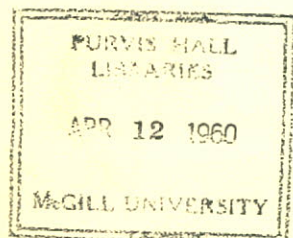


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MacMILLAN, BLOEDEL AND POWELL RIVER LIMITED

1959
Annual Report



MacMILLAN, BLOEDEL AND POWELL RIVER LIMITED

Executive Offices: 1199 West Pender Street, Vancouver 1, British Columbia

DIRECTORS

E. C. AUSTIN	R. L. FOOTE	W. C. RILEY, O.B.E.
*P. BLOEDEL	A. E. GRAUER	J. S. SAMPLE
A. BROOKS	J. M. HOLLERN	*R. M. SHAW
*C. BROOKS	J. LECKY	E. G. SHORTER
W. S. BROOKS	MAJ.-GEN. H. F. G. LETSON, C.B.	S. G. SMITH
F H. BROWN, C.B.E.	J. E. LIERSCH	G. T. SOUTHAM
J. M. BUCHANAN	*H. R. MACMILLAN, C.B.E.	*W. J. VANDUSEN
*HON. J. V. CLYNE	E. S. MCCORD	HON. C. WALLACE, C.B.E.
M. COLLINS	R. D. MERRILL	A. H. WILLIAMSON, O.B.E.
*H. S. FOLEY	H. T. MITCHELL	F. WILSON
*M. J. FOLEY	*G. W. O'BRIEN	C. B. WRIGHT, JR.

Honorary Chairman—H. R. MACMILLAN, C.B.E.

**Member of Executive Committee*

OFFICERS

HON. J. V. CLYNE	<i>Chairman of the Board</i>
H. S. FOLEY	<i>Vice-Chairman of the Board</i>
M. J. FOLEY	<i>President</i>
R. M. SHAW	<i>Executive Vice-President</i>
I. H. ANDREWS	<i>Vice-President</i>
G. S. BOWELL	<i>Vice-President</i>
C. CRISPIN	<i>Vice-President</i>
G. D. ECCOTT	<i>Vice-President</i>
W. C. R. JONES	<i>Vice-President</i>
A. C. KENNEDY	<i>Vice-President</i>
J. A. KYLES	<i>Vice-President and Secretary</i>
J. E. LIERSCH	<i>Vice-President</i>
H. P. J. MOORHEAD	<i>Vice-President</i>
E. G. SHORTER	<i>Vice-President</i>

TRANSFER AGENTS AND REGISTRARS

THE ROYAL TRUST COMPANY, *Vancouver*

THE CANADA TRUST COMPANY, *Montreal, Toronto, Winnipeg*

1959 ANNUAL REPORT TO THE SHAREHOLDERS

The Directors submit the forty-ninth annual report of the Company for the year ended December 31, 1959.

The amalgamation of Powell River Company Limited and MacMillan & Bloedel Limited, the details of which are well known to the shareholders of both groups, was initially consummated on December 31, 1959, since by that date the required percentage of acceptance of the exchange offers had been received. On January 4, 1960 the name of Powell River Company Limited was changed to MacMillan, Bloedel and Powell River Limited.

The expiry date for acceptance of the exchange offers by the shareholders of MacMillan & Bloedel Limited was February 16, 1960, but as provided for in the offers this date was extended to the close of business on March 14, 1960. It is most gratifying to report that as of March 14 acceptances had been received from the holders of 99.7% of all the issued shares of MacMillan & Bloedel Limited. The legal proceedings necessary to acquire the remaining .3% of the issued shares are now under way.

In the following pages you will find a report of the affairs of Powell River Company Limited for the year ended December 31, 1959, together with some highlights of MacMillan & Bloedel Limited operations for the year ended September 30, 1959, and for the three months' period October 1 to December 31, 1959, all prior to the amalgamation.

The report is followed by financial statements of:

(a) Powell River Company Limited for the year ended December 31, 1959;

(b) MacMillan & Bloedel Limited for the three months' period ended December 31, 1959, the financial year end of that company having now been changed from September 30 to December 31.

In regard to (a) and (b) above, these deal with the respective companies prior to the amalgamation. In addition there are statements which give in consolidated form the financial information in respect to the combined companies.

POWELL RIVER COMPANY LIMITED

(Prior to Amalgamation)

HIGHLIGHTS:

	1959	1958(1)
Net Sales	\$60,825,000	\$53,383,000
Net Earnings	\$9,902,262	\$7,319,528
Earnings per Share (2)	\$1.18	\$.87
Dividends Paid	\$6,300,000	\$6,300,000
Dividends Paid per Share (2)	\$.75	\$.75
Wages, Salaries and Employee Benefits	\$19,873,000	\$16,681,000
Taxes:		
Federal Income	\$10,110,000	\$6,404,000
Provincial Logging Income	\$1,000,000	\$720,000
Real Property, School and Forestry	\$1,362,000	\$1,347,000
Capital Expenditures	\$7,512,272	\$1,613,119
Working Capital at December 31	\$15,747,362	\$16,400,513
Ratio of Current Assets to Current Liabilities	2.26	3.51

(1) Adjusted—see Note (2) to the Financial Statements.

(2) Adjusted to basis of 1959 stock subdivision.

While this report deals with the operations of Powell River Company Limited prior to the amalgamation and is not a report of the combined companies, nevertheless it will be of interest to shareholders who did not receive the annual report of MacMillan & Bloedel Limited to have some of the highlights of the operations of that company for the year ended September 30, 1959, which are as follows:

MacMILLAN & BLOEDEL LIMITED

(Prior to Amalgamation)

	Year Ended September 30 1959
Net Sales and Operating Revenues	\$181,469,915
Net Earnings	\$13,016,172
Earnings per Share	\$2.44
Dividends Paid	\$6,376,484
Working Capital at September 30	\$48,258,537

As the amalgamation was not consummated until December 31, 1959, and as the financial results of MacMillan & Bloedel Limited for the last quarter of 1959 have not been published, it will also be of interest to shareholders to have the following information on its operations for the period October 1, 1959, to December 31, 1959, prior to the amalgamation.

