BOWATER INCORPORATED

BOARD OF DIRECTORS

CORPORATE GOVERNANCE PRINCIPLES

Amended February 24, 2005

The following are the corporate governance principles and practices of the Board of Directors of Bowater Incorporated (the "Company").

I. Statement On Corporate Governance

These corporate governance principles provide a structure within which Directors and management can effectively pursue the Company's objectives for the benefit of its stockholders and supervise the management of the Company. These principles are guidelines which are intended to serve as a flexible framework within which the Board may conduct its business and not as a set of legally binding obligations.

The Company's business is managed under the direction of the Board of Directors, with the Board delegating the management of the Company to the President and Chief Executive Officer ("CEO"), working with other executives, in a manner consistent with the Company's objectives and in accordance with any specific plans or instructions of the Board.

II. Board of Directors' Responsibilities

The Company's Board of Directors represents the stockholders' interest in perpetuating a successful business and optimizing long-term financial returns in a manner consistent with applicable legal requirements and ethical considerations. The Board is responsible for identifying and taking reasonable actions to help assure that the Company is managed in a way designed to achieve this result. Consistent with the importance of the Board's responsibilities, each Director is expected to be familiar with the Company's business and public disclosures, to review in advance of Board and stockholder meetings all related materials distributed to the Board, and to attend and participate in meetings of the Board, the Company's stockholders, and meetings of any committee of which such Director is a member. Each Director should act in the best interests of the Company.

A. Selection, Evaluation, and Retention of the CEO, Succession Planning and Oversight of Selection and Performance of Other Executive Officers

The Board, with assistance from the Nominating and Governance Committee and the Human Resources and Compensation Committee, has the responsibility to select, evaluate the performance of and make decisions about the retention of the CEO, to oversee the selection and evaluation of the performance of other executive officers, to plan for management succession (including succession in the event of an emergency or the retirement of the CEO), and to monitor on a regular basis the effectiveness and execution of management strategies and decisions in optimizing the Company's long-term financial returns in a manner consistent with applicable legal requirements and ethical considerations. The Nominating and Governance Committee conducts an annual evaluation of the CEO and reviews the evaluation with all directors who are not officers of the Company (the "Non-Management Directors").

B. Executive Compensation

The Human Resources and Compensation Committee is responsible for administering executive compensation programs, policies and practices. The Human Resources and Compensation Committee shall set the compensation of the CEO based on its assessment, in conjunction with the Nominating and Governance Committee, of the CEO's performance, goals, and objectives.

C. Understanding, Reviewing and Monitoring Implementation of Strategic Plans and Annual Operating Plans

The Board reviews the Company's strategic plans and monitors the implementation of such plans. The Board also reviews the Company's annual operating and capital plans and management's periodic updates to those plans.

D. Selection and Oversight of Independent Auditors; Oversight of Public Financial Reporting

The Audit Committee of the Board has sole responsibility to appoint, compensate and replace the Company's independent accounting firm that audits the Company's financial reports and to pre-approve the engagement terms and the provision of any audit and non-audit services performed by such accounting firm for the Company. As more fully set forth in its Charter, the Audit Committee will have direct responsibility for monitoring the performance of such accounting firm and guarding against any compromise of its independence, as well as overseeing the financial reports prepared by management, with the goal of assuring that they fairly present the Company's financial condition, results of operations, cash flows, discussion and analysis of operations, and related risks in a clear and understandable way.

E. Advising Management on Significant Issues

The Board is responsible for utilizing the broad range of experiences and perspectives of Directors to advise and counsel management, both in meetings and in informal consultations, on significant issues facing the Company.

F. Review and Approval of Significant Company Actions and Certain Other Matters

The Board is responsible under state corporate law to review and approve significant actions by the Company, including election of executive officers, declaration of dividends and major transactions. In addition, the Board is responsible for approving certain actions by the Company as set forth in this policy, the exhibits to this policy and any other Company policies that may be adopted from time to time by the Board, or as otherwise required by any applicable national securities exchange or national securities association on which the Company's securities are traded.

