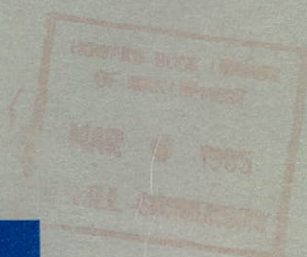


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HAYES-DANA INC.



ANNUAL REPORT 1984





Financial Highlights

	1984	1983
Net sales to customers	\$371,191,000	\$282,829,000
Net income after tax	19,907,000	7,379,000
—per common share	2.61	1.07
Dividends declared	\$ 4,350,000	\$ 3,395,000
—per common share	.57	.48
Stockholders' equity	\$ 90,897,000	\$ 74,724,000
—per common share	11.87	9.83
Shares traded during year	1,889,691	949,708
Average number of shares outstanding	7,626,182	6,901,876
Shareholders at year-end	4,070	3,821
Average employment	2,493	2,244

Corporate Profile

Hayes-Dana Inc. is a diversified manufacturer and distributor of new and replacement components for trucks, automobiles, off-highway vehicles and industrial equipment. Twenty-five hundred Hayes-Dana people work in over 50 manufacturing plants, distribution warehouses, and regional and local outlets across Canada to service customers in our 5 markets. Our markets and some of our success stories in these markets are described in this Report.

The Markets



— **Highway Vehicle**



— **Truck Parts Distribution**



— **Automotive Distribution**



— **Mobile Off-Highway**



— **Industrial Equipment**



V. E. Oechsle and G. D. Doresco.

TO OUR SHAREHOLDERS

1984 was by all measurements the best year ever for Hayes-Dana. Both sales and net income reached new levels that were significantly higher than in any previous year in the Company's history. All major product lines had increased sales volumes, and our people achieved higher productivity in all Divisions. Also during the year, the Company started an extended Capital Program which will ensure further productivity improvements in future years.

Late in 1984 and early in 1985, the Company negotiated acquisitions which fit well with our markets, and which will provide us with an even broader market base.

Dividends were increased in 1984 to \$0.57 per share, compared to \$0.48 in 1983. The market value of your stock also continued to improve, and closed at \$19 per share, compared with \$14½ per share at the previous year end, for a gain of 34% over its 1983 year-end price.

1984 in Review

Sales for 1984 totalled \$371 million, up 31% from the 1983 sales figures of \$283 million. Profits for the year were \$20 million, or 2.7 times the \$7 million which was earned in the previous year. On an 'earnings per share' basis, this amounted to \$2.61, compared with \$1.07 in 1983.

Our net income was augmented during the year by foreign exchange gains amounting to \$0.30 per share, resulting from compliance with the new reporting of foreign currency as set out by the Canadian Institute of Chartered Accountants.

The largest sales improvement was once again recorded in the Highway Vehicle Market. Shipments of truck axle housings and trailer axles increased substantially; while sales of frames, extensions and drive shafts for light trucks and cars also improved.

During the year, initial orders were signed to supply replacement engine parts and chassis parts to customers in the Automotive Distribution Market. Improved sales were also recorded in our other markets, which will be reviewed in greater depth in the section on 'Our Markets' which follows.

During 1984, the competitive environment intensified, particularly from international

suppliers with lower labour and material costs. Current exchange rates have also declined against both the U.S. and Canadian dollar, making the products of offshore suppliers less costly in North America, and our own products more expensive elsewhere.

At mid-year, a U.S. customer's axle housing business worth over \$2 million per year was lost to a competitor from Spain. During the year, we discontinued our remanufacturing operation at our plant in Stoney Creek, with the exception of heavy-duty clutches for the truck market. The discontinued lines, with annual sales volume of about \$7 million, could not be produced competitively.

On a positive note, after lengthy negotiations in competition with Japanese and other international suppliers, Hayes-Dana won a contract with Mack Trucks Inc. for rear axle housings, worth an additional \$25 million. It should be noted that had we not been successful, our existing business with Mack would have been lost to a competitor.

Hayes-Dana people are meeting the competitive challenge through our accelerated 'Total Quality' improvement programs, which are discussed in detail later in this Report. We are proud of the strong commitment of our people to these programs, and to the resulting improvements in productivity in all sectors of the Company. Over the five years from 1979 to 1984, sales per person have doubled, from \$75,300 per person in 1979 to \$148,900 in 1984.

In British Columbia, our people in one facility decided that they no longer needed to be associated with a large union organization, and have completed decertification.

The programs for improvement of Quality and Productivity have been assisted by larger capital programs, as older machinery has been improved, or replaced by advanced-technology equipment. In 1984, capital improvements of \$10.5 million were double those of the previous year.

In the last quarter of 1984, Hayes-Dana Inc. acquired majority ownership in Wix Inc., a manufacturer of various filtration products. This acquisition will permit a further broadening of the product lines which we offer to the Automotive Distribution Market.

Prospects for 1985

Your Company closed 1984 with improved cash flow and a strong balance sheet, a situation which was recognized in improved bond rating levels. This healthy financial position will allow us to fund an augmented capital program in 1985, plus additional corporate acquisitions to complement our existing products within the various market sectors served by Hayes-Dana.

Business opportunities attained during the past year will help to expand sales and profits in the coming year. Shipments of new axle housings and related parts to Mack Truck will commence early in 1985. Additional sales to Volvo and Ford will add to our growth. The engine parts and chassis parts programs will be expanded to other customers.

We expect the volume levels for existing product groups to continue, or marginally improve, in the coming year. Our Marketing and Distribution groups expect to achieve further market penetration and attain higher volumes in 1985.

We will continue our commitment to 'Total Quality' improvement, directed toward productivity, cost reduction, and customer service. Aggressive competition will continue to create strong pressures on pricing and profitability, and we intend to meet this challenge.

Reflecting our optimism for 1985, the Board of Directors has increased the quarterly dividend by 33% to \$.20 per share. We will also be asking you to approve, at the Annual Meeting of Shareholders, a sub-division of shares, on a two-for-one basis, effective April 1, 1985.

Your Company enters 1985 with a broader base of products and customers. Our people are committed, and our finances are strong. Our future is bright.



G. D. DORESCO, Chairman



V. E. OECHSLE, President

OUR MARKETS

Highway Vehicle Market

The principal market for Hayes-Dana, and the basis for its growth, has always been the Highway Vehicle Market, consisting of original equipment automobile and truck manufacturers.

As the automotive industry continued to improve on its strong sales of the previous year, Hayes-Dana shared in this improvement. Total sales to the Highway Vehicle Market were \$240 million, for a significant improvement of 43% over our 1983 sales figures.

Our plants in St. Catharines and Thorold produce high quality forgings, drive shafts, universal joints and frames for use in various kinds of trucks. Our St. Thomas plants make precision fittings and gaskets for all major North American markets.

1984 marked the first full year of our arrangement to provide heavy truck axle housings to International Harvester, which are produced at our Barrie plant. A regional assembly facility in Chatham supplies front and rear axles and drive shafts to the Harvester truck assembly plant in Chatham. This arrangement, together with the increase in our sales to other major customers, resulted in our axle housing sales more than doubling their 1983 sales levels. Shipments of trailer axles also doubled from the previous year; and the sales of partial and full frames for light trucks for all customers increased by 25%, reflecting the growth in this industry as a whole.

During the year, Mack Trucks Inc. awarded our Chassis Products Division an additional \$25 million annual contract for axle housings. Under the terms of the agreement, Hayes-Dana becomes sole supplier of rear axle housings to Mack. We had previously supplied about one-quarter of their annual requirement, with the rest being imported from Japan. The new volume of business will phase in over the coming year.

In mid-1984 and after several years of negotiation, product design and equipment development, we commenced the shipment of drive shafts to Volvo for their new model 760 Sedan.

The Company is particularly proud of this project, which meets exceptionally high engineering standards. The excellent quality of the new Volvo product will be of great assistance to Hayes-Dana in our efforts to obtain similar business in Europe and North America.

1985 will reflect the increased shipments to Mack from Barrie, and from a new regional assembly facility to be established soon. It will also be the first full year for shipments of fully assembled drive shafts to Western Star Trucks from our Burnaby, B.C. assembly facility; and, of course, the new drive-shaft products to Volvo.