MacMILLAN & BLOEDEL LIMITED

(Prior to Amalgamation)

	Period Oct. 1 - Dec. 31 1959
Net Sales and Operating Revenues	\$49,674,707
Net Earnings	\$4,004,080
Earnings per Share	\$.75
Dividends Paid	\$2,392,174
Working Capital at December 31	\$52,262,964

SHARE CAPITAL

As approved by the shareholders, the existing issued and unissued share capital of the Company was subdivided two for one on October 5, 1959, and the authorized share capital was then increased to 25,000,000 shares of no par value.

In accordance with the plan of amalgamation and the terms of the exchange offers the Company issued 11,676,998 shares to former MacMillan & Bloedel shareholders on December 31, 1959, the date on which the plan was initially consummated. The total issued and outstanding share capital of the Company at December 31, 1959 was 20,076,998 shares. Since December 31, additional shares have been issued in exchange as detailed in Note (1) to the financial statements.

EARNINGS

Net earnings for the year were \$9,902,262, or \$1.18 per share on the basis of shares outstanding after the two for one subdivision of the capital stock. This compares with \$7,319,528 for 1958 and \$.87 per share after adjusting for the 1959 subdivision. As previously stated, this report deals only with the operations of Powell River Company Limited prior to the amalgamation.

The improvement in earnings was due largely to increased sales of newsprint resulting from improved business conditions and also to the fact that the results of the previous year were seriously affected by the strike in the pulp and paper mill. Conversely, however, a weakness in the markets for Powell River's lumber products and the strike in the coast sawmill and logging industries in 1959 were unfavourable factors. Furthermore, the loss on U.S. Exchange was \$2,275,000 as compared with \$1,442,000 in 1958

A comparison of the 1959 results with those for 1958 is shown below.

	1959	1958*
Consolidated profit before the undernoted items	\$26,009,221	\$19,810,741
Profit on disposal of equipment	40,751	58,002
Profit on disposal of investments	58,500	—
Income from sundry investments	226,551	39,133
Miscellaneous income	177,408	150,189
	<u>26,512,431</u>	<u>20,058,065</u>
Depreciation	4,557,939	4,822,739
Amortization	712,981	669,073
Depletion	229,249	122,725
	<u>5,500,169</u>	<u>5,614,537</u>
Consolidated profit before income taxes	21,012,262	14,443,528
Income taxes:		
Federal	10,110,000	6,404,000
Provincial Logging	1,000,000	720,000
	<u>11,110,000</u>	<u>7,124,000</u>
Consolidated Net Profit	<u>\$ 9,902,262</u>	<u>\$ 7,319,528</u>

* Adjusted—see Note (2) to the Financial Statements.

DIVIDENDS

The regular quarterly dividend of 30c per share was paid in March, June and September, and an extra of 15c in June. The quarterly dividend paid in December on the subdivided shares was a regular of 15c per share and an extra of 7½c. The total distribution for the year was the same as for 1958 and represents 75c per share on the subdivided shares.

WORKING CAPITAL

As at December 31, 1959, Working Capital amounted to \$15,747,362, a decrease of \$653,151 during the year. The ratio of current assets to current liabilities was 2.26 compared to 3.51 at the end of 1958.

Details of changes in Working Capital are summarized below:

Working Capital at January 1, 1959 * \$16,400,513

Additions:

Net earnings for 1959	9,902,262
Non-cash charges to operations:	
Depreciation, Depletion and Amortization	5,500,169
Deferred income taxes	396,700
Proceeds from sale of fixed assets	257,432
Proportion of dividend from Martin Paper Products Holdings Limited applied to book value of the investment	891,385
	<u>33,348,461</u>

Deductions:

Capital Expenditures:

Manufacturing plants and equipment	\$ 6,045,326
Logging roads and development	812,777
Timber	60,974
Land	56,510
Patent	536,685
	<u>7,512,272</u>
Dividends paid	6,300,000
Increase in investment and advances to partly owned companies	1,685,099
Increase in other investments and long-term advances	1,103,728
Estimated costs of amalgamation	1,000,000
	<u>17,601,099</u>

Working Capital at December 31, 1959 \$15,747,362

* Adjusted—see Note (2) to the Financial Statements.

PULP AND PAPER MILL OPERATIONS

Paper machine speeds and mill operating time were increased to meet the greater demand for newsprint. Powell River production in 1959 reached 436,701 tons, an increase of 79,379 tons over the previous year.

While it was necessary to increase the production of unbleached sulphite pulp to meet the additional newsprint requirements, the tonnage of this product for sale was restricted to 3,078 tons due to lack of market.

If business conditions are sustained at the present level it is anticipated that newsprint production at Powell River in 1960 will exceed the 1959 volume.

PRODUCTION — TONS		1959	1958
Newsprint		436,701	357,322
Unbleached Sulphite Pulp		3,078	1,593
Wrapper, Laminated and Other Products		7,320	6,286
SALES — TONS		1959	1958
Newsprint		432,566	359,575
Unbleached Sulphite Pulp		2,894	2,841
Wrapper, Laminated and Other Products		6,231	5,260

SAWMILL OPERATIONS

The coastal sawmilling and logging industries were strikebound from July 6 to September 12. During the first half of the year there was a gradual improvement in the lumber market but by the end of the strike conditions had deteriorated both as to price and demand. Lumber sales for the year were 87 million f.b.m. compared with 83 million in 1958.

RESEARCH AND DEVELOPMENT

The construction of the Fine Paper Mill on Annacis Island is progressing satisfactorily and the mill is expected to start producing in May this year. This operation will be known as "The Island Paper Mills".

The Flakeboard Plant at New Westminster is now complete and should be in commercial production in April.

The purchase of a new charcoal process and a plant at Port Kells, near New Westminster, B.C., has now been completed. The process utilizes wood waste to produce, as a main product, briquetted charcoal. An additional charcoal producing unit is under construction at the site of our cedar mill in New Westminster and is expected to be in operation this summer.

