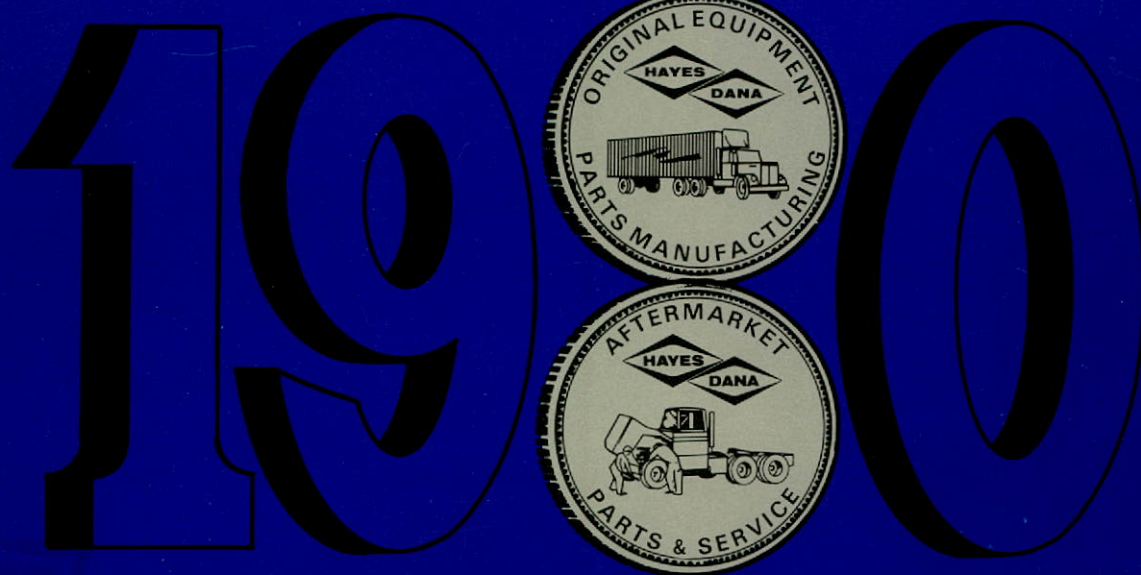




ANNUAL REPORT

FOR THE YEAR ENDED AUGUST 31,

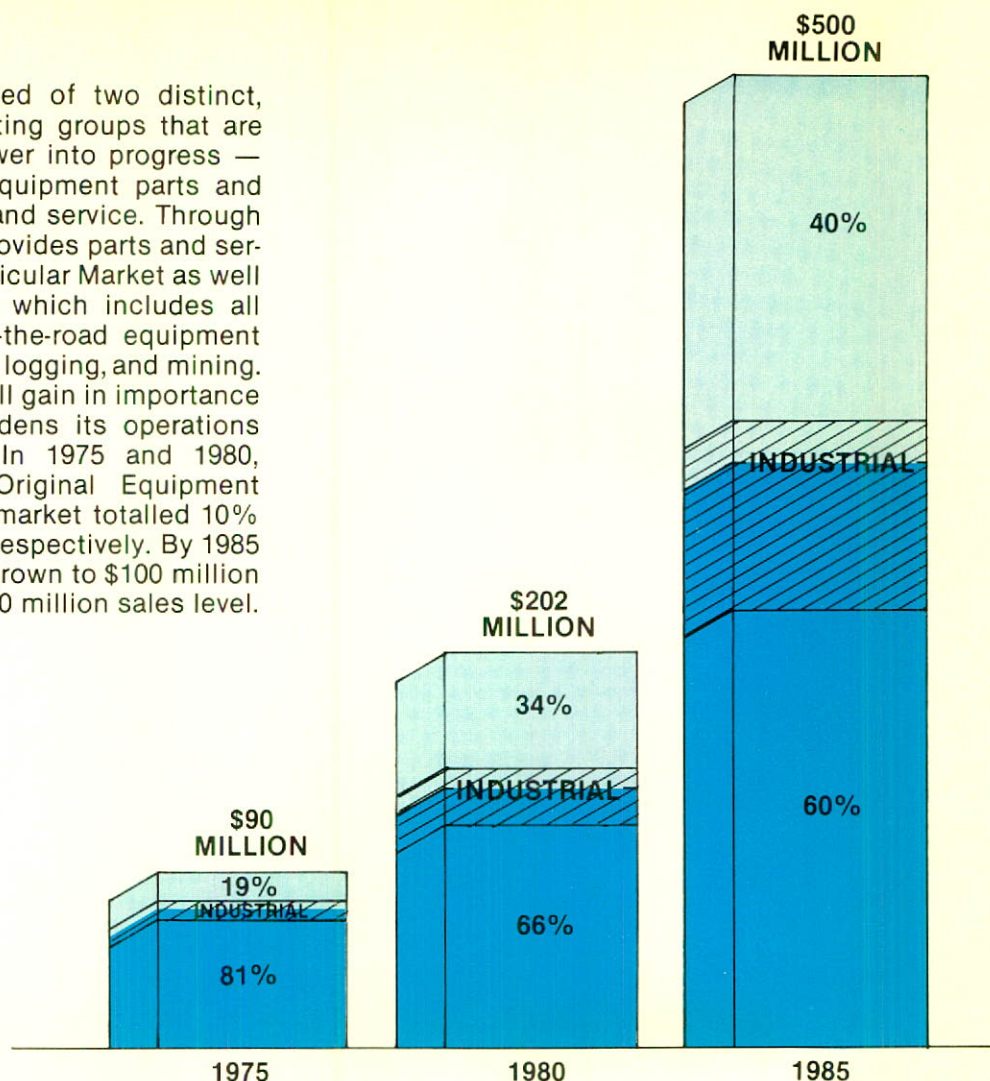


THE TWO SIDES OF OUR COMPANY

OUR COMPANY

Hayes-Dana is comprised of two distinct, although interrelated, operating groups that are both involved in turning power into progress — manufacturing of original equipment parts and selling of aftermarket parts and service. Through these groups, Hayes-Dana provides parts and service to the over-the-road Vehicular Market as well as to the Industrial Market which includes all kinds of machinery and off-the-road equipment such as that used in farming, logging, and mining.

This Industrial Market will gain in importance as Hayes-Dana further broadens its operations over the next five years. In 1975 and 1980, Industrial sales to both Original Equipment Manufacturers and the Aftermarket totalled 10% and 14% of Company sales, respectively. By 1985 the Industrial area will have grown to \$100 million or 20% of the forecasted \$500 million sales level.



