



# Hawker Siddeley Canada INC. Annual Report 1980



HOWARD ROSS LIBRARY  
OF MANAGEMENT

APR 22 1981

McGILL UNIVERSITY





# Contents

Financial Data .....	2
To the Shareholders .....	3
Financial	
Sales	
Income	
Dividends	
Directors	
Canada Business Corporations Act	
Expansions and acquisitions	
Comments	
Comments on Operations .....	5
Auditors' Report .....	10
Consolidated Statement of Income and Retained Earnings .....	11
Consolidated Balance Sheet .....	12
Consolidated Statement of Changes in Financial Position .....	14
Notes to Consolidated Financial Statements .....	15
Miscellaneous Data on Sales, Employees and Shares .....	21
Divisions and Subsidiaries .....	22
Products and Services .....	23
Directors, Executive Management, Auditors, Registrar and Transfer Agent ...	24

## Financial Data

	1980	1979	1978	1977	1976
<b>Summary of Operations</b> (thousands of dollars)					
Sales .....	\$ 547,037	539,963	398,321	362,689	335,081
Costs and expenses:					
Cost of sales, selling, general and administrative expenses exclusive of the following .....	481,102	471,011	356,496	320,678	301,896
Depreciation and amortization .....	13,580	12,044	10,667	10,959	10,477
	494,682	483,055	367,163	331,637	312,373
Income before interest .....	52,355	56,908	31,158	31,052	22,708
Interest .....	10,913	6,911	3,371	2,904	5,834
Income before taxes .....	41,442	49,997	27,787	28,148	16,874
Income taxes .....	18,437	18,934	12,242	13,200	8,070
	23,005	31,063	15,545	14,948	8,804
Interest of minority shareholders .....	1,563	1,651	1,148	1,246	1,266
	21,442	29,412	14,397	13,702	7,538
Exchange gain (loss) .....	3,197	1,457	2,721	2,624	(1,187)
Income before extraordinary items .....	24,639	30,869	17,118	16,326	6,351
Extraordinary items .....	—	(834)	3,300	(2,586)	653
Net income for the year .....	\$ 24,639	30,035	20,418	13,740	7,004
<b>Per common share</b>					
Income before extraordinary items .....	\$ 2.92	3.69	2.01	1.91	.68
Net income .....	2.92	3.59	2.41	1.59	.76
Dividends declared .....	.96	.62	.42	.37	.36
Equity .....	19.63	17.67	14.70	12.74	11.52
<b>Other statistics</b> (thousands of dollars)					
Dividends					
— preferred shares .....	\$ 805	805	805	805	805
— common shares .....	7,824	5,053	3,420	3,008	2,927
Working capital .....	104,128	84,672	74,951	55,836	48,607
Capital expenditures					
— railway rolling stock leasing fleet .....	15,269	34,958	13,568	3,401	791
— other .....	16,014	11,532	9,395	9,289	8,132
Shareholders' equity					
— preferred shares .....	14,000	14,000	14,000	14,000	14,000
— common shares — share capital .....	54,383	54,383	54,383	54,320	54,320
— retained earnings .....	105,642	89,632	65,455	49,262	39,335
<b>Other share data</b>					
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	8,129,341	8,129,341
Number of shareholders					
— preferred .....	1,146	1,230	1,314	1,408	1,465
— common .....	5,583	6,028	7,309	7,957	8,269
Principal Shareholder					
Hawker Siddeley Group Limited					
percentage holdings					
— preferred .....	41.79%	41.79%	41.79%	41.79%	41.79%
— common .....	59.10%	59.10%	59.10%	59.25%	59.25%

Note: Information for the years 1976 to 1979 has been reclassified to conform with the presentation adopted in 1980.



# 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, 1980.

## 1. Financial

### 1.1 Sales

Consolidated sales were \$547 million (1979 — \$540 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 items in 1980 was \$24.639 million (1979 — \$30.869 million) equivalent to \$2.92 for each outstanding common share (1979 — \$3.69 per share). Exchange translation gains included in income before extraordinary items amounted to 39 cents per common share (1979 — 18 cents).

Net income was \$24.639 million (1979 — \$30.035 million after inclusion of an extraordinary loss of \$.834 million) equal to \$2.92 per common share (1979 — \$3.59 per share).

### 1.3 Dividends

In 1980 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 16, 1981 to holders of common shares of record on December 24, 1980, following declarations and payments of 24 cents per common share in each of the previous three quarters.

## 2.0 Directors

Mr. R.F. Tanner was appointed President and Chief Executive Officer on January 1, 1981. He succeeded Mr. E.J. White who retired from that position on December 31, 1980. Mr. White remains a Director of the Company. Mr. T.K. Shoyama is appointed a Director with effect from April 1, 1981. On September 15, 1980, Mr. L.A. Mitten resigned as a Director and a Vice President of the Company.

## 3.0 Canada Business Corporations Act

Following approval by the shareholders on May 30, 1980, the Company was continued under the Canada Business Corporations Act by Articles of Continuance on July 1, 1980. At that time the Company's name was changed from Hawker Siddeley Canada Ltd. to Hawker Siddeley Canada Inc. and a new class of an unlimited

number of Preferred Shares was authorized. They rank junior to the Company's existing 5% Preferred Shares and in priority to all other classes of the Company's shares as to dividends and claims against the Company's property in the event of dissolution. At the same time, the previous limitation on the number of authorized common shares was removed. No change in the number of shares issued has occurred since that time.

