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# Hawker Siddeley Canada LTD. Annual Report 1978

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Hawker Siddeley Canada Ltd. and Subsidiary Companies

# Financial Data

| | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---|---|---|---|---|
| **Summary of operations** (thousands of dollars) | | | | | |
| Revenue: | | | | | |
| Sales | $398,321 | 362,689 | 335,081 | 365,234 | 325,015 |
| Income from investments | 1,131 | 1,235 | 695 | 331 | 682 |
| | 399,452 | 363,924 | 335,776 | 365,565 | 325,697 |
| Costs and expenses: | | | | | |
| Cost of sales, selling, general and administrative expenses exclusive of the following | 356,496 | 320,678 | 301,896 | 324,140 | 290,023 |
| Interest | 4,502 | 4,139 | 6,529 | 7,713 | 6,626 |
| Depreciation and amortization | 10,667 | 10,959 | 10,477 | 9,915 | 8,933 |
| | 371,665 | 335,776 | 318,902 | 341,768 | 305,582 |
| Income from operations before taxes | 27,787 | 28,148 | 16,874 | 23,797 | 20,115 |
| Income taxes | 12,242 | 13,200 | 8,070 | 11,311 | 9,889 |
| Interest of minority shareholders | 1,148 | 1,246 | 1,266 | 1,014 | 963 |
| | 14,397 | 13,702 | 7,538 | 11,472 | 9,263 |
| Exchange gain (loss) | 2,721 | 2,624 | (1,187) | (1,125) | (2) |
| Income before extraordinary items | 17,118 | 16,326 | 6,351 | 10,347 | 9,261 |
| Extraordinary items | 3,300 | (2,586) | 653 | 1,516 | 545 |
| Net income for the year | $ 20,418 | 13,740 | 7,004 | 11,863 | 9,806 |
| **Per common share** | | | | | |
| Income before extraordinary items | $ 2.01 | 1.91 | .68 | 1.17 | 1.04 |
| Net income | 2.41 | 1.59 | .76 | 1.36 | 1.11 |
| Dividends declared | .42 | .37 | .36 | .36 | .32 |
| Equity | 14.70 | 12.74 | 11.52 | 11.12 | 10.12 |
| **Other statistics** (thousands of dollars) | | | | | |
| Dividends | | | | | |
| — preferred shares | $ 805 | 805 | 805 | 805 | 805 |
| — common shares | 3,420 | 3,008 | 2,927 | 2,927 | 2,601 |
| Working capital | 74,951 | 55,836 | 48,607 | 45,353 | 37,916 |
| Capital expenditures | | | | | |
| — Railway rolling stock leasing fleet | 13,568 | 3,401 | 791 | 14,898 | 11,582 |
| — Other | 9,395 | 9,289 | 8,132 | 11,259 | 12,276 |
| Shareholders' equity | | | | | |
| — preferred shares | 14,000 | 14,000 | 14,000 | 14,000 | 14,000 |
| — common shares — share capital | 54,383 | 54,320 | 54,320 | 54,320 | 54,320 |
| — retained earnings | 65,455 | 49,262 | 39,335 | 36,063 | 27,932 |
| **Other share data** | | | | | |
| Shares issued and outstanding | | | | | |
| — preferred | 140,000 | 140,000 | 140,000 | 140,000 | 140,000 |
| — common | — | — | — | 8,129,341 | 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 | 1,314 | 1,408 | 1,465 | 1,540 | 1,583 |
| — common | — | — | — | 8,692 | 8,683 |
| — 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% | 59.25% | 59.25% | 59.25% | 59.25% |

Note: The years 1974 and 1975 have 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, 1978.

## 1. Financial

### 1.1 Sales

Consolidated sales were $398 million ($363 million in 1977) including direct exports from Canada of $81 million ($86 million in 1977). 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.

### 1.2 Income

Income from operations before extraordinary items in 1978 was $17.118 million ($16.326 million in 1977) equivalent to $2.01 for each of the outstanding Class A and Class B common shares ($1.91 per share in 1977). Net income was $20.418 million ($13.740 million in 1977) equal to $2.41 per common share of each class ($1.59 per share in 1977).

Net income in 1978 includes extraordinary credits of $3.300 million and in 1977 there was an extraordinary charge of $2.586 million.

### 1.3 Amalgamation of Hawker Siddeley Canada Ltd. and Hawker Industries Limited

At special general meetings of all shareholders of Hawker Siddeley Canada Ltd. and Hawker Industries Limited held on September 22, 1978, approval was given to the amalgamation of the companies. Accordingly, on October 2, 1978, letters patent were obtained amalgamating and continuing the two companies as Hawker Siddeley Canada Ltd. On amalgamation the minority shareholders of Hawker Industries Limited, for each share held by them, received two Class A convertible common shares of the amalgamated company and the issued shares in Hawker Siddeley Canada Ltd. were converted on a one-for-one basis into corresponding Class A, Class B or Preferred shares of the amalgamated company. Shares of Hawker Industries Limited held by Hawker Siddeley Canada Ltd. before amalgamation were cancelled under the terms of the amalgamation agreement approved by the shareholders of the respective companies. Following the amalgamation, the Company recovered $.960 million of tax benefits relating to losses incurred by Hawker Industries Limited in 1977 and the amount has been included in extraordinary items for the year.

### 1.4 Dividends

In 1978, the Company declared and paid the four quarterly preferred share dividends as they became due.

For the Class A and Class B convertible common shares a dividend of 12 cents per share was declared payable January 19, 1979 to shareholders of record December 29, 1978, following declaration and payment of three quarterly dividends of 10 cents per share.

Holders of Class B convertible common shares should take note that the dividend on the Class B shares payable on January 19, 1979, was not, as in the past, declared out of "1971 Capital Surplus on Hand" and, accordingly, will be treated as a taxable dividend in 1979. This change follows amendments to the Income Tax Act, Canada enacted in December 1977, which terminated the rights of holders of Class B shares to defer taxation on dividends paid on these shares after 1978. Accordingly, after 1978, dividends on Class B shares will be treated for Canadian taxation purposes in the same manner as dividends paid on the Class A shares. Holders of Class B shares, under the terms and conditions of those shares, may, if they wish to do so, convert these shares on a share-for-share basis to Class A shares.

