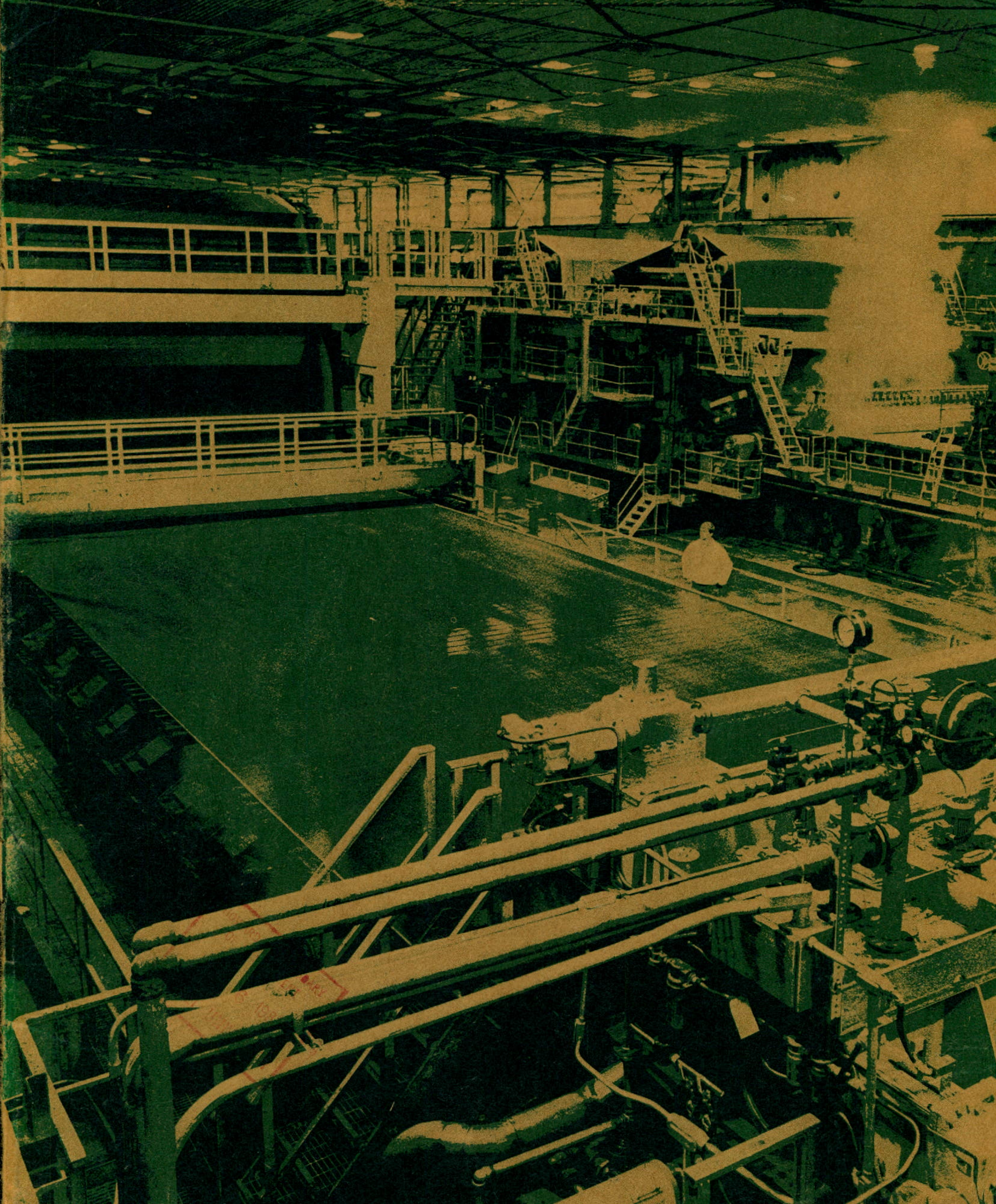
MacMillan Bloedel Limited

ANNUAL REPORT 1982



MacMillan Bloedel is one of North America's largest forest products companies, with integrated operations in Canada and the United States and other major operations and investments in the United Kingdom and Continental Europe. The Company manages 1.6 million hectares of productive timberlands which supply approximately 80 per cent of its total fibre requirements. Of these timberlands, 1.1 million hectares are in British Columbia where the Company's headquarters and approximately 55 percent of its assets are located. MacMillan Bloedel's products are marketed throughout the world and include lumber, panelboards, kraft pulp, newsprint, groundwood specialty papers, fine papers, containerboard and corrugated containers.

Contents:

Annual Meeting: The Annual General Meeting of shareholders will be held in the Regency Ballroom of the Hyatt Regency Hotel, 655 Burrard Street, Vancouver, B.C., on Wednesday, April 20, 1983 at 10 a.m.. Shareholders are invited to attend this meeting, take part in discussions about the Company, and meet the directors and officers responsible for the operation of MacMillan Bloedel.

Cover Photograph: *The new corrugating medium machine in Pine Hill, Alabama started production in December 1982. In the background is the Pine Hill linerboard machine.*

Cover Stock: *42 pound linerboard produced at the Company's complex in Pine Hill.*

Text Stock: *65 gram Electrabrite, a groundwood printing paper, and 48.8 gram, green newsprint, both produced at the Company's mill in Powell River, British Columbia.*

HIGHLIGHTS

	1982	1981
Financial Results *($ millions)*		
Sales	**1,843.1**	2,209.7
Loss before extraordinary items	**(93.3)**	(26.7)
Net earnings (loss) after extraordinary items	**(57.3)**	3.3
Funds from operations	**25.9**	77.8
Return on invested capital (Note 2)	**(5.7)%**	.1%
Return on common shareholders' equity (Note 3)	**(10.8)%**	(1.5)%
Per Common Share *($ per common share)*		
Loss before extraordinary items (after preferred dividends)	**(5.05)**	(1.85)
Net loss after extraordinary items and preferred dividends	**(3.44)**	(.51)
Funds from operations	**1.15**	3.48
Cash dividends	**.10**	1.09
Stock dividends	**.89**	—
Book value (year end)	**29.89**	33.54
Assets *($ millions)*		
Capital expenditures	**206.8**	307.9
Total assets (year end)	**2,150.4**	2,172.1
Invested capital (year end) (Note 1)	**1,910.2**	1,889.9
Additional Information		
Debt to invested capital (year end)	**45.3%**	38.3%
Common shareholders of record (year end)	**10,685**	10,269
Common shares outstanding (year end)	**22,612,501**	21,419,193
Number of employees (year end)	**18,581**	22,049
Employee compensation *($ millions)*	**613.8**	683.7

Notes:

1. *"Invested capital" is defined as the sum of interest-bearing debt, deferred income taxes, minority interests, preferred share capital, and common shareholders' equity including retained earnings.*
2. *"Return on invested capital" is defined as net operating profit after taxes (NOPAT) as a percentage of average invested capital. NOPAT is defined as the sum of net earnings before extraordinary items and minority interests, the change in deferred income taxes, and interest expense net of associated current taxes.*
3. *"Return on common shareholders' equity" is defined as net earnings available to common shareholders as a percentage of average common shareholders' equity.*
4. *Certain 1981 figures have been restated to reflect stock dividends issued in 1982.*

Letter to Shareholders

World-wide recession sharply reduced demand for all our products in 1982. Continued high interest rates further deferred the hoped-for recovery in residential construction and imposed painfully high interest costs on all Canadians. Although newsprint consumption remained relatively stable, large additions to capacity in recent years, combined with the liquidation of excess inventories, caused both sales prices and sales volumes to fall during the year. Linerboard prices in the United States declined as demand dropped and producer inventories were liquidated. Currency devaluations by Scandinavian nations weakened the short term competitive position of North American pulp and paper producers in world markets.

As a result, the Company incurred a net loss of $57.3 million or $3.44 per common share on sales of $1.8 billion.

Despite the loss, 1982 was a year of significant internal progress for MacMillan Bloedel. The Company was decentralized and restructured on a regional basis and became in the process a much leaner and more cost-effective organization. We sharpened our focus on our areas of relative strength and altered the composition of our operations and product mix to capitalize on our strengths. To this end we have continued to expand our presence in the containerboard business, increasing the annual capacity of our Pine Hill complex by 240,000 tonnes in 1982. However, our Port Alberni linerboard machine, having a rated capacity of 110,000 annual tonnes, has been permanently closed as it is no longer cost-competitive. We are placing greater emphasis on the production of high value-added and specialty wood products to extract the full value from our old-growth timber base. We have announced the permanent closure of our Chemainus sawmill, as it is no longer cost-competitive, and discussions are underway to see whether it is possible to restore the mill to profitability and/or develop alternative employment opportunities at that location. Other operations reduced total output, concentrating instead on a lower volume of higher value-added products.

Due to reduced levels of demand, two paper machines at the Powell River mill have been shut down for an indefinite period in order to reduce fixed costs. In December one of three pulp lines at our Harmac pulp mill was closed pending market improvement. Several of our sawmills cut back to a one or two shift operation. Number Three Woodroom at Harmac was curtailed then closed pending market improvement and the Pine Hill sawmill and plymill were shut down for several periods during the year. As a result of the re-organization and downsizing of our operations, our salaried staff was reduced by 1,351 persons from mid-1981 to year end 1982, a drop of 23 percent. In Canada, management salaries were reduced 10 to 15 percent for a four month period in the first half of 1982 and no general increases have been given since 1981. Salary increases for non-managerial salaried staff were limited to 5 percent.

The streamlining of our operations with the consequent reduction in personnel was difficult but necessary. Going into 1983 we have reduced our annual overhead by more than $60 million relative to 1981 levels. Throughout our operations our people have worked together at every level to achieve productivity gains that in aggregate have significantly improved our overall cost-effectiveness. The reduction of overhead, combined with a continued emphasis upon improving productivity, is essential in order to maintain our economic viability and to strengthen our competitive position. This in turn will lead to employment stability while preserving our access to investment capital for future growth and expansion.

