BOWATER INC
Form 10-K/A
April 30, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2006

COMMISSION FILE NO. 1-8712

Bowater Incorporated

(Exact name of registrant as specified in its charter)

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

55 East Camperdown Way

P. O. Box 1028

Greenville, South Carolina 29602-1028

(Address of principal executive offices)

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

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

Title Of Each Class	Name Of Each Exchange On Which Registered
Common Stock, par value $1 per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

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

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

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-accelerated Filer ¨

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

The aggregate market value of the voting common equity held by nonaffiliates of the registrant as of June 30, 2006, was approximately $1.3 billion. Without acknowledging that any individual director or executive officer of the registrant is an affiliate, the shares over which they are deemed to have voting control are considered to be owned by affiliates solely for purposes of this calculation.

As of February 23, 2007, there were 56,205,141 shares of Bowater Incorporated s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

EXPLANATORY NOTE

Bowater Incorporated is filing this Amendment No. 1 on form 10-K/A (this Amendment) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, originally filed on March 1, 2007, for the purpose of including the information required by Part III of Form 10-K. In addition, the registrant is also including as exhibits to this Amendment the certifications required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Because no financial statements are contained within this Amendment, the registrant is not including certifications pursuant to Section 906 of the Sarbanes-Oxley Act. Except as set forth herein, the registrant is making no other changes to its Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers

David J. Paterson Age: 52	**Chairman, President and Chief Executive Officer** Mr. Paterson has been Chairman, President and Chief Executive Officer since January 2007. From May 2006 to January 2007, he was President and Chief Executive Officer and a Director of Bowater. Previously, from 1987 through 2006, Mr. Paterson worked for Georgia-Pacific Corporation where he was most recently Executive Vice President in charge of its Building Products Division. He also had been responsible for its Pulp and Paperboard division, its Paper and Bleached Board Division and its Communication Papers Division.
William G. Harvey Age: 49	**Executive Vice President and Chief Financial Officer** Mr. Harvey was promoted to Executive Vice President and Chief Financial Officer in August 2006. From 2005 to 2006, he was Senior Vice President and Chief Financial Officer and Treasurer. From 1998 to 2005, he was Vice President and Treasurer. From 1995 to 1998, he was Vice President and Treasurer of Avenor Inc., a pulp and paper company, until its acquisition by Bowater.
Ronald T. Lindsay Age: 56	**Executive Vice President General Counsel and Secretary** Mr. Lindsay was promoted to Executive Vice President General Counsel and secretary in August 2006. From 2005 to 2006, he was Senior Vice President General Counsel and Secretary, and from 2004 to 2005, he was Vice President General Counsel and Secretary. Previously, he was with Collins & Aikman Corporation, a multinational manufacturer of automotive interior components, where he was Senior Vice President Law and Senior Vice President, General Counsel and Secretary from 1999 through 2002.
Pierre Monahan Age: 60	**Executive Vice President Building Products** Mr. Monahan was promoted to Executive Vice President Building Products in August 2006. From 2002 to 2006, he was Senior Vice President and President Canadian Forest Products Division; from 2001 to 2002, he was Vice President and President Canadian Forest Products Division and from 1994 to 2001, he was President and Chief Executive Officer of Alliance Forest Products, Inc., until its acquisition by Bowater. He is a director of AXA Insurance Inc. and Groupe Laperrière et Verreault.
W. Eric Streed Age: 62	**Executive Vice President of Operations and Process Improvement** Mr. Streed joined Bowater in August 2006 as Executive Vice President of Operations and Process Improvement. He was most recently Vice President of Supply Chain Projects and Information Technology at Domtar, Inc. He also served as Vice President, U.S Operations for Domtar and previously held positions in engineering and mill management with Georgia-Pacific Corporation.

James T. Wright Age: 60	**Executive Vice President Human Resources** Mr. Wright was promoted to Executive Vice President Human Resources in August 2006. From 2002 to 2006, he was Senior Vice President Human Resources and from 1999 to 2002, he was Vice President Human Resources. Previously, he was Vice President Human Resources for Georgia-Pacific Corporation from 1993 to 1999.
C. Randolph Ellington Age: 55	**Senior Vice President Newsprint Sales** Mr. Ellington was promoted to Senior Vice President Newsprint Sales in August 2006. From 2004 to 2006, he was Vice President Newsprint Sales and from 1995 to 2004, he was Vice President of North American Newsprint Sales. Previously, he held sales positions in both coated paper and newsprint.
William C. Morris Age: 47	**Senior Vice President Coated, Specialty Papers and Pulp Sales and Marketing** Mr. Morris was promoted to Senior Vice President Coated, Specialty Papers and Pulp Sales and Marketing in August 2006. From 2005 to 2006, he was President Coated & Specialty Papers Division; from 2004 to 2005, he was Assistant to the Coated & Specialty Papers Division President; during 2004, he was Vice President Strategic Planning for the Coated and Specialty Papers, Pulp and Forest Product Divisions; and from 1995 to 2004, he was Vice President of International Sales in the Newsprint Division.
David A. Spraley Age: 51	**Senior Vice President of Manufacturing** Mr. Spraley joined Bowater Incorporated as Senior Vice President of Manufacturing in 2006 with specific responsibility for our Mokpo, Thunder Bay, Mersey, Grenada, and Ponderay operations. He was most recently Senior Vice President, Manufacturing for the North American Retail Consumer Products Group of Georgia-Pacific Corporation.
Joseph B. Johnson Age: 44	**Vice President and Controller** Mr. Johnson was promoted to Vice President and Controller in January 2006. From 2003 to 2006, he was Director, Accounting & Compliance Reporting. From 2001 to 2003, he was Director, Financial Reporting. Previously, he was with Ernst & Young, LLP, an international accounting firm, where he held various audit and assurance advisory positions from 1987 through 2001.
Directors	
Arthur R. Sawchuk Age: 71 Director since 1998	**Chairman of Manulife Financial Corporation** Mr. Sawchuk has been Chairman of Manulife Financial Corporation, a financial services company, and the Manufacturers Life Insurance Company since April 1998. He served as acting President and Chief Executive Officer of Avenor Inc., a forest products company, from November 1997 until its acquisition by Bowater in July 1998. Mr. Sawchuk is also a director of MTS Inc.
Richard B. Evans Age: 59 Director since 2003	**President and Chief Executive Officer of Alcan Inc.** Mr. Evans has been President and Chief Executive Officer of Alcan Inc. since March 2006. From October 2005 to March 2006, he was Chief Operating Officer of Alcan Inc., the parent company of an international group involved in many aspects of the aluminum and packaging industries. Since joining Alcan in 1997, he has held several executive positions, including: Executive Vice President, Office of the President, Alcan Inc.; Executive Vice President, President, Aluminum Fabrication, Europe; Executive Vice President, Fabricated Products-North America; and President of Alcan Aluminum Corporation. Mr. Evans is also a director of the International Aluminum Association.

