



THREE MONTHS ENDED  
MARCH 31, 1998

A large, light gray, stylized graphic of the AETIBI logo, consisting of multiple concentric, overlapping curved bands that spiral inward, creating a sense of depth and movement. It is positioned in the lower half of the page, behind the main title.

First  
Quarter  
Report

Abitibi-Consolidated Inc. — We are a leading Canadian-based manufacturer and global marketer of newsprint and uncoated groundwood papers. Operating 18 mills throughout North America and the United Kingdom, our vision is to be the world's preferred marketer and manufacturer of papers for communication.

#### Forward-looking Statements

The Securities Litigation Reform Act of 1995 provides a "safe harbour" for forward-looking statements so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors which could cause actual results to differ materially from those projected in the statements. This report contains forward-looking statements about future operations and expectations of the company and contains statements of the Company's beliefs, intentions and expectations about developments, results and events which will or may occur in the future, and are based on certain assumptions and analysis made by the Company derived from its experience and perceptions. However, actual results and developments may vary materially from those described as they are subject to a number of risks and uncertainties, including general economic, market and business conditions, opportunities available to or pursued by the Company, changes in law and other factors, many of which are beyond the control of the Company. The Company does not intend to update forward-looking statements.

## Overview

### \$57-Million Net Profit for the Quarter

In the first quarter of 1998, Abitibi-Consolidated Inc. recorded net earnings, before synergy incentive and unsuccessful acquisition costs, of \$57 million, or 29¢ per fully-diluted common share—a \$108 million, or 55¢ per common share increase, from 1997's first quarter loss of \$51 million and equal to 1997's fourth quarter net income, before one-time charges, of \$57 million. The increase in earnings resulted primarily from higher selling prices and lower manufacturing costs.

After the synergy incentive after-tax expense of \$13 million and unsuccessful acquisition after-tax expenses of \$4 million, the Company earned \$40 million (or 21¢ per fully-diluted common share).

### Synergy Update

We are now realizing significant savings from our amalgamation. In the first quarter of 1998, our annualized savings rate reached \$165 million. For the first quarter, this meant that we saved \$48 million in pre-tax costs compared to average quarterly results for 1996.

*(millions of Canadian dollars)*

	Achieved in Quarter 1, 1998	March 31, 1998 Annualized Run Rate
Paper and lumber manufacturing		
cost savings	\$ 36	\$ 113
Gross profit on additional sales volume	4	14
Selling, general and administrative		
expense reduction	5	20
Annualized cash savings		
from reduced capital expenditures	1	5
Lower interest income and other income, net	(3)	(12)
Total before interest savings	43	140
Interest savings	5	25
Total synergy program savings	\$ 48	\$ 165

To achieve these net savings, we have a special incentive plan in place for our executive group, senior operators and managers. In March, 1998, we expensed \$13 million of after-tax synergy incentive costs. If we achieve \$200 million in annualized program net savings, incentives under this plan would be a further \$10 million, after-tax. These incentive payments will be expensed when they become payable.

### Share Repurchase

On April 27, 1998, Abitibi-Consolidated Inc. announced it had issued a normal-course issuer bid for its common shares. Starting April 29, 1998, we received the right, under the normal course issuer bid, to purchase for cancellation up to 10% of the public float of our common shares — approximately 14.5 million shares. No more than 2% of the Company's shares can be purchased in any 30-day period. This right to purchase shares expires April 28, 1999, and is valid only for shares traded on the Toronto and Montreal Stock Exchanges. A copy of the Notice of Intention, with respect to this normal course issuer bid, can be obtained by contacting our Investor Relations department at 514-394-3264. We believe that, at times, the market price of our common shares does not adequately reflect the Company's underlying value and financial prospects. Accordingly, we consider the purchase of the Company's shares a use of cash that is consistent with our goal of increasing shareholder value.

### U.S. and Mexican Assets of Office Products Division Sold

On April 3, 1998, we sold the Company's U.S. and Mexican Office Products Division for net cash of U.S. \$100 million. We anticipate that we will record a gain on this sale in the second quarter. The net proceeds from the sale were used to reduce long-term debt. We expect to divest the remaining assets of the Office Products Division by year-end.

### U.S. \$600 Million in Long-term Debt Refinancing

On April 1, 1998, the Company issued U.S. \$600 million in long-term unsecured debt with the following terms:

- U.S. \$250 million, 6.95% notes, due April 1, 2008, issued at 99.806%,

- U.S. \$100 million, 7.40% debentures, due April 1, 2018, issued at 99.287%, and
- U.S. \$250 million, 7.50% debentures, due April 1, 2028, issued at 99.184%.