## 2. Directors

On May 1, 1978, Mr. E.J. White was appointed President and Chief Executive Officer, succeeding Mr. R.S. Faulkner. Mr. White was previously Vice-President responsible for the Company's Canadian Steel Wheel and Canadian Steel Foundries Divisions in Montreal.

During 1978, Mr. A.A. Bailie retired from the Board and the office of Vice-President, Finance, and was succeeded in that office by Mr. I.E. Bull. Mr. Bull and Mr. C.A. Haines, the Secretary, were elected to the Board at the Annual Meeting of Shareholders held on May 26, 1978.

## 3. Comments

There were sixteen separate negotiations for new labour agreements during 1978. Settlement was reached quickly in the majority but there were strikes at three units, Canadian Bridge, Trenton Works and Canadian Steel Wheel.

The year saw progress in the expansion of our business interests to broaden the product base and to increase market penetration in existing lines. The business and assets of a small, circular saw manufacturer in Burlington, Ontario, were acquired to supplement the existing interest in products supplied to the sawmill industry. On January 2, 1979, the business and assets of a sawmill equipment manufacturer in Corinth, Mississippi, were acquired to improve our participation in the United States forest products market. A licence was obtained to manufacture and sell, on a world-wide basis, a patented device for pulling cable in underground ducts.

Manufacture of highway trailers at Mississauga, Ontario, was phased out and the Province of Nova Scotia acquired the company's interest in the Halifax Shipyards operation on August 30, 1978.

The Company has entered 1979 with a substantial order book which should sustain a good level of production throughout the major part of the year.

Your Directors acknowledge the abilities, skills and dedication of the employees and thank the Company's many customers, suppliers and shareholders for their support.

Submitted on behalf of the Board

*A.A. Hall*
*E.J. White*

Toronto, Ontario, March 16, 1979.

# Comments on Operations

## HAWKER SIDDELEY CANADA LTD.

### Canadian Bridge Division

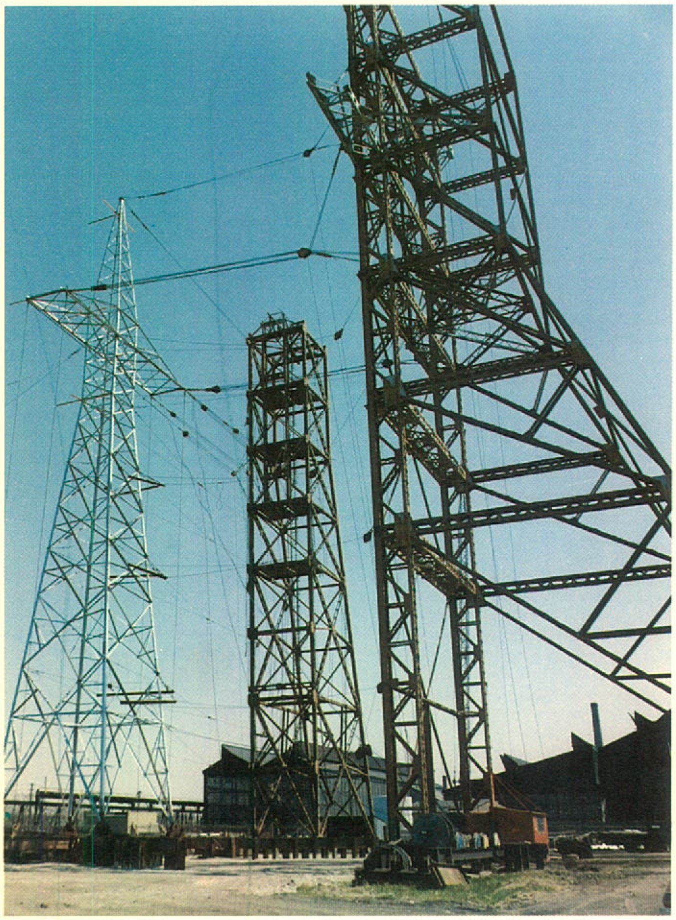
Sales volume was considerably higher than in the previous year due largely to greater activity in log skidder chassis fabrication for the Forestry Equipment Division. The manufacture of power distribution towers also strengthened under improved demand, with export business showing a sharp gain over the level achieved in 1977. On the other hand, the domestic market for light structural products remained highly competitive and, as a result, prices were constrained.

While considerable improvement was achieved by the Division, production problems carried over from the previous year, together with a work stoppage lasting two weeks during negotiations for a new labour contract, resulted in reduced earnings and a disappointing year.

### Canadian Car Division

At the Division's plant in Thunder Bay, Ontario, two major railway contracts were completed during the year and work began on two others.

*A transmission tower, fabricated by Canadian Bridge Division, under test in the plant's structure testing facility.*



The last of 200 passenger coaches for Ferrocarriles Nacionales de Mexico were completed in April and production of 80 double-deck commuter cars for GO Transit services, operated by the Toronto Area Transit Operating Authority, continued through most of the year with delivery of the final unit at year end. These 162-seat, double-deck coaches have largely replaced the single-level coaches previously supplied by the Division for GO Transit's Lakeshore route through Toronto. The coaches are operating well and have received an enthusiastic response from commuters.

During the year, work started on the production of 190 mass transit cars for export to the Massachusetts Bay Transportation Authority, Boston, and on 190 light rail vehicles (CLRVs) for operation by the Toronto Transit Commision. The latter vehicles are being constructed to the design of the Urban Transportation Development Corporation, an Ontario Crown corporation. Progress on both these contracts was slower than had been hoped for, due mainly to delays in establishing final car designs. However, the first cars for the Boston contract were delivered in December and production on both contracts is expected to pick up early in 1979.

Employment at the plant fell during the year reflecting a fall-off from the exceptionally high workload experienced in 1977. Competition in world markets for the limited demand for transit and railway passenger cars

*Double deck commuter cars, designed and built by Canadian Car Division, in service with GO Transit near Toronto.*

has intensified. Although current contracts will sustain a good level of activity in 1979, new orders are required to secure a satisfactory level of plant loading in 1980.

### Canadian Car (Pacific) Division

The order level for sawmill machinery manufactured by the Division remained low in the early part of the year but improved significantly as the year progressed. The result achieved, however, was poor. Recruiting and training skilled operators to meet the surge in manufacturing requirements gave rise to some production problems which were further aggravated by negotiations for a new labour contract. A comprehensive apprenticeship program, initiated in 1977, is now beginning to produce results which should help to alleviate the acute skilled labour shortage.