Gordon D. Giffin Age: 57 Director since 2003	**Co-Chair, Public Policy and Regulatory Affairs, of McKenna Long & Aldridge LLP** Mr. Giffin is co-chair of the Public Policy and Regulatory Affairs practice for the law firm McKenna Long & Aldridge LLP. Mr. Giffin served as U.S. Ambassador to Canada from August 1997 to April 2001. He currently serves on the boards of Canadian Imperial Bank of Commerce, Canadian National Railway Company, Canadian Natural Resources Limited, Ontario Energy Savings Corp. and TransAlta Corporation. He is also a member of the Board of Trustees of the Jimmy Carter Presidential Library.
John A. Rolls Age: 65 Director since 1990	**President and Chief Executive Officer of Thermion Systems International** Mr. Rolls has served as President and Chief Executive Officer of Thermion Systems International, an aerospace and industrial heating systems company, since 1996. He was President and Chief Executive Officer of Deutsche Bank North America, an international banking company, from 1992 to 1996. Mr. Rolls is also a director of MBIA Inc., Thermion Systems International and FuelCell Energy, Inc.
L. Jacques Ménard Age: 61 Director since 2002	**Chairman of BMO Nesbitt Burns and President, BMO Financial Group, Québec** Mr. Ménard has served as Chairman of BMO Nesbitt Burns, an investment banking company, since 2001 and as President of BMO Financial Group, Québec, a financial service provider, since 1999. From 1994 until 2001, Mr. Ménard served in various executive capacities with BMO Nesbitt Burns including Deputy Chairman from 1997 until 2001.
Ruth R. Harkin Age: 62 Director since 2005	**Director of ConocoPhillips** Ms. Harkin served as Senior Vice President, International Affairs and Government Relations, United Technologies International from 1997 to 2005. From 1993 to 1997, she served as President and CEO of the Overseas Private Investment Corporation. Since 2002, she has served as a director of ConocoPhillips. Ms. Harkin is also a member of the Iowa Board of Regents.
Togo D. West, Jr. Age: 64 Director since 2002	**Chairman of TLI Leadership Group** Mr. West has been Chairman of The Leadership Institute since May 2006. From December 2004 to May 2006, he served as President and CEO of the Joint Center for Political and Economic Studies. From 2000 until 2004, he was Of Counsel to Covington & Burling, a law firm headquartered in Washington, D.C. From 1998 until 2000, he served as Secretary of Veterans Affairs in the Clinton Administration. From 1993 until 1998, he was Secretary of the Army, a period during which he also served as Chairman of the Panama Canal Commission. Mr. West is also a director of Krispy Kreme Doughnuts, Inc. and Mitretek Systems.
Bruce W. Van Saun Age: 49 Director since 2005	**Vice Chairman - Asset Management and Market-Related Activities of The Bank of New York Company, Inc.** Mr. Van Saun has been Vice Chairman Asset Management and Market-Related Activities of The Bank of New York Company, Inc., an investment banking company, since September 2006. From November 2005 to August 2006, he was Chief Financial Officer and from 1997 to 2005, he was Senior Executive Vice President and Chief Financial Officer.
David J. Paterson Age: 52 Director since 2006	**Chairman, President and Chief Executive Officer of Bowater** Mr. Paterson was elected Chairman of the Board, effective as of January 1, 2007. He has been President and Chief Executive Officer of Bowater since May 2006. Mr. Paterson was Executive Vice President of Georgia-Pacific Corporation, in charge of its Building Products Division from 2003 to 2006. At various times since 2000, Mr. Paterson has been responsible for Georgia-Pacific s Pulp and Paperboard Division, Paper and Bleached Board Division, and Communication Papers Division. Mr. Paterson joined Georgia-Pacific in 1987.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires Bowater s directors, executive officers and 10% shareholders to file reports of holdings and transactions in Bowater common stock and Bowater Canada exchangeable shares with the SEC. Based on a review of Section 16(a) reports received by Bowater and written representations from its directors and executive officers, Bowater believes that all of its executive officers, directors and 10% shareholders have made all filings required to be made under Section 16(a) on a timely basis for 2006.

Code of Ethics

Bowater has adopted a code of business conduct that applies to all of Bowater s North American employees, including Bowater s Chief Executive Officer, Chief Financial Officer, principal accounting officer and Controller. The Board has a separate Board of Directors Code of Conduct, which contains provisions specifically applicable to Directors. The code of business conduct and the Board of Directors Code of Conduct are available on Bowater s website (http://www.bowater.com) or upon request from Bowater s Legal Department. Bowater will disclose amendments to its code of business conduct or its Board of Directors Code of Conduct and any waivers of their provisions with respect to its Chief Executive Officer, Chief Financial Officer, principal accounting officer and Controller on its website within four business days following the date of the amendment or waiver.

Corporate Governance Principles

Bowater s Board of Directors has adopted corporate governance principles, which are available at Bowater s website (http://www.bowater.com) or upon request from Bowater s Legal Department. The purpose of Bowater s corporate governance principles is to provide a structure within which the Board of Directors and management can pursue Bowater s objectives for the benefit of its shareholders and supervise its management.

The corporate governance principles outline the Board s responsibilities and the interplay among the Board and its committees in furthering Bowater s overall objectives. The principles note the Board s role in advising management on significant issues facing Bowater and in reviewing and approving significant actions by Bowater. In addition, the principles highlight principal roles of certain of the Board s committees, including:

- the selection and evaluation of senior executive officers (including the Chief Executive Officer) by the Board, the Nominating and Governance Committee and the Human Resources and Compensation Committee, including succession planning;
- the administration of executive compensation and director compensation by the Human Resources and Compensation Committee, with reliance on the Nominating and Governance Committee s assessment of executive performance and annual assessment of Board and committee effectiveness;
- the selection and oversight of independent auditors and oversight of public financial reporting by the Audit Committee; and
- the evaluation of candidates for Board membership and the oversight of the structure and practices of the Board, the committees and corporate governance matters in general by the Nominating and Governance Committee.

Bowater s corporate governance principles also include, among other things:

- general qualifications for Board membership, including independence requirements (with, among other things, the categorical standards for Board determinations of independence);
- director responsibilities, including Board and shareholder meeting attendance and advance review of meeting materials;
- provisions for director access to management and independent advisors and for director orientation and continuing education; and

4

an outline of management s responsibilities, including production of financial reports and disclosures, implementation and monitoring of internal controls and disclosure controls and procedures, development, presentation and implementation of strategic plans, and setting a strong ethical tone at the top.

Stockholder Recommendations For Director Nominees

No material changes have been made to the procedures by which our stockholders may recommend nominees to our Board since we last described these procedures in our definitive proxy statement issued in connection with our 2006 Annual Meeting of Stockholders and filed with the SEC on April 12, 2006.

Communication with Board of Directors

Bowater has implemented a policy to facilitate communication with Bowater s Board of Directors. Under the policy, shareholders and other interested parties may communicate with the entire board of directors, any individual director, or independent directors as a group, by writing to the director or directors at the address of Bowater s corporate headquarters. The communications will be summarized by the office of Bowater s Corporate Secretary, which will circulate the summary and communication to the chair of the nominating committee. The Secretary s office will disregard solicitations, duplicative, harassing or frivolous communications, bulk mail, and other types of communications as the Board may specify from time to time. Details about this policy, including the manner in which Bowater determines those communications that will be forwarded to the directors, are available at Bowater s website (http://www.bowater.com) or upon request from Bowater s Legal Department.

Audit Committee

The members of the Audit Committee are John A. Rolls (Chairman), Gordon D. Giffin, Bruce W. Van Saun and Togo D. West, Jr. All members are independent as defined by NYSE s listing standards.

All Audit Committee members are financially literate, and the Board has determined that Audit Committee Chairman John A. Rolls and Mr. Bruce W. Van Saun are each an audit committee financial expert under applicable SEC regulations.

Bowater s independent registered public accounting firm report directly to the Audit Committee, which controls their engagement.

The Audit Committee pre-approves the provision of all audit and non-audit services by Bowater s independent registered public accounting firm.

The Audit Committee has established a procedure for the confidential and anonymous reporting of concerns regarding questionable accounting or auditing matters.

The Audit Committee, through its chair or another member designated by the chair, meets with management and the independent registered public accounting firm quarterly, in separate executive sessions if deemed necessary, to review Bowater s financial statements and significant findings based upon the auditors review procedures.

Item 11. Executive Compensation

Compensation Discussion and Analysis

Introduction

The primary objectives of our executive compensation program are to provide competitive, performance-based compensation that enables us to attract and retain key individuals and to motivate our executives to achieve the Company s short- and long-term goals. The program is designed to reward the achievement of goals that are aligned with the interests of our stockholders in order to enhance stockholder value.

The following discussion provides an overview and analysis of our executive compensation program as it relates principally to our Chief Executive Officer, Chief Financial Officer and the other Named Executive Officers as listed in the Summary Compensation Table on page 21. The discussion and analysis describes the role of the Human Resources and Compensation Committee (the HRCC or the Committee) of our Board of Directors, the different elements that we employ in our executive compensation program, the purposes and objectives of these elements and the manner in which we determine our compensation structure (including changes to this structure implemented during 2006 and early 2007).

Board Process

The Committee approves all compensation and awards to executive officers, which include the Chief Executive and Chief Financial Officers and all the executive officers who report directly to the Chief Executive Officer. The Committee and the Nominating and Governance Committee review the performance and compensation of the Chief Executive Officer and, following discussions with him, and, where the Committee deems it appropriate, the HRCC s advisor (described below), establish his compensation level. For the remaining executive officers, the Chief Executive Officer and Executive Vice President of Human Resources make recommendations to the Committee. With respect to equity compensation awarded to others, the Committee grants restricted stock units and stock options generally based upon the recommendation of the Chief Executive Officer and the Executive Vice President of Human Resources.

