



**MLW-Worthington Limited**  
**Annual Report**  
**1974**

# MLW-Worthington Limited and Subsidiaries

## Board of Directors:

**Philippe de Gaspé Beaubien**  
Chairman and President  
Télémedia Communications Limitée

**Laurent Beaudoin**  
President  
Bombardier Limited

**Henry M. Bourcier**  
Secretary  
MLW-Worthington Limited

**John Byrne**  
Vice President  
MLW-Worthington Limited

**John E.L. Duquet, Q.C.**  
Senior Partner  
Duquet, MacKay, Weldon  
and Bronstetter

**Robert L. Grassby**  
President and Chief Executive  
Officer  
MLW-Worthington Limited

**J. Claude Hébert**  
Chairman and Chief Executive  
Officer  
Bombardier Limited

**Matthew F. O'Connell**  
Vice-President, Comptroller  
and Treasurer  
MLW-Worthington Limited

**Alfred L. Penhale**  
Executive

**Henry Valle**  
Chairman of the Board  
MLW-Worthington Limited

**Colin W. Webster**  
Vice-Chairman of the Board  
Canadian Fuel Marketers Ltd.

## Officers:

**Henry Valle**  
Chairman of the Board

**Robert L. Grassby**  
President and  
Chief Executive Officer

**Matthew F. O'Connell**  
Vice-President,  
Comptroller and Treasurer

**John Byrne**  
Vice-President

**A. Hugh Paton**  
Vice-President

**Henry M. Bourcier**  
Secretary

## Transfer Agents:

**Royal Trust Company**  
Montreal, Toronto, Winnipeg,  
Vancouver

**Bank of Montreal Trust Co.**  
64 Wall Street, New York

## Registrars:

**Montreal Trust Company**  
Montreal, Toronto, Winnipeg,  
Vancouver

**Bank of Montreal Trust Co.**  
64 Wall Street, New York

# MLW-Worthington Limited and Subsidiaries

## Annual Report of the Directors 1974

Financial Facts in Brief	1974	1973
New order bookings	\$101,484,033	\$64,474,929
Net billings to customers	54,664,414	58,954,049
Unfilled order backlog	109,221,305	62,401,686
Income before taxes	2,643,048	2,927,243
Income taxes	1,077,986	1,000,701
Net income	1,565,062	1,926,542
Earnings per share on common stock	\$1.96	\$2.41
Dividends per share on common stock	.75	.60
Retained earnings	16,359,006	15,393,944
Net working capital	17,909,218	16,969,967

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# MLW-Worthington Limited and Subsidiaries

## Annual Report of the Directors to the Shareholders

### EARNINGS AND OPERATIONS

Consolidated net income of MLW-Worthington Limited in 1974 was \$1,565,000 or \$1.96 per share compared to \$1,927,000 or \$2.41 per share in 1973. Production in 1974 was seriously hampered by critical material shortages and a work slowdown during the last quarter which culminated in a two-week strike during December.

The Company's share (50%) in the operating results of Worthington Construction Equipment Limited for eight months of 1974 has been included in the consolidated results. On September 1, 1974, the Company sold its share to Worthington Compressor Inc. at a price which provided for MLW-Worthington to recover its entire investment plus accumulated profits.

Return on Shareholders' Equity was 7.4%, down from 9.5% in 1973. Shareholders' Equity per common share was \$26.45 at the end of 1974 compared to \$25.24 for the year-end 1973 figure.

Customer billings during 1974 were \$55 million, down 7% from the \$59 million in 1973. New order bookings in 1974 reached an all time high of \$101.5 million for a gain of 57% over the \$64.5 million bookings in 1973. Transportation Product bookings were up 33% and Heat Transfer Products were up fivefold. The backlog at the end of 1974 equalled \$109.2 million — another new record for the Company — and compares with the \$62.4 million at the end of 1973.

