

Hawker Siddeley Canada LTD.

**1975 ANNUAL REPORT**





2	Financial data
3	To the Shareholders
	Financial
	Sales
	Income
	Extraordinary items
	Other financial matters
	Dividends
	Directors
4	Comments
6	Comments on Operations
6	Hawker Siddeley Canada Ltd.
10	Hawker Industries Limited
14	Canadian General Transit Company, Limited
15	Consolidated statement of income and retained earnings
16	Consolidated balance sheet
18	Consolidated statement of changes in financial position
19	Notes to consolidated financial statements
24	Auditors' report
25	Miscellaneous data on sales, employees, and shares
26	Divisions and subsidiaries
27	Products and services
28	Directors and Executive Management

The Annual General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Friday, May 28th, 1976 at 11:00 a.m., E.D.T. A notice of the meeting, an information circular, and a proxy form for the convenience of those shareholders holding common shares, are enclosed with this report.

## Contents

## Notice of Annual General Meeting

# Financial Data

	1975	1974	1973	1972	1971
<b>Summary of operations</b> (thousands of dollars)					
Revenue:					
Sales .....	\$365,234	325,015	253,628	209,398	158,238
Income from investments	331	682	489	937	680
	<u>365,565</u>	<u>325,697</u>	<u>254,117</u>	<u>210,335</u>	<u>158,918</u>
Costs and expenses:					
Cost of sales, selling, general and administrative expenses exclusive of the following .....	325,507	290,025	225,706	189,072	142,424
Interest .....	7,713	6,626	4,433	4,289	4,102
Depreciation and amortization .....	9,915	8,933	8,907	7,923	7,469
	<u>343,135</u>	<u>305,584</u>	<u>239,046</u>	<u>201,284</u>	<u>153,995</u>
Income from operations before taxes .....	22,430	20,113	15,071	9,051	4,923
Income taxes .....	11,071	9,889	7,282	4,896	2,116
Interest of minority shareholders .....	1,012	963	1,585	882	666
Income before extraordinary items .....	10,347	9,261	6,204	3,273	2,141
Extraordinary items .....	1,516	545	1,721	348	312
Net income for the year ...	<u>\$11,863</u>	<u>9,806</u>	<u>7,925</u>	<u>3,621</u>	<u>2,453</u>
<b>Per common share</b>					
Income before extraordinary items .....	\$ 1.17	1.04	.66	.30	.16
Net income .....	1.36	1.11	.88	.35	.20
Dividends declared .....	.36	.32	.20	.07	—
Equity .....	11.12	10.12	9.33	8.67	8.39
<b>Other statistics</b> (thousands of dollars)					
Dividends					
— preferred shares .....	\$ 805	805	805	805	2,013*
— common shares .....	2,927	2,601	1,625	568	—
Working capital .....	45,353	37,916	37,169	31,390	32,536
Capital expenditures .....	26,157	23,858	13,408	7,544	7,901
Shareholders' equity					
— preferred shares .....	14,000	14,000	14,000	14,000	14,000
— common shares .....	90,383	82,252	75,852	70,317	68,069
<b>Other share data</b>					
Shares issued and outstanding					
— preferred .....	140,000	140,000	140,000	140,000	140,000
— common .....	8,129,341	8,129,341	8,129,341	8,117,341	8,117,341
Number of shareholders					
— preferred .....	1,540	1,583	1,636	1,675	1,748
— common .....	8,692	8,683	8,729	9,119	9,627
Principal Shareholder — Hawker Siddeley Group Limited					
percentage holdings					
— preferred .....	41.79%	41.79%	41.79	41.79%	41.79%
— common .....	59.25%	59.25%	59.25%	59.34%	59.34%

\* In 1971 the Company declared and paid ten quarters' preferred share dividends of \$1.43¾ each per share to eliminate all arrears.

Note: Financial data for 1971 and 1972 have been restated for prior years' adjustments recorded in 1973 and the years 1971 to 1974 have been restated to conform with the presentation adopted in 1975.

Your Directors submit herewith the audited accounts of Hawker Siddeley Canada Ltd. and its subsidiary companies for the year ended December 31, 1975.

## 1. FINANCIAL

### 1.1 Sales

Consolidated sales for 1975 amounted to \$365 million (\$325 million — 1974) of which direct exports accounted for \$90 million (\$73 million — 1974). The distribution of sales by broad classes of business is shown in Note 2 to the financial statements, also information concerning exports and the sales volume of foreign subsidiaries is given on page 25 of this report.

### 1.2 Income

Income from operations before extraordinary items amounted to \$10.3 million (\$9.3 million — 1974) and net income was \$11.8 million (\$9.8 million — 1974) reflecting an increase over the previous year's results of 11.7% and 20.9% respectively. Net income per share is equivalent to \$1.36 (\$1.11 — 1974).

### 1.3 Extraordinary Items

Two items of income make up the \$1.5 million not forming part of the trading results for the year, namely:

- (a) an amount of \$1,370,000 for tax provision not required arising from utilization of costs and expenses recorded in prior years which became available for taxation relief in 1975, and
- (b) the receipt of a final distribution of the assets of Dominion Coal Company, Limited amounting to \$145,592. Dominion Coal has now been dissolved and the total distribution of the liquidated assets amounted to \$40.50 for each outstanding preferred share. Our investment in that company had been written off against distributions received in 1973.

### 1.4 Other Financial Matters

- (i) included in the income before extraordinary items for the year is a net exchange loss of \$1,124,570 (\$1,835 — 1974) arising primarily as a result of the weakening of sterling which affected the book value of net assets of U.K. subsidiaries when translated to Canadian dollars at the exchange rate prevailing on December 31, 1975.
- (ii) negotiations with the Department of Supply and Services of the Government in respect to claims lodged by the Company in 1972 for recovery of costs arising out of a contract for the refit and conversion of two naval destroyers, resulted late in the year in a final settlement of \$810,000. This amount has been brought into income before extraordinary items.

### 1.5 Dividends

In 1975 the Company declared and paid the four quarterly preferred share dividends as they became due. For the common shares, quarterly dividends of 9¢ were declared making a total for the year of 36¢ (32¢ — 1974).

The 9¢ dividend declared on November 4th, payable January 16th, 1976 is consistent with the regulations pursuant to the Anti-Inflation Act.

## 2. DIRECTORS

At the Annual and Special General Meeting of Shareholders in Toronto on May 30, 1975, John N. Paterson, Eric J. White and Leonard A. Mitten were elected for the first time to the Board of Directors.

On the same date Colin W. Webster, who retired from the Board having attained the age limit prescribed by the By-laws, was succeeded as a Vice-Chairman of the Company by Ronald G. Smith.

**To the  
Shareholders**

### 3. COMMENTS

The Company's trading position for the year was marked by contrasting conditions. Continuing high rate of inflation, the depressed state of several important markets and disruptive action by labour were among the adverse factors encountered. On the other hand, the year was strongly supported by good order backlogs which enabled most of the operations to operate at improved efficiency and benefit from capital programs initiated in prior years. Although the last quarter suffered particularly from labour disruptions, overall sales and earnings for the year made further gains and represent the highest so far recorded by the Company.

Operating units which performed well were those producing equipment for the transportation and mining industries, but units supplying equipment for the woodlands and lumber industries continued to be seriously affected by the depressed state of that sector of the economy. Operations involved in aerospace and power transmission products fared better than had been expected against a generally unfavourable market outlook and Canadian General Transit, a 55%-owned subsidiary involved in tank car leasing and bulk terminal operations, remained relatively stable although new business opportunities were limited.

