Message from the Chairman and the President and Chief Executive Officer

Last year proved to be extremely difficult for AbitibiBowater. Grappling with the continued contraction of the North American newsprint market, we began 2009 having curtailed paper production capacity by about 1 million metric tons. With the deadline for refinancing the Company's coming debt maturities, AbitibiBowater's difficulties were exacerbated by the global economic recession and ongoing volatility in exchange rates as well as energy and fiber costs.

In mid-March, the Company announced plans to recapitalize $2.4 billion in debt. Due to the prevailing financial environment and credit crisis, we were unable to complete these recapitalization efforts and were forced to seek other solutions. In mid-April 2009, having concluded there were no viable alternatives, the Company obtained court protection in the United States, under Chapter 11 of the Bankruptcy Code, and in Canada, under the Companies' Creditors Arrangement Act (CCAA). While we recognize the harsh consequences of these developments for our stakeholders, without the protection of the courts, AbitibiBowater would not have been able to meet its obligations to creditors. Through this court-led process, the Company is now in a position to restructure for the future.

As part of the creditor protection proceedings, the Company entered into commitments for debtor-in-possession (DIP) financing totalling approximately $300 million, as well as an amendment providing for the continuation of an existing accounts receivable securitization program. The DIP financing included a loan from a commercial bank of $100 million guaranteed by Investissement Québec, which provided additional liquidity that has helped the Company continue to operate in the normal course. AbitibiBowater and its employees appreciate this demonstration of support and confidence from Investissement Québec, the Quebec government and our other financial partners.

We are also grateful for the patience and loyalty shown by our customers and suppliers during the post-filing stabilization period, enabling us to avoid any serious business interruptions.

In the months since the filings, Company management, with the support of the Board of Directors, continued to reduce costs and actively manage working capital while striving to reach a negotiated settlement of claims with creditors and put in place a comprehensive restructuring plan. Incentive compensation programs were suspended and we introduced a new, streamlined executive structure. In August, we announced an ongoing initiative to reduce selling, general and administrative costs by $100 million from 2008 levels through additional austerity measures. We also announced, in September, a focused downtime initiative that entailed the indefinite idling or curtailment of certain unprofitable newsprint and commercial printing paper operations, representing an additional 1.3 million metric tons of production.

The sale of non-core assets is another key element of our overall restructuring. During the third quarter of 2009, we completed the sale of select Quebec timberland assets for C$53 million in cash. This was followed in December by the sale to a Hydro-Québec affiliate of the Company's 60 percent indirect interest in a 335-megawatt hydroelectric facility owned and operated by Manicouagan Power Company for gross proceeds of C$615 million. Part of these proceeds was used to repay the DIP credit facility that had been guaranteed by Investissement Québec. The Company announced in February that its Bridgewater Paper Company Limited subsidiary had filed for administration in the United Kingdom after all other options to keep the U.K. operations solvent had been exhausted.

On February 25, 2010, the Company filed a Notice of Arbitration under the North American Free Trade Agreement (NAFTA) with regards to the expropriation of its assets and rights in Newfoundland and Labrador, Canada. The Company contends that the provincial government's expropriation was arbitrary, discriminatory and illegal under international law, and is seeking direct compensation for damages of approximately C$500 million, plus additional costs and relief. AbitibiBowater had been engaged with the governments of Canada and Newfoundland and Labrador in an effort to achieve a fair and equitable settlement and avoid a protracted NAFTA case.

AbitibiBowater's ongoing efforts to restructure and emerge from its Chapter 11 and CCAA creditor protection filings continue to progress, buoyed by recent indications of modest improvements in demand trends and pricing for pulp and paper products, including newsprint.

Claims procedures by which specified creditors can make claims against the Company have been established and approved by the courts. At the time of writing, we are working to put in place the final elements required to complete our restructuring plans, including the renegotiation of collective agreements and the resolution of issues relative to pension fund deficits.

The initiatives outlined above are all part of our comprehensive undertakings to reshape AbitibiBowater for the future. Our aim is to finalize the restructuring plan and have it accepted by all creditors and approved by the Canadian and U.S. courts as soon as possible.

The two-and-a-half years since the merger of Abitibi-Consolidated and Bowater in October 2007 have been very difficult. We are determined to learn from the past. As we finalize our plan of emergence, we have an obligation to ensure that AbitibiBowater emerges as a leaner, financially stronger, more sustainable organization.

Many companies have gone through a similar process and emerged as very successful business entities. We are confident that will prove to be the case with AbitibiBowater and look forward to turning the page.

David J. Paterson
President and
Chief Executive Officer

Richard B. Evans
Chairman

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