Product Development expenditures, before government assistance, were \$609,000 in 1974 versus \$851,000 in 1973. Net Development Costs amounted to \$0.27 per share compared with \$0.51 per share in 1973. New programs started recently will cause 1975 R & D

expenditures to increase substantially. Selling and Administrative Expenses in 1974 were \$3.2 million or 5.9% of sales compared with \$3.0 million or 5.1% of sales in 1973. Additional expenses were incurred in recruiting management and technical talent needed to effectively discharge our record backlog. Salary levels were also increased during the period.

Additions to Plant & Equipment during 1974 were \$811,000 compared with \$608,000 in 1973. Major projects included locomotive paint facilities, an advanced engine test stand, and a continuation of our program for automatic and semi-automatic equipment for the manufacture of diesel engine parts.

### LABOR RELATIONS

Intensive negotiations with the Shop Union on a new labor contract commenced in early September and continued until December 2nd when the Union voted to reject the Company's final proposal and went on strike. Meetings were resumed on the December 13th weekend resulting in a new Company offer that was accepted by the majority of Union membership on December 15th and all shop employees returned to work on December 16, 1974. The new two-year labor agreement, which was ratified on December 20, 1974, includes substantial wage increases, a closed end cost of living clause and various fringe benefit improvements. Part of the costs of this new labor contract will not be recoverable on contracts in 1975 which were accepted in 1973 on a fixed price basis.

### MARKETING

#### Transportation

The worldwide need for energy conservation continued to favor the transportation modes served by

MLW. This reflects both the efficiency of MLW's medium speed 4-cycle engine as an energy converter and the lower rolling resistance of steel wheel on steel rail as compared to the energy losses associated with road transport rubber tire hysteresis.

Deliveries during the year included locomotives for the Canadian National, Greece, U.S.A., Peru and Jamaica. Locomotives in the backlog are for Canadian National, British Columbia Railways, Quebec Cartier Mining Co., Sri Lanka, Iraq, Greece, Cuba, Mexico and Jamaica. We are particularly pleased with a repeat order from Iraq for 31 units. The Company's continuing competitiveness overseas is demonstrated in the excellent balance achieved between direct payments, Export Development Corporation loans and Government of Canada long-term overseas assistance programs.

Engineering work done during the year included development of a new locomotive for use in desert climates and a cabless radio controlled locomotive for the domestic market. Consolidation work was also done on other new model designs.

## LRC

This high speed passenger train project has undergone a five-year development program with support from PAIT (Program for the Advancement of Industrial Technology) and TDA (Transportation Development Agency). During 1974 extensive testing was continued both at CN Research Centre and the U.S. Department of Transport Test Facility at Pueblo, Colorado. Test runs were also made over CN and CP lines in Eastern and Western Canada and on numerous lines in the United States. Market interest is quickening in this project and orders will be actively solicited during 1975.

## Diesel Engines

Stationary and Marine engine sales continued at a brisk pace. A number of two megawatt units were placed in service during the year at James Bay and Iles de Madeleine. Here again, the lower fuel consumption of the 4-cycle engine was found to be particularly beneficial in remote areas where fuel is so costly. The working arrangement with the Alco Engines Division of White Industrial Power, Inc. on diesel engines was renewed for a further period.

## Product Support

This most vital part of our business also faced material availability and cost problems during the year but exceptional efforts on the part of the staff succeeded in maintaining a high level of customer service. Results for the year in this division were at a record high.

## Heat Transfer

MLW's unique competency in the sophisticated equipment required for the conservation of energy in utilities and process plants was recognized by customers throughout Canada and overseas with record bookings. Future prospects for this profit centre continue excellent.

## CHANGE IN MAJORITY OWNERSHIP

Early in 1975 Les Entreprises de J. Armand Bombardier Ltée., made an offer to purchase all outstanding shares of your company for \$21.00 per share. Your Directors have indicated they would accept this offer except for qualifying shares and as of April 29, more than 95% of such shares, including those held by Studebaker-Worthington Inc., have been tendered to Les Entreprises. Your management looks forward with enthusiasm to this new business relationship.

