Hawker Siddeley Canada INC.

Annual Report 1981

Contents

Hawker Siddeley Canada Inc. and Subsidiary Companies

Financial Data

	1981	1980	1979	1978	1977
Summary of Operations (thousands of dollars)					
Sales	$ 638,987	547,037	539,963	398,321	362,689
Cost of sales, selling, general and administrative expenses	580,643	481,102	471,011	356,496	320,678
Depreciation and amortization	13,437	13,580	12,044	10,667	10,959
	594,080	494,682	483,055	367,163	331,637
Income before interest	44,907	52,355	56,908	31,158	31,052
Interest	15,979	10,913	6,911	3,371	2,904
Income before taxes	28,928	41,442	49,997	27,787	28,148
Income taxes	5,292	18,437	18,934	12,242	13,200
	23,636	23,005	31,063	15,545	14,948
Minority interest	1,606	1,563	1,651	1,148	1,246
	22,030	21,442	29,412	14,397	13,702
Exchange gain (loss)	(7,373)	3,197	1,457	2,721	2,624
Income before extraordinary items	14,657	24,639	30,869	17,118	16,326
Extraordinary items	944	—	(834)	3,300	(2,586)
Net income for the year	$ 15,601	24,639	30,035	20,418	13,740
Per common share					
Income before extraordinary items	$ 1.70	2.92	3.69	2.01	1.91
Net income	1.82	2.92	3.59	2.41	1.59
Dividends declared	.96	.96	.62	.42	.37
Equity	20.49	19.63	17.67	14.70	12.74
Other statistics (thousands of dollars)					
Dividends					
– preferred shares	$ 805	805	805	805	805
– common shares	7,824	7,824	5,053	3,420	3,008
Working capital	90,538	104,128	84,672	74,951	55,836
Capital expenditures					
– railway rolling stock leasing fleet	22,807	15,269	34,958	13,568	3,401
– other	9,832	16,014	11,532	9,395	9,289
Shareholders' equity					
– preferred shares	14,000	14,000	14,000	14,000	14,000
– common shares – share capital	54,383	54,383	54,383	54,383	54,320
– retained earnings	112,614	105,642	89,632	65,455	49,262
Other share 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	8,129,341
Number of shareholders					
– preferred	1,050	1,146	1,230	1,314	1,408
– common	6,019	5,583	6,028	7,309	7,957
Principal Shareholder Hawker Siddeley Group Public Limited Company percentage holdings					
– preferred	41.79%	41.79%	41.79%	41.79%	41.79%
– common	59.10%	59.10%	59.10%	59.10%	59.25%

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, 1981.

1. Financial

1.1 Sales

Consolidated sales were $639 million (1980 — $547 million). Details of sales by industry and geographic segments are shown in Note 2 to the financial statements. Information concerning export sales from Canada and the sales volume of foreign subsidiaries is set out on page 21 of this report.

1.2 Income

Income before extraordinary gain in 1981 was $14.7 million (1980 — $24.6 million) equivalent to $1.70 for each outstanding common share (1980 — $2.92 per share). An unrealized exchange loss arising from translation into Canadian currency of overseas net assets is reflected in the income before extraordinary gain and amounts to 90 cents per common share (1980 a gain of 39 cents).

Net income was $15.6 million (1980 — $24.6 million) equal to $1.82 per common share (1980 — $2.92).

1.3 Dividends

In 1981 the Company declared and paid the four quarterly preferred share dividends as they became due.

A dividend of 24 cents was declared payable on January 15, 1982 to holders of common shares of record on December 23, 1981, following declarations and payments of 24 cents per common share in each of the previous three quarters.

2.0 Directors

It is with deep regret that we record the death on July 1, 1981 of Mr. A.J. Laurence, Finance Director of Hawker Siddeley Group Public Limited Company, who had served as a Director of this Corporation since 1969.

At the last Annual General Meeting of shareholders Mr. L. Francoeur was elected a Director and subsequently appointed Vice-President, Finance, to replace Mr. I.E. Bull following his retirement.

On November 26, 1981 Mr. G.M. Armitage, Finance Director of Hawker Siddeley Group Public Limited Company was appointed as a Director to succeed the late Mr. A.J. Laurence.

3.0 Comments

During 1981 the Forestry product group, as shown in Note 2, was seriously affected by the depressed conditions of the housing industry in North America, and incurred significant operating losses as the order intake was insufficient to maintain normal rate of production. Mining machines sales declined as a result of the purchasing restraints exercised by a major customer, the British National Coal Board. However, in terms of local currency, sales of mining supports and export of machines to the United States provided a useful volume of business.

Steel castings and forgings business enjoyed a good year mainly due to railway equipment maintenance requirements. The demand for industrial castings and forgings showed some improvement over past years, although the market remained uncertain.