The Committee has, as part of its charter, the authority to select and retain its own independent advisor to provide advice on the competitiveness and appropriateness of compensation programs for the company s Chief Executive Officer and top executive officers. This advice may from time to time include, but will not necessarily be limited to, base salaries, short- and long-term incentives, pensions, benefits, perquisites, employment and change of control provisions, analysis of performance factors used to determine incentive awards and payouts, and related pay-for-performance analysis.

Until mid-year 2006, Mercer Human Resources Consulting served in this capacity. At that time the lead advisor to the HRCC, Kenneth Hugessen, left Mercer Human Resources to form an independent firm providing advice exclusively to compensation committees. After due consideration, the HRCC decided to retain Hugessen Consulting Inc. (HCI) as its independent advisor. HCI serves at the Committee s pleasure and the HRCC approves all work and associated fees paid to HCI and will review HCI s performance at least annually. The HCI mandate is exclusively with the HRCC, and it will not solicit work from management of the company. Furthermore HCI will not accept any work from management without the express consent of the chairman of the HRCC.

During the first five months of 2006, Mercer s assignments included (a) review of the compensation policies and levels of a representative group of companies in our industry, (b) advice concerning the design of the 2006 Stock Option and Restricted Stock Plan, and (c) advice concerning compensation packages for the retiring CEO and the new CEO. During the second part of the year, HCI was engaged to provide (a) review of proposed changes to the Annual Incentive Plan for 2007, (b) advice concerning executive compensation disclosure under the updated SEC requirements (c) review of director compensation, (d) analysis of a possible stock option exchange program, (e) consultation services concerning the design of the stock ownership guidelines, and (f) advice concerning termination of the Mid-Term Incentive Plan and the substitution of replacement equity awards. HCI provided advice on each of these matters, however the HRCC ultimately makes all decisions related to our executive compensation program.

Selection and Use of Peer Group Companies

To stay competitive, we seek to ensure that compensation paid to our executives is consistent with market levels in our industry. To help us make this assessment, we consider compensation policies and levels of a representative group of companies in our industry. In January 2006, with the assistance of our advisor, we reviewed the compensation principles and methodologies of the various compensation programs of similar companies in our industry. We use executive compensation benchmarking as part of our compensation philosophy, under which collective *target* compensation levels for our executives should be set at the median (50^{th} percentile) of the peer group. The *actual* total direct compensation levels should be above median when our financial performance is superior to the median performance of the peer group and below median when our financial performance is inferior to the median financial performance of the peer group.

The peer group we used for executive compensation benchmarking includes 16 companies in the forestry and paper products/paper packaging industries (based on GICS industry code) that are similar to Bowater in size and scope of operations. The peer group consists of the following companies:

International Paper Company	Louisiana-Pacific Corporation
Smurfit-Stone Container Corporation	Bemis Company, Inc.
MeadWestvaco Corporation	Graphic Packaging Corporation
Temple-Inland Inc.	Packaging Corporation of America
Abitibi-Consolidated Inc.	Rock-Tenn Company
Domtar Inc.	Potlatch Corporation
Sealed Air Corporation	Caraustar Industries, Inc.
Sonoco Products Company	Wausau Paper Corp.

This group includes all the companies in the Dow Jones Paper Products Group except for Pope & Talbot, Inc. and Neenah Paper, Inc. (which were excluded because of their smaller size).

Key Principles and Elements for Compensation of Executive Officers

Our executive compensation program is designed to attract, motivate and retain key executives who directly impact Bowater s long-term success and the creation of stockholder value. In determining executive compensation, we follow these four principles:

Performance-based: Our executive compensation levels reflect company, business unit and individual results based on specific quantitative and qualitative objectives established at the start of each financial year in keeping with our short-term, mid-term and long-term strategic objectives.

Aligned with stockholder interests: Our executive compensation program was designed with the goal of aligning executives interests with those of our stockholders. Specifically, our annual incentive plan incorporates short-term financial and operational performance goals, the attainment of which will enhance stockholder value. Further, the grant of equity awards in the form of both stock options and restricted stock units, coupled with the stock ownership guidelines requiring senior executives to own stock with a value equal to a specified multiple of their base salaries, insure that the executives have a substantial ownership interest consistent with those of our stockholders.

Market competitive: Our compensation for executives is designed to be competitive with compensation of executives of comparable peer companies and to take into consideration company and business unit results relative to the results of peers.

Individual considerations: Our compensation levels are also designed to reflect individual factors such as scope of responsibility, experience and performance against individual measures.

The key elements of our 2006 executive compensation program were (i) base salary and benefits, (ii) cash incentive compensation, (iii) long-term incentive awards and (iv) severance and change in control arrangements. The different elements have distinct purposes within the company s overall compensation plan, as described below:

Base salary and benefits are designed to provide a fixed element of compensation that is competitive with market benchmarks.

Cash incentive compensation under the Annual Incentive Plan is designed to focus executives on objectives approved by the HRCC for a particular year, divisional goals and, beginning in 2007, individual goals set by the HRCC or higher management.

Long-term incentive awards such as stock options and restricted stock units (RSUs) granted under the stockholder-approved stock option and restricted stock plans, focus executives efforts on goals within the recipients control that the HRCC believes are necessary to ensure the long-term success of the company, as reflected in increases to the company s stock prices over a period of several years.

Severance and change in control arrangements are designed to facilitate the company s ability to attract and retain executives as the company competes for executive talent in a marketplace where such protections are commonly offered. The severance benefits provide benefits to ease an employee s transition because of an unexpected employment termination by the company due to on-going changes in the company s employment needs. The change in control benefits encourage employees to remain focused on the company s business in the event of rumored or actual fundamental corporate changes.

The company s financial, operating and stock performance over the last four years has reflected, in part, the weak cyclical conditions of the industry. The company s pay-for-performance framework has in turn resulted in total earned pay that is below target for senior executives generally; for example, no bonuses were paid in 2003, no cash incentive awards were made in 2005, no payouts under our Mid-Term Incentive Plan have been made since its inception in 2003 and all outstanding exercisable option awards are underwater. Nevertheless, the Committee is sensitive to retention issues and to providing award opportunities for executives that will continue to provide incentive for the achievement of performance goals, especially relative to factors that are within management s control such as some of the performance goals under our Annual Incentive Plan discussed below.

Allocation among Elements of Compensation

We believe that the mix of base salary and benefits, cash incentive compensation, long-term incentive awards, and severance and change in control arrangements provided to our Named Executive Officers is consistent with competitive practice. In allocating compensation among these elements, we believe that the compensation of our Named Executive Officers generally those executives having the greatest ability to influence Bowater s performance should be predominately performance-based and long-term in nature, while lower levels of management should receive a greater portion of their compensation in annual incentives and base salary. The 2006 compensation opportunity for the Named Executive Officers consisted of approximately one-third fixed pay (predominately salary and retirement benefits) and two-thirds variable pay, of which approximately 30% is delivered through cash incentive compensation and 70% through long-term equity compensation. The salary is determined by reference to a salary grade that reflects the 50th percentile of pay by companies in our peer group for similar jobs. The target cash incentive compensation is determined as a percentage of the mid-point of the salary range by salary grade, such percentage determined by reference to practices among companies in our peer group and HRCC s judgment. The target value of the long-term incentive compensation is then determined by subtracting the target value of the cash compensation (salary plus annual cash incentive) from the total direct compensation amount paid by companies in our peer group to similar employees.

2007 Changes

For 2007 and thereafter, we have eliminated our Mid-Term Incentive Plan (which is described on page 13) and have, as a replacement, increased the annual equity awards. As discussed in more detail below, we believe that the operation of the Mid-Term Incentive Plan and the criteria under which awards were to be made under that plan, were ineffective incentive mechanisms because of the plan s reliance on the performance of our stock price compared to that of our peers as opposed to measures that reward operational success in a difficult business environment. We have also changed our philosophy regarding base salaries and will provide base salary increases for senior executives only under one or more of the following circumstances: (i) assumption of significantly greater responsibility, (ii) outstanding achievement that leads to improved profitability and/or (iii) to adjust a base salary that is considerably below 50th percentile pay for similar positions in our industry.