## 4.0 Expansions and acquisitions

During the year, production of mine arch supports was started in the Beckley, West Virginia, U.S.A. factory, which was acquired late in 1979, and repair and overhaul work commenced at the plant on the Company's line of Dosco mining equipment.

In November 1980, Hawker Siddeley Canada Inc. concluded the purchase of the business and most of the assets of B & K Machinery International Ltd., Mississauga, Ontario, for its B & K Machinery Division at that location. This Division engineers, manufactures and installs specialized metal working and coating equipment such as roll formers, edge trimmers, shears, curing ovens and complete metal process lines.

## 5.0 Comments

Sales for 1980 reflected continuing demand for mining equipment products but these were offset to a major extent by a reduction in sales of transportation equipment. Sales to the forestry and forest products industries were comparable with 1979. Extended strikes at the transportation equipment producing plants of the Canadian Car Division, Thunder Bay, Ontario, and the Trenton Works Division, Trenton, Nova Scotia, severely affected the output at these locations.

Orders on hand at the end of 1980 were lower than at the same time last year, reflecting the decline in demands for transportation, forestry and forest products equipment. Deliveries of equipment to the mining industry are not expected to approach the record level of 1980 but volumes in aerospace components and railway freight cars are expected to be maintained.

Your Directors wish to express their thanks to those whose efforts, skills and support have contributed to the results for the year.

Submitted on behalf of the Board

*A. A. Hall*  
*R. F. Tanner*

Toronto, Ontario, March 13, 1981





*Some of the components for general purpose box cars exported in kit form by Trenton Works Division to La Régie Nationale des Chemins de Fer du Cameroun in the hold of a cargo vessel in the Port of Halifax, N.S.*



*Mass transit cars designed and built by Canadian Car Division for service on the Orange Line of the Massachusetts Bay Transportation Authority, Boston. The steel bodied, 58-seat cars operate as pairs in multiple units of two to six cars.*



## Comments on Operations

### **HAWKER SIDDELEY CANADA INC. Trenton Works Division**

The Nova Scotia-based division entered 1980 with a heavily utilized freight car-building plant, mainly engaged in the production of covered hopper cars for the movement of wheat and other bulk commodities. However, a sudden halt in certain U.S. grain exports caused major freight car order cancellations and a strike by plant workers, which lasted from June to early December before a new labour agreement was reached, had a severe impact on the output of all product lines.

Railway axle production was severely curtailed by the labour disruption and the Division was therefore unable to take full advantage of a good demand position.

Similarly, although there was a growth in opportunities for the Division's heavy forging business, the labour problems caused total tonnage shipped to fall well below that of the previous year.

While plans to introduce a range of circular products utilizing ingots from Canadian Steel Wheel Division were delayed, production equipment had been installed by year end and output was accelerating as training in the new product line progressed.

As a result of the work stoppage, significant re-scheduling of freight car production into 1981 has occurred. This work carryover, combined with new tank car orders received, will provide a substantial level of plant loading for much of the coming year. No export orders for freight equipment were received in 1980 but the market is quite active.

With the labour situation stabilized, the Division enters 1981 in a good position.

### **Canadian Car Division**

The Division's plant in Thunder Bay, Ontario, experienced a very unsatisfactory year as the result of a six-month strike by plant workers which lasted until mid-October. During the first quarter, production was advancing on contracts for mass transit cars ordered by the Massachusetts Bay Transportation Authority, Boston, and light rail vehicles ordered by the Urban Transportation Development Corporation for operation by the Toronto Transit Commission. Manufacturing was accelerating on a new covered hopper freight car line which had been installed to fulfil an overflow of orders for this type of car received by Trenton Works Division and at the same time to take up production capacity at

the plant otherwise unused because of an absence of follow-on orders for railway passenger rolling stock. The prolonged labour stoppage forced a considerable portion of the total workload for the year to be delayed into 1981. In addition, a sharp decline in railway freight car demand caused major cancellations of covered hopper car orders, severely curtailing prospective long term benefits of the new production line.

The Division enters 1981 with sufficient work to occupy it for the first three quarters but thereafter, the plant loading will fall off. However, although there is intense competition on an international scale, long term prospects for railway transport equipment appear promising.

### **Canadian Steel Foundries Division**

Continuance of the very buoyant market for railway castings which existed throughout 1979 produced a very good year for the Division. As was anticipated, however, the sharp decline in railway casting demand forced a significant reduction in output by year end. It is expected that reduced demands will continue through 1981 but while the market will be generally lower, there are some indications that prospects for industrial castings for mining and energy related capital projects will improve.

Towards the end of 1980 the first of nine hydraulic turbine runners for a major power project was poured. The remaining runners will be produced over the next two or three years.

Negotiations for a new labour agreement with plant workers were concluded during the year without disruption of the foundry's activities.

Programs to upgrade and extend plant facilities continued as part of an ongoing plan to increase efficiency and to improve environmental and working conditions.

