

THREE MONTHS ENDED
MARCH 31, 2000

**First
Quarter
Report
to
Shareholders**



**ABITIBI
CONSOLIDATED**

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Forward-Looking Statements

Certain statements contained in this First Quarter Report to Shareholders, including statements which may contain words such as “anticipate”, “could”, “expect”, “seek”, “may”, “intend”, “will,” “believe” and similar expressions, statements that are based on current expectations and estimates about the markets in which the Company operates and statements of the Company’s belief, intentions and expectations about developments, results and events which will or may occur in the future constitute “forward-looking statements” within the meaning of the “safe harbor” provision of the United States Private Securities Litigation Reform Act of 1995, and are based on certain assumptions and analysis made by the Company derived from its experience and perceptions. In addition, other written or oral statements which constitute forward-looking statements may be made from time to time by or on behalf of the Company. Such forward- looking statements are subject to important risks, uncertainties, and assumptions which are difficult to predict and which affect the Company’s operations, including: the impact of general economic conditions in the U.S. and Canada and in countries in which the Company currently does business; industry conditions, including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; fluctuations in the availability or costs of raw materials or electrical power; changes in existing forestry regulations or changes in how they are administered which could result in the loss of certain contractual or other rights or permits which are material to the Company’s businesses; increased competition; the lack of availability of qualified personnel or management; the outcome of certain litigation; labor unrest; fluctuation in foreign exchange or interest rates; stock market volatility; obtaining required approvals of regulatory authorities; opportunities available to or pursued by the Company and other factors, many of which are beyond the control of the Company. The Company’s actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, the Company will derive therefrom. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

\$6 Million Net Earnings From Operations

In the first quarter of 2000, Abitibi-Consolidated Inc. recorded after-tax earnings of \$6 million, or 3¢ per fully diluted common share. This was a \$76 million, or 40¢ per fully diluted common share, improvement compared to the net loss of \$70 million for the fourth quarter of 1999. The Company did not incur any unusual expenses during the first quarter of 2000. During the fourth quarter of 1999, the Company recorded after-tax charges for unusual expenses of \$65 million, or 34¢ per fully diluted common share, related primarily to the permanent closure of the Chandler mill.

Net earnings for the first quarter of \$6 million were an \$11 million improvement compared to the net loss before unusual expenses of \$5 million for the fourth quarter of 1999. The increase in earnings arises primarily from modest paper price increases, lower selling, general and administrative (“SG&A”) and other expenses partially offset by lower paper sales volumes.

The first quarter of 2000 net earnings of \$6 million was an \$89 million improvement compared to the first quarter of 1999 net loss of \$83 million. In the first quarter of 1999, the Company had recorded after-tax charges of \$92 million representing unusual expenses for restructuring, synergy and year 2000 readiness.

Combination with Donohue Inc.

On April 18, 2000 the Company acquired approximately 96% of of the Class A Subordinate Voting Shares and approximately 93% of the Class B Shares of Donohue Inc. The Company intends to exercise its rights to acquire those shares of Donohue Inc. not tendered as at April 18, 2000. The Company believes this business combination will transform it into one of the lowest cost major newsprint and uncoated

groundwood producers in North America and Asia. Management has already identified an estimated \$250 million in annual synergy savings across the entire asset portfolio in such areas as operating and fibre efficiencies, freight efficiencies, lower SG&A expenses and high-cost capacity rationalization. The Company also announced its intention to permanently retire 400,000 tonnes of high-cost newsprint capacity following the combination. On a pro forma basis, based on 1999 results, the business combination provides the Company with annualized revenues of approximately \$7 billion, an asset portfolio of \$11 billion and a market capitalization of \$7 billion.

On April 12, 2000, the respective waiting periods under each of the *Hart-Scott-Rodino Antitrust Improvements Act (U.S.)* and the *Competition Act (Canada)* expired. Accordingly the Company was in a position to take and pay for the shares of Donohue Inc. on April 18, 2000. The Company has reached an agreement with the Canadian Competition Bureau,

pursuant to which it will hold Donohue Inc. separate until the close of business on May 9, 2000 to afford the Bureau additional time to review the transaction. As a consequence, the Company and Donohue Inc. have agreed not to effect, among other things, changes to their respective boards of directors during this period.

Newsprint Price Increases

The Company believes that North American market conditions provide a favorable environment for the US\$50/mt newsprint price increase announced by the major producers and effective as of April 1, 2000. The Company believes that favorable market conditions exist in Asia, South America and the Middle East for comparable price increases announced by major producers to become effective beginning in April, 2000.

Capital Expenditures

Capital expenditures in the first quarter of 2000 were \$74 million primarily related to the modernization at Kénogami and the conversion at Beaupré to Equal Offset™, an uncoated freesheet substitute. These projects are expected to provide the Company with after-tax returns in excess of 20%.