PERSONNEL

Labour contracts covering employees in the sawmill and logging operations expired on June 15, 1959, and new two year contracts expiring June 15, 1961, were negotiated only after a strike which started July 6 and ended on September 12. The settlement was reached through the intervention of a government appointed Industrial Inquiry Commissioner after all regular government conciliation procedures had failed. The new contracts provided for a 10c per hour increase on June 15, 1959, and a further 10c on June 15, 1960, together with certain other benefits. In our opinion the settlement was not justified by the economic condition of the industry, having regard to its competitive position in foreign markets.

New contracts covering the pulp and paper mill employees were negotiated for one year, expiring June 30, 1960. These contracts provided for a 3% general wage increase, and other benefits.

The accident frequency rate was considerably lowered in all divisions of the Company during the year and the Powell River mill had the lowest rate of any pulp and paper mill in British Columbia.

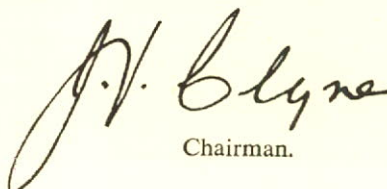
CONCLUSION

The Directors wish to express their appreciation for the support of the shareholders, as evidenced by their wholehearted acceptance of the plan of amalgamation.

We are confident that the integration of the two organizations lays the foundation for one of the strongest companies in the forest industry on this continent, capable of meeting the keenest competition and achieving solid growth.

On behalf of the Board

MacMILLAN, BLOEDEL AND POWELL RIVER LIMITED


Chairman.

Vancouver, Canada
April 7, 1960.

FINANCIAL STATEMENTS

MacMILLAN, BLOEDEL AND POWELL RIVER LIMITED

formerly

POWELL RIVER COMPANY LIMITED

Auditors' Report

To the Shareholders of

MacMillan, Bloedel and Powell River Limited:

We have examined the consolidated balance sheet of MacMillan, Bloedel and Powell River Limited (prior to change of name on January 4, 1960 called Powell River Company Limited) and its wholly-owned subsidiaries as at December 31, 1959 and the consolidated statements of earnings and earnings retained for use in the business for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

The Company's share in the earnings of subsidiaries not consolidated has been dealt with in the accounts of the Company for the year ended December 31, 1959 only to the extent of dividends received, as set out in Note 1 to the financial statements.

In our opinion the accompanying consolidated balance sheet and related consolidated statements of earnings and earnings retained for use in the business, together with the notes thereto, are properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of the Company and its wholly-owned subsidiaries as at December 31, 1959 and the results of their combined operations for the year ended on that date, in accordance with generally accepted accounting principles applied (after reflecting certain retroactive adjustments referred to in Note 2 to the financial statements) on a basis consistent with that of the preceding year, and according to the best of our information and the explanations given to us and as shown by the books of the companies.

Vancouver, B.C.
March 22, 1960.

HELLIWELL, MACLACHLAN & CO.
Chartered Accountants

MacMILLAN, BLOEDEL AND
(FORMERLY POWELL RIVER COMPANY LIMITED)
Consolidated Balance Sheet

(with comparable balances)

ASSETS		1959	1958
CURRENT ASSETS:			
Cash on hand and in banks	\$	1,242,479	\$ 2,857,805
Short-term investments (Note 3)		8,372,656	3,460,607
Accounts receivable, less allowance (1959—\$33,286; 1958— \$70,224) for doubtful accounts		7,021,050	6,370,145
Inventories of raw materials, products and supplies, valued at the lower of cost or market		11,318,746	10,096,902
Prepaid expenses		329,093	142,232
		<u>28,284,024</u>	<u>22,927,691</u>
INVESTMENTS AND OTHER ASSETS:			
Shares of and advances to partly-owned companies (Note 4)		3,150,271	2,356,557
Other investments and long-term logging and other advances, at cost less allowance (1959—\$200,000; 1958—\$177,500) for doubtful accounts		3,968,523	2,864,795
		<u>7,118,794</u>	<u>5,221,352</u>
SHARES OF MacMILLAN & BLOEDEL LIMITED:			
13,578 Class "A" Shares and 4,990,850 Class "B" Shares acquired through interim exchange of shares on December 31, 1959		138,177,794	—
PROPERTY, PLANT AND EQUIPMENT:			
Manufacturing plants and equipment, hydro-electric develop- ment, marine and logging equipment, at cost		102,801,255	97,259,701
Less accumulated depreciation		64,727,180	60,554,016
		38,074,075	36,705,685
Timber and land, at cost less depletion		11,267,609	11,381,531
Logging roads and other logging development, at cost less amortization		1,663,625	1,700,107
Patent pending, at cost		536,685	—
		<u>51,541,994</u>	<u>49,787,323</u>
		<u><u>\$225,122,606</u></u>	<u><u>\$77,936,366</u></u>

D POWELL RIVER LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES
et as at December 31, 1959

as at December 31, 1958 — Note 2)

LIABILITIES

	1959	1958
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 5,271,472	\$ 2,129,817
Share warrant dividend coupons outstanding	578,279	964,470
Income taxes payable	6,686,911	3,432,891
	<u>12,536,662</u>	<u>6,527,178</u>
INCOME TAX REDUCTIONS APPLICABLE		
TO FUTURE YEARS (Note 5)	988,200	591,500
	<u>13,524,862</u>	<u>7,118,678</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Notes 1 and 6)	149,937,794	11,760,000
RESERVE FOR CONTINGENCIES (transferred in 1959 to earnings retained)	—	3,500,000
EARNINGS RETAINED FOR USE IN THE BUSINESS (Note 2):		
Per statement on following page	61,659,950	55,557,688
	<u>211,597,744</u>	<u>70,817,688</u>
COMMITMENTS (Note 7)		

ON BEHALF OF THE BOARD:

J. V. CLYNE, Director

HAROLD S. FOLEY, Director

\$225,122,606

\$77,936,366

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1959

(with a comparable statement for the year ended December 31, 1958 — Note 2)

