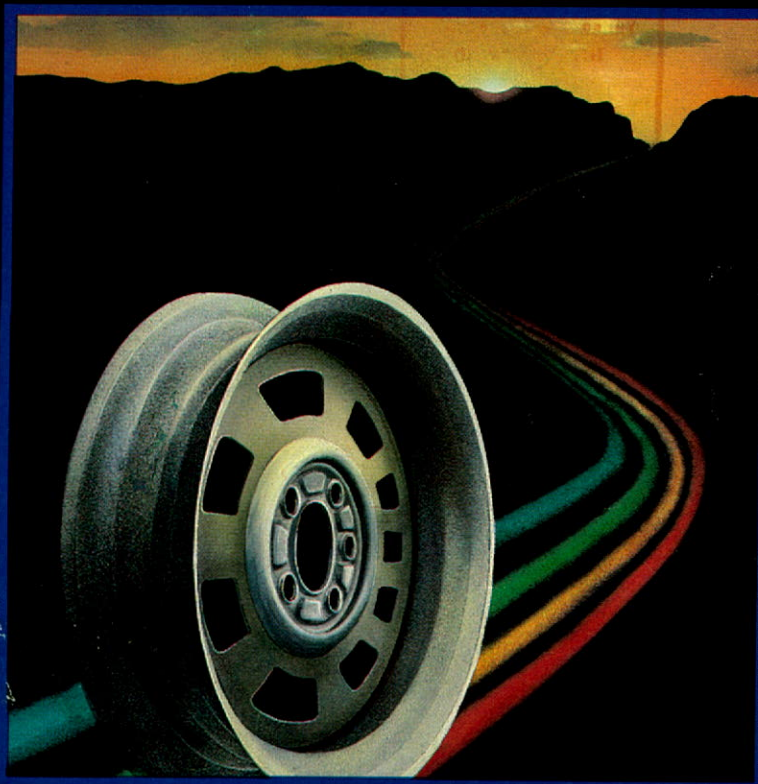


KELSEY-HAYES

**CANADA
LIMITED**



1984 ANNUAL REPORT

1984 ANNUAL REPORT

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

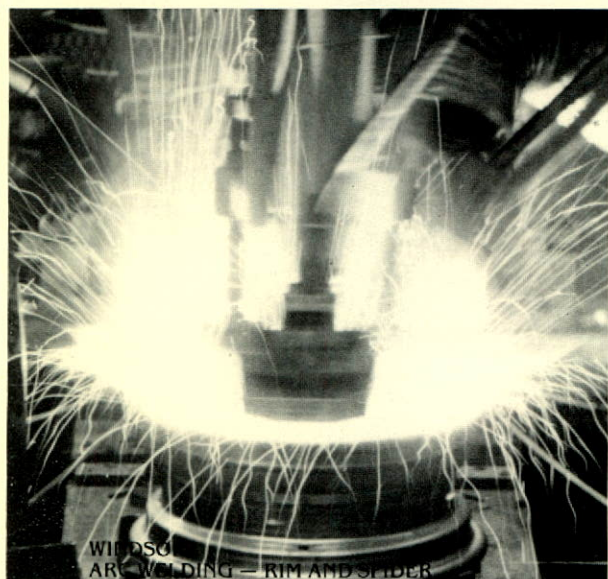
• Passenger car and light truck wheels • Cast steel type wheels for heavy trucks and trailers • Rotors for disc brakes for passenger cars and light trucks • Brake drums for passenger cars and trucks.



WOODSTOCK #2
BULARD AMC HUB MACHINE

Letter to Shareholders

OF KELSEY-HAYES CANADA LIMITED



In 1984, Kelsey-Hayes Canada continued the renewed business cycle that began in 1983 with the recovery of the automotive industry. Significant progress was also achieved in our objectives of quality and productivity improvements.

Net earnings in 1984 were \$19,073,000 or \$5.78 per share. This reflects a substantial increase over the \$12,842,000 and \$3.89 recorded in 1983. Sales in 1984 increased 24% to \$222,249,000 from \$179,382,000 in 1983. Both sales and earnings established new records for the second consecutive year.

Investment in capital improvements was \$7,950,000 for the year. The major capital additions consisted of additional presses and rim line modernization at our Windsor wheel plant together with continuing improvements to our

foundry at Woodstock. Investment in productivity and quality enhancement is critical in our industry to meet the continually increasing challenge. Projected capital investments are estimated at \$9,000,000 for 1985.

Our Woodstock Division negotiated a three year labour contract effective February 1984. The contract at Windsor Division expires in January 1986 and at Conroy Division in August 1986.

