

SIX MONTHS ENDED
JUNE 30, 2000

**Second
Quarter
Report
to
Shareholders**



**ABITIBI
CONSOLIDATED**

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Forward-Looking Statements Certain statements contained in this Second 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 harbour” provision of the United States Private Securities Litigation Reform Act of 1995, and are based on certain assumptions and analyses made by the Company and 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; labour unrest; fluctuation in foreign exchange or interest rates; stock market volatility; obtaining required approvals from 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 occur, or if any of them do so, what benefits or 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.

The “New” Abitibi-Consolidated Inc.

On April 18, 2000 the Company acquired substantially all (and subsequently the remainder) of the outstanding common shares of Donohue Inc. in exchange for a combination of approximately \$1.6 billion in cash and 249 million common shares of the Company. As a result, the former shareholders of Donohue Inc. now own a majority of all the outstanding shares of the Company. Generally accepted accounting principles require the application of the reverse takeover method of purchase accounting for this business combination. This method considers the transaction as though Donohue were the acquirer. Consequently, financial results prior to April 18, 2000 represent Donohue operations only, and results of operations of Abitibi-Consolidated Inc. are included in the three-month and six-month statements of earnings only from that date.

\$61 Million Net Earnings in Second Quarter

Abitibi-Consolidated Inc. reported net earnings of \$61 million in the second quarter of 2000. This represents an improvement in net earnings of \$26 million compared to the same three months in 1999 and \$10 million compared with the first quarter of 2000.

Net earnings for the six-month period ended June 30, 2000 amounted to \$112 million compared to net earnings of \$86 million in the same period of 1999.

On an earnings-per-share basis, the Company realized \$0.15 for the second quarter of 2000 on a weighted average number of shares outstanding of 404.3 million and \$0.34 for the six-month period ended June 30, 2000 on a weighted average number of shares outstanding of 326.7 million. This compares to \$0.14 per share on 249.3 million shares and \$0.34 per share on 249.1 million shares respectively for the same periods in 1999.

By comparison, the results of the “Old” Abitibi-Consolidated Inc. in the first quarter of 2000, which are not included in the six-month results, were \$0.03 per share.

The improvement in earnings in the first half of the year resulted from higher prices in newsprint, value-added papers and pulp, as well as a higher operating rate due to the strengthening of these markets. Lumber prices, however, were lower due to higher industry output and fewer housing starts in the US.

The higher levels of net sales, cost of products sold, selling, general and administrative expenses and depreciation all result from the acquisition of Donohue and the application of the reverse takeover accounting method.

Increase in Prices

The Company implemented a US\$50 per metric tonne price increase for the North American newsprint market during the second quarter. The Company also announced an additional price increase of US\$50 per metric tonne, effective September 1, 2000.

Prices for most grades of value-added paper also increased during the quarter and additional price increases, varying from US\$35 to US\$50 per short ton have been announced for implementation in the third quarter. Demand for market pulp remained strong and a price increase was implemented in the second quarter.

Dividends and Other Capital Transactions

As discussed in the introductory paragraph of this report, during the second quarter, the Company issued 249 million common shares and paid approximately \$1.6 billion to acquire all of the outstanding shares of Donohue Inc. Consistent with the reverse takeover accounting method, the cash portion of the purchase price has been accounted for as a dividend. In addition, all of the outstanding stock options held by the Donohue Inc. employees were purchased by the Company for \$49 million.

On June 14, 2000, the Board of Directors of the Company declared a dividend of \$0.10 per share payable on July 4, 2000 to shareholders of record as at June 23, 2000.

Overview of Pro-Forma Results

Comparison of the Company's 2000 interim results with the corresponding 1999 results produces significant changes in all elements. Certain indicators of pro-forma financial results are provided to assist the reader of these statements. They assume that the acquisition and related debt issue took place at the beginning of each reported period.

Selected Pro-Forma Information

(Millions \$, except earnings per share)

	Three months ended June 30		Six months ended June 30	
	2000 \$	1999 \$	2000 \$	1999 \$
Net Sales	1,659	1,463	3,264	2,899
Operating Profit	220	99	404	283
Interest Expense	120	111	238	219
Net Earnings	58	(74)	96	(125)
Earnings per share	0.13	(0.17)	0.22	(0.28)

Pro-forma net sales for the second quarter amounted to \$1.66 billion compared to \$1.46 billion for the corresponding quarter of 1999. Pro-forma operating profit was \$220 million or 13.3% of pro-forma net sales for the second quarter of 2000 compared to \$99 million or 6.8% of pro-forma net sales for the same quarter of 1999.

