EMCO LIMITED ANNUAL REPORT 1982

The cover shows the flags of the eight nations in which Emco has manufacturing facilities: Canada, Australia, West Germany, Japan, United Kingdom, Brazil, United States, France.

EMCO LIMITED

Financial Summary
Dollars in thousands except for share data.

	1982	1981
Sales	**$308,957**	364,904
Net earnings	**$ 30**	11,032
Per common share		
Net earnings	**$ .01**	2.30
Dividends	**$ .56**	.53

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 13, 1983.

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The centre of this report features a colourful foldout display of new products developed by Emco Limited companies in 1982. We believe these new products will have an important impact on our future results.

FELLOW SHAREHOLDERS

The worst economic recession since the 1930's made 1982 the most difficult year that most of us at Emco have ever experienced. Our consolidated sales fell to $309 million from $365 million, a decrease of 15 percent, and net income for 1982 was $30,000, compared to $11 million in 1981.

The effects of the recession were felt worldwide, but Emco's Canadian operations were particularly hard hit as industry sharply reduced capital spending and housing starts fell to 126,000, their lowest level since 1961. During 1982 two major forces affected our results, particularly in Canada. Not only did we suffer as a result of historically low housing starts, but we were also adversely impacted by dramatic inventory reductions throughout our industry.

When the seriousness of the economic malaise became evident early in the year, Emco's management moved to reduce expenses and inventories throughout the company. Salaries were frozen and many employees were placed on a reduced work week under a work-sharing program sponsored by the federal government. Without the support of our loyal and dedicated employees, often at great personal sacrifice, our cost reduction programs could not have been as effective as they were.

Operating Highlights

Plumbing and Industrial Group sales declined 17 per cent from $263 million in 1981 to $218 million in 1982. We are satisfied with our level of sales in a year of hardship for the Canadian construction industry, particularly since we had to use extreme caution to avoid major credit losses.

Petroleum Equipment Group sales in 1982 were $92 million, an 11 per cent decrease from 1981 sales of $103 million. This drop in sales reflects reduced spending by customers in the petroleum industry who were forced to adjust to volatile operating conditions and uncertain oil pricing.

The companies acquired in 1981 performed reasonably well in 1982. Horn GmbH suffered from the recession and results were not as good as in 1981. Currency revaluations and management changes had an unfavourable effect on our French acquisition, Volumatic S.A. Although it is a small concern, Pioden Controls in the United Kingdom enjoyed an excellent year.

In 1982, we purchased Propane Carburetion Company Inc., a small distributor of propane carburetion equipment in Romulus, Michigan. This company supplies Emco-Wheaton Limited in Toronto with pre-assembled propane conversion kits which reduce the cost of converting an automotive vehicle to propane carburetion.

We also established a new company known as Emco Arrowhead to manufacture and distribute high pressure swivel joints which are used mainly in the servicing and stimulation of completed oil and gas wells.

A small facility has been established in Phoenix, Arizona to introduce our Horn automotive oil extraction and dispensing products to the North American market.

Outlook

We enter 1983 on a somewhat optimistic note. Recently, we have seen signs that the worst of the recession may be over. In January, housing starts were at an annualized rate of 165,000. Interest rates have moderated considerably, the rate of inflation has declined sharply and the unemployment rate is relatively stable, although unfortunately high. Despite these encouraging signs, the road to economic recovery is a long one and we should not expect that all of the ground lost in 1982 will be made up in 1983.

Our Canadian factories resumed a five-day work week late in January and our customers seem to be refilling the inventory pipeline. We enter 1983 as a lean, aggressive corporation. As volume increases, significant improvements in our operating results should flow to our bottom line. Housing starts probably will not surpass 150,000 but because of the need to replenish inventories, our business should be better than would normally be the case with such a low level of residential construction. Our new brass foundry in London is running smoothly, giving us the capability of greatly increasing production while reducing scrap levels.

Today, more than 76 years after its founding, Emco Limited is still the leading force in the Canadian plumbing and heating industry and through our Petroleum Equipment Group of companies we are becoming dominant worldwide in the transfer, measurement and control of fluids.

Emco enjoys an enviable reputation for providing high quality products and outstanding service. This reputation has been founded on the efforts of our dedicated employees over more than three-quarters of a century. Their loyalty to this company during a difficult and troubled year is gratefully acknowledged.

J.W. Adams
President and Chief Executive Officer
February 28, 1983

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 (Lachine)	Sherbrooke
Dawson Creek	North Bay	St. Catharines
Edmonton	Oshawa	St. John's, Nfld.
Grande Prairie	Ottawa	Sudbury
Guelph	Peterborough	Terrace
Halifax (Dartmouth)	Prince George	Toronto (Weston)
Kitchener	Quebec	Ville de Brossard
Lethbridge	Regina	Windsor
	Saint John, N.B.	Winnipeg

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; Calgary, Alberta; 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 and Industrial Group

London Factory Division

This division consists of the London Factory and Brampton Plastics plant with sales branches in Vancouver, Calgary, Toronto and Moncton. Its objective is to expand the range of Emco products for the plumbing trade, do-it-yourself market and the commercial and industrial construction markets.

The London Factory Division felt the impact of a severe decline in new housing construction, compounded by its wholesaler/distributor customers substantially reducing their inventories.

Among the key new products introduced by London Factory Division in 1982 is the Empire line of do-it-yourself faucets for the retail hardware distribution trade.

Elegant new antique brass and polished brass decorator finishes were added to our product line along with a stylish eight-inch widespread faucet with genuine marble or onyx handles. An Emco-patented Slip-On tub spout was introduced in 1982, as were attractive coloured index rings for the handles of our Corona and Sapphire faucets.

An improved ball valve (patent pending), with enclosed workings to prevent contamination, has been added to our high quality waterworks product line. Our Emco plastics plant has produced a unique back-water valve (patent pending) to prevent flooding of basements.

Several products are being developed by our engineers for introduction in 1983. One of the most important items still in the developmental stage is a water-saving, single-cycle, flush valve with an adjustable volume range of one-half gallon to eight gallons.

Although 1982 was a difficult year, the London Factory Division was able to improve its production efficiency and reduce its inventories, leaving it in a good position to capitalize on any upturn in the market in 1983. We expect 1983 will be a much improved year for the London Factory Division because of its increased efficiency, new products and the expected 20 per cent increase in residential construction.

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, building supply dealers and do-it-yourself retailers.

In 1982, inventory levels and overhead costs were drastically reduced to compensate for the major drop in residential, commercial and industrial construction activity. In spite of the serious decline in business, the supply division produced a significant profit. Only two small branches were unable to produce a profit in 1982.

Sales of luxury plumbing fixtures were encouraging in 1982, despite the poor economy. In our western region, for example, sales of these items increased 15 per cent over 1981. Also encouraging was the reception given the Aqua Glass line of tub and shower enclosures.

With its reduced overhead and balanced inventories, Emco Supply is well-positioned to benefit from increased construction activity in 1983.

This division will continue its efforts to penetrate the growing market for renovation and remodelling. Sales of high-end, luxury bathrooms will be strong through the coming year. We will add profitable new products and develop others whose potential has not been fully reached – products such as whirlpool baths, hot tubs, spas, domestic water treatment equipment, heat pumps, and solar heating products.

CCTF

CCTF, formerly Canadian Clyde Tube Forgings Limited, is Canada's largest supplier of welding fittings and flanges.

This division expanded its manufacturing of forged steel fittings in Toronto as well as the custom machining of fittings and flanges. Major projects in the markets served by CCTF declined significantly in the last half of 1982.

World demand for products manufactured and distributed by CCTF has temporarily decreased while worldwide manufacturing capacity increased in 1982. This has resulted in increased competition, lower selling prices and reduced profit margins.

Conditions are expected to improve as the economic recovery progresses. Improvements in profitability will probably lag six to 12 months behind the quicker paced recovery of the consumer based segment of the economy since CCTF's major markets relate more closely to petroleum, chemical, pulp and paper and large construction projects.

Delta Faucet of Canada Limited

Although 1982 was a disastrous year for the Canadian plumbing and heating industry, Delta Faucet of Canada Limited managed to maintain its share of the single-handle faucet market while expanding its share of the larger two-handle faucet market.