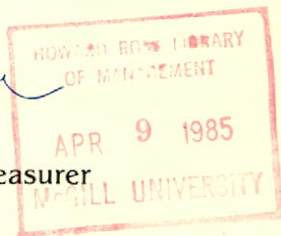
We begin 1985 with continued momentum in our industry and expect it to be another very good year. Continued efforts toward cost control, productivity and quality enhancement will be the prime objectives of the Company.

Your Directors are aware of the considerable pressure on our employees during 1984 and extend their appreciation for their efforts in achieving such rewarding results for 1984. The support of our customers and suppliers during this year of high business activity is also much appreciated.

J.S. Wilkerson
Chairman of the Board

W.C. McIvor
President & Secretary Treasurer

Windsor, Ontario
March 15, 1985



Financial Statement

1984 Financial Highlights

	1984	1983
Net Sales	\$222,249,000	\$179,382,000
Net Earnings	19,073,000	12,842,000
Net Earnings per Share	5.78	3.89
Working Capital	62,668,000	51,606,000
Property, Plant and Equipment		
Expenditures	7,949,000	4,401,000
Depreciation	3,588,000	3,093,000
Book Value per Share of Common Stock	25.48	21.05

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

For the year ended December 31, 1984	1984	1983
Net sales	\$222,248,552	\$179,382,194
Interest income	4,570,724	2,974,271
	\$226,819,276	\$182,356,465
Net earnings before providing for the following	\$ 39,864,303	\$ 28,106,116
Deduct		
Depreciation of plant and equipment	3,587,759	3,093,134
Employees' pension plans	1,503,115	1,670,892
	5,090,874	4,764,026
Net earnings before income taxes	34,773,429	23,342,090
Income taxes (Note 3)	15,700,000	10,500,000
Net earnings for the year	19,073,429	12,842,090
Retained earnings, January 1	68,351,225	58,215,135
	87,424,654	71,057,225
Dividends	4,455,000	2,706,000
Retained earnings, December 31	\$ 82,969,654	\$68,351,225
Net earnings per share (based on the average number of shares outstanding during the year)	\$ 5.78	\$ 3.89

(See accompanying Notes to the Financial Statements)



WINDSOR
WELDING INSPECTION

Kelsey-Hayes Canada Limited

(INCORPORATED UNDER THE BUSINESS CORPORATIONS ACT — ONTARIO)

Balance Sheet as at December 31, 1984

ASSETS	1984	1983
Current		
Cash and short-term deposits	\$58,520,713	\$41,505,102
Accounts receivable	15,290,367	13,585,073
Due from affiliated companies	319,441	765,930
Inventories	13,645,313	15,921,314
Special tooling for current production	822,526	1,144,041
Prepaid taxes, insurance and other expenses	241,548	402,120
	88,839,908	73,323,580
Property, plant and equipment		
Land	513,751	510,038
Buildings and land improvements	12,219,177	11,602,298
Machinery and equipment	60,321,401	53,486,546
Total — at cost	73,054,329	65,598,882
Less accumulated depreciation	43,028,004	39,878,411
	30,026,325	25,720,471
	\$118,866,233	\$99,044,051

LIABILITIES

Current		
Accounts payable	\$ 12,391,026	\$ 9,080,998
Payroll and taxes withheld from employees	5,012,949	4,660,959
Dividends payable	2,475,000	1,320,000
Other accrued expenses	1,547,446	1,569,173
Income taxes	4,745,158	5,086,696
	26,171,579	21,717,826
Deferred income taxes	8,600,000	7,850,000

SHAREHOLDERS' INVESTMENT

Share Capital		
Authorized		
15,000,000 shares		
Issued		
3,300,000 shares	1,125,000	1,125,000
Retained earnings	82,969,654	68,351,225
	84,094,654	69,476,225
	\$118,866,233	\$99,044,051
On behalf of the Board:		
Frank P. Coyer, Jr., Director		
W. C. McIvor, Director		

(See Accompanying Notes to the Financial Statements)