Transportation equipment sales were the highest in the history of the Company due to the manufacture of railway freight and tank cars being extended into 1981 as a result of the prolonged strike at Trenton Works Division during 1980.

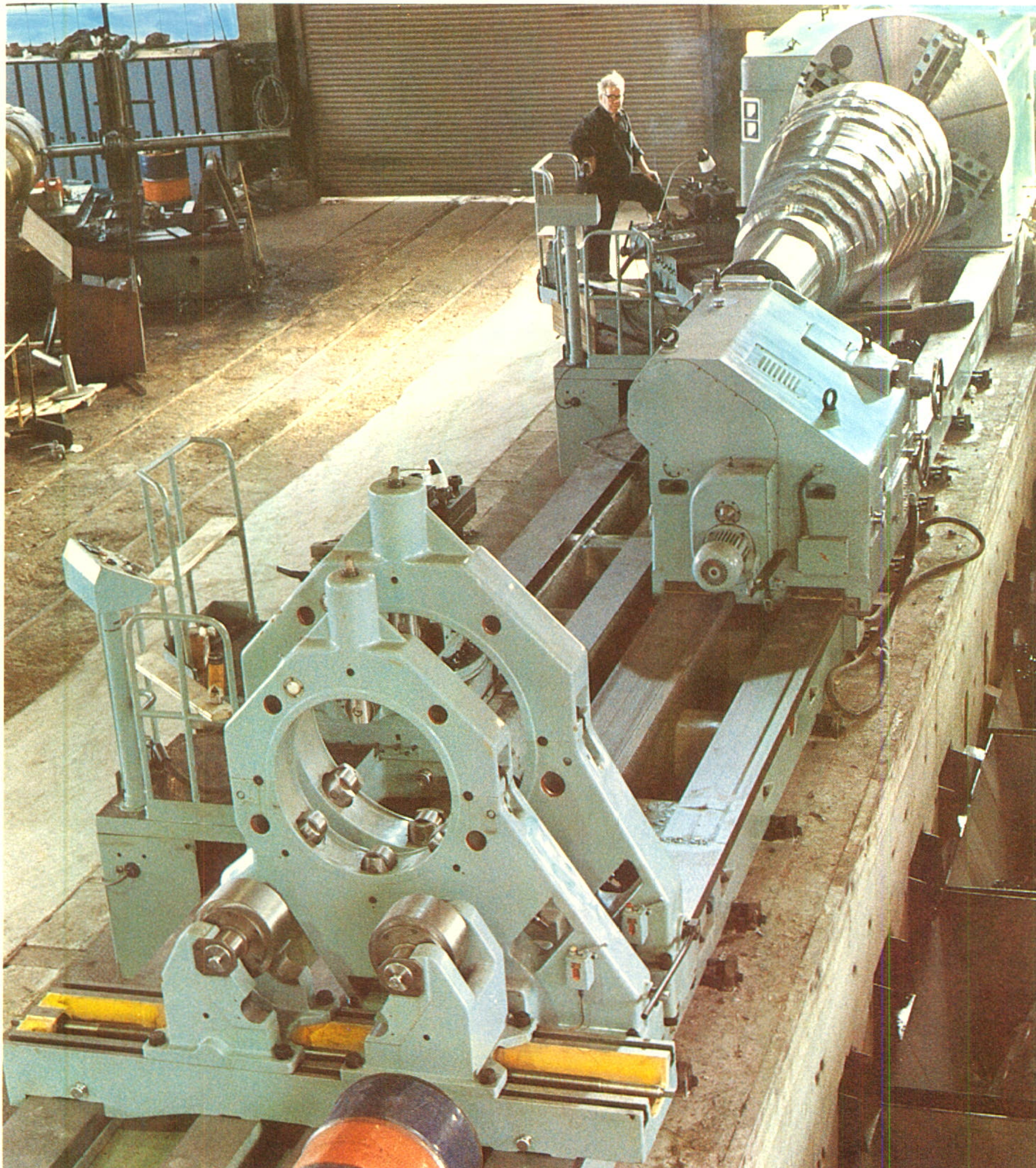
The difficult world wide economic conditions that prevailed through the year are reflected in a much reduced order book at the close of the year as compared to that of a year ago. During the year interest costs were at unprecedented levels and severely restricted housing starts in North America which in turn curtailed the demand for forestry and other equipment indirectly related to the construction industry, and manufactured by various plants in the Company. Orders for domestic railway freight and passenger equipment have been sparse and the Government of Ontario Transit Authority (GO Transit) contract for bi-level passenger coaches represented the largest order for rail equipment in the year. Mining equipment orders which declined in 1981 appear to be positioned to resume a positive trend, and aerospace component manufacture should continue in 1982 at a favourable level.

Your Directors wish to express their thanks to all who have helped the Company in a year which presented many problems and to which they responded well.

