C

Hawker Siddeley Canada INC.

1982 ANNUAL REPORT

Contents

Operations Summary

		1982	1981	1980	1979	1978
Operating Data (millions of dollars)						
Sales (By Industry Segments):						
Transportation and miscellaneous	$	172.4	347.2	209.8	243.1	207.4
Mining		144.7	131.5	163.3	121.3	82.9
Steel castings and forgings		72.7	95.8	89.9	90.9	54.4
Forestry		35.8	64.5	84.0	84.7	53.6
Total Sales		425.6	639.0	547.0	540.0	398.3
Income before taxes, minority and extraordinary items		32.7	28.9	41.4	50.0	27.8
Income taxes		17.9	5.3	18.4	18.9	12.2
Extraordinary items		(1.5)	.9	—	(.8)	3.3
Net income		11.4	23.0	21.4	28.6	17.7
Financial Data (millions of dollars)						
Working capital	$	95.9	90.5	104.1	84.7	75.0
Net fixed assets		200.4	207.2	190.5	174.6	141.5
Long term debt		64.2	70.6	72.0	57.4	41.5
Shareholders' equity		179.5	181.0	174.0	158.0	133.8
Funds from operations		35.1	33.4	39.0	45.3	30.1
Capital expenditures		10.1	32.6	31.3	46.5	23.0
Depreciation		13.8	13.4	13.6	12.0	10.7
Dividends						
– preferred shares		.8	.8	.8	.8	.8
– common shares		7.8	7.8	7.8	5.1	3.4
Aggregate remuneration of employees		126.2	169.5	149.9	154.1	127.3
Per Common Share (after Preferred dividends)						
Income before extraordinary items	$	1.48	2.60	2.53	3.51	1.67
Net income		1.30	2.72	2.53	3.41	2.07
Funds from operations		4.21	4.00	4.69	5.46	3.59
Dividends		.96	.96	.96	.62	.42
Shareholders' equity		20.31	20.49	19.63	17.67	14.70
Ratios						
Return on capital employed (Note 2)		13.5%	15.0%	18.7%	23.6%	15.1%
Return on shareholders' equity (Note 3)		6.4%	13.6%	13.6%	21.1%	15.1%
Debt: equity ratio		26:74	28:72	29:71	27:73	24:76
Working capital ratio		2.0	1.7	1.6	1.5	1.7
Other Data						
Shares issued and outstanding						
– preferred		140,000	140,000	140,000	140,000	140,000
– common		8,150,301	8,150,301	8,150,301	8,150,301	8,150,301
Number of shareholders						
– preferred		998	1,050	1,146	1,230	1,314
– common		5,844	6,019	5,583	6,028	7,309
Average number of employees		4,307	6,712	6,564	7,761	6,999

Notes:

1. The years 1978 to 1981 have been restated to conform with the accounting policy adopted in 1982 with respect to unrealized foreign currency translation adjustments.
2. Operating income as a percentage of the annual average of total assets less current liabilities.
3. Net income less preferred dividends as a percentage of the annual average shareholders' equity less preferred shares.

To the Shareholders

Your Directors submit herewith the audited accounts of Hawker Siddeley Canada Inc., and its subsidiary companies for the year ended December 31, 1982.

1. Financial

1.1 Sales

Consolidated sales were $426 million (1981 — $639 million). Details of sales by industry and geographic segments are shown in Note 3 to the financial statements.

1.2 Income

Income before extraordinary loss in 1982 was $12.9 million (1981 — $22.0 million) equivalent to $1.48 for each outstanding common share (1981 — $2.60 per share). Net income was $11.4 million (1981 — $23.0 million) equal to $1.30 per common share (1981 — $2.72). The unrealized exchange loss arising from translation into Canadian currency of foreign net assets is reflected against retained earnings.

1.3 Dividends

In 1982 the Company declared and paid the four quarterly preferred share dividends as they became due.

A dividend of 24 cents was declared payable on January 14, 1983 to holders of common shares of record on December 22, 1982, following declarations and payments of 24 cents per common share in each of the previous three quarters.

2. Directors

Mr. J.H. Coleman, having reached the age limit prescribed by the By-laws, retired from the Board on May 28, 1982, after serving the Company as a Director since 1973.

Mr. Louis Rochette was appointed a Director on December 15, 1982. Mr. C.A. Haines resigned from the Board at that time but remains Secretary of the Company.

3. Changes in Structure

The assets of the Company's Canadian Car Division, Thunder Bay and the shares of VentureTrans Manufacturing Inc., a wholly-owned subsidiary of Urban Transportation Development Corporation, are to be sold at the end of the year to a new corporation formed to undertake the manufacture of railway passenger vehicles. The Company will hold 20% of the voting shares in the new corporation and Urban Transportation Development Corporation 80%.

The North American sawmill equipment businesses of the Company carried on by the Canadian Car (Pacific) Division in British Columbia and American Sawmill Machinery Company in the United States were sold in February 1983 along with certain assets of Kockums Industries in Canada and the United States to two new corporations, Kockums CanCar Inc. in Canada and Kockums CanCar Corp. in the United States. The Company will own 80% and Kockums Industries 20% of the common shares in each of the two new corporations.

