

An aerial photograph of a dense evergreen forest, likely a spruce or fir forest. The trees are tall and thin, with a dark green canopy. The perspective is from above, looking down on the forest floor. The lighting is somewhat dim, suggesting a dense canopy.

MacMillan Bloedel Limited 1979 Annual Report



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Theme

This report features brief profiles of MacMillan Bloedel employees whose jobs are typical of the Company's quest for improved productivity, competitive efficiency, enlightened land use policies and public understanding of its forest management policies. The people whose jobs are described in these pages are examples of teamwork directed towards corporate goals. They have hundreds of fellow employees doing similar or related work.

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ANNUAL GENERAL MEETING

The Company's annual general meeting will be held at 10 a.m., Tuesday, April 22, 1980, in the ballroom of the Hyatt Regency Hotel, 655 Burrard Street, Vancouver, B.C.

FORM 10-K AVAILABLE

The Company's Annual Report to the United States Securities and Exchange Commission (Form 10-K) is available on request. Write to:

The Secretary,
MacMillan Bloedel Limited,
1075 West Georgia Street,
Vancouver, B.C. V6E 3R9

On pourra se procurer un exemplaire français du présent rapport en s'adressant à:
The Secretary, MacMillan Bloedel Limited, 1075 West Georgia Street, Vancouver, B.C. V6E 3R9

Systems Engineering people in the Pulp and Paper Group of MacMillan Bloedel have as their principal function the application of computer technology to production processes in the mills. Bob Chamberlain, who is manager of Systems Engineering, observes, "There's a saying in our field that if you understand a computer system it's obsolete."

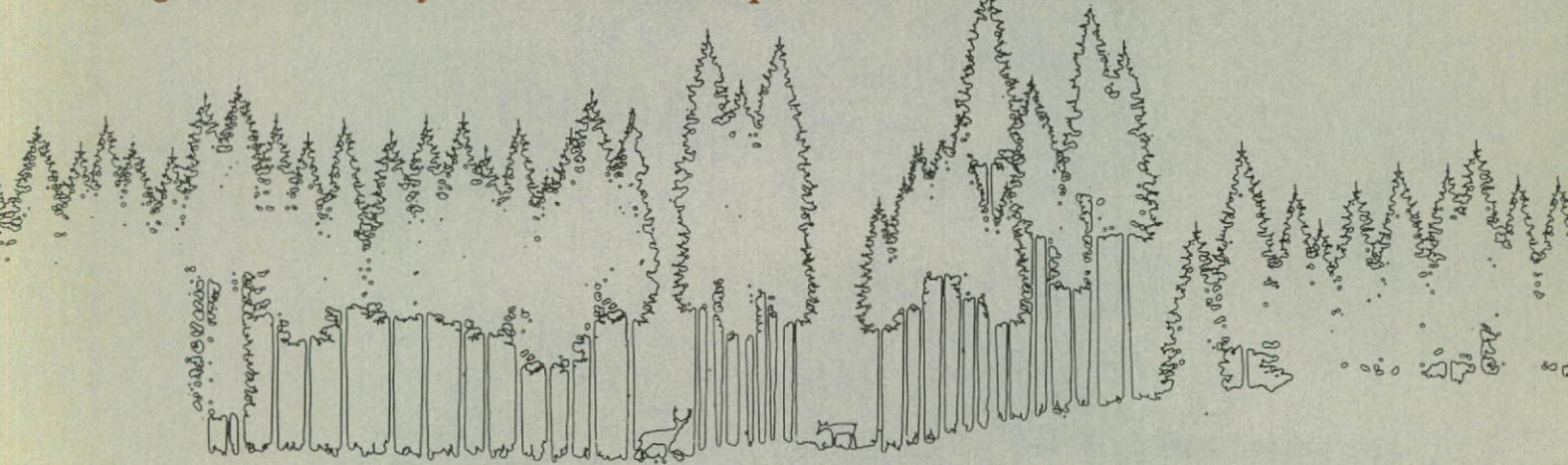
Therefore, Bob and his staff of 10 work constantly on the leading edge of available technology to maintain MB's position of North American leadership in systems engineering for the pulp and paper industry.

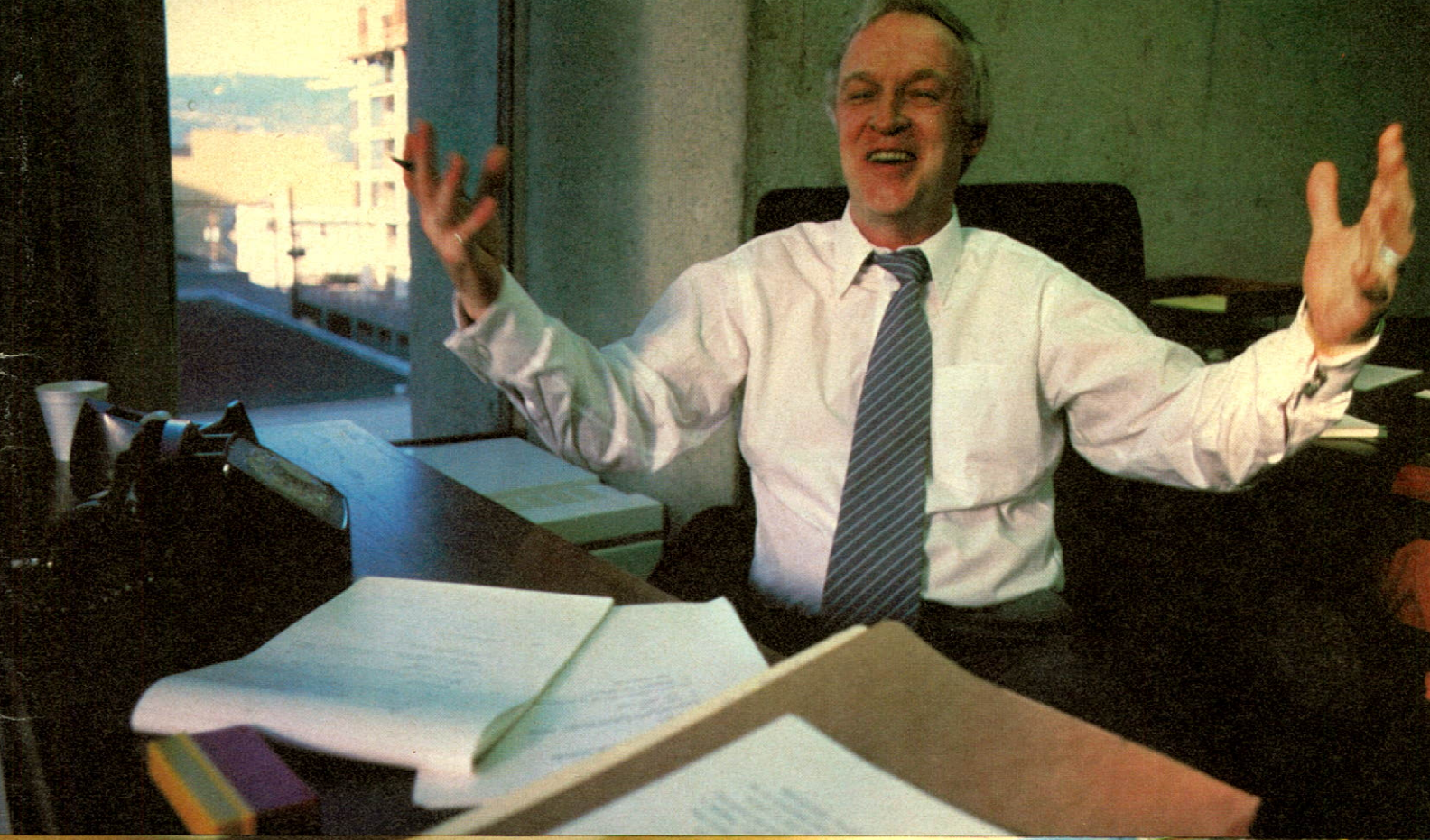
Systems Engineering staff and their counterparts in the mills are evolving computer systems for both plant control and communications. The communications aspects are being approached in the same way that department stores, supermarkets, banks and airlines have adopted them for their uses. We are using similar kinds of tools, adapted to our own needs.

"Eventually," Bob says, "the plant control computer will be linked to the plant business computer and networked with all our business computers for a fully integrated system from the factory floor to the head office."

Far from being intimidated by the Buck Rogers nature of these developments, operating people in the mills, Bob finds, are excited about computerization. They say it adds interest to their work and in some cases eliminates tiresome and repetitive tasks. And what if a computer breaks down? There will one day be a diagnostic computer that will come on line to identify the problem and assist the mechanics in making repairs.

The batch digester control room at Harmac near Nanaimo, B.C., is a prime example of what computers can do to improve pulp mill efficiency. Fourteen digesters are controlled from this room with computers monitoring and controlling such functions as digester scheduling, digester steaming rates, chemical application rates, production rates and quality. Its basic purpose is to help the operator and it allows more exact handling of the details of scheduling and controlling the equipment. This allows greater flexibility which maximizes production at minimum cost.





MacMillan Bloedel Limited

Financial Highlights

	1979	1978	Per Cent Increase (Decrease)
For the year ended December 31		(\$000)	
Sales and other income	\$2,204,610	\$2,010,402	9.7%
Net earnings:			
Amount	\$ 154,902	\$ 100,947	53.4
Per Common share (dollars)	\$ 7.03	\$ 4.50	56.2
Cash flow from operations:			
Amount	\$ 257,629	\$ 200,554	28.5
Per Common share (dollars)	\$ 12.11	\$ 9.43	28.4
Additions to property, plant and equipment	\$ 269,242	\$ 121,557	121.5
Capital spending approvals	\$ 190,900	\$ 434,700	(56.1)
Dividends on Common shares:			
Amount	\$ 37,226	\$ 20,198	84.2
Per Common share (dollars)	\$ 1.75	\$.95	84.2
Return on average capital employed (1)	13.6%	10.6%	28.3
Ratio of earnings to interest charges (2)	9.9:1	6.2:1	59.6
Return on Common shareholders' equity (3)	21.0%	15.9%	32.1
Price range of Common shares on Toronto Stock Exchange (dollars):			
High	\$ 30.00	\$ 25.37	18.2
Low	\$ 20.50	\$ 15.50	32.3
At December 31			
Book value of each Common share (dollars)	\$ 33.54	\$ 28.26	18.7
Percentage of long term debt to total capital employed	24.4%	28.5%	(14.4)
Total assets	\$1,691,963	\$1,549,253	9.2
Working capital	\$ 319,968	\$ 300,975	6.3
Current ratio	1.9:1	1.9:1	—
Long term debt	\$ 323,044	\$ 341,738	(5.5)
Number of Common shareholders	16,296	16,991	(4.1)
Number of employees	24,505	23,948	2.3

(1) "Return on average capital employed" is defined as net earnings plus minority interests and long term debt interest after tax as a percentage of average total assets less average current liabilities.

(2) "Ratio of earnings to interest charges" has been calculated by dividing earnings before income taxes, equity in earnings of partly-owned companies, and minority interests in subsidiaries plus interest expense, by interest expense.

(3) "Return on Common shareholders' equity" is defined as net earnings available to Common shareholders as a percentage of that equity.

Selected Quarterly Financial Data

Unaudited	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1979				
Sales and other income (\$ millions)	\$566.2	\$558.9	\$510.5	\$569.0
Net earnings:				
Amount (\$ millions)	\$ 40.7	\$ 49.8	\$ 27.8	\$ 36.6
Per Common share (dollars)	\$ 1.85	\$ 2.28	\$ 1.24	\$ 1.66
Price range of Common shares (dollars)				
High	\$26.38	\$26.63	\$30.00	\$27.63
Low	\$22.25	\$21.50	\$24.13	\$20.50
Dividends per Common share (dollars)	\$.25	\$.35	\$.35	\$.80
1978				
Sales and other income (\$ millions)	\$458.5	\$500.6	\$538.8	\$512.5
Net earnings:				
Amount (\$ millions)	\$ 18.4	\$ 25.7	\$ 28.8	\$ 28.0(1)
Per Common share (dollars)	\$.80	\$ 1.15	\$ 1.30	\$ 1.25
Price range of Common shares (dollars)				
High	\$18.38	\$20.38	\$24.25	\$25.37
Low	\$15.50	\$18.00	\$18.50	\$21.12
Dividends per Common share (dollars)	\$.10	\$.15	\$.20	\$.50

(1) During the fourth quarter of 1978 MacMillan Bloedel provided \$14,603,000 in regard to legal actions and claims. (See Note 12 to audited financial statements.)

Letter to the Shareholders

1979 Results

MacMillan Bloedel experienced the most successful year in its history in 1979 with sales, net earnings and cash flow surpassing the records set in 1978. Most of our major product lines enjoyed buoyant markets throughout the year.

For the year, the Company earned \$7.03 per share, compared with \$4.50 per share in 1978. Operating cash flow was \$12.11 per share, compared with \$9.43 per share the previous year. Return on average capital employed was 13.6 percent, and return on Common shareholders' equity was 21.0 percent, compared with 10.6 percent and 15.9 percent, respectively, in 1978.

Net earnings rose 53.4 percent to \$154.9 million, from \$100.9 million the year before. Total sales and other income were \$2.20 billion, compared with \$2.01 billion in 1978.

The benefits of strong markets were materially reduced by a number of work stoppages during the year which cost the Company an estimated \$29.3 million, or \$1.38 per share. A \$4.3 million benefit to earnings resulted from the decline during 1979 of

the value of the Canadian dollar relative to other currencies, particularly the United States dollar.

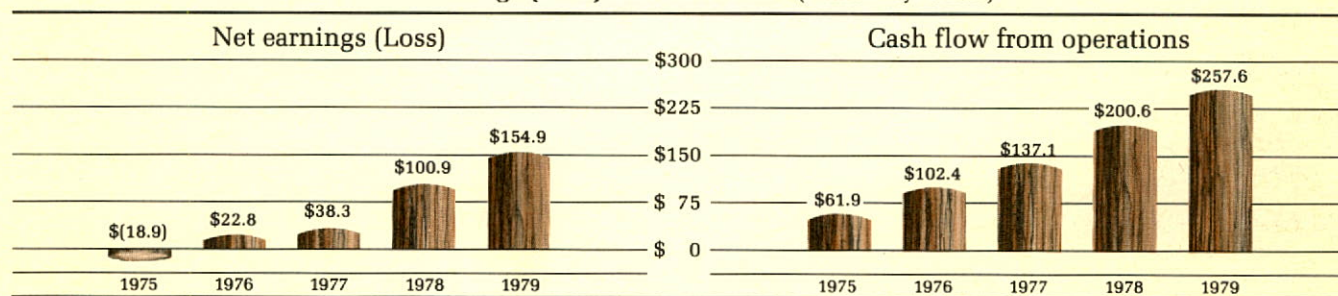
All portions of our business contributed to 1979 profits except transportation, where chartering and operating costs rose faster than moderately improving freight rates. We pay charter hire for three of our largest vessels in Deutsche Marks, which appreciated in value relative to the Canadian dollar and this increased the chartering cost for these vessels.

Pulp, newsprint and linerboard markets experienced continuing strong demand and rising prices during the year. Our mills in British Columbia and Alabama had large order backlogs throughout the year. Packaging operations in Canada and the United Kingdom performed well and the United States plants showed very substantial improvement.

Lumber demand continued to improve in all markets for the first three quarters of the year, but declined in the United States in the fourth quarter as the economic slowdown and high interest rates reduced construction activity. For plywood, raw material costs rose faster than prices, leading to operating losses. Waferboard operations, however, continued to be profitable.

(continued)

Net Earnings (Loss) and Cash Flow (millions of dollars)





Watch Elspeth Creith with a crowd of school kids or a group of senior citizens at MB Place and you will see the enjoyment she gets from an interchange of ideas with people. It is an aptitude that is vital to her job as manager of MB Place, the Company's forest information centre located at the VanDusen Botanical Display Gardens in Vancouver. It is the Company's response to public interest in the way the forests are managed and protected.

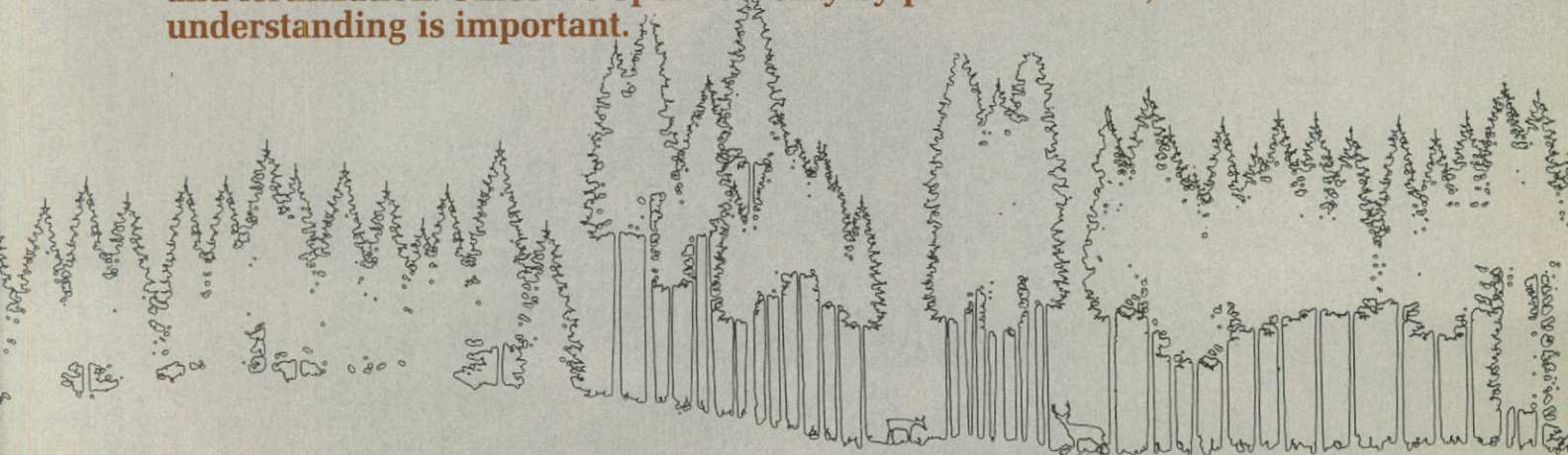
There are many misconceptions about logging practices, depletion, protection of wildlife and recreational uses of the forest. MB Place is one of the means by which the Company is able to place its message before the public with audio visual displays, films and lectures.

Elsbeth has been at MB Place since its inception in 1976. From the beginning she has seen her role there as a combined one of learning and teaching. For example, how do you teach city kids, any kids, how a forest grows and regenerates itself? How do you reassure people that MB is managing its forests on a sustained yield basis, actually replacing more wood than it uses?

Once you have identified the principal areas of public concern, then you must learn how best to communicate the MB story to a large and varied audience. You test your story-telling techniques, find out what concepts, such as photosynthesis, are too complex for young audiences and have to be explained in simpler terms, and which ones fit best with school curricula. Finally, you can begin the educational process, and at MB Place it is now being offered to more than 100,000 children and adults per year. Though not trained as a teacher, Elspeth has learned how to captivate all types of audiences, how to entertain with facts, how to persuade.

"Co-nif-er-ous, co-nif-er-ous," repeated in chorus a few times and an elementary class learns the type of tree most common to B.C. forests. Most children, and many parents, are surprised to learn that fir trees have flowers, male and female flowers at that. Many have never heard about "game trails" used by wildlife in the forests.

Gradually, Elspeth and her staff are reaching a growing audience of concerned young people and adults, giving them new understanding of what we call "the designed forest". A better informed public will know the implications of clear-cutting, commercial thinning, genetic improvement and fertilization. Since we operate only by public consent, this understanding is important.





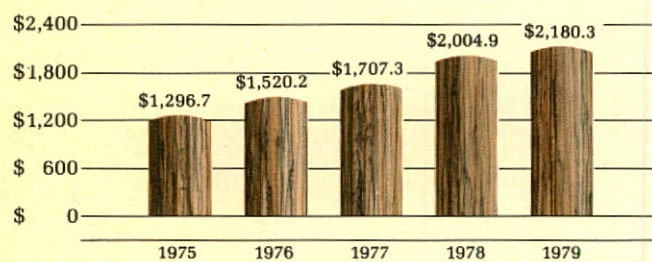
Sales of Products by Market

	1975	1976	1977	1978	1979
U.S.A.	43%	44%	49%	51%	47%
Canada	24	24	20	20	19
U.K. and Continental Europe	20	19	18	17	20
Japan and Orient	7	7	7	7	9
Other	6	6	6	5	5
	100%	100%	100%	100%	100%

Contribution to Sales by Product

	1975	1976	1977	1978	1979
Lumber	25%	29%	29%	32%	34%
Panelboards	11	10	11	11	11
Newsprint	25	23	23	23	20
Pulp and Fine Paper	12	13	10	10	10
Linerboard and Corrugated Containers	21	18	18	18	19
Other	6	7	9	6	6
	100%	100%	100%	100%	100%

Sales of Products and Services
(millions of dollars)



Capital Program

Our objective is to maximize over time the return on our shareholders' investment through share price and dividend improvements. To accomplish this, we are pursuing strategies to enhance the earning power of our existing assets and to expand in those areas of our business offering the greatest potential returns.

The main element of this strategy is our continuing capital spending program. Capital

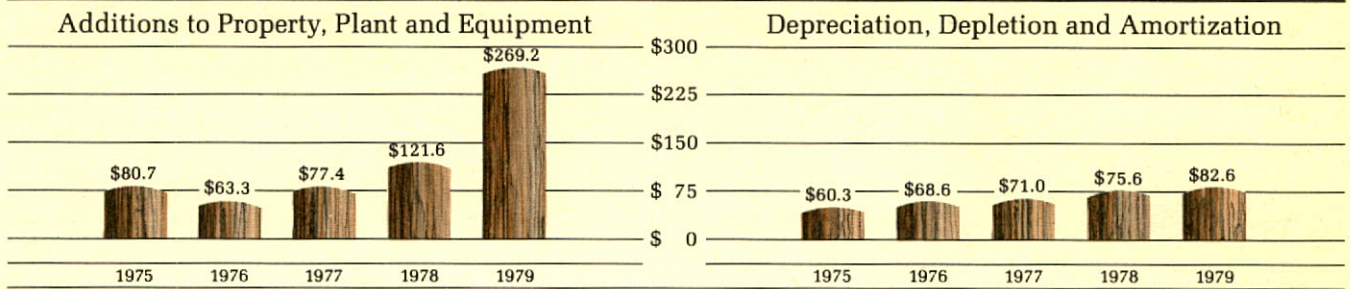
expenditures totalled \$280 million in 1979, including the acquisition from Abitibi-Price, and are expected to average more than \$300 million annually over the next four years, for a five-year total in excess of \$1.5 billion.

The Company's healthy earnings performance provides the basic financial support for this capital program, which is designed to meet our key operating objectives:

- To increase the productivity, capacity and product quality of our manufacturing facilities;
- To maximize the value and volume of products extracted from our timber base;
- To expand our timber base through more intensive forest management and the acquisition of additional timberland.

Among those capital projects currently underway in British Columbia, the new No. 11

**Additions to Property, Plant and Equipment
and Depreciation, Depletion and Amortization**
(millions of dollars)



newsprint machine at Powell River and the new Alberni Pacific sawmill at Port Alberni are proceeding ahead of schedule and within budget. The newsprint machine, with related facilities, is a \$163 million project, and we are hopeful that it will be turning out newsprint by early 1981. The Alberni Pacific sawmill, costing \$54 million, is due to come on stream this year.

A complete renovation of our Port Alberni plywood plant has taken place at an investment of \$26 million. This mill has entered the start-up phase.

We are also planning to replace our sawmill at Chemainus, British Columbia, and to modernize the Somass sawmill at Port Alberni, at a combined cost of more than \$80 million.

Besides enhancing existing facilities, the capital program provides for acquiring assets which fit MacMillan Bloedel's corporate objectives. In late 1979 we purchased two corrugated container plants and a corrugating medium/hardboard siding plant in Ontario; and in January of this year we purchased four corrugated container plants in Ontario and Quebec.

New Property, Plant and Equipment
(thousands of dollars)

The total expenditures for the year of \$269,242,000 were grouped as follows:

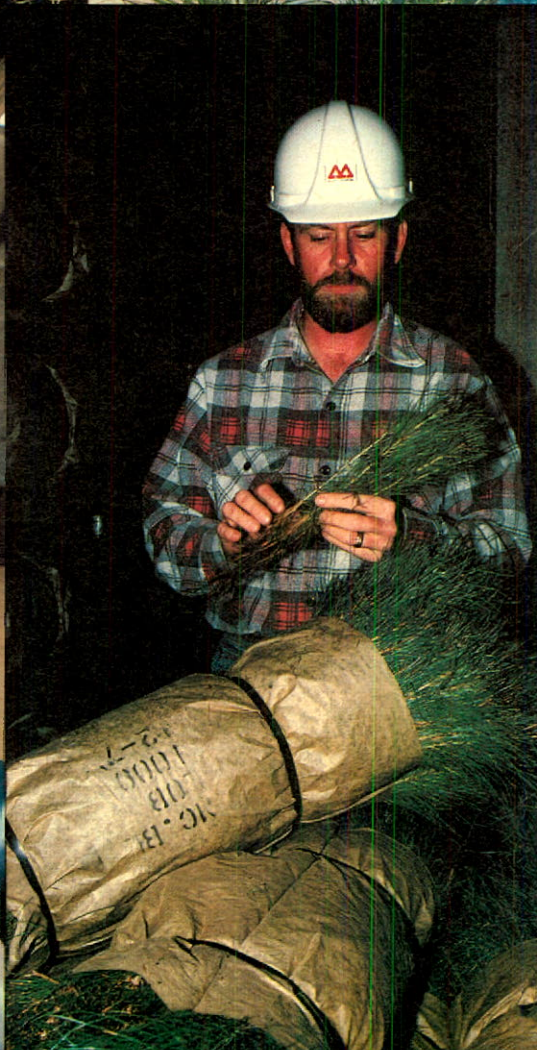
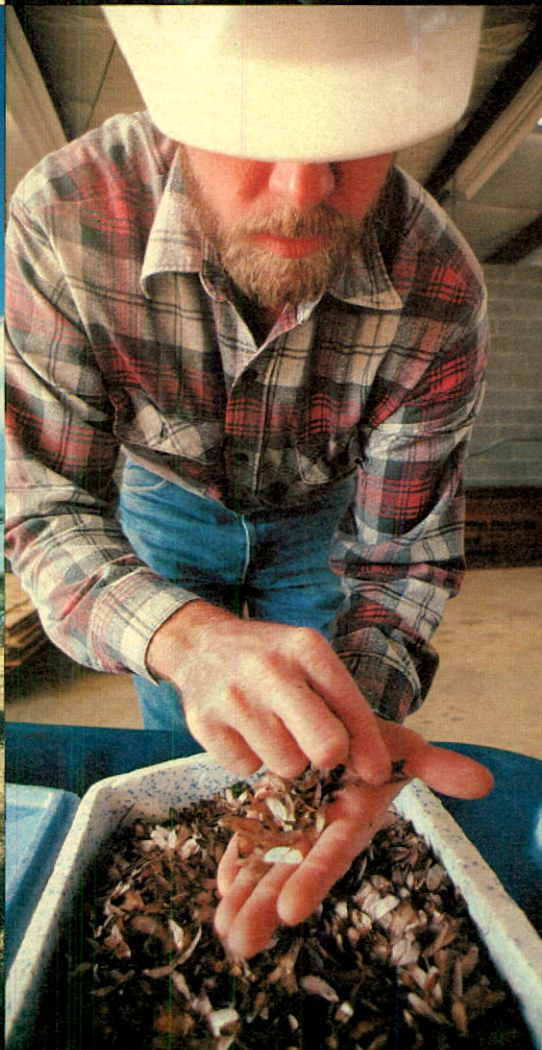
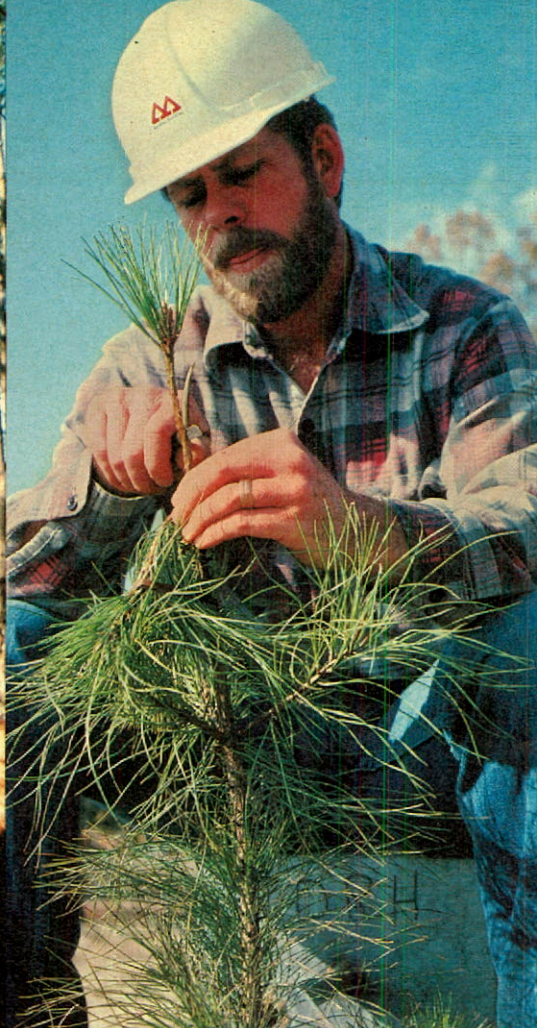
Raw Materials and Building Materials	
Timber in Alabama and B.C., road construction and dry land log sorting facilities in B.C. and logging equipment, a new sawmill and plywood mill modernization program in Port Alberni, B.C., pollution control projects and general improvements to operating facilities	
	\$119,249
Pulp and Paper	
Thermo-mechanical pulping unit and No. 11 paper machine at Powell River, B.C., pollution control projects and general improvements to operating facilities	
	118,319
Linerboard and Packaging	
Modifications of Alabama linerboard machine and general improvements to operating facilities	
	25,589
Other	
Computer equipment and head office facilities	
	6,085
	\$269,242

Outlook

1979 was the year of the recession that did not occur. Although the issue is still in doubt for 1980, we remain cautiously optimistic. We believe a recession will occur in the United States, but that its impact on our business will be cushioned by the fact that inventories held by both producers and consumers are at relatively low levels.

