To refinance a portion of the cost of the acquisition of DCBU, in April 1994, the Company sold $100 million of 6-3/8% notes due 1999 and $100 million of 7-5/8% debentures due 2024. Concurrent with the sale of the 6-3/8% notes and the 7-5/8% debentures, the Company terminated, and settled for cash, interest rate swap agreements with notional amounts totaling $200 million which hedged the sale of the notes and debentures. The gain on the termination of the interest rate swap agreements is being amortized to interest expense over the life of the notes and debentures and effectively reduces the annual rate of the notes to 4.8% and the debentures to 7.1%.

In January 1994, in order to finance the acquisition of DCBU, the Company entered into a $555 million 364-day revolving credit agreement and a $555 million five-year revolving credit agreement. During 1994, as a result of the sale of $200 million of notes and debentures, the sale of $214 million of Common Shares and cash flow from operations, the Company canceled the 364-day revolving credit agreement and reduced the $555 million five-year revolving credit agreement to $300 million. The $210 million of unsecured notes at December 31, 1994 relate to the acquisition of DCBU. These unsecured notes are classified as long-term debt because the Company intends, and has the ability under the five-year $300 million revolving credit agreement, to refinance this debt on a long-term basis.

Notes of the Employee Stock Ownership Plan, which are guaranteed by the Company, consist of $55 million at a floating interest rate (5.5% at December 31, 1994) based on LIBOR and $26 million at a fixed interest rate of 7.6% ($15 million of these notes are included in current portion of long-term debt). The Company has entered into a series of interest rate swaps, which expire ratably through 1999, and which change the interest rate on the $26 million of fixed interest rate notes to fixed interest rates of 7.1% and 6.9% as to $7 million and $16 million, respectively, and to a floating interest rate (5.2% at December 31, 1994) based on LIBOR as to $3 million.

In April 1994, the Company sold a five-year interest rate cap in exchange for a premium (cash) of $1.5 million. This agreement effectively converts the $100 million of 6-3/8% notes into floating rate debt at LIBOR minus 2.6% when LIBOR exceeds 9%.

At December 31, 1994, the Company had entered into interest rate caps commencing in January 1995 which effectively place a 5.5% ceiling on $100 million of floating rate debt through November 1, 1995.

In 1994, the Company entered into two interest rate swaps aggregating $50 million that expire in 2000, which partially offset the effect of a $100 million 9% interest rate swap also expiring in 2000. The net effect of these swaps at December 31, 1994 was to convert $50 million of floating rate debt to fixed rate debt at 9% and another $50 million of floating rate debt to LIBOR plus 3.1%.

Aggregate mandatory sinking fund requirements and annual maturities of long-term debt are as follows (in millions): 1995, $22; 1996, $120; 1997, $22; 1998, $22; and 1999, $323. The amount for 1996 includes $86 million of 8% debentures due in 1996 at the option of the debenture holders. The amount for 1999 includes $210 million of unsecured notes due to the expiration of the five-year revolving credit agreement in 1999.

Interest capitalized as part of acquisition or construction of major assets (in millions) was $10, $12, and $8 in 1994, 1993 and 1992, respectively. Interest paid (in millions) was $101, $90 and $94 in 1994, 1993 and 1992, respectively.

Effective January 1, 1994, the Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." As a result of the adoption of SFAS No. 115, the Company accrued the unrealized gain related to several available-for-sale securities. The cumulative effect of the accounting change for prior years was an $8 million increase in the carrying value of the securities with an offsetting increase, after income taxes, of $5 million in retained earnings in shareholders' equity.

The notional amounts, carrying amounts and fair values of financial instruments outstanding at December 31 follow (in millions):

	1994			*1993*		
	Notional amount	*Carrying amount*	*Fair value*	*Notional amount*	*Carrying amount*	*Fair value*
Cash and short-term investments		$ 41	$ 41		$300	$300
Marketable equity investments		51	51		27	34
Marketable debt securities		26	26		26	27
Short-term debt		(14)	(14)		(14)	(14)
Long-term debt and current portion of long-term debt		(1,075)	(1,114)		(759)	(941)
Foreign currency forward exchange contracts and options	$189	1	(1)	$227	6	7
Interest rate swaps						
Fixed to floating	76		(5)	31		3
Floating to fixed	123		(4)	327		(16)
Interest rate caps						
Purchased	100		2	500		
Sold	(100)	(1)	(2)			

The fair value of short-term investments, marketable equity investments and debt securities, short-term and long-term debt, and interest rate swaps and caps was principally based on quoted market prices. The fair value of foreign currency forward exchange contracts and options, which primarily mature in 1995, was estimated based on quoted market prices of comparable contracts, adjusted through interpolation where necessary for maturity differences.

PENSION PLANS

The Company has non-contributory defined benefit pension plans covering the majority of employees. Plans covering salaried and certain hourly employees provide benefits that are generally based on years of service and final average compensation. Benefits for other hourly employees are generally based on years of service. Company policy is to fund at least the minimum amount required by applicable regulations. In the event of a change in control of the Company, excess pension plan assets of North American operations may be dedicated to funding of health and welfare benefits for employees and retirees.