



MacMillan Bloedel  
Limited

Annual Report  
1985

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### Focus on Productivity

Company-wide efforts to improve cost efficiency and to produce higher-value products made possible the substantial gains achieved in 1985.

## **Corporate Profile**

- MacMillan Bloedel is one of North America's largest forest products companies, with integrated operations in Canada and the United States as well as major investments in Canada, the United Kingdom and Continental Europe. The Company manages 1.5 million hectares of productive timberlands which supply most of its total fibre requirements. Of these timberlands, one million hectares are in British Columbia where the Company's head office is located and approximately 50 percent of its capital is invested. The products of MacMillan Bloedel and its affiliated companies are marketed throughout the world and include lumber, panelboards, kraft pulp, newsprint, groundwood printing papers, fine papers, containerboard and corrugated containers.

## **Front Cover**

The #3 paper machine at the Alberni Pulp and Paper Division was recently converted to produce lightweight groundwood printing papers. It is now a world-class machine capable of producing the highest quality telephone directory papers in the world.

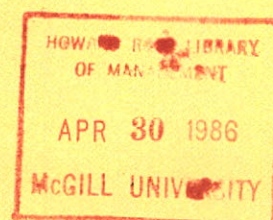




	1985	1984
<b>Financial results</b> (\$ millions)		
Sales	<b>2,335.4</b>	2,127.6
Operating earnings	<b>108.9</b>	67.2
Net earnings	<b>42.9</b>	19.3
Funds generated by operations (Note 1)	<b>247.9</b>	94.6
Return on invested capital (Note 2)	<b>7.0%</b>	4.5%
<b>Per common share</b> (\$ per common share)		
Net earnings (loss) after preferred dividends	<b>.54</b>	(.19)
Funds generated by operations	<b>8.12</b>	3.16
Stock dividends	<b>.90</b>	2.06
Book value (year-end)	<b>24.58</b>	22.45
<b>Assets</b> (\$ millions)		
Capital expenditures	<b>96.6</b>	137.7
Invested capital (year-end) (Note 3)	<b>2,080.7</b>	1,996.0
<b>Additional information</b>		
Debt to invested capital (year-end)	<b>41.5%</b>	46.0%
Common shareholders of record (year-end)	<b>10,454</b>	10,052
Common shares outstanding (year-end)	<b>30,929,624</b>	29,063,406
Number of employees (year-end)	<b>15,139</b>	14,994
Employee compensation (\$ millions)	<b>636.7</b>	587.9

**Notes:**

1. 1984 has been reclassified to conform with 1985 presentation.
2. "Return on invested capital" is defined as net operating profit after taxes (NOPAT) as a percentage of average invested capital. NOPAT is defined as the sum of net earnings before extraordinary items and minority interests, the change in deferred income taxes and interest expense net of associated current taxes.
3. "Invested capital" is defined as the sum of interest-bearing debt, deferred income taxes, preferred share capital and common shareholders' equity.
4. Certain 1984 figures have been restated to reflect stock dividends issued in 1985.





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- The year 1985 was one of real progress for MacMillan Bloedel, affirming that the Company is on the right track in its efforts to control operating costs and increase product values.

In 1985, the Company earned \$42.9 million before preferred dividends and \$.54 per share to common shareholders. Although a welcome improvement over the preceding four years, these results remain unacceptably low and testify to the need for further progress if the necessary added capital is to be attracted. The first half of this decade has made it amply clear that commodity market turmoil has become a constant in the forest industry as it has in so many others. Successful adaptation means rigorous management of the Company's assets and businesses while realistically appraising the market outlook. MacMillan Bloedel's principal objectives remain to achieve a satisfactory return under these circumstances with the financial strength to cushion economic decline.

The past year has seen a continuation of key management objectives that have received particular emphasis since 1982. These objectives are to minimize overhead costs, reduce borrowing demands and servicing costs, increase productivity and produce the highest value goods matching market opportunities to the Company's resource base. Progress continued in each of these areas in 1985.

Overhead costs were kept under control during the year by adhering to strict policies of cost control and minimizing discretionary spending. Administrative staffing levels were further reduced and the salary freeze remained in effect.

The 1985 year was the first since 1978 that the Company's cash flow generated by operations (\$247.9 million) covered all interest, dividends and taxes (\$118.5 million) and also covered the cash outlays for capital expenditures and investments (\$121.3 million). Since the start of the eighties, governments, businesses and personal households have been striving to live within their means; that is, to earn more than they spend. The Company has just reached that pivotal point and the expectations for 1986





**Employees have accounted for significant productivity gains in 1985 without the usual large sums of capital expenditures associated with such achievements.**

and beyond are to rebuild a healthy surplus of cash generated over cash outlays.

Partly as a result of the net positive cash flows from operations, but mainly due to a \$50 million preferred share issue in July, interest-bearing debt was reduced from \$917.3 million at the beginning of 1985 to \$863.7 million at year-end and debt as a percentage of invested capital decreased from 46 percent to 41.5 percent. A subsequent \$60 million preferred share issue in January, 1986 further reduced outstanding debt.

Improved productivity, which has occurred in every part of the Company, is the subject of the theme section of this year's Annual Report. In most cases, these improvements have been the result not of large capital expenditures but of the initiative by employees to identify areas of possible improvement and to act decisively.

#### **New Markets, New Products**

The Company's emphasis on product diversification away from traditional commodities remains strong. Since 1981, MacMillan Bloedel has more than doubled its groundwood printing paper capability. In 1985, Powell River started up #9 paper machine following its conversion to specialty papers. The machine adds 90,000 tonnes of annual capacity to newsprint specialties which now account for 34 percent of the total newsprint sales volume but 39 percent of sales value.

In the past year, the Port Alberni pulp and paper mill solidified its reputation as a world-class supplier of lightweight newsprint and telephone directory paper. The mill now has two machines capable of running these specialties and has competed successfully for a number of challenging contract awards.

The Company's building materials sales people accelerated marketing of hemlock for the manufacture of such items as window frames, doors and cabinets. Market acceptance of these products is a challenging process, but the quality of the old growth species and our marketing services are winning customers. It will be some time before



the "Hemlock Program" matches the success of its cedar counterpart but solid progress is being made.

Efforts to upgrade the value of solid wood production continued at virtually all of the Company's sawmills. The Chemainus sawmill replacement, which started operations at the beginning of 1985, had a successful first year and its productivity and net mill returns are far exceeding those of its predecessor.

### **Selective Spending**

Capital remained severely constrained throughout 1985, with expenditures limited to \$96.6 million. Funds were allocated to those projects that offered the fastest pay-backs and were consistent with the management objectives discussed above. Key projects included the completion of the chemi-thermomechanical pulp mill and conversion of #9 paper machine at Powell River, B.C., the modernization and consolidation of the recausticizing plant in Nanaimo, B.C., the conversion of #3 paper machine at Port Alberni, B.C. and the modernization of the Thunder Bay waferboard plant in Northern Ontario.

Despite capital constraints, certain elements remain critical and will not be compromised. These are the safety of employees, research and development, and reforestation.

On the safety front, several divisions won awards for accident-free operations during the year. MacMillan Bloedel is continually striving to encourage sound safety practices throughout its operations. Again, welcome progress was achieved and the Company's position in British Columbia improved. MacMillan Bloedel fully supports the concept of a merit system in assessing workers' compensation premiums.

Funds committed to research and development totalled approximately \$17 million in 1985. Projects included product development and those projects permitting more cost-effective or safer operating processes.

The Company is proud of its reforestation record which is of sufficient importance to warrant a special section following this letter. By adopting sound forest man-



**Adam H. Zimmerman, left, is MacMillan Bloedel's Chairman of the Board; pictured beside him, Raymond V. Smith, the Company's President and Chief Executive Officer.**





**Despite continuing capital constraints, expenditures for the safety of employees, research and development and reforestation remain critical and will not be compromised.**

agement principles, MacMillan Bloedel is doing its part to ensure the long-term availability of a timber supply — a critical element to the Company's future.

### **The Continuing Challenge**

The Company's 1984 Letter to the Shareholders and Employees called for increased understanding and cooperation between management, labour and government to resolve the challenging problems of the British Columbia coastal forest industry. In 1985, there was some real progress in this regard and a positive climate has been created for the labour negotiations taking place in 1986.

In response to submissions to the B.C. Minister of Finance, a number of inequitable taxation policies were changed, not the least of which was the phasing out of the property tax on machinery and equipment. When they are fully eliminated in 1988 the pre-tax annual savings are estimated to amount to \$25 million for the Company. In December 1985, the Company won a lengthy appeal that saw the property tax assessment for the Powell River mill reduced by 22 percent for the years 1982 to 1985. This will result in a tax refund of \$12.5 million.

In the international markets in which MacMillan Bloedel competes, the continuation of practices which hinder effective utilization of facilities is a threat to the job security of all who are employed in the forest products industry. MacMillan Bloedel will continue to explore all possible modes of operation including new styles of supervision which encourage employee participation and stress reward for performance.

New forums for collective bargaining, which take into account individual plant performance, are also being considered. Employee concerns for security are compatible with the Company's need for financial health. Rigid practices born of different times and adherence to outmoded methods are not the key to this security; rather, it lies in establishing a mutually profitable link between productivity and reward. If both the employers and employees can reach an understanding of this principle in the course



of the 1986 British Columbia labour contract negotiations, then this year's bargaining will result in a progressive step toward establishing contracts in the best interests of all concerned.

#### **A Tough Year for Prices**

Most markets experienced price deterioration throughout 1985 due principally to oversupply conditions. Standard newsprint began the year with the strength and potential for an imminent price increase. Slow growth in demand and rising inventories made a price increase less realistic as the year progressed and heavy discounting from the western U.S. list price of \$535 per tonne remains in effect. Pulp prices have been depressed despite strong demand for the past 18 months. A recent increase of US\$20 per tonne is being implemented but still leaves the price US\$65 per tonne below 1984 year-end prices. Lumber production continues to run at record levels but substantial overcapacity still persists which has kept prices low despite historically high lumber consumption. U.S. containerboard prices also reflected too much supply with a consequent drop of US\$80 per ton during 1985. A bright spot was the Company's Canadian distribution and panelboard business which experienced substantially better results due to increased construction activity in eastern Canada.

Much of the decline in commodity prices was offset by a weakening Canadian dollar versus its U.S. counterpart, the currency in which the majority of the Company's revenues are denominated. The depreciation of the U.S. and Canadian dollars relative to key international currencies also gave North American exporters a boost by increasing their competitive edge. Foreign exchange was thus a key factor in the Company's improved performance in some export markets, particularly in the fourth quarter. To date in 1986, the currency swings relative to early 1985 have been quite favourable and should this trend continue it will add substantial profitability to the Company. However, profits emanating from a weakened Canadian dollar can quickly disappear if the exchange rates change. Profits are





## Letter to Shareholders and Employees

welcome in any form they come but continuing profits must be achieved by increasing sales volumes and margins.

### Board Appointment

During 1985, Mr. J. Trevor Eyton was elected to the Board and Mr. John P. Fisher resigned in connection with his appointment as President and Chief Executive Officer of Southam Inc.

### In Conclusion

The men and women employed at all levels by MacMillan Bloedel are responsible for the Company's performance. All the productivity accomplishments were too numerous to capture on a few pages in the theme section but the Company commends all its people on their continued efforts to improve MacMillan Bloedel's competitive position.

There is no shortage of external threats to MacMillan Bloedel's success, whether they be in the form of new competitors, protectionist measures in the United States or competitive currency devaluations. MacMillan Bloedel is compelled, therefore, to do the utmost to ensure that the improvements accomplished so far accrue not only to employees but to the Company and its shareholders.

Despite the significant progress that has been achieved, MacMillan Bloedel's return to shareholders is unsatisfactory. As in our product markets where the Company competes in a world arena, MacMillan Bloedel must also seek financing in these same world markets. Investors anticipate and expect performance and MacMillan Bloedel has a significant gap to close to satisfy present and potential equity investment.

**R.V. Smith**  
President and  
Chief Executive Officer  
Vancouver, Canada  
February 11, 1986

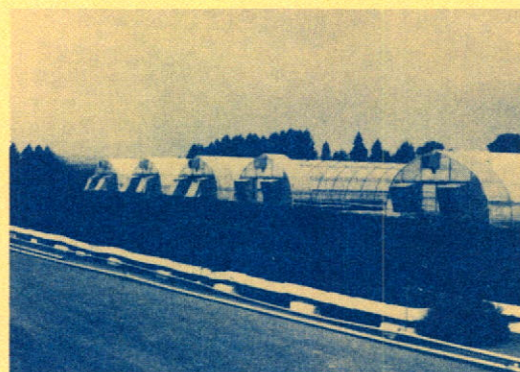
**A.H. Zimmerman**  
Chairman of the Board





**MacMillan Bloedel  
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**The British Columbia Forest:  
A Renewable Resource**







**In 1985, over 5.6 million seedlings were planted by MacMillan Bloedel; below, the Company's A.P. MacBean Nursery, recently expanded to provide up to four million high-quality seedlings yearly.**



■ In British Columbia, where the majority of MacMillan Bloedel's forest holdings are located, the Company cares for more than one million hectares\* of productive forest land. Of this land, approximately 58 percent is classified as old growth mature timber. The balance is mainly young forest with only three percent in the process of restocking. The latter three percent is referred to as Not Satisfactorily Restocked (N.S.R.) land.

In an average year, MacMillan Bloedel logs slightly more than one and a half percent of the current mature timber area. The Company's policy is to ensure all logged lands are returned to productive use through replanting or natural regeneration within a short period of time. Since 1962, the Company's reforestation program has exceeded provincial government requirements.

#### **The Designed Forest**

MacMillan Bloedel commenced a more comprehensive forest management program in 1961, designed to ensure the future wood supply. This program evolved into the Designed Forest System: a series of silvicultural treatments applied to individual stands of trees at various stages of development to optimize their growth. A thorough review of this Designed Forest System in 1985 confirmed the direction of this system. In addition, methods were developed for comparing the value of different silvicultural treatments to ensure that the most beneficial ones are given priority.

Supporting the Company's Designed Forest System are:

- the largest silvicultural research program of any company in Canada
- the recently expanded and modernized Company nursery near Nanaimo, B.C.
- the MacMillan Bloedel Harmac Tree Improvement Centre near Nanaimo, B.C. where genetically improved seeds are being developed

\*A hectare is 2.47 acres, or nearly two Canadian football fields.



- a growth and yield monitoring program
- the environmental laboratory.

#### Reforestation

- In 1938, MacMillan Bloedel became the first company in British Columbia to reforest on a planned basis. Reforestation does not simply involve planting trees, it also takes into consideration the influence of nature. Once an area has been logged, a one to three year "waiting period" is allowed for natural regeneration in those areas where the forester expects nature to reforest. If natural regeneration is not expected, the site is planted without waiting.
- Most of the N.S.R. lands are in the process of natural restocking – the balance, an average of 56 percent of the total area logged, is planted.
- In 1985, over 5.6 million seedlings were planted by the Company – nearly 160 million seedlings have been planted since 1938.



**In spite of last summer's drought, fire losses were kept to a minimum thanks to woodlands crews and Forest Industries Flying Tankers, top; fisheries biologists, above, are among the many specialists involved in planning before harvesting begins.**

In 1985, Port Alberni was named the official forestry capital of Canada for 1986 by the Canadian Forestry Association. This honour followed the many activities in Port Alberni during National Forestry Week in May, 1985, including the ceremony in which Her Worship Gillian Trumper, Mayor of Port Alberni, planted MacMillan Bloedel's 60 millionth seedling in the Alberni Region.

#### Protecting the Forests

The 1985 fire season saw the most severe and protracted drought and fire hazard in the forests in over 25 years. Due to the outstanding efforts in patrols, other preventative measures and prompt suppression action, damage experienced by the Company was negligible.





## **The British Columbia Forest: A Renewable Resource**



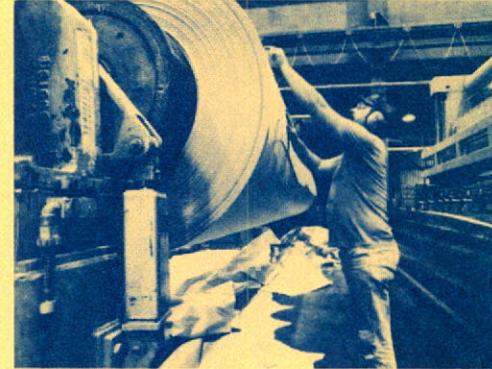
Nearly 400,000 hectares, or 40% of the forest land under management by MB in B.C., supports well-established immature coniferous forest of varying ages. Shown above, a mixed stand of approximately 15 year old Douglas fir and hemlock backed by mature timber left as a "green strip" along a river bed to protect fish habitat.





**MacMillan Bloedel  
Limited**

**Focus on  
Productivity**







- To streamline operations and deal with the harsh realities of the economic recession, MacMillan Bloedel decentralized its operations into five major operating units at the start of 1982. Within the Company these units are known as the Nanaimo Region, the Alberni Region, the Powell River Region, the Marketing Group and the Containerboard and Packaging Group.