G. Nominating Directors and Committee Members and Overseeing Effective Corporate Governance

The Board and the Nominating and Governance Committee are responsible for (a) evaluating candidates and nominating Directors and members of Board committees, (b) overseeing the structure and practices of the Board and the committees and (c) overseeing other corporate governance matters, as more fully set forth in this policy and the charter of the Nominating and Governance Committee.

III. Board Structure

A. Board Size

Consistent with the Company's By-Laws, the size of the Board shall be within a range of 9 to 15. Within this range, the Board will periodically evaluate and determine the appropriate size and composition of the Board, on the recommendation of the Nominating and Governance Committee.

B. Board Composition

1. Criteria

The Nominating and Governance Committee shall recommend candidates to the Board that will result in the Board being composed of at least a majority of "independent" Directors in accordance with the definition set forth in Appendix 1 to these principles ("Independent Directors"). Candidates nominated for election or reelection to the Board shall possess the following general qualifications:

(a) High personal and professional ethics, integrity and values;

(b) An inquiring and independent mind;

(c) Practical wisdom, vision and mature judgment;

(d) Substantial training and experience at the policy making level in business, government, or education;

(e) Expertise that is useful to the Company and complementary to the background and experience of other Board members, so that an optimum balance of expertise among members on the Board can be achieved and maintained;

(f) Willingness and ability, in light of other business and personal commitments, to devote the required amount of time to diligently fulfill the duties and responsibilities of Board membership;

(g) Commitment to serve on the Board over a period of years to develop knowledge about the Company's operations;

(h) Involvement only in activities or interests that do not create a conflict that violates any applicable law or regulation or interferes with the proper performance of the duties and responsibilities of Board membership;

(i) A strong sense of partnership and the ability to work well with others; and

(j) Capacity and desire to represent the balanced best interests of the stockholders as a whole.

In addition, to the extent possible, the composition of the Board should be such that each of the following specific areas of expertise/experience are represented by at least one Board member:

(a) Professional Services (e.g., attorneys; investment bankers; university professors);

(b) Politics/Government Relations;

(c) Management/Operating Experience (e.g., as a CEO, COO or senior manager); or

(d) Financial/Accounting Experience (e.g., as a CFO, CFA, CPA or analyst).

It is desirable that each member of the Board has recent experience as a member of the board of at least one other company, preferably a publicly-held reporting company.

2. Term Limits

Term limits could deprive the Board of Directors who, over time, have developed increasing insight into and experience regarding the Company and its operations, and therefore provide an increasing contribution to the Board as a whole; accordingly, there are no Director term limits.

3. Mandatory Retirement

In accordance with the Company's By-Laws, Directors who are also Company employees must resign at the earlier of age 65 or the time of such Director's retirement or termination from employment with the Company. All other Directors are eligible for re-election until reaching age 72, and must retire at age 72, although the Board may waive this limitation if it determines such waiver to be in the best interests of the Company.

4. Other Board Memberships

Directors shall inform the Chairman of the Board prior to joining any additional outside boards.

5. Change in Professional Status

Upon a Director's resignation or retirement from, or termination of, his or her principal current employment, or other material change in a Director's professional occupation or association, the Director shall notify the Chairman of the Board of the Director's change of professional status.

C. Board Independence

The Board shall include one or, under special circumstances as determined by the Board, two members of the Company's management team. Although all Directors are expected to act independently, the Board shall consist of a majority of Independent Directors. This will not, however, prevent the Board from taking valid actions if, due to temporary vacancies on the Board, there is less than the intended proportion of Independent Directors on the Board.

Directors will disclose to the Board any business relationships with the Company or any other potential conflicts of interest as they become aware of them. In addition, the Company will disclose to the Board any business relationships of a Director with the Company or any other potential conflicts of interest as the Company becomes aware of them. Directors may not enter into a transaction with the Company without first disclosing the transaction and obtaining advance approval by the Board. The Director must recuse himself or herself from Board consideration and decision on any such transaction.

