Hawker Siddeley Canada LTD. Annual Report 1979

Contents

Financial Data

	1979	1978	1977	1976	1975
Summary of Operations (thousands of dollars)					
Revenue:					
Sales	$539,963	398,321	362,689	335,081	365,234
Income from investments	1,519	1,131	1,235	695	331
	541,482	399,452	363,924	335,776	365,565
Costs and expenses:					
Cost of sales, selling, general and administrative expenses exclusive of the following	471,011	356,496	320,678	301,896	324,140
Interest	8,430	4,502	4,139	6,529	7,713
Depreciation and amortization	12,044	10,667	10,959	10,477	9,915
	491,485	371,665	335,776	318,902	341,768
Income from operations before taxes	49,997	27,787	28,148	16,874	23,797
Income taxes	18,934	12,242	13,200	8,070	11,311
Interest of minority shareholders	1,651	1,148	1,246	1,266	1,014
	29,412	14,397	13,702	7,538	11,472
Exchange gain (loss)	1,457	2,721	2,624	(1,187)	(1,125)
Income before extraordinary items	30,869	17,118	16,326	6,351	10,347
Extraordinary items	(834)	3,300	(2,586)	653	1,516
Net income for the year	$ 30,035	20,418	13,740	7,004	11,863
Per common share					
Income before extraordinary items	$ 3.69	2.01	1.91	.68	1.17
Net income	3.59	2.41	1.59	.76	1.36
Dividends declared	.62	.42	.37	.36	.36
Equity	17.67	14.70	12.74	11.52	11.12
Other statistics (thousands of dollars)					
Dividends					
— preferred shares	$ 805	805	805	805	805
— common shares	5,053	3,420	3,008	2,927	2,927
Working capital	84,672	74,951	55,836	48,607	45,353
Capital expenditures					
— Railway rolling stock leasing fleet	34,958	13,568	3,401	791	14,898
— Other	11,532	9,395	9,289	8,132	11,259
Shareholders' equity					
— preferred shares	14,000	14,000	14,000	14,000	14,000
— common shares — share capital	54,383	54,383	54,320	54,320	54,320
— retained earnings	89,632	65,455	49,262	39,335	36,063
Other share data					
Shares issued and outstanding					
— preferred	140,000	140,000	140,000	140,000	140,000
— common	8,150,301	—	—	—	8,129,341
— common class "A" convertible	—	7,728,405	7,755,555	7,885,812	—
— common class "B" convertible	—	421,896	373,786	243,529	—
Number of shareholders					
— preferred	1,230	1,314	1,408	1,465	1,540
— common	6,028	—	—	—	8,692
— common class "A" convertible	—	7,184	7,816	8,141	—
— common class "B" convertible	—	125	141	128	—
Principal Shareholder — Hawker Siddeley Group Limited percentage holdings					
— preferred	41.79%	41.79%	41.79%	41.79%	41.79%
— common	59.10%	59.10%	59.25%	59.25%	59.25%

Note: The year 1975 has been restated to conform with the exchange presentation adopted in 1976.

To the Shareholders

Your Directors submit herewith the audited accounts of Hawker Siddeley Canada Ltd. and its subsidiary companies for the year ended December 31, 1979.

1. Financial

1.1 Sales

Consolidated sales were $540 million (1978 — $398 million). Information concerning export sales and the sales volume of foreign subsidiaries is given on page 21 of this report. The distribution of consolidated sales by broad classes of business is shown in Note 2 to the financial statements. In comparison with 1978, volumes increased in all classes of business except for general engineering where, in 1978, the category included eight months activities for the former Halifax Shipyards Division.

1.2 Income

Income from operations before extraordinary items in 1979 was $30.869 million (1978 — $17.118 million) equivalent to $3.69 for each outstanding common share (1978 — $2.01 per share) and includes the release of deferred income taxes of $2.110 million in the United Kingdom subsidiaries referred to in Note 4 to the audited accounts. Exchange translation gains included in income from operations in 1979 amounted to 18 cents per common share (1978 — 33 cents). Net income was $30.035 million (1978 — $20.418 million) equal to $3.59 per common share (1978 — $2.41 per share).

1.3 Extraordinary items

Extraordinary items in 1979 include a provision of $1.047 million (after income taxes) for the estimated costs and losses to be incurred on cessation of manufacture of transmission towers and related structures at the Canadian Bridge Division plant at Windsor, Ontario, and a gain of $.213 million (after income taxes) on disposal of surplus land.

1.4 Reclassification and consolidation of common shares

Supplementary Letters Patent issued on July 4, 1979, confirmed By-Law #32 which was approved by the shareholders at the annual and special general meeting held on June 1, 1979. The By-Law consolidated and reduced the former authorized Class A and Class B common shares of the Company to a single class of 10,000,000 authorized common shares without nominal or par value and deemed that each issued Class A and Class B share would be an issued and outstanding fully-paid and non-assessable common share without nominal or par value.

1.5 Dividends

In 1979, the Company declared and paid the four quarterly preferred share dividends as they became due.

A dividend of 20¢ was declared payable on January 18, 1980, to holders of common shares of record on December 28, 1979, following declaration and payment of two quarterly dividends of 15¢ per share and one quarterly dividend of 12¢ per share.

2. Directors

On September 20, 1979, Mr. R.F. Tanner, the Vice-President of the Company responsible for the Orenda and Can-Car Trailer Divisions, was appointed a Director. Mr. C.A. Haines resigned as a Director from the same date but remained as Secretary of the Company.

