

1988

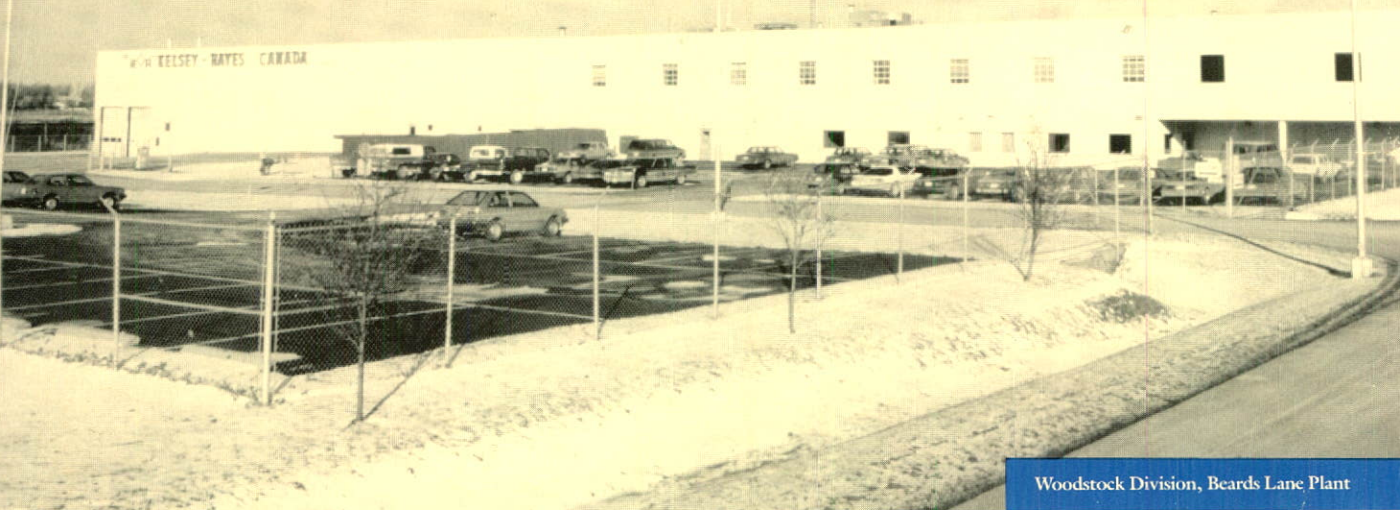
KELSEY-HAYES
CANADA LIMITED

ANNUAL
REPORT



SPENDING
Q1
REVENUE

The Company was founded in 1913 as Kelsey Wheel Company Limited. In 1961, Eureka Foundry and Manufacturing Company Limited, Woodstock, Ontario, was acquired. In 1966, Conroy Manufacturing Company Limited, St. Catharines, Ontario, was acquired. Effective February 1, 1967, a statutory merger of the three companies was carried out and the name of the successor Company became Kelsey-Hayes Canada Limited.



Woodstock Division, Beards Lane Plant



Chrysler Premier disc brake rotor and drum line

LETTER TO THE SHAREHOLDERS OF KELSEY-HAYES CANADA LIMITED

Kelsey-Hayes Canada Limited sales and profit rose in 1988, ending the declines experienced over the previous two years. Sales were up 4.2% to \$146,814,641 in 1988 compared to \$140,886,612 in 1987. Net earnings were \$7,836,761 or \$1.19 per share compared with \$5,532,369 or \$0.84 per share in 1987, resulting in a 41.7% improvement in earnings.

The sales improvement reflected the new products produced at the Woodstock Division, such as the 1989 Chrysler "C" car line (Chrysler New Yorker, Dodge Dynasty). While Windsor sales were approximately the same in 1988 as in 1987, there was also an improvement in the sales at the St. Catharines Division by \$2,000,000. The profit improvement in 1988 was due to the efforts of the Windsor Division to reduce operating costs to more than offset lower margins on steel wheels and to the improved sales at Woodstock.

Capital investment in 1988 was \$1,303,636 compared to 1987 at \$3,907,199. 1988 was a period of consolidation after the heavy investment years in 1987 and 1986.

