BOWATER INC
Form 10-K
March 16, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
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)
(864) 271-7733
(Registrant s telephone number, including area code)

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, Inc. Pacific Exchange, Inc. The London Stock Exchange

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

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

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. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes þ No o

The aggregate market value of the voting common equity held by nonaffiliates* of the registrant as of June 30, 2004, was approximately $2.3 billion.

As of March 1, 2005, there were 55,911,559 shares of the registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered with respect to the Annual Meeting of Shareholders to be held on May 11, 2005 are incorporated by reference into Part III.

* 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.

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Bowater Incorporated

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For the year ended December 31, 2004

PART I

Item 1. *Business*

General

Bowater Incorporated (Bowater) is engaged in the manufacture, sale and distribution of newsprint, uncoated specialty paper, coated groundwood paper, market pulp, lumber and timber. We operate facilities in the United States, Canada and South Korea and, as of December 31, 2004, our operations were supported by 1.4 million acres of timberlands owned or leased in the United States and Canada and 29.6 million acres of timber cutting rights on Crown-owned lands in Canada. We market and distribute our products throughout the world. No single customer, related or otherwise, accounted for 10% or more of Bowater s 2004 consolidated sales.

Bowater was incorporated in Delaware in 1964. Our principal executive offices are located at 55 East Camperdown Way, Greenville, South Carolina 29601, and our telephone number at that address is (864) 271-7733.

Operating Divisions

As of December 31, 2004, Bowater operated through five divisions: the Newsprint Division, the Coated and Specialty Papers Division, the Pulp Division, the Forest Products Division and the Canadian Forest Products Division. These divisions will form the basis for the disclosures in this report.

Effective January 1, 2005, the Forest Products Division was merged into the Newsprint and Canadian Forest Products divisions and the Thunder Bay Operation was moved to the Coated and Specialty Papers Division. The Forest Products Division was originally established as a separate profit center to manage a large amount of timberland as well as to supply wood fiber to several of our mills. However, much of this timberland has been sold in recent years. In future periods, operating divisions will be reported under this new organizational structure.

The Newsprint Division, headquartered in Greenville, South Carolina, consists of the following manufacturing facilities:

- the Calhoun Operation and Calhoun Newsprint Company (CNC) (CNC is owned approximately 51% by Bowater and approximately 49% by Herald Company, Inc.) located in Calhoun, Tennessee;

- the Coosa Pines Operation located in Coosa Pines, Alabama;

- Bowater Mersey Paper Company Limited (Mersey Operation) (which is owned 51% by Bowater and 49% by The Washington Post Company) located in Liverpool, Nova Scotia;

- the Thunder Bay Operation located in Thunder Bay, Ontario (effective January 1, 2005 this operation is included in the Coated and Specialty Papers Division);

- Ponderay Newsprint Company (Ponderay Operation) (an unconsolidated partnership in which Bowater has a 40% interest and, through a wholly-owned subsidiary, is the managing partner; the balance of the partnership is held by subsidiaries of five newspaper publishers) located in Usk, Washington;

- the Grenada Operation located in Grenada, Mississippi; and

- the Mokpo Operation located in Mokpo, South Korea.

This division is also supported across our North American markets by sales teams, which are responsible for marketing and selling all of Bowater s North American newsprint and some uncoated specialty paper. Offices in Brazil, England, Singapore and South Korea support international marketing and selling of newsprint and some uncoated specialty paper.

The Coated and Specialty Papers Division, headquartered in Greenville, South Carolina, consists of the Catawba Operation located in Catawba, South Carolina, two paper coating facilities (referred to as Nuway) located in Benton Harbor, Michigan and Covington, Tennessee, and four sales offices. This division is responsible for marketing and selling Bowater s coated papers and the majority of our uncoated specialty papers. Effective January 1, 2005, the Thunder Bay Operation will become a component of the Coated and Specialty Papers Division.

The Pulp Division, headquartered in Burlington, Ontario, consists of two sales offices. This division is responsible for marketing all of Bowater s market pulp, which is produced at the Calhoun, Catawba, Coosa Pines and Thunder Bay Operations.

The Forest Products Division, headquartered in Cleveland, Tennessee, consists of five manufacturing facilities:

- Ø Albertville Sawmill located in Albertville, Alabama;
- Ø Bowater Mersey Paper Company Limited Oakhill Sawmill (which is owned 51% by Bowater and 49% by The Washington Post Company) located in Bridgewater, Nova Scotia;
- Ø Westover Sawmill located in Westover, Alabama;
- Ø Thunder Bay Sawmill located in Thunder Bay, Ontario; and
- Ø Ignace Sawmill located in Ignace, Ontario.

The Forest Products Division is supported by 12 business offices and is responsible for managing our timberlands in the United States and the Canadian provinces of Ontario and Nova Scotia, selling timber (to third parties and to our paper mills), selling our U.S. lumber production, managing wood procurement for the sawmills and our Calhoun, Coosa Pines, Grenada, Mersey and Thunder Bay Operations, and selling non-strategic timberlands in the United States, Ontario and Nova Scotia. Effective January 1, 2005, the Forest Products Division was merged into the Newsprint and Canadian Forest Products divisions.

The Ignace Sawmill stopped producing in July 2004 due to a wood supply shortage in Ontario. We re-started the sawmill in January 2005.

The Canadian Forest Products Division, headquartered in Montreal, Quebec, consists of the following manufacturing facilities:

- Ø Bowater Maritimes Inc. (Dalhousie Operation) (which is owned 67% by Bowater, 25% by Oji Paper Co., Ltd. and 8% by Mitsui & Co., Ltd.) located in Dalhousie, New Brunswick;
- Ø the Gatineau Operation, located in Gatineau, Quebec;
- Ø the Donnacona Operation, located in Donnacona, Quebec;
- Ø the Dolbeau Operation, located in Dolbeau, Quebec;
- Ø six sawmills located in Quebec (Dégelis, Price, Maniwaki, Saint-Félicien, Girardville, and Mistassini) and the Baker Brook sawmill located in New Brunswick; and
- Ø

one wood-treating facility located in Dégelis, Quebec (sold in January 2005).

The Canadian Forest Products Division is responsible for marketing our Canadian lumber production, managing the balance of our timberlands, managing wood procurement for the division s manufacturing facilities previously listed and selling non-strategic timberlands in Quebec and New Brunswick.

See Note 23 Segment Information to our Consolidated Financial Statements for financial information regarding segment operations, sales by product, and sales and long-lived assets by country.

Product Lines

Newsprint

Bowater is the largest manufacturer of newsprint in the United States. Including jointly-owned facilities, our annual North American production capacity of newsprint is approximately 2.6 million metric tons, or approximately 19% of the North American capacity. Including the South Korean newsprint mill, our annual production capacity is approximately 2.9 million metric tons, or approximately 7% of worldwide capacity.

The Calhoun Operation, one of the largest newsprint mills in North America, is located on the Hiwassee River in Tennessee. Under the management of Bowater, this facility operates five paper machines, which produced 718,000 metric tons of newsprint and uncoated specialty paper in 2004. Included at this facility is CNC s paper machine, which produced 209,000 metric tons of newsprint in 2004. CNC also owns a recycle fiber plant and a portion of the original thermomechanical pulp (TMP) mill. Bowater owns the remainder of the original TMP facility. The TMP mill was expanded in 1998. This expansion is 100% owned by Bowater along with all the other assets at the site, which include a kraft pulp mill and other support equipment necessary to produce the finished product. Bowater operates the entire facility. Pulp, other raw materials, labor and other manufacturing services are transferred between Bowater and CNC at agreed upon transfer costs.

The Coosa Pines Operation, located on the Coosa River in Alabama, includes two paper machines, which produced 323,000 metric tons of 100% recycled fiber newsprint in 2004. Other facilities include a kraft pulp mill, recovery boiler, power boilers, a wastewater treatment plant, a raw water treatment plant, chip handling system, and other support equipment.

The Dalhousie Operation, located on the Chaleur Bay in New Brunswick, has two newsprint machines. These machines were rebuilt in 1982 and produced 237,000 metric tons of newsprint in 2004. This operation has a deep-sea docking facility that can accommodate large ocean freighters, providing economical access to ports along the eastern seaboard of the United States and throughout the world. Other facilities include a TMP mill, a refuse boiler, a waste treatment plant, and other support equipment.

The Gatineau Operation, located on the Ottawa River in Quebec, consists of three paper machines, which produced 448,000 metric tons of newsprint and 27,000 short tons of specialty paper in 2004. Other facilities include a recycling plant, a refuse boiler, a TMP mill, a secondary effluent treatment facility, and other support equipment.

The Grenada Operation, located on the Yalobusha River in Mississippi, consists of a TMP mill and one paper machine that produced 244,000 metric tons of newsprint in 2004. Other facilities include a waste treatment plant, a refuse boiler, and other support equipment.

The Mersey Operation is located in Nova Scotia on an ice-free port and has a deep-sea docking facility that can accommodate large ocean freighters, providing economical access to ports throughout the world. It has two paper machines that were built in 1929 and rebuilt between 1983 and 1985. The mill produced 250,000 metric tons of newsprint in 2004. Other facilities include a TMP mill, a wastewater treatment facility and other support equipment.

The Mokpo Operation, located in the Daebul Industrial Complex on the southwest coast of South Korea, has one paper machine that produces 100% recycled fiber newsprint. This facility began production in late 1996. The mill produced 252,000 metric tons of recycled fiber newsprint in 2004. This facility ships by truck or from a nearby public deep-sea docking facility. The Mokpo Operation is subject to risks associated with the economic and political climate of South Korea. See, Cautionary Statements Regarding Forward-Looking Information and Use of Third Party Data Changes in the political or economic conditions in the United States or other countries in which our products are manufactured or sold can adversely affect our results of operations on page 12.

The Ponderay Operation, located on the Pend Oreille River in Washington, consists of one newsprint machine, which began production in 1989 and produced 260,000 metric tons of newsprint in 2004. Other facilities include a TMP mill, a recycling plant, a wastewater treatment facility and other support equipment.

The Thunder Bay Operation, located on the Kaministiquia River in northwestern Ontario, includes three paper machines and two kraft pulp mills. In 2004, this facility produced 325,000 metric tons of newsprint and uncoated specialty paper and 60,000 metric tons of base stock for Bowater s Nuway operation. As a result of newsprint market conditions and a stronger Canadian dollar, one paper machine was idled at our Thunder Bay Operation in late June of 2003 and is expected to remain down until newsprint market conditions improve. Other facilities include a TMP mill, a recycling plant, two recovery boilers, a refuse boiler, a chip handling system, a waste treatment plant and other support equipment.

Including the production capacity for our unconsolidated partnership, Ponderay Newsprint Company, we have 46% of our newsprint capacity in the U.S., 45% in Canada and 9% in South Korea.

Our North American newsprint is sold directly by Bowater by its domestic sales force. Sales outside North America are made through our subsidiaries located in the markets they serve. We distribute newsprint by rail, truck and ship.

In 2004, Bowater sold newsprint to various related parties. During 2004, our joint venture partners purchased an aggregate of approximately 770,000 metric tons, which includes purchases from our unconsolidated partnership, Ponderay Newsprint Company. Newsprint tons sold from consolidated entities to related parties represent approximately 25% of our total newsprint tons sold.

