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MACMILLAN, BLOEDEL AND POWELL RIVER LIMITED

**ANNUAL
REPORT
1960**

FOR THE YEAR ENDED DECEMBER 31st.

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MACMILLAN, BLOEDEL AND POWELL RIVER LIMITED

VANCOUVER, CANADA

DIRECTORS

E. C. Austin	A. E. Grauer	W. C. Riley, O.B.E.
Prentice Bloedel	J. M. Hollern	J. S. Sample
Anson Brooks	J. H. Lamprey	R. M. Shaw
Conley Brooks	John Lecky	E. G. Shorter
W. S. Brooks	Maj.-Gen. H. F. G. Letson,	S. G. Smith
F. H. Brown, C.B.E.	C.B.	G. T. Southam
J. M. Buchanan	H. R. MacMillan, C.B.E.	W. J. VanDusen
The Honourable J. V. Clyne	E. S. McCord	The Honourable Clarence
Mark Collins	R. D. Merrill	Wallace, C.B.E.
H. S. Foley	H. T. Mitchell	A. H. Williamson, O.B.E.
M. J. Foley	G. W. O'Brien	Frederick Wilson
		C. B. Wright, Jr.

EXECUTIVE COMMITTEE

Prentice Bloedel	H. S. Foley	G. W. O'Brien
Conley Brooks	M. J. Foley	R. M. Shaw
The Honourable J. V. Clyne (Chairman)	H. R. MacMillan, C.B.E.	W. J. VanDusen

OFFICERS

Honorary Chairman	H. R. MacMillan, C.B.E.
Chairman and Chief Executive Officer	The Honourable J. V. Clyne
Vice-Chairman	H. S. Foley
President	M. J. Foley
Senior Executive Vice-President	R. M. Shaw
Executive Vice-President	E. G. Shorter
Vice-President—Planning, Research and Development	I. H. Andrews
Vice-President—Pulp and Paper Sales	G. S. J. Bowell
Vice-President—Wood Products Sales,	
Advertising and Trade Promotion	Clifford Crispin
Vice-President—Finance	G. D. Eccott, M.B.E.
Vice-President—Specialty Paper Production	W. C. R. Jones
Vice-President—Labour Relations	A. C. Kennedy
Vice-President—Administration, and Secretary	J. A. Kyles
Vice-President—Engineering	H. P. J. Moorhead

REGISTRARS AND TRANSFER AGENTS

The Royal Trust Company, Vancouver
The Canada Trust Company, Montreal, Toronto, Winnipeg

AUDITORS

Price Waterhouse & Co., Vancouver

ANNUAL REPORT 1960

SUMMARY OF SIGNIFICANT FACTS

	Year Ended December 31 1960	Year Ended ¹ December 31 1959
Earnings		
Gross Income	\$305,291,437	\$251,205,155
Net Earnings—Amount	\$ 24,575,651	\$ 23,565,489
—Per Share	\$ 1.18	\$ 1.13
Portion of Earnings Retained in Business	\$ 8,959,663	\$ 9,823,416
Dividends		
Paid during the year	\$ 15,615,988	\$ 13,742,073
Taxes		
Income, Property and Other Taxes—Amount	\$ 33,840,363	\$ 30,807,926
—Per Share	\$ 1.62	\$ 1.48
Employees		
Salaries, Wages and Employee Benefits	\$ 74,369,957	\$ 63,006,764 ²
Number at end of year	13,108	13,383 ³
Shareholders		
Number at end of year	16,728 ³	14,937 ³

¹ The figures shown for 1959 represent the combined figures for MacMillan & Bloedel Limited and Powell River Company Limited, but exclude Sidney Roofing & Paper Company Limited which was not acquired until 1960.

² Affected by two and one-half months' strike in that year.

³ Excluding holders of share warrants.

Report of the Directors

To the Shareholders of

MacMILLAN, BLOEDEL and POWELL RIVER LIMITED

The first Annual Report of MacMillan, Bloedel and Powell River Limited following the amalgamation of MacMillan & Bloedel Limited and Powell River Company Limited at the end of 1959 is submitted herewith and covers the year ended December 31 1960. The consolidated net earnings amounted to \$24,575,651 (\$1.18 per share) after providing \$22,354,087 for depreciation, depletion and amortization charges, and compares with the estimated combined net earnings of the two companies, MacMillan & Bloedel Limited and Powell River Company Limited together with their respective subsidiaries in 1959 of \$23,565,489 (\$1.13 per share) after providing \$20,794,221 for depreciation and other similar non-cash charges. The purchase of the shares of Sidney Roofing & Paper Company Limited was not made until April 1960 and is not a significant factor in any comparison of the earnings of the respective periods.