Base Salary and Benefits

Base Salary

We seek to provide our senior management with a level of assured cash compensation in the form of base salary that recognizes competitive market practice within our industry as well as the executives professional status and accomplishments. Our executive officers salaries were generally set to be competitive with executive compensation at comparable companies considering the scope of the individual s responsibilities relative to the responsibilities of executives at comparable companies. For 2006, the Committee granted several salary increases in connection with promotions but the generally applied increases were approximately 2.5%. For 2007, the Committee increased base salaries 3% for two executive officers and 4% for one executive officer, in each case to move their compensation closer to the midpoint for their internal salary grades. The base salary for each named executive officer is shown on the Summary Compensation Table. As mentioned above, base salary growth in 2007 and beyond will be strongly linked to performance and will not occur on a regularly scheduled basis.

Retirement Plans

Until December 31, 2006, we maintained a traditional defined benefit pension plan. Subsequent to that time no new participants were added to the plan and the benefits under that plan for existing participants who were younger than 55 and whose age and years of service totaled less than 70 were frozen. We replaced that plan with increased contributions to our 401(k) plan pursuant to which we match employee contributions up to 4% per employee and up to 6.5% as an automatic company contribution. In addition, we instituted a supplemental retirement plan for all non-grandfathered US-based employees above a certain salary grade level. Pursuant to this plan, we contribute 10% (12% for the CEO) of each eligible senior executive s compensation. Additional details regarding the supplemental retirement plan and the different retirement plans applicable to each of the Named Executive Officers are provided following the Pension Plan table.

Perquisites and Other Personal Benefits

The company provides its Named Executive Officers with perquisites and other personal benefits that the HRCC believes are reasonable and consistent with its overall compensation program. The HRCC annually reviews the level of perquisites and other personal benefits provided to Named Executive Officers.

For 2006, the executive perquisites included financial planning (up to US$5,000), tax return preparation (up to US$1,250), estate planning (US$1,400 every three years), dining club membership (US$1,200 yearly), air travel club (US$300) and the cost of an executive physical (up to US$800). Beginning on January 1, 2007, all executive perquisites were eliminated except for reimbursement for tax preparation and a comprehensive physical, up to a combined maximum of US$5,000, for executives at the senior vice president level and above. We believe that good tax preparation assistance by experts reduces the chance of error and adverse publicity for the company. We also want to encourage our senior management to seek appropriate medical care.

Senior management also participates in Bowater s other benefit plans on the same terms as other employees. These plans include medical and dental insurance, life insurance and charitable gift matching (limited to US$1,000 per employee per year). Relocation benefits also are reimbursed under a standard company policy.

Cash Incentive Compensation

2006 ANNUAL INCENTIVE PLAN

We provide annual cash incentive compensation through our Annual Incentive Plan. The purpose of the plan is to provide an incentive to the executives to meet pre-established short-term financial and operational performance goals. The plan is administered by the HRCC and payments under the plan are entirely within the discretion of the HRCC. In this regard, even if all of the performance goals of the plan are achieved, the HRCC, in its discretion, may elect to pay out less than, more than or none of what would be payable under the Plan based on factors it may deem relevant at the time.

The Annual Incentive Plan for 2006 set performance goals for five different metrics: (i) return on net assets (RONA), (ii) return on capital spending (ROCS), (iii) operating unit performance, (iv) cost reduction and (v) sales goals. With respect to each of these metrics, the company set a target goal and a performance threshold, the achievement of which would be a prerequisite for earning an award under the plan for that metric.

Each of the Named Executive Officers is assigned an annual goal for the amount of incentive compensation he should receive under the plan, expressed in terms of a percentage of his base salary. This amount is fixed based upon the executive s salary grade at 40%, 45% or 50% of base salary, except that the 2006 incentive compensation goal for Mr. Paterson, although set at 68%, was guaranteed to be no less than US$374,000 pursuant to his employment contract. Each executive could earn a maximum payout of two times his percentage goal based on salary grade if the goals are substantially exceeded. For example, the maximum award for the Chief Financial Officer, who has a 45% goal based on salary grade, would be 200% times 45% times base salary, or 90% of base salary.

Because awards under the plan are based on the achievement of goals with respect to five different metrics, some of which may be achieved while others are not, the HRCC prioritized the achievement of each goal by assigning a weighted value to each, with the specific weight varying among the executives based on their job functions. The weights add to 100% for each executive and combine to form the total performance goal for the year.

The following table shows the incentive compensation goal for 2006 for each of the Named Executive Officers, the performance target for each metric, the assigned weight for achieving such goal and the amounts actually paid to each executive under the plan.

Named Executive Officer	Incentive Compensation Goal (percentage of base salary)	Performance Metrics, Target and Individual Achievement Weighting						
		RONA (3.5%)	ROCS (15.8%)	Operating Unit Performance (3.0%)	Cost Reduction (US$80mm)	Sales Goals (Varies)	Total Payout (US$)	Percent of Bonus Goal Achieved
Mr. Paterson[(1)]	68%	50%	10%	15%	20%	5%	374,000	N/A
Mr. Nemirow[(2)]	N/A							N/A
Mr. Harvey	45%	50%	10%	15%	20%	5%	101,590	65%
Mr. Monahan	50%	50%	5%	15%	20%	10%	165,962[(3)]	76%
Mr. Ellington	40%	30%	5%	10%	5%	50%	159,575	119%
Mr. Morris	45%	50%	5%	15%	20%	10%	113,830	83%
Mr. Newman[(2)]	50%	50%	10%	15%	20%	5%		N/A
Mr. Steuart[(2)]	50%	50%		10%		40%		N/A

(1) Mr. Paterson received the guaranteed minimum payment set forth in his employment agreement. See CEO Compensation Mr. Paterson s Compensation on page 16 for a description of the terms of Mr. Paterson s employment agreement.
(2) Messrs. Nemirow, Newman and Steuart retired from the company during 2006 and were therefore not eligible for 2006 annual cash incentives.
(3) Converted from Canadian to U.S. dollars at a conversion rate based upon date of payment (US$0.8567).

The following table shows the incentive compensation earned in 2006 for each of the Named Executive Officers, the actual performance of the company or the Named Executive Officer under each metric and the amount earned by each Named

Executive Officer for achieving each goal (as derived based on their assignment weight for achieving each goal as set forth in the previous table).

Named Executive Officer	Incentive Compensation Goal (percentage of base salary)	Payments Under Each Performance Metric: RONA[1] (2.06%)	ROCS (13.2%)	Operating Unit Performance (Varies)	Cost Reduction (US$116.7mm)	Sales Goals (Varies)	Total Payout (US$)
Mr. Paterson [2]	68%	$ 0	$ 0	$ 0	$ 0	$ 0	$ 374,000
Mr. Nemirow [3]							
Mr. Harvey	45%	$ 0	$ 4,020	$ 24,215	$ 62,100	$ 11,255	$ 101,590
Mr. Monahan	50%	$ 0	$ 2,812	$ 39,105	$ 87,045	$ 37,000	$ 165,962[4]
Mr. Ellington	40%	$ 0	$ 1,742	$ 10,433	$ 13,400	$ 134,000	$ 159,575
Mr. Morris	45%	$ 0	$ 1,787	$ 38,585	$ 55,025	$ 18,433	$ 113,830
Mr. Newman [3]							
Mr. Steuart [3]							

(1) No payments were earned under the RONA metric since the performance threshold of 2.6% was not met.

(2) Mr. Paterson received the guaranteed minimum payment set forth in his employment agreement. See CEO Compensation Mr. Paterson s Compensation on page 16 for a description of the terms of Mr. Paterson s employment agreement.

(3) Messrs. Nemirow, Newman and Steuart retired from the company during 2006 and were therefore not eligible for 2006 annual cash incentives.

(4) Converted from Canadian to U.S. dollars at a conversion rate based upon date of payment (US$0.8567).

The five performance measures and the results for 2006 are more fully described below:

RONA, defined as operating income less an incremental 38% tax rate divided by average net assets, is a measure of evaluating earnings in the context of the resources required to generate them. The performance target was established at 3.5% with a threshold of 2.6% and the maximum payout was capped at the 7.0% level and a requirement for positive earnings. Because we did not satisfy the threshold requirement, no executive officer received any payout under this metric.

