is responsible for the marketing and sales of coated groundwood paper and the operation of the Catawba site.

Pulp Division

This Division markets and distributes market pulp produced at the Calhoun, Tennessee, Catawba, South Carolina, and Thunder Bay, Ontario, sites.

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Forest Products Division

This Division manages 2.4 million acres of timberland owned or leased in the United States and Canada and 14 million acres of Crown-owned land in Canada on which the company has cutting rights. The Division also operates three softwood sawmills, supplies wood over to Bowater's pulp and paper production sites and markets and sells timber and lumber in North America.

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MANUFACTURING FACILITIES

[GRAPHIC - Map of North America and South Korea identifying location of Bowater manufacturing facilities.]

Bowater is a growing, global supplier of newsprint, coated and uncoated groundwood papers including directory papers, market pulp and wood products.

Sales Offices

Brazil
Canada
England
Japan
Singapore
South Korea
United States

[Photo of Inside of Mill at Usk, Washington.]

9. Usk, Washington

The mill's yearly capacity is 240,000 metric tons of newsprint with 20 percent recycled content. The mill has one paper machine.

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[Photo of Mersey Mill at Liverpool, Nova Scotia.]

1. Liverpool, Nova Scotia

The Mersey mill has two twin-wire machines that have the annual capacity to produce 241,000 metric tons of newsprint from 100 percent thermomechanical pulp.

[Photo of man standing on finished lumber at sawmill at Bridgewater, Nova Scotia]

2. Bridgewater, Nova Scotia

The sawmill has the yearly capacity to produce more than 35 million board feet of northern softwood lumber. The mill sells its wood chips to the Mersey mill.

[Photo of mill at Dalhousie, New Brunswick.]

3. Dalhousie, New Brunswick

This facility's two newsprint machines have the capacity to produce 227,000 metric tons of newsprint each year.

[Photo of inside of mill at Gastineau, Quebec.]

4. Gatineau, Quebec

The Gatineau mill operates three newsprint machines and has the annual capacity to produce 450,000 metric tons of recycled-content newsprint.

[Aerial photo of sawmill at Maniwaki, Quebec.]

5. Maniwaki, Quebec

The sawmill has the yearly capacity to produce 70 million board feet of northern softwood lumber. This sawmill sells its wood chips to the Gatineau mill.

[Photo of mill at Millinocket, Maine.]

6. Millinocket, Maine

With four paper machines, the mill has the annual capacity to produce 132,000 short tons of directory paper and uncoated groundwood specialties and 138,000 short tons of coated groundwood paper.

[Photo of paper machine at East Millinocket, Maine.]

7. East Millinocket, Maine

The mill's two paper machines have the capacity to produce a total of 168,000 metric tons of newsprint and 114,000 short tons of directory paper on an annual basis.

[Photo of mill at Thunder Bay, Ontario.]

8. Thunder Bay, Ontario

The Thunder Bay mill, the largest newsprint mill in Canada, has the annual capacity to produce 544,000 metric tons of recycled-content newsprint and 550,000 metric tons of hardwood and softwood pulp. The mill operates three newsprint and two pulp machines.

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[Aerial photo of Calhoun, Tennessee.]

10. Calhoun, Tennessee

As the largest newsprint mill in the United States, the facility operates five machines that have an annual production capacity of over 774,000 metric tons of newsprint and uncoated groundwood specialties. In addition, the mill has the annual capacity to produce 147,000 metric tons of hardwood market pulp.

[Aerial photo of mill at Catawba, South Carolina.]

11. Catawba, South Carolina

The Catawba mill has the annual capacity to produce 356,000 short tons of coated groundwood papers on two machines and 244,000 metric tons of fully bleached softwood kraft market pulp. In addition, the newsprint machine has the capacity to produce 236,000 metric tons each year.

[Photo of sawmill at Albertville, Alabama.]

12. Albertville, Alabama

Bowater Lumber has the annual capacity to produce 95 million board feet of southern yellow pine lumber. The mill's wood chips are sold to the Calhoun paper mill and other markets.

[Photo of paper machine at Mokpo, South Korea.]

13. Mokpo, South Korea

The mill's one machine has an annual capacity of 250,000 metric tons of recycled newsprint for South Korea and other Asian markets.

Financial Highlights

<TABLE>
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(In millions, except per-share amounts)	1998(1)	1997
<S>	<C>	<C>
Net sales	$ 1,995.0	$ 1,484.5
Operating income	142.2	135.7
Net income (loss)	(18.5)(2)	53.7
Diluted earnings (loss) per common share	$ (0.44)	$ 1.25
Average common and common equivalent shares outstanding	47.6(3)	40.8
Dividends declared per common share	$ 0.80	$ 0.80
Total assets	5,091.4	2,745.8
Total shareholders' equity	$ 1,777.0	$ 1,154.2
Percent return on average common equity	(1.4)%	4.5%
Total debt	$ 1,830.8	$ 758.9
Total debt as a percentage of total capitalization	46.3%(4)	37.2%
Current ratio	0.90x	3.69x
Capital expenditures, including timberlands	$ 223.2	$ 99.6
Registered shareholders	6,100	5,200
Common stock price range	$ 32.81-59.56	$ 37.00-55.62

</TABLE>

(1) Amounts include Avenor Inc. and the South Korean newsprint mill from the dates of acquisition in July 1998.
(2) Includes non-operating charges of $88.0 million to write down the Millinocket, Maine, mill and a long-term note receivable to net realizable value.
(3) The average shares include 16.1 million of Bowater common and Exchangeable shares issued in conjunction with the Avenor acquisition.

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(4) This ratio excludes the revaluation of Avenor's debt totaling $190.6 million.

[Bar chart appears below with the following information:]

Net Sales in millions

98	$1,995.0
97	$1,484.5
96	$1,718.3
95	$2,001.1
94	$1,359.0

[Bar chart appears below with the following information:]

Net Income in millions

98	$(18.5)
97	$ 53.7
96	$200.2
95	$246.9
94	$ (4.8)

[Bar chart appears below with the following information:]

Return on Average Common Equity

98	(1.4%)
97	4.5%
96	18.6%
95	27.5%
94	(3.0%)

[Bar chart appears below with the following information:]

Total Debt as a % of Total Capitalization

98	46.3%
97	37.2%
96	36.5%
95	38.7%
94	50.3%

Fellow Shareholders

We welcome our new shareholders to a company that is making great progress.

Bowater's years of planning and preparation paved the way for significant accomplishments in 1998. With the acquisitions of Avenor Inc. and our South Korean newsprint mill in July, followed by the divestiture of certain non-strategic assets, Bowater's increased global presence makes us a significantly stronger and more competitive company.

Financial and Operating Performance

Bowater achieved excellent financial results despite the fact that 1998 was a year in which we integrated two major acquisitions and faced difficult market conditions. Excluding special charges, our return on equity was near the top of the list for North American paper and forest products companies. Moreover, The Wall Street Journal in its February 25, 1999 edition reported that Bowater ranked first among the top 16 U.S. paper and forest products companies in total shareholder return for the past five years. Our debt ratios are at comfortable levels, allowing us to renew our stock repurchase program in the fourth quarter of 1998, under which we acquired 2.4 million shares, or 4.3 percent of our outstanding stock. However, concern over the impact of the Asian economic crisis on pulp and paper demand negatively impacted our stock performance in 1998, resulting in a 7 percent decline in price.

Net income for the full year of 1998 was $69.5 million, or $1.41 per diluted share, before non-operating charges of $88.0 million (after-tax), or $1.85 per diluted share, attributable to the write-down of our Millinocket, Maine, mill and a long-term note receivable to net realizable value.

[Photo of Arnold M. Nemirow.]

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Arnold M. Nemirow,
Chairman, President and
Chief Executive Officer

Including these charges, the company had a net loss of $18.5 million, or $.44 per diluted share, for the full year of 1998. For 1997, the company had net income of $53.7 million, or $1.25 per diluted share. Net income before non-operating charges improved compared to 1997 due primarily to the inclusion of approximately five months of operating results from our acquisitions, both of which were accretive to earnings per share in 1998. Our results, however, were dampened by declining prices throughout the year, which stemmed largely from the Asian crisis. The economic outlook for Asia shows signs of improvement. As a result, we expect world demand to increase, and prices should begin to recover from their cyclical lows. We anticipate that this improvement could occur in the second half of 1999.

Bowater's order book remained firm throughout 1998, again signifying our unique and powerful customer relationships. Last year, while some competitors were cutting back on production, selling excess production in the spot markets, or building

inventories, Bowater was shipping most of its production to stable, core accounts that are the hallmark of our customer relations strategy. Bowater is generally regarded as a preferred supplier in terms of product, price, service and customer recognition. I'd like to take this opportunity to thank those customers who supported Bowater during a year of significant change. We renew our pledge to provide high-quality products and superior customer service.

Bowater's Markets

The economic crisis in Asia resulted in lower prices for all of Bowater's products in 1998. I view this to be a temporary phenomenon.

The fundamental drivers for newsprint consumption in Asia remain in place - a growing, literate population, urbanization and a hunger for news - giving rise to optimism that newsprint demand will recover ahead of the overall economies of the region. Since we acquired our newsprint mill in Mokpo, South Korea, we have seen positive signs of a turnaround. I believe that the long-term opportunities in Asia are the most promising of any region of the world.

Worldwide, newspapers have a positive future for a healthy coexistence with other media, such as television and the Internet. We expect the newsprint market to be characterized by modest growth in developed regions such as North America and Europe, with much faster growth in developing markets such as Asia and Latin America.

Prices were relatively stable in the directory market, falling only slightly during the year. Our U.S. market share remained constant at 27 percent, and we retained our position as a top-rated supplier in major press rooms.

After a strong start, prices for coated groundwood paper fell primarily due to imports and competition from other grades of paper. Magazine ad pages and the catalogue business continued to grow, which should result in a very healthy long-term balance between supply and demand.

As with the paper products, recovery in Asia will eventually balance the market for pulp. We have already seen industry inventories returning to more normal levels, influenced by the closure of several high-cost production facilities, including Bowater's Gold River, British Columbia, pulp mill, which eliminated 255,000 metric tons of production.

Although housing starts in North America are at historic highs, reduced demand in Asia (primarily Japan) caused a slump in North American prices for lumber and logs. Again, this appears to be a temporary situation, and we expect a healthy long-term market for solid wood products.

Our Achievements

In my letter last year, I identified two clear goals for 1998. They were:

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- Optimize our existing production assets by creating value-added strategies for timberlands, selling underperforming facilities and investing in high-return capital projects to continually improve our asset base, and

- Grow our production and marketing capabilities through the successful integration of our pending acquisitions.

We accomplished what we set out to do. We now have strategically placed and geographically diverse operations. Bowater's assets are complementary and competitive. Our customer relations remain strong.

The integration of the Avenor facilities and the South Korean mill has been impressively swift and seamless. On "Day One" of the combined company, the sales organization was fully integrated, with every customer assigned to one Bowater representative, new product labels were ready, and invoices were issued under the Bowater name. Since that time, we have converted all business and information systems and implemented cost savings.

We are well ahead of our stated objective to achieve half of the synergies goal by year-end 1998. In fact, we now believe that we have already secured more than the planned $75 million in annualized savings, so we have increased our goal to $100 million in expected synergies from the Avenor acquisition by year-end 1999.

The corporate organization has been realigned for more efficient management of our expanded company, including the formation of a separate division to focus on pulp products.

Other accomplishments include the announced sale of 1.6 million acres of timberland in Maine. The construction of a new thermomechanical pulping facility at the Calhoun, Tennessee, complex nears completion.

All in all, 1998 was indeed a year of major achievements.

Strategic Priorities

Looking forward, we have a firm set of operating priorities to build shareholder value:

- Remain a customer-focused company,

- Enhance performance by optimizing existing assets, achieving synergies and reducing costs,

- Exploit opportunities for growth by acquisition in the consolidating, global marketplace,

- Maintain financial strength and flexibility through disciplined use of capital, and

- Provide proper incentive and development programs for employees.

Our extraordinary achievements can be attributed to our management structure and philosophy. Future success depends on our ability to keep our management process simple, direct and decisive, despite our increased size.

In closing, I would like to thank our shareholders, our customers and our 8,300 employees for making 1998 a successful year for Bowater. With your continued support, 1999 will be even better.

Sincerely,

/s/ Arnold M. Nemirow

Arnold M. Nemirow
Chairman, President and Chief Executive Officer
March 19, 1999

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Bowater Today

A Q&A with Arnold M.Nemirow

During 1998 Bowater grew its newsprint business significantly. What is the future of newsprint?

Newspapers remain a vital part of the flow of information around the world, even with all of the existing and emerging alternatives for the delivery of news and advertising. In developed markets like the U.S. and Europe, the rate of growth is modest but demand is solid. In the developing markets of Asia and Latin America, there is still tremendous growth potential for newsprint.

This is a time of industry consolidation, and our modern, low-cost mills give us a global competitive advantage with customers and in regions with growing newspaper readership and newsprint consumption. Newsprint is a commodity and, as a low-cost, high-service producer, Bowater can remain profitable in down markets.

What are the prospects for growing other parts of the business?

Doubling the size of our newsprint business was a major step for Bowater. We have quickly integrated our acquisitions. Now, we are ready to explore additional opportunities.

The investment in South Korea was a bold move considering the state of the Asian economy. Has this investment met your expectations?

Our newsprint mill in Mokpo has exceeded my expectations. The mill is a world-class operation with new state-of-the-art equipment and a dedicated work force. Even in distressed economic times, the mill has generated significant cash flow. Performance is expected to improve as the Asian economy continues to recover.

What is Bowater's position concerning market downtime?

Bowater has taken and will take "market downtime" when our order book so dictates. We will not produce just to build inventories, and we will not produce just to sell excess production in the spot market. This is the basis for our recent decision to curtail production in Canada.

How will consolidation in the forest products industry affect Bowater?

Consolidation benefits everyone by helping to flatten the volatility in the market. As a consolidator, Bowater will benefit by having a larger share of a less volatile market. Consolidation is not a panacea for a non-competitive producer. For an efficient producer such as Bowater, however, consolidation will lead to a more stable, and ultimately a more profitable, market.

What has Bowater done to ensure Y2K compliance?

Bowater's efforts to ensure Year 2000 compliance began with the completion of a formal review of all internally developed computer software. Systemwide testing was successfully conducted during 1998. We expect to complete all of our major Year 2000 work by mid-year 1999.

Our current focus is on our production facilities, customers and the supply chain. At each mill site, efforts are underway to certify process control

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systems in production, environmental and safety areas. We are working with critical suppliers to verify that they will be able to meet our supply requirements.

Bowater is developing a contingency plan, including all business functions and sites, in the event any aspect of the program proves to be ineffective in solving Year 2000 compliance problems. We expect to complete this plan in October 1999.

What is Bowater doing to recruit and retain the next generation of management?

Our successful business performance supports our recruiting and retention efforts. Bowater provides compensation and benefit opportunities that compare favorably to those of our peers. Employees at all levels participate in various incentive plans designed to reward employee efforts while enhancing business performance.

Bowater provides learning and development opportunities for all employees, including technical training programs, tuition reimbursement programs, and company developed and sponsored degree programs in papermaking technology. Providing opportunities for employees to enhance their talents and skills helps us develop and retain a quality work force.

It is also important to note that, as part of our acquisitions, we identified and retained top talent with management potential.

What policies and programs does Bowater use to promote good corporate citizenship?

Bowater supports health and human services, culture and arts, education, environmental, and civic initiatives within the communities that surround its offices and mills. Bowater and its employees are generous supporters of consolidated campaigns in the U.S. and Canada such as the United Way and Centraide.

To encourage personal donations to qualifying educational institutions, Bowater matches contributions of employees and Directors.

In addition, employees are encouraged to participate in community life by volunteering time to civic and charitable organizations. The company provides a number of college and university students with internship opportunities, and Bowater forest lands are made available to our neighbors for recreational opportunities.

[Photo of Newsprint & Directory Division management team.]

In the foreground is Arthur D. Fuller, President, Newsprint & Directory Division. Standing (from left to right) are: R. Donald Newman, Vice President of Canadian Newsprint Operations, Jerry R. Gilmore, Vice President of U.S. and South Korea Newsprint Operations, Donald L. Wheeler, Vice President of Human Resources, Larry G. Green, Vice President of Purchasing and Transportation, and William C. Morris, Vice President of International Newsprint & Directory Sales. Seated (from left to right) are: C. Randy Ellington, Vice President of North American Newsprint & Directory Sales, and Craig B. Stevens, Vice President of Administration and Planning.

[Photo of man inside paper mill.]

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[Photo of large roll of paper.]   [Photo of wrapped rolls of paper.]

Newsprint & Directory Division

With the integration of the mills in Canada, South Korea and the United States, acquired in July 1998, the Newsprint & Directory Division doubled its ability to deliver top quality products and exceptional service to growing numbers of newsprint customers worldwide. While maintaining steadfast attention to customers, costs and operating efficiencies, the Division is further leveraging the combined knowledge and best practices of its individual operations.

Bowater has sharpened its competitive edge through an expanded distribution network. We have refocused our Tennessee and South Carolina mills to serve the growing U.S. markets in the South and Southwest. Our Canadian mills have augmented U.S. market presence by filling gaps in Bowater's Northeast markets and increasing our position in the Midwest. The Ponderay mill in Washington establishes a West Coast presence. The coordination of sales from our New Brunswick, Nova Scotia and South Korean mills under one international sales management team better positions Bowater to accelerate its growth in Latin America, Europe and Asia. With sales offices in the United States, Brazil, South Korea, Japan, Singapore and England, Bowater continues to extend its global reach, while enhancing service to its customers.

We have prudently managed our assets and initiated high-return capital investments to strengthen our competitive position. The construction of a thermomechanical pulp mill at Calhoun, Tennessee, is nearing completion.

[Bar chart appears below with the following information:]
1998 Newsprint & Directory Shipments
by Mill*
in metric tons

Calhoun (Tennessee)	703,000
Thunder Bay (Ontario)	535,000
Gatineau (Quebec)	434,000
GNP (Maine)	366,000
Ponderay (Washington)	243,000
Mokpo (South Korea)	240,000
Mersey (Nova Scotia)	229,000
Dalhousie (New Brunswick)	217,000
Catawba (South Carolina)	216,000

*Tonnage reflects shipments for the full 12 months ending December 31, 1998.

[Bar chart appears below with the following information:]
Newsprint & Directory Shipments
by Destination
in metric tons

	Export/Domestic
98	732,000*/2,449,000
97	252,000/1,300,000
96	244,000/1,260,000
95	204,000/1,276,000
94	234,000/1,262,000

*Tonnage reflects shipments for the full 12 months

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ending December 31, 1998.

[Bar chart appears below with the following information:]
World Market Share of
Newsprint & Directory

98	8.4%*
97	4.1%
96	4.2%
95	4.0%
94	4.2%

*Tonnage reflects shipments for the full 12 months
ending December 31, 1998.

Coated Paper Division

[Bar chart appears below with the following information:]

1998 Coated Paper Shipments by Mill
In short tons

Catawba (South Carolina)	351,000
Millinocket (Maine)	135,000

[Bar chart appears below with the following information:]

Coated Paper Shipments by Destination
In short tons

	Export/Domestic
98	7,000/479,000
97	14,000/466,000
96	27,000/405,000
95	9,000/466,000
94	14,000/443,000

[Bar chart appears below with the following information:]

North American Market Share

98	8.8%
97	9.1%
96	8.8%
95	9.4%
94	9.5%

In 1998, the Coated Paper Division continued to emphasize cost containment and reduction. The Catawba mill is rated among the lowest-cost producers in North America.

Our continuous quality initiatives complement our low cost position. We formed a Research and Development group to forge new product development and invested $32 million in high-return capital projects to increase production, enhance product quality and lower overall cost. An example of capital investment is the addition of new wood chip thickness screening equipment at the Catawba mill, which reduces the chemicals, energy and wood needed to improve kraft pulp quality and production rates. Quality improvement initiatives include the installation of new Excel coater heads.

While world-class machines offer the technology to manufacture paper, it is people who add value to the process and the product. A major initiative involving line and staff employees, the High Performance Organization program, hones leadership, structure, systems, teams, skills and safety. Over 75 hours of on-the-job and classroom training were invested in each employee in 1998.

Safe work practices are paramount. The Division reduced Occupational Safety and Health Administration incidence rates by 51 percent over the past two years. This significant improvement is driven, in part, by employee ownership in identifying and correcting safety hazards. Employees perform peer safety

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observations and log their perceptions into a database. This data is used to identify trends requiring remedial action. Additionally, improved safety performance is recognized and rewarded through gain sharing and other incentive programs.

