



**HAWKER ■ SIDDELEY**

**HAWKER SIDDELEY CANADA INC.**



**DOSCO**



**TREE FARMER**

**CGTX**



**CAN-CAR**

**Hollybank**

1986  
ANNUAL  
REPORT



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**Operations Summary**

	1986	1985	1984	1983	1982
<b>Operating Data (millions of dollars)</b>					
<b>Sales (By Industry Segments)</b>					
Transportation and miscellaneous .....	\$ 136.9	172.1	188.1	199.5	172.4
Mining .....	175.9	122.3	72.2	125.4	144.7
Steel castings and forgings .....	48.4	55.1	64.7	54.6	72.7
Forestry .....	57.5	72.5	86.5	65.8	35.8
Total Sales .....	418.7	422.0	411.5	445.3	425.6
Income before taxes, minority and extraordinary items .....	34.3	32.2	35.8	38.7	32.7
Income taxes .....	14.2	14.5	12.6	21.2	17.9
Extraordinary items .....	(7.7)	(1.9)	—	.4	(1.5)
Net income .....	9.5	13.4	19.5	15.4	11.4
<b>Financial Data (millions of dollars)</b>					
Working capital .....	\$ 124.6	127.8	117.0	123.3	96.4
Net fixed assets .....	184.7	186.3	190.7	186.8	200.4
Long term debt .....	34.5	40.3	52.3	58.3	64.2
Shareholders' equity .....	206.5	205.5	189.2	183.0	179.5
Funds from operations .....	25.0	23.1	24.8	45.1	50.2
Capital expenditures .....	16.1	10.8	21.5	10.8	10.1
Depreciation .....	15.0	14.2	14.1	14.2	13.8
Dividends					
— preferred shares .....	.8	.8	.8	.8	.8
— common shares .....	7.8	7.8	7.8	7.8	7.8
Aggregate remuneration of employees .....	116.7	121.6	119.4	122.2	126.2
<b>Per Common Share (after Preferred dividends)</b>					
Income before extraordinary items .....	\$ 2.01	1.78	2.29	1.75	1.48
Net income .....	1.06	1.54	2.29	1.79	1.30
Funds from operations .....	2.97	2.74	2.94	5.44	6.06
Dividends .....	.96	.96	.96	.96	.96
Shareholders' equity .....	23.62	23.49	21.50	20.73	20.31
<b>Ratios</b>					
Return on capital employed (Note 1) .....	10.9%	10.7%	11.9%	13.5%	13.5%
Return on shareholders' equity (Note 2) .....	4.5%	6.9%	10.8%	8.7%	6.4%
Debt equity ratio .....	14:86	16:84	22:78	24:76	26:74
Working capital ratio .....	2.2	2.3	2.5	2.1	2.0
<b>Other Data</b>					
<b>Shares issued and outstanding</b>					
— 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
<b>Number of shareholders</b>					
— preferred .....	710	767	830	908	998
— common .....	3,550	4,271	4,766	5,194	5,844
Average number of employees .....	3,170	3,630	3,927	4,090	4,307

**Notes:**

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



## 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, 1986.

### 1. Financial

#### 1.1 Sales

Consolidated sales were \$419 million (1985 — \$422 million). Details of sales by industry and geographic segments are shown in Note 13 to the financial statements.

#### 1.2 Income

Income before extraordinary item in 1986 was \$17.2 million (1985 — \$15.3 million) equivalent to \$2.01 per common share (1985 — \$1.78 per share). Net income was \$9.5 million (1985 — \$13.4 million) equivalent to \$1.06 per common share (1985 — \$1.54 per share).

#### 1.3 Extraordinary item

A provision of \$7.7 million after a deferred tax credit of \$6.1 million has been recorded in the accounts with regard to the planned divestiture of operations at Trenton Works Division, Trenton, Nova Scotia.

### 2. Dividends

In 1986 the Corporation declared and paid the four quarterly preferred share dividends as they became due. A dividend of 24 cents was declared payable on January 9, 1987 to holders of common shares of record on December 19, 1986, following declarations and payments of 24 cents per common share in each of the previous three quarters.

### 3. Directors

Sir Arnold Hall, FRS, F.Eng. retired from the Board as of May 30, 1986 after serving as a Director since 1963. Sir Peter Baxendell, CBE was elected as a Director at the Annual General Meeting of Shareholders and at the subsequent meeting of Directors was appointed Chairman, succeeding Sir Arnold Hall. Also on May 30, 1986 Mr. A.W. McKenzie retired from the Board after serving as a Director since 1969 and Mr. R.D. Cole was elected to succeed Mr. McKenzie.

