

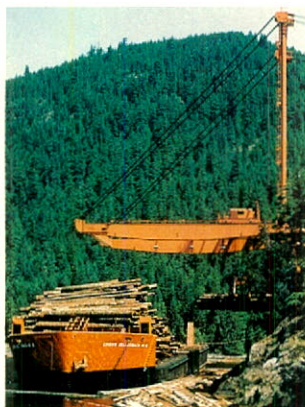


CrownZellerbach Canada

Annual Report 1979



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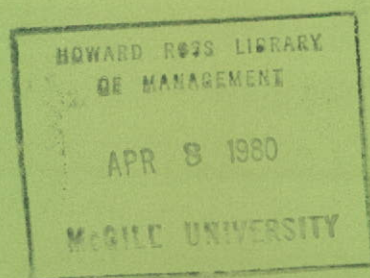
Cover

The new barge loader at Goliath Bay in Jervis Inlet is only one of the modernization projects that have changed the face of Crown Zellerbach Canada in the last 10 years. The facility, which sorts and bundles logs for efficient barge shipments to our coastal mills, is part of an integrated transportation system now being completed along the B.C. Coast.

The annual meeting of shareholders will be held in the Columbia Room, Hotel Vancouver, Vancouver, B.C. at 3:00 p.m. on Tuesday, April 15, 1980.

Financial Highlights

	1979	1978	% Change
SALES AND EARNINGS (thousands of dollars)			
Sales	614,300	507,500	+21
Earnings before income taxes	90,400	60,200	+50
Income taxes	38,300	23,900	+60
Net earnings	52,100	36,300	+44
PER SHARE (dollars)			
Net earnings	6.32	4.43	+43
Cash flow	10.74	7.94	+35
Dividends	1.36 ^{1/2}	1.23	+11
Shareholders' equity	31.81	26.90	+18
FINANCIAL POSITION (thousands of dollars)			
Working capital	77,400	63,600	+22
Long term debt	36,500	38,900	- 6
Shareholders' equity	263,400	221,100	+19
Total capitalization	369,500	315,500	+17
ANALYTICAL DATA			
Ratio of current assets to current liabilities	1.95:1	2.08:1	- 6
Per cent of net earnings to			
Sales	8.5	7.1	+20
Shareholders' equity	19.8	16.4	+21
Per cent return on total capitalization	14.8	12.1	+22
ADDITIONAL INFORMATION			
Financial (thousands of dollars)			
Additions to properties	63,200	70,600	-10
Depreciation and amortization	22,800	19,700	+16
Employment costs	171,300	160,800	+ 7
Income, property and other taxes	50,200	32,800	+53
Cash flow from operations	88,600	65,100	+36
Other			
Number of shares outstanding	8,280,500	8,218,800	+ 1
Number of employees	6,800	6,700	+ 1



Directors' Report to the Shareholders

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Vigorous demand for pulp and paper, a strong first-half lumber market, and the exchange-rate premium on the United States dollar, enabled Crown Zellerbach Canada to achieve record sales and earnings in 1979.

Sales in 1979 climbed to a record \$614.3 million, 21 per cent above the previous record level of \$507.5 million in 1978. Net earnings rose 44 per cent to \$52.1 million or \$6.32 per share, compared with \$36.3 million or \$4.43 per share a year ago. Return on total capitalization, before interest on long term debt, was 14.8 per cent, compared with 12.1 per cent in the previous year. Return on shareholders' equity was 19.8 per cent, up from 16.4 per cent in 1978.

After several years of depressed prices, the pulp market continued the recovery evident late in 1978, while the newsprint market sustained its buoyancy throughout the year. Both contributed substantially to the improvement in pulp and paper operating earnings which increased from \$43.1 million in 1978 to \$65.9 million in 1979.

A second-half drop in U.S. housing starts, which reflected a rise in interest rates, weakened lumber demand and prices in the last quarter. The impact of the decline particularly affected our operations in the Interior of British Columbia, although offshore markets remained steady. The domestic plywood market was generally weak during the year. Despite these conditions, operating earnings from our wood products operations improved from \$29.3 million in 1978 to \$32.4 million in 1979.

Projects aimed at improving efficiency and streamlining our merchandising and plastics operations proved effective in 1979. Operating earnings rose to \$5.6 million, compared with \$2.9 million in 1978.

In addition to the favourable market and economic conditions which influenced our record 1979 results, our performance reflects the outstanding contribution of our 6,800 employees who enabled us to improve efficiency and productivity at nearly every level of our operation.

Expansion and Modernization

During the year, our capital program took a significant step forward with the decision to

construct a \$171 million newsprint machine at our Elk Falls Mill near Campbell River, B.C. At Fraser Mills in Coquitlam, B.C., production began at the new planer mill. This is the first in a two-stage, \$61 million project to replace the sawmill facility at the 87-year-old operation. Construction of the second stage is expected to begin in 1980. Other projects completed last year as part of our Coast Modernization Program already have made a significant contribution to our sales and earnings.

Other Assets

Early in 1980 the company and Scott Paper Company of the U.S. successfully negotiated sale of their respective one-third and two-thirds interests in Elk River Timber Company Limited to another forest products company. Since its acquisition in 1974, the Vancouver Island logging operation has been treated as an investment and has not been considered an integral part of our coast log requirements. We expect to report the financial aspects of the transaction in the second quarter of 1980.

Personnel

The safety of our employees continues to be a major concern for the company, particularly in light of the 1979 increase in our accident frequency rate. Although our Elk Falls sawmill received an award for another injury-free year, our performance in other areas requires that we intensify our safety program to assure a return to the improving safety pattern we have experienced in recent years.

In 1979 new two-year collective agreements were reached with unions representing most of our mill and woods employees. The agreements were reached with only minor disruptions of our operations.

During the year, company President Thomas G. Rust was named chief executive officer, succeeding R. G. Rogers who remains as chairman of the board. In addition Gordon M. Clark was appointed vice-president, general counsel and secretary.

The Decade Ahead

Ten years ago, Crown Zellerbach Canada introduced a new corporate symbol, our now familiar, stylized . At the time, we indicated

that it represented "the changes, growth and diversification in the company in recent years and its broad plans for the future."

Given the enormous change in the character of Crown Zellerbach in the intervening ten years, those words now seem prophetic. Beginning with our modernization program in the Interior of B.C. and continuing today with our \$250 million Coast Modernization Program, we have invested and committed a major portion of our earnings to adapt our operations to changing conditions and have prepared the company to meet the competitive challenge of the next decade.

Our preparations began with the forest where we have accelerated our intensive forest management program to assure long-term timber supply. In addition, we have developed new systems and equipment to harvest and handle logs. On the B.C. Coast we have steadily moved away from handling logs in water and have embarked on efficient sorting and transportation operations such as the dry-land facility at Nanaimo Lakes and the barge-loading facility at Goliath Bay.

As in other industries, computer technology has greatly altered how we conduct our business. On the coast we now use coded tags and scanners to keep track of our logs from forest to mill and our new sawmill at Elk Falls is equipped with a computer system that calculates the way each log should be cut to obtain the greatest value. The recently-completed planer mill at Fraser Mills also uses a computer to track every piece of lumber as it moves through the system, while the proposed sawmill also will be state-of-the-art and highly computerized.

The pulp and paper side of the business has enjoyed its share of improvement and modernization as well. Perhaps most significant is the change that has resulted from the introduction of thermomechanical pulp—a process which uses residual chips for groundwood production and reduces the need for logs which then can be directed to more valuable end uses.