	1959	1958
INCOME:		
Sales of products and services	\$60,824,436	\$53,382,590
Dividends from partly-owned companies (Note 1)	243,755	—
Income from other investments	226,551	39,133
Profit on sale of investments	58,500	—
Profit on disposal of capital assets	40,751	58,002
Miscellaneous	177,408	150,189
	<u>61,571,401</u>	<u>53,629,914</u>
COSTS AND EXPENSES:*		
Cost of sales and services	37,787,386	37,080,374
General and administrative expenses	2,771,753	2,072,952
Interest on borrowed funds	—	33,060
	<u>40,559,139</u>	<u>39,186,386</u>
EARNINGS BEFORE DEDUCTING INCOME TAXES	21,012,262	14,443,528
INCOME TAXES (Note 5)	11,110,000	7,124,000
NET EARNINGS	\$ 9,902,262	\$ 7,319,528
* The following amounts have been charged to costs and expenses:		
Depreciation	\$ 4,557,939	\$ 4,822,739
Depletion	229,249	122,725
Amortization of logging roads and other logging development	712,981	669,073
	<u>\$ 5,500,169</u>	<u>\$ 5,614,537</u>

CONSOLIDATED STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS FOR THE YEAR ENDED DECEMBER 31, 1959

(with a comparable statement for the year ended December 31, 1958 — Note 2)

	1959	1958
Balance at the beginning of the year (Note 2)	\$55,557,688	\$53,141,181
Transfer of reserve for contingencies	3,500,000	—
Profit on sale of 50% interest in Martin Paper Products Holdings Limited	—	1,396,979
Net earnings for the year, per statement above	9,902,262	7,319,528
	<u>68,959,950</u>	<u>61,857,688</u>
Estimated costs of amalgamation	1,000,000	—
Cash dividends	6,300,000	6,300,000
	<u>7,300,000</u>	<u>6,300,000</u>
BALANCE AT THE END OF THE YEAR	\$61,659,950	\$55,557,688

NOTE 1 — BASIS OF REPORTING:

The financial statements in this group present in consolidated form the accounts of MacMillan, Bloedel and Powell River Limited (prior to change of name on January 4, 1960 called Powell River Company Limited, and hereinafter described in these notes as the "Company") and its wholly-owned subsidiaries, after eliminating all inter-company profits, balances and transactions between companies included in the consolidation.

On September 28, 1959 the shareholders of the Company, in extraordinary general meeting, approved a plan of amalgamation with MacMillan & Bloedel Limited and authorized the directors to take the necessary corporate action. On October 5, 1959 the Company split its existing issued and unissued shares two for one and increased the number of split shares it was authorized to issue to 25,000,000 shares without nominal or par value. Exchange Offers dated October 8, 1959 were made by the Company to the shareholders of MacMillan & Bloedel Limited offering to exchange seven of the new shares of the Company for three shares of MacMillan & Bloedel Limited. The Company initially consummated the Exchange Offers on December 31, 1959—the date determined as the "interim exchange date" under the Exchange Offers—and on that date issued 11,676,998 of its shares in exchange for 13,578 Class "A" Shares and 4,990,850 Class "B" Shares of MacMillan & Bloedel Limited deposited up to the interim exchange date. The shares so deposited comprised 93.97% of the total number of outstanding MacMillan & Bloedel shares regardless of class. Between December 31, 1959 and March 14, 1960 (the date to which the Exchange Offers were extended pursuant to discretionary provisions contained therein) the Company issued 710,197 of its shares in exchange for an additional 3,226 Class "A" Shares and 301,144 Class "B" Shares thereby increasing the number of shares exchanged to that date to 99.69% of the total number of outstanding MacMillan & Bloedel shares regardless of class.

With the object of presenting in these financial statements essentially the financial position of the Company and its wholly-owned subsidiaries at December 31, 1959 and the results of their operations for the year then ended before giving effect to the amalgamation, and because exchanges of shares pursuant to the Exchange Offers were still in progress at December 31, 1959, these financial statements do not reflect a consolidation of the accounts of MacMillan & Bloedel Limited and its wholly-owned subsidiaries with those of the Company and its wholly-owned subsidiaries, nor do they reflect a consolidation of the accounts of Martin Paper Products Holdings Limited (owned 50% by the Company and 50% by a subsidiary of MacMillan & Bloedel Limited).

No dividends were received in 1959 in respect of the shares of MacMillan & Bloedel Limited. During the year 1959 a dividend of \$1,123,140 was received by the Company from Martin Paper Products Holdings Limited out of the accumulated earnings of that company and its wholly-owned subsidiary up to December 31, 1958. The portion (\$891,385) of this dividend deemed applicable to earnings accumulated to December 31, 1957 has been applied in reduction of the carrying value (\$1,103,020) of the investment (such carrying value having included the Company's equity in earnings up to December 31, 1957); the balance (\$231,755), representing the Company's equity in earnings for the year 1958, is included in the accompanying consolidated statement of earnings for the year 1959. The Company's 50% direct equity in the earnings of Martin Paper Products Holdings Limited and its wholly-owned subsidiary for the year 1959 amounted to \$337,443.

NOTE 2 — RETROACTIVE ADJUSTMENTS:

In prior years the Company and its subsidiaries generally followed the policy of charging earnings with the amounts of depreciation and amortization allowable for purposes of Canadian federal income taxes. In 1959 these charges have been restated retroactively to eliminate charges booked, and available for tax purposes, in respect of major plant units while under construction, and to make certain other changes and reallocations between years to achieve uniformity. As a related adjustment, income taxes charged against earnings have been adjusted to the amounts which would have been payable if the amounts of depreciation and amortization taken for income tax purposes were equal to the amounts charged against earnings (See Note 5).

The foregoing retroactive adjustments and certain others are set out in the following summary which reconciles the unappropriated consolidated earnings retained for use in the business at December 31, 1958 and December 31, 1957 and consolidated earnings for the year ended December 31, 1958 as previously shown in annual reports to the shareholders, with the amounts shown in the accompanying financial statements.

	Consolidated earnings retained for use in the business — unappropriated		Consolidated earnings for the year ended
	December 31, 1958	December 31, 1957	December 31, 1958
Amounts previously shown in annual reports to the shareholders	\$53,956,629	\$50,473,865	\$ 7,600,089
Add or (deduct):			
Net adjustments arising through recalculation and reallocation of depreciation, amortization and income taxes	589,734	868,291	(278,557)
Reversal of reserve for self-insurance	1,000,000	1,000,000	
Reversal in 1958 of reserve for possible decline in inventory values		541,446	
Allocation to appropriate years of other earnings adjustments recorded in 1959—\$13,329, and 1958—\$244,250	11,325	257,579	(2,004)
Amounts shown in accompanying financial statements	\$55,557,688	\$53,141,181	\$ 7,319,528

In addition to reflecting the foregoing retroactive adjustments, the 1958 figures presented for comparative purposes also reflect certain reclassifications to conform to revised classifications used in the 1959 financial statements.