## CHANGES IN DIRECTORS

It is with deep sorrow that we record the death on March 30, 1974, of J. Geoffrey Notman, a Director of the company for 19 years during which time his wise counsel was of invaluable assistance to the Board.

At the annual general meeting, April 26, 1974, Leslie T. Welsh, President of Studebaker-Worthington Inc., and Henry M. Bourcier, Secretary of the Company, were elected directors to fill two vacancies on the Board created by the resignation of Edward C. Forbes and the death of Mr. Notman.

In February 1975, J. Claude Hébert, Chairman and Chief Executive Officer of Bombardier Limited, Laurent Beaudoin, President of Bombardier Limited and Philippe de Gaspé Beaubien, Chairman and President of Télémédia Communications Limitée were elected to the Board of Directors to fill three vacancies on the Board caused by the resignations of Hugh D. Allan, Richard L. Signorelli and Leslie T. Welsh, all officers of the Studebaker-Worthington Group.

## GENERAL

On behalf of the Board of Directors we wish to thank all who have been associated with the Company — employees, shareholders, customers, licensees and suppliers — for their continued support and interest in 1974.

Henry Valle  
Chairman

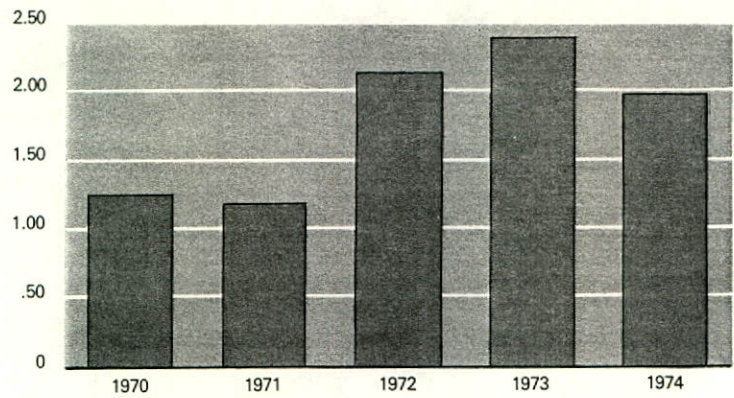
Robert L. Grassby  
President and  
Chief Executive Officer

Montreal, Canada, May 23, 1975.

# FIVE-YEAR CHARTS

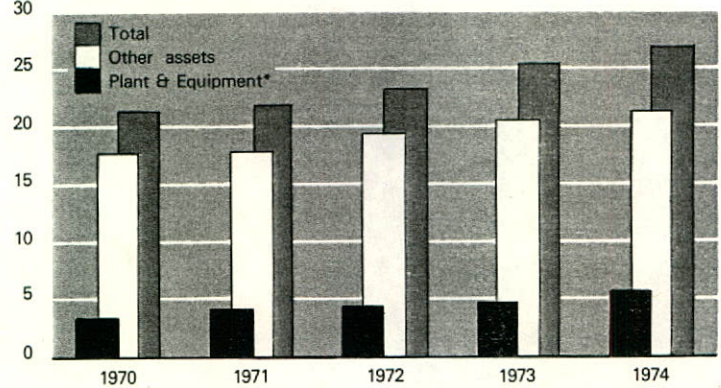
## Net Profits per Common Share

(in dollars)