Coated and Specialty Papers

Bowater is one of the largest producers of coated mechanical paper in the United States and North America. Capacity in 2004 was 925,000 short tons. This tonnage represents approximately 15% of North American capacity. We are one of the largest producers of supercalendared and uncoated specialty papers in North America with an annual capacity of approximately 750,000 short tons, or approximately 12% of North American capacity. Our coated and uncoated specialty papers are used in magazines, catalogs, books, retail advertising pieces, direct mail pieces and coupons.

Bowater manufactures a variety of coated paper grades on three paper machines at the Catawba Operation. In 2004, Catawba produced approximately 676,000 short tons of coated paper and approximately 11,000 short tons of uncoated specialty paper. The Catawba Operation also includes a newly replaced kraft pulp mill (2003), a TMP mill and other support equipment.

The Donnacona Operation, located in Quebec, consists of one specialty paper machine that produced approximately 148,000 short tons of specialty paper, mostly supercalendared grades, during 2004. The Donnacona operation also includes a TMP mill, a waste water treatment plant, a steam boiler and other support equipment.

The Dolbeau Operation, located in Quebec, consists of two specialty paper machines that produced approximately 250,000 short tons of specialty paper, mostly book paper and supercalendared grades, during 2004. The Dolbeau operation also includes a TMP mill, a wastewater treatment plant and other support equipment.

Bowater also operates coating facilities in Benton Harbor, Michigan and Covington, Tennessee (referred to as Nuway). These two sites operate coaters that converted approximately 62,800 short tons of uncoated basestock, produced by our paper mills, into approximately 77,000 short tons of coated paper during 2004. Transaction prices for our Nuway product improved significantly in 2004, but continued to be insufficient to cover costs. We realized significant improvements in our productivity and quality, but these improvements were mitigated by higher base stock costs. Due to these factors, we are currently operating our Nuway facilities at about half their capacity. The No. 1 line at Benton Harbor remained shut during 2004 mainly due to market conditions. Assuming market conditions improve, we expect to increase our production. However, there is no assurance as to whether Nuway product pricing or costs will improve.

Bowater also produces uncoated specialty paper at its Calhoun, Thunder Bay and Gatineau Operations, totaling 263,000 metric tons in 2004.

Bowater sells coated and uncoated specialty papers domestically through its regional sales offices and through paper brokers to major printers, publishers, catalogers and retailers. We distribute coated and uncoated specialty paper by truck and rail. Export markets are served primarily through international agents.

Market Pulp

Bowater is the third largest producer of market pulp in North America and has a North American market share of approximately 10.1%. Market pulp is used in the manufacture of fine paper, tissue, packaging, specialty paper products, diapers and other absorbent products.

In 2004, the Catawba Operation produced 191,000 metric tons of softwood market pulp; the Calhoun Operation produced 140,000 metric tons of hardwood market pulp; the Thunder Bay Operation produced 229,000 metric tons of hardwood market pulp and 285,000 metric tons of softwood market pulp; and the Coosa Pines Operation produced 247,000 metric tons of fluff market pulp.

North American sales are made directly by Bowater, while export sales are made through international sales agents local to their markets. We distribute market pulp by truck, rail and ship.

Forest Products

In addition to pulp and paper, Bowater sells pulpwood, sawtimber, lumber and wood chips to customers located in the eastern United States and Canada. We also provide many of our manufacturing facilities with the wood needed for pulp, paper and lumber production and sell non-strategic timberlands.

At December 31, 2004, we owned approximately 0.3 million acres of timberlands in the southeastern United States and approximately 1.0 million acres in Canada. We also lease approximately 0.1 million acres in the southeastern United States. We also have approximately 29.6 million acres of timber cutting rights on Crown-owned lands in Canada under long term contracts. These contracts are approximately 20-25 years in length and renew every 5 years, contingent upon Bowater s continual compliance with environmental performance and reforestation requirements. In addition to timber management, we give considerable attention to enhancing other uses of our timberlands. In fact, 15 to 25% of the areas we manage are not scheduled for harvest, but rather designated to help achieve other forest management objectives.

Our customers and the general public continue to seek assurances from the forest products industry that the forest resource is managed in a sustainable manner. In accordance with our values, our environmental and forestry policies and the interests of our customers and other stakeholders, Bowater is committed to environmental management systems with the goal of sustainable forest management. We hold a 50% participation in a Quebec nursery, in order to replace trees harvested from our own and small private landowners timberlands. It is our standard practice to reforest all areas that are harvested. In Canada, we also use harvest practices designed to promote natural regeneration of approximately 75% of the area we harvest with the remaining 25% replanted.

Bowater has achieved International Organization for Standardization (ISO) 14001 1996 standard on the majority of its Canadian woodlands. ISO 14001 is the most widely recognized standard for the registration of an environmental management system. It is an effective approach to verifying environmental forest management practices through an independent third party audit. ISO 14001 also requires a commitment to continual improvement.

The majority of Bowater s lands and wood purchasing operations in the United States are in compliance with standards of the American Forest and Paper Association s Sustainable Forestry Initiative (SFI). Bowater has also achieved SFI certification for its New Brunswick woodlands operations and its freehold forest land in Quebec as a way of progressively responding to customer preferences. The SFI program combines the perpetual growing and harvesting of trees with the protection of wildlife, plants, soil and water quality. To accomplish this, the SFI program uses a comprehensive system of principles, objectives and performance measures developed by foresters, conservationists and scientists.

In addition, Bowater is committed to achieve the certification of the majority of its Québec crown land forest practices by mid 2006 according to the CSA Z-809 standard (Canadian Standard Association).

Also, we recently announced plans to contribute 3,700 acres of woodlands to the Cumberland Trail State Park in Tennessee. The donation includes 610 acres on the Cumberland Plateau and permanent conservation protection for more than 3,000 acres in our pocket wilderness system.

Our timberland base supplies an important portion of the needs of our paper mills and sawmills. In 2004, we consumed approximately 14.4 million short tons of wood for pulp, paper and lumber production. Of this amount, we harvested 0.7 million short tons of wood from our owned or leased properties, generated 3.6 million short tons from cutting rights on Crown land owned by the government in Canada, and purchased 10.0 million short tons, primarily under contract, from local wood producers, private landowners and sawmills (in the form of residual chips) at market prices. In addition, we harvested 1.1 million short tons of wood from our managed properties to sell to other sawmills and paper companies.

Bowater operates 12 sawmills and one wood treatment facility (sold in January 2005) in the United States and Canada that produce construction grade lumber. In addition, these sawmills are a major source of chip supply for our pulp and paper mills.

- Ø The Albertville and Westover Sawmills produced 105 million and 49 million board feet of lumber, respectively, in 2004. These mills produce southern yellow pine lumber that is sold in the southeastern and midwestern United States.

- Ø The Oakhill Sawmill, which produced 130 million board feet of lumber in 2004, sells to customers in eastern Canada and the northeastern United States.

- Ø The Thunder Bay and Ignace Sawmills, produced 135 million and 2 million board feet of lumber in 2004, respectively, and sell to customers in eastern Canada and the eastern and mid-western United States. The Thunder Bay sawmill was completed and became operational in May 2003. The Ignace sawmill was refurbished, but operated only partially in 2004 due to poor market conditions, a labor disruption, and wood supply issues in northwest Ontario. We restarted the Ignace sawmill in January 2005.

- Ø The Maniwaki Sawmill, which produced 98 million board feet of lumber in 2004, sells mainly to customers in eastern Canada and eastern United States.

- Ø The Baker Brook Sawmill, which produced 62 million board feet of lumber in 2004, sells to customers in eastern Canada and eastern United States.

- Ø The Mistassini and Saint-Félicien sawmills, which produced 150 million and 146 million board feet of lumber in 2004, respectively, sells to customers in eastern Canada and eastern United States.

- Ø Three other sawmills (Dégelis, Price, and Girardville,) collectively produced 135 million board feet of lumber in 2004 and sell to customers in eastern Canada and eastern United States.

- Ø Bowater sold its wood treating facility, located in Dégelis, Quebec, in January 2005. This facility produced 21 million board feet of treated lumber (approximately 6 million supplied by Bowater locations) in 2004 and sold to customers in eastern Canada.

- Ø Bowater sold two sawmills in 2004 (Lac des Aigles and Baie Trinité), which produced 9 million board feet of lumber in 2004 and sold to customers in eastern Canada and eastern United States.

We distribute lumber by truck and rail.

Recycling Capability

Bowater has focused its efforts in recent years on meeting the demand for recycled fiber paper products. This effort not only allows publishers and other customers to meet recycled fiber standards, but also provides environmental benefits by reducing deposits to solid waste landfills.

Bowater has recycling plants at its Calhoun, Coosa Pines, Gatineau, Mokpo, Ponderay and Thunder Bay Operations. Taking a mixture of old newspapers and old magazines (recovered paper), these plants utilize advanced mechanical and chemical processes to manufacture high quality pulp. The resulting products, which include recycled fiber newsprint and uncoated specialty paper, are comparable in quality to paper produced with 100% virgin fiber pulp. The Coosa Pines and Mokpo operations produce newsprint containing 100% recycled fiber. In 2004, we processed 1.4 million metric tons of recovered paper worldwide.

Bowater purchases recovered paper from suppliers around the world, generally within the region of its recycling plants. These suppliers collect, sort and usually bale the material before selling it to us, primarily under long-term agreements. We are one of the largest purchasers of recovered paper in North America, averaging in excess of 1.1 million short tons purchased annually. In 2004, our top 3 suppliers accounted for approximately 35% of our annual recovered paper purchases, while only one supplier individually accounted for more than 10% of the total.

Competition

In general, our products are globally-traded commodities, and the markets in which we compete are highly competitive. Our operating results reflect the general cyclical pattern of the pulp and paper industry. Pricing and the level of shipments of our products are influenced by the balance between supply and demand as affected by global economic conditions, changes in consumption and capacity, the level of customer and producer inventories and fluctuations in currency exchange rates. Any material decline in prices for our products or other adverse developments in the markets for our products could have a material adverse effect on our financial results, financial condition and cash flow. Prices for our products have been and are likely to continue to be highly volatile.

Newsprint, one of Bowater s principal products, is produced by numerous worldwide manufacturers. Aside from quality specifications to meet customer needs, the production of newsprint does not depend upon a proprietary process or formula. The five largest North American producers represent approximately 70% of the North American capacity for newsprint. The five largest global producers represent approximately 47% of global newsprint capacity. Our annual production capacity is approximately 7% of worldwide capacity. We face actual and potential competition from them and numerous smaller regional producers. Price, quality, close customer relationships and the ability to produce paper with recycled fiber are important competitive determinants.

Bowater competes with 11 coated mechanical paper producers with operations in North America. In addition, several major offshore suppliers of coated mechanical paper sell into the North American market. As a major supplier to printers in North America, we also compete with numerous worldwide suppliers of other grades of paper such as coated freesheet, supercalendared and uncoated mechanical paper. Price, quality and service are important competitive determinants, but a degree of proprietary knowledge is required in both the manufacture and use of this product, which requires close customer-supplier relationships.

Bowater competes with nine producers of supercalendared paper in North America. In addition, two other major offshore suppliers compete in the North American market.