Export activity by our Canadian factories continued to grow although the penetration of potential export markets, which has been part of our development program in recent years, was disappointing. It is apparent that unless the high cost of manufacturing in Canada is restrained, the ability to effectively compete in international markets may become increasingly difficult.

During the year new labour agreements were concluded at Trenton Works, Canadian Car (Pacific), and Canadian Car, Thunder Bay. Unfortunately, a fourteen-week strike occurred at the Thunder Bay plant before settlement was reached on September 8th. Details of the Anti-Inflation Board's approval of a proposed new agreement with Canadian Steel Wheel employees are not yet on hand. In the course of this protracted negotiation, however, normal production at this plant was seriously disrupted during the last quarter, and in the same period Halifax Shipyards encountered similar production difficulties.

The Company continued its facilities improvement program throughout its operations to further improve efficiency and environmental conditions. In addition, an active research and development program was also pursued.

A more detailed account of the activities at the operating units is dealt with in subsequent pages of this report.

The Company enters 1976 with a substantial order position, though it is not as evenly distributed throughout the operations as we had hoped for at this time. We expect that the strengthening domestic and U.S. economies will provide opportunities to improve this situation as the year progresses, particularly in those sectors which have been depressed for the past year or more. Due to this imbalance, scheduled shipments of products are likely to cause fluctuations in period earnings to be more pronounced than in the previous year. In addition, the affects of the Government's Anti-Inflation measures are likely to produce some changes in business patterns.

The Directors wish to record their thanks to all whose efforts have contributed to the year's results.

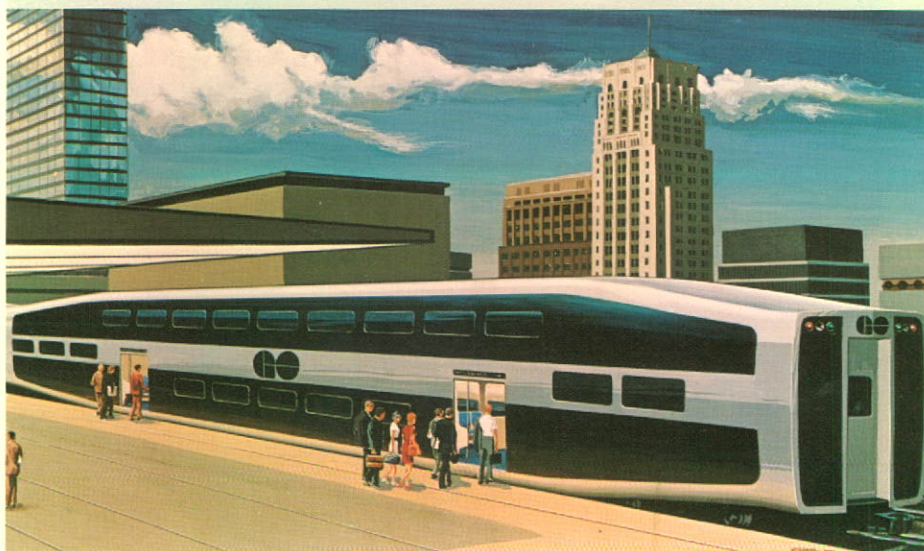
Submitted on behalf of the Board,

*A.A. Hall*  
*R.S. Faulkner*

Toronto, Ontario, March 19, 1976.



A "Tree Farmer" skidder built by Canadian Car Division hauls tree-length logs from a cutting area. These rugged, four-wheel drive, articulated vehicles are capable of operating over virtually any type of forest terrain. Various models serve the forest industries in Canada and abroad from the pulpwood stands of the southern United States to the heavy timber areas of the Far East.



Canadian Car Division is to supply 80 of these double-deck rail commuter cars to the Toronto Area Transit Operating Authority for GO Transit service. Their design won an "Excellence of Design" award for the Company from the Ontario Government.

## HAWKER SIDDELEY CANADA LTD.

### Canadian Car Division

The three manufacturing businesses carried on by the Division, forestry equipment, railway passenger equipment, and highway trailers, had widely varying results over the year.

All operations were severely affected by a strike of plant employees, between June 2 and September 8, 1975 which halted production over the period.

The depression in the forest industries of North America, which first became apparent in the second half of 1974, continued throughout 1975. As a result, sales in the domestic and U.S. markets of the range of equipment based on the "Tree Farmer" log skidder were at a low level. Exports to other areas included the sale of 100 specially-equipped "Tree Farmers" to Poland. This is the second significant sale to that country.

Other than during the strike period, the railway equipment business had a very active year. The remaining 60 subway cars in a total order of 88 units were delivered to the Toronto Transit Commission and work began on 30 additional cars for the GO Transit rail commuter system.

Three major orders received during the year included 140 second-class and 60 first-class passenger cars for inter-city rail service in Mexico, a further 134 subway cars for the T.T.C., and 80 double deck commuter cars for the Toronto Area Transit Operating Authority. The new subway cars will incorporate several changes compared to those previously supplied including a restyled exterior, a carpeted interior with cantilever seats, and air conditioning.

The double deck cars, scheduled for operation on the GO Transit lakeshore commuter route through Toronto starting in 1977, are the first of their type. Unlike gallery-type cars presently in service in North America, they will have a full upper deck and seat a total of 162 passengers. Their introduction will provide a 75% increase in capacity compared to existing commuter trains.

The new double deck cars, which will have several innovative features in addition to their modern styling, won an "Excellence of Design" award from the Ontario Government.

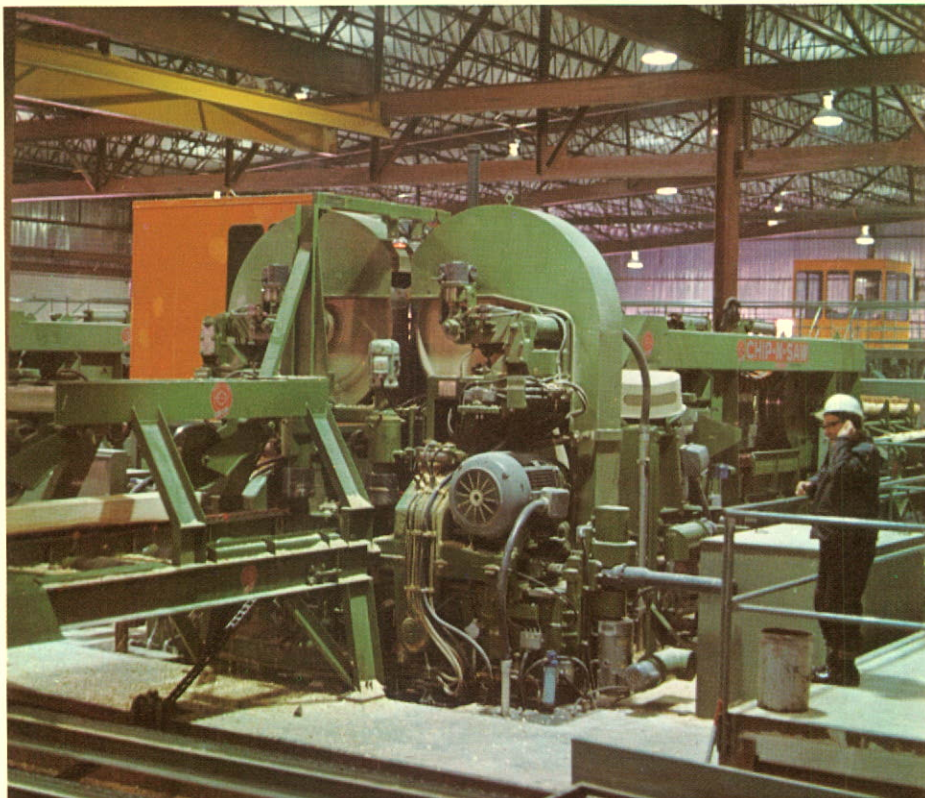
The market outlook for rail passenger equipment remains strong and a number of important proposals are being considered for off-shore market areas.