MacMILLAN, BLOEDEL AND POWELL RIVER LIMITED

(FORMERLY POWELL RIVER COMPANY LIMITED)

AND ITS WHOLLY-OWNED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 1959

**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS
AS AT
DECEMBER 31,
1959**

(CONTINUED)

NOTE 3 — SHORT-TERM INVESTMENTS:

	December 31	
	1959	1958
Government of Canada bonds and treasury bills	\$ 4,975,066	\$ 493,750
Bonds and notes of, or guaranteed by, governments of provinces of Canada	2,700,260	993,200
Notes of and call loans to Canadian companies	697,330	1,973,657
	<u>\$ 8,372,656</u>	<u>\$ 3,460,607</u>

These investments are stated at cost which approximates market value.

NOTE 4 — INVESTMENTS IN AND ADVANCES TO PARTLY-OWNED COMPANIES:

	December 31	
	1959	1958
Investments:		
Martin Paper Products Holdings Limited, 50% interest — see Note 1	\$ 211,635	\$ 1,103,020
Kitimat Pulp & Paper Company Limited, 50% interest, at cost	300	300
Alsto Distributors Limited and affiliates, 50% interest, at cost	236,351	236,351
Others, at cost	42,149	—
	<u>490,435</u>	<u>1,339,671</u>
Advances:		
Martin Paper Products Holdings Limited	1,198,140	—
Kitimat Pulp & Paper Company Limited	216,696	210,886
Alsto Distributors Limited and affiliates	1,245,000	806,000
	<u>2,659,836</u>	<u>1,016,886</u>
	<u>\$ 3,150,271</u>	<u>\$ 2,356,557</u>

Subsequent to December 31, 1959 the Company has agreed to purchase the 50% interest in Alsto Distributors Limited and affiliates owned by others.

NOTE 5 — INCOME TAX REDUCTIONS APPLICABLE TO FUTURE YEARS:

Income taxes charged to earnings for the year ended December 31, 1959 exceed by \$396,700 the amount estimated to be currently payable. This amount, together with the net accumulation of income tax reductions to December 31, 1958 (recorded in 1959 as a retroactive adjustment—see Note 2), is reflected on the consolidated balance sheet at December 31, 1959 as "Income Tax Reductions Applicable to Future Years". This balance sheet credit represents the net amount by which income taxes paid or payable have been reduced by acceleration of depreciation claims for tax purposes only, notably for major plant units while under construction in respect of which depreciation is recorded in the accounts only from the dates the units come into operation.

NOTE 6 — SHARE CAPITAL:

The Company's authorized share capital at December 31, 1959 consisted of 25,000,000 ordinary shares without nominal or par value, of which 20,076,998 shares were issued and outstanding.

Changes in share capital during the year 1959, and since December 31, 1959, are referred to in Note 1. The 11,676,998 shares referred to therein as issued on December 31, 1959 were allotted and recorded at the book value of the shares of MacMillan & Bloedel Limited acquired in exchange as shown by the consolidated balance sheet of that company as at June 30, 1959.

NOTE 7 — COMMITMENTS:

The Company, as reported in the accounts for each year since 1956, has contractual arrangements, subject to certain contingencies, to acquire 51% of the voting stock of Brooks-Scanlon, Inc. for a total consideration of \$11,000,000 United States Funds, which would be payable during the period of construction of a pulp and paper mill at or near Bend, Oregon. Providing a satisfactory agreement on the construction of a mill is reached by April 30, 1960, the Board of Directors of Brooks-Scanlon, Inc. may, by unanimous vote, postpone the actual start of construction to a date no later than December 31, 1960. To December 31, 1959 purchase of shares pursuant to the contractual arrangements amounted to \$229,167 United States Funds.

At December 31, 1959 the Company was engaged in a programme of expansion of plant facilities; expenditures to be made subsequent to December 31, 1959 to complete the programme are estimated at \$6,750,000.

PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS
MacMILLAN, BLOEDEL AND POWELL RIVER LIMITED

Auditors' Report

To the Directors,

MACMILLAN, BLOEDEL AND POWELL RIVER LIMITED:

The accompanying pro-forma consolidated financial statements of MacMillan, Bloedel and Powell River Limited are based upon the consolidated financial statements for the year ended December 31, 1959 of MacMillan, Bloedel and Powell River Limited (prior to change of name on January 4, 1960 called Powell River Company Limited) and of Martin Paper Products Holdings Limited examined by us, and upon the consolidated financial statements for the year ended December 31, 1959 of MacMillan & Bloedel Limited examined, as to the financial position at December 31, 1959, by other chartered accountants. The fiscal closing date of MacMillan & Bloedel Limited has been changed from September 30 to December 31, and as a consequence the reports of its auditors cover consolidated earnings for the period of twelve months ended September 30, 1959 and the period of three months ended December 31, 1959. As no examination was made by the auditors as at December 31, 1958 the consolidated earnings of MacMillan & Bloedel Limited for the period of twelve months ended December 31, 1959 included in the accompanying pro-forma consolidated statement of earnings are as shown by unaudited statements.

In our opinion the accompanying pro-forma consolidated balance sheet as at December 31, 1959, and the related pro-forma consolidated statements of earnings and earnings retained for use in the business for the year then ended, properly combine the financial statements referred to in the preceding paragraph, after applying thereto normal consolidating adjustments and the pro-forma adjustment set out in the head-note to the pro-forma consolidated balance sheet.

Vancouver, B.C.
March 22, 1960.

HELLIWELL, MACLACHLAN & CO.
Chartered Accountants.

