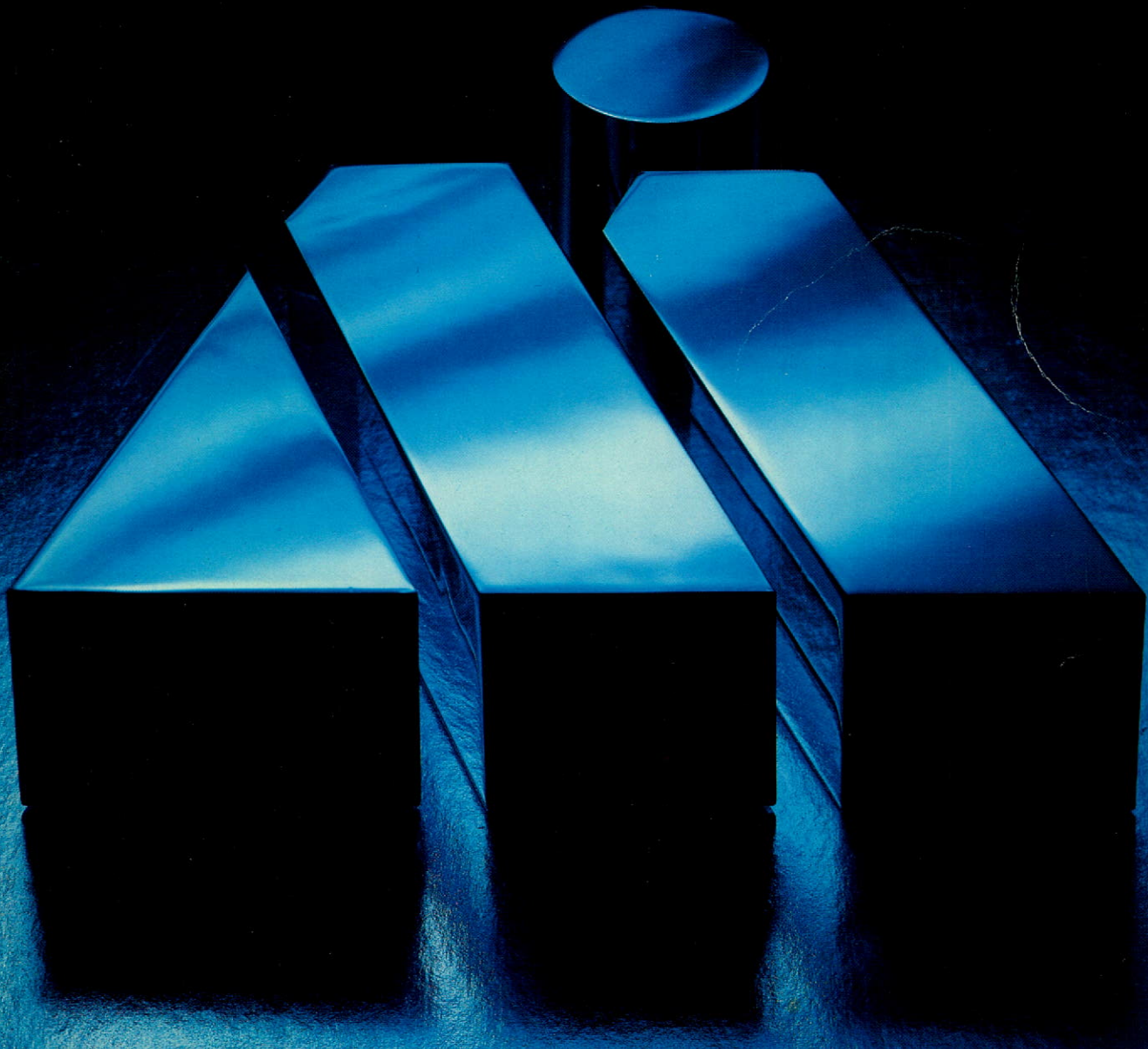


**Magna  
International  
Inc.**

**Annual Report  
1981**







**1981 Annual Report for  
Magna International Inc.  
and its subsidiary  
companies.**

Magna International Inc. is a manufacturer of parts for the North American automotive industry and of sophisticated components and products for the aerospace and defence industries. The Company also fabricates steel for industrial and commercial structures.

Over 75% of Magna's sales are outside Canada. Magna is a Canadian-owned public company listed on The Toronto Stock Exchange.