Work on the $20-million contract to supply 124 edge-banding and finishing machines to the U.S.S.R. is proceeding well, with 46 of the units being completed by year end. These machines operate in pairs and apply plastic or veneer finishes to the edges of plywood panels.

Research and development continues to be a strong element in this Divison's overall activities and, in 1978, included work on the development of equipment to make use of formerly unusable rice husks to produce board panels for construction and other purposes. The first complete installation, capable of producing 500 panels a day, is nearing completion and will be exported to the Philippines early in 1979. Good progress was also made in developing similar production lines for the manufacture of waferboard from waste or surplus wood.

*An edge banding machine built for the U.S.S.R. on the shop floor at the Canadian Car (Pacific) Division plant.*

The first sugar cane separator being developed under a licence agreement with Canadian Patents and Development Limited was completed and ran preliminary tests. Full testing proceeded during the harvest early in 1979. The unit is designed to separate the various constituents of the cane for the production of a range of end products including animal feed, alcohol, high quality waxes, and board panels, as well as sugar.

Further progress continues to be made in the development of drilling equipment based on the sound dynamics principle and six drill heads are now in service, mostly in mineral survey work. Production of complete drilling units will commence in 1979.

To broaden the Division's operating base, a small, circular saw manufacturing business in Burlington, Ontario was purchased during the year. Negotiations were also completed for the acquisition, effective January 2, 1979, of the assets and business of the Corinth Machinery Company, Corinth, Mississippi, a manufacturer of sawmill equipment. Licence rights were acquired for the manufacture and sale of a patented device with the trade name Tel-Eye, designed to pull telephone and power cables through underground ducts. In addition, five new sales outlets for sawmill equipment and supplies were established in the United States and Canada.

### Can-Car Trailer Division

Production of highway trailers at the Mississauga, Ontario, plant was phased-out at mid-year in favour of concentrating on the spare parts and service aspects of the business. The manufacture of flat-bed trailers, however, continues at branches operated by the Division in Montreal and Quebec City, Quebec, while the branch in Rexdale, Ontario, continues to build van bodies to customer requirements. Service and repair work is carried out on all types of highway trailers and considerable business is done in the sale of trailer and automotive spare parts.

Following the phase-out of the Mississauga manufacturing plant the business was restructured and subsequent operations have shown encouraging results. Although the highway trailer sector as a whole is extremely competitive, the Division is looking forward to steady improvement in 1979.

### Canadian Steel Foundries Division

The year started with depressed markets for both railway and industrial castings but by mid-year an upsurge in freight car building programs put a severe strain on railway casting capacity. The railway segment continues exceptionally strong and for the first time in many years the Division has been able to participate in the United States market. The industrial castings sector, however, remained sluggish and plant utilization was uneven throughout the year.

The Division continues to be a major supplier of large industrial castings and among those produced during the year were hydraulic turbine runners for the Quebec Hydro James Bay Power Project and low-pressure steam turbine casings for the Bruce generating station in Ontario.

In order to take advantage of the peak demand for railway casting business, additional capacity was made available by utilizing part of the lightly loaded industrial casting section of the foundry. The rapid expansion of the workforce needed to meet the increase in plant loading caused productivity to fall below normal levels during an intensive training period but by year end plant efficiency had returned to normal.

As part of the continuing program to upgrade plant facilities, further mechanization of railway casting production lines was completed. The long-term program to improve plant environment and working conditions is proceeding on schedule.

Negotiations for a new labour agreement were concluded during the year with only minimal disruption of production.

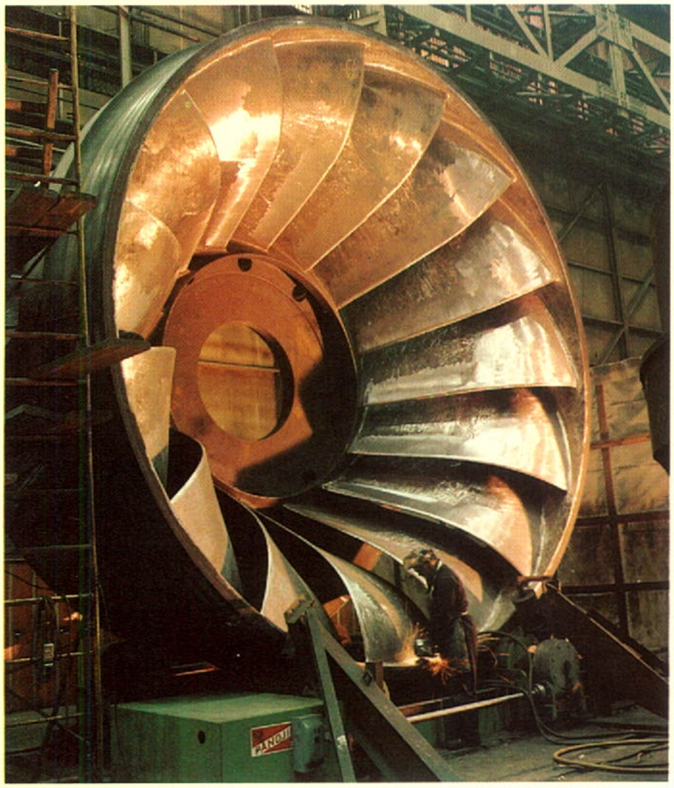
The market for railway castings is expected to remain buoyant throughout 1979 but, on the other hand, the industrial castings market remains clouded. Overall, the outlook is for a reasonably good year.

