

SOUTHERN FORESTS AND BOWATER, INCORPORATED

PROGRESS REPORT
JULY 2006 TO JULY 2007



DOGWOOD
ALLIANCE

Background

In response to public concern regarding Bowater's forestry practices in the Southern US, and specifically on the Cumberland Plateau, on June 29, 2005 the company entered into an historic Memorandum of Understanding (MOU) with Dogwood Alliance and the Natural Resources Defense Council (NRDC) in which it committed to make some significant improvements to its sourcing of wood fiber in the Southern US. The understanding included specific commitments to identify and protect forests of ecological significance, end the conversion of natural forests to plantations, restrict the aerial spraying of chemical fertilizers and herbicides, limit the use of large-scale clearcutting and to increase the use of recycled fiber.

Earlier this year, Bowater announced plans to merge with Abitibi Consolidated. The companies reached an agreement with the United States Department of Justice allowing the completion of the proposed combination of the two companies in October. The new company, AbitibiBowater

Incorporated, is now the largest manufacturer of newsprint in North America as well as one of the largest manufacturers of coated and book publishing papers. Bowater is the surviving company and the former CEO of Bowater, Dave Patterson, is the CEO of the company. The MOU signed with Dogwood Alliance and NRDC will remain in effect relative to all mills in the US owned by the former Bowater. The merger of the two companies creates an opportunity for AbitibiBowater to apply the commitments contained in the MOU to two additional Southern paper mills formerly owned by Abitibi Consolidated in Augusta, Georgia and Alabama River, Alabama.

This is the second in a series of annual reports intended to document Bowater's and, in subsequent years, AbitibiBowater's progress in meeting the specific commitments outlined in the MOU as well as its improvements to forestry practices in the South more generally. This report is not an evaluation of Bowater's or AbitibiBowater's practices in the Canadian Boreal forest.

Summary and Highlights

As set forth in more detail below, some provisions of the MOU apply to lands the company owns and other provisions apply to the company's procurement of wood fiber from third parties. In addition, some commitments in the MOU contain specific benchmarks and timelines that are conducive to measuring progress within a specific timeframe while others are ongoing and/or may take several years to implement. Based on this year's analysis we conclude that Bowater made meaningful progress in improving forestry practices in the South and is in compliance with the MOU.

Verification

Last year's progress report was based primarily on an extensive report provided to us by Bowater and the fact that Bowater's compliance with the MOU was independently

audited as part of its annual auditing process. This year's progress report is again based on information and materials presented by Bowater at the annual meeting between Bowater, Dogwood Alliance and NRDC plus an independent satellite imagery analysis conducted for Dogwood Alliance and NRDC by Nick Hollingshead at the University of the South's Landscape Analysis Laboratory. The consultant acquired satellite images of a large portion of Bowater's ownership representing approximately 132,000 acres on the Cumberland Plateau. Through this analysis an initial baseline of forest conditions was developed, delineating plantations from natural forests and identifying remaining ephemeral ponds. Forest management practices and change in ownership were tracked through comparing satellite images and county property tax data from 2004, 2005, 2006 and 2007. Parcels of natural forests that were identified as clearcut between 2006 and



2007 were subsequently ground-truthed to verify the sites were being regenerated naturally and not site prepared for conversion.

Bowater worked cooperatively with Dogwood Alliance and NRDC in the implementation and verification of commitments in the MOU. Bowater was responsive to requests for additional information related to verifying its practices, produced additional analysis when necessary and willingly granted Dogwood Alliance access to its forestlands to ground truth areas in question.

