

INGLIS LIMITED

Annual Report 1985



Inglis
Home Appliances

Whirlpool
Home Appliances

Admiral
Home Appliances

Company Profile

Inglis Limited manufactures and markets major home appliances as well as certain other related products.

With head office in Mississauga, Ontario, the Company operates four production plants in southern Ontario, one in Toronto, which manufactures automatic washers, one in Stoney Creek, which produces refrigerators, one in Mississauga, which produces refrigerators and dehumidifiers, and one in Cambridge which produces automatic dryers and dishwashers. A fifth factory in Montmagny, Quebec, produces electric ranges and built-in ovens. Inglis employees now number approximately 2,900.

The Company markets its products for nation-wide sale under the Inglis, Whirlpool and Admiral brand names through the Company's own sales offices in Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver. Sears Canada Inc. is a major customer of the Company's products.

Inglis maintains a service administration and national parts distribution centre in Mississauga as well as 22 Company-owned service branches across the country. The Company also has a network of more than 500 authorized service depots coast to coast.

ANNUAL MEETING

The annual meeting of shareholders will be held on Friday, April 25, 1986 at 9 a.m., at the head office of the Company, 1901 Minnesota Court, Mississauga, Ontario.

Le secrétaire, au siège social, vous fera volontiers parvenir un exemplaire du rapport annuel en français, sur demande.

On the Cover

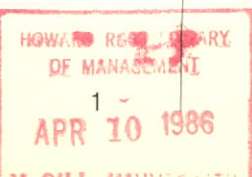
Night-time ceremonies at Expo Centre, site of an extraordinary World Exposition—EXPO 86 to be held in Vancouver, British Columbia, May 2 to October 13, 1986.

Financial Highlights

	1985	1984
Sales	\$334,770,000	\$286,880,000
Earnings before extraordinary item	10,805,000	9,388,000
Net earnings	8,154,000	9,388,000
Dividends paid	1,263,000	1,211,000
Working capital	45,270,000	41,917,000
Shareholders' equity	72,666,000	65,775,000
Per share of common stock		
Earnings before extraordinary item	\$2.05	\$1.78
Net earnings	1.55	1.78
Dividends	.24	.23
Book value	13.81	12.50

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Report of the Board of Directors



Robert J. Collins-Wright

TO THE SHAREHOLDERS:

Your directors present herewith the Annual Report of your Company for the year ended December 31, 1985.

Net sales for the year ended December 31, 1985 amounted to \$334,770,000, compared to \$286,880,000 for the year ended December 31, 1984. Net earnings for 1985 before extraordinary item were \$10,805,000 or \$2.05 per share, as compared to \$9,388,000 or \$1.78 per share for 1984. An extraordinary item of \$2,651,000 after tax, or \$0.50 per share, arising from the provision for estimated costs associated with the planned phaseout of the Stoney Creek facility, reduced final 1985 earnings to \$8,154,000 or \$1.55 per share. There was no extraordinary item in 1984.

The improved operating performance over 1984 reflects the strong consumer demand for major appliances and manufacturing efficiencies resulting from the Company's rationalization program.

Industry unit shipments of major home appliances in those segments of the market in which the Company participates (not including microwave ovens) increased by 11.9 per cent over 1984 levels, and the Company increased its overall market share. Industry unit shipments in 1986 are expected to show a modest increase over 1985 levels.

During the year, the Company completed the relocation of its dishwasher manufacturing operations from its Stoney Creek plant to its Cambridge plant and introduced the microwave oven to its product line in the fourth quarter. The microwave oven, since its introduction in 1972,

has shown the strongest growth of any major home appliance with industry shipments forecasted to reach 1,000,000 units in 1986.

In March 1985, the Company announced that the Port Credit division would be the location for its new refrigerator program and that all production operations at its Stoney Creek division would be phased out within the next three years. A provision for the estimated costs associated with this phaseout has been made during 1985.

