Annual Report 1988

HAWKER ■ SIDDELEY

HAWKER SIDDELEY CANADA INC.

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HAWKER SIDDELEY
HAWKER SIDDELEY CANADA INC.

To the Shareholders

Your Directors submit herewith the audited accounts of Hawker Siddeley Canada Inc. and its subsidiary companies for the year ended December 31, 1988.

1. Financial

1.1 Sales

Sales were $389 million (1987 — $396 million), a decrease of $7 million largely caused by a strike at Orenda Division and the divestiture of Trenton Works Division. Most other units reported sales in excess of 1987. Sales by industry and geographic segments are shown in Note 12 to the financial statements.

1.2 Income

Income before extraordinary items in 1988 was $17.7 million (1987 — $21.3 million) equivalent to $2.08 per common share (1987 — $2.52 per common share). Net income was $13.5 million (1987 — $27.6 million) equivalent to $1.56 per common share (1987 — $3.29 per common share).

1.3 Extraordinary items

A loss arising from the proposed divestiture of Tree Famer Equipment Company, Inc. has been provided for in the accounts and was partly offset by certain extraordinary gains as shown in Note 3 to the financial statements.

2. Dividends

In 1988 the Corporation declared and paid the four quarterly preferred share dividends as they became due. A dividend of 27 cents was declared payable on January 11, 1989 to holders of common shares of record on December 21, 1988, following declarations and payments of 27 cents per common share in each of the previous three quarters.

Sir Peter Baxendell, Chairman of the Board

3. Directors

Mr. R.D. Cole was appointed President and Chief Executive Officer on July 1, 1988. He succeeded Mr. R.F. Tanner who retired from that position on June 30, 1988. Mr. Tanner remains a Director of the Corporation.

4. Comments

Income before extraordinary items was $17.7 million, a decrease of $3.6 million from 1987. The reduction in income occurred primarily at the Orenda Division, where a strike by hourly paid employees began on November 18, 1988 but was due also to a lower volume of industrial work and intense competition which restricted this operating unit's margins. In addition, profits declined on mining roof supports manufactured by Hollybank Engineering reflecting more competitive market conditions.

The sale of Trenton Works to Lavalin was completed during the year in accordance with the terms of the agreement entered into with the Minister of Regional Industrial Expansion.

Mining machine and tunnelling equipment sales were up from 1987 mostly as a result of the implementation of a leasing program with British Coal which extends into 1989. However, supplying new machines reduced demand for maintenance spares for older equipment. During the year mining roof supports volume was down slightly from the previous year and profitability declined as pricing remained at 1987 levels. A small contract mining company acquired in June is expected to grow appreciably in 1989 and future years.

The strike of hourly paid employees at Orenda added to an already difficult year as demand for aircraft engine components and industrial turbine work dropped, accompanied by a substantial reduction in margin. Component work is becoming increasingly competitive world-wide and improved productivity at Orenda is essential if this side of the business is to survive.

The full impact on revenue from new cars acquired during the year will not be reflected by CGTX Inc. until 1989 because of the gradual delivery of equipment through 1988. Fleet utilization was up slightly from 1987 and lease renewal rates improved.

Custom industrial and railway maintenance steel casting production was higher than in 1987 without a corresponding increase in profitability as margins still reflected slow market conditions. Casting orders for new railcar production remained very low. Expenditures to restructure production facilities amounting to $1.7 million, which will improve future productivity, were written off in the year.

Steel wheel production for railcar maintenance was up approximately 50% from the previous year reflecting much improved railway freight activity and some recovery of prior years' restrained demand.

Demand for sawmill capital equipment remained very active in North America during the year which raised plant activity and left a substantial order book for production in 1989.

Although log skidder output improved over 1987, a decision was made to divest this operation in 1989. Estimated losses expected from the disposal of Tree Farmer Equipment Company, Inc. have been provided for as an extraordinary item in the 1988 fiscal year.