Plantation Conversion on Company Lands

Though under the MOU Bowater committed to end the conversion of natural forests to plantations by the end of 2007, the practice was phased out ahead of schedule as no natural forests on Bowater lands have been converted as of July 2006. Bowater, now AbitibiBowater, is the first industrial landowner in the Southern US to formally and completely phase out the practice of converting natural forests to plantations, setting an important example for other landowners both

HIGHLIGHTS OF BOWATER'S ACTIONS OVER THE PAST YEAR INCLUDE:

- Phase out of converting natural forests to plantations on company lands was complete as of June 2006, one and a half years ahead of schedule;
- Analysis of satellite imagery potential to track third party fiber procurement was initiated which could enhance AbitibiBowater's ability to verify that its future purchases of pine fiber do not originate from natural forests converted to plantations after 2007.
- The study of forests of ecological and historical significance within the Gulf and Coves of Bowater ownership in Cumberland Plateau region was completed. New colonies of large-flower skullcap — a globally imperiled plant species — as well as other threatened plant species were found along with a prehistoric pictograph. The study findings resulted in the transfer of these areas to the state of Tennessee for protection.
- 16,000 acres of high conservation value forests were transferred to the state of Tennessee for conservation, adding to the development of the Cumberland Trail and creating a conservation corridor between Fall Creek Falls State Park, Bridgestone-Firestone Wildlife management Area and Bledsoe State Forest on the Cumberland Plateau.
- No aerial spraying of herbicides or fertilizers was conducted between July 2006 and July 2007.
- Bowater's environmental management system (EMS), which includes the MOU commitments, was independently audited by KPMG.

industrial and non-industrial across the region.

Conversion on Third Party Lands and Fiber Tracking

Under the MOU, Bowater also committed not to purchase any pine fiber from plantations established on natural forest sites that are converted after 2007 to plantations. Last year we encouraged Bowater to explore the use of satellite imagery to track its fiber sources and verify compliance with the MOU relative to third party purchases. AbitibiBowater is now exploring opportunities of integrating satellite imagery analysis into its wood fiber tracking system. This technology can provide AbitibiBowater with data about forests that have been converted to plantations in 2008 and beyond so that it can avoid purchases of pine fiber from those areas in the future. The use of satellite imagery technology to track and verify fiber sources from third-party landowners sets another important example

for paper producers in the South — most of which source an overwhelming majority of their fiber from third party landowners.



Protection of Ecologically Significant Forests on Company Lands

The company continued to make progress in supporting the protection of ecologically significant forests on company lands. Bowater reported that no ephemeral ponds were identified during harvest activities from July 2006 to July 2007. Dogwood Alliance and NRDC are in the process of establishing the baseline for tracking compliance with Bowater's commitment to protect ephemeral ponds via our satellite imagery analysis and we will be able to independently track AbitibiBowater's compliance with this commitment in 2008.

In addition, the biological and archeological study of the company's forests in the coves and gulfs within the Cumberland Plateau was completed this year. Though the original gulfs and coves study area under the MOU was 7,000 acres, 1,400 acres were sold, prior to the completion of the study, to the State of Tennessee for conservation purposes. The final study of the remaining 5,600 acres resulted in findings of new colonies of large-flowered skullcap -- a plant species listed as "threatened" by the federal government and currently

listed by NatureServe as "globally imperiled." In addition, other vulnerable and imperiled species such as of American ginseng, Pink lady slippers and American Chestnut were also discovered. Further, a prehistoric red ochre pictograph in a Cumberland Plateau rock shelter was found.

These findings resulted in the transfer of an additional 3,500 acres of forests to the state of Tennessee for conservation purposes. A portion of the remaining 2,100 acres were sold to a Timber Investment Management Organization (TIMO) and managed by Timber Investment Resources (TIR). The management of these lands by TIR will need to be monitored in the future.

In total, between July of 2006 and July 2007, Bowater transferred approximately 16,000 acres of forests of high conservation value to the state of Tennessee for conservation, representing more than 25% of the forestland Bowater divested in this time period. These land sales contributed additional acres to the Cumberland Trail and also helped create a conservation corridor between Fall Creek Falls State Park, Brigestone-Firestone Wildlife Management Area, and Bledsoe State Forest.

Bowater, now AbitibiBowater, is the first industrial landowner in the Southern US to formally and completely phase out the practice of converting natural forests to plantations, setting an important example for other landowners both industrial and non-industrial across the region.

