

OVERVIEW AND HIGHLIGHTS OF 2001

Abitibi-Consolidated is a global leader in newsprint, uncoated groundwood (value-added groundwood) papers and lumber with ownership interests in 27 paper mills in Canada, the United States, the United Kingdom and Asia, in 22 sawmills, 3 remanufacturing facilities and a market pulp mill in Canada and 10 recycling centres in Canada, the United States and the United Kingdom. The Company employs approximately 17,000 people and supplies products in nearly 100 countries.

Abitibi-Consolidated is one of the lowest-cost producers in North America and Asia annually marketing approximately 6 million tonnes of newsprint, nearly 2 million tonnes of value-added groundwood papers, approximately 450,000 tonnes of high-quality chemical pulp and 2.2 billion board feet of lumber.

\$289 Million in Net Earnings

Abitibi-Consolidated realized net earnings of \$289 million on net sales of \$6 billion in 2001 compared to net earnings of \$367 million on net sales of \$5.7 billion in 2000.

Earnings per share amounted to \$0.66 in 2001 based on an average of 440 million shares outstanding. Earnings per share were \$0.96 in 2000 based on an average of 384 million shares outstanding.

The Company's increase in net sales is mainly attributable to the acquisition of Donohue on April 18, 2000, whereby based on the reverse take over method of accounting, operating results of former Abitibi-Consolidated are included for only eight and a half months in 2000 compared with twelve in 2001.

The reduction in net earnings resulted mainly from higher depreciation and amortization and financial expenses in 2001 when compared to 2000. The increase in depreciation and amortization cost is due to the Donohue acquisition and write down of \$33 million, mainly due to the closure of its Sheldon, Texas thermomechanical pulp mill. The increase in financial expenses is attributable to the additional debt contracted to finance the acquisition of Donohue on April 18, 2000. Following the acquisition of Donohue, the Company established a synergy program aimed at reducing manufacturing, sales, general and administrative expenses, transportation and other costs. As at December 31, 2001 the Company reported that it had achieved annualized cost savings through the synergy program amounting to \$294 million. However, these synergy cost reductions were offset by significant increases in fibre and energy costs, market downtime the Company had to take to balance its production and inventory with its order book and the impact of a strong US dollar compared to the Canadian currency when manufacturing costs of the US mills are translated into Canadian dollars.

Increased Ownership in Pan Asia Paper Company

On August 16, 2001, the Company announced it had concluded, jointly with Norske Skog of Norway, the acquisition of the one-third share of Pan Asia Paper Company (Pan Asia) owned by Hansol Paper Co. Pte Ltd. (Hansol) of South Korea, for a total of US\$350 million. Abitibi-Consolidated's disbursement totalling US\$175 million was financed through existing bank loan facilities and consequently increased its stake in the joint venture from 33.33% to 50%.

Price Movements

The Company implemented two price increases, each of US\$50 per tonne, for newsprint in North America in 2000: one on April 1 and another on September 1. In 2001, an additional increase of US\$50 per tonne was announced for March 1. This last increase was totally withdrawn by the end of the second quarter and prices continued to decline further in the second half of 2001 to end the year at approximately US\$10 per tonne lower than the January 1, 2000 price levels. Newsprint prices in international markets, with the exception of European countries, have followed the same trend during the year.

Prices for certain grades of value-added groundwood papers followed a trend similar to newsprint with price declines taking place in the latter part of 2001. Northern Bleached Softwood Kraft (NBSK) pulp prices in the United States decreased by US\$230 per tonne during the first eight months of 2001 before stabilizing in the last months of the year, after a US\$20 per tonne price increase was announced by major producers.

Integration of Donohue and Synergy Achievements

In 2000, immediately following the acquisition of Donohue, the entire organization underwent an extensive review. A new senior management team was selected from the best of the former companies and put in place in May 2000.

The Company set a target of \$250 million in synergy cost savings to be achieved through the combination of the two companies. The annualized run rate attained during the fourth quarter of 2001 was \$294 million in cost savings including the rationalization program of approximately 400,000 tonnes of high-cost newsprint capacity. This achievement significantly exceeded management's original target, even though the program was negatively affected by significant market conditions and downtime taken at almost all newsprint mills.