With world energy prices soaring in recent years, the company has recognized the need to reduce its dependence on oil and has placed emphasis on energy self-sufficiency

with such projects as our hog fuel boiler and turbo-generator at Elk Falls.

Of singular significance in the growth of the company is the emphasis that continues to be placed on environmental protection at every operating location. Notable in our efforts is the program at Elk Falls where we have recently installed a lime kiln precipitator and are now completing construction on a new scrubber system for the recovery boiler. Both will substantially reduce emissions in the Campbell River area.

In the last ten years Crown Zellerbach Canada has invested a substantial portion of its earnings in projects which will assure that our operations remain competitive in the next decade. Long-range forecasts for both our domestic and export markets suggest that our modernization efforts will pay off. Although new capacity will come on line in several areas of the world in the next few years, we expect newsprint demand to remain strong. Pulp demand should also sustain its resurgence of the last two years. Predictions of an upturn in the U.S. housing market early in the decade indicate that lumber and plywood demand will rebound sharply. Our domestic operations will continue their growth pattern.

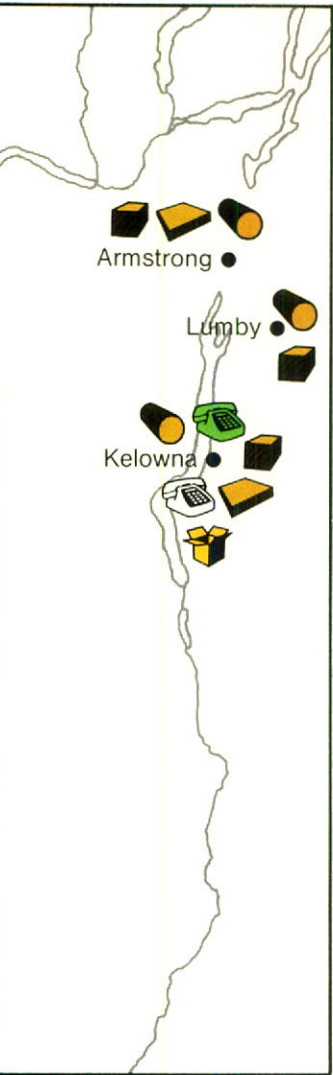
The Outlook for 1980















The immediate outlook for the company suggests a brief pause in the growth that has resulted in record sales and earnings in 1978 and 1979. The downturn in U.S. housing starts will have an impact on sales volume and earnings for lumber, although this will be offset somewhat by expected growth in other export lumber markets.

Pulp and paper markets should remain strong and keep the Elk Falls mill operating at capacity to meet newsprint and market pulp demand. Earnings from our domestic merchandising and plastics operations have improved steadily in the last two years and we expect to continue this trend in 1980.

As our modernized facilities reach their full operational potential, production volume and efficiency will improve and enable us to apply our improved earnings to sustain our competitive position and protect the jobs of our employees.

Crown Zellerbach Canada Limited Operating Locations in Canada



-  Wood Products Marketing Centres
-  Forest Operations
-  Marine Transportation
-  Lumber Mills
-  Plywood Plants
-  Plastic Film Manufacturing Plants
-  Pulp and Paper Mill
-  Paper Converting Plants
-  Forest Railroad
-  HomeTown Stores
-  Retail Building Materials Outlets
-  Pulp & Paper Sales Offices
-  Wholesale Paper Marketing Centres
-  Headquarters Office



Directors' Report to the Shareholders

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WOOD SUPPLY AND PRODUCTS

Improved production efficiency at recently modernized facilities enabled our wood supply and products operations to combat strong external pressures and achieve excellent results in 1979.

Production volume at our six sawmills reached a record 526 million board feet compared with 500 million board feet in 1978.

In our coast wood products operations, the new small-log sawmill at Elk Falls reached design production levels by the end of the year. Our lumber production efficiency also improved at Fraser Mills with the completion of the new planer mill.

The demand for lumber manufactured at our coastal operations remained strong throughout the year, particularly on exports to Japan and Europe. The buoyant market and

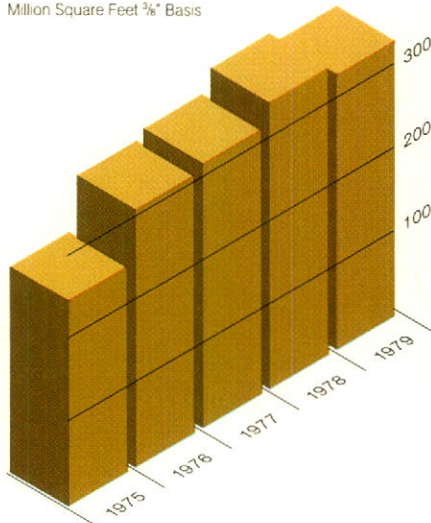
firm prices for commodities such as cedar, fir, cypress and spruce enabled our coast wood products operations to reach their second highest operating earnings level.

Our three Interior sawmills achieved increased production efficiency and improved man-hour productivity and reached their second highest earnings level during the year. These three operations market a narrow product line geared to the Midwest U.S. housing market which weakened by year's end after a strong first-half performance.

Plywood production from our plants at Fraser Mills, Kelowna and Armstrong reflected soft 1979 market conditions and declined to 326 million square feet from 339 million square feet in 1978. However, our new \$16.2 million green veneer plant at Fraser Mills achieved design production rates and enabled the company to supply improving markets in Canada and the U.S.

Plywood production

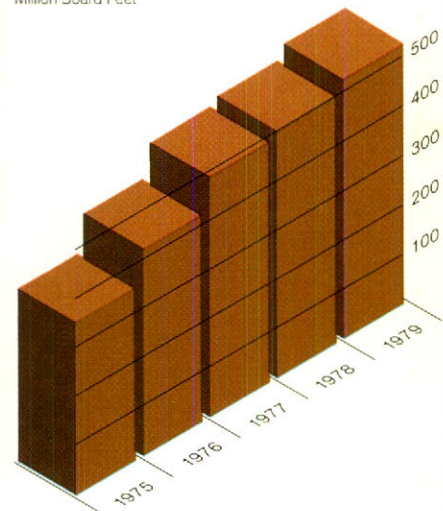
Million Square Feet $\frac{3}{4}$ " Basis



