1979 Borden, Inc. Annual Report

BORDEN


BORDEN
BORDEN CHEMICAL
THOR®
SHELL MOLDING RESIN
PHENOLIC RESIN FLAKES
BORDEN
CDP
Regular
Defluorinated Phosphate
BORDEN
SMITH DOUGLASS
FERTILIZER
CORN KICKER
Wall-Tex Miniatures
handi-mate file
3 PIECE SET / Assembled
BORDEN
PRINTING INKS
waste basket
4 piece canister set
stationery caddy
drawer-mate
ORGANIZER / FILE SYSTEM
card file
memo holder
Resinite
BORDEN
FOOD APPROVED
SUPER CLEAR
HEAT SEALING
CLING
TOUGH
esbilac
mirra-coat
KMR
SMALL ANIMAL NURSING KIT
fabric tape
utility tape
cloth tape
plastic tape
ELMER'S
CARPENTER'S WOOD GLUE
ELMER'S GLUE-ALL
TILE GROUT
GLAZE-TUFF
REDI-SPACK
Slide All
KRYLON

Financial Highlights
(In thousands except per share and percentage amounts)

	December 31 1979	December 31 1978	Percent Change
Operating Results (for the year)			
Net sales	$4,312,533	$3,802,559	+13.4
Income taxes	85,900	84,300	+ 1.9
Net income	134,015	135,827	− 1.3
Net income per common share and equivalent:			
Primary	4.31	4.38	− 1.6
Fully diluted	4.12	4.19	− 1.7
Dividends:			
Common share	1.79½	1.68	+ 6.8
Preferred series B share	1.32	1.32	
Total dividends	55,437	52,068	+ 6.5
Capital expenditures	177,723	167,003	+ 6.4
Financial position (at year-end)			
Working capital	$ 577,992	$ 527,174	+ 9.6
Current ratio	2.0:1	2.0:1	
Shareholders' equity	1,185,075	1,072,194	+10.5
Equity per common share	37.98	35.81	+ 6.1
Common shares outstanding	31,160	29,895	+ 4.2

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1979 Financial Review:

Message to Shareholders and Employees

As the new management of Borden, we begin the task of shaping a new course for the Company with enthusiasm and confidence.

We do not lightly dismiss the problems of high inflation, sluggish economic growth, a depreciating dollar, increasing intrusion of government in business affairs, and the diminishing role of United States industry in world commerce.

Neither do we see them as insurmountable obstacles to continued growth.

They are problems shared by all American companies of comparable size and influence, and as they intensify they make the special strengths that Borden enjoys all the more valuable.

Those strengths are formidable. In 1979, Borden went above $4 billion in annual sales for the first time. More significantly, as an indication of our balanced diversity, each of our four divisions is now at or approaching one billion dollars in annual sales.

All four divisions improved their operational performance in 1979 over a year earlier. However, owing to the required accounting treatment of a major devaluation of the Brazilian cruzeiro, the International Division reported a decline in profits. Because the lack of tax benefit from such devaluation carries through to the Company's net income, we reported a slight decrease in earnings in 1979, for the first time in ten years.

In fact, total net foreign exchange losses in 1979 (most of which were unrealized and therefore without adverse cash effect) were 48 cents per share, compared with 25 cents per share in 1978. Without that increase, net income and earnings per share would have been higher than in 1978. Therefore, the progress that has been recorded at the operational level over the past ten years continues unabated, and it is this underlying strength that is the basis for much of our confidence.

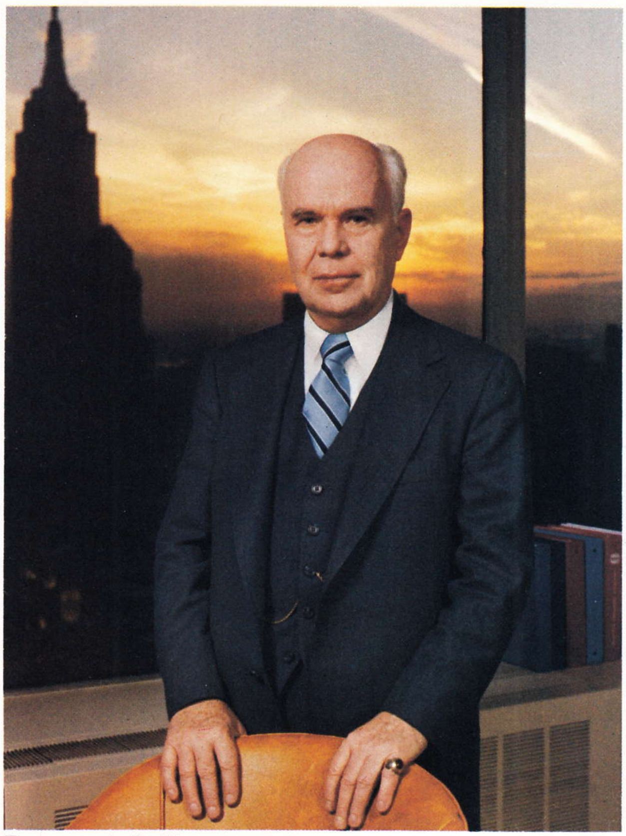
The policies and strategies of the 70's, right as they were for their times, will not suffice for the 80's. Cheap and abundant energy is gone forever. Agricultural commodities have been politicized worldwide, making their prices and supply more volatile and unpredictable than ever. Sadly, because of inflation and reduced capital investment (itself a consequence of tax policies), the productivity of American workers has diminished, reducing the ability of American business to compete with foreign business both at home and abroad.

For Borden, these realities have already prompted changes in our ways of doing business. We are investing long-term in our own sources of energy, and at the same time limiting our investment in basic chemicals to those areas that indicate above average growth or support our downstream production capabilities. In the foods area, we are further reducing our dependence on commodities; in 1979, we halted vegetable canning operations and potato processing in favor of co-packers.

During the 80's, we will position Borden more firmly as a consumer goods and specialty chemicals company. We will capitalize more fully on our exceptional brand names, and especially on the unique selling power of Elsie the Cow, a reservoir of goodwill that has never been fully tapped. A program is already under way to establish Elsie for the first time, in our advertising, promotion and labeling, as a "spokesperson" for all Borden food products—non-dairy-based as well as dairy-based—using her authoritative image to convey the abstract but important qualities of wholesomeness and quality. Also, in the coming decade, we intend to exploit our skill and experience in adding value through the manufacturing process, thereby reducing the cost of raw materials relative to the selling prices of finished products.

Accomplishing this will require substantive changes in product mix and very possibly changes in our geographical areas of operation as well. It will require far more aggressive efforts in new-product development and in marketing. We will be abandoning low-growth areas of business in favor of high-growth areas, without regard for history or tradition. But we will remain comfortably within our sphere of competence.

We approach our task with a full realization that we can succeed only with the support and efforts of the tens of thousands of men and women throughout the Borden organization. We in top management can devise strategies, enact policies, and expound principles, but their ultimate execution is in the hands of our employees. They, far more than management, shape the public's image of Borden and in turn its success in the marketplace. The unexcelled reputation of Borden is among the most powerful tools that management has to work with, and it is the product of our employees' efforts and concern down through the years.



Eugene J. Sullivan

We welcome the continued support of the shareholders, and the guidance and counsel of the Board of Directors.

* * *

At this time, I want to acknowledge especially the accomplishments and contributions of my predecessor, Mr. A.R. Marusi, during his 40 years of service with the Company, and particularly during his more than ten years as Chief Executive Officer. I can personally attest to his qualities of leadership, his dedication, and his unswerving commitment to excellence for Borden, having worked with him closely for almost 30 years. To me and my contemporaries, he was a compelling force within the Company.

But more important, for the Company's future, I know that the example set by Mr. Marusi continues to be felt by a new generation of Borden employees. Confident of his own abilities, he was quick to recognize talent in others and to reward it; he was never afraid of new ideas. This welcoming attitude toward change is his legacy to the Company.

It was a privilege to work with "Gus" Marusi; it is an honor to succeed him.

E. J. Sullivan

Eugene J. Sullivan
Chairman and
Chief Executive Officer

Borden Foods

	1979	1978
Sales (in Millions)	$1,209.1	$1,067.8
% of Total Sales	28%	28%
Operating Income (in Millions)	$ 57.4	$ 56.2
% of Total Income from Operations	20%	20%

Operating income of Borden Foods increased slightly from a year earlier. Dollar sales were up 13.2% reflecting cost-induced higher selling prices applied to overall higher tonnage.

Operating income benefited from entry into new markets and lines of business, reduced overhead and exceptionally strong performances by the snack and grocery products groups. Commodity-based products, notably sugar and cheese, encountered disruptive market-pricing situations resulting from government-directed support and administrative programs. The disruptions adversely affected profit margins, although adding to dollar sales.

The Division, in one of its most significant restructuring moves, converted from a direct sales force to an all-broker sales force for two of its largest groups, grocery products and cheese products, which together represent about half of the Division's total dollar volume. The one-time cost of the changeover and its initial transitory impact depressed 1979 income, but the cost will be more

than recovered in 1980 and subsequent years through added sales and increased efficiency.

GROCERY PRODUCTS GROUP

The Grocery Products Group, the Division's largest, enjoyed its best year ever. Almost every product category within the group experienced improved results.

The Creamette pasta line marked its first year under the Borden banner with gains in sales and income to new highs, market extension into areas of the Midwest and Southwest, and deeper penetration of its existing markets.

Eagle Brand sweetened condensed milk, the company's original product, had another record year. The product was again the focus of major consumer promotional efforts based on its use in easily prepared candies and desserts.

Wyler's bouillon registered further gains in volume and profits, and retained its position as the nation's favorite brand of bouillon.

The Wyler drink mix operations were stabilized after several years of deteriorating market position resulting from an influx of brands and companies attracted by the size and growth potential of the drink mix business. There was a pronounced pickup of volume of Wyler's unsweetened drink mixes.

Distribution of Wyler's single strength lemonade and fruit punch in 12-oz. cans was extended to markets covering a quarter of the population, following successful test marketing in 1978. The products are packed and distributed by franchised soft-drink bottlers.

Consistent with the market segmentation for presweetened lemonade mix, the Division will introduce in 1980, in selected markets, a new lemonade mix under the ReaLemon brand name. The product will be positioned as "Lemonade the way nature meant it to be," with all natural flavors and no artificial colors or preservatives.

Bama jams, jellies and preserves had to contend with a further shrinkage of the market for spreads, aggravated by intense price-oriented competition; sales and profits declined. The market downturn stems from a decline in breakfast-at-home and growth of a breakfast trade at fast food outlets.

Sacramento brand products—tomato juice and Tomato Plus vegetable cocktail—had a good year as selling prices rose, operating costs dropped, and distribution improved.

Creamette brand of pasta set new highs in sales and income in its first year under the Borden banner.

Fiesta Ambrosia Salad takes only minutes to prepare, is ready to serve in 2 to 3 hours or may be made a day ahead to allow the flavors to blend more thoroughly. The recipe is from the New★Idea book "They'll Love It!" developed by the Borden Kitchens.

The Division in February sold a canning plant at Sacramento, Calif., but retained the Sacramento business and brand name. Co-packers were engaged in California, Pennsylvania and Florida to pack the juice and cocktail from fresh bulk shipments or concentrate, thereby effecting substantial savings in distribution costs.

Snow's seafood canning operation substantially bettered its performance from a year earlier in volume, dollar sales, and profits. Clams, the principal ingredient of Snow products, were in reasonably good supply after several years of shortages and climbing prices. Overhead costs were also reduced with the sale of part of Snow's fleet of clam boats.

In keeping with the company's policy of de-emphasizing manufacturing operations that are seasonal and vulnerable to volatile commodity pricing, the Division closed its instant potato processing plant at Grafton, N.D. The instant-potato business will be supplied, more effectively, from co-packers in 1980.

CHEESE PRODUCTS GROUP

The Cheese Products Group achieved record sales, but profit fell sharply from a year earlier owing to industry-wide erratic pricing that disrupted normal marketing patterns. Wholesale cheese prices began to rise early in the year in anticipation of higher government dairy support prices and then continued to rise as the higher government supports were enacted. At the same time, dairy farmers were encouraged by the high support prices to produce far more milk than was needed to keep the cheese market adequately supplied. The result was too much cheese at too high prices. The oversupply triggered a contra seasonal price decline that reduced fourth quarter profit margins.

Direct government buying programs, put into effect at the end of the year, have restored more normal supply levels for early 1980.

The more active government support programs of recent years in the dairy industry quickly alter the cyclical supply patterns in the cheese industry, and tend to reduce the short-term control that a manufacturer such as the Division has over certain performance factors.

Nonetheless, with all its problems, the Cheese Products Group for the year improved its share of the national cheese market, on the strength of its leadership position in diet/health slices: Lite-line, the original low-calorie product, and Borden Skim-American, a new product whose distribution was extended from test markets to national distribution by year end. Borden Skim-American is a pasteurized process cheese product that has the flavor of process American cheese but contains 50% less milk fat and less than half the cholesterol.

Distribution of the group's soft-ripened cheeses was improved during the year with the naming of an exclusive United States distributor for Borden Liederkranz-brand, Camembert, and Brie cheeses. The distributor has particular expertise in the warehousing and delivery of products having a short shelf life. Borden soft-ripened cheeses are being sold under the label, Cheese Taster's Choice, but are manufactured by Borden Foods at its plant in Van Wert, Ohio. The distributor has been authorized to use the trademark Liederkranz, which identifies a variety of soft-ripened cheese made only by Borden.

CONFECTIONERY GROUP

Dollar sales of the Confectionery Group were up slightly from a year earlier, reflecting market expansion in some product categories, but income declined owing to a temporary distribution problem affecting Cracker Jack candied popcorn. This situation obscured an otherwise highly successful year for the confection operations, which include Campfire marshmallows, Flavor House nuts, Deran confections, and Chicago Almond products.

