



MacMillan Bloedel Limited

Annual Report 1980

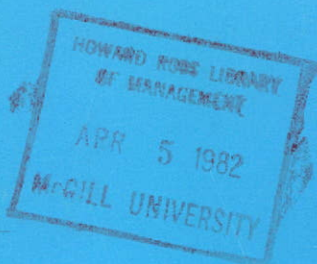
Q. *In view of worldwide economic uncertainty, can the Company implement its two billion dollar capital expenditure program as planned?*

A. The Company has a strong balance sheet and has the financial capacity to go ahead with its capital program on schedule, barring unforeseen events. The program will expand capacity, improve productivity, increase energy self-sufficiency, and improve the extraction of both volume and value from our forest resource.

Q. *Where will the Company be five years from now, in terms of earnings and cash flow?*

A. The Company has the potential to more than double its earnings and cash flow in five years. Our expansion and modernization program will put us in a strong cost-competitive position for the coming period of economic growth. It is based upon proven technology and the projected returns are excellent.

7807



Contents

Corporate Profile

MacMillan Bloedel is Canada's largest forest products company with integrated operations in Canada and the United States and other major operations and investments in the United Kingdom, Continental Europe and Brazil.

The Company manages 4.7 million acres (1.9 million hectares) of productive timberlands, which meet approximately 80 per cent of its total fibre requirements. Of these timberlands, 2.8 million acres (1.1 million hectares) are in British Columbia, where the Company's headquarters and approximately two-thirds of its assets are located.

The Company's products are marketed throughout the world and include newsprint, groundwood specialty papers, kraft pulp, fine papers, lumber, panelboards, containerboard and corrugated containers.

To upgrade and expand its asset base in those areas of the forest products business having the greatest potential return on investment, the Company has embarked upon a major capital expenditure program.

During the past two years, capital expenditures totalled approximately \$600 million and planned expenditures over the next five years total a further \$2.0 billion. The Company is laying the foundation for future growth by expanding its present timber resource through more intensive forestry and by acquiring more forest lands.

These efforts are aimed at maximizing the investment return for our Common shareholders, while at the same time providing a stable, safe and high quality working environment for nearly 25,000 employees around the world.

Special Feature

In this annual report, MacMillan Bloedel's Chief Executive Officer and its Chief Operating Officer answer questions frequently asked by our shareholders.

On peut 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*

Highlights	1
Letter to the Shareholders	3
Questions from the Shareholders	11
Financial Overview	25
Audited Financial Statements	41
Statistics	62
Directors and Officers	72
Other Information	Inside back cover

Highlights

	1980 (\$ millions)	1979	Percentage Increase (Decrease)
Financial Results			
Sales and other income	2,456.2	2,204.6	11.4
Net earnings	113.2	154.9	(26.9)
Cash flow from operations	245.9	257.6	(4.5)
Return on capital employed ¹	8.7%	13.6%	(36.0)
Return on Common shareholders' equity ²	14.3%	22.8%	(37.3)
Per Common Share			
	(\$ per Common share)		
Net earnings	5.03	7.03	(28.4)
Cash flow from operations	11.56	12.11	(4.5)
Dividends	1.75	1.75	—
Book value (year end)	36.76	33.54	9.6
Price range (Toronto Stock Exchange)			
High	43.25	30.00	44.2
Low	24.25	20.50	18.3
Assets			
	(\$ millions)		
Capital expenditures	327.7	280.4	16.9
Total assets (year end)	2,075.2	1,692.0	22.6
Additional Information			
Common shareholders of record (year end)	14,017	16,296	(14.0)
Common shares outstanding (year end)	21,272,975	21,272,975	—
Number of employees (year end)	24,730	24,505	.9
Wages, salaries and employee benefits (000)	\$688,393	\$582,977	18.1

¹ "Return on 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 "Return on Common shareholders' equity" is defined as net earnings available to Common shareholders as a percentage of the average of Common shareholders' equity.



At Alberni Pulp and Paper Division's No. 5 newsprint machine, computers ensure fast, accurate production control. Instrument mechanic is Paul de Boer.

Letter to the Shareholders

Highlights of 1980

Cash flow from operations totalled \$246 million or \$11.56 per Common share, second only to 1979's \$258 million or \$12.11 per Common share.

Net earnings per Common share of \$5.03 were also the second highest in our history.

Sales and other income set a new record of \$2.5 billion.

To upgrade and expand its productive facilities, the Company announced a five-year capital expenditure program totalling \$2.0 billion from 1981 to 1985.

During the year, the go-ahead was given to proceed with \$593 million of planned capital projects, including a U.S. \$274 million expansion of the Pine Hill, Alabama complex.

Capital dollars actually spent during 1980 totalled a record \$328 million.

1980 Results

In the face of considerable economic uncertainty, 1980 proved to be a good year for MacMillan Bloedel.

Due to weaker markets and rising costs, the profit derived from the Company's raw

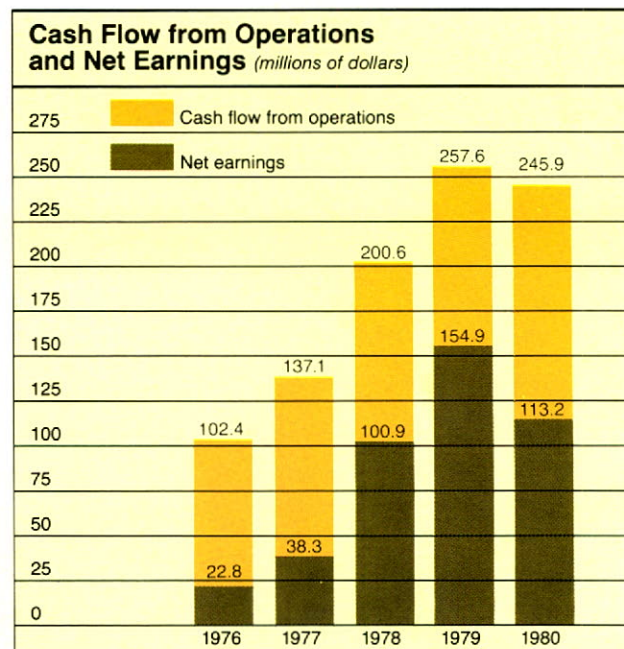
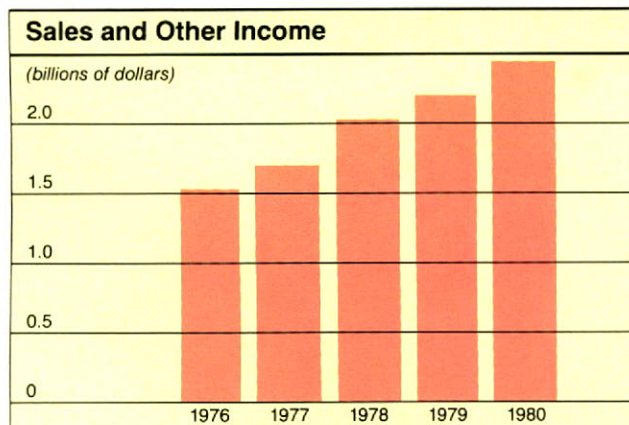
materials and building materials operations declined, particularly during the latter half of the year. This reduction was partially offset by improved results from pulp, paper, containerboard and packaging operations.

The Company's net earnings of \$5.03 per Common share were the second highest in its history, having been exceeded only by 1979's record level of \$7.03.

Cash flow from operations totalled \$246 million or \$11.56 per Common share, almost equalling the record of \$258 million or \$12.11 per Common share set in 1979.

Sales and other income set a new record of \$2.5 billion, as compared to the previous high of \$2.2 billion in 1979. Approximately \$688 million of this amount was expended as wages, salaries and benefits to the Company's employees. A further \$1.5 billion was expended for the purchase of goods, supplies and services.

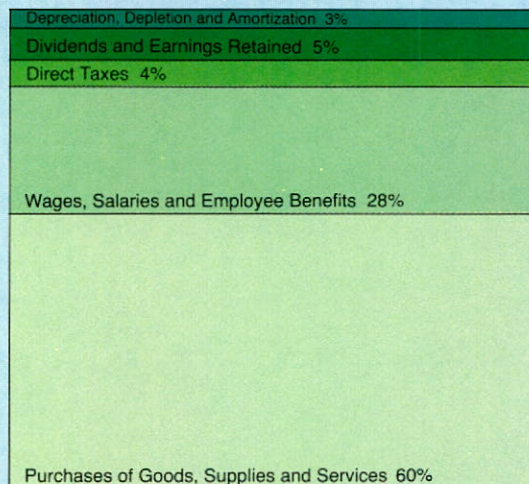
Included in goods, supplies and services is \$62 million of stumpage payments, royalties and property taxes related to the Company's



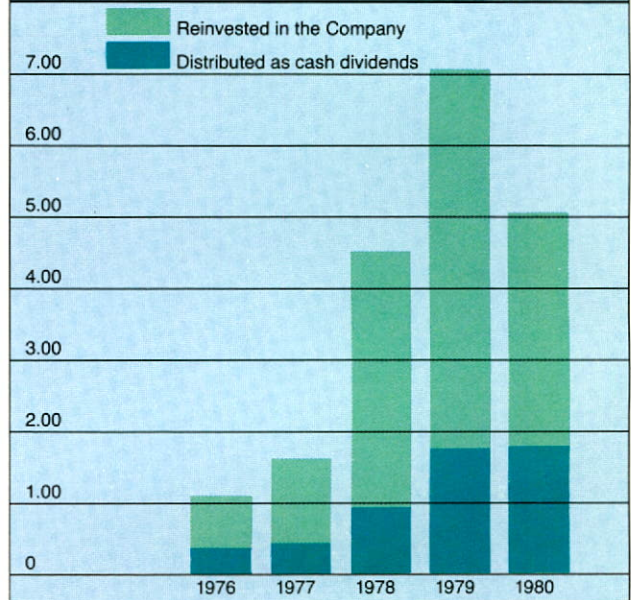
Letter to the Shareholders

Distribution of Total Income*

*Includes other income



Net Earnings per Common Share (dollars)



forestry and logging activities in British Columbia. A further \$105 million of taxes was paid or payable to federal, provincial, state and municipal governments, bringing the total amount for all governments to approximately \$167 million for the year.

Approximately \$328 million was invested to maintain the Company's productive facilities in good working order, to improve productivity and to expand capacity.

Financial Performance and Capital Investment

Had an investor purchased MacMillan Bloedel stock at the end of 1975 at \$18 per Common share, by the end of 1980 his investment would have grown to \$40.50 per Common share.

This represents an average annual rate of capital appreciation of 17.5 per cent. During that five-year period, the Company paid out a total of \$5.20 per share in cash dividends to its Common shareholders, bringing the total return on investment to more than 21 per cent

per annum — well above the average annual inflation rate of 8.6 per cent.

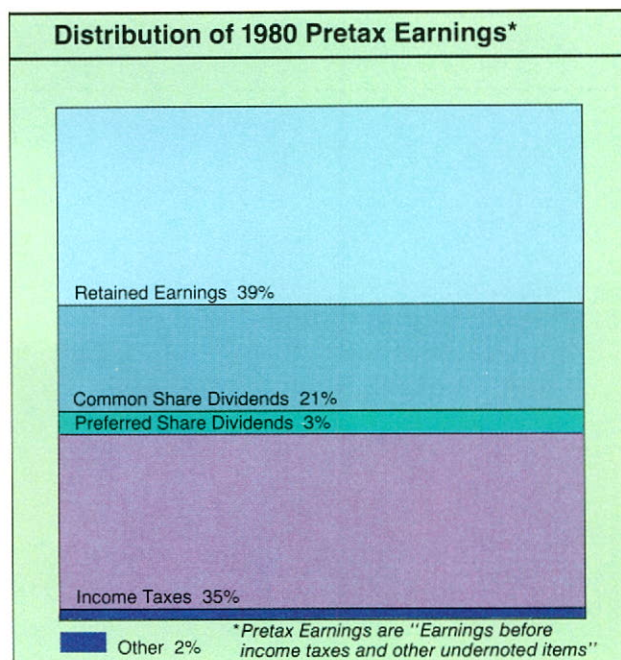
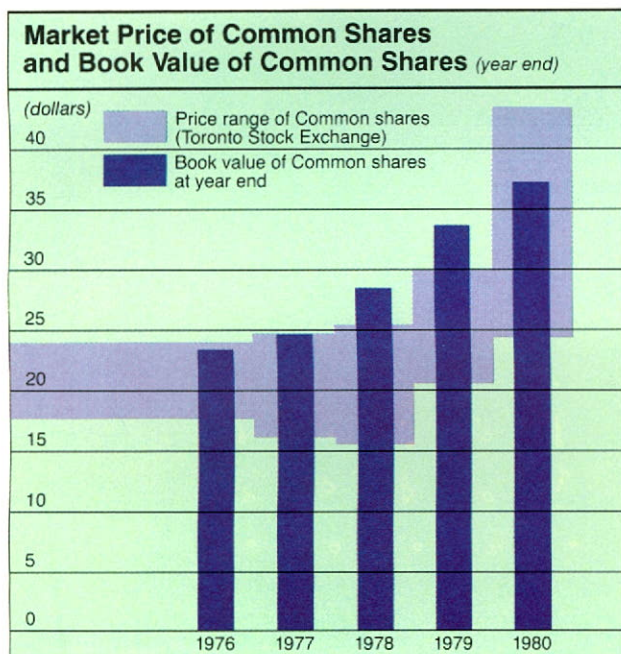
Over the last five years, the Company has invested \$877 million, primarily for expansion and productivity improvement, to further improve shareholder returns.

As a result of reinvested earnings, the book value of Common shareholders' equity has risen during the period from \$22.74 per share at the end of 1975, to \$36.76 per share at the end of 1980. This book value, however, does not reflect either the replacement value or market value of the Company's large, high quality timber base and converting facilities.

To supplement its internally generated cash flow, MacMillan Bloedel also raises funds in the world's financial markets. To this end, during 1980 the Company increased its long-term debt outstanding by \$228 million and its preferred share equity base by \$50 million. In addition, in February 1981, the Company issued a further \$50 million of preferred share capital.

In 1980, the Company's capital expendi-

Letter to the Shareholders



tures for property, plant and equipment reached a record level of \$328 million, following the previous record level of \$280 million set in 1979.

A \$26 million modernization and start-up of the Port Alberni plywood mill was completed in 1980 and a new \$54 million Alberni Pacific Division sawmill started up in September of that year. The new sawmill is expected to reach its full capacity of 216 million board feet per annum by the end of 1981. Both mills are part of a major integrated manufacturing complex located on Vancouver Island in British Columbia.

The year saw significant progress on Powell River's new No. 11 newsprint machine, which is scheduled to begin production in the second quarter of 1981. It will have an annual rated capacity to produce 160,000 tonnes of standard newsprint.

In mid-year, the Company announced a new five-year capital expenditure program, totalling \$2.0 billion from 1981 to 1985. The program is directed towards expanding pro-

duction capacity, improving productivity, increasing energy self-sufficiency and increasing the volume and the value of the products extracted from the Company's timber base. It will also create new employment and improve job security.

The largest single project in the plan is an expansion of the Company's Pine Hill, Alabama containerboard facility at a cost estimated at U.S. \$274 million. Details of this and other projects are highlighted in the financial overview section of this report.

Outlook

Because of the continuing slower pace of most world economies during the past year, building materials markets have remained depressed.

By the second half of 1981, an improved economic recovery in the United States should be under way. This recovery — coupled with lower interest rates — should stimulate the residential housing sector. This in turn should strengthen demand for lumber

Letter to the Shareholders



Pine Hill, near the state capital of Montgomery, Alabama, is the site of the Company's largest single capital project. About \$ U.S. 274 million is being spent to add a corrugating medium machine, expand linerboard production and improve energy conservation. Construction started in 1981.

Letter to the Shareholders

Funds Flow During 1980

SOURCES (total \$577.0 million)

Net Earnings Less Disposal Profits Plus Other 105.2	Cash Flow from Operations \$245.9
Depreciation, Depletion and Amortization 88.7	
Deferred Income Taxes (non-current) 52.0	
Long Term Financing 296.2	
Disposals and Other 34.9	

APPLICATIONS (total \$475.3 million)

Property, Plant, Equipment and Investments 408.9	Improvement in Working Capital \$101.7
Reduction of Long Term Debt 21.1	
Dividends 45.3	

and other building materials. Improving economic prospects in Canada and in the Company's overseas markets are expected to follow.

Markets for newsprint and groundwood specialty papers continued to be strong into 1981, although new capacity coming on stream later this year could have a moderating effect upon operating rates. Effective January 1, 1981, the Company increased prices for newsprint and groundwood specialties in most major markets by approximately seven per cent.

Markets for kraft pulp have been softer in 1981, but should strengthen in the second half of the year. Costs for wood chips and for conversion have risen rapidly and, despite price increases for pulp in 1980, further increases will be necessary to maintain margins this year. The longer term outlook for pulp is very favorable.

Containerboard markets are generally firm and an 11 per cent price increase in the Company's major market, the United States,

became effective on January 1, 1981, following significant price increases in other markets during the latter part of 1980.

Markets for the Company's corrugated containers in western Canada are relatively firm, but some weakness remains in eastern Canada and the United Kingdom. Moderate economic growth in the latter half of 1981 should help to strengthen these markets.

The Company's capital program is aimed at improving its cost-competitiveness and expanding converting capacity in those areas of the forest products business offering the greatest potential returns to investors. With this program, complemented by its financial strength and human resources, the Company is well-positioned to benefit from economic growth in the 1980s.

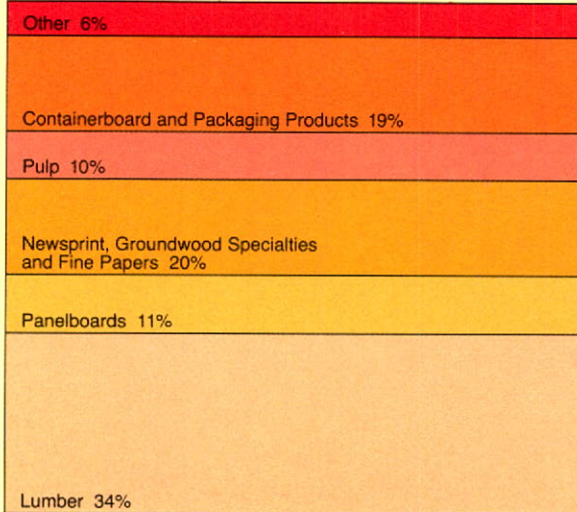
Directors and Officers

On October 30, 1980, Raymond V. Smith, formerly the Company's Senior Vice-president, Pulp and Paper, was appointed President and Chief Operating Officer. He also

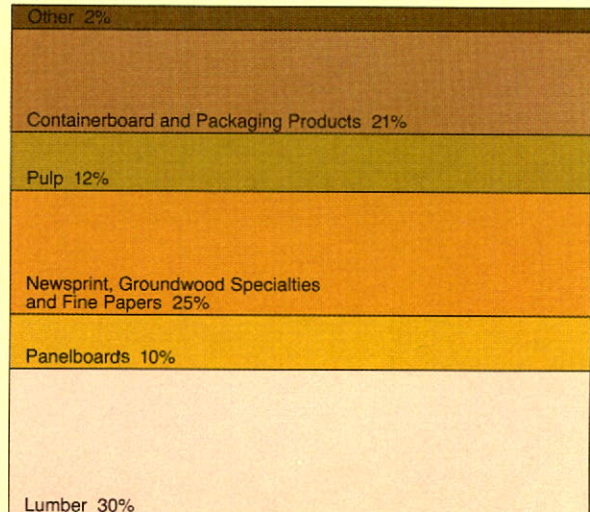
Letter to the Shareholders

Sales by Product

1979

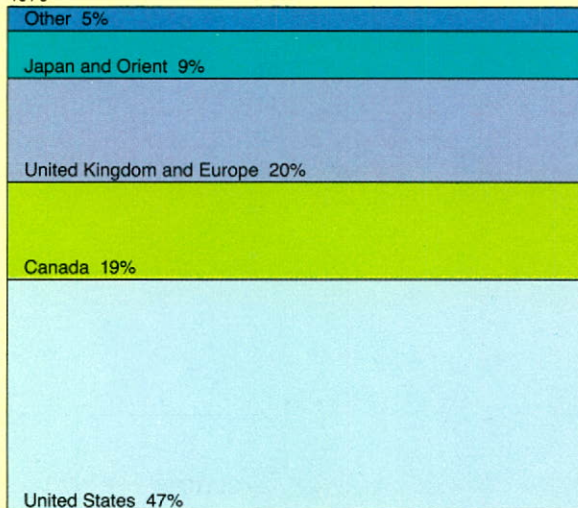


1980

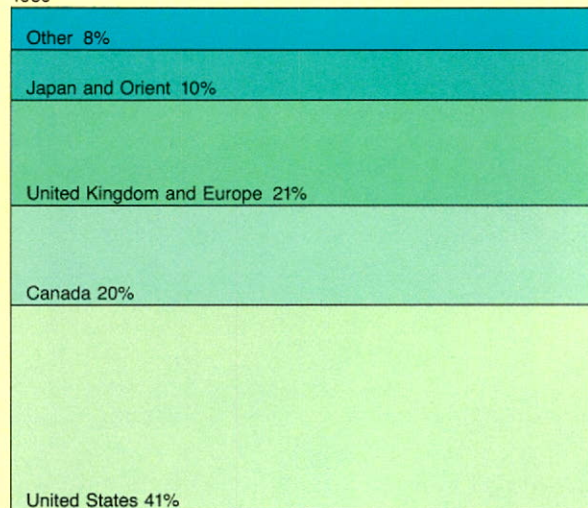


Sales by Market

1979



1980



Letter to the Shareholders



Capital improvements at the Harmac pulp mill, near Nanaimo, B.C., include a \$22 million bleach process expansion project. The process leads to brighter, higher quality pulp, with improved uniformity and increased strength.

was appointed to the Company's Board of Directors.

Dividends

MacMillan Bloedel's policy is to increase its regular quarterly dividend whenever there is an improvement in its fundamental earning power which, taking into account the world economic outlook, is felt to be sustainable.

Through the Company's capital expenditure program and the implementation of other operating strategies, significant progress was made in 1980 towards upgrading and expanding operating facilities. However, much of the spending was for new facilities which have not yet been brought up to their full capacity or which will not start up until 1981. Accordingly, the full contribution from these projects to the Company's fundamental earning power has not yet been realized. Therefore, the regular quarterly dividend continued throughout 1980 at 35 cents per Common share.

