



Annual Report 1984

MacMillan Bloedel is adapting to a changed market environment by emphasizing lower costs and higher end-product values. However, the coastal forest products industry of British Columbia needs the mutual cooperation of management, unions and government to realize full benefit from the great opportunities that lie ahead.



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 1.6 million hectares of productive timberlands which supply most of its fibre requirements. Of these timberlands, 1.1 million hectares are in British Columbia where the Company's headquarters and approximately 55 per-cent of its invested capital are located. The products of MacMillan Bloedel and its affiliated companies are marketed throughout the world and include lumber, panelboards, kraft pulp, newsprint, groundwood specialty papers, fine papers, containerboard and corrugated containers.

Annual Meeting

The Annual General Meeting of common shareholders will be held in the B.C. Ballroom of the Hotel Vancouver, 900 West Georgia Street, Vancouver, B.C., on Thursday, March 28, 1985, at 10 a.m. Shareholders are invited to attend this meeting, take part in discussions about the Company, and meet the directors and officers responsible for the operation of MacMillan Bloedel.



Highlights

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MacMillan Bloedel Limited

	1984	1983
Financial results (\$ millions)		
Sales	2,127.6	2,044.1
Operating earnings	67.2	40.5
Earnings before extraordinary items	19.3	2.8
Net earnings after extraordinary items	19.3	23.9
Funds generated by operations	90.9	54.9
Return on invested capital (Note 2)	4.5%	3.1%
Per common share (\$ per common share)		
Loss before extraordinary items and after preferred dividends	(.20)	(.61)
Net earnings (loss) after extraordinary items and preferred dividends	(.20)	.15
Funds generated by operations	3.16	1.98
Stock dividends	2.14	1.95
Book value (year-end)	23.36	25.81
Assets (\$ millions)		
Capital expenditures	137.7	103.6
Invested capital (year-end) (Note 1)	1,996.0	1,850.1
Additional information		
Debt to invested capital (year-end) (Note 3)	46.0%	41.9%
Common shareholders of record (year-end)	10,052	10,319
Common shares outstanding (year-end)	29,063,406	26,448,029
Number of employees (year-end)	14,994	15,472
Employee compensation (\$ millions)	587.9	601.8

Notes:

1. "Invested capital" is defined as the sum of interest-bearing debt, deferred income taxes, minority interests, preferred share capital and common shareholders' equity including retained earnings.
2. "Return on invested capital" is defined as net operating profit after taxes (NOPAT) as a percentage of average invested capital. NOPAT is defined as the sum of net earnings before extraordinary items and minority interests, the change in deferred income taxes and interest expense net of associated current taxes.
3. The impact on this ratio of the new method of accounting for foreign exchange is discussed on page 24.
4. Certain 1983 figures have been restated to reflect stock dividends issued in 1984.
5. Foreign currency accounting changes have been applied prospectively commencing with 1984.

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The Challenge of Change

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MacMillan Bloedel addresses the problems facing British Columbia's coastal forest industry – its new realities, its challenges and its opportunities.





Letter to Shareholders and Employees

"MacMillan Bloedel is addressing the cost disadvantages that have harmed the coastal industry's competitive position. Over the past five years, the Company has invested \$588 million in its B.C. operations and emphasis has been placed on value of outturn and increased productivity in the woodlands and converting mills."

Building on the significant productivity improvements made over the last three years, MacMillan Bloedel continued to improve its operating earnings during the year.

Operating earnings increased from \$40.5 million in 1983 to \$67.2 million in 1984, the result not only of continued cost controls, but also of increased sales revenues. After adjusting for the 1983 sales of the Canadian and British packaging operations which entered into joint ventures in that year, sales increased \$229 million over 1983. Of this, \$118 million was due to higher prices and \$111 million to increased shipments.

Supply & Demand

The demand for newsprint in the Company's major market of the western United States increased significantly between 1983 and 1984. Strong newsprint markets throughout the year and favourable pulp markets in the second and third quar-

ters were responsible for pulp and paper's increased contribution to earnings.

Markets for containerboard experienced strong demand growth in the first half of the year which led to a price increase in the first quarter. Inventories rose in the second half of the year and a further increase effective September 1984 was rolled back in January 1985. This roll-back is expected to be temporary pending the correction of oversupply conditions.

Prices for building materials fell between 1983 and 1984 in response to the supply/demand imbalance in the North American lumber market. Although softwood lumber consumption reached near-record levels in the United States in 1984, strong demand was met by high industry operating rates throughout North America. With excess capacity in place, markets were oversupplied throughout the year.

Operating Earnings

The Company's operating earnings did not fully reflect the high level of economic activity in key markets. This was due to work stoppages in the first half of the year, which reduced operating earnings by an estimated \$32 million. It was also due to the continued appreci-

ation of the U.S. and Canadian dollars relative to the currencies of overseas customers. This adversely affected both the prices and volumes of the Company's lumber and market pulp shipments overseas.

Since 1980, these currency shifts have caused overseas producers to gain a competitive edge. A recent example of the extent of this advantage was the substantial volume of Scandinavian newsprint imported by the U.S. in 1984 — much of it on the west coast.

Despite their higher transportation costs, Scandinavian and other overseas suppliers can now compete in this market with producers in western North America.

The Company's 1984 operating earnings were also adversely affected by

The Company's reforestation program has been a top priority for many years.



the high-cost structure of the B.C. coastal industry. Elements of this structure include:

- high log-harvesting and log-delivery costs, due to the rugged terrain on the B.C. coast;
- high wage and benefit levels and certain work practices which restrict productivity;
- high fixed taxes unique to British Columbia, such as property taxes on machinery and equipment.

The Challenge Ahead

MacMillan Bloedel is addressing the cost disadvantages that have harmed the coastal industry's competitive position. Over the past five years the Company has invested \$588 million in its B.C. operations and emphasis has been placed on value of outturn and increased productivity in the woodlands and converting mills.

MacMillan Bloedel's B.C. base has substantial stands of old-growth softwood timber, enough to provide high-quality forest products for years to come. Nevertheless, the generation and potential harvesting of second-

growth timber continues to receive intensive management. Reforestation is well ahead of tenure requirements set by the provincial government. The Company's nursery facilities near Nanaimo have been expanded to permit the growth of up to four million seedlings for planting on private tenures. In addition, silvicultural research and tree improvement programs are continuing.

All of these activities demonstrate the Company's commitment to the future while maximizing the resource's value in the present. Accordingly, the Company is developing the products that will realize this value.

Toward Higher Value

Over the last five years, MacMillan Bloedel has significantly improved its value of outturn for western red cedar lumber, approximately one-third of total lumber production. The 1984 upgrading of the Mainland Processing

Division near Vancouver and the Somass Sawmill in Port Alberni will further enhance the realized value from this species. The Company has also initiated a program which emphasizes maximum high-grade lumber recovery from its two primary whitewoods, hemlock and balsam. These species represent approximately 60 percent of the Company's B.C. timber base.

The Chemainus Sawmill replacement is the first major step to improve the outturn value and yield from these species. The new mill will recover up to three times the high-grade lumber of its predecessor. It will also achieve three times as much output per man-day as the former mill. Much more remains to be done to achieve higher value from old-growth hemlock and balsam stands. In this regard, many tests have been conducted and new market opportunities are being pursued to maximize use of these species in higher-value applications.

Despite the sharply focused efforts to obtain higher value, it must be realized that much of the Company's

lumber will still be "commodity grade". Similarly, standard newsprint will remain the dominant paper product although the Company has also benefited through its participation in the expanding higher-value specialty grade markets. In order to compete profitably in all markets, the Company and the coastal industry require lower delivered wood costs.

People & Productivity

Our people have accepted this challenge. Important increases in productivity have already been achieved. Further measures, involving significant changes from historical harvesting patterns, are under development. They show great promise for

substantial reductions in the cost of the delivered raw material.

In cooperation with operating personnel, new processes are being developed in both pulp and paper and solid-wood converting facilities. The objectives are increased fibre recovery and reduced end-product costs.

Improved logging productivity is the primary focus of a task force set up between the International Woodworkers of America and senior industry representatives as an outcome of the 1983 labour agreement.

In addition, a number of new approaches to employee relations are being examined, including consideration of options other than industry-wide bargaining. Our objective is to find an approach that can dampen the adversarial nature of contract bargaining and help bring companies and employees together in efforts to address mutual problems and opportunities.

People at all levels of operations are being involved in implementing the changes required to ensure MacMillan Bloedel's competitiveness in any economic environment. Through regionalization of operations and delegation of authority to the local level,

the Company has established a structure conducive to innovation and response in a fast-changing business environment.

In this way, the Company is encouraging its marketing and production personnel to know and understand the customer. The concept of "value-added" applies not just to the physical product but to the mutually beneficial relationship that is established between the customer and the Company. By understanding the customer's needs, MacMillan Bloedel can provide the right products today and develop the products of the future.

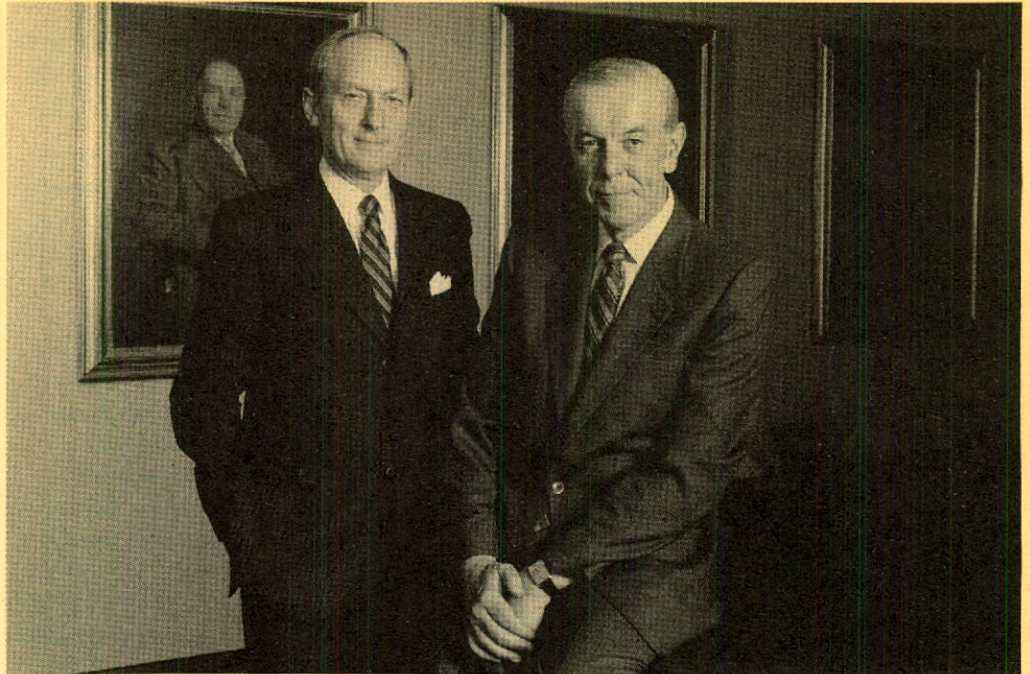
Cooperation the Key

The potential for cost reduction and enhanced value is enormous and MacMillan Bloedel has already made significant progress toward



Management, unions and government must share a common commitment to success.

The year 1985 is the 100th anniversary of the birth of our Company founder, H.R. MacMillan. To the right of his portrait in the Vancouver boardroom is Chairman of the Board A.H. Zimmerman with President and Chief Executive Officer R.V. Smith.



achieving these goals. However, technological advances and product development cannot be accomplished without investment. And, to ensure investor confidence, management, labour and government must send a positive signal that they share a common commitment to success. For its part, MacMillan Bloedel is cooperating with labour and government to address the

controllable factors so damaging to the industry.

Certainly, the Company is committed and able to combine its advantages in high-grade timber, skilled workers, an unexcelled marketing network and technological sophistication to meet the challenge of change.

R.V. Smith
President and
Chief Executive Officer

A.H. Zimmerman
Chairman of the Board

Vancouver, B.C.
February 15, 1985



The Challenge of Change

Annual Report 1984



THE FOREST PRODUCTS INDUSTRY HAS CHANGED SIGNIFICANTLY IN THE PAST DECADE. SLOWER WORLD ECONOMIC growth, increased self-sufficiency in consuming regions, new competitors and continuing technological development have combined to alter the supply/demand balance for virtually all products.

The result has been a new market environment characterized by healthy demand for forest products, but also by ample supply and intense competition. For coastal producers in British Columbia, this means they must be able to align their costs more closely with those of other regions if they are to compete successfully.

The coastal industry is endowed with a rich and abundant resource, but mountainous terrain and remoteness from major markets result in cost disadvantages not borne by producers in other regions.