SNACK GROUP

The Snack Group had its best year ever, with record dollar sales, volume, and profits. The results were a consequence of increased market penetration, market expansion, successful marketing strategy, and the outstanding consumer acceptance of new products.

In the East and Northeast, the strategy of market segmentation for Wise potato products brought significant gains for Wise original all-natural potato chips; Wise Lights, a new, all-natural, light-colored potato chip, and Wise Ridgies, a rippled potato chip.

Wise corn-based snacks also enjoyed an exceptional sales year, enhanced by the introduction and broad acceptance of Bravos, a new kind of tortilla chip—in a unique round shape, in nacho cheese and sour cream and onion flavors.

The Borden franchise in snacks was considerably strengthened during the year with the acquistion of the Buckeye Potato Chip Co., Inc., of Columbus, Ohio, in February and Guy's Foods, Inc., of Liberty, Mo., in August. Buckeye is a leading distributor of snacks in Ohio, specializing in all-natural potato chips. Guy's also specializes in potato chips, processing over 50 million pounds a year, but has an extensive line of peanuts and other nuts as well. It operates three snack processing plants, and has distribution in ten states from Nebraska and Iowa to the Gulf of Mexico. The Buckeye and Guy's distribution networks are being used as vehicles for the market extension of Wise corn snacks, and were in large part responsible for the rapid and successful roll-out of Bravos Tortilla Chips.

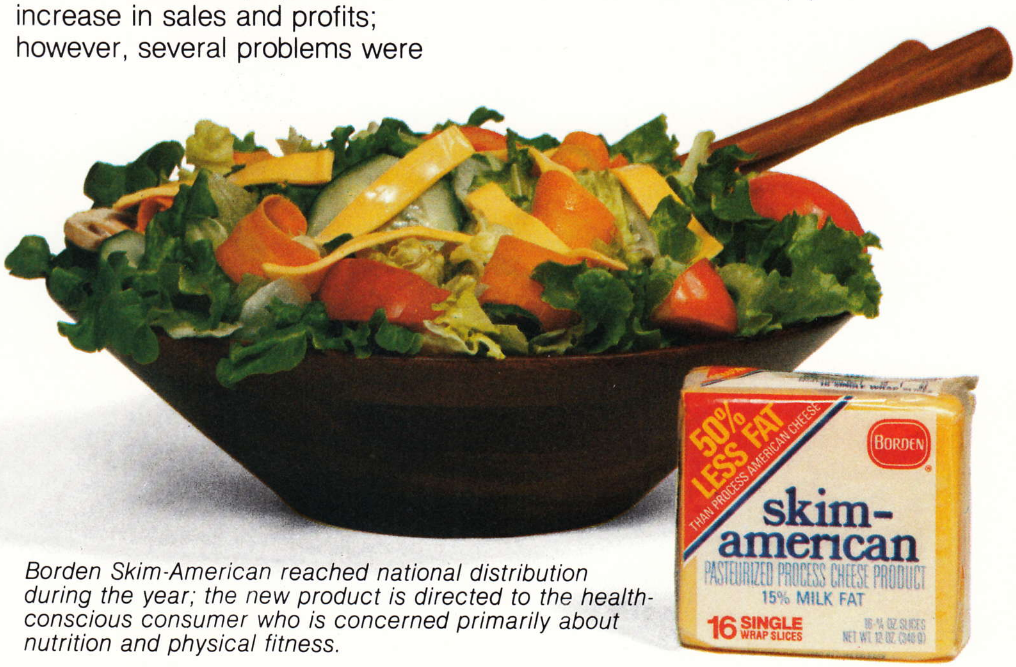
BAKERY GROUP

The Bakery Group, operating under the Drake's brand, reported an increase in sales and profits; however, several problems were encountered that limited its recovery from the depressed levels of a year earlier. The rapid increase in ingredient costs for flour, fats, and sugar, and for labor and distribution, have pushed unit selling prices sufficiently high to retard volume in this very discretionary category. To help improve the line's price acceptability, the Bakery Group downsized a number of individual items and reduced the count in the popular multi-unit Family Pack. The changeover was accompanied by an extensive revision of Drake's packaging graphics.

Drake's was also faced with sizeable start-up costs for additional manufacturing lines at its main bakery at Wayne, N.J. The lines were added to accommodate operations being transferred from a 66-year-old bakery in Brooklyn, N.Y.

SUGAR GROUP

The Sugar Group, which is engaged in the refining and marketing of cane sugar for consumer and industrial use, experienced substantially higher dollar sales on stable volume, compared with a year earlier, but income declined sharply because of



Borden Skim-American reached national distribution during the year; the new product is directed to the health-conscious consumer who is concerned primarily about nutrition and physical fitness.

much higher costs for raw sugar. The Government's support program, which is based on a combination of allowances to domestic sugar growers and millers and fees on imported raw sugar, was expanded during the year. As a result, the price of raw sugar to U.S. refineries rose to almost 16 cents a pound, or almost double the price at which raws could be purchased on the world market. The Sugar Group, which relies primarily on raws from abroad, was thus denied "opportunity buys" in world market trading with consequent smaller margins as well as higher prices to consumers.

ORGANIZATIONAL STATUS

The changeover within the Grocery Products and Cheese Product Groups from a direct sales force to a network of food brokers was the culmination of almost four years of preparation that included, in sequence, the consolidation of the Division's warehouses, an appraisal of broker performance, the introduction of on-line order-entry and inventory control, and the conversion of the Division from a profit center structure to a centralized line organization of six product groups. The switch to an all-broker sales organization for grocery and cheese products more than doubled the number of sales people representing the products to the trade. Broker familiarity with Borden products was established, and continuity of Borden ties with its customers was maintained, by arranging with the brokers to hire experienced Borden sales personnel affected by the changeover.

OUTLOOK

Notwithstanding the general softness in the overall economy, Borden Foods anticipates continued improvement of results in 1980, based on the sizeable cost reductions and organizational-efficiency plans and programs implemented in recent years. A leveling of food commodity prices during 1980 is also anticipated. Continued high inflation is likely to again retard tonnage growth in the food sector of the economy, coupled with more "shopping down" by consumers as they shift to "box" and "warehouse" stores and house brand and generic products in search of savings.

There should be no major problems on the supply side for the overall Division. It has considerably reduced its dependence on seasonal crops such as fruits and vegetables, and its two major raw materials—milk and raw sugar— should be abundantly available, although at higher cost.

Dependence on commodity type products will be further reduced, and selective dispositions of products, plants and business activities will be continued as appropriate, to enhance overall profitability and return on investment. The funds thus generated will permit continued emphasis on the acquisition and internal expansion of the more attractive growth opportunities open to the Division.

Bravos, a new kind of tortilla chip, was introduced by Wise. The Snack Group had its best year ever, benefiting from the addition of the Buckeye and Guy's brands.

Borden Dairy and Services

	1979	1978
Sales (in Millions)	**$1,193.6**	$1,061.6
% of Total Sales	**28%**	28%
Operating Income (in Millions)	**$ 48.2**	$ 45.8
% of Total Income from Operations	**17%**	16%

Sales of the Dairy and Services Division increased 12.4% and operating income increased 5.4% from a year earlier. It was the seventh consecutive year of improved results.

In general, the higher sales reflected substantially higher selling prices on slightly greater volume; operating income reflected a continued squeeze on margins in the dairy operations, as price increases failed to keep pace with rising payments to dairy farmers. Within the dairy industry as a whole, consumer prices went up about 11%, but producer prices went up about 14%. Nonetheless, the dairy industry remained a vigorous and growing business: the more than $30 billion of product sold in 1979 ranked second only to meat in the food industry.

Lite-line Cucumber Salad Mold is "light enough for a dieter's lunch, elegant enough for a party" advises the New★Idea Book "Introducing Cottage Cheese," prepared by the Borden Kitchens.

For the Division's dairy operations, an increased emphasis on marketing support brought improved market shares in selected areas for all key product segments. The improvement in the milk segment of the business came in part from the extension of Borden Hi-Protein into key Northern markets. This premium low-fat milk also continued to show good sales increases in Southern markets, benefiting in all areas from the consumer trend to lower fat milks.

The Division strengthened its distribution base for dairy products with market penetration in Florida, Michigan, upstate New York, Indiana, Kentucky, and Southwestern Ohio. Additionally, in 1979 Borden purchased the Price Dairy of Albuquerque, N.M., marking the company's entry into the state with dairy products. The operation also has distribution in Santa Fe and Gallup.

Sales since the acquisition have been on target.

Cultured products showed the best market share improvement. A series of 16-page New★Idea books on Borden cottage cheese, yogurt, and sour cream were developed in the Borden Kitchens and made available to customers in stores carrying the products. Almost 20 million books were distributed, making this promotion the biggest of its kind in Borden history.

Ice cream sales and share of market benefited from the national roll-out of Borden All Natural ice cream and the introduction in selected markets of Borden All Natural ice milk. Marketing emphasis in frozen dairy products is being given to the premium-quality items; this strategy is supported by the standardization of product formulas and new graphics for the packaging.

Elsie the Cow, a symbol of Borden dairy products for more than 40 years, will be given increased prominence by the Division through more extensive use in advertising, supplementing her long-standing role as a cartoon character on packages and as a live animal making national tours. Market research shows that an exceptionally high percentage of the public in all age groups identifies Elsie with Borden, and in turn with the concepts of wholesomeness and quality. To heighten the effect of the new Elsie advertising, it is being tied closely to the Division's other uses of the Elsie character: in packaging, in-store promotional materials, exhibits and publicity.

A key part of the Division's 1979 marketing effort was its Winter Olympics promotion, which by its nature will carry over into 1980. Borden milk has been designated the "Official Milk of the 1980 Winter Olympic Games" at Lake Placid,

Introduction of Borden Hi-Protein lowfat milk into key Northern cities helped improve share of market in selected areas for the Division's milk operations.

Manufacturers of children's aspirin are among the customers for encapsulated flavors produced by the industrial foods operation of the Dairy and Services Division.

N.Y., and the Division has been granted concession rights. Athletes in preparation for the Winter Olympics are being served Borden dairy products at their training tables. And to help raise funds for U.S. participation, the Division has been running an "Olympic T-shirt" promotion, in which the purchaser of a colorful T-shirt at $3.50 contributes $1.00 to the U.S. Olympic team. It is the largest premium promotion ever conducted by the Division. By associating itself with and financially supporting the U.S. Olympic effort, the Division identifies its line of products with the public's new-found interest in physical fitness.

A variety of capital projects was undertaken to improve the capacity and efficiency of the dairy operations. An aseptic processing line was added at the newly opened cultured products plant at Sulphur Springs, Tex. It will produce sterile products such as coffee lightener, half and half, and whipping cream. Facilities for blow-molding plastic milk containers were installed at Orlando and Miami, Fla. Two additional installations are planned for 1980. Plant expansions were completed at Houston and Sulphur Springs, Tex.; Little Rock, Ark.; Tallahassee, Fla. and Meridian, Miss.

As part of a company-wide energy conservation program, the Division installed a recovery system at its Columbus, Ohio, dairy that uses waste refrigeration heat to make hot water. Preheating in this manner substantially reduces the amount of energy required to generate steam. The system has proved so successful that it will be installed at other locations.

* * *

The Division's soft-drink operations enjoyed a record year, far outperforming the industry as a whole. Their size and marketing scope were expanded with the acquisition of bottling operations in Little Rock and Jonesboro, Ark.

The industrial foods operations, which supply ingredients to other food manufacturers, had another record year. Sales of encapsulated flavors continued to increase. In order to provide more capacity for this fast-growing sector of the business, the Division acquired a fruit concentration operation at Indio, Calif. It also acquired a company at Winter Haven, Fla., in a move to expand business in fruits and fruit drink bases.

To meet the growing demand for cheese, the industrial foods unit is installing a cheddar cheese operation at its Fond du Lac, Wisc., facility. The installation will take advantage of the latest technology in cheese-making equipment. Start-up is scheduled for the first quarter of 1980.

The industrial foods unit continues to find new uses (and customers) for the neutralized whey converted from high-acid cottage cheese whey at its Watertown, N.Y., cultured products plant. The conversion facility went into commerical production in 1979.

Borden Chemical

	1979	1978
Sales (in Millions)	$1,019.9	$ 923.8
% of Total Sales	24%	24%
Operating Income (in Millions)	$ 116.6	$ 110.4
% of Total Income from Operations	40%	39%

Sales of Borden Chemical in 1979 climbed above a billion dollars for the first time, rising 10.4% from a year earlier. Operating income, up 5.6%, bounced back from a downturn in 1978, the first in ten years.

Dollar sales were up because of generally higher prices applied to slightly higher volume. Margins overall were maintained, with a wider spread on some basic chemicals offsetting a squeeze on some intermediate and finished products.

The Division's performance was paced by the petrochemical operations, which enjoyed an outstanding year because of heavy demand and strong pricing for the kinds of basic chemicals they produce. The operations, located at Geismar, La., make methanol, urea, acetic acid, ammonia, vinyl acetate monomer and vinyl chloride monomer. These are upgraded to intermediate or end products in other Borden Chemical plants or, as in the case of methanol, also sold on the open market.

In 1979, a run-up in world energy costs suddenly made U.S.-produced petrochemicals a relative bargain in world markets.To keep up with demand, the Geismar complex ran at full capacity throughout the year except for maintenance periods, and at times exceeded nameplate capacity. Output was at an all-time high for the 19-year-old facility.

The Geismar complex is undergoing a major expansion that will increase total capacity, improve the degree of integration, and broaden the product mix.

