LETTER TO SHAREHOLDERS

2005 was a challenging year for Abitibi-Consolidated and a year of decision and action. In January, we announced an in-depth review of all our operations. The objective was to ascertain the competitiveness of our assets and their potential to generate acceptable returns. The focus was on improving EBITDA* and using the increased cash flows to pay down debt.

* Earnings before interest, taxes, depreciation and amortization

JOHN W. WEAVER
PRESIDENT AND CHIEF EXECUTIVE OFFICER

RICHARD DROUIN
CHAIRMAN OF THE BOARD

TARGETS IDENTIFIED

The review identified three primary targets to be achieved by the end of 2006:

1

OUR NORTH AMERICAN NEWSPRINT MILLS WOULD BE IN THE BEST HALF OF THE COST CURVE;

2

WE WOULD ACHIEVE $175 MILLION IN IMPROVED EBITDA THROUGH COST AND PRODUCTIVITY INITIATIVES;

3

WE WOULD TARGET AN ADDITIONAL $75 MILLION IN IMPROVED EBITDA THROUGH ADDITIONAL REVENUE FROM NEW HIGHER MARGIN PRODUCTS AND THE POTENTIAL RE-LAUNCH OF OUR MILL IN LUFKIN, TEXAS.

TOUGH DECISIONS TAKEN

As part of the operations review, we were unable to resolve critical energy, fibre and labour issues at our mills in Stephenville, Newfoundland and Labrador and Kenora, Ontario. Consequently, these high cost mills were permanently closed, removing 434,000 tonnes of annual newsprint production. In addition, notice was given to the employees of our Bridgewater mill, in the United Kingdom, and Grand Falls, Newfoundland and Labrador, of our intention to close one machine at each location, eventually removing an additional 120,000 tonnes of newsprint annually.

Given the impact on our employees and the communities, these decisions were difficult, but necessary.

SUBSTANTIAL SAVINGS REALIZED

By the end of 2005, we had attained $90 million of the $175 million EBITDA target related to cost, productivity and market mix improvements. On our additional $75 million target from increased revenues, we have delayed both the future ALTERNATIVE OFFSET®/ EQUAL OFFSET® (AO/EO) conversions and the relaunch of the Lufkin mill. However, we do expect to realize approximately $25 million in EBITDA improvement from the Alma, Québec, EO production ramp-up as well as from the I-Joist new facility in St-Prime, Québec, which began operating in the third quarter of 2005.

DEBT REPAYMENT

In the course of the review, we decided to sell our 50% share ownership in PanAsia Paper, obtaining an excellent return of 83%–in US $–from our original investment. We felt the timing and price were right to divest, enabling us to reduce long-term debt by $1 billion and increase financial flexibility–a decision consistent with our strategic objectives to reduce debt and focus our resources on our core North American assets.

To further reduce debt, we evaluated non-core assets and reached an agreement, in December 2005, with North Star Forestry Limited, to sell our timberlands near Thunder Bay, Ontario for $55 million.

At the end of 2005, our long-term debt stood at $3.8 billion compared to $6.1 billion in 2001, a reduction of 40%. Through a US$450 million bond financing early in 2005, as well as the debt repayment discussed previously, we have reduced the debt maturities for 2006-2007 to US$76 million.

During the year, we continued to keep a close rein on capital expenditures and finished the year at $177 million, well under the budgeted target of $200 million.

CURRENCY AND ENERGY IMPACT

Despite efforts to contain and control input costs, the continually strengthening Canadian dollar, combined with an unparalleled increase in energy costs, negatively impacted our bottom line. The Canadian dollar strengthened by another 7.4% compared to the US dollar, hitting a 14-year high in December. As a result, the Canadian dollar appreciation over foreign currencies had an unfavourable impact on annual operating results of $252 million compared to 2004.

Soaring energy costs also affected our ability to deliver on our 2005 financial objectives. Natural gas prices, in the regions where we have operations, increased by about 30% during the year. However, we were less impacted than the competition, thanks to our 34% self-generation capacity for steam and power. Abitibi-Consolidated nonetheless sustained substantial increases in manufacturing costs.

NEWSPRINT

Worldwide demand for newsprint increased marginally in 2005, but readership and advertising lineage continued to decline in North America, where alternative communication technologies made further inroads into the traditional newspaper market. According to Pulp and Paper Products Council (PPPC), total North American newsprint demand and production levels were down 5.5% and 4.6%, respectively.

To attract and retain readers while reducing costs, publishers have been experimenting with new products, new formats and lower basis weights. In response to customer demand for lighter sheets, we adapted our specifications and supplied a record quantity of these grades during the year.

Newsprint operating profit before specific items increased by $90 million to $117 million, with improved productivity and increased margins being partially offset by currency fluctuation and increased energy and fibre costs.

LEADERSHIP IN RECYCLING

In the second half of 2005, we built on our leadership position as the largest recycler of newspapers and magazines in North America by announcing the expansion of our Abitibi Paper Retriever® Program to include seven additional cities. This community-based program encourages recycling by schools and other non-profit associations, providing them in return funds for equipment or other community initiatives. A total of 23 metropolitan areas in North America are now benefiting from the program, while 26 in the United Kingdom are participating in our various recycling activities.

