



**KELSEY-HAYES
CANADA LIMITED**

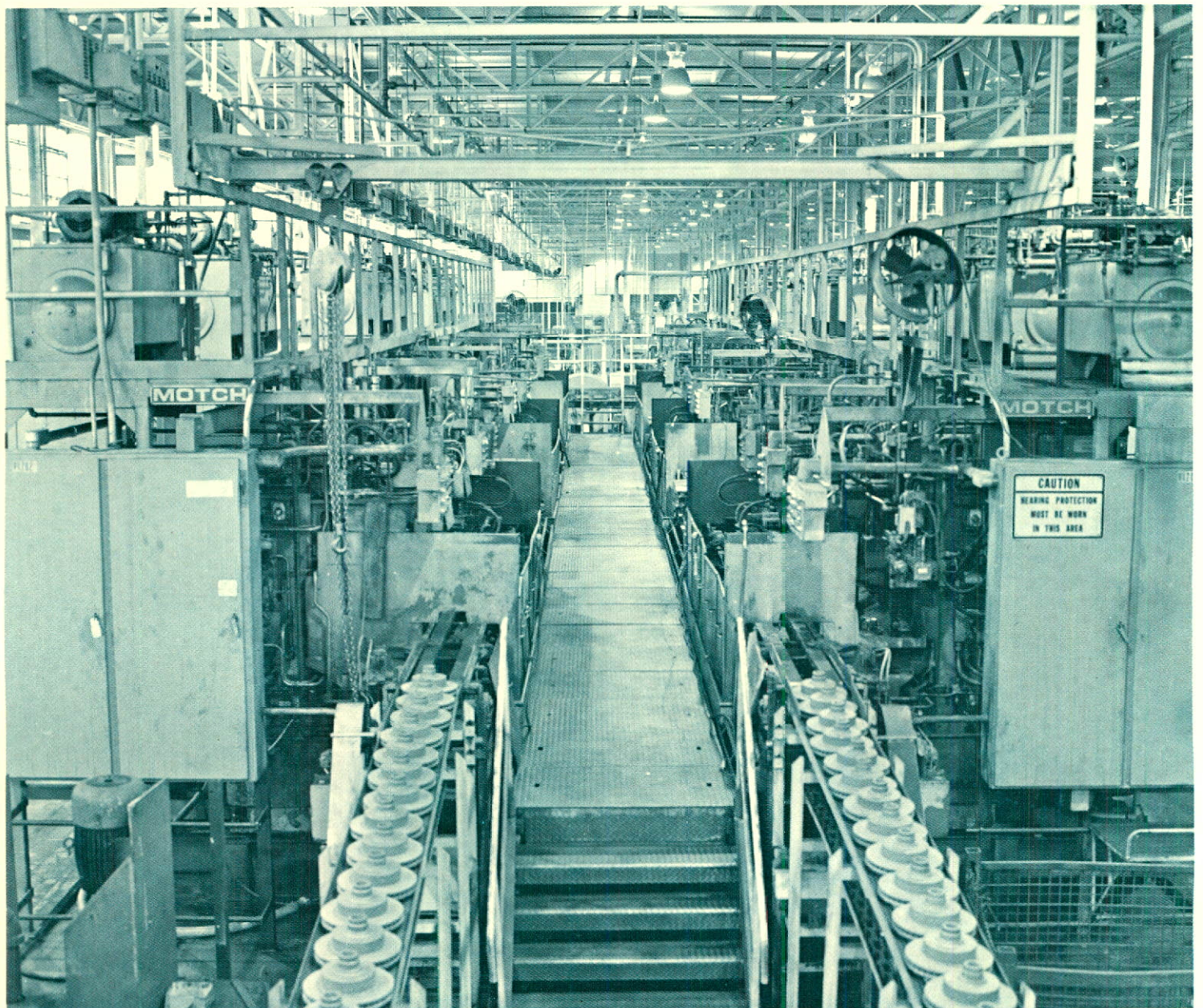
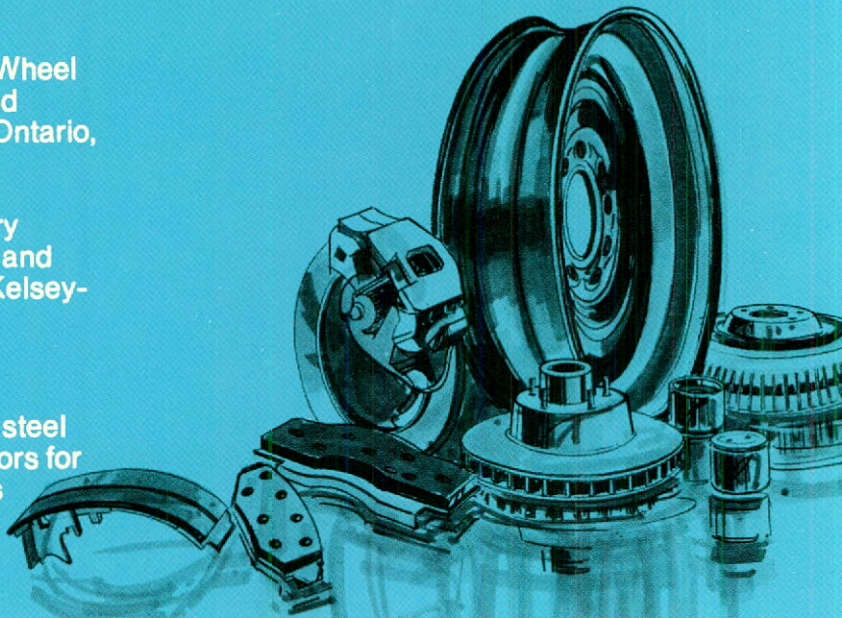
1979 ANNUAL REPORT
YEAR ENDING DECEMBER 31, 1979

