

ANNUAL REPORT

2007

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THE 2007 ANNUAL REPORT IS PRINTED
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LETTER TO SHAREHOLDERS



JOHN W. WEAVER (left)
EXECUTIVE CHAIRMAN

DAVID J. PATERSON (right)
PRESIDENT AND CHIEF EXECUTIVE OFFICER

New Company, New Day. Facing the challenges of our time head on, AbitibiBowater is defining itself with decisive action and a collaborative spirit. We are better able to address today's market and economic realities with actions designed to outpace the competition. We are committed to providing our customers with outstanding products backed by best-in-class customer service, while significantly improving our bottom-line performance. Moreover, we are committed to doing so in a manner that reflects our commitment to environmental stewardship and sustainability. Our straightforward, no-nonsense approach is results-driven and best positions the Company to be the industry's great turnaround story.

As one of the largest publicly traded paper and forest products companies in the world, AbitibiBowater is focused on delivering a financially stronger organization. Our people will make the difference as we work in concert to promote a safe and efficient workplace and leverage our diversified portfolio of assets. We are committed to stretch goals and measurable results. We will deliver and, with time, earn the right to grow. Our employees and shareholders as well as our customers and the communities in which we operate will be the beneficiaries. We aspire to be more than we are today and believe it to be achievable.

Decisive action called for – and delivered

The merger of Abitibi-Consolidated and Bowater was completed against the backdrop of an unfavorable business environment. Both companies had been working hard pre-merger to improve their competitiveness in the face of soft markets, particularly for newsprint and wood products, exacerbated by a rising Canadian dollar and higher costs for fiber, energy and labor. But it was obvious that further action was called for.

In late November, following a 30-day strategic review of each business, we announced a series of measures that included the reduction of AbitibiBowater's newsprint and coated and specialty papers capacity by 1 million metric tons annually. We also removed 500 million board feet of annual wood products capacity from the marketplace. The initial phase of capacity reductions involved permanent closures and indefinite idlings. By mid-February 2008, operations had ceased at all the targeted facilities, none of which had been generating positive cash flows.

Given continuing pressures with regard to wood availability and operating costs in Eastern Canada, a second phase of closures may be unavoidable. As part of our action plan arising from the strategic review, the Company has been reaching out to key stakeholders to address outstanding competitiveness issues. Final decisions regarding actions to be taken will be made during the second quarter of 2008. At the time of this writing, management was also continuing its review of the Company's wood products business, with the intention of identifying and selling non-core assets, consolidating facilities where appropriate, and curtailing or closing non-contributing operations.

Debt reduction, a top priority

Overall, the Company is targeting \$500 million from asset sales. On April 10, 2008, we took an important step with the completion of the sale of the Snowflake, Arizona mill, for a purchase price of \$161 million, to Catalyst Paper Corporation. This sale was approved by the U.S. Department of Justice in order to comply with the requirements set for the approval of the combination of Abitibi-Consolidated and Bowater. The Company is also exploring the sale of non-core facilities and U.S. timberlands. Proceeds will be used to support the three-year, \$1-billion debt-reduction target.

Given our intense focus on debt reduction, the Board of Directors decided in November to suspend the payment of dividends to shareholders. We will revisit this decision when clear progress has been made in terms of achieving the Company's financial objectives.

Synergy target increased

At the same time, we raised the bar with regard to targeted synergies stemming from the merger to \$375 million. We are confident that we can achieve the original \$250-million run rate by the end of the first quarter of 2009, and realize an additional \$125 million within the stipulated two-year time frame extending through the end of 2009.

Safety and health

A constant of the newly merged organization is our regard for the safety and health of employees, which we consider to be of paramount importance. Our proactive approach emphasizes not only the Company's leadership role but also the need for individual responsibility and accountability with regard to safety and health issues. We strive for continuous improvement in this crucial area by adopting world-class standards at each facility and regularly measuring performance, and through the sharing of best practices throughout our operations. The ultimate goal is an accident-free workplace.

Unwavering commitment to sustainability

Supporting all three pillars of sustainability – environmental, social and economic – is a common theme within the new AbitibiBowater. We are proud of the progress made by our predecessor companies and likewise recognize that we must continue to raise the bar and do more on the sustainability front. We are committed to continuous improvement, believing that sustainability performance is linked to creating a stronger, more globally competitive organization – an objective that is clearly in the long-term best interests of all AbitibiBowater stakeholders: employees, shareholders, customers and communities.

Sustainability will be ingrained as a core value of our new organization and will form an integral part of our global operating and management systems. During 2008, we will develop our strategy to further reduce our environmental footprint, while simultaneously finding new avenues to best engage our various stakeholders.