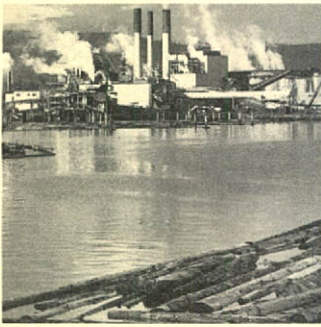
To compete with these producers, the coastal industry requires an institutional environment that recognizes these regional disadvantages. Despite this, high labour and fixed tax costs are just two of the many institutional constraints facing the B.C. coastal industry.

High coastal labour costs are not just the result of high wage rates, particularly in lumber and logging operations, but also of inefficient work practices and inflexibility in seeking alternate forms of compensation.

The Challenge of Change

B.C. coastal producers must be able to align their costs more closely with those of other regions.

The B.C. coast is the last area in North America to move toward more entrepreneurial methods of organizing work and compensating the people who harvest the forest and deliver logs to producing mills. In the B.C. Interior, Eastern Canada, the U.S. South, and now in the U.S. Pacific Northwest, harvesting and log-delivery is being taken over by owner-



In 1983, property and business taxes levied on pulp & paper mills averaged less than \$3 per tonne of newsprint capacity in the Atlantic region, \$4 in Quebec and \$5 in Ontario. In B.C., the comparative figure was \$20.

operators who are compensated through a number of incentive-oriented schemes. Productivity is higher, delivered log costs are lower, and incomes are maintained or enhanced.

Resistance to movement in this direction remains strong. New structures must be found, however, if the B.C. coastal industry is to regain labour cost competitiveness. This is critical for an industry that provides an estimated 45,000 direct jobs to the coastal region of British Columbia.

The fixed taxes imposed in British Columbia are a significant cost burden. Property and business taxes are higher than those in other Canadian producing regions and other parts of the world. In 1983, property and business taxes levied on pulp and paper mills per tonne of newsprint capacity averaged less than \$3 in the Atlantic region of Canada, \$4 in Quebec and \$5 in Ontario. In British Columbia, that level was approximately \$20; at the Powell River mill, it was \$36. The differences in these levels are largely due to the province's imposition of property taxes on machinery and equipment. In 1984, these amounted to about \$15 million of MacMillan Bloedel's property tax bill of \$38 million.

It is not expected that a more equitable tax system and flexible work practices will be achieved quickly or easily. It is imperative, however, that governments and unions recognize the importance of progressing toward these goals.

MacMillan Bloedel is working to minimize the effect of "made in B.C." constraints to growth by capitalizing on both the natural advantages it shares with other coastal producers and the strengths it has developed over many years.

The coastal industry enjoys an abundant forest resource, a plentiful water supply, deep-water ports and protected harbours. In particular, MacMillan Bloedel has a highly developed international marketing and distribution network with an advanced system of coastal and deep-sea shipping facilities to service those markets. The Company has a skilled work force and one of the most effective research divisions in the country. It also con-

MEETING THE CHALLENGE

Serving Specialty Markets: Building Materials



Specialty products such as western red cedar paneling afford higher returns to MB. In 1984, upgrading of the Mainland Processing (inset) and Somass Sawmill operations further enhanced the realized value from this species.



MEETING THE CHALLENGE

Value Realization at the Mill

Opened January 1985, the new Chemainus Sawmill is the first major step in MB's Hemlock Program to maximize the clear lumber and yield from high-grade hemlock and balsam logs for the manufacture of doors, window frames and mouldings.



The Company is emphasizing productivity improvements and the development of specialty products.

trols a large standing inventory of old-growth timber. To exploit this resource and to maximize product value, the Company is emphasizing productivity improvements and the development of specialty products.

Market Changes Mean New Opportunities

One of the key strategies at MacMillan Bloedel is to produce higher-value building materials products. The Company's timber in British Columbia is comprised of 60 percent hemlock and balsam, 23 percent western red cedar, and the remainder Douglas fir and other species. Old-growth timber constitutes 57 percent of the productive forest land managed by MacMillan Bloedel in the province.

Since 1979, MacMillan Bloedel has developed a program to realize the maximum high-grade lumber from its cedar logs. This lumber is remanufactured into specialty products such as bevel siding and paneling which are marketed in the United States, Canada, Europe and Australia through the Company's distribution network. These higher-value products attract average prices about double those of commodity grades.

Building upon its success in improving the grade mix of its cedar products, the Company has embarked upon a "Hemlock Program" which has much the same thrust. The intent is to extract the maximum clear lumber from each hemlock log. A potentially large market is being identified for consistently high-quality lumber that can be produced in sufficient volume for the manufacture of window frames, doors, ladders, mouldings and other joinery uses. By targeting its clear hemlock cuttings to this industrial market, the

Company will direct a greater percentage of its production into higher-return products.

MacMillan Bloedel's replacement mill at Chemainus, British Columbia, which started production in January 1985, reflects the Company's emphasis on high-grade lumber from hemlock logs for both export and domestic markets.

Logging techniques and practices can significantly alter the quality of logs produced. Falling, bucking and sorting practices are all being reviewed and employees throughout the woodlands are making a greater contribution to the quality extraction effort.



Higher Value Starts in the Forest

A successful higher-value lumber program does not start at the converting mill but at the logging operation. Logging techniques and practices can significantly alter the quality of the logs produced. At MacMillan Bloedel, quality control supervisors are working with woodlands personnel to maximize the log value. Falling, bucking and sorting practices are being reviewed and employees throughout the woodlands operations are making a greater contribution to the quality extraction effort.

MEETING THE CHALLENGE

Cost Control in the Woodlands



New forestry methods and machinery such as the mechanical harvesting shown above reduce the high costs of coastal logging. Efficient dryland sorting operations (inset) also add to end-product value.

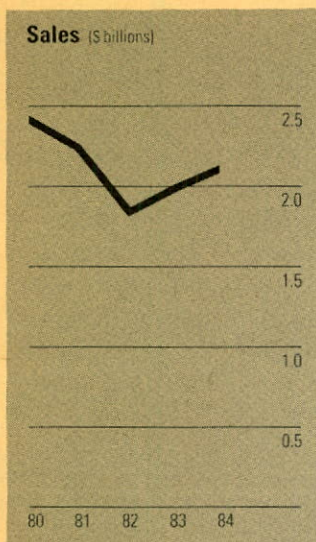


The Year in Review

Annual Report 1984



Results of Operations



MacMillan Bloedel's sales amounted to \$2,127.6 million in 1984, an increase of \$83.5 million over 1983. The following table provides an analysis of the change in key product sales from 1983 to 1984.

Interest expense increased by \$8.1 million to \$88.9 million in 1984. This was the result of higher debt levels, reduced capitalized interest following the completion of the Pine Hill project and the appreciation of the U.S. dollar relative to the Canadian dollar.

vision for preferred dividends. Net profit after extraordinary items was \$23.9 million in 1983 or \$.15 per common share after preferred dividends.

Building Materials

MacMillan Bloedel is increasing its emphasis on the production of higher-value products in lumber and other building materials. However, most of the revenue from the building materials segment continues to be derived from commodity-grade products.

The level of housing starts is a key determinant of demand for lumber in the Company's major market, the United States. During 1984, housing starts in the United States totalled 1.74 million. This level of housing activity was an improvement over the 1983 figure of 1.70 million and was significantly better than the depressed 1.06 million of 1982.

Product	Dollar Change in Sales 1983 to 1984	Change Attributed to:	
		Shipment Volume	Price
		(\$ millions)	
Newsprint	7.9	(27.8)	35.7
Pulp	43.0	4.2	38.8
Containerboard	80.0	36.1	43.9
Corrugated Containers (U.S.)	37.5	13.5	24.0
Lumber	60.2	84.6	(24.4)
	228.6	110.6	118.0
Other Items	(1.1)		
1983 Sales from operations accounted for on an equity basis in 1984	(144.0)		
Total	83.5		

In 1984, the Company had operating earnings of \$67.2 million, a \$26.7 million increase over 1983 operating earnings of \$40.5 million. This increase was the result of higher sales revenue noted above and continued cost controls throughout the Company. Operating earnings in 1984 would have been higher by an estimated \$32 million had work stoppages not occurred in the first half of the year. These work stoppages, which began on February 2 and ended on April 10, 1984, were related to contract negotiations with pulp and paper unions in British Columbia. Negotiations have since been completed and three-year contracts ratified.

The \$12.1 million increase derived from equity earnings of partly owned companies was primarily due to the increased operating earnings of Koninklijke Nederlandse Papierfabrieken N.V. (KNP). These increased earnings reflected the strong market for fine paper in Europe.

MacMillan Bloedel earned a net profit of \$19.3 million in 1984. After deducting preferred share dividends of \$25.1 million, the net loss attributed to common shareholders was \$5.8 million or \$.20 per common share. This compares to a net profit before extraordinary items of \$2.8 million in 1983 which equated to a net loss of \$.61 per common share after pro-

Despite the reasonably healthy level of U.S. housing starts, average lumber prices were lower in 1984 than 1983 because of oversupply. Substantial new capacity was added in the early 1980s in response to the buoyant construction activity in the late 1970s. Rising levels of housing starts in 1983 encouraged production volumes that could not be absorbed despite the strong demand. Although lumber prices recovered slightly in the fourth quarter of 1984 from their third-quarter lows, the oversupply problem that has plagued the industry in recent years has shown few signs of alleviation. There were, however, some mill closures in the U.S. Pacific Northwest in late 1984 and early 1985.

Offshore lumber markets were weak throughout 1984 and exacerbated the oversupply situation in the U.S. market. The Company's competitive position continued to be unfavourably affected by the strength of

the U.S. and Canadian dollars relative to the currencies of customers and competitors overseas.

MacMillan Bloedel's sawmills produced 845 million board feet in 1984 compared to 822 million board feet in 1983. During the first quarter, 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 operating rate for the Company's sawmills in 1984 was 77 percent capacity. The operating rate for 1983 was 75 percent.

Replacement of the Che-mainus Sawmill, which began production in January 1985, was completed at a cost of \$22 million. The mill has one headrig and cuts large, high-grade hemlock

and balsam logs. Its annual production capacity is 106 million board feet.

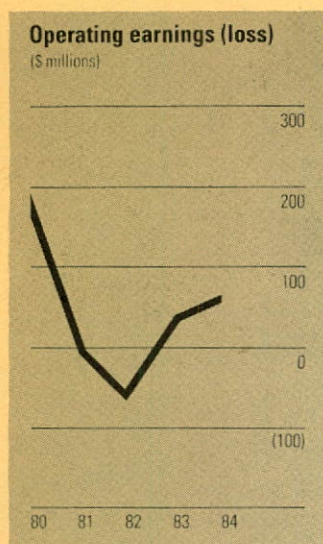
Markets for plywood continued to be eroded in 1984 by the penetration of such products as waferboard and oriented strand board into the panelboard marketplace. The Company's plywood mills operated at an average 81 percent capacity in 1984 compared to 79 percent in 1983.

Despite its growing importance as a substitute for plywood, waferboard was subject to the price pressure that afflicted other building materials during 1984. Although there is strong demand growth for this product, it has been met with significant increases in productive capacity. Prices were down approximately 7 percent between 1983 and 1984 but showed stability in the fourth quarter. The Company's two waferboard plants operated at an average 78 percent capacity in 1984 compared to 65 percent in 1983. The plant at Hudson Bay, Saskatchewan was shut down for approximately three months in 1983 while a \$14 million modernization was carried out.

The Thunder Bay, Ontario plant will be similarly upgraded during 1985 to improve its production capacity and unit costs.

Low prices for building materials were the key reason

Results of Operations (continued)



Five year earnings data

	1980	1981	1982	1983	1984 ⁽¹⁾
Sales (\$ millions)	2,436.4	2,209.7	1,843.1	2,044.1	2,127.6
Contributions to earnings⁽²⁾ (\$ millions)					
Building materials	68.8	(16.6)	(32.9)	42.9	26.1
Pulp and paper	116.4	24.5	(12.5)	22.5	33.9
Containerboard and packaging	41.3	35.8	(7.1)	(5.7)	28.0
Eliminations and unallocated items	(34.3)	(50.9)	(14.3)	(19.2)	(20.8)
Operating earnings (loss)	192.2	(7.2)	(66.8)	40.5	67.2
Other income	19.9	20.5	19.3	18.7	8.7
Interest expense	(31.9)	(63.2)	(78.3)	(80.8)	(88.9)
Severance and closure costs and other items	—	—	(65.7)	(6.6)	—
Earnings (loss) before income taxes	180.2	(49.9)	(191.5)	(28.2)	(13.0)
Income taxes	(63.0)	31.3	95.3	27.2	18.1
Equity earnings (losses)	—	(3.9)	2.3	2.3	14.4
Minority interests	(4.0)	(4.2)	.6	1.5	(.2)
Earnings (loss) before extraordinary items	113.2	(26.7)	(93.3)	2.8	19.3
Extraordinary items	—	30.0	36.0	21.1	—
Net earnings (loss)	113.2	3.3	(57.3)	23.9	19.3
Less: Provision for preferred dividends	6.2	14.7	19.9	19.6	25.1
Net earnings (loss) for common shareholders	107.0	(11.4)	(77.2)	4.3	(5.8)
Per common share⁽³⁾ (\$ per common share)					
Operating earnings	7.29	(.27)	(2.52)	1.46	2.33
Net earnings (loss):					
before extraordinary items	4.06	(1.57)	(4.27)	(.61)	(.20)
after extraordinary items	4.06	(.43)	(2.91)	.15	(.20)
Cash dividends on common shares	1.41	.93	.08	—	—
Stock dividends	—	—	.75	1.95	2.14

Notes:

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

(2) Contributions to earnings prior to 1984 have been restated to conform with the new presentation in 1984. See Note 16 to the consolidated financial statements.