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 Ltd.

For the second successive year we achieved record sales and earnings in 1979. Sales were \$138,565,000 an increase of 6% from the \$130,463,000 reported in 1978. The sales increase in the first six months of the year more than compensated for the reduced volume in the last half.


Net earnings in 1979 were \$9,471,000 or \$8.61 a share. The comparable earnings for 1978 were \$7,837,000 or \$7.12 a share. The improvement in earnings was due to increased sales revenues, an effective overhead cost control program, and higher interest earned from investment of cash. Earnings were also favorably affected by a 42¢ per share non-recurring item in the last quarter.

In 1979, our capital expenditures were \$2,665,000 compared with \$2,356,000 in 1978. The down-sizing of passenger cars and light trucks continues to decrease the size of brake drums and rotors. Therefore greater quantities of gray iron castings are available from present moulding equipment in captive and vendor foundries. In light of this, we are continuing to review our future requirements relative to additional capacity at our Woodstock foundry.

In February 1980 we negotiated a new three year labour contract at our Windsor Division after a three week strike. Our Conroy Division labour contract expires August 31, 1980 and our Woodstock Division contract expires January 31, 1981.

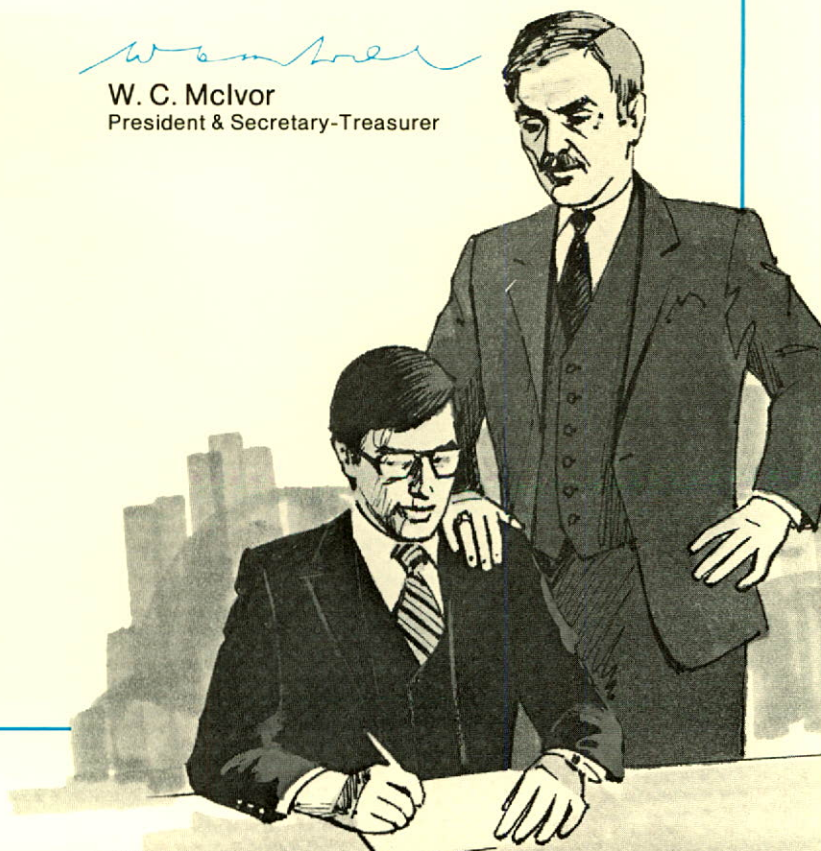
The downturn in the automotive market has carried into 1980 and most predictions are not optimistic about increased sales levels until at least the introduction of the 1981 models. Presuming this condition prevails it is unlikely that we will achieve the sales and earnings levels of 1979. However, we are confident that your Company will realize a satisfactory level of earnings in 1980.