CUSTOMER FOCUS REWARDED

Our continued focus on customer satisfaction was rewarded in 2005 when Abitibi-Consolidated won the coveted "Supplier of the Year" award from the Gannett Co. Inc, the largest newspaper group in the United States. The winner is considered to have delivered the best value proposition to the organization. This award is further validation of our team approach, which has key mill personnel working closely with sales and technical support.

COMMERCIAL PRINTING PAPERS

According to PPPC, North American shipments of groundwood printing and writing papers increased by 4.8% over 2004. In 2005, our annual shipments increased to uncoated 1.78 million tonnes, an improvement of 2.5% over the previous year. The increase in shipments was primarily EQUAL OFFSET® from our Alma mill.

Operating loss before specific items was $18 million in 2005. Although results remained well below acceptable levels, this represented a $20 million improvement over the previous year and was achieved despite higher energy and pension costs as well as the stronger Canadian dollar.

INNOVATIVE PRODUCTS

Selling prices have turned upward and each year more commercial printers are discovering the value of our one-stop shop concept and multi-grade product offering. They are also recognizing the savings, often in the range of 30%, of substituting lower basis weight ALTERNATIVE OFFSET®, and EQUAL OFFSET® for competitive free-sheet grades. These innovative product lines not only meet competitive standards for optical properties and pressroom performance, but are also environmentally friendly since these products are manufactured chlorine free and use a high-yield process that utilizes half of the usual quantity of virgin fibre.

We should note that this 2005 Annual Report was printed on ALTERNATIVE OFFSET®; the Global Review on EQUAL OFFSET®, and the Management Proxy Circular on the newest member of our Commercial Printing family – a lightweight sheet called INNOVATIVE OFFSET™.

WOOD PRODUCTS

2005 saw housing starts remain high; however, both lumber shipments and price levels decreased due to high levels in 2004.

In March 2005, the Quebec Annual Allowable Cut on Crown land was reduced significantly, representing a decline of 19.1% for the Company. This reduction, combined with the impact of Lac-Saint-Jean summer forest fires, resulted in lower sales volumes. The reduction in wood supply led to the year-end closure of the Champneuf sawmill near Amos, Québec.

The impact of the reduced harvest, exacerbated by lower market prices, higher manufacturing costs and a stronger Canadian dollar translated into sharply reduced profit. Operating profit before specific items of $42 million in 2005 represented a decrease of $84 million from 2004.

The ongoing softwood lumber dispute with the US continues despite several judgments in favour of Canada. On December 12, 2005, the industry-wide countervailing duty was lowered to 8.7%, a significant reduction from the 16.37% levels that prevailed for most of 2005.

ENGINEERED WOOD PRODUCTS EXPANDED

Consistent with our strategy to increase sales of value-added products, Abitibi-LP Engineered Wood, our joint venture with Louisiana-Pacific Corporation, began producing I-joists at its second engineered wood facility, in Saint-Prime. With an annual production capacity of 75 million linear feet, this mill was expanded and converted at a cost of approximately $13 million.

WOODLAND CERTIFICATION COMPLETED

Abitibi-Consolidated continues to be a leader in the management of renewable resources. In 2005, we achieved our objective to have 100% of our public and private lands certified under the independently audited Sustainable Forest Management Standards. With all 16.8 million hectares now certified, we rank first in Canada in total certified woodlands.

CORPORATE GOVERNANCE

The Board has been aware of a growing trend by some public companies to adopt individual voting for directors. In 2006, the Board plans to monitor these developments and examine the various approaches to individual voting used by companies having adopted the process. Taking also into consideration views supported by the Canadian Coalition for Good Governance, the Board will evaluate which approach is the most appropriate to ensure an independant, experienced and dedicated Board with an appropriate mix of skills.

OUTLOOK FOR 2006

Although currency fluctuations remain a major concern, we look to 2006 with a sense of cautious optimism:
- Our debt has been substantially reduced and we have no significant debt repayment due for the next two years; Despite a greater financial flexibility, we will continue to apply free cash flows toward the reduction of long-term debt;
- The difficult decisions with respect to high cost mills have largely been taken and we will be fielding the strongest portfolio of assets in our Company's history;
- Supply and demand in our core newsprint business are reasonably in balance and operating rates are the highest in recent memory;
- There has been enthusiastic market acceptance of our new AO/EO paper grades and our engineered wood products;
- We are hopeful that a negotiated settlement of the softwood lumber dispute is now a possibility;
- The difficulties of the past few years have created a culture where creativity, cost consciousness and continuous improvement are evident at all levels within the organization.

We do not believe the share price reflects the true value of the Company and we will continue to focus our efforts in 2006 on leveraging our manufacturing and marketing expertise, and our reputation for excellence, with the objective of increasing our share of specific geographic and end-use markets.

In conclusion, we would be remiss in not acknowledging the exceptional contribution made by the employees and Board of Directors of Abitibi-Consolidated during a very challenging year. We believe any and all of our successes have been the direct result of their dedication and willingness to adjust to rapidly changing circumstances. They have earned both our respect and gratitude.

John Weaver

JOHN W. WEAVER
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Richard Drouin

RICHARD DROUIN
CHAIRMAN OF THE BOARD