ORIGINAL EQUIPMENT PARTS MANUFACTURING

Universal joints
Drive shaft assemblies
Light truck and van frames
Heavy truck axle housings
Axle components
Hydraulic hose assemblies and fittings
Truck trailer axles
Agricultural drive shafts and gear boxes
Gaskets

AFTERMARKET PARTS AND SERVICE

Distribution of engine parts, drivelines and power take-offs for cars, trucks and agricultural and industrial applications
Driveline machine shop services
Auxiliary truck equipment installations
Truck body and chassis modifications
New vehicle pre-delivery services
Distribution of hydraulic fittings and hose assemblies
Remanufactured clutches, water pumps and electrical components

FINANCIAL RESULTS IN BRIEF

	1980	1979	1978
WE RECEIVED FROM OUR CUSTOMERS	\$202,197,000	\$212,206,000	\$150,081,000
AND OUR NET INCOME AFTER TAX WAS	\$ 4,716,000	\$ 8,725,000	\$ 6,936,000
WE MADE ON EACH DOLLAR OF SALES	2.3¢	4.1¢	4.6¢
WHICH MEANT A NET INCOME PER SHARE OF	\$.78	\$1.44	\$1.15
FROM THIS WE PAID DIVIDENDS PER SHARE OF	\$.48	\$.44	\$.32
OUR NUMBER OF SHAREHOLDERS WAS	3,300	2,900	2,820
AND WE HAD EMPLOYMENT OF	2,600	2,800	2,150



HAYES-DANA INC.

ST. CATHARINES, ONTARIO

L2R 7K9

September 24, 1980

TO OUR SHAREHOLDERS:

For the second time in the history of the Company, sales exceeded the 200 million dollar level.

In a year when we saw North American vehicular sales fall to their lowest levels since the 1950's, Hayes-Dana sales amounted to \$202,197,000, less than 5% off last year's record level of \$212,206,000. This accomplishment provides evidence that Hayes-Dana, with its broad base of customers and products, is not solely dependent upon any one market segment.

Maintaining this sales level was due in large part to the counter-cyclical nature of the two main markets developed by the Company. The theme for this year's annual report, "The Two Sides of Hayes-Dana", discusses our Original Equipment Parts Manufacturing and Aftermarket Parts and Service operations and how they complement each other.

This year's decline in the sales of new trucks, caused primarily by the high cost of fuel and financing, created a surge in the demand for replacement parts, particularly in Western Canada. As a result, our Aftermarket group reported sales 35% ahead of last year, thereby offsetting much of the decline in the Original Equipment sales.

To further broaden the Company's operation, we acquired Lo-Rez Vibration Control Ltd., an industry leader in the control of torsional vibration in marine, railway locomotive and machinery applications. This is the first step in a programme that will see the sale of industrial products increase through internal growth and acquisition to 20% of our business by 1985 - some 100 million dollars of sales per year.

The Company's profitability was adversely affected by the depressed level of sales in the truck and agricultural markets. We feel the truck sales have now bottomed and expect some improvement next year. Profits were also affected by higher interest and depreciation expenses this year. Net income for the year amounted to \$4,716,000 or 78¢ per share compared with \$8,725,000 or \$1.44 earned last year.

The downturn in the light truck market also resulted in the decision not to commence manufacturing driving axles in Canada. This alteration in plans was made before the major part of the investment for the project was made.

As was previously announced, our Chassis Products Division has received additional truck frame business. Production has now commenced with the plant scheduled to reach near capacity by next summer. This new business, combined with continued growth in the Aftermarket, should lead to increased sales and profits next year, although the greatest increases will not be realized until the second half of the year.

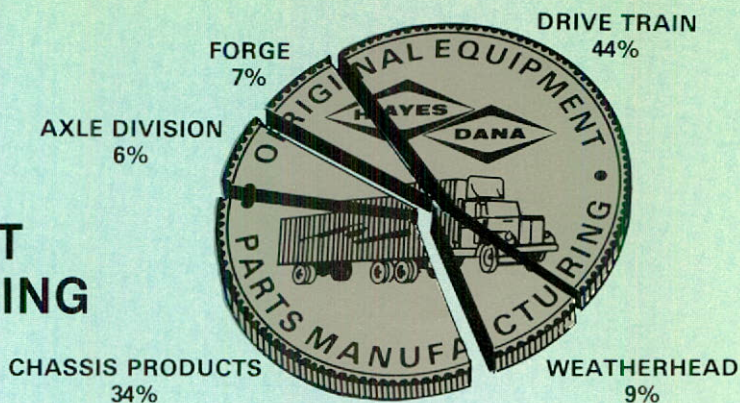
G.B. MITCHELL, Chairman

S.J. MORCOTT, President





ORIGINAL EQUIPMENT PARTS MANUFACTURING



JACK REED
Vice President -
Manufacturing Divisions

"New products and processes are the keys to success for the Manufacturing group in the 1980's."

Using these forgings along with other inputs, the **DRIVE TRAIN DIVISION** in Thorold makes a variety of drive shafts and universal joints for sale to the Original Equipment Manufacturer's (O.E.M.'s) and the Aftermarket. Applications for these items range from the lightest to the heaviest trucks in the Vehicular Market and a broad range of machinery in the Industrial Area. In addition, this plant produces spindles for other Hayes-Dana

Forging a heavy duty sleeve yoke is Raneia Favotto, a Hammersmith with 11 years' experience.

The challenges that faced the North American vehicular manufacturers in the late seventies will intensify in the years ahead. Increased competition from abroad and the need for improved fuel efficiency will encourage all manufacturers to look for new products, materials and processes. Hayes-Dana is proud of our achievements in the past with respect to these kinds of development; each division in the Manufacturing group is committed to continuing this work into the eighties.

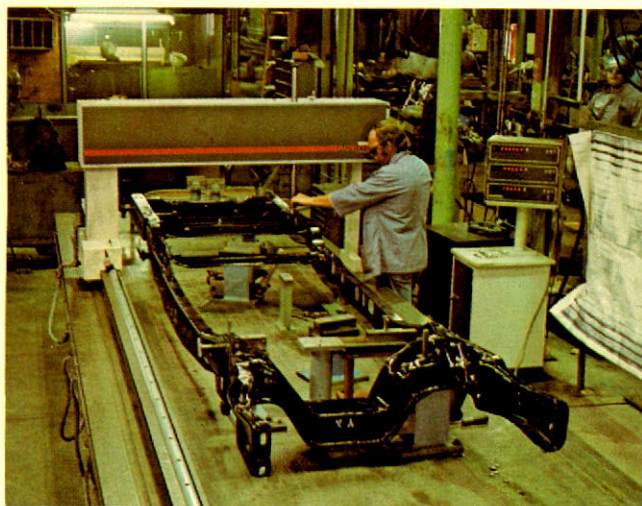
The **FORGE DIVISION** in St. Catharines has been the major supplier of quality forgings to our manufacturing operations ever since the Company was founded in 1922. In addition, up to half of the plant's output is sent to various facilities of the Dana Corporation in the United States. During the next five years we will continue a productivity improvement programme of converting our current furnaces to induction heat. This new process, when applied to our larger hammers, will result in a 35% increase in capacity without any change in the physical size of the plant. This conversion will save energy, reduce start-up time and significantly improve the working conditions in the plant when compared with the present box-type furnaces.