Bowater competes with seven major market pulp companies in North America along with other smaller competitors. Like newsprint, market pulp is one of our principal products and is a globally-traded commodity for which competition exists in all major markets. Aside from quality specifications to meet customer needs, the production of market pulp does not depend on a proprietary process or formula. We produce five major grades of market pulp (northern and southern hardwood, northern and southern softwood and fluff) and compete with other producers from South America (eucalyptus hardwood pulp and radiata pine softwood pulp), Europe (northern hardwood and softwood pulps), and Asia (mixed tropical hardwood pulp). Price, quality and service are considered the main competitive determinants.

As with other global commodities, the competitive position of Bowater s products is significantly affected by the volatility of currency exchange rates. See Quantitative and Qualitative Disclosures About Market Risk in Item 7A of this Form 10-K. We have operations in the United States, Canada and South Korea, with several of our primary competitors located in Canada, Sweden and Finland. Accordingly, the relative rates of exchange between those countries currencies and the United States dollar can have a substantial effect on our ability to compete. In addition, the degree to which we compete with foreign producers depends in part on the level of demand abroad. Shipping costs generally cause producers to prefer to sell in local markets when the demand is sufficient in those markets.

Trends in electronic data transmission and storage and the Internet could adversely affect traditional print media, including products of our customers, but neither the timing nor the extent of those trends can be predicted with certainty. Our newspaper publishing customers in North America use and compete with businesses that use other forms of media and advertising, such as direct mailings and newspaper inserts (both of which are end uses for several of our products), television and the Internet. Our magazine and catalog publishing customers are also subject to effects of competing electronic media. Although we cannot predict the timing or extent of this trend, we believe that these trends have adversely affected classified advertising.

Raw Materials and Energy

The manufacture of pulp, paper and lumber requires significant amounts of wood, recycled fiber and energy. We obtain the wood we need for production from property we own or lease, or on which we possess cutting rights, or by purchase from local producers. We also use recovered paper as raw material when producing recycled fiber paper grades. See Forest Products and Recycling Capability on pages 4-6 of this Form 10-K for information regarding our procurement and use of raw materials. The availability of raw materials and energy may be disrupted by many factors outside our control. See Raw material and energy prices are volatile, and shortages or price increases could adversely affect our operating results on pages 10-11.

Steam and electrical power are the primary forms of energy used in pulp and paper production. Process steam is produced in boilers using a variety of fuel sources. All of Bowater s mills produce all of their steam requirements with the exception of the Dolbeau and Mersey Operations, which purchase all of their steam from third-party suppliers. The Thunder Bay, Calhoun, Coosa Pines and Catawba Operations produce approximately one-fourth of their electrical requirements. The Dolbeau Operation purchases all of its electrical requirements through a public utility, with about one fifth produced by the third party that operates a cogeneration unit on the Dolbeau Operations premises. The balance of our operations energy needs is purchased from third parties.

Employees

As of December 31, 2004, Bowater employed 8,100 people, of whom 5,800 were represented by bargaining units. Labor agreements covering approximately 2,200 employees at five of our six Canadian paper mills expired on April 30, 2004. These employees are represented predominantly by the Communications, Energy and Paper Union (CEP). The CEP negotiated with Abitibi Consolidated Inc. as the target company for the region and they reached a five-year collective bargaining agreement, which was ratified on July 16, 2004. Traditionally, agreements reached with the target company have been the basis for other agreements in the region. We are currently in negotiations with the CEP at the mill level.

While we consider relations with our employees to be good and we do not expect a work stoppage to occur prior to the finalization of new labor agreements, we can provide no assurance regarding these outcomes or the timing of these negotiations or their effect on our operations.

We successfully negotiated a labor agreement covering approximately 150 of our employees at our Mokpo, Korea paper mill, which expires in July 2006. The wage portion of the labor agreement is for a one-year period and will be renegotiated in July 2005. Including our Mokpo mill, approximately 500 employees are covered by bargaining unit contracts that will expire in 2005.

The expiration dates of our pulp and paper mills and sawmills bargaining unit contracts are as follows:

Location	**Month**	**Year**
Pulp and Paper Mills:		
Dalhousie, Dolbeau, Gatineau, Mersey and Thunder Bay	April	2004
Donnacona	April	2005
Mokpo	July	2005
Catawba	April	2006
Coosa Pines	September	2007
Calhoun	July	2008
Sawmills:		
Mistassini	April	2004
Girardville	February	2005
Maniwaki	February	2005
Westover	March	2005
Saint-Félicien	May	2006
Price	June	2007
Baker Brook	December	2007
Dégelis	December	2007
Albertville	April	2009

Trademarks

Bowater has rights and registrations of the mark Bowater and the Bowater logo in countries in its principal markets. We consider our interest in the logo and mark to be valuable and necessary to the conduct of our business.

Environmental Matters

Information regarding environmental matters is included on page 12 of this Form 10-K.

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

Our pulp and paper mills mainly utilize process wastes or by-products to produce energy instead of sending the wastes to landfills. Bowater operates recycled (de-inked) fiber plants at six of our mills, diverting over 1.4 million metric tons of recovered paper from municipal landfills annually. See Recycling Capability on page 6 of this Form 10-K.

Internet Availability of Information

We make our Form 10-K, our Form 10-Qs, our Form 8-Ks, and amendments to them, available through our internet website **(http://www.bowater.com)** as soon as reasonably practicable after we file or furnish such material to the SEC.

Cautionary Statements Regarding Forward-Looking Information and Use of Third Party Data

Statements 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. This Form 10-K, each of Bowater s annual reports to shareholders, Forms 8-K, 10-Q and 10-K, proxy statements, prospectuses and any other written or oral statement made by or on behalf of Bowater after the filing of this Form 10-K may contain forward-looking statements including, for example, statements about our business outlook, assessment of market conditions, strategies, future plans, future sales, liquidity, prices for our major products, inventory levels, capital spending and tax and exchange rates. These forward-looking statements are not guarantees of future performance. These statements 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. In addition to specific factors described in connection with any particular forward-looking statement, factors that could cause actual results to differ materially include, but are not limited to, those set forth below and those described from time to time in Bowater s other filings with the Securities and Exchange Commission. In addition, other risks could adversely affect us, as it is not possible for us to predict or assess all risks. We disclaim any obligation to publicly update or revise any forward-looking statements even if our situation changes in the future.

Information about industry or general economic conditions contained in this report are derived from third party sources (e.g. trade publications) that Bowater believes are widely accepted and accurate; however, Bowater has not independently verified this information and cannot provide assurances of its accuracy.

Risks Related to Our Business

Industry conditions may adversely affect our results of operations and financial condition

Most of our products are world-traded commodity products. Prices for our products have been volatile, reflecting the cyclical pattern of the forest products industry. We, like other participants in the forest products industry, have limited influence over the timing and extent of price changes for our products. Instead, these price changes depend primarily on industry supply and customer demand. Industry supply depends primarily on available manufacturing capacity, and customer demand depends on a variety of factors, including the health of the economy in general and the strength of both print media advertising and new home construction. The United States and global economies and the markets for our products weakened significantly over a period of several-years and market conditions, although recently somewhat improved, continue to be challenging. Industry statistics indicate that North American newsprint consumption has been steadily declining. In 2004, year-over-year newsprint consumption in the United States declined by 1.7%.

In response to market conditions, we continue to curtail newsprint production at our Thunder Bay mill and coated paper production at our Nuway operations. If these market conditions continue or worsen, it may be necessary to curtail production or permanently shut down these or other machines or facilities. Curtailments or shut downs could result in goodwill or asset write-downs at the affected facilities and could negatively impact our cash flows and materially affect our results of operations and financial condition.

In response to current and projected market conditions, we may also decide to convert newsprint capacity to the production of other grades. Conversions could require capital expenditures in excess of current levels. Even a successful conversion, such as the one we completed at our Catawba mill in 2003, could have a temporary adverse effect on our cash flows, results of operations and financial condition.

Intense competition in the forest products industry could adversely affect our operating results and financial condition

The markets for our products are all highly competitive. Actions by competitors can affect our ability to sell our products and can affect the volatility of the prices at which our products are sold. For example, during 2004, we announced two price increases of $50 per metric ton each for newsprint sold in our North American markets. However, prevailing market conditions, including the actions of competing newsprint suppliers, limited the company s rate of realization on those announced pricing adjustments. In addition, our industry is capital intensive, which leads to high fixed costs. Some of our competitors may be lower-cost producers in some of the businesses in which we operate. Actions by competitors, such as reducing costs or adding low-cost capacity, may adversely affect our competitive position in the products we manufacture and, consequently, our sales, operating income and cash flows.

Developments in alternative media could adversely affect the demand for our products

Our newspaper, magazine and catalog publishing customers may increasingly use, and compete with businesses that use other forms of media and advertising and electronic data transmission and storage instead of newsprint, coated paper, uncoated specialty papers or other products made by us. Although we cannot predict their timing or extent, we believe these trends have adversely affected classified advertising.

Currency fluctuations may adversely affect our results of operations

Changes in foreign currency exchange rates can affect our competitive position, selling prices and manufacturing costs.

We compete with North American, European and Asian producers in most of our product lines. Our products are sold and denominated in both U.S. dollars and selected foreign currencies. In addition to the impact of product supply and demand, changes in the relative strength or weakness of the U.S. dollar may also affect international trade flows of these products. A stronger U.S. dollar may attract imports from foreign producers, increase supply, and have a downward effect on prices, while a weaker U.S. dollar may encourage U.S. exports. Variations in the exchange rates between the U.S. dollar and other currencies, particularly the Euro and the currencies of Canada, Sweden, Finland and certain Asian countries, significantly affect our competitive position compared to many of our competitors.

Nearly half of our manufacturing costs and a small portion of our financial assets and liabilities are denominated in Canadian dollars. Our sales are denominated in the currency of the country in which they occur, and only a small portion of our sales are denominated in Canadian dollars. Accordingly, we are particularly sensitive to changes in the value of the Canadian dollar versus the U.S. dollar. The impact of these changes primarily depends on our production and sales volume, the proportion of our production and sales that occur in Canada, the proportion of our financial assets and liabilities denominated in Canadian dollars, our hedging levels, and the magnitude, direction and duration of changes in the exchange rate. For example, in some quarters Canadian dollar exchange rates may change less than one cent, while in others the change may be several cents or more. From December 31, 2003 to December 31, 2004, the relative value of the Canadian dollar increased from US$0.77 to US$0.83. Such increases in the value of the Canadian dollar versus the U.S. dollar can significantly increase our costs and thus reduce our earnings, which are reported in U.S. dollar terms.

Under the exchange rates, hedging levels and operating conditions that existed at December 31, 2004, for every one-cent increase in the Canadian-U.S. dollar exchange rate, our operating income, net of hedging, for 2004 would have been reduced by approximately $5.2 million.

We expect exchange rate fluctuations to continue to impact costs and revenues; however, we cannot predict the magnitude or direction of this effect for any quarter, and there can be no assurance that the future effect will be similar to that set forth above. However, based on exchange rates, hedging levels and operating conditions projected for 2005, a one-cent increase in the Canadian dollar exchange rate will reduce our 2005 operating income, net of hedging by approximately $7.0 million.

Raw material and energy prices are volatile, and shortages or price increases could adversely affect our operating results

We buy energy and raw materials, including chemicals, wood, recovered paper and other raw materials, primarily on the open market. The prices for raw materials and energy are volatile and may change rapidly, directly affecting our results of operations. The availability of raw materials and energy may also be disrupted by many factors outside our control, adversely affecting our operations.