Dogwood Alliance and NRDC will continue to conduct satellite imagery analyses on former Bowater forestlands that AbitibiBowater will continue to source fiber from for purposes of monitoring and reporting on forest management practices on these lands in future years.



Opportunities

Variable Retention in Hardwood Forests and FSC Certification

AbitibiBowater will need to comply with the commitment in the MOU to practice variable retention in hardwood forests consistent with the FSC Southeastern standard on all of its landholdings beginning in 2008. This creates an opportunity for AbitibiBowater to work with FSC certifiers in 2008 to demonstrate how FSC standards can be applied on the ground in the Southern US.

In addition, given the totality of Bowater's actions pursuant to the MOU and new FSC policies regarding controlled wood and percentage-based claims, an opportunity exists for AbitibiBowater to work with its third-party suppliers as well as FSC certifiers to assess any additional steps that may be necessary for AbitibiBowater to obtain an FSC COC certificate at one or more of its mills in the Southern US.

Land Sales

At the time the MOU was signed in 2005, Bowater owned or maintained a long-term interest in approximately 365,000 acres of forestland, primarily located on the Cumberland Plateau in Tennessee. Even with a substantial timberland base, Bowater relied on third-party private landowners to provide it with most of the fiber for its mills. Several months after the MOU was signed, Bowater announced its intention to sell most of its timberland in the Southern US. Between March of 2006 and March of 2007, Bowater sold approximately 57,000 acres of forestland. As of March 2007, Bowater owned or maintained long-term leases on approximately 170,000 acres of forestland in the South. Much of the remaining land, now in AbitibiBowater ownership, is either in the process of being sold, or is planned for sale. AbitibiBowater will likely continue to own or maintain long-term leases on some portion of its current holdings in 2008.

Although AbitibiBowater's land management operations will significantly diminish in the South, the company will remain a key player impacting Southern forests as one of the region's largest paper producers and the largest paper producer operating within the Cumberland Plateau. AbitibiBowater will maintain wood supply agreements on a significant portion of the land it is selling (and that Bowater has already sold) to ensure continued fiber supply for its paper mills. Because some of the commitments outlined in the MOU apply exclusively to lands Bowater owned at the time the MOU was signed— the majority of which Bowater has sold or AbitibiBowater is planning to sell -- the new owners of the forestlands that AbitibiBowater will continue to source from should be encouraged to comply with these commitments and to discuss progress on such undertakings with Dogwood Alliance and NRDC.

Specifically, where AbitibiBowater has retained long-term sourcing agreements (such as with Sequatchie Valley LLC) on former Bowater lands, opportunity exists for creating dialogue with the new owners of former Bowater plantations regarding the continued use of helicopters in place of fixed wing aircraft for all aerial applications of herbicides and fertilizers an adherence to the 300 foot buffer zones requirements agreed to in the MOU. Likewise, the potential for continued protection of ephemeral ponds and practicing variable retention in hardwood forests to the FSC SE certification standard should be discussed with the new owners of natural forest stands from which AbitibiBowater continues to source fiber.

Dogwood Alliance and NRDC will continue to conduct satellite imagery analyses on former Bowater forestlands for purposes of monitoring and reporting on forest management practices on these lands in future years.



BROAD CATEGORY	SPECIFIC COMMITMENT	DOCUMENTATION OF PROGRESS	NOTES
<p>Conversion of Natural Forests to Plantations</p>	<p>Bowater will phase-out of conversion on Bowater’s forestland and will terminate the practice entirely at the end of 2007. During this phase-out, there will be no acceleration of conversion beyond the current rate of approximately 500 acres per year.</p>	<p>Phase out complete</p> <p>No conversions of natural forests to plantations as of July 2006</p> <p>(source: Bowater management plans; verified via annual audit; independent satellite imagery analysis and ground truthing by Dogwood Alliance on Bowater lands)</p>	<p>Completed ahead of schedule</p>
	<p>Within three years, Bowater will phase out procurement of pine fiber from areas converted from natural forestland to pine plantations after 2007.</p>	<p>Bowater’s Environmental Management System (EMS) contains MOU requirements</p> <p>Landowner Resource Management Packets (RMPs) include relevant MOU language (audited)</p> <p>214 RMPs were distributed</p> <p>Bowater attached MOU to land sale prospectus</p> <p>Steps taken to expand Bowater’s capability for tracking forest management practices associated with third-party purchases including conversion via the use of satellite imagery analysis.</p>	