Dividends

On January 4, 2000 a \$19 million cash dividend of 10¢ per share was paid to the Company's shareholders. A dividend of 10¢ per share was declared on February 28, 2000 and paid on April 3, 2000 to shareholders of record at the close of business on March 17, 2000.

Summary of Results From Operations

The first quarter of 2000 gross profit of \$211 million was a \$7 million improvement over the gross profit of \$204 million for the first quarter of 1999. The improvement arises primarily from an increase in paper sales volumes and pulp prices, as well as lower manufacturing costs, partially offset by lower average paper selling prices compared to the first quarter of 1999.

SG&A expenses were \$38 million for the first quarter of 2000 or \$6 million lower than the first quarter of 1999.

Interest expense on long-term debt was \$57 million for the first quarter of 2000 compared to \$48 million for the first quarter of 1999. The increase over the first quarter of 1999 arises primarily from the interest cost related to the acquisition of Pan Asia Paper Co. Pte Ltd.

The Company's inventories of newsprint and value-added groundwood papers have decreased by 47,000 tonnes since the end of 1999, representing a value of approximately \$28 million. This inventory level is the same as the low post-strike inventory level of December 31, 1998.

Newsprint and Value-Added Groundwood Papers

North American Newsprint Markets

The Company's North American newsprint sales were 479,000 tonnes in the first quarter of 2000 or 16,000 tonnes higher than the sales of 463,000 tonnes for the fourth quarter of 1999 and 70,000 tonnes higher than for the same period in 1999.

North American pricing was stable in the first quarter of 2000 and compared to the fourth quarter of 1999, but was approximately 7% lower than newsprint selling prices for the same period in 1999. According to the Newsprint Producers Association ("NPA"), North American consumption of newsprint for the first quarter of 2000 ran 4.5% ahead of the same period in 1999.

Overseas demand for North American production also grew as exports were 9.5% higher in the first two months of 2000 compared to the same period in 1999 (Source: NPA). An increase in demand and pricing in Asia and South America has resulted in a reduction of 61% in newsprint imported into North America for the first two months of 2000 compared to the same period in 1999 (Source: NPA).

International Newsprint Markets

The Company's first quarter of 2000 international newsprint sales were 341,000 tonnes or 10,000 tonnes lower than the sales of 351,000 tonnes for the fourth quarter of 1999 and 62,000 tonnes higher than the sales for same period in 1999.

In Europe, prices were stable in the first quarter of 2000 and compared to the fourth quarter of 1999. The weakened Euro has resulted in a net decrease in paper prices, in Canadian dollar terms, compared to the fourth quarter of 1999. Demand for newsprint in Europe was strong in the first quarter of 2000 compared to the same period in 1999. The Company expects newsprint prices in Europe to remain stable through the balance of the year 2000.

Newsprint consumption in Asia, the Middle East and most of Latin America is expected to strengthen throughout 2000.

Value-Added Groundwood Paper Markets

The Company's first quarter of 2000 sales of 391,000 tonnes were 36,000 tonnes lower than the sales of the fourth quarter of 1999, but- 59,000 tonnes higher than the sales for the first quarter of 1999.

The first quarter of 2000 selling prices were similar to those of the fourth quarter of 1999 and were down approximately 7% compared to the first quarter of 1999.

Demand for all grades was strong in the first quarter of 2000 and the Company expects demand to remain strong through 2000. The Company expects previously announced price increases to be implemented in the second quarter of 2000. *Equal Offset*TM commercial trials in Beaupré are scheduled to begin

in May, 2000. Based on the anticipated demand for uncoated freesheet, the Company expects strong sales of *Equal Offset*[™] through the remainder of 2000.

Paper Manufacturing Operations

Despite the higher cost of recycled fiber, the Company's newsprint manufacturing costs per tonne for the first quarter of 2000 were 2% lower than the costs for the fourth quarter of 1999 and 6% lower than the costs for the first quarter of 1999.

The Company's first quarter of 2000 value-added manufacturing costs per tonne were 1% higher than in the fourth quarter of 1999 and the same as in the first quarter of 1999. The higher costs relate primarily to the shutdown in the first quarter of 2000 of paper machine #1 in Beaupré to complete the *Equal Offset*[™] conversion project.

The Company's first quarter of 2000 operating profit from owned operations for newsprint of \$27 million and value-added papers of \$35 million represent significant improvements, of \$52 million and \$47 million respectively, compared to the first quarter of 1999. The Company's first quarter of 2000 operating profit from owned operations for newsprint represents a significant improvement of \$109 million compared to the fourth quarter of 1999. The Company's first quarter of 2000 operating profit from owned operations for value-added represents a decrease of \$12 million compared to the fourth quarter of 1999.