(3) Restated to reflect stock dividends.

this segment reported a 1984 profit of \$26.1 million down from \$42.9 million in 1983. Sales for this segment were \$965 million in 1984 compared to \$906 million in 1983.

MacMillan Bloedel's log harvest in British Columbia totalled approximately 7.6 million cubic metres in 1984, in comparison to 7.5 million cubic metres in 1983. During the year, \$70.5 million was generated from the sale of export logs that could not be competitively converted in British Columbia. These funds helped sustain corporate cash flow and maintain employment at logging operations.

In accordance with its reforestation policies, the Company planted 5,300 hectares with 4.5 million seedlings in 1984.

Pulp and Paper

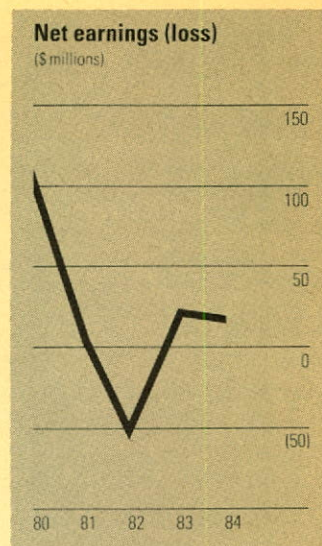
Newsprint consumption in the United States increased 8 percent between 1983 and 1984, reflecting increased consumption by daily newspapers and strong growth in consumption by other users such as commercial printers. An important source of this growth continues to be pre-print advertising, printed by commercial printers on newsprint or similar grades and often distributed by newspapers. This form of advertising has experienced dramatic growth in recent years.

Reflecting this consumption growth and the improved supply/demand balance in the Company's principal market, the western United States, MacMillan Bloedel increased the price of its standard newsprint from US\$469 per tonne to US\$500 per tonne on March 1, 1984. A second increase was implemented on October 1, 1984 to US\$535 per tonne. The Company's 5 percent rebate program introduced in 1983, for customers taking their contracted volumes, continued throughout 1984.

The Company's newsprint machines operated at 72 percent capacity throughout 1984 compared to 79 percent in 1983. The 1984 operating rate was adversely affected by the work stoppage which closed the Company's pulp and newsprint facilities for approximately nine weeks during the first half of the year.

Following the work stoppage, the machines ran at capacity with the exception of Number 9 at Powell River which was undergoing a conversion to allow production of groundwood specialty papers in addition to standard newsprint. These specialties include telephone directory paper, Hi-Brite offset, coloured newsprint and other related grades. The two-year capital project will be completed in March 1985 at a cost of approximately \$6 million and will increase the Company's groundwood specialty production capability. Groundwood specialties attract a premium over standard newsprint and emphasis on their production has enabled the Company to increase its participation in this market while continuing to serve that for standard newsprint.

In the first half of 1984, the price of bleached softwood kraft pulp continued the recovery that began in mid-1983 from the four-year low reached in the first quarter of that year. The combination of high demand from paper producers and tight supply conditions, caused



Results of Operations (continued)

1984 Sales by product

(\$ millions)

Lumber 30.5%	649.0
Panelboards 8.3%	176.3
Newsprint and groundwood specialties 21.7%	462.2
Pulp 10.5%	224.2
Containerboard and packaging products 18.7%	397.7
Other 10.3%	218.2
Total	2127.6

partially by the nine-week work stoppage in British Columbia, raised prices in Europe to US\$490 per tonne from US\$440 on March 1, 1984. A further US\$50 price increase took effect April 1, 1984.

During the second half of 1984, the tight supply conditions began to ease as a result of high levels of production by North American and Scandinavian producers and new capacity which started up in the United States, Austria and Portugal. Although the list price remained at US\$540, discounting in the Company's major markets brought the actual transaction price down to the US\$500 range by the beginning of the fourth quarter. The further strengthening of the U.S. dollar in relation to the Swedish krona and Finnish markka allowed some Nordic suppliers to discount prices even further during November and December to as low as US\$475 in Europe. In January 1985, prices fell to approximately US\$430 per tonne.

Prices in the United States, Japan and other major markets followed a similar trend. In response to the oversupply situation, MacMillan Bloedel curtailed pulp production at certain operations in December 1984 and the first quarter of 1985. During 1984, MacMillan Bloedel's pulp facilities operated at an average capacity of approximately 77 percent.

The higher prices for both newsprint and pulp resulted in the pulp and paper segment reporting a contribution to earnings of \$33.9 million in 1984. This was an improvement of \$11.4 million over 1983. Despite the work stoppage, segment sales increased \$53 million in 1984 to \$714 million.

Containerboard and Packaging

The Company's key market for containerboard, the United States, was characterized by record levels of consumption reflecting the strong growth of the economy in the first half of 1984. The combination of strong consumption and high operating rates in the industry resulted in a linerboard price increase in the first quarter from US\$290 per ton to US\$320 per ton. Inventories rose in the second half of the year, however, and a price increase effective September 1, 1984 to US\$350 per ton was tempor-

arily rolled back in January 1985 pending the correction of the supply/demand imbalance.

MacMillan Bloedel's linerboard machine and corrugating medium machine at Pine Hill, Alabama operated at an average 93 percent capacity in 1984 compared to 73 percent in 1983. The mill had a planned maintenance shutdown in July 1984 and experienced market shutdowns in the fourth quarter. The 1983 operating rate reflected the post-expansion start-up and a two-month production interruption. The corrugating medium mill at Sturgeon Falls, Ontario ran at 92 percent capacity in 1983 and 98 percent capacity in 1984.

On December 31, 1984, MacMillan Bloedel acquired the assets of two corrugated container plants in the United States. These plants were acquired to increase the degree of integration of the Pine Hill containerboard operation.

The containerboard and packaging segment contributed \$28.0 million to earnings on sales of \$403

million in 1984. This compared to a \$5.7 million loss on 1983 sales of \$437 million. The 1983 figure included the \$140 million sales of the British and Canadian packaging operations prior to their entry into joint ventures in that year. Although the contribution to earnings improved by \$33.7 million in 1984 over 1983, the segment's profits remained unsatisfactory. This was due to the downtime at Pine Hill, Alabama and to a highly competitive packaging market.

Labour Relations

Labour contracts were settled in 1984 with the three principal unions which represent most of the hourly employees in British Columbia. In January 1984, the International Woodworkers of America ratified a three-year agreement. In June 1984, the Canadian Paperworkers Union and the Pulp, Paper and Woodworkers of Canada ratified an agreement of the same duration following work stoppages during the first half of 1984. These contracts are in effect from mid-1983 to mid-1986 and provide for no increase in the first year, a 4 percent increase in the second year and a 4.5 percent increase in the third year.

One of the major contracts to be settled in 1985 is with the pulp workers in Pine Hill,

Alabama. Negotiations have not yet begun to replace the existing contract which expires in October 1985.

Comparison of 1983 and 1982 Earnings

MacMillan Bloedel's net earnings were \$23.9 million in 1983, an improvement over the 1982 loss of \$57.3 million. Sales increased 11 percent during the same period from \$1,843 million in 1982 to \$2,044 million in 1983. The increased sales were the result of higher shipment volumes, higher selling prices for building materials, the expanded capacity at the Pine Hill, Alabama complex and the \$63 million derived from British Columbia log exports.

Offsetting these increases were approximately \$105 million of sales because Island Paper Mills and the Canadian and British packaging operations were consolidated for only part of the year. In addition, selling prices for pulp and newsprint were lower on average in 1983 than in 1982. This reduced sales by approximately \$74 million.

Operating earnings improved by \$107.3 million between 1982 and 1983. This was primarily the result of cost reductions due to improved productivity and lower overhead.

Other income in 1983 was \$18.7 million, including \$8.4 million of investment income, most of which was derived from escrowed

funds, and \$8.2 million from a foreign exchange gain on the repayment of two Dutch guilder loans. Other income of \$19.3 million in 1982 was attributable to interest earned on escrowed funds and to a foreign exchange gain from the refunding of a Sterling loan.

Interest expense totalled \$80.8 million in 1983, an increase of \$2.5 million over 1982. This was primarily due to the completion of major projects during 1983 and the consequent reduction in the amount of interest charges subject to capitalization.

During 1982, MacMillan Bloedel incurred severance and closure costs of \$65.7 million. The comparative figure for 1983 was \$6.6 million.

In 1983, extraordinary items netted \$21.1 million, including a \$25.4 million gain realized from the sale of the Vancouver head office building and 50 percent of Island Paper Mills. These gains were offset by extraordinary losses which primarily related to MacMillan Bloedel's investment in Celupal, a Spanish fine paper producer. Further details are provided in Note 12(c) to the consolidated financial statements. Extraordinary items of \$36 million in 1982 arose from the sale of future tax benefits in the United States.

1984 Sales by market

(\$ millions)

Canada 17.7%	376.7
United States 53.1%	1129.6
United Kingdom and Europe 11.7%	249.7
Japan and Orient 10.4%	221.4
Other 7.1%	150.2
Total	2127.6

Results of Operations (continued)

(3)

Selected quarterly financial data

(\$ millions)

Sales

Costs and expenses

Operating expenses
Depreciation, depletion and amortization
Selling, general and administrative

Operating earnings (loss)

Other income
Interest expense
Severance and closure costs and other items

Earnings (loss) before income taxes

Income tax

Earnings (loss) before undernoted items

Equity in earnings (losses) of
partly-owned companies
Minority interests in subsidiaries

Earnings (loss) before extraordinary items

Extraordinary items

Net earnings (loss)

Provision for dividends on preferred shares

Net earnings (loss) attributable to common shareholders

Net earnings (loss) per common share* (dollars)

before extraordinary items
after extraordinary items

Price range of common shares on

Toronto Stock Exchange* (dollars)

high
low

Dividends per common share* (dollars)

cash dividends
stock dividends

	1982		
	First Quarter	Second Quarter	Third Quarter
Sales	504.5	466.8	427.0
Costs and expenses			
Operating expenses	446.3	413.4	400.4
Depreciation, depletion and amortization	21.1	20.5	20.3
Selling, general and administrative	45.4	41.9	35.3
	512.8	475.8	456.0
Operating earnings (loss)	(8.3)	(9.0)	(29.0)
Other income	12.1	2.3	4.9
Interest expense	(17.1)	(19.9)	(21.8)
Severance and closure costs and other items	—	(8.5)	(3.0)
Earnings (loss) before income taxes	(13.3)	(35.1)	(48.9)
Income tax	3.7	17.2	20.6
Earnings (loss) before undernoted items	(9.6)	(17.9)	(28.3)
Equity in earnings (losses) of partly-owned companies	(.7)	2.6	(2.3)
Minority interests in subsidiaries	(.1)	(.3)	.6
Earnings (loss) before extraordinary items	(10.4)	(15.6)	(30.0)
Extraordinary items	—	4.5	—
Net earnings (loss)	(10.4)	(11.1)	(30.0)
Provision for dividends on preferred shares	(4.0)	(4.9)	(5.4)
Net earnings (loss) attributable to common shareholders	(14.4)	(16.0)	(35.4)
Net earnings (loss) per common share* (dollars)			
before extraordinary items	(.54)	(.77)	(1.33)
after extraordinary items	(.54)	(.60)	(1.33)
Price range of common shares on Toronto Stock Exchange* (dollars)			
high	21.43	18.68	18.86
low	16.57	13.30	13.58
Dividends per common share* (dollars)			
cash dividends	.08	—	—
stock dividends	—	.08	.31

Note:

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

*Restated to reflect stock dividends.