The Company then adopted the view that the environment of excess capacity and lower product prices in virtually all the Company's product markets would prevail for some time to come. Accordingly, higher productivity, higher-value products and the reconfiguration of operations were essential to restore profit margins. Many programs have been initiated successfully, yet much more remains to be done. The theme in this year's Annual Report focuses on these achievements in productivity.

What exactly is productivity and how does it relate to the Company's goal of improving profitability?

Productivity is a measure of the efficiency and effectiveness of production output per unit of labour and capital. Production means creating economic value – at MacMillan Bloedel this value is measured by the quantity and quality of end-products derived from raw material, labour, overhead and capital inputs. Improving productivity is not simply a question of producing greater volumes from the available resources. It is also seeking to maximize the value of this production to customers while achieving better profits. Producing higher-value goods at lower unit costs improves corporate profits and creates value. Simply stated, this is the goal of MacMillan Bloedel.

Throughout MacMillan Bloedel key productivity gains are being made in the woodlands, or logging operations. Productivity in the three B.C. Regions' woodlands operations, measured by cubic metres harvested per man-day, has increased substantially since 1981. This has been accomplished through the concerted efforts of employees to develop and implement more efficient and cost effective



equipment and methods. A much greater degree of mechanization in harvesting and the increased use of grapple yarders (the equipment used to move logs to the roadside), has reduced costs compared to more traditional coastal methods. These improvements serve as examples of the progress being made toward reducing the high cost of log harvesting on the rugged B.C. coast. Substantial additional opportunities exist and programs have been or are being implemented for further reductions in harvesting costs.

The challenge is clear for employees in all areas of the Company. Although large strides in cost efficiency and productivity have been made, the potential for additional gains must still be realized.

The examples which follow highlight productivity gains made in each of MacMillan Bloedel's operating units.

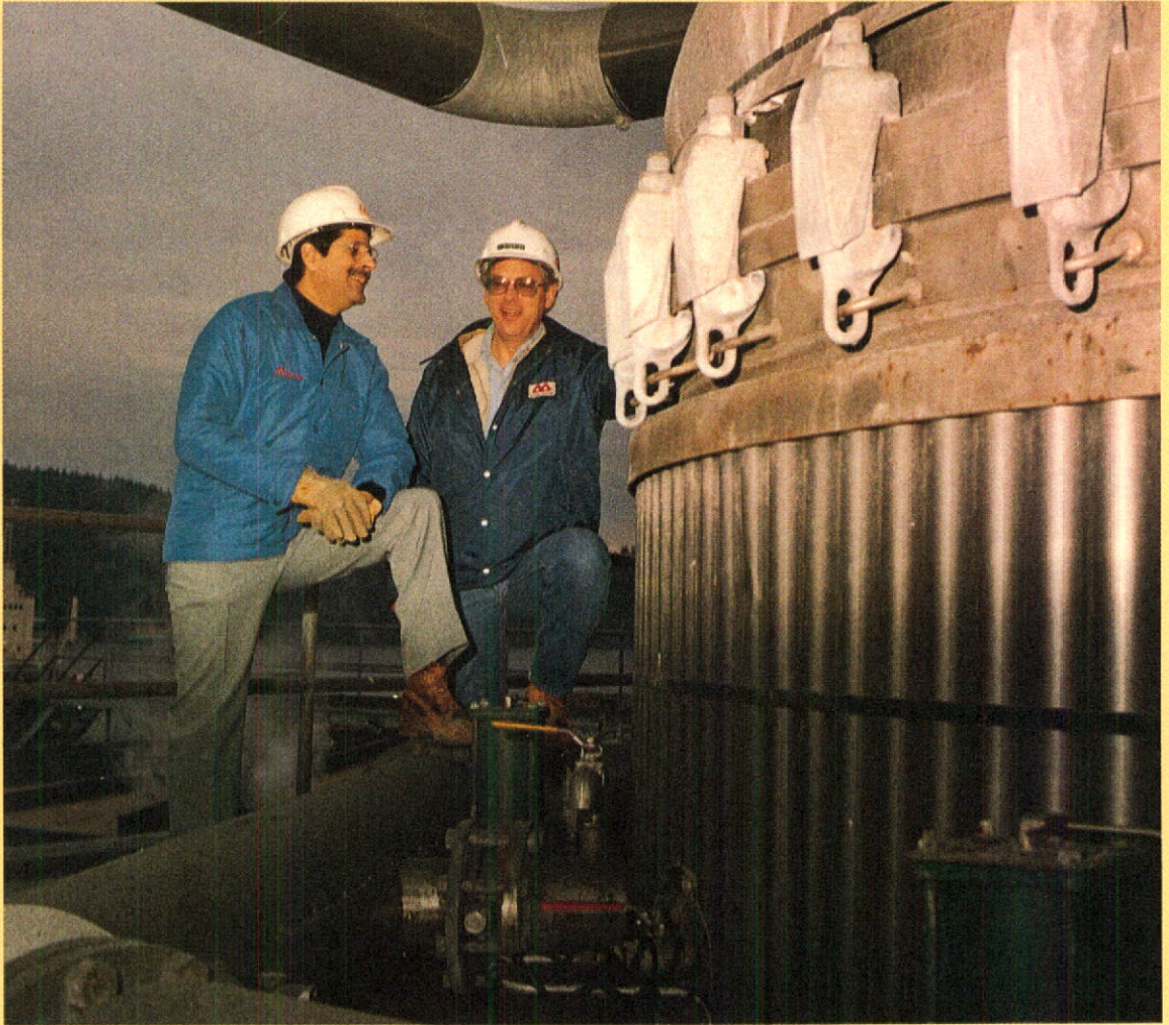
### **Nanaimo Region**

The Harmac market pulp mill represents the Nanaimo Region's largest operation. Substantial reductions in the mill's energy costs have been achieved, as the result of tighter operating controls, modifications to the power boiler, the purchase of surplus hydro power at lower prices and the partial substitution of petroleum coke for fuel oil.

In addition, the Harmac pulp mill commenced an \$8 million project in 1985 to modernize and consolidate its recausticizing plant. The plant is a major part of the complex process of recovering cooking chemicals used in making pulp. When completed in early 1986, the plant will contain state-of-the-art technology with projected benefits to include improved chemical quality, reduced raw materials and maintenance costs, improved quality of production and further reductions in energy consumption.

Increased value-added has been achieved by emphasizing the production of cedar pulp, a premium product made with a high value western red cedar content. This premium cedar pulp is used to manufacture such





- At the Harmac pulp mill efforts have been successfully aimed at improved cost efficiency while the new Chemainus sawmill has nearly tripled productivity and dramatically improved sales values compared to the old mill.





**Featured left, Minoo Kotval, project manager, and John Zurbrigg, construction superintendent, on site at Harmac's recausticizing plant. The \$8 million modernization improved liquor quality and reduced production costs. Above, the new Chemainus sawmill which now produces higher-valued lumber for specialty export markets.**

#### Nanaimo Region

Product (Unit)	Facility	Annual Capacity
<b>Lumber</b> (MMfbm)	Chemainus	106
	Harmac:	
	Wood Room #3	177
	Wood Room #4	149
	Canadian White Pine	118
	New Westminster	50
	Queensborough	24
<b>Lumber Specialties</b> (MMfbm)	Mainland Processing	103
<b>Pulp</b> (K-tonnes)	Harmac	340
<b>Poles</b> (M pieces)	Wood Preserving	13

products as high quality surgical gowns and draperies.

The Chemainus sawmill's focus is on meeting the more specialized needs of customers. Examples are the higher-value lumber used to manufacture products such as window frames and Japanese Shoji screens. In comparing the old mill to the new, net sales values have increased by approximately 40 percent, recovery rates have improved and production levels are close to three times the lumber per manday previously produced. Production data tells only part of the Chemainus story – the team approach and a high level of employee participation in operating the mill have also contributed to its successful results.

The Region's older sawmills have also realized large productivity gains. For example, Mainland Processing division's specialty line installed in late 1984 has increased high-value cedar production by one third over 1984 levels. Also, at Woodrooms #3 and #4, lumber volume per manday has increased and value recovery has improved substantially since 1981.

An innovation successfully being used at Queen Charlotte division is the wide-tire skidder in logging. The Nanaimo Region, in conjunction with the Company's Research and Development Department and the Canadian Forest Service, was the first to adapt the technology of using wide, low ground pressure tires for skidding to the rugged terrain of the West Coast. Their use allows the lower cost retrieval of logs from swampy areas.

#### Alberni Region

The thrust within the Alberni Region sawmills in 1985 was toward achieving maximum value from the logs. A number of different operating modes were implemented at the Alberni Pacific and Somass divisions. In fact, Somass became a cedar specialty operation with heavy emphasis on production of bevel siding.

Five years ago Alpulp's paper machines produced only standard newsprint. Today, two of the mill's three



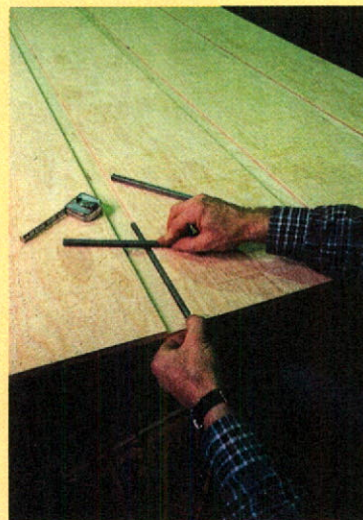


paper machines can run lightweight groundwood printing papers in a range of colours. A key product is yellow telephone directory paper marketed in the U.S. and Japan. The most recent of the two upgrades was the conversion of #3 paper machine at a cost of \$16 million. Paper machine crews, together with their supervisors and technical staff, jointly planned and implemented the project which transformed #3 from a standard newsprint machine into one with multigrade lightweight capability. It can now run telephone directory paper at 3100 feet (945 metres) per minute and is now producing several different grades of printing papers. Operators monitor the process by a computer which controls the stock preparation and can produce quality control checks. The project was completed on time and within budget.

Other projects undertaken at Alulp include improving the hydraulic barker, upgrading the log feeding system and extracting cants for processing into high-grade lumber at Alberni Pacific Division. Innovation rather than capital expenditures was the key to these improvements.

Higher-value products and improved production processes are only part of the story of Alulp's transformation. Throughout the mill employees are working to improve quality and efficiency. By modifying the method of spraying black liquor a substantial reduction in oil consumption has been achieved. Black liquor, a by-product of the pulping process, is the lowest cost fuel available and its efficient use to generate steam can significantly lower the mill's energy costs. In addition, changes to the #4 power boiler increased its hog fuel burning efficiency, another method of reducing oil consumption. These steam plant improvements occurred as the result of employee initiative and teamwork.

Significant productivity improvements in the Region also include those at Alberni Plywood Division. The mill has benefited from product reorientation and reduced



**Featured right, computer operator on the #3 paper machine which was converted to run lightweight groundwood printing papers at a cost of \$16 million; Alberni Plywood benefited from new products, like grooved side paneling, above, and reduced conversion costs.**

#### **Alberni Region**

<b>Product (Unit)</b>	<b>Facility</b>	<b>Annual Capacity</b>
<b>Lumber</b> (MMfbm)	Alberni Pacific Somass	238 175
<b>Plywood</b> (MM sq.ft.-3/8")	Alberni Plywood	150
<b>Pulp</b> (K-tonnes)	Alberni Pulp and Paper	74
<b>Groundwood Printing Papers and Newsprint</b> (K-tonnes)	Alberni Pulp and Paper: Number 3 paper machine Number 4 paper machine Number 5 paper machine	95 110 155





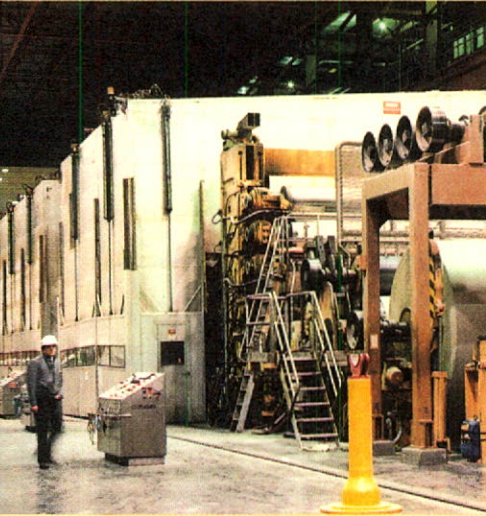
- **Once a producer of standard newsprint alone, Alpulp is today capable of serving a broader market with a variety of lightweight groundwood printing papers.**





- The “Quality Improvement Process” features employee training sessions in all operations to improve performance, efficiency and quality awareness.





**Left, employee participation is the key to productivity gains achieved by the Powell River Region. Above, world-class #11 paper machine has an annual capacity of 180,000 tonnes of high-quality newsprint.**

#### **Powell River Region**

<b>Product (Unit)</b>	<b>Facility</b>	<b>Annual Capacity</b>
<b>Lumber</b> (MMfbm)	Powell River: Woodroom	36
<b>Pulp</b> (K-tonnes)	Powell River	50
<b>Groundwood Printing Papers and Newsprint</b> (K-tonnes)	Powell River:	
	Number 6 paper machine	80
	Number 7 paper machine	80
	Number 9 paper machine	90
	Number 10 paper machine	155
	Number 11 paper machine	180

conversion costs. Much of this has resulted from increased participation by the mill's work force. New or reintroduced products include texturized and grooved siding panels, concrete forms and plywood for preserved wood foundations. The latter is made from hemlock/balsam veneers not readily available to most plywood mills. Both demand and prices for these products increased during 1985.

#### **Powell River Region**

The "Quality Improvement Process" was the key to current productivity gains in the Powell River Region. This process fosters a climate of employee involvement to ensure progress toward the goal of "zero-defects" in operations. In 1985, employees throughout the woodlands, lumber, and pulp and paper operations attended training sessions to increase quality and efficiency awareness.

The results have been most encouraging. Overall, production efficiency in the Region has improved 31 percent over the last four years. In the pulp and paper mill, despite market downtime, production in 1985 on five paper machines was the highest since 1974 when eight machines were operating. In fact, 1985 production from five paper machines exceeded volumes produced in 1970 with ten machines. Production per manday has increased 28 percent since 1981.

On the value-added side, the mill produces first class standard newsprint on #10 and #11 machines and is at the forefront of producing groundwood printing papers. Two major capital projects completed in 1985 were:

- the converting of the thermomechanical pulp mill to a chemi-thermomechanical pulp mill to enhance the brightness and quality of both pulp and newsprint
- the rebuilding of #9 paper machine bringing a new level of diversification to the production capabilities of the Company's largest pulp and paper mill.





The mill's specialty papers include hi brites, such as Electrabrite, and highly finished papers, such as Electraheat and Electratone, used in the printing business. These groundwood printing papers are used in a variety of applications including advertising flyers and computer print-out paper. They attract premiums over standard newsprint in the marketplace.

### Marketing Group

In addition to marketing the Company's products, the Marketing Group's mission is to develop products giving maximum value to customers while achieving improved profit for the Company.

Intense global competition in the commodity markets makes it imperative for MacMillan Bloedel to develop new products that will maximize the value of every log harvested by the Company.

MacMillan Bloedel's old growth mature timber consists of a variety of woods that lend themselves to the development of higher-quality, value-added products. Higher-value lumber products from primarily cedar and hemlock are being tested in many new products, boosting their profit contributions. In addition, technological advances in the printing business have created fast-growing, new markets for groundwood printing papers.

As the marketing mix swings toward higher-value products away from commodity products, the marketing efforts of the Group's 38 building material distribution centres around the world have become more sophisticated with improved standards of customer service.

The Marketing Group also includes transportation activities and nine production divisions.

A key development within the transportation area in 1985 was the eight-year charter of three new forest products carriers each with a capacity of 39,200 deadweight tonnes. These vessels, the "Belwood", the "Beltimber" and the "Belforest" are of open-hatch configuration and are



The "Beltimber", right, has a capacity of 39,200 deadweight tonnes. Above, ASPENITE® is a waferboard produced at Hudson Bay, Sask. and Thunder Bay, Ont. where recent plant modernizations have greatly reduced costs and improved quality and productivity.