When cash flow is significantly enhanced

by positive, but not necessarily sustainable events — such as cyclically strong markets or changes in exchange rates — the Board considers the distribution of special or year-end extra dividends.

Although the Company's building materials markets were depressed for most of 1980, other products remained strong and the Company continued to benefit from a weak Canadian dollar. Accordingly, the Board of Directors declared an extra dividend of 35 cents per Common share for 1980, which was paid in December.

A handwritten signature in dark ink, appearing to read "C. C. Knudsen".

C. C. Knudsen
Chairman and Chief Executive Officer
Vancouver, Canada
March 20, 1981



The new Alberni Pacific Division sawmill on Vancouver Island incorporates the latest in sawmilling technology. This electronic sorter is one example. The mill was designed primarily for the export trade.

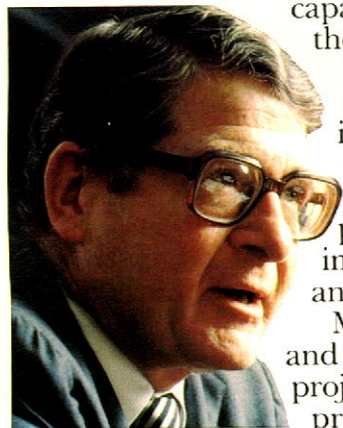
Questions from the Shareholders

Throughout the year, MacMillan Bloedel received a number of inquiries from shareholders about its policies, operations and plans for the future. In the following pages, C. Calvert Knudsen, Chairman and Chief Executive Officer, and Raymond V. Smith, President and Chief Operating Officer, provide answers to some of the questions most frequently asked during 1980.

The following questions concerning the Company's strategy and outlook are answered by Mr. Knudsen.

During the past three years, MacMillan Bloedel has invested about \$700 million in new plant and equipment. When are we likely to see the resulting improvement in profitability and cash flow?

“Most of the discretionary capital expenditure projects undertaken during the last three years are in operation or close to start-up. The new Alberni Plywood mill is now through its break-in period and the new Alberni Pacific Division sawmill, which started up in September, 1980, should reach full capacity during 1981. In the meantime our lumber and panelboard markets are undergoing a cyclical decline which has depressed profitability. We expect these markets to improve later this year and in 1982 and 1983.

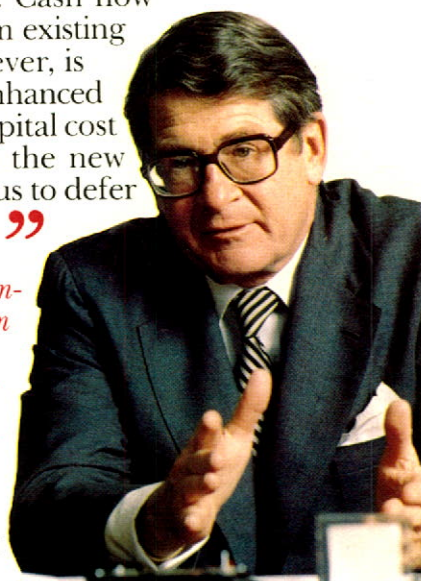


Many of the speedup and quality improvement projects for existing newsprint machines already are in place and contributing to our profitability. As well, the new Number 11 newsprint machine at Powell River is scheduled to start up in the second quarter of 1981. Its design reflects the most modern, proven advancements in the technology of newsprint produc-

tion. The new machine has a rated annual capacity to produce 160,000 tonnes of standard newsprint and is expected to significantly enhance both profit and cash flow.

Many of the projects in the 1978 to 1980 period will not realize their full potential until well into 1981. Cash flow generated from existing facilities, however, is immediately enhanced because the capital cost allowances on the new facilities allow us to defer tax payments.”

What is the Company's long term strategy for the geographic distribution of operations and investments?



“Our first commitment is to upgrade our present converting facilities and to expand at existing locations. This will enable us to make the best possible use of the present forest resource, human skills and infrastructure available to us.

While there's no doubt our roots are in British Columbia, we will expand in any region where we can reasonably anticipate a good return on investment, provided the business and political risks are not unduly high. Here at home, we manage 2.8 million acres (1.1 million hectares) of softwood timberlands, including 1.6 million acres (.65 million hectares) of mature or old growth timber. An extensive program to improve our B.C. facilities is well under way and will ensure that we obtain maximum volume and value from our British Columbia forest resource.

We see strong future growth in demand for containerboard and industrial packaging.

Questions from the Shareholders

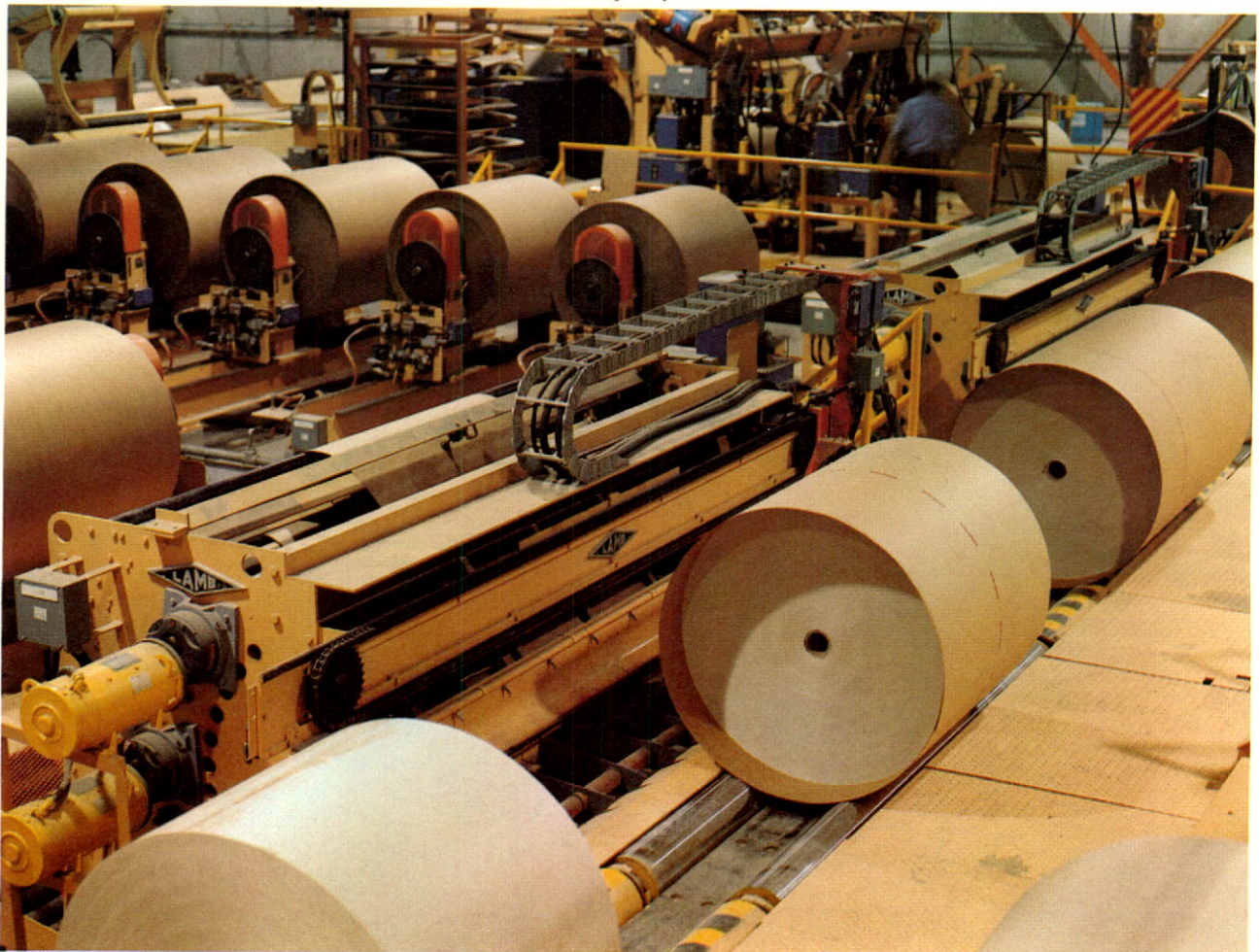
Because of limited wood supply and rising energy costs for European and Japanese producers, North American producers will be called upon to meet a higher share of the worldwide demand for packaging materials. Accordingly, we are engaged in a U.S. \$274 million expansion of our Alabama containerboard complex. This will increase our present linerboard capacity by 50,000 tonnes, add a new 190,000 tonne corrugating medium machine and reduce the facility's consumption of fuel oil by two-thirds.

Part of the expansion project at Powell River, 140 kilometres north of Vancouver on the British Columbia coast, is this new roll finishing facility in the newsprint mill. In 1912, this plant produced the first newsprint made in western Canada and since that time it has been completely modernized.

We recently bought six corrugated container plants and a corrugating medium mill in eastern Canada, which establishes us as a national supplier of corrugated containers in this country.”

How do you see the growth prospects for the forest products industry and how is your strategy related to those prospects?

“In addition to the growth opportunities in the containerboard business, I see



Questions from the Shareholders

continued growth for our other forest products resulting from population increases and rising standards of living in much of the world.

We're confident of strong building materials markets during the 1980s. Much of this strength will come from the housing sector, where the number of new units built each year must increase to accommodate the shelter needs of the post-war 'baby-boom'.

Moreover, during the next two decades, the world's standing inventory of old growth timber will continue to decline. This will put MacMillan Bloedel in an excellent position. We will be cutting old growth timber well into the next century and we have modern converting facilities to extract the premium grades of lumber which only old growth timber can provide.

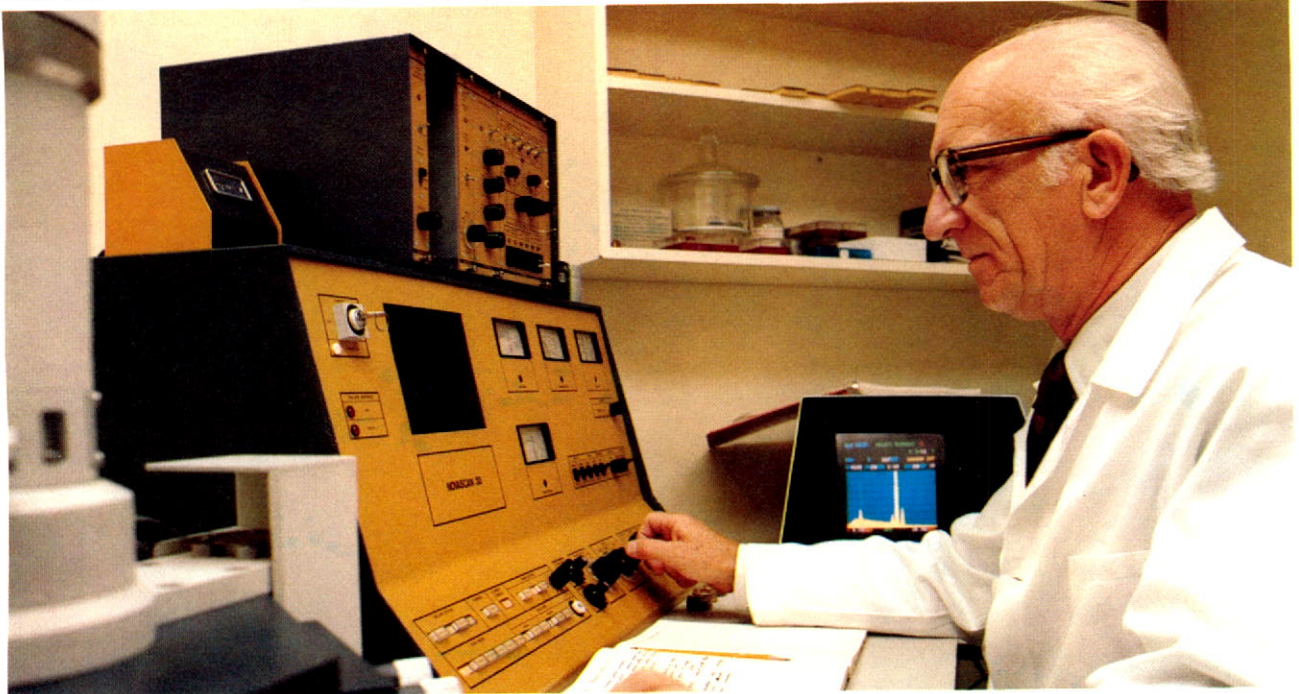
The '80s should bring a period of moderate economic growth, which undoubtedly will fuel the demand for pulp and paper prod-

ucts. Because of the world's limited supply of softwood timber and because of the high cost of building new mills, we anticipate better margins for our market pulp over the long term.

We also expect good long term growth for newsprint and even stronger growth for our groundwood specialty papers.

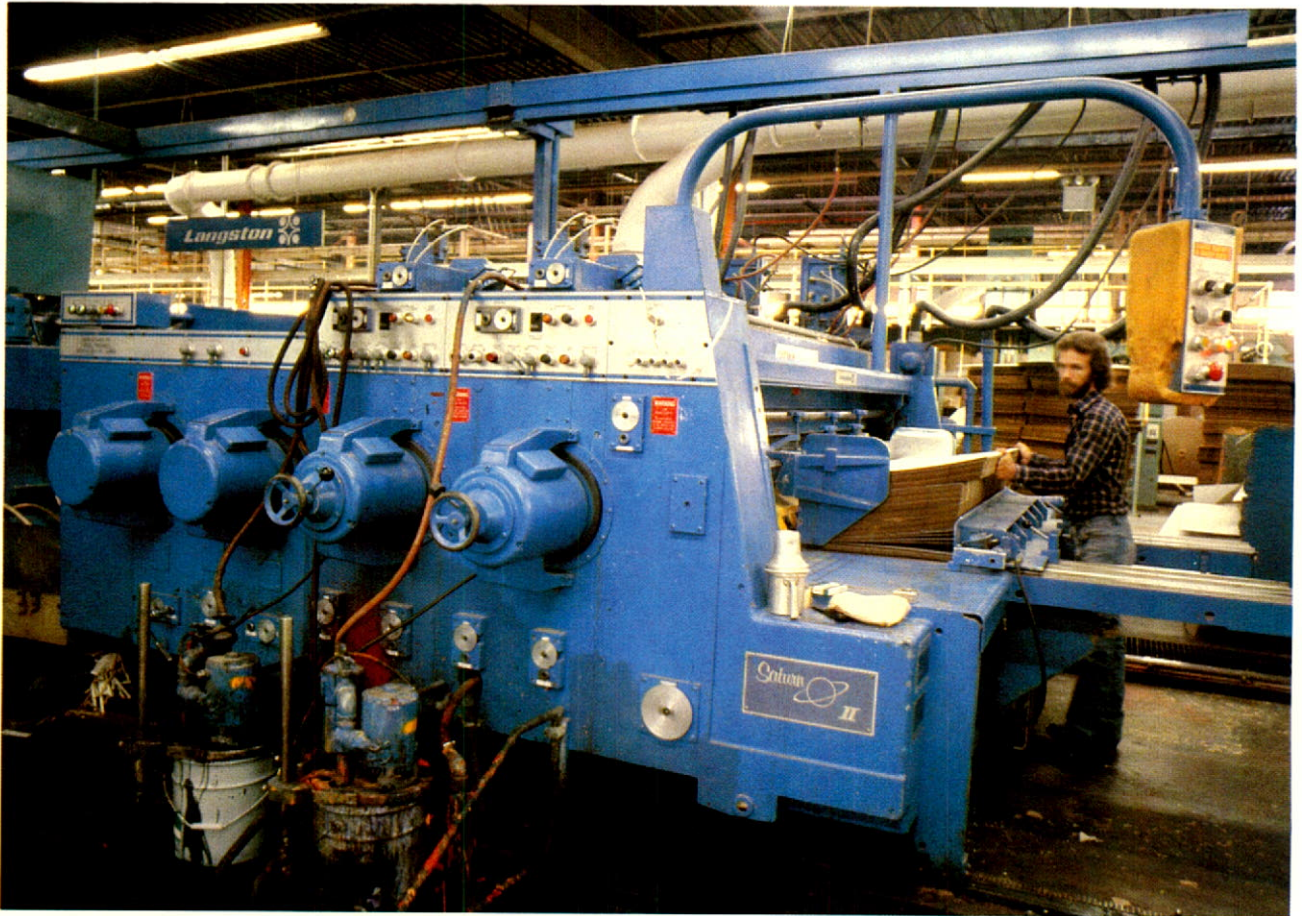
The pulping process used in making groundwood papers, such as newsprint, converts approximately 90 per cent of the raw material, pulpwood, into the furnish supplied to the paper machine. This compares with less than a 50 per cent yield for papers produced entirely from chemical pulps. Groundwood papers therefore have a fibre cost advantage, but they do need significant energy input.

Our mills in British Columbia are, however, among the most energy self-sufficient in the world. Our emphasis on deriving energy from burning forest residuals and from our own hydro-electric



George Williams, at MacMillan Bloedel's research laboratories in Vancouver, uses a scanning electron microscope to study characteristics of wood fibres. This device is capable of magnification up to 50,000 times.

Questions from the Shareholders



The Company's corrugated container plant at Rexdale, Ontario, specializes in the design of containers to meet customers' needs. This machine folds, glues and prints two-colour containers.

facilities provides us with relatively low-cost energy. The combination of these factors should allow us to expand our profit margins for these products over the long term.”

If interest rates remain high, what effect will they have on MacMillan Bloedel's fundamental earning capacity?

“If interest rates stay at their present high levels, especially in relation to anticipated inflation, there's no doubt they'll dampen construction activity — particularly residential construction, which accounts for about 40 per cent of the softwood lumber

consumed in North America.

High interest rates will also increase our cost of borrowed capital. However, I believe we'll see the rates come down to more reasonable levels as inflationary pressures abate.

When interest rates move closer to expected inflation, I would expect to see housing demand at reasonable levels, since home ownership continues to be the best hedge against inflation for most people.”

Last year, MacMillan Bloedel spent \$9.6 million on research and development. What are your research and development department's principal areas of activity?

Questions from the Shareholders

“I don’t think our businesses have ever before been faced with so many challenges requiring sound technological solutions. I refer to the need to regenerate our forests faster and more consistently, the need to practice close utilization of the forest resource, and the need to transport raw material to our manufacturing facilities with a minimum of ecological disturbance. I refer to the need to strive for energy self-sufficiency, the need to meet ever more stringent environmental constraints in manufacturing, and the need to address concerns in the handling of toxic or corrosive chemicals. At the same time, opportunities exist for new technology to improve our product quality and mix — an example being the development of our ‘Supernews’ grades of newsprint.

Our research and development depart-

ment has over 70 active projects in progress, dealing with many aspects of these challenges and covering the full range of our product lines.

Our five-year plan provides for a substantial increase in both forestry and wood harvesting research, and an increase in new product development activity. We also recently announced a plan to construct a new \$20 million research and development centre near our corporate headquarters in Vancouver.”

How can you ensure that the Company’s expenditure program will provide adequate returns for shareholders?

“The after-tax cash flow expected from each discretionary project must provide a discounted cash flow return on investment in

A new forest is being established at this logging site on Vancouver Island, by replanting and by regeneration. MacMillan Bloedel manages 1.9 million hectares of woodlands in North America and it is 80 per cent self-sufficient in its need for wood fibre.



Questions from the Shareholders



At the console of Alberni Pacific Division's cant quad saw, the operator controls the cut by remote operation of the saw blades, the position of the four blades being indicated by laser lines.

excess of our cost of capital, also known as the 'hurdle rate.' Our hurdle rate is currently set at 15 per cent after tax. Meeting it gives us confidence that the anticipated cash flows from each discretionary project will enhance share values.

To ensure that estimated cash flows are

realistic, major capital expenditure projects are reviewed in detail at several levels of management — at the mill level, by operating line management, by staff departments and finally by senior management before being proposed to the Board of Directors.

The Board gives its approval only if it

Questions from the Shareholders

concludes that a particular project complements our corporate strategy and meets our financial criteria.

After completion, selected major capital projects are 'post-appraised' by the Company's operating management. In this process, actual performance is compared with the original projections and the findings are reviewed by our Board and by senior management."

MacMillan Bloedel recently sold three packaging plants in the United States. How did the Company arrive at such a decision?

"In that particular case, we saw no significant potential for profit improvement compared to opportunities existing elsewhere in the packaging business — in eastern Canada, for example.

The three U.S. plants did not form any vital link in our integrated forest products business and after considering the alternatives, we sold them at a profit of \$7.1 million. Our nine remaining packaging plants in the United States have the long-run potential to meet or exceed our objectives for returns to investors in terms of both the earnings and after-tax cash flows they can generate.

The prime purpose of our modernization program is to ensure that our facilities are cost-competitive and that we make every effort to improve the results of poorly performing plants. When all else fails, however, we have a duty to everyone with a stake in the Company to dispose of such a plant or close it down.

That's not a decision we take lightly. We make every possible effort to minimize the impact on our employees."

What is MacMillan Bloedel's policy concerning diversification?

"Well, I think we're already well-diversified, both by region and product mix. Since our management expertise lies in the forest products industry, it makes good sense

to focus our efforts in that direction. Fortunately, the long term outlook for the forest industry is encouraging and it provides excellent opportunities for growth."

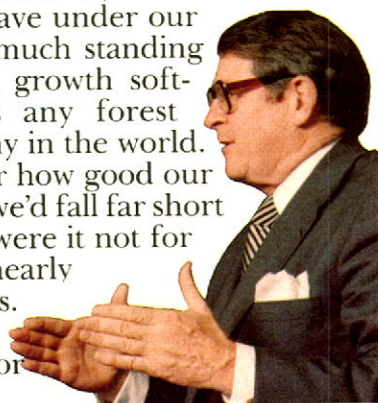
The Company appears to be expanding its financial activity in the United States. Most of its bonds are denominated in U.S. dollars and the Company recently listed its shares on the New York Stock Exchange. Is MacMillan Bloedel trying to encourage American ownership?

"MacMillan Bloedel does not have a stated objective of encouraging or discouraging foreign investment. We listed our Common shares on the New York Stock Exchange in 1979 and we also intend to list them on the stock exchanges of London, Basle, Geneva and Zurich. Our objective is to increase investor interest in the Company in all major financial centres of the world. This, in turn, should stimulate the demand for our securities and pave the way for ready access to the world's major financial markets, thus benefiting everyone with a stake in the Company. Currently, only about 13 per cent of MacMillan Bloedel's shares are registered as being held outside of Canada."