On January 30, 1980, the Board accepted with great regret, the resignation for health reasons of Mr. J.N. Paterson, a Vice-Chairman. Through his wise counsel since he first became a Director in 1975, Mr. Paterson has made a valuable contribution to the progress of the Company. He is succeeded as a Vice-Chairman by Mr. J.F. Howard, Q.C., a Director since 1974.

3. Comments

The results for 1979 reflect a substantial improvement in demand for virtually all products of the Company, particularly in markets outside Canada. Additionally, fewer labour contracts expired during the year and the level of disruption during negotiations was significantly lower than in the previous year.

Delivery of products to customers beyond the Canadian border accounted for some 51% of consolidated sales as compared with 44% in 1978. Shipments from Canadian factories to export markets of $127 million were 57% higher than last year and represented 33% of their total output (1978 — 27%). In comparison with 1978, sales increased to the forestry and forest products industries by 60%, to the mining industry by 49% and to the transportation equipment industry by 34%. While sales in the category of general engineering and services were lower in total this year, this segment increased by some 13% over 1978 when volumes for that year in shipbuilding and repair, which ceased on sale of the business in August 1978, are eliminated for comparison purposes.

Manufacture of transmission towers and related structures at the Canadian Bridge Division, Windsor, Ontario, was phased out by the end of the year and disposal of the plant, equipment and inventories is underway. Components for the Tree Farmer product line of the Forestry Equipment Division will continue to be made in a portion of the premises at that location.

At the end of 1979, facilities were acquired in West Virginia, U.S.A., which will enable manufacture to start of products for the mining industry in the United States.

1979 ended with a reduced order book for products supplied to the forestry and forest products industries. However, production capacity for transportation equipment is virtually fully booked for the year ahead, demand for mining equipment is strong and, overall, orders on hand exceed those at the close of the previous year.

In looking forward to 1980 there are many unpredictable factors, such as international events and currency exchange rates, which will influence results. Additionally, the Company is faced with the negotiation of many significant labour contracts.

Your Directors wish to express their appreciation to the employees whose skills and resourcefulness have contributed to the results for the year and thank the Company's shareholders, customers and suppliers for their support.

Submitted on behalf of the Board

A.A. Hall
E.J. White

Toronto, Ontario, March 14, 1980

Comments on Operations

HAWKER SIDDELEY CANADA LTD.

Canadian Car Division

Production at the Thunder Bay, Ontario, plant was concentrated primarily on contracts with the Massachusetts Bay Transportation Authority, Boston, for 190 mass transit cars and with the Urban Transportation Development Corporation, Toronto, for 190 light rail vehicles for operation by the Toronto Transit Commission. Progress on these contracts did not proceed as well as had been expected, largely as the result of production delays caused by design-related problems, and results for the year were disappointing. A total of 48 Boston transit cars and 51 light rail vehicles were shipped in the year.

In order to take full advantage of the exceptionally high demand in North America for freight cars, facilities were installed during the year to produce 100-ton covered hopper cars. These cars are being built on behalf of Trenton Works Division whose plant in Nova Scotia is fully booked into 1981. The first car was completed in December and output will be stepped up to meet delivery commitments. This transfer of work takes up production capacity in the plant which would otherwise be unused in the event of an absence of follow-on orders for railway passenger rolling stock.

While the Division's workload will increase during the early part of 1980 it will fall off towards the year end as the current passenger car contracts run out. Appreciation of the fuel efficiency of rail passenger transport over other forms of ground transportation is increasing, but competition for available business is intense.

Canadian Car (Pacific) Division

Strong demand for the Division's products for new and expanding sawmills, together with the contract for plywood edge-banding machines for the U.S.S.R., helped maintain a high level of plant utilization for most of the year. Although completion of the edge-banding machine contract in November caused a fall-off in the workload, the Division achieved a much improved performance.

Research and development continued to be an important element in the Division's overall activities. Work on the sugar cane separator program progressed and the first production machine successfully completed field trials during the 1979 cane season in Barbados. Subsequently, feasibility studies were undertaken for four countries which have expressed interest in complete system installations.

Mass transit cars designed and built by Canadian Car Division in Blue Line service with the Massachusetts Bay Transportation Authority, Boston.

Installation of a board plant in the Philippines was completed by year end and scheduled for start-up in January 1980. The plant, which will manufacture building panels from previously unusable rice husks, has attracted the interest of potential customers in many parts of the world.

Manufacture and utilization of resonant drilling and pile-driving equipment increased during the year and eight systems are now in field use. Emphasis has been placed on testing units in environmentally difficult locations beyond the capability of conventional equipment.

The Corinth, Mississippi, plant acquired at the beginning of 1979 had a satisfactory year and produced a range of sawmill equipment which complements that made by the Division's main plant in Surrey, B.C.

Manufacture of the telephone and power cable pulling device, sold under the trade name Tel-Eye, was implemented in the United States during the year to supplement output from the Surrey facility. Steps are being taken to exploit the device in overseas markets. The product range was extended by the introduction of pulling eyes for fibre optic cables.

Can-Car Trailer Division

The Division operates branches in Montreal and Quebec City, Quebec, and Rexdale, Ontario, which distribute replacement parts for heavy trucks, buses and highway trailers and carry out trailer repairs. In addition, flat-bed trailers and truck bodies are manufactured to customer requirements.