It was announced on January 5, 1983 that the manufacture of roll forming equipment at the B & K Division, Mississauga, Ontario is to cease and the assets offered for sale.

4. Comments

1982 was a difficult year in most areas served by the Company domestically and, with few exceptions, in the export market. Housing and pulp and paper industries in North America were depressed through most of the year and the slight improvement in housing starts in the last quarter of 1982, although encouraging, was insufficient to improve demand for forestry equipment. Transportation equipment sales suffered a substantial drop relative to 1981. Work proceeded on the order for 71 bi-level passenger cars ordered by the Government of Ontario Transit Authority (GO Transit), and a small number were delivered by the year end. Improvement in aero engine components and aero engine overhaul business was maintained.

Lower steel casting and forging volumes largely reflect the lack of demand from the railways for new freight cars and a decline in fleet maintenance. Mining machine, replacement part and mining roof support shipments were up over last year, and export deliveries rose and made a useful contribution.

A reduction in trading profits was largely offset by lower interest costs which were due to a lowering of interest rates and a reduction in the working capital needed as a result of the decline in the work load. The tax charge, however, shows a substantial increase over 1981 which benefited from an exceptional credit of $8.0 million.

Bearing in mind the difficult trading conditions which have been experienced, your Directors wish to express their thanks to those whose support and steadfastness have made an effective contribution to the Company's results.

Submitted on behalf of the Board

A.A. Hall
R.F. Tanner

Toronto, Ontario, March 10, 1983

At the Thunder Bay, Ontario plant of the Canadian Car Division, bi-level commuter coaches for GO Transit move down the production line through a succession of work stations.

Comments on Operations

HAWKER SIDDELEY CANADA INC.

Canadian Car Division (Ontario)

After a period of low activity, production of passenger railway cars resumed at the Thunder Bay, Ontario plant with the building of bi-level commuter coaches for GO Transit, Toronto. By year end, two of the total of 71 cars on order had been shipped with the remainder scheduled for completion in 1983. Fifteen of the cars will have an operator's cab fitted with controls for push-pull operations in which there is a locomotive only at the opposite end of the train.

A number of opportunities for business were pursued during the year which would minimize the effects of any gap in production following the completion of present contracts. Some are being followed up in conjunction and co-operation with the Urban Transportation Development Corporation, an Ontario Crown-owned company. This joint approach to the market has been a natural outcome of the complementary nature of the interests of the two companies which first proved beneficial in the manufacture by the Division of the UTDC-designed Canadian Light Rail Vehicles for operation by the Toronto Transit Commission. Please refer to paragraph 3 of the report to the shareholders which sets out certain changes in structure that occurred subsequent to the year end in respect of this Division.

New two-year labour agreements were concluded with unions representing both plant and office workers.

Trenton Works Division (Nova Scotia)

With a depressed domestic railway industry and poor economic conditions being experienced by most of its other traditional customers, the Division suffered a severely reduced demand for its main product lines by year end.

About 850 railway freight cars were produced at the Trenton, Nova Scotia plant compared with more than 3,100 in 1981. Included were covered hopper cars for the Canadian Wheat Board and box cars for export to Indonesia. Rail transporter and air dump cars were also built, together with a number of tank cars.

Railway axle production was well below the previous year's level, while industrial forging activity declined as major industries cancelled or delayed capital projects.

While it is unlikely that significant changes in trading conditions will occur during 1983, opportunities may arise to provide forge, machine shop and metal fabricating services to major contractors taking part in development of the East Coast oil and gas ventures.

Canadian Car (Pacific) Division (British Columbia)

This Division, based in Surrey, British Columbia experienced another very difficult year in which demand for the sawmill equipment it designs and manufactures continued to reflect the greatly reduced needs for construction lumber and pulpwood. As a result, the plant facilities were severely under-utilized and results were poor. At year end, falling interest rates appeared to start a reversal of the downward trend in new house construction, which could eventually lead to a demand for sawmill equipment.

Please refer to paragraph 3 of the report to the shareholders which sets out certain changes in structure that occurred subsequent to the year end in respect of this Division.

'Sound dynamics' resonant drilling equipment made by the Division continued to be used in mineral exploration work in permafrost, although with less activity than in the previous year. However, a large pile driver which uses the same technology, commenced driving tubular steel piles in the frozen soil of Prudhoe Bay, Alaska. The piles are required for the structures to support oil pipelines.

Early in the year, a new two-year labour agreement was concluded.

American Sawmill Machinery Company (Corinth, U.S.A.)