The Company undertook several programs to ensure its continued financial strength. Inventories of both finished products and raw materials were significantly reduced. Capital expenditures to maintain plant and equipment were limited to $44 million. No new discretionary expenditures were approved during 1982 but $163 million was required for the buildout of projects already started, primarily the Pine Hill expansion project. Through the sale of future tax benefits relating mainly to the Pine Hill project, the Company realized net cash proceeds of $61 million during the year. Approximately $20 million was realized from a transaction whereby the Company acquired that portion of a joint venture forest plantation in Brazil that had previously been owned by Brascan Limited. A joint venture agreement was reached providing for Fraser Inc. to purchase 50 percent of the Company's fine paper operation in British Columbia for $26 million in February, 1983. In March, 1983 the Company sold its head office building in Vancouver for $62 million.

By the date of this report, signs of a long-awaited economic recovery have become increasingly apparent. Both inflation and interest rates have declined substantially in Canada and the United States. As a result, housing has become more affordable, thereby stimulating residential construction. Lumber prices, particularly in North America, have rebounded somewhat although they still remain well below satisfactory levels. Excess inventories of pulp, newsprint and linerboard held by both producers and consumers will soon have been brought under control and demand for these products will start to improve.

In the past five years MacMillan Bloedel has made significant progress in expanding and modernizing its productive assets with capital expenditures totalling more than $1.2 billion. Our most significant capital projects over this period include the new Number 11 newsprint machine at Powell River, the upgrading of existing newsprint machines at both Port Alberni and Powell River, the Island Paper Mills expansion, the new Alberni Pacific Division sawmill, the modernization of the Port Alberni plywood mill, the acquisition of our Eastern Canadian packaging business, and the completion of the first two phases of the Pine Hill expansion project. These and many other projects have improved productivity, decreased our energy costs and shifted the emphasis of our product mix from commodity products to higher value-added and specialty items.

We look forward to the remainder of 1983 with guarded optimism. We expect a slow but steady improvement in all of our businesses and are currently forecasting that the Company will return to profitability during the year and be at least marginally profitable for the year as a whole. The recovery in demand for our products is expected to gain considerable momentum by year end and we look forward to a better year in 1984. Irrespective of the magnitude and pace of the recovery, our improved operating efficiency, reduced fixed costs, and improved responsiveness have laid a solid foundation for a sustained improvement in earnings.

I know that all shareholders will join us in expressing our gratitude to all employees throughout our operations for their perseverance over the past two years and for their individual and collective efforts in laying the groundwork for future growth and prosperity.

C.C. Knudsen
Chairman and
Chief Executive Officer

R.V. Smith
President and
Chief Operating Officer

Vancouver, Canada
March 18, 1983

OPERATING AND FINANCIAL OVERVIEW

Results of Operations

The Company's sales in 1982 totalled $1,843 million as compared to $2,210 million in 1981. Of the $367 million reduction in sales, 28 percent was attributable to the disposal of MacMillan Rothesay Limited in July, 1981. Sales volumes of all major products fell during the year, accounting for approximately 60 percent of the decrease with a further 13 percent being attributable to lower revenues from the Company's transportation division.

In 1982 the Company incurred an operating loss of $66.8 million as compared to an operating loss of $7.2 million in 1981. The operating losses in both years were partially offset by interest and other income which was derived mainly from interest earned on funds escrowed for the Pine Hill expansion project, and in 1982 from a $6.1 million foreign exchange gain on the refunding of a sterling loan.

Over the year various costs and provisions relating primarily to severance payments and to the closure of certain operations aggregated $65.7 million. Of this amount, severance payments and provisions totalled $23.6 million and writedowns in asset values totalled a further $25.0 million.

During the year the Company netted $61.0 million in cash by selling future tax benefits related to $205.0 million of its capital expenditure program in the United States. The after-tax impact of these transactions was $36.0 million which was recorded as an extraordinary gain.

After this extraordinary item the Company incurred a net loss of $57.3 million as compared to a net profit of $3.3 million in 1981 which included a $30.0 million extraordinary gain from the sale of MacMillan Rothesay Limited. After deducting $19.9 million of preferred dividends in 1982 ($14.7 million in 1981), the net loss per common share was $3.44 per share, compared to $0.51 per share last year.

Five Year Earnings Data

	1978*	1979*	1980*	1981*	**1982**
Sales ($ millions)	2,004.9	2,180.3	2,436.4	2,209.7	**1,843.1**
Contributions to earnings ($ millions)					
Raw materials and building materials	92.1	155.4	56.9	(82.2)	**(105.1)**
Pulp and paper	137.5	122.5	131.2	92.1	**49.6**
Containerboard and packaging	17.5	26.9	38.5	31.4	**(7.0)**
Eliminations and unallocated items	(49.0)	(43.2)	(34.4)	(48.5)	**(4.3)**
Operating earnings (loss)	198.1	261.6	192.2	(7.2)	**(66.8)**
Other income	5.5	24.3	19.9	20.5	**19.3**
Interest expense	(32.7)	(28.9)	(31.9)	(63.2)	**(78.3)**
Severance and closure costs and provisions	—	—	—	—	**(65.7)**
Earnings (loss) before income taxes	170.9	257.0	180.2	(49.9)	**(191.5)**
Income taxes	(77.5)	(100.3)	(63.0)	31.3	**95.3**
Equity earnings (losses)	9.4	1.8	—	(3.9)	**2.3**
Minority interests	(1.9)	(3.6)	(4.0)	(4.2)	**.6**
Earnings (loss) before extraordinary items	100.9	154.9	113.2	(26.7)	**(93.3)**
Extraordinary items	—	—	—	30.0	**36.0**
Net earnings (loss)	100.9	154.9	113.2	3.3	**(57.3)**
Less: Provision for preferred dividends	5.2	5.3	6.2	14.7	**19.9**
Net earnings (loss) for common shareholders	95.7	149.6	107.0	(11.4)	**(77.2)**
Per common share data** ($/common share)					
Operating earnings	8.91	11.77	8.64	(.32)	**(2.98)**
Net earnings (loss):					
before extraordinary items	4.31	6.72	4.81	(1.85)	**(5.05)**
after extraordinary items	4.31	6.72	4.81	(.51)	**(3.44)**
Cash dividends	.91	1.67	1.67	1.09	**.10**
Stock dividends	—	—	—	—	**.89**
Return on invested capital***					
Raw materials and building materials	13.0%	22.0%	8.3%	(12.6)%	**(17.2)%**
Pulp and paper	24.0%	22.0%	21.6%	14.2%	**7.6 %**
Containerboard and packaging	8.0%	12.0%	14.1%	6.8%	**(1.3)%**
Total Company	11.6%	16.0%	12.0%	.1%	**(5.7)%**

**Certain amounts prior to 1982 have been reclassified to conform with the presentation in 1982.*

***Restated to reflect stock dividends issued in 1982.*

****Defined on page 1.*

Raw Materials and Building Materials

High interest rates combined with a lack of consumer confidence continued to stall the long-awaited recovery in the residential construction sector. The Company's production of lumber and plywood in 1982 totalled 635 million board feet and 254 million square feet (3/8" basis) respectively. This represents a drop of approximately 30 percent for each product from depressed 1981 levels. Waferboard sales also declined with the Company's operating rate falling from 93 percent of capacity in 1981 to 41 percent of capacity in 1982. Prices for all building materials remained depressed. Nevertheless, the average net mill price for the Company's lumber shipments rose by about 7 percent during 1982, principally due to a higher grade and species mix as well as to favourable changes in exchange rates. The Company's log harvest in British Columbia was curtailed in 1982 to about 5.0 million cubic meters as compared to 6.0 million cubic meters in 1981 and 8.4 million cubic meters in 1980.

Pulp and Paper

During 1982 pulp markets deteriorated in response to the poor economic performance of the world's major economies and to currency devaluations by Scandinavian countries over the past two years of up to 40 percent in aggregate relative to the Canadian dollar. The price for bleached kraft softwood pulp delivered to Europe fell throughout 1982, ending the year at U.S.$420 per tonne as compared to U.S.$545 per tonne throughout 1981. The Company's major pulp mill in Harmac, B.C. incurred losses which led to the closure of the least efficient of its three pulp lines in December for an indefinite period.

Newsprint markets also weakened in 1982. While consumption in the United States fell by less than 1 percent for the year, several producers brought additional capacity on stream despite an already severe imbalance between supply and demand. Throughout 1981 and during the first half of 1982 publishers accumulated newsprint inventories as a safeguard against potential supply shortages arising from possible work stoppages by producers in Eastern Canada. When these work stoppages did not materialize, publishers reduced their excess inventories. As a result, during the first half of 1982 the Company's newsprint facilities operated at about 75 percent of capacity, but during the latter half of the year the Company's shipment volumes fell to about 55 percent of capacity. (This compared to an average operating rate of about 82 percent in 1981 which was a year of production curtailments due to strikes.) These factors led to a roll-back of a U.S.$25 per tonne price increase which was implemented by the Company for the months of April and May and subsequently, a U.S.$31.50 per tonne decrease in November to U.S.$468.50 per tonne. Due to the reduced level of shipments, two paper machines at the Company's Powell River mill were closed for an indefinite period of time in order to reduce fixed costs. By the end of 1982 inventories of newsprint held by publishers had been reduced to close to normal levels and accordingly, the Company's operating rate is expected to average over 70 percent in 1983.

Containerboard and Packaging

During 1982 demand for containerboard in markets throughout the world weakened. In the United States this fall in demand led to a reduction in linerboard prices from U.S.$270 per ton at the beginning of the year down to U.S.$250 per ton by the fourth quarter, with discounts from the list price being commonplace. During the first half of the year containerboard inventories held by U.S. producers remained at very high levels but were reduced during the second half of the year, leading to very low industry operating rates and to price reductions. During the year the Company reduced its inventories from their peak level in May of 120,000 tonnes to 75,000 tonnes by year end. The Pine Hill mill produced about 288,000 tonnes of linerboard in 1982, down from 311,000 tonnes in 1981.

During the year the first two stages of the Pine Hill project were completed, adding 240,000 tonnes of annual containerboard capacity. On January 25, 1983 a low pressure vessel exploded at the site of the final stage of the project, the conversion of a recovery boiler to a power boiler. As a result, there were three fatalities and a number of injuries. The mill lost several weeks of production and incurred direct damage estimated at about $6 million.

The Company's packaging plants in Canada, the United States and the United Kingdom increased their earnings in 1982 through improved cost control. This improvement, however, was partially offset by work stoppages lasting up to five months at four of the Company's packaging plants in Eastern Canada. As an indirect result of this strike, sales of corrugating medium produced at the Sturgeon Falls mill were reduced which adversely affected its profitability.