For the six-month period ending June 30, 2000, pro-forma net sales reached \$3.26 billion and pro-forma operating profit amounted to \$404 million or 12.4% of pro-forma net sales compared to pro-forma net sales of \$2.9 billion and pro-forma operating profit of \$283 million or 9.8% of pro-forma net sales for the corresponding period in 1999.

The improvement to pro-forma operating profit margins in the second quarter of 2000 resulted mainly from higher selling prices for newsprint, value-added papers and pulp, offset partially by the reduction in lumber prices.

Pro-forma interest expense in the second quarter of 2000 was \$120 million compared to \$111 million for the pro-forma second quarter of 1999. The increase in interest expense is due to higher debt incurred to finance the modernization program at the Company's Sheldon and Lufkin, Texas, paper mills.

Newsprint, Value-Added Groundwood Papers, Lumber and Market Pulp

Newsprint

The demand and supply balance for newsprint continued to be tight as consumption has grown by 3.7% in the US since the beginning of 2000 (source: NPA, June 2000) and no new capacity has been added. US consumer inventory levels have been reduced to an average of 36 days of consumption, down from 40 days at the beginning of the year. (Source: NPA, June 2000)

The Company implemented a US\$50 per metric tonne price increase in North America during the second quarter and comparable price increases were implemented in most export markets in July. The Company has announced an additional US\$50 per metric tonne price increase in North America effective September 1, 2000.

Value-Added Papers and Market Pulp

Demand for all value-added grades was strong in the second quarter and, adjusted for the seasonality of the retail business, should continue to be so for the balance of 2000. Equal Offset™ has been well received in the marketplace thus far and the machine at Beaupré is expected to be in full production as this market develops at year-end. Glossy grades, however, will experience greater competition towards year-end as new capacity begins to come on stream.

Global demand for market pulp is very strong and no new capacity is under construction. The Company raised prices for Northern Bleached Softwood Kraft pulp to US\$680 on April 1, 2000 and to US\$710 on July 1, 2000.

Lumber

Lumber prices have declined since the end of the first quarter of 2000 due to increased production in both Canada and the US, combined with fewer US housing starts. Demand in Canada continues to be strong as housing starts and repair and remodeling spending remain healthy. Overseas markets, however, remain soft, particularly the Japanese market which does not appear to be recovering.

The Company does not expect significant recovery in lumber prices this year.

Other Significant Events

The Company announced the permanent shutdown of its 130,000 metric tonne West Tacoma newsprint mill, located in Steilacoom, Washington, by year-end. In addition, the Company announced the planned closure of the 50,000 metric tonne Paper Machine #1 at its Wayagamack mill in Trois-Rivières, Québec at the beginning of 2001 unless the mill is sold before then. These produced the Company's highest-cost, lowest-margin tonnage. The order books will be reallocated to lower-cost facilities.

Integration of Donohue

The integration of the two companies is moving forward as planned. During the second quarter, the Company underwent an extensive review of the organization. The result was the selection of a new senior management team comprising the best from both the "Old" Abitibi-Consolidated and Donohue.

The Company has set a synergy target of \$250 million in cost savings to be achieved through the combination of the two companies. This is underway and should be completed over a two-year time frame.

Financial Position and Liquidity

Cash generated by operating activities totaled \$218 million, or \$0.54 per share for the second quarter ended June 30, 2000 compared to \$114 million or \$0.46 per share for the corresponding period in 1999. For the six-month period ended June 30, 2000, cash generated by operating activities amounted to \$290 million or \$0.89 per share compared to \$184 million or \$0.74 per share for the same period in 1999.

Capital expenditures were \$118 million in the second quarter. Capital expenditures for the six-month period ended June 30, 2000 amounted to \$207 million, including \$146 million for the Texas mills' modernization program.

The Company arranged and fully utilized a bridge loan of \$1.8 billion to finance the Donohue acquisition and repay its 7.92% notes. On July 13, 2000, the Company issued an aggregate amount of US\$1.4 billion (equivalent to C\$2.1 billion) consisting of US\$450 million of 8.30% notes due in 2005, US\$500 million of 8.55% notes due in 2010 and US\$450 million of 8.85% debentures due in 2030. The net proceeds were used to repay the bridge loan and to reduce other indebtedness.