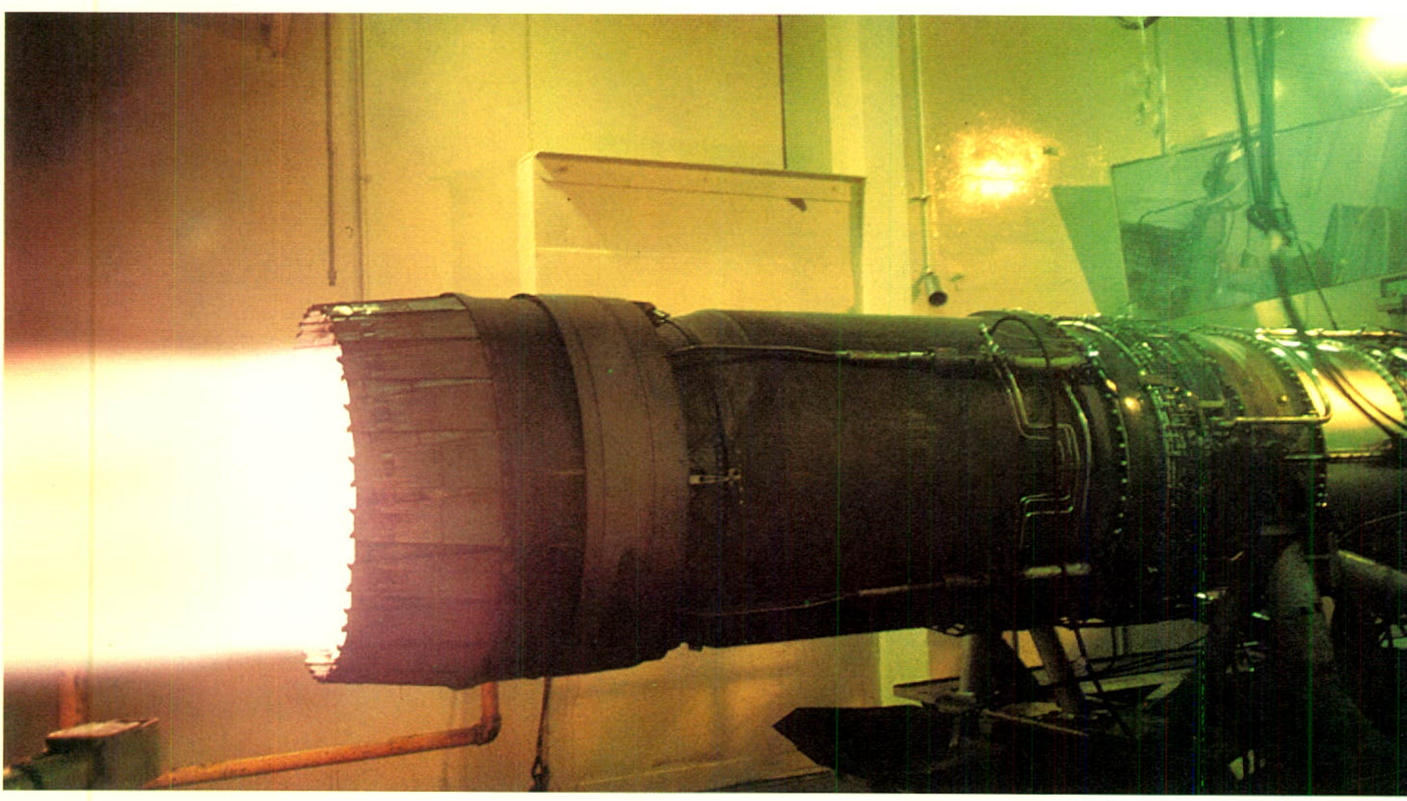
Continuing poor economic conditions in the United States caused a similar effect to that seen at Canadian Car (Pacific) resulting in a lowering of demand for lumber processing machinery. In addition, falling oil consumption halted exploration in marginal oil field ventures where oil pumps manufactured by this company are most commonly used. These influences steadily eroded work load at the Corinth, Mississippi plant to the point it became necessary to temporarily suspend operations.

Please refer to paragraph 3 of the report to the shareholders which sets out certain changes in structure that occurred subsequent to the year end in respect of this Subsidiary.

Canadian Steel Foundries Division (Quebec)

Industrial casting demand continued reasonably well in the first half of the year but then declined rapidly as drastic reductions in capital investments were made in

Part of an export order of 220 railway box cars, designed and built by Trenton Works Division, Trenton, Nova Scotia being loaded at the Port of Halifax for Indonesia where they are now transporting urea fertilizer.



Seen through an Orenda Division test cell observation window, a J79 aircraft jet engine is run at full afterburner power following complete overhaul at the Mississauga, Ontario plant.

many of the industries served by the Montreal, Quebec foundry. Industry demand for railway castings also fell back and by the last quarter had declined to unprecedented low requirement levels for both new rolling stock manufacture and railway maintenance spares. The market for replacement castings for mining operations has remained depressed, reflecting the poor business in steel and non-ferrous metals.

The federal government-sponsored work-sharing program was implemented in the railway casting production area of the plant towards the end of the year and extended to other departments at the beginning of 1983.

A labour agreement with foundry workers was concluded during the year.

Canadian Steel Wheel Division (Quebec)

Reduced operations by Canada's major railways and a corresponding marked decline in the building of new freight rolling stock, combined to reduce the demand for railway wheels to the lowest level in more than a decade. Under these circumstances, the Division's highly automated railway wheel plant in Montreal, Quebec operated with work loads much below full capacity. Improvements in methods of manufacture and increased efficiency helped to reduce the effect on the results of the lower level of output.

Orenda Division (Ontario)

Good plant utilization and increased productivity at its Mississauga, Ontario location gave the Division a very successful year. Although the repair and overhaul of J79 aircraft jet engines for the Canadian Armed Forces began to be phased out at mid year, similar work on J85 engines showed a modest increase and the manufacture of spare parts for these units was also active.