What are MacMillan Bloedel's major strengths?

"One of them certainly is our resource base. In B.C., elsewhere in Canada, and in Alabama, we have 4.7 million productive acres (1.9 million hectares) of timberlands. We believe that we have under our management as much standing inventory of old growth softwood timber as any forest products company in the world.

But no matter how good our resource base is, we'd fall far short of our potential were it not for the skills of our nearly 25,000 employees. They, above all else, are our major strength."



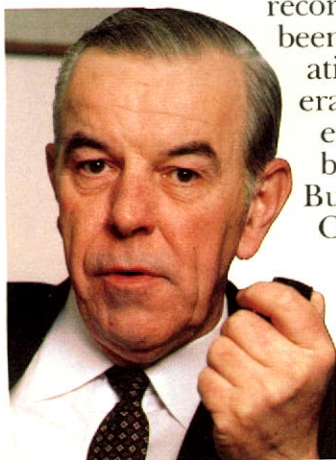


Advanced technology, in this case a new sheet cutter, is part of the \$49 million, 75,000-tonne expansion at Island Paper Mills near Vancouver. It is the only fine paper manufacturing plant in western Canada.

Questions from the Shareholders

The following questions concerning the Company's operations are answered by Raymond V. Smith, President and Chief Operating Officer.

Safety continues to be a major issue in the forest industry. How does MacMillan Bloedel's record compare with that of others and what are you doing to improve it?



“Our overall safety record in recent years has been generally representative of the industry average. Some of our operations have been the best in their category. But that's not enough. Our objective is to improve our safety record to a level that is good not only relative to our industry, but good by any standard of comparison.

The commitment to this objective is shared by the entire management team, starting with Cal Knudsen. We've intensified our efforts to prevent accidents and heightened our safety awareness. This requires the support and involvement of all employees to help develop ideas and as successful approaches are identified and implemented, they will be extended throughout the Company wherever they can improve our safety performance. There is no activity in MacMillan Bloedel with a higher priority or more deserving of management attention than safety.”

What is being done to improve the work environment?

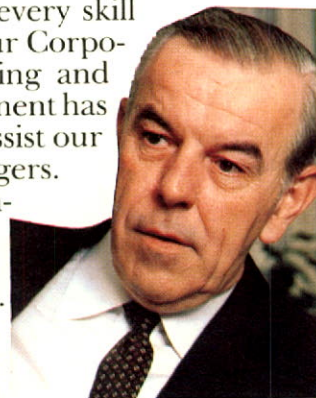
“A priority goal in the 1980s has been and will continue to be that of securing further improvements in the work environ-

ment and further protection of our employees. The Corporate Hygiene and Safety Department is staffed with two industrial hygiene professionals and a noise control specialist to assist the operating divisions in the implementation of comprehensive projects to improve the work environment. Considerable effort is directed towards learning more about the effects of hazardous chemicals and how to use them safely.

In recognition of the need to improve the protection of our employees, a comprehensive health program has been initiated with the appointment of a corporate medical director. An employee assistance program already is in place. It emphasizes helping our employees deal with drug, alcohol and family-related problems. By clarifying standards, by improving communication and with increasing employee involvement, we have implemented other programs that tackle safety, performance, quality of life and job satisfaction. We have assembled a trained group of people to ensure that we cope with the emerging needs and priorities.”

What programs do you have to upgrade employee skills?

“A very wide variety. We have apprenticeship training and courses designed to help employees keep pace with technological change. Our company-sponsored courses cover almost every skill and training need. Our Corporate Personnel Planning and Development Department has several programs to assist our supervisors and managers. These include performance improvement, problem solving and communications skills. All training programs are aimed at helping each employee reach



Questions from the Shareholders



The Company's plant at Sturgeon Falls, in northern Ontario, produces corrugating medium as well as hardboard exterior sidings for the housing industry. Hydro-electric energy for the plant is generated from the nearby Sturgeon River.

his or her full potential, thereby increasing both job satisfaction and productivity.”

In addition to speeding up existing newsprint machines, MacMillan Bloedel has a new, world-scale machine scheduled to start up in the second quarter of 1981.

However, many other newsprint manufacturers are also expanding capacity. What impact will that have upon your operating rates?

“Despite the new capacity coming on stream, we expect to sell all of the newsprint and groundwood specialties we can produce in 1981. Over 80 per cent of the newsprint and groundwood specialty papers we produce in British Columbia are sold in the high growth markets of western Canada and the western United States. Other rapidly-growing mar-



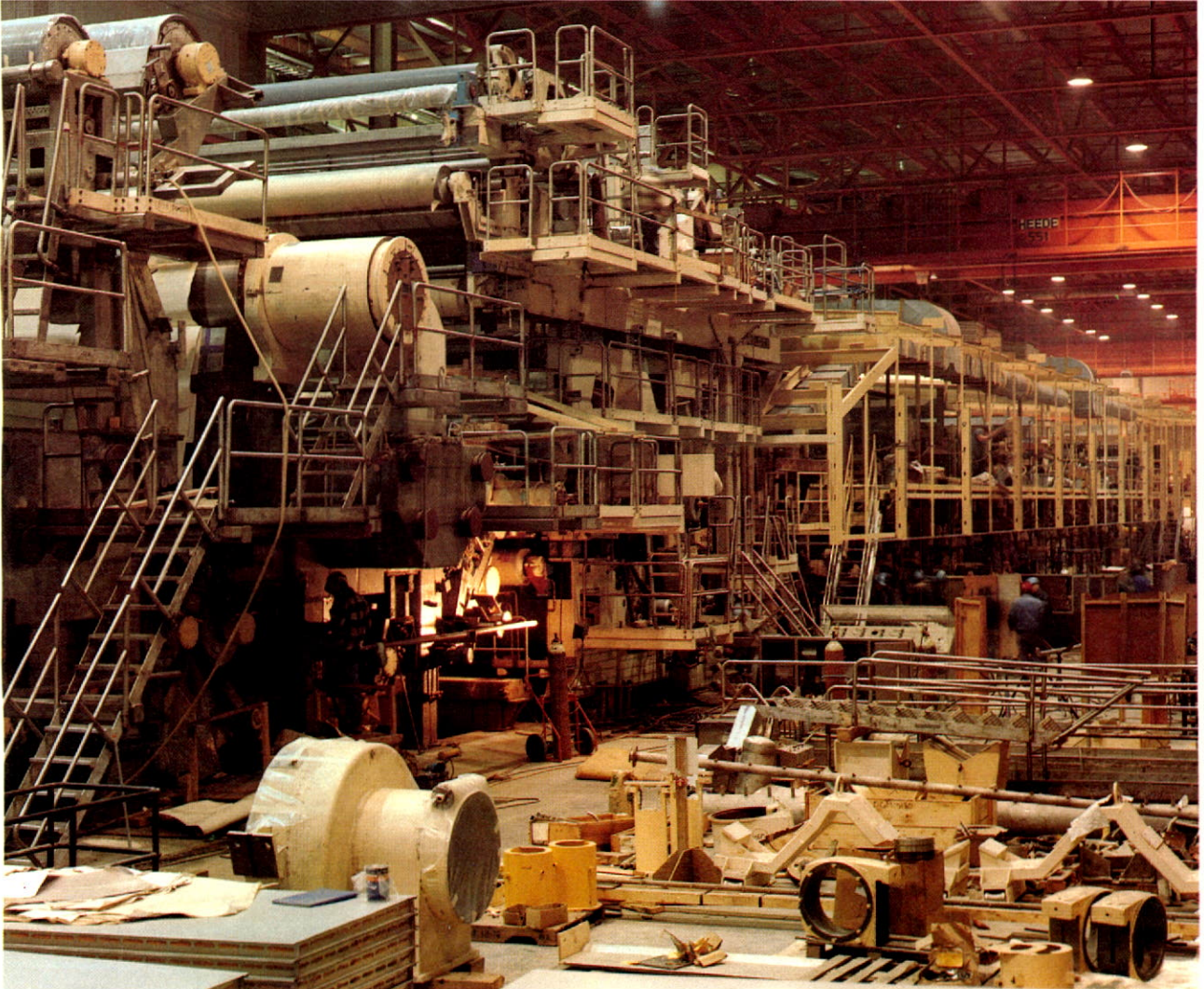
Powell River's thermomechanical pulping line produces high-quality, high-yield pulp for the division's No. 11 newsprint machine. The thermomechanical process uses sawmill chips rather than solid wood.

kets offshore, notably around the Pacific Rim, will absorb increasing volumes of newsprint produced in western North America.

Despite the market's present firmness, the considerable additional capacity starting up in western North America in 1982 could have a moderating effect upon operating rates for standard newsprint, although we don't expect a drastic reduction.

Markets for groundwood specialty papers should remain firm due to excellent growth in demand. We have the capacity to produce annually about 210,000 tonnes of these groundwood specialty products. They have a multitude of uses, including color advertising flyers and newspaper inserts. Beyond 1983, we expect a strong supply-demand relationship for both newsprint and groundwood specialty papers.”

Questions from the Shareholders



The No. 11 newsprint machine at Powell River, is in the final stages of installation. It will add 160,000 tonnes of standard newsprint capacity annually.

What is MacMillan Bloedel's present level of energy self-sufficiency and what are you doing to reduce your dependence on fossil fuels?

“We consume energy in two forms — heat and electricity. Our annual consumption of heat is equivalent to approximately eight million barrels of oil. However, we generate two-thirds of this by burning bark and wood waste, which we refer to as hog-fuel, in power

boilers and by burning organic materials retrieved from the pulping process in recovery boilers.

Over the next five years, we'll be spending about \$110 million in constructing or upgrading power boilers and a further \$92 million to build a new recovery boiler at our Harmac, B.C., pulp mill. These expenditures will help curb our rising fuel bill, which was more than \$40 million last year.

Questions from the Shareholders

Our manufacturing operations consume about 3.7 million megawatt hours of electricity annually, of which about a third is self-generated. Our Powell River, B.C. and Sturgeon Falls, Ontario, mills both have hydro-electric facilities. In addition, about nine per cent of the heat generated by our recovery and power boilers is converted to electricity by passing steam through turbo-generators. Despite this level of self-sufficiency, our purchases of electricity still totalled more than \$47 million in 1980.”

What are the major environmental challenges over the next decade and what will it cost the Company to meet more stringent environmental regulations?

“To meet or exceed current environmental regulations, MacMillan Bloedel has allocated approximately \$165 million of capital expenditures over the next five years.

This amount includes a portion of the cost for a new low-odor recovery boiler at the Harmac mill on Vancouver Island. It also includes expenditures for electrostatic precipitators to reduce particulate emissions and improve air quality at the Port Alberni, Powell River, Harmac and Pine Hill mills. Funds have also been allocated for increased biological treatment of effluent into the Alberni Inlet to improve water quality and protect the fishing resource.

Over the next decade, we face several environmental challenges. To provide

Some typical uses of MacMillan Bloedel's groundwood specialty papers, which provide outstanding reproduction qualities for publishers.



Questions from the Shareholders

additional fuel, we need to determine a cost-effective method — that is not detrimental to the forest ecology or to air quality — of collecting and using more residual wood waste from our logging and manufacturing operations.

We need also to improve control technology in our kraft pulp mills to further reduce odors. We also are attempting to discover a new, cost-effective pulping technology providing the desired product qualities with the least environmental impact. ”

Will the growth of new electronic media eventually replace the use of newsprint and other papers for classified advertising, telephone directories and other printed information?

“There’s certainly a great deal of development work in that field which we have been monitoring closely for several years.

Most systems will probably use a television set or similar device and will be able to provide, on demand, information which can be stored in computer memory banks.

Classified advertisements and telephone numbers would be two potential candidates for such systems. Electronic data retrieval in the workplace and the home will help us cope with the information explosion and, in fact, will complement the printed word.

Any adverse impact on the growth rate of paper consumption probably won’t be felt until the late 1980s or early 1990s. The timing and magnitude of the impact of electronic media will be determined not only by the reception given the new media by their audience and advertisers, but also by the adaptability of publishers of newspapers, magazines and directories faced with the challenge of these media. ”

With all the Company’s expenditures aimed at increasing production capacity, what are you doing to ensure an adequate supply of fibre in the future?

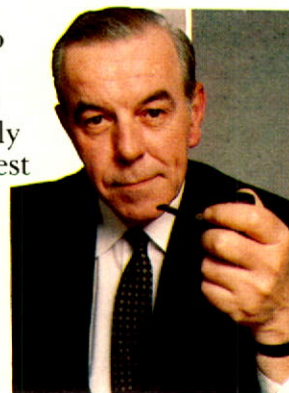
“A great deal. In 1962, we adopted an intensive forestry management program for our British Columbia timberlands and in 1980 we expanded it. We call it ‘The Designed Forest System’. It is practised in three phases.

The first is ‘basic forestry’, which establishes a new forest after cutting. ‘Discretionary forestry’ — the second phase — consists of spacing, thinning and fertilization to stimulate the final harvest and to capture an intermediate harvest in the form of usable thinnings. The third phase is ‘maximum yield harvesting’, which varies the harvesting age according to the specific characteristics of each growing site. A similar program has been in progress for some years in our Alabama forestlands.

While our capital program is aimed at expanding production capacity, the emphasis is on increasing the value and volume extracted from the existing timber supply and on increasing productivity. We will extract more lumber from a given log by minimizing waste, such as sawdust, and will extract more value by cutting lumber to optimize the grade mix.

In our pulp and paper operations, to obtain the most product from our fibre we are implementing ‘high-yield’ pulping such as the thermomechanical process. This process, compared to conventional groundwood pulping, can reduce the wood requirement for newsprint by 10 to 15 per cent. We now operate six thermomechanical pulp lines. We are also using smaller trees and smaller portions of our trees to realize more fully the potential of our forest resource.

Similarly, our new corrugating medium mill in Alabama will take full advantage of our hardwood stands in that area. ”





Douglas fir seedlings at Harmac tree nursery will be part of the Designed Forest of the future; a major advance in MB's intensive forestry program. Its objective is to produce the wood necessary to meet future raw material requirements.

Financial Overview

The financial overview provides a comprehensive review of MacMillan Bloedel's financial strategies, capital spending program and recent activity in financial markets. There is also an analysis of the Company's recent performance.

The first three pages of the financial overview present the Company's Condensed Financial Statements which are presented in this form for ease of reading. (Note, the Company's audited financial statements start on page 41 following the financial overview.)

The Condensed Financial Statements are followed by an analysis of the impact of inflation. The Company's audited financial statements are presented in accordance with accounting principles generally accepted in Canada, which have traditionally reported amounts reflecting historical costs and accordingly do not purport to highlight the problems arising from inflation. Various regulatory bodies have attempted to develop an effective means to illustrate the impact of inflation, but so far no consensus as to which is the most appropriate method has been reached. MacMillan Bloedel's presentation does not attempt to adjust its financial statements for all aspects of inflation, but does present a simple illustration of the key problems arising from continued high levels of inflation. It alerts the reader to management's awareness that depreciation expense accounted for on a historical basis does not sufficiently provide for the replacement of currently existing facilities. Inflation affects not only capital costs, but also the costs of the variable factors of production such as labor, materials and supplies. It is not always possible, particularly in the short term, to pass along these higher costs in the form of higher prices. It is also desirable to be aware of the fact that a period-end inventory of finished goods can give rise to a somewhat illusory profit increase as the replacement of such inventory by further

production will usually cost more as a result of continuing inflationary increases.

In the Capital Investment Discussion, capital expenditures over the past five years are reviewed, with the emphasis on the progress made during 1980. Details of the capital expenditure plan over the next five years are also provided to give some insight into MacMillan Bloedel's strategies for capitalizing upon the excellent opportunities for investment in the forest products business.

The final section of the Financial Overview, Management's Discussion and Analysis of Financial Conditions and Results of Operations, is presented in a format compatible with the disclosure requirements of the United States Securities and Exchange Commission. It reviews the Company's financial condition and financial policies as well as its capital resources and liquidity. Moreover, it reviews the Company's recent performance, including the impact of foreign exchange fluctuations.

<i>Contents of Financial Overview</i>	<i>Page</i>
Condensed Financial Statements	26
Impact of Inflation	29
Capital Investment Discussion	30
Selected Quarterly Financial Data	32
Selected Financial Data	37
Management's Discussion and Analysis of Financial Condition and Results of Operations	
— Capital Resources and Liquidity	33
— Results of Operations	
— Return on Invested Capital	35
— 1980 Sales and Earnings	37
— 1979 Sales and Earnings	39
— Foreign Exchange	40

Financial Overview

MacMillan Bloedel Limited Condensed Financial Statements Net Earnings (Note)

	Year ended December 31	
	1980	1979
	(millions of dollars)	
Contributions by segment:		
Sales:		
Raw materials and building materials	\$1,156.7	\$1,176.5
Pulp and paper	914.9	672.4
Linerboard and packaging	515.1	414.0
Other	29.6	32.5
	2,616.3	2,295.4
Less: Inter-segment eliminations	179.9	115.1
	\$2,436.4	\$2,180.3
Earnings:		
Raw materials and building materials	\$ 59.9	\$ 155.4
Pulp and paper	134.2	122.5
Linerboard and packaging	40.5	26.9
Other	1.1	1.4
	235.7	306.2
Less: Inter-segment eliminations	.1	4.6
	235.6	301.6
Share of profits of other companies in which MacMillan Bloedel has a significant interest (before income taxes)	—	7.8
	235.6	309.4
Deduct:		
Unallocated general and administrative expenses	49.9	37.9
Interest expense	31.9	28.9
Corporate (gains) and losses and (investment income)	(26.4)	(22.2)
	55.4	44.6
Earnings before income taxes	180.2	264.8
Less:		
Income taxes* (Canadian Federal and Provincial, United States and various other countries)	63.0	106.3
Share of net earnings belonging to minority shareholders of certain subsidiary companies	4.0	3.6
	67.0	109.9
Remaining earnings belonging to MacMillan Bloedel shareholders	\$ 113.2	\$ 154.9
Dividends on Preferred shares	\$ 5.8	\$ 5.4
Dividends on Common shares	37.2	37.2
Increase in Common shareholders' equity	70.2	112.3
	\$ 113.2	\$ 154.9

*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.

Note: The financial statements on pages 26, 27, and 28 have been prepared in condensed form for ease of reading. Formal audited financial statements are on pages 41 to 61.

Financial Overview

	December 31	
Net Assets	1980	1979
	(millions of dollars)	
Working capital:		
Accounts receivable	\$ 304.7	\$ 261.8
Inventories	422.9	357.0
Prepaid expenses and miscellaneous	19.3	21.6
	746.9	640.4
Deduct:		
Net short term indebtedness	55.8	8.9
Accounts payable and miscellaneous liabilities	253.9	297.7
Current repayments of long term borrowings	15.5	13.8
	325.2	320.4
Total working capital	421.7	320.0
Add:		
Long term assets:		
Operating plants and equipment (at cost, less depreciation)	785.5	663.8
Construction in progress	193.0	101.2
Timber and logging roads (net of depletion and amortization) and land	142.5	134.2
Funds held for construction projects	76.0	—
Investments:		
Investments in associated companies	68.9	67.7
Other investments	8.2	8.4
Goodwill of businesses acquired, less amortization	20.4	21.6
Other	5.9	5.0
	1,300.4	1,001.9
Capital employed	1,722.1	1,321.9
Deduct:		
Long term borrowings	550.8	323.1
Deferred income taxes	226.9	174.8
	777.7	497.9
Net assets	\$ 944.4	\$ 824.0
Ownership of net assets:		
Interest of minority shareholders in net assets of subsidiary companies	\$ 23.1	\$ 21.7
Balance of net assets belonging to MacMillan Bloedel shareholders		
Preferred	137.9	87.9
Common	783.4	714.4
	\$ 944.4	\$ 824.0

Financial Overview

MacMillan Bloedel Limited

Condensed Financial Statements

Source of Funds and Capital Requirements

	Year ended December 31	
	1980	1979
	(millions of dollars)	
Source of Funds:		
Funds generated from operations	\$245.9	\$257.6
Deduct:		
Dividends on Preferred shares	5.8	5.4
Dividends paid to Common shareholders and minority shareholders of certain subsidiaries	39.4	39.8
	45.2	45.2
Funds generated by MacMillan Bloedel and available for investment	200.7	212.4
Add:		
Issue of shares	50.0	.3
Increase (decrease) in long term debt	227.7	(18.6)
Disposal of assets and miscellaneous	33.3	108.4
	311.0	90.1
Total source of funds	511.7	302.5
Capital requirements:		
Short term –		
Increase in accounts receivable, inventories, prepaid expenses and miscellaneous	106.5	85.0
Less: Increase (decrease) in current liabilities other than bank indebtedness	(42.1)	50.2
	148.6	34.8
Long term –		
New property, plant and equipment	327.7	280.4
Funds held for construction projects	76.0	—
New investments acquired	6.3	3.1
	410.0	283.5
Total capital requirements	558.6	318.3
(Decrease) in net cash and short term investments	\$(46.9)	\$(15.8)

Financial Overview

MacMillan Bloedel Limited

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	
	1980 Replacement Basis	Historical Basis	Replacement Basis	Historical Basis
	(millions of dollars)			
Buildings and Equipment:				
Cost	\$5,143.2	\$1,742.7	\$4,357.9	\$1,479.3
Accumulated depreciation	2,624.4	764.2	2,199.4	714.3
Net	\$2,518.8	\$ 978.5	\$2,158.5	\$ 765.0
Depreciation for year	\$ 211.4	\$ 71.8	\$ 177.1	\$ 65.6

Effect of Inflation on Funds Available

to Maintain Present Productive Capacity (Note 2)

	Year ended December 31	
	1980	1979
	(millions of dollars)	
Funds generated from operations (as shown in the statement of source of funds and capital requirements)	\$245.9	\$257.6
Funds required to be set aside to finance replacement of productive capacity if no inflationary cost increases had occurred (historical cost depreciation)	71.8	65.6
	174.1	192.0
Additional funds required to finance the inflationary increase in the cost of maintaining present productive capacity		
Inventories (Note 3)	54.7	49.7
Buildings and equipment (Notes 1 and 4)	139.6	111.5
	194.3	161.2
Funds available for distribution or expansion (deficiency) (Note 5)	\$ (20.2)	\$ 30.8

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 are 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. 1979 has been restated.
4. The increased cost of maintaining the present productive capacity represents the difference between depreciation determined on an 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.