At the same time, the 1981 recovery in the United States will probably not be especially

(continued)



Gary Gaines casts a fatherly gaze over the 49 acres of seed orchard with its 5,000 specimens of loblolly pine. "Since 1975 when we established the orchard, we've babied these young trees. We grafted them and watched them grow, and each family has a different form. For instance, I can tell the 756, the 'All-American Tree' from a great distance. It grows like wildfire and as straight as an arrow, head and shoulders above everything else. It is a very special tree — a magnificent specimen."

Gary, superintendent of MB Inc.'s seed orchard near Camden in Alabama, is proud of his brood — 51 families of some of the finest young trees in the U.S. Southeast. MB's reforestation program in Alabama has been a remarkable success story since its modest start in 1966. Last December the 100 millionth seedling was planted. But there's more to the program than just tree planting. As in British Columbia, MB in Alabama is creating a race of super trees which will produce more and better quality wood fibre faster than normal trees.

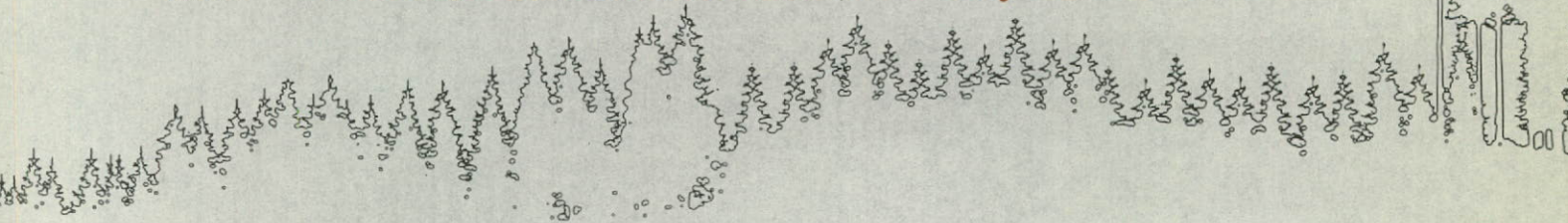
Gary's seed orchard plays a vital role in this process. When a superior tree with desirable characteristics is found in the forest, a cutting from the crown is collected by shooting it down with a rifle. In the seed orchard the cutting is grafted onto a growing seedling. This reduces the period required for seed production from 15 years to about three to five years. The seeds are collected, planted in a nursery and grown under controlled conditions, which include fertilization, weeding and irrigation. After a growing season, the seedlings are strong enough to be transplanted on clearcut lands.

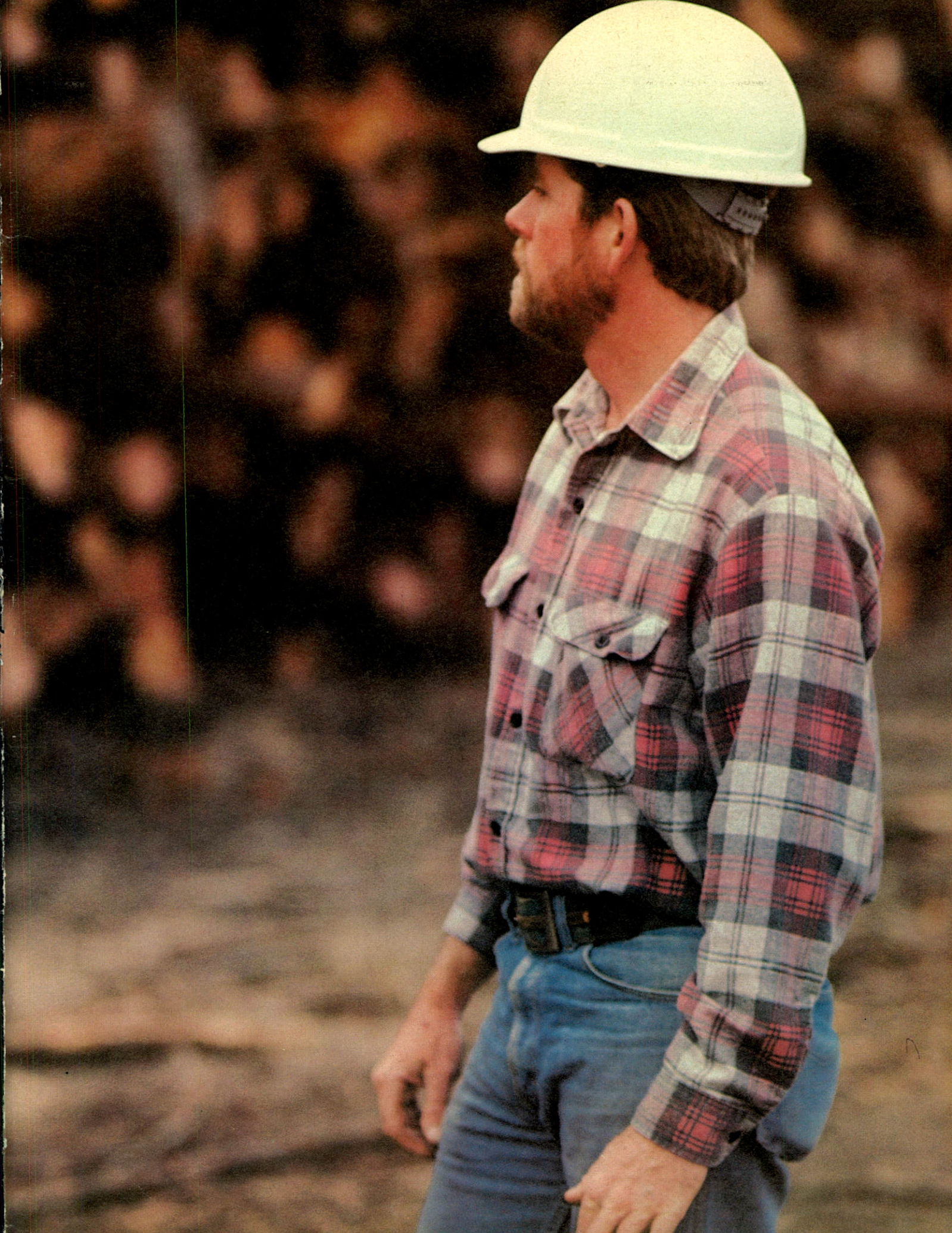
MB Inc.'s program is moving ahead rapidly. A nursery is being established and in seven years' time the joint operation of the nursery and seed orchard will be providing enough superior seedlings for the company's total planting program.

MB joined the North Carolina State University Tree Improvement Co-operative in 1974 and was provided with field-tested and proven superior cuttings to establish its first orchard.

"In the meantime, we have located 73 superior trees of our own," Gary says. "These have been graded by the University's tree geneticists and cuttings have been grafted and placed in clone banks. When the grafts produce their first seed they will be planted in the nursery, then transplanted and progeny-tested against regular seedlings. After three or four years of growth, any superior characteristics will be measured to see if the clone merits adding to the orchard."

MB Inc. is planting about 13 million seedlings a year on about 18,000 acres of harvested land. Within a few years the company will be planting some 22,000 acres annually and all the seedlings — about 15 million of them — will come from the seeds collected in Gary Gaines' orchard.

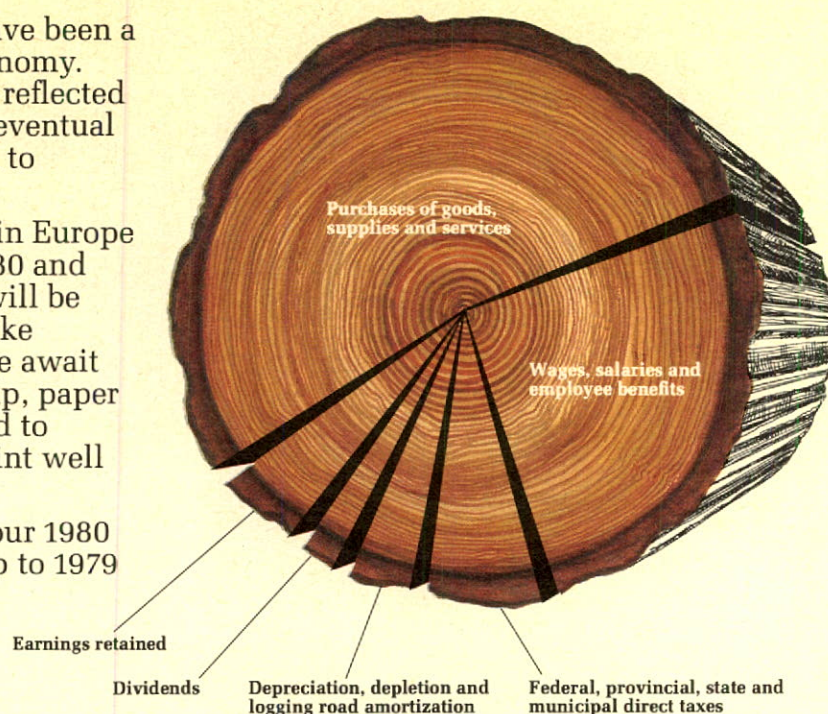




vigorous, which means there will have been a two-year pause in that country's economy. Housing activity, which has quickly reflected the downturn, will also react to the eventual upturn, as government budgets tend to encourage new starts.

We expect that lumber markets in Europe and Japan will remain healthy in 1980 and our worldwide marketing network will be able to direct our product flows to take advantage of offshore markets. As we await recovery of U.S. lumber markets, pulp, paper and packaging products are expected to continue strong in 1980 and newsprint well into 1981.

As a result, we can expect that our 1980 earnings — although possibly not up to 1979 levels — will be quite healthy.



Distribution of Total Income (Total income includes equity in earnings of partly-owned companies)

	1975	1976	1977	1978	1979
Purchases of goods, supplies and services	67%	60%	60%	59%	56%
Wages, salaries and employee benefits	27	29	28	26	26
Federal, provincial, state and municipal direct taxes	2	5	6	6	7
Depreciation, depletion and logging road amortization	5	4	4	4	4
Dividends	1	1	1	1	2
Earnings retained	(2)	1	1	4	5
	100%	100%	100%	100%	100%

Board Changes

Several changes occurred in the Company's Board of Directors in 1979 and in early 1980. Mr. A. B. Christopher, who had been a director since 1966, reached retirement age before the last Annual General Meeting. He was replaced by Mr. B. I. Howe, the Company's Executive Vice-President, Opera-

tions. Later in the year, Mr. William Moodie resigned from the Board, to be replaced by Mr. W. J. Stenason, President of Canadian Pacific Investments Limited.

On March 6, 1980, British Columbia Resources Investment Corporation (BCRIC) acquired the approximately 14 percent interest

in MacMillan Bloedel that had been held by Canadian Pacific Investments Limited and related pension funds. As a result, Mr. I. D. Sinclair, Q.C., Chairman and Chief Executive Officer of Canadian Pacific Limited, and Mr. Stenason are not standing for re-election to the Board.

In addition, Mr. Anson Brooks and Mr. J. A. Taylor have reached retirement age and are not standing for re-election.

Nominees as new directors are Mr. D. M. Culver, President and Chief Executive Officer of Alcan Aluminium Limited; Mr. D. L. Helliwell, President and Chief Executive Officer of British Columbia Resources Investment Corporation; Mr. M. J. Meyer, Chairman and Managing Director of Montague L. Meyer Limited, and Mr. A. H. Mingay, Chairman of the Board and the Executive Committee of The Canada Trust Company.

In September, 1979, the Board was saddened by the death of Mr. John M. Meyer, C.B.E., of London, England. This Company had enjoyed a long association with Mr. Meyer, extending over 47 years. The

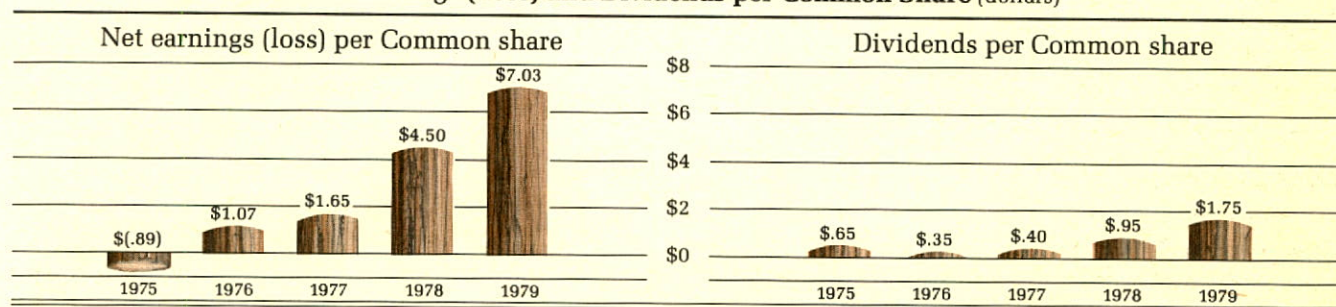
relationship with the Meyer family dates from a trading association established between the H. R. MacMillan Export Company Limited and Montague L. Meyer Limited following the First World War. This association being continued by the inclusion of Mr. Montague John Meyer as a nominee director.

Dividends

Our dividend policy is to increase the regular quarterly dividend whenever there is a demonstrated improvement in the fundamental earning power of the Company. In addition, when unusual circumstances occur — such as exceptionally strong markets or a short-term imbalance in exchange rates — the Board considers distribution of special or year-end extra dividends.

In 1979, all of these criteria were met. As a result, the regular quarterly dividend was increased to 35 cents per share from 25 cents. Last October, the Board announced an extra dividend of 45 cents per share for the year 1979, payable December 15, 1979, to shareholders of record November 21, 1979.

Net Earnings (Loss) and Dividends per Common Share (dollars)



J. E. Richardson

J. E. Richardson
Chairman of the Board

Vancouver, Canada
March 21, 1980

C. C. Knudsen

C. C. Knudsen
President and Chief Executive Officer



"One day when I was working up on the yarding grapple, the idea came to me that there had to be a better way to handle logs, especially on a steep slope."

Ron Williams explains how he first thought of the swinging grapple concept for improved logging productivity at MB's Shawnigan Division, Vancouver Island. He wasn't really thinking about productivity but, as he says, "There's no point doing things the hard way if you can figure out an easier way."

Ron has 20 years' experience with logging equipment and he has an expert's eye for the way a grapple should seat itself on a log, seize it and balance it. He reasoned that if the grapple were able to swing from the line by means of linkage that allowed free fore and aft swivel action, the operator could grasp and move a log with greater precision, and faster, than by the old method. He was right, and his idea was recently recognized by an award from the Forest Engineering Research Institute of Canada.

Mackie Pickard, general foreman at Shawnigan, discussed Ron's idea with Sanderson Machine and with Duncan Iron Works and those two firms developed the first prototype. Now the swinging grapple has been adopted by a number of companies from California to Alaska.

Still another problem is being tackled, drawing on the first-hand knowledge of loggers who understand the difficulties of getting B.C.'s big logs out of the rough terrain and down to the sorting grounds. Loggers, for example, are familiar with the nagging problem of frayed and broken grapple lines, and the time-consuming chore of repairing the breaks. To Mackie and his men, the cause seemed obvious: The opening through which the line passed into the grapple mounting was too small and the steel surface it worked against was rough and abrasive. If you enlarged the opening, you had easier access for threading a new line. Average downtime was reduced from 1½ hours to 20 minutes. And if you smoothed off that rough surface, you had fewer breaks to begin with. The machine shops are currently working on those modifications.

Such ideas come from experienced people who combine their skills with a natural familiarity with machinery. Ron Williams, lightly touching two levers and four buttons in a grapple loader, can set up a truck for loading, drop some 48 logs into place on the truck bed, and pass the chains over the load to be cinched by the driver, all in the space of about 12 minutes. It looks easy, apart from the bone-jarring vibrations, but it is a facility that comes after years of practice, not before. Logging productivity is part seasoned hands, part fresh ideas.



Report of the Directors Summary of 1979 Operations

Raw Materials and Building Materials

A major step in woodlands management was taken by the Company in 1979 when the Board of Directors approved an intensified forest management program called "The Designed Forest System". The program consists of three phases:

1. Basic forestry which is treatment such as site preparation, replanting and weed control necessary to establish a new forest.
2. Discretionary forestry which involves spacing and thinning treatments to add value to the final harvest and provide an interim recovery of usable wood. This phase also includes fertilization to stimulate growth.
3. Maximum-yield harvesting in areas that support rapid growth and thus justify a shorter rotation.

The Designed Forest System is a flexible and economic forest management program that, implemented in 1980, will over the near term maintain the Company's sustained fibre supply and, over the longer term, increase it.

MB at present manages 1.9 million hectares* of woodlands in North America which makes it 80 percent self-sufficient in its fibre needs. In British Columbia, 20 percent of managed timberland is owned outright, 20 percent is owned under leases and licences and 60 percent is Crown land held under 25-year renewable Tree Farm Licences.

In 1979 the Company continued to acquire timberland in Alabama as part of a long-range program to lessen dependency on logs purchased on the open market. The objective for Alabama is a significant increase in fibre self-sufficiency which now stands at approximately one-third of need. In addition, the Company has developed a pine seedling nursery in Alabama to ensure the availability

of superior seedlings required for reforestation. Starting in 1980 or 1981, superior seeds will be supplied from the Company's own seed orchard. The intensive forestry program continued in Alabama where the Company planted its 100-millionth tree in 1979. Additional timber was acquired in North Carolina for the Atlantic Forest Products Company mill at Edenton.

The year was marked by a 20 percent increase in delivered log costs in B.C., brought about by a combination of factors. The most important of these was the increase in stumpage, royalties and timber taxes and rental fees. The Coast wage rate settlement increased labour and contractor costs significantly. In addition, unit logging costs increased due to reduced output because of severe winter logging conditions, the summer fire season and work stoppages. Also because of strong lumber markets early in the year a higher proportion of production was carried out in the winter months.

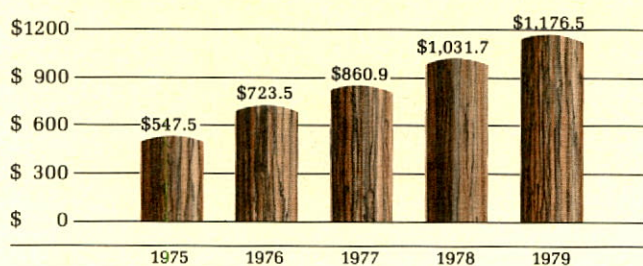
A number of actions were taken to get higher value from the timber resource. For example, work was started on a new dryland log-sorting facility at Ferguson Bay in the Queen Charlotte Islands. When it is completed in the first half of 1980, the Company will have eight such major sorting yards in B.C., allowing better log handling and more accurate sorting and grading so that each log can be directed to a conversion mill best suited to use it. The objective is higher log value and greater mill efficiency than is possible when logs are sorted and graded in water. Complementing this effort are timber felling techniques designed to reduce log breakage.

Building materials manufactured by the Company are marketed principally in North America with 24 percent of revenues from sales in Canada and 41 percent from sales in the United States. The North American market for building materials fell off sharply in the

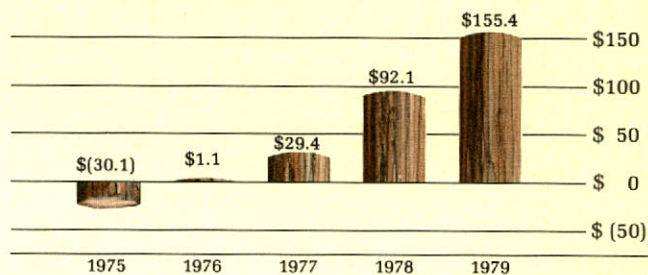
* 1 hectare = 2.47 acres

Raw Materials and Building Materials

Segment Sales (millions of dollars) *

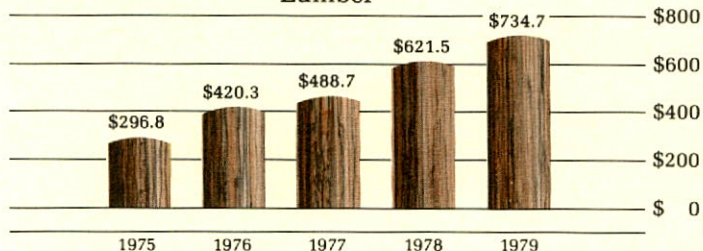


Contribution to Earnings (millions of dollars) **

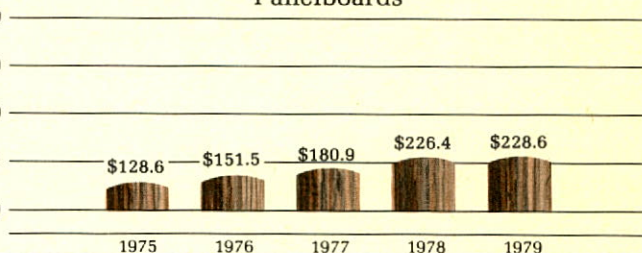


Product Sales (millions of dollars)

Lumber



Panelboards

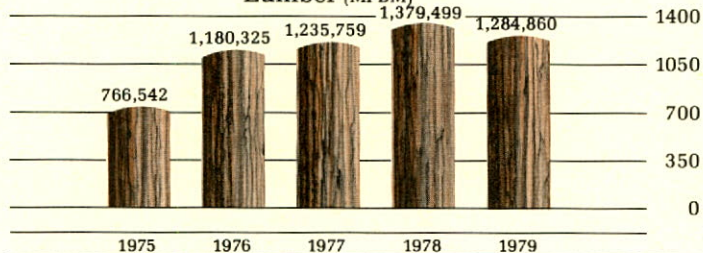


* Includes sales of logs and chips to the Pulp and Paper segment.

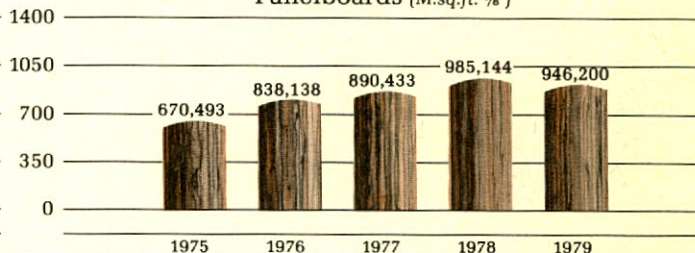
** As defined on page 40, Note 3

Production

Lumber (MFBM)



Panelboards (M.sq.ft. %)



last quarter of 1979. However, average prices were significantly higher during the year in North America than in 1978. Mill returns remain high as the Company stresses overseas markets and these are expected to hold at or better than average 1979 levels. Major markets

outside North America are Japan, the United Kingdom, continental Europe, Australia and North Africa. These offshore customers took 35 percent of sales in 1979, as opposed to 26 percent in 1978.

(continued on page 22)



Will the corrugated container ever become a work of art in England? John Maskell believes so.

As part of his job as print and die-press technical supervisor with MacMillan Bloedel Containers, at Hatfield in Hertfordshire, John helps to pioneer new techniques and processes. Already the corrugated container plant is helping to brighten up stores throughout Britain by using three-colour printing and photopolymer stereotypes to give sharper definition. For the future, experiments are being carried out with half-tone techniques to produce various colour shades to make graphics even more realistic by giving them added depth.

John says, "Our customers are becoming more sophisticated. They are no longer satisfied simply with their name on the side of the container. They want views or designs which complement their advertising theme. Some of the designs we reproduce are almost works of art."

