



EMCO LIMITED ANNUAL REPORT 1981

EMCO LIMITED

Financial Summary

Dollars in thousands except for share data.

	1981	1980	% Change
Sales	<u>\$364,904</u>	<u>316,298</u>	+15
Earnings before extraordinary items	\$ 11,032	11,878	-7
Extraordinary items	—	(90)	
Net earnings	<u>\$ 11,032</u>	<u>11,788</u>	-6
Per common share			
Basic earnings			
Before extraordinary items	\$ 2.30	2.56	-10
Including extraordinary items	2.30	2.54	-9
Fully diluted earnings			
Before extraordinary items	2.30	2.50	-8
Including extraordinary items	2.30	2.48	-7

ANNUAL MEETING

The Annual Meeting of the Shareholders will be held at the Holiday Inn, City Centre Tower, 300 King Street, London, in the Victoria/Albert Room, at 10:30 a.m. on May 14, 1982.

INDEX

75th Anniversary Management Conference	1-3
President's Message	4
Review of Operations	
Plumbing and Industrial Group	7
Petroleum Equipment Group	13
Financial Summary	18
Consolidated Financial Statements	22-28
Directors	29
Officers	29

To commemorate Emco's 75th anniversary in 1981, we published a history of our company which will be distributed to our employees around the world. We think this letter, which prefaces the history, accurately describes Emco as the company enters the fourth quarter of its first century.

Emco Limited

Box 5300
London, Ontario, Canada N6A 4N7
(519) 451-1250, Telex 064-5866, Cable "Emco" London



EXECUTIVE OFFICES

December 1, 1981

In 1981 Emco is celebrating the 75th anniversary of its founding in London, Canada. We have commissioned this history in order to capture, for our successors, some of the major events in our development from a small brass foundry to a major multi-national enterprise with sales of \$316 million in 1980. I can only speak of the past 30 years - however, I believe our success has been achieved for several reasons:

- A reputation for absolute integrity has been earned and recognized by our customers, suppliers, shareholders, employees and the communities in which we operate.
- We have been successful in bringing into this company many outstanding people. We have been able to inspire in these individuals great loyalty and pride in Emco, and we are the envy of our competitors.
- And finally throughout the years, we have encouraged Emco people to make a contribution to the community and the countries in which we operate. This is why, over the years, Emco has supplied leadership in many community endeavours. Our people have been mayors, aldermen, hospital chairmen, United Way, Cancer and other Campaign Chairmen, members of government boards and generally active in community life.

Any history of Emco will undoubtedly miss the names of some individuals who have made a major contribution to our success. In 1981 we salute all of our predecessors who have built a proud Canadian corporation that will, in the years ahead, continue to make a major contribution to all who depend on our success - our employees, customers and shareholders.

John W. Adams
President, Emco Limited

Emco's first 75 years

A history
commemorating our
75th anniversary



To obtain a copy of our corporate history, please contact the Communications Department, Emco Limited, P.O. Box 5300, London, Ont. N6A 4N7.

PLUMBING & INDUSTRIAL GROUP: Emco Supply, General Manufacturing Division
PETROLEUM EQUIPMENT GROUP: Australia, Brazil, Canada, England, France, Germany, Japan, U.S.A.





75th ANNIVERSARY MANAGEMENT CONFERENCE

When Emco Limited celebrated its 75th Anniversary in 1981, manufacturing facilities in eight countries were marketing our products in more than 100 nations – a far cry from the original plumbers' foundry of 1906.

A 75th Anniversary Management Conference was held in London, Ontario, Canada, where the company originated and still has its head office. From Britain, Canada, the United States, Japan, West Germany, Brazil, Australia and France, Emco's people gathered to salute their heritage and make their plans for the last quarter of the first corporate century.





FELLOW SHAREHOLDERS

We are pleased to report on our results for 1981. The past year was difficult for your company as we experienced the impact of a worldwide recession in most of our markets. Although 1981 was the first year since 1976 that earnings did not improve, we are pleased that sales increased by 15% to a record \$365 million from \$316 million in 1980. This new record was attained despite an extremely flat domestic economy and worldwide economic uncertainty.

Net earnings were \$11 million, compared to \$11.8 million in 1980. This represents the second best year in our history. High interest rates adversely affected 1981 earnings and total interest expense in 1981 was \$15.1 million compared to \$9.1 million the year before. Fully diluted earnings per share fell 8% to \$2.30 from \$2.50 in 1980.

A non-recurring gain of nearly \$1.7 million occurred in the United Kingdom as a result of modifications to that country's tax legislation. Details are in note seven of the financial statements. Earnings were also favorably affected by foreign currency translation gains of about \$1.5 million, compared to a loss of \$700,000 in 1980.

Operating Highlights

Plumbing and Industrial Group sales increased by 17% in 1981 to \$263 million from \$224 million in 1980. This improvement indicates that we have been able to increase our share of the commercial, industrial, waterworks and replacement markets to offset declining new residential construction. It also reflects the success of our Emco and Peerless retail plumbing lines.

Petroleum Equipment Group sales for 1981 surpassed \$100 million for the first time. This Group's total sales of \$102 million represents an 11% increase over 1980 results of \$92 million. Despite worldwide economic uncertainty, prospects for this Group are good as we continue to broaden our product base for new opportunities.

Acquisitions

Emco acquired the business of Horn GmbH of Flensburg, West Germany for \$18.25 million last year in the largest acquisition in the company's history. Horn manufactures oil extractors which remove the used oil from an engine and oil dispensers which refill the crankcase with clean oil. These machines

can be operated by motorists on a self-serve basis or by service station attendants. In addition, Horn manufactures manual and air-operated dispensers for fueling motor bikes and other two-stroke engines requiring a mixture of oil and gasoline.

Volumatic S.A., a small French manufacturer of pumps and blending systems used in the oil and petrochemical industries, was acquired in 1981 and integrated with our existing French operations.

Pioden Controls Limited, a small company in Canterbury, Kent, was acquired by our British subsidiary, Emco Wheaton U.K. Limited. Pioden manufactures small electronic systems which incorporate transducers used to measure and record data relating to pressures in liquids and gases. These systems also are used in other industrial applications.

Outlook

We expect 1982 to be a difficult year for Emco and for most industries in North America. Interest rates will likely remain high throughout the year, although some moderation may occur late in the year. Housing starts will be close to the 1981 level of 170,000 but are not expected to exceed this figure. The most encouraging aspect of the housing situation is that there are virtually no vacancies of rental properties in major urban areas. Demand for rental units exceeds supply and the pace of construction should quicken once interest rates have stabilized.

We have been successful in penetrating the important do-it-yourself plumbing products market. This segment of the retail market continues to grow rapidly. With annual sales of more than \$6 billion, the do-it-yourself sector was the fourth largest component of the \$84.3 billion in retail sales in 1980. Only the food, new car and clothing sectors were larger. Some experts predict do-it-yourself sales will reach \$24 billion by the end of this decade.

Our Peerless line of do-it-yourself faucets and plumbing repair parts have been very well received by consumers. The introduction of a time-saving and labor-saving "No Tools Hook-Up" feature that permits installation of a new Peerless faucet without using tools should lead to even further market gains for Peerless in 1982.

Emco-Wheaton Limited's new Propane Carburetion Division opened early in 1982 to distribute equipment used to convert gasoline

powered vehicles to operate on propane. Emco-Wheaton distributes Impco equipment, which is the finest in the world. It also distributes the Empac carburetion module which simplifies the conversion process. As propane continues to gain acceptance as a fuel for commercial fleets, we expect that Emco-Wheaton, with its emphasis on careful training of installers and pretesting of equipment, will become a major factor in this market.

The line of pumps and oil transferring equipment manufactured by Horn GmbH in West Germany has been a welcome addition to our product mix. We believe Horn's products have good export potential through our worldwide distribution system. Much effort has already been devoted to introducing Horn's automatic oil extracting and dispensing equipment to North America.

Our new \$4 million brass foundry was completed in 1981 and is now fully operational. Initial start-up problems have been overcome and we expect the new foundry will increase our efficiency. The operational reports which follow contain information on the performance of our two major groups in 1981. Earnings for the first half of 1982 will not be as good as the first half results in 1981, but aggressive cost reduction programs initiated early in the year should help to ensure satisfactory results for 1982.

Nineteen eighty-one was a very significant year in the history of Emco Limited as we marked our company's 75th anniversary. We appreciate the support of our customers and suppliers, and as we enter a new year we wish to recognize the contributions of all Emco employees throughout the world whose outstanding efforts in 1981 helped us achieve the second best results of any year since incorporation.



J.W. Adams
President and Chief Executive Officer
February 22, 1982



Plumbing and Industrial Group

From the many locations across Canada that make up the Plumbing and Industrial Group emerge more than 10,000 different plumbing, heating and industrial products ranging from relatively simple faucets to industrial components made to rigid specifications. The Supply operation of the Group with a coast-to-coast network distributes products made by Emco and its subsidiary companies. In addition, it also handles complementary product lines made by other manufacturers.