ROCS targets were established to reflect our priority to spend capital dollars on the highest return capital projects. Based on all approved capital projects in 2006, the ROCS performance target was set at 15.8% with a threshold of 12.3% and the maximum payout was capped at the 21.8% level. We achieved 13.2% ROCS, resulting in a 26% payout of this performance goal.

Operating unit performance goals were established to reflect our desire to improve performance in the areas of safety, productivity, quality and cost reduction. Operating unit performance is directly aligned with our gainsharing programs for company employees not eligible to participate in the Annual Incentive Plan. The four factors identified above drive the gainsharing payout at the mill, division level, and the corporate level. The maximum that can be earned by gainsharing participants is 5% of pay. Each factor yields a maximum of 35 points. A 3% gainsharing payout, which is our targeted performance level in the Annual Incentive Plan, is earned at the 75 point threshold, a 4% payout is earned at the 100 point threshold and an additional 1% opportunity is based upon the requirement that points are earned in each category and all points in excess of 100 add 0.025% (e.g., 40 x .025% = 0.01 or 1%). The target payout of 3% was earned if 60% of the maximum opportunity of 5% was achieved.

- Mr. Harvey s bonus reflected 104% of the operating unit performance target.

- Mr. Monahan s bonus reflected 120% of the operating unit performance target.

- Mr. Ellington s bonus reflected 78% of the operating unit performance target.

- Mr. Morris bonus reflected 187% of the operating unit performance target.

We set a cost reduction target of US$80 million with a threshold of US$60 million and the maximum payout was capped at US$100 million. We achieved a cost reduction of $116.7 million, which resulted in a 200% payout of this performance goal.

Product sales performance goals were established to reflect our focus on improving operating efficiencies through optimizing product mix and reducing sales and distribution costs. The sales goals varied for each Named Executive Officer depending upon the officer s responsibilities in that product area. The four product areas are newsprint, coated and specialty paper, pulp and lumber. The target goals varied by product and were as follows:

¡	Newsprint	Develop initiatives to reduce Bowater s costs (target of US$6 million), customers cost (target of US$1.5 million), improve product mix (target of US$2 million), reduce freight costs (target of US$1.5 million), and reduce agent commissions (target of US$0.5 million). The overall target of US$11.5 million was exceeded as actual performance was US$28.3 million, 147% of target.
¡	Coated and Specialty Papers	Attain volume and profitability targets by product, shift product and customer mix to achieve higher profitability by US$12.4 million, sell all additional tonnage generated by the Calhoun machine conversion and maintain Bowater s price against Industry Benchmark Price. Actual performance was 134% of target.
¡	Pulp	Manage days supply of inventory (target is 20 days), increase percent of sales volume sold to the North American market (target is 65% of total sales), increase percent of total product sold to consumer end use segment (target is 48%), achieve EBITDA per ton goals set relative to the performance of peers (target is US$37 above industry peers). Actual performance was 148% of target.
¡	Lumber Sales Department	Group and individual goals related to the improvement of price, on-time shipping, inventory level, sales volume, systems enhancement and client satisfaction.

As discussed above, some of the performance thresholds were met or exceeded, while others were not met. In accordance with the bonus formula, the executives were entitled to the bonus amounts shown on the table above. The HRCC had the discretion to reduce or eliminate these bonuses. However, consistent with the policy of paying for performance when targets are achieved even if the Company s overall financial performance is poor, the HRCC determined to make the awards as earned by the Named Executive Officers according to the applicable bonus formula.

ANNUAL INCENTIVE PLAN FOR 2007

The 2007 Annual Incentive Plan will focus on the following performance metrics: free cash flow (target is the 2007 budgeted amount), operating unit performance (target is 60%), return on net assets (target is 1.56%), and sales performance. A significant emphasis is being placed on the generation of free cash flow to reduce corporate debt. Operating unit performance is also weighted to reflect the importance of improving our position as a low cost, efficient producer. A 40% holdback feature will be added to the plan in 2007, linking individual performance to measurable key objectives set at the start of the performance period. The holdback will permit senior management discretion (and, in the case of the CEO, the Board, and for other Named Executive Officers, the CEO) in the allocation of earned incentive dollars, such that some participants may receive more than the so-called earned bonus for their salary grade level while others will receive less or possibly no award. A table showing the goals and weighting of each is shown below.

Named Executive Officers(1)	Free Cash Flow (2007 Forecast)	Operating Unit Performance (60%)	RONA (1.56%)	Sales Performance	Individual Performance vs. Key Objectives
Mr. Paterson	50%	30%	10%	10%	40% Holdback
Mr. Harvey	50%	30%	10%	10%	40% Holdback
Mr. Monahan	40%	40%	10%	10%	40% Holdback
Mr. Ellington	35%	15%	10%	40%	40% Holdback
Mr. Morris	35%	15%	10%	40%	40% Holdback

(1) Messrs. Nemirow, Newman and Steuart are no longer with the company and therefore do not appear in this table.

MID-TERM INCENTIVE PLAN

We adopted a Mid-Term Incentive Plan (MTIP) in 2003 to provide long-term performance-based compensation. The MTIP had rolling three-year plan cycles, the first of which ran from January 1, 2003, to December 31, 2005. The MTIP was designed to link rewards of key executives to the performance of Bowater s common stock as compared to peers (relative total stockholder return) (TSR) and to encourage the generation of cash flow from operations.

In order to simplify the executive compensation structure, we decided to terminate the MTIP as of December 31, 2006. No awards were earned under the 2003-2005 or 2004-2006 MTIP cycles. The combination of Bowater s business mix (heavy exposure to the newsprint market) and cost exposure to the volatile Canadian dollar severely limited the number of meaningful comparators for purposes of the relative TSR comparisons used under the MTIP. Consequently, the MTIP had become of minimal motivational value as the plan was unresponsive to the company s success at meeting the particular business challenges that confront the company, including declining newsprint consumption, an unfavorable Canadian exchange rate and worldwide overcapacity. To substitute for the MTIP, the Committee decided to increase the annual equity awards by 45% to encourage retention of key management and to focus attention on successfully meeting the challenges associated with profitable operations in the newsprint, specialty and coated papers, lumber products, and pulp segments, by rewarding operational success rather than stock performance. This also simplified the executive compensation structure making it easier for executives to identify the equity award as aligning their long-term interests with the stockholders. This increase was reflected in the 2007 equity awards made by the Committee in January 2007. This substitution is being done on a dollar for dollar basis, with no increase in the overall target level of compensation.

Long-Term Incentive Awards

Historically, the primary form of equity compensation that we awarded executives consisted of nonqualified stock options. We selected this form because of the well established and generally favorable accounting and tax treatments and the near universal expectation by employees in the industry that they would receive stock options. More recently, however, in response to both our own operating environment and recent pressure from institutional stockholders and the investment community generally to use fewer options (principally resulting from extensive media coverage of abusive practices with respect to stock options by public companies), we began reassessing how equity as a compensation tool could be better aligned with our stockholders interests. Moreover, beginning in 2006 the accounting treatment for stock options changed as a result of Statement of Financial Accounting Standards No. 123(R), making the accounting treatment of stock options less attractive. As a result, we examined the desirability of granting restricted stock units to employees, particularly members of senior management, and concluded that replacing our MTIP and a significant portion of our options with restricted stock units would allow us to capture certain benefits while providing an equally motivating form of incentive compensation and continuing to align the interests of our executives with those of our stockholders. It would also permit the company to issue fewer shares, thereby reducing potential dilution.

We adopted a new approach to equity compensation based upon a combination of nonqualified stock options and restricted stock units for the 2006 equity awards. As compared to prior equity awards, we included more restricted stock unit awards and fewer options, longer vesting schedules and performance vesting for a portion of the restricted stock unit awards to senior executives.

EQUITY AWARD SCHEDULE

With the exception of significant promotions and new hires, we generally make equity awards to executive officers at the Committee s first meeting each year following the availability of the financial results for the prior year. The equity grants were made on January 30, 2007 for the 2007 fiscal year. The 2006 grants were delayed until May 10, 2006, because the 2006 Stock Option and Restricted Stock Plan was approved by stockholders on that date.

The January schedule was selected because it enables the Committee to consider prior year performance and expectations for the current year. The awards also are made as early as practicable in the year in order to maximize the positive incentive component associated with the awards. The Committee s schedule is determined several months in advance, and the proximity of any awards to earnings announcements or other market events is coincidental.