D. Criteria and Procedure for Evaluating Board Performance

The Nominating and Governance Committee oversees the process of evaluating the performance of Board committees and the Board as a whole. Each of the full Board, Nominating and Governance Committee, the Human Resources and Compensation Committee and the Audit Committee conducts an annual self-assessment of its performance. Each committee reports its findings and recommendations to the Board. These reports shall specifically review areas in which the Board and/or management believes a better contribution could be made.

E. Committee Structure

There are five standing committees of the Board: Audit, Human Resources and Compensation, Nominating and Governance, Executive, and Finance. Each standing committee shall consist of at least two members, except for the Audit Committee which shall consist of at least three members. Additional standing committees may be created, on the recommendation of the Nominating and Governance Committee, by resolution of the Board in accordance with the Company's By-Laws.

The Board, on the recommendation of the Nominating and Governance Committee, annually reviews the appropriate size and composition of Board committees.

The Audit, Human Resources and Compensation and Nominating and Governance Committees shall each be comprised solely of Independent Directors, in accordance with the definition set forth in Appendix 1.

Each member of the Audit Committee shall be "financially literate." The term "financial literacy" shall mean a basic understanding of finance and accounting and an ability to read and understand fundamental financial statements.

The CEO shall be a member of the Executive Committee.

F. Board Leadership

The Chairman of the Board shall preside over each Board meeting. Separate meetings of the Independent Directors or the Non-Management Directors shall be presided over by the Chair of the Nominating and Governance Committee.

G. Board Compensation

In accordance with its charter, the Human Resources and Compensation Committee considers and recommends to the Board the appropriate structure and amount of Director compensation. In making such recommendations, the Human Resources and Compensation Committee shall consider substantial charitable contributions, if any, made by the Company to any organization with which a Director is affiliated. Employee Directors receive no compensation, other than their normal salary, for serving on the Board or its committees.

Management of the Company shall report periodically to the Human Resources and Compensation Committee regarding the status of the Company's Board compensation in relation to other comparable U.S. companies.

To enhance the alignment of Directors' interests with those of stockholders, the Board shall periodically establish requirements of stock ownership applicable to the Directors.

Changes in Board compensation, if any, shall come at the suggestion of the Human Resources and Compensation Committee, but with full discussion and concurrence by the Board.

H. Management's Responsibilities

Management is responsible for operating the Company in an effective, ethical and legal manner designed to produce value for the Company's stockholders consistent with the Company's policies and standards, including these principles. Management also is responsible for enforcing and complying with mandatory provisions of the Company's policies and standards. Senior management is responsible for understanding the Company's income-producing activities and the material risks being incurred by the Company and also is responsible for avoiding conflicts of interest with the Company and its stockholders.

1. Financial Reports and Disclosures

Management is responsible for: (a) producing under the oversight of the Board and the Audit Committee financial reports that fairly present the Company's financial condition, results of operations, cash flows, discussion and analysis of operations, and related risks in a clear and understandable way; (b) making timely and complete disclosures to investors; and, (c) keeping the Board and the appropriate committees of the Board well-informed on a timely basis as to all matters of significance to the Company.

2. Strategic Planning

The CEO and senior management are responsible for developing and presenting to the Board the Company's strategic plans and for implementing those plans as approved by the Board.

3. Annual Operating Plans and Budgets

The CEO and senior management are responsible for developing and presenting to the Board the Company's annual operating and capital plans and for implementing those plans after review by the Board.

4. Setting a Strong Ethical "Tone at the Top"

The CEO and other senior managers are responsible for setting a "tone at the top" of integrity, ethics and compliance on the part of all persons associated with the Company, with applicable legal requirements and with the Company's Code of Conduct and other policies and standards.