Intense customer focus

Among AbitibiBowater's underlying strengths are its broad product range and a network of production facilities strategically situated in proximity to major North American markets. Moreover, in spite of recent capacity reductions, we expect to continue growing our international newsprint sales in line with the expansion of offshore markets.

We are committed to partnering with existing and new customers worldwide to provide them with top-quality newsprint, coated and specialty papers, market pulp and wood products backed by best-in-class service. It should also be noted that innovative product offerings make AbitibiBowater the wise choice for environmentally sensitive customers seeking sustainable solutions that represent added value to them – and to their customers.

Acknowledgements

We wish to take this opportunity to formally thank employees across the Company for their hard work and commitment over the course of a hectic year fraught with the distractions inherent in any large-scale merger. Our people are our greatest strength. As we move ahead with implementation of the action plan and the capture of synergies, it is essential we continue learning from one another and building on our shared values while embracing the need to adapt and change.

We also wish to express our appreciation to the Board of Directors for their wise counsel and support. Particular thanks are due to five former members of the Abitibi-Consolidated and Bowater boards – Marlene Davidge, David Galloway, L. Jacques Ménard, Arthur R. Sawchuk and John A. Tory – for their contributions over the years and their help in putting two great companies together.

Outlook and priorities

As 2008 unfolds, business conditions remain challenging, particularly with regard to wood products, where demand and prices for lumber continue to be adversely impacted by developments in the U.S. housing market. We have taken steps to minimize cash losses in this business as we weigh our options for the future.

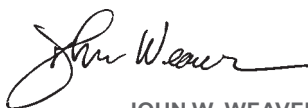
On a more encouraging note, prices have increased across the board for all the paper grades produced by the Company. While North American demand for newsprint remains in decline, the global newsprint market has continued to expand, which will have a tendency to push prices up domestically as well as overseas. As part of our synergy efforts, we are working hard to improve our productivity and margins on uncoated grades by rebalancing our manufacturing platform, which entails moving a number of customers between mills. Pulp markets, meanwhile, remain strong and prices continue to increase.

Much work remains to be done to achieve a lasting turnaround, and we are eager to get on with the job. We continue to explore all options with regard to building a more streamlined, cost-effective manufacturing network, while aggressively pursuing our Company's priorities: creating a financially stronger, customer-focused organization; realizing the full \$375 million of synergies by the end of 2009; and strengthening the balance sheet by hitting our three-year, \$1-billion debt-reduction target.


In March 2008, we announced a \$1.4-billion refinancing plan to address upcoming debt maturities and general liquidity needs, principally for our Abitibi-Consolidated subsidiary. Our efforts to complete the necessary refinancing were complex in light of turmoil in the credit markets. We took a comprehensive approach to the task, having developed a refinancing plan that went beyond immediate maturities. We are pleased to have this project behind us and look forward with optimism to the future.

As we noted at the outset of this letter, times are changing. The decisive measures implemented over the past few months, along with our ongoing action plans and relentless efforts on the integration and synergies front, should leave no doubt about this Company's determination to successfully adapt to the new economic and market reality.

From today forward, we intend to focus our collective know-how and energy on the future – on leveraging the inherent strengths of AbitibiBowater with the aim of building a brighter tomorrow for all concerned.



JOHN W. WEAVER
EXECUTIVE CHAIRMAN



DAVID J. PATERSON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

FINANCIAL HIGHLIGHTS

	2007	2006
<small>(In millions of U.S. dollars, except share and per-share data, ratios and number of shareholders)¹</small>		
Sales	\$3,876	\$3,530
Operating (loss) income ²	\$(400)	\$41
Net loss	\$(490)	\$(138)
Diluted loss per common share ¹	\$(14.11)	\$(4.64)
Average diluted shares outstanding (in millions) ¹	34.7	29.8
Dividends declared per common share ¹	\$1.15	\$1.54
Total assets	\$10,319	\$4,646
Total shareholders' equity ³	\$1,899	\$833
Total debt	\$5,648	\$2,267
Current ratio ⁴	1.0	2.1
Capital expenditures, including timberlands	\$128	\$199
Shareholders of record (common stock and exchangeable shares)	2,206	3,400
Common stock price range – AbitibiBowater	\$37.45 - \$14.13	—
Common stock price range – Bowater ¹	\$57.62 - \$26.87	\$61.52 - \$37.71

