1991

ANNUAL REPORT

ITT CANADA LIMITED

Corporate Profile

ITT Canada is a diversified product and services company engaged principally in the manufacture and distribution of automotive parts, fluid handling equipment and electronic components, and in the provision of finance, insurance and hotel management services.

The **Automotive** divisions manufacture brake system components, structural metal stampings, tubular products such as brake and fuel line assemblies, seating system components, wiper motors and wiper systems. The products are sold to original equipment manufacturers and to the aftermarket.

The **Fluid Technology** divisions manufacture and distribute pumps, control valves, heat transfer equipment and liquid and gas measuring and control instrumentation for use in mineral, pulp & paper and oil and gas processing, municipal water handling, construction site de-watering and HVAC systems in commercial and residential buildings.

The **Components** divisions are responsible for the manufacture and distribution of electrical and electronic connectors for Canadian and export markets, and for the distribution of electronic components Canada-wide.

The **Finance** company finances inventories of consumer durables, business machines and industrial equipment held at the dealer/distributor level.

The **Insurance** company provides life and disability insurance. Over 100,000 Canadians and their families were protected through individual and group policies in 1991.

The **Hotels** business unit manages ITT Sheraton Canada's four corporate hotels, provides support services to ITT Sheraton Canada franchised properties, purchases food & beverages and furniture and supplies for the ITT Sheraton Canada network and for the Canadian hotel industry.

ITT Canada employs 3,800 people in Canada, including 1,700 people in four company-managed hotels, and carries on business at over 50 locations in nine provinces. The company's head office is in Toronto.

Chairman's Message

The Company performed well in 1991 despite poor business conditions. A weak North American economy, a strong Canadian dollar and a country preoccupied with constitutional issues all contributed to make 1991 a most difficult year. While sales and earnings were down from 1990 *they were in line with our expectations.*

Sales and revenues of $333.6 million in 1991 were down 7% from 1990. All of the business segments recorded lower levels of sales in 1991. Most of the decline was in the Automotive and Fluid Technology segments, due to the sale of the Company's automotive aftermarket brake shoe business at the end of 1990 and, due to continuing weakness in most of the industrial and commercial markets for fluid handling equipment. Export sales declined 6% to $140.2 million in 1991. Reduced shipments of automotive parts and electronic components (connectors) to the United States more than offset increased shipments of automotive parts to customers in Mexico.

Business segment operating income of $16.8 million in 1991 was 49% lower than the comparable figure for 1990. Approximately 40% of the decline is attributable to the Hotel business, due largely to the removal of a significant portion of the capacity of The Sheraton Centre, Toronto from service while this property underwent a major renovation during 1991. The earnings of the Automotive, Fluid Technology and Components businesses were also down, due to a combination of lower sales volumes and intensive pressure on pricing.

Net income before provision of $0.3 million for preferred share dividends ($4.5 million in 1990) was $16.0 million in 1991 compared with $29.9 million in 1990. Earnings per common share were $3.71 compared with $5.87.

In January 1991 the Company redeemed the remaining $50 million of First Preferred shares, which it considered surplus to its current needs. The Company has virtually no long-term debt.

During the year the Company completed most of a planned $44 million renovation of The Sheraton Centre, Toronto. This project, which is scheduled for completion in the Spring of 1992, will strengthen ITT Sheraton Canada's position in the important Toronto business travel and conference market.

The Company continues to seek and gain new markets and customers for its products and services. During the past year the ITT SWF Auto-Electric unit successfully launched a new wiper motor assembly for the Opel Division of General Motors Europe and ITT Commercial Finance successfully implemented a new electronic data interchange system (in partnership with a Canadian bank) to gain the dealer sales financing business of a large manufacturer of business machines.

The Company increased its interest in Le Centre Sheraton to 33⅓% (from 25%), effective January 1, 1992, as part of a financial restructuring of its Montreal property. This change will strengthen the Company's position as one of the leading hoteliers in the Montreal market.

The challenges of last year will be even more formidable this year, for our Company and for our country. As a Company, we will have to compete even harder than in 1991 to maintain market share and profitability. As individual Canadians, we will have to put our differences aside, focus on our collective strengths, and learn the art of compromise in order to maintain Canada as a strong united country.

Having said that, I gratefully acknowledge the support received from our loyal employees and from our Board of Directors during the past year, and I am confident that with their continued support we can look forward to another profitable year in 1992.

Thomas H. Savage

Thomas H. Savage, CBE
Chairman and President – ITT Canada Limited
Senior Officer Canada – ITT Corporation

March 24, 1992

Management Discussion and Analysis of Financial Condition and Results of Operations

Business Segments

The important factors affecting each of the business segments are discussed in the sections which follow.

Automotive

($ Millions)	**1991**	1990
Sales	**$159.8**	$170.9
Operating Income	**9.2**	12.4
Assets	**84.3**	86.8

The reduced sales volume in 1991 reflects the sale of the Company's aftermarket brake shoe business in the fourth quarter of 1990, partly offset by an increase in volume from continuing operations.