On behalf of the Board of Directors we thank all our employees for their efforts in achieving the 1979 results.


J. S. Wilkerson
Chairman of the Board

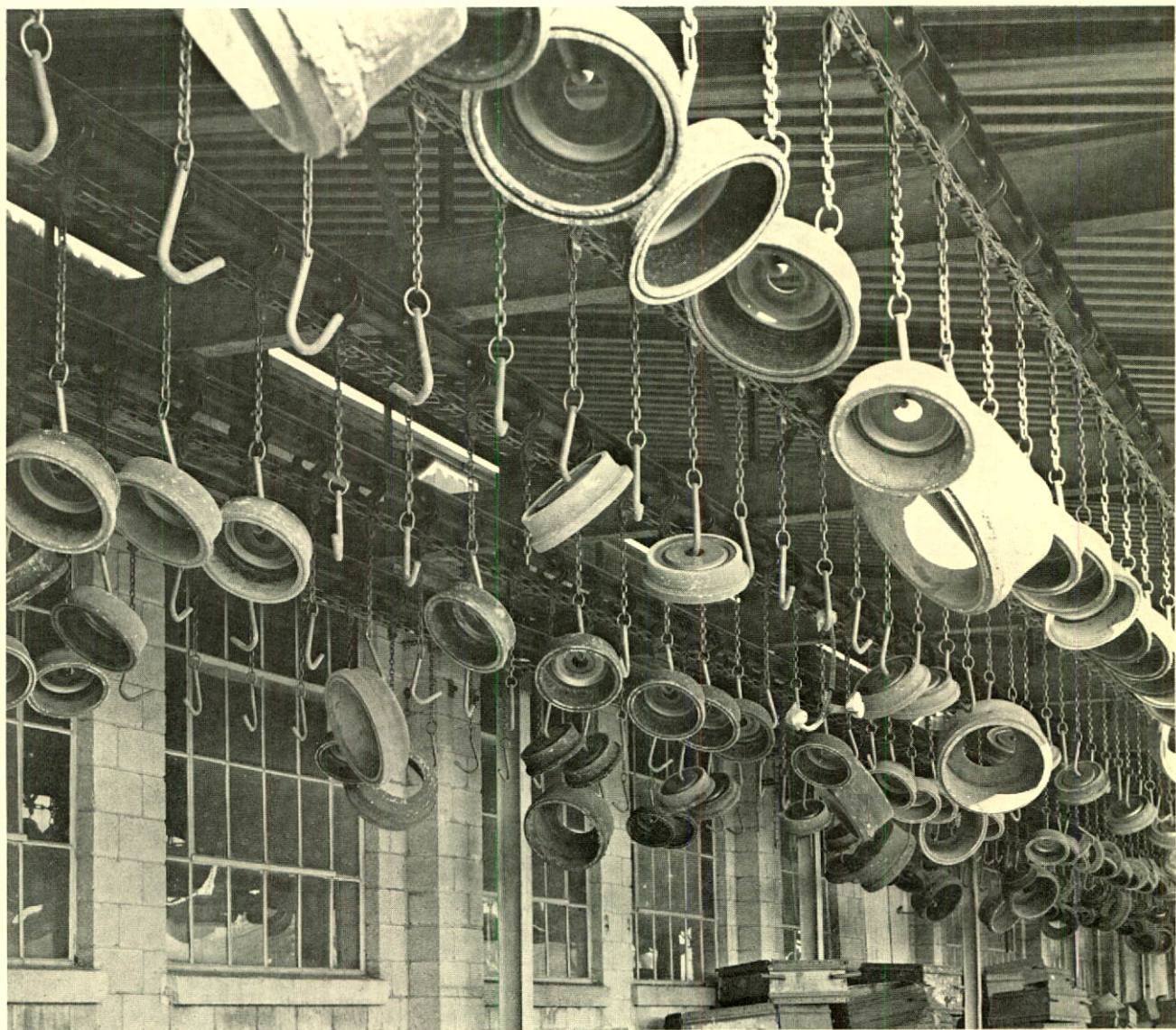

W. C. McIvor
President & Secretary-Treasurer

Windsor, Ontario.
March 18, 1980



1979 Financial Highlights

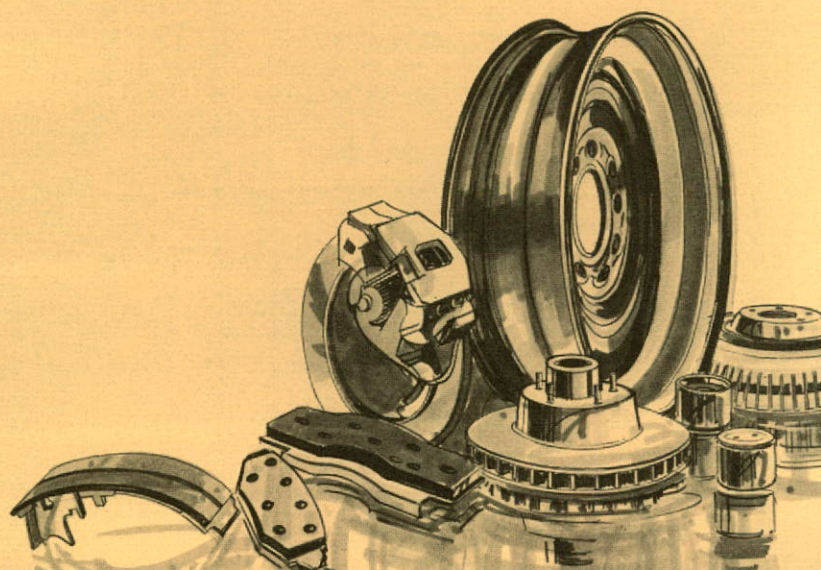
	<u>1979</u>	<u>1978</u>
Net Sales	\$138,565,000	\$130,463,000
Net Earnings	9,471,000	7,837,000
Net Earnings per Share	8.61	7.12
Working Capital	30,851,000	23,702,000
Property, Plant and Equipment		
Expenditures	2,665,000	2,356,000
Depreciation	2,181,000	2,252,000
Book Value per Share	40.09	33.28



Statement of Net Earnings and Earnings Retained for Use in the Business

FOR THE YEAR ENDED DECEMBER 31, 1979

	<u>1979</u>	<u>1978</u>
NET SALES	<u>\$138,565,141</u>	<u>\$130,463,319</u>
