

First Quarter Report | 2001

Three months ended March 31

\$132 Million Net Earnings in First Quarter

Abitibi-Consolidated Inc. reported net earnings of \$132 million in the first quarter ended March 31, 2001. This represents an improvement in net earnings of \$81 million compared to the same three months in 2000. On an earnings per share basis, the Company realized \$0.30 for the first quarter of 2001, on a weighted average number of shares outstanding of 440 million, compared to \$0.20 per share on 250 million shares for the corresponding period in 2000.

The results of Abitibi-Consolidated Inc. reflect the acquisition of Donohue Inc. on April 18, 2000 and the application of the reverse take-over accounting method in which Donohue is considered as the acquirer and accordingly, all figures prior to April 18, 2000 are the former Donohue results only.

The improvement in earnings in the first quarter resulted from higher prices for newsprint, value-added papers and pulp, as well as a higher operating rate, synergies achieved from the acquisition of Donohue and a more favorable exchange rate on the US currency. Lower lumber prices and higher costs of fiber and energy partially offset the earnings improvements.

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

Increase in Prices

In the quarter, the Company implemented a US\$50 per metric tonne price increase for the North American newsprint market effective March 1, 2001. Newsprint prices were also increased for the European and Asian markets in January 2001.

Dividends

On February 27, 2001, the Board of Directors of the Company declared a dividend of \$0.10 per share payable on April 2, 2001 to shareholders of record as at March 16, 2001.

Overview of Results

A comparison of the Company's 2001 first quarter results with the corresponding 2000 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 Information

(in millions of dollars, except per share amounts)
Three months ended March 31

	Actual 2001	Pro-forma 2000
Net Sales	1,720	1,605
Operating Profit	360	192
Interest Expense	126	124
Net Earnings	132	36
Earnings per share	0.30	0.08

Net sales for the first quarter amounted to \$1.72 billion compared to pro-forma net sales of \$1.605 billion for the corresponding quarter of 2000. Operating profit was \$360 million or 20.9% of net sales for the first quarter of 2001 compared to a pro-forma operating profit of \$192 million or 12.0% of pro-forma net sales.

Operating profit per business segment was as follows:

Three months ended March 31

	Actual 2001	Pro-forma 2000
Newsprint	262	83
Value-Added Groundwood Papers and Market Pulp	114	80
Lumber	(16)	29
	360	192

The improvement in operating profit in the first quarter of 2001 over the pro-forma operating profit of the corresponding quarter of 2000 resulted mainly from higher selling prices for newsprint, value-added papers and pulp and a more favorable exchange rate on the US dollar, offset partially by a reduction in lumber prices and a lower volume of sales for newsprint and lumber. The synergy cost savings were at an annualized run rate of \$194 million in the first quarter of 2001. However, rising energy and fiber prices represent an annualized increase of \$267 million compared to the first quarter of 2000.

NEWSPRINT, VALUE-ADDED GROUNDWOOD PAPERS AND MARKET PULP, AND LUMBER

Newsprint

The North American newsprint market experienced a significant slow-down in the quarter with consumption, as reported per North American Newsprint Association, down by 12.6% when compared to the last quarter of 2000. The economic climate in the US had a negative impact on lineage in major newspapers in North America. As a result, North American consumers' and producers' inventory levels grew during the quarter.

Shipments of newsprint by the Company in the first quarter of 2001 were 147,000 metric tonnes lower than pro-forma first quarter of 2000, due to the permanent shutdown of a paper machine and conversion of a machine to value-added grades. The Company also anticipates market related downtime totaling approximately 100,000 metric tonnes to better balance its inventories and orders. This downtime will be taken in the second quarter.

Due to weakening market conditions in the first half of 2001, the Company announced that the US\$50 per metric tonne newsprint price increase for North American market implemented on March 1, 2001 will be reduced by US\$25 on May 1, 2001. Market prices were increased by 13% in United Kingdom and on average by approximately 20% in other European countries on January 1, 2001.