Attention is drawn to the table of significant facts printed on the opposite page. The Company's gross income during the year amounted to \$305,291,437, an increase of 21.5% over that of the preceding year. In comparison, the consolidated net earnings of the Company increased by only 4.3%. Following a pattern that is becoming dangerously traditional in Canadian industry, an increase of approximately \$54 million in sales resulted in a gain of only \$1 million in net income. Out of its total income, the Company paid to its employees, numbering 13,108 at year-end, the sum of \$74,369,957 as salaries, wages and benefits. This sum does not reflect the contribution made by the Company to the labour content of purchased goods and services. During the year the Company spent approximately \$149,000,000 for the purchase of goods and supplies including logs used in its operations, and a further sum of \$16,781,622 by way of capital expenditure. Federal, provincial and municipal taxes amounted to a total of \$33,840,363. There are 20,826,255 shares and share warrants outstanding, and the shareholders, numbering 16,728, received by way of dividends the sum of \$15,615,988, or 75c per share. These facts are mentioned to show the very substantial contribution which this Company makes to the economic life of the community. If taxes on dividends in the hands of the shareholders were taken into consideration it is estimated that the public purse is receiving by way of tax approximately three times as much of

the wealth created by the Company as are the shareholders. The earning capacity of this Company as well as other companies engaged in the forest industry in British Columbia is therefore of the utmost importance to labour and to the public generally as well as to the shareholders.

The year 1960 was free of industrial strife in this Company but was overshadowed by the slowing down of business on the North American continent and in particular by the sharp decline in house-building. This had a very marked effect on the earnings from the sale of lumber, plywood and other products used in the building trade. However, sales of newsprint, pulp and coarse paper products were maintained at satisfactory levels both in volume and in price. Two new manufacturing plants came into production this year — the fine paper mill and the flakeboard mill which were planned some years ago by the former Powell River Company Limited and which have been under construction for some time. It was not anticipated that the products of these plants would become immediately profitable and such has been the experience to date. The returns from the charcoal plant, which had likewise been planned by the former Powell River Company Limited some years ago, were considered to be unsatisfactory. The operation was accordingly closed and the investment written off. During the year the Company received an offer for the business and equipment of B.C. Paper Converters Limited which formed an outlet for the Company's products in the manufacture of small paper specialties from newsprint and fine paper. The offer was accepted on the assurance that the operation will continue to use the Company's products. The building occupied by B.C. Paper Converters was retained as a much needed warehouse for the fine paper plant.

The Company's acquisition of a full controlling interest in Sidney Roofing & Paper Company Limited in April of last year has provided important opportunities for diversification and expansion in both packaging and building products. The Sidney Company complements the products of the Company in both these fields as well as using a substantial tonnage of pulp.

Since the U.S.A. is the principal market for the Company's products, the rate of exchange of the American dollar is of vital concern and the high premium on the Canadian dollar has been working to the decided disadvantage of the Company for a number of years. During the greater part of 1960 the discount on U.S. funds continued, but fortunately at a lower rate than in 1959. However, there was a marked change for the better after the budget speech of the Canadian Minister of Finance on December 20th, and the proposed measures quickly brought the U.S. dollar within sight of par. If this trend continues it will be of material benefit to the Company.

The earnings for the year include the profit from the cutting of old growth timber of high quality acquired many years ago. These

profits are non-recurring since timber of such quality is no longer available at comparable prices.

The contract with British Columbia Forest Products Limited for the sale of that company's lumber and plywood continues to the mutual satisfaction of both companies.

Directors and Officers

During the year under review Mr. R. L. Foote of Chicago resigned as a Director and Mr. J. H. Lamprey was appointed in his place. Mr. Lamprey is President of the Yorkshire Corporation Limited, Vancouver.

At the beginning of the current year certain organizational changes were made in the Company. Mr. J. E. Liersch resigned as a Vice-President and Director. Mr. Ralph M. Shaw, formerly Executive Vice-President was appointed Senior Executive Vice-President with responsibility for all Company sales, and the departments of Administration, Finance and also Planning, Research and Development. Mr. Ernest G. Shorter, formerly Vice-President, was appointed an Executive Vice-President with responsibility for all Company production, forestry and timberland management, and the departments of Engineering and Labour Relations.

Production

Logging conditions were good. There was comparatively little interruption due to fire weather or heavy snow. New equipment, new methods and regrouping of logging operations all contributed to a satisfactory year in the woods.

Sawmills, plywood plants and shingle mills suffered severely from the fall in the demand for their products and some curtailments were found necessary in the face of serious accumulation of inventories.

Newsprint, pulp and coarse paper production continued steadily throughout the year in response to a good demand. The programme of improvement to the pulping process at Powell River nears completion and important advantages are expected to result.

The new fine paper plant on Annacis Island near Vancouver came into production in June, 1960. The products have had a good reception from the trade, and a wide range is now available. This Report is printed for the first time on a product manufactured by the Company itself.

