



BOWATER

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SHAREHOLDER INFORMATION INSIDE BACK COVER

Bowater

Bowater Incorporated, headquartered in Greenville, South Carolina, is one of the world's largest manufacturers of newsprint. The company also makes coated and uncoated groundwood papers, market pulp and lumber products. Bowater operates nine pulp and paper mills in the United States, Canada and South Korea, a coating facility in Michigan and three sawmills in the United States and Canada. Bowater owns or leases 1.8 million acres of timberlands in the United States and Canada and has 14.1 million acres of timber cutting rights in Canada. Sales offices are located throughout North America and in Brazil, England, Japan, Singapore and South Korea. Bowater employs approximately 6,400 people.

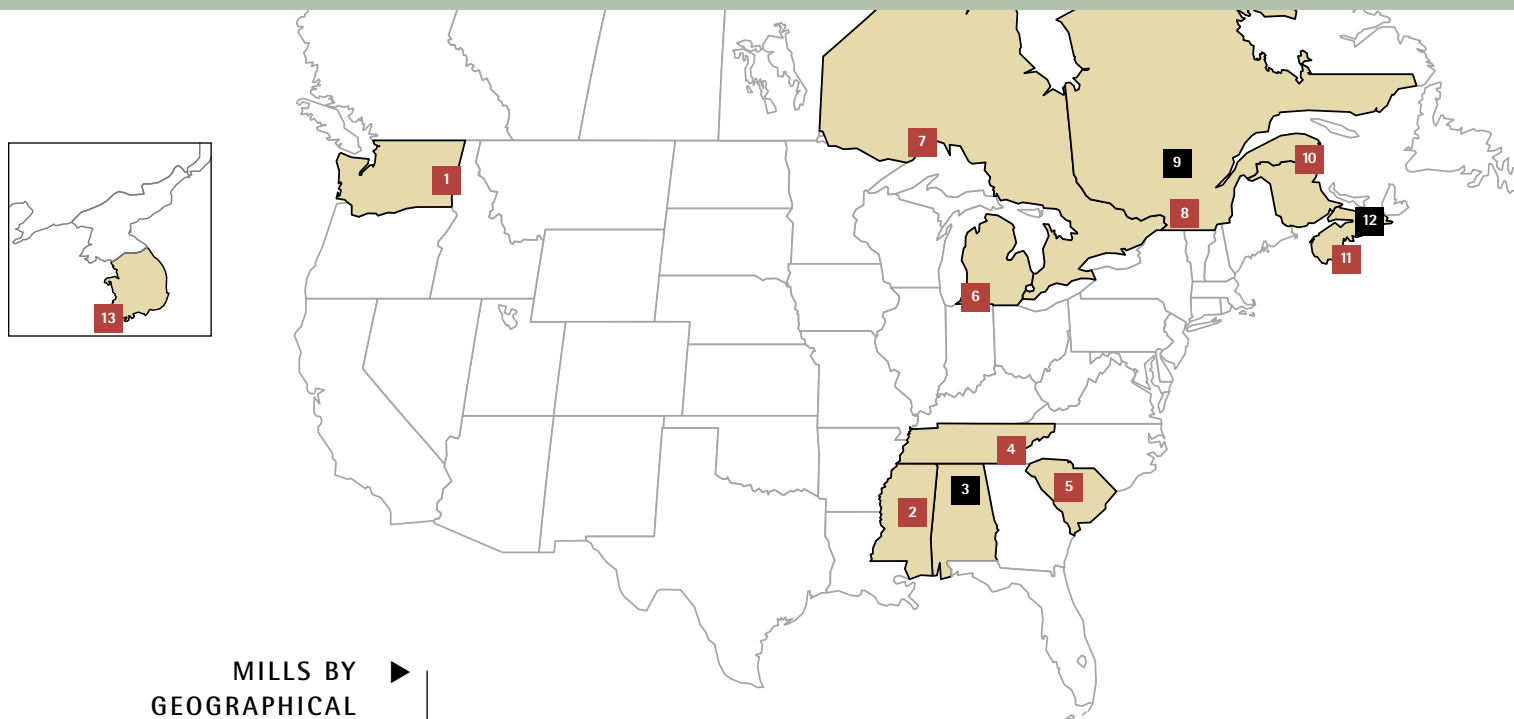
is committed

In 2000, Bowater once again demonstrated its commitment to excellence. We acquired one of North America's best newsprint mills, located in Mississippi. We initiated a \$100 million profit improvement program. We announced plans to convert a newsprint machine in South Carolina to produce coated groundwood papers, to expand our Michigan coating facility and to build two additional facilities to convert newsprint capacity to coated grades. And, Bowater's total return to shareholders was among the best of North America's forest products companies.

Bowater's reputation as a premier forest products company is built on a foundation of strong core values. We are focused on our customers and committed to building value for our shareholders. We relentlessly pursue operating efficiencies and constantly search for and seize opportunities. We are dedicated to financial discipline. Our experienced management has a proven track record and leads a global team dedicated to superior performance.

to excellence.

OPERATIONS AT A GLANCE



MILLS BY GEOGRAPHICAL REGIONS

	#	Mill Location	Mill Type	Annual Capacity
United States	1	Usk, Washington	Newsprint	253,100 mt
	2	Grenada, Mississippi	Newsprint	243,900 mt
	3	Albertville, Alabama	Lumber	99,000 mbf
	4	Calhoun, Tennessee	Newsprint/Specialty Market pulp	774,300 mt 198,700 mt
	5	Catawba, South Carolina	Coated paper Market pulp Newsprint/Specialty	358,000 st 244,500 mt 247,200 mt
	6	Benton Harbor, Michigan	Paper coating	60,000 st
Canada	7	Thunder Bay, Ontario	Newsprint Market pulp	566,800 mt 544,300 mt
	8	Gatineau, Québec	Newsprint	518,000 mt
	9	Maniwaki, Québec	Lumber	79,000 mbf
	10	Dalhousie, New Brunswick	Newsprint	238,600 mt
	11	Liverpool, Nova Scotia	Newsprint	251,300 mt
	12	Oakhill, Nova Scotia	Lumber	110,000 mbf
Asia	13	Mokpo, South Korea	Newsprint	275,600 mt

st: short tons mt: metric tons

mbf: thousands of board feet

FINANCIAL HIGHLIGHTS

(In millions, except per-share amounts)

	2000	1999
Sales	\$ 2,500.3	\$ 2,311.7
Operating income ⁽¹⁾	363.3	244.0
Net income	159.4	78.7
Diluted earnings per common share	\$ 3.02	\$ 1.41
Average common and common equivalent shares outstanding	52.8	55.0
Dividends declared per common share	\$ 0.80	\$ 0.80
Total assets	5,004.1	4,552.2
Total shareholders' equity	\$ 1,797.1	\$ 1,770.8
Percent return on average common equity	8.9%	4.5%
Total debt	\$ 1,931.1	\$ 1,505.1
Total debt as a percentage of total capitalization ⁽²⁾	48.6%	42.1%
Current ratio	0.65x	1.34x
Capital expenditures, including timberlands	\$ 283.2	\$ 198.5
Registered shareholders	4,900	5,200
Common stock price range	\$ 42.06–59.00	\$ 37.13–59.94

1) Operating income includes net gain on sale of assets of \$7.3 million for 2000. In 1999, operating income includes net gain on sale of assets of \$225.4 million and impairment charges of \$92.0 million.

2) This ratio excludes the revaluation of debt assumed through acquisitions totaling \$113.2 million and \$128.6 million for 2000 and 1999, respectively.

SALES

in millions



OPERATING INCOME

in millions

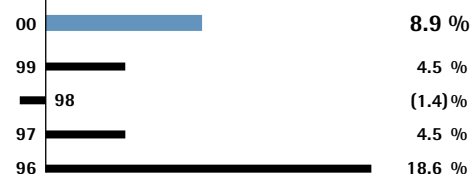


NET INCOME (LOSS)

in millions



RETURN ON AVERAGE COMMON EQUITY



LETTER TO SHAREHOLDERS

Fellow Shareholders:

I am pleased to report that 2000 was an excellent year for Bowater. The markets for all of our pulp and paper products improved over the prior year, and we made substantial progress in meeting our strategic goals. We increased our strong market position in newsprint by acquiring a world-class newsprint mill in Grenada, Mississippi. And we announced a new coated groundwood paper strategy, which will make us a market leader in that product line as well.

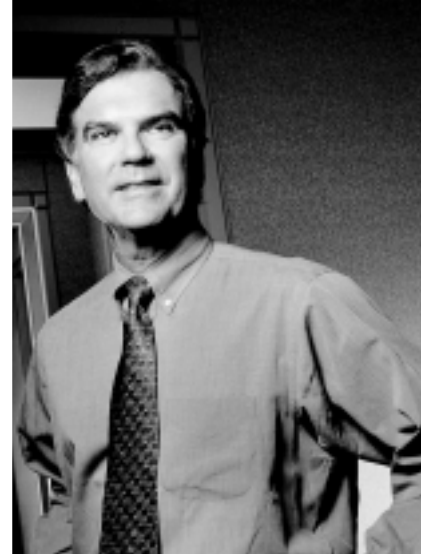
With an improved cost structure and asset base, Bowater took full advantage of higher prices to post excellent financial results. Our manufacturing costs continued to decline during the year, and we announced a new profit improvement initiative to continue our relentless drive to be more profitable over the cycle. Our strategy is working. We are delivering on our commitments.

FINANCIAL AND OPERATING PERFORMANCE

- Net income for the full year of 2000 was \$159.4 million, or \$3.02 per diluted share. This compares with net income in 1999 of \$78.7 million, or \$1.41 per diluted share, which included net gains on the sale of assets, net of impairment charges, of \$72.8 million, or \$1.32 per diluted share. Bowater had sales of \$2.5 billion in 2000, compared with \$2.3 billion in 1999.

During the year we generated \$416.6 million in operating cash flow. We used \$103.7 million to repurchase 2.1 million shares of common stock, continuing our share repurchase program that has totaled 3.1 million shares since May 1999. We paid \$48.3 million in dividends and spent \$283.2 million on capital projects to keep our mills cost effective and to improve efficiency. This spending level is higher than in the past as we ramp up spending on our coated papers strategy. We continue our commitment to spend below depreciation, even as we implement major projects that will add significant value to Bowater.

Short-term debt increased by \$470.0 million, primarily resulting from the purchase of the Grenada mill. At year-end, our debt to total capitalization ratio stood at 48.6%. We expect to use cash flow from operations in 2001 to reduce our debt level toward our target range of approximately 40%.



ARNOLD M. NEMIROW
Chairman, President and Chief Executive Officer

**MARKET
CONDITIONS**

► Market conditions for newsprint, our largest product segment, improved substantially during 2000. Prices increased in each quarter of the year – from \$495 per metric ton on average in the fourth quarter of 1999 to \$583 per metric ton in the fourth quarter of 2000. Demand grew in Asia, recovering to the strongest levels since the 1997/98 economic crisis. The relatively mature markets of North America and Europe also experienced growth. The supply/demand picture for newsprint improved, as industry capacity declined during the year because producers converted to higher value grades and closed high-cost facilities. Approximately one million tons of annual production capacity are expected to be removed from the North American market over the next two years. Newsprint's future looks bright.

The market for coated groundwood papers was solid. Even in the Internet age, advertising inserts, catalogs and magazines have shown remarkable growth. We expect growth to continue at approximately 3% annually, and we are capitalizing on that opportunity by adding capacity, in a very measured way, to meet customers' increasing demands for a wide array of coated paper grades. Our unique coated paper strategy targets healthy and diverse niche markets at a low capital cost.

Market pulp, Bowater's third major product, experienced an excellent year with strong demand and rising prices. Good markets for paper and paper products helped keep pulp prices up during most of the year. However, market pulp demand declined toward the end of the year, due to reduced demand for certain paper grades. We expect the pulp market to recover during the second half of 2001.

Lumber markets, to which Bowater has a small exposure, were weak during all of 2000. Soft export markets and excess supply kept prices depressed. However, we have seen recent indications of improvement in our lumber markets.

LETTER TO SHAREHOLDERS

EXPANSION OF OUR COATED PAPERS BUSINESS

► In 2000, we took two significant steps to enhance our market position in major product areas. In August, we acquired the Grenada newsprint mill. The integration of the mill into Bowater's system has been very successful, and we expect to exceed our initial synergy targets. In November, we announced the expansion of our coated papers business. The centerpiece of this plan is the conversion of a large newsprint machine at our Catawba mill to a coated groundwood machine. We will also add a second coating line to our first Nuway plant in Michigan and build two new coating plants, one in the mid-South region and the other in the mid-Atlantic region. When these projects are completed in 2002, the Catawba mill will be one of the world's premier coated paper mills, with over 700,000 tons of annual coated paper production, and we will increase our highly profitable coated papers business to almost one million tons per year.

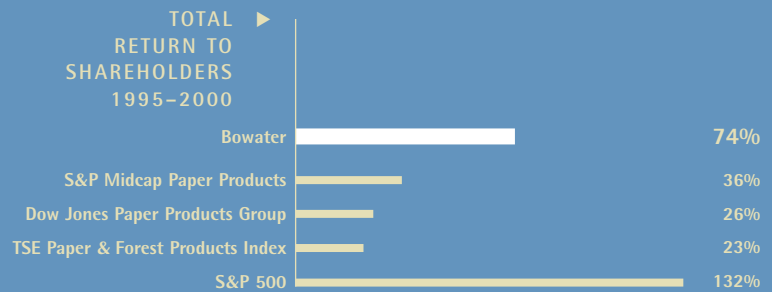
STRATEGIC DIRECTION

► With a positive outlook for our products, we expect to continue to grow our earnings power. This will be done by focusing on cost reduction and profit improvement, executing our coated papers strategy and seizing opportunities to further grow and consolidate the newsprint business.

Our strategy is really very simple. Its three main principles are:

- Efficiency and cost improvements
- Product mix improvement
- Growth with financial discipline

Bowater's track record for productivity improvement and cost reduction is proven. Our grass roots, continuous review process involves company employees at all levels, with effective incentive programs driven by our corporate goals. We successfully completed two major cost reduction initiatives totaling \$270 million over the past five years and, during 2000, announced another \$100 million profit improvement program.



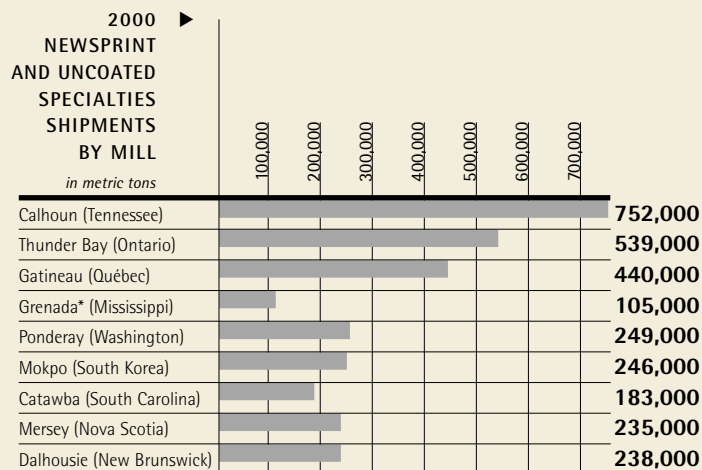
The second part of our strategy is the improvement of our product mix. We continue to broaden our spectrum of products, leveraging our customer base and taking full advantage of our existing infrastructure to maximize earnings potential. The pending expansion of our coated papers capacity and the development of new uncoated groundwood specialty grades at our Calhoun mill are prime examples.

The third part of our strategy is financially disciplined growth. Since 1998, we have more than doubled our production capacity while maintaining a strong balance sheet and carefully keeping our capital spending below depreciation. This means that we are spending our capital dollars wisely, generating solid returns above our cost of capital, and buying back our stock when appropriate.

Our shareholder returns reflect a winning strategy. The chart above shows our five-year total return to shareholders. Although lagging the broader market index, Bowater's shareholder returns have significantly outperformed its industry peers. We believe that our strategy will continue to build shareholder value.

In closing, I want to thank H. David Aycock for his 13 years of dedicated service as a member of Bowater's Board of Directors. Dave has reached our mandatory retirement age for directors and will be retiring from the Board in May. We also welcome our newest director, Cinda Hallman, who brings years of solid business experience to our Board. To our shareholders, customers and 6,400 employees worldwide, I want to thank you for a great year.

Arnold M. Nemirow
Chairman, President and Chief Executive Officer
 March 15, 2001



* Reflects newsprint shipments from August to December 2000.

NEWSPRINT DIVISION

Bowater's Newsprint Division is responsible for the operation of eight facilities in the United States, Canada and South Korea. The largest newsprint manufacturer in the United States, Bowater grew again in 2000 with the purchase of a 250,000 metric ton newsprint mill in Grenada, Mississippi. This facility allows Bowater to better serve the growing Southwestern United States market, while enabling us to improve operating margins through better freight efficiencies at our other North American mills.

Bowater's facilities are among the most cost-effective newsprint operations in the world. We continuously initiate programs to enhance product quality and service and reduce costs. We take pride in building strong customer relationships. In fact, several of our newsprint customers are equity partners in various Bowater mills. One of our many quality improvement efforts is standardizing best quality practices in our newsprint mills, supported by a strong flow of communication and coordination with our customers.

SALES*

in millions



* Includes financial results for the sale of market pulp and intersegment sales.

WORLD NEWSPRINT MARKET SHARE



SEGMENT INCOME*

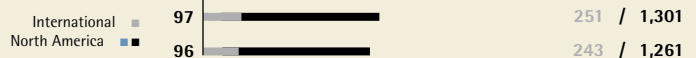
in millions



* Includes financial results for the production and sale of market pulp.

NEWSPRINT SHIPMENTS BY DESTINATION

in thousands of metric tons



* Reflects newsprint shipments from August to December 2000 for Grenada.