[Photo of man checking roll of paper.]   [Photo of inside of paper mill.]

[Photo of Coated Paper Division management team.]

E. Patrick Duffy (center), President of the Coated Paper Division, with (left to right) Denis Tontodonato, Vice President of Administration and Planning, Stephen L. Naman, Vice President of Coated Paper Sales, Barre R. Mitchell, Director, Technology, and Gaynor L. "Bud" Nash, Vice President and Resident Manager - Catawba Operations.

[Photo of newstand displaying magazines printed on coated paper.]

[Photo of Pulp Division management team.]

David J. Steuart, President of the Pulp Division (right), and John C. Adams, Vice President of North American Sales (left).

[Photo of pulp dryer.]

<TABLE>

<S>	<C>	<C>
[Photo of person handling sheet of market pulp.]	[Photo of inside of pulp mill.]	[Photo of wet pulp.]

</TABLE>

Pulp Division

The acquisition of Avenor in July significantly increased Bowater's position in North American pulp production, prompting the creation of a new Pulp Division to manage the worldwide marketing of Bowater's market pulp products. A highly capable team of management, marketing and production professionals enhances Bowater's competitive position.

Bowater's Pulp Division minimizes exposure to a typical commodity marketing strategy by differentiating itself with high-quality products and exceptional customer service, with a goal to become the preferred market pulp supplier to the North American paper industry.

The recent volatility in Asian financial markets has had a direct effect on market pulp pricing and an impact on Bowater, as Asian demand for market pulp declined 14 percent in 1998 versus 1997. After we reviewed the economic viability of the Gold River, British Columbia, pulp mill, further deterioration in market conditions as well as a high cost structure, caused us to announce the permanent closure of the mill.

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We are the only North American supplier with a mix of four grades of market pulp, including the low-cost southern and high-quality northern grades, both softwood and hardwood, demanded by premium tissue producers and lightweight coated paper producers. Our mills are in close proximity to papermaking markets in the Midwest and Southern United States. As a result of these competitive advantages, Bowater is recognized by the marketplace as one of the premier market pulp suppliers in North America.

[Bar chart appears below with the following information:]
1998 Pulp Shipments by Mill*
in metric tons

Thunder Bay (Ontario) 531,000

Catawba (South Carolina) 215,000

Calhoun (Tennessee) 141,000

Gold River (British Columbia) 139,000

* Tonnage reflects shipments for the full 12 months ending December 31, 1998.

[Bar chart appears below with the following information:]
Pulp Shipments by Destination
in metric tons

	Export/Domestic
98	832,000*/195,000
97	231,000/138,000
96	267,000/88,000
95	173,000/122,000
94	181,000/91,000

* Tonnage reflects shipments for the full 12 months ending December 31, 1998.

[Bar chart appears below with the following information:]
North American Market Share

98	9.5%
97	2.0%
96	1.5%
95	1.9%
94	1.5%

*Tonnage reflects shipments for the full 12 months ending December 31, 1998.

[Bar chart appears below with the following information:]

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1998 Lumber Shipments by Mill*
in thousands of board feet

Bowater Lumber (Alabama) 96,000

Pinkham Lumber (Maine) 75,000

Manifor Inc. (Quebec) 61,000

Oakhill Sawmill (Nova Scotia) 37,000

* Lumber volume reflects shipments for the full 12 months ending December 31, 1998.

[Bar chart appears below with the following information:]

1998 Timber Sales Volume*
in thousands of tons

Calhoun Woodlands (Tennessee) 1,700

Catawba Woodlands (South Carolina) 1,600

GNP Woodlands (Maine) 1,600

Dalhousie Woodlands (New Brunswick) 400

Mersey Woodlands (Nova Scotia) 300

* Timber volume reflects shipments for the full 12 months ending December 31, 1998.

1998 was a formative year for the Forest Products Division, which was organized as a stand-alone unit in mid-1997. This realignment enables us to measure more precisely how well the Division has improved yields, efficiencies, profitability and asset returns.

Operating income generated from our timberlands was well above initial expectations. Well-defined value-enhancement programs for the woodlands operations and high-return capital investment plans for the sawmills are designed to generate even more significant opportunities to improve the financial contributions of these two groups in the future.

The creation of the Forest Products Division gave us an opportunity to realign woodlands and sawmill staff for maximum productivity and to better focus our gainsharing incentives as they apply to woodlands personnel. Bowater's gainsharing program is a comprehensive, incentive-based compensation structure to align employee interests at all levels with those of shareholders. The program measures performance in the areas of cost reduction, productivity, quality and safety improvements. A new component of the gainsharing plan encourages better wood utilization, higher operating income and increased total return on net assets.

Improved safety performance is another result of the enhanced gain-sharing plan and our sustained focus on improving workplace safety. In 1998, we surpassed the excellent safety record set in 1997, ending the year with an improved incident rate of 24 percent year-over-year.

[Photo of tree.]

[Photo of Forest Products Division management team.]

[Photo of Bowater lumber.]

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Richard K. Hamilton, President of the Forest Products Division (right) is shown with (left to right): Colin R. Wolfe, Vice President of Administration and Planning, George W. Flanders, Vice President of Catawba Woodlands Operations, Jon M. Porter, Vice President of Mersey Woodlands Operations, J. Frank Pickle, Vice President of Calhoun Woodlands Operations, Marcia M. McKeague, Vice President of Great Northern Woodlands Operations, Jean Beaulieu, Vice President of Lumber and Quebec Woodlands Operations, and Roger Barber, Vice President of Ontario and New Brunswick Woodlands Operations.

[Photo of saw timber being unloaded from truck.]

[Photo of recreational pathway on Bowater land.]

Some of Bowater's employees are papermakers, but some are also foresters, biologists, wildlife managers, environmentalists, engineers and recreational land managers, all of whom are committed to environmental stewardship while making high-quality paper for the global market.

[Photo of forester planting seedling.]

[Photo of recreational lake area on Bowater land.]

The Environment

Bowater has a well-established record of sound stewardship of its natural resources. We believe that a "good neighbor" policy is good business and subscribe to this policy in practice. Bowater has been entrusted with the stewardship of extensive renewable natural resources and manages these resources on a sustainable basis to ensure their productive use and enjoyment by future generations.

Bowater supports the American Forest & Paper Association (AF&PA) and Canadian Pulp and Paper Association (CPPA) environmental, health and safety principles as well as AF&PA's Sustainable Forestry Initiative(SM) and CPPA's Sustainable Forest Management Certification. Bowater is an active participant in voluntary environmental programs, such as Canada's Accelerated Reduction, Elimination of Toxics (ARET) program and the Canadian federal government's Voluntary Challenge and Registry for climate change.

We have long recognized the need to improve environmental management systems and performance. Our Thunder Bay, Ontario, mill is the largest pulp and paper complex - and the first newsprint facility - in North America to achieve ISO 14001 certification for environmental management systems. In 1998, the Gatineau, Quebec, mill received certification under ISO 14001. The Mersey, Dalhousie, New Brunswick, and Usk, Washington, mills are developing environmental management systems, following the ISO 14001 standards.

Bowater is one of the world's largest users of recycled newspapers and magazines. Bowater has recycling facilities at its mills in Calhoun, Tennessee; East Millinocket, Maine; Gatineau, Quebec; Thunder Bay, Ontario; Usk, Washington; and Mokpo, South Korea. These facilities annually consume approximately 1.2 million tons of old newspapers, old magazines and old telephone directories, much of which would have been sent to landfills in the past.

Improving air quality is a Bowater priority. We have instituted numerous controls and enhanced our processes in an effort to minimize our impact on the air of our surrounding communities.

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The Thunder Bay, Ontario, kraft mill has produced elemental chlorine-free pulp since 1994. At our Catawba, South Carolina, and Calhoun, Tennessee, mills, we will replace elemental chlorine and sodium hypochlorite with chlorine dioxide in the pulp-bleaching process in compliance with the Cluster Rule issued by the U.S. Environmental Protection Agency in 1998.

The water we use may be reused three or four times on its journey through our mills. We are diligent about returning the water in good condition, as would any responsible neighbor. We settle out the solids, aerate the water to restore oxygen, cool the water so it will not harm fish or other marine life, and then we monitor and test continuously to ensure the process is working.

In 1998, the Calhoun, Tennessee, mill completed the conversion of an idle recovery boiler to a waste fired boiler. The converted boiler produces steam by burning sludge, bark and tire-derived fuel. Bowater mills converted into energy a total of 2.5 million tons of bark, wood waste, sawdust, sludge and tire-derived fuel. This fuel replaced more than 750,000 barrels of oil, nearly 11,000 million cubic feet of natural gas and 118,000 tons of coal, while eliminating landfill disposal.

Financial Report 1998

<TABLE>
<CAPTION>

Contents:

Business and Financial Review

Overview

The company is organized into four Divisions: the Newsprint & Directory Division, the Coated Paper Division, the Pulp Division and the Forest Products Division. Each Division, with the exception of the Pulp Division, is responsible for the sales and marketing of distinct product lines and the operation of certain manufacturing sites. The Pulp Division is primarily a marketing and distribution Division. Therefore, the company's financial results are collected, analyzed and reported through the Newsprint & Directory, Coated Paper and Forest Products Divisions.

Newsprint & Directory Division: This Division operates nine manufacturing sites in the United States, Canada and South Korea. The principal product line at these sites is newsprint, but the sites also produce directory paper, market pulp, coated groundwood paper and uncoated groundwood specialties. The Division is responsible for the worldwide marketing and sales of newsprint, directory paper and uncoated groundwood specialties and the operation of its designated manufacturing sites.

Coated Paper Division: This Division operates one site in Catawba, South Carolina, which produces coated groundwood paper, newsprint, market pulp and uncoated groundwood specialties. This Division is responsible for the marketing

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and sales of coated groundwood paper and the operation of the Catawba site.

Pulp Division: This Division markets and distributes market pulp produced at the Calhoun, Tennessee, Catawba, South Carolina, and Thunder Bay, Ontario, sites. Financial results for the production and sale of market pulp are included in the Newsprint & Directory Division and the Coated Paper Division. Previously, the Division operated a market pulp manufacturing site in British Columbia. This site was permanently closed in February 1999.

Forest Products Division: This Division manages 2.4 million acres of timberland owned or leased in the United States and Canada (after the pending 1999 timberlands sale transactions) and 14 million acres of Crown-owned land in Canada on which the company has cutting rights. The Division also operates three softwood sawmills, supplies wood fiber to Bowater's pulp and paper production sites and markets and sells timber and lumber in North America.

Results of Operations: 1998 Compared with 1997

The company's net loss for 1998 was $18.5 million, or $0.44 per diluted share, compared to net income of $53.7 million, or $1.25 per diluted share, in 1997. Included in the net loss for 1998 were after-tax non-operating charges of $88.0 million, or $1.85 per diluted share, to reduce the book value of assets at the company's Millinocket, Maine, mill in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets," and to record a reserve against a long-term note receivable. Operating income was $142.2 million ($261.8 million before non-operating charges) in 1998 on net sales of $2.0 billion, compared with $135.7 million on net sales of $1.5 billion in 1997. The increases in operating income and net sales were primarily due to the inclusion of two newly acquired operations for a portion of the year. The company acquired Avenor Inc. ("Avenor") on July 24, 1998, and a South Korean newsprint mill on July 15, 1998.

Presented below is a discussion of each significant product line followed by a discussion of the results of each of the reported Divisions.

Product Line Information: In general, the company's products are globally traded commodities. Pricing and the level of shipments of these products will continue to be influenced by the balance

[Bar chart appears below with the following information:]

Operating Income $ in millions

98	142
97	136
96	301
95	549
94	42

[Bar chart appears below with the following information:]

Newsprint
Average Transaction Price ($ per short ton/Shipments (thousands of short tons)

98	513/2,160
97	493/1,482
96	585/1,446
95	600/1,402
94	414/1,460

[Bar chart appears below with the following information:]

Coated Groundwood
Average Transaction Price ($ per short ton/Shipments (thousands of short tons)

98	804/486
97	705/479
96	824/432
95	975/476

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94   677/453

[Bar chart appears below with the following information:]
Directory Paper
Average Transaction Price ($ per short ton)/Shipments (thousands of short tons)
98 769/226
97 784/228
96 871/211
95 709/229
94 679/189

[Bar chart appears below with the following information:]
Market Pulp
Average Transaction Price ($ per short ton)/Shipments (thousands of short tons)
98 403/674
97 424/407
96 393/393
95 717/325
94 436/300

[Bar chart appears below with the following information:]
Capital Expenditures $ in millions
98 223
97 100
96 107
95   96
94 216

between supply and demand as affected by global economic conditions, changes in consumption and capacity, the level of customer and producer inventories and fluctuations in exchange rates.

The information provided in the following product line discussions concerning market and industry conditions was obtained from the following sources: the Newspaper Association of America; the Canadian Pulp and Paper Association; the American Forest & Paper Association; Resource Information System, Inc. (RISI) and the Media Industry Newsletter. This information is provided to enhance the reader's understanding of the company's financial results and the conditions under which these results were achieved.

Newsprint
In 1998, conditions in the newsprint market were affected by labor strikes in Canada and financial and economic difficulties in key Asian markets. Approximately 1.0 million metric tons of newsprint capacity was impacted in 1998 by labor strikes at Abitibi-Consolidated and Fletcher Challenge Canada, two large Canadian newsprint producers. The reduction in supply caused by these strikes was offset by the economic problems that plagued Asia throughout the year. This resulted in North American newsprint exports that were down 22 percent for the year and newsprint imports to the U.S. that were more than double the 1997 level as U.S. producers for the Asian market redirected their tonnage to other regions. Total U.S. demand for newsprint and U.S. consumption increased in 1998 compared to last year. Despite this, North American newsprint producer inventories at year-end also increased when compared to the end of 1997, while year-end inventories at U.S daily newspapers decreased slightly. A company price increase announced for April 1998 was postponed to later in the year, and, although partially implemented by the fourth quarter, it was rescinded after settlement of labor strikes at competitors' mills in Canada. The company's average newsprint transaction price in 1998 was 4 percent higher than in 1997, reflecting a full year of the price increases that were implemented in 1997. Shipments for the company were 46 percent higher in 1998 versus 1997, and inventories were also higher due to the inclusion, beginning in the third quarter, of Avenor and the South Korean newsprint mill.

Coated Groundwood
In the first half of 1998, the coated paper market continued to benefit from the improved environment of 1997. During the year, end-use markets grew with the catalogue segment increasing 6 percent (measured by standard A mail weight) and magazine publishers increasing advertising pages by 2 percent. The second half of 1998, however, was marked by declines in coated paper pricing, as the supply

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of coated paper outpaced demand due to a higher volume of coated paper imports and increased capacity among producers of competing printing and writing papers. Comparing the full year of 1998 to 1997, U.S. coated groundwood shipments for the industry decreased 4 percent while U.S. coated groundwood producer inventory levels increased an average of 3 percent. In January 1998, the company successfully implemented a $60 per ton price increase. The company's quarterly average coated groundwood transaction price for the first three quarters of 1998 was relatively unchanged following the January price increase, while the fourth quarter average price declined due to the higher supply versus demand. Compared to 1997, the company's average transaction price for 1998 was 14 percent higher, while shipments increased slightly. The company's coated groundwood inventory at the end of 1998 was at its lowest level since 1992.

Directory Paper

Sales of the company's directory products in 1998 were at essentially the same levels as in 1997. The company's average directory paper transaction price decreased 2 percent compared to 1997, reflecting the relatively stable market environment for directory papers in 1998. Directory prices generally trend similarly to newsprint pricing, but with a lag due to the contractual nature of the directory business.

Market Pulp

World pulp markets experienced difficult conditions during 1998 as the effect of the Asian economic crisis impacted operating rates, shipments and prices. During the first quarter, demand for market pulp was unchanged compared to the first quarter of 1997. In the second and third quarters, the full impact of the Asian crisis reduced demand, as NORSCAN (United States, Canada, Finland, Norway and Sweden) shipments to the Asian region decreased approximately 30 percent compared to the respective quarters in 1997. Despite reduced operating rates in the industry of 87 percent during the second and third quarters of 1998, inventories at the end of the third quarter increased by 230,000 metric tons compared to the third quarter of 1997. In the fourth quarter, demand from the Asian region increased; however, this demand did not make up the shortfall created in the previous quarters. NORSCAN shipments for 1998 decreased 4 percent compared to 1997, with the majority of the decrease coming from the Asian region. NORSCAN inventories ended the year at 1.6 million metric tons, or a 27 day supply down from a 31 day supply in December 1997. As a result of these market conditions, the company's market pulp average transaction price in 1998 decreased 5 percent compared to 1997. The company's shipments increased 66 percent in 1998, compared to last year, primarily due to the Avenor acquisition.

Lumber

U.S. lumber prices declined throughout 1998 as supply outpaced demand. Indicators for the U.S. market were positive, with 1998 housing starts increasing to 1.6 million units from 1.4 million units in 1997, and expenditures for the repair and remodeling markets also increasing in 1998. These positive indicators were offset by a steep decline in Japanese housing construction caused by the Asian economic crisis. This decrease in export demand resulted in a 36 percent reduction in exports through the first 10 months of 1998 compared to the year ago period and a reduction in export lumber prices as well. U.S. consumption in 1998, although strong, has not been able to absorb the excess supply. The company's average lumber transaction price declined throughout the year and was 18 percent lower in 1998 than in 1997. Shipments were 17 percent higher in 1998 versus 1997, primarily due to the inclusion of lumber from the newly acquired Canadian operations and higher production rates.

Timber

Demand for the company's timber products remained strong in 1998. Average transaction prices for our primary species of southern pine and spruce-fir increased compared to 1997. This increase was partially offset by a change in mix that caused 1998 pricing in total to be only slightly higher compared to 1997. The company's shipments in 1998 also increased compared to 1997, mainly from the inclusion of timber products from the Avenor acquisition and the application of intensive forest management practices. Operating income per acre increased 14 percent in 1998 compared to 1997.

Divisional Performance:

Net Sales by Division:

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(US Dollars in Millions)	1998	1997
Division:(1)		
Newsprint & Directory	$ 1,356.6	$ 886.8
Coated Paper	474.1	458.4
Forest Products	147.1	139.8
Corporate/ Other Eliminations	17.2	(0.5)
Total Net Sales	$ 1,995.0	$ 1,484.5

Operating Income by Division:

(US Dollars in Millions)	1998	1997
Division:(1)		
Newsprint & Directory	$ 32.8	$ 30.0
Coated Paper	107.4	91.2
Forest Products	45.9	57.4
Corporate/ Other Eliminations	(43.9)	(42.9)
Total Operating Income	$ 142.2	$ 135.7

(1) Financial results for the production and sale of market pulp are included in the Newsprint & Directory Division and the Coated Paper Division. The Pulp Division is responsible for the marketing and distribution of the product.

Newsprint & Directory Division
In July 1998, this Division added five new manufacturing sites with the acquisitions of Avenor and the South Korean newsprint mill. Net sales for the Division increased 53 percent during the year, from $886.8 million in 1997 to $1.4 billion in 1998, primarily as a result of adding the new sites, aided by slightly higher average prices for newsprint and coated groundwood paper, and offset by slightly lower average prices for market pulp and directory paper. See the previous discussion of product line results. Operating costs in 1998 increased from $856.8 million in 1997 to $1.3 billion, primarily as a result of adding the new sites. Operating income in 1998 increased 9 percent from $30.0 million in 1997 to $32.8 million, primarily as a result of increased shipments of newsprint and market pulp from the acquisitions, offset by a $119.6 million pre-tax charge to reduce the book value of assets at the Division's Millinocket, Maine, mill.

Coated Paper Division
Net sales increased by 3 percent in 1998 compared to 1997, from $458.4 million to $474.1 million, primarily the result of marginally higher average prices for newsprint and coated groundwood paper and offset by lower average prices for market pulp. See the previous discussion of product line results. Comparing the same periods, operating costs decreased slightly, while operating income increased 18 percent from $91.2 million to $107.4 million, primarily as a result of higher average coated paper prices.

Forest Products Division
This Division was formed in mid-1997. Financial results for 1997 have been restated on a pro forma basis for comparative purposes. Prior to 1997, the woodlands operations were part of the other Divisions. In July 1998, the Avenor

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acquisition added approximately 475,000 acres of freehold timberland, three sawmills and over 18 million acres of cutting rights in Canada.