5. Internal Controls and Procedures

Senior management is responsible for developing, implementing and monitoring an effective system of "internal controls and procedures" to provide reasonable assurance that the Company's transactions are properly authorized; the Company's assets are safeguarded against unauthorized or improper use; and the Company's transactions are properly recorded and reported. Such internal controls and procedures also shall be designed to permit preparation of financial reports for the Company in conformity with generally accepted accounting principles or any other requirements applicable to such reports.

6. Disclosure Controls and Procedures

Senior management is also responsible for establishing, maintaining and evaluating the Company's "Disclosure Controls and Procedures" as defined by SEC regulations.

7. Executive Stock Ownership Requirement

To enhance the alignment of executives' interests with those of stockholders, the Board shall periodically establish requirements of stock ownership applicable to the Company's executives.

I. Board Relationship to Senior Management

1. Regular Attendance of Non-Director/Executive Officers at Board Meetings

Except as otherwise determined in particular circumstances by the Chairman of the Board, the CEO or the Chair of the Nominating and Governance Committee, the Board welcomes the regular attendance at each Board meeting of the Company's executive officers who are not members of the Board.

2. Board Access to Senior Management

The Board, each Board committee, and each Director individually will have reasonable access to the Company's management. Board members are expected to reasonably inform the CEO when they have contacted management. At the invitation of the Board and with the consent of the Board Chairman, senior management may attend and make presentations at meetings of the full Board and, if also requested by the committee chair, at committee meetings.

The Board encourages the executive officers to bring non-executive managers to Board meetings, from time to time, who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, or (b) represent non-executive managers with future potential that the executive officers believe should be given exposure to the Board.

3. Information About Developments

Between regular meetings of the Board, the CEO shall keep the Board generally apprised of developments that the CEO believes to be significant.

J. Board Operations

1. Number of Meetings and Attendance

Directors are expected to regularly attend Board meetings, meetings held by committees on which the Directors sit, and annual and special meetings of the Company's stockholders.

2. Selection of Agenda Items for Board Meetings

The Chairman of the Board will establish the agenda for each Board meeting. Each Board member is free to suggest the inclusion of item(s) on the agenda.

3. Board Materials Distributed and Reviewed in Advance

Management shall be responsible for assuring that, as a general rule, information and data that are important to the Board's and each Board committee's understanding of the Company's business and to all matters expected to be considered and acted upon by the Board or committee be distributed in writing to the Board or committee sufficiently in advance of each Board or committee meeting, as applicable, and each action to be taken by written consent to provide the Directors a reasonable time to review and evaluate such information and data.

It is recognized that circumstances will arise when it is not feasible to provide information relating to certain agenda items in advance (or at least not very much in advance) of a Board meeting or an action to be taken by written consent. In such event, reasonable steps shall be taken to permit the Directors to become reasonably informed as to the matter before voting on it.

4. Separate "Executive Session" Meetings of Non-Management and Independent Directors

The Non-Management Directors shall meet at least annually without the presence of management Directors or executive officers of the Company. Such meetings shall be held at such times as may be determined by the Chairman of the Board (if he or she is an Independent Director) or by the Chair of the Nominating and Governance Committee. If the Non-Management Directors include any Directors who are not Independent Directors, the Independent Directors shall meet separately from other Directors at least annually.

K. Committee Operations

1. Number, Structure and Independence of Committees

Each of the Audit, Human Resources and Compensation, and Nominating and Governance committees shall have charters outlining their duties and responsibilities which have been approved by the Board. These committees review the charters on an annual basis and recommend to the Board any necessary revisions. In addition to the standing Board committees, the Board may, from time to time establish one or more additional committees in accordance with the Company's By-Laws. If and when the Board appoints any such additional committee, the Board shall, by resolution or otherwise, clearly define in writing the responsibilities of the committee.

2. Assignment of Committee Members

The Nominating and Governance Committee, in consultation with the Chairman of the Board, recommends to the Board the assignment of Board members to various committees and chairs. Committee assignments and committee chairs shall be determined by the Board.