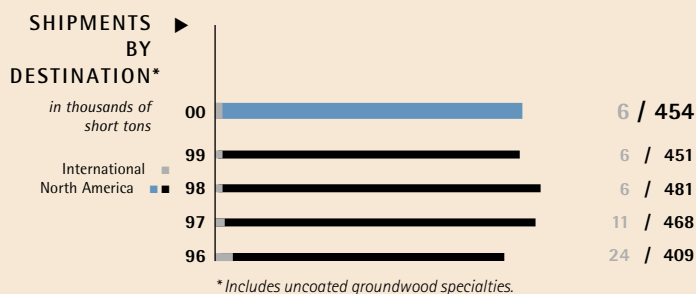
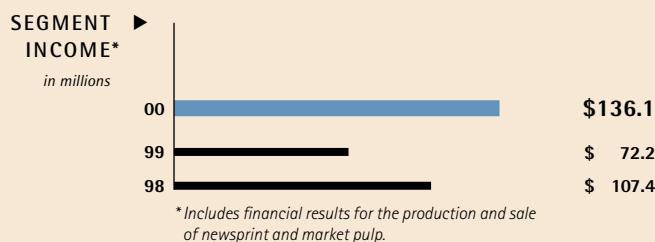
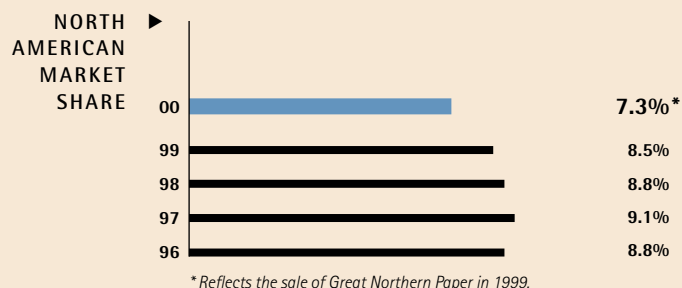
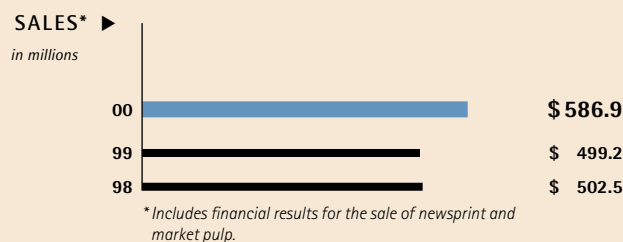
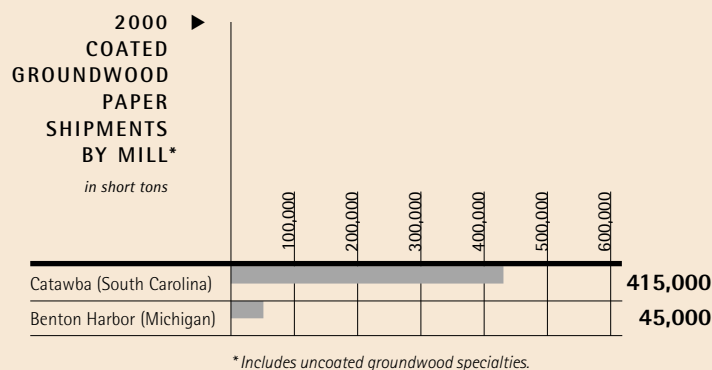
Operating Efficiencies

Bowater relentlessly pursues operating efficiencies. Our \$100 million profit improvement program for 2001 will augment operating cost reductions, productivity improvements and acquisition synergies totaling approximately \$270 million attained since 1995. But, we won't stop there. Our companywide initiatives continue to seize opportunities to secure the best available prices for the goods and services we purchase. New technologies are introduced to reduce costs. By forging strong relationships with our customers, we work together to eliminate unnecessary costs, and we continue to improve the quality of our products and service. And throughout the Bowater system, we focus on sharing knowledge to implement best business practices in all our operations.



Financial Discipline

Bowater subscribes to financial fundamentals that have enabled us to increase significantly our size and earning power, at the same time delivering one of the best overall industry returns to shareholders. We have upgraded our asset base and divested non-core, non-strategic and high-cost assets, while making prudent use of our borrowing capacity. Our acquisitions have been accretive, and our internal investments are rigorously reviewed to assure that we meet or exceed our expectations. Our capital spending is managed to remain below our depreciation. We focus unrelentingly on cost reduction and capacity management. Our stringent financial discipline provides the flexibility to take advantage of investment opportunities, to repurchase stock and maintain a solid investment grade rating.

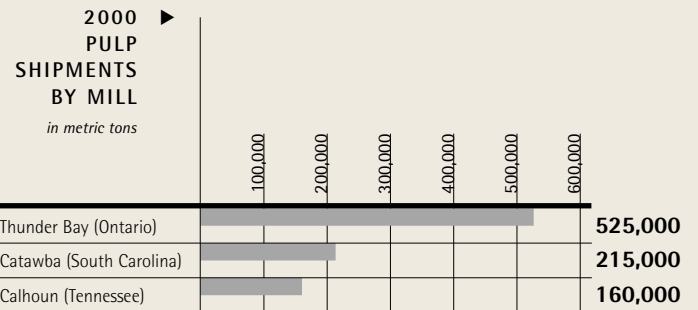


COATED PAPER DIVISION

Bowater's Coated Paper Division manufactures high-quality coated groundwood papers used for catalogs, magazines, and the growing retail circular market. Our coated paper is produced at our operations at Catawba, South Carolina, and Benton Harbor, Michigan.

We have a dynamic and exciting strategy, centered on our customers' growing demand for premium papers. Our investment decisions are driven by our desire to continue our leadership position with customers. The newsprint machine at our Catawba, South Carolina, facility will be converted in 2002 to produce higher-value coated paper grades, making the Catawba mill one of the premier modern coated paper facilities in the world. We are adding a second coating line in Benton Harbor, and we have announced that we will be building a new coating plant in the mid-South region and another in the mid-Atlantic region to be completed in 2002.

Execution of our strategy fulfills Bowater's objective to optimize our product mix and achieve higher margins and superior returns from value-added products. The capital cost per ton of the converted capacity is significantly lower than recent comparable industry acquisitions. When the various projects are completed, Bowater will be among the largest suppliers to the growing coated groundwood papers market in North America.

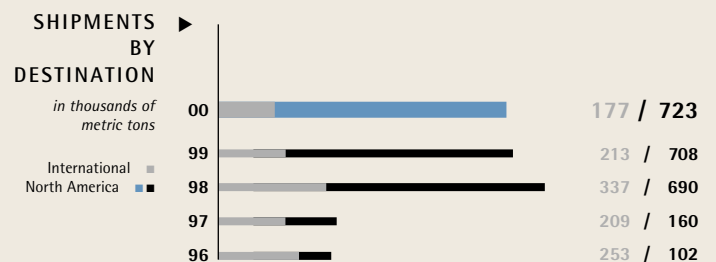


PULP DIVISION

Bowater is one of North America's leading producers and suppliers of market pulp. Our market pulp, which is sold to third parties for use in the manufacture of tissue, lightweight coated papers, coated and uncoated free-sheet and specialty packaging materials, is produced at our low-cost integrated pulp and paper mills.

The completion of a new thermomechanical pulping system at the Calhoun mill resulted in a significant increase in our production of hardwood kraft pulp, while also reducing our production costs. Additional enhancements to our pulping processes are under construction at the Catawba and Thunder Bay facilities.

One of our competitive advantages is our ability to produce all major grades of market pulp (northern and southern hardwood and softwood kraft). That gives us a unique perspective on the global pulp market and the flexibility to manage our market pulp capacity on a timely and systematic basis.





Seizing Opportunities

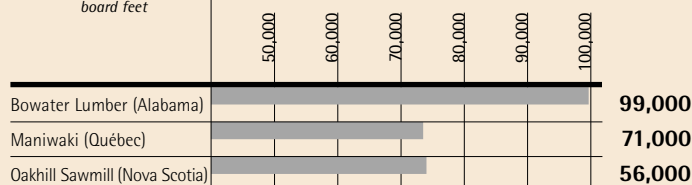
Our industry is in the midst of unprecedented change. Regional and global consolidation have affected every sector of the industry, with Bowater a key participant in North America and Asia. Over the past three years, we invested over \$3 billion to acquire and enhance our newsprint production capacity. We are capitalizing on existing resources to convert our Catawba, South Carolina, newsprint machine to produce coated paper at significantly less cost than acquiring comparable facilities. We do our homework. We know our business and our industry. And, we move quickly and decisively when opportunity knocks. Bowater makes things happen.



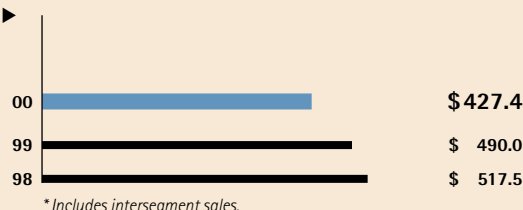
Leadership

Bowater's management is a disciplined, seasoned and focused team that delivers on its commitments. We accept the challenges of our rapidly changing industry, and we constantly search for opportunities to improve. Our motivated, goal-oriented group again led Bowater in 2000 to recognition by *IndustryWeek* magazine as one of the world's 100 best-managed companies – the only company in our industry to be named. Each member of the senior management team is assigned a major customer as part of a program designed to link our company as closely as possible with the people and strategies that drive our customers' businesses. We also recognize our leadership responsibilities in our communities, providing financial and volunteer resources for worthwhile causes. Our management team, supported by Bowater's experienced and talented employees around the world, places a premium on shareholder value, customer service and community responsibility.

**2000
LUMBER
SHIPMENTS
BY MILL**
*in thousands of
board feet*



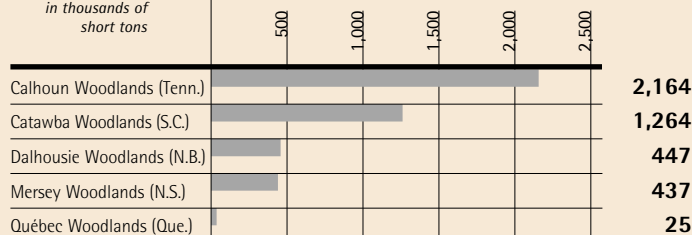
SALES*
in millions



**SEGMENT
INCOME**
in millions



**2000
TIMBER
SALES
VOLUME**
*in thousands of
short tons*



FOREST PRODUCTS DIVISION

The Forest Products Division manages 1.8 million acres of timberlands owned or leased by Bowater in the United States and Canada and 14.1 million acres of timber management rights in Canada. It sells timber and lumber and supplies wood fiber to various manufacturing facilities including Bowater's pulp and paper mills. The Division also operates three softwood sawmills.

We manage our woodlands to maximize the return on invested capital in a manner consistent with good environmental stewardship and sustainable forest management. Our Upsalquitch forest in New Brunswick recently received ISO 14001 registration of its environmental management system, and we will be seeking registration of our other woodlands operations. Bowater subscribes to the American Forest & Paper Association's Sustainable Forestry InitiativeSM.

The Division continues to invest in high-return sawmill projects. These investments are being made to reduce operating costs, improve the fiber supply and lower the costs of our pulp and paper mills.

ENVIRONMENT AND SAFETY

A healthy and clean environment and a safe workplace are priority goals at Bowater. Protection of our human and natural resources is a core value.

Bowater demonstrates this in many ways. We are committed to achieving third-party verification of sustainable forest management practices for all our forests. By the end of 2001, all of our pulp and paper mills will utilize process wastes to produce energy instead of sending the wastes to landfills. We are among the very first to participate in the United States Environmental Protection Agency's Voluntary Advanced Technology Incentive Program through a major project that will reduce air emissions, energy consumption and water use at our Catawba facility.

At Bowater, the health and safety of our employees is a primary concern and responsibility. Our facilities are among the safest in the industry. Since 1995, even as we have more than doubled the number of operating facilities, our OSHA incidence rate has been reduced by 89%. We credit our significantly improved safety performance to a team effort by all Bowater employees. Bowater offers various employee training programs that stress our commitment to a safe and healthy workplace.

FINANCIAL REPORT 2000

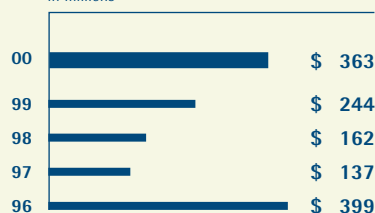
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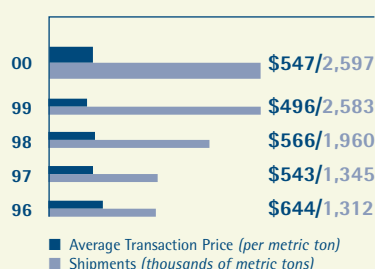
BUSINESS AND FINANCIAL REVIEW

► OPERATING INCOME

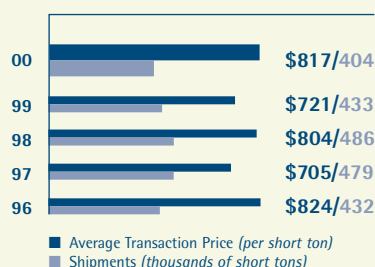
in millions



► NEWSPRINT



► COATED GROUNDWOOD



► Overview

Bowater is organized into four divisions: the Newsprint Division, the Coated Paper Division, the Pulp Division and the Forest Products Division. Except for the Pulp Division, each 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, Bowater's financial results are collected, analyzed and reported through the Newsprint, Coated Paper and Forest Products Divisions.

NEWSPRINT DIVISION

The Newsprint Division operates eight manufacturing sites in the United States, Canada and South Korea. During 2000, the Division acquired a newsprint mill in Grenada, Mississippi. The principal product line at these manufacturing sites is newsprint, but several of the sites also produce market pulp and uncoated groundwood specialties. The Division is responsible for the worldwide marketing and sales of newsprint and uncoated groundwood specialties.

COATED PAPER DIVISION

The Coated Paper Division operates a manufacturing site that produces coated groundwood paper, newsprint, market pulp and uncoated groundwood specialties and a coating facility, both located in the United States. This Division is responsible for the marketing and sales of coated groundwood paper.

PULP DIVISION

The Pulp 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 Division and the Coated Paper Division, depending upon which site manufactures the product.

FOREST PRODUCTS DIVISION

The Forest Products Division manages 1.8 million acres of timberland owned or leased in the United States and Canada and over 14 million acres of Crown-owned land in Canada on which Bowater has cutting rights. The Division also operates three softwood sawmills, supplies wood fiber to Bowater's pulp and paper production sites and markets timber and lumber in North America.

► Cautionary Statement Regarding Forward-Looking Information

Statements in this report that are not reported financial results or other historical information are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. They include, for example, statements about our business outlook, assessment of market conditions, strategies, future plans, future sales, prices for our major products, inventory levels, capital spending and tax rates. These forward-looking statements are not guarantees of future performance. They are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. The risks and uncertainties relating to the forward-looking statements in this report include those described under the caption "Cautionary Statement Regarding Forward-Looking Information" in Bowater's annual report on Form 10-K for the year ended December 31, 2000, and from time to time, in Bowater's other filings with the Securities and Exchange Commission.

► **Results of Operations:**
2000 Compared with 1999

Bowater's net income for 2000 was \$159.4 million, or \$3.02 per diluted share, compared with net income of \$78.7 million, or \$1.41 per diluted share, in 1999.

In 2000, Bowater began reporting all sales amounts before distribution costs. All prior-year amounts have been adjusted to conform to the new presentation.

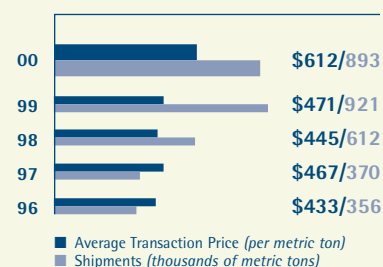
Operating income in 2000 was \$363.3 million on sales of \$2.5 billion, compared with \$244.0 million on sales of \$2.3 billion in 1999. In 2000, operating income includes gain on sale of assets of \$7.3 million compared to \$225.4 million in 1999. Operating income for 1999 also includes a pre-tax impairment charge of \$92.0 million. Excluding the impairment charge and the net gain on sale of assets, operating income increased \$245.4 million. This increase was due to higher transaction prices for newsprint, pulp, coated groundwood paper and uncoated groundwood specialties, and higher shipments of newsprint (due to the acquisition of the Grenada mill) and uncoated groundwood specialties. This increase was partially offset by lower lumber prices, lower shipments of pulp and coated groundwood paper and higher general and administrative expenses. Our operating costs were lower in 2000 compared with 1999 due to less market-related downtime and the sale of Great Northern Paper, Inc. (GNP), which included two high-cost mills. These lower costs were partially offset by higher prices for recycled paper, fuel and power. Presented below is a discussion of each significant product line, followed by a discussion of the results of each of the divisions.

PRODUCT LINE INFORMATION:

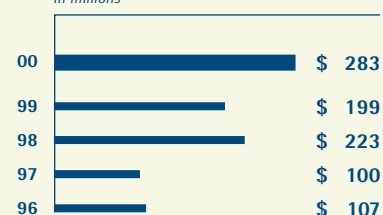
Newsprint The newsprint markets improved during 2000. Bowater's average transaction price for newsprint increased 10% during the year. Our shipments were slightly higher compared with 1999 due to the acquisition of the Grenada mill and less market-related downtime, partially offset by the sale of GNP and the movement of newsprint to higher value-added specialty grades. Bowater's inventory of newsprint at the end of 2000 was lower than at the end of 1999. The United States economy grew approximately 5% in 2000, and Asian demand improved, recovering from the Asian economic crisis of 1997 and 1998. Total United States newsprint demand and consumption increased during 2000 compared with 1999. North American mill inventories, as well as customer inventories, declined from 1999 levels. North American exports of newsprint, constrained by tight domestic supply, grew modestly during the year. North American imports of newsprint declined significantly. Given the strong newsprint market, we are increasing prices in all of our offshore markets in the first quarter of 2001, and we implemented an additional price increase, effective March 1, 2001, in the United States.

Uncoated Groundwood Specialties Compared with 1999, Bowater's average transaction price of uncoated groundwood specialties increased 9% in 2000. Our shipments also increased 72% as a result of the movement from newsprint to higher value-added specialty grades. Uncoated groundwood specialty grades are used mainly for fliers and newspaper inserts. This market is normally similar to the newsprint market in terms of pricing and demand.

► **MARKET PULP**



► **CAPITAL EXPENDITURES**
in millions



BUSINESS AND FINANCIAL REVIEW

Coated Groundwood The market for coated groundwood paper was solid throughout 2000. Bowater's 2000 average transaction price for coated groundwood paper was 13% higher than in 1999. Our shipments for 2000 were 7% lower compared with 1999 shipments. This decrease is primarily the result of the sale of GNP in 1999, partially offset with the production from our Nuway operations. United States shipments of coated groundwood paper increased slightly compared to 1999. End-use markets continued to grow with magazine advertising pages and catalog mailings (measured by standard A mail weight) increasing over 1999 levels. Inventories of the United States coated groundwood producers declined significantly in the first half of 2000 and then increased during the second half to end the year 26% higher than year end 1999. Although there was significant weakness in the coated free-sheet markets during the year, the impact on our coated paper grades was minimal.