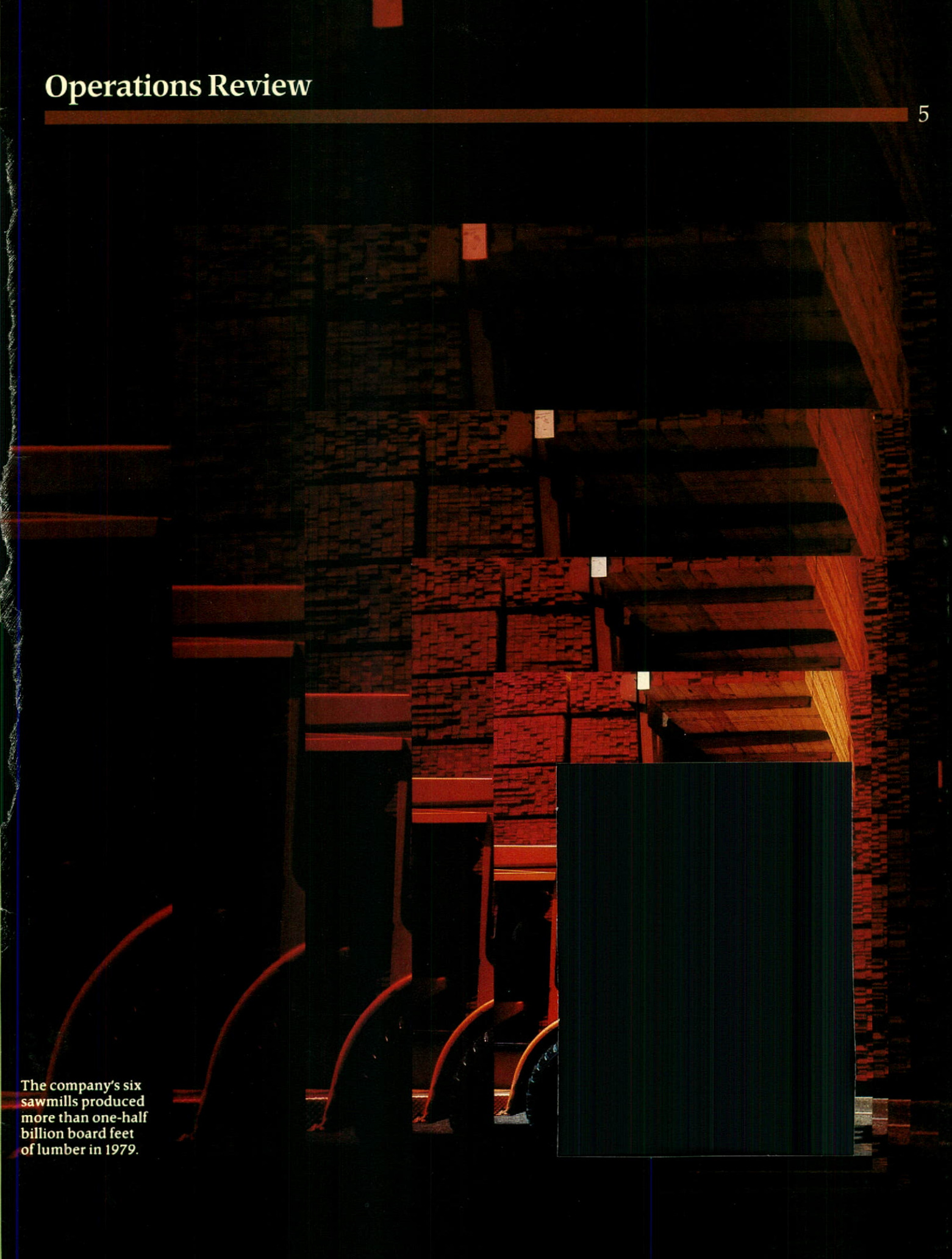
Crown Zellerbach is active in 50 logging operations along the B.C. Coast.

Lumber production

Million Board Feet



The new mobile barge loader has helped our coast wood supply operations improve delivery time from logging camps to producing mills.



The company's six sawmills produced more than one-half billion board feet of lumber in 1979.



Our logging operations experienced extreme summer fire hazards and one of the coldest winters in history, and also encountered labour disruptions during the year. Coast log production dropped from 871,000 cunits in 1978 to 836,000 cunits in 1979.

However, our modernized, coastal sorting and transportation facilities enabled us to shorten the time required to transport logs. The new dry-land log-sorting operation at Nanaimo Lakes operated above projected productivity levels during its first full year of operation, while the Goliath Bay water-sorting facility approached planned production by year's end.

The integrated, coast log-sorting system was further improved late in the year with completion of a new water sorter at Beaver Cove on northern Vancouver Island and a new barge loader at Ladysmith on the Island's east

coast. We expect that these new facilities will further improve log-handling and transportation efficiency as the company moves its logging operations into more remote areas.

Steps also were taken during the year to provide continuity of supply for our mills in the Interior where log supply is a growing concern for the company. In addition to renewing two tree-farm licences, in October we acquired timber licences on 9,500 acres from Beaumont Timber Company which will ease the immediate timber shortfall situation.

As part of our ongoing program to ensure that annual harvesting levels can be maintained, the company planted 1.3 million seedlings in the Interior during the year and 1.6 million on the B.C. Coast. In addition we entered into a joint venture with B.C. Forest Products to develop a 100-acre seed orchard near Saanich on Vancouver Island. As the program develops, we expect that the superior seed will increase yield and produce an improved quality of log for veneer and lumber.



Top: Soaking logs in hot water ensures more efficient peeling at our Kelowna plywood plant.



Upper right: Plywood cores are processed into studs for house construction and wood chips for pulp production.

Right: The computerized small-log sawmill and planer mill at Elk Falls ensures efficient log use.

Left: The new Fraser Mills green veneer plant peels veneer at a rate of up to 900 feet per minute.



PULP AND PAPER

Led by strong world-wide demand for pulp and paper, our Elk Falls mill operated at capacity throughout the year.

Pulp and paper production was 515,000 metric tons in 1979, four per cent higher than in the previous year. Of the total, newsprint production was 248,000 tons, market pulp reached 185,000 tons and kraft paper output was 82,000 tons.

Much of the demand for newsprint came from the U.S. which is our largest single newsprint market. The growth of the market in Pacific Rim countries and in Western Canada also favourably influenced our results. After several years of sluggish activity, prices also firmed for pulp, which the company sells in foreign markets. Prices showed a similar improvement for kraft paper, sold primarily to domestic customers.

In response to anticipated growth in world demand for newsprint, the company commenced construction in October on a \$171 million newsprint machine and related

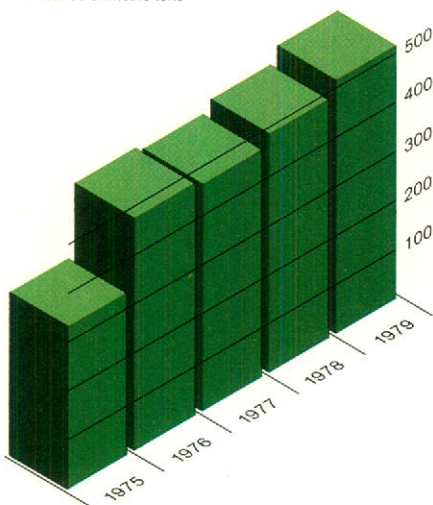
equipment at Elk Falls. At present the Campbell River pulp and paper facility includes two newsprint machines, a pulp dryer and a kraft paper machine.

The expansion will add 180,000 tons to the mill's annual newsprint capacity of 248,000 tons when it is completed in 1982. Plans for the project were contingent upon the availability of electrical power—a condition which was met when B.C. Hydro provided assurances that a 500-kilovolt underwater cable would be installed to Vancouver Island by September of 1983.

The newsprint expansion project also includes the installation of a 25-megawatt, cogeneration turbo-generator that will meet short-term energy needs during the newsprint machine's start-up period, as well as increase our energy self-sufficiency after the B.C. Hydro line is completed. In addition, a second thermomechanical pulp (TMP) plant will be installed at Elk Falls to supply pulp for newsprint production. Elk Falls' first TMP plant exceeded design capacity shortly after it

Pulp and paper production

Thousands of metric tons



Top: Elk Falls produced more than 80,000 tons of kraft paper in 1979 for use in the manufacture of packaging materials.