4

1983					1984			
Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
444.8	442.0	583.7	497.0	521.4	411.9	534.2	603.0	578.5
404.2	403.2	477.3	428.1	445.2	379.2	451.3	491.4	486.0
20.3	23.4	29.2	26.5	24.4	20.9	27.3	28.7	27.4
40.8	38.3	38.5	36.6	32.9	35.7	35.5	39.3	37.7
465.3	464.9	545.0	491.2	502.5	435.8	514.1	559.4	551.1
(20.5)	(22.9)	38.7	5.8	18.9	(23.9)	20.1	43.6	27.4
—	4.8	.4	4.8	8.7	3.2	4.3	2.5	(1.3)
(19.5)	(20.6)	(20.6)	(19.6)	(20.0)	(19.0)	(20.6)	(24.5)	(24.8)
(54.2)	—	—	—	(6.6)	—	—	—	—
(94.2)	(38.7)	18.5	(9.0)	1.0	(39.7)	3.8	21.6	1.3
53.8	15.4	(8.0)	6.2	13.6	19.3	.1	(11.9)	10.6
(40.4)	(23.3)	10.5	(2.8)	14.6	(20.4)	3.9	9.7	11.9
2.7	—	.9	2.8	(1.4)	2.9	5.8	3.8	1.9
.4	.3	.3	.6	.3	—	(.3)	.2	(.1)
(37.3)	(23.0)	11.7	.6	13.5	(17.5)	9.4	13.7	13.7
31.5	25.4	—	—	(4.3)	—	—	—	—
(5.8)	2.4	11.7	.6	9.2	(17.5)	9.4	13.7	13.7
(5.6)	(5.1)	(4.8)	(4.8)	(4.9)	(6.0)	(6.1)	(6.4)	(6.6)
(11.4)	(2.7)	6.9	(4.2)	4.3	(23.5)	3.3	7.3	7.1
(1.61)	(1.05)	.25	(.15)	.30	(.82)	.11	.25	.25
(.43)	(.10)	.25	(.15)	.15	(.82)	.11	.25	.25
20.73	26.98	28.84	28.75	27.94	33.45	31.96	26.96	26.75
17.35	20.72	23.74	24.11	24.71	27.92	23.91	22.30	24.63
—	—	—	—	—	—	—	—	—
.36	.46	.48	.51	.50	.57	.62	.45	.50



Financial Position

1984 Funds (\$ millions)

Inflows:		Outflows:	
Operating earnings	67.2	Increase in operating working capital	89.3
Depreciation, depletion and amortization	104.3	Interest and preferred dividends	115.9
Other income	8.7	Capital expenditures and investments	145.3
Reduction of escrowed funds and net cash equivalents	16.3	Other	1.9
New shares	61.6		
Disposals of investments and other items	14.6		
Increase in interest-bearing debt	79.7		
Total	352.4	Total	352.4

MacMillan Bloedel raises funds from a wide variety of sources to ensure flexibility in doing so on the most advantageous terms in all stages of the business cycle.

Since 1981, MacMillan Bloedel's operations have not generated sufficient funds to meet its needs. In response to this situation, tight controls over working capital have been implemented and certain non-essential assets disposed of. This divestiture program generated \$103 million in 1981, \$61 million in 1982, \$118 million in 1983 and \$2 million in 1984. In addition, during this four-year period, MacMillan Bloedel issued \$77 million of common shares and \$149 million of preferred shares to further strengthen its balance sheet.

Capital restraints have also been in place since 1981. Of the \$448 million of capital expenditures between 1982 and 1984, \$203 million related to ongoing environmental and safety-related items, replacement of existing capacity and technological updating. Most of the residual related to the completion of major capital projects, including the expansion of the Pine Hill, Alabama containerboard complex.

MacMillan Bloedel's ratio of interest-bearing debt and term preferred shares to invested capital increased from 44.8 percent at the beginning of 1982 to 53.0 percent at the end of 1982. Common shares of \$59 million were issued in 1983 which, combined with the previously discussed cash conservation program, permitted MacMillan Bloedel to reduce this ratio to 49.3 percent of invested capital by December 31, 1983.

In January 1984, the Company realized net proceeds of \$48 million from a preferred share issue and throughout 1984 realized \$12 million from shares sold through the employee share purchase plan. A further \$10 million was raised during the first quarter of 1984 through the sale of tax credits related to scientific and research expenditures.

Increased sales caused trade accounts receivable to rise by \$36.2 million

between the year-ends of 1983 and 1984. In the same period, inventories rose by \$54.5 million to \$428.8 million. At December 31, 1984, with amounts denominated in foreign currency translated at the current exchange rate, interest-bearing debt of \$917.3 million and term preferred shares of \$211.4 million amounted to 56.5 percent of invested capital. The Company's objective is to reduce this ratio to approximately 40 percent.

At year-end 1984, MacMillan Bloedel had bank lines of credit in excess of \$1.2 billion of which \$838 million was unutilized. Of these total lines, \$582 million is contractually committed for periods up to 12 years.

As discussed in the notes to the financial statements, the Company adopted a new method of accounting for foreign exchange in 1984. This had the effect of increasing interest-bearing debt by \$60 million and preferred shares by \$26 million at the end of 1984. Common shareholders' equity, excluding the effect on net earnings, was decreased by \$63.6 million and invested capital was increased by \$41.5 million. Accordingly, the ratio of debt and term preferred shares to invested capital was 3.2 percent higher at year-end 1984 than it otherwise would have been.

Five year financial data

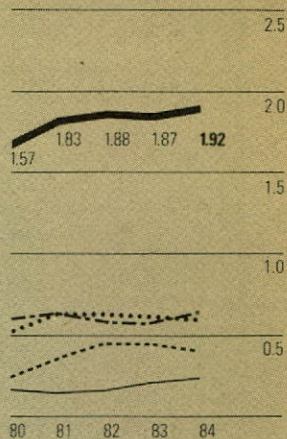
(\$ millions)

	1980	1981	1982	1983	1984
Funds generated by operations	183.3	129.5	125.9	54.9	90.9
Depreciation, depletion, and amortization	88.7	92.0	82.2	103.5	104.3
Capital expenditures	327.7	307.9	206.8	103.6	137.7
Interest paid	27.9	62.4	78.0	81.2	91.1
Preferred dividends paid	5.9	14.1	19.3	19.9	24.4
Current assets	760.2	700.5	615.8	673.9	739.8
Current operating liabilities	272.1	277.9	236.4	250.6	241.5
Operating working capital	488.1	422.6	379.4	423.3	498.3
Property, plant and equipment	1,121.0	1,266.3	1,365.8	1,235.6	1,318.4
Investments and other assets	179.4	184.1	144.1	191.2	179.3
Net assets employed	1,788.5	1,873.0	1,889.3	1,850.1	1,996.0
Interest-bearing debt	630.7	723.1	865.5	775.6	917.3
Redeemable term preferred shares	87.9	115.9	135.3	136.4	211.4
Redeemable convertible preferred shares	50.0	95.9	95.9	95.9	95.9
Common equity, including retained earnings	783.4	752.7	678.3	741.2	680.2
Deferred credits and minority interests	236.5	185.4	114.3	101.0	91.2
Total invested capital	1,788.5	1,873.0	1,889.3	1,850.1	1,996.0
Interest-bearing debt as a per- centage of invested capital	35.3%	38.6%	45.8%	41.9%	46.0%
Interest-bearing debt and redeemable term preferred shares as a percentage of invested capital	40.2%	44.8%	53.0%	49.3%	56.5%

Note:

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

Average invested capital (\$ billions)



— Total
- - - Building materials
..... Pulp and paper
- . - . - Containerboard and packaging
— Other

Capital expenditures

(\$ millions)

	1980	1981	1982	1983	1984	5 Year Total	% of Total
Raw materials	41.6	48.2	14.7	20.3	46.9	171.7	15.8
Building materials	46.8	10.0	1.2	15.8	37.9	111.7	10.3
Pulp and paper	183.0	105.3	41.3	23.1	32.3	385.0	35.5
Containerboard and packaging	47.5	133.2	143.0	42.3	17.4	383.4	35.4
Other	8.8	11.2	6.6	2.1	3.2	31.9	3.0
Total	327.7	307.9	206.8	103.6	137.7	1,083.7	100.0



Consolidated Statements of Earnings

MacMillan Bloedel Limited

	Year ended December 31		
	1984	1983	1982
	(\$ millions)		
Sales of products and services	\$2,127.6	\$2,044.1	\$1,843.1
Costs and expenses:			
Materials, labour and other operating expenses	1,807.9	1,753.8	1,664.3
Depreciation, depletion and amortization	104.3	103.5	82.2
Selling, general and administrative	148.2	146.3	163.4
	2,060.4	2,003.6	1,909.9
Operating earnings (loss)	67.2	40.5	(66.8)
Other income	8.7	18.7	19.3
Interest expense	(88.9)	(80.8)	(78.3)
Severance and closure costs and other items	—	(6.6)	(65.7)
Loss before income taxes	(13.0)	(28.2)	(191.5)
Income tax recovery (expense):			
Current	(1.4)	3.8	1.8
Deferred	19.5	23.4	93.5
	18.1	27.2	95.3
Earnings (loss) before undernoted items	5.1	(1.0)	(96.2)
Equity in earnings of partly-owned companies	14.4	2.3	2.3
Minority interests in subsidiaries	(.2)	1.5	.6
Earnings (loss) before extraordinary items	19.3	2.8	(93.3)
Extraordinary items	—	21.1	36.0
Net earnings (loss)	19.3	23.9	(57.3)
Provision for dividends on preferred shares	25.1	19.6	19.9
Net earnings (loss) attributable to common shareholders	\$ (5.8)	\$ 4.3	\$ (77.2)
Net earnings (loss) per common share			
Before extraordinary items	\$ (.20)	\$ (.61)	\$ (4.27)
After extraordinary items	\$ (.20)	\$.15	\$ (2.91)

Per share figures for 1983 and 1982 have been restated to reflect stock dividends issued in 1984.
See Note 12 for earnings statement supplementary information.



Consolidated Statements of Changes in Financial Position

MacMillan Bloedel Limited

	Year ended December 31		
	1984	1983	1982
	(\$ millions)		
Internal funds:			
Generated by operations			
Operating earnings (loss)	\$ 67.2	\$ 40.5	\$ (66.8)
Depreciation, depletion and amortization	104.3	103.5	82.2
Other income	8.7	18.7	19.3
Decrease (increase) in operating working capital**			
Receivables	(29.2)	(70.0)	20.1
Inventories	(51.9)	(76.0)	89.9
Other	(8.2)	38.2	(18.8)
Generated by operations	90.9	54.9	125.9
Required for:			
Interest	91.1	81.2	78.0
Dividends	24.8	20.2	21.6
Severance costs and other items	—	8.5	23.6
Income taxes currently paid	1.9	.2	(1.6)
	117.8	110.1	121.6
Net internal funds	(26.9)	(55.2)	4.3
Funds invested long term:			
Capital expenditures	137.7	103.6	206.8
Investments and other assets	7.6	23.5	22.4
	145.3	127.1	229.2
Funds required	\$172.2	\$182.3	\$224.9
Sources of financing:			
Extraordinary items	\$ —	\$ 79.8	\$ 61.0
Interest-bearing debt net of repayments	79.7	(67.0)	142.4
Issue of common shares	11.6	59.4	4.5
Issue of class B preferred shares	50.0	1.5	20.8
Disposal of investments and other items	14.6	54.2	8.0
Financing provided	155.9	127.9	236.7
Decrease (increase) in funds*	16.3	54.4	(11.8)
Funds supplied	\$172.2	\$182.3	\$224.9

*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.