Woodstock Division enhanced their reputation as a Quality Supplier to the automotive industry by again earning the Chrysler Pentastar Award for the fourth straight year. Only fourteen companies out of approximately three thousand suppliers to Chrysler worldwide have achieved this goal. Both Windsor and Woodstock Divisions have maintained their Quality Awards from Ford, General Motors, and Chrysler in 1988. Looking to the future, all the Divisions must maintain constant improvements to quality as the new requirements for North America become increasingly stringent. We believe that our Company must provide the best quality at the right price to be successful in the automotive marketplace today.

The Directors and Officers of your company appreciate the rewarding efforts of our employees and suppliers to reduce costs, improve quality and productivity in our 75th year of operation.

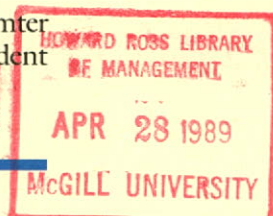
Robert G. Siefert

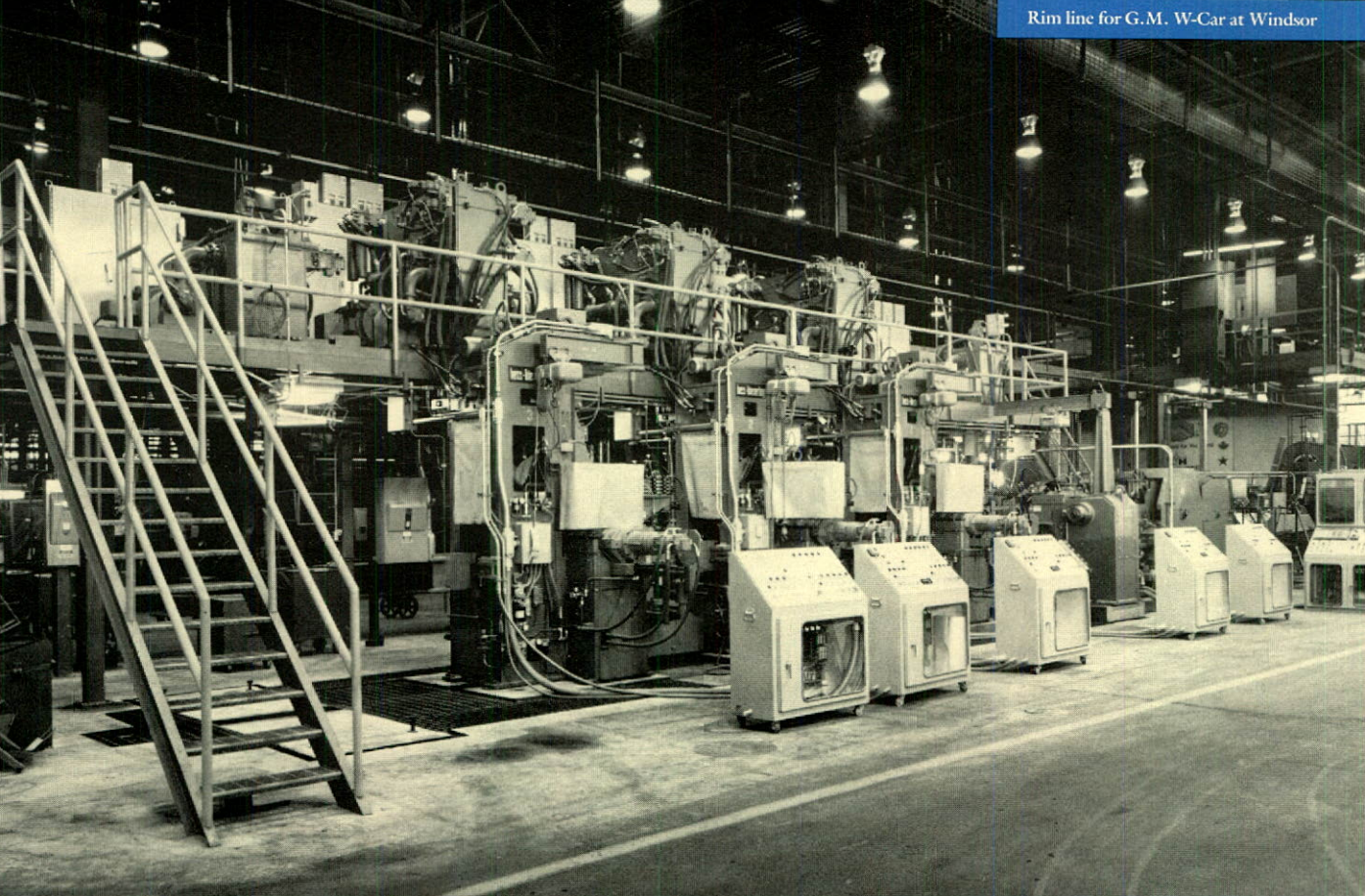