3. Committee Agenda, Background Materials and Reports

The chair of each Board committee, in consultation with the appropriate members of management and staff, will develop the committee's agenda. At each Board meeting, the chair of each committee (or his or her delegate) shall report the matters considered and acted upon by such committee since the preceding Board meeting, except to the extent covered in a previous written report to the full Board, and shall be available to answer any questions the other Directors may have regarding the matters considered and actions taken by such committee.

4. Committee Attendance by Others

Non-Management directors may attend the meeting of any committee, even if they are not members of the committee. The Chairman of the Board, if also an executive officer of the Company, and the President and CEO may attend the meeting of any committee, even if they are not members of the committee, except when the committee decides to meet without the presence of the Company's executive officers.

L. Resources

Except as otherwise provided in the applicable committee charters, the Board and each committee of the Board shall have the right to retain appropriate advisors (including legal and accounting professionals) to the extent it deems necessary or appropriate after consultation with the Chairman of the Board.

1. Reliance

Each Director is entitled to rely in good faith on (1) corporate records, corporate officers, corporate employees or board committees or (2) any other person selected with reasonable care as to matters reasonably believed to be within the person's professional or expert competence. The Board shall assess the qualifications of all such persons on whom it relies, shall inquire as to the processes used by such persons to reach their decisions, prepare their reports and make their recommendations and also shall inquire as to the substance of such matters, and shall hold such persons accountable for any follow-up reasonably needed to satisfy the Board.

2. Director Orientation and Continuing Education

The Nominating and Governance Committee shall arrange for continuing education for all Directors and orientation for Directors in their first year of service.

Each new Director shall be given an orientation with respect to his or her duties as a Director, including: (a) copies of this policy and the American Bar Association Section of Business Law's Corporate Directors Guidebook; (b) meetings with the Company's General Counsel and Nominating and Governance Committee; and (c), except to the extent unnecessary for any Director who is an executive officer of the Company, background material with respect to the Company, its business and issues of particular significance to the Company, and meetings with the senior management. Each new Director and each new member of any Board committee also shall cooperate in fulfilling any additional orientation guidelines that may be recommended generally or on an ad hoc basis by the Nominating and Governance Committee to help assure that such Director has the necessary skills to perform his or her responsibilities as a Director and/or new member of any Board committee.

Each Director also shall cooperate in fulfilling all applicable continuing education guidelines established and periodically updated by the Nominating and Governance Committee.

3. Disclosure of this Policy

This policy, including the attached committee charters and code of business conduct and ethics, will be posted on the Company's website and also will be available in print to any stockholder requesting it. Such availability on the Company's website and in print will be noted in the Company's annual report to stockholders.

4. Code of Business Conduct and Ethics

The Company will maintain, and the Nominating and Governance Committee will oversee compliance with, a code of business conduct and ethics. Such code as currently in effect is set forth in Appendix 2 to these principles, and such code may be modified and replaced from time to time by the Board on the recommendation of the Nominating and Governance Committee.

<u>BOWATER INCORPORATED</u>

CORPORATE GOVERNANCE PRINCIPLES

<u>APPENDIX 1</u>

INDEPENDENT DIRECTORS

<u>General Criteria</u>

An "independent" Director of the Company shall be any Director who the Board affirmatively determines has no material relationship with the Company, either directly or through his or her role as a partner, stockholder or officer of an organization which has a relationship with the Company (which for this purpose includes any subsidiary), and shall <u>not</u> include any Director who meets any of the following criteria:

A. Is or has been at any time in the past three years an employee of the Company, or who has an immediate family member who is or has been at any time in the past three years an executive officer of the Company.