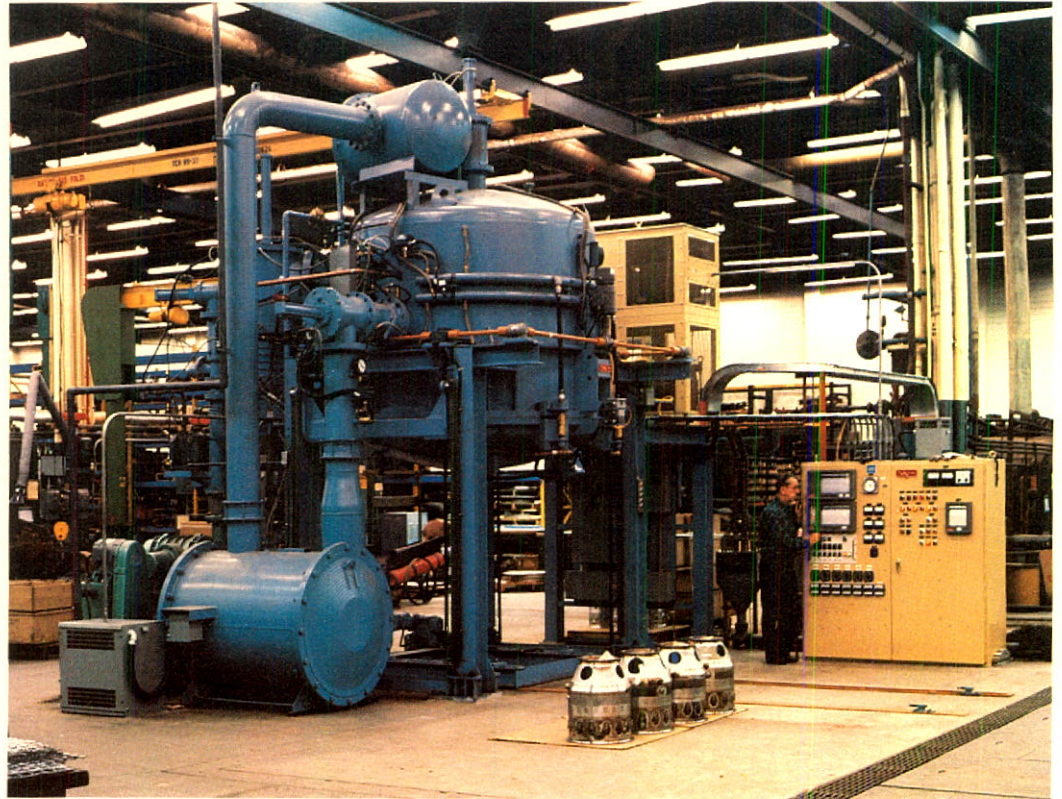
### **Canadian Steel Wheel Division**

In the first half of the year there was a strong demand for railway wheels produced by the Division, generated both by orders from freight car builders and by orders from railways for replacement items. By the end of the third quarter, demand for wheels for new freight cars had declined quite sharply but the impact was moderated by ongoing maintenance wheel requirements and by a small improvement in exports into the highly competitive U.S. market.

Production of ingots for use by Trenton Works



*Among recent additions to production equipment at Orenda Division is this vacuum furnace used to heat treat aircraft jet engine parts under reduced pressures and at temperatures from 200°C to 1300°C.*



*A six-wheel drive, diesel-powered forwarder designed and built by Forestry Equipment Division as a recent addition to its product line. Self loading and unloading of logs is accomplished with the grapple which is controlled from the vehicle cab.*



Division in the manufacture of circular forgings was limited owing to the prolonged strike at that plant. Capital expenditure programs were implemented during the year to improve productivity in wheel machining operations and to upgrade environmental conditions.

#### **Can-Car Trailer Division**

This Division, which has branch operations in Rexdale, Ontario and Montreal and Quebec City, Quebec, is primarily a distributor of replacement parts for heavy trucks, buses and highway trailers. The Rexdale and Montreal branches are also equipped to carry out highway trailer repairs and maintenance and to build truck bodies, container chassis and platform trailers to customer requirements. Market activity during 1980 declined from the promise of the previous year, reflecting the severe impact of domestic economic conditions on the road transportation and haulage industry.

#### **Orenda Division**

In general, this Division experienced another satisfactory year and while the level of repair and overhaul work on J79 and J85 aircraft jet engines for the Canadian Armed Forces showed a small decline from the previous year, sales of spare parts increased to both domestic and export customers. The volume of components produced under sub-contract from major aircraft engine manufacturers in Canada, the United States and the United Kingdom, also increased substantially compared to 1979.

In 1980, a government decision was made to assemble and test engines for the new Canadian fighter aircraft in the United States. No decision has yet been reached regarding subsequent repair and overhaul of the engines and the Division will be actively seeking a role in this and related component work as opportunities develop.

The Division is in the process of developing additional new component business to offset reducing repair and overhaul demand on older gas turbines. To meet these needs, substantial additions have been made to production equipment and machinery in the plant and further equipment modernization is planned and committed to enable the Division to take full advantage of new technology demands in component manufacture for the aerospace industry.

New labour contracts were negotiated during the year with minimal disruption in activity.

#### **Forestry Equipment Division**

Results for this Division have been disappointing due to the severe decline in house construction in Canada and the U.S.A. and strikes in the Canadian pulp and paper industry which curtailed domestic demand. As a result, the market for the Tree Farmer series of log skidders and forwarders built by this Division was depressed and profit margins were low in heavy competition for available business. However, there was no apparent loss in our share of the marketplace.

