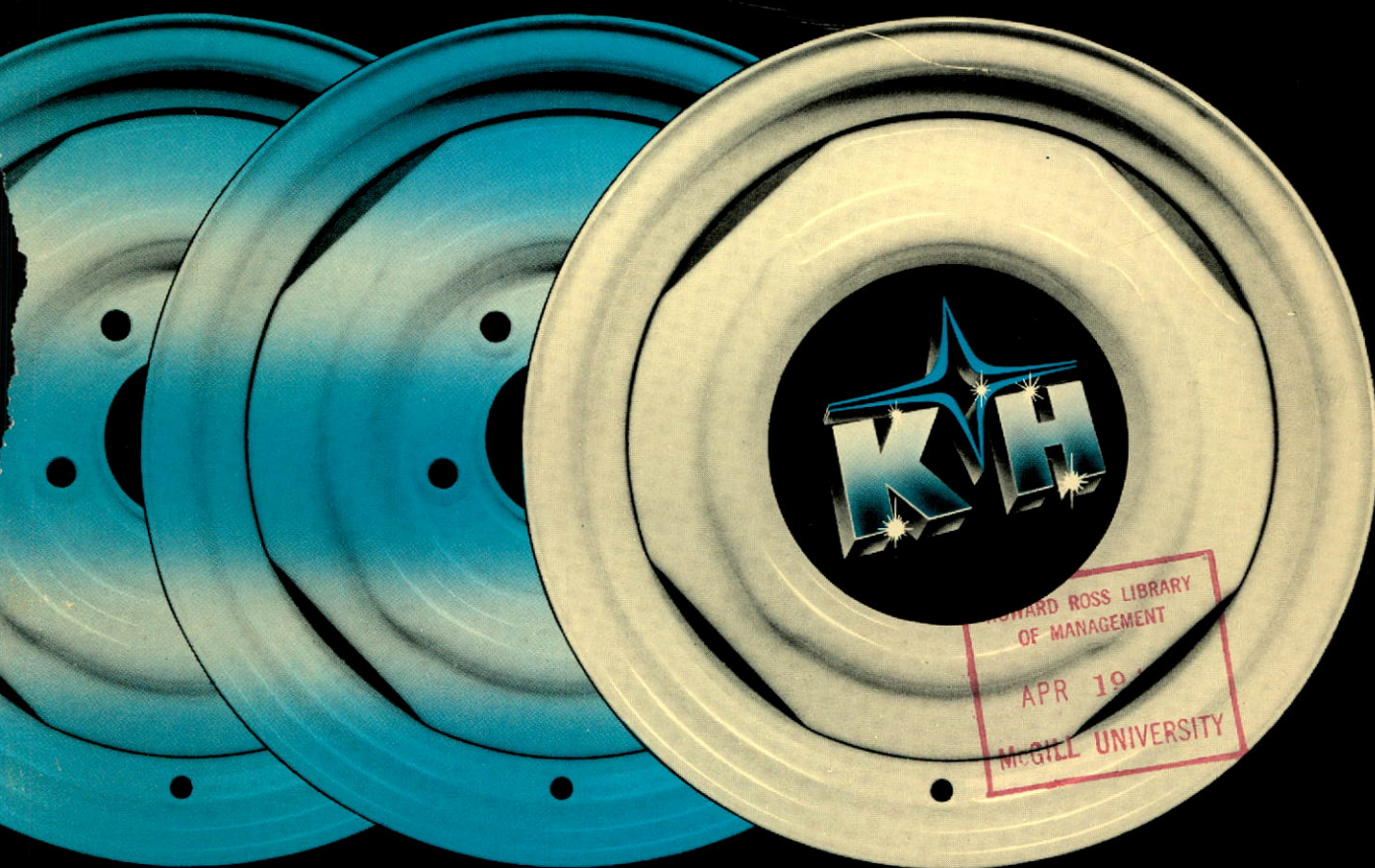


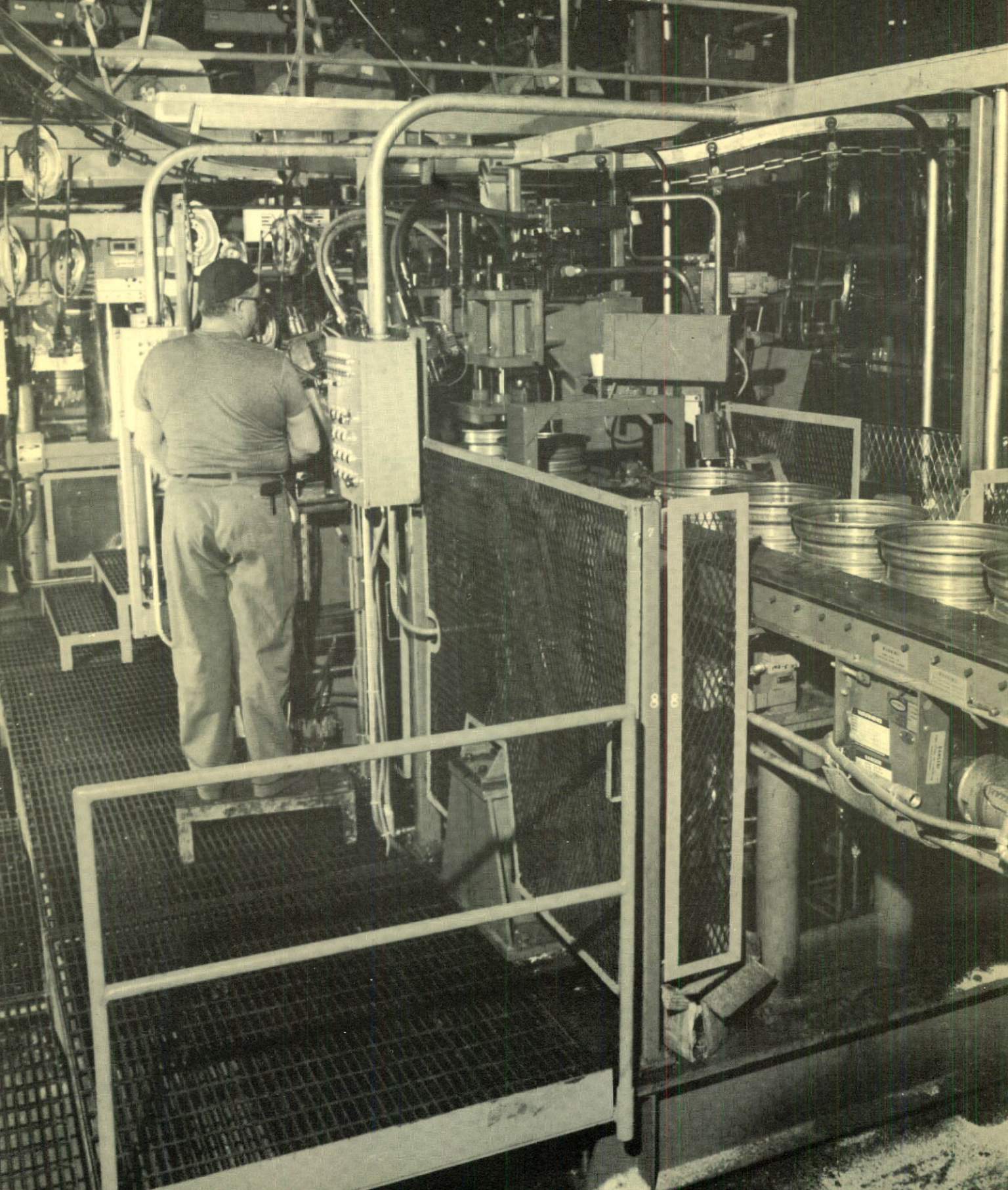
Kelsey-Hayes Canada Limited 1981 Annual Report

YEAR ENDING DECEMBER 31, 1981



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

In our letter last year we referred to the low level of activity in the North American Automotive Industry. This adverse cycle continued during 1981. In terms of to-day's dollars sales increased to \$113,629,000, from \$102,910,000 in 1980.

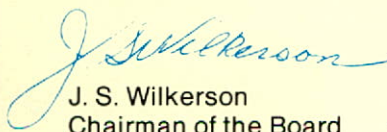
Net earnings were \$8,151,000, or \$2.47 a share, compared with \$7,114,000, or \$2.16 a share recorded in 1980. The per share earnings for 1980 have been restated on a comparable basis, giving effect to the share sub-division of July 7, 1981. The earnings performance was quite gratifying considering that 1981 reflected the continuation of a difficult period in the automotive industry.

Capital expenditures for the year amounted to some \$4,300,000. Included in the expenditures was the purchase of a corporate office building in Windsor. After extended consideration, as referred to in previous Annual Reports, we announced a modernization programme to improve the moulding technique at our Woodstock Eureka Foundry. The programme is estimated to cost approximately \$5,400,000, and the expenditure will take place during 1982 and 1983.

A new three year labour contract was negotiated at our Woodstock Division during 1981. The contracts at our Windsor and Conroy Divisions do not expire until 1983.