Consolidated Statements of Financial Position

MacMillan Bloedel Limited

NET ASSETS EMPLOYED

	December 31	
	1984	1983*
	(\$ millions)	
Current assets:		
Short term investments and deposits	\$ 10.3	\$ 25.2
Accounts receivable —		
Trade	275.6	239.4
Other	21.0	26.9
Inventories (Note 3)	428.8	374.3
Prepaid expenses	4.1	8.1
	739.8	673.9
Deduct:		
Current liabilities (excluding interest-bearing liabilities) —		
Bank overdrafts in excess of cash in banks	9.4	7.9
Trade accounts payable	107.3	107.3
Accrued payroll and related liabilities	79.8	90.3
Accrued interest on borrowed funds	15.0	17.1
Other accounts payable and accrued liabilities	25.5	25.3
Income taxes payable	2.2	2.7
Dividends payable	2.3	—
	241.5	250.6
Operating working capital	498.3	423.3
Investments and other assets: (Note 4)		
Investments accounted for by the equity method	133.6	148.7
Other investments and assets, at cost	33.5	29.2
Subsidiaries not consolidated	12.2	13.3
	179.3	191.2
Property, plant and equipment: (Note 5)		
Buildings and equipment	2,009.3	1,930.8
Less: Accumulated depreciation	889.3	843.0
	1,120.0	1,087.8
Construction in progress	—	6.7
	1,120.0	1,094.5
Timber and land less accumulated depletion	134.8	128.4
Logging roads	10.7	12.7
Foreign exchange translation adjustment (Note 2)	52.9	—
	1,318.4	1,235.6
	\$1,996.0	\$1,850.1

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

R.V. Smith

Director

A.H. Zimmerman

Director

INVESTED CAPITAL

Interest-bearing indebtedness:

Current liabilities —

Bank indebtedness (Note 6)

Notes payable

Current portion of long term debt (Note 7)

December 31	
1984	1983*
(\$ millions)	
\$ 185.8	\$ 209.4
9.9	—
24.8	19.7
220.5	229.1

Long term liabilities —

Term bank loans (Note 8)

Bonds and debentures (Note 9)

Other secured liabilities

Foreign exchange translation adjustment (Note 2)

360.4	253.5
253.2	273.2
23.2	19.8
60.0	—
696.8	546.5

Total interest-bearing indebtedness

917.3	775.6
-------	-------

Deferred income taxes

72.2	79.0
------	------

Deferred revenue

19.0	22.0
------	------

1,008.5	876.6
---------	-------

SHAREHOLDERS' EQUITY

Share capital: (Note 10)

Preferred shares

Common shares

307.3	232.3
387.0	314.3

Retained earnings

694.3	546.6
356.8	426.9

1,051.1	973.5
---------	-------

Foreign exchange translation adjustment (Note 2)

(63.6)	—
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987.5	973.5
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Commitments (Notes 10 and 11)

\$1,996.0	\$1,850.1
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*Certain 1983 amounts have been reclassified to conform with the presentation in 1984.



Consolidated Statements of Retained Earnings

MacMillan Bloedel Limited

	Year ended December 31		
	1984	1983	1982
		(\$ millions)	
Balance at beginning of year	\$426.9	\$476.9	\$575.5
Net earnings (loss)	19.3	23.9	(57.3)
	446.2	500.8	518.2
Deduct:			
Cash dividends:			
Preferred shares	26.7	19.9	19.3
Common shares — 1984 \$ nil per share* (1983 nil* and 1982 \$.08 per share)	.4	.3	2.3
	27.1	20.2	21.6
Stock dividends:			
Common shares 1984 \$2.14 per share (1983 \$1.95 and 1982 \$.75 per share)	61.2	53.5	19.7
Costs of issue of class B preferred shares, less applicable income taxes of \$.7 million	1.1	—	—
Costs of issue of common shares, less applicable income taxes of \$.2 million in 1983	—	.2	—
	89.4	73.9	41.3
Balance at end of year	\$356.8	\$426.9	\$476.9

Per share figures for 1983 and 1982 have been restated to reflect stock dividends issued in 1984.

*In 1984 and 1983 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, 1984 and 1983 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years ended December 31, 1984, 1983 and 1982. 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, 1984 and 1983 and the results of its operations and the changes in its financial position for the years ended December 31, 1984, 1983 and 1982 in accordance with generally accepted accounting principles which, except for the change in the method of accounting for foreign currency translation as explained in Note 2 to the consolidated financial statements, have been consistently applied during the period.

Price Waterhouse

Chartered Accountants
February 8, 1985
Vancouver, B.C.



Notes to Consolidated Financial Statements

December 31, 1984, 1983 and 1982

MacMillan Bloedel Limited

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 15.

(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 (loss).

(e) Property, plant and equipment —

Property, plant and equipment are recorded at cost.

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

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

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

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

(f) Income taxes —

Income taxes are recorded on a tax allocation basis.

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

(g) 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.

(h) 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

Notes to Consolidated Financial Statements (continued)

2. Accounting change: (continued)

Institute of Chartered Accountants (CICA). The effect of this change was to increase net earnings for 1984 by \$14.3 million (\$.50 per common share). The Company believes that certain of the new 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 must comply it has 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 Statement of Financial Position and have been excluded from the Consolidated Statement of Changes in Financial Position.

4. Investments and other assets:

Investments accounted for by the equity method —

	December 31			
	1984		1983	
	% owned	Cost	Undistributed earnings	Total
			(\$ millions)	
Koninklijke Nederlandse Papierfabrieken N.V. (KNP)	40.7	\$ 19.2	\$50.7	\$ 69.9
MacMillan Smurfit SCA Limited	50.0	28.5	(4.9)	23.6
Island Paper Mills Limited	50.0	29.8	(1.0)	28.8
MacMillan Bathurst Inc.	50.0	24.6	3.3	27.9
Other		3.5	(4.0)	(.5)
		105.6	44.1	149.7
Foreign exchange translation adjustment		16.1	—	16.1
		\$ 89.5	\$44.1	\$133.6
				\$148.7

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

accounted for by the equity method is as follows:

	December 31	
	1984	1983
	(\$ millions)	
Current assets	\$318.0	\$311.6
Non-current assets	355.0	348.3
Foreign exchange translation adjustment	(46.6)	—
	<u>\$626.4</u>	<u>\$659.9</u>
Current liabilities	\$177.7	\$163.4
Non-current liabilities	209.4	212.0
Foreign exchange translation adjustment	(22.8)	—
	<u>\$364.3</u>	<u>\$375.4</u>
Shareholders' equity	293.1	284.5
Foreign exchange translation adjustment	(31.0)	—
	<u>\$626.4</u>	<u>\$659.9</u>

	Year-ended December 31		
	1984	1983	1982
	(\$ millions)		
Net sales	\$1,197.3	\$798.8	\$671.8
Gross profit	\$ 77.5	\$ 37.3*	\$ 14.1
Earnings before extraordinary items	\$ 34.7	\$.1	\$ 1.9
Net earnings	\$ 34.7	\$ 2.8	\$ 1.9

*Restated to conform with 1984 presentation.

3. Inventories:

	December 31	
	1984	1983
	(\$ millions)	
Operating and maintenance supplies	\$ 66.0	\$ 57.2
Logs, poles, pulp chips, pulpwood and cordwood	116.5	99.7
Lumber, plywood and other building materials	152.2	145.7
Pulp and paper products	48.6	41.7
Containerboard and packaging products	45.5	30.0
	\$428.8	\$374.3

During 1983 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 48% to 40.7%.

In 1983 MacMillan Bloedel completed the following joint venture transactions:

(a) A sale, in February 1983, of a 50% interest in Island Paper Mills Limited (a fine paper manufacturer) to Fraser Inc. (a related party) for proceeds of \$30.8 million. The profit on this sale has been included in extraordinary items (see Note 12(c)).

(b) A transfer of its Canadian packaging plants effective July 1, 1983, to MacMillan Bathurst Inc., a newly-formed 50% owned joint venture with Consolidated Bathurst Inc. MacMillan Bloedel has accounted for this transaction on a pooling of interests basis.

(c) A transfer of its United Kingdom packaging plants, effective October 31, 1983, to MacMillan Smurfit SCA Limited, a newly-formed 50% owned joint venture with the Jefferson Smurfit Group Limited and Svenska Cellulosa Aktiebolaget SCA. MacMillan Bloedel has accounted for this transaction on a pooling of interests basis.

The goodwill related to the United Kingdom packaging operations of \$15.6 million at December 31, 1984 is included in the cost of the investment in MacMillan Smurfit SCA Limited. It is continuing to be amortized on a straight-line basis over a period of 20 years from January 1, 1978.

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MacMillan Bloedel made a net provision for loss in the amount of \$6.7 million during 1983 in respect of the full amount of its investment in and receivables from Celupal S.A., a Spanish fine paper manufacturer. KNP, which also holds an interest in Celupal S.A., recorded a similar provision during the year, MacMillan Bloedel's share of which amounted to \$1.5 million. These amounts were recorded as extraordinary items in the consolidated statements of earnings (see Note 12(c)).

Subsidiaries not consolidated —

In 1982 MacMillan Bloedel acquired 100% of the voting shares of the Brazilian subsidiaries as part of a series of transactions by which the Company received \$19.8 million in 1982 and \$2.3 million in 1983 and as consideration issued 250,000 Class B preferred shares Series 4 to Brascan Limited, a related party. The Company's share of the losses of the Brazilian subsidiaries for the year ended December 31, 1984 aggregated \$3.3 million (1983 — \$4.7 million, 1982 — \$1.8 million), which amounts have been charged to earnings. Its share of the losses of the subsidiaries since the original acquisition of shares aggregated \$16.3 million at December 31, 1984. The investment is carried in the Consolidated Statements of Financial Position at cost less provision for these losses.

5. Buildings and equipment:

	Cost*	Accumulated depreciation*	Net*
	(\$ millions)		
December 31, 1984 —			
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
	\$2,009.3	\$889.3	\$1,120.0
December 31, 1983 —			
Building materials	\$ 523.9	\$295.5	\$ 228.4
Pulp and paper	911.3	435.9	475.4
Containerboard and packaging	454.3	91.3	363.0
Corporate assets and other	48.0	20.3	27.7
	\$1,937.5	\$843.0	\$1,094.5

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

Assets having an aggregate historical cost of \$186.8 million (1983 — \$165.8 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, 1984 MacMillan Bloedel had short term bank lines of credit aggregating \$707.1 million (1983 — \$541.1 million) of which \$185.8 million (1983 — \$209.4 million) had been drawn down. At December 31, 1984 the available unutilized short term lines of credit aggregated \$518.1 million.

7. Payments on long term debt:

Payments on long term debt at December 31, 1984 rates of exchange required for each of the five years after December 31, 1984 are as follows —

	Bonds and debentures	Term bank loans	Other liabilities	Total
	(\$ millions)			
1985	\$17.6	\$ 4.5	\$2.7	\$24.8
1986	23.2	7.0	2.9	33.1
1987	25.6	10.8	1.6	38.0
1988	24.5	30.4	1.4	56.3
1989	17.9	46.6	1.7	66.2

8. Term bank loans:

	December 31 1984	1983
	(\$ millions)	
Advances under contractual term lines of credit	\$255.8	\$143.0
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. \$32.4 million maturing September 15, 1991 bearing interest at rates related to prime	40.6	43.3
Loan of U.S. \$7.9 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	9.5	9.5
	364.7	254.6
Less: Payments due within one year	4.3	1.1
	\$360.4	\$253.5

At December 31, 1984 MacMillan Bloedel had contractual term bank lines of credit aggregating \$581.9 million (1983 — \$548.1 million) of which \$256.1 million (1983 — \$143.0 million) had been drawn down. These contractual term lines provide for loans on a revolving basis for up to five years, followed by repayment periods of up to ten years. As at December 31, 1984 the available unutilized contractual term lines of credit aggregated \$319.8 million.

Notes to Consolidated Financial Statements (continued)

9. Bonds and debentures:

	December 31	
	1984	1983
	(\$ millions)	
MacMillan Bloedel Limited —		
6.45% sinking fund debentures, series A, maturing October 1, 1990 (U.S. \$12.6 million)	\$ 13.5	\$ 15.8
6½% sinking fund debentures, series C, maturing July 15, 1992 (U.S. \$8.9 million)	9.6	12.2
8½% sinking fund debentures, series E, maturing May 15, 1991	12.4	13.0
8¾% sinking fund debentures, series F, maturing July 1, 1994 (U.S. \$48.0 million)	46.3	50.7
11¼% sinking fund debentures, series G, maturing January 15, 1995	29.2	32.0
9% sinking fund debentures, series J, maturing February 1, 1992 (U.S. \$37.8 million)	38.5	40.1
9¼% sinking fund debentures, series K, maturing March 15, 1993 (U.S. \$38.2 million)	42.2	43.9
8½% subordinated debentures, maturing December 20, 1984	—	2.1
	191.7	209.8
MacMillan Bloedel Inc.* —		
4¾% sinking fund industrial development revenue bonds, maturing June 1, 1988 (U.S. \$18.8 million)	\$ 20.3	\$ 22.1
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
9% industrial development revenue bond, maturing April 30, 1987 (U.S. \$6.0 million)	7.2	10.1
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	—
	75.6	76.5
	267.3	286.3
Less: Payments due within one year	14.1	13.1
	\$253.2	\$273.2

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

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.

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	
	1984	1983
	(\$ millions)	
Outstanding shares without par value		
Preferred —		
3,400,000 class A	\$ 87.9	\$ 87.9
1,848,270 class B, series 1	46.2	46.2
1,986,515 class B, series 2	49.7	49.7
252,250 class B, series 3	25.2	26.2
250,000 class B, series 4	22.3	22.3
2,000,000 class B, series 6	50.0	—
	281.3	232.3
Foreign exchange translation adjustment	26.0	—
	307.3	232.3
Common —		
29,063,406 shares	387.0	314.3
	\$694.3	\$546.6

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.

