



**ABITIBI
CONSOLIDATED**

Annual Address to Shareholders

(Check against delivery)

John W. Weaver

President and Chief Executive Officer

May 8, 2007

Good morning.

In today's presentation, I will briefly comment on some of the highlights of 2006 and then address a couple of very exciting developments that will have a sizeable impact on the future performance of the Company.

For 2006, Abitibi-Consolidated reported net earnings of \$54 million, or 12 cents per share, compared to a loss of \$350 million, or 80 cents per share, in 2005.

However, the 2006 results included the positive impact of our lumber duty refunds and other positive items, such as the sale of our Sheldon, Texas, mill. Therefore, before specific items, the Company recorded a loss of \$180 million, or 41 cents per share, just slightly more than the loss of \$176 million, or 40 cents per share, in 2005.

Your Company finished the year with an EBITDA, (earnings before interest, taxes, depreciation and amortization) of \$576 million against \$649 million in 2005 and an operating profit of \$136 million, \$5 million below the \$141 million recorded in 2005. But we clearly saw the benefits of our efforts to reduce debt, as our financial expenses, before specific items, were reduced significantly in 2006 to \$339 million – down \$49 million from the 2005 level.

In 2006, we remained challenged by high energy and fibre costs and a Canadian dollar that appreciated a further 6.8% over the 2005 levels. But despite a 6% decline in the North

American newsprint market, the benefits of our cost containment and rationalization efforts were evident: inventories remained low and EBITDA margins for our Newsprint operations increased from 13.9% to 16.5%.

Indeed, in 2006, our Newsprint segment recorded its best results in five years, posting an EBITDA of \$429 million and an operating profit of \$192 million.

In the Commercial Printing Papers segment, we saw further changes in consumption patterns as traditional uncoated freesheets, offered by our competitors, continued to decline and there was increased demand for environmentally friendly products. As a consequence, we have been one of the beneficiaries of this change. For example, in 2006, sales of our **ABIOFFSET** grades increased by 11.6% to a record high 470,000 tonnes.

However, with all our commercial printing grades manufactured in Canada and almost all of the sales destined for the U.S. market, this segment was particularly impacted by the appreciation of the Canadian dollar, and its EBITDA was reduced to \$128 million in 2006, from \$155 million.

2006 was an especially challenging year for the Wood Products division. A 31% decline in U.S. housing starts, coupled with high material costs and decreased availability of Québec fibre, contributed to a very difficult business environment that saw prices plummet from US\$450 per thousand board feet to less than US\$300. As a

consequence, our Wood Products division saw its EBITDA reduced from \$93 million to \$19 million in 2006.

On a positive note, the longstanding softwood lumber dispute with the U.S. was finally settled, returning US\$239 million of countervailing and anti-dumping duties to the Company. And as an added benefit, we now have some measure of clarity regarding future access to this key wood products market.

With this as a backdrop, we continued to focus our attention on the key elements of our strategic plan and, once again, asked our employees to meet more aggressive targets, to become more creative and to do more with less. They responded by delivering on the key objectives under their control. And as a result:

- We achieved over \$200 million in cost and market mix improvements, exceeding our target by more than \$25 million.
- We targeted a reduction of \$35 million in SG&A expenses and achieved \$40 million – six months ahead of schedule.
- Without compromising health and safety, the environment or our competitiveness in the marketplace, we held our capital expenditures to \$165 million – well under our target of \$200 million and below last year's figure of \$175 million.

- Despite higher prices for key input materials, we were successful in controlling production costs. As a result of the diligent work of our employees, the average cost of goods sold for our combined paper products has actually gone down over the past five years.

Unfortunately, these efforts were largely offset by increased energy and fibre costs, pension expense and the appreciation of the Canadian dollar which, on a combined basis, impacted our operating results by a total of \$330 million.

In light of current realities, we re-examined our options and moved forward:

- We suspended payment of the annual dividend – a difficult, but prudent decision to make under the circumstances.
- We closed a 60,000-tonne newsprint machine in the U.K. and early in 2007 indefinitely idled our Fort William mill.
- To meet the increased demand for higher margin products, we converted 100,000 tonnes of high-cost newsprint capacity at our Belgo mill into commercial printing grades.
- We continued to be pro-active in the area of sustainable forest management, and of the 15.8 million

hectares entrusted to our care, 99.4% are fully certified.