It is extremely difficult to assess the prospects for 1982. Present forecasts indicate that North American automobile production in the first six months of 1982 will be down over twenty per cent from the same period in 1981. It would appear that the last half of 1982 will determine the performance level we achieve this year. However, the prospects would indicate that the results for 1982 will not be as favourable as those recorded in 1981.

The performance achieved in 1981 required the dedication and co-operation of our employees. On behalf of the Board of Directors we wish to express our thanks to all our people for their fine efforts.


J. S. Wilkerson
Chairman of the Board

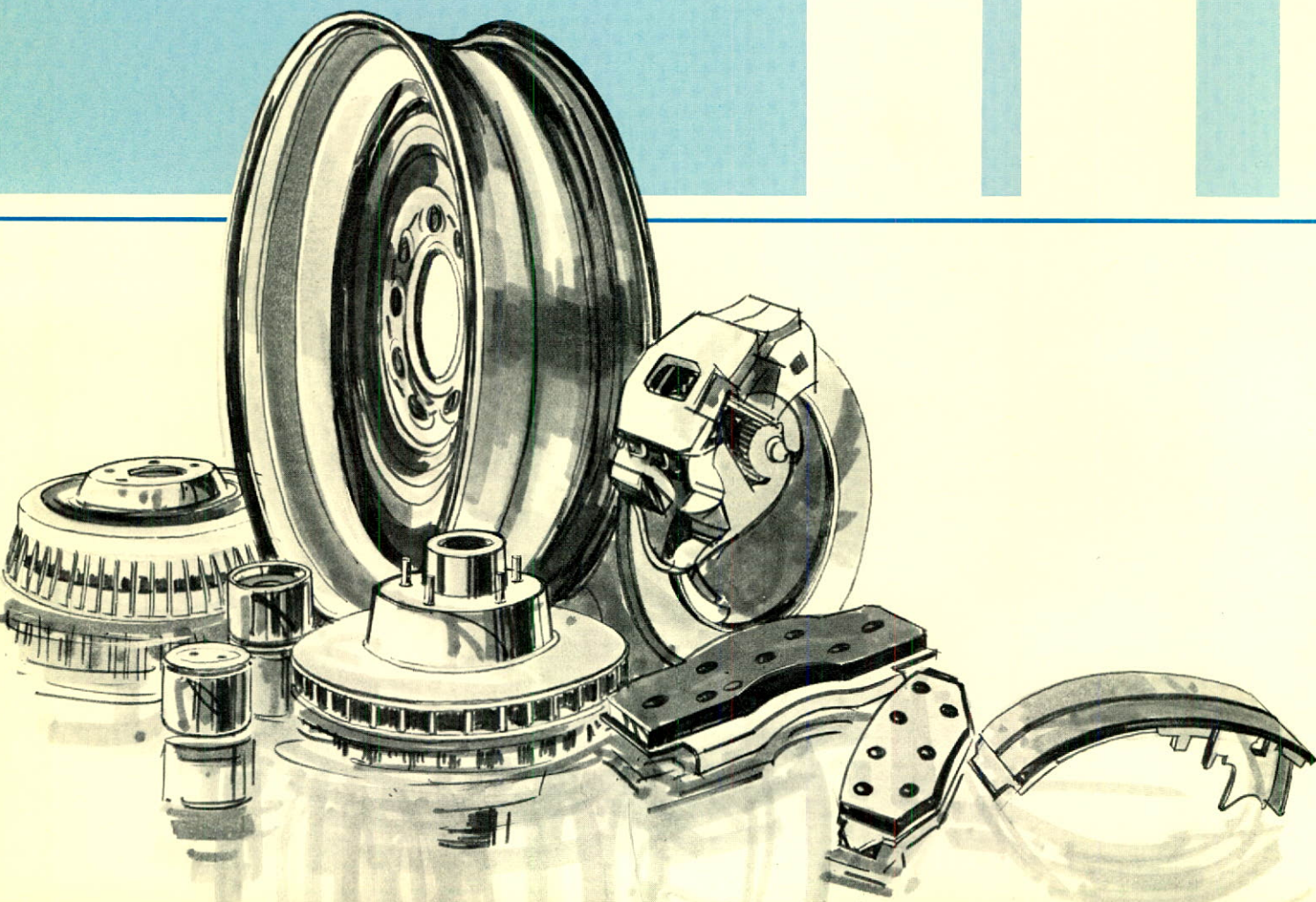

W. C. McIvor
President & Secretary-Treasurer

Windsor, Ontario
March 22, 1982

1981 Financial Highlights

	81	80
Net Sales	\$113,629,000	\$102,910,000
Net Earnings	8,157,000	7,114,000
Net Earnings per Share	2.47	2.16
Working Capital	40,543,000	35,622,000
Property, Plant and Equipment		
Expenditures	4,308,000	2,748,000
Depreciation	2,346,000	2,194,000
Book Value per Share	16.63	14.85

NOTE: Earnings and Book Value per Share have been restated on a comparable basis for 1980, giving effect to the share sub-division of July 7, 1981.