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Directors and Officers	Inside Back Cover



# Financial Highlights

Dollars in thousands except per share figures

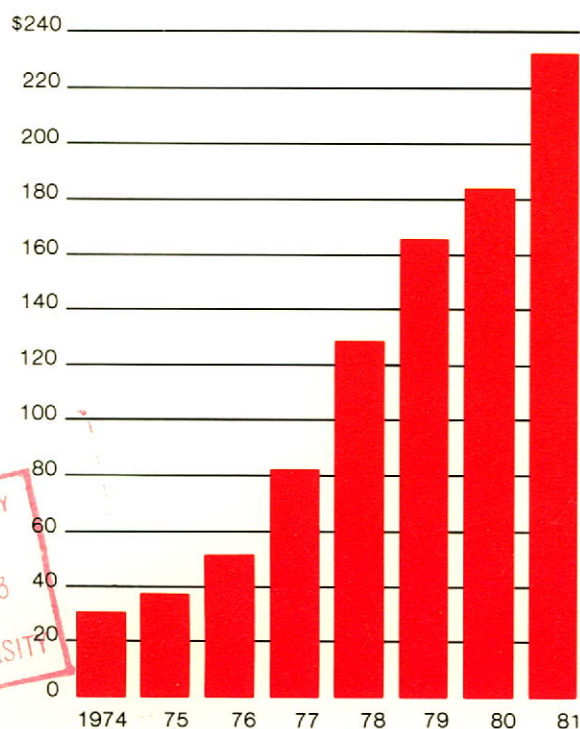
	1981	1980	1979	1978	1977	1976	1975	1974
Sales	<b>\$232,114</b>	\$183,456	\$165,738	\$128,189	\$80,953	\$55,010	\$39,415	\$31,644
Income from operations	<b>12,054</b>	9,249	15,924	12,899	8,185	5,734	2,880	1,990
Net income*	<b>6,911</b>	5,640	8,455	6,595	4,093	2,786	1,339	1,080
Working capital	<b>28,564</b>	26,955	18,866	15,351	7,412	4,925	3,233	2,164
Earnings per share**								
Class A Common and Class B	<b>\$1.27</b>	\$1.06	\$1.72	\$1.42	\$0.95	\$0.72	\$0.34	\$0.28
Dividends (Annual rate)**								
Class A Common and Class B	<b>\$0.36</b>	\$0.36	\$0.28	\$0.19	\$0.12	\$0.06	\$0.03	\$0.03
6½% Preference	<b>\$6.50</b>	\$6.50	\$6.50	\$6.50	\$6.50	\$6.50	\$6.50	\$6.50
7% Preference	<b>\$1.75</b>	\$1.75						

\*Before extraordinary items

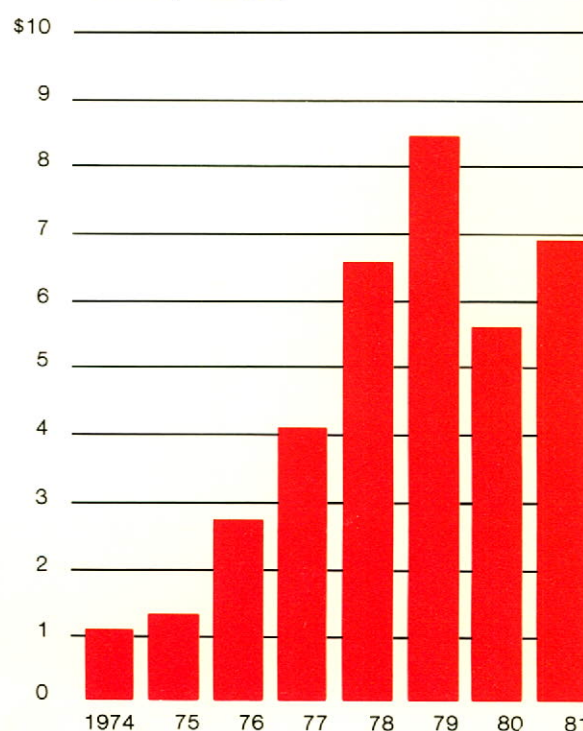
\*\*Adjusted for years prior to 1979 to give effect to the capital reorganization during 1979.

## Record of Growth

Sales \$ Millions



Net Income \$ Millions



HOWARD ROSS LIBRARY  
OF MANAGEMENT  
FEB 10 1983  
MCGILL UNIVERSITY

# Philosophy and Operating Policies

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The continuing success of a corporation depends upon a management capable of motivating employees to greater productivity and providing investors with a fair return on their capital.

Demonstration of this capability is also vital to the preservation of the free enterprise system.

Magna firmly believes free enterprise is the most efficient economic system and that it continues to offer employees, employers, and society in general the best option for improving the standard of living. Corporate profits are the driving force that will allow free enterprise societies to meet the challenges of other economic systems. We believe all individuals have the right to benefit from their contribution to corporate profits. Business must recognize this right if the free market system is to survive and prosper.