DIVISIONS

Emco Supply

Barrie	London	Saskatoon
Belleville	Medicine Hat	Sault Ste. Marie
Calgary	Montreal	Sherbrooke
Dawson Creek	(Lachine)	St. Catharines
Edmonton	North Bay	St. John's
Grande Prairie	Oshawa	Sudbury
Guelph	Ottawa	Terrace
Halifax	Peterborough	Toronto (Weston)
(Dartmouth)	Prince George	Ville de Brossard
Kitchener	Quebec	Windsor
Lethbridge	Regina	Winnipeg
	Saint John	

London Factory Division

London Factory, London, Canada – manufacturer of plumbing, heating and industrial piping products.
Emco Plastics Limited, Brampton, Ontario – manufacturer of plastic plumbing and piping components.

Delta Faucet of Canada Limited

Bowmanville, Ontario – manufacturer of Delta, Delex and Peerless faucets.

CCTF

Toronto, Ontario – supplier of steel welding fittings for industry.

Branches – Vancouver, British Columbia; Seattle, Washington; Denver, Colorado; Buffalo, N.Y.

E. Myatt & Co. Limited

Toronto, Ontario – manufacturer of a complete range of pipe hanger materials.

Divisional Operating Executives

J.J. Wareham	Eastern Regional Manager, Emco Supply
W.L. Douglas	Vice-President, Central Region, Emco Supply
W.M. Eager	Western Regional Manager, Emco Supply
D.J. Hackett	Vice-President and General Manager, London Factory Division
P. Penna	General Manager, Emco Plastics Limited
G.D. Thompson	Vice-President and General Manager, Delta Faucet of Canada Limited
P.S. Seybold	Vice-President and General Manager, CCTF
R. Hayes	President and General Manager, E. Myatt & Co. Limited

REVIEW OF OPERATIONS

Plumbing & Industrial Group

London Factory Division

This division consists of the London Factory, Brampton Plastics plant and Spra-Rite Canada. Its aim is to create an expanded product range for the plumbing trade, do-it-yourself market and the commercial and industrial construction market.

The automatic foundry installed in London at the end of 1980 had some unexpected break-in problems which affected production and customer service in 1981. These problems, combined with high money costs and reduced margins, resulted in an operating loss in 1981 despite record sales of London Factory products. Results for 1982 should show improvement.

The Emco Plastics plant in Brampton was in a break even position in 1981 despite excellent sales, as results were affected in the early part of the year by severe competition in the drainage fitting market.

The London Factory sales force has been restructured to improve coverage of the important do-it-yourself market and to provide increased attention to commercial and industrial construction markets. Our coverage of the Maritime market has been enhanced with the establishment of a new factory warehouse branch and a new sales staff in the Atlantic provinces.

We are cautiously optimistic that London Factory and Brampton Plastics will show improvement in 1982.

Emco Supply

Emco Supply operates in major Canadian cities as the leading distributor of plumbing and industrial products (such as pipe, fittings and valves) to mechanical contractors. This division also sells material to sewer and waterworks contractors, municipalities, federal and provincial governments, industrial customers and do-it-yourself accounts. Sales exceeded forecast in 1981 and were considerably higher than in 1980, despite high inflation, record borrowing costs and moderate residential construction activity.

This division has continued to diversify its sales base in recent years. A good example is Emco Supply's successful penetration of the do-it-yourself

Exquisitely styled products such as this lavatory fitting and a reputation for reliable performance have helped to make Delta one of the leading faucet companies in Canada.

supply market, which again showed improvement in 1981.

The residential construction market will not be buoyant in 1982, but prospects for the industrial, commercial, institutional, and waterworks segments of Emco Supply's business appear encouraging.

CCTF

CCTF has become Canada's largest supplier of welding fittings and flanges. Formerly known as Canadian Clyde Tube Forgings Limited, this division will celebrate its 30th anniversary in Canada in 1982. As it enters its fourth decade, CCTF's major markets



Emco's Do-It-Yourself Faucet Centre features colorful packages and attractive displays for the retail market.

are the petrochemical and energy-processing industries, which have strong growth potential.

CCTF had record sales with increased earnings in 1981. Growth came from a new line of iron pipe fittings as well as a substantial increase from the American operations in Seattle, Denver and Buffalo.

The Toronto manufacturing facilities were expanded once again in 1981 and construction of additional warehouse and office space should be complete by the second quarter of 1982.

In Canada the short-term outlook is for continued growth, although at a somewhat slower pace than in 1981. The outlook for the American operations remains strong, primarily because of the opportunity to improve market share. Sales representation has been added in California to further increase the penetration of the west coast market.

The longer term outlook for both the Canadian and American operations is excellent in view of the large number of petroleum and chemical projects *being planned*. In addition, CCTF serves a wide range of industries such as pulp and paper, shipbuilding, residential and commercial construction and power plants. This means that a downturn in one or two industrial segments may not have a significant impact on the overall results.



CCTF is Canada's largest supplier of welding fittings and flanges.

Delta Faucet of Canada Limited

This manufacturer and marketer of the famous Delta single-handle and Delex two-handle washerless faucets continues to increase its unit

and dollar sales. In 1981 sales were 20% higher than in 1980.

Delta's advertising campaigns in both consumer and trade publications continue to play a major role in our success. Delta's advertisements promote the advantages of installation by qualified plumbing contractors while stressing the breadth of the product line and the convenience of washerless operation.

Delta Faucet of Canada expects to increase its business again in 1982 through a stepped-up advertising program, introduction of new time-saving installation methods, continued development of new products geared to market demand, and introduction of new decorator finishes to complement our extremely popular Deltique collection of designer faucets.

Peerless Faucet

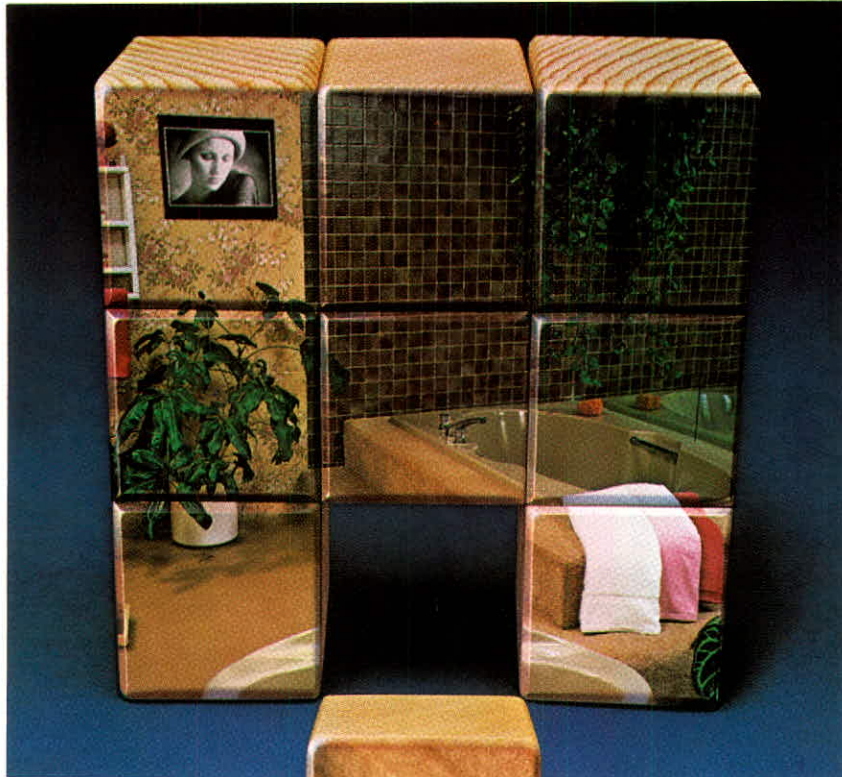
This division of Delta Faucet of Canada Limited sells Peerless brand washerless do-it-yourself faucets and plumbing products to hardware, department, building supply and specialty stores as well as home improvement centres.

Although 1981 was a difficult year for many involved in the hardware and building supply industry, Peerless' sales were 11% higher than in 1980.

In 1982, Peerless is introducing "No Tools Hook-Up", a revolutionary installation system that enables a consumer to install a new faucet in minutes without the use of tools. It is expected that this time-saving, labor-sparing feature, which is offered on all Peerless kitchen and lavatory faucets, will have a significant impact on 1982 results. A major advertising program was launched in January, 1982, based on the theme that all you need to install a Peerless do-it-yourself faucet are your hands. Trade shows and consumer shows for 1982 are featuring demonstrations of the "No Tools Hook-Up" system. This innovative installation system should help to ensure that Peerless remains the leader in the do-it-yourself plumbing industry.

Overall Outlook for Plumbing & Industrial Group

Many forecasters are predicting an economic upturn in the latter half of 1982 with inflation holding in the 10 to 12% range, virtually unchanged from 1981. Unemployment will probably exceed 8%



NOW INSTALLING A FAUCET IS CHILD'S PLAY.

No Tools Hookup makes Peerless the easiest do-it yourself faucet you can buy. Because only Peerless let's you install a new faucet without the use of tools. Just hand tighten a specially designed locknut to fasten your faucet securely in place. Two water-tight CLINCHERS™ connect your faucet to the water supply pipes, by hand, to form a leak proof seal. It's that simple.

And best of all, Peerless is washerless. Peerless



faucets are guaranteed for five years and maintain a worry-free seal 4 to 7 times longer than traditional compression faucets with no washer replacement worries.

Considering a renovation? Remember, only Peerless offers you the ease of No Tools Hookup.