In the third quarter of 1998, a white paper mill and two sawmills were sold along with 4.3 million acres of cutting rights. In the fourth quarter of 1998, the Division entered into contracts to sell approximately 1.6 million acres of land and a sawmill in Maine for approximately $370.0 million. Net sales for the Division in 1998 increased 5 percent compared to 1997, from $139.8 million to $147.1 million. See the previous discussion of product line results. Comparing the same periods, operating costs increased primarily due to the inclusion of the Avenor operations. Operating income decreased 20 percent, from $57.4 million to $45.9 million, primarily due to lower sawmill profitability.

Corporate/Other Eliminations
Included in this category are general and administrative expenses, as well as market pulp sales from the Gold River pulp mill, which was permanently closed in February 1999. Losses on the sales of market pulp were partially offset by lower general and administrative expenses.

Interest and Other Income and Expenses: Interest expense increased 46 percent in 1998, from $67.5 million to $98.4 million, due to the increase in debt related to the Avenor acquisition. Interest income decreased from $21.6 million in 1997 to $17.5 million in 1998, due to a lower amount of average investment balances in 1998. The cash from the maturity of marketable securities was used to partially fund the acquisitions of Avenor and the South Korean newsprint mill.

During 1998, the company incurred pre-tax foreign exchange losses of $29.7 million compared with $2.1 million in 1997. This loss primarily relates to marking to market foreign exchange contracts that were acquired upon the acquisition of Avenor. Also in 1998, the company incurred a net pre-tax charge of $20.1 million related to currency options and forward contracts on the Canadian dollar and Korean won that were purchased to hedge a substantial portion of the acquisition price of Avenor and the South Korean newsprint mill. Both of these charges are included in "Other, net" in the Consolidated Statement of Operations along with a charge of $15.0 million for a reserve against a long-term note receivable.

In the first quarter of 1998, the company sold approximately 26,000 acres of timberlands resulting in a pre-tax gain of $21.1 million. In the fourth quarter of 1998, the company entered into contracts to sell 1.6 million acres of timberlands and a sawmill in Maine, for approximately $370.0 million. These sales are expected to close in the first quarter of 1999. In 1997, the company sold 1,000 acres of timberlands resulting in a pre-tax gain of $0.8 million.

The effective tax rate in 1997 was 37 percent. In 1998, the effective tax rate was much higher due to adjustments made to the tax provision to reflect the non-deductibility of certain charges and allowances for tax benefits not currently expected to be realized.

Fourth Quarter of 1998: Net income in the fourth quarter of 1998 was $25.9 million, or $0.45 per diluted share, on net sales of $639.2 million. This compares to net income in the fourth quarter of 1997 of $30.1 million, or $0.72 per diluted share, on net sales of $401.0 million.

Operating income for the fourth quarter of 1998 was $76.3 million, an increase of 23 percent compared to operating income for the fourth quarter of 1997 of $61.9 million. The increase in operating income was primarily due to the inclusion of Avenor and the South Korean

newsprint mill operations. Fourth quarter 1998 operating income was the highest since the second quarter of 1996. The company's fourth quarter average transaction price was 3 percent lower for newsprint and 2 percent lower for coated paper compared to the fourth quarter of 1997. The average transaction prices for market pulp and directory paper were also lower by 14 percent and 2 percent, respectively. Comparing the same periods, tonnage shipments for newsprint and market pulp significantly increased, reflecting the inclusion of the newly acquired operations, while the company's shipments for coated and directory papers decreased slightly. The company's cost of sales was higher in the fourth quarter of 1998, increasing 65 percent, again reflecting the inclusion of the newly acquired operations.

Liquidity and Capital Resources: 1998 Compared with 1997
The company's cash, cash equivalents and marketable securities balance at year-end 1998 was $59.5 million, a decrease of $346.0 million from $405.5 million at year-end 1997.

Cash and cash equivalents decreased to $58.3 million at year-end 1998, from

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$228.7 million at year-end 1997, a decrease of $170.4 million. The company generated $274.1 million of cash from operations while it used $408.0 million for investing activities and $36.5 million for financing activities. Aside from cash flow from operations, capital expenditures, and changes in investments and borrowings, the company had several other significant cash transactions since December 31, 1997. These transactions include: cash paid of $675.0 million for the purchase of Avenor; cash paid of $201.0 million for the purchase of the South Korean newsprint mill; the sale of the white paper mill and related assets (formerly owned by Avenor) with cash proceeds of $532.5 million; the sale of 26,000 acres of non-strategic timberlands with cash proceeds of $30.9 million; the purchase of currency options on the Canadian dollar for $22.7 million to hedge the company's acquisition of Avenor; cash of $27.9 million paid on the maturity of hedging contracts; cash of $24.3 million for quarterly dividend payments to the minority shareholder of Calhoun Newsprint Company (CNC); cash of $75.9 million for the tender offer of the 10.25% Debentures, and common stock purchases requiring cash of $98.1 million.

Cash from Operating Activities: The company generated cash of $274.1 million from operating activities in 1998, compared to $195.6 million in 1997. The increase of $78.5 million reflects the additional volumes of product sold as a result of the acquisitions, offset by $25.5 million of higher working capital needs.

Cash from Investing Activities: Cash used for investing activities in 1998 was $408.0 million versus a cash inflow of $72.7 million in 1997. Excluding the acquisition of Avenor and the South Korean newsprint mill, capital expenditures in 1998 totaled $223.2 million. This was significantly higher than the year ago spending of $99.6 million, primarily due to the modernization of the Calhoun, Tennessee, newsprint facility. The company anticipates capital spending of approximately $300.0 million in 1999, which includes approximately $140.0 million for the mill modernizations at Calhoun and East Millinocket, Maine. In July 1998, the company acquired Avenor and the South Korean newsprint mill, requiring total cash outflows of $876.0 million. During the third quarter, the company sold the white paper mill and related assets formerly owned by Avenor for $532.5 million. Earlier in the year, the company also sold 26,000 acres of non-strategic timberlands resulting in proceeds of $30.9 million. In 1998, the company realized a net cash flow of $175.5 million from the maturity of marketable securities compared to $168.6 million in 1997. Offsetting this was a cash outflow of $22.7 million for the purchase of currency options on the Canadian dollar to hedge the company's acquisition of Avenor and $27.9 million of cash paid upon the maturity of hedging contracts with a nominal value of $359.0 million, which were part of a $1.6 billion hedging program maintained by Avenor prior to the acquisition.

Several years ago, the company undertook an initiative to eliminate non-strategic assets, including non-strategic timberland tracts. Since 1995, the company has sold 148,000 acres of timberlands throughout the United States and Canada with gross proceeds totaling approximately $153.9 million. Currently, the company owns or leases 2.4 million acres of timberlands in the U.S. and Canada (after the pending 1999 timberlands sale transactions) and has timber cutting rights on an additional 14 million acres in Canada. Sales of non-strategic timberlands are processed through the company's Forest Products Division. This Division periodically reviews timberland holdings and makes decisions to sell certain non-strategic tracts.

Cash from Financing Activities: Cash flow used for financing activities was $36.5 million in 1998, $88.4 million lower than the amount spent in 1997. During 1998, the company borrowed $766.3 million, net of financing fees, from its $1.0 billion credit facility mainly to fund the acquisition of Avenor. During the year, the company repaid $560.0 million of the borrowing. On December 31, 1998, the amount outstanding

on the credit facility totaled $210.0 million. Cash dividends in 1998 of $62.1 million were slightly higher than 1997. In November 1997, the company announced the adoption of a new stock repurchase program, authorizing it to repurchase up to 4.1 million shares of the company's outstanding common stock in the open market or in privately-negotiated transactions subject to normal trading restrictions. As of December 31, 1998, the company had purchased 2.6 million shares at a total cost of $107.7 million, of which 2.4 million shares were purchased at a cost of $98.1 million in 1998. As of March 1, 1999, an additional 622,700 shares were purchased at a cost of $24.8 million. In 1997, the company purchased a total of 1.6 million shares at a cost of $66.8 million. Cash received from the exercise of stock options in 1998 was $17.7 million lower than in 1997. Also in 1997, the company redeemed for cash the remaining 500,000

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outstanding shares of LIBOR Preferred Stock at a cost of $25.0 million. The company continues to consider the most effective use of its cash to be for internal capital investments, share repurchases, investments to grow the company's primary product lines and additional debt reductions.

During 1998, the company repaid $91.1 million of its long-term borrowings versus $1.8 million in 1997. On December 18, 1998, Bowater Pulp and Paper Canada Inc. ("BPPCI") (formerly Avenor Inc.), a subsidiary of Bowater Incorporated, completed an offer to purchase its outstanding 10.25% Debentures due 2003. The company accepted for purchase approximately $65.0 million of the $72.0 million principal amount of Debentures previously outstanding, for an aggregate purchase price of $75.9 million ($1,169.31 per $1,000 principal amount, plus accrued interest). Additionally, BPPCI received the required number of consents of holders of the remaining outstanding Debentures to execute an amendment that eliminates a covenant that limited BPPCI's ability to pay cash dividends. BPPCI has executed a supplemental indenture effecting the elimination of this covenant. These actions will allow for more flexible management of cash across the entire Bowater organization.

In February 1999, the company redeemed for $26.6 million in cash all of the remaining outstanding shares (and related 1.06 million Depositary Shares) of its 8.40% Series C Cumulative Preferred Stock, par value $1 per share. The Series C Stock was redeemed for cash of $100.56 per share of Series C Stock ($25.14 per Depositary Share), which is equal to $100 per share of Series C Stock ($25.00 per Depositary Share) plus accrued and unpaid dividends to, but not including, February 8, 1999.

Also in February 1999, BPPCI redeemed for cash all of its outstanding 7.50% Convertible Unsecured Subordinated Debentures, due February 8, 2004 (originally issued in the aggregate principal amount of C$125,400,000). The company will benefit from the reduction of interest expense associated with the Debentures. Prior to redemption and at the option of each holder, each C$100 principal amount of the Debentures were convertible into either (1) 2.191 Exchangeable shares of Bowater Canada Inc. or (2) C$79.54 together with 1.0955 of the Exchangeable shares. As a result of the redemption and conversions immediately prior to the redemption, BPPCI paid $65.9 million in cash, and Bowater Canada Inc. issued 1.4 million Exchangeable shares.

Acquisitions/Dispositions

On July 15, 1998, the company completed the acquisition of a Korean newsprint mill, which is located on the southwest coast of South Korea. Using its existing cash reserves, the company purchased the production assets of the mill for $201.0 million and prepaid the majority of the current accounts payable for $22.0 million as required by the court in the seller's bankruptcy proceedings. Upon acquisition, the South Korean newsprint mill was free and clear of all indebtedness.

On July 24, 1998, the company completed the acquisition of Avenor. The purchase price, including assumed debt totaled $2.37 billion (C$3.54 billion) or $23.46 (C$35.00) per Avenor common share. The company utilized approximately $168.0 million of its existing cash reserves and approximately $625.0 million of its new $1.0 billion credit facility to fund the cash portion of the transaction. In addition, the company issued 12.3 million common shares, and its indirect wholly-owned subsidiary, Bowater Canada Inc., issued 3.8 million Exchangeable shares to fund the equity portion of the transaction. Exchangeable shares are exchangeable on a one-for-one basis for Bowater Incorporated common stock.

On September 30, 1998, the company sold the white paper mill and related assets in Dryden, Ontario, which were acquired as part of the acquisition of Avenor. A substantial portion of the proceeds of $532.5 million was used to repay the company's borrowings under the $1.0 billion credit facility.

With the completion of the acquisitions, the white paper mill disposition and the permanent closure of the Gold River pulp mill (see the following page), the company consists of 10 pulp and paper mills in the United States, Canada and South Korea. These operations are currently supported by 2.4 million acres of timberlands (after the pending 1999 timberlands sale transactions) owned or leased in the United States and Canada

and 14 million acres of Crown-owned land in Canada on which the company has cutting rights. The company has doubled its annual newsprint and groundwood papermaking capacity and is now the second largest newsprint producer in the world and the sixth largest market pulp producer in North America.

Great Northern Paper
In October 1998, the company reported that it would proceed with its previously

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announced $220.0 million modernization program for Great Northern Paper at its East Millinocket, Maine, pulp and paper mill complex. Earlier, the company reported that it had received unsolicited offers to buy its Great Northern Paper assets in Maine. However, after thoroughly reviewing the proposals following completion of its Avenor acquisition, the company concluded that its investment plans for the East Millinocket facility will bring the most value to the company and its shareholders. The Millinocket mill, however, remains available for sale. In the third quarter of 1998, the company recorded an impairment charge of $119.6 million to write down the book value of the Millinocket mill.

Also in October, the company announced that it would pursue timber monetization opportunities for a substantial amount of its acreage in Maine. Subsequently, the company announced the sale of approximately 1.6 million acres of its Maine timberlands and the Pinkham Lumber company sawmill for an aggregate purchase price of approximately $370.0 million. As part of these sale transactions, the company and the prospective buyers will enter into agreements to supply the company's Great Northern Paper papermaking operations with wood fiber from the purchased timberlands. The company plans to use the proceeds for the reduction of debt, repurchase of common shares and other strategic purposes. The company expects to close these transactions in the first quarter of 1999.

Gold River Mill Closure
In October 1998, the company announced that its Gold River pulp mill in British Columbia, which had been shut down due to market conditions since August 1998, would be permanently closed effective February 16, 1999. The costs associated with closing this facility ($40.0 million after-tax), which was acquired as part of the Avenor acquisition, were recorded as an adjustment to the cost of the acquisition by increasing goodwill.

Environmental Items
The company is subject to a variety of federal, state and provincial environmental laws and regulations in the jurisdictions in which it operates. The company believes its operations are currently in substantial compliance with applicable environmental laws and regulations.

In April 1998, the U.S. Environmental Protection Agency (EPA) promulgated new air and water quality regulations for the paper industry. These regulations, known as the "Cluster Rule," are aimed at further reductions of pollutants. These new regulations will require capital expenditures at the Calhoun, Tennessee, Catawba, South Carolina, and Millinocket, Maine, facilities. The compliance period begins in April 1999 and extends to April 2006. The company anticipates spending approximately $120.0 to $150.0 million during this period to comply with both the new effluent guidelines and the new air quality standards, with a majority of the capital to be spent at the Catawba, South Carolina, facility. Engineering studies are currently under way to further define the capital requirements and timing of these investments. As part of these studies, the company is evaluating an alternative that would modernize a portion of the kraft pulp mill at Catawba, which was built in 1954. In addition to allowing the company to comply with the new air and water standards, this project would also improve the quality of all products as well as operating efficiencies. This alternative would delay any significant capital spending for environmental compliance until 2002 and generate an attractive financial return on the incremental spending over what would be required just for compliance purposes. The current estimate for this alternative is approximately $200.0 million of which $100.0 million (included in the estimate of $120.0 to $150.0 million) would have been spent to meet the new air and water standards at this mill site.

Other than the aforementioned issues, the company anticipates spending approximately $15.0 million to $20.0 million of capital per year for all its facilities for the foreseeable future to maintain compliance with existing environmental regulations. While it is difficult to predict with certainty the nature of future environmental regulations, the company believes that it will not be at a competitive disadvantage in meeting future U.S., Canadian or Korean standards.

The company is not involved in any proceeding under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, that it believes will result in liabilities that will have a material adverse effect on the company's future cash flow, financial condition or results of operations.

Year 2000 Compliance
Since 1990, the company has reengineered its major internally developed software programs. During this effort, the company examined potential problems arising from the inability of certain application software programs to recognize the year 2000. The company has separated its compliance analysis into three categories.

The first category is business systems. A formal review of all internally developed software was completed in 1997 and systemwide testing was successfully completed during 1998. No major problems were encountered. In July 1998, the company acquired new operations. To achieve business synergies and year

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2000 compliance, the new operations' order fulfillment, order tracking and invoicing processes were migrated to the company's internally developed software programs. In addition, all major third-party licensed application software programs have been reviewed and are either compliant or the licenser has released a compliant version to which the company will migrate by mid-year 1999. The costs associated with these business systems projects are currently estimated to be $4.0 million. As of December 31, 1998, approximately $2.0 million has been spent. The readiness percentage for items in this category is approximately 90 percent as of March 1, 1999.

The second category includes manufacturing process control, manufacturing equipment and systems, safety, environmental and other non-traditional information systems areas. The company currently estimates costs associated with this category to be $5.0 million. As of December 31, 1998, approximately $2.0 million has been spent. The readiness percentage for this category is approximately 84 percent as of March 1, 1999.

The third category is the company's business partners, customers and suppliers. Testing with e-commerce customers is under way. Briefings have been conducted for a number of customers at both mill and customer sites. The company has identified 665 critical suppliers and is actively assessing their year 2000 readiness. As of March 1, 1999, approximately 83 percent of the critical suppliers have responded.

The cost estimates to complete the company's year 2000 projects do not include any internal costs incurred such as payroll costs for the company's information systems group. Although these costs are not separately tracked, the company has devoted a substantial amount of its internal resources to complete these projects.

The company plans to complete all of its major year 2000 compliance work by mid-year 1999 with the exception of two paper machines that are currently expected to become compliant in September 1999 coincident with scheduled maintenance shutdowns. In the event any aspect of the year 2000 program proves to be ineffective in resolving year 2000 compliance issues, the company is developing a contingency plan covering all significant business functions and sites. The company currently expects to complete this plan in October 1999.

The company's year 2000 compliance projects were designed and implemented to prevent an interruption of normal business activities or operations due to a system's inability to recognize the year 2000. Despite these efforts, if a material year 2000 problem does occur internally or with any of the company's significant suppliers or vendors who cannot be replaced, it could materially adversely affect the company's results of operations, liquidity or financial condition.

The following is a cautionary statement for the purposes of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The company is including this statement to take advantage of these provisions for forward looking statements regarding its year 2000 compliance. In its disclosure, the company stated estimated completion dates and costs to complete the project based on assumptions it believes to be reasonable. These estimates and assumptions almost always vary from actual results and the difference between the estimate and the actual result may be material, depending on the circumstances. Although made in good faith, there can be no assurance that the estimates and assumptions will be the actual result achieved or accomplished. Factors that could cause results to differ materially from those expressed in the forward looking statements include (but are not limited to), the ability to verify year 2000 compliance by third parties including suppliers, the ability to locate and correct all relevant computer code and the ability to identify all areas of year 2000 risks.

Adoption of Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard requires a public company to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The company is required to adopt this standard in the first quarter of 2000. The company has not yet assessed the impact this standard will have on its financial condition or results of operations at the time of adoption; however, the impact will ultimately depend on the amount and type of derivative instruments held at the time of adoption.

Historical Reference: Overview

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In 1996, the company operated through three Divisions: the Newsprint, Coated Paper and Pulp and Great Northern Paper Divisions. In 1997, the Great Northern Paper Division was combined with the Newsprint Division and the Forest Products Division was formed. Due to the impracticality of restating and re-analyzing these Divisions on a comparable basis, results of operations for 1997 compared with 1996 are discussed below on a product line basis only.

Results of Operations: 1997 Compared with 1996
The company's operating income was $135.7 million in 1997 on net sales of $1.5 billion, compared to $301.2 million on net sales of $1.7 billion in 1996. Annual average transaction prices for all of the company's products, except market pulp and lumber, were lower in 1997. These lower selling prices accounted for the majority of the operating income decline. Net income for 1997 was $53.7 million, compared to $200.2 million in 1996.

Product Line Information: In general, the company's products are globally traded commodities. Pricing and the level of shipments of these products will continue to be influenced by the balance between supply and demand as affected by global economic conditions, changes in consumption and capacity, the level of customer and producer inventories and fluctuations in exchange rates.

The information provided in the following product line discussions concerning market and industry conditions was obtained from the following sources: the Newspaper Association of America; the Canadian Pulp and Paper Association; the American Forest & Paper Association; and the Media Industry Newsletter. This information is provided to enhance the reader's understanding of the company's financial results and the conditions under which these results were achieved.