### 4. Comments

Income before extraordinary item was \$17.2 million, an increase of \$1.9 million compared to 1985. Results in the various segments of operations varied substantially, a reflection of difficult market conditions which affected some manufacturing facilities. Gains in the mining equipment sector and improvements in forestry equipment business were largely offset by much reduced earnings in the transportation equipment field and losses in the steel castings and

forgings segment. Lower taxes were for the most part due to the reduced rates applicable to British subsidiaries.

Manufacturing of mining machinery and tunnelling equipment showed greatly improved results in both the U.K. and export markets, mainly China and India. Dosco Overseas Engineering also undertook significant machine repair and overhaul work, enlarging its facilities to meet future orders.

Orenda maintained a high level of activity in aero engine repair and overhaul and in the manufacture of engine components. Notwithstanding the slower growth pattern emerging in the North American aerospace industry several new products were supplied during the year, the order book is sound, and the company is actively seeking further long term business on new engines.

Demand for new railway equipment was limited with export sales frequently restrained by customers' financing difficulties. The freight and tank car leasing business operated by CGTX recorded a similar result to 1985 despite more difficult market conditions.

Demand for steel castings and wheels for the Canadian railways continued to be very depressed with maintenance requirements at the lowest level in the past decade. The requirement for industrial castings however was moderate with rising demand for hydro-electric power generation. Endeavours are being made by the foundry to broaden its product range with the installation of new manufacturing equipment.

Sawmill equipment and skidder operations have been considerably restructured and the Talladega, U.S.A. manufacturing facility previously available solely for the production of sawmill equipment has been assigned also to the assembly of skidders. While markets were somewhat more active in the year, the forestry equipment industry was affected by a prolonged strike in British Columbia and the extended debate on U.S. imports of Canadian lumber. There were, however, some encouraging signs at year end with strengthening of the order book for both parts and capital equipment.

Submitted on behalf of the Board

*P. Baxendell*

*R.F. Tanner*

Toronto, Ontario, March 18, 1987



## Comments on Operations

### Transportation and miscellaneous products

Operating units of the Corporation engaged in supplying products and services to the transportation industry, particularly the railway sector, encountered very slow market conditions which were little changed from those in the previous year.

Trenton Works Division, Trenton, Nova Scotia, which operates one of Canada's leading freight car design and manufacturing facilities, found little domestic demand for new railcars. Requirements for rolling stock in export markets, in which Trenton Works traditionally has played a leading role, also were sparse and completed orders were limited to 100 cars for Senegal.

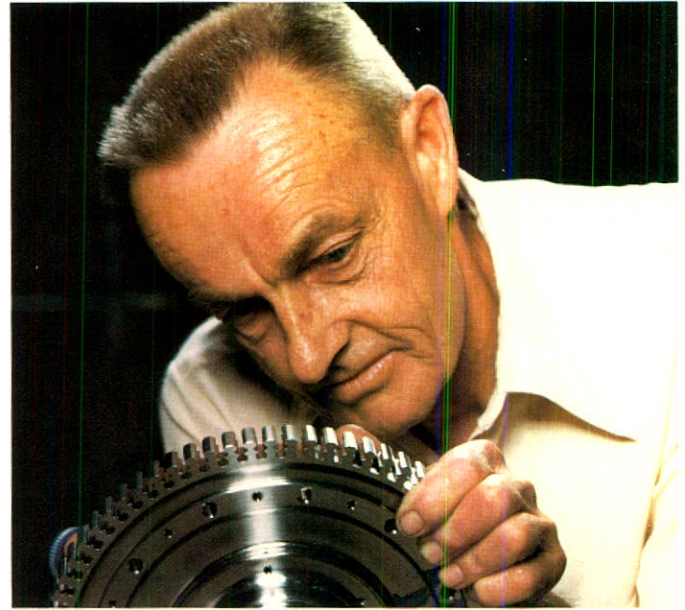
Although other sales opportunities for freight equipment were identified overseas, notably on the African continent, difficulty in assembling the necessary finance packages proved an ever-present problem. Consequently, securing orders in offshore markets remained, and will continue to remain, a lengthy process fraught with uncertainty.

Early in 1987, the Board of Directors reviewed the persistently poor market conditions for railway freight car manufacturing and decided that the Corporation must divest itself of the Trenton Works operation. The Corporation is endeavouring to locate a purchaser who is in a position to optimize the use of the facility.

Marginally slower trading conditions compared to the previous year prevailed in the markets served by CGTX Inc., Montreal, Quebec and results, while remaining favourable, were little changed. The company owns a fleet of tank cars of all types and hopper cars which it offers for full service lease to customers mainly in the petroleum, chemical, food and fertilizer industries. In addition, car-maintenance depots are operated in Montreal, Quebec; Red Deer, Alberta; and Moose Jaw, Saskatchewan where a new tank car cleaning facility was completed and brought on stream by year end.