### Marketing Group

Product (Unit)	Facility	Annual Capacity
<b>Lumber Specialties</b> (MMfbm)	Atlantic Forest Products Edenton, North Carolina	15
<b>Waferboard</b> (MM sq.ft.-3/4")	Thunder Bay, Ontario	171
	Hudson Bay, Saskatchewan	192
<b>Plywood</b> (MM sq.ft.-3/4")	Nipigon, Ontario	26
<b>Hardboard</b> (MM sq.ft.)	Sturgeon Falls, Ontario	47
<b>Particleboard</b> (MM sq.ft.-3/4")	Vancouver, B.C.	54
<b>Specialty Board</b> (MM sq.ft.)	Vancouver, B.C.	37
<b>Mouldings</b> (MM lineal ft.)	Kingtrim Operations Toronto, Ontario	69





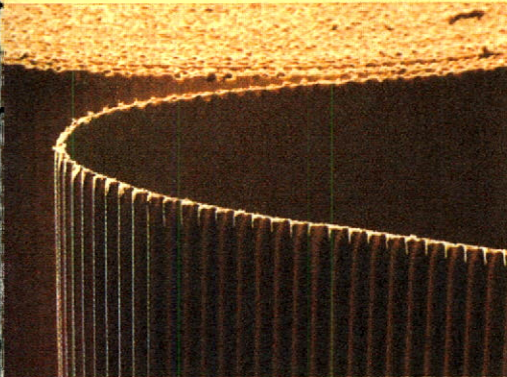
- **A key to the Company's success in developing new markets for higher-valued products in the European Common Market is an efficient transportation system that delivers MB products quickly and safely.**





- Packaging operations in the United States are producing 20 percent more tonnes per manday since 1981, the result of reducing costs and maximizing the use of existing assets.





**Producing higher-value products like these multi-coloured corrugated containers, left, contribute to higher margins. Above, corrugating medium is produced at the Company's mills at Pine Hill, Alabama and Sturgeon Falls, Ontario.**

#### **Containerboard and Packaging Group**

<b>Product (Unit)</b>	<b>Facility</b>	<b>Annual Capacity</b>
<b>Containerboard</b>		
(K-tonnes)		
Linerboard	Pine Hill, Alabama	372
Corrugating	Pine Hill, Alabama	200
Medium	Sturgeon Falls, Ontario	71
<b>Lumber</b>	Pine Hill, Alabama	65
(MMfbm)		
<b>Plywood</b>	Pine Hill, Alabama	133
(MM sq.ft. - 3/8")		
<b>Corrugated Containers</b>	11 locations	284
(K-tonnes)		

each equipped with two high-speed gantry cranes. They are capable of loading and discharging forest products in modularized units at a rate of approximately three times that of conventional bulk carriers; to maximize flexibility and backhaul cargo opportunities they are equipped to carry containers and bulk cargo. Their design also incorporates the latest technology in fuel-efficient engines and hull form to optimize performance at sea.

The nine production divisions in the Marketing Group are experiencing improved profits and productivity increases, in addition to developing value-added products.

Recent modernization projects at the two waferboard manufacturing divisions at Hudson Bay, Saskatchewan and Thunder Bay, Ontario, have resulted in lower costs, improved quality and a 50 percent productivity improvement over the last several years.

#### **Containerboard and Packaging Group**

The Pine Hill complex in Alabama is the heart of the containerboard and packaging operations. This facility has a capacity to produce 372,000 tonnes of linerboard and 200,000 tonnes of medium. The facility is considered as one of the most cost efficient operations in the industry. Despite this favourable ranking, the management of the Pine Hill complex embarked on a program ("5P4Q") of reducing costs by five percent within four quarters. They achieved their goal in 1985 and the annualized value of the savings was approximately US\$13 million. Suppliers' contracts, freight costs, woodland costs and fuel savings were notable areas of cost reductions.

The cost of energy is one of the major factors in operating the Containerboard and Packaging Group's Pine Hill, Alabama operations. Substantial energy cost savings have been experienced in 1985. These savings are the result of utilizing a lower cost mix of fuels in generating energy in addition to negotiating better fuel prices. The benefits of adding the capability of burning lower cost hog fuel and





coal to the mill's power recovery area in 1983 are being realized.

Major productivity improvements in the Group's Pine Hill woodlands operations occurred in 1985. A reorganization in management structure, better utilization of existing logging equipment and decentralization of hauling and maintenance crews have all resulted in a 30 percent productivity increase and reduced log costs for those delivered to the complex.

The Containerboard and Packaging Group's U.S. packaging operations produced 20 percent more tonnes per manday during 1985 than in 1981. Steady productivity improvements have been achieved as a result of efforts by all concerned to maximize the use of existing assets and to reduce controllable costs.

New productivity records were established in many of the plants during the year. Sales emphasis was directed at products best suited to each plant's capabilities. This, together with a team effort by supervisors and hourly employees to produce a quality product at high efficiency levels, has been the major contributing factor to improving performance. Capital expenditures made during the 1980's also contributed to the Group's 25 percent increase in total tonnes produced since 1981.

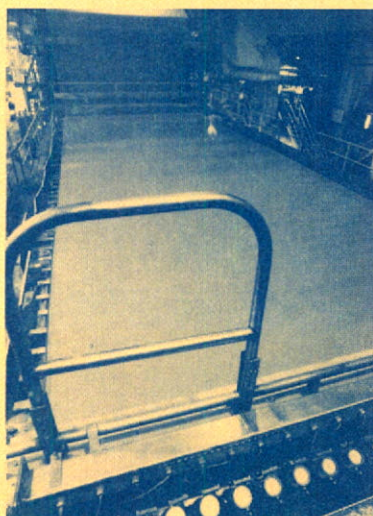
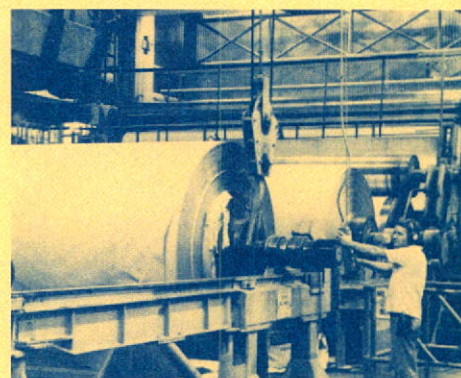
On the value-added side, efforts continue to develop specialty products which can be efficiently produced at each facility or by two or more plants working together. For example, pre-printed liners are produced at two locations and can be converted to finished products at a total of five locations. Display containers are now being produced at three locations and specialty glued containers which offer an automatic setup feature are run at two locations. These specialty products contribute higher margins than traditional commodity items. They are being added to our plants wherever possible without disrupting operating efficiencies on high volume products, which still remain the major market for corrugated containers.





**MacMillan Bloedel  
Limited**

**Year in Review**

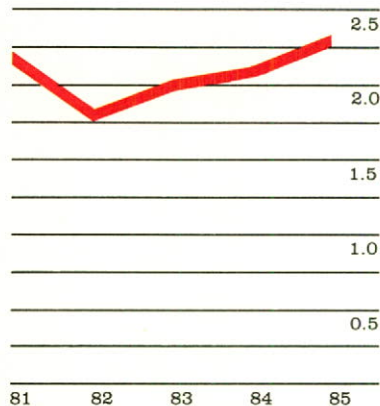






### Sales

(\$ billions)



In 1985 MacMillan Bloedel's sales totalled \$2,335.4 million, an increase of \$207.8 million over 1984. The following table provides an analysis of the change in key product sales from 1984 to 1985:

Product	Dollar Change in Sales 1984 to 1985	Change Attributed to:	
		Shipment Volume	Price*
		(\$ millions)	
Newsprint	\$135.4	\$ 80.8	\$ 54.6
Pulp	(8.1)	39.0	(47.1)
Containerboard	(19.7)	.5	(20.2)
Corrugated Containers	28.1	23.0	5.1
Lumber	85.2	50.8	34.4
	\$220.9	\$194.1	\$ 26.8
Other items	(13.1)		
Total	\$207.8		

\*Including the effect of changing foreign currency exchange rates.

The Company's operating earnings were \$108.9 million in 1985, representing a \$41.7 million increase from \$67.2 million in 1984. British Columbia work stoppages reduced operating earnings by an estimated \$32 million in 1984. Excepting the 1984 work stoppage effect, operating earnings increased by \$9.7 million reflecting a significant change in contributions by various product lines. These changes are explained under the Company's three major industry segments.

Interest expense increased \$3.1 million from 1984 to \$92.0 million in 1985. Although interest rates on floating rate debt decreased and total interest-bearing debt was lower at the end of 1985 than the end of 1984, the average debt outstanding in 1985 was higher than in 1984. The weaker Canadian dollar relative to the U.S. dollar increased the reported interest expense for the U.S. denominated debt.

Equity in earnings of partly-owned companies increased by \$9.7 million from \$14.4 million in 1984 to \$24.1 million in 1985. This was mainly due to significantly higher earnings of Koninklijke Nederlandse Papierfabrieken N.V. (KNP) resulting from a shift to products with higher added value, an average higher sales price level, a decrease of product costs due to more economical use of raw materials and lower pulp prices. Island Paper Mills Limited, MacMillan Bathurst Inc., and MacMillan Smurfit SCA Limited also reported better operating results in 1985 than 1984.

MacMillan Bloedel earned a net profit of \$42.9 million in 1985. After deducting preferred share dividends of \$26.6 million, the net earnings attributable to common shareholders was \$16.3 million or \$.54 per common share. This compares to a net profit of \$19.3 million in 1984 which, after deducting preferred dividends of \$25.1 million, equated to a net loss attributable to common shareholders of \$5.8 million or \$.19 per common share.

### Building Materials

The Company's building materials segment reported a 1985 profit of \$44.5 million on sales of \$1,032.7 million compared to a 1984 profit of \$26.1



million on sales of \$964.9 million.

MacMillan Bloedel's log harvest in British Columbia totalled approximately 7.3 million cubic metres in 1985 compared to approximately 7.6 million cubic metres in 1984. In the summer of 1985, many of the Company's British Columbia logging operations were closed down due to the extreme forest fire threat. Fortunately no major forest fire occurred on the Company's timberlands.

Sales revenue from 1985 export logs was \$35.8 million less than in 1984. This decrease was due to British Columbia forest closures which resulted in a shortage of domestic logs as well as the Chemainus sawmill's utilization of logs that would have been exported in 1985. British Columbia Government export log policy changes effective March 31, 1986 are expected to reduce future export log sales.

In accordance with the Company's reforestation policies, 5.6 million seedlings were planted on 6,400 hectares in 1985 compared to 5,300 hectares and 4.5 million seedlings in 1984. In the spring of 1985 modern computer-controlled greenhouses opened, upgrading the Company's previously temporary nursery at Nanaimo, B.C. Total capacity has been doubled to 4 million seedlings. The new nursery facilities linked with tree improvement and reforestation research are providing healthier, faster growing trees for Company lands.

MacMillan Bloedel's 1985 lumber shipments increased significantly over 1984 as the demand for North American lumber remained strong. United States housing starts in 1985 totalled 1.73 million compared to 1.75 million in 1984, 1.70 million in 1983, and only 1.06 million in 1982. Mortgage rates were lower in 1985 than 1984, dropping to their lowest point in several years. This made a typical home more affordable and triggered many postponed reconstruction and improvement plans. U.S. consumption of lumber in 1985 was 44.2 billion board feet compared to 43.5 billion in 1984, 38.7 billion in 1983, and only 31.2 billion in 1982.

Despite high levels of consumption, available supply was ample as North American lumber production in 1985 ran at near record levels preventing any sustained price improvement. North American lumber prices rose in the fourth quarter of 1984 and rose further in mid-1985, but fell in the third quarter, reflecting an oversupplied market and lower housing starts. From the latter part of 1985, lumber consumption has remained healthy but buyers have been cautious, allowing their inventories to run down. The result has been stagnant prices with mild short-lived price flurries to fill short term needs and fierce competition particularly with respect to dimension lumber. About one-fifth of MacMillan Bloedel's lumber production is shop and better grades which are relatively scarce and command premium prices in world markets.

There is an initiative by certain groups in the United States to enact legislation to impose special import restrictions or duties on lumber imported from Canada. The effect of any such legislation is likely to have an adverse impact on MacMillan Bloedel's future earnings but, at this time, no quantification of the possible effect of such legislation has been undertaken. The Company believes that the current oversupply problem is a North American rather than a uniquely U.S. phenomenon, and that attempts to impose special

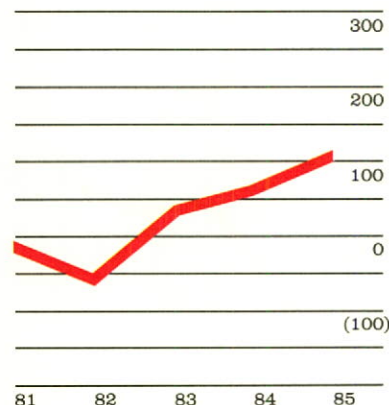




## Year in Review: Results of Operations

### Operating Earnings (Loss)

(\$ millions)



### Five year earnings data

	1981	1982	1983	1984	1985
<b>Sales (\$ millions)</b>	2,209.7	1,843.1	2,044.1	2,127.6	<b>2,335.4</b>
<b>Contributions to earnings (\$ millions)</b>					
Building materials	(16.6)	(32.9)	42.9	26.1	<b>44.5</b>
Pulp and paper	24.5	(12.5)	22.5	33.9	<b>70.7</b>
Containerboard and packaging	35.8	(7.1)	(5.7)	28.0	<b>8.1</b>
Eliminations and unallocated items	(50.9)	(14.3)	(19.2)	(20.8)	<b>(14.4)</b>
<b>Operating earnings (loss)</b>	<b>(7.2)</b>	<b>(66.8)</b>	<b>40.5</b>	<b>67.2</b>	<b>108.9</b>
Other income	20.5	19.3	18.7	8.7	<b>10.4</b>
Interest expense	(63.2)	(78.3)	(80.8)	(88.9)	<b>(92.0)</b>
Severance and closure costs and other items	—	(65.7)	(6.6)	—	—
<b>Earnings (loss) before income taxes</b>	<b>(49.9)</b>	<b>(191.5)</b>	<b>(28.2)</b>	<b>(13.0)</b>	<b>27.3</b>
Income taxes	31.3	95.3	27.2	18.1	<b>(8.5)</b>
Equity earnings (losses)	(3.9)	2.3	2.3	14.4	<b>24.1</b>
Minority interests	(4.2)	.6	1.5	(.2)	—
<b>Earnings (loss) before extraordinary items</b>	<b>(26.7)</b>	<b>(93.3)</b>	<b>2.8</b>	<b>19.3</b>	<b>42.9</b>
Extraordinary items	30.0	36.0	21.1	—	—
<b>Net earnings (loss)</b>	<b>3.3</b>	<b>(57.3)</b>	<b>23.9</b>	<b>19.3</b>	<b>42.9</b>
Less: Provision for preferred dividends	14.7	19.9	19.6	25.1	<b>26.6</b>
<b>Net earnings (loss) for common shareholders</b>	<b>(11.4)</b>	<b>(77.2)</b>	<b>4.3</b>	<b>(5.8)</b>	<b>16.3</b>
<b>Per common share (\$ per common share)</b>					
Operating earnings	(.26)	(2.41)	1.40	2.24	<b>3.57</b>
Net earnings (loss):					
before extraordinary items	(1.50)	(4.08)	(.58)	(.19)	<b>.54</b>
after extraordinary items	(.41)	(2.79)	.14	(.19)	<b>.54</b>
Cash dividends on common shares	.89	.08	—	—	—
Stock dividends	—	.72	1.87	2.06	<b>.90</b>

#### Notes:

Foreign currency accounting changes have been applied prospectively commencing with 1984. Per share data has been restated to reflect stock dividends issued in 1985.



import restrictions or duties are not justified.

Although offshore lumber markets remained weak throughout 1985, the decline in the U.S. and Canadian dollars against currencies of customers and competitors overseas was a positive development. These markets improved marginally in the latter half of 1985 and, in early 1986, net Canadian dollar price realizations were higher.

In 1985 MacMillan Bloedel's sawmills operated at 85% of capacity producing 979 million board feet of lumber (MMFBM), a 16% increase over the 845 MMFBM produced in 1984 when the mills' operating rate was 77%. In early 1984, however, most of the Company's building materials and logging operations in coastal British Columbia were shut down for approximately four weeks as a result of secondary picketing associated with the pulp and paper work stoppage.

The Company's plywood mills produced 250 million square feet of  $\frac{3}{8}$  inch (MM sq.ft. $\frac{3}{8}$ " ) plywood in 1985 utilizing 82% of productive capacity. In 1984 production was slightly lower at 239 MM sq.ft. $\frac{3}{8}$ ". There continues to be a reduced market share for plywood as lower cost products, notably waferboard and oriented strand board, capture more and more of the market. This has continued to depress prices and adversely affect the Company's plywood operating margins.

Prices for waferboard were approximately 12% higher in 1985 than 1984 reflecting strong construction markets. Considering the industry recently experienced significant capacity increases, these higher prices were most encouraging. In 1985 the Company's mill at Thunder Bay, Ontario was closed for three months to modernize the plant. A similar modernization program was completed at the Hudson Bay, Saskatchewan mill in early 1984. In 1985 the two mills produced 273 MM sq.ft. $\frac{3}{8}$ " of waferboard utilizing 78% of productive capacity compared to 257 MM sq.ft. $\frac{3}{8}$ " and 78% in 1984.

MacMillan Bloedel continues to achieve productivity improvements and cost efficiencies throughout the Company. Higher-value product mix is exemplified by the Company's new Chemainus sawmill which better utilizes high-value fir and hemlock logs and recent expenditures to upgrade cedar product outturn at the Alberni and New Westminster sawmills. Reduced manning, reconfigured operations and new operating techniques, such as increased use of mechanical harvesting in the woodlands, are also evident in MacMillan Bloedel's operations.