NET EARNINGS before providing for the following	<u>\$ 20,839,800</u>	<u>\$ 17,744,974</u>
DEDUCT		
Depreciaton of plant and equipment	2,181,438	2,252,008
Employees' pension plans	2,087,569	2,057,863
Interest on long-term debt	—	47,625
	<u>4,269,007</u>	<u>4,357,496</u>
NET EARNINGS BEFORE INCOME TAXES	16,570,793	13,387,478
INCOME TAXES	<u>7,100,000</u>	<u>5,550,000</u>
NET EARNINGS FOR THE YEAR	9,470,793	7,837,478
EARNINGS RETAINED FOR USE IN THE BUSINESS		
JANUARY 1,	<u>35,488,199</u>	<u>29,135,721</u>
	44,958,992	36,973,199
DIVIDENDS	<u>1,980,000</u>	<u>1,485,000</u>
EARNINGS RETAINED FOR USE IN THE BUSINESS, DECEMBER 31,	<u>\$ 42,978,992</u>	<u>\$ 35,488,199</u>
NET EARNINGS PER SHARE OF CAPITAL STOCK (based on the average number of shares outstanding during the year)	<u>\$ 8.61</u>	<u>\$ 7.12</u>



Kelsey-Hayes Canada Limited

(INCORPORATED UNDER THE BUSINESS CORPORATION ACT — ONTARIO)