Tank car leasing requirements for transporting refined petroleum products were affected by weak product demand and improvement in lease renewal rates was hampered by the ready availability of surplus rolling stock.

Orenda Division, Mississauga, Ontario, which celebrated its 40th anniversary in 1986, had a busy



*Tom Allengame, a Gear and Broach Machinist at Orenda Division, was on hand when Orenda celebrated its 40th anniversary. He retired in December 1986 after 43 years of continuous service with Hawker Siddeley Canada and a predecessor company, Victory Aircraft, where he was involved in the wartime production of Avro Lancasters.*

year in its main roles as an aircraft jet engine repair and overhaul and engineering support contractor to the Canadian Armed Forces (CAF) and a manufacturer of components for several leading jet engine companies. The work volume in connection with the General Electric F404 jet engine, which powers CF-18 interceptors in the CAF, rose steadily with increased utilization of the aircraft.

In the sub-contract segment, good progress was made with the initial production of several new jet engine components after some early supplier problems were resolved. In the North American aerospace industry, emphasis in the immediate future is expected to be on the up-grading of current equipment rather than major production developments. This climate has been recognized in planning future activity at the Orenda plant.

The heavy automotive and highway trailer parts distribution and trailer repair business operated by Can-Car Division, Rexdale, Ontario, experienced much the same level of activity as in the previous year with modest trading results. Demand from operators in western Canada continued to reflect the general state of that region's economy and its effect on the road transportation industry. The Ontario market remained relatively strong while requirements by Quebec operators showed modest improvement.





*This 18,000 U.S. gallon capacity tank car was one of a number built by Trenton Works Division for lease by CGTX Inc. for transporting binder pitch.*

### Steel castings and forgings

The production of steel castings, mainly for the railways but also for mines and various sectors of heavy industry, is concentrated at Canadian Steel Foundries Division, Montreal, Quebec. Railway wheels are forged at Canadian Steel Wheel Division, also in Montreal. Circular forgings, railway axles and heavy industrial forgings are produced at Trenton Works Division, Trenton, Nova Scotia.

Because Trenton Works is at the centre of the Corporation's rail equipment activity, the level of business achieved in the castings and forgings segment is to some degree dictated by the volume of new railcar construction at the Nova Scotia plant. Another important factor is the demand by domestic railways for sideframes, bolsters, couplers, axles and wheels for use as maintenance spares. Casting business for Canadian Steel Foundries was severely depressed with much reduced demand for com-

ponents for both new car building and maintenance purposes. In the foundry's industrial casting operations, however, demand was moderate but fairly steady due largely to rising requirements for castings utilized in hydro-electric power generation. Efforts are being made to enlarge the product range of the foundry for the industrial market to counterbalance the deficiencies being encountered in the railway sector.

Output of railway wheels by Canadian Steel Wheel was severely reduced by constrained railway demand, prolongation of wheel usage and minimal new railcar construction. In these circumstances, production at the highly automated plant was suspended occasionally during the year to balance inventories against market conditions.

At Trenton Works, railway axle and industrial forging sales remained at about the level of the previous year.



## Mining equipment

Roadheading and tunnelling machinery for the mining industry and a range of associated equipment is designed and manufactured by Dosco Overseas Engineering Limited which is based at Tuxford, Nottinghamshire in the United Kingdom.

The company had a very active year, with a further improvement in trading results. The pattern was set by British Coal, Dosco's major domestic customer, which continued full-scale operations in the wake of the prolonged miners' strike which ended during the previous year. In the immediate future, however, it is expected that British Coal will continue to pursue its policy to close uneconomic mines and rationalize its workshop activities. This move could affect equipment requirements and restrain Dosco's business growth. However, the total impact of such policies on the company's interests is difficult to assess with any degree of certainty since a decrease in new machine purchases may be offset to some extent by a higher volume of repair and overhaul business.

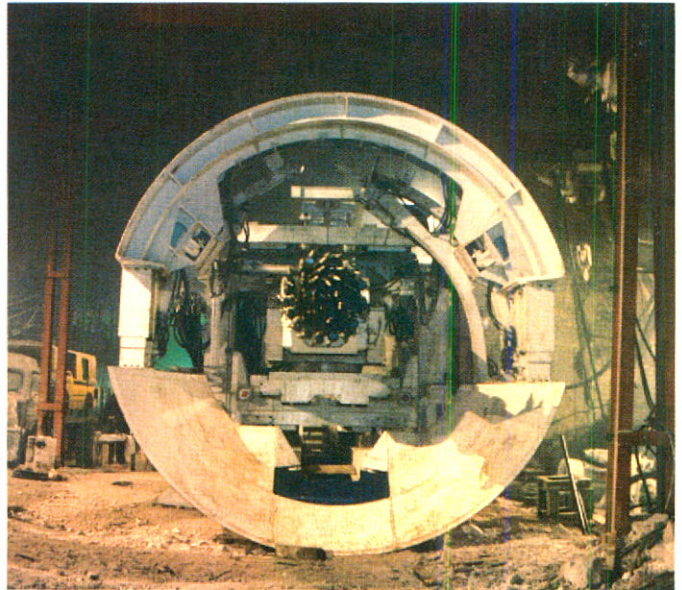
Hollybank Engineering Company Limited, which is located on the same site as Dosco Overseas, manufactures mine roadway roof support systems. It, too, benefited from the resurgence in U.K. coalfield activity although a greater degree of competition in the marketplace was experienced in this particular product line.