Jack Honsberger, Machine Operator with 15 years' service, machines a light duty truck journal cross at the Drive Train Division.

divisions and automotive axle shafts for a European car manufacturer. Recently the Company completed the transfer of its agricultural products to a plant in St. Thomas, Ontario. The sale of AGMASTER drive shafts and gear boxes to a number of agricultural implement manufacturers represents a key portion of the Company's industrial sales. A second plant in St. Thomas, also part of the Drive Train Division, specializes in the manufacturing of gaskets, shims and washers for sale to both O.E.M.'s and the Aftermarket. In fact one of this plant's new products will be engine gaskets for Ford's new "world car" that is to be built in the St. Thomas area. Continually studying our processes in this area has led to major productivity improvements in the manufacture of gaskets. We expect to repeat these significant cost reductions in the years ahead.

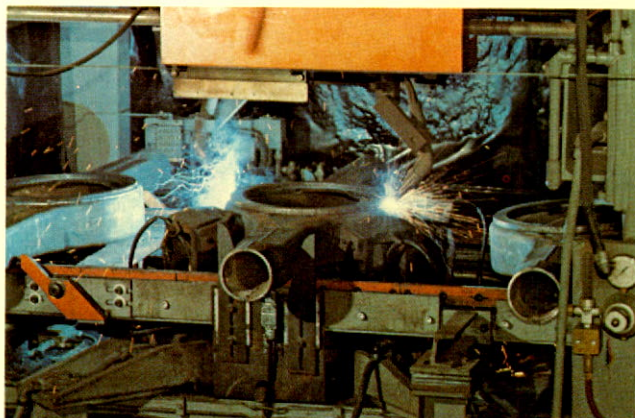


A light truck chassis frame is dimensionally checked by Ray Doucette, Inspector, 13 years' service.

Part of the production from the Drive Train's Thorold Plant goes to its nearby Hayes-Dana neighbour - the **CHASSIS PRODUCTS DIVISION**. This 385,000 square foot facility is the major supplier of light truck frames for the Ford Motor Company. In fact Hayes-Dana people assisted in the development of this frame that was introduced in 1980 Ford trucks. Being much lighter than any of its predecessors, the new frame contributed greatly to the increased fuel economy that the new trucks provide. The Chassis Products Division also makes truck frame crossmembers for General Motors and van frame extensions for the Chrysler Corporation.

Although the newest member of the Manufacturing group, the **AXLE DIVISION** in Barrie, Ontario, has already established a reputation for providing high quality heavy truck axle housings to many North American truck manufacturers. Hayes-Dana has spent considerable effort over the past three years in developing this new product line and its acceptance has been strong. Georgetown, Ontario, is the home for this division's second facility where truck trailer axles are manufactured for a wide number of O.E.M.'s and Aftermarket customers - another example of one operation serving a variety of markets. The rapid market acceptance of this product, which Hayes-Dana only began to manufacture in 1976, has been extremely gratifying.

Our latest addition - the **WEATHERHEAD DIVISION** - actually contains both sides of Hayes-Dana - Manufacturing and Aftermarket sales. The manufacturing operation is located in St. Thomas where a wide variety of fittings and hose assemblies are made for both automotive and industrial O.E.M.'s and a broad range of Aftermarket customers. Applications of Weatherhead's products range from brake hoses for light trucks to hose assemblies for large off-the-road vehicles. This diversity of application enables Weatherhead to offset temporary declines in certain areas of its business by increasing its penetration into other markets.

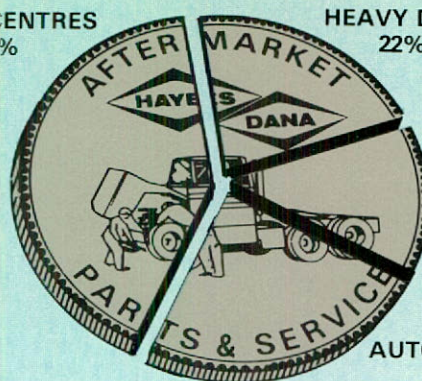


The outside ring of a heavy truck axle housing is welded on the automated Arc-air line in the Axle Division.



AFTERMARKET PARTS & SERVICE

TRUCK CENTRES
41%



HEAVY DUTY
22%

WEATHERHEAD
12%

AUTOMOTIVE
25%



BILL BRAUN
Vice President -
Marketing and
Service Operations

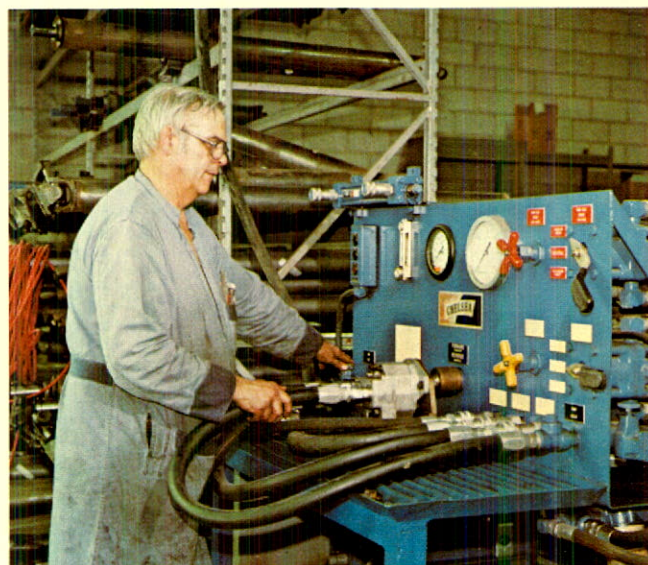
"To better service our customers, we must continue to broaden our product lines and increase our representation across the country."

Hayes-Dana's expansion into the Aftermarket has been both in terms of sales dollars and geography. While the Manufacturing operations of the Company tend to be concentrated in south-western Ontario, the Aftermarket group's activities cover the breadth of Canada through a network of company-owned warehouses, service centres, repair shops and independent warehouse distributors and jobbers. And the Company continues to look for new opportunities to expand into.

The Company's expansion into the Aftermarket has had two main objectives - first, establish the Company in a business that is counter-cyclical to the pattern of Original Equipment sales and, second, provide a ready marketing channel for our own manufactured products, thereby increasing our sales and our ability to provide more secure employment for our people.

The **HEAVY DUTY PRODUCTS DIVISION** provides a good example of the strong interrelationship between the Aftermarket and Manufacturing groups. Besides supplying Heavy Duty with universal joints, the Drive Train Division assists with engineering and technical expertise that the specific applications often require. The Heavy Duty Division currently operates out of seven

warehouses located in every province from Ontario westward and sells and services a wide variety of drive train components, most of which are manufactured by Hayes-Dana or the Dana Corporation.