Balance Sheet as at December 31, 1979

Assets

	<u>1979</u>	<u>1978</u>
CURRENT ASSETS		
Cash and short term deposits	\$19,366,602	\$ 7,453,929
Accounts receivable	11,495,037	16,491,786
Due from affiliated company	836,630	4,239,534
Inventories	12,358,044	9,785,574
Special tooling for current production	126,536	17,546
Prepaid taxes, insurance and other expenses	164,382	113,135
	<u>44,347,231</u>	<u>38,101,504</u>
PROPERTY, PLANT AND EQUIPMENT — AT COST		
Land	444,329	444,329
Buildings and land improvements	9,521,962	9,374,430
Machinery and equipment	38,501,693	36,163,097
	<u>48,467,984</u>	<u>45,981,856</u>
Less accumulated depreciation	30,215,513	28,171,093
	<u>18,252,471</u>	<u>17,810,763</u>
	<u>\$62,599,702</u>	<u>\$55,912,267</u>

Liabilities and Shareholders' Investment

	<u>1979</u>	<u>1978</u>
CURRENT LIABILITIES		
Accounts payable	\$ 5,805,128	\$ 7,100,913
Payroll and taxes withheld from employees	2,214,876	2,202,496
Dividends payable	1,155,000	825,000
Other accrued expenses	3,098,932	3,128,795
Income taxes	1,221,774	1,141,864
	<u>13,495,710</u>	<u>14,399,068</u>
DEFERRED INCOME TAXES	<u>5,000,000</u>	<u>4,900,000</u>
SHAREHOLDERS' INVESTMENT		
Capital Stock		
Authorized		
5,000,000 shares without par value		
Issued		
1,100,000 shares	1,125,000	1,125,000
Earnings retained for use in the business	<u>42,978,992</u>	<u>35,488,199</u>
	<u>44,103,992</u>	<u>36,613,199</u>
Approved by the Directors Frank P. Coyer, Jr., Director W. C. McIvor, Director	<u>\$62,599,702</u>	<u>\$55,912,267</u>

Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1979

	<u>1979</u>	<u>1978</u>
SOURCE OF WORKING CAPITAL		
From operations		
Net earnings for the year	\$ 9,470,793	\$ 7,837,478
Depreciation	2,181,438	2,252,008
Increase in deferred income taxes	100,000	—
	<u>11,752,231</u>	<u>10,089,486</u>
APPLICATION OF WORKING CAPITAL		
Additions to property, plant and equipment less net carrying value of disposals	2,623,146	2,319,479
Dividends	1,980,000	1,485,000
Other	—	3,000
	<u>4,603,146</u>	<u>3,807,479</u>
INCREASE IN WORKING CAPITAL	<u><u>\$ 7,149,085</u></u>	<u><u>\$ 6,282,007</u></u>
 WORKING CAPITAL CHANGES		
Increase (decrease) in current assets		
Cash and short term deposits	\$11,912,673	\$ 2,278,917
Accounts receivable	(4,996,749)	5,071,041
Due from affiliated company	(3,402,904)	2,055,652
Income taxes recoverable	—	(131,786)
Inventories	2,572,470	(505,244)
Special tooling for current production	108,990	(4,027)
Prepaid taxes, insurance and other expenses	51,247	51,588
Net change in current assets	<u>6,245,727</u>	<u>8,816,141</u>
(Increase) decrease in current liabilities		
Accounts payable	1,295,785	(1,575,215)
Payroll and taxes withheld	(12,380)	(378,114)
Dividend payable	(330,000)	(330,000)
Other accrued expenses	29,863	(108,941)
Income taxes	(79,910)	(1,141,864)
Current portion on long-term debt	—	1,000,000
Net change in current liabilities	<u>903,358</u>	<u>(2,534,134)</u>
INCREASE IN WORKING CAPITAL	<u>7,149,085</u>	<u>6,282,007</u>
WORKING CAPITAL JANUARY 1,	<u>23,702,436</u>	<u>17,420,429</u>
WORKING CAPITAL DECEMBER 31,	<u><u>\$30,851,521</u></u>	<u><u>\$23,702,436</u></u>

Notes to Financial Statements

DECEMBER 31, 1979

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 \$5,400,000 at December 31, 1979.