The Dosco Corporation, an affiliated company at Abingdon, Virginia in the coalfields of the United States, found sales of equipment badly hindered by a generally low level of production throughout the mining industry. However, demand for mine arch supports manufactured at the facility was buoyant.

## Forestry and lumber processing equipment

The operations of Kockums CanCar Inc., Surrey, British Columbia and its U.S.-based affiliate, Kockums CanCar Corp., manufacturers of sawmill equipment, were both subjected to considerable restructuring during the year following a period of difficult and depressed market conditions.

The Kockums CanCar Corp. manufacturing facility at Talladega, Alabama, was acquired by Tree Farmer Equipment Co. Inc. although Kockums CanCar will



*A new machine produced by Dosco Overseas Engineering for circular tunnelling in harder rock. It is fitted with a device for erecting circular steel support ribs inside the newly-cut tunnel.*

continue to purchase certain equipment and parts from the plant. However, all sales and service by the U.S. company will be handled at a facility in Atlanta, Georgia. Both during and after the transition period, the companies suffered the results of an industry facing a number of difficulties including a prolonged strike of lumbermen in western Canada, which ended late in 1986, and extended debate on U.S.-imposed import taxes on Canadian lumber which early in 1987 were replaced by a Canadian export tax. Faced with these major concerns, few sawmill owners were prepared to consider major capital equipment investments but at year-end some brightening of the situation appeared and order intake for parts and machinery showed signs of strengthening.

Manufacture of log skidder vehicles produced by Tree Farmer Equipment Company, Inc. was transferred during the year to the facility in Talladega, Alabama, previously owned by Kockums CanCar Corp. This plant now combines the manufacture of log skidders with certain of the latter company's sawmill equipment thereby leading to better utilization of the factory. Although log skidder production at the new location was initiated at mid-year, total output was restricted by the reorganization and a demand level for skidders by the U.S. forest industry which was somewhat below that of the previous year. Sales in the Canadian sector of the market held up moderately well.





*Tree Farmer forestry equipment is now being manufactured by Tree Farmer Equipment Company, Inc. in Talladega, Alabama. Typical of the product line is the machine shown here skidding logs in a stand of small timber.*



*A bottom arbor edger built by Kockums CanCar. Machines of this type have a variable number of fixed or moveable saws. Operating in sawmills they handle infeed material up to 12" thick and 84" wide and break it down into finished lumber.*



## Consolidated Statement of Income and Retained Earnings

Year ended December 31

1986

1985

(in thousands)

Sales (Note 13) .....	<u>\$ 418,670</u>	<u>\$ 421,958</u>
Cost of sales, selling, general and administrative expenses .....	369,328	374,022
Depreciation .....	<u>15,006</u>	<u>14,231</u>
	<u>384,334</u>	<u>388,253</u>
Operating income (Note 13) .....	34,336	33,705
Interest (Note 2) .....	<u>83</u>	<u>1,517</u>
Income before income taxes, minority interest and extraordinary item .....	34,253	32,188
Income taxes (Note 10) .....	<u>14,202</u>	<u>14,463</u>
	<u>20,051</u>	<u>17,725</u>
Minority interest .....	<u>2,896</u>	<u>2,414</u>
Income before extraordinary item .....	17,155	15,311
Extraordinary item (Note 3) .....	<u>7,700</u>	<u>1,930</u>
Net income for the year .....	9,455	13,381
Retained earnings, beginning of year .....	<u>137,439</u>	<u>132,687</u>
	<u>146,894</u>	<u>146,068</u>
Dividends — preferred shares .....	805	805
— common shares .....	<u>7,824</u>	<u>7,824</u>
	<u>8,629</u>	<u>8,629</u>
Retained earnings, end of year .....	<u>\$ 138,265</u>	<u>\$ 137,439</u>
Income per common share after preferred dividends:		
Before extraordinary item .....	\$ 2.01	\$ 1.78
After extraordinary item .....	\$ 1.06	\$ 1.54



# Consolidated Statement of Changes in Financial Position

Year ended December 31

1986

1985

(in thousands)