Highway trailer business showed a marked decline from the previous year reflecting the general economic trend. At year end, work started on transferring trailer manufacturing operations from Thunder Bay to space in the Orenda Division plant at Mississauga, Ontario. The move, which will take some time to complete, will place trailer manufacture closer to the major markets and make additional space available at the Thunder Bay plant for railway passenger equipment production.

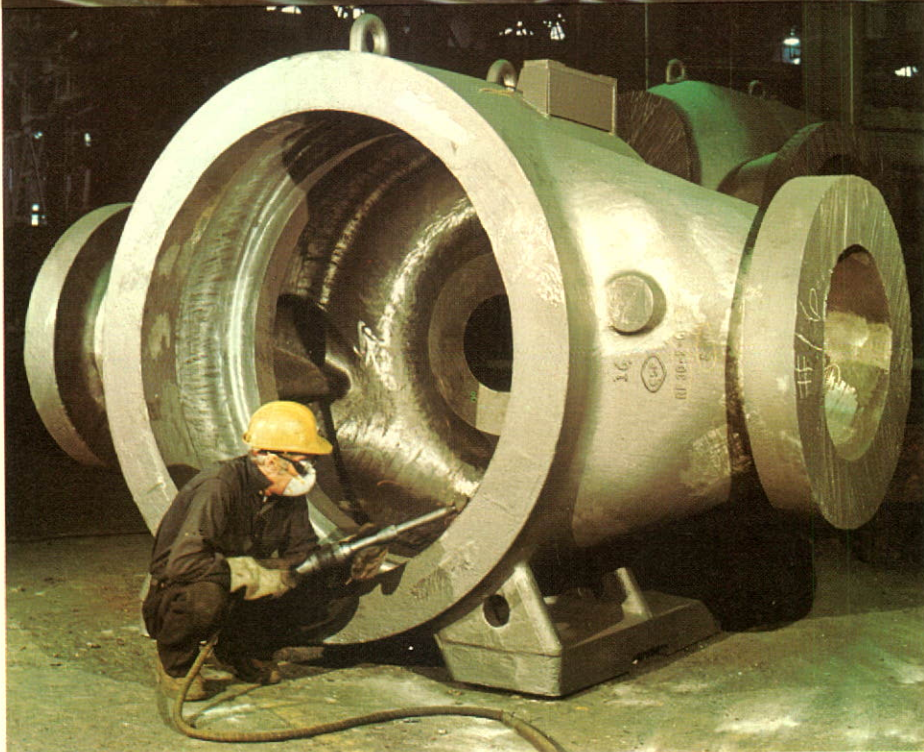
### Canadian Car (Pacific) Division

The continued world-wide recession in the forest products industries severely reduced the Division's order intake for lumber processing equipment and under-utilization of plant prevailed throughout the year. Sales to both North American and offshore customers fell to relatively low levels. The major export sales were to South Africa, Sweden, Bulgaria and the Philippines.

Completion of the transfer of manufacturing facilities and services from Vancouver to the new factory at Surrey, B.C. was completed early in the year and running-in problems have been minimal. At the same time, the electrical and



*A twin-band mill, one of three complete Chip-N-Saw lumber processing lines installed in a sawmill near Chicoutimi, Que. The Chip-N-Saw machines and their supporting equipment were manufactured by Canadian Car (Pacific) Division.*



*Putting the finishing touches to a complex casting poured at Canadian Steel Foundries Division. The casting, which weighs 41,000 pounds, is a compressor casing.*

electronic equipment branch operations were consolidated in the new plant enabling the separate Vancouver Industrial Controls Division to be phased out. Significant progress was made in the thin-kerf sawing and vertical carriage development programs and both products are expected to be important additions to the Division's existing product group. A new canter, designed to process large logs more efficiently and offer an improved surface finish, was added to the successful Chip-N-Saw line of machines. The first unit, combined with a quad-bandsaw and fully computerized, will go into service early in 1976.

It is expected that with improving economic conditions in both the U.S. and Canada, new housing starts will increase significantly. Although the impact of this recovery on the demand for sawmill equipment is likely to be slow at first, the trend should be more positive as the year progresses.

#### **Canadian Steel Foundries Division**

A high level of activity was achieved in supplying large castings to the steel, mining, electrical power generation, and oil and gas processing industries, and total tonnage of castings produced by the foundry was among the highest recorded.

Further progress was made in expanding the sales of high-grade castings for nuclear power applications and the Division is now recognized as a major supplier of these special, high quality castings. Export sales to the United States held up well despite severe competition from U.S. and offshore foundries which increased towards year end.

Capital programs to improve working conditions and plant efficiency, combined with continuing research and development into new materials, processes, and production techniques, have substantially improved the Division's competitive position.

Although it did not materially affect production, rivalry between two unions for the representation of a majority of plant employees caused negotiations for a new labour contract to be deferred until 1976.

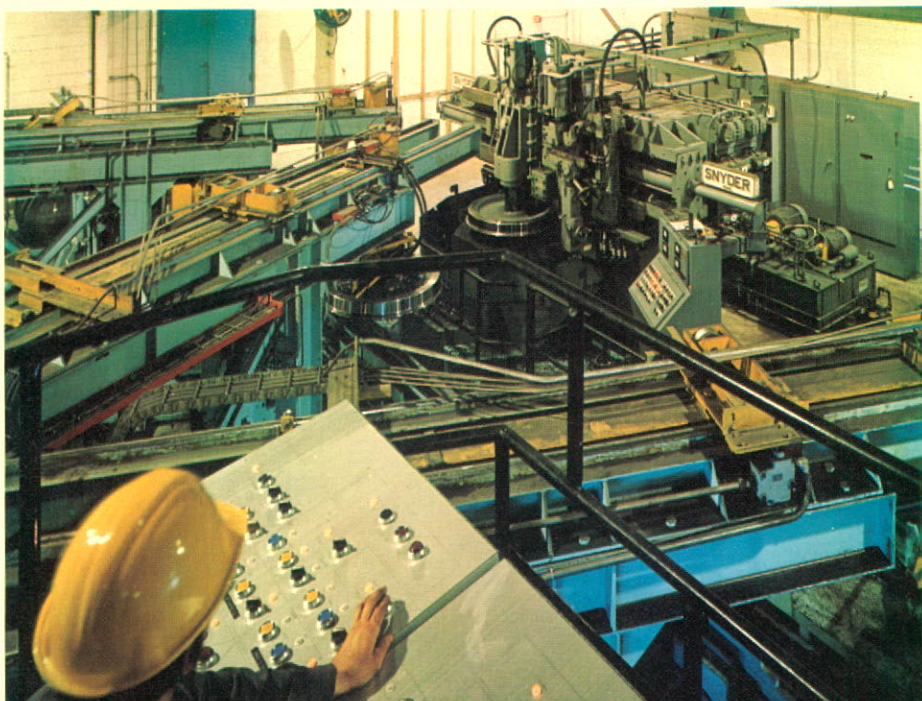
The demand for heavy industrial castings tended to soften in the last quarter, but with the Division's improved trading position and a good order book, the outlook for 1976 is promising.

