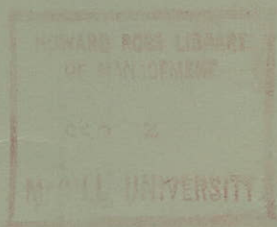
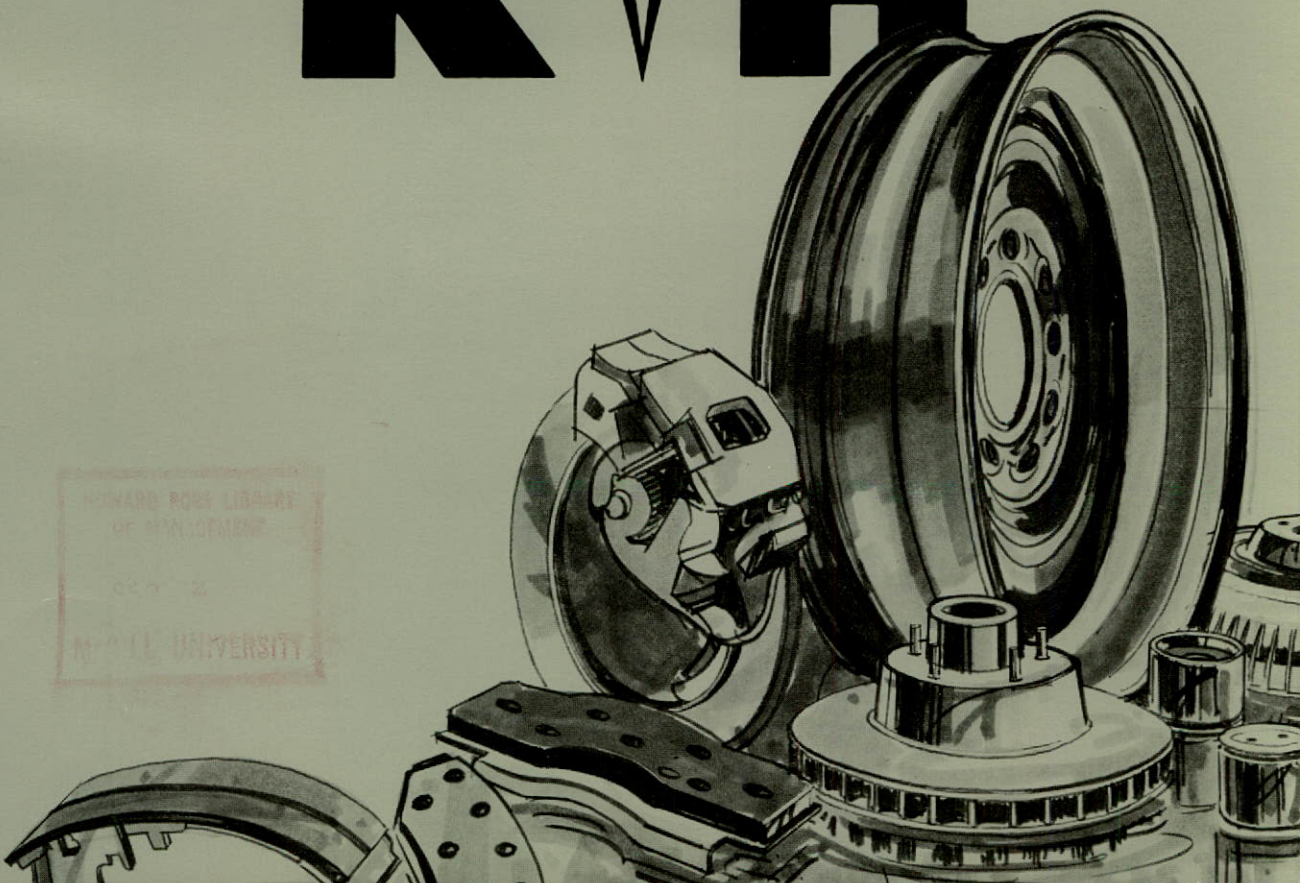
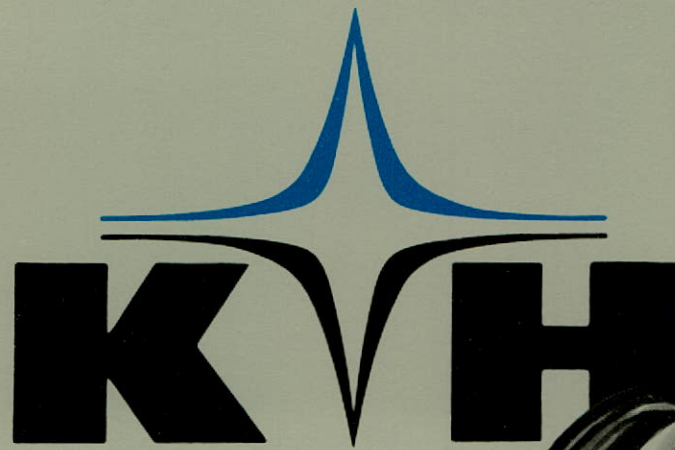