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

FOR THE YEAR ENDED DECEMBER 31, 1981

	81	80
NET SALES.....	\$113,629,316	\$102,909,783
INTEREST INCOME.....	<u>4,812,453</u>	<u>2,556,978</u>
	\$118,441,769	\$105,466,761
NET EARNINGS before providing for the following.....	\$ <u>19,477,255</u>	\$ <u>17,202,455</u>
DEDUCT		
Depreciaton of plant and equipment.....	2,345,669	2,194,266
Employees' pension plans.....	<u>2,074,469</u>	<u>1,993,900</u>
	4,420,138	4,188,166
NET EARNINGS BEFORE INCOME TAXES.....	15,057,117	13,014,289
INCOME TAXES.....	<u>6,900,000</u>	<u>5,900,000</u>
NET EARNINGS FOR THE YEAR.....	8,157,117	7,114,289
RETAINED EARNINGS, JANUARY 1.....	<u>47,893,281</u>	<u>42,978,992</u>
	56,050,398	50,093,281
DIVIDENDS.....	<u>2,299,000</u>	<u>2,200,000</u>
RETAINED EARNINGS, DECEMBER 31.....	\$ <u>53,751,398</u>	\$ <u>47,893,281</u>
NET EARNINGS PER SHARE OF CAPITAL STOCK (based on the average number of shares outstanding during the year).....	\$ <u>2.47</u>	\$ <u>*2.16</u>

*Earnings per share have been restated on a comparable basis, giving effect to the share sub-division of July 7, 1981.

Kelsey·Hayes Canada Limited

(INCORPORATED UNDER THE BUSINESS CORPORATIONS ACT — ONTARIO)

Balance Sheet as at December 31, 1981

Assets

CURRENT

Cash and short-term deposits	\$30,097,746	\$24,060,270
Accounts receivable	8,164,050	9,204,888
Due from affiliated company	26,756	266,586
Inventories	10,270,651	12,149,420
Special tooling for current production	1,082,921	206,863
Prepaid taxes, insurance and other expenses	141,843	193,809
	<u>49,783,967</u>	<u>46,081,836</u>

PROPERTY, PLANT AND EQUIPMENT — AT COST

Land	510,038	442,382
Buildings and land improvements	10,962,288	10,151,072
Machinery and equipment	43,702,127	40,557,507
	<u>55,174,453</u>	<u>51,150,961</u>
Less accumulated depreciation	34,441,445	32,354,676
	<u>20,733,008</u>	<u>18,796,285</u>
	<u>\$70,516,975</u>	<u>\$64,878,121</u>

Liabilities and Shareholders' Investment

CURRENT

Accounts payable	\$ 4,082,780	\$ 3,855,924
Payroll and taxes withheld from employees	2,704,574	2,178,298
Dividends payable	990,000	1,210,000
Other accrued expenses	1,311,933	2,305,032
Income taxes	151,290	910,586
	<u>9,240,577</u>	<u>10,459,840</u>

DEFERRED INCOME TAXES	<u>6,400,000</u>	<u>5,400,000</u>
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SHAREHOLDERS' INVESTMENT

Capital Stock		
Authorized		
15,000,000 shares without par value		
Issued		
3,300,000 shares	1,125,000	1,125,000
Earnings retained for use in the business	<u>53,751,398</u>	<u>47,893,281</u>
	<u>54,876,398</u>	<u>49,018,281</u>
Approved by the Directors Frank P. Coyer, Jr., Director W. C. McIvor, Director	<u>\$70,516,975</u>	<u>\$64,878,121</u>

Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1981

SOURCE OF WORKING CAPITAL

From operations

Net earnings for the year	\$ 8,157,117	\$ 7,114,289
Depreciation	2,345,669	2,194,266
Increase in deferred income taxes	1,000,000	400,000
	<u>11,502,786</u>	<u>9,708,555</u>

APPLICATION OF WORKING CAPITAL

Additions to property, plant and equipment

less net carrying value of disposals

Dividends	4,282,392	2,738,080
	<u>2,299,000</u>	<u>2,200,000</u>
	<u>6,581,392</u>	<u>4,938,080</u>