New production facilities, including computer controls and robotics, are being readied for the new Ford 'Aero Star' frame extension, which is scheduled for start-up in April.

One of the numerous models of 'Mack' trucks, which will incorporate rear axle housings produced by Hayes-Dana.



Next year will continue to present challenging growth potential.

Truck Parts Distribution

Hayes-Dana is the leading supplier of heavy truck and trailer replacement parts to the transportation industry in Canada. Sales for 1984 were \$64 million, an increase of 15% over the previous year.

Planning for this and future years' growth in Truck Parts Distribution, during the year, we separated our Truck Train Division into three major profit centres: Warehousing; Rebuilding; and Branches.

Our associate distributor program of Truckline Parts stores will complement our 25 Company-owned branches across Canada.



Our Truck Train warehouses and rebuild centres market to independent distributors and our own branches. The primary market for our Truckline Parts branches is truck fleets, truck dealers, and owner-operators.

In Warehousing, we provide the independent distributors with a wide range of products through our Distribution and Truck Train warehouses. This system enables us to replenish product in major centres on a day-by-day basis, for prompt customer service and quick inventory turnover.

In addition to our own proprietary products, we carry other major brand name items related to truck power trains, suspensions, wheels and braking systems.

Our rebuilding facilities continued to grow. During the year, we started rebuilding transmissions

and differentials in Moncton and Coquitlam, and expanded our capacity in Edmonton and Mississauga.

The improvement in sales reflected stronger markets in general, the full year's business from the four new branches which we had opened during 1983, and the new branch which we opened in 1984 in Dartmouth, N.S.

During 1984, we signed our first Truckline Associate Distributor, in Fredericton, N.B., after careful study of the possibility of franchising Truckline Parts branches in smaller cities. We bring to this market a unique, full-product package, including rebuilt transmissions, clutches, drive shafts, universal joints and rear axle differentials.

This new relationship is well under way; and its problems and opportunities are being worked out. We are investigating numerous other locations, and anticipate considerable expansion of this activity in 1985.

Automotive Distribution Market

The Canadian market for automotive replacement parts exceeded \$1 billion in 1984. While this market grows at an average rate of 2-3% a year, our sales increased by 15%, to \$24 million.

Display of many product lines sold into this market, including engine parts, chassis parts, gaskets and fittings, cruise controls and universal joints.



Our business in this area involves the supply of service parts to warehouse distributors, automotive jobbers and mass merchandisers. Our products include Weatherhead fittings, Victor gaskets, Speedostat controls, Spicer universal joints, and Perfect Circle parts and rings. We manufacture most of these products in our facilities in Southern Ontario. To broaden our product base further, the Company has acquired Wix Inc., which produces a wide range of air, oil, and fuel filters for automotive, industrial, and other applications.

In mid-year, we closed our Nasco plant in Stoney Creek, except for remanufactured heavy-duty clutches for the truck market. We were forced to take this action because of the plant's inability to produce these various remanufactured products profitably.

On a very positive note, we introduced 'Perfect Circle' engine parts and chassis parts into Canada. Each of these new programs represents a significant increase in business for Hayes-Dana.

Engine parts include valves, pistons, sleeves, valve lifters, oil pumps, timing components and engine bearings. During 1984, our marketing program included 7,000 engine part numbers. This will increase to 12,000 in 1985, with an ultimate availability of 18,000 part numbers in future years.

We also introduced a complete line of chassis parts, which includes ball joints, coil springs, tie-rod ends, and Pitman arms for steering. In 1984, our program included about 2,000 chassis part numbers, and we expect a 50% increase in 1985.

Manufacturers of off-highway vehicles use many of our products, including 'Spicer' clutches, transmissions, drivelines; plus numerous fluid power and hydraulic components.

Mobile Off-Highway

This sector of the Company's operations is involved in supplying key components to the manufacturers of off-highway vehicles used in agriculture, construction, forestry, material handling and mining. Products include drivelines, transmissions, clutches, power take-offs, hydraulic pumps and controls, cylinders, hose and fittings.

Sales for the year rose to \$31 million, a gain of 3%; a good performance in light of the continuing poor market for agricultural implements. The increase was the result of minor increases in other existing markets; the addition of new customers and products; and a better-than-market penetration in all areas.

Hayes-Dana is unique in that it markets a complete power train system for mobile equipment under its 'Spicer' brand name; from the clutch through the transmission, drive shaft, and front and rear axles. We also supply gearboxes and power-take-offs (P.T.O.s), as well as front drive axles necessary for four- (or more) wheel drive vehicles.

On the fluid power side of our business, Hayes-Dana also offers a unique, complete line of fluid power products, including pumps, valves, motors, cylinders, and the hose and fittings necessary to connect these components.

1985 forecasts for agricultural implements indicate that this market will continue flat, with the possibility that it may be even lower than in 1984. Modest growth is forecast for 1986. Even so, we are forecasting an increase in sales for 1985, based on our proven ability to outperform



our markets. Growth will come from an expanded product offering, including Spicer clutches and transmissions; and further market penetration for the hydraulic cylinder products of Lessard Machineries.

Additional sales will also result from heavier promotion of readily-available hydraulic system components, and by providing hydraulics specialists to assist our customers with product applications and training for their specific needs. We will also create an advantage for any of our individual products by combining its promotion, sale and service with that of related Hayes-Dana products, to offer a complete mechanical or hydraulic system.

Industrial Equipment

The industrial equipment market is our most diverse area of activity; with the Company involved both as a manufacturer and a distributor. Our Lo-Rez operations in Vancouver manufacture torsional couplings for marine and locomotive applications. Other products, which are sold by more than 80 distributors, include clutches and brakes, couplings, and variable speed drives.

Although our industrial equipment markets showed some upturn in 1984, many major customers had little improvement over the previous year, particularly on the west coast. Even so, 1984 sales increased by an impressive 42%, to \$12 million.

During the year, the Industrial Power Division received its largest single order ever, to supply Lo-Rez components on a large wind turbine prototype being developed by Hydro Quebec to

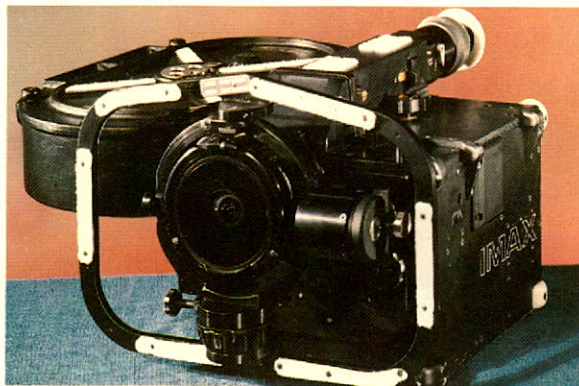
generate electricity. If the prototype proves successful, plans are to construct many more such turbines, creating additional potential for our products.

We supplied Formsprag Perma-Tork tensioners to a Canadian manufacturer of 3-dimensional cameras, one of which was used on the space shuttle. The program to supply Lo-Rez components for new U.S. Navy minesweepers has also progressed successfully.

Our 'Problem Solvers' program was very successful. In it, we gave our distributors a high-quality, professional training program that trained them to help solve customers' problems by working jointly with us, applying our technology and using our products. Over 300 distributor personnel took part in this program, and results have been excellent.

Growth in 1985 will continue from new product applications with existing and new customers.

This Canadian produced, 3-Dimension camera, which was used on a recent space shuttle, incorporated our Formsprag 'Perma-Tork' tensioners.



SUMMARY OF SALES BY MARKET

Market	Sales (\$ Millions)		% Increase from 1983
	1984	1983	
Highway Vehicle	\$240	\$169	43%
Truck Parts	64	55	15
Automotive Distribution	24	21	15
Mobile Off-Highway	31	30	3
Industrial	12	8	42
	\$371	\$283	31%

OUR COMMITMENT TO 'TOTAL QUALITY'

We operate today in a world of global competition, in which change is not the exception but the rule. Companies from around the world compete with us for business in our traditional markets. To survive and grow, we must compete successfully with them, in our markets and in theirs.

Internationally, competitors are working to new standards of quality: 'zero scrap'; 'negligible changeover time'; great flexibility in the manufacturing process; the use of existing and new technology to meet their customers' needs faster and better. To enable us to equal and improve on these constantly changing new global standards of quality, Hayes-Dana has made a commitment to Total Quality.