New products played a major role in our success of 1982. Some were designed primarily for consumer appeal. The Cultured Gold line of decorator faucets is a step beyond the extremely successful Deltique group of products introduced several years ago. Another example is the new wallmount Roman Tub faucet designed for larger bathing facilities. Crystal lever handles to enhance both chrome and decorator faucets have also been added.

Other products were designed to offer the installer labor-saving advantages over competing products. The patented Snap-N-Pop mechanical drain fitting and the new patented Slip-On spout for tub fittings are major laborsaving devices. Another example is the centremount kitchen faucet which substantially reduces installation time.

Peerless Faucet Company

Selling to hardware, department, building supply and specialty stores, this division of Delta Faucet of Canada Limited continued to increase its market share with innovative new products, imaginative advertising and aggressive marketing.

The introduction of No Tools Hook-Up captured the interest of consumers and retailers. No Tools Hook-Up makes it possible to install a faucet without any tools or soldering equipment. A television advertising test market program in British Columbia resulted in a marked increase in retail space for Peerless brand products over competitors in all major retail outlets in that province.

At the Canadian Hardware Show in February, 1983, we introduced a 10-page catalogue listing all new products especially for the do-it-yourself market – products such as faucets with wooden and crystal lever handles, new decorator finishes and the Easy-Up Shower. The Peerless Easy-Up is a water-tight panel with molded shelves that mounts over the existing wall to simplify tub and shower replacement. It comes with a chrome single-handle tub and shower faucet that is pre-plumbed with No Tools Clincher fittings to make quick, easy connections to supply lines.

During 1983, we will conduct a television advertising campaign to increase brand awareness and promote retail sales.

E. Myatt & Co. Limited

Founded in 1909, E. Myatt & Co. Limited manufactures and distributes a complete range of pipe hangers and supports to the plumbing and mechanical contracting industries and highly engineered pipe support systems to power generating stations (both nuclear and fossil fuel), petrochemical operations and the pulp and paper industry.

In 1982, the first year in which the company operated as part of Emco's Plumbing and Industrial Group, Myatt introduced a comprehensive range of pipe restraining devices which are used as "shock absorbers" to prevent the sudden movement of pipe that can result from seismic conditions, vibrations of heavy equipment or the flow of liquids and gases. Myatt is the exclusive Canadian representative for these pipe restraining devices, which have long-term potential to fill the needs of the Canadian piping industry.

We anticipate a modest improvement in sales in 1983. We expect to benefit from the hardline cost reduction program adopted in 1982.

Overall Outlook for Plumbing & Industrial Group

The level of housing starts in the early months of 1983 has been encouraging. We expect a 20 per cent increase in residential starts to about 150,000 from 126,000 in 1982.

The success of our retail product lines and the growth of the renovation market have helped to cushion the impact of the severe decline in new housing starts which have fallen from a record of 273,000 in 1976 to 126,000 last year.

The renovation market holds great promise for our manufacturing and distribution businesses. In 1980, spending on renovations totalled $6 billion, or 41 per cent of total expenditures on residential housing. As recently as 1979, more than 1.6 million of Canada's eight million housing units were at least 50 years old and 4.1 million exceeded 20 years of age. As a result of high interest rates and the uncertain economy, many people who live in these older homes are choosing to renovate them rather than move to newer, more expensive houses.

The broadening of our Peerless line of washerless faucets has made it the most comprehensive do-it-yourself plumbing products line in the industry. Our Emco contractor faucet line and Emco retail faucet line have also been expanded with the addition of antique brass and polished brass finishes and a new, luxury, eight-inch widespread faucet with onyx handles. These exciting new products will make a strong contribution to our results in 1983 and beyond.

Because of the many improvements made to our operations in the Plumbing and Industrial Group in 1982, we feel we are justified in approaching 1983 with considerable optimism.

R.S. MacLean
Vice-President, Plumbing & Industrial 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
J.B. de Castro, Vice President, Business Development, Europe

OPERATING DIVISIONS

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

Emco Wheaton Industria E Comercio S.A.
Rio de Janeiro, Brazil
N. Gonzalez, General Manager

Emco-Wheaton Canada
Toronto, Ontario
Emco-Wheaton Limited
R.N.G. Equipment Inc.
Ritepro Inc.
Emgas Systems Inc. (70% owned)
Emco Arrowhead Inc. (80% owned)
T.F.J. Rose, President

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

Emco Wheaton S.A.
Montlouis, France
Volumatic S.A. (80% owned)
W.F. Shutler, General Manager

Emco Wheaton GmbH (76% owned)
Kirchhain, West Germany
W. Buchmueller, General Manager

Horn GmbH
Flensburg, West Germany
W. Buchmueller, General Manager

Emco Wheaton (Japan), Limited
Yokohama, Japan
G. Teramura, General Manager

Emco Wheaton Inc.
Conneaut, Ohio, U.S.A.
Horn, North America
Propane Carburetion Company Inc.
R.M. Clark, President and General Manager

REVIEW OF OPERATIONS

Petroleum Equipment Group

During the past three years, the Petroleum Equipment Group has added products that measure and control liquids and gases to its existing engineered fluid handling systems for the transfer and storage of crude oil and refined derivatives. We have also begun to manufacture and distribute products for the industrial and industrial gas markets.

Our traditional products, such as marine and tank truck loading arms have been re-engineered for use in new markets and we have added new products such as pumps, couplers and valves for industrial use and propane conversion equipment for automobiles.

The establishment of a new, small California company gives us access to the high pressure swivel joint market. The company, Emco Arrowhead Inc., will manufacture and distribute two-inch through four-inch swivel joints for high pressure applications from 10,000 p.s.i. to 20,000 p.s.i. These products are used primarily in servicing and stimulating completed oil and gas wells, where extremely high pressures are needed to fracture earth formations and inject special fluids, acid, nitrogen and sand. The design, testing and quality control functions are very important in the manufacture of these swivel joints because service conditions are extremely rigorous.

Operating Highlights

The worldwide recession had a severe impact on the Group in 1982. Consolidated Group sales fell 11 per cent and operating profits were substantially below 1981 levels despite major cost reductions.

As in 1981, margins were pressured due to the low level of business and strong competition to maintain market share. With the exception of France, our European operations performed well, having adjusted to the recessions in 1980-81. Brazil, Australia and Japan performed better than in 1981, but our North American operations, particularly in Canada, felt the full impact of the recession with much lower sales and a drop in operating profits.

Canada

Sales and earnings were considerably lower than in 1981 due to the extremely weak market for petroleum distribution equipment.

In 1982 we entered the alternate automotive fuels market with propane and CNG conversion equipment. These product lines performed as expected and we are gaining acceptance as the leader in these market areas. During 1982 we acquired Propane Carburetion Company Inc., a small Michigan company that supplies pre-assembled propane conversion kits to

Emco-Wheaton Limited in Toronto. This purchase makes us the Canadian leaders in supplying pre-assembled, pre-tested conversion kits. Other propane equipment suppliers sell individual components, but our kits cut installation time, save labour costs and reduce inventory imbalance problems. We will also become a major supplier of forklift conversion equipment in the U.S.A. and a supplier to the automotive original equipment market in Detroit.

Ritepro Inc. introduced a new range of cast iron and steel fire prevention and refinery (API) valves in sizes two inches through 12 inches and in pressure classes from 150 p.s.i. through 300 p.s.i. These valves are used in the construction and general processing industries and should generate substantial sales in 1983.

United States

The recession seriously affected our sales and operating profit in the United States as orders were cancelled on a large scale. The low level of capital expenditure by the oil companies resulted in one of our major tank truck fittings customers ceasing operations.

In California, our vapor recovery nozzle continued to perform well and was recertified by the California Air Resources Board. It is approved for all vapor recovery applications.

In the last quarter of 1982, Emco Wheaton Inc. introduced a gasoline nozzle called "The Marshall". It provides failsafe protection against spills in pre-pay service station outlets, the fastest growing segment of the service station industry. Spills can occur when conventional nozzles are left "open" in pre-pay applicatons. When an open nozzle receives dispenser pressure for a transaction, the result is a costly, dangerous gasoline spill. The Marshall closes automatically when it reaches the pre-pay amount and dispensing pressure stops. It stays closed independent of the clip and lever until pump pressure is restored.