- On October 29, 2007, Abitibi-Consolidated Inc. ("Abitibi") and Bowater Incorporated ("Bowater") combined in a merger of equals with each becoming a wholly-owned subsidiary of AbitibiBowater Inc. ("AbitibiBowater") (the "Combination"). The Combination has been accounted for in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations." Bowater is deemed to be the "acquirer" of Abitibi for accounting purposes, and AbitibiBowater is deemed to be the successor to Bowater for purposes of U.S. securities laws and regulations governing financial reporting. Therefore, our financial highlights reflect the results of the operations and financial position of Bowater for the periods before October 29, 2007, and those of both Abitibi and Bowater for the periods beginning on or after October 29, 2007. Furthermore, we retroactively restated all share and share-related information, as well as common stock prices, for all periods before the Combination to reflect the Bowater exchange ratio of 0.52.
- Operating income includes a net gain on sale of assets of \$145 million and \$186 million for 2007 and 2006, respectively; mill closure, impairment and other related charges of \$123 million (including \$100 million of impairment charges and \$23 million of severance and other termination costs) and \$253 million (including \$249 million of impairment charges and \$4 million of costs associated with contractual obligations) in 2007 and 2006, respectively; other severance and termination costs of \$36 million and \$19 million in 2007 and 2006, respectively; merger-related costs of \$49 million in 2007 and an arbitration award cost of \$28 million in 2007.
- Total shareholders' equity increased in 2007 when compared to 2006 primarily as a result of our Combination with Abitibi (approximately \$1.4 billion), partially offset by our 2007 net loss of \$490 million.
- Current ratio equals total current assets divided by total current liabilities.

COMPANY OPERATIONS

CANADA

QUEBEC

Newsprint

Amos / Baie-Comeau / Clermont / Gatineau

Commercial Printing Papers

Alma / Beaupré / Dolbeau / Donnacona /
Gatineau / Kénogami / Laurentide

Recycled Fiber Production

Alma / Baie-Comeau / Gatineau

Sawmills

Chibougamau / Comtois / Girardville –
Normandin / La Doré / La Tuque (2) /
Laterrière / Maniwaki / Mistassini / Obedjiwan /
Petit-Saguenay / Pointe-aux-Outardes (2) /
Price / Roberval / Saint-Félicien /
Saint-Fulgence / Saint-Hilarion /
Saint-Ludger-de-Milot / Saint-Raymond /
Saint-Thomas / Senneterre

Cogeneration

Dolbeau / Gatineau

Wood Remanufacturing

Château-Richer / La Doré / Manseau /
Saint-Prime

Engineered Wood

Larouche / Saint-Prime

Hydroelectric Power

Hydro-Saguenay / Manicouagan

BRITISH COLUMBIA

Newsprint

Mackenzie

Sawmills

Mackenzie (2)

Cogeneration

Mackenzie

ONTARIO

Newsprint

Iroquois Falls / Thorold / Thunder Bay

Commercial Printing Papers

Fort Frances / Iroquois Falls / Thunder Bay

Sawmill

Thunder Bay

Hydroelectric Power

Fort Frances / Iroquois Falls / Kenora

Cogeneration

Fort Frances / Thunder Bay

Market Pulp

Fort Frances / Thunder Bay

Recycled Fiber Collection

Thorold

Recycled Fiber Production

Thorold / Thunder Bay

NEWFOUNDLAND AND LABRADOR

Newsprint

Grand Falls

Commercial Printing Papers

Grand Falls

Hydroelectric Power

Exploits River / Grand Falls / Star Lake

NOVA SCOTIA

Newsprint & Cogeneration

Liverpool

Sawmill

Bridgewater

UNITED STATES

Newsprint

Alabama River, AL / Augusta, GA / Calhoun, TN /
Coosa Pines, AL / Grenada, MS / Usk, WA

Commercial Printing Papers

Calhoun, TN / Catawba, SC / Covington, TN

Sawmills

Albertville, AL / Westover, AL

Cogeneration

Calhoun, TN / Catawba, SC / Coosa Pines, AL

Market Pulp

Calhoun, TN / Catawba, SC / Coosa Pines, AL

Recycled Fiber Collection

Baltimore, MD / Boston, MA / Buffalo, NY /
Chicago, IL / Cincinnati, OH / Cleveland, OH /
Columbus, OH / Dallas – Fort Worth, TX /
Detroit, MI / Houston, TX / Indianapolis, IN /
Kansas City, MO / Philadelphia, PA / Phoenix, AZ /
Pittsburgh, PA / Saint Louis, MO / San Antonio –
Austin, TX / Tulsa – Oklahoma City, OK