High-cost Newsprint Capacity Rationalization Program

As part of the synergy program, Abitibi-Consolidated announced its intention to permanently remove approximately 400,000 tonnes of high-cost newsprint capacity. As a result, in December 2000, the Company permanently shut down its 130,000 tonne West Tacoma newsprint mill, located in Steilacoom, Washington, and a value-added groundwood paper machine with an annual capacity of 45,000 tonnes at the Kénogami, Québec mill. The value-added groundwood paper grades, once produced on this machine, are now manufactured at other mills instead of newsprint. To complete the program, on June 15, 2001, the Company also permanently shut down one machine and converted another newsprint machine to value-added groundwood grades at its Kenora, Ontario mill eliminating 180,000 tonnes of capacity.

In addition, and as part of the Texas modernization program, Abitibi-Consolidated shut down three paper machines at Lufkin: the first paper machine on November 1, 2000, the second on March 4, 2001 and the third machine was shut down on August 13, 2001 to complete the program. On a net basis, the modernization program in Texas removed 110,000 tonnes of annual newsprint capacity.

Dividends

Dividends paid in 2001 amounted to \$176 million compared to \$1,726 million in 2000 including the cash portion of the purchase price for the Donohue shares of \$1,622 million and \$15 million paid to the former Donohue shareholders in the first quarter of 2000. The Board of Directors declared regular dividends of \$0.10 per share, or \$44 million, in each quarter since the Donohue acquisition.

Selected Information

A comparison of the Company's results for the year 2001 with 2000 shows significant changes in all areas. Certain indicators of pro forma financial results are provided to assist the reader in understanding these statements. Pro forma results assume that the Donohue acquisition and related debt issue took place at the beginning of 2000.

(in millions of dollars, except per share amounts)	2001 Actual	2000 Pro forma
	\$	\$
Net sales	6,032	6,803
Operating profit	984	1,109
Interest expense	472	494
Net earnings	289	350
Earnings per share	0.66	0.80

In 2001, net sales decreased to \$6 billion compared to pro forma net sales of \$6.8 billion in the previous year. Operating profit was \$984 million or 16.3% of net sales in 2001 compared to pro forma operating profit of \$1,109 million or 16.3% of pro forma net sales in 2000.

Summary of Results from Operations

Net sales reached \$6 billion in 2001 compared to \$5.7 billion in 2000. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to \$1,651 million or 27.4% of net sales, compared to \$1,515 million, or 26.7% of net sales, in 2000.

Operating profit		
(in millions of dollars)	2001	2000
	\$	\$
Newsprint	613	618
Value-added groundwood papers and market pulp	359	384
Lumber	12	2
Total	984	1,004

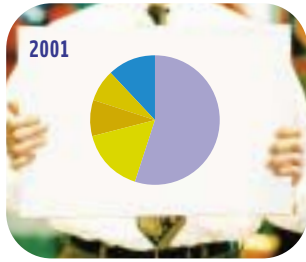
Interest on long-term debt totalled \$472 million in 2001 compared to \$379 million in 2000. The increase is primarily due to recording interest on long-term debt assumed as a result of the acquisition of Donohue for the full year versus eight months and a half in 2000.

Other expenses in 2001, includes a gain of \$10 million due to a disposal of short-term investment. In December 2000, the Company sold its Chandler, Québec, newsprint mill and realized a gain of \$29 million. As part of the sale, the purchaser agreed not to produce paper which compete with the Company's core grades.

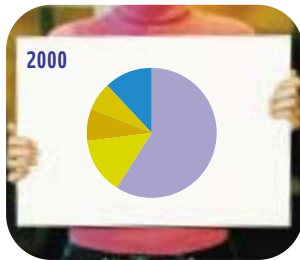
Other expenses incurred during 2000 include the write-off of the deferred financing fees related to the repayment of the bridge loan used for the acquisition of Donohue and of the former bank loan agreements. Those credit facilities were replaced by US\$1.4 billion of long-term debt issued in the US and by bank credit facilities of \$1.5 billion. Premiums were also paid for the early repayment of other long-term borrowings.

Income tax expenses during the year amounted to \$143 million or 29% of earnings before taxes and goodwill amortization, compared to \$191 million for an effective rate of 32% in 2000. The effective tax rate in 2001 was lower due to the recovery from a reduction in statutory tax rates.