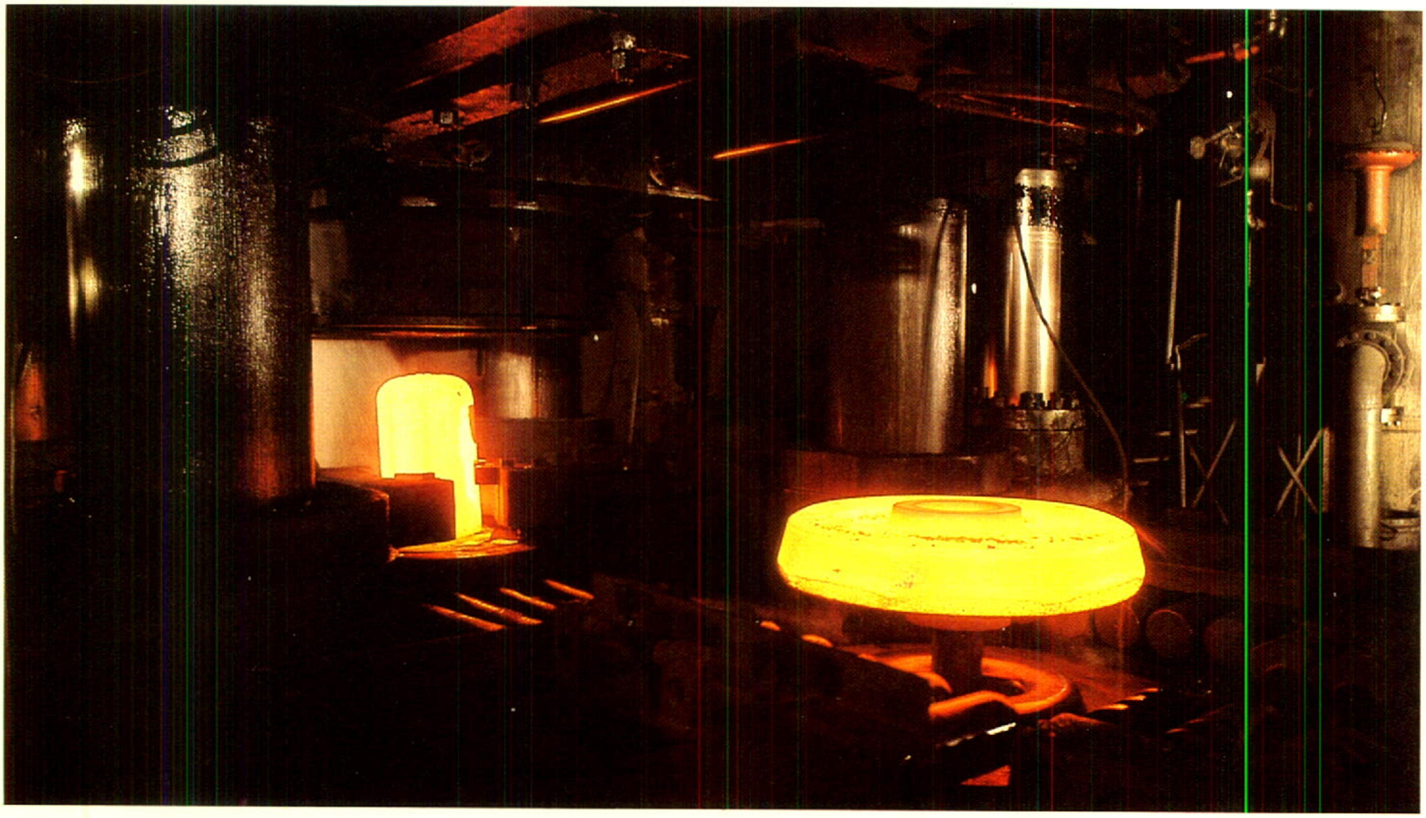
Although the market followed a traditional cyclical pattern and proved to be extremely competitive in 1979, a satisfactory increase in volume of business was achieved and further steady improvement is expected.

Canadian Steel Foundries Division

The strong demand for railway freight cars which started in mid-1978 continued throughout 1979 and provided a buoyant market for railway castings produced by the Division. Production capacity was progressively increased throughout the year to meet the requirements of freight car building programs.

Demand for industrial castings was generally depressed although some orders were booked for

Within a few seconds, a block of steel is forged into a railway wheel on Canadian Steel Wheel Division's highly automated production line.



the mining and steel industries and the last two of eight hydraulic turbine runners were shipped to the Quebec Hydro James Bay power project. Production of nine additional turbine runners for a further section of the project will commence in the second half of 1980.

The market for replacement castings used in mining operations showed steady improvement throughout the year and remains an important element of the Division's total business.

The up-grading of plant facilities continued during 1979 and included the installation of a new, large vertical boring mill to expand the range of the Division's industrial castings business. Other programs implemented to improve plant environment and working conditions made a contribution to the output levels achieved.

Canadian Steel Wheel Division

A high level of wheel requirements for new freight car construction programs, coupled with heavy replacement wheel purchases by railways, resulted in strong demand for the Division's products.

Record shipments were made despite a loss of production in the first three weeks of the year due to work disruption which preceded the conclusion of a new labour agreement.

Towards the end of the year, the Division successfully embarked on a new product line in steelmaking involving the production of 45-ton forging quality ingots. These ingots are for use by Trenton Works Division for the production of a range of heavy industrial forgings.

Capital expenditure programs to improve environmental conditions and plant efficiency, and to expand and improve inspection facilities, were carried out during the year.

With new freight car building continuing at a high rate in Canada and the United States and a heavy demand for replacement wheels for locomotives, passenger and freight rolling stock, a high level of plant utilization is expected in the year ahead.

A prototype forwarder vehicle designed and built by Forestry Equipment Division being field tested under typical operating conditions.

Forestry Equipment Division

Additional production facilities installed at the Division's Mississauga, Ontario, plant towards the end of 1978 came on stream early in the year and were well utilized in meeting a steady growth in demand for the Tree Farmer series of log skidder and forwarder vehicles. Sales improvement in Canadian and overseas markets by newly appointed distributors was particularly encouraging.