Financial Overview

Capital Investment Discussion

One of MacMillan Bloedel's primary objectives is to increase the value of the investment of its shareholders by improving the rate of return earned on the capital invested in its various lines of business. In order to improve the return on invested capital, the Company has implemented strategies and programs to increase the return on the existing asset base, to expand in those areas which will provide the highest returns, and to dispose of facilities or other assets which do not provide satisfactory returns or complement corporate strategy. Capital funds are allocated to new discretionary investments on the basis of their expected discounted cash flow return on investment.

Over the past five years the Company's capital expenditures have totalled \$877 million, and during the next five years, planned

capital expenditures total \$2.0 billion. On a constant dollar basis this represents an increase of approximately 52 per cent between the two five-year periods. More than 60 per cent of the planned capital expenditures have been allocated to upgrade and expand the Company's operations in British Columbia.

Over the next five years, \$793 million or 40 per cent of planned capital expenditures are classified as being necessary to maintain operations in good working order and to keep them safe and environmentally sound.

Approximately \$1.2 billion or 60 per cent of the capital program is earmarked for discretionary expenditures to improve productivity and expand capacity, thereby enhancing the Company's fundamental earning power. A discretionary expenditure is approved only if the net after-tax cash flow it is expected to generate provides a discounted cash flow return on investment greater than

Capital Expenditures 1976 to 1980 (\$ millions)

Business Segment	1976	1977	1978	1979	1980	Five Year Total
Raw Materials and Building Materials						
Raw Materials	\$22.9	\$32.0	\$ 53.0	\$ 56.5	\$ 41.6	\$206.0
Building Materials	10.3	9.7	15.9	62.9	46.8	145.6
Pulp and Paper	25.0	24.2	37.3	118.3	183.0	387.8
Linerboard and Packaging	3.3	9.4	13.7	36.8	47.5	110.7
Other	7.9	2.1	1.7	5.9	8.8	26.4
Total	\$69.4	\$77.4	\$121.6	\$280.4	\$327.7	\$876.5

Five Year Capital Expenditure Program 1981 to 1985 (\$ millions)

Business Segment	Necessary Expenditures	Discretionary Expenditures	Total Expenditures
Raw Materials and Building Materials			
Raw Materials	\$327	\$ 150	\$ 477
Building Materials	54	172	226
Pulp and Paper	287	326	613
Linerboard and Packaging	101	469	570
Other	24	90	114
Total	\$793	\$1,207	\$2,000

Financial Overview

the applicable minimum hurdle rate. MacMillan Bloedel's present hurdle rate for most projects is 15 per cent, which reflects the current weighted average cost of all sources of new capital.

During 1980, the Company's Board of Directors gave the approval to proceed with \$593 million of planned capital projects, virtually all of which are within the 1981 to 1985 period. Of this amount, \$425 million were discretionary expenditures, which had a weighted average projected return on investment of 17 per cent.

Over the next five years the Company will increase the percentage of its invested capital in the containerboard business. The largest planned expenditure is the expansion of the Pine Hill Alabama forest products complex. This expansion is scheduled to be completed by early 1983, and includes a 190,000 tonne corrugating medium machine and a 50,000 tonne expansion of linerboard capacity. (Corrugating medium is the fluted paper sandwiched between sheets of linerboard used to

make corrugated containers.) Through the use of coal and increased use of wood waste this project will also reduce Pine Hill's total fuel oil consumption by two-thirds or 350,000 barrels of oil per year. This U.S. \$274 million expansion will capitalize upon the strong growth potential for the industrial packaging business during the 1980s. It follows the acquisition of a 70,000 tonne corrugating medium machine and six corrugated container plants in eastern Canada in late 1979 and early 1980.

For the next five years, we plan to allocate \$613 million of capital to the Company's pulp and paper operations. During that period, standard newsprint capacity will be increased by an estimated 10,000 tonnes, groundwood specialty capacity by 140,000 tonnes, and fine paper capacity by 75,000 tonnes. These increases in production capacity reflect a planned reduction in the average basis weight of the paper grades involved. Approximately \$170 million has been allocated to upgrade the Harmac pulp mill, including a new recov-

Allocation of Capital Expenditures

1976-1980 Actual (\$88 billion)

Linerboard and Packaging	12.6%
Building Materials	16.6%
Raw Materials	23.5%
Pulp and Paper	44.3%
Other	3.0%

1981-1985 Planned (\$2.00 billion)

Other	5.6%
Linerboard and Packaging	28.5%
Building Materials	11.3%
Raw Materials	23.9%
Pulp and Paper	30.7%

Financial Overview

ery boiler costing an estimated \$92 million. \$80 million has been included for energy conservation, including a new power boiler at Powell River as well as hog fuel drying systems at both Powell River and Port Alberni.

The plan also allocates \$703 million or 35 per cent of capital expenditures to the Company's raw materials and building materials segment. Of this amount, \$477 million is to develop and upgrade logging operations and for the purchase of timber and timberlands. \$226 million has been earmarked for the Company's building materials operations, primarily to rebuild its B.C. converting facilities so that they are cost-effective and capable of deriving the maximum volume and value of products from our high quality timber base. The largest planned project for our building materials operations over the next five years is an \$83 million sawmill replacement at Chemainus, B.C. which will be similar to the recently-completed Alberni Pacific Division sawmill.

Additions to Property, Plant and Equipment in 1980

The total expenditures for the year of \$327,692,000 were grouped as follows:

Raw Materials and Building Materials	(\$ thousands)
Timber in Alabama and B.C., road construction and dry land log sorting facilities in B.C., logging equipment, a new sawmill and a plywood mill modernization program in Port Alberni, B.C., and a sawmill modernization program at Pine Hill, Alabama, pollution control projects and general improvements to operating facilities	\$ 88,460
Pulp and Paper	
Rebuild No. 7 paper machine; hog fuel dryers and precipitators and No. 11 paper machine at Powell River, B.C., "C" bleach plant at Harmac, B.C., pollution control projects and general improvements to operating facilities	183,024
Linerboard and Packaging	
New corrugating medium mill at Pine Hill, Alabama, acquisition of 4 corrugated container plants in eastern Canada and general improvements to operating facilities	47,469
Other	
Aircraft, computer equipment and other general facilities	8,739
	\$327,692

MacMillan Bloedel Limited

Selected Quarterly Financial Data

	1978			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
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
Per Common share (dollars)	.80	1.15	1.30	1.25
Price range of Common shares on Toronto Stock Exchange (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

Financial Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations

Capital Resources and Liquidity

It is MacMillan Bloedel's objective to maintain a strong financial position and broad financing flexibility. In order to be able to respond to opportunities and challenges as they occur, capital structure policies have been designed primarily to provide the Company with ready access to the funds needed to fully implement its operating and capital spending plans.

MacMillan Bloedel presently has a well-balanced capital structure. The Company will continue to take advantage of the relatively low after tax cost of debt and expects to maintain a target ratio of debt to invested capital (excluding deferred income taxes) of about 35 per cent on average. For the purpose of calculating our debt ratio, we define debt as the sum of long term and short term interest-bearing debt, capitalized leases and term preferred shares within five years of maturity. Invested capital is defined as the sum of debt, minority interests, preferred and Common shareholders' equity and deferred income taxes. By maintaining this target capital structure and adhering to other financial guidelines, the Company expects to maintain or improve its A bond ratings.

Over the past five years, most of the Company's fund requirements have been derived from internally generated cash flow. During 1979, \$4.6 million of new long term capital was applied to supplement operating cash flow. The Company did, however, utilize short-term borrowings, which stood at \$54.0 million at year-end 1980.

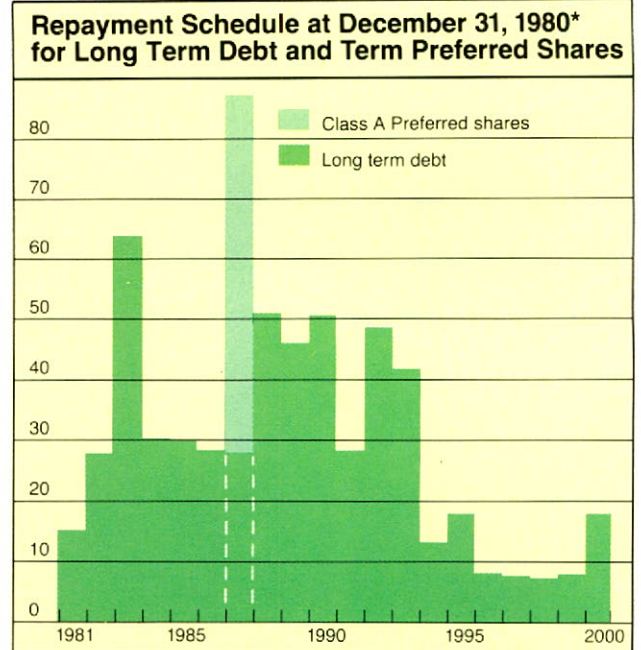
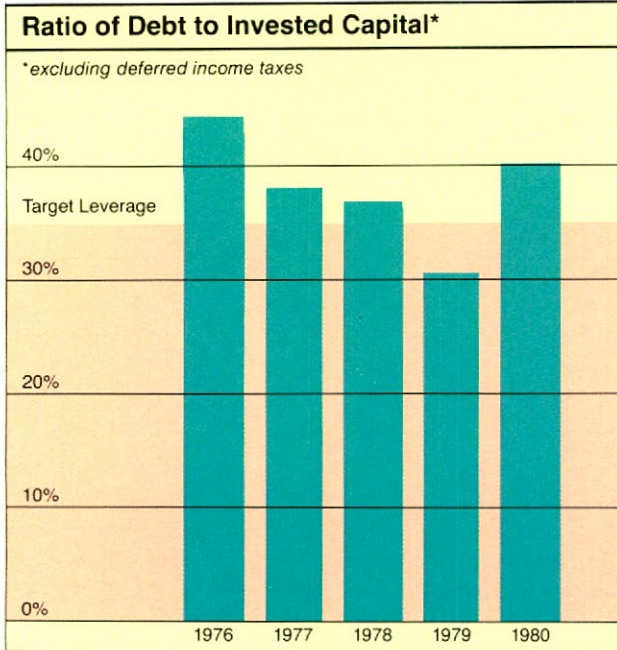
During 1980, \$245.9 million of operating cash flow was supplemented with \$296.2 million of new long term financings. The major financings were:

- U.S. \$65 million of tax-exempt industrial revenue bonds for environmental protection and waste disposal, primarily in conjunction with the Alabama expansion project. These bonds carry interest rates ranging from 8¼% to 10½% and range in maturity from 3 to 35 years.
- a U.S. \$50 million 10 year bank loan with an interest ceiling of 12½%.
- a 12 year loan of 60 million Dutch guilders (approximately \$34 million) at an interest rate of 11⅝%.
- \$50 million of Class B Convertible Preferred shares carrying a dividend rate of 8% and convertible into Common shares at a price of \$38.50 per Common share for the next five years and at \$40.50 over the following five years.

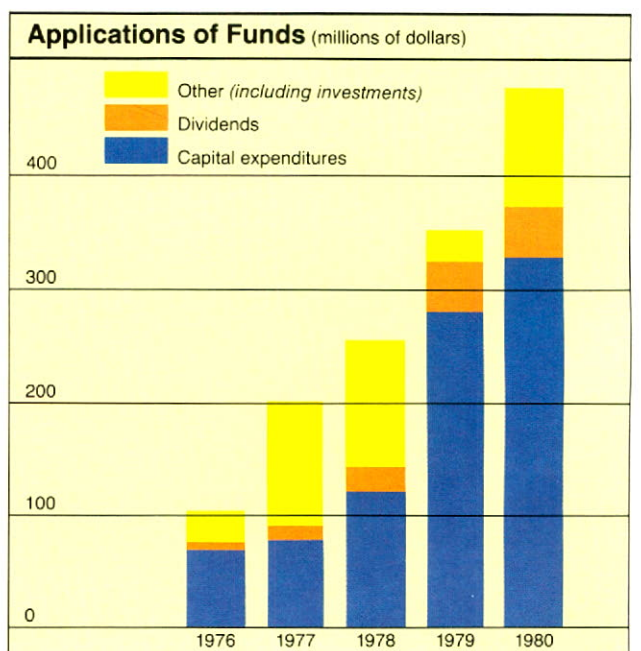
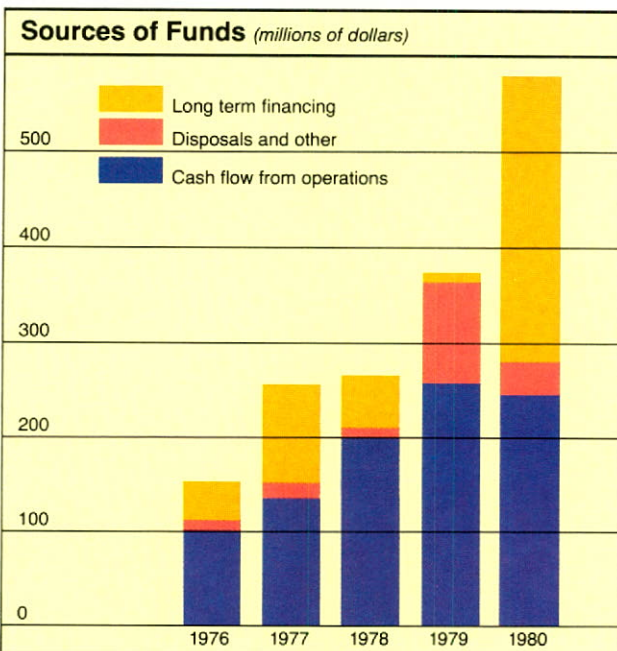
To provide financing flexibility under conditions of economic uncertainty, the Company has established contractual lines of

1979				1980			
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
\$566.2	\$558.9	\$510.5	\$569.0	\$619.3	\$647.0	\$609.3	\$580.6
40.7	49.8	27.8	36.6	44.7	37.6	25.2	5.7
1.85	2.28	1.24	1.66	2.04	1.71	1.12	.16
26.38	26.63	30.00	27.63	33.50	29.75	35.50	43.25
22.25	21.50	24.13	20.50	25.50	24.25	29.25	30.50
.25	.35	.35	.80	.35	.35	.35	.70

Financial Overview



* At historical rates of currency translation. Repayment obligations beyond 2000 total \$18.2 million and extend to the year 2015.



Financial Overview

credit totalling \$358 million for terms of 10 to 15 years and a further \$172 million of short term credit agreements. As at December 31, 1980 \$121 million were drawn down on these lines.

MacMillan Bloedel's capital expenditure program totals \$2.0 billion over the next five years. Details of this program are described in the section entitled "Capital Investment Discussion." Projects approximating \$590 million have been approved by the Board of Directors and are underway. The program will be funded from internally generated cash flow and existing cash balances, supplemented by external sources of funds.

Late in 1980 the Company arranged U.S. \$18.7 million of equipment import financing for a new fine paper machine for the Island Paper Mills in Vancouver and new corrugating medium machine in Pine Hill, Alabama.

In February, 1981 the Company issued a second \$50 million series of Class B Convertible Preferred shares, carrying a dividend rate of 8.32%, with a conversion price of \$45.00 for the next five years and \$49.00 for the following five years. The \$100 million of new Class B Preferred shares has strengthened the Company's financial position and expanded its capacity to raise new long term debt.

In addition to maintaining long term financial flexibility, the Company has maintained its short term liquidity. Short term liquidity has been enhanced by funds generated from operations, the issuance of long term capital and access to contractual and non-contractual lines of credit. When advan-

tageous, the Company also issues up to \$50 million of commercial paper to complement its other sources of short term funds. At year end 1980 the Company's current ratio was 2.1 to 1.

Results of Operations

Return on Invested Capital

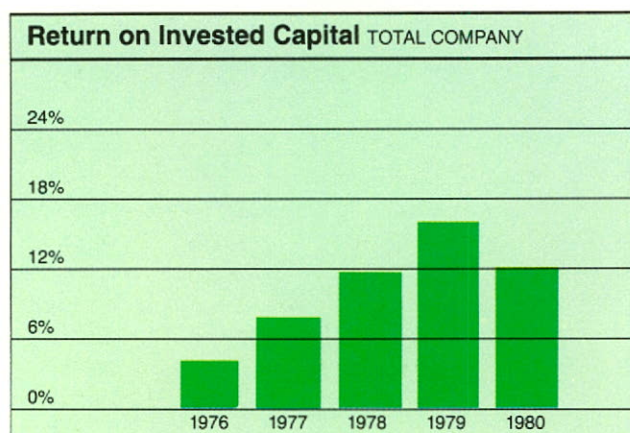
A company's operating performance can be measured by the after-tax cash flow it generates after setting aside an estimated amount of capital funds essential to maintain its operating facilities. This cash flow is thus available for distribution to the Company's investors — by way of interest to creditors, by way of dividends to preferred shareholders, and, in the case of Common shareholders, either by way of dividends or for reinvestment in profit improvement projects. This distributable cash flow as a percentage of the capital invested in the Company as a whole, or within an operating segment, is referred to as return on invested capital. For the Company as a whole, return on invested capital is calculated as the percentage of net operating profit after taxes to average invested capital. Net operating profit after taxes is the sum of net earnings before extraordinary items and minority interests, the change in deferred income taxes and interest expense on an after tax basis. By measuring returns before financing charges, this measure of operating profitability is independent of changes in the Company's financial structure or in interest rates and other costs of capital.

Average Invested Capital* (\$ millions)

	1976	1977	1978	1979	1980
Raw Materials and Building Materials	\$ 414	\$ 431	\$ 450	\$ 515	\$ 614
Pulp and Paper	337	362	370	401	544
Linerboard and Packaging	146	142	149	173	252
Other	167	179	235	225	171
Total Company	\$1,064	\$1,114	\$1,204	\$1,314	\$1,581

*Excluding Intangible Assets

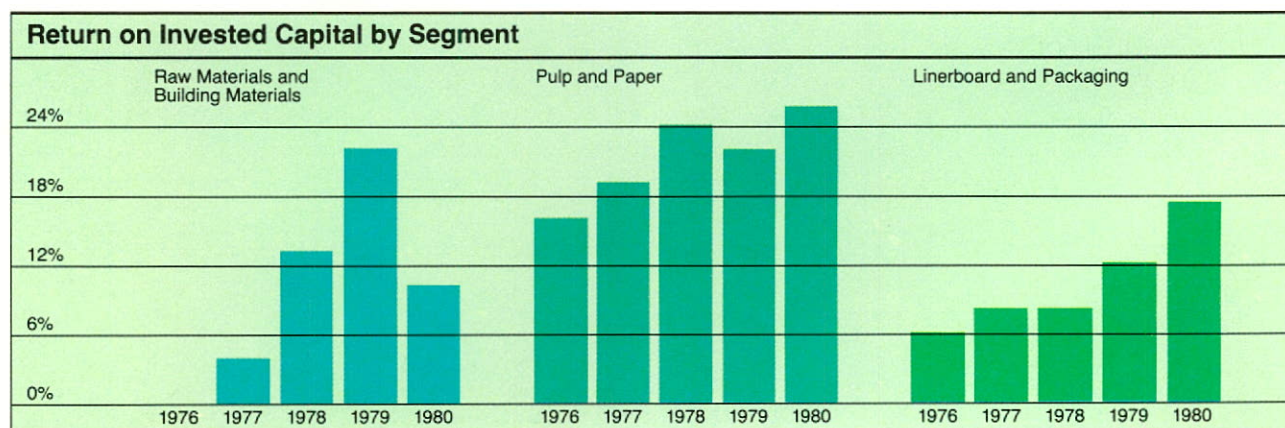
Financial Overview



During the past five years, the Company's return on invested capital has shown a definite uptrend, reflecting the strengthening of most market sectors, and the favorable benefit of the weakness of the Canadian dollar relative to the other world currencies, particularly to the U.S. dollar. The 16 per cent return on invested capital in 1979 reflects the strength of all major product markets in that year. Return on invested capital in 1980 fell to 12 per cent reflecting primarily weaker building materials markets, particularly during the latter half of the year, although this was partly offset by somewhat better results from pulp, paper, containerboard, and packaging operations.

Although forest products markets will always fluctuate in response to changes in economic activity, the implementation of the Company's capital expenditure plan will significantly improve its competitive position and expand production capacity, thereby contributing to higher and more stable returns for shareholders.

Net operating profit after taxes of each business segment as a percentage of invested capital within each business segment also serves as a useful measure of performance. Because of the integrated nature of the Company's operations it is difficult to allocate with complete accuracy the corporate income tax charge among the various business segments. Accordingly, in the charts shown below, current corporate income taxes have been allocated on the basis of each segment's contributions to the before-tax operating results of the Company. Graphs of operating profit by business segment are also shown later in this section.



Financial Overview

1980 Sales and Earnings

During 1980, sales of products and services increased by 11.7 per cent, of which approximately 35 per cent resulted from increased shipment volumes and approximately 65 per cent from increased unit sales realizations.

The low level of economic activity in Canada and particularly in the United States during 1980 resulted in the deterioration of these markets for the Company's building materials products. Lumber markets were particularly hard hit by very high interest rates, which significantly reduced housing starts in both countries. As a result, total shipments and prices for most of the Company's building materials markets were lower than in 1979, although the decline was less severe during the first half of the year due to an emphasis on sales to offshore markets. However, during the latter part of the year prices and volumes of building materials sold in Japan, the United Kingdom and Continental Europe also fell significantly. These weak market conditions were exacerbated by rising costs, including start-up expenses at new or modernized facilities, high stumpage payments, and higher logging costs. For the year as a whole the Company's raw materials and building materials operations earned an operating profit of \$59.9 million as compared to \$155.4 million in 1979. However, during the latter months of the year some operating losses were recorded for this segment.

Demand for newsprint, groundwood spe-

cialty papers, fine papers and kraft pulp remained strong in 1980 and the Company's facilities operated at close to full capacity. Due to higher wood chip costs and other cost increases, profit margins declined in the pulp and paper segment, although price increases helped to offset the higher costs. While profit margins for most pulp and paper products were down somewhat, total segment profit increased substantially due to higher sales volumes than in 1979, when considerable production was lost due to work stoppages.