Emco Wheaton Inc. is the first to introduce these innovative nozzle features to the market and the level of incoming orders for The Marshall in January, 1983 was encouraging, suggesting there will be wide market acceptance of this new product.

During 1982 the Marine Loading Arm division at Gulfport, Mississippi was reorganized, resulting in a significant improvement in profitability. The level of incoming orders during the fourth quarter of 1982 indicates this will be a very profitable operation in 1983.

The U.S. economy is showing signs of turning around in the first quarter of 1983 but we expect our market sector will lag behind this upturn by some months. However, we are well-positioned to capitalize on any increased business and to translate this into strong gains in operating profit.

Brazil

Although 1982 was another difficult year for the Brazilian economy, our division showed a substantial improvement in operating profit. Traditional business remained firm and several new products were manufactured in 1982, including Arpal Floating Roof Covers for above-ground storage tanks, marine arms for the transfer of crude oil from tankers to refineries and marine arms for the transfer of propane. These products contributed to good sales growth and moved the division from a loss to a solid profit.

Brazil's real economic growth has been stunted in the last few years by the high cost of energy. However, the recent drop in the price of crude oil should spur greater economic activity in 1983, resulting in increased sales for this division. We are still optimistic about the long range potential of the Group in Brazil and continue to look for additional product lines and markets, including export possibilities.

United Kingdom

A decline in domestic business, especially tank truck equipment and tank truck loading arms, was offset in 1982 by a strong surge in export sales, particularly of marine loading arms. Operating profits improved substantially in 1982, with a slight increase in sales.

We are very proud that our U.K. marine arm division received the Queen's Award for Exports, given each year to British companies achieving marked improvement in export sales.

Our basic marine loading arms were re-engineered in 1982 and the U.K. division became a factor in the supply of marine arms for the propane market. More than 50 per cent of our marine arm sales were in this market.

Pioden Controls performed extremely well in 1982, more than doubling its sales and operating profits. The acquisition of Pioden Controls in 1981 has enhanced the U.K. division's ability to enter markets for the measurement and control of liquids and gases and creates new opportunities for product development, integrating the mechanical and electronic skills of each division. During 1982, Pioden developed a heavy duty transducer to measure and record data relating to pressure in liquids and gases. We are now negotiating distribution agreements for the export of this product.

We feel the U.K. economy will improve in 1983, enabling us to again show a substantial increase in operating efficiency.

West Germany

Emco Wheaton GmbH in Kirchhain marked its 25th anniversary in West Germany by achieving record sales and profits.

The soft market for our traditional petroleum handling products was offset by increased business in the chemical market and by export sales.

Development of marine loading arms which can handle liquefied natural gas (LNG) at temperatures below -100° was completed in 1982.

Our market position and profitability will be maintained at 1982 levels, but we do not expect as large an increase in sales and earnings as we experienced in 1981 and 1982.

Oil companies reduced capital expenditures because of heavy losses resulting from oil pricing inconsistencies. Although this reduced the sales volume of Horn GmbH, Horn still operated on a profitable basis and is well-positioned for an upturn which could occur in 1983 as the price of oil stabilizes.

A division of Horn was established in the United States late in 1982 to market Horn products in North America. All major oil companies have been introduced to the Horn product range. Several have had equipment on trial and are favourably impressed. In addition, Horn has shown its products in other European countries and orders are now coming from Switzerland, Austria and Norway.

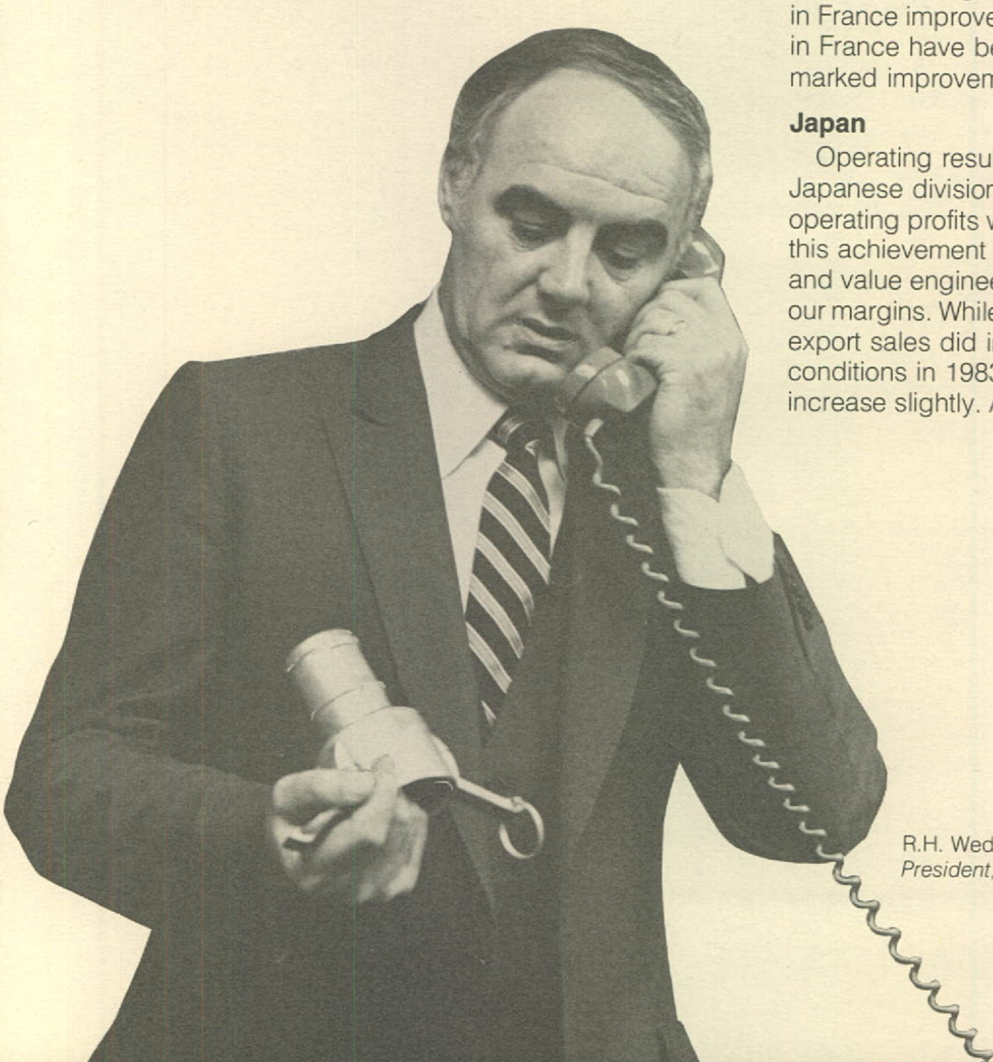
France

The devaluation of the franc hampered our operations because we import considerable material from North America. This coupled with the general economic malaise in France, severely reduced sales and operating profits, causing us to restructure our entire French operation. The manufacture of Emco Wheaton S.A. products was moved from our Cergy Pontoise facility and integrated with Volumatic at Montlouis.

The reorganization is now complete and the operation of the French company is being guided by the U.K. management team until business conditions in France improve. We believe most of our difficulties in France have been overcome and look forward to marked improvement in profitability in 1983.

Japan

Operating results in 1982 were satisfactory for our Japanese division. Sales increased substantially and operating profits were on target. As in previous years, this achievement resulted from good cost reduction and value engineering programs aimed at protecting our margins. While the Japanese market did not grow, export sales did improve. We anticipate similar conditions in 1983 and expect sales and profits will increase slightly. Again, these improvements will only



R.H. Wedgbury
President, Emco Wheaton International Limited

be possible by the application of sound management techniques which we have come to expect from our Japanese operation.

Australia

The reorganization and integration of our manufacturing operations mentioned in last year's annual report was completed during the third quarter of 1982. Manufacturing has been centralized with countrywide sales and service now under one marketing organization. The one-time cost of this reorganization has been included in our 1982 results, lowering profits from 1981 levels. Despite a marked economic slowdown in the third quarter, 1982 sales were at 1981 levels.

The J.B. Reimann Company introduced an automatic slitting line to complement its existing line of plate rolls used for forming steel plate for tank or vessel manufacturing. This product gained good market acceptance in 1982 with sales of close to $1 million. Other special purpose machines will be introduced in 1983.