Statement of Changes in Financial Position for the year ended December 31, 1984

	1984	1983
Source of working capital		
From operations		
Net earnings for the year	\$19,073,429	\$12,842,090
Depreciation of plant and equipment	3,587,759	3,093,134
Increase in deferred income taxes	750,000	250,000
	<u>23,411,188</u>	<u>16,185,224</u>
Application of working capital		
Additions to property, plant and equipment less net carrying value of disposals	7,893,613	4,362,094
Dividends	4,455,000	2,706,000
	<u>12,348,613</u>	<u>7,068,094</u>
Increase in working capital	<u>\$11,062,575</u>	<u>\$9,117,130</u>
Working capital changes		
Increase (decrease) in current assets		
Cash and short-term deposits	\$17,015,611	\$12,332,962
Accounts receivable	1,705,294	5,666,480
Due from affiliated companies	(446,489)	69,837
Inventories	(2,276,001)	3,840,567
Special tooling for current production	(321,515)	(1,131,413)
Prepaid taxes, insurance and other expenses	(160,572)	290,936
Net change in current assets	<u>15,516,328</u>	<u>21,069,369</u>
Increase (decrease) in current liabilities		
Accounts payable	3,310,028	4,559,297
Payroll and taxes withheld from employees	351,990	1,517,786
Dividends payable	1,155,000	396,000
Other accrued expenses	(21,727)	99,591
Income taxes	(341,538)	5,379,565
Net change in current liabilities	<u>4,453,753</u>	<u>11,952,239</u>
Increase in working capital	<u>11,062,575</u>	<u>9,117,130</u>
Working capital, January 1	<u>51,605,754</u>	<u>42,488,624</u>
Working capital, December 31	<u>\$62,668,329</u>	<u>\$51,605,754</u>

(See Accompanying Notes to the Financial Statements)

Notes to Financial Statements

December 31, 1984

1. Summary of significant accounting policies

Inventories

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

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.

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. The Company follows the flow-through method in accounting for investment tax credits and accordingly the current income tax provision is reduced in the year such credits are claimed for tax purposes.

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.

Foreign currency conversion

Assets and liabilities of the Company 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. Pensions

Unfunded past service costs under pension plans for employees are estimated at approximately \$1,060,000 (1983 - \$2,250,000) at December 31, 1984.

3. Income taxes

	1984	1983
Currently payable	\$14,950,000	\$10,250,000
Deferred	750,000	250,000
	<u>\$15,700,000</u>	<u>\$10,500,000</u>

The basic corporate tax rate of 51.0% has been reduced to the effective provision rate of 45.2% by the application of the manufacturing and processing credit of 6.3%, and increased by other tax adjustments netting (.5%).

4. Segmented information

The Company is a supplier of parts components to the automotive industry. Approximately 77% (1983 - 64%) of the Company's sales are to its customers in the United States.

5. Related party transactions

Approximately 5% (1983 - 7%) of the total sales are to the Company's parent and related companies. Additionally the Company pays to its parent a royalty charge of .75% on sales to non-related parties.

6. Effects of changing prices

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles on a historical cost basis. The only material difference between the basis used and a current cost basis would be in the valuation of the Company's property, plant and equipment and the related effects on depreciation expense. The following summarizes this difference.

	Historical Cost	Current Cost
Net book value of property, plant and equipment	\$30,026,325	\$41,326,613
Depreciation expense	\$ 3,587,759	\$ 5,185,179
Net after tax earnings	<u>\$19,073,429</u>	<u>\$18,198,043</u>

Auditors' Report

The Shareholders,
Kelsey-Hayes Canada Limited.

We have examined the balance sheet of Kelsey-Hayes Canada Limited as at December 31, 1984 and the statements of net 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, 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.

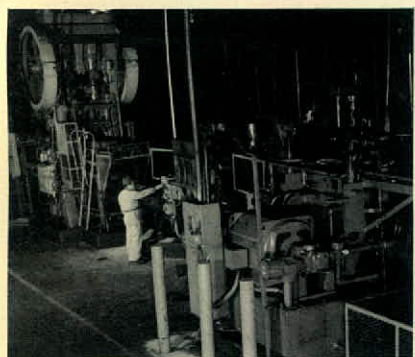
Windsor, Ontario
January 24, 1985

Touche Ross & Co.
Chartered Accountants

5 Year Financial Review

	1984	1983	1982	1981	1980
OPERATING RESULTS:					
	December 31 (Dollar Amounts in Thousands)				
Net sales	\$222,249	\$179,382	\$120,131	\$113,629	\$102,910
Net earnings before income taxes	34,773	23,342	12,174	15,057	13,014
Income taxes	15,700	10,500	5,400	6,900	5,900
Net earnings for the year	19,073	12,842	6,774	8,157	7,114
Dividends	4,455	2,706	2,310	2,299	2,200
Net increase in retained earnings	14,618	10,136	4,464	5,858	4,914
Expenditures for property, plant and equipment	7,949	4,401	6,614	4,308	2,748
Depreciation of plant and equipment	3,588	3,093	2,713	2,346	2,194
Per share of Common stock:					
Net earnings	\$ 5.78	\$ 3.89	\$ 2.05	\$ 2.47	\$ 2.16
Dividends	\$ 1.35	\$.82	\$.70	\$.70	\$.67
FINANCIAL POSITION:					
Current assets	\$ 88,840	\$ 73,324	\$ 52,547	\$ 49,784	\$ 46,082
Current liabilities	26,172	21,718	10,058	9,241	10,460
Working capital	62,668	51,606	42,489	40,543	35,622
Property, plant and equipment (net)	30,026	25,720	24,452	20,733	18,796
Shareholders' investment	84,095	69,476	59,340	54,876	49,018
Book value per share of Common stock	\$ 25.48	\$ 21.05	\$ 17.98	\$ 16.63	\$ 14.85