The reduction in operating income is largely due to intense price resistance from the Company's original equipment automotive customers, resulting in lower margins on new programs and price reductions on continuing programs. Methods improvements and ongoing cost reduction programs generated significant savings in 1991 but were not sufficient to prevent margin shrinkage.

The reduction in assets is mainly inventories and receivables, reflecting the lower level of sales in 1991.

The North American automotive industry is still in a cyclical contraction that began in the fourth quarter of 1989. The Company has performed well during this difficult period and believes it is well positioned to take advantage of a modest expansion which the industry expects to begin in the second half of 1992.

Fluid Technology

($ Millions)	**1991**	1990
Sales	**$ 93.3**	$103.3
Operating Income	**9.6**	12.6
Assets	**50.8**	54.0

This business segment manufactures and supplies pumps, control valves, heat transfer equipment and measuring & control devices for use in mineral, pulp & paper and oil & gas processing, municipal water handling, construction site de-watering and HVAC systems in commercial and residential buildings. Sales of these products tend to follow the capital spending cycle and the reduction in sales in 1991 reflects a contraction in spending, that began in the middle of 1990, on new process plants and on industrial and commercial construction. The reduction in operating income and assets in 1991 reflects the lower level of sales.

This business segment performed well in terms of flexing variable costs and inventories and receivables to a lower level of sales in 1991 and will be taking steps to reduce some of its fixed costs and assets in 1992.

The outlook for most of the markets served by the Fluid Technology business is for further weakening in 1992. The Company believes, however, that outstanding product performance and quality, combined with extensive support service, are benefits its customers will continue to value despite an increasingly competitive marketplace.

Components

($ Millions)	**1991**	1990
Sales	**$ 46.0**	$ 53.1
Operating Income	**2.8**	6.3
Assets	**23.0**	26.0

This group is comprised of a connector manufacturing business and an electronic components distribution business. Most of the reduction in sales, operating income and assets was in the manufacturing business. Connector sales were down because of weak demand in most of the Company's markets, especially in the commercial aircraft market in the United States. The near term outlook for the Company's manufactured product is for continued weakness in its served markets.

The distribution business, which has been negatively affected by weak demand and intense competition for several years, had a further decline in its sales. This business environment is not expected to change in 1992. The unit has been able to maintain its leadership position through cost reduction measures such as branch consolidation and warehouse mechanization and plans additional measures including the integration of a sister ITT distribution business based in the United States with some of its operations. The unit has recently begun serving some U.S. markets from Canada as part of this strategy.

Finance and Insurance

($ Millions)	**1991**	1990
Revenues	**$ 69.2**	$ 72.3
Operating Income	**3.4**	3.3
Assets	**246.5**	215.7

Finance business revenue was down from 1990 but operating income was up, the result of a reduction in charge-offs. Finance business assets were also up due to a higher level of business activity at year-end 1991 and a lower level of receivable charge-offs compared with year-end 1990. Insurance revenue and assets increased in 1991 due to continued growth of a creditor life insurance program introduced in 1988. Insurance business income, however, was down from 1990 because of increased income taxes payable.

Finance business revenue is expected to increase in 1992 as a result of a decision of a large supplier of business machines to use the facilities of ITT Commercial Finance to finance its dealers' purchases. Insurance business revenue is expected to decline in 1992 as a result of a decision by the Company's creditor life partner to take the business in-house. Total segment income is expected to decline in 1992 as a combined result of these changes in business outlook.

Hotels

($ Millions)	**1991**	1990
Sales and Revenue	**$ 49.5**	$ 56.5
Operating Income	**(8.7)**	(2.1)
Assets	**88.3**	81.0

The Company's Hotel business revenue is comprised of its proportionate interest in the gross revenues of two Company-managed hotels in which it has equity interests (50% of The Sheraton Centre, Toronto, and 25% of Le Centre Sheraton, Montreal), fees from management contracts (The Sheraton Centre, Toronto; Le Centre Sheraton, Montreal; Halifax Sheraton), fees from 15 franchised hotels, fees from food and beverage procurement service contracts and sales of hotel furniture and supplies.

The results recorded by the Hotel business in 1991 primarily reflect the removal from service of a substantial portion of the capacity of The Sheraton Centre, Toronto, while this property was undergoing a major renovation. The Sheraton Centre, Toronto is the hotel unit's largest Company-managed hotel in Canada and represents a large portion of the Company's Hotel business revenues and assets. The results recorded in 1991 also reflect one of the weakest business travel and conference markets in years. Occupancy rates in the Canadian hotel industry were at their lowest level in 20 years in 1991 and this low level of demand affected the results of the other Company-managed hotels as well as the franchise division. With the completion of the renovation of The Sheraton Centre, Toronto and industry expectations of a modestly stronger business travel market, the Company looks to 1992 with optimism for its Hotel business.