You'll find a complete line of Peerless kitchen, bathroom or designer faucets at a hardware, home improvement centre or department store near you. They're the easiest faucets

on the market to install. Hands down.



ANOTHER HELPING HAND FROM PEERLESS.

This advertisement introduces the unique "No Tools Hook-Up" feature of Peerless Faucet Company, a division of Delta Faucet of Canada Limited.

again and interest rates are unlikely to drop significantly.

Emco's Plumbing and Industrial Group should continue to perform strongly in 1982 despite the generally unfavorable economic climate. The institutional, industrial and commercial markets have become increasingly important in recent years and are expected to be relatively healthy in 1982.

The number of dwelling units under construction at the start of 1982 was 88,837, compared to 80,780 in 1981. Assuming a slight moderation of interest rates, the number of housing starts should remain steady in 1982 at about 170,000. The slump in the residential building industry has created a pent-up demand for housing, particularly rental units. This is reflected in almost non-existent vacancy rates in Canada's major metropolitan areas. In 1982, builders will begin to respond to the shortage of accommodation. An interesting footnote to the drop in new housing starts is that the nation's housing stock is growing older, which reinforces the trend towards renovation and upgrading.

Emco has been able to offset a decline in sales of plumbing and heating products to the residential construction industry by increasing sales to the commercial and industrial sector and by improving penetration of the rapidly maturing do-it-yourself market. Our manufacturing and distribution operations have both been successful at improving sales to this increasingly important market.

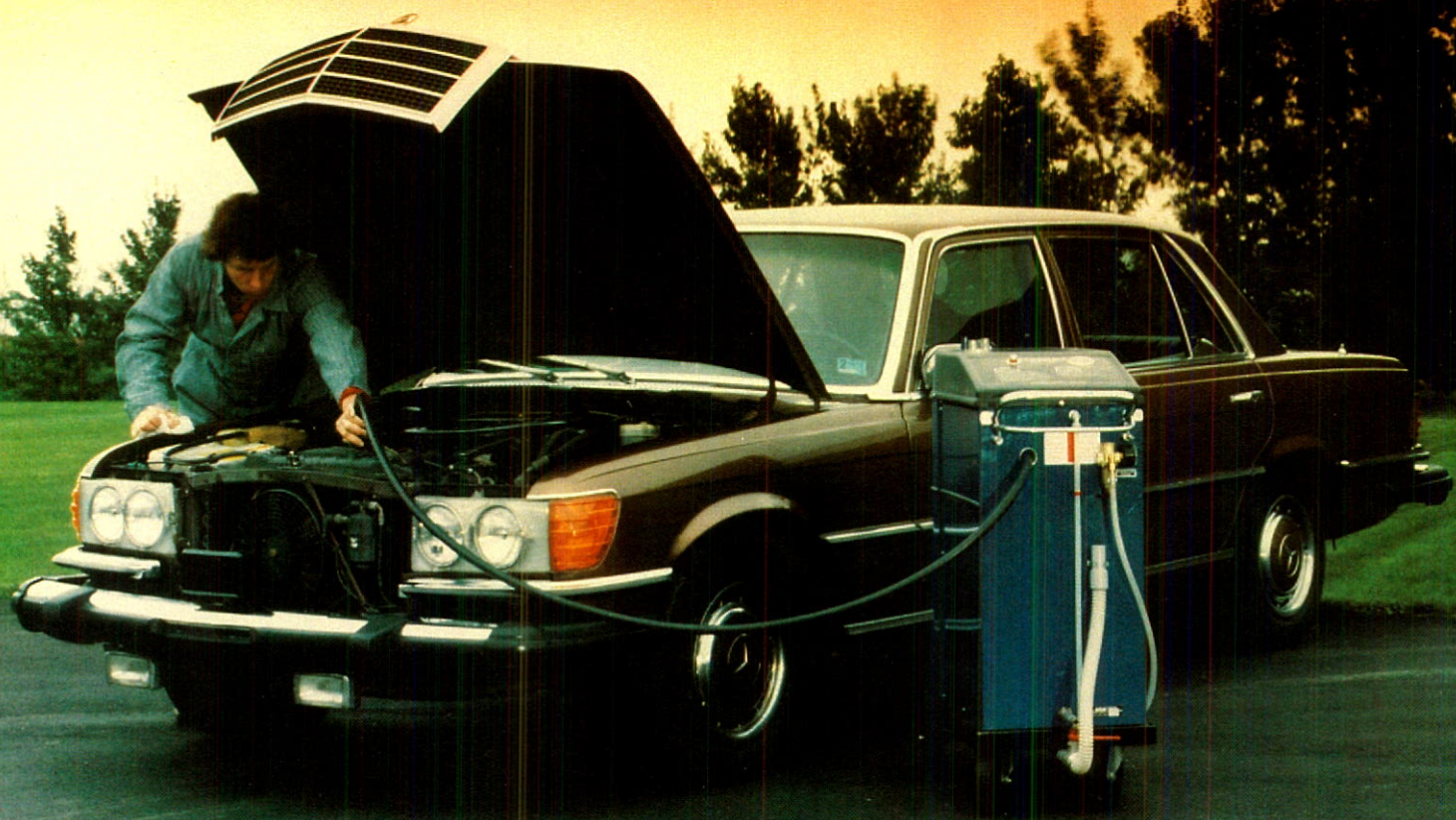
We have been successful at introducing new products for which there is a proven market demand. A good example is the revolutionary "No Tools Hook-Up". Emco Supply has introduced the Aqua Glass line of acrylic and fibreglass tub enclosures to the market and London Factory plans to upgrade its product range. It is expected that these developments will make a significant contribution to our success in 1982.



R.S. MacLean
Vice-President, Plumbing & Industrial Group



Emco faucets have been specified in the Bank of Montreal's First Canadian Centre, Calgary, Alberta.



REVIEW OF OPERATIONS

Petroleum Equipment Group

Petroleum Equipment Group

The Petroleum Equipment Group manufactures and distributes highly engineered fluid handling equipment used in oil, gas and petrochemical industries around the world. The products range from service station nozzles and fleet fueling systems to tank truck loading assemblies, meters, pumps, quick release couplings, marine loading arms and bunkering units to vapor recovery systems. These products reach world markets through plants in England, France, West Germany, Japan, Australia, Brazil, U.S.A. and Canada, and also through agents and distributors in 65 other countries.

CORPORATE OFFICE

Emco Wheaton International Limited,

Mississauga (Toronto), Canada
R.H. Wedgbury, President
A.R. Martin, FCA, Vice-President Finance
R.F. Howard, Vice-President Marketing
L.D. Rintoul, Vice-President Operations
T.F.J. Rose, Vice-President Engineering
P.C. Knobloch, Vice-President,
Management Information Systems

OPERATING DIVISIONS

Emco Wheaton Australia

Emco Wheaton Australia Pty. Limited
Engineering Products Pty. Limited
J.B. Reimann Division
G. Smith, Managing Director

Emco Wheaton Industria E Comercio S.A.

Rio de Janeiro, Brazil
N. Gonzalez, Director and Acting General Manager

Emco-Wheaton Canada

Toronto, Ontario
Emco-Wheaton Limited
R.N.G. Equipment Inc.
Ritepro Inc.
R.M. Clark, President

Emco Wheaton U.K. Limited

Margate, England
Pioden Controls Limited (70% owned)
W.F. Shutler, Managing Director

Emco Wheaton S.A.

Paris, France
Volumatic S.A. (80% owned)
J.B. Parker, General Manager

Emco Wheaton GmbH (76% owned)

Kirchhain, West Germany

Horn GmbH

W. Buchmueller, General Manager

Emco Wheaton (Japan) Limited

Yokohama, Japan
G. Teramura, General Manager

Emco Wheaton Inc.

Conneaut, Ohio, U.S.A.
J.G. Beresford, President

Equipment produced for general industry and the industrial gas market is being added to the engineered fluid handling systems which the Group produces for the petroleum and petrochemical industries. Traditional fluid handling products such as service station nozzles, tank truck fittings, tank truck loading assemblies, bulk storage tank equipment, marine loading arms and vapor recovery systems are still important to our main business. Specialty valves, pumps, meters, quick release couplings and engineered systems that incorporate these products are also becoming a substantial part of worldwide sales.

The acquisition of three companies and the completion of several new distributor agreements in 1981 opened new markets and made several new products available to the Petroleum Equipment Group.

As our gasoline-related products decline, we are adding oil dispensing and extracting equipment to our product range. Oil is not being displaced as a lubricant and sales of oil products should remain relatively strong. We are also counteracting the decline of our gasoline-related products by entering the alternate fuels market in Canada. We currently assemble and distribute equipment used to convert vehicles to liquefied petroleum gas (propane) and compressed natural gas (CNG).