Submitted on behalf of the Board

A.A. Hall
R.F. Tanner

Toronto, Ontario, March 12, 1982



New lathe installed at Trenton Works Division extends plant's capability to machine heavy forgings for use as marine and other types of shafting.

Comments on Operations

HAWKER SIDDELEY CANADA INC.

Trenton Works Division

As a result of the strike by plant workers in 1980, significant freight car orders were carried forward into 1981. This work, combined with subsequent domestic and export orders, provided an exceptionally high level of loading for the Division's freight and tank car lines. Over 3,100 cars were built during the year, the bulk being covered hopper cars, some of which were manufactured for Trenton Works by Canadian Car Division, Thunder Bay. Other rolling stock produced included air dump, coal and tank cars for domestic customers, and ballast cars which were built for export to Mali and Mexico. Tank cars were also completed for Mali and box car manufacture was commenced for an Indonesian contract.

Railway axle manufacture, which had been severely curtailed in 1980 due to labour disruption, returned to full production and the in-plant railway car work volume available enabled the facilities to be well utilized. The tonnage of industrial forgings shipped also showed a marked improvement over the previous year.

The market demand late in 1981 for freight cars, tank cars and railway axles was exceptionally low, and will lead to reduced levels of production in 1982. Industrial forging operations will be similarly affected as projects by major industries are likely to be shelved or postponed. A continuing program of plant modernization provides enhanced resources to meet future growth.

Canadian Car Division

The production of mass transit cars for the Massachusetts Bay Transportation Authority, Boston, and light rail vehicles ordered by the Urban Transportation Development Corporation for operation by the Toronto Transit Commission, was completed by the Division close to the year end. The unit also completed covered hopper car orders which were made available from Trenton to take up capacity, and fulfill an overflow of orders.

As anticipated, the Division's work load fell markedly with the end of this work and in the absence of an order for passenger railway equipment to provide continuity of production. However, a contract for 71 bi-level commuter coaches was received from GO Transit, Toronto, in September 1981. The first cars in this order are planned to be built late in 1982 and the contract completed in 1983.

Business prospects in the United States have been diminished by economic uncertainty and cuts in the federal funding of mass transit projects in that country. The market for railway passenger equipment elsewhere remains active, although intensely competitive.

Canadian Steel Foundries Division

Although the overall railway castings market began to decline toward the latter half of 1980, a backlog of railway freight car castings for Trenton Works Division, supported by a good demand for maintenance parts, retained production at a sound level in the first half year. In the second half, demand fell sharply, reflecting the trend toward lower freight car requirements which are likely to prevail in 1982.

Industrial casting business showed some improvement over the previous year but the market remained very hesitant, particularly where major projects were concerned. Demand for replacement castings used in mining operations was also slow, but some improvement in both sectors appears likely in 1982.

Upgrading of plant facilities continued during the year and further progress was made in programs to improve environmental and working conditions.

Canadian Steel Wheel Division

Apart from a relatively small volume of wheels for locomotives and rapid transit cars, the wrought steel railway wheels produced by the Division are used mainly for railway freight cars, either on new equipment or as replacement items. Throughout the year, the Division felt the effect of the rapid decline in new freight car construction but with maintenance wheel demand reasonably steady, production was effectively tailored to the prevailing conditions. With little change foreseen in the freight car market, the maintenance sector of business is expected to be the mainstay of plant operations in 1982.

Forestry Equipment Division

This Division manufactures the Tree Farmer line of forestry equipment at its Mississauga, Ontario operation. Units are sold in Canada, overseas, and in the United States where distribution is through Tree Farmer Equipment Company, Inc., Atlanta, Georgia.

The very marked and continuous decline in house construction and, consequently, timber demand, contributed largely to reduced market opportunities for this Division and other forestry machinery manu-

Machine developed by the Forestry Equipment Division for felling and bunching trees undergoing performance trials on a plantation in Georgia, U.S.A.

Newly-established "clean room" facilities at Orenda Division being utilized in the production of stator assemblies for a major jet aircraft engine manufacturer.

facturers throughout the year. During the second half year, conditions deteriorated further with many mills closing or implementing a short work week. Despite the unsatisfactory trading conditions, market share was retained at the lower volumes.

Canadian Car (Pacific) Division

The depressed state of North American forestry and lumber industries seriously affected sales of sawmill equipment and related spare parts, while sawmill industry strikes and the downturn in pulp and paper production further reduced the British Columbia operations in the latter part of the year. Consequently, plant utilization was low and results for the year were disappointing.

During the year, "sound dynamics" resonant drilling equipment manufactured by the Division has been increasingly used in perma-frost mineral exploration. Pile driving, based on the same technology, continued to perform well in built-up areas sensitive to the noise and vibration associated with conventional machines.

Research and product development programs were continued and one recent development, a patented spinning-disc blender which applies wax and resin coatings economically to wood flakes used in board manufacture, has been well received by the wafer-board industry.