Now that the reorganization in Australia is complete, we see substantial improvements in 1983 for our combined Australian operations.

Short-Term Outlook

We had anticipated economic conditions would improve in the second half of 1982, but they worsened instead. As a result, our operations were further restructured and additional cost reduction and value engineering programs were introduced in the second half of the year to maintain profitability.

Although we expect an economic upturn in 1983 will trigger an increase in capital expenditures, conditions in our markets will not likely improve during the first half of the year. Sales of our traditional products should return to more normal levels during the second half of 1983. This, coupled with sales of new products to new markets, will ensure increased profitability for the Group in 1983.

In 1983, we will achieve one of our objectives as less than 50 per cent of our revenues will be derived from sales of petroleum distribution equipment.

Long-Term Strategies

Each year we re-examine our strategic long-range plan and adjust the overall direction of the Group as necessary.

We will continue to diversify by searching for companies involved in our markets and we will continue to upgrade existing products and provide innovative solutions to the fluid handling problems of our customers.

As stated last year, we will emerge from the period of worldwide economic difficulty a stronger and more profitable Group. When capital spending returns to more normal levels, we will be well-poised to translate this into improved profitability. Stronger markets for our traditional products, combined with the new products we have added, should help us to return to the strong compound growth in sales and profits that we enjoyed in the late 1970's.

R.H. Wedgbury
President, Emco Wheaton International Limited

EMCO LIMITED

Market Leadership
Through Product Innovation

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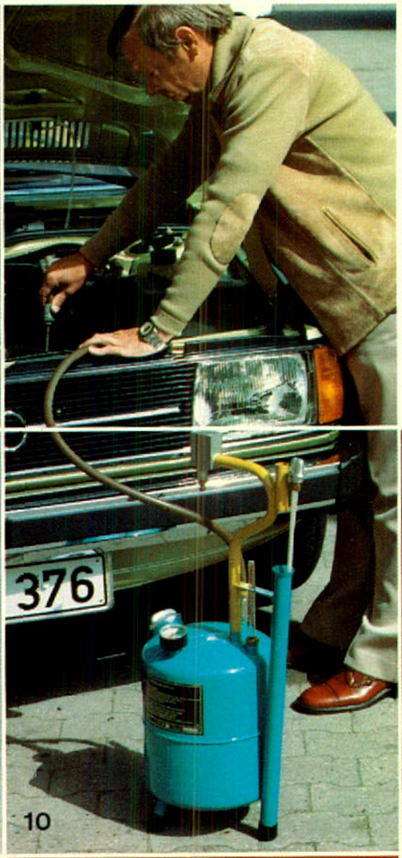

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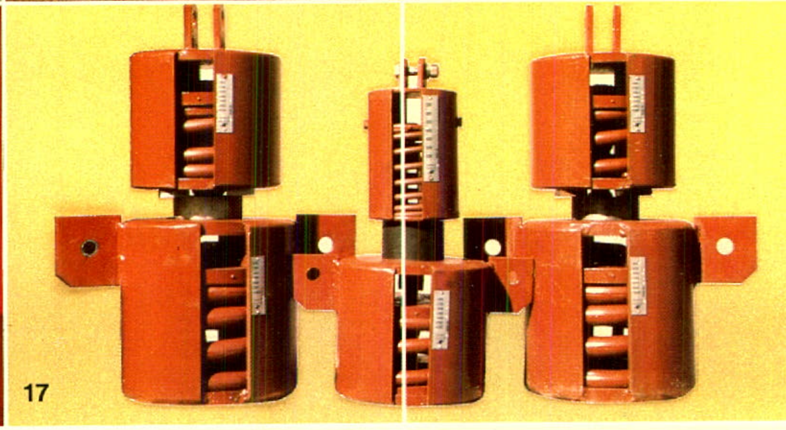
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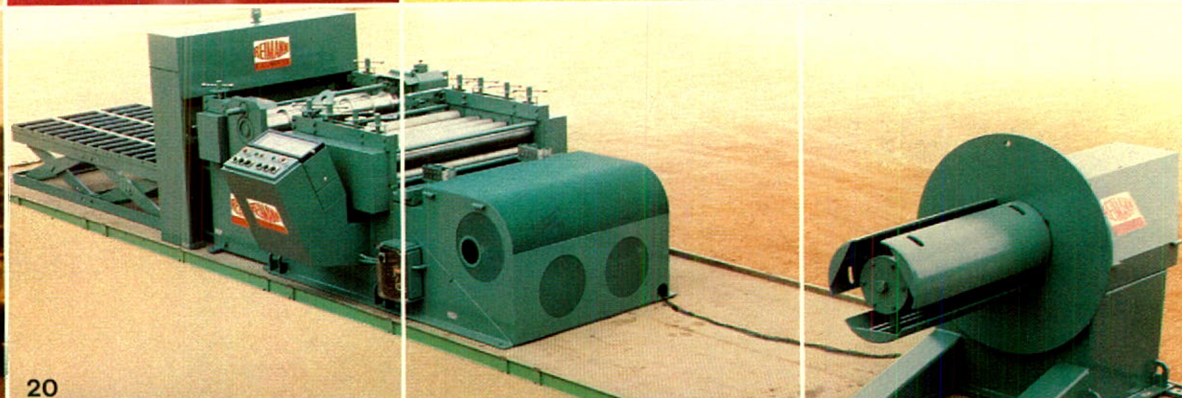
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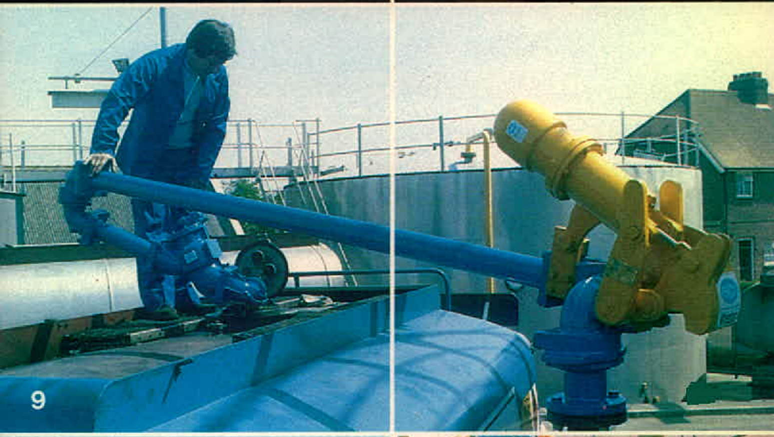
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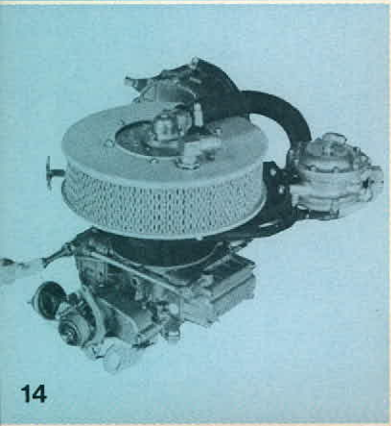
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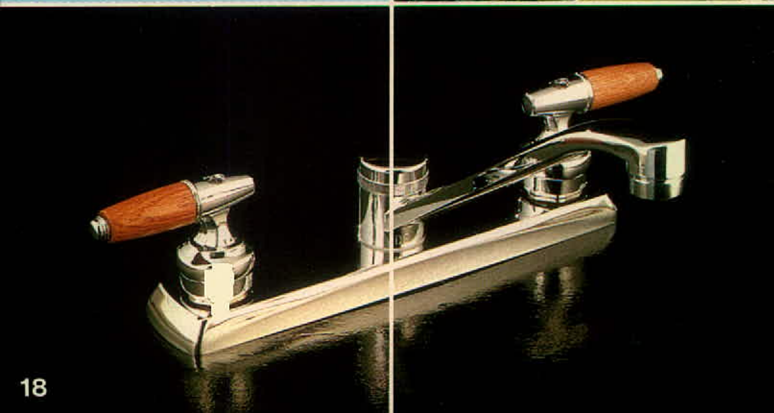
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Plumbing and Industrial Group

Emco's Plumbing and Industrial Group is the leading Canadian manufacturer of plumbing, heating and industrial products ranging from kitchen and bathroom faucets to industrial valves and fittings.