The corrugated container plants performed well with good average production and costs. Plans were completed late in the year for the construction of a new plant in Calgary to replace the present plant which is becoming too old to meet the Company's standards of efficient operation. The cost of the new plant will be about \$1,375,000.

During the year it was announced that the Company had decided to install an additional newsprint machine at Port Alberni, involving an expenditure of about \$23 million. The machine, which will be 324" wide, is designed for high speeds and is being manufactured by Dominion Engineering Works Limited in Montreal. The new machine, which will come into production about the beginning of 1963, will increase the newsprint capacity of the Company by 140,000 tons per annum and will enable the Company to meet the additional needs of its customers which it is anticipated will have developed by that time. At Powell River the Company is expending considerable sums on the installation of new and additional equipment to improve the quality of its products.

The following table gives the production of the various products of the Company:

		1960	1959
Newsprint	(Short Tons)	656,318	608,499
Market Pulp	(" ")	327,550	307,386
Kraft Paper	(" ")	75,744	65,301
Fine Paper	(" ")	2,471	—
Lumber	(MFBM)	699,463	562,637*
Plywood	(M $\frac{3}{8}$)	299,335	271,844*
Shingles	(squares)	385,841	308,787*
Corrugated Containers	(M. Sq. Ft.)	624,897	631,862

* 1959 production was affected by the two and one-half months' strike in that year.

Sales and Markets

Newsprint—Shipments of newsprint to all our major markets during the year showed satisfactory increases. Prices remained steady. The average operating rate for the industry was 88.5% compared with 85% in 1959, and the Company's rate of operation kept pace with that of the industry.

Kraft Paper and Board—Sales were made in good volume. Domestic prices remained stable but prices in the United Kingdom in the last six months have suffered a decline in response to increased Scandinavian output stimulated by reductions in duty under European Free Trade Association arrangements and by reason of increased competition from the U.S.A.

Sulphate Pulp—Slow business conditions on the North American continent during the last half of 1960 resulted in sales to this market being lower in comparison to the previous year. Prices weakened during the second half and in November U.S.A. prices dropped \$10.00 per ton on bleached grades. Unbleached kraft prices remained unchanged.

Overseas markets were stronger and in some areas better prices

were obtained. Extensive visits were made by our representatives to many export markets and increases in sales were achieved.

Lumber—Demand for the lower grades was fairly steady during the year with prices drifting slowly downwards until September and October, at which time some improvement ensued from the low levels then prevailing. However, this was short-lived. The higher grades, including industrial clears, uppers and mouldings, were in poor demand. The market for cedar particularly suffered from the reduced house-building programme both in Canada and the United States.

Housing starts in Canada fell from 141,000 in 1959 to around 109,000 in 1960, and in the United States from 1,554,000 in 1959 to 1,280,000 in 1960. However, there are indications that a reversal of this trend may have been established, and it is quite possible that 1961 will see an improvement over 1960.

Prices fluctuated widely. In the U.S. rail market standard and better fir dimension sold for \$63.50 per thousand in January and \$50.75 in October; utility fir/hemlock fell from \$40.75 in May to \$26.00 in September.

The volume of sales to the U.S. Atlantic Coast market was satisfactory and the entry of the Company into the packaged lumber field was successful with important savings being effected in shipment costs.

The overseas markets have been comparatively buoyant, and good orders were obtained during the year from the United Kingdom and the continent of Europe notwithstanding strong competition from Scandinavia and Russia who are the chief suppliers to these markets. However, in sympathy with the North American markets prices fell sharply towards the latter part of the year.

Plywood—In Canada, supply exceeded the demand during the greater part of the year and prices deteriorated. Nevertheless, some price improvement took place in the summer when demand reached its peak. Latterly there have been indications of return to the former conditions resulting from the rigorous competition for the business available. However, although prices have not been satisfactory, the volume of sales has held up reasonably well.

Asphalt Roofing and Building Materials—Markets have been very poor during most of the year due to the decline in construction of houses across the country. Low prices have prevailed and there is at present little sign of improvement.

Paperboard and Packaging—The year 1960 was a year of stability for the Company's corrugated container division, Martin Paper Products Ltd. All five plants performed well, and costs were satisfactory. Despite a greatly increased level of competition, sales exceeded those of the previous year. In the paperboard converting divisions (National

Paper Box Ltd. and Vancouver Paper Box Ltd.), competition was most severe, and sales and profits were affected accordingly. The outlook for 1961 is for somewhat rising costs, and continued intensive competition. However, despite these factors, and assuming there is no interruption in production, it is expected that 1961 will be as satisfactory a year as 1960.