Forests of Ecological Significance

Bowater is in the process of studying, with the State of Tennessee, approximately 7,000 acres of gulf and cove areas on Bowater property to identify those that are of exceptional ecological, geological or historical significance. Bowater will work with the State of Tennessee, the Dogwood Alliance and NRDC and a reasonable number of other entities, which may include governments, conservation organizations, universities and research institutes.

Study completed on 5,600 acres; remaining 1,400 acres transferred to the state of Tennessee for conservation purposes.



BROAD CATEGORY

SPECIFIC COMMITMENT

DOCUMENTATION OF PROGRESS

NOTES

Forests of Ecological Significance

Bowater will neither sell nor harvest in such gulf and cove areas while the study is underway.

1,400 acres within the study sold prior to study completion to the state of Tennessee for conservation purposes

No harvests occurred within the 7,000 acre study area during the study period

Some of the land in the gulfs and coves study was sold to Timber Investment Resources.

How will they manage these natural stands in the future?

Bowater will assess and implement appropriate protective measures and/or transactions for such gulf and cove areas acknowledged as having exceptional ecological or historical significance as these areas are identified.

3,500 acres identified as important habitat for critically imperiled, rare and sensitive species were transferred to the state of Tennessee for conservation

Bowater will identify and map ephemeral ponds on its land on the Cumberland Plateau in Tennessee during the pre-harvest planning phase of its forest management cycles. Bowater will implement appropriate conservation measures for these areas, such as providing “EP Management Zones” around ephemeral ponds, inside of which no harvesting will be allowed.

The following language is included in Bowater’s EMS directing forest managers to identify and map ephemeral ponds and stating “No harvesting will be conducted within ephemeral ponds or within SMZs associated with ephemeral ponds, even though BMPs may permit limited harvesting in such areas.”

Compliance with EMS audited in conjunction with Bowater’s annual audit

Bowater reported that no ephemeral ponds were found in harvest areas between July 2006 and July 2007

Dogwood and NRDC are currently in the process of developing the baseline for tracking compliance with this commitment via our independent satellite imagery analysis project.

Will the new industrial landowner(s) continue to protect ephemeral ponds on this land?

Bowater recognizes the value of studying the Southeastern United States to identify forests of exceptional ecological, geological or historical significance. As exceptional areas are properly identified by scientifically credible sources, Bowater will take appropriate action to support the protection of these areas consistent with Bowater’s economic conditions and land-owners’ objectives and desires.

Ongoing

ABitibiBowater will need to demonstrate meaningful action on this commitment within the next few years



BROAD CATEGORY	SPECIFIC COMMITMENT	DOCUMENTATION OF PROGRESS	NOTES
Chemical Spraying	Bowater's contract aerial applicators will provide public notice of aerial application activities prior to commencement, using local media outlets. Such notice will include information about general regions of application, timeframe for expected application, applied substances, safety, and contact numbers.	No aerial spraying from July 2006 to July 2007 Audited via annual audit	Will the new industrial landowner(s) provide similar notification to communities before the aerial application of chemicals?
	Bowater will establish 300-foot buffer zones around schools, daycare centers and residential developments for all chemical applications.	N/A as no aerial spraying was conducted between July 2006 and July 2007	Will the new industrial owner(s) adhere to the same buffer zone requirements and require contractors to verify compliance via GPS tracking?
	Bowater will not apply fertilizer to a pine plantation during the first year after its planting.		
Hardwood Management	After three years, Bowater will develop hardwood management plans on Bowater's forestland that utilize variable retention methods and other hardwood management practices consistent with the 2002 SE US FSC standard (6.3.A.8).	N/A until 2008	<p>Approximately 500 acres of hardwood forests on Bowater lands were clear-cut between July 2006 and July 2007.</p> <p>Will AbitibiBowater work with FSC certifiers to ensure compliance with this commitment in 2008?</p> <p>Will the new industrial landowner(s) manage hardwood stands consistent with the FSC SE US standard for variable retention?</p>



