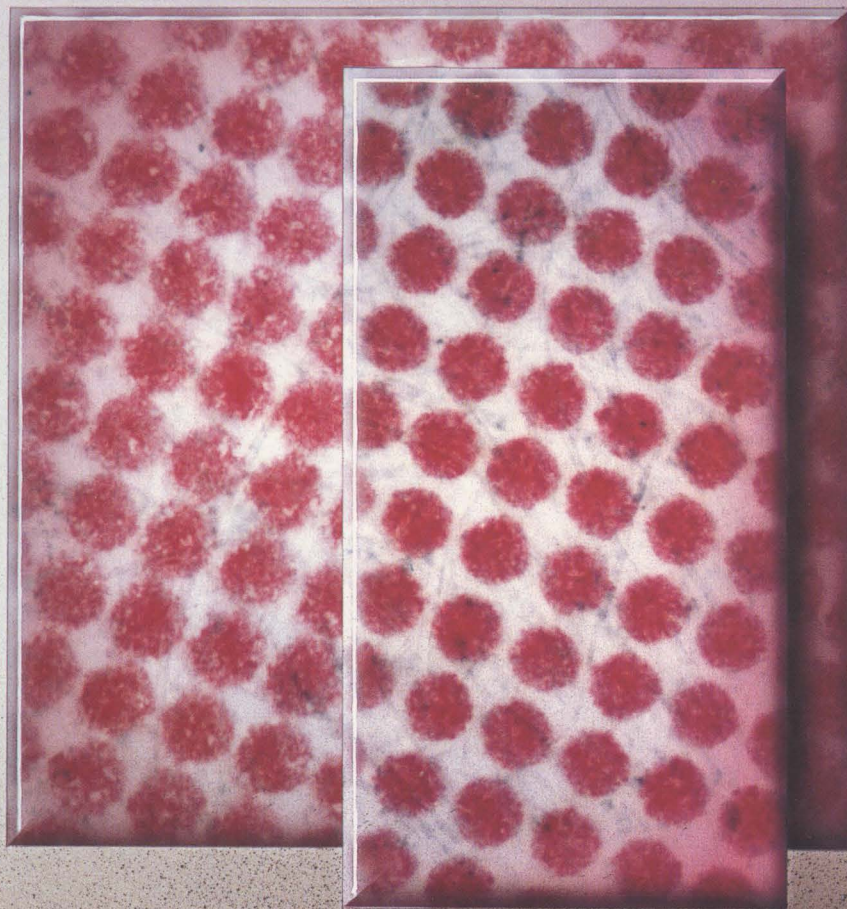


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PENWEST's strategic intent is to be
the world's leading
manufacturer and supplier of natural
polymer-based specialty
chemicals and food ingredients.

Annual Report
~~DESK~~
STACK

ANNUAL REPORT 1989



THE COMPANY

PENWEST develops, manufactures and markets specialty carbohydrate and synthetic polymer chemicals for papermaking. The company also produces and markets specialty food ingredients and agricultural nutrition supplements. PENWEST's principal source of revenue is Penford Products Co., the paper industry's major supplier of chemical starch coatings. Penford's plants are in Cedar Rapids, Iowa, and Idaho Falls, Idaho.

PENWEST's corporate headquarters are at 777 108th Avenue NE, Suite 2390, Bellevue, WA 98004, telephone (206) 462-6000.

"ON THE COVER"

The cover photo dramatizes a major specialty product breakthrough. The image is an ink dot pattern on an offset printed sheet of paper, magnified 65 times. The left portion is on paper made with traditional materials. On the right is the same paper and same ink, but the paper has been made with a new, innovative Penford product. To the printer—the final customer—this new product will mean more accurate color reproduction, a sharper visual image, greater consistency and lower cost.

The fine printing papers in this annual report have been treated with specialty starch products developed and sold through PENWEST's Penford Products Co.

INCOME FROM CONTINUING OPERATIONS

Dollars in millions



Financial Highlights

	Year Ended August 31				
	1989	1988	1987	1986	1985
	(Thousands of dollars except per share data)	(Restated)	(Restated)	(Restated)	(Restated)
OPERATING DATA (CONTINUING OPERATIONS):					
Net sales	\$79,826	\$65,819	\$64,004	\$66,671	\$70,343
Income from continuing operations	5,562	6,979	6,022	2,011	2,448
Earnings per share	1.02	1.22	1.07	0.31	0.40
Average shares outstanding	5,442,571	5,711,133	5,653,934	6,503,054	6,069,310
Effective tax rate	29.6%	33.8%	45.2%	47.2%	50.2%
BALANCE SHEET DATA:					
Total assets	95,965	107,933	96,002	93,917	107,813
Total liabilities	46,328	72,204	68,335	68,345	86,498
Current assets	53,582	36,085	32,623	28,790	36,282
Current liabilities	12,980	11,326	16,634	10,678	13,230
Working capital	40,602	24,759	15,989	18,012	23,052
Revolving credit	19,350	8,775			
Long-term debt	4,300	40,681	39,747	45,876	61,879
Shareholders' equity	49,637	35,729	27,667	25,572	21,315
Capital expenditures	7,591	8,471	4,605	1,976	1,296

Restated to reflect discontinued operations. See Note H to the financial statements.

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EARNINGS PER SHARE

Dollars

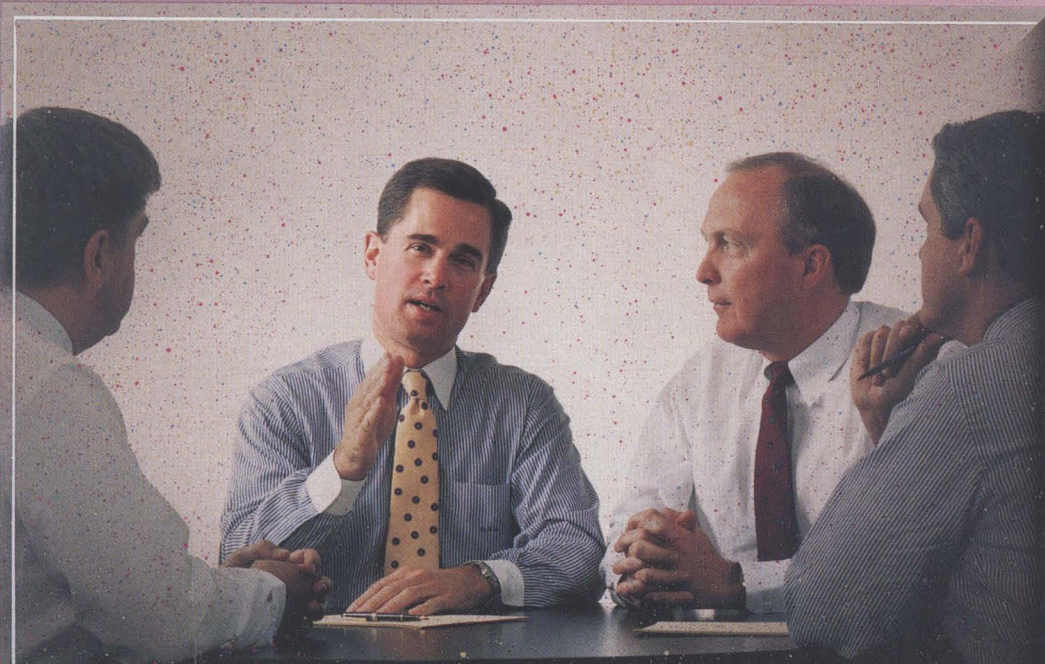


GROSS MARGIN

Percent



TOD HAMACHEK was named president and chief executive officer of PENWEST in 1985 after having served as president, chief operating officer and a director since 1984. He previously was senior vice president of the manufacturing group of Univar Corporation, PENWEST's parent. He earned his B.A. degree at Williams College and his M.B.A. from the Harvard Business School.



“
PENWEST has a single strategic mission:
the enhancement of long-term
shareholder value.
The key to it lies in serving our
customers better, in developing new,
innovative products that
make our customers more successful.
Their success will be ours.”

RETURN ON EQUITY



PRETAX PROFIT ON SALES



INTEREST EXPENSE



“On the cover of this annual report we announce our strategic intent to be the world's leading manufacturer and supplier of natural polymer-based specialty chemicals and food ingredients. “As we close the books on fiscal 1989 and prepare for a new decade, that is where we'd like to focus our shareholders' attention. “We completed the year as the paper industry's leading supplier of specialty chemical starches for coatings, with volume and market share up from year-ago levels. We have a very strong foundation on which to build. We also are a much different company now than we were a year ago. “PENWEST is better positioned to serve our basic shareholder mission: to create the maximum value growth for our shareholders through long-term profit on invested capital and the growth of that capital.