Recycled Fiber Production

Alabama River, AL / Augusta, GA / Calhoun, TN /
Coosa Pines, AL / Usk, WA

UNITED KINGDOM

Newsprint

Bridgewater, Cheshire, England

Recycled Fiber Collection

Claycross, Derbyshire, England / Croy, North
Lanarkshire, Scotland / Edinburgh, East Lothian,
Scotland / Hersham, Surrey, England / Liverpool,
Merseyside, England / Middlesbrough, Teeside,
England / Nottingham, Nottinghamshire,
England / Sefton, Merseyside, England /
St. Helens, Merseyside, England /
Stoke-on-Trent, Staffordshire, England

Recycled Fiber Production

Bridgewater, Cheshire, England

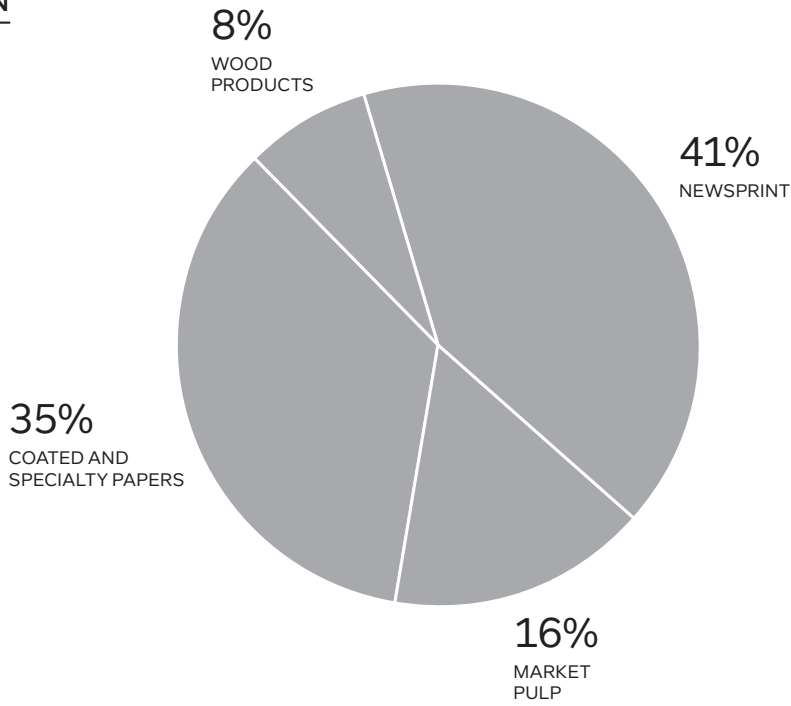
SOUTH KOREA

Newsprint & Recycled Fiber Production

Mokpo

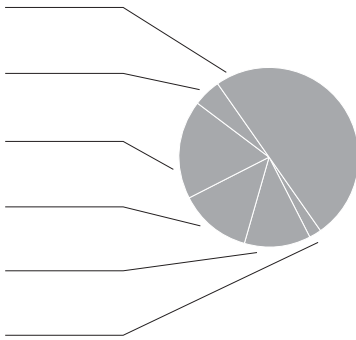


DISTRIBUTION OF SALES (\$)



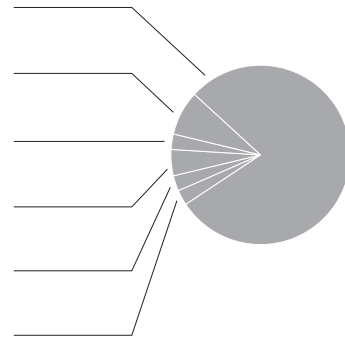
Newsprint

- 50% UNITED STATES
- 5% CANADA
- 18% ASIA
- 13% EUROPE
- 12% LATIN AMERICA
- 2% OTHER COUNTRIES



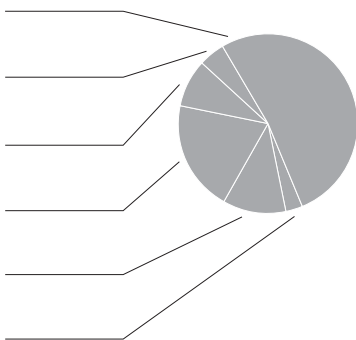
Coated and Specialty Papers

- 86% UNITED STATES
- 8% CANADA
- 1% ASIA
- 3% EUROPE
- 1% LATIN AMERICA
- 1% OTHER COUNTRIES



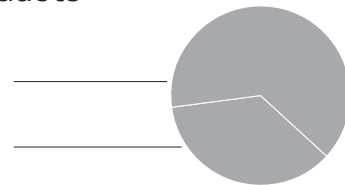
Market Pulp

- 55% UNITED STATES
- 3% CANADA
- 8% ASIA
- 21% EUROPE
- 12% LATIN AMERICA
- 1% OTHER COUNTRIES



Wood Products

- 64% UNITED STATES
- 36% CANADA



2007 BOARD OF DIRECTORS

JOHN W. WEAVER

Executive Chairman,
AbitibiBowater Inc.