Market Pulp 2000 was a strong year for market pulp. Bowater implemented three price increases: \$30 per metric ton effective January 1, 2000, \$40 per metric ton effective April 1, 2000, and \$30 per metric ton effective July 1, 2000. Our average transaction price for market pulp increased 30% compared to 1999. Our shipments were down slightly compared to 1999 due to 25,000 metric tons of market-related downtime taken toward the end of the year. During the first half of the year, NORSCAN (United States, Canada, Finland, Norway and Sweden) shipments increased 2% from the corresponding 1999 level. During the second half of the year, market conditions began to weaken. NORSCAN shipments decreased compared to the second half of 1999 and were also down compared to the first half of 2000. Industry inventories increased to over 33 days supply, or 1.8 million metric tons. This trend has continued into the first quarter of 2001, and as a result, we have announced an additional 30,000 metric tons of market-related downtime during the first quarter.

Lumber Lumber markets were weak throughout 2000. United States housing starts were 1.6 million units in 2000, decreasing 4% from 1999. Bowater's average transaction price for lumber in 2000 was 16% lower than in 1999 with prices declining in each quarter of the year. The industry average price for structural framing lumber was at its lowest level since 1992. Shipments increased at each of our three sawmills; however, our overall shipments declined slightly in 2000 compared with 1999 due to the sale of a sawmill in March 1999.

Timber Bowater's average transaction price for timber declined 6% from 1999 levels. After accounting for the change in mix that resulted from the sale of timberlands in Maine, our prices for timber were basically flat in 2000 compared to 1999. Softwood sawtimber prices weakened slightly as a result of poor lumber markets; however, the impact on Bowater was minimized through aggressive merchandising and marketing efforts. Our shipments of timber declined 31% in 2000 as a result of the sale of over 2 million acres of timberland in 1999.

DIVISIONAL PERFORMANCE:

SALES BY DIVISION ⁽¹⁾

(In millions)	2000	1999
Newsprint	\$ 1,827.2	\$ 1,672.0
Coated Paper	586.9	499.2
Forest Products	427.4	490.0
Corporate & other eliminations	(341.2)	(349.5)
Total sales	\$ 2,500.3	\$ 2,311.7

SEGMENT INCOME (LOSS) BY DIVISION ⁽¹⁾

(In millions)	2000	1999
Newsprint	\$ 291.4	\$ 53.1
Coated Paper	136.1	72.2
Forest Products	17.9	44.9
Special items	7.3	133.4
Corporate & other eliminations	(89.4)	(59.6)
Total segment income	\$ 363.3	\$ 244.0

(1) Financial results for the production and sale of market pulp are included in the Newsprint Division or the Coated Paper Division, depending upon which site manufactures the product. The Pulp Division is responsible for the marketing and distribution of the product, and its administrative expenses are included in "Corporate & other eliminations."

The line titled "Total segment income" in the preceding table is equal to "Operating income" as presented in our Consolidated Statement of Operations.

Newsprint Division Sales increased during the year, from \$1.7 billion to \$1.8 billion, primarily as a result of the higher transaction prices for newsprint, pulp and uncoated groundwood specialties, as well as higher shipments of newsprint (due to the acquisition of the Grenada mill), pulp and uncoated groundwood specialties. See the previous discussions of the newsprint and market pulp product line results. Segment income in 2000 increased \$238.3 million from \$53.1 million in 1999 to \$291.4 million. This increase was due to the higher transaction prices for newsprint, pulp and uncoated groundwood specialties. Operating costs for the Division were lower in 2000 due to less market-related downtime and the sale of GNP's high-cost mills. This decrease was partially offset by higher prices for recycled paper, power and fuel.

Coated Paper Division Sales increased \$87.7 million in 2000 compared with 1999, from \$499.2 million to \$586.9 million, primarily the result of higher transaction prices for newsprint, coated groundwood paper and pulp, and higher shipments of coated groundwood and uncoated groundwood specialties. This increase was partially offset by lower newsprint and market pulp shipments. See the previous discussions of the newsprint, coated groundwood and market pulp product line results. Segment income increased \$63.9 million, from \$72.2 million to \$136.1 million, primarily the result of the higher transaction prices for newsprint, coated groundwood paper and pulp, partially offset by higher operating costs associated with fuel and chemicals.

Forest Products Division Sales in 2000 decreased \$62.6 million compared with 1999, from \$490.0 million to \$427.4 million. This decrease was due primarily to lower timber sales and lower transaction prices for lumber and timber. See the previous discussions of the lumber and timber product line results. Segment income decreased \$27.0 million, from \$44.9 million to \$17.9 million, due to lower transaction prices for lumber and lower timber shipments due to the sale of over 2 million acres during 1999. Operating costs for the Division increased compared with 1999, primarily as a result of a charge of \$7.8 million for pine beetle damage to our southern United States timberlands. The risk of additional pine beetle damage continues to exist. The Division is unable to determine, at this time, if this will have a material impact on its future operating results.

Special Items During 2000, Bowater sold fixed assets and timberlands resulting in a pre-tax gain of \$7.3 million. During 1999, we sold over 2 million acres resulting in a pre-tax gain of \$272.5 million. We also recorded a pre-tax impairment charge of \$92.0 million, reducing the book value of our assets at GNP. In August 1999, we completed the sale of GNP, resulting in a pre-tax loss of \$47.1 million.

Corporate & Other Eliminations The elimination of intersegment sales decreased \$8.3 million in 2000 compared to 1999. Decreased sales volume between the divisions accounts for the majority of this decrease. General and administrative expenses for 2000 increased \$29.8 million compared with 1999, primarily due to higher stock-based compensation charges, benefit costs and professional fees.

INTEREST AND OTHER INCOME AND EXPENSES:

Interest expense increased \$8.5 million in 2000, from \$126.7 million to \$135.2 million, due to borrowings on our credit facility to fund the acquisition of the Grenada mill. Interest income increased \$7.9 million, from \$7.7 million in 1999 to \$15.6 million in 2000, due to interest on notes receivable from a sale of timberland.

Other expense in 2000 was \$4.5 million versus other income of \$30.8 million in 1999. During 2000, Bowater incurred foreign exchange losses of \$3.9 million compared with \$33.4 million of foreign exchange gains in 1999. These gains and losses primarily relate to the effect of changes in Canadian dollar exchange rates on our Canadian dollar hedging program during the respective periods.

PROVISION FOR INCOME TAXES:

Bowater's effective tax rate in 2000 was 29% compared to 46% in 1999. The rate is lower in 2000 due to Canadian investment tax credits and tax saving initiatives generated and recorded in 2000. In addition, as the level of pre-tax income increases, the impact of non-deductible items on our effective tax rate, such as goodwill amortization, lessens.

FOURTH QUARTER OF 2000:

Net income in the fourth quarter of 2000 was \$58.5 million, or \$1.12 per diluted share, on sales of \$657.9 million. This compares with net income in the fourth quarter of 1999 of \$20.4 million, or \$0.38 per diluted share, on sales of \$562.9 million.

Operating income for the fourth quarter of 2000 was \$99.0 million compared to \$73.5 million for the fourth quarter of 1999. The increase of \$25.5 million was due to higher newsprint, coated groundwood paper and market pulp prices, partially offset by lower market pulp shipments. During 2000, we implemented price increases for all three of these product lines and curtailed production of market pulp by 25,000 metric tons in the fourth quarter of 2000 in order to maintain optimal inventory levels. Selling, general and administrative expenses were higher in the fourth quarter of 2000 compared with the fourth quarter of 1999, due primarily to higher stock-based compensation charges.

BUSINESS AND FINANCIAL REVIEW

In the fourth quarter of 2000, operating income included a gain on sale of assets of \$3.9 million due to the sale of approximately 6,000 acres of timberlands in the southeastern United States. In the fourth quarter of 1999, operating income included \$27.0 million of gain on sale of assets. Of this gain, \$18.9 million related to the sale of timberlands, and \$8.1 million related to closing adjustments on the sale of GNP, reducing the pre-tax loss previously recorded.

The effective tax rate for the fourth quarter of 2000 was significantly lower than the rate recorded in the fourth quarter of 1999 due to Canadian investment tax credits and tax saving initiatives generated and recorded in the fourth quarter of 2000.

► *Liquidity and Capital Resources: 2000 Compared with 1999*

Bowater's cash, cash equivalents and marketable securities balance at year-end 2000 was \$20.4 million, a decrease of \$6.4 million from \$26.8 million at year-end 1999.

Cash and cash equivalents decreased \$4.7 million, from \$24.7 million at year-end 1999 to \$20.0 million at year-end 2000. Bowater generated \$416.6 million of cash from operations and \$295.0 million of cash from financing activities, while we used \$716.3 million for investing activities. Aside from capital expenditures, our most significant investing activity was the acquisition of the Grenada mill for \$382.2 million.

CASH FROM OPERATING ACTIVITIES:

Bowater generated cash of \$416.6 million from operating activities in 2000, compared with \$147.0 million in 1999. The increase of \$269.6 million was primarily the result of higher operating income in 2000 due to higher average transaction prices for our newsprint, coated groundwood and market pulp products, and higher coated groundwood shipments. The 2000 operating cash flows include the activity of the Grenada mill for the period August 1, 2000, to December 31, 2000. Working capital needs were also lower in 2000 by \$23.6 million.

CASH FROM INVESTING ACTIVITIES:

Cash used for investing activities in 2000 was \$716.3 million versus a cash inflow of \$258.7 million in 1999. In 2000, we acquired the Grenada mill for \$382.2 million, purchased the Ignace sawmill for \$4.7 million and invested \$3.1 million in PaperExchange.com.

Capital expenditures in 2000 totaled \$283.2 million, \$84.7 million higher than 1999 capital expenditures of \$198.5 million due to the construction of a recovery boiler at our Thunder Bay operations. Also in 2000, we refinanced assets previously leased at our Gatineau operations for \$24.2 million. In July 2000, the Board of Directors approved a project to replace the entire fiber line at our Catawba, South Carolina, facility. This new fiber line will enable the mill to comply with new environmental rules (see "Environmental Items"), as well as improve overall operating efficiencies. Capital spending for the fiber line project will be approximately \$175 million during the period 2001 to 2003. In November 2000, Bowater announced plans to convert the newsprint production at its Catawba operations to coated groundwood papers and to construct two additional Nuway sites, which will coat groundwood base sheets produced on Bowater machines that previously produced newsprint. As a result, our capital expenditure levels in 2001 will be approximately \$300 million, still below projected levels of depreciation and amortization in 2001.

Cash paid on the maturity of hedging contracts in our Canadian dollar hedging program totaled \$27.7 million in 2000 versus \$37.4 million in 1999. Cash invested in marketable securities in 2000 was \$50.7 million compared with \$10.6 million in 1999, while cash from the maturity of marketable securities in 2000 was \$52.5 million compared with \$9.7 million in 1999.

During 1999, we completed the sale of 1.6 million acres of Maine timberlands resulting in net cash proceeds of \$356.0 million. Also in 1999, Calhoun Newsprint Company (CNC) sold approximately 140,000 acres of timberlands in North Carolina and South Carolina for \$173.2 million (before expenses of \$1.1 million). Bowater received \$26.2 million in cash and \$145.9 million in notes.

During 1999, we also completed the sale of GNP. We received net cash proceeds of \$108.0 million and a note receivable of \$10.0 million, and we assumed certain liabilities. In addition to the note receivable, Bowater guaranteed payment for certain operating costs to one of GNP's suppliers. At the request of the buyer and other creditors, the note payment of \$10.0 million was deferred from August to December 2000. Subsequently, Bowater consented to a revised payment schedule. Principal payments totaling \$1.2 million were received through February 2001.

Several years ago, Bowater undertook an initiative to eliminate non-strategic assets, including non-strategic timberland tracts. Since 1996, we have sold approximately 2.3 million acres of timberlands throughout the United States and Canada, with cash proceeds totaling approximately \$420.0 million. Currently, we own or lease 1.8 million acres of timberlands in the United States and Canada and have timber cutting rights on over 14 million acres in Canada. Our Forest Products Division periodically reviews timberland holdings and sells timberlands.

CASH FROM FINANCING ACTIVITIES:

Cash flow from financing activities was \$295.0 million in 2000 compared with cash used for financing activities of \$439.3 million in 1999. During 2000, Bowater had net borrowings of \$470.0 million on its short-term credit facilities (primarily for the acquisition of the Grenada mill), while in 1999, we had net payments of \$195.0 million. Also in 2000, we reduced our long-term borrowings by \$30.9 million, which included the repurchase of an additional \$19.8 million of our 9.25% Debentures. In 1999, we reduced our long-term borrowings by \$27.6 million, which included a payment of \$8.0 million on our 8.25% Notes and a repurchase of \$13.9 million of our 9.25% Debentures. Also in 1999, we received cash proceeds of \$32.8 million from revenue bonds issued by the Industrial Development Board of the County of McMinn, Tennessee, in conjunction with the modernization of our Calhoun, Tennessee, newsprint facility.

In 2000, we increased the amount of our 364-day credit facility from \$150.0 million to \$750.0 million, while retaining our \$350.0 million, five-year facility.

Cash dividends in 2000 of \$48.3 million were lower than those paid in 1999 by \$12.3 million due to lower dividend payments to the minority shareholder of CNC.

In 1999, the Board of Directors authorized a stock repurchase program allowing us to repurchase up to 5.5 million shares of our outstanding common stock. As of December 31, 2000, we have purchased 3.1 million shares at a total cost of \$155.5 million. In 2000, we purchased 2.1 million shares at a cost of \$103.7 million. In 1999, we purchased 2.4 million shares of our common stock at a cost of \$109.2 million under this program and a previously announced program, which was completed in 1999.

In February 1999, Bowater redeemed, for \$26.4 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. Also in February 1999, Bowater Pulp and Paper Canada Inc. (BPPCI) redeemed for cash all of its outstanding 7.50% Convertible Unsecured Subordinated Debentures, due February 8, 2004. Prior to redemption and at the option of each holder, each C\$100 principal amount of the Debentures was convertible into either (1) 2.191 exchangeable shares of Bowater Canada Inc. (BCI, an indirect wholly owned subsidiary of Bowater) 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 BCI issued 1.4 million exchangeable shares.

We continually consider various options for the use of our cash, including internal capital investments, share repurchases, investments to grow our businesses and additional debt reductions.

► *Acquisitions and Dispositions*

In August 2000, Bowater completed the acquisition of the Grenada mill for cash of \$382.2 million (net of cash acquired and including fees and expenses) and the assumption of \$8.8 million in debt. The mill has an annual production capacity of approximately 250,000 metric tons of newsprint. We accounted for the acquisition under the purchase method of accounting. In November 2000, we acquired the Ignace sawmill, located in northern Ontario, for \$4.7 million.

In October 2000, Bowater announced that it signed a preliminary Letter of Intent and began negotiations with Sepoong Corporation and its major creditor, Chohung Bank, to acquire the Sepoong paper mill located in Kunsan, South Korea. Negotiations continued during the balance of the year; however, in January 2001, we announced our decision to terminate these negotiations.

In March 1999, Bowater completed the sale of 981,000 acres of timberlands in the state of Maine and a sawmill for \$216.5 million. In April 1999, we completed the sale of 650,000 acres of timberland in the state of Maine for \$150.0 million. We recorded a pre-tax gain on these transactions of \$253.7 million, or \$2.81 per diluted share after tax.

BUSINESS AND FINANCIAL REVIEW

In August 1999, we completed the sale of GNP for \$250.0 million, consisting of cash (\$108.0 million, net of expenses), a note (\$10.0 million) and the assumption of certain liabilities (\$130.0 million). We recorded a pre-tax loss of \$47.1 million, or \$0.58 per diluted share, after tax, on the sale.

In November 1999, CNC sold 140,000 acres of timberlands in North Carolina and South Carolina for \$173.2 million (before expenses of \$1.1 million). We received \$26.2 million in cash and \$145.9 million in notes. We recorded the transaction as an installment sale and as of December 31, 1999, recorded a pre-tax gain of \$17.4 million, or \$0.09 per diluted share, after tax and minority interest.

► *Environmental Items*

Bowater is subject to a variety of federal, state, provincial and local environmental laws and regulations in the jurisdictions in which it operates. We believe our operations are in substantial compliance with current applicable environmental laws and regulations.

In April 1998, the United States 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 certain environmental emissions. Projects necessary for the Calhoun, Tennessee, facility to comply with this rule by April 16, 2001, have been completed. A \$175 million project to replace the fiber line at the Catawba, South Carolina, facility has been approved. This new fiber line will enable the mill to improve overall operating efficiencies, as well as comply with the Cluster Rule by meeting the more stringent parameters of Tier I of the EPA's Voluntary Advanced Technology Incentive Program, with a compliance date of April 16, 2004. Our project is scheduled for completion by September 2003.

The new \$88 million kraft recovery boiler at the Thunder Bay, Ontario, facility is scheduled to be completed in the summer of 2001. This project will decrease the facility's rate of discharge for both air and particulate emissions, as well as improve mill operating efficiencies.

In addition to the projects mentioned above, we currently anticipate spending less than \$30 million of capital per year for all of our 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, we believe that we will not be at a competitive disadvantage in meeting future United States, Canadian or South Korean standards.

Bowater 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 future cash flow, financial condition or results of operations.

► *Adoption of Accounting Standards*

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. 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. Bowater adopted this Standard on January 1, 2001. There were no transition amounts recorded relating to the adoption of the Standard; however, the Standard will allow us to utilize hedge accounting treatment on the portion of our Canadian dollar forward contracts deemed to be effective under the Standard. This change should reduce the amount of exchange rate volatility in our Statement of Operations in future periods compared with our accounting treatment of these contracts prior to the adoption of the Standard. During the fourth quarter of 2000, we completed our documentation related to the adoption of the Standard for the Canadian dollar forward contracts in place as of December 31, 2000.

In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Bowater is required to adopt this Standard on April 1, 2001, and will account for transactions relating to the Standard in accordance with its provisions. The Standard is applicable only to transactions occurring after the adoption date; however, certain disclosure requirements are effective as of December 31, 2000.

In October 2000, Bowater adopted the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 (the "SAB") regarding revenue recognition. Upon adoption of the SAB, there was no impact on our results of operations or financial condition.

