

BOWATER INC
Form 10-K
March 14, 2003

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, 2002
COMMISSION FILE NO. 1-8712**

Bowater Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

62-0721803

(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 x No o

Indicate by check mark if the 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. o

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

Based on the closing price of \$54.37 per share on June 28, 2002, the aggregate market value of our voting common equity held by nonaffiliates* was approximately \$3.0 billion.

As of March 3, 2003, there were 55,293,313 shares of the registrant's Common Stock outstanding.

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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 7, 2003 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 have been included as owned by affiliates solely for purposes of this calculation.

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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, 2002, owned, leased or possessed cutting rights for over 33 million acres of timberlands to support these facilities. We market and distribute our products throughout the world. No single customer, related or otherwise, accounted for 10% or more of Bowater's 2002 consolidated sales.

Bowater completed its acquisition of Alliance Forest Products Inc. (Alliance) on September 24, 2001. The results of Alliance's operations have been included in the Consolidated Financial Statements since September 24, 2001. Alliance was an integrated company specializing in timber harvesting and forest management, as well as the production and sale of newsprint, uncoated specialty paper, pulp, lumber and related products. Alliance had operations in Canada and the United States. The acquisition added modern, low-cost supercalendered and specialty paper production at Donnacona and Dolbeau, Quebec, enabling Bowater to offer a full spectrum of groundwood paper grades. Also, a strategically located mill in Coosa Pines, Alabama, which produces market fluff pulp and newsprint and was modernized in the first quarter of 2002 to produce 100% recycled fiber newsprint, enhances Bowater's customer service capabilities. Alliance's extensive sawmill system and approximately 18 million acres of cutting rights supports Bowater's expanded operations.

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

Bowater operates 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.

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;

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.

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The Coated and Specialty Papers Division, headquartered in Charlotte, North 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 five sales offices. This division is responsible for marketing and selling Bowater's coated and uncoated specialty papers.

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 three manufacturing facilities:

Albertville Sawmill located in Albertville, Alabama;

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; and

Westover Sawmill located in Westover, Alabama.

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. In 2000, Bowater purchased the closed Ignace Sawmill located in northern Ontario. The sawmill has been refurbished but is not expected to be operational in 2003 due to poor market conditions and a labor disruption. A new sawmill, located in Thunder Bay, Ontario, is expected to be completed and operational in May 2003.

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

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;

the Gatineau Operation, located in Gatineau, Quebec;

the Donnacona Operation, located in Donnacona, Quebec;

the Dolbeau Operation, located in Dolbeau, Quebec;

eight sawmills located in Quebec (Dégelis, Price, Lac-des-Aigles, Maniwaki, Saint-Félicien, Girardville, Mistassini and Baie-Trinité) and our Baker Brook sawmill located in New Brunswick; and

one wood-treating facility located in Dégelis, Quebec.

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 and revenues and long-lived assets by country.

Newsprint

Bowater is the largest manufacturer of newsprint in the United States. After the conversion of the newsprint machine at Catawba to coated groundwood in the first quarter of 2003, the elimination of newsprint capacity as a result of the permanent closing of No 3. paper machine at Donnacona in the second quarter of 2003, and including jointly-owned facilities, our annual North American production capacity of newsprint is approximately 2.7 million metric tons, or approximately 18% of the North American capacity. Including the South Korean newsprint mill, our annual production capacity is approximately 3.0 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 476,000 metric tons of newsprint and uncoated specialty paper in 2002. As a result of newsprint market conditions, two paper machines at our Calhoun Operation, along with supporting infrastructure, were idled during 2002. One of these machines has been restarted to produce specialties and the other is expected to remain down until newsprint market conditions improve. Included at this facility is CNC's paper machine, which produced 218,000 metric tons of newsprint in 2002. 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 313,000 metric tons of high quality, 100% recycled fiber newsprint in 2002. The recycle fiber plant, which began operations in December 2001, is one of the largest facilities of its type in the world. Other facilities include a kraft pulp mill, recovery boiler, power boilers, a wastewater treatment plant, a raw water treatment plant, and a chip handling system.