An important factor in the Division's business continued to be the manufacture under sub-contract of components for major aero-engine builders. While there was a marked decline in the volume of work for Canadian manufacturers, it was largely offset by a rapid build-up in programs to supply United States customers and the Division entered 1983 with a strong order book.

New two-year labour contracts were negotiated with unions representing both plant and office employees.

Can-Car Trailer Division (Ontario)

The Division, which provides highway trailer repair services and distributes heavy truck, bus and trailer replacement and repair parts, had an unsatisfactory year in the face of further deterioration of the road transport market. In the absence of any prospects of business improvement, branch operations are being consolidated at the Rexdale, Ontario location.

Forestry Equipment Division (Ontario)

The Tree Farmer line of forest harvesting vehicles designed and manufactured by the Division in Mississauga, Ontario is marketed in Canada and most countries of the world having an active forest industry. In the United States the equipment is sold through the Tree Farmer Equipment Company, Inc., Atlanta, Georgia.

With new house construction at record low levels across North America for much of the year and further deterioration of the pulp and paper market, the forest products industry had little inclination to invest in new tree harvesting equipment. While market share was sustained, sales opportunities for the Division's machines were, therefore, few and manufacturing activity was much reduced. With the decrease in interest rates towards year end and a significant upturn in U.S. housing starts, lumber consumption should rise and the forestry equipment market eventually benefit. Any such upturn in demand in 1983 will likely be most apparent in the United States and new equipment is being developed to augment the basic product line traditionally sold in that market.

Dosco Overseas Engineering Limited (Tuxford, England)

This operating unit produces mining and tunnelling machinery and is based in Tuxford, England. It has a subsidiary, Hollybank Engineering Company Limited, which manufactures roof support systems for mine roadways and civil engineering tunnels in an adjacent plant.

Dosco had a satisfactory year despite a modest decrease in the total number of new machines sold compared with 1981. The British National Coal Board, the company's main domestic customer, acquired fewer of the standard machines which have given efficient service over many years but three new types of machine were approved after intensive trials. The volume of spare parts supplied rose significantly.

A railway tank car from the CGTX Inc. fleet undergoing maintenance work at the leasing company's Montreal, Quebec service depot. Other maintenance facilities are located in Moose Jaw, Saskatchewan and Red Deer, Alberta.

Export sales improved and were aided by the completion of a significant order for India. Machines were also delivered to customers in Saudi Arabia, Germany, Canada and the United States. In the United States, the Dosco Corporation's manufacturing and repair facility at Beckley, West Virginia improved its position as a supplier of machines and roof supports to U.S. mining companies.

In the roof support business, Hollybank Engineering Company Limited had a more difficult year as a major supplier to the British National Coal Board but maintained its market share against increased competition.

CGTX Inc. (55% owned) (Quebec)

The company leases a fleet of railway tank and hopper cars to customers mainly in the chemical, petroleum, fertilizer and food industries. It provides service for the cars at maintenance depots in Montreal, Quebec; Moose Jaw, Saskatchewan and Red Deer, Alberta.

Despite the recession experienced to varying degrees by customers in their respective industries and the large number of idle railcars in Canada and the United States, utilization of the company's existing fleet continued at a sound level throughout the year. Demand by customers requiring to lease new railcars was very low and only a relatively small number of cars was added to the fleet during the year. The new cars did not fully offset those which were retired from service, mainly due to obsolescence, and the total carrying capacity of the fleet fell slightly.

Consolidated Statement of Income and Retained Earnings

	Year ended December 31 1982	1981
	(in thousands)	
Sales (Note 3)	$ 425,562	$ 638,987
Cost of sales, selling, general and administrative expenses	371,248	580,643
Depreciation	13,834	13,437
	385,082	594,080
Operating income (Note 3)	40,480	44,907
Interest (Note 4)	7,739	15,979
Income before income taxes, minority interest and extraordinary items	32,741	28,928
Income taxes (Note 12)	17,911	5,292
	14,830	23,636
Minority interest	1,925	1,606
Income before extraordinary items	12,905	22,030
Extraordinary items (Note 5)	(1,512)	944
Net income for the year	11,393	22,974
Retained earnings, beginning of year		
As previously reported	112,614	105,642
Adjustment for the cumulative effect on prior years of the accounting change described in Note 2	(314)	(7,687)
As restated	112,300	97,955
	123,693	120,929
Dividends — preferred shares	805	805
— common shares	7,824	7,824
	8,629	8,629
Retained earnings, end of year	$ 115,064	$ 112,300

Income per common share after preferred dividends:		
Before extraordinary items	$ 1.48	$ 2.60
After extraordinary items	$ 1.30	$ 2.72