► *Historical Reference: Results of Operations 1999 Compared with 1998*

In 1999, Bowater began reporting "Net gain on sale of assets" and capital tax expense as components of operating income. Operating income in 1998 was adjusted to conform to the 1999 presentation. Operating income in 1999 was \$244.0 million on sales of \$2.3 billion, compared with \$162.1 million on sales of \$2.1 billion in 1998. The increase in 1999 operating income compared to 1998 was due to higher net gains on the sale of timberlands in 1999, partially offset by lower transaction prices for newsprint and coated groundwood paper products and lower coated groundwood paper shipments. Our operating costs were also lower in 1999 compared with 1998 due to the benefit of having the higher cost GNP mills out of our mix for a portion of the year and realizing certain acquisition-related synergies, partially offset by higher costs due to the impact of market-related downtime.

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:

Newsprint For most of 1999 and 1998, the newsprint market was affected by an imbalance in supply and demand, caused in part by the financial and economic problems in Asia, which lowered demand from this region. North American shipments to this region decreased while, at the same time, Asian imports increased, creating an oversupply of newsprint in North America. As a result, Bowater's newsprint prices declined precipitously through the third quarter of 1999. We also reduced newsprint production by approximately 200,000 metric tons to correct an order book imbalance and to lower inventories. Later in the year, Asian demand increased, and North American exports of newsprint for 1999 improved 8% above 1998 levels. In addition, total United States demand and consumption of newsprint improved in 1999 compared with 1998. As a result of more favorable market conditions, effective October 1999, Bowater implemented a United States price increase and announced an additional increase of \$50 per metric ton, effective April 1, 2000. We also increased export prices for newsprint in certain regions, effective January 1, 2000. Our shipments were 32% higher in 1999 versus 1998 as a result of the acquisitions in July 1998 of Avenor Inc. and a newsprint mill in South Korea. Our inventory of newsprint at the end of 1999 was lower than at the end of 1998.

Coated Groundwood During the first half of 1999, the market for coated groundwood paper was negatively impacted by an increased supply of competing printing and writing papers. Bowater's 1999 average transaction price for coated groundwood paper was 10% lower than in 1998. United States coated groundwood shipments increased during the second half of 1999 and were up strongly in the fourth quarter when compared with the fourth quarter of 1998. End-use markets continued to show strength with magazine advertising pages and catalog mailings (measured by standard A mail weight) increasing over 1998 levels. Inventories of the United States coated groundwood producers declined significantly in the second half of 1999. With improving market conditions, Bowater implemented price increases in the third quarter and an additional price increase of \$60 per short ton effective October 1, 1999. Our shipments for 1999 were 11% lower compared with 1998 shipments, primarily as a result of the sale of GNP in August 1999. Our inventory of coated groundwood paper was slightly lower than 1998 levels.

Directory Paper Directory paper prices generally change similarly to newsprint pricing, but with a lag due to the contract nature of the directory business. Bowater's average transaction price for directory paper decreased 7% in 1999 compared with 1998. Shipments of our directory paper decreased 45% as a result of the sale of GNP in August 1999. Subsequent to the sale of GNP, we no longer produce or market directory paper.

Market Pulp World pulp markets continued to improve throughout the year, reflecting tight supply conditions and improved demand. NORSCAN (United States, Canada, Finland, Norway and Sweden) shipments of market pulp for 1999 increased 7% compared with 1998, and inventories declined to 1.1 million metric tons, or a 17-day supply. As a result of these strong market conditions, Bowater implemented several market pulp price increases throughout 1999 and announced additional price increases of \$30 per metric ton effective January 1, 2000, and \$40 per metric ton effective April 1, 2000. The average transaction price for our market pulp increased 6% compared with 1998. Our shipments increased 51% in 1999 compared with last year, primarily due to the acquisition of Avenor in July 1998. Our market pulp inventories declined significantly at the end of 1999 compared with the end of 1998.

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Lumber United States demand for lumber was robust in 1999. Lumber pricing peaked at midyear, supported by 1999 housing starts of approximately 1.7 million units, the highest level since 1986. Prices stabilized in the fourth quarter, returning to beginning-of-year levels by the end of 1999. Bowater's average transaction price for lumber in 1999 was 4% higher than in 1998. Our shipments of lumber declined slightly due primarily to the sale of a sawmill in March 1999. This decrease was partially offset by higher production rates at our sawmills and the inclusion of production from the Avenor sawmill acquired in July 1998.

Timber Demand was mixed across Bowater's timber operations. Despite an increase in higher-value sawtimber, average transaction prices declined 8% compared with 1998 prices due to lower demand in the southeast United States timber markets and our sale of timberlands in the state of Maine. Shipments of our timber products increased 10% in 1999 compared with 1998 due to benefits from an increased focus on external sales and productivity gains through more intensive forest management practices.

DIVISIONAL PERFORMANCE:

SALES BY DIVISION ⁽¹⁾

(In millions)	1999	1998
Newsprint	\$ 1,672.0	\$ 1,473.8
Coated Paper	499.2	502.5
Forest Products	490.0	517.5
Corporate & other eliminations	(349.5)	(351.1)
Total sales	\$ 2,311.7	\$ 2,142.7

SEGMENT INCOME (LOSS) BY DIVISION ⁽¹⁾

(In millions)	1999	1998
Newsprint	\$ 53.1	\$ 157.5
Coated Paper	72.2	107.4
Forest Products	44.9	44.1
Special Items	133.4	(98.5)
Corporate & other eliminations	(59.6)	(48.4)
Total segment income	\$ 244.0	\$ 162.1

(1) Financial results for the production and the sale of market pulp are included in the Newsprint Division or the Coated Paper Division, depending upon which site manufactures the product. The Pulp Division is responsible for the marketing and the distribution of the product, and its administrative expenses are included in "Corporate & other eliminations."

The line titled "Total segment income" in the preceding table is equal to "Operating income" as presented in our Consolidated Statement of Operations.

Newsprint Division Sales for the Division increased during the year, from \$1.5 billion to \$1.7 billion, primarily as a result of the acquisition of Avenor and a South Korean newsprint mill in July 1998. This increase was mostly offset by lower transaction prices for newsprint and the sale of GNP in August 1999. See the previous discussions of the newsprint, directory paper and market pulp product line results. Segment income in 1999 decreased \$104.4 million, from \$157.5 million in 1998 to \$53.1 million. This decrease was due to lower transaction prices for newsprint and directory paper and higher operating costs as a result of market-related downtime, which were partially offset by higher transaction prices for market pulp and the realization of acquisition synergies.

Coated Paper Division Sales decreased \$3.3 million in 1999 compared with 1998, from \$502.5 million to \$499.2 million, primarily the result of lower transaction prices for newsprint and coated groundwood paper. This decrease was partially offset by higher average prices for market pulp and increased sales volume. See the previous discussions of the newsprint, coated groundwood and market pulp product line results. Segment income for the Division decreased \$35.2 million, from \$107.4 million to \$72.2 million, primarily the result of lower transaction prices for newsprint and coated groundwood, partially offset by higher average transaction prices for market pulp and increased sales volume.

Forest Products Division Sales for the Division in 1999 decreased \$27.5 million compared with 1998, from \$517.5 million to \$490.0 million. This decrease was due primarily to the sale of a sawmill and timberlands in the states of Maine, North Carolina and South Carolina. See the previous discussions of the lumber and timber product line results. Comparing the same periods, segment income increased \$0.8 million. This increase was due primarily to higher transaction prices for lumber, offset partially by lower transaction prices for timber.

Special Items During 1999, Bowater recorded a pre-tax gain on sale of timberlands of \$272.5 million, a pre-tax impairment charge of \$92.0 million and a pre-tax loss of \$47.1 million on the sale of GNP. Included in the 1998 results was a pre-tax impairment charge of \$119.6 million and a pre-tax gain on sale of timberlands of \$21.1 million.

Corporate & Other Eliminations Included in this category are general and administrative expenses, as well as limited market pulp sales from the Gold River pulp mill, which was permanently closed in February 1999. General and administrative expenses for 1999 increased \$11.2 million compared with 1998, primarily due to the inclusion of the Pulp Division and other administration expenses resulting from the purchase of Avenor in July 1998.

INTEREST AND OTHER INCOME AND EXPENSES:

Interest expense increased 29% in 1999, from \$98.4 million to \$126.7 million, due to the increase in debt related to the Avenor acquisition. Interest income decreased from \$17.5 million in 1998 to \$7.7 million in 1999, due to lower average investment balances in 1999.

During 1999, Bowater incurred pre-tax foreign exchange gains of \$33.4 million compared with \$29.7 million of foreign exchange losses in 1998. These gains primarily relate to marking to market foreign exchange contracts in our Canadian dollar hedging program during 1999 as the Canadian dollar strengthened against the United States dollar. In 1998, we recorded a net pre-tax charge of \$20.1 million related to currency options and forward contracts on the Canadian dollar and Korean won and recorded a charge of \$15.0 million for a reserve against a long-term note receivable. All of these amounts are included on the line titled "Other, net" in the Consolidated Statement of Operations.

PROVISION FOR INCOME TAXES:

The effective tax rate in 1999 was 46%. This rate is lower compared with 1998 due to the lower level of profits in 1998. In 1999 and 1998, the effective tax rates were higher compared with prior years due to adjustments made to the tax provisions to reflect the non-deductibility of certain charges and allowances for tax benefits not expected to be realized.

► **Liquidity and Capital Resources: 1999 Compared with 1998**

Bowater's cash, cash equivalents and marketable securities balance at year-end 1999 was \$26.8 million, a decrease of \$32.7 million from \$59.5 million at year-end 1998.

Cash and cash equivalents decreased \$33.6 million, from \$58.3 million at year-end 1998 to \$24.7 million at year-end 1999. Bowater generated \$147.0 million of cash from operations and \$258.7 million of cash from investing activities, while it used \$439.3 million for financing activities. Aside from cash flow from operations, capital expenditures and changes in investments and borrowings, Bowater had several other significant cash transactions during 1999. Cash proceeds include \$382.2 million from the sale of 1.8 million acres of timberlands in Maine, North Carolina and South Carolina and \$108.0 million from the sale of GNP. Cash payments were made for the following purposes: (1) \$37.4 million on the maturity of Canadian currency hedging contracts; (2) \$15.9 million for quarterly dividends to the minority shareholder of CNC; (3) \$65.9 million for the redemption of the 7.50% Convertible Unsecured Subordinated Debentures; (4) \$26.4 million for the redemption of the remaining shares of 8.40% Series C Preferred Stock; and (5) \$109.2 million for common stock purchases.

CASH FROM OPERATING ACTIVITIES:

Bowater generated cash of \$147.0 million from operating activities in 1999, compared with \$274.1 million in 1998. The decrease of \$127.1 million in 1999 reflects lower operating income (excluding the gains from the sale of timberlands) in 1999 due to lower transaction prices for our newsprint and coated groundwood paper products. Working capital needs were also higher in 1999 by \$46.9 million.

CASH FROM INVESTING ACTIVITIES:

Cash from investing activities in 1999 was \$258.7 million versus a cash outflow of \$408.0 million in 1998. Bowater had significantly different investing activities in 1999 versus 1998. In 1998, we acquired Avenor and a South Korean newsprint mill for a total cash outflow of \$876.0 million and sold the Dryden white paper mill for proceeds of \$532.5 million shortly after the Avenor acquisition. In 1999, we sold GNP, resulting in cash proceeds of \$108.0 million, and 1.6 million acres of timberlands in the state of Maine for net proceeds of \$356.0 million. An additional 140,000 acres of timberlands were sold in North Carolina and South Carolina for \$173.2 million (before expenses of \$1.1 million). We received cash

BUSINESS AND FINANCIAL REVIEW

of \$26.2 million and recorded notes receivable of \$145.9 million. In 1998, we sold 26,000 acres of timberlands resulting in proceeds of \$30.9 million. Capital expenditures in 1999 totaled \$198.5 million, \$24.7 million lower than 1998 capital expenditures of \$223.2 million. Capital expenditures were higher in 1998 due to the modernization of the Calhoun, Tennessee, newsprint facility. Cash paid on the maturity of hedging contracts in our Canadian dollar hedging program totaled \$37.4 million in 1999 versus \$27.9 million in 1998. Also in 1998, we purchased Canadian dollar option contracts for the pending acquisition of Avenor for \$22.7 million. Cash invested in marketable securities in 1999 was \$10.6 million compared with \$41.9 million in 1998, while cash from the maturity of marketable securities in 1999 was \$9.7 million compared with \$217.4 million in 1998.

Several years ago, Bowater undertook an initiative to eliminate non-strategic assets, including non-strategic timberland tracts. Since 1996, we have sold approximately 2.2 million acres of timberlands throughout the United States and Canada, with cash proceeds totaling approximately \$415.0 million. Our Forest Products Division periodically reviews timberland holdings and sells timberlands considered to be non-strategic tracts.

CASH FROM FINANCING ACTIVITIES:

Cash flow used for financing activities was \$439.3 million in 1999, \$402.8 million higher than the amount spent in 1998. During 1999, Bowater made net payments of \$195.0 million on its short-term credit facility while, in 1998, we had net borrowings of \$206.3 million, which were used to partially fund the Avenor and South Korean newsprint mill acquisitions. In 1999, we also reduced our long-term borrowings by \$27.6 million, which included a payment of \$8.0 million on our 8.25% Notes and a repurchase of \$13.9 million (including premium and accrued interest) of our 9.25% Debentures. In January 2000, we repurchased an additional \$19.8 million of our 9.25% Debentures. In 1998, we repaid \$91.1 million of our long-term borrowings, which included \$75.9 million on our 10.25% Debentures. During 1999, we received cash proceeds of \$32.8 million from revenue bonds issued by the Industrial Development Board of the County of McMinn, Tennessee, in conjunction with the modernization of our Calhoun, Tennessee, newsprint facility. Cash dividends in 1999 of \$60.6 million were slightly lower than 1998.

In April 1999, Bowater completed its 1997 stock repurchase program, purchasing a total of 4.1 million shares at a cost of \$165.1 million. Of this total, 1.4 million shares were purchased during 1999 at a cost of \$57.4 million. In May 1999, the Board of Directors authorized a new stock repurchase program, allowing us to repurchase up to an additional 5.5 million shares. As of December 31, 1999, we purchased 1.0 million shares at a total cost of \$51.8 million. In 1998, we purchased 2.4 million shares of our common stock at a total cost of \$98.1 million under the previous stock repurchase program.

In February 1999, Bowater redeemed for \$26.4 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, the redemption date.

Also in February 1999, Bowater Pulp and Paper Canada Inc. (BPPCI) redeemed for cash all of its outstanding 7.50% Convertible Unsecured Subordinated Debentures, due February 8, 2004. Prior to redemption and at the option of each holder, each C\$100 principal amount of the Debentures was convertible into either (1) 2.191 exchangeable shares of Bowater Canada Inc. (BCI, an indirect wholly owned subsidiary of Bowater) 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 BCI issued 1.4 million exchangeable shares.

CONSOLIDATED STATEMENT OF OPERATIONS

<i>(In millions, except per-share amounts)</i>	<i>Years ended December 31,</i>	2000	1999	1998
Sales		\$2,500.3	\$ 2,311.7	\$ 2,142.7
Cost of sales		1,549.9	1,625.2	1,422.2
Depreciation and amortization		295.2	300.2	229.6
Distribution costs		166.6	177.0	147.7
Selling and administrative expense		132.6	98.7	82.6
Impairment of assets		—	92.0	119.6
Net gain on sale of assets		7.3	225.4	21.1
Operating income		363.3	244.0	162.1
Other expense (income):				
Interest income		(15.6)	(7.7)	(17.5)
Interest expense, net of capitalized interest		135.2	126.7	98.4
Other, net		4.5	(30.8)	65.6
Income before income taxes and minority interests		239.2	155.8	15.6
Provision for income tax expense		70.3	71.5	25.9
Minority interests in net income of subsidiaries		9.5	5.6	8.2
Net income (loss)		159.4	78.7	(18.5)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments		(1.4)	2.8	(4.1)
Minimum pension liability adjustments, net of taxes of \$0.9, \$5.0 and \$(6.0), respectively		1.7	7.8	(9.3)
Comprehensive income (loss)		\$ 159.7	\$ 89.3	\$ (31.9)
Earnings per share:				
Basic earnings per common share:				
Net income (loss)		\$ 3.05	\$ 1.43	\$ (0.44)
Average common shares outstanding		52.3	54.2	47.6
Diluted earnings per common share:				
Net income (loss)		\$ 3.02	\$ 1.41	\$ (0.44)
Average common and common equivalent shares outstanding		52.8	55.0	47.6

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

<i>(In millions, except share amounts)</i>	<i>At December 31,</i>	2000	1999
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 20.0	\$ 24.7	
Marketable securities	0.4	2.1	
Accounts receivable, net	380.8	314.3	
Inventories	161.9	145.4	
Other current assets	52.5	46.0	
Total current assets	615.6	532.5	
Timber and timberlands	265.2	283.2	
Fixed assets, net	2,981.1	2,581.3	
Notes receivable	147.1	146.0	
Goodwill	866.8	870.6	
Other assets	128.3	138.6	
Total assets	\$5,004.1	\$ 4,552.2	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current installments of long-term debt	\$ 141.4	\$ 35.5	
Short-term bank debt	485.0	15.0	
Accounts payable and accrued liabilities	314.7	336.4	
Dividends payable	10.3	10.9	
Total current liabilities	951.4	397.8	
Long-term debt, net of current installments	1,304.7	1,454.6	
Other long-term liabilities	319.2	326.1	
Deferred income taxes	508.1	481.4	
Minority interests in subsidiaries	123.6	121.5	
Commitments and contingencies	—	—	
Shareholders' equity:			
Common stock, \$1 par value. Authorized 100,000,000 shares; issued 61,913,626 and 60,828,440 shares at December 31, 2000 and 1999, respectively	61.9	60.8	
Exchangeable shares, no par value. Unlimited shares authorized; outstanding and held by non-affiliates 1,304,541 and 2,164,377 at December 31, 2000 and 1999, respectively	63.5	105.4	
Additional paid-in capital	1,367.1	1,315.4	
Retained earnings	809.6	691.8	
Accumulated other comprehensive income (loss)	(18.0)	(18.3)	
Loan to ESOT	—	(0.7)	
Treasury stock at cost, 11,635,850 and 9,512,499 shares at December 31, 2000 and 1999, respectively	(487.0)	(383.6)	
Total shareholders' equity	1,797.1	1,770.8	
Total liabilities and shareholders' equity	\$5,004.1	\$ 4,552.2	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CAPITAL ACCOUNTS