### Canadian Steel Wheel Division

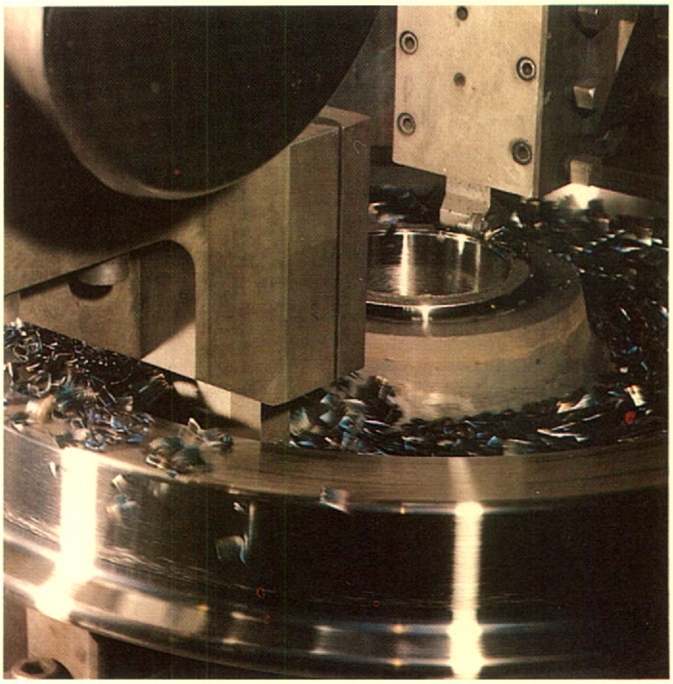
Demand for railway wheels produced by the Division was seriously reduced in the first half of 1978 by low activity at freight car building plants and by a low level of replacement wheel purchases by the railways. However, a sharp upsurge started at mid-year following increased demands for new freight car construction, both in Canada and the United States.

The high level of plant activity in the last half of the year was disrupted in November by a strike, following a breakdown in negotiations for renewal of the collective labour agreement. Production was lost during the last six weeks of 1978 and the strike was not resolved until January 23, 1979. A new 30-month agreement was concluded retroactive to October 1978.

*A turbine runner, rough-machined weight about 220,000 pounds, poured by Canadian Steel Foundries Division for a hydro-electric power project.*



*Automatic machining equipment finishing the front face and hub of a railway wheel at Canadian Steel Wheel Division.*



Upgrading of plant facilities continued during the year with the commissioning of an automated wheel machining transfer line and wheel identification press.

There are indications that freight car construction will remain at a high level, both in Canada and in export markets, throughout 1979. In addition, requirements for replacement wheels for locomotive, passenger and freight rolling stock are expected to continue at a good rate and the outlook is for a high level of plant utilization throughout the year.

### Forestry Equipment Division

The Division's new facility for manufacturing the Tree Farmer line of forestry equipment vehicles, which is in its second year of production at Mississauga, Ontario, operated at capacity throughout most of the year. Considerable growth was experienced in the Canadian and United States markets and improved results were attained in overseas markets. New dealership arrangements produced particularly good penetration into Western European countries.

Development of forwarder and log skidder vehicles progressed and a new model was marketed during the year. Continuation of these programs in 1979 will be followed by production of further new models.

The basic chassis for the Division's line of vehicles has considerable potential where a rugged vehicle is required for off-highway use in rough terrain. Vehicles in this category completed during the year were specially equipped for inspection and maintenance of overhead power lines.

The Division entered 1979 with a good backlog of orders and demand for its products by the forest industries is expected to continue throughout the year. To meet demand, additional production facilities are being provided and are scheduled to come on stream early in the year.

*Off-highway vehicle for overhead power line maintenance produced by the Forestry Equipment Division.*

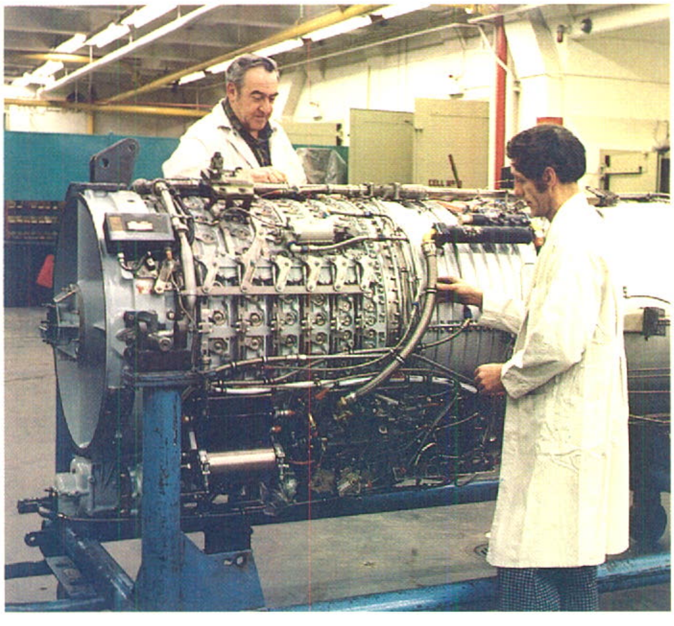

### Orenda Division

A substantial increase in repair and overhaul work on J79 and J85 aircraft jet engines for the Canadian Armed Forces assisted the Division in achieving a good volume of work and satisfactory results for the year.

Industrial gas turbine parts and service work continued at a satisfactory pace and a contract for the manufacture of six OT390 units for use at Ontario Hydro's nuclear powered generating station at Pickering, Ontario, was nearing completion by year end. It is of interest to note that the first production OT2 industrial gas turbine unit delivered by Orenda in 1963 reached 100,000 hours of operation in September 1978. The unit is installed in Ontario at Trans-Canada Pipelines Limited's gas pumping station at Orient Bay on Lake Nipigon.

During the year, new work to manufacture com-

*An aircraft jet engine at Orenda Division being prepared for a test cell run after repair and overhaul.*



ponents for major aircraft engine companies was undertaken on a sub-contract basis as well as other high technology business for Atomic Energy of Canada Limited involving the manufacture of components for nuclear power applications.

New labour agreements for two-year terms were concluded during the year with both plant and office workers, with only minor impact on operations.

The year ahead will see the beginning of a decline in repair and overhaul work and more reliance on component manufacture. Nevertheless, the Division commenced 1979 with a good order book position and should enjoy a satisfactory year of operations.

### Trenton Works Division

After a difficult first half of the year during which the Division suffered a continuing shortage of orders from domestic railways, the market for new railway freight cars improved rapidly. Most of the improvement stemmed from a strong demand for freight and tank cars by domestic rail car leasing companies and the successful conclusion of prolonged contract negotiations for export orders.

During the year, a total of 1,386 railway freight and tank cars was produced compared with 727 in 1977. These included 100 air dump cars for domestic railways and 640 covered hopper cars for leasing companies, of which 240 were for Canadian General Transit Company, Limited, a partly-owned subsidiary of the Company. In the export field, 85 freight cars were built for Tanzania and 439 for Zambia. Tank car production also increased with 65 for export to Tanzania and 57 for domestic customers.