Newsprint
In contrast to 1996, conditions in the newsprint market improved throughout 1997. In 1996, newsprint consumption declined as high prices in 1995 caused many newspaper and commercial printers to reduce usage. Lower demand caused prices to decline and producer inventories to increase during 1996. By the end of the year, consumption began to increase, causing a recovery in the newsprint market. This recovery continued throughout 1997 as consumption of newsprint by U.S. daily newspapers and total U.S. newsprint consumption increased compared to 1996. North American newsprint producer inventory levels decreased, while U.S. daily newspapers' newsprint inventory increased slightly at the end of the comparable periods. The newsprint export market experienced a similar recovery. These improved market conditions enabled the company to increase prices in 1997. In March, the company announced a $75 per metric ton domestic price increase, and in October, it announced a $35 per metric ton domestic price increase. The company realized slightly less than the anticipated increases from these announcements. Although the company's average transaction price was 16 percent lower in 1997 compared to 1996, improved market conditions in 1997 led to quarterly average transaction price increases in the second, third and fourth quarters. Shipments were slightly higher comparing 1997 to 1996, while the company's newsprint inventory at the end of 1997 was at its lowest level in the company's history. In January 1998, the company announced a $40 per metric ton domestic price increase effective April 1.

Coated Groundwood
The coated paper market also improved in 1997 compared to 1996, when coated groundwood paper demand declined due to conservation measures and inventory reductions initiated by commercial printers and publishers. During the first quarter of 1997, consumption began to increase and market conditions improved. Comparing the full year of 1997 to 1996, U.S. coated groundwood shipments and magazine ad pages increased while U.S. coated groundwood producer inventory levels decreased. These favorable market conditions allowed the company to increase coated groundwood transaction prices four times. In April 1997, the company increased prices $60 per ton; in July it increased prices between $50 and $80 per ton; in October it increased prices up to $40 per ton; and in January 1998, it increased prices $60 per ton. The realization of these price increases varied, however, according to market segment and the timing of implementation. The company's average transaction price for the second, third and fourth quarters of 1997 was higher than the respective prior quarters. Compared to 1996, the average transaction price for 1997 was 15 percent lower, while shipments increased 11 percent.

Directory Paper
Sales of the company's directory products in 1997 decreased compared to 1996. The company's average transaction price decreased 10 percent compared to 1996, partially offset by an increase in shipments of 8 percent. During 1996, demand decreased in the directory paper market caused by conservation measures initiated by telephone directory publishers, which had the effect of lowering prices. This also affected the company's prices in 1997, since a large portion of the company's sales are based on contracts, the pricing of which was

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determined in 1996. In addition, the company sold more higher priced grades of directory paper in 1996 compared to 1997.

Market Pulp

The pulp market showed signs of improvement in 1997 in comparison to the conditions and pricing that existed in 1996. In 1997, NORSCAN (United States, Canada, Finland, Norway and Sweden) softwood

market pulp shipments increased compared to 1996, while NORSCAN inventory levels decreased at the end of the comparable periods. Beginning in the second quarter of 1997, the company's average transaction price began to improve, and for the full year, it was $34 per metric ton, or 8 percent higher compared to the average transaction price for 1996. Shipments increased 4 percent over 1996 levels. Late in the fourth quarter of 1997, the devaluation of Asian currencies negatively affected pulp pricing, particularly in the export market. The company's market pulp transaction prices and shipments were not materially affected.

Lumber

In the first half of 1997, favorable conditions in the lumber market carried over from 1996, as demand from U.S. housing starts, low producer inventories and strong foreign consumption kept market prices at or above prior year levels. During the balance of 1997, however, prices decreased as supply outpaced demand. In the United States, housing starts totaled 1.4 million in 1997, slightly less than 1996. In addition, a slowdown in the Japanese housing market caused some producers to divert lumber to the U.S. market. The company's average transaction price increased in the first three quarters of 1997 compared to the same 1996 quarters. The company's fourth quarter 1997 average transaction price, however, was 8 percent lower than the fourth quarter of 1996. For the full year of 1997, the company's average transaction price was 10 percent higher than 1996, while shipments were 3 percent higher.

Cost of Sales and Other Income and Expenses: Cost of sales decreased 4 percent in 1997 compared to 1996. This decrease was due to the absence of costs relating to Star Forms (the company's communication papers business, which was sold in November 1996), partially offset by higher costs due to increased shipments in 1997.

Selling and administrative expenses decreased 22 percent comparing 1997 to 1996. This decrease was also due to the absence of expenses relating to Star Forms. In addition, administrative costs in 1996 included the major portion of expense associated with a three-year incentive compensation plan established in 1994.

Interest expense decreased 5 percent in 1997, due to lower average debt balances in 1997 compared to 1996. Interest income increased 2 percent, comparing the same periods, due to higher average investment balances.

In 1997, the company sold 1,000 acres of timberlands, resulting in a pre-tax gain of $0.8 million. In 1996, the company sold 121,000 acres of timberlands, resulting in a pre-tax gain of $81.0 million, and sold Star Forms, resulting in a gain of $17.0 million. The company did not incur any extraordinary charges in 1997. In 1996, the extraordinary charge of $3.9 million, net of taxes of $2.2 million, represented the fees and expenses incurred to retire long-term debt.

Liquidity and Capital Resources: 1997 Compared with 1996

The company's cash, cash equivalents and marketable securities balance at year-end 1997 was $405.5 million, a decrease of $25.2 million from $430.7 million at year-end 1996.

Cash and cash equivalents increased to $228.7 million at year-end 1997, from $85.3 million at year-end 1996, an increase of $143.4 million. The company generated $195.6 million of cash from operations and $72.7 million from investing activities, while it used $124.9 million of cash for financing activities. Significant transactions for the year included: the maturity of $168.6 million of marketable securities, the purchase of 1.6 million shares of the company's common stock at a cost of $66.8 million, the redemption of the remaining 500,000 shares of LIBOR Series A (LIBOR) Preferred Stock for $25.0 million and the payment of cash dividends of $21.2 million to the minority shareholder of Calhoun Newsprint Company (CNC).

Cash from Operating Activities: The company's operations generated $195.6 million of cash in 1997, $140.6 million less than the cash generated from operations in 1996. This decrease was largely the result of lower operating income of $165.5 million due to lower selling prices for most of the company's

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products. Working capital changes, excluding taxes, were unfavorable by $114.1 million. Tax payments in 1997 were $135.7 million lower than in 1996, due to the lower level of income in 1997. In addition, 1996 tax payments included payments for the company's 1995 liability, which it was able to defer for one year.

Cash from Investing Activities: Cash inflow from investing activities in 1997 was $72.7 million versus a cash outflow of $271.7 million in 1996. Capital expenditures in 1997 totaled $99.6 million, slightly less than the $106.9 million spent in 1996. Pre-tax cash proceeds from the disposal of fixed assets, timber

and timberlands totaled $3.7 million in 1997 versus $126.7 million in 1996. In 1996, the company sold 121,000 acres of timberlands for $122.0 million. Also in 1996, the company sold Star Forms resulting in net cash proceeds of $53.9 million. In 1997, the company realized $168.6 million from net maturities of marketable securities, while in 1996, it made net investments of $345.4 million.

Several years ago, the company undertook an initiative to eliminate non-strategic assets, including non-strategic timberland tracts. Since 1993, the company has sold 434,000 acres of timberlands throughout the United States and Canada. This includes the sale of 19,000 acres in January 1998 with gross proceeds of approximately $30.0 million. As of December 31, 1997, the company owned and leased a total of 3.5 million acres of timberlands. Sales of non-strategic timberlands are processed through the company's Forest Products Division.

In September 1997, the company announced its plan to invest approximately $180.0 million over the next two years to modernize its Calhoun, Tennessee, newsprint facility. The plan calls for a new thermomechanical pulp facility, an upgraded woodyard and conversion of an idle recovery boiler. In addition to reducing operating costs, these changes will have a positive environmental impact by burning a variety of waste products that would otherwise be sent to landfills.

In January 1998, the company announced its plan to invest approximately $220.0 million to modernize its East Millinocket, Maine, pulp and paper mill. The plan encompasses a new thermomechanical pulp mill facility, modernization of two paper machines, which produce newsprint and directory paper, and other improvements to the site's energy and electrical systems. Although the project will not increase the company's papermaking capacity, it is expected to reduce operating costs and improve productivity. Construction is anticipated to begin in early 1999 and take up to two years to complete. The company also announced its intention to seek a buyer for its Millinocket, Maine, paper mill, which includes four paper machines and related assets. This facility no longer meets the company's long-term objectives.

The company anticipates capital spending of approximately $250.0 million in 1998, which includes approximately $100.0 million for the Calhoun modernization.

In 1998, the company completed negotiations for the acquisitions of Avenor Inc., an international forest products company, and a South Korean newsprint mill owned by Halla Pulp & Paper Co. Ltd. The acquisition of these operations is discussed in this document under the heading "Acquisitions/Dispositions."

CASH FROM FINANCING ACTIVITIES: Cash flow used for financing activities was $124.9 million in 1997, $118.9 million lower than the amount spent in 1996. In 1997, the company's cash dividends were $12.9 million lower due to reduced dividend payments to the minority shareholder of CNC. The company also paid lower preferred stock dividends due to the conversion of the company's 7 percent PRIDES Series B Convertible Preferred Stock ("PRIDES") into common stock and the redemption of the company's remaining shares of LIBOR Preferred Stock. In 1997, the company used $1.8 million for current payments on long-term debt obligations, while in 1996 it used $63.5 million to repurchase and extinguish outstanding debt in addition to normal long-term debt payments. Common stock repurchases were also lower in 1997 by $32.0 million, while the company received an additional $12.2 million from the exercise of stock options in 1997 compared to 1996.

In January 1997, the company converted all of its PRIDES, resulting in the issuance of 4,012,765 common shares, which was reflected in the Consolidated Balance Sheet on December 31, 1996.

In February 1997, the company completed the repurchase of approximately 10 percent of its outstanding common stock, purchasing 4,000,000 shares at a cost of $156.0 million, as part of a previously announced stock repurchase program. During January and February 1997, the company purchased 1,400,000 common shares at a cost of $57.2 million. In November 1997, the company announced a new stock repurchase program, authorizing it to purchase up to 10 percent of the company's

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outstanding common stock in the open market, subject to normal trading restrictions. In December 1997, the company purchased 220,000 shares under the new program at a total cost of $9.6 million.

In May 1997, the company redeemed for $25.0 million the remaining 500,000 outstanding shares of LIBOR Preferred Stock at its par value of $50 per share, plus accrued and unpaid dividends.

In January 1998, the Board of Directors of CNC declared a $31.4 million dividend. As a result, $15.4 million was paid to the minority shareholder of CNC in February 1998.

CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

(In millions, except per-share amounts) Years ended December 31,	1998	1997	1996
<S>	<C>	<C>	<C>
Sales	$ 2,142.7	$ 1,598.9	$ 1,839.2
Distribution costs	147.7	114.4	120.9
Net sales	1,995.0	1,484.5	1,718.3
Cost of sales	1,422.2	1,106.8	1,149.6
Depreciation, amortization and cost of timber harvested	229.6	169.8	174.4
Impairment of assets	119.6	--	--
Gross profit	223.6	207.9	394.3
Selling and administrative expense	81.4	72.2	93.1
Operating income	142.2	135.7	301.2
Other expense (income):			
Interest income	(17.5)	(21.6)	(21.1)
Interest expense, net of capitalized interest	98.4	67.5	71.3
Gain on sale of timberlands	(21.1)	(0.8)	(81.0)
Other, net	65.6	1.1	(21.2)
Income before income taxes, minority interests and extraordinary charge	16.8	89.5	353.2
Provision for income tax expense	27.1	33.1	124.4
Minority interests in net income of subsidiaries	8.2	2.7	24.7
Income (loss) before extraordinary charge	(18.5)	53.7	204.1
Extraordinary charge from early extinguishment of debt, net of income tax benefit of $2.2 in 1996	--	--	(3.9)
Net income (loss)	(18.5)	53.7	200.2
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(4.1)	(2.5)	(0.3)
Minimum pension liability adjustments, net of taxes of $6.0, $0.4 and $(0.7), respectively	(9.3)	(0.6)	1.0
Comprehensive income (loss)	$ (31.9)	$ 50.6	$ 200.9
Earnings per share:			
Basic earnings per common share:			
Income (loss) before extraordinary charge	$ (0.44)	$ 1.26	$ 5.07
Extraordinary charge	--	--	(0.10)
Net income (loss)	$ (0.44)	$ 1.26	$ 4.97
Average common shares outstanding	47.6	40.3	37.7
Diluted earnings per common share:			
Income (loss) before extraordinary charge	$ (0.44)	$ 1.25	$ 4.64
Extraordinary charge	--	--	(0.09)
Net income (loss)	$ (0.44)	$ 1.25	$ 4.55
Average common and common equivalent shares outstanding	47.6	40.8	42.9

</TABLE>

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See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(In millions, except share amounts) At December 31,	1998	1997
Assets		
Current assets:		
Cash and cash equivalents	$ 58.3	$ 228.7
Marketable securities	1.2	176.8
Accounts receivable, net	372.4	190.6
Inventories	186.3	105.5
Other current assets	77.2	16.8
Total current assets	695.4	718.4
Timber and timberlands	472.8	394.0
Fixed assets, net	2,885.2	1,554.5
Goodwill	921.7	--
Other assets	116.3	78.9
Total assets	$5,091.4	$2,745.8
Liabilities and shareholders' equity		
Current liabilities:		
Current installments of long-term debt	$ 86.2	$ 1.8
Revolver credit	210.0	--
Accounts payable and accrued liabilities	464.4	168.3
Income taxes payable	--	15.9
Dividends payable	11.9	8.7
Total current liabilities	772.5	194.7
Long-term debt, net of current installments	1,534.6	757.1
Other long-term liabilities	356.3	169.5
Deferred income taxes	522.2	345.1
Minority interests in subsidiaries	128.8	125.2
Commitments and contingencies (See note 15)	--	--
Shareholders' equity:		
Cumulative preferred stock, $1 par value. Issued, 8.40% Series C, 264,318 shares (liquidation value $26.4)	25.5	25.5
Common stock, $1 par value. Authorized 100,000,000 shares; issued 58,981,998 and 44,927,890 shares at December 31, 1998 and 1997, respectively	59.0	44.9
Exchangeable shares, no par value. Unlimited shares authorized; outstanding and held by non-affiliates, 2,270,525 at December 31, 1998	110.8	--
Additional paid-in capital	1,230.2	563.1
Retained earnings	657.4	717.0
Accumulated other comprehensive income (loss)	(28.9)	(15.5)
Loan to ESOT	(2.6)	(4.5)
Treasury stock at cost, 7,046,397 and 4,606,785 shares at December 31, 1998 and 1997, respectively	(274.4)	(176.3)
Total shareholders' equity	1,777.0	1,154.2
Total liabilities and shareholders' equity	$5,091.4	$2,745.8

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CAPITAL ACCOUNTS

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(In millions, except per-share amounts)	LIBOR Preferred Stock	Series B Convertible Preferred Stock
Balance at December 31, 1995	$ 49.6	$ 111.3
Net income	--	--
Dividends on:		
Common ($0.80 per share)	--	--
LIBOR ($2.42 per share)	--	--
Series B ($6.58 per share)	--	--
Series C ($8.40 per share)	--	--
Increase in stated value of LIBOR preferred stock	0.1	--
Reduction in loan to ESOT	--	--
Foreign currency translation	--	--
Stock options exercised	--	--
Tax benefit on exercise of stock options	--	--
Partial redemption of LIBOR preferred stock	(25.0)	--
Conversion of Series B preferred into common stock	--	(111.3)
Pension plan additional minimum liability, net of taxes of $0.7	--	--
Purchase of common stock	--	--
Use of treasury stock	--	--
Balance at December 31, 1996	$ 24.7	$ --
Net income	--	--
Dividends on:		
Common ($0.80 per share)	--	--
LIBOR ($0.79 per share)	--	--
Series C ($8.40 per share)	--	--
Increase in stated value of LIBOR preferred stock	0.3	--
Reduction in loan to ESOT	--	--
Foreign currency translation	--	--
Stock options exercised	--	--
Tax benefit on exercise of stock options	--	--
Redemption of LIBOR preferred stock	(25.0)	--
Pension plan additional minimum liability, net of tax benefit of $0.4	--	--
Purchase of common stock	--	--
Balance at December 31, 1997	$ --	$ --
Net loss	--	--
New issuance of stock	--	--
Retraction of Exchangeable shares	--	--
Debt conversions to Exchangeable shares	--	--
Dividends on:		
Common ($0.80 per share)	--	--
Series C ($8.40 per share)	--	--
Reduction in loan to ESOT	--	--
Foreign currency translation	--	--
Stock options exercised	--	--
Tax benefit on exercise of stock options	--	--
Pension plan additional minimum liability, net of tax benefit of $6.0	--	--
Purchase of common stock	--	--
Balance at December 31, 1998	$ --	$ --

</TABLE>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CAPITAL ACCOUNTS

<TABLE>
<CAPTION>

Series C Cumulative Preferred Stock	Common Stock	Exchangeable Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Loan to ESOT	Treasury Stock
$ 25.5	$ 39.5	$ --	$ 410.0	$ 541.2	$ (13.1)	$ (8.0)	$ (10.9)
--	--	--	--	200.2	--	--	--
--	--	--	--	(30.1)	--	--	--
--	--	--	--	(2.5)	--	--	--

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--	--	--	--	(8.1)	--	--	--
--	--	--	--	(2.2)	--	--	--
--	--	--	--	(0.1)	--	--	--
--	--	--	--	--	--	1.7	--
--	--	--	--	--	(0.3)	--	--
--	0.5	--	11.8	--	--	--	--
--	--	--	2.4	--	--	--	--
--	--	--	--	--	--	--	--
--	4.0		107.3	--	--	--	--
--	--	--	--	--	1.0	--	--
--	--	--	--	--	--	--	(98.8)
--	--	--	0.1	--	--	--	0.2
$ 25.5	$ 44.0	$ --	$ 531.6	$ 698.4	$ (12.4)	$ (6.3)	$ (109.5)
--	--	--	--	53.7	--	--	--
--	--	--	--	(32.2)	--	--	--
--	--	--	--	(0.4)	--	--	--
--	--	--	--	(2.2)	--	--	--
--	--	--	--	(0.3)	--	--	--
--	--	--	--	--	--	1.8	--
--	--	--	--	--	(2.5)	--	--
--	0.9	--	23.6	--	--	--	--
--	--	--	7.9	--	--	--	--
--	--	--	--	--	--	--	--
--	--	--	--	--	(0.6)	--	--
--	--	--	--	--	--	--	(66.8)
$ 25.5	$ 44.9	$ --	$ 563.1	$ 717.0	$ (15.5)	$ (4.5)	$ (176.3)
--	--	--	--	(18.5)	--	--	--
--	12.3	183.6	586.4	--	--	--	--
--	1.5	(73.1)	71.6	--	--	--	--
--	--	0.3	--	--	--	--	--
--	--	--	--	(38.9)	--	--	--
--	--	--	--	(2.2)	--	--	--
--	--	--	--	--	--	1.9	--
--	--	--	--	--	(4.1)	--	--
--	0.3	--	6.5	--	--	--	--
--	--	--	2.6	--	--	--	--
--	--	--	--	--	(9.3)	--	--
--	--	--	--	--	--	--	(98.1)
$ 25.5	$ 59.0	$ 110.8	$1,230.2	$ 657.4	$ (28.9)	$ (2.6)	$ (274.4)

</TABLE>

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

(In millions) Years ended December 31,	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	$(18.5)	$ 53.7	$200.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and cost of timber harvested	229.6	169.8	174.4
Deferred income taxes	(33.3)	(3.3)	36.9
Minority interests in net income of subsidiaries	8.2	2.7	24.7
Gain on sale of timberlands	(21.1)	(0.8)	(81.0)
Gain on sale of Star Forms	--	--	(17.0)
Write-down of assets due to impairment	119.6	--	--
Write-down of option contracts	22.7	--	--
Reserve for long-term note receivable	15.0	--	--
Extraordinary charge, net of taxes	--	--	3.9
Changes in working capital:			
Accounts receivable, net	5.2	(4.9)	39.9
Inventories	13.8	18.2	13.9
Accounts payable and accrued liabilities	(39.9)	(42.7)	30.9
Income taxes payable	(27.9)	6.1	(78.6)
Other, net	0.7	(3.2)	(12.0)
Net cash from operating activities	274.1	195.6	336.2
Cash flows from investing activities:			
Acquisition of Avenor, net of cash acquired of $118.0	(675.0)	--	--

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Acquisition of South Korean newsprint mill	(201.0)	--	--
Cash invested in fixed assets, timber and timberlands	(223.2)	(99.6)	(106.9)
Disposition of fixed assets, timber and timberlands	33.8	3.7	126.7
Disposition of Dryden white paper mill	532.5	--	--
Disposition of Star Forms	--	--	53.9
Cash invested in option contracts	(22.7)	--	--
Cash paid on maturity of hedging contracts	(27.9)	--	--
Cash invested in marketable securities	(41.9)	(291.0)	(797.7)
Cash from maturity of marketable securities	217.4	459.6	452.3
Net cash from (used for) investing activities	(408.0)	72.7	(271.7)
Cash flows from financing activities:			
Cash dividends, including minority interests	(62.1)	(57.6)	(70.5)
Purchase of common stock	(98.1)	(66.8)	(98.8)
Short-term financing	766.3	--	--
Short-term financing repayments	(560.0)	--	--
Purchases/payments of long-term debt	(91.1)	(1.8)	(63.5)
Stock options exercised	6.8	24.5	12.3
Redemption of LIBOR preferred stock	--	(25.0)	(25.0)
Other	1.7	1.8	1.7
Net cash used for financing activities	(36.5)	(124.9)	(243.8)
Net increase (decrease) in cash and cash equivalents	(170.4)	143.4	(179.3)
Cash and cash equivalents:			
Beginning of year	228.7	85.3	264.6
End of year	$ 58.3	$228.7	$ 85.3
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	$(82.1)	$(66.5)	$(72.6)
Income taxes	$(63.2)	$(30.3)	$(166.0)

</TABLE>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Bowater Incorporated and Subsidiaries (the company). These financial statements are expressed in U.S. dollars except where noted, and have been prepared in accordance with accounting principles generally accepted in the United States. All consolidated subsidiaries are wholly owned with the exception of the following:

<TABLE>
<CAPTION>

<S>	Percent Ownership <C>
Avenor Maritimes Inc.	67
Calhoun Newsprint Company (CNC)	51
Bowater Mersey Paper Company, Ltd. (Mersey)	51

</TABLE>

All significant intercompany transactions and balances have been eliminated.