The Dalhousie Operation located on the Chaleur Bay in New Brunswick, has two newsprint machines. These machines were rebuilt in 1982 and produced 235,000 metric tons of newsprint in 2002. This operation has year-round deep-sea docking facilities 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 and a waste treatment plant.

The Gatineau Operation, located on the north bank of the Ottawa River in Quebec, consists of three paper machines, which produced 454,000 metric tons of newsprint in 2002. This facility also includes a recycling plant, a refuse boiler, a TMP mill and a secondary effluent treatment facility.

The Grenada Operation located on the Yalobusha River in Mississippi consists of a TMP mill and one paper machine that produced 238,000 metric tons of newsprint in 2002. Other facilities include a waste treatment plant and a refuse boiler.

The Mersey Operation is located in Nova Scotia on an ice-free port, 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 231,000 metric tons of newsprint in 2002. This facility also operates a TMP mill, a wastewater treatment facility and other support equipment required to produce the finished product.

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 approximately 199,000 metric tons of recycled fiber newsprint in 2002. The facility also includes a recycling plant and ships its product cost effectively from a nearby public deep-sea docking facility.

The Ponderay Operation, located on the Pend Oreille River in Washington, consists of one newsprint machine, which began production in 1989 and produced 253,000 metric tons of newsprint in 2002. This facility also operates a TMP mill, a recycling plant, a wastewater treatment facility and other support equipment required to produce the finished product.

The Thunder Bay Operation, located on the Kaministiquia River in northwestern Ontario, includes three paper machines and two kraft pulp mills. In 2002, this facility produced 421,000 metric tons of newsprint and 72,000 metric tons of base stock for Bowater's Nuway operation. This facility also includes a TMP mill, a recycling plant, two recovery boilers, a refuse boiler, a chip handling system and a waste treatment plant.

Bowater also produces newsprint at its Catawba Operation, located on the Catawba River in South Carolina. In 2002, the newsprint machine at this site produced 186,000 metric tons of newsprint, 12,000 metric tons of uncoated specialty paper and approximately 23,000 metric tons of base stock for our Nuway operation. In January 2003, this machine, with an annual newsprint capacity of approximately 240,000 metric tons, was taken down to convert its production to coated groundwood paper. The conversion is scheduled for completion in March 2003.

Including the production capacity for our unconsolidated partnership, Ponderay Newsprint Company, we have 45% of our newsprint capacity located in Canada and 8% located in South Korea. Our international operations are subject to risks of doing business abroad such as currency fluctuations, changes in international trade regimes such as GATT or NAFTA, dependence on local markets for supply, export duties, quotas, restrictions on the transfer of funds and foreign ownership of property, and political and economic instability. We cannot predict the likelihood of any of these risks having a material effect on our results of operations in the future.

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

In 2002, Bowater sold newsprint to various related parties. During 2002, our joint venture partners, including our unconsolidated partnership, Ponderay Newsprint Company, purchased an aggregate of approximately 916,000 metric tons. Newsprint tons sold to related parties that are consolidated in our Consolidated Statement of Operations represent approximately 12% of our total newsprint tons sold.

Coated and Specialty Papers

Bowater is one of the largest producers of coated groundwood paper in the United States and North America. Capacity in 2002 was 594,000 short tons representing approximately 12% and 10% of the United States and North American capacity, respectively. After the conversion of the newsprint machine at the Catawba Operation to coated paper production, in March 2003, our annual capacity will be approximately 918,000 short tons, or approximately 17% and 15% of the United States and North American capacity, respectively. The converted newsprint machine will initially produce a variety of coated and uncoated specialty papers. By the end of 2005, this machine will increase annual coated paper production to 330,000 short tons. We are one of the largest producers of supercalendered and uncoated specialty papers in North America with an annual capacity of approximately 658,000 short tons, or approximately 10% of North American capacity. Our coated and uncoated specialty papers are primarily lightweight coated paper and are used in magazines, catalogs, books, retail advertising pieces, direct mail pieces and coupons.