- In 2006, we achieved a 16% improvement in employee safety, exceeding our objective of 10%. However, the entire company was deeply saddened by two fatalities during the year. Therefore, we have established a much more aggressive target and plan to implement a new standard of excellence for Abitibi-Consolidated in the year 2007.
- By recycling the equivalent of 4 billion copies of a daily newspaper annually, we have retained our position as a leading recycler of paper and expanded our scope to capture additional value from consumer and commercial recycling sources.
- The difficulties that persisted in the Wood Products sector didn't prevent our employees from their pursuit of excellence, and they were named the "Lumber Supplier of the Year" by Rona Inc. for their commitment to quality and customer satisfaction.

Outlook

This morning, we reported our first quarter results – a loss of \$70 million, or 16 cents per share. This compares to a loss of \$33 million, or 8 cents per share, in the first quarter of 2006.

Before specific items, the Company posted an operating loss of \$39 million during the first quarter of 2007, with our Newsprint business making a positive contribution of \$5 million, while Commercial Printing Papers and Wood Products posted losses of \$9 million and \$35 million respectively. This compares to a \$52 million profit in the first quarter last year.

The reduction in operating results is due to lower sales volumes and higher production costs in all segments. These higher costs are primarily the result of increased downtime and higher prices for recycled fibre. Added to this were lower selling prices for newsprint and lumber.

As we look to the future, we can expect our ingenuity and creativity will be challenged over the short to medium term, as many of the key outside influences mentioned earlier have persisted and will impact our performance in 2007.

We continue to see ongoing issues around sustaining historic levels of North American newsprint sales but are encouraged by the high consumption levels projected for key offshore markets resulting in overall global growth.

We envision demand for commercial printing papers to grow substantially and become an ever increasing part of our overall product mix.

We remain optimistic, long term, about the Wood Products segment, believing the present changes to be short-term

and primarily the result of an anticipated cooling-off of the U.S. housing market.

However, we believe a couple of recent announcements provide reason for optimism:

ACH

First, we entered into an agreement with the Caisse de dépôt and created a joint venture for the Company's Ontario hydroelectric facilities called ACH Limited Partnership. ACH will be our growth vehicle in energy generation. The Company retains a 75% interest in ACH.

The Caisse also funded a 10-year unsecured loan of \$250 million, non-recourse to the Company, to partially fund the acquisition of the facilities, meaning that this transaction, on a consolidated basis, has yielded gross proceeds of \$297.5 million to Abitibi-Consolidated. This transaction puts a value of \$440 million on the assets of ACH hydro, which comprise less than 25% of all our hydro facilities.

It should be noted that we are currently proceeding with the sale of our timberlands around the Augusta mill in the southern U.S. and are expecting to realize in excess of \$100 million from the sale.

And last, but certainly not least, is the much-publicized merger of Abitibi-Consolidated and Bowater.

AbitibiBowater

I will briefly review some of the pertinent details of this historic union and suggest why it is the right strategic move at this time and how it will make the long-term future of our Company, we believe, substantially brighter.

- We believe the all-stock merger of equals will create a global leader in the forest products industry that will be much stronger than either company could possibly be on its own.
- With approximately 20,000 employees and revenues estimated at US\$7.9 billion, AbitibiBowater will become the 3rd largest publicly traded paper and forest products company in North America and the 8th largest in the world. It will own or operate 32 pulp and paper facilities, producing an estimated 11 million tonnes per year and 3.1 billion board feet of lumber from 35 wood product facilities.
- The new company will have a more diversified product offering and improved financial flexibility.
- It will be more competitive in a highly competitive, rapidly changing global market.
- It will have a unique “one-stop-shop appeal” for users of publication papers, with a product mix that includes: newsprint, uncoated and coated mechanical papers.

- It will be a union of two companies, both committed to environmentally sustainable production practices and, combined, will be one of the largest recyclers of newspapers and magazines in the world.
- We estimate that, apart from ongoing cost-saving initiatives at both companies, there are US\$250 million of annual synergies to be realized: \$105 million from improved production efficiencies, \$85 million from SG&A, \$30 million from procurement and another \$30 million from distribution.
- The US\$250 million of annual synergies represent a net present value of US\$1.5 billion, which is equivalent to more than 60% of the current equity value of the two companies combined.

I believe we are entering an exciting new phase of the Company's development and look forward to meeting the challenges ahead with renewed optimism.

Thank you.