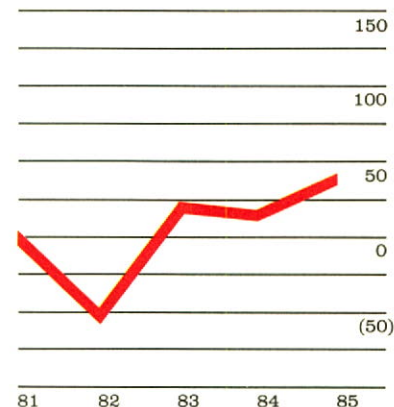
### Pulp and Paper

In 1985 the pulp and paper segment contributed a profit of \$70.7 million, up from \$33.9 million in 1984. Sales for the segment increased to \$848.2 million from the \$713.8 million recorded in 1984.

All of the Company's pulp and paper products showed higher shipment volumes in 1985 than 1984. Production by the Company's newsprint and groundwood printing paper machines in 1985 was 850,000 tonnes utilizing 88% of productive capacity compared to 718,000 tonnes and 72% in 1984. For market pulp facilities, production in 1985 was 422,000 tonnes or 91% of productive capacity compared to 358,000 tonnes and 77% in 1984. Volumes in 1984 were adversely affected by work stoppages which closed the Company's facilities for approximately nine weeks during the first half of the year.

### Net Earnings (Loss)

(\$ millions)







## Year in Review: Results of Operations

### Selected quarterly financial data

	1983		
(\$ millions)	First Quarter	Second Quarter	Third Quarter
<b>Sales</b>	442.0	583.7	497.0
<b>Costs and expenses</b>			
Operating expenses	403.2	477.3	428.1
Depreciation, depletion and amortization	23.4	29.2	26.5
Selling, general and administrative	38.3	38.5	36.6
	464.9	545.0	491.2
<b>Operating earnings (loss)</b>	(22.9)	38.7	5.8
Other income	4.8	.4	4.8
Interest expense	(20.6)	(20.6)	(19.6)
Severance and closure costs and other items	—	—	—
<b>Earnings (loss) before income taxes</b>	(38.7)	18.5	(9.0)
Income tax	15.4	(8.0)	6.2
<b>Earnings (loss) before undernoted items</b>	(23.3)	10.5	(2.8)
Equity in earnings (losses) of partly-owned companies	—	.9	2.8
Minority interests in subsidiaries	.3	.3	.6
<b>Earnings (loss) before extraordinary items</b>	(23.0)	11.7	.6
Extraordinary items	25.4	—	—
<b>Net earnings (loss)</b>	2.4	11.7	.6
Provision for dividends on preferred shares	(5.1)	(4.8)	(4.8)
<b>Net earnings (loss) attributable to common shareholders</b>	(2.7)	6.9	(4.2)
<b>Net earnings (loss) per common share*</b> (dollars)			
before extraordinary items	(1.01)	.24	(.14)
after extraordinary items	(.10)	.24	(.14)
<b>Price range of common shares on Toronto Stock Exchange*</b> (dollars)			
high	25.85	27.70	27.61
low	19.85	22.80	23.16
<b>Dividends per common share*</b> (dollars)			
stock dividends	.44	.46	.49

**Note:**

Foreign currency accounting changes have been applied prospectively commencing with 1984.

\*Restated to reflect stock dividends.



1984					1985			
Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
521.4	411.9	534.2	603.0	578.5	538.6	598.0	597.1	601.7
445.2	379.2	451.3	491.4	486.0	452.9	504.3	502.5	494.4
24.4	20.9	27.3	28.7	27.4	27.8	29.1	27.7	30.1
32.9	35.7	35.5	39.3	37.7	39.8	38.5	39.0	40.4
502.5	435.8	514.1	559.4	551.1	520.5	571.9	569.2	564.9
18.9	(23.9)	20.1	43.6	27.4	18.1	26.1	27.9	36.8
8.7	3.2	4.3	2.5	(1.3)	2.1	2.1	1.9	4.3
(20.0)	(19.0)	(20.6)	(24.5)	(24.8)	(23.7)	(25.0)	(22.4)	(20.9)
(6.6)	—	—	—	—	—	—	—	—
1.0	(39.7)	3.8	21.6	1.3	(3.5)	3.2	7.4	20.2
13.6	19.3	.1	(11.9)	10.6	1.8	(1.9)	(2.5)	(5.9)
14.6	(20.4)	3.9	9.7	11.9	(1.7)	1.3	4.9	14.3
(1.4)	2.9	5.8	3.8	1.9	4.3	6.4	7.3	6.1
.3	—	(.3)	.2	(.1)	—	.1	(.1)	—
13.5	(17.5)	9.4	13.7	13.7	2.6	7.8	12.1	20.4
(4.3)	—	—	—	—	—	—	—	—
9.2	(17.5)	9.4	13.7	13.7	2.6	7.8	12.1	20.4
(4.9)	(6.0)	(6.1)	(6.4)	(6.6)	(6.3)	(6.2)	(6.9)	(7.2)
4.3	(23.5)	3.3	7.3	7.1	(3.7)	1.6	5.2	13.2
.29	(.79)	.11	.24	.24	(.12)	.05	.17	.43
.14	(.79)	.11	.24	.24	(.12)	.05	.17	.43
26.84	32.13	30.70	25.91	25.71	29.16	25.37	22.31	25.38
23.74	26.82	22.97	21.43	23.67	24.51	20.10	17.40	17.63
.48	.55	.59	.44	.48	.54	—	—	.36





## Year in Review: Results of Operations

### 1985 Sales By Product

(\$millions)

Lumber	31.3%	732.2
Panelboards	8.1%	188.6
Newsprint and Groundwood Printing Papers	26.1%	610.1
Pulp	9.3%	217.3
Containerboard and Packaging Products	17.5%	407.7
Other	7.7%	179.5
<b>Total</b>		<b>2,335.4</b>

Consumption of newsprint in the United States in 1985 was slightly up from 1984 and remains at near peak levels. Competition for standard newsprint sales in the western United States, the Company's principal newsprint market, is intense. This is due to new capacity brought on stream in the early 1980's, offshore suppliers entering the market attracted by favourable currency exchange rates, and eastern Canadian producers redirecting tonnage to the West from poor offshore markets. Despite these market conditions, MacMillan Bloedel is benefiting from its dual strategies of controlling costs and increasing production of high-value specialty paper products. Five of the Company's eight paper machines can now run groundwood printing papers such as hi brite grades, telephone directory papers, lightweight newsprint and coloured newsprint. There is a growing demand for these products and they attract price premiums in the marketplace. In the second quarter of 1985, Powell River's #9 paper machine, with an annual capacity of 90,000 tonnes, started producing specialty grades and the #8 machine, with an annual capacity of 50,000 tonnes, was permanently shut down.

Standard newsprint net mill returns were on average higher in 1985 than in 1984 and reflect favourable exchange rate fluctuations. At the beginning of 1984 the Company's delivered price was US\$469 per tonne, from March 1984 through September 1984 it was US\$500 per tonne, and since October 1984 the list price has remained at US\$535 per tonne. However, price pressures have caused considerable discounting from the list price of US\$535 and is widespread throughout the industry. The 5% rebate program introduced by the Company in 1983 for customers taking their contracted volumes continued throughout 1985. To meet the competition and retain market share, the Company introduced a further 5% rebate effective December 1, 1985 for full contract performance by newsprint customers in the western United States. Groundwood printing paper prices averaged approximately US\$640 per tonne in 1985.

Offshore newsprint markets were extremely competitive in 1985. In Latin America, oversupply and the lack of U.S. currency were key factors and show little signs of improvement. Demand in the Orient was down in 1985 compared to 1984 reflecting the slowing economies in Southeast Asia. However, significant sales to China in 1985 and the appreciation of the Japanese yen in the latter half of 1985 were positive factors.

Prices for the Company's market pulps were significantly lower in 1985 than in 1984. The list price for softwood bleached kraft pulp in Europe at the beginning of 1984 was US\$440 per tonne. It rose to US\$540 by April 1984 as a result of high demand from paper producers and tight supply conditions caused partially by British Columbia work stoppages. In the third quarter of 1984, tight supply conditions eased as a result of high levels of production by North American and Scandinavian producers and new capacity which started up in several countries. This, combined with an even stronger U.S. dollar in relation to the currencies of Nordic suppliers, caused prices to fall in late 1984 reaching approximately US\$475 per tonne by year end and declined still further to US\$390 by mid-1985. In early 1986 prices have increased by US\$20 per tonne.

Demand for market pulp was at record levels in 1985, the result of high



levels of fine paper production in major markets. However, this high demand has not been enough to absorb the substantial new supply from mills which started up in 1984 and 1985 in the United States, Austria, Portugal and South Africa. MacMillan Bloedel has been able to compete in this aggressively competitive market in 1985 by reducing production costs.

### **Containerboard and Packaging**

The containerboard and packaging segment reported a contribution of \$8.1 million in 1985 compared to \$28.0 million in 1984. Sales in 1985 amounted to \$408.0 million up slightly from \$403.0 million in 1984.

The United States is the principal market for the Company's containerboard products; however, since the completion of the 1982 plant expansion at Pine Hill, Alabama, significant volumes of containerboard have been sold in the less desirable offshore markets. Prices were lower in 1985 than in 1984. At the beginning of 1984 delivered linerboard in the U.S. sold for US\$290 per ton and rose to US\$320 by the end of the first quarter. Due to record levels of consumption, prices increased to US\$350 per ton in September 1984. By mid-1985 prices dropped to approximately US\$270 per ton due to high inventory levels and weak export markets resulting from the high U.S. dollar. High inventories and over capacity prevented price increases in 1985. Price increases for early 1986 have been announced.

MacMillan Bloedel's linerboard and corrugating medium machines at Pine Hill, Alabama operated at an average 95% of productive capacity in 1985, producing 542,000 tonnes of containerboard compared to 549,000 tonnes in 1984. The corrugating medium mill at Sturgeon Falls, Ontario produced 67,000 tonnes and ran at 94% capacity in 1985 compared to 70,000 tonnes and 98% in 1984.

On December 31, 1984 MacMillan Bloedel acquired two corrugated container plants in the United States. The Company now has 11 plants in the United States located in the Midwest, South and East, which are highly integrated with the Pine Hill containerboard operation. MacMillan Bloedel's U.S. packaging operations results improved slightly in 1985 over 1984 reflecting lower paper costs. Higher sales volumes reflect the two new plants. These higher sales noted in the opening chart analysis also reflect an increase arising from the translation of U.S. dollars into Canadian dollars as the Canadian dollar weakened throughout 1985.

### **Labour Relations**

The contract with the United Paperworkers International Union, covering approximately 900 employees at the Company's Pine Hill, Alabama operations, expired in October 1985 and was renewed without work stoppages in late 1985. The new contract covers a three-year period to late 1988 with no increase in the first year and a 3% increase in both the second and third year. There is virtually zero net cost to MacMillan Bloedel, due to adjustments to non-wage items.

The terms of the contracts settled in 1984 covering mid-1983 to mid-1986 with the three principal unions which represent most of the hourly employees in British Columbia, the International Woodworkers of America





## Year in Review: Financial Position

### 1985 Sales By Market

(\$ millions)

Canada	17.8%	415.3
United States	56.7%	1,323.8
United Kingdom and Europe	10.5%	245.7
Japan and Orient	8.4%	196.9
Other	6.6%	153.7
<b>Total</b>		<b>2,335.4</b>

(IWA), the Canadian Paperworkers Union (CPU) and the Pulp, Paper and Woodworkers of Canada (PPWC), provided for no increase in the first year, a 4% increase in the second year and a 4.5% increase in the final year. Negotiations to renew the agreements with the CPU and PPWC commenced in January 1986 with the objective of reaching agreement early and peaceably.

### Comparison of 1984 and 1983 earnings

MacMillan Bloedel's net earnings before extraordinary items increased from \$2.8 million in 1983 to \$19.3 million in 1984. In 1983 extraordinary items of \$21.1 million included gains from the sale of the Vancouver head office building and 50% of Island Paper Mills.

The increased net earnings were primarily due to a \$26.7 million improvement in operating earnings, the result of higher sales revenue and continued cost controls throughout the Company. Higher shipments of lumber, containerboard and packaging products and better prices for pulp and paper, and containerboard and packaging products accounted for increased revenues. The change was a significant improvement particularly because work stoppages, discussed earlier, reduced 1984 operating results by approximately \$32 million. Markets for the Company's products were generally stronger in 1984 than 1983; however, despite high lumber demand, prices in 1984 were less than in 1983 due to oversupply.

Also contributing to the improved net earnings was a \$12.1 million increase in equity earnings of partly-owned companies. This was due to increased operating earnings of KNP reflecting a favourable market for fine paper in Europe.

Interest expense increased by \$8.1 million to \$88.9 million as a result of higher debt levels, reduced capitalized interest and the appreciation of the U.S. dollar. Other income was lower in 1984 than 1983. The latter year included \$8.4 million of investment income and \$8.2 million from a foreign exchange gain on the repayment of two Dutch guilder loans.

### Financial Position

MacMillan Bloedel continues its presence in the world's major financial markets as part of its policy to maintain a balanced and flexible financial structure and to allow the Company to raise funds on the most advantageous terms. For the first time since 1978, funds generated by operations in 1985 of \$247.9 million more than covered interest and dividend payments totalling \$118.3 million and capital expenditures and investments of \$121.3 million. These improved results together with the proceeds of a \$50 million preferred share issue in July 1985 were the primary contributors to a \$53.6 million decrease in interest-bearing debt from the January 1, 1985 level of \$917.3 million to \$863.7 million at December 31, 1985.

MacMillan Bloedel has in excess of \$1.2 billion of credit lines with major commercial banks, of which over \$800 million are long term contractual lines of credit. From the beginning of 1985, total utilization of these lines decreased by \$42.0 million to \$399.9 million at December 31, 1985. At the end of 1985, the Company had \$408.9 million of unutilized short term bank lines of credit and \$472.5 million of unutilized long term contractual bank lines.



Commencing in 1984 foreign denominated debt is translated at current exchange rates. During 1985 the U.S. dollar appreciated approximately 6% against the Canadian dollar. This had the effect of increasing the Company's interest-bearing debt by \$31.0 million at the end of 1985.

In July 1985 the Company realized net proceeds of \$48.5 million from a perpetual preferred share issue.

In December 1985 the Company acquired interests in oil and gas properties for \$23.2 million. As consideration for the acquisition, the Company issued 1,000 participating preferred shares with a flow through of investment tax credits of \$5.0 million to the vendor. Dividends on the preferred shares are payable only to the extent of after-tax revenues received by the Company from a limited partnership established in connection with the oil and gas carve-out transaction. The preferred shareholder is also entitled to participate in dividends distributed to Common shareholders.

Common shares sold through the employee share purchase plan generated a further \$14.7 million in 1985.

In January 1986 the Company issued perpetual preferred shares generating \$58.1 million in net proceeds.

Capital expenditures in 1985 amounted to \$96.6 million reflecting the policy of restraint set in place in 1981. With the exception of \$19.6 million for the completion of the Chemainus sawmill, the refurbishing of the Thunder Bay waferboard mill and the purchase of two corrugated container plants in the United States, the expenditures relate to ongoing environmental and safety-related items, replacement of existing capacity and technological updating.

In the spring of 1985 the directors decided to commence an annual rather than quarterly dividend. In October 1985 they determined that a common stock dividend of 4% would be appropriate for 1985 and consequently declared a 2% stock dividend payable to shareholders of record on November 15, 1985. This was in addition to a 2% dividend paid in the first quarter. In 1985 the Company declared and paid dividends on all its outstanding preferred shares.

The Company's long term financial objective is to reduce interest-bearing debt and term preferred shares to 35% of invested capital. (For a definition of invested capital see page 1 of the Annual Report.) At the beginning of 1985 the ratio was 56.5% and by the end of the year, largely due to cash generated from operations and the Series 8 Preferred Share issue, the ratio had declined to 52.0% (the Series 10 Preferred Shares issued in early 1986 would further reduce this ratio). To reach this goal MacMillan Bloedel continues to look for new and better ways to increase its profitability not only through increased sales but also by reducing production costs, inventory carrying costs and debt financing costs.