General—The various products of the Company contributed to sales in the following percentages:

	1960
Lumber and shingles	36%
Newsprint	27%
Pulp	12%
Plywood	12%
Corrugated containers	4%
Roofing and building materials	4%
Kraft paper and board	3%
Folding and rigid boxes	1%
Other	1%
	<hr/>
	100%

Shipping

Worldwide charter freight rates in 1960 averaged about 3% higher than in 1959. The increase in lumber charter rates from the Pacific Coast averaged about 7% above 1959.

During the past year there has been a significant increase in the demand for ships particularly in the grain trades which represent over 40% of the employment for tramp shipping.

The laid-up fleet of dry cargo ships dropped from about 8,000,000 to about 3,000,000 deadweight tons during the year. A large percentage of the remaining ships was built during or before the last World War and only a limited number of these can be put back into service economically. Though the freight market has strengthened there has not been sufficient increase in freight rates to have any serious effect on the sale of Company products abroad.

U.K. Chamber of Shipping Voyage Charter Indices of all sterling ocean freight rates show as under:

(Base Year 1952 = 100)			
High	December 1956		189.4
Low	April 1958		62.7
Current	December 1960		76.7

Working Capital

The Working Capital position as at December 31 1960 showed a slight decline as will be seen from the statement below:

	Year Ended December 31 1960
Balance at beginning of year	\$ 68,952,594
Add:	
Earnings	24,575,651
Depreciation	17,695,427
Depletion	2,299,800
Road Amortization	2,358,860
	<u>\$115,882,332</u>
Deduct:	
Funds allocated for capital purposes	\$ 11,173,787
Net capital expenditure excluding that in respect of subsidiary companies acquired during the year . .	16,781,622
Payments of, and current provision for, non-current liabilities	2,655,110
Dividends paid	15,615,988
Net fixed assets introduced through consolidation of companies not previously consolidated or acquired during year	1,520,502
Miscellaneous (net)	287,157
	<u>\$ 48,034,166</u>
Balance at end of year	<u><u>\$ 67,848,166</u></u>

The decrease during the year of \$1,104,428 was caused by normal capital expenditure, and the present working capital balance is considered entirely adequate for all foreseeable needs.

Capital Assets

Expenditures during the year on capital account amounted to \$16,781,622, the more important items being as under:

Completion of fine paper mill	\$ 3,493,935
Improvements at Powell River mill including high-yield sulphite process	2,600,670
Logging equipment	2,445,180
Logging roads	2,335,067
Timber and land	1,512,511
Initial payments and construction of the third newsprint machine at Alberni Pulp and Paper mill together with other improvements	1,097,386
General improvements at Vancouver Plywood mill	1,061,547
Completion of flakeboard mill	639,408
Other additions and improvements	1,595,918
	<u>\$ 16,781,622</u>

In addition the Company acquired fixed assets through the purchase of shares in Sidney Roofing & Paper Company Limited. The net book value of assets so acquired and consolidated this year amounted to \$14,661,095.

Forestry

About 6,000 acres were artificially reforested and research projects were pursued relative to harvesting, protection, re-establishment and management of the Company's forest resources.

A spraying project was carried out in the Queen Charlotte Islands against the black headed budworm in co-operation with the B.C. Loggers' Association and the Provincial Government and with technical aid from the Federal Forest Biology Division. Application for financial assistance from the Federal Government was rejected despite the value of the timber at stake and the income it would provide in taxes.

Investigation work was continued on damage by ambrosia beetles to log booms in storage.

Although the fire season was relatively severe, the Company itself suffered few losses, due to the active measures taken for prevention and suppression. In these circumstances limited use was made of the Flying Tanker services although experiments performed with that service during the fire season demonstrated its future value.

The Tree Farm Licence, for which application was originally made in the name of Powell River Company Limited, was approved by the Provincial Government during the year, and preparation of the working plans is now proceeding.

Labour

In view of the two-year contract there were no negotiations during the year with the International Woodworkers Association of America covering the logging, sawmill, plywood and shingle operations of the Company. In addition to the changes which took effect in 1959 under the terms of the agreement signed in that year there was an additional 10-cent per hour increase granted as of June 15 1960. The agreement does not expire until June 14 1961.

Contract negotiations with the International Brotherhood of Pulp, Sulphite and Paper Mill Workers and the United Papermakers and Paperworkers Union in respect to the primary mill operations were concluded in June 1960, and an agreement was signed for a one-year period expiring on June 30 1961. The terms of the settlement included a 4% general wage increase, together with other benefits.

Aside from the multi-unit type negotiations, the Company concluded contract negotiations with a number of other unions including those involved in paper and specialty converting operations.

Wage rates paid by the Company continue at a high level. The average hourly wage rate paid to members of the three major unions (I.W.A., Pulp and Sulphite, and Papermakers) is \$2.43 per hour plus 25 cents per hour in vacation and statutory holiday pay, and 23 cents per hour in other benefits, making \$2.91 per hour in all. On this basis, for the average number of hours worked, a married hourly worker of five years' service with this Company would receive a total taxable income of \$5,160 in a year and in addition \$443, the Company's proportion of other benefits available to him such as pension plans, group insurance, and medical aid. The average combined annual wage and benefits is therefore \$5,603, which is considerably higher than the Canadian average.