The Company maintains a disciplined capital expenditure program and intends to apply free cash flow to the reduction of long-term debt.

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

As required under Canadian Generally Accepted Accounting Principles, the Company has adopted new accounting standards relating to income taxes and employee future benefits. On January 1, 2000, the Company recorded an increase to goodwill and fixed assets of \$176 million and an increase to future

income taxes of \$174 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 \$11 million to recognize the Company's change in obligations for employee future benefits under the new accounting standards. These amounts have been reflected retroactively to January 1, 1999 and the 1999 results have been restated accordingly.

CONSOLIDATED EARNINGS (note 1)

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

	Three months ended		Six months ended	
	2000	1999	2000	1999
Net Sales	\$ 1,481	\$ 587	\$ 2,137	\$ 1,173
Cost of products sold	1,083	439	1,556	853
Selling, general and administrative expenses	46	17	62	34
Depreciation and amortization	146	56	209	111
Operating profit	206	75	310	175
Interest expense on long-term debt	104	22	130	47
Other expenses (income)	(1)	1	(1)	(4)
Earnings before the undernoted items	103	52	181	132
Provision for income taxes	39	15	64	41
Non-controlling interests	3	2	5	5
Net earnings for the period	\$ 61	\$ 35	\$ 112	\$ 86
Earnings and fully diluted earning per share	\$ 0.15	\$0.14	\$ 0.34	\$ 0.34
Weighted average number of common shares outstanding (millions)	404.3	249.3	326.7	249.1
Common shares outstanding at end of period (millions)	440.2	249.4	440.2	249.4

CONSOLIDATED RETAINED EARNINGS (DEFICIT) (note 1)

(Unaudited)
(millions of Canadian dollars)

	Three months ended		Six months ended	
	2000	1999	2000	1999
Retained earnings, beginning of period	\$ 1,089	\$ 933	\$ 1,053	\$ 897
Net earnings for the period	61	35	112	86
Redemption of stock options	(49)	–	(49)	–
Dividends (note 2)	(1,666)	(15)	(1,681)	(30)
Retained earnings (deficit), end of period	\$ (565)	\$ 953	\$ (565)	\$ 953

Note 1:

Financial results prior to April 18, 2000 represent Donohue Inc. operations only, and results of Abitibi-Consolidated Inc. are included in the three-month and six-month statements only from that date.

Note 2:

The cash portion of \$1.622 billion of the purchase price for Donohue Inc. is accounted for as a dividend.

CONSOLIDATED BALANCE SHEET (note 4)

(Unaudited)
(millions of Canadian dollars)

	June 30 2000	December 31 1999
ASSETS		
Current assets		
Cash and short term investments	\$ 113	\$ 24
Accounts receivable	794	356
Inventories	778	379
Prepaid expenses	78	32
	<u>1,763</u>	<u>791</u>
Fixed assets	7,407	2,668
Deferred pension costs	–	46
Other assets	184	21
Goodwill	824	154
Unallocated excess of purchase price on book value (note 5)	965	–
	<u>\$11,143</u>	<u>\$ 3,680</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,335	\$ 340
Long-term debt due within one year	197	90
	<u>1,532</u>	<u>430</u>
Long-term debt	5,787	1,248
Employee future benefits	260	44
Future income taxes	543	424
Non-controlling interest	60	45
SHAREHOLDERS' EQUITY		
Common shares	3,520	421
Contributed surplus	14	23
Retained earnings (deficit)	(565)	1,053
Foreign currency translation adjustment	(8)	(8)
	<u>2,961</u>	<u>1,489</u>
	<u>\$11,143</u>	<u>\$ 3,680</u>

Note 4:

Purchase accounting requires the harmonization of accounting policies with those practiced by the parent company. The only significant harmonization required in the preparation of these financial statements relate to employee future benefits.

Note 5:

The determination of the fair market value of fixed assets is expected to be completed during the third quarter and the excess purchase price over the book value will be allocated between fixed assets and goodwill. Goodwill and unallocated excess of purchase price over the book value are being amortized over 40 years.