For Hayes-Dana, 'Total Quality' means total quality in design, manufacturing, marketing and distribution—and most important, 100% involvement of our people.

Total Quality in Design: This involvement begins with the product and manufacturing engineers working together with Marketing to design a product that meets customers' needs. Quality design means that the product can be manufactured easily on our equipment, or within our capabilities in new technology.

Total Quality in Manufacturing: Our goals are 'Zero Scrap', '100% Up-time', 'Zero Changeover Time', and 'Zero Inventory'. Together, they mean making it right the first time by eliminating unnecessary waste; keeping the machine running;

quick reaction time and maximum flexibility to manufacture exactly what's needed, when it's needed; and most importantly, shipping a product that looks good and is good.

Total Quality in Marketing: We apply these same high standards of quality to our marketing, delivery and customer service. We provide the technology and product application to do what the customer wants; make it easier for him to order; and support and train him so he can be successful.

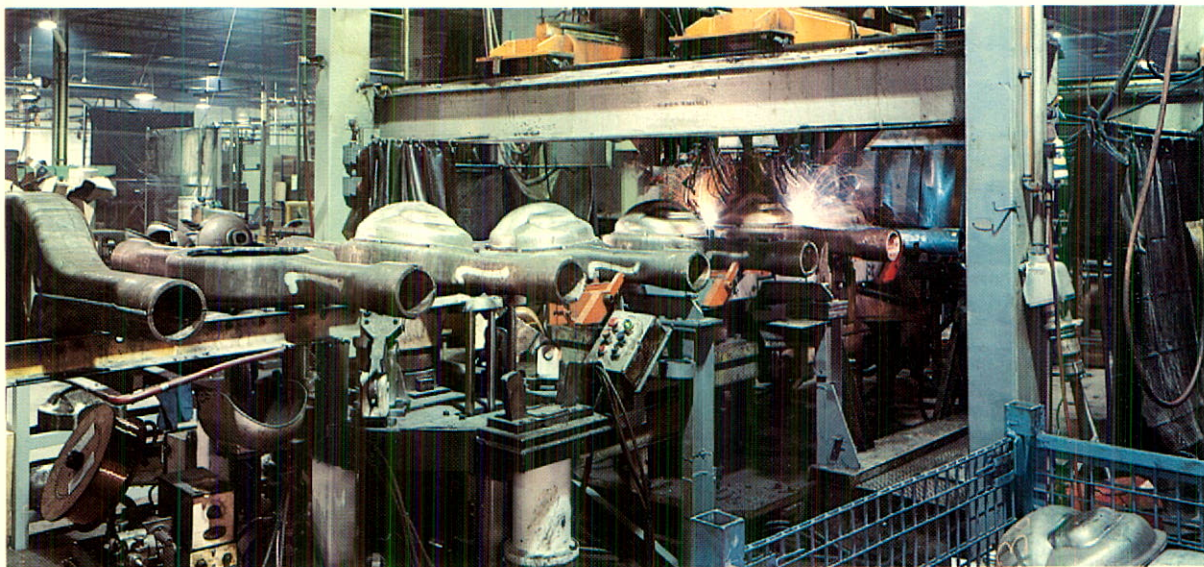
Total Quality in Distribution: Our objectives are '100% Order Fill' and 'Zero Order Turnaround Time'. These mean giving the customer exactly what he wants, when he wants it, with absolutely no delay.

100% Involvement of our People: Hayes-Dana has made the commitment to Total Quality. We're investing in the training and capital to implement the tools of change, including Statistical Process Control concepts; computer assistance in design, machine control and production scheduling; robotics; and other technological processes.

This investment in change requires large capital expenditures. In 1984, Hayes-Dana spent twice the amount for capital as in 1983; and our commitment for 1985 is significantly more than 1984. We will continue this commitment as long as improved facilities are necessary.

The key to meeting our Total Quality goals is 100% involvement of our people. Having our

Computer-controlled robotic welding on heavy truck axle housings, at our Barrie plant.



people understand the competitive challenge; training them and giving them the tools to compete, and gaining their commitment to Total Quality—This cooperative involvement makes it work!

Our Manager of Training, Gerry Vowles, presents one of a series of sales and marketing courses for our personnel and customers.



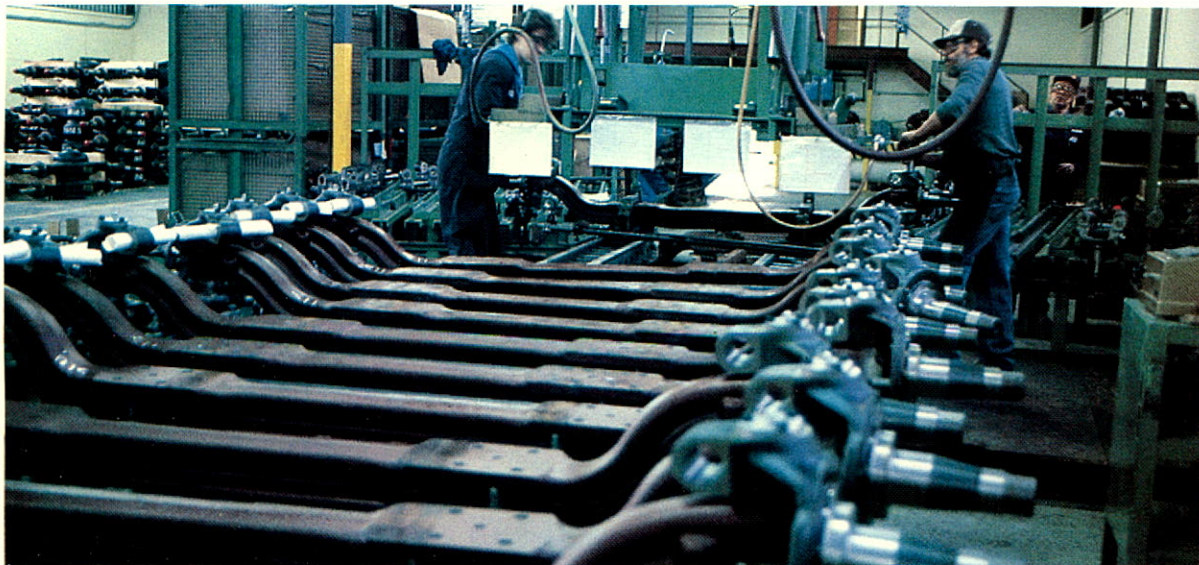
At Hayes-Dana, Total Quality is not simply a philosophy. It is a working reality, the benefits of which can be seen throughout the Company, as the following examples clearly demonstrate:

'Just-In-Time' Assembly—Supplying

International Harvester: 1984 marks the completion of the first full year of production in our assembly facility which provides 'Just-In-Time' delivery of product to International Harvester's plant in Chatham, Ontario.

Our goals were to provide perfect components precisely when needed, to reduce inventory and costs, and to insure the high quality standards of the IHC trucks. A full year later, it's apparent that those goals have been met.

Final assembly of front axles, and other heavy truck components, at our Chatham facility, prior to Just-in-Time shipment to International Harvester.



How was this success achieved? At Hayes-Dana, we began by rationalizing the design of IHC axle housings, to reduce the part numbers required by over 50%. In turn, this gave us more flexibility and shorter changeover time. We put a tight Statistical Process Control system in place, to ensure that quality was assembled into the product. In addition, we simplified and improved the scheduling and releasing systems between ourselves and IHC.

The result: we deliver product several times throughout each day, geared precisely to the needs of the IHC assembly line.

The benefits to both IHC and Hayes-Dana are apparent. Both companies are enjoying a win/win relationship, with a reduction in inventory and waste, as well as elimination of unnecessary floor space, labour and freight.

We continue to refine this process in our Chatham facility. Also, we have applied the same principles to other customers, including Mack Trucks in Oakville, and Western Star Trucks, in Burnaby, B.C.

Total Quality does not depend only on finding new technology. Very often, it's the result of making better use of our own existing technological expertise, as the following example demonstrates:

Application of Technical Expertise in Our

Frame Plant: The project was to improve the quality of a forming operation for light truck frame members.