MacMILLAN, BLOEDEL AND

AND ITS WHOLLY-OWNED SUBSIDIARIES

Pro-forma Consolidated Balance Sheet

after giving effect as at December 31, 1959 to shares of MacMillan & Bloedel Limited on that date Limited had been exchanged as at March 14, 1960 December 31, 1959 to the change of name from Bloedel and Powell River Limited (change effected)

ASSETS

CURRENT ASSETS:

Cash	\$ 2,805,350	
Short-term investments and deposits, at cost which approximates market	33,047,783	
Accounts receivable, less allowance for doubtful accounts	29,572,047	
Inventories of raw materials, products and supplies, valued at the lower of cost or market	39,085,750	
Prepaid expenses	1,922,080	
		\$106,433,010

INVESTMENTS AND OTHER ASSETS:

Shares of and advances to 50-percent-owned companies, at cost	2,903,867	
Shares of and advances to partly-owned subsidiary companies, at cost	817,609	
Other investments, deposits and non-current logging and other advances, at cost less allowance for doubtful accounts	5,502,648	
		9,224,124

PROPERTY, PLANT AND EQUIPMENT:

Manufacturing plants and equipment, hydro-electric development, marine and logging equipment, at cost	284,334,708	
Less accumulated depreciation	150,783,644	
	133,551,064	
Timber and land, at cost less depletion	39,664,677	
Logging roads and other logging development, at cost less amortization	5,527,799	
Patent pending, at cost	536,685	
		179,280,225

ON BEHALF OF THE BOARD,

J. V. CLYNE, Director

HAROLD S. FOLEY, Director

\$294,937,359

NOTES TO PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:

On December 31, 1959 (the date determined as the "interim exchange date") the Company initially consummated the Exchange Offers dated October 8, 1959 made to the Class "A" and Class "B" shareholders of MacMillan & Bloedel Limited and issued 11,676,998 of its shares in exchange for Class "A" and Class "B" Shares of MacMillan & Bloedel Limited deposited up to the interim exchange date. The shares so deposited comprised 93.97% of the total number of outstanding MacMillan & Bloedel shares regardless of class.

Between December 31, 1959 and March 14, 1960 (the date to which the Exchange Offers were extended pursuant to discretionary provisions contained therein) the Company issued 710,197 of its shares in exchange for an additional 3,226 Class "A" Shares and 301,144 Class "B" Shares thereby increasing the number of shares exchanged to that date to 99.69% of the total number of outstanding MacMillan & Bloedel shares regardless of class.

The Company is presently proceeding in accordance with the provisions of Section 128 of the Companies Act (Canada), to acquire the remainder of the outstanding shares of MacMillan & Bloedel Limited. Based on the number of shares of MacMillan & Bloedel Limited not exchanged at March 14, 1960 (16,740 shares or .31% of the total issued shares), the minority interest that would otherwise be reflected in the consolidated balance sheet would amount to approximately \$468,000—by transfer of approximately \$462,000 from share capital in respect of 39,060 shares of the Company and \$6,000 from earnings retained for use in the business.

POWELL RIVER LIMITED

OWNED SUBSIDIARIES

Sheet as at December 31, 1959

an assumed exchange of all the outstanding
99.69% of the shares of MacMillan & Bloedel
— see Note 1) and after giving effect as at
Powell River Company Limited to MacMillan,
January 4, 1960).

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 17,030,810	
Bank loan and overdraft (secured)	542,736	
Share warrant dividend coupons outstanding	578,279	
Income taxes payable	18,328,591	
First mortgage bonds, payable within one year	1,000,000	
		\$ 37,480,416

NON-CURRENT LIABILITIES:

Sinking fund debentures of MacMillan & Bloedel Limited:

5 1/4 % seven-year debentures Series "A"		
maturing May 15, 1965	4,175,000	
5 3/8 % twenty-year debentures Series "A"		
maturing May 15, 1978	17,174,000	
4 7/8 % twenty-year debentures Series "B"		
maturing May 15, 1978, \$10,000,000		
U.S. which realized	9,621,875	
Other liabilities (secured)	280,000	
		31,250,875

INCOME TAX REDUCTIONS APPLICABLE TO FUTURE YEARS . .	5,125,200	
		73,856,491

SHAREHOLDERS' EQUITY

SHARE CAPITAL:

Shares of no par value:	
Authorized — 25,000,000 shares	
Issued — 20,826,255 shares	158,804,000

EARNINGS RETAINED FOR USE IN THE BUSINESS

Per statement on following page	62,276,868	
		221,080,868

COMMITMENTS—see Note 7 to consolidated financial statements
of MacMillan, Bloedel and Powell River Limited and its wholly-
owned subsidiaries.

\$294,937,359

NCIAL STATEMENTS AS AT DECEMBER 31, 1959

These pro-forma consolidated financial statements include the consolidated accounts of the following companies for the year ended December 31, 1959: (1) MacMillan, Bloedel and Powell River Limited (prior to change of name on January 4, 1960 called Powell River Company Limited, and described in these notes as the "Company") and its wholly-owned subsidiaries; (2) MacMillan & Bloedel Limited and its wholly-owned subsidiaries on the basis of an assumed 100% ownership by the Company at December 31, 1959 of all the outstanding Class "A" and Class "B" Shares of MacMillan & Bloedel Limited; (3) Martin Paper Products Holdings Limited and its subsidiary.

NOTE 2:

The amalgamation of the Company and MacMillan & Bloedel Limited has been reflected in the accompanying pro-forma financial statements in accordance with the pooling of interests principle of accounting. Accordingly, the assets of the constituent companies are carried forward in the pro-forma consolidated balance sheet at their book values, and the pro-forma consolidated statements of earnings and earnings retained for use in the business reflect the results of operations of the constituent companies for the entire year ended December 31, 1959.

NOTE 3:

The pro-forma consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company and of MacMillan & Bloedel Limited.