R. D. Cole, President and Chief Executive Officer

Submitted on behalf of the Board

Peter Baxendell

R.D. Cole

Mississauga, Ontario, March 2, 1989

Operations Summary

		1988	1987	1986	1985	1984
Operating Data (millions of dollars)						
Sales	$	388.5	395.8	418.7	422.0	411.5
Income before taxes, minority and extraordinary items		36.0	39.9	34.3	32.2	35.8
Income taxes		14.5	15.2	14.2	14.5	12.6
Extraordinary items		(4.3)	6.3	(7.7)	(1.9)	—
Net income		13.5	27.6	9.5	13.4	19.5
Financial Data (millions of dollars)						
Working capital	$	127.8	157.6	122.9	127.8	117.0
Net fixed assets		224.6	178.7	184.7	186.3	190.7
Long term debt		53.8	28.6	34.5	40.3	52.3
Shareholders' equity		229.6	234.7	206.5	205.5	189.2
Funds provided by operations		60.9	37.6	25.0	23.1	24.8
Capital expenditures		71.9	9.2	16.1	10.8	21.5
Depreciation		14.9	13.9	15.0	14.2	14.1
Dividends						
– preferred shares		.8	.8	.8	.8	.8
– common shares		8.8	7.8	7.8	7.8	7.8
Aggregate remuneration of employees		115.1	119.5	116.7	121.6	119.4
Per Common Share (after Preferred dividends)						
Income before extraordinary items	$	2.08	2.52	2.01	1.78	2.29
Net income		1.56	3.29	1.06	1.54	2.29
Funds provided by operations		7.37	4.52	2.97	2.74	2.94
Dividends		1.08	.96	.96	.96	.96
Shareholders' equity		26.46	27.08	23.62	23.49	21.50
Ratios						
Return on capital employed (Note 1)		12.7%	15.2%	13.0%	12.5%	14.5%
Return on shareholders' equity (Note 2)		5.8%	13.0%	4.5%	6.9%	10.8%
Debt/equity ratio		19:81	11:89	14:86	16:84	22:78
Working capital ratio		2.1	2.6	2.2	2.3	2.5
Other Data						
Shares issued and outstanding						
– preferred		140,000	140,000	140,000	140,000	140,000
– common		8,150,301	8,150,301	8,150,301	8,150,301	8,150,301
Number of shareholders						
– preferred		598	656	710	767	830
– common		2,961	3,184	3,550	4,271	4,766
Average number of employees		2,847	3,076	3,170	3,630	3,927

Notes:

1. Operating income as a percentage of the annual average of total assets less current liabilities (excluding funds).
2. Net income less preferred dividends as a percentage of the annual average shareholders' equity less preferred shares.

Comments on Operations

Transportation and Industrial Products

The most significant event of 1988 in the Corporation's transportion equipment operating units was the sale on March 31 of the Trenton, Nova Scotia railway freight car manufacturing facility to Trenton Works Lavalin Inc. This transaction was reported in the 1987 Annual Report.

CGTX Inc., Montreal, Quebec had a good year. The company owns a fleet of railway tank cars and hopper cars which are offered for full service lease to the railways and to customers mainly in the petroleum, chemical and fertilizer industries. During 1988, 811 cars were added, the highest number in one year in CGTX history. Overall, the fleet was quite well utilized with rental rates generally improving, although opportunities to place molten sulphur cars and certain types of petroleum cars were poor. The latter conditions were a continuation of those prevailing in the previous year.

An important element in CGTX operations is the purchase and subsequent lease of new cars custom built to the specific requirements of a lessee. In 1988, a good level of business was acquired in this market with long term contracts received for a total of 634 cars. Their delivery extends into the second quarter of 1989.

CGTX operates maintenance depots in Montreal, Quebec; Moose Jaw, Saskatchewan; and Red Deer, Alberta. All three facilities experienced a high volume of business throughout the year.

Orenda Division, Mississauga, Ontario manufactures components for a number of North American builders

Utilization of the CGTX fleet of railway tank cars on full service leases showed improvement in 1988.

of engines for jet aircraft. Also, it serves the Canadian Armed Forces, carrying out the repair and overhaul of aircraft jet engines as well as providing engineering support through various associated programs.

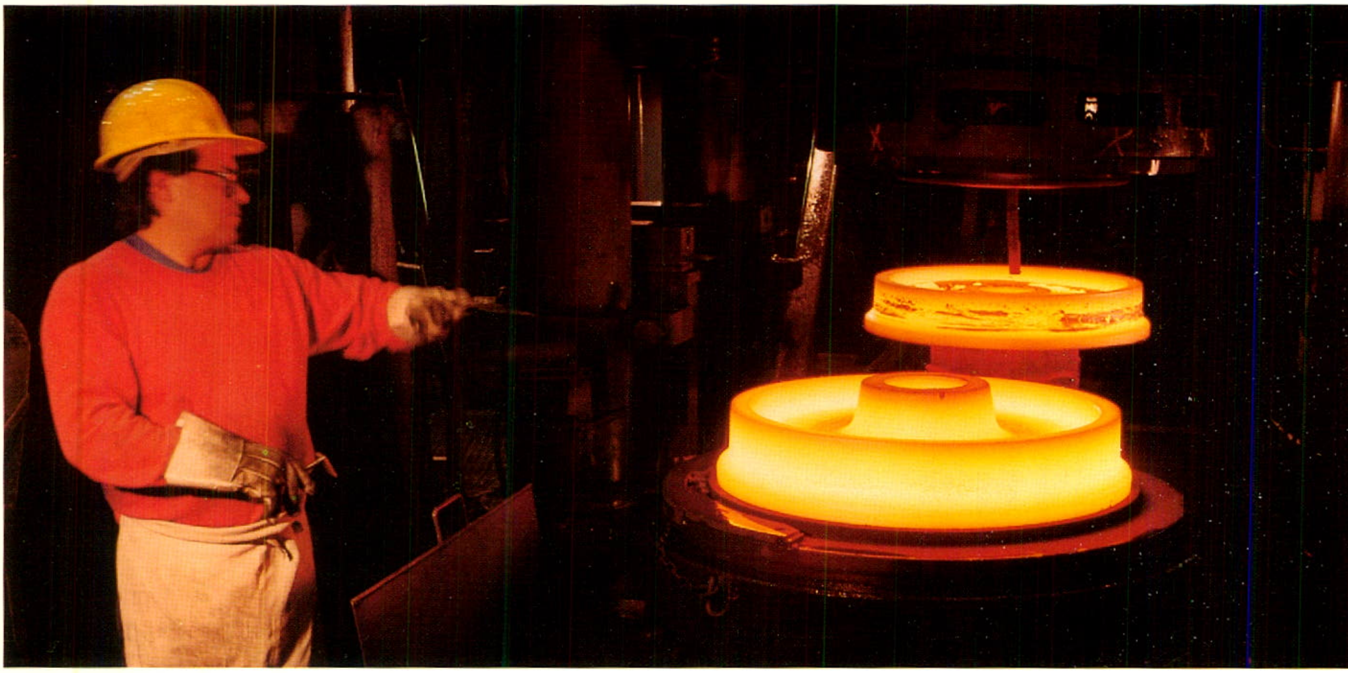
Orenda's total sales volume did not reach that of the previous year due mainly to a reduction in the amount of work available from certain engine builders who tended to retain more business while repatriating other work which traditionally has been subcontracted. The repair and overhaul intake of older-type engines also declined as the aircraft they power gradually receive less operational use. However, demand for spare parts was brisk both for aircraft engines and for industrial gas turbine units built by Orenda in earlier years.