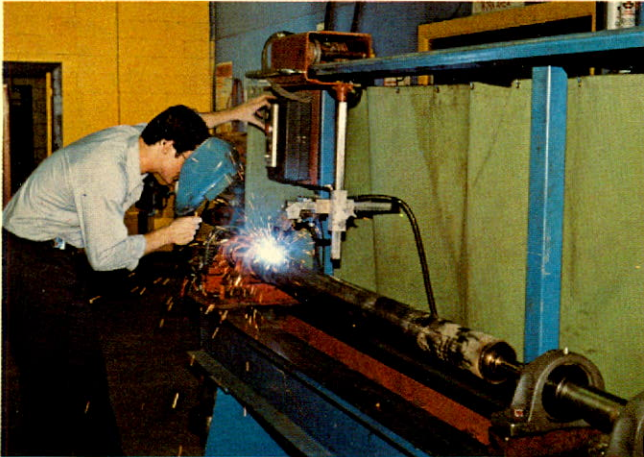


Al Cameron, Warehouseman, 33 years' service, runs a hydraulic pressure test on a CHELSEA pump at the Heavy Duty Products' Toronto location.

The Division serves customers in both the Vehicular and Industrial Markets. While its more traditional sales are to warehouse distributors, driveline specialists and truck owners, industrial sales have been gaining steadily in importance over the past few years. In this area, sales include our AGMASTER drive shafts and gear boxes as well as SPICER universal joint spindle couplings which are now being used in a wide variety of plant machinery. Of course, vehicular applications for such products as power take-offs, transfer cases, transmissions and clutches continue to dominate the Division's activities. In addition to selling parts, each Heavy Duty location also houses a driveline shop where repair work is done on damaged drive shafts.

Expansion plans for the next two years include adding an eighth warehouse and broadening the product line to include hydraulic cylinders and heavy duty axles.

As was discussed earlier, the **WEATHERHEAD DIVISION** has an Aftermarket sales operation in addition to its manufacturing facility. The key to properly serving the Aftermarket is being able to respond quickly to



Dave Murray operating an automatic welding machine which is welding a heavy duty truck shaft at Woodyatt Powertrain Services Ltd. in Brampton, Woodyatt is one of 75 independent Hayes-Dana Driveline Specialists across Canada.

customers' needs. To facilitate this, Weatherhead operates district warehouses in five cities across the country - Montreal, Toronto, Winnipeg, Edmonton and Vancouver - in addition to its modern central warehouse located in St. Thomas. In keeping with this desire to provide a quick response time, the introduction of portable COLL-

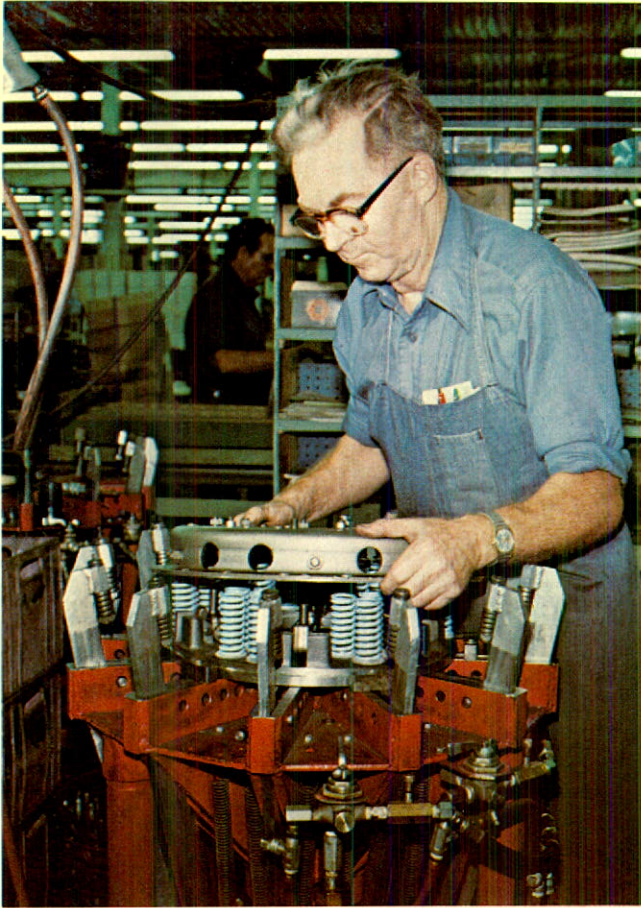


Weatherhead's Central Parts Distribution Centre at St. Thomas. This facility supplies the Company's five regional warehouses, located strategically across Canada.

O-CRIMP machines took place this past year. These machines enable a field service person to assemble a fitting right on site, where and when the part is needed. Of course, the Weatherhead Aftermarket operation handles the complete **WEATHERHEAD** product line, most of which is manufactured in the St. Thomas plant.

Divisions of Hayes-Dana also co-operate with each other to develop new markets. During the past year, the Winnipeg warehouses of Weatherhead and Heavy Duty Products were combined. Being associated with Heavy Duty will assist Weatherhead in their penetration of the very significant agricultural hose market that exists in the Western Provinces.





Erving Brown, Special Assembler, 29 years' service, uses many new parts in remanufacturing a 15" bus clutch at the NASCO plant.

Another area of the Company that combines manufacturing with sales to the Aftermarket is the **AUTOMOTIVE PRODUCTS DIVISION**. Centred in Beamsville, Ontario, the division by tradition has sold to warehouse distributors located across the country. Of late however, the Division's marketing channels have broadened to include automotive buying groups, mass merchandisers and the large oil companies.

Over half of the sales of the Automotive Products Division consist of remanufactured products from its plant in Stoney Creek, Ontario. In this efficient 130,000 square foot facility, the Division remanufactures starters, alternators, generators, clutches, water pumps and distributors for cars and trucks under the trade names of NASCO and RENU. Expansion plans for fiscal year 1981 include the addition of power steering pumps and windshield wiper motors to the Division's product line.

Automotive Products also fulfills the role of being a marketing channel for parts manufactured by other divisions of Hayes-Dana. For example, universal joint kits originate with the Drive Train

Division in Thorold and VICTOR gaskets and seals in St. Thomas. Two other major product lines for the Division are PERFECT CIRCLE piston rings and SPEEDOSTAT electronic cruise controls.



Mary May Charlton, 20 years' service, assembles VICTOR products into matched sets giving mechanics all the gaskets and oil seals they need to overhaul an engine in one convenient package.

DOUBLE DIAMOND Truck Centres - a new identifier for the Company's **TRUCK SERVICE CENTRES DIVISION** - is soon to become highly visible. Up to now, the Truck Centres group has operated under a variety of names across the country - Western Wheel in British Columbia and Alberta, Dealers Truck in Saskatchewan and Byers Truck, Canadian Traction and Kerr Industries in Ontario. While the operations were unified by the similarity of their work, there was no single name that allowed our customers to appreciate the fact that they could deal with one company across the country. To overcome this problem, the **DOUBLE DIAMOND** logo will be introduced throughout the Division in the months ahead.