**PRO-FORMA CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1959**

INCOME:

Net sales of products and services	\$249,826,784
Dividends from subsidiary company not consolidated	93,750
Income from investments	1,033,582
Profit on disposal of capital assets and short-term investments and on redemption of sinking fund debentures	251,039
	<u>251,205,155</u>

COSTS AND EXPENSES*:

Cost of sales and services	\$187,964,858	
Selling, general and administrative expenses	11,982,320	
Interest on borrowed funds	1,769,242	
	<u>201,716,420</u>	
EARNINGS BEFORE DEDUCTING INCOME TAXES		49,488,735

INCOME TAXES	25,923,246
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PRO-FORMA CONSOLIDATED NET EARNINGS FOR THE YEAR	<u>\$ 23,565,489</u>
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* The following amounts have been charged to costs and expenses:

Depreciation	\$ 16,599,115
Depletion	1,930,992
Amortization of logging roads and other logging development	2,264,114
	<u>\$ 20,794,221</u>

**PRO-FORMA CONSOLIDATED STATEMENT OF EARNINGS RETAINED
FOR USE IN THE BUSINESS FOR THE YEAR ENDED DECEMBER 31, 1959**

Balance at December 31, 1958	\$168,074,994
Transfer of reserve for contingencies	3,500,000
Pro-forma consolidated net earnings for the year, per statement above	23,565,489
	<u>195,140,483</u>
Amount capitalized on amalgamation	\$118,121,542
Estimated costs of amalgamation	1,000,000
Dividends paid (Powell River Company Limited \$6,300,000; MacMillan & Bloedel Limited \$7,442,073)	13,742,073
	<u>132,863,615</u>
BALANCE AT DECEMBER 31, 1959	<u>\$ 62,276,868</u>

FINANCIAL STATEMENTS
MacMILLAN & BLOEDEL LIMITED

Auditors' Report

To the Directors,
MACMILLAN & BLOEDEL LIMITED:

We have examined the consolidated balance sheet of MacMillan & Bloedel Limited and wholly-owned subsidiary companies as at December 31 1959 and the related consolidated statements of earnings and earnings retained for use in the business for the three months ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances, except for certain subsidiary companies the accounts of which have been examined and reported on by other chartered accountants. The combined net assets and net earnings of these latter companies represent respectively substantial proportions of the consolidated net assets and of the consolidated net earnings for the period.

The operations of the unconsolidated subsidiary companies for their last fiscal periods resulted in combined net earnings which are not reflected in the consolidated statement of earnings for the three months ended December 31 1959.

In our opinion, based on our examination and the reports of the other chartered accountants referred to above and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and related consolidated statements of earnings and earnings retained for use in the business, with the notes thereto, are properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of MacMillan & Bloedel Limited and wholly-owned subsidiary companies as at December 31 1959 and the results of their combined operations for the three months ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal period.

Vancouver, B.C.
February 15 1960.

PRICE WATERHOUSE & CO.
Chartered Accountants.

MacMILLAN &
AND WHOLLY-OWNED
Consolidated

ASSETS

	December 31 1959	September 30 1959
CURRENT ASSETS:		
Cash on hand and in banks	\$ 1,561,829	\$ 1,551,253
Short-term investments and deposit (Note 2)	24,675,127	28,890,079
Accounts receivable, less allowance for doubtful accounts	21,354,218	16,590,994
Amounts receivable from parent and affiliated companies	199,935	—
Inventories of raw materials, products and supplies, valued on the basis of the lower of cost or market	26,506,922	22,956,288
Prepaid expenses	1,533,751	1,731,668
	<u>75,831,782</u>	<u>71,720,282</u>
 INVESTMENTS AND OTHER ASSETS:		
Shares of partly-owned subsidiary companies, at cost	730,944	730,944
Shares of affiliated and 50%-owned companies, at cost	1,609,526	1,609,115
Advances to affiliated and 50%-owned companies	2,426,691	2,611,140
Other investments, deposits and logging advances, less allow- ance for doubtful accounts	1,526,159	1,513,148
	<u>6,293,320</u>	<u>6,464,347</u>
 PROPERTY, PLANT AND EQUIPMENT:		
Sawmills, plywood mills, pulp and paper mills, other buildings, machinery and logging equipment, at cost	176,233,532	174,555,070
Less—		
Accumulated depreciation	83,450,172	80,887,349
	<u>92,783,360</u>	<u>93,667,721</u>
Timber and land, at cost after depletion of \$27,077,588 (September 30 1959—\$26,509,612)	28,397,068	28,913,268
Logging roads, at cost less amortization	3,864,174	3,815,874
	<u>125,044,602</u>	<u>126,396,863</u>
 SIGNED ON BEHALF OF THE BOARD:		
J. V. CLYNE, Director		
R. M. SHAW, Director		
	<u>\$207,169,704</u>	<u>\$204,581,492</u>

LOEDEL LIMITED

BSIDIARY COMPANIES (NOTE 1)

Balance Sheet

LIABILITIES

	December 31 1959	September 30 1959
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 10,691,251	\$ 8,962,753
Dividends payable	—	2,390,410
Income taxes payable	11,195,840	9,910,334
Other taxes payable	681,727	1,461,425
First mortgage bonds payable within one year	1,000,000	1,000,000
	<u>23,568,818</u>	<u>23,724,922</u>
SINKING FUND DEBENTURES (Note 3):		
5 1/4 % seven-year debentures, Series "A" maturing May 15 1965	4,175,000	5,000,000
5 3/8 % twenty-year debentures, Series "A" maturing May 15 1978	17,174,000	17,500,000
4 7/8 % twenty-year debentures, Series "B" maturing May 15 1978, \$10,000,000 U.S. which realized	9,621,875	9,621,875
	<u>30,970,875</u>	<u>32,121,875</u>
INCOME TAX REDUCTIONS APPLICABLE TO FUTURE YEARS (Note 4)	4,137,000	4,244,000
	<u>58,676,693</u>	<u>60,090,797</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 1):				
Authorized—				
1,050,000 convertible non-redeemable Class "A" Shares without nominal or par value, entitled to fixed cumulative dividends of 80c per share per annum				
5,500,000 Class "B" Shares without nominal or par value				
	Class "A" Shares	Class "B" Shares		
Issued and outstanding—				
At September 30 1959	24,329	5,301,209		
Exchanged during period	(7,124)	7,124		
At December 31 1959	<u>17,205</u>	<u>5,308,333</u>	28,922,458	28,922,458
EARNINGS RETAINED FOR USE IN THE BUSINESS—				
per statement on following page			119,570,553	115,568,237
			<u>148,493,011</u>	<u>144,490,695</u>
			<u>\$207,169,704</u>	<u>\$204,581,492</u>