#### **Canadian Steel Wheel Division**

After several years of steady performance, the Division encountered operating difficulties in 1975. While under-utilization of steelmaking facilities, arising from a sharp fall-off in demand for ingots, and start-up problems with the new wheel chiller and machining centres were contributing factors, labour unrest during the negotiation of a new union agreement severely affected efficiency in the plant and shipment of products, particularly in the last quarter. Although a new contract has been agreed to between the Company and the union, it is before the Anti-Inflation Board for approval. In the interim, efficiency has improved substantially.

The majority of wheels produced in 1975 were for domestic customers but penetration of potential export markets is encouraging. During the year wheel sales were made to the United States and Mexico, mainly for rapid transit applications. Sales of wheels for industrial uses continue to grow although, in comparison to total throughput, the volume remains relatively small.

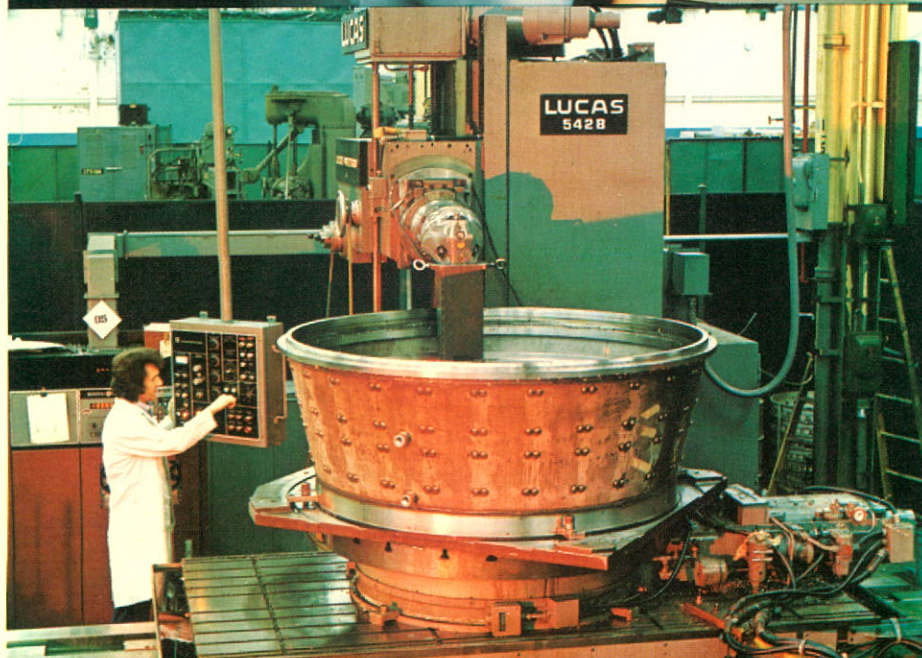
In 1976, the demand for all categories of wheels will likely decline from last year's levels and little improvement is seen in the demand for steel ingots. Nonetheless, with the current order backlog, we expect a fairly steady level of production throughout the year.



*Part of the automatic machining line for finishing railway wheels installed recently at the Canadian Steel Wheel Division plant in Montreal.*



*An operator at the Data Processing and Graphics Division processes data at a computer terminal for insertion into the Division's computer. The data is displayed on a screen for visual verification.*



*An industrial gas turbine casing being machined for a contractor on a large tape-controlled horizontal boring mill at Orenda Division.*

### **Data Processing and Graphics Division**

The Division was established in July 1974 utilizing facilities which had previously formed part of the Orenda Division. The scale of data processing and graphics services it provides has broadened significantly in recent years. Originally confined to the servicing of Company operating units, they now encompass a growing range of independent businesses.

Data processing operations are centred on a Honeywell computer, one of the largest installations of its type in Canada. Graphics services cover technical writing, art, phototypesetting, photography, and printing operations.

While the operation is still relatively small the year's performance was very promising.

### **Orenda Division**

Against declines in defence and aerospace work and in demands for the Division's range of industrial gas turbines, sales were down from the previous year. On the other hand, profitability showed a marked improvement through a continuing program of rationalization.

Activity related mainly to aircraft engine repair and overhaul, the manufacture of engine components under sub-contract, components for nuclear power programs, and the conversion and overhaul of industrial gas turbines. A useful volume of work was completed on missile launchers for the U.S. government.

During the year, a contract was received for an industrial gas turbine generating set and further sub-contract work for Canadian Pratt and Whitney's PT6 engine program was undertaken.

An arrangement with the Curtiss Wright Corporation, New Jersey, was concluded in which Orenda industrial gas turbines will be supplied to Curtiss Wright for incorporation in power systems and subsequent sale throughout the world other than Canada. The Orenda units supplement the range of turbines in power systems previously offered by the U.S. company and the agreement is expected to produce additional sales for Orenda.

The demand ahead for aerospace and industrial engine work is expected to be of the same order as in 1975 but competition is likely to be stiffer and the market more fragmented.

## **HAWKER INDUSTRIES LIMITED**

(Approx. 99% owned)

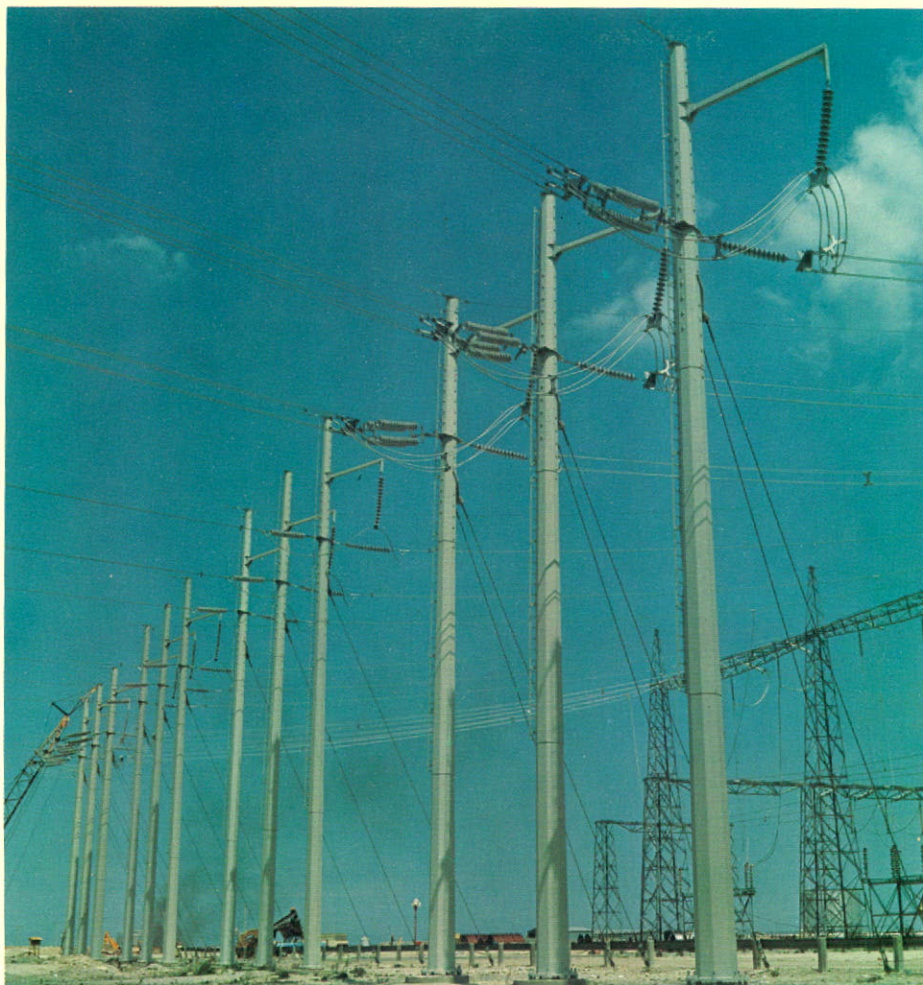
### **Canadian Bridge Division**

The major re-equipment program designed to modernize the Division's production facilities for power transmission and communications structures was substantially completed by the end of 1975 and the benefits began to be realized.