The ITT Sheraton Canada network was strengthened during 1991 with the addition of two franchised properties: The Chateau Cartier Sheraton, a new 130-room hotel in the Ottawa-Hull area and The Chateau Vaudreuil Sheraton, a 122-room hotel in Vaudreuil, Quebec. The ITT Sheraton Canada network was further strengthened with the opening in January 1992 of The Sheraton Inn Fredericton, a new 227-room Company-managed hotel in Fredericton, New Brunswick. Effective January 1, 1992, the Company's ownership interest in Le Centre Sheraton, Montreal was increased to $33\frac{1}{3}$%.

Liquidity and Capital Reserves

During 1991 and 1990, Cash and Marketable Securities decreased $33.0 million and $86.3 million, respectively, representing a net cash flow improvement of $53.3 million in 1991 over the prior year. This improvement is due to the redemption of First Preferred shares amounting to $50 million in 1991 compared to $125 million in 1990. Cash flow, excluding the effect of the preferred share redemptions in both years, was $17.0 million in 1991 and $38.7 million in 1990. This $21.7 million decrease in cash flow year-over-year reflects the additional investment made in The Sheraton Centre, Toronto where a significant renovation program is nearing completion, and generally weaker cash flow from operations from each of the Company's business segments.

The Company has virtually no long-term debt, a strong working capital ratio and over $60 million in cash, marketable securities and accounts receivable.

Business Environment

The Company's sales order backlog stood at $49.0 million at year-end 1991, up 2% from 1990. A 14% rise in the Automotive segment backlog more than offset declines in the Components and Fluid Technology business order backlogs. The Automotive segment recorded its first year-over-year increase in order backlog since 1988.

Export sales of $140.2 million were down 6% from 1990. Shipments of automotive parts and electronic components (connectors) to customers in the United States declined, more than offsetting increased shipments of automotive parts to customers in Mexico and of timber products to customers in the Far East.

The decline in automotive parts shipments to the United States was entirely due to the disposal of the Company's aftermarket drum-brake shoe business at the end of 1990. The decline in electronic components (connectors) shipments to the United States was due to weakness in the commercial aircraft and business machine markets. The increase in shipments of automotive parts to Mexico reflects the recent lowering of trade barriers and strengthening of the Mexican economy.

The Canada/U.S. Free Trade Agreement of 1989 has had relatively little impact on the Company because over one-half of its production consists of original equipment automotive parts, a commodity that has been trading duty-free for over 25 years under the Canada/U.S. Automotive Agreement. However, the intense pressure on pricing, resulting from the strengthening of the Canadian dollar relative to the U.S. dollar and from the twin business recessions in North America during 1991, has had, and continues to have, a significant negative impact on margins and on the Company's ability to book profitable new business in both Canada and the United States.

The Company views the proposed trilateral (Canada-United States-Mexico) North American Free Trade Agreement, currently being negotiated, as a positive development. The removal of trade barriers between the three countries will enable ITT Corporation to rationalize its operations on a continental basis and will provide the Company's business units with new market opportunities.

Consolidated Balance Sheets

December 31, 1991 and 1990

(in thousands)	1991	1990
ASSETS		
Current Assets		
Cash	$ 1,263	$ 533
Marketable securities	15,000	48,748
Trade accounts receivable		
Outsiders	43,713	47,129
Affiliated companies	7,588	17,240
Inventories (Note 2)	45,004	46,434
Prepaid expenses and other	7,008	5,304
	$119,576	$165,388
Investment in Non-Consolidated Entities (Note 3)	81,629	72,025
Property, Plant and Equipment (Note 4)	59,914	63,221
Mortgages Receivable (Note 3)	11,437	11,437
Other Assets (Note 5)	33,436	40,896
	$305,992	$352,967

	1991	1990
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Trade accounts payable and accruals		
Outsiders	$ 40,994	$ 47,690
Affiliated companies	7,527	11,201
	$ 48,521	$ 58,891
Long-Term Debt (Note 8)	290	1,424
	$ 48,811	$ 60,315
Shareholder's Equity		
Capital stock (Note 10)	$110,035	$161,235
Contributed surplus	5,062	5,062
Retained earnings	142,084	126,355
	$257,181	$292,652
	$305,992	$352,967

Approved on behalf of the Board:

Director Gerald B Fedchun Director

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

For the years ended December 31, 1991 and 1990

(in thousands except per share)	1991	1990
Sales and Revenues	**$333,623**	$358,848
Cost of Sales and Services	**270,263**	285,203
	$ 63,360	$ 73,645
Operating Expenses		
Selling	**$ 27,244**	$ 28,729
General and administrative	**14,134**	17,138
	$ 41,378	$ 45,867
	$ 21,982	$ 27,778
Other Income (Expense)		
(Loss) income from non-consolidated entities (Note 3)	**(4,918)**	2,007
Interest income, net	**2,775**	2,575
Miscellaneous expense, net	**(3,110)**	(1,824)
Income before income taxes	**$ 16,729**	$ 30,536
Income Taxes (Note 11)	**700**	600
Net Income	**$ 16,029**	$ 29,936
Earnings Per Common Share		
Net income	**$ 3.78**	$ 6.92
First Preferred share dividends (Note 10)	**(0.07)**	(1.05)
	$ 3.71	$ 5.87