Foreign Exchange

The Company's Canadian operations presently generate an annual net inflow of approximately U.S.$380 million. Apart from the effect of translating various balance sheet items, a one cent change in the Canadian dollar exchange rate relative to the U.S. dollar has an after-tax impact of approximately $2.0 million or 9 cents per common share. Given the rate of inflation in Canada relative to the United States and the large government deficits in Canada, the Company anticipates that there is a risk that the Canadian dollar will depreciate relative to the U.S. dollar and accordingly, is no longer purchasing forward cover for its expected U.S. dollar receipts.

Impact of Inflation

The Company's audited financial statements reflect historical costs and therefore do not highlight the problems arising from inflation. The Company estimates the depreciated replacement value of its buildings and equipment at year end 1982 to be approximately $2.9 billion as compared to $1.2 billion on a historical basis as presented in its financial statements. The Company's land, timber and logging roads (less accumulated depletion and amortization) are recorded on the Company's balance sheet at $147 million but are estimated to have a market value well in excess of this amount. The estimated depreciation expense on the replacement value is $200 million compared to $69 million on a historical basis.

1981 Sales and Earnings

Sales in 1981 decreased by $227 million or 9.3 percent as compared to 1980 levels due to a drop in shipment volumes and to the absence of five months of revenue from MacMillan Rothesay Limited which was sold on July 28, 1981. Increased unit sales values were more than offset by lower sales volumes. Net earnings fell from $113.2 million in 1980 to $3.3 million in 1981 which included a $30.0 million extraordinary gain from the sale of the Company's 65 percent interest in MacMillan Rothesay.

Newsprint markets remained strong in both 1980 and 1981 but markets for pulp began to weaken in the second half of 1981. Production cost increases for both of these products surpassed price increases, thereby squeezing profit margins. The deterioration of building materials markets in the second half of 1980 continued through 1981, resulting in significant decreases in prices and shipment volumes. Toward the end of 1980 containerboard and packaging markets in Eastern Canada and the United Kingdom began to show signs of weakness. This trend continued throughout 1981 with U.S. markets also softening in the latter half of the year.

Prolonged strikes at the Company's British Columbia operations in 1981 reduced operating earnings by an estimated $42 million. Interest expense in 1981 increased by $31.3 million over 1980 levels to $63.2 million. Income from investments also rose from $5.1 million in 1980 to $15.6 million in 1981, $11.2 million of which was interest earned on construction funds held in escrow.

(Continued on page 25)

MacMillan Bloedel Limited
Consolidated Statements

Earnings

($ millions)	Year ended December 31 1982	1981*	1980*
Sales of products and services	**$1,843.1**	$2,209.7	$2,436.4
Costs and expenses:			
Materials, labour and other operating expenses	**1,664.3**	1,921.1	1,974.1
Depreciation, depletion of timber and logging road amortization	**82.2**	92.0	88.7
Selling, general and administrative	**163.4**	203.8	181.4
	1,909.9	2,216.9	2,244.2
Operating earnings (loss)	**(66.8)**	(7.2)	192.2
Other income	**19.3**	20.5	19.9
Interest expense	**(78.3)**	(63.2)	(31.9)
Severance and closure costs and provisions	**(65.7)**	—	—
Earnings (loss) before income taxes	**(191.5)**	(49.9)	180.2
Income tax (expense) recovery:			
Current	**1.8**	(7.6)	(7.2)
Deferred	**93.5**	38.9	(55.8)
	95.3	31.3	(63.0)
Earnings (loss) before undernoted items	**(96.2)**	(18.6)	117.2
Equity in earnings (losses) of partly-owned companies	**2.3**	(3.9)	—
Minority interests in subsidiaries	**.6**	(4.2)	(4.0)
Earnings (loss) before extraordinary items	**(93.3)**	(26.7)	113.2
Extraordinary items	**36.0**	30.0	—
Net earnings (loss)	**$ (57.3)**	$ 3.3	$ 113.2
Net earnings (loss) per common share (after providing for preferred share dividends) (dollars):			
Before extraordinary items	**$ (5.05)**	$ (1.85)	$ 4.81
After extraordinary items	**$ (3.44)**	$ (.51)	$ 4.81

Retained Earnings

	1982	1981*	1980*
Balance at beginning of year	**$575.5**	$611.9	$542.9
Net earnings (loss)	**(57.3)**	3.3	113.2
	518.2	615.2	656.1
Deduct:			
Cash dividends:			
Preferred shares	**19.3**	14.1	5.9
Common shares – 1982 $.10 per share (1981 $1.09 and 1980 $1.67 per share)	**2.3**	24.5	37.2
	21.6	38.6	43.1
Stock dividends:			
Common shares $.89 per share	**19.7**	—	—
Costs of issue of class B preferred shares, less applicable income taxes of $1.0 million in 1981 and $1.0 million in 1980	—	1.1	1.1
	41.3	39.7	44.2
Balance at end of year	**$476.9**	$575.5	$611.9

See Note 11 for earnings statement supplementary information.

**Certain 1981 and 1980 amounts have been reclassified to conform with the presentation in 1982 and per share figures have been restated to reflect stock dividends issued in 1982.*

MacMillan Bloedel Limited
Consolidated Statements

Balance Sheets

Assets ($ millions)	December 31 **1982**	1981*
Current assets:		
Cash	**$ 3.8**	$ 4.3
Short term investments and deposits	**42.7**	17.5
Accounts receivable		
Trade	**221.0**	234.9
Other	**17.7**	24.0
Inventories (Note 2)	**327.0**	416.9
Prepaid expenses	**7.4**	7.2
Deferred income taxes	**20.9**	16.9
	640.5	721.7
Investments and other assets: (Note 3)		
Investments accounted for by the equity method	**60.2**	66.6
Other investments and assets, at cost	**12.8**	18.3
Subsidiaries not consolidated	**11.9**	—
	84.9	84.9
Funds held for construction projects (Note 7(b))	**36.2**	74.3
Property, plant and equipment: (Note 4)		
Buildings and equipment	**1,976.4**	1,719.1
Less: Accumulated depreciation	**831.6**	785.5
	1,144.8	933.6
Construction in progress	**73.8**	185.5
	1,218.6	1,119.1
Timber and land less accumulated depletion	**131.4**	129.4
Logging roads	**15.8**	17.8
	1,365.8	1,266.3
Intangible assets:		
Goodwill	**18.0**	19.2
Financing expenses	**5.0**	5.7
	23.0	24.9
	$2,150.4	$2,172.1

**Certain 1981 amounts have been reclassified to conform with the presentation in 1982.*

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

C.C. Knudsen, Director
R.V. Smith, Director

Liabilities ($ millions)

	December 31 1982	1981*
Current liabilities:		
Bank indebtedness (Note 5)	**$ 119.0**	$ 129.5
Notes payable	**1.0**	13.4
Trade accounts payable	**76.7**	102.6
Accrued payroll and related liabilities	**89.6**	95.5
Accrued interest on borrowed funds	**17.5**	17.1
Other accounts payable and accrued liabilities	**39.5**	26.4
Income taxes payable	**6.7**	5.2
Current portion of long term debt (Note 8)	**79.7**	18.8
	429.7	408.5
Long term debt:		
Term bank loans (Note 6)	**366.9**	223.7
Bonds and debentures (Note 7(a))	**288.8**	353.4
Other secured liabilities	**20.3**	19.7
	676.0	596.8
Deferred income taxes	**130.2**	196.1
Minority interests in subsidiaries	**5.0**	6.2
	1,240.9	1,207.6

Shareholders' Equity

	1982	1981*
Share capital: (Note 9)		
Outstanding shares without par value		
Preferred –		
3,400,000 class A	**87.9**	87.9
1,848,270 class B, series 1	**46.2**	46.2
1,986,515 class B, series 2	**49.7**	49.7
266,000 class B, series 3	**26.6**	28.0
233,100 class B, series 4	**20.8**	—
Common –		
22,612,501 common	**201.4**	177.2
	432.6	389.0
Retained earnings	**476.9**	575.5
	909.5	964.5
Commitments (Notes 9 and 10)		
Subsequent events (Note 15)		
	$2,150.4	$2,172.1

MacMillan Bloedel Limited
Consolidated Statements

Changes in Financial Position

($ millions)	Year ended December 31 1982	1981*	1980*
Funds derived from operations:			
Operating earnings (loss)	**$(66.8)**	$ (7.2)	$192.2
Depreciation, depletion and amortization of logging roads	**82.2**	92.0	88.7
Interest paid (net of capitalized interest)	**(78.0)**	(62.4)	(27.9)
Other income	**19.3**	20.5	19.9
Income taxes currently paid	**1.6**	(9.1)	(46.8)
Decrease (increase) in non-fund and non-financing working capital accounts	**91.2**	44.0	(117.4)
Severance costs and provisions	**(23.6)**	—	—
Funds from operations	**25.9**	77.8	108.7
Use of funds:			
Capital expenditures	**206.8**	307.9	327.7
Cash dividends	**21.6**	38.6	43.1
Investments and other assets	**22.4**	13.4	4.9
	250.8	359.9	375.7
Funds required	**$224.9**	$282.1	$267.0
Sources of financing:			
Extraordinary items	**$ 61.0**	$ 74.8	$ —
Increase (decrease) in short term debt	**(22.9)**	59.2	25.1
Proceeds of long term debt	**170.7**	81.5	247.4
Retirement of long term debt	**(30.6)**	(27.1)	(19.5)
Issue of common shares	**4.5**	1.6	—
Issue of class B preferred shares	**20.8**	76.9	48.9
Disposal of investments and other items	**8.0**	7.4	19.3
Financing provided	**211.5**	274.3	321.2
Decrease (increase) in funds*	**13.4**	7.8	(54.2)
Funds supplied	**$224.9**	$282.1	$267.0

**Funds are defined as cash, short term investments and deposits plus funds held for construction projects. Previous years have been restated to meet this new definition.*

Auditors' Report

To the Shareholders of MacMillan Bloedel Limited:

We have examined the consolidated balance sheets of MacMillan Bloedel Limited as at December 31, 1982 and 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years ended December 31, 1982, 1981 and 1980. 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.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1982 in accordance with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE
Chartered Accountants

February 23, 1983
Vancouver, B.C.

Notes

In these financial statements "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 13.