The company also has a 40 percent interest in an unconsolidated subsidiary, Ponderay Newsprint Company, which is accounted for using the equity method.

CASH EQUIVALENTS

Cash equivalents generally consist of direct obligations of the United States and Canadian governments and their agencies, investment-grade commercial paper, auction-rate preferred stock, tax-exempt municipal bonds and other short-term investment-grade securities with original maturities of three months or less. These investments are stated at cost, which approximates market value.

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MARKETABLE SECURITIES

Marketable securities generally consist of direct obligations of the United States and Canadian governments and their agencies, investment-grade commercial paper, auction-rate preferred stock, tax-exempt municipal bonds and other short-term investment-grade securities with original maturities of greater than three months but less than one year. These investments are considered to be held-to-maturity securities and are therefore stated at cost which approximates market value.

DERIVATIVE FINANCIAL INSTRUMENTS

The company manages certain foreign currency risks and interest rate risks through the use of derivative financial instruments, which may include forward exchange contracts, currency options and interest rate swaps. For derivative instruments designated as hedges and having a high correlation with the underlying exposures, gains and losses from changes in derivative fair values are deferred. Gains or losses upon settlement of derivative positions when the underlying transaction occurs are recognized in the Consolidated Statement of Operations. For derivative instruments lacking high correlation characteristics necessary to qualify as hedges, gains and losses from changes in derivative fair values are recognized in the Consolidated Statement of Operations upon remeasurement at the close of each reporting period. Amounts receivable or payable from derivative financial instruments would be reported as "Other assets," or "Accounts payable and accrued liabilities" and "Other long-term liabilities" in the Consolidated Balance Sheet. The company's derivatives have various terms, none of which exceeds three years. The company does not use derivatives for trading purposes.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined by using the average cost and last-in, first-out (LIFO) methods.

TIMBER AND TIMBERLANDS

The acquisition cost of land and timber as well as real estate taxes, lease payments, site preparation and other costs related to the planting and growing of timber are capitalized. Such costs, excluding land, are charged against revenue at the time the timber is harvested.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed generally on the straight-line basis. Repairs and maintenance are charged to operations as incurred.

IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

The company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of." This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

GOODWILL

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over 40 years, which is the expected period to be benefited. The company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the company's average cost of funds.

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INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statement of Operations in the period that includes the enactment date. The company has not provided income taxes on the undistributed earnings of certain of its subsidiaries, as it has specific plans for reinvestment of such earnings.

FOREIGN OPERATIONS

Financial statements of the majority of the company's Canadian and South Korean operations are prepared using the U.S. dollar as its functional currency. Gains and losses from non-U.S. dollar foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are reported in the Consolidated Statement of Operations.

Translation of other foreign operations to U.S. dollars occurs using the current exchange rate for balance sheet accounts and an average exchange rate for results of operations. Translation gains or losses are recognized as a component of equity in "Accumulated other comprehensive income (loss)."

STOCK OPTIONS

The company records stock option compensation on an intrinsic value basis in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." The company also provides pro forma disclosures of stock option compensation recorded on a fair value basis in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation."

PENSION, SAVINGS AND OTHER POSTRETIREMENT PLANS

On January 1, 1998, the company adopted SFAS No. 132, "Employers' Disclosure about Pension and Other Postretirement Benefits." SFAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans. SFAS No. 132 does not change the method of accounting for such plans.

The company has contributory and noncontributory pension plans that cover substantially all employees. The company's cash contributions to the plans are sufficient to provide pension benefits to participants and meet the funding requirements of ERISA. The company also sponsors defined benefit health care and life insurance plans for substantially all retirees. Net periodic costs are recognized as employees render the services necessary to earn postretirement benefits.

In addition to the pension plans, the company sponsors savings plans for substantially all employees. Contributions by the company to these defined contribution plans are expensed as incurred.

COMPREHENSIVE INCOME (LOSS)

On January 1, 1998, the company adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for the reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income (loss) consists of net income (loss), foreign currency translation adjustments and pension plan additional minimum liability adjustments and is presented in the Consolidated Statement of Operations. The statement requires additional disclosures in the consolidated financial statements, and it does not affect the company's financial position or results of operations. Prior year financial statements have been reclassified to conform to the requirements of SFAS No. 130.

REVENUE RECOGNITION

The company recognizes revenue from product sales upon shipment to its customers or when customers assume risk of ownership.

BASIC AND DILUTED EARNINGS PER SHARE

The company calculates earnings per share in accordance with SFAS No. 128, "Earnings Per Share." This statement requires the presentation of basic and diluted earnings per common share. Basic earnings per common share is calculated assuming no dilution. Diluted earnings per common share is computed using the weighted average number of outstanding common shares adjusted for the incremental shares attributed to common share equivalents (stock options and convertible debt).

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ENVIRONMENTAL COSTS

The company expenses environmental costs related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible. Expenditures that extend the life of the related property are capitalized. The company determines its liability on a site-by-site basis and records a liability at the time when it is probable and can be reasonably estimated.

SEGMENT INFORMATION

On January 1, 1998, the company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement changed the way the company reports information about its operating segments. 1997 information has been restated to conform with SFAS No. 131.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

2 Acquisitions

On July 24, 1998, the company completed its acquisition of Avenor Inc. (Avenor), a Canadian pulp and paper company. The total purchase price, including assumed debt of approximately $800.0 million, totaled $2.37 billion (C$3.54 billion). The company utilized existing cash reserves of $168.0 million and $625.0 million of its new $1.0 billion credit facility to fund the cash portion of the transaction. The company also issued 12.3 million common shares, and its indirect wholly owned subsidiary, Bowater Canada Inc., issued 3.8 million Exchangeable shares to fund the equity portion of the transaction. At the option of the holder, the Exchangeable shares may be exchanged for Bowater common stock on a one-for-one basis. The company accounted for the transaction using the purchase method of accounting. Accordingly, the assets and liabilities of the acquired business were included in the Consolidated Balance Sheet at December 31, 1998. In addition, the operating results of Avenor for the period July 24, 1998 to December 31, 1998 were included in the company's Consolidated Statement of Operations for the period ended December 31, 1998.

The purchase price to Avenor shareholders of $1,575.2 million was as follows:

(In millions)	1998
Cash from cash and cash equivalents	$ 168.0
Proceeds from $1.0 billion short-term credit facility	625.0
Issuance of 12.3 million Bowater shares at $48.66 per share	598.6
Issuance of 3.8 million Exchangeable shares exchangeable into Bowater shares at $48.66 per share	183.6
	$ 1,575.2

The purchase price to Avenor shareholders, plus transaction costs and other accrued liabilities, the excess of fair value of liabilities assumed over the historical book value and the deferred tax effect of applying purchase accounting at July 24, 1998, over the historical net assets of Avenor was calculated as follows:

(In millions)	1998
Purchase price to Avenor shareholders	$ 1,575.2
Estimated transaction costs	30.0

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Additional accrued liabilities	124.7
Excess of fair value of long-term debt assumed over historical value	154.3
Excess of fair value of convertible debt over historical value	52.2
Deferred tax effect of applying purchase accounting	134.9
Less historical net assets	(539.3)
	$ 1,532.0

</TABLE>

The above calculation of excess purchase price is preliminary. The company will finalize this allocation by July 24, 1999. As of July 24, 1998, the excess purchase price was allocated as follows:

<TABLE>
<CAPTION>

(In millions)	1998
<S>	<C>
Timber and timberlands	$ 75.0
Fixed assets	425.0
Assets held for sale	100.5
Goodwill	931.5
	$ 1,532.0

</TABLE>

The timber and timberlands and fixed assets are being amortized/depreciated over 20 years. The goodwill is being amortized on a straight-line basis over 40 years. Additional depreciation on the increase to fair market value of fixed assets acquired, the amortization of goodwill, the amortization of the increase to the fair market value of debt assumed, and the amortization of the deferred tax benefit relating to these charges totaled $13.4 million through December 31, 1998.

On September 30, 1998, the company completed the sale of its Dryden white paper mill and related assets, which were part of the Avenor acquisition, for $532.5 million. Upon acquisition, the Dryden assets were accounted for as assets held for sale. Therefore, no gain or loss was recorded upon the sale of such assets.

In October 1998, the company announced that its Gold River pulp mill, which was acquired as part of the Avenor acquisition, would be permanently closed in the first quarter of 1999. The costs associated with closing this facility totaled $40.0 million after-tax, and were recorded as an adjustment to the cost of the acquisition by increasing goodwill. These costs included asset impairment charges, employee termination and other costs. As of December 31, 1998, $1.5 million has been paid.

Also, on July 16, 1998, the company completed the purchase of a South Korean newsprint mill for approximately $201.0 million and prepaid a majority of the current accounts payable for approximately $22.0 million. The company utilized its existing cash reserves to fund the acquisition. The investment was recorded at cost.

The following summarized unaudited pro forma financial information assumes the acquisitions and divestiture had occurred on January 1 of each of the following years:

Pro Forma Information
(Unaudited)

<TABLE>
<CAPTION>

(In millions, except per-share amounts) Years Ended December 31,	1998	1997
<S>	<C>	<C>
Net sales	$ 2,509.2	$ 2,661.4
Net loss	$ (109.5)	$ (195.5)
Diluted loss per share	$ (2.00)	$ (3.36)

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</TABLE>

3 Impairment Of Assets

In January 1998, the company announced a capital investment program of approximately $220.0 million at its Great Northern Paper (GNP) East Millinocket site to transform that site into a world-class mill. Concurrent with the decision to invest capital in the East Millinocket mill, the company also decided that the GNP Millinocket mill no longer met the company's long-term objectives, and it was put up for sale along with related assets, which could have also included timberlands. After this announcement, the company received unsolicited offers to buy all of its Great Northern Paper assets. In October 1998, the company reconfirmed that it would proceed with the previously announced capital investment program at the East Millinocket site and that the Millinocket site was still available for sale. Also in October, the company announced that it would separately pursue monetization of timberland holdings in Maine. This change prompted a re-evaluation of the assets at the Millinocket mill in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets." The company determined fair value using undiscounted future cash flows. Accordingly, in the third quarter of 1998, the company recorded a pre-tax impairment charge in its newsprint segment totaling $119.6 million consisting of a write-down of fixed assets of $108.8 million, a mill stores inventory reserve of $7.0 million and an increase to other long-term liabilities of $3.8 million.

4 Sales of Real Property

In the first quarter of 1998, the company sold 26,000 acres of timberlands primarily in South Carolina for gross proceeds of $30.9 million. The company realized a pre-tax gain of $21.1 million, or $0.16 per diluted share, after tax and minority interest.

In October and November 1998, the company announced agreements to sell approximately 1.6 million acres of timberlands and a sawmill in Maine, for $370.0 million. The company expects to close these transactions during the first quarter of 1999.

During 1997, the company sold 1,000 acres of timberlands, primarily in North and South Carolina. The proceeds from these sales were $1.3 million, resulting in a pre-tax gain of $0.8 million, or $0.01 per diluted share, after tax and minority interest. In 1996, the company sold 121,000 acres of timberlands, primarily in Alabama, South Carolina and Maine. The proceeds from these sales were $121.8 million, resulting in a pre-tax gain of $81.0 million, or $0.94 per diluted share, after tax and minority interest.

5 Other Expense (Income)

Other expense (income) includes non-operating items such as foreign exchange gains and losses, and other non-operating expense and income items. The breakdown of the components of "Other, net" in the Consolidated Statement of Operations for the three years ended December 31, 1998, 1997 and 1996 is as follows:

<TABLE>
<CAPTION>

(In millions)	1998	1997	1996
<S>	<C>	<C>	<C>
Foreign exchange loss (gain)	$ 29.7	$ 2.1	$ (0.1)
Write-down of Canadian option dollar contracts to fair value	22.7	--	--
Reserve for a long-term note receivable	15.0	--	--
Gain on sale of Star Forms	--	--	(17.0)
Other	(1.8)	(1.0)	(4.1)
	$ 65.6	$ 1.1	$ (21.2)

</TABLE>

In November 1996, the company completed the sale of Star Forms for $80.0 million, including $60.0 million in cash and a $20.0 million 13% Junior Subordinated Note. The company recognized a gain on the sale of $17.0 million,

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or $0.40 per diluted share. Net cash proceeds totaled $53.9 million after working capital adjustments and fees and expenses relating to the sale. The $20.0 million 13% Junior Subordinated Note requires semi-annual interest payments and four $5.0 million annual principal payments beginning in 2002. During 1998, the company recorded a reserve of $15.0 million against the Note. The Note was fully reserved as of December 31, 1998.

6 Earnings Per Share

The company adopted SFAS No. 128, "Earnings per Share," in December 1997, which replaces the presentation of primary earnings per common share with basic earnings per common share. Basic earnings per common share is calculated assuming no dilution. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The reconciliation between basic and diluted earnings per common share for "Income (loss) before extraordinary charge" is as follows:

(In millions, except per-share amounts)	1998	1997	1996
Basic computation:			
Income (loss) before extraordinary charge	$ (18.5)	$ 53.7	$ 204.1
Less:			
LIBOR dividends	--	(0.4)	(2.5)
Series B dividends	--	--	(8.1)
Series C dividends	(2.2)	(2.2)	(2.2)
LIBOR accretion	--	(0.3)	(0.1)
Basic income (loss) available to common shareholders	$ (20.7)	$ 50.8	$ 191.2
Basic weighted average shares outstanding	47.6	40.3	37.7
Basic earnings (loss) per common share	$ (0.44)	$ 1.26	$ 5.07
Diluted computation:			
Basic income (loss) available to common shareholders	$ (20.7)	$ 50.8	$ 191.2
Effect of dilutive securities:			
Series B dividends	--	--	8.1
Diluted income (loss) available to common shareholders	$ (20.7)	$ 50.8	$ 199.3
Basic weighted average shares outstanding	47.6	40.3	37.7
Effect of dilutive securities:			
Series B convertible preferred stock (1)	--	--	4.7
Options (2)	--	0.5	0.5
Diluted weighted average shares outstanding	47.6	40.8	42.9
Diluted earnings (loss) per common share	$ (0.44)	$ 1.25	$ 4.64

(1) In the interim period of 1996, a one-for-one conversion factor was assumed in computing the common stock equivalents related to the Series B convertible preferred stock. The shares were actually

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converted at a factor of .82 to 1 in December 1996.

(2) The dilutive effect of options outstanding is computed using the treasury stock method.

Due to the net loss incurred for the year ended December 31, 1998, all common stock equivalents were excluded to prevent antidilution. Included in the common stock equivalents at December 31, 1998, were Exchangeable shares that the company issued on February 15, 1999, due to the redemption of its 7.50% Convertible Unsecured Subordinated Debentures. In 1997, all options were included in the calculation of diluted earnings per share. Options to purchase 69,800 shares at approximately $38 were outstanding at December 31, 1996, but were not included in the computation of diluted earnings per common share because the options' exercise price was greater than the average market price of the common shares.

7 Inventories

(In millions)	1998	1997
At lower of cost or market:		
Raw materials	$ 39.5	$ 15.2
Work in process	3.8	3.1
Finished goods	56.8	33.2
Mill stores and other supplies	95.6	64.1
	195.7	115.6
Excess of current cost over LIFO inventory value	(9.4)	(10.1)
	$186.3	$105.5

Inventories valued using the LIFO method comprised 16.4 percent and 33.8 percent, respectively, of total inventories at December 31, 1998 and 1997.

8 Fixed Assets

(In millions)	1998	1997	Range of Estimated Useful Lives in Years
Land and land improvements	$ 61.8	$ 33.0	10-20
Buildings	364.7	286.4	20-40
Machinery and equipment	4,040.1	2,713.5	5-20
Leasehold improvements	4.1	2.6	10-20
Construction in progress	131.4	24.1	--
	4,602.1	3,059.6	
Less accumulated depreciation and amortization	1,716.9	1,505.1	
	$ 2,885.2	$ 1,554.5	

9 Accounts Payable and Accrued Liabilities

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The following table summarizes the balances in "Accounts payable and accrued liabilities" as of December 31, 1998 and 1997:

<TABLE>
<CAPTION>

(In millions)	1998	1997
<S>	<C>	<C>
Trade accounts payable	$ 196.4	$ 78.6
Payroll, bonuses and severance	65.2	29.3
Unrealized losses on hedging contracts	54.3	--
Restructuring costs(1)	43.4	--
Employee benefits	27.0	23.8
Accrued interest	25.0	16.6
Property and franchise taxes payable	11.1	12.4
Other	42.0	7.6
	$ 464.4	$ 168.3

</TABLE>

(1) In connection with the acquisition of Avenor, costs were established for exiting activities at the company's Gold River mill as well as other sales and administrative offices. These reserves of $63.4 million covered expenses associated with payroll, severance, pensions and other costs. As of December 31, 1998, $10.4 million was paid. Of the remaining balance of $53.0 million, $43.4 million is included in "Accounts payable and accrued liabilities," and $9.6 million is included in "Other long-term liabilities" in the Consolidated Balance Sheet at December 31, 1998.