The strength of the North American sawmill and timber industry, particularly as it relates to house construction, will continue to have a significant bearing on demand for the Division's main product lines.

American Sawmill Machinery Company

The main product line of this Corinth, Mississippi, based subsidiary is a range of sawmill equipment, although it also manufactures power and telephone cable pulling devices, beam pumps for oil wells, and other fabricated equipment.

The company's sawmill products are supplied to sawmills in the southern United States. Many of these mills have temporarily discontinued operations and as a result, sales of capital equipment, spare parts and Canadian Car (Pacific) products from Surrey, B.C., have all been seriously affected.

During this year, trading ceased in the industrial supply business, but continued in sawmill equipment supplies and spares. Toward the end of 1980, manufacture of a range of beam pumps for the oil industry was introduced. While the present downturn in the oil industry prevents immediate realization of its sales potential, a proven product can be offered when demand improves.

Within the telecommunications industry there is growing recognition and acceptance of the Tel-Eye line of cable pulling devices manufactured by the company, and the range of demand has recently widened.

Orenda Division

The Division experienced a satisfactory year at its Mississauga, Ontario plant. Repair and overhaul work for the Canadian Armed Forces on J79 and J85 jet aircraft engines was complemented by improved sales of spare parts to both domestic and export customers. Gains were recorded in the volume of jet engine components produced under sub-contract from major aircraft engine manufacturers in Canada, the United States and the United Kingdom.

Can-Car Trailer Division

The Division's main business is the distribution of heavy truck, bus and highway trailer replacement and repair parts through branches in Rexdale, Ontario and Montreal and a relocated parts distribution centre in Quebec City, Quebec. The Rexdale and Montreal branches also provide highway trailer maintenance and repair services and are equipped to manufacture container chassis and platform trailers to customer requirements.

Market conditions for the Division's services continued to be weak in 1981 as activity levels in the road transportation and haulage industry have remained low.

B & K Machinery Division

Acquired in November 1980, the Division operates a facility in Mississauga, Ontario. It designs, manufactures and installs continuous coil coating, slitting and roll-forming lines and a range of associated sheet metal-working equipment. Marketing of these largely custom-engineered products is conducted on a worldwide basis.

In the first year of trading since acquisition, the Division has faced the difficulty of increasing market share under conditions of business downturn and order intake did not reach a satisfactory level during the year.

Continuous metal coil coating equipment, part of a complete process line designed, manufactured and installed by B & K Machinery Division.

A 14-seat vehicle with double-ended steering developed by Dosco Overseas Engineering Limited for the underground transportation of mine workers in the United Kingdom.

Orders completed included a sheet steel painting line, installed and commissioned in the Philippines. Roll-forming, slitting and cut-to-length machinery was delivered to customers in Canada, the United States, Venezuela, Australia and South Africa. Paint line curing ovens designed by the Division were built in the United Kingdom for British Steel Corporation.

Dosco Overseas Engineering Limited

This United Kingdom-based subsidiary manufactures mining and tunnelling machinery and, through its Hollybank Engineering subsidiary, mine arch supports and other components.

The U.K. demand for coal mining equipment and spares was at a reduced level compared with recent years as a result of budgetary purchasing constraints by the National Coal Board.

During the year, Dosco delivered machines for civil engineering as well as coal mining use, and export sales were improved, with repeat orders being received from Australia, Canada, Czechoslovakia, Saudi Arabia, Turkey and the United States. In the United States, machine running trials began in a Colorado oil shale deposit. Elsewhere in the U.S., Dosco equipment developed for mining is finding increased acceptance. Roof supports manufactured in the new West Virginia facility are also selling well.

Hollybank Engineering Company was able to improve its results over the previous year through increased sales of fish-plated roof support arches which were first introduced in 1980.

Dosco has maintained a steady development activity, which has been an important measure in retaining a strong position in the industry.

CGTX Inc. (55% owned)

Despite the very slack economy, the company's leased tank cars and hopper cars continued to experience a high level of utilization through the year.

The cars in the CGTX fleet are leased primarily to customers in the petroleum, food, chemical and potash industries. They are serviced at company-owned maintenance plants in Montreal, Que., Moose Jaw, Sask., and Red Deer, Alta.

Demand for lease of new railway freight and tank car equipment fell sharply in 1981, reflecting the generally weak North American business climate. Market conditions were particularly aggravated by the amount of idle capacity which developed in Canada and particularly in the United States as industrial use declined. Market demand for new tank and hopper cars is therefore expected to remain flat into 1982, retarding fleet growth; but good utilization of existing cars in the CGTX fleet should continue.