Bowater manufactures a variety of coated paper grades on two paper machines at the Catawba Operation. Both machines utilize off-machine blade coaters and, in 2002, produced approximately 366,000 short tons of coated groundwood paper and approximately 10,000 short tons of uncoated specialty paper. The Catawba Operation also includes the newsprint machine referred to in the previous paragraph, a kraft pulp mill, a TMP mill and other support equipment required to produce the finished product.

The Donnacona Operation, located in Quebec, consists of two specialty paper machines that produced approximately 234,000 short tons of specialty paper, mostly book paper and supercalendered grades, during 2002. We have announced that we will permanently close the older, high cost No. 3 paper machine at our Donnacona Operation in the second quarter of 2003. Specialty grades currently manufactured on this machine will be transferred primarily to the Calhoun Operations, thereby eliminating 100,000 metric tons of newsprint capacity.

The Dolbeau Operation, located in Quebec, consists of two specialty paper machines that produced approximately 234,000 short tons of specialty paper, mostly book paper and supercalendered grades, during 2002.

Bowater also operates coating facilities in Benton Harbor, Michigan and Covington, Tennessee. These two sites operate coaters that converted approximately 110,000 short tons of uncoated basestock, produced by our

papermills, into approximately 120,000 short tons of coated paper during 2002. The new coating lines at Benton Harbor and Covington have not met our cost, production and quality objectives. We are taking steps to accelerate progress in these areas, including a temporary shutdown in August 2002 of our older, higher cost No. 1 line at Benton Harbor. If our efforts continue to be successful, we expect to resolve the remaining operational issues in 2003. We also expect to restart the No. 1 line when certain of these operating issues are resolved and market conditions improve.

Bowater also produces uncoated specialty paper at its Calhoun, Thunder Bay and Gatineau Operations.

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 11%. Market pulp is used in the manufacture of fine paper, tissue, packaging, specialty paper products, diapers and other absorbent products.

In 2002, the Catawba Operation produced 236,000 metric tons of softwood market pulp; the Calhoun Operation produced 178,000 metric tons of hardwood market pulp; the Thunder Bay Operation produced 232,000 metric tons of hardwood market pulp and 311,000 metric tons of softwood market pulp; and the Coosa Pines Operation produced 270,000 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 primarily by truck, rail and ship.

Forest Products

In addition to pulp and paper, Bowater sells pulpwood, sawtimber, lumber and wood chips to a variety of customers located in the eastern United States and Canada, including some of our paper mills. 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, 2002, we owned, leased or possessed cutting rights on over 33 million acres of timberlands in the southeastern United States and Canada. Although our primary focus is on timber management, we give considerable attention to maintaining or enhancing other uses of our forests. We, independently or in cooperation with other stakeholders, restrict timber harvesting on over 20% of our timberlands.

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 forestry policies and the interests of our customers and other stakeholders, Bowater is committed to developing environmental management systems with the goal of sustainable forest management.

We are striving to achieve an ISO 14001 registration on all of our Canadian woodlands operations. The ISO 14001 Environmental Management System is recognized around the world as an effective independent approach to verifying environmentally sound forest management practices. To date, we have forestland registered under the ISO 14001 Environmental Management System in Quebec, New Brunswick, Ontario and Nova Scotia. We also subscribe to the American Forest^(R) Paper Association's Sustainable Forestry Initiative,^(R) and our forestry operations in the southeastern United States have been certified to that standard.

Our timberland base supplies a portion of the needs of our paper mills and sawmills and of many independently owned forest products businesses. We own and operate a seedling nursery in the United States and contract with

numerous other nurseries in order to replace trees harvested from our timberlands and from the timberlands of small private landowners. We typically replace two trees for every tree harvested. We also use harvest practices designed to promote natural regeneration on approximately 75% of the area we harvest in Canada.

In 2002, we consumed approximately 15.4 million short tons of wood for pulp, paper and lumber production. Of this amount, we harvested 1.2 million short tons of wood from our owned or leased properties, generated 4.5 million short tons from cutting rights on Crown land owned by the government in Canada, and purchased 9.7 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 in the United States and Canada that produce construction grade lumber.

The Albertville and Westover Sawmills, produced 97 million and 46 million board feet of lumber, respectively, in 2002. These mills produce southern yellow pine lumber that is sold in the southeastern and midwestern United States.