The 1980 contribution from the liner-board and packaging segment increased by \$13.6 million primarily owing to better market conditions and the acquisition of a corrugating medium facility and six container plants in eastern Canada. However, by the final quarter of the year some market softness was evident in eastern Canada and the United Kingdom. Packaging markets in western Canada remained relatively firm. By the end of the year, packaging markets in the United States were firm enough to permit the implementation of an 11 per cent increase in containerboard prices, effective January 1, 1981.

The Company's ocean transportation operations recorded a small profit in 1980.

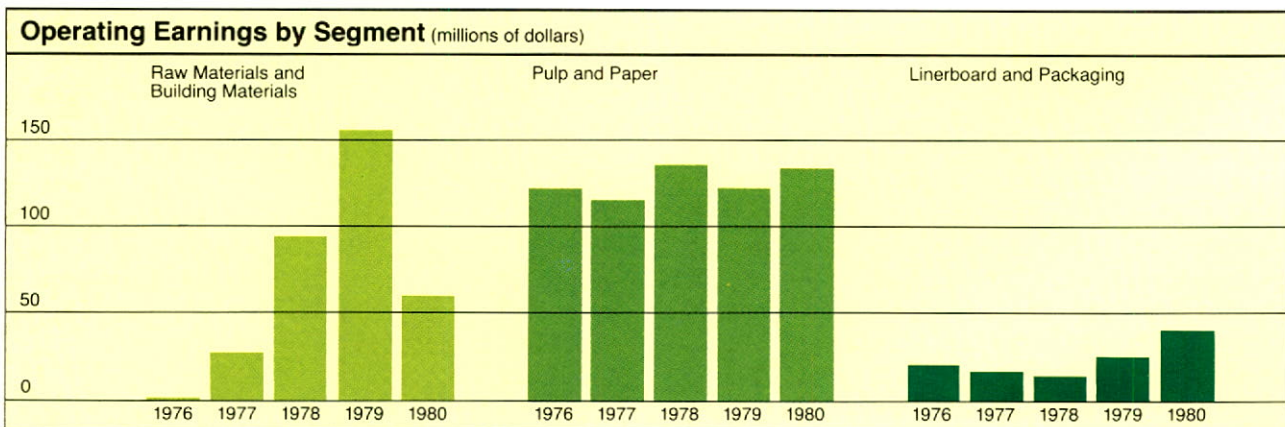
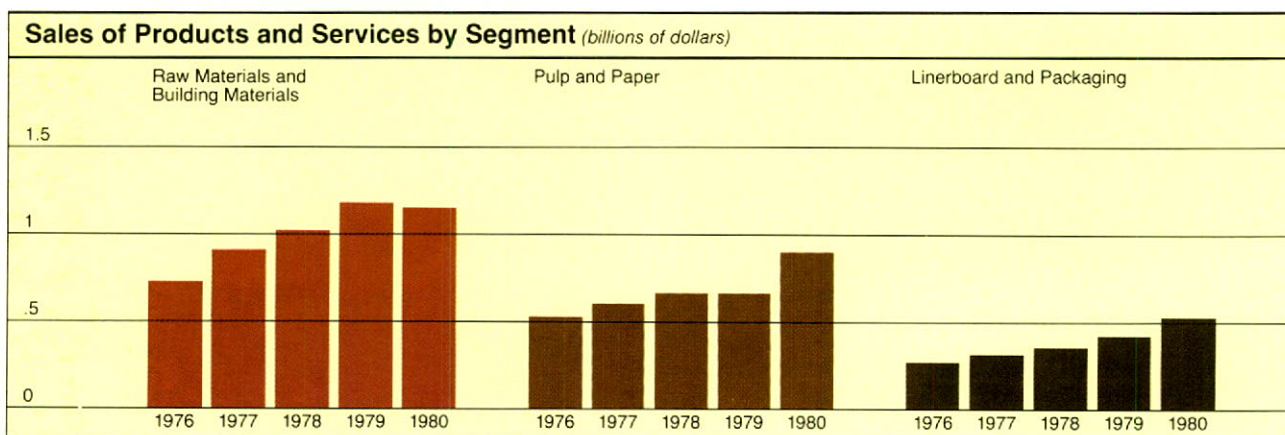
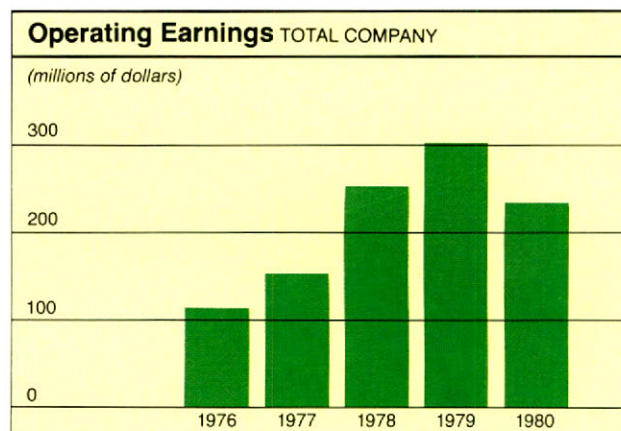
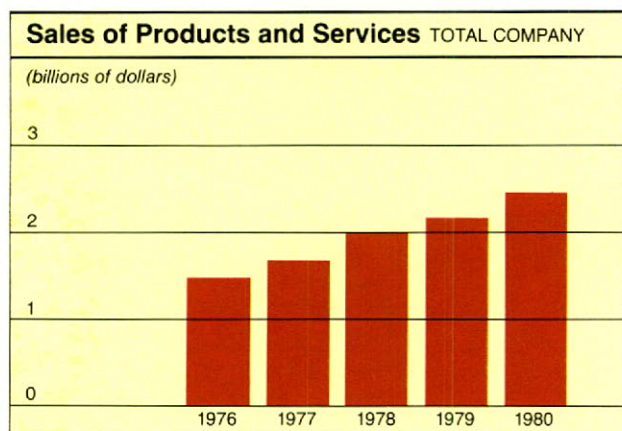
For the Company as a whole, the cost of sales and services increased by 16.5 per cent, which exceeded the 11.7 per cent increase in sales.

The generally weaker market conditions in 1980 caused net earnings to decrease by \$41.7 million or 26.9 per cent from the 1979

Selected Financial Data (\$ millions)

	1976	1977	1978	1979	1980
Sales of Products and Services	\$1,520.2	\$1,707.3	\$2,004.9	\$2,180.3	\$2,436.4
Operating Earnings of Business Segments	118.4	156.6	252.0	301.6	235.6
Operating Earnings of Business Segments per Common share (dollars)	5.57	7.21	11.61	13.93	10.78
Total Assets	1,280.1	1,360.9	1,549.3	1,691.9	2,075.2
Long Term Debt and Redeemable Preferred shares	372.8	397.7	429.7	411.0	688.8
Cash Dividends per Common share (dollars)	.35	.40	.95	1.75	1.75

Financial Overview



Financial Overview

level. Helping to offset these weaker markets was a reduction of 4.2 per cent in the effective income tax rate. (See Note 12(f) to the audited financial statements.) Interest expenses increased by \$3.0 million (9.4 per cent) reflecting primarily increased borrowings of both long and short term funds and interest rates which were on average higher than in 1979. This increase was after deducting capitalized interest of \$14.5 million as compared to \$3.8 million in 1979.

During the first half of 1980, the Company disposed of three packaging plants and a deep sea vessel. These and other smaller divestitures increased net profit by approximately \$10.9 million or \$.51 per Common share.

In the fourth quarter, KNP, the Company's fine paper and packaging affiliate in the Netherlands, recorded an operating loss because of weak markets and because of a provision for the closure of several old and uneconomic paper machines. These factors caused MacMillan Bloedel to record a fourth quarter loss of \$6.8 million on its interest in partly-owned companies accounted for by the equity method which offset the equity earnings recorded during the first nine months of the year.

1979 Sales and Earnings

1979 was the most profitable year in the Company's history, reflecting strong markets for all major products and a weak Canadian dollar.

Prices for pulp, lumber, newsprint, groundwood specialties, containerboard and packaging products were significantly higher than in 1978 and a modest improvement was realized for plywood. However, by the fourth quarter of the year, North American markets for lumber and plywood had weakened in anticipation of reduced economic activity, particularly in the U.S. housing sector.

Price increases in 1979 more than offset reduced volumes, which resulted in an in-

crease in sales of 8.7 per cent. Of these price increases, approximately 15 per cent was attributable to the decline in the average value of the Canadian dollar in relation to the U.S. dollar.

These results were achieved despite several major work stoppages, which reduced net earnings by an estimated \$29.3 million.

Compared to 1978, the cost of sales and services increased by \$109 million or 6.5 per cent.

In 1979, net earnings reached a record level of \$154.9 million, an increase of \$54.0 million or 53.4 per cent over 1978. Selling, general and administrative expenses were only 2.2 per cent higher than in 1978, reflecting the provision of \$14.6 million for legal actions and claims in 1978. Interest expense in 1979 decreased by \$3.8 million (11.5 per cent) due to the adoption in 1979 of a policy to capitalize interest costs incurred during the construction of major projects.

During 1979, the Company realized a net profit of \$12.5 millions from the disposal of certain investments and subsidiaries.

Income taxes increased because of higher earnings in 1979, but the effective average income tax rate decreased from 45.3 per cent in 1978 to 39.1 per cent in 1979. This was largely because of an increase in investment tax credits, because of capital losses in 1978 for which potential income tax recoveries were not available and because of certain capital gains in 1979 subject to a low rate of tax. (See Note 12(f) to the audited financial statements.)

In 1979, equity earnings of partly-owned companies decreased by \$7.6 million to \$1.8 million because of a provision for an expected loss of the investment of KNP in another company (Okto B.V.) and because of the net reduction of exchange gains on translation of the financial statements of partly-owned companies into Canadian dollars.

Financial Overview

Foreign Exchange

Because of the international scope of MacMillan Bloedel's marketing activities, a very substantial portion of its sales are denominated in United States dollars. The Company's Canadian operations presently generate an annual net inflow of approximately \$700 million U.S. dollars.

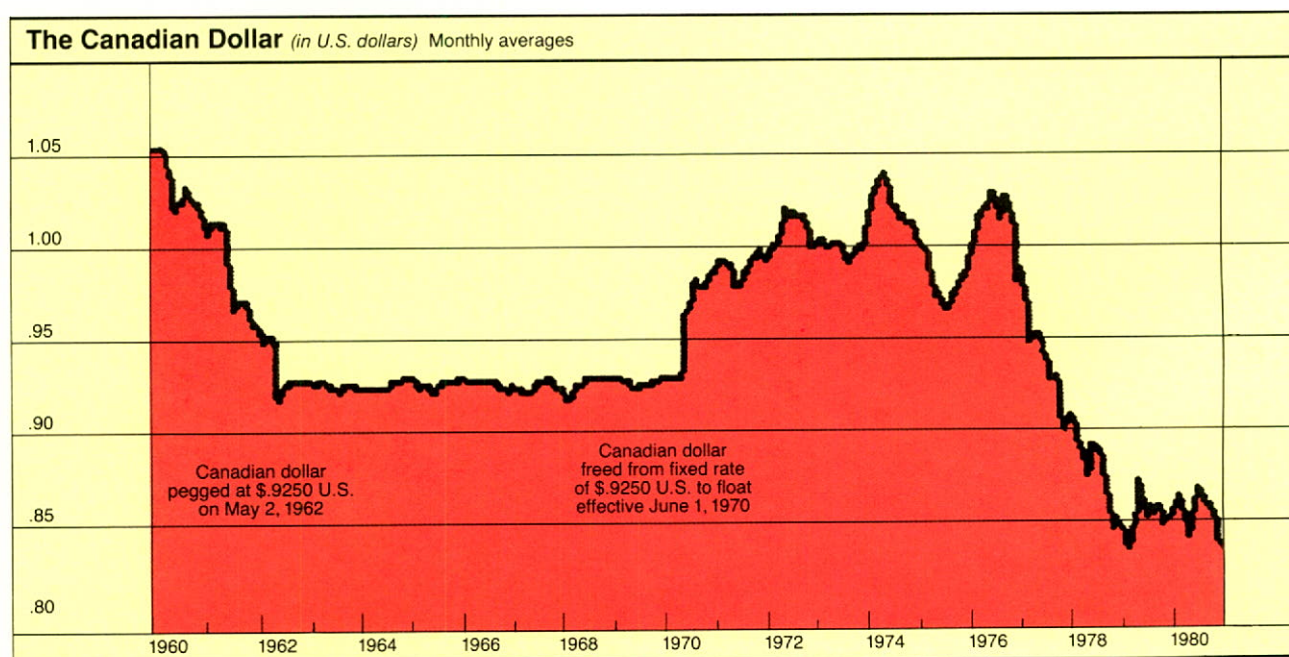
The weakness of the Canadian dollar in recent years has had a positive impact upon MacMillan Bloedel's revenues, earnings and cash flow. Apart from the effect of translating various balance sheet items, a one per cent change in the Canadian dollar exchange rate relative to the U.S. dollar changes after tax earnings by approximately \$5.3 million or 25 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 up to 12 months in the future. These contracts eliminate the risk

of loss due to the Canadian dollar strengthening between the date of purchasing the contract and actual conversion but conversely any gain that might arise from a weakening of the Canadian dollar is foregone.

In 1980, the Company's U.S. dollars were translated into Canadian dollars at an average rate of \$.855 U.S. dollars per Canadian dollar as compared to a rate of \$.854 in 1979. In addition, the level of sales revenues in 1980 denominated in U.S. dollars were similar to that in 1979. Accordingly the Company's earnings in 1980, as compared to 1979, were not significantly affected by foreign exchange fluctuations.

The value of the Canadian dollar fluctuated in 1980 between U.S. \$.876 and U.S. \$.826. As at December 31, 1980 the Company had sold forward U.S. \$516 million at an average rate of U.S. \$.855 per Canadian dollar. These forward sales represent approximately three-quarters of the Company's anticipated net U.S. receipts during 1981.





MacMillan Bloedel Limited

1980 Financial Statements and Statistics

Contents

Audited Financial Statements	
— Consolidated Balance Sheets	42
— Consolidated Statements of Earnings and Retained Earnings	44
— Consolidated Statements of Source and Application of Working Capital	45
— Auditors' Report	45
— Notes to Consolidated Financial Statements	46
— Earnings Statements Segment Information	59
— Balance Sheets Segment Information	61
Statistics: Historical Summary	62
Segment Statistics	
— Raw Materials and Building Materials	66
— Pulp and Paper	68
— Linerboard and Packaging	70

MacMillan Bloedel Limited follows accounting principles generally accepted in Canada and these financial statements are expressed in Canadian dollars. The Company is, however, subject to certain requirements of the United States Securities and Exchange Commission (SEC) as a result of its borrowings from time to time in the United States capital markets and as a result of its Common shares being listed on the New York Stock Exchange. Accordingly, these financial statements contain, in compliance with the SEC requirements, three years' information (1978, 1979 and 1980) relative to earnings and source and application of working capital. In addition, these financial statements include certain other detailed information required under SEC regulations.

MacMillan Bloedel Limited
Consolidated Balance Sheets

	December 31	
Assets	1980	1979*
		(\$000)
Current assets:		
Cash	\$ 1,064	\$ 2,822
Short term investments and deposits, at cost which approximates market value	26,757	46,903
Accounts receivable less allowance for doubtful accounts of \$2,542,000 (1979 – \$2,443,000)		
Trade	265,105	237,379
Other	39,632	24,342
Inventories (Note 3)	422,940	356,995
Prepaid expenses	5,838	5,420
Deferred income taxes, current items	13,462	16,215
	774,798	690,076
Investments and other assets:		
Partly-owned companies, accounted for by the equity method (Note 4)	68,853	67,728
Other investments and assets, at cost	8,203	8,395
	77,056	76,123
Funds held for construction projects (Note 7(b))	76,046	—
Property, plant and equipment:		
Buildings and equipment, at cost (Note 5)	1,549,669	1,378,101
Less: Accumulated depreciation (Note 2(b))	764,164	714,311
	785,505	663,790
Construction in progress, at cost (Note 5)	193,031	101,151
	978,536	764,941
Timber, at cost less accumulated depletion of \$137,438,000 (1979 – \$127,188,000)	110,615	101,741
Logging roads, at cost less amortization	19,570	20,711
Land, at cost	12,291	11,779
	1,121,012	899,172
Intangible assets (at cost less amortization):		
Unallocated purchase price of shares in subsidiaries	20,401	21,601
Financing expenses	5,917	4,991
	26,318	26,592
	\$2,075,230	\$1,691,963

* Certain 1979 amounts have been reclassified to conform with the presentation in 1980.

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

C. C. Knudsen, Director

R. V. Smith, Director

Liabilities	December 31	
	1980	1979*
Current liabilities:		(\$000)
Short term bank indebtedness (Note 6)	\$ 73,392	\$ 58,566
Notes payable	10,263	—
Trade accounts payable	126,568	136,221
Accrued payroll and related liabilities	84,865	73,872
Accrued interest on borrowed funds	16,253	12,287
Other accounts payable and accrued liabilities	19,533	29,062
Income taxes payable	6,763	46,274
Current portion of long term debt (Note 8)	15,508	13,826
	353,145	370,108
Long term debt:		
Bonds and debentures (Notes 7(a) and 8)	367,303	306,981
Term bank loans (Note 6)	160,151	—
Other liabilities (secured)	23,349	16,063
	550,803	323,044
Deferred income taxes	226,859	174,821
Minority interests in subsidiaries	23,117	21,692
	1,153,924	889,665
Shareholders' Equity		
Share capital:		
Shares without par value (Notes 9 and 15)		
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
2,000,000 Class B Preferred shares, Series 1	50,000	—
21,272,975 Common shares	171,415	171,415
	309,369	259,369
Retained earnings	611,937	542,929
	921,306	802,298
Commitments (Notes 9 and 10)		
Contingent liabilities (Note 11)		
Subsequent event (Note 15)		
	\$2,075,230	\$1,691,963

MacMillan Bloedel Limited
Consolidated Statements of Earnings

	Year ended December 31		
	1980	1979	1978
Sales and other income:		(\$000)	
Sales of products and services (Note 12(a))	\$2,436,415	\$2,180,318	\$2,004,913
Income from investments	5,118	10,329	8,235
Profit (loss) in respect of non-current assets (Note 12(b))	14,683	13,963	(2,746)
	2,456,216	2,204,610	2,010,402
Costs and expenses (Note 12(d)):			
Cost of sales and services	2,062,765	1,770,656	1,662,039
Selling, general and administrative (Notes 11 and 12(e))	181,383	147,994	144,803
Interest (Notes 2(a) and 12(c))	31,857	28,878	32,639
	2,276,005	1,947,528	1,839,481
Earnings before income taxes and other undernoted items	180,211	257,082	170,921
Income taxes (Note 12(f)):			
Current	7,215	63,905	59,119
Deferred	55,753	36,466	18,377
	62,968	100,371	77,496
Earnings before undernoted items	117,243	156,711	93,425
Equity in earnings of partly-owned companies (Note 4)	(17)	1,815	9,419
Minority interests in subsidiaries	(4,041)	(3,624)	(1,897)
Net earnings	\$ 113,185	\$ 154,902	\$ 100,947
Net earnings per Common share (Note 12(g))	\$5.03	\$7.03	\$4.50

MacMillan Bloedel Limited
Consolidated Statements of Retained Earnings

	Year ended December 31		
	1980	1979	1978
		(\$000)	
Balance at beginning of year	\$542,929	\$430,602	\$353,772
Net earnings	113,185	154,902	100,947
	656,114	585,504	454,719
Deduct:			
Dividends:			
Preferred shares			
Class A	5,335	5,349	3,919
Class B, Series 1	516	—	—
Common shares – \$1.75 per share in 1980 and 1979, \$.95 in 1978	37,228	37,226	20,198
	43,079	42,575	24,117
Cost of issue of Class B Preferred shares, Series 1, less applicable income taxes of \$962,000	1,098	—	—
	44,177	42,575	24,117
Balance at end of year	\$611,937	\$542,929	\$430,602

Consolidated Statements of Source and Application of Working Capital

	Year ended December 31		
	1980	1979*	1978*
Source of working capital:	(\$000)		
Earnings –			
Net earnings	\$113,185	\$154,902	\$100,947
Depreciation, depletion and logging road amortization	88,732	82,586	75,641
Deferred income taxes, non-current portion	52,038	29,695	28,650
Elimination of (profit) loss in respect of non-current assets (Note 12(b))	(14,683)	(13,963)	2,746
Dividends from partly-owned companies	756	798	703
Other components not affecting working capital, net	5,815	3,611	(8,133)
	245,843	257,629	200,554
Net proceeds of shares issued (Note 9)	48,902	240	—
Net proceeds of long term debt	247,303	4,348	56,180
Proceeds of disposals of non-current assets	34,903	108,542	9,478
	576,951	370,759	266,212
Application of working capital:			
Property, plant and equipment	327,692	280,443	121,557
Funds held for construction projects	76,046	—	—
Reduction of minority interests	405	—	52
Investments and other assets	4,754	3,071	84,838
Reduction in long term debt	21,079	23,043	26,290
Dividends –			
Preferred shares			
Class A	5,335	5,349	3,919
Class B, Series 1	516	—	—
Common shares	37,228	37,226	20,198
Minority shareholders of subsidiaries	2,211	2,634	1,333
	475,266	351,766	258,187
Increase in working capital	101,685	18,993	8,025
Working capital at beginning of year	319,968	300,975	292,950
Working capital at end of year	\$421,653	\$319,968	\$300,975

* Certain amounts have been restated to conform with the presentation in 1980.

Auditors' Report

To the Shareholders of MacMillan Bloedel Limited:

We have examined the consolidated balance sheets of MacMillan Bloedel Limited as at December 31, 1980 and 1979 and the consolidated statements of earnings, retained earnings and source and application of working capital for the years ended December 31, 1980, 1979 and 1978. 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, 1980 and 1979 and the results of its operations and the source and application of its working capital for each of the years in the three-year period ended December 31, 1980 in accordance with generally accepted accounting principles consistently applied during the period except for the changes, with which we concur, in the methods of accounting for depreciation and interest cost, as described in Note 2 to the financial statements.

February 19, 1981
Vancouver, B.C.

PRICE WATERHOUSE & CO.
Chartered Accountants

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 differences between generally accepted accounting principles in Canada and the United States is provided in Note 16.