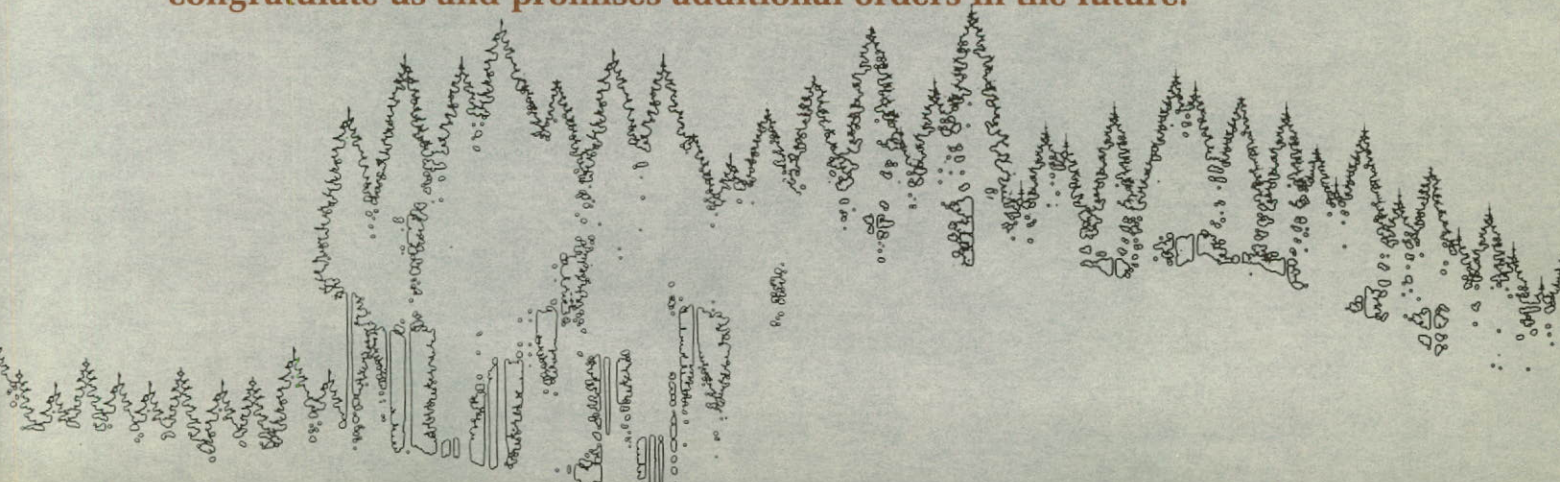
He notes that "we are one of the leading firms in Britain offering high quality three-colour printing on corrugated fibreboard. We also helped introduce the photopolymer printing plate and together these innovations provide a top quality print on lightweight corrugated board."

"I also believe," John says, "that it is important to involve our production people in new design work so that they feel a part of MB's future and can take pride in their jobs."

But better products for tomorrow are only one of John's responsibilities. He is also deeply involved in solving today's problems at Hatfield, which is one of Europe's biggest corrugated container plants. He is responsible for buying the full range of inks, helping to check the practicality of designs, vetting master copies and quality control. He also acts as a roving troubleshooter in providing technical backup for the sales force.

John is the liaison with design, production and the plant's customers. He uses his technical knowledge to help clients with problems, perhaps by recommending small changes in product design. His philosophy of involving people shows in the personal contact he has developed with clients' quality control supervisors, a contact which is strengthened by the co-operation he receives from his colleagues in the plant.

"It is a great feeling," he says, "when a company telephones to congratulate us and promises additional orders in the future."





MacMillan Bloedel Limited

Net Earnings (Note 1)

	Year Ended December 31			
	1979	1978	1979	1978
	Sales (Note 2)		Earnings (Note 3)	
Contributions by segment:		(millions of dollars)		
Raw materials and building materials	\$1,176.5	\$1,031.7	\$155.4	\$ 92.1
Pulp and paper	672.4	672.5	122.5	137.5
Linerboard and packaging	414.0	352.4	26.9	17.5
Other	32.5	27.0	1.4	1.9
	2,295.4	2,083.6	306.2	249.0
Less: Inter-segment eliminations	115.1	78.7	4.6	(3.0)
	\$2,180.3	\$2,004.9	301.6	252.0
Share of profits of other companies in which MacMillan Bloedel has a significant interest (before income taxes)			7.8	10.8
			309.4	262.8
Deduct:				
Unallocated general and administrative expenses (Note 4)			37.9	44.9
Interest expense			28.9	32.7
Corporate (gains) and losses and investment income			(22.2)	3.5
			44.6	81.1
Earnings before income taxes (see reconciliation below)			\$264.8	\$181.7
Division of earnings before income taxes:				
Governments –				
Income taxes* (Canadian Federal and Provincial, United States and various other countries)			\$106.3	\$ 78.9
Shareholders –				
Share of net earnings belonging to minority shareholders of certain subsidiary companies			3.6	1.9
Remaining earnings belonging to MacMillan Bloedel shareholders:				
Dividends on Class A Preferred shares			5.4	3.9
Dividends on Common shares			37.2	20.2
Reinvested			112.3	76.8
			\$264.8	\$181.7
Reconciliation:				
Earnings before income taxes (as above)			\$264.8	\$181.7
Deduct:				
Current and deferred income taxes (including proportion of income taxes of partly-owned companies)			106.3	78.9
Minority interests in net earnings of certain subsidiary companies			3.6	1.9
			109.9	80.8
Net earnings per audited Consolidated Statement of Earnings			\$154.9	\$100.9

* Including deferred income taxes but excluding stumpage, property and sales taxes, and other government taxes which are reflected in the calculation of the contributions by segments.

Notes:

1. The financial statements on pages 18, 19 and 20 have been prepared in simplified form for ease of reading. Formal audited financial statements are on pages 24 to 41. See Note 15 to audited financial statements.
2. Sales of the raw materials and building materials segment exclude the proceeds of log sales and trades with third parties resulting from the need to match logs produced with the requirements of the converting mills. Such proceeds are credited against production costs. Sales of the raw materials and building materials segment include the proceeds of logs and chips transferred to the pulp and paper segment.

Net earnings: continued

3. Contributions to earnings represent sales of products and services less cost of sales and services, selling expenses and allocated general and administrative expenses. Segmentation of the business by product and service categories involves allocating conversion and other costs and establishing transfer pricing policies for joint raw materials and other products. Under the policy followed by MacMillan Bloedel, inter-segment transfers of products, including logs and wood chips transferred from the raw materials and building materials segment to the pulp and paper segment, are made at market value. Costs are allocated on a basis which MacMillan Bloedel believes to be reasonable. However, other pricing policies and methods of allocating costs are possible. MacMillan Bloedel believes that the revised presentation in 1979 appropriately reflects the relative contributions of the segments.
4. Included in the unallocated general and administrative expenses in 1978 is a provision of \$14.6 million in respect of legal actions and claims. This provision is described in more detail in Note 12 to the audited financial statements.

Net Assets

	December 31	
	1979	1978
	(millions of dollars)	
Working capital:		
Net cash and short term investments	\$ —	\$ 6.9
Accounts receivable	261.8	236.0
Inventories	357.0	289.8
Prepaid expenses and miscellaneous	21.6	29.6
	640.4	562.3
Deduct:		
Net short term indebtedness	8.9	—
Accounts payable and miscellaneous liabilities	297.7	244.1
Current repayments of long term borrowings	13.8	17.2
	320.4	261.3
Total working capital	320.0	301.0
Add:		
Long term assets:		
Operating plants and equipment (at cost, less depreciation)	663.8	587.1
Construction in progress	101.2	2.8
Timber and logging roads (net of depletion and amortization) and land	134.2	120.5
Investments:		
Investments in companies accounted for by the equity method	67.7	66.5
Investments having quoted market value	—	76.2
Other investments	8.4	14.8
Cost of goodwill of businesses acquired less amortization to date	21.6	22.8
Various costs being written off over a number of years	5.0	5.6
	1,001.9	896.3
Capital employed	1,321.9	1,197.3
Deduct:		
Long term borrowings	323.1	341.7
Deferred income taxes	174.8	145.2
	497.9	486.9
Net assets	\$ 824.0	\$ 710.4
Ownership of net assets:		
Interest of minority shareholders in net assets of certain subsidiary companies	\$ 21.7	\$ 20.7
Balance of net assets belonging to MacMillan Bloedel shareholders		
Class A Preferred	87.9	87.9
Common	714.4	601.8
	\$ 824.0	\$ 710.4

MacMillan Bloedel Limited

Source of Funds and Capital Requirements

	Year ended December 31	
	1979	1978
Source of Funds:	(millions of dollars)	
Funds generated from operations	\$257.6	\$200.6
Deduct:		
Dividends on MacMillan Bloedel Class A Preferred shares	5.4	3.9
Dividends paid to MacMillan Bloedel's Common shareholders and minority shareholders of certain subsidiaries	39.8	21.5
	45.2	25.4
Funds generated by MacMillan Bloedel and available for investment	212.4	175.2
Add:		
Issue of Common shares	.3	—
Increase (decrease) in long term debt	(18.6)	29.8
Disposal of assets and miscellaneous (principally Domtar shares in 1979)	97.3	9.4
	79.0	39.2
Total source of funds	291.4	214.4
Capital requirements:		
Short term –		
Increase in accounts receivable, inventories, prepaid expenses and miscellaneous	85.0	36.4
Less: Increase (decrease) in current liabilities other than bank indebtedness	50.2	(4.7)
	34.8	41.1
Long term –		
New property, plant and equipment	269.3	121.6
New investments acquired (principally Domtar shares in 1978)	3.1	84.8
	272.4	206.4
Total capital requirements	307.2	247.5
(Decrease) in net cash and short term investments	\$(15.8)	\$(33.1)

Distribution of Common Shares and Common Shareholders as at December 31, 1979

	Common Shares	Common Shareholders
Canada	19,403,659	15,279
United States	1,810,630	863
Other	58,450	154
	21,272,739	16,296
Share Warrants	236	
	21,272,975	

Impact of Inflation

Present Productive Assets

Historical cost and current cost of acquiring new assets of equivalent productive capacity (Notes 1 and 2)

	December 31			
	1979		1978	
	Replacement Basis	Historical Basis	Replacement Basis	Historical Basis
(millions of dollars)				
Buildings and Equipment:				
Cost	\$4,357.9	\$1,479.3	\$3,903.6	\$1,258.3
Accumulated depreciation	2,199.4	714.3	2,109.9	668.4
Net	\$2,158.5	\$ 765.0	\$1,793.7	\$ 589.9
Depreciation for year	\$ 177.1	\$ 65.6	\$ 160.0	\$ 59.0

Effect of Inflation on Funds Available

to Maintain Present Productive Capacity (Note 2)

	Year ended December 31	
	1979	1978
(millions of dollars)		
Funds generated from operations (as shown in the statement of source of funds and capital requirements)	\$257.6	\$200.6
Funds required to be set aside to finance replacement of productive capacity if no inflationary cost increases had occurred (historical cost depreciation)	65.6	59.0
	192.0	141.6
Additional funds required to finance the inflationary increase in the cost of maintaining present productive capacity		
Inventories (Note 3)	39.4	26.9
Buildings and equipment (Notes 1 and 4)	111.5	101.0
	150.9	127.9
Funds available for distribution or expansion (Note 5)	\$ 41.1	\$ 13.7

Notes:

1. The replacement information is based on the hypothetical assumption that MacMillan Bloedel would replace its productive capacity at December 31, whether or not funds were available to do so or such "instant" replacement were physically possible. Decisions concerning actual replacements will be made with due consideration for economic, regulatory, competitive and technological conditions existing at the time of such determination and could differ materially from the assumptions on which the data is based.
2. The replacement cost of timber and land and logging roads has not been taken into account. In the case of timber it is not practicable to estimate a replacement cost owing to the complex nature of the agreements relating to the timber supply and in the case of land it is not consumed in the production process. Under existing timber harvesting practices active logging roads are considered as not requiring replacement beyond annual maintenance and upkeep procedures until the next timber growth cycle is complete.
3. The increased cost of replacing inventories represents the difference between the historical cost and the current cost of goods sold at the date of sale.
4. The increased cost of maintaining the present productive capacity represents the difference between depreciation determined on the historical cost basis and that determined on the replacement cost of buildings and equipment.
5. The funds available should be evaluated on the basis that they do not take into account improvements in operating cash flows which could result from the replacement of productive capacity based on new technology, economies of scale and other relevant factors.

Sales of Building Material Products by Market

	1975	1976	1977	1978	1979
U.S.A.	36%	37%	44%	47%	41%
Canada	38	35	28	27	24
U.K. and Continental Europe	13	15	15	14	20
Japan and Orient	8	7	8	7	10
Other	5	6	5	5	5
	100%	100%	100%	100%	100%

Approximately 25 percent of MacMillan Bloedel's building material sales consists of goods produced by others, purchased by the Company and then resold through the Company's wholesale distribution network.

Major capital expenditures in the building materials sector during 1979 were those for the new sawmill and the modernized plywood mill at Port Alberni, B.C. Both projects illustrate the thrust of capital investment towards facilities that are thoroughly modern and sufficiently flexible to respond to changing market conditions. They are designed primarily to serve the export trade and they will increase the value added to basic commodity goods and improved productivity. Both will go into operation in 1980.

ASPENITE® panel operations set new production, productivity and profit records in 1979, with approximately 50 percent of sales being exported to the U.S. market.

The emphasis on increased value-added leads to the development of more and more products directed at specialized markets. Atlantic whitecedar products made at Edenton, North Carolina, for example, are premium grade panellings, sidings, dressed boards and

fence components for quality construction. Mainland Processing Division at Vancouver, B.C. is another example of building materials production geared to special markets.

Pulp and Paper

Despite a slowdown in the U.S. economy, markets for pulp and paper remained firm throughout the year. However, a series of work stoppages on the west coast during the summer, and a seven-month strike at MacMillan Rothesay in New Brunswick, prevented us from taking full advantage of favourable market conditions. Production lost as a result of strikes amounted to 215,000 tonnes* of newsprint and 53,000 tonnes of pulp.

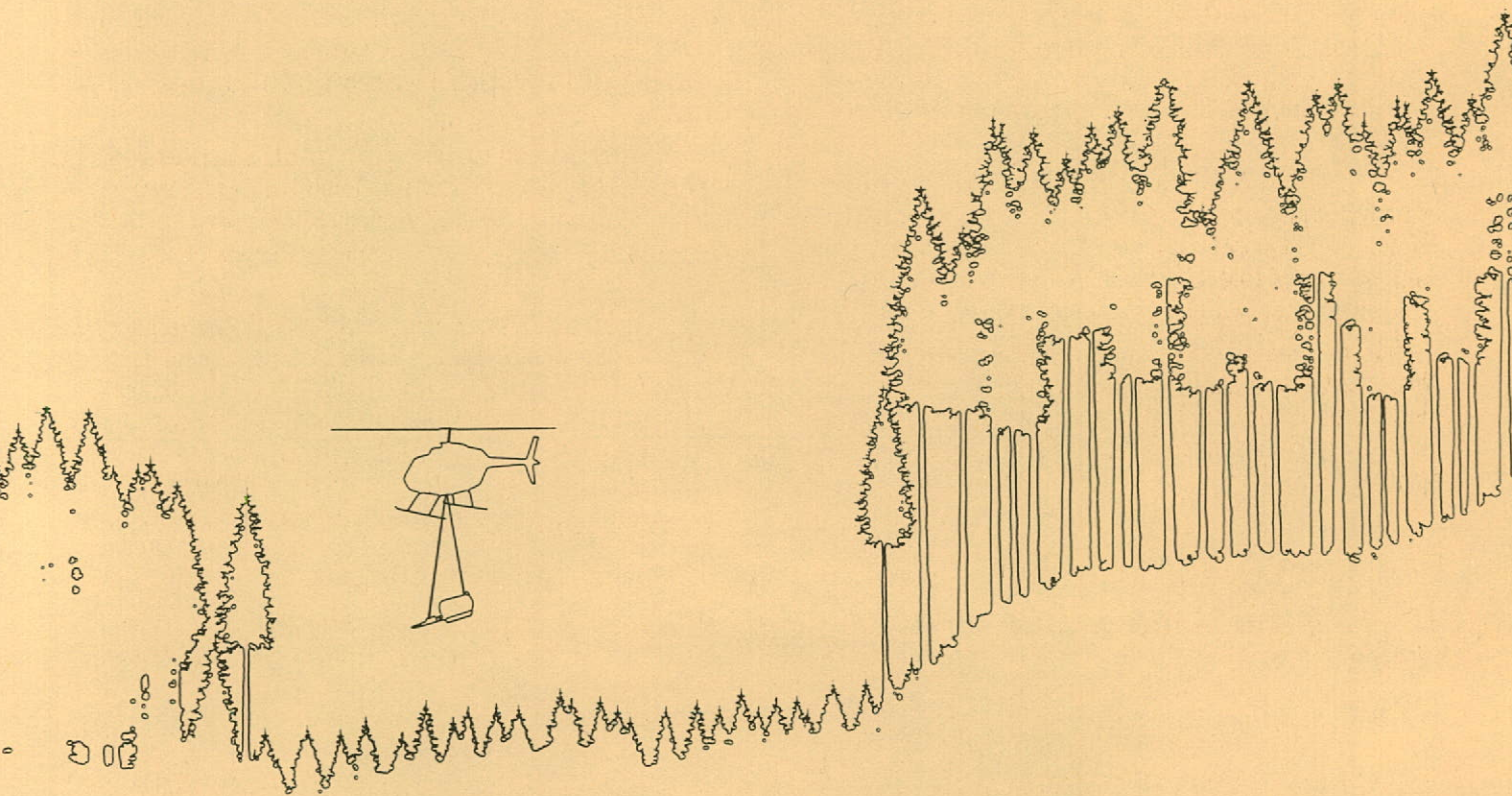
Demand for newsprint in all markets was strong all year with inventories low at both the supplier and consumer levels. Prices were also strong and the outlook for 1980 is good.

During 1979 pulp markets continued their recovery from the depressed conditions of early 1978. World pulp inventories were below normal working levels and, as with newsprint, demand was strong. Therefore, even though there were large increases in North American pulp capacities, strong demand and low inventories allowed MB to operate its mills at capacity when they were not closed by work stoppages.

Our fine paper plant in Vancouver had another successful year, maintaining production, sales and profits close to record levels.

* 1 tonne = 2205 lbs.

(text continued on page 52)



MacMillan Bloedel Limited 1979 Financial Statements

MacMillan Bloedel Limited

Consolidated Balance Sheets

Assets	December 31	
	1979	1978*
Current assets:		
Cash	\$ 2,822	\$ 2,767
Short term investments and deposits, at cost which approximates market value	46,903	94,784
Accounts receivable	261,721	236,043
Inventories (Note 3)	356,995	289,754
Prepaid expenses	5,420	6,597
Deferred income taxes, current items	16,215	22,986
	690,076	652,931
Investments and other assets:		
Partly-owned companies, accounted for by the equity method (Note 4)	67,728	66,472
Investments having quoted market value, at cost (Note 5)	—	76,230
Other investments and assets, at cost	8,395	14,768
	76,123	157,470
Property, plant and equipment:		
Buildings and equipment, at cost (Note 6)	1,378,101	1,255,484
Less: Accumulated depreciation	714,311	668,361
	663,790	587,123
Construction in progress, at cost (Note 2)	101,151	2,805
	764,941	589,928
Timber, at cost less accumulated depletion of \$127,188,000 (1978 – \$118,186,000)	101,741	87,058
Logging roads, at cost less amortization	20,711	22,706
Land, at cost	11,779	10,782
	899,172	710,474
Intangible assets (at cost less amortization):		
Unallocated purchase price of shares in subsidiaries	21,601	22,801
Financing expenses	4,991	5,577
	26,592	28,378
	\$1,691,963	\$1,549,253

* Certain 1978 amounts have been reclassified to conform with the presentation in 1979.

The consolidated financial statements have
been approved by the Board of Directors:

J. E. Richardson, Director

C. C. Knudsen, Director

	December 31	
	1979	1978
Liabilities		
Current liabilities:		(\$000)
Bank indebtedness (Note 7)	\$ 58,566	\$ 90,657
Accounts payable and accrued liabilities	251,442	220,627
Income taxes payable	46,274	23,522
Current portion of long term debt (Note 9)	13,826	17,150
	370,108	351,956
Long term debt:		
Bonds and debentures (Notes 8 and 9)	306,981	327,015
Other liabilities (secured)	16,063	14,723
	323,044	341,738
Deferred income taxes	174,821	145,126
Minority interests in subsidiaries	21,692	20,702
	889,665	859,522
Shareholders' Equity		
Share capital:		
Shares without par value (Note 10) –		
Authorized –		
3,400,000 Class A Preferred shares		
5,000,000 Class B Preferred shares		
35,000,000 Common shares		
Outstanding –		
3,400,000 Class A Preferred shares	87,954	87,954
21,272,975 Common shares (1978 – 21,261,175)	171,415	171,175
	259,369	259,129
Retained earnings	542,929	430,602
	802,298	689,731
Commitments (Notes 10 and 11)		
Contingent liabilities (Note 12)		
	\$1,691,963	\$1,549,253

MacMillan Bloedel Limited

Consolidated Statements of Earnings

	Year ended December 31	
	1979	1978
Sales and other income:		(\$000)
Sales of products and services (Note 13(a))	\$2,180,318	\$2,004,913
Income from investments	10,329	8,235
Profit (loss) on disposals of and provisions for loss with respect to property, plant and equipment and investments and other assets (Note 13(b))	13,963	(2,746)
	2,204,610	2,010,402
Costs and expenses (Notes 13(d), 13(e) and 14):		
Cost of sales and services	1,770,656	1,662,039
Selling, general and administrative (Note 12)	147,994	144,803
Interest (Notes 2 and 13(c))	28,878	32,639
	1,947,528	1,839,481
Earnings before income taxes and other undernoted items	257,082	170,921
Income taxes (Note 13(f)):		
Current	63,905	59,119
Deferred	36,466	18,377
	100,371	77,496
Earnings before undernoted items	156,711	93,425
Equity in earnings of partly-owned companies (Note 4)	1,815	9,419
Minority interests in subsidiaries	(3,624)	(1,897)
Net earnings	\$ 154,902	\$ 100,947
Net earnings per Common share (Note 13(g))	\$7.03	\$4.50

Consolidated Statements of Retained Earnings

	Year ended December 31	
	1979	1978
		(\$000)
Balance at beginning of year	\$430,602	\$353,772
Net earnings	154,902	100,947
	585,504	454,719
Dividends:		
Class A Preferred shares	5,349	3,919
Common shares – \$1.75 per share (\$0.95 per share in 1978)	37,226	20,198
	42,575	24,117
Balance at end of year	\$542,929	\$430,602

Consolidated Statements of Source and Application of Working Capital

	Year ended December 31	
	1979	1978*
Source of working capital:	(\$000)	
Earnings –		
Net earnings	\$154,902	\$100,947
Depreciation, depletion and logging		
road amortization	82,586	75,641
Deferred income taxes, non-current portion	29,695	28,650
Other components not affecting working capital, net	(9,554)	(4,684)
	257,629	200,554
Proceeds of Common shares	240	—
Net proceeds of long term debt	4,348	56,180
Proceeds of disposals of property, plant and equipment and investments and other assets	96,378	9,391
	358,595	266,125
Application of working capital:		
Property, plant and equipment	269,242	121,557
Investments and other assets	3,071	84,838
Reduction in long term debt	23,043	26,290
Dividends –		
Class A Preferred shares	5,349	3,919
Common shares	37,226	20,198
Other applications	1,671	1,298
	339,602	258,100
Increase in working capital	18,993	8,025
Working capital at beginning of year	300,975	292,950
Working capital at end of year	\$319,968	\$300,975

* Certain 1978 amounts have been reclassified to conform with the presentation in 1979.

Auditors' Report

To the Shareholders of
MacMillan Bloedel Limited:

We have examined the consolidated balance sheets of MacMillan Bloedel Limited as at December 31, 1979 and 1978 and the consolidated statements of earnings, retained earnings and source and application of working capital for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the consolidated financial statements of Koninklijke Nederlandse Papierfabrieken N.V., a partly-owned company accounted for by the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and 1978 and the results of its operations and the source and application of its working capital for the years then ended in accordance with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accounting for interest cost, as described in Note 2 to the financial statements.

February 22, 1980
Vancouver, B.C.

PRICE WATERHOUSE & CO.
Chartered Accountants

MacMillan Bloedel Limited

Notes to Consolidated Financial Statements December 31, 1979 and 1978

In these notes "MacMillan Bloedel" means MacMillan Bloedel Limited and its consolidated subsidiaries, and "Company" means MacMillan Bloedel Limited as a corporation.

1. Accounting Policies:

MacMillan Bloedel follows accounting principles generally accepted in Canada. Information with respect to generally accepted accounting principles in the United States is provided in Note 17.

(a) Principles of consolidation –

The accompanying financial statements represent the consolidation of the financial statements of the Company and all its subsidiaries except Embrasca-Empreendimentos Florestais e Agrícolas Ltda. and its subsidiaries. The Company owns 51% of the voting shares of Embrasca but the terms of a shareholders' agreement make it inappropriate to consolidate the corporation and its subsidiaries. Instead, the investment in the corporation is accounted for by the equity method (see Note 1(d)).

(b) Foreign currency translations –

A number of subsidiaries and partly-owned companies operate in foreign countries. Additionally, substantial volumes of transactions of the Company and certain of its Canadian subsidiaries are denominated in foreign currencies. Transactions are covered by forward exchange contracts where considered appropriate, in which case, foreign exchange translations are made at such forward exchange contract rates. In all other cases, current assets (except inventories) and current liabilities are translated at the rates of exchange in effect as at the balance sheet dates, other assets (and related depreciation, depletion and amortization) and liabilities at the rates in effect at the dates on which the assets were acquired or the liabilities were incurred, and items affecting net earnings (other than depreciation, depletion and amortization) at the average rates for the year. The net effect of the translation of foreign currencies is included in consolidated net earnings.

(c) Valuation of inventories –

Inventories of logs, poles, pulp chips, pulpwood and cordwood, and substantially all operating and maintenance supplies are valued at the lower of average cost and replacement cost. Inventories of manufactured products are valued at the lower of average cost and net realizable value.

(d) Accounting for partly-owned companies –

Investments in partly-owned companies, including joint ventures, are accounted for by the equity method. Under this method, MacMillan Bloedel's share of the net earnings of the partly-owned companies is included in consolidated net earnings.

(e) Property, plant and equipment –

The costs of maintenance, repairs, minor renewals or replacements and spur logging roads are expensed as incurred. The costs of major replacements, extensions or improvements and main logging roads are capitalized in the property, plant and equipment accounts. On retirement or disposal of property, plant and equipment, the costs thereof and the related accumulated depreciation or depletion are eliminated from the accounts and any profits or losses are reflected in the consolidated statements of earnings.

Depreciation is computed on a straight-line basis on original cost; depletion of timber and amortization of main logging roads are determined on a basis related to log production.

Rates of depreciation by principal asset classification are as follows –

Buildings	2½% and 5%
Pulp and paper mill machinery and equipment	5%
Logging machinery and equipment	15% - 20%
Other manufacturing machinery and equipment	7½% - 15%
Ship, tugs, barges and scows	7½% - 10%

(f) Intangible assets –

The unallocated purchase price of shares in subsidiaries, which represents the excess of the purchase price over the values attributed to the underlying net tangible assets at dates of acquisition, is being amortized on a straight-line basis. The unamortized balance as at January 1, 1978 is being amortized over a period of twenty years from that date. This amount was previously being amortized over a period of forty years from January 1, 1974.

Amortization of financing expenses relating to bonds and debentures is computed on a basis related to the principal amounts outstanding over the terms of the issues.

1. Accounting policies: continued

(g) Income taxes –

Income taxes are recorded on a tax allocation basis. Accordingly, deferred income tax provisions (or reductions) are recorded in the consolidated statements of earnings in appropriate amounts to reflect the income tax effects of timing differences arising each year. In MacMillan Bloedel's case, such differences result principally from depreciation being claimed for income tax purposes in amounts differing from depreciation recorded for accounting purposes.

(h) Voyage accounting –

The completed voyage method is used in accounting for ocean voyages. Under this method, revenues and expenses relating to voyages in progress are deferred until the completion of a voyage.

(i) Pension costs –

Normal pension cost accruals are made on the basis of annual reviews of the position of MacMillan Bloedel's various pension plans and other retirement arrangements. Pension plan surpluses and deficits determined from periodic actuarial estimates are amortized to earnings over appropriate periods. Past service pension costs arising from plan amendments in 1979 (see Note 14) are being amortized to earnings over a period of fifteen years.

2. Accounting change:

Commencing with 1979 MacMillan Bloedel changed its method of accounting for interest costs because of the large capital expenditure program being undertaken. During periods of major construction appropriate allocations of interest costs are made between such construction and interest expense.