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<p>Hardwood Management</p>	<p>Bowater will add an “Agricultural Field Origination” and “Variable Retention Hardwood Harvests” category to its verifiable Fiber Tracking System in order to give preference to it, subject to economic considerations.</p>	<p>Documentation provided showing all appropriate categories added to Bowater’s verifiable fiber tracking system</p>	<p>AbitibiBowater has not yet amended its Landowner Management Resource Packets to inform landowners of its commitment to give buying preference to variable retention hardwood harvests nor included a definition of “variable retention”.</p>
<p>Fiber Tracking</p>	<p>Bowater will closely monitor its supply chain so that it can provide reliable information to its customers about the sources and management of its wood supply.</p> <p>Bowater’s practice is to track the source of such fiber to the landowner, county and state of origin. Bowater will work to continuously improve its supply chain monitoring in an effort to eventually be able to track fiber sources and management practices to the forest of origin.</p>	<p>Documentation of fiber tracking analyzing the percentage of all Bowater fiber originating from various categories that reflect forest management practices ranging from certified, industrial lands to evidence of management plans to unknown sources. (verified via annual audit)</p> <p>Adopted a new wood payment system to reflect criteria related to fiber tracking required from contract</p> <p>Random field audits (during BMP inspection visits) verify tracking information reported by suppliers</p> <p>Additional analysis being done by AbitibiBowater to implement satellite imagery capabilities into its wood fiber tracking system.</p>	



BROAD CATEGORY	SPECIFIC COMMITMENT	DOCUMENTATION OF PROGRESS	NOTES
Best Management Practices	Bowater will continue to enforce contracts with all of its wood suppliers requiring them to practice BMPs during harvesting activities, observe threatened and endangered species protection regulations, and use loggers trained in such techniques.	<p>AbitibiBowater supply contracts require BMP conformance (verified via annual audit)</p> <p>92% BMP conformance on third-party lands verified via stratified (risk-based) random inspections verified via annual audit)</p> <p>Known non-conformance requires site inspection by AbitibiBowater Field Supervisor, BMP non-compliance report and follow-up required to bring site into conformance</p>	
Recycled Fiber Use	Consistent with its existing infrastructure, Bowater will strive to increase the use of recycled content in manufacturing of its product lines taking cost, quality, performance and customer expectations into consideration. Bowater is committed to using recycled fiber, including post-consumer recycled fiber, and will continue to look for additional recycling opportunities within the company.	Bowater's use of recycled fiber increased from 1,508,000 tons in 2004 to 1,519,000 tons in 2005 and remained stable from 2006 to 2007 (verified via annual audit)	

Public notification as drafted by Bowater required in new contract for aerial applicators*

* Specific language is as follows: "Under a contract with Bowater, Inc., Woodlands Specialists, Inc. will be aerially applying herbicides to portions of Bowater's forestlands in Hamilton County during the period July 15, 2005 through October 30, 2005. Applications are scheduled for the Bakewell, Sale Creek and Soddy-Daisy areas. All application work will be done using helicopters. The contractor is licensed by the Tennessee Department of Agriculture to operate within the state. The purpose of the application is to reduce brush and other competing vegetation prior to the establishment of a new forest. The herbicides to be used are approved by the U.S. Environmental Protection Agency for this purpose and may include Chopper®, Accord®, Oust®, Escort®, or Velpar® and a surfactant. For more information contact Woodlands Specialists at (334) 872-6001 or Bowater at (423) 336-7078."



DOGWOOD ALLIANCE