BUILDING SHAREHOLDER VALUE

“We implemented many of the major elements of a plan we first told you about last year. “We completed the sale of Great Western Malting. Great Western was a major asset and a source of reliable cash flow, but it generated an insufficient return on invested capital. “After-tax cash from that divestiture helped pay down debt, fund an intensified R & D effort at Penford Products Co., finance a buy-back of PENWEST shares, and launch an acquisitions drive. “Total debt was reduced by \$28.4 million, to \$24.1 million, changing our debt-to-equity ratio to 0.5 from 1.5. “Penford Products—our core business that produces specialty chemical starches for the paper and textile industries—had an especially exciting year of growth and achievement. “Penford recorded steadily increasing demand for its specialty product lines and took aggressive steps to develop new and innovative products that will further strengthen the division's leadership in niche markets. One of these products in particular offers significant opportunities for sales and earnings growth in the mid term. Details will be announced at the annual shareholder meeting on February 6. “In this report we want to focus special attention on the R & D group, and the way that group works as a team with our sales and marketing people. Research and development plays a central role in our strategic growth plan. Five years from now half of what we sell will be new to the market. “Also contributing to shareholder value during the year was a stock repurchase program in which the company bought back about 836,000 shares. The net effect is to reduce the total shares outstanding, creating a corresponding increase in earnings per share. “We actively sought acquisitions during 1989. In all, we reviewed 250 possible candidates, and studied 80 closely. Some of the candidates were independent companies while others were divisions of larger organizations. We don't view acquisitions as a separate vehicle of growth. Rather, they must fit our current corporate strategy by bringing with them complementary technologies, geographical expansion and/or product line extensions. We have firm criteria for the return any such investment must generate, and we're proceeding in a deliberate fashion.

Continued next page

OTHER HIGHLIGHTS

“Earnings were strong in the third and fourth quarters but were down for the full year because of the 1988 drought’s effect on margins in the first half. “Fourth-quarter net income from continuing operations was \$1.9 million, or 37 cents per share, up from \$1.7 million, or 28 cents per share, in the comparable period last year. Sales were \$19.7 million, up from \$17.2 million. “Earnings for the year from continuing operations were \$5.56 million, or \$1.02 per share, compared with \$6.98 million, or \$1.22 per share. Sales were \$79.8 million, up from \$65.8 million. “Net income for the year, which included the sale of Great Western Malting, was \$33.3 million, or \$6.12 per share. “Although a drought is impossible to

FINANCIAL GOALS

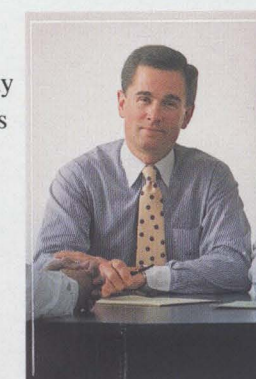
PENWEST has aggressive long-term financial goals: A 20 percent after-tax return on major capital expenditures; a 15 to 20 percent average growth rate for net profits; return on operating capital (interest-bearing debt plus shareholders’ equity less cash) of 18 to 25 percent.

predict, we have adopted a hedged purchasing strategy that should offer our margins much more protection against any sudden future increases in our raw materials costs. “Paper industry sales softened somewhat during the year. Coated and uncoated free sheet segments—which account for approximately 90 percent of Penford’s sales—were down 2 to 3 percent. Despite the paper industry dip, Penford saw strong increases in both volume and dollar sales. “To meet growing demand for Penford’s specialty products, the Cedar Rapids plant was expanded by 40 percent at a cost of \$15 million. An additional \$16 million is earmarked for improvements there. Capacity at the potato starch plant in Idaho Falls, Idaho, was increased by 80 percent, an expansion which came on line after the close of the fiscal year. The plant produces products for the ‘wet end’ of papermaking. Volume for the plant was up 45 percent during the year even though we exhausted capacity in the second half. “We initiated a new form of compensation for our R & D group. Development teams are given an opportunity to acquire ‘shares’ of new products, becoming, in effect, equity owners of product lines. PENWEST will ‘make a market’ in these shares, buying them back from employees after a period of time. The value of the shares will rise and fall with the success of the products themselves. We hope this compensation plan will help keep everyone’s focus on the marketplace, and on creating products which help our customers meet their competitive objectives. We believe many talented technicians and scientists are promoted into administrative positions which don’t challenge their creativity. Some of our people told us they’d like an environment in which they could earn more money and go forward in their careers without having to leave the lab. We thought that made good sense. “We opened new markets overseas during the year, and shipped products to mills in Europe, Mexico and South America. Offshore sales currently comprise only a small percentage of the total, but they have good growth potential. “When we sold Great Western, we retained Pacific Cogeneration (PACCO), a power generating plant in Vancouver, Washington. PACCO provides the thermal needs for the Great Western plant and sells power to an adjoining public utility district. It

has been a good investment for us, and we may investigate other opportunities in the field. “As we enter the 1990s, we are very close to the targets we envisioned after the company’s spinoff from Univar Corporation five years ago. PENWEST was heavily leveraged at the time, and our initial tasks were to maximize cash flow and retire debt. At the same time, we developed our higher-margin business, building a new management team at Penford and launching an aggressive marketing and R & D capability there. As we sharpened our definition about the returns we expect from our shareholders’ investment, it became clear that a major portion of our asset base would have to be shed, and the resources redeployed. We acted decisively in these matters.

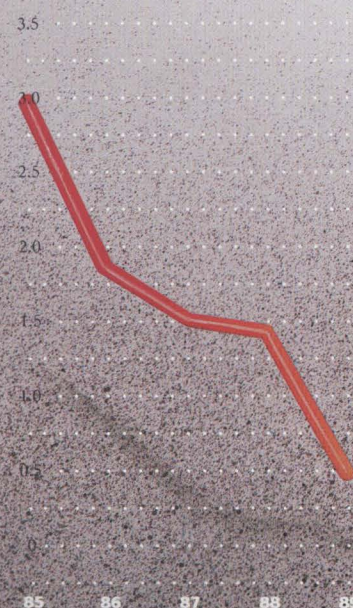
MANAGING FOR LONG-TERM RESULTS

“Those who are familiar with PENWEST know that we focus, with single-minded determination, on building shareholder value—on creating wealth. We create wealth by becoming more valuable to our customers, by keeping our customers in the center of our field of vision, by developing new and innovative products and services, and by being a partner to our customers all over the world. That partnership commands that our resources be harnessed to the needs of our customers, to improve things, to make quality more accessible, to help them compete more effectively. “As we grow, we will insist that our people take a long-term view of things. Too much of American business, in our opinion, is managed in fits and starts, quarter-to-quarter, with increasing external pressures from a handful of influential institutional investors. “We believe genuine wealth is created over the long haul, by building businesses that serve real needs, by gathering diverse resources and bringing them together for a mutual purpose. At PENWEST, that purpose, building long-term shareholder value, will be served through strategic thinking, by considering today where we must be in five years, and by making the investment today that will get us there. We are much more interested in achievement over time than in our earnings per share for any particular quarter. “It takes time to build something right, so that it lasts. While our company and our people have achieved much in a short time, we believe it is because we hold long-term values. We are very excited about our company and our prospects. Our management people and I believe that we are well along on a path of discovery, that our future as a company is ours to control. We bring to the task a broad array of resources and a relentless commitment to succeed. “In the pages which follow, we’ll hear from key members of the R & D committee at Penford. We thought shareholders might like to learn about our values, expectations and priorities. We asked some of our managers to say what was on their minds.”



Tod R. Hamachek
Tod R. Hamachek
President and Chief Executive Officer

INTEREST-BEARING DEBT TO EQUITY RATIO

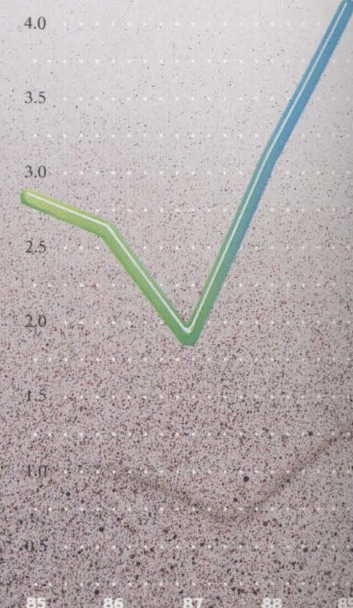


DEBT

Dollars in millions



CURRENT RATIO



BOOK VALUE PER SHARE

Dollars



STEVE ABELL has been vice president of research and development at Penford Products Co. since 1986. He previously was manager of paper resins technology at the Monsanto Company. Steve earned his undergraduate degree at Clarkson College and his M.S. and Ph.D. at the University of Illinois.

“The only innovation we’re interested in is innovation from the market. If it won’t do a better job for our customers, provide them with a competitive advantage, it won’t be on our R & D agenda.”

“Papermakers have a long and growing wish list. Many of these wishes are driven by *their* customers. They want general things like higher quality and improved printability. They want specific things like a way to increase opacity without increasing coating thickness. They want wet-end systems that are less sensitive to chemical upsets. They want lower costs, lower effluent loads, greater product consistency, better solids retention aids that allow for faster machine speeds—it’s a long list.”

“At the root of it, our customers want results. To the extent that results can be achieved technically, we are an important resource to them.”

“We do a good job of listening to our customers. That’s critical, because an R & D effort that doesn’t listen is just wheel-spinning. We cannot afford to commit time and resources to products that may have an uncertain market reception.”