The work of the Truck Centres group ranges from selling parts such as air brakes, wheels and rims to specialty work such as frame modifica-





Gigantic off-the-road logging equipment is an important market for the Aftermarket Divisions in Western Canada.



Salazar Gonzalo, 2 years' service, grinds a skid he has just welded to the chassis of a customer's truck at Byers Truck in Mississauga.

tions and the installation of trailer axles and fifth wheels. Much of this type of work has application in the Mining and Forestry Industries of the Western Provinces in addition to the more normal truck and trailer uses.

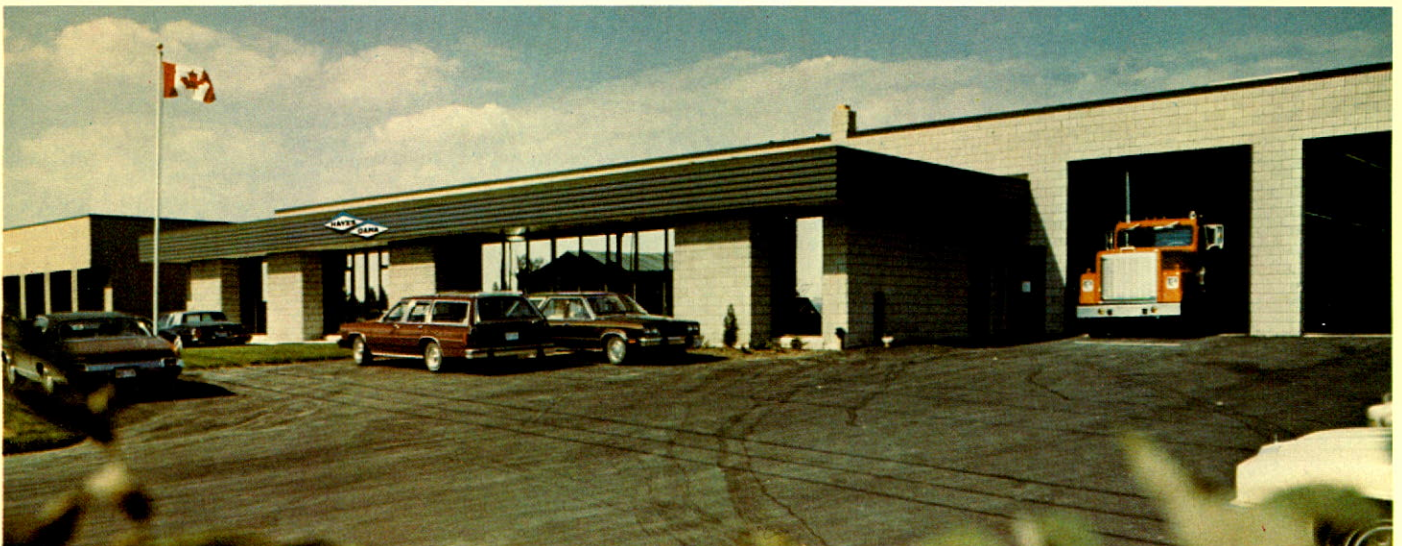
The DOUBLE DIAMOND group has expanded significantly over the past few years. While early growth came largely from acquisitions, the Division has recently opened several new outlets. In the past year, Byers Truck added one new branch and relocated three others to better serve their customers. The most important of these moves was completed in late January of this year when the Toronto operation opened a new 35,000 square foot shop and parts distribution centre. This facility is already recognized in the industry as one of the largest and most efficient of its kind in Canada. Dealers Truck has also been growing of

late - it opened in Saskatoon in August, 1980, and has commenced work on a Winnipeg location, our first truck service centre in the Manitoba market.

The Division is also actively looking at Eastern Canada for opportunities for further expansion. In the not too distant future, the DOUBLE DIAMOND will be the symbol of service for the Canadian trucking industry from one coast to the other.

And thus we have the Two Sides of Hayes-Dana. Both the Original Equipment Parts Manufacturing and the Aftermarket Parts and Service groups are determined to expand and prosper. The eighties will be challenging years for all of North American industry - we at Hayes-Dana accept this challenge eagerly.

Our new DOUBLE DIAMOND Truck Centre serving the Toronto area





HAYES-DANA INC.

BALANCE SHEET

ASSETS

AUGUST 31

CURRENT ASSETS:

1980

1979

Cash	<i>funds available immediately.</i>	\$ 357,000	\$ 216,000
Accounts receivable	<i>amounts owed to the company under normal credit terms.</i>	23,402,000	22,321,000
Recoverable income taxes	<i>tax payments to be applied against future tax instalments.</i>	3,899,000	3,933,000
Inventories (note 2)	<i>products being held for sale as well as raw materials and partially finished products.</i>	49,188,000	55,482,000
Prepaid expenses	<i>advance payments for service yet to be received such as insurance.</i>	564,000	780,000
		<hr/> 77,410,000	<hr/> 82,732,000

FIXED ASSETS:

tangible property of relatively long life that is used in the production and sale of our products.

Land and improvements to land		2,296,000	2,106,000
Buildings		22,756,000	18,734,000
Machinery and equipment		77,081,000	71,320,000
		<hr/> 102,133,000	<hr/> 92,160,000
Less — Accumulated depreciation	<i>portions of the cost of fixed assets charged off to expense over their estimated useful lives.</i>	37,644,000	33,133,000
		<hr/> 64,489,000	<hr/> 59,027,000

OTHER ASSETS:

Investment in corporate joint venture	<i>investment in 50% owned company at cost plus share in its retained earnings.</i>	214,000	183,000
Unamortized deferred expenses (note 3)	<i>expenditures that will be charged against earnings over a period of time.</i>	3,408,000	—
Goodwill	<i>intangible asset representing the difference between purchase price and book value of acquired companies.</i>	1,261,000	820,000
		<hr/> 4,883,000	<hr/> 1,003,000
		<hr/> \$146,782,000	<hr/> \$142,762,000

LIABILITIES AND SHAREHOLDERS' EQUITY**AUGUST 31****CURRENT LIABILITIES:**

1980

1979

Bank advances and
notes payable*loans normally payable within
one year.*

\$ 24,451,000

\$ 29,857,000

Notes payable to
Dana Corporation
and affiliate

700,000

7,300,000

Accounts payable
and accrued liabilities*amounts owed to suppliers and
other creditors under normal credit
extension.*

17,075,000

29,486,000

Dividend payable

*dividend declared but payable
after fiscal year end.*

730,000

725,000

Due to Dana Corporation
and affiliates*amounts owed to Dana Corporation
and affiliates for materials and
services.*