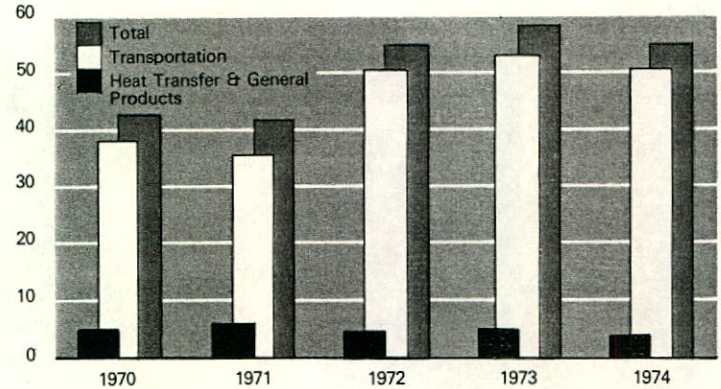
## Shareholders' Equity per Common Share

(in dollars)



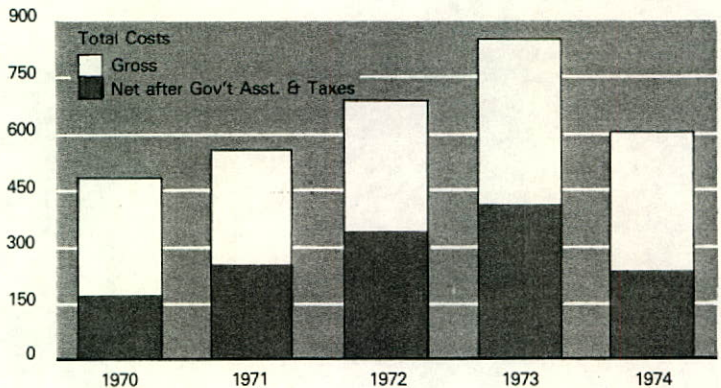
## Billings to Customers\*

(in millions of dollars)



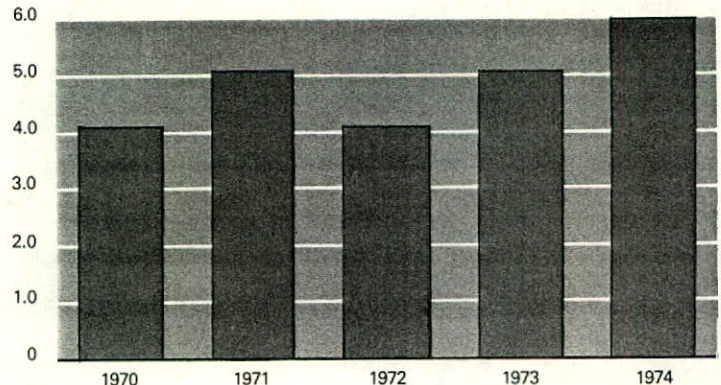
## Research and Development\*

(in thousands of dollars)



## Administrative, Selling and General Expenses\*

(percent of billings)



\*Re-stated to exclude Worthington (Canada) Ltd.

# MLW-Worthington Limited and Subsidiaries

## Consolidated Statements of Income

for the years ended  
December 31,  
1974 and 1973

	1974	1973
Net billings to customers (Note 3)	\$54,664,414	\$58,954,049
Cost of products sold (including depreciation 1974 - \$357,277, 1973 - \$290,835)	<u>48,634,797</u>	<u>52,391,337</u>
Gross profit on sales	\$ 6,029,617	\$ 6,562,712
Administrative, selling, product development and general expenses	<u>3,386,569</u>	<u>4,054,225</u>
Income from operations	\$ 2,643,048	\$ 2,508,487
Net income of Worthington (Canada) Ltd.	<u>—</u>	<u>418,756</u>
	\$ 2,643,048	\$ 2,927,243
Provision for income taxes:		
Current	\$ 776,553	\$ 881,386
Deferred	<u>301,433</u>	<u>119,315</u>
	\$ 1,077,986	\$ 1,000,701
Net income	<u>\$ 1,565,062</u>	<u>\$ 1,926,542</u>
Earnings per share	\$1.96	\$2.41