Accident Prevention

Eight of the Company's operating divisions made substantial improvements in accident frequency rates, and the Company's frequency rates generally are far below those of the industry.

Merit Awards were received in 1960 from the National Safety Council by Shownigan Division, Sproat Lake Division, Red Band Division and Somass Division (Shingle). Many other divisions of the Company received awards from associations for their high performance.

Powell River Division won a special Workmen's Compensation Board award for working 1,000,000 manhours accident-free. Also, in 1960, this division won the Canadian Pulp & Paper Association (Western Division) award with a frequency rate of 4.15.

General

The impact of the European Economic Community (France, West Germany, Italy, Belgium, Luxembourg and the Netherlands) and the European Free Trade Association (United Kingdom, Sweden, Norway, Austria, Denmark, Portugal and Switzerland) on the trade in forest products between this country and the areas in question is being studied carefully by this Company.

Newsprint, pulp, paper and lumber from Scandinavia are shipped in substantial quantities to the United Kingdom and the Continent. Scandinavia, in addition to enjoying its predominant position as a chief source of supply through its proximity to those markets, may well receive additional benefits at some expense to this country through its membership in the Free Trade Association due to the lowering of tariffs within

that area. However, in spite of increasing newsprint capacity in Scandinavia, it is believed that Canada will continue to be an important source of supply of this commodity to the United Kingdom.

In regard to pulp, the United Kingdom has been an important market for exports from this country as has also, although to a much lesser extent, the Continent of Europe. While the actual percentage of the total requirements of Europe supplied from Canada is small, the market is nevertheless important to the industry. However, it is probable that in the absence of Russian competition there will be a demand in Europe in which Canada will continue to participate.

Kraft paper is probably the most vulnerable export to the United Kingdom. Commonwealth preferences have hitherto enabled the Company to enjoy a share in the United Kingdom business notwithstanding the disadvantage of distance from the market. The effect of progressive reductions in tariffs within the European Free Trade area is now being felt. While lower prices would seem inevitable it is hoped that this Company will continue to enjoy the United Kingdom market as an important outlet for the production of its kraft paper mill.

Lumber for some years has had to give way in the United Kingdom to Scandinavian and Russian suppliers by reason of their proximity to the market, and consequently exporters from this Coast have had to content themselves with specialty items rather than common lumber in bulk. Nevertheless, opportunities do occur from time to time by reason of varying market conditions, enabling re-entry to this market in some strength as was the case during short periods this year. There would appear to be nothing in the European Economic Community or European Free Trade Association arrangements that would be likely to change this situation to any important degree.

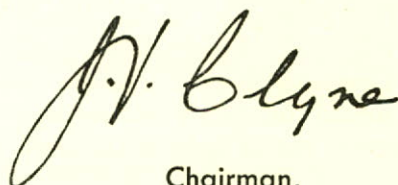
In an effort to bring the two European trading areas together there has been discussion regarding a customs union or common group tariff. Some 43% of the overseas trade in the United Kingdom is with the Commonwealth, and whatever may happen it is to be hoped that not only will the Canadian Government watch the situation very carefully, but that the United Kingdom itself will do all it can to avoid doing injury to trade within the Commonwealth. There is no doubt that the easing of tariff restrictions within the two great tariff blocs has brought increased prosperity to these areas, and it is reasonable to believe that their expanding economies will require increased quantities of raw materials from this country.

Conditions for business elsewhere, while far from encouraging, are not unsatisfactory. The current recession in North America, which began early in 1960, has been generally less severe in its opening stages than either 1953-54 or 1957-58, thus affording hope that unless unexpected developments occur, business in general will begin to recover during the next six months. It is not expected however that the

recovery will be felt in the forest industries or building trades within the current year.

Both the United States and Canada face grave economic problems of which the more important in both countries are the level of unemployment and the deficit in the balance of payments. Remedies in both these directions are made more difficult by the increased productivity of other countries and the consequently intensified competition for markets. Sustained recovery and long-term growth are largely dependent on a favourable economic environment to which sound monetary policies can make a valuable contribution. If costs, stimulated by ever-recurring wage demands continue to rise, we may well expect to see the present high rate of unemployment remaining a social and economic burden, as full employment must depend upon the ability and readiness of consumers, both domestic and foreign, to purchase Canadian products. Insofar as the export trade is concerned it is to be hoped that no tariff barriers will be raised which would encourage other countries to retaliate, and that steps will be taken to enable Canadian exporters to trade even more freely with foreign countries.