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The Class B Preferred Shares —

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

Conversion features

Series 1:

Convertible into one common share on or before

Date	Price
December 1, 1985	\$ 31.53
December 1, 1990	33.17

Series 2:

Convertible into one common share on or before

March 1, 1986	\$ 36.85
March 1, 1991	40.14

Redemption features

Series 1:

Company's redemption options — redeemable after

August 31, 1983	\$ 26.25 (1)
September 1, 1985	26.25 (2)

Company's redemption obligation — make all reasonable efforts to purchase during each calendar quarter commencing January 1, 1991 1% of the shares outstanding on December 2, 1990

maximum \$ 25.00

Series 2:

Company's redemption options — redeemable after

February 29, 1984	\$ 26.25 (1)
March 1, 1986	26.25 (2)

Company's redemption obligation — make all reasonable efforts during each calendar quarter commencing April 1, 1991 to purchase 1% of the shares outstanding on March 2, 1991

maximum \$ 25.00

Series 3:

Company's redemption options — redeemable after

July 1, 1985	\$103.00 (3)
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Company's redemption obligations — offer to redeem 5% of original holdings annually during

redeem 5% of original holdings annually on

March of 1983 through 1985	100.00
July 1 of 1986 through 1990	100.00
July 1, 1991	100.00

redeem remaining shares on

Series 4:

Company's redemption options — redeemable before

September 1, 1987	U.S. \$100.00
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Company's redemption obligations — redeem 4,687 shares each quarter

September 1, 1987 through June 1, 1992	U.S. \$100.00
September 1, 1992	U.S. \$100.00

redeem remaining shares on

Series 6:

Company's redemption options — redeemable after

March 1, 1988	\$ 25.00
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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

Retractable features

Series 6:

Retractable at the option of the holder for redemption

March 1, 1988, 1989, 1990, 1991	\$ 25.00
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(1) Redeemable only if the weighted average price is not less than \$39.41 for series 1 and \$46.06 for series 2.

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

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

Dividends

Series 1 \$2.00 per annum cumulative preferential, payable quarterly.

Series 2 \$2.08 per annum cumulative preferential, payable quarterly.

Series 3 cumulative preferential equal to the sum of 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.

Notes to Consolidated Financial Statements (continued)

10. Share capital: (continued)

Share purchase plans — Employee

The Company has reserved 2.5 million common shares for issuance pursuant to the employee share purchase plan of which 1,040,881 had been taken up as at December 31, 1984.

Senior management

At December 31, 1984 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 48,450 shares were granted and an option for 500 shares was relinquished during 1982. 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. 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, 1984 as follows —

Number of shares	Option price	Expiry date
61,231 shares	\$16.08	August 31, 1986
1,225 shares	34.78	June 24, 1991
50,344 shares	15.59	July 27, 1987
14,301 shares	20.48	January 1, 1988

Changes in share capital —

The following is a summary of the changes in share capital since January 1, 1982 —

	Issued	
	Number of shares	(\$ millions)
Class A preferred shares		
Balance January 1, 1982 unchanged		
December 31, 1984	3,400,000	\$ 87.9
Class B preferred shares		
Series 1		
Balance January 1, 1982	1,848,470	\$ 46.2
Converted to 129 common shares during 1982	(200)	—
Balance December 31, 1982, 1983 and 1984	1,848,270	\$ 46.2
Series 2		
Balance January 1, 1982	1,986,700	\$ 49.7
Converted to 102 common shares during 1982	(185)	—
Balance December 31, 1982, 1983 and 1984	1,986,515	\$ 49.7
Series 3		
Balance January 1, 1982	280,000	\$ 28.0
Redeemed during 1982	(14,000)	(1.4)
Balance December 31, 1982	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

Series 4

Issued in 1982 and outstanding at December 31, 1982	233,100	\$ 20.8
Issued in 1983	16,900	1.5

Balance December 31, 1983 and 1984	250,000	\$ 22.3
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Series 5

Issued in 1983	15,500	\$ 15.5
Redeemed during 1983	(15,500)	(15.5)

Balance December 31, 1983 and 1984	—	\$ —
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Series 6

Issued in 1984 and outstanding at December 31, 1984	2,000,000	\$ 50.0
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Series 7

Issued in 1984	200	\$ 10.5
Redeemed in 1984	(200)	(10.5)

Balance December 31, 1984	—	\$ —
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Common shares

Balance January 1, 1982	21,419,193	\$177.2
Conversion of class B preferred shares	231	—
Stock dividends	965,038	19.7
Employee share purchase plan	228,039	4.5
Balance December 31, 1982	22,612,501	201.4
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

*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. Commitments:

In addition to commitments for capital expenditures and the future supply of operating services and materials, MacMillan Bloedel is committed at December 31, 1984 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)	
1985	\$20.6	\$11.2	\$ 31.8
1986	11.8	9.6	21.4
1987	11.4	7.8	19.2
1988	4.8	7.3	12.1
1989	—	5.4	5.4
1990-1994	—	10.6	10.6
1995-1999	—	2.2	2.2
2000-2004	—	1.4	1.4
Subsequent to 2004	—	.5	.5
	\$48.6	\$56.0	\$104.6

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The Company is committed to time charter three new forest products carriers for terms of eight years following their construction and delivery in 1985. The vessels will have an aggregate cargo capacity of 106,000 deadweight tons and will replace four other forest products carriers with an aggregate capacity of 198,000 deadweight tons which are being redelivered to their owners upon the completion of their eight-year charter terms (final redelivery is in 1985).

(b) The acquisition of timber in Alabama under long term cutting contracts requiring minimum annual payments (extending in some cases to the year 2,034); payment of approximately \$5.9 million is required in each of the next five years.

12. Earnings statements supplementary information:

(a) Costs and expenses include the following —

	Year ended December 31		
	1984	1983	1982
	(\$ millions)		
Interest expense —			
Long term debt interest	\$ 69.3	\$ 66.0	\$ 75.8
Other interest	20.8	18.2	24.8
	90.1	84.2	100.6
Less: Interest capitalized	1.2	3.4	22.3
	\$ 88.9	\$ 80.8	\$ 78.3
Effective average interest rate	10%	10%	12%
Other income —			
Income from investments	\$ 5.3	\$ 8.4	\$ 13.1
Profit on disposition of non-current items	3.4	10.3	6.2
	\$ 8.7	\$ 18.7	\$ 19.3
Depreciation	\$ 85.8	\$ 86.9	\$ 69.2
Depletion	12.5	11.2	9.2
Amortization	6.0	5.4	3.8
	\$104.3	\$103.5	\$ 82.2
Pension expense (Note 14)	\$ 18.8	\$ 16.9	\$ 21.3
Research and development expenses	\$ 10.6	\$ 8.8	\$ 6.7
Less: Government grants	.6	.6	.3
	\$ 10.0	\$ 8.2	\$ 6.4
Rental expense on leases of more than one month, and time charter hire	\$ 52.8	\$ 54.7	\$ 49.2

Selling, general and administrative expenses include direct remuneration of the directors and executive officers of the Company aggregating \$3.5 million (1983 — \$3.7 million; 1982 — \$3.1 million).

(b) Income taxes —

Consolidated income tax (expense) recovery is composed of —

	Canadian federal	Canadian provincial	Foreign	Total
	(\$ millions)			
Year ended December 31, 1984				
Current	\$.1	\$ (5)	\$ (1.0)	\$ (1.4)
Deferred	6.2	6.2	7.1	19.5
	\$ 6.3	\$ 5.7	\$ 6.1	\$18.1
Year ended December 31, 1983				
Current	\$ (.2)	\$ 1.5	\$ 2.5	\$ 3.8
Deferred	8.6	4.5	10.3	23.4
	\$ 8.4	\$ 6.0	\$12.8	\$27.2
Year ended December 31, 1982				
Current	\$ (.4)	\$ 3.0	\$ (.8)	\$ 1.8
Deferred	60.1	30.4	3.0	93.5
	\$59.7	\$33.4	\$ 2.2	\$95.3

Deferred income taxes result from differences in the timing of the recognition of revenue and expense for taxation and financial statement purposes respectively. The sources of these differences and the tax effects of each were as follows —

	Year ended December 31		
	1984	1983	1982
	(\$ millions)		
Deferred income tax recovery (expense) related to —			
Depreciation, depletion and logging road amortization	\$28.1	\$18.1	\$56.7
Inventory valuation	1.3	.3	1.6
Differences in timing of income items	(.6)	4.7	—
Expense provisions	(2.3)	.2	.2
Losses for which tax recoveries are provided	(14.3)	(3.2)	34.9
Investment tax credits	—	—	1.4
Expenses renounced for income tax purposes	6.5	—	—
Other items	.8	3.3	(1.3)
	\$19.5	\$23.4	\$93.5

Notes to Consolidated Financial Statements (continued)

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12. Earnings statements supplementary information: (continued)

The components of MacMillan Bloedel's income tax recoveries for 1984, 1983 and 1982 as a percentage of loss before income taxes are as follows —

	Year ended December 31		
	1984	1983	1982
Canadian federal income tax rate	46.0%	46.0%	46.0%
Canadian manufacturing and processing allowance	(8.5)	(2.3)	(3.9)
Provincial, state and withholding taxes	7.0	.8	5.5
Losses for which tax recoveries were not recorded	(2.6)	—	—
Deferred rate adjustments including investment tax credits	8.5	(19.9)	(1.7)
Inventory allowances	21.2	9.9	2.1
Foreign exchange translation adjustments	11.3	(2.3)	(.8)
Capital gains	—	10.3	.9
Tax adjustments and assessments	3.8	16.0	3.5
Foreign tax rates different from Canadian rates	28.6	10.7	1.1
Items not subject to tax	16.0	19.6	(1.7)
Other items	7.9	7.6	(1.2)
Effective income tax rate	139.2%	96.4%	49.8%

(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

1982 —

Sale of tax benefits including investment tax credits and energy tax credits associated with plant and equipment having an aggregate cost of \$205.0 million in the United States for \$61.0 million less income taxes of \$25.0 million \$36.0

(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 1984 from the conversion of outstanding convertible securities.

13. 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 Bathhurst Inc. and MacMillan Smurfit SCA Limited and the purchase of lumber from Northwood Pulp and Timber Limited.

	Year ended December 31		
	1984	1983	1982
	(\$ millions)		
Sales to related parties	\$83.5	\$43.7	\$29.0
Purchases from related parties	\$40.1	\$23.7	\$15.1
	December 31		
	1984	1983	
	(\$ millions)		
Accounts receivable from related parties	\$14.9	\$12.1	

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14. 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.

In the latter part of 1982, the Company adopted revised actuarial assumptions for the primary Canadian plans. The effect of these revised assumptions was to reduce the net loss for the year ended December 31, 1982 by \$2.8 million after tax (\$0.10 per common share).

As at December 31, 1984 the estimated excess of pension fund assets and provisions over the estimated obligations for pension benefits amounted to approximately \$29.8 million.

	December 31		
	1984	1983	1982
		(\$ millions)	
Pension fund assets	\$311.3	\$304.4	\$296.1
Obligations for pension benefits under all plans and agreements	291.3	274.6	282.9
Excess of fund assets over obligations for benefits	20.0	29.8	13.2
Provisions	9.8	13.4	18.8
Excess over plan obligations	\$ 29.8	\$ 43.2	\$ 32.0

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

As disclosed in Note 1, the attached financial statements are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). These accounting principles differ from U.S. GAAP. In MacMillan Bloedel's case the principal differences are summarized as follows —

	Year ended December 31		
	1984	1983*	1982*
		(\$ millions)	
Net earnings (loss) attributable to common shareholders as shown in the financial statements (Canadian GAAP)	\$ (5.8)	\$ 4.3	\$(77.2)
Foreign exchange translation	—	(2.1)	(11.8)
Amortization of pension plan experience gains or losses	(5.0)	(5.3)	(12.0)
Other	(.4)	.1	(.1)
Income tax	(5.4)	(7.3)	(23.9)
Net earnings (loss) — (U.S. GAAP)	\$ (8.9)	\$.7	\$(90.7)
Net earnings (loss) per common share after extraordinary items (U.S. GAAP)	\$ (.31)	\$.03	\$(3.42)

The balance sheet captions and amounts listed below differ from those presented in the attached financial statements and are presented according to the United States Securities and Exchange Commission (SEC) requirements —

	December 31	
	1984	1983*
	(\$ millions)	
Total assets	\$2,256.7	\$2,138.5
Current assets	758.8	692.5
Current liabilities	489.1	500.0
Redeemable preferred shares	307.2	250.2
Property, plant and equipment (net)	1,318.4	1,261.9
Long term debt	696.8	587.7

*Certain amounts have been restated.