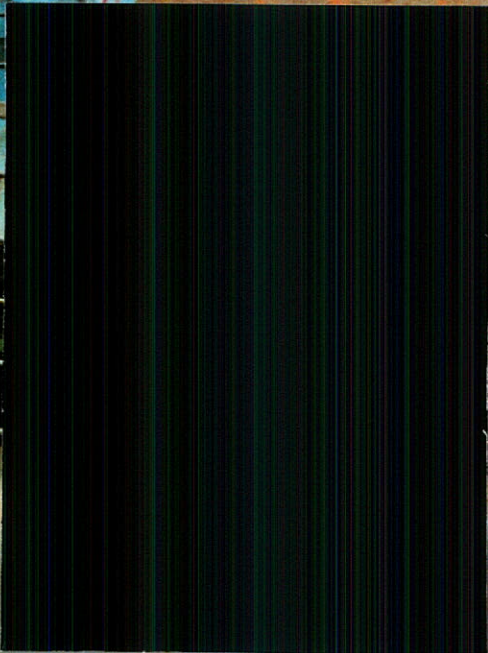
Upper left: Our Elk Falls newsprint machines operated at capacity during the year. Strong world demand led the company to begin construction on a third machine to be completed in 1982.



Left: The Elk Falls hog fuel boiler, with its pollution-controlling scrubber system, will use wood waste to generate steam power.



Residual chips, rather than round-logs, are processed into pulp from this modern control room at our first thermomechanical pulp plant at Elk Falls.



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became fully operational in 1979. The TMP process has enabled us to increase to 75 per cent our use of residual chips in the production of newsprint. The addition of a second TMP plant will further our goal of eliminating the use of logs in pulp and paper production.

Other projects also came on line at Elk Falls during the year which will increase efficiency and improve pollution abatement. Our objective of increasing our energy self-sufficiency was advanced as we neared completion of the \$24 million hog fuel boiler which uses wood waste to produce steam power. The boiler is on schedule and within budget and is expected to reduce annual oil consumption at Elk Falls by 600,000 barrels.

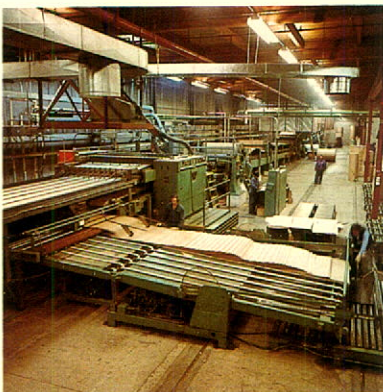
In its first full year of operation the \$2.7 million electrostatic lime kiln precipitator received the annual pollution control award from the B.C. Water and Waste Association for reduction of particulate emissions. Emissions and odorous gases will be further reduced early in 1981 when the new \$5.8 million scrubber system for the recovery boilers begins operation.

Modernization also has been a key factor in the improved results achieved during the year at our paper products plants in Richmond and Kelowna.

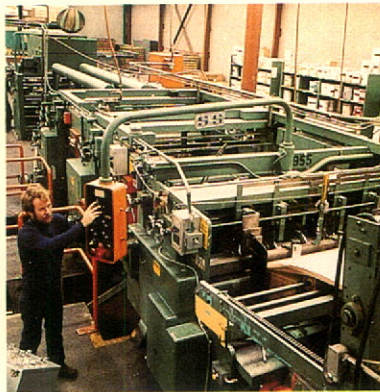
Single-size, high-speed bag machines have been installed in our Richmond paper converting operation. Installation of the new equipment was combined with a program to reduce the number of bag sizes produced, and has enabled us to place most of the bag production on the high speed machines.

Manufacturing on the corrugated container side of the business also has been extensively modernized with powered conveyors, automatic feeders and take-offs, and mechanized conveying to the warehouses. The results have been increased productivity, improved efficiency and reduced costs.

Markets for our paper products generally were strong throughout the year. In particular sales volume for converted products improved in the grocery and retail markets, while our corrugated container operation benefited from increased sales to brewery and agricultural markets.



Top: Elk Falls' kraft paper is converted into packaging material at our container plant in Kelowna.



Upper right: Kelowna's corrugated containers are used by agricultural and other industries.

Right: The box plant in Richmond produces corrugated containers for domestic markets.



Left: Newsprint is loaded aboard freighters at our Elk Falls mill for transport to the U.S. and other export markets.



MERCHANDISING AND PLASTICS

Our merchandising and flexible plastics business units comprise three distinct functions in the company's operations—wholesale paper merchandising, a chain of retail home improvement centres, and facilities for the manufacture of extruded plastic products. In each case the operations achieved excellent gains over their 1978 performance.

Crown Zellerbach Paper Company sales and operating earnings improved significantly over the previous year, despite paper supply problems resulting from strike-related conditions in fine paper mills in the U.S. and Eastern Canada.

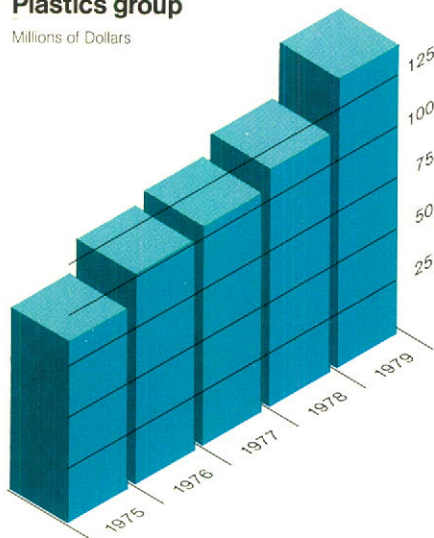
Crown Zellerbach Paper Company operates sales and warehouse service centres in major cities in western Canada and Ontario and depends on suppliers other than Crown Zellerbach Canada for about 80 per cent of the products sold and distributed. The products range from stationery and school supplies to industrial packaging and printing paper.

The negative effects of short shipments and lengthened order lead-times by some of our major suppliers were partly offset by our ability to obtain substitute products from other manufacturers. Similar methods were employed on the printing paper side of the business where sales improved despite some grades of paper being placed on short-supply allocation. Although there has been a levelling in school enrolment in recent years, school supply sales again rose in all regions.

During the year, the company successfully introduced a new product, Fibretex, which was developed by Crown Zellerbach Corporation in the U.S. Fibretex, a non-woven geotextile, is used in the foundations of roads and rail lines and has been particularly effective in Canadian weather conditions.

Sales by Merchandising and Plastics group

Millions of Dollars



Printed film is processed into packaging items for the food industry and other commercial customers.



Crown Zellerbach Paper Company distributes more than 30,000 paper products and related wholesale items.



The year was a transition period for Crown Zellerbach Stores which operates the HomeTown and CrownMart chain of 30 retail home-improvement and building materials centres in British Columbia, Alberta and Saskatchewan.

In order to bring management closer to the main market area on the prairies, Crown Zellerbach Stores' head office was moved from Burnaby, B.C. to Calgary, Alberta. In addition a new HomeTown store opened in North Vancouver, B.C., construction started on a new store in Southwest Calgary, and renovations were undertaken at two CrownMart stores on the prairies.

Sales for the year improved markedly, largely as a result of strong market conditions on the prairies and a growing do-it-yourself attitude among homeowners. In addition to lumber and plywood, the stores sell tools, hardware, electrical and plumbing supplies, paint and gardening products.

Crown Zellerbach Flex-Pak also recorded outstanding improvements in sales and operating earnings over the previous year in a highly competitive packaging market.

The results reflected the impact of modernized facilities and improved equipment utilization at our plants in Winnipeg, Manitoba and Richmond, B.C. A trim-recycling program, which has increased utilization of costly raw materials, was installed at both plants. At the Richmond plant, a computerized job-costing and production reporting system was introduced.

New product developments, particularly in the area of sophisticated packaging films for the food industry, continued to be successful in meeting the demands of the marketplace.



Home improvement supplies and building materials are featured at our chain of 30 HomeTown and CrownMart stores in British Columbia, Alberta and Saskatchewan.