“The R & D unit at Penford is small but very creative and efficient. We are becoming more widely known as the industry experts in starch chemistry. Our long-term goal is to be indispensable to the world’s major papermakers. To reach that goal we provide value through the products we develop, the technical advice we offer and the seminars we conduct.”

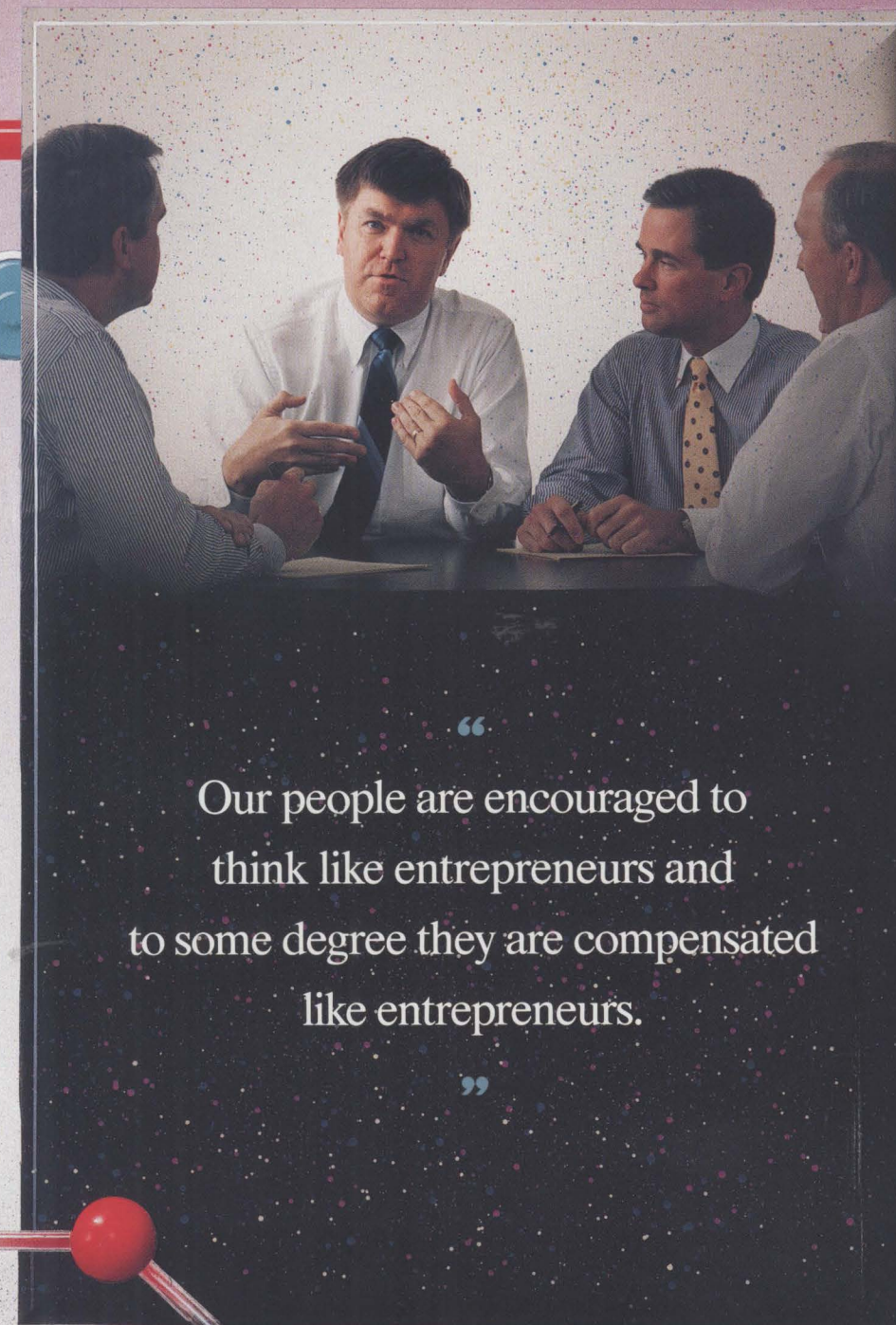
“Our people are encouraged to think like entrepreneurs and to some degree they are compensated like entrepreneurs. Because a portion of our scientists’ future compensation will be based on the sales success of new products they help develop and commercialize, they are learning to think in marketplace terms. Highly creative and productive people who don’t want to be promoted out of the lab won’t have to be. They can choose other kinds of recognition.”

“We have successfully compressed the life cycle of new product development. We go from prototype to production as quickly as possible, as soon as we’re satisfied that we can meet and sustain our standards. You can over-analyze sometimes. We bring to R & D a strong bias toward action.”

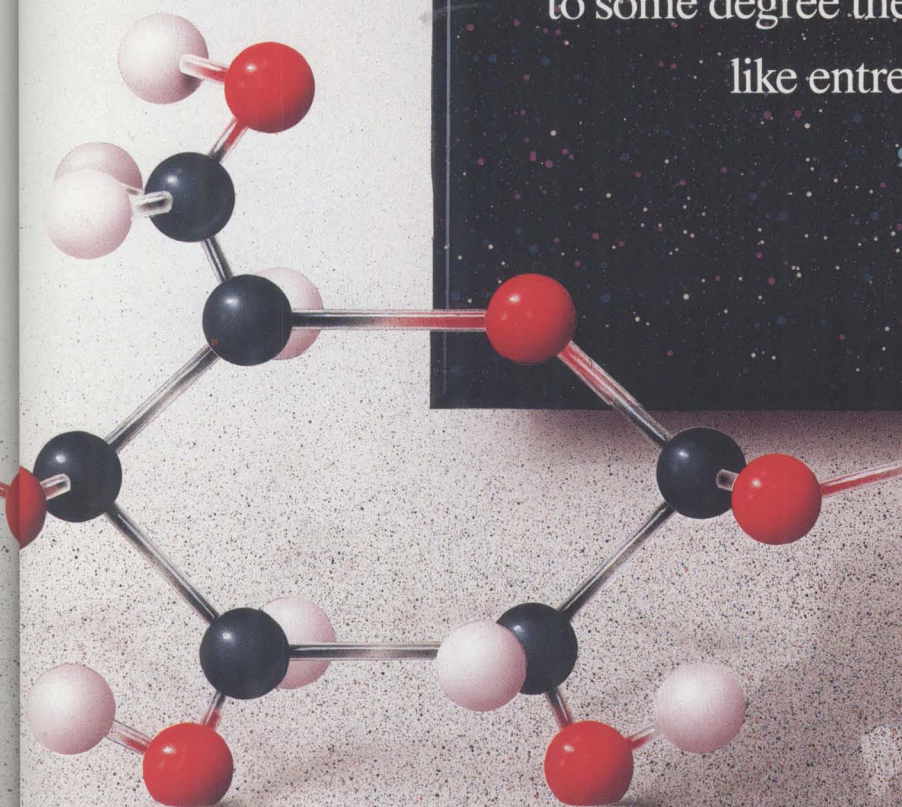
“Our group hosts up to three dozen technical seminars in a typical year. These sessions are not sales pitches, but are genuinely designed to share information with our customers, information we’ve developed over decades of research. The seminars underscore our expertise, but they’re also a valuable opportunity for us to listen to our customers and keep current with what’s going on, technically speaking, in the industry.”

“In the last couple of years we’ve significantly expanded our R & D capability. We’re looking beyond carbohydrate technology, which is our specialty, to synthetic polymers, among other things.”

“But we will remain dedicated to our basic business, which is providing papermakers with solutions to their problems.”

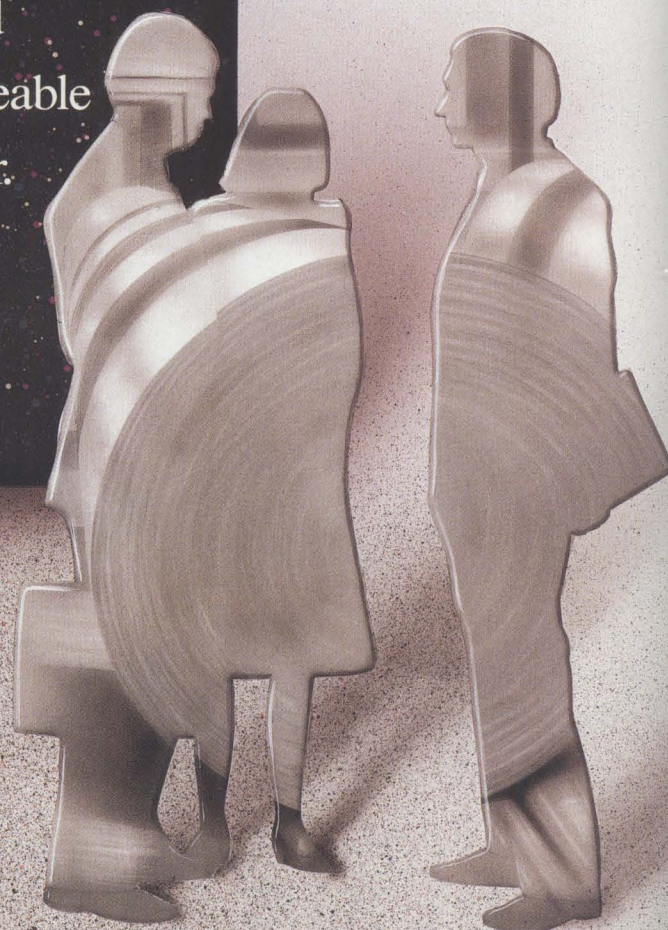


“Our people are encouraged to think like entrepreneurs and to some degree they are compensated like entrepreneurs.”