Operations in the United States were reorganized during the year with the formation of Tree Farmer Equipment Company, Inc., based in Atlanta, Georgia. The new wholly-owned company is responsible for distribution of the Division's products in the United States and for retail operations at three sales branches located at McComb and Meridian, Mississippi, and Waycross, Georgia.

The development and field testing of new products continued throughout the year and when completed will lead to the introduction of additional models to the market.

The Division entered the new year with an improved order book despite the highly competitive conditions both in domestic and world markets.

Orenda Division

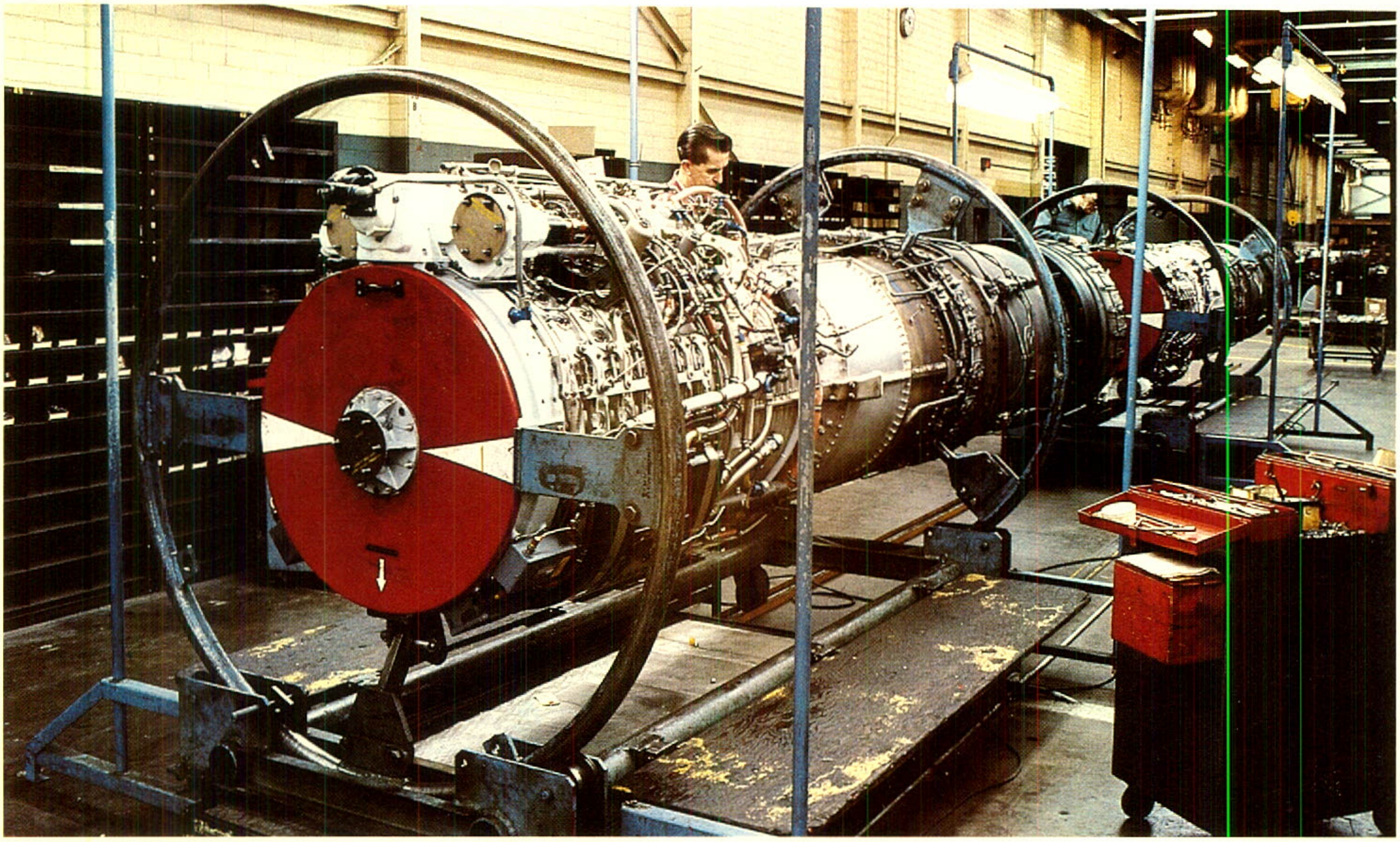
The Division had a satisfactory year with good levels of activity being sustained in all major product lines.

The continuing program of repair and overhaul on J79 and J85 aircraft jet engines for the Canadian Armed Forces remained stable, mainly as a result of the delay in selection of a new fighter which places greater servicing demands on current equipment.

A planned increase was achieved in the volume of subcontract component manufacturing undertaken for aircraft engine suppliers in Canada, the United States and the United Kingdom. Demands for this type of work is stretching available capacity within the industry, creating a favourable climate for a further increase in business for the Division.

Although a moderate decline in engine repair and overhaul work is expected in 1980 following an eventual government decision on new fighter acquisition, the Division has a good order book and the potential for new business is encouraging.

J79 aircraft jet engines being repaired and overhauled for the Canadian Armed Forces at the Orenda Division facility.



Trenton Works Division

All the Division's railway equipment production lines in its Trenton, Nova Scotia, plant were fully utilized in meeting the demand for freight and tank car rolling stock in the Canadian, United States and overseas markets.