Consolidated Statement of Changes in Financial Position

	Year ended December 31 1982	1981
	(in thousands)	
Source of working capital:		
Income before extraordinary items	$ 12,905	$ 22,030
Charges to income not affecting working capital – (mainly depreciation, deferred income taxes and minority interest)	22,227	11,364
Working capital provided from operations	35,132	33,394
Issue of long term debt	—	4,975
Proceeds on disposal of fixed assets	1,434	4,079
Miscellaneous	50	50
	36,616	42,498
Application of working capital:		
Additions to fixed assets –		
Railway rolling stock leasing fleet	3,809	22,807
Other	6,339	9,832
Extraordinary provisions (Note 5)	2,020	—
Reduction of –		
Long term debt	6,367	6,367
Provision for unfunded pensions	209	250
Dividends to shareholders of Hawker Siddeley Canada Inc.	8,629	8,629
	27,373	47,885
Working capital:		
Increase (decrease) before translation adjustments	9,243	(5,387)
Unrealized foreign currency translation loss on net current assets of foreign subsidiaries (Note 2)	(3,907)	(8,203)
Increase (decrease) for the year	5,336	(13,590)
At beginning of year	90,538	104,128
At end of year	$ 95,874	$ 90,538

Changes in Elements of Working Capital

	1982	1981
Current assets – Increase (decrease):		
Cash and short term deposits	$ 11,177	$ 12,890
Accounts receivable	(24,636)	2,289
Loans to affiliated company	—	(11,433)
Income taxes recoverable	(1,915)	3,003
Inventories	(22,319)	(49,981)
Prepaid expenses	(9)	(581)
	(37,702)	(43,813)
Current liabilities – Increase (decrease):		
Bank advances	(8,404)	(36,348)
Accounts payable and accrued liabilities	(14,985)	1,907
Income and other taxes	(1,323)	(4,312)
Advances on sales contracts	(3,744)	1,941
Owing to affiliated companies	(14,582)	6,589
	(43,038)	(30,223)
Increase (decrease) in working capital for the year	$ 5,336	$ (13,590)

Hawker Siddeley Canada Inc. and Subsidiary Companies

Consolidated Balance Sheet

ASSETS	December 31 1982	1981
	(in thousands)	
Current Assets:		
Cash and short term deposits	$ 32,575	$ 21,398
Accounts receivable	65,065	89,701
Income taxes recoverable	1,088	3,003
Inventories	90,411	112,730
Prepaid expenses	2,181	2,190
	191,320	229,022
Investments, at cost (Note 8)	3,008	3,051
Fixed Assets (Note 9)	368,687	364,477
Less: Accumulated depreciation	168,308	157,306
	200,379	207,171
Unamortized Issue Costs of Long Term Debt	513	559
	$ 395,220	$ 439,803

Approved by the Board:
A.A. Hall, Director
R.F. Tanner, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31 1982	December 31 1981
	(in thousands)	
Current Liabilities:		
Bank advances	$ 2,735	$ 11,139
Accounts payable and accrued liabilities	60,124	75,109
Dividends payable	2,157	2,157
Income and other taxes	17,773	19,096
Advances on sales contracts	5,637	9,381
Owing to affiliated companies (Note 7)	653	15,235
Long term debt due within one year (Note 10)	6,367	6,367
	95,446	138,484
Long Term Debt (Note 10)	64,224	70,591
Provision for Unfunded Pensions (Note 11)	2,577	2,786
Deferred Income Taxes (Note 12)	34,373	29,787
Minority Interest	19,083	17,158
Shareholders' Equity:		
Preferred and common shares (Note 13)	68,383	68,383
Retained earnings	115,064	112,300
Unrealized foreign currency translation adjustments (Note 2)	(3,930)	314
	179,517	180,997
	$ 395,220	$ 439,803

Auditors' Report

To the Shareholders of
Hawker Siddeley Canada Inc.:

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

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for unrealized foreign currency translation adjustments as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Price Waterhouse
Chartered Accountants

Toronto, Ontario
March 9, 1983

Notes to Consolidated Financial Statements

for the year ended December 31, 1982

1. Summary of principal accounting policies:

Principles of consolidation –
The consolidated financial statements include the accounts of Hawker Siddeley Canada Inc. and all subsidiary companies.

Foreign currency translation –
Assets and liabilities of foreign subsidiaries are translated at year-end rates of exchange and revenue and expense items at average rates of exchange during the year. Other assets and liabilities in foreign currencies are also translated at year-end rates of exchange except for investments and long term debt. Investments are translated at rates of exchange in effect when they are acquired. Long term debt is translated at rates of exchange in effect when the obligations are incurred.

Net unrealized exchange adjustments arising from translation of the financial statements of foreign subsidiaries are included in a separate translation adjustment account in shareholders' equity. Other exchange gains and losses are included in income.

Recognition of revenue, profits and losses –
Revenue and profits are recorded at the time the product is shipped or the services performed. Provision is made for any losses, including possible losses arising from claims and suits, in the year in which they are first foreseen.

Product warranty costs –
Anticipated costs related to product warranty are provided at the time of the sale of the products.

Costs of long term debt –
Commission costs incurred on issue of long term debt are amortized on the straight-line method over the term of the related debt issue.

Cost of patents and rights for new products –
Significant costs incurred in purchasing patents and rights for products are amortized on the straight-line method over the lesser of the period of anticipated or legal advantage. Other costs relating to patents and rights are expensed as incurred.

Inventories –
Inventories are carried at the lower of cost and net realizable value, less progress payments.

Fixed assets —
Fixed assets are carried at cost. Depreciation on these assets is provided over their estimated useful lives on the straight-line method at annual rates, generally, of $2\frac{1}{2}$% on buildings, 10% on equipment and $3\frac{1}{3}$% to 5% on railway rolling stock.