A new log skidder featuring an air-cooled, turbo-charged diesel engine was introduced during the year and has received good customer acceptance. Development and field testing of other models to enhance long term market growth has been continued for introduction into the market in 1981.

Tree Farmer Equipment Company, Inc., Atlanta, Georgia, the Division's United States distribution company, opened a fourth retail sales branch early in the year at Moncks Corner, South Carolina. Branch operations are designed to serve the heartland of the south-eastern United States lumber industry.

#### **Canadian Car (Pacific) Division**

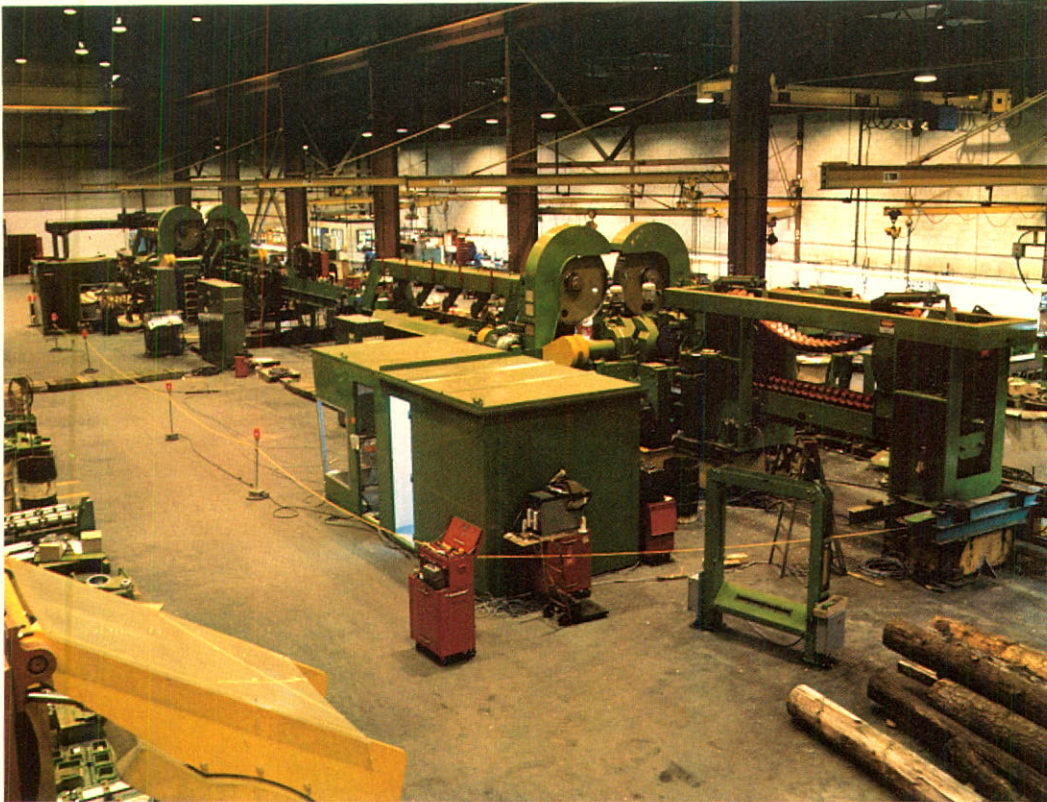
This Division's basic products are equipment for sawmills and other lumber processing industries. Consequently, sales were affected by the general decline in the forest products industries in North America and results for the year were disappointing. A similar decline was experienced by the United States subsidiary, American Sawmill Machinery Company, Corinth, Mississippi.

An export contract for the supply to Honduras of two conventional sawmill carriage lines and a small-log breakdown mill was completed. This equipment brought new Canadian sawmilling technology to Central America.

The utilization of sound dynamics principles in pile driving equipment built by this Division and leased by the U.S. subsidiary, continued to work effectively on a new mass transit project in Buffalo, New York. Resonant drills derived from the same technology appear to be gaining further acceptance in mineral exploration, particularly in permafrost conditions of the far North.

In the Philippines, a pilot plant to produce construction panel boards from previously unusable rice husks has been brought to a position where commercial operation can be demonstrated dur-





Sawmill equipment designed and built by Canadian Car (Pacific) Division for export to Honduras set up for testing on the shop floor at the Surrey, B.C. plant. Equipment is remotely operated from consoles housed in control booths.



Dosco Overseas Engineering Limited supplied four SB600 tunnelling machines for the excavation in Europe of two parallel road tunnels 11 400 mm in diameter and about 1 km in length. Project was a joint venture between Schafir Mugglin AG and CSC Strassen und Tiefbau AG.



ing 1981 to several highly interested rice producing countries.

At the Division's main plant in Surrey, B.C., research and new product development programs continued during the year. They included improvements to wafer, rice husk and sugar cane rind board processes, investigation of the behavior of circular saws under various working conditions and a project to reduce sawmill machinery noise. The design and manufacture was completed of a spinning disc blender intended for more economical wax and resin coating of wood flakes for use in board manufacture.

Export marketing may prove to make a more beneficial contribution within the next year or two and there are some signs of a slight rally in domestic machinery demands which could provide an upturn during 1981.

#### **CGTX Inc. (55% owned)**

The high level of demand for leased railway freight cars which prevailed in North America throughout 1979, declined severely in 1980. Notwithstanding the market turnaround, utilization of the company's fleet of tank cars and covered hopper cars which are leased mainly to customers in the petroleum, chemical, food and potash industries, continued at a very high level during the year. The cars are serviced at company-owned maintenance depots established in Montreal, Quebec; Moose Jaw, Saskatchewan; and Red Deer, Alberta.