KELSEY-HAYES CANADA LIMITED • ANNUAL REPORT 1978





History of the Company

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.

Products of the Company

- Passenger car and light truck wheels
- Cast steel type wheels for heavy trucks and trailers
- Rotors for disc brakes for passenger cars and light trucks
- Brake drums for passenger cars and trucks.

Letter to the shareholders of Kelsey-Hayes Canada Limited

LETTER TO THE SHAREHOLDERS

In 1978, we achieved new records for both sales and earnings. Sales increased by 14% to \$130,463,000 compared with \$114,462,000 in 1977. The high level of sales reflects the strong performance of the North American automobile and truck market.

Earnings for the year ended December 31, 1978 were \$7,837,000 or \$7.12 per share. The comparable figures for 1977 were \$5,831,000 and \$5.30 per share. The earnings achieved reflect the strong demand for the companies products and the results of the cost reduction program and improved plant operations referred to in our Annual Report last year.

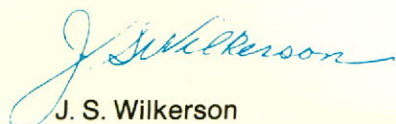
Capital expenditures amounted to \$2,356,000 which was comparable to the \$2,457,000 expended in 1977. Expenditures were under our expectations as we postponed the automatic moulding equipment program at Woodstock. The entire gray iron casting availability of our Company is presently under review and a decision on our expenditure plans should be reached in 1979.


During the year our Woodstock Division negotiated a new three year labour contract which expires January 31, 1981. Our Windsor Division labour contract expires January 15, 1980 and our Conroy Division on August 31, 1980.

The final instalment of long-term debt was retired in 1978.

The automotive vehicle manufacturers are forecasting another good year for the industry and this should generate another year of high sales and earnings for our Company. We would point out however that the labour contracts of the major automotive manufacturers expire in September 1979 and if a work disruption takes place it could affect our performance.