“Our customers want a partnership they can rely on—in good times and bad—for the foreseeable future. We are that partner.”



DICK LYNCH became vice president of marketing at Penford Products Co. in 1986 after serving in product management at Engelhard Minerals and in sales at Crown-Zellerbach. He is a graduate of Middle Tennessee State University and subsequently completed marketing and papermaking studies.

“We can and do work 24-hours a day when one of our products is running in a mill test. There’s a lot at stake for our customer, there’s a lot at stake for us. When we are there, on the machine at 3 in the morning, we are providing technical advice but we’re also making a statement. We are saying to our customers: We are your partners in papermaking. When you buy our products you also buy our expertise...and our commitment.”

“You hear a lot about customer-driven companies these days. To some it’s just a buzzword. To us it is a way of life. We are fanatic about providing quality products and the best service to our customers. We believe absolutely that we are the best in our industry, but we know we can be better.”

“Penford is a resource to our customers, not just a supplier. We put that resource at the disposal of our customers. We tell them, in effect, ‘Here are some of the brightest and most innovative starch chemists in the industry. How can they help you add value to your paper products?’”

“We have a hotline for customers who want to reach us during off-hours. They can get through to any of our top technical or marketing people anytime, either at home or at the plant.”

“Our customers are offered a Penford Performance Check (PPC) at no cost. The PPC is a kind of in-plant audit to determine if customers are using the right product at the right rate in the proper position on the paper machine.”

“Our customer technical service representatives are equipped with laptop computers to predict product performance characteristics under varying manufacturing conditions. No two papermakers use exactly the same production procedures.”

“Ninety-five percent of our business comes from the paper industry. We’re not going to divert our production capacity to other products. That’s important to our customers.”

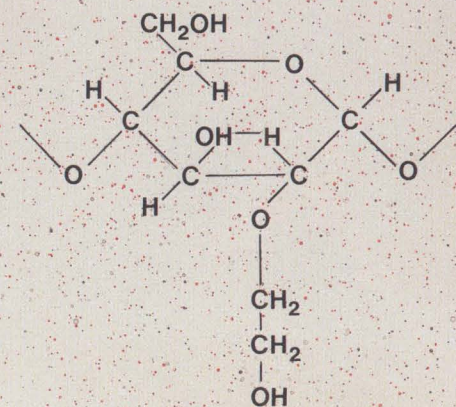
“We offer a guaranteed on-time shipment program. If the product is not shipped on the agreed date, the customer gets an instant discount right on the invoice.”

“Our customer technical sales representatives are veterans. They all have technical degrees, typically in chemistry or chemical engineering. Some have advanced degrees.”

“We spend a great deal of money each year sending these people to advanced training in papermaking and paper coating. They know how to listen and ask questions as well as sell—and they sell the benefits of our products as well as the technology.”

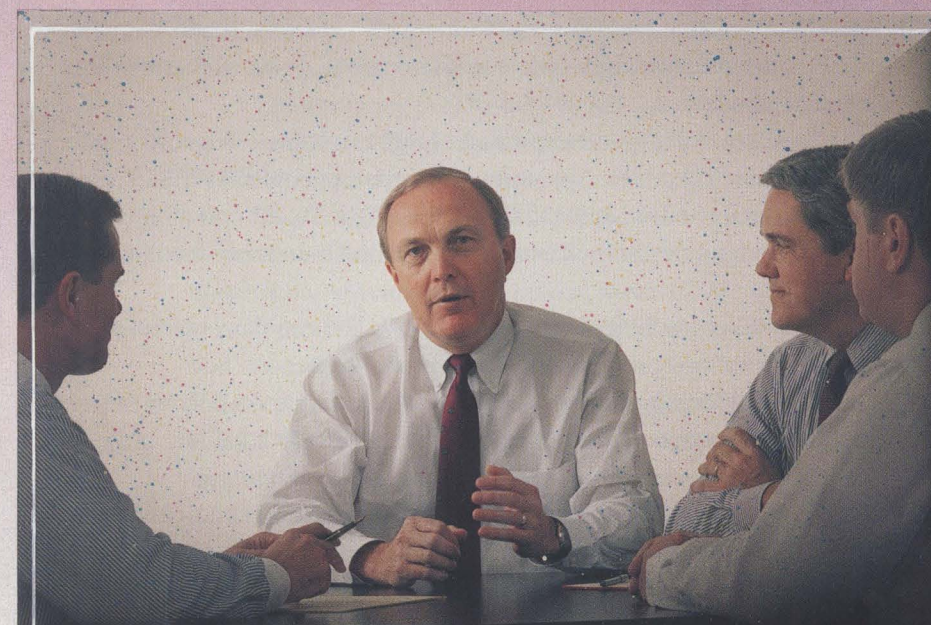
“We work with our R & D people to translate what customers tell us they need into products they will buy. Our complete line of specialty starches—Penford Gums and cationic corn and potato starches—were designed with customer input. There will be more, and it will be sooner rather than later.”

“We have an inside joke that our biggest challenge is to constantly put ourselves out of business. What we mean by that is that papermaking chemistry is constantly changing. Our customers want better quality, higher reliability and faster machine speeds. They want a partnership they can rely on—in good times and bad—for the foreseeable future. We are that partner.”

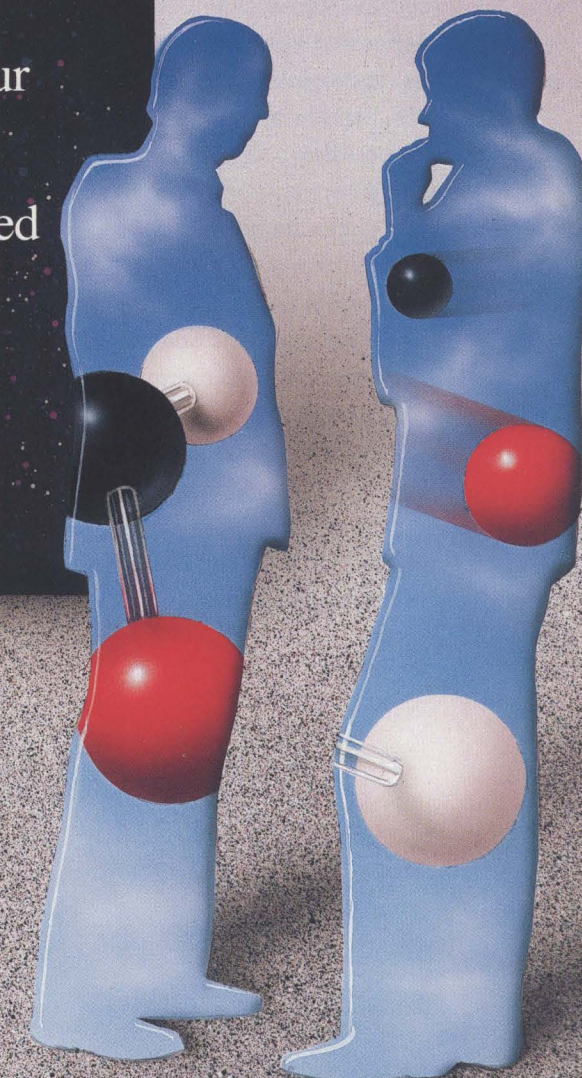
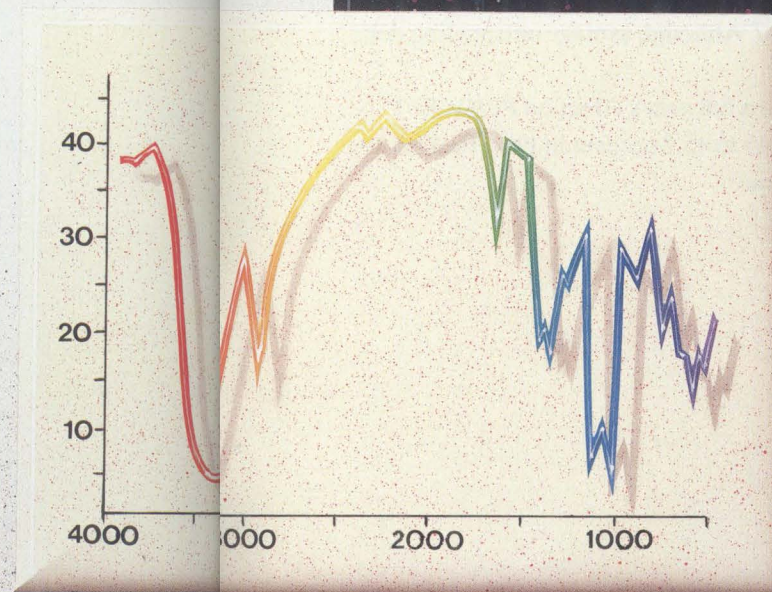


TOM REED
was appointed president
and general manager of
Penford Products Co. in
1985 after a 25-year career
at the Mead Corporation,
most recently as vice
president of marketing. His
career at Mead also
included posts in engineer-
ing, manufacturing, sales
and strategic development.
He was graduated from
North Carolina University
and afterward completed
studies at the University
of Virginia.