Distribution of newsprint sales:



- ◆ United States 55%
- ◆ Europe 16%
- ◆ Canada 9%
- ◆ Latin America 8%
- ◆ Other Countries 12%



- ◆ United States 59%
- ◆ Europe 14%
- ◆ Canada 8%
- ◆ Latin America 7%
- ◆ Other Countries 12%

Newsprint

Net sales of newsprint were \$3,519 million in 2001, compared to \$3,438 million in 2000. Operating profit for the same periods was \$613 million, or 17.4% of net sales, and \$618 million, or 18% of net sales, respectively. The increase in net sales mainly comes from higher average price year over year and weaker Canadian dollar compared with the US currency partly offset by lower sales volume.

The average mill net for newsprint rose to \$790 per tonne in 2001, an increase of 7% over the previous year. The Company's shipments totaled 4,456,000 tonnes compared to 4,667,000 tonnes sold in 2000. The decrease in volume resulted mainly from market related downtime taken at almost all the Company's newsprint mills and permanent shut-down of high costs machines or mill, which occurred at the end of 2000 and during 2001.

North American newsprint demand decreased by 10.9% in 2001 compared to 2000 as a result of a decline in advertising linage, editorial pages and newspaper circulation. The average North American operating rate was 90% compared with 97% in 2000. According to Pulp & Paper Products Council (PPPC), North American imports declined by 12.2%, while overseas exports also declined by 12%, as the decrease in demand was felt across the globe.

These weak conditions forced industry prices to decline by approximately US\$100 per tonne, or 17%, in North America through the course of 2001.

Prices in Europe during the 2001 contract year increased approximately 17% when compared with 2000 due in part to weakening European currencies compared to the US dollar.

Prices in other parts of the world, where consumption was also under pressure, followed approximately the same trend as North American prices.

Management currently expects demand in North America to remain low until the second part of 2002 when a recovery is expected for both North American and International markets. Production capacity in North America is expected to decrease due to machine closures and conversions to higher value grades. The Company believes that scheduled capacity additions in other parts of the world should not have a significant impact on the market in 2002.

The Company expects prices in North America to remain under pressure in early 2002, with supply and demand being more balanced in the second half, which coupled with relatively low inventory levels by historical standards, should result in better pricing for newsprint producers once demand improves.

The Company's newsprint manufacturing costs rose by 4% in 2001 compared to the average manufacturing costs in 2000. Market downtime, increases in fibre and energy costs and the translation, into Canadian dollars, of the US mill's manufacturing costs negatively impacted costs by about 8%. However, the Company's synergy program reduced manufacturing costs by approximately 4% compared to the average costs of 2000, a year which already included some synergy advantages.

Value-Added Groundwood Papers and Market Pulp

Net sales of value-added groundwood papers and market pulp were \$1,921 million in 2001, compared to \$1,601 million in 2000. Operating profit for the same periods was \$359 million, or 18.7% of net sales, and \$384 million, or 24% of net sales, respectively. The increase in net sales is attributable to additional sales volume mainly due to the Donohue acquisition and the start-up of the Lufkin machine. This additional volume was partly offset by the reduction in pulp transaction prices.

The average mill net for value-added groundwood papers rose to \$984 per tonne in 2001, an increase of 5% over the previous year, due mainly to an increase in transaction prices and the impact of a weakening Canadian dollar compared with the US currency. The Company's shipments of value-added groundwood papers totalled 1,676,000 tonnes in 2001, compared to 1,331,000 tonnes in 2000. Shipments from former Abitibi-Consolidated mills had been accounted for only as of April 18, 2000 explaining the major part of the increase.

The average mill net for market pulp decreased by 18% to \$722 per tonne in 2001. Sales volumes amounted to 376,000 tonnes in 2001, down from 408,000 tonnes in 2000. Temporary shutdowns related to market conditions explain most of the volume reduction. This was partially offset by the inclusion of the shipments from the Fort Frances, Ontario mill for the full year in 2001, against only from April 18 in 2000.

The Company's manufacturing costs for value-added groundwood papers rose by 4.8% in 2001 compared with the previous year. Start-up of the Lufkin machine, higher costs of fibre and energy, and market downtime have had a significant negative impact on overall costs. On the other hand, achieved synergy cost savings and productivity gains have partly offset these cost increases.