Our processes consume significant amounts of energy, which comprised approximately 14% of our 2004 operating costs. Typically, we internally generate approximately half of our own energy needs and purchase the remaining energy from third-party suppliers. Of the energy needs that we purchase, approximately three-fourths is spent on electrical purchases with the balance being primarily fossil fuels. In 2005, we anticipate that our total cost of purchased electricity will increase by approximately 2% as compared to 2004.

We are a major user of renewable natural resources such as water and wood fiber. Accordingly, significant changes in climate and agricultural diseases or infestation could affect our financial condition and results of operations. The volume and value of timber that can be harvested may be limited by factors such as fire and fire prevention, insect infestation, disease, ice storms, wind storms, flooding, other weather conditions and other causes. As is typical in the industry, we do not maintain insurance for any loss to our standing timber from natural disasters or other causes. Our supply of wood fiber is also affected by factors that impact production levels within the lumber industry such as currency fluctuations, duties, harvesting restrictions and finished lumber prices. We continued to experience a restricted supply of third party sawmill wood chips to our Thunder Bay mill due to production levels within the industry during 2004 and have had increased wood fiber costs at several of our other mills. See the section entitled Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Our substantial indebtedness could adversely affect our financial health

We have a significant amount of indebtedness. As of December 31, 2004, we had outstanding total debt of $2,514.9 million, a deficit of earnings to fixed charges of $148.6 million and shareholders equity of $1,507.3 million. Our substantial amount of debt could have important consequences. For example, it could:

Ø limit our ability to obtain additional financing, if needed, for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;

Ø increase our vulnerability to adverse economic and industry conditions;

Ø require us to dedicate a substantial portion of our cash flow from operations to make payments on our debt, thereby reducing funds available for operations, future business opportunities or other purposes;

Ø limit our flexibility in planning for, or reacting to, changes in our business and our industry; and

Ø place us at a competitive disadvantage compared to our competitors that have less debt.

On April 22, 2004, we replaced our expiring revolving credit facilities with a new three-year revolving credit facility due April 2007. The new facility provides $400 million of revolving credit in the United States and $35 million in Canada. Borrowings under the new facility incur interest based, at our option, on specified market interest rates plus a margin tied to the credit rating of our long-term debt. The facility contains various covenants, including requirements to maintain a minimum consolidated net worth (generally defined as common shareholders equity, excluding hedging gains in place as of December 31, 2003, plus any outstanding preferred stock plus minimum pension liability amounts) of $1.5 billion, a maximum 62.5% ratio of total debt to total capital (defined as total debt less revaluation of debt assumed through acquisitions, plus net worth including minority interest, plus minimum pension liability amounts), and to maintain an annual minimum EBITDA (generally defined as net income, excluding extraordinary, non-recurring or non-cash items, plus income taxes plus depreciation plus net interest expense) of $250.0 million measured quarterly beginning March 31, 2005, through December 31, 2005 and $400.0 million at the end of each quarter thereafter. If we generate net income, the minimum net worth requirement increases by half of our consolidated net income for each fiscal quarter, excluding gains from cash flow hedges in place as of December 31, 2003. At December 31, 2004, our consolidated net worth was approximately $1,620.4 million, and our ratio of total debt to total capital was 59.1%, calculated according to our credit facility s guidelines. The reconciliation of the ratio of total debt to total capital as defined in and required by our current credit facility to the ratio of total debt to total capital as defined under Generally Accepted Accounting Principles (GAAP) is presented in the section Short-Term Funding and Contractual/Commercial Commitments on page 41 of this Form 10-K.

We are exposed to changes in banking and capital markets and changes in interest rates

We require both short-term and long-term financing to fund our operations, including capital expenditures. Changes in banking, capital markets and/or our credit rating could affect the cost or availability of financing. In addition, we are exposed to changes in interest rates with respect to floating rate debt and in determining the interest rate of any new debt issues. Changes in the capital markets or prevailing interest rates can increase or decrease the cost or availability of financing.

There can be no assurance that we will return to profitability

We incurred net losses of $142.4 million for the 2002 fiscal year and $205.0 million for the 2003 fiscal year. In 2003, we completed an aggressive cost saving initiative and continued our efforts to control costs in 2004. Also in 2004, we implemented price increases for our newsprint, coated and specialty papers and revenues increased from approximately $2.7 billion for 2003 to approximately $3.2 billion for 2004. However, we still incurred a net loss of $87.1 million for the 2004 fiscal year. While we will continue to identify and implement cost and cash savings initiatives and to seek opportunities to enhance our revenues, these steps may not be sufficient by themselves to enable us to return to profitability.

Changes in laws and regulations could adversely affect our results of operations

We are subject to a variety of foreign, federal, state and local laws and regulations dealing with trade, employees, transportation, currency controls, taxes and the environment. Changes in, or more stringent enforcement of, these laws or regulations have required in the past, and could require in the future, substantial expenditures by us and adversely affect our results of operations. For example, changes in environmental laws and regulations have in the past and could in the future require us to spend substantial amounts to comply with restrictions on air emissions, wastewater discharge, waste management and landfill sites, including remediation costs. Environmental laws are becoming increasingly more stringent. Consequently, our compliance and remediation costs could increase materially. For example, in April 1998, the Environmental Protection Agency promulgated new air and water quality standards for the paper industry, known as the Cluster Rule, aimed at further reductions of pollutants. Prior to 2004, we spent approximately $170 million to enable our Catawba, South Carolina facility to comply with the Cluster Rule. Another example is duties imposed on lumber shipments from Canada into the United States as discussed in the section under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations entitled Product Line Information, subsection Lumber Year Ended 2004 compared to 2003 in this Form 10-K.

Changes in the political or economic conditions in the United States or other countries in which our products are manufactured or sold can adversely affect our results of operations

We manufacture our products in the United States, Canada and South Korea, and sell our products throughout the world. The economic and political climate of each region has a significant impact on costs, prices of and demand for our products. Changes in regional economies or political stability, including acts of war or terrorist activities, can affect the cost of manufacturing and distributing our products, pricing and sales volume, directly affecting our results of operations. Such changes could also affect the availability or cost of insurance.

We may be subject to environmental liabilities

As an owner and operator of real estate and manufacturing and processing facilities, we may be liable under environmental laws for cleanup and other costs and damages, including tort liability and damages to natural resources, resulting from past or present spills or releases of hazardous or toxic substances on or from our current or former properties (see Legal Proceedings). We may incur liability under these laws without regard to whether we knew of, were responsible for or owned the property at the time of any spill or release of hazardous or toxic substances on or from our property, or at properties where we arranged for the disposal of regulated materials. Claims may arise out of currently unknown environmental conditions or aggressive enforcement efforts by governmental or private parties.

Item 2. *Properties*

Information regarding Bowater s owned properties and cutting rights is included in Item 1, Business of this Form 10-K.

In addition to the properties that we own, we also lease under long-term leases certain timberlands, office premises and office and transportation equipment and have cutting rights with respect to certain timberlands. Information regarding timberland leases, operating leases and cutting rights is included in Note 22, Timberland Leases and Operating Leases , of the Consolidated Financial Statements in this Form 10-K.

Item 3. Legal Proceedings

a. We are 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. We believe that the ultimate disposition of these matters will not have a material adverse effect on our financial condition, but it could have a material adverse effect on the results of operations in a given quarter or year.

b. In late 2001, Bowater, several other paper companies, and 120 other companies were named as defendants in asbestos personal injury actions based on product liability claims. These actions generally allege occupational exposure to numerous products. We have denied the allegations and no specific product of ours has been identified by the plaintiffs in any of the actions as having caused or contributed to any individual plaintiff s alleged asbestos-related injury.

These suits have been filed by approximately 1,238 claimants who sought monetary damages in civil actions pending in state courts in Georgia, Illinois, Mississippi, Missouri, New York and Texas. Approximately 982 of these claims have been dismissed, either voluntarily or by summary judgment, and approximately 256 claims remain. Insurers are defending these claims and we have not settled or paid any of these claims. We believe that all of these asbestos-related claims are covered by insurance, subject to any applicable deductibles and our insurers rights to dispute coverage. While it is not possible to predict with certainty the outcome of these matters, based upon the advice of special counsel, at this time we do not expect these claims to have a material adverse impact on our business, financial position or results of operations.

c. Bowater may be a potentially responsible party with respect to three hazardous waste sites that are being addressed pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (Superfund) or the Resource Conservation and Recovery Act (RCRA) corrective action authority. The first two sites are on CNC timberland tracts in South Carolina. One was contaminated when acquired, and subsequently, the prior owner remediated the site and continues to monitor the groundwater. On the second site, several hundred steel drums containing textile chemical residue were discarded by unknown persons. The third site, at our mill in Coosa Pines, Alabama, contained buried drums and has been remediated pursuant to RCRA. We continue to monitor the groundwater. We believe we will not be liable for any significant amounts at any of these sites.

d. Bowater was one of numerous parties that shipped empty drums to a drum recycling plant in South Carolina. The U.S. EPA has remediated the site pursuant to Superfund at a cost of $6.2 million. We have agreed to pay less than $100,000 to settle this matter with the EPA. It is anticipated that the settlement will be finalized in the second quarter of 2005.

e. On December 28, 2001, we filed a lawsuit against the Tennessee Valley Authority (TVA) alleging that TVA overcharged us for electricity it supplied to our Calhoun, Tennessee and Grenada, Mississippi facilities. The lawsuit has been resolved by agreement and the parties have entered into revised and extended power supply arrangements for the Calhoun and Grenada facilities. Consequently, the lawsuit was dismissed on March 8, 2005.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2004.

Executive Officers of the Registrant as of March 1, 2005

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

Name	Age	Position	Officer Since
Arnold M. Nemirow	61	Chairman, President and Chief Executive Officer	1994
David G. Maffucci	54	Executive Vice President and President Newsprint Division	1987
R. Donald Newman	58	Executive Vice President and Chief Operating Officer	1999
Jerry R. Gilmore	56	Senior Vice President Administration	1999
William G. Harvey	47	Senior Vice President and Chief Financial Officer	1998
Ronald T. Lindsay	54	Senior Vice President General Counsel and Secretary	2004
Pierre Monahan	58	Senior Vice President and President Canadian Forest Products Division	2001
David J. Steuart	58	Senior Vice President and President Pulp Division	1998
James T. Wright	58	Senior Vice President Human Resources	1999
C. Randy Ellington	53	Vice President Newsprint Sales	2005
Steven G. Lanzl	56	Vice President Information Technology	1996
Roger R. Loney	49	Vice President Newsprint Operations	2005
William C. Morris	45	Vice President and President Coated & Specialty Papers Division	2005
Michael F. Nocito	49	Vice President and Controller	1993
Craig B. Stevens	57	Vice President Business Performance, Coated & Specialties, Pulp & Lumber Operations	2005
Colin R. Wolfe	47	Vice President Administration & Planning (Newsprint)	2005

Arnold M. Nemirow became Chairman in 1996 and Chief Executive Officer in 1995. He has been President and a director of Bowater since September 1994 and was Chief Operating Officer from September 1994 through February 1995.