Good progress was made with reorganizing plant facilities to reflect the ongoing shift in shop loading emphasis from engine component manufacture to a higher level of repair and overhaul work on engines utilized in new aircraft delivered to the Canadian Armed Forces.

Beginning in mid November, output from the plant was severely restricted by a strike of shop personnel which was still in progress at the date of this report.

Canadian Steel Foundries Division, Montreal, Quebec produces steel castings for use by railway car builders, by railways as maintenance spares and by manufacturing, mining and service industries.

In the industrial sector of the foundry's business a general upturn in demand occurred enabling production activity to be increased to the highest level attained in several years while building a good order book for 1989 delivery. Pressure on pricing, however, particularly in the standard industrial and wear-resistant casting categories, prevented a satisfactory return being achieved.



Increased demand by the railways for wheels as maintenance spares raised production at Canadian Steel Wheel Division.

The improvement in the level of business being experienced by North American railways and the resulting increase in requirements for parts reversed the downward trend in railway wheel manufacture which Canadian Steel Wheel Division, Montreal, Quebec has suffered for several years. The substantially increased sales, although still at a relatively low level from an historic viewpoint, exceeded earlier expectations both in wheels supplied for new rolling stock manufacture and maintenance spares.

There are indications that the more buoyant market will carry over into 1989 enabling CSW's highly automated wheel forging plant to raise production volume to a more efficient level.

Resource Industry Equipment

Dosco Overseas Engineering Limited, Tuxford, Nottinghamshire, England designs and manufactures machines for roadheading and tunnelling, principally for the coal mining industry of the United Kingdom and several other countries but also for use in other types of mining and in civil engineering projects. A range of associated equipment is produced at the same plant.