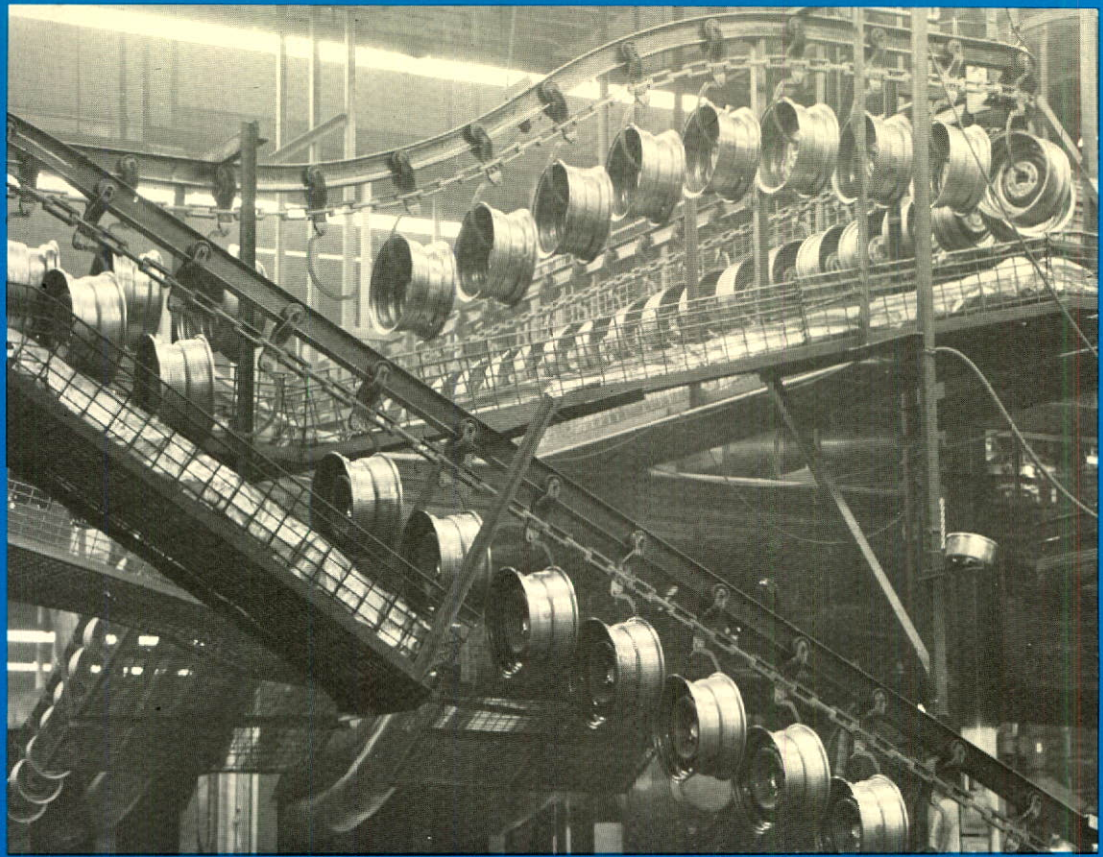
The record levels recorded in 1978 could not have been achieved without the excellent performance of our people. We extend to them our sincere appreciation for their efforts.