INCREASE IN WORKING CAPITAL	<u>\$ 4,921,394</u>	<u>\$ 4,770,475</u>
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WORKING CAPITAL CHANGES

Increase (decrease) in current assets

Cash and short-term deposits	\$ 6,037,476	\$ 4,693,668
Accounts receivable	(1,040,838)	(2,290,149)
Due from affiliated company	(239,830)	(363,251)
Inventories	(1,878,769)	(208,624)
Special tooling for current production	876,058	80,327
Prepaid taxes, insurance and other expenses	(51,966)	29,427

Net change in current assets	<u>3,702,131</u>	<u>1,941,398</u>
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Increase (decrease) in current liabilities

Accounts payable	226,856	(1,949,204)
Payroll and taxes withheld	526,276	(85,455)
Dividend payable	(220,000)	55,000
Other accrued expenses	(993,099)	(538,230)
Income taxes	(759,296)	(311,188)

Net change in current liabilities	<u>(1,219,263)</u>	<u>(2,829,077)</u>
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INCREASE IN WORKING CAPITAL	<u>4,921,394</u>	<u>4,770,475</u>
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WORKING CAPITAL, JANUARY 1	<u>35,621,996</u>	<u>30,851,521</u>
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WORKING CAPITAL, DECEMBER 31	<u>\$40,543,390</u>	<u>\$35,621,996</u>
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Notes to Financial Statements

DECEMBER 31, 1981

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 \$6,600,000 (1980 — \$5,500,000) at December 31, 1981.

3. INCOME TAXES

	1981	1980
Currently payable	\$5,900,000	\$5,500,000
Deferred	1,000,000	400,000
	<u>\$6,900,000</u>	<u>\$5,900,000</u>

In a prior year, the Company received Federal and Provincial 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 its objection.

4. CAPITAL STOCK

By Certificate of Amendment of Articles, effective July 7, 1981, each of the issued and unissued common shares of the corporation were divided into three common shares so that the authorized capital of the corporation consists of 15,000,000 common shares without par value of which 3,300,000 are issued and outstanding.

5. DIRECTORS AND OFFICERS

Remuneration paid by the Company during the year to directors and senior officers of the Company amounted to \$355,775 (1980 — \$323,457).

6. SEGMENTED INFORMATION

The Company is a supplier of parts components to the automotive industry. Approximately 65% (1980 — 65%) of the Company's sales are to its customers in the United States.

7. RELATED PARTY TRANSACTIONS

Approximately 8% (1980 — 7%) of the total sales are to the Company's parent and related companies.

8. SUBSEQUENT EVENT

On March 11, 1982 the company received notice that the income tax reassessments referred to in Note 3 above had been resolved in favour of the Company.

Auditors' Report

The Shareholders,
Kelsey-Hayes Canada Limited.

We have examined the balance sheet of Kelsey-Hayes Canada Limited as at December 31, 1981 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, 1981 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 22, 1982
(Except for Note 8 which
is as of March 11, 1982)

Touche Ross & Co.
Chartered Accountants

Five Year Financial Review

	December 31,				
	1981	1980	1979	1978	1977
	(Dollar Amounts in Thousands)				
OPERATING RESULTS:					
Net Sales	\$113,629	\$102,910	\$138,565	\$130,463	\$114,462
Earnings before taxes on income	15,057	13,014	16,571	13,387	10,081
Provision for taxes on income	6,900	5,900	7,100	5,550	4,250
Net Earnings	8,157	7,114	9,471	7,837	5,831
Dividends	2,299	2,200	1,980	1,485	1,155
Net increase in retained earnings	5,858	4,914	7,491	6,352	4,676
Expenditures for property, plant and equipment	4,308	2,748	2,665	2,356	2,457
Depreciation	2,346	2,194	2,181	2,252	2,462
Per share of Common stock:					
Net earnings	\$ 2.47	\$ 2.16	\$ 2.87	\$ 2.37	\$ 1.77
Dividends	\$.70	\$.67	\$.60	\$.45	\$.35
FINANCIAL POSITION:					
Current assets	\$49,784	\$46,082	\$44,347	\$38,101	\$29,285
Current liabilities	9,241	10,460	13,496	14,399	11,865
Working Capital	40,543	35,622	30,851	23,702	17,420
Property, plant and equipment (net)	20,733	18,796	18,252	17,811	17,743
Shareholders' investment	54,876	49,018	44,104	36,613	30,261
Per share of Common Stock	\$ 16.63	\$ 14.85	\$ 13.36	\$ 11.09	\$ 9.17

NOTE: Earnings, dividends and shareholders' investment per share have been restated on a comparable basis for the years 1977 through 1980, giving effect to the share sub-division of July 7, 1981.