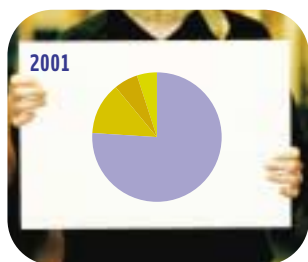
Shipments of value-added groundwood papers		
(in thousands of tonnes)	2001 Actual	2000 Pro forma
SC, Soft-Nip papers	667	681
Alternative and Equal Offset™ & Hi-Brite papers	648	705
Directory papers	150	220
Specialty papers	211	204
Total	1,676	1,810

ABical™ Grades (Supercalendered (SC) and Soft-Nip)

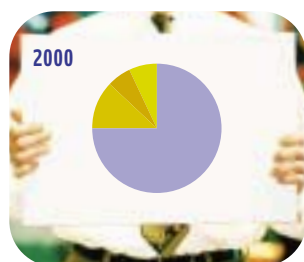
Demand for SC and Soft-Nip papers declined by approximately 2.9% in 2001 according to the PPPC. This market segment was affected by general economic conditions and reduced retail print advertising. Prices for SCA/SCB remained stable for the first half of the year and declined gradually by approximately US\$120 per tonne in the second half. Declining price trends throughout the year followed those of other benchmark grades, notably LWC and newsprint.

The Company believes that demand will improve over the second half of 2002 resulting from the anticipated recovery in general economic conditions. The recovery should lead to an increase in advertising, which in turn should result into higher magazine page counts, additional distribution of inserts and mailers, and increased numbers of catalogues mailed. Nonetheless, 2002 will be challenging given new SC capacity coming on-line in North America.

Distribution of value-added groundwood papers and market pulp sales:



- ◆ United States 76%
- ◆ Canada 13%
- ◆ Europe 6%
- ◆ Other Countries 5%



- ◆ United States 75%
- ◆ Canada 12%
- ◆ Europe 6%
- ◆ Other Countries 7%

Alternative Offset™, Equal Offset™ and ABlbrite™ Grades

Sales of *Alternative Offset™* and *Equal Offset™* increased by 62,000 tonnes or 32%. Sales of *Alternative Offset™* increased by 15,000 tonnes over 2000, and, in its first full year of production, *Equal Offset™* increased by 47,000 tonnes. Demand for *ABlbrite™* grades was negatively impacted by the economy as well as by substitution to other paper grades. Industry pricing for all grades declined during the year, due to weak economic conditions and soft pricing in benchmark grades, such as uncoated freesheet and newsprint.

The Company believes that demand for *Alternative Offset™* and *Equal Offset™* will continue to increase, as more progress is made towards successfully replacing uncoated freesheet in select applications. In 2002, *ABlbrite™* grades will be influenced by the potential economic recovery as well as pricing for the benchmark newsprint grades.

ABllite™ Grades (Directory)

Demand for directory paper declined in 2001, by approximately 7.5%, due to weaker economic conditions. Shipments of directory paper from Abitibi-Consolidated, however, remained stable compared to 2000. Pricing remained relatively stable with some downward pressure due to pricing in the overall paper markets. The 2002 outlook is positive, and still remains relatively unaffected by inroads from electronic media. The Company expects the market for directory to remain stable in 2002.

Market Pulp

The market for NBSK pulp fell back to its 1998-1999 levels with North American and Scandinavian (NORSCAN) operating rate finishing the year at 85% compared to 95% in 2000. Consequently, list prices fell from the US\$700 per tonne level at the beginning of the year down to approximately US\$500 per tonne in December 2001. Despite weak market conditions still prevailing in the latter part of 2001, year end NORSCAN inventories at 1.7 million tonnes were 3% lower than at the end of 2000. The market is expected to remain under pressure in the first half of 2002 and to recover, along with the rest of the economy, in the second half of the year with no major change in production capacity expected.

Change in Capacity

On May 9, 2001, the Company sold its Wayagamack mill in Trois-Rivières, Québec. The mill had an annual production capacity of 185,000 tonnes of value-added groundwood papers.

In August 2001, Abitibi-Consolidated started up a new paper machine in Lufkin, Texas. The machine will have an annual production capacity of 260,000 tonnes of SC papers once it reaches its normal production level. The start-up curve is ahead of the original schedule. The machine is already producing *ABlbrite™* (Mando) and *ABlcal™* (SNC) grades for customers.

Lumber

On April 2, 2001, certain US industry and trade groups filed petitions with the US Department of Commerce (USDOC) and the US International Trade Commission (USITC) for the imposition of anti-dumping and countervailing duties on Softwood Lumber imported from Canada.