A total of 2,646 freight and tank cars, including 189 rail cars of various types for export to Malawi, Togo and Tanzania, were shipped during the year, compared with 1,386 in 1978. In addition, 396 tank cars were processed for repair or for mandatory modifications to meet new safety requirements.

Demand for railway axles for the Division and other manufacturers' car building programs increased sharply and the fall in value of the Canadian dollar relative to other currencies enabled much of the domestic axle business lost earlier to offshore suppliers to be regained. The Division has sufficient orders to utilize fully its axle production capacity throughout the year.

An overall improvement was experienced in the heavy forging business with exports to the United States remaining steady and a substantial increase in sales in the domestic market. The future for this class of work is encouraging and further improvement in sales should be possible.

The major capital improvement program included installation of facilities to produce a range of forged industrial wheels and other circular products previously made by the Canadian Steel Wheel Division in Montreal. Production is scheduled to commence early in 1980.

Orders for freight cars booked for 1980 delivery exceeded the Division's carbuilding capacity and an overflow of covered hopper cars was, therefore, transferred to Canadian Car Division, Thunder Bay, Ontario, where railcar building facilities, normally used for passenger equipment, were not expected to be fully utilized. The first freight cars built under this program were completed before the close of the year.

Hopper cars finished in the colours of the Canadian Wheat Board await shipment from Trenton Works Division's railway freight car plant.

Dosco Overseas Engineering Limited
(100% owned)

This United Kingdom-based subsidiary had a good year despite adverse effects on operations by national strikes of transport and engineering workers.

Sales of mining machines produced by the company exceeded levels of the previous year and spare parts and repair business also increased.

In continuing to expand markets outside the British coal mining industry, good progress was made. Five tunnelling machines were supplied for civil engineering applications and an unusually high number of units were exported. Included in the latter category were 24 Roadheader MkIIA coal mining machines for the People's Republic of China, the first sale made in this important market. Norway also received its first machine and four SB600 boom assemblies were delivered to Switzerland for installation in equipment to be used on a large highway tunnel construction project. Repeat business was obtained from Brazil, India, Spain, Romania, Czechoslovakia, Poland, Africa and the United States.

Sales of roof support systems for mine roadways and tunnels produced by Hollybank Engineering Company Limited, a wholly-owned subsidiary of Dosco Overseas Engineering Limited, were at about the level of the previous year.

Further expansion of business in the United States is expected to result from the establishment of manufacturing facilities adjacent to the West Virginia coal fields. In the United Kingdom, markets could be affected by government expenditure cuts and labour unrest in supporting industries.

Canadian General Transit Company, Limited
(55% owned)

Demand by leasing customers for railway tank cars and covered hopper cars continued at a high level in 1979. Utilization of the company's fleet of cars, which are leased mainly to operators in the petroleum, food, chemical and potash industries, was maintained at close to full capacity.

Cars in the fleet are serviced in company-owned maintenance depots in Montreal, Quebec; Moose Jaw, Saskatchewan; and Red Deer, Alberta.

A large number of covered hopper cars were added to the leasing fleet during the year and at year end a substantial order book both for new tank cars and covered hopper cars reflected leasing commitments on hand for 1980.

High utilization of the company's railway cars is expected to continue with the expansion of resource-based industries.

Potash cars leased to the Potash Corporation of Saskatchewan by Canadian General Transit Company, Limited enter a processing plant for loading.

Consolidated Statement of Income and Retained Earnings

for the year ended December 31, 1979

	1979	1978
	(in thousands)	
Revenue:		
Net sales (Note 2)	$539,963	$398,321
Income from investments	1,519	1,131
	541,482	399,452
Costs and expenses:		
Cost of sales, selling, general and administrative expenses exclusive of the following	471,011	356,496
Interest on short term borrowings	3,659	849
Interest on and amortization of costs of long term debt	4,771	3,653
Provision for depreciation	12,044	10,667
	491,485	371,665
Income from operations before income taxes	49,997	27,787
Provision for income taxes — current	16,407	7,322
— deferred (Note 4)	2,527	4,920
	18,934	12,242
	31,063	15,545
Interest of minority shareholders in income of subsidiaries	1,651	1,148
	29,412	14,397
Exchange gain on the translation of the accounts of foreign subsidiaries	1,457	2,721
Income before extraordinary items	30,869	17,118
Extraordinary items (Note 3)	(834)	3,300
Net income for the year	30,035	20,418
Retained earnings, beginning of year	65,455	49,262
	95,490	69,680
Dividends — preferred shares	805	805
— common shares	5,053	3,420
	5,858	4,225
Retained earnings, end of year	$ 89,632	$ 65,455
Income per common share after preferred dividends:		
Before extraordinary items	$3.69	$2.01
After extraordinary items	$3.59	$2.41

Hawker Siddeley Canada Ltd. and Subsidiary Companies

Consolidated Balance Sheet

December 31, 1979

ASSETS	1979	1978
	(in thousands)	
Current Assets:		
Cash and short term deposits	$ 13,465	$ 12,541
Accounts receivable	87,857	67,671
Inventories, less progress payments	139,788	96,772
Prepaid expenses	2,432	2,559
	243,542	179,543
Investments, at cost (Note 6)	3,137	3,180
Fixed Assets, at cost (Note 7)	312,361	271,122
Less: Accumulated depreciation	137,777	129,708
	174,584	141,414
Issue Costs of Long Term Debt, at cost less amortization	497	417
	$421,760	$324,554