During 1979 \$3,800,000 (\$10 per Common share after tax) of interest costs were capitalized as part of construction in progress.

3. Inventories:

	December 31	
	1979	1978
		(\$000)
Logs, poles, pulp chips, pulpwood and cordwood	\$116,140	\$ 93,641
Operating and maintenance supplies	48,772	36,078
Lumber, plywood and other building materials	133,975	103,232
Pulp and paper products	21,324	22,594
Linerboard and packaging products	36,784	34,209
	\$356,995	\$289,754

4. Partly-owned companies:

	December 31	
	1979	1978
		(\$000)
Investments in shares, at cost less allowance for possible loss of \$764,000 (1978 – \$2,975,000)	\$35,152	\$35,495
Accumulated equity in undistributed earnings since acquisition, less allowance for possible loss of \$1,858,000 (1978 – \$358,000)	31,902	30,303
Advances	674	674
	\$67,728	\$66,472

4. Partly-owned companies: continued

The above amounts include \$48,561,000 at December 31, 1979 (1978 – \$47,668,000) in respect of Koninklijke Nederlandse Papierfabrieken N.V. Summarized consolidated financial information for this company as at December 31, 1979 and 1978 and for the years then ended is as follows:

	December 31	
	1979	1978
	(\$000)	
Assets	\$313,963	\$277,570
Liabilities	\$198,732	\$167,857
Shareholders' equity	115,231	109,713
	\$313,963	\$277,570
	Year ended December 31	
	1979	1978
	(\$000)	
Sales and other income	\$565,301	\$441,561
Net earnings*	\$ 5,518	\$ 18,326
MacMillan Bloedel's share in net earnings for the year (after consolidating adjustments)	\$ 893	\$ 7,789

*After losses of \$16,400,000 (1978 – \$9,700,000) in respect of investments in a boxboard plant in The Netherlands. MacMillan Bloedel's share of these losses amounted to \$7,000,000 in 1979 (\$4,100,000 in 1978).

5. Investments having quoted market value:

	December 31	
	1979	1978
	(\$000)	
Shares in Domtar Inc.	\$ —	\$73,180
Other	—	3,050
	\$ —	\$76,230
Quoted market value	\$ —	\$73,502

In 1979 the shares in Domtar Inc. were sold for \$75,600,000 resulting in a profit of \$2,420,000.

6. Buildings and equipment:

	Cost*	Accumulated depreciation	Net
	(\$000)		
December 31, 1979 —			
Pulp and paper mills	\$ 756,480	\$373,709	\$382,771
Linerboard and packaging plants	217,358	92,352	125,006
Sawmills, plywood mills and other building materials plants	262,971	124,516	138,455
Logging buildings and equipment	168,755	94,724	74,031
Other buildings and equipment	73,688	29,010	44,678
	\$1,479,252	\$714,311	\$764,941
December 31, 1978 —			
Pulp and paper mills	\$ 642,035	\$352,030	\$290,005
Linerboard and packaging plants	187,537	86,392	101,145
Sawmills, plywood mills and other building materials plants	212,478	120,173	92,305
Logging buildings and equipment	148,108	85,255	62,853
Other buildings and equipment	68,131	24,511	43,620
	\$1,258,289	\$668,361	\$589,928

*Includes construction in progress.

6. *Buildings and equipment: continued*

MacMillan Bloedel's principal plant facilities in Alabama, a packaging plant in Mississippi and its head office building in British Columbia are held under long term leases containing provisions which indicate that the assets should be accounted for on a basis of ownership. Consequently, the cost of these leased assets, aggregating \$88,735,000 (1978 – \$93,681,000), and related depreciation and long term debt are included in the accompanying financial statements.

As part of a major capital expenditure program MacMillan Bloedel is installing a new paper machine at Powell River, B.C., replacing a sawmill and modernizing a plywood mill at Port Alberni, B.C., and improving production facilities and installing a new recovery boiler at its Nanaimo, B.C. pulp mill. The total cost of these major projects is estimated to be \$268,000,000 of which \$101,151,000 has been incurred to December 31, 1979 and is shown as construction in progress in the accompanying balance sheet.

7. **Bank indebtedness and lines of credit:**

At December 31, 1979 MacMillan Bloedel had non-contractual short term bank lines of credit aggregating \$156,439,000 (1978 – \$123,831,000). In addition to these short term lines, the Company had long term contractual bank lines of credit aggregating \$291,325,000 (1978 – \$157,503,000). These term lines generally provide for unsecured loans to be on a revolving basis during the first three years of the credit followed by a seven or twelve year pay out period. At December 31, 1979 bank indebtedness included \$25,228,000 of short term bank lines which had been drawn down.

Average outstanding short term borrowings (bank loans and notes payable) for 1979 amounted to \$14,383,000 (1978 – \$10,500,000) and the average interest rate on such borrowings was 14.5% (1978 – 10.6%) for the year. Maximum month-end short term borrowings in 1979 amounted to \$25,228,000 (1978 – \$52,944,000).

8. **Bonds and debentures:**

	December 31	
	1979	1978
	(\$000)	
MacMillan Bloedel Limited —		
4.95%* sinking fund debentures, Series A, maturing October 1, 1990 (U.S. \$23,100,000)	\$ 24,816	\$ 27,072
6½% sinking fund debentures, Series C, maturing July 15, 1992 (U.S. \$17,837,000)	19,222	21,691
8½% sinking fund debentures, Series E, maturing May 15, 1991	16,095	17,246
8¾% sinking fund debentures, Series F, maturing July 1, 1994 (U.S. \$70,500,000)	68,050	72,399
11¼% sinking fund debentures, Series G, maturing January 15, 1995	40,000	40,000
9% sinking fund debentures, Series J, maturing February 1, 1992 (U.S. \$45,150,000)	46,042	48,030
9¼% sinking fund debentures, Series K, maturing March 15, 1993 (U.S. \$46,200,000)	50,984	53,357
8½% subordinated convertible debentures, maturing December 20, 1984 (U.S. \$2,098,000) (Note 10)	2,075	2,075
	267,284	281,870
MacMillan Bloedel Inc.** —		
4¾% sinking fund industrial development revenue bonds, maturing June 1, 1988 (U.S. \$37,015,000)	39,791	45,059
4.90% – 5.50% general obligation industrial bonds, series 1977, maturing December 1, 1997 (U.S. \$860,000)	915	936
	40,706	45,995

8. Bonds and debentures: continued

MacMillan Rothsay Limited —

6% first mortgage and collateral sinking fund bonds, Series A, maturing March 1, 1985 (U.S. \$5,040,000)	\$ 5,418	\$ 6,310
6¾% general mortgage sinking fund bonds, Series A, maturing October 1, 1985	3,005	4,480
7½% debenture certificate, due December 31, 1979	—	23
	8,423	10,813

Lee Timber Products Inc.* —**

6% industrial development revenue bonds, maturing September 1, 1979 (U.S. \$1,000,000)	—	971
	316,413	339,649
Less: Payments due within one year, before adjustment to current rate of exchange (Notes 1(b) and 9)	9,432	12,634
	\$306,981	\$327,015

*Extra interest of ½ of 1% per annum has been paid on these debentures from January 1, 1975 consequent upon amendment of the relevant trust indenture.

**The industrial development revenue bonds are direct obligations of The Industrial Development Board of the Town of Camden, Alabama (see Note 6).

The general obligation industrial bonds are direct obligations of The Supervisors' District Number Two of Pike County, Mississippi (see Note 6).

***The industrial development revenue bonds are direct obligations of The Industrial Development Board of the City of Opelika, Alabama (see Note 6).

The long term portion of bonds and debentures repayable in U.S. currency (aggregating \$238,570,000 at December 31, 1979) has been translated into Canadian dollars at historical exchange rates (Note 1(b)). On the basis of the exchange rates in effect at December 31, 1979 there were unrealized losses on foreign exchange relating to the bonds and debentures of approximately \$30,124,000 which have not been recognized in the accompanying consolidated financial statements. Having regard to the number of years to maturity of the long term portion of bonds and debentures, the exchange ratio between the United States and Canadian currencies will be subject to many fluctuations during that period.

The majority of MacMillan Bloedel's assets are pledged by fixed and floating charges as security for the bonds, debentures and other liabilities outstanding. The trust indentures securing the Company's debentures contain provisions limiting the amount of indebtedness which the Company can incur and limiting the amount available for payment of dividends. At December 31, 1979, under the most restrictive of these provisions, approximately \$310,000,000 was available for payment of dividends. The formula by which the amount available for distribution is computed provides that the amount so shown would have to be reduced by any redemption of shares (see Note 10 for redemption provisions of the retractable Class A Preferred shares).

9. Payments on long term debt:

Payments on long term debt required for each of the five years after December 31, 1979 are as follows —

	Bonds and debentures	Other secured liabilities	Total
		(\$000)	
1980 (after adjustment to current rate of exchange — Notes 1(b) and 8)	\$10,761*	\$3,065	\$13,826
1981	17,795	1,566	19,361
1982	20,270	864	21,134
1983	20,474	700	21,174
1984	22,742	707	23,449

*Net of purchases and cancellation of bonds and debentures to December 31, 1979.

10. Share capital:

By special resolution of the shareholders passed on April 27, 1978 the Company's authorized capital was increased from 35,000,000 Common shares and 3,400,000 Class A Preferred shares without par value to 35,000,000 Common shares, 3,400,000 Class A Preferred shares, and 5,000,000 Class B Preferred shares issuable in series, all without par value.

The Class A Preferred shares are redeemable, at the option of the Company, on or after May 1, 1982 at U.S. \$25 per share plus accrued and unpaid dividends to the redemption date; the shares are retractable, at the option of the holder, on May 1, 1987 at U.S. \$25 per share plus accrued and unpaid dividends to that date. The shares carry the right to cumulative preferential dividends of 5½% per annum to May 1, 1982 and thereafter at a rate of 1½% above one-half of the average U.S. prime rate (as defined).

The Company had reserved 69,933 Common shares for possible issue in exchange for the U.S. \$2,098,000 8½% subordinated convertible debentures maturing December 20, 1984. None of these debentures were exchanged prior to the conversion expiry date of December 21, 1979.

Under the Company's stock option plans, options for Common shares may be granted to key employees, exercisable on or before dates fixed by the Board of Directors. Options for 11,800 shares were exercised in 1979 (nil in 1978) and the shares issued for \$240,000. Options for 57,300 shares at \$20.30 per share were relinquished in 1979 (see Note 13(e)). Options for 4,600 shares were cancelled in 1978. Outstanding options at December 31, 1979 were as follows:

Number of shares	Option price	Expiry date
50,000 shares	\$19.69	August 31, 1986
5,000 shares	\$20.14	January 27, 1987

11. Commitments:

In addition to commitments for capital expenditures (see Note 6) and future supply of operating services and materials, MacMillan Bloedel is committed in respect of the following —

(a) Ship charters and rentals under non-cancellable leases having an initial term of more than one year (reduced by sublease rentals and subcharters of approximately \$598,000) as follows —

	Ship charters	Leases (\$000)	Total
1980	\$ 34,720	\$ 5,125	\$ 39,845
1981	34,073	3,822	37,895
1982	34,572	2,995	37,567
1983	33,410	2,222	35,632
1984	25,750	1,549	27,299
1985 - 1989	6,740	2,905	9,645
1990 - 1994	—	2,113	2,113
1995 - 1999	—	1,841	1,841
Subsequent to 1999	—	3,074	3,074
	\$169,265	\$25,646	\$194,911

In the majority of cases, the ship charter commitments include components to cover the costs of manning and other operating expenses (but not fuel), as well as bare boat and owners' profit components. Accordingly, in the event of lay up of certain of the ships under charter, the commitments could be reduced by an estimated \$42,277,000.

Substantially all of the ship charter commitments are payable in foreign currencies including a major portion in Deutsche Marks and have been translated into Canadian dollars at exchange rates prevailing at December 31, 1979.

As at December 31, 1979 many of the ship charters are at rates above those prevailing in the spot charter market at that date.

11. Commitments: continued

(b) Agreements to charter two vessels for eight years each following their construction and delivery, scheduled for 1980. Aggregate charter hire, including manning and other operating expense components, is estimated currently at \$70,150,000.

(c) The acquisition of timber in Alabama under long term cutting contracts requiring minimum annual payments (extending in some cases to the year 2034); payment of approximately \$3,800,000 is required in each of the next five years.

(d) The sale under forward exchange contracts of U.S. \$425,500,000 during 1980 at rates averaging approximately Canadian \$1.166 for each United States \$1.00. The spot rate at December 31, 1979 was Canadian \$1.165 for each United States \$1.00.

12. Provision for legal actions and claims:

In 1979, MacMillan Bloedel, without admitting any liability, paid \$9,900,000 (U.S. \$8,440,000) into the Federal District Court in Houston, Texas in connection with proposed settlements of a consolidated class action brought in the United States alleging violations of the federal antitrust laws. The proposed settlements are the subject of pending appeals. Some of the plaintiffs have opted out of the consolidated class action thereby reserving the right of each to bring an action independent of the consolidated class action. A number of such actions have been commenced against the defendants named in the consolidated class action including MacMillan Bloedel.

In addition to the above, MacMillan Bloedel is the subject of certain other legal actions, claims and investigations relating primarily to other antitrust and combines matters.

It is not possible to predict the ultimate outcome of the foregoing actions, claims and investigations. However, MacMillan Bloedel considers its provisions, of which \$14,603,000 (\$8,922,000 after income taxes) was accrued in 1978 and included in selling, general and administrative expenses in that year, are adequate on the basis of current information.

13. Earnings statements supplementary information:

(a) MacMillan Bloedel quotes and contracts the majority of its sales on a C.I.F. (cost, insurance and freight to destination) basis. Accordingly, in such circumstances sales of products and services include freight, cartage and insurance components, as well as cost and profit components, and cost of sales and services includes the related costs of those services.

(b) Profit (loss) on disposals of and provisions for loss with respect to property, plant and equipment and investments and other assets —

	Year ended December 31	
	1979	1978
	(\$000)	
Property, plant and equipment	\$ 6,495	\$ (21)
Partly-owned companies	2,873	(1,769)
Marketable securities	5,200	—
La Cellulose d'Aquitaine S.A.	(1,307)	(1,204)
Other	702	248
	\$13,963	\$ (2,746)

(c) Interest expense —

	Year ended December 31	
	1979	1978
	(\$000)	
Long term debt interest	\$30,430	\$31,530
Other interest	2,248	1,109
	32,678	32,639
Less: Interest capitalized (Note 2)	3,800	—
	\$28,878	\$32,639

13. Earnings statements supplementary information: continued

(d) Costs and expenses include the following —

	Year ended December 31	
	1979	1978
	(\$000)	
Depreciation	\$65,618	\$59,023
Depletion	9,420	7,850
Logging road amortization	7,548	8,768
	\$82,586	\$75,641
Pension expense	\$30,575	\$27,530
Research and development expenses (net of government grants of \$510,000 in 1979 and \$594,000 in 1978)	\$ 7,128	\$ 6,238
Rental expense on leases of more than one month, and time charter* hire including estimated manning and other operating costs of \$14,289,000 (1978 – \$17,877,000)	\$44,401	\$50,968
Less: Sublease and subcharter revenue, included with sales and other income in the statements of earnings	1,778	2,838
	\$42,623	\$48,130

*Time charters represent all charters except single voyage spot charters.

(e) Selling, general and administrative expenses include direct remuneration of the directors and senior officers of the Company aggregating \$4,463,000 (1978 – \$2,732,000). The 1979 amount includes payments upon relinquishment of stock options (see Note 10) and compensation under a Management Incentive Compensation Plan.

(f) MacMillan Bloedel's effective income tax rates for 1979 and 1978 are determined as follows —

	Year ended December 31	
	1979	1978
Canadian federal income tax rate	46.0%	46.0%
Canadian manufacturing and processing allowance	(3.5)	(4.0)
Provincial income and logging taxes, and State taxes and withholding tax provisions net of applicable federal abatements	4.5	5.5
Operating and capital losses for which potential tax reductions were not recorded	—	2.9
Investment tax credits	(3.7)	(2.3)
3% Canadian inventory allowance	(1.0)	(1.5)
United Kingdom stock relief	(1.0)	—
Effect of foreign exchange translation adjustments	(.4)	(1.3)
Effect of low rate of tax on capital gains	(1.4)	—
Other items	(.4)	—
Effective income tax rate	39.1%	45.3%

Certain subsidiary companies have losses aggregating \$9,764,000 available for carry forward to reduce income taxes which may become payable in future years. The potential tax benefit of these losses has not been reflected in these financial statements.

(g) Net earnings per Common share —

Net earnings per Common share is computed by dividing the net earnings, after providing for dividends on the Class A Preferred shares, by the weighted average number of shares outstanding during the year. The provision for dividends on the Class A Preferred shares is made on a time elapsed basis rather than on a declared basis.

Koninklijke Nederlandse Papierfabrieken N.V. has debentures outstanding which are convertible at the holders' option into common shares. Had all of the outstanding debentures been converted into common shares of that company at the beginning of the year, MacMillan Bloedel's equity in earnings of partly-owned companies for the year ended December 31, 1979 would have been reduced by \$4,500,000 (\$.21 per share) (1978 – \$5,800,000 (\$.27 per share)).

14. Pension plans:

MacMillan Bloedel has a number of contributory and non-contributory pension plans, participation in which is available to substantially all employees after one or two years of continuous service. In addition, the Company has agreements with a number of its officers and executives (including some now retired) which call for payments to be made under certain conditions following retirement. Pension and retirement benefits are determined as a function of service and earnings.

At December 31, 1979 the obligations for pension benefits under all plans and the obligations under unfunded agreements exceeded the total of the pension fund assets and the balance sheet provisions for pension obligations by approximately \$9,000,000, determined as follows:

	December 31	
	1979	1978*
	(\$000)	
Obligations for pension benefits under all plans and agreements	\$235,000	\$176,000
Plan assets	212,800	163,900
Unfunded obligations	22,200	12,100
Balance sheet provisions	13,200	16,600
Net deficiency (surplus)	\$ 9,000	\$ (4,500)

*Restated for consistency with valuation of assets in 1979.

During 1979, certain plan improvements were introduced which resulted in an increase in past service obligations of approximately \$26,000,000. This increase is included in the total obligations shown in the table above. MacMillan Bloedel proposes to charge the cost of this past service obligation to earnings over a period of fifteen years commencing in 1979.

Contributions to plan funds are made pursuant to actuarial recommendations.

15. Segment information:

Information concerning MacMillan Bloedel's business on a segmented basis is set out in Exhibits I and II attached.

16. Unaudited quarterly data:

For unaudited data relating to 1979 and 1978 see "Selected Quarterly Financial Data" on page 2 of this annual report.

17. Annual Report filed with United States Securities and Exchange Commission (Form 10-K):

The listing of the Company's shares on the New York Stock Exchange and the coincident registration with United States Securities and Exchange Commission requires MacMillan Bloedel to meet disclosure requirements promulgated by the Commission. MacMillan Bloedel provides information in the audited financial statements included in Form 10-K in addition to that provided in these financial statements, including the following:

(a) Replacement cost information (unaudited) —

Specific quantitative information is provided in Form 10-K for each of the years 1979 and 1978 with respect to the estimated replacement cost of inventories and buildings and equipment together with the estimated effect of replacement cost on cost of sales and services (including depreciation).

(b) Class A Preferred shares —

As at December 31, 1979 and 1978, shareholders' equity as shown in the balance sheet would have amounted to \$714,344,000 and \$601,777,000 respectively, had the retractable Class A Preferred shares been shown separately as required by rules of the United States Securities and Exchange Commission.

(c) Effect of United States accounting principles on net earnings —

As disclosed in Note 1, the attached financial statements are prepared in accordance with accounting principles generally accepted in Canada. These accounting principles differ from those generally accepted in the United

States. In MacMillan Bloedel's case the principal difference relates to the method of translating amounts denominated in foreign currencies including the financial statements of foreign subsidiaries (see Note 1(b)). Had accounting principles generally accepted in the United States been followed in the preparation of these financial statements, consolidated net earnings for 1979 would have been increased by approximately \$15,000,000 (\$.71 per Common share), and reduced in 1978 by \$34,000,000 (\$1.60 per Common share).

18. Subsidiary companies:

Active	Inactive (including holding companies not carrying on active operations)
Canada	
Canadian Transport (Europe) Limited	Alpulp Wood Products Ltd. (1)
Forest Industries Flying Tankers Limited	Aspenite Waferboard Building Materials Incorporated
Forest Transport Ltd.	Burnaby Paperboard Ltd.
Kingcome Navigation Company Limited	Canadian Transport Limited
MacMillan Bloedel Building Limited	Canadian White Pine Co. Limited
MacMillan Bloedel Building Materials Limited	Harmac Ltd.
MacMillan Bloedel Industries Limited (1)	Island Paper Mills Limited
MacMillan Bloedel Packaging Limited	MacMillan Bloedel (Alberta) Limited
MacMillan Bloedel Properties Limited	MacMillan Bloedel Enterprises Ltd.
MacMillan Bloedel Research Limited	MacMillan Bloedel Export Sales Ltd.
MacMillan Bloedel (Saskatchewan) Limited	MacMillan Bloedel Holdings Limited
MacMillan Jardine (North America) Ltd.	MacMillan Bloedel (Manitoba) Limited
MacMillan Rothesay Limited	MacMillan Bloedel (Ontario) Limited
Martin Paper Bags Ltd. (1)	MacMillan Bloedel (Quebec) Limited
Multiply Plywoods Limited	Powell River-Alberni Sales Limited
Vancouver Island Stevedoring Co. Ltd.	Powell River Co. Ltd.
Vancouver Marine Engines Ltd.	Rothesay Paper Holdings Ltd.
	Rothesay Paper Limited
	Salmon River Logging Company Limited (1)
	West Coast Transport Company Limited
United States	
Atlantic Forest Products Inc.	AFP Corporation
Canadian Transport (N.Y.) Inc.	MB Subsidiary 74 Inc.
Fibres International, Inc.	MBE Sales Corporation
MacMillan Bloedel Export Inc.	MBE Shops, Inc.
MacMillan Bloedel Inc.	MacMillan Bloedel Enterprises, Inc.
MacMillan Bloedel Particleboard Inc.	MacMillan Bloedel Investment Inc.
Robert S. Osgood, Inc.	MacMillan Bloedel Radio System, Inc.
Powell River-Alberni Sales Corporation	MacMillan Bloedel Timberlands Inc.
Star Terminal Company, Incorporated	WWI Corporation
	Urban Fiber Industries, Incorporated
United Kingdom	
Canadian Transport (Terminals) Limited	Hygrade Corrugated Cases Limited
MacMillan Bloedel Containers Limited	
MacMillan Bloedel Meyer Limited	
MacMillan Bloedel Meyer (Terminals) Limited	
MacMillan Bloedel Panelboard Agencies Limited	
MacMillan Bloedel Pulp and Paper Sales Limited	
Scotpack Limited	

(1) Amalgamated with MacMillan Bloedel Limited after the close of business on December 31, 1979.

18. Subsidiary companies: continued

Active

Other

Altair Limited (2)
Canadian Transport Company Pty. Limited
Comfloresta-Companhia Catarinense de
Empreendimentos Florestais (3)
Embrasca-Empreendimentos Florestais e
Agrícolas Ltda. (3)
Fortrans N.V.
MacMillan Bloedel Europe B.V.
MacMillan Bloedel Pty. Limited
MacMillan Jardine (Japan) Limited
MacMillan Jardine Limited
MacMillan Jardine (South East Asia) Limited
Oceanspan Carriers Limited

Inactive (including holding companies
not carrying on active operations)

Canadian Maas River Investment N.V.
Canadian Transport (Bermuda) Limited
Canadian Transport (Orient) Limited
Comfloresta-Parana Empreendimentos
Florestais S.A. (3)
Comfloresta-Serrana Empreendimentos
Florestais S.A. (3)
Companhia-Colonizadora do Ariry (3)
Island Risk Management Limited
MacMillan Bloedel (Brasil) Ltda.
MacMillan Bloedel European Holdings B.V.
MacMillan Bloedel Holding N.V.
MacMillan Jardine International Limited
MacMillan Jardine (Malaysia) Sendirian Berhad

(2) November 30 year-end for fiscal purposes.

(3) These companies are accounted for by the equity method.

MacMillan Bloedel Limited

Earnings Statements Segment Information

Exhibit I

MacMillan Bloedel's consolidated sales of products and services and contributions to earnings by product and service segments for the years ended December 31, 1979 and 1978 were as follows:

	Year ended December 31	
	1979	1978*
	(\$000)	
Sales of products and services (2):		
Raw materials and building materials	\$1,176,460	\$1,031,660
Pulp and paper	672,414	672,530
Linerboard and packaging	414,055	352,445
Other	32,472	27,003
	2,295,401	2,083,638
Less: Inter-segment eliminations —		
Raw materials and building materials	90,587	65,160
Other segments	24,496	13,565
	115,083	78,725
	\$2,180,318	\$2,004,913
Contributions to earnings (3):		
Raw materials and building materials	\$ 155,442	\$ 92,129
Pulp and paper	122,491	137,461
Linerboard and packaging	26,915	17,507
Other	1,343	1,886
	306,191	248,983
Less: Inter-segment eliminations	4,601	(3,045)
	301,590	252,028
Deduct:		
Unallocated general and administrative expenses (4)	37,859	44,932
Interest expense	28,878	32,639
Corporate (gains) and losses and investment income	(22,229)	3,536
	44,508	81,107
Earnings before income taxes, equity in earnings of partly-owned companies and minority interests in subsidiaries	\$ 257,082	\$ 170,921

*Certain 1978 amounts have been reclassified to conform with the basis of segmentation adopted in 1979.

MacMillan Bloedel's consolidated sales of products and services and contributions to earnings by geographic area of the operations for the years ended December 31, 1979 and 1978 were as follows:

	Year ended December 31	
	1979	1978
	(\$000)	
Sales of products and services:		
Canada —		
Domestic	\$ 409,437	\$ 386,356
United States	608,001	636,843
Europe	327,682	261,459
Other	345,338	279,740
	1,690,458	1,564,398
United States	878,916	833,406
Europe (primarily the United Kingdom)	201,572	160,362
Other	4,969	4,227
	2,775,915	2,562,393
Less: Inter-area eliminations —		
Canada	583,854	548,825
United States	9,006	6,069
Other	2,737	2,586
	595,597	557,480
	\$2,180,318	\$2,004,913

Exhibit I: continued

Contributions to earnings:

Canada	\$ 268,291	\$ 219,605
United States	10,069	19,778
Europe (primarily the United Kingdom)	17,163	14,258
Other	5,595	1,662
	301,118	255,303
Add (deduct): Inter-area eliminations	472	(3,275)
	\$ 301,590	\$ 252,028

(1) Basis of segmentation —

MacMillan Bloedel has revised its presentation of the product and service segments for 1979. Raw materials, shown as a separate segment in 1978, has been combined with building materials; and transportation, also shown as a separate segment in 1978, has been allocated to the other segments. The amounts presented for 1978 have been restated to reflect this revised presentation.

MacMillan Bloedel carries on an integrated forest products business which involves extensive transfers of raw materials and products among operations. Accordingly, segmentation of the business by product and service categories involves allocating conversion and other costs and establishing transfer pricing policies for joint raw materials and other products. Under the policy followed by MacMillan Bloedel, inter-segment transfers of products, including logs and wood chips transferred from the raw materials and building materials segment to the pulp and paper segment, are made at market values. Costs are allocated on a basis which MacMillan Bloedel believes to be reasonable. However, other pricing policies and methods of allocating costs are possible. MacMillan Bloedel believes that the revised presentation in 1979 appropriately reflects the relative contributions of the segments.