Work began on an expansion of the acetic acid plant that will boost rated capacity 40% to 140 million pounds per year. Completion is scheduled for late 1980. Output of methanol will be increased from 150 million gallons to at least 180 million gallons per year, with no increase in the use of hydrocarbon feedstocks, as the result of a $65-million modernization, now underway, that will convert the methanol plant from a high-pressure to a low-pressure process. The changeover, to be completed by the end of 1980, will make the plant the most energy-efficient of its kind in the world.

And in yet another expansion, engineering work began on a new polyvinyl chloride (PVC) resins plant at Geismar, with a capacity of 200 million pounds per year. Completion is targeted for early 1982. The plant will lift the Division's rated output of PVC to about 750 million pounds annually when added to existing capacity of two PVC plants, at Illiopolis, Ill., and Leominster, Mass.

The raw material required for PVC production will be provided from an adjacent vinyl chloride monomer plant at Geismar that opened in 1977.

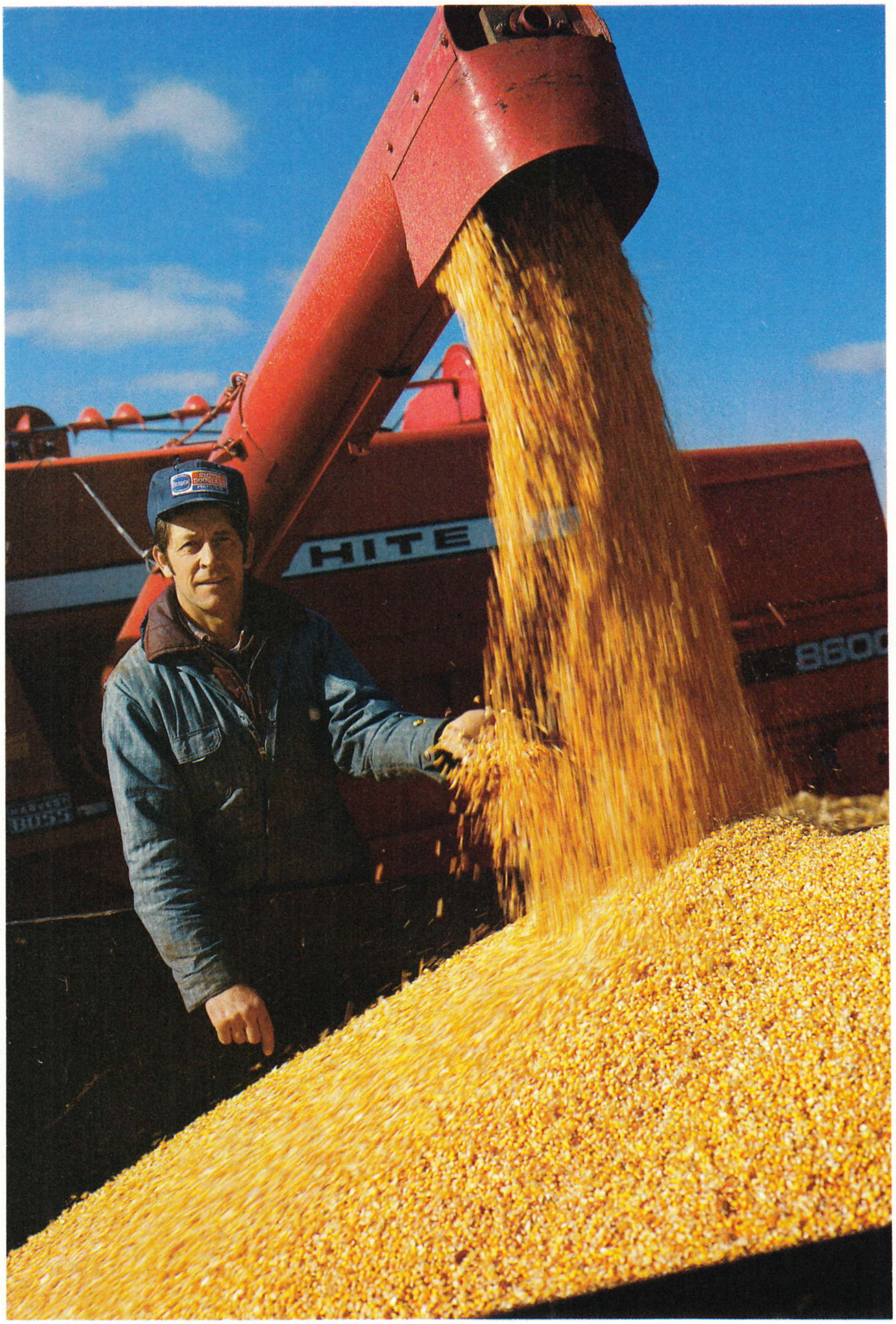
The Geismar petrochemical complex is the primary source of raw materials used downstream by the Division's thermoplastic operations. These operations are engaged primarily in the production and conversion of PVC resins, and on balance they had an excellent year.

A new-housing market that remained surprisingly strong until the fourth quarter, together with a booming home-renovation market, benefited sales of PVC resins to manufacturers of pipe and siding and, to a lesser extent, to manufacturers of flooring and electrical cable.

In the conversion of PVC resins, results were mixed, with industrial and commercial products on the whole faring better than consumer products.

Once again, the Resinite operations enjoyed an outstanding year. The Resinite brand applies to PVC film sold for the in-store wrapping of meats and produce and PVC films formulated for industrial applications, including the stretch-wrapping of

The home improvement / home renovation market reached a record $41 billion in 1979



The United States enjoyed one of the largest corn harvests in history in the fall of 1979. Here, Robert Kliendienst, a customer of Borden Smith-Douglass fertilizers, admires the harvest on his farm near Dundee, Mich.

palletized products. Total sales, in volume and dollars, were at an all-time high, with sales for in-store use slightly above a year earlier.

Since October of 1978 the Resinite operations have also been marketing biaxially oriented polypropylene (OPP) film under license from a Japanese company. Sales in the first full year were well above projections and were a sizeable factor in the improved results of the Resinite unit. OPP film has the qualities of cellophane at considerably less cost, and has wide and growing applications in the factory packaging of food and other products.

Japanese technology for the manufacture of OPP has been licensed by Borden, and Borden Chemical is converting a plant at North Andover, Mass., to production of OPP film. The first phase of a two-phase construction program is scheduled for completion during the third quarter of 1980. The OPP film will be made from purchased resins.

To meet the growing demand for PVC film, especially in Sunbelt markets, the Division will expand capacity of its Griffin, Ga., Resinite plant by 35% during 1980. The Griffin plant is already the world's largest producer of PVC film, and one of four operated by Borden Chemical, the others being at Leominster, Mass., Illiopolis, Ill., and Compton, Calif.

The coated fabric operations, which convert and upgrade PVC resins into intermediate and finished vinyl materials, showed an improvement from a year earlier on the strength of higher industrial sales and cost efficiencies resulting from plant consolidations. Industrial sales—those of calendered vinyl primarily for lamination to metal, wood, and gypsum board—were well ahead of 1978, in spite of an exceptionally strong first half that year. Shipments to the automotive industry were up substantially, reflecting increased penetration of the vinyl seating and interior trim markets.

Vinyl wallcoverings, for the first time in many years, showed resistance to pressure from less costly decorative materials and sales held steady. Borden increased its share of market for wallcoverings with its Wall-Tex and Satinesque lines.

Profitability of the coated fabric operations benefited from the closing of plants at North Andover, Mass., and Newark, Calif., and the consolidation of all manufacturing operations in Columbus, Ohio.

The Division's other vinyl operations, at Haverhill, Mass., and Glen Cove, N.Y., produce materials for furniture, luggage and small consumer goods. Increased demand for cast vinyl products combined with substantially improved manufacturing efficiency resulted in improved performance compared with a year earlier.

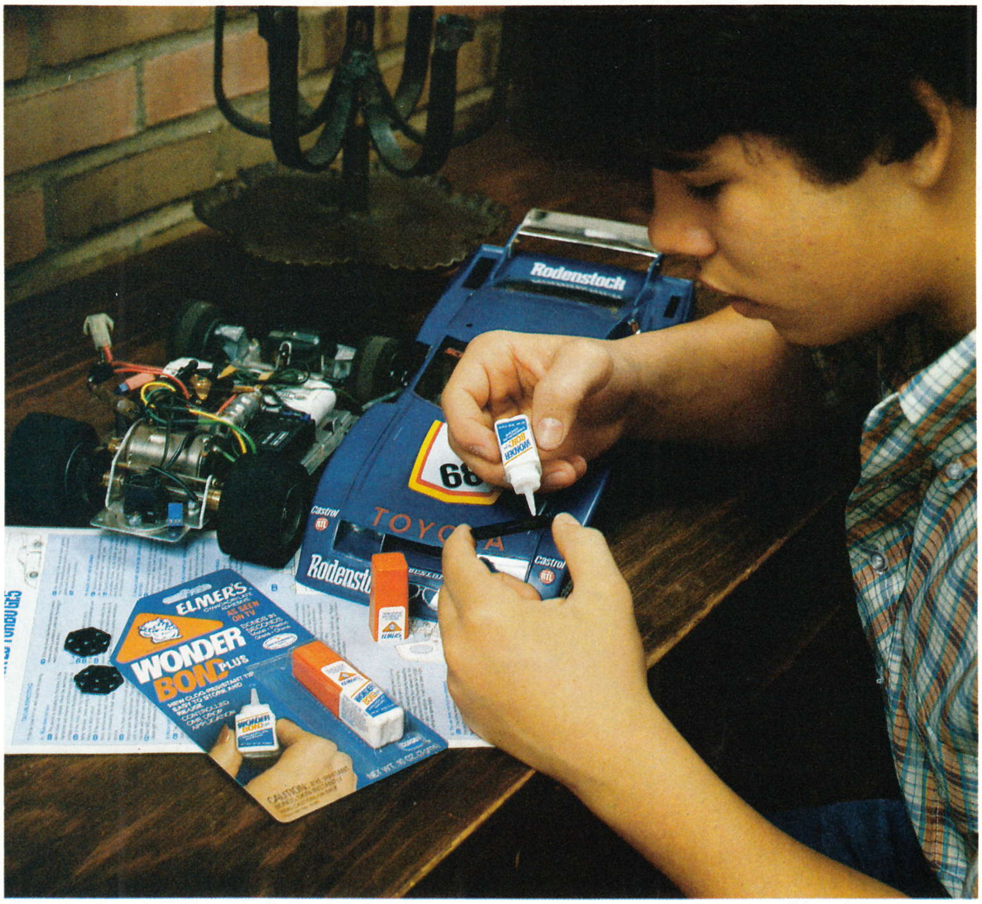
The Division's fertilizer operations had an excellent year, recovering sharply from the depressed level of 1978 with higher volume, dollar sales and income. Industry wide, high farm income encouraged farmers into a generous use of fertilizers, and a strong export market, especially for phosphate, siphoned off the excess supplies of recent years that had depressed prices. The Division shared the industry's improved fortunes, and had the further benefit, in both costs and product availability, of the first full year of operation of a new phosphate mine and beneficiating plant, near Tampa, Fla.

The feed supplements operations also enjoyed a fine year, as the new mine kept raw-material costs for inorganic phosphate reasonable, and high market prices for hogs, cattle and poultry kept demand for feed supplements strong.

The Division's thermosetting-resins operations experienced higher volume and dollar sales but lower income, compared with a year earlier.

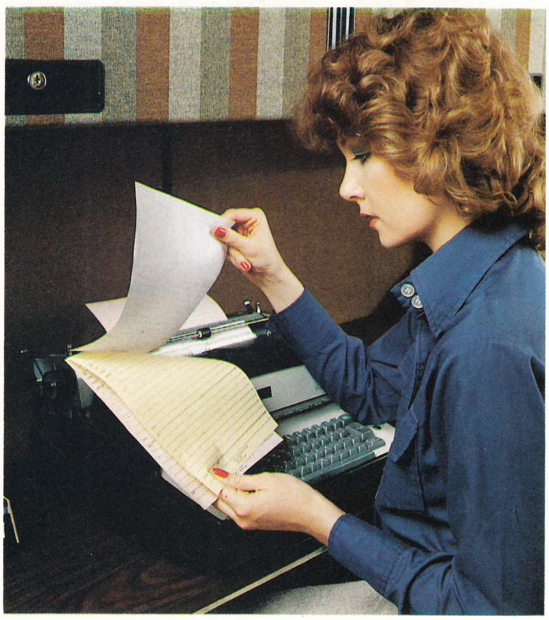
The operations supplying the West Coast plywood and particle board industry with resin adhesives benefited in terms of volume from the strong housing market that existed through the first nine months, but were adversely affected in terms of profit by a sharp run-up in raw material selling costs (for formaldehyde, phenol, and urea), which could not be fully recovered in

Artist Toni Greenwood, of Washington, D.C., demonstrates the creative effects she achieves with Krylon spray paints and coatings.



Results for the Elmer's line of adhesives and bonding agents were considerably enhanced by a full year's sales of Wonder Bond brand of cyanoacrylate adhesive. An improved applicator tube for Wonder Bond was introduced late in the year.

Sterling further expanded its highly successful "Desk-Mate" line of desk and office accessories.



"Carbonless carbon paper" is among the applications for dry phenolic resins produced by Borden Chemical.

higher prices because of industry overcapacity. The overcapacity reflects the growing presence of resin-adhesives facilities operated by forest products companies. In the fourth quarter, sales volume eased along with housing starts, but margins improved as price increases took hold.

Thermosetting-resins operations serving manufacturers east of the Mississippi were hurt by two major factors: a softening in sales of packaging adhesives and furniture glues, and a decline in shipments of dry phenolic resins, primarily to automotive foundries and manufacturers of molded auto parts and brake linings. The income effect of reduced shipments was heightened by sharp cost increases; phenol, for example, almost doubled in cost.