In response to the petitions, the USITC instituted a preliminary injury investigation and the USDOC instituted anti-dumping and countervailing duty investigations. On May 16, 2001, the USITC determined that there is reasonable indication that an industry in the United States is threatened with material injury by reason of imports from Canada of softwood lumber, that are alleged to be subsidized and sold in the United States at less than fair value. On August 9, 2001, the USDOC issued its preliminary affirmative determination that countervailable subsidies are being provided to producers and exporters of certain softwood lumber products from Canada and the USDOC imposed a preliminary duty rate of 19.31% to be posted by cash deposits or bonds on the net sales amount of softwood lumber to the US on or after August 17, 2001. The USDOC also determined that there was a reasonable basis to believe that the conditions of Critical Circumstances were met.

On October 31, 2001, the USDOC issued its preliminary affirmative determination in its anti-dumping case that the Company is selling softwood lumber products in the US below cost or below prices received in Canada and the USDOC imposed a preliminary duty rate of 13.64% to be posted by cash deposits or bonds on the net amount of softwood lumber to the United States. The USDOC also determined that there was no reasonable basis to believe that the conditions of Critical Circumstances were met.

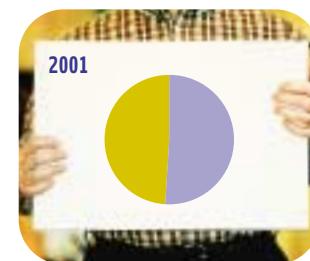
The Company and the other Respondents, including other companies, the Canadian Federal and provincial governments, are participating in the filing of responses to the preliminary countervailing determination of the USITC and USDOC. The Respondents do not agree with the preliminary countervailing determination made by the USITC and USDOC. In accordance with US law and the preliminary determination by the USDOC, the Company has posted bonds to secure the duty assessed in respect of the Company's net sales to the US of softwood lumber from August 17, 2001 to December 15, 2001 in the case of countervailing duty and from November 6, 2001 to December 31, 2001 on the anti-dumping case.

The final amount and effective date (which under Critical Circumstances could be retroactive to May 19, 2001) of countervailing duties, if any, that may be assessed on imports of softwood lumber from Canadian exporters, including the Company, cannot be determined at this time and will depend on factual and legal determinations yet to be made by the USDOC and USITC and any reviewing courts, NAFTA panels or WTO panels to which those determinations may be appealed.

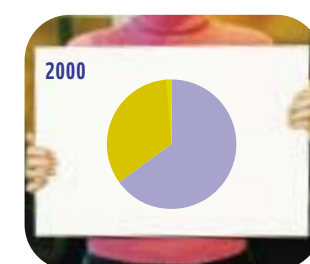
For accounting purposes, the Company has provisioned a pre-tax amount of \$13 million in its financial statements for the period from August 17, 2001 to December 15, 2001 representing the preliminary countervailing duty rate determined by the USDOC of 19.31%. The Company has not provisioned any amount for the period from May 19, 2001 to August 16, 2001, as management believes that the likelihood of Critical Circumstances is not determinable at this time. Also, the Company has provisioned a pre-tax amount of \$5 million in its financial statements for the period from November 6, 2001 to December 31, 2001 representing the preliminary anti-dumping rate determined by the USDOC of 13.64%. Any adjustments to the financial statements resulting from a change in the final countervailing duty or anti-dumping rate or Critical Circumstances rate on countervailing duty will be reflected into the financial statements prospectively.

Notwithstanding the preliminary rate established in the investigations, the final liability for the assessment of countervailing duties will not be determined until the administrative review process is complete.

Distribution of Lumber sales:



◆ United States 51%
◆ Canada 49%



◆ United States 65%
◆ Canada 34%
◆ Other Countries 1%

Net sales of lumber declined to \$592 million in 2001, compared to \$638 million in 2000. Operating profit for the periods were \$12 million and \$2 million respectively. The reduction in net sales comes from lower sales volume due to market conditions.

The average mill net for lumber decreased to \$347 per thousand board feet in 2001, compared to \$349 per thousand board feet in 2000. The Company's shipments totalled 1,704 million board feet in 2001, compared to 1,828 million board feet in 2000.

Lumber prices were higher in 2001 than the previous year, however net sales remained relatively flat due mainly to countervailing duties and anti-dumping provisions taken during the year. Lumber prices increased mainly in the second half of the year, partly from the impact of countervailing duties and anti-dumping charges for lumber shipped to the US, combined with slightly higher US housing starts and production curtailments. Demand in Canada continued to be strong as well, with housing starts remaining healthy. Overseas markets remained difficult throughout the year, particularly in Japan, where the lumber market does not appear to be recovering.

