November 19, 2007

Paper & Forest Products

AbitibiBowater Inc.

The Merger Between Abitibi & Bowater: Necessary, But Not Sufficient

Stock Rating:

Sector Underperformer

Sector Weighting:

Underweight

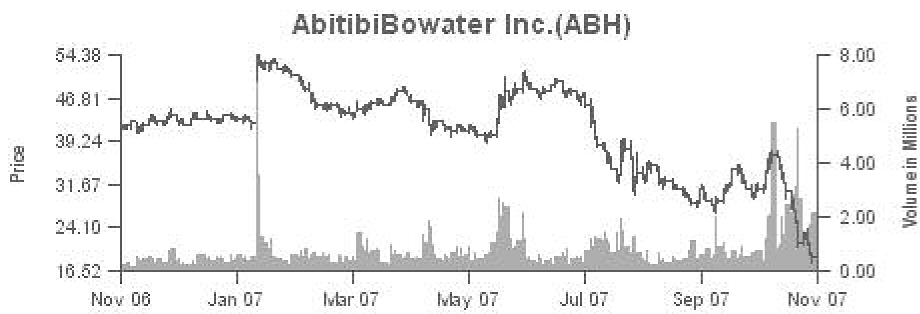
12-18 mo. Price Target	$10.00
ABH-NYSE (11/16/07)	$18.89
Key Indices: S&P 500	
3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	$17.95-$37.45
Shares Outstanding	57.5M
Float	57.5M Shrs
Avg. Daily Trading Vol.	577,681
Market Capitalization	$1,086.2M
Dividend/Div Yield	Nil / Nil
Fiscal Year Ends	December
Book Value	$51.57 per Shr
2007 ROE (E)	NM
LT Debt	$5,880.6M
Preferred	Nil
Common Equity	$2,965.2M
Convertible Available	No

Earnings Per Share	Prev	Current
2006	($1.09E)	($1.12A)
2007	($0.12E)	($4.68E)
2008	($0.26E)	($4.90E)
P/E		
2006	NM	NM
2007	NM	NM
2008	NM	NM

EBITDA ($ mlns.)	
2005A	$458.3
2006A	$373.6
2007E	$226.4
2008E	$632.8

- As of November 19, we are reinstating coverage of the merged company with a Sector Underperformer rating. We believe it is too early to build a position in the stock due to the company's high debt level, absence of free cash flow and limited number of non-core assets.
- The combination of the historically strong Canadian dollar and contracting North American newsprint market creates a formidable challenge to the company. While we think there are opportunities in the export market, we also expect intense competition and ongoing structural challenges.
- We are quite confident in management's ability to deliver the estimated $250 million per year in synergies. If it so chooses, we also think the new executive team will be able to sell non-core assets worth an estimated $400 million over the next 12 months.
- Our 12- to 18-month price target on the merged company is $10 (previous pro forma price target of $31) - roughly 50% below its current level. Given the high financial leverage (80% of the EV is debt), the target is extremely sensitive to changes in assumptions.

Stock Price Performance



Source: Reuters

All figures in US dollars, unless otherwise stated.

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Company Description

AbitibiBowater Inc. is involved in the production of newsprint, coated and uncoated groundwood papers, bleached kraft pulp and lumber products.

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Introduction

On October 29, 2007, Bowater Inc. and Abitibi-Consolidated Inc. merged their operations to create AbitibiBowater Inc. (ABH-SU), the largest newsprint producer in North America and one of the largest paper producers in the world.

The objective of this report is sixfold:

1. To provide a snapshot of the new company.
2. To look at the benefits of the merger.
3. To summarize the company's strategy.
4. To list the challenges faced by the new leader.
5. To present our financial forecasts.
6. To conclude with our recommendation on AbitibiBowater.

Although we acknowledge that the merger is a positive move for both companies, in our view there is still too much headwind at this time due to its high debt level, absence of free cash flow, and limited number of non-core assets that can be liquidated at a reasonable price.

Although we acknowledge that the merger is a positive move for both companies, in our view there is still too much headwind at this time due to its high debt level, absence of free cash flow, and limited number of non-core assets that can be liquidated at a reasonable price. We estimate that the latter will generate only about $400 million of the $1 billion debt reduction target that management wants to achieve over the next three years. The combination of the historically strong Canadian dollar and contracting North American market for newsprint creates a formidable challenge to the company.

Prior to being restricted on Abitibi-Consolidated and Bowater when the merger was announced, we rated both stocks Sector Underperformer. With the reinstatement of coverage on the combined entity, we reiterate our Sector Underperformer rating.

We think newsprint will remain the most challenged segment of the paper & forest products industry. In our view, the only likely relief at this time would have to come from a decline in the Canadian dollar. We currently assume an exchange rate of $1.00, and as long as the Canadian dollar remains at or above parity, we think the stock's value is significantly below its current level.

The New Company – Larger And Stronger

AbitibiBowater becomes the third largest paper producer on the globe in terms of capacity and the eighth largest in terms of sales.

Before the merger, Abitibi-Consolidated was already the largest newsprint producer in North America and second largest in the world. The merger has consolidated that position, but Norske Skog (NSG-OL) remains the newsprint company with the broader global footprint. AbitibiBowater becomes the third largest paper producer in the world in terms of capacity and the eighth largest in terms of sales (see Exhibit 1).

The shareholder base is represented by former Bowater shareholders at 52% and former Abitibi-Consolidated shareholders at 48%. The 14 board members are equally represented by each company. Mr. John Weaver, previously CEO of Abitibi-Consolidated, is the Executive Chairman of AbitibiBowater, while Mr. David Paterson, formerly CEO of Bowater, is President and CEO of the new entity. The other 12 board members, who are independent, are listed in Appendix 2. The executive team was announced and its members are also shown in Appendix 2.

The head office is in Montreal, Quebec, while Bowater's former head office in Greenville, South Carolina became a U.S. regional manufacturing/sales office. The company is incorporated in Delaware.

The larger size will help to face a difficult environment characterized by a strong Canadian dollar and a rapid decline in North American newsprint consumption.

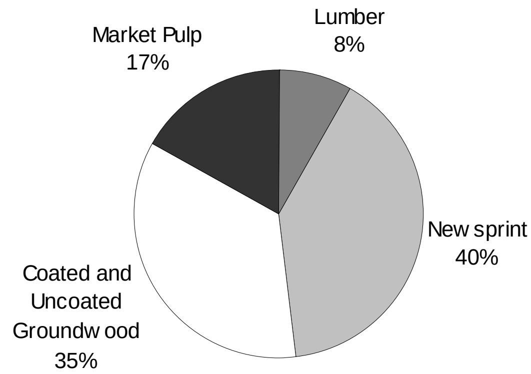
Exhibit 1. Global Ranking Of Pulp & Paper Companies

Pulp & Paper Production (million tonnes)		2006 Sales ($ blns.)	
International Paper	17.2	International Paper	$22.0
Stora Enso	15.1	Weyerhaeuser	21.9
AbitibiBowater	11.3	Stora Enso	18.4
UPM-Kymmene	10.2	SCA	13.8
Georgia-Pacific	9.8	UPM-Kymmene	12.6
Oji Paper	8.2	Oji Paper	10.8
Nippon Paper	8.0	Nippon Paper	10.1
Smurfit-Stone	7.9	AbitibiBowater	7.8
SCA	7.5	Smurfit-Stone	7.2
Weyerhaeuser	7.4	Domtar	6.8

Source: Company reports and CIBC World Markets Inc.

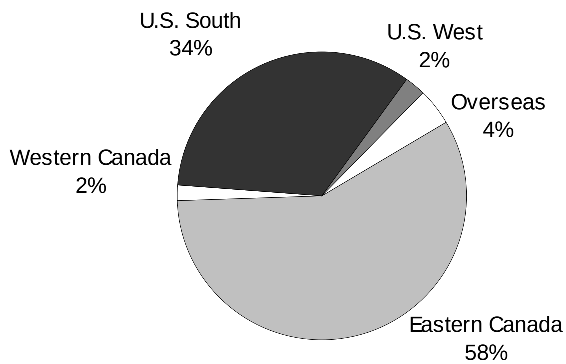
Exhibit 2 summarizes the pro forma product mix, while Exhibit 3 provides a picture of the geographical mix of the company's pulp & paper assets. More than one-third of the company's paper capacity is now located in the U.S. South, which, due to the weak U.S. dollar, is a low-cost region for the manufacturing of newsprint (see Exhibits 3 and 4).

Exhibit 2. Revenue Mix By Product (Pro Forma 2006)



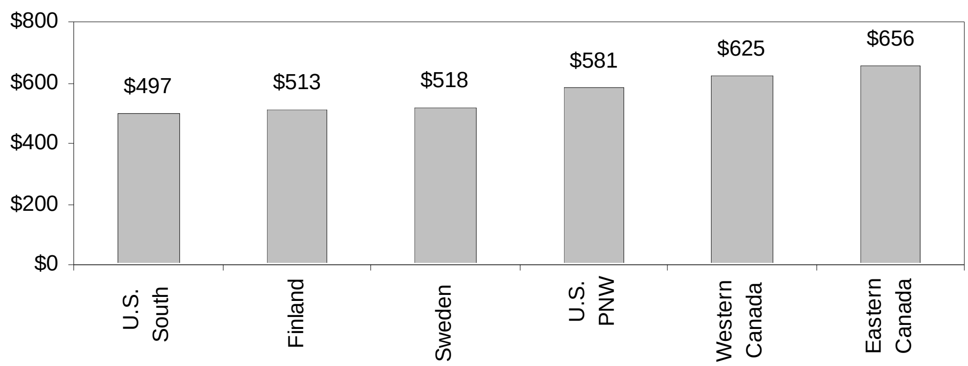
Source: Company reports and CIBC World Markets Inc.