Using the hydraulic and electrical expertise of our toolmaking and engineering people, our existing equipment was completely redesigned. Traditional electrics were upgraded with programmable electrics for easier trouble-shooting and changeover.

The benefits were impressive:

- Changeover time was reduced from 48 hours to 4 hours;
- Production capacity was doubled with the same operators;
- Consistent quality resulted in improved assembly productivity;
- Stronger equipment and ease of trouble-shooting led to a vast improvement in 'up-time'.

From the customer's point of view, Quality is not simply in the product he purchases, but also in the quality of the supplier's service. Our Distribution Division demonstrates this point:

Quality of Service: Our Distribution Division:

In Rexdale, one of our customers needed a variable speed drive that was unique and difficult to obtain. Our people put in extra effort and got him the part on very short order. The customer was so pleased with this service, that he sent our staff a floral arrangement, as a special pat on the back!

Total Quality can also be the application of product technology, as shown by this successful project of Victor Products:

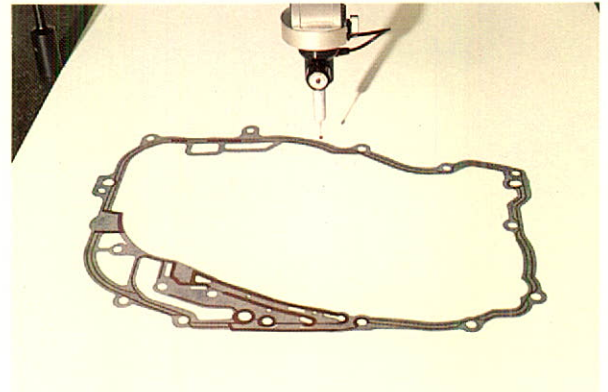
Application of Product Technology by Victor Products:

Because of our relationship in the Dana Global family, we had access to product technology which enabled us to solve a leakage problem in a customer's front drive transmission.

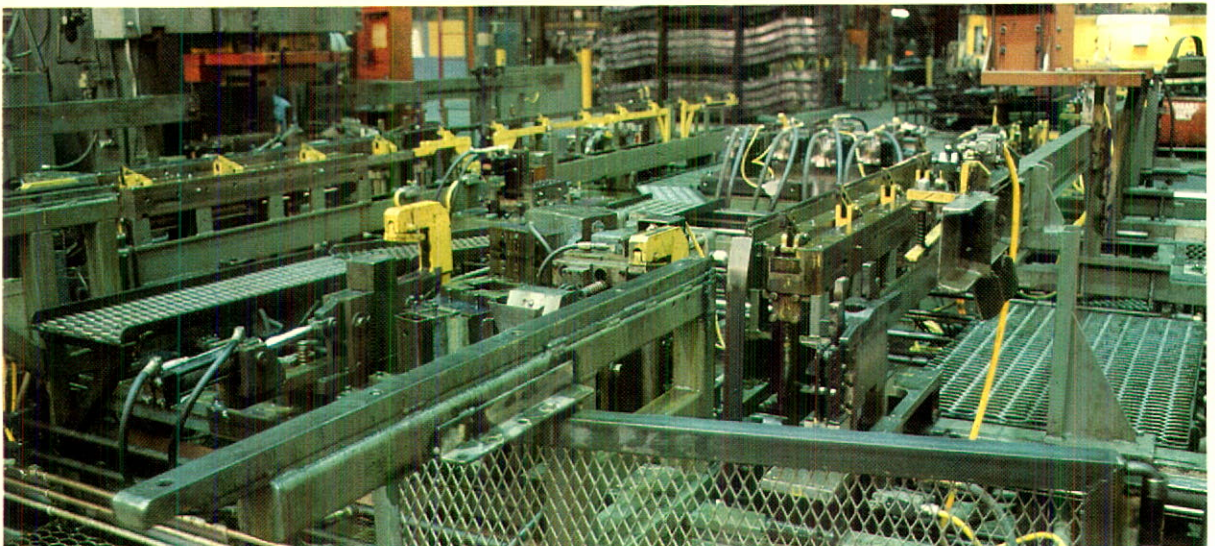
Victor Products applied this technology to the customer's problem. Our combination of technological application and dedicated people resulted in a superior product, the effective solution of a problem for the customer, and new business for Hayes-Dana.

Our objective in the following case was to improve productivity. We found that by going back to basics, we ended up by achieving a major improvement in Total Quality of the project:

This high-quality Victor gasket solved the unique leakage problem in our customer's front drive transmission.



Improved forming operation for light truck frame members, in our Frame Plant.



Back to Basics—Our Drive Train Plant: Our objectives were to improve the quality of our tubing, and to reduce scrap costs. To achieve this, we went back to basics.

1. *Evaluation:* A recognized expert in roll forming, together with our own technical people, evaluated the entire operation;

2. *Training:* Training on the proper methods of roll forming involved both operating and support people, including engineering, maintenance, and the toolroom;

3. *Retooling:* We purchased proper tools to enable our own people to do a proper job;

4. *Mill Re-alignment:* The mill's rolls were reworked, and the mill was rebuilt and optically re-aligned;

5. *Effective Maintenance:* An effective maintenance program was established, to keep the machines running and making only quality product.

These basic steps took approximately seven months and the complete involvement of all the people in the mill. The original objectives of improved quality and reduced scrap costs were met, and exceeded:

- Quality was improved five-fold;
- Scrap costs were reduced by 65%;

Our people in the Drive Train Plant review quality and productivity improvements attained in the Tube Mill.



- The improvement in quality reduced change-over time by 30%;
- Consistent quality resulted in important productivity improvements in the assembly process.

We're Proud Recipients of Many Quality Awards:

Our people are very proud of the many Awards for Quality which we've received. Among them is one from Caterpillar Tractor, whose President presented their Quality Assurance Certified Supplier Award to our Drive Train Plant in Thorold.

We're also proud of the fact that since committing our Company to Total Quality, our ratings from our customers have improved strongly and continue to improve.

Mr. Howard Gilkeson, President of Caterpillar of Canada Ltd., presents Quality Assurance Supplier Award to R. O. Mossberger and his staff of the Drive Train Division.



One last word on our commitment to Total Quality:

Quality Conscious—Fran Forbes: During a business trip to Dana Corporation's Toledo offices, Fran Forbes, an assembler in our Distributed Products Division, noticed that a Weatherhead fitting in a display case was a poor sample. On her own time, Fran made a new fitting that represented Weatherhead properly, and it replaced the original part.


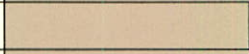
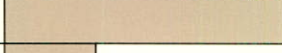

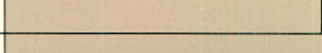


Mr. G. B. Mitchell, Chairman of Dana Corporation, wrote a letter of appreciation to Fran that read in part: "When you spend a portion of every day preaching and pleading for an attitude on the part of our people that will guarantee quality products and service, you view an action such as yours as darned encouraging."

Fran's actions and Mr. Mitchell's letter say it all.

FINANCIAL OBJECTIVES

Several key financial objectives were noted in last year's Annual Report. The following is a comparison of our performance against these

objectives for 1984, and the five previous fiscal years. For the first time in our corporate history, results for 1984 exceeded all of these objectives.