At the Annual Meeting of Shareholders of the Company in April 1985, Mr. Roy F. Bennett, President of Bennecon Limited, was elected a director of the Company. Mr. Bennett brings to the Inglis Board valuable marketing, financial and administrative expertise gained in his many years with Ford Motor Company of Canada, Limited.

During 1985, Whirlpool Corporation increased its holdings in Inglis to approximately 51.3 per cent by buying shares on the open market.

Your directors wish to record their appreciation of the loyalty, support and efforts of the Company employees, and the support of our customers and suppliers during the past year.

On behalf of the Board,

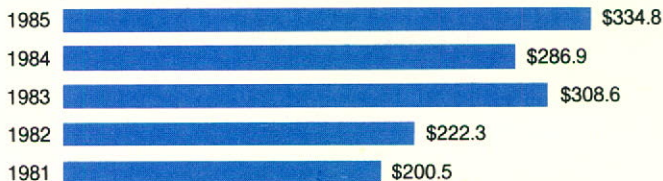


R. J. Collins-Wright
 Chairman of the Board,
 President and Chief Executive Officer

February 28, 1986

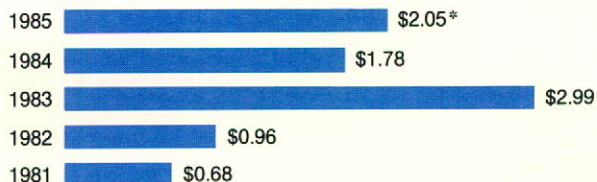
Sales

(millions of dollars)



Earnings Per Common Share

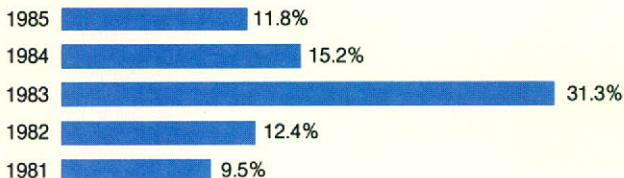
(dollars)



*Before extraordinary item

Return on Shareholders' Equity

(per cent)



INGLIS LIMITED

(Incorporated under the laws of Ontario)

Balance Sheet at December 31

ASSETS	1985	1984
Current		
Short-term investments		\$ 8,839,000
Accounts receivable	\$ 28,066,000	19,393,000
Inventories (note 3)	79,620,000	66,151,000
Deferred income taxes and prepaid expenses	4,723,000	2,373,000
Total current assets	112,409,000	96,756,000
Fixed assets		
Land	4,693,000	4,693,000
Buildings	21,442,000	19,570,000
Equipment	32,134,000	30,417,000
	58,269,000	54,680,000
Less accumulated depreciation	24,342,000	21,812,000
	33,927,000	32,868,000
Unamortized tooling costs	6,403,000	2,983,000
	40,330,000	35,851,000
	\$152,739,000	\$132,607,000

(See accompanying notes)

Auditors' Report

To the Shareholders of Inglis Limited:

We have examined the balance sheet of Inglis Limited as at December 31, 1985 and the 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 financial statements present fairly the financial position of the Company as at December 31, 1985 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, except for the change in accounting for investment tax credits as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Canada,
January 15, 1986.

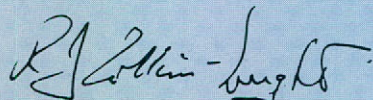
Clarkson Gordon
Chartered Accountants

LIABILITIES	1985	1984
Current		
Bank loans and advances	\$ 5,394,000	\$ 6,164,000
Accounts payable, warranties and accrued charges	50,073,000	40,395,000
Income and other taxes payable	5,796,000	3,239,000
Deferred service contract revenue	3,788,000	3,050,000
Current portion of long-term debt (note 4)	2,088,000	1,991,000
Total current liabilities	67,139,000	54,839,000
Warranty provision	1,764,000	1,952,000
Deferred income taxes	6,409,000	3,192,000
Long-term debt (note 4)	4,761,000	6,849,000