(a) Principles of consolidation –

The consolidated financial statements represent the consolidation of the financial statements of the Company with those of all of its subsidiaries other than the subsidiaries located in Brazil. The capital investment in the Brazilian subsidiaries is not registered under Brazilian foreign investment legislation with the result that there are significant restrictions on the repatriation of funds from that country. Consolidation is therefore inappropriate.

(b) Foreign currency translations –

The Company uses the current – noncurrent method of accounting for foreign currency transactions and balances.

(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 are accounted for by the equity method. Under this method, MacMillan Bloedel's share of the net earnings (losses) of the partly-owned companies is included in consolidated net earnings (loss).

(e) Property, plant and equipment –

Property, plant and equipment are recorded at cost.

MacMillan Bloedel employs the units-of-production basis for depreciation of manufacturing assets. Non-manufacturing assets are depreciated on a straight-line basis.

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
Tugs, barges and scows	10 to 13 years

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

(f) Intangible assets –

Goodwill as at January 1, 1978 is being amortized on a straight-line basis over a period of twenty years.

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.

(g) Income taxes –

Income taxes are recorded on a tax allocation basis.

Investment tax credits are accounted for as an income tax rate reduction of current and deferred income tax.

(h) Pension costs –

Pension costs charged to earnings, including applicable amortization of pension plan experience gains and losses, are determined on the basis of annual reviews of MacMillan Bloedel's various pension plans and other retirement arrangements. The reduction in actuarial liabilities for accrued pension benefits arising from changes in actuarial assumptions during 1982, net of the unamortized past service pension obligations existing at that date, is being allocated as a reduction of pension costs over a period of five years commencing in 1982 (Note 12).

(i) Capitalized interest –

Interest charges are allocated to major capital projects during the construction phase.

2. Inventories:

	December 31 1982	1981
	($ millions)	
Operating and maintenance supplies	**$ 58.2**	$ 63.1
Logs, poles, pulp chips, pulpwood and cordwood	**95.0**	137.5
Lumber, plywood and other building materials	**98.2**	123.8
Pulp and paper products	**36.6**	33.9
Containerboard and packaging products	**39.0**	58.6
	$327.0	$416.9

3. Investments and other assets:

Investments accounted for by the equity method –

	December 31 1982	1981
	($ millions)	
Investments, at cost	**$23.0**	$39.5
Accumulated equity in undistributed earnings since acquisition, less allowance for possible loss of $2.1 million	**37.2**	27.1
	$60.2	$66.6

The above amounts include $53.4 million (1981 – $50.0 million) 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.

Subsidiaries not consolidated –

In 1982, the Company increased its interest in the Brazilian subsidiaries from 51% of the voting shares to 100% of the voting shares as part of a series of transactions by which the Company also received $19.8 million and as consideration issued 233,100 class B preferred shares, series 4 and will issue 16,900 class B preferred shares, series 4 in 1983 to Brascan Limited, a related party. The Company's share of the losses of the Brazilian subsidiaries for the year ended December 31, 1982 aggregated $1.8 million, which amount has been charged to earnings. Its share of the losses of the subsidiaries since the original acquisition of shares aggregated $8.3 million at December 31, 1982. The investment is carried in the balance sheet at cost less provision for these losses.

4. Buildings and equipment:

	Cost	Accumulated depreciation	Net
		($ millions)	
December 31, 1982 –			
Raw materials and building materials	**$ 526.7**	**$284.1**	**$ 242.6**
Pulp and paper	**957.8**	**412.6**	**545.2**
Containerboard and packaging	**502.5**	**111.0**	**391.5**
Corporate assets and other	**63.2**	**23.9**	**39.3**
	$2,050.2	**$831.6**	**$1,218.6**
December 31, 1981 –			
Raw materials and building materials	$ 529.0	$265.5	$ 263.5
Pulp and paper	935.0	390.1	544.9
Containerboard and packaging	381.7	109.0	272.7
Corporate assets and other	58.9	20.9	38.0
	$1,904.6	$785.5	$1,119.1

Assets aggregating $159.4 million (1981 – $124.2 million) (mainly the Alabama facilities) and the related depreciation and long term debt included in these financial statements are held under capital leases.

5. Short term bank indebtedness:

At December 31, 1982 MacMillan Bloedel had short term bank lines of credit aggregating $412.7 million (December 31, 1981 – $294.7 million). At December 31, 1982 $108.8 million (December 31, 1981 – $94.1 million) of these short term bank lines had been drawn down. At December 31, 1982 the available unutilized lines of credit aggregated $303.9 million.

6. Long term bank loans:

The Company has two kinds of long term indebtedness. The contractual bank lines are described here and the bonds and debentures are described in Note 7.

	December 31 1982	1981
	($ millions)	
Unsecured term bank loan of U.S. $50.0 million maturing September 30, 1990 bearing interest at a floating rate not to be less than 9% nor greater than 12½%	**$ 58.8**	$ 58.8
Unsecured term bank loan of 60.0 million Dutch guilders maturing January 15, 1993 bearing interest at 11⅝%	**34.0**	34.0
Unsecured term bank loan of U.S. $7.9 million maturing March 31, 1989 bearing interest in part at 9⅝% and in part at a rate related to the London Interbank rate for U.S. dollar deposits	**9.5**	8.3
Unsecured term bank loan of 39.0 million Dutch guilders maturing January 15, 1992 bearing interest at 12⅞%	**18.8**	19.3
Advances under contractual term lines of credit (including U.S. $17.0 million and £10.0 million)	**268.8**	103.8
	389.9	224.2
Less: Payments due within one year, before adjustment to current rate of exchange (Note 8)	**23.0**	.5
	$366.9	$223.7

At December 31, 1982 MacMillan Bloedel had contractual term bank lines of credit aggregating $588.3 million (1981 – $593.3 million) of which $25.8 million (1981 – nil) is secured by the assets of a subsidiary. At December 31, 1982 $268.8 million (1981 – $103.8 million) of these term bank lines had been drawn down of which $20.9 million (1981 – nil) are direct obligations of an Industrial Development Board in Alabama. As a consequence of the amendment to the relevant trust indenture, a further $24.6 million is committed to the series A bondholders until the Company's liability to them has been extinguished. These contractual term lines provide for loans on a revolving basis for one, two or four years, followed by repayment periods of two to nine years. As at December 31, 1982 the available unutilized lines of credit aggregated $319.5 million.

7. Bonds and debentures:

(a)

	December 31 1982	1981
	($ millions)	
MacMillan Bloedel Limited –		
4.95%* sinking fund debentures, series A, maturing October 1, 1990 (U.S. $16.8 million)	**$ 18.0**	$ 20.3
6½% sinking fund debentures, series C, maturing July 15, 1992 (U.S. $11.9 million)	**12.8**	16.0
8½% sinking fund debentures, series E, maturing May 15, 1991	**14.1**	14.9
8¾% sinking fund debentures, series F, maturing July 1, 1994 (U.S. $57.0 million)	**55.0**	59.4
11¼% sinking fund debentures, series G, maturing January 15, 1995	**33.9**	35.9
9% sinking fund debentures, series J, maturing February 1, 1992 (U.S. $41.0 million)	**41.8**	43.6
9¼% sinking fund debentures, series K, maturing March 15, 1993 (U.S. $41.4 million)	**45.7**	47.7
8½% subordinated debentures, maturing December 20, 1984 (U.S. $2.1 million)	**2.1**	2.1
	$223.4	$239.9

**Extra interest of ½ of 1% per year has been paid on these debentures from January 1, 1975 and a further 1% per year from June 1, 1982 as a consequence of the amendment to the relevant trust indenture.*

	December 31 1982	1981
	($ millions)	
MacMillan Bloedel Inc.* –		
4⅜% sinking fund industrial development revenue bonds, maturing June 1, 1988 (U.S. $24.4 million)	**$ 26.2**	$ 29.8
4.90% - 5.50% general obligation industrial bonds, series 1977, maturing December 1, 1997 (U.S. $.8 million)	**.9**	.9
10¼% pollution control bonds, maturing November 1, 2000 (U.S. $15.0 million)	**18.0**	18.0
10½% pollution control bonds, maturing November 1, 2015 (U.S. $15.0 million)	**18.0**	18.0
8¼% environmental improvement and industrial development bonds maturing November 1, 1983 (U.S. $35.1 million)	**42.2**	42.2
9⅝% industrial development revenue bond, maturing April 30, 1987 (U.S. $10.8 million)	**13.0**	12.7
	118.3	121.6
	341.7	361.5
Less: Payments due within one year, before adjustment to current rate of exchange (Note 8)	**52.9**	8.1
	$288.8	$353.4

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

Substantially all of MacMillan Bloedel's assets are pledged by fixed and floating charges as security for the outstanding bonds and 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, 1982 approximately $280.0 million of additional long term indebtedness could be incurred (there is no trust indenture restriction on the amount of short term indebtedness that can be incurred) and approximately $415.0 million was available for payment of dividends. These amounts 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. At December 31, 1982 there were unrealized losses on foreign exchange relating to long term debt of approximately $33.7 million which have not been recognized in the accompanying financial statements.

(b) Funds held for construction projects –

Unexpended funds, including income, from the municipal bonds issued in 1980 and listed under MacMillan Bloedel Inc. are included in "Funds held for construction projects" and in "Short term investments and deposits" in the balance sheet. Pursuant to the terms of issue, the funds may only be expended on specific capital projects at Pine Hill, Alabama or repaid to the bondholders. Accordingly $36.2 million which is to be expended on construction is included in "Funds held for construction projects".

8. Payments on long term debt:

Payments on long term debt required for each of the five years after December 31, 1982 are as follows –

	Bonds and debentures	Term bank loans	Other liabilities	Total
		($ millions)		
1983 (after adjustment to current rate of exchange – Note 7(a))	$55.5	$20.9	$3.3	$79.7
1984	21.6	3.0	2.4	27.0
1985	22.0	6.5	2.4	30.9
1986	22.3	6.5	2.6	31.4
1987	21.1	30.3	.7	52.1

9. Share capital:

By resolution of the shareholders passed on June 25, 1981 the Company's authorized capital was increased from 35.0 million common shares, 3.4 million class A preferred shares, and 5.0 million class B preferred shares issuable in series, all without par value to 35.0 million common shares, 3.4 million class A preferred shares and 8.0 million class B preferred shares issuable in series, all without par value, and provided that the class B preferred shares shall not be issued for an aggregate consideration in excess of $200.0 million.