The Oakhill Sawmill, which produced 104 million board feet of lumber in 2002, sells to customers in eastern Canada and the northeastern United States.

The Maniwaki Sawmill, which produced 93 million board feet of lumber in 2002, sells mainly to customers in eastern Canada.

The Baker Brook Sawmill produced 59 million board feet of lumber in 2002.

The Mistassini and Saint-Félicien sawmills produced 169 million and 136 million board feet of lumber in 2002, respectively.

Five other sawmills (Dégelis, Price, Lac-des-Aigles, Girardville, and Baie-Trinité) produced 170 million board feet of lumber in 2002.

The wood treating facility, located in Dégelis, Quebec, produced 27 million board feet (approximately 15 million supplied by Bowater locations) in 2002.

In 2000, Bowater purchased the Ignace Sawmill located in northern Ontario. The sawmill has been refurbished but is not expected to be operational in 2003 due to poor market conditions and a labor disruption. Bowater continues to invest in discrete sawmill projects to generate increased cash flow and to improve fiber supply and lower the cost at our pulp and paper mills. There is presently one sawmill project underway at Thunder Bay, Ontario, which is expected to be completed and operational in May 2003. 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 recycled fiber pulp is combined with virgin fiber 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. With the December 2001 start-up of the new recycled fiber plant, Coosa Pines joins Mokpo in producing newsprint containing 100% recycled fiber. In 2002, we processed 1.3 million short tons of recovered paper.

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 contracts. We are one of the largest purchasers of recovered paper in North America, averaging in excess of 1.0 million short tons purchased annually. One recovered paper supplier accounted for approximately 15% of our

annual recovered paper purchases and all other suppliers individually accounted for less than 10% of our annual recovered paper purchases.

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.

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. There are seven major North American producers of newsprint, and 16 major worldwide producers, of which seven compete in North America. 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 five 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. Market pulp prices historically have been volatile. 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 out of the six 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.

Bowater competes with 11 coated groundwood paper producers with operations in North America. In addition, three major offshore suppliers of coated 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, supercalendered and uncoated specialty 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 supercalendered paper in North America. In addition, two other major offshore suppliers compete in the North American market.

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 are competing with 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 aware of the potential effects of competing electronic media.

Part of Bowater's competitive strategy is to be a lower-cost producer of our products while maintaining strict quality standards and responding to environmental concerns. Currently, some of our competitors' individual mills are lower-cost producers of some of the products that we manufacture, including newsprint. Our six recycling facilities have enhanced our competitive position by enabling us to respond to customer demand for recycled fiber newsprint.

Raw Materials and Energy

The manufacture of pulp and paper requires significant amounts of wood and energy. We obtain the wood we need for pulp, paper and lumber production from property we own, lease, or 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 5 and 6 of this Form 10-K for information regarding our procurement and use of raw materials.

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 Dalhousie, Donnacona, Grenada, Gatineau, Mersey and Mokpo Operations purchase all of their electrical power requirements. The Thunder Bay, Calhoun, Coosa Pines and Catawba Operations produce approximately one-fourth of their electrical requirements and purchase the balance. The Dolbeau Operation purchases all of its electrical requirements from a public utility, about one fifth of which is produced by a third party that operates a cogeneration unit on the premises.

Employees

As of December 31, 2002, Bowater employed 8,600 people, of whom 6,000 were represented by bargaining units. The labor contract covering hourly employees at our Mokpo Operation expires in 2004. The labor contract at the Catawba Operation, which covers all of the plant's hourly employees, expires in April 2003. The labor contracts covering the unionized employees at the Dalhousie, Gatineau, Dolbeau, Thunder Bay and Mersey Operations expire in 2004. The labor contract covering the unionized employees at the Donnacona Operation expires in 2005. The labor contract covering the unionized employees at the Coosa Pines Operation expires in 2007. The labor contract with the plant's unionized employees at the Calhoun Operation expires in November 2008. All plant facilities are situated in areas where adequate labor pools exist. We consider relations with employees to be good.