Approved by the Board:
A.A. Hall, Director
E.J. White, Director

LIABILITIES AND SHAREHOLDERS' EQUITY	1979	1978
	(in thousands)	
Current Liabilities:		
Bank advances	$ 28,764	$ 503
Accounts payable and accrued liabilities	90,415	71,506
Dividends payable	1,831	1,179
Income and other taxes payable	22,870	9,218
Advances on sales contracts	6,188	15,709
Owing to affiliated companies (Note 8)	4,231	2,599
Long term debt due within one year (Note 9)	4,571	3,878
	158,870	104,592
Long Term Debt (Note 9)	57,408	41,479
Provision for Unfunded Pensions (Note 10)	3,311	3,606
Deferred Income Taxes (Note 4)	30,556	28,076
Minority Interest	13,600	12,963
Shareholders' Equity:		
Preferred and common shares (Note 11)	68,383	68,383
Retained earnings	89,632	65,455
	158,015	133,838
	$421,760	$324,554

Hawker Siddeley Canada Ltd. and Subsidiary Companies

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1979

	1979	1978
	(in thousands)	
Source of working capital:		
Income before extraordinary items	$30,869	$17,118
Charges to income not affecting working capital — (mainly depreciation, deferred income taxes and interest of minority shareholders in income of subsidiaries)	16,318	16,242
Working capital provided from operations	47,187	33,360
Issue of long term debt	20,388	9,868
Proceeds on disposal of fixed assets	1,827	5,992
Extraordinary provisions not required	—	1,262
Income taxes recovered in extraordinary item	—	960
Common shares issued	—	44
Miscellaneous	46	45
	69,448	51,531
Application of working capital:		
Additions to fixed assets —		
Railway rolling stock leasing fleet	34,958	13,568
Other	11,532	9,395
Extraordinary provision charged (Note 3)	1,500	—
Reduction of —		
Long term debt	4,571	3,878
Provision for unfunded pensions (Note 10)	295	404
Dividends declared payable to —		
Shareholders of Hawker Siddeley Canada Ltd.	5,858	4,225
Minority shareholders of subsidiaries	1,013	946
	59,727	32,416
Working capital:		
Increase for the year	9,721	19,115
At beginning of year	74,951	55,836
At end of year	$84,672	$ 74,951

Changes in Elements of Working Capital

	1979	1978
Current assets — Increase (decrease):		
Cash and short term deposits	$ 924	$ (7,946)
Accounts receivable	20,186	7,012
Inventories	43,016	27,488
Prepaid expenses	(127)	573
	63,999	27,127
Current liabilities — Increase (decrease):		
Bank advances	28,261	(1,862)
Accounts payable and accrued liabilities	18,909	15,261
Dividends payable	652	165
Income and other taxes payable	13,652	(5,953)
Advances on sales contracts	(9,521)	2,704
Owing to affiliated companies	1,632	(1,371)
Long term debt due within one year	693	(932)
	54,278	8,012
Increase in working capital for the year	$ 9,721	$19,115

Notes to Consolidated Financial Statements

for the year ended December 31, 1979

1. Summary of principal accounting policies:

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

Foreign currency translation —
Assets and liabilities of foreign subsidiaries are translated at year-end rates of exchange. 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 or when determined by forward foreign exchange contracts.

Translation adjustments are charged or credited to current income.

Revenue recognition —
Revenue and profits are recorded at the time the product is shipped or the services performed. On all contracts full provision is made for any losses 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 over the term of the debt issue to which they relate.

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 basis at rates, generally, of 2½% on buildings, 10% on equipment and 4% 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 are made to pensioners which 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 —
Some items of revenue, costs and expenses are recognized for income tax purposes in different years than these items are recorded in the annual accounts. When the cumulative net effect of these timing differences has reduced income taxes otherwise currently payable, the resultant reduction is stated as deferred income taxes on the balance sheet and the tax on the change in timing differences in the year is reflected in the statement of income as deferred income taxes. When net timing differences can only be applied in reduction of income for tax purposes in future years, the tax benefit is recorded in the statement of income as an extraordinary item when realized. Investment tax credits are applied in reduction of the annual provision for income taxes when realized.

2. Net Sales:

	1979	1978
	(in thousands)	
Equipment for the transportation industry	$256,403	$190,458
Equipment for the forestry and forest products industries	99,247	61,965
Equipment for the mining industry	126,899	84,921
Other general engineering and services	57,414	60,977
	$539,963	$398,321

3. Extraordinary items:
Extraordinary items in 1979 include a provision of $1,047,000 (after income taxes) for the estimated costs and losses to be incurred on cessation of manufacture of transmission towers and related structures at the Canadian Bridge Division plant at Windsor, Ontario, and a gain of $213,000 (after income taxes) on disposal of surplus land.

4. Deferred income taxes:
Deferred income taxes provided in 1979 have been reduced by $2,110,000 to reflect amendments to U.K. tax legislation enacted in July, 1979 which eliminated the requirement for tax provisions relating to inventory allowances claimed in the years 1973 and 1974. Provided that inventories do not decline during each of the six years following the year of the allowance, related tax provisions made in the years 1975 through 1979 will be released to income in the years 1981 through 1985. The Company considers that it is not possible to predict the monetary value of inventories in its U.K. subsidiaries for the six year period and accordingly deferred income tax provisions relating to inventory allowances to a maximum of $7,800,000, based on rates of exchange at December 31, 1979, may be available for progressive release to income prior to 1986.

5. Research and development costs:
Research and development costs charged to income in 1979, after deduction of government assistance, amounted to $2,465,000 (1978 — $2,012,000).

6. Investments:
These are sinking fund debentures issued by Sidbec-Dosco Ltd. carried at cost. At December 31, 1979 the market value of these debentures is estimated to be $2,400,000. The Company is holding these debentures as long term investments.