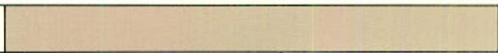
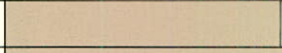
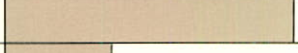
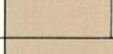
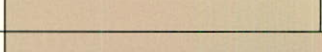
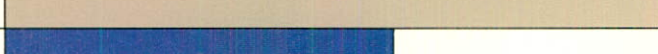

Return on Average Equity		Percent
*1979		17.6
1980		8.9
1981		10.1
1982		3.3
1983		11.5
1984		24.1
Average		13.3

Objective

Achieve a 21% return on average equity

Performance

1984 was 24.1%, and six year average was 13.3%

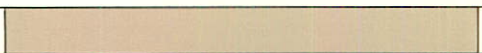
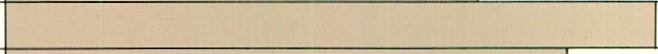
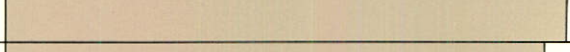
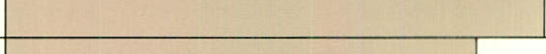
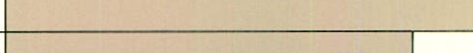
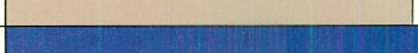

Return on Sales		Percent
*1979		4.1
1980		2.3
1981		2.4
1982		.9
1983		2.6
1984		5.4
Average		3.2

Objective

Achieve a 5% return on net sales

Performance

1984 was 5.4%, and six year average was 3.2%

Assets to Sales		Percent
*1979		52.6
1980		72.9
1981		62.8
1982		60.3
1983		52.1
1984		45.3
Average		56.1





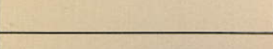


Objective

Achieve a ratio of total assets to net sales of 50%

Performance

1984 was 45.3%, and six year average was 56.1%

*1979—1980 inclusive, reflect fiscal years ended August 31
1981—1984 inclusive, reflect fiscal years ended December 31


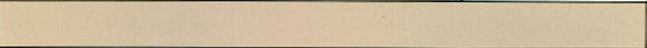
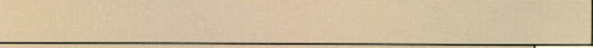
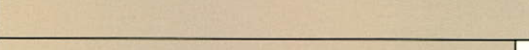
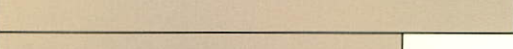


Return on Assets		Percent
*1979		7.8
1980		3.2
1981		3.9
1982		1.5
1983		5.0
1984		11.8
Average		5.7

Objective

Achieve a 10% return on total assets

Performance

1984 was 11.8%, and six year average was 5.7%


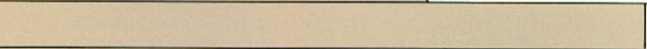
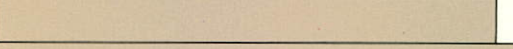
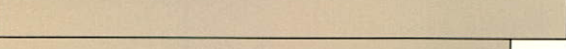
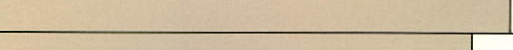


Total Debt to Capital		Percent
*1979		35.0
1980		48.8
1981		44.8
1982		40.1
1983		38.1
1984		31.0
Average		39.6

Objective

Achieve a ratio of current bank debt + long-term debt to debt plus equity (capital), of no greater than 40%

Performance

1984 was 31.0%, and six year average was 39.6%





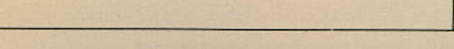


Working Capital to Sales		Percent
*1979		19.7
1980		28.9
1981		23.0
1982		25.8
1983		23.7
1984		21.8
Average		23.6

Objective

Achieve a ratio of working capital, excluding current bank debt, to net sales of no greater than 23%

Performance

1984 was 21.8%, and six year average was 23.6%

Average Annual Sales Growth		Percent
*1979		41.4
1980		(5.0)
1981		10.4
1982		(2.7)
1983		30.2
1984		31.2
Average		24.5

Objective

Achieve an average annual sales growth of 15% per year

Performance

1984 was 31.2%, and six year average was 24.5%

DIRECTORS

A. Graham Coulter
Toronto, Ontario
Corporate Director

George D. Doresco
Toledo, Ohio
Executive Vice President
Dana Corporation;
Chairman of the Board
Hayes-Dana Inc.

Robert W. Korthals
Toronto, Ontario
President
Toronto-Dominion Bank

Mervyn L. Lahn
London, Ontario
President and
Chief Executive Officer
The Canada Trust Company

Gerald B. Mitchell
Toledo, Ohio
Chairman, President & C.E.O.
Dana Corporation

S. J. 'Woody' Morcott
Toledo, Ohio
President
North American Operations
Dana Corporation

Benjamin P. Newman
St. Catharines, Ontario
President
Newman Steel Limited

Vernon E. Oechsle
St. Catharines, Ontario
President
Hayes-Dana Inc.

John D. Stevenson, Q.C.
Toronto, Ontario
Partner
Smith, Lyons, Torrance,
Stevenson & Mayer

John J. Wettlaufer
London, Ontario
Professor Emeritus
Business Administration
University of Western Ontario

Donald G. Willmot
Toronto, Ontario
Honorary Chairman of the Board
The Molson Companies Limited

SENIOR MANAGEMENT

W. H. 'Walt' Baum (31 Years Service)
Division Manager—
Distributed Products Division

W. J. 'Bill' Brice (17 Years)
Division Manager—
Industrial Power Division

H. P. 'Hugh' Cosgrove (35 Years)
Division Manager—
Chassis Products Division

G. G. 'George' Hough (31 Years)
Vice President, Controller

D. G. 'Don' Johnston (2 years)
Vice President,
Finance and Treasurer

G. M. 'Gerry' Logan (11 Years)
General Manager—
Distribution Division

D. R. 'Don' MacKay (17 Years)
Vice President, Total Quality

L. 'Leo' Manni (14 Years)
Division Manager—
Industrial Products Division

J. G. 'Jim' McGill (43 Years)
Manager, Facilities and Safety

J. B. 'Bud' McLaughlin (19 Years)
Vice President,
Human Resources

R. O. 'Bob' Mossberger (35 Years)
Division Manager—
Drive Train Division

R. W. 'Bob' Neelin (33 Years)
Vice President, Planning

V. E. 'Vern' Oechsle (20 Years)
President

M. A. 'Mike' Ostrowski (16 Years)
Division Manager—
Mobile Power Division

J. D. 'Jack' Phillipson (13 Years)
Division Manager—
Truck Train Division

P. L. 'Pat' Reid (36 Years)
Corporate Secretary

T. J. 'Tom' Saxton (25 Years)
Division Manager—
Automotive Marketing Division

T. H. 'Tom' Wolf (13 Years)
Vice President,
Marketing and Distribution

DIVISIONAL ORGANIZATION

Hayes-Dana operates nine independent divisions, each serving one or more of the Company's five markets. Additional marketing information can be obtained directly from the centres listed below.



Highway Vehicle



Automotive Marketing Division
P.O. Box 6000
Beamsville, Ontario. L0R 1B0
(416) 563-4991



Industrial Power Division
P.O. Box 6000
Beamsville, Ontario. L0R 1B0
(416) 563-4991



Truck Parts Distribution



Chassis Products Division
P.O. Box 1048
Thorold, Ontario. L2V 4P3
(416) 227-3751



Industrial Products Division
80 Elm Street
St. Thomas, Ontario. N5P 3W3
(519) 631-1600



Automotive Distribution



Distributed Products Division
109 Inkerman Street
St. Thomas, Ontario. N5P 3G8
(519) 631-8600



Mobile Power Division
P.O. Box 6000
Beamsville, Ontario. L0R 1B0
(416) 563-4991



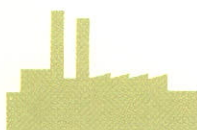
Mobile Off-Highway



Distribution Division
P.O. Box 6000
Beamsville, Ontario. L0R 1B0
(416) 563-4991



Truck Train Division
P.O. Box 3035
St. Catharines, Ontario. L2R 7E3
(416) 688-4565



Industrial Equipment



Drive Train Division
P.O. Box 1045
Thorold, Ontario. L2V 3Z6
(416) 227-3751

Corporate Address

One St. Paul, P.O. Box 3029
St. Catharines, Ontario. L2R 7K9
(416) 688-9511

CORPORATE DIRECTORY

Auditors:

Price Waterhouse; Hamilton

Principal Bankers:

The Royal Bank of Canada
The Toronto-Dominion Bank
National Bank of Detroit

Registrar: Series A Debentures

The Canada Trust Company; Toronto

Solicitors:

Smith, Lyons, Torrance, Stevenson & Mayer;
Toronto

Stock Exchange Listing:

The Toronto Stock Exchange
Symbol: HAY

Transfer Agent: Common Shares

The Canada Permanent Trust Company;
Toronto

Co-Transfer Agent:

Ohio Citizens Trust Company;
Toledo, Ohio

ANNUAL MEETING

*The Annual Meeting of Shareholders of
Hayes-Dana Inc. will be held in the
Dominion Ballroom of The Sheraton Centre,
123 Queen Street, West, Toronto, Ontario,
on Wednesday, March 20, 1985 at 11:00 a.m.*

HAYES-DANA INC.