Exhibit 3. Location Of The Capacity (Pro Forma 2006)



Source: Company reports and CIBC World Markets Inc.

Exhibit 4. Estimated Average Variable Costs Of Regional Newsprint Producers (Delivered To Major Market), October 2007 ($/tonne)



Source: RISI and CIBC World Markets Inc.

Exhibit 5 lists the company's mills as well as their estimated position on the North American cost curve.

Exhibit 5. Company's Pulp & Paper Operations (tonnes)

	Newsprint	Uncoated Groundwood	Coated Groundwood	Market Pulp	Number Of Paper Machines	Average Size Of Paper Machines	Estimated Position On North American Cost Curves
Abitibi-Consolidated							
Alabama River, Alabama	264,000				1	264,000	1st Quartile
Alma, Quebec		350,000			3	116,667	NA
Amos, Quebec	207,000				1	207,000	3rd Quartile
Augusta, Georgia [1]	426,000				2	213,000	1st Quartile
Baie-Comeau, Quebec	577,000				4	144,250	4th Quartile
Beapre, Quebec		223,000			2	111,500	NA
Belgo, Quebec	116,000	260,000			4	94,000	4th Quartile
Bridgewater, U.K.	209,000				2	104,500	NA
Clermont, Quebec [2]	354,000				2	177,000	3rd Quartile
Fort Francis, Ontario		288,000		93,000	3	96,000	NA
Fort William, Ontario [3]		141,000			1	141,000	NA
Grand Falls, Newfoundland	191,000	10,000			2	100,500	3rd Quartile
Iroquois Falls, Ontario	240,000	38,000			2	139,000	2nd Quartile
Kenogami, Quebec		207,000			2	103,500	NA
Laurentide, Quebec		360,000			2	180,000	NA
Lufkin, Texas [3]	150,000	234,000			2	192,000	4th Quartile
Mackenzie, B.C.	186,000				1	186,000	2nd Quartile
Snowflake, Arizona	375,000				2	187,500	1st Quartile
Thorold, Ontario	414,000				2	207,000	3rd Quartile
Subtotal	**3,709,000**	**2,111,000**		**93,000**	**40**	**145,500**	
Bowater							
Calhoun, Tennessee	382,000	381,000		171,000	5	152,600	1st Quartile
Catawba, South Carolina			667,000	225,000	3	222,333	1st Quartile
Coosa Pines, Alabama	328,000			262,000	2	164,000	1st Quartile
Covington, Tennessee			76,000		NA	N/a	NA
Dalhousie, New Brunswick	213,000	26,000			2	119,500	4th Quartile
Dolbeau, Quebec		232,000			2	116,000	NA
Donnaconna, Quebec		160,000			1	160,000	NA
Gatineau, Quebec	432,000	44,000			3	158,667	3rd Quartile
Grenada, Mississippi	249,000				1	249,000	1st Quartile
Mokpo, South Korea	254,000				1	254,000	NA
Liverpool, Nova Scotia [4]	253,000				2	126,500	4th Quartile
Thunder Bay, Ontario	234,000	85,000		330,000	2	159,500	4th Quartile
Usk, Washington [5]	249,000				1	249,000	1st Quartile
Subtotal	**2,594,000**	**928,000**	**743,000**	**988,000**	**25**	**170,600**	
Total	**6,303,000**	**3,039,000**	**743,000**	**1,081,000**	**65**	**155,154**	

[1] 51% owned, capacity shows 100%.

[2] 52.5% owned, capacity shows 100%.

[3] Indefinitely Idled.

[4] 51% owned, capacity shows 100%.

[5] 40% owned, capacity shows 100%.

Source: Company reports and CIBC World Markets Inc.

The Merger Benefits

Synergies

The most important benefit of the merger is the $250 million of annualized synergies that is expected to be realized.

The most important benefit of the merger, in our view, is the $250 million of annualized synergies that is expected to be realized. These synergies will result from economies of scales and the implementation of best practices on a larger asset base. The main sources are as follows:

- Improvement of asset performance and fixed costs.
- Enhancement of production network and capital spending.
- Reduction of changeovers and waste.
- Lower fixed overhead costs.
- Consolidation of functions.
- Regionalization of mill-level SG&A.
- Enhancement of distribution facilities and timberland-mill and mill-customer pairings.
- Improvement of distribution performance.
- Optimization of freight rates.
- Consolidation of raw materials collection.
- Negotiation of volume discounts.
- Improvement of inventory management.

In terms of timing, half of the synergies are expected to be achieved by the end of year 1 and the $250 million run rate would be reached by the end Q1/2009. The net present value of these synergies is estimated at $1.5 billion, which represents 20% of the current total enterprise value.

At between 6% and 7% of sales, depending on which one of the original companies is used in the calculation, we believe the synergy estimate appears reasonable compared to other M&A transactions in the sector.

Increased Consolidation

With the combination, the market share of the top five North American newsprint producers has increased from 71% to 77%. Abitibi-Consolidated was the largest player with a 29% market share and AbitibiBowater now controls 49% of the North American capacity. However, as stated by AbitibiBowater, if other newsprint suppliers pull out of export markets, they have a capacity equal to roughly 70% of the North American demand.

In the uncoated groundwood (UGW) segment, the market share of the top five producers has increased from 72% to 76%. AbitibiBowater is the leading producer with a 41% market share. Abitibi-Consolidated was the former leader with 30% of the capacity.

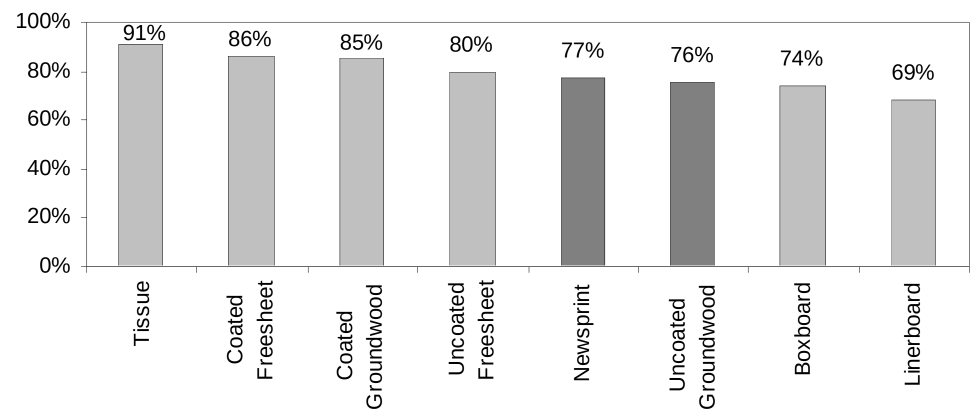
Despite the merger, the newsprint and UGW segments remain among the less concentrated of the industry.

Exhibit 6 shows that despite the merger, the newsprint and UGW segments remain among the less concentrated of the industry.

The consolidation of the newsprint segment has failed to bring back profitability in the past and the bargaining power has remained in the hands of publishers.

The increased concentration could lead to more leadership in terms of supply management and pricing. However, the consolidation of the newsprint segment has failed to bring back profitability in the past and the bargaining power has remained in the hands of publishers. Ten years ago, the top five producers had a 62% market share.

Exhibit 6. Market Share Of Top Five North American Producers (2006)



Source: RISI and CIBC World Markets Inc.

At the same time, we are experiencing consolidation at the dailies level, with the acquisition of Knight Ridder by McClatchy (MNI-NYSE) in 2006 being the latest transaction. The top five dailies now account for 60% of North American newsprint consumption.

The collapse of fixed-price contracts between publishers and producers earlier this year because prices were declining is a demonstration of the dailies' superior bargaining power. These six-month agreements accounted for more than 30% of all newsprint transactions in North America. In contrast, when prices were rising, a smaller amount of fixed-price contracts were holding very well. The dailies' incentives to bargain prices down is stronger in the current environment in which newsprint prices are relatively high in U.S. dollar terms despite falling consumption.

Larger Float

With the merger, the float has increased to roughly $1.1 billion. Although this should facilitate trading, we would not expect that the larger float would lead to a liquidity premium compared to historical multiples as both Abitibi-Consolidated and Bowater had a float of roughly $1.6 million back in early 2006. The merger has only partly offset the fact that the equity of the original companies lost more than half of its value since the beginning of 2006.

With such a float, AbitibiBowater does not qualify for the S&P 500 index.

Larger Platform

The higher number of plants should make it easier to withstand mill closures and assume the risk associated with paper mill conversion projects or acquisitions.

With a portfolio of 31 paper mills, the new company benefits from a very large production platform. The higher number of plants should make it easier to withstand mill closures and assume the risk associated with paper mill conversion projects or acquisitions.

In addition, with 10 million tonnes of paper capacity, tighter market conditions resulting from mill closures would be felt by a large asset base. We believe this should make difficult decisions with respect to mill rationalization a little easier, and lead to better supply management from the industry leader.

Broader Product Offering

AbitibiBowater becomes a large one-stop shop for the full spectrum of publication papers, from newsprint at the bottom of the value chain to coated freesheet (CFS) at the top. In between, basically all grades are offered including directory paper, super-calendered, hi-brite, super hi-brite and coated groundwood (CGW). These papers are used in applications such as newspapers, inserts, direct mail, books, catalogs and magazines.