<i>(In millions, except per-share amounts)</i>	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
Balance at December 31, 1997	\$ 25.5	\$ 44.9	\$ —	\$ 563.1	\$ 717.0	\$ (15.5)	\$ (4.5)	\$ (176.3)
Net loss	—	—	—	—	(18.5)	—	—	—
New issuance of stock	—	12.3	183.6	586.4	—	—	—	—
Retraction of exchangeable shares	—	1.5	(73.1)	71.6	—	—	—	—
Debt conversions to exchangeable shares	—	—	0.3	—	—	—	—	—
Dividends on:								
Common (\$0.80 per share)	—	—	—	—	(38.9)	—	—	—
Series C (\$8.40 per share)	—	—	—	—	(2.2)	—	—	—
Reduction in loan to ESOT	—	—	—	—	—	—	1.9	—
Foreign currency translation	—	—	—	—	—	(4.1)	—	—
Stock options exercised	—	0.3	—	6.5	—	—	—	—
Tax benefit on exercise of stock options	—	—	—	2.6	—	—	—	—
Pension plan additional minimum liability, net of tax benefit of \$6.0	—	—	—	—	—	(9.3)	—	—
Purchase of common stock	—	—	—	—	—	—	—	(98.1)
Balance at December 31, 1998	\$ 25.5	\$ 59.0	\$ 110.8	\$ 1,230.2	\$ 657.4	\$ (28.9)	\$ (2.6)	\$ (274.4)
Net income	—	—	—	—	78.7	—	—	—
New issuance of exchangeable shares	—	—	66.2	—	—	—	—	—
Retraction of exchangeable shares	—	1.5	(71.6)	70.1	—	—	—	—
Redemption of Series C preferred stock	(25.5)	—	—	—	(0.9)	—	—	—
Dividends on:								
Common (\$0.80 per share)	—	—	—	—	(43.3)	—	—	—
Series C (\$0.56 per share)	—	—	—	—	(0.1)	—	—	—
Reduction in loan to ESOT	—	—	—	—	—	—	1.9	—
Foreign currency translation	—	—	—	—	—	2.8	—	—
Stock options exercised	—	0.3	—	10.4	—	—	—	—
Tax benefit on exercise of stock options	—	—	—	4.7	—	—	—	—
Pension plan additional minimum liability, net of taxes of \$5.0	—	—	—	—	—	7.8	—	—
Purchase of common stock	—	—	—	—	—	—	—	(109.2)
Balance at December 31, 1999	\$ —	\$ 60.8	\$ 105.4	\$ 1,315.4	\$ 691.8	\$ (18.3)	\$ (0.7)	\$ (383.6)
Net income	—	—	—	—	159.4	—	—	—
Retraction of exchangeable shares	—	0.9	(41.9)	41.0	—	—	—	—
Dividends on:								
Common (\$0.80 per share)	—	—	—	—	(41.6)	—	—	—
Reduction in loan to ESOT	—	—	—	—	—	—	0.7	—
Foreign currency translation	—	—	—	—	—	(1.4)	—	—
Stock options exercised	—	0.2	—	6.6	—	—	—	—
Tax benefit on exercise of stock options	—	—	—	1.9	—	—	—	—
Pension plan additional minimum liability, net of taxes of \$0.9	—	—	—	—	—	1.7	—	—
Stock option compensation	—	—	—	2.2	—	—	—	—
Treasury stock used for dividend reinvestment plans	—	—	—	—	—	—	—	0.3
Purchase of common stock	—	—	—	—	—	—	—	(103.7)
Balance at December 31, 2000	\$ —	\$ 61.9	\$ 63.5	\$ 1,367.1	\$ 809.6	\$ (18.0)	\$ —	\$ (487.0)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(In millions)</i>	<i>Years ended December 31,</i>	2000	1999	1998
Cash flows from operating activities:				
Net income (loss)	\$ 159.4	\$ 78.7	\$ (18.5)	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	295.2	300.2	229.6	
Deferred income taxes	32.9	5.5	(33.3)	
Minority interests in net income of subsidiaries	9.5	5.6	8.2	
Net gain on sale of assets	(7.3)	(225.4)	(21.1)	
Write-down of assets due to impairment	—	92.0	119.6	
Write-down of option contracts	—	—	22.7	
Reserve for long-term note receivable	—	—	15.0	
Changes in working capital:				
Accounts receivable, net	(53.6)	12.8	5.2	
Inventories	(7.6)	5.9	13.8	
Accounts payable and accrued liabilities	5.1	(110.8)	(39.3)	
Income taxes payable	(15.4)	(3.0)	(27.9)	
Other, net	(1.6)	(14.5)	0.1	
Net cash from operating activities	416.6	147.0	274.1	
Cash flows from investing activities:				
Business acquisitions	(390.0)	—	(876.0)	
Cash invested in fixed assets, timber and timberlands	(283.2)	(198.5)	(223.2)	
Purchase of assets previously leased	(24.2)	—	—	
Business dispositions	—	108.0	532.5	
Disposition of fixed assets, timber and timberlands	7.0	387.5	33.8	
Cash invested in option contracts	—	—	(22.7)	
Cash paid on maturity of hedging contracts	(27.7)	(37.4)	(27.9)	
Cash invested in marketable securities	(50.7)	(10.6)	(41.9)	
Cash from maturity of marketable securities	52.5	9.7	217.4	
Net cash from (used for) investing activities	(716.3)	258.7	(408.0)	
Cash flows from financing activities:				
Cash dividends, including minority interests	(48.3)	(60.6)	(62.1)	
Purchase of common stock	(103.7)	(109.2)	(98.1)	
Short-term financing	979.5	284.1	766.3	
Short-term financing repayments	(509.5)	(479.1)	(560.0)	
Long-term financing	0.4	32.8	—	
Purchases/payments of long-term debt	(30.9)	(27.6)	(91.1)	
Stock options exercised	6.8	10.7	6.8	
Redemption of Series C and LIBOR preferred stock	—	(26.4)	—	
Redemption of 7.50% Convertible Unsecured Subordinated Debentures	—	(65.9)	—	
Other	0.7	1.9	1.7	
Net cash from (used for) financing activities	295.0	(439.3)	(36.5)	
Net decrease in cash and cash equivalents	(4.7)	(33.6)	(170.4)	
Cash and cash equivalents:				
Beginning of year	24.7	58.3	228.7	
End of year	\$ 20.0	\$ 24.7	\$ 58.3	
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest, net of capitalized interest of \$3.5, \$ 4.9 and \$4.5	\$ (139.2)	\$ (133.6)	\$ (82.1)	
Income taxes	\$ (36.4)	\$ (51.8)	\$ (61.6)	
Noncash investing and financing activity:				
Conversion of 7.50% Convertible Unsecured Subordinated Debentures into exchangeable shares	\$ —	\$ 66.2	\$ —	

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

► *Note 1. Summary of Significant Accounting Policies*

BASIS OF PRESENTATION:

The accompanying consolidated financial statements include the accounts of Bowater Incorporated and Subsidiaries (Bowater). These financial statements are expressed in United States dollars except where noted and have been prepared in accordance with United States generally accepted accounting principles. All consolidated subsidiaries are wholly owned with the exception of the following:

	Percent Ownership
Bowater Maritimes Inc.	67
Calhoun Newsprint Company (CNC)	51
Bowater Mersey Paper Company, Ltd.	51

All significant intercompany transactions and balances have been eliminated.

Bowater also has a 40% interest in and is managing partner for an unconsolidated entity, 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 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.

MARKETABLE SECURITIES:

Marketable securities generally consist of direct obligations of the United States and Canadian governments and their agencies, investment-grade commercial paper 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:

Bowater manages certain foreign currency risks through the use of derivative financial instruments that may include forward exchange contracts and currency options. 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. Bowater's derivatives have various terms, none of which exceeds two years. We do not use derivatives for trading purposes.

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. 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. Bowater adopted this Standard on January 1, 2001. There were no transition amounts recorded upon adoption of the Standard.

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 and are included in the line titled "Depreciation and amortization" in the Consolidated Statement of Operations.

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. Bowater capitalizes interest on borrowings during the construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF:

Bowater accounts for long-lived assets in accordance with the provisions of 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 undiscounted 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 the expected period to be benefited and does not exceed 40 years. Bowater 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 net 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 our average cost of funds.

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. Bowater has not provided income taxes on the undistributed earnings of certain of its subsidiaries, as it has specific plans for the reinvestment of such earnings.

FOREIGN OPERATIONS:

Financial statements of the majority of Bowater's Canadian and Korean operations are prepared using the United States dollar as their functional currency. Translation of the Canadian and Korean operations, as well as gains and losses from non-United States 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 United States 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 AND OTHER STOCK-BASED COMPENSATION:

Bowater 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." We also provide 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:

Bowater has contributory and noncontributory pension plans that cover substantially all employees. Our cash contributions to the plans are sufficient to provide pension benefits to participants and meet the funding requirements of ERISA and applicable Pension Benefits Acts in Canada. We also sponsor defined benefit health care and life insurance plans for retirees at certain locations. Net periodic costs are recognized as employees render the services necessary to earn postretirement benefits.

In addition to the pension plans, Bowater sponsors savings plans for substantially all employees. Our contributions to these defined contribution plans are expensed as incurred.

COMPREHENSIVE INCOME (LOSS):

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. At December 31, 2000, "Accumulated other comprehensive income (loss)" includes \$(16.9) million for pension plan additional minimum liabilities, \$(7.8) million for foreign currency translation and \$6.7 million for taxes. At December 31, 1999, "Accumulated other comprehensive income (loss)" includes \$(19.5) million for pension plan additional minimum liabilities, \$(6.4) million for foreign currency translation and \$7.6 million for taxes.

REVENUE RECOGNITION:

Bowater ships all products directly from its manufacturing sites to a customer's location or to a customer-designated site. We recognize revenue from product sales when our customers assume risk of ownership. Bowater adopted the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 (the "SAB") regarding revenue recognition. The SAB requires that a company recognize revenue only when all of the following criteria are met: (1) Persuasive evidence of an arrangement exists; (2) Delivery has occurred or services have been rendered; (3) The seller's price to the buyer is fixed or determinable; and (4) Collectibility is reasonably assured. Upon adoption of the SAB, there was no impact on our results of operations or financial condition.

BASIC AND DILUTED EARNINGS PER 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 dilutive common share equivalents (stock options and convertible debt).

ENVIRONMENTAL COSTS:

Bowater 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. We determine our liability on a site-by-site basis and record a liability at the time it is probable and can be reasonably estimated.

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.

RECLASSIFICATIONS:

Certain prior-year amounts in the financial statements and the notes have been reclassified to conform to the 2000 presentation.

► Note 2. Business Acquisitions

The following table summarizes our business acquisitions during the past three years. The cash payments listed are net of cash acquired and include fees and expenses.

(In millions)	2000	1999	1998
Acquisition of Newsprint South paper mill	\$ (382.2)	\$ —	\$ —
Acquisition of Ignace sawmill	(4.7)	—	—
Investment in PaperExchange.com	(3.1)	—	—
Acquisition of Avenor, net of cash acquired of \$118.0	—	—	(675.0)
Acquisition of South Korean newsprint mill	—	—	(201.0)
	\$ (390.0)	\$ —	\$ (876.0)

In August 2000, Bowater completed its acquisition of the Newsprint South, Inc., paper mill (Grenada mill) in Grenada, Mississippi. The total purchase price, including assumed debt of \$8.8 million (fair market value of \$7.9 million), amounted to \$382.2 million. We 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, and the operating results were included in the Consolidated Statement of Operations beginning August 2000.

The purchase price of \$382.2 million was allocated as follows:

(In millions)	2000
Current assets	\$ 21.6
Land	1.5
Fixed assets	357.5
Goodwill	20.3
Current liabilities	(10.8)
Long-term debt	(7.9)
	\$ 382.2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma consolidated financial results assume the acquisition had occurred on January 1 of the following years:

(In millions)	2000	1999
Sales	\$ 2,571.4	\$ 2,430.3
Net income	157.0	73.0
Diluted earnings per share	\$ 2.97	\$ 1.31

In November 2000, Bowater acquired the Ignace sawmill, located in northern Ontario, for \$4.7 million. We also invested \$3.1 million in PaperExchange.com, a global e-business marketplace for the pulp and paper industry, allowing us to offer newsprint for sale over the Internet.

In July 1998, Bowater 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). We paid cash of \$793.0 million and issued 12.3 million common shares and 3.8 million exchangeable shares. We accounted for the transaction using the purchase method of accounting. The operating results of Avenor were included in the Consolidated Statement of Operations for the period beginning July 1998. 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 1998, over the historical net assets of Avenor, was \$1,528.6 million.

Also, in July 1998, we 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 investment was recorded at cost using the purchase method of accounting.

► Note 3. Business Dispositions

The following table summarizes our business dispositions during the past three years. The amounts listed are the net cash proceeds from the various transactions.

(In millions)	2000	1999	1998
Great Northern paper mill	\$ —	\$ 108.0	\$ —
Dryden white paper mill	—	—	532.5
	\$ —	\$ 108.0	\$ 532.5

In August 1999, we sold Great Northern Paper, Inc. (GNP) to Inexcon Maine, Inc. (Inexcon) for \$250.0 million. The proceeds consisted of cash of \$108.0 million (net of expenses), a note receivable of \$10.0 million and the assumption of certain employee-related liabilities totaling \$130.0 million. We recorded a pre-tax loss of \$47.1 million. The note receivable plus accrued interest was payable in full one year from date of the sale. At the request of the buyer and other creditors, the note payment of \$10.0 million was deferred from August to December 2000. Subsequently, Bowater consented to a revised payment schedule. Principal payments of \$1.2 million were received through February 2001.

The following table shows GNP's sales and operating income (loss) included in the Consolidated Statement of Operations for the 12 months ended December 31, 1999 and 1998:

(In millions)	1999	1998
Sales – including internal sales	\$ 249.7	\$ 526.2
Operating income (loss) (1)	\$ (11.4)	\$ 41.7

(1) Operating income (loss) excludes asset impairment charges of \$92.0 million and \$119.6 million in 1999 and 1998, respectively, and gains from timberland sales totaling \$253.7 million in 1999.

In December 2000, Inexcon asserted certain claims against Bowater for indemnification pursuant to the purchase agreement between Inexcon and Bowater. The company is challenging these claims, and the parties have agreed to arbitration, if necessary.

In September 1998, we completed the sale of our 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.

► Note 4. Impairment of Assets

In 1999, Bowater completed the sale of GNP, which consisted of the East Millinocket mill, the Millinocket mill, timberlands and hydro facilities. During the second quarter of 1999, we signed an agreement with Inexcon for the purchase of all of our assets at GNP. This agreement prompted an evaluation of all the assets at GNP in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Based on the proposed sale, the assets were written down to fair value, and we recorded a pre-tax impairment charge in special items of \$92.0 million.

Previously, in 1998, the Millinocket mill assets were reevaluated in accordance with SFAS No. 121. We determined fair value using discounted future net cash flows. Accordingly, in the third quarter of 1998, we recorded a pre-tax impairment charge in special items 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.

► Note 5. Net Gain on Sale of Assets

(In millions)	2000	1999	1998
Gain on sale of timberlands	\$ 4.1	\$ 272.5	\$ 21.1
Gain on sale of fixed assets	3.2	—	—
Loss on sale of GNP	—	(47.1)	—
	\$ 7.3	\$ 225.4	\$ 21.1

During the year 2000, Bowater sold approximately 6,900 acres of timberlands in the southeastern United States for gross proceeds of \$4.7 million. We recorded a pre-tax gain of \$4.1 million. During the first quarter of 2000, we sold fixed assets resulting in a pre-tax gain of \$3.2 million.

In the first quarter of 1999, we sold approximately 981,000 acres of timberlands and a sawmill in Maine for gross proceeds of \$216.5 million. We recorded a pre-tax gain of \$145.4 million.

In the second quarter of 1999, we sold approximately 650,000 acres of timberlands in Maine for gross proceeds of \$150.0 million. We recorded a pre-tax gain of \$108.3 million. As part of the sale, approximately \$56.0 million of proceeds were received

in the form of a long-term note. This note was monetized through a qualified special purpose entity (QSPE), and the cash proceeds of approximately \$51.0 million from the monetization are included in "Disposition of fixed assets, timber and timberlands" in the 1999 Consolidated Statement of Cash Flows. Netted in the gain above is a \$3.7 million loss based on the present value of discounted future cash flows of our residual interest in the QSPE. Our remaining interest in the QSPE at December 31, 2000, is \$2.9 million based on discounted future cash flows. We have also guaranteed a portion of the debt of the QSPE totaling approximately \$12.7 million.

In the fourth quarter of 1999, CNC, a majority-owned subsidiary of Bowater, sold approximately 140,000 acres of timberlands in North Carolina and South Carolina for proceeds of \$173.2 million (before expenses of \$1.1 million). Bowater received \$26.2 million in cash and \$145.9 million in notes. We recorded the transaction as an installment sale and as of December 31, 1999, recorded a pre-tax gain of \$17.4 million. We have deferred pre-tax gains of approximately \$95.0 million on this transaction that will be realized in future periods. Other timberland sales during the year resulted in additional pre-tax gains of \$1.4 million.

In August 1999, we sold GNP for \$250.0 million. We recorded a pre-tax loss of \$47.1 million. Details concerning the sale of GNP are included in Note 3, "Business Dispositions."

During 1998, we sold 26,000 acres of timberlands primarily in South Carolina for gross proceeds of \$30.9 million. We recorded a pre-tax gain of \$21.1 million.

► Note 6. Other Expense (Income)

Other expense (income) includes non-operating items. The breakdown of the components of "Other, net" in the Consolidated Statement of Operations for the three years ended December 31, 2000, 1999 and 1998 is as follows:

(In millions)	2000	1999	1998
Foreign exchange loss (gain)	\$ 3.9	\$ (33.4)	\$ 29.7
Loss on Canadian option dollar contracts	—	—	22.7
Reserve for a long-term note receivable financing	—	—	15.0
Other	0.6	2.6	(1.8)
	\$ 4.5	\$ (30.8)	\$ 65.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

► Note 7. Earnings Per 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 "Net income (loss)" is as follows:

<i>(In millions, except per-share amounts)</i>	2000	1999	1998
Basic computation:			
Net Income (loss)	\$ 159.4	\$ 78.7	\$ (18.5)
Less:			
Series C dividends	—	(0.1)	(2.2)
Series C deferred issuance costs	—	(1.0)	—
Basic income (loss) available to common shareholders	\$ 159.4	\$ 77.6	\$ (20.7)
Basic weighted average shares outstanding	52.3	54.2	47.6
Basic earnings (loss) per common share	\$ 3.05	\$ 1.43	\$ (0.44)
Diluted computation:			
Basic income (loss) available to common shareholders	\$ 159.4	\$ 77.6	\$ (20.7)
Effect of dilutive securities:	—	—	—
Diluted income (loss) available to common shareholders	\$ 159.4	\$ 77.6	\$ (20.7)
Basic weighted average shares outstanding	52.3	54.2	47.6
Effect of dilutive securities:			
Options	0.5	0.8	—
Diluted weighted average shares outstanding	52.8	55.0	47.6
Diluted earnings (loss) per common share	\$ 3.02	\$ 1.41	\$ (0.44)

The dilutive effect of options outstanding is computed using the treasury stock method. In 2000 and 1999, all options were included in the calculation of diluted earnings per share. Due to the net loss incurred for the year ended December 31, 1998, all common stock equivalents were excluded to prevent antidilution.