FINANCIAL REPORT 1984



Consolidated Balance Sheet**1984****1983**

(At December 31)

ASSETS**Current assets:**

Cash and short-term investments	\$ 397,000	\$ 1,012,000
Accounts receivable	47,070,000	34,500,000
Inventories (Note 3)	79,051,000	67,341,000
Prepaid expenses	1,598,000	710,000
	128,116,000	103,563,000

Investments and advances (Note 4)	3,665,000	1,543,000
-----------------------------------	------------------	-----------

Fixed assets:

Land and improvements	4,326,000	2,745,000
Buildings	26,719,000	20,738,000
Machinery and equipment	97,268,000	86,641,000
	128,313,000	110,124,000
Less: Accumulated depreciation	72,313,000	63,378,000
	56,000,000	46,746,000

Other assets:

Unamortized deferred expenses (Note 5)	587,000	292,000
Goodwill	1,983,000	2,088,000
	2,570,000	2,380,000
	\$190,351,000	\$154,232,000

1984

1983

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Bank advances and notes payable	\$ 13,630,000	\$ 9,320,000
Current portion of long-term debt	1,068,000	407,000
Accounts payable and accrued liabilities	34,988,000	26,133,000
Due to Dana Corporation and affiliates	3,357,000	1,839,000
Income taxes payable	474,000	4,482,000
	53,517,000	42,181,000

Long-term debt (Note 6)	30,668,000	24,333,000
Deferred income taxes	12,442,000	12,994,000
Minority interest in subsidiaries	2,827,000	—

Shareholders' equity (Notes 7 and 8):

Common shares	26,429,000	25,813,000
Retained earnings	64,468,000	48,911,000
	90,897,000	74,724,000

\$190,351,000**\$154,232,000**

Approved by the Board:


G. D. DORESCO
Director

V. E. OECHSLE
Director

Consolidated Statement of Income and Retained Earnings		1984	1983
(Year ended December 31)			
Net sales	\$371,191,000	\$282,829,000	
Other income	2,551,000	737,000	
	373,742,000	283,566,000	
Costs and expenses:			
Cost of sales	309,161,000	245,541,000	
Selling, general and administrative expenses	26,304,000	21,506,000	
Interest on long-term debt	3,088,000	2,923,000	
Other interest	819,000	1,379,000	
	339,372,000	271,349,000	
Income before income taxes	34,370,000	12,217,000	
Income taxes (Note 9)	14,378,000	4,838,000	
	19,992,000	7,379,000	
Income before undernoted items:			
Minority interest in loss of consolidated subsidiaries	82,000	—	
Equity in loss of affiliated corporations	(167,000)	—	
Net income	19,907,000	7,379,000	
Retained earnings at beginning of year	48,911,000	44,927,000	
	68,818,000	52,306,000	
Dividends	4,350,000	3,395,000	
Retained earnings at end of year	\$ 64,468,000	\$ 48,911,000	
Net income per share	\$2.61	\$1.07	
Dividends per share—Declared and paid	.57	.48	

Consolidated Statement of Changes in Financial Position**1984****1983**

(Year ended December 31)

Financial resources were provided by:

Net income	\$19,907,000	\$ 7,379,000
Charges (credits) not requiring current funds—		
Amortization of goodwill and deferred expenses	396,000	467,000
Depreciation	7,646,000	10,140,000
Deferred income taxes	(586,000)	(2,420,000)
Minority interest in loss of consolidated subsidiaries	(82,000)	—
Equity in loss of affiliated corporations	167,000	—
Working capital provided by operations	27,448,000	15,566,000
Sale of fixed assets	576,000	457,000
Common stock issued (Note 7)	616,000	12,535,000
Increase in long-term debt	4,855,000	—
	33,495,000	28,558,000

Financial resources were used for:

Increase in investments and advances	1,429,000	1,543,000
Additions to fixed assets	10,535,000	5,630,000
Dividends	4,350,000	3,395,000
Decrease in long-term debt	—	350,000
Acquisition of subsidiaries, net of working capital acquired of \$1,317,000 (Note 10)	3,646,000	—
Increase in other assets, before amortization of goodwill and deferred expenses	318,000	—
	20,278,000	10,918,000

Increase in working capital	13,217,000	17,640,000
Working capital at beginning of year	61,382,000	43,742,000
Working capital at end of year	\$74,599,000	\$61,382,000

Notes to Consolidated Financial Statements December 31, 1984

1. Summary of accounting policies:

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

Basis of consolidation—

The consolidated financial statements include the accounts of the Corporation and all of its subsidiary companies except the wholly-owned subsidiary, St. Catharines Financial Inc. and its subsidiary, CSL Silicones Ltd. Since the operations and assets of St. Catharines Financial Inc. and its subsidiary are not similar to those of Hayes-Dana Inc., the investment in the shares is carried on the equity method of accounting. In addition, investments in the shares of associated companies in which the Corporation has a significant influence but not majority ownership are accounted for on the equity basis.

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 2½ % and 5 % on buildings and generally 10 % on machinery and equipment.

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.

Patents are amortized on a straight-line basis over their average life.

✦ 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 periods up to ten years.

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: all monetary assets and liabilities at rates in effect at the appropriate period end; other assets and liabilities are translated at rates prevailing at the date of acquisition, and revenues and expenses at average rates for the period. Translation gains and losses are included in income except for unrealized gains and losses arising from the translation of long-term monetary assets and liabilities which are deferred and amortized over the remaining lives of the related items.

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 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. Change in accounting policy:

Effective January 1, 1984, the Corporation adopted prospectively the recommendation of the Canadian Institute of Chartered Accountants for foreign currency translation. Prior years' results have not been restated to reflect the impact of this change. At December 31, 1984 unrealized gains of \$3,885,000 (December 31, 1983—\$2,765,000) which in the past would have been deferred on the balance sheet have been, in accordance with the new CICA pronouncement, credited to current years' income.

3. Inventories:

	December 31	
	1984	1983
Raw materials	\$11,267,000	\$10,602,000
Work-in-process and finished goods	67,784,000	56,739,000
	<u>\$79,051,000</u>	<u>\$67,341,000</u>

4. Investments and advances:

	December 31	
	1984	1983
Affiliated companies carried on equity basis—		
St. Catharines Financial Inc.	\$ 750,000	\$ 566,000
Wix International Corporation	860,000	—
	<u>1,610,000</u>	<u>566,000</u>
Advances to affiliated corporations	2,055,000	977,000
	<u>\$ 3,665,000</u>	<u>\$ 1,543,000</u>

St. Catharines Financial Inc., a wholly-owned subsidiary of Hayes-Dana Inc., has a 60% interest in CSL Silicones Inc. which is carried on the equity method of accounting.

A summary of St. Catharines Financial Inc. financial statements, as at December 31, 1984, is as follows:

Balance Sheet

	December 31	
	1984	1983
Assets		
Current assets	\$ 26,000	\$ —
Fixed assets, net	1,290,000	603,000
Investment in subsidiary, at equity	305,000	503,000
Other assets	29,000	—
	<u>\$1,650,000</u>	<u>\$1,106,000</u>
Liabilities and Shareholder's Equity		
Current liabilities	\$ 143,000	\$ 3,000
Due to Hayes-Dana Inc.	—	530,000
Long-term debt	750,000	—
Deferred income tax	7,000	7,000
Shareholder's equity:		
Common shares	911,000	560,000
Retained earnings (deficit)	(161,000)	6,000
	<u>\$1,650,000</u>	<u>\$1,106,000</u>

Statement of Operations

Rental revenue	\$ 300,000	\$ 31,000
Operating, general and administrative expenses	162,000	9,000
Interest expense	75,000	10,000
	<u>237,000</u>	<u>19,000</u>
Income from operations	63,000	12,000
Equity in income (loss) of subsidiary	(198,000)	1,000
Income (loss) before income taxes	(135,000)	13,000
Income taxes	32,000	7,000
Net income (loss)	<u>\$ (167,000)</u>	<u>\$ 6,000</u>

5. Unamortized deferred expenses:

	December 31	
	1984	1983
Deferred start-up costs	\$ 318,000	\$ —
Patents	56,000	56,000
Debenture issue costs	213,000	236,000
	\$ 587,000	\$ 292,000

6. Long-term debt:

	December 31	
	1984	1983
12¾% 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	\$13,500,000
Bank note payable maturing December 22, 1987. The interest rate fluctuates based on the cost of funds and may be fixed by the Corporation at any time from 30 days to the balance of the term.	10,000,000	10,000,000
Bank note payable maturing January 6, 1986 with interest at 11¼%.	7,000,000	—
Obligations under capital leases.	1,236,000	1,240,000
	31,736,000	24,740,000
Less amount due within one year	1,068,000	407,000
	\$30,668,000	\$24,333,000

7. 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 plan, whereby the shareholders have the right to receive dividends in stock rather than cash. The Corporation also has a dividend reinvestment plan, wherein shareholders may have their cash dividends automatically reinvested in new shares. In addition, Hayes-Dana Inc. has a service recognition plan, whereby employees receive five shares on each quinquennial anniversary of service with the Corporation. 34,586 shares have been reserved for issuance under these three plans.