Operating Highlights

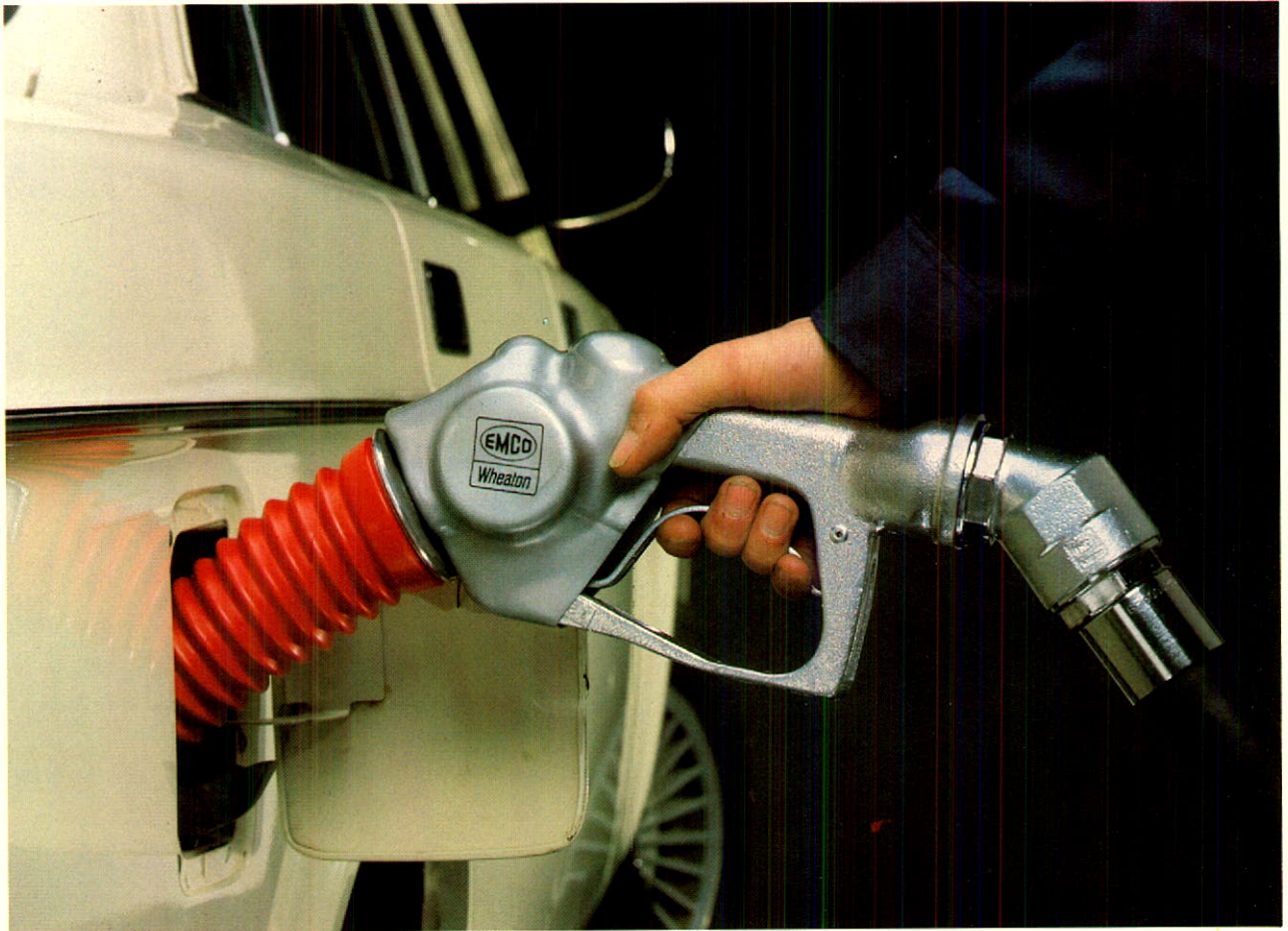
Consolidated sales for the Group, including Horn GmbH, increased 11% over 1980 results. Operating profits remained at 1980 levels. Profits were seriously affected by high short-term interest rates and the fact that most countries in which we operate had high levels of inflation and were in an economic recession. As a result, considerable pressure was exerted on margins. Aggressive cost reduction programs were implemented and expenses were limited to 1980 levels to offset this condition.

Canada

Sales and earnings were similar to 1980 results despite weak demand in this market.

Propane and compressed natural gas conversion equipment were added in 1981 and these should have a favourable impact on our 1982 results. Our new carburetion division is well positioned to supply

Products such as this oil extractor manufactured by Horn GmbH in West Germany are being introduced to the North American market. Horn, which was purchased in 1981, produces oil exchangers for service stations which can extract used oil from an automobile engine and replace it with fresh oil within four minutes.



Emco Wheaton is a leader in vapor recovery technology which prevents the escape of gasoline fumes into the atmosphere.

required equipment as propane and compressed natural gas continue to gain acceptance as alternate fuels to gasoline for commercial fleets. We see the alternate fuels market as a growth area during the 1980's and we will add related products to obtain leadership in this market.

United States

Reduced sales and operating profits reflected a serious recession in the United States, which particularly affected our market.

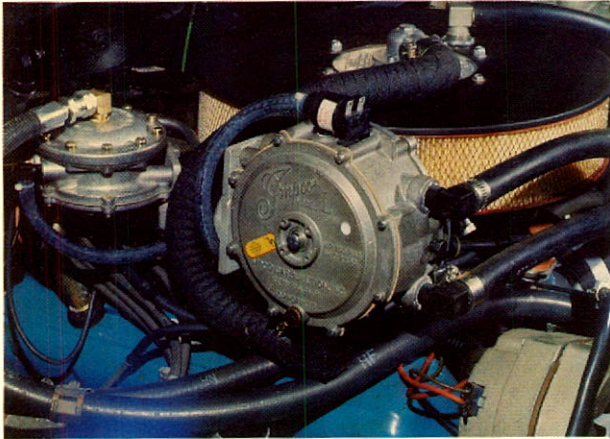
The cancellation of existing orders and a reduction in the number of new orders led to the implementation of a major cost reduction program. Market share was maintained despite the low level

of business and in some areas was even increased.

In California, our vapor recovery nozzle performed well and is approved for all vapor recovery applications. Gains were made with tank truck loading arms, particularly those used for chemicals.

The manufacture of marine arms at Gulfport ceased as of December 31, 1981, due to poor operating results. The United States' market will now be served through local sub-contracting and by other divisions within the Petroleum Equipment Group.

The level of incoming orders increased during the last quarter of 1981 and we entered 1982 with significantly more business than in 1981.



Emco-Wheaton Limited has been named Canadian master distributor of Impco propane carburetion equipment, recognized as the finest in the world.

Brazil

Nineteen eighty-one was a difficult year for Brazil, with inflation reaching 120% and interest rates in excess of 140% per annum. The Brazilian government placed stringent controls on all imported materials, which reduced their trade deficit and resulted in a small surplus by year end.

Tight monetary policy and high interest rates have effectively reduced inflation to a current level of less than 100%. Completion of major contracts which were to be delivered before year end was delayed until the first quarter of 1982 because of the difficulty in receiving imported materials. Because the division was unable to ship product and collect revenues, operating profits were adversely affected by consequent high interest charges.

The first Brazilian marine loading arm order will be delivered early in 1982 and there appears to be considerable potential for this product line in the near future.

Incoming orders remain at a high level and we are optimistic about the long-term potential for the Group in Brazil as we continue to look for additional product lines and markets, including export possibilities.

United Kingdom

The worst recession since the 1930's continued in 1981 with serious effects on available domestic business, particularly conventional tank truck equipment. Operating profits were substantially below 1980 levels, with sales of marine loading arms

in export markets being the main source of sales and operating profits. Operations remained at a profitable level despite these factors. Adverse economic conditions forced several competitors to close their plants.

The volume of incoming orders increased during the last quarter and this division entered 1982 with significantly higher orders than in 1981.

Seventy per cent of the share capital of Pioden Controls Limited was acquired in May 1981. The former owners have retained a 30% interest and remain active in the management of the company. Located in Canterbury, Kent, this small company manufactures electronic systems which incorporate transducers used to measure and record data relating to pressures in liquids and gases and in other industrial applications. Pioden's operating profits did not have a material impact on the Group's



Emco Wheaton's new service station nozzle saves operators money with its "to-the-penny" dispensing capability.

1981 results, but there is good potential for the future when Pioden begins to produce electronic components which are now sub-contracted for existing Group products.

West Germany

Emco Wheaton GmbH had record sales and operating profits during 1981. This division was not affected by the recession in Europe. Emco Wheaton GmbH concluded an agreement with Mannesman, a large German steel manufacturer, to purchase all

rights, patents and service contracts to their marine loading arm product line. This will augment our own product line and enhance our service capabilities throughout Europe.

Horn GmbH, which was acquired in 1981, will continue to operate as a separate division within the Group. During the first half of 1981, Horn performed as expected. However, in the last quarter, domestic oil companies reduced their spending in the face of falling profits and incoming orders are down as a result. This situation hopefully is temporary and orders are expected to increase during the second half of 1982.

Considerable attention is being given to export opportunities for the Horn products. During the second half of 1981, market surveys were conducted in several countries with encouraging results. The marketing and sales strategy will be developed during the first half of 1982. This, coupled with new products Horn plans to introduce in 1982, is expected to produce satisfactory results for the year. We retain our optimism concerning the long-term potential for this acquisition.

France

Economic conditions in France during 1981 were very difficult. This reduced the amount of business

available, as did the change of government and the introduction of new policies which followed. This was particularly true of our conventional oil company products. This reduction, coupled with the costs of integrating Volumatic S.A. and Emco Wheaton S.A., had a negative impact on operating results. This integration will be completed during the first quarter of 1982 and substantial improvement in operating profit is expected during the year.