6,654,000

5,375,000

49,610,000

72,743,000

LONG-TERM DEBT
(note 4)*loans payable with terms exceeding
one year.*

24,220,000

1,000,000

DEFERRED INCOME TAXES*deferred taxes arising from timing
differences between accounting
and taxable income.*

18,920,000

16,969,000

SHAREHOLDERS' EQUITY:
(notes 5 & 6)

Common shares

*capital contribution by the common
shareholders.*

9,867,000

9,682,000

Retained earnings

*cumulative increase in the share-
holders' investment as a result of
company operations.*

44,165,000

42,368,000

54,032,000

52,050,000

\$146,782,000

\$142,762,000

APPROVED BY THE BOARD:
G.B. MITCHELL, Director
S.J. MORCOTT, Director

HAYES-DANA INC.
**STATEMENT OF
INCOME AND RETAINED EARNINGS**

		YEAR ENDED AUGUST 31	
		1980	1979
SALES	<i>revenues from the sale of our products and services.</i>	\$202,197,000	\$212,206,000
Other income		<u>1,124,000</u>	<u>688,000.</u>
		203,321,000	212,894,000
Costs and expenses:			
Cost of sales	<i>material, labour and overhead costs used in the manufacture of our products.</i>	176,133,000	186,261,000
Selling, general and administrative expenses	<i>costs associated with general sales and administrative activities.</i>	13,443,000	10,224,000
Interest on long-term debt		1,953,000	—
Other interest	<i>charges for the use of borrowed money.</i>	<u>4,969,000</u>	<u>2,666,000</u>
		196,498,000	199,151,000
Income before income taxes	<i>excess of total revenues over total expenses before income taxes.</i>	6,823,000	13,743,000
Income taxes	<i>taxes computed on income.</i>	<u>2,107,000</u>	<u>5,018,000</u>
Net income	<i>excess of total revenues over all expenses including income taxes.</i>	4,716,000	8,725,000
Dividends	<i>portion of net income paid to shareholders.</i>	<u>2,919,000</u>	<u>2,660,000</u>
Earnings retained in business	<i>portion of net income reinvested in the company.</i>	1,797,000	6,065,000
Retained earnings at beginning of year		<u>42,368,000</u>	<u>36,303,000</u>
Retained earnings at end of year		<u>\$44,165,000</u>	<u>\$42,368,000</u>
Net income per share		\$.78	\$ 1.44
Dividends per share		\$.48	\$.44

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED AUGUST 31
1980 1979

FINANCIAL RESOURCES WERE PROVIDED BY:

Net income	<i>per statement of income and retained earnings.</i>	\$4,716,000	\$ 8,725,000
Charges not requiring current funds —			
Amortization of goodwill and debenture issue costs	<i>portions of the debenture issue costs and goodwill charged to expense according to a pre-determined schedule.</i>	158,000	129,000
Depreciation	<i>portions of the cost of fixed assets charged to expense according to a predetermined schedule.</i>	7,578,000	3,735,000
Deferred income taxes	<i>deferred taxes resulting from differences between accounting and taxable income.</i>	<u>1,951,000</u>	<u>6,695,000</u>
Working capital provided by operations		14,403,000	19,284,000
Increase in long-term debt		23,220,000	1,000,000
Common stock issued	<i>options exercised under Stock Option Plans and stock dividends elected under the Optional Dividend Policy.</i>	<u>185,000</u>	<u>137,000</u>
		37,808,000	20,421,000

FINANCIAL RESOURCES WERE USED FOR:

Additions to fixed assets (net)	<i>expenditures for machinery and equipment used primarily to increase capacity.</i>	7,616,000	26,093,000
Businesses acquired, less current assets at acquisition \$2,409,000 (1979 - \$5,749,000) (note 7)	<i>cost of new businesses purchased during the year except for their current assets.</i>	5,424,000	67,000
Dividends	<i>dividends on common shares.</i>	2,919,000	2,660,000
Increase in other assets, before amortization of goodwill and debenture issue costs.		<u>4,038,000</u>	<u>41,000</u>
		<u>19,997,000</u>	<u>28,861,000</u>
Increase (decrease) in working capital		17,811,000	(8,440,000)
Working capital at beginning of year		<u>9,989,000</u>	<u>18,429,000</u>
Working capital at end of year		<u>\$27,800,000</u>	<u>\$ 9,989,000</u>



HAYES-DANA INC.

NOTES TO FINANCIAL STATEMENTS — AUGUST 31, 1980

1. SUMMARY OF ACCOUNTING POLICIES:

The significant accounting practices and policies employed in the preparation of the financial statements of Hayes-Dana Inc. are summarized below:

Inventories-

Inventories are valued at the lower of cost and net realizable value with cost determined on a first-in, first-out basis.

Fixed assets-

Fixed assets are stated at cost. Depreciation is computed over the estimated useful lives of property, plant and equipment using the straight-line method at rates of 2-1/2% and 5% on buildings and generally 10% on machinery and equipment.

Investment in corporate joint venture-

The Corporation's investment in the corporate joint venture is carried at cost plus equity in its undistributed net income.

Unamortized deferred expenses-

It is the Corporation's policy to defer expenditures incurred on major expansions and model changeovers and to amortize such expenditures over a reasonably short period.

Costs incurred in issuing long-term debt are amortized over the term of the applicable debt issue.

Goodwill-

Goodwill arising from acquisitions is being amortized on a straight-line basis over a ten year period.

Research and development-

All research and development costs are expensed as incurred.

Translation of foreign currencies-

Foreign currency balances and transactions are translated into Canadian dollars as follows: long-term assets and liabilities at exchange rates in effect at dates of acquisition; current assets and liabilities at rates in effect at August 31; revenue and expenses at average rates for the year. Unrealized gains on

translation of foreign currency are deferred and carried forward on the balance sheet; unrealized losses are charged to income. An unrealized gain of \$1,145,000 as at August 31, 1980 (1979- \$1,369,000) resulting from the translation of net current balances at year-end rates of exchange was deferred in the accounts.

Income taxes-

The Corporation follows the tax allocation basis of accounting for taxes on income whereby deferred income taxes are provided on all significant timing differences between accounting and taxable income, primarily accelerated depreciation claimed for tax purposes in excess of amounts recorded in the accounts. The Corporation uses the "flow-through" method of accounting for investment tax credits as a reduction of the current provision for federal income taxes.

Net income per share-

Net income per share is computed on the basis of the weighted average number of shares outstanding during the year. Shares reserved for issuance under the stock option plans would not materially dilute this figure.

2. INVENTORIES:

	1980	1979
Raw materials	\$ 9,742,000	\$17,262,000
Work-in-process and finished goods	<u>39,446,000</u>	<u>38,220,000</u>
	<u>\$ 49,188,000</u>	<u>\$55,482,000</u>

3. UNAMORTIZED DEFERRED EXPENSES:

	1980
Debenture issue costs	\$ 305,000
Model changeover costs	<u>3,103,000</u>
	<u>\$3,408,000</u>

The model changeover costs pertaining to a new truck frame amounted to \$4,654,000. The Corporation has expensed \$1,551,000 in 1980 and the balance will be amortized on a straight-line basis over the next two years.