(2) Sales of products and services —

Sales of the raw materials and building materials segment exclude the proceeds of log sales and trades with third parties resulting from the need to match logs produced with the requirements of the converting mills. Such proceeds are credited against production costs. Sales of the raw materials and building materials segment include the proceeds of logs and chips transferred to the pulp and paper segment.

(3) Contributions to earnings —

Contributions to earnings represent sales of products and services less cost of sales and services, selling expenses and allocated general and administrative expenses.

(4) Unallocated general and administrative expenses —

Unallocated general and administrative expenses include \$14,603,000 in 1978 in respect of a provision for legal actions and claims (Note 12).

MacMillan Bloedel Limited
Balance Sheets Segment Information

Exhibit II

The following is an analysis of MacMillan Bloedel's assets by product and service segment and by geographic area as at December 31, 1979 and 1978.

	December 31	
	1979	1978*
	(\$000)	
Assets:		
Raw materials and building materials	\$ 698,378	\$ 573,457
Pulp and paper	542,815	447,251
Linerboard and packaging	260,165	212,232
Other	10,386	8,632
	1,511,744	1,241,572
Add (deduct): Inter-segment eliminations	2,672	(1,929)
	\$1,514,416	\$1,239,643

Exhibit II: continued

Assets:		
Canada	\$1,049,361	\$ 828,084
United States	348,376	316,981
Europe (primarily the United Kingdom)	116,503	89,749
Other	11,975	17,100
	1,526,215	1,251,914
Less: Inter-area eliminations	11,799	12,271
	\$1,514,416	\$1,239,643
Reconciliation with consolidated assets:		
Segment assets	\$1,514,416	\$1,239,643
Partly-owned companies	67,728	66,472
Investments having quoted market value	—	76,230
Other corporate assets	109,819	166,908
Consolidated assets	\$1,691,963	\$1,549,253

*Certain 1978 amounts have been reclassified to conform with the basis of segmentation adopted in 1979.

The following is an analysis of additions to MacMillan Bloedel's property, plant and equipment by principal product and service segment for the years ended December 31, 1979 and 1978.

	Year ended December 31	
	1979	1978*
	(\$000)	
Additions to property, plant and equipment:		
Raw materials and building materials	\$119,363	\$ 68,894
Pulp and paper	118,318	37,250
Linerboard and packaging	25,589	13,708
Other	128	76
	263,398	119,928
Corporate assets	5,844	1,629
	\$269,242	\$121,557

Depreciation, depletion and logging road amortization by product and service segment for the years ended December 31, 1979 and 1978 were as follows:

	Year ended December 31	
	1979	1978
	(\$000)	
Depreciation, depletion and logging road amortization:		
Raw materials and building materials	\$ 45,460	\$ 42,955
Pulp and paper	24,531	21,264
Linerboard and packaging	9,786	8,780
Other	1,191	1,190
	80,968	74,189
Corporate assets	1,618	1,452
	\$ 82,586	\$ 75,641

*Certain 1978 amounts have been reclassified to conform with the basis of segmentation adopted in 1979.

The financial information which appears on pages 42 to 50 is not part of the audited financial statements which appear on pages 24 to 41.

MacMillan Bloedel Limited

Historical Summary

Operating Statistics

	1979	1978
Production		
Logs (k Cubic metres)	10,608	11,326
Lumber (MFBM)	1,284,860	1,379,499
Panelboards (M. Sq. Ft. 3/8")	946,200	985,144
Newsprint (Tonnes)	939,137	1,126,521
Pulp (Tonnes)	375,303	430,655
Linerboard (Tonnes)	411,272	424,631
Fine paper (Tonnes)	34,540	33,693
Corrugated containers (k Sq. Metres)	845,063	833,803
Employees		
Wages, salaries and employee benefits (\$000)	\$ 582,977	\$ 536,670
Number of employees at year end	24,505	23,948

Financial Statistics (\$000)

Earnings		
Sales and other income	\$2,204,610	\$2,010,402
Cost of sales and services	\$1,770,656	\$1,662,039
Selling, general and administrative expense	\$ 147,994	\$ 144,803
Interest expense	\$ 28,878	\$ 32,639
Income taxes	\$ 100,371	\$ 77,496
Equity in earnings (losses) of partly-owned companies	\$ 1,815	\$ 9,419
Minority interests in subsidiaries	\$ (3,624)	\$ (1,897)
Extraordinary items	\$ —	\$ —
Net earnings (loss)	\$ 154,902	\$ 100,947
Net earnings (loss) per Common share		
Before extraordinary items (dollars)	\$ 7.03	\$ 4.50
After extraordinary items (dollars)	\$ 7.03	\$ 4.50
Balance sheet		
Working capital	\$ 319,968	\$ 300,975
Property, plant and equipment (net book value)	\$ 899,172	\$ 710,474
Long term debt	\$ 323,044	\$ 341,738
Share capital – Preferred	\$ 87,954	\$ 87,954
– Common	\$ 171,415	\$ 171,175
Retained earnings	\$ 542,929	\$ 430,602
Source and Application of Working Capital		
Source – operations	\$ 257,629	\$ 200,554
– long term financing	\$ 4,348	\$ 56,180
– other	\$ 96,618	\$ 9,391
Application – plant and equipment	\$ 244,759	\$ 105,479
– timber and land	\$ 24,483	\$ 16,078
– dividends to shareholders of the Company	\$ 42,575	\$ 24,117
– other	\$ 27,785	\$ 112,426
Net increase (decrease) in working capital	\$ 18,993	\$ 8,025
Other		
Current ratio	1.9:1	1.9:1
Operating cash flow per Common share (dollars)	\$ 12.11	\$ 9.43
Return on average capital employed	13.6%	10.6%
Return on Common shareholders' equity	21.0%	15.9%
Common shares outstanding at year end	21,272,975	21,261,175
Number of Common shareholders at year end	16,296	16,991
Dividends – per Common share (dollars)	\$ 1.75	\$.95
Shareholders' equity per Common share (dollars)	\$ 33.54	\$ 28.26
Price range of Common shares – high (dollars)	\$ 30.00	\$ 25.37
– low (dollars)	\$ 20.50	\$ 15.50

1977	1976	1975	1974	1973	1972	1971	1970
10,503	11,043	7,326	9,251	10,798	8,570	9,587	8,719
1,235,759	1,180,325	766,542	988,147	1,286,188	1,263,466	1,359,605	1,180,541
890,433	838,138	670,493	618,298	709,999	708,450	708,912	595,107
1,074,555	1,064,722	870,959	1,086,661	1,175,934	1,108,853	1,103,462	992,247
395,225	439,688	322,138	433,342	412,640	447,492	443,893	438,224
410,538	407,355	339,000	339,715	410,447	401,335	359,806	316,878
30,748	29,672	24,557	30,270	28,657	26,229	24,892	25,066
812,818	768,095	709,455	814,613	891,253	653,023	428,109	421,935
\$ 481,076	\$ 443,015	\$ 352,733	\$ 344,976	\$ 290,776	\$ 231,405	\$ 210,631	\$ 182,261
23,865	23,601	23,206	23,847	24,478	23,136	21,036	20,830
\$1,714,800	\$1,523,344	\$1,297,518	\$1,398,848	\$1,219,242	\$ 966,495	\$ 778,025	\$ 687,838
\$1,443,129	\$1,315,926	\$1,173,995	\$1,171,586	\$ 992,938	\$ 827,789	\$ 673,941	\$ 584,272
\$ 125,779	\$ 114,550	\$ 110,687	\$ 92,833	\$ 66,697	\$ 55,084	\$ 47,261	\$ 45,881
\$ 32,305	\$ 33,682	\$ 31,661	\$ 21,459	\$ 15,086	\$ 17,240	\$ 18,778	\$ 19,193
\$ 54,141	\$ 36,074	\$ (2,764)	\$ 58,041	\$ 66,607	\$ 32,453	\$ 20,138	\$ 21,178
\$ 3,179	\$ 1,219	\$ (3,080)	\$ 19,098	\$ 6,187	\$ 3,943	\$ 1,643	\$ 1,234
\$ (2,007)	\$ (1,489)	\$ 198	\$ (1,729)	\$ (2,349)	\$ (313)	\$ 3,024	\$ (678)
\$ (22,269)	\$ —	\$ —	\$ —	\$ —	\$ 2,625	\$ 3,367	\$ —
\$ 38,349	\$ 22,842	\$ (18,943)	\$ 72,298	\$ 81,752	\$ 40,184	\$ 25,941	\$ 17,870
\$ 2.70	\$ 1.07	\$ (.89)	\$ 3.41	\$ 3.90	\$ 1.80	\$ 1.08	\$.85
\$ 1.65	\$ 1.07	\$ (.89)	\$ 3.41	\$ 3.90	\$ 1.92	\$ 1.24	\$.85
\$ 292,950	\$ 237,490	\$ 187,993	\$ 184,225	\$ 181,519	\$ 162,029	\$ 137,117	\$ 93,706
\$ 669,871	\$ 670,505	\$ 674,564	\$ 659,480	\$ 584,928	\$ 553,633	\$ 542,593	\$ 558,865
\$ 309,779	\$ 372,755	\$ 346,882	\$ 316,297	\$ 251,695	\$ 263,194	\$ 273,772	\$ 257,432
\$ 87,954	\$ —	\$ —	\$ —	\$ —	\$ 624	\$ 2,596	\$ 2,596
\$ 171,175	\$ 171,175	\$ 171,175	\$ 170,154	\$ 169,279	\$ 160,036	\$ 160,036	\$ 160,036
\$ 353,772	\$ 327,634	\$ 312,233	\$ 343,292	\$ 302,892	\$ 247,354	\$ 228,124	\$ 212,699
\$ 137,004	\$ 102,360	\$ 61,941	\$ 131,581	\$ 141,782	\$ 90,934	\$ 67,850	\$ 66,336
\$ 102,685	\$ 41,052	\$ 45,568	\$ 76,084	\$ 3,881	\$ 841	\$ 29,971	\$ 310
\$ 17,678	\$ 11,248	\$ 22,384	\$ 15,162	\$ 15,801	\$ 36,480	\$ 15,575	\$ 12,916
\$ 67,093	\$ 58,810	\$ 76,793	\$ 121,341	\$ 74,781	\$ 35,961	\$ 34,587	\$ 51,908
\$ 10,260	\$ 4,515	\$ 3,875	\$ 11,939	\$ 5,077	\$ 3,669	\$ 3,276	\$ 2,792
\$ 12,211	\$ 7,441	\$ 13,793	\$ 37,125	\$ 26,214	\$ 20,954	\$ 10,516	\$ 20,954
\$ 112,343	\$ 34,397	\$ 31,664	\$ 49,716	\$ 35,902	\$ 42,759	\$ 21,606	\$ 17,429
\$ 55,460	\$ 49,497	\$ 3,768	\$ 2,706	\$ 19,490	\$ 24,912	\$ 43,411	\$ (13,521)
2.0:1	2.0:1	1.9:1	1.8:1	2.1:1	2.3:1	2.1:1	1.7:1
\$ 6.44	\$ 4.81	\$ 2.92	\$ 6.20	\$ 6.77	\$ 4.36	\$ 3.25	\$ 3.18
5.3%	3.9%	(.7)%	9.2%	11.3%	6.3%	4.4%	3.7%
6.7%	4.6%	(3.9)%	14.1%	17.3%	9.8%	6.6%	4.8%
21,261,175	21,261,175	21,261,175	21,220,175	21,192,385	20,876,385	20,876,385	20,876,385
16,709	16,759	16,654	16,385	17,120	19,125	20,124	21,575
\$.40	\$.35	\$.65	\$ 1.75	\$ 1.25	\$ 1.00	\$.50	\$ 1.00
\$ 24.69	\$ 23.46	\$ 22.74	\$ 24.20	\$ 22.28	\$ 19.51	\$ 18.59	\$ 17.85
\$ 24.75	\$ 24.00	\$ 25.75	\$ 33.25	\$ 40.00	\$ 28.50	\$ 28.37	\$ 34.00
\$ 16.00	\$ 17.75	\$ 16.75	\$ 20.25	\$ 25.37	\$ 22.62	\$ 19.75	\$ 21.62

MacMillan Bloedel Limited

Summary of Consolidated Earnings for the Five Years Ended December 31, 1979

Sales and other income:

Sales of products and services

Income from investments

Profit (loss) on disposals of and provisions for loss with respect to
property, plant and equipment and investments and other assets

Costs and expenses:

Cost of sales and services

Selling, general and administrative

Interest (note 2(b))

Earnings (loss) before income taxes and other undernoted items

Income taxes

Earnings (loss) before undernoted items

Equity in earnings (losses) of partly-owned companies

Minority interests in subsidiaries

Earnings (loss) before extraordinary item

Extraordinary item

Net earnings (loss)

Provision for dividends on Class A Preferred shares

Net earnings (loss) available for Common shares**Weighted average number of Common shares outstanding****Net earnings (loss) per Common share** (based on weighted average number of shares outstanding each year):

Earnings (loss) before extraordinary item (dollars)

Net earnings (loss) (Note 1) (dollars)

Fully diluted net earnings (Note 1)

Dividends per share – Common (dollars)

– Class A Preferred (dollars)

Notes:

1. Net earnings per Common share:

Net earnings per Common share is computed by dividing the net earnings, after providing for dividends on the Class A Preferred shares, by the weighted average number of Common shares outstanding during the year. The provision for dividends on the Class A Preferred shares is made on a time elapsed basis rather than on a declared basis.

A major partly-owned company, Koninklijke Nederlandse Papierfabrieken N.V. (KNP), issued convertible debentures during 1972, which, commencing in 1975, are convertible at the holders' option into common shares of that company. Had these debentures been converted into common shares at the beginning of 1979, the effect would have been a reduction in equity earnings of approximately \$4,500,000 (\$.21 per share).

1979	1978	1977	1976	1975
		(\$000)		
\$ 2,180,318	\$ 2,004,913	\$ 1,707,260	\$ 1,520,207	\$ 1,296,689
10,329	8,235	3,678	2,864	3,378
13,963	(2,746)	3,862	273	(2,549)
2,204,610	2,010,402	1,714,800	1,523,344	1,297,518
1,770,656	1,662,039	1,443,129	1,315,926	1,173,995
147,994	144,803	125,779	114,550	110,687
28,878	32,639	32,305	33,682	31,661
1,947,528	1,839,481	1,601,213	1,464,158	1,316,343
257,082	170,921	113,587	59,186	(18,825)
100,371	77,496	54,141	36,074	(2,764)
156,711	93,425	59,446	23,112	(16,061)
1,815	9,419	3,179	1,219	(3,080)
(3,624)	(1,897)	(2,007)	(1,489)	198
154,902	100,947	60,618	22,842	(18,943)
—	—	(22,269)	—	—
154,902	100,947	38,349	22,842	(18,943)
5,335	5,237	3,280	—	—
\$ 149,567	\$ 95,710	\$ 35,069	\$ 22,842	\$ (18,943)
21,270,440	21,261,175	21,261,175	21,261,175	21,234,997
\$7.03	\$4.50	\$2.70	\$1.07	\$ (.89)
\$7.03	\$4.50	\$1.65	\$1.07	\$ (.89)
\$1.75	\$.95	\$.40	\$.35	\$.65
\$1.57	\$1.15	\$1.09	N/A	N/A

2. Accounting changes:

(a) Unallocated purchase price of shares in subsidiaries –

With the introduction of recommendations of the Canadian Institute of Chartered Accountants requiring amortization of intangible assets of this nature acquired after April 1, 1974, MacMillan Bloedel commenced amortizing at the rate of \$667,000 per annum over forty years from January 1, 1974, the unallocated purchase price of shares in subsidiaries existing at that date. During 1978, MacMillan Bloedel increased the rate of amortization so that the unamortized balance as at January 1, 1978 is now being amortized over a period of twenty years from that date. The effect of this change was to reduce consolidated net earnings for 1978 and subsequent years by \$533,000 (\$.03 per share).

(b) Interest –

Commencing with 1979 MacMillan Bloedel changed its method of accounting for interest costs because of the large capital expenditure program being undertaken. During periods of major construction appropriate allocations of interest costs are made between such construction and interest expense.

During 1979 \$3,800,000 (\$.10 per Common share after tax) of interest costs were capitalized as part of construction in progress.

Management's Discussion and Analysis of the Summary of Operations 1979 compared with 1978

Foreign Exchange:

During 1979, the Canadian dollar traded at an average of approximately U.S. \$.85, compared with approximately U.S. \$.88 in 1978. MacMillan Bloedel's Canadian operations generate a net inflow of U.S. dollars of approximately U.S. \$600 million annually. It is estimated that for each percentage point by which the Canadian dollar fluctuates relative to the U.S. dollar, the annual effect of such conversion after providing for income taxes is approximately \$3.8 million. MacMillan Bloedel did not obtain the full benefit of the lower Canadian dollar in 1979 owing to its policy of forward exchange cover. The \$3.8 million does not include exchange effects such as translating investments in U.S. subsidiaries into Canadian dollars.

Sales of products and services (8.7% increase):

Sales of products and services increased owing to higher sales for most of MacMillan Bloedel's major products. Weakening markets in North America for lumber and plywood in the latter part of the year were offset by continuing strength in pulp and paper although sales of newsprint were adversely affected by the long strike at the MacMillan Rothesay mill which resumed production in November. Linerboard and packaging markets also remained strong. Of the overall increase in sales of products between the periods, decreases in volumes sold were more than offset by increased unit sales realizations in Canadian dollars. Of the latter approximately 15% was attributable to the decline in the average value for the year of the Canadian dollar relative to the U.S. dollar.

Profit (loss) on disposals of and provisions for loss with respect to property, plant and equipment and investments and other assets:

The profit earned in 1979 resulted from the disposals of certain investments and subsidiaries, the business of which no longer fitted with the Company's operations. In 1978 the result was a small loss. (See Note 13(b) to the audited financial statements.)

Cost of sales and services (6.5% increase):

Of the overall increase in the cost of sales of products, decreases in volumes were more than offset by increased unit costs.

Selling, general and administrative (2.2% increase):

Increases in salaries and other items were partially offset by the provision for legal actions and claims in 1978 which did not recur in 1979.

Interest (11.5% decrease):

Interest expense decreased in 1979 largely owing to the adoption in 1979 of a policy capitalizing certain interest costs incurred. (See Notes 2 and 13(c) to the audited financial statements.)

Income taxes (29.5% increase):

The effective rate of income tax has decreased because of an increase in investment tax credits earned in 1979, because of capital losses in 1978 for which potential income tax recoveries were not recorded or

were not available, and because of certain capital gains in 1979 subject to a low rate of tax. (See Note 13(f) to the audited financial statements.)

Equity in earnings of partly-owned companies (80.7% decrease):

Equity earnings of partly-owned companies decreased in 1979 when compared to 1978 because of a provision for an expected loss of a partly-owned company's investment in another company and the net reduction of exchange gains on translation of the financial statements into Canadian dollars.

1978 compared with 1977

Sales of products and services (17.4% increase):

Sales of products and services increased owing to increased sales for all of MacMillan Bloedel's major products. Sales of building materials benefited in both price and volume from the continuation of the strong housing market in the U.S. Newsprint demand was also strong in the U.S., and prices were increased early in 1978 both there and in Canada. Average prices for pulp decreased but shipments improved significantly over 1977. Of the overall increase in sales between the periods, approximately 40% was attributable to increased volumes and 60% to increased unit sales realizations in Canadian dollars. Of the latter approximately 70% was attributable to the decline in value of the Canadian dollar relative to the U.S. dollar.

Income from investments (123.9% increase):

Income from investments increased during 1978 owing to the high level of short term investments held by the Company during the year.

Cost of sales and services (15.2% increase):

Of the overall increase in cost of sales of products, approximately 30% was attributable to increased volumes of products sold and 70% to increased unit costs.

Income taxes (43.1% increase):

Income taxes increased proportionately less in 1978 than earnings before income taxes owing mainly to new legislation in British Columbia with respect to logging tax, effective January 1, 1978, which fully offsets logging income tax against corporate income tax.

Equity in earnings of partly-owned companies (196.3% increase):

Equity in earnings of partly-owned companies increased significantly during 1978 largely because of foreign exchange gains resulting from the translation of the financial statements of Koninklijke Nederlandse Papierfabrieken, N.V. into Canadian dollars. These gains more than offset KNP's equity in losses of Okto, a 51% subsidiary.

Extraordinary item:

There was no extraordinary item in 1978, whereas in 1977 a provision was made for the full amount of MacMillan Bloedel's investment in La Cellulose d'Aquitaine S.A.

MacMillan Bloedel Limited

Productive Capacity

The productive capacity of MacMillan Bloedel Limited and its subsidiaries as at December 31, 1979 is set out below.

The total productive hectares under MacMillan Bloedel's control are distributed geographically as follows:

	Productive Hectares
British Columbia	1,138,000
Saskatchewan	324,000 (1)
New Brunswick	292,000
Alabama	165,000
	1,919,000 (2)

Notes:

(1) Cutting rights on these hectares are limited to the species used by the waferboard plant at Hudson Bay, Saskatchewan.

(2) 346,000 hectares are owned and the balance is held under long term cutting rights.

MacMillan Bloedel operates the following converting facilities for the manufacture of building materials:

Product	Number	Location	Aggregate Effective Annual Capacities
Lumber	9	British Columbia	1,494 MMFBM
	1	Alabama	70 MMFBM
Lumber Specialties	1	British Columbia	90 MMFBM
	1	North Carolina	15 MMFBM
Plywood	2	British Columbia	357 MM sq. ft. (3/8")
	1	Ontario	26 MM sq. ft. (3/8")
	1	Alabama	120 MM sq. ft. (3/8")
Waferboard	1	Saskatchewan	150 MM sq. ft. (3/8")
	1	Ontario	128 MM sq. ft. (3/8")
Particleboard	1	British Columbia	108 MM sq. ft. (3/8")
	1	Alabama	150 MM sq. ft. (3/8")

Other facilities include a shingle mill, a pole manufacturing and treating plant, a moulding plant, a panelboard specialties plant and a hardboard siding mill.

MacMillan Bloedel operates the following facilities for the manufacture of pulp and paper products:

Product	Number	Location	Aggregate Effective Annual Capacities
			(thousand tonnes)
Newsprint	2	British Columbia	890
	1	New Brunswick	310
Pulp	3	British Columbia	460
Fine Paper	1	British Columbia	40

MacMillan Bloedel operates the following facilities for the manufacture of linerboard and packaging products:

Product	Number	Location	Aggregate Effective Annual Capacities
			(thousand tonnes)
Linerboard	1	British Columbia	100
	1	Alabama	340
Corrugated Containers	7	Canada	143
	11	United States	271
	6	United Kingdom	176
Bags	1	British Columbia	14
Corrugated Medium	1	Ontario	70

MacMillan Bloedel Limited

Segment Information

MacMillan Bloedel's consolidated sales of products and services and contributions to earnings by product and service segments for the five years ended December 31, 1979 were as follows (see Note 15 of the consolidated financial statements):

	Year ended December 31				
	1979	1978	1977	1976	1975
	(\$ millions)				
Sales of products and services:					
Raw materials and building materials –					
Lumber	\$ 734.7	\$ 621.5	\$ 488.7	\$ 420.3	\$ 296.8
Other	441.8	410.2	372.2	303.2	250.7
	1,176.5	1,031.7	860.9	723.5	547.5
Pulp and paper –					
Newsprint	425.7	463.2	385.7	329.1	296.3
Other	246.7	209.3	190.5	203.0	164.7
	672.4	672.5	576.2	532.1	461.0
Linerboard and packaging –					
Corrugated containers	308.1	250.9	218.4	192.9	186.5
Other	105.9	101.5	89.1	89.9	79.9
	414.0	352.4	307.5	282.8	266.4
Other	32.5	27.0	41.3	67.1	92.4
	2,295.4	2,083.6	1,785.9	1,605.5	1,367.3
Less: Inter-segment eliminations –					
Raw materials and building materials	90.6	65.2	64.5	70.2	59.4
Other segments	24.5	13.5	14.1	15.1	11.2
	115.1	78.7	78.6	85.3	70.6
Sales to unaffiliated customers	\$2,180.3	\$2,004.9	\$1,707.3	\$1,520.2	\$1,296.7
	Year ended December 31				
	1979	1978	1977	1976	1975
	(\$ millions)				
Contributions to earnings:					
Raw materials and building materials	\$155.4	\$ 92.1	\$ 29.4	\$ 1.1	\$ (30.1)
Pulp and paper	122.5	137.5	116.7	123.7	88.5
Linerboard and packaging	26.9	17.5	18.8	20.3	27.0
Other	1.4	1.9	(9.5)	(22.1)	(43.6)
	306.2	249.0	155.4	123.0	41.8
Less: Inter-segment eliminations	4.6	(3.0)	(1.2)	4.6	.8
	301.6	252.0	156.6	118.4	41.0
Deduct:					
Unallocated general and administrative expenses	37.8	44.9	30.3	26.9	26.7
Interest expense	28.9	32.7	32.3	33.7	31.7
Corporate (gains) and losses and investment income	(22.2)	3.5	(19.6)	(1.4)	1.4
	44.5	81.1	43.0	59.2	59.8
Earnings (loss) before income taxes, equity in earnings of partly-owned companies, minority interests in subsidiaries and extraordinary item	\$257.1	\$170.9	\$113.6	\$ 59.2	\$ (18.8)

Segment information: continued

The following is an analysis of MacMillan Bloedel's identifiable assets by product and service segment and by geographic area as at December 31, 1975 to 1979:

	1979	1978	December 31 1977	1976	1975
	(\$ millions)				
Assets:					
Raw materials and building materials	\$ 698.4	\$ 573.5	\$ 514.4	\$ 507.4	\$ 457.5
Pulp and paper	542.8	447.3	448.7	409.8	374.3
Linerboard and packaging	260.1	212.2	194.7	189.5	200.4
Other	10.4	8.6	14.9	16.7	15.0
	1,511.7	1,241.6	1,172.7	1,123.4	1,047.2
Add (deduct): Inter-segment eliminations	2.7	(1.9)	1.6	(.8)	1.7
Segment assets	\$1,514.4	\$1,239.7	\$1,174.3	\$1,122.6	\$1,048.9
Assets:					
Canada	\$1,049.3	\$ 828.1	\$ 804.4	\$ 786.2	\$ 739.7
United States	348.4	317.0	288.3	254.8	227.4
Europe	116.5	89.8	80.7	77.6	80.3
Other	12.0	17.1	9.9	8.6	1.5
	1,526.2	1,252.0	1,183.3	1,127.2	1,048.9
Less: Inter-area eliminations	11.8	12.3	9.0	4.6	—
Segment assets	\$1,514.4	\$1,239.7	\$1,174.3	\$1,122.6	\$1,048.9
Reconciliation with consolidated assets:					
Segment assets	\$1,514.4	\$1,239.7	\$1,174.3	\$1,122.6	\$1,048.9
Partly-owned companies	67.7	66.5	56.7	75.1	76.8
Investments having quoted market value	—	76.2	3.1	3.4	3.4
Other corporate assets	109.8	166.9	126.8	79.0	68.8
Consolidated assets	\$1,691.9	\$1,549.3	\$1,360.9	\$1,280.1	\$1,197.9

The following is an analysis of sales of products and services and contributions to earnings by MacMillan Bloedel's operations in various geographic areas for the five years ended December 31, 1979:

	1979	1978	Year ended December 31 1977	1976	1975
	(\$ millions)				
Sales to unaffiliated customers:					
Canada	\$1,106.6	\$1,015.6	\$ 899.7	\$ 849.6	\$ 740.8
United States	869.9	827.3	663.0	536.7	433.1
Europe	201.6	160.4	142.6	130.9	121.9
Other	2.2	1.6	2.0	3.0	.9
	\$2,180.3	\$2,004.9	\$1,707.3	\$1,520.2	\$1,296.7
Contributions to earnings:					
Canada	\$ 268.3	\$ 219.6	\$ 131.1	\$ 97.9	\$ 25.3
United States	10.1	19.8	17.2	14.2	16.9
Europe	17.1	14.2	10.3	9.4	—
Other	5.6	1.7	2.4	1.5	(.1)
	301.1	255.3	161.0	123.0	42.1
Add (deduct): Inter-area eliminations	.5	(3.3)	(4.4)	(4.6)	(1.1)
	\$ 301.6	\$ 252.0	\$ 156.6	\$ 118.4	\$ 41.0

Segment information: continued

The following is an analysis of exports to affiliated customers from the above geographic areas for the five years ended December 31, 1979:

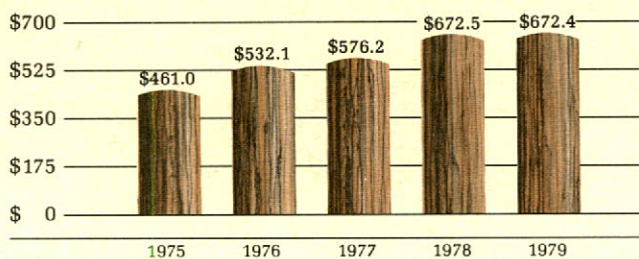
	Year ended December 31				
	1979	1978	1977	1976	1975
	(\$ millions)				
Canada	\$ 583.8	\$ 548.8	\$ 389.8	\$ 330.6	\$ 205.4
United States	9.0	6.1	3.8	2.5	3.1
Europe	—	—	—	—	—
Other	2.7	2.6	3.5	3.1	2.4
	\$ 595.5	\$ 557.5	\$ 397.1	\$ 336.2	\$ 210.9

The following is an analysis of exports direct to unaffiliated and affiliated customers by MacMillan Bloedel's operations in Canada to various geographic areas for the five years ended December 31, 1979:

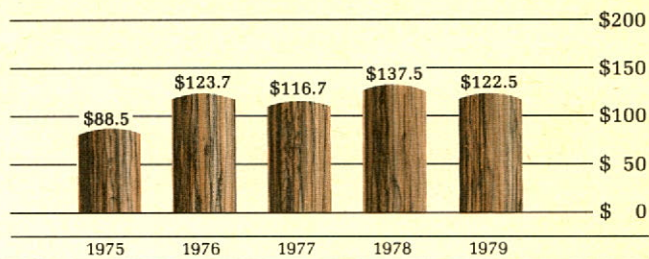
	Year ended December 31				
	1979	1978	1977	1976	1975
	(\$ millions)				
Exports from Canada to:					
Unaffiliated customers —					
United States	\$ 149.0	\$ 204.5	\$169.1	\$119.4	\$107.1
Europe	235.2	171.3	152.3	150.4	118.0
Other	312.3	253.4	208.2	181.6	163.7
	696.5	629.2	529.6	451.4	388.8
Affiliated customers —					
United States	458.4	432.3	331.4	279.9	170.2
Europe	92.5	90.1	58.4	50.7	35.2
Other	32.9	26.4	—	—	—
	583.8	548.8	389.8	330.6	205.4
Total exports from Canada	\$1,280.3	\$1,178.0	\$919.4	\$782.0	\$594.2

Pulp and Paper

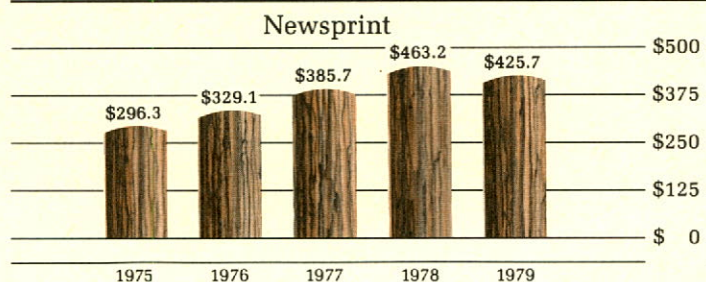
Segment Sales (millions of dollars)



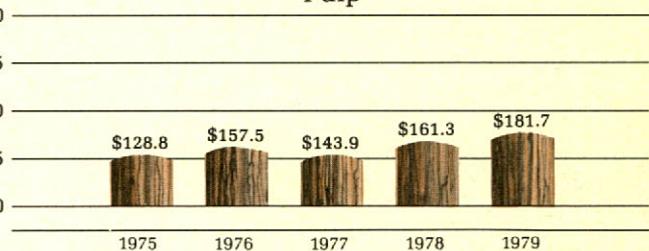
Contribution to Earnings (millions of dollars)*



Product Sales (millions of dollars)

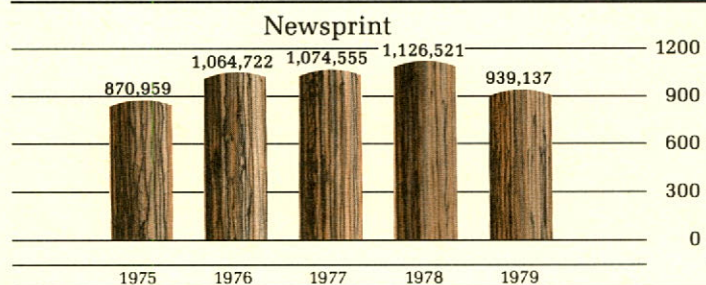


Pulp

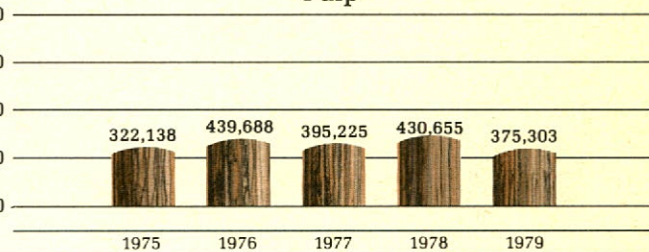


* As defined on page 40, Note 3

Production (tonnes)



Pulp



Sales of Pulp and Paper Products by Market

	1975	1976	1977	1978	1979
U.S.A.	46%	48%	54%	56%	53%
Canada	11	12	10	10	11
U.K. and Continental Europe	21	21	18	15	15
Japan and Orient	10	10	10	11	13
Other	12	9	8	8	8
	100%	100%	100%	100%	100%

(continued)

During 1980, it is expected that all of MB's production of newsprint, pulp and fine paper will be sold due to the current tight markets and low inventories.

The Company's largest single capital project now underway is the new No. 11 newsprint machine at Powell River, B.C. It and its related pulping, finishing and woodroom facilities will go into production in early 1981.

Going ahead at the same time as the No. 11 installation is a speed-up program for existing newsprint machines. The program at Powell River, including rebuild of No. 7 machine, will add approximately 30,000 tonnes of new capacity per year by the end of 1982. Meanwhile, at Port Alberni, newsprint machine speed-ups will increase annual capacity by over 50,000 tonnes at that location over the next four years.

Linerboard and Packaging

MacMillan Bloedel is now a nationwide supplier, and in fact among the largest Canadian producers of corrugated containers. In late 1979 and early 1980 we acquired a corrugating medium/hardboard siding mill at Sturgeon Falls, Ontario, plus six corrugated container plants in Ontario and Quebec. These are now added to the five corrugated container plants which we have operated for many years in Western Canada.

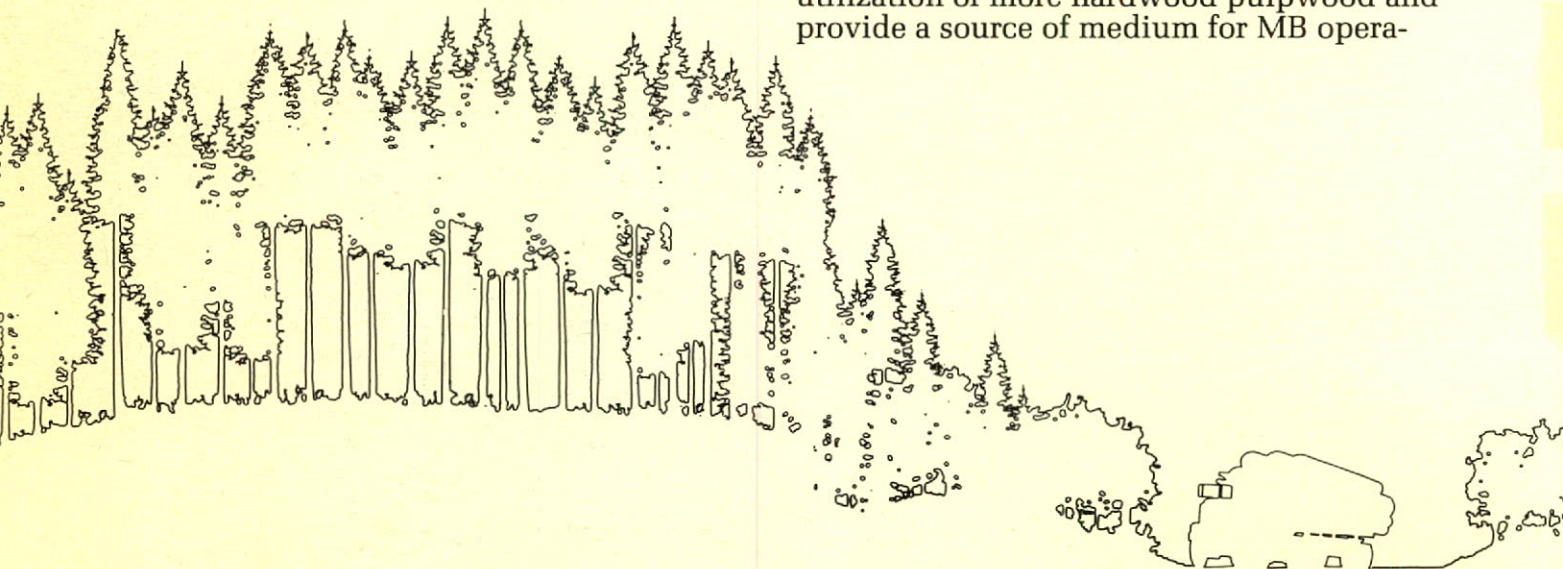
MB's packaging operations in the United States absorb about 58 percent of the liner-

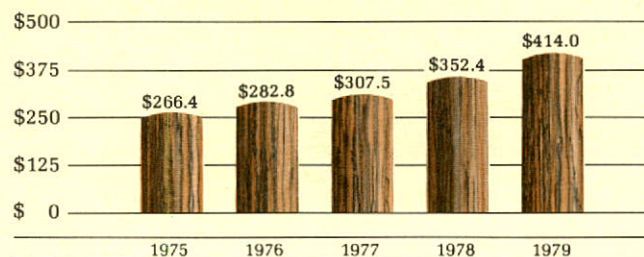
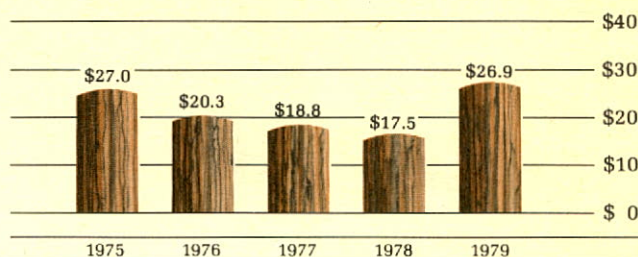
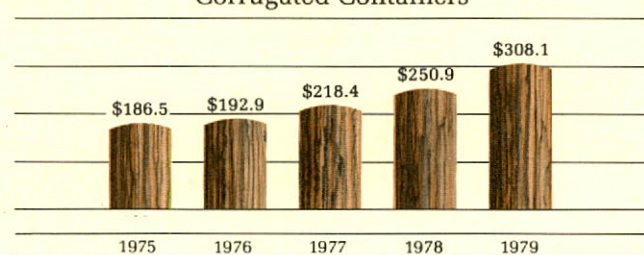
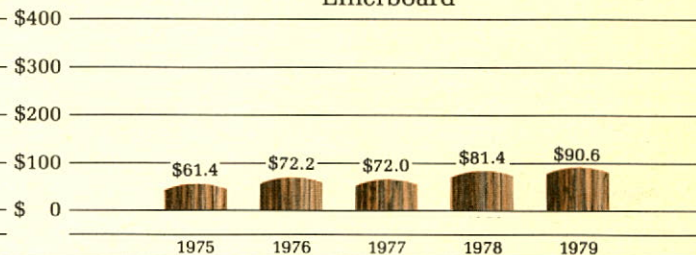
board produced at the mill in Pine Hill, Alabama and a further 3 percent was shipped to our packaging operation in the United Kingdom. About 67 percent of the linerboard produced at Port Alberni is used by packaging operations in Canada and in the United Kingdom. The balance is sold on the open market.

In 1979, improved market conditions produced record linerboard and packaging sales of \$414.0 million compared with \$352.4 million in 1978. Linerboard markets were strong enough to permit price increases sufficient to offset substantial cost increases. Profit margins in North American corrugated container plants were also improved in 1979. An intensive effort to improve the profitability of the Company's U.S. plants in particular produced better (although not yet satisfactory) results in the last half of the year.

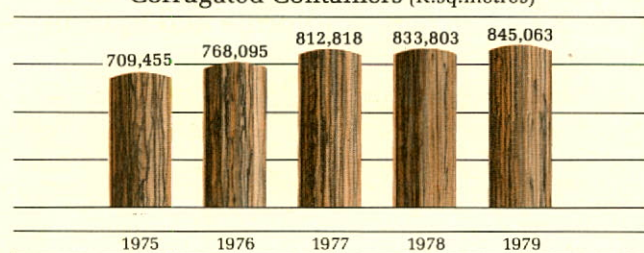
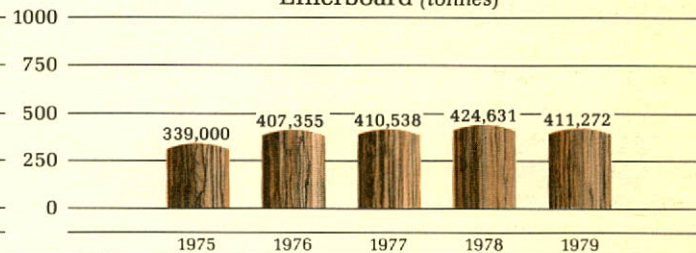
A rationalization of our operations resulted in the sale of the Company's packaging plant in Centerville, Ohio, and a folding carton plant in Vancouver, B.C. We sold two other corrugated container plants in early 1980 at Carson City, California and Marion, Indiana.

Major expenditures during the year included \$18.2 million for various projects in the corrugated container plants, one of which was the completion of the Company's first continuous run corrugator at Weston-super-Mare, U.K. An engineering study is underway for a new 190,000-tonne medium mill and an associated 49,000-tonne linerboard expansion at Pine Hill. This mill would result in the utilization of more hardwood pulpwood and provide a source of medium for MB opera-



Segment Sales (millions of dollars)**Contribution to Earnings** (millions of dollars)***Product Sales** (millions of dollars)**Corrugated Containers****Linerboard**

*As defined on page 40, Note 3

Production**Corrugated Containers** (K.sq.metres)**Linerboard** (tonnes)

tions. A part of this project would be the installation of a coal and hog fuel-fired power boiler to reduce dependency on oil and gas.

Transportation

The Company shipped 3.0 million tonnes of its products from British Columbia to world markets in 1979, 2.2 million tonnes of that going by sea and the balance by rail and truck. Canadian Transport Company, MacMillan Bloedel's ocean shipping division, carried 80 percent of the water-borne volume in chartered vessels — one million tonnes in vessels chartered for periods in excess of one year and the rest in 18 vessels chartered for

(continued)

single voyages. Other water-borne cargoes were transported by independent carriers.

World charter markets surged upwards during the year by an average of 70 percent and the charter rates for ships hired in some areas have more than doubled.

Losses incurred by Canadian Transport Company for 1979 were higher than for the previous year. This reflects the sharp upward movement of the charter rates for ships, particularly in the latter part of the year. In addition, the Deutsche Mark continued to strengthen against the Canadian dollar throughout most of 1979 which increased the charter cost of three 50,000-deadweight-ton vessels for which the charter hire was payable in Deutsche Marks. Strikes in B.C. and in various market areas also had an adverse effect on transportation costs during the year.

Two 29,000 DWT ships were chartered for terms of eight years. The ships, now under construction, are specially designed for the transport of forest products and are highly efficient for that service. They will be used for the Japan trade on delivery in the third quarter of 1980.

Human Resources

The Company's principal labour relations efforts in 1979 were concentrated on the

re-negotiation of 40 collective agreements covering more than 16,300 employees. Most of these employees work in British Columbia where they are primarily represented by the International Woodworkers of America, the Canadian Paperworkers Union, and the Pulp, Paper and Woodworkers of Canada. Two-year agreements were reached without an industry-wide strike. However, MB was subjected to a series of work stoppages which reduced earnings significantly.

In the United States, 12 contracts affecting some 1,800 employees were negotiated for terms of two and three years. All 12 contracts in the United Kingdom were renewed for a term of one year.

MacMillan Rothesay, the Company's subsidiary in Saint John, New Brunswick, was struck for seven months before the terms of a new five-year and seven-month contract were agreed upon. The new agreement will provide wage parity with west coast pulp and paper workers by December, 1983.

Most of MB's workforce is in British Columbia. About 16,300 out of a total of 24,500 are employed in the west coast province, 2,900 in the rest of Canada, 3,500 in the United States and 1,800 in the U.K. Wages, salaries and benefits received by employees in 1979 amount to \$583 million or 26.4 percent of total income.

Expanded efforts were undertaken in 1979 to improve the quality of working life for employees while maintaining or improving overall productivity. Several new projects have been initiated involving employee participation in work-related decisions. The results have been encouraging.

An Alcohol and Drug Abuse Program was re-instituted by the Company in British Columbia during 1979 and expanded to cover assistance to employees with personal

problems. As part of moves to improve the health and safety of the working environment, a health study was completed at Powell River and no major health problems were revealed in manufacturing areas there. At Port Alberni, special pilot safety programs have been introduced in three divisions in an effort to reduce work-related accidents.

Energy and Environment

During 1979 the Company pursued an active program of energy management, particularly in the pulp and paper sector which is our major energy consumer.

At Harmac Pulp Division improvements to the hog fuel conveying and power boiler feeding systems and the recycling of bleach plant effluent resulted in savings of 40,000 barrels of oil per year equivalent. Energy conservation projects completed and/or initiated during 1979 at Alberni Pulp and Paper will achieve savings of more than 60,000 barrels of oil per year equivalent.

Considerable exploratory work was started during the year to enhance the use of hog fuel for energy generation and environmental improvement. At Alpulp a joint project with an equipment supplier is underway that will evaluate hog fuel as an alternative energy source for heating lime kilns. Joint studies undertaken by the Canadian White Pine and Powell River Divisions indicate that it is feasible to use power boiler flue gas as a heat source for reducing the moisture content of hog fuel. The studies also show the effectiveness of hog fuel drying equipment in removing flue gas particulate that would

otherwise be discharged into the atmosphere.

Installation of a new wood combustion system to reduce dependence on natural gas was completed at the Thunder Bay ASPENITE® panel plant.

Capital projects related to environmental improvements required expenditures in the order of \$9.5 million in 1979. The \$4.5 million diffuser outfall installation for the Powell River kraft mill effluent has been progressing steadily and should be ready for startup by the summer of 1980. At Harmac, installation of a \$3.6 million chemical spill protection system is scheduled for completion in the spring of 1980.

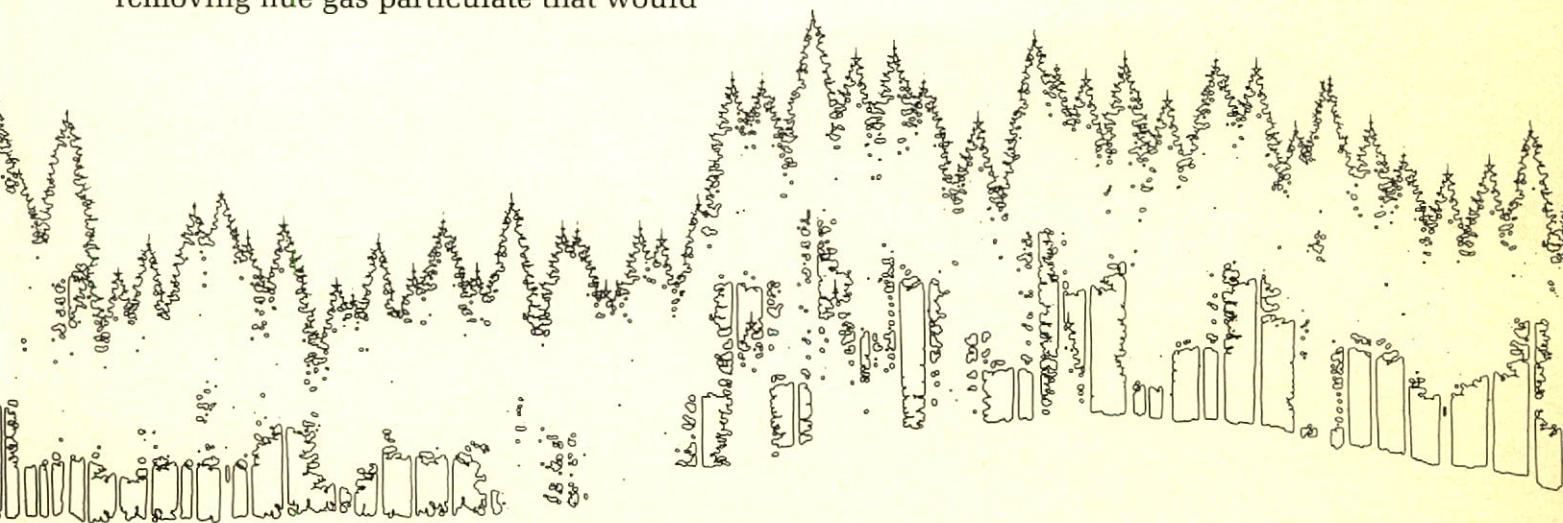
Research and Development

In 1979 the Company spent \$8.2 million on research and development, including \$.5 million funded by the Canadian government.

More than 80 projects were active in support of the Company's silviculture, logging and converting operations and in development of improved processes and products.

In the area of pulp and paper, R&D activities continue to be concentrated on the improved utilization of the Company's fibre resources and the reduction of process costs. The further development of the thermo-mechanical pulping process, which will supply over 30 percent of the mechanical pulp requirement of the Powell River newsprint mill, was continued. Several

(continued)





MB's Land Use Planning Advisory Team has been in existence less than six years but it is now an accepted part of the planning process in our logging divisions. Though the team has only seven full-time members, it is well known as "the LUPAT Guys" to loggers and foresters from the Queen Charlottes to southwestern Vancouver Island.

Working from offices on the top floor of the MB Building in Nanaimo are two fisheries biologists, two wildlife biologists, two soils specialists and one resource technician. They are advisers and problem solvers, a kind of advance warning system available to the divisions to help ensure that there will be no big surprises when logging begins in a watershed. In other words, a division won't build a costly road into an area only to discover that it contains an important salmon spawning stream, that it shelters large numbers of wildlife, or has unstable soils subject to mass failure. If any of these conditions do exist, LUPAT suggests ways of coping with them.

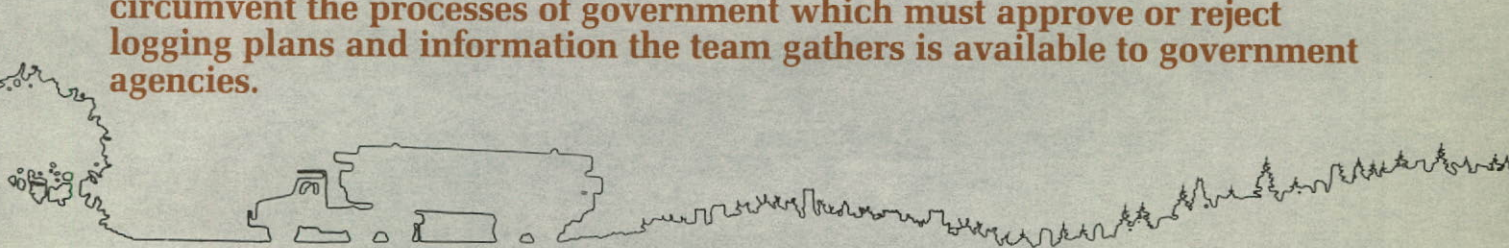
Bill Pollard is Senior Fisheries Biologist with LUPAT. He and his colleague, Peter Bruce, help to see that logging does not damage fish habitat or impair its capacity to maintain existing fish populations.

An important function of the two fisheries specialists, and the other members of the team, is working with a system called the "integrated resources folio". A folio consists of maps covering such features as topography, soils, fisheries, wildlife, recreation and forest cover. Take Security Creek watershed in the Queen Charlotte Islands. A report by Bruce and Pollard notes that the mainstem of Security Creek is used for spawning throughout its length by coho. It identifies side channel rearing areas. It says that pink and chum salmon spawn in two reaches of the stream while sea run cutthroat and Dolly Varden may use the lower reaches for spawning and rearing. It says that sediment and debris from logging "would have a direct impact on anadromous fish production".

Folios, however, are just one part of LUPAT's job. The team is also available to assist the divisions with day-to-day operational problems. Many questions come up: Is this a good rearing area for fish? Are these little channels that go off the river important to fish?

LUPAT also reviews the five-year logging plans for most of the woodlands divisions. They do special projects such as those related to streambank and channel stability, terrain stability, winter deer use, fish rearing and fish identification.

Whether it's forest management planning or actual logging, the work can go ahead, sure in the knowledge that fish, wildlife and timber values have all been considered as a single resource package. LUPAT is an internal advisory group. However, the advice provided is not intended to circumvent the processes of government which must approve or reject logging plans and information the team gathers is available to government agencies.





innovative process modifications were successfully applied by that mill.

A research program to define the impact of wood species mix, chip quality and process conditions on the quality of market pulp was expanded. This work will facilitate the control of market pulp quality as assessed from an end-use standpoint.

New instrumentation was introduced to measure, and thereby control more effectively, some of the more subtle paper properties, such as surface strength, which have become increasingly important in modern pressroom operation.

MB's research capability in lumber manufacturing was reinforced. Significant progress was made towards the reduction of lumber thickness variation in sawing, and in the development of improved methods of non-destructive testing of lumber quality.

R&D contributions to the Company's panelboard products included the successful introduction of lower cost liquid resins to replace some of the powdered resins used at the Hudson Bay ASPENITE® panel plant.