Stronger Balance Sheet

The transaction has not resulted in a company with a low debt-to-capital ratio as both Abitibi-Consolidated and Bowater were highly leveraged and no capital was injected as part of the merger. The combined entity emerged with a debt-to-capital ratio of 65%, compared to 59% for Abitibi-Consolidated and 78% for Bowater.

The synergies will improve cash flow and strengthen the debt to EBITDA ratio and the interest coverage.

However, the synergies will improve cash flow and strengthen the debt to EBITDA ratio and the interest coverage. On a pro forma basis, the full synergies would have improved the LTM interest coverage ratio from 1.00x to 1.54x and the net debt to EBITDA ratio from 12.5x to 8.1x. However, these ratios remain weak.

The stronger cash flow resulting from the synergies will help the company to face the large long-term debt repayments starting in 2008 (see Exhibit 7).

Exhibit 7. Mandatory Debt Repayments ($ millions)

	Abitibi-Consolidated	Bowater	Combined
2008	$346.0	$20.0	$366.0
2009	$150.0	$261.8	$411.8
2010	$395.0	$257.1	$652.1
2011	$400.0	$672.2	$1,072.2

Source: Company reports and CIBC World Markets Inc.

The company announced a debt-reduction target of $1 billion over the next three years. In order to help meet this target, we estimate the sale of non-core assets would contribute roughly $400 of million to this target.

On November 6, the company announced a debt-reduction target of $1 billion over the next three years. In order to help meet this target, we estimate the sale of non-core assets would contribute roughly $400 million to this target. Specifically:

- Over the next two quarters, we expect the sale of timberland worth roughly $100 million and $35 million from the former assets of Bowater and Abitibi-Consolidated, respectively.

- Over the next 12 months, we expect the sale of the 375,000-tpy newsprint mill in Snowflake, Arizona, which the company is being forced to divest as part of the merger process by the U.S. Department of Justice. This mill is estimated to be the second lowest cost plant in the U.S., and is likely to fetch a ball-park valuation of around $190 million (around $500/tonne). Abitibi-Consolidated purchased the mill in 1998 for $266 million, and has subsequently expanded its capacity.

- The 254,000-tpy newsprint mill in Mokpo, South Korea, will continue to be marketed for sale. Although this mill is relatively small, all of its output is concentrated on a single machine. As a result, the mill has historically been a relatively good generator of cash. However, given that an estimated 2.3 million tonnes of new newsprint capacity is scheduled to start up in China over the 2006-2008 period, we think the pricing environment facing the Mokpo mill will be very competitive over the next several years. As a result, we estimate a market value for the mill of only about $50 million ($200/tonne).

- The 209,000-tpy newsprint mill in Bridgewater, United Kingdom, will continue to be marketed for sale. This is a high-cost mill, which we understand Abitibi-Consolidated has already tried to sell. Given the strong pound and the fact Palm has announced the construction of a new 400,000-tpy newsprint machine in the UK to be completed by mid-2009, the value of this mill is minimal, in our view. We estimate it will fetch roughly $20 million (less than $100/tonne).

Given the low values estimated for the mills in Mokpo and Bridgewater, management may well decide to not sell them at these prices.

The New Strategy

Deliver On The Synergies

Management's immediate priority is to integrate the two companies and deliver at least $250 million in synergies. When the merger was first announced in January, it was announced that management expected to deliver the synergies over the next two years. However, the targeted run rate is now expected to be met by the end of Q1/2009.

Supply Management

With 49% of the North American capacity and newsprint demand declining quickly, we believe AbitibiBowater will likely play a dominant role in the rationalization of the North American newsprint supply. With the Canadian dollar above parity, a number of Canadian mills are at even greater risk of closing.

While many observers are hoping for significant capacity reductions to be announced in December, we are not as optimistic.

The new executive team announced on November 6 that it would complete a strategic review of each business and develop action plans for achieving these priorities over the next 30 days. While many industry players are hoping for significant capacity reductions to be announced, we are not as optimistic.

Abitibi-Consolidated has already been aggressive in closing its higher cost capacity. However, we do expect some capacity reductions, with a focus on the legacy Bowater mills in Canada. For newsprint, our analysis suggests the mills in Liverpool, Nova Scotia and Dalhousie, New Brunswick are particularly vulnerable. They are relatively small facilities (with two machines at each site), and a combined capacity of less than 500,000 tonnes of newsprint. However, both mills have deep-sea docking facilities that provide the company with ready access to offshore markets.

More Exports

In addition to capturing the synergies and managing the supply, we think that the company will focus on developing export markets in order to mitigate the declining demand in North America.

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More that one-third of AbitibiBowater's newsprint is now exported overseas. At the industry level, overseas shipments are up 10% this year and account for 22% of deliveries. Helped by the stronger euro, Western Europe accounted for most of the increase. During the first nine months of 2007, total deliveries of newsprint from North America to Europe rose by 69%.

Newsprint prices overseas tend to follow prices in the U.S., but with a certain lag. Because of the recent depreciation of the U.S. dollar, realized prices after delivery costs in Europe are now higher on average. In contrast, over the past year, prices in Asia have fallen to cyclical lows due to excess capacity in China.

There is some variation in the opportunities offered in the offshore markets, with some of the most salient points as follows:

- All of Europe comprises about a 12.5 million tonnes newsprint market at present, and will likely grow another 0.5 million tonnes over the next three years. However, virtually all of the growth will be in the Eastern Bloc. Note that newsprint consumption per capita is still only about 4kg/year in Eastern Europe versus 26kg/year in Western Europe.

- The demand for newsprint in Europe is not as vulnerable to competition from the Internet as is the case in North America since classified advertising has never been as important a source of newsprint demand in Europe. Although there are signs that its growth has peaked, the European demand for newsprint from free dailies also continues to be stable.

- Given additional tonnage from North America and the positive correlation in regional prices, we expect newsprint prices in Europe to decline following the negotiation of annual contracts in early 2008. In fact, Norske Skog has already felt the increased tonnage from Canada and is cutting newsprint production in Norway in response. Stora Enso (SEO-NYSE) also recently announced the permanent closure of 270,000 tonnes of newsprint capacity in Finland.

- The Asian market is growing between 3% and 6% a year in total, with the bulk of the absolute growth being driven by the Chinese. Over the 2007-2010 period, it is estimated that China's demand for newsprint will grow by about 1.5 million tonnes, followed by India at around 700,000 tonnes.

- Up until 2005, China was a net importer of newsprint, having imported between 200,000 tpy-400,000 tpy. Starting last year, China became a net exporter for the first time. We estimate China is going to be a net exporter of 800,000 tpy in 2006, and that this will grow to about 1.2 million tpy by 2010 as Chinese capacity continues to expand.

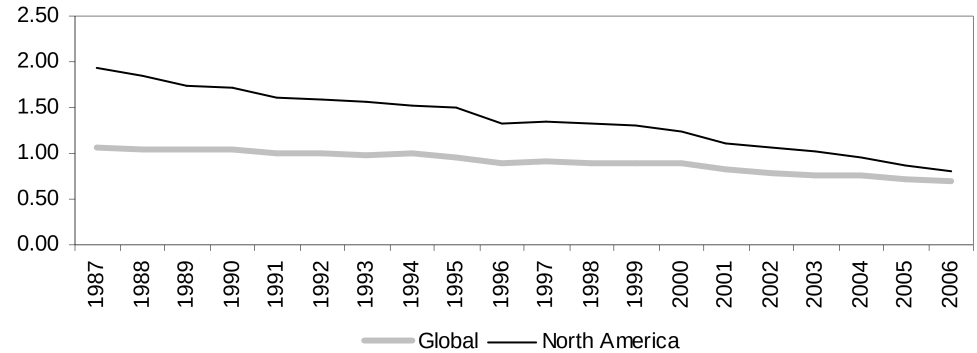
- With respect to the Asian market, this region is quickly declining as a destination for North American newsprint as the local capacity is growing more rapidly than demand. China's share of the market in India (which is the second largest importer of newsprint in the world) has increased from essentially zero in 2004 to roughly 20% in 2006.

- Latin America will remain a logical destination for North American newsprint. The region is experiencing continuing growth in demand, and yet the only significant capacity increase is a 200,000 tpy expansion by Norske Skog Pisa in Brazil scheduled for 2009.

Global newsprint consumption is still rising slowly in the range of 0.5 million tpy to 1.0 million tpy.

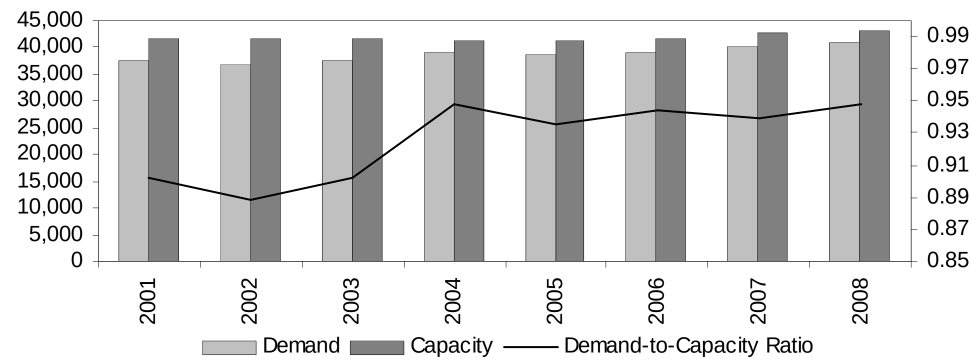
Exhibit 8 shows that the newsprint end-use factor (i.e., the volume of paper used per $ of GDP) has deteriorated much more quickly in the U.S. than in the rest of the world. Although the end-use factor is declining at the global level, the decline is not sufficient to offset the economic growth and global newsprint consumption that is still rising slowly in the range of 0.5 million tpy to 1.0 million tpy. As a result, the global operating rate is expected to remain steady on a global basis (see Exhibit 9). These facts support the company's strategy to grow export sales, in our view.