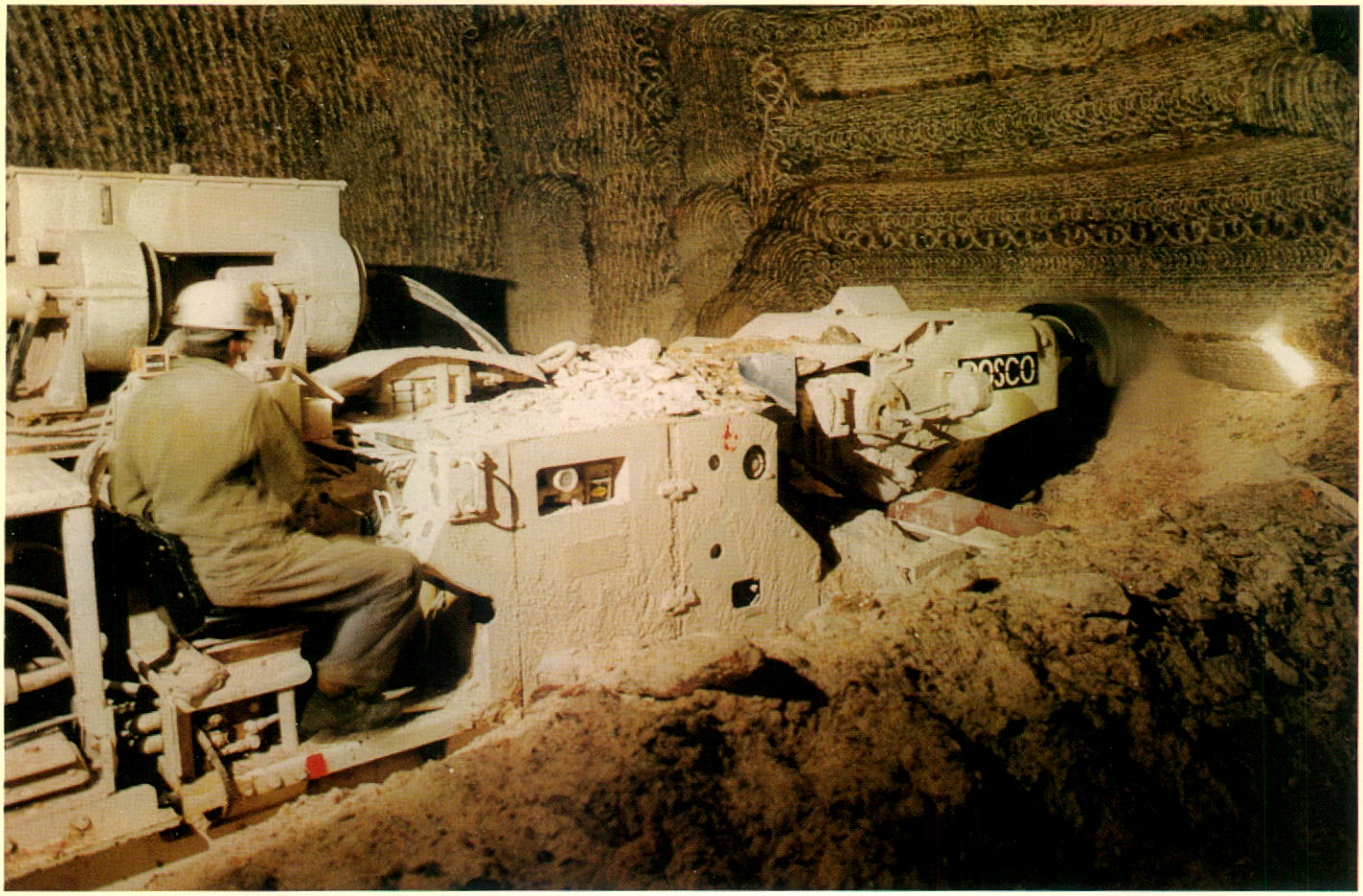
A major reorganization within British Coal, the company's principal customer, had an unsettling effect earlier in the year upon mining machine purchase and repair policies. After conditions stabilized, Dosco had a quite successful year particularly in the last quarter when activity increased significantly both in new machine building and repair and overhaul.

A new scheme for placement of equipment on long term leases with British Coal was initiated and received well by the customer. A number of machines had been accepted by year end.

Hollybank Engineering Company Limited operates a plant in Tuxford, England adjacent to that of Dosco Overseas where it manufactures sectional roof support systems used in mines to maintain the profile of roadway tunnels.

The company had a good year in sales but margins remained under considerable pressure as they have for some time in the past. In the operation of a contract mining business acquired at mid year, Hollybank spent most of the remaining months completing projects assumed as a condition of the purchase agreement with the previous owner. With new contracts being negotiated the new unit is expected to make an increasingly useful contribution to the company's results.

The plant of a United States-based affiliate, The Dosco Corporation, is located at Abingdon in the coalfields of Virginia. In addition to supplying and servicing Dosco-made mining machinery used by the coal industry and other types of mining operations in the United States, the unit manufac-



Dosco machines find increasing use in mining industries other than coal. This unit is on trial in a salt mine in Cheshire, England.

tures mine roadway tunnel support systems. In 1988, opportunities in the civil engineering field for tunnel supports proved of the most value, offsetting to a degree the rather flat market conditions which prevailed in the coal mining sector.

Sawmill and lumber processing equipment is manufactured and sold by Kockums CanCar Division in Surrey, British Columbia and distributed in the United States by Kockums CanCar Corp., Atlanta, Georgia. Both units became wholly owned by Hawker Siddeley Canada Inc. during the year.

Equipment sales in Canada improved significantly over the level reached in 1987 despite some weakening of the upward trend in the latter months of the year. In the export field, opportunities were actively pursued in Australasia and Europe and a major order was received from Czechoslovakia. Spare parts demand tended to be erratic over much of the year but settled at a steadier level as winter approached.

The United States unit also had a good year although spare parts demand in the market it serves was affected by reduced operations at some of the larger sawmills, particularly in the west, brought about by labour unrest.

Despite a downturn in North American lumber sales towards year end, the sawmill industry continued to show optimism by the placement of orders for capital equipment, leading to a good 1989 order book situation for both units.

Continuation of the poor market in the United States forest industry for log skidder vehicles, which encouraged heavy discounting by suppliers, again prevented Tree Farmer Equipment Company, Inc., Talladega, Alabama from achieving a satisfactory performance.