Overall, the year saw a considerable improvement in uprating efficiency and there were further useful gains in work volume.

Among major contracts completed were the supply of fabricated steel components for 600 transmission towers exported to Tunisia, and the fabrication and erection of a 1000-foot television mast at Wallaceburg, Ontario.

Mast production will be further expanded in 1976. Orders are on hand for a number of masts which will be used at television repeater stations to be erected across Canada under the Canadian Broadcasting Corporation's expanded coverage plan.



*230kV dead-end transmission poles fabricated by Canadian Bridge Division being erected at Ontario Hydro's Bruce nuclear-powered generating station.*



*Sedneth 701 at work in the North Sea. She was the fourth semi-submersible offshore drilling vessel and the first of the Sedco 700-series rigs built by Halifax Shipyards Division. Two further units from the Halifax yard have since crossed the Atlantic to operate in the same general area.*

*Vegetable oil tank cars built for export to Zambia by Trenton Works Division being loaded at Halifax, N.S. Axles for the cars also were made at Trenton. Wheels, truck castings and couplers were supplied by other Divisions of the Company.*



*A Roadheader Mk2A from Dosco Overseas Engineering excavating a tunnel for the underground rail system in Liverpool, England. Originally developed for use in coal mines, Dosco machines are being increasingly applied to civil engineering work.*

A development program to design and test structures capable of carrying 1.5 million volts was continued during the year and is scheduled for completion in 1976.

Ontario Hydro's recently announced cutback in spending over the next five years is very disappointing and a loss of potential sales is likely to result. We are hopeful, however, that the breadth of the market in which we are currently active will ensure an improved overall performance by the Division.

#### **Halifax Shipyards Division**

The Division's main activity during the year centred on the completion of Stadrill (originally Sedco 705), the sixth semi-submersible offshore drilling vessel to be constructed at the Halifax yard. Labour difficulties encountered towards the end of the contract delayed delivery of the rig until November 12, 1975.

Work started on construction of the seventh drilling rig, Sedco 709, scheduled for delivery towards the end of 1976, and a drill ship, Sedco 471.

No conventional ships were built during the year but ship repair activity provided a useful level of supplementary work for the Halifax yard. Dartmouth Marine Slips had an exceptionally heavy year in ship repair. The major capital improvement program initiated several years ago has been completed at the Halifax yard and a start has been made on upgrading the Dartmouth facilities.

The construction orders on hand will maintain satisfactory work loads throughout 1976 and into 1977.

#### **Trenton Works Division**

Orders placed by the major Canadian railways in 1974 for new freight cars and associated equipment were mainly responsible for the Division having a very high level of activity throughout 1975.

Total railway car production increased from 2,844 units in the previous year to 2,924 units in 1975, the highest figure for many years. Production of railway axles dropped slightly but there was a substantial increase in forging business.

A good volume of export business was achieved. Freight and tank cars were exported to Mexico and Zambia and an order was received from Cuba for special ore cars.

Work continued on the fabrication of large structural components for offshore drilling vessels under construction by Halifax Shipyards Division and the first shipment of assemblies for the drillship, Sedco 471, was also made. These fabrications are shipped direct to Halifax by ocean-going barge.

A service to effect major repairs on tank cars was started by the Division towards year end and will be an on-going business. The Division turned the year with a backlog which will maintain a good level of plant activity through the third quarter in 1976. However, replacement of the order book so far has been slow. We anticipate that the market will strengthen as the year progresses although this may be too late to prevent a lessening of activity in the last quarter of 1976.

#### **Dosco Overseas Engineering Limited**

A strong demand for coal mining equipment in all market areas served by this United Kingdom-based subsidiary gave the company another very successful year. Production and sales of mining and tunnelling machines showed significant increases. At the same time, valuable progress was made in the development of both new and existing machines.

The company's export activities made good progress and the potential in this

sector is very promising. Units were exported to New Zealand and Argentina for the first time and further penetration of the U.S. market was achieved.

Hollybank Engineering Company Limited, a subsidiary of Dosco Overseas Engineering engaged in producing mine roadway arches and sheathing, had a year of marked improvement in earnings.

To accommodate the increased level of activity, additions to both storage and production facilities were made during the year. The continuing strong demand for coal in the United Kingdom and other countries, together with the acceptance of our machines for civil engineering and other special applications, should enable the company to maintain a favourable growth rate for some time ahead.

#### **CANADIAN GENERAL TRANSIT COMPANY, LIMITED**

(55% owned)

Utilization of the company's railway tank car fleet remained at a high level throughout 1975. However, customer requirements for the leasing of new tank cars were the poorest for several years. A substantial number of new units were delivered against customers' orders placed during 1974 and their addition to the fleet raised the total carrying capacity.

The company's fleet is leased mainly to customers in the petroleum, chemical and food product industries. Except for a small number of hopper cars, it is comprised of various types of tank cars which carry commodities such as liquified petroleum gas, sulphuric acid, vegetable oils, caustic soda and petroleum. The tank cars are serviced at company-owned maintenance depots in Montreal, Que., Moose Jaw, Sask., and Red Deer, Alta.

In addition, Canadian General Transit operates heated and non-heated bulk liquid storage terminals in Montreal and Toronto. The Montreal terminal, the larger of the two, serves as a link between the water, road and rail modes of transportation of bulk liquids. The Toronto terminal operates as a road-rail link. During 1975, both terminals operated at full capacity.

Activity in the year ahead is likely to respond to the improving economic conditions and the expectations are for an improvement over 1975.

	1975	1974*
Revenue:		
Net sales (Note 2) .....	\$365,233,924	\$325,014,643
Income from investments .....	331,446	682,587
	<u>365,565,370</u>	<u>325,697,230</u>
Costs and expenses:		
Cost of sales, selling, general and administrative expenses exclusive of the following .....	325,506,556	290,025,466
Interest on short term borrowings .....	3,751,128	3,068,388
Interest and amortization of costs of long term debt .....	3,962,397	3,557,404
Provision for depreciation .....	9,614,745	8,632,663
Amortization of patents (Note 5) .....	300,000	300,000
	<u>343,134,826</u>	<u>305,583,921</u>
Income from operations before income taxes .....	22,430,544	20,113,309
Provision for income taxes (Note 12) .....	11,071,000	9,889,000
	<u>11,359,544</u>	<u>10,224,309</u>
Interest of minority shareholders in income of subsidiaries .....	1,011,905	963,138
Income before extraordinary items (Note 13) ..	10,347,639	9,261,171
Income tax provision not required (Note 14) ..	1,370,000	—
Gain on investment in Dominion Coal Company, Limited (Note 15) .....	145,592	288,740
Gain on properties .....	—	256,222
Net income for the year .....	11,863,231	9,806,133
Retained earnings, beginning of year .....	27,931,723	21,531,995
	<u>39,794,954</u>	<u>31,338,128</u>
Dividends — preferred shares .....	805,016	805,016
— common shares .....	2,926,562	2,601,389
	<u>3,731,578</u>	<u>3,406,405</u>
Retained earnings, end of year .....	<u>\$36,063,376</u>	<u>\$27,931,723</u>
Income per common share after preferred dividends (Note 9):		
Before extraordinary items .....	\$1.17	\$1.04
After extraordinary items .....	\$1.36	\$1.11

\*The 1974 figures have been restated to conform with the presentation adopted in 1975.