Funds (net cash and short-term investments) at beginning of year	\$ 46,884	\$ 42,564
Operating activities:		
Income before income taxes, minority interest and extraordinary item	\$ 34,253	\$ 32,188
Items not affecting funds —		
Depreciation	15,006	14,231
Other	156	375
	49,415	46,794
Change in working capital items (excluding funds and income taxes) related to operations	(15,218)	(9,484)
Income tax payments	(9,223)	(14,193)
Funds provided by operations	24,974	23,117
Investing activities:		
Proceeds on disposal of fixed assets	1,306	2,024
Proceeds on disposal of investments	6,247	2,083
Additions to fixed assets —		
Railway rolling stock leasing fleet	(9,460)	(2,004)
Plant and equipment	(6,657)	(8,760)
Miscellaneous	(176)	(487)
Funds used in investing activities	(8,740)	(7,144)
Financing activities:		
Share capital redeemed from a minority shareholder of a subsidiary	—	(336)
Reduction in long-term debt	(6,428)	(12,578)
Dividends paid to —		
Shareholders of Hawker Siddeley Canada Inc.	(8,629)	(8,629)
Minority shareholder of a subsidiary	(1,440)	(1,440)
Funds used in financing activities	(16,497)	(22,983)
Unrealized foreign currency translation gain on net current assets of foreign subsidiaries	282	11,330
Net funds provided for the year	19	4,320
Funds (net cash and short-term investments) at end of year	\$ 46,903	\$ 46,884



## Consolidated Balance Sheet

ASSETS	December 31	
	1986	1985
(in thousands)		
Current assets:		
Cash and short-term investments .....	\$ 49,944	\$ 51,710
Accounts receivable .....	77,912	76,794
Income taxes recoverable .....	2,000	1,065
Inventories .....	94,162	90,720
Prepaid expenses .....	3,303	3,495
	<u>227,321</u>	<u>223,784</u>
Investments (Note 6) .....	—	4,207
Fixed assets (Note 7) .....	379,770	370,787
Less: Accumulated depreciation .....	<u>195,064</u>	<u>184,454</u>
	<u>184,706</u>	<u>186,333</u>
	<u>\$ 412,027</u>	<u>\$ 414,324</u>

Approved by the Board:  
P. Baxendell, Director  
R.F. Tanner, Director



# LIABILITIES AND SHAREHOLDERS' EQUITY

December 31  
1986 1985

(in thousands)

## Current liabilities:

Bank advances . . . . .	\$ 3,041	\$ 4,826
Accounts payable and accrued liabilities . . . . .	69,692	66,083
Dividends payable . . . . .	2,157	2,157
Income and other taxes . . . . .	18,216	12,805
Advances on sales contracts . . . . .	3,290	2,480
Owing to affiliated companies (Note 5) . . . . .	2,157	2,948
Long-term debt due within one year (Note 8) . . . . .	4,128	4,728
	<u>102,681</u>	<u>96,027</u>

Long-term debt (Note 8) . . . . . 34,517 40,345

Provision for unfunded pensions (Note 9) . . . . . 1,739 1,844

Deferred income taxes (Note 10) . . . . . 33,372 38,876

Minority interest . . . . . 33,185 31,746

## Shareholders' equity:

Preferred and common shares (Note 11) . . . . .	68,383	68,383
Retained earnings . . . . .	138,265	137,439
Unrealized foreign currency translation adjustments (Note 12) . . . . .	(115)	(336)
	<u>206,533</u>	<u>205,486</u>

\$ 412,027 \$ 414,324



## Notes to Consolidated Financial Statements for the year ended December 31, 1986

### 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 service performed. Provision is made for any losses, including possible losses arising from claims and suits, in the year in which they are first foreseen.

#### *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.

#### *Pensions —*

The Company and its subsidiaries have pension obligations to unfunded and funded pension plans.

Obligations to unfunded plans relate to retired and certain current employees for benefits which, for the most part, arose before the establishment of funded pension plans. Under these pension plans payments to pensioners are charged, after appropriate income taxes, to the provision established for that purpose.

Obligations to funded pension plans, which are administered by trustees, are actuarially determined and are settled by payments which are charged to operations.

### 2. Interest:

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

	<u>1986</u>	<u>1985</u>
	(in thousands)	
Interest expense:		
Bank advances .....	\$ 568	\$ 495
Loans from an affiliated company (Note 5) .....	580	1,171
Long-term debt .....	<u>4,023</u>	<u>4,463</u>
	5,171	6,129
Interest income:		
Short-term deposits and investments .....	<u>5,088</u>	<u>4,612</u>
Net interest .....	<u>\$ 83</u>	<u>\$ 1,517</u>



### 3. Extraordinary items:

The extraordinary item in 1986 represents a provision for estimated costs and losses of \$13,800,000 (\$7,700,000 after income taxes) relating to the divestiture of operations in 1987 at the Trenton Works Division.