R. G. Siefert
Chairman of the Board

Donald O. Remter

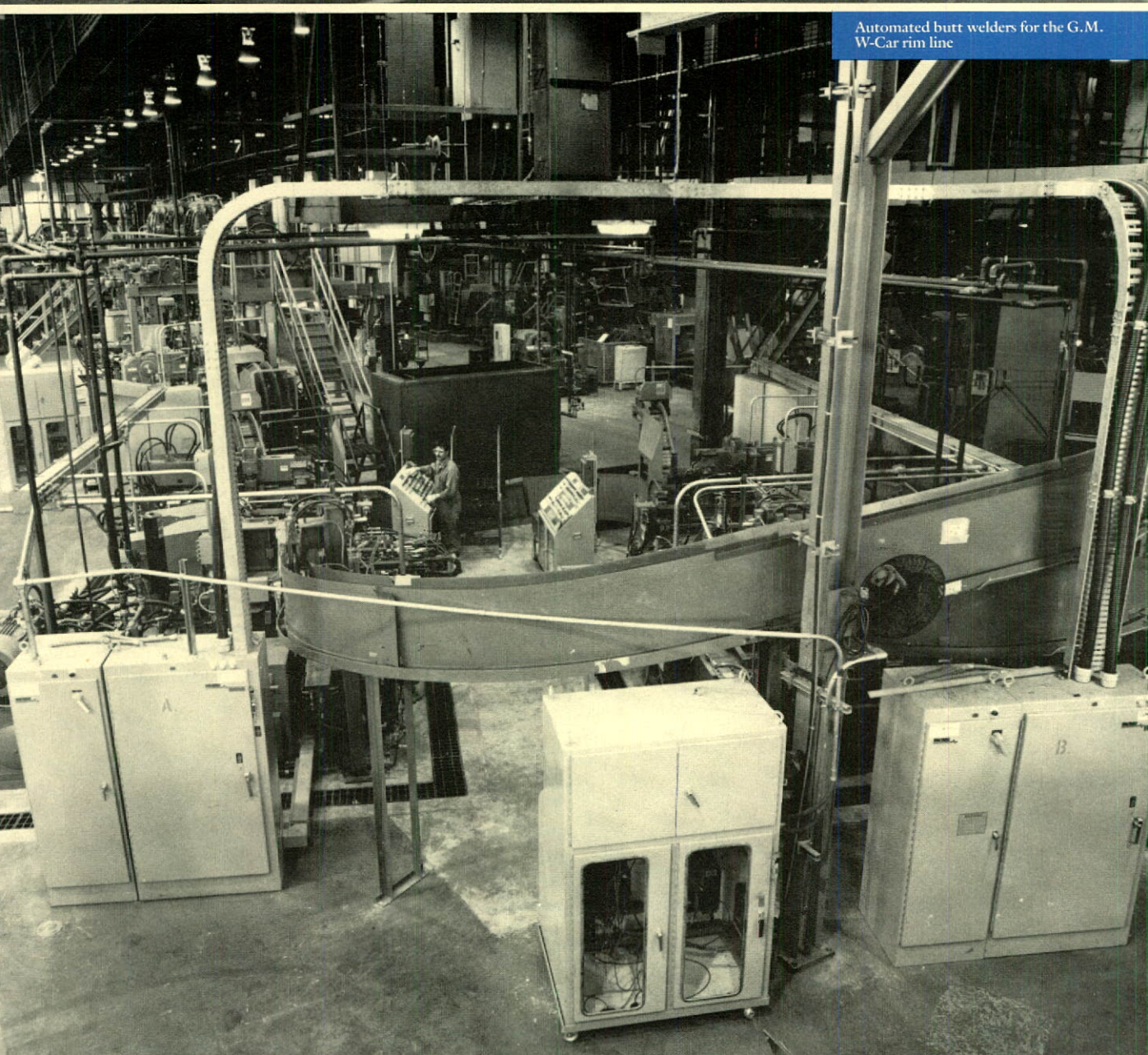
D.O. Remter
President

Windsor, Ontario, April 9, 1989





Automated butt welders for the G.M. W-Car rim line



FINANCIAL STATEMENTS

1988 Financial highlights

| | 1988 | 1987 |
|--|---------------|---------------|
| Net Sales | \$146,815,000 | \$140,887,000 |
| Net Earnings | 7,837,000 | 5,532,000 |
| Net Earnings per Share | 1.19 | .84 |
| Working Capital | 90,144,000 | 84,239,000 |
| Property, Plant and Equipment | | |
| Expenditures | 1,304,000 | 3,907,000 |
| Depreciation | 4,766,000 | 4,833,000 |
| Book Value per Share of Common Stock | 16.56 | 16.17 |

Statement of earnings and retained earnings

| <i>For the year ended December 31, 1988</i> | 1988 | 1987 |
|---|----------------------|----------------------|
| Sales | \$146,814,641 | \$140,886,612 |
| Investment income | 6,521,014 | 5,463,580 |
| | <u>\$153,335,655</u> | <u>\$146,350,192</u> |
| Expenses | | |
| Cost of sales. | \$125,680,776 | \$121,232,763 |
| Depreciation | 4,766,133 | 4,833,112 |
| Selling, general and administrative | 8,465,854 | 8,293,201 |
| Employees' pension plans (Note 2) | 86,131 | 1,058,747 |
| | <u>138,998,894</u> | <u>135,417,823</u> |
| Earnings before income taxes | <u>14,336,761</u> | <u>10,932,369</u> |
| Income taxes | | |
| Current | 6,700,000 | 5,600,000 |
| Deferred | (200,000) | (200,000) |
| | <u>6,500,000</u> | <u>5,400,000</u> |
| Net earnings for the year. | 7,836,761 | 5,532,369 |
| Retained earnings, beginning of year | 105,612,949 | 104,040,580 |
| | <u>113,449,710</u> | <u>109,572,949</u> |
| Dividends | 5,280,000 | 3,960,000 |
| Retained earnings, end of year | <u>\$108,169,710</u> | <u>\$105,612,949</u> |
| Earnings per share | <u>\$ 1.19</u> | <u>\$.84</u> |

(See Accompanying Notes to the Financial Statements)

KELSEY-HAYES CANADA LIMITED
(Incorporated under the Business Corporations Act – Ontario)