Petroleum Equipment Group

With manufacturing facilities in eight countries, the Petroleum Equipment Group supplies equipment and services under the Emco Wheaton name for the transfer, measurement and control of liquids and gases. Products include service station equipment, tank truck fittings, couplers, pumps, marine arms, tank truck loading arms, valves and meters.

These new products are the latest additions to the Emco family of fine products which enjoy a reputation for excellence in design, manufacture and performance. Our initiative in product development is one reason why Emco Limited is the leader in the Canadian plumbing and heating industry and in the international market for products used in the transfer, measurement and control of fluids.

1 This classically styled faucet with marble handles is available in either a chrome or polished brass finish. It is designed by the London Factory Division for the exclusive bath boutique market.

2 "The Marshall" is an innovative nozzle that protects against costly and dangerous gasoline spills in pre-pay service station outlets by closing automatically when dispensing pressure stops. Emco Wheaton Inc. is the first company to market this type of nozzle in the United States.

3 Horn automotive oil changing equipment being introduced to North America through Horn's new Phoenix office includes the air-operated oil exchanger (left) and the mobile oil pan drainer.

4 The Emco Arrowhead high pressure swivel joint is used to transfer acid, abrasives and sand under extremely high pressures for oil well stimulation and servicing.

5 Emco-Wheaton Limited has introduced its new locking cap for gasoline storage tanks. The locking cap helps service station operators protect against theft and vandalism.

6 The graceful curves of this new faucet with rosewood lever handles from Delta Faucet of Canada Limited make it an ideal addition to that company's growing family of decorator faucets which feature elegant styling at an affordable price.

7 Our West German subsidiary has aggressively sought new applications for its traditional products. An example is this use of swing joints and couplings in a paint mixing installation.

8 Two-stroke engines, such as "mopeds", can be fuelled at self-service gasoline stations with the token-operated "Motomix" unit from Horn which dispenses mixtures of oil and gasoline.

9 A standard feature of Emco Wheaton U.K. Limited road and rail loading arms is the E549 Autocontrol Balance Unit which provides fingertip control of the loader in all positions.

10 Used oil can be extracted quickly, cleanly and easily using Horn's pneumatically-operated, portable oil extracting equipment.

11 London Factory Division has entered the growing market for highly-styled decorator plumbing products with two new faucet finishes – warm antique brass and glistening polished brass.

12 The new Shower Up from Delta Faucet of Canada Limited makes it easy to replace an old tub and shower faucet without re-tiling the wall. The attractive white PVC panel fits securely over the existing wall. The single-handle washerless tub and shower valve is pre-plumbed for easy hookup to existing or new supply lines.

13 Pioden Controls, owned by Emco Wheaton U.K. Limited, has developed a new heavy duty, high accuracy transducer which is used to measure data relating to the pressures of liquids or gases and convert them into electrical signals.

14 Propane conversion modules for cars, trucks, pickups, vans and school buses are made by Propane Carburetion Company Inc. in Michigan. Modules are pre-assembled and pre-tested to make installation easier and save time. The units, which use Impco components, are distributed through Emco-Wheaton Limited.

15 Vapor recovery arms such as this one have helped Emco Wheaton GmbH in West Germany capture a growing share of the chemical market.

16 The new Flushtrol flush valve from the London Factory Division features an adjustable flush volume and a complete, measured flush cycle which prevents the valve from being held open.

17 E. Myatt & Co. Limited is the exclusive Canadian distributor of a comprehensive range of pipe restraining devices which act as "shock absorbers" to prevent the movement of pipe due to seismic conditions and vibrations of heavy equipment.

18 Oak lever handles are one of several elegant new decorator handles offered by Delta Faucet of Canada Limited. These new handles are available for both lavatory and kitchen faucets.

19 One of two B-0001 marine loading arms with hydraulic couplings built by our Brazilian division and installed at COARJ Terminal (Petrobras), Ilha Redonda, Brazil, for handling liquefied petroleum gas.

20 Blank sheets of 2mm steel for the manufacture of steel cabinets, panels or drums, etc. are produced on this automatic slitting line machine made by J.B. Reimann Company in Australia.

21 The fully automatic oil changing unit from Horn GmbH in West Germany is the ultimate self-service gasoline station product. The unit is controlled by the station cashier, who enters on a keyboard the amount of oil to be dispensed after the customer has paid. The unit extracts used oil through the vehicle's dipstick tube and dispenses fresh oil through the same opening.

22 The Empire line of do-it-yourself plumbing products was successfully launched in 1982 by London Factory Division. These new faucets were designed for hardware retailers.

We are extremely proud that Emco Wheaton U.K. Limited has been awarded the prestigious Queen's Award for Exports for its export sales of marine loading arms. The Queen's Award is presented each year to British companies in recognition of their outstanding accomplishments in export sales.

7


BP
1:50
1:25
Moped
sb-tank
BP
HERCULES

8


-IT·YOURSELF FAUCETS
Easy to follow step-by-step instructions
5-YEAR WARRANTY MADE IN CANADA
Please TAKE ONE
-YOURSELF FAUCET CENTRE
Decorator Décoratif
Decorator Décoratif
DO-IT-YOURSELF POUR-LE-BRICOLEUR
DO-IT-YOURSELF POUR-LE-BRICOLEUR
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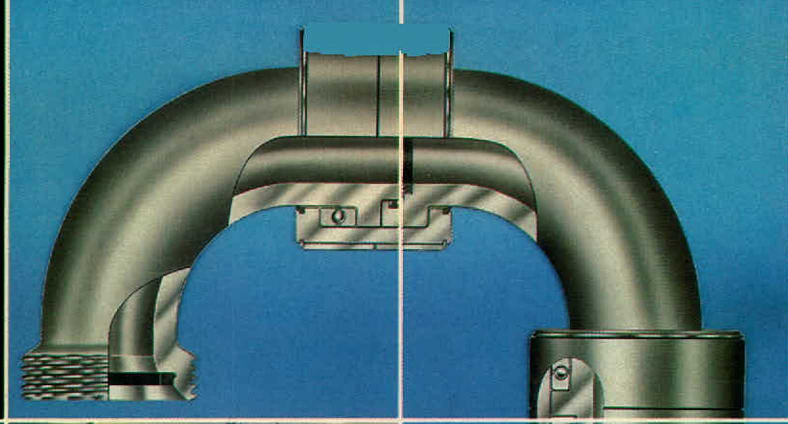

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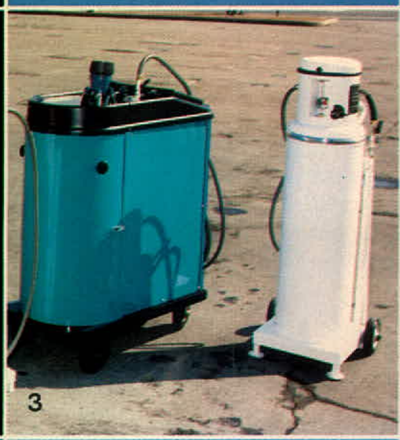

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Emco Limited
Box 5300 • London, Canada • N6A 4N7

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 28, 1983. 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, Canada
February 28, 1983