(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. (Embrasca) 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 (Note 1(d)).

(b) Foreign currency translations –

A number of subsidiaries and partly-owned companies operate in foreign countries. In addition, 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 (Note 16(a)).

(c) Valuation of inventories –

Inventories of substantially all operating and maintenance supplies and logs, poles, pulp chips, pulpwood and cordwood 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) 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 financial statements and any profits or losses are reflected in the consolidated statements of earnings.

For years prior to 1980, depreciation was computed on a straight-line basis on original cost. In 1980 MacMillan Bloedel adopted the units-of-production basis for depreciation of manufacturing assets (Note 2(b)). Non-manufacturing assets continue to be depreciated on a straight-line basis.

Depletion of timber and amortization of main logging roads are determined on a basis related to log production.

The rates of depreciation being applied are intended to fully depreciate manufacturing assets (at normal production levels) and non-manufacturing assets over the following periods:

Buildings	20 and 40 years
Pulp and paper mill machinery and equipment	20 years
Logging machinery and equipment	5 to 7 years
Other manufacturing machinery and equipment	7 to 13 years
Ship, tugs, barges and scows	10 to 13 years

1. Accounting Policies: continued

(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. Share issue costs net of applicable taxes are charged to retained earnings.

(g) *Income taxes* –

Income taxes are recorded on a tax allocation basis. Accordingly, deferred income tax provisions (or reductions) are recorded in the 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.

Investment tax credits are accounted for as a reduction of current and deferred income tax expense.

(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 are amortized to earnings over appropriate periods. Past service pension costs arising from plan amendments in 1979 (Note 13) are being charged to earnings over a period of fifteen years.

2. Accounting changes:

(a) *Capitalized 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.

For the years ended December 31, 1980 and 1979 \$14,543,000 and \$3,800,000 respectively of interest costs were capitalized. The effect of this change was to increase net earnings for the years ended December 31, 1980 and 1979 by \$.37 and \$.10 respectively per Common share.

(b) *Depreciation* –

Commencing with 1980 MacMillan Bloedel changed its method of calculating depreciation on manufacturing assets from a straight-line basis to a units-of-production basis. Had this method been used in the years 1978 and 1979, the effect would have been to decrease net earnings by approximately \$1,500,000 (\$.07 per Common share) in 1978 and increase net earnings by approximately \$300,000 (\$.01 per Common share) in 1979.

3. Inventories:

	December 31	
	1980	1979
	(\$000)	
Operating and maintenance supplies	\$ 57,579	\$ 48,772
Logs, poles, pulp chips, pulpwood and cordwood	152,262	116,140
Lumber, plywood and other building materials	145,408	133,975
Pulp and paper products	24,775	21,324
Linerboard and packaging products	42,916	36,784
	\$422,940	\$356,995

MacMillan Bloedel Limited
Notes to Consolidated Financial Statements

4. Partly-owned companies:

	December 31	
	1980	1979
	(\$000)	
Investments in shares, at cost less allowance for possible loss of \$764,000 (1979 – \$764,000)	\$37,622	\$35,152
Accumulated equity in undistributed earnings since acquisition, less allowance for possible loss of \$2,358,000 (1979 — \$1,858,000)	30,557	31,902
Advances	674	674
	\$68,853	\$67,728

The above amounts include \$49,923,000 at December 31, 1980 (1979 — \$48,561,000) in respect of Koninklijke Nederlandse Papierfabrieken N.V., a paper and packaging company based in The Netherlands in which MacMillan Bloedel has a 48.0% interest (43.8% at December 31, 1979). Summarized consolidated financial information for this company as at December 31, 1980 and 1979 and for the three years ended December 31, 1980 is as follows:

	December 31	
	1980	1979
	(\$000)	
Assets	\$306,051	\$313,963
Liabilities	\$189,477	\$198,732
Shareholders' equity	116,574	115,231
	\$306,051	\$313,963

	Year ended December 31		
	1980	1979	1978
	(\$000)		
Sales and other income	\$626,396	\$565,301	\$441,561
Net earnings*	\$ 1,343	\$ 5,518	\$ 18,326
MacMillan Bloedel's share in net earnings for the year (after consolidating adjustments)	\$ (99)	\$ 893	\$ 7,789

*After provisions for losses of \$8,700,000 (1979 – \$16,400,000; 1978 – \$9,700,000) in respect of certain old and uneconomic paper machines and a boxboard plant. MacMillan Bloedel's share of these losses amounted to \$4,000,000 in 1980 (\$7,000,000 in 1979; \$4,100,000 in 1978).

5. Buildings and equipment:

	Cost*	Accumulated depreciation	Net
	(\$000)		
December 31, 1980 —			
Pulp and paper mills	\$ 935,552	\$399,253	\$536,299
Linerboard and packaging plants	247,608	98,263	149,345
Sawmills, plywood mills and other building materials plants	300,891	131,881	169,010
Logging buildings and equipment	212,119	116,718	95,401
Other buildings and equipment	46,530	18,049	28,481
	\$1,742,700	\$764,164	\$978,536
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	197,749	104,736	93,013
Other buildings and equipment	44,694	18,998	25,696
	\$1,479,252	\$714,311	\$764,941

*Includes construction in progress.

**Certain 1979 figures have been reclassified.

5. Buildings and Equipment: continued

MacMillan Bloedel's principal 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 \$90,779,000 (1979 – \$88,735,000), and related depreciation and long term debt are included in the accompanying financial statements.

As part of its capital expenditure program MacMillan Bloedel had incurred costs to December 31, 1980 of \$193,031,000 on the following major projects:

A paper machine and a hog dryer and precipitator at Powell River, B.C., a recovery boiler and bleach plant at its pulp mill at Nanaimo, B.C., and a corrugating medium mill in Alabama.

The estimated total cost of these projects is \$720,000,000.

6. Short and long term bank indebtedness:

Short term bank indebtedness –

At December 31, 1980 MacMillan Bloedel had short term bank lines of credit aggregating \$171,556,000 (1979 – \$156,439,000). At December 31, 1980 \$54,081,000 (1979 – \$25,228,000) of these short term bank lines had been drawn down.

Two of MacMillan Bloedel's United States subsidiaries are expected to maintain average compensating balances of 5% of short term bank lines of credit aggregating \$11,941,000 plus 10% of amounts drawn down.

Term bank loans –

	December 31 1980	1979
	(\$000)	
Unsecured term bank loan of U.S. \$50,000,000 maturing September 30, 1990 bearing interest at a floating rate not to be less than 9% nor greater than 12½%	\$ 58,788	\$ —
Unsecured term bank loan of 60,000,000 Dutch guilders maturing January 15, 1993 bearing interest at 11⅝%	33,983	—
Advances under contractual term lines of credit (including advances of £8,000,000)	67,380	—
	\$160,151	\$ —

At December 31, 1980 MacMillan Bloedel had contractual term bank lines of credit aggregating \$358,230,000 (1979 – \$291,325,000). At December 31, 1980 \$67,380,000 (1979 – nil) of these contractual term bank lines had been drawn down. These contractual term lines provide for unsecured loans on a revolving basis during the first three years, followed by a seven or twelve year repayment period.

Notes to Consolidated Financial Statements**7. (a) Bonds and debentures:**

7. (a) Bonds and debentures:	December 31	
	1980	1979
	(\$000)	
MacMillan Bloedel Limited —		
4.95%* sinking fund debentures, Series A, maturing October 1, 1990 (U.S. \$21,000,000)	\$ 22,560	\$ 24,816
6½% sinking fund debentures, Series C, maturing July 15, 1992 (U.S. \$16,480,000)	17,760	19,222
8½% sinking fund debentures, Series E, maturing May 15, 1991	15,628	16,095
8¾% sinking fund debentures, Series F, maturing July 1, 1994 (U.S. \$66,000,000)	63,701	68,050
11¼% sinking fund debentures, Series G, maturing January 15, 1995	37,928	40,000
9% sinking fund debentures, Series J, maturing February 1, 1992 (U.S. \$44,200,000)	45,073	46,042
9¼% sinking fund debentures, Series K, maturing March 15, 1993 (U.S. \$45,050,000)	49,715	50,984
8½% subordinated debentures, maturing December 20, 1984 (U.S. \$2,098,000)	2,075	2,075
	254,440	267,284
MacMillan Bloedel Inc.** —		
4¾% sinking fund industrial development revenue bonds, maturing June 1, 1988 (U.S. \$34,620,000)	37,216	39,791
4.90% – 5.50% general obligation industrial bonds, series 1977, maturing December 1, 1997 (U.S. \$840,000)	894	915
8¼% pollution control bonds, maturing November 1, 1983 (U.S. \$32,000,000)	38,480	—
10¼% pollution control bonds, maturing November 1, 2000 (U.S. \$15,000,000)	18,038	—
10½% pollution control bonds, maturing November 1, 2015 (U.S. \$15,000,000)	18,038	—
8¼% environmental improvement bonds, maturing November 1, 1983 (U.S. \$1,000,000)	1,202	—
8¼% industrial development bonds, maturing November 1, 1983 (U.S. \$425,000)	511	—
8¼% industrial development revenue bonds, maturing November 1, 1983 (U.S. \$1,700,000)	2,044	—
	116,423	40,706
MacMillan Rothesay Limited —		
6% first mortgage and collateral sinking fund bonds, Series A, maturing March 1, 1985 (U.S. \$4,210,000)	4,526	5,418
6¾% general mortgage sinking fund bonds, Series A, maturing October 1, 1985	2,905	3,005
	7,431	8,423
	378,294	316,413
Less: Payments due within one year, before adjustment to current rate of exchange (Notes 1(b) and 8)	10,991	9,432
	\$367,303	\$306,981

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

**The bonds listed under MacMillan Bloedel Inc. are direct obligations of Industrial Development Boards and municipal authorities in Alabama and Mississippi (Note 5).

7. Bonds and Debentures: continued

Substantially all of MacMillan Bloedel's assets are pledged by fixed and floating charges as security for the outstanding debentures and other liabilities. The trust indentures securing the Company's debentures contain provisions limiting the amount of indebtedness which the Company can incur and limiting the amount of dividends. At December 31, 1980 approximately \$425,000,000 was available for payment of dividends. The amount available for payment of dividends would be reduced by any redemption of shares (Note 9).

Long term debt repayable in foreign currencies has been translated into Canadian dollars at historical exchange rates (Note 1(b)). At December 31, 1980 there were unrealized losses on foreign exchange relating to long term debt of approximately \$35,065,000 which have not been recognized in the accompanying financial statements. The exchange ratio between the applicable foreign currencies and the Canadian dollar will be subject to many fluctuations during the time to maturity of the long term debt.

(b) Funds held for construction projects –

Unexpended funds from the municipal bonds issued in 1980 and listed under MacMillan Bloedel Inc. are shown as "Funds held for construction projects" on the balance sheet. Pursuant to the terms of issue, the proceeds may only be expended on specific capital projects at Pine Hill, Alabama and accordingly the \$76,046,000 shown on the balance sheet will be drawn down as construction progresses.

8. Payments on long term debt:

Payments on long term debt required for each of the five years after December 31, 1980 are as follows —

	Bonds and debentures	Term bank loans	Other liabilities (secured)	Total
			(\$000)	
1981 (after adjustment to current rate of exchange — Notes 1(b) and 7)	\$12,497*	\$ —	\$3,011	\$15,508
1982	20,079	—	8,523	28,602
1983	62,712	1,231	788	64,731
1984	22,742	6,719	794	30,255
1985	20,766	8,606	662	30,034

*Net of purchases and cancellation of bonds and debentures to December 31, 1980.

9. 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. \$25.00 per share; the shares are retractable, at the option of the holder, on May 1, 1987 at U.S. \$25.00 per share. The shares carry the right to cumulative preferential dividends of 5% 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).

In October 1980 the Company issued 2,000,000 Class B Convertible Preferred shares, Series 1, for a total consideration of \$50,000,000 before deducting issue expenses. The Company has reserved 1,298,701 Common shares for possible issuance upon the exercise of the conversion privilege attaching to these Convertible Preferred shares. Each of these Convertible Preferred shares is convertible into Common shares of the Company at any time on or before December 1, 1985 at a conversion price of \$38.50 per Common share (approximately .649 Common shares), and thereafter and on or before December 1, 1990 at a conversion price of \$40.50 per Common share (approximately .617 Common shares). The Convertible Preferred shares, Series 1, are not redeemable on or prior to August 31, 1983 and are redeemable thereafter on or prior to September 1, 1985 only if the weighted average price at which the Common shares traded in a specified period was not less than 125% of the conversion price applicable at the time. After September 1, 1985 the Convertible Preferred shares, Series 1, are redeemable at \$25.00 per share plus a redemption premium of

MacMillan Bloedel Limited
Notes to Consolidated Financial Statements

9. Share Capital: continued

\$1.25 per share declining annually by \$.25. The Company is required to make all reasonable efforts to purchase during each calendar quarter (cumulative during the year), commencing January 1, 1991, at a price not exceeding \$25.00 per share, 1% of the number of Convertible Preferred shares outstanding on December 2, 1990.

The Convertible Preferred shares rank on a parity with the Class A Preferred shares and prior to the Common shares of the Company.

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 (Note 12(e)). Options for 4,600 shares were cancelled in 1978. Outstanding options at December 31, 1979 and 1980 were as follows:

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

10. Commitments:

In addition to commitments for capital expenditures (Note 5) and the 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 as follows —

	Ship Charters	Leases (\$000)	Total
1981	\$ 42,328	\$ 6,982	\$ 49,310
1982	43,410	5,638	49,048
1983	42,423	4,643	47,066
1984	36,828	3,228	40,056
1985	19,083	2,105	21,188
1986 - 1990	24,661	3,369	28,030
1991 - 1995	—	2,481	2,481
1996 - 2000	—	1,982	1,982
Subsequent to 2000	—	3,293	3,293
	\$208,733	\$33,721	\$242,454

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 substantially reduced.

Ship charter commitments payable in foreign currencies, including a major portion in Deutsche Marks, have been translated into Canadian dollars at exchange rates prevailing at December 31, 1980.

As at December 31, 1980 some of the ship charters are at rates above those prevailing in the spot charter market at that date.

(b) 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 \$4,149,000 is required in each of the next five years.

(c) The sale under forward exchange contracts of U.S. \$516,000,000 during 1981 at rates averaging approximately Canadian \$1.1694 for each United States \$1.00. The spot rate at December 31, 1980 was Canadian \$1.1941 for each United States \$1.00.

11. Provision for legal actions and claims:

In 1979, MacMillan Bloedel, without admitting any liability, paid \$9,900,000 (U.S. \$8,440,000) (included in a provision of \$14,603,000 charged to selling, general and administrative expenses in 1978) 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 are adequate on the basis of current information.

12. Earnings statements supplementary information:**(a) Sales of products and services –**

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.

In addition, sales of products and services in 1980 include an insurance claim for loss of profits from the Alabama linerboard mill which was shut down following an explosion which damaged the digester. Costs of repairing the damage are recoverable from insurers.

(b) Profit (loss) in respect of non-current assets –

	Year ended December 31		
	1980	1979	1978
		(\$000)	
Property, plant and equipment	\$11,121	\$ 6,495	\$ (21)
Partly-owned companies	—	2,873	(1,769)
Other investments and assets	3,562	4,595	(956)
	\$14,683	\$13,963	\$ (2,746)

(c) Interest expense —

	Year ended December 31		
	1980	1979	1978
		(\$000)	
Long term debt interest	\$36,023	\$30,430	\$31,530
Other interest	10,377	2,248	1,109
	46,400	32,678	32,639
Less: Interest capitalized (Note 2(a))	14,543	3,800	—
	\$31,857	\$28,878	\$32,639

MacMillan Bloedel Limited
Notes to Consolidated Financial Statements

12. Earnings Statements Supplementary Information: continued

(d) Costs and expenses include the following —

	Year ended December 31		
	1980	1979	1978
		(\$000)	
Depreciation (Note 2(b))	\$71,840	\$65,618	\$59,023
Depletion	10,255	9,420	7,850
Logging road amortization	6,637	7,548	8,768
	\$88,732	\$82,586	\$75,641
Pension expense	\$38,603	\$30,575	\$27,530
Research and development expenses (net of government grants of \$543,000 in 1980, \$510,000 in 1979, and \$594,000 in 1978)	\$ 8,169	\$ 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 \$16,692,000 (1979 – \$14,289,000; 1978 – \$17,877,000)	\$48,108	\$44,401	\$50,968
Less: Sublease and subcharter revenue, included with sales and other income in the statements of earnings	847	1,778	2,838
	\$47,261	\$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 \$4,102,000 (1979 – \$4,463,000; 1978 – \$2,732,000). The 1979 amount includes payments upon relinquishment of stock options (Note 9) and the 1979 and 1980 amounts include compensation under a Management Incentive Compensation Plan.

(f) Income taxes –

Consolidated income tax expense (recovery) is composed of —

	Canadian federal	Canadian provincial	Foreign	Total
			(\$000)	
Year ended December 31, 1980				
Current	\$ (656)	\$ (912)	\$ 8,783	\$ 7,215
Deferred	23,624	23,255	8,874	55,753
	\$22,968	\$22,343	\$17,657	\$ 62,968
Year ended December 31, 1979				
Current	\$32,669	\$27,941	\$ 3,295	\$ 63,905
Deferred	17,280	11,043	8,143	36,466
	\$49,949	\$38,984	\$11,438	\$100,371
Year ended December 31, 1978				
Current	\$28,423	\$21,692	\$ 9,004	\$ 59,119
Deferred	9,231	5,405	3,741	18,377
	\$37,654	\$27,097	\$12,745	\$ 77,496

12. Earnings Statements Supplementary Information: continued

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effects of each were as follows:

	Year ended December 31		
	1980	1979	1978
Deferred income taxes –		(\$000)	
Excess of income tax allowances over financial statement depreciation and logging road amortization	\$53,919	\$35,409	\$18,862
Inventory valuation for financial statement purposes over (under) valuation for income tax purposes	4,220	1,397	(6,791)
Provision for withholding taxes on undistributed earnings of foreign subsidiaries	1,737	300	2,021
Expense provisions not deductible for income tax purposes until paid	(737)	4,728	(3,988)
Non-capital losses for which deferred tax allocation was followed	3,081	(2,409)	8,634
United States and Canadian investment tax credits	(5,350)	(4,492)	(1,374)
United Kingdom stock appreciation relief	(5,265)	2,461	(587)
Imputed interest on Alabama timberlands	1,838	378	405
Other items which are individually less than 5% of computed “expected” income taxes	2,310	(1,306)	1,195
	\$55,753	\$36,466	\$18,377

MacMillan Bloedel's effective income tax rates for 1980, 1979 and 1978 are determined as follows –

	Year ended December 31		
	1980	1979	1978
Canadian federal income tax rate	46.0%	46.0%	46.0%
Canadian manufacturing and processing allowance	(3.2)	(3.5)	(4.0)
Provincial income and logging taxes, and State taxes and withholding tax provisions net of applicable federal abatements	4.9	4.5	5.5
Operating and capital losses for which potential tax reductions were not recorded	(2.0)	—	2.9
Investment tax credits	(4.4)	(3.7)	(2.3)
3% Canadian inventory allowance	(1.8)	(1.0)	(1.5)
United Kingdom stock appreciation relief	(1.4)	(1.0)	—
Effect of foreign exchange translation adjustments	(1.1)	(.4)	(1.3)
Effect of low rate of tax on capital gains	(1.5)	(1.4)	—
Other items	(.6)	(.4)	—
Effective income tax rate	34.9%	39.1%	45.3%

Certain subsidiary companies have losses aggregating \$23,710,000 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 and fully diluted net earnings per Common share –

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 and Class B Preferred shares, by the weighted average number of Common shares outstanding during the year. The provision for dividends on the Class A and Class B Preferred shares is made on a time elapsed basis rather than on a declared basis.

MacMillan Bloedel Limited
Notes to Consolidated Financial Statements

12. Earnings Statements Supplementary Information: continued

Fully diluted net earnings per Common share —

Fully diluted net earnings is computed by deducting from net earnings the effect of the conversion of the Koninklijke Nederlandse Papierfabrieken N.V. debentures into common shares of that company at the beginning of the year and the provision for dividends on Class A Preferred shares, and adding to net earnings a hypothetical return on funds which would have been received if the outstanding stock options had been exercised as of January 1, 1980. The figure of fully diluted net earnings per Common share is then computed by dividing the fully diluted net earnings by the weighted average number of Common shares adjusted as if the options to purchase Common shares granted to key employees had been exercised at the beginning of the year and as if the Class B Preferred shares, Series 1, had been converted into Common shares on their date of issue.

The effect of all the factors in the preceding paragraph would have been to reduce earnings per share as follows —

	Year ended December 31		
	1980	1979	1978
Net earnings per Common share	\$5.03	\$7.03	\$4.50
Conversion of the Koninklijke Nederlandse Papierfabrieken N.V. debentures*	.23	.21	.27
Conversion of convertible preferred shares and exercise of stock options	.04	—	—
	.27	.21	.27
Fully diluted earnings per Common share	\$4.76	\$6.82	\$4.23

*Under the equity method of accounting, MacMillan Bloedel records its share of the earnings of Koninklijke Nederlandse Papierfabrieken N.V. (KNP) based on the amount of its undiluted interest. If all the convertible debentures were to be converted into common shares of KNP, MacMillan Bloedel's interest in KNP would be diluted and, accordingly, its share of the equity in KNP would also be diluted. The dilutive effect shown for each year above includes the cumulative effect of such dilution.

13. 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.

Contributions to plan funds are made pursuant to actuarial recommendations.

At December 31, 1980 the total of the pension fund assets and the balance sheet provisions exceeded the obligations for pension benefits under all plans and agreements by approximately \$3,400,000. The obligations at December 31, 1980 include \$8,000,000 for supplemental benefits to retired employees to be paid commencing in 1981 and past service pension obligations arising from plan amendments in 1979 (estimated at \$26,000,000 at the end of that year). The supplemental benefits are being charged to earnings over the two years 1980 and 1981 and the past service pension obligations are to be charged to earnings over the remaining 14 years of the amortization period.