Corporate Office:

Windsor, Ontario, Canada

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

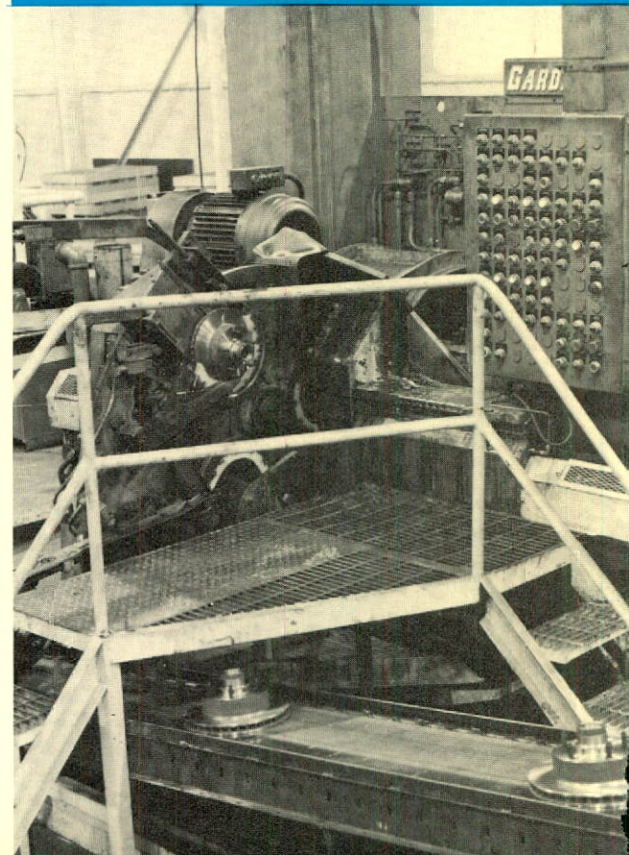
Eric H. H. Meyer
Assistant Secretary-Treasurer