The extraordinary item in 1985 represented a provision for estimated costs and losses of \$2,800,000 (\$1,930,000 after income taxes and minority interest) relating to the reorganization in 1986 of certain forestry and lumber processing equipment operations in Canada and the United States.

### 4. Research and development costs:

Research and development costs charged to income amounted to \$5,977,000 (1985 — \$6,468,000) after deduction of government assistance of \$Nil (1985 — \$21,000).

### 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 1986 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. Investments:

In 1986 the 6% special cumulative voting shares of RailTrans Industries of Canada Limited (carrying value — \$660,000) were sold and the balance of the promissory note of Can-Car Rail Inc. of \$3,547,000 due in instalments on January 3, 1987 and 1988 was repaid in full. The gain on disposal of the shares is included in operating income.

At December 31, 1986 the Company did not have any investments.

### 7. Fixed assets:

	<u>1986</u> (in thousands)		<u>1985</u> (in thousands)	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land and land improvements . . . . .	\$ 7,441	\$ 2,204	\$ 7,506	\$ 2,084
Buildings . . . . .	48,884	30,366	48,673	28,810
Equipment . . . . .	104,804	73,684	103,215	70,038
Railway rolling stock leasing fleet . . . . .	218,641	88,810	211,393	83,522
	<u>\$ 379,770</u>	<u>\$ 195,064</u>	<u>\$ 370,787</u>	<u>\$ 184,454</u>



## 8. Long-term debt:

	<u>1986</u>	<u>1985</u>
	(in thousands)	
CGTX Inc. (55% owned) —		
First Mortgage Sinking Fund Equipment Notes		
7% — 10 <sup>1</sup> / <sub>4</sub> %, due 1987 — 2000		
(U.S. \$4,650,000; 1985 — U.S. \$5,650,000) .....	\$ 6,510	\$ 7,910
7 <sup>1</sup> / <sub>2</sub> % — 11 <sup>1</sup> / <sub>8</sub> %, due 1987 — 1999 .....	29,435	32,763
	<u>35,945</u>	<u>40,673</u>
Promissory Note owing to an affiliated company		
<sup>3</sup> / <sub>4</sub> % below Canadian bank prime rate, due 1987 — 1989 .....	4,400	6,100
	<u>40,345</u>	<u>46,773</u>
Due within one year included in current liabilities		
(\$1,700,000 included in owing to affiliated companies		
in 1986 and 1985) .....	5,828	6,428
	<u>\$ 34,517</u>	<u>\$ 40,345</u>

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

<u>Year ending December 31</u>	<u>Amount</u>
	(in thousands)
1988 .....	\$ 5,587
1989 .....	4,678
1990 .....	3,352
1991 .....	3,062
1992 — 2000 .....	17,838
	<u>\$ 34,517</u>

Railway rolling stock with a net book value of \$66,065,000 is pledged by CGTX Inc. as security for its long-term debt.

## 9. Pensions:

The provision for unfunded pensions of \$1,739,000 at December 31, 1986 together with future tax allowances is considered adequate to provide for the cost, based on actuarial computations, of pensions under these unfunded plans.

With respect to funded pension plans, the present value of past service obligations to be met for certain plans, based on actuarial computations, is approximately \$2,400,000 at December 31, 1986. These obligations will be settled over periods of fifteen years or less. During 1986 \$647,000 was charged to operations with respect to these obligations (1985 — \$1,122,000).

## 10. Income taxes:

The consolidated provision for income taxes, which includes deferred income taxes of \$583,000 (1985 — \$901,000), has been determined as follows:



	<u>1986</u>	<u>1985</u>
	(in thousands)	
Consolidated provision at statutory rates of taxation . . . . .	\$ 13,295	\$ 13,056
Increase (decrease) in provision resulting from —		
Losses of U.S. and Canadian subsidiaries for which no tax		
benefits have been recorded . . . . .	2,089	2,356
Inventory allowances . . . . .	(105)	(619)
Manufacturing and processing tax credit . . . . .	—	(330)
Other . . . . .	(1,077)	—
Consolidated provision for income taxes . . . . .	<u>\$ 14,202</u>	<u>\$ 14,463</u>

At December 31, 1986 the U.S. subsidiaries had accumulated losses for income tax purposes of approximately U.S. \$22,000,000 which are available to reduce their taxable income of future years and expire during the years 1996 to 2001. Also expenses of approximately U.S. \$800,000 at December 31, 1986 have been charged to operations but not yet allowed for tax purposes. At December 31, 1986 a Canadian subsidiary had a loss for income tax purposes of approximately \$1,900,000 which is available to reduce its taxable income for years prior to 1993.