3. INCOME TAXES

	1979	1978
Currently payable. . . .	\$7,000,000	\$5,550,000
Deferred	100,000	—
	<u>\$7,100,000</u>	<u>\$5,550,000</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. CAPITAL STOCK

By Certificate of Amendment of Articles, dated May 10, 1979 the authorized capital of the Company was increased by the creation of an additional 3,500,000 common shares without par value.

5. DIRECTORS AND OFFICERS

Remuneration paid by the Company during the year to directors and senior officers of the Company amounted to \$312,000.

Auditors' Report

The Shareholders,
Kelsey-Hayes Canada Limited.

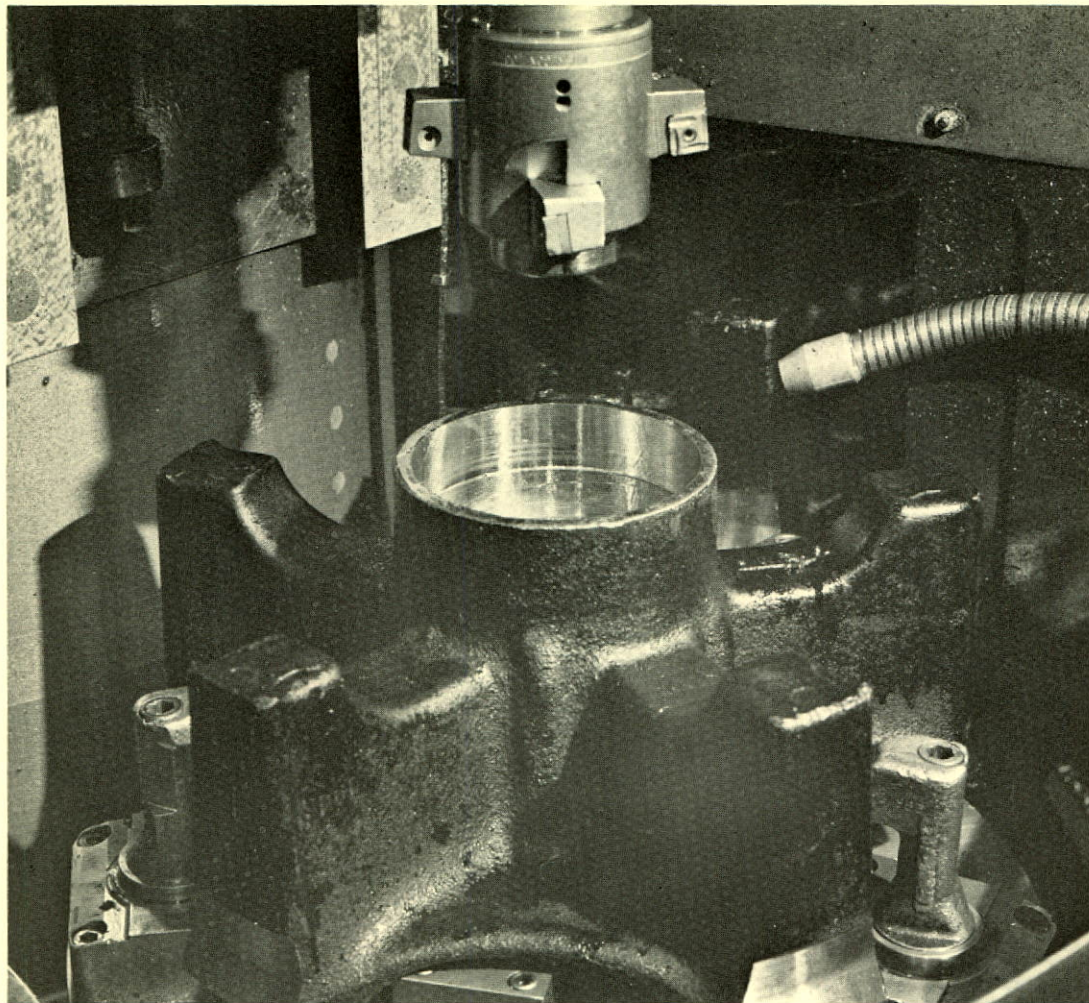
We have examined the balance sheet of Kelsey-Hayes Canada Limited as at December 31, 1979 and the statements of net earnings and earnings retained for use in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing 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, 1979 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.

Touche Ross & Co.

