

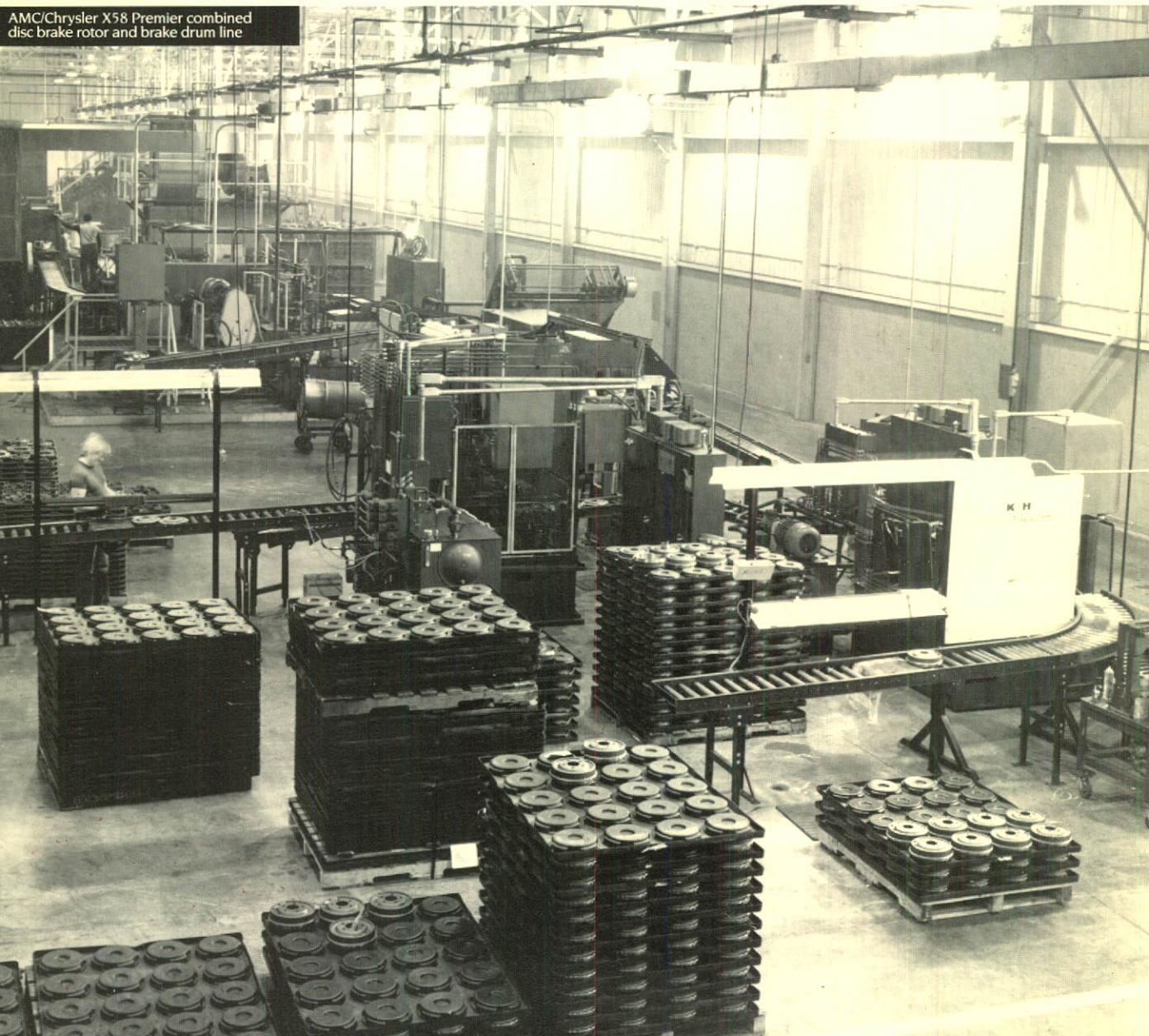
1987
KELSEY-HAYES
CANADA LIMITED
ANNUAL
REPORT



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.



AMC/Chrysler X58 Premier combined disc brake rotor and brake drum line



LETTER TO THE SHAREHOLDERS OF KELSEYHAYES CANADA LIMITED

Kelsey-Hayes Canada Limited sales and profit fell below comparable 1986 levels despite our new business awards from General Motors and Chrysler Corporation. In 1987 our sales were \$140,886,612 compared to \$156,749,060 in 1986. Net earnings were \$5,532,369 or \$0.84 per share, down from \$10,572,158 or \$1.60 per share in 1986.

Traditional steel wheel sales fell due to reduced passenger car sales of our major customers, and the over capacity in North American wheel manufacturing facilities. Consequently we are reducing our Windsor operation wheel production capacity as well as continuing our cost reduction programs. Our new wheel line for General Motors W-car wheels and other existing business is running well, and we look forward to increased sales in these new model cars.

Sales of passenger car and light truck brake drums and rotors were adversely impacted early in 1987 by a strike at our Woodstock operation. However, a three year contract was negotiated, and the three new lines in our building addition are performing well. Sales of products from these lines are below forecast, but capacity is available to service projected sales increases.

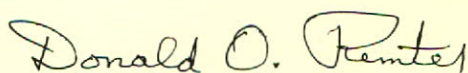
Capital investment in 1987 was \$3,907,000, lower than our record 1986 capital investment of \$8,539,000 for our new high productivity lines.

During 1987 the Woodstock Division achieved a third consecutive year of the prestigious Chrysler Pentastar award. This award recognizes excellence in quality, cost, delivery, and technical expertise. In addition, both our Windsor and Woodstock Divisions have maintained quality awards from Chrysler, Ford and General Motors. These awards are essential for new business from our domestic customers as well as enhancing opportunity for business with new North American car assembly operations.

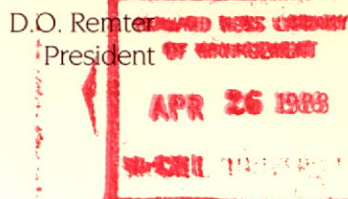
The Directors of your company appreciate the excellent continuing efforts of our employees and our suppliers to reduce costs and improve productivity.

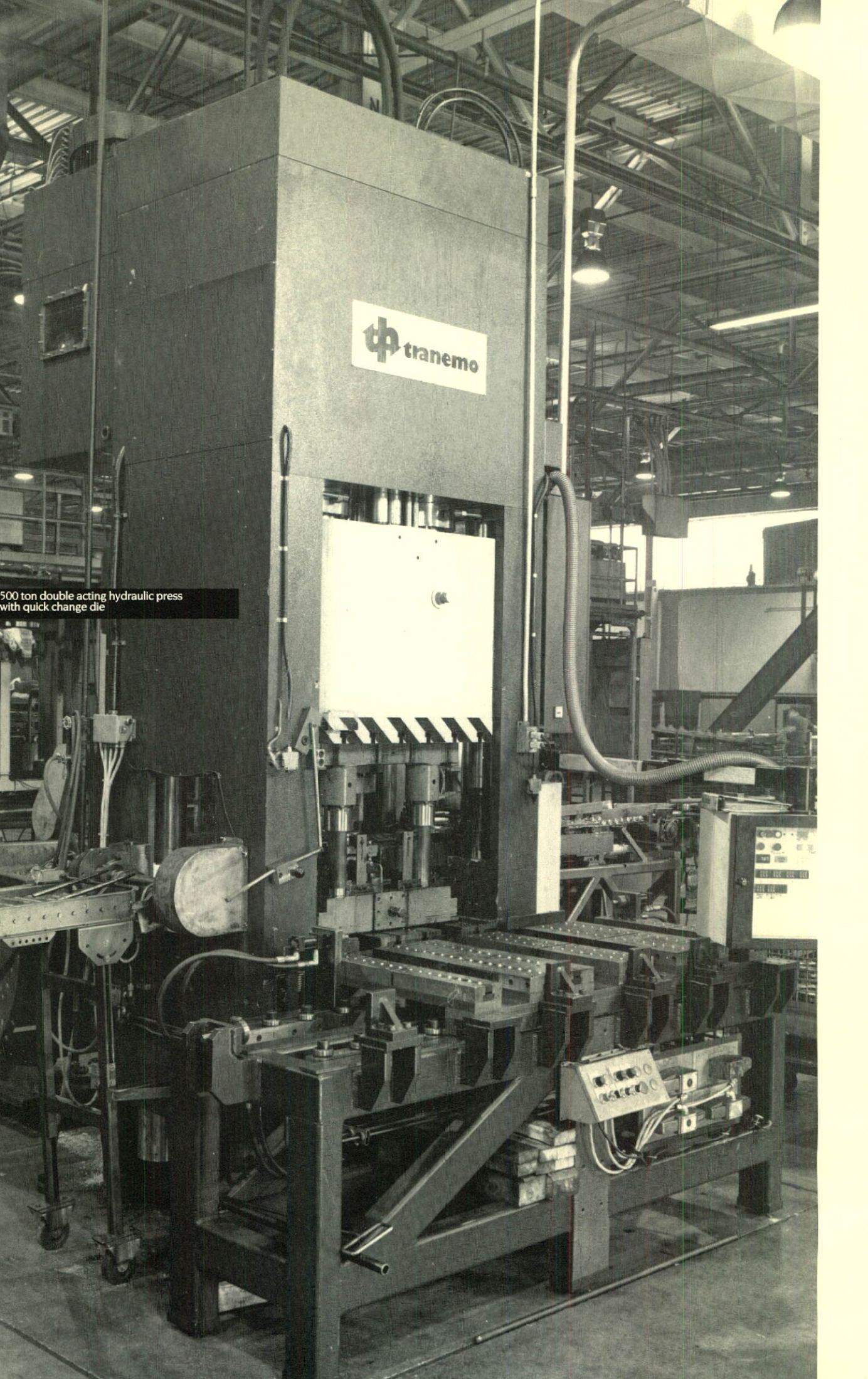


R. Siefert
Chairman of the Board



Windsor, Ontario, March 9, 1988





500 ton double acting hydraulic press
with quick change die

FINANCIAL STATEMENTS

1987 Financial highlights

	1987	1986
Net Sales	\$140,887,000	\$156,749,000
Net Earnings	5,532,000	10,572,000
Net Earnings per Share	.84	1.60
Working Capital	84,239,000	80,902,000
Property, Plant and Equipment		
Expenditures	3,907,000	8,539,000
Depreciation	4,833,000	4,145,000
Book Value per Share of Common Stock	16.17	15.93

Statement of earnings and retained earnings

<i>For the year ended December 31, 1987</i>	1987	1986
Sales	\$140,886,612	\$156,749,060
Investment income	5,463,580	5,751,628
	<u>\$146,350,192</u>	<u>\$162,500,688</u>
Expenses		
Cost of sales	\$121,232,763	\$127,364,988
Depreciation	4,833,112	4,144,706
Selling, general and administrative	8,293,201	9,530,967
Employees' pension plans (Note 2)	1,058,747	87,869
	<u>135,417,823</u>	<u>141,128,530</u>
Earnings from operations	<u>10,932,369</u>	<u>21,372,158</u>
Income taxes		
current	5,600,000	8,800,000
deferred	(200,000)	2,000,000
	<u>5,400,000</u>	<u>10,800,000</u>
Net earnings for the year	5,532,369	10,572,158
Retained earnings, at beginning of year	104,040,580	98,418,422
	<u>109,572,949</u>	<u>108,990,580</u>
Dividends	3,960,000	4,950,000
Retained earnings, at end of year	<u>\$105,612,949</u>	<u>\$104,040,580</u>
Earnings per share	<u>\$.84</u>	<u>\$ 1.60</u>

(See Accompanying Notes to the Financial Statements)

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

1987 Balance sheet *as at December 31, 1987*

ASSETS	1987	1986
Current		
Cash and short-term deposits	\$ 68,804,120	\$ 63,432,552
Accounts receivable	16,037,686	14,626,899
Due from affiliated companies	201,393	521,836
Income taxes receivable	221,187	5,536,563
Inventories	11,693,321	14,056,218
Special tooling for current production	2,403,051	2,753,221
Prepaid taxes, insurance and other expenses	143,691	100,473
	<u>99,504,449</u>	<u>101,027,762</u>
Property, plant and equipment		
Land	513,751	513,751
Buildings and land improvements	13,278,358	12,608,809
Machinery and equipment	76,351,629	73,658,317
	<u>90,143,738</u>	<u>86,780,877</u>
Deduct accumulated depreciation	54,805,523	50,516,749
	<u>35,338,215</u>	<u>36,264,128</u>
	<u>\$134,842,664</u>	<u>\$137,291,890</u>
LIABILITIES	1987	1986
Current		
Accounts payable and accrued liabilities	\$ 10,529,049	\$ 14,037,374
Wages payable	3,746,519	4,108,936
Dividends payable	990,000	1,980,000
	<u>15,265,568</u>	<u>20,126,310</u>
Long-term		
Pension accrual (Note 2)	1,039,147	—
Deferred income taxes	<u>11,800,000</u>	<u>12,000,000</u>
SHAREHOLDERS' EQUITY		
Share capital		
Authorized		
Unlimited number of common shares		
Issued		
6,600,000 shares	1,125,000	1,125,000
Retained earnings	105,612,949	104,040,580
	<u>106,737,949</u>	<u>105,165,580</u>
	<u>\$134,842,664</u>	<u>\$137,291,890</u>
On behalf of the Board:		
R. G. Siefert, Director		
D. O. Remter, Director		

(See Accompanying Notes to the Financial Statements)

Statement of changes in financial position

For the year ended December 31, 1987	1987	1986
Funds provided by (used in) operating activities		
Net earnings for the year	\$ 5,532,369	\$10,572,158
Non-cash items		
Depreciation	4,833,112	4,144,706
Deferred income taxes (recovered)	(200,000)	2,000,000
Difference between pension expense and amount funded	1,039,147	—
	<u>11,204,628</u>	<u>16,716,864</u>
Changes in working capital		
(Increase) in accounts receivable	(1,410,787)	(105,308)
Decrease in inventories	2,362,897	2,476,876
(Decrease) increase in accounts payable and accrued liabilities	(3,508,325)	556,542
Decrease (increase) in income taxes receivable	5,315,376	(6,802,206)
Other	(725,022)	(3,651,940)
	<u>2,034,139</u>	<u>(7,526,036)</u>
Funds provided by operations	13,238,767	9,190,828
Funds used for financing activities		
Dividends	<u>3,960,000</u>	<u>4,950,000</u>
Funds remaining for investment	9,278,767	4,240,828
Funds used in investing activities		
Purchases of property, plant and equipment	<u>3,907,199</u>	<u>8,538,943</u>
Increase (decrease) in funds for the year	5,371,568	(4,298,115)
Funds:		
Cash and short-term deposits at beginning of year	<u>63,432,552</u>	<u>67,730,667</u>
Cash and short-term deposits at end of year	<u><u>\$68,804,120</u></u>	<u><u>\$63,432,552</u></u>

(See Accompanying Notes to the Financial Statements)

NOTES TO FINANCIAL STATEMENTS

December 31, 1987

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.

(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 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 Change in accounting policy – pension costs and obligations

Effective January 1, 1987, the company adopted, on a prospective basis, the

accounting recommendations for pension costs and obligations issued by The Canadian Institute of Chartered Accountants. This change in accounting policy resulted in a decrease in earnings, for the year ended December 31, 1987 of approximately \$1,000,000 (earnings per share of \$.15).

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 are as follows:

	1987	1986
Accrued pension benefits . . .	\$42,187,000	\$37,923,000
Pension fund assets	\$46,629,000	41,721,000

The pension expense of \$1,058,747 (1986 – \$87,869) 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 of 52.1% has been reduced to the effective provision rate of 49.4% by the application of the manufacturing and processing credit of 4.6% and increased by other tax adjustments netting 1.9%.

4 Segmented information

The company is a supplier of parts components to the automotive industry. Approximately 77% (1986 – 77%) of the company's sales are to its customers in the United States.

5 Related party transactions

Approximately 4% (1986 – 5%) 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, 1987 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, 1987 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, except for the change in the method of accounting for pension costs and obligations as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Auditors' Report

Touche Ross & Co.

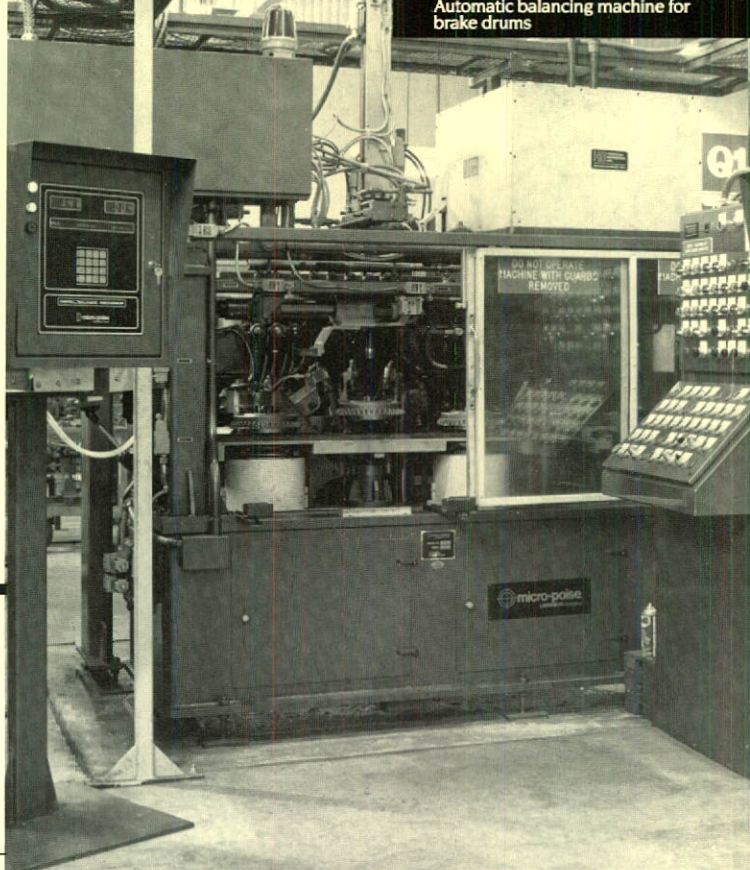
Chartered Accountants

Windsor, Ontario
January 18, 1988

5 Year financial review

	1987	1986	1985	1984	1983
OPERATING RESULTS:					
	December 31 (Dollar Amounts in Thousands)				
Net sales	\$140,887	\$156,749	\$209,161	\$222,249	\$179,382
Net earnings before income taxes	10,932	21,372	38,564	34,773	23,342
Income taxes	5,400	10,800	18,000	15,700	10,500
Net earnings for the year	5,532	10,572	20,564	19,073	12,842
Dividends	3,960	4,950	5,115	4,455	2,706
Net increase in retained earnings	1,572	5,622	15,448	14,618	10,136
Expenditures for property, plant and equipment	3,907	8,539	5,973	7,949	4,401
Depreciation of plant and equipment	4,833	4,145	4,129	3,588	3,093
Per share of Common stock:					
Net earnings	\$.84	\$ 1.60	\$ 3.12	\$ 2.89	\$ 1.95
Dividends	\$.60	\$.75	\$.78	\$.68	\$.41
FINANCIAL POSITION:					
Current assets	\$ 99,504	\$101,028	\$100,496	\$ 88,840	\$ 73,324
Current liabilities	15,265	20,126	22,823	26,172	21,718
Working capital	84,239	80,902	77,673	62,668	51,606
Property, plant and equipment (net)	35,338	36,264	31,870	30,026	25,720
Shareholders' investment	106,738	105,166	99,543	84,095	69,476
Book value per share of Common stock	\$ 16.17	\$ 15.93	\$ 15.08	\$ 12.74	\$ 10.53

Automatic balancing machine for brake drums



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

L. E. Wilson

Assistant Secretary-Treasurer

Transfer Agent and Registrar

The National Trust Company
Toronto, Montreal, Winnipeg
and Vancouver

Auditors

Touche Ross & Co.,
Windsor, Ontario

New rim line for G.M. W-Car at Windsor



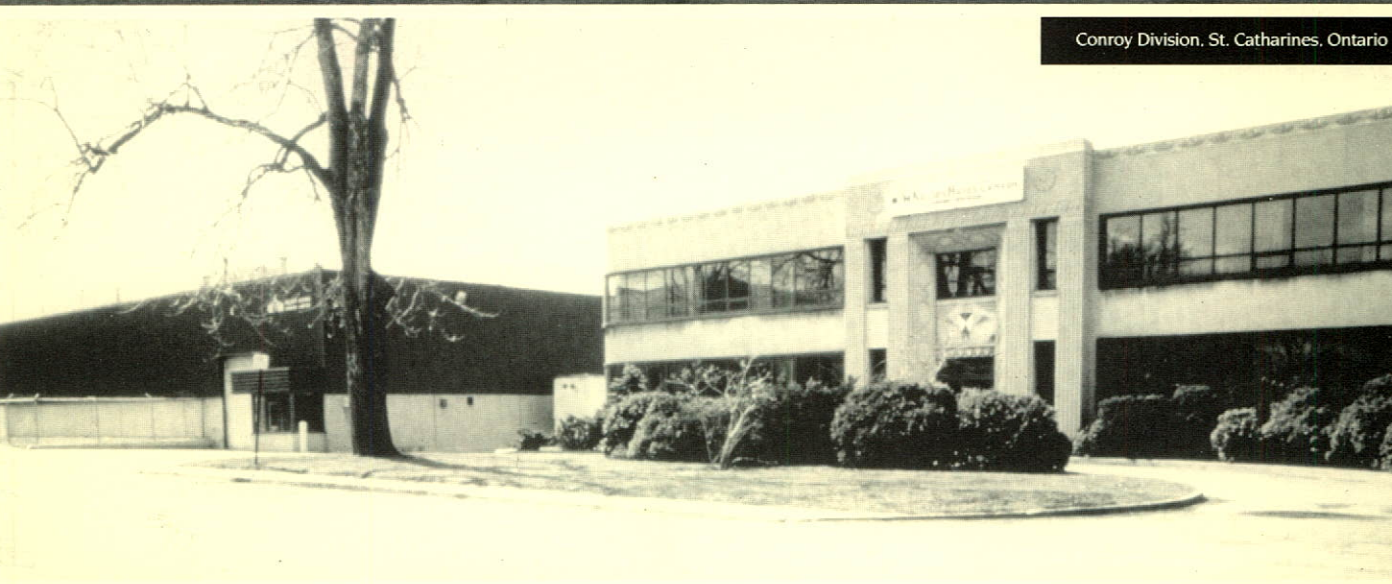
Finished Chrysler K & E Rotor



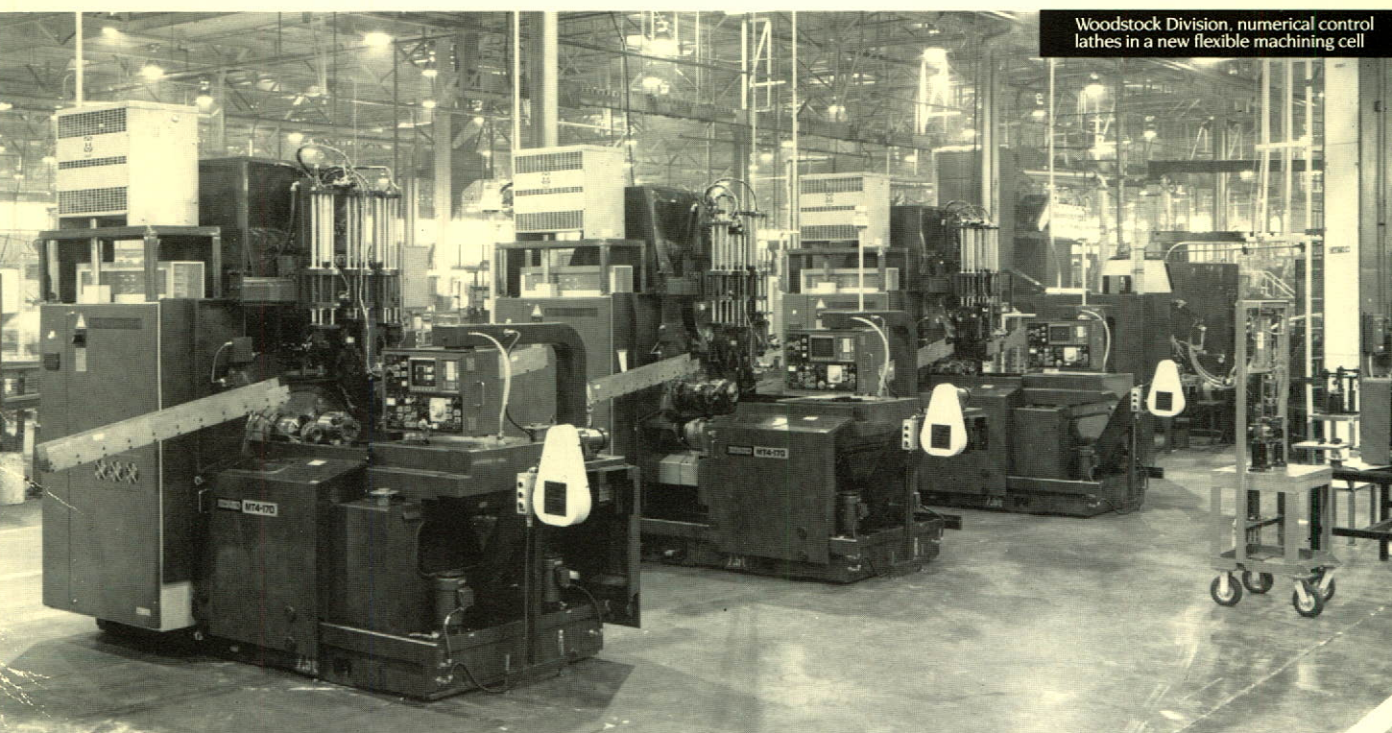
Windsor Division



Conroy Division, St. Catharines, Ontario



Woodstock Division, numerical control lathes in a new flexible machining cell



COMPANY WIDE EXCELLENCE
KELSEY-HAYES CANADA LIMITED