J. S. Wilkerson
Chairman of the Board

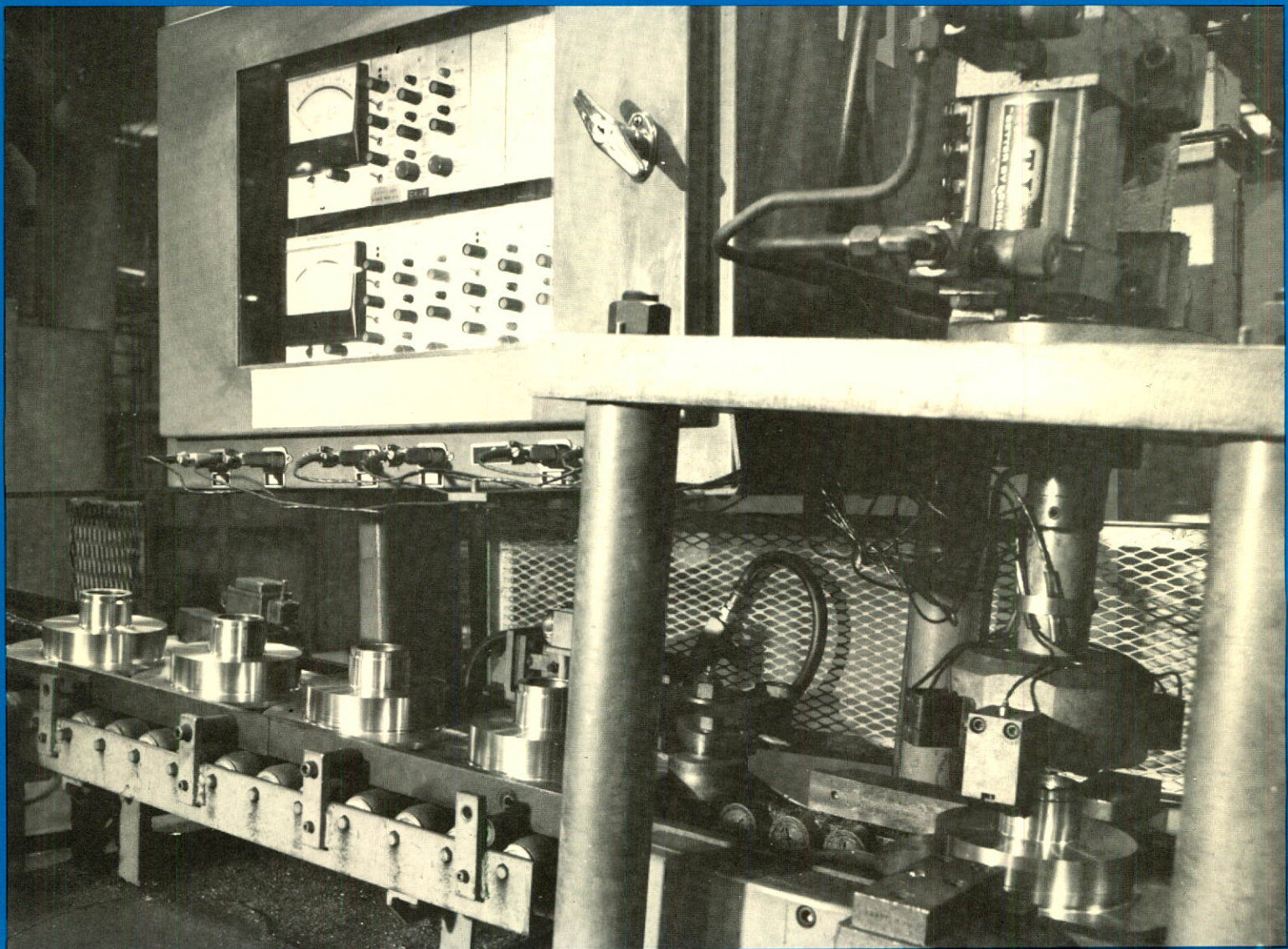

W. C. McIvor
President & Secretary - Treasurer

Windsor, Ontario
March 19, 1979





PASSENGER WHEEL CONVEYOR



AUTOMATIC GAUGING OF ROTORS

1978 FINANCIAL HIGHLIGHTS

YEAR ENDED DECEMBER 31, 1978

	1978	1977
Net Sales	\$130,463,000	\$114,462,000
Net Earnings	7,837,000	5,831,000
Net Earnings per Share	7.12	5.30
Working Capital	23,702,000	17,420,000
Property, Plant and Equipment		
Expenditures	2,356,000	2,457,000
Depreciation	2,252,000	2,462,000
Long-Term Debt	—	1,000,000
Book Value per Share	33.28	27.51

BALANCE SHEET AS AT DECEMBER 31, 1978

ASSETS

	1978	1977
CURRENT ASSETS		
Cash and short term deposits	\$ 7,453,929	\$ 5,175,012
Accounts receivable	16,491,786	11,420,745
Due from affiliated company	4,239,534	2,183,882
Income taxes recoverable	—	131,786
Inventories	9,785,574	10,290,818
Special tooling for current production	17,546	21,573
Prepaid taxes, insurance and other expenses	113,135	61,547
	<u>38,101,504</u>	<u>29,285,363</u>
PROPERTY, PLANT AND EQUIPMENT — AT COST		
Land	444,329	444,329
Buildings and land improvements	9,374,430	8,586,628
Machinery and equipment	36,163,097	34,813,791
	<u>45,981,856</u>	<u>43,844,748</u>
Less accumulated depreciation	28,171,093	26,101,456
	<u>17,810,763</u>	<u>17,743,292</u>
ON BEHALF OF THE BOARD		
Frank P. Coyer, Jr., Director	<u>\$55,912,267</u>	<u>\$47,028,655</u>
J. G. Crean, Director		