Pensions –
The Company and its subsidiaries have pension obligations to unfunded and funded pension plans.

Obligations to unfunded plans relate to retired and certain current employees for benefits which, for the most part, arose before the establishment of funded pension plans. The principal obligation for unfunded pension plans originated in 1923. Under these pension plans monthly payments to pensioners are charged, after appropriate income taxes, to the provision established for that purpose.

Obligations to funded pension plans relate to present, retired and former employees. For present employees, the obligations are for both current and past service; for former employees and pensioners, the obligations are for service during their period of employment. These current and past service obligations are actuarially determined and are settled by annual payments to trustees which are charged to operations.

Income taxes –
The provision for income taxes is computed on the tax allocation basis which relates income taxes to the accounting income for the year.

Investment tax credits are applied to reduce the annual provision for income taxes when realized.

2. Accounting change:

In 1982 the Company retroactively adopted the accounting policy of including net unrealized exchange adjustments arising from translation of the financial statements of foreign subsidiaries directly in a separate account, "unrealized foreign currency translation adjustments", in shareholders' equity. Previously such adjustments were included in income.

This accounting change, which had the effect of increasing net income for the years 1982 and 1981 by $4,244,000 (52¢ per common share) and $7,373,000 (90¢ per common share) respectively, did not change total shareholders' equity.

Movements in the unrealized foreign currency translation adjustments account were as follows:

	1982	1981
	(in thousands)	
Balance at beginning of year	$ 314	$ 7,687
Adjustments for the year	(4,244)	(7,373)
Balance at end of year	$ (3,930)	$ 314

3. Segmented information:

INDUSTRY SEGMENTS (in thousands)

	Transportation and Miscellaneous		Mining		Steel castings and forgings	
	1982	1981	1982	1981	1982	1981
Sales to customers	$ 172,392	$ 347,233	$ 144,682	$ 131,509	$ 72,709	$ 95,771
Inter-segment sales*	12	79	—	—	5,842	21,108
Sales	$ 172,404	$ 347,312	$ 144,682	$ 131,509	$ 78,551	$ 116,879
Segment operating income	$ 23,878	$ 25,870	$ 18,706	$ 15,085	$ 5,757	$ 14,121
General corporate expenses						
Operating income						
Identifiable assets	$ 207,933	$ 238,819	$ 82,393	$ 81,236	$ 50,384	$ 58,709
Corporate assets						
Total assets						
Capital expenditures	$ 6,078	$ 27,625	$ 955	$ 1,117	$ 2,908	$ 3,226
Depreciation	$ 9,500	$ 9,176	$ 999	$ 1,156	$ 2,129	$ 1,810

GEOGRAPHIC SEGMENTS (in thousands)

	Canada		Europe		United States	
	1982	1981	1982	1981	1982	1981
Sales to customers	$ 252,086	$ 458,094	$ 136,949	$ 126,572	$ 36,527	$ 54,321
Inter-segment sales*	12,321	18,822	2,901	1,510	699	675
Sales	$ 264,407	$ 476,916	$ 139,850	$ 128,082	$ 37,226	$ 54,996
Segment operating income	$ 28,244	$ 37,143	$ 19,014	$ 15,714	$ (5,893)	$ (6,853)
General corporate expenses						
Operating income						
Identifiable assets	$ 274,305	$ 320,560	$ 77,390	$ 75,206	$ 30,976	$ 39,215
Corporate assets						
Total assets						

The Company provides products and services in four major segments:

Transportation and miscellaneous –
Includes various types of freight and tank cars, mass transit cars and miscellaneous other products and repair and overhaul of jet engines and industrial turbines.

Mining –
Includes mining and tunnelling machines and roof support systems for mine roadways and tunnels.

Steel castings and forgings –
Includes steel castings and forgings for the railway, mining, energy and manufacturing industries.

Forestry –
Includes lumber processing and logging equipment for the forestry and forest products industries.

	Forestry		Eliminations		Consolidated	
	1982	1981	1982	1981	1982	1981
	$ 35,779	$ 64,474	$ —	$ —	$ 425,562	$ 638,987
	—	—	(5,854)	(21,187)	—	—
	$ 35,779	$ 64,474	$ (5,854)	$ (21,187)	$ 425,562	$ 638,987
	$ (6,976)	$ (9,072)	$ —	$ —	$ 41,365	$ 46,004
					885	1,097
					$ 40,480	$ 44,907
	$ 38,898	$ 54,243	$ (173)	$ (1,281)	$ 379,435	$ 431,726
					15,785	8,077
					$ 395,220	$ 439,803
	$ 182	$ 586				
	$ 1,111	$ 1,214				

	Eliminations		Consolidated	
	1982	1981	1982	1981
	$ —	$ —	$ 425,562	$ 638,987
	(15,921)	(21,007)	—	—
	$ (15,921)	$ (21,007)	$ 425,562	$ 638,987
	$ —	$ —	$ 41,365	$ 46,004
			885	1,097
			$ 40,480	$ 44,907
	$ (3,236)	$ (3,255)	$ 379,435	$ 431,726
			15,785	8,077
			$ 395,220	$ 439,803

Canadian sales to customers include export sales of $54,201,000 in 1982 and $98,575,000 in 1981 primarily to customers in the United States.