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, 1981 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, 1981 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 11, 1982

Consolidated Statement of Income and Retained Earnings

	Year ended December 31	
	1981	1980
	(in thousands)	
Sales (Note 2)	$ 638,987	$ 547,037
Cost of sales, selling, general and administrative expenses	580,643	481,102
Depreciation	13,437	13,580
	594,080	494,682
Income before interest (Note 2)	44,907	52,355
Interest (Note 3)	15,979	10,913
Income before income taxes	28,928	41,442
Income taxes (Note 11)	5,292	18,437
	23,636	23,005
Minority interest	1,606	1,563
	22,030	21,442
Exchange gain (loss) on translation of the accounts of foreign subsidiaries	(7,373)	3,197
Income before extraordinary gain	14,657	24,639
Extraordinary gain (Note 4)	944	—
Net income for the year	15,601	24,639
Retained earnings, beginning of year	105,642	89,632
	121,243	114,271
Dividends — preferred shares	805	805
— common shares	7,824	7,824
	8,629	8,629
Retained earnings, end of year	$ 112,614	$ 105,642
Income per common share after preferred dividends:		
Before extraordinary gain	$ 1.70	$ 2.92
After extraordinary gain	$ 1.82	$ 2.92

Consolidated Balance Sheet

ASSETS	December 31 1981	1980
	(in thousands)	
Current Assets:		
Cash and short term deposits	$ 21,398	$ 8,508
Accounts receivable	89,701	87,412
Loans to affiliated company (Note 6)	—	11,433
Income taxes recoverable	3,003	—
Inventories	112,730	162,711
Prepaid expenses	2,190	2,771
	229,022	272,835
Investments, at cost (Note 7)	3,051	3,094
Fixed Assets (Note 8)	364,477	337,693
Less: Accumulated depreciation	157,306	147,233
	207,171	190,460
Unamortized Issue Costs of Long Term Debt	559	579
	$ 439,803	$ 466,968

Approved by the Board:
A.A. Hall, Director
R.F. Tanner, Director

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31 1981	1980
	(in thousands)	
Current Liabilities:		
Bank advances	$ 11,139	$ 47,487
Accounts payable and accrued liabilities	75,109	73,202
Dividends payable	2,157	2,157
Income and other taxes	19,096	23,408
Advances on sales contracts	9,381	7,440
Owing to affiliated companies (Note 6)	15,235	8,646
Long term debt due within one year (Note 9)	6,367	6,367
	138,484	168,707
Long Term Debt (Note 9)	70,591	71,958
Provision for Unfunded Pensions (Note 10)	2,786	3,036
Deferred Income Taxes (Note 11)	29,787	34,333
Minority Interest	17,158	14,909
Shareholders' Equity:		
Preferred and common shares (Note 12)	68,383	68,383
Retained earnings	112,614	105,642
	180,997	174,025
	$ 439,803	$ 466,968

Consolidated Statement of Changes in Financial Position

	Year ended December 31 1981	1980
	(in thousands)	
Source of working capital:		
Income before extraordinary gain	$ 14,657	$ 24,639
Charges to income not affecting working capital – (mainly depreciation, deferred income taxes and minority interest)	10,534	17,975
Working capital provided from operations	25,191	42,614
Issue of long term debt	4,975	20,797
Proceeds on disposal of fixed assets	4,079	2,806
Miscellaneous	50	46
	34,295	66,263
Application of working capital:		
Additions to fixed assets –		
Railway rolling stock leasing fleet	22,807	15,269
Other	9,832	16,014
Reduction of –		
Long term debt	6,367	6,367
Provision for unfunded pensions	250	275
Dividends declared payable to —		
Shareholders of Hawker Siddeley Canada Inc.	8,629	8,629
Minority shareholder of subsidiary	—	253
	47,885	46,807
Working capital:		
Increase (decrease) for the year	(13,590)	19,456
At beginning of year	104,128	84,672
At end of year	$ 90,538	$ 104,128

Changes in Elements of Working Capital

	1981	1980
Current assets – Increase (decrease):		
Cash and short term deposits	$ 12,890	$ (4,957)
Accounts receivable	2,289	(445)
Loans to affiliated company	(11,433)	11,433
Income taxes recoverable	3,003	—
Inventories	(49,981)	22,923
Prepaid expenses	(581)	339
	(43,813)	29,293
Current liabilities – Increase (decrease):		
Bank advances	(36,348)	18,723
Accounts payable and accrued liabilities	1,907	(17,213)
Dividends payable	—	326
Income and other taxes	(4,312)	538
Advances on sales contracts	1,941	1,252
Owing to affiliated companies	6,589	4,415
Long term debt due within one year	—	1,796
	(30,223)	9,837
Increase (decrease) in working capital for the year	$ (13,590)	$ 19,456

Notes to Consolidated Financial Statements

for the year ended December 31, 1981

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 are translated at year-end rates of exchange and revenue and expense items at average rates of exchange during the year. Other assets and liabilities in foreign currencies are also translated at year-end rates of exchange except for investments and long term debt. Investments are translated at rates of exchange in effect when they are acquired. Long term debt is translated at rates of exchange in effect when the obligations are incurred. Translation adjustments are charged or credited to 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.