Trademarks

Bowater owns the trademarked Bowater logo exclusively throughout the world. In 1997, we obtained from the former Bowater plc, now Rexam plc, ownership of the name Bowater in connection with the sale of all of our products exclusively throughout the world, with a limited exception for a few non-conflicting uses by Rexam plc. We consider our interest in the logo and name to be valuable and necessary to the conduct of our business.

Environmental Matters

Information regarding environmental matters is included on pages 30-31 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 1.3 million short 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 annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, 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 Statement Regarding Forward-Looking Information

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 10-K, 10-Q and 8-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 include forward-looking statements including, for example, statements about our business outlook, assessment of market conditions, strategies, future plans, future sales, prices for our major products, inventory levels, capital spending and tax rates. These forward-looking statements are not guarantees of future performance. They 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 that may be described in connection with any particular forward-looking statement, factors that could cause actual results to differ materially include, but are not limited to:

Industry cyclicality. Our operating results reflect the cyclical pattern of the forest products industry. Most of our products are world-traded commodity products. Prices for our products have been volatile historically, and we, like other participants in the forest products industry, have limited direct 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.

Competitive actions by other forest products companies. The markets for our products are all highly competitive. Actions by competitors can affect our ability to sell our products and can affect the prices at which our products are sold. 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, and accordingly these competitors may be less adversely affected than us by price declines.

Competitive media. Our newspaper, magazine and catalog publishing customers increasingly may use, and compete with businesses that use, electronic data transmission and storage instead of newsprint, coated paper, uncoated specialty papers or other products made by us. We cannot predict the timing or extent of this trend.

Changes in laws or regulations including those affecting trade, transportation, currency controls or environmental compliance. We are subject to a variety of national and local laws and regulations, dealing with trade, transportation, currency controls or the environment. Changes in these laws or regulations have required in the past, and could require in the future, substantial expenditures by us. For example, changes in environmental laws and regulations could 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. We

anticipate spending approximately \$175 million by the end of 2003, of which approximately \$85 million had been spent as of December 31, 2002, 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 Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Unforeseen 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, resulting from past or present spills or releases of hazardous or toxic substances on or from our properties. 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 our property. In some cases, this liability may not be limited to the value of the property.

Currency fluctuations. Changes in currencies can affect selling prices and manufacturing.

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 producers outside North America while a weaker U.S. dollar will encourage North American exports. A stronger dollar, increasing supply, can have a downward effect on pricing in North America. While a weaker dollar can have a positive impact on our prices in export markets. Variations in the exchange rates between the United States dollar and other currencies, particularly those 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 certain financial liabilities are denominated in Canadian dollars. Accordingly, changes in currency exchange rates will impact our revenues and costs. Increases in the value of the Canadian dollar versus the U.S. dollar would reduce our earnings, which are reported in U.S. dollar terms.

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

Changes in the political or economic conditions in the United States or other countries in which our products are manufactured or sold. 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 for our facilities.

Cost and availability of raw materials and energy. We buy energy, chemicals, wood fiber, recovered paper and other raw materials on the open market. The prices for these raw materials are volatile and may change rapidly, directly affecting our results of operations. We are a major user of renewable natural resources, specifically 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 natural disasters such as fire, insect infestation, disease, ice storms, wind storms, flooding and 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.

Item 2. Properties

Information regarding Bowater's owned properties 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, a manufacturing facility (Covington), 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 Bowater is 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. Our management believes 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 the year.
- b Bowater, several other paper companies, and 120 other companies have been named as defendants in asbestos personal injury actions based on product liability claims. These actions generally allege occupational exposure to numerous products. Bowater has denied the allegations and no specific product of Bowater 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 840 claimants who sought monetary damages in civil actions pending in state courts in Illinois, Mississippi, Missouri, New York and Texas. Approximately 220 of these actions have been dismissed, either voluntarily or by summary judgment. Insurers are defending these cases 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 Bowater's business, financial position or results of operations.

- c 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. We are seeking approximately \$35 million in damages, and TVA has not filed any counterclaims. The case is still in the discovery stage in federal court in Knoxville, Tennessee, scheduled for trial in April 2004.

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 2002.

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Executive Officers of the Registrant as of March 12, 2003

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 and no arrangements or understandings between any officer and any other person under which the officer was selected.