7. Fixed assets:

	1979 (in thousands)		1978 (in thousands)	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	$ 7,795	$ 1,389	$ 7,425	$ 1,286
Buildings	47,715	26,379	45,771	25,811
Equipment	80,518	49,293	75,622	47,438
Railway rolling stock leasing fleet	176,333	60,716	142,304	55,173
	$312,361	$137,777	$271,122	$129,708

8. Owing to affiliated companies:

The liability to affiliated companies at December 31, 1979 includes advances from the parent company of $3,701,000 (1978 — $2,468,000).

9. Long term debt:

	1979	1978
	(in thousands)	
Canadian General Transit Company, Limited (55% owned) —		
Equipment Trust Certificates		
6¾% due January 1, 1980 (paid December 31, 1979)	$ —	$ 112
First Mortgage Sinking Fund Equipment Notes		
5% — 9% due 1980 — 1989 (U.S. $8,075,000)	8,677	9,750
6¾% — 11⅛% due 1980 — 1999	52,727	34,805
First Mortgage Serial Equipment Notes		
6% due 1980 — 1984	575	690
	61,979	45,357
Less — Due within one year included in current liabilities	4,571	3,878
	$57,408	$41,479

Principal payments on long term debt will be as follows:

Year ending December 31	Amount (in thousands)
1980	$ 4,571
1981	4,571
1982	4,571
1983	4,571
1984	4,571
1985 — 1999	39,124
	$61,979

Railway rolling stock with a net book value of $90,181,000 is pledged by Canadian General Transit Company, Limited as security for its long term debt.

Long term debt payable in U.S. currency translated at historical rates of exchange amounts to $8,677,000. At the year-end rate of exchange this debt would be $9,448,000.

Canadian General Transit Company, Limited has arranged to issue $5,000,000 U.S. 10¼% First Mortgage Sinking Fund Equipment 20 year Notes on April 1, 1980 maturing $250,000 U.S. annually commencing April 1, 1981.

10. Pensions (See Note 1):
The provision for unfunded pensions of $3,311,000 at December 31, 1979 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 $295,000, after income taxes, were charged to the provision for unfunded pensions in 1979.

With respect to funded pensions plans, the present value of past service obligations to be met, based on actuarial computations, is approximately $14,000,000 at December 31, 1979. These obligations are to be settled by annual payments charged to operations through 1993. During 1979 an amount of $1,634,000 was charged to operations with respect to these obligations.

11. Preferred and common shares:

	Shares	Dollars (in thousands)
Preferred shares — 5¾% cumulative redeemable of the par value of $100 each		
Authorized, issued and outstanding	140,000	$14,000
Common shares wihhout nominal or par value —		
Authorized	10,000,000	
Issued and outstanding	8,150,301	54,383
		$68,383

The outstanding preferred shares are redeemable at the option of the Company at $105 per share.

During the year Supplementary Letters Patent were received confirming the by-law which consolidated and reduced the former authorized and issued Class A and Class B convertible common shares to a single class of common shares.

12. Contingent liabilities:
The Company and subsidiaries are contingently liable (principally for trade notes discounted) in the approximate amount of $2,800,000 (1978 — $2,600,000). Possible losses on claims and suits related to product sales have been provided for in an amount considered to be adequate.

13. Commitments:

At December 31, 1979, expenditures of approximately $33,800,000 (including $26,600,000 for the railway rolling stock leasing fleet) are required to complete capital programs. Also, an amount of $30,800,000 including $6,775,000 for the railway rolling stock leasing fleet had been authorized by the Directors but not committed.

14. Government assistance:

During the year the Company received $609,000 under various government assistance programs which was applied primarily in reduction of costs, mainly for product development. Government assisted programs are proceeding in accordance with their respective terms and no liability for repayment of such assistance under various contingency clauses is foreseen.

15. Remuneration of directors and officers:

For the year 1979 six directors received remuneration of $37,218 (1978 — $36,996) and seven directors received no remuneration as directors. Fourteen officers, of whom seven are also directors, received remuneration of $872,018 (1978 — $661,935) from the Company and one officer received $70,161 (1978 — $15,593) from Dosco Overseas Engineering Limited.

Auditors' Report

To the Shareholders of
Hawker Siddeley Canada Ltd.:

We have examined the consolidated balance sheet of Hawker Siddeley Canada Ltd. as at December 31, 1979 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, 1979 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 on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto, Ontario,
March 13, 1980

Miscellaneous Data on Sales, Employees and Shares

	1979	1978
Sales ($000):		
By Canadian factories —		
to Canadian markets	$262,214	$222,947
to Export markets	127,534	81,109
	389,748	304,056
By foreign subsidiaries (excluding sales of products of Canadian factories)	150,215	94,265
	$539,963	$398,321
The average weekly number of employees was:		
in Canada	6,632	6,107
in the United Kingdom	814	784
in the United States of America	315	108
	7,761	6,999
Aggregate remuneration of employees was ($000)	$154,079	$127,282

Common share dividends for 1979 have been declared as follows:

Record Date	Payable	
December 28, 1979	January 18, 1980	$ .20
September 21, 1979	October 12, 1979	.15
June 22, 1979	July 13, 1979	.15
March 23, 1979	April 13, 1979	.12
		$ .62

Preferred share dividends:

Quarterly dividends of $1.4375 were paid on the 2nd day of January, April, July and October 1979.

The Department of National Revenue has published the following "Valuation Day" share prices (December 22, 1971) for income tax purposes.

Preferred shares	$58.50
Common shares	$ 2.40

Divisions and Subsidiaries

(As of March 14, 1980)

Divisions

Canadian Car Division, Thunder Bay, Ont.