Counteracting these negative factors to some extent were more efficient manufacturing facilities for dry phenolic resins—a full year's output from a new plant in Louisville, Ky.—and the development of additional, and higher margin, markets for the resins.

Borden Chemical's consumer products posted another record year, behind outstanding performances by the Elmer's line of adhesives and Krylon spray paints and further improvements by Sterling office and school supplies.

The Elmer's and Krylon lines benefited from several factors: a surge in the home renovation market, as indicated by a pickup in sales through building-supply centers; strong promotional and advertising support; and a changeover from a direct sales force to the use of manufacturers representatives, which increased the number of outlets selling the products. Results for the Elmer's line were also considerably enhanced by a full year's sales of

Wonder Bond, a new cyanoacrylate adhesive.

Sterling's improvement came from further expansion of its highly successful desk-accessories and office-equipment lines; sales of school supplies declined, reflecting reduced school enrollment and the tight budgets of many school districts. Results for the Mystik brand of tapes were under a year ago, owing to a combination of higher raw material costs and more intense competition. The Lustro-ware line of plastic housewares registered an improvement from the severely depressed level of a year earlier.

The Division's printing ink operations were adversely affected by higher raw material costs, softness in the packaging industry, greater price consciousness among buyers for publications, and the practice of many customers to work off inventories because of the high cost of money to finance them.

Inventory financing was also a large factor affecting the performance of the Alex Colman line of women's sportswear and dresses, which was below that of a year earlier but nonetheless profitable, in contrast with the experience of much of the industry. Also, a squeeze on the discretionary income of customers was evident in the success of lower priced, promotional lines, and the increased sales of individual pieces rather than ensembles. But retailers were also putting through smaller orders, admittedly in a move to hold down inventory costs, and there were strong signs that sales were lost because of out-of-stock positions; where lines were ordered, they sold through quickly.

* * *

Borden Chemical anticipates a further improvement in results in 1980. The first half should be bolstered by continued strength in fertilizers, basic chemicals, and consumer products, offset to some extent by a downturn in housing starts and domestic automobile production, which would affect the thermoplastics and thermosetting-resins operations. In the second half, pent-up demand should trigger a rebound in the housing market, even with continued high interest rates and limited mortgage availability. The automobile market, too, should revive as Detroit gears up to full output of popular small cars.

Biaxially oriented polypropylene (OPP) film marketed by Borden Chemical has the properties of cellophane at less cost; it is widely used, in single-ply or as a laminate, in food packaging materials. Facilities for the manufacture of OPP film are under construction at North Andover, Mass.

Fertilizer and consumer products should remain strong throughout the second half. Sales of both PVC and OPP film should show gains throughout the year.

Most uncertain is the industry outlook for basic chemicals beyond the early months of 1980. In 1979, much of their strength came from their low cost relative to hydrocarbon-based products in the world market, which made them attractive as exports and in turn cut down the supply overhang domestically. But the decontrol of domestic oil and gas prices, and further weakening of the dollar (in which foreign oil purchases are denominated), could well strip away the cost advantage that U.S.-made basic chemicals now enjoy, leaving the petrochemical industry faced with irreducibly high underlying costs, excessive capacity and lower demand.

Borden Inc. International

	1979	1978
Sales (in Millions)	$ 890.0	$ 749.4
% of Total Sales	20%	20%
Operating Income (in Millions)	$ 66.0	$ 68.5
% of Total Income from Operations	23%	25%

Sales of the International Division reached a record high, rising 18.8% above those of a year earlier, but operating income declined 3.7%, the first year-to-year decrease since the Division was organized in 1968. All areas of the Division contributed to the growth in sales, in spite of the difficulties of operating in a world economy strained by rising inflation and by the efforts of governments to contain it, notably price and energy controls. The Division's sales growth would have produced higher operating income but for the impact of a 30% "maxi" devaluation of the Brazilian cruzeiro in December. This devaluation alone resulted in an income loss of about $5 million before and after taxes, out of total exchange losses of about $15 million for the year.

LATIN AMERICA

All operating companies in Latin America and the Caribbean turned in strong performances during 1979. Sales volumes rose, market shares were maintained or enlarged, and efficiencies and yields increased without sacrifice of product quality.

"Anno 1885" is the premium quality cake line offered by Weber, the Borden commerical bakery in West Germany. "Anno 1885" refers to the year in which Weber was founded as a retail bakery.

The specter of inflation hovered over the economies of all countries, however, as energy costs continued to spiral upward. The classic approach of government price control was applied in some of the major markets, which prevented profits from keeping pace with the increased volumes.

The civil war in Nicaragua shut down the Borden chemical plant for several months. It suffered no damage, however, because employees moved into the plant to protect it from pilferage. It is now back in operation.

In Mexico, shares of the Division's chemical company, Quimica Borden S.A. de C.V., were offered to the public and quickly subscribed. While Borden owns 40% of the new company, as against 100% of its predecessor, local participation opens up heretofore unavailable opportunities in the booming Mexican petrochemical industry.

The chemical operations in Brazil boosted sales volume, aided by the start of exports to neighboring countries. A resins and formaldehyde plant in Manaus, on the Amazon River, was virtually completed by year end and will be in operation early in 1980.

The pasta company in Brazil strengthened its position as market leader. Sales volume was at a new high. In a diversification move aimed at capitalizing also on its distribution capabilities, the company introduced a slice-and-bake cookie dough, initially in three flavors.

The food distribution and manufacturing company in Panama had a good year. Borden brand individually wrapped processed cheese slices were introduced.

In Puerto Rico, the food distribution company registered higher sales, benefiting from the addition of product lines of Industrias La Famosa, a leading manufacturer that was acquired in 1978. La Famosa's sales also improved, with its Coco Lopez brand of cream of coconut holding its position as the leading product of its kind in the U.S. market. Product line extensions of Coco Lopez that will broaden the appeal of cream of coconut are in test markets.

BORDEN EUROPE

Results for the European operations were again at an all-time high.

The food operations benefited from the continuing outstanding performance of the Spanish food company. Exports from Spain, particularly to West Africa, played a large part in the improvement, as did the availability of a new snack manufacturing facility at Segovia that went into production late in 1978. The bakery operations in West Germany and Belgium had a good year, with the Belgian company benefiting from

Resinite brand polyvinyl chloride (PVC) film being used at a Sushi shop in Tokyo to protect the delicate flavor of this traditional Japanese dish. The Japanese Resinite operation ran at full capacity throughout the year.

The varied line of dry pastas offered by Borden Adria, the largest pasta company in the Western Hemisphere.

Hong Kong is a growing export market for the Elmer's line of consumer products; here, however, the "consumer" size seems just right in a small factory.

the acquisition of Suzy, S.A., of Brussels, the world's largest manufacturer of waffles.

The cheese operation in Denmark had a disappointing year owing to a combination of depressed selling prices and increased cost of sales. But the downturn was offset by another record year for Cocio brand sterilized chocolate milk, which is the largest-selling product of its kind in Denmark.

The Division's milk powder business, conducted worldwide primarily under the KLIM brand and supplied from manufacturing facilities in Ireland and Denmark, set a new high in sales, although overall results were seriously hampered by the volatility of the foreign exchange market, particularly the weakness of the U.S. dollar.

European chemical operations also had a strong year. The results were particularly favorable for the Resinite PVC film operations, located in the United Kingdom, Norway, France and Spain. Consumer chemical business in the United Kingdom, servicing the hobby and do-it-yourself markets under the primary brand names of Humbrol and Britfix, had an outstanding year. Also strong throughout the year were industrial resins, manufactured in the United Kingdom, France and Spain.

ASIA

The Asian operation had a record year.

The chemical company in Malaysia continued to expand its market share in Peninsula Malaysia.

The Australian chemical company, with plants in Melbourne, Sydney, and Brisbane, had an excellent year in spite of extremely strong competition. The development of a fourth plant location, in Western Australia, is under consideration. Shipments were made for the first time, from the Brisbane plant, to Papua New Guinea, where a promising forest products industry is developing.

The Philippine chemical company achieved record results for the third year in a row. Emphasis is now being given to expanding the consumer side of the business.

In Japan, the Resinite PVC film operation had its most successful year ever, running at full capacity throughout the year. Additional production facilities will be installed in 1980 to meet the rapidly growing demand for the product.

On the food side, a wet and cool summer in Japan adversely affected the ice cream industry; nonetheless, Lady Borden again increased its share of market and strengthened its hold as the largest selling brand of premium ice cream. Sales of Lady Borden Holiday Decorator ice cream cakes doubled from the previous year.

Borden cheese business in Japan was under considerable pressure owing to the effect of a declining yen on imported raw cheese prices. Although the total cheese market declined, Meiji-Borden, the joint venture, succeeded in boosting its share. Several product innovations are planned for 1980 that are expected to further improve the company's competitive position.

During the year, Borden entered yet another country with the formation of Korea Borden, Inc. This is a joint venture with local Korean businessmen to manufacture a line of feed supplements for milk calves, pigs, and other commercially raised animals. In view of the emphasis now being given to improving the agricultural segment of the Korean economy, the venture offers high promise.

CANADA

Borden Canada's sales and profits again achieved record levels in 1979, aided by the strong performances of its Foods and Chemical Divisions.

The Foods Division posted record highs in volume and profit, with several major product categories, among them Eagle Brand sweetened condensed milk and ReaLemon reconstituted lemon juice and lemonade mix, achieving exceptional gains. In spite of heavy competition, Wyler's drink crystals held the market share reached in 1978. The Division was also successful in revitalizing the Old London Melba toast business. ReaLemon iced tea mix was successfully introduced. All major products were supported by heavy advertising and promotion campaigns during the peak selling seasons.

The chemical operation also achieved record high sales and operating income. Shipments of thermosetting resins for plywood, particleboard, and paper products were up substantially, benefiting from the high level of exports of the finished products. Plant expansions are under way at three locations to meet the growing demand. A new formaldehyde plant is under construction at Laval, Quebec, and is scheduled to come on stream in mid 1980.

Resinite PVC film sales continued to increase as a result of growth in food packaging and expanded demand for film for wrapping palletized products, a market in which Borden is the leading supplier. Expansion of the number and variety of products available in Sterling deskware, Lustro-ware housewares, Krylon spray paints and Elmer's adhesives led to sales increases in all categories.

CAN MACHINERY

The Can Machinery Group, headquartered in Denver, Col., had a good year, benefiting from the expertise of Ragsdale Bros., Inc., acquired in 1978, as a producer of equipment to manufacture two-piece seamless cans. Two-piece cans, whether steel or aluminum, are pre-empting three-piece cans as containers for beer and soft-drinks and are growing in use as food containers.

The Group developed a new bodymaker with a capacity of 250 cans per minute in either steel or aluminum, and readied a second-generation light tester for introduction to the marketplace. Other products under development are a hydraulic can-forming press for the automotive industry and additional oil filter testing equipment.

EXPORT

Export operations had an excellent year in both sales and profits. Shipments of both fertilizers and petrochemicals were especially strong, a reverse of the trend in recent years. Sales of Borden-branded products topped the all-time highs of a year earlier. Bama brand fruit drinks were introduced in the Middle East and the Caribbean with excellent results. New markets were developed for Sterling deskware, Lustro-ware housewares, Wall-Tex wallcoverings, animal feed supplements, and small pet products.

The ever-growing consumer chemical products line in Brazil includes Cola para Marceneiros (Elmer's Professional Carpenter's Wood Glue); Fantasia, an acrylic paint for artistic use by youngsters; Veda-Juntas, a sealant for automobile gaskets, and Cola Couro, a contact cement for leather goods.

Corporate Activities

SOCIAL RESPONSIBILITY

The company continued to address its social responsibilities: externally, through its philanthropic and civic affairs efforts and, internally, through its employment and purchasing policies.

A director of corporate social responsibility was appointed, to coordinate the company's ongoing program of response to social needs.

Borden channels its domestic charitable donations through the Borden Foundation Inc. Emphasis was placed on support of health care and nutrition programs and organizations and support of United Way agencies in locations where the company has offices and plants. Support of higher education was given through two "umbrella" agencies representing more than 600 colleges and universities in the United States: the United Negro College Fund, Inc., and the Independent College Funds of America, Inc. In addition, a new program provides matching gifts to colleges and universities that receive donations from eligible Borden employees.

Assistance to minority students was provided through grants to the National Medical Fellowships, Inc. (for American Indians), A Better Chance (ABC) and the Universidad Boricua (for Hispanic students).

Additional support was offered for youth programs, community development and, on a limited basis, cultural arts programs and organizations.

The company's commitment to minorities and women continued to receive emphasis through growth in representation in the area of employment and through the company's efforts to use minority suppliers in its Minority Purchasing Program.

Both the numbers and percentages of minority and female employees in the domestic work force increased moderately from a year earlier, based on an analysis of employment data assembled during 1979, despite a decline in the total number of employees. The percentage of women in higher-level managerial, professional, technical and sales categories showed nearly an 8% improvement over the previous year; the percentage of minorities in top-level jobs posted a 4.3% gain. The company is committed to further improve representation of women and minorities in the work force.

The company has an active Minority Purchasing Program, which encouraged purchases totalling $17.8 million from minority suppliers of goods and services during the year.

CHANGES IN OFFICERS

Eugene J. Sullivan was elected chairman and chief executive officer of the company, effective Sept. 25, succeeding Augustine R. Marusi, who subsequently retired as an employee after more than 40 years of service. Mr. Sullivan continues as president; Mr. Marusi continues as a director and chairman of the executive committee of the board.

Mr. Sullivan joined Borden in 1946 as a sales trainee with the Chemical Division, was named president of the Division and elected a corporate vice president in 1964, and was elected an executive vice president of the company and a director in 1967. He became president in 1973 and added the title of chief operating officer in 1975.