	December 31	
	1980	1979
	(\$'000)	
Obligations for pension benefits under all plans and agreements	\$282,900	\$235,000
Plan assets	268,500	212,800
Unfunded obligations	14,400	22,200
Balance sheet provisions	17,800	13,200
Net surplus (deficiency)	\$ 3,400	\$ (9,000)

14. Segment information:

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

15. Subsequent event:

On February 3, 1981 the Company issued 2,000,000 \$2.08 Class B Convertible Preferred shares, Series 2, for a total consideration of \$50,000,000 receiving net proceeds of \$47,900,000. The Company has reserved 1,111,111 Common shares for possible issuance upon the exercise of the conversion privilege attaching to these Convertible Preferred shares.

16. Information with respect to generally accepted accounting principles in the United States:

(a) 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 methods of translating amounts denominated in foreign currencies including the financial statements of foreign subsidiaries (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 1980 would have been reduced by approximately \$5,000,000 (\$.24 per Common share), and increased in 1979 by \$15,000,000 (\$.71 per Common share), and reduced in 1978 by \$34,000,000 (\$1.60 per Common share).

(b) Preferred shares –

As at December 31, 1980, 1979 and 1978, shareholders' equity as shown in the balance sheet would have amounted to \$737,352,000, \$673,344,000 and \$545,777,000 respectively, had the preferred shares been shown separately as required by rules of the United States Securities and Exchange Commission and the retained earnings adjusted for the effect of United States accounting principles in (a) above.

17. Subsidiary companies:

Active	Inactive (including holding companies not carrying on active operations)
Canada	
Canadian Transport (Europe) Limited	Harmac Ltd.
Forest Industries Flying Tankers Limited	MacMillan Bloedel Export Sales Ltd.
Forest Transport Ltd.	MacMillan Bloedel (Quebec) Limited
MacMillan Bloedel Building Limited	Powell River-Alberni Sales Limited
MacMillan Bloedel Industries Limited	Rothsay Paper Holdings Ltd.
MacMillan Bloedel Packaging Limited	Rothsay Paper Limited
MacMillan Bloedel Properties Limited	
MacMillan Bloedel (Saskatchewan) Limited	
MacMillan Rothsay Limited	
Multiply Plywoods Limited	
Vancouver Island Stevedoring Co. Ltd.	
Vancouver Marine Engines Ltd.	
United States	
Atlantic Forest Products Inc. (1)	AFP Corporation (1)
Canadian Transport (N.Y.) Inc.	MB Subsidiary 74 Inc.
Fibres International, Inc.	MBE Sales Corporation (1)
MacMillan Bloedel Export Inc.	MBE Shops, Inc. (1)
MacMillan Bloedel Inc.	MacMillan Bloedel Enterprises, Inc.
MacMillan Bloedel Particleboard Inc.	MacMillan Bloedel Investment Inc. (1)
Powell River-Alberni Sales Corporation	MacMillan Bloedel Radio System, Inc.
Star Terminal Company, Incorporated	MacMillan Bloedel Timberlands Inc.
	WWI Corporation (1)
	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	
Other	
Altair Limited (2)	Canadian Maas River Investment N.V.
Comfloresta-Companhia Catarinense de Empreendimentos Florestais (3)	Canadian Transport Company Pty. Limited
Embrasca-Empreendimentos Florestais e Agricolas Ltda. (3)	Canadian Transport (Orient) Limited
Fortrans N.V.	Comfloresta-Parana Empreendimentos Florestais S.A. (3)
MacMillan Bloedel Europe B.V.	Comfloresta-Serrana Empreendimentos Florestais S.A. (3)
MacMillan Bloedel Pty. Limited	Island Risk Management Limited
MacMillan Jardine (Japan) Limited	MacMillan Bloedel (Brasil) Ltda.
MacMillan Jardine Limited	MacMillan Bloedel European Holdings B.V.
MacMillan Jardine (South East Asia) Limited	MacMillan Bloedel Holding N.V.
	MacMillan Jardine (Malaysia) Sendirian Berhad
	Oceanspan Carriers Limited

(1) Merged with MacMillan Bloedel Enterprises, Inc. after the close of business on December 31, 1980.

(2) November 30 year end for fiscal purposes.

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

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, 1980, 1979 and 1978 were as follows:

	Year ended December 31		
	1980	1979	1978
	(\$000)		
Sales of products and services (2):			
Raw materials and building materials	\$1,156,668	\$1,176,460	\$1,031,660
Pulp and paper	914,904	672,414	672,530
Linerboard and packaging	515,160	414,055	352,445
Other	29,630	32,472	27,003
	2,616,362	2,295,401	2,083,638
Less: Inter-segment eliminations —			
Raw materials and building materials	144,472	90,587	65,160
Other segments	35,475	24,496	13,565
	179,947	115,083	78,725
	\$2,436,415	\$2,180,318	\$2,004,913
Contributions to earnings (3):			
Raw materials and building materials	\$ 59,880	\$ 155,442	\$ 92,129
Pulp and paper	134,163	122,491	137,461
Linerboard and packaging	40,532	26,915	17,507
Other	1,151	1,343	1,886
	235,726	306,191	248,983
Less: Inter-segment eliminations	128	4,601	(3,045)
	235,598	301,590	252,028
Deduct:			
Unallocated general and administrative expenses (4)	49,897	37,859	44,932
Interest expense	31,857	28,878	32,639
Corporate (gains) and losses and investment income	(26,367)	(22,229)	3,536
	55,387	44,508	81,107
Earnings before income taxes, equity in earnings of partly-owned companies and minority interests in subsidiaries	\$ 180,211	\$ 257,082	\$ 170,921

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, 1980, 1979 and 1978 were as follows:

	Year ended December 31		
	1980	1979*	1978*
	(\$000)		
Sales of products and services:			
Canada —			
Domestic	\$ 494,943	\$ 409,437	\$ 386,356
United States	591,667	589,855	616,592
Europe	351,291	303,421	238,938
Other	436,425	316,909	262,759
	1,874,326	1,619,622	1,504,645
United States	846,055	878,916	833,406
Europe (primarily the United Kingdom)	235,318	201,572	160,362
Other	5,231	4,969	4,227
	2,960,930	2,705,079	2,502,640
Less: Inter-area eliminations —			
Canada	502,477	513,018	489,072
United States	21,085	9,006	6,069
Other	953	2,737	2,586
	524,515	524,761	497,727
	\$2,436,415	\$2,180,318	\$2,004,913

Earnings Statements Segment Information (Continued)

Contributions to earnings:			
Canada	\$ 195,666	\$ 268,291	\$ 219,605
United States	27,859	10,069	19,778
Europe (primarily the United Kingdom)	2,745	17,163	14,258
Other	3,288	5,595	1,662
	229,558	301,118	255,303
Add (deduct): Inter-area eliminations	6,040	472	(3,275)
	235,598	301,590	252,028
Deduct:			
Unallocated general and administrative expenses (4)	49,897	37,859	44,932
Interest expense	31,857	28,878	32,639
Corporate (gains) and losses and investment income	(26,367)	(22,229)	3,536
	55,387	44,508	81,107
Earnings before income taxes, equity in earnings of partly-owned companies and minority interests in subsidiaries			
	\$ 180,211	\$ 257,082	\$ 170,921

*Certain 1979 and 1978 amounts have been reclassified.

(1) Basis of segmentation -

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.

(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 11).

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, 1980 and 1979.

	December 31	
	1980	1979
	(\$000)	
Segment assets:		
Raw materials and building materials	\$ 766,395	\$ 698,378
Pulp and paper	751,411	542,815
Linerboard and packaging	381,002	260,165
Other	8,180	10,386
	1,906,988	1,511,744
Add: Inter-segment eliminations	2,544	2,672
	\$1,909,532	\$1,514,416
Segment assets:		
Canada	\$1,363,613	\$1,049,361
United States	424,515	348,376
Europe (primarily the United Kingdom)	122,629	116,503
Other	4,534	11,975
	1,915,291	1,526,215
Less: Inter-area eliminations	5,759	11,799
	\$1,909,532	\$1,514,416
Reconciliation with consolidated assets:		
Segment assets	\$1,909,532	\$1,514,416
Partly-owned companies	68,853	67,728
Other corporate assets	96,845	109,819
Consolidated assets	\$2,075,230	\$1,691,963

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, 1980 and 1979.

	Year ended December 31	
	1980	1979*
	(\$000)	
Additions to property, plant and equipment:		
Raw materials and building materials	\$ 88,460	\$119,250
Pulp and paper	183,024	118,318
Linerboard and packaging	47,469	36,790
Other	915	128
	319,868	274,486
Corporate assets	7,824	5,957
	\$327,692	\$280,443

*Certain 1979 amounts have been reclassified.

Depreciation, depletion and logging road amortization by product and service segment for the years ended December 31, 1980, 1979 and 1978 were as follows:

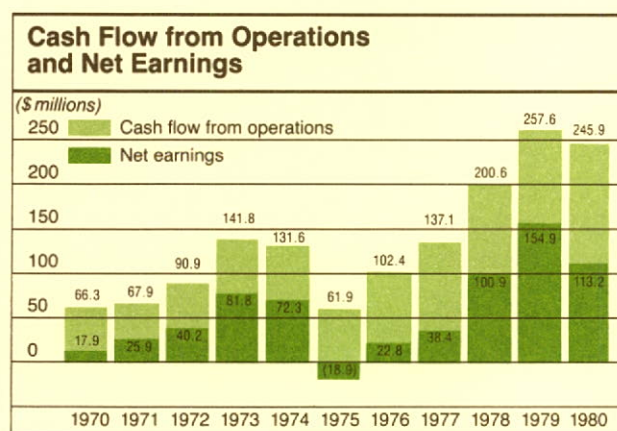
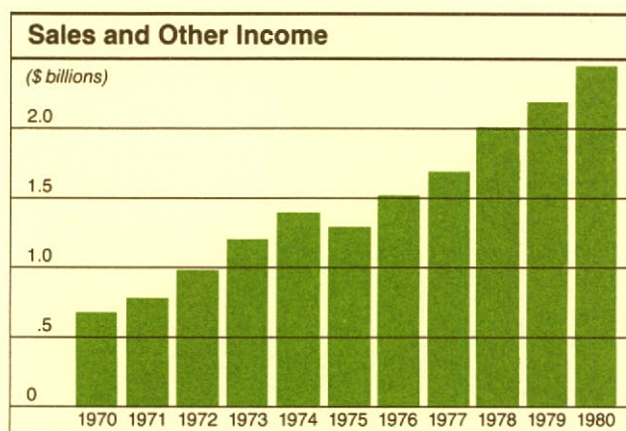
	Year ended December 31		
	1980	1979	1978
	(\$000)		
Depreciation, depletion and logging road amortization:			
Raw materials and building materials	\$ 45,947	\$ 45,460	\$ 42,955
Pulp and paper	28,469	24,531	21,264
Linerboard and packaging	11,166	9,786	8,780
Other	718	1,191	1,190
	86,300	80,968	74,189
Corporate assets	2,432	1,618	1,452
	\$ 88,732	\$ 82,586	\$ 75,641

Statistics: Historical Summary

Earnings (\$ millions)	1980	1979	1978
Sales and other income	\$2,456.2	\$2,204.6	\$2,010.4
Cost of sales and services	2,062.8	1,770.6	1,662.1
Selling, general and administrative expense	181.3	148.0	144.7
Interest expense	31.9	28.9	32.7
Income taxes	63.0	100.4	77.5
Equity in earnings (losses) of partly-owned companies	—	1.8	9.4
Minority interests in subsidiaries	(4.0)	(3.6)	(1.9)
Extraordinary items	—	—	—
Net earnings (loss)	\$ 113.2	\$ 154.9	\$ 100.9

Source and Application of Working Capital (\$ millions)

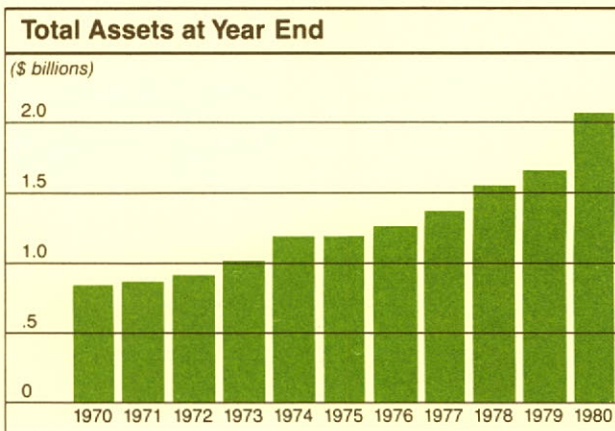
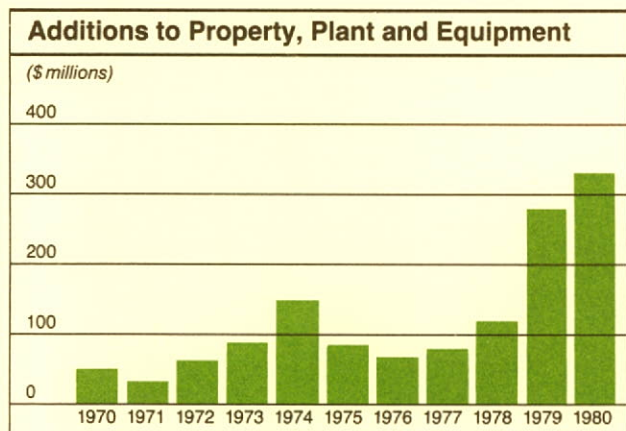
Source			
Earnings	\$ 113.2	\$ 154.9	\$ 100.9
Non-cash charges, etc.	132.7	102.7	99.7
Cash flow from operations	245.9	257.6	200.6
Long term financing	296.2	4.6	56.2
Other, including disposal of non-current assets	34.9	108.5	9.4
Total Source	577.0	370.7	266.2
Application			
Plant and equipment	306.5	255.1	105.5
Timber and land	21.2	25.3	16.1
Dividends to shareholders of the Company			
Preferred	5.9	5.4	—
Common	37.2	37.2	24.1
Other	104.5	28.7	112.5
Total Application	475.3	351.7	258.2
Net increase (decrease) in working capital	\$ 101.7	\$ 19.0	\$ 8.0



Statistics: Historical Summary

1977	1976	1975	1974	1973	1972	1971	1970
\$1,714.8	\$1,523.3	\$1,297.5	\$1,398.8	\$1,219.2	\$ 966.5	\$ 778.0	\$ 687.8
1,443.1	1,315.9	1,174.0	1,171.6	992.9	827.8	673.9	584.2
125.8	114.5	110.6	92.8	66.7	55.1	47.3	45.9
32.3	33.7	31.7	21.4	15.1	17.2	18.8	19.2
54.1	36.1	(2.8)	58.1	66.6	32.5	20.1	21.1
3.2	1.2	(3.1)	19.1	6.2	4.0	1.6	1.2
(2.0)	(1.5)	.2	(1.7)	(2.3)	(.3)	3.0	(.7)
(22.3)	—	—	—	—	2.6	3.4	—
\$ 38.4	\$ 22.8	\$ (18.9)	\$ 72.3	\$ 81.8	\$ 40.2	\$ 25.9	\$ 17.9

\$ 38.4	\$ 22.8	\$ (18.9)	\$ 72.3	\$ 81.8	\$ 40.2	\$ 25.9	\$ 17.9
98.7	79.6	80.8	59.3	60.0	50.7	42.0	48.4
137.1	102.4	61.9	131.6	141.8	90.9	67.9	66.3
102.6	41.0	47.2	77.0	3.9	.9	30.0	.3
17.4	11.9	26.4	14.2	15.8	36.5	15.5	13.0
257.1	155.3	135.5	222.8	161.5	128.3	113.4	79.6
67.1	64.8	78.0	135.4	84.0	57.9	34.6	51.9
10.3	4.5	4.0	12.3	5.5	5.6	3.3	2.8
—	—	—	—	—	.1	.1	.1
12.2	7.4	13.9	37.1	26.3	20.8	10.4	20.9
112.0	29.1	35.8	35.3	26.2	19.0	21.6	17.4
201.6	105.8	131.7	220.1	142.0	103.4	70.0	93.1
\$ 55.5	\$ 49.5	\$ 3.8	\$ 2.7	\$ 19.5	\$ 24.9	\$ 43.4	\$ (13.5)



Statistics: Historical Summary

Balance Sheet (Selected Items) (\$ millions)	1980	1979	1978
Working capital	\$ 421.7	\$ 320.0	\$ 301.0
Property, plant and equipment (net book value)	1,121.0	899.2	710.5
Long term debt	550.8	323.1	341.7
Share capital			
Preferred	137.9	88.0	88.0
Common	171.5	171.5	171.2
Retained earnings	611.9	542.9	430.6

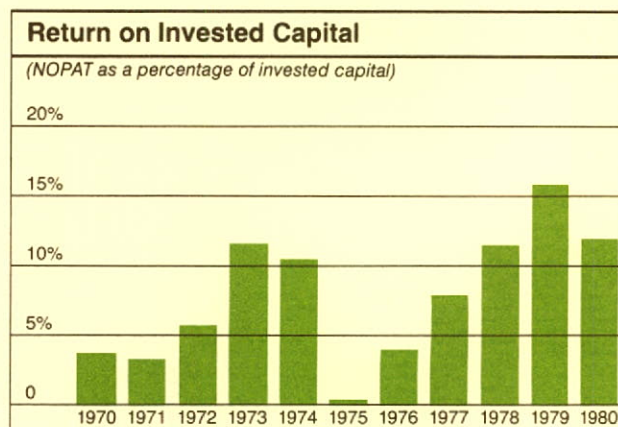
Other

NOPAT (1) as a percentage of invested capital (2)	12.0%	16.0%	11.6%
Return on capital employed (3)	8.7%	13.6%	10.6%
Return on Common shareholders' equity (4)	14.3%	22.8%	17.0%
Cash flow from operations as a percentage of capital employed	16.2%	20.5%	17.8%
Net earnings as a percentage of sales and other income	4.6%	7.0%	5.0%
Debt (5) as a percentage of invested capital	35.0%	26.6%	32.5%
Net earnings (loss) per Common share			
Before extraordinary items (dollars)	\$ 5.03	\$ 7.03	\$ 4.50
After extraordinary items (dollars)	\$ 5.03	\$ 7.03	\$ 4.50
Operating cash flow per Common share (dollars)	\$ 11.56	\$ 12.11	\$ 9.43
Common shares outstanding at year end	21,272,975	21,272,975	21,261,175
Number of Common shareholders at year end	14,017	16,296	16,991
Dividends per Common share (dollars)	\$ 1.75	\$ 1.75	\$.95
Book value per Common share (dollars)	\$ 36.76	\$ 33.54	\$ 28.26
Price range of Common shares			
High (dollars)	\$ 43.25	\$ 30.00	\$ 25.37
Low (dollars)	\$ 24.25	\$ 20.50	\$ 15.50
Current ratio	2.2:1	1.9:1	1.9:1

Employees

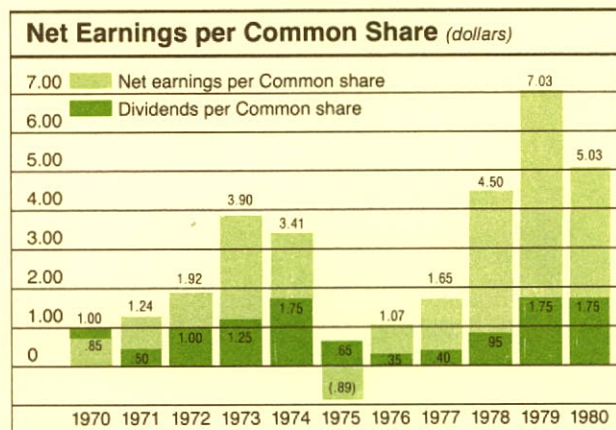
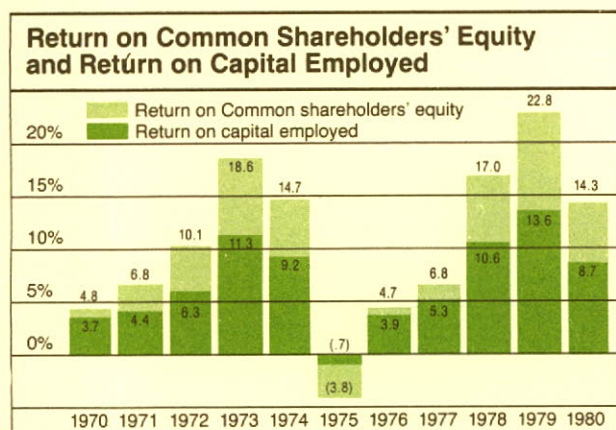
Wages, salaries and employee benefits (\$ millions)	\$ 688.4	\$ 583.0	\$ 536.7
Number of employees at year end	24,730	24,505	23,948

- (1) NOPAT (Net Operating Profit after Taxes) is defined as the sum of:
 - (a) net earnings before extraordinary items and minority interests
 - (b) the change in deferred income taxes
 - (c) interest expense on an after-tax basis
- (2) Invested capital is defined as the average of the sum of:
 - (a) interest bearing debt (short term and long term)
 - (b) deferred income taxes
 - (c) minority interests
 - (d) preferred share capital
 - (e) common equity capital including retained earnings
- (3) Return on 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.
- (4) Return on Common shareholders' equity is defined as net earnings available to Common shareholders as a percentage of the average of Common shareholders' equity.
- (5) Debt is defined to include all long and short term interest-bearing debt, capitalized leases and term preferred shares within five years of maturity.