Canadian Car (Pacific) Division, Surrey and Prince George, B.C., Burlington, Ont.

Can-Car Trailer Division, Rexdale, Ont., Quebec and Montreal, Que.

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 1)*

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

American Sawmill Machinery Company, Memphis and Jackson, Tenn., Corinth, Meridian and Tupelo, Miss., Atlanta, Ga., Fayetteville, N.C., Shreveport, La., Portland, Ore., U.S.A. *(Note 2)*

The Dosco Corporation, Beckley, W.Va., Denver, Col., U.S.A.

Tree Farmer Equipment Company, Inc., Atlanta and Waycross, Ga., McComb and Meridian, Miss., Moncks Corner, S.C., U.S.A. *(Note 3)*

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

Dosco Overseas Engineering Limited, Tuxford, England

Hollybank Engineering Company Limited, Tuxford, England

Orenda (International) Limited, Mississauga, Ont.

Canadian General Transit Company, Limited, Montreal, Que., Toronto, Ont., Moose Jaw, Sask., Red Deer, Alta.

Note: (1) *With the exception of Canadian General Transit Company, Limited (55% owned) all subsidiaries are 100% owned, directly or indirectly, by Hawker Siddeley Canada Ltd.*

(2) *Formerly Corinth Machinery Company which, effective January 1, 1980, changed its name to American Sawmill Machinery Company and acquired the business and assets of the former Chip-N-Saw, Inc.*

(3) *Incorporated July 19, 1979 and on October 1, 1979 acquired most of the then business and assets of Can-Car, Inc., which continues as a holding company for shares of other Hawker Siddeley Canada Ltd. subsidiaries in the United States.*

Products and Services

(Operating units and products for the year ended December 31, 1979)

Equipment for the transportation industry:

Canadian Car Division
Can-Car Trailer Division
Canadian Steel Foundries Division
Canadian Steel Wheel Division
Trenton Works Division
Canadian General Transit Company, Limited

Railway passenger cars (subway, commuter, and inter-city); light rail vehicles; highway trailers; highway trailer repairs; railway castings; railway wheels; railway freight cars and tank cars; railway axles; railway tank car and special freight car leasing; bulk liquid storage terminals.

Equipment for the forestry and forest products industries:

Canadian Car (Pacific) Division
Forestry Equipment Division
Chip-N-Saw, Inc.
Corinth Machinery Company
Tree Farmer Equipment Company, Inc.

Sawmill and lumber processing equipment; electric-electronic control equipment; fibre board production equipment; log skidders and other forest harvesting equipment.

Equipment for the mining industry:

Dosco Overseas Engineering Limited
Hollybank Engineering Company Limited
The Dosco Corporation
Canadian Steel Foundries Division

Mining and tunnelling machines; support systems for mine roadways and civil engineering tunnels; castings for the mining industry.

Other general engineering and services:

Canadian Steel Foundries Division
Canadian Steel Wheel Division
Corinth Machinery Company
Orenda Division
Orenda (International) Limited
Trenton Works Division

Industrial castings; industrial wheels; tools and dies; graphics services; gas turbine components; aircraft gas turbine repair and overhaul; components for nuclear power applications; engineering, design and laboratory testing services; steel forgings; storage and pressure tanks; steel fabrications.

Note: Canadian Bridge Division (electric power transmission towers and poles; structure testing; communications structures; substation structures) included in the 'other general engineering and services' category of business for financial reporting in 1979, ceased operations on December 31, 1979.

Hawker Siddeley Canada Ltd.

Head Office:
7 King Street East, Toronto, Ontario M5C 1A3

Directors*
I.E. Bull, Willowdale, Ontario
J.H. Coleman, Toronto, Ontario
A.H. Crockett, Toronto, Ontario
C.A. Haines, Woodbridge, Ontario
Sir Arnold Hall, London, England
J.F. Howard, Q.C., Woodbridge, Ontario
A.J. Laurence, Pewsey, Wiltshire, England
A.W. McKenzie, Montreal, Quebec
L.A. Mitten, Vancouver, British Columbia
K.L. Phillips, Sutton, Surrey, England
R.F. Tanner, Mississauga, Ontario
E.J. White, Oakville, Ontario
F.H. Wood, Daventry, Northamptonshire, England

Executive Management*
Sir Arnold Hall, Chairman
J.F. Howard, Q.C., Vice-Chairman
F.H. Wood, Vice-Chairman
E.J. White, President and Chief Executive Officer
I.E. Bull, Vice-President, Finance
M.J. Colman, Vice-President (Canadian Steel Foundries Division)
L.T. Corey, Vice-President (Trenton Works Division)
R.J. Gray, Vice-President (Forestry Equipment Division)
L. Francoeur, Comptroller
E.T. Jackalin, Vice-President (Canadian Steel Wheel Division)
C.A. Haines, Secretary
A.W. McKenzie (Chairman and President, Canadian General Transit Company, Limited)
J.A. McTavish, Assistant Secretary
K.C. Miller, Vice-President (Managing Director, Dosco Overseas Engineering Limited)
L.A. Mitten, Vice-President (Canadian Car (Pacific) Division)
D.R. Moreira, Vice-President (Canadian Car Division)
F.J. Sandford, Treasurer
R.F. Tanner, Vice-President (Orenda and Can-Car Trailer Divisions)

Auditors
Price Waterhouse & Co., Toronto, Ontario

Registrar and Transfer Agent
National Trust Company, Limited, Toronto, Montreal, Winnipeg and Vancouver

** As at March 14, 1980*

DESIGNED AND PRINTED IN CANADA BY HAWKER SIDDELEY GRAPHICS