The number of new cars added to the fleet was considerably less than in the previous year, partly due to delivery delays as a result of the prolonged strike at Trenton Works Division, but also to the general decline of the market. The reduced level of demand, particularly in new hopper car leasing requirements, is expected to limit the rate of fleet growth but utilization of existing cars should remain at a high level.

#### **Dosco Overseas Engineering Limited (100% owned)**

The Dosco subsidiary, which is based in the United Kingdom, enjoyed another excellent year with an improvement in U.K. domestic sales of mining machinery more than compensating for lower export business which was affected by inflation and high rates of exchange for sterling. Spare parts and repair business was also quite brisk.

In addition to mining machine sales to the National Coal Board, two units were sold for civil engineer-

ing applications. Sales to existing export markets included eight machines to Canada and one each to the United States and Australia. For the first time a unit was delivered to Saudi Arabia.

Despite a strike in the United Kingdom's national steel industry which completely suspended steel deliveries for ten weeks, Hollybank Engineering Company Limited, a wholly-owned subsidiary of Dosco Overseas Engineering Limited, also had a successful year. The company, which manufactures roof support systems for mining and civil engineering tunnels, commenced production of fish-plated arches during the year as an additional product line.

A new facility in West Virginia, U.S.A., has been established adjacent to the coal fields to exploit business prospects in that area. By year end, early sales of mining equipment were recorded, while demand for pit roof supports manufactured in this plant was starting to grow as customer confidence in the product increased.



## 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, 1980 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, 1980 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 & Co.  
Chartered Accountants

Toronto, Ontario  
March 12, 1981



**Consolidated Statement of Income and Retained Earnings**

for the year ended December 31, 1980

	1980	1979*
	(in thousands)	
Sales (Note 2) .....	<u>\$547,037</u>	<u>\$539,963</u>
Cost of sales, selling, general and administrative expenses exclusive of the following .....	<u>481,102</u>	471,011
Provision for depreciation .....	<u>13,580</u>	12,044
	<u>494,682</u>	483,055
Income before interest (Note 2) .....	<u>52,355</u>	56,908
Interest (Note 3) .....	<u>10,913</u>	6,911
Income before income taxes .....	<u>41,442</u>	49,997
Provision for income taxes (Note 10) .....	<u>18,437</u>	18,934
	<u>23,005</u>	31,063
Interest of minority shareholder in income of subsidiary .....	<u>1,563</u>	1,651
	<u>21,442</u>	29,412
Exchange gain on the translation of the accounts of foreign subsidiaries .....	<u>3,197</u>	1,457
Income before extraordinary items .....	<u>24,639</u>	30,869
Extraordinary items .....	<u>—</u>	(834)
Net income for the year .....	<u>24,639</u>	30,035
Retained earnings, beginning of year .....	<u>89,632</u>	65,455
	<u>114,271</u>	95,490
Dividends — preferred shares .....	<u>805</u>	805
— common shares .....	<u>7,824</u>	5,053
	<u>8,629</u>	5,858
Retained earnings, end of year .....	<u>\$105,642</u>	<u>\$89,632</u>
Income per common share after preferred dividends:		
Before extraordinary items .....	<u>\$2.92</u>	\$3.69
After extraordinary items .....	<u>\$2.92</u>	\$3.59

\*The 1979 figures have been reclassified to conform with the presentation adopted in 1980.



ASSETS

1979

Current Assets:

Cash and short term deposits . . . . .	\$ 8,508	\$ 13,465
Accounts receivable . . . . .	87,412	87,857
Loans to affiliated company (Note 5) . . . . .	11,433	—
Inventories, less progress payments . . . . .	162,711	139,788
Prepaid expenses . . . . .	2,771	2,432
	<u>272,835</u>	<u>243,542</u>

Investments, at cost (Note 6) .....	3,094	3,137
-------------------------------------	-------	-------

Fixed Assets, at cost (Note 7) . . . . .	337,693	312,361
Less: Accumulated depreciation . . . . .	147,233	137,777
	<u>190,460</u>	<u>174,584</u>

Issue Costs of Long Term Debt, at cost less amortization .....	579	497
--	-----	-----

R.F. Tanner, Director

**\$466,968**

\$421,760



## LIABILITIES AND SHAREHOLDERS' EQUITY

1980

1979

(in thousands)

## Current Liabilities:

Bank advances	\$ 47,487	\$ 28,764
Accounts payable and accrued liabilities	73,202	90,415
Dividends payable	2,157	1,831
Income and other taxes payable	23,408	22,870
Advances on sales contracts	7,440	6,188
Owing to affiliated companies (Note 5)	8,646	4,231
Long term debt due within one year (Note 8)	6,367	4,571
	<u>168,707</u>	<u>158,870</u>
Long Term Debt (Note 8)	<u>71,958</u>	<u>57,408</u>
Provision for Unfunded Pensions (Note 9)	<u>3,036</u>	<u>3,311</u>
Deferred Income Taxes (Note 10)	<u>34,333</u>	<u>30,556</u>
Minority Interest	<u>14,909</u>	<u>13,600</u>
Shareholders' Equity:		
Preferred and common shares (Note 11)	68,383	68,383
Retained earnings	105,642	89,632
	<u>174,025</u>	<u>158,015</u>
	<u>\$466,968</u>	<u>\$421,760</u>