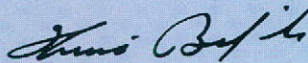
SHAREHOLDERS' EQUITY

Capital—		
Authorized		
40,000,000 shares		
Issued		
5,263,324 shares	11,814,000	11,814,000
Retained earnings	60,852,000	53,961,000
	72,666,000	65,775,000
	\$152,739,000	\$132,607,000

On behalf of the Board:



ROBERT J. COLLINS-WRIGHT
Director



HERVÉ BELZILE
Director

Statement of Income and Retained Earnings

Year ended December 31

	1985	1984
Sales	\$334,770,000	\$286,880,000
Earnings before the undernoted expenses	\$ 22,207,000	\$ 18,939,000
Depreciation and amortization	3,371,000	2,842,000
Interest on long-term debt	588,000	824,000
Other interest (net)	620,000	851,000
	4,579,000	4,517,000
Earnings before income taxes and extraordinary item	17,628,000	14,422,000
Income taxes (note 5)	6,823,000	5,034,000
Earnings before extraordinary item	10,805,000	9,388,000
Extraordinary item (net of income taxes of \$2,049,000) (note 10)	2,651,000	
Net earnings for the year	8,154,000	9,388,000
Dividends	1,263,000	1,211,000
	6,891,000	8,177,000
Retained earnings, beginning of year	53,961,000	45,784,000
Retained earnings, end of year	\$ 60,852,000	\$ 53,961,000
Earnings per share		
Earnings before extraordinary item	\$2.05	\$1.78
Net earnings for the year	1.55	1.78

(See accompanying notes)

Statement of Changes in Financial Position

Year ended December 31

	1985	1984
Cash provided by (used in) operating activities		
Earnings before extraordinary item	\$10,805,000	\$ 9,388,000
Add (deduct) charges not requiring a current cash payment		
Depreciation and amortization	3,476,000	2,842,000
Deferred income taxes	3,217,000	1,740,000
Warranty provision	(187,000)	(654,000)
Gain on disposal of fixed assets	(30,000)	(134,000)
	17,281,000	13,182,000
Extraordinary item	(2,651,000)	
Net change in non-cash working capital balances related to operations	(11,424,000)	(7,262,000)
Cash provided by operating activities	3,206,000	5,920,000
Dividends	(1,263,000)	(1,211,000)
Cash provided by operating activities retained in business	1,943,000	4,709,000
Cash provided by (used in) investment activities		
Additions to fixed assets	(7,960,000)	(9,535,000)
Proceeds on disposition of fixed assets	36,000	597,000
Cash used in investment activities	(7,924,000)	(8,938,000)
Cash used in financing activities		
Reduction of long-term debt	(2,088,000)	(2,935,000)
Cash used in financing activities	(2,088,000)	(2,935,000)
Net decrease in cash during year	(8,069,000)	(7,164,000)
Cash, beginning of year	2,675,000	9,839,000
Cash, end of year	\$(5,394,000)	\$ 2,675,000

Cash comprises short-term investments less bank loans and advances.
(See accompanying notes)

Notes to Financial Statements December 31, 1985

1. Significant accounting policies

These financial statements are prepared in accordance with accounting principles generally accepted in Canada, the more significant of which are as follows:

(a) Inventories—

Inventories are valued at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis and includes material, direct labour and applied manufacturing overhead costs.

(b) Fixed assets—

Land, buildings and equipment are stated at cost. Depreciation is based on the estimated average useful lives of the various classes of assets, calculated on the straight-line method at the following rates:

Buildings—	2½% to 5%
Equipment—	10% to 25%

Upon sale or retirement, the cost of the asset and the related accumulated depreciation are removed from the accounts and any gain or loss thereon is taken into earnings.

Investment tax credits in 1985 amounted to \$271,000 and have been deducted from the cost of the related fixed assets.

Major tooling costs are amortized over one to five years based on their estimated useful life.