STATEMENT OF NET EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
NET SALES	<u>\$130,463,319</u>	<u>\$114,462,155</u>
NET EARNINGS before providing for the following	<u>\$17,744,974</u>	<u>\$14,506,589</u>
DEDUCT		
Depreciation of plant and equipment	2,252,008	2,461,538
Employees' pension plans	2,057,863	1,849,769
Interest on long-term debt	47,625	114,125
	<u>4,357,496</u>	<u>4,425,432</u>
NET EARNINGS BEFORE INCOME TAXES	<u>13,387,478</u>	<u>10,081,157</u>
INCOME TAXES	<u>5,550,000</u>	<u>4,250,000</u>
NET EARNINGS FOR THE YEAR	<u>\$ 7,837,478</u>	<u>\$ 5,831,157</u>
NET EARNINGS PER SHARE OF CAPITAL STOCK (based on the average number of shares outstanding during the year)	<u>\$ 7.12</u>	<u>\$ 5.30</u>

KELSEY-HAYES CANADA LIMITED

(INCORPORATED UNDER THE BUSINESS CORPORATIONS ACT — ONTARIO)

BALANCE SHEET • STATEMENT OF NET EARNINGS
STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

LIABILITIES AND SHAREHOLDERS' INVESTMENT

	1978	1977
CURRENT LIABILITIES		
Accounts payable	\$ 7,100,913	\$ 5,525,698
Payroll and taxes withheld from employees	2,202,496	1,824,382
Dividends payable	825,000	495,000
Other accrued expenses	3,128,795	3,019,854
Income taxes	1,141,864	—
Current portion of long-term debt	—	1,000,000
	<u>14,399,068</u>	<u>11,864,934</u>
LONG-TERM LIABILITIES		
Deferred income taxes	4,900,000	4,900,000
Other	—	3,000
	<u>4,900,000</u>	<u>4,903,000</u>
SHAREHOLDERS' INVESTMENT		
Capital Stock		
Authorized (1,500,000 shares without par value)		
Issued (1,100,000 shares)	1,125,000	1,125,000
Earnings retained for use in the business	35,488,199	29,135,721
	<u>36,613,199</u>	<u>30,260,721</u>
	<u>\$55,912,267</u>	<u>\$47,028,655</u>

STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
Balance, January 1	\$29,135,721	\$24,459,564
Net Earnings for the Year	<u>7,837,478</u>	<u>5,831,157</u>
	36,973,199	30,290,721
Dividends	<u>1,485,000</u>	<u>1,155,000</u>
Balance, December 31	<u>\$35,488,199</u>	<u>\$29,135,721</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977		1978	1977
SOURCE OF WORKING CAPITAL			WORKING CAPITAL CHANGES		
From operations			Increase (decrease) in current assets		
Net earnings for the year	\$ 7,837,478	\$ 5,831,157	Cash and short term deposits	\$2,278,917	\$ (1,210,372)
Depreciation	2,252,008	2,461,538	Accounts receivable	5,071,041	1,684,322
Increase in deferred income taxes	—	100,000	Due from affiliated company	2,055,652	1,366,748
	<u>10,089,486</u>	<u>8,392,695</u>	Income taxes recoverable	(131,786)	131,786
			Inventories	(505,244)	389,664
APPLICATION OF WORKING CAPITAL			Special tooling for current production	(4,027)	(102,360)
Additions to property, plant and equipment less net carrying value of disposals	2,319,479	2,361,689	Prepaid taxes, insurance and other expenses	51,588	18,247
Applied on reduction of long-term debt	—	1,000,000	Net change in current assets	<u>8,816,141</u>	<u>2,278,035</u>
Dividends	1,485,000	1,155,000	Increase (decrease) in current liabilities		
Other	3,000	4,000	Accounts payable	1,575,215	1,381,394
	<u>3,807,479</u>	<u>4,520,689</u>	Payroll and taxes withheld	378,114	7,172
INCREASE IN WORKING CAPITAL	<u>\$ 6,282,007</u>	<u>\$ 3,872,006</u>	Dividend payable	330,000	55,000
			Other accrued expenses	108,941	(417,680)
			Income taxes	1,141,864	(2,619,857)
			Current portion of long-term debt	(1,000,000)	—
			Net change in current liabilities	<u>2,534,134</u>	<u>(1,593,971)</u>
			INCREASE IN WORKING CAPITAL	<u>6,282,007</u>	<u>3,872,006</u>
			WORKING CAPITAL JANUARY 1	<u>17,420,429</u>	<u>13,548,423</u>
			WORKING CAPITAL DECEMBER 31	<u>\$23,702,436</u>	<u>\$17,420,429</u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency conversion

Assets and liabilities of the Company in United States dollars are converted into Canadian dollars at the year-end exchange rate.

Depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided on a basis which amortizes the cost of the asset over its estimated useful life.

Pension and other retirement benefits

Current service costs of pension plans are accrued and funded on a current basis. Past service costs are amortized and funded over a period not exceeding fifteen years.

Income taxes

Income taxes are determined in a manner that recognizes the tax effect of all transactions included in the determination of pre-tax accounting income even though a transaction may affect taxable income in another period.

Inventories

Inventories are stated at the lower of cost or market with cost determined substantially on a first-in, first-out basis.

2. PENSIONS

Unfunded past service costs under pension plans for employees are estimated at approximately \$6,100,000 at December 31, 1978.

3. INCOME TAXES

	1978	1977
Currently payable	\$5,550,000	\$4,150,000
Deferred	—	100,000
	<u>\$5,550,000</u>	<u>\$4,250,000</u>

During 1977, the Company received Federal Income Tax reassessments for the fiscal periods ending in 1973 and 1974. Notices of objection have been filed by the Company in respect of these assessments. In the opinion of legal counsel the Company should be successful in their objection.

4. DIRECTORS AND OFFICERS

Remuneration paid by the Company during the year to directors and senior officers of the Company amounted to \$324,000.

AUDITORS' REPORT

AUDITORS' REPORT
FIVE YEAR FINANCIAL REVIEW

The Shareholders,
Kelsey-Hayes Canada Limited.

We have examined the balance sheet of Kelsey-Hayes Canada Limited as at December 31, 1978 and the statements of net earnings, earnings retained for use in the business 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.

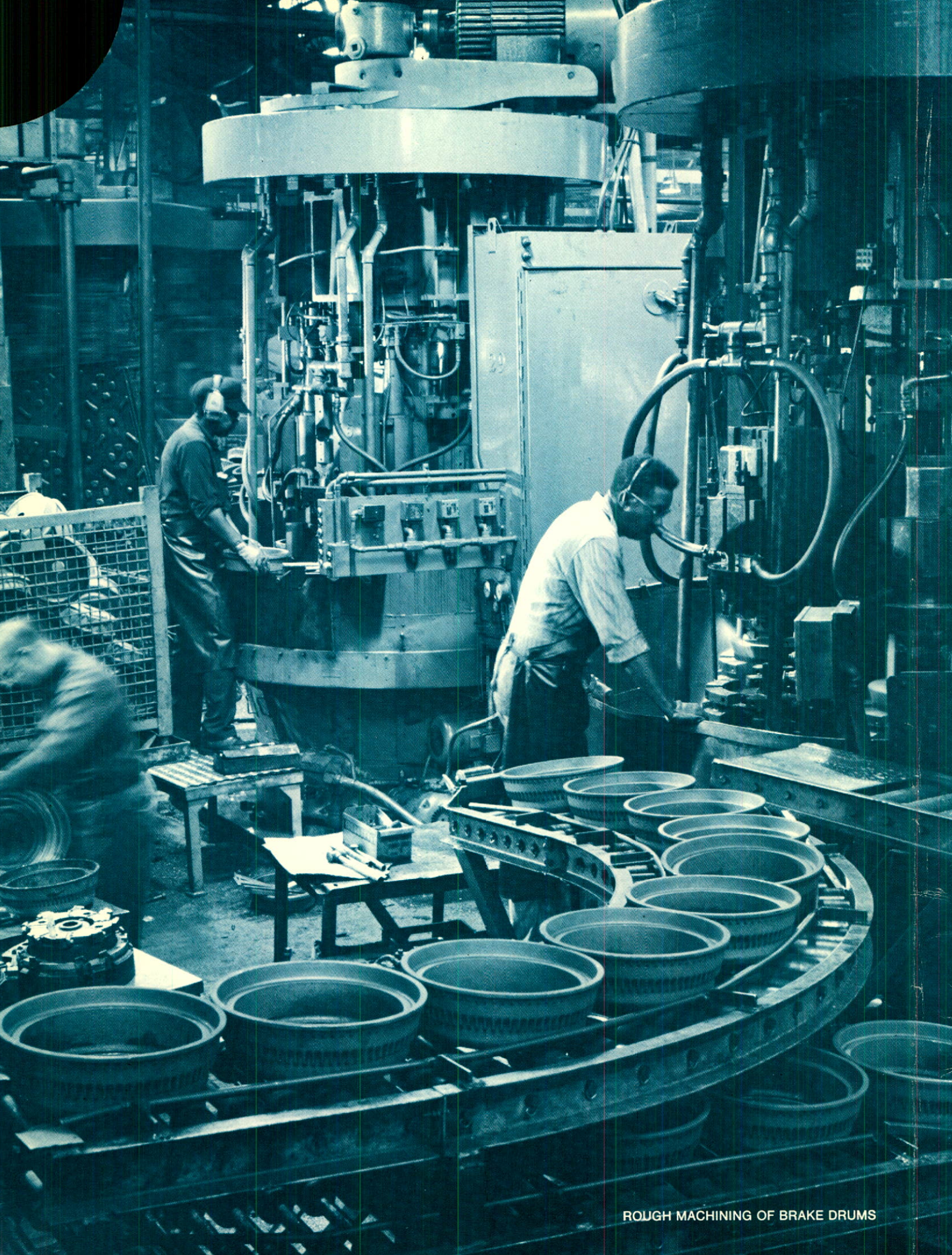
In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Windsor, Ontario
January 26, 1979