1988 Balance sheet as at December 31, 1988

| ASSETS | 1988 | 1987 |
|--|----------------------|----------------------|
| Current | | |
| Cash and short-term deposits | \$ 80,822,508 | \$ 68,804,120 |
| Accounts receivable | 16,410,112 | 16,037,686 |
| Due from affiliated companies | 1,388,767 | 201,393 |
| Income taxes receivable | — | 221,187 |
| Inventories | 9,657,911 | 11,693,321 |
| Special tooling for current production | 2,230,434 | 2,403,051 |
| Prepaid expenses | 81,357 | 143,691 |
| | <u>110,591,089</u> | <u>99,504,449</u> |
| Property, plant and equipment | | |
| Land | 512,723 | 513,751 |
| Buildings and land improvements | 13,531,395 | 13,278,358 |
| Machinery and equipment | 76,567,324 | 76,351,629 |
| | <u>90,611,442</u> | <u>90,143,738</u> |
| Deduct accumulated depreciation | 58,735,724 | 54,805,523 |
| | <u>31,875,718</u> | <u>35,338,215</u> |
| | <u>\$142,466,807</u> | <u>\$134,842,664</u> |
| LIABILITIES | 1988 | 1987 |
| Current | | |
| Accounts payable and accrued liabilities | \$ 12,318,087 | \$ 10,529,049 |
| Wages payable | 3,322,269 | 3,746,519 |
| Income taxes payable | 2,496,463 | — |
| Dividends payable | 2,310,000 | 990,000 |
| | <u>20,446,819</u> | <u>15,265,568</u> |
| Long-term | | |
| Pension accrual (Note 2) | 1,125,278 | 1,039,147 |
| Deferred income taxes | <u>11,600,000</u> | <u>11,800,000</u> |
| SHAREHOLDERS' EQUITY | | |
| Share capital | | |
| Authorized | | |
| Unlimited number of common shares | | |
| Issued | | |
| 6,600,000 shares | 1,125,000 | 1,125,000 |
| Retained earnings | 108,169,710 | 105,612,949 |
| | <u>109,294,710</u> | <u>106,737,949</u> |
| On behalf of the Board: | <u>\$142,466,807</u> | <u>\$134,842,664</u> |
| R. G. Siefert, Director | | |
| D. O. Remter, Director | | |

(See Accompanying Notes to the Financial Statements)

Statement of changes in financial position

| <i>For the year ended December 31, 1988</i> | 1988 | 1987 |
|---|---------------------|---------------------|
| Funds provided by (used in) operating activities | | |
| Net earnings for the year | \$ 7,836,761 | \$ 5,532,369 |
| Non-cash items | | |
| Depreciation | 4,766,133 | 4,833,112 |
| Deferred income taxes (recovered) | (200,000) | (200,000) |
| Difference between pension expense and amount funded | 86,131 | 1,039,147 |
| | <u>12,489,025</u> | <u>11,204,628</u> |
| Net change in non-cash working capital | 6,112,999 | 2,034,139 |
| Funds provided by operations | <u>18,602,024</u> | <u>13,238,767</u> |
| Funds (used in) financing activities | | |
| Dividends | <u>(5,280,000)</u> | <u>(3,960,000)</u> |
| Funds remaining for investment | 13,322,024 | 9,278,767 |
| Funds (used in) investing activities | | |
| Purchases of property, plant and equipment . . . | <u>(1,303,636)</u> | <u>(3,907,199)</u> |
| Increase in funds for the year | 12,018,388 | 5,371,568 |
| Funds: | | |
| Cash and short-term deposits at beginning of year . . . | <u>68,804,120</u> | <u>63,432,552</u> |
| Cash and short-term deposits at end of year | <u>\$80,822,508</u> | <u>\$68,804,120</u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 1988

1 Summary of significant accounting policies

(a) Inventories

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

(b) Depreciation

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation of fixed assets has been calculated over the estimated useful lives of the assets as follows:

| | |
|---|---------------|
| Buildings and land improvements | 10 - 25 years |
| Machinery and equipment | 3 - 15 years |

(c) Income taxes

The company provides for income taxes under the tax allocation basis of accounting whereby income taxes are provided for in the year in which the related income is reflected in the financial statements. Deferred income tax provisions result from timing differences in the recognition of income and expense for income tax and financial statement purposes. Investment tax credits are recorded using the cost reduction approach.

(d) Pension costs and obligations

The company's pension plans cover substantially all employees. Pension benefit obligations are determined annually by an independent actuary using the unit-credit valuation method. Valuation of assets is based on market values at December 31 of each year. The amounts contributed by the company to the plans are established according to accepted actuarial procedures.

(e) Foreign currency conversion

Assets and liabilities of the company expressed in United States dollars are converted into Canadian dollars at the year end exchange rate. Transactions during the year are converted at the current rates then in effect.