Product warranty costs –
Anticipated costs related to product warranty are provided at the time of the sale of the products.

Costs of long term debt –
Commission costs incurred on issue of long term debt are amortized on the straight-line method over the term of the related debt issue.

Cost of patents and rights for new products –
Significant costs incurred in purchasing patents and rights for products are amortized on the straight-line method over the lesser of the period of anticipated or legal advantage. Other costs relating to patents and rights are expensed as incurred.

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 at annual rates, generally, of 2½% on buildings, 10% on equipment and 3⅓% to 5% on railway rolling stock. Prior to 1981, all railway rolling stock was depreciated at 4% per annum.

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. The principal obligation for unfunded pension plans originated in 1923. Under these pension plans monthly payments to pensioners are charged, after appropriate income taxes, to the provision established for that purpose.

Obligations to funded pension plans relate to present, retired and former employees. For present employees, the obligations are for both current and past service; for former employees and pensioners, the obligations are for service during their period of employment. These current and past service obligations are actuarially determined and are settled by annual payments to trustees which are charged to operations.

Income taxes –
The provision for income taxes is computed on the tax allocation basis which relates income taxes to the accounting income for the year.

Investment tax credits are applied to reduce the annual provision for income taxes when realized.

2. Segmented information:

INDUSTRY SEGMENTS (in thousands)

	Transportation and Miscellaneous		Mining		Steel castings and forgings	
	1981	1980	1981	1980	1981	1980
Sales to customers	$ 347,233	$ 209,840	$ 131,509	$ 163,252	$ 95,771	$ 89,919
Inter-segment sales*	79	35	—	—	21,108	23,598
Sales	$ 347,312	$ 209,875	$ 131,509	$ 163,252	$ 116,879	$ 113,517
Segment operating income	$ 25,870	$ 14,495	$ 15,085	$ 23,187	$ 14,121	$ 14,263
General corporate expenses						
Income before interest						
Identifiable assets	$ 238,819	$ 245,803	$ 81,236	$ 98,133	$ 58,709	$ 62,705
Corporate assets						
Total assets						
Capital expenditures	$ 27,625	$ 20,569	$ 1,117	$ 3,295	$ 3,226	$ 3,655
Depreciation	$ 9,176	$ 9,382	$ 1,156	$ 1,127	$ 1,810	$ 1,785

GEOGRAPHIC SEGMENTS (in thousands)

	Canada		Europe		United States	
	1981	1980	1981	1980	1981	1980
Sales to customers	$ 458,094	$ 326,992	$ 126,572	$ 160,987	$ 54,321	$ 59,058
Sales between geographic segments*	18,822	24,868	1,510	631	675	680
Sales	$ 476,916	$ 351,860	$ 128,082	$ 161,618	$ 54,996	$ 59,738
Segment operating income	$ 37,143	$ 30,140	$ 15,714	$ 23,852	$ (6,853)	$ (713)
General corporate expenses						
Income before interest						
Identifiable assets	$ 320,560	$ 352,939	$ 75,206	$ 97,100	$ 39,215	$ 37,350
Corporate assets						
Total assets						

The Company provides products and services in four major segments:

Transportation and miscellaneous –
Includes various types of freight and tank cars, mass transit cars and miscellaneous other products and repair and overhaul of jet engines and industrial turbines.

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

Forestry		Eliminations		Consolidated	
1981	1980	1981	1980	1981	1980
$ 64,474	$ 84,026	$ —	$ —	$ 638,987	$ 547,037
—	—	(21,187)	(23,633)	—	—
$ 64,474	$ 84,026	$ (21,187)	$ (23,633)	$ 638,987	$ 547,037
$ (9,072)	$ 1,334	$ —	$ —	$ 46,004	$ 53,279
				1,097	924
				$ 44,907	$ 52,355
$ 54,243	$ 62,415	$ (1,281)	$ (5,432)	$ 431,726	$ 463,624
				8,077	3,344
				$ 439,803	$ 466,968
$ 586	$ 3,640				
$ 1,214	$ 1,223				

Eliminations		Consolidated	
1981	1980	1981	1980
$ —	$ —	$ 638,987	$ 547,037
(21,007)	(26,179)	—	—
$ (21,007)	$ (26,179)	$ 638,987	$ 547,037
$ —	$ —	$ 46,004	$ 53,279
		1,097	924
		$ 44,907	$ 52,355
$ (3,255)	$ (23,765)	$ 431,726	$ 463,624
		8,077	3,344
		$ 439,803	$ 466,968

Canadian operations include export sales of $98,575,000 in 1981 and $59,392,000 in 1980 primarily to customers in the United States.