The railway axle manufacturing business experienced severe competition from off-shore suppliers in the early part of the year. However, as the year went on, the continuing fall in the value of the dollar substantially improved the Division's competitive position, enabling it to increase its share of the market and bring the volume of axles produced to well in excess of the 1977 output. With a good order backlog the Division's axle production facilities are expected to be operating at or near full capacity in 1979.

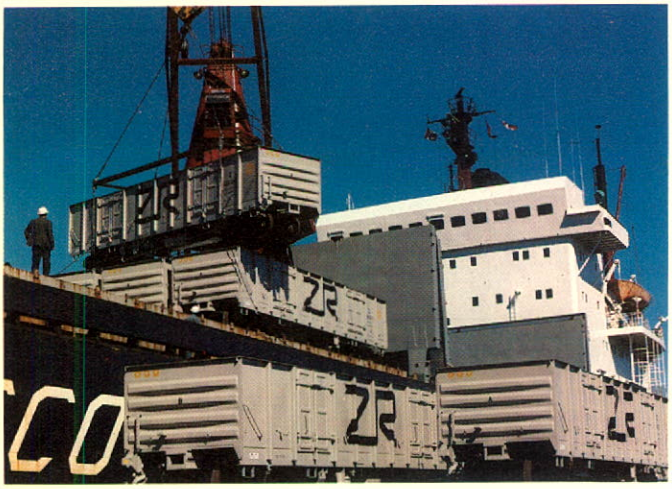
Whilst the volume of heavy forgings improved only modestly during the year there was a significant change in the markets served with a swing to exports to the United States. The Division was also successful in making a breakthrough by obtaining its first contract for forgings under the Canada-United States Defence Sharing Agreement.

Modernization programs continued in all sectors of the plant throughout the year and included installation of new equipment for the production of tank car jackets and for lining tank cars.

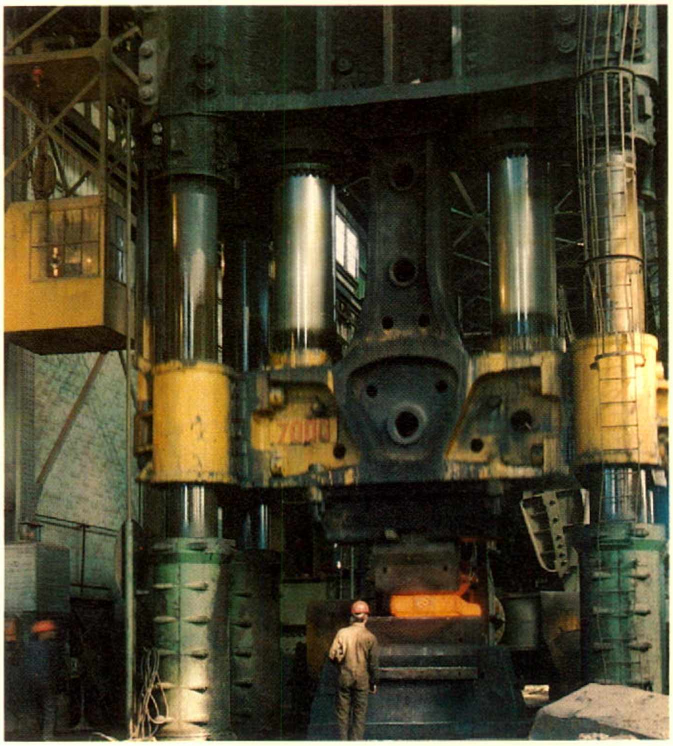
Following a six-week strike, a new three-year labour agreement was concluded in May with the Division's hourly-paid employees.

The Division entered 1979 with a heavy backlog of orders for new railway freight and tank cars for both the domestic and export markets.

*Freight cars built by Trenton Works Division for export to Zambia are loaded aboard ship at the Port of Halifax, N.S.*



*Trenton Works Division's open-die, hydraulic forging press, the largest in Canada, can exert a 7,000-ton pressure.*



### Dosco Overseas Engineering Limited (100% owned)

This U.K.-based subsidiary again produced satisfactory results with the total number of mining and tunnelling machines sold being higher than in the previous year. The National Coal Board, the company's main customer in the U.K. domestic market, took the bulk of production for its mining operations. In addition, three tunnelling machines were delivered for civil engineering applications.

There was an increased demand for spare parts and service for Dosco machines which raised the volume of service and parts business well above that of the preceding year.

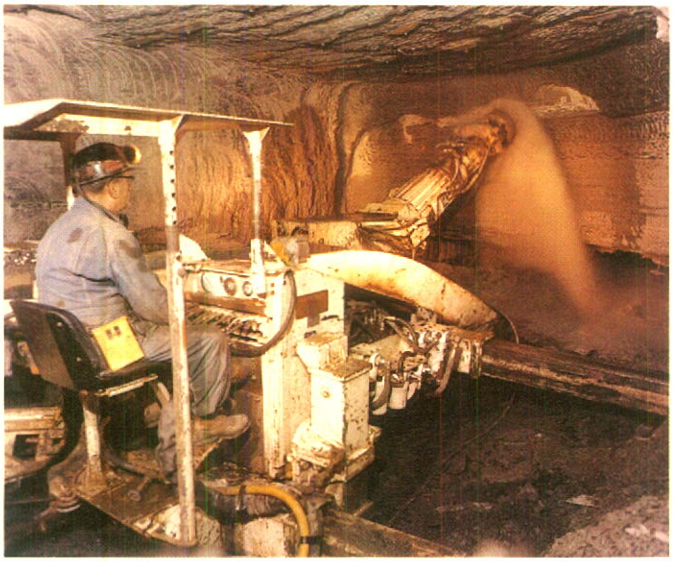
A prototype Roadheader MkIII, a much larger machine than the well-proven MkIIA, together with an MH 105 machine, a roadheader designed for work in very low heights, were delivered to the National Coal Board for operational trials.

The year proved to be difficult in international markets and fewer export machines were sold than in the previous year. However, repeat business was obtained in the United States, Spain, Australia, Mexico, West Germany and Canada and, for the first time, sales were made to Poland, India and Czechoslovakia. In the latter part of the year, an order from the People's Republic of China for 24 Roadheader MkIIA machines for delivery early in 1979, marked a breakthrough into this important market.