This debt was issued pursuant to the Company's U.S.\$1 billion shelf registration, which was filed in November 1997. Net proceeds from the offering were used to replace floating rate shorter-term facilities. This financing helps achieve a Company goal of securing diversified sources of borrowing and ensuring that the term structure of the Company's debt more closely matches the useful lives of the productive assets which it helped fund.

#### **Dividends**

On January 2, 1998, the Company paid shareholders a \$19 million cash dividend of 10¢ per common share. On March 10, 1998, the Company declared a cash dividend of 10¢ per common share, payable on April 1, 1998.

#### **Inventory**

On March 31, 1998, our inventory levels were 61,000 tonnes lower for newsprint and 43,000 tonnes lower for value-added groundwood papers than at the same time a year ago. Inventory levels for newsprint had increased 44,000 tonnes from the below average levels we had at the end of 1997, while value-added groundwood paper inventory levels decreased 2,000 tonnes from the 1997 year-end level. March, 1998 newsprint inventory levels actually declined by approximately 16,000 tonnes. We will continue our disciplined inventory management by taking downtime when appropriate.

#### **Bid to Acquire Avenor Inc.**

In March, 1998, the Company made an offer to acquire all of the outstanding common shares of Avenor Inc. at a price of \$28 per share, for a total consideration of approximately \$2 billion. A competitor, however, made a subsequent bid of \$35 per share. At that price, we no longer viewed Avenor Inc. as an acquisition that would provide value for our shareholders. Accordingly, we withdrew our bid and expensed the \$6 million, pre-tax, of costs.

## **Summary Of Results From Operations**

Operating profit, for the first quarter of 1998, before the synergy incentive expense, was \$108 million—\$156 million higher than the first quarter of 1997. This increase is primarily attributable to higher selling prices, favourable exchange rates and significantly lower manufacturing costs in our paper business.

Our operating profit, before unusual items, was \$9 million below the fourth quarter of 1997. This was mainly attributable to higher losses on foreign currency hedging transactions.

#### **NEWSPRINT AND VALUE-ADDED GROUNDWOOD PAPERS**

Our paper business recorded a first quarter operating profit of \$95 million, before the synergy incentive expense. This is \$150 million better than the loss of \$55 million we incurred in the first quarter of 1997.

Our average 1998 first quarter global net selling prices were 17% higher in the first quarter of 1998 than in the same period in 1997. This increased our operating profit by \$104 million. Lower manufacturing costs further improved our operating profit by \$35 million. Higher value-added groundwood paper sales volumes added \$8 million to operating profit, while decreases in other operating costs added another \$3 million to operating profit.

### **North American Newsprint Markets**

Our first quarter North American newsprint sales volumes were 403,000 tonnes, or 13% below those of 1997's fourth quarter. This reduced operating profit by \$12 million. Our average first quarter North American net selling prices were 4% higher than in the fourth quarter of 1997 — which increased our operating profit by \$12 million. In the first quarter, our average North American net selling prices were 23% higher than in the first quarter of 1997.

Historically, the first quarter has been our lowest paper sales period. Conversely, the fourth quarter, with Christmas advertising has been the strongest. Thus our 13% sales volume drop from 1997's fourth quarter to 1998's first quarter is in line with historical trends. CPPA statistics show that in January and February, 1998 consumption by daily newspapers (by far the largest consumers of newsprint) was up 3.7% from the same period in 1997. Also, these figures show that in January and February, 1998, total U.S. newsprint consumption increased by 16,000 tonnes as compared with the same period in 1997.

The second quarter begins with relatively low total inventories, and strong national, display and insert advertising. As a result, North American newsprint markets are expected to experience healthy demand, which will help implement our announced U.S. \$40 per tonne newsprint price increase.

### **International Newsprint Markets**

Our first quarter international newsprint sales volume was 261,000 tonnes, or 7% lower than the fourth quarter of 1997. Most of the decline occurred in Asia, while Europe and Latin America remained at fourth quarter 1997 levels. This reduced operating profit by \$3 million. Our average first quarter international net selling prices were 4% higher than in the fourth quarter of 1997, which increased our operating profit by \$6 million.

According to the CPPA, North American exports for January and February, 1998 were down 22% from the record-setting pace set in the same period of 1997. Our exports, which were 1% less than the first quarter of 1997, were above those expected by many analysts.

### **Value-Added Groundwood Paper Markets**

First quarter net sales of value-added groundwood papers were \$315 million, down \$14 million from the fourth quarter of 1997. The benefits of higher selling prices and lower manufacturing costs were more than offset by a 5% drop in sales volume from the fourth quarter.