**Consolidated Statement of Changes in Financial Position**

for the year ended December 31, 1980

	1980	1979
	(in thousands)	
Source of working capital:		
Income before extraordinary items	\$ 24,639	\$ 30,869
Charges to income not affecting working capital — (mainly depreciation, deferred income taxes and interest of minority shareholder in income of subsidiary)	17,975	16,318
Working capital provided from operations	42,614	47,187
Issue of long term debt	20,797	20,388
Proceeds on disposal of fixed assets	2,806	1,827
Miscellaneous	46	46
	<u>66,263</u>	<u>69,448</u>
Application of working capital:		
Additions to fixed assets —		
Railway rolling stock leasing fleet	15,269	34,958
Other	16,014	11,532
Extraordinary provision charged	—	1,500
Reduction of —		
Long term debt	6,367	4,571
Provision for unfunded pensions (Note 9)	275	295
Dividends declared payable to —		
Shareholders of Hawker Siddeley Canada Inc.	8,629	5,858
Minority shareholder of subsidiary	253	1,013
	<u>46,807</u>	<u>59,727</u>
Working capital:		
Increase for the year	19,456	9,721
At beginning of year	84,672	74,951
At end of year	<u>\$104,128</u>	<u>\$ 84,672</u>
Changes in Elements of Working Capital		
Current assets — Increase (decrease):		
Cash and short term deposits	\$ (4,957)	\$ 924
Accounts receivable	(445)	20,186
Loans to affiliated company	11,433	—
Inventories	22,923	43,016
Prepaid expenses	339	(127)
	<u>29,293</u>	<u>63,999</u>
Current liabilities — Increase (decrease):		
Bank advances	18,723	28,261
Accounts payable and accrued liabilities	(17,213)	18,909
Dividends payable	326	652
Income and other taxes payable	538	13,652
Advances on sales contracts	1,252	(9,521)
Owing to affiliated companies	4,415	1,632
Long term debt due within one year	1,796	693
	<u>9,837</u>	<u>54,278</u>
Increase in working capital for the year	<u>\$ 19,456</u>	<u>\$ 9,721</u>



## Notes to Consolidated Financial Statements

for the year ended December 31, 1980

### 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. 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 on 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 over the term of the debt issue to which they relate.

#### *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 basis at rates, generally, of 2½% on buildings, 10% on equipment and 4% 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. 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	
	1980	1979	1980	1979	1980	1979
Sales to customers. . . . .	\$209,840	\$243,114	\$163,252	\$121,238	\$ 89,919	\$ 90,913
Inter-segment sales*. . . . .	35	64	—	—	23,598	23,132
Sales. . . . .	<u>\$209,875</u>	<u>\$243,178</u>	<u>\$163,252</u>	<u>\$121,238</u>	<u>\$113,517</u>	<u>\$114,045</u>
Segment operating income. . . . .	<u>\$ 14,495</u>	<u>\$ 14,967</u>	<u>\$ 23,187</u>	<u>\$ 19,398</u>	<u>\$ 14,263</u>	<u>\$ 15,777</u>
General corporate expenses. . . . .						
Income before interest. . . . .						
Identifiable assets. . . . .	<u>\$245,803</u>	<u>\$232,134</u>	<u>\$ 98,133</u>	<u>\$ 77,925</u>	<u>\$ 62,705</u>	<u>\$ 64,654</u>
Corporate assets. . . . .						
Total assets. . . . .						
Capital expenditures. . . . .	<u>\$ 20,569</u>	<u>\$ 39,568</u>	<u>\$ 3,295</u>	<u>\$ 2,039</u>	<u>\$ 3,655</u>	<u>\$ 2,611</u>
Depreciation. . . . .	<u>\$ 9,382</u>	<u>\$ 8,611</u>	<u>\$ 1,127</u>	<u>\$ 803</u>	<u>\$ 1,785</u>	<u>\$ 1,682</u>

### GEOGRAPHIC SEGMENTS (in thousands)

	Canada		Europe		United States	
	1980	1979	1980	1979	1980	1979
Sales to customers. . . . .	\$326,992	\$364,973	160,987	\$118,413	\$ 59,058	\$ 56,577
Sales between geographic segments*. . . . .	24,868	24,774	631	1,812	680	460
Sales. . . . .	<u>\$351,860</u>	<u>\$389,747</u>	<u>\$161,618</u>	<u>\$120,225</u>	<u>\$ 59,738</u>	<u>\$ 57,037</u>
Segment operating income. . . . .	<u>\$ 30,140</u>	<u>\$ 36,390</u>	<u>\$ 23,852</u>	<u>\$ 19,578</u>	<u>\$ (713)</u>	<u>\$ 1,606</u>
General corporate expenses. . . . .						
Income before interest. . . . .						
Identifiable assets. . . . .	<u>\$352,939</u>	<u>\$326,530</u>	<u>\$ 97,100</u>	<u>\$ 75,969</u>	<u>\$ 37,350</u>	<u>\$ 28,332</u>
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, repair and overhaul of jet engines and of industrial turbines and miscellaneous other products.