Japan

Operating profits for Japan met expectations while sales were at satisfactory levels in 1981. Cost reduction and value engineering programs produced margin improvements as they had in 1980. No dramatic upturn is seen in the demand for our goods and services in Japan as some adverse effects of the 1974 oil crisis linger. Exports are playing a growing role in our profitability.

Australia

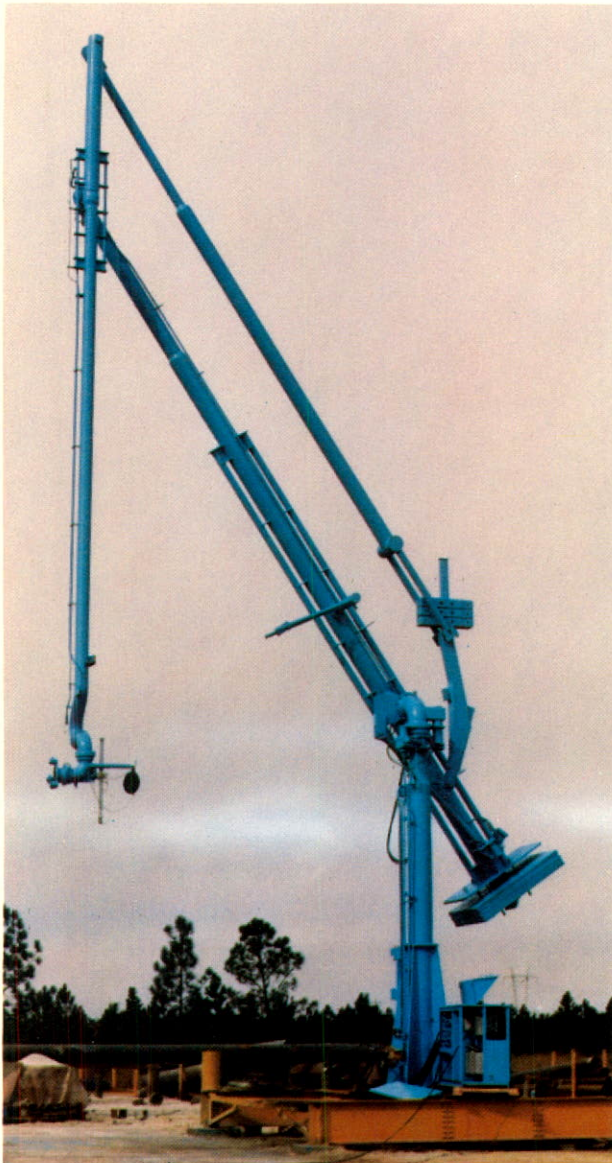
Our Australian division showed considerable improvement in operating profit despite a minimal sales increase. This was the result of the reorganization and integration of existing operations and newly acquired companies. The market for our traditional Emco Wheaton products was weak, but this was offset by the strength of the J.B. Reimann

Company products and improved profits from Engineering Products Pty. Limited. This integration will continue with the transfer of the Emco Wheaton manufacturing operations to the J.B. Reimann Companies in South Australia.

The increased volume of business of the J.B. Reimann Companies necessitated an expansion to alleviate crowded manufacturing conditions and material handling problems. This expansion will house new Reimann products, Emco Wheaton tank truck equipment and loading arms and the Engineering Products Pty. Limited pumps and hose reels. This rationalization of our manufacturing operations will result in a concentration of



Abouttown Transit of London, Ontario has converted its taxi and van fleets to Impco propane carburetion systems.



A 10-inch marine loading arm assembly undergoing tests before shipment.

activity in South and West Australia with offices, warehouse and service operations in Queensland, New South Wales and Victoria, enabling us to market and service our equipment throughout the country. Considerable improvement in operating profit is expected in 1982.

Near-Term Outlook

It is expected that 1982 earnings will be higher

than those of the previous three years despite a slackening of our high compound growth rate. Our cost reductions, value engineering programs and control of assets have maintained our position in a very depressed market. Hopefully, the recession will bottom out in 1982 and our traditional products will return to a more normal level of business. We entered 1982 with an improved level of incoming orders in most sections of our business.

Sales are not expected to increase significantly but the programs mentioned previously should ensure an increase in operating profits.

In 1982, we will introduce new products and address new markets in all countries in which we operate as we phase out low-margin, mature product lines.

Long-Term Strategies

Our diversification strategy has lessened our dependence on the petroleum distribution equipment market. In 1977, 95% of our revenues were derived from this market sector. As we enter 1982, this figure has dropped to 55%.

Our diversification strategy has led us into products which measure and control fluids and are used in the chemical, industrial and industrial gas markets. This diversification has enabled us to maintain sales and earnings during the current recession. We will emerge from this period of worldwide economic difficulty a stronger and more profitable Group. When the economic upturn occurs and capital spending returns to more normal levels we are well poised to take advantage of these conditions and translate them into improved profitability.

As stated in previous years, we will continue with our diversification program, seeking out companies in selected markets whose people and products reinforce our strengths in manufacturing, marketing and distribution. As this activity continues, we will also phase out from our existing operations those products or companies that do not meet our growth objectives.

R.H. Wedgbury
President, Emco Wheaton International Limited

EMCO LIMITED AND SUBSIDIARIES

Financial Summary

Amounts shown below are thousands of dollars with the exception of data under the heading common share statistics.

Statement of Earnings	1981	1980	1979	1978	1977	1972 (10 yrs. ago)
Sales	\$364,904	316,298	277,305	224,922	189,008	100,542
Operating income	\$ 32,381	31,356	27,319	16,300	12,528	4,993
Investment income	241	67	89	112	51	9
Foreign currency translation gain (loss)	1,466	(699)	477	1,440	989	(85)
	34,088	30,724	27,885	17,852	13,568	4,917
Deduct						
Depreciation and amortization	4,201	2,830	2,271	2,018	1,775	1,133
Interest on short-term debt	9,883	6,103	4,160	2,128	1,448	465
Interest on long-term debt	5,247	2,989	2,660	2,202	2,151	1,233
Earnings before taxes on income	14,757	18,802	18,794	11,504	8,194	2,086
Taxes on income						
Current	4,571	5,638	8,187	3,937	3,039	1,563
Deferred	804	1,286	(146)	863	282	(24)
Inventory tax relief - United Kingdom	(1,650)	—	—	—	—	—
	3,725	6,924	8,041	4,800	3,321	1,539
Earnings before extraordinary items	11,032	11,878	10,753	6,704	4,873	547
Extraordinary items	—	(90)	347	506	395	104
Net earnings	\$ 11,032	11,788	11,100	7,210	5,268	651

Changes in Financial Position	1981	1980	1979	1978	1977	1972 (10 yrs. ago)
Funds provided						
Operations	\$ 16,079	15,790	12,831	9,634	6,982	1,673
Extraordinary items, net	—	(90)	347	165	147	—
Increase in long-term debt	18,896	330	1,918	—	—	—
Issue of common shares	—	2,191	6	—	—	34
Proceeds on disposal of property and plant	—	284	209	492	545	427
Total funds provided	34,975	18,505	15,311	10,291	7,674	2,134
Funds used						
Property, plant and equipment	4,254	7,353	3,363	4,013	4,057	2,594
Decrease in long-term debt						
Principal	2,661	1,308	953	1,210	1,107	153
Foreign currency translation adjustment	1,401	(583)	102	(476)	(450)	4
Dividends on common shares	2,584	2,425	1,998	1,634	1,453	756
Acquisitions, net of working capital acquired	17,850	—	1,872	—	—	—
Other, net	(331)	315	623	(133)	254	231
Total funds used	28,419	10,818	8,911	6,248	6,421	3,738
Increase in working capital	\$ 6,556	7,687	6,400	4,043	1,253	(1,604)
Working capital at December 31	\$ 73,772	67,216	59,529	53,129	49,086	23,578

Balance Sheet

Assets	1981	1980	1979	1978	1977	1972 (10 yrs. ago)
Current assets						
Accounts receivable	\$ 50,746	46,914	42,577	33,152	25,849	13,903
Inventories	104,078	89,302	87,783	67,899	52,821	26,919
Other	6,973	3,539	3,738	2,515	2,628	811
Total current assets	161,797	139,755	134,098	103,566	81,298	41,633
Long-term receivables	1,160	1,380	1,056	328	668	274
Property, plant and equipment – net	39,814	31,895	27,389	24,976	23,081	11,580
Patents and trademarks	4,889	—	—	—	—	—
Unamortized debt discount and expense	176	218	261	308	357	452
Goodwill	5,617	456	478	—	—	—
	\$213,453	173,704	163,282	129,178	105,404	53,939

Liabilities & Shareholders' Equity	1981	1980	1979	1978	1977	1972 (10 yrs. ago)
Current liabilities						
Short-term borrowings	\$ 48,079	36,340	31,725	23,643	12,390	7,438
Accounts payable and accruals	34,106	29,303	30,802	20,754	15,313	8,625
Other	5,840	6,896	12,042	6,040	4,509	1,993
Total current liabilities	88,025	72,539	74,569	50,437	32,212	18,056
Deferred income taxes	4,239	3,435	2,149	2,208	1,295	(103)
Long-term debt	38,150	23,315	23,711	22,848	23,581	16,233
Minority interest	342	166	158	99	305	78
Shareholders' Equity						
Capital stock	7,828	7,828	5,637	5,631	5,631	574
Retained earnings	74,869	66,421	57,058	47,955	42,380	19,101
Total shareholders' equity	82,697	74,249	62,695	53,586	48,011	19,675
	\$213,453	173,704	163,282	129,178	105,404	53,939