Investments

GEC

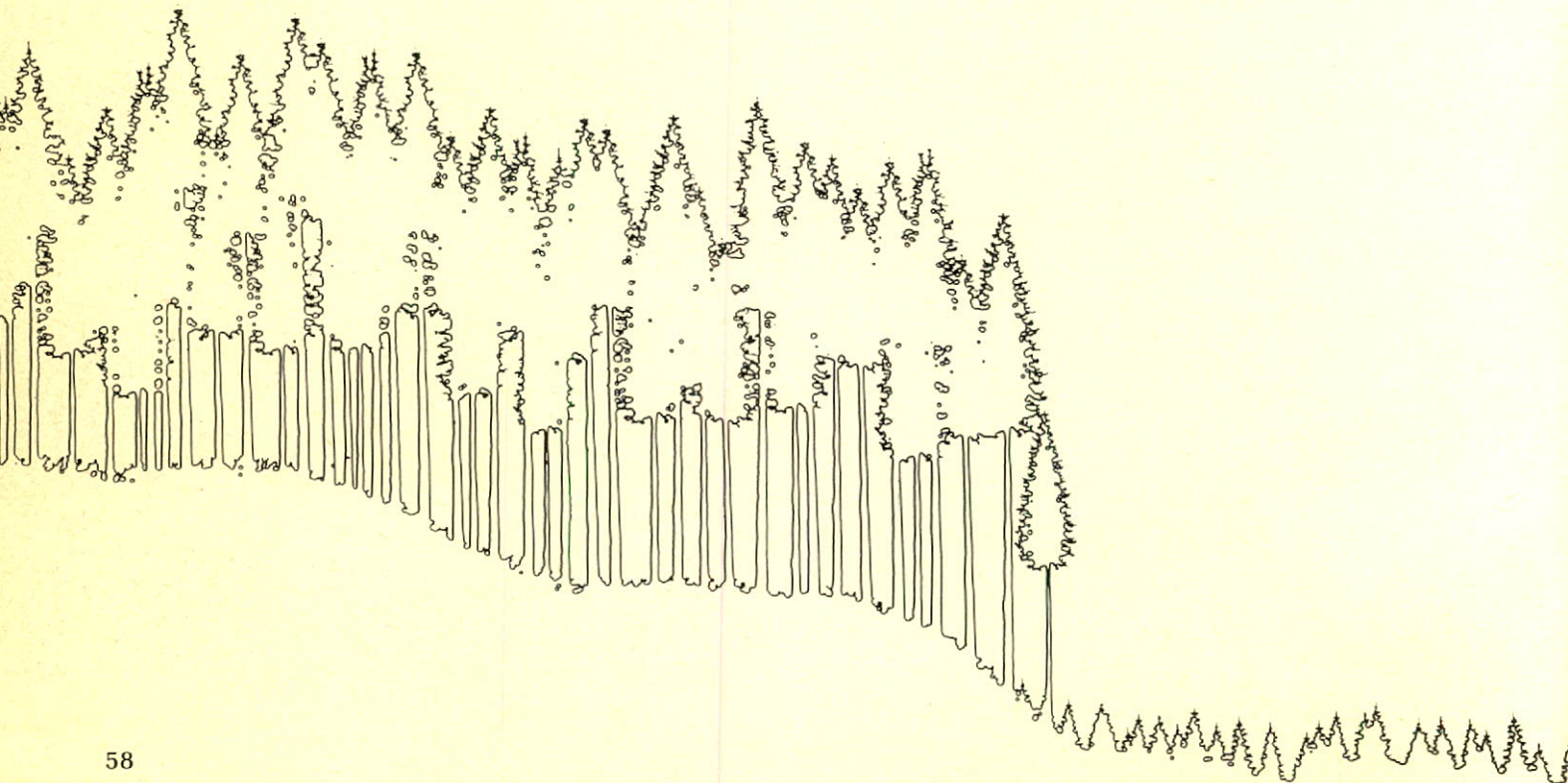
The Company has announced its withdrawal from participation in Groupement Européen de la Cellulose (GEC), which owns La Cellulose d'Aquitaine S.A., a European pulp producer. Our investment has been completely written off and the withdrawal will have no effect on MB's earnings or financial position.

KNP

Koninklijke Nederlandse Papierfabrieken N.V. (KNP) is MacMillan Bloedel's largest equity investment. The Netherlands-based paper and packaging company, in which MB has a 43.8 percent interest, had improved sales and volumes in 1979. However, the future of Okto B.V., a company producing testliner and folding boxboard, in which KNP has a 51 percent participation, is uncertain. Price levels are currently insufficient to warrant continued operations at Okto and KNP has declared that it will not provide further financing.

Celupal

The Company and KNP each have a 37.5 percent shareholding in Celupal S.A., a Spanish paper producer. Celupal realized increased volume in 1979 as the Spanish paper market was strong and earnings for the year were double those of 1978.



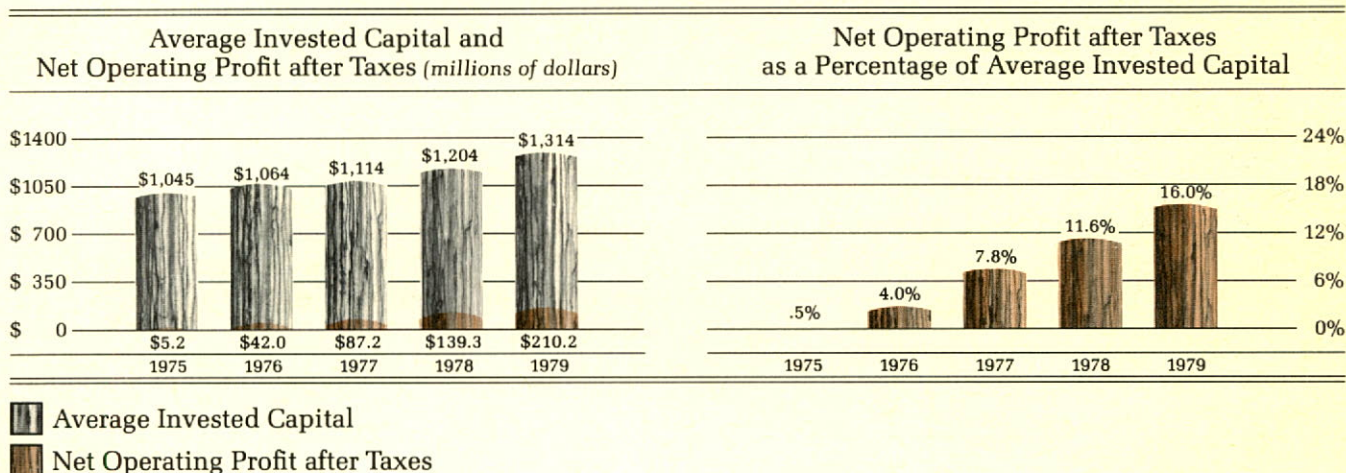
Financial Overview

Financial Performance

Our objective is to increase the value of our shareholders' investment in the Company by improving the rate of return earned on the capital invested in our various lines of business. In order to improve the return on invested capital, we must increase the return on our existing asset base, expand in those areas of our business which will provide the highest returns, and, dispose of facilities or other assets which do not provide satisfactory returns or complement the corporate strategy. Capital funds are allocated to new investments on the basis of their expected return on invested capital, which measures the value of

the incremental after-tax cash flows generated from each new investment project.

Return on invested capital also provides an excellent measure of corporate performance. For this purpose, return on invested capital is defined as the percentage of Net Operating Profit After Taxes* to average Invested Capital.** By measuring returns before financing charges, we are provided with a consistent measure of operating profitability which is independent of changes in the Company's financial structure or in interest rates and other costs of capital. The chart below depicts the Company's overall performance achieved during the past five years with respect to return on invested capital.



* Net Operating Profit After Taxes is the sum of:
(1) net earnings before extraordinary items and minority interests
(2) the change in deferred income taxes
(3) interest expense on an after-tax basis.

** Invested Capital is the sum of:
(1) interest bearing debt (short term and long term)
(2) deferred income taxes
(3) minority interests
(4) preferred share capital
(5) common equity capital.

(continued)



Jerry Peterson, Lorne Armstrong, Bill Mathieson and their associates in Personnel Planning & Development have worked with MB divisions to design an approach to improved effectiveness that is probably unique in the industry, one based on a business point of view and on the employees' point of view.

Jerry explains that "from a business point of view we're looking for productivity improvement; from an employee point of view we're looking for job satisfaction". The two aspects of the program obviously complement one another. They reach into such areas as training, communications, troubleshooting, counselling, organization and systems analysis. The idea is to involve employees directly in identifying problems affecting their own jobs, to provide training and to enlist their help in finding solutions. The responsibility for these programs lies with divisional management and employees; P.P. & D. helps them clarify problems and identify priorities. One approach some employees and managers have found successful is "action teams" or problem solvers made up of machine operators, tradesmen and supervisors.

The concept has been particularly effective at Alberni Plywood Division where, in preparation for start-up of the modernized mill, five start-up training teams were formed. Employees on the teams were trained in training techniques and they then instructed their fellow employees in operation of the new equipment.

The Alply lay-up line is a good example. One operator learns how to lay plywood cores on what is, for MB people, an unfamiliar piece of equipment. The lathe team, similarly, played a key role in Alply start-up.

At Somass, the employees were affected by other problems than mill start-up but they, too, were approached by the action team method. The process is being successfully repeated at Harmac Woodrooms 3 and 4, and at other divisions. The P.P. & D. assistance is available to all of them.

As Jerry Peterson observes, "the employee who gets satisfaction and a feeling of accomplishment from his job because of involvement in work decisions, opportunities to learn new skills and who knows that his working conditions are safe, is likely to be the most productive employee."

Safety improvements at Woodroom 4 are being handled by a project team which includes a production foreman and an hourly paid employee elected by his crew. In cases where employees have problems of a personal nature, including alcohol or drug abuse, P.P. & D. has on its staff a qualified counsellor who can help.

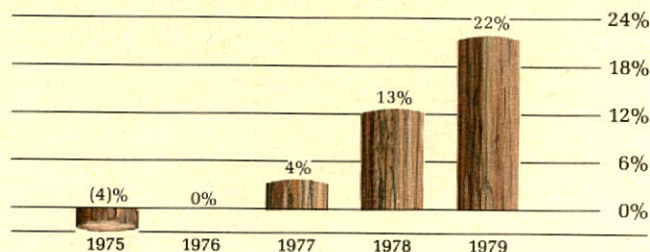
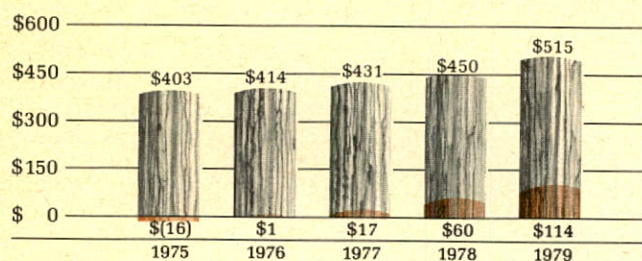


Average Invested Capital and Net Operating Profit after Taxes by Business Segment

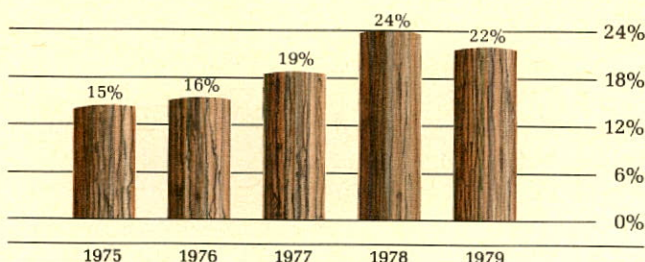
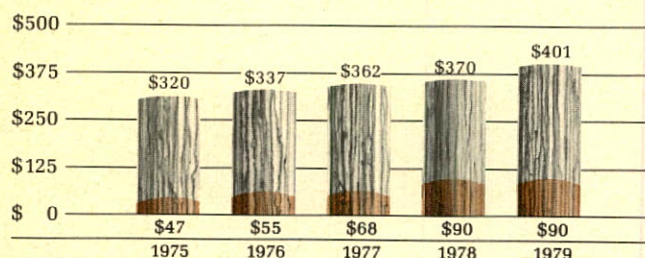
Average Invested Capital and Net Operating Profit
after Taxes (millions of dollars)

Net Operating Profit after Taxes
as a Percentage of Average Invested Capital

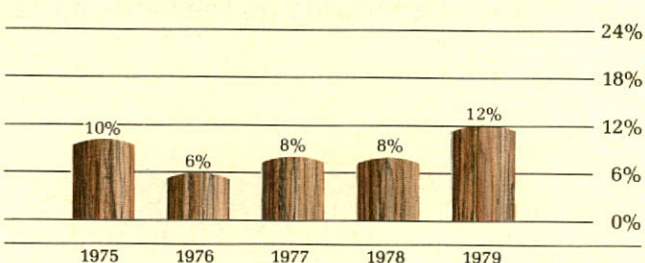
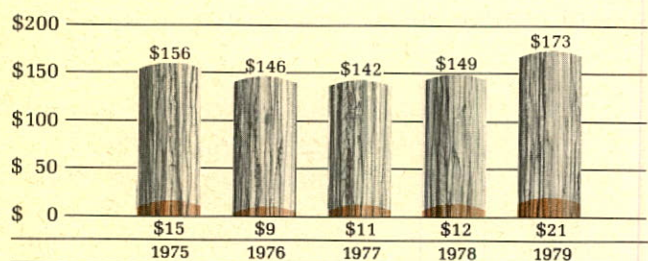
Raw Materials and Building Materials



Pulp and Paper



Linerboard and Packaging



Average Invested Capital (excluding intangible assets)

Net Operating Profit after Taxes (excluding amortization of intangible assets)

During the base year, 1975, return on invested capital was adversely impacted by the combination of weak markets for all products, major losses from our ocean transportation

operations, and the worst strike in our corporate history. During the last five years the return on invested capital has continually improved, reflecting primarily the strengthening

of most market sectors and the favourable benefit of a weaker Canadian dollar relative to other world currencies, principally the U.S. dollar. These improved results also reflect the actions we have taken to streamline the organization, to improve cost-effectiveness, and to improve the planning process. Losses from transportation operations have abated considerably and should be eliminated by the early 1980's. Although forest products markets will always fluctuate in response to changes in economic activity, the implementation of the five-year capital expenditure plan will significantly improve the Company's international competitive position, thereby contributing to higher and more stable returns for shareholders.

Net operating profit after taxes of each business segment as a percentage of the capital invested in the various operating segments also serves as a useful measure of financial performance. Because of the integrated nature of the Company's operations it is very difficult to allocate with complete accuracy the corporate income tax charge between the various business segments. Accordingly, in the charts shown opposite, corporate income taxes have been allocated arbitrarily on the basis of each segment's contributions to the before-tax operating results of the Company.

Capital Expenditure Program

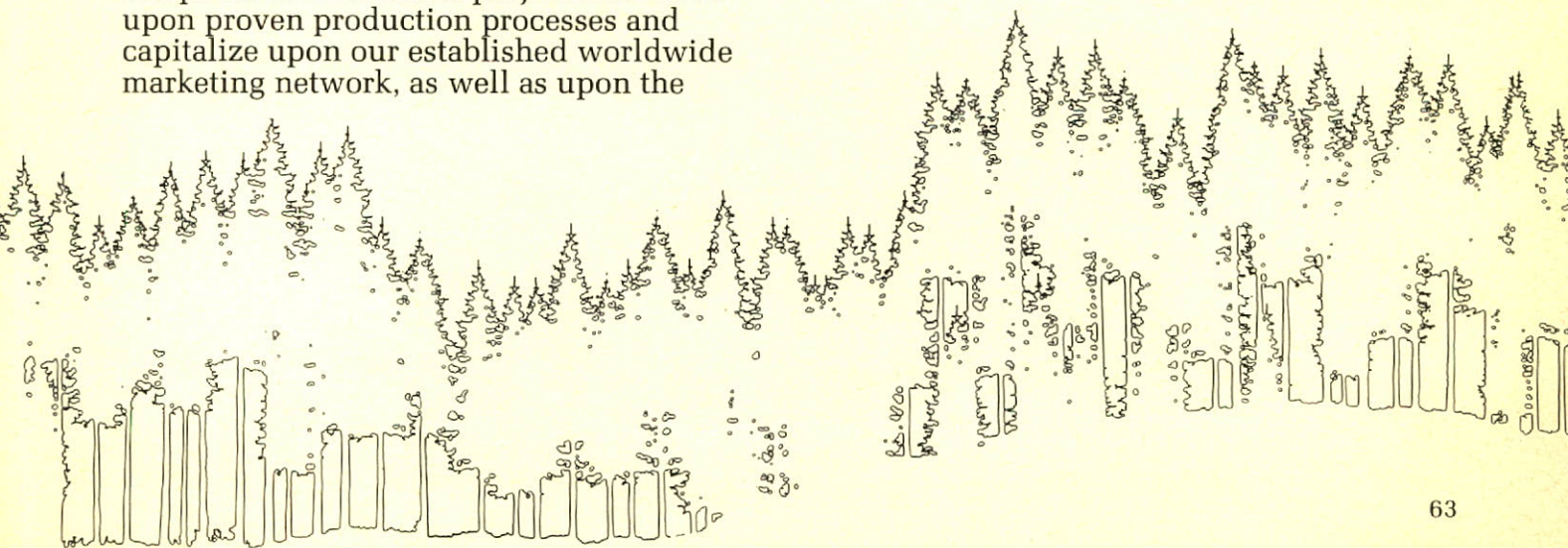
In September, 1979, the Company announced a \$1.5 billion capital expenditure program for the period 1979 to 1983. The implementation of this plan is very important in achieving the Company's financial objective of maximizing the return from our various lines of business, thereby improving the overall returns to our shareholders. Virtually all of our planned investment projects are based upon proven production processes and capitalize upon our established worldwide marketing network, as well as upon the

human talents presently available throughout the Company. Accordingly, we believe that these projects will provide excellent returns on investment and that the business risks are low.

We categorize \$533 million or 35% of the capital plan as expenditures which are necessary to maintain our existing business and facilities in good order and to keep them safe and environmentally sound. Of this amount, \$73 million has been earmarked for safety and environmental controls and \$220 million has been allocated to maintain our timberlands and logging operations, mostly to replace and modernize our logging equipment and to construct main logging roads. Virtually all the remaining \$240 million of necessary expenditures will be spent on production facilities to ensure that we retain a strong cost-competitive position in world markets.

The other 65% or \$1,010 million of expenditures in the \$1.5 billion capital program are categorized as discretionary investments to improve productivity and expand capacity. Our capital budgeting procedures ensure that each discretionary expenditure is approved only when its discounted cash flow rate of return, based upon conservative forecasts of its net after-tax cash flows, exceeds the minimum hurdle rate established for that particular type of project. For a normal project, the Company requires a return on investment of at least 14% after tax, which reflects the mix and nature of our lines of business, the anticipated degree of financial leverage, and the prevailing component costs of debt and equity capital. In fact, many of our discretionary projects provide returns well in

(continued)



ATION TESTING
(NON-DESTRUCTIVE)



Some of the more important advances in the application of computer process controls in sawmilling were made only in the seventies. As a field of research it is not nearly as sophisticated as process controls in the pulp and paper industry. Every log that goes into a sawmill is different and controls are more difficult to apply.

Jan E. Aune, who is head of the Sawmilling Section at MB Research, works closely with the lumber manufacturing group in getting maximum value from logs delivered to MB sawmills. But in utilizing computer analysis techniques, he and his research team are having to write the textbooks pretty much as they go along. He expects there will be new and exciting process control developments in the years ahead and MB Research will play a part in evaluating the latest enhancements to scanners and computer programs. An example is the prospect of automatic detection of surface and interior defects in logs and lumber which will enable MB to manufacture for maximum value end products in every sawmill.

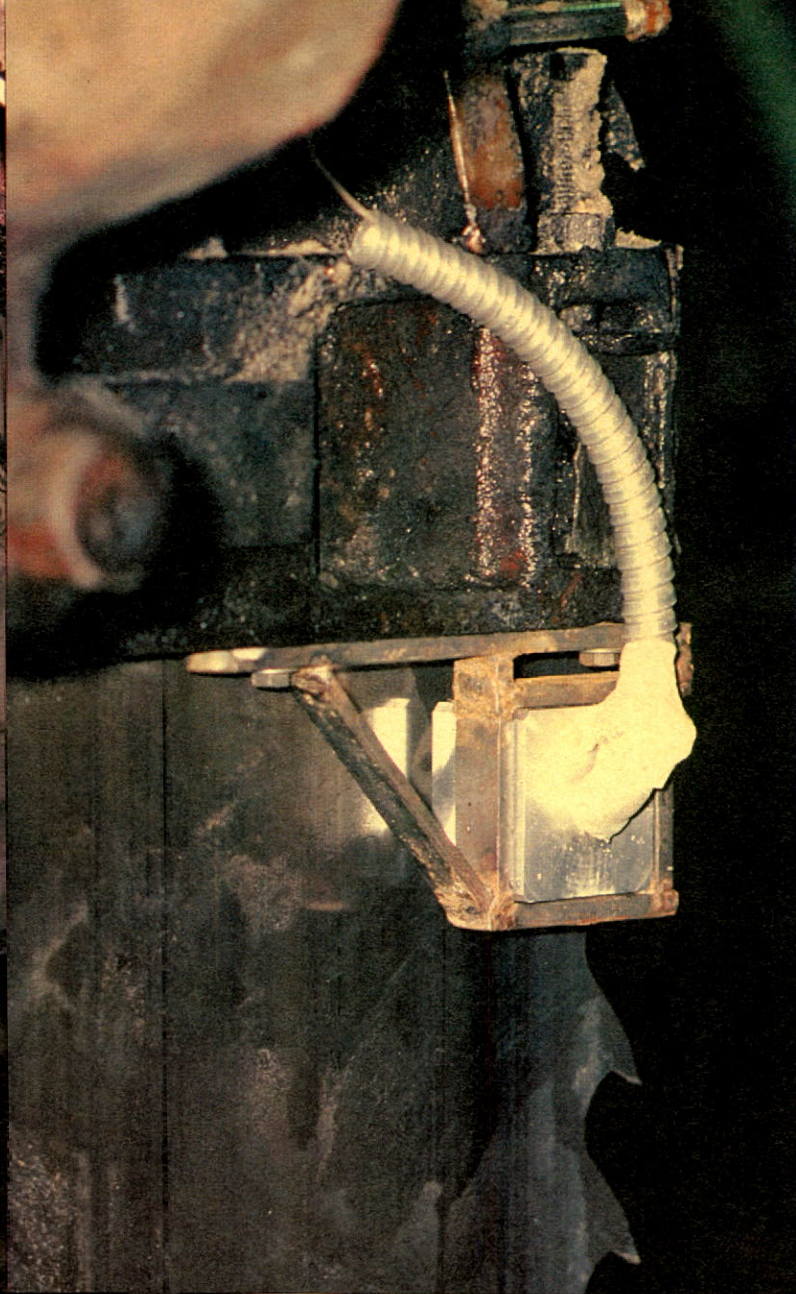
Sawmilling research is very much a team effort and Jan points out that "I am fortunate in being able to draw on many years of experience in the Building Materials Group and in MB Research." He emphasizes that much of the pioneering work on cutting pattern analysis was done by Randy Young at Somass Division.

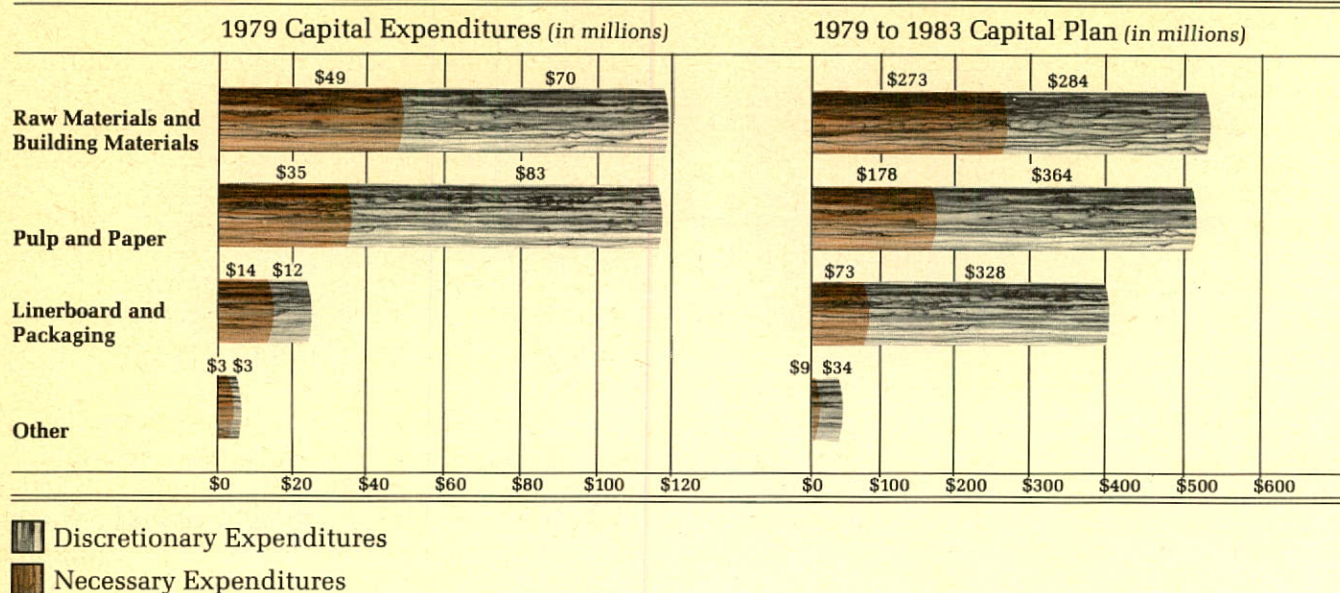
Jan points out that products such as finger-jointed and machine stress rated (MSR) lumber add value to the forest resource. Machine Stress Rated Lumber is assigned grades according to its strength characteristics in a continuous testing machine. It has higher allowable unit stresses and therefore commands a premium price in the market. At MB Research, Jan and his team are investigating the potential increased profit from dimension lumber. Early results indicate that a substantial portion of our dimension lumber may yield MSR material.

An important project going ahead just now is the application of a sensor and associated electronics to describe the movements of the bandsaw blade during sawing. The sawblade movements have been related to surface variations in the sawn lumber and a procedure to control excessive carriage feed speed has been developed. The sensor, in turn, has been connected to warning lights in the sawyer's cabin and in the filing room at Powell River Woodroom where this study is being conducted. The signal lights indicate when unacceptable sawing variations occur and warn the sawyer and the filer that corrective measures should be taken.

The sawing variation project demonstrates the basic philosophy of MB Research: Get the ideas out of the laboratory and into the mills in the shortest time possible.





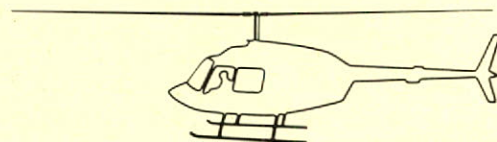


excess of the minimum rate. For those projects whose returns are less certain than the norm, we require a premium above the 14% minimum rate of return.

During 1979, the Company's capital expenditures totalled \$269 million, of which discretionary expenditures accounted for \$168 million. These discretionary expenditures, together with others made in early 1980, include several key investments which are expected to generate cash flow this year. These exclude the packaging operations we recently acquired in Eastern Canada at a total cost of about \$45 million (including working capital), but include a new sawmill and the complete modernization of our plywood mill at Port Alberni, B.C. at a combined cost of about \$80 million. During 1979 substantial

expenditures were also made towards our new newsprint machine at Powell River, B.C., which we expect to be in production by early 1981.

During 1979 the Company approved \$191 million of new capital projects, of which \$90 million were classified as necessary expenditures and \$101 million as discretionary expenditures. The weighted average expected rate of return on discretionary investments approved in 1979 was in excess of 20% after tax.



Capital Structure

It is MacMillan Bloedel's objective to maintain its strong financial position and to retain adequate financing flexibility. In order to allow the Company to respond to opportunities and challenges as they occur, our capital structure policies have been designed primarily to provide the Company with ready access to the funds it needs in order to fully implement its operating and capital spending plans.