“Right now the paper industry is in a state of change. Our role, as a major supplier of specialty chemicals, is not to adapt to change, but to help initiate it, to place our research and development capabilities in the slipstream of change and help our customers meet their objectives. “Our challenge is to remain important to major producers in the paper industry. Penford’s expertise in specialty chemicals is unmatched. For 40 years there have been no *major* innovations in specialty chemicals for the size press and coatings. We will change that in 1990. “We are a lean, close-knit, highly focused team with a clear mission. Penford offers papermakers a complete portfolio of specialty carbohydrate chemical products, services, and innovative product application techniques. We improve quality and productivity by customizing our know-how to individual producers’ needs. And we quantify the benefits of our products. “One of our strengths is that Penford is a relatively small company. Our team asks, listens and acts. To lend urgency to new product development efforts, we use product commercialization teams. The teams include research, marketing, manufacturing and finance talent in order to get our new products into the marketplace as early as possible. We believe speed is a customer need. “Management at all levels is close to our customers. We stress a continuing dialogue with customers, getting to understand their short- and long-term needs. Informal dialogue is encouraged through technical seminars, and by having customers visit our facilities. We have started a practice of having production line employees visit customers. “Naturally I make regular visits to customers, not only to present our products and services but to personally determine how we’re doing. I’m pleased that we are doing very well. I also call on several key suppliers, who are important to Penford. We want to enhance those relationships. “We have a decided people orientation. One of management’s most important jobs is to establish and sustain an environment in which the energies and creativity of people can be released productively. “Our people share basic values. We believe success usually requires hard work. Some risk is unavoidable and some mistakes are inevitable. But failure is intolerable. We keep our word. We reach for excellence in all that we do. “New ideas are vital to our growth, but they must succeed or fail on their merits in the marketplace. “Penford Products has been successful because we have kept our customers as our primary focus, and because we have delivered on our promises. Many things will change in our business climate in the years ahead. But one of the things that won’t change is our focus on customers. When we look to the future, we don’t see record sales and earnings. We see new ways of serving the papermakers of the world. As we find those ways, sales and earnings will follow.”



“
Penford Products has been
successful because we have kept our
customers as our primary
focus, and because we have delivered
on our promises.
”



Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

COMPARISON OF FISCAL 1989 TO 1988 RESULTS

Sales increased \$14.0 million, or 21 percent during 1989. Volume at Penford Products Co. was up 10 percent with unit price increases accounting for the rest of the change. Price increases reflected the higher cost of corn caused by the 1988 drought.

Gross margins declined from 31.7 percent to 23.0 percent because of higher raw materials costs resulting from the drought and higher commodity chemical prices. Approximately 50 percent of PENWEST's sales are priced on an annual basis and were not fully hedged at the time of the drought. By the end of the second quarter, as the contracts were renegotiated, margins returned to more normal levels and remained favorable for the balance of the year.

Operating expenses increased \$2.0 million, or 22.0 percent during 1989. The company increased expenditures for research and development for new products and acquisition searches.

Proceeds from the sale of Great Western Malting Co. have been invested in short-term instruments until the funds are required for business expansion opportunities. Investment income was \$3.5 million; there was no investment income in 1988.

Interest expense doubled in 1989 to \$2.9 million. The expense is higher than last year's amount because a significant amount of interest in 1988 was allocated to discontinued operations, based on net tangible assets employed.

Income tax expense was \$2.3 million at an effective rate of 29.6 percent. PENWEST's rate is less than the federal statutory rate of 34.0 percent because of non-taxable investment income and a reversal of deferred taxes.

Net income was \$5.6 million, down \$1.4 million from 1988. Earnings per share were \$1.02 against \$1.22 in 1988. The weighted average shares outstanding declined to 5.4 million from 5.7 million due to stock repurchases which totalled approximately 836,000 shares. There were 4.7 million shares outstanding as of August 31, 1989, excluding common stock equivalents.

COMPARISON OF FISCAL 1988 TO 1987 RESULTS

A sales increase coupled with lower tax rates brought record profits to PENWEST in 1988. Sales increased \$1.8 million, almost 3 percent, to \$65.8 million. Volumes shipped at Penford Products Co. were down slightly from 1987 but prices were up nearly 4 percent. Most of the price increases occurred in the last two quarters of the fiscal year, as the drought began impacting raw materials costs.

Gross margins declined to 31.7 percent from 33.1 percent. Although raw materials costs were up and sales volumes were down, the gross margin in dollars was steady because of the shift in sales mix to higher-margin ethylated starches. Approximately half of Penford's sales are negotiated annual contracts. Substantially all of these contracts were renegotiated in the second quarter of fiscal 1989.

Operating expenses went up 4 percent to \$8.9 million. The increase was in line with general price level changes.

Interest expense in 1988 was \$1.4 million, down 14 percent from 1987. Although average outstanding debt didn't change significantly, the overall average interest rate was lower.

The change in tax rates caused by the Tax Reform Act of 1986 had a full year's effect on PENWEST in 1988. PENWEST's effective tax rate in 1988 was 33.8 percent compared to 45.2 percent in 1987. Had tax rates remained the same in 1988, taxes would have gone up by \$1.2 million.

Great Western Malting was sold in March 1989 for approximately \$120 million. About \$82 million of the proceeds were used for three purposes:

The company purchased 700,000 shares of common stock at \$23 per share in a Dutch auction which closed in March. Secondly, tax payments of \$22 million on the gain were paid. Finally, long-term debt of \$44 million was retired.

PENWEST is in a highly liquid position as a result of the Great Western sale. Almost 40 percent of our assets are in short-term investments. In addition, the company has a three year, \$25 million revolving credit agreement. At year-end, \$23 million was available under this agreement.

Operating cash flow from our continuing businesses was \$11.9 million. Capital expenditures of \$7.6 million were funded from this cash flow. The largest projects were a starch dryer and grind expansion at Cedar Rapids and the Idaho Falls capacity enlargement. The latter two projects will be on line in early fiscal 1990. Capital expenditures in fiscal 1990 will be between \$10 million and \$12 million and will be funded from operations and, if necessary, from short-term investments.

Our new capacity will allow us to satisfy order growth for fiscal 1990. We will continue to invest aggressively in new products, one of which will be announced in the second fiscal quarter. We anticipate refinancing the long-term secured notes which were paid off on August 31, 1989, with a \$15-\$20 million long-term debt issue in mid-1990. The interest rate on the new issue will be comparable to the old debt because the interest rate risk has been hedged. We expect to continue our program of open market purchases of common stock into 1990.

In December 1987, the Financial Accounting Standards Board issued Statement No. 96 "Accounting for Income Taxes" adopting the liability method of accounting for deferred income taxes. Statement No. 96 must be adopted by PENWEST no later than the fiscal year ending August 31, 1991. Deferred taxes will be adjusted to reflect federal income tax rates in effect at the time of adoption. Should the tax rates remain at present levels, the gain from adoption would be approximately \$2.3 million. The company intends to adopt Statement No. 96 in fiscal 1991.

Consolidated Statements of Income

Year Ended August 31

(Thousands of dollars except per-share data)	1989	1988	1987
		(Restated)	(Restated)
Sales	\$79,826	\$65,819	\$64,004
Cost of sales	<u>61,502</u>	<u>44,980</u>	<u>42,826</u>
Gross margin	18,324	20,839	21,178
Operating expenses	<u>10,957</u>	<u>8,939</u>	<u>8,611</u>
Income from operations	7,367	11,900	12,567
Investment income	3,463		
Interest expense	<u>(2,935)</u>	<u>(1,352)</u>	<u>(1,567)</u>
Income from continuing operations before taxes	7,895	10,548	11,000
Income taxes	<u>2,333</u>	<u>3,569</u>	<u>4,978</u>
Income from continuing operations	5,562	6,979	6,022
Income from discontinued operations:			
Operating results, net	5,344	2,566	3,111
Gain on sale, net	<u>22,404</u>		
	<u>27,748</u>	<u>2,566</u>	<u>3,111</u>
Net income	<u>\$33,310</u>	<u>\$ 9,545</u>	<u>\$ 9,133</u>

EARNINGS PER COMMON SHARE:

Continuing operations	\$1.02	\$1.22	\$1.07
Discontinued operations	<u>5.10</u>	<u>0.45</u>	<u>0.55</u>
	<u>\$6.12</u>	<u>\$1.67</u>	<u>\$1.62</u>

WEIGHTED AVERAGE COMMON SHARES

AND EQUIVALENTS OUTSTANDING

5,442,571	5,711,133	5,653,934
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The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

August 31 (Thousands of dollars)

1989

1988

ASSETS

(Restated)

CURRENT ASSETS:

Cash	\$ 625	\$ 201
Investments	38,146	
Trade accounts receivable (net of allowance for doubtful accounts of \$220 in 1989 and \$107 in 1988)	7,940	7,304
Inventories	5,788	6,121
Prepaid expenses and other	1,083	428
Net current assets of discontinued operations		22,031
Total current assets	<u>53,582</u>	<u>36,085</u>