The total number of machines sold, including some exported units, was higher than in the previous year. However, the improvements in volume and the discontinuation of an unprofitable sawmill equipment line were insufficient to raise profitability to the required level. Divestiture of this unit is planned to take place in 1989.

Consolidated Statement of Income and Retained Earnings

	Year ended December 31 1988	1987
	(in thousands)	
Sales (Note 12)	$ 388,508	$ 395,778
Cost of sales, selling, general and administrative expenses	339,420	342,496
Depreciation	14,937	13,939
	354,357	356,435
Operating income (Note 12)	34,151	39,343
Interest income (Note 2)	1,820	602
Income before income taxes, minority interest and extraordinary items	35,971	39,945
Income taxes (Note 9)	14,499	15,158
	21,472	24,787
Minority interest	3,728	3,457
Income before extraordinary items	17,744	21,330
Extraordinary items (Note 3)	(4,251)	6,297
Net income for the year	13,493	27,627
Retained earnings, beginning of year	157,263	138,265
	170,756	165,892
Dividends — preferred shares	805	805
— common shares	8,802	7,824
	9,607	8,629
Retained earnings, end of year	$ 161,149	$ 157,263
Income per common share after preferred dividends:		
Before extraordinary items	$ 2.08	$ 2.52
After extraordinary items	$ 1.56	$ 3.29

Consolidated Statement of Changes in Financial Position

	Year ended December 31 1988	1987
	(in thousands)	
Funds (net cash and short-term investments), beginning of year	$ 79,156	$ 46,903
Operating activities:		
Income before income taxes, minority interest and extraordinary items	35,971	39,945
Items not affecting funds —		
Depreciation	14,937	13,939
Other	(321)	(292)
	50,587	53,592
Change in working capital items (excluding funds and income taxes) related to operations	26,703	(3,443)
Income tax payments	(16,421)	(12,539)
Funds provided by operations	60,869	37,610
Investing activities:		
Proceeds on disposal of fixed assets	4,971	9,762
Additions to fixed assets –		
Railway rolling stock leasing fleet	(63,777)	(4,854)
Plant and equipment	(8,077)	(4,380)
Miscellaneous	(85)	(678)
Funds used in investing activities	(66,968)	(150)
Financing activities:		
Increase (reduction) in long-term debt	24,370	(5,765)
Purchase of minority interest in Kockums companies	(4,250)	—
Dividends paid to —		
Shareholders of Hawker Siddeley Canada Inc.	(9,364)	(8,629)
Minority shareholder of a subsidiary	(1,612)	(1,440)
Funds provided by (used in) financing activities	9,144	(15,834)
Unrealized foreign currency translation (loss) gain on net current assets of foreign subsidiaries	(9,397)	10,627
Net funds (used in) provided for the year	(6,352)	32,253
Funds (net cash and short-term investments), end of year	$ 72,804	$ 79,156

Consolidated Balance Sheet

ASSETS	December 31 1988	1987
	(in thousands)	
Current assets:		
Cash and short-term investments	$ 83,805	$ 80,052
Accounts receivable	73,335	77,733
Income taxes recoverable	3,038	1,372
Inventories	80,843	93,024
Prepaid expenses	3,482	3,812
	244,503	255,993
Fixed assets (Note 6)	411,268	383,436
Less: Accumulated depreciation	186,677	204,702
	224,591	178,734
	$ 469,094	$ 434,727

Approved by the Board:
Peter Baxendell, Director
R.D. Cole, Director

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31 1988	1987
	(in thousands)	
Current liabilities:		
Bank advances	$ 11,001	$ 896
Accounts payable and accrued liabilities	80,020	63,408
Dividends payable	2,402	2,157
Income and other taxes	14,143	19,341
Advances on sales contracts	1,152	2,835
Owing to affiliated companies (Note 5)	4,446	5,957
Long-term debt due within one year (Note 7)	3,572	3,823
	116,736	98,417
Long-term debt (Note 7)	53,840	28,605
Deferred income taxes (Note 9)	37,853	37,707
Minority interest	31,033	35,263
Shareholders' equity:		
Preferred and common shares (Note 10)	68,383	68,383
Retained earnings	161,149	157,263
Unrealized foreign currency translation adjustments (Note 11)	100	9,089
	229,632	234,735
	$ 469,094	$ 434,727

Notes to Consolidated Financial Statements for the year ended December 31, 1988

1. Summary of principal accounting policies:

Principles of consolidation –
The consolidated financial statements include the accounts of Hawker Siddeley Canada Inc. and all subsidiary companies.

Foreign currency translation –
Assets and liabilities of foreign subsidiaries and other assets and liabilities in foreign currencies are translated at year-end rates of exchange. Revenue and expense items are translated at average rates of exchange during the year.

Net unrealized exchange adjustments arising from translation of the financial statements of foreign subsidiaries are included in a separate translation adjustments account in shareholders' equity. Other exchange gains and losses including amortization of such amounts related to long-term debt over its remaining life are included in income.