John W. Adams
President, Chief Executive Officer

W. Wesley De Shane
Secretary-Treasurer

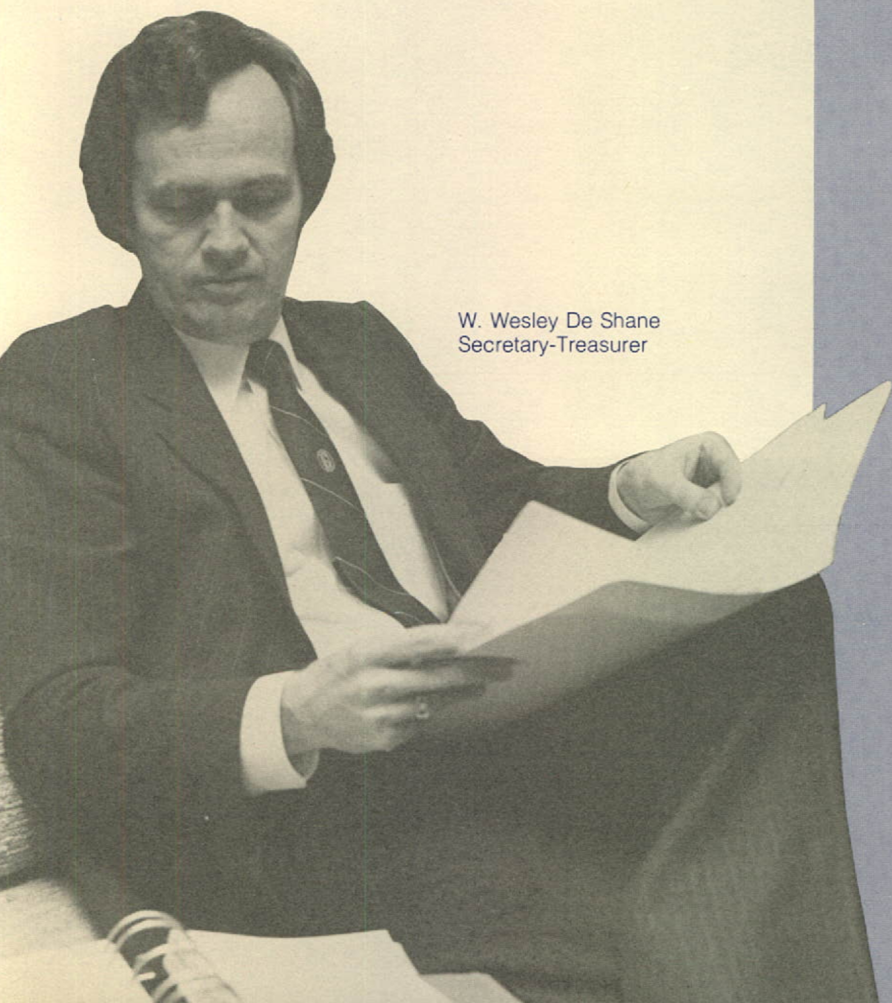
Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Emco Limited as at December 31, 1982 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1982 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada
February 28, 1983

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants



W. Wesley De Shane
Secretary-Treasurer

EMCO LIMITED

Consolidated Balance Sheet, December 31, 1982
with comparative figures for 1981

Assets	**1982**	1981
	(000's)	
Current assets		
Cash	**$ 3,310**	4,096
Marketable securities, at cost (quoted value 1982, $359; 1981, $467)	**365**	516
Accounts receivable, less allowance for doubtful accounts (1982, $2,735; 1981, $3,010)	**41,465**	50,746
Inventories, at the lower of cost or net realizable value (note 2)	**80,808**	104,078
Prepaid expenses	**1,388**	2,361
Total current assets	**127,336**	161,797
Long-term receivables	**1,573**	1,160
Property, plant and equipment, at cost less depreciation (note 3)	**37,994**	39,814
Patents, trademarks and goodwill, at cost less amortization (note 4)	**10,297**	10,682
	$177,200	213,453

Liabilities and Shareholders' Equity	**1982**	1981
	(000's)	
Current liabilities		
Bank and other short-term indebtedness	**$ 23,360**	48,079
Accounts payable and accrued expenses	**26,237**	34,106
Dividends payable	**724**	670
Current portion of long-term debt	**1,647**	675
Income and other taxes payable	**1,013**	4,495
Total current liabilities	**52,981**	88,025
Deferred income taxes	**3,517**	4,239
Long-term debt (note 5)	**36,580**	38,150
Minority interest in subsidiary companies	**306**	342
Shareholders' equity		
Capital stock, common shares (note 6)	**11,706**	7,828
Retained earnings	**72,110**	74,869
Total shareholders' equity	**83,816**	82,697
	$177,200	213,453

See accompanying notes to consolidated financial statements.

On behalf of the Board:
J.W. Adams, Director
C.N. Chapman, Director

EMCO LIMITED

Consolidated Statement of Earnings, Year ended December 31, 1982
with comparative figures for 1981

	1982	1981
	(000's)	
Sales, less sales taxes	**$308,957**	364,904
Operating income after minority shareholders' interest but before the undernoted items	**$ 17,169**	32,381
Investment income	**47**	241
	17,216	32,622
Deduct		
Foreign currency loss (gain)	**1,960**	(1,466)
Depreciation	**3,777**	3,867
Amortization	**476**	334
Interest on short-term indebtedness	**7,406**	9,883
Interest on long-term debt	**4,744**	5,247
Earnings (loss) before taxes on income	**(1,147)**	14,757
Taxes on income		
Current	**(455)**	4,571
Deferred	**(722)**	804
Inventory tax relief – United Kingdom	**–**	(1,650)
	(1,177)	3,725
Net earnings	**$ 30**	11,032
Earnings per common share	**$ .01**	2.30

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings, Year ended December 31, 1982
with comparative figures for 1981

	1982	1981
	(000's)	
Amount at beginning of year	**$74,869**	66,421
Add net earnings	**30**	11,032
	74,899	77,453
Deduct dividends	**2,789**	2,584
Amount at end of year	**$72,110**	74,869

See accompanying notes to consolidated financial statements.

EMCO LIMITED

Consolidated Statement of Changes in Financial Position,
Year ended December 31, 1982
with comparative figures for 1981

	1982	1981
	(000's)	
Funds provided		
Operations		
Net earnings	**$ 30**	11,032
Depreciation	**3,777**	3,867
Amortization	**476**	376
Deferred income taxes	**(722)**	804
Gain on disposal of property and plant	**(702)**	–
Funds provided from operations	**2,859**	16,079
Proceeds on disposal of property and plant	**877**	–
Issue of common shares	**3,878**	–
Increase in long-term debt	**–**	18,896
Other	**–**	396
Total funds provided	**7,614**	35,371
Funds used		
Property, plant and equipment	**2,068**	4,254
Decrease in long-term debt		
Reduction of principal	**1,529**	2,661
Foreign currency gain	**41**	1,401
Net decrease	**1,570**	4,062
Dividends	**2,789**	2,584
Acquisition of businesses net of working capital acquired	**–**	17,850
Other	**604**	65
Total funds used	**7,031**	28,815
Increase in working capital	**$ 583**	6,556
Working capital at end of year	**$74,355**	73,772

See accompanying notes to consolidated financial statements.

EMCO LIMITED

Notes to Consolidated Financial Statements, December 31, 1982

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 end.

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 end.

Operating income and expenses – at average rates during the year 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 statement 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.

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

2. Inventories

	1982	1981
	(000's)	
Raw materials	**$ 5,481**	7,908
Work in process	**20,307**	23,944
Finished goods	**55,277**	72,417
	81,065	104,269
Less Progress billings	**257**	191
	$80,808	104,078

3. Property, plant and equipment

	1982	1981
	(000's)	
Buildings and roadways	**$27,231**	27,028
Machinery and equipment	**33,478**	33,082
	60,709	60,110
Less accumulated depreciation	**28,174**	25,759
	32,535	34,351
Land	**5,459**	5,463
	$37,994	39,814

4. Patents, trademarks and goodwill

	1982	1981
	(000's)	
Patents and trademarks	**$ 3,613**	3,613
Goodwill	**7,343**	7,252
	10,956	10,865
Less accumulated amortization	**799**	359
	10,157	10,506
Debt discount and expense, net	**140**	176
	$10,297	10,682

During 1982, amounts arising on the acquisition of a subsidiary in 1981 which were previously classified as patents were reclassified as goodwill. The 1981 amounts have been reclassified to reflect this decision.

5. Long-term debt

	1982	1981 (000's)
$5^3/_4$% sinking fund debentures due June 15, 1985	**$ 2,307**	2,307
$9^3/_4$% sinking fund debentures due July 15, 1990	**3,439**	3,475
Note due May 31, 1984 (U.S. $5,000,000)	**6,143**	5,926
Note payable in instalments to December 16, 1986 (U.S. $5,793,087 and Cdn. $320,000)	**7,437**	7,186
$11^1/_2$% note payable due March 11, 1986 (DM 32,000,000)	**16,582**	16,915
Note payable in instalments due October 31, 1984 (Australian $900,000)	**1,062**	1,627
Mortgages and notes payable in instalments through 1989 at rates from 6% to 16%	**1,257**	1,389
	38,227	38,825
Less amounts due within one year included with current liabilities	**1,647**	675
	$36,580	38,150

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, 1982 were 10.0%, 11.0% and 14.82% respectively.