In establishing award levels, we generally do not consider the equity ownership levels of the recipients or prior awards that are fully vested. It is our belief that competitors in our industry who might be interested in hiring our employees would not place a value on the extent of equity ownership in Bowater and, accordingly, to remain competitive in the marketplace we cannot afford to have our future actions influenced by the extent of employee ownership or the number of fully vested grants.

We grant equity awards to executive officers based on dollar values computed for each salary grade. For 2006 and thereafter, the dollar value was determined to transition executives from 2005 grant levels toward levels that would result in total compensation for each salary grade that approximated the total compensation received at peer companies at the 50th percentile. For stock options, the dollar values are determined using the Black-Scholes valuation methodology based on the average of the high and low stock price on the date of grant. For the Named Executive Officers, the awards in 2006 were allocated 37.5% to stock options and 62.5% to restricted stock unit awards of which one-half had performance-based vesting and one-half had time-based vesting. For 2007, to reflect changes in competitive practice, the awards to the Named Executive Officers were allocated 15% to stock options (25% for the CEO), and 85% to restricted stock units (75% for the CEO). The 2006 equity awards made to the Named Executive Officers are shown on the Summary Compensation and the Grants of Plan-Based Awards tables.

STOCK OPTIONS

The 2006 and 2007 nonqualified stock option awards have a three-year service-based vesting schedule. The 2006 awards provide for cliff vesting (the stock option awards vest in full at the end of the three-year vesting period) while the 2007 awards provide for ratable vesting (the stock option awards vest in $^{1}/3$ increments at the end of each year during the three-year vesting period). The award agreements provide that the options will vest in full prior to the end of the regularly scheduled three-year vesting period for employees who are employed on the date of a change in control, as defined in the 2006 Stock Option and Restricted Stock Plan. The agreements also provide that in the event of death, disability, involuntary termination without cause or retirement, the executive is entitled to (i) under the 2006 award agreements, a prorated award based upon the portion of the vesting period the executive is an active employee, and (ii) under the 2007 award agreements, immediate vesting. Under the award agreements, the option exercise period will terminate no later than the 10-year anniversary of the date of grant or, if earlier, two years after the employee s termination of employment by reason of death, five years after retirement or disability, or 90 days after termination of employment for other reasons. Consistent with our past practice, the options will be canceled upon termination of employment for cause.

RESTRICTED STOCK UNITS

The restricted stock unit awards provide for the transfer of shares to the employees as of the date of vesting. No dividends are payable prior to vesting in the shares. At the time of vesting, the employee will receive a lump sum payment equal to the amount of the dividends paid on or after the grant date and prior to the vesting date. One-half of each of the 2006 restricted stock unit awards to Named Executive Officers has a service-based three-year cliff vesting schedule while all of the 2007 equity awards have a service-based three-year ratable vesting schedule.

The remaining portion of the 2006 restricted stock unit awards will vest if certain performance targets are met. If we have cumulative positive earnings per share during the three-year period beginning January 1, 2006 and ending December 31, 2008 (that is, if our cumulative net earnings for the three-year period are positive), the total awards will vest. If we have positive earnings per share for any one calendar year during the three-year period, one-third of the respective award will vest for each such year. Earnings per share and net earnings will be as reflected in our published financial statements. No vesting will occur until certification by the Committee that the performance targets have been met. The 2007 restricted stock unit awards did not include performance vesting because of the pending combination with Abitibi and the difficulty of framing a meaningful performance goal.

Under the terms of the award agreements, vesting will be accelerated for executives who are employed on the date of a change in control as defined in the 2006 Stock Option and Restricted Stock Plan. They also provide that in the event of death, disability, involuntary termination without cause or retirement, the executive is entitled to (i) for all 2006 awards (except the awards in lieu of bonus described below) a prorated award based upon the portion of the vesting period the executive is an active employee, vesting immediately and (ii) for 2007 awards and the 2006 awards in lieu of bonus, 100% immediate vesting (except that the 2006 awards in lieu of bonus provide for a prorated vesting in the event of retirement). For the performance-based awards, a grantee is only entitled to a prorated award if the three-year cumulative net earnings are positive.

Restricted stock units were also used to compensate participants for bonus amounts earned under the 2005 Annual Incentive Plan, subject to a two-year service-based cliff vesting schedule. Performance against goals resulted in a substantial bonus for the 2005 period but after careful deliberation, the Board of Directors elected to grant restricted stock units instead in order to conserve the cash reserves of the company.

STOCK OWNERSHIP GUIDELINES

We adopted new stock ownership guidelines on November 8, 2006. These guidelines are for senior executives and directors and are a way to better align their financial interests with those of stockholders. Senior executives are required to own stock with a value equal to a specified multiple of their base salaries. The requisite multiples are five for the chief executive officer and two for executives who report directly to the CEO. Directors are expected to own stock having a value equal to three times the annual retainer. The ownership requirement must be satisfied through Bowater common stock or Bowater Canada exchangeable shares owned outright or through Bowater benefit plans and restricted stock or stock unit awards (not stock options). As of March 31, 2007, all but one of our directors and, of our named executive officers, Messrs. Ellington and Morris had satisfied the new stock ownership guidelines. Our senior executives and directors receive a portion of their compensation in the form of equity awards which will help all covered individuals comply fully with these new guidelines by February 1, 2010.

CEO Compensation

Mr. Nemirow became Chief Executive Officer of the company in 1995 and became Chairman of the Board in 1996. He retired as the company s President and Chief Executive Officer on April 30, 2006. Since May 1, 2006, Mr. Paterson has served as the company s President and Chief Executive Officer.

Mr. Nemirow s 2006 Compensation

Mr. Nemirow continued to receive his 2005 base salary through April 30, 2006. He did not receive an Annual Incentive Award for 2005 or 2006.

On May 1, 2006, Mr. Nemirow retired and, in accordance with the terms of his employment agreement and the applicable retirement plans, he received a lump sum payment of US$11,558,802, in lieu of a life retirement income of US$900,000 per annum which would otherwise have been payable to him under the executive retirement plans. In addition to this lump sum, he also received an additional payment of US$69,195 on November 1, 2006. He will also receive a monthly annuity payment of US$2,727.38 from the qualified retirement plan. He received a distribution from the nonqualified savings plan of US$165,443 on November 1, 2006.

Effective as of May 1, 2006, we entered into an agreement with Mr. Nemirow regarding his service during the remainder of 2006 as non-executive chairman of the Board and his services to Bowater as a consultant for a two-year period thereafter. He received US$50,000 per month for his services during the board service period and will receive US$50,000 per month for his services during the consulting period. He did not receive any compensation or fees to which a non-employee director would otherwise have been entitled. He was reimbursed for the cost of an off-site office and administrative support during the board service period.

Mr. Nemirow s change in control agreement was amended such that if a defined change in control occurred as a result of the execution of a letter of intent or a definitive agreement during the board service period, he would receive upon closing of the transaction three times the annualized fee payable to him as non-executive chairman (US$1.8 million) plus any excise taxes due as a result of such payment.

The agreement also contains non-competition, confidential information, and independent contractor and release provisions.

Mr. Paterson s Compensation

Effective as of May 1, 2006, we entered into an employment agreement with Mr. Paterson to be our President and Chief Executive Officer. For 2006, Mr. Paterson s annual base salary was set at US$825,000. Under the company s Annual Incentive Plan, he is eligible for an annual bonus with a target payout equal to 68% of his base salary and a maximum payout of 136% of his base salary. For the year ending December 31, 2006, he was guaranteed a bonus of US$374,000 (target) payable in 2007.

We also granted Mr. Paterson 50,000 restricted stock units. This grant was made partly in recognition of various equity and cash forfeitures incurred by Mr. Paterson as a result of entering into our employment agreement. The shares vest in full after the earlier of one year or the termination of Mr. Paterson s employment by the company without cause or by Mr. Paterson for good reason.

In addition, we granted Mr. Paterson options to purchase 250,000 shares of our common stock. The exercise price of the options was US$27.425, the average of the high and low trading prices of Bowater common stock on the date of grant, May 1, 2006. The options vest ratably over three years and have a ten-year exercise term. The options also are subject to the terms and conditions that apply generally to unexercised options previously granted by the company.

The combined value of these equity awards at the time the grants were made was approximately US$3.4 million, or two times the annual grant value made to the CEO under the company s ongoing equity grant policy.