Lumber and Pulp

The Company's first quarter of 2000 lumber and pulp operating profit of \$12 million was \$4 million higher than in the fourth quarter of 1999 and \$10 million higher than in the first quarter 1999. Higher pulp prices account primarily for the increase in operating profit compared to the fourth quarter of 1999. Higher pulp and lumber prices, combined

with strong lumber consumption account for the increase in operating profit compared to the first quarter of 1999.

Financial Position and Liquidity

As at March 31, 2000, the Company had \$70 million in cash compared to \$134 million as at December 31, 1999. Funds used in operations increased by \$166 million while funds generated by investing and financing activities increased by \$102 million.

A bridge loan facility of \$1.8 billion with a major financial institution has been negotiated to finance the business combination with Donohue Inc. An amount of approximately \$1.6 billion will be drawn from the facility as the Donohue Inc. shares tendered as at April 18, 2000 are taken up and paid for. The bridge loan facility has an 18-month term and an interest rate of LIBOR plus 1.25%. Management expects to replace this bridge financing with longer-term instruments at competitive commercial rates prior to the end of its term. The Company's 7.92% Notes will be repaid on May 18, 2000 and will be refinanced with an unused portion of the bridge loan facility.

Accounting Changes Year 2000 – Future Income Taxes, Pension and Other Employee Future Benefits

As required under Canadian Generally Accepted Accounting Principles, the Company has adopted new accounting standards relating to income taxes, pensions and other employee future benefits. On January 1, 2000, the Company recorded an increase to retained earnings and a decrease to future income taxes of \$60 million to recognize the new income tax accounting standards. Also, on January 1, 2000, the Company recorded an after-tax charge to retained earnings of \$8 million to recognize the Company's obligations for pensions and other employee benefits under the new accounting standards.

Outlook

The Company looks forward in the year 2000 to the successful combination with Donohue Inc. and expects the combination will be accretive to both earnings per share and free cash flow per share.

CONSOLIDATED EARNINGS

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

	Three Months Ended March 31	
	2000	1999
Net Sales – owned operations	\$ 941	\$ 837
Net Sales – newsprint purchased and resold	143	130
Net Sales	1 084	967
Gross Profit – owned operations	209	201
Gross Profit – newsprint purchased and resold	2	3
Gross Profit	211	204
Depreciation	98	84
Selling, general and administrative expenses	38	44
Unusual expenses	–	128
Operating profit (loss)	75	(52)
Interest expense on long-term debt	57	48
Other expense, net	1	2
Earnings (loss) before income taxes and goodwill	17	(102)
Recovery of (provision for) income taxes	(6)	25
Earnings (loss) before goodwill	11	(77)
Goodwill amortization (net of nil income taxes)	(5)	(6)
Net earnings (loss) for the period	\$ 6	\$ (83)
Per common share:		
Earnings (loss) before goodwill	\$ 0.06	\$ (0.40)
Net earnings (loss) for the period		
Basic	0.03	(0.44)
Fully diluted	0.03	(0.44)
Weighted average number of common shares outstanding (millions)		
Basic	190.6	190.5
Fully diluted	197.8	197.3
Fully diluted number of common shares outstanding at end of period (millions)	197.8	197.8

CONSOLIDATED RETAINED EARNINGS

(Unaudited)
(millions of Canadian dollars)

	Three Months Ended March 31	
	2000	1999
Retained earnings, beginning of period	\$ 102	\$ 456
Net earnings (loss) for the period	6	(83)
Dividends declared	(19)	(19)
Application of new accounting principles – Future income taxes	60	–
Application of new accounting principles – Pension & other benefits	(8)	–
Retained earnings, end of period	\$ 141	\$ 354

CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)

	March 31 2000	December 31 1999
	(Unaudited)	(Audited)
ASSETS		
Current assets		
Cash and deposits	\$ 70	\$ 134
Accounts receivable	510	414
Inventories	419	434
Prepaid expenses	47	39
	1,046	1,021
Fixed assets	4,848	4,885
Other assets	138	130
Deferred employee post retirement benefits	103	105
Goodwill	681	687
	\$ 6,816	\$ 6,828
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 673	\$ 889
Dividends payable	19	19
Current portion of long-term debt		
Recourse	42	42
Non-recourse	100	95
	834	1,045
Long-term debt		
Recourse	2,288	2,068
Non-recourse	575	581
Future income taxes	392	452
	4,089	4,146
SHAREHOLDERS' EQUITY		
Common shares	2,552	2,552
Retained earnings	141	102
Foreign currency translation adjustment	34	28
	2,727	2,682
	\$ 6,816	\$ 6,828

CONSOLIDATED CASH FLOWS

(Unaudited)
(millions of Canadian dollars)