## **Employee Equity Participation**

Magna believes the key to resolving present economic, labour and social problems, is providing employees with the opportunity to obtain ownership in their Company through a profit sharing plan. This plan allows employees to become shareholders with greater motivation to be productive and contribute to the growth and well-being of their Company, and their social standing. Each year Magna commits 7% of pretax profits to purchase shares in the Company for the benefit of employees. In the 1981 fiscal year \$905,000 was allocated to this plan.

## **Working Conditions**

Magna believes effective employees are a company's greatest asset. Employees should be provided with workplaces that are pleasant, clean and safe. Management is constantly striving to upgrade the working conditions for its employees.

## **Social Responsibility**

Magna believes a company has responsibilities to the community of which it is a part, and should discharge these responsibilities by giving financial assistance and management advice to the development of socially beneficial projects. It is Magna's policy to contribute approximately 1% of pretax profits to selected community programs to develop healthy and socially responsible individuals.

## **Technology Development**

Magna believes a developing technology base is essential for the long term well-being of industrial enterprise. It is Magna's policy to allocate approximately 7% of pretax profits for approved technology development. These funds are charged as operating expenses at the time they are expended.

## **Dividends**

Magna believes investors should benefit from their investment. It is Company policy to pay dividends which represent approximately one fifth of the profits for the previous year to Class A Common and Class B Shareholders.



# Operating Structure

## ● Operating Unit

Each operating unit is an autonomous business operation under the control of a General Manager. The General Manager has complete authority and responsibility for the operation of his unit. These decentralized units generally employ approximately 100 people thus giving the General Manager close contact with his personnel and immediate control of all matters affecting the efficiency and profitability of his unit.

## ● Group Management

The operating units are grouped by products or markets under the direction of a Group Manager, an individual with proven general management capabilities gained from on-line experience.

The Group Manager provides support to each General Manager who is free to draw upon his experience, council and advice.

The Group Manager also monitors the implementation of operating policies as outlined by Executive Management.

## ● Automotive Division Markets

original equipment  
automotive aftermarket

## ● Industrial Division Markets

aerospace  
defence  
oceanographic  
structural steel

## ● Executive Management

The Executive Management is responsible for establishing operational policies consistent with the Company's philosophy as developed by the Board of Directors.

This group is responsible for the allocation of corporate resources to the Automotive and Industrial Divisions, and for monitoring all acquisition opportunities.

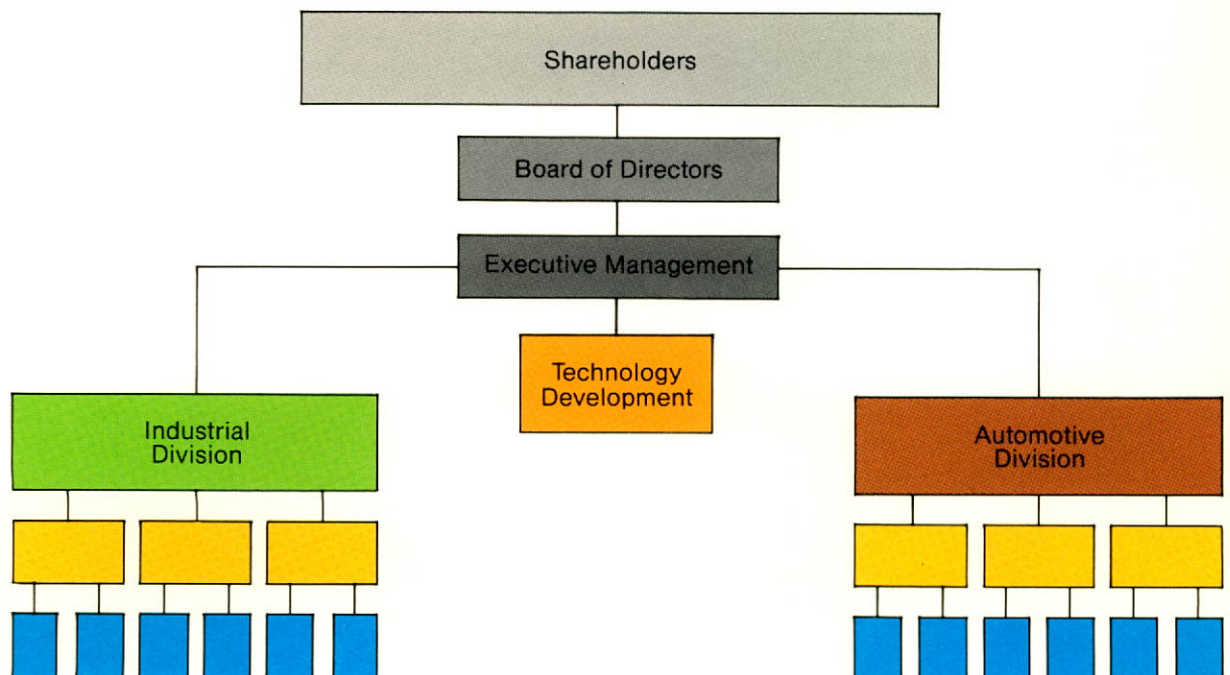
The Executive Management coordinates efforts which affect all areas of operation, such as sales and marketing, finance and corporate administration, safety, personnel and employment standards.