In conclusion the Directors take this opportunity to express their appreciation to those employees whose loyal efforts have contributed so much to the financial results and general progress of the Company. The first year of amalgamation has naturally been a more than usually exacting period. However, a sound and strong organization is emerging from which solid achievements can be expected.

A handwritten signature in dark ink, appearing to read "J.V. Blyne". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

Chairman.

Vancouver, B.C.
March 22 1961.

CONSOLIDATED BALANCE

(with a pro forma consolidated

(Notes 1

ASSETS

	December 31 1960	Pro forma December 31 1959
CURRENT ASSETS:		
Cash on hand and in banks	\$ 2,821,580	\$ 2,805,350
Short-term investments (Note 3)	18,153,637	33,047,783
Accounts receivable, less allowance for doubtful accounts	36,048,202	29,572,047
Inventories of raw materials, products and supplies, at the lower of cost or market	44,107,272	39,085,750
Prepaid expenses	1,310,130	1,922,080
	<u>102,440,821</u>	<u>106,433,010</u>
INVESTMENTS AND ADVANCES:		
Partly-owned companies (Note 4)	1,569,769	2,903,867
Partly-owned subsidiary companies (Note 2)	—	817,609
Other investments and advances, less allowance for possible loss	4,336,806	5,502,648
	<u>5,906,575</u>	<u>9,224,124</u>
FUNDS ALLOCATED FOR CAPITAL PURPOSES:		
United States Treasury notes and bonds, at cost (quoted market value in Canadian funds, December 31 1960— \$12,255,842)	11,173,787	—
PROPERTY, PLANT AND EQUIPMENT (Note 5):		
Pulp and paper mills, sawmills, plywood mills, other buildings, machinery and equipment, at cost	317,992,406	284,334,708
Less—		
Accumulated depreciation	173,193,658	150,783,644
	<u>144,798,748</u>	<u>133,551,064</u>
Timber and land, at cost less depletion	39,301,507	39,664,677
Logging roads and other logging development, at cost less amortization	5,552,534	5,527,799
Patent pending, at cost	—	536,685
	<u>189,652,789</u>	<u>179,280,225</u>
	<u>3,552,534</u>	
	<u>189,100,255</u>	
SIGNED ON BEHALF OF THE BOARD:		
J. V. CLYNE, Director		
M. J. FOLEY, Director		
317,992,406	<u>\$309,173,972</u>	<u>\$294,937,359</u>

POWELL RIVER LIMITED

SHEET—DECEMBER 31 1960

balance sheet as at December 31 1959)
and 2)

LIABILITIES

	December 31 1960	Pro forma December 31 1959
CURRENT LIABILITIES:		
Bank loan and overdraft (secured)	\$ —	\$ 542,736
Accounts payable and accrued liabilities	19,111,749	17,609,089
Income taxes payable	14,842,250	18,328,591
Bond and sinking fund payments due within one year (Note 6)	638,656	1,000,000
	<u>34,592,655</u>	<u>37,480,416</u>
NON-CURRENT LIABILITIES:		
Bonds and debentures of subsidiary companies (Note 6)	39,112,399	30,970,875
Other liabilities	539,360	280,000
	<u>39,651,759</u>	<u>31,250,875</u>
INCOME TAX REDUCTIONS APPLICABLE TO FUTURE YEARS (Note 9)	6,076,240	5,125,200
MINORITY INTEREST IN SUBSIDIARY COMPANIES . . .	394,578	—
	<u>80,715,232</u>	<u>73,856,491</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL:		
Authorized— 25,000,000 shares of no par value		
Issued— 20,826,255 shares (Note 1)	158,804,000	158,804,000
EARNINGS RETAINED FOR USE IN THE BUSINESS— per statement attached	69,654,740	62,276,868
	<u>228,458,740</u>	<u>221,080,868</u>
COMMITMENTS (Note 7)		
	<u>\$309,173,972</u>	<u>\$294,937,359</u>

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31 1960
(with a pro forma statement for the preceding year)
(Notes 1 and 2)

	1960	Pro forma 1959
Income:		
Net sales of products and services (Note 8) . . .	\$308,424,089	\$255,202,080
Less—		
Discount on U.S. sales	4,361,867	5,375,296
	<u>304,062,222</u>	<u>249,826,784</u>
Dividends from a subsidiary company not consolidated	—	93,750
Income from investments	846,506	1,033,582
Profit (net) on disposal of short-term investments and capital assets	382,709	251,039
	<u>305,291,437</u>	<u>251,205,155</u>
Costs and expenses:*		
Cost of sales and services	235,115,783	187,964,858
Selling, general and administrative expenses	15,463,390	11,982,320
Interest on borrowed funds	2,133,968	1,769,242
	<u>252,713,141</u>	<u>201,716,420</u>
Earnings before deducting income taxes	52,578,296	49,488,735
Income taxes (Note 9)	28,002,645	25,923,246
Net earnings for the year	<u>\$ 24,575,651</u>	<u>\$ 23,565,489</u>