Recognition of revenue, profits and losses –
Revenue and profits are recorded at the time the product is shipped or the services performed. Provision is made for any losses, including possible losses arising from claims and suits, in the year in which they are first foreseen.

Short-term investments –
Short-term investments are recorded at the lower of cost and market value.

Inventories –
Inventories are carried at the lower of cost and net realizable value, less progress payments.

Fixed assets —
Fixed assets are carried at cost. Depreciation on these assets is provided over their estimated useful lives on the straight-line method, generally at annual rates of 2½% on buildings, 10% on equipment and 3⅓% to 5% on railway rolling stock.

2. Interest:

Interest reported in the consolidated statement of income is as follows:

	1988	1987
	(in thousands)	
Interest income:		
Short-term deposits and investments	$ 7,088	$ 4,903
Interest expense:		
Bank advances	594	220
Loans from affiliated companies (Note 5)	758	516
Long-term debt	3,916	3,565
	5,268	4,301
Net interest income	$ 1,820	$ 602

3. Extraordinary items:

	1988	1987
	(in thousands)	
Provision for estimated costs and losses relating to the divestiture of the Tree Farmer Equipment operations, less related income taxes of $800,000 (*)	$ (7,700)	$ —
Minority interest in Kockums companies in excess of purchase price of shares formerly held by minority shareholders	1,972	—
Reversal of prior year's provision which is no longer required, less related income taxes of $749,000	1,035	—
Effect of tax losses in prior years of subsidiary not previously recorded, less minority interest of $128,000 in 1987	442	512
Net gain on sale of land, less related income taxes of $608,000	—	2,848
Proceeds from an insurance claim respecting damaged property, less related income taxes of $721,000	—	1,639
Net gain on sale of Can-Car Division assets, less related income taxes of $282,000	—	1,298
	$ (4,251)	$ 6,297

*See Note 9 re losses available for income tax purposes.

4. Research and development costs:

Research and development costs charged to income amounted to $4,706,000 (1987 – $3,685,000).

5. Related party transactions:

Hawker Siddeley Group Public Limited Company, a United Kingdom based company, which operates through subsidiaries in many countries, is the beneficial owner of 59.1% of the outstanding common shares and 41.8% of the outstanding preferred shares of the company.

During 1988 the company and its subsidiaries had no significant sales to or purchases from related parties.

Loans to or from affiliated companies are based on commercial bank lending rates.

6. Fixed assets:

	1988 (in thousands)		1987 (in thousands)	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land and land improvements	$ 5,652	$ 1,285	$ 7,424	$ 2,256
Buildings	42,693	27,063	47,996	30,536
Equipment	89,109	63,295	108,266	78,734
Railway rolling stock leasing fleet	273,814	95,034	219,750	93,176
	$411,268	$186,677	$383,436	$204,702

7. Long-term debt:

	1988	1987
	(in thousands)	
CGTX Inc. (55% owned)		
First Mortgage Sinking Fund Equipment Notes		
7¾% – 10¼%, due 1989 – 2000		
(U.S. $3,250,000; 1987 – U.S. $3,900,000)	$ 4,032	$ 5,070
8⅞% – 11⅛%, due 1989 – 1999	23,380	26,358
	27,412	31,428
First Mortgage Equipment Notes		
11¼%, due 1990 – 1992	15,000	—
11%, due 1993	15,000	—
	57,412	31,428
Promissory Note owing to an affiliated company		
¾% below Canadian bank prime rate, due 1989	1,000	2,700
	58,412	34,128
Due within one year included in current liabilities ($1,000,000 included in owing to affiliated companies in 1988 and $1,700,000 in 1987)	(4,572)	(5,523)
	$ 53,840	$ 28,605

Principal payments on long-term debt will be as follows for the years indicated:

Year ending December 31	Amount (in thousands)
1990	$ 8,315
1991	8,025
1992	7,825
1993	17,825
1994 – 2000	11,850
	$ 53,840

Railway rolling stock with a net book value of $103,137,000 is pledged by CGTX Inc. as security for its long-term debt.

8. Pensions:

The estimated actuarial present value of defined pension benefits accrued to December 31, 1988 was $116,000,000 (1987 – $119,000,000) and the value of the pension fund assets (based on average market) at that date was approximately $156,000,000 (1987 – $159,000,000).

9. Income taxes:

The consolidated provision for income taxes, which includes deferred income taxes of $753,000 (1987 – $4,313,000), has been determined as follows:

	1988	1987
	(in thousands)	
Consolidated provision at statutory rates of taxation	$ 15,354	$ 15,993
Decrease in provision resulting from –		
Manufacturing and processing tax credit	(314)	(93)
Other	(541)	(742)
Consolidated provision for income taxes	$ 14,499	$ 15,158

At December 31, 1988 the U.S. subsidiaries, excluding Tree Farmer Equipment Company, Inc., had accumulated losses for income tax purposes of approximately U.S. $15,000,000 which are available to reduce their taxable income of future years and expire during the years 1996 to 2003. Also, expenses of approximately U.S. $2,200,000 at December 31, 1988, including a provision related to the U.S. operations of Tree Farmer Equipment which will be deductible for income tax purposes in 1989, have been charged to net income but not yet allowed for tax purposes.