2 Pension costs and obligations

Actuarial reports prepared during the year, which were based on projections of employees' compensation levels to the time of retirement, indicate that the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, as of January 1 of each year are as follows:

| | 1988 | 1987 |
|--------------------------------|--------------|--------------|
| Accrued pension benefits . . . | \$40,204,000 | \$42,187,000 |
| Pension fund assets | \$48,238,000 | \$46,629,000 |

The pension expense of \$86,131 (1987 - \$1,058,747) includes the amortization of experience gains. These amounts are being amortized on a straight-line basis over periods between 15 and 19 years.

The cumulative difference between the amounts expensed and the funding contributions has been reflected on the balance sheet as a long-term accrual.

3 Income taxes

The basic corporate tax rate for 1988 of 47.9% has been reduced to the effective provision rate of 45.3% by the application of the manufacturing and processing credit of 5.6% and increased by other tax adjustments netting 3.0%.

4 Segmented information

The company is a supplier of parts components to the automotive industry. Approximately 69% (1987 - 77%) of the company's sales are to its customers in the United States.

5 Related party transactions

Approximately 3% (1987 - 4%) of the total sales are to the company's parent and related companies.

The Shareholders,
Kelsey-Hayes Canada Limited.

We have examined the balance sheet of Kelsey-Hayes Canada Limited as at December 31, 1988 and the statements of earnings 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 company as at December 31, 1988 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.