The board of directors elected five executive vice presidents and three vice presidents, effective Nov. 1.

Promoted to executive vice president were the heads of the company's four operating divisions, all of whom were previously vice presidents, and the senior vice president previously responsible for the legal and accounting staff functions. They are:

- John J. O'Connor, International Division;
- Robert W. Gutheil, Chemical Division;
- Marvin J. Herb, Dairy and Services Division;
- James D. Milligan, Foods Division, and
- Bernard Nemtzow, who also became chief administrative officer.

Elected as vice presidents were:

- Frank L. Florian, formerly assistant to the president, as vice president-planning;
- Alfred S. Cummin, formerly technical director, as vice president-product safety and quality, and
- Walter W. Kocher, formerly assistant general counsel, as vice president and general counsel.

John V. Lynn resigned as vice president-engineering, effective Feb. 1, 1980, in preparation for early retirement. The functions of the corporate engineering department have been integrated within the operating divisions.

Members of the Office of the Chairman: Seated, Eugene J. Sullivan; standing, from left, Robert W. Gutheil, Marvin J. Herb, James D. Milligan, Bernard Nemtzow, John J. O'Connor

Officers

PRINCIPAL OFFICERS–1979

EUGENE J. SULLIVAN
Chairman and Chief Executive Officer

ROBERT W. GUTHEIL
Executive Vice President-Chemical Division

MARVIN J. HERB
Executive Vice President-Dairy and Services Division

JAMES D. MILLIGAN
Executive Vice President-Foods Division

JOHN J. O'CONNOR
Executive Vice President-International Division

BERNARD NEMTZOW
Executive Vice President and Chief Administrative Officer

MAX A. MINNIG
Vice President-Borden Gas Resources

ALFRED S. CUMMIN
Vice President-Product Safety and Quality

LAWRENCE O. DOZA
Vice President and General Controller

FRANK L. FLORIAN
Vice President-Planning

WALTER W. KOCHER
Vice President and General Counsel

JOHN V. LYNN
Vice President-Engineering

JOSEPH E. MADIGAN
Vice President and Treasurer

ALLAN L. MILLER
Vice President-Employee Relations

ROBERT G. TRITSCH
Secretary

Max A. Minnig

Alfred S. Cummin

Lawrence O. Doza

Frank L. Florian

Walter W. Kocher

John V. Lynn

Joseph E. Madigan

Allan L. Miller

Robert G. Tritsch

From left: James D. Finley, Eugene J. Sullivan, Augustine R. Marusi, William S. Renchard

Clockwise from bottom: Patricia Carry Stewart, Jess N. Dalton, Franklin H. Williams

Directors

BOARD OF DIRECTORS-1979

JESS N. DALTON
Retired Business Executive and Attorney (Mexico City, Mexico)

JAMES D. FINLEY
Chairman, Executive Committee J.P. Stevens & Co., Inc. (Textiles)

AUGUSTINE R. MARUSI
Chairman, Executive Committee

BERNARD NEMTZOW
Executive Vice President and Chief Administrative Officer

WALTER R. OLMSTEAD
Former Vice Chairman

WILLIAM S. RENCHARD
Chairman, Directors Advisory Committee Chemical Bank

W. THOMAS RICE
Chairman Emeritus Seaboard Coast Line Industries, Inc. (Railroads)

PATRICIA CARRY STEWART
Vice President The Edna McConnell Clark Foundation (Charitable foundation)

EUGENE J. SULLIVAN
Chairman and Chief Executive Officer

WILLIAM K. WESTWATER
President Westwater Company (A business management firm, Columbus, Ohio)

FRANKLIN H. WILLIAMS
President Phelps-Stokes Fund (Educational foundation)

ADVISOR TO THE BOARD

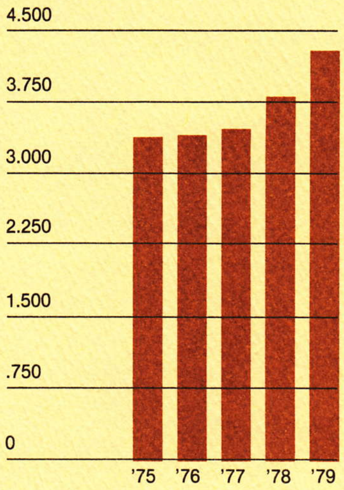
ROY D. WOOSTER
Former Chairman

From left: W. Thomas Rice, William K. Westwater, Walter R. Olmstead, Bernard Nemtzow

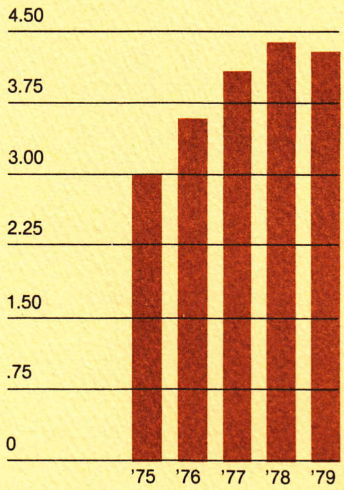
1979 Financial Review

Financial Review and Management Analysis

Sales
in billions of dollars

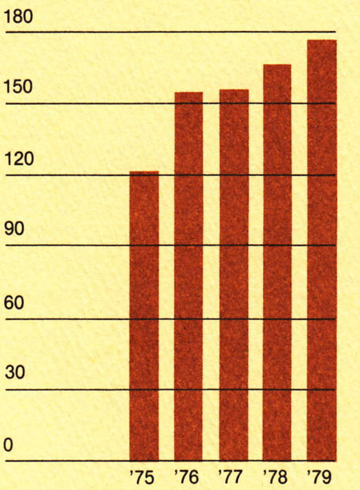


Income Per Share*
in dollars



*Primary

Capital Expenditures
in millions of dollars



*See note 1 to financial statements concerning capital leases.

SALES AND EARNINGS

Sales in 1979 increased 13.4% to a record $4,312,533,000 from 1978 sales of $3,802,559,000 which had increased 9.2% from $3,481,278,000 in 1977. Earnings in 1979 were $134,015,000 or $4.31 primary earnings per share; comparable amounts in 1978 and 1977 were $135,827,000 or $4.38 and $126,908,000 or $4.07, respectively. Fully diluted earnings per share were $4.12 in 1979, $4.19 in 1978 and $3.89 in 1977. Earnings in 1979 reflect net foreign exchange losses of $15,000,000, an increase of $7,300,000 over the 1978 amount of $7,700,000. Earnings in 1979 were also unfavorably affected by increased interest expense which is principally attributable to the $150,000,000, 9⅜% debentures issued in 1979. The capitalization of interest in accordance with Financial Accounting Standard No. 34, as discussed in Note 3 to Consolidated Financial Statements, offsets some of the increase in interest expense. Income taxes in 1979 were $85,900,000 versus $84,300,000 in 1978 and $93,400,000 in 1977. The effective income tax rate of 39.1% in 1979 against 38.3% in 1978 reflects a lower amount of investment tax credit in 1979 somewhat offset by the reduction in the United States statutory rate from 48% to 46%.

NET WORKING CAPITAL

The Company maintains working capital which is deemed adequate to assure its liquidity. Efforts are directed toward maximizing internal cash generations and maintaining the lowest reasonable debt levels. There are programs for close monitoring of the receivables position, maintenance of stringent inventory controls, and the application of cash management techniques. Such programs have enabled the Company to minimize its short-term borrowings and to maintain a strong liquidity position.

CAPITAL EXPENDITURES AND ACQUISITIONS

Capital expenditures for new facilities and for improvements to existing facilities amounted to $177,723,000 in 1979 as compared to $167,003,000 in 1978. Depreciation, depletion and amortization aggregated $100,777,000 against $87,486,000 in the previous year.

During the year, eight domestic business combinations were completed while four foreign operations were acquired. Total acquisition costs of approximately $61,000,000 in cash (offset by $11,000,000 cash acquired with the companies) and $41,000,000 in common stock which was principally purchased in 1978, were accounted for under the purchase method.

DIVIDENDS

The Company completed 81 years of uninterrupted dividends, dating back to its incorporation in 1899, with the payment in December of the 279th consecutive dividend on Common Stock.

Cash dividends of $55,437,000 were paid on the Company's capital stock in 1979, compared with $52,068,000 in 1978. Dividends on Common Stock were $55,364,000 at $1.79½ per share and on Preferred Stock—Series B, $73,000 at $1.32 per share. The Preferred Stock—Series B is convertible at any time into Common Stock at the rate of 1.1 shares of Common for each share of Preferred.

GENERAL BUSINESS ACTIVITIES AND SERVICES

Each of Borden's operating divisions must deal with intense competition on both the local and national level, both in the United States and overseas. Advertising and promotion expenditures were increased to $148,832,000 in 1979 from $139,729,000 in 1978 in order to preserve and expand Borden's market share.

Raw materials and supplies used in production are purchased from a broad range of sources. Natural gas, the feedstock for Borden's petrochemical complex, is the subject of supply contracts, expiring in 1982 and, with respect to a lesser amount, 1985. A portion of the natural gas deliverable under such contracts is subject to the availability of supplies in specified areas. Discussions regarding availability are being conducted with the current suppliers and with others with the objective of providing new supplies of natural gas when the present contracts expire or in the event that shortages develop before expiration. Certain raw materials such as phosphate rock used in Borden's fertilizer operations and to a much smaller extent, natural gas utilized in our petrochemical operations are produced from properties owned by Borden. An active exploration program for natural gas has been undertaken by Borden to assist in assuring adequate supplies of natural gas, a major feedstock for Borden's Chemical Division. Borden was able to obtain adequate feedstock for its petrochemical production in 1979, and does not anticipate any shortages which would materially affect operations in 1980.

Borden's energy requirements are principally met by natural gas, fuel oil and electricity. An active program of conservation and capital improvements has been implemented to insure efficient use of energy. In 1979 fuel supplies were adequate for Borden's power and heating requirements. Based on information presently available, Borden will be able to meet its energy needs in 1980.

Research and development expenditures were $18,100,000 in 1979 and $16,400,000 in 1978. The development and marketing of new food and chemical products is carried out at the divisional level and is integrated with quality controls for existing product lines.

Borden is actively engaged in complying with environmental protection laws, as well as the various federal and state statutes and regulations relating to the production, processing, distribution and labeling of its many products. In this connection Borden incurred approximately $7,300,000 of capital expenditures in 1979. It is estimated that Borden will spend $6,800,000 for environmental control facilities during 1980.

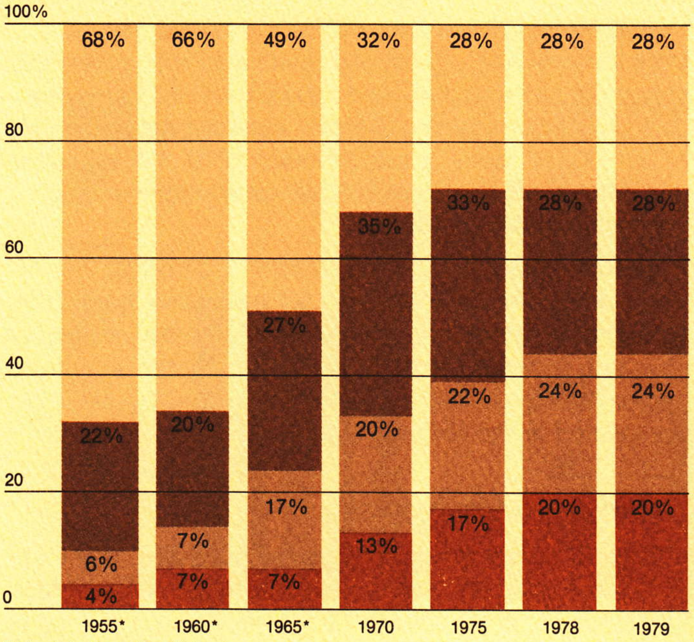
Approximately one-half of Borden's domestic hourly-wage employees are covered by collective bargaining agreements, which are generally effective for periods of from one to three years. During 1979 Borden employed approximately 39,300 persons, about 29,000 of whom are located in the United States.

TRENDS BY BUSINESS AREA

Borden is primarily engaged in the purchase, manufacture, processing and distribution of a broad range of food and chemical products, both domestically and in foreign countries. Borden operates in two major industry segments: foods and chemical. Internally, Borden is organized into four operating divisions: Borden Foods, Borden Dairy and Services, Borden Chemical and Borden International. The foods segment encompasses the Foods Division, the Dairy and Services Division and the International Division's food products processed in domestic plants but exported outside the United States and the food and dairy products processed in overseas plants. Included in the chemical segment are the Chemical Division and chemical related products of the International Division produced both domestically and overseas. A breakdown of the Company's sales, operating profit and other information between the foods and chemical industry segments is presented on pages 29 and 30. A five-year summary of sales and operating income by the four operating divisions is presented on page 28. An analysis of results achieved in both industry segments, in terms of the divisions which achieved them, for the three most recent years follows.

The Foods Division's sales improved 13.2% in 1979 as compared to 1978 and divisional operating income increased 2.1%. The higher sales are primarily due to cost-induced higher selling prices and acquisitions in the snacks and grocery products groups. Commodity-based products, notably cheese and sugar, reported higher dollar sales but lower profit margins. The cheese products group was adversely affected by an oversupply situation late in 1979 that caused selling price declines and sugar operations were affected by higher raw sugar costs. Operating income was also affected adversely by the one-time cost of switching to a food broker based distribution network

Per Cent of Total Sales



*Not restated for pooling of interests.

for two of the largest food groups. This change is expected to yield substantial benefits in subsequent years. The Division's confectionery group reported slightly higher dollar sales, however, profits were down from 1978 due to a temporary distribution problem. The snacks and grocery products groups benefited from several acquisitions in 1979 and reported higher sales and earnings. The division's sales and operating income improved in 1978 versus 1977 reflecting sales volume increases in major product lines and improved market conditions in the cheese industry.