Hollybank Engineering Company Limited, a wholly-owned subsidiary of Dosco Overseas Engineering Limited, realized a marked increase in sales of roof support systems for mine roadways and tunnels. Much of the improved volume was due to an increased rate of coal mine development by the National Coal Board.

While export market prospects continue to be adversely affected by prevailing economic conditions, both companies should experience an active year ahead.

*A Roadheader Mark 2A, built by Dosco in the United Kingdom, enlarging a mine roadway through sandstone in Kentucky, U.S.A.*



### Canadian General Transit Company, Limited (55% owned)

Utilization of this company's railway tank car and hopper car fleet was again close to full capacity throughout the year. The demand by leasing customers for new rolling stock, particularly covered hopper cars, was high and substantial numbers of new units were added to the fleet during the year with others due for delivery in 1979.

The railway car fleet operated by the company is leased mainly to customers in the petroleum, chemical, food and potash industries. It is serviced at company-owned maintenance depots in Montreal, Quebec, Moose Jaw, Saskatchewan, and Red Deer, Alberta. Two bulk liquid storage terminals are operated in Montreal and Toronto, and heated and non-heated tanks are available at both locations on short or long-term leases. The Montreal terminal is accessible by road, rail and water and that in Toronto by road and rail.

The company ended the year with substantial lease orders for new railway cars and expects leasing demand to remain buoyant during 1979. Fleet utilization is expected to continue at a high level throughout the year.

Hawker Siddeley Canada Ltd. and Subsidiary Companies

# Consolidated Statement of Income and Retained Earnings

for the year ended December 31, 1978

| | 1978 | 1977 |
|---|---|---|
| | (in thousands) | |
| Revenue: | | |
| Net sales (Note 2) | $398,321 | $362,689 |
| Income from investments | 1,131 | 1,235 |
| | 399,452 | 363,924 |
| Costs and expenses: | | |
| Cost of sales, selling, general and administrative expenses exclusive of the following | 356,496 | 320,678 |
| Interest on short term borrowings | 849 | 361 |
| Interest on and amortization of costs of long term debt | 3,653 | 3,778 |
| Provision for depreciation | 10,667 | 10,659 |
| Amortization of patents | — | 300 |
| | 371,665 | 335,776 |
| Income from operations before income taxes | 27,787 | 28,148 |
| Provision for income taxes — current | 7,322 | 9,440 |
| — deferred | 4,920 | 3,760 |
| | 12,242 | 13,200 |
| | 15,545 | 14,948 |
| Interest of minority shareholders in income of subsidiaries | 1,148 | 1,246 |
| | 14,397 | 13,702 |
| Exchange gain on the translation of the accounts of foreign subsidiaries | 2,721 | 2,624 |
| Income before extraordinary items | 17,118 | 16,326 |
| Special provision not required (charged) (Note 3) | 2,340 | (2,586) |
| Income tax provision not required (Note 4) | 960 | — |
| Net income for the year | 20,418 | 13,740 |
| Retained earnings, beginning of year | 49,262 | 39,335 |
| | 69,680 | 53,075 |
| Dividends — preferred shares | 805 | 805 |
| — common shares | 3,420 | 3,008 |
| | 4,225 | 3,813 |
| Retained earnings, end of year | $ 65,455 | $ 49,262 |
| Income per common share after preferred dividends: | | |
| Before extraordinary items | $2.01 | $1.91 |
| After extraordinary items | $2.41 | $1.59 |

Hawker Siddeley Canada Ltd. and Subsidiary Companies

# Consolidated Balance Sheet

December 31, 1978

| ASSETS | 1978 | 1977 |
|---|---|---|
| | (in thousands) | |
| **Current Assets:** | | |
| Cash and short term deposits | $ 12,541 | $ 20,487 |
| Accounts receivable | 67,671 | 60,659 |
| Inventories, less progress payments | 96,772 | 69,284 |
| Prepaid expenses | 2,559 | 1,986 |
| | 179,543 | 152,416 |
| **Investments,** at cost (Note 6) | 3,180 | 3,223 |
| **Fixed Assets,** at cost (Note 7) | 271,122 | 267,063 |
| Less: Accumulated depreciation | 129,708 | 134,010 |
| | 141,414 | 133,053 |
| **Issue Costs of Long Term Debt,** at cost less amortization | 417 | 312 |
| | $324,554 | $289,004 |

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

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1978 | 1977 |
|---|---|---|
| | (in thousands) | |
| **Current Liabilities:** | | |
| Bank advances | $ 503 | $ 2,365 |
| Accounts payable and accrued liabilities | 71,506 | 56,245 |
| Dividends payable | 1,179 | 1,014 |
| Income and other taxes payable | 9,218 | 15,171 |
| Advances on sales contracts | 15,709 | 13,005 |
| Owing to affiliated companies (Note 8) | 2,599 | 3,970 |
| Long term debt due within one year (Note 9) | 3,878 | 4,810 |
| | 104,592 | 96,580 |
| **Long Term Debt** (Note 9) | 41,479 | 35,357 |
| **Provision for Unfunded Pensions** (Note 10) | 3,606 | 4,010 |
| **Deferred Income Taxes** | 28,076 | 22,698 |
| **Minority Interest** | 12,963 | 12,777 |
| **Shareholders' Equity:** | | |
| Preferred and common shares (Note 12) | 68,383 | 68,320 |
| Retained earnings | 65,455 | 49,262 |
| | 133,838 | 117,582 |
| | $324,554 | $289,004 |

# Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1978

| | 1978 | 1977 |
|---|---|---|
| | (in thousands) | |
| **Source of working capital:** | | |
| Income before extraordinary items | $17,118 | $16,326 |
| Charges to income not affecting working capital — (mainly depreciation, amortization of patents, deferred income taxes and interest of minority shareholders in income of subsidiaries) | 16,242 | 14,629 |
| Working capital provided from operations | 33,360 | 30,955 |
| Issue of long term debt | 9,868 | — |
| Proceeds on disposal of fixed assets | 5,992 | 1,262 |
| Special provision not required (charged) (Note 3) | 1,262 | (2,370) |
| Income taxes recovered in extraordinary item | 960 | — |
| Common shares issued (Note 12) | 44 | — |
| Miscellaneous | 45 | 35 |
| | 51,531 | 29,882 |
| **Application of working capital:** | | |
| Additions to fixed assets — | | |
| Railway rolling stock leasing fleet | 13,568 | 3,401 |
| Other | 9,395 | 9,289 |
| Reduction of — | | |
| Long term debt | 3,878 | 4,810 |
| Provision for unfunded pensions (Note 10) | 404 | 455 |
| Dividends declared payable to — | | |
| Shareholders of Hawker Siddeley Canada Ltd. | 4,225 | 3,813 |
| Minority shareholders of subsidiaries | 946 | 885 |
| | 32,416 | 22,653 |
| **Working capital:** | | |
| Increase for the year | 19,115 | 7,229 |
| At beginning of year | 55,836 | 48,607 |
| At end of year | $74,951 | $55,836 |