#### *Supercalendered*

First quarter 1998 demand for our supercalendered papers (SC) was strong, due to increased advertising by retailers. The pricing differential between light-weight coated (LWC) grades and SCA continued to be in the 20% to 25% range. This resulted in many end-users substituting SC products for LWC.

Significant new North American SCA capacity (350,000 tonnes) is expected to be started up in May, 1998. With a better demand-supply balance, reduced producer and consumer inventories and tight markets for LWC papers in 1998, it is possible that, even with this new capacity, demand could continue to be balanced with supply for supercalendered papers in 1998.

#### *Directory*

Directory pricing remained stable during the first quarter of 1998. Our net selling prices and sales volumes were relatively unchanged from the fourth quarter of 1997.

### **Paper Manufacturing Operations**

Overall, our first quarter manufacturing costs for newsprint and value-added groundwood papers were lower than the same period in 1997 by \$29 per tonne and \$76 per tonne, respectively. This represented savings of \$45 million in our manufacturing costs. Our manufacturing costs were \$41 per tonne lower for newsprint and value-added groundwood papers, which translates into an annualized pre-tax saving of \$160 million as compared to 1996.

In 1998, our paper mills have operated at 97.7% of capacity, up from 94.2% during the same period in 1997. During the first quarter, we took 3,000 tonnes of market-related downtime, as compared to 47,500 tonnes taken during the first quarter of 1997.

During the first quarter of 1998, our paper mills operated at 86.3% efficiency, up from 84.2% during the same period in 1997. The improved efficiency increased our profitability by \$6 million, as compared to the same period in 1997.

During the first quarter of 1998, reduced prices for many of our key raw materials lowered manufacturing costs by \$10 million, as compared to the same period a year ago. Of that \$10 million, steam and power prices reduced manufacturing costs by \$6 million, lower wood and kraft pulp prices saved \$2 million and lower chemical prices reduced costs by \$2 million. We also realized \$12 million in savings from using less kraft pulp and chemicals in our operations. Reduced spending on maintenance supplies and usage of other materials lowered costs by another \$15 million.

### **NEWSPRINT PURCHASED AND RESOLD AND COMMISSIONS**

Our newsprint purchased and resold and commissions business segments' first quarter net sales were \$142 million, up 19% from the first quarter of 1997. Operating profit of \$6 million for the quarter was \$2 million higher than the \$4 million recorded in the same period of 1997. Higher paper prices offset lower sales volumes.

### **LUMBER AND PULP**

Our first quarter net sales were \$61 million, up 13% from the first quarter of 1997. Operating profit of \$7 million for the quarter was \$4 million higher than the \$3 million recorded in the same period of 1997.

## Financial Position And Liquidity

As of March 31, 1998, we had \$58 million in cash—up \$12 million from the \$46 million we had on December 31, 1997. The increase was primarily the net result of the following:

- \$103 million generated by continuing operating activities;
- \$57 million spent on additions to fixed assets;
- \$9 million spent on investments and other assets;
- \$19 million of dividend payments; and
- \$7 million used to fund discontinued operations.

In the first quarter, we spent \$57 million on capital improvements at our mills, which is \$22 million below our depreciation and amortization for the quarter. We remain committed to our goal of keeping capital expenditures, on average, at or below our depreciation and amortization expense for the next three years. Our April, 1998, U.S. \$600 million refinancing and the U.S. \$100 million net proceeds from the sale of the Office Products division will improve the Company's liquidity and financial position.

## Year 2000

Our "Year 2000" program was launched in March, 1997, and is progressing as planned with the implementation of new financial information systems, certified as "Year 2000" compliant, completed in half of our mills. The resources are in place to finalize the implementation and/or upgrade to "Year 2000" compliance standards at the remaining mills and Head Office by June, 1999. We are near completion of a comprehensive review of process systems in our mills and have begun to implement upgrades and/or replacements, which are expected to be completed by the third quarter of 1999.

We have begun the process of contacting suppliers to assess their degree of readiness and to ensure that our compliance deadline will not be adversely impacted. We will contact the remaining suppliers before the end of 1998.

We will continue to monitor risks and progress as part of the process of becoming Year 2000 compliant and will advise all of our stakeholders on a regular basis.

## Outlook

As of March 31, 1998, paper inventories remained at relatively low levels and paper consumption was forecast to increase in North America, Europe, Latin America and Asia. We believe this lays a strong foundation for the full implementation of our announced U.S. \$40 per tonne price increase for newsprint effective May 1, 1998.