CONSOLIDATED CASH FLOWS (note 3)

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

	Three months ended June 30		Six months ended June 30	
	2000	1999	2000	1999
OPERATING ACTIVITIES				
Net earnings	\$ 61	\$ 35	\$ 112	\$ 86
Depreciation and amortization	146	56	209	111
Future income taxes	19	(7)	13	(11)
Other non-cash items	(13)	3	(8)	10
	213	87	326	196
Change in non-cash operating working capital components ^(*)	5	27	(36)	(12)
	218	114	290	184
FINANCING ACTIVITIES				
Net proceeds of issuance of shares	2	2	3	6
Increase in long-term debt	2,073	–	2,161	15
Repayment of long-term debt	(415)	(39)	(441)	(63)
Decrease of bank loan	–	(5)	–	(7)
Deferred financing fees	(22)	–	(22)	–
Dividends paid to shareholders	(1,623)	(15)	(1,637)	(29)
Redemption of stock options	(49)	–	(49)	–
Other	(4)	–	(8)	(6)
	(38)	(57)	7	(84)
INVESTING ACTIVITIES				
Additions to fixed assets	(118)	(63)	(207)	(94)
Other	(4)	–	(1)	1
	(122)	(63)	(208)	(93)
Increase (decrease) in cash during the period	58	(6)	89	7
Currency translation adjustment	–	(1)	–	(4)
Cash and cash equivalents, beginning of period	55	106	24	96
Cash and cash equivalents, end of period	\$ 113	\$ 99	\$ 113	\$ 99
^(*) Components of the changes in non-cash working capital				
Accounts receivable	\$ 14	\$ (20)	\$ (1)	\$ 45
Inventories	65	58	16	24
Prepaid expenses	(3)	4	(8)	(3)
Accounts payable and accrued liabilities	(71)	(15)	(43)	(78)
	\$ 5	\$ 27	\$ (36)	\$ (12)
Cash outflows during the period related to				
Interest on long term debt	\$ 94	\$ 35	\$ 115	\$ 43
Income taxes	73	10	87	76
	\$ 167	\$ 45	\$ 202	\$ 119

Note 3:

Financial results prior to April 18, 2000 represent Donohue Inc. operations only, and results of Abitibi-Consolidated Inc. are included in the three-month and six-month statements only from that date.

CONSOLIDATED BUSINESS SEGMENTS (note 6)

(Unaudited)
(millions of Canadian dollars)

Three months ended June 30, 2000	Net Sales	Depreciation and amortization	Operating Profit	Assets	Capital Expenditures	Volume Sales
Newsprint	\$ 925	\$ 99	\$ 125	\$ 7,797	\$ 81	(a) 1,297
Value-added groundwood						
paper and pulp	377	35	75	2,502	28	(a) 423
Lumber	179	12	6	844	9	(b) 502
	\$ 1,481	\$ 146	\$ 206	\$ 11,143	\$ 118	

Three months ended June 30, 1999

Newsprint	\$ 369	\$ 43	\$ 35	\$ 2,701	\$ 55	(a) 572
Value-added groundwood						
paper and pulp	65	4	12	271	1	(a) 108
Lumber	153	9	28	562	7	(b) 375
	\$ 587	\$ 56	\$ 75	\$ 3,534	\$ 63	

(a) in thousand metric tonnes
(b) in million foot board measure

Note 6:

Financial results prior to April 18, 2000 represent Donohue Inc. operations only, and results of Abitibi-Consolidated Inc. are included in the three-month and six-month statements only from that date.

Six months ended June 30, 2000	Net Sales	Depreciation and amortization	Operating Profit	Assets	Capital Expenditures	Volume Sales
Newsprint	\$ 1,338	\$ 145	\$ 173	\$ 7,797	\$ 163	(a) 1,932
Value-added groundwood						
paper and pulp	456	38	108	2,502	29	(a) 521
Lumber	343	26	29	844	15	(b) 913
	\$ 2,137	\$ 209	\$ 310	\$ 11,143	\$ 207	

Six months ended June 30, 1999

Newsprint	\$ 770	\$ 86	\$ 109	\$ 2,701	\$ 82	(a) 1,121
Value-added groundwood						
paper and pulp	123	8	23	271	1	(a) 210
Lumber	280	17	43	562	11	(b) 715
	\$ 1,173	\$ 111	\$ 175	\$ 3,534	\$ 94	

Notes

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Beaupré Division using its ultra high-yield pulping process.*

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