David G. Maffucci became Executive Vice President and President Newsprint Division in January 2005. Previously, from 2002 to 2005, he was Executive Vice President and Chief Financial Officer and from 1995 to 2002, he was Senior Vice President and Chief Financial Officer. From 1993 to 1995, he served as Vice President and Treasurer and from 1992 to 1993, he was Treasurer.

R. Donald Newman became Executive Vice President and Chief Operating Officer in June 2002. From 2001 to 2002, he was Vice President of Strategic Planning; and from 1998 to 2001, he was Vice President Canadian Newsprint

Operations of the Newsprint Division. Previously, from 1995 to 1998, he was Vice President Operations and Resident Manager of the Calhoun Operations and from 1994 to 1995, he was Vice President and Operations Manager of the Calhoun Operations.

Jerry R. Gilmore became Senior Vice President Administration in January 2005. From 2002 to 2005, he was Senior Vice President Operations, Newsprint Division. Previously, from 1998 to 2002, he was Vice President of United States and Korean Newsprint Operations and from 1995 to April 1998, he was Vice President Administration and Planning of the Newsprint Division. Prior to joining Bowater in 1994, he held financial and management positions with Georgia-Pacific Corporation and Great Northern Nekoosa Corporation, both forest products companies.

William G. Harvey became Senior Vice President and Chief Financial Officer and Treasurer in January 2005. 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 became Senior Vice President General Counsel and Secretary in January 2005. From January 2004 to January 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 in 2003 and Senior Vice President, General Counsel and Secretary from 1999 through 2002.

Pierre Monahan became Senior Vice President and President Canadian Forest Products Division in June 2002. From 2001 to 2002, he was Vice President and President Canadian Forest Products Division. 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.

David J. Steuart became Senior Vice President and President Pulp Division in June 2002. From 1999 to 2002, he was Vice President of Bowater and from 1998 to 2002, he was President of the Pulp Division. From 1994 to 1998, he was President, Pulp Group of Avenor Inc., a pulp and paper company, until its acquisition by Bowater.

James T. Wright became Senior Vice President Human Resources in 2002. From 1999 to 2002, he was Vice President Human Resources. He was Vice President Human Resources for Georgia-Pacific Corporation from 1993 to 1999. Prior to 1993, he held human resource and labor relations positions with Georgia-Pacific Corporation and Weyerhaeuser Company, both forest products companies.

C. Randolph Ellington became Vice President Newsprint Sales in 2004. From 1995 to 2004, he was Vice President of North American Newsprint Sales. Previously, he held sales positions in both coated paper and newsprint.

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

Roger R. Loney became Vice President Newsprint Operations in January 2005. From 2002 to 2005, he was Vice President and Resident Manager, Calhoun Operations; from 2000 to 2002, he was Vice President and Resident Manager, Mersey, Nova Scotia Operations, and from 1999 to 2000, Manager, Special Projects.

William C. Morris became President Coated & Specialty Papers Division in January 2005. From August 2004 to January 2005, he was Assistant to the Coated & Specialty Papers Division President; from February 2004 to August 2004, he was Vice President Strategic Planning for the Coated and Specialty Papers, Pulp and Forest Product Divisions; from 1995 to 2004, he was Vice President of International Sales in the Newsprint Division.

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

Craig B. Stevens became Vice President Business Performance, Coated & Specialties, Pulp & Lumber Operations in January 2005. From 2002 to 2005, he was Vice President General Manager, Nuway Operations. From 1998 to 2002, he was Vice President Administration and Planning.

Colin R. Wolfe became Vice President Administration & Planning (Newsprint) in January 2005. From 2002 to 2005, he was Vice President-Finance and Administration, Newsprint Division and from 1998 to 2002, he was Vice President, Planning and Administration, Forest Products Division.

PART II

Item 5. ***Market for the Registrant s Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities***

(a) Bowater s common stock, $1 par value (Common Stock), is listed on the New York Stock Exchange, Inc. (stock symbol BOW), the Pacific Exchange, Inc. and The London Stock Exchange. Bowater Canada, Inc., a subsidiary of Bowater, has a special class of Exchangeable Shares (Exchangeable Shares) outstanding and listed on the Toronto Stock Exchange (stock symbol BWX), which is exchangeable into Bowater Common Stock on a one-for-one basis. Price information with respect to Bowater s Common Stock is set forth below:

Price ranges of Bowater s Common Stock during 2004 and 2003 as reported on the New York Stock Exchange were:

	2004		2003	
	High	**Low**	**High**	**Low**
First quarter	$ 48.00	$ 40.58	$ 44.30	$ 34.23
Second quarter	$ 46.60	$ 39.00	$ 42.30	$ 36.30
Third quarter	$ 41.59	$ 34.53	$ 45.60	$ 36.52
Fourth quarter	$ 44.43	$ 34.15	$ 47.25	$ 39.10

(b) As of March 1, 2005, there were 3,637 holders of record of Bowater s Common Stock and 341 holders of record of Exchangeable Shares.

(c) Bowater has paid consecutive quarterly dividends of $0.20 per share of Common Stock during 2004 and 2003. Future dividends on our Common Stock are at the discretion of the Board of Directors and the payment of any dividends will depend upon, among other things, our earnings, capital requirements and financial condition.

(d) Information regarding securities authorized for issuance under Bowater s equity compensation plans is incorporated by reference to Item 12 on page 90 in this Form 10-K.

(e) In 2004, Bowater filed with the New York Stock Exchange (NYSE) the required annual certification of compliance with the NYSE s listing standards. Bowater is filing certifications under SEC Rule 13a-14(a) as exhibits to this Form 10-K.

Item 6. ***Selected Financial Data***

The following table summarizes our selected historical consolidated financial information for each of the last five years. The selected financial information under the captions Income Statement Data and Financial Position shown below has been derived from our audited Consolidated Financial Statements. This table should be read in conjunction with other financial information of Bowater, including Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements, included elsewhere herein. The data set forth below may not be indicative of Bowater s future financial condition or results of operations (see Item 1 Business-Risk Factors Related to our Business).

(In millions, except per-share amounts)	**2004**	2003	2002	2001[1]	2000[1]
Income Statement Data					
Sales	**$ 3,190.3**	$ 2,721.1	$ 2,581.1	$ 2,454.3	$ 2,500.3
Operating income (loss)[2]	**29.5**	(100.9)	(95.7)	313.4	363.3
Net income (loss)	**(87.1)**	(205.0)	(142.4)	70.5	159.4
Diluted earnings (loss) per common share	**(1.52)**	(3.60)	(2.50)	1.32	3.02
Dividends declared per common share[3]	**0.80**	0.80	0.80	0.80	0.80
Product Sales Information					
Newsprint[4]	**$ 1,340.8**	$ 1,236.1	$ 1,199.2	$ 1,438.7	$ 1,421.5
Coated and specialty papers	**904.4**	726.4	613.1	479.6	428.4
Market pulp	**543.3**	489.9	498.7	403.9	546.3
Lumber and other wood products	**401.8**	268.7	270.1	132.1	104.1
	$ 3,190.3	$ 2,721.1	$ 2,581.1	$ 2,454.3	$ 2,500.3
Financial Position					
Timber and timberlands	**$ 186.2**	$ 184.1	$ 212.0	$ 243.3	$ 265.2
Fixed assets, net	**3,301.1**	3,557.3	3,645.6	3,802.8	2,981.1
Total assets	**5,458.9**	5,615.8	5,599.5	5,761.0	5,004.1
Long-term debt, including current installments	**2,441.9**	2,305.8	2,121.7	1,901.0	1,446.1
Total debt	**2,514.9**	2,506.3	2,370.7	2,242.7	1,931.1
Additional Information					
Return on average common equity	**(5.6)**%	(12.2)%	(7.5)%	3.7%	8.9%
Effective tax rate	**36.9**%	24.9%	40.1%	40.7%	29.4%
Cash flow from operations	**$ 122.5**	$ 20.3	$ 41.2	$ 372.8	$ 416.6
Cash invested in fixed assets, timber and timberlands	**$ 84.1**	$ 216.3	$ 238.7	$ 246.8	$ 283.2
Book value per common share	**$ 26.31**	$ 28.25	$ 30.84	$ 35.65	$ 34.84
Common Stock price range					
Low	**$ 34.15**	$ 34.23	$ 31.00	$ 40.30	$ 41.88
High	**$ 48.00**	$ 47.25	$ 55.80	$ 58.75	$ 59.56
Shareholders of record[5]	**4,000**	5,300	5,500	5,900	4,900
Employees	**8,100**	8,200	8,600	9,400	6,400

(1) In 2001, we acquired Alliance Forest Products Inc. In 2000, we acquired Newsprint South, Inc.

(2) Operating income (loss) includes pretax net gain on sale of assets of $6.9 million, $124.0 million, $85.7 million, $163.3 million and $7.3 million for the years 2004, 2003, 2002, 2001 and 2000, respectively. Operating income (loss) for 2002 includes a pretax impairment charge of $28.5 million.

(3) Dividends are declared quarterly.

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

(5) This includes holders of Bowater Common Stock and Exchangeable Shares issued by Bowater Canada Inc.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis provides information that we believe is useful in understanding our operating results, cash flows and financial condition for the three years ended December 31, 2004. The discussion should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements and related notes appearing elsewhere in this report. Except for the historical information contained here, the discussions in this document contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve risks and uncertainties. Bowater s actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under Cautionary Statements Regarding Forward-Looking Information and Use of Third Party Data and Risks Related to Our Business in Item 1 of this Form 10-K and from time to time, in Bowater s other filings with the Securities and Exchange Commission.

Year In Review

Business Fundamentals

Bowater manufactures approximately four million metric tons of a broad range of groundwood based printing papers newsprint, coated groundwood and groundwood specialty papers. These products are sold to leading publishers, commercial printers and advertisers. We also sell approximately 1.1 million metric tons annually of excess pulp to non-integrated paper, tissue and toweling manufacturers who do not have a sufficient supply of pulp for their own needs. We operate sawmills that produce over one billion board feet of lumber annually and provide a source of residual chips that we use to manufacture pulp and paper. Our lumber is sold to a diversified group of customers, namely large retailers, buying groups, distributors, wholesalers and industrial accounts.

To produce our pulp and paper products we operate 12 pulp and paper mills, ten of which are located in the eastern half of North America. The remaining two mills include a newsprint mill in Washington state for which we are the managing partner and a newsprint mill in South Korea that gives us access to growing Asian markets.

Our North American manufacturing facilities are located near key domestic markets or have access to export markets and are supported by approximately 31 million acres of timberland about 1.4 million acres are owned or leased and the balance is available to us under long-term cutting rights on Crown-owned land in Canada.

Our products are, in large part, commodities with global markets. Our business is influenced by general economic conditions that impact our customers as well as changes within our industry that affect demand, supply, pricing, shipments or the cost of production.

The manufacturing facilities we operate are capital intensive and require significant amounts of cash to maintain. Our ability to generate cash flow is dependent on achieving revenues that exceed manufacturing costs and the amount of cash that must be reinvested in the business.

A large portion of our manufacturing facilities and some of our competitors facilities are located outside the U.S.; however, the majority of our sales are denominated in U.S. dollars. Therefore, fluctuations in currency rates can have a significant impact on our costs, cost competitiveness and cash flows. In particular, our results can be materially influenced by the movement of the Canadian dollar. A stronger Canadian dollar will typically weaken our results and a weaker Canadian dollar will tend to strengthen our earnings. We can also be subject to government imposed trade restrictions that can limit shipments or increase costs.