*Inter-segment sales are accounted for at prices comparable to market prices.

4. Interest:

Interest reported in the consolidated statement of income is as follows:

	1982	1981
	(in thousands)	
Interest expense:		
Bank advances	$ 1,297	$ 7,049
Loans from affiliated companies (Note 7)	581	2,513
Long term debt including amortization of issue costs	8,662	9,750
	10,540	19,312
Interest income:		
Short term deposits and investments	2,801	3,333
Net interest	$ 7,739	$ 15,979

5. Extraordinary items:

Extraordinary items in 1982 comprise provisions of $3,280,000 ($1,705,000 after income taxes) for the estimated costs and losses related to the discontinuance of certain operations, less recovery of $372,000 ($193,000 after income taxes) representing the balance of an extraordinary provision recorded in 1979 which is no longer required.

The extraordinary gain in 1981 represents a gain on the sale of property of $2,115,000 less income taxes and minority interest of $528,000 and $643,000 respectively.

6. Research and development costs:

Research and development costs charged to income amounted to $6,319,000 (1981 – $6,698,000) after deduction of government assistance of $221,000 (1981 – $300,000).

7. Related party transactions:

Hawker Siddeley Group Public Limited Company, a United Kingdom-based company, which operates through subsidiaries in many countries, is the beneficial owner of 59.1% of the outstanding common shares of the Company.

During 1982 the Company and its subsidiaries had no significant sales to or purchases from related parties.

In 1981 the liability to affiliated companies included a loan of $14,494,000.

Loans to or from affiliated companies are for short periods of time or on a demand basis at commercial bank lending rates.

8. Investments:

Investments comprise sinking fund debentures issued by Sidbec-Dosco Ltd. maturing in 1984 and 1985. At December 31, 1982 the market value of these debentures, which the Company intends to hold until maturity, is estimated to be $2,500,000.

9. Fixed assets:

	1982 (in thousands) Cost	1982 (in thousands) Accumulated depreciation	1981 (in thousands) Cost	1981 (in thousands) Accumulated depreciation
Land and land improvements	$ 8,628	$ 2,216	$ 7,605	$ 1,523
Buildings	49,275	28,951	49,408	27,575
Equipment	97,323	60,577	95,980	56,515
Railway rolling stock leasing fleet	213,461	76,564	211,484	71,693
	$ 368,687	$ 168,308	$ 364,477	$ 157,306

10. Long term debt:

	1982 (in thousands)	1981
CGTX Inc. (55% owned) –		
First Mortgage Sinking Fund Equipment Notes		
5% – 10¼% due 1983 – 2000 (U.S. $9,425,000)	$ 10,616	$ 12,040
6¾% – 11⅛% due 1983 – 1999	42,745	46,073
¼% lower than Canadian bank prime rate due 1983 – 1992	17,000	18,500
First Mortgage Serial Equipment Notes		
6% due 1983 – 1984	230	345
	70,591	76,958
Less: Due within one year included in current liabilities	6,367	6,367
	$ 64,224	$ 70,591

Principal payments on long term debt will be as follows:

Year ending December 31	Amount (in thousands)
1983	$ 6,367
1984	6,567
1985	6,317
1986	6,129
1987	5,610
1988 – 2000	39,601
	$ 70,591

Railway rolling stock with a net book value of $117,967,000 is pledged by CGTX Inc. as security for its long term debt.

Long term debt payable in U.S. currency translated at historical rates of exchange amounts to $10,616,000. At the year end rate of exchange this debt would be $11,593,000.

11. Pensions:

The provision for unfunded pensions of $2,577,000 at December 31, 1982 together with future tax allowances is considered adequate to provide for the cost, based on actuarial computations, of pensions under these unfunded plans. Pension payments of $209,000 after income taxes, were charged to the provision for unfunded pensions in 1982.

With respect to funded pension plans, the present value of past service obligations to be met, based on actuarial computations, is approximately $13,000,000 at December 31, 1982. These obligations are to be settled by annual payments charged to operations over periods of fifteen years or less. During 1982, $1,935,000 was charged to operations with respect to these obligations.

12. Income taxes:

The consolidated provision for income taxes, which includes deferred income taxes of $6,209,000 (1981 – credit of $2,743,000), has been determined as follows:

	1982	1981
	(in thousands)	
Consolidated provision at statutory rates of taxation	$ 16,857	$ 14,956
Increase (decrease) in provision resulting from –		
Losses of U.S. subsidiaries for which no tax benefits have been recorded	3,510	2,190
Other, principally inventory allowances	(2,456)	(3,818)
	17,911	13,328
Income taxes provided in prior years by certain United Kingdom subsidiaries with respect to inventory allowances which were no longer required	—	(8,036)
Consolidated provision for income taxes	$ 17,911	$ 5,292

At December 31, 1982 the U.S. subsidiaries had accumulated losses for income tax purposes of approximately $7,100,000 available to reduce taxable income for years prior to 1998 and expenses of approximately $4,300,000 charged to operations but not yet allowed for tax purposes. The potential future tax benefits of approximately $5,700,000, based on 1982 income tax rates, have not been recorded in the accounts.