Consolidated Statements Of Retained Earnings

For the years ended December 31, 1991 and 1990

(in thousands)	1991	1990
Balance, Beginning of Year	**$126,355**	$100,956
Net Income	**16,029**	29,936
Dividends		
First Preferred shares		
Series 1	**—**	(937)
Series 2	**(300)**	(3,600)
Balance, End of Year	**$142,084**	$126,355

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements Of Cash Flows

For the years ended December 31, 1991 and 1990

(in thousands)	1991	1990
Cash From (Used In) Operating Activities		
Net income	**$ 16,029**	$ 29,936
Adjustments for non-cash items		
Depreciation and amortization	**13,260**	12,264
Loss (income) from non-consolidated entities	**4,918**	(2,007)
Pension expense credit	**(616)**	(950)
	$ 33,591	$ 39,243
Decrease in non-cash working capital items (excluding mortgages receivable)	**3,024**	1,936
Other	**(4,690)**	(2,771)
	$ 31,925	$ 38,408
Cash From (Used In) Investing Activities		
Redemption of securities related to prior sale of discontinued operations	**$ 12,500**	$ —
Additions to property, plant and equipment, net	**(9,687)**	(9,528)
Investment in non-consolidated entities	**(14,522)**	(4,326)
Collection of mortgages receivable	**—**	25,278
	$(11,709)	$ 11,424
Cash Used In Financing Activities		
Redemption of First Preferred shares	**$(50,000)**	$(125,000)
Dividends paid to preferred shareholders	**(900)**	(6,412)
Redemption of common shares	**(1,200)**	(2,300)
Repayment of long-term debt	**(1,134)**	(2,383)
	$(53,234)	$(136,095)
Net decrease in cash and marketable securities	**$(33,018)**	$ (86,263)
Cash and Marketable Securities, Beginning of Year	**49,281**	135,544
Cash and Marketable Securities, End of Year	**$ 16,263**	$ 49,281

The accompanying notes are an integral part of these consolidated financial statements.

Notes To Consolidated Financial Statements

December 31, 1991 and 1990

1. Summary of Significant Accounting Policies

(a) BASIS OF CONSOLIDATION ITT Canada Limited ("ITT Canada") is a holding company for the shares of its wholly-owned subsidiary, ITT Industries of Canada Ltd. ("ITT Industries") and its 96.5% owned subsidiary, Abbey Life Insurance Company of Canada ("Abbey Life"). These entities are hereinafter referred to collectively as the "Company".

The accounts of ITT Canada and ITT Industries have been consolidated in the accompanying financial statements. Investment by ITT Industries in its wholly-owned subsidiary ITT Canada Finance Inc., is accounted for on the equity method since its financial statement components are significantly different from those of the Company. The ITT Canada investment in Abbey Life is accounted for on a modified form of the equity method. Under this method, the Company's share of earnings is based on the financial statements of Abbey Life, which are prepared in accordance with practices as prescribed or permitted by the Office of the Superintendent of Financial Institutions, Canada. The Company's proportionate interests in the Sheraton Hotels Joint Ventures are accounted for on the equity method. All other intercompany transactions and balances have been eliminated.

Certain reclassifications have been made to the prior years' financial statements to conform to the current year's presentation.

(b) MARKETABLE SECURITIES Marketable securities are composed primarily of short and medium-term interest bearing investments and are carried at cost, which approximates market value.

(c) INVENTORIES Inventories are valued at the lower of cost (first-in, first-out) and market (net realizable value).

(d) PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment is recorded at original cost. Depreciation on property, plant and equipment is generally provided on a straight-line basis at rates based on the estimated useful lives of the assets, as follows:

Buildings and improvements	5-40 years
Machinery and equipment	3-15 years
Furniture, fixtures and other	3-15 years
Rental equipment	7 years

(e) GOODWILL The Company does not amortize goodwill (totalling $5,919,000 of which $4,388,000 is included in Investment in Non-Consolidated Entities) related to companies acquired prior to March 31, 1974, unless there has been a proven diminution of value. Goodwill related to companies acquired after this date is amortized over a period not exceeding forty years.