Exhibit 8. Newsprint End-use Factor (Thousand Tonnes Per Billion Dollars Of Real U.S. GDP)



Source: RISI and CIBC World Markets Inc.

Exhibit 9. Newsprint Global Supply Demand Outlook



Source: NLK and CIBC World Markets Inc.

Change In Product Mix

Further down the road, the larger platform resulting from the merger will enable the new company to make paper machine conversions away from newsprint at an accelerated pace.

Abitibi-Consolidated and Bowater have individually made successful inroads into the uncoated freesheet (UFS) market with the conversion of some newsprint machines to super hi-brite products, which are cheap alternatives to UFS in some applications. Super hi-brite paper now satisfies roughly 6% of the traditional UFS market. With Bowater’s approach, which requires less capital (around $80 million), a conversion can be done within the regular budget of $300 million.

Bowater has also made successful conversions of newsprint machines to the production of CGW paper. The combined company would probably look for opportunities to convert more capacity from newsprint to coated paper, but such conversions would require roughly $200 million in capital, a spending that AbitibiBowater can likely not afford in light of the current weak profitability.

The Same Old Challenges

Disappearing Newsprint Market In North America

The most difficult challenge faced by the company is the rapid and accelerating secular decline in the North American consumption.

The most difficult challenge faced by the company is the rapid and accelerating secular decline in the North American consumption.

Since 2000, U.S. newsprint consumption has declined by 3.1 million tonnes (23%), representing an average annual drop of 5%. In response to falling demand and lower profitability, producers have permanently removed 3.7 million tonnes of newsprint capacity.

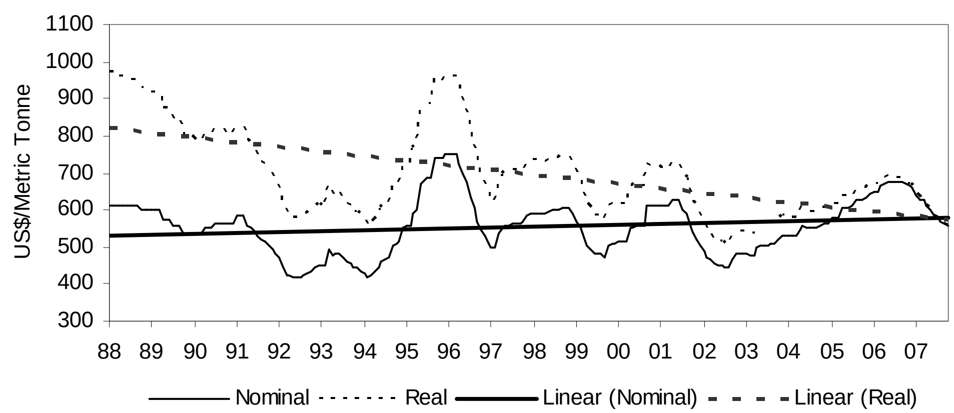
We were expecting the overall rate of decline to slow to between 3% and 4% per year over the next two years since:

- Opportunities by U.S. dailies to reduce newsprint consumption are becoming more limited.
- After a significant loss of help-wanted advertising to the Internet, this important demand driver seems to have stabilized.

However, so far this year, the pace of the decline has accelerated to 10% as a result of the slower U.S. economy, intensifying competition from the Internet, falling newspaper circulation and declining consumption by newspaper publishers in response to high newsprint prices in U.S. dollar terms.

With regard to the last point, Exhibit 10 illustrates that until the last few months, newsprint U.S. dollar prices were above trend. In fact, before they started correcting a year ago, they were at a 10-year high in U.S. dollar terms.

Exhibit 10. Real And Nominal Newsprint Prices In The U.S.



Source: Pulp & Paper Week and CIBC World Markets Inc.

Assuming that the consumption drop stabilizes at 5%, we think that roughly 800,000 tonnes of permanent capacity closure are required to maintain the operating rate at a healthy mid-90% level.

Despite weaker domestic demand, producers have been able to run at relatively high operating rates over the past two years because of increased overseas exports and mill closures. Given the recent lack of capacity reductions, the operating rate will deteriorate quickly. Assuming that the consumption drop stabilizes at 5%, we estimate that the industry operating rate will drop to 88% in 2008 without closures - a level that would likely prevent any meaningful price recovery. With demand dropping at a 5% pace, we estimate that roughly 800,000 tonnes of permanent capacity closure are required to maintain the operating rate at a healthy mid-90% level. This capacity represents 7% of the North American capacity.

Several factors support the argument that the decline in U.S. newsprint consumption should moderate:

- 75% of the help-wanted advertising has already been lost.
- Newsprint conservation measures are now largely implemented.
- Newsprint prices are back to their trend level, thus reducing incentives to decrease the usage of paper.

So far this year, 459,000 tonnes of newsprint capacity has been indefinitely closed.

Weak Uncoated Groundwood (UGW) Paper Prices

Globally the demand for UGW grew by 2% in 2006, with a further 1% increase expected in 2007. In North America, demand fell by roughly 1% in 2006, and is expected to fall another 2% this year.

In response to weak newsprint demand, several newsprint machines have been converted to the production of UGW specialties. As a result of the increased supply, prices for most of these valued-added grades have also declined in concert with newsprint prices.

Even if some pundits are correct in their estimates that global UGW paper demand will grow by roughly 4% in 2008/9, we think any upward price pressure will be short-lived because it will trigger more conversions.

In our view, one of the least appreciated structural changes in the global paper market over the past decade has been the fragmentation of paper grades. Due to this change, whenever there is a meaningful movement in the relative price of a particular grade of paper, it triggers a substitution on both the supply and demand sides of the market. One of the implications of this is that over time, we expect an increase in the price correlation between paper grades. We also expect absolute real prices will tend to be on a downward trend. The only scenario in which we envision sustained upward movement in prices is if there is meaningful cost-push pressure that is experienced across all of the grades of paper.

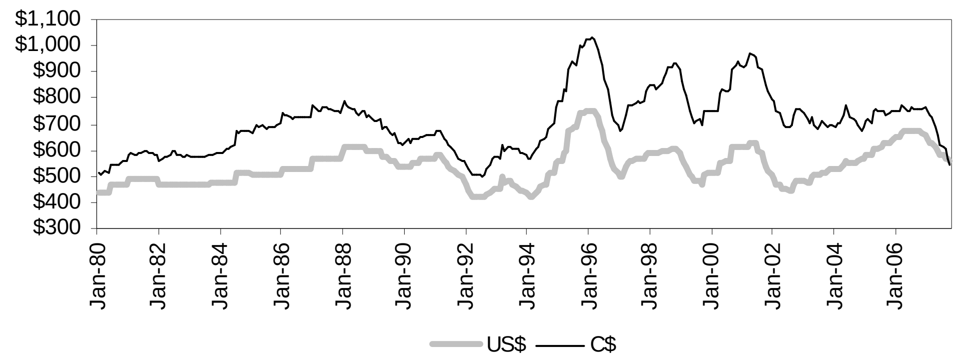
Strong Canadian Dollar

Mill closures have been instrumental in maintaining a relatively healthy operating rate at the industry level and, until October 2006, to increase newsprint prices (when denominated in U.S. dollars). However, this upward pressure has not been sufficient to offset the negative effect of the rising Canadian dollar.

Newsprint prices dropped to a 15-year low in Canadian dollars in October at C$545/tonne.

Exhibit 11 shows that between 2002 and 2006, newsprint prices in Canadian dollar terms have been flat despite a $230/tonne increase in newsprint prices because of a 60% appreciation of the Canadian currency. When the declining demand finally took a toll on U.S. dollar prices and the Canadian dollar surpassed parity, newsprint prices dropped to a 15-year low in Canadian dollars in October at C$545/tonne. The lowest price we have in our database, which starts in 1980, is C$500/tonne. Given that costs are C$130/tonne higher than they were 13 years ago, newsprint mills in Canada are likely facing their lowest margins on record. As a result, we think essentially every newsprint mill in Canada is currently unprofitable, and that at least 50% are cash negative.

Exhibit 11. Newsprint In U.S. Dollars And Canadian Dollars



Source: RISI and CIBC World Markets Inc.

Assuming no offsetting impact on commodity prices, AbitibiBowater's earnings sensitivity to a $0.01 change in the Canadian dollar is roughly $33 million, or $0.37/share. The company is highly sensitive to exchange rate fluctuations as 58% of its pulp and paper capacity and most of its lumber capacity is located in Canada.

Barriers To Exit

Arguably one of the unique features of the global paper industry is that it has consistently failed to earn its cost of capital over time. In our view, a key reason for this is that there are significant barriers to exit, which result in chronic over capacity. This problem has become particularly glaring in recent years with the structural declines in the demand for paper in North America.

There appear to be two key reasons for the barriers to exit.

1. The vast majority of the mills are located close to the supply of fiber, and this is primarily in rural areas that are in need of economic development. Historically, the mills have been able to pay wages, which are higher than the local average, and have also contributed significantly to the local tax base. As a result, financial assistance is often provided from the local communities and public sector in order to keep these mills operating. One of the best examples of this at present is St. Mary's Paper, which produces UGW paper in Sault St. Marie, Ontario – it is like the proverbial cat with nine lives.