Left: CZ Flex-Pak produces and prints flexible plastic film at its plants in Richmond and in Winnipeg.



Directors' Report to the Shareholders

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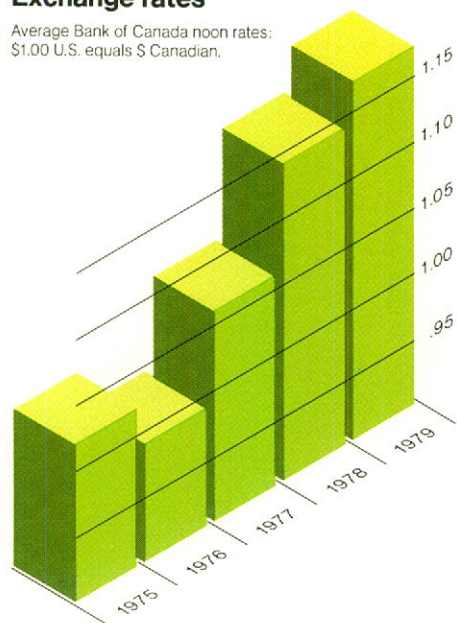
Spurred by record sales and earnings in 1979, the company achieved the highest return on shareholders' equity in the history of Crown Zellerbach Canada.

Sales climbed 21 per cent to \$614.3 million and earnings increased 44 per cent to \$52.1 million and reflected a return on shareholders' equity of 19.8 per cent. The rate compared with 16.4 per cent last year and demonstrated a marked improvement over the period 1974-1978 when return averaged 12.4 per cent.

The U.S. dollar, which rose in average value from \$1.14 Canadian in 1978 to \$1.17 in 1979, continued to have a beneficial effect on our performance. The increase in the exchange premium on our substantial sales volume in U.S. dollars contributed approximately \$3.9 million to the 1979 improvement in net earnings.

Exchange rates

Average Bank of Canada noon rates:
\$1.00 U.S. equals \$ Canadian.



The increase in earnings enabled us to continue our capital expenditure program. Capital expenditures totalled \$63.2 million in 1979 and resulted in an investment tax credit which reduced income taxes by \$3.4 million.

Working capital increased \$13.8 million to \$77.4 million. The company had \$1.95 of current assets for each \$1.00 of current liabilities at December 31, 1979.

Summary by lines of business (millions of dollars)

	1975	1976	1977	1978	1979
Sales					
Pulp and paper	105.9	148.8	153.9	172.0	221.6
Wood products	102.5	144.3	174.7	221.4	252.6
Merchandising	88.0	101.0	106.4	114.1	140.1
	<u>296.4</u>	<u>394.1</u>	<u>435.0</u>	<u>507.5</u>	<u>614.3</u>
Operating earnings					
Pulp and paper	20.3	36.1	33.2	43.1	65.9
Wood products	.4	7.6	17.8	29.3	32.4
Merchandising	9.3	3.6	2.2	2.9	5.6
	<u>30.0</u>	<u>47.3</u>	<u>53.2</u>	<u>75.3</u>	<u>103.9</u>
General expense	8.2	8.0	12.0	15.1	13.5
Income taxes	9.5	18.7	16.5	23.9	38.3
Net earnings	<u>12.3</u>	<u>20.6</u>	<u>24.7</u>	<u>36.3</u>	<u>52.1</u>

The unfunded liability in respect of the pension plans administered by the company amounted to \$32 million at December 31, 1979 (\$17.1 million at December 31, 1978). The increase in unfunded liability during 1979 arose primarily as a result of plan amendments to increase employee pension benefits which were effective January 1, 1979. In addition changes were made in the actuarial funding method used by the plans' actuary (see Note 1 to financial statements) and assumptions for factors such as salary increases and pension fund investment income. The market value of investments of the funds held by the trustee for these plans was \$73 million at December 31, 1979.

Some of our employees who are represented by unions are members of industry pension plans which are administered jointly by union and management representatives.

Our operating costs, including raw materials, labour and energy, continued to increase during the year but the impact was offset somewhat by the benefits of our modernization and replacement program. Operation of our new and modernized facilities such as the thermomechanical pulp mill and sawmill at Elk Falls, the green veneer plant at Fraser Mills, and our log-handling and transportation network, contributed approximately \$20 million in pretax benefits in 1979.

Property additions for buildings, machinery, timberlands and logging roads totalled \$63.2 million in 1979 compared to \$70.6 million in 1978. Of these expenditures, \$30.2 million was invested in modernizing or replacing log-handling, lumber and plywood facilities and for expansion and technological improvements in our pulp and paper operation. Another \$27 million was spent to maintain and modernize other facilities, \$1.9 million for environmental protection and \$4.1 million for logging roads. With construction underway on the new \$171 million newsprint machine at Elk Falls, as well as plans for a new sawmill at Fraser Mills, and other projects, capital expenditures on property additions in 1980 are expected to be about \$85 million. We propose to finance our continued high capital expenditure program essentially from earnings and other internally generated funds.

Dividends in 1979 amounted to \$11.3 million or 22 per cent of net earnings, compared to \$10.1 million or 28 per cent of net earnings in 1978. An increase of 4½ cents per share in the fourth quarter dividend brought the dividends to \$1.36½ per share in 1979.

During the year, 61,638 class "A" shares were issued under the Salaried Employees' Savings and Stock Purchase Plan. As at December 31, 1979 the plan held 533,000 or approximately six per cent of the outstanding shares of the company.

Cash flow, which is net earnings before non-cash items, was \$88.6 million in 1979, an improvement of \$23.5 million. This cash flow was used to finance \$63.2 million of property additions, a \$13.8 million increase in working capital, \$11.3 million of dividends and the balance for other corporate expenditures.

The Directors' Audit Committee met four times in 1979 to review the company's financial affairs and the content and quality of our external and internal audit activities.

In the area of financial management, formal educational and on-the-job training programs continued for the 125 professionally-qualified and student accountants employed by the company. These programs have taken

the form of extracurricular courses and seminars in accounting, taxes and finance blended with planned employee transfers to provide working experience in various areas of the company.

Quarterly summary		
	<u>1979</u>	<u>1978</u>
Sales—millions of dollars		
Quarter 1	136.5	112.9
2	157.6	130.5
3	162.6	128.0
4	157.6	136.1
	<u>614.3</u>	<u>507.5</u>
Net earnings—millions of dollars		
Quarter 1	11.4	7.0
2	15.3	9.6
3	14.1	9.3
4	11.3	10.4
	<u>52.1</u>	<u>36.3</u>
Net earnings per share—dollars		
Quarter 1	1.39	.86
2	1.86	1.17
3	1.70	1.14
4	1.37	1.26
	<u>6.32</u>	<u>4.43</u>
Dividends per share—dollars		
Quarter 1	.33	.30
2	.33	.30
3	.33	.30
4	.37 ½	.33
	<u>1.36 ½</u>	<u>1.23</u>

Approved by the Directors



Director



Director

Vancouver, B.C.
February 19, 1980

Net Earnings and Earnings Retained Year ended December 31 (thousands of dollars)

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Earnings**Income**

	1979	1978
Sales	\$614,261	\$507,481
Other income	3,491	959
Gain on disposal of properties	356	1,652
	<u>618,108</u>	<u>510,092</u>

Expenses

Cost of goods sold	470,901	396,596
Selling and administrative	52,486	50,399
Interest on long term debt	4,285	2,897
	<u>527,672</u>	<u>449,892</u>