2. Inventories

Inventories consist of (in thousands):

	1991	1990
Raw materials	**$16,908**	$15,308
Work-in-process	**10,345**	7,704
Finished goods	**21,570**	27,500
Supplies and other	**1,628**	740
	$50,451	$51,252
Less — Inventory allowances	**5,447**	4,818
	$45,004	$46,434

3. Investment in Non-Consolidated Entities

Investment in non-consolidated entities consists of (in thousands):

	1991	1990
Sheraton Hotels joint ventures	**$44,073**	$34,753
Finance and Insurance operations	**37,556**	37,272
	$81,629	$72,025

(i) SHERATON HOTELS

The following amounts represent the Company's proportionate interests in the joint ventures which are owned and operated (in thousands):

	The Sheraton Centre, Toronto 50% proportionate interest		Le Centre Sheraton, Montreal 25% proportionate interest	
	1991	1990	1991	1990
Assets	**$57,223**	$49,008	**$16,007**	$17,496
Liabilities	**18,438**	18,632	**15,849**	16,902
Revenue	**24,734**	32,825	**8,116**	9,814
Expenses	**31,088**	32,993	**10,353**	11,334
Net loss	**(6,354)**	(168)	**(2,237)**	(1,520)

The Company's 50% share of the underlying book value of The Sheraton Centre, Toronto is greater than its net investment. The difference (totalling $11,760,000), created in 1981 when the hotel was sold to the joint venture, is being amortized over the remaining useful life of the hotel through to 2020. The adjusted equity accounting loss recorded in 1991 was $5,956,000 (1990 — income of $232,000).

On January 2, 1990, the Company's 50% beneficial interest in a second mortgage on Le Centre Sheraton, Montreal was converted by the mortgagor into a 25% ownership interest in the hotel property. The Company's net investment in this hotel property including cash flow advances was $9,379,000 at December 31, 1991 (1990 — $9,957,000). In 1991, the Company made capital contributions of $619,000 (1990 — $1,346,000) and a loan of $1,129,000 and recorded an adjusted equity accounting loss of $2,326,000 (1990 — $1,552,000).

Subsequent to December 31, 1991 the Company's joint venture partner in the limited partnership which owns Le Centre Sheraton, Montreal forfeited its partnership units, thereby increasing the Company's ownership interest to 33⅓%, effective January 1, 1992. In connection with this forfeiture and to resolve various disputes, the Company paid its former joint venture partner $500,000.

In conjunction with these events, the Company and the remaining limited partners agreed that while profits and losses are to be allocated in proportion to their respective ownership interests, any requirements for additional capital or operating funds will be funded equally. The Company also continues to guarantee the $53,300,000 first mortgage on the hotel and has the right, under certain circumstances, to increase its ownership interest in the limited partnership to 50%.

In addition, the Company has agreed to assume the rights and responsibilities of the previous joint venture and the limited partnership in respect of contested property and business tax reassessments for the hotel for the years 1982 through 1989. The years 1982 to 1986 are before the Quebec Court of Appeal. It is not possible at this time to estimate the outcome of this appeal or the resolution of the years 1987 through 1989.

During December 1988, the Company participated in a financial restructuring of the Halifax Sheraton hotel. At December 31, 1991, the Company's total investment in this property amounted to $16,537,000 (1990 — $15,446,000), represented by $10,792,000 of advances included in Mortgages Receivable and $5,745,000 (1990 — $4,654,000) of advances included in Investment in Non-Consolidated Entities. The Company has committed to provide further operating cash flow funding to this property through 1992 and has guaranteed $4,000,000 of the $30,000,000 first mortgage on the property. Cash flow advances made during 1991 and 1990 of $2,425,000 and $2,000,000 have been written off in the respective years as miscellaneous expense. Should the hotel be sold (which sale is subject to the Company's approval), the Company has certain preferences in the distribution of the proceeds.

(ii) FINANCE AND INSURANCE OPERATIONS
The components of the Company's proportionate share of the underlying net assets and operations of its finance and insurance operations consist of (in thousands):

	1991	1990
Assets:		
Finance receivables	**$178,215**	$158,517
Marketable securities	**52,326**	41,784
Segregated funds	**8,070**	7,570
Other	**7,930**	7,793
	$246,541	$215,664
Liabilities:		
Actuarial liabilities	**$ 24,076**	$ 19,809
Segregated funds	**7,351**	6,919
Short-term loans	**147,500**	133,000
Other	**45,760**	38,045
	$224,687	$197,773
Revenues:		
Interest and investment income	**$ 27,876**	$ 35,860
Insurance and annuity premiums	**41,206**	36,392
Other	**81**	78
	$ 69,163	$ 72,330
Expenses:		
Interest	**$ 10,969**	$ 18,977
Reinsurance ceded less allowances	**23,957**	20,558
Interest on advances from the Company	**1,139**	1,259
Insurance benefits and changes in reserves	**9,529**	8,061
Operating	**16,780**	14,308
Other	**3,425**	5,840
	$ 65,799	$ 69,003
Net income	**$ 3,364**	$ 3,327

The Company's proportionate share of the underlying book value of the net assets of Abbey Life is less than its carrying amount. This difference (totalling $4,388,000) is not being amortized since it principally relates to goodwill on initial acquisition of Abbey Life by ITT Corporation which occurred prior to March 31, 1974.