► Note 8. Inventories

<i>(In millions)</i>	2000	1999
At lower of cost or market:		
Raw materials	\$ 39.3	\$ 30.1
Work in process	2.8	3.6
Finished goods	44.1	31.8
Mill stores and other supplies	84.0	88.4
	170.2	153.9
Excess of current cost over LIFO inventory value	(8.3)	(8.5)
	\$ 161.9	\$ 145.4

Inventories valued using the LIFO method comprised 14.3% and 6.5%, respectively, of total inventories at December 31, 2000 and 1999.

► Note 9. Fixed Assets

<i>(In millions)</i>	2000	1999	Range of Estimated Useful Lives in Years
Land and land improvements	\$ 37.6	\$ 34.9	10–20
Buildings	317.0	301.0	20–40
Machinery and equipment	4,373.2	3,899.3	5–20
Leasehold improvements	3.2	2.7	10–20
Construction in progress	185.8	66.6	—
	4,916.8	4,304.5	
Less accumulated depreciation and amortization	1,935.7	1,723.2	
	\$ 2,981.1	\$ 2,581.3	

► **Note 10. Goodwill**

Goodwill consists of an amount recorded with the acquisition of the Grenada operations in August 2000 and the goodwill recorded with the acquisition of Avenor in July 1998. The goodwill purchased with the Grenada operations of \$20.3 million is being amortized on a straight-line basis over 20 years. The goodwill acquired with Avenor is being amortized on a straight-line basis over 40 years. Bowater recorded goodwill amortization of \$23.8 million in 2000, \$22.5 million in 1999 and \$9.8 million in 1998. Accumulated amortization of goodwill totaled \$56.1 million and \$32.3 million at December 31, 2000 and 1999, respectively.

► **Note 11. Accounts Payable and Accrued Liabilities**

<i>(In millions)</i>	2000	1999
Trade accounts payable	\$ 169.7	\$ 158.2
Payroll, bonuses and severance	48.1	36.6
Accrued interest	29.4	22.1
Employee benefits	7.6	20.4
Amounts payable under GNP sales agreement	—	20.0
Avenor acquisition/divestiture-related liabilities (See Note 12)	3.9	19.1
Unrealized losses on hedging contracts	5.6	19.0
Property and franchise taxes payable	13.1	13.2
Other	37.3	27.8
	\$ 314.7	\$ 336.4

► **Note 12. Avenor Acquisition/Divestiture-Related Liabilities**

In connection with the acquisition of Avenor during the third quarter of 1998, Bowater recorded merger-related liabilities totaling \$17.8 million. These liabilities consisted primarily of Avenor employee termination costs, Avenor facility closures and Avenor lease commitments.

Also in the third quarter of 1998, we recorded liabilities of \$65.0 million for the closure of our Gold River pulp mill (acquired as part of the Avenor acquisition). These accruals included asset impairment charges, employee termination costs and environmental obligations.

During the fourth quarter of 1998, in conjunction with the sale of our Dryden white paper mill (acquired as part of the Avenor acquisition), liabilities were recorded to cover employee termination costs and other costs that we retained as part of the sales agreement. We recorded liabilities totaling \$14.8 million related to this transaction.

The total amount of Avenor acquisition/divestiture-related liabilities of \$97.6 million was recorded as part of the cost of the acquisition.

During 2000, we netted \$2.8 million of our asset impairment reserve against the related assets of the Gold River pulp mill. As of December 31, 2000, the remaining accrual for the above items is \$17.8 million. Of this remaining accrual, \$3.9 million is included in "Accounts payable and accrued liabilities," and \$13.9 million is included in "Other long-term liabilities" in the Consolidated Balance Sheet. As of December 31, 2000, the cash requirements related to these liabilities are expected to be \$3.9 million in 2001 and \$13.9 million in 2002 and beyond.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables summarize the activity for the liabilities described above:

			Write-Offs & Payments Against Reserve	Increase (Decrease) Reserve	Foreign Exchange	Balance, 12/31/00
(In millions)	Balance, 12/31/99	Reclass Adjustments				
Employee termination costs	\$ 3.3	\$ —	\$ (3.2)	\$ —	\$ (0.1)	\$ —
Facility closures	3.9	0.4	(0.4)	—	—	3.9
Asset impairments/disposals	3.6	(2.8)	(0.7)	—	(0.1)	—
Environmental	15.2	(0.4)	(2.4)	2.1	(0.6)	13.9
Totals	\$ 26.0	\$ (2.8)	\$ (6.7)	\$ 2.1	\$ (0.8)	\$ 17.8

			Write-Offs & Payments Against Reserve	Increase (Decrease) Reserve	Foreign Exchange	Balance, 12/31/99
(In millions)	Balance, 12/31/98	Adjust Goodwill				
Employee termination costs	\$ 30.5	\$ (2.7)	\$ (22.6)	\$ (3.7)	\$ 1.8	\$ 3.3
Facility closures	5.2	(1.1)	(0.5)	—	0.3	3.9
Asset impairments/disposals	8.1	—	(4.8)	—	0.3	3.6
Environmental	15.7	—	(3.8)	2.5	0.8	15.2
Totals	\$ 59.5	\$ (3.8)	\$ (31.7)	\$ (1.2)	\$ 3.2	\$ 26.0

			Write-Offs & Payments Against Reserve	Increase (Decrease) Reserve	Foreign Exchange	Balance, 12/31/98
(In millions)	Balance, 12/31/97	Establish Reserve				
Employee termination costs	\$ —	\$ 39.9	\$ (9.5)	\$ —	\$ 0.1	\$ 30.5
Facility closures	—	5.1	—	—	0.1	5.2
Asset impairments/disposals	—	36.9	(29.0)	—	0.2	8.1
Environmental	—	15.7	—	—	—	15.7
Totals	\$ —	\$ 97.6	\$ (38.5)	\$ —	\$ 0.4	\$ 59.5

► **Note 13. Long-Term and Short-Term Debt**

Long-term debt, net of current installments:

(In millions)	2000	1999
Unsecured:		
9.00% Debentures due 2009	\$ 250.0	\$ 250.0
9.38% Debentures due 2021, net of unamortized discount of \$0.9 in 2000 and \$1.0 in 1999	199.0	198.9
10.62% Notes due 2010	126.5	128.6
10.50% Notes due at various dates from 2002 to 2010	112.0	125.7
9.50% Debentures due in 2012, net of unamortized discount of \$0.3 in 2000 and \$0.3 in 1999	124.7	124.7
10.85% Debentures due 2014	115.7	120.1
9.25% Debentures due 2002	61.7	64.0
9.86% Notes due 2001	—	93.1
10.60% Notes due 2011	91.0	92.4
7.75% recycling facilities revenue bonds due 2022	62.0	62.0
7.40% recycling facilities revenue bonds due 2022	39.5	39.5
7.62% recycling facilities revenue bonds due 2016	30.0	30.0
10.26% Notes due at various dates from 2002 to 2011	26.9	27.2
Pollution control revenue bonds due at various dates from 2002 to 2010 with interest at varying rates from 6.85% to 7.62%	13.4	23.3
Industrial revenue bonds due 2029 with interest at floating rates	33.5	33.5
8.50% Notes due 2001	—	18.1
Bank term loan at floating rates due 2001	—	12.0
10.25% Debentures due 2003	7.4	7.4
UDAG loan agreement due 2010 with interest rates varying from 5.00% to 6.50%	7.7	—
11.00% Subordinated debt due 2003	3.7	4.1
	\$ 1,304.7	\$ 1,454.6

Long-term debt maturities for the next five years are as follows:

Year	Balance Sheet Classification	(In millions)
2001	Current installments of long-term debt	\$ 141.4
2002	Long-term debt, net of current installments	\$ 71.9
2003	Long-term debt, net of current installments	\$ 24.1
2004	Long-term debt, net of current installments	\$ 12.9
2005	Long-term debt, net of current installments	\$ 13.6

The debt balances listed above include \$113.2 million at December 31, 2000, and \$126.9 million at December 31, 1999, due to the revaluation of the debt balances acquired with the purchase of the Newsprint South paper mill in August 2000, and the July 1998 acquisition of Avenor.

In 2000, Bowater increased the amount of its 364-day credit facility from \$150.0 million to \$750.0 million, while retaining its \$350.0 million, five-year facility. Borrowings under these facilities incur interest based, at our option, on specified market interest rates plus a margin tied to the credit rating of our long-term debt. At December 31, 2000, \$220.0 million (at 7.3%) was outstanding under the \$750.0 million facility, \$262.8 million (at 7.6%) was outstanding under the \$350.0 million facility, and \$2.2 million was outstanding under an operating line of credit. At December 31, 1999, \$15.0 million (at 6.8%) was outstanding under the \$750.0 million facility, and there was no balance outstanding under the \$350.0 million facility or the operating line of credit.

In January 2000, we repaid \$19.8 million of our 9.25% Debentures due 2002. The cash price paid was \$20.8 million, including premium and accrued interest. The principal amount was included on the line titled "Current installments of long-term debt" in the Consolidated Balance Sheet at December 1999. In December 1999, we repaid \$13.3 million of the same issue. The cash price paid was \$13.9 million, including premium and accrued interest.

During 2000 and 1999, Bowater received proceeds totaling \$33.5 million from revenue bonds issued by the Industrial Development Board of the County of McMinn, Tennessee, in conjunction with the modernization of its Calhoun, Tennessee, newsprint facility. The bonds are variable rate (5.0% at December 31, 2000, and 5.6% at December 31, 1999) and mature in June 2029.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In February 1999, we redeemed all of our outstanding 7.50% Convertible Unsecured Subordinated Debentures due 2004. In connection with the redemption, we paid cash of \$65.9 million, and Bowater Canada Inc. issued 1,359,620 exchangeable shares.

Bowater guarantees certain payments of debt related to its unconsolidated entities. The total amount was \$62.7 million at December 31, 2000, and December 31, 1999.

► **Note 14. Financial Instruments**

At December 31, 2000, Bowater had foreign currency forward and range forward contracts with a notional value of \$448.0 million maturing through 2002. The notional amount of these contracts represents the amount of foreign currencies

to be purchased or sold at maturity and does not represent our exposure on these contracts. The contracts serve as economic hedges against our 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.

The carrying amounts of our short-term financial assets and liabilities (excluding derivatives) approximate fair value. We estimate the fair value of our 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 our derivative financial instruments and long-term debt at December 31, 2000 and 1999, follows:

(In millions)	2000			1999		
	Notional Amount of Derivatives	Net Asset (Liability)		Notional Amount of Derivatives	Net Asset (Liability)	
		Carrying Amount	Fair Value		Carrying Amount	Fair Value
Foreign currency exchange agreements:						
Buy currency:						
Canadian dollar						
Due in 2000	\$ —	\$ —	\$ —	\$ 457.8	\$ (19.0)	\$ (19.0)
Due in 2001	363.0	(4.3)	(4.3)	183.0	(0.7)	(0.7)
Due in 2002	85.0	1.9	1.9	—	—	—
Long-term debt	\$ —	\$(1,446.1)	\$(1,468.1)	\$ —	\$(1,490.1)	\$(1,490.1)

The counterparties to our derivative financial instruments are substantial and creditworthy multi-national financial institutions. Therefore, the risk of counterparty nonperformance is considered to be remote.

► **Note 15. Pension and Other Nonpension Postretirement Benefits**

Bowater has multiple defined benefit pension plans and other nonpension postretirement plans (the Plan(s)) covering substantially all employees. Benefits are based on years of service and, depending on the Plan, average compensation earned by employees either during their last years of employment or over their careers.

The following tables include both foreign and domestic plans at December 31, 2000 and 1999. 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 not significantly different from those used for the United States Plans.

(In millions)	Pension Plans		Other Postretirement Plans	
	2000	1999	2000	1999
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 1,218.9	\$ 1,208.0	\$ 89.8	\$ 181.6
Acquisition	6.5	—	—	—
Divestiture	—	27.8	—	(101.5)
Service cost	21.7	23.8	1.4	2.9
Interest cost	82.9	78.8	6.2	9.5
Amendments	—	3.9	0.8	1.2
Special termination benefits	1.7	1.6	—	—
Actuarial (gain) loss	(37.6)	(61.7)	16.3	2.9
Participant contributions	5.2	4.7	0.3	0.8
Benefits paid	(89.6)	(90.7)	(7.2)	(9.1)
Effect of foreign currency exchange rate changes	(5.9)	22.7	(0.3)	1.5
Benefit obligation at end of year	1,203.8	1,218.9	107.3	89.8
Change in Plan assets:				
Fair value of Plan assets at beginning of year	1,198.9	1,073.2	—	—
Acquisition	6.3	—	—	—
Actual return on Plan assets	149.6	174.7	—	—
Employer contributions	16.8	18.3	6.9	8.3
Participant contributions	5.2	4.7	0.3	0.8
Benefits paid	(89.6)	(90.7)	(7.2)	(9.1)
Effect of foreign currency exchange rate changes	(5.9)	18.7	—	—
Fair value of Plan assets at end of year	1,281.3	1,198.9	—	—
Reconciliation of funded status:				
Funded status	77.5	(20.0)	(107.3)	(89.8)
Unrecognized actuarial (gain) loss	(91.5)	(7.0)	19.7	3.7
Unrecognized transition amount	(1.5)	(5.0)	—	—
Unrecognized prior service cost	1.4	1.7	2.0	1.4
Net amount recognized	(14.1)	(30.3)	(85.6)	(84.7)
Amounts recognized in the Consolidated Balance Sheet consist of:				
Prepaid benefit cost	51.4	68.6	—	—
Accrued benefit liability	(83.5)	(119.5)	(85.6)	(84.7)
Intangible asset	1.1	1.1	—	—
Accumulated other comprehensive loss (income)	16.9	19.5	—	—
Net amount recognized	\$ (14.1)	\$ (30.3)	\$ (85.6)	\$ (84.7)
Weighted average assumptions:				
Discount rate	7.2%	7.0%	7.2%	7.0%
Expected return on Plan assets	9.2%	9.2%	—	—
Rate of compensation increase	4.2%	4.1%	4.2%	4.1%

(In millions)	Pension Plans			Other Postretirement Plans		
	2000	1999	1998	2000	1999	1998
Components of net periodic benefit cost:						
Service cost, net of employee contributions	\$ 21.7	\$ 23.8	\$ 18.1	\$ 1.4	\$ 2.9	\$ 3.5
Interest cost	82.9	78.8	51.5	6.2	9.5	10.2
Expected return on Plan assets	(105.3)	(100.2)	(65.5)	—	—	—
Amortization of transition amount	(3.4)	(3.4)	(3.4)	—	—	—
Amortization of prior service cost	0.2	0.5	0.6	0.1	0.2	0.3
Recognized net actuarial (gain) loss	2.9	4.9	2.6	0.1	0.6	0.4
Curtailment and special termination benefits	1.7	27.3	—	—	—	—
Net periodic benefit cost	\$ 0.7	\$ 31.7	\$ 3.9	\$ 7.8	\$ 13.2	\$ 14.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In August 2000, Bowater acquired the pension plan covering employees of the Grenada mill. The effect of this plan on the benefit obligation and assets was included in the table on the previous page.

In August 1999, Bowater completed the sale of GNP. As a result of the sale, we recorded a curtailment loss of \$26.1 million, and the buyer assumed liabilities totaling approximately \$70.6 million for nonpension postretirement benefits.

As of December 31, 2000, Bowater increased the Plans' weighted average discount rate from 7.0% to 7.2% to more closely approximate interest rates on high-quality, long-term obligations on the measurement date. In 2000, the assumed inflationary health care cost trend rate used to determine cost was 8.3%, decreasing to 7.8% in 2001 and gradually decreasing to an ultimate rate of 6.0% in 2005. The rate used to determine 1999 cost was 8.3% gradually decreasing to an ultimate rate of 5.8% in 2004. Variations in this health care cost trend rate can have a significant effect on the amounts reported. An increase of 1% in this assumption would increase the accumulated postretirement benefit obligation (APBO) by approximately \$14.0 million, or 13%, and would increase the annual service cost and interest cost by approximately \$1.1 million, or 14%. A decrease of 1% in this assumption would decrease the APBO by approximately \$11.5 million, or 11%, and would decrease the annual service cost and interest cost by approximately \$0.9 million, or 12%.

The sum of the projected benefit obligations and the sum of the fair value of Plan assets for pension Plans with projected benefit obligations in excess of plan assets were \$274.6 million and \$204.6 million, respectively, as of December 31, 2000, and were \$518.7 million and \$392.9 million, respectively, as of December 31, 1999. The sum of the accumulated benefit obligations and the sum of the fair value of Plan assets for pension Plans with accumulated benefit obligations in excess of Plan assets were \$74.6 million and \$22.0 million, respectively, as of December 31, 2000, and were \$341.0 million and \$252.6 million, respectively, as of December 31, 1999.

The provisions of SFAS No. 87, "Employees' Accounting for Pensions," required Bowater to record an additional minimum liability of \$18.0 million and \$20.6 million at December 31, 2000 and 1999, 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 \$1.1 million at December 31, 2000 and 1999, are included on the line titled "Other assets" in the Consolidated Balance Sheet. The remaining amounts of \$10.2 million and \$11.9 million, net of related tax benefits, are recorded as a component of shareholders' equity on the line titled "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheet at December 31, 2000 and 1999, respectively.

In addition to the previously described pension and non-pension postretirement Plans, we also sponsor defined contribution Plans within the United States and for certain sites outside of the United States. Employees are allowed to contribute to the Plans, and we make a matching contribution between 3.6% and 7.2% of the employees' compensation. Our expense for the defined contribution Plans totaled \$5.7 million in 2000, \$7.2 million in 1999 and \$7.0 million in 1998.

► Note 16. Income Taxes

The components of "Income before income taxes and minority interests" consist of United States income (loss) of \$84.3 million, \$129.1 million and \$(17.1) million, and foreign income of \$154.9 million, \$26.7 million and \$32.7 million, in 2000, 1999 and 1998, respectively.