* The following amounts have been charged to costs and expenses:

Depreciation (Note 9)	\$ 17,695,427	\$ 16,599,115
Depletion	2,299,800	1,930,992
Amortization of logging roads	2,358,860	2,264,114
	<u>\$ 22,354,087</u>	<u>\$ 20,794,221</u>

CONSOLIDATED STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

FOR THE YEAR ENDED DECEMBER 31 1960
(with a pro forma consolidated statement for the preceding year)
(Notes 1 and 2)

	1960	Pro forma 1959
Balance at beginning of year	\$ 62,276,868	\$168,074,994
Net earnings for the year—per statement attached . .	24,575,651	23,565,489
Transfer of reserve for contingencies	—	3,500,000
Equity in earnings retained as at December 31 1959 of subsidiary company not previously consolidated . .	1,853,049	—
	<u>88,705,568</u>	<u>195,140,483</u>
Dividends paid	15,615,988	13,742,073
Goodwill written off on consolidation of subsidiary com- panies acquired during year	1,985,849	—
Provision for loss on disposal of charcoal plant and patent, on cessation of operations	967,475	—
Cost of cancelling agreement with Brooks-Scanlon, Inc. .	481,516	—
Amount capitalized on amalgamation	—	118,121,542
Costs of amalgamation	—	1,000,000
	<u>19,050,828</u>	<u>132,863,615</u>
Balance at end of year	<u>\$ 69,654,740</u>	<u>\$ 62,276,868</u>

AUDITORS' REPORT

To the Shareholders,

MacMillan, Bloedel and Powell River Limited:

We have examined the consolidated balance sheet of MacMillan, Bloedel and Powell River Limited and its subsidiary companies as at December 31 1960 and the related consolidated statements of earnings and earnings retained for use in the business for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances, except for certain subsidiary companies whose accounts have been examined and reported on by other chartered accountants. The combined net assets and net earnings of these latter companies represent respectively substantial proportions of the consolidated net assets and of the consolidated net earnings for the year.

In our opinion, according to the best of our information, the explanations given to us and as shown by the books of those companies whose accounts have been examined by us and the audited accounts of the subsidiary companies reported on by other chartered accountants, the accompanying consolidated balance sheet and related consolidated statements of earnings and earnings retained for use in the business are properly drawn up so as to exhibit a true and correct view of the state of the affairs of MacMillan, Bloedel and Powell River Limited and its subsidiary companies as at December 31 1960 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

March 10 1961
Vancouver, B.C.

PRICE WATERHOUSE & CO.
Chartered Accountants.

MACMILLAN, BLOEDEL AND POWELL RIVER LIMITED

NOTES TO CONSOLIDATED ANNUAL ACCOUNTS

AS AT DECEMBER 31 1960

1. AMALGAMATION:

As at December 31 1959 MacMillan, Bloedel and Powell River Limited (at that time Powell River Company Limited) had issued 11,676,998 of its shares in exchange for 93.97% of the total number of outstanding Class "A" and Class "B" shares of MacMillan & Bloedel Limited (now MacMillan, Bloedel & Powell River Industries Ltd.). The total number of shares of MacMillan, Bloedel and Powell River Limited issued and outstanding as at December 31 1959, including those issued as aforesaid, aggregated 20,076,998 shares. During the year ended December 31 1960 the company issued a further 749,257 shares for the remaining outstanding Class "A" and Class "B" shares of MacMillan & Bloedel Limited thus completing the exchange of shares under the Exchange Offers dated October 8 1959.

2. PRINCIPLES OF CONSOLIDATION:

The consolidated accounts as at December 31 1960 include the accounts of MacMillan, Bloedel and Powell River Limited and of all subsidiary companies. The pro forma consolidated accounts as at December 31 1959 include the accounts of MacMillan, Bloedel and Powell River Limited and of all wholly-owned subsidiary companies as at that date (but not the accounts of Sidney Roofing & Paper Company Limited and other subsidiary companies acquired in 1960) after giving effect to the subsequent exchange of shares and change in the company's name as referred to in Note 1 above. All inter-company profits, balances and transactions have been eliminated in the consolidated accounts and pro forma consolidated accounts.

For accounting purposes the amalgamation of the company and MacMillan & Bloedel Limited has been regarded as a "pooling of interests" rather than an acquisition and accordingly the assets of the constituent companies are carried forward in the accompanying consolidated balance sheets as at December 31 1960 and 1959 at their book values and the consolidated statements of earnings and earnings retained for use in the business for the years ended on those dates reflect the results of operations of the constituent companies in their entirety for the two years. In the case of MacMillan & Bloedel Limited the operations for the year ended December 31 1959 are based on unaudited statements as no examination was made of the accounts of that company as at December 31 1958.