*Mining* —

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



Forestry		Eliminations		Consolidated	
1980	1979	1980	1979	1980	1979
\$ 84,026	\$ 84,698	\$ —	\$ —	\$547,037	\$539,963
—	—	(23,633)	(23,196)	—	—
<u>\$ 84,026</u>	<u>\$ 84,698</u>	<u>\$ (23,633)</u>	<u>\$ (23,196)</u>	<u>\$547,037</u>	<u>\$539,963</u>
<u>\$ 1,334</u>	<u>\$ 7,432</u>	<u>\$ —</u>	<u>\$ —</u>	\$ 53,279	\$ 57,574
				924	666
				<u>\$ 52,355</u>	<u>\$ 56,908</u>
<u>\$ 62,415</u>	<u>\$ 47,374</u>	<u>\$ (5,432)</u>	<u>\$ (4,020)</u>	\$463,624	\$418,067
				3,344	3,693
				<u>\$466,968</u>	<u>\$421,760</u>
<u>\$ 3,640</u>	<u>\$ 2,142</u>				
<u>\$ 1,223</u>	<u>\$ 911</u>				

Eliminations		Consolidated	
1980	1979	1980	1979
\$ —	\$ —	\$547,037	\$539,963
(26,179)	(27,046)	—	—
<u>\$ (26,179)</u>	<u>\$ (27,046)</u>	<u>\$547,037</u>	<u>\$539,963</u>
<u>\$ —</u>	<u>\$ —</u>	\$ 53,279	\$ 57,574
		924	666
		<u>\$ 52,355</u>	<u>\$ 56,908</u>
<u>\$ (23,765)</u>	<u>\$ (12,764)</u>	\$463,624	\$418,067
		3,344	3,693
		<u>\$466,968</u>	<u>\$421,760</u>

*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.

Canadian operations include export sales of \$59.392 million in 1980 and \$102.760 million in 1979 primarily to customers in the United States.

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



### 3. Interest:

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

	<u>1980</u> (in thousands)	<u>1979</u>
Interest expense:		
Bank advances. ....	\$ 7,072	\$ 3,379
Loan from affiliated company (Note 5). ....	<u>946</u>	<u>280</u>
	8,018	3,659
Long term debt (includes amortization of issue costs). ....	<u>6,580</u>	<u>4,771</u>
	<u>14,598</u>	<u>8,430</u>
Interest income:		
Investments. ....	182	186
Short term deposits. ....	3,481	933
Loans to affiliated company (Note 5). ....	<u>22</u>	<u>400</u>
	<u>3,685</u>	<u>1,519</u>
Net interest. ....	<u>\$10,913</u>	<u>\$ 6,911</u>

### 4. Research and development costs:

Research and development costs charged to income in 1980 amounted to \$4,235,000 (1979 — \$2,465,000), after deduction of government assistance of \$375,000 (1979 — \$332,000).

### 5. Related party transactions:

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 1980 the Company and its subsidiaries had no significant sales to or purchases from related parties. The liability to affiliated companies includes a loan of \$8,343,000 (1979 — \$3,701,000).

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

### 6. Investments:

These are sinking fund debentures issued by Sidbec-Dosco Ltd., maturing in 1984 and 1985. At December 31, 1980 the market value of these debentures is estimated to be \$2,300,000. The Company is holding these debentures as long term investments.



## 7. Fixed assets:

	1980 (in thousands)		1979 (in thousands)	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land and land improvements.....	\$ 7,669	\$ 1,450	\$ 7,795	\$ 1,389
Buildings.....	49,809	26,893	47,715	26,379
Equipment.....	89,938	52,091	80,518	49,293
Railway rolling stock leasing fleet.....	<u>190,277</u>	<u>66,799</u>	<u>176,333</u>	<u>60,716</u>
	<u>\$337,693</u>	<u>\$147,233</u>	<u>\$312,361</u>	<u>\$137,777</u>

## 8. Long term debt:

	1980 (in thousands)	1979 (in thousands)
CGTX Inc. (55% owned) —		
First Mortgage Sinking Fund Equipment Notes		
5% — 10¼% due 1981 — 2000 (U.S. \$12,025,000).....	\$13,465	\$ 8,677
6¾% — 11½% due 1981 — 1999.....	49,400	52,727
¼% lower than Canadian bank prime rate due 1981 — 1992.....	15,000*	—
First Mortgage Serial Equipment Notes		
6% due 1981 — 1984.....	<u>460</u>	<u>575</u>
	78,325	61,979
Less — Due within one year included in current liabilities.....	<u>6,367</u>	<u>4,571</u>
	<u>\$71,958</u>	<u>\$57,408</u>

\*In addition, CGTX Inc. is committed to issue a further \$5,000,000 of these notes no later than March 31, 1981.

Principal payments on long term debt (including the additional obligation referred to above) will be as follows:

<u>Year ending December 31</u>	<u>Amount</u> (in thousands)
1981.....	\$ 6,367
1982.....	6,367
1983.....	6,367
1984.....	6,567
1985.....	6,317
1986 — 2000.....	<u>51,340</u>
	<u>\$83,325</u>

Railway rolling stock with a net book value of \$118,026,000 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 \$13,465,000. At the year-end rate of exchange this debt would be \$14,310,000.



#### 9. Pensions (See Note 1):

The provision for unfunded pensions of \$3,036,000 at December 31, 1980 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 \$275,000 after income taxes, were charged to the provision for unfunded pensions in 1980.