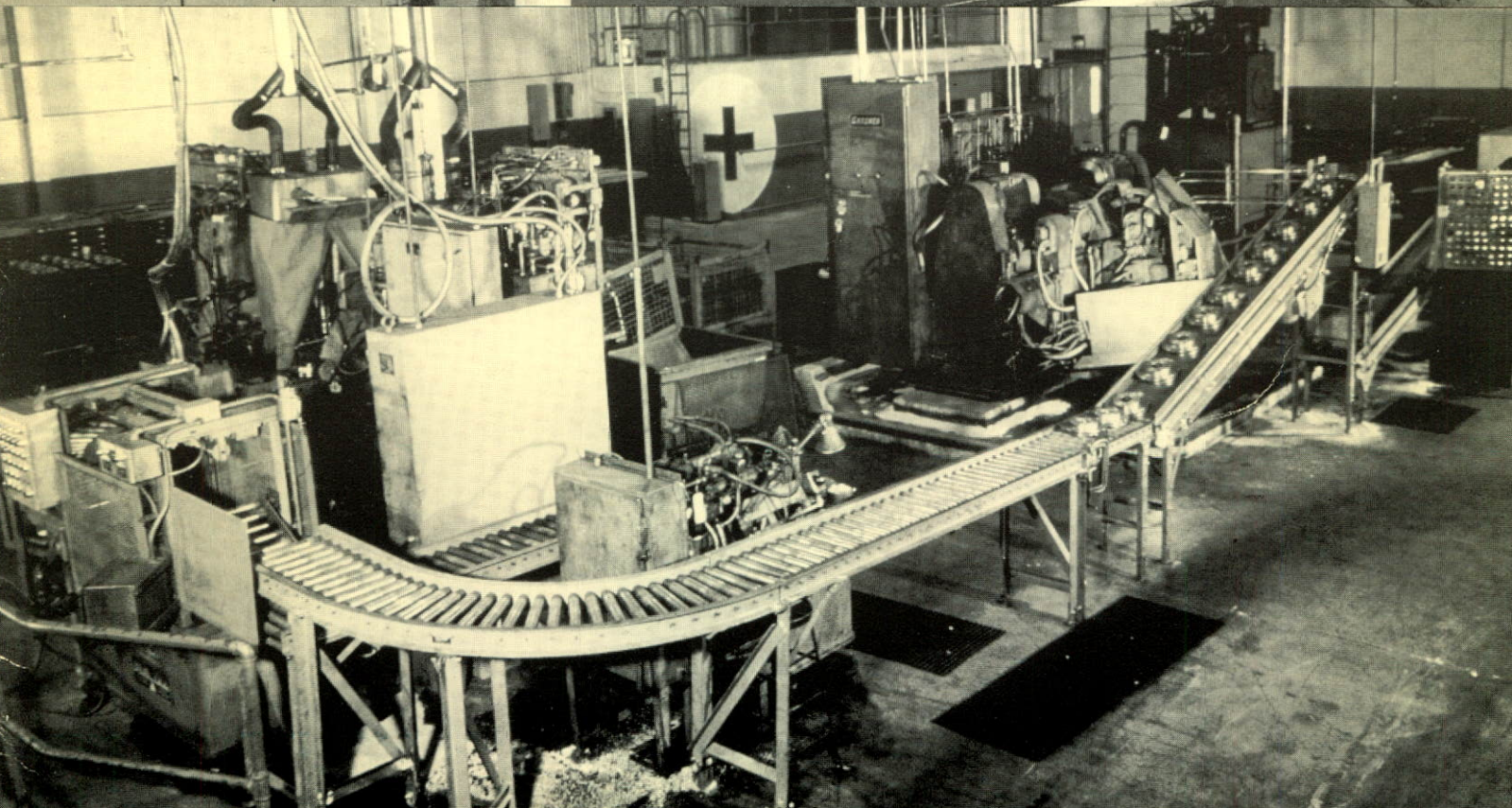
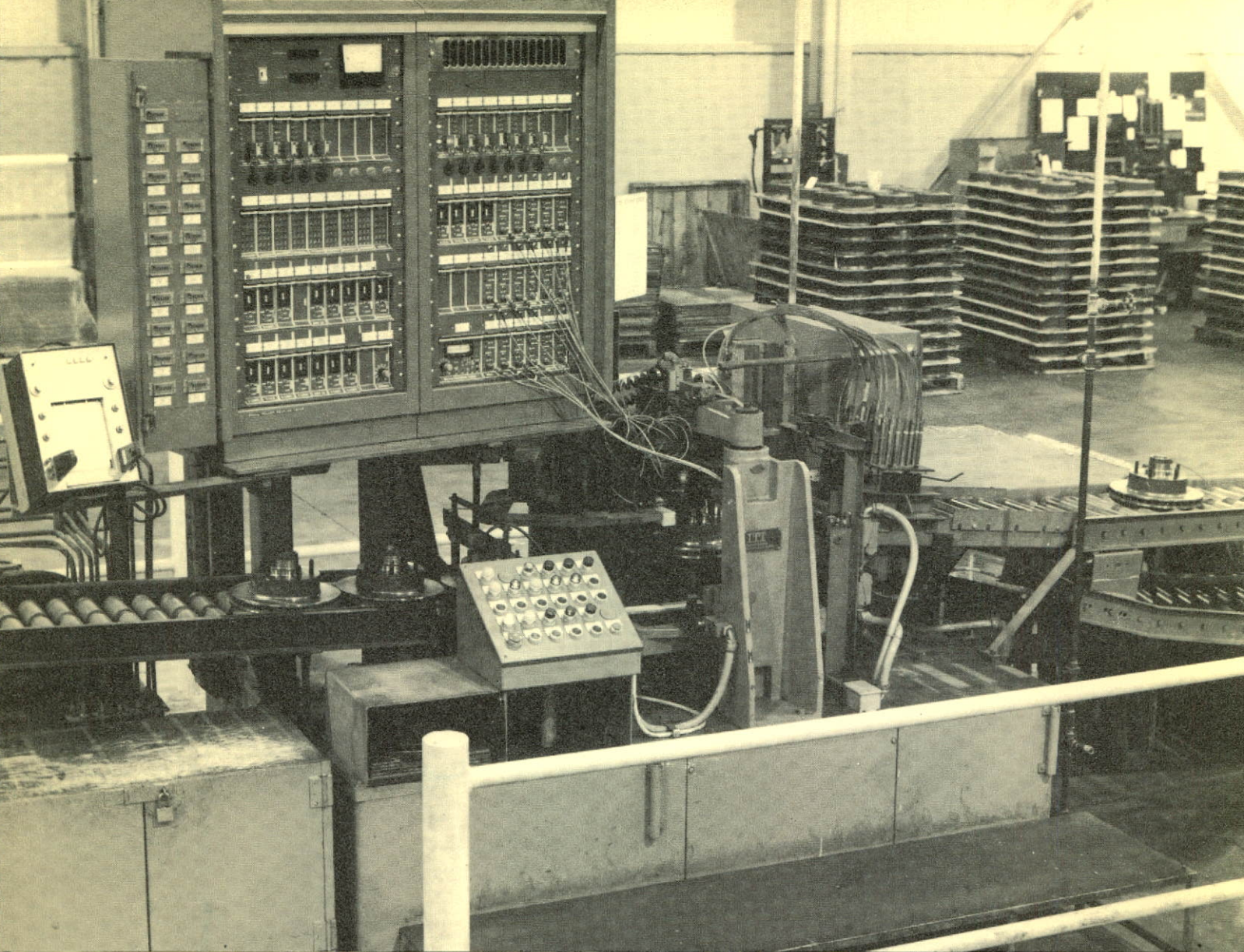
Transfer Agent and Registrar