Common Share Statistics	1981	1980	1979	1978	1977	1972 (10 yrs. ago)
Basic earnings						
Before extraordinary items	\$ 2.30	2.56	2.37	1.48	1.07	.14
Including extraordinary items	2.30	2.54	2.45	1.59	1.16	.17
Fully diluted earnings						
Before extraordinary items	2.30	2.50	2.27	1.42	1.04	.14
Including extraordinary items	2.30	2.48	2.35	1.53	1.12	.17
Book value at December 31	17.28	15.51	13.81	11.80	10.58	5.20
Dividends paid	.53	.50	.42	.35	.32	.20
Price range – high	17.25	14.50	12.88	8.88	6.75	7.50
– low	12.50	10.13	7.88	5.50	4.85	4.45
Return on shareholders' equity at January 1 (based on earnings before extraordinary items)	% 14.9	18.9	20.1	14.0	11.0	2.7

FINANCIAL REVIEW

Balance Sheet

Working Capital

Working capital increased \$6,556,000 to \$73,772,000 at year end. The ratio of current assets to current liabilities (the current ratio) was 1.8:1 compared to 1.9:1 at December 31, 1980.

Cash

Cash on hand and in bank totalled \$4,096,000. Included in this amount is DM 4,375,000 (\$2,313,000) which our West German subsidiaries have invested in short-term deposits. We expect these subsidiaries will generate sufficient funds to cover interest payments on our DM 32,000,000 term loan. In Canada, all banking is centralized and cash balances are applied to bank loans immediately.

Accounts Receivable

Accounts receivable were \$53,756,000 at year end before deducting the bad debt allowance of \$3,010,000. The increase of \$4,131,000 over 1980 primarily reflects increased sales as the number of days sales outstanding remained relatively constant. Accounts receivable for our Canadian divisions were \$35,344,000 with a bad debt allowance of \$2,538,000. For these divisions, the allowance is calculated using a formula based on the age of each account. Historically, the application of this formula has resulted in a conservative valuation of accounts and we are confident that even in today's difficult credit environment, the allowance is adequate. Our foreign divisions' customers are generally larger commercial and industrial concerns and the credit risks are lower.

Following is an aged analysis of accounts receivable:

Unpaid sales for the month of	1981		1980	
	(in thousands of dollars)			
December	\$32,936	61.3%	32,307	65.1%
November	10,691	19.9	9,502	19.1
October	3,446	6.4	3,854	7.8
Prior	6,683	12.4	3,962	8.0
	\$53,756	100.0%	49,625	100.0%

Inventories

Full provision has been made for slow moving and obsolete inventories. Inter-division profits remaining in inventories at year-end have been eliminated. Approximately 70% (\$72,417,000) of inventory is in the form of finished goods which are of a type not generally subject to technical, style or shelf-life obsolescence.

Emco Supply, our Canadian distribution division serving the plumbing, heating and industrial markets, has the major portion of our finished goods inventory. Their inventory was \$38,600,000 at year end, an increase of \$7,100,000 during 1981 and inventory turnover was 4.8, an improvement over the 1980 turnover of 4.4.

Property, Plant and Equipment

Fixed assets additions were \$11,740,000, with acquisitions accounting for \$7,486,000. Depreciation expense increased by 38% to \$3,867,000. Our depreciation policy is outlined in note 1 of the notes to the financial statements.

Patents and Trademarks

Patents and trademarks of \$5,029,000 were obtained in the acquisition of Horn GmbH. They are being amortized over their remaining lives and the charge to income in 1981 was \$173,000. Although they will not be fully amortized until the year 2000, 77% of the total will be amortized by 1990.

Goodwill

The purchase price of Horn GmbH exceeded the underlying net assets by \$5,289,000. This resulting goodwill is being amortized on a straight line basis over 40 years.

Short-Term Indebtedness

Short-term borrowings by Emco's Canadian operations were \$39,100,000 or 81% of the total borrowings of \$48,079,000. The Canadian loans are unsecured while borrowings of subsidiaries are guaranteed by the parent company. Present lines of credit are adequate to meet 1982 requirements.

Long-Term Debt

The details of our long-term debt are summarized in note 5 of the notes to the financial statements. Sufficient debentures have been purchased at market to satisfy the sinking fund requirements for the 5¾% and 9¾% debenture issues through 1984 and 1982 respectively. The DM 32,000,000 loan due March 11, 1986 was incurred to finance the acquisition of Horn GmbH. This note carries a fixed interest rate of 11.5%.

The sinking fund debenture trust deeds and various loan agreements require that, among other things, we maintain minimum levels of working capital and shareholders' equity. At December 31, 1981, we were substantially in excess of these requirements.

Statement of Earnings

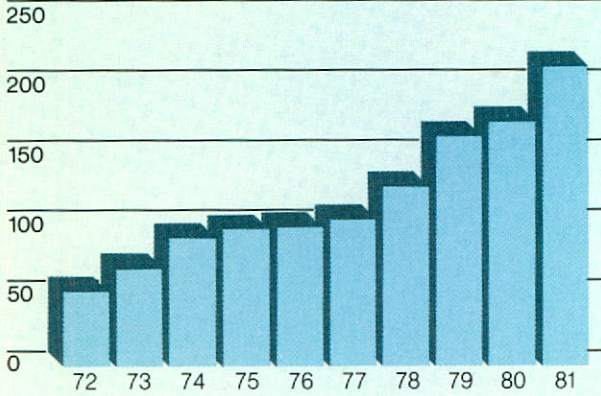
Consolidated sales increased 15% to \$364,904,000 with each industry segment increasing sales by a like percentage. The company has segmented its business into "plumbing and industrial products" and "energy-related products" with this latter classification including the business of our Petroleum Equipment Group of companies and other products from the Plumbing and Industrial Group, which are used in the energy field. Following is a reconciliation of the segment and group sales for 1981:

	(in thousands of dollars)	
Plumbing and Industrial Group		
Total revenue - plumbing and industrial products segment		\$238,281
Plumbing & Industrial Group sales included in energy-related products segment	\$ 32,007	
Less: Inter-group adjustment	7,443	24,564
Plumbing and Industrial Group net sales		262,845
Petroleum Equipment Group		
Total revenue - energy-related products segment	134,952	
Less: Plumbing & Industrial group sales included	32,007	
Petroleum Equipment Group net sales		102,945
		365,790
Less: Inter-group sales elimination		886
Consolidated Net Sales		\$364,904

Earnings were adversely affected throughout the year by high interest rates. Total interest expense increased 66% to \$15,130,000, reflecting both higher interest rates and levels of borrowing. Earnings in 1981 were favourably affected by foreign currency translation gains of \$1,466,000 (1980 - \$699,000 loss) and non-recurring tax relief of \$1,650,000 in the United Kingdom. Fully diluted earnings per share were \$2.30, the second highest in the company's history. Dividends increased for the 8th consecutive year to 53¢ per share in 1981. The present indicated rate is 14¢ per quarter.

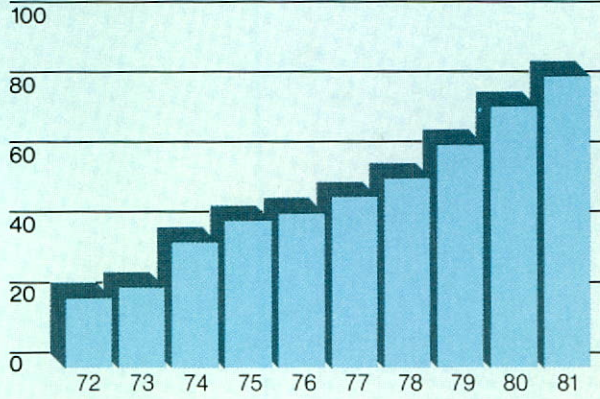
Total Assets

(millions of dollars)



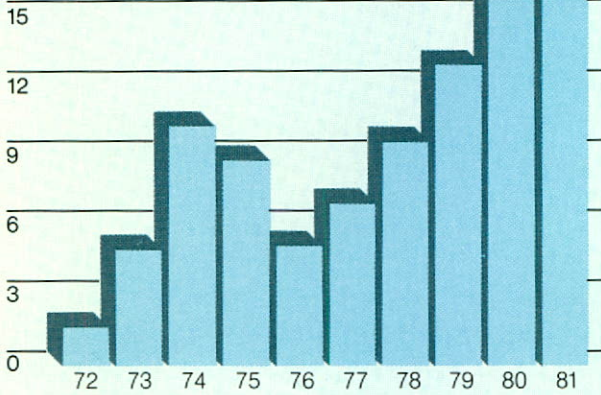
Shareholders' Equity

(millions of dollars)