The Company guarantees the short-term loan facility of its finance subsidiary and also advances funds from time-to-time which are included in Investments in Non-Consolidated Entities. At December 31, 1991 advances made totalled $2,965,000 (1990 — $6,649,000) and guarantees provided amounted to $147,500,000 (1990 — $133,000,000).

4. Property, Plant and Equipment

Property, plant and equipment consists of (in thousands):

	1991	1990
Land	**$ 2,450**	$ 2,224
Buildings and improvements	**15,193**	15,404
Machinery and equipment	**109,119**	105,342
Furniture, fixtures and other	**12,597**	10,243
Rental equipment	**7,340**	6,909
	$146,699	$140,122
Less — Accumulated depreciation and amortization	**86,785**	76,901
	$ 59,914	$ 63,221

Depreciation and amortization amounted to $12,994,000 in 1991 ($12,563,000 in 1990).

5. Other Assets

Other assets consist of (in thousands):

	1991	1990
Deferred pension asset	**$17,571**	$15,017
Securities related to sale of discontinued operations	**—**	12,336
Goodwill	**9,363**	9,775
Income taxes recoverable	**6,028**	1,101
Other	**474**	2,667
	$33,436	$40,896

6. Related Party Transactions

Transactions with ITT Corporation and affiliated companies are (in thousands):

	1991	1990
Purchases	**$37,124**	$43,394
Sales	**28,090**	27,722
Charges from	**6,386**	6,516
Charges to	**771**	834

7. Lease Commitments

Minimum future lease commitments under non-cancellable leases, with terms in excess of one year are (in thousands):

1992	$2,933
1993	2,416
1994	2,007
1995	1,205
1996	751

8. Long-Term Debt and Other Financing Arrangements

Long-term debt consists of variable rate bank notes. These notes bear interest at the prime rate and are carried under revolving credit arrangements through December 1996 with five major Canadian chartered banks.

Forward foreign exchange contracts have been entered into to hedge against foreign exchange exposures associated with the Company's operations and investing activities. As at December 31, 1991, outstanding contracts to purchase Swedish Krona amounted to $9,369,000 (SKR52,500,000).

9. Pension Plans

The Company maintains defined benefit pension plans which cover substantially all of its employees. The plans provide pensions based on length of service.

At December 31, 1991, the present value of the accrued pension benefits was approximately $43,000,000 and the assets available to provide for these benefits, at market value, were approximately $56,000,000. The pension expense credit in 1991 of $616,000 (1990 — $950,000), includes the amortization of the net pension asset at January 1, 1986, on a straight-line basis over 15 years.

10. Capital Stock

Capital stock consists of (dollars in thousands):

	1991		1990	
Authorized Share Capital	Shares	Amount	Shares	Amount
First Preferred shares (an unlimited number, issuable in series) — Series 2, 7.2%	—	$ —	2,000,000	$ 50,000
6% Second Preferred shares	750	8	750	8
Common shares (an unlimited number without nominal or par value)	4,202,373	110,027	4,248,206	111,227
	4,203,123	$110,035	6,248,956	$161,235

The common shares and 6% Second Preferred shares are owned by ITT Corporation.

In 1991, 45,833 (1990 — 87,846) common shares of the Company were redeemed for $1,200,000 (1990 — $2,300,000).

The First Preferred shares, Series 2, were redeemed on January 31, 1991 at $25.00 per share plus accrued and unpaid dividends. This redemption was funded by marketable securities.

The Second Preferred shares are redeemable, non-voting and carry certain preferences including the payment of dividends on a non-cumulative basis at a rate of 6% per annum of the initial issue price.

11. Income Taxes

The income tax provision is calculated as follows (in thousands):

	1991	1990
Income before income taxes	$16,729	$ 30,536
Income tax computed at basic rate	$ 7,327	$ 12,733
Tax provision increase (decrease) due to:		
Tax benefits related to prior years' losses	(5,432)	(10,791)
Manufacturing tax credit	(421)	(611)
Income from non-consolidated entities recorded net of provision for income taxes	(1,474)	(1,331)
Large Corporation Tax and other	700	600
Income taxes	$ 700	$ 600

For income tax purposes, the Company has utilized approximately $181,000,000 of its tax loss carry-forward to offset income related to Revenue Canada reassessments of the 1980 sale of the former Rayonier (B.C.) division. The Company reported the gain on sale as a capital gain when filing its tax returns and Revenue Canada has reassessed the gain on account of operating income. Management believes that its filing position is appropriate and has appealed to the Federal Court of Canada. Accordingly, the Company is treating this loss carry-forward, for accounting purposes, as being available to offset the provision for income taxes on a current basis and has benefitted approximately $16,500,000 of this loss carry-forward through December 31, 1991.