Hawker Siddeley Canada Ltd.  
and Subsidiary Companies

## Consolidated Statement of Income and Retained Earnings

for the year ended  
December 31, 1975

Hawker Siddeley Canada Ltd.  
and Subsidiary Companies

## Consolidated Balance Sheet

December 31, 1975

ASSETS	1975	1974
<b>Current Assets:</b>		
Cash .....	\$ 4,584,892	\$ 885,567
Accounts receivable .....	51,786,084	54,939,438
Inventories, less progress payments .....	85,735,569	88,928,824
Prepaid expenses .....	1,024,524	1,042,797
	<u>143,131,069</u>	<u>145,796,626</u>
<b>Investments, at cost:</b>		
Debentures (Note 3) .....	3,308,825	3,351,762
Mortgage and other investments .....	—	367,004
	<u>3,308,825</u>	<u>3,718,766</u>
<b>Fixed Assets, at cost less accumulated depreciation (Note 4) .....</b>	<u>134,797,828</u>	<u>122,806,914</u>
<b>Other Assets, at cost less amortization:</b>		
Patents (Note 5) .....	600,000	900,000
Issue costs of long term debt .....	368,913	294,866
	<u>968,913</u>	<u>1,194,866</u>
<b>Approved by the Board:</b>		
A.A. Hall, Director		
R.S. Faulkner, Director		
	<u>\$282,206,635</u>	<u>\$273,517,172</u>

## LIABILITIES AND SHAREHOLDERS' EQUITY

1975

1974

## Current Liabilities:

Bank advances .....	\$ 15,793,458	\$ 31,942,619
Accounts payable and accrued liabilities ...	54,418,473	49,536,926
Dividends payable .....	932,895	851,601
Income and other taxes payable .....	6,447,497	8,987,906
Advances on sales contracts .....	12,364,579	10,419,823
Long term debt due within one year (Note 7)	4,442,953	3,975,328
Due to affiliated companies (Note 6) .....	3,378,617	2,166,396
	<u>97,778,472</u>	<u>107,880,599</u>

Long Term Debt (Note 7) .....	<u>45,932,656</u>	<u>40,375,609</u>
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Provision for Unfunded Pensions (Note 8) .....	<u>4,852,518</u>	<u>5,259,003</u>
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Deferred Income Taxes .....	<u>17,284,657</u>	<u>13,317,857</u>
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Minority Interest .....	<u>11,975,008</u>	<u>10,432,433</u>
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## Shareholders' Equity:

Preferred and common shares (Note 9) .....	68,319,948	68,319,948
Retained earnings .....	<u>36,063,376</u>	<u>27,931,723</u>
	<u>104,383,324</u>	<u>96,251,671</u>

	<u>\$282,206,635</u>	<u>\$273,517,172</u>
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Hawker Siddeley Canada Ltd.  
and Subsidiary Companies

## Consolidated Statement of Changes in Financial Position

for the year ended  
December 31, 1975

	1975	1974*
Source of working capital:		
Income before extraordinary items .....	\$10,347,639	\$ 9,261,171
Charges to income not affecting working capital — (Mainly depreciation, amortization of patents, deferred income taxes and interest of minority shareholders in income of subsidiaries) .....	14,848,729	11,968,468
Working capital provided from operations ..	25,196,368	21,229,639
Issue of long term debt .....	9,900,000	8,012,500
Shares issued by subsidiary to minority shareholders .....	1,215,000	—
Proceeds on disposal of fixed assets .....	4,623,558	2,780,889
Income taxes recovered in extraordinary items (included in gain on properties in 1974) .....	1,370,000	708,000
Proceeds on realization of investment in Dominion Coal Company, Limited (Note 15) ..	145,866	289,294
Mortgage and other investments reclassified to current assets .....	367,004	—
Miscellaneous .....	40,259	39,889
	<u>42,858,055</u>	<u>33,060,211</u>
Application of working capital:		
Additions to fixed assets .....	26,156,765	23,857,693
Reduction of —		
Long term debt .....	4,442,953	3,975,328
Provision for unfunded pensions (Note 8) ..	406,485	436,133
Dividends declared payable to —		
Shareholders of		
Hawker Siddeley Canada Ltd. ....	3,731,578	3,406,405
Minority shareholders of subsidiaries ....	683,704	638,026
	<u>35,421,485</u>	<u>32,313,585</u>
Working capital:		
Increase for the year .....	7,436,570	746,626
At beginning of year .....	37,916,027	37,169,401
At end of year .....	<u>\$45,352,597</u>	<u>\$37,916,027</u>
Changes in Elements of Working Capital		
Current assets — Increase (decrease):		
Cash .....	\$ 3,699,325	\$ (2,314,879)
Accounts receivable .....	(3,153,354)	2,863,267
Inventories .....	(3,193,255)	35,100,628
Prepaid expenses .....	(18,273)	119,500
	<u>(2,665,557)</u>	<u>35,768,516</u>
Current liabilities — Increase (decrease):		
Bank advances .....	(16,149,161)	17,152,142
Accounts payable and accrued liabilities ...	4,881,547	8,746,100
Dividends payable .....	81,294	162,587
Income and other taxes payable .....	(2,540,409)	2,897,616
Advances on sales contracts .....	1,944,756	5,985,339
Long term debt due within one year .....	467,625	287,289
Due to affiliated companies .....	1,212,221	(209,183)
	<u>(10,102,127)</u>	<u>35,021,890</u>
Increase in working capital for the year .....	<u>\$ 7,436,570</u>	<u>\$ 746,626</u>

\*The 1974 figures have been restated to conform with the presentation adopted in 1975.

## 1. Summary of Principal Accounting Policies:

### *Principles of consolidation —*

The consolidated financial statements include the accounts of Hawker Siddeley Canada Ltd. and all subsidiary companies.

### *Foreign currency translation —*

Assets and liabilities in foreign currencies have been translated at year-end rates of exchange except for investments and long term debt. Investments have been translated at rates of exchange in effect when they were acquired. Long term debt has been translated at rates of exchange in effect when the obligations were incurred or when determined by forward foreign exchange contracts.

Translation adjustments are charged or credited to current income.

### *Revenue recognition —*

Revenue is recorded at the time the product is shipped or the services performed except on long term contracts. Revenue on long term contracts involving a series of shipments (for example railway or rapid transit cars) is recorded on the basis of units shipped. Revenue on long term contracts involving a single product (for example an oil drilling rig) is recorded on the percentage of completion method. Losses, if any, are provided for in full as soon as they become evident.

### *Research and development costs —*

These costs are expensed as incurred.

### *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.

### *Costs 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 primarily on the straight-line basis at rates of 2½% on buildings, 10% generally on equipment and 4% on railway rolling stock. When fixed assets are retired or sold, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss is reflected in the consolidated statement of income. Expenditures for repairs and maintenance are charged to income as incurred.

### *Pensions —*

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

Obligations to unfunded pension plans relate to retired employees and certain current employees for benefits which, for the most part, arose before the establishment

Hawker Siddeley Canada Ltd.  
and Subsidiary Companies

## Notes to Consolidated Financial Statements

for the year ended  
December 31, 1975

of funded pension plans. The principal obligation for unfunded pension plans is in Hawker Industries Limited, having originated in 1923. Under these pension plans monthly payments are made to pensioners which are charged, after appropriate income taxes, to the provision established for that purpose.