The potential future tax benefits (after minority interests) of approximately U.S. \$8,500,000 for the U.S. subsidiaries and \$690,000 for the Canadian subsidiary, based on 1986 income tax rates, have not been recorded in the accounts.

#### 11. Preferred and common shares:

	<u>Shares</u>	<u>Dollars</u> (in thousands)
Preferred shares —		
5 <sup>3</sup> / <sub>4</sub> % cumulative preferred shares, redeemable		
at the option of the Company at \$105 per share		
Authorized and issued . . . . .	<u>140,000</u>	\$ 14,000
Common shares —		
Issued . . . . .	<u>8,150,301</u>	<u>54,383</u>
		<u>\$ 68,383</u>

The Company is authorized to issue an unlimited number of preferred shares junior to the 5<sup>3</sup>/<sub>4</sub>% cumulative preferred shares and an unlimited number of common shares.

#### 12. Foreign exchange translation adjustments:

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

	<u>1986</u>	<u>1985</u>
	(in thousands)	
Balance, beginning of year . . . . .	\$ (336)	\$ (11,879)
Adjustments for the year . . . . .	<u>221</u>	<u>11,543</u>
Balance, end of year . . . . .	<u>\$ (115)</u>	<u>\$ (336)</u>



### 13. Segmented information:

#### INDUSTRY SEGMENTS (in thousands)

	Transportation equipment and Miscellaneous		Mining equipment		Steel castings and forgings	
	1986	1985	1986	1985	1986	1985
Sales to customers*	\$ 136,909	\$ 172,057	\$ 175,910	\$ 122,338	\$ 48,365	\$ 55,108
Inter-segment sales**	96	122	—	—	3,633	7,238
Sales	\$ 137,005	\$ 172,179	\$ 175,910	\$ 122,338	\$ 51,998	\$ 62,346
Segment operating income	\$ 21,813	\$ 25,844	\$ 22,081	\$ 13,391	\$ (4,077)	\$ 2,017
General corporate expenses						
Operating income						
Identifiable assets	\$ 204,290	\$ 199,504	\$ 93,671	\$ 80,098	\$ 46,556	\$ 47,359
Corporate assets						
Total assets						
Capital expenditures	\$ 13,390	\$ 6,813	\$ 1,420	\$ 1,921	\$ 579	\$ 928
Depreciation	\$ 9,784	\$ 8,957	\$ 1,059	\$ 956	\$ 2,157	\$ 2,232

#### GEOGRAPHIC SEGMENTS (in thousands)

	Canada		Europe		United States	
	1986	1985	1986	1985	1986	1985
Sales to customers	\$ 210,576	\$ 255,231	\$ 169,867	\$ 113,099	\$ 38,227	\$ 53,628
Inter-segment sales**	8,007	14,959	274	2,376	3,168	1,091
Sales	\$ 218,583	\$ 270,190	\$ 170,141	\$ 115,475	\$ 41,395	\$ 54,719
Segment operating income	\$ 16,806	\$ 23,553	\$ 22,469	\$ 13,109	\$ (4,029)	\$ (2,144)
General corporate expenses						
Operating income						
Identifiable assets	\$ 275,014	\$ 272,043	\$ 88,604	\$ 76,441	\$ 26,482	\$ 29,416
Corporate assets						
Total assets						

The Company provides products and services in four major segments:

*Transportation equipment and miscellaneous* —

Includes various types of freight and tank cars, repair and overhaul of jet engines and miscellaneous other products.

*Mining equipment* —

Includes mining and tunnelling machines and roof support systems for mine roadways and tunnels.

*Steel castings and forgings* —

Includes steel castings and forgings for the railway, mining, energy and manufacturing industries.

*Forestry equipment* —

Includes lumber processing and logging equipment for the forestry and forest products industries.



Forestry equipment		Eliminations		Consolidated	
1986	1985	1986	1985	1986	1985
\$ 57,486	\$ 72,455	\$ —	\$ —	\$ 418,670	\$ 421,958
—	—	(3,729)	(7,360)	—	—
<u>\$ 57,486</u>	<u>\$ 72,455</u>	<u>\$ (3,729)</u>	<u>\$ (7,360)</u>	<u>\$ 418,670</u>	<u>\$ 421,958</u>
<u>\$ (4,571)</u>	<u>\$ (6,734)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 35,246</u>	<u>\$ 34,518</u>
				910	813
				<u>\$ 34,336</u>	<u>\$ 33,705</u>
<u>\$ 42,736</u>	<u>\$ 47,954</u>	<u>\$ (143)</u>	<u>\$ (298)</u>	<u>\$ 387,110</u>	<u>\$ 374,617</u>
				24,917	39,707
				<u>\$ 412,027</u>	<u>\$ 414,324</u>
<u>\$ 668</u>	<u>\$ 1,027</u>				
<u>\$ 1,920</u>	<u>\$ 2,000</u>				