10 Long-term Debt, Net of Current Installments

In connection with the purchase of Avenor in July 1998, the company assumed approximately $800.0 million of debt. As required in the purchase accounting for this transaction, the company recorded the debt at fair value using current interest rate assumptions as of the acquisition date. The revaluation component of the outstanding debt balance is being amortized over the remaining life of the related debt securities. The following table sets forth both the historical and revalued debt balances as of December 31, 1998 and 1997:

<TABLE>
<CAPTION>

(In millions)	1998			1997
	Historical values	Revaluation due to Avenor acquisition, net of amortization	Revalued balances	Historical values
<S>	<C>	<C>	<C>	<C>
Unsecured:				
9.00% Debentures due 2009	$ 250.0	$ --	$ 250.0	$ 250.0
9.38% Debentures due 2021, net of unamortized discount of $1.1 in 1998 and $1.2 in 1997	198.8	--	198.8	198.8
10.62% Notes due 2010	98.0	32.3	130.3	--
10.50% Notes due at various dates from 2001 to 2010	102.0	25.1	127.1	--
9.50% Debentures due in 2012, net of unamortized discount of $0.3 in 1998 and $0.3 in 1997	124.7	--	124.7	124.7
10.85% Debentures due 2014	81.5	34.5	116.0	--
9.25% Debentures due 2002	92.1	9.6	101.7	--
9.86% Notes due 2001	87.2	8.0	95.2	--
10.60% Notes due 2011	70.0	23.5	93.5	--
7.50% Convertible Subordinated Debentures	40.4	28.3	68.7	--
7.75% recycling facilities revenue bonds due 2022	62.0	--	62.0	62.0
7.40% recycling facilities revenue bonds due 2022	39.5	--	39.5	39.5
7.62% recycling facilities revenue bonds due 2016	30.0	--	30.0	30.0
10.26% Notes due at various dates from 2001 to 2011	22.0	5.5	27.5	--
Pollution control revenue bonds due at various dates from 2001 to 2010 with interest at varying rates from 6.85% to 7.62%	23.3	--	23.3	23.3
8.50% Notes due 2001	18.1	--	18.1	18.1

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Bank term loan at floating rates due 2000-2001	15.2	--	15.2	--
10.25% Debenture due 2003	7.4	--	7.4	--
11.00% subordinated debt due 2003	3.9	--	3.9	--
ESOT Note due 2000	0.9	--	0.9	2.8
8.25% Notes due 1999	--	--	--	7.9
Other	0.8	--	0.8	--
	$ 1,367.8	$ 166.8	$1,534.6	$ 757.1

</TABLE>

Long-term debt maturities for the next five years are as follows:

<TABLE>
<CAPTION>

(In millions)	
<S>	<C>
1999	$ 86.2
2000	$ 5.7
2001	$ 136.8
2002	$ 104.5
2003	$ 23.6

</TABLE>

In 1998, the company entered into a new $1.0 billion syndicated credit facility. This facility replaces the company's previous $150.0 million facility, and consists of two separate components: i) a $650.0 million, 364-day facility; and ii) a $350.0 million, five-year facility. Borrowings under the facility will incur interest based, at the option of the company, on specified market interest rates plus a margin tied to the credit rating of the company's long-term debt. The $210.0 million balance outstanding on the facility at December 31, 1998, has been classified as a current liability in the Consolidated Balance Sheet as management intends to repay this debt during 1999.

During 1998, the company repaid approximately $65.0 million of the $72.0 million principal amount of its 10.25% Debentures due 2003. The cash price paid was approximately $75.9 million, including premium and accrued interest. In February 1999, the company redeemed all of its outstanding 7.50% Convertible Unsecured Subordinated Debentures due 2004. In connection with the redemption, the company paid cash of approximately $65.9 million, and Bowater Canada Inc. issued 1,359,620 Exchangeable shares.

The company has guaranteed payment of debt related to its unconsolidated subsidiary of up to $50.0 million.

During 1996, the company repurchased approximately $50.0 million of its $300.0 million 9.00% Debentures due 2009 and $5.0 million of other long-term obligations. This resulted in an extraordinary charge of $3.9 million after tax, or $0.09 per diluted share for premium and expenses related to the repurchases.

11 Financial Instruments

At December 31, 1998, the company had foreign currency forward and range forward contracts with a notional value of $1.3 billion maturing from 1999 through 2001. The notional amount of these contracts represents the amount of foreign currencies to be purchased or sold at maturity, and does not represent the company's exposure on these contracts. The majority of these contracts were acquired in July 1998 with the acquisition of Avenor. The contracts serve as economic hedges against the company's Canadian operations; however, because the costs hedged are not firm commitments, these contracts are marked to market, with gains and losses recognized in the Consolidated Statement of Operations. For contracts that meet the requirements for hedge accounting, the gains and losses are deferred and recognized as a part of the hedged transaction.

The company also acquired with the Avenor purchase an interest rate swap agreement that matures in 1999. This instrument no longer hedges an exposure to the company and therefore has been recorded in the Consolidated Balance Sheet at its fair value.

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The carrying amounts of the company's short-term financial assets and liabilities (excluding derivatives) approximate fair value. The company estimates the fair value of its long-term debt using rates currently available for debt with similar terms and remaining maturities. The fair value of derivative financial instruments is based on current termination values or quoted market prices of comparable contracts. A summary of the company's derivative financial instruments and long-term debt at December 31, 1998 and 1997 follows:

<TABLE>
<CAPTION>

	1998			1997		
		Asset (Liability)			Asset (Liability)	
(In millions)	Notional Amount of Derivatives	Carrying Amount	Fair Value	Notional Amount of Derivatives	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Foreign currency exchange agreements and options:						
Buy currency:						
Canadian dollar	$ 1,287.9	$ (105.1)	$(105.1)	$ --	$ --	$ --
Sell currency:						
British pound	1.9	--	--	0.6	--	--
French franc	1.3	--	--	0.8	--	--
Italian lira	2.7	--	--	0.7	--	(0.1)
Other	0.2	--	--	0.3	--	--
Interest rate swap	$ 100.0	$ (4.4)	$ (4.4)	$ --	$ --	$ --
Long-term debt, net of current installments	$ --	$(1,534.6)	$(1,603.3)	$ --	$(757.1)	$(916.0)

</TABLE>

The counterparties to the company's derivative financial instruments are substantial and creditworthy multi-national financial institutions that are recognized market makers. The risk of counterparty nonperformance is considered to be remote.

12 Pension and Other Nonpension Postretirement Benefits

The company has multiple defined benefit pension plans and other nonpension postretirement plans (the Plans) covering substantially all employees. Benefits are based upon years of service and, depending on the Plan, average compensation earned by employees either during their last years of employment or over their careers. During 1998, the company acquired several pension and nonpension postretirement benefit Plans covering employees of Bowater Pulp and Paper Canada, Inc. (formerly Avenor). The effect of these Plans on the benefit obligations and assets are included in the reconciliations on the following page.

The following tables include both foreign and domestic Plans at December 31, 1998 and 1997. The benefit obligations of the Plans outside the United States are significant relative to the total benefit obligation; however, the assumptions used to measure the obligations of those Plans are similar to those used for the United States Plans.

<TABLE>
<CAPTION>

	Pension Plans		Other Postretirement Plans	
(In millions)	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 501.3	$ 460.9	$ 134.6	$ 118.7
Acquisition	619.2	--	33.6	--
Service cost	18.1	12.5	3.5	2.9
Interest cost	51.5	35.0	10.2	9.0
Amendments	--	--	(0.9)	--
Actuarial loss	50.5	26.8	8.4	8.0
Participant contributions	1.9	1.1	0.9	0.9
Benefits paid	(34.8)	(31.6)	(8.7)	(4.9)

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Effect of foreign currency exchange rate changes	(6.1)	(3.4)	--	--
Benefit obligation at end of year	1,201.6	501.3	181.6	134.6
Change in Plan assets:				
Fair value of Plan assets at beginning of year	569.4	471.3	0.0	0.0
Acquisition	568.4	--	--	--
Actual return on Plan assets	(32.5)	114.8	--	--
Employer contributions	8.2	18.7	7.8	4.0
Participant contributions	1.9	1.1	0.9	0.9
Benefits paid	(34.8)	(31.6)	(8.7)	(4.9)
Effect of foreign currency exchange rate changes	(7.4)	(4.9)	--	--
Fair value of Plan assets at end of year	1,073.2	569.4	--	--
Reconciliation of funded status:				
Funded status	(128.4)	68.1	(181.6)	(134.6)
Unrecognized actuarial loss (gain)	125.5	(23.7)	22.9	15.3
Unrecognized transition amount	(8.2)	(11.8)	--	--
Unrecognized prior service cost	5.3	5.8	4.0	5.2
Net amount recognized	(5.8)	38.4	(154.7)	(114.1)
Amounts recognized in the Consolidated Balance Sheet consist of:				
Prepaid benefit cost	61.8	48.5	--	--
Accrued benefit liability	(104.5)	(31.4)	(154.7)	(114.1)
Intangible asset	4.6	4.3	--	--
Accumulated other comprehensive loss (income)	32.3	17.0	--	--
Net amount recognized	$ (5.8)	$ 38.4	$ (154.7)	$ (114.1)
Weighted average assumptions:				
Discount rate	6.50%	7.00%	6.50%	7.00%
Expected return on Plan assets	9.50%	9.50%	--	--
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Components of net periodic benefit cost:				
Service cost, net of employee contributions	$ 18.1	$ 12.5	$ 3.5	$ 2.9
Interest cost	51.5	35.0	10.2	9.0
Expected return on Plan assets	(65.5)	(40.4)	--	--
Amortization of transition amount	(3.4)	(3.4)	--	--
Amortization of prior service cost	0.6	0.6	0.3	0.4
Recognized net actuarial loss (gain)	2.6	1.6	0.4	(0.1)
Net periodic benefit cost	$ 3.9	$ 5.9	$ 14.4	$ 12.2

</TABLE>

As of December 31, 1998, the company decreased the Plans' discount rate from 7.0 percent to 6.5 percent to more closely approximate interest rates on high-quality long-term obligations on the measurement date. In 1998, the assumed inflationary health care cost trend rate used to determine cost was 7.5 percent decreasing to 7.0 percent in 1999 and gradually decreasing to an ultimate rate of 5.0 percent in 2004. The rate used to determine 1997 cost was 8.0 percent, gradually decreasing to an ultimate rate of 5.5 percent in 2003. Variations in this health care cost trend rate can have a significant effect on the amounts reported. An increase of 1.0 percent in this assumption would increase the accumulated postretirement benefit obligation (APBO) by approximately $30.5 million, or 17.0 percent, and would increase the annual service cost and interest cost by approximately $2.9 million, or 21.0 percent. A decrease of 1.0 percent in this assumption would decrease the APBO by approximately $24.4 million, or 13.0 percent, and would decrease the annual service cost and interest cost by approximately $2.2 million, or 16.0 percent.

The sum of projected benefit obligations and fair value of Plan assets for pension Plans with projected benefit obligations in excess of Plan assets were $858.6 million and $713.0 million, respectively, as of December 31, 1998, and were $96.1 million and $63.4 million, respectively, as of December 31, 1997. The sum of the accumulated benefit obligations and fair value of Plan assets for pension Plans with accumulated benefit obligations in excess of Plan assets were $444.7 million and $351.1 million, respectively, as of December 31, 1998, and were $92.3 million and $63.4 million, respectively, as of December 31, 1997.

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The provisions of SFAS No. 87, "Employers' Accounting for Pensions," required the company to record an additional minimum liability of $36.9 million and $21.3 million at December 31, 1998 and 1997, respectively. This liability represents the amount by which the accumulated benefit obligation exceeds the sum of the fair market value of Plan assets and accrued amounts previously recorded. The additional liability may be offset by an intangible asset to the extent of previously unrecognized prior service cost. The intangible assets of $4.6 million and $4.3 million at December 31, 1998 and 1997, respectively, are included on the line item entitled "Other assets" in the Consolidated Balance Sheet. The remaining amounts of $19.6 million and $10.3 million, net of related tax benefits, are recorded as a component of shareholders' equity on the line item entitled "Accumulated other comprehensive income (loss)," in the Consolidated Balance Sheet at December 31, 1998 and 1997, respectively.

In addition to the previously described pension and nonpension postretirement Plans, the company also sponsors defined contribution Plans within the United States and for certain sites outside of the United States. Employees are allowed to contribute to the Plan, and the company makes a matching contribution between 3.6 percent and 7.2 percent of the employees' compensation. The company's expense for the defined contribution plans totaled $7.0 million in 1998, $7.3 million in 1997 and $7.4 million in 1996.

13 Income Taxes

The components of "Income before income taxes, minority interests and extraordinary charge" consist of U.S. income (loss) of $(17.1) million, $95.8 million and $331.2 million, and foreign income (loss) of $33.9 million, $(6.3) million and $22.0 million, in 1998, 1997 and 1996, respectively.

The provision for income tax expense consists of:

<TABLE>
<CAPTION>

(In millions)	1998	1997	1996
<S>	<C>	<C>	<C>
Federal:			
Current	$ 42.3	$ 30.4	$ 73.7
Deferred	(49.6)	2.2	30.7
	(7.3)	32.6	104.4
State:			
Current	10.5	5.2	13.1
Deferred	(6.4)	(1.9)	(1.0)
	4.1	3.3	12.1
Foreign:			
Current	7.6	0.8	0.7
Deferred	22.7	(3.6)	7.2
	30.3	(2.8)	7.9
Total:			
Current	60.4	36.4	87.5
Deferred	(33.3)	(3.3)	36.9
	$ 27.1	$ 33.1	$ 124.4

</TABLE>

The components of deferred income taxes at December 31, 1998 and 1997, in the accompanying Consolidated Balance Sheet are as follows:

<TABLE>
<CAPTION>

(In millions)	1998	1997
<S>	<C>	<C>
Timber and timberlands (1)	$ (65.1)	$ (38.7)
Fixed assets, net	(691.6)	(390.1)
Other assets	(5.8)	(21.1)

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Deferred tax liabilities	(762.5)	(449.9)
Accounts receivable (2)	--	0.1
Inventories (2)	3.2	1.9
Other current assets (2)	0.1	1.2
Current liabilities (2)	59.0	7.0
Other long-term liabilities	130.0	46.3
U.S. tax credit carryforwards, primarily alternative minimum tax credit carryforwards	24.4	35.4
Canadian investment tax credit carryforwards	20.3	26.8
Ordinary loss carryforwards	77.1	--
Capital loss carryforwards	3.0	--
Valuation allowance	(14.5)	(3.7)
Deferred tax assets	302.6	115.0
Net deferred tax liability	$ (459.9)	$ (334.9)

</TABLE>

(1) Includes the deferred tax impact of the capitalization of lease payments, management fees and property taxes of approximately $198.7 million and $123.6 million at December 31, 1998 and 1997, respectively.

(2) Included in "Other current assets" in the accompanying Consolidated Balance Sheet.

The following is a reconciliation of the U.S. federal statutory and effective tax rates as a percentage of income before income taxes, minority interests and extraordinary charge:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	15.9	2.4	2.2
Foreign taxes	86.6	(0.7)	0.1
Goodwill	22.7	--	--
Other, net	1.1	0.3	(2.1)
Effective income tax rate	161.3%	37.0%	35.2%

</TABLE>

The large increase in the company's effective income tax rate in 1998 was due to the expiration of Canadian investment tax credits and the non-deductible amortization of the goodwill recorded upon the acquisition of Avenor.

At December 31, 1998, the company had Canadian federal and provincial net operating loss carryforwards of $93.2 million and $923.4 million, respectively, and U.S. net operating loss carryforwards of $34.3 million. In addition, $20.3 million of Canadian investment tax credit carryforwards and $24.4 million of U.S. tax credit carryforwards were available to reduce future income taxes. The Canadian non-capital loss and investment tax credit carryforwards expire at various dates between 1999 and 2007. The majority of the U.S. tax credit carryforwards have no expiration. The company believes that deferred tax assets, net of the existing valuation allowance of $14.5 million at December 31, 1998, will be ultimately realized. The company increased the valuation allowance in 1998 by $10.8 million from the $3.7 million balance at December 31, 1997 and 1996.

The cumulative amount of CNC's undistributed earnings through 1992, on which the company has not provided income taxes, was $64.4 million as of December 31, 1998. Distribution of these earnings would qualify for the 80 percent dividend exclusion. The company has also not provided deferred income taxes on the cumulative amount of undistributed earnings related to its 51 percent investment in Mersey since that investment is considered permanent in duration and determination of such liability is not practicable.

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14 Dividends to Minority Interest Shareholders

In 1998 and 1997, the Board of Directors of CNC declared dividends of $49.6 million and $3.2 million, respectively. As a result, $24.3 million and $1.6 million were paid to the minority shareholders during the years 1998 and 1997, respectively. In 1996, the Board of Directors of CNC declared dividends of $100.0 million, resulting in payments of $49.0 million to the minority shareholders.

15 Commitments and Contingencies

The company is involved in various legal proceedings relating to contracts, commercial disputes, taxes, environmental issues, employment and workers' compensation claims and other matters. The company periodically reviews the status of these proceedings with both inside and outside counsel. The company's management believes that the ultimate disposition of these matters will not have a material adverse effect on the company's operations or its financial condition taken as a whole.

16 Redeemable Preferred Stock

In 1985, the company sold $75.0 million principal amount of redeemable preferred stock with cumulative quarterly dividends equal to 85 percent of the arithmetic mean of three-month LIBOR for United States dollar deposits.

The company was required to redeem 500,000 shares per year from 1996 through 1998 at a redemption price of $50.00 per share plus any accrued and unpaid dividends. In 1995 and 1996, the company redeemed 1,000,000 shares for $50.6 million, including accrued dividends. In 1997, the company redeemed the remaining 500,000 shares for $25.1 million, including accrued dividends.

The company is authorized to issue 10,000,000 shares of Serial Preferred Stock, $1 par value, of which the LIBOR Preferred Stock constituted Series A. See Note 17 for a discussion of Series B and C Preferred Stock.

17 Convertible and Cumulative Preferred Stock

In 1994, the company completed two public offerings of preferred stock. The company sold 4,893,616 depositary shares, priced at $23.50 per share, each representing one-fourth of a share of 7% Series B Convertible Preferred Stock referred to as Preferred Redeemable Increased Dividend Equity Securities (PRIDES). The company also sold 3,400,000 depositary shares, priced at $25.00 per share, each representing one-fourth of a share of 8.40% Series C Cumulative Preferred Stock. The Series C Cumulative Preferred Stock has a liquidation value of $25.00 per depositary share.

In December 1996, pursuant to an optional redemption provision, the company called for redemption on January 9, 1997, all of its outstanding depositary shares relating to the PRIDES. The PRIDES were redeemed using Bowater common stock at a conversion rate of .82 of a common share for each depositary share, resulting in the issuance of 4,012,765 common shares. The company reflected this transaction in the Consolidated Financial Statements at December 31, 1996.

In 1995, the company repurchased 585,682 shares of the Series C Cumulative Preferred Stock leaving a balance of 264,318 preferred shares. On February 8, 1999, the company redeemed all of the remaining outstanding shares for $26.6 million, including accrued dividends.

18 Stock Option Plans

The company has three stock option plans - 1988, 1992 and 1997. These plans authorized the grant of up to 6,000,000 shares of the company's common stock in the form of incentive stock options, non-qualified stock options, stock appreciation rights, performance stock and restricted stock awards. The option price for options granted under the 1988 and 1992 plans was based on the fair market value of the company's common stock on the date of grant, or the average fair market value of the company's common stock for the 20 business days immediately preceding the date of grant. The option price for options granted under the 1997 plan was based on the fair market value of the company's common stock on the date of grant.

All options granted through December 31, 1996, were exercisable at December 31, 1998. Options granted in 1998 and 1997 generally become exercisable over a period of two years. Unless terminated earlier in accordance with their terms, all options expire 10 years from the date of grant. The plans provide that any outstanding options will become immediately exercisable upon a change in control of the company. In such event, grantees of options have the right to require the company to purchase such options for cash in lieu of the issuance of common stock. The company received $6.8 million in 1998, $24.5 million in 1997 and $12.3 million in 1996 from the exercise of stock options. The exercise of stock

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options also generated tax benefits for the company of $2.6 million in 1998, $7.9 million in 1997 and $2.4 million in 1996.

The company records compensation expense resulting from stock option grants based on intrinsic value in accordance with APB Opinion No. 25. In accordance with SFAS No. 123, the following pro forma disclosures present the effects on income had the fair value based method been chosen. These disclosures are shown below for 1998, 1997 and 1996, and have no impact on the company's reported financial position or results of operations.

(In millions, except per-share amounts)	1998	1997	1996
Net income (loss):			
As reported	$ (18.5)	$ 53.7	$ 200.2
Pro forma	(22.0)	50.8	196.3
Earnings (loss) per share - basic:			
As reported	(0.44)	1.26	4.97
Pro forma	(0.51)	1.19	4.87
Earnings (loss) per share - diluted:			
As reported	(0.44)	1.25	4.55
Pro forma	$ (0.51)	$ 1.17	$ 4.46

The pro forma net income effects of SFAS No. 123 in 1998, 1997 and 1996 may not be representative of the pro forma net income effects in future years due to changes in assumptions and the number of options granted in future years.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for 1998, 1997 and 1996, respectively: dividend yield of 1.6 percent, 1.9 percent and 2.3 percent; expected volatility of 29.1 percent, 29.5 percent and 30.9 percent; risk-free interest rate of 5.6 percent, 6.4 percent and 5.4 percent; and expected option lives of 5.6 years, 5.5 years and 5.6 years. The weighted average fair value of each option granted during 1998, 1997 and 1996 was $15.68, $13.65 and $10.67, respectively.