The class A preferred shares –

The class A preferred shares are redeemable, at the option of the Company, 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 at a rate of 1½% above one-half of the average U.S. prime rate.

The class B preferred shares –

These shares rank on a parity with the class A preferred shares and prior to the common shares of the Company.

Conversion features	**Date**	**Price**
Series 1		
Convertible into one common share on or before	December 1, 1985	$36.85
	December 1, 1990	38.77
Series 2		
Convertible into one common share on or before	March 1, 1986	43.08
	March 1, 1991	46.90
Redemption features		
Series 1		
Company's redemption options –		
redeemable after	August 31, 1983	$26.25 (1)
redeemable after	September 1, 1985	26.25 (2)
Company's redemption obligation – make all reasonable efforts to purchase during each calendar quarter commencing January 1, 1991 1% of the shares outstanding on December 2, 1990		maximum $25.00
Series 2		
Company's redemption options –		
redeemable after	February 29, 1984	$26.25 (1)
redeemable after	March 1, 1986	26.25 (2)
Company's redemption obligation – make all reasonable efforts during each calendar quarter commencing April 1, 1991 to purchase 1% of the shares outstanding on March 2, 1991		maximum $25.00
Series 3		
Company's redemption options –		
redeemable after	July 1, 1985	$103.00 (3)
Company's redemption obligations –		
Offer to redeem 5% of original holdings annually during	March of 1983 through 1985	100.00
Redeem 5% of original holdings annually on	July 1 of 1986 through 1990	100.00
Redeem remaining shares on	July 1, 1991	100.00
Series 4		
Company's redemption options –		
redeemable before	September 1, 1987	U.S.$100.00
Company's redemption obligations –		
redeem 4,687 shares each quarter	September 1, 1987 through June 1, 1992	U.S.$100.00
Redeem remaining shares on	September 1, 1992	U.S.$100.00

Dividends

Series 1	$2.00 per annum cumulative preferential, payable quarterly.
Series 2	$2.08 per annum cumulative preferential, payable quarterly.
Series 3	cumulative preferential equal to the sum of 1¾% and ½ of the defined average minimum lending rate per annum, payable quarterly.
Series 4	cumulative preferential equal to the sum of 1½% and ½ of the defined average U.S. prime rate per annum, payable quarterly.

(1) Redeemable only if the weighted average price is not less than $46.06 for Series 1 and $53.85 for Series 2.

(2) This price declines $.25 annually to $25.00.

(3) This price declines $.50 annually to $100.00.

Options to purchase common shares –

An option for 1,000 shares was granted and an option for 5,000 shares was exercised in 1981. Options for 48,450 shares were granted and an option for 500 shares was relinquished during 1982. The options outstanding and the option prices are adjusted so that options are not diluted by the payment of common stock dividends, leaving the outstanding options at December 31, 1982 as follows –

Number of shares	Option price	Expiry date
52,259 shares	$18.84	August 31, 1986
1,045 shares	$40.75	June 24, 1991
49,871 shares	$18.26	July 27, 1987

At December 31, 1982 loans to senior officers under the senior management share purchase plan amounted to $1.3 million. The majority of the loans are non-recourse, interest free, for a ten year term and secured by a pledge of the common shares.

Employee share purchase plan –

The Company has reserved 1.0 million common shares for issuance to the employee share purchase plan of which 264,274 had been taken up as at December 31, 1982.

Changes in share capital –

The following is a summary of the changes in share capital since January 1, 1980 –

	Issued	
	Number of shares	($ millions)
Class A preferred shares		
Balance January 1, 1980		
unchanged December 31, 1982	3,400,000	$ 87.9
Class B preferred shares		
Series 1		
Issued in 1980 and outstanding at December 31, 1980	2,000,000	$ 50.0
Converted to 98,323 common shares during 1981	(151,530)	(3.8)
Balance December 31, 1981	1,848,470	46.2
Converted to 129 common shares during 1982	(200)	—
Balance December 31, 1982	1,848,270	$ 46.2
Series 2		
Issued in 1981	2,000,000	$ 50.0
Converted to 7,375 common shares during 1981	(13,300)	(.3)
Balance December 31, 1981	1,986,700	49.7
Converted to 102 common shares during 1982	(185)	—
Balance December 31, 1982	1,986,515	$ 49.7
Series 3		
Issued in 1981 and outstanding at December 31, 1981	280,000	$ 28.0
Redeemed during 1982	(14,000)	(1.4)
Balance December 31, 1982	266,000	$ 26.6
Series 4		
Issued in 1982 and outstanding at December 31, 1982	233,100	$ 20.8
Common shares		
Balance January 1, 1980	21,272,975	$171.5
Share options exercised during 1981	5,000	.1
Senior management share purchase plan	35,520	1.5
Conversion of class B preferred shares	105,698	4.1
Balance December 31, 1981	21,419,193	177.2
Conversion of class B preferred shares	231	—
Stock dividends	965,038	19.7
Employee share purchase plan	228,039	4.5
Balance December 31, 1982	22,612,501	$201.4

10. Commitments:

In addition to commitments for capital expenditures and the future supply of operating services and materials, MacMillan Bloedel is committed at December 31, 1982 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	Total
		($ millions)	
1983	$ 38.7	$ 7.9	$ 46.6
1984	35.0	6.2	41.2
1985	18.6	4.2	22.8
1986	10.3	2.6	12.9
1987	10.6	1.6	12.2
1988-1992	4.5	5.6	10.1
1993-1997	—	4.6	4.6
1998-2002	—	3.6	3.6
Subsequent to 2002	—	5.7	5.7
	$117.7	$42.0	$159.7

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, 1982.

As at December 31, 1982 some of the ship charters are at rates above those prevailing in the spot charter market.

(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 $4.8 million is required in each of the next five years.

11. Earnings statements supplementary information:

(a) Costs and expenses include the following –

	Year ended December 31 **1982**	1981	1980
		($ millions)	
Interest expense –			
Long term debt interest	**$ 75.8**	$66.4	$36.0
Other interest	**24.8**	10.1	10.4
	100.6	76.5	46.4
Less: Interest capitalized	**22.3**	13.3	14.5
	$ 78.3	$63.2	$31.9
Effective average interest rate	**12%**	12%	11%
Other income –			
Income from investments	**$ 13.1**	$15.6	$ 5.1
Profit on disposition of noncurrent items	**6.2**	4.9	14.8
	$ 19.3	$20.5	$19.9
Depreciation	**$ 69.2**	$74.2	$71.8
Depletion	**9.2**	12.8	10.3
Logging road amortization	**3.8**	5.0	6.6
	$ 82.2	$92.0	$88.7
Pension expense (Note 12)	**$ 21.3**	$42.4	$38.6
Research and development expenses	**$ 6.7**	$ 9.8	$ 8.7
Less: Government grants	**.3**	.4	.5
	$ 6.4	$ 9.4	$ 8.2
Rental expense on leases of more than one month, and time charter hire	**$ 49.2**	$49.5	$47.3

Selling, general and administrative expenses include direct remuneration of the directors and officers of the Company aggregating $3.1 million (1981 – $3.6 million; 1980 – $4.1 million). The 1980 amount includes compensation under a management incentive compensation plan.

(b) Income taxes –

Consolidated income tax expense (recovery) is composed of –

	Canadian federal	Canadian provincial	Foreign	Total
		($ millions)		
Year ended December 31, 1982				
Current	**$ .4**	**$ (3.0)**	**$ .8**	**$ (1.8)**
Deferred	**(60.1)**	**(30.4)**	**(3.0)**	**(93.5)**
	$(59.7)	**$(33.4)**	**$ (2.2)**	**$(95.3)**
Year ended December 31, 1981				
Current	$ .8	$ (1.0)	$ 7.8	$ 7.6
Deferred	(15.8)	(12.8)	(10.3)	(38.9)
	$(15.0)	$(13.8)	$ (2.5)	$(31.3)
Year ended December 31, 1980				
Current	$ (.7)	$ (.9)	$ 8.8	$ 7.2
Deferred	23.7	23.2	8.9	55.8
	$ 23.0	$ 22.3	$ 17.7	$ 63.0

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 **1982**	1981	1980
		($ millions)	
Deferred income taxes –			
Excess of financial statement depreciation and logging road amortization over income tax allowances	**$(61.7)**	$(18.5)	$53.9
Inventory valuation for financial statement purposes over (under) valuation for income tax purposes	**(1.6)**	9.1	4.2
Provision for withholding taxes on undistributed earnings of foreign subsidiaries	**—**	(2.5)	1.7
Expense provisions not deductible for income tax purposes until paid	**(.2)**	(15.6)	1.6
Non-capital losses for which deferred tax allocation was followed	**(34.9)**	(13.1)	3.0
United States and Canadian investment tax credits	**(1.4)**	(2.9)	(5.3)
United Kingdom stock appreciation relief	**—**	—	(5.2)
Imputed interest on Alabama timberlands	**1.2**	(1.3)	1.8
Rental on Alabama timberlands	**3.8**	5.2	.3
Other items which are individually less than 5% of computed "expected" income taxes	**1.3**	.7	(.2)
	$(93.5)	$(38.9)	$55.8

MacMillan Bloedel's effective income tax rates for 1982, 1981 and 1980 are determined as follows –

	Year ended December 31 **1982**	1981	1980
Canadian federal income tax rate	**(46.0)%**	(46.0)%	46.0%
Canadian manufacturing and processing allowance	**3.9**	5.7	(3.2)
Provincial income and logging taxes, and state taxes and withholding tax provisions net of applicable federal abatements	**(5.5)**	(7.1)	4.9
Operating and capital losses for which potential tax reductions were not recorded	**—**	(1.1)	(2.0)
Investment tax credits	**2.0**	(17.4)	(4.4)
3% Canadian inventory allowance	**(2.0)**	(7.9)	(1.8)
United Kingdom stock appreciation relief	**(.1)**	(2.3)	(1.4)
Effect of foreign exchange translation adjustments	**.8**	.5	(1.1)
Effect of low rate of tax on capital gains	**(.9)**	(.5)	(1.5)
Effect of recording tax adjustments and assessments	**(3.5)**	12.4	(1.3)
Other items	**1.5**	1.0	.7
Effective income tax rate	**(49.8)%**	(62.7)%	34.9%

At December 31, 1982 certain subsidiary companies have losses aggregating $20.4 million 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.