At December 31, 1988, upon amalgamation with a subsidiary company, the company had accumulated losses for income tax purposes of approximately $2,900,000 which are available to reduce its taxable income of future years and expire during the years 1991 and 1992. Also, expenses of approximately $3,500,000 at December 31, 1988 have been charged to net income but not yet allowed for tax purposes.

The potential future tax benefits of approximately U.S. $6,600,000 for the U.S. subsidiaries, excluding Tree Farmer Equipment, and $2,700,000 for the company, based on 1988 income tax rates, have not been recorded in the accounts.

10. Preferred and common shares:

	Shares	Dollars
		(in thousands)
Preferred shares –		
5¾% cumulative preferred shares, redeemable at the option of the company at $105 per share		
Authorized and issued	140,000	$ 14,000
Common shares –		
Issued	8,150,301	54,383
		$ 68,383

The company is authorized to issue an unlimited number of preferred shares junior to the 5¾% cumulative preferred shares and an unlimited number of common shares.

During 1988, options for 48,000 common shares of the company granted to officers of the company in 1987 were cancelled leaving a balance outstanding of 5,750 shares at a price of $29.00. New options were granted for 48,000 common shares at a price of $22.00 per share and 20,400 common shares at $19.63 per share. All options will expire at various dates during the next ten years if not exercised.

11. Foreign exchange translation adjustments:

Movements in the unrealized foreign currency translation adjustments account are as follows:

	1988	1987
	(in thousands)	
Balance, beginning of year	$ 9,089	$ (115)
Adjustments for the year	(8,989)	9,204
Balance, end of year	$ 100	$ 9,089

12. Segmented information:

INDUSTRY

	Transportation and industrial	
	1988	1987 (*)
Sales to customers**	$ 150,175	$ 159,860
Inter-segment sales***	9	548
Sales	$ 150,184	$ 160,408
Segment operating income	$ 22,166	$ 23,438
General corporate expenses		
Operating income		
Identifiable assets	$ 261,405	$ 232,361
Corporate assets		
Total assets		
Capital expenditures	$ 66,597	$ 7,025
Depreciation	$ 12,138	$ 11,186

GEOGRAPHIC

	Canada		Europe	
	1988	1987 (*)	1988	1987 (*)
Sales to customers	$ 192,440	$ 199,071	$ 153,416	$ 146,916
Sales between geographic segments***	8,344	13,483	—	1,326
Sales	$ 200,784	$ 212,554	$ 153,416	$ 148,242
Segment operating income	$ 24,122	$ 24,546	$ 12,242	$ 14,767
General corporate expense				
Operating income				
Identifiable assets	$ 286,348	$ 259,959	$ 92,438	$ 95,959
Corporate assets				
Total assets				

The company provides products and services in two major segments:

Transportation and industrial – Includes manufacture of steel castings and forgings for the railway and manufacturing industries, revenue from leases of railway tank and hopper cars, repair and overhaul of jet engines and of industrial turbines and miscellaneous other products.

Resource industry equipment – Includes mining equipment, tunnelling machines, parts and roof support systems for mine roadways and tunnels, lumber processing and logging equipment for the forestry and forest products industries.

Canadian sales to customers include export sales of $25,181,000 in 1988 and $36,665,000 in 1987, primarily to customers in the United States.

SEGMENTS (in thousands)

Resource industry equipment		Eliminations		Consolidated	
1988	1987 (*)	1988	1987 (*)	1988	1987 (*)
$ 238,333	$ 235,918	$ —	$ —	$ 388,508	$ 395,778
—	—	(9)	(548)	—	—
$ 238,333	$ 235,918	$ (9)	$ (548)	$ 388,508	$ 395,778
$ 13,066	$ 16,758	$ —	$ —	$ 35,232	$ 40,196
				(1,081)	(853)
				$ 34,151	$ 39,343
$ 145,414	$ 151,732	$ (53)	$ (2,008)	$ 406,766	$ 382,085
				62,328	52,642
				$ 469,094	$ 434,727
$ 4,809	$ 2,159				
$ 2,751	$ 2,693				

SEGMENTS (in thousands)

United States		Eliminations		Consolidated	
1988	1987 (*)	1988	1987 (*)	1988	1987 (*)
$ 42,652	$ 49,791	$ —	$ —	$ 388,508	$ 395,778
(299)	9,184	(8,045)	(23,993)	—	—
$ 42,353	$ 58,975	$ (8,045)	$ (23,993)	$ 388,508	$ 395,778
$ (1,132)	$ 883	$ —	$ —	$ 35,232	$ 40,196
				(1,081)	(853)
				$ 34,151	$ 39,343
$ 30,588	$ 30,256	$ (2,608)	$ (4,089)	$ 406,766	$ 382,085
				62,328	52,642
				$ 469,094	$ 434,727

*Comparative balances has been restated to conform with the current year's presentation.