Information with respect to options granted under the stock option plans is as follows:

	1998		1997		1996	
	Number of Shares (000's)	Weighted Average Exercise Price	Number of Shares (000's)	Weighted Average Exercise Price	Number of Shares (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	1,907	$ 31	2,477	$ 27	2,576	$ 26
Granted during the year	388	$ 49	404	$ 42	398	$ 35
Exercised during the year	(250)	$ 27	(934)	$ 26	(480)	$ 25
Canceled during the year	(5)	$ 42	(40)	$ 35	(17)	$ 28
Outstanding at end of year	2,040	$ 35	1,907	$ 31	2,477	$ 27
Exercisable at end of year	1,470	$ 30	1,371	$ 26	1,805	$ 25

	Options Outstanding at December 31, 1998			Options Exercisable at December 31, 1998	
Range of Exercise Prices	Number of Shares (000)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number of Shares (000)	Weighted Average Exercise Price
$21 to $30	921	$ 26	4.6	921	$ 26
$30 to $40	359	$ 35	6.9	359	$ 35

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$40 to $50	760	$	45	8.5	190	$	42
	2,040	$	35	6.5	1,470	$	30

</TABLE>

19 Exchangeable Shares

In conjunction with the acquisition of Avenor, the company's indirect wholly owned subsidiary, Bowater Canada Inc. (BCI), issued 3,773,547 shares of no par value Exchangeable shares. The Exchangeable shares are exchangeable at any time, at the option of the holder, on a one-for-one basis for shares of Bowater common stock. Holders of Exchangeable shares have voting rights substantially equivalent to holders of Bowater common stock and are entitled to receive dividends equivalent, on a per share basis, to dividends paid by Bowater on shares of Bowater common stock. On December 31, 1998, 2,270,525 Exchangeable shares were outstanding and held by non-affiliates. In February 1999, BCI issued an additional 1,359,620 Exchangeable shares upon the redemption of its 7.50% Convertible Unsecured Subordinated Debentures.

20 Employee Stock Ownership Plan

The company has an Employee Stock Ownership Plan (ESOP) as a component of the company's Salaried Employees' Savings Plan. The ESOP was funded by a $17.5 million loan, the proceeds of which were lent to an Employee Stock Ownership Trust (ESOT). The ESOT purchased 574,160 shares of the company's common stock at an average purchase price of $30.59. As of December 31, 1998, approximately 505,000 shares have been distributed to participants' accounts. The remaining shares serve as security for the balance of the loan.

21 Treasury Stock

In November 1997, the Board of Directors authorized the repurchase of up to 4.1 million shares of the company's outstanding common stock in the open market, subject to normal trading restrictions. Under this program, the company purchased 2,441,100 shares at a cost of $98.1 million in 1998, and purchased 220,000 shares at a cost of $9.6 million in 1997. As of March 1, 1999, the company purchased an additional 622,700 shares at a total cost of $24.8 million.

In February 1997, the company completed a previously announced stock repurchase program, purchasing 1,408,300 shares of common stock at a cost of $57.2 million in 1997 and 2,591,700 shares of common stock at a cost of $98.8 million in 1996. The company purchased a total of 4,000,000 shares of common stock, or 10 percent of the outstanding shares at a cost of $156.0 million.

The company uses shares of its treasury stock to pay employee/ director benefits and to fund the company's Dividend Reinvestment Plan.

22 Timberland Leases and Operating Leases

The company controls timberlands under long-term leases expiring 1999 to 2058, for which aggregate lease payments were $0.7 million in 1998, $0.7 million in 1997, and $0.6 million in 1996. In addition, the company leases certain office premises, office equipment and transportation equipment under operating leases. Total rental expense for these operating leases was $8.5 million in 1998, $5.5 million in 1997, and $8.0 million in 1996.

At December 31, 1998, the future minimum rental payments under timberland leases and operating leases are:

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(In millions)	Timberland Lease Payments	Operating Leases, net
1999	$ 0.7	$ 11.0
2000	0.7	8.6
2001	0.7	8.2
2002	0.7	7.8
2003	0.6	7.6
Thereafter	19.0	37.1
	$ 22.4	$ 80.3

In conjunction with the Avenor acquisition, the company manages 14 million acres of Crown-owned land in Canada on which the company has cutting rights. The company makes payments to various Canadian provinces based on the amount of timber harvested. There are no minimum rental payments associated with the cutting rights.

23 Segment Information

Description of the types of products and services from which each reportable segment derives its revenues:
The company has three reportable segments: the Newsprint & Directory Division, the Coated Paper Division and the Forest Products Division. The Newsprint & Directory Division is responsible for the manufacturing operations of nine sites in the United States, Canada and South Korea. It is also responsible for the worldwide marketing of newsprint, directory paper and uncoated groundwood specialties. The Coated Paper Division manufactures coated groundwood paper, newsprint, market pulp and uncoated groundwood specialties at one manufacturing site in the United States. This Division is responsible for the worldwide marketing and sales of coated groundwood paper. The Forest Products Division operates three sawmills and manages 2.4 million acres of owned or leased timberlands in the United States and Canada (after the pending 1999 timberlands sale transactions), as well as 14 million acres of Crown-owned land in Canada on which the company has cutting rights. This Division sells wood fiber to the Newsprint & Directory and Coated Paper Divisions, as well as markets and sells timber and lumber to third parties in North America. The company's Pulp Division has marketing and sales responsibility for all of the company's market pulp sales; however, the financial results from these sales are included in both the Newsprint & Directory Division and the Coated Paper Division. Accordingly, no results are reported for the company's Pulp Division.

Factors management used to identify the company's reportable segments:
The company's reportable segments are business units responsible for the marketing and sales of different products. They are managed separately because of the different products that they are responsible for manufacturing and distributing.

The following tables summarize information about segment profit and loss and segment assets for the three years ended December 31, 1998, 1997 and 1996:

23 Segment Information - continued

1998 (In millions)	Newsprint & Directory Division	Coated Paper Division	Forest Products Division	Corporate/ Other Eliminations	Total
Net sales - including internal sales	$1,356.6	$474.1	$ 517.4	$ 17.2	$2,365.3
Eliminations of intersegment sales	--	--	(370.3)	--	(370.3)
Net sales - external customers	$1,356.6	$474.1	$ 147.1	$ 17.2(1)	$1,995.0
Depreciation, amortization and cost of timber harvested	$ 154.9	$ 51.0	$ 21.7	$ 2.0	$ 229.6

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Operating income	$ 32.8	$107.4	$ 45.9	$(43.9)(1)	$ 142.2
Total assets	$3,869.3	$488.3	$ 590.4	$143.4(1)	$5,091.4
Capital expenditures	$ 170.8	$ 29.6	$ 17.0	$ 5.8	$ 223.2

</TABLE>

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1997 (In millions)	Newsprint & Directory Division	Coated Paper Division	Forest Products Division(2)	Corporate/ Other Eliminations	Total
<S>	<C>	<C>	<C>	<C>	<C>
Net sales - including internal sales	$ 886.8	$458.4	$ 428.0	$ (0.5)	$1,772.7
Eliminations of intersegment sales	--	--	(288.2)	--	(288.2)
Net sales - external customers	$ 886.8	$458.4	$ 139.8	$ (0.5)	$1,484.5
Depreciation, amortization and cost of timber harvested	$ 98.6	$ 51.3	$ 18.5	$ 1.4	$ 169.8
Operating income	$ 30.0	$ 91.2	$ 57.4	$(42.9)	$ 135.7
Total assets	$1,198.7	$496.3	$ 572.2	$478.6	$2,745.8
Capital expenditures	$ 52.4	$ 23.0	$ 22.4	$ 1.8	$ 99.6

</TABLE>

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1996 (In millions)	Newsprint & Directory Division	Coated Paper Division	Forest Products Division(2)	Corporate/ Other Eliminations	Total
<S>	<C>	<C>	<C>	<C>	<C>
Net sales - including internal sales	$1,102.6	$499.3	$ --	$147.7	$1,749.6
Eliminations of intersegment sales	(26.1)	(5.2)	--	--	(31.3)
Net sales - external customers	$1,076.5	$494.1	$ --	$147.7(3)	$1,718.3
Depreciation, amortization and cost of timber harvested	$ 110.5	$ 56.1	$ --	$ 7.8(3)	$ 174.4
Operating income	$ 203.6	$134.1	$ --	$(36.5)(3)	$ 301.2
Total assets	$1,796.4	$599.0	$ --	$470.1	$2,865.5
Capital expenditures	$ 73.2	$ 32.6	$ --	$ 1.1	$ 106.9

</TABLE>

(1) Includes Gold River pulp mill, closed in 1998, with net sales, operating loss and total assets of $17.0 million, $4.6 million, and $28.3 million, respectively.

(2) Segment information for the Forest Products Division, established in mid-1997, is included with the Newsprint & Directory Division and Coated Paper Division for 1996. Due to the unavailability of the data, it was impracticable to re-state 1996. Information for the full year 1997 has been re-stated on a pro forma basis for comparative purposes only.

(3) Includes Star Forms Inc., sold in 1996, with net sales, depreciation and amortization and operating income of $153.3 million, $6.5 million and $9.5 million, respectively.

23 Segment Information - continued

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Net Sales by Product

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(In millions)	1998	1997	1996
Newsprint	$ 1,108.8	$ 730.8	$ 845.3
Coated Groundwood	391.0	337.7	356.3
Directory paper	173.5	178.9	183.9
Market pulp	272.1	172.7	154.3
Uncoated groundwood specialties	49.3	44.0	191.4
Lumber and other wood products	148.0	134.8	108.0
Less: distribution costs	(147.7)	(114.4)	(120.9)
	$ 1,995.0	$ 1,484.5	$ 1,718.3

Net Sales by Country (1)

(In millions)	1998	1997	1996
United States	$ 1,750.6	$ 1,331.3	$ 1,526.0
Canada	28.1	20.2	20.2
Japan	44.6	21.5	22.4
Korea	44.1	18.8	21.3
Brazil	37.0	37.4	33.1
Italy	31.9	26.0	18.9
United Kingdom	22.9	9.1	11.6
Other countries (2)	183.5	134.6	185.7
Less: distribution costs	(147.7)	(114.4)	(120.9)
	$ 1,995.0	$ 1,484.5	$ 1,718.3

Long-Lived Assets by Country

(In millions)	1998	1997	1996
United States	$ 1,773.1	$ 1,790.7	$ 1,867.8
Canada	2,334.5	157.7	164.5
Korea	195.3	0.1	--
	$ 4,302.9	$ 1,948.5	$ 2,032.3

(1) Revenues are attributed to countries based on the location of the customer. No one customer represented 10 percent or more of consolidated net sales.

(2) No country in this group exceeded 10 percent of consolidated net sales.

24 Quarterly Information (unaudited)

(In millions, except per-share amounts)

Year ended December 31, 1998	First	Second	Third	Fourth	Year
Net sales	$ 383.1	$ 395.8	$ 576.9	$ 639.2	$ 1,995.0
Gross profit (loss)	63.6	72.3	(19.5)	107.2	223.6
Operating income (loss)	46.4	58.5	(39.0)	76.3	142.2

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Income (loss) before extraordinary charge	24.8	18.9	(88.1)	25.9	(18.5)
Net income (loss)	24.8	18.9	(88.1)	25.9	(18.5)
Basic earnings (loss) per common share	0.60	0.45	(1.69)	0.46	(0.44)
Diluted earnings (loss) per common share	$ 0.59	$ 0.44	$ (1.69)	$ 0.45	$ (0.44)
Year ended December 31, 1997					
Net sales	$ 348.5	$ 356.4	$ 378.6	$ 401.0	$ 1,484.5
Gross profit	25.4	43.0	59.2	80.3	207.9
Operating income	10.1	23.2	40.5	61.9	135.7
Income (loss) before extraordinary charge	(0.3)	7.1	16.8	30.1	53.7
Net income (loss)	(0.3)	7.1	16.8	30.1	53.7
Basic earnings (loss) per common share	(0.03)	0.16	0.40	0.73	1.26
Diluted earnings (loss) per common share	$ (0.03)	$ 0.16	$ 0.40	$ 0.72	$ 1.25
Year ended December 31, 1996					
Net sales	$ 468.9	$ 454.0	$ 423.2	$ 372.2	$ 1,718.3
Gross profit	163.7	114.1	83.5	33.0	394.3
Operating income	142.7	90.4	59.9	8.2	301.2
Income before extraordinary charge	112.9	44.3	28.3	18.6	204.1
Net income	112.9	42.4	26.7	18.2	200.2
Basic earnings per common share	2.84	1.04	0.63	0.41	4.97
Diluted earnings per common share	$ 2.53	$ 0.96	$ 0.60	$ 0.41	$ 4.55

</TABLE>

Management's Statement of Responsibility

The management of the company is responsible for the information contained in the financial statements and in the other parts of this report. The accompanying consolidated financial statements of Bowater Incorporated and Subsidiaries have been prepared in accordance with generally accepted accounting principles. In preparing these statements, management has made judgments based upon available information. To ensure that this information will be as accurate and factual as possible, management has communicated to all appropriate employees the requirements for accurate recordkeeping and accounting.

The company maintains a system of internal accounting controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records. The system is subject to continuous review through a corporatewide internal audit program with appropriate management follow-up action. Management believes that through the careful selection of employees, the division of responsibilities and the application of formal policies and procedures, the company has an effective and responsive system of internal accounting controls.

The company's independent auditors, KPMG Peat Marwick LLP, are responsible for conducting an audit of the company's consolidated financial statements in accordance with generally accepted auditing standards and for expressing their opinion as to whether these consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the company and its subsidiaries in conformity with generally accepted accounting principles. Their report appears on this page.

There is an Audit Committee of the Board of Directors composed of three nonemployee directors who meet regularly with management, the internal auditors and KPMG Peat Marwick LLP to discuss specific accounting, reporting and internal control matters. Both the independent auditors and internal auditors have full and free access to the Audit Committee.

Independent Auditors' Report

We have audited the accompanying consolidated balance sheet of Bowater Incorporated and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, capital accounts and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are

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free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bowater Incorporated and Subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

February 12, 1999
Greenville, South Carolina
KPMG Peat Marwick LLP

Financial and Operating Record(*)

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(Dollars in millions, except per-share amounts)	1998 (1)	1997	1996 (1)
<S>	<C>	<C>	<C>
Income Statement Data			
Net sales	$ 1,995.0	$ 1,484.5	$ 1,718.3
Operating income (loss)	142.2	135.7	301.2
Income (loss) from continuing operations before cumulative effect of changes in accounting principles and extraordinary charge (2)	(18.5)	53.7	204.1
Net income (loss)	(18.5)	53.7	200.2
Diluted earnings (loss) per common share	(0.44)	1.25	4.55
Dividends declared per common share (3)	0.80	0.80	0.80
Product Sales Information			
Newsprint	$ 1,108.8	$ 730.8	$ 845.3
Coated groundwood	391.0	337.7	356.3
Directory paper	173.5	178.9	183.9
Market pulp	272.1	172.7	154.3
Uncoated groundwood specialties	49.3	44.0	38.0
Lumber and other wood products	148.0	134.8	108.0
Communication papers	--	--	153.4
Distribution costs	(147.7)	(114.4)	(120.9)
	$ 1,995.0	$ 1,484.5	$ 1,718.3
Financial Position			
Timber and timberlands	$ 472.8	$ 394.0	$ 395.7
Fixed assets, net	2,885.2	1,554.5	1,636.7
Total assets	5,091.4	2,745.8	2,865.5
Total debt	1,830.8	758.9	760.6
Total debt and redeemable preferred stock	1,830.8	758.9	785.4
Total capitalization (4)	3,736.6	2,038.3	2,082.8
Additional Information			
Percent return on average common equity	(1.4)%	4.5%	18.6%
Income from continuing operations as a percentage of net sales	(0.9)%	3.6%	11.9%
Total debt as a percentage of total capitalization (5)	46.3%	37.2%	36.5%
Total debt and redeemable preferred stock as a percentage of shareholders' equity (5)	92.3%	65.8%	67.1%
Effective tax rate	161.3%	37.0%	35.2%
Cash flow from (used for) operations	$ 274.1	$ 195.6	$ 336.2
Cash invested in fixed assets, timber and timberlands	$ 223.2	$ 99.6	$ 106.9
Book value - common shareholders' equity per common share	$ 32.31	$ 27.99	$ 27.97
Common stock price range	$32.81-59.56	$37.00-55.62	$31.75-41.25
Sales (thousands of short tons)			
Newsprint	2,160	1,482	1,446
Coated groundwood	486	479	432
Directory paper	226	228	211
Market pulp	674	407	393
Uncoated groundwood specialties	90	83	64
Registered shareholders	6,100	5,200	5,600

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Employees	8,300	5,000	5,000

</TABLE>

(*) This table should be used in conjunction with the financial statements and notes to the financial statements.
(1) In 1998, the company acquired Avenor and the South Korean newsprint mill. In 1996, the company sold Star Forms. In 1991, the company acquired GNP.
(2) Extraordinary charge relates to debt retirements in 1996, 1995 and 1990. The changes in accounting principles relate to the adoption of SFAS No. 106 and SFAS No. 109 in 1992.

Financial and Operating Record(*)

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1995	1994	1993	1992	1991 (1)	1990	1989	1988
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
$ 2,001.1	$ 1,359.0	$ 1,353.7	$ 1,360.8	$ 1,190.4	$ 1,289.1	$ 1,361.0	$ 1,330.8
549.3	42.1	(63.3)	(74.1)	103.7	174.9	280.5	334.1
258.2	(4.8)	(64.5)	(92.9)	45.6	87.4	144.6	164.3
246.9	(4.8)	(64.5)	(82.0)	45.6	78.4	144.6	164.3
5.22	(0.59)	(1.84)	(2.34)	1.15	2.05	3.86	4.37
0.60	0.60	0.60	1.20	1.20	1.20	1.14	0.97
$ 841.6	$ 604.0	$ 607.6	$ 649.6	$ 601.4	$ 617.2	$ 645.3	$ 671.3
463.8	307.0	316.2	296.1	259.9	279.0	279.2	269.7
162.4	128.6	138.6	90.2	--	--	--	--
233.3	130.6	98.9	136.4	138.0	170.7	182.6	153.2
41.2	37.3	39.9	34.5	--	--	--	--
116.8	87.9	103.1	79.5	34.3	32.6	32.7	37.2
248.9	190.7	191.8	207.5	254.9	280.9	310.2	279.0
(106.9)	(127.1)	(142.4)	(133.0)	(98.1)	(91.3)	(89.0)	(79.6)
$ 2,001.1	$ 1,359.0	$ 1,353.7	$ 1,360.8	$ 1,190.4	$ 1,289.1	$ 1,361.0	$ 1,330.8
$ 430.4	$ 426.4	$ 422.5	$ 432.6	$ 414.1	$ 297.9	$ 285.7	$ 273.5
1,711.0	1,785.0	1,750.7	1,821.7	1,858.8	1,604.7	1,529.5	1,223.8
2,908.2	2,851.4	2,726.2	2,881.6	2,780.0	2,297.9	2,284.2	1,880.5
818.1	1,118.5	1,120.2	1,134.3	864.5	498.2	532.4	293.2
867.8	1,193.0	1,194.6	1,208.5	938.6	572.2	606.4	367.1
2,113.9	2,222.5	2,071.8	2,186.4	2,061.7	1,694.5	1,700.5	1,368.0
27.5%	(3.0)%	(8.6)%	(9.6)%	4.4%	7.9%	16.0%	20.7%
12.9%	(0.4)%	(4.8)%	(6.8)%	3.8%	6.8%	10.6%	12.4%
38.7%	50.3%	54.1%	51.9%	41.9%	29.4%	31.3%	21.4%
79.2%	134.4%	163.1%	147.7%	99.6%	61.2%	66.9%	44.4%
39.4%	70.0%	32.0%	37.0%	37.0%	37.0%	36.0%	36.5%
$ 607.7	$ 80.9	$ (30.6)	$ 109.5	$ 156.6	$ 238.4	$ 327.3	$ 324.3
$ 96.0	$ 216.1	$ 121.8	$ 139.5	$ 159.7	$ 214.1	$ 423.4	$ 214.3
$ 24.52	$ 18.92	$ 20.10	$ 22.55	$ 26.21	$ 26.24	$ 25.37	$ 23.07
$26.50-53.50	$20.50-29.38	$18.00-24.63	$17.63-27.25	$18.63-30.38	$16.13-28.50	$25.75-34.13	$25.25-36.88
1,402	1,460	1,437	1,604	1,244	1,266	1,278	1,233
476	453	454	447	346	352	343	337
229	189	202	126	--	--	--	--
325	300	312	318	317	300	261	250
60	76	76	65	--	--	--	--
5,900	6,600	7,300	8,200	9,500	14,000	15,600	17,000
5,500	6,000	6,600	6,900	7,200	5,100	5,100	5,000

</TABLE>

(3) Dividends are declared quarterly.
(4) Total capitalization includes total debt, minority interests in subsidiaries, redeemable preferred stock and shareholders' equity.
(5) In 1998, this ratio excludes the revaluation of Avenor's debt totaling $190.6 million.