MacMillan Bloedel presently has a well-balanced capital structure. We will continue to take advantage of the relatively low after tax cost of debt and expect to maintain a target ratio of debt to total capital of between 35 to 40%, on average. Over the last four years the Company has significantly reduced the ratio of debt to invested capital, from a high of 38% at year-end 1975 to 30% in 1979, thereby providing the Company with substantial unutilized debt capacity. For the purpose of calculating our target debt ratio, we define debt to include all long term and short term interest-bearing debt, capitalized leases, and term preferred shares within five years of maturity. Total invested capital is defined as the sum of interest-bearing debt, deferred income taxes, minority interests, and preferred and Common shareholders' equity. By maintaining this target capital structure and adhering to other financial guidelines, we expect to maintain our single A bond rating.

During 1979 we took a number of steps to strengthen our financial position and broaden our access to world financial markets, including listing the Company's Common shares on the New York Stock Exchange. In addition, we established contractual lines of credit totalling \$291 million for terms of ten to fifteen years and a further \$156 million of short term credit agreements. These long term and short term lines of credit will provide the Company with the flexibility to select the appropriate time to borrow on the long term bond market.

Cash Flow

During 1979, funds generated from the Company's operations reached a record level of \$257.6 million, which is equivalent to \$12.11 per Common share. An additional \$96.4 million arose from the disposal of various fixed assets and investments, including the Company's 18.9% interest in Domtar Inc. which was sold on July 13, 1979 for \$75.6 million. In total, the Company generated \$358.6 million of working capital in 1979.

Of this amount, \$269 million was added to property, plant and equipment as part of our capital expenditure program. \$23 million was used to retire long term debt and a further \$42.6 million for the payment of dividends to Common and preferred shareholders.

We intend to maintain our policy of increasing our regular quarterly dividend as we achieve sustainable improvement in the fundamental earning power of the Company. The regular quarterly dividend rate in effect at this time is 35 cents per share. We also intend to continue our policy of considering a special year-end extra dividend whenever an improvement in profits is contributed to by circumstances (such as foreign exchange factors) that do not necessarily reflect a change in the Company's fundamental earning power. Such was the case in 1978 and 1979 when we paid out extra dividends of 25 cents per share and 45 cents per share, respectively. Total dividends declared and paid during 1979 amounted to \$1.75 per share.

(continued)



Innovation that pays a return on investment in two years is the kind of productivity improvement that industrial managers look for. Ed Zmijewski, who is production manager at MB's Union, New Jersey, corrugated box plant, saw just that opportunity when he planned the industry's first commercial installation of an ultra violet ink curing system on kraft board.

Since the system went into operation in 1977, Eddie "Z" has achieved improved production speeds and better materials flow, plus return on investment. More important, Plant Manager Farrell Lapres reports that customers are enthusiastic about the quality of ultra violet ink printing now available on display material.

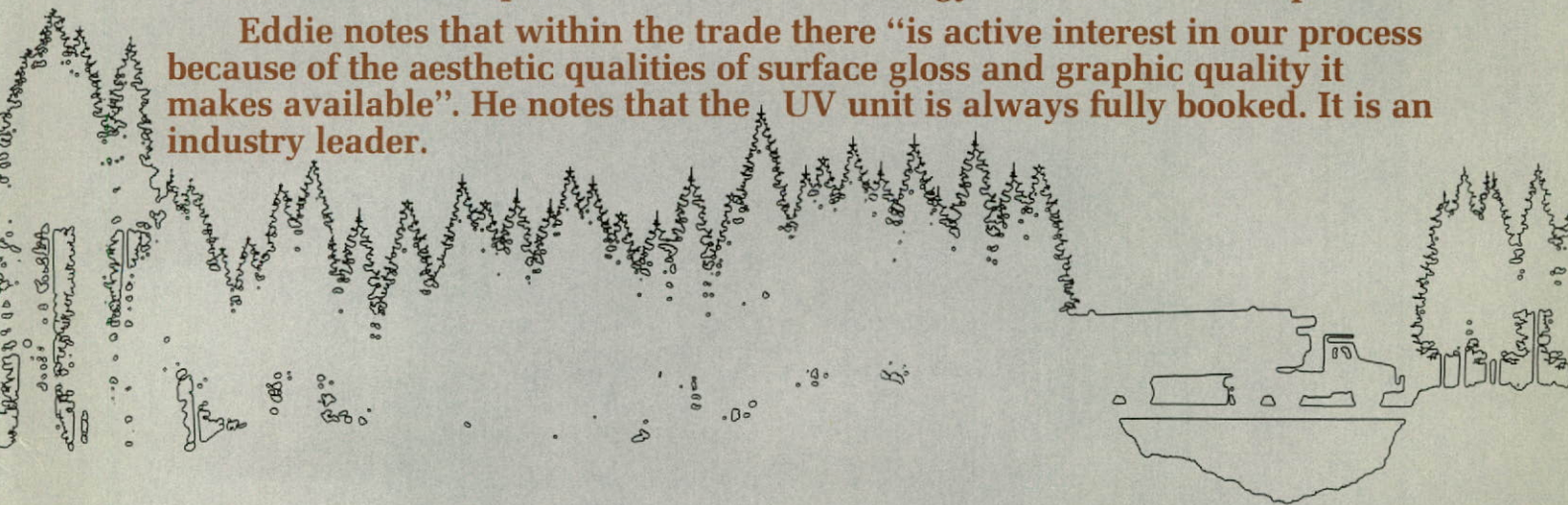
The UV curing unit, pride of the Union operation, is essentially an instant drying system that is an integral part of the printing press turning out advertising displays. A special ink is used which is highly reactive to ultra violet energy. When the ink on the carton or display is exposed to ultra violet light it is transformed almost instantly from a liquid to a solid and the drying time required in conventional systems is thus eliminated.

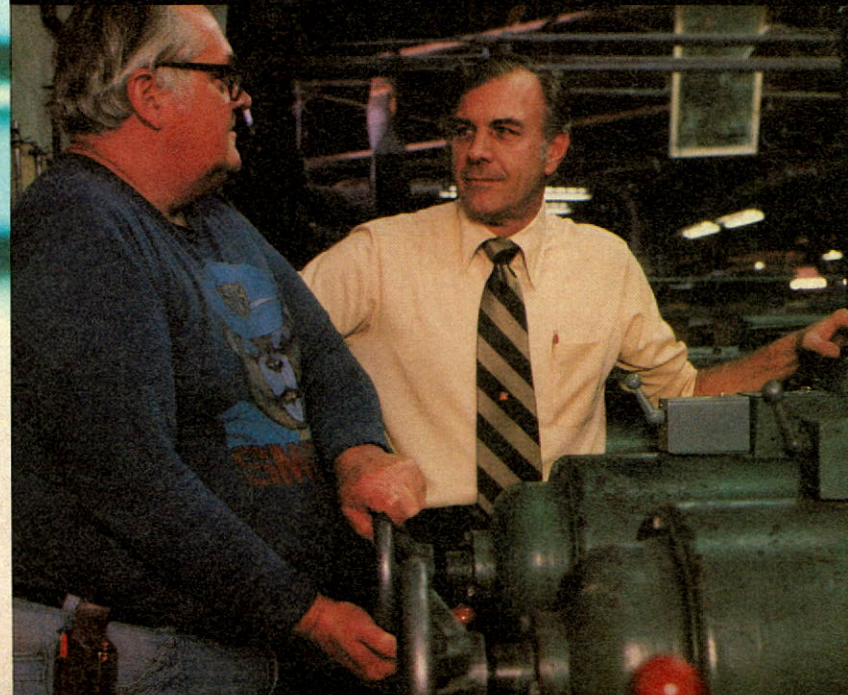
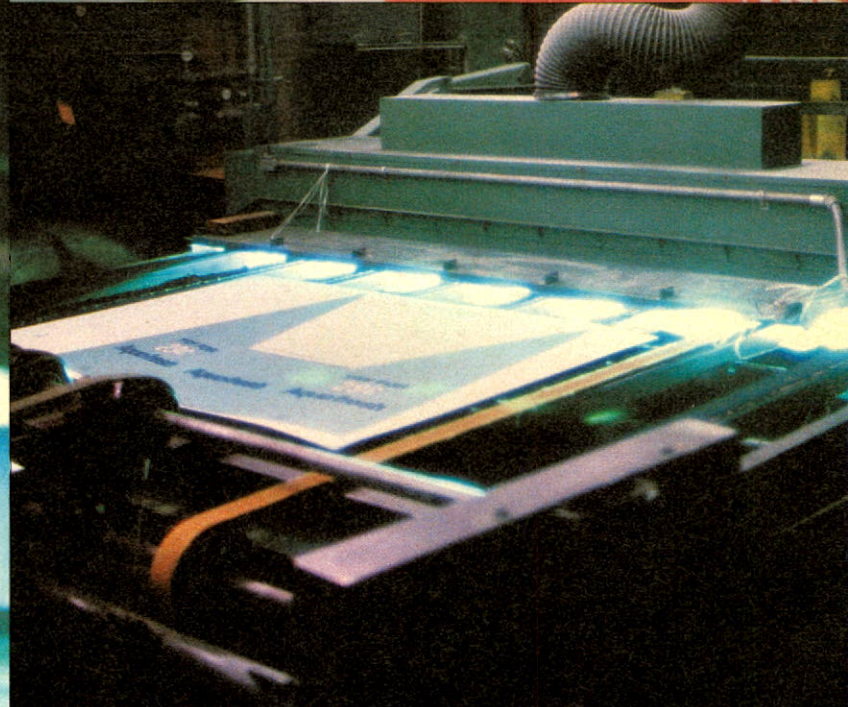
This in itself represents a significant improvement in plant efficiency but MB at Union has found other advantages. For example, UV inks contain no solvents so they do not pollute and no anti-pollution equipment is needed. Since they dry instantly, spray powder is eliminated from sheet-fed press operations. Post curing is eliminated from the printing process so that plant floor space requirements are reduced. Furthermore, UV ink is grease and scuff resistant.

MB is well pleased with this pioneering venture into UV ink curing, especially since one of its displays won the "best of show" award at the national exhibition of the Point of Purchase Advertising Institute in New York. Our capacity for producing complex display materials at the plant has been doubled by this innovation alone.

Eddie "Z" says, "we are exploring the possibility of increasing ultra violet output on existing hardware to put us in a position to cure ultra violet material at improved operating speeds." He is also looking at new hardware that incorporates the latest technology and better UV lamps.

Eddie notes that within the trade there "is active interest in our process because of the aesthetic qualities of surface gloss and graphic quality it makes available". He notes that the UV unit is always fully booked. It is an industry leader.



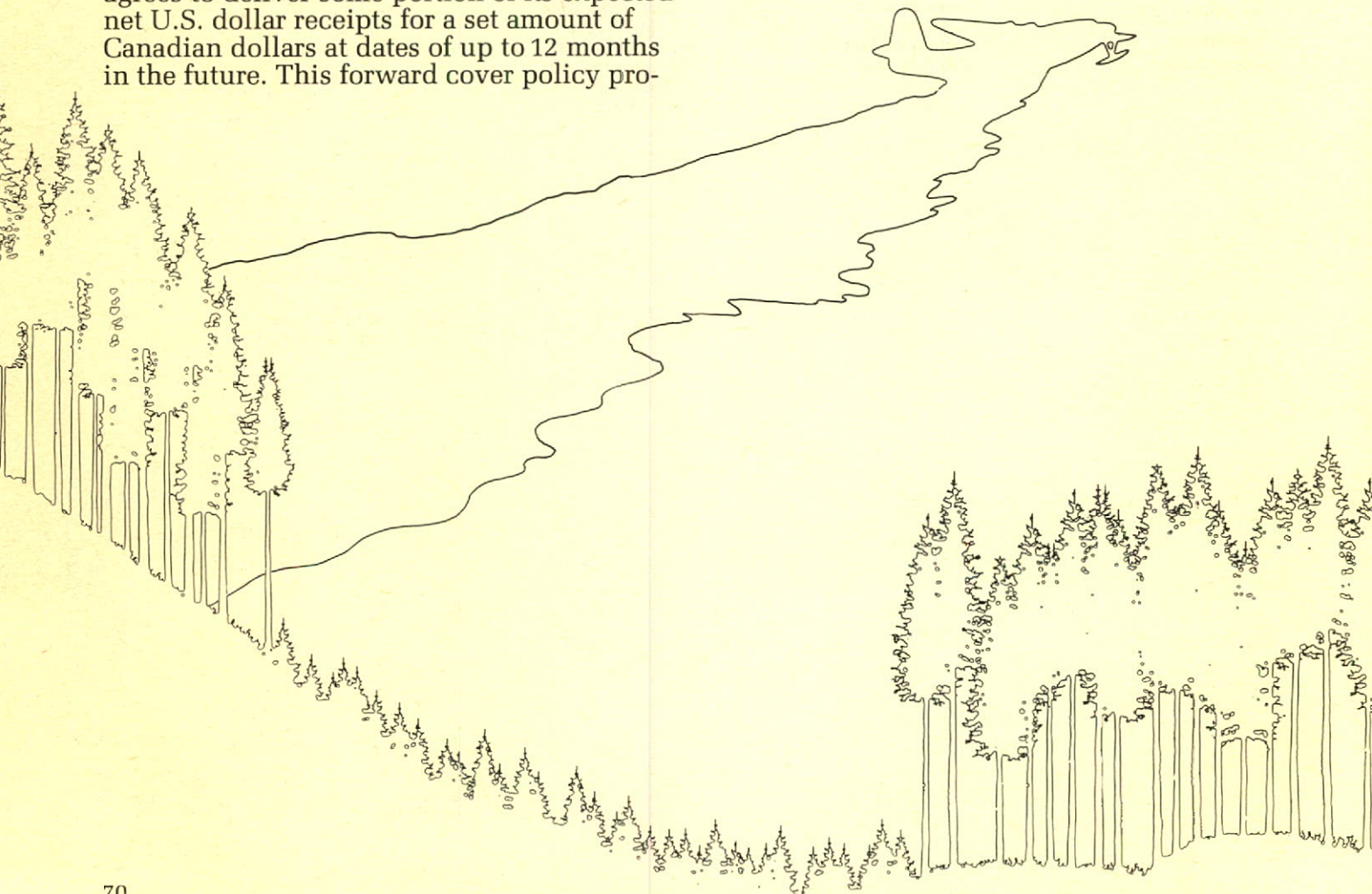


Foreign Exchange

Because of the international scope of MacMillan Bloedel's marketing activities, a very substantial portion of the Company's sales are denominated in United States dollars. During 1979, the value of the Canadian dollar, measured in terms of the U.S. dollar fluctuated between U.S. \$.88 (U.S. dollar equivalent to \$1.14 Canadian) and U.S. \$.83 (U.S. dollar equivalent to \$1.20 Canadian) compared to the long term historical average of approximately U.S. \$.95 (U.S. dollar equivalent to \$1.05 Canadian). The weakness of the Canadian dollar has had a significant positive impact upon MacMillan Bloedel's revenues, earnings and cash flow. Apart from the effect of translating various balance sheet items a 1% change in the Canadian dollar exchange rate relative to the U.S. dollar impacts the after tax earnings of the Company by approximately \$3.8 million or 18 cents per Common share.

The Company follows a policy of entering into foreign exchange contracts whereby it agrees to deliver some portion of its expected net U.S. dollar receipts for a set amount of Canadian dollars at dates of up to 12 months in the future. This forward cover policy pro-

vides the Company with more certainty in financial planning. By entering into these contracts the Company eliminates the risk of the U.S. dollar weakening between the date of purchasing the contract and actual conversion and conversely foregoes any gain which might arise from a strengthening of the U.S. dollar. During 1979 the Company's U.S. dollars were converted into Canadian dollars at an average rate of \$1.16 Canadian dollars per U.S. dollar as compared to \$1.11 during 1978. The result of changes in U.S. and Canadian dollar exchange rate, combined with the modest impact of other currency fluctuations, improved 1979 earnings relative to 1978, by about \$4.3 million or \$.20 per Common share. As at December 31, 1979 the Company had sold forward U.S. \$425 million at an average rate of \$1.17 Canadian per U.S. dollar. These forward sales represent approximately three-quarters of our anticipated net U.S. receipts during 1980.



MacMillan Bloedel Limited Head Office: 1075 West Georgia Street, Vancouver, B.C. V6E 3R9

Operations, Sales Offices and Distribution Centres

Woodlands Divisions, B.C.

Cameron
Chemainus
Estevan
Eve River
Franklin River
Hecate
Kelsey Bay
Kennedy Lake
Menzies Bay
Northwest Bay
Port McNeill
Queen Charlotte
Sarita
Shawnigan
Sproat Lake
Squamish
Stillwater

Wood Preserving and Pole Manufacturing New Westminster, B.C.

Lumber

Chemainus, B.C.
Harmac, B.C.
New Westminster, B.C.
Pine Hill, Alabama
Port Alberni, B.C.
Powell River, B.C.
Vancouver, B.C.

Plywood

Nipigon, Ont.
Pine Hill, Alabama
Port Alberni, B.C.
Vancouver, B.C.

ASPENITE* Panels

Hudson Bay, Sask.
Thunder Bay, Ont.

*Registered Trade Mark

Particleboard

Pine Hill, Alabama
Vancouver, B.C.

Wood Products Specialties

Canada

New Westminster, B.C.
Lumber Specialties
Port Alberni, B.C.
Western red cedar
Shingles and Shakes
Lumber Specialties
Sturgeon Falls, Ont.
Hardboard siding
Toronto, Ont.
Mouldings
Vancouver, B.C.
Panelboard Specialties
Pres-to-logs

United States

Edenton, N.C.
Wood Fencing
Lumber Specialties

Newsprint and Groundwood Papers

Port Alberni, B.C.
Powell River, B.C.
Saint John, N.B.

Pulp

Harmac, B.C.
Bleached Sulphate
Semi-bleached Sulphate
Port Alberni, B.C.
Unbleached Sulphate
Powell River, B.C.
Semi-bleached Sulphate

Other Paper and Board Products

New Westminster, B.C.
Fine Papers
Pine Hill, Alabama
Linerboard
Port Alberni, B.C.
Linerboard
Sturgeon Falls, Ont.
Corrugated Medium
Bellevue, Washington
Secondary Fibres

Corrugated Containers

Canada

+ Montreal, Que.
+ Guelph, Ont.
+ London, Ont.
Pembroke, Ont.
Rexdale, Ont.
+ Toronto, Ont.
Winnipeg, Man.
Regina, Sask.
Edmonton, Alta.
Calgary, Alta.
New Westminster, B.C.

United Kingdom

Hatfield, Herts.
Irvine, Ayr.
Nelson, Lancs.
Southall, Hanwell
West Auckland, Co. Durham
Weston-super-Mare, Avon

United States

Elmira, N.Y.
Jersey City, N.J.
Union, N.J.
Odenton, Md.
Cleveland, Oh.
+ Marion, In.
Chicago, Il.
Magnolia, Ms.
Little Rock, Ar.
Houston, Tx.
+ Carson City, Ca.

Bag and Specialties

Burnaby, B.C.
Kraft Paper Bags
Notion and Millinery Bags
Wrapping Papers

Plastic Products

High Wycombe, England

Sales Offices and Distribution Centres Building Materials

Canada

MacMillan Bloedel Building
Materials
Dartmouth, N.S.
Moncton, N.B.
Drummondville, Que.
Montreal, Que.
Noranda, Que.
Quebec City, Que.
Rimouski, Que.
Belleville, Ont.
Chatham, Ont.
Fonthill, Ont.
Kitchener, Ont.
London, Ont.
North Bay, Ont.
Orillia, Ont.
Ottawa, Ont.
Owen Sound, Ont.
Sault Ste. Marie, Ont.
Sudbury, Ont.
Thunder Bay, Ont.
Timmins, Ont.
Toronto, Ont.
Winnipeg, Man.
Regina, Sask.
Saskatoon, Sask.
Calgary, Alta.
Edmonton, Alta.
Lethbridge, Alta.
+ Chemainus, B.C.
Port Alberni, B.C.
Vancouver, B.C.
MacMillan Jardine
(North America) Limited
Vancouver, B.C.
Hardwoods

United States

MacMillan Bloedel
Building Materials
Walpole, Ma.
New Brunswick, N.J.
Camden, N.J.
Ashtabula, Oh.
Baltimore, Md.
Fort Lauderdale, Fl.
Jacksonville, Fl.
Tampa, Fl.
West Hartford, Ct.
Atlanta, Ga.
+ Dallas, Tx.
Houston, Tx.
Portland, Or.
Robert S. Osgood, Inc.
Los Angeles, Ca.
Hardwoods

United Kingdom

MacMillan Bloedel
Meyer Limited
London
MacMillan Bloedel
Panelboard Agencies Limited
London

Australia

MacMillan Bloedel Pty.
Limited
Sydney, Melbourne

Orient

MacMillan Jardine Limited
Hong Kong, Tokyo

Pulp and Paper

Australia

MacMillan Bloedel Pty.
Limited
Sydney, Melbourne

Canada

MacMillan Bloedel Limited
Vancouver, B.C.

Orient

MacMillan Jardine Limited
Hong Kong, Tokyo, Singapore,
Malaysia and Philippines

United Kingdom and Europe

MacMillan Bloedel
Europe B.V.
Paris, Antwerp
MacMillan Bloedel Pulp and
Paper Sales Limited
London

United States

MacMillan Bloedel Inc.
Stamford, Ct.
Powell River-Alberni Sales
Corporation
Seattle, Wa., San Bruno,
Pasadena, Ca.
Star Terminal Company,
Incorporated
San Francisco,
Long Beach, Ca.

+ Acquired or opened in 1980

Sold or closed in 1980

Directors

Anson Brooks
Seattle, Washington, U.S.A.
Chairman, Powell River-Alberni
Sales Corporation

G. H. D. Hobbs
Vancouver, British Columbia
Chairman, Cominco Ltd.

B. I. Howe
Vancouver, British Columbia
Executive Vice-President,
Operations,
MacMillan Bloedel Limited

J. N. Hyland
Vancouver, British Columbia
President,
Granduc Mines, Limited

C. C. Knudsen
Vancouver, British Columbia
President and
Chief Executive Officer,
MacMillan Bloedel Limited

E. C. Phillips
Vancouver, British Columbia
President and
Chief Executive Officer,
Westcoast Transmission
Company Limited

J. E. Richardson
Vancouver, British Columbia
Chairman of the Board,
MacMillan Bloedel Limited

I. D. Sinclair, Q.C.
Montreal, Quebec
Chairman and
Chief Executive Officer,
Canadian Pacific Limited

G. T. Southam
Vancouver, British Columbia
President,
Gordco Investments Limited

W. J. Stenason
Montreal, Quebec
President, Canadian Pacific
Investments Limited

J. A. Taylor
London, Ontario
Honorary Chairman, Canada Trust

E. ten Duis
Maastricht, The Netherlands
Chairman of the Board of
Management, Koninklijke
Nederlandse Papierfabrieken,
N.V.

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P.C., Q.C.**
Toronto, Ontario
Partner, McMillan, Binch

J. P. R. Wadsworth
Toronto, Ontario
Chairman, Confederation Life
Insurance Company

C. B. Wright
Seattle, Washington, U.S.A.
Private Investor

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(Chairman)

G. H. D. Hobbs

B. I. Howe

J. N. Hyland

C. C. Knudsen

E. C. Phillips

J. A. Taylor

C. B. Wright

Compensation Committee

J. N. Hyland
(Chairman)

G. H. D. Hobbs

J. A. Taylor

J. P. R. Wadsworth

C. B. Wright

Nominating Committee

G. H. D. Hobbs
(Chairman)

J. N. Hyland

E. C. Phillips

I. D. Sinclair

G. T. Southam

W. J. Stenason

J. A. Taylor

E. ten Duis

J. N. Turner

J. P. R. Wadsworth

C. B. Wright

Honorary Director

**The Honourable
J. V. Clyne, C.C.,
K.St.J.**
Vancouver, British Columbia

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Chairman of the Board

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President and
Chief Executive Officer

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Executive Vice-President,
Operations

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Senior Vice-President,
Research and Development

D. H. Fricker, Q.C.
Senior Vice-President,
Law and Corporate Affairs

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Raw Materials

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Senior Vice-President,
Linerboard and Packaging

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Finance and Planning

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Chairman,
MacMillan Bloedel Europe B.V.

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Senior Vice-President,
Building Materials

R. V. Smith
Senior Vice-President,
Pulp and Paper

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Senior Vice-President,
Human Resources

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Lumber Manufacturing

S. W. Forstrom
Vice-President, Manufacturing,
Pulp and Paper

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Lumber Marketing

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Development, Raw Materials

R. N. Wiewel
Vice-President, Marketing,
Pulp and Paper

V. R. Worthy
Vice-President, Panelboard

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Vice-President and Chief Forester

J. R. Croll
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J. G. Dickinson
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Planning and Analysis

D. H. Holden
Vice-President,
Corporate Communications

J. L. Howard, Q.C.
Vice-President and General
Counsel

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Vice-President, Accounting

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Vice-President,
Government Affairs

J. S. Rogers
Vice-President, Engineering

W. L. Stapleton
Vice-President,
Information Systems and Services

G. M. Wilson
Vice-President and Treasurer

R. D. MacFayden
Secretary

C. K. Smith
Assistant Secretary

G. Wishart
Assistant Treasurer

Transfer Agents and Registrars

The Canada Trust Company
Transfer Agent
Vancouver, Calgary, Regina,
Winnipeg, Toronto, Montreal

The Royal Trust Company
Registrar
Vancouver, Calgary, Regina,
Winnipeg, Toronto, Montreal

The Chase Manhattan Bank
Transfer Agent and Registrar
New York

Auditors

Price Waterhouse & Co.
Vancouver

Audit Committee

C. B. Wright
(Chairman)

G. H. D. Hobbs

J. N. Hyland

G. T. Southam

W. J. Stenason

Blackbeard the Pirate lost his life off the North Carolina shore, and Cape Hatteras Light still stands watch over the "Graveyard of Ships" in that part of the Atlantic. Inland from the Cape, due west of Kitty Hawk, lie some of the great tidewater swamps of the southeastern U.S. Home to alligators, rattlesnakes and snow geese, the region also nourishes a choice species of timber called Atlantic whitecedar which for years resisted efforts to log it in economic quantities. Today, Atlantic Forest Products at Edenton, North Carolina, a division of MacMillan Bloedel, is successfully logging the resource.

Thanks to a special breed of logger such as Buddy Riddick and his friends, and some ingeniously designed logging equipment, MB now takes logs from the forbidding swamps 60 miles out of Edenton and our mill there produces sidings, dressed boards, panelling and fence components for quality building applications.

To be a logger in swamp country you need the kind of ingrained know-how that comes from living, hunting and fishing in an area where the water table is six inches to two feet beneath the surface of the soil. Any ground more than six feet above sea level is unusual. Here, swamp logging roads must be surfaced with white oak duckboards to take the weight of trucks and a quick rain can make overland travel impossible.

Conventional logging skills don't apply. A feller-buncher, even though equipped with flotation tracks to make it an amphibious machine, can easily slip out of sight into 30 feet of peaty bog if the operator misreads the nature of the swamp ahead of him.

Buddy Riddick has never lost a machine but then he is acknowledged as the greatest in an occupation that requires people who are part loggers, part helmsmen. He has been with Atlantic Forest Products for eight years and his skills are legendary in the region. To him, and the handful like him, the life of swamp logger, with its 200-mile daily commute between work and home, is a rugged but challenging life in one of the most picturesque parts of the U.S. Buddy says, "These swamps are rough and ragged but I wouldn't want to work anywhere else." Swamp loggers, unique in MB's operations, make Atlantic whitecedar work.