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

3. Interest:

Interest reported in the consolidated statement of income is comprised of the following:

	1981	1980
	(in thousands)	
Interest expense:		
Bank advances	$ 7,049	$ 7,072
Loans from affiliated companies (Note 6)	2,513	946
	9,562	8,018
Long term debt including amortization of issue costs	9,750	6,580
	19,312	14,598
Interest income:		
Investments	178	182
Short term deposits	3,155	3,481
Loans to affiliated company (Note 6)	—	22
	3,333	3,685
Net interest	$ 15,979	$ 10,913

4. Extraordinary gain:

This represents a gain on the sale of property of $2,115,000 less income taxes and minority interest of $528,000 and $643,000 respectively.

5. Research and development costs:

Research and development costs charged to income amounted to $4,007,000 (1980 – $4,235,000) after deduction of government assistance of $300,000 (1980 – $375,000).

6. Related party transactions:

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

During 1981 the Company and its subsidiaries had no significant sales to or purchases from related parties.

The liability to affiliated companies includes a loan of $14,494,000 (1980 – $8,343,000).

Loans to or from affiliated companies are for short periods of time or on a demand basis at commercial bank lending rates.

7. Investments:

Investments comprise sinking fund debentures issued by Sidbec-Dosco Ltd. maturing in 1984 and 1985. At December 31, 1981 the market value of these debentures, which the Company is holding as long term investments, is estimated to be $2,200,000.

8. Fixed assets:

	1981 (in thousands) Cost	1981 (in thousands) Accumulated depreciation	1980 (in thousands) Cost	1980 (in thousands) Accumulated depreciation
Land and land improvements	$ 7,605	$ 1,523	$ 7,669	$ 1,450
Buildings	49,408	27,575	49,809	26,893
Equipment	95,980	56,515	89,938	52,091
Railway rolling stock leasing fleet	211,484	71,693	190,277	66,799
	$ 364,477	$ 157,306	$ 337,693	$ 147,233

9. Long term debt:

	1981 (in thousands)	1980 (in thousands)
CGTX Inc. (55% owned) –		
First Mortgage Sinking Fund Equipment Notes		
5% – $10^1/_4$% due 1982 – 2000 (U.S. $10,725,000)	$ 12,040	$ 13,465
$6^3/_4$% – $11^1/_8$% due 1982 – 1999	46,073	49,400
$^1/_4$% lower than Canadian bank prime rate due 1982 – 1992	18,500	15,000
First Mortgage Serial Equipment Notes		
6% due 1982 – 1984	345	460
	76,958	78,325
Less: Due within one year included in current liabilities	6,367	6,367
	$ 70,591	$ 71,958

Principal payments on long term debt will be as follows:

Year ending December 31	Amount (in thousands)
1982	$ 6,367
1983	6,367
1984	6,567
1985	6,317
1986	6,129
1987 – 2000	45,211
	$ 76,958

Railway rolling stock with a net book value of $119,761,000 is pledged by CGTX Inc. as security for its long term debt.

Long term debt payable in U.S. currency translated at historical rates of exchange amounts to $12,040,000. At the year-end rate of exchange this debt would be $12,763,000.

10. Pensions:

The provision for unfunded pensions of $2,786,000 at December 31, 1981 together with future tax allowances is considered adequate to provide for the cost, based on actuarial computations, of pensions under these unfunded plans. Pension payments of $250,000 after income taxes, were charged to the provision for unfunded pensions in 1981.

With respect to funded pension plans, the present value of past service obligations to be met, based on actuarial computations, is approximately $14,400,000 at December 31, 1981. These obligations are to be settled by annual payments charged to operations over periods of fifteen years or less. During 1981 an amount of $2,432,000 was charged to operations with respect to these obligations.

11. Income taxes:

The provision for income taxes, which includes deferred income taxes of $4,097,000 (1980 – $2,657,000), has been reduced by the release to income in 1981 of $8,036,000 (including deferred income taxes of $6,840,000), provided in prior years by certain British subsidiaries in respect of inventory allowances, which are no longer required due to changes in United Kingdom tax legislation effective July 27, 1981.

At December 31, 1981 the U.S. subsidiaries had losses for income tax purposes of approximately $1,320,000 available to reduce taxable income for fiscal years prior to 1997 and expenses of approximately $2,800,000 charged to operations but not yet allowed for tax purposes. The potential future tax benefits of approximately $2,190,000, based on 1981 income tax rates, have not been recorded in the accounts.

12. 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.

13. Contingent liabilities:

At December 31, 1981, certain subsidiaries are contingently liable (principally for trade notes discounted) in the approximate amount of $4,993,000.

14. Commitments:

At December 31, 1981, expenditures of approximately $7,829,000 (including $2,421,000 for the railway rolling stock leasing fleet) are required to complete capital programs.