Funds Provided From Operations

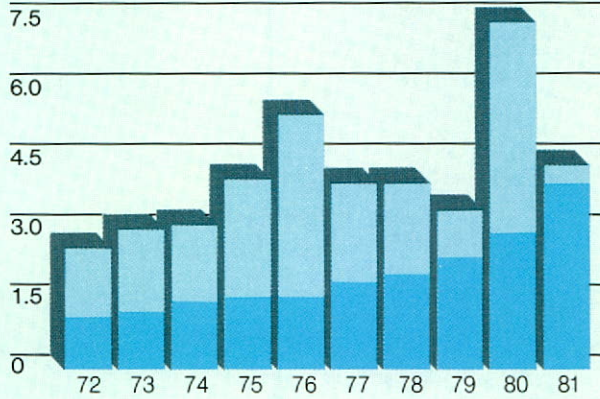
(millions of dollars)



■ **Capital Expenditures (excluding acquisitions)**

■ **Depreciation**

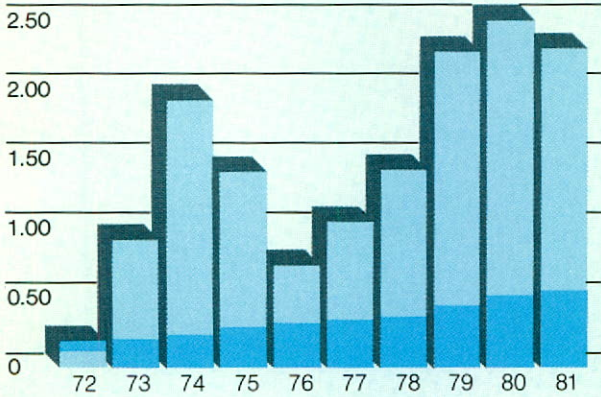
(millions of dollars)



■ **Earnings Per Share**

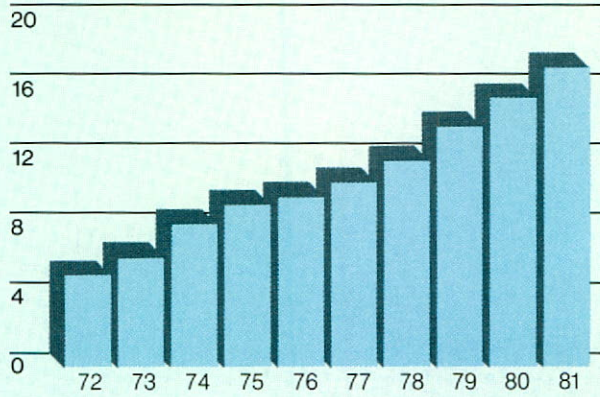
■ **Dividends Per Share**

(dollars)



Book Value Per Share

(dollars)



EMCO LIMITED

Consolidated Balance Sheets, December 31, 1981 and 1980

Assets	1981	1980
	(in thousands of dollars)	
Current assets		
Cash	\$ 4,096	1,212
Marketable securities, at cost (quoted value 1981, \$467; 1980, \$506)	516	516
Accounts receivable, less allowance for doubtful accounts (1981, \$3,010; 1980, \$2,711)	50,746	46,914
Inventories, at the lower of cost or net realizable value (note 2)	104,078	89,302
Prepaid expenses	2,361	1,811
Total current assets	161,797	139,755
Long-term receivables	1,160	1,380
Property, plant and equipment, at cost less depreciation (note 3)	39,814	31,895
Patents and trademarks, at cost less amortization (note 4)	4,889	—
Unamortized debt discount and expense	176	218
Goodwill, at cost less amortization	5,617	456
	\$213,453	173,704
<hr/>		
Liabilities and Shareholders' Equity	1981	1980
	(in thousands of dollars)	
Current liabilities		
Bank and other short-term indebtedness	\$ 48,079	36,340
Accounts payable and accrued expenses	34,106	29,303
Dividends payable	670	622
Current portion of long-term debt	675	1,119
Income and other taxes payable	4,495	5,155
Total current liabilities	88,025	72,539
Deferred income taxes	4,239	3,435
Long-term debt (note 5)	38,150	23,315
Minority interest in subsidiary companies	342	166
Shareholders' equity		
Capital stock, common shares (note 6)	7,828	7,828
Retained earnings	74,869	66,421
Total shareholders' equity	82,697	74,249
	\$213,453	173,704

See accompanying notes to consolidated financial statements.

On behalf of the Board:

J.W. Adams, Director

C.N. Chapman, Director

EMCO LIMITED

Consolidated Statements of Earnings, Years ended December 31, 1981 and 1980

	1981 (in thousands of dollars)	1980
Sales, less sales taxes	\$364,904	316,298
Operating income after minority shareholders' interest but before the undernoted items	\$ 32,381	31,356
Investment income	241	67
	32,622	31,423
Deduct		
Foreign currency translation (gain) loss (note 10)	(1,466)	699
Depreciation	3,867	2,809
Amortization of patents, trademarks and goodwill	334	21
Interest on bank and other short-term indebtedness	9,883	6,103
Interest on long-term debt	5,247	2,989
Earnings before taxes on income	14,757	18,802
Taxes on income (note 7)		
Current	4,571	5,638
Deferred	804	1,286
Inventory tax relief – United Kingdom	(1,650)	—
	3,725	6,924
Earnings before extraordinary items	11,032	11,878
Extraordinary items (note 8)	—	(90)
Net earnings	\$ 11,032	11,788
Earnings per common share		
Basic		
Before extraordinary items	\$ 2.30	2.56
Extraordinary items	—	(.02)
	\$ 2.30	2.54
Fully diluted		
Before extraordinary items	\$ 2.30	2.50
Extraordinary items	—	(.02)
	\$ 2.30	2.48

See accompanying notes to consolidated financial statements.

EMCO LIMITED

Consolidated Statements of Retained Earnings, Years ended December 31, 1981 and 1980

	1981 (in thousands of dollars)	1980
Amount at beginning of year	\$ 66,421	57,058
Add net earnings	11,032	11,788
	77,453	68,846
Deduct dividends	2,584	2,425
Amount at end of year	\$ 74,869	66,421

See accompanying notes to consolidated financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheets of Emco Limited as at December 31, 1981 and December 31, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and December 31, 1980 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

London, Canada
February 22, 1982

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Management's Report to the Shareholders

The financial statements of the company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Management is responsible for all information in the Annual Report and financial and operating data in the Report are consistent, where appropriate, with the financial statements.

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and with all information available up to February 22, 1982. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in note 1 of the notes to the consolidated financial statements.

The Board of Directors annually appoints an Audit Committee, a majority of whom are not employees of the Company. The committee meets with management, the company's internal auditors, and the independent auditors to review any significant accounting and auditing matters and discuss the results of audit examinations. The audit committee also reviews the financial statements and the auditors' report and submits its findings to the Board of Directors for their consideration in approving the financial statements.

London, Ontario
February 22, 1982

John W. Adams
President, Chief Executive Officer

W. Wesley De Shane
Secretary-Treasurer

EMCO LIMITED

Consolidated Statements of Changes in Financial Position, Years ended December 31, 1981 and 1980

	1981 (in thousands of dollars)	1980
Funds provided		
Operations		
Net earnings before extraordinary items	\$ 11,032	11,878
Depreciation	3,867	2,809
Deferred income taxes	804	1,286
Amortization of debt discount and expense, patents, trademarks and goodwill	376	64
Gain on disposal of fixed assets	—	(247)
Funds provided from operations	16,079	15,790
Proceeds on disposal of property and plant	—	284
Increase in long-term debt	18,896	330
Issue of common shares	—	2,191
Other	396	8
Total funds provided	35,371	18,603
Funds used		
Extraordinary items, net	—	90
Property, plant and equipment	4,254	7,353
Decrease in long-term debt		
Reduction of principal	2,661	1,308
Foreign currency translation gain (loss)	1,401	(583)
Net decrease	4,062	725
Dividends	2,584	2,425
Acquisition of businesses net of working capital acquired (note 10)	17,850	—
Other	65	323
Total funds used	28,815	10,916
Increase in working capital	\$ 6,556	7,687
Working capital at end of year	\$ 73,772	67,216

See accompanying notes to consolidated financial statements.

EMCO LIMITED

Notes to Consolidated Financial Statements, December 31, 1981 and 1980

1. Accounting policies

The accompanying financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects to international accounting standards. Significant accounting policies are summarized below.

Principles of consolidation The accompanying financial statements consolidate the accounts of all subsidiary companies. All material intercompany balances and transactions have been eliminated.

Foreign currency transactions Amounts in foreign currencies are translated into Canadian dollars as follows:

Current assets except inventories, and current liabilities – at rates current at the year ends.

Inventories, property, plant and equipment, patents, trademarks and goodwill – at rates in effect at dates of acquisition.

Long-term debt – at rates current at the year ends.

Operating income and expenses – at average rates during the years except for depreciation and amortization of patents, trademarks and goodwill which are on the same basis as the related assets.

Gains and losses resulting from such translation practices are reflected in the statements of earnings.

Depreciation Depreciation is generally provided on a straight-line basis over the estimated useful lives of the assets. Depreciation rates are as follows: buildings 2.5% and 5%; roadways 10%; machinery and equipment 10% to 20%.

Amortization of debt financing expense The discount and expense on long-term debt is being amortized over the term of the debt in proportion to the principal amount outstanding during each year. The amounts amortized are included in interest on long-term debt expense in the statements of earnings.

Amortization of patents and trademarks Patents and trademarks are being amortized over the remaining lives of the assets which do not exceed 13 years and 20 years respectively.