The provision for income tax expense consists of:

(In millions)	2000	1999	1998
Federal:			
Current	\$ 17.6	\$ 45.4	\$ 42.3
Deferred	10.9	(0.3)	(49.6)
	28.5	45.1	(7.3)
State:			
Current	5.0	9.2	10.5
Deferred	(8.2)	(1.5)	(6.4)
	(3.2)	7.7	4.1
Foreign:			
Current	14.8	11.4	6.4
Deferred	30.2	7.3	22.7
	45.0	18.7	29.1
Total:			
Current	37.4	66.0	59.2
Deferred	32.9	5.5	(33.3)
	\$ 70.3	\$ 71.5	\$ 25.9

The components of deferred income taxes at December 31, 2000 and 1999, in the accompanying Consolidated Balance Sheet are as follows:

<i>(In millions)</i>	2000	1999
Timber and timberlands ⁽¹⁾	\$ (85.0)	\$ (88.5)
Fixed assets, net	(542.5)	(583.2)
Other assets	(18.2)	(2.5)
Deferred tax liabilities	\$ (645.7)	\$ (674.2)
Current assets ⁽²⁾	\$ 1.3	\$ 2.9
Current liabilities ⁽²⁾	16.0	20.8
Employee benefits and other long-term liabilities	105.1	110.9
United States tax credit carryforwards	7.8	33.1
Canadian investment tax credit carryforwards	20.2	21.0
Ordinary loss carryforwards	8.5	32.2
Valuation allowance	(4.0)	(4.4)
Deferred tax assets	154.9	216.5
Net deferred tax liability	\$ (490.8)	\$ (457.7)

(1) Includes the deferred tax impact of the capitalization of lease payments, management fees and property taxes of approximately \$109.7 million and \$113.1 million at December 31, 2000 and 1999, respectively.

(2) Included in "Other current assets" in the accompanying Consolidated Balance Sheet.

As of December 31, 2000, \$3.7 million of the valuation allowance is attributable to the acquisition of Avenor and will reduce goodwill upon reversal.

The following is a reconciliation of the United States federal statutory and effective tax rates as a percentage of income before income taxes and minority interests:

	2000	1999	1998
United States federal statutory income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax benefit	(1.9)	3.2	17.3
Foreign taxes	2.4	0.9	87.8
Goodwill ⁽¹⁾	3.4	5.1	24.4
Canadian investment tax credits	(3.2)	—	—
Foreign exchange and asset revaluation	(6.3)	—	—
Other, net	—	1.7	1.5
Effective income tax rate	29.4 %	45.9 %	166.0 %

(1) Goodwill amortization is a non-deductible item. As the level of pre-tax income increases, the impact of nondeductible items on our effective tax rate, such as goodwill amortization, lessens.

At December 31, 2000, we had Canadian provincial net operating loss carryforwards of \$94.7 million. In addition, \$20.2 million of Canadian investment tax credit carryforwards and \$7.8 million of United States 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 2001 and 2010. We have United States alternative minimum tax credit carryforwards that have no expiration. We believe that deferred tax assets, net of the existing valuation allowance of \$4.0 million at December 31, 2000, will be ultimately realized.

The cumulative amount of CNC's undistributed earnings through 1992, on which we have not provided income taxes, was \$46.2 million as of December 31, 2000. Distribution of these earnings would qualify for the 80% dividend exclusion.

At December 31, 2000, unremitted earnings of subsidiaries outside the United States totaling \$119.9 million were deemed to be permanently invested. No deferred tax liability has been recognized with regard to such earnings. It is not practicable to estimate the income tax liability that might be incurred if such earnings were remitted to the United States.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

► *Note 17. Dividends to Minority Interest Shareholder*

The Board of Directors of CNC declared dividends of \$12.5 million in 2000 and \$32.4 million in 1999. As a result, \$6.1 million was paid in 2000 and \$15.9 million was paid in 1999 to the minority shareholder. In 1998, the Board of Directors of CNC declared dividends of \$49.6 million, resulting in payments of \$24.3 million to the minority shareholder.

In January 2001, the Board of Directors of CNC declared a dividend of \$9.6 million, resulting in a payment of \$4.7 million to the minority shareholder.

► *Note 18. Commitments and Contingencies*

Bowater is involved in various legal proceedings relating to contracts, commercial disputes, taxes, environmental issues, employment and workers' compensation claims and other matters. We periodically review the status of these proceedings with both inside and outside counsel. Our management believes that the ultimate disposition of these matters will not have a material adverse effect on our operations or our financial condition taken as a whole.

► *Note 19. Cumulative and Redeemable Preferred Stock*

Bowater is authorized to issue 10.0 million shares of Serial Preferred Stock, \$1 par value. In February 1999, we redeemed all of the remaining outstanding shares for \$26.6 million, including accrued dividends.

► *Note 20. Stock Option Plans*

Bowater has four stock option plans – 1988, 1992, 1997 and 2000. These plans authorized the grant of up to 7.8 million shares of our 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 our common stock on the date of grant, or the average fair market value of our common stock for the 20 business days immediately preceding the date of grant. The option price for options granted under the 1997 and 2000 plans was based on the fair market value of our common stock on the date of grant.

All options granted through December 31, 1998, were exercisable at December 31, 2000. Options granted in 2000 and 1999 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 Bowater. In such event, grantees of options have the right to require us to purchase such options for cash in lieu of the issuance of common stock. We received \$6.8 million in 2000, \$10.7 million in 1999 and \$6.8 million in 1998 from the exercise of stock options. The exercise of stock options also generated tax benefits for us of \$1.9 million in 2000, \$4.7 million in 1999 and \$2.6 million in 1998.

We record 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 2000, 1999 and 1998 and have no impact on our reported financial position or results of operations.

<i>(In millions, except per-share amounts)</i>	2000	1999	1998
Net income (loss):			
As reported	\$ 159.4	\$ 78.7	\$ (18.5)
Pro forma	155.4	75.9	(22.0)
Earnings (loss) per share – basic:			
As reported	3.05	1.43	(0.44)
Pro forma	2.97	1.38	(0.51)
Earnings (loss) per share – diluted:			
As reported	3.02	1.41	(0.44)
Pro forma	\$ 2.94	\$ 1.36	\$ (0.51)

The pro forma net income effects of SFAS No. 123 in 2000, 1999 and 1998 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:

	2000	1999	1998
Assumptions:			
Dividend yield	1.5%	2.0%	1.6%
Expected volatility	31.8%	30.0%	29.1%
Risk-free interest rate	6.7%	4.8%	5.6%
Expected option lives	5.7 years	5.6 years	5.6 years
Weighted average fair value of each option	\$ 23.01	\$ 12.34	\$ 15.68

In 2000, Bowater recorded a pre-tax charge of \$2.2 million for intrinsic value on its 2000 stock option grants per the provisions of Financial Accounting Standards Board Interpretation No. 44 involving stock compensation transactions recorded under the rules outlined in APB Opinion No. 25. This charge was based on a measurement date that coincided with shareholder approval of the 2000 stock option plan. An additional pre-tax charge of \$2.1 million will be recorded in

2001 as these options become fully vested. The preceding table reflects the assumptions and fair market value of the options as of the measurement date. Using a measurement date based on the 2000 grant date, the weighted average fair value of each option would have been \$17.51.

Information with respect to options granted under the stock option plans is as follows:

	2000		1999		1998	
	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	1,884	\$ 37	2,040	\$ 35	1,907	\$ 31
Granted during the year	616	\$ 48	245	\$ 41	388	\$ 49
Exercised during the year	(212)	\$ 31	(387)	\$ 28	(250)	\$ 27
Canceled during the year	(3)	\$ 23	(14)	\$ 24	(5)	\$ 42
Outstanding at end of year	2,285	\$ 40	1,884	\$ 37	2,040	\$ 35
Exercisable at end of year	1,546	\$ 37	1,455	\$ 35	1,470	\$ 30

Range of Exercise Prices	Options Outstanding at December 31, 2000			Options Exercisable at December 31, 2000	
	Number of Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number of Shares (000's)	Weighted Average Exercise Price
\$21 to \$30	462	\$ 26	3.1	462	\$ 26
\$31 to \$40	291	\$ 35	4.9	291	\$ 35
\$41 to \$51	1,532	\$ 46	7.8	793	\$ 45
	2,285	\$ 40	6.5	1,546	\$ 37

Bowater has an Equity Participation Rights (EPR) Plan that allows it to grant equity participation rights to its employees. These rights confer an interest in the appreciation of Bowater's common stock price, but no right to acquire stock ownership. The rights have a vesting period of two years and, unless terminated earlier in accordance with their terms, expire 10 years after the grant date. The exercise price is the fair market value of Bowater common stock on the day of grant. The rights may be redeemed only for cash, and the amount paid to the employee at the time of exercise is the difference between the exercise price and the average high/low of Bowater's common stock on the day of exercise.

Bowater-Halla Paper Co., Ltd. (Halla), our subsidiary located in South Korea, also has an EPR plan and has issued stock options. The stock of Halla is not publicly traded. Therefore, the fair market value of the stock is determined annually by a third-party appraisal.

We record a liability for the Bowater and Halla equity participation rights and the Halla options during the vesting period and adjust this liability at each reporting period based on changes in the fair market value of the respective stocks. The liability amounts recorded at December 31, 2000 and 1999, are \$18.7 million and \$3.4 million, respectively. The charges (income) reflected in the Consolidated Statement of Operations pertaining to these rights and options are \$16.3 million, \$5.2 million, and \$(2.4) million for the years 2000, 1999 and 1998, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

► **Note 21. Exchangeable Shares**

In conjunction with the 1998 acquisition of Avenor, Bowater's indirect wholly owned subsidiary, Bowater Canada Inc. (BCI), issued 3,773,547 shares (\$183.6 million) of no par value exchangeable shares. Since 1998, BCI has issued an additional 1,359,620 exchangeable shares (\$66.2 million) upon the redemption of Avenor's 7.50% Convertible Unsecured Subordinated Debentures and 5,505 exchangeable shares (\$0.3 million) for conversions prior to the redemption. 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. As of December 31, 2000, 3,834,131 exchangeable shares (\$186.6 million) were exchanged for the same number of Bowater common shares. 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, 2000, 1,304,541 exchangeable shares (\$63.5 million) were outstanding and held by non-affiliates.

► **Note 22. Employee Stock Ownership Plan (ESOP)**

In 1989, the ESOP was funded by a \$17.5 million loan. The loan proceeds were lent to an Employee Stock Ownership Trust (ESOT). The ESOP remaining loan balance of \$0.7 million was paid on April 30, 2000. The ESOT has distributed all remaining shares of the original 574,160 shares of common stock to participants' accounts as of December 31, 2000.

► **Note 23. Treasury Stock**

At December 31, 2000, Bowater held 11,635,850 shares of its common stock as treasury stock to pay for employee and director benefits and to fund its Dividend Reinvestment Plan. The shares are valued at their acquisition cost of \$487.0 million. As of December 31, 1999, we held 9,512,499 shares at a cost of \$383.6 million.

In May 1999, the Board of Directors authorized the repurchase of up to 5.5 million shares of Bowater's common stock in the open market, subject to normal trading restrictions. Under this program, we purchased 2,125,900 shares of common stock at a cost of \$103.7 million in 2000 and 1,030,069 shares of common stock at a cost of \$51.8 million in 1999.

In addition, we completed a previously announced repurchase program in 1999. Under the previous program, we purchased 1,451,900 shares of common stock at a cost of \$57.4 million in 1999, 2,441,100 shares of common stock at a cost of \$98.1 million in 1998 and 220,000 shares of common stock at a cost of \$9.6 million in 1997. We purchased a total of 4,113,000 shares of common stock, or 10% of the outstanding shares, at a cost of \$165.1 million.

► **Note 24. Timberland Leases and Operating Leases**

Bowater controls timberlands under long-term leases expiring 2001 to 2058 for which aggregate lease payments were \$0.7 million in 2000, \$0.7 million in 1999 and \$0.7 million in 1998. In addition, we lease certain office premises, office equipment and transportation equipment under operating leases. Total rental expense for these operating leases was \$5.7 million in 2000, \$11.0 million in 1999 and \$8.5 million in 1998.

At December 31, 2000, the future minimum rental payments under timberland leases and operating leases are:

	Timberland Lease	Operating Leases,
(In millions)	Payments	Net
2001	\$ 0.7	\$ 6.6
2002	0.7	5.9
2003	0.6	5.2
2004	0.6	4.7
2005	0.6	4.2
Thereafter	17.8	7.6
	\$ 21.0	\$ 34.2

During 2000, Bowater purchased \$24.2 million of fixed assets that were previously leased. This is the primary reason that our minimum rental payments for operating leases declined in 2000 to \$34.2 million from \$59.3 million in 1999.

In addition, we manage over 14 million acres of Crown-owned land in Canada on which we have cutting rights. We make payments to various Canadian provinces based on the amount of timber harvested.

► **Note 25. Segment Information**

Description of the types of products and services from which each reportable segment derives its revenues:

Bowater has three reportable segments: the Newsprint Division, the Coated Paper Division and the Forest Products Division. The Newsprint Division is responsible for the manufacturing operations of eight sites in the United States, Canada and South Korea. It is also responsible for the worldwide marketing of newsprint and uncoated groundwood specialties. The Coated Paper Division is responsible for one manufacturing site that produces coated groundwood paper, newsprint, market pulp and uncoated groundwood specialties and operates a coating facility, both 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 1.8 million acres of owned and leased timberlands in the United States and Canada, as well as 14.1 million acres of Crown-owned land in Canada on which we have cutting rights. This Division sells wood fiber to the Newsprint and Coated Paper Divisions, as well as markets and sells timber and lumber to third parties in North America. The Pulp Division has marketing and sales responsibility for all of our market pulp products; however, the financial results from these sales are included in both the Newsprint Division and the Coated Paper Division, depending upon which site manufactures the product. The Pulp Division's administrative expenses are included in "Corporate & other eliminations." Accordingly, no results are reported for this Division.

Factors management used to identify our segments:

Bowater's reportable segments are business units responsible for the marketing and sales of different products. They are managed separately because of the different products they are responsible for manufacturing and distributing.

In 2000, we revised our segment disclosures to reflect changes we made to our consolidated financial statements and to reflect how our management currently reviews our businesses. These changes included: (1) Reporting "Sales" before the deduction of distribution costs and "Special items" separately from the normal operations of the divisions; (2) reporting the elimination of intersegment sales in "Corporate & other eliminations" instead of by division, and (3) revising our asset allocations relating to the Avenor acquisition between the Newsprint and Forest Products Division and corporate. All of these changes are reflected in the tables on the following page.

The line entitled "Segment income (loss)" in the following tables is equal to "Operating income (loss)" as presented in our Consolidated Statement of Operations. In addition, none of the income or loss items following "Operating income (loss)" in our Consolidated Statement of Operations are allocated to our segments, since they are reviewed separately by Bowater's management.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables summarize information about segment profit and loss and segment assets for the three years ended December 31, 2000, 1999 and 1998:

2000 (In millions)	Newsprint Division	Coated Paper Division	Forest Products Division	Special Items	Corporate/ Other Eliminations	Total
Sales – including internal sales	\$ 1,827.2	\$ 586.9	\$ 427.4	\$ –	\$ –	\$ 2,841.5
Eliminations of intersegment sales	–	–	–	–	(341.2)	(341.2)
Sales	\$ 1,827.2	\$ 586.9	\$ 427.4	\$ –	\$ (341.2)	\$ 2,500.3
Depreciation and amortization	\$ 207.7	\$ 58.5	\$ 18.4	\$ –	\$ 10.6	\$ 295.2
Segment income (loss)	\$ 291.4	\$ 136.1	\$ 17.9	\$ 7.3	\$ (89.4)	\$ 363.3
Total assets	\$ 3,554.6	\$ 549.0	\$ 515.4	\$ –	\$ 385.1	\$ 5,004.1
Capital expenditures	\$ 147.1	\$ 111.7	\$ 23.7	\$ –	\$ 0.7	\$ 283.2

1999 (In millions)	Newsprint Division	Coated Paper Division	Forest Products Division	Special Items	Corporate/ Other Eliminations	Total
Sales – including internal sales	\$ 1,672.0	\$ 499.2	\$ 490.0	\$ –	\$ 2.6	\$ 2,663.8
Eliminations of intersegment sales	–	–	–	–	(352.1)	(352.1)
Sales	\$ 1,672.0	\$ 499.2	\$ 490.0	\$ –	\$ (349.5)	\$ 2,311.7
Depreciation and amortization	\$ 209.2	\$ 55.5	\$ 24.7	\$ –	\$ 10.8	\$ 300.2
Segment income (loss)	\$ 53.1	\$ 72.2	\$ 44.9	\$ 133.4	\$ (59.6)	\$ 244.0
Total assets	\$ 3,106.7	\$ 492.1	\$ 514.6	\$ –	\$ 438.8	\$ 4,552.2
Capital expenditures	\$ 141.1	\$ 42.1	\$ 13.9	\$ –	\$ 1.4	\$ 198.5

1998 (In millions)	Newsprint & Directory Division	Coated Paper Division	Forest Products Division	Special Items	Corporate/ Other Eliminations	Total
Sales – including internal sales	\$ 1,473.8	\$ 502.5	\$ 517.5	\$ –	\$ 19.2	\$ 2,513.0
Eliminations of intersegment sales	–	–	–	–	(370.3)	(370.3)
Sales	\$ 1,473.8	\$ 502.5	\$ 517.5	\$ –	\$ (351.1)	\$ 2,142.7
Depreciation and amortization	\$ 149.4	\$ 51.0	\$ 23.5	\$ –	\$ 5.7	\$ 229.6
Segment income (loss)	\$ 157.5	\$ 107.4	\$ 44.1	\$ (98.5)	\$ (48.4)	\$ 162.1
Total assets	\$ 3,441.9	\$ 488.3	\$ 676.2	\$ –	\$ 485.6	\$ 5,092.0
Capital expenditures	\$ 170.8	\$ 29.6	\$ 17.0	\$ –	\$ 5.8	\$ 223.2

Special items for 2000 include gain on sale of fixed assets of \$3.2 million and gain on sale of timberlands of \$4.1 million. Special items for 1999 include gain on sale of timberlands of \$272.5 million, loss on sale of GNP of \$47.1 million and an

impairment charge of \$92.0 million. Special items for 1998 include gain on sale of timberlands of \$21.1 million and an impairment charge of \$119.6 million.