The Dairy and Services Division's sales in 1979 increased 12.4% over 1978 and operating income increased 5.4%. The increase in sales for the dairy operations reflects higher selling prices on slightly greater volume. The more modest increase in operating income was caused by large and frequent cost increases which are not immediately reflected in increased selling prices. The Division's carbonated soft drink operations had substantial increases in sales and operating income. The increases are attributable both to the group's original operations and to acquisitions made in 1979. The industrial foods group benefited from increased demand and posted

Five Year Comparison of Division Sales and Operating Income (Dollars In Thousands)

	1979		1978		1977	1976	1975
Division Sales							
Foods	$1,209,108	28%	$1,067,836	28%	$1,027,823	$1,030,924	$1,096,301
Dairy and Services	1,193,550	28	1,061,564	28	982,781	970,657	946,748
Chemical	1,019,862	24	923,808	24	876,189	833,563	730,163
International (including exports)	890,013	20	749,351	20	594,485	545,931	594,031
Total	$4,312,533	100%	$3,802,559	100%	$3,481,278	$3,381,075	$3,367,243
Division Operating Income							
Foods	$ 57,392	20%	$ 56,212	20%	$ 52,578	$ 55,404	$ 31,717
Dairy and Services	48,249	17	45,774	16	44,382	43,965	36,199
Chemical	116,605	40	110,372	39	118,222	108,086	99,067
International (including exports)	66,015	23	68,528	25	60,990	53,057	51,307
Total	288,261	100%	280,886	100%	276,172	260,512	218,290
Other income and expenses not allocable to divisions and federal income taxes	(154,246)		(145,059)		(149,264)	(147,945)	(125,401)
NET INCOME	$ 134,015		$ 135,827		$ 126,908	$ 112,567	$ 92,889

strong increases in sales and operating income. In comparing 1978 with 1977, the Division's sales and operating income increased reflecting generally higher selling prices on moderately higher volume in fluid milk, fruit beverages, cream and industrial milk-based products which offset the steadily rising costs of raw milk supplies and the erosion of margins in highly competitive markets.

The Chemical Division's 1979 sales increased 10.4% over 1978 and operating income was up 5.6% for the same period. The Division's petrochemical and agricultural operations reported higher volume and dollar sales as well as increased operating income. Both operations benefited from strong demand and pricing. The consumer products group, benefiting from a strong home renovation market and from good acceptance of new products, recorded overall higher volume, dollar sales and operating income. The Alex Colman line of sportswear and dresses was adversely affected by reduced demand brought on by pressure on the discretionary income of consumers and by the retailers' desire to hold down inventories. The thermosetting resin operations posted increased sales and unit volumes but operating income was adversely affected by sharp increases in raw material costs and by reductions in orders from the automotive and furniture industries. The Chemical Division's 1978 sales increased from 1977 while operating income decreased. The sales increase was due to generally higher unit volume throughout the Division and some price increases. The sales improvement over 1977 did not result in increased profit in 1978 since selling prices could not keep pace with cost increases.

The International Division's sales increased 18.8% while overall operating income declined 3.7% in 1979 as compared with 1978. Excluding the effects of foreign exchange losses which included a major devaluation of the Brazilian cruzeiro, all of the Division's operating groups reported higher sales and income for 1979. In the foods business sales and operating income increases were achieved by operations in Puerto Rico, Central America and the Caribbean. The European bakery operation, which was favorably affected by an acquisition in 1979, posted increases in sales and operating income. The cheese operation in Denmark had reduced sales and operating income due to depressed selling prices in combination with higher costs. The Canadian food operations recorded volume, sales and operating income increases over 1978. In the chemical business the Asian, European, Latin American and Canadian operations all reported increases in sales and operating income. The Canadian chemical operations benefited from strong demand for thermosetting resins from the plywood, particleboard, and paper products industries. In Latin America, the Brazilian chemical operations included increases attributable to new export business with neighboring countries. Latin American increases also reflected a gain on the sale of a portion of a Mexican chemical operation. The chemical operations in Europe and Asia were aided by a strong market for Resinite PVC film. The chemical export operation had a record year. Demand for U.S. chemicals and fertilizers was very strong and increases in sales and operating income were realized. In 1978 as compared with 1977 both the foods and chemical operations contributed to increases in sales and operating income. In the foods area significant increases in sales and operating income were achieved by the German bakery operation and the Brazilian pasta company. In the chemical area strong increases in sales and operating income in the European and Latin American chemical operations more than offset the reduction in chemical and fertilizer exports.

OPERATIONS BY INDUSTRY SEGMENT

Borden, Inc., as discussed on the previous pages, operates in two major industry segments: foods and chemical. Corporate departments provide certain centralized services for the corporation and all operating units. The Company's general offices are located in Columbus, Ohio and its executive offices in New York City. Production facilities are located throughout the United States and in many foreign countries. The Company considers that its operating properties are generally well maintained, and effectively utilized.

The foods segment encompasses the following: The Foods Division, including in its product lines—cheese, sugar, non-dairy creamer, reconstituted lemon and lime juice, dehydrated potatoes, instant coffee, sweetened condensed milk, snack foods and cakes, confections, powdered soft drinks, jams and jellies, tomato juice, pasta and seafood; the Dairy and Services Division, which markets a full line of dairy and specialty products including homogenized milk, buttermilk, chocolate drink, ice cream and milks, sherbets, yogurt, cottage cheese, frozen novelties, dips, egg nog, sour cream, low-fat dairy products, milk-based products for the industrial trade, fruit drinks and bottled carbonated soft drinks; and the International Division's food products processed in domestic plants but exported outside the United States, and food and dairy products processed in overseas plants. As of December 31, 1979 the Foods Division operated 36 manufacturing and processing facilities, the most significant being the Wisconsin cheese facilities, the Illinois powdered soft drink operations, the snack group operations in Pennsylvania, Missouri and Ohio, the Louisiana sugar operations, the confectionery operations located principally in Illinois and the bakery operations in New Jersey; the Dairy and Services Division operated 65 manufacturing and processing facilities, all of which are of approximately the same size and are located principally in the Midwest, South and Southwest; and the International Division operated, through consolidated and equity basis companies, 53 food and dairy manufacturing and processing facilities located principally in Brazil, Western Europe and Puerto Rico.

Included within the chemical segment are the Chemical Division and chemical related products of the International Division produced both domestically and overseas. This segment is a major producer of agricultural fertilizers and chemicals, animal feed supplements and basic petrochemicals and thermoplastics including polyvinyl acetate, PVC latex and resins, formaldehyde, methanol, ammonia, urea and acetic acid. It also produces synthetic adhesives for plywood products, transparent wrapping film, printing inks, vinyl wall coverings, glue, tape, spray paint, plastic office accessories and housewares and clothing. As of December 31, 1979 the Chemical Division operated 67 manufacturing and processing facilities, the most significant being the Division's petrochemical complex in Louisiana, the agricultural operations in Virginia and Florida, and the thermoplastics and Resinite operations in Massachusetts and Illinois; and the International Division operated, through consolidated and equity basis companies, 52 chemical manufacturing and processing facilities located principally in Brazil and Western Europe.

Domestic products for the foods segment are marketed primarily through food brokers and distributors, and directly to wholesalers, retail stores, food processors, institutions and governmental agencies. The chemical segment products are sold throughout the United States to industrial users and, in the case of consumer products, by an in-house and independent sales force to distributors, wholesalers, jobbers and dealers. To the extent practicable, international distribution techniques parallel those used in the United States. However, raw materials, production considerations, pricing competition, governmental policy toward industry and foreign investment and other factors vary substantially from country to country for both industry segments.

Segment operating profit as shown in the column to the right is total revenue less operating expenses. In computing segment operating profit none of the following items has been deducted from revenues: general corporate expenses, interest expense and federal, state and local income taxes. Division operating income appearing on page 28 differs from segment operating profit due primarily to the responsibility which the divisions assume for state and local income taxes. Sales between industry segments were not material. Minority interests in earnings of certain subsidiaries and the Company's equity in earnings of unconsolidated 20% to 50% owned companies were immaterial and have been included in segment operating profit.

Identifiable assets by segment are those assets that are used in the segments' operations. Corporate assets are principally cash and cash items.

Listed below is information about the Company's operations by industry segment (dollars in thousands):

	1979	1978	1977	1976
Sales to Unaffiliated Customers:				
Foods	$2,858,746	$2,548,936	$2,325,541	$2,284,272
Chemical	1,453,787	1,253,623	1,155,737	1,096,803
	$4,312,533	$3,802,559	$3,481,278	$3,381,075
Segment Operating Profit:				
Foods	$ 129,942	$ 141,740	$ 135,437	$ 131,358
Chemical	170,409	151,835	153,581	140,328
	300,351	293,575	289,018	271,686
General Corporate Expenses	(25,427)	(25,983)	(30,599)	(32,913)
Interest Expense	(55,009)	(47,465)	(38,111)	(35,006)
Earnings Before Income Taxes	$ 219,915	$ 220,127	$ 220,308	$ 203,767
Identifiable Assets at Year End:				
Foods	$1,260,767	$1,134,028	$1,009,642	$ 943,807
Chemical	1,101,292	966,045	849,778	755,378
	2,362,059	2,100,073	1,859,420	1,699,185
Corporate Assets	100,701	65,665	130,239	200,291
	$2,462,760	$2,165,738	$1,989,659	$1,899,476
Depreciation Expense:				
Foods	$ 48,001	$ 42,201	$ 38,311	$ 36,775
Chemical	50,380	43,089	37,326	32,769
Capital Expenditures:				
Foods	$ 55,208	$ 75,563	$ 66,545	$ 71,597
Chemical	118,262	88,637	89,616	81,525
Foreign Operations (excluding exports):				
Sales to Unaffiliated Customers	$ 813,041	$ 677,017	$ 528,912	$ 478,637
Foreign Operating Profit	50,828	61,318	49,468	37,465
Identifiable Assets at Year End	574,587	520,834	394,478	347,242

Five-Year Financial Summary

BORDEN, INC.

(All dollar and share figures in thousands—except market price and per share statistics)

Summary of Earnings	1979	1978	1977	1976	1975
Net sales	$4,312,533	$3,802,559	$3,481,278	$3,381,075	$3,367,243
Cost of goods sold	3,537,006	3,086,397	2,810,970	2,731,741	2,788,457
Interest expense	55,009	47,465	38,111	35,006	31,625
Income taxes	85,900	84,300	93,400	91,200	77,700
Net income	134,015	135,827	126,908	112,567	92,889
Net income per common share and equivalents:					
Primary	$4.31	$4.38	$4.07	$3.63	$3.01
Fully diluted	4.12	4.19	3.89	3.47	2.88
Dividends:					
Common share	$1.79½	$1.68	$1.52	$1.35	$1.30
Preferred series A share					.65
Preferred series B share	1.32	1.32	1.32	1.32	1.32
Average number of common shares and equivalents assumed outstanding during the year for calculation of:					
Primary earnings per share	31,123	31,018	31,190	30,998	30,886
Fully diluted earnings per share	32,971	32,873	33,127	32,991	32,882
Percent of net income to sales	3.1%	3.6%	3.6%	3.3%	2.8%
Financial Statistics					
Capital expenditures	$ 177,723	$ 167,003	$ 156,876	$ 156,148	$ 123,603
Inventories	542,073	507,461	464,117	434,184	407,065
Property, plant and equipment, net	990,146	882,234	784,769	710,318	645,026
Depreciation, depletion and amortization	100,777	87,486	78,099	72,033	65,618
Current assets	1,179,826	1,066,489	1,006,780	998,449	865,792
Current liabilities	601,834	539,315	481,579	477,286	399,674
Working capital	577,992	527,174	525,201	521,163	466,118
Current ratio	2.0:1	2.0:1	2.1:1	2.1:1	2.2:1
Long-term debt	538,613	439,543	395,412	404,636	387,942
Debt-to-equity percent	45%	41%	39%	43%	45%
Shareholders' equity	1,185,075	1,072,194	1,022,154	935,338	860,927
Liquidating value of preferred stock	(1,575)	(1,695)	(2,079)	(4,716)	(7,173)
Common shareholders' equity	1,183,500	1,070,499	1,020,075	930,622	853,754
Equity per common share at year end	$37.98	$35.81	$32.79	$30.25	$27.97
Shareholders' Data					
Outstanding shares at year end:					
Common	31,160	29,895	31,105	30,760	30,526
Preferred series B	55	59	72	163	248
Market price of common stock:					
At year end	$ 23⅞	$ 25½	$ 30⅝	$ 34	$ 26⅝
Range during year	27⅞-23⅞	25¼-31⅜	29⅛-36⅜	26-34	20½-28⅝
Number of common shareholders	61,632	62,743	63,584	65,359	67,167
Employees' Data					
Payroll	$ 552,000	$ 518,000	$ 472,000	$ 459,500	$ 436,900
Average number of employees	39,300	39,600	38,100	40,400	42,100

Consolidated Statements of Income
BORDEN, INC.

		1979	1978
		Year Ended December 31	
Revenue	Net sales	$4,312,533,378	$3,802,559,111
Costs and Expenses	Cost of goods sold	3,537,006,301	3,086,397,314
	Marketing, general and administrative expenses	501,892,255	454,169,560
	Equity in affiliates, interest income, royalties, and other net	(1,288,956)	(5,600,128)
	Interest expense	55,008,760	47,464,992
	Income taxes	85,900,000	84,300,000
		4,178,518,360	3,666,731,738
Earnings	Net income	$ 134,015,018	$ 135,827,373
Share Data	Net income per share:		
	Primary	$ 4.31	$ 4.38
	Fully diluted	4.12	4.19
	Cash dividends per common share	1.79½	1.68
	Average number of common shares and equivalents assumed outstanding during the year	31,123,109	31,018,058

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Financial Position

BORDEN, INC.