Synergy program savings are ahead of our initial expectation and we are convinced we can reach \$200 million of annualized pre-tax savings before May 31, 1999.

## CONSOLIDATED STATEMENT OF EARNINGS

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

	Three months ended March 31	
	1998	1997
Gross sales	\$ 1,093	\$ 905
Freight expenses	95	96
<b>Net sales</b>	<b>998</b>	<b>809</b>
Cost of sales	768	730
Depreciation and amortization	79	80
Selling, general and administrative expenses <sup>(4)</sup>	43	47
Synergy incentive	20	—
<b>Operating profit (loss) from continuing operations</b>	<b>88</b>	<b>(48)</b>
Interest expense on long term debt	28	29
Unsuccessful acquisition costs	6	—
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>54</b>	<b>(77)</b>
Recovery of (provision for) income taxes	(19)	21
<b>Earnings (loss) from continuing operations</b>	<b>35</b>	<b>(56)</b>
<b>Earnings from discontinued operations, net of income tax expense<sup>(5)</sup></b>	<b>5</b>	<b>5</b>
<b>Net earnings (loss) for the period</b>	<b>\$ 40</b>	<b>\$ (51)</b>
<b>Per common share:</b>		
Earnings (loss) from continuing operations	\$ 0.18	\$ (0.29)
Net earnings (loss) for the period		
Basic	0.21	(0.26)
Fully diluted	0.21	(0.26)
<b>Weighted average number of common shares outstanding (millions)</b>		
Basic	194.2	193.7
Fully diluted	197.5	197.5
<b>Fully diluted number of common shares outstanding at end of period (millions)</b>	<b>197.5</b>	<b>197.5</b>

## CONSOLIDATED RETAINED EARNINGS

unaudited  
(millions of Canadian dollars)

	Three months ended March 31	
	1998	1997
<b>Retained earnings, beginning of period</b>	<b>\$ 589</b>	<b>\$ 804</b>
Net earnings (loss) for the period	40	(51)
Dividends declared	(19)	(9)
<b>Retained earnings, end of period</b>	<b>\$ 610</b>	<b>\$ 744</b>

CONSOLIDATED BALANCE SHEET

unaudited  
(millions of Canadian dollars)

	March 31 1998	December 31 1997
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposits	\$ 58	\$ 46
Accounts receivable	451	481
Inventories	456	417
Prepaid expenses	45	28
Current assets of discontinued operations <sup>(5)</sup>	281	232
	<b>1,291</b>	1,204
<b>Fixed assets</b>	<b>4,055</b>	4,104
<b>Investments and other assets</b>	<b>43</b>	43
<b>Deferred pension cost</b>	<b>171</b>	170
<b>Goodwill</b>	<b>728</b>	733
<b>Non-current assets of discontinued operations<sup>(5)</sup></b>	<b>—</b>	41
	<b>\$ 6,288</b>	\$ 6,295
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities		
Continuing operations	\$ 631	\$ 663
Discontinued operations <sup>(5)</sup>	86	92
Dividends payable	19	19
Current portion of long-term debt		
Recourse	10	90
Non-recourse	17	17
	<b>763</b>	881
<b>Long-term debt</b>		
Recourse	1,412	1,338
Non-recourse	292	294
<b>Deferred income taxes</b>	<b>612</b>	594
	<b>3,079</b>	3,107
<b>SHAREHOLDERS' EQUITY</b>		
<b>Common shares</b>	<b>2,599</b>	2,599
<b>Retained earnings</b>	<b>610</b>	589
	<b>3,209</b>	3,188
	<b>\$ 6,288</b>	\$ 6,295

CHANGES IN CONSOLIDATED CASH POSITION

unaudited  
(millions of Canadian dollars)