Economic growth in the first half of 2001 in North America is expected to be lower than previous quarters and to recover thereafter. International demand is expected to remain strong. Current supply and demand is balanced, and we expect that with the already announced capacity conversions, permanent shutdowns and market related downtime in North America, the market will remain in balance through next year.

Value-Added Groundwood Papers and Market Pulp

The demand for printing and writing paper grades has also been affected by the US economy and the lower advertising spending. First quarter demand for the uncoated groundwood paper grades produced by the Company, however, was robust, due to a continued migration from other grades as well as new customer growth.

The new capacity of super-calendered grades added in 2000 and the addition of our Lufkin, Texas machine later this year are expected to put pressure on operating rates as well as prices for those grades.

The Company completed the investment at its Fort Frances, Ontario mill to allow for production of paper with higher brightness characteristics. This investment will allow for increased production of the Equal Offset™ grade at the Beaupré, Québec mill and the reallocation of some Beaupré orders to Fort Frances.

Global demand for Northern Bleached Softwood Kraft pulp (NBSK) was down during the quarter and, accordingly, the market price was reduced by US\$60 per tonne. No improvement in demand is expected in the short term.

Lumber

The expiration of the Softwood Lumber Agreement between Canada and the US on March 31, 2001 has created a significant uncertainty in the lumber market. US lumber producers have filed a petition with the US alleging Canadian producers are dumping lumber products into the US market. In addition to seeking an inquiry under anti-dumping legislation, US producers have also requested that a countervailing duty be applied to Canadian lumber shipped to the US.

The Company considers these allegations to be unfounded, but cannot assess the likelihood of any outcome on this ongoing trade issue between Canada and the US.

Sales volume was 19% lower than the pro-forma sales volume from the first quarter of 2000, due partially to the lack of quotas and lower demand in the market. Lumber prices remained generally stable when compared to the last quarter of 2000, due to a modest recovery in March 2001.

The number of housing starts in the US was 8% lower than the same quarter last year despite lower mortgage rates. Increased production both in Canada and the US, combined with lower housing starts, has contributed to this decline in pricing.

The Company does not expect any significant recovery in lumber prices this year as demand and supply remain unbalanced.

Synergies

The Company has set a synergies target of \$250 million in annualized cost savings to be achieved following the acquisition of Donohue, with an annualized run rate of \$125 million to be achieved by the end of the first year following the acquisition and \$250 million after two years.

The annualized synergy run rate obtained during the first quarter of 2001 amounted to \$194 million, ahead of its stated objective. The Company expects to achieve the full \$250 million by the end of 2001.

Financial Position and Liquidity

Cash generated by operating activities totaled \$142 million, or \$0.32 per share for the first quarter ended March 31, 2001 compared to \$71 million or \$0.29 per share for the corresponding period in 2000.

Capital expenditures were \$121 million in the first quarter, including \$69 million for the Texas mills' modernization program. The Company maintains its objective to keep its capital expenditure program at \$300 million per year, excluding the Texas modernization program, which will be completed this year.

As at March 31, 2001, long-term debt amounted to \$5.8 billion for a ratio of long-term debt to total capitalization of 0.64, compared to long-term debt of \$5.6 billion on December 31, 2000. The lower value of the Canadian dollar increased the US dollar denominated long-term debt on the Company's balance sheet by \$267 million compared to year-end of 2000. Unrealized exchange losses on these debts are shown under other assets on the balance sheet. The Company intends to apply free cash flow to the reduction of long-term debt.

Consolidated Statement of Earnings (note 1)

Three months ended March 31

(Unaudited) (in millions of Canadian dollars, except per share amounts)	2001 \$	2000 \$
Net sales	1,720	656
Cost of products sold	1,163	473
Selling, general and administrative expenses	43	16
Depreciation and amortization	154	62
Operating profit	360	105
Interest on long-term debt	126	25
Other expenses	9	1
Earnings before the following items	225	79
Income tax expense	75	25
Non-controlling interests	8	2
Earnings before goodwill amortization	142	52
Goodwill amortization	10	1
Net earnings	132	51
Earnings and diluted earnings per share		
Before goodwill amortization	0.32	0.21
Net earnings	0.30	0.20
Weighted average number of common shares outstanding (in millions)	440	250
Common shares outstanding at end of period (in millions)	440	250