The strength of the economy influences the level and extent of publishing and advertising, which in turn affects the demand for our pulp and paper products. A decline in demand for our products also would likely have a negative effect on prices. Changes in the level of supply caused by capacity additions or contractions will also influence the supply and demand balance for our products and have a direct impact on shipment levels and pricing.

Significant cost components of our products can be highly volatile and include wood, recycled fiber (old newspapers and magazines), energy, commodity and specialty chemicals, and labor and benefit costs. Also, and as noted above, a major influence on our costs is the Canadian dollar exchange rates with the U.S. dollar.

2004 Financial Performance

Our net loss for the year was $87.1 million, $117.9 million less than our loss in 2003. Although this improvement was substantial, our financial performance remains unsatisfactory. Our cash flow from operating activities was approximately equal to our capital spending and dividends. As a result, our debt levels remained stable at approximately $2.5 billion. Our total debt to capitalization ratio, calculated in accordance with our credit facilities, rose to 59.1%, as a result of the impact of the losses on shareholder equity.

In 2004, prices rose for all of our products increasing our sales by $469.2 million. Shipments also increased substantially in lumber, coated and specialty papers. Our sales in 2004 were 17% higher than in 2003. However, our costs were also significantly higher primarily due to greater production volumes, the stronger Canadian dollar and higher recycled fiber, energy and labor costs. Our unit manufacturing costs were up 5% in newsprint, 3% in market pulp and 13% in lumber. Consolidated Results of Operations on pages 25-27 provides specifics regarding manufacturing cost changes in 2004.

We improved our product mix significantly in 2004. Shipments of higher value added coated and specialty papers increased by 15% as compared to 2003. We also improved our wood fiber integration starting up a new sawmill in Northwestern Ontario.

Newsprint demand in North America declined slightly in 2004 as a cyclical advertising recovery was offset by conservation measures taken by publishers and reduced North American newspaper circulation. Global demand for newsprint in 2004 was healthy. Coated mechanical demand in North America increased by 8.0% as compared to 2003. Uncoated mechanical demand increased by 13.9%, while supercalendared high gloss specialty paper demand decreased by 2.3%. Global market pulp demand reached record levels in 2004. Overall, pulp and paper markets were stronger in 2004 than in 2003.

In 2004 we spent approximately $84 million on capital projects. We expect to spend approximately $170 million in 2005, compared to projected depreciation expense of $330 million. We believe that this level of spending is adequate to effectively maintain our manufacturing facilities. We intend to direct any excess cash flow to reduce debt.

Outlook

Markets for our products have improved but prices remain relatively weak. North American newsprint demand may continue to decline over the next few years and we expect our newsprint capacity to decline as we continue to shift production to coated and specialty grades. In particular, we have attractive opportunities for further investment to enhance our product mix at our Calhoun and Thunder Bay mills. We expect continued improvement in prices for our products in 2005, however the pace and extent of any improvement is likely to depend on the overall economy.

We believe our operations are positioned to deliver quality products and that capital reinvestment in the business can be held to acceptable levels. We expect to generate significant cash flows in 2005, reducing debt to more desirable levels and enhancing our financial flexibility. However, a significant downturn in our business may impact our ability to generate sufficient cash flows and require us to seek additional external sources of capital. We believe our access to our credit facilities and the capital markets will be sufficient to provide for our anticipated requirements.

critical accounting policies and estimates

The following discussion and analysis of financial condition and results of operations are based on our Consolidated Financial Statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates, assumptions and judgments and rely on future projections of results of operations and cash flows. We base our estimates and assumptions on historical data and other assumptions that we believe are reasonable under the circumstances. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities in our financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period.

Our judgments are based on our assessment as to the effect certain estimates, assumptions of future trends or events may have on the financial condition and results of operations reported in our Consolidated Financial Statements.

It is important that the reader of our financial statements understand that actual results could differ materially from these estimates, assumptions, projections and judgments.

A summary of our significant accounting policies is disclosed in Note 1 to the Consolidated Financial Statements. Based upon a review of our significant accounting policies, we believe the critical accounting policies that follow contain the most significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

Pension and Other Nonpension Postretirement Benefits

Bowater has contributory and noncontributory pension plans that cover substantially all employees. Our cash contributions to the plans have been 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.

Bowater engages an independent actuarial firm to perform an actuarial valuation of the fair values of our postretirement plans assets and benefit obligations. We provide the actuarial firm with assumptions that have a significant effect on the fair value of the assets and obligations such as the:

Ø weighted average discount rate used to arrive at the net present value of the pension and postretirement obligations;

Ø return on assets used to estimate the growth in invested asset value available to satisfy pension obligations;

Ø rate of compensation increases used to calculate the impact future pay increases will have on pension obligations; and

Ø health care cost inflation used to calculate the impact future health care costs will have on postretirement obligations.

These assumptions are updated annually on our measurement date, September 30, and are disclosed in Note 14 Pension and Other Nonpension Postretirement Benefits to our Consolidated Financial Statements. We understand that these assumptions directly impact the actuarial valuation of the assets and obligations recorded on our balance sheet and the income or expense that is recorded in our Consolidated Statement of Operations. We base our assumptions on either historical or market data we consider reasonable in the circumstances. The following weighted average assumptions were used in our actuarial valuation to determine the projected benefit obligation at the measurement date and the net periodic benefit cost for the year:

	Pension Plans		**Other Postretirement Plans**	
	2004	2003	**2004**	2003
Projected benefit obligation:				
Discount rate	**6.0%**	6.0%	**6.0%**	6.0%
Rate of compensation increase	**3.9%**	3.9%	**3.9%**	3.9%
Net periodic benefit cost:				
Discount rate	**6.0%**	6.5%	**6.0%**	6.5%
Expected return on assets	**7.8%**	8.0%		

Rate of compensation increase	**3.9%**	3.9%	**3.9%**	3.9%

Variations in these assumptions could have a significant effect on the net periodic benefit cost reported in our 2004 Consolidated Statement of Operations. For example, a 25 basis point change in these assumptions would increase (decrease) 2004 pension and postretirement expense as follows (in millions):

Assumption	25 Basis Point Increase	25 Basis Point Decrease
Weighted average discount rate	**$** (5.2)	**$** 5.4
Return on assets	(3.5)	3.5
Rate of compensation increases	1.9	(1.9)
Health care cost inflation	1.3	(1.0)

Based on our September 30, 2004 actuarial valuation of our postretirement plans assets and benefit obligations we had a reduction in our additional minimum pension liability and an increase to shareholders equity in 2004 of $49.2 million. Additionally, based upon our actuarial valuation at September 30, 2004, pension expense and cash contributions are expected to increase approximately $4.0 million and $24.8 million, respectively, in 2005. Our other nonpension postretirement expense and cash contributions are expected to increase approximately $1.0 million and $3.2 million, respectively, in 2005, primarily as a result of health care cost increases, offset by the new prescription drug benefit under Medicare Part D (discussed below).

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was passed. The Act introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Our postretirement benefits include prescription drug benefits for Medicare-eligible retirees. In March 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) that provides guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide drug benefits. This FSP also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act.

Bowater adopted FSP 106-2 effective July 1, 2004 and applied the prospective transition method. As a result, a remeasurement of the plan s assets and accumulated postretirement benefit obligation (APBO), including the effects of the subsidy was made. The remeasurement resulted in a reduction of our net periodic benefit cost for 2004 of $2.5 million. The $2.5 million reduction consisted of $0.3 million for the reduction of current period service costs, $1.3 million for the reduction of amortization of actuarial experience loss and $0.9 million for reduction in interest costs on our APBO. The remeasurement decreased the actuarial loss component of our APBO by approximately $36.9 million. The reduction to our net periodic benefit cost for 2005 for the prescription drug benefit under Medicare Part D is estimated to be approximately $4.4 million.

Long-Lived Assets:

Bowater s long-lived assets include goodwill and the net depreciated value of fixed assets.

Goodwill

As of December 31, 2004, we had unamortized goodwill in the amount of $828.2 million. Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets, requires goodwill to be tested for impairment at least on an annual basis.

Our goodwill is tested for impairment in the fourth quarter of each year. We completed our annual goodwill impairment test in the fourth quarter of 2004. The test did not indicate impairment. With the exception of our Thunder Bay mill, the fair values of each of our reporting units exceeded their carrying value amounts by at least 10%. The fair value of the Thunder Bay mill exceeded its carrying value by 6%.

The goodwill impairment test involves a comparison of the fair value of each of our reporting units as defined under SFAS No. 142, with its carrying amount. If a reporting unit s carrying amount exceeds its fair value, then goodwill of the reporting unit is considered to be impaired. The impairment to be recognized is measured by the amount by which the carrying value of the assets of the reporting unit being measured exceeds their fair value. Fair value is determined with the assistance of an independent third party. In making our determination of fair value, we rely primarily on the discounted cash flow method. This method uses projections of cash flows from each of the reporting units. Several of the key assumptions include periods of operation, projections of product pricing, production levels, product costs, market supply and demand, foreign exchange rates, inflation and capital spending. We derive these assumptions used in our valuation models from several sources. Many of these assumptions are derived from our internal budgets which would include existing sales data based on current product lines and assumed production levels, manufacturing costs and product pricing. Our products are commodity products, therefore, pricing is inherently volatile and often follow a cyclical pattern; the average price over a commodity cycle forms the basis of our product pricing assumption. We derive our pricing estimates from information generated internally, from industry research firms and other published reports and forecasts. Historical changes or variations in these estimates have not resulted in any goodwill impairment charges in our financial statements since adopting SFAS 142.

The above-listed assumptions used in our valuation models are interrelated. The continuing degree of interrelationship of these assumptions is, in and of itself a significant assumption. Because of the interrelationships among these assumptions, we do not believe it would be meaningful to provide a sensitivity analysis on any of these individual assumptions. However, one key assumption in our valuation model is our weighted average cost of capital. If our weighted average cost of capital, which is used to discount the projected cash flows, was lower, the measure of the fair value of our assets would increase. Conversely, if our weighted average cost of capital was higher, the measure of the fair value of our assets would decrease. If our estimate of weighted average cost of capital were to increase by 25 basis points, the excess of the fair values of each of the reporting units would continue to exceed their carrying value amounts.

Future changes in assumptions or the interrelationship of the assumptions may negatively impact future valuations. In future measurements of fair value, adverse changes in discounted cash flow assumptions could result in an impairment of goodwill that would require a non-cash charge to the consolidated statement of operations and may have a material effect on our financial condition and operating results.

Fixed Assets

Ø For fixed assets acquired in an acquisition, we estimate their fair value based on accepted valuation techniques. These techniques are dependent upon management estimates and assumptions. While we believe management s assumptions, including the assigned useful lives, are reasonable under the circumstances, different estimates and assumptions could have a significant impact on the amounts reported through our Consolidated Statement of Operations. During the year ended December 31, 2004, no assets were acquired in an acquisition.

Ø For the impairment or disposal of long-lived assets, we follow the guidance as prescribed in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. In accordance with SFAS No. 144, long-lived assets and intangible assets subject to amortization would be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset or group of assets may not be recoverable. A long-lived asset classified as held for sale is initially measured and reported at the lower of its carrying amount or fair value less cost to sell. Long-lived assets to be disposed of other than by sale are classified as held and used until the long-lived asset is disposed of.