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Nominal Annual Capacity and Production by Product Line and Mill

<TABLE>
<CAPTION>

(In short tons)	Annual Capacity	1998 Production (2)
<S>	<C>	<C>
Newsprint, directory and uncoated groundwood specialties		
Calhoun, Tennessee	853,500	847,894
Catawba, South Carolina	260,500	238,286
Liverpool, Nova Scotia	267,800	260,274
Millinocket, Maine (1)	132,000	131,888
East Millinocket, Maine	300,000	285,606
Thunder Bay, Ontario	599,600	257,408
Gatineau, Quebec	496,000	220,135
Dalhousie, New Brunswick	250,200	107,023
Usk, Washington (3)	264,500	119,246
Mokpo, Korea	275,600	123,281
Coated groundwood paper		
Catawba, South Carolina	356,000	351,756
Millinocket, Maine (1)	138,000	134,413
Market pulp		
Catawba, South Carolina	268,500	250,095
Calhoun, Tennessee	162,500	144,942
Gold River, British Columbia (4)	281,100	21,706
Thunder Bay, Ontario	606,300	256,234
Lumber (5)	282,500	232,000

</TABLE>

(1) Capacity at Millinocket, Maine, based on current production mix.
(2) 1998 production includes Avenor and the South Korean newsprint mill from date of acquisition (July 1998).
(3) Represents the Ponderay Newsprint Company, which is 40 percent owned. Capacity is shown at 100 percent, and production is shown at 100 percent from date of acquisition.
(4) The Gold River Mill was shut down in August 1998.
(5) Figures are in MBF (thousands of board feet).

Management and
Shareholder Information

[PHOTO]

Board of Directors

Arnold M. Nemirow
Chairman, President and Chief
Executive Officer of the Company
Director since 1994

Mr. Nemirow became Chief Executive Officer of Bowater in 1995 and became Chairman of the Board in 1996. He has served as President of the company since September 1994 and served as Chief Operating Officer from 1994 to 1995. Mr. Nemirow was President, Chief Executive Officer and a Director of Wausau Paper Mills Company from 1990 to 1994; Chairman, President and Chief Executive Officer and a Director of Nekoosa Papers, Inc., the business papers division of Great Northern Nekoosa Corporation, from 1988 to 1990. He also is a Director of Interstate Energy Corporation, the successor company to three Midwest utility companies.

Francis J. Aguilar
Professor Emeritus
Harvard University Graduate School
of Business

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Director since 1984

Dr. Aguilar was a faculty member of the Harvard University Graduate School of Business from 1965 to 1995. Since 1994, he has served as Executive Director of the Management Education Alliance, a non-profit education corporation. Dr. Aguilar is a Director of Dynamics Research Corporation and Burr-Brown Corporation and also acts as an independent business consultant.

H. David Aycock
Chairman
Nucor Corporation
Director since 1987

Mr. Aycock has been Chairman of Nucor Corporation, a steel and steel products company, since January 1999. He served as President and Chief Operating Officer of Nucor Corporation from 1984 to 1991. He previously held various management positions, including that of General Manager, at Nucor Corporation operating units.

Richard Barth
Retired Chairman, President and Chief
Executive Officer
Ciba-Geigy Corporation
Director since 1991

Mr. Barth became Chairman of Ciba-Geigy Corporation, a diversified chemical products company, in 1990 and served in that capacity until its merger into Novartis Corporation in 1996. He was President and Chief Executive Officer of Ciba-Geigy Corporation from 1986 to 1996; Chief Financial Officer from 1979 to 1986; Secretary from 1974 to 1986; and General Counsel from 1970 to 1986. Mr. Barth also is a Director of The Bank of New York, Novartis Corporation (USA) and Imclone Systems, Inc.

Kenneth M. Curtis
Attorney At Law and Senior Member
Curtis, Thaxter, Stevens, Broder & Micoleau
Limited Liability Company, P.A.
Director since 1993

Mr. Curtis was a partner in the Portland, Maine, law firm from 1975 to 1979 and from 1981 to 1995, when the firm became a limited liability company, of which he currently is a member. Mr. Curtis also served as President of the Maine Maritime Academy from 1986 to 1994. He was Secretary of State of Maine from 1965 to 1966, Governor of Maine from 1967 to 1975 and U.S. Ambassador to Canada from 1979 to 1981. He also is a Director of KeyCorp.

Charles J. Howard
Chairman
Howard, Barclay & Associates Ltd.
Director since 1997

Mr. Howard has been Chairman of Howard, Barclay & Associates Ltd., an investment counseling firm, since 1994. He also has been President, Chief Executive Officer, a Director and the largest shareholder of Ausnoram Holdings Limited, an investment holding company with mining, oil and gas interests, since 1989. Mr. Howard also is a Director of Anderson Exploration Limited, Petromet Resources Limited, Southern Africa Minerals Corporation and Unicorp Energy Corporation.

James L. Pate
Chairman and Chief
Executive Officer
Pennzoil-Quaker State Company
Director since 1996

Mr. Pate has been Chairman of the Board and Chief Executive Officer of Pennzoil-Quaker State Company, an automotive consumer products company, since December 1998. He has served as Chairman of the Board of PennzEnergy Company (formerly Pennzoil Company), an oil exploration and production company, since 1994, was Chief Executive Officer from 1990 to 1998 and President from 1990 to 1997. Mr. Pate has served as a director of PennzEnergy Company since 1989.

John A. Rolls
President and Chief Executive Officer
Thermion Systems International
Director since 1990

Mr. Rolls has served as President and Chief Executive Officer of Thermion Systems International, an aerospace and industrial heating systems company, since 1996. He was President and Chief Executive Officer of Deutsche Bank North America, an international banking company, from 1992 to 1996. Mr. Rolls was Executive Vice President and Chief Financial Officer of United Technologies Corporation, a diversified aerospace and industrial products company, from 1986 to 1992. Prior to that, he was Senior Vice President and Chief Financial Officer of RCA Corporation. Mr. Rolls also is a Director of MBIA, Inc., Thermion Systems

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International and Arguss Holdings, Inc., formerly Conceptronic, Inc.

Arthur R. Sawchuk
Chairman
The Manufacturers Life Insurance Company
Director since 1998

Mr. Sawchuk has been Chairman of The Manufacturers Life Insurance Company, an insurance and financial services company, since April 1998. He served as acting President and Chief Executive Officer of Avenor Inc., a forest products company, from November 1997 until its acquisition by Bowater in July 1998. Previously he held various positions with DuPont Canada Inc., a chemical and plastics company, serving as Executive Chairman from September 1997 until his retirement in December 1997, Chairman of the Board from 1995 to 1997, and President, Chief Executive Officer and a Director from 1992 to 1997. Mr. Sawchuk also is a Director of Manitoba Telecom Services, Inc., Ontario Hydro, OntarioPower Generation Inc., and Trimac Corporation.

[LOGO] BOWATER
Incorporated

Corporate Headquarters

Bowater Incorporated
55 East Camperdown Way
P.O. Box 1028
Greenville, South Carolina
29602
864-271-7733
864-282-9482 (Fax)
http://www.bowater.com

Division Headquarters

Newsprint & Directory Division
55 East Camperdown Way
P.O. Box 1028
Greenville, South Carolina
29602
864-271-7733

Coated Paper Division
11440 Carmel Commons Blvd.
Suite 201
Charlotte, North Carolina
28226
704-540-2667

Pulp Division
5420 North Service Road
Burlington, Ontario L7L6C7
800-205-PULP

Forest Products Division
5020 Highway 11 South
Calhoun, Tennessee
37309
423-336-7195

Division Sales Offices

Newsprint &
Directory Division

3155 Route 10
Denville, New Jersey
07834
973-537-1070

2000 Regency Parkway
Suite 380
Cary, North Carolina
27511
919-467-6422

547 West Jackson Boulevard
Suite 1505
Chicago, Illinois

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60661
312-588-2301

100 Merchant Street
Suite 195
Cincinnati, Ohio
45246
513-772-2744

55 East Camperdown Way
P.O. Box 1028
Greenville, South Carolina
29602
864-271-7733

5068 West Plano Parkway
Suite 300
Plano, Texas
75093
972-381-4260

2033 Sixth Avenue
Suite 320
Seattle, Washington
98121
206-728-0175

15310 Amberly Drive
Suite 250-50
Tampa, Florida
33647
813-977-4945

Bowater S. America Ltda.
Rua Engenheiro Carlos
Estevenson, #80
Sala #51 Lyon Office Center
Nova Campinas, Sao Paulo
Brazil CEP 13092310
5519-251-9088

300 March Road
Suite 444
Kanata, Ontario K2K 2E2
Canada
888-333-9933

Bowater Europe Limited
40 Lowndes Street
London SW1X 9HX
England
44-171-245-9421

Bowater Japan Limited
Imperial Hotel Main Building
5F, Room 504
1-1-1 Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-8558
Japan
81-3-5521-2560

Bowater-Halla Paper
Company Ltd.
11F Hong Woo Building
945-1 Daechi-Dong
Kangnam-Ku, Seoul, Korea
822-567-1576

Bowater Asia Pte Ltd
260 Orchard Road, #08-09
The Heeren
Singapore 238855
65-835-0488

Coated Paper Division

11440 Carmel Commons Blvd.
Suite 201
Charlotte, North Carolina
28226
704-540-2667

650 Warrenville Road
Suite 410

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Lisle, Illinois
60532
630-960-9797

Park 80 West, Plaza 1
3rd Floor
Saddle Brook, New Jersey
07663
201-368-3611

Pulp Division

11440 Carmel Commons Blvd.
Suite 201
Charlotte, North Carolina
28226
877-236-5837

Canadian Newsprint
Operations

1250 Rene-Levesque
Boulevard West
Montreal, Quebec H3B 4Y3
514-846-4811

[PHOTO of BOARD OF DIRECTORS]

Seated (left to right) are: H. David Aycock, Kenneth M. Curtis, James L. Pate and Francis J. Aguilar
Standing(left to right) are: John A. Rolls, Charles J. Howard, Arnold M. Nemirow, Richard Barth and Arthur R. Sawchuk

Board Committees

<TABLE>
<CAPTION>

Executive Committee	Audit Committee	Finance Committee	Human Resources and Compensation Committee	Nominating and Governance Committee
<S>	<C>	<C>	<C>	<C>
Arnold M. Nemirow Chairman	Kenneth M. Curtis Chairman	John A. Rolls Chairman	H. David Aycock Chairman	Richard Barth Chairman
Francis J. Aguilar	Charles J. Howard	Richard Barth	Francis J. Aguilar	Francis J. Aguilar
H. David Aycock	Arthur R. Sawchuk	James L. Pate	James L. Pate	Kenneth M. Curtis
				John A. Rolls

</TABLE>

Officers

<TABLE>
<CAPTION>

Corporate Officers	Division Officers	
<S>	<C>	<C>
Arnold M. Nemirow Chairman, President and Chief Executive Officer	Newsprint & Directory Division	William C. Morris Vice President, International Newsprint and Directory Sales
Arthur D. Fuller Executive Vice President and President, Newsprint & Directory Division	Arthur D. Fuller President, Newsprint & Directory Division	Craig B. Stevens Vice President, Administration and Planning
Anthony H. Barash Senior Vice President, Corporate Affairs and General Counsel	Jerry R. Gilmore Vice President, U.S. and Korea Newsprint Operations	Donald L. Wheeler Vice President, Human Resources
	S.Y. Han President, Bowater-Halla Paper Company Ltd.	Coated Paper Division
James H. Dorton Vice President, Corporate Development and Strategy	Howard G. Johnson Vice President and Resident	E. Patrick Duffy President, Coated Paper Division

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E. Patrick Duffy
Senior Vice President and President,
Coated Paper Division

Jerry R. Gilmore
Vice President, U.S. and Korea
Newsprint Operations

Richard K. Hamilton
Vice President and President, Forest
Products Division

William G. Harvey
Vice President and Treasurer

Steven G. Lanzl
Vice President, Information
Technology

David G. Maffucci
Senior Vice President and Chief
Financial Officer

Donald G. McNeil
Senior Vice President and President,
Great Northern Paper, Inc.

Robert A. Moran
Vice President, Manufacturing
Services

R. Donald Newman
Vice President, Canadian
Newsprint Operations

Michael F. Nocito
Vice President and Controller

Wendy C. Shiba
Vice President, Secretary and
Assistant General Counsel

David J. Steuart
Vice President and President,
Pulp Division

James T. Wright
Vice President, Human Resources

Manager - Calhoun Operations

Donald G. McNeil
President, Great Northern
Paper, Inc.

William G. Meany
Vice President and Resident
Manager - Ponderay Operations

R. Donald Newman
Vice President, Canadian
Newsprint Operations

Edward J. Broadhurst
Vice President, Operations
Technology

Don P. Campbell
Vice President and Resident
Manager - Thunder Bay Operations

Patrice Cayouette
Vice President and Resident
Manager - Gatineau Operations

Richard G. Gilbert
Vice President and Resident
Manager - Mersey Operations

Luc Lachapelle
Vice President and Resident
Manager - Dalhousie Operations

Marc Regnier
Vice President and General
Counsel, Canadian
Newsprint Operations

C. Randy Ellington
Vice President, North American
Newsprint and Directory Sales

Larry G. Green
Vice President, Purchasing and
Transportation

Stephen L. Naman
Vice President, Coated Paper Sales

Gaynor L. "Bud" Nash
Vice President and Resident
Manager - Catawba Operations

Denis Tontodonato
Vice President, Administration
and Planning

Pulp Division

David J. Steuart
President, Pulp Division

John C. Adams
Vice President, North American Sales

Forest Products Division

Richard K. Hamilton
President, Forest Products Division

Roger Barber
Vice President - Ontario and New
Brunswick Woodlands Operations

Jean Beaulieu
Vice President - Lumber and Quebec
Woodlands Operations

George W. Flanders
Vice President - Catawba
Woodlands Operations

Marcia A. McKeague
Vice President - Great Northern
Woodlands Operations

J. Frank Pickle
Vice President - Calhoun
Woodlands Operations

Jon M. Porter
Vice President - Mersey
Woodlands Operations

Colin R. Wolfe
Vice President, Administration
and Planning

</TABLE>

Shareholder Information

Annual Meeting

The company's annual meeting of shareholders will be held on Wednesday, May 12, 1999, at 11 a.m. at the Gunter Theatre of the Peace Center for the Performing Arts, Greenville, South Carolina.

Stock Listings

Bowater Incorporated common stock is listed on the New York Stock Exchange (stock symbol BOW), U.S. regional exchanges and the London Stock Exchange. A special class of stock exchangeable into Bowater common stock is listed on the Toronto and Montreal exchanges (stock symbol BWX).

Common Stock Registrars and Transfer Agents (BOW)

The Bank of New York
Shareholder Relations Department - 11E
P.O. Box 11258

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Church Street Station
New York, New York 10286
888-269-8845
e-mail: Shareowner-svcs@bankofny.com
website: http://stock.bankofny.com

CIBC Mellon Trust Company
Balfour House
390 High Road
Ilford, Essex, 1G1 1NQ England
081-478-1888

Exchangeable Share Stock Registrar
and Transfer Agent (BWX)

Montreal Trust
1800 McGill College Avenue
Montreal, Quebec H3A 3K9 Canada
800-564-6253

Investor Information

Investor inquiries about Bowater should be directed to the Investor Relations Department at Bowater's headquarters.

10-K Report

Bowater files an annual report on Form 10-K with the Securities and Exchange Commission. A free copy (without exhibits) may be obtained by writing to the Investor Relations Department at Bowater's headquarters.

Dividend Reinvestment and Stock Purchase Plan

The company has a Dividend Reinvestment and Stock Purchase Plan. Information is available from the Investor Relations Department at Bowater's headquarters.

Auditors

KPMG Peat Marwick LLP
One Insignia Financial Plaza, Suite 600
P.O. Box 10529
Greenville, South Carolina 29603
864-250-2600

Common Stock Prices

Price ranges of the company's common stock during 1998 and 1997 as reported on the New York Stock Exchange were:

	1998		1997	
	High	Low	High	Low
First quarter	$56.44	$41.56	$43.38	$37.00
Second quarter	$59.56	$46.75	$50.50	$37.75
Third quarter	$49.75	$35.62	$55.62	$46.62
Fourth quarter	$43.50	$32.81	$51.62	$41.69

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EXHIBIT 21.1

BOWATER INCORPORATED
SUBSIDIARY LISTING

Name	Jurisdiction of Incorporation
Avenor America Inc.	Delaware
Avenor Maritimes Inc.(1)	New Brunswick
Bowater Asia Pte Ltd	Singapore
Bowater Canada Inc.	Canada
Bowater Canadian Holdings Incorporated	Nova Scotia
Bowater Canadian Limited	Canada
Bowater Europe Limited	United Kingdom
Bowater Foreign Sales Corporation	Barbados
Bowater-Halla Paper Co., Ltd.	Korea
Bowater Japan Limited	Japan
Bowater Mersey Paper Company Limited(2)	Nova Scotia
Bowater Pulp and Paper Canada Inc.	Canada
Bowater S. America Ltda.	Brazil
Bowater South American Holdings Incorporated	Delaware
Calhoun Newsprint Company(3)	Delaware
Calhoun Energy, Inc.	Delaware
Great Northern Paper, Inc.	Delaware
Lake Superior Forest Products Inc.	Delaware
Lake Superior Holdings Inc.	Delaware
Manifor Inc.	Quebec

Note: Except as otherwise indicated, each of the above entities is a wholly owned direct or indirect subsidiary of the Company. The names of certain other direct and indirect subsidiaries of the Company have been omitted from the list above because such unnamed subsidiaries considered in the aggregate as a single subsidiary would not constitute a significant subsidiary.

(1) 67 percent owned.
(2) 51 percent owned.
(3) Approximately 51 percent owned.

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EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Bowater Incorporated:

We consent to incorporation by reference in the following Registration Statements, of our reports dated February 12, 1999, relating to the consolidated balance sheet of Bowater Incorporated and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, capital accounts, and cash flows for each of the years in the three-year period ended December 31, 1998, and all related schedules, which reports are incorporated by reference or included in the December 31, 1998, annual report on Form 10-K of Bowater Incorporated:

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<S>	<C>	<C>	Filing Date <C>
Form S-1			
No. 33-2444	-	Dividend Reinvestment and Stock Purchase Plan of Bowater Incorporated	12/27/85
Form S-3			
No. 333-57839	-	Bowater Incorporated common stock offered in exchange for Exchangeable shares of Bowater Canada Inc.	6/26/98
Form S-8			
No. 33-16277	-	Bowater Southern Hourly Employees' Profit-Sharing Plan	8/25/87
No. 33-25166	-	Bowater Incorporated 1988 Stock Incentive Plan	10/27/88
No. 33-50152	-	Bowater Incorporated 1992 Stock Incentive Plan	7/28/92
No. 33-61219	-	The Deferred Compensation Plan for Outside Directors of Bowater Incorporated	7/21/95
No. 33-64371	-	Great Northern Paper, Inc. Hourly 401(k) Savings Plan	11/17/95

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No. 333-00555 -	Bowater Incorporated Salaried Employees' Savings Plan	1/30/96
No. 333-00587 -	Great Northern Paper, Inc. Savings and Capital Growth Plan for Salaried Employees	1/31/96

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No. 333-02989	-	Bowater Incorporated/Carolina Division Hourly Employees' Savings Plan	4/30/96
No. 333-16941	-	Great Northern Paper, Inc. Savings and Capital Growth Plan for Salaried Employees	11/27/96
No. 333-16943	-	Great Northern Paper, Inc. Hourly 401(k) Savings Plan	11/27/96
No. 333-41471	-	Bowater Incorporated Salaried Employees' Savings Plan	12/4/97
No. 333-41473	-	Bowater Incorporated 1997 Stock Option Plan	12/4/97
No. 333-41475	-	Bowater Incorporated/Coated Paper and Pulp Division Hourly Employees' Savings Plan	12/4/97

</TABLE>

/s/ KPMG Peat Marwick LLP
KPMG Peat Marwick LLP

Greenville, South Carolina
March 24, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF BOWATER, INC. FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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