#### 1985 Funds

(\$ millions)

##### Inflows:

- Operating Earnings	108.9
- Dividends from Partly-owned Companies	7.2
- Depreciation, Depletion and Amortization	114.7
- Other Income	10.4
- Decrease in Operating Working Capital	6.7
- New Shares	64.7
- Disposals of Investments and Other Items	12.8
<b>Total</b>	<b>325.4</b>

#### 1985 Funds

(\$ millions)

##### Outflows:

- Interest and Preferred Dividends	118.3
- Capital Expenditures and Investments	121.3
- Reduction in Interest-Bearing Debt	83.6
- Other	2.2
<b>Total</b>	<b>325.4</b>

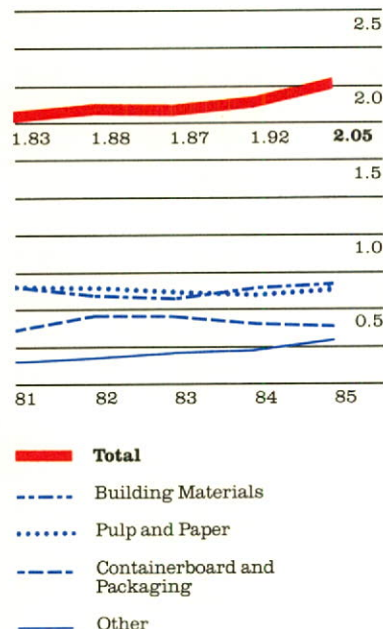




## Year in Review: Financial Position

### Average Invested Capital

(\$ billions)



### Five year financial data

(\$ millions)

	1981	1982	1983	1984	1985
Funds generated by operations	129.5	125.9	55.8	94.6	<b>247.9</b>
Depreciation, depletion and amortization	92.0	82.2	103.5	104.3	<b>114.7</b>
Capital expenditures	307.9	206.8	103.6	137.7	<b>96.6</b>
Interest paid	62.4	78.0	81.2	91.1	<b>91.6</b>
Preferred dividends paid	14.1	19.3	19.9	24.4	<b>26.5</b>
Current assets	700.5	615.8	673.9	739.8	<b>733.1</b>
Current operating liabilities	277.9	236.4	250.6	241.5	<b>239.5</b>
Operating working capital	422.6	379.4	423.3	498.3	<b>493.6</b>
Property, plant and equipment	1,266.3	1,365.8	1,235.6	1,318.4	<b>1,317.2</b>
Investments and other assets	184.1	144.1	191.2	179.3	<b>269.9</b>
Net assets employed	1,873.0	1,889.3	1,850.1	1,996.0	<b>2,080.7</b>
Interest-bearing debt	723.1	865.5	775.6	917.3	<b>863.7</b>
Redeemable term preferred shares	115.9	135.3	136.4	211.4	<b>218.3</b>
Redeemable convertible preferred shares	95.9	95.9	95.9	95.9	<b>95.9</b>
Other redeemable preferred shares	—	—	—	—	<b>50.0</b>
Common equity	752.7	678.3	741.2	680.2	<b>761.9</b>
Deferred credits and minority interests	185.4	114.3	101.0	91.2	<b>90.9</b>
Total invested capital	1,873.0	1,889.3	1,850.1	1,996.0	<b>2,080.7</b>
Interest-bearing debt as a percentage of invested capital	38.6%	45.8%	41.9%	46.0%	<b>41.5%</b>
Interest-bearing debt and redeemable term preferred shares as a percentage of invested capital	44.8%	53.0%	49.3%	56.5%	<b>52.0%</b>

**Note:** Foreign currency accounting changes have been applied prospectively commencing with 1984.

	1981	1982	1983	1984	1985	5 Year Total	% of Total
<b>Capital expenditures</b>							
(\$ millions)							
Raw materials	48.2	14.7	20.3	46.9	24.1	<b>154.2</b>	<b>18.1</b>
Building materials	10.0	1.2	15.8	37.9	16.6	<b>81.5</b>	<b>9.6</b>
Pulp and paper	105.3	41.3	23.1	32.3	32.8	<b>234.8</b>	<b>27.5</b>
Containerboard and packaging	133.2	143.0	42.3	17.4	18.2	<b>354.1</b>	<b>41.5</b>
Other	11.2	6.6	2.1	3.2	4.9	<b>28.0</b>	<b>3.3</b>
Total	307.9	206.8	103.6	137.7	96.6	<b>852.6</b>	<b>100.0</b>





	Year ended December 31		
	1985	1984	1983
	(\$ millions)		
<b>Sales of products and services</b>	<b>\$2,335.4</b>	<b>\$2,127.6</b>	<b>\$2,044.1</b>
<b>Costs and expenses:</b>			
Materials, labour and other operating expenses	<b>1,954.1</b>	1,807.9	1,753.8
Depreciation, depletion and amortization	<b>114.7</b>	104.3	103.5
Selling, general and administrative	<b>157.7</b>	148.2	146.3
	<b>2,226.5</b>	2,060.4	2,003.6
<b>Operating earnings</b>	<b>108.9</b>	67.2	40.5
Other income	<b>10.4</b>	8.7	18.7
Interest expense	<b>(92.0)</b>	(88.9)	(80.8)
Severance and closure costs and other items	—	—	(6.6)
<b>Earnings (loss) before income taxes</b>	<b>27.3</b>	(13.0)	(28.2)
<b>Income tax recovery (expense):</b>			
Current	<b>.2</b>	(1.4)	3.8
Deferred	<b>(8.7)</b>	19.5	23.4
	<b>(8.5)</b>	18.1	27.2
<b>Earnings (loss) before undernoted items</b>	<b>18.8</b>	5.1	(1.0)
Equity in earnings of partly-owned companies	<b>24.1</b>	14.4	2.3
Minority interests in subsidiaries	—	(.2)	1.5
<b>Earnings before extraordinary items</b>	<b>42.9</b>	19.3	2.8
Extraordinary items	—	—	21.1
<b>Net earnings</b>	<b>42.9</b>	19.3	23.9
Provision for dividends on preferred shares	<b>26.6</b>	25.1	19.6
<b>Net earnings (loss) attributable to common shareholders</b>	<b>\$ 16.3</b>	\$ (5.8)	\$ 4.3
<b>Net earnings (loss) per common share</b>			
Before extraordinary items	<b>\$ .54</b>	\$ (.19)	\$ (.58)
After extraordinary items	<b>\$ .54</b>	\$ (.19)	\$ .14

Per share figures have been restated to reflect stock dividends issued in 1985.  
See Note 13 for earnings statement supplementary information.





	December 31	
<b>Net Assets Employed</b>	<b>1985</b>	<b>1984</b>
	(\$ millions)	
<b>Current assets:</b>		
Short term investments and deposits	\$ 17.7	\$ 10.3
Accounts receivable —		
Trade	276.2	275.6
Other	30.1	21.0
Inventories (Note 3)	405.1	428.8
Prepaid expenses	4.0	4.1
	<b>733.1</b>	<b>739.8</b>
<b>Deduct:</b>		
Current liabilities (excluding interest-bearing liabilities) —		
Bank overdrafts in excess of cash in banks	14.7	9.4
Trade accounts payable	103.0	107.3
Accrued payroll and related liabilities	75.2	79.8
Accrued interest on borrowed funds	14.9	15.0
Other accounts payable and accrued liabilities	28.1	25.5
Income taxes payable	1.7	2.2
Dividends payable	1.9	2.3
	<b>239.5</b>	<b>241.5</b>
Operating working capital	<b>493.6</b>	<b>498.3</b>
<b>Investments and other assets:</b> (Note 4)		
Investments accounted for by the equity method	200.8	133.6
Other investments and assets, at cost	55.6	33.5
Subsidiaries not consolidated	13.5	12.2
	<b>269.9</b>	<b>179.3</b>
<b>Property, plant and equipment:</b> (Note 5)		
Buildings and equipment	2,050.7	2,009.3
Less: Accumulated depreciation	956.8	889.3
	<b>1,093.9</b>	<b>1,120.0</b>
Timber and land less accumulated depletion	136.1	134.8
Logging roads	9.6	10.7
Foreign exchange translation adjustment (Note 2)	77.6	52.9
	<b>1,317.2</b>	<b>1,318.4</b>
	<b>\$2,080.7</b>	<b>\$1,996.0</b>

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

**R.V. Smith**  
Director

**A.H. Zimmerman**  
Director



	December 31	
<b>Invested Capital</b>	<b>1985</b>	<b>1984</b>
	(\$ millions)	
<b>Interest-bearing indebtedness:</b>		
Current liabilities —		
Bank indebtedness (Note 6)	\$ 63.1	\$ 185.8
Notes payable	—	9.9
Current portion of long term debt (Note 7)	25.5	24.8
	<b>88.6</b>	<b>220.5</b>
Long term liabilities —		
Term bank loans (Note 8)	436.1	360.4
Bonds and debentures (Note 9)	232.8	253.2
Other secured liabilities	25.0	23.2
Foreign exchange translation adjustment (Note 2)	81.2	60.0
	<b>775.1</b>	<b>696.8</b>
Total interest-bearing indebtedness	<b>863.7</b>	<b>917.3</b>
<b>Deferred income taxes</b>	<b>75.1</b>	<b>72.2</b>
<b>Deferred revenue</b>	<b>15.8</b>	<b>19.0</b>
	<b>954.6</b>	<b>1,008.5</b>
<b>Shareholders' Equity</b>		
<b>Share capital:</b> (Note 10)		
Preferred shares	364.2	307.3
Common shares	429.1	387.0
	<b>793.3</b>	<b>694.3</b>
<b>Contributed surplus</b> (Note 4)	<b>18.2</b>	<b>—</b>
<b>Retained earnings</b>	<b>345.3</b>	<b>356.8</b>
	<b>1,156.8</b>	<b>1,051.1</b>
<b>Foreign exchange translation adjustment</b> (Notes 2 and 11)	<b>(30.7)</b>	<b>(63.6)</b>
	<b>1,126.1</b>	<b>987.5</b>
 Commitments (Notes 10 and 12)		
 Subsequent event (Note 16)		
	<b>\$2,080.7</b>	<b>\$1,996.0</b>





	Year ended December 31		
	1985	1984	1983
	(\$ millions)		
<b>Internal funds:</b>			
<b>Generated by operations</b>			
Operating earnings	\$ 108.9	\$ 67.2	\$ 40.5
Depreciation, depletion and amortization	114.7	104.3	103.5
Other income	10.4	8.7	18.7
Dividends from partly-owned companies***	7.2	3.7	.9
Decrease (increase) in operating working capital**			
Receivables	(9.7)	(29.2)	(70.0)
Inventories	26.2	(51.9)	(76.0)
Other	(9.8)	(8.2)	38.2
Generated by operations	247.9	94.6	55.8
<b>Required for:</b>			
Interest	91.6	91.1	81.2
Dividends	26.7	24.8	20.2
Severance costs and other items	—	—	8.5
Income taxes currently paid	.2	1.9	.2
	118.5	117.8	110.1
<b>Net internal funds</b>	129.4	(23.2)	(54.3)
<b>Funds invested long term:</b>			
Capital expenditures	96.6	137.7	103.6
Investments and other assets	24.7	7.6	23.5
	121.3	145.3	127.1
<b>Funds generated (required)</b>	\$ 8.1	\$ (168.5)	\$ (181.4)
<b>Sources of financing:</b>			
Extraordinary items	\$ —	\$ —	\$ 79.8
Net interest-bearing debt incurred (repaid)	(83.6)	79.7	(67.0)
Issue of common shares	14.7	11.6	59.4
Issue of class B preferred shares	50.0	50.0	1.5
Disposal of investments and other items	12.8	10.9	53.3
Financing provided (repaid)	(6.1)	152.2	127.0
Decrease (increase) in funds*	(2.0)	16.3	54.4
<b>Funds supplied (repaid)</b>	\$ (8.1)	\$ 168.5	\$ 181.4

\*Funds are defined as cash less bank overdrafts, short term investments and deposits and funds held for construction projects.

\*\*Changes in operating working capital are after deducting working capital transferred to the joint ventures formed in 1983.

\*\*\*1984 and 1983 have been reclassified to conform with 1985 presentation.





	Year ended December 31		
	1985	1984	1983
	(\$ millions)		
<b>Balance at beginning of year</b>	<b>\$ 356.8</b>	<b>\$ 426.9</b>	<b>\$ 476.9</b>
<b>Net earnings</b>	<b>42.9</b>	<b>19.3</b>	<b>23.9</b>
	<b>399.7</b>	<b>446.2</b>	<b>500.8</b>
<b>Deduct:</b>			
Cash dividends:			
Preferred shares	<b>26.0</b>	26.7	19.9
Common shares — \$ nil per share*	<b>.2</b>	.4	.3
	<b>26.2</b>	27.1	20.2
Stock dividends:			
Common shares 1985 \$.90 per share (1984 \$2.06 and 1983 \$1.87 per share)	<b>27.3</b>	61.2	53.5
Costs of issue of class B preferred shares, less applicable income taxes of \$.7 million (1984 \$.7 million)	<b>.9</b>	1.1	—
Costs of issue of common shares, less applicable income taxes of \$.2 million in 1983	<b>—</b>	—	.2
	<b>54.4</b>	89.4	73.9
<b>Balance at end of year</b>	<b>\$ 345.3</b>	<b>\$ 356.8</b>	<b>\$ 426.9</b>

Per share figures for 1984 and 1983 have been restated to reflect stock dividends issued in 1985.

\*Cash dividends on common shares represent cash paid in lieu of issuing fractional common shares as stock dividends.

## **Auditors' Report**

To the Shareholders of  
MacMillan Bloedel Limited:

We have examined the consolidated statements of financial position of MacMillan Bloedel Limited as at December 31, 1985 and 1984 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years ended December 31, 1985, 1984 and 1983. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for the years ended December 31, 1985, 1984 and 1983 in accordance with generally accepted accounting principles which, except for the change in the method of accounting for investment tax credits adopted in 1985 and the change in the method of accounting for foreign currency translation adopted in 1984, both as explained in Note 2 to the consolidated financial statements, have been consistently applied during the period.

**Price Waterhouse**  
Chartered Accountants

Vancouver, British Columbia  
February 7, 1986





In these financial statements "MacMillan Bloedel" means MacMillan Bloedel Limited and its consolidated subsidiaries, and "Company" means MacMillan Bloedel Limited as a corporation.

## 1. Accounting policies:

MacMillan Bloedel follows accounting principles generally accepted in Canada. Information with respect to differences between generally accepted accounting principles in Canada and the United States is provided in Note 17.

### (a) Principles of consolidation —

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

### (b) Foreign currency translations —

In 1984 MacMillan Bloedel adopted the new foreign currency translation recommendations of the Canadian Institute of Chartered Accountants (see Note 2).

Pursuant to these recommendations, the assets and liabilities of self-sustaining foreign operations are translated at current rates of exchange while those of integrated foreign operations are translated at current rates for items measured at current prices, and at historical rates for items measured at past prices. Other assets and liabilities denominated in foreign currencies are translated at the year-end rate of exchange.

MacMillan Bloedel considers that its foreign currency denominated debt represents an effective hedge of its foreign currency investments in subsidiary and partly-owned companies. Accordingly, foreign currency translation adjustments relating to long-term debt are included with the foreign exchange translation adjustment relating to self-sustaining foreign operations as a separate component of shareholders' equity.

### (c) Valuation of inventories —

Inventories of substantially all operating and maintenance supplies and raw materials are valued at the lower of average cost and replacement cost. Inventories of manufactured products are valued at the lower of average cost and net realizable value.

### (d) Partly-owned companies —

Investments in partly-owned companies are accounted for

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

### (e) Property, plant and equipment —

Property, plant and equipment are recorded at cost.

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

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

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

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

### (f) Pension costs —

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

### (g) Capitalized interest —

Interest is charged to major capital projects during the construction phase.

## 2. Accounting change:

Effective January 1, 1984 MacMillan Bloedel changed its method of translating foreign currencies from the current/non-current method to the method prescribed by the Canadian Institute of Chartered Accountants (CICA). The effect of this change was to decrease net earnings for 1985 by \$21.4 million (\$.70 per common share) (increase 1984 by \$14.3 million (\$.48 per common share)). The Company believes that certain of the CICA recommendations do not most appropriately reflect the Company's position. However, since the pronouncements of the CICA are incorporated by reference in various Companies and Securities Acts with which the Company complies it has



**2. Accounting change: (continued)**

adopted the method prescribed by the CICA. The non-cash foreign exchange translation adjustments arising from adoption of the new method are separately identified in the Consolidated Statements of Financial Position and have been excluded from the Consolidated Statements of Changes in Financial Position.

Effective January 1, 1985 the Company adopted the method of accounting for investment tax credits prescribed by the CICA. The effect of this change was to reduce net earnings by \$5.6 million (\$.18 per common share).