## Changes in Elements of Working Capital

| | 1978 | 1977 |
|---|---|---|
| **Current assets — Increase (decrease):** | | |
| Cash and short term deposits | $(7,946) | $ 2,194 |
| Accounts receivable | 7,012 | 9,054 |
| Income taxes recoverable | — | (2,043) |
| Inventories | 27,488 | 9,443 |
| Prepaid expenses | 573 | 466 |
| | 27,127 | 19,114 |
| **Current liabilities — Increase (decrease):** | | |
| Bank advances | (1,862) | (12,097) |
| Accounts payable and accrued liabilities | 15,261 | 9,842 |
| Dividends payable | 165 | 81 |
| Income and other taxes payable | (5,953) | 6,407 |
| Advances on sales contracts | 2,704 | 6,047 |
| Owing to affiliated companies | (1,371) | 240 |
| Long term debt due within one year | (932) | 1,365 |
| | 8,012 | 11,885 |
| Increase in working capital for the year | $19,115 | $ 7,229 |

# Notes to Consolidated Financial Statements

for the year ended December 31, 1978

## 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 liabilties 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.

*Research and development costs —*
These costs are expensed as incurred.

*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 employees 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:**

| | 1978 | 1977 |
|---|---|---|
| | (in thousands) | |
| Equipment for the transportation industry | $190,458 | $196,090 |
| Equipment for the forestry and forest products industries | 61,965 | 39,708 |
| Equipment for the mining industry | 84,921 | 54,608 |
| Other general engineering and services | 60,977 | 72,283 |
| | $398,321 | $362,689 |

3. **Special provision not required** (charged):
During 1978 factory highway trailer manufacturing was phased out and certain fixed assets and inventories of the Halifax Shipyards Division were sold to the Province of Nova Scotia. As a result of these actions $2,340,000, after income taxes and minority interests, of the special provision charged in 1977 as an extraordinary item for the reorganization of these divisions was not required and has been credited as an extraordinary item in 1978.

4. **Income tax provision not required:**
In 1977 the former Hawker Industries Limited had costs and expenses which were charged in the accounts but could not be applied in reduction of income for tax purposes. Following amalgamation the Company applied these costs and expenses in reduction of income for tax purposes and the related tax benefit of $960,000 has been recorded as an extraordinary item of income.

5. **Research and development costs:**
Research and development costs charged to income in 1978, after deduction of government assistance, amounted to $2,012,000 (1977 — $1,609,000).

6. **Investments:**
These are sinking fund debentures issued by Sidbec-Dosco Ltd. carried at cost. At December 31, 1978 the market value of these debentures is estimated to be $2,500,000. The Company is holding these debentures as long term investments.

7. **Fixed assets:**

| | 1978 (in thousands) | | 1977 (in thousands) | |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Cost | Accumulated Depreciation |
| Land and land improvements | $ 7,425 | $ 1,286 | $ 8,150 | $ 1,641 |
| Buildings | 45,771 | 25,811 | 52,287 | 30,214 |
| Equipment | 75,622 | 47,438 | 77,061 | 51,425 |
| Railway rolling stock leasing fleet | 142,304 | 55,173 | 129,565 | 50,730 |
| | $271,122 | $129,708 | $267,063 | $134,010 |

**8. Owing to affiliated companies:**

The liability to affiliated companies at December 31, 1978 includes advances from the parent company of $2,468,000 (1977 — $3,887,000).

**9. Long term debt:**

| | 1978 | 1977 |
|---|---|---|
| | (in thousands) | |
| Canadian General Transit Company, Limited (55% owned) — | | |
| Equipment Trust Certificates | | |
| 6¾% due in 1980 | $ 112 | $ 284 |
| First Mortgage Sinking Fund Equipment Notes | | |
| 5% — 9% due 1979 — 1989 (U.S. $9,125,000) | 9,750 | 10,821 |
| 6¾% — 11⅛% due 1979 — 1998 | 34,805 | 26,607 |
| First Mortgage Serial Equipment Notes | | |
| 6% due 1979 — 1984 | 690 | 805 |
| 10¼% due in 1978 | — | 1,650 |
| | 45,357 | 40,167 |
| Less — Due within one year included in current liabilities | 3,878 | 4,810 |
| | $41,479 | $35,357 |

Principal payments on long term debt will be as follows:

| Year ending December 31 | Amount (in thousands) |
|---|---|
| 1979 | $ 3,878 |
| 1980 | 3,821 |
| 1981 | 3,821 |
| 1982 | 3,821 |
| 1983 | 3,821 |
| 1984—1998 | 26,195 |
| | $45,357 |

Railway rolling stock with a net book value of $61,006,000 is pledged by Canadian General Transit Company, Limited as security for its long term debt.

Long term debt payable in foreign currencies translated at historical rates of exchange amounts to $8,677,000 after deducting the portion covered by forward foreign exchange contracts. At the year-end rate of exchange this debt would be $9,609,000.

**10. Pensions** (See Note 1):

The provision for unfunded pensions of $3,606,000 at December 31, 1978 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, after income taxes, of $404,000 were charged to the provision for unfunded pensions in 1978.

With respect to funded pension plans, the present value of past service obligations to be met, based on actuarial computations, is approximately $15,400,000 at December 31, 1978. These obligations are to be settled by annual payments charged to operations through 1993. During 1978 an amount of $1,713,000 was charged to operations with respect to these obligations.

### 11. Amalgamation:

At Special Meetings of Shareholders of Hawker Siddeley Canada Ltd. and Hawker Industries Limited (a 99.87% owned subsidiary) held on September 22, 1978, approval was given for the amalgamation of the two companies. Accordingly on October 2, 1978 Letters Patent were obtained amalgamating and continuing the two companies as Hawker Siddeley Canada Ltd.