Tests for recoverability of a long-lived asset to be held and used are measured by comparing the carrying amount of the long-lived asset to the sum of the estimated future undiscounted cash flows expected to be generated by the asset. In estimating the future undiscounted cash flows we use projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and eventual disposition of the assets. Several of the key assumptions include periods of operation, projections of product pricing, first quality production levels, product costs, market supply and demand, foreign exchange rates, inflation and projected capital spending. We derive these assumptions from several sources. Many of these assumptions are derived from our internal budgets which would include existing sales data based on current product lines and assumed production levels, manufacturing costs and product pricing. Our products are commodity products, therefore, pricing is inherently volatile and often follow a cyclical pattern; the average price over a commodity cycle forms the basis of our product pricing assumption. We derive our pricing estimates from information generated internally, from industry research firms and other published reports and forecasts. Except as discussed herein, historical changes or variations in these estimates have not resulted in significant fixed asset impairments in our financial statements. In December 2002 we recorded an impairment charge of $26.4 million for the permanent closing of our No. 3 paper machine at our Donnacona facility.

The above-listed assumptions used in our valuation models are interrelated. The continuing degree of interrelationship of these assumptions is, in and of itself a significant assumption. Because of the interrelationships among these assumptions, we do not believe it would be meaningful to provide a sensitivity analysis on any of these individual assumptions. Changes in any of these estimates could have a material effect on the estimated future undiscounted cash flows expected to be generated by the asset. If it is determined that a long-lived asset is not recoverable, an impairment loss would be calculated equal to the excess of the carrying amount of the long-lived asset over its fair value.

Nuway Operations Our product prices are based on coated groundwood paper prices. Transaction prices for our Nuway product improved significantly in 2004, but continued to be insufficient to cover costs. We realized the effects of significant improvements in our productivity and quality in 2004, but these improvements were mitigated by higher base stock costs. Due to these factors, we are operating our Nuway facilities at about half their capacity. The No. 1 line at Benton Harbor remained shut during 2004 mainly due to market conditions. Assuming market conditions improve, we expect to increase our production. However, there is no assurance as to when Nuway product pricing or costs will improve.

As a result of these factors, we performed a test for recoverability on our Nuway assets. The current carrying amount of these assets is $91.4 million. We determined the estimated future undiscounted cash flows expected to be generated by the Nuway assets consistent with the tests of recoverability discussed above. The results of the test for recoverability indicated that the estimated future undiscounted cash flows exceeded the carrying amount of the long-lived asset and therefore, no impairment exists. The estimated undiscounted cash flows exceeded the carrying amount by at least 10%.

Future changes in assumptions or the interrelationship of the assumptions may negatively impact future valuations. In future tests for recoverability, adverse changes in undiscounted cash flow assumptions could result in an impairment of our Nuway assets that would require a non-cash charge to the statement of operations and may have a material effect on our financial condition and operating results.

Derivatives

The majority of our revenues are generated and received in United States dollars. A significant portion of our manufacturing facilities are in Canada, and accordingly, we pay our operating expenses in Canadian dollars at these Canadian mill sites. To reduce our exposure to Canadian dollar exchange rate fluctuations, we enter into and designate Canadian dollar forward contracts to hedge certain of our monthly forecasted Canadian dollar cash outflows. We estimate our monthly forecasted Canadian dollar outflows on a rolling 24-month basis and, depending on the level of the Canadian dollar, hedge the first monthly Canadian dollar outflows of manufacturing costs up to 90% of such monthly forecasts in each of the first twelve months and up to 80% in the following twelve months. We also assess, both at the inception of the hedge and on an on-going basis, whether the derivatives used are highly effective in offsetting changes in cash flows of hedged items. We believe that these Canadian dollar forward contracts qualify as a cash flow hedge in accordance with SFAS No. 133 and we have, therefore, deferred $123.0 million of unrealized gains recorded in accumulated other comprehensive loss at December 31, 2004. Had these Canadian dollar forward contracts not qualified for cash flow hedging, these gains would have been reported through our Consolidated Statement of Operations.

Taxes

Tax Exposure Matters

In the normal course of business, we are subject to audits from the Federal, state, Canadian provincial and other tax authorities regarding various tax liabilities. The Canadian taxing authorities are auditing years 1999 through 2001 for our Canadian entities. The Internal Revenue Service (IRS) has closed audits of our U.S. federal income tax returns through fiscal year 1997. There were no material adjustments to the company s tax liabilities arising from the closed IRS audits. The IRS chose not to audit our calendar years 1998 and 1999 tax returns; however, the IRS may adjust our reported tax liabilities for these years to the extent of refunds generated by operating loss carrybacks from subsequent tax years. In 2003, the IRS began auditing our federal income tax returns for years 2000 through 2002.

These audits may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. The amount ultimately paid upon resolution of issues raised may differ from the amount accrued. We believe that taxes accrued on the Consolidated Balance Sheet fairly represent the amount of future tax liability due.

Bowater utilizes certain income tax planning strategies to reduce its overall cost of income taxes. Upon audit, it is possible that certain strategies might be disallowed resulting in an increased liability for income taxes. We have provided for our estimated exposure attributable to income tax planning strategies. We believe that the provision for liabilities resulting from the implementation of income tax planning strategies is appropriate. To date, we have not experienced an examination by governmental revenue authorities that would lead management to believe that our past provisions for exposures related to income tax planning strategies are not adequate.

The process to derive Bowater s provision for all tax liabilities, including those related to tax planning strategies, requires significant judgment, historical comparisons and reference to authoritative tax resources. In general, on a quarterly basis, we review tax reserves based on changes in tax law and changes in facts or circumstances. Bowater s tax reserves are adjusted based on either an agreed determination of a particular matter, the expiration of the statute of limitations for a particular tax period or a change in facts or circumstances regarding the matter. For example, in the third quarter of

2004, income tax reserves of $6.8 million were eliminated due to the expiration of a statute of limitation associated with pre-2001 Canadian tax years, resulting in a decrease to income tax expense for the quarter.

Tax Valuation Allowances

Deferred income taxes represent a substantial liability on our consolidated balance sheet. Deferred income taxes are determined in accordance with SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the expected 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. We evaluate our tax assets and liabilities on a periodic basis and adjust these balances as appropriate. We believe that we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law. However, should these tax positions be challenged and not prevail, different outcomes could result and have a significant impact on the amounts reported through our Consolidated Statement of Operations.

The carrying value of our deferred tax assets (tax benefits expected to be realized in the future) assumes that we will be able to generate, based on certain estimates and assumptions, sufficient future taxable income in certain tax jurisdictions to utilize these deferred tax benefits, or in the absence of sufficient future taxable income, that we would implement tax planning strategies to generate sufficient taxable income. If these tax planning strategies, estimates and related assumptions change in the future, we may be required to reduce the value of the deferred tax assets resulting in additional income tax expense. We believe that it is more likely than not that the deferred tax assets, net of valuation allowance, will be realized, based on forecasted income, or where necessary, the implementation of prudent and feasible tax planning strategies. However, there can be no assurance that we will meet our forecasts of future taxable income, or be able to implement tax planning strategies where required in future periods. We evaluate the deferred tax assets on a periodic basis and assess the need for additional valuation allowances as conditions change.

Additionally, at December 31, 2004, Bowater had unremitted earnings of subsidiaries outside the United States totaling $266.4 million, which we have deemed as being permanently invested. No deferred tax liability has been recognized with regard to these earnings. If our policy was to change in the future and these earnings were remitted to the United States, these amounts could significantly increase the income tax liability reported through our Consolidated Statement of Operations. See discussion of FASB Staff Position No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creations Act of 2004 , on page 45 of this Annual Report on Form 10-K.

business and financial review

Consolidated Results of Operations:

	Year Ended December 31,			Change	
(In millions, except per share amounts)	**2004**	**2003**	2002	**2004 vs. 2003**	2003 vs. 2002
Sales	**$ 3,190.3**	$ 2,721.1	$ 2,581.1	**$ 469.2**	$ 140.0
Operating income (loss)	**29.5**	(100.9)	(95.7)	**130.4**	(5.2)
Net loss	**(87.1)**	(205.0)	(142.4)	**117.9**	(62.6)
Loss per diluted share	**(1.52)**	(3.60)	(2.50)	**2.08**	(1.10)
Significant items that improved (lowered) operating income (loss):					
Gain on sale of assets				**$ (117.1)**	$ 38.3
Impairment of assets					28.5
Product pricing				**300.7**	128.1
Distribution costs				**(42.6)**	(27.9)
Manufacturing costs				**(27.7)**	(141.3)
Employee termination costs				**23.4**	(21.4)
Selling and administrative expenses				**(6.3)**	(9.5)
				$ 130.4	$ (5.2)

Year ended 2004 compared to 2003

Sales increased in 2004 compared to 2003 from both product price increases in all of our major product groups and increased shipments in coated and specialty papers, pulp and lumber. Please refer to the discussion of Product Line Information beginning on page 28 for a more detailed analysis of pricing and shipments.

Operating income for 2004 improved when compared to 2003. The above table analyzes the major items that caused the improvement in operating income. A brief explanation of these major items follows.

Gain on sale of assets, primarily for the sale of timberlands, is discussed on pages 36-37 of this Form 10-K.

Product pricing for all of our major product groups increased during the year. Please refer to the discussion of Product Line Information beginning on page 28 for a more detailed analysis of pricing.

Distribution costs increased in 2004 as a result of increased shipments, higher lumber duties on increased lumber shipments and lumber transaction prices and increased fuel prices and export-related costs. Please refer to the discussion on page 31 of this Form 10-K for a discussion of the lumber duties.

Manufacturing costs were higher in 2004 primarily as a result of the items that follow. These higher manufacturing costs were partially offset by higher production volumes and shipments.

Ø Recycled fiber We recycle and use old newspapers and magazines in our groundwood paper grades. The cost of recycled fiber increased due to higher recycle fiber prices in 2004 and the re-start in May 2003 of an idled recycle facility at our Calhoun mill.

Ø Labor and repair materials Labor costs were higher in 2004 as a result of increased labor and fringe rates, primarily from increased pension costs. Repair materials were higher as a result of increased maintenance outages in 2004.

Ø Wood costs We use both harvested timber and residual sawmill chips to make our pulp and paper products. The price for residual chips in Canada increased in 2003 and remained at those levels throughout 2004. Additionally, the fees we pay to the Canadian government for harvesting trees increased as a result of increases in lumber transaction prices.

Ø Energy costs Increases in electricity and fuel consumption and prices caused an increase in energy costs.

Ø Canadian dollar During 2004 the Canadian dollar rose significantly (8.1%) in relation to the U.S. dollar. Since about 42% of our pulp and paper manufacturing capacity is in Canada, our costs stated in U.S. dollars rose approximately $95.6 million. Our currency hedging program allowed us to offset approximately $78.6 million of this increase.

Employee termination costs were lower as we completed our cost reduction program in 2003.

Selling and administrative expenses were higher due primarily to increased selling costs on increased sales of our coated papers.

Net loss in 2004 was lower compared to 2003. Net loss in 2003 includes an after tax charge of $4.5 million, or $0.08 per diluted share, for cumulative effect adjustments from the adoption of Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations and the partial adoption of FIN 46, Consolidation of Variable Interest Entities .