	Three Months Ended March 31	
	2000	1999
OPERATING ACTIVITIES		
Net earnings (loss)	\$ 6	\$ (83)
Depreciation and amortization	103	90
Recovery of (provision for) deferred income taxes	3	(29)
Non-cash portio of unusual expenses	–	125
Other non-cash items	(6)	(23)
	<u>106</u>	<u>80</u>
Change in non-cash operating working capital components ⁽¹⁾	(272)	(98)
Cash used in operating activities	<u>(166)</u>	<u>(18)</u>
FINANCING ACTIVITIES		
Increase in long-term debt	216	188
Repayment of long-term debt	(8)	(108)
Dividends paid to common shareholders	(19)	(19)
Cash generated by financing activities	<u>189</u>	<u>61</u>
INVESTING ACTIVITIES		
Additions to fixed assets	(74)	(92)
Acquisitions	–	(75)
Increase in other assets	(13)	(14)
Cash used in investing activities	<u>(87)</u>	<u>(181)</u>
Decrease in cash during the period	(64)	(138)
Cash and cash equivalents, beginning of period	134	151
Cash and cash equivalents, end of period	<u>\$ 70</u>	<u>\$ 13</u>
⁽¹⁾ Components of the changes in non-cash working capital		
Accounts receivable	\$ (94)	\$ (11)
Inventories	15	(55)
Prepaid expenses	(7)	(11)
Accounts payable and accrued liabilities	(186)	(21)
	<u>\$ (272)</u>	<u>\$ (98)</u>
Cash outflows during the period related to		
Interest on long term debt	\$ 51	\$ 29
Income taxes	3	16
	<u>\$ 54</u>	<u>\$ 45</u>

CONSOLIDATED BUSINESS SEGMENTED⁽⁵⁾

(Unaudited)
(millions of Canadian dollars)

Three months ended March 31, 2000	Net Sales	Cost of Sales
Newsprint-Owned Operations	\$ 532	\$ 421
Value-added groundwood paper	331	251
Total owned paper ⁽¹⁾	863	672
Newsprint purchased and resold ⁽²⁾	143	141
Total paper	1,006	813
Lumber and pulp ⁽³⁾	78	60
	\$ 1,084	\$ 873

Three months ended March 31, 1999	Net Sales	Cost of Sales
Newsprint-Owned Operations	\$ 479	\$ 375
Value-added groundwood paper	302	213
Synergy and year 2000 expenses	–	–
Total owned paper ⁽¹⁾	781	588
Newsprint purchased and resold ⁽²⁾	130	127
Total paper	911	715
Lumber and pulp ⁽³⁾	56	48
	\$ 967	\$ 763

⁽¹⁾ The Paper Business in 2000 consists of the Company's 16 wholly-owned paper mills, the Company's 50% interest in two U.S. newsprint joint venture mills and its one third interest in the Asian joint venture. The Company purchased its share of the Asian joint venture in February 1999.

⁽²⁾ The Newsprint purchased and resold business relates to sales of the Company's two U.S. joint venture partners' shares of production of the joint venture mills, the production of Boise Cascade's DeRidder, Louisiana mill and some of the production of Pan Asia Paper Co. Pte Ltd.

⁽³⁾ Lumber production was 140 million board feet (1999 – 125 million board feet). Lumber sales were 135 million board feet (1999 – 122 million board feet). Pulp production was 27,493 tonnes (1999 – 31,232 tonnes). Pulp sales were 26,821 tonnes (1999 – 28,861 tonnes)

Gross Profit	Selling General & Administrative Expenses	Depreciation	Unusual Expenses	Operating Profit	Paper Production (000s of tonnes)	Paper Sales
\$ 111	\$ 24	\$ 60	\$ -	\$ 27	788	820
80	11	34	-	35	376	391
191	35	94	-	62	1,164	1,211
2	1	-	-	1	204	204
193	36	94	-	63	1,368	1,415
18	2	4	-	12	-	-
\$ 211	\$ 38	\$ 98	\$ -	\$ 75	1,368	1,415

Gross Profit	Selling General & Administrative Expenses	Depreciation	Unusual Expenses ⁽⁴⁾	Operating Profit	Paper Production (000s of tonnes)	Paper Sales
\$ 104	\$ 26	\$ 50	\$ 53	\$ (25)	763	689
89	14	30	57	(12)	354	332
-	-	-	18	(18)	-	-
193	40	80	128	(55)	1,117	1,021
3	2	-	-	1	168	164
196	42	80	128	(54)	1,285	1,185
8	2	4	-	2	-	-
\$ 204	\$ 44	\$ 84	\$ 128	\$ (52)	1,285	1,185

⁽⁴⁾ In 1999, unusual expenses include \$110 million for employee severances and early retirements packages of which \$80 million relates to enhanced pension benefits which will be funded to the pension plan over 10 years. The remainder of the charge related to synergy incentive payments and year 2000 expenses.

⁽⁵⁾ The operations of the business are managed using these business segments.

Notes

Notes

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