The Committee determined to make these equity grants after careful consideration of

(i) competitive pay data on peer company equity grant levels,

(ii) the need to provide an inducement to Mr. Paterson to accept the company s offer of employment, and

(iii) in the belief that providing the CEO with a substantial initial equity interest would create an immediate alignment of financial interest between the company and the CEO.

During the term of the agreement, Mr. Paterson will be entitled to receive perquisites and participate in incentive and benefit plans that we generally provide for our senior executives. If Mr. Paterson s employment is terminated for reasons other than death, disability, retirement or cause, he will receive a lump sum severance payment equal to twice his base salary at the time of termination plus between two and three times the last annual bonus paid to him.

The employment agreement provides for a change in control agreement similar to the change of control agreements with other senior executives. If Mr. Paterson is eligible for both a severance payment under the employment agreement and a payment under the change of control agreement, he may elect which of those payments he will receive.

The employment agreement also contains noncompetition, nonsolicitation and nondisclosure provisions.

In negotiating the terms of Mr. Paterson s employment agreement, we considered data supplied by our advisor concerning CEO compensation at peer companies, the past compensation paid to Mr. Nemirow for his services as CEO and Mr. Paterson s prior compensation history.

Deductibility of Compensation Section 162(m)

In order to maintain flexibility to attract and retain qualified executives, we may allow for compensation that is not deductible under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). We did not pay any non-deductible compensation in 2006.

Severance and Change in Control Arrangements

Severance Benefits

We believe that companies should provide reasonable severance benefits to employees. With respect to senior management, these severance benefits should reflect the fact that it may be difficult for employees to find comparable employment within a short period of time. Severance benefits should also assist in disentangling the company from the former employee as soon as practicable. For instance, while it is possible to provide salary continuation to an employee during the job search process, which in some cases may be less expensive than a lump sum severance payment, we prefer to pay a lump sum severance payment in order to most cleanly sever the relationship as soon as practicable.

Where the termination is without cause or the employee terminates employment for good reason (applies only in the case of Mr. Paterson), our employment agreements with the Named Executive Officers provide for benefits equal to two years of base salary plus between two and three times the amount of the last bonus paid. The vesting of certain equity awards is accelerated in the event of an involuntary termination without cause. In addition, a terminated employee is entitled to receive any benefits that he otherwise would have been entitled to receive under our 401(k) plan, pension plan and supplemental retirement plans, although those benefits are not increased or accelerated. We believe that these severance benefits are similar to the general practice among comparable companies, although we have not conducted a study to confirm this. Where an employee is entitled to severance benefits under traditional severance provisions and a change in control provision, he may elect which of these payments he will receive.

Based upon a hypothetical termination date of December 31, 2006, the severance benefits under the employment agreements for the Named Executive Officers would have been as follows:[1]

	Paterson	Harvey	Monahan[2]	Ellington	Morris
Base Salary (2x)	**US$ 1,650,000**	**US$ 730,000**	**US$ 895,908**	**US$ 670,000**	**US$ 686,600**
Base Salary	US$ 825,000	US$ 365,000	US$ 447,954	US$ 335,000	US$ 343,300
Bonus (3x)[3]	**US$ 1,122,000**	**US$ 445,500**	**US$ 671,931**	**US$ 626,997**	**US$ 624,900**
Bonus	US$ 374,000	US$ 148,500	US$ 223,977	US$ 208,999	US$ 208,300
Total	**US$ 2,772,000**	**US$ 1,175,000**	**US$ 1,567,839**	**US$ 1,296,997**	**US$ 1,311,500**

(1) Messrs. Nemirow, Steuart and Newman terminated their employment with the company during 2006. Messrs. Steuart and Newman both received severance payments in accordance with the terms of their employment agreements of US$1,868,392 and US$1,944,143, respectively. Mr. Newman received an additional payment of US$255,857 in exchange for a release of all claims against the company. Mr. Nemirow did not receive a severance payment.

(2) Converted from Canadian to U.S. dollars using an exchange rate of US$0.8818.

(3) For all but Mr. Paterson and Mr. Monahan, the bonus is based on the 2005 earned cash incentive awards under our Annual Incentive Plan, which was actually awarded in the form of restricted stock units. Mr. Paterson s employment agreement calls for a 2006 bonus of US$374,000. Mr. Monahan s employment agreement calls for the severance bonus payment to be calculated on the basis of his target incentive which is 50% of base salary.

The accelerated equity awards would be 250,000 options and 50,000 restricted stock units for Mr. Paterson; 5,775 options and 8,626 restricted stock units for Mr. Harvey; 6,640 options and 13,201 restricted stock units for Mr. Monahan; 4,370 options and 10,192 restricted stock units for Mr. Ellington; and 5,020 options and 10,506 restricted stock units for Mr. Morris.

The definition of cause varies among different employment agreements with members of senior management. For all of the Named Executive Officers except for the CEO, cause is defined as gross negligence or willful misconduct either in the course of employment or which has a material adverse effect on the Corporation or the executive s ability to perform adequately and effectively his duties. Under Mr. Paterson s employment agreement, cause also is defined as conviction of (or pleads guilty or nolo contendre to) a felony. Under Mr. Paterson s agreement, good reason generally will exist where his position or compensation has been decreased or where he has been required to relocate.

Change in Control Benefits

It is our belief that the interests of stockholders will be best served if the interests of our senior management are aligned with them, and providing change in control benefits should eliminate, or at least reduce, the reluctance of senior management to pursue potential change in control transactions that may be in the best interests of stockholders.

We revised our policy toward change in control benefits in January 2005. Prior to that date, we had awarded change in control agreements to all executives from the mill manager level up. The agreements provided severance benefits approximately equal to three times all compensation. In 2005, 37 executives were covered by change in control agreements, which exceeded generally accepted norms. Since January 2005, it has been our policy to grant change in control agreements (containing less favorable terms than the old agreements) only at the highest executive levels. Further, when an executive with a more favorable change in control agreement receives a promotion, he or she is required to sign a new change in control agreement containing less favorable terms. Today only 28 executives are covered by change in control agreements, of which eighteen have the revised (less favorable) version.

Each Named Executive Officer is a party to a change in control agreement which continues until his employment is terminated and all obligations thereunder have been satisfied. Following a change in control of

Bowater, if the executive s employment is terminated within 36 months (except for a termination due to death, disability, or for cause (defined as gross negligence or willful misconduct that has not been cured or conviction of a felony, which action has a demonstrable and material adverse effect upon Bowater)), or if the executive elects to terminate his employment either (a) for good reason or (b) only under Mr. Monahan s agreement, during a 30-day period after the first anniversary of the change in control, the executive will receive his accrued salary. Unless the executive s termination is for cause, he also will receive a prorated annual incentive award and all benefits under Bowater s benefit plans and policies to which he is entitled through his date of termination.

In addition, the Named Executive Officer will receive, in lieu of any severance payments provided in any applicable employment agreement and depending on the applicable version of the change in control agreement, an amount equal to the sum of: (a) three times the executive s annual base salary; (b) three times the target (highest possible in Mr. Monahan s agreement) annual incentive award; (c) three times the largest annual contribution that could have been made by Bowater to its savings plans on the executive s behalf; (d) 30% of the executive s annual base salary (as compensation for certain other benefits lost as a result of the termination of employment); (e) an amount equal to the present value of the additional retirement benefits the executive would have earned for three years; and (f) retiree health care and life insurance.

The change in control agreements define a change in control as occurring if: (a) any person becomes beneficial owner of an amount of Bowater stock representing 20% or more of the combined voting power of Bowater s then outstanding voting securities, unless the Board has approved the acquisition of up to 50% of these securities or the person has filed a Schedule 13G indicating the person s intent to hold the securities for investment; (b) less than 50% of the total membership of the Board are continuing directors (as defined in the change in control agreements); or (c) Bowater s stockholders approve a merger, consolidation or reorganization of Bowater, or an agreement for the sale or other disposition of substantially all of Bowater s assets unless at least 50% of the voting power of the resulting entity is still owned by previous Bowater shareholders or at least 50% of the board of directors of the resulting entity are previous Bowater directors.