Eliminations		Consolidated	
1986	1985	1986	1985
\$ —	\$ —	\$ 418,670	\$ 421,958
(11,449)	(18,426)	—	—
<u>\$ (11,449)</u>	<u>\$ (18,426)</u>	<u>\$ 418,670</u>	<u>\$ 421,958</u>
<u>\$ —</u>	<u>\$ —</u>	<u>\$ 35,246</u>	<u>\$ 34,518</u>
		910	813
		<u>\$ 34,336</u>	<u>\$ 33,705</u>
<u>\$ (2,990)</u>	<u>\$ (3,283)</u>	<u>\$ 387,110</u>	<u>\$ 374,617</u>
		24,917	39,707
		<u>\$ 412,027</u>	<u>\$ 414,324</u>

Canadian sales to customers include export sales of \$46,981,000 in 1986 and \$40,726,000 in 1985, primarily to customers in the United States.

\*Transportation equipment and miscellaneous sales to customers include \$39,910,000 (1985 — \$39,179,000) relating to leasing operations.

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



## 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, 1986 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, 1986 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

Toronto, Ontario  
March 18, 1987



## Divisions and Subsidiaries

### Divisions

Can-Car Division, Rexdale, Ont., Montreal, Que.  
Canadian Steel Foundries Division, Montreal, Que.  
Canadian Steel Wheel Division, Montreal, Que.  
Orenda Division, Mississauga, Ont.  
Trenton Works Division, Trenton, N.S.

### 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  
Kockums CanCar Inc., Surrey, B.C., Montreal, Que.  
CGTX Inc., Montreal, Que., Toronto, Ont., Moose Jaw, Sask., Red Deer and Calgary, Alta.

*Note: With the exceptions of Kockums CanCar Inc. and Kockums CanCar Corp. (80% owned) and CGTX Inc. (55% owned), all subsidiaries are 100% owned, directly or indirectly, by Hawker Siddeley Canada Inc.*

## Products and Services

### Divisions



Can-Car Division

*Highway trailer repairs; trailer and heavy truck parts supply; Tree Farmer forestry equipment sales and parts supply*



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*



Orenda Division

*Aircraft jet engine repair and overhaul; jet engine components; engineering design and laboratory testing services; graphics services*



Trenton Works Division

*Railway freight and tank cars; railway axles; open-die forgings; circular forgings; steel fabrications; custom machining*

### Subsidiaries



Kockums CanCar Corp.

*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*



Kockums CanCar Inc.

*Sawmill and lumber processing equipment; sales and service*



CGTX Inc.

*Full-service leasing and repair of railway tank cars and hopper cars*



## **Hawker Siddeley Canada Inc.**

### **Head Office:**

7 King Street East, Toronto, Ontario M5C 1A3

### **Directors**

Sir Peter Baxendell, London, England

B. R. Bensly, Gerrards Cross, Buckinghamshire, England

D. G. Bury, Camberley, Surrey, England

R. D. Cole, Beaconsfield, Quebec

A. H. Crockett, Toronto, Ontario

L. Francoeur, Mississauga, Ontario

C. A. Haines, Woodbridge, Ontario

J. F. Howard, Q.C., Woodbridge, Ontario

L. Rochette, Quebec City, Quebec

T. K. Shoyama, Victoria, British Columbia

R. F. Tanner, Mississauga, Ontario

E. J. White, Blackpool, Lancashire, England

### **Executive Management**

Sir Peter Baxendell, Chairman

J. F. Howard, Q.C., Vice-Chairman

R. F. Tanner, President and Chief Executive Officer

W. G. Broley, Comptroller

B. Budd, Assistant Secretary and Legal Counsel

R. D. Cole, Vice-President, Operations and Deputy Chief Executive Officer (President and Chief Executive Officer, CGTX Inc.)

M. J. Colman, Vice-President (Canadian Steel Foundries and Canadian Steel Wheel Divisions)

L. T. Corey, Vice-President (Trenton Works Division)

L. Francoeur, Vice-President, Finance

R. J. Gray, Vice-President (Can-Car Division) (President and General Manager, Tree Farmer Equipment Company, Inc.)

C. A. Haines, Secretary

K. G. Miles, Vice-President (President and Chief Executive Officer, Kockums CanCar Inc. and Kockums CanCar Corp.)

K. C. Miller, Vice-President (Managing Director, Dosco Overseas Engineering Limited)

P. K. Peterson, Vice-President (Orenda Division)

F. J. Sandford, Treasurer

### **Auditors**

Price Waterhouse, Toronto, Ontario

### **Registrar and Transfer Agent**

National Trust Company, Toronto, Montreal, Winnipeg and Vancouver







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