Earnings before income taxes

90,436 60,200

Income taxes

38,299 23,922

Net earnings\$ 52,137 \$ 36,278**Net earnings per share (dollars)**

\$ 6.32 \$ 4.43

Earnings Retained**Balance at January 1**

\$184,489 \$158,292

Net earnings

52,137 36,278

236,626 194,570

Dividends declared (Note 7)

Class "A" shares	1,588	1,366
Ordinary shares	9,672	8,715

11,260 10,081**Balance at December 31**\$225,366 \$184,489

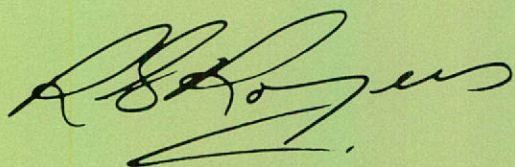
	1979	1978
Cash and short term investments at January 1	\$ 9,663	\$ 1,964
Financial resources were provided by		
Net earnings before non-cash items (Note 9)	88,644	65,058
Proceeds from disposal of properties	584	8,186
Issue of shares	1,432	1,235
Increase in long term debt	—	12,470
Decrease in working capital (except cash)	—	2,675
	<u>90,660</u>	<u>89,624</u>
Financial resources were used for		
Additions to properties	63,209	70,611
Increase in other investments	22	11
Repayment of long term debt	2,409	1,222
Dividends	11,260	10,081
Increase in working capital (except cash)	10,211	—
	<u>87,111</u>	<u>81,925</u>
Increase in cash and short term investments	3,549	7,699
Cash and short term investments at December 31	\$ 13,212	\$ 9,663
Increases and (Decreases) in Working Capital (Except Cash)		
Accounts receivable	\$ 14,937	\$ 2,616
Income taxes recoverable	—	(919)
Inventories	16,921	5,688
Prepaid expenses	875	441
Accounts payable and accrued liabilities	(18,509)	(258)
Dividends payable	2,712	(264)
Income taxes payable	(5,538)	(9,866)
Long term debt due within one year	(1,187)	(113)
Increase (decrease) in working capital (except cash)	\$ 10,211	\$ (2,675)

Crown Zellerbach Canada Limited
Balance Sheet at December 31 (thousands of dollars)

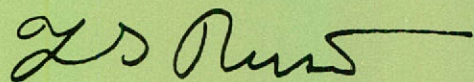
20

Assets	1979	1978
Current assets		
Cash and short term investments	\$ 13,212	\$ 9,663
Accounts receivable	56,043	41,106
Inventories (Note 2)	86,553	69,632
Prepaid expenses	3,249	2,374
	<u>159,057</u>	<u>122,775</u>
Other assets, at cost		
Shares in Elk River Timber Company Limited (Note 3)	9,880	9,880
Other investments	1,044	1,022
	<u>10,924</u>	<u>10,902</u>
Properties, at cost (Note 4)		
Buildings and equipment	417,295	362,044
Less accumulated depreciation	<u>176,593</u>	<u>161,042</u>
	240,702	201,002
Land, logging roads and timberlands, net of amortization	<u>40,480</u>	<u>40,007</u>
	<u>281,182</u>	<u>241,009</u>
	<u>\$451,163</u>	<u>\$374,686</u>

Approved by the Directors



Director



Director

Liabilities**Current liabilities**

Accounts payable and accrued liabilities	\$ 63,860	\$ 45,351
Dividends	—	2,712
Income taxes	15,404	9,866
Long term debt due within one year	2,409	1,222
	<u>81,673</u>	<u>59,151</u>

Long term debt (Note 5)

36,477 38,886

Deferred income taxes

69,623 55,568
187,773 153,605

Shareholders' equity

Share capital (Notes 6 and 7)	16,561	16,438
Other capital (Note 6)	21,463	20,154
Earnings retained	225,366	184,489
	<u>263,390</u>	<u>221,081</u>
	<u>\$451,163</u>	<u>\$374,686</u>

Commitments (Note 10)

Crown Zellerbach Canada Limited

Notes to Financial Statements

22

1. Summary of significant accounting policies

BASIS OF FINANCIAL STATEMENT PREPARATION

The consolidated financial statements include the accounts of Crown Zellerbach Canada Limited and its subsidiary companies, all of which are wholly-owned. Active subsidiary companies are:

- Crown Zellerbach Paper Company Limited
- Crown Zellerbach Stores Limited
- Crown Zellerbach Flex-Pak Limited
- Crown Zellerbach (Hardwicke Island) Limited
- Crown Zellerbach Building Materials (Eastern) Limited
- Canadian Tugboat Company, Limited

INVENTORIES

Inventories of finished products and raw materials are valued at lower of cost or net realizable value. Cost includes expenses directly related to production as well as certain manufacturing overhead expenses. Inventories of supplies are valued at the lower of cost or replacement cost.

DEPRECIATION AND AMORTIZATION

Depreciation is provided on a straight-line basis over the useful lives of all depreciable properties at annual rates ranging from 2 per cent to 25 per cent. Amortization of the cost of timber reflects the consumption of that resource. Amortization of logging roads is based on the estimated recoverable timber to be removed over the roads.

FOREIGN CURRENCIES

Assets and liabilities in foreign currencies, including the term notes payable in U.S. dollars (Note 5), are converted at the current exchange rates. Income and expenses in foreign currencies are converted at rates prevailing when the transactions occur.

PENSIONS

Pension costs for current services are funded and charged to earnings each year; costs for past service including changes to pension benefits and the effects of changes in actuarial assumptions are funded and charged to earnings over a maximum of fifteen years.

Based on the most recent actuarial valuation of the company's pension plans, which is explained in more detail on page 16, the present value of the unfunded liabilities for pension benefits is \$32,000,000. Total pension costs charged to earnings were \$12,400,000 in 1979 and \$17,500,000 in 1978.

INCOME TAXES

Deferred income taxes are provided to reflect the tax effect that results from timing differences between financial statement and tax reporting of certain items, principally depreciation and amortization.

2. Inventories (thousands of dollars)

	1979	1978
Raw materials	\$ 36,612	\$ 30,385
Finished products	42,985	33,150
Supplies	6,956	6,097
	<u>\$ 86,553</u>	<u>\$ 69,632</u>

3. Shares in Elk River Timber Company Limited

Crown Zellerbach Canada owns a one-third interest in Elk River Timber Company Limited, a logging company on Vancouver Island, B.C. During 1979 the company and Scott Paper Company of the United States, the holder of the remaining two-thirds, entered into an agreement to dispose of this investment. It is anticipated that final negotiations will be completed later in 1980.

4. Properties (thousands of dollars)

1979

	Cost	Accumulated Depreciation	Net Book Value
Buildings and improvements	\$ 89,160	\$ 27,194	\$ 61,966
Equipment	316,152	149,399	166,753
Construction in progress	11,983	—	11,983
	<u>\$417,295</u>	<u>\$176,593</u>	<u>\$240,702</u>

1978

Buildings and improvements	\$ 77,815	\$ 25,129	\$ 52,686
Equipment	271,333	135,913	135,420
Construction in progress	12,896	—	12,896
	<u>\$362,044</u>	<u>\$161,042</u>	<u>\$201,002</u>

Other properties, net of amortization

	1979	1978
Land	\$ 5,240	\$ 4,950
Logging roads	13,422	14,656
Timberlands	21,818	20,401
	<u>\$ 40,480</u>	<u>\$ 40,007</u>