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

*Income taxes —*

Certain costs and expenses are recognized for income tax purposes and for financial reporting purposes in different time periods. When costs and expenses are recognized for tax purposes before being charged in the accounts, the resulting deferrals of taxation are recorded in the deferred income tax account; when costs and expenses are charged in the accounts before they can be applied in reduction of income for tax purposes, the related tax benefit is recorded when the application can be made.

The Company applies investment tax credits in reduction of the annual provision for income taxes.

**2. Net Sales:**

	<u>1975</u>	<u>1974</u>
	(in thousands)	
Equipment for the transportation industry .....	\$177,199	\$166,470
Equipment for the forestry and forest products industries .....	33,908	51,484
Equipment for the mining industry .....	54,790	29,575
Shipbuilding and repair .....	44,305	28,494
Other general engineering and services .....	55,032	48,992
	<u>\$365,234</u>	<u>\$325,015</u>

**3. Debentures:**

These are sinking fund debentures issued by Sidbec-Dosco Ltd. (formerly Dominion Steel and Coal Corporation, Limited) carried at cost. At December 31, 1975 the market value of these debentures is estimated to be \$2,200,000. Particulars of these debentures are:

<u>Series</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Maturity</u>
"A"	\$1,395,000	5¾%	June 1, 1984
"B"	1,312,700	6 %	July 15, 1985
"C"	601,125*	5¾%	July 15, 1985
	<u>\$3,308,825</u>		

\*U.S. \$560,000

The Company is holding these debentures as a long term investment.

**4. Fixed Assets:**

	1975			1974
	Cost	Accumulated depreciation	Net book value	Net book value
Land and land improvements ..	\$ 7,684,065	\$ 1,426,508	\$ 6,257,557	\$ 7,423,773
Buildings .....	46,730,339	27,637,574	19,092,765	20,296,871
Equipment .....	69,166,022	44,326,660	24,839,362	20,681,847
Railway rolling stock leasing fleet .....	126,523,250	41,915,106	84,608,144	74,404,423
	<u>\$250,103,676</u>	<u>\$115,305,848</u>	<u>\$134,797,828</u>	<u>\$122,806,914</u>

**5. Patents:**

Patent costs relate to the Chip-N-Saw product line. The Company plans to amortize the remaining patent costs over the ensuing two years.

**6. Due to Affiliated Companies:**

The liability to affiliated companies at December 31, 1975 includes advances from the parent company of \$3,336,352 (1974 — \$2,110,636).

**7. Long Term Debt:**

	1975	1974
Hawker Siddeley Canada Ltd. —		
Promissory note due in 1976 with interest at prevailing minimum commercial lending rates of a Canadian chartered bank .....	\$ 1,000,000	\$ 2,000,000
Dosco Overseas Engineering Limited (99%-owned) —		
Bank term loan (£1,000,000) due \$1,160,000 in 1977 and \$1,160,000 in 1978 (with privilege of earlier repayment) with interest at 12¾% to February 9, 1976 and 11% February 10 to April 9, 1976; thereafter based on cost to the bank of providing the funds plus 1.5% .....	2,320,000	2,320,000
Canadian General Transit Company, Limited (55%-owned) —		
Equipment Trust Certificates		
4¼% — 6¾% due 1976 — 1980 .....	908,000	1,220,000
First Mortgage Sinking Fund Equipment Notes		
5% — 9% due 1976 — 1989 (U.S. \$12,275,000) .....	12,950,109	14,010,937
6¾% — 11½% due 1976 — 1995 .....	30,012,500	20,950,000
First Mortgage Serial Equipment Notes		
6% — 10¼% due 1976 — 1984 .....	1,235,000	1,750,000
10¼% due \$150,000 in 1976 and 1977 and \$1,650,000 in 1978* .....	1,950,000	2,100,000
	<u>50,375,609</u>	<u>44,350,937</u>
Less — Due within one year included in current liabilities .....	4,442,953	3,975,328
	<u>\$45,932,656</u>	<u>\$40,375,609</u>

\* The 10¼% First Mortgage Serial Equipment Notes due 1976 — 1978 replaced a 9¾% Note for \$1,950,000 maturing in 1976.

Principal payments on long term debt will be as follows:

<u>Year ending December 31</u>	<u>Amount</u>
1976 .....	\$ 4,442,953
1977 .....	4,605,578
1978 .....	5,969,516
1979 .....	3,103,453
1980 .....	3,045,930
1981-1995 .....	29,208,179
	<u>\$50,375,609</u>

Railway rolling stock with a net book value of \$64,240,985 is pledged by Canadian General Transit Company, Limited as security for its long term debt.

Long term debt payable in foreign currencies translated at historical rates of exchange amounts to \$10,996,609, after deducting the portion covered by forward foreign exchange contracts. At the year-end rate of exchange this debt would be \$10,286,500.

**8. Pensions** (See Note 1):

The provision for unfunded pensions of \$4,852,518 at December 31, 1975 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, after income taxes, of \$406,485 were charged to the provision for unfunded pensions in 1975.

With respect to funded pension plans, the present value of past service obligations to be met, based on actuarial computations, is approximately \$11,000,000 at December 31, 1975. These obligations are to be settled by annual payments charged to operations through 1990. During 1975, an amount of \$825,953 was charged to operations with respect to these obligations.

**9. Preferred and Common Shares:**

Preferred shares of the par value of \$100 each issuable in series —	
Authorized — 250,000 shares	
Issued — 240,000 5¾% cumulative redeemable shares	
Outstanding — 140,000 shares .....	\$14,000,000
Common shares without nominal or par value —	
Authorized — 10,000,000 shares	
Issued and outstanding — 8,129,341 shares .....	54,319,948
	<u>\$68,319,948</u>

The outstanding preferred shares are redeemable at the option of the Company at \$105 per share.

During the year ended December 31, 1975, an option to subscribe for 1,000 common shares expired. As of December 31, 1975, an option to an officer to subscribe for 13,000 unissued common shares is outstanding at \$3.35 per share expiring in 1979. The effect upon earnings per share of exercising this option would be insignificant.

**10. Contingent Liabilities:**

The Company and a subsidiary are contingently liable for trade notes discounted in the approximate amount of \$5,100,000 (1974 — \$9,100,000). Possible losses on

claims and suits related to product sales have been provided for in an amount considered by management to be adequate.

#### **11. Commitments:**

At December 31, 1975 expenditures of approximately \$8,900,000 are required to complete capital programs including approximately \$600,000 for additions to the railway rolling stock leasing fleet. Also, an amount of \$20,644,000 including \$9,600,000 for the railway rolling stock leasing fleet had been authorized by the Board of Directors but not committed.

#### **12. Provision for Income Taxes:**

The provision for income taxes in the consolidated statement of income includes deferred income taxes of \$3,966,800 (1974 — \$2,236,819).

#### **13. Foreign Exchange Loss:**

A net exchange loss arising primarily on translation of net assets of United Kingdom subsidiaries, of \$1,124,570 (1974 — \$1,835) has been included in the determination of income before extraordinary items. Subsequent to December 31, 1975 a further decline in the exchange value of U.K. sterling has occurred.

#### **14. Income Tax Provision Not Required:**

The Company has accumulated costs and expenses which were charged in the accounts of prior years but could not be applied in reduction of income for tax purposes. During 1975 the Company applied certain of these costs and expenses in reduction of income for tax purposes and the related tax benefit of \$1,370,000 was recorded as an extraordinary item of income.

At December 31, 1975 there remain further costs and expenses which cannot as yet be applied in reduction of income for tax purposes. The related unrecorded tax benefits amounted to approximately \$650,000.