## Consolidated Statements of Retained Earnings

for the years ended  
December 31,  
1974 and 1973

	1974	1973
Balance at beginning of year	\$15,393,944	\$13,947,402
Add: Net income	<u>1,565,062</u>	<u>1,926,542</u>
	\$16,959,006	\$15,873,944
Deduct: Dividends on common stock (1974 - \$0.75 per share, 1973 - \$0.60 per share)	<u>600,000</u>	<u>480,000</u>
Balance at end of year	<u>\$16,359,006</u>	<u>\$15,393,944</u>

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

# MLW-Worthington Limited and Subsidiaries

## Consolidated Balance Sheets

at December 31,  
1974 and 1973

### ASSETS

DECEMBER 31    DECEMBER 31  
1974                    1973

#### CURRENT ASSETS:

Cash	\$ 517,019	\$ 349,305
Accounts and notes receivable	11,388,575	13,950,781
Inventories at the lower of cost or net realizable value	27,618,031	20,082,701
Prepaid expenses	210,140	150,053
Accounts receivable from affiliated companies	<u>201,424</u>	<u>1,099,269</u>
	<u>\$39,935,189</u>	<u>\$35,632,109</u>

#### INVESTMENT IN (ON AN EQUITY BASIS) AND ADVANCES TO 50% OWNED COMPANY (Note 1)

—	<u>\$ 208,841</u>
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#### FIXED ASSETS:

Land, buildings, machinery and equipment, at cost	\$14,801,273	\$13,990,161
Less: Accumulated depreciation	<u>10,589,688</u>	<u>10,232,411</u>
	<u>\$ 4,211,585</u>	<u>\$ 3,757,750</u>

#### UNAMORTIZED PAST-SERVICE PENSION COSTS

\$ 212,793	\$ 206,312
<u>\$44,359,567</u>	<u>\$39,805,012</u>

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



LIABILITIES AND  
SHAREHOLDERS' EQUITY

DECEMBER 31 1974      DECEMBER 31 1973

CURRENT LIABILITIES:

Bank loans	\$ 2,880,000	\$ 4,100,000
Accounts payable	7,964,228	7,859,082
Accrued liabilities	1,585,605	2,107,849
Advances received on contracts	9,076,603	4,130,825
Income and other taxes	197,371	148,641
Accounts payable to affiliated companies	162,164	195,745
Dividends payable	160,000	120,000
	<u>\$22,025,971</u>	<u>\$18,662,142</u>

DEFERRED INCOME TAXES

\$ 1,174,590      \$ 948,926

SHAREHOLDERS' EQUITY:

Common stock, without nominal or par value 2,000,000 shares authorized 800,000 shares issued and fully paid	\$ 4,800,000	\$ 4,800,000
Retained earnings	16,359,006	15,393,944
	<u>\$21,159,006</u>	<u>\$20,193,944</u>
	<u>\$44,359,567</u>	<u>\$39,805,012</u>

Approved by the Board:  
Henry Valle                      Director  
Robert L. Grassby              Director  
Matthew F. O'Connell      Director

# MLW-Worthington Limited and Subsidiaries

## Consolidated Statements of Source and Application of Funds

for the years ended December 31, 1974 and 1973

Funds were provided by	1974	1973
Net income	\$ 1,565,062	\$ 1,926,542
Non-cash items included in net income:		
Depreciation	357,277	290,835
Increase in deferred income taxes	225,664	224,270
Reduction (increase) in unamortized past-service pension costs	( 6,481)	21,615
Net income of subsidiaries	( 43,555)	( 424,817)
	<u>\$ 2,097,967</u>	<u>\$ 2,038,445</u>
Dividends declared by subsidiary	—	1,410,000
Proceeds from sale of investments in subsidiaries	<u>252,396</u>	<u>2,200,000</u>
Total funds provided	<u>\$ 2,350,363</u>	<u>\$ 5,648,445</u>