5. Long term debt (thousands of dollars)

	1979	1978
Due after one year:		
Term note, bearing interest at 1/4% above prime rate, payable to an affiliate in 1985	\$ 21,000	\$ 21,000
Term note, \$4,000,000 U.S. (1978-\$5,000,000 U.S.) bearing interest at 8 1/2%, payable to an affiliate in annual instalments of \$1,000,000 U.S. to 1984	4,744	5,930
Term notes, totalling \$9,000,000 U.S. (1978-\$10,000,000 U.S.) bearing interest at 8 1/2%, payable to an affiliate in annual instalments of \$1,000,000 U.S. to 1989	10,674	11,860
Other	59	96
	<u>\$ 36,477</u>	<u>\$ 38,886</u>
Required payments of long term debt		
1980	\$ —	\$ 2,409
1981	2,411	2,411
1982	2,392	2,392
1983	2,372	2,372
1984	2,372	2,372
1985-1989	26,930	26,930
	<u>\$ 36,477</u>	<u>\$ 38,886</u>

6. Share and other capital (thousands of dollars)

	1979	1978
Class "A" shares of \$2 each		
Authorized		
10,000,000 shares		
Issued and fully paid		
1,195,140 shares	\$ 2,390	
1,133,502 shares		\$ 2,267
Ordinary shares of \$2 each		
Authorized		
12,000,000 shares		
Issued and fully paid		
7,085,344 shares	14,171	14,171
	<u>\$ 16,561</u>	<u>\$ 16,438</u>

During 1979, 61,638 class "A" shares were issued for cash at current market prices. The par value of shares was attributed to share capital and the excess of \$1,309,000 was added to other capital.

7. Class "A" shares and ordinary shares

The class "A" shares and the ordinary shares are equal in all respects except that:

- No dividends can be paid on the ordinary shares until dividends of 25 cents per share per calendar quarter have been paid on the class "A" shares for each calendar quarter.
- No dividends in excess of the rate of 25 cents per share per calendar quarter can be paid on the class "A" shares until dividends of 25 cents per share per calendar quarter have been paid on the ordinary shares for each calendar quarter.

At December 31, 1979 cumulative dividends per share on the class "A" and the ordinary shares were equal.

Notes to Financial Statements

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8. Remuneration of directors and senior officers

The aggregate direct remuneration of directors and senior officers paid in 1979 was \$967,000.

9. Net earnings before non-cash items

(thousands of dollars)

	1979	1978
Net earnings	\$ 52,137	\$ 36,278
Add (deduct) non-cash items		
Depreciation and amortization	22,808	19,726
Deferred income taxes	14,055	10,706
Gain on disposal of properties	(356)	(1,652)
	<u>\$ 88,644</u>	<u>\$ 65,058</u>

10. Commitments

Some premises and equipment are leased under long-term contracts with expirations ranging from 1980 to 1998. Annual rental payments of \$2,700,000 are due in 1980.

In addition to commitments for normal capital expenditures, the company has undertaken major capital projects which will require expenditures of approximately \$168,000,000 to complete.

Auditors' Report

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS

To the Shareholders of
Crown Zellerbach Canada Limited

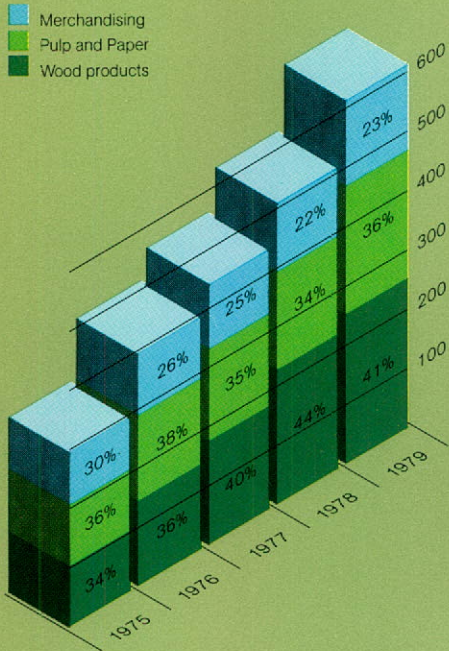
We have examined the consolidated balance sheet of Crown Zellerbach Canada Limited as at December 31, 1979 and the consolidated statements of net earnings and earnings retained and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