The Company believes that low US interest rates will help support housing starts in the first half of 2002 and the anticipated general economic recovery should drive housing starts and prices up in the latter part of the year.

Abitibi-Consolidated's lumber manufacturing costs declined 4% compared to 2000, mainly due to higher wood chips revenue, which is accounted for as a reduction in manufacturing costs.

Business Acquisition

On August 16, 2001, the Company announced it had concluded, jointly with Norske Skog of Norway, the acquisition of the one-third share of Pan Asia owned by Hansol, for a total of US\$350 million. The Company's disbursement totalling US\$175 million was financed through existing bank loan facilities and consequently increased its stake in the joint venture from 33.33% to 50%.

On September 4, Abitibi-Consolidated acquired Valley Recycling Works located in Chandler, Arizona for a total of US\$15 million. This recycling facility is very well positioned to supply the Company's recycled paper mills in the US Southwest.

Capital Expenditures

The Company spent a total of \$468 million in capital expenditures in 2001 compared to \$528 million in 2000. Combined capital expenditures of Donohue and Abitibi-Consolidated were \$610 million in 2000. Construction payables included in capital expenditures decreased by \$34 million in 2001 compared with an increase of \$57 million in 2000 mainly due to a reduction of capital projects and the completion of the Lufkin project. Major projects included a new thermo-mechanical pulp (TMP) plant in Kénogami (\$3 million in 2001 and \$71 million in 2000), and the Sheldon and Lufkin, Texas, modernization programs (\$182 million in 2001 and \$258 million in 2000). In January 2001, the Company started up the new pulp mill in Kénogami and in August 2001, it completed the Texas modernization program with the start-up of an SC paper machine at Lufkin, Texas.

The Company intends to limit its capital expenditure program in 2002 to less than \$300 million including its share of the Pan Asia joint venture.

Financial Position and Liquidity

Cash generated from operations totalled \$1,037 million, or \$2.36 per share in 2001, compared to \$1,192 million or \$3.11 per share, in 2000. The reduction in cash generated by operating activities was due mainly to the increase of \$50 million in operating working capital in 2001 compared to a reduction of \$179 million in 2000.

On December 11, 2001 the Company issued US\$300 million of notes bearing 6.95% interest maturing in 2006. The net proceeds of the issue were used to repay bank indebtedness. During the year, the Company also renewed its 364-day revolving facilities. At December 31, 2001 the available portion of the revolving facility was \$715 million.

Long-term debt, including the current portion, amounted to \$6,058 million as at December 31, 2001 representing a ratio of net debt to capitalization equal to 0.637 compared to \$5,592 million for a ratio of 0.634 at December 31, 2000. The increase in long term debt is mainly due to the negative impact of the weakening Canadian dollar on US dollar denominated debt for \$354 million and the increase of the Company's interest in Pan Asia for \$386 million, partly offset by debt reduction of about \$300 million.

The Company intends to continue to maintain a disciplined capital expenditure program and to apply free cash flows towards the reduction of debt.

Other Significant Events

Since December 17, 2001, an agent appointed by the Canadian Competition Bureau has been responsible for the sale of the Port-Alfred, Québec newsprint mill, in accordance with the agreement between the Company and the Bureau. While certain disagreements between the Company and the Bureau as to the interpretation of the agreement are currently before the Courts, the Company remains committed to the sale of the Port-Alfred mill in compliance with its obligations under the agreement.

On September 19, the Company entered into a partnership agreement with Fortis Inc. that is expected to increase its hydroelectric production capacity in Newfoundland. Additional energy produced will be sold to Newfoundland and Labrador Hydro. Abitibi-Consolidated holds a 49% interest in the partnership.

2000 Compared to 1999

The Company posted net earnings of \$367 million in 2000, or \$0.96 per diluted common share, compared to \$216 million in 1999, or \$0.86 per diluted common share. The improvement to net earnings resulted mainly from price increases for newsprint, value-added papers and pulp in 2000 when compared to 1999. Lumber prices however were significantly lower than the previous year. The Company reduced its costs through a synergy program put in place following the acquisition of Donohue. However, these synergy cost reductions were more than offset by significant increases in fibre and energy costs, which represented a major portion of pulp and paper manufacturing costs.