2. Although the industry has been consolidating, roughly one-quarter of the overall capacity of the North American newsprint/groundwood paper industry remains under the control of smaller companies. This is especially true of the remaining plants that tend to be at the higher end of the cost curve, and thus are some of the most logical candidates for closure. Given the relative importance of a single mill to these companies, they are often very reluctant to shut it down.

Given the barriers to exit, we have come to the conclusion that the industry will consistently be reactive as opposed to proactive in closing capacity.

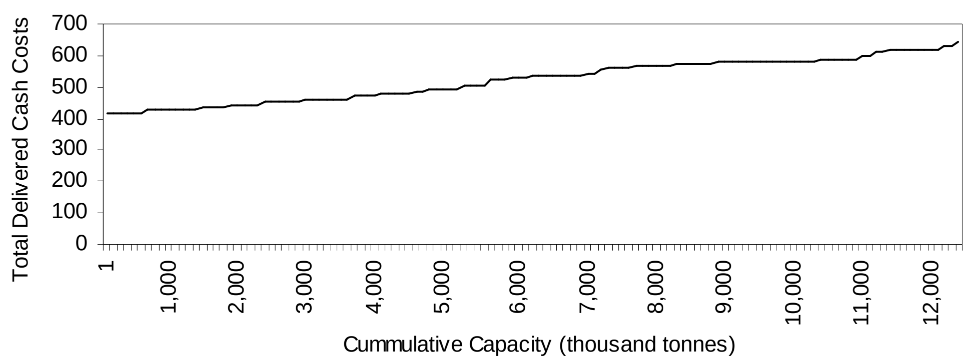
Given the barriers to exit, we have come to the conclusion that the industry will consistently be reactive as opposed to proactive in closing capacity.

Flat Cost Curve

As commodity analysts, we prefer cost curves to be steep rather than flat. When demand is strong at the peak of the cycle, prices are higher with a steep cost curve since the cost of the marginal supplier is generally higher.

While a flatter cost curve generally leads to greater price stability, it also often results in "lower-lows" since it is not obvious which mills should take the downtime when demand is weak. As a result, most producers tend to wait too long before taking action, thus driving the commodity price even lower. As illustrated in Exhibit 12, the North American cost curve for newsprint is quite flat, although the recent appreciation of the Canadian dollar has made it steeper.

Exhibit 12. North American Newsprint Cost Curve ($/tonne), Q2/2006 Adjusted For A C$ At US$0.95



Source: RISI and CIBC World Markets Inc.

The cost curve ranges between $400/tonne and $600/tonne. In comparison, the North American linerboard cost curve goes from $250/ton to $500/ton and the global NBSK pulp cost curve goes from $300/tonne to $650/tonne. The North American commodity UFS cost curve is also relatively flat with a range between $400/tonne and $550/tonne.

Because of the flat cost curve, no newsprint producers really emerge as a low-cost producer.

In this difficult industry, the only companies that have created value over the long term, without selling assets with hidden value, are those with unit costs significantly below the industry average. Because of the flat cost curve, no newsprint producers really emerge as a low-cost producer. The EBITDA per tonne of the three public newsprint companies in North America have converged over the past few years and are now within a very narrow range (see Exhibit 13).

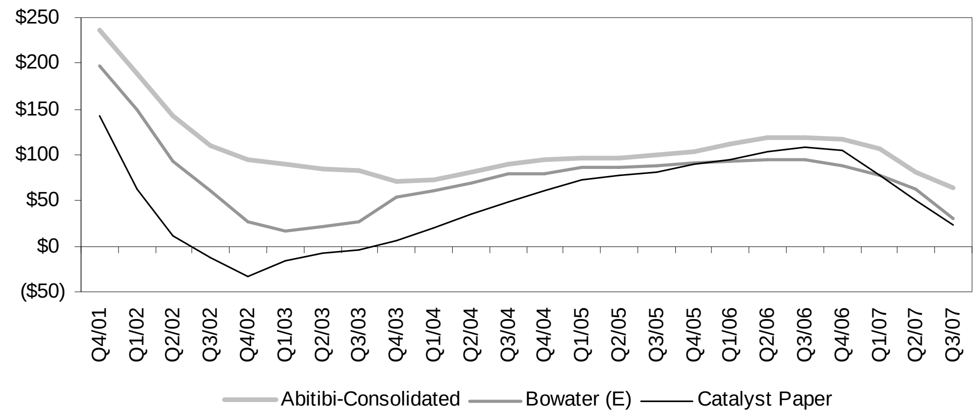
CIBC World Markets

However, on a global basis, there is more variation among the major players. For example, if we focus on the most recent newsprint EBITDA margins in Q3/2007, the results in increasing order are:

- Catalyst Paper (CTL-SU) -0.8%.
- Bowater -0.7%.
- Abitibi-Consolidated 7.5%.
- Norske Skog: 16.9% in Europe, 14.9% in South America, 10.8% in Asia, 22.4% in Australasia.
- UPM-Kymmene (UPM-NYSE) 24.9% in Europe.

It should be noted that differences in global margins are not only due to cost structures, but also to variations in regional newsprint prices.

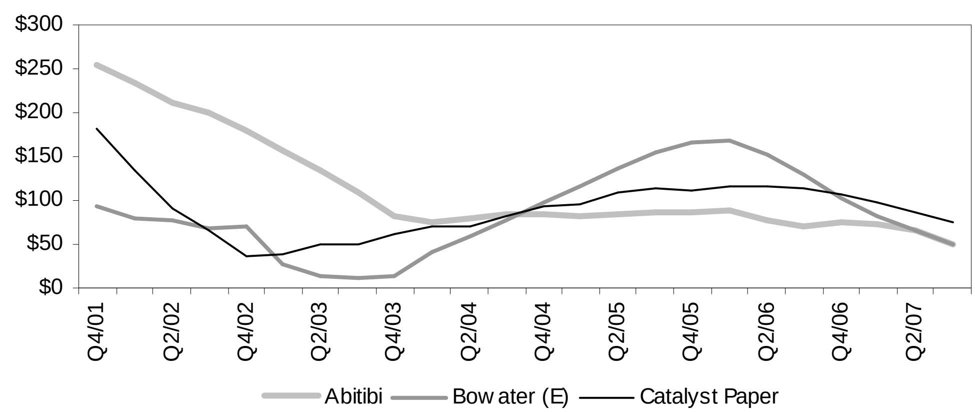
Exhibit 13. Trailing Newsprint EBITDA Per Tonne



Source: Company reports and CIBC World Markets Inc.

The convergence of EBITDA/margins that has taken place in the North American newsprint industry has also occurred in the groundwood paper segment (see Exhibit 14).

Exhibit 14. Trailing Groundwood Specialties EBITDA Per Tonne



Source: Company reports and CIBC World Markets Inc.

If AbitibiBowater is successful in attaining its synergy target, there is a potential to improve EBITDA per tonne by roughly $25/tonne. With such an improvement, AbitibiBowater would look more like a low-cost producer. However, Catalyst Paper is also reducing costs on its side, and if the whole curve shifts down, we would expect publishers to capture part of these savings.

Weak Cash Flow Generation

Even including the full synergies, the trailing EBITDA of $710 million looks slim relative to the annual interest expense of $460 million and the projected capital expenditures of $300 million.

Even including the full synergies, the trailing EBITDA of $710 million looks slim relative to the annual interest expense of $460 million and the projected capital expenditures of $300 million. These numbers result in a LTM pro forma free cash flow of -$50 million, which is weak in light of the long-term debt coming due in the next few years (see Exhibit 7).

Roughly $760 million of EBITDA is needed for the company to generate positive free cash flow. We think that the company needs to demonstrate an ability to generate free cash flow before the next public debt matures. In our view, if this is not accomplished, then AbitibiBowater is likely to face refinancing risks.

Financial Forecasts

The most relevant drivers for AbitibiBowater's financial performance are the price of newsprint and the C$/US$ exchange rate.

Our financial forecasts reflect the commodity price assumptions outlined in Exhibit 15. The most relevant drivers for AbitibiBowater's financial performance are the price of newsprint and the C$/US$ exchange rate.

Exhibit 15. Commodity Price Forecasts ($/unit)

	Units	1995	2000	2003	2004	2005	2006	2007E	2008E	Normalized	Current Price
NBSK Pulp (N.E.)	m. ton	$880	$680	$525	$617	$611	$681	$795	$785	$735	$845
Newsprint	m. ton	670	565	503	547	610	668	600	615	615	560
Uncoated Freesheet	sh. ton	990	755	628	676	727	823	815	790	730	850
Light Weight Coated	sh. ton	1,226	1,065	829	859	997	978	915	925	1,015	975
Lumber #2&Btr.	Mbf	250	295	278	394	353	296	255	290	335	245
Natural Gas	Mcf	1.69	4.32	5.49	5.90	8.89	9.75	7.40	8.25	8.25	8.03
Canadian Dollar	C$	0.73	0.67	0.72	0.77	0.83	0.88	0.93	1.00	1.00	1.02

Source: Pulp & Paper Week, Random Lengths, and CIBC World Markets Inc.

To the extent that it is reasonably practical, we attempt to mark-to-market our Canadian dollar forecast. As a result, our US$/C$ exchange rate assumption going forward is $1.00.

With respect to our newsprint forecast, we assume that newsprint prices will rebound to $615/tonne in the medium term. This level corresponds to the cash costs of the marginal producers once 800,000 tonnes of overcapacity is removed from the North American system. We do not think that the current price of $560/tonne is sustainable as, at this level, more than half of the Canadian capacity is losing money and a significant portion of that capacity is still needed to satisfy demand. Canadian mills represent roughly 60% of the North American capacity and we think that as a result the stronger Canadian dollar is placing some upward pressure on newsprint prices. However, there is a limit to that relationship because when the U.S. dollar newsprint price becomes too high, the incentive for publishers to reduce consumption increases and their ability to absorb price increases diminish.