4. LONG-TERM DEBT:

	1980	1979
a) 12-3/4% Debentures Series A maturing April 15, 2000 and redeemable after April 15, 1985. Mandatory sinking fund payments of \$675,000 per annum commence in 1985 with the Corporation having the right, cumulative for one year, to make optional additional payments of up to \$270,000 per annum.	\$13,500,000	\$ -
b) Note payable to The Weatherhead Company of Canada, Ltd., maturing February 18, 1983. Interest is payable at the prime rate of the Corporation's principal banker.	7,949,000	-
c) Note payable to the Ontario Development Corporation. The loan is interest free until October 15, 1983. Thereafter, interest will be payable at the rate of 11-3/4% per annum and monthly payments of principal and interest of \$21,979 will be made until the loan matures on October 15, 1988.	1,000,000	1,000,000
d) Note payable to the Province of Ontario. The Corporation is not required to make payments of principal or interest until the note matures on February 15, 1982. Interest is payable at the prime rate of the Corporation's principal banker.	1,500,000	-
e) Obligation under capital leases	271,000	-
	<u>\$24,220,000</u>	<u>\$1,000,000</u>

5. STATED CAPITAL:

The Corporation has an unlimited number of authorized common and preference shares and there is no limit to the consideration to be received by it upon issue of such shares. The Corporation has an optional stock dividend policy whereby the shareholders have the right to receive dividends in stock rather than cash.

Issued shares at August 31, 1980 (and 1979) and consideration received were: 6,082,330 (1979-6,058,969) common shares \$9,867,000 (1979-\$9,682,000).

During the year ended August 31, 1980, the Corporation issued 23,361 common shares for \$185,000, of which 15,391 were pursuant to the optional stock dividend policy and 7,970 were upon the exercise of employees' stock options.

6. STOCK OPTIONS:

The Employees' Stock Option Plans provided for options to be granted to key employees to purchase up to 310,250 shares of the Corporation's common shares at a price equal to the market value of the shares at the date granted. As at August 31, 1980 there were 232,429 shares reserved for issuance under the Plans. During the year ended August 31, 1980, 7,970 options were exercised for cash of \$41,478 and options on 44,100 shares were granted. At August 31, 1980, the following options to purchase were outstanding:

Expiry date	Option price per share	Number of shares at August 31	
		1980	1979
Sept. 25, 1979	\$ 5.000	—	3,000
Dec. 16, 1981	5.625	26,380	28,390
Sept. 13, 1982	5.125	32,850	37,375
Sept. 27, 1983	10.000	43,175	43,500
Sept. 24, 1984	10.000	44,000	—
		<u>146,405</u>	<u>112,265</u>

Options for 47,430 shares are held by seven officers, one of whom is a director.

7. BUSINESSES ACQUIRED:

Effective September 1, 1979, the Corporation acquired all of the operating assets of The Weatherhead Company of Canada, Ltd. except for inventories which were acquired on August 31, 1979. With this acquisition, the Corporation is now engaged in the production and sale of fluid power components and assemblies used in the manufacture and maintenance of industrial equipment, passenger cars and trucks.

Effective July 1, 1980 the Corporation acquired substantially all of the operating assets of Lo-Rez Vibration Control Ltd., an acknowledged leader in the design, manufacture and sale of flexible couplings for the control of torsional vibration and vibration isolators.

The businesses acquired, which were accounted for by the purchase method, are summarized as follows:

Assets acquired:	
Current assets (excluding inventories acquired August 31, 1979)	\$2,409,000
Fixed assets	5,424,000
	7,833,000
Goodwill	590,000
Consideration given	<u>\$ 8,423,000</u>
Represented by:	
Cash	\$ 474,000
Long-term note payable	7,949,000
	<u>\$ 8,423,000</u>

8. RELATED PARTY TRANSACTIONS:

Under long standing arrangements, the Corporation obtains, at rates and terms which the Corporation believes are fair and equitable, advice, products and services from Dana Corporation, its parent company. In 1980, the Corporation's sales to and purchases from Dana Corporation represented 9% and 10% respectively of the Corporation's total sales and cost of sales for the year.

On August 31 and September 1, 1979, the Corporation acquired all of the operating assets of The Weatherhead Company of Canada, Ltd., a wholly-owned subsidiary of Dana Corporation (note 7).

9. SALES TO MAJOR CUSTOMER:

In 1980, the only customer which accounted for more than 10% of the Corporation's total sales for the year was Ford Motor Company at 24% (1979 - 29%)

10. SEGMENTED INFORMATION:

The Corporation operates principally in two business segments: Vehicular and Industrial. The Vehicular segment consists primarily of the manufacture and marketing of axle housings, truck frames, drive shafts, universal joints, clutches and engine parts. The Industrial segment manufactures and markets various products, including products for off-highway motor vehicles.

	VEHICULAR	INDUSTRIAL	1980 TOTAL
Sales	<u>\$173,266,000</u>	<u>\$28,931,000</u>	<u>\$202,197,000</u>
Segment operating profit	<u>\$ 12,252,000</u>	<u>\$ 3,843,000</u>	<u>\$ 16,095,000</u>
General corporate expenses			(2,350,000)
Interest expense			(6,922,000)
Income taxes			(2,107,000)
Net income			<u>\$ 4,716,000</u>
Identifiable assets	<u>\$124,550,000</u>	<u>\$ 16,397,000</u>	<u>\$140,947,000</u>
Corporate assets			<u>5,835,000</u>
Total assets			<u>\$146,782,000</u>
Additions to fixed assets (net)	<u>\$ 6,978,000</u>	<u>\$ 412,000</u>	
Businesses acquired less current assets at acquisition (note 7)	<u>\$ 2,824,000</u>	<u>\$ 2,600,000</u>	
Depreciation	<u>\$ 6,818,000</u>	<u>\$ 554,000</u>	
Export sales amounted to \$83,775,000 in 1980.			

11. PENSION PLANS:

Pension plan expenses for the year amounted to \$3,740,000 (1979- \$3,188,000).

Some of the Corporation's pension plans were changed during the year to provide certain pension improvements for the employees. After giving effect to the changes, the unfunded past service liability is estimated by independent actuaries to be approximately \$26,214,000 (1979-\$16,219,000) of which \$22,666,000 represents employee vested benefits (1979- \$14,103,000). This cost will be amortized and funded over not more than fifteen years.

12. COMMITMENTS:

At August 31, 1980, the Corporation was committed under non-cancellable leases for the following future

minimum lease payments:

1981	\$1,151,000
1982	1,045,000
1983	905,000
1984	679,000
1985	460,000
Thereafter	1,186,000
Total future minimum lease payments	<u>\$5,426,000</u>

Outstanding commitments relating to the purchase of machinery and equipment amount to approximately \$531,000 at August 31, 1980.