Net sales totalled \$5,677 million in 2000 compared to \$2,484 million in 1999. In addition to price variances mentioned in the preceding paragraph, the sales volume increase from 1999 to 2000 was mainly due to the Donohue acquisition.

RISKS AND UNCERTAINTIES

Prices

Paper prices are tied to the health of the economies of North and South America, Asia and Europe, as well as to paper inventory levels in these regions. A slowdown in the North American and Asian economy in 2001 drove advertising spending down and decreased paper consumption.

Paper prices are also tied to variances in production capacity. The Company believes that worldwide capacity increases are at historically low levels.

The Company expects an improvement in the general market environment for newsprint and value-added groundwood papers in the second half of 2002, arising from an economic recovery in North America and in Europe, combined with the absence of significant new capacity of newsprint.

Foreign Exchange

The Company's exposure to the US dollar is a risk to its business. Approximately 73% of the net revenues and 18% of manufacturing costs are in US dollars. The US dollar exposure may therefore cause volatility in the Company's cash flows and earnings.

The Company's principal paper markets are outside Canada and exposure to exchange rate risks cannot be avoided. The Company's foreign exchange program includes partial hedging of US dollar cash flows. The Company also borrows most of its long-term debt in US dollars and this debt constitutes an effective partial hedge on future US cash flows.

Softwood Lumber Dispute

Since the end of the five-year softwood lumber agreement between Canada and the United States in March 2001, the USDOC has instituted anti-dumping and countervailing duty investigations. Preliminary affirmative determinations have been issued by the US government and duties have been imposed at preliminary rates of 19.31% for countervailing duties and 13.64% for anti-dumping calculated on the net sales of the Company's lumber shipped to the United States. The Canadian and the US governments are still negotiating and continue to aim a settlement in early 2002.

As a Company with operations in Canada, United States, United Kingdom and Asia, Abitibi-Consolidated believes free and open trade is critical to maintain global competitiveness and remains confident that lower rates, if any at all, will prevail in the final determination.

On a quarterly basis and based on normal shipment pattern, the after-tax impact of every 1% increase or decrease in countervailing or anti-dumping tariffs represents approximately \$0.6 million.

Fibre Supply

Fibre represents the Company's major raw material in the production of lumber, paper and pulp.

The virgin fibre supply required by the Company in Canada is mostly assured by agreements with provincial governments. The agreements are granted for various terms, from 5 to 25 years, and are generally subject to regular renewal every 5 years. They incorporate commitments with respect to sustainable forest management, silvicultural work, forest and soil renewal as well as cooperation with other forest users. The Company believes that it complies with all forest regulations and fully expects to have its supply agreements extended as they come up for renewal.

The Company's sawmills produce approximately 60% of the internal wood chips required at its Canadian pulp and paper mills. This includes fibre exchanges with independent sawmills and long-term contracts with third parties conducted at market prices.

Virgin fibre in the United States is obtained through the Company's private timberlands, long-term supply contracts and purchases on the open market.

The Company also uses recovered paper to produce paper with recycled content. The Company is involved in the recovery of old papers and has contracts with numerous recyclers, waste haulers and brokers in countries where its mills are located.

The Company believes that the balance of fibre supply between its internal sources and the open market is more than adequate to support its paper production requirements.

Environment

The Company is subject to environmental laws and regulations relating to timber cutting, air emissions, wastewater discharge, waste management and landfill sites. The Company believes that it is in material compliance with all laws and regulations governing its activities and that the only foreseeable major capital expenditure is the rebuild of the effluent treatment system at the Lufkin mill (completion in 2003).

The Company conducts compliance audits, performed by both internal and external auditors, which cover all Company sites over a defined schedule of time.

The Company has a corporate policy on environmental issues and has also implemented a certification process with its pulp and paper mills and woodlands operations under the International Standards Organization (ISO). The Company plans to obtain ISO 14001 certification for all its operations by the end of 2003.

Price and Exchange Rate Sensitivity

The Company's operating profit, net earnings and diluted earnings per share are impacted by fluctuations in selling prices and foreign exchange to the following extent:

2002 Sensitivities

(in millions of Canadian dollars, except per share amounts)

Based on budgeted volumes, prices and exchange rate

Impact on	Operating Profit	Net Earnings	Earnings Per Share
	\$	\$	\$
US\$25 change in transaction price – per unit			
Newsprint ⁽¹⁾	181	124	0.28
Value-added groundwood papers ⁽¹⁾	66	45	0.10
Lumber ⁽²⁾	67	46	0.10
Foreign exchange (Based on 2001 GAAP)			
US\$0.01 change in relative value to the Canadian dollar	36	21	0.05

(1) per tonne

(2) per thousand board feet

Outlook

The Company is a major global low-cost producer and marketer of newsprint, value-added groundwood papers with interests in operations in Canada, the United States, the United Kingdom, South Korea, China and Thailand. It is also one of the major lumber producers in North America.