Consolidated Statement of Retained Earnings (Deficit) (note 1)

Three months ended March 31

(Unaudited) (in millions of Canadian dollars)	2001 \$	2000 \$
Retained earnings (deficit), beginning of period	(399)	1,053
Net earnings for the period	132	51
Dividends declared	(44)	(15)
Retained earnings (deficit), end of period	(311)	1,089

Note 1:

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

Consolidated Statement of Cash Flows (note 1)

Three months ended March 31

(Unaudited) (in millions of Canadian dollars, except per share amounts)	2001 \$	2000 \$
Operating activities		
Net earnings	132	51
Depreciation and amortization	164	63
Future income taxes	52	(5)
Non-controlling interests	8	2
Other non-cash items	2	2
	358	113
Change in non-cash operating working capital components (*)	(216)	(42)
Cash flows from operating activities	142	71
Financing activities		
Increase in long-term debt	136	88
Repayment of long-term debt	(182)	(26)
Dividends paid to shareholders	(44)	(15)
Dividends to non-controlling shareholders of subsidiary company	(6)	(4)
Net proceeds on issuance of shares	–	2
Cash flows from financing activities	(96)	45
Investing activities		
Additions to capital assets	(121)	(89)
Other	(11)	4
Cash flows from investing activities	(132)	(85)
Increase (decrease) in cash during the period	(86)	31
Cash and cash equivalents, beginning of period	123	24
Cash and cash equivalents, end of period	37	55
Cash flows from operating activities per share	0.32	0.29
(*) Components of the changes in non-cash operating working capital		
Accounts receivable	(32)	(16)
Inventories	(86)	(49)
Prepaid expenses	(21)	(5)
Accounts payable and accrued liabilities	(77)	28
	(216)	(42)
Cash outflows (inflows) during the period related to		
Interest on long-term debt	155	21
Income taxes	(5)	14
	150	35

Note 1:

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Consolidated Balance Sheet

(Unaudited) (in millions of Canadian dollars)	March 31, 2001 \$	December 31, 2000 \$
ASSETS		
Current assets		
Cash and short term investments	37	123
Accounts receivable	712	681
Inventories	892	804
Prepaid expenses	72	51
	1,713	1,659
Capital assets		
Other assets	8,057	8,022
Goodwill	447	237
	1,327	1,337
	11,544	11,255
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,268	1,371
Long-term debt due within one year	408	327
	1,676	1,698
Long-term debt		
Employee future benefits	5,405	5,265
Future income taxes	254	262
Non-controlling interests	933	875
	61	60
SHAREHOLDERS' EQUITY		
Capital stock	3,520	3,520
Contributed surplus	14	14
Deficit	(311)	(399)
Foreign currency translation adjustment	(8)	(40)
	3,215	3,095
	11,544	11,255

Note 2:

The financial statements are prepared using the same accounting principles and application thereof as the financial statements for the year ended December 31, 2000.

Consolidated Business Segments (note 1)

(Unaudited)

(in millions of Canadian dollars)

	Net sales	Depreciation and amortization	Operating profit	Addition to capital assets	Volume sales
Three months ended March 31, 2001	\$	\$	\$	\$	
Newsprint	1,058	102	262	26	1,271 (a)
Value-added groundwood papers and market pulp	529	38	114	90	545 (a)
Lumber	133	14	(16)	5	433 (b)
	1,720	154	360	121	

	Net sales	Depreciation and amortization	Operating profit	Addition to capital assets	Volume sales
Three months ended March 31, 2000	\$	\$	\$	\$	
Newsprint	381	44	48	35	593 (a)
Value-added groundwood papers and market pulp	111	4	35	48	141 (a)
Lumber	164	14	22	6	411 (b)
	656	62	105	89	

(a) in thousands of tonnes

(b) in millions of board feet

	March 31, 2001	December 31, 2000
Total assets	\$	\$
Newsprint	7,480	7,276
Value-added groundwood papers and market pulp	3,215	3,120
Lumber	849	859
	11,544	11,255

Note 1:

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