Touche Ross & Co.
Chartered Accountants

FIVE YEAR FINANCIAL REVIEW

	1978	1977	December 31, 1976	1975	1974
(Dollar Amounts in Thousands)					
OPERATING RESULTS:					
Net Sales	\$130,463	\$114,462	\$102,304	\$71,041	\$79,175
Earnings before taxes on income	13,387	10,081	10,290	5,912	7,313
Provisions for taxes on income	5,550	4,250	4,450	2,550	3,150
Net Earnings	7,837	5,831	5,840	3,362	4,163
Cash dividends	1,485	1,155	1,045	935	1,045
Net earnings retained for use in the business	6,352	4,676	4,795	2,427	3,118
Expenditures for property, plant and equipment	2,356	2,457	2,846	824	4,203
Depreciation	2,252	2,462	2,335	2,207	2,185
Per share of Common stock:					
Net earnings	\$ 7.12	\$ 5.30	\$ 5.31	\$ 3.06	\$ 3.78
Dividends paid	\$ 1.35	\$ 1.05	\$.95	\$.85	\$.95
FINANCIAL POSITION:					
Current assets	\$ 38,101	\$ 29,285	\$ 27,007	\$23,539	\$20,426
Current liabilities	14,399	11,865	13,459	11,988	11,655
Working Capital	23,702	17,420	13,548	11,551	8,771
Property, plant and equipment (net)	17,811	17,743	17,843	17,350	18,757
Long-term debt	—	—	1,000	3,000	4,500
Shareholders' investment	36,613	30,261	25,585	20,790	18,363
Per share of Common Stock	\$ 33.28	\$ 27.51	\$ 23.26	\$ 18.90	\$ 16.69



ROUGH MACHINING OF BRAKE DRUMS



KELSEY-HAYES CANADA LIMITED

CORPORATE OFFICE
WINDSOR, ONTARIO

Plants located in:
Windsor, Woodstock and St. Catharines, Ontario

BOARD OF DIRECTORS

Frank P. Coyer, Jr.
T. Neal Combs
J. G. Crean
W. A. Harrison
W. C. McIvor
Morgan Reid
James S. Wilkerson

OFFICERS

James S. Wilkerson
Chairman of the Board
W. C. McIvor
President & Secretary-Treasurer
D. O. Remter
Vice-President Operations
Eric H. H. Meyer
Assistant Secretary-Treasurer

TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited
Toronto, Montreal, Winnipeg & Vancouver

AUDITORS

Touche Ross & Co., Windsor, Ontario