After giving effect to machine start-ups, closures and conversions completed in 2001 and adding the increase in Pan Asia's equity, the Company's production capacity, at the beginning of 2002, is as follows:

(in thousands of tonnes, except lumber)	
Newsprint	5,570
Value-added groundwood papers	1,889
Market pulp	450
Lumber (MBf)	2,280

The Company believes that newsprint markets will firm up in 2002, considering economists' forecast for growth in the US economy during the second half of the year.

The Company expects the market for value-added groundwood papers to be unbalanced due to increased capacity in SC grades. Prices may be below the 2001 levels in the first half of this year but are expected to improve thereafter.

Overall market conditions are expected to be difficult in the first half of the year and improve in the latter part. The Company intends to apply free cash flows toward the reduction of long-term debt.

2001 QUARTERLY FINANCIAL INFORMATION CONSOLIDATED STATEMENT OF EARNINGS

(unaudited)

(in millions of Canadian dollars, except as noted)

	1st quarter	2nd quarter	3rd quarter	4th quarter	Year 2001
	\$	\$	\$	\$	\$
Net sales	1,720	1,547	1,389	1,376	6,032
Cost of products sold	1,163	1,046	979	1,020	4,208
Selling, general and administrative expenses	43	41	43	46	173
Depreciation and amortization	154	184	159	170	667
Operating profit	360	276	208	140	984
Interest on long-term debt	126	111	116	119	472
Other expenses	9	–	8	–	17
Earnings before the following items	225	165	84	21	495
Income tax expense	75	41	23	4	143
Non-controlling interests	8	6	6	3	23
Earnings before goodwill amortization	142	118	55	14	329
Goodwill amortization	10	10	10	10	40
Net earnings for the period	132	108	45	4	289
Earnings per share					
Before goodwill amortization	0.32	0.27	0.12	0.04	0.75
Net earnings	0.30	0.25	0.10	0.01	0.66
Weighted average number of common shares outstanding (in millions)	440	440	440	440	440
Common shares outstanding at end of period (in millions)	440	440	440	440	440
Shipments					
Newsprint ⁽¹⁾	1,271	1,088	1,005	1,092	4,456
Value-added groundwood papers and market pulp ⁽¹⁾	545	496	494	517	2,052
Lumber ⁽²⁾	433	482	391	398	1,704

(1) in thousands of tonnes

(2) in millions of board feet

2000 QUARTERLY FINANCIAL INFORMATION CONSOLIDATED STATEMENT OF EARNINGS

(unaudited)

(in millions of Canadian dollars, except as noted)

	1st quarter	2nd quarter	3rd quarter	4th quarter	Year 2000
	\$	\$	\$	\$	\$
Net sales	656	1,481	1,736	1,804	5,677
Cost of products sold	473	1,083	1,203	1,235	3,994
Selling, general and administrative expenses	16	46	53	53	168
Depreciation and amortization	62	137	156	156	511
Operating profit	105	215	324	360	1,004
Interest on long-term debt	25	104	126	124	379
Other expenses (income)	1	(1)	25	(4)	21
Earnings before the following items	79	112	173	240	604
Income tax expense	25	39	52	75	191
Non-controlling interests	2	3	4	7	16
Earnings before goodwill amortization	52	70	117	158	397
Goodwill amortization	1	9	10	10	30
Net earnings for the period	51	61	107	148	367
Earnings per share					
Before goodwill amortization	0.21	0.17	0.27	0.36	1.03
Net earnings	0.20	0.15	0.24	0.33	0.96
Weighted average number of common shares outstanding (in millions)	250	404	440	440	384
Common shares outstanding at end of period (in millions)	250	440	440	440	440
Shipments					
Newsprint ⁽¹⁾	593	1,257	1,421	1,396	4,667
Value-added groundwood papers and market pulp ⁽¹⁾	140	463	567	569	1,739
Lumber ⁽²⁾	411	502	495	420	1,828

(1) in thousands of tonnes

(2) in millions of board feet