The change in control agreements define good reason as: (a) an adverse change in the executive s status, title, position or responsibilities (including a change in reporting relationships); or (b) failure to pay or provide the executive the salary and benefits, in the aggregate, at least comparable to those to which he was previously entitled; or (c) the reduction of the executive s salary as in effect of the date of the change in control; or (d) Bowater s failure to obtain from any successor its assumption of the change in control agreement; or (e) the relocation of the executive s principal office to a location more than 35 miles from its location immediately prior to the change in control or a substantial increase in the executive s travel obligations following the change in control.

The change in control agreements also generally provide a terminated executive with: (a) either a cash payment of $20,000 (to be paid in the currency of his country of residence) or outplacement assistance; (b) a grossed up reimbursement of certain excise taxes that may be levied on excess parachute payments; (c) a waiver of any non-compete obligations; and (d) under certain agreements, the right to receive a lump sum payment equal to the present value of any non-statutory retirement benefits to which the executive is entitled. A terminated executive will also be entitled to be paid or reimbursed for all costs incurred (or to be incurred) in connection with realizing the benefits of the change in control agreement.

All of our equity compensation plans provide that awards will be automatically vested upon a change in control. Some of the equity compensation plans provide for a cash out of the equity awards at an acceleration price.

Based upon a hypothetical change in control date of December 31, 2006, the change in control termination benefits for our Chief Executive Officer and the other Named Executive Officers would be as follows:[1]

	Paterson (US$)	Harvey (US$)	Monahan[2] (US$)	Morris (US$)	Ellington (US$)
Severance	4,158,000	1,587,750	2,015,795	1,493,355	1,407,000
Pro-rata Bonus	374,000	164,250	223,977	154,485	134,000
Savings Plan Contributions	178,200	78,840	53,755	74,153	72,360
Benefits	247,500	109,500	134,386	102,990	100,500
Outplacement	20,000	20,000	17,636	20,000	20,000
Present value of lost retirement benefits	862,153	224,745	399,455	211,383	198,552
Retiree Health care and life insurance	400,174	345,539		309,837	
Fair market values of accelerated equity and other compensation	1,125,000	687,615	722,321	700,518	538,758
Tax gross-up	2,531,906	1,225,203		1,148,668	938,162
Total	9,896,933	4,443,442	3,567,325	4,215,388	3,409,332

(1) Messrs. Newman and Steuart would not be eligible for change in control benefits because they were no longer employed by the company at year end.
(2) Converted from Canadian to US dollars using an exchange rate of US$0.8818.

Compensation Committee Report

The HRCC has reviewed and discussed the Compensation Discussion and Analysis above with management and, based on such review and discussion, the HRCC recommended to the Board of Directors that the Compensation Discussion and Analysis be included herein.

Togo D. West, Jr. (Chairman)

Richard B. Evans

Ruth R. Harkin

Arthur R. Sawchuk

Compensation Committee Interlocks and Insider Participation

Togo D. West, Jr., Richard B. Evans, Ruth R. Harkin and Arthur R. served on Bowater s Human Resources and Compensation Committee during the entirety of 2006. Mr. Sawchuk served as acting President and Chief Executive Officer of Avenor Inc., a forest products company, from November 1997 until its acquisition by Bowater in July 1998. None of the members of the Committee has served as officers of Bowater, and none has any interlocking relationships, as defined by SEC regulations.

Summary Compensation Table

The following table sets forth information concerning all compensation paid by Bowater and its subsidiaries during 2006 to our Chief Executive Officer, our Chief Financial Officer and the other three executive officers with the highest total compensation during 2006, along with three former executive officers who would have been among the highest paid executive officers during fiscal year 2006. Messrs. Nemirow, Newman and Steuart retired from the company during 2006. These officers are referred to collectively in this document as the Named Executive Officers.

Name and Principal Position	Year	Salary (1) (US$)	Bonus (US$)	Stock Awards (2) (US$)	Option Awards (3) (US$)	Non-Equity Incentive Plan Compensation (4) (US$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (5) (US$)	All Other Compensation (6) (US$)	Total (US$)
David J. Paterson (7) President & Chief Executive Officer	2006	550,000	374,000	878,333	447,950			224,210	2,474,493
Arnold M. Nemirow President & Chief Executive Officer, retired	2006	341,667					278,883	556,937	1,177,487
William G. Harvey Executive Vice President and Chief Financial Officer	2006	350,769		69,252	11,317	101,590	78,003	13,455	624,386
Pierre Monahan (8) Executive Vice President Building Products	2006	452,623		114,211	13,012	165,962	292,236	42,046	1,080,090
C. Randolph Ellington Senior Vice President Newsprint Sales	2006	341,250		91,047	8,564	159,575	80,303	10,306	691,045
William C. Morris Senior Vice President Coated and Specialty Papers Sales and Marketing	2006	343,300		91,893	9,838	113,830	78,470	13,460	650,791
R. Donald Newman Executive Vice President and Chief Operating Officer, retired	2006	461,974		349,326	109,743		1,401,949	2,299,312	4,622,304
David J. Steuart (8) Senior Vice President and President Pulp Division, retired	2006	482,257		319,843	52,050		462,965	2,059,952	3,377,067

(1) Includes amounts received from the sale of unused vacation days back to Bowater, as follows: Mr. Harvey: US$5,769; Mr. Ellington: US$6,250; Mr. Newman: US$7,933.

(2) Amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ending December 31, 2006, in accordance with FAS 123(R) of awards of restricted stock units. Assumptions used in the calculation of these amounts are included in footnote 21 to the company s audited financial statements for the fiscal year ended December 31, 2006, included in the company s Annual Report on Form 10-K originally filed

with the SEC on March 1, 2007.

(3) Amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ending December 31, 2006, in accordance with FAS 123(R) of awards of non-qualified stock options pursuant to the company s 2006 Stock Option and Restricted Stock Plan. Assumptions used in the calculation of these amounts are included in footnote 21 to the company s audited financial statements for the fiscal year ended December 31, 2006, included in the company s Annual Report on Form 10-K originally filed with the SEC on March 1, 2007.

(4) Amounts in this column reflect the cash awards to the named individuals under our Annual Incentive Plan, which is discussed in significant detail under Compensation Discussion and Analysis Cash Incentive Compensation.

(5) Amounts shown in this column reflect the actuarial increase in the present value of the named individuals benefits under all pension plans established by the company using interest rate and mortality rate assumptions consistent with those used in the company s financial statements. There were no above-market or preferential earnings on non-qualified deferred compensation for the named executive officers in 2006. A discussion of pension benefits is provided after the Pension Benefits table.

(6) Amounts in this column reflect, for each Named Executive Officer, matching contributions allocated by the company to each of the Named Executive Officers pursuant to the Bowater Incorporated Savings Plan (401(k)) and a non-qualified Compensatory Benefits Plan, which provides a make-up of qualified plan benefits limited by IRS regulation.

In addition, the following amounts are reflected:

Mr. Paterson: a guaranteed company contribution to the Supplemental Retirement Savings Plan of US$189,420, provided for in Mr. Paterson s employment agreement.

Mr. Nemirow: (i) US$400,000 paid to Mr. Nemirow pursuant to the terms of a Consulting Agreement entered into upon Mr. Nemirow s retirement on May 1, 2006, providing for the payment of US$50,000 per month; and (ii) US$131,410 paid to Mr. Nemirow upon his retirement representing earned but unused vacation.

Mr. Monahan: US$22,447 for perquisites including personal use of a company car, financial planning assistance and excess flex account credits.

Mr. Newman: (i) US$66,985 paid to Mr. Newman upon his retirement for earned but unused vacation and (ii) severance payments of US$1,944,143.

Mr. Steuart: (i) US$146,487 paid to Mr. Steuart upon his retirement for earned but unused vacation and (ii) severance payments of US$1,868,392.

(7) Mr. Paterson joined the company as President and Chief Executive Officer in May 2006.

(8) Canadian salary and all other compensation (except non-equity incentive plan compensation) converted using average exchange rate for 2006 of US$0.8818. Non-equity incentive plan compensation exchange rate is US$0.8567 (exchange rate on February 15, 2007, the date paid).

Grants of Plan-Based Awards

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards[2]	Grant Date Fair Value of Stock and Option Awards[3]
Name	Grant Date	Threshold (US$)	Target[1] (US$)	Maximum[1] (US$)	Threshold (#)	Target (#)	Maximum (#)	(#)	(#)	(US$/Sh)	(US$/Sh)