With respect to funded pension plans, the present value of past service obligations to be met, based on actuarial computations, is approximately \$16,100,000 at December 31, 1980. These obligations are to be settled by annual payments charged to operations through 1995. During 1980 an amount of \$1,594,000 was charged to operations with respect to these obligations.

#### 10. Income taxes:

The provision for income taxes includes \$2,657,000 (1979 — \$2,527,000) for deferred income taxes.

Recently legislation has been proposed in the United Kingdom, retroactive to 1980, which would eliminate the requirement for income taxes provided in respect of inventory allowances. Based on the exchange rate at December 31, 1980, it is anticipated that deferred income taxes of approximately \$8,500,000 provided to December 31, 1979 together with a reduction of approximately \$1,500,000 of current income taxes provided in 1980 will be available for immediate release to income if the proposed legislation is enacted.

#### 11. Preferred and common shares (See Note 14):

	<u>Shares</u>	<u>Dollars</u> (in thousands)
Preferred shares —		
5¼% 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 5¼% Cumulative Redeemable Preferred Shares and an unlimited number of common shares.

#### 12. Contingent liabilities:

The Company and subsidiaries are contingently liable (principally for trade notes discounted) in the approximate amount of \$3,079,000 (1979 — \$2,800,000).

#### 13. Commitments:

At December 31, 1980, expenditures of approximately \$27,721,000 (including \$21,546,000 for the railway rolling stock leasing fleet) are required to complete capital programs. Also, an amount of \$37,086,000 including \$15,000,000 for the railway rolling stock leasing fleet had been authorized by the Directors but not committed.

#### 14. Continuance under the Canada Business Corporations Act:

Following approval by the shareholders on May 30, 1980 the Company was continued by Articles of Continuance on July 1, 1980 under the Canada Business Corporations Act. At that time the Company's name was changed from Hawker Siddeley Canada Ltd. to Hawker Siddeley Canada Inc.



## Miscellaneous Data on Sales, Employees and Shares

	1980	1979
<b>Sales (\$000):</b>		
By Canadian factories —		
to Canadian markets. . . . .	\$267,600	\$262,213
to Export markets. . . . .	<u>84,260</u>	<u>127,534</u>
	351,860	389,747
By foreign subsidiaries (excluding cost of products from Canadian factories)	<u>195,177</u>	<u>150,216</u>
	<u>\$547,037</u>	<u>\$539,963</u>

### The average weekly number of employees was:

in Canada. . . . .	5,366	6,632
in the United Kingdom. . . . .	849	814
in the United States of America. . . . .	<u>349</u>	<u>315</u>
	<u>6,564</u>	<u>7,761</u>

Aggregate remuneration of employees was (\$000). . . . .	<u>\$149,897</u>	<u>\$154,079</u>
--	------------------	------------------

### Common share dividends for 1980 have been declared as follows:

Record Date	Payable	
December 24, 1980	January 16, 1981. . . . .	\$ .24
September 19, 1980	October 10, 1980. . . . .	.24
June 20, 1980	July 11, 1980. . . . .	.24
March 25, 1980	April 11, 1980. . . . .	.24
		<u>\$ .96</u>

### Preferred share dividends:

Quarterly dividends of \$1.4375 were paid on the 2nd day of January, April, July and October 1980.

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, Meridian and Tupelo, Miss.,  
        Atlanta, Ga., Fayetteville, N.C., Shreveport, La., Vancouver, Wash., U.S.A.  
B & K Machinery Inc., Cleveland, Ohio, 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  
Orenda (International) Limited, Mississauga, Ont.  
CGTX Inc., Montreal, Que., Toronto, Ont., Moose Jaw, Sask., Red Deer, Alta.

*Note: With the exception of CGTX Inc., formerly Canadian General Transit Company, Limited (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; fibre 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; tools and dies; power and telephone cable pulling equipment; sawmill and mill supplies*

#### 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.**

### **Head Office:**

7 King Street East, Toronto, Ontario M5C 1A3

### **Directors**

I. E. Bull, Willowdale, Ontario  
J. H. Coleman, Toronto, Ontario  
A. H. Crockett, Toronto, Ontario  
C. A. Haines, Woodbridge, Ontario  
Sir Arnold Hall, London, England  
J. F. Howard, Q.C., Woodbridge, Ontario  
A. J. Laurence, Pewsey, Wiltshire, England  
A. W. McKenzie, Mount Royal, Quebec  
K. L. Phillips, Sutton, Surrey, England  
\*T. K. Shoyama, Victoria, British Columbia  
R. F. Tanner, Mississauga, Ontario  
E. J. White, Oakville, Ontario  
F. H. Wood, Daventry, Northamptonshire, England

*\*Appointment effective April 1, 1981*

### **Executive Management**

Sir Arnold Hall, Chairman  
J. F. Howard, Q.C., Vice-Chairman  
F. H. Wood, Vice-Chairman  
R. F. Tanner, President and Chief Executive Officer  
I. E. Bull, Vice-President, Finance  
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)  
L. Francoeur, 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.)  
J. A. McTavish, Assistant Secretary  
K. C. Miller, Vice-President (Managing Director, Dosco Overseas Engineering Limited)  
P. K. Peterson, Vice-President (Canadian Car Division)  
F. J. Sandford, Treasurer

### **Auditors**

Price Waterhouse & Co., Toronto, Ontario

### **Registrar and Transfer Agent**

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