(c) Extraordinary items –

In 1982 MacMillan Bloedel sold tax benefits including investment tax credits and energy tax credits associated with plant and equipment having an aggregate cost of $205.0 million in the United States. Net proceeds of $61.0 million before related income taxes of $25.0 million have been included in net earnings.

Effective July 28, 1981 the Company sold its 65% interest in MacMillan Rothesay Limited, a manufacturer of newsprint located in St. John, New Brunswick. The Company realized a profit on disposal of $30.0 million (net of income taxes of $9.2 million) as a result of the transaction.

(d) 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 number of shares outstanding is adjusted to the beginning of the period for share dividends issued during the period.

There would have been no increase in the net loss per common share in 1982 from the conversion of outstanding convertible securities.

12. 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.

In the latter part of 1982, the Company reviewed the historical relationship of investment earnings to changes in levels of remuneration and reviewed current life expectancy tables relating to pension plans in Canada. The result of these deliberations was the adoption of revised assumptions for the primary Canadian plans. The effect of these changes has been to reduce the net loss for the year ended December 31, 1982 by $2.8 million after tax ($.12 per common share).

As at December 31, 1982 the estimated excess of pension fund assets and balance sheet provisions over the estimated obligations of the pension plans to employees and retired employees amounted to approximately $32.0 million.

		December 31	
	1982	1981	1980
		($ millions)	
Pension fund assets	**$296.1**	$265.4	$268.5
Obligations for pension benefits under all plans and agreements	**282.9**	306.7	282.9
Excess (deficiency) of fund assets over obligations for benefits	**13.2**	(41.3)	(14.4)
Balance sheet provisions	**18.8**	27.2	17.8
Excess (deficiency) over plan obligations	**$ 32.0**	$(14.1)	$ 3.4

13. 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 including Financial Accounting Standards Statement no. 8 been followed in the preparation of these financial statements, the consolidated loss for 1982 would have been increased by approximately $29.0 million ($1.29 per common share), and consolidated net earnings increased in 1981 by $41.0 million ($1.84 per common share), and reduced in 1980 by $5.0 million ($.22 per common share).

(b) Shareholders' equity –

As at December 31, 1982 shareholders' equity as shown in the balance sheet would have amounted to $643.0 million ($746.2 million at December 31, 1981) 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.

14. Segment Information:

($ millions)	Sales from Canada to	Sales to unaffiliated customers from	Contributions to earnings (loss) (2)	Assets
Year ended December 31, 1982				
Canada	**$ 442.3**	**$ 891.6**	**$ (30.2)**	**$1,193.3**
United States	**458.7**	**779.0**	**(21.1)**	**686.9**
Europe (primarily the United Kingdom)	**164.8**	**169.1**	**(1.4)**	**94.3**
Other	**270.4**	**3.4**	**2.6**	**2.1**
	1,336.2	**1,843.1**	**(50.1)**	**1,976.6**
Eliminations and adjustments:				
Inter-segment			**(1.1)**	**(2.4)**
General corporate			**(62.0)**	**176.2**
Interest expense			**(78.3)**	
Consolidated totals	**$1,336.2**	**$1,843.1**	**$(191.5)**	**$2,150.4**
Year ended December 31, 1981*				
Canada	$ 530.8	$1,172.6	$ 18.2	$1,325.0
United States	546.8	828.6	22.3	557.8
Europe (primarily the United Kingdom)	207.1	202.5	(1.1)	110.6
Other	363.0	6.0	.7	3.8
	1,647.7	2,209.7	40.1	1,997.2
Eliminations and adjustments:				
Inter-segment			4.5	(1.3)
General corporate			(31.3)	176.2
Interest expense			(63.2)	
Consolidated totals	$1,647.7	$2,209.7	$(49.9)	$2,172.1
Year ended December 31, 1980*				
Canada	$ 494.9	$1,371.8	$187.7	$1,363.6
United States	591.6	825.0	27.9	424.5
Europe (primarily the United Kingdom)	351.3	235.3	2.7	122.6
Other	436.5	4.3	3.3	4.6
	1,874.3	2,436.4	221.6	1,915.3
Eliminations and adjustments:				
Inter-segment			6.0	(5.8)
General corporate			(15.5)	165.7
Interest expense			(31.9)	
Consolidated totals	$1,874.3	$2,436.4	$180.2	$2,075.2

($ millions)	Sales to unaffiliated customers (3)	Inter-segment sales (3)	Total revenue	Contributions to earnings (loss) (2)	Depreciation, depletion and amortization	Capital expenditures	Assets
Year ended December 31, 1982							
Raw materials and building materials	**$ 667.9**	**$ 103.3**	**$ 771.2**	**$(105.1)**	**$36.8**	**$ 15.9**	**$ 622.2**
Pulp and paper	**683.0**		**683.0**	**49.6**	**29.1**	**41.3**	**743.3**
Containerboard and packaging	**460.6**		**460.6**	**(7.0)**	**13.1**	**143.0**	**587.1**
Other	**31.6**		**31.6**	**1.3**	**.4**	**.4**	**6.6**
Total operations	**1,843.1**	**103.3**	**1,946.4**	**(61.2)**	**79.4**	**200.6**	**1,959.2**
Eliminations and adjustments:							
Inter-segment		**(103.3)**	**(103.3)**	**10.0**			**15.0**
General corporate				**(62.0)**	**2.8**	**6.2**	**176.2**
Interest expense				**(78.3)**			
Consolidated totals	**$1,843.1**	**$ —**	**$1,843.1**	**$(191.5)**	**$82.2**	**$206.8**	**$2,150.4**
Year ended December 31, 1981*							
Raw materials and building materials	$ 838.9	$ 108.0	$ 946.9	$(82.2)	$44.4	$ 58.2	$ 738.8
Pulp and paper	813.1	17.8	830.9	92.1	31.4	105.3	738.2
Containerboard and packaging	524.5		524.5	31.4	13.1	133.2	506.0
Other	33.2		33.2	.9	.6		7.9
Total operations	2,209.7	125.8	2,335.5	42.2	89.5	296.7	1,990.9
Eliminations and adjustments:							
Inter-segment		(125.8)	(125.8)	2.4			5.0
General corporate				(31.3)	2.5	11.2	176.2
Interest expense				(63.2)			
Consolidated totals	$2,209.7	$ —	$2,209.7	$(49.9)	$92.0	$307.9	$2,172.1
Year ended December 31, 1980*							
Raw materials and building materials	$1,012.2	$ 144.5	$1,156.7	$ 56.9	$45.9	$ 88.4	$ 766.4
Pulp and paper	881.0	33.9	914.9	131.2	28.5	183.0	751.4
Containerboard and packaging	513.6	1.5	515.1	38.5	11.2	47.5	381.0
Other	29.6		29.6	1.1	.7	1.0	8.1
Total operations	2,436.4	179.9	2,616.3	227.7	86.3	319.9	1,906.9
Eliminations and adjustments:							
Inter-segment		(179.9)	(179.9)	(.1)			2.6
General corporate				(15.5)	2.4	7.8	165.7
Interest expense				(31.9)			
Consolidated totals	$2,436.4	$ —	$2,436.4	$180.2	$88.7	$327.7	$2,075.2

**Certain 1981 and 1980 amounts have been reclassified to conform with the presentation in 1982.*

Notes:

(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) Contributions to earnings (loss)

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

(3) 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.

15. Subsequent events:

In February 1983 the Company completed the sale of a fifty percent interest in Island Paper Mills Limited to Fraser, Inc., a related company.

On February 23, 1983 the Company approved the sale of its head office building. This transaction is expected to close on March 10, 1983.

The anticipated net proceeds from these transactions are estimated to be $87 million.

16. Subsidiary companies:

Active	**Inactive** (including holding companies not carrying on active operations)
Canada	
Canadian Transport Company Limited	Harmac Ltd.
Canadian Transport (Europe) Limited	MacMillan Bloedel Export Sales Ltd.
Forest Industries Flying Tankers Limited	MacMillan Bloedel (Saskatchewan) Limited
Island Paper Mills Limited	
Kingcome Navigation Company Ltd.	
MacMillan Bloedel Building Limited	
MacMillan Bloedel Building Materials Limited	
MacMillan Bloedel Packaging Limited	
Vancouver Island Stevedoring Co. Ltd.	
Vancouver Marine Engines Ltd.	
United States	
Atlantic Forest Products Inc.	MB Subsidiary 74 Inc.
Canadian Transport (N.Y.) Inc.	MacMillan Bloedel Radio System, Inc.
Fibres International, Inc.	MacMillan Bloedel Timberlands Inc.
MacMillan Bloedel Export Inc.	
MacMillan Bloedel Inc.	
MacMillan Bloedel Particleboard Inc.	
Powell River-Alberni Sales Corporation	
Star Terminal Company, Incorporated	
United Kingdom	
Canadian Transport (Terminals) Limited	Hygrade Corrugated Cases Limited
MacMillan Bloedel Containers Limited	MacMillan Bloedel Holdings (U.K.) Limited
MacMillan Bloedel Meyer Limited	
MacMillan Bloedel Meyer (Terminals) Limited	
MacMillan Bloedel Panelboard Agencies Limited	
MacMillan Bloedel Pulp and Paper Sales Limited	
Pakfast Limited	
Scotpack Limited	
Other	
Altair Limited (1)	Canadian Maas River Investment N.V.
Comfloresta – Companhia Catarinense de Empreendimentos Florestais (2)	Canadian Transport Company Pty. Limited
Embrasca-Empreendimentos Florestais e Agricolas Ltda. (2)	Comfloresta-Parana Empreendimentos Florestais S.A. (2)
Fortrans N.V.	Comfloresta-Serrana Empreendimentos Florestais S.A. (2)
MacMillan Bloedel Europe B.V.	MacMillan Bloedel (Brasil) Ltda.
MacMillan Bloedel Pty. Limited	MacMillan Bloedel European Holdings B.V.
MacMillan Jardine (Japan) Limited	MacMillan Bloedel Holding N.V.
MacMillan Jardine Limited	MB Bermuda Limited
MacMillan Jardine (South East Asia) Limited	Oceanspan Carriers Limited
	Recursos Florestais Socieda de Civil Limitada (2)
	Sociedade Civil de Investimentos Florestais Limitada (2)

(1) November 30 year-end for fiscal purposes.
(2) These subsidiaries are not consolidated (Notes 1 and 3).