		Year Ended December 31 1979	1978
Financial Resources Provided	Operations:		
	Net income	$134,015,018	$135,827,373
	Depreciation, depletion and amortization	100,777,484	87,485,891
	Deferred income taxes	19,800,000	19,500,000
	Amortization of intangible assets and other non-working capital items, net	2,154,023	5,367,826
	Total provided from operations	256,746,525	248,181,090
	Long-term debt financing (Net of long-term refinancing of $65,000,000 and $50,208,189, respectively)	110,782,634	62,206,955
	Issuance of treasury stock in connection with acquisitions	40,453,501	4,506,252
	Property disposals	19,454,970	13,378,244
		427,437,630	328,272,541
Financial Resources Applied	Capital expenditures	177,722,853	167,002,838
	Purchases of businesses, net of working capital acquired	89,027,911	41,916,831
	Cash dividends	55,437,140	52,067,757
	Increase (decrease) in long-term investments	24,453,897	(602,723)
	Reduction in long-term debt	22,147,809	25,472,615
	Purchases of treasury stock	7,608,817	39,716,985
	Other changes in non-current assets and liabilities	221,025	725,087
		376,619,452	326,299,390
	Increase in Working Capital	$ 50,818,178	$ 1,973,151
Working Capital	Details of increase (decrease) in working capital:		
	Cash (including time and certificates of deposit)	$ 22,867,856	$ (53,989,280)
	Accounts receivable	52,644,158	78,138,081
	Inventories	34,611,698	43,343,947
	Other current assets	3,213,240	(7,783,606)
	Debt payable within one year	(7,409,925)	(12,565,157)
	Accounts and drafts payable	(43,757,494)	(52,354,799)
	Income taxes	2,297,346	14,619,873
	Other current liabilities	(13,648,701)	(7,435,908)
	Increase in Working Capital	$ 50,818,178	$ 1,973,151

See accompanying Notes To Consolidated Financial Statements

Consolidated Balance Sheets
BORDEN, INC.

ASSETS		December 31 1979	December 31 1978
Current Assets	Cash (including time and certificates of deposit of $18,241,000 and $24,856,000, respectively)	$ 104,121,450	$ 81,253,594
	Accounts receivable (less allowance for doubtful accounts—$10,100,000 and $10,183,000, respectively)	490,387,320	437,743,162
	Inventories:		
	Finished and in process goods	358,211,391	348,567,746
	Raw materials and supplies	183,861,613	158,893,560
	Other current assets	43,244,211	40,030,971
		1,179,825,985	1,066,489,033
Investments and Other Assets	Investments in and advances to affiliated companies (at cost plus equity in undistributed income)	42,619,589	35,344,262
	Miscellaneous investments and receivables (at cost or less)	16,117,627	10,917,171
	Other assets	25,076,122	13,401,862
		83,813,338	59,663,295
Property and Equipment	Land	41,453,813	38,773,952
	Buildings	356,622,835	327,280,622
	Machinery and equipment	1,289,283,512	1,154,207,688
		1,687,360,160	1,520,262,262
	Less accumulated depreciation	(697,214,273)	(638,028,739)
		990,145,887	882,233,523
Intangibles	Intangibles resulting from business acquisitions	208,974,481	157,352,123
		$2,462,759,691	$2,165,737,974

See accompanying Notes To Consolidated Financial Statements

LIABILITIES AND SHAREHOLDERS' EQUITY

		December 31 1979	1978
Current Liabilities	Debt payable within one year	$ 90,814,150	$ 83,404,225
	Accounts and drafts payable	356,993,220	313,235,726
	Income taxes	24,888,097	27,185,443
	Other current liabilities	129,138,167	115,489,466
		601,833,634	539,314,860
Other	Long-term debt	538,613,081	439,543,034
	Deferred income taxes	121,455,322	101,655,322
	Other long-term liabilities	6,136,273	6,053,478
	Minority interests in consolidated subsidiaries	9,646,718	6,977,154
		675,851,394	554,228,988
Shareholders' Equity	Capital Stock:		
	Preferred stock—no par value		
	Authorized 10,000,000 shares		
	Issued series B convertible—54,553 shares and 58,678 shares, respectively (involuntary liquidating value of $1,575,491 or $28.88 per share at December 31, 1979)	225,031	242,047
	Common stock—$3.75 par value		
	Authorized 60,000,000 shares		
	Issued 31,159,878 shares and 31,107,339 shares, respectively	116,849,543	116,652,521
	Paid-in capital	193,558,230	192,327,013
	Retained earnings	874,441,859	795,863,981
		1,185,074,663	1,105,085,562
	Less common stock in treasury (at cost)—1,211,857 shares	—	(32,891,436)
		1,185,074,663	1,072,194,126
		$2,462,759,691	$2,165,737,974

Consolidated Statements of Shareholders' Equity

BORDEN, INC.

For the Two Years Ended December 31, 1979

	CAPITAL STOCK ISSUED				
	Preferred Series B	Common	Paid-In Capital	Retained Earnings	Treasury Stock
Balance, December 31, 1977	$296,913	$116,644,410	$193,108,206	$712,104,365	$ —
Net Income				135,827,373	
Cash dividends:					
Common stock				(51,977,577)	
Preferred series B				(90,180)	
Stock reacquired for acquisitions and treasury					(39,716,985)
Preferred series B stock converted	(54,866)	233	(381,641)		436,274
Common stock issued for exercised stock options		7,743	38,114		
Common stock issued under Management Incentive Plan		135	815		
Treasury stock issued under Management Incentive Plan			(785)		6,818
Treasury stock issued for exercise of stock options			(449,726)		1,876,205
Treasury stock issued for acquisition of businesses			12,030		4,506,252
Balance, December 31, 1978	242,047	116,652,521	192,327,013	795,863,981	(32,891,436)
Net Income				134,015,018	
Cash dividends:					
Common stock				(55,363,672)	
Preferred series B				(73,468)	
Stock reacquired for acquisitions and treasury					(7,608,817)
Preferred series B stock converted	(17,016)	11,175	(40,161)		45,981
Common stock issued for exercised stock options		36,806	169,989		
Common stock issued under Management Incentive Plan		1,073	6,510		
Treasury stock issued under Management Incentive Plan			(81)		771
Treasury stock issued for acquisition of businesses					40,453,501
5% Convertible Debentures converted		147,968	1,094,960		
Balance, December 31, 1979	$225,031	$116,849,543	$193,558,230	$874,441,859	$ —

See accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation—The consolidated financial statements include the accounts of Borden, Inc. and all subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is included in income. The carrying value of these companies approximates Borden's interest in their underlying net assets. Investments of less than 20% ownership are carried at cost.

Intangibles—The excess cost of investments over net tangible assets of businesses acquired is carried as Intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November, 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Intangibles arising after October, 1970 are being amortized over a forty-year period.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined generally using the average cost and first-in, first-out methods.

Property and Equipment—Land, buildings and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to cost and expenses at rates based on the estimated useful lives of the properties (average rates for buildings—3%; machinery and equipment—7%).

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains or losses from normal retirements and disposals are credited or charged to accumulated depreciation, while gains and losses from other retirements and disposals are credited or charged to income.

The Company leases certain property and equipment (primarily buildings and transportation equipment) under operating and capital leases as defined by the Financial Accounting Standards Board in their Statement No. 13. Property and equipment, meeting the definition of capital leases, are capitalized and accounted for accordingly, with the corresponding obligations carried as a liability. All other lease agreements are classified and accounted for as operating leases with payments expensed as incurred.

Income Taxes—The provision for income taxes includes federal, foreign and state and local taxes currently payable and deferred taxes arising from timing differences between income for financial statements and income tax purposes. These timing differences principally result from additional deductions available through the use of accelerated methods of depreciation for tax purposes.

Investment tax credits are applied as reductions of income taxes in the year realized.

United States income taxes have not been provided on undistributed earnings of foreign subsidiaries, or on the earnings of a Domestic International Sales Corporation (DISC) that are eligible for tax deferral, because the Company presently plans to reinvest such earnings indefinitely.

Pension Plans—Substantially all of the Company's employees in the United States and Canada are covered under one of the Company's pension plans or one of the union-sponsored plans to which the Company contributes. Pension expenses for the Company's plans, determined for domestic employees in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974, comprises current service costs and amortization of prior service costs, effectively, over a thirty year period. It is the Company's policy to fund pension costs accrued for qualified plans.

Development and Promotion Expenses—Research and development expenditures are expensed as incurred as are advertising and promotion expenditures.

Earnings Per Share—Primary earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents (Convertible Preferred Stock and Stock Options) assumed outstanding during the year of computation.

Fully diluted earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents assumed outstanding during the year, as if the Convertible Debentures had been converted at the beginning of the period and after giving effect to the elimination of interest expense, less income tax effect, applicable to the Convertible Debentures.

2. FOREIGN AFFILIATES

After translation into United States dollars, the Company's proportionate share of net assets of foreign affiliates included in the consolidated financial statements was $280,000,000 at December 31, 1979 compared to $237,000,000 at December 31, 1978.

Realized and unrealized net foreign exchange losses aggregating $15,000,000 and $7,700,000 were charged against net income in 1979 and 1978, respectively.

3. DEBT, LEASE OBLIGATIONS AND COMMITMENTS

Debt outstanding at December 31, 1979 and 1978 is as follows (dollars in thousands):

	1979		1978	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
Sinking Fund Debentures:				
2⅞%, due 1981	$ 25,000		$ 26,250	
4⅜%, due 1991	22,000	$ 2,874	24,000	$ 2,000
5¾%, due 1997	63,750	3,750	67,500	3,750
8½%, due 2004	100,000		100,000	
9⅜%, due 2009	150,000		—	
Debentures repurchased	(9,496)	(3,811)	(14,138)	(3,843)
Promissory Notes:				
9%, due 1989	5,889	911		
8¼%, due 1985 in Swiss Francs	18,831		18,231	
7⅝%, due 1986 in Swiss Francs	12,554		12,154	
Other borrowings (at an average rate of 10.2% and 9⅜%, respectively)	89,151	11,982	78,383	8,778
Bank term loans at floating money market interest rates, due in installments 1981-1988	—		65,000	
Convertible Debentures:				
6¾%, due 1991	29,188		29,188	
5%, due 1992	25,216		26,459	
Capitalized Leases (at an average rate of 7.2% and 7%, respectively)	6,530	1,417	6,516	1,407
CURRENT MATURITIES OF LONG-TERM DEBT		17,123		12,092
Foreign Bank Loans (at average rates of 19.8% and 15.0%, respectively)		73,691		71,312
TOTAL DEBT	$538,613	$90,814	$439,543	$83,404

During 1978 the Company purchased almost all of the assets which had been capitalized pursuant to Financial Accounting Standard No. 13. Therefore, capital leases at December 31, 1979 and 1978 are immaterial.

The 6¾% Convertible Debentures (Eurodollar obligations) are convertible into Common Shares of Borden, Inc. at $28.75 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the face amount plus annually decreasing premiums to 1986.

The 5% Convertible Debentures (Eurodollar obligations) are convertible into Common Shares of Borden, Inc. at $31.50 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the face amount plus annually decreasing premiums to 1987.

Aggregate maturities of long-term debt and minimum annual rentals under agreements classified and accounted for as operating leases at December 31, 1979 are as follows (dollars in thousands):

	Long-Term Debt**	Minimum Rentals On Operating Leases
1980	$ 17,123	$14,755
1981	46,703	13,426
1982	18,977	11,118
1983	44,095	9,048
1984	15,778	6,655
1985 and beyond*	413,060	15,728

*Figures represent combined totals for all years.
**Net of debentures repurchased.

Average short-term debt, consisting of foreign bank loans and commercial paper, amounted to $99,800,000 and $99,600,000 during 1979 and 1978, respectively with corresponding weighted average interest rates of 15.2% and 11.9%. The average borrowings and weighted average interest rates were determined using the weighted average principal outstanding and the actual interest expense incurred. Maximum month-end short-term debt was $150,000,000 and $127,800,000 in 1979 and 1978, respectively. Commercial paper issued and redeemed during 1979 was sold on the open market in the U.S. through a money market dealer.

The Company has unused lines of credit for short-term financing needs, aggregating approximately $200,000,000 at December 31, 1979, with interest rates approximating the prime rate in effect at date of use.

The Company was guarantor of loans aggregating approximately $24,000,000 at December 31, 1979.

Pursuant to the arrangements covering the above lines of credit, and certain loan guarantees, the Company has agreed to maintain minimum average cash balances aggregating approximately $8,000,000 with various commercial banks. The Company attributes no cost to such arrangements as these amounts do not exceed balances which would be required for normal operating needs.

In accordance with Financial Accounting Standard No. 34 the Company has capitalized interest that relates to the capital cost of acquiring certain fixed assets. For the year ended December 31, 1979, the Company incurred $61,445,000 in interest costs of which $6,436,000 has been capitalized. Net income and net income per share for the first three quarters of 1979 (Note 10) have been restated to give effect to capitalized interest for those periods.