PROPERTY, PLANT AND EQUIPMENT:

Land	1,137	1,137
Plant and equipment	74,752	67,419
Less accumulated depreciation	33,879	29,145
Net property, plant and equipment	<u>42,010</u>	<u>39,411</u>
Other assets	373	319
Net non-current assets of discontinued operations		32,118
	<u>\$ 95,965</u>	<u>\$107,933</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 7,044	\$ 5,588
Current portion of long-term debt	493	3,059
Reserve related to discontinued operations	2,609	
Accrued liabilities	2,834	2,679
Total current liabilities	<u>12,980</u>	<u>11,326</u>
Long-term debt	23,650	49,456
Deferred income taxes and other	9,698	11,422

SHAREHOLDERS' EQUITY:

Common stock — issued 5,638,849 in 1989 and 5,615,016 in 1988; outstanding 4,713,609 in 1989 and 5,526,626 in 1988	5,639	5,615
Additional paid-in capital	11,935	11,761
Retained earnings	53,064	19,754
Treasury stock	(21,001)	(1,401)
Total shareholders' equity	<u>49,637</u>	<u>35,729</u>
	<u>\$ 95,965</u>	<u>\$107,933</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Year Ended August 31

(Thousands of dollars)	1989	1988	1987
		(Restated)	(Restated)
OPERATING ACTIVITIES:			
Income from continuing operations	\$ 5,562	\$ 6,979	\$ 6,022
Adjustments to reconcile income from continuing operations to net cash from (used by) continuing operations:			
Depreciation	4,902	4,284	3,912
Deferred income taxes	(722)	(416)	(58)
Other	(169)	63	182
Change in assets and liabilities:			
Receivables	(636)	(1,530)	1,015
Inventories	333	(2,190)	(946)
Other current assets	(655)	34	68
Accounts payable and other current liabilities	3,333	(5,838)	5,737
	11,948	1,386	15,932
Income from discontinued operations	27,748	2,566	3,111
Gain on sale of discontinued operations, net	(22,404)		
Adjustments to reconcile income from discontinued operations to net cash from (used by) discontinued operations	553	(5,649)	(1,372)
	5,897	(3,083)	1,739
Net cash from (used by) operating activities	17,845	(1,697)	17,671
INVESTING ACTIVITIES:			
Additions to plant and equipment	(7,591)	(8,471)	(4,605)
Proceeds from sale of discontinued operations	76,000		
Sale (purchase) of investments	(38,146)	725	(725)
Other	90	32	48
Net cash from (used by) investing activities	30,353	(7,714)	(5,282)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	10,575	12,875	
Payments on long-term debt	(38,947)	(2,636)	(5,910)
Purchase of treasury stock	(19,600)	(1,401)	
Exercise of stock options	198	56	62
Redemption of shareholders' rights		(138)	
Purchase of warrant			(7,100)
Net cash from (used by) financing activities	(47,774)	8,756	(12,948)
Net increase (decrease) in cash	424	(655)	(559)
Cash at beginning of year	201	856	1,415
Cash at end of year	\$ 625	\$ 201	\$ 856
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest (net of capitalized interest)	\$ 4,476	\$ 3,950	\$ 4,025
Income taxes	28,826	11,983	373

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity
(Thousands of dollars)					
BALANCES, SEPTEMBER 1, 1986:	\$2,774	\$11,689	\$11,109		\$25,572
Net income			9,133		9,133
Retirement of warrant			(7,100)		(7,100)
Exercise of stock options	22	40			62
100 percent stock split	2,795		(2,795)		
BALANCES, AUGUST 31, 1987:	5,591	11,729	10,347		27,667
Net income			9,545		9,545
Exercise of stock options	24	32			56
Redemption of shareholders' rights			(138)		(138)
Purchase of treasury stock				\$ (1,401)	(1,401)
BALANCES, AUGUST 31, 1988:	5,615	11,761	19,754	(1,401)	35,729
Net income			33,310		33,310
Exercise of stock options	24	174			198
Purchase of treasury stock				(19,600)	(19,600)
BALANCES, AUGUST 31, 1989:	<u>\$5,639</u>	<u>\$11,935</u>	<u>\$53,064</u>	<u>\$(21,001)</u>	<u>\$49,637</u>

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

NOTE A:

SUMMARY OF

SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION The consolidated financial statements include PENWEST and its wholly-owned subsidiaries. Material intercompany balances and transactions have been eliminated.

DISCONTINUED OPERATIONS The consolidated financial statements for 1988 and 1987 have been restated to reflect the Great Western Malting Co. division as discontinued operations.

CASH PENWEST's cash management system operates so that a cash overdraft for uncleared checks exists in the disbursing accounts. Cash in the accompanying balance sheets represents amounts yet to be transferred to the disbursing accounts. Uncleared checks of \$1,870,000 and \$1,159,000 are included in accounts payable at August 31, 1989 and 1988, respectively.

INVESTMENTS Investments are carried at cost and consist of preferred stock, short-term municipal notes and commercial paper. The market value of the portfolio approximates cost.

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are recorded at cost. Expenditures for maintenance and repairs are expensed as incurred. The company uses the straight-line method to compute depreciation for financial reporting purposes. For income tax purposes, the company generally uses accelerated depreciation methods.

Interest is capitalized on major construction projects while in progress. For continuing operations, interest of \$300,000, \$158,000 and \$132,000 was capitalized during the fiscal years ended August 31, 1989, 1988 and 1987, respectively.

INCOME TAXES Deferred income taxes are provided on timing differences between financial and income tax reporting methods. Investment tax credits were accounted for by the flow through method as a direct reduction of the current federal income tax provisions.

EARNINGS PER SHARE Earnings per common share were computed by dividing net income by the weighted average number of common shares and dilutive common share equivalents outstanding during the fiscal year. Outstanding stock options are considered to be common share equivalents.

SEGMENT INFORMATION PENWEST's primary business segment is developing, manufacturing and marketing specialty carbohydrate and synthetic polymer chemicals for papermaking. No single customer accounts for more than 10 percent of sales.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform with current year presentation.

NOTE B:

INVENTORIES

Inventories and deferred gains and losses from hedging transactions are stated at the lower of cost or market. Cost, which includes material, labor and manufacturing overhead costs, is determined by the first-in, first-out (FIFO) method.

The company generally follows a policy of hedging corn purchases related to fixed price sales contracts to minimize risk due to market fluctuations. Gains and losses from these hedging transactions are deferred and included in inventory until such time as the corn is converted to finished goods and sold.

Inventories consist of:

August 31 (Thousands of dollars)	1989	1988 (Restated)
Raw materials, supplies and other	\$ 2,744	\$ 2,687
Work in progress	385	307
Finished goods	<u>2,659</u>	<u>3,127</u>
Total inventories	<u>\$ 5,788</u>	<u>\$ 6,121</u>

NOTE C:

LONG-TERM DEBT AND

REVOLVING CREDIT AGREEMENT

The long-term debt of PENWEST and its subsidiaries is as follows:

August 31 (Thousands of dollars)	1989	1988
Revolving credit agreement and uncommitted lines of credit	\$19,350	\$ 8,775
10.75 percent secured note		19,310
9.00 percent secured note		14,195
8.75 percent mortgages, three of which mature in December, 1989 and three of which are quarterly interest-only payments, with final maturity in October, 1990	4,793	6,270
8.20 percent Industrial Revenue Bonds		<u>3,965</u>
	<u>24,143</u>	<u>52,515</u>
Less current portion	<u>493</u>	<u>3,059</u>
Net long-term debt	<u>\$23,650</u>	<u>\$49,456</u>

The 8.75 percent mortgages are collateralized by property, plant and equipment.

Maturities of long-term debt and the revolving credit agreement for the fiscal years ending August 31, 1990 through 1992 are as follows (thousands of dollars):

1990	\$ 493
1991	4,300
1992	<u>19,350</u>
	<u>\$24,143</u>

The company has an unsecured revolving line of credit of \$25 million with four banks which expires on April 15, 1992. Borrowing rates available to the company under the revolver are at prime rate or less depending on the selection of borrowing options. PENWEST can elect to borrow under a prime rate option, certificate of deposit option, Eurodollar option, or Bankers' Acceptance option. Borrowings under the revolving credit agreement can be converted, at the option of PENWEST, to term notes due on the expiration date of the revolving credit agreement. The following relates to the company's borrowings under the revolver for the three years ended August 31, 1989.

(Thousands of dollars)	1989	1988	1987
Maximum amount outstanding	\$20,650	\$15,425	\$14,950
Average amount outstanding	6,403	7,159	6,208
Weighted average interest rate	10.19%	8.58%	8.06%

The company has uncommitted lines of credit which provide for financing at various floating rates. Since this debt can be refinanced through the current revolving credit agreement, it is classified as long-term.

The revolving credit agreement includes, among other terms, various limitations on long-term indebtedness, minimum net worth and working capital ratios, and restrictions on PENWEST's ability to purchase or redeem its own stock. Under the most restrictive of these terms, net worth at August 31, 1989 must be at least \$20 million. The term of this agreement is extended on an annual basis unless the commitments are withdrawn. If any bank withdraws, reduction of its commitment can be accomplished in four equal quarterly reductions commencing approximately one year after notice of election to withdraw.