3. SHORT-TERM INVESTMENTS:

	Dec. 31 1960	Pro forma Dec. 31 1959
Canadian federal and provincial government bonds and treasury bills and government guaranteed bonds, at cost (market value December 31 1960 — \$15,518,695)	\$15,056,625	\$21,218,934
United States Treasury notes and bonds (allocated for capital purposes as at December 31 1960)	—	10,631,519
Notes of, and call loans to, Canadian companies	2,697,750	1,197,330
Other investments	399,262	—
	<u>\$18,153,637</u>	<u>\$33,047,783</u>

4. INVESTMENTS IN AND ADVANCES TO PARTLY-OWNED COMPANIES:

The partly-owned companies are owned to the extent of 50%. As at December 31 1960 the cost of the 50% interest in these companies amounted to \$217,820 and advances aggregated \$1,351,949.

5. PROPERTY, PLANT AND EQUIPMENT:

The company has commenced the installation of a new newsprint machine at Port Alberni, B.C. estimated to cost \$22,500,000 when completed, of which \$732,000 has been recorded in the accounts as at December 31 1960.

6. BONDS AND DEBENTURES OF SUBSIDIARY COMPANIES:

	Dec. 31 1960	Pro forma Dec. 31 1959
MacMillan, Bloedel & Powell River Industries Ltd.:		
Sinking fund debentures—		
5 1/4 % seven-year debentures Series "A" maturing May 15 1965	\$ 3,895,000	\$ 4,175,000
5 3/8 % twenty-year debentures Series "A" maturing May 15 1978	17,049,000	17,174,000
4 7/8 % twenty-year debentures Series "B" maturing May 15 1978		
\$10,000,000 U.S. which realized	9,621,875	9,621,875
First mortgage bonds	—	1,000,000
Carried forward	<u>\$30,565,875</u>	<u>\$31,970,875</u>

MACMILLAN, BLOEDEL AND POWELL RIVER LIMITED

Brought forward	\$30,565,875	\$31,970,875
Sidney Roofing & Paper Company Limited:		
First mortgage and collateral trust bonds—		
1955 Series:		
4½ % serial bonds due September 1 1961 to 1965	1,250,000	
4½ % sinking fund bonds due September 1 1975	5,000,000	
1958 Series:		
5¾ % serial bonds due May 15 1961 to 1968	800,000	
5¾ % sinking fund bonds due May 15 1978 less held by parent company (\$25,520)	1,974,480	
	\$ 9,024,480	—
Alsto Distributors (Manitoba) Limited:		
4 % debenture maturing January 1 1970, less held by affiliated company (\$135,000)	160,700	—
	\$39,751,055	\$31,970,875
Less—		
Amounts included with current liabilities:		
Serial bonds	350,000	—
First mortgage bonds	—	1,000,000
Sinking fund debentures (\$300,000 U.S.)	288,656	—
	638,656	1,000,000
	\$39,112,399	\$30,970,875

The aggregate principal amounts of bonds and debentures maturing in the five years following December 31 1960 and the total sinking fund requirements in those years are as follows:—

1961	\$ 638,656
1962	1,982,656
1963	2,088,656
1964	2,088,656
1965	1,088,656

Sinking fund requirements applicable to 1961 and 1962 have been reduced by purchase and cancellation of bonds up to December 31 1960.

7. COMMITMENTS:

Commitments in respect of capital expenditure referred to in Note 5 amounted to \$5,231,000 as at December 31 1960. The company is also committed under a lease for an annual rental of \$137,298 up to 1988 in respect of its head office building and one of its subsidiary companies is committed under charter agreements to the hire of vessels for varying periods up to September 15 1964, at annual rentals aggregating at present \$3,310,000.

8. NET SALES OF PRODUCTS AND SERVICES:

Sales, as in prior years, include the sales of products for account of, or purchased from, other producers on which the margin of gross profit realized by the company is substantially less than that realized on sale of its own manufactured products.

9. DEPRECIATION AND INCOME TAXES:

As in the preceding year, depreciation has been recorded in the accounts at the maximum amounts allowable as deductions from taxable income except in respect of periods of major construction, for which depreciation on the facilities under construction will be claimed for income tax purposes but has not been recorded in the accounts, and except in the case of a subsidiary company acquired during the year, where depreciation has been continued on an engineering basis as in prior years. Income tax reductions resulting from the foregoing (including reductions recorded in the accounts of the aforementioned subsidiary company prior to acquisition) are carried forward in the consolidated balance sheet and are being applied in reduction of income taxes charged to earnings in those periods in which depreciation claimed for income tax purposes is less than the depreciation recorded in the accounts.

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Printed in Canada

MITCHELL PRESS LIMITED
VANCOUVER