**4. Investments and other assets:**

Investments accounted for by the equity method —

December 31				
		1985		1984
	% owned	Cost	Undistributed earnings (losses)	Total
(\$ millions)				
Koninklijke Nederlandse Papierfabrieken N.V. (KNP)	38.9	\$ 33.0	\$ 66.2	\$ 99.2
MacMillan Smurfit SCA Limited	50.0	30.4	(6.5)	23.9
Island Paper Mills Limited	50.0	28.7	(.5)	28.2
MacMillan Bathurst Inc.	50.0	24.6	5.0	29.6
Other		3.5	(3.4)	.1
		120.2	60.8	181.0
Foreign exchange translation adjustment		19.8	—	19.8
		\$140.0	\$ 60.8	\$200.8
				\$133.6

Summarized financial information relating to investments accounted for by the equity method is as follows:

December 31				
	KNP	Other	1985 Total	1984 Total
(\$ millions)				
Current assets	\$333.0	\$157.1	\$490.1	\$318.0
Non-current assets	253.9	179.9	433.8	355.0
Foreign exchange translation adjustment	36.2	(3.1)	33.1	(46.6)
	\$623.1	\$333.9	\$957.0	\$626.4
Current liabilities	\$153.4	\$107.8	\$261.2	\$177.7
Non-current liabilities	180.5	99.4	279.9	209.4
Foreign exchange translation adjustment	32.0	4.2	36.2	(22.8)
	\$365.9	\$211.4	\$577.3	\$364.3
Shareholders' equity	213.8	130.0	343.8	293.1
Foreign exchange translation adjustment	43.4	(7.5)	35.9	(31.0)
	\$623.1	\$333.9	\$957.0	\$626.4

**3. Inventories:**

December 31		
	1985	1984
(\$ millions)		
Operating and maintenance supplies	\$ 64.6	\$ 66.0
Logs, poles, pulp chips, pulpwood and cordwood	105.2	116.5
Lumber, plywood and other building materials	162.7	152.2
Pulp and paper products	40.4	48.6
Containerboard and packaging products	32.2	45.5
	\$405.1	\$428.8





## Notes to Consolidated Financial Statements

### 4. Investments and other assets: (continued)

Year ended December 31

	KNP	Other	1985 Total	1984 Total	1983 Total
	(\$ millions)				
Net sales	\$685.6	\$642.4	\$1,328.0	\$1,197.3	\$798.8
Gross profit	\$ 78.1	\$ 26.9	\$ 105.0	\$ 77.5	\$ 37.3
Earnings before extraordinary items	\$ 49.1	\$ 8.5	\$ 57.6	\$ 34.7	\$ .1
Net earnings	\$ 49.1	\$ 8.5	\$ 57.6	\$ 34.7	\$ 2.8

During 1985 the convertible debentures of Koninklijke Nederlandse Papierfabrieken N.V. were converted into common shares of that company resulting in a reduction of MacMillan Bloedel's interest from 40.7% to 38.9%. In 1983 conversions reduced MacMillan Bloedel's interest from 48% to 40.7%.

KNP is constructing a new paper machine capable of producing 175,000 tonnes of light weight coated paper. This project is expected to be completed by the end of 1986 at a total cost of \$300.0 million.

#### Subsidiaries not consolidated —

Losses of the Brazilian subsidiaries for the year ended December 31, 1985 aggregated \$1.9 million (1984 — \$3.3 million, 1983 — \$4.7 million), which amounts have been charged to earnings. The Company's share of the losses of the Brazilian subsidiaries since the original acquisition of shares aggregated \$18.4 million at December 31, 1985. The investment is carried in the Consolidated Statements of Financial Position at cost less provision for these losses.

#### Other investments —

During 1985 the Company acquired interests in oil and gas properties for \$23.2 million. As consideration for the acquisition, the Company issued 1,000 Class B Participating Preferred shares Series 9 with a flow through of investment tax credits of \$5.0 million to the vendor. One thousand dollars of the consideration has been allocated to share capital and \$18.2 million to contributed surplus.

### 5. Buildings and equipment:

	Cost*	Accumulated* depreciation	Net*
	(\$ millions)		
<b>December 31, 1985</b>			
Building materials	\$ 562.0	\$309.4	\$ 252.6
Pulp and paper	958.9	487.7	471.2
Containerboard and packaging	485.1	136.4	348.7
Corporate assets and other	44.7	23.3	21.4
	<u>\$2,050.7</u>	<u>\$956.8</u>	<u>\$1,093.9</u>
<b>December 31, 1984</b>			
Building materials	\$ 555.0	\$294.2	\$ 260.8
Pulp and paper	939.2	461.3	477.9
Containerboard and packaging	469.2	112.5	356.7
Corporate assets and other	45.9	21.3	24.6
	<u>\$2,009.3</u>	<u>\$889.3</u>	<u>\$1,120.0</u>

\*Before application of current exchange rates (Note 2).

Assets having an aggregate historical cost of \$186.8 million (1984 — \$186.8 million) (mainly the Alabama facilities) and the related depreciation and long term debt included in these financial statements are held under capital leases.

### 6. Short term bank indebtedness:

At December 31, 1985 MacMillan Bloedel had short term bank lines of credit aggregating \$472.2 million (1984 — \$707.1 million) of which \$63.1 million (1984 — \$185.8 million) had been drawn down. At December 31, 1985 the available unutilized short term lines of credit aggregated \$408.9 million.



## 7. Payments on long term debt and retractable preferred shares:

Required payments on long term debt, and payments which may be required in regard to retractable preferred shares at December 31, 1985 rates of exchange, for each of the five years after December 31, 1985 are as follows —

	Bonds and debentures	Term bank loans	Other liabilities	Subtotal	Retractable preferred shares	Total
	(\$ millions)					
1986	\$ 19.4	\$ 2.9	\$ 3.2	\$ 25.5	\$ 1.4	\$ 26.9
1987	25.4	13.8	2.1	41.3	121.8	163.1
1988	25.7	31.1	2.0	58.8	54.0	112.8
1989	18.7	39.6	2.4	60.7	4.0	64.7
1990	19.6	63.8	2.4	85.8	4.0	89.8

## 8. Term bank loans (unsecured):

	December 31	
	1985	1984
	(\$ millions)	
Advances under contractual term lines of credit	\$332.0	\$255.8
Loan of U.S. \$50.0 million maturing September 30, 1990 bearing interest at a floating rate not to be less than 9% nor greater than 12½%	58.8	58.8
Loan of U.S. \$31.8 million maturing September 15, 1991 bearing interest at rates related to prime	39.3	40.6
Loan of U.S. \$7.1 million maturing March 31, 1989 bearing interest in part at 9½% and in part at a rate related to the London Interbank rate for U.S. dollar deposits	8.5	9.5
	438.6	364.7
Less: Payments due within one year	2.5	4.3
	\$436.1	\$360.4

At December 31, 1985 MacMillan Bloedel had contractual term bank lines of credit aggregating \$815.8 million (1984 — \$581.9 million) of which \$336.8 million (1984 — \$256.1 million) had been drawn down. These contractual term lines provide for loans on a revolving basis for one to nine years, followed by repayment periods of up to eight years. As at December 31, 1985 the available unutilized contractual term lines of credit aggregated \$472.5 million.

## 9. Bonds and debentures:

	December 31	
	1985	1984
	(\$ millions)	
<b>MacMillan Bloedel Limited —</b>		
6.45% sinking fund debentures, series A, maturing October 1, 1990 (U.S. \$10.5 million)	\$ 11.3	\$ 13.5
6½% sinking fund debentures, series C, maturing July 15, 1992 (U.S. \$8.9 million)	9.5	9.6
8½% sinking fund debentures, series E, maturing May 15, 1991	12.0	12.4
8¾% sinking fund debentures, series F, maturing July 1, 1994 (U.S. \$43.5 million)	42.0	46.3
11¼% sinking fund debentures, series G, maturing January 15, 1995	27.3	29.2
9% sinking fund debentures, series J, maturing February 1, 1992 (U.S. \$36.5 million)	37.3	38.5
9¼% sinking fund debentures, series K, maturing March 15, 1993 (U.S. \$36.7 million)	40.5	42.2
	179.9	191.7
<b>MacMillan Bloedel Inc. * —</b>		
4¾% sinking fund industrial development revenue bonds, maturing June 1, 1988 (U.S. \$14.3 million)	15.4	20.3
4.90% - 5.50% general obligation industrial bonds, series 1977, maturing December 1, 1997 (U.S. \$7 million)	.8	.8
10¼% pollution control bonds, maturing November 1, 2000 (U.S. \$15.0 million)	18.0	18.0
10½% pollution control bonds, maturing November 1, 2015 (U.S. \$15.0 million)	18.0	18.0
9½% industrial development revenue bond, maturing April 30, 1987 (U.S. \$3.6 million)	4.3	7.2
8½% to 10½% industrial development revenue bonds, maturing 1993 (U.S. \$6.0 million)	7.5	7.5
70% of prime industrial development revenue bonds, maturing 1994 (U.S. \$2.9 million)	3.8	3.8
	67.8	75.6
	247.7	267.3
Less: Payments due within one year	14.9	14.1
	\$232.8	\$253.2

\*These bonds are direct obligations of Industrial Development Boards and municipal authorities in Alabama, Arkansas, Mississippi and New Jersey.





## Notes to Consolidated Financial Statements

### 9. Bonds and debentures: (continued)

Substantially all of MacMillan Bloedel's assets are pledged by fixed and floating charges as security for the outstanding bonds and debentures and other liabilities. The trust indentures securing the Company's debentures contain provisions limiting the amount of indebtedness which the Company can incur. At December 31, 1985 approximately \$385.0 million of additional long term indebtedness could be incurred (there is no trust indenture restriction on the amount of short term indebtedness that can be incurred). This amount would be reduced by any redemption of shares (Note 10).

### 10. Share capital:

By resolution of the shareholders passed on April 20, 1983 the Company's authorized capital was increased to 50.0 million common shares, 3.4 million class A preferred

shares and 20.0 million class B preferred shares issuable in series, all without par value.

	December 31	
	1985	1984
	(\$ millions)	
<b>Outstanding shares without par value</b>		
<b>Preferred —</b>		
3,400,000 class A	\$ 87.9	\$ 87.9
1,847,997 class B, series 1	46.2	46.2
1,986,515 class B, series 2	49.7	49.7
241,250 class B, series 3	24.1	25.2
250,000 class B, series 4	22.3	22.3
2,000,000 class B, series 6	50.0	50.0
2,000,000 class B, series 8	50.0	—
1,000 class B, series 9	—	—
	<b>330.2</b>	<b>281.3</b>
Foreign exchange translation adjustment	<b>34.0</b>	<b>26.0</b>
	<b>364.2</b>	<b>307.3</b>
<b>Common — 30,929,624 shares</b>	<b>429.1</b>	<b>387.0</b>
	<b>\$793.3</b>	<b>\$694.3</b>

### The Class A Preferred Shares —

The class A preferred shares are redeemable, at the option of the Company, at U.S.\$25.00 per share; the shares are retractable, at the option of the holder, on May 1, 1987 at U.S.\$25.00 per share. The shares carry the right to cumulative preferential dividends at a rate of 1½% above one-half of the average U.S. prime rate.

### The Class B Preferred Shares —

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

	Date	Price
Conversion features		
Series 1:		
Convertible into one common share on or before	December 1, 1990	\$ 31.89
Series 2:		
Convertible into one common share on or before	March 1, 1986	\$ 35.43
	March 1, 1991	\$ 38.60
Redemption features		
Series 1:		
Company's redemption options — redeemable after	September 1, 1985	\$ 26.25(1)
Company's redemption obligation — make all reasonable efforts to purchase during each calendar quarter commencing January 1, 1991 1% of the shares outstanding on December 2, 1990		maximum \$ 25.00
Series 2:		
Company's redemption options — redeemable after	February 29, 1984	\$ 26.25(2)
	March 1, 1986	\$ 26.25(1)
Company's redemption obligation — make all reasonable efforts during each calendar quarter commencing April 1, 1991 to purchase 1% of the shares outstanding on March 2, 1991		maximum \$ 25.00



## 10. Share capital: (continued)

	Date	Price
Series 3:		
Company's redemption options — redeemable after	July 1, 1985	\$103.00(3)
Company's redemption obligations —		
redeem 5% of original holdings annually on	July 1 of 1986	
	through 1990	\$100.00
redeem remaining shares on	July 1, 1991	\$100.00
Series 4:		
Company's redemption options — redeemable before	September 1, 1987	U.S.\$100.00
Company's redemption obligations —		
redeem 4,687 shares each quarter	September 1, 1987	
	through June 1, 1992	U.S.\$100.00
redeem remaining shares on	September 1, 1992	U.S.\$100.00
Series 6:		
Company's redemption options — redeemable after	March 1, 1988	\$ 25.00
Company's redemption obligations — make all reasonable		
efforts to purchase during each calendar quarter		
commencing April 1, 1988 1% of the shares		
outstanding on January 1, 1988		maximum \$ 25.00
Series 8:		
Company's redemption options — redeemable after	September 1, 1990	\$ 26.00(4)
Company's redemption obligations — make all reasonable		
efforts to purchase, for \$25.00 or less per share, during		
each calendar quarter		
(i) commencing March 1, 1987 ½ of one percent of the shares		
outstanding on February 28, 1987 and		
(ii) commencing September 1, 1990 1% of the shares		
outstanding on August 31, 1990		
Retractable features		
Series 6:		
Retractable at the option of the holder for redemption	March 1, 1988,	
	1989, 1990 and 1991	\$ 25.00

(1) This price declines \$.25 annually to \$25.00.

(2) Redeemable only if the weighted average price is not less than \$44.29 for series 2.

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

(4) This price declines \$.50 annually to \$25.00.

### Dividends

Series 1	\$2.00 per annum cumulative preferential, payable quarterly.
Series 2	\$2.08 per annum cumulative preferential, payable quarterly.
Series 3	cumulative preferential equal to the sum of 1¼% and ½ of the defined average minimum lending rate per annum, payable quarterly.
Series 4	cumulative preferential equal to the sum of 1½% and ½ of the defined average U.S. prime rate per annum, payable quarterly.
Series 6	cumulative preferential cash dividends of \$2.21 per share per annum, payable quarterly.
Series 8	cumulative preferential cash dividends of 9.25% to September 1, 1990 and 73% of the Canadian prime interest rate thereafter.
Series 9	Dividends on the Series 9 preferred shares are payable only to the extent of revenues received by the Company from oil and gas property interests (Note 4). The holder of the Series 9 preferred shares is also entitled to participate in dividends distributed to Common shareholders.

### Share purchase plans —

#### Employee

The Company has reserved 2.5 million common shares for issuance pursuant to the employee share purchase plan of which 1,724,368 had been taken up as at December 31, 1985.

#### Senior management

At December 31, 1985 loans to employees under the senior management share purchase plan amounted to \$1.3 million. The majority of the loans are non-recourse, interest free, maturing June 25, 1991 and secured by a pledge of the common shares.

#### Options to purchase common shares —

Options for 14,000 shares were granted, options for 1,939 shares were exercised and options for 742 shares were relinquished during 1983. Options for 1,160 shares were exercised and options for 5,640 shares were relinquished during 1984. Options for 4,874 shares were exercised





## Notes to Consolidated Financial Statements

### 10. Share capital: (continued)

during 1985. Certain options were extended to December 31, 1986. The options outstanding and the option prices are adjusted so that options are not diluted by the payment of common stock dividends, leaving the outstanding options at December 31, 1985 as follows —

Number of shares	Option price	Expiry date
63,704 shares	\$15.45	December 31, 1986
1,274 shares	33.43	June 24, 1991
47,405 shares	14.98	July 27, 1987
14,878 shares	19.69	January 1, 1988

### Changes in share capital —

The following is a summary of the changes in share capital since January 1, 1983 —

	Issued	
	Number of shares	(\$ millions)
Class A preferred shares		
Balance January 1, 1983 unchanged		
December 31, 1985	3,400,000	\$ 87.9
Class B preferred shares		
Series 1		
Balance January 1, 1983, unchanged		
December 31, 1983 and 1984	1,848,270	\$ 46.2
Converted to 211 common shares during 1985	(273)	—
Balance December 31, 1985	1,847,997	\$ 46.2
Series 2		
Balance January 1, 1983 unchanged		
December 31, 1985	1,986,515	\$ 49.7
Series 3		
Balance January 1, 1983	266,000	\$ 26.6
Redeemed during 1983	(3,500)	(.4)
Balance December 31, 1983	262,500	26.2
Redeemed during 1984	(10,250)	(1.0)
Balance December 31, 1984	252,250	25.2
Redeemed during 1985	(11,000)	(1.1)
Balance December 31, 1985	241,250	\$ 24.1
Series 4		
Balance January 1, 1983	233,100	\$ 20.8
Issued in 1983	16,900	1.5
Balance December 31, 1983, 1984 and 1985	250,000	\$ 22.3
Series 5		
Issued in 1983	15,500	\$ 15.5
Redeemed during 1983	(15,500)	(15.5)
Balance December 31, 1983, 1984 and 1985	—	\$ —

	Issued	
	Number of shares	(\$ millions)
Series 6		
Issued in 1984 unchanged		
December 31, 1985	2,000,000	\$ 50.0
Series 7		
Issued in 1984	200	\$ 10.5
Redeemed in 1984	(200)	(10.5)
Balance December 31, 1984 and 1985	—	\$ —
Series 8		
Issued in 1985 and outstanding at December 31, 1985	2,000,000	\$ 50.0
Series 9 (Note 4)		
Issued in 1985 and outstanding at December 31, 1985	1,000	\$ —
Common shares		
Balance January 1, 1983	22,612,501	\$201.4
Shares issued for cash*	1,575,000	50.0
Stock dividends	1,928,167	53.5
Employee share purchase plan	330,422	9.3
Share options exercised	1,939	.1
Balance December 31, 1983	26,448,029	314.3
Stock dividends	2,181,207	61.2
Employee share purchase plan	433,010	11.5
Share options exercised	1,160	—
Balance December 31, 1984	29,063,406	387.0
Conversion of class B preferred shares	211	—
Stock dividends	1,176,576	27.3
Employee share purchase plan	684,557	14.7
Share options exercised	4,874	.1
Balance December 31, 1985	30,929,624	\$429.1

\*During 1983 the Company issued 967,500 common shares to Noranda Mines Limited, a related party, for cash of \$30.7 million as part of a public offering of such shares.