Long-term debt falling due or to be met out of sinking fund payments in the five years ending December 31, 1987, 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 $1,646,541 in 1983; $7,968,903 in 1984; $6,076,791 in 1985; $9,103,696 in 1986 and $413,373 in 1987.

6. Capital Stock

Authorized, issued and outstanding

	Number of Shares		
		Issued and Oustanding	
	Authorized	1982	1981
Preference shares without par value	5,000,000	**—**	—
Common shares without par value	12,000,000	**5,173,619**	4,785,831

During 1982, 387,788 common shares were issued for a cash consideration of $3,877,880.

Share options At December 31, 1982, 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, 1982.

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, 1982, there were 128,145 shares available for future subscriptions. There were no transactions during 1982.

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, 1982 the net current assets and shareholders' equity (as so defined) were substantially in excess of minimum levels.

7. Pension plans

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

8. 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	Plumbing and Industrial Products		Energy Related Products		Eliminations		Consolidated	
(000's)	**1982**	1981	**1982**	1981	**1982**	1981	**1982**	1981
Sales to outside customers	**$199,464**	238,232	**109,493**	126,672	**–**	–	**308,957**	364,904
Inter-segment sales	**50**	49	**7,440**	8,280	**(7,490)**	(8,329)	**–**	–
Total revenue	**$199,514**	238,281	**116,933**	134,952	**(7,490)**	(8,329)	**308,957**	364,904
Segment operating profit	**$ 8,007**	15,881	**9,726**	17,808	**163**	(46)	**17,896**	33,643
General corporate and other expenses							**(727)**	(1,262)
							17,169	32,381
Identifiable assets	**$ 84,474**	104,700	**93,341**	109,642	**(615)**	(889)	**177,200**	213,453
Depreciation and amortization	**$ 1,848**	1,899	**2,405**	2,344	**–**	–	**4,253**	4,243
Capital expenditures	**$ 383**	1,539	**1,685**	2,715	**–**	–	**2,068**	4,254

Geographic Areas	Canada		U.S.A.		Europe		Other		Eliminations		Consolidated	
(000's)	**1982**	1981	**1982**	1981	**1982**	1981	**1982**	1981	**1982**	1981	**1982**	1981
Sales to outside customers	**$230,770**	276,215	**31,989**	35,229	**28,378**	34,524	**17,820**	18,936	**–**	–	**308,957**	364,904
Inter-segment sales	**629**	495	**561**	592	**319**	367	**4**	1	**(1,513)**	(1,455)	**–**	–
Total revenue	**$231,399**	276,710	**32,550**	35,821	**28,697**	34,891	**17,824**	18,937	**(1,513)**	(1,455)	**308,957**	364,904
Segment operating profit	**$ 11,058**	22,757	**627**	2,831	**3,515**	5,260	**2,681**	2,832	**15**	(37)	**17,896**	33,643
General corporate and other expenses											**(727)**	(1,262)
											17,169	32,381
Identifiable assets	**$109,518**	135,960	**21,194**	25,365	**36,483**	40,815	**12,304**	14,994	**(2,299)**	(3,681)	**177,200**	213,453

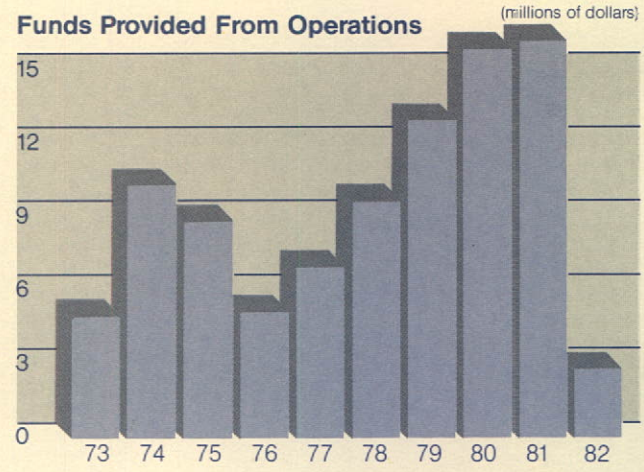
EMCO LIMITED AND SUBSIDIARIES

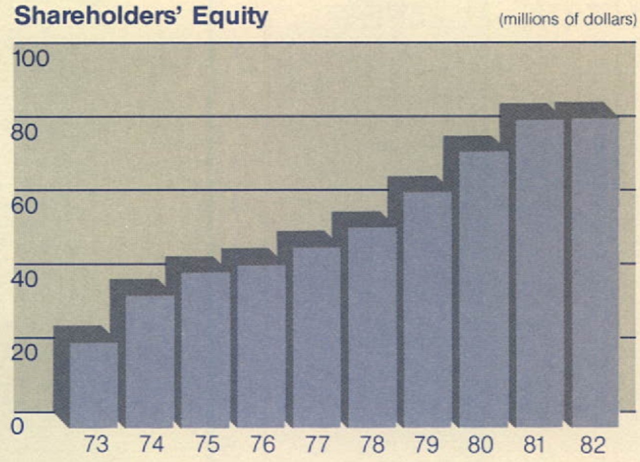
Financial Summary

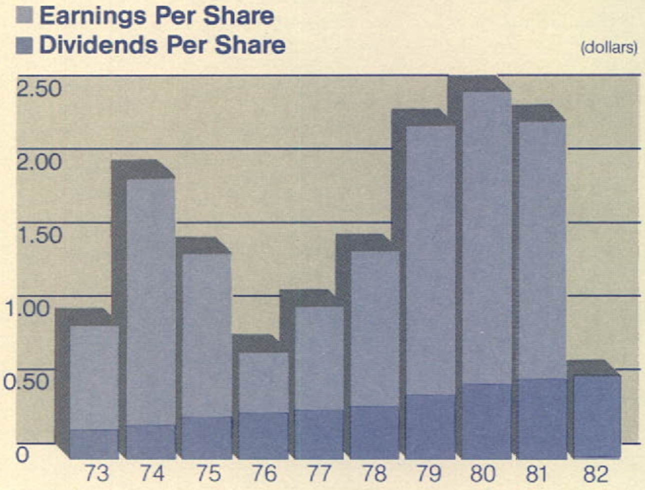
Amounts shown below are thousands of dollars.

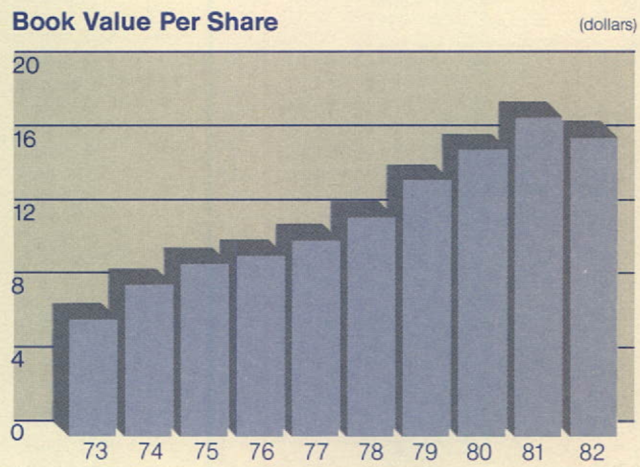
Statement of Earnings	1982	1981	1980	1979	1978	1977	1973 (10 yrs. ago)
Sales	**$308,957**	364,904	316,298	277,305	224,922	189,008	130,329
Operating income	**$ 17,169**	32,381	31,356	27,319	16,300	12,528	11,564
Investment income	**47**	241	67	89	112	51	10
Foreign currency gain (loss)	**(1,960)**	1,466	(699)	477	1,440	989	203
	15,256	34,088	30,724	27,885	17,852	13,568	11,777
Deduct							
Depreciation and amortization	**4,253**	4,201	2,830	2,271	2,018	1,775	1,232
Interest on short-term debt	**7,406**	9,883	6,103	4,160	2,128	1,448	941
Interest on long-term debt	**4,744**	5,247	2,989	2,660	2,202	2,151	1,233
Earnings (loss) before taxes on income	**(1,147)**	14,757	18,802	18,794	11,504	8,194	8,371
Taxes on income							
Current	**(455)**	4,571	5,638	8,187	3,937	3,039	3,920
Deferred	**(722)**	804	1,286	(146)	863	282	224
Inventory tax relief – United Kingdom	**—**	(1,650)	—	—	—	—	—
	(1,177)	3,725	6,924	8,041	4,800	3,321	4,144
Earnings before extraordinary items	**30**	11,032	11,878	10,753	6,704	4,873	4,227
Extraordinary items	**—**	—	(90)	347	506	395	201
Net earnings	**$ 30**	11,032	11,788	11,100	7,210	5,268	4,428