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	
	1984	1983
	(\$ millions)	
Common shares	\$387.0	\$314.3
Retained earnings — U.S. GAAP	342.3	414.9
	729.3	729.2
Foreign exchange translation adjustment	(63.6)	(40.6)
	\$665.7	\$688.6

*Certain amounts have been restated.

Notes to Consolidated Financial Statements (continued)

16. Segment information:

	Sales from Canada to	Sales to unaffiliated customers from	Contributions to earnings (loss) (2)	Assets
	(\$ millions)			
Year ended December 31, 1984				
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
Year ended December 31, 1983				
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
Year ended December 31, 1982				
Canada	\$ 442.3	\$ 891.6	\$ (30.2)	\$1,193.3
United States	458.7	779.0	(21.1)	686.9
Europe (primarily the United Kingdom)	164.8	169.1	(1.4)	94.3
Other	270.4	3.4	2.6	2.1
	1,336.2	1,843.1	(50.1)	1,976.6
Eliminations and adjustments:				
Inter-segment			(1.1)	(2.4)
General corporate			(62.0)	176.2
Interest expense			(78.3)	
Consolidated totals	\$1,336.2	\$1,843.1	\$(191.5)	\$2,150.4

Year ended December 31, 1984

	Total revenue	Contributions to earnings (loss) (1)(2)	Depreciation, depletion and amortization (\$ millions)	Capital expenditures	Assets
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

Year ended December 31, 1983

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

Year ended December 31, 1982

Building materials	\$ 667.9	\$ (32.9)	\$ 36.8	\$ 15.9	\$ 631.3
Pulp and paper	683.0	(12.5)	29.1	41.3	749.1
Containerboard and packaging	460.6	(7.1)	13.1	143.0	587.1
Other	31.6	1.3	.4	.4	6.7
Total operations	1,843.1	(51.2)	79.4	200.6	1,974.2
General corporate		(62.0)	2.8	6.2	176.2
Interest expense		(78.3)			
Consolidated totals	\$1,843.1	\$ (191.5)	\$ 82.2	\$206.8	\$2,150.4

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. In 1983 and prior years MacMillan Bloedel transferred raw material costs between segments on a market value basis. Commencing in 1984 MacMillan Bloedel has changed its basis of allocating raw material costs to a basis proportionate to the end-product net revenue before deducting fibre costs. 1982 and 1983 product segment results have been restated to reflect this change in basis. Other pricing policies and methods of allocating costs are possible but at this time the Company believes the above determined method to be more 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 (continued)

17. Subsidiary companies:

ACTIVE

Canada

Canadian Transport (Europe) Limited
Forest Industries Flying Tankers Limited
Kingcome Navigation Company Ltd.
MacMillan Bloedel Building Materials Limited
MacMillan Bloedel (Hudson Bay) Limited
MacMillan Bloedel (Pacific) 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 Particle-board Inc.
Powell River-Alberni Sales Corporation
Star Terminal Company, Incorporated

United Kingdom

MacMillan Bloedel Meyer Limited
MacMillan Bloedel Pulp and Paper Sales Limited

INACTIVE (including holding companies not carrying on active operations)

Harmac Limited
MacMillan Bloedel Building Limited
MacMillan Bloedel Export Sales Ltd.
MacMillan Bloedel Packaging Limited
MacMillan Bloedel (Saskatchewan) Limited
MacMillan Bloedel (Thunder Bay) Limited
Premare Holdings Ltd.

Atlantic Forest Products Inc.
MacMillan Bloedel Export Inc.
MacMillan Bloedel Radio System, Inc.
MacMillan Bloedel Timberlands Inc.
Utah Recycling

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

ACTIVE

Other

Altair Limited
Altair Investments Limited
Canadian Maas River Investment N.V.
Comfloresta — Companhia Catarinense de Empreendimentos Florestais⁽¹⁾
Comfloresta Tijucas do Sul Empreendimentos Florestais S.A.⁽¹⁾
Embrasca — Empreendimentos Florestais e Agricolas Ltda.⁽¹⁾
Fortrans N.V.
MacMillan Bloedel Europe B.V.
MacMillan Bloedel FSC Ltd.
MacMillan Bloedel Pty. Limited
MacMillan Bloedel (Asia) Limited
MacMillan Bloedel Finance Limited
MacMillan Bloedel KK
MacMillan Bloedel (South East Asia) Limited
Sociedade em Conta de Participacao Morro da Palha⁽¹⁾
Sociedade em Conta de Participacao Sao Joao⁽¹⁾

(1) These subsidiaries are not consolidated. (Notes 1 and 4).

INACTIVE

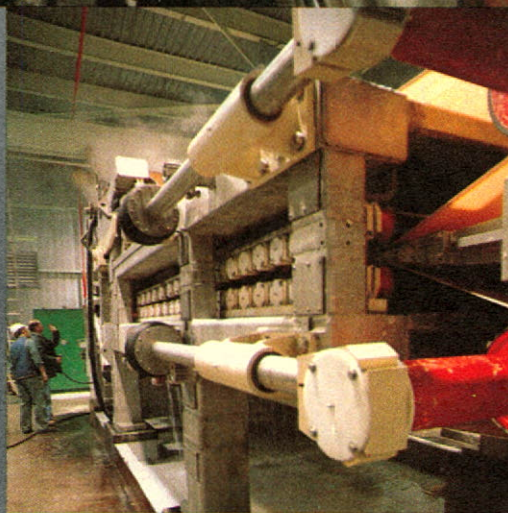
Canadian Transport Company Pty. Limited
Comfloresta-Parana Empreendimentos Florestais S.A.⁽¹⁾
Comfloresta-Serrana Empreendimentos Florestais S.A.⁽¹⁾
MacMillan Bloedel (Brasil) Ltda.
MacMillan Bloedel European Holdings B.V.
Oceanspan Carriers Limited
Recursos Florestais Sociedade de Civil Limitada⁽¹⁾
Sociedade Civil de Investimentos Florestais Limitada⁽¹⁾

MEETING THE CHALLENGE

Serving Specialty Markets: Pulp & Paper

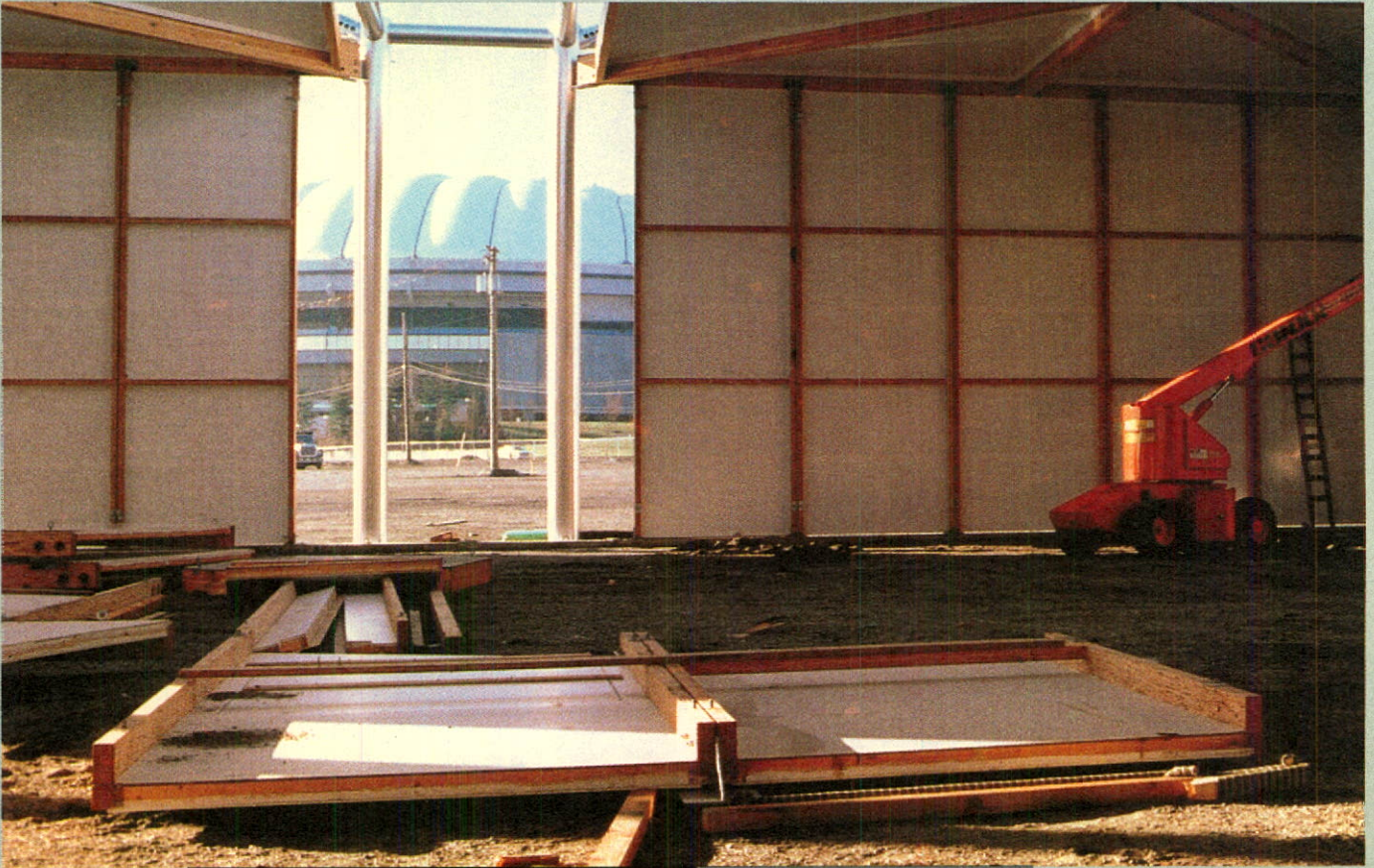


Attracting a premium over standard newsprint, MB's groundwood specialty papers meet the high-quality demands of the publication industry. Expanded peroxide plant at Powell River (inset) will allow increased production of Hi-Brite grades.



MEETING THE CHALLENGE

Achievements in Research & Development



Parallam™, a new structural wood product developed by MB, recently won the federal government's gold medal for excellence in invention. Offering great strength and uniformity over long spans, it has been chosen for many Expo 86 pavilions.

In addition to market and product diversification, significant productivity improvements have been made.

Several years ago, MacMillan Bloedel introduced a program to bring its woodlands employees to the mills so they could observe the conversion of the logs and better understand the mills' requirements. A much greater awareness of the value of each log harvested and its importance in the production of higher-value products is proving effective in raising average net mill returns.

Pulp and Paper Upgrading Serves Growing Specialty Markets

MacMillan Bloedel serves a large market for standard newsprint in the western United States, Canada, the Pacific Rim and Latin America. Emphasis will continue to be placed on meeting the requirements of its present and future customers.

In addition, the Company has long been producing higher-value groundwood printing papers at Powell River. In recent years the pulp and paper mill at Port Alberni has also begun production of new grades.

Examples of specialties include telephone directory in addition to lightweight catalogue, Hi-Brite papers and computer papers.

The conversion of Number 9 paper machine at Powell River to allow production of both specialty papers and standard newsprint is a further reflection of this strategy. In this report, both the financial statements and the Results of Operations are printed on Electraheat 72, the brightest of the Company's Hi-Brites used here in its heaviest basis weight.

The Port Alberni mill recently started producing lightweight papers including a new featherweight grade. The Number 3 paper machine has been rebuilt to produce this and

other specialty papers. Featherweight grades are used for various manuals and directories that require low mailing rates.

MacMillan Bloedel serves a large market for standard newsprint in the western United States, Canada, the Pacific Rim and Latin America. In addition, the Company has long been producing higher-value groundwood printing papers.



Productivity Improvements: Essential to Lower Costs

In addition to market and product diversification, MacMillan Bloedel recognizes the need to reduce its production costs in all manufacturing areas of the Company. In pulp and paper this is being done through cost controls and technical innovations. An example of the latter is the conversion of Powell River's thermo-mechanical pulp lines to chemi-thermo-mechanical pulping. This reduces the kraft and increases the mechanical pulp component of groundwood papers. Mechanical pulp has a higher fibre recovery than kraft pulp and is less costly to use in the manufacturing process.

Significant productivity improvements have been made and are continually being

MB Research is working with employees in all regions to increase productivity and develop new production processes.

emphasized in the solid-wood converting facilities. The benefits of an electronic-scanning program, initiated some years ago, are now being realized. Equipment, developed by the Company's Research Division, is now in operation to assist sawyers in cutting logs with minimal waste.

In the woodlands, several harvesting machines are being adapted to coastal conditions and evaluated. Substantial opportunities for both improving log values and reducing the delivered wood cost have been identified, and are being pursued as a matter of high priority.