### 11. Foreign exchange translation adjustment:

	December 31, 1984	December 31, 1985	
	Balance	Year ended	Balance
	(\$ millions)		
Working capital	\$ (14.4)	\$ 21.5	\$ 7.1
Long term investments	(11.3)	17.5	6.2
Fixed assets	52.9	24.7	77.6
Long term debt	(60.0)	(21.2)	(81.2)
Preferred shares	(26.0)	(8.0)	(34.0)
Deferred income taxes	(4.8)	(1.6)	(6.4)
	\$ (63.6)	\$ 32.9	\$ (30.7)



**11. Foreign exchange translation adjustment:**  
(continued)

This adjustment represents the unrealized foreign currency translation loss on foreign operations. The majority of the adjustment is related to operations in the United States and an investment in the Netherlands.

**12. Commitments:**

In addition to commitments for capital expenditures and the future supply of operating services and materials, MacMillan Bloedel is committed at December 31, 1985 in respect of the following —

(a) Ship charters and rentals under non-cancellable leases having an initial term of more than one year as follows —

	Ship charters	Leases	Total
	(\$ millions)		
1986	\$ 28.8	\$ 16.1	\$ 44.9
1987	31.0	13.1	44.1
1988	27.0	12.1	39.1
1989	22.3	8.4	30.7
1990	22.8	5.4	28.2
1991 - 1995	61.7	5.8	67.5
1996 - 2000	—	2.0	2.0
2001 - 2005	—	1.3	1.3
Subsequent to 2005	—	.4	.4
	<b>\$193.6</b>	<b>\$ 64.6</b>	<b>\$258.2</b>

(b) The acquisition of timber in Alabama under long term cutting contracts requiring minimum annual payments (extending in some cases to the year 2034); payment of approximately \$6.3 million is required in each of the next five years.

**13. Earnings statements supplementary information:**

(a) Costs and expenses include the following —

	Year ended December 31		
	1985	1984	1983
	(\$ millions)		
Interest expense —			
Long term debt interest	\$ 77.8	\$ 69.3	\$ 66.0
Other interest	14.3	20.8	18.2
	<b>92.1</b>	<b>90.1</b>	<b>84.2</b>
Less: Interest capitalized	.1	1.2	3.4
	<b>\$ 92.0</b>	<b>\$ 88.9</b>	<b>\$ 80.8</b>
Effective average interest rate	9%	10%	10%

	Year ended December 31		
	1985	1984	1983
	(\$ millions)		
Other income —			
Income from investments	\$ 6.1	\$ 5.3	\$ 8.4
Other	4.3	3.4	10.3
	<b>\$ 10.4</b>	<b>\$ 8.7</b>	<b>\$ 18.7</b>
Depreciation	\$ 97.1	\$ 85.8	\$ 86.9
Depletion	11.8	12.5	11.2
Amortization	5.8	6.0	5.4
	<b>\$114.7</b>	<b>\$104.3</b>	<b>\$103.5</b>
Pension expense (Note 15)	\$ 19.0	\$ 18.8	\$ 16.9
Research and development expenses	\$ 14.7	\$ 10.6	\$ 8.8
Less: Government grants	.6	.6	.6
	<b>\$ 14.1</b>	<b>\$ 10.0</b>	<b>\$ 8.2</b>
Rental expense on leases of more than one month, and time charter hire	\$ 48.9	\$ 52.8	\$ 54.7

Selling, general and administrative expenses include direct remuneration of the directors and executive officers of the Company aggregating \$4.0 million (1984 — \$3.5 million; 1983 — \$3.7 million).

(b) Income taxes —

Consolidated income tax expense (recovery) is composed of —

	Canadian federal	Canadian provincial	Foreign	Total
	(\$ millions)			
<b>Year ended December 31, 1985</b>				
Current	\$ (2.2)	\$ .5	\$ 1.5	\$ (.2)
Deferred	10.2	8.6	(10.1)	8.7
	<b>\$ 8.0</b>	<b>\$ 9.1</b>	<b>\$ (8.6)</b>	<b>\$ 8.5</b>
<b>Year ended December 31, 1984</b>				
Current	\$ (.1)	\$ .5	\$ 1.0	\$ 1.4
Deferred	(6.2)	(6.2)	(7.1)	(19.5)
	<b>\$ (6.3)</b>	<b>\$ (5.7)</b>	<b>\$ (6.1)</b>	<b>\$ (18.1)</b>
<b>Year ended December 31, 1983</b>				
Current	\$ .2	\$ (1.5)	\$ (2.5)	\$ (3.8)
Deferred	(8.6)	(4.5)	(10.3)	(23.4)
	<b>\$ (8.4)</b>	<b>\$ (6.0)</b>	<b>\$ (12.8)</b>	<b>\$ (27.2)</b>

Deferred income taxes result from differences in the timing of the recognition of revenue and expense for taxation and financial statement purposes respectively.





## Notes to Consolidated Financial Statements

### 13. Earnings statements supplementary information: (continued)

The sources of these differences and the tax effects of each were as follows:

	Year ended December 31		
	1985	1984	1983
	(\$ millions)		
Deferred income tax expense (recovery) related to —			
Depreciation, depletion and amortization	\$ 32.0	\$ (28.1)	\$ (18.1)
Inventory valuation	.9	(1.3)	(.3)
Differences in timing of income items	.7	.6	(4.7)
Expense provisions	5.5	2.3	(.2)
Losses for which tax recoveries are provided	(34.2)	14.3	3.2
Expenses renounced for income tax purposes	—	(6.5)	—
Other items	3.8	(.8)	(3.3)
	<u>\$ 8.7</u>	<u>\$ (19.5)</u>	<u>\$ (23.4)</u>

The components of MacMillan Bloedel's income tax expense (recoveries) for 1985, 1984 and 1983 as a percentage of earnings (loss) before income taxes are as follows —

	Year ended December 31		
	1985	1984	1983
Canadian federal income tax rate	46.0%	(46.0%)	(46.0%)
Canadian manufacturing and processing allowance	(7.5)	8.5	2.3
Provincial, state and withholding taxes	10.2	(7.0)	(0.8)
Losses for which tax recoveries were not recorded	7.1	2.6	—
Deferred rate adjustments including investment tax credits	4.5	(8.5)	19.9
Inventory allowances	(11.2)	(21.2)	(9.9)
Foreign exchange translation adjustments	—	(11.3)	2.3
Capital gains	(19.7)	—	(10.3)
Tax adjustments and assessments	11.9	(3.8)	(16.0)
Foreign tax rates different from Canadian rates	(12.3)	(28.6)	(10.7)
Items that are not deductible (taxable)	2.1	(16.0)	(19.6)
Other items	—	(7.9)	(7.6)
Effective income tax rate	<u>31.1%</u>	<u>(139.2%)</u>	<u>(96.4%)</u>

### (c) Extraordinary items —

#### 1983 —

Profit on disposal of head office building, after provision for income taxes of \$6.5 million and deferral of \$23.8 million to future periods in connection with the leaseback of part of the head office building

\$ 20.1

Profit on disposal of 50% interest in Island Paper Mills Limited after provision for income taxes of \$1.5 million

5.3

MacMillan Bloedel's interest in income tax reductions arising from losses carried forward by Koninklijke Nederlandse Papierfabrieken N.V.

3.9

29.3

#### Deduct:

Provision for loss with respect to investment in and amounts receivable from Celupal S.A.

8.2

\$ 21.1

### (d) Net earnings per common share —

Net earnings per common share is computed by dividing the net earnings, after providing for dividends on the class A and class B preferred shares, by the weighted average number of common shares outstanding during the year. The number of shares outstanding is adjusted to the beginning of the period for share dividends issued during the period.

There would have been no decrease in the net earnings per common share in 1985 from the conversion of outstanding convertible securities.

### 14. Related party transactions:

MacMillan Bloedel sells products in the ordinary course of business and at fair market values to related parties and also purchases certain products for resale from related parties. These transactions include the sale of pulp to Koninklijke Nederlandse Papierfabrieken N.V., and Island Paper Mills Limited, the sale of containerboard to MacMillan Bathurst Inc. and MacMillan Smurfit SCA Limited and the purchase of lumber from Northwood Pulp and Timber Limited.

	Year ended December 31		
	1985	1984	1983
	(\$ millions)		
Sales to related parties	\$ 80.3	\$ 83.5	\$ 43.7
Purchases from related parties	\$ 32.5	\$ 40.1	\$ 23.7
	December 31		
	1985	1984	
	(\$ millions)		
Accounts receivable from related parties	\$ 12.5	\$ 14.9	



### 15. Pension plans:

MacMillan Bloedel has a number of contributory and non-contributory pension plans, participation in which is available to substantially all employees after one or two years of continuous service. In addition, the Company has agreements with some of its officers and executives (including retirees) which call for payments to be made under certain conditions following retirement.

Benefits for the executive pension plan were revised and associated costs are being written off over five years commencing in 1984.

As at December 31, 1985 the estimated excess of pension fund assets and provisions over the estimated obligations for pension benefits amounted to approximately \$38.2 million.

	December 31		
	1985	1984	1983
	(\$ millions)		
Pension fund assets	\$353.9	\$311.3	\$304.4
Obligations for pension benefits under all plans and agreements	318.5	291.3	274.6
Excess of fund assets over obligations for benefits	35.4	20.0	29.8
Provisions	2.8	9.8	13.4
Excess over plan obligations	\$ 38.2	\$ 29.8	\$ 43.2

### 16. Subsequent event:

On January 27, 1986 the Company issued 2.4 million class B preferred shares series 10 for \$60.0 million less expenses of \$1.9 million.

Until March 1, 1991 dividends on the series 10 preferred shares will be payable quarterly on the first day of March, June, September and December in an amount equal to \$2.175 per share (8.7%) per annum.

Thereafter, dividends on the series 10 preferred shares will be payable monthly. Commencing March 1, 1991, the dividend rate will float in relation to changes in prime and in addition will be adjusted upwards or downwards on a monthly basis whenever the calculated trading price of the series 10 preferred shares is less than \$24.875 or more than \$25.125, respectively. The initial annual floating dividend rate will be equal to 73% of prime. The maximum monthly adjustment for changes relating to the calculated trading price will be 4% of prime. However, the annual dividend rate applicable for a month will in no event be less than 50% of prime or greater than prime.

### 17. Information with respect to United States generally accepted accounting principles (U.S. GAAP):

With the introduction of new U.S. and Canadian standards for pension accounting with which the Company is presently in substantial compliance and after adopting the Canadian standards for foreign currency exchange translation procedures introduced in 1984, there are no longer any material differences in consolidated net earnings.

The balance sheet captions listed below are specifically required for the United States Securities and Exchange Commission (SEC):

	December 31	
	1985	1984
	(\$ millions)	
Total assets	\$2,329.7	\$2,256.7
Current assets	742.7	758.8
Current liabilities	327.4	489.1

The SEC requires that redeemable preferred shares not be shown as part of shareholders' equity. Accordingly, under U.S. GAAP shareholders' equity would be:

	December 31	
	1985	1984
	(\$ millions)	
Common shares	\$ 429.1	\$ 387.0
Contributed surplus	18.2	—
Retained earnings — U.S. GAAP	345.3	342.3
	792.6	729.3
Foreign exchange translation adjustment	(30.7)	(63.6)
	\$ 761.9	\$ 665.7





## Notes to Consolidated Financial Statements

### 18. Segment information:

	Sales from Canada to	Sales to unaffiliated customers from	Contributions to earnings (loss) (2)	Assets
	(\$ millions)			
<b>Year ended December 31, 1985</b>				
Canada	\$ 410.1	\$ 948.3	\$ 111.9	\$1,138.3
United States	815.1	1,292.1	18.1	734.2
Europe (primarily the United Kingdom)	193.7	93.5	1.5	30.6
Other	317.4	1.5	1.1	19.3
	1,736.3	2,335.4	132.6	1,922.4
Eliminations and adjustments:				
Inter-segment			(7.2)	(7.3)
General corporate			(6.1)	313.5
Foreign exchange translation adjustment				101.1
Interest expense			(92.0)	
Consolidated totals	\$1,736.3	\$2,335.4	\$ 27.3	\$2,329.7
<b>Year ended December 31, 1984</b>				
Canada	\$ 366.7	\$ 948.9	\$ 63.2	\$1,193.7
United States	601.9	1,097.7	26.7	724.6
Europe (primarily the United Kingdom)	202.0	78.9	.2	40.5
Other	349.4	2.1	.8	6.6
	1,520.0	2,127.6	90.9	1,965.4
Eliminations and adjustments:				
Inter-segment			(.5)	(.1)
General corporate			(14.5)	249.7
Foreign exchange translation adjustment				41.7
Interest expense			(88.9)	
Consolidated totals	\$1,520.0	\$2,127.6	\$ (13.0)	\$2,256.7
<b>Year ended December 31, 1983</b>				
Canada	\$ 427.1	\$ 951.6	\$ 62.8	\$1,094.9
United States	541.7	940.5	(6.1)	695.6
Europe (primarily the United Kingdom)	193.3	150.1	.5	42.5
Other	322.4	1.9	1.1	6.2
	1,484.5	2,044.1	58.3	1,839.2
Eliminations and adjustments:				
Inter-segment			2.8	.4
General corporate			(8.5)	279.2
Interest expense			(80.8)	
Consolidated totals	\$1,484.5	\$2,044.1	\$ (28.2)	\$2,118.8



# 18. Segment information:(continued)

	Total revenue	Contributions to earnings (loss) (1)(2)	Depreciation, depletion and amortization	Capital expenditures	Assets
	(\$ millions)				
<b>Year ended December 31, 1985</b>					
Building materials	\$1,032.7	\$ 44.5	\$ 46.6	\$ 40.7	\$ 757.5
Pulp and paper	848.2	70.7	34.6	32.8	713.3
Containerboard and packaging	408.0	8.1	24.7	18.2	438.8
Other	46.5	2.1	.3	1.1	5.5
Total operations	2,335.4	125.4	106.2	92.8	1,915.1
General corporate		(6.1)	3.0	3.8	313.5
Foreign exchange translation adjustment			5.5		101.1
Interest expense		(92.0)			
Consolidated totals	\$2,335.4	\$ 27.3	\$114.7	\$ 96.6	\$2,329.7
<b>Year ended December 31, 1984</b>					
Building materials	\$ 964.9	\$ 26.1	\$ 45.8	\$ 84.8	\$ 777.3
Pulp and paper	713.8	33.9	28.4	32.3	723.4
Containerboard and packaging	403.0	28.0	23.2	17.4	459.1
Other	45.9	2.4	.4	.8	5.5
Total operations	2,127.6	90.4	97.8	135.3	1,965.3
General corporate		(14.5)	3.2	2.4	249.7
Foreign exchange translation adjustment			3.3		41.7
Interest expense		(88.9)			
Consolidated totals	\$2,127.6	\$ (13.0)	\$104.3	\$137.7	\$2,256.7
<b>Year ended December 31, 1983</b>					
Building materials	\$ 906.0	\$ 42.9	\$ 44.6	\$ 36.1	\$ 691.2
Pulp and paper	661.0	22.5	33.7	23.1	684.5
Containerboard and packaging	437.1	(5.7)	21.8	42.3	459.6
Other	40.0	1.4	.5		4.3
Total operations	2,044.1	61.1	100.6	101.5	1,839.6
General corporate		(8.5)	2.9	2.1	279.2
Interest expense		(80.8)			
Consolidated totals	\$2,044.1	\$ (28.2)	\$103.5	\$103.6	\$2,118.8

## Notes:

(1) Basis of segmentation

MacMillan Bloedel carries on an integrated forest products business which involves extensive transfers of raw materials and products among operations. Segmenting an integrated forest products business into product and service categories involves allocating conversion and other costs and raw material costs. Raw material costs are allocated on a basis proportionate to the end product net revenue before deducting fibre cost. Other pricing policies and methods of allocating costs are possible but at this time the Company believes the above determined method to be most appropriate to its circumstances.

(2) Contributions to earnings (loss)

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

(3) Sales of products and services

Treated poles, pilings and export log sales are included in building material sales.





## Notes to Consolidated Financial Statements

### 19. Subsidiary companies:

#### ACTIVE

##### Canada

Canadian Transport  
Company Ltd.  
Forest Industries Flying  
Tankers Limited  
Kingcome Navigation  
Company Ltd.  
MacMillan Bloedel Building  
Materials Limited  
MacMillan Bloedel  
(Hudson Bay) Limited  
MacMillan Bloedel  
(Pacific) Limited  
MacMillan Bloedel  
(Thunder Bay) Limited  
Vancouver Island  
Stevedoring Co. Ltd.  
Vancouver Marine Engines  
Ltd.