Financial Position

In order to provide an element of stability within the cyclical environment of the forest products industry, MacMillan Bloedel has a long-standing policy of maintaining a prudent, well-balanced and flexible financial structure. To this end the Company maintains a presence in most of the world's major financial markets, thereby enabling it to raise funds from a wide variety of sources on the most advantageous terms. The Company has over $1 billion of credit lines with major commercial banks, of which $623 million remained unutilized at year end. Of these credit lines, $588 million are contractually committed for periods of 9 and 14 years and as at year end, $320 million remained unutilized.

As a precaution against the current recessionary environment, during 1980 and early 1981 management took several measures to strengthen the Company's balance sheet. Approximately $100 million of low-cost debt financing was put in place through the issuance of tax-exempt bonds and by utilizing import-export financing. During this period $28 million of term preferred shares were issued and two $50 million issues of convertible preferred shares were sold in the Canadian public market. In 1982 the Company took further action to maintain its financial strength by realizing net proceeds of $61 million on the sale of future tax benefits.

During the third quarter of 1982 and first quarter of 1983 the Company issued U.S.$25 million of ten year term preferred shares to Brascan Limited to acquire Brascan's interest in the Company's Brazilian subsidiary, Embrasca. This transaction brought MacMillan Bloedel's interest in Embrasca to 100 percent and further provided U.S.$16 million in cash.

At the end of 1982 interest-bearing debt totalled $866 million, an increase of $142 million from the previous year. Proceeds of long term debt of $171 million were partially offset by a reduction of $92 million leaving a net increase of $79 million over the year. Drawdowns under term bank lines accounted for $166 million of the increase and the current portion of long term debt increased by $61 million. During the fourth quarter of 1982 the Company entered into an "interest rate swap" transaction, whereby it locked in a fixed rate of 12.83 percent for seven years for U.S.$50 million.

In the second quarter of 1982 the Company began to pay dividends to its common shareholders in stock instead of cash. The first such stock dividend was set at approximately one-half of one percent, but was subsequently increased to a quarterly rate of two percent. It qualifies as a dividend paid under the statutes governing the eligibility of investments for most Canadian pension funds, insurance companies and other investing institutions.

During the second half of the year the Company began to sell Treasury shares to its employee share purchase plan. This program increased the common equity base by $4.5 million in 1982 and is expected to generate about $10 million of additional equity in 1983.

Dividend payments to preferred shareholders totalled $19.3 million during the year as compared to $14.1 million in 1981. The increase reflects the issuance of additional preferred shares and a higher dividend rate on the class A preferred shares.

Interest in 1982 totalled $100.6 million, of which $22.3 million was capitalized interest for major capital projects. This compares to $76.5 million of interest in 1981. The increase in 1982 was mainly attributable to higher interest rates on floating rate debt and to higher levels of debt during the year.

The Company continued to emphasize the reduction of overhead in 1982. As part of this program, inventories and accounts receivable were reduced by a total of $110 million over the year. Salaried staff was reduced by 23 percent by year end as compared to the level at mid-1981, resulting in a saving going into 1983 of over $60 million per year. The actual saving in 1982 was less because the staff reduction program was phased in during the year.

Capital Expenditures

($ millions)	1978	1979	1980	1981	1982	**Five Year Total**	% of Total
Raw materials and building materials							
Raw materials	53.0	56.5	41.6	48.2	14.7	**214.0**	17.2%
Building materials	15.9	62.9	46.8	10.0	1.2	**136.8**	11.0%
Pulp and paper	37.3	118.3	183.0	105.3	41.3	**485.2**	39.0%
Containerboard and packaging	13.7	36.8	47.5	133.2	143.0	**374.2**	30.1%
Other	1.7	5.9	8.8	11.2	6.6	**34.2**	2.7%
Total	121.6	280.4	327.7	307.9	206.8	**1,244.4**	100.0%

Capital expenditures in 1982 amounted to approximately $207 million of which $22 million was capitalized interest. Of this amount $132 million was accounted for by the Pine Hill, Alabama expansion project, the second phase of which was completed near year end. Spending on mandatory projects to maintain the Company's facilities totalled $44 million for the year.

The first stage of the Pine Hill project, a 50,000 tonne-per-year speedup of the existing linerboard machine, was brought on stream in early 1982. The second phase, a 190,000 tonne-per-year corrugating medium machine, was completed in the fourth quarter. The third and final stage of the project is scheduled for completion in the second quarter of 1983. It involves the conversion of an existing recovery boiler to a power boiler which will significantly reduce the mill's energy cost. Expenditures in 1983 to complete the project are estimated at U.S.$34 million, bringing the total project cost, including capitalized interest, to about U.S.$239 million. The Pine Hill project has been funded entirely within the United States by the issuance of U.S.$63 million of tax-exempt bonds, by U.S.$52 million of proceeds from the sale of tax benefits, and by drawing down on bank lines of credit available to the Company's U.S. subsidiary, MacMillan Bloedel Inc.

Construction of the new fine paper machine at Island Paper Mills near Vancouver, British Columbia progressed significantly in 1982. The total cost for this project is estimated at approximately $54 million of which $14 million remained to be spent at year end. In February, 1983 the Company sold a 50 percent interest in Island Paper Mills to an associated company, Fraser Inc. Total proceeds for the sale were $26 million, of which $15 million was paid in cash and the remainder in interest-bearing notes. Beginning in 1983 Island Paper Mills will be accounted for by the equity method. This joint venture company has its own financing in the form of a $26 million long term bank line of credit and a $5 million short term credit facility.

Five Year Financial Data

($ millions)	1978	1979	1980	1981	**1982**
Funds from operations	211.7	237.5	108.7	77.8	**25.9**
Depreciation, depletion, and amortization	75.6	82.6	88.7	92.0	**82.2**
Capital expenditures	121.6	280.4	327.7	307.9	**206.8**
Current assets	652.9	690.1	774.8	721.7	**640.5**
Current liabilities	351.9	370.1	353.1	408.5	**429.7**
Working capital	301.0	320.0	421.7	313.2	**210.8**
Non-cash working capital	294.0	328.8	477.5	434.4	**284.3**
Total assets	1,549.3	1,691.9	2,075.2	2,172.1	**2,150.4**
Short term interest-bearing debt	70.1	39.0	79.9	126.3	**189.5**
Long term debt	341.7	323.1	550.8	596.8	**676.0**
Total interest-bearing debt	411.8	362.1	630.7	723.1	**865.5**
Redeemable term preferred shares	88.0	88.0	88.0	115.9	**135.3**
Redeemable convertible preferred shares	—	—	50.0	95.9	**95.9**
Common equity, including retained earnings	601.8	714.3	783.4	752.7	**678.3**
Minority interests	20.6	21.6	23.0	6.2	**5.0**
Deferred income taxes	145.1	174.8	226.9	196.1	**130.2**
Total invested capital	1,267.3	1,360.8	1,802.0	1,889.9	**1,910.2**
Interest-bearing debt as a percentage of invested capital	32.5%	26.6%	35.0%	38.3%	**45.3%**

Looking Forward

The many measures taken by management to strengthen the balance sheet could not fully offset the adverse operating conditions in 1982. During the year the ratio of debt to invested capital rose from 38.3 percent to 45.3 percent, which is well above the Company's target level of 35 percent. However, the Company's cost-competitive position has been enhanced by the decentralization of the management of its operations, the general reduction of overhead, and the closure of non-profitable facilities. Furthermore, the Company is concentrating on fully exploiting its world-scale facilities and has focused its efforts on those sectors of the forest products industry which capitalize upon its relative strengths. These measures, in combination with an anticipated improvement in forest products markets during 1983 and beyond, are expected to enhance internal cash flow and thereby reduce the Company's financial leverage towards its target level.

During the first part of 1983 the Company took additional measures to reduce its debt load. The joint venture of Island Paper Mills reduced MacMillan Bloedel's net interest-bearing debt by $26 million and the proceeds from the sale of the head office building have been used to decrease debt by approximately $61 million. Capital spending in 1983 is planned at approximately $100 million, of which about $60 million will be required to maintain existing plant and equipment and the remainder to complete the Pine Hill project.

Selected Quarterly Financial Data

($ millions)	1981 First Quarter	1981 Second Quarter	1981 Third Quarter	1981 Fourth Quarter	1982* First Quarter	1982* Second Quarter	1982* Third Quarter	1982* Fourth Quarter
Sales	611.7	707.9	358.5	531.6	504.5	466.8	427.0	444.8
Costs and expenses								
Operating expenses	510.2	596.8	356.1	458.0	446.3	413.4	400.4	404.2
Depreciation, depletion and amortization	26.3	26.6	13.7	25.4	21.1	20.5	20.3	20.3
Selling, general and administrative	45.4	54.6	53.6	50.2	45.4	41.9	35.3	40.8
	581.9	678.0	423.4	533.6	512.8	475.8	456.0	465.3
Operating earnings (loss)	29.8	29.9	(64.9)	(2.0)	(8.3)	(9.0)	(29.0)	(20.5)
Other income	5.6	4.9	4.8	5.2	12.1	2.3	4.9	—
Interest expense	(11.0)	(18.3)	(16.6)	(17.3)	(17.1)	(19.9)	(21.8)	(19.5)
Severance and closure costs and provisions	—	—	—	—	—	(8.5)	(3.0)	(54.2)
Earnings (loss) before income taxes	24.4	16.5	(76.7)	(14.1)	(13.3)	(35.1)	(48.9)	(94.2)
Income tax	(8.2)	(1.6)	37.4	3.7	3.7	17.2	20.6	53.8
	16.2	14.9	(39.3)	(10.4)	(9.6)	(17.9)	(28.3)	(40.4)
Equity in earnings (losses) of partly-owned companies	(3.9)	(3.5)	1.9	1.6	(.7)	2.6	(2.3)	2.7
Minority interests in subsidiaries	(.8)	(1.4)	(1.0)	(1.0)	(.1)	(.3)	.6	.4
Earnings (loss) before extraordinary items	11.5	10.0	(38.4)	(9.8)	(10.4)	(15.6)	(30.0)	(37.3)
Extraordinary items	—	—	30.0	—	—	4.5	—	31.5
Net earnings (loss)	11.5	10.0	(8.4)	(9.8)	(10.4)	(11.1)	(30.0)	(5.8)
Net earnings (loss) per common share** (dollars)								
– before extraordinary items	.39	.29	(1.90)	(.63)	(.65)	(.91)	(1.58)	(1.91)
– after extraordinary items	.39	.29	(.56)	(.63)	(.65)	(.71)	(1.58)	(.50)
Price range of common shares on Toronto Stock Exchange** (dollars)								
– high	48.79	51.07	40.31	26.55	25.36	22.11	22.30	24.50
– low	33.96	37.08	24.88	19.14	19.62	15.74	16.06	20.50
Dividends per common share** (dollars)								
– cash dividends	.33	.33	.33	.10	.10	—	—	—
– stock dividends	—	—	—	—	—	.10	.37	.42