Successful resolution of this case will reinstate these tax loss carry-forwards and income taxes actually paid in 1991 and 1990 will be recovered. Should the appeal be unsuccessful, the reversal of the loss carry-forwards benefitted, including income taxes recoverable of $6,028,000 at December 31, 1991, will be recorded as a prior period adjustment.

12. Business Segment Information

(in thousands):	Sales & Revenues		Income	
	1991	1990	**1991**	1990
Products				
Automotive	**$159,835**	$170,910	**$ 9,190**	$12,382
Fluid Technology	**93,298**	103,302	**9,625**	12,551
Components	**45,982**	53,080	**2,760**	6,288
Other	**17,860**	17,657	**609**	372
Services				
Finance and Insurance	**69,163**	72,330	**3,364**	3,327
Hotels	**49,498**	56,538	**(8,721)**	(2,055)
Less: non-consolidated entities	**(102,013)**	(114,969)	—	—
	$333,623	$358,848	**$16,827**	$32,865
Corporate				
Interest income, net			**2,775**	2,575
Other			**(2,873)**	(4,904)
Income taxes			**(700)**	(600)
Net income			**$16,029**	$29,936

Export sales, included above, were $140,154,000 in 1991 ($149,240,000 in 1990) of which 81% (87% in 1990) were to the United States.

	Identifiable Assets		Gross Capital Expenditures		Depreciation and Amortization	
	1991	1990	**1991**	1990	**1991**	1990
Products						
Automotive	**$ 84,286**	$ 86,778	**$ 5,214**	$ 8,876	**$ 7,404**	$ 7,086
Fluid Technology	**50,832**	53,987	**6,181**	5,147	**4,258**	4,237
Components	**22,981**	25,961	**436**	884	**1,222**	1,143
Other	**3,021**	1,024	—	—	—	—
Services						
Finance and Insurance	**246,541**	215,664	**288**	350	**419**	248
Hotels	**88,289**	80,977	**12,441**	3,152	**3,940**	3,511
Less: non-consolidated entities	**(239,271)**	(210,143)	**(12,701)**	(3,445)	**(4,324)**	(3,725)
Corporate	**49,313**	98,719	**18**	95	**75**	63
	$305,992	$352,967	**$ 11,877**	$ 15,059	**$12,994**	$12,563

AUDITORS' REPORT

To the Shareholder of ITT Canada Limited:

We have audited the consolidated balance sheets of ITT CANADA LIMITED (a Canada corporation) as at December 31, 1991 and 1990 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1991 and 1990 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

March 5, 1992
Toronto, Ontario

Arthur Andersen & Co. Chartered Accountants

FIVE YEAR SUMMARY

(in thousands except for Other Data):

	1991	1990	1989	1988	1987
Operations:					
Sales and revenue	**$333,623**	$358,848	$392,908	$349,651	$319,451
Income from operations	**16,827**	32,865	24,203	31,816	28,695
Net income	**16,029**	29,936	30,752	41,891	64,140
Capital expenditures*	**24,578**	18,504	15,667	21,168	15,669
Depreciation and amortization expense*	**17,318**	16,288	15,118	12,183	8,354
Order backlog	**49,000**	48,000	66,000	64,000	52,000
Purchases subject to GST*	**269,000**	—	—	—	—
Year-End Financial Position:					
Working capital	**71,055**	106,497	219,200	193,099	219,357
Fixed assets	**59,914**	63,221	66,256	68,723	43,430
Investment in non-consolidated entities	**81,629**	72,025	65,692	49,395	47,058
Total assets	**305,992**	352,967	462,912	454,736	424,401
Long-term debt	**290**	1,424	3,807	5,292	5,578
Preferred shares	**8**	50,008	175,008	175,008	176,971
Common shareholder's equity	**257,173**	242,644	219,545	205,443	189,939
Other Data:					
Ratio of long-term debt to common shareholder's equity	**0.00**	0.01	0.02	0.03	0.03
Number of employees	**2,100**	2,200	2,200	2,400	1,900

**includes proportionate share of non-consolidated entities*

Corporate Information

Directors

Thomas H. Savage*, CBE
Islington, Ontario
Chairman and President
ITT Canada Limited and
Senior Officer - Canada
ITT Corporation

Robert W. Beicke
Briarcliff Manor, New York
Assistant General Counsel
and Assistant Secretary
ITT Corporation

Gerald B. Fedchun
Islington, Ontario
Vice-President, Secretary
and General Counsel
ITT Canada Limited

Louis Guolla*, Q.C.
Islington, Ontario
Partner of Woolley,
Dale & Dingwall,
Barristers and Solicitors

Marcel Piché*, O.C., Q.C., LL.L
Montreal, Quebec
Pouliot, Mercure
Advocates

Officers

Thomas H. Savage, CBE
Islington, Ontario
Chairman and President
ITT Canada Limited and
Senior Officer - Canada
ITT Corporation