## ● Technology Development

Technology development is an important management tool in the implementation of strategic plans. Allocation of resources and the establishment of development priorities are controlled by the Executive.

## ● The Board of Directors

The Board of Directors is elected by and is responsible to the Shareholders and has overall responsibility for the direction of the Company.





# Report to Shareholders

---

During 1981 your Company again demonstrated its capacity for rapid response to changing market conditions. Revenues continued their upward growth reaching a new record of \$232 million. Earnings improved over last year, reaching \$6.9 million or \$1.27 per share — in spite of high interest rates and start-up costs for new product lines which kept pressure on operating profits and hindered an even stronger earnings performance. With several new operations now achieving higher production efficiencies, your Company is forecasting continued earnings growth for 1982.

This year automotive equipment sales accounted for 85% of total revenues. Operating profits (excluding interest and corporate expenses) from the Automotive Division were \$25.1 million on \$193 million in sales. 75% of these sales were in the United States.

Driven by the demand for fuel efficiency, quality and reliability, the North American automotive industry continues its massive programs to downsize passenger vehicles. One result of this activity has been the increased use of high-strength, noncorrosive materials and component part designs requiring the accelerated use of new technology in manufacturing processes.

The success of a company like Magna rests on its ability to effectively serve the automobile industry by responding quickly with innovative processes and products . . . and this requires solid coordination of a supplier's manufacturing engineering departments with the automakers design engineering activities. Magna has this ability. The decentralized structure of your Company enables each operating unit to respond effectively to the rapid changes occurring in component design and materials as well

as establishing a solid liaison between Magna and the automobile manufacturers. Moreover, each operating unit maintains its own integrated toolmaking and product development capability which focuses its resources on specific product lines and processes. This structure has proven very successful in recent years and will continue to be a key factor in Magna's future success.

Investments have been directed at producing components for the small car market — with specific focus on lightweight reaction injection molded components, high efficiency electric motors, precision door locks and latches and high strength steel stampings. During fiscal 1981 85% of total corporate capital expenditures were made in the Automotive Division. And while the large capital expenditure required by our new product lines has constrained current profits, the demand for these new products should produce excellent returns.

During the year a tool and die company was acquired. It designs and builds precision dies, large molds, jigs, fixtures and special equipment for complex automotive and non-automotive parts. This facility complements the reaction injection molding operation enabling Magna to respond to the growing market of large molded plastic automotive components.

The performance of the aerospace and defence markets during fiscal 1981 resulted in the Industrial Division achieving \$39 million in sales.

Working capital remains at a healthy level. The large capital expenditures during fiscal 1981 drew on the funds which were raised for this purpose in fiscal 1980 through equity and long-term debt financing.



## **The Future**

In response to changing consumer preferences, the automotive industry is integrating fuel efficiency, quality and reliability as well as style, into the design of new vehicles. With the introduction of these new models it is expected that North American built cars will increase their share in the growing small car market. Your Company's capital investments and technology developments have been directed at this smaller car market. With much of the necessary equipment and productive capacity in place to provide the components for small cars, the future looks promising.

The integrated tooling and development capabilities of our production units and our reputation for excellent service and quality places us in a strong position to serve the automotive industry in the years ahead. As the automotive market changes, the structure of the Company will also be shaped to the needs of the marketplace.

Technology development projects possess considerable potential for future growth. The Automotive Division is working on a variety of programs which will enable your Company to provide the component parts for the car of tomorrow. Products resulting from developments of high efficiency DC motors, lightweight components, reaction injection molded plastics and automobile door locks and latches, will enable your Company to gain a greater portion of the market.

Your Company forecasts the 1982 fiscal period as another year of record sales in the Automotive Division. Equipment utilization is expected to be higher than this year as new product lines reach capacity. This factor combined with the realignment of operations, should result

in a stronger earnings performance in 1982.