**Certain 1982 figures have been reclassified to conform with the fourth quarter presentation.*

***Restated to reflect stock dividends issued in 1982.*

STATISTICS

Sales by Segment

($ millions)	1978	1979	1980	1981	**1982**
Raw Materials and Building Materials					
Lumber	621.5	734.7	705.3	534.3	**462.6**
Plywood	124.4	123.1	111.8	121.7	**83.6**
Waferboard	60.9	63.0	58.4	60.6	**24.1**
Particleboard	29.9	30.6	29.3	16.7	**10.4**
Other (includes inter-segment sales of logs and chips)	195.0	225.1	251.9	213.6	**190.5**
	1,031.7	1,176.5	1,156.7	946.9	**771.2**
Pulp and Paper Products					
Newsprint	463.2	425.7	586.4	559.6	**449.9**
Market Pulp	161.3	181.7	246.6	207.0	**180.3**
Fine Papers	25.9	29.6	35.7	35.4	**38.3**
Recycled Fibre and other	22.1	35.4	46.2	28.9	**14.5**
	672.5	672.4	914.9	830.9	**683.0**
Containerboard and Packaging Products					
Corrugated Containers	250.9	308.1	374.3	391.0	**365.8**
Containerboard	81.4	90.6	116.1	115.0	**82.0**
Bags	7.3	8.6	9.9	10.9	**10.4**
Other	12.8	6.7	14.8	7.6	**2.4**
	352.4	414.0	515.1	524.5	**460.6**

1982 Sales by Market

	Canada	United States	Japan and Orient	U.K., Europe and Other	**Total**
Building materials					
Lumber (MMfbm)	175	574	173	219	**1,141**
Plywood (MMsq.ft.-3/8")	142	150	1	48	**341**
Waferboard (MMsq.ft.-3/8")	94	62	—	1	**157**
Particleboard (MMsq.ft.-3/8")	67	9	—	—	**76**
Pulp and paper					
Newsprint (K-tonnes)	103	470	51	78	**702**
Market pulp (K-tonnes)	—	45	78	187	**310**
Fine paper (K-tonnes)	35	—	—	—	**35**
Recycled fibre (K-tonnes)	8	79	—	—	**87**
Containerboard and packaging					
Linerboard (K-tonnes)	—	167	—	50	**217**
Corrugating medium (K-tonnes)	6	3	—	—	**9**
Corrugated containers (K-tonnes)	133	164	—	93	**390**

Production

	1978	1979	1980	1981	**1982**
Building materials					
Lumber (MMfbm)	1,379	1,285	1,171	910	**635**
Plywood (MMsq.ft.-3/8")	480	410	380	357	**254**
Waferboard (MMsq.ft.-3/8")	258	286	233	259	**114**
Particleboard (MMsq.ft.-3/8")	247	250	148	82	**70**
Pulp and paper					
Newsprint (K-tonnes)	1,127	939	1,149	961	**702**
Market pulp (K-tonnes)	431	375	437	342	**326**
Fine paper (K-tonnes)	34	35	37	34	**36**
Containerboard and packaging					
Linerboard (K-tonnes)	425	411	369	363	**288**
Corrugating medium (K-tonnes)	—	4	67	68	**42**
Corrugated containers (K-tonnes)	407	414	440	434	**386**

Operating Rates

(percent)	1978	1979	1980	1981	**1982**
Building materials					
Lumber	85	80	74	56	**46**
Plywood	99	82	74	69	**55**
Waferboard	97	103	84	93	**41**
Particleboard	96	97	86	76	**65**
Pulp and paper					
Newsprint	96	78	95	82	**67**
Market pulp	80	82	95	78	**71**
Fine paper	103	92	97	89	**95**
Containerboard and packaging					
Linerboard	94	93	80	78	**76**
Corrugating medium	—	73	96	96	**58**
Corrugated containers	72	74	70	71	**63**

Principal Facilities

	Location	Aggregate effective annual capacities at year end 1982	1982 Production
Building Materials	**Lumber**	MMfbm	
	Port Alberni, B.C. (1)	390	229
	Nanaimo, B.C.	311	98
	Vancouver, B.C.	192	135
	Chemainus, B.C. (2)	—	36
	New Westminster, B.C. (1)	68	13
	Powell River, B.C.	85	61
	Pine Hill, Ala.	75	56
	Edenton, N.C. (1)	15	7
		1,136	635
	(1) Lumber specialty mills at these locations (2) Closed in 1982		
	Plywood	MM sq. ft. (3/8")	
	Port Alberni, B.C.	158	63
	Vancouver, B.C.	96	69
	Pine Hill, Ala.	133	109
	Nipigon, Ont.	26	13
		413	254
	Waferboard		
	Hudson Bay, Sask.	150	51
	Thunder Bay, Ont.	128	63
		278	114
Pulp and Paper	**Newsprint, including groundwood specialties**	K-tonnes	
	Powell River, B.C.	670	446
	Port Alberni, B.C.	385	256
		1,055	702
	Market pulp		
	Nanaimo, B.C.	340	253
	Port Alberni, B.C.	70	47
	Powell River, B.C.	50	26
		460	326
Containerboard and Packaging	**Linerboard**	K-tonnes	
	Pine Hill, Ala.	403	288
	Corrugating medium		
	Pine Hill, Ala.	190	1
	Sturgeon Falls, Ont.	71	41
		261	42
	Corrugated containers		
	25 plants in Canada, U.S. and U.K.	613	386

Directors

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Senior Vice-President, Treasurer
Noranda Mines Limited

D.C. Davenport [2,4]
Vancouver, British Columbia
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R.E. Harrison [3,4]
Toronto, Ontario
Chairman and Chief Executive Officer
Canadian Imperial Bank of Commerce

G.H.D. Hobbs [1,2,3,4,5]
Vancouver, British Columbia
Corporate Director

J.N. Hyland [1,2,4,5,6]
Vancouver, British Columbia
Corporate Director

C.C. Knudsen [1,3,4]
Vancouver, British Columbia
Chairman and Chief Executive Officer
MacMillan Bloedel Limited

A. Powis [1,4]
Toronto, Ontario
Chairman and Chief Executive Officer
Noranda Mines Limited

R.V. Smith [1,3,4]
Vancouver, British Columbia
President and Chief Operating Officer
MacMillan Bloedel Limited

Jean M. Southam [4,6]
Vancouver, British Columbia
Private Investor

The Honourable J.N. Turner, P.C., Q.C. [4]
Toronto, Ontario
Partner, McMillan, Binch

C.B. Wright [1,2,3,4]
Seattle, Washington
Private Investor

A.H. Zimmerman [1,3,4]
Toronto, Ontario
President and Chief Operating Officer
Noranda Mines Limited

Honorary Directors

The Honourable J.V. Clyne, C.C., K.St.J.
J.E. Richardson

Officers

C.C. Knudsen
Chairman and Chief Executive Officer

A.H. Zimmerman
Vice-Chairman of the Board

R.V. Smith
President and Chief Operating Officer

R.B. Findlay
Senior Vice-President, Alberni Region

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

S.W. Forstrom
Senior Vice-President,
Powell River Region

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

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

D.L. McLauchlin
Senior Vice-President,
Containerboard and Packaging Group

Wilhelm Peppler
Senior Vice-President, International

J.S. Rogers
Senior Vice-President, Engineering

J.St.C. Ross
Senior Vice-President, Nanaimo Region

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

R.N. Wiewel
Senior Vice-President, Marketing Group

G.L. Ainscough
Vice-President and Chief Forester

J.C. Bauer
President, MacMillan Bloedel
Containers (U.S.)

J.D. Bence
Managing Director,
MacMillan Bloedel Containers (U.K.)

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

D.A. Dowsley
Vice-President, Building Materials,
Nanaimo Region

H.E. Fliessbach
Assistant Treasurer

A.N. Grunder
Vice-President,
Information Systems and Services

D.H. Holden
Vice-President,
Corporate Communications

Claire-Marie Jadot
Assistant Secretary

G.H. Johncox
Vice-President, Industrial Relations

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

E.G. Legg
Vice-President, Controller,
Marketing Group

R.D. MacFayden
Secretary

R.V. Matthews
Vice-President, Controller

F.H. Moonen
Vice-President, Government Affairs

W.W. Shorter
President, MacMillan Bloedel Inc.

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

G.M. Wilson
Vice-President, Finance and Treasurer

V.R. Worthy
Vice-President, Panelboards,
Marketing Group

Committees of the Board

Executive Committee [1]
Audit Committee [2]
Compensation Committee [3]
Nominating Committee [4]
Pension Fund Investment Advisory Committee [5]
Donations Committee [6]

Shareholder 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 15% Canadian non-resident withholding tax. 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.

Distribution of Common Shares and Registered Common Shareholders as at February 11, 1983

	Common Shares	Common Shareholders*
Canada	21,390,628	9,748
United States	1,249,324	789
Other	25,011	115
	22,664,963	10,652
Share warrants	186	
	22,665,149	

**excludes approximately 7,300 beneficial shareholders, many of whom are employees of the Company.*

Exchange Listings

Common Share Listings: New York, Toronto, Montreal, Vancouver
Class B Convertible Preferred Share Listings: Toronto, Montreal, Vancouver
Ticker Symbols: New York Stock Exchange – MMB; Canadian Stock Exchanges – MB

Transfer Agents and Registrars

Guaranty Trust Company of Canada
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal

The Chase Manhattan Bank
New York

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

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

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