E*mployees need to be aware of the competitive forces facing the Company. They must also be encouraged to participate in decisions that improve the Company's competitive position and affect their working environment.*

**Research & Development:
Innovation Yields New Products**

Research and development is a key part of MacMillan Bloedel's strategy for prospering in the new environment. The Company's Research Division works with employees throughout all of the regions to develop equip-

ment, processes and products to increase productivity and create new market opportunities.

A new structural wood product, Parallam™ parallel strand lumber, was developed by this division and in 1984 won the federal government's gold medal for excellence in the invention category. Parallam™ can be made from low-quality veneer residuals and has great strength and uniformity.

Parallam™ is intended for industrial, low-rise building construction. In such applications, it is expected Parallam™ will expand the use of wood-based materials. It is now being manufactured in limited volumes at a prototype plant. Although production on a commercial scale must await the results of current trials, the product is being test marketed at various sites, including Expo 86 in Vancouver, British Columbia.

Employees:

Awareness of the New Realities

MacMillan Bloedel recognizes that its employees need to be aware of the competitive forces facing the Company. Employees must also be encouraged to participate in decisions that improve the Company's competitive position and, at the same time, affect their working environment. Progress has been made, and both formal and informal sessions are being held to communicate to all employees the realities of world competition and its impact on the Company.

In the Alberni Region, a number of successful crew-developed projects have been implemented. These include training for operation of the rebuilt Number 3 paper machine at Alpulp, logging truck rebuilds at Sproat Lake

MEETING THE CHALLENGE

Getting Closer to the Customer



Producing the right products for today, and meeting the market demands of the future, is a key to MB's success. To this end, employees at all levels of operations are getting closer to the customer — knowing his needs and responding to them.

Corrective Action Teams helped make Powell River's No. 10 and 11 paper machines among the most productive in the world.

Division and the moulder resaw installation at Somass Division. The importance of a joint effort toward the prevention of accidents has also been recognized by the Regional Senior Vice President's "Excellence in Safety Award". Improvement through teamwork is a key criterion for the award which has been presented five times during the past year.

Throughout the Powell River woodlands, pulp, paper and lumber operations, employee involvement has taken on a new dimension with the "Quality Improvement Process", now in its third year. Crews, supervisors and suppliers are working together on "Corrective Action Teams" to find lasting solutions to specific problems that have been identified. Many teams completed their work in 1984 and the benefits are significant. Number 11 paper machine was the most productive in the world in both October and November of 1984. Number 10 paper machine is also ranking among the world leaders and, during the year, experienced the best quality and efficiency performance of its 16-year life.

The Nanaimo Region also practises employee involvement, the most significant example of which is at the new Chemainus Sawmill. Employees and management have adopted a policy of open communication. Employees are being encouraged to rotate job functions so they can gain familiarity with the entire production process. While only two months into production, this mill is substantially ahead of its aggressive start-up targets.

The Marketing Group recently implemented a productivity gain-sharing program called "Improshare" at Thunder Bay Waferboard and Nipigon Plywood Divisions. These

programs are administered by a committee of employees who review the recommendations of plant personnel for possible implementation. When productivity gains are made, these are shared equally by the Company and all the employees.

In addition, the Panelboard Group has embarked on a program of "Quality Management" similar to that of the Powell River Region. This program is being introduced into both the manufacturing and the Canadian distribution branches.

The Challenge of Change

The new environment of plentiful supply and intense competition has made the need to lower production costs all the more critical. MacMillan Bloedel has made progress in this regard and is continuing to improve operating methods and to increase fibre recoveries.

To fully benefit from substantial productivity gains, however, the coastal industry needs the flexibility to adapt to changed market conditions. This is the challenge that will only be met with the cooperation of management, government and labour to ensure the prosperity of an industry that has great opportunities ahead.



Corporate and Statistical Information

Annual Report 1984



Statistics

MacMillan Bloedel Limited

Sales by segment

(\$ millions)

Building materials

	1980	1981	1982	1983	1984
Lumber	705.3	534.3	462.6	576.6	649.0
Plywood	111.8	121.7	83.6	108.3	97.0
Waferboard	58.4	60.6	24.1	40.8	42.9
Particleboard	29.3	16.7	10.4	10.7	10.6
Other	107.4	105.6	87.2	169.6	165.4
	1,012.2	838.9	667.9	906.0	964.9

Pulp and paper

Newsprint	586.4	559.6	449.9	458.5	462.2
Market pulp	246.6	207.0	180.3	177.6	224.2
Fine papers*	35.7	35.4	38.3	4.3	0.5
Recycled fibre and other	46.2	28.9	14.5	20.6	26.9
	914.9	830.9	683.0	661.0	713.8

Containerboard and packaging

Corrugated containers*	374.3	391.0	365.8	281.3	173.1
Containerboard	116.1	115.0	82.0	138.7	224.6
Other**	24.7	18.5	12.8	17.1	5.3
	515.1	524.5	460.6	437.1	403.0

*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.

1984 Sales by market

Building materials

	Canada	United States	Japan and Orient	U.K., Europe and Other	Total
Lumber (MMfbm)	246	886	121	226	1,479
Plywood (MMsq.ft. - 3/8")	181	114	1	52	348
Waferboard (MMsq.ft. - 3/8")	133	126	—	1	260
Particleboard (MMsq.ft. - 3/4")	39	1	—	—	40

Pulp and paper

Newsprint (K-tonnes)	85	476	72	89	722
Market pulp (K-tonnes)	7	48	91	214	360
Recycled products (K-tonnes)	22	107	—	—	129

Containerboard and packaging

Linerboard (K-tonnes)	6	205	—	83	294
Corrugating medium (K-tonnes)	77	120	—	12	209
Corrugated containers (K-tonnes)	—	190	—	2	192

Production

Building materials

	1980	1981	1982	1983	1984
Lumber (MMfbm)	1,171	910	635	822	845
Plywood (MMsq.ft. - 3/8")	380	357	254	314	239
Waferboard (MMsq.ft. - 3/8")	233	259	114	182	257
Particleboard (MMsq.ft. - 3/4")	74	41	35	40	34

Pulp and paper

Newsprint (K-tonnes)	1,149	961	702	788	718
Market pulp (K-tonnes)	437	342	326	369	358

Containerboard and packaging

Linerboard (K-tonnes)	369	363	288	299	351
Corrugating medium (K-tonnes)	67	68	42	199	268
Corrugated containers (K-tonnes)*	440	434	386	322	194

Operating rates

(percent)

Building materials

Lumber	74	56	46	75	77
Plywood	74	69	55	79	81
Waferboard	84	93	41	65	78
Particleboard	86	76	65	74	63

Pulp and paper

Newsprint	95	82	67	79	72
Market pulp	95	78	71	80	77

Containerboard and packaging

Linerboard	80	78	76	74	87
Corrugating medium	96	96	58	76	103
Corrugated containers*	70	71	63	68	83

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



Principal facilities

Building Materials	Division	Location	Aggregate effective annual capacities at year-end 1984	1984 Production
Lumber (MMfbm)	Alberni Pacific	Port Alberni, British Columbia	238	174
	Somass	Port Alberni, British Columbia	175	130
	Harmac	Nanaimo, British Columbia		
	Woodroom #3		177	143
	Woodroom #4		149	108
	Chemainus	Chemainus, British Columbia	106	—
	Canadian White Pine	Vancouver, British Columbia	118	110
	New Westminster	New Westminster, British Columbia	50	37
	Queensborough	New Westminster, British Columbia	24	21
	Powell River	Powell River, British Columbia	80	45
	Pine Hill	Pine Hill, Alabama	75	64
			1,192	832
Lumber Specialties (MMfbm)	Mainland Processing	New Westminster, British Columbia	103	75
	Atlantic Forest Products	Edenton, North Carolina	15	13
			118	88
Plywood (MM sq.ft.-3/8")	Alberni Plywood	Port Alberni, British Columbia	142	111
	Pine Hill	Pine Hill, Alabama	133	108
	Nipigon	Nipigon, Ontario	26	20
			301	239
Waferboard (MM sq.ft.-3/8")	Hudson Bay	Hudson Bay, Saskatchewan	192	128
	Thunder Bay	Thunder Bay, Ontario	138	129
			330	257
Particleboard (MM sq.ft.-3/4")	Particleboard	Vancouver, British Columbia	54	34
Hardboard (MM sq.ft.)	Sturgeon Falls	Sturgeon Falls, Ontario	47	21
Specialty Board (MM sq.ft.)	Specialty Board	Vancouver, British Columbia	37	15
Mouldings (MM lineal ft.)	Kingtrim Operations	Rexdale, Ontario	69	40
Poles (M pieces)	Wood Preserving	New Westminster, British Columbia	13	7

Principal facilities

	Division	Location	Aggregate effective annual capacities at year-end 1984	1984 Production
Pulp and Paper				
Market Pulp (K-tonnes)	Harmac	Nanaimo, British Columbia	340	262
	Alberni Pulp and Paper	Port Alberni, British Columbia	74	58
	Powell River	Powell River, British Columbia	50	38
			464	358
Newsprint, including Groundwood Specialties (K-tonnes)	Alberni Pulp and Paper	Port Alberni, British Columbia	370	287
	Powell River	Powell River, British Columbia	635	431
			1,005	718
Containerboard				
Linerboard (K-tonnes)	Pine Hill	Pine Hill, Alabama	403	351
Corrugating Medium (K-tonnes)	Pine Hill	Pine Hill, Alabama	190	198
	Sturgeon Falls	Sturgeon Falls, Ontario	71	70
			261	268
Corrugated Containers (K-tonnes)	11 Locations*	United States	284	194

*Two corrugated container plants with an aggregate capacity of 50,000 tonnes were acquired on December 31, 1984.



Directors

MacMillan Bloedel Limited

E.K. Cork 2,4

Toronto, Ontario
Senior Vice-President,
Treasurer, Noranda Inc.

D.C. Davenport 2,4

Vancouver, British Columbia
Partner, Davis & Company

J.P. Fisher 4

Edmundston, New
Brunswick
Chairman and Chief
Executive Officer, Fraser Inc.

R.E. Harrison 3,4

Toronto, Ontario
Corporate Director

G.H.D. Hobbs 1,2,3,4,5

Vancouver, British Columbia
Corporate Director

C.C. Knudsen 1,4

Seattle, Washington
Vice-Chairman
MacMillan Bloedel Limited

Dr. K.G. Pedersen 4,6

Vancouver, British Columbia
President, University of
British Columbia

A. Powis 1,4

Toronto, Ontario
Chairman and Chief
Executive Officer, Noranda
Inc.

R.V. Smith 1,4

West Vancouver,
British Columbia
President and
Chief Executive Officer
MacMillan Bloedel Limited

Jean M. Southam 1,4,6

Vancouver, British Columbia
Private Investor

G.M. Tidball 4,5

Langley, British Columbia
President and Chief
Executive Officer, Keg
Restaurants Ltd.

A.H. Zimmerman 1,3,4

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



Officers

MacMillan Bloedel Limited

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. McLaughlin

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, o.c.

Senior Vice-President,
Law and Corporate Affairs

Wilhelm Peppler

Senior Vice-President,
International

J. St.C. Ross

Senior Vice-President,
Nanaimo Region

G.J. Towill

Senior Vice-President,
Human Resources

R.N. Wiewel

Senior Vice-President,
Marketing Group

G.A. Adams

Vice-President,
Transportation

G.L. Ainscough

Vice-President and Chief
Forester

J.C. Bauer

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MacMillan Bloedel
Containers

J.G. Dickinson

Vice-President,
Planning and Analysis

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Vice-President,
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Vice-President, Tax,
Properties and Risk
Management

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Information Systems and
Services

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D.H. Holden

Vice-President,
Corporate Communications

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Assistant Secretary

G.H. Johncox

Vice-President,
Industrial Relations

E. Lauritzen

Vice-President,
Pulp and Paper, Marketing
Group

E.G. Legg

Vice-President, Controller,
Marketing Group

R.V. Matthews

Vice-President, Controller

F.H. Moonen

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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



Shareholder Information

MacMillan Bloedel Limited

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

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, 1985.

	Common Shares	Common Shareholders*
Canada	27,963,020	9,219
United States	1,120,672	824
Other	28,938	103
	<u>29,112,630</u>	<u>10,146</u>
Share warrants	186	
	<u>29,112,816</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. Write to:

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

Paper Stock

The text stock used in this report is 62 g/m² Electra-heat 72, a groundwood printing paper produced at the MacMillan Bloedel mill in Powell River, British Columbia. Our feature section, The Challenge of Change, was printed on 60 lb. Hi-Lite Offset, produced by 50 percent-owned Island Paper Mills of New Westminster, British Columbia.