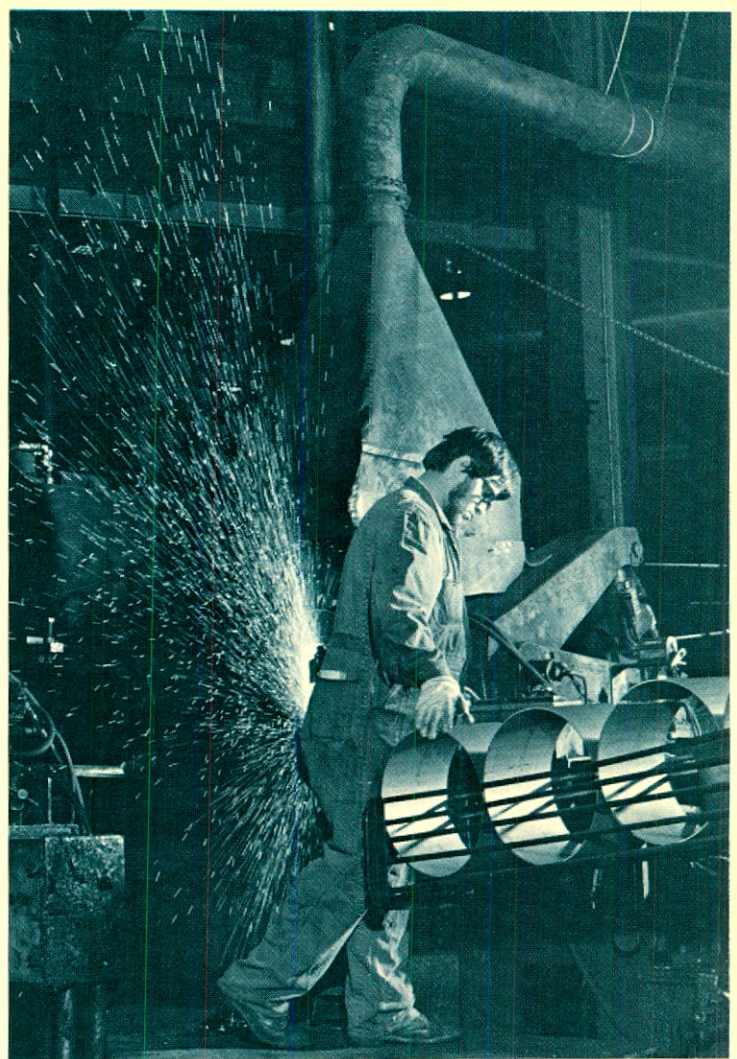
Chartered Accountants

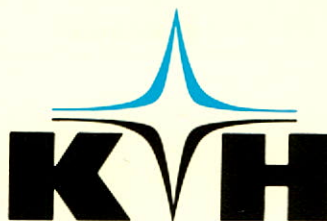
Windsor, Ontario.
January 29, 1980



Five Year Financial Review

		December 31,			
	1979	1978	1977	1976	1975
		(Dollar Amounts in Thousands)			
OPERATING RESULTS:					
Net Sales	\$138,565	\$130,463	\$114,462	\$102,304	\$71,041
Earnings before taxes on income	16,571	13,387	10,081	10,290	5,912
Provisions for taxes on income	7,100	5,550	4,250	4,450	2,550
Net Earnings	9,471	7,837	5,831	5,840	3,362
Dividends	1,980	1,485	1,155	1,045	935
Net increase in retained earnings	7,491	6,352	4,676	4,795	2,427
Expenditures for property, plant and equipment	2,665	2,356	2,457	2,846	824
Depreciation	2,181	2,252	2,462	2,335	2,207
Per share of Common stock:					
Net earnings	\$ 8.61	\$ 7.12	\$ 5.30	\$ 5.31	\$ 3.06
Dividends	\$ 1.80	\$ 1.35	\$ 1.05	\$.95	\$.85
FINANCIAL POSITION:					
Current assets	\$44,347	\$38,101	\$29,285	\$27,007	\$23,539
Current liabilities	13,496	14,399	11,865	13,459	11,988
Working Capital	30,851	23,702	17,420	13,548	11,551
Property, plant and equipment (net)	18,252	17,811	17,743	17,843	17,350
Long-term debt	—	—	—	1,000	3,000
Shareholders' investment	44,104	36,613	30,261	25,585	20,790
Per share of Common Stock	\$ 40.09	\$ 33.28	\$ 27.51	\$ 23.26	\$ 18.90





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





**KELSEY-HAYES
CANADA LIMITED**