To acknowledge the dedication of our employees, we have allocated \$905,000 during 1981 to the Employee Deferred Profit Sharing Plan. We also thank our Directors, customers and suppliers for their continued support.



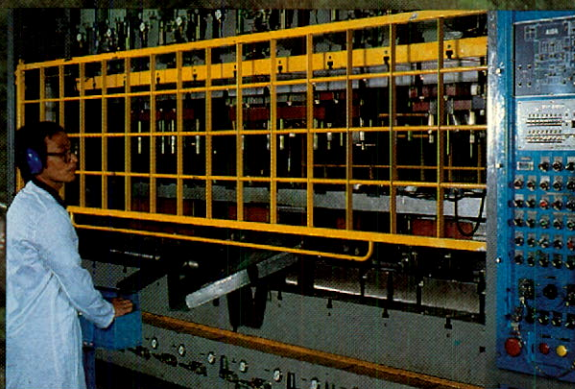
Frank Stronach  
Chairman of the Board,  
and Chief Executive Officer



Helmut Hofmann  
President,  
and Chief Operating Officer



# Automotive Division





**Trim Group**  
**Stamping Group**  
**Mid-West Group**  
**Finishing Group**  
**Accessory Drive Group**  
**Electromechanical Device Group**  
**Reaction Injection Molding Group**

The Automotive Division is organized into seven Groups to provide product concentration and specialization compatible with the expertise and equipment capability of each Group. The operating units within the Group are self-contained manufacturing facilities. We feel this structure can best serve the needs of the automobile manufacturers.

Annual sales from this Division account for 85% of the corporation's revenue. Modern manufacturing processes and equipment enable the Division to keep abreast of the new materials and component design innovations being introduced by North American car manufacturers. The processes utilized in the Division include proprietary techniques for metal forming, sophisticated reaction injection molding, complex transfer stamping, anodizing, chrome plating and automated welding. A representative sample of the various products manufactured is illustrated overleaf.

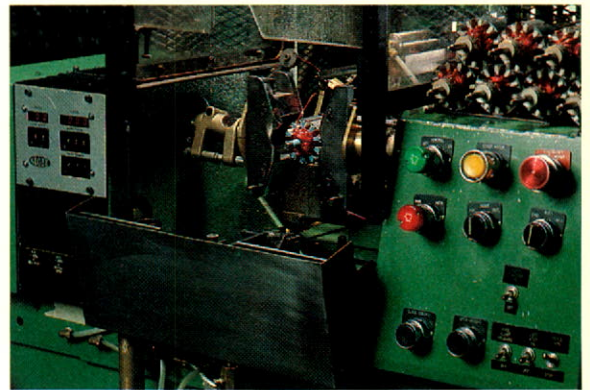
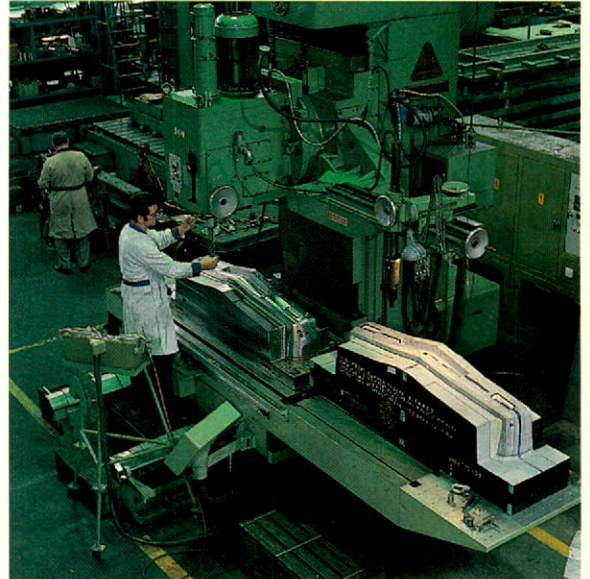
Major changes in car designs have accelerated the introduction of new technology in component design requiring the supply base to respond rapidly to these design and technology changes. Individual operating units within the Automotive Division possess extensive integrated tooling, manufacturing and product development capabilities which ensure their ability to respond rapidly to customer requirements and fosters innovations of products and processes. Additional support can also be provided from divisional and corporate resources.

*Left: The automotive industry is a vital segment of the Canadian economy.*

*Left, top: Direct current motor armatures.*

*Left: A 600-ton transfer press.*

During the 1981 fiscal year, special effort was placed on marketing activities to assist each product group with strategic as well as product planning. Ongoing planning activities will aid in developing new programs compatible with design objectives endorsed by our automotive customers. These new programs will match specific engineering mandates with capital equipment now in place within the Division.