Name	Age	Position	Served as Officer Since
Arnold M. Nemirow	59	Chairman, President and Chief Executive Officer	1994
E. Patrick Duffy	61	Senior Vice President and President Coated and Specialty Papers Division	1995
Arthur D. Fuller	58	Executive Vice President and President Newsprint Division	1995
Harry F. Geair	57	Vice President General Counsel and Secretary	2002
Jerry R. Gilmore	54	Senior Vice President Operations, Newsprint Division	1999
Richard K. Hamilton	54	Senior Vice President and President Forest Products Division	1997
William G. Harvey	45	Vice President and Treasurer	1998
Steven G. Lanzl	54	Vice President Information Technology	1996
David G. Maffucci	52	Executive Vice President and Chief Financial Officer	1992
Pierre Monahan	56	Senior Vice President and President Canadian Forest Products Division	2001
R. Donald Newman	56	Executive Vice President and Chief Operating Officer	1999
Michael F. Nocito	47	Vice President and Controller	1993
David J. Stuart	56	Senior Vice President and President Pulp Division	1998
James T. Wright	56	Senior Vice President Human Resources	1999

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.

E. Patrick Duffy became Senior Vice President and President Coated and Specialty Papers Division in 1995. He was President of the Telecommunications Business Unit of R.R. Donnelley and Sons, a printing company, from 1993 to 1995, where he was responsible for the sale and manufacture of printed products, and President of its Catalog Group from 1990 to 1992. Previously, he was a Senior Vice President of R.R. Donnelley and Sons.

Arthur D. Fuller became Executive Vice President and President Newsprint Division in 1997. From 1995 to 1997, he was Senior Vice President and President Newsprint Division. He was Vice President Finance, Planning & Administration of MacMillan Bloedel Packaging Inc., the containerboard and packaging business of MacMillan Bloedel Ltd., from 1994 to 1995. From 1991 to 1993, he was a partner of Nukraft, which sought to develop a recycled linerboard mill, and from 1987 to 1990, he was Vice President and General Manager of Great Southern Paper Company, the containerboard division of Great Northern Nekoosa Corporation. Earlier, he held various management positions with Great Southern Paper Company.

Harry F. Geair became Vice President General Counsel and Secretary in January 2003. He was Vice President General Counsel and Assistant Secretary from 2002 to 2003. From 1992 to 2002, he was Associate General Counsel and Assistant Secretary. From November 1989 to October 1992, he was Vice President General Counsel and Secretary of Sweetheart Cup Company Inc. Earlier, he held legal and management positions with a forest products company, Continental Forest Industries.

Jerry R. Gilmore became Senior Vice President Operations, Newsprint Division in June 2002. From 1998 to 2002, he was Vice President of United States and Korean Newsprint Operations. Previously, he was Vice President Administration and Planning of the Newsprint Division from 1995 to April 1998 and was Vice President of the Newsprint Division with responsibility for the integration of recent acquisitions from April to October 1998. 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.

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Richard K. Hamilton became Senior Vice President and President Forest Products Division in June 2002. From 1997 to 2002, he was Vice President and President Forest Products Division. From 1995 to 1997, he was Vice President Wood Products-Newsprint Division. From 1993 to 1995, he was Group Manager Forest Resources Division of Georgia-Pacific Corporation, a forest products company, where he was responsible for the woodlands management of about 340,000 acres of timberland and the procurement, production and sale of pulpwood, logs and wood chips. Previously, he held various woodlands positions with Great Southern Paper Company and Scott Paper Company.

William G. Harvey became Vice President and Treasurer in 1998. Previously, he was employed by Avenor Inc., a pulp and paper company, as Vice President and Treasurer from 1995 to 1998, Director of Finance from 1994 to 1995 and Manager of Finance during 1994. These were positions of increasing responsibility performing cash management, corporate finance, investor relations and various other treasury functions.

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.

David G. Maffucci became Executive Vice President and Chief Financial Officer in June 2002. From 1995 to 2002, he was Senior Vice President and Chief Financial Officer. He served as Vice President and Treasurer since 1993 and Treasurer from 1992 to 1993, relinquishing the title of Treasurer in 1996. From 1977 to 1992, he held various positions of increasing responsibility in Bowater's Finance Department.