The company has sold \$28 million of Treasury note futures to hedge the interest rate risk of anticipated long-term borrowings. The cost of the hedge is deferred and will be recognized as a component of interest expense over the life of the debt.

NOTE D:

STOCK OPTIONS

Under stock option plans, options have been granted to certain officers and key employees to purchase PENWEST common stock. Changes in stock options for the three years ended August 31, 1989, are as follows:

	1989	1988	1987	Price Range
				1989
Outstanding at beginning of year	554,124	582,600	163,000	\$3.13-19.13
Granted		73,330	474,200	
Exercised	(20,277)	(28,076)	(52,200)	3.13- 7.75
Cancelled	(1,200)	(73,730)	(2,400)	7.75
Outstanding at end of year	<u>532,647</u>	<u>554,124</u>	<u>582,600</u>	<u>\$3.13-19.13</u>
Exercisable at end of year	<u>67,061</u>	<u>48,298</u>	<u>32,000</u>	<u>\$3.13-19.13</u>

At August 31, 1989, 57,647 stock appreciation rights (SARs) were outstanding to certain officers under related stock option grants. The SARs were granted in December, 1986 and April, 1988 at the market price of PENWEST stock. As a result of appreciation and vesting of the SARs, \$230,000, \$30,000 and \$192,000 were charged to expense in 1989, 1988 and 1987, respectively. The SARs vest over a five-year period from the date of grant.

NOTE E:

INCOME TAXES

Income tax expense consists of the following:

	Year Ended August 31		
(Thousands of dollars)	1989	1988	1987
Current		(Restated)	(Restated)
Federal	\$ 2,772	\$ 3,765	\$ 4,786
State	283	220	250
	<u>3,055</u>	<u>3,985</u>	<u>5,036</u>
Deferred			
Federal	(700)	(400)	(44)
State	(22)	(16)	(14)
	<u>(722)</u>	<u>(416)</u>	<u>(58)</u>
Total provision	<u>\$ 2,333</u>	<u>\$ 3,569</u>	<u>\$ 4,978</u>

The sources of timing differences resulting in deferred income taxes and the tax effect of each consisted of the following:

	Year Ended August 31		
(Thousands of dollars)	1989	1988	1987
Depreciation	\$ (944)	\$ (730)	\$ (550)
Other	222	314	53
Reinstatement due to net operating loss and tax credit carryforward			439
Total deferred provision	<u>\$ (722)</u>	<u>\$ (416)</u>	<u>\$ (58)</u>

Reconciliation of the statutory federal tax to the actual provision is as follows:

	Year Ended August 31		
(Thousands of dollars)	1989	1988	1987
Statutory rate	34%	34%	44%
Statutory tax	\$ 2,684	\$ 3,586	\$ 4,840
State income taxes, net of federal tax benefit	186	180	220
Timing differences reversing at non-originating rate	(350)	(186)	
Non-taxable investment income	(313)		
Other	126	(11)	(82)
Total provision	<u>\$ 2,333</u>	<u>\$ 3,569</u>	<u>\$ 4,978</u>

In December 1987 the FASB issued Statement No. 96, "Accounting for Income Taxes," adopting the liability method of accounting for deferred income taxes. Statement No. 96 must be adopted by PENWEST no later than the fiscal year ending August 31, 1991. Under the provisions of Statement No. 96, PENWEST may recognize the impacts of adoption by recording the prior years' cumulative effect of the new rules entirely in the year of adoption or by restating all financial statements presented. Deferred taxes will be adjusted to reflect federal income tax rates in effect at the time of adoption. Should the tax rates remain at present levels, the gain from adoption would be approximately \$2,300,000.

NOTE F: PENSION AND OTHER EMPLOYEE BENEFITS

PENWEST maintains two pension plans that cover substantially all employees in noncontributory defined benefit pension plans.

Benefits under the plan for hourly employees are primarily related to years of service. Benefits for salaried employees are primarily related to years of credited service and final average five-year earnings. Employees generally become eligible to participate in the plans after attaining age 21, and benefits normally become vested after five years of credited service.

The company's funding policy is to contribute amounts to the plans sufficient to meet or exceed the minimum requirements of the Employee Retirement Income Security Act. Effective September 1, 1987, PENWEST adopted certain required provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," for both pension plans. Adoption of this statement did not affect the actuarial assumptions or methods used to determine funding policy.

Net periodic pension expense consisted of the following:

Year Ended August 31 (Thousands of dollars)	1989	1988
Service cost of benefits earned during the year	\$ 269	\$ 243
Interest cost on projected benefit obligation	1,003	1,026
Actual return on plan assets	(1,646)	326
Net amortization and deferral	1,139	(893)
Net pension expense	<u>\$ 765</u>	<u>\$ 702</u>

Total pension expense in 1987 was \$1,134,000.

Assumptions used in the accounting for pension plan expense in 1989 and 1988 included a discount rate of 9.06 percent (1988 — 9.59 percent), a rate of increase in compensation levels of 6 percent for the salaried employees, and an expected long-term rate of return on plan assets of 8 percent.

The following table sets forth the funded status of both pension plans as of August 31, 1989 and 1988:

Plans with an Obligation in Excess of Assets

(Thousands of dollars)	1989	1988
Actuarial present value of projected obligation, based on service to date and current salary levels:		
Vested	\$12,128	\$10,359
Nonvested	135	303
Accumulated benefit obligation	12,263	10,662
Effect of projected salary increases	781	737
Projected benefit obligation	13,044	11,399
Plan assets at fair market value	10,134	8,296
Projected benefit obligation greater than plan assets	(2,910)	(3,103)
Unrecognized actuarial net loss	986	874
Balance of unrecognized net obligation at transition being amortized over 15 years	1,901	2,028
Unrecognized prior service cost	212	
Net pension asset (liability) included in accrued liabilities	<u>\$ 189</u>	<u>\$ (201)</u>

Assets of the pension plans are invested in units of common trust funds managed by Frank Russell Trust Company. The common trust funds own stocks, bonds and real estate.

During fiscal 1989, the plans were amended to reduce the vesting period from 10 years to five years. This change created a prior service cost of \$212,000.

The company has a savings investment plan available to all employees, whereby it matches 40 percent of the employee's contribution up to 6 percent of the employee's pay. The expense of the plan was \$162,000, \$100,000 and \$119,000 for the fiscal years 1989, 1988 and 1987, respectively.

NOTE G:

SHAREHOLDERS' EQUITY

COMMON STOCK PENWEST's common stock has a par value of \$1.00 per share and 9,000,000 shares are authorized. At August 31, 1989 and 1988, there were 5,638,849 and 5,615,016 shares issued, respectively.

TREASURY STOCK Treasury stock is shown at cost and represents 925,240 and 88,390 shares of common stock held as of August 31, 1989 and 1988, respectively. During fiscal 1989, approximately 700,000 shares were acquired through a Dutch auction.

UNISSUED PREFERRED STOCK There are 1,000,000 shares of \$1.00 par value preferred stock authorized for issue; however, none are outstanding.

COMMON STOCK PURCHASE RIGHTS On June 16, 1988, PENWEST, LTD. distributed a dividend of one right ("Right") for each outstanding share of PENWEST common stock. In addition, previously outstanding Rights were redeemed for \$0.025 each. When exercisable, each Right will entitle its holder to buy one share of PENWEST's stock at \$66.00 per share. The Rights will become exercisable if a purchaser acquires 20 percent of PENWEST's common stock or makes an offer to acquire common stock. In the event that a purchaser acquires 20 percent of the common stock of PENWEST, each Right shall entitle the holder, other than the acquirer, to purchase one share of common stock of PENWEST for one half of the market price of the common stock. In the event that PENWEST is acquired in a merger or transfers 50 percent or more of its assets or earnings to any one entity, each Right entitles the holder to purchase common stock of the surviving or purchasing company having a market value of twice the exercise price of the Right. The Rights may be redeemed by PENWEST at a price of \$.01 per Right and they expire in June 1998.

NOTE H:

SALE OF GREAT WESTERN MALTING CO.

On March 13, 1989, the company sold the property, plant and equipment of the Great Western Malting Co. division. In addition, PENWEST was reimbursed for the working capital employed at Great Western. Accordingly, the consolidated financial statements have been restated to recognize Great Western Malting Co. as discontinued operations.

Net sales of Great Western Malting Co. for the period ended March 13, 1989, were \$53,305,000, and for the years ended August 31, 1988 and 1987, were \$82,404,000 and \$78,914,000, respectively. Interest expense was \$1,740,000, \$2,633,000 and \$2,458,000 in 1989, 1988 and 1987, respectively. Interest expense was allocated on the basis of net tangible assets employed as of the beginning of the fiscal year.