	December 31	
	1984	1983
Total number of common shares issued and outstanding	7,660,448	7,602,684
During the year, common shares were issued and proceeds received pursuant to:		
Dividend plans	5,031	5,243
Employee share plans	52,733	56,775
Private placements (1983—1,000,000 at \$12)	—	1,000,000
Total number of common shares issued	57,764	1,062,018
Total cash proceeds received	\$ 616,000	\$12,535,000

8. Stock options:

The employees' stock option plans provide for options to be granted to key employees to purchase up to 374,062 shares of the Corporation's common shares at prices equal to the market value of the shares on the dates granted. During the year ended December 31, 1984, options were exercised resulting in the issuance of 49,038 shares for cash of \$469,000. No options were granted in 1984.

Expiry date	Option price per share	Number of shares at December 31	
		1984	1983
September 24, 1984	\$10.000	—	25,475
September 24, 1985	9.500	25,477	37,375
October 14, 1986	7.625	34,485	46,500
June 3, 1988	12.250	59,125	65,900
		119,087	175,250

Of these, 28,487 share options are held by eight officers, of whom one is a director.

9. Income taxes:

The Corporation's effective tax rate is made up as follows:

		December 31	
		1984	1983
Corporate tax rate	50.8%	\$17,460,000	51.3% \$6,267,000
Less: Rate reduction due to manufacturing and processing credits	(6.6)	(2,268,000)	(6.6) (806,000)
Statutory rate	44.2	15,192,000	44.7 5,461,000
Permanent differences—			
3% inventory allowance	(2.6)	(893,000)	(6.3) (772,000)
Federal investment tax credit	(0.8)	(274,000)	(0.6) (72,000)
Other	1.0	353,000	1.8 221,000
Effective tax rate	41.8%	\$14,378,000	39.6% \$4,838,000

Subsidiaries have investment tax credits of approximately \$209,000, \$48,000 and \$8,000 which are available to reduce future income taxes payable until 1986, 1987 and 1988 respectively. The tax credits will increase taxable income in the year claimed.

10. Acquisition of Wix Inc.:

Effective November 28, 1984, the Corporation acquired 59% of the common shares of Wix Inc. for a total cash consideration of \$4,963,000. Wix Inc. is a manufacturer and distributor of various automotive and industrial filters.

The acquisition was accounted for by the purchase method and is summarized as follows:

Net assets acquired, at fair values—	
Working capital	\$1,317,000
Fixed assets	6,941,000
Other non-current assets	863,000
	9,121,000
Less:	
Long-term debt	1,480,000
Deferred income taxes	34,000
Minority interest in subsidiary	2,909,000
	4,698,000
Goodwill	265,000
Consideration	\$4,963,000

The results of operations of Wix Inc. have been included in the consolidated statement of income and retained earnings from November 28, 1984.

The remaining 41% of the common shares are owned by Dana Corporation, the Corporation's parent company.

11. Related party transactions:

Under long-standing arrangements, the Corporation obtained, at rates and terms which the Corporation believes are fair and equitable, advice, products and services from Dana Corporation, its parent company. For the year ended December 31, 1984, both the Corporation's sales to and purchases from Dana Corporation represented 16% and 18% of the Corporation's total sales and cost of sales for the year, respectively.

12. Sales to major vehicle manufacturers:

The only customer, excluding Dana Corporation, which accounted for more than 10% of the Corporation's total sales for the year ended December 31, 1984 was Ford Motor Company at 27% (December 31, 1983—30%). Sales to International Harvester, General Motors and Chrysler represented 8%, 5% and 4% of total sales respectively.

13. Pension plans:

The Corporation provides retirement benefits for substantially all of its employees under eight different pension plans. Annual costs, vested benefits, liabilities, etc., are determined by independent actuaries. The cost of funding current service benefits is expensed as incurred. Unfunded liabilities or experience deficiencies are funded in accordance with actuarial recommendations, over not more than fifteen years. The assumed rates of return used to determine plan benefits were 5% to 6% in 1984 and 1983.

Pension plan expense for the year amounted to \$4,544,000. (1983—\$4,680,000).

Aggregate plan amounts at December 31 were:

(\$ thousands)	1984	1983
Plan assets, at market value	\$54,871	\$47,891
Unfunded employee vested benefits	17,260	14,400
Total unfunded past service liability	18,442	16,900

14. Commitments:

At December 31, 1984, the Corporation was committed under non-cancellable leases for the following future minimum lease payments:

1985	\$1,644,000
1986	1,316,000
1987	1,097,000
1988	716,000
Thereafter	366,000
Total future minimum lease payments	53,000
	\$5,192,000

Outstanding commitments relating to the purchase of fixed assets amount to approximately \$3,116,000 at December 31, 1984.

15. 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 comprises the manufacture and marketing of various products for agricultural, marine and resource industries, including off-highway vehicles.

For the year ended December 31		1984	1983
(\$ thousands)			
Net sales	—Vehicular	\$328,971	\$243,826
	—Industrial	42,220	39,003
		\$371,191	\$282,829
Operating profit	—Vehicular	\$ 41,163	\$ 19,200
	—Industrial	357	1,375
		41,520	20,575
General corporate expense		(3,410)	(4,056)
Interest expense		(3,907)	(4,302)
Income taxes		(14,378)	(4,838)
		19,825	7,379
Minority interest in loss of consolidated subsidiary		82	—
Net income		\$ 19,907	\$ 7,379
Depreciation	—Vehicular	\$ 5,574	\$ 8,155
	—Industrial	1,411	1,490
	—Corporate	661	495
		\$ 7,646	\$ 10,140
Additions to fixed assets (net)	—Vehicular	\$ 6,304	\$ 4,177
	—Industrial	1,548	166
	—Corporate	2,107	830
		\$ 9,959	\$ 5,173
Identifiable assets	—Vehicular	\$144,666	\$124,595
	—Industrial	38,326	23,077
	—Corporate	7,359	6,560
		\$190,351	\$154,232
Business acquired	—Vehicular	\$ 3,534	\$ —
	—Industrial	112	—
		\$ 3,646	\$ —
Export sales		\$165,459	\$119,744

Management's and Auditors' Reports

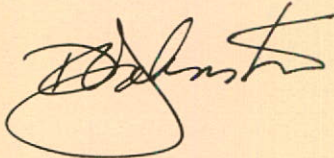
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Hayes-Dana Inc. have been prepared by management, which is responsible for their integrity and objectivity. These statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on judgments of management.

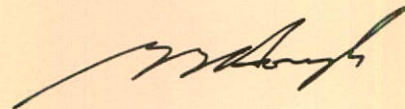
Our policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. These systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Corporation's assets are accounted for and protected from loss.

The Board of Directors, through its Audit Committee, which is composed of non-management directors, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee meets periodically with management and the independent auditors to review accounting, auditing and financial matters. The Committee reports its findings to the Board of Directors for consideration in approving the financial statements, for issuance to the shareholders.

The financial statements have been examined independently by Price Waterhouse, on behalf of the shareholders, in accordance with generally accepted auditing standards. Their opinion appears below.