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. He is a director of AXA Insurance Inc. and Groupe Laperriere et Verreault.

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. From 1990 to 2002, he was Vice President of Bowater and from 1998 to 2002, he was Vice President Canadian Newsprint Operations of the Newsprint Division. Previously, he was Vice President Operations and Resident Manager of the Calhoun Operations from 1995 to 1998 and Vice President and Operations Manager of the Calhoun Operations from 1994 to 1995.

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

David J. Stuart 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. He was President, Pulp Group of Avenor Inc., a pulp and paper company, from 1994 until its acquisition by Bowater in July 1998. In this position, he had profit/loss responsibility for the Pulp Group and performed related manufacturing and marketing functions.

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.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholders Matters

(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 2002 and 2001 as reported on the New York Stock Exchange were:

	2002		2001	
	High	Low	High	Low
First quarter	\$53.90	\$44.46	\$58.75	\$45.81
Second quarter	\$55.80	\$45.75	\$52.50	\$42.65
Third quarter	\$54.50	\$34.94	\$48.20	\$40.30
Fourth quarter	\$43.38	\$31.00	\$49.94	\$42.34

(b) As of March 3, 2003, there were 5,105 holders of record of Bowater's Common Stock and 381 holders of record of Exchangeable Shares.

(c) Bowater has paid consecutive quarterly dividends of \$0.20 per share of Common Stock during 2002 and 2001. 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. In addition, our ability to pay dividends on our Common Stock depends on our maintaining adequate net worth and compliance with the required ratio of total debt to total capital as defined in and required by our current credit facilities. These credit facilities require us to maintain a minimum consolidated net worth (generally defined in the credit facilities as common shareholders' equity plus any outstanding preferred stock) of \$1.625 billion as of December 31, 2002. In addition, the agreement imposes a maximum 60% ratio of total debt (defined as total debt less revaluation of debt assumed through acquisitions) to total capital (defined in the agreement as total debt less revaluation of debt assumed through acquisitions plus net worth including minority interest). At December 31, 2002, our consolidated net worth was \$1.756 billion, and our ratio of total debt to total capital was 55.5% calculated according to our credit facilities' guidelines.

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 caption "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.

<i>(In millions, except per-share amounts)</i>	<u>2002</u>	<u>2001⁽¹⁾</u>	<u>2000⁽¹⁾</u>	<u>1999⁽¹⁾</u>	<u>1998⁽¹⁾</u>
Income Statement Data					
Sales	\$2,581.1	\$2,454.3	\$2,500.3	\$2,311.7	\$2,142.7
Operating income (loss) ⁽²⁾	(95.7)	313.4	363.3	244.0	162.1
Net income (loss)	(142.4)	70.5	159.4	78.7	(18.5)
Diluted earnings (loss) per common share	(2.50)	1.32	3.02	1.41	(0.44)
Dividends declared per common share ⁽³⁾	0.80	0.80	0.80	0.80	0.80
Product Sales Information					
Newsprint ⁽⁴⁾	\$1,199.2	\$1,438.7	\$1,421.5	\$1,282.2	\$1,108.8
Coated and specialty papers	613.1	479.6	428.4	363.9	440.3
Directory paper				89.4	173.5
Market pulp	498.7	403.9	546.3	434.2	272.1
Lumber and other wood products	270.1	132.1	104.1	142.0	148.0
	\$2,581.1	\$2,454.3	\$2,500.3	\$2,311.7	\$2,142.7
Financial Position					
Timber and timberlands	\$ 212.0	\$ 243.3	\$ 265.2	\$ 283.2	\$ 472.8
Fixed assets, net	3,645.6	3,802.8	2,981.1	2,581.3	2,885.2
Total assets	5,590.3	5,761.0	5,004.1	4,552.2	5,092.0
Total debt	2,370.7	2,242.7	1,931.1	1,505.1	1,830.8
Total capitalization ⁽⁵⁾	4,198.3	4,349.9	3,851.8	3,397.4	3,736.6