SALES BY PRODUCT

(In millions)	2000	1999	1998
Newsprint	\$ 1,421.5	\$ 1,282.2	\$ 1,108.8
Coated groundwood	330.3	311.8	391.0
Market pulp	546.3	434.2	272.1
Directory paper	—	89.4	173.5
Uncoated groundwood specialties	98.1	52.1	49.3
Lumber and other wood products	104.1	142.0	148.0
	\$ 2,500.3	\$ 2,311.7	\$ 2,142.7

LONG-LIVED ASSETS BY COUNTRY

(In millions)	2000	1999	1998
United States	\$ 1,671.1	\$ 1,343.9	\$ 1,773.1
Canada	1,431.4	1,379.8	1,412.8
Korea	187.1	182.0	195.3
	\$ 3,289.6	\$ 2,905.7	\$ 3,381.2

SALES BY COUNTRY ⁽¹⁾

(In millions)	2000	1999	1998
United States	\$ 1,711.5	\$ 1,649.1	\$ 1,750.6
Canada	197.0	170.8	28.1
Korea	134.1	102.1	44.1
Japan	42.8	39.6	44.6
Brazil	59.3	39.0	37.0
Italy	42.4	32.5	31.9
United Kingdom	52.2	38.3	22.9
Mexico	74.1	58.7	10.7
Other countries ⁽²⁾	186.9	181.6	172.8
	\$ 2,500.3	\$ 2,311.7	\$ 2,142.7

(1) Revenues are attributed to countries based on the location of the customer. No one customer represented 10% or more of consolidated sales.

(2) No country in this group exceeded 10% of consolidated sales.

► Note 26. Quarterly Information (Unaudited)

(In millions, except per-share amounts)	First	Second	Third	Fourth	Year
<i>Year ended December 31, 2000</i>					
Sales	\$ 562.9	\$ 607.6	\$ 671.8	\$ 658.0	\$ 2,500.3
Operating income	57.7	88.0	118.6	99.0	363.3
Net income	17.2	33.7	50.0	58.5	159.4
Basic earnings per common share	0.32	0.64	0.97	1.13	3.05
Diluted earnings per common share	\$ 0.32	\$ 0.63	\$ 0.96	\$ 1.12	\$ 3.02

(In millions, except per-share amounts)	First	Second	Third	Fourth	Year
<i>Year ended December 31, 1999</i>					
Sales	\$ 619.8	\$ 573.3	\$ 555.7	\$ 562.9	\$ 2,311.7
Operating income (loss)	194.9 ⁽¹⁾	27.8 ⁽²⁾	(52.2) ⁽³⁾	73.5 ⁽⁴⁾	244.0
Net income (loss)	106.5	5.2	(53.4)	20.4	78.7
Basic earnings (loss) per common share	1.93	0.10	(0.98)	0.38	1.43
Diluted earnings (loss) per common share	\$ 1.89	\$ 0.10	\$ (0.98)	\$ 0.38	\$ 1.41

(1) Includes a net gain on sale of timberlands of \$145.4 million

(2) Includes a net gain on sale of timberlands of \$108.3 million and an impairment charge of \$92.0 million

(3) Includes a pre-tax loss on sale of GNP of \$55.3 million.

(4) Includes a net gain on sale of timberlands of \$18.8 million and an adjustment of \$8.2 million reducing the loss on sale of GNP.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The management of Bowater 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 accounting principles generally accepted in the United States of America. 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.

We maintain 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, we have an effective and responsive system of internal accounting controls.

Our independent auditors, KPMG LLP, are responsible for conducting an audit of our consolidated financial statements in accordance with auditing standards generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America. Their report appears on the opposite 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 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

The Board of Directors and Shareholders of Bowater Incorporated:

We have audited the accompanying consolidated balance sheet of Bowater Incorporated and Subsidiaries as of December 31, 2000 and 1999, 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, 2000. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are 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, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP
Greenville, South Carolina
February 16, 2001

FINANCIAL AND OPERATING RECORD*

(In millions, except per-share amounts)	2000	1999 ⁽¹⁾	1998 ⁽¹⁾	1997
Income Statement Data				
Sales	\$ 2,500.3	\$ 2,311.7	\$ 2,142.7	\$ 1,598.9
Operating income (loss) ⁽²⁾	363.3	244.0	162.1	136.5
Income (loss) from continuing operations before cumulative effect of changes in accounting principles and extraordinary charge ⁽³⁾	159.4	78.7	(18.5)	53.7
Net income (loss)	159.4	78.7	(18.5)	53.7
Diluted earnings (loss) per common share	3.02	1.41	(0.44)	1.25
Dividends declared per common share ⁽⁴⁾	0.80	0.80	0.80	0.80
Product Sales Information				
Newsprint	\$ 1,421.5	\$ 1,282.2	\$ 1,108.8	\$ 730.8
Coated groundwood	330.3	311.8	391.0	337.7
Directory paper	—	89.4	173.5	178.9
Market pulp	546.3	434.2	272.1	172.7
Uncoated groundwood specialties	98.1	52.1	49.3	44.0
Lumber and other wood products	104.1	142.0	148.0	134.8
Communication papers	—	—	—	—
	\$ 2,500.3	\$ 2,311.7	\$ 2,142.7	\$ 1,598.9
Financial Position				
Timber and timberlands	\$ 265.2	\$ 283.2	\$ 472.8	\$ 394.0
Fixed assets, net	2,981.1	2,581.3	2,885.2	1,554.5
Total assets	5,004.1	4,552.2	5,092.0	2,745.8
Total debt	1,931.1	1,505.1	1,830.8	758.9
Total debt and redeemable preferred stock	1,931.1	1,505.1	1,830.8	758.9
Total capitalization ⁽⁵⁾	3,851.8	3,397.4	3,736.6	2,038.3
Additional Information				
Percent return on average common equity	8.9 %	4.5 %	(1.4)%	4.5 %
Income from continuing operations as a percentage of sales	6.4 %	3.4 %	(0.9)%	3.4 %
Total debt as a percentage of total capitalization ⁽⁶⁾	48.6 %	42.1 %	46.3 %	37.2 %
Total debt and redeemable preferred stock as a percentage of shareholders' equity ⁽⁶⁾	101.1 %	85.0 %	92.3 %	65.8 %
Effective tax rate	29.4 %	45.9 %	166.0 %	37.0 %
Cash flow from (used for) operations	\$ 416.6	\$ 147.0	\$ 274.1	\$ 195.6
Cash invested in fixed assets, timber and timberlands	\$ 283.2	\$ 198.5	\$ 223.2	\$ 99.6
Book value – common shareholders' equity per common share	\$ 34.84	\$ 33.10	\$ 32.31	\$ 27.99
Common stock price range	\$ 42.06–59.00	\$ 37.13–59.94	\$ 32.81–59.56	\$ 37.00–55.62
Sales (thousands of short tons)				
Newsprint ⁽⁷⁾	2,863	2,847	2,160	1,482
Coated groundwood	404	433	486	479
Directory paper	—	125	226	228
Market pulp	984	1,015	674	407
Uncoated groundwood specialties	175	102	90	83
Registered shareholders	4,900	5,200	5,600	5,200
Employees	6,400	6,400	8,300	5,000

* This table should be used in conjunction with the financial statements and notes to the financial statements.

(1) In 2000, Bowater acquired the Grenada mill. In 1999, we sold GNP. In 1998, we acquired Avenor Inc. and a South Korean newsprint mill. In 1996, we sold Star Forms. In 1991, we acquired GNP.

(2) Net gain (loss) on sale of assets and capital taxes have been classified in operating income.

(3) 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.

	1996 ⁽¹⁾		1995		1994		1993		1992		1991 ⁽¹⁾		1990
\$	1,839.2	\$	2,108.0	\$	1,486.1	\$	1,496.1	\$	1,493.8	\$	1,288.5	\$	1,380.4
	399.3		521.4		85.2		(11.1)		(86.3)		103.7		174.9
	204.1		258.2		(4.8)		(64.5)		(92.9)		45.6		87.4
	200.2		246.9		(4.8)		(64.5)		(82.0)		45.6		78.4
	4.55		5.22		(0.59)		(1.84)		(2.34)		1.15		2.05
	0.80		0.60		0.60		0.60		1.20		1.20		1.20
\$	845.3	\$	841.6	\$	604.0	\$	607.6	\$	649.6	\$	601.4	\$	617.2
	356.3		463.8		307.0		316.2		296.1		259.9		279.0
	183.9		162.4		128.6		138.6		90.2		—		—
	154.3		233.3		130.6		98.9		136.4		138.0		170.7
	38.0		41.2		37.3		39.9		34.5		—		—
	108.0		116.8		87.9		103.1		79.5		34.3		32.6
	153.4		248.9		190.7		191.8		207.5		254.9		280.9
\$	1,839.2	\$	2,108.0	\$	1,486.1	\$	1,496.1	\$	1,493.8	\$	1,288.5	\$	1,380.4
\$	395.7	\$	430.4	\$	426.4	\$	422.5	\$	432.6	\$	414.1	\$	297.9
	1,636.7		1,711.0		1,785.0		1,750.7		1,821.7		1,858.8		1,604.7
	2,865.5		2,908.2		2,851.4		2,726.2		2,881.6		2,780.0		2,297.9
	760.6		818.1		1,118.5		1,120.2		1,134.3		864.5		498.2
	785.4		867.8		1,193.0		1,194.6		1,208.5		938.6		572.2
	2,082.8		2,113.9		2,222.5		2,071.8		2,186.4		2,061.7		1,694.5
	18.6 %		27.5 %		(3.0) %		(8.6) %		(9.6) %		4.4 %		7.9 %
	11.1 %		12.2 %		(0.3) %		(4.3) %		(6.2) %		3.5 %		6.3 %
	36.5 %		38.7 %		50.3 %		54.1 %		51.9 %		41.9 %		29.4 %
	67.1 %		79.2 %		134.4 %		163.1 %		147.7 %		99.6 %		61.2 %
	35.2 %		39.4 %		70.0 %		32.0 %		37.0 %		37.0 %		37.0 %
\$	336.2	\$	607.7	\$	80.9	\$	(30.6)	\$	109.5	\$	156.6	\$	238.4
\$	106.9	\$	96.0	\$	216.1	\$	121.8	\$	139.5	\$	159.7	\$	214.1
\$	27.97	\$	24.52	\$	18.92	\$	20.10	\$	22.55	\$	26.21	\$	26.24
\$	31.75–41.25	\$	26.50–53.50	\$	20.50–29.38	\$	18.00–24.63	\$	17.63–27.25	\$	18.63–30.38	\$	16.13–28.50
	1,446		1,402		1,460		1,437		1,604		1,244		1,266
	432		476		453		454		447		346		352
	211		229		189		202		126		—		—
	393		325		300		312		318		317		300
	64		60		76		76		65		—		—
	5,600		5,900		6,600		7,300		8,200		9,500		14,000
	5,000		5,500		6,000		6,600		6,900		7,200		5,100

(4) Dividends are declared quarterly.

(5) Total capitalization includes total debt, minority interests in subsidiaries, redeemable preferred stock and shareholders' equity.

(6) In 2000, 1999 and 1998, this ratio excludes the revaluation of debt due to acquisitions totaling \$113.2 million, \$128.6 million and \$190.6 million, respectively.

(7) Newsprint sales do not include shipments from the Ponderay Newsprint Company, an unconsolidated entity.

NOMINAL ANNUAL CAPACITY AND PRODUCTION BY PRODUCT LINE AND MILL

<i>(In short tons)</i>	Annual Capacity	2000 Production
Newsprint and uncoated groundwood specialties:		
Calhoun, Tennessee	853,500	826,671
Catawba, South Carolina	272,500	263,787
Liverpool, Nova Scotia	277,000	255,729
Grenada, Mississippi ⁽¹⁾	268,900	115,654
Thunder Bay, Ontario	624,800	591,513
Gatineau, Québec	571,000	490,038
Dalhousie, New Brunswick	263,000	259,821
Usk, Washington ⁽²⁾	279,000	274,370
Mokpo, Korea	303,800	270,077
Coated groundwood paper:		
Catawba, South Carolina	358,000	355,441
Benton Harbor, Michigan	60,000	43,987
Market pulp:		
Catawba, South Carolina	269,500	259,046
Calhoun, Tennessee	219,000	200,707
Thunder Bay, Ontario	600,000	596,062
Lumber ⁽³⁾	288,000	224,243

(1) The Grenada, Mississippi, facility was acquired in August 2000.

(2) Represents the Ponderay Newsprint Company, which is 40% owned. Capacity and production are shown at 100%.

(3) Figures are in mbf (thousands of board feet).

BOARD OF DIRECTORS

Arnold M. Nemirow ⁽¹⁾
Chairman, President and Chief Executive
Officer of Bowater
Director since 1994
Age: 57

Francis J. Aguilar ^(1,2,4)
Professor Emeritus
Harvard University Graduate School of Business
Director since 1984
Age: 68

H. David Aycock ⁽¹⁾
Retired Chairman, Chief Executive Officer and President
Nucor Corporation
Steel and Steel Products
Director since 1987
Age: 70

Richard Barth ^(2,5)
Retired Chairman, President and Chief Executive Officer
Ciba-Geigy Corporation
Diversified Chemical Products
Director since 1991
Age: 69

Kenneth M. Curtis ⁽⁵⁾
Attorney At Law and Senior Member
Curtis Thaxter Stevens Broder & Micoileau
Limited Liability Company, P.A.
Director since 1993
Age: 70

Cinda A. Hallman
Senior Vice President Global Systems & Processes
E.I. du Pont de Nemours and Company
Science and Technology
Director since 2000
Age: 56

Charles J. Howard ^(2,3)
Chairman
Howard, Barclay & Associates Ltd.
Investment Counseling
Director since 1997
Age: 58

James L. Pate ^(3,4)
Chairman
Pennzoil-Quaker State Company
Consumer Products
Director since 1996
Age: 65

John A. Rolls ^(3,5)
President and Chief Executive Officer
Thermion Systems International
Aerospace and Industrial Heating Systems
Director since 1990
Age: 59

Arthur R. Sawchuk ^(4,5)
Chairman
Manulife Financial Corporation
Insurance and Financial Services
Director since 1998
Age: 65

(1) Executive Committee

(2) Audit Committee

(3) Finance Committee

(4) Human Resources and Compensation Committee

(5) Nominating and Governance Committee

OFFICERS

Corporate Officers

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

Arthur D. Fuller
*Executive Vice President and President –
Newsprint Division*

E. Patrick Duffy
*Senior Vice President and President –
Coated Paper Division*

Richard K. Hamilton
*Vice President and President –
Forest Products Division*

David J. Steuart
*Vice President and President –
Pulp Division*

Anthony H. Barash
*Senior Vice President –
Corporate Affairs and General Counsel*

Jerry R. Gilmore
*Vice President –
United States and Korean
Newsprint Operations*

William G. Harvey
Vice President and Treasurer

Steven G. Lanzl
*Vice President –
Information Technology*

David G. Maffucci
*Senior Vice President and
Chief Financial Officer*

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*

James T. Wright
Vice President – Human Resources

Division Officers

NEWSPRINT DIVISION

Arthur D. Fuller
President – Newsprint Division

Jerry R. Gilmore
*Vice President –
United States and Korean Newsprint Operations*

S. Y. Han
President – Bowater-Halla Paper Company Ltd.

Howard G. Johnson
*Vice President and Resident Manager –
Calhoun Operations*

William G. Meaney
*Vice President and Resident Manager –
Ponderay Operations*

Peter Pugh
*Vice President and Resident Manager –
Grenada 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*

Luc Lachapelle
*Vice President and Resident Manager –
Dalhousie Operations*

Roger A. Loney
*Vice President and Resident Manager –
Mersey Operations*

Marc Régnier
*Vice President and General Counsel –
Canadian Newsprint Operations*

Tony K. Bond
Vice President – Business Planning and Strategy

C. Randy Ellington
Vice President – North American Newsprint Sales

Larry G. Green
Vice President – Purchasing and Transportation

William C. Morris
Vice President – International Newsprint Sales

Craig B. Stevens
Vice President – Administration and Planning

COATED PAPER DIVISION

E. Patrick Duffy
President – Coated Paper Division

James H. Dorton
Vice President – Business Planning and Strategy

Daniel B. Haight
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 Québec
Woodlands Operations*

J. Frank Pickle
Vice President – Southern Woodlands Operations

Jon M. Porter
Vice President – Mersey Woodlands Operations

Colin R. Wolfe
Vice President – Administration and Planning



SHAREHOLDER INFORMATION

ANNUAL MEETING

Bowater's annual meeting of shareholders will be held on Wednesday, May 9, 2001, at 11:00 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 Stock Exchange (stock symbol BWX).

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

Bowater has a Dividend Reinvestment and Stock Purchase Plan. Information is available from the Bank of New York.

INDEPENDENT AUDITORS

KPMG LLP
55 Beattie Place
Suite 600
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864-250-2600

COMMON STOCK REGISTRARS AND TRANSFER AGENTS (BOW):

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Shareholder Relations
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P.O. Box 11258
Church Street Station
New York, NY 10286
Toll Free: 888-269-8845

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Balfour House
390 High Road
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England
Tel: 081-478-1888
Fax: 081-553-0784

EXCHANGEABLE SHARE STOCK REGISTRAR AND TRANSFER AGENT (BWX):

Computershare Investor
Services Inc.
1800 McGill College Avenue
7th Floor
Montréal, Québec H3A 3K9
Canada
Toll Free: 800-564-6253

Website:
<http://www.computershare.com>
(Note: Computershare purchased the stock transfer and corporate trust business of Montreal Trust as of June 1, 2000.)

CORPORATE SERVICES, STOCK TRANSFER SERVICES

Tel: 514-982-7178
Fax: 514-982-7580

Picture on the left (from left to right):

Front row:

Arthur D. Fuller, Wendy C. Shiba,
Robert A. Moran, David J. Steuart

Middle row:

William G. Harvey, James H. Dorton,
Arnold M. Nemirow, Jerry R. Gilmore,
Michael F. Nocito

Back row:

Steven G. Lanzl, E. Patrick Duffy,
Anthony H. Barash, R. Donald
Newman, James T. Wright, David G.
Maffucci, Richard K. Hamilton

COMMON STOCK PRICES

Price ranges of Bowater's common stock during 2000 and 1999 as reported on the New York Stock Exchange were:

	2000		1999	
	High	Low	High	Low
First quarter	\$ 59.00	\$ 42.06	\$ 46.00	\$ 37.13
Second quarter	\$ 57.94	\$ 44.13	\$ 55.94	\$ 39.00
Third quarter	\$ 54.06	\$ 44.94	\$ 59.94	\$ 47.88
Fourth quarter	\$ 58.50	\$ 44.81	\$ 56.19	\$ 46.88



Incorporated

CORPORATE HEADQUARTERS

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