Major suppliers recently failed to implement a $25/tonne price set to take effect on September 1. Despite that effort, prices have slipped by $10/tonne to $560/tonne since the announcement. Most producers are now trying for another $25/tonne increase in November.

Based on our forecasts, we estimate that the company will lose $4.90/share in 2008. The EBITDA associated with this loss is only $633 million (including $62.5 million of synergies). This implies that free cash flow would be negative $135 million.

With the Canadian dollar at or above parity, the environment for AbitibiBowater is very difficult. Based on our forecasts, we estimate that the company will lose $4.90/share in 2008. The EBITDA associated with this loss is only $633 million (including $62.5 million of synergies). This implies that free cash flow would be negative $135 million.

While this scenario paints a gloomy picture, it still reflects a strong improvement from last quarter's pro forma annualized EBITDA of $270 million. In Q3/2007, newsprint prices and the Canadian dollar averaged $572/tonne and $0.95, respectively. Current conditions are much more challenging for newsprint, but the company expects flat to modest improvement in its EBITDA in Q4 as a result of price increases implemented in other grades.

Given the company's large asset base, the EBITDA is extremely sensitive to changes in newsprint prices and the Canadian dollar. Exhibit 16 shows the forecast EBITDA under various newsprint and exchange rate combinations. As stated above, roughly $760 million of EBITDA is needed for the company to generate positive free cash flow.

Exhibit 16. EBITDA Under Various Assumptions ($ millions)

	Newsprint Prices ($/tonne)								
FX Rate	515	540	565	590	615	640	665	690	715
0.80	703	902	1,101	1,300	1,499	1,698	1,897	2,096	2,295
0.82	617	816	1,015	1,214	1,413	1,612	1,810	2,009	2,208
0.84	530	729	928	1,127	1,326	1,525	1,724	1,923	2,122
0.86	443	642	841	1,040	1,239	1,438	1,637	1,836	2,035
0.88	357	556	755	954	1,153	1,352	1,551	1,750	1,948
0.90	270	469	668	867	1,066	1,265	1,464	1,663	1,862
0.92	184	383	581	780	979	1,178	1,377	1,576	1,775
0.94	97	296	495	694	893	1,092	1,291	1,490	1,689
0.96	10	209	408	607	806	1,005	1,204	1,403	1,602
0.98	-76	123	322	521	719	918	1,117	1,316	1,515
1.00	-163	36	235	434	**633**	832	1,031	1,230	1,429
1.02	-250	-51	148	347	546	745	944	1,143	1,342
1.04	-336	-137	62	261	460	659	857	1,056	1,255
1.06	-423	-224	-25	174	373	572	771	970	1,169
1.08	-510	-311	-112	87	286	485	684	883	1,082
1.10	-596	-397	-198	1	200	399	598	797	996
1.12	-683	-484	-285	-86	113	312	511	710	909

Source: Company reports and CIBC World Markets Inc.

On a more positive note, the company's EBITDA will not be subject to cash taxes for some time in light of net operating loss carryforwards of roughly $1 billion accumulated over the past several years.

The company's dividend policy is being reviewed by the board and a decision is expected before year-end.

The company's dividend policy is being reviewed by the board and a decision is expected to be announced before the end of the year. Management acknowledges that the company's financial situation has to be stabilized, and that it would prefer to have more liquidity. In our view, it is not prudent to pay a dividend under the current conditions.

Liquidity Analysis

As shown in Exhibit 7, AbitibiBowater is facing significant debt repayment obligations over the next several years. Given the lack of cash flow, this is a source of concern.

If results do not improve from the level in Q3/2007, the company would have exhausted all its $180 million in cash and $748 million in available credit by the end of 2008.

Exhibit 17 illustrates that if results do not improve from the level in Q3/2007, the company would have exhausted all its $180 million in cash and $748 million in available credit by the end of 2008. However, we think that Q3 represents a trough for AbitibiBowater. As stated above, it is estimated that more than 50% of the Canadian newsprint industry is cash negative and this is not a sustainable situation.

Under such a negative scenario, Abitibi would need to rely on asset sales to face long-term debt repayments if the maturing public debt is not refinanced. The non-core assets, with an estimated value of $400 million, would not provide sufficient funds to go through 2009. In this event, some core assets (e.g., hydroelectric dams) may then need to be sold. This is despite the fact that it would result in a loss of EBITDA.

Exhibit 17. Scenario 1: Q3/2007 Conditions Going Forward ($ mlns.)

	Q3/07A	Q4/07E	2008E	2009E	2010E	2011E
Newsprint Prices	$572	$572	$572	$572	$572	$572
Canadian Dollar	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95
EBITDA	68	68	272	272	272	272
Interest Expense	123	123	492	492	492	492
Synergies	0	0	62.5	220	250	250
Cash Flow From Operations (Before Working Capital)	($55)	($55)	($158)	$0	$30	$30
Normal Capex	$75	$75	$300	$300	$300	$300
Free Cash Flow Before Working Capital Change	($130)	($130)	($458)	($300)	($270)	($270)
Mandatory Repayments	NA	$0	$368	$412	$652	$1,072
Availability Under Bank Lines	$748					
Potential Proceeds From Asset Sales	$400					
Cash	$180					
Total Liquidity and Availability At The End Of Period	$1,328	$1,198	$373	($339)	($1,261)	($2,603)

Source: Company reports and CIBC World Markets Inc.

Based on our 2008 forecasts, which are more optimistic, current liquidities and funds from the sale of non-core assets would be exhausted somewhere in 2010.

Under these forecasts, the progress in attaining the synergies allows the company to become free cash flow positive in 2009. This improvement in cash generation should facilitate a refinancing of the debt maturities.

Based on our 2008 forecasts, which are more optimistic, current liquidities and funds from the sale of non-core assets would be exhausted somewhere in 2010 (see Exhibit 18). Under these forecasts, the progress in attaining the synergies allows the company to become free cash flow positive in 2009. This improvement in cash generation should facilitate a refinancing of the debt maturities, but the refinancing risk remains.

Exhibit 18. Scenario 2: CIBC World Markets' Case ($ mlns.)

	Q3/07A	Q4/07E	2008E	2009E	2010E	2011E
Newsprint Prices	$572	$590	$615	$615	$615	$615
Canadian Dollar	$0.95	$1.00	$1.00	$1.00	$1.00	$1.00
EBITDA	68	87	570	570	570	570
Interest Expense	123	120	468	468	468	468
Synergies	0	0	62.5	220	250	250
Cash Flow From Operations (Before Working Capital)	($55)	($33)	$165	$322	$352	$352
Normal Capex	$75	$75	$300	$300	$300	$300
Free Cash Flow Before Working Capital Change	($130)	($108)	($136)	$22	$52	$52
Mandatory Repayments	NA	$0	$368	$412	$652	$1,072
Availability Under Bank Lines	$748					
Potential Proceeds From Asset Sales	$400					
Cash	$180					
Total Liquidity and Availability At The End Of Period	$1,328	$1,220	$717	$327	($273)	($1,293)

Source: Company reports and CIBC World Markets Inc.

These scenarios assume that Abitibi-Consolidated's C$710 million bank facility is extended or replaced. This facility expires in December 2008. Note that with the Q3/07 results, it was announced that Abitibi-Consolidated's facility has just been reduced from C$750 million. However, its interest coverage covenant of 1.5x has been waived until the end of Q2/2008. Based on our calculation, Abitibi-Consolidated's LTM interest coverage ratio was only 0.85x at the end of Q3.

AbitibiBowater is presently negotiating to obtain a combined credit facility with new covenants to replace Abitibi-Consolidated's facility and Bowater's $580 million facility maturing in 2011 and $165 million facility maturing in May 2008. The company expects to conclude a new credit agreement by early January and hopes that the new financing would cover short-term maturities of public debt. Given that these types of credit facilities are generally secured by inventories and receivables, we think they will be replaced, but the limit might be lower.

Valuation & Recommendation

Historically, our price targets for Bowater and Abitibi-Consolidated have reflected a 6x multiple of our EBITDA forecasts. In the case of the merged company, we continue to use the same target multiple for the basic business. However, we also augment our analysis with an assessment of the company's "hidden assets".

Some of the key points to note regarding this analysis are:

- We value the expected synergies separately based on their discounted value of $1.5 billion.
- The "hidden assets" with the greatest absolute value are the hydro dams outside of Ontario. This accounts for roughly $465 million, and reflects the difference between an 11x and 6x multiple on the associated EBITDA.
- We use the book value of the debt in the valuation at this represents AbitibiBowater's real financial obligation. Given that the company's public debt is trading on average at 80% of par, there is a $1 billion difference between the book value and the market value of the debt.
- We recognize that for the other "hidden assets" there has been an element of double counting since in most cases we have not removed the EBITDA contribution of these assets due to lack of reliable data. However, we believe the associated EBITDA is quite small.
- We do not penalize the valuation by the unfunded pension deficit of $1 billion as the difference between cash contributions and pension expenses is difficult to estimate.

Note that the last two points arguably impart an upward bias to our price target.