**Transportation and industrial sales to customers include $43,304,000 (1987 – $38,929,000) relating to leasing operations.

***Inter-segment sales are accounted for at prices comparable to market prices.

Auditors' Report

Chartered Accountants

Suite 3300
Box 190
1 First Canadian Place
Toronto, Ontario M5X 1H7

(416) 863 1133
Telex 06 524111
Telecopier (416) 365 8215

Price Waterhouse

March 2, 1989

AUDITORS' REPORT

To the Shareholders of
Hawker Siddeley Canada Inc.:

We have examined the consolidated balance sheet of Hawker Siddeley Canada Inc. as at December 31, 1988 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was 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, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants

Divisions & Subsidiaries, Products & Services

Divisions

Canadian Steel Foundries Division, Montreal, Que.
Canadian Steel Wheel Division, Montreal, Que.
Kockums CanCar Division, Surrey, B.C.
Orenda Division, Mississauga, Ont.

Subsidiaries (Note)

Can-Car, Inc., Atlanta, Ga., U.S.A.
  Kockums CanCar Corp., Atlanta, Ga., Vancouver, Wash., U.S.A.
  The Dosco Corporation, Abingdon, Va., U.S.A.
  Tree Farmer Equipment Company, Inc., Talladega, Ala., U.S.A.
Dosco Overseas Engineering Limited, Tuxford, England
  Hollybank Engineering Company Limited, Tuxford, England
CGTX Inc., Montreal, Que., Mississauga, Ont., Moose Jaw, Sask., Red Deer and Calgary, Alta.
Kockums Cancar Pty. Ltd., Campbellfield, Victoria, Australia

Note: With the exception of CGTX Inc. (55% owned), all subsidiaries are 100% owned, directly or indirectly, by Hawker Siddeley Canada Inc.

Products and Services

Divisions

Canadian Steel Foundries Division
  Steel castings for the railway, mining, energy and manufacturing industries
Canadian Steel Wheel Division
  Forged wheels for railway passenger and freight cars and locomotives
Kockums CanCar Division
  Sawmill and lumber processing equipment; sales and service
Orenda Division
  Aircraft jet engine repair and overhaul; jet engine components; engineering design and laboratory testing services; graphics services

Subsidiaries

Kockums CanCar Corp.
Kockums CanCar Pty. Ltd.
  Sawmill and lumber processing equipment sales and service
The Dosco Corporation
  Sales and service of mining and tunnelling machines; roof support systems for mine roadways and civil engineering tunnels
Tree Farmer Equipment Company, Inc.
  Log skidders and other forest harvesting equipment; sales and service
Dosco Overseas Engineering Limited
  Mining and tunnelling machines
Hollybank Engineering Company Limited
  Roof support systems for mine roadways and civil engineering tunnels
CGTX Inc.
  Full-service leasing and repair of railway tank cars and hopper cars

Hawker Siddeley Canada Inc.

Head Office:

3 Robert Speck Parkway, Mississauga, Ontario L4Z 2G5

Directors

Sir Peter Baxendell, London, England
B. R. Bensly, Gerrards Cross, Buckinghamshire, England
D. G. Bury, Camberley, Surrey, England
R. D. Cole, Oakville, Ontario
A. H. Crockett, Toronto, Ontario
L. Francoeur, Mississauga, Ontario
J. F. Howard, Q.C., Woodbridge, Ontario
L. Rochette, Quebec City, Quebec
T. K. Shoyama, Victoria, British Columbia
R. F. Tanner, Mississauga, Ontario

Executive Management

Sir Peter Baxendell, Chairman
J. F. Howard, Q.C., Vice-Chairman
R. D. Cole, President and Chief Executive Officer
B. R. Bensly, Managing Director and Chief Executive, Hawker Siddeley Group PLC
W. G. Broley, Comptroller
B. M. Budd, Secretary and General Counsel
M. J. Colman, Vice-President (Canadian Steel Foundries and Canadian Steel Wheel Divisions)
L. Francoeur, Vice-President, Finance
A. D. Johnson, Managing Director, Dosco Overseas Engineering Limited
J. C. Léger, President and Chief Executive Officer, CGTX Inc.
K. G. Miles, Vice-President (Kockums CanCar Division) (President and Chief Executive Officer, Kockums CanCar Corp.)
R. J. Munro, Vice-President (Orenda Division)
F. J. Sandford, Treasurer
Dr. K. T. Sisson, Managing Director, Hollybank Engineering Company Limited
C. W. Stone, Vice-President (President and Chief Executive Officer, Tree Farmer Equipment Company, Inc.)

Auditors

Price Waterhouse, Toronto, Ontario

Registrar and Transfer Agent

National Trust Company, Toronto, Montreal, Winnipeg and Vancouver

DESIGNED AND PRINTED IN CANADA BY HAWKER SIDDELEY GRAPHICS