### 12. 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 without nominal or par value — | | |
| Authorized — Class A convertible | 10,000,000 | |
| — Class B convertible | 10,000,000 | |
| Issued and outstanding — | | |
| — Class A convertible | 7,728,405 | 51,568 |
| — Class B convertible | 421,896 | 2,815 |
| | 8,150,301 | 54,383 |
| | | $68,383 |

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

The Class A shares and Class B shares are convertible into one another on a share-for-share basis and rank equally with respect to dividends and in all other respects. Amendments to the Income Tax Act, Canada in December 1977 terminated the right of holders of Class B shares to defer taxation on dividends paid on these shares after 1978.

During the year, options were exercised by a former officer for 13,000 Class A common shares for a consideration of $43,550. At December 31, 1978 there are no options outstanding.

On amalgamation with Hawker Industries Limited, 7,960 Class A convertible common shares were issued to the former minority shareholders of that company and the interest of minority shareholders of Hawker Industries Limited in the $19,900 of share capital of that company has been included in the paid-up value of the common shares.

### 13. Contingent liabilities:

The Company and subsidiaries are contingently liable (principally for trade notes discounted) in the approximate amount of $2,600,000 (1977 — $3,000,000). Possible losses on claims and suits related to product sales have been provided for in an amount considered to be adequate.

### 14. Commitments:

At December 31, 1978, expenditures of approximately $27,100,000 (including $23,500,000 for the railway rolling stock leasing fleet) are required to complete capital programs. Also, an amount of $42,500,000 including $29,325,000 for the railway rolling stock leasing fleet had been authorized by the Directors but not committed.

### 15. Government assistance:

During the year the Company received $2,379,000 under various govenment assistance programs. Of this sum, $1,723,000 was received under the Shipbuilding Temporary Assistance Program for credit to the purchasers of vessels for the export market, $21,000 was applied in reduction of the cost of fixed assets and the balance of

$635,000 was applied in reduction of costs, primarily 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.

### 16. Remuneration of directors and officers:

For the year 1978 six directors received remuneration of $36,996 (1977 — $33,542) and seven directors and two past directors received no remuneration as directors. Thirteen officers, of whom six are also directors, and three past officers received remuneration of $677,528 (1977 — $674,496).

### 17. Subsequent event:

Subsequent to December 31, 1978, a subsidiary purchased the assets and business of Corinth Machinery Company, Corinth, Mississippi for a cash consideration of approximately $4,100,000 U.S.

# 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, 1978 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, 1978 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 15, 1979

# Miscellaneous Data on Sales, Employees and Shares

| | 1978 | 1977 |
|---|---|---|
| **Sales ($000):** | | |
| By Canadian factories — | | |
| to Canadian markets | $222,947 | $217,088 |
| to Export markets | 81,109 | 86,497 |
| | 304,056 | 303,585 |
| By foreign subsidiaries (excluding sales of products of Canadian factories) | 94,265 | 59,104 |
| | $398,321 | $362,689 |
| **The average weekly number of employees was:** | | |
| in Canada | 6,107 | 6,298 |
| in the United Kingdom | 784 | 709 |
| in the United States of America and other countries | 108 | 90 |
| | 6,999 | 7,097 |
| **Aggregate remuneration of employees was ($000)** | $127,282 | $121,268 |

Common share dividends for 1978 have been declared as follows:

| Record Date | Payable | |
|---|---|---|
| December 29, 1978 | January 19, 1979 | $ .12 |
| September 26, 1978 | October 16, 1978 | .10 |
| June 23, 1978 | July 14, 1978 | .10 |
| March 24, 1978 | April 14, 1978 | .10 |
| | | $ .42 |

Preferred share dividends:

Quarterly dividends of $1.4375 were paid on the 2nd day of January, April, July and October, 1978.

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

Divisions:
Canadian Bridge Division, Windsor, Ont.
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, Ont.
Orenda Division, Mississauga, Ont.
Trenton Works Division, Trenton, N.S.

Subsidiaries:
Can-Car, Inc., Atlanta and Waycross, Ga.,
McComb, Miss., U.S.A. (100%)*
Chip-N-Saw, Inc., Memphis, Tenn., Atlanta, Ga.,
Portland, Ore., Fayetteville, N.C.,
Shreveport, La., Meridian, Miss., U.S.A.
Corinth Machinery Company, Corinth and
Tupelo, Miss., Jackson, Tenn., U.S.A.**
The Dosco Corporation, Pittsburgh, Penn.,
Denver, Col., U.S.A.
Dosco Overseas Engineering Limited,
Tuxford, England (100%)*
Hollybank Engineering Company Limited,
Tuxford, England
Orenda Engines Inc., Buffalo, N.Y., U.S.A. (100%)*
Orenda (International) Limited,
Mississauga, Ont. (100%)*
Canadian General Transit Company, Limited,
Montreal, Que., Toronto, Ont., Moose Jaw, Sask.,
Red Deer, Alta. (55%)*

**percentage control by Hawker Siddeley Canada Ltd.*
***operations commenced in 1979*

## Products and Services

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; railway castings; trackwork; 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*
*Can-Car, Inc.*
*Chip-N-Saw, Inc.*
*Corinth Machinery Company*
Log skidders and other forest harvesting equipment; sawmill and lumber processing equipment; electric-electronic control 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 mining roadways and civil engineering tunnels; castings for the mining industry.

Other general engineering and services:
*Canadian Bridge Division*
*Canadian Steel Foundries Division*
*Canadian Steel Wheel Division*
*Orenda Division*
*Orenda Engines Inc.*
*Orenda (International) Limited*
*Trenton Works Division*
Electric power transmission towers, poles, and structure testing; communications structures; sub-station structures; industrial castings; industrial wheels; graphics services; industrial gas turbines; gas turbine components; aircraft gas turbine repair and overhaul; components for nuclear power applications; engineering, design and laboratory testing services; forgings; storage and pressure tanks; steel fabrications.

# 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
J.N. Paterson, Thunder Bay, Ontario
K.L. Phillips, Sutton, Surrey, England
E.J. White, Oakville, Ontario
F.H. Wood, Barrow-upon-Soar, Leicestershire, England

**Executive Management**
Sir Arnold Hall, Chairman
J.N. Paterson, 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)
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)
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

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