	Three months ended March 31	
	1998	1997
<b>Continuing operating activities</b>		
Earnings (loss) from continuing operations	\$ 35	\$ (56)
Depreciation	73	74
Goodwill amortization	6	6
Provision for (recovery of) deferred income taxes	17	(10)
Other non-cash items	2	(4)
	<b>133</b>	<b>10</b>
Changes in non-cash operating working capital components of continuing operations	<b>(30)</b>	<b>(125)</b>
Cash generated by (used in) continuing operating activities	<b>103</b>	<b>(115)</b>
<b>Financing activities of continuing operations</b>		
Increase in long-term debt and bank indebtedness	5	230
Repayment of long-term debt and bank indebtedness	(4)	(50)
Preferred shares redeemed and cancelled	—	(10)
Other	—	1
Cash generated by financing activities of continuing operations	<b>1</b>	<b>171</b>
<b>Investing activities of continuing operations</b>		
Additions to fixed assets	(57)	(85)
Increase in investments and other assets	(9)	(6)
Cash used in investing activities of continuing operations	<b>(66)</b>	<b>(91)</b>
<b>Dividends paid to common shareholders</b>	<b>(19)</b>	<b>(9)</b>
<b>Cash generated by (used in) continuing operations</b>	<b>19</b>	<b>(44)</b>
<b>Cash used in discontinued operations<sup>(5)</sup></b>	<b>(7)</b>	<b>—</b>
<b>Increase (decrease) in cash during the period</b>	<b>12</b>	<b>(44)</b>
<b>Cash and deposits, beginning of period</b>	<b>46</b>	<b>76</b>
<b>Cash and deposits, end of period</b>	<b>\$ 58</b>	<b>\$ 32</b>

## CONSOLIDATED PRODUCT GROUP SEGMENT INFORMATION

unaudited  
(millions of Canadian dollars)

Three months ended March 31, 1998	Net Sales	Cost of Sales
Newsprint	\$ 480	\$ 351
Value-added groundwood paper	315	231
Synergy incentive	—	—
<b>Total Paper<sup>(1)</sup></b>	<b>795</b>	<b>582</b>
Lumber and Kraft Pulp <sup>(2)</sup>	61	48
Newsprint purchased and resold and commissions <sup>(3)</sup>	142	138
<b>Total</b>	<b>\$ 998</b>	<b>\$ 768</b>

(millions of Canadian dollars)

Three months ended March 31, 1997	Net Sales	Cost of Sales
Newsprint	\$ 394	\$ 367
Value-added groundwood paper	242	202
<b>Total Paper<sup>(1)</sup></b>	<b>636</b>	<b>569</b>
Lumber and Kraft Pulp <sup>(2)</sup>	54	45
Newsprint purchased and resold and commissions <sup>(3)</sup>	119	116
<b>Total</b>	<b>\$ 809</b>	<b>\$ 730</b>

<sup>(1)</sup> The Paper Business consists of the Company's 16 wholly-owned paper mills and the Company's ownership interest in its two 50% newsprint joint venture mills.

<sup>(2)</sup> Lumber sales were 110 million board feet (1997 – 95 million board feet). Lumber production was 124 million board feet (1997 – 107 million board feet). Pulp sales volume was 27,444 tonnes (1997 – 34,000 tonnes). Pulp production was 28,000 tonnes (1997 – 38,000 tonnes).

<sup>(3)</sup> The Newsprint purchased and resold and commissions business segment consists of sales of the Company's joint venture partners' share of the production of the newsprint joint venture mills and the 92,928 tonnes (1997- 97,775 tonnes) of newsprint from Boise Cascade's DeRidder, Louisiana mill. In addition to the sales and production tonnage shown above, the Company receives commissions on the sale of 70,173 tonnes (1997 – 61,688 tonnes) of newsprint sold for Stone Container Corporation's Snowflake, Arizona mill and 26,368 tonnes (1997- 40,177 tonnes) of newsprint sold for Pine Falls Paper Company. The Company's contract to sell paper for the Pine Falls Paper Company ended in February 1998.

Gross Profit	Selling, General and Administrative Expenses	Depreciation and Amortization	Synergy Incentive	Operating Profit	Paper Production (000s of tonnes)	Paper Sales
\$ 129	\$ 27	\$ 46	\$ —	\$ 56	703	664
84	15	30	—	39	350	354
—	—	—	20	(20)		
213	42	76	20	75	1,053	1,018
13	3	3	—	7		
4	(2) <sup>(4)</sup>	—	—	6	176	171
\$ 230	\$ 43	\$ 79	\$ 20	\$ 88	1,229	1,189

Gross Profit	Selling, General and Administrative Expenses	Depreciation and Amortization	Synergy Incentive	Operating Profit (loss)	Paper Production (000s of tonnes)	Paper Sales
\$ 27	\$ 31	\$ 48	—	\$ (52)	689	660
40	13	30	—	(3)	308	296
67	44	78	—	(55)	997	956
9	4	2	—	3		
3	(1) <sup>(4)</sup>	—	—	4	180	180
\$ 79	\$ 47	\$ 80	—	\$ (48)	1,177	1,136

<sup>(4)</sup> Selling, general and administrative expenses are net of commission income of \$3 million (1997 – \$2 million)

<sup>(5)</sup> On April 3, 1998 the Company sold its U.S. and Mexican Office Products Division to United Stationers Supply Co. for net proceeds of \$US100 million.