#### **15. Liquidation of Dominion Coal Company, Limited (Domco):**

During 1975 Domco, a former subsidiary company, was liquidated and a final distribution, after minority interest, of \$145,592 was received and taken into income as an extraordinary item.

#### **16. Anti-Inflation:**

Under the Federal Anti-Inflation Act, the Company may not declare or pay dividends on its common shares in excess of 36 cents per share during the first compliance period ending October 13, 1976. On January 16, 1976, in the compliance period, a first quarterly common share dividend of 9 cents was paid.

It is not yet possible to determine the other effects of this legislation on the Company.

#### **17. Remuneration of Directors and Officers:**

For the year 1975 the remuneration of seven directors amounted to \$32,204 (1974 — \$30,000) and of the eleven officers and one past officer amounted to \$554,431 (1974 — \$544,188). Eight directors received no remuneration as directors. Seven officers are also directors.

## Auditors' Report

To the Shareholders of  
Hawker Siddeley Canada Ltd.;

We have examined the consolidated balance sheet of Hawker Siddeley Canada Ltd. and subsidiary companies as at December 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their 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 18, 1976

	1975	1974
<b>Sales (\$000):</b>		
By Canadian factories —		
to Canadian markets .....	\$214,060	\$212,515
to Export markets .....	89,669	72,835
	<u>303,729</u>	<u>285,350</u>
By foreign subsidiaries (excluding sales of products of Canadian factories) .....	61,505	39,665
	<u>\$365,234</u>	<u>\$325,015</u>
<b>The average weekly number of employees and their remuneration was as follows:</b>		
in Canada .....	7,236	7,851
in the United Kingdom .....	577	429
in the United States of America and other countries ...	118	201
	<u>7,931</u>	<u>8,481</u>
<b>Aggregate remuneration of employees was (\$000) .....</b>	<b>\$113,589</b>	<b>\$101,154</b>
<b>Common share dividends for 1975 have been declared as follows:</b>		
Record Date	Payable	
December 19, 1975	January 16, 1976 .....	\$ .09
September 29, 1975	October 16, 1975 .....	.09
June 27, 1975	July 16, 1975 .....	.09
March 28, 1975	April 16, 1975 .....	.09
		<u>\$ .36</u>
Preferred share quarterly dividends of \$1.4375 were declared payable on the 2nd day of January, April, July and October, 1975.		
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	

**Miscellaneous  
Data on Sales,  
Employees,  
and Shares**

## Divisions and Subsidiaries

### Divisions:

Canadian Car Division, Thunder Bay, Ont.  
 Can-Car Trailer Division, Mississauga, Ont.  
 Canadian Car (Pacific) Division, Surrey, B.C.  
 Canadian Steel Foundries Division, Montreal, Que.  
 Canadian Steel Wheel Division, Montreal, Que.  
 Data Processing and Graphics Division, Mississauga, Ont.  
 Orenda Division, Mississauga, Ont.

### Subsidiaries:

Can-Car Inc., Atlanta and Bainbridge, Ga., Alexandria, La.,  
 McComb, Miss., U.S.A. (100%)\*  
 Chip-N-Saw, Inc., Atlanta, Ga., U.S.A.  
 The Dosco Corporation, Pittsburgh, Penn., Denver, Col.,  
 U.S.A.  
 Canadian Car Pte. Limited, Singapore (100%)\*  
 Chip-N-Saw A/S, Naestved, Denmark (100%)\*  
 Orenda Engines Inc., Buffalo, N.Y., U.S.A. (100%)\*  
 Orenda (International) Limited, Mississauga, Ont.,  
 Aylesbury, England (100%)\*  
 Hawker Industries Limited, Toronto, Ont. (99%)\*  
 Canadian Bridge Division, Windsor, Ont.  
 Halifax Shipyards Division, Halifax, N.S.  
 Trenton Works Division, Trenton, N.S.  
 Dosco Overseas Engineering Limited, Aylesbury,  
 England.  
 Hollybank Engineering Company Limited, Aylesbury,  
 England  
 Canadian General Transit Company, Limited, Montreal,  
 Que., Toronto, Ont., Moose Jaw, Sask., Red Deer, Alta.  
 (55%)\*

\* percentage control by Hawker Siddeley Canada Ltd.

**Equipment for the transportation industry:***Canadian Car Division**Can-Car Trailer Division**Canadian Steel Foundries Division**Canadian Steel Wheel Division**Trenton Works Division**Canadian General Transit Company, Limited*

Railway passenger cars (subway, commuter, and inter-city); highway trailers; containers; container chassis; railway castings; trackwork; railway and industrial wheels; railway freight cars and tank cars; railway axles; forgings; storage and pressure tanks; steel fabrications; railway tank car and special freight car leasing; bulk liquid storage terminals.

**Equipment for the forestry and forest product industries:***Canadian Car Division**Canadian Car (Pacific) Division**Canadian Car Pte. Limited**Can-Car Inc.**Chip-N-Saw A/S**Chip-N-Saw, Inc.*

Log skidders and other forest harvesting equipment; sawmill and lumber processing equipment; electric-electronic control equipment.

**Equipment for the mining industry:***Dosco Overseas Engineering Limited**Hollybank Engineering Company Limited**The Dosco Corporation*

Mining and tunnelling machines; support systems for mining roadways and civil engineering tunnels.

**Shipbuilding and repair:***Halifax Shipyards Division*

Naval and merchant shipbuilding; ship repair; offshore drilling vessel construction.

**Other general engineering and services:***Canadian Bridge Division**Canadian Steel Foundries Division**Data Processing and Graphics Division**Orenda Division**Orenda Engines Inc.**Orenda (International), Limited*

Electric power transmission towers and poles; communications structures; sub-stations; industrial castings; electronic data processing and graphics services; industrial gas turbines; aircraft gas turbines and components; components for nuclear power applications; engineering, design and laboratory testing services.

## Products and Services

## **Hawker Siddeley Canada Ltd.**

### **Head Office**

7 King Street East,  
Toronto, Ontario  
M5C 1A3

### **Directors**

A.A. Bailie, Toronto, Ontario  
J.H. Coleman, Toronto, Ontario  
R.S. Faulkner, Toronto, Ontario  
Sir Arnold Hall, London, England  
J.F. Howard, Q.C., Toronto, Ontario  
R.R. Kenderdine, Johannesburg, South Africa  
A.J. Laurence, London, England  
A.W. McKenzie, Montreal, Quebec  
L.A. Mitten, Vancouver, British Columbia  
J.N. Paterson, Thunder Bay, Ontario  
K.L. Phillips, London, England  
R.G. Smith, Halifax, Nova Scotia  
E.J. White, Montreal, Quebec

### **Executive Management**

Sir Arnold Hall, Chairman  
R.R. Kenderdine, Vice-Chairman  
R.G. Smith, Vice-Chairman  
R.S. Faulkner, President and  
Chief Executive Officer  
A.A. Bailie, Vice-President, Finance  
I.E. Bull, Vice-President and Treasurer  
J.W.R. Caldwell, Comptroller  
L.T. Corey, Vice-President  
(Halifax Shipyards and Trenton Works Divisions)  
A.W. McKenzie (Chairman and President,  
Canadian General Transit Company, Limited)  
L.A. Mitten, Vice President  
(Canadian Car (Pacific) Division)  
C.M. Parrish, Vice-President  
(Canadian Car Division)  
J.H. Ready, Vice-President and Secretary  
F.J. Sandford, Assistant Treasurer  
E.J. White, Vice-President  
(Canadian Steel Foundries and  
Canadian Steel Wheel Divisions)

### **Auditors**

Price Waterhouse & Co.,  
Toronto, Ontario

### **Registrar and Transfer Agent**

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