MacMILLAN & BLOEDEL LIMITED AND WHOLLY-OWNED SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF EARNINGS

	Three months ended December 31 1959	Year ended September 30 1959
INCOME:		
Net sales of products and services (Note 5)	\$ 50,440,842	\$183,350,461
Less—		
Discount on U.S. sales	1,023,271	2,802,393
	<u>49,417,571</u>	<u>180,548,068</u>
Dividends from partly-owned subsidiary company	—	93,750
Dividends from 50%-owned company	—	231,755
Other income from investments	211,454	476,788
Profit on disposals of equipment and short-term investments	5,027	119,554
Other income	40,655	—
	<u>49,674,707</u>	<u>181,469,915</u>
COSTS AND EXPENSES (see note below):		
Cost of sales and services	38,146,441	145,519,681
Selling, general and administrative expenses (Note 6)	2,243,360	8,124,829
Interest on borrowed funds	419,441	1,735,848
	<u>40,809,242</u>	<u>155,380,358</u>
EARNINGS BEFORE DEDUCTING INCOME TAXES	8,865,465	26,089,557
INCOME TAXES (Note 4)	4,861,385	13,073,385
NET EARNINGS FOR THE PERIOD	<u>\$ 4,004,080</u>	<u>\$ 13,016,172</u>

Note:

The following amounts have been charged to costs and expenses:

Depreciation	\$ 2,689,808	\$ 11,869,816
Depletion	567,976	1,623,813
Amortization of logging roads	325,796	1,652,195
	<u>\$ 3,583,580</u>	<u>\$ 15,145,824</u>

**CONSOLIDATED STATEMENT OF EARNINGS
RETAINED FOR USE IN THE BUSINESS**

	Three months ended December 31 1959	Year ended September 30 1959
Balance at beginning of period	\$115,568,237	\$111,318,959
Net earnings for the period—per statement above	4,004,080	13,016,172
	<u>119,572,317</u>	<u>124,335,131</u>
Dividends paid:		
Class "A" Shares—		
20c per share	3,455	
72 1/2 c per share		20,038
Class "B" Shares—		
45c per share	2,388,719	
\$1.20 per share		6,356,446
	<u>2,392,174</u>	<u>6,376,484</u>
Transfer of amount recorded as dividends payable at September 30 1959 (based on the issued share capital as at that date)	(2,390,410)	2,390,410
Dividends charged for the period	1,764	8,766,894
BALANCE AT THE END OF PERIOD	<u>\$119,570,553</u>	<u>\$115,568,237</u>

**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS
AS AT
DECEMBER 31,
1959**

1. AMALGAMATION:

Under the terms of exchange offers contained in a prospectus issued under date of October 6 1959 by Powell River Company Limited to the shareholders of MacMillan & Bloedel Limited, the former company acquired, on December 31 1959, approximately 79% of the Class "A" Shares and 94% of the Class "B" Shares of MacMillan & Bloedel Limited. As at December 31 1959 MacMillan & Bloedel Limited thus became a subsidiary company of Powell River Company Limited (changed to MacMillan, Bloedel and Powell River Limited on January 4 1960) and the former shareholders of MacMillan & Bloedel Limited who exchanged their shares became shareholders of MacMillan, Bloedel and Powell River Limited. Also, effective December 31 1959 MacMillan & Bloedel Limited changed its fiscal closing date from September 30 to December 31.

2. SHORT-TERM INVESTMENTS AND DEPOSIT:

	December 31 1959	September 30 1959
Government of Canada bonds and treasury bills, at cost (market value December 31 1959—\$13,755,095)	\$13,543,608	\$15,544,838
United States Treasury notes and bonds, at cost in U.S. dollars converted at the rate of exchange as at the balance sheet dates (quoted market value in Canadian funds, December 31 1959—\$10,354,291)	10,631,519	9,403,309
Funds on deposit with trust and investment companies	500,000	1,000,000
Notes of Canadian companies, at cost	—	2,941,932
	<hr/> \$24,675,127	<hr/> \$28,890,079

3. SINKING FUND DEBENTURES:

Annual sinking fund payments in respect of the Series "A" and Series "B" debentures are due on or before May 15 in each of the years 1961 to 1977 inclusive as follows:—

1961 to 1964	\$1,750,000 (including \$300,000 U.S.)
1965	\$ 750,000 (including \$300,000 U.S.)
1966 to 1977	\$1,750,000 (including \$650,000 U.S.)

Series "A" debentures aggregating \$1,151,000 have been purchased and cancelled as at December 31 1959 and are available at the election of the company for sinking fund purposes.

4. INCOME TAX REDUCTIONS APPLICABLE TO FUTURE YEARS:

Income tax reductions obtained in prior periods as a result of claiming for income tax purposes (but not recording in the accounts) depreciation during periods of construction are being applied in reduction of income taxes charged to earnings in those periods in which such depreciation is charged to operations. Accordingly income tax reductions of \$107,000 are reflected in the consolidated statement of earnings for the three months ended December 31 1959 (\$476,000 for the year ended September 30 1959) and the balance of the reductions is carried forward in the consolidated balance sheet as applicable to future periods.

5. NET SALES OF PRODUCTS AND SERVICES:

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

6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

The total amount deducted in the consolidated statement of earnings in respect of remuneration of officers and salaried directors, fees of other directors and legal fees was \$159,191 for the three months ended December 31 1959 and \$422,979 for the year ended September 30 1959.

ANNUAL SHAREHOLDERS' MEETING

The Annual General Meeting of the shareholders of the Company will be held on Tuesday, the 26th day of April, 1960, at 2.00 p.m., Pacific Daylight Saving Time, in the Ballroom of the Hotel Georgia, Vancouver, B.C.

We hope that all who can attend will do so but if you can not be present we would appreciate your completing and returning the enclosed proxy form as soon as possible so that your shares will be represented.

May we take this opportunity to thank all who attended our meeting last year and those unable to attend who so promptly returned their proxies.

MACMILLAN, BLOEDEL AND POWELL RIVER LIMITED