Statistics: Historical Summary

1977	1976	1975	1974	1973	1972	1971	1970
\$ 293.0	\$ 237.5	\$ 188.0	\$ 184.2	\$ 181.5	\$ 162.0	\$ 137.1	\$ 93.7
669.9	670.5	674.6	659.5	584.9	553.6	542.6	558.9
309.8	372.8	346.9	316.3	251.7	263.2	273.8	257.4
88.0	—	—	—	—	.6	2.6	2.6
171.2	171.2	171.2	170.2	169.3	160.0	160.0	160.0
353.8	327.6	312.2	343.3	302.9	247.4	228.1	212.7
7.8%	4.0%	.5%	10.5%	11.8%	5.8%	3.2%	3.8%
5.3%	3.9%	(.7%)	9.2%	11.3%	6.3%	4.4%	3.7%
6.8%	4.7%	(3.8%)	14.7%	18.6%	10.1%	6.8%	4.8%
13.1%	10.2%	6.4%	14.5%	17.4%	11.9%	9.3%	9.2%
2.2%	1.5%	(1.5%)	5.2%	6.7%	4.2%	3.3%	2.6%
34.0%	39.6%	39.0%	38.1%	31.1%	34.7%	40.8%	42.0%
\$ 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
\$ 6.44	\$ 4.81	\$ 2.92	\$ 6.20	\$ 6.77	\$ 4.36	\$ 3.25	\$ 3.18
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
2.0:1	2.0:1	1.9:1	1.8:1	2.1:1	2.3:1	2.1:1	1.7:1
\$ 481.1	\$ 443.0	\$ 352.7	\$ 345.0	\$ 290.8	\$ 231.4	\$ 210.6	\$ 182.3
23,865	23,601	23,206	23,847	24,478	23,136	21,036	20,830



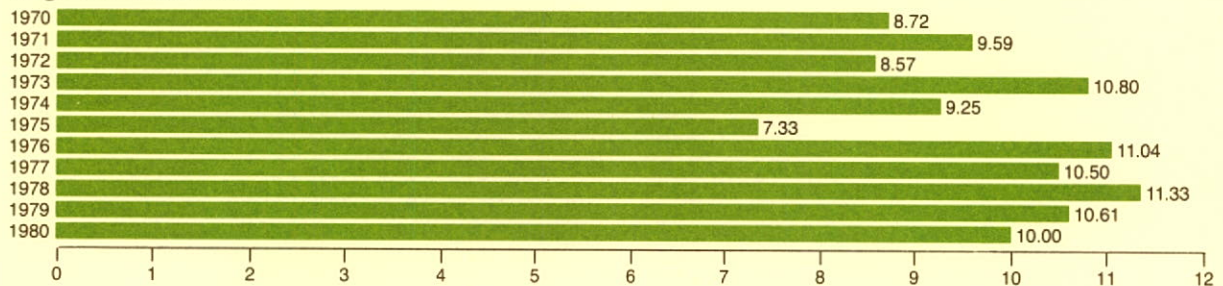
Segment Statistics

Productive Timberlands Managed (hectares)

	British Columbia	Saskatchewan	New Brunswick	Alabama	Total
— owned	232,000	—	59,000	59,000	350,000
— long term leases and contracts	220,000	—	—	109,000	329,000
— government lands	681,000	324,000	233,000	—	1,238,000
	1,133,000	324,000	292,000	168,000	1,917,000

Raw Materials and Building Materials Production

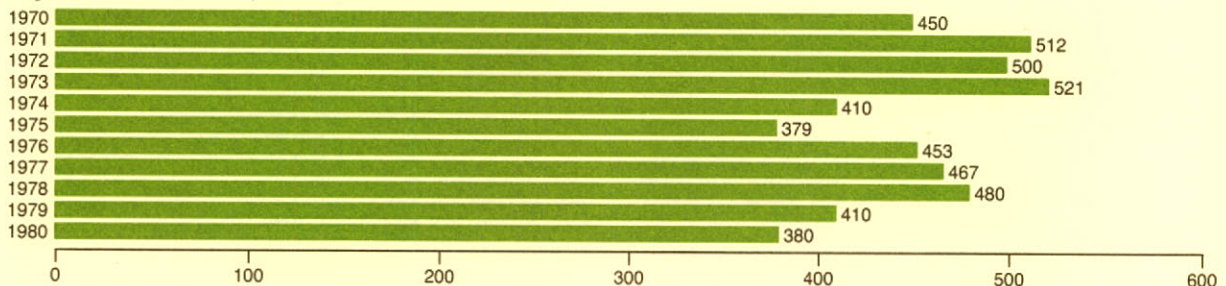
Logs (million cubic metres)



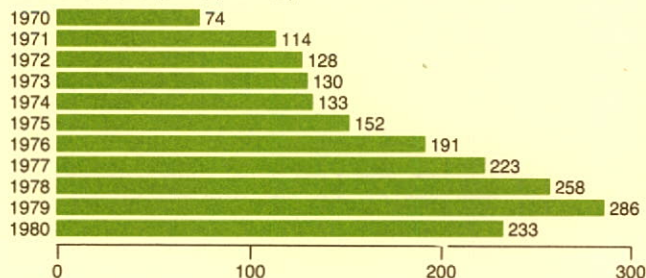
Lumber (MMFBM)



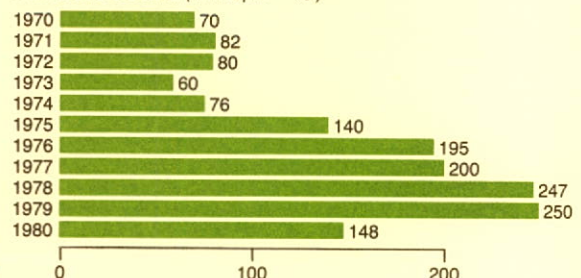
Plywood (MM sq. ft. — 3/8")



Waferboard (MM sq. ft. — 3/8")



Particleboard (MM sq. ft. — 3/8")



Segment Statistics

Sales of Raw Materials and Building Materials Products (\$ millions)

	1980	1979	1978	1977	1976
Lumber	\$ 705.3	\$ 734.7	\$ 621.5	\$ 488.7	\$ 420.3
Plywood	111.8	123.1	124.4	104.4	99.8
Waferboard	58.4	63.0	60.9	54.2	29.8
Particleboard	29.3	30.6	29.9	14.5	11.7
Other (includes inter-segment sales of logs and chips)	251.9	225.1	195.0	199.1	161.9
Total Segment Sales	\$1,156.7	\$1,176.5	\$1,031.7	\$ 860.9	\$ 723.5
Segment Contribution to Operating Earnings (Raw Materials and Building Materials)	\$ 59.9	\$ 155.4	\$ 92.1	\$ 29.4	\$ 1.1

Building Materials Sales by Market in 1980

	Lumber MMFBM	Plywood MM sq. ft. (%)	Waferboard MM sq. ft. (%)
British Columbia	165	54	6
Rest of Canada	118	127	146
United States	669	160	208
Japan and Orient	257	—	—
United Kingdom and Europe	269	122	3
Other	143	—	—
Total	1,621	463	363

Raw Materials and Building Materials Facilities

Location	Aggregate effective annual capacities	1980 Production
LUMBER		MMFBM
Port Alberni, British Columbia*	506	372
Nanaimo, British Columbia	342	256
Vancouver, British Columbia	248	176
Chemainus, British Columbia	242	167
New Westminster, British Columbia*	104	68
Powell River, British Columbia	80	75
Pine Hill, Alabama	75	46
Edenton, North Carolina*	15	11
	1,612	1,171

*Lumber specialty mills at these locations

PLYWOOD		MMsq.ft. (%)
Port Alberni, British Columbia	183	150
Vancouver, British Columbia	174	106
Pine Hill, Alabama	133	100
Nipigon, Ontario	26	24
	516	380

WAFERBOARD*		
Hudson Bay, Saskatchewan	150	115
Thunder Bay, Ontario	128	118
	278	233

*Produced under the registered trademark ASPENITE

PARTICLEBOARD		
Vancouver, British Columbia	108	102
Pine Hill, Alabama (closed June 1980)	150	46

Other Canadian Wood Products Facilities

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

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.

Building Materials Sales Offices and Distribution Centres

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.
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.
Port Alberni, B.C.
Vancouver, B.C.

United States

MacMillan Bloedel
Building Materials
Walpole, MA
New Brunswick, NJ
Camden, NJ
Ashtabula, OH
Baltimore, MD
Fort Lauderdale, FL
Jacksonville, FL
Tampa, FL
West Hartford, CT
Atlanta, GA
Dallas, TX
Houston, TX
Portland, OR

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

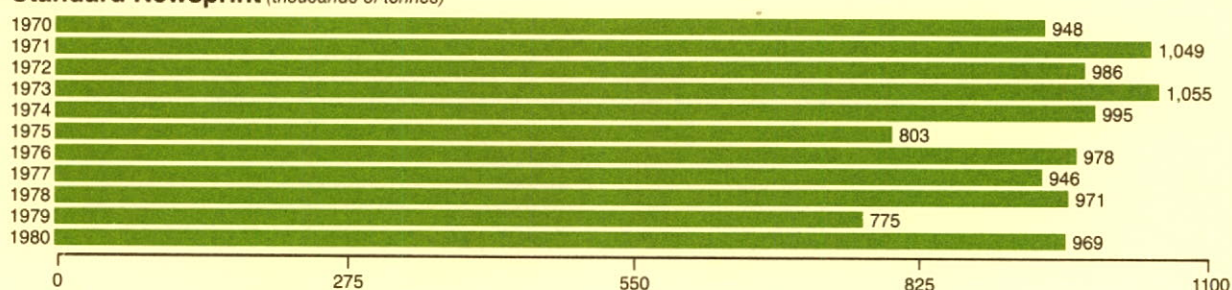
Segment Statistics

Sales of Pulp and Paper Products (\$ millions)

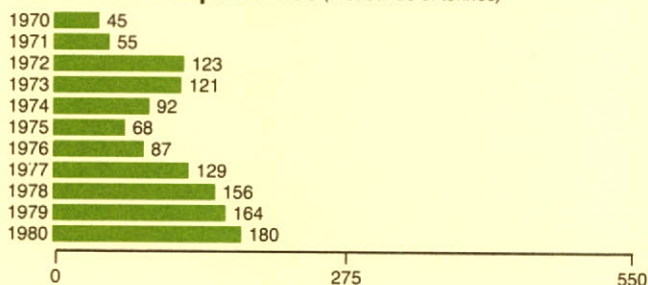
	1980	1979	1978	1977	1976
Standard Newsprint	\$482.2	\$344.5	\$394.3	\$340.8	\$296.1
Groundwood Specialties	104.2	81.2	68.9	44.9	33.0
Market Pulp	246.6	181.7	161.3	143.9	157.5
Fine Papers	35.7	29.6	25.9	22.4	21.0
Other	46.2	35.4	22.1	24.2	24.5
Total Segment Sales	\$914.9	\$672.4	\$672.5	\$576.2	\$532.1
Segment Contribution to Operating Earnings (Pulp and Paper)	\$134.2	\$122.5	\$137.5	\$116.7	\$123.7

Pulp and Paper Production

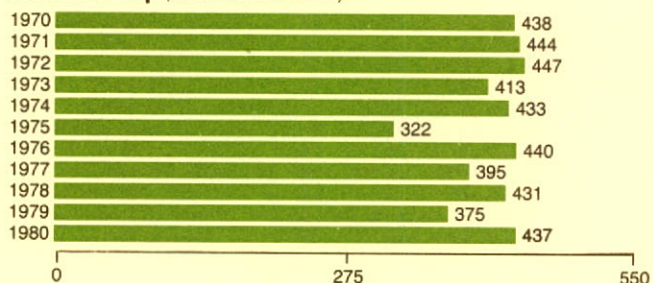
Standard Newsprint (thousands of tonnes)



Groundwood Specialties (thousands of tonnes)



Market Pulp (thousands of tonnes)



Segment Statistics

Pulp and Paper Segment Sales by Market in 1980 (thousand tonnes)

	Standard Newsprint	Groundwood Specialties	Market Pulp	Fine Papers and Other
British Columbia	51	9	—	34
Rest of Canada	50	9	—	13
United States	673	113	45	83
Japan and Orient	52	17	124	—
United Kingdom and Europe	11	7	226	—
Other	131	22	18	—
Total	968	177	413	130

Pulp and Paper Facilities

Location	Aggregate effective annual capacities	1980 Production
(thousand tonnes)		
STANDARD NEWSPRINT AND GROUNDWOOD SPECIALTIES		
Powell River, British Columbia	510	471
Port Alberni, British Columbia	390	371
Saint John, New Brunswick	310	307
	1,210	1,149
MARKET PULP		
Nanaimo, British Columbia	350	334
Port Alberni, British Columbia	60	56
Powell River, British Columbia	50	47
	460	437
FINE PAPERS		
New Westminster, British Columbia	38	37

Pulp and Paper Distribution Centres

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

Segment Statistics

Sales of Containerboard and Packaging Products (\$ millions)

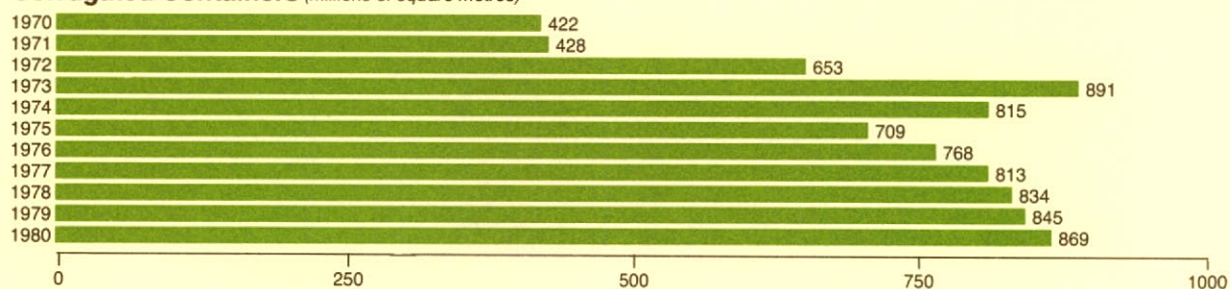
	1980	1979	1978	1977	1976
Corrugated Containers	\$374.3	\$308.1	\$250.9	\$218.4	\$192.9
Containerboard	116.1	90.6	81.4	72.0	72.2
Bags	9.9	8.6	7.3	5.7	6.8
Other	14.8	6.7	12.8	11.4	10.9
Total Segment Sales	\$515.1	\$414.0	\$352.4	\$307.5	\$282.8
Segment Contribution to Operating Earnings (Linerboard and Packaging)	\$ 40.5	\$ 26.9	\$ 17.5	\$ 18.8	\$ 20.3

Linerboard and Packaging Segment Sales by Market in 1980

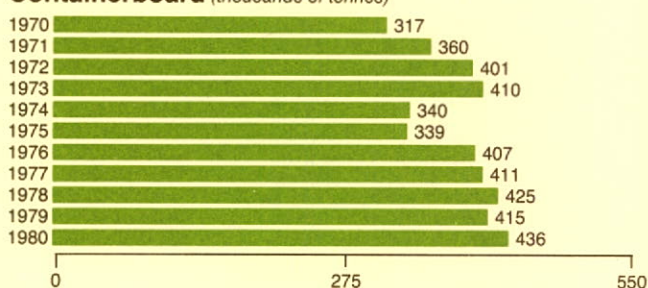
	Containerboard (thousand tonnes)	Bags	Corrugated Containers (millions sq. metres)
North America	222	11	637
Overseas	88	—	232
Total	310	11	869

Linerboard and Packaging Production

Corrugated Containers (millions of square metres)



Containerboard (thousands of tonnes)



Segment Statistics

Containerboard and Packaging Facilities

Location	Aggregate effective annual capacities	1980 Production
LINERBOARD	(thousand tonnes)	
Pine Hill, Alabama*	354	273
Port Alberni, British Columbia	110	96
	464	369

*1980 production reduced by 88,000 tonnes
due to a pulp digester failure

CORRUGATING MEDIUM

Sturgeon Falls, Ontario (purchased in December 1979)	70	67
---	----	----

BAGS

Vancouver, British Columbia	14	11
-----------------------------	----	----

CORRUGATED CONTAINERS

Canada

410,000,000 square metres aggregate
effective annual capacity
289,000,000 square metres
production in 1980

Montreal, Quebec
Pembroke, Ontario
Toronto, Ontario (closed November 1980)
Rexdale, Ontario
Guelph, Ontario
London, Ontario
Winnipeg, Manitoba
Regina, Saskatchewan
Calgary, Alberta
Edmonton, Alberta
New Westminster, British Columbia

United States

452,000,000 square metres aggregate
effective annual capacity
348,000,000 square metres
production in 1980

Elmira, New York
Jersey City, New Jersey
Union, New Jersey
Odenton, Maryland
Cleveland, Ohio
Marion, Indiana (sold in 1980)
Chicago, Illinois
Little Rock, Arkansas
Magnolia, Mississippi
Houston, Texas
Carson City, California (sold in 1980)

United Kingdom

377,000,000 square metres aggregate
effective annual capacity
232,000,000 square metres
production in 1980

Hatfield, Hertfordshire
Southall, Hanwell
West Auckland, Durham
Nelson, Lancashire
Weston-super-Mare, Avon
Irvine, Ayrshire

Directors and Officers

Directors

D. M. Culver
Montreal, Quebec
President and
Chief Executive Officer,
Alcan Aluminium Limited

D. L. Helliwell
Vancouver, British Columbia
Chairman of the Board,
British Columbia Resources
Investment Corporation

G. H. D. Hobbs
Vancouver, British Columbia
Corporate Director

B. I. Howe
Vancouver, British Columbia
President and
Chief Executive Officer,
British Columbia Resources
Investment Corporation

J. N. Hyland
Vancouver, British Columbia
Corporate Director

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

M. J. Meyer
London, England
Chairman and
Managing Director,
Montague L. Meyer Limited

A. H. Mingay
Toronto, Ontario
Chairman,
Canada Trust

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

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

R. V. Smith
Vancouver, British Columbia
President and
Chief Operating Officer,
MacMillan Bloedel Limited

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

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

**The Honourable J. N. Turner
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

Executive Committee

C. C. Knudsen (Chairman)

D. L. Helliwell

G. H. D. Hobbs

J. N. Hyland

E. C. Phillips

J. E. Richardson

R. V. Smith

C. B. Wright

Finance and Planning Committee

C. C. Knudsen (Chairman)

G. H. D. Hobbs

J. N. Hyland

R. V. Smith

C. B. Wright

Compensation Committee

J. N. Hyland (Chairman)

G. H. D. Hobbs

J. P. R. Wadsworth

C. B. Wright

Nominating Committee

G. H. D. Hobbs (Chairman)

D. M. Culver

D. L. Helliwell

B. I. Howe

J. N. Hyland

M. J. Meyer

A. H. Mingay

E. C. Phillips

G. T. Southam

E. ten Duis

J. N. Turner

J. P. R. Wadsworth

C. B. Wright

Audit Committee

C. B. Wright (Chairman)

G. H. D. Hobbs

J. N. Hyland

A. H. Mingay

G. T. Southam

Senior Officers

C. C. Knudsen
Chairman of the Board
and Chief Executive Officer

J. E. Richardson
Vice-Chairman of the Board

R. V. Smith
President and
Chief Operating Officer

Dr. O. L. Forgacs
Senior Vice-President,
Research and Development

D. H. Fricker, Q.C.
Senior Vice-President,
Corporate Development

J. L. Howard, Q.C.
Senior Vice-President, Law

J. H. Lawson
Senior Vice-President,
Raw Materials

D. L. McLaughlin
Senior Vice-President,
Linerboard and Packaging

D. H. Parkinson
Senior Vice-President,
Finance and Planning

N. F. W. Pepler
Senior Vice-President,
International

J. St. C. Ross
Senior Vice-President,
Building Materials

G. J. Towill
Senior Vice-President,
Human Resources

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

Group Officers

J. S. Adair
Vice-President, Development,
Linerboard and Packaging

G. I. Bender
Vice-President, Transportation

D. A. Dowsley
Vice-President,
Lumber Manufacturing

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

E. Lauritzen
Vice-President, Marketing,
Pulp and Paper

J. S. R. Montgomery
Vice-President,
Canadian Packaging

D. W. St. John
Vice-President,
Lumber Marketing

D. B. Turner
Vice-President, Business
Development, Raw Materials

V. R. Worthy
Vice-President, Panelboard

Staff Officers

G. L. Ainscough
Vice-President and Chief
Forester

J. R. Croll
Vice-President, Comptroller

J. G. Dickinson
Vice-President,
Planning and Analysis

D. H. Holden
Vice-President,
Corporate Communications

E. G. Legg
Vice-President, Accounting

F. H. Moonen
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

Claire-Marie Jadot
Assistant Secretary

G. Wishart
Assistant Treasurer

Honorary Director

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

Other Information

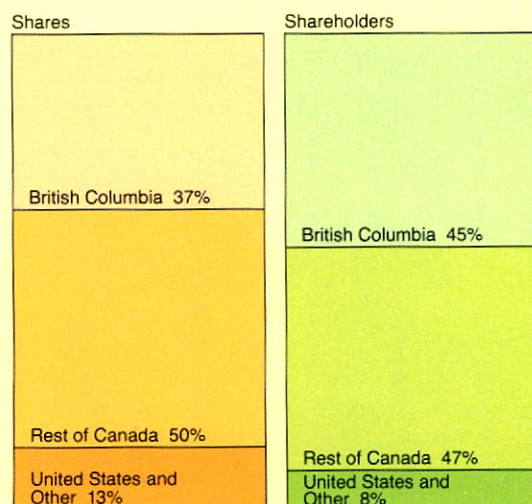
Tax Provisions Relating to Dividends and Interest to Non-Resident Security Holders

Under the Canada-United States Tax Convention, dividends paid to United States shareholders of the Company's shares are subject to a 10% Canadian non-resident withholding tax so long as there continues to be a "degree of Canadian ownership" of the Company's shares. Also under that Convention, interest paid to United States holders of the Company's debt obligations is subject to 15% Canadian non-resident withholding tax, except interest payable to holders of bonds issued by the Company after June 23, 1975 where the terms of the bonds do not require repayment of more than 25% of the principal amount of the issue within five years from the date of issue.

Geographic distribution of Common Shares and Common Shareholders as at February 18, 1981

	Common Shares	Common Shareholders
Canada	18,529,718	12,865
United States	2,700,167	972
Other	42,918	140
	21,272,803	13,977
Share Warrants	236	
	21,273,039	

Geographic Distribution of Common Share Ownership



Annual General Meeting

Due to recent developments, it has become necessary to postpone the Annual General Meeting of Common shareholders of MacMillan Bloedel Limited. Notice of the meeting and the Information Circular will be mailed as soon as possible.

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

Exchange Listings

Ticker Symbols

New York Stock Exchange: MMB
Canadian Stock Exchanges: MB

Common Share Listings:

New York, Toronto, Montreal, Vancouver

Class B Convertible Preferred Share

Listings:

Toronto, Montreal, Vancouver

Auditors

Price Waterhouse & Co.
Vancouver

Transfer Agents and Registrars

The Canada Trust Company

Transfer Agent
Vancouver, Calgary, Regina,
Winnipeg, Toronto, Montreal, St. John
(through its agent the Canada Permanent
Trust Company)

The Royal Trust Company

Registrar
Vancouver, Calgary, Regina,
Winnipeg, Toronto, Montreal, St. John

The Chase Manhattan Bank

Transfer Agent and Registrar
New York