4. INCOME TAXES

Comparative analyses of the provisions for income taxes follows:

	1979	1978
Currently Payable		
United States	$56,800,000	$58,400,000
Investment tax credit	(7,100,000)	(15,800,000)
Foreign	7,500,000	12,000,000
State and Local	8,900,000	10,200,000
	66,100,000	64,800,000
Deferred		
Federal	17,800,000	14,000,000
State and Local	2,200,000	1,600,000
Foreign	(200,000)	3,900,000
	19,800,000	19,500,000
	$85,900,000	$84,300,000

Reconciliations of the difference between the U.S. statutory tax rates and consolidated effective book income tax rates are as follows:

	1979	1978
U.S. statutory tax rate	46.0%	48.0%
State tax provision, net of federal benefit	2.7	2.8
Investment tax credit	(3.2)	(7.2)
Foreign tax benefits	(3.8)	(3.9)
Other—net	(2.6)	(1.4)
Effective book income tax rate	39.1%	38.3%

The cumulative amount of foreign and DISC earnings on which United States taxes have not been provided aggregated approximately $60,000,000 at December 31, 1979 exclusive of those amounts which if remitted would result in no tax by utilization of available foreign tax credits.

5. PENSION PLANS

The charges to operations under the Company's United States and Canadian pension plans were $16,500,000 in 1979 and $15,600,000 in 1978. The actuarially computed value of vested retirement benefits under these plans as of January 1, 1979 exceeded the total pension fund and balance sheet accruals by approximately $78,200,000.

Operations were charged approximately $6,700,000 in 1979 and $6,200,000 in 1978 primarily for payments to pension trusts on behalf of certain employees covered by collective bargaining units who have not elected to participate in the Company's plans and for retirement allowances paid to former employees under arrangements in effect prior to the inception of the present plans.

6. SHAREHOLDERS' EQUITY

Each of the 54,553 shares of Preferred Stock—Series B, bears an annual cumulative dividend of $1.32, is convertible into 1.1 common shares, and is presently redeemable at the Company's option at $39.

As of January 1, 1979, 597,924 shares of Common Stock of the Company were reserved for unexercised stock options at prices ranging from $19.44 to $32.75 per share. During 1979, options for 138,250 shares were granted at $25.68 per share and options for 40,145 shares expired or were cancelled. Options for 9,815 shares were exercised at prices ranging from $19.44 to $23.00 per share, leaving 686,214 shares reserved for unexercised options at prices ranging from $19.44 per share to $32.75 per share as of December 31, 1979. Included with the shares reserved for unexercised options are 215,636 options with stock appreciation rights attached, which permit the holder the election, in lieu of exercising the option, of receiving cash, shares or a combination of cash and shares. During 1979, 1,000 stock appreciation rights were exercised with the holder receiving cash. In addition, there were 509,611 shares available for future grants at that date.

At December 31, 1979, 60,008 shares were reserved for conversion of Preferred Stock—Series B. In addition, 1,815,756 shares were reserved for issuance upon conversion of the 6¾% and 5% Convertible Debentures discussed in Note 3, and 86,557 shares were reserved pursuant to the Management Incentive Plan.

7. OPERATIONS BY INDUSTRY SEGMENT

Information about the Company's industry segments and geographic areas of operation is provided on pages 29 and 30 of this Annual Report and is an integral part of these financial statements.

8. SUPPLEMENTAL INCOME STATEMENT INFORMATION

Set forth below is a comparative summary of certain expense items (dollars in thousands):

	1979	1978
Maintenance and repairs	$118,731	$105,452
Depreciation, depletion and amortization	100,777	87,486
Taxes other than income taxes	69,511	64,633
Advertising and promotion, including promotions of $96,135 and $83,573, respectively	148,832	139,729
Research and development	18,112	16,413

9. EARNINGS PER SHARE

The average number of Common Shares and Equivalents entering into the calculation of primary and fully diluted earnings per share are as follows:

	1979	1978
Common Shares	31,014,400	30,850,105
Convertible Preferred Series B	60,008	74,057
Stock options and incentive compensation	48,701	93,896
Total for primary calculation	31,123,109	31,018,058
Convertible Debentures:		
6¾%	1,015,239	1,015,239
5%	832,914	839,975
Total for fully diluted calculation	32,971,262	32,873,272

10. QUARTERLY FINANCIAL DATA (UNAUDITED)

	1979 Quarters			
	First**	Second**	Third**	Fourth
Net Sales	$952,212	$1,119,734	$1,094,501	$1,146,086
Gross Profit	$167,140	$ 201,439	$ 206,479	$ 200,469
Net Income	$ 28,921	$ 36,887	$ 38,897	$ 29,310
Net Income Per Share of Common Stock:				
Primary	$ .94	$ 1.18	$ 1.25	$ .94
Fully Diluted	.90	1.12	1.19	.91
Dividends*	$ .43	$ .455	$ .455	$ .455
Market Price Range:				
High	$ 27	$ 27⅞	$ 26¾	$ 27⅝
Low	24⅞	24¾	24⅝	23⅞

*Dividends on Preferred Stock—Series B were $.33 in each quarter during 1979.

**Restated as explained in Note 3 for capitalization of interest.

	1978 Quarters			
	First	Second	Third	Fourth
Net Sales	$843,555	$1,018,410	$ 941,202	$ 999,392
Gross Profit	$156,289	$ 190,782	$ 175,677	$ 193,414
Net Income	$ 27,655	$ 40,245	$ 34,945	$ 32,982
Net Income Per Share of Common Stock:				
Primary	$ .89	$ 1.29	$ 1.12	$ 1.08
Fully Diluted	.85	1.23	1.07	1.04
Dividends*	$ .39	$ .43	$ .43	$ .43
Market Price Range:				
High	$ 31¼	$ 31⅜	$ 30⅞	$ 29¾
Low	28	27½	27⅜	25¼

*Dividends on Preferred Stock—Series B were $.33 in each quarter during 1978.

11. CURRENT REPLACEMENT COSTS (UNAUDITED)

In recent years production costs have increased as a result of inflation. Generally, the Company has been able to compensate for cost increases by increasing sales prices in an amount sufficient to maintain an approximately constant gross profit percentage on sales.

Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a greater capital investment than was required to purchase the assets replaced. The additional capital investment principally reflects the cumulative impact of inflation on these assets.

The Company's annual report on Form 10-K contains specific information with respect to year-end 1979 and 1978 replacement cost of inventories and productive capacity (generally buildings and machinery and equipment) and the approximate effect which replacement cost would have had on the computation of cost of goods sold and depreciation expense for each year.

In addition to the replacement cost information, there is presented on pages 42 and 43 supplemental financial data adjusted for the effects of changing prices. This additional information is presented in accordance with the Financial Accounting Standards Board Statement No. 33, *Financial Reporting and Changing Prices.*

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.

153 EAST 53RD STREET, NEW YORK, NEW YORK 10022   212/371-2000

February 26, 1980

Board of Directors and Shareholders of Borden, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and changes in financial position present fairly the financial position of Borden, Inc. and its subsidiaries at December 31, 1979 and 1978, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Supplemental Financial Data Adjusted for the Effects of Changing Prices (Unaudited)

INTRODUCTION

In recent years inflation has become an increasingly significant factor in the economic life of the United States. Generally the Company has been able to compensate for cost increases by increasing sales prices in an amount sufficient to maintain an approximately constant gross profit percentage. Customary financial statements have been stated at historical or actual costs and have not attempted to reflect inflation. In an effort to produce financial information that discloses the effects of inflation the Financial Accounting Standards Board (FASB) has issued Statement No. 33, *Financial Reporting and Changing Prices,* requiring companies to explain the effect of inflationary factors on operations using two different methods to adjust historical financial statements for the effects of changing prices.

The first method, constant dollar, adjusts certain elements of the basic, historical financial statements for the effects of general inflation. The Consumer Price Index for all Urban Consumers (CPI-U) is used to make adjustments. The CPI-U is an index measuring the living costs of the average American family, including housing, fuel costs, and transportation and interest. There can be no assurance that the results obtained will reflect the effects of inflation on an individual industrial company.

The second method, current cost, adjusts the basic, historical financial statements for price changes of specific assets. This information is to be reported in 1980, allowing sufficient time for accurate and meaningful disclosure.

Supplementary information stated on a constant dollar basis is shown below:

STATEMENT OF INCOME FROM CONTINUING OPERATIONS ADJUSTED FOR CHANGING PRICES

	Year Ended December 31, 1979 (In 000's of Dollars) As Reported in the Primary Statements	Adjusted for General Inflation*
Net Sales	$4,312,533	$4,312,533
Cost of goods sold (excluding related depreciation expense)	3,456,366	3,506,240
Other operating expenses (excluding related depreciation expense)	480,466	480,466
Depreciation expense	100,777	157,312
Interest expense	55,009	55,009
Earnings before income taxes	219,915	113,506
Income taxes	85,900	85,900
Income from continuing operations	$ 134,015	27,606
Gain on net monetary items		73,437
Earnings, net of general inflationary effects		$ 101,043
Net income per common share:		
Income from continuing operations	$ 4.31	$ .89
Gain on net monetary items		2.36
Earnings, net of general inflationary effects		$ 3.25

**Without consideration of specific effects upon Borden.*

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(In 000's of Average 1979 Dollars) Years Ended December 31

Historical Cost Information Adjusted for General Inflation	1979	1978	1977	1976	1975
Net sales	$4,312,533	$4,230,687	$4,169,861	$4,311,118	$4,541,183
Net assets	$1,739,660				
Cash dividends per common share	$ 1.79½	$ 1.87	$ 1.82	$ 1.72	$ 1.75
Market price per common share at year-end	$ 22⅝	$ 27⅜	$ 35¾	$ 42⅜	$ 34¾
Average consumer price index	217.4	195.4	181.5	170.5	161.2

DISCUSSION AND ANALYSIS OF SUPPLEMENTAL FINANCIAL DATA

Sales are unchanged from the primary financial statements since they occur relatively even throughout the year and the index used to adjust for inflation is an average index for the 12 month period. The change in cost of goods sold is the result of applying the CPI-U to both the beginning and ending 1979 inventories. Larger increases contained in the consumer price index during 1979 were housing costs, including financing and taxes, and transportation, including energy related costs. Borden does not believe that applying this index to its inventories results in a meaningful analysis of the effects of inflation. Borden has not felt the full effect of energy inflation because of certain supply contracts and because of various energy saving programs and projects. Also Borden buys various raw materials that are the subject of government support programs. Cost fluctuations and the resulting sales price changes for these items depend upon government policy and may not be related to changes in the CPI-U.

The approximate 56% increase in depreciation and amortization expense reflects the adjustment required to reflect the impact of inflation on fixed assets which have relatively long lives. The remaining income statement items including income tax expenses, in accordance with FAS No. 33, have not been adjusted for inflation. Accordingly, the higher amounts of depreciation expense and cost of goods sold reflected in the statements adjusted for general inflation do not reduce income tax expense. In addition net income as adjusted for general inflation has been reduced by interest expense, however, interest expense is to a large extent offset by the purchasing power gain on debt. This gain is, in accordance with FAS No. 33, not included in income from continuing operations, however to emphasize its relationship to interest expense it is included in "Earnings, net of inflationary effects."

The gain from decline in the purchasing power of net amounts owed is determined by calculating the net monetary assets or liabilities at the beginning and end of the year, stating these amounts in average 1979 dollars and deriving the change thereof. Monetary assets and liabilities are cash, and claims on, or liabilities for, cash receipts or payments, the amounts of which are fixed in terms of the number of dollars to be received or paid. The net monetary gain shown in the preceding supplemental statements results from Borden's net monetary liability position which will be repaid with dollars which have lost purchasing power relative to the point when the liabilities were incurred.

The data presented in the five-year table has been adjusted to a common base, average 1979 dollars. Certain data has only been presented for the year ended December 31, 1979 since it was not practicable to collect the information for the earlier years. The approximate inflation rates for the years 1975 through 1979 were 7%, 5%, 7%, 9% and 13%, respectively. As is apparent in comparing net sales, cash dividends and the market price per common share from the basic financial statements (nominal dollar basis) to the same data on a constant dollar basis real growth results only when the nominal rate of growth exceeds the rate of inflation.

Executive Offices
Borden, Inc.
277 Park Avenue
New York, New York 10017
Telephone No. (212) 573-4000

Administrative Headquarters
180 East Broad Street
Columbus, Ohio 43215
Telephone No. (614) 225-4000

Annual Meeting
The Annual Meeting will be held on Wednesday, April 16, 1980, beginning at 11:00 a.m. in the Hunterdon Theatre, Church Street and Route 31, Flemington, New Jersey.

Independent Accountants
Price Waterhouse & Co.
153 East 53rd Street
New York, New York 10022

Common Stock Agencies
Transfer Agent & Registrar
Dividend Disbursing Agent
Chemical Bank
55 Water Street
New York, New York 10041

Debenture Trustees
2⅞% and 4⅜% Sinking Fund Debentures
The Chase Manhattan Bank, N.A.
New York, New York 10017

5¾% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
New York, New York 10015

8½% Sinking Fund Debentures
Bank of America, N.T.& S.A.
San Francisco, California 94120

9⅜% Sinking Fund Debentures
Bank of New York
New York, New York 10015

Exchange Listings
Common Stock (Ticker Symbol-BN)
New York Stock Exchange
The Common Stock is currently listed on exchanges in Basle, Geneva, Lausanne and Zurich, Switzerland.

New York Stock Exchange
2⅞% Sinking Fund Debentures, due 1981
4⅜% Sinking Fund Debentures, due 1991
5¾% Sinking Fund Debentures, due 1997
8½% Sinking Fund Debentures, due 2004
9⅜% Sinking Fund Debentures, due 2009

Date and State of Incorporation
April 24, 1899—New Jersey

Borden, Inc. will furnish to any shareholder, without charge, a copy of its most recent annual report on Form 10-K, as filed with the United States Securities and Exchange Commission.

Written requests should be directed to:
Borden, Inc.
Attn. Mr. R. G. Tritsch
Secretary
277 Park Avenue
New York, New York 10017

Printed in U.S.A.

BORDEN, INC.
277 PARK AVENUE / NEW YORK, N.Y. 10017