Exhibit 19. Valuation Details

Hidden Assets		Rational
Abitibi's U.S. South Timberlands	$33,200,000	Company's expected proceeds
Bowater's U.S. South Timberlands	$127,000,000	127,000 acres at $1,000 per acre
Bowater's Atlantic Canada Timberlands	$180,000,000	600,000 acres at $300 per acre
Abitibi's Canadian Timberlands	$110,000,000	1,000,000 acres at $110 per acre
Hydro Assets Outside Ontario	$465,000,000	Difference between a 11 and 6 time multiple on EBITDA
75% Of Hydro Assets In Ontario Not Sold	$142,500,000	Value based on the selling price of a 25% interest
Total Value Of Hidden Assets	$1,057,700,000	
Net Operating Loss Carryforwards	$350,000,000	$1 billion of net operating loss carryforwards at a 35% tax rate
Synergies	$1,500,000,000	DCF of synergies assuming a 35% tax rate
EBITDA	$3,423,000,000	Value of the company at 6 times EBITDA before synergies
Total Enterprise Value	$6,330,700,000	
Less:		
Minority Interest	$140,573,786	
Bowater's Net Debt	$2,253,700,000	
Abitibi-Consolidated's Net Debt	$3,355,000,000	
	$5,749,273,786	
Equity Value	$581,426,214	
Number Of Shares	57,500,000	
Price Target	$10	

Source: Company reports and CIBC World Markets Inc.

The components of our valuation are summarized in Exhibit 19, and lead us to a price target of $10.00 for AbitibiBowater. Our previous price target on Bowater was $18.00 in January 2007, but pro forma to the merger, our previous price target would have been $31.00 at that time.

Note that there are upside and downside risks to this target:

On the upside:

- There is significant value potential if the Canadian dollar drops below parity towards its purchasing power parity level. In our view, this is the main source of upside;
- With the increased consolidation, producers might be more successful than expected in their effort to raise prices.

On the downside:

- If newsprint consumption continues to drop at the current pace of roughly 10% per year because of a U.S. recession or other reasons, the downside pressure on newsprint prices will be more intense and it will be very difficult to maintain a healthy operating rate. In addition, under such a scenario, the company's asset base would have to shrink quickly to meet the declining demand.
- The Canadian dollar might stay above our assumption of $1.00, or worse, continue to increase.

Given the high financial leverage, the company's valuation is extremely sensitive to changes in assumptions. For example, a $0.01 change in the exchange rate assumption would cause our price target to change by $3.50 or 35%. Similarly, a $10/tonne variation in our newsprint price assumption would cause an $8 or 80% change in our price target.

Given the high financial leverage (80% of the enterprise value is debt), the company's valuation is extremely sensitive to changes in assumptions. For example, a $0.01 change in the exchange rate assumption would cause our price target to change by $3.50 or 35%. Similarly, a $10/tonne variation in our newsprint price assumption would cause an $8 or 80% change in our price target.

In light of our new price target of $10.00, we are reinstating coverage of Bowater and Abitibi-Consolidated with a Sector Underperformer rating on AbitibiBowater, as of November 19. Based on our US$/C$ exchange rate assumption of $1.00, we estimate that a newsprint price of roughly $625/tonne is needed to support the current stock price. This price is $65/tonne above the current newsprint price and $43.00 below the 10-year high of $668/tonne recorded during 2006. Inversely, if newsprint prices do not improve, a US$/C$ exchange rate of $0.88 is needed to justify the current stock price.

Price Target Calculation

Our price target of $10.00 on AbitibiBowater is based on a multiple of 6x our 2008 EBITDA estimate plus the value of hidden assets (see Exhibit 19). Our calculation suggests that a 6x multiple would provide investor with a reasonable return over a cycle. Our target multiple reflects historical valuation.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected U.S. economy, which would prevent pulp and paper prices from moving higher, and a continuing increase in the Canadian dollar, which is putting pressure on the company's margins.

Appendix 1. Financial Statements

Exhibit 20. Income Statement ($ mlns., except per share)

	2005	2006	2007E	2008E
Sales	$3,483.7	$3,529.8	$4,283.2	$7,781.4
Cost Of Sales	3,025.4	3,156.2	4,056.9	7,148.5
EBITDA	458.3	373.6	226.4	632.8
Depreciation	396.6	323.2	390.1	597.6
Operating Profit	61.7	50.4	(163.7)	35.3
Other Expenses (Gains)	(42.2)	9.2	(0.0)	0.0
Financial Expenses	194.5	152.5	256.2	467.8
Earnings Before Income Taxes	(90.6)	(111.3)	(419.9)	(432.5)
Income Taxes	39.3	19.3	(47.0)	(151.4)
Minority Interest	9.8	(5.1)	(1.1)	(0.6)
Net Earnings	($120.1)	($135.7)	($374.0)	($281.7)
Net Earnings Per Common Share	($2.09)	($2.36)	($6.51)	($4.90)
Net Earnings Per Common Share Before Unusuals	($0.69)	($1.12)	($4.68)	($4.90)

Source: Company reports and CIBC World Markets Inc.

Exhibit 21. Balance Sheet ($ mlns.)

	2005	2006	2007E	2008E
Assets				
Cash	$0.0	$98.9	$0.0	$0.0
Other Current Assets	972.9	860.1	1,884.0	1,884.0
Total Current Assets	972.9	959.0	1,884.0	1,884.0
Property, Plant & Equipment	3,134.5	2,938.7	6,937.0	6,639.4
Goodwill	781.4	590.2	1,035.0	1,035.0
Investment	0.0	0.0	0.0	0.0
Other Assets	233.5	158.0	1,042.0	1,042.0
Total Assets	$5,122.3	$4,645.9	$10,898.0	$10,600.4
Bank Indebtedness	$24.9	$0.0	$57.7	$269.6
Other Current Liabilities	498.5	431.2	1,141.0	1,141.0
Current Portion Of Long-term Debt	155.7	0.0	77.0	411.8
Total Current Liabilities	679.1	431.2	1,275.7	1,822.4
Long Term Debt	2,266.5	2,266.5	5,159.0	4,747.2
Other Long-term Liabilities	572.9	743.6	1,624.0	1,624.0
Deferred Income Taxes	329.4	313.0	563.0	411.6
Minority Interest	58.9	59.0	133.3	133.9
Total Liabilities	$3,906.8	$3,813.3	$8,755.0	$8,739.1
Common Shares	1,271.4	1,279.6	2,631.0	2,631.0
Preferred Shares	0.0	0.0	0.0	0.0
Retained Earnings	(55.9)	(447.0)	(488.0)	(769.7)
Total Shareholders' Equity	$1,215.5	$832.6	$2,143.0	$1,861.3
Total Liabilities And Shareholders' Equity	$5,122.3	$4,645.9	$10,898.0	$10,600.4
Share Outstanding (Million)	56.9	56.9	57.5	57.5
Book Value	$21.35	$14.63	$37.27	$32.37
Total Debt To Total Capital	66%	71%	70%	73%

Source: Company reports and CIBC World Markets Inc.

Exhibit 22. Cash Flow Statement ($ mlns.)

	2005	2006	2007E	2008E
Cash Flow From Operations				
Net Income	(120.1)	(135.7)	(374.0)	(281.7)
Depreciation	396.6	323.2	390.1	597.6
Deferred Income Taxes	28.8	0.0	0.0	(151.4)
Other	(25.1)	154.3	1,130.4	0.0
Minority Interest	(9.8)	5.1	1.1	0.6
Change In Non-cash Working Capital	(71.0)	56.7	(314.1)	0.0
	$199.4	$403.6	$833.5	$165.1
Investing Activities	$10.2	$139.3	($5,717.2)	($300.0)
Financing Activities	($191.2)	($419.1)	$4,727.1	($77.0)
Increase (Decrease) In Cash	$18.4	$123.8	($156.6)	($211.9)

Source: Company reports and CIBC World Markets Inc.

Appendix 2. Directors And Officers

Directors

John Q. Anderson: Chairman and CEO of BigWheel Partners Inc., a private equity investment affiliate of Fenway Partners Inc. Mr. Anderson was a director of Abitibi-Consolidated and is a director of Panther Expedited Services, Inc. and Gemini Traffic Sales, Inc. He is also chairman of the board of directors of RoadLink USA, Inc. Mr. Anderson will serve on AbitibiBowater's Human Resources and Compensation, and Environment, Health and Safety board committees.

Hans P. Black: Chairman of the board of Interinvest Consulting Corporation of Canada, a global money management firm with offices in Montréal, Boston, Bermuda and Switzerland. Mr. Black was on the Abitibi-Consolidated board and he serves on the boards of directors of Amorfix Life Sciences Ltd, RPMH Global Marco Fund, Wi2Wi Inc., Les Aliments SoYummi Inc. and the Montréal Heart Institute Foundation. Mr. Black will serve as member of AbitibiBowater's Nominating and Governance, and Audit board committees.

Jacques Bougie: President and CEO of Alcan Inc. from 1993 to 2001, and previous chair of Abitibi-Consolidated. He also serves on the boards of directors of NOVA Chemicals Inc. and McCain Foods Ltd. Mr. Bougie was made an Officer of the Order of Canada in 1994. He will chair the Nominating and Governance committee of AbitibiBowater's board of directors, as well as serve as member of the Human Resources and Compensation committee.

William E. Davis: Chairman of the board of directors and CEO of Niagara Mohawk Power Corporation from May 1993 to February 2002. He served on the board of directors of Abitibi-Consolidated and serves on the board of Consol Energy Inc. Mr. Davis will serve as member of AbitibiBowater's Nominating and Governance, and Human Resources and Compensation board committees.

Richard B. Evans: President and CEO and director of Alcan Inc. since March 2006, and former director of Bowater. In connection with Alcan's pending acquisition by Rio Tinto PLC of London, U.K., Mr. Evans has agreed to continue as chief executive of the companies' combined aluminum business and as an executive director of Rio Tinto PLC. Mr. Evans will serve as member of AbitibiBowater's Nominating and Governance, and Human Resources and Compensation board committees.