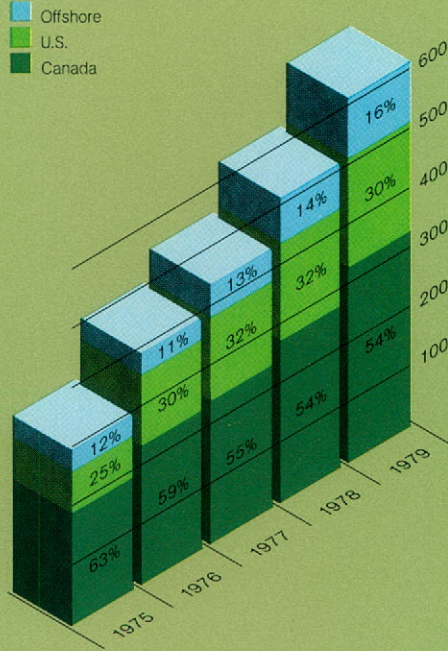
Vancouver, B.C.
January 18, 1980

Coopers & Lybrand

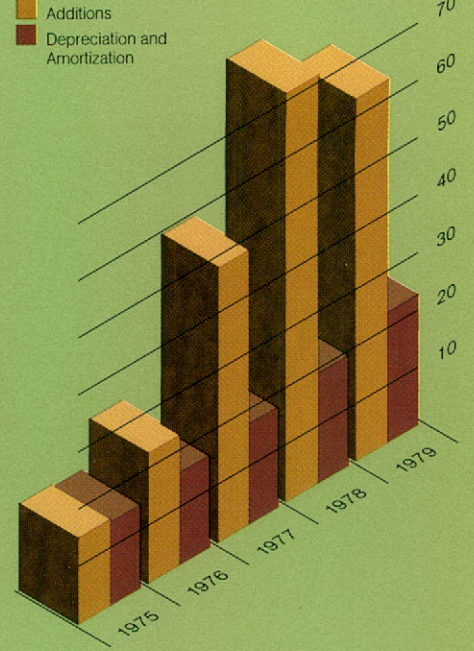
Sales by groups



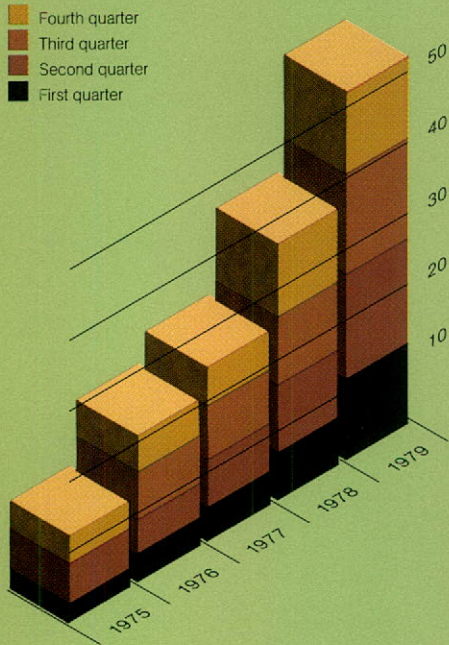
Sales by markets



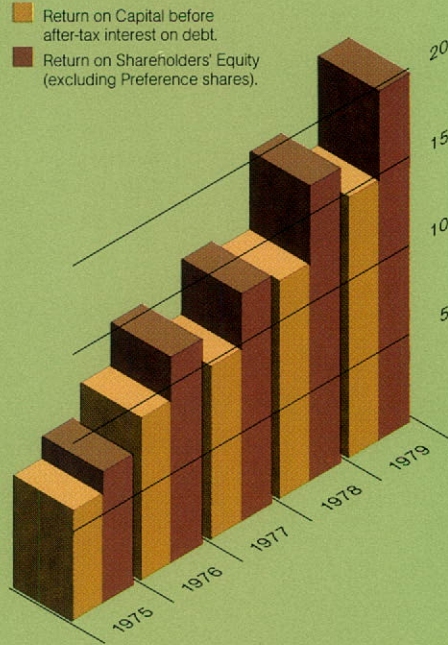
Properties



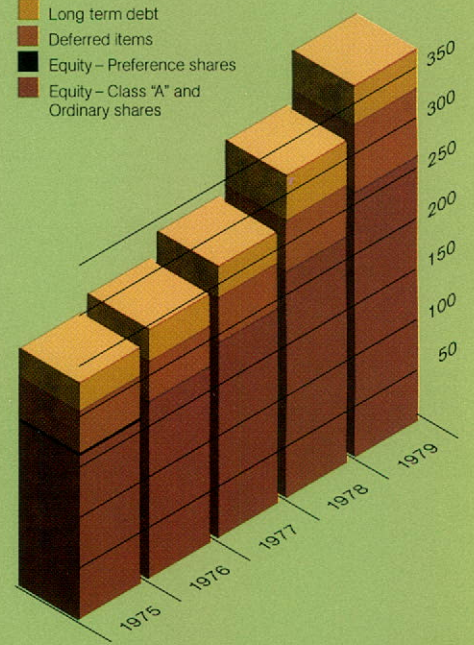
Earnings by quarters



Return on Capital



Capitalization



Crown Zellerbach Canada Limited
Five Year Review

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	1975	1976	1977	1978	1979
Sales and earnings—millions of dollars					
Sales	296.4	394.1	435.0	507.5	614.3
Other income and gain on disposal of properties	7.5	3.1	3.9	2.6	3.8
	303.9	397.2	438.9	510.1	618.1
Cost of goods sold	246.8	316.6	351.1	396.6	470.9
Selling and administrative	31.8	38.2	44.0	50.4	52.5
Interest on long term debt	3.5	3.1	2.6	2.9	4.3
	282.1	357.9	397.7	449.9	527.7
Earnings before income taxes	21.8	39.3	41.2	60.2	90.4
Income taxes	9.5	18.7	16.5	23.9	38.3
Net earnings	12.3	20.6	24.7	36.3	52.1
Dividends	9.7	9.8	9.8	10.1	11.3
Earnings retained	2.6	10.8	14.9	26.2	40.8
Per share—dollars					
Net earnings	1.52	2.53	3.04	4.43	6.32
Cash flow	3.35	4.51	5.69	7.94	10.74
Dividends	1.20	1.20	1.20	1.23	1.36 ^{1/2}
Shareholders' equity	20.63	21.93	23.73	26.90	31.81
Assets and capitalization—millions of dollars					
Assets used in the business					
Working capital	63.7	66.4	58.6	63.6	77.4
Properties, net	160.2	166.9	196.7	241.0	281.2
Other assets	10.9	10.9	10.9	10.9	10.9
Net assets	234.8	244.2	266.2	315.5	369.5
Financed by					
Long term debt	29.3	27.9	27.6	38.9	36.5
Deferred income taxes	37.2	38.9	44.9	55.5	69.6
Accrued self-insurance	.9	—	—	—	—
Preference shares	2.0	—	—	—	—
Class "A" and ordinary shareholders' equity	165.4	177.4	193.7	221.1	263.4
Total capitalization	234.8	244.2	266.2	315.5	369.5

	1975	1976	1977	1978	1979
Other statistics					
Cash flow (net earnings before non-cash items)—millions of dollars	26.8	36.5	46.3	65.1	88.6
Additions to properties—millions of dollars					
Pulp and paper	3.9	7.5	11.9	34.0	29.4
Wood products	6.4	13.1	33.5	33.9	31.2
Merchandising	4.3	2.3	2.0	2.7	2.6
Total additions to properties	14.6	22.9	47.4	70.6	63.2
Depreciation and amortization—millions of dollars	14.2	16.0	17.4	19.7	22.8
Employment costs—millions of dollars	94.4	126.0	142.1	160.8	171.3
Number of employees	6,100	6,400	6,500	6,700	6,800
Analytical data					
Ratio of current assets to current liabilities	2.3:1	2.4:1	2.2:1	2.1:1	1.9:1
Per cent of net earnings to sales	4.2	5.2	5.7	7.1	8.5
Per cent of net earnings to shareholders' equity	7.4	11.5	12.8	16.4	19.8
Per cent return on total capitalization	6.1	9.1	9.9	12.1	14.8
Production					
Pulp and Paper—thousands of metric tons					
Newsprint	165	232	220	235	248
Market pulp	111	171	171	180	185
Converting papers	32	34	31	41	39
Containerboard	24	39	44	37	43
Total	332	476	466	493	515
Lumber—millions of board feet	350	422	488	500	526
Plywood—millions of square feet	248	309	315	339	326
Market green veneer—millions of square feet	—	—	—	40	109

Corporate Directory

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Directors

M. S. Denman, San Francisco, California.
Executive Vice-President,
Crown Zellerbach Corporation.

J. D. Houlding, Toronto, Ontario.
President and Chief Executive Officer,
Polar Gas Project.

† **R. A. Hubber-Richard**, Vancouver, B.C.
Chairman of the Board,
The White Pass and
Yukon Corporation Limited.

*† **V. F. MacLean**, Vancouver, B.C.
Business Consultant.

E. A. Mitchell, San Francisco, California.
President and Chief Executive Officer,
Crown Zellerbach International, Inc.

† **Hon. J. L. Nichol**, Vancouver, B.C.
President,
Springfield Investment Co. Ltd.

* **R. G. Rogers**, Vancouver, B.C.
Chairman of the Board,
Crown Zellerbach Canada Limited.

* **T. G. Rust**, Vancouver, B.C.
President and Chief Executive Officer,
Crown Zellerbach Canada Limited.

R. D. Southern, Calgary, Alberta.
President and Chief Executive Officer,
ATCO Ltd.

R. J. Turner, Montreal, Quebec.
President and Chief Executive Officer,
Genstar Limited.

*† **F. C. Wilkinson**, Vancouver, B.C.
President,
Wilkinson Company Limited.

Officers

R. G. Rogers, Chairman of the Board.

T. G. Rust, President and
Chief Executive Officer.

B. W. Beaton, Vice-President and
Corporate Controller.

G. M. Clark, Vice-President, General
Counsel and Secretary.

J. W. Greig, Vice-President,
Industrial Relations.

P. D. Mare, Vice-President and Treasurer.

G. L. Pearson, Vice-President,
Pulp and Paper Group.

J. A. Rainer, Vice-President,
Wood Supply and Products Group.

Executive Offices

815 West Hastings Street,
Vancouver, B.C.

Transfer Agent and Registrar

National Trust Company, Limited,
Vancouver, Toronto, Montreal.

Auditors

Coopers & Lybrand, Vancouver.

Shares Listed

Vancouver, Toronto and
Montreal stock exchanges.

* Member, Directors' Executive Committee.

† Member, Directors' Audit Committee.





The future of our pulp and paper operation at Elk Falls revolves around expansion of thermomechanical pulp capacity. A second TMP plant will accompany our newsprint expansion at the mill and will further our goal of eliminating the use of logs in the pulp and paper process.



CrownZellerbach Canada

P.O. BOX 2079
VANCOUVER, B.C. V6B 3T1
(604) 668-4242