Robert G. Eisner
Willowdale, Ontario
Vice-President, Finance
and Controller
ITT Canada Limited

Gerald B. Fedchun
Islington, Ontario
Vice-President, Secretary
and General Counsel
ITT Canada Limited

Ronald P. Jaeggin
Oakville, Ontario
Assistant Secretary and
Vice-President, Corporate
Development
ITT Canada Limited

Corporate Office

ITT Canada Limited
P.O. Box 138
Toronto-Dominion Centre
Toronto, Ontario
M5K 1H1

Telephone: (416) 863-9666
Fax: (416) 367-5648

Auditors

Arthur Andersen & Co.
Chartered Accountants
Toronto, Ontario

Legal Counsel

Woolley, Dale &
Dingwall
Toronto, Ontario

**Member of Audit Committee*

ITT Canada Limitée se fera un plaisir de faire parvenir un exemplaire de ce rapport en français aux personnes qui en feront la demande.

Divisions and Subsidiaries

Automotive

ITT Aimco Steel Products
1400 Aimco Boulevard
Mississauga, Ontario
L4W 1E1
(416) 625-1830
Fax: (416) 625-6092

ITT Automotive Aftermarket Division
Sales Unit
1400 Aimco Boulevard
Mississauga, Ontario
L4W 1E1
(416) 238-8544
Fax: (416) 238-3170

Manufacturing Unit
152 - 156 Berryman Avenue
St. Catharines, Ontario
L2R 3X1
(416) 688-1754
Fax: (416) 687-3819

ITT Hancock Canada
385 South Edgeware Road
St. Thomas, Ontario
N5P 4C5
(519) 631-0383
Fax: (519) 631-2769

ITT Higbie Baylock Canada
268 Appin Road
Glencoe, Ontario
N0L 1M0
(519) 287-2450
Fax: (519) 287-2777

ITT Milrod
1325 Aimco Boulevard
Mississauga, Ontario
L4W 1B4
(416) 625-6210
Fax: (416) 625-5719

ITT SWF Auto-Electric
6140 Vipond Drive
Mississauga, Ontario
L5T 1G2
(416) 670-0450
Fax: (416) 670-0454

Fluid Technology

ITT A-C Pump Canada
155 Dawson Road
Guelph, Ontario
N1H 1A4
(519) 824-7750
Fax: (519) 824-9543

ITT Barton Instruments
3840-11A Street N.E.
Calgary, Alberta
T2E 6M6
(403) 291-4814
Fax: (403) 291-5678

ITT Engineered Valves Canada
55 Royal Road
Guelph, Ontario
N1H 1T1
(519) 836-0117
Fax: (519) 836-0179

ITT Fluid Products Canada
55 Royal Road
Guelph, Ontario
N1H 1T1
(519) 821-1900
Fax: (519) 821-2569

ITT Flygt
300 Labrosse Avenue
Pointe Claire, Quebec
H9R 4V5
(514) 695-0100
Fax: (514) 697-0602

ITT Standard
Suite 103
225 Watline Avenue
Mississauga, Ontario
L4Z 1P3
(416) 890-6155
Fax: (416) 890-6163

Components

ITT Cannon
Four Cannon Court
Whitby, Ontario
L1N 5V8
(416) 668-8881
Fax: (416) 668-4152

ITT Multicomponents
300 North Rivermede Road
Concord, Ontario
L4K 2Z4
(416) 798-4884
Fax: (416) 798-4889

ITT Schadow
1560 Islington Avenue
Etobicoke, Ontario
M9A 3M5
(416) 231-5495
Fax: (416) 236-2022

Pulp and Timber

ITT Rayonier Canada
Suite 400
905 West Pender Street
Vancouver, B.C.
V6C 1L6
(604) 662-7119
Fax: (604) 662-7017

Finance and Insurance

Abbey Life Insurance Company of Canada
3027 Harvester Road
Burlington, Ontario
L7N 3G9
(416) 639-6200
Fax: (416) 827-6773

ITT Commercial Finance
Suite 1400
50 Burnhamthorpe Road West
Mississauga, Ontario
L5B 3C2
(416) 566-5920
Fax: (416) 566-5931

Hotels

ITT Sheraton Hotels
123 Queen Street West
Toronto, Ontario
M5H 2M9
(416) 361-1000
Fax: (416) 947-4867

ITT Sheraton Purchasing Resource
123 Queen Street West
Toronto, Ontario
M5H 2M9
(416) 862-7696
Fax: (416) 862-7185

Unifood of Canada
123 Queen Street West
Toronto, Ontario
M5H 2M9
(416) 947-4823
Fax: (416) 947-4867

Corporate Office

ITT Canada Limited
P.O. Box 138
Toronto-Dominion Centre
Toronto, Ontario
M5K 1H1
(416) 863-9666
Fax: (416) 367-5648

ITT
CANADA