Gordon D. Giffin: Senior partner with the law firm McKenna, Long & Aldridge LLP. Mr. Giffin served as U.S. Ambassador to Canada from August 1997 to April 2001. He was a member of the board of directors of Bowater, and is a member of the boards of Canadian Imperial Bank of Commerce, Canadian National Railway Company, Canadian Natural Resources Limited, TransAlta Corporation and Ontario Energy Savings Ltd. He is also on the board of advisors for Kissinger McLarty Associates. Mr. Giffin will serve on AbitibiBowater's Audit, and Environment, Health and Safety board committees.

Ruth R. Harkin: Senior VP, International Affairs and Government Relations, of United Technologies Corporation (UTC) and chair of United Technologies International from June 1997 to February 2005. Ms. Harkin served on the board of directors of Bowater and serves on the boards of ConocoPhillips. She is also a member of the State of Iowa Board of Regents. Ms. Harkin will serve as member of AbitibiBowater's Nominating and Governance, and Human Resources and Compensation board committees.

Lise Lachapelle: President and CEO of the Canadian Pulp and Paper Association from 1994 until January 2002. Ms. Lachapelle served on the board of Abitibi-Consolidated and serves on the boards of Industrial Alliance Insurance and Financial Services Inc., Russel Metals Inc., Innergex Power Trust, BNP-Paribas (Canada) and Mirabaud Canada Inc. She will chair the Environment, Health and Safety Committee of AbitibiBowater's board of directors, as well as serve as member of the Audit committee.

Gary J. Lukassen: Executive VP and CFO of Hudson's Bay Company (HBC) from 1989 until his retirement in 2001. Mr. Lukassen served on the board of Abitibi-Consolidated and serves on the board of The North West Company and Spinrite Income Fund. Mr. Lukassen will serve on AbitibiBowater's Audit, and Environment, Health and Safety board committees.

David J. Paterson: President and CEO of AbitibiBowater.

John A. Rolls: Managing partner of Core Capital Group, LLC, of New York. Mr. Rolls served as a director of Bowater and serves as a director of FuelCell Energy, Inc. and MBIA Inc. Mr. Rolls will chair the Audit Committee of AbitibiBowater's board of directors, as well as serve as member of the Nominating and Governance committee.

Bruce W. Van Saun: Vice Chairman and CFO, The Bank of New York Mellon. He is a representative to the Financial Services Roundtable, chair of the Bucknell University Business Advisory Board and was a member of the Bowater board. Mr. Van Saun will serve on AbitibiBowater's Audit, and Environment, Health and Safety board committees.

John W. Weaver: Executive chairman of AbitibiBowater.

Togo D. West, Jr.: Chairman of TLI Leadership Group. He served as Secretary of the United States Army from 1993 to 1998 and Secretary of United States Department of Veterans Affairs from 1998 to 2000. Mr. West serves as a director of Krispy Kreme Doughnuts, Inc., is chairman of the board of Noblis Corporation, and was a member of the Bowater board. Mr. West will chair the Human Resources and Compensation committee of AbitibiBowater's board of directors, as well as serve as member of the Environment, Health and Safety committee.

Officers

Alain Grandmont, Senior VP, Commercial Printing And Coated Papers Business: Mr. Grandmont was previously Senior VP, Commercial Printing Papers, for Abitibi-Consolidated. Mr. Grandmont has 23 years of experience in the pulp and paper industry. In 1997, he served as VP of Operations of Abitibi-Consolidated until 2000. From 1991 to 1993, he was general manager of the Alma pulp & paper mill and from 1993 to 1997, he was general manager of the Kenogami pulp and paper Mill. Mr. Grandmont received his B.A. in Industrial Relations from Laval University.

William G. Harvey, Senior VP And CFO: Mr. Harvey was promoted to Executive VP and CFO of Bowater in August 2006. From 2005 to 2006, he was Senior VP and CFO and Treasurer. From 1998 to 2005, he was VP and Treasurer. From 1995 to 1998, he was VP and Treasurer of Avenor Inc., a pulp and paper company, until its acquisition by Bowater.

Yves Laflamme, Senior VP, Wood Products Business: Mr. Laflamme was previously Abitibi-Consolidated's Senior VP, Woodlands and Sawmills.

Jon Melkerson, Senior VP, Business And Corporate Development: Inclusive of the growing Recycling and Energy businesses, as well as Marketing, Strategic Planning and Manufacturing Excellence. Mr. Melkerson was previously Abitibi-Consolidated's VP, International Newsprint Sales.

David J. Paterson, President And CEO: Mr. Paterson had been chairman, president and CEO of Bowater since January 2007. From May 2006 to January 2007, he was president and CEO and a director of Bowater. Previously, from 1987 through 2006, Mr. Paterson worked for Georgia-Pacific Corporation where he was most recently Executive VP in charge of its Building Products division. He also had been responsible for its Pulp and Paperboard division, its Paper and Bleached Board division and its Communication Papers division.

Pierre Rougeau, Senior VP, North American Newsprint Business: Mr. Rougeau was previously Abitibi-Consolidated's Senior VP, Corporate Development and CFO. From 1998 to 2001, he was Head of Forest Products (Canada) of UBS Bunting Warburg Inc. From 1989 to 1998, he was managing director of the Investment Banking division of Scotia Capital Inc. Prior to that, Mr. Rougeau was VP, Investment Banking at Scotia Capital Inc. and its predecessors. From 1981 to 1986, he was a research analyst for the Investment Banking division of Geoffrion, Leclerc Limited. Mr. Rougeau holds a B. Sc., Major in Accounting, from Saint-Louis University as well as a M. Sc. in Finance from the University of Sherbrooke.

W. Eric Streed, Senior Vice President, Supply Chain And Information Technology, Customer Service, Logistics And Procurement: Mr. Streed joined Bowater in August 2006 as Executive VP of Operations and Process Improvement. He was most recently VP of Supply Chain Projects and Information Technology at Domtar Inc. He also served as VP, U.S. Operations for Domtar and previously held positions in engineering and mill management with Georgia-Pacific Corporation.

Thor Thorsteinson, Senior Vice President, International Business: Inclusive of international newsprint and pulp. Mr. Thorsteinson was previously Abitibi-Consolidated's Senior VP, Newsprint.

Jacques P. Vachon, Senior Vice President, Corporate Affairs and Chief Legal Officer: Mr. Vachon will have responsibility for overseeing the combined company's Legal, Communications & Government Affairs, Internal Audit and Environment & Sustainability functions. Mr. Vachon previously held a similar position within Abitibi-Consolidated.

John W. Weaver, Executive Chairman of the Board: Mr. Weaver was previously president and CEO of Abitibi-Consolidated Inc. With a Ph.D. from the Institute of Paper Science and Technology and nearly 30 years experience in this industry, Mr. Weaver applies his intricate knowledge to several industry boards, including serving as chairman of The Forest Products Association of Canada in 2002 and 2003.

James T. Wright, Senior Vice President, Human Resources: Mr. Wright previously held similar responsibilities at Bowater. He was promoted to Executive VP Human Resources in August 2006. From 2002 to 2006, he was Senior VP Human Resources and from 1999 to 2002, he was VP Human Resources. Previously, he was VP Human Resources for Georgia-Pacific Corporation from 1993 to 1999.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Prior	($0.33A)	($0.31A)	($0.21A)	($0.24E)	($1.09E)
2006 Current	($0.33A)	($0.31A)	($0.21A)	($0.27A)	($1.12A)
2007 Prior	$0.02E	$0.00E	($0.07E)	($0.07E)	($0.12E)
2007 Current	($0.85A)	($0.72A)	($1.05A)	($2.06E)	($4.68E)
2008 Prior	--	--	--	--	($0.26E)
2008 Current	--	--	--	--	($4.90E)

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Domtar Inc. (2g) (UFS-NYSE, $7.16, Sector Performer)
International Paper Co. (2g) (IP-NYSE, $33.19, Sector Performer)
Weyerhaeuser Co. (2g) (WY-NYSE, $68.95, Sector Performer)

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Nippon Paper Group (3893-T, ¥318000.00, Not Rated)
Norske Skogindustrier ASA (NSG-OL, [NOK]35.20, Not Rated)
Oji Paper Co. Ltd. (3861-T, ¥513.00, Not Rated)
Smurfit Stone Container Corp. (SSCC-NASDAQ, $9.73, Not Rated)
Stora Enso Oyj (SEO-NYSE, $15.49, Not Rated)
Svenska Cellulosa AB (SCAB-ST, [SEK]109.00, Not Rated)
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CIBC World Markets Price Chart

No price chart is available because CIBC World Markets
has covered this company,
AbitibiBowater Inc. (ABH), for less than one year.

No rating history data found for AbitibiBowater Inc.

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.
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(as of 19 Nov 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	374	40.6%	Sector Outperformer (Buy)	190	50.8%
Sector Performer (Hold/Neutral)	462	50.2%	Sector Performer (Hold/Neutral)	239	51.7%
Sector Underperformer (Sell)	63	6.8%	Sector Underperformer (Sell)	35	55.6%
Restricted	12	1.3%	Restricted	12	100.0%

Ratings Distribution: Paper & Forest Products Coverage Universe

(as of 19 Nov 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	17.6%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	8	47.1%	Sector Performer (Hold/Neutral)	8	100.0%
Sector Underperformer (Sell)	6	35.3%	Sector Underperformer (Sell)	5	83.3%
Restricted	0	0.0%	Restricted	0	0.0%

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