Also, at December 31, 1982, the Company and a Canadian subsidiary had unrealized investment tax credits of approximately $2,090,000. The related unrecorded tax benefits of approximately $1,130,000, based on 1982 income tax rates, are available to reduce income taxes in the next five years.

13. Preferred and common shares:

	Shares	Dollars (in thousands)
Preferred Shares –		
5¾% cumulative preferred shares, redeemable at the option of the Company at $105 per share		
Authorized and issued	140,000	$ 14,000
Common Shares –		
Issued	8,150,301	54,383
		$ 68,383

The Company is authorized to issue an unlimited number of preferred shares junior to the $5\frac{3}{4}\%$ cumulative preferred shares and an unlimited number of common shares.

14. Commitments and contingent liabilities:

At December 31, 1982, expenditures of approximately $1,250,000 are required to complete capital programs. Also, at that date, certain subsidiaries are contingently liable (principally for trade notes discounted) in the approximate amount of $7,060,000.

15. Subsequent events:

Subsequent to December 31, 1982 the Company and a U.S. subsidiary transferred their sawmill equipment businesses in Canada and the United States to a new wholly-owned subsidiary in each country. These subsidiaries purchased the sawmill equipment business and certain assets of Kockums Industri AB in Canada and the United States for an aggregate consideration of approximately $19,700,000 payable in cash, preferred and common shares of the new subsidiaries. The Company will own 80% of each subsidiary on completion of these transactions.

The Company and Urban Transportation Development Corporation Ltd. (UTDC) signed an agreement on February 28, 1983 to form a company to manufacture passenger rail cars for urban transportation. On January 3, 1984 the new company will acquire the assets and operations of the Company's Canadian Car Division in Thunder Bay, Ontario and the shares of VentureTrans Manufacturing Inc., a wholly-owned subsidiary of UTDC, at which time it will be owned 80% by UTDC and 20% by the Company.

Divisions and Subsidiaries

Divisions

Canadian Car Division, Thunder Bay, Ont.

Canadian Car (Pacific) Division, Surrey, B.C.

Can-Car Trailer Division, Rexdale, Ont.

Canadian Steel Foundries Division, Montreal, Que.

Canadian Steel Wheel Division, Montreal, Que.

Forestry Equipment Division, Mississauga and Windsor, Ont.

Orenda Division, Mississauga, Ont.

Trenton Works Division, Trenton, N.S.

Subsidiaries (Note)

Can-Car, Inc., Atlanta, Ga., U.S.A.

- American Sawmill Machinery Company, Corinth, Miss., U.S.A.
  - Kockums CanCar Corp., Talladega and Gadsden, Ala.; Shreveport, La.; Atlanta, Ga.; Vancouver, Wash., U.S.A.
- The Dosco Corporation, Beckley, W.Va., Denver, Col., U.S.A.
- Tree Farmer Equipment Company, Inc., Atlanta and Waycross, Ga., McComb and Meridian, Miss., U.S.A.

Can-Car Rail Inc., Thunder Bay, Ont.

Dosco Overseas Engineering Limited, Tuxford, England

- Hollybank Engineering Company Limited, Tuxford, England

Orenda (International) Limited, Mississauga, Ont.

Kockums CanCar Inc., Surrey, B.C., Burlington, Ont., Montreal, Que.

CGTX Inc., Montreal, Que., Toronto, Ont., Moose Jaw, Sask., Red Deer and Calgary, Alta.

Note: With the exceptions of Kockums CanCar Inc. and Kockums CanCar Corp. (80% owned) and CGTX Inc. (55% owned), all subsidiaries are 100% owned, directly or indirectly, by Hawker Siddeley Canada Inc.

Products and Services

Divisions

Canadian Car Division

Railway passenger cars (subway, commuter, inter-city); light rail vehicles

Canadian Car (Pacific) Division

Bonded panel board production equipment; sound dynamic drilling and pile-driving equipment; power and telephone cable pulling equipment

Can-Car Trailer Division

Highway trailer repairs; trailer and heavy truck parts supply; custom truck bodies

Canadian Steel Foundries Division

Steel castings for the railway, mining, energy and manufacturing industries

Canadian Steel Wheel Division

Forged wheels for railway passenger and freight cars and locomotives

Forestry Equipment Division

Log skidders and other forest harvesting equipment

Orenda Division

Aircraft jet engine repair and overhaul; jet engine components; engineering design and laboratory testing services; graphics services

Trenton Works Division

Railway freight and tank cars; railway axles; open-die forgings; circular forgings; steel fabrications; custom machining

Subsidiaries

American Sawmill Machinery Company

Tools and dies; power and telephone cable pulling equipment; walking beam-type oil pumping units

Kockums CanCar Corp.

Sawmill and lumber processing equipment

The Dosco Corporation

Sales and service of mining and tunnelling machines; support systems for mine roadways and civil engineering tunnels

Tree Farmer Equipment Company, Inc.

Sales and service of log skidders and other forest harvesting equipment

Dosco Overseas Engineering Limited

Mining and tunnelling machines

Hollybank Engineering Company Limited

Support systems for mine roadways and civil engineering tunnels

Kockums CanCar Inc.

Sawmill and lumber processing equipment

CGTX Inc.

Full-service leasing and repair of railway tank cars and hopper cars

Hawker Siddeley Canada Inc.

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