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

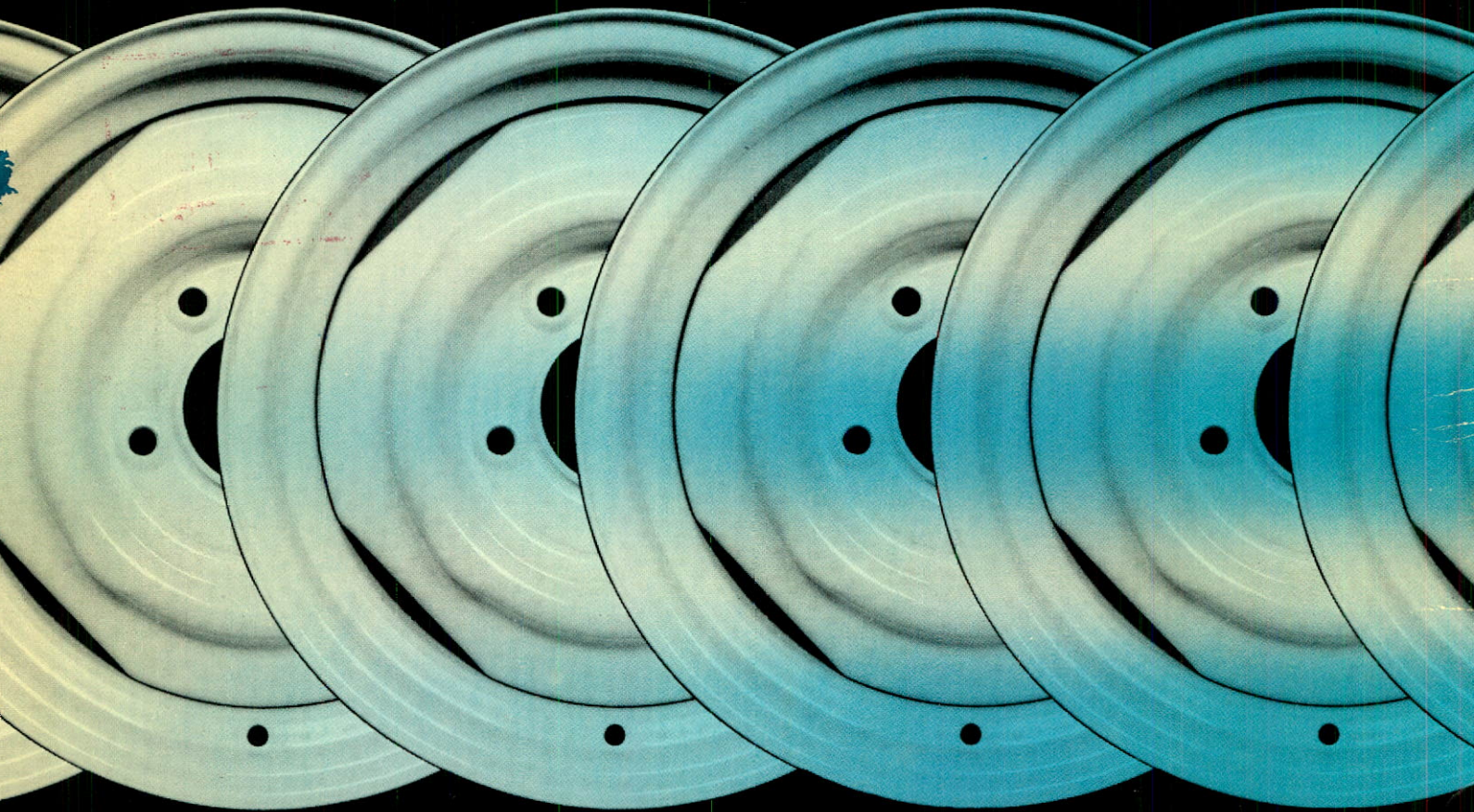
Auditors

Touche Ross & Co.,
Windsor, Ontario





Keeping the Wheels of the Automobile Industry Turning



Kelsey-Hayes Canada Limited