Miscellaneous Data on Sales, Employees and Shares

	1981	1980
Sales ($000):		
By Canadian factories –		
to Canadian markets	$ 359,519	$ 267,600
to Export markets	117,397	84,260
	476,916	351,860
By foreign subsidiaries (excluding cost of products from Canadian factories)	162,071	195,177
	$ 638,987	$ 547,037
The average weekly number of employees was:		
in Canada	5,462	5,366
in the United Kingdom	859	849
in the United States of America	391	349
	6,712	6,564
Aggregate remuneration of employees was ($000)	$ 169,524	$ 149,897

Common share dividends for 1981 have been declared as follows:

Record Date	Payable	
December 23, 1981	January 15, 1982	$ .24
September 18, 1981	October 9, 1981	.24
June 19, 1981	July 10, 1981	.24
March 25, 1981	April 10, 1981	.24
		$ .96

Preferred share dividends:

Quarterly dividends of $1.4375 were paid on the 2nd day of January, April, July and October 1981.

The Department of National Revenue has published the following "Valuation Day" share prices (December 22, 1971) for income tax purposes.

Preferred shares	$ 58.50
Common shares	$ 2.40

Divisions and Subsidiaries

Divisions

B & K Machinery Division, Mississauga, Ont.

Canadian Car Division, Thunder Bay, Ont.

Canadian Car (Pacific) Division, Surrey and Prince George, B.C., Burlington, Ont.

Can-Car Trailer Division, Rexdale, Ont., Quebec and Montreal, Que.

Canadian Steel Foundries Division, Montreal, Que.

Canadian Steel Wheel Division, Montreal, Que.

Forestry Equipment Division, Mississauga and Windsor, Ont.

Orenda Division, Mississauga, Ont.

Trenton Works Division, Trenton, N.S.

Subsidiaries (Note)

Can-Car, Inc., Atlanta, Ga., U.S.A.

- American Sawmill Machinery Company, Corinth, Miss., Atlanta, Ga., Shreveport, La., Vancouver, Wash., U.S.A.
- B & K Machinery Inc., Corinth, Miss., U.S.A.
- The Dosco Corporation, Beckley, W.Va., Denver, Col., U.S.A.
- Tree Farmer Equipment Company, Inc., Atlanta and Waycross, Ga., McComb and Meridian, Miss., Moncks Corner, S.C., U.S.A.

Can-Car Rail Inc., Thunder Bay, Ont.

Dosco Overseas Engineering Limited, Tuxford, England

- Hollybank Engineering Company Limited, Tuxford, England
- B & K (U.K.) Ltd., Sutton Coldfield, England

Orenda (International) Limited, Mississauga, Ont.

CGTX Inc., Montreal, Que., Toronto, Ont., Moose Jaw, Sask., Red Deer and Calgary, Alta.

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

B & K Machinery Division

Strip metal process lines; curing ovens

Canadian Car Division

Railway passenger cars (subway, commuter, inter-city); light rail vehicles

Canadian Car (Pacific) Division

Sawmill and other lumber processing equipment; bonded panel board production equipment; electric-electronic control equipment; sound dynamic drilling and pile-driving equipment; power and telephone cable pulling equipment

Can-Car Trailer Division

Highway trailers; container chassis; custom truck bodies; trailer repairs; trailer and heavy truck 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

Forestry Equipment Division

Log skidders and other forest harvesting equipment

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

American Sawmill Machinery Company

Sawmill equipment and supplies; tools and dies; power and telephone cable pulling equipment; walking beam-type pumping units

The Dosco Corporation

Sales and service of mining and tunnelling machines; support systems for mine roadways and civil engineering tunnels

Tree Farmer Equipment Company, Inc.

Sales and service of log skidders and other forest harvesting equipment

Dosco Overseas Engineering Limited

Mining and tunnelling machines

Hollybank Engineering Company Limited

Support systems for mine roadways and civil engineering tunnels

CGTX Inc.

Leasing and repair of railway tank cars and hopper cars; bulk liquid storage terminal services

Hawker Siddeley Canada Inc.

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J. F. Howard, Q.C., Woodbridge, Ontario
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R. F. Tanner, Mississauga, Ontario
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Executive Management

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J. F. Howard, Q.C., Vice-Chairman
F. H. Wood, Vice-Chairman
R. F. Tanner, President and Chief Executive Officer
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D. J. Caple, Vice-President (Orenda Division)
R. D. Cole (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)
K. R. Church, Comptroller
R. J. Gray, Vice-President (Forestry Equipment Division)
C. A. Haines, Secretary
E. T. Jackalin, Vice-President (Canadian Car (Pacific) Division)
A. W. McKenzie (Chairman, CGTX Inc.)
K. C. Miller, Vice-President (Managing Director, Dosco Overseas Engineering Limited)
P. K. Peterson, Vice-President (Canadian Car Division)
F. J. Sandford, Treasurer

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Registrar and Transfer Agent

National Trust Company, Limited, Toronto, Montreal, Winnipeg and Vancouver

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