Year ended 2003 compared to 2002

Sales increased in 2003 compared to 2002 primarily from product price increases as further discussed in the Product Line Information section.

Operating loss for 2003 increased when compared to 2002. The above table analyzes the major items that caused the increase in operating loss. A brief explanation of these major items follows.

Gain on sale of assets, primarily for the sale of timberlands, is discussed on pages 36-37 of this Form 10-K.

An impairment of assets of $28.5 million, primarily related to the permanent closure of a paper machine at our Donnacona mill, was taken in 2002.

Product pricing for all of our major product groups increased during the year but only marginally for coated and specialty papers and lumber. Please refer to the discussion of Product Line Information beginning on page 28 for a more detailed analysis of pricing and shipments.

Distribution costs increased in 2003 as a result of Canadian lumber duties being imposed beginning in May 2002, and from increased coated and specialty paper shipments from our Catawba mill.

Shipments were higher in 2003 in Coated and Specialty Papers due to the conversion of a newsprint machine to coated groundwood papers at our Catawba mill. Newsprint shipments were lower in 2003 due to the conversion of the Catawba machine and the closure of another paper machine in Donnacona. Pulp shipments were lower in part due to down time at our Thunder Bay mill and the start-up of a new pulp line at Catawba. Lumber shipments were basically unchanged from 2002 levels. Please refer to the discussion of Product Line Information beginning on page 28 for a more detailed analysis of pricing and shipments.

Manufacturing costs were significantly higher in 2003 primarily as a result of the following:

Ø

Wood costs We use both harvested timber and residual sawmill chips to make our pulp and paper products. The combination of high lumber duties affecting Canadian sawmills and the strengthening of the Canadian dollar caused some third party sawmills to shut. This created a temporary wood shortage that was subsequently addressed with higher cost whole tree chipping. In the Southeast U.S., unusually wet weather reduced harvest levels in the first half of 2003 causing prices for purchased timber to rise and the wood to be purchased further away from our mills.

- Recycled fiber We also recycle and use old newspapers and magazines in our groundwood paper grades. The cost of recycled fiber increased primarily due to the re-start of an idled recycle facility at our Calhoun mill.

- Ø Energy costs The severe cold weather in the early part of 2003 caused an increase in energy prices and consumption.

- Ø Canadian dollar During 2003 the Canadian dollar rose dramatically (21%) in relation to the U.S. dollar. Since about 40% of our manufacturing capacity is in Canada, our costs stated in U.S. dollars rose approximately $136.0 million. Our currency hedging program allowed us to offset approximately $52.4 million of this increase.

Employee termination costs were higher as we completed our cost reduction program that resulted in the elimination of about 600 jobs over the preceding two years.

Selling and administrative expenses were higher because increases in the price of our stock in 2003 increased our compensation expense from employee equity participation rights, whereas price decreases of our stock in 2002 resulted in recognition of credits in 2002.

Net loss in 2003 includes an after tax charge of $4.5 million, or $0.08 per diluted share, for cumulative effect adjustments from the adoption of SFAS No. 143, Accounting for Asset Retirement Obligations and the partial adoption of FIN 46, Consolidation of Variable Interest Entities .

Fourth quarter of 2004

Subsequent to our earnings release on January 27, 2005, we made an adjustment relating to the conversion of certain long-term liabilities from Canadian to U.S. dollars. The result was a charge to foreign exchange (which is classified in the Other expense (income) line item of our Consolidated Statement of Operations) of $1.9 million ($0.03 per diluted share) and an increase to Pension, other postretirement benefits and other long-term liabilities on our Consolidated Balance Sheet of $1.9 million. This brought our reported net loss for the fourth quarter to $35.2 million (or $0.61 per diluted share) and $87.1 million (or $1.52 per diluted share) for the twelve months ended December 31, 2004.

Net loss in the fourth quarter of 2004 was $35.2 million, or $0.61 per diluted share on sales of $823.0 million. This compares to a net loss in the fourth quarter of 2003 of $50.9 million, or $0.89 per diluted share on sales of $735.6 million.

Operating loss for the fourth quarter of 2004 was $7.6 million compared to an operating loss of $24.3 million for the fourth quarter of 2003. The improvement in operating loss is primarily the result of higher transaction prices for all our product lines ($80.8 million) and increased shipments in coated and specialty papers and lumber. These improvements were partially offset by higher distribution costs ($13.6 million), higher operating costs related to higher wood ($10.3 million), fiber ($4.8 million) and energy ($9.0 million) costs, and the strengthening of the Canadian dollar versus the U.S. dollar ($14.2 million).

Interest expense increased $2.2 million, from $46.6 million in the fourth quarter of 2003 to $48.8 million in the fourth quarter of 2004, primarily from higher average debt balances and interest rates and less capitalized interest.

The effective tax rate for the fourth quarter of 2004 (20.8%) was lower than the fourth quarter of 2003 (25.5%) primarily due to certain losses from changes in foreign currency exchange rates for which the company received no tax benefit.

Division/Segments and Product Line Information

Bowater is organized by Division. Bowater also provides product line disclosures for informational purposes to our analysts and investors. The Divisions have operational responsibility over their group of operating assets. The Divisions also have sales responsibilities that overlap several of the Company s operating Divisions/Segments. The matrix below depicts the various products that are manufactured by each of the Company s operating Divisions/Segments and corresponding sales dollars for 2004. The shaded areas in the matrix below represent the Division that is responsible for the sale of the product line for the entire company.

(In millions)

Product Line	Newsprint Division	Coated & Specialty Papers Division	Canadian Forest Products Division	Forest Products Division	Pulp Division	Corporate and Other Eliminations	Total
Newsprint	$ 987.6	$	$ 348.7	$	$	$ 4.5	$ 1,340.8
Coated & Specialties	189.2	517.0	237.4			(39.2)	904.4
Pulp	449.9	94.4				(1.0)	543.3
Lumber			213.0	157.6		(0.4)	370.2
Other			20.3	15.9		(4.6)	31.6
	$ 1,626.7	**$ 611.4**	**$ 819.4**	**$ 173.5**	**$**	**$ (40.7)**	**$ 3,190.3**

For example, the Newsprint Division has operational (profit and loss) responsibility for the profitability of all three products (newsprint, coated & specialties and pulp) manufactured at its mills. The sales and related manufacturing costs for these product lines are recorded by the Newsprint Division. The Newsprint Division also has the responsibility for the sale of all newsprint produced at all divisions within Bowater (see shaded area in matrix). Each of these other divisions (the Coated & Specialty Papers Division and the Canadian Forest Products Division) has operational (profit and loss) responsibility for the profitability of newsprint manufactured at its mills, but no selling responsibility.

Bowater discloses operating income and depreciation by product line in its Annual Report. The table below presents a reconciliation of operating income and depreciation by product line to consolidated totals for the year ended December 31, 2004.

(In millions)

	Product Line						
	Newsprint	Coated & Specialty Papers	Pulp	Lumber	Net gain on fixed assets and land sales	Corporate and Other	Total
Operating Income (loss)	$ 36.1	$ 7.5	$ 37.5	$ 25.9	$ 6.9	$ (84.4)	$ 29.5
Depreciation	147.8	102.4	57.6	18.5		8.9	335.2

PRODUCT LINE INFORMATION

Presented below is a discussion of each significant product line, followed by a discussion of the results of each of the reported divisions.

In general, Bowater s products are globally-traded commodities. Pricing and the level of shipments of these products will continue to be influenced by the balance between supply and demand as affected by global economic conditions, changes in consumption and capacity, the level of customer and producer inventories and fluctuations in exchange rates.

Newsprint Product Line

	2004	2003	2002
Sales (in millions)	**$ 1,340.8**	$ 1,236.1	$ 1,199.2
Average prices (per metric ton)	**$ 528**	$ 481	$ 454
Shipments (thousands of metric tons)	**2,541.6**	2,570.2	2,643.8
Downtime (thousands of metric tons)	**192.1**	204.8	395.0
Inventory at end of year (thousands of metric tons)	**89.8**	75.1	72.6

Year ended 2004 compared to 2003

Our average newsprint transaction price was 9.8% higher in 2004 compared to 2003. The increase reflects the realization of price increases in 2004 in the North American and international markets. Newsprint shipments decreased by 1.1% compared to 2003. This decrease was primarily due to a production shift from newsprint to higher margin specialty papers. In June 2003, we shifted our idled capacity because of market conditions from our Calhoun mill to our Thunder Bay mill (since late June 2003) due to a rise in operating costs caused by a stronger Canadian dollar. We expect this market downtime of approximately 36,000 metric tons per quarter to continue until market conditions improve. We plan to take 40,000 metric tons of market and maintenance downtime in the first quarter of 2005 and we will continue to match our production to our orders. Inventories increased approximately 20% in 2004 due to export production and year-end shipment timing issues.

We have announced a $35 per metric ton price increase for the domestic market effective March 1, 2005; however, market conditions will determine whether we fully realize the increase.

Newsprint Third Party Data: Total United States newsprint demand and consumption declined 1.4% and 1.7%, respectively, in 2004 compared to 2003. Because of significantly decreased industry capacity, the 2004 operating rate of 96% exceeded the 2003 rate of 93%. North American net exports of newsprint declined approximately 4.7% from 2003 levels. North American mill inventories at year end 2004 were unchanged from year-ago levels, while customer inventories increased slightly from 2003 levels. Total inventories (North American mills and users) ended 2004 at 1.31 million metric tons, slightly above the 2003 level. Days of supply at the U.S. dailies increased to 43 days from 41 days at year end 2003. Newspaper advertising linage improved 1.1% in 2004 compared to 2003.

Year ended 2003 compared to 2002

Our average newsprint transaction price was 5.9% higher in 2003 compared to 2002. The increase reflects the partial realization of announced price increases in 2003 for domestic newsprint and in the international market. Newsprint shipments decreased by 2.8% compared to 2002. This reduction was primarily due to the permanent removal of 240,000 metric tons of annual newsprint production capacity related to the conversion of a newsprint machine at Catawba to coated paper. The decrease in production was partially offset by less downtime and other shifts in production. Our No. 1 newsprint machine at Calhoun started back up in January of 2003 after being down since January of 2002. This startup was in conjunction with the shutdown of a specialty paper machine at Donnacona and a transfer of those specialty orders to Calhoun (also removing 100,000 metric tons of annual newsprint capacity). Our No. 3 newsprint machine at Calhoun started back up in July of 2003 after being down since January of 2002, as we idled a paper machine at our Thunder Bay mill (since late June 2003) due to a rise in operating costs caused by a stronger Canadian dollar.

Newsprint Third Party Data: Total United States newsprint demand and consumption declined 1.3% and 0.8%, respectively, in 2003 compared to 2002. However, 565,000 metric tons were permanently removed from North American capacity, which improved the overall market balance. North American net exports of newsprint declined approximately 1.3% from 2002 levels. Newspaper advertising linage improved 0.7% in 2003 compared to 2002. North American mill inventories increased in 2003, while customer inventories decreased slightly from 2002 levels. Total inventories (North American mills and users) ended 2003 at 1.29 million metric tons, approximately 17% below historical levels.

Coated and Specialty Papers   Product Line

	2004	2003	2002
Sales (in millions)	**$ 904.4**	$ 726.4	$ 613.1
Average prices (per short ton)	**$ 616**	$ 569	