(c) Service contract revenue—

Service contract revenue is deferred on receipt and is amortized over the term of the service contract.

(d) Product warranty—

The Company recognizes the estimated cost of warranty obligations to the consumers of its products at the time the product is sold.

(e) Deferred income taxes—

Timing differences between reported income and taxable income—principally capital cost allowance claimed for tax purposes in excess of depreciation provided in the financial statements, and provisions for warranty obligations which are not deductible for tax purposes until paid—result in a difference between income taxes currently payable and the provision for taxes on the statement of income and retained earnings. Deferred taxes applicable to the use of accelerated depreciation for income tax purposes, and to other non-current items, are classified as deferred income taxes. Current deferred taxes applicable to the current portion of warranty obligations and differences relating to current assets have been grouped with prepaid expenses.

(f) Investment tax credits—

Investment tax credits generated by qualifying capital expenditures made during the year are recorded as a reduction of the related fixed assets when reasonable assurance of realization of the benefits exists. The benefits are realized in income as a reduction of the related depreciation expense.

(g) Foreign exchange—

Foreign currency transactions are translated into Canadian dollars at the rates prevailing on the date of the transactions. Monetary assets and liabilities in foreign currencies at the close of the year are translated at the year-end rate of exchange.

2. Change in accounting for investment tax credits

During the year the Company changed its method of accounting for investment tax credits in accordance with the new recommendations of the Canadian Institute of Chartered Accountants. The effect of this change, which was applied prospectively from January 1, 1985, does not have a material effect on the earnings of the Company.

3. Inventories

Inventories consist of:

	1985	1984
	(in thousands)	
Finished products	\$54,767	\$41,839
Materials and work in process	24,853	24,312
	<u>\$79,620</u>	<u>\$66,151</u>

4. Long-term debt

	1985	1984
	(in thousands)	
11% secured sinking fund debentures, Series "A" \$1,700,000 due annually 1986 and 1987 and \$1,800,000 at maturity in 1988	\$ 5,200	\$ 6,900
Government of Canada non-interest bearing capital assistance loans due 1986 to 1990	1,649	1,940
	<u>6,849</u>	<u>8,840</u>
Less current portion	2,088	1,991
	<u>\$ 4,761</u>	<u>\$ 6,849</u>

A first fixed and floating charge on all lands, buildings, machinery and equipment has been provided as collateral for the 11% debentures. The trust indenture for these debentures contains restrictions under certain circumstances on the payment of dividends.

Repayments on long-term debt are as follows: 1987—\$2,088,000; 1988—\$2,188,000; 1989—\$388,000 and 1990—\$97,000.

5. Variations in the effective income tax rate

	<u>1985</u>	<u>1984</u>
The Company's income tax rate is made up as follows:		
Combined basic Canadian federal and provincial income tax rate	49.7%	49.1%
Increase (decrease) in tax rate resulting from—		
Manufacturing and processing profits deduction	(6.1)	(6.0)
Inventory allowance	(5.5)	(6.8)
Investment tax credit		(1.6)
Miscellaneous	0.6	0.2
Effective income tax rate	<u>38.7%</u>	<u>34.9%</u>

The net tax expense (including taxes on extraordinary item) is \$4,774,000, of which \$4,270,000 is currently payable and \$504,000 is deferred.

6. Lease commitments

Future payments under operating leases with a term of more than one year are as follows: 1986—\$2,820,000; 1987—\$2,509,000; 1988—\$2,386,000; 1989—\$305,000; and 1990—\$163,000.

7. Pension plans

At December 31, 1985 based on the latest actuarial valuation as at December 31, 1982 of the Company's pension plans, the unfunded obligation for past service pension benefits is approximately \$2,600,000. This obligation is being amortized over periods not exceeding thirteen years.

8. Related party transactions

Whirlpool Corporation and Sears Canada Inc. are associated companies and account for their investments in the Company on a consolidated and an equity basis respectively.