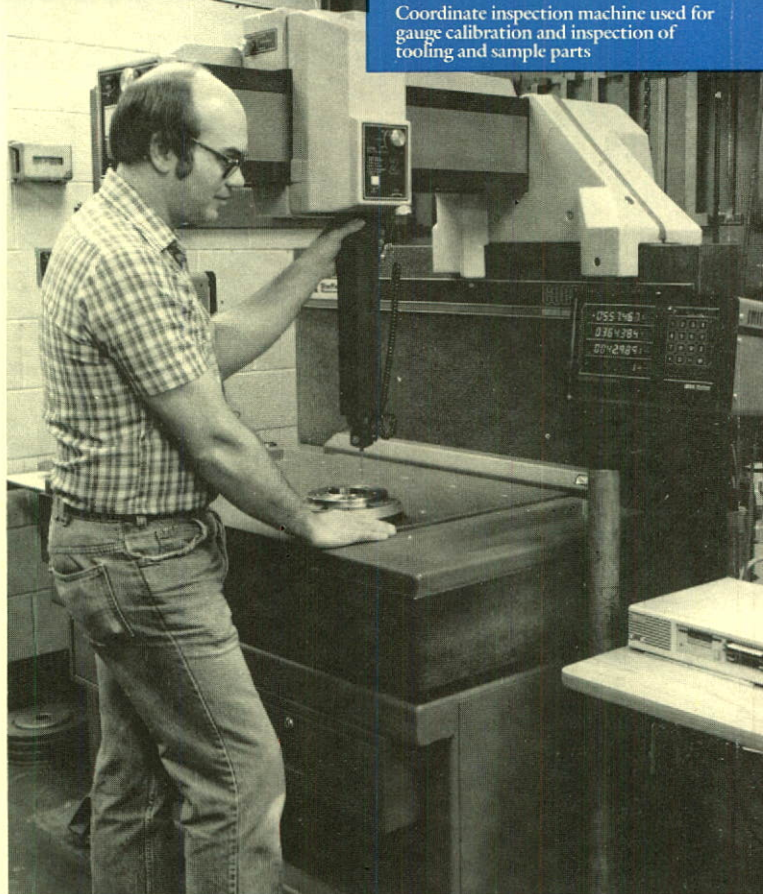
Windsor, Ontario
January 14, 1989

Chartered Accountants

Auditors' Report

5 Year financial review

| | 1988 | 1987 | 1986 | 1985 | 1984 |
|--|--|-----------|-----------|-----------|-----------|
| OPERATING RESULTS: | | | | | |
| | December 31 (Dollar Amounts in Thousands) | | | | |
| Net sales | \$146,815 | \$140,887 | \$156,749 | \$209,161 | \$222,249 |
| Net earnings before income taxes | 14,337 | 10,932 | 21,372 | 38,564 | 34,773 |
| Income taxes | 6,500 | 5,400 | 10,800 | 18,000 | 15,700 |
| Net earnings for the year | 7,837 | 5,532 | 10,572 | 20,564 | 19,073 |
| Dividends | 5,280 | 3,960 | 4,950 | 5,115 | 4,455 |
| Net increase in retained earnings | 2,557 | 1,572 | 5,622 | 15,449 | 14,618 |
| Expenditures for property, plant and equipment | 1,304 | 3,907 | 8,539 | 5,973 | 7,894 |
| Depreciation of plant and equipment | 4,766 | 4,833 | 4,145 | 4,129 | 3,588 |
| Per share of Common stock: | | | | | |
| Net earnings | \$ 1.19 | \$.84 | \$ 1.60 | \$ 3.12 | \$ 2.89 |
| Dividends | \$.80 | \$.60 | \$.75 | \$.78 | \$.68 |
| FINANCIAL POSITION: | | | | | |
| Current assets | \$110,591 | \$ 99,504 | \$101,028 | \$100,496 | \$ 88,840 |
| Current liabilities | 20,447 | 15,265 | 20,126 | 22,823 | 26,172 |
| Working capital | 90,144 | 84,239 | 80,902 | 77,673 | 62,668 |
| Property, plant and equipment (net) | 31,876 | 35,338 | 36,264 | 31,870 | 30,026 |
| Shareholders' investment | 109,295 | 106,738 | 105,166 | 99,543 | 84,095 |
| Book value per share of Common stock | \$ 16.56 | \$ 16.17 | \$ 15.93 | \$ 15.08 | \$ 12.74 |



Corporate Office:

Windsor, Ontario, Canada

Plants located in:

Windsor, Woodstock and
St. Catharines, Ontario

Board of Directors

J. L. Callaghan

T. Neal Combs

J. G. Crean

W. C. McIvor

D. O. Remter

D. A. Robinson

R. G. Siefert

Officers

R. G. Siefert
Chairman of the Board

D. O. Remter
President

D. A. Robinson
Secretary-Treasurer

Transfer Agent and Registrar

The National Trust Company
Toronto, Montreal, Winnipeg
and Vancouver

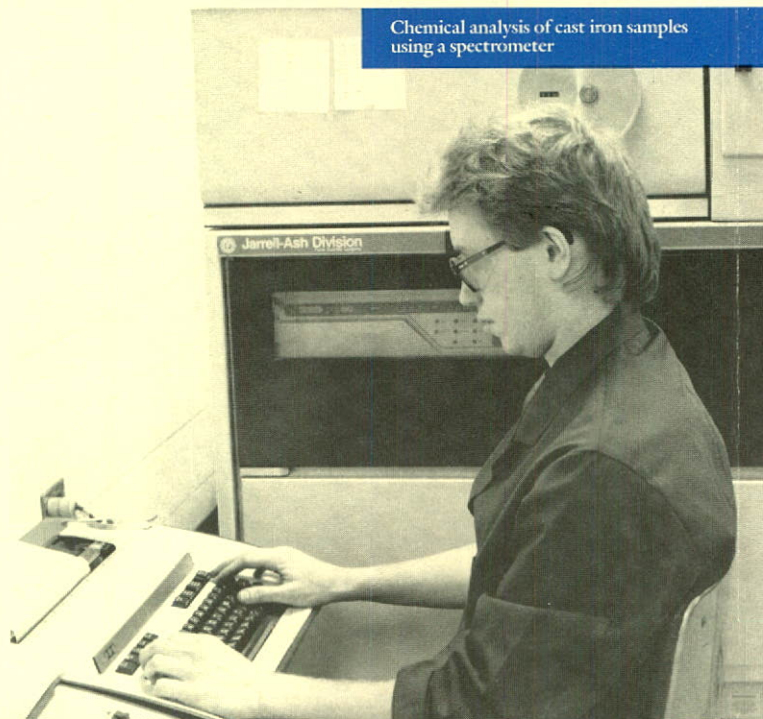
Auditors

Touche Ross & Co.,
Windsor, Ontario

Final automatic inspection machine for
a disc brake rotor with integral hub



Chemical analysis of cast iron samples
using a spectrometer



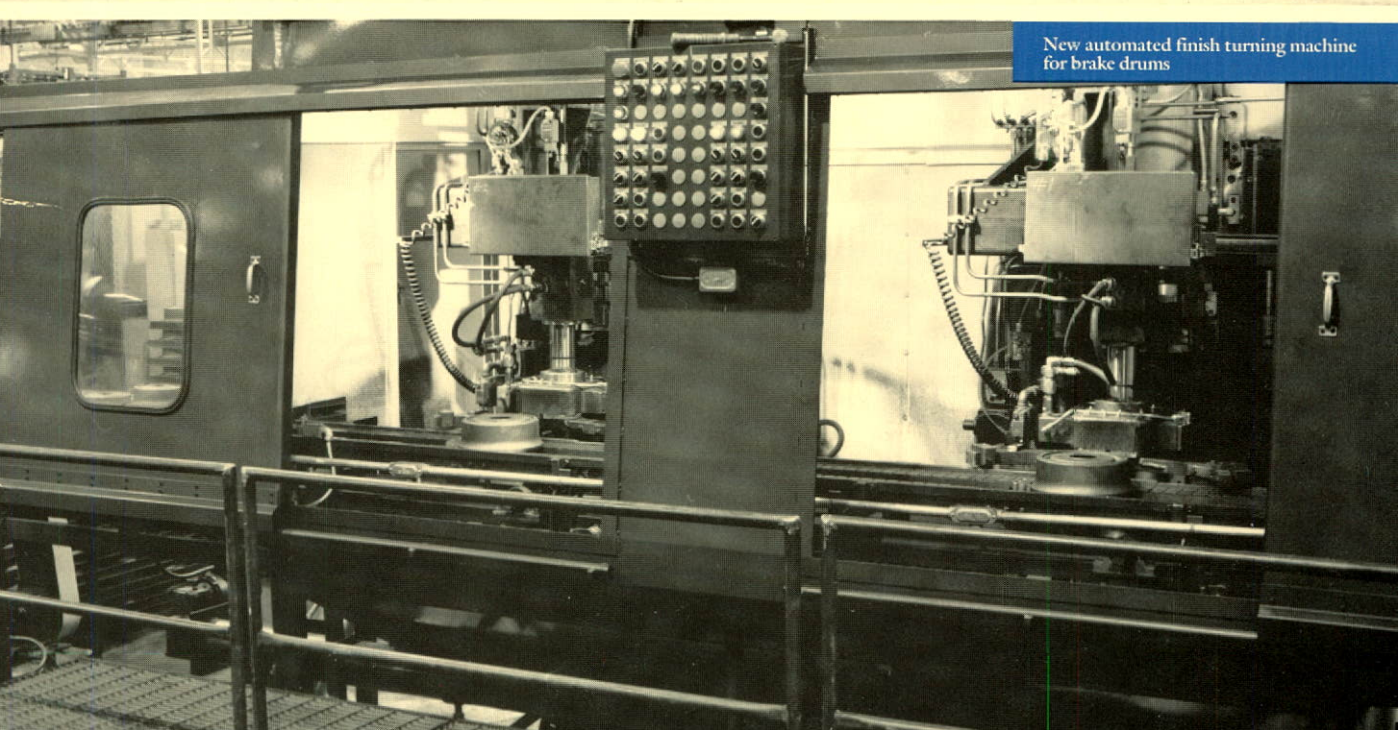
Windsor Division



Comroy Division, St. Catharines,
Ontario



New automated finish turning machine
for brake drums



KELSEY-HAYES CANADA LIMITED

MISSION

The Kelsey-Hayes Company mission is to be the best supplier of products and services to our customers. We will accomplish this through the dedicated efforts of our employees and by effectively using all resources within the corporation. Our success will result in growth and prosperity.

GUIDING PRINCIPLES

Customers are the focus of everything we do.

Highest industry quality is our objective.

Continuous improvement is essential to our success.

Every employee is important and can contribute.

Suppliers are our partners.

Integrity is never compromised.

Meeting company goals will insure our future.

COMPANY WIDE EXCELLENCE