B. Receives or has received at any time in the past three years, or who has an immediate family member who receives or has received at any time in the past three years, more than $100,000 per year in direct compensation from the Company, other than Director and committee fees and pension or other forms of deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service);

C. Is affiliated with or employed by, or who has an immediate family member who is affiliated with or employed by, any internal or external person or entity which has had an auditing relationship with the Company at any time in the past three years;

D. Is or has been at any time in the past three years, or who has an immediate family member who is or has been at any time in the past three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on the compensation committee of such company; or

E. Is or has been at any time in the past three years an employee or executive officer, or who has an immediate family member who is or has been at any time in the past three years an executive officer, of a company which makes payments to or receives payments from the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of $1,000,000 or 2% of the other company's consolidated gross revenues.

For the purposes of this Appendix 1, an "immediate family member" means a Director's spouse, parents, children, siblings, parents-in-law, children-in-law, siblings-in-law, and any other person (other than domestic employees) sharing such individual's home. The term "immediate family member" does not include any individual who is not longer an immediate family member of the Director as a result of legal separation or divorce, and it does not include any individual who has died or become incapacitated.

In assessing the materiality of an existing or proposed Director's relationship with the Company (other than an employment relationship, which will always be deemed material), the Board will consider all relevant facts and circumstances. The Board has determined that the following categories of relationships are not material and will not impair a Director's independence: (i) if a Director owns less than five percent of the equity of, or is a director of, another company that does business with the Company and the annual sales to, or purchases from, the Company are less than five percent of the annual revenues of either company; (ii) if a Director owns less than five percent of the equity of, or is an executive officer or director of, an unaffiliated company that is indebted to the Company (or to which the Company is indebted) and the total amount of either company's indebtedness to the other is less than five percent of the total consolidated assets of either company; and (iii) if a Director serves as an officer, director or trustee of a charitable organization, and the Company's charitable contributions to the organization are less than two percent of that organization's total annual charitable receipts, or $20,000 per year, whichever is less.

Additional Criteria for Audit Committee Members

In addition to satisfying the general independence standards as described above, audit committee members are required to satisfy the SEC independence standards found in Rule 10A-3, which was enacted pursuant to Sarbanes-Oxley §301. These standards are described below.

Fees. No fee (other than for service as a Director, including consulting and advisory fees) may be received from the Company or its subsidiaries, regardless of the amount. This includes consulting, advisory and legal fees paid to a Director's firm, even if the Director is not the actual service provider.

The SEC's final rules under Section 301 of Sarbanes-Oxley prohibit audit committee members from receiving direct and indirect payments of consulting, advisory and other compensatory fees from the Company. Indirect payments include payments to: (1) a spouse, minor child or stepchild of, or a child or stepchild sharing a home with, an audit committee member; and (2) an entity in which the audit committee member is: (i) a partner or a member; (ii) an officer occupying a position comparable to a partner or member (such as a managing Director); (iii) an executive officer; or (iv) in a position similar to any of the foregoing (excluding limited partners, non-managing members and others who have no active role in providing services to the entity) and that provides accounting, consulting, legal, investment banking, or financial advisory services to the Company. The SEC indicated in the adopting release that other commercial relationships between a company and an entity with which an audit committee member has a relationship are not covered by the SEC's rule on indirect compensatory fees, but that the SEC expects the exchanges will include restrictions on additional services and activities in their listing standards adopted under Section 301. The SEC also clarified in the adopting release that the rule only applies to current relationships with audit committee members, but indicated that it expects the exchanges to include "look back" periods in their listing standards. The NYSE has not clarified its position on this matter.

Affiliates. An audit committee member may not be an "affiliated person" of the company or any of its subsidiaries.

The definition of "affiliated person" in the SEC's final rules under Section 301 is consistent with current SEC definitions, under which an "affiliate" of an issuer is "a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the issuer." The definition of "affiliated person" includes a safe harbor under which a person who is not an executive officer and is not a greater than 10% stockholder is not deemed to control the issuer. The final rules also provide that the safe harbor does not create a presumption that a person exceeding the 10% threshold controls or is otherwise an affiliate of another person.

BOWATER INCORPORATED

CORPORATE GOVERNANCE PRINCIPLES

APPENDIX 2

CODE OF CONDUCT

As posted on Web site.