During the year, the Company made sales to and acquired goods and services on normal trade terms from Whirlpool Corporation and its associated companies of \$694,000 and \$20,964,000 respectively (1984—\$1,691,000 and \$12,522,000). An amount payable of \$1,971,000 (1984—\$2,141,000) is outstanding to Whirlpool Corporation at year-end.

Approximately 29% (1984—34%) of the Company's sales in 1985 were made to Sears Canada Inc. and at December 31, 1985 there is a receivable balance of \$2,244,000 outstanding (1984—\$946,000).

9. Segmented information

The Company operates in one industry, the manufacture, sale and service of major appliances in Canada.

10. Extraordinary item

In March 1985, the Company announced that it would phase-out all production operations at its Stoney Creek Division within the next three years. Provision has been made in these financial statements for the estimated costs associated with this closure. This facility's land and buildings, which will be offered for sale, are included in the land and buildings captions on the balance sheet at their net book value.

11. Statement of changes in financial position

In 1985, the statement of changes in financial position has been prepared on the basis of changes in the Company's cash resources which are comprised of short-term investments less bank loans and advances. In prior years, the Company prepared its statement of changes in financial position on the basis of changes in working capital.

Five Year Statistical Review 1981—1985

(thousands of dollars except per share)

	1985	1984	1983	1982	1981
Operations					
Sales	\$334,770	\$286,880	\$308,598	\$222,266	\$200,516
Earnings before income taxes and extraordinary item	\$ 17,628	\$ 14,422	\$ 26,435	\$ 8,584	\$ 5,701
Per cent to sales	5.3%	5.0%	8.6%	3.9%	2.8%
Earnings before extraordinary item	\$ 10,805	\$ 9,388	\$ 15,728	\$ 5,045	\$ 3,563
Per cent to sales	3.2%	3.3%	5.1%	2.3%	1.8%
Net earnings for the year	\$ 8,154	\$ 9,388	\$ 15,728	\$ 5,045	\$ 3,563
Per cent to sales	2.4%	3.3%	5.1%	2.3%	1.8%
Net earnings per share ^{**}	\$ 1.55	\$ 1.78	\$ 2.99	\$.96	\$.68
Earned on shareholders' equity	11.8%	15.2%	31.3%	12.4%	9.5%
Dividends paid	\$ 1,263	\$ 1,211	\$ 974	\$ 895	\$ 895
Per share [*]	\$.24	\$.23	\$.19	\$.17	\$.17
Depreciation on buildings and equipment	\$ 2,466	\$ 1,994	\$ 2,110	\$ 2,092	\$ 2,343
Amortization of tooling	\$ 905	\$ 848	\$ 1,392	\$ 917	\$ 826
Additions to land, buildings and equipment—net	\$ 3,629	\$ 6,765	\$ 1,491	\$ 13,762	\$ 3,148
Additions to tooling	\$ 4,325	\$ 2,307	\$ 751	\$ 1,188	\$ 1,258
Balance Sheet					
Working capital	\$ 45,270	\$ 41,917	\$ 41,819	\$ 41,357	\$ 34,305
Ratio of current assets to current liabilities	1.67:1	1.76:1	1.59:1	1.93:1	2.15:1
Land, buildings and equipment—net	\$ 33,927	\$ 32,868	\$ 28,097	\$ 28,716	\$ 17,046
Unamortized tooling	\$ 6,403	\$ 2,983	\$ 1,524	\$ 2,165	\$ 1,894
Long-term debt	\$ 4,761	\$ 6,849	\$ 9,784	\$ 24,990	\$ 10,300
Shareholders' equity					
Capital	\$ 11,814	\$ 11,814	\$ 11,814	\$ 11,814	\$ 11,814
Retained earnings	\$ 60,852	\$ 53,961	\$ 45,784	\$ 31,030	\$ 26,880
	\$ 72,666	\$ 65,775	\$ 57,598	\$ 42,844	\$ 38,694
Number of shares outstanding (in thousands) ^{**}	5,263	5,263	5,263	5,263	5,263
Book value per share [*]	\$ 13.81	\$ 12.50	\$ 10.94	\$ 8.14	\$ 7.35
Non-Financial					
Number of employees (year end)	2,912	2,542	2,869	2,484	1,977
Number of shareholders (year end)	531	547	571	630	686

^{*}Restated for 1983 and prior years to reflect the four-for-one stock split that was effective May 18, 1984.