Changes in Financial Position	1982	1981	1980	1979	1978	1977	1973 (10 yrs. ago)
Funds provided							
Operations	**$ 2,859**	16,079	15,790	12,831	9,634	6,982	5,235
Extraordinary items, net	**—**	—	(90)	347	165	147	—
Increase in long-term debt	**—**	18,896	330	1,918	—	—	280
Issue of common shares	**3,878**	—	2,191	6	—	—	—
Proceeds on disposal of property and plant	**877**	—	284	209	492	545	1,049
Total funds provided	**7,614**	34,975	18,505	15,311	10,291	7,674	6,564
Funds used							
Property, plant and equipment	**2,068**	4,254	7,353	3,363	4,013	4,057	2,984
Decrease in long-term debt							
Principal	**1,529**	2,661	1,308	953	1,210	1,107	82
Foreign currency adjustment	**41**	1,401	(583)	102	(476)	(450)	(1)
Dividends on common shares	**2,789**	2,584	2,425	1,998	1,634	1,453	756
Acquisitions, net of working capital acquired	**—**	17,850	—	1,872	—	—	—
Other, net	**604**	(331)	315	623	(133)	254	140
Total funds used	**7,031**	28,419	10,818	8,911	6,248	6,421	3,961
Increase in working capital	**$ 583**	6,556	7,687	6,400	4,043	1,253	2,603
Working capital at December 31	**$ 74,355**	73,772	67,216	59,529	53,129	49,086	26,181









Common Share Statistics

		1982	1981	1980	1979	1978	1977	1973 (10 yrs. ago)
Basic earnings								
Before extraordinary items		**$ .01**	2.30	2.56	2.37	1.48	1.07	1.12
Including extraordinary items		**.01**	2.30	2.54	2.45	1.59	1.16	1.17
Fully diluted earnings								
Before extraordinary items		**.01**	2.30	2.50	2.27	1.42	1.04	.91
Including extraordinary items		**.01**	2.30	2.48	2.35	1.53	1.12	.95
Book value at December 31		**16.20**	17.28	15.51	13.81	11.80	10.58	6.15
Dividends paid		**.56**	.53	.50	.42	.35	.32	.20
Price range – high		**13.50**	17.25	14.50	12.88	8.88	6.75	7.00
– low		**9.38**	12.50	10.13	7.88	5.50	4.85	4.60
Return on shareholders' equity at January 1 (based on earnings before extraordinary items)	%	**—**	14.9	18.9	20.1	14.0	11.0	21.5

FINANCIAL REVIEW

Balance Sheet

Working Capital

Working capital increased $583,000 to $74,355,000 at year end. The ratio of current assets to current liabilities (the current ratio) improved significantly to 2.4:1 compared to 1.8:1 at December 31, 1981.

Accounts Receivable

Accounts receivable were $44,200,000 at year end before deducting the bad debt allowance of $2,735,000. Bad debt write-offs were only .2% of sales (.3% in 1981) and the number of days sales outstanding remained relatively constant, indicating very good collection performance in a difficult credit environment. Accounts receivable for our Canadian divisions totalled $29,777,000 with a bad debt allowance of $2,229,000, which for the majority of these divisions is calculated using a formula based on the age of each account. The formula has been used for over 25 years and has proven to provide a conservative valuation of accounts. Our foreign divisions calculate their provision on a specific amount basis, their 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	($000) **1982**		1981	
December	**$27,674**	**62.6%**	35,540	66.1%
November	**9,401**	**21.3**	10,691	19.9
October	**3,105**	**7.0**	3,446	6.4
Prior	**4,020**	**9.1**	4,079	7.6
	$44,200	**100.0%**	53,756	100.0%

Inventories

A concerted effort was made in 1982 to reduce inventories in line with lower sales. Inventories decreased $23,270,000 or 22.4% during the year. Seventy percent of the decrease took place in the last half of the year as inventory reduction programs established in the second quarter began to take effect. Inventories of the Plumbing & Industrial Group were reduced by 27.4% and Petroleum Equipment Group inventories were 11.3% lower. Inventory turnover rates were generally lower than in 1981 but improvement is expected in 1983 as we begin the year with lower, better balanced inventories.

Property, Plant & Equipment

Expenditures on fixed assets were only $2,068,000, compared with $11,740,000 (including acquisitions – $7,486,000) in 1981. We expect 1983 expenditures to be approximately $4 million, primarily directed at cost reduction and productivity improvement projects. Surplus plants in Australia and Brazil were sold in 1982 for $877,000. Depreciation expense was $3,777,000, essentially unchanged from 1981. Our depreciation policy is outlined in note (1) of the notes to financial statements.

Short-term Indebtedness

Short-term borrowings were $23,360,000, compared with $48,079,000 a year ago. Canadian bank loans were reduced by $20,800,000 to $18,300,000. The Canadian loans are unsecured, while borrowings of subsidiaries are guaranteed by the parent company. Unsecured short-term lines of credit presently exceed $75 million.

Long-term Debt

The details of our long-term debt are summarized in note (5) of the notes to 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 1983 respectively. The DM32,000,000 loan, due March 11, 1986, was incurred in 1981 to finance the acquisition of Horn GmbH. Approximately 60% of our long-term debt is at fixed rates with an average weighted cost of 10.6% per annum.

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, 1982, we were substantially in excess of these requirements.

Capital Stock

In July, 1982, we issued common share purchase warrants to our shareholders (other than Masco Corporation), entitling them to purchase one common share for every three held at a price of $10.00. Approximately 25% of the warrants were exercised, resulting in the issuance of 214,431 shares, for a cash consideration of $2,144,310. Masco Corporation purchased 173,357 treasury shares for $1,733,570 to maintain their percentage ownership.

Statement of Earnings

Consolidated sales decreased 15% to $308,957,000. 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 1982:

Plumbing and Industrial Group	**($000)**	
Total revenue – plumbing and industrial products segment		**$199,514**
Plumbing & Industrial Group sales included in energy related products segment	**$ 25,221**	
Less: Inter-group adjustment	**6,796**	**18,425**
Plumbing & Industrial Group net sales		**217,939**
Petroleum Equipment Group		
Total revenue – energy related products segment	**116,933**	
Less: Plumbing & Industrial group sales included	**25,221**	
Petroleum Equipment Group net sales		**91,712**
		309,651
Less: Inter-group sales elimination		**694**
Consolidated Net Sales		**$308,957**

Lower sales and our inventory reduction programs both contributed to reduced plant activity in our manufacturing divisions. Unabsorbed overhead was $4,200,000 with Canadian operations accounting for over 80% of the total. For the last eight months of 1982, our major Canadian factories worked an average of only three days per week, and have just recently returned to a normal work week.

Steps were taken throughout the year to reduce expenses and investment. Operating expenses for the last half of the year were 17.7% lower than for the same period in 1981. The total number of salaried employees was reduced by 12%. The cost constraint programs are continuing in all divisions of the company, and we believe expense and investment levels are substantially in line with our 1983 sales expectations.

Interest rates remained high during 1982, and total interest expense was $12,150,000 (1981 – $15,130,000). Earnings were adversely affected by a foreign currency loss of $1,960,000, compared with a gain of $1,466,000 in 1981. In the fourth quarter we took steps to hedge our investments in the United Kingdom and France, in view of the prospects for a decline in the value of their currencies.

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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 ($5\frac{3}{4}$% debentures); Toronto, Montreal (common shares); The Canada Trust Company Toronto, Montreal and Winnipeg ($9\frac{3}{4}$% debentures)

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