Amortization of goodwill Goodwill, which represents the excess of cost over the fair value of net assets acquired in business combinations, is being amortized over the estimated life of the goodwill not exceeding 40 years.

Research and development expenses Costs associated with research and development of new products and improvements to existing products are expensed as incurred.

Earnings per share Basic earnings per share are calculated using the weighted daily average number of shares outstanding.

Fully diluted earnings per share are calculated on the assumption that options and warrants outstanding during the year were exercised at the beginning of the year; and that funds derived therefrom had been used to reduce bank indebtedness and related interest costs.

2. Inventories

	1981	1980
	(in thousands of dollars)	
Raw materials	\$ 7,908	6,700
Work in process	23,944	21,109
Finished goods	72,417	62,160
	104,269	89,969
Less Progress billings	191	667
	\$104,078	89,302

3. Property, plant and equipment

	1981	1980
	(in thousands of dollars)	
Buildings and roadways	\$ 27,028	23,149
Machinery and equipment	33,082	26,792
	60,110	49,941
Less accumulated depreciation	25,759	21,938
	34,351	28,003
Land	5,463	3,892
	\$ 39,814	31,895

4. Patents and trademarks

	1981
	(in thousands of dollars)
Patents	\$ 4,483
Trademarks	579
	5,062
Less accumulated amortization	173
	\$ 4,889

5. Long-term debt

	1981	1980
	(in thousands of dollars)	
5¾% sinking fund debentures due June 15, 1985	\$ 2,307	3,242
9¾% sinking fund debentures due July 15, 1990	3,475	3,972
Note due May 31, 1983 (U.S. \$5,000,000)	5,926	5,968

Note payable in instalments to December 16, 1986 (U.S. \$5,793,087 and Cdn. \$320,000)	7,186	8,557
11½% note payable due March 11, 1986 (DM 32,000,000)	16,915	—
Note payable in instalments due October 31, 1984 (Australian \$1,200,000)	1,627	1,955
Mortgages and notes payable in instalments through 1989 at rates from 6% to 18.6%	1,389	740
	38,825	24,434
Less amounts due within one year included with current liabilities	675	1,119
	\$ 38,150	23,315

Interest on the notes for which no fixed rates of interest is shown will change from time to time in relation to the lenders' cost of borrowing. The interest rates at December 31, 1981 were 13.75%, 15.3% and 16.5% respectively and at December 31, 1980 the rates were 23.9%, 19.9% and 13.5% respectively.

Long-term debt falling due or to be met out of sinking fund payments in the five years ending December 31, 1986, after taking into account the principal amount of debentures repurchased by the company which have been tendered to the trustee in respect of future sinking fund payments, aggregates \$675,000 in 1982; \$7,480,000 in 1983; \$1,898,000 in 1984; \$6,060,000 in 1985 and \$19,435,000 in 1986.

6. Capital stock

Authorized, issued and outstanding

	Number of Shares		
	Issued and Outstanding		
	Authorized	1981	1980
Preference shares without par value	5,000,000	—	—
Common shares without par value	12,000,000	4,785,831	4,785,831

During 1980, 245,317 common shares were issued for a cash consideration of \$2,191,000 on the exercise of warrants.

Share options At December 31, 1981, 188,550 common shares had been reserved for issuance under a share option plan for certain key executives.

Options expiring March 31, 1985 on 10,000 shares with an exercise price of \$11.00 were outstanding at December 31, 1981 and 1980.

Share purchase plan During 1968, a share purchase plan was approved whereby the employees of the company and its subsidiaries (excluding officers and directors of Emco Limited) may purchase common shares of the company. As at December 31, 1981, there were 128,145 shares available for future subscriptions. There were no transactions during 1981 or 1980.

Dividend restrictions The trust deeds relating to the debentures each contain provisions whereby dividends may not be declared or paid, other than stock dividends, and the company may not effect any reduction to its capital stock which would reduce net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1981 and December 31, 1980 the net current assets and shareholders' equity (as so defined) were substantially in excess of minimum levels.

7. Taxes on income

A change in estimated income taxes in respect of prior years has reduced the 1981 and the 1980 income tax charges by approximately \$300,000 and \$400,000 respectively. In addition, taxes on income for 1980 were reduced by \$406,000 through the application of investment tax credits arising from the purchase of plant and equipment.

As a result of a change in U.K. tax legislation enacted during 1981, accumulated income tax liabilities at December 31, 1980 have been reduced by \$1,650,000.

8. Extraordinary items

	1980 (in thousands of dollars)
Loss on disposal of investment	\$ (268)
Reduction in income taxes of subsidiary companies from the application of losses carried forward	178
	<u>\$ (90)</u>

9. Pension plans

The company has no significant liability for past services under its pension plans.

10. Acquisitions

Effective January 1, 1981, the company acquired the business and net assets of certain companies engaged in the manufacture and distribution of fluid handling equipment used in the oil and

petrochemical industries. The acquisitions were accounted for by the purchase method as follows:

	1981 (in thousands of dollars)
Assets acquired, at fair value	\$ 19,605
Deduct: liabilities assumed	5,270
minority interest	127
Net assets acquired	14,208
Cash consideration	19,497
Goodwill	\$ 5,289

During the period from the effective date of acquisition of Horn GmbH to the date of settlement, the West German mark declined in relation to the Canadian dollar resulting in a gain of \$1,348,000 which is included in the statement of earnings. Goodwill which arose on the purchase of this wholly-owned subsidiary is being amortized over 40 years.

The company also acquired 80% of Volumatic S.A. in France and 70% of Pioden Controls Limited in the United Kingdom.

11. Segmented information

Management and the directors of the company have determined that Emco's classes of business are the manufacture and sale of Plumbing & Industrial Products and Energy Related Products. The operating results and identifiable assets by industry segment and geographic area are as follows:

Industry Segments (in thousands of dollars)	Plumbing and Industrial Products		Energy Related Products		Eliminations		Consolidated	
	1981	1980	1981	1980	1981	1980	1981	1980
Sales to outside customers	\$238,232	205,604	126,672	110,694	—	—	364,904	316,298
Inter-segment sales	49	—	8,280	6,931	(8,329)	(6,931)	—	—
Total revenue	\$238,281	205,604	134,952	117,625	(8,329)	(6,931)	364,904	316,298
Segment operating profit	\$ 15,881	17,636	17,808	15,034	(46)	(8)	33,643	32,662
General corporate and other expenses							(1,262)	(1,306)
							32,381	31,356
Identifiable assets	\$104,700	93,422	109,642	80,999	(889)	(717)	213,453	173,704
Depreciation and amortization	\$ 1,899	1,416	2,344	1,457	—	—	4,243	2,873
Capital expenditures	\$ 1,539	4,810	2,715	2,543	—	—	4,254	7,353

Geographic Areas (in thousands of dollars)	Canada		U.S.A.		Europe		Other		Eliminations		Consolidated	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
Sales to outside customers	\$276,215	240,332	35,229	35,538	34,524	23,284	18,936	17,144	—	—	364,904	316,298
Inter-segment sales	495	253	592	615	367	454	1	1	(1,455)	(1,323)	—	—
Total revenue	\$276,710	240,585	35,821	36,153	34,891	23,738	18,937	17,145	(1,455)	(1,323)	364,904	316,298
Segment operating profit	\$ 22,757	24,123	2,831	4,020	5,260	2,746	2,832	1,675	(37)	98	33,643	32,662
General corporate and other expenses											(1,262)	(1,306)
											32,381	31,356
Identifiable assets	\$135,960	125,720	25,365	22,310	40,815	15,570	14,994	13,486	(3,681)	(3,382)	213,453	173,704

DIRECTORS

John W. Adams, FCA
London, Ontario
President and Chief Executive Officer, Emco Limited

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Taylor, Michigan
Group Vice-President, Masco Corporation

C. Norman Chapman
London, Ontario
Chairman of the Board, Emco Limited

Fred L. Donnell
Indianapolis, Indiana
Group Vice-President, Masco Corporation

David L. Johnston
Montreal, Quebec
Principal and Vice-Chancellor, McGill University

Frederick W.P. Jones
London, Ontario
Business Consultant

Wayne B. Lyon
Taylor, Michigan
Executive Vice-President, Masco Corporation

Ralph S. MacLean
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Vice-President, Plumbing and Industrial Group, Emco Limited

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*Vice-Chairman of the Board, Emco Limited
President, Masco Corporation*

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Vancouver, British Columbia
*Chairman and Chief Executive Officer,
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Robert W. Stevens, Q.C.
Toronto, Ontario
Partner, Blake Cassels and Graydon

David B. Weldon
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Chairman of the Board, Midland Doherty Limited

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John W. Adams, FCA
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Robert H. Wedgbury
Vice-President, Petroleum Equipment Group

Donald J. Hackett
*Vice-President and General Manager,
London Factory Division*

W. Wesley De Shane, CA
Secretary-Treasurer

TRANSFER AGENTS AND REGISTRARS

The Royal Trust Company Toronto, Montreal and
Winnipeg (5¼% debentures); Toronto, Montreal,
Winnipeg, Regina, Calgary and Vancouver (common
shares); The Canada Trust Company Toronto, Montreal
and Winnipeg (9¼% debentures)

AUDITORS

Peat, Marwick, Mitchell & Co.
London, Canada



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