13. COMPARATIVE FIGURES:

Certain of the 1979 comparative amounts have been restated to conform with presentation adopted in 1980.

AUDITORS' REPORT

To the Shareholders of Hayes-Dana Inc.:

We have examined the balance sheet of Hayes-Dana Inc. as at August 31, 1980 and the 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 financial statements present fairly the financial position of the Corporation as at August 31, 1980 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

Hamilton, Ontario
September 24, 1980

PRICE WATERHOUSE & CO.
Chartered Accountants



DIRECTORS

A. GRAHAM COULTER
Toronto, Ontario
Executive Advisor and Director
Seaburn Metal Products Limited

GEORGE D. DORESCO
Toledo, Ohio
President-Vehicular Group
Dana Corporation

MERVYN L. LAHN
London, Ontario
President
The Canada Trust Company

GERALD B. MITCHELL
Toledo, Ohio
Chairman of the Board
Hayes-Dana Inc.

S.J. "WOODY" MORCOTT
Toledo, Ohio
President
Hayes-Dana Inc.

BENJAMIN P. NEWMAN
St. Catharines, Ontario
President-Newman
Steel Limited

SAMUEL T. PATON
Toronto, Ontario
Company Director

JOHN D. STEVENSON, Q.C.
Toronto, Ontario
Partner—Smith, Lyons, Torrance,
Stevenson & Mayer

JOHN J. WETTLAUFER
London, Ontario
Professor-Business Administration
University of Western Ontario

DONALD G. WILLMOT
Toronto, Ontario
Chairman of the Board
The Molson Companies Limited



SENIOR MANAGEMENT

BILL BRAUN (29 Years Service)
Vice President-Marketing and
Service Operations

HUGH COSGROVE (31 Years)
Division Manager -
Forge Division

LEWIS DENSMORE (43 Years)
Vice President-Administration

GEORGE HOUGH (27 Years)
Vice President-Controller

LEO MANNI (11 Years)
Division Manager -
Chassis Products Division

BOB McFARLAND (14 Years)
Division Manager -
Truck Service Centres Division

JIM MCGILL (39 Years)
Manager-Facilities and Safety

BUD McLAUGHLIN (14 Years)
Director Personnel

DON MILROY (8 Years)
Division Manager -
Weatherhead Division

WOODY MORCOTT (17 Years)
President

MABEL MOSS (39 Years)
Secretary

BOB MOSSBERGER (32 Years)
Division Manager -
Drive Train Division

BOB NEELIN (29 Years)
Treasurer

VERN OECHSLE (16 Years)
Executive Vice President and
General Manager

MIKE OSTROWSKI (12 Years)
General Manager -
Axle Division

JACK PHILLIPSON (7 Years)
General Manager -
Heavy Duty Products Division

JACK REED (24 Years)
Vice President -
Manufacturing Divisions

DAYNARD WELSH (24 Years)
General Manager -
Automotive Products Division

COMMON SHARES

- TRANSFER AGENT: CANADA PERMANENT TRUST COMPANY, TORONTO, ONTARIO
- CO-TRANSFER AGENT: OHIO CITIZENS TRUST COMPANY, TOLEDO, OHIO
- LISTED: TORONTO STOCK EXCHANGE, SYMBOL - HAY

SERIES A DEBENTURES

- REGISTRAR: CANADA TRUST COMPANY, TORONTO, ONTARIO



HAYES-DANA INC.

CONDENSED FINANCIAL SUMMARY

FOR THE FISCAL YEARS	1980	1979	1978	1977
OPERATING DATA				
SALES	\$202,197,000	\$212,206,000	\$150,081,000	\$145,164,000
Cost of Sales	176,133,000	186,261,000	130,014,000	127,328,000
Interest Expense	6,922,000	2,666,000	876,000	857,000
Income before Income Taxes	6,823,000	13,743,000	11,291,000	10,819,000
Income Taxes	2,107,000	5,018,000	4,355,000	4,270,000
NET INCOME	4,716,000	8,725,000	6,936,000	6,549,000
Net Income for the Year				
Retained for Growth	1,797,000	6,065,000	5,004,000	4,597,000
Net Income per Share of Common Stock	\$.78	\$ 1.44	\$1.15	\$1.08
Cash Dividends per Share of Common Stock	\$.48	\$.44	\$.32	\$.26
YEAR END FINANCIAL POSITION				
Working Capital	27,800,000	9,989,000	18,429,000	24,137,000
Property, Plant and Equipment at cost	102,133,000	92,160,000	66,168,000	62,570,000
Property, Plant and Equipment, Less Accumulated Depreciation	64,489,000	59,027,000	36,602,000	28,190,000
Total Assets	146,782,000	142,762,000	94,419,000	66,453,000
Long-Term Debt	24,220,000	1,000,000	—	4,898,000
Shareholders' Equity	54,032,000	52,050,000	45,848,000	40,833,000
Ratio of Current Assets to Current Liabilities	1.6:1	1.1:1	1.5:1	2.9:1
Shareholders' Equity per Share	\$8.88	\$8.59	\$7.59	\$6.76

**After extraordinary charge*

1976	1975	1974	1973	1972	1971
\$128,944,000	\$90,187,000	\$90,051,000	\$97,735,000	\$64,596,000	\$51,305,000
112,724,000	79,785,000	81,124,000	85,805,000	55,467,000	44,851,000
874,000	1,219,000	1,194,000	1,040,000	553,000	521,000
9,961,000	5,273,000	4,312,000	7,939,000	5,722,000	3,375,000
4,170,000	2,228,000	1,904,000	3,290,000	2,370,000	1,654,000
5,791,000*	3,045,000	2,408,000	4,649,000	3,352,000	1,721,000
4,345,000	1,609,000	805,000	3,281,000	2,120,000	527,000
\$.96*	\$.51	\$.40	\$.78	\$.56	\$.29
\$.24	\$.24	\$.24	\$.23	\$.20	\$.20
19,681,000	9,568,000	8,423,000	8,158,000	7,575,000	6,498,000
59,106,000	55,259,000	52,580,000	48,943,000	42,738,000	34,277,000
27,754,000	31,221,000	31,198,000	30,812,000	27,260,000	20,754,000
65,445,000	61,326,000	65,148,000	61,792,000	55,856,000	41,207,000
4,898,000	1,500,000	4,000,000	6,000,000	4,000,000	—
35,876,000	31,271,000	29,662,000	28,704,000	25,417,000	23,297,000
2.2:1	1.5:1	1.4:1	1.4:1	1.4:1	1.5:1
\$5.94	\$5.22	\$4.96	\$4.80	\$4.25	\$3.89



OUR GOAL IS TO BE THE LEADING CANADIAN CORPORATION
TURNING POWER INTO PROGRESS.