Current Cost Information (unaudited)

The Canadian Institute of Chartered Accountants has issued recommendations entitled "Reporting the Effects of Changing Prices". These recommendations have not been fully implemented as Management believes the information that would be provided using the methods suggested involves numerous estimates and subjective assumptions which might impair the validity of the information provided to the shareholders. Had the recommendations been adopted using specific price level indices, the depreciation and amortization charge would have increased by approximately \$1,083,000 (1984—\$844,000) and cost of sales increased by approximately \$1,747,000 (1984—decrease \$581,000).

Directors and Officers

DIRECTORS

Hervé Belzile, F.C.A.

Chairman of the Board
Alliance Mutual Life Insurance Company

Roy F. Bennett, F.C.A.

President
Bennecon Limited

Robert J. Collins-Wright

Chairman of the Board, President
and Chief Executive Officer
Inglis Limited

Robert J. Flautt

Senior Vice President and Treasurer
Whirlpool Corporation

Christopher G. Fleming

Vice Chairman
National Trust Company

Roger Lachapelle

President and Chief Executive Officer
Corby Distilleries Limited

Arthur H. Mingay

Former Chairman
The Canada Trust Company

Donald M. Pringle, Q.C.

Lash, Johnston

R. Barrett Simpson

Former Vice President and Treasurer
Inglis Limited

Jack D. Sparks

Chairman of the Board, President
and Chief Executive Officer
Whirlpool Corporation

George E. Wardeberg

Vice Chairman and
Chief Operating Officer
Whirlpool Corporation

OFFICERS

Robert J. Collins-Wright

Chairman of the Board, President
and Chief Executive Officer

Alfred C. Chink

Vice President—Finance and Treasurer

Gordon I. Forsell

Vice President—
Inglis, Whirlpool and Admiral Sales

Peter A. Ketchum

Vice President—
Management Information Systems and
Physical Distribution

Leonard G. Patterson

Vice President—
Manufacturing Operations

G. Douglas Smith

Vice President—Human Resources

Norman A. Stewart

Vice President—Consumer Services

Donald H. Hobbs

Corporate Secretary

Corporate Information

Head Office

1901 Minnesota Court
Mississauga, Ontario
L5N 3A7

Principal Bankers

The Royal Bank of Canada
Royal Bank Plaza
Toronto, Ontario
M5J 2J5

Auditors

Clarkson Gordon
P.O. Box 251
Toronto-Dominion Centre
Toronto, Ontario
M5K 1J7

Transfer Agent and Registrar

The Canada Trust Company
20 Eglinton Avenue West
Toronto, Ontario M4R 2E2
and

600 Dorchester Boulevard West
Montreal, Quebec H3B 1N6

Dividend Disbursing Agent

The Canada Trust Company
20 Eglinton Avenue West
Toronto, Ontario M4R 2E2

Stock Exchanges

Common Stock of Inglis Limited is listed on The Toronto Stock Exchange and the Montreal Stock Exchange. The exchange symbol is ING.

Products

Home Laundry

Automatic Washers
Automatic Dryers

Refrigerators

Top Freezer
Side-by-Side

Microwave Ovens

Counter Top
Micro/Convection
Over the Range

Residential Trash Compactors

Dishwashers

Undercounter
Portable

Electric Ranges

Free-Standing
Wall Ovens
Surface Units

Commercial Laundry

Coin-Operated Washers
Coin-Operated Dryers

Dehumidifiers

INGLIS LIMITED
1901 Minnesota Court, Mississauga, Ontario, Canada L5N 3A7