Assets sold and liabilities assumed of Great Western Malting Co. consisted of the following:

	March 13, 1989	August 31, 1988
(Thousands of dollars)		
Accounts receivable	\$13,438	\$ 8,103
Inventories	37,042	33,001
Prepaid expenses	696	491
Other assets	425	512
Property, plant and equipment, net	43,700	45,351
Total assets	95,301	87,458
Accounts payable	6,101	17,868
Accrued liabilities	679	1,696
Total liabilities	6,780	19,564
Net assets sold	<u>\$88,521</u>	<u>\$67,894</u>

Tax expense for discontinued operations for the years ended August 31, 1989, 1988 and 1987, was \$3,029,000, \$1,312,000 and \$2,571,000, respectively. Tax expense associated with the gain on the sale of the property, plant and equipment was \$9,761,000.

The sales agreement includes certain provisions for the adjustment of the working capital sold. These provisions expire on March 13, 1990. Accordingly, the company has provided a reserve for this contingency, among others, related to the sale. This reserve is shown as a current liability in the accompanying balance sheet.

NOTE 1:

QUARTERLY FINANCIAL DATA

(Unaudited) (Restated)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
1988/89 (Thousands of dollars except earnings per share data)					
Sales	\$18,377	\$19,627	\$22,091	\$19,731	\$79,826
Gross margin	4,307	3,536	5,753	4,728	18,324
Income from continuing operations	855	525	2,310	1,872	5,562
Income from discontinued operations	2,450	2,622	22,676		27,748
Net income	3,305	3,147	24,986	1,872	33,310
Earnings per common share:					
Continuing operations	\$ 0.15	\$ 0.09	\$ 0.44	\$ 0.37	\$ 1.02
Discontinued operations	0.43	0.45	4.27		5.10
	<u>\$ 0.58</u>	<u>\$ 0.54</u>	<u>\$ 4.71</u>	<u>\$ 0.37</u>	<u>\$ 6.12</u>
1987/88 (Thousands of dollars except earnings per share data)					
Sales	\$16,524	\$15,994	\$16,126	\$17,175	\$65,819
Gross margin	5,854	4,981	4,977	5,027	20,839
Income from continuing operations	2,121	1,450	1,758	1,650	6,979
Income from discontinued operations	643	185	505	1,233	2,566
Net income	2,764	1,635	2,263	2,883	9,545
Earnings per common share:					
Continuing operations	\$ 0.37	\$ 0.26	\$ 0.31	\$ 0.28	\$ 1.22
Discontinued operations	0.11	0.03	0.09	0.22	0.45
	<u>\$ 0.48</u>	<u>\$ 0.29</u>	<u>\$ 0.40</u>	<u>\$ 0.50</u>	<u>\$ 1.67</u>
1986/87 (Thousands of dollars except earnings per share data)					
Sales	\$16,514	\$15,362	\$16,495	\$15,633	\$64,004
Gross margin	4,659	4,853	6,479	5,187	21,178
Income from continuing operations	1,279	999	2,173	1,571	6,022
Income from discontinued operations	96	1,382	852	781	3,111
Net income	1,375	2,381	3,025	2,352	9,133
Earnings per common share:					
Continuing operations	\$ 0.23	\$ 0.18	\$ 0.39	\$ 0.27	\$ 1.07
Discontinued operations	0.02	0.25	0.15	0.13	0.55
	<u>\$ 0.25</u>	<u>\$ 0.43</u>	<u>\$ 0.54</u>	<u>\$ 0.40</u>	<u>\$ 1.62</u>

Quarterly per share data will not necessarily sum to the annual amounts due to changes in weighted average shares outstanding during the periods.

Report of Ernst & Young Independent Auditors

Board of Directors and Shareholders, PENWEST, LTD., Bellevue, Washington

We have audited the consolidated balance sheets of PENWEST, LTD. and subsidiaries as of August 31, 1989 and 1988, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended August 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PENWEST, LTD. and subsidiaries at August 31, 1989 and 1988, and the consolidated results of their operations and their cash flows for each of the three years in the period ended August 31, 1989 in conformity with generally accepted accounting principles.

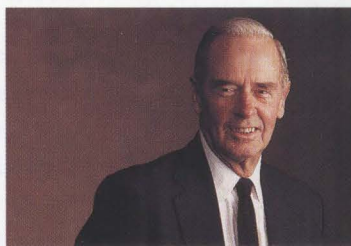
Seattle, Washington, October 13, 1989

Board of Directors



RICHARD E. ENGBRECHT

President and
Chief Executive Officer
VWR Corporation



RUSSELL E. HAMACHEK

Retired Vice President
Univar Corporation and
Retired President/
Chief Executive Officer
Great Western Malting Co.



TOD R. HAMACHEK

President and
Chief Executive Officer
PENWEST



C. CALVERT KNUDSEN

Vice Chairman
MacMillan
Bloedel, Ltd.



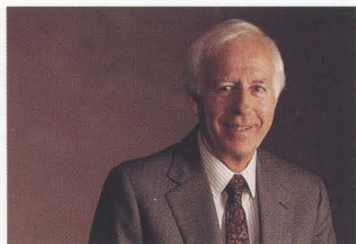
CURTIS P. LINDLEY

Chairman of the Board
PENWEST



N. STEWART ROGERS

Senior Vice President
Univar Corporation



WILLIAM K. STREET

President and
Chief Executive Officer
The Ostrom Company



JAMES H. WIBORG

Chairman of the Board
Univar Corporation



F. LOWRY WYATT

Consultant and
Retired Sr. Vice President
Weyerhaeuser Company

Officers, Committees and General Information

TOD R. HAMACHEK

President and Chief Executive Officer

H. THOMAS REED

President and General Manager,
Penford Products Co.

ROBERT E. MILLER

Vice President, Finance and
Chief Financial Officer

FRANKLIN E. OLSEN, JR.

Vice President, Employee Relations and
Corporate Secretary

ROBERT G. WIDMAIER

Vice President, Technical Director

JEFFREY T. COOK

Treasurer

BRADLEY A. WIENS

Controller

PENWEST

Corporate Headquarters, 777-108th Avenue N.E.,
Suite 2390, Bellevue, WA 98004, (206) 462-6000

PENFORD PRODUCTS CO.

Division Headquarters, 1001 First Street, S.W.,
Cedar Rapids, IA 52404;
1088 W. Sunnyside Road, Idaho Falls, ID 83402

PACIFIC COGENERATION, INC.

777-108th Avenue N.E., Suite 2390,
Bellevue, WA 98004

EXECUTIVE COMMITTEE

James H. Wiborg, Chairman
Tod R. Hamachek
C. Calvert Knudsen
Curtis P. Lindley
N. Stewart Rogers

AUDIT/PENSION COMMITTEE

N. Stewart Rogers, Chairman
Richard E. Engebrecht
Russell E. Hamachek
William K. Street

COMPENSATION COMMITTEE

F. Lowry Wyatt, Chairman
C. Calvert Knudsen
William K. Street
James H. Wiborg

ANNUAL MEETING

10:30 a.m., Tuesday, February 6, 1990
12th Floor Auditorium
Security Pacific Tower
Fifth Avenue and University Street
Seattle, WA

FORM 10-K

The company files an annual report with the
Securities and Exchange Commission on Form
10-K, pursuant to the Securities and Exchange
Act of 1934. Shareholders may obtain a copy
of this report without charge by writing:
Bradley A. Wiens, Controller, PENWEST,
777-108th Avenue N.E., Suite 2390,
Bellevue, WA 98004

LEGAL COUNSEL

Preston, Thorgrimson, Shidler, Gates & Ellis
999 Third Avenue, Suite 3500, Seattle, WA 98104

AUDITORS

Ernst & Young
999 Third Avenue, Suite 3300, Seattle, WA 98104

INVESTOR RELATIONS COUNSEL

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Avenue, Seattle, WA 98121, (206) 728-1778
Kekst and Company, Incorporated, 437 Madison
Avenue, New York, NY 10022, (212) 593-2655

TRANSFER AGENT AND REGISTRAR

First Interstate Bank of California, Corporate
Trust, P.O. Box 54261, Los Angeles, CA 90054

STOCK PRICE DATA

Traded National Over-The-Counter,
NASDAQ Symbol: PENW

Market Price	High	Low
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1986/87

Quarter Ended November 30	8 $\frac{7}{8}$	7 $\frac{5}{8}$
Quarter Ended February 28	13 $\frac{1}{4}$	7 $\frac{7}{8}$
Quarter Ended May 31	18 $\frac{1}{4}$	11 $\frac{7}{8}$
Quarter Ended August 31	29 $\frac{1}{2}$	17

1987/88

Quarter Ended November 30	25 $\frac{1}{4}$	12 $\frac{1}{2}$
Quarter Ended February 29	20 $\frac{1}{2}$	13 $\frac{1}{4}$
Quarter Ended May 31	21 $\frac{1}{4}$	13 $\frac{3}{4}$
Quarter Ended August 31	20 $\frac{1}{4}$	14

1988/89

Quarter Ended November 30	20 $\frac{3}{4}$	17 $\frac{1}{2}$
Quarter Ended February 28	22 $\frac{1}{8}$	17 $\frac{3}{4}$
Quarter Ended May 31	25 $\frac{1}{2}$	20 $\frac{7}{8}$
Quarter Ended August 31	24 $\frac{5}{8}$	23 $\frac{1}{4}$

The number of common shareholders of record
as of November 14, 1989 was 1,821.



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