##### United States

Canadian Transport  
(N.Y.) Inc.  
Fibres International, Inc.  
MacMillan Bloedel  
Financial Inc.  
MacMillan Bloedel Inc.  
MacMillan Bloedel  
(U.S.A.) Inc.  
MacMillan Bloedel  
Particleboard Inc.  
Powell River-Alberni Sales  
Corporation  
Star Terminal Company,  
Incorporated

##### United Kingdom

MacMillan Bloedel Pulp  
and Paper Sales Limited  
MBM Forest Products  
Limited

**INACTIVE** (including  
holding companies not  
carrying on active  
operations)

Harmac Limited  
MacMillan Bloedel  
(Alberni) Limited  
MacMillan Bloedel  
Building Limited  
MacMillan Bloedel Export  
Sales Ltd.  
MacMillan Bloedel  
Packaging Limited  
MacMillan Bloedel  
(Saskatchewan) Limited

Atlantic Forest Products  
Inc.  
MacMillan Bloedel Radio  
System, Inc.  
MacMillan Bloedel  
Timberlands Inc.

Canadian Transport  
(Terminals) Limited  
Hygrade Corrugated Cases  
Limited  
MacMillan Bloedel  
Containers Holdings  
Limited  
MacMillan Bloedel  
Holdings (U.K.) Limited  
MacMillan Bloedel  
Panelboard Agencies  
Limited  
MBM Terminals Limited

#### ACTIVE

##### Other

Camarin Limited  
Canadian Maas River  
Investment N.V.  
Fortrans N.V.  
MacMillan Bloedel Building  
Materials K.K.  
MacMillan Bloedel Europe  
B.V.  
MacMillan Bloedel FSC Ltd.  
MacMillan Bloedel Pty.  
Limited  
MacMillan Bloedel (Asia)  
Limited  
MacMillan Bloedel Finance  
Limited  
MacMillan Bloedel K.K.  
MacMillan Bloedel (South  
East Asia) Limited

**INACTIVE** (including  
holding companies not  
carrying on active  
operations)

Altair Limited  
Canadian Transport  
Company Pty. Limited  
MacMillan Bloedel (Brasil)  
Ltda.  
MacMillan Bloedel  
European Holdings B.V.  
Sociedade Civil de  
Investimentos Florestais  
Limitada (1)

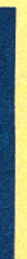
(1) Holding company for MacMillan Bloedel's subsidiaries located in Brazil  
which are not consolidated. (Notes 1 and 4)





**MacMillan Bloedel  
Limited**

**Corporate and  
Statistical Information**







## Corporate and Statistical Information

<b>Sales by segment</b>	1981	1982	1983	1984	1985
(\$ millions)					
<b>Building materials</b>					
Lumber	534.3	462.6	576.6	649.0	<b>732.2</b>
Plywood	121.7	83.6	108.3	97.0	<b>96.7</b>
Waferboard	60.6	24.1	40.8	42.9	<b>51.2</b>
Particleboard	16.7	10.4	10.7	10.6	<b>10.7</b>
Other	105.6	87.2	169.6	165.4	<b>141.9</b>
	<b>838.9</b>	<b>667.9</b>	<b>906.0</b>	<b>964.9</b>	<b>1,032.7</b>
<b>Pulp and paper</b>					
Newsprint	559.6	449.9	458.5	462.2	<b>610.1</b>
Market pulp	207.0	180.3	177.6	224.2	<b>217.3</b>
Fine papers*	35.4	38.3	4.3	0.5	<b>0.8</b>
Recycled fibre and other	28.9	14.5	20.6	26.9	<b>20.0</b>
	<b>830.9</b>	<b>683.0</b>	<b>661.0</b>	<b>713.8</b>	<b>848.2</b>
<b>Containerboard and packaging</b>					
Corrugated containers*	391.0	365.8	281.3	173.1	<b>202.3</b>
Containerboard	115.0	82.0	138.7	224.6	<b>205.4</b>
Other**	18.5	12.8	17.1	5.3	<b>0.3</b>
	<b>524.5</b>	<b>460.6</b>	<b>437.1</b>	<b>403.0</b>	<b>408.0</b>

\*Includes sales from fine paper and corrugated container operations until they were transferred to joint ventures in 1983.

\*\*Includes sales from the bag and specialty operation up to the time it was sold in 1984.

<b>1985 Sales by market</b>	Canada	United States	Japan and Orient	U.K. Europe and Other	Total
<b>Building materials</b>					
Lumber (MMfbm)	287.0	1,032.2	108.6	190.9	<b>1,618.7</b>
Plywood (MMsq.ft.- <sup>3</sup> / <sub>8</sub> " )	223.8	79.0	—	45.5	<b>348.3</b>
Waferboard (MMsq.ft.- <sup>3</sup> / <sub>8</sub> " )	134.1	154.9	—	.1	<b>289.1</b>
Particleboard (MMsq.ft.- <sup>3</sup> / <sub>4</sub> " )	41.6	.4	2.0	—	<b>44.0</b>
<b>Pulp and paper</b>					
Newsprint (K-tonnes)	96.7	595.0	79.5	89.2	<b>860.4</b>
Market pulp (K-tonnes)	12.4	51.1	106.7	261.6	<b>431.8</b>
Recycled products (K-tonnes)	12.0	115.1	—	—	<b>127.1</b>
<b>Containerboard and packaging</b>					
Linerboard (K-tonnes)	1.1	177.8	5.9	107.4	<b>292.2</b>
Corrugating medium (K-tonnes)	71.7	115.5	—	29.4	<b>216.6</b>
Corrugated containers (K-tonnes)	—	217.0	—	2.9	<b>219.9</b>



<b>Production</b>	1981	1982	1983	1984	1985
<b>Building materials</b>					
Lumber (MMfbm)	910	635	822	845	<b>979</b>
Plywood (MMsq.ft.-3/8")	357	254	314	239	<b>250</b>
Waferboard (MMsq.ft.-3/8")	259	114	182	257	<b>273</b>
Particleboard (MMsq.ft.-3/4")	41	35	40	34	<b>45</b>
<b>Pulp and paper</b>					
Newsprint (K-tonnes)	961	702	788	718	<b>850</b>
Market pulp (K-tonnes)	342	326	369	358	<b>422</b>
<b>Containerboard and packaging</b>					
Linerboard (K-tonnes)	363	288	299	351	<b>340</b>
Corrugating medium (K-tonnes)	68	42	199	268	<b>269</b>
Corrugated containers (K-tonnes)*	434	386	322	194	<b>219</b>
<b>Operating rates</b>	1981	1982	1983	1984	1985
(percent)					
<b>Building materials</b>					
Lumber	56	46	75	77	<b>85</b>
Plywood	69	55	79	81	<b>82</b>
Waferboard	93	41	65	78	<b>78</b>
Particleboard	76	65	74	63	<b>84</b>
<b>Pulp and paper</b>					
Newsprint	82	67	79	72	<b>88</b>
Market pulp	78	71	80	77	<b>91</b>
<b>Containerboard and packaging</b>					
Linerboard	78	76	74	87	<b>91</b>
Corrugating medium	96	58	76	103	<b>99</b>
Corrugated containers*	71	63	68	83	<b>78</b>

\*Includes corrugated container plants in Canada and the United Kingdom until they were transferred to joint ventures in 1983.





## Corporate and Statistical Information

### Principal facilities

Building Materials	Division	Location	Aggregate effective annual capacities at year-end 1985	1985 Production
<b>Lumber</b> (MMfbm)	Alberni Pacific	Port Alberni, British Columbia	238	161
	Somass	Port Alberni, British Columbia	175	115
	Harmac	Nanaimo, British Columbia		
	Woodroom #3		177	186
	Woodroom #4		149	141
	Chemainus	Chemainus, British Columbia	106	69
	Canadian White Pine	Vancouver, British Columbia	118	128
	New Westminster	New Westminster, British Columbia	50	48
	Queensborough	New Westminster, British Columbia	24	28
	Powell River	Powell River, British Columbia	36	28
	Pine Hill	Pine Hill, Alabama	65	63
			<b>1,138</b>	<b>967</b>
<b>Lumber Specialties</b> (MMfbm)	Mainland Processing	New Westminster, British Columbia	103	102
	Atlantic Forest Products	Edenton, North Carolina	15	12
			<b>118</b>	<b>114</b>
<b>Plywood</b> (MM sq.ft. - 3/8")	Alberni Plywood	Port Alberni, British Columbia	150	130
	Pine Hill	Pine Hill, Alabama	133	99
	Nipigon	Nipigon, Ontario	26	21
			<b>309</b>	<b>250</b>
<b>Waferboard</b> (MM sq.ft. - 3/8")	Hudson Bay	Hudson Bay, Saskatchewan	192	169
	Thunder Bay	Thunder Bay, Ontario	171	104
			<b>363</b>	<b>273</b>
<b>Particleboard</b> (MM sq.ft. - 3/4")	Particleboard	Vancouver, British Columbia	<b>54</b>	<b>45</b>
<b>Hardboard</b> (MM sq.ft.)	Sturgeon Falls	Sturgeon Falls, Ontario	<b>47</b>	<b>32</b>
<b>Specialty Board</b> (MM sq.ft.)	Specialty Board	Vancouver, British Columbia	<b>37</b>	<b>16</b>
<b>Mouldings</b> (MM lineal ft.)	Kingtrim Operations	Toronto, Ontario	<b>69</b>	<b>41</b>
<b>Poles</b> (M pieces)	Wood Preserving	New Westminster, British Columbia	<b>13</b>	<b>9</b>



### Principal facilities

<b>Pulp and Paper</b>	Division	Location	Aggregate effective annual capacities at year-end 1985	1985 Production
<b>Market Pulp</b> (K-tonnes)	Harmac	Nanaimo, British Columbia	340	314
	Alberni Pulp and Paper	Port Alberni, British Columbia	74	71
	Powell River	Powell River, British Columbia	50	37
			<b>464</b>	<b>422</b>
<b>Newsprint and Groundwood Printing Papers</b> (K-tonnes)	Alberni Pulp and Paper	Port Alberni, British Columbia	360	330
	Powell River	Powell River, British Columbia	585	520
			<b>945</b>	<b>850</b>
<b>Containerboard</b>				
<b>Linerboard</b> (K-tonnes)	Pine Hill	Pine Hill, Alabama	372	340
<b>Corrugating Medium</b> (K-tonnes)	Pine Hill	Pine Hill, Alabama	200	202
	Sturgeon Falls	Sturgeon Falls, Ontario	71	67
			<b>643</b>	<b>609</b>
<b>Corrugated Containers</b> (K-tonnes)	11 Locations	United States	<b>284</b>	<b>219</b>





**E.K. Cork** <sup>2,4</sup>  
Toronto, Ontario  
Senior Vice-President,  
Treasurer, Noranda Inc.

**D.C. Davenport** <sup>2,4,6</sup>  
Vancouver, British Columbia  
Partner, Davis & Company

**J.T. Eyton** <sup>4</sup>  
Caledon, Ontario  
President and Chief  
Executive Officer,  
Brascan Limited

**R.E. Harrison** <sup>3,4</sup>  
Toronto, Ontario  
Corporate Director

**G.H.D. Hobbs** <sup>1,2,3,4,5</sup>  
Vancouver, British Columbia  
Corporate Director

**C.C. Knudsen** <sup>1,4</sup>  
Seattle, Washington  
Vice-Chairman  
MacMillan Bloedel Limited

**Dr. K.G. Pedersen** <sup>4</sup>  
London, Ontario  
President, University of  
Western Ontario

**A. Powis** <sup>1,4</sup>  
Toronto, Ontario  
Chairman and Chief  
Executive Officer,  
Noranda Inc.

**R.V. Smith** <sup>1,4</sup>  
West Vancouver,  
British Columbia  
President and  
Chief Executive Officer  
MacMillan Bloedel Limited

**Jean M. Southam** <sup>1,4,6</sup>  
Vancouver, British Columbia  
Private Investor

**G.M. Tidball** <sup>4,5</sup>  
Langley, British Columbia  
President and Chief  
Executive Officer,  
Keg Restaurants Ltd.

**A.H. Zimmerman** <sup>1,3,4</sup>  
Toronto, Ontario  
President and Chief  
Operating Officer,  
Noranda Inc.

### **Honorary Directors**

**The Honourable J.V. Clyne,**  
**C.C., K.St.J.**

**J.E. Richardson**

### **Committees of the Board**

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





**R.V. Smith**

President and Chief  
Executive Officer

**A.H. Zimmerman**

Chairman of the Board

**C.C. Knudsen**

Vice-Chairman of the Board

**D.L. McLauchlin**

Executive Vice-President,  
Operations

**R.B. Findlay**

Senior Vice-President,  
Alberni Region

**O.L. Forgacs**

Senior Vice-President,  
Research and Development

**S.W. Forstrom**

Senior Vice-President,  
Powell River Region

**J.L. Howard, a.c.**

Senior Vice-President,  
Law and Corporate Affairs

**Wilhelm Peppler**

Senior Vice-President,  
International

**J. St.C. Ross**

Senior Vice-President,  
Nanaimo Region

**R.N. Wiewel**

Senior Vice-President,  
Marketing Group

**G.A. Adams**

Vice-President,  
Transportation

**G.L. Ainscough**

Vice-President and Chief  
Forester

**J.C. Bauer**

President,  
MacMillan Bloedel  
Containers

**J.G. Dickinson**

Vice-President,  
Planning and Analysis

**D.A. Dowsley**

Vice-President,  
Building Materials,  
Nanaimo Region

**G.M. Ferguson**

Vice-President, Treasurer

**J.C. Finkbeiner**

Vice-President, Tax,  
Properties and Risk  
Management

**H.E. Fließbach**

Assistant Treasurer

**A.N. Grunder**

Vice-President,  
Information Systems and  
Services

**W.E. Hawkings**

Vice-President,  
Engineering

**D.H. Holden**

Vice-President,  
Corporate Communications

**Claire-Marie Jadot**

Assistant Secretary

**G.H. Johncox**

Vice-President,  
Human Resources

**E. Lauritzen**

Vice-President,  
Pulp and Paper, Marketing  
Group

**E.G. Legg**

Vice-President, Controller,  
Marketing Group

**R.V. Matthews**

Vice-President, Controller

**F.H. Moonen**

Vice-President,  
Government Affairs

**W.W. Shorter**

President,  
MacMillan Bloedel Inc.

**D.W. St. John**

Vice-President,  
Lumber, Marketing Group

**G. Wishart**

Secretary

**V.R. Worthy**

Vice-President, Panelboards,  
Marketing Group





**Annual Meeting**

The Company's Annual General Meeting of common shareholders will be held Thursday, March 27, 1986 at 10 a.m. in the British Columbia Ballroom of the Hotel Vancouver, 900 West Georgia Street, Vancouver, British Columbia, Canada. Shareholders are invited to attend this meeting, participate in discussions about the Company and meet the directors and officers responsible for the operation of MacMillan Bloedel Limited.

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

Both stock and cash dividends paid to United States shareholders of the Company's shares are subject to a 15% Canadian non-resident withholding tax. Also, interest paid to United States holders of the Company's debt obligations is subject to 15% Canadian non-resident withholding tax, except for interest payable to exempt entities and to holders of debt issued by the Company after June 23, 1975 where the terms of the debt do not require repayment of more than 25% of the principal amount within five years from the date of issue.

**Distribution of Common Shares and Registered Common Shareholders  
as at January 31, 1986**

	Common Shares	Common Shareholders*
Canada	28,975,077	9,421
United States	1,980,871	894
Other	25,000	90
	<u>30,980,948</u>	<u>10,405</u>
Share warrants	186	
	<u>30,981,134</u>	

\*Excludes approximately 7,000 beneficial shareholders, many of whom are employees of the Company.

**Exchange Listings**

**Common Share Listings:** New York, Toronto, Montreal, Vancouver.

**Class B Preferred Share Listings:** Toronto, Montreal, Vancouver.

**Ticker Symbols:** New York Stock Exchange—MMB; Canadian Stock Exchanges—MB.

**Transfer Agents and Registrars**

**Guaranty Trust Company of Canada**

Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal

**The Chase Manhattan Bank**

New York

**Form 10-K Available**

The Company's Annual Report to the United States Securities and Exchange Commission (Form 10-K) is available on request. Please write to:

The Secretary  
MacMillan Bloedel Limited  
1075 West Georgia Street  
Vancouver, B.C. V6E 3R9



### **Paper Stock**

- The text stock used throughout this report is 70 lb. Hi-Lite Offset, produced in New Westminster, B.C. by Island Paper Mills Limited, 50 percent owned by MacMillan Bloedel. The cover stock is 300 gsm Forticote Gloss, produced in the Netherlands by Koninklijke Nederlandse Papierfabrieken N.V. (KNP), which is 38.9 percent owned by the Company. KNP fine paper was marketed for the first time in North America in 1985.