DAVID J. PATERSON

President and Chief Executive
Officer, AbitibiBowater Inc.

JOHN Q. ANDERSON^{1,4}

Chairman and Chief Executive
Officer, BigWheel Partners Inc.

HANS P. BLACK^{2,3}

Chairman of the Board, Interinvest
Consulting Corporation of Canada

JACQUES BOUGIE^{1,3}

Corporate Director

WILLIAM E. DAVIS^{1,3}

Corporate Director

RICHARD B. EVANS^{1,3}

Director, President and Chief
Executive Officer,
Rio Tinto Alcan Inc.

GORDON D. GIFFIN^{2,4}

Senior Partner with the law firm
McKenna Long & Aldridge LLP

RUTH R. HARKIN^{1,3}

Corporate Director

LISE LACHAPELLE^{2,4}

Corporate Director

GARY J. LUKASSEN^{2,4}

Corporate Director

JOHN A. ROLLS^{2,3}

Managing Partner,
Core Capital Group, LLC

BRUCE W. VAN SAUN^{2,4}

Vice Chairman and
Chief Financial Officer,
The Bank of New York Mellon

TOGO D. WEST, JR.^{1,4}

Chairman, TLI Leadership Group

- 1 Human Resources and Compensation Committee
- 2 Audit Committee
- 3 Nominating and Governance Committee
- 4 Environmental, Health and Safety Committee

CORPORATE OFFICERS

JOHN W. WEAVER

Executive Chairman

DAVID J. PATERSON

President and Chief
Executive Officer

ALAIN GRANDMONT

Senior Vice President, Commercial
Printing Papers Division

WILLIAM G. HARVEY

Senior Vice President
and Chief Financial Officer

YVES LAFLAMME

Senior Vice President,
Wood Products Division

JON MELKERSON

Senior Vice President, Business
and Corporate Development

PIERRE ROUGEAU

Senior Vice President, North
American Newsprint Division

W. ERIC STREED

Senior Vice President,
Supply Chain

THOR THORSTEINSON

Senior Vice President,
International Business Division

JACQUES P. VACHON

Senior Vice President, Corporate
Affairs and Chief Legal Officer

JAMES T. WRIGHT

Senior Vice President,
Human Resources

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING

The Annual Meeting of Shareholders of AbitibiBowater will be held at the Marriott Château Champlain, Salons Cartier B-C, 1 Place du Canada, Montreal, Quebec, Canada, on Thursday, June 5, 2008, at 11:00 a.m.

COMMON STOCK REGISTRAR AND TRANSFER AGENT (ABH)

Mellon Investor Services LLC
480 Washington Boulevard
Jersey City, NJ 07310
USA
1 877 223-0768 (toll free)
shrelations@bnymellon.com

EXCHANGEABLE SHARE STOCK REGISTRAR AND TRANSFER AGENT (AXB)

CIBC Mellon Trust Company
320 Bay Street, 3rd Floor
Toronto, Ontario M5H 4A6
CANADA
1 800 387-0825 (toll free
throughout North America)
or 416 643-5501
inquiries@cibcmellon.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
1250 René-Lévesque
Boulevard West, Suite 2800
Montreal, Quebec H3B 2G4
CANADA

INVESTOR CONTACT

Duane A. Owens
Vice President and Treasurer
514 394-3268
duane.owens@abitibibowater.com

10-K REPORT

AbitibiBowater files an Annual Report on Form 10-K with the Securities and Exchange Commission, a copy of which is included in this Annual Report to Shareholders. An additional free copy (without exhibits) is available upon request to AbitibiBowater's Investor Relations Department. In addition, the Company's SEC filings, Annual Report to Shareholders, news releases and other investor information may be accessed at abitibibowater.com

INVESTOR INFORMATION AND FINANCIAL REPORTING

Investor inquiries should be directed to AbitibiBowater's Investor Relations Department at corporate headquarters.
AbitibiBowater Inc.
1155 Metcalfe Street, Suite 800
Montreal, Quebec H3B 5H2
CANADA
514 875-2160
ir@abitibibowater.com

STOCK LISTINGS

AbitibiBowater's common shares trade under the stock symbol ABH on both the New York Stock Exchange and the Toronto Stock Exchange.

This report is available in English and in French at abitibibowater.com