## Funds were used for

Additions to buildings, machinery and equipment - net	\$ 811,112	\$ 608,173
Dividends on common stock	<u>600,000</u>	<u>480,000</u>
Total funds used	<u>\$ 1,411,112</u>	<u>\$ 1,088,173</u>
INCREASE IN WORKING CAPITAL	\$ 939,251	\$ 4,560,272
WORKING CAPITAL AT BEGINNING OF YEAR	<u>16,969,967</u>	<u>12,409,695</u>
WORKING CAPITAL AT END OF YEAR	<u>\$17,909,218</u>	<u>\$16,969,967</u>

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

## Auditors' Report To the Shareholders of MLW-Worthington Limited

We have examined the consolidated balance sheets of MLW-Worthington Limited (a Canada corporation) and subsidiaries as of December 31, 1974 and 1973, and the related consolidated statements of income, retained earnings and source and application of funds for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of MLW-Worthington Limited and subsidiaries as of December 31, 1974 and 1973 and the results of their operations and the source and application of their funds for the years then ended, in accordance with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.  
Chartered Accountants

Montreal, January 31, 1975

# MLW-Worthington Limited and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 1 - Principles of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations and source and application of funds of the Company's wholly-owned subsidiaries, MLW Services Limited and MLW-U.S., Inc.

On September 1, 1974 the Company sold its 50% interest in Worthington Construction Equipment Limited. The earnings arising from this investment for 1973 and 1974 have been stated on an equity basis in these financial statements.

### Note 2 - Pension Costs

Unfunded past-service pension costs at the end of 1974 amounted to \$1,028,461 which will be charged, together with interest, by annual amounts against operations over the next seventeen years.

### Note 3 - Sales by Class of Business

The Company's net billings by class of business are as follows:

	1974	1973
Transportation	\$50,175,060	\$53,481,571
Heat Transfer and General	<u>4,489,354</u>	<u>5,472,478</u>
	<u>\$54,664,414</u>	<u>\$58,954,049</u>

### Note 4 - Remuneration of Directors and Officers

The number of directors and officers of the Company and their remuneration as such was:

	1974		1973	
	Number	Remuneration	Number	Remuneration
Directors	11	\$ 11,600	11	\$ 9,250
Officers	9	384,623	9	276,230

Five of the officers were also directors.

# MLW-Worthington Limited and Subsidiaries

## Five-Year Financial Review

Operations	1974	1973	1972	1971	1970
(Stated in thousands of dollars)					
Net billings to customers	\$54,664	\$58,954	\$55,475	\$42,057	\$42,822
New order bookings	101,484	64,475	56,139	61,699	41,284
Unfilled order backlog	109,222	62,402	56,881	56,217	36,575
Income before taxes	2,643	2,927	2,954	1,725	1,822
Net income	1,565	1,927	1,712	970	1,024
Dividends	600	480	480	480	480
Number of employees	1,238	1,276	1,209	1,030	950

## Financial Condition

(Stated in thousands of dollars)					
Current assets	\$39,935	\$35,632	\$29,340	\$29,483	\$19,516
Current liabilities	22,026	18,662	16,930	18,147	8,808
Working capital	17,909	16,970	12,410	11,336	10,708
Additions to plant & equipment	811	608	499	786	215
Net plant & equipment	4,212	3,758	3,440	3,329	2,912
Shareholders' equity	21,159	20,194	18,747	17,515	17,025

## Capital Stock

Number of shareholders	1,670	1,777	2,002	2,201	2,356
Number of common shares outstanding	800,000	800,000	800,000	800,000	800,000
Net income per common share	\$1.96	\$2.41	\$2.14	\$1.21	\$1.28
Dividends per common share	.75	.60	.60	.60	.60
Equity per common share	26.45	25.24	23.43	21.89	21.28
Return on shareholders' equity	7.4%	9.5%	9.1%	5.5%	6.0%

**Note:** The above figures have been restated for 1970-1972. The net assets and net income for Worthington (Canada) Ltd. are now only reflected in the income and shareholders' equity figures.