D. G. Johnston,
Vice President, Finance and Treasurer



G. G. Hough,
Vice President, Controller

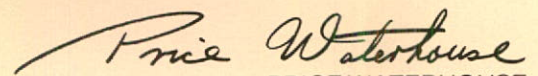
AUDITORS' REPORT

To the Shareholders of Hayes-Dana Inc.:

We have examined the consolidated balance sheet of Hayes-Dana Inc. as at December 31, 1984 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 Corporation as at December 31, 1984 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, except for the change in the method of accounting for foreign currency translation as explained in Note 2 to the consolidated financial statements.

Hamilton, Ontario
January 23, 1985



PRICE WATERHOUSE
Chartered Accountants

Accounting for the Effects of Inflation (Unaudited)

The primary financial statements are based on historical cost accounting, which matches actual costs incurred with actual revenues received. To highlight the effect of inflation and the decline in the purchasing power of the dollar on business and management's success in coping with inflation, the Canadian Institute of Chartered Accountants (CICA) has recommended that corporations provide supplemental information to show the effect of inflation, using current cost accounting.

Current cost accounting, by definition, is a method of measuring assets and expenses associated with the use and sale of assets at their current cost or lower recoverable amount at the balance sheet date, or at the date of use or sale. Current cost data is determined by valuing inventory at current replacement cost, cost of goods sold using the LIFO method of accounting, and property, plant and equipment by indexing historical costs of individual categories, except for land, where values are based on current market values.

This method of reporting inflationary effects requires the use of numerous assumptions and estimates, and accordingly, the resulting information, presented below, is not a precise indication of the effects of inflation on the results of Hayes-Dana's operations. In addition, the provision for income taxes, according to the CICA recommendations, remains unchanged, since adjustments to income under the current costs computations are not deductible for tax purposes. This results in a tax rate, under the current cost method, which significantly exceeds the Corporation's effective tax rate.

The following schedules summarize selected information for the two years ended December 31, 1984 and 1983.

Statement of Income from Operations, Adjusted for Changing Prices (\$ thousands)

	Year Ended December 31			Other Supplementary Data	Year Ended December 31	
	Historical 1984	Current Cost 1984	1983*		Current Cost 1984	1983*
Net sales and other income	\$373,742	\$373,742	\$296,148	Effect of general inflation	\$ (5,958)	\$ (5,949)
Cost of sales	302,346	302,346	246,220	Increase in current cost of inventory and fixed assets held during year	1,915	2,251
Other expenses, including interest	29,380	29,380	26,239	Net increase in current cost over effect of general inflation	(4,043)	(3,698)
Depreciation	7,646	10,036	16,277	Gain in general purchasing power from net monetary liabilities	1,018	1,425
Income taxes	14,378	14,378	5,053	Financing adjustment	\$ 373	\$ 583
Net income before undernoted items	19,992	17,602	2,359			
Minority interest in loss of consolidated subsidiaries	82	82	—			
Equity in loss of affiliated Corporations	(167)	(167)	—			
Net income on a current cost basis	\$ 19,907	\$ 17,517	\$ 2,359			

*Comparative data for 1983 has been restated into 1984 dollars.

Schedule of Assets at December 31

Inventory	\$ 79,051	\$ 79,287	\$ 71,230
Net fixed assets	56,000	80,681	74,190
Shareholders' equity	90,897	115,814	103,297

Eleven-Year Financial Summary

For the Years Ended	Dec. 1984	Dec. 1983	Dec. 1982	Dec. 1981
Operations Data				
(\$ thousands)				
Net Sales	\$371,191	\$282,829	\$217,175	\$223,243
Cost of sales	309,161	245,541	191,202	192,872
Gross margin %	16.7	13.2	12.0	13.6
Income before taxes	34,370	12,217	2,047	8,133
Income taxes	14,378	4,838	115	2,695
Net Income	19,907	7,379	1,932	5,438
% of sales	5.4	2.6	.9	2.4
Interest expense	3,907	4,302	5,245	7,064
Depreciation	7,646	10,140	7,647	8,079
Fixed asset additions	10,535	5,630	9,466	3,976
Dividends	4,350	3,395	3,039	2,204
Year End Financial Position				
(\$ thousands)				
Current assets	\$128,116	\$103,563	\$ 83,486	\$ 72,183
Working capital	74,599	61,382	43,742	44,437
Ratio of current assets to current liabilities	2.4:1	2.5:1	2.1:1	2.6:1
Fixed assets, at cost	128,313	110,124	106,810	96,504
Fixed assets, less accumulated depreciation	56,000	46,746	51,713	49,315
Total assets	190,351	154,232	138,046	123,965
Long-term debt	30,668	24,333	24,683	22,666
Total debt	45,366	34,060	43,141	28,120
Shareholders' equity	90,897	74,724	58,205	56,329
Data Per Share				
Net income	\$ 2.61	\$ 1.07	\$.30	\$.89
Cash dividends	.57	.48	.48	.48
Shareholders' equity	11.87	9.83	8.90	9.17
Working capital	9.74	8.07	6.69	7.23

Aug. 1980	Aug. 1979	Aug. 1978	Aug. 1977	Aug. 1976	Aug. 1975	Aug. 1974
\$202,197	\$212,206	\$150,081	\$145,164	\$128,944	\$90,187	\$90,051
176,133	186,261	130,014	127,328	112,724	79,785	81,124
12.9	12.2	13.4	12.3	12.6	11.5	10.0
6,823	13,743	11,291	10,819	9,961	5,273	4,312
2,107	5,018	4,355	4,270	4,170	2,228	1,904
4,716	8,725	6,936	6,549	5,791	3,045	2,408
2.3	4.1	4.6	4.5	4.5	3.4	2.7
6,922	2,666	876	857	874	1,219	1,194
7,578	3,735	3,223	3,344	3,757	3,667	3,376
7,616	26,093	11,635	3,780	3,844	3,690	3,762
2,919	2,660	1,932	1,592	1,446	1,436	1,461
\$ 77,410	\$ 82,732	\$ 56,726	\$ 37,066	\$ 36,401	\$28,821	\$31,725
25,837	9,989	18,429	24,137	19,681	9,568	8,423
1.5:1	1.1:1	1.5:1	2.9:1	2.2:1	1.5:1	1.4:1
102,133	92,160	66,168	62,570	59,106	55,259	52,580
64,489	59,027	36,602	28,190	27,754	31,221	31,198
144,819	142,762	94,419	66,453	65,445	61,326	65,148
24,220	1,000	—	4,898	4,898	1,500	4,000
49,371	38,157	17,613	4,898	6,813	11,700	14,665
54,032	52,050	45,848	40,833	35,876	31,271	29,662
\$.78	\$ 1.44	\$ 1.15	\$ 1.08	\$.96	\$.51	\$.40
.48	.44	.32	.26	.24	.24	.24
8.88	8.59	7.59	6.76	5.94	5.22	4.96
4.25	1.65	3.05	4.00	3.26	1.60	1.40

Quarterly Financial Data

The quarterly net sales, gross profit, net income and earnings per share, as previously reported in unaudited quarterly reports to shareholders are set forth in the following table (\$ thousands, except per share amounts):

	Quarter Ended	Net Sales	Gross Profit	Net Income	Earnings per Share
1984	March 31	\$ 95,509	\$14,940	\$ 4,718	\$.62
	June 30	96,832	17,117	5,800	.76
	September 30	87,696	14,116	4,321	.57
	December 31	91,154	15,857	5,068	.66
	Year	371,191	62,030	19,907	2.61
1983	March 31	\$ 62,058	\$ 7,990	\$ 1,108	\$.17
	June 30	69,991	10,134	2,040	.31
	September 30	68,374	8,266	1,644	.21
	December 31	82,406	10,898	2,587	.38
	Year	282,829	37,288	7,379	1.07

Shareholders' Investment

The following table indicates the range of market prices of Hayes-Dana Inc. stock on the Toronto Stock Exchange, and the dividends declared for each quarter, during 1984 and 1983. At December 31, 1984, the closing price of Hayes-Dana stock was \$19.00, and the price earnings multiple on that date was 7.3.

Quarter Ended	Price Range				Dividends	
	1984		1983		1984	1983
	HI	LO	HI	LO		
March 31	18.50	14.62	14.25	10.75	.12	.12
June 30	17.12	14.00	14.12	12.00	.15	.12
September 30	17.25	13.75	15.50	12.75	.15	.12
December 31	21.25	16.50	16.00	14.12	.15	.12
					.57	.48