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



WINDSOR

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

The National Victoria
and Grey Trust Company
Toronto, Montreal, Winnipeg
and Vancouver

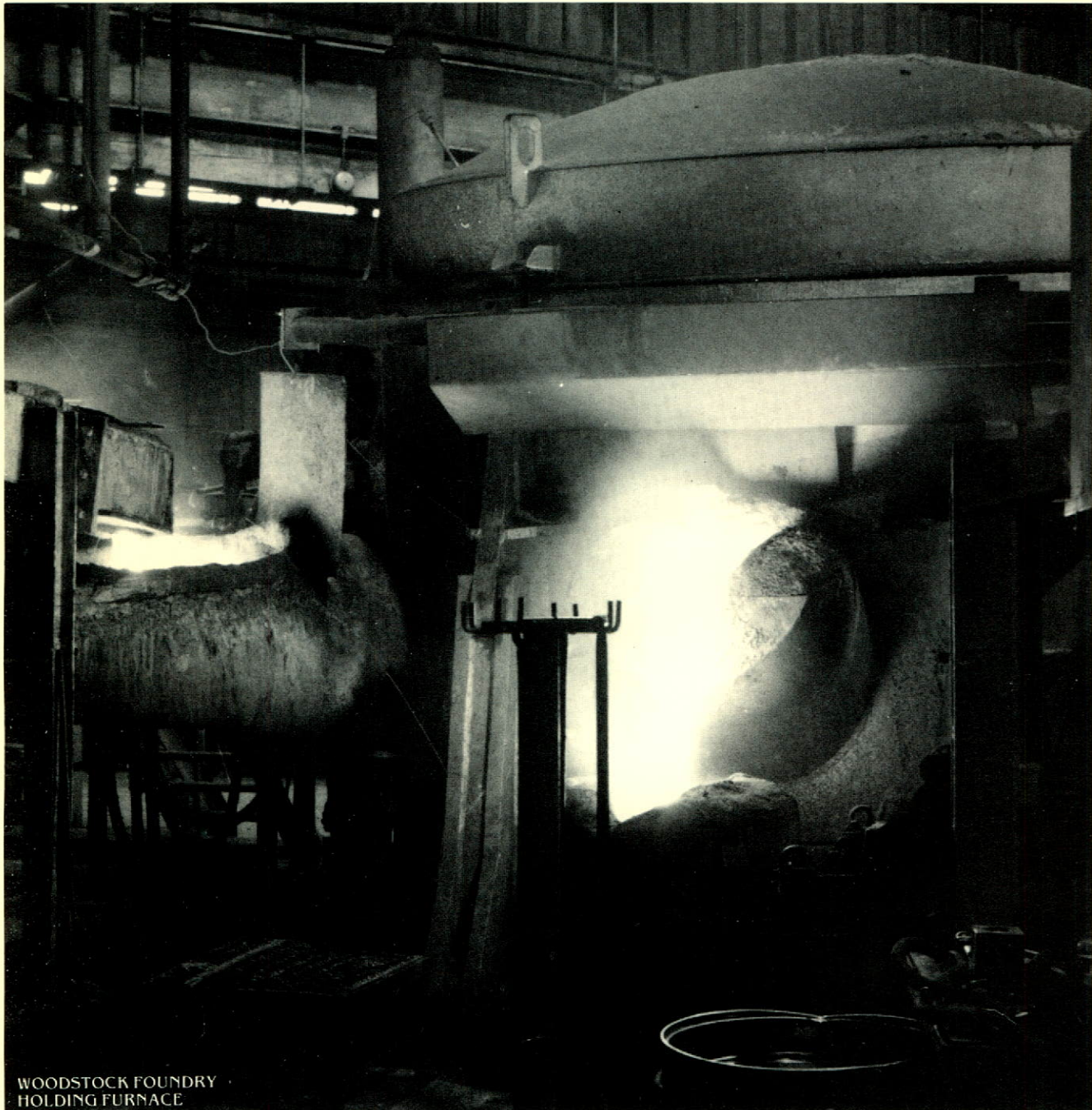
Auditors

Touche Ross & Co.,
Windsor, Ontario



WOODSTOCK FOUNDRY
OSBORN MOULD ASSEMBLY

Kelsey-Hayes Canada Limited



WOODSTOCK FOUNDRY
HOLDING FURNACE



Leading the Industry in Wheels and Brake Components

Kelsey-Hayes Canada Limited