*Top: Machining a mold for a reaction injection plastic bumper cover.*

*Lower: Automatic winding of an electric motor armature.*



# Automotive Division

## Trim Group

Manufactures interior and exterior body ornamentation of cold-rolled steel, aluminum, stainless steel, and a bimetal composition of aluminum and stainless steel.

## Stamping Group

### Mid-West Group

Produces high strength steel stampings, lightweight trim components, locks and latches, and engine oil strainers.

## Finishing Group

Product finishing includes anodizing, painting and chrome plating of cold-rolled steel, aluminum and plastic.

## Accessory Drive Group

Leading supplier of lightweight pulleys and accessory drive components.

## Electromechanical

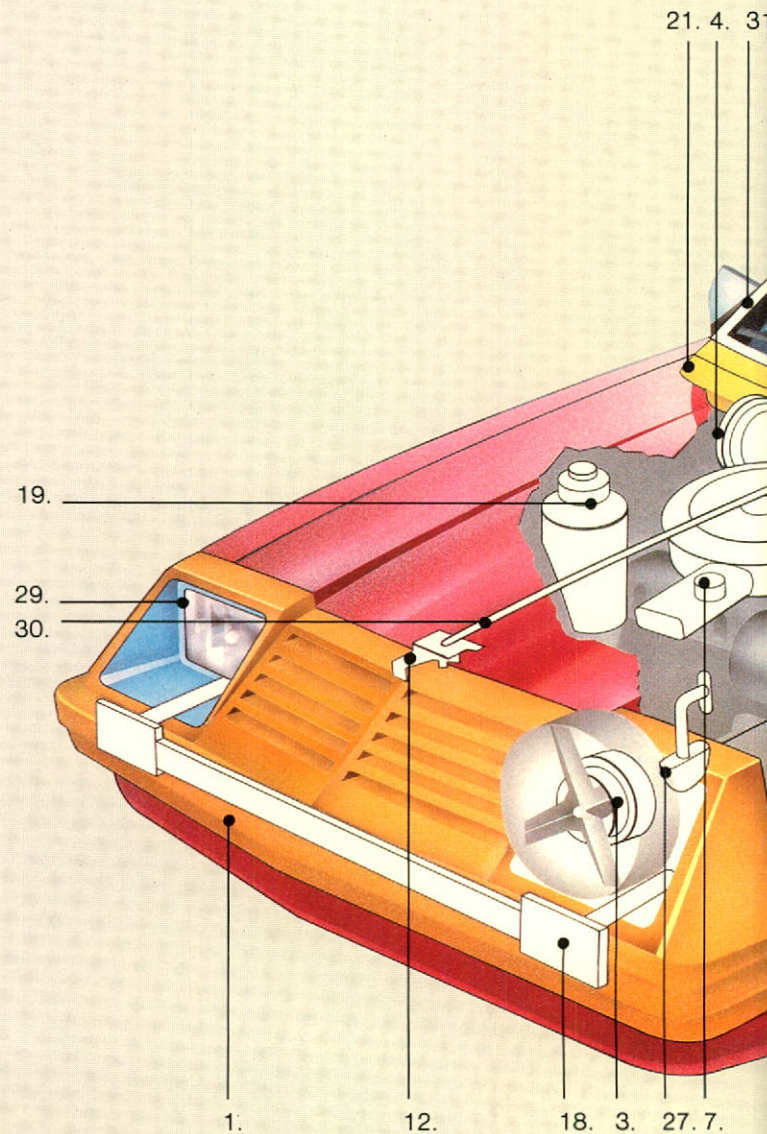
### Device Group

Products include DC motors, relays and automotive electronics.

## Reaction Injection

### Molding Group

Manufactures front and rear bumper fascia utilizing the latest polyurethane molding technology.





### Reaction Injection Moldings

1. Front Bumper and Grille Units
2. Rear Bumper Covers

### Electromechanical Devices

3. Cooling Fan Motors
4. Heater Fan Motors
5. Windshield Wiper Motors
6. Fuel Control Devices
7. Thermostatic Air Controllers
8. Magnetic Capsule Switches
9. Electronic Alarms
10. Electronic Fuel Level Devices

### Locks and Latches

11. Door Latches and Lock Mechanisms
12. Hood Latches
13. Trunk Locks

### Accessory Drive Systems

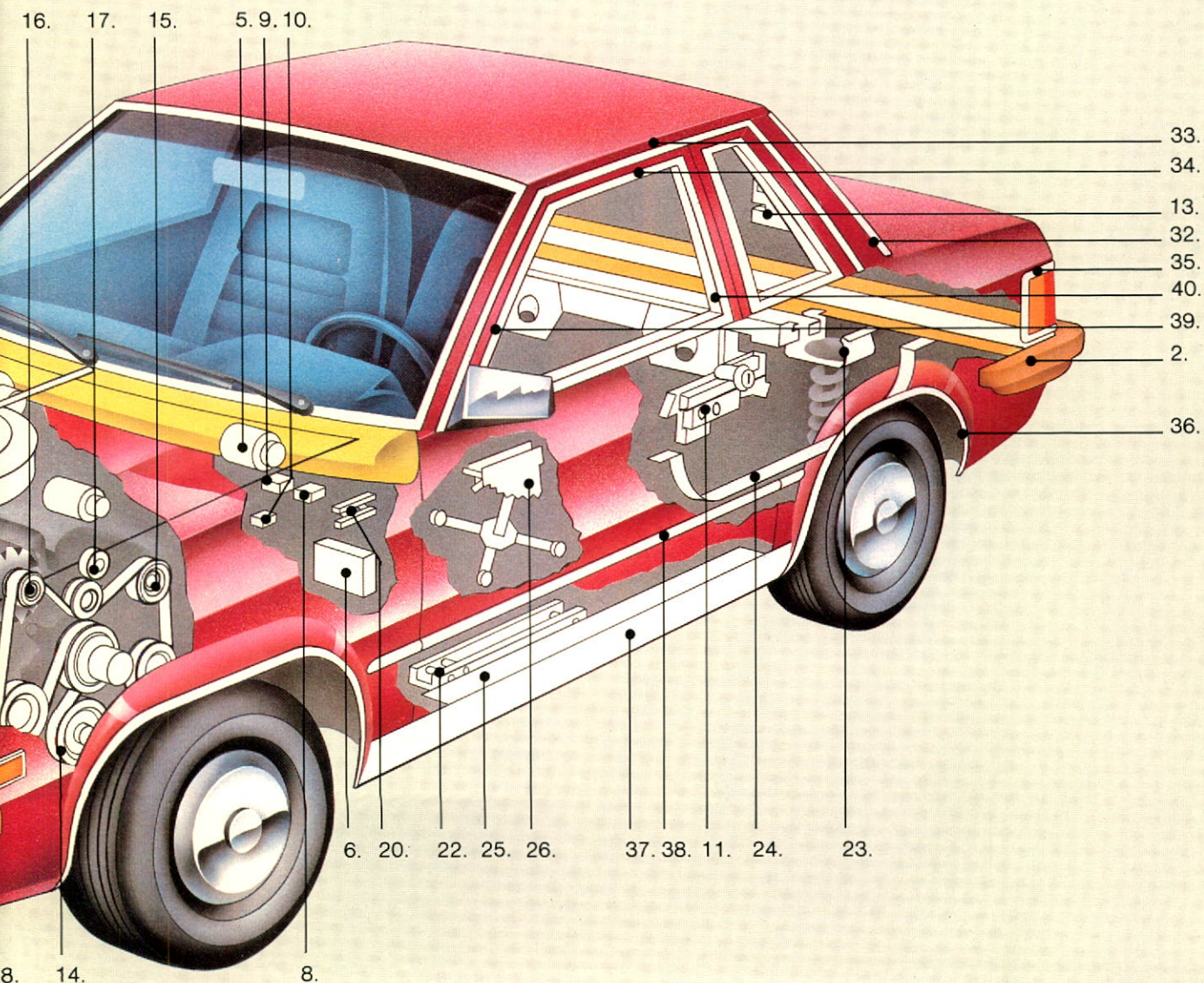
14. Crankshaft Pulleys
15. Power Steering Pulleys
16. Alternator Pulleys
17. Automatic Belt Tensioners

### Stampings

18. Bumper Reinforcements
19. Shock Absorber Towers
20. Cannister Supports
21. Instrument Panel Supports
22. Seat Track Assemblies
23. Rear Axle Supports
24. Fuel Tank Straps
25. Sill Plates
26. Window Winding Mechanisms
27. Oil Strainer Assemblies
28. Alternator Fans

### Trim

29. Headlamp Retainers
30. Centre Hood Moldings
31. Windshield Moldings
32. Rear Window Moldings
33. Drain Trough Moldings
34. Exterior Window Moldings
35. Rear Light Retainers
36. Wheel House Opening Moldings
37. Rocker Panel Moldings
38. Body Side Moldings
39. Weather Strip Channels
40. Window Channels





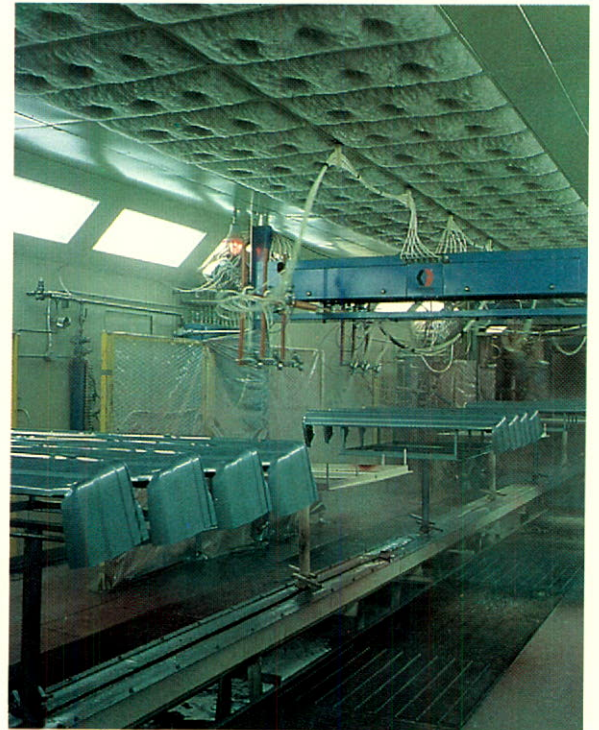
# Automotive Division

The Electromechanical Device Group is one of the leading suppliers of direct current motors for the automotive industry. The Group has designed, in conjunction with one of its customers, a radiator cooling fan motor for use with transverse mounted engines that are installed in front wheel drive vehicles.

The Accessory Drive Group has seen further acceptance, domestically, of the "Poly Vee" pulley system and the worldwide outlook is extremely bright. An agreement to license this proprietary manufacturing process has been established in Europe and negotiations with Japanese companies are ongoing. A uniquely designed automatic tensioner device has also been developed and is scheduled for production.



Top: Shadowgraph quality control inspection of a door latch component.



Top: Polyurethane sample undergoing physical property analysis.

Bottom: Polyurethane bumper covers being finished by industrial robot paint machines.

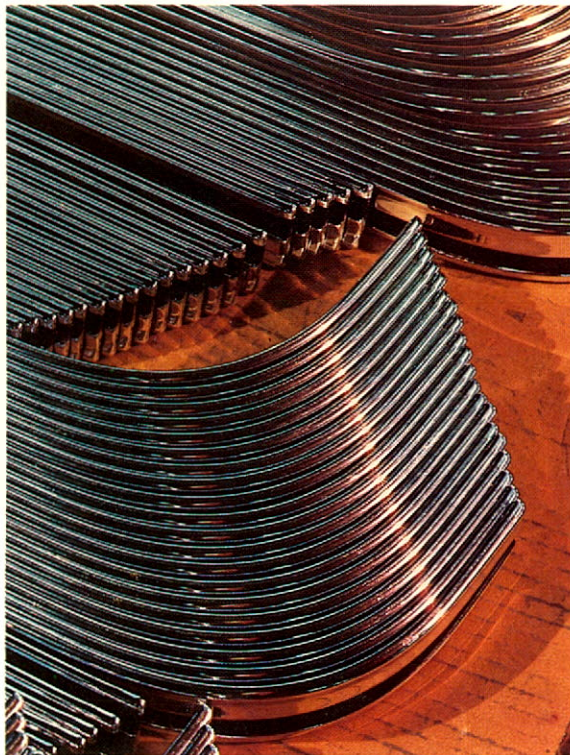


The Reaction Injection Molding Group develops and produces very large, low weight, polyurethane body components. The move toward lighter weight vehicles is creating an increased demand for these products. The production facility is operating near its capacity and customer satisfaction with product quality is extremely high.

The Stamping Group has developed specialized expertise in chassis components and sub-components utilized in front wheel drive vehicles. This Group will maintain a strong growth as more car models undergo chassis design changes.

Emphasis is being placed on engineering oriented products such as precision vehicle door latches, locks, hand-brakes and seat tracks. In this movement towards more product diversity, the Automotive Division, by focusing its strengths on more sophisticated parts, has become a leading Canadian supplier of door locks and latches.

The Trim Group is working very closely with car manufacturers in North America, Europe and Japan to develop a more corrosion resistant, cosmetically consistent exterior bright molding.



*Exterior Bright Molding*

With the dramatic changes occurring in the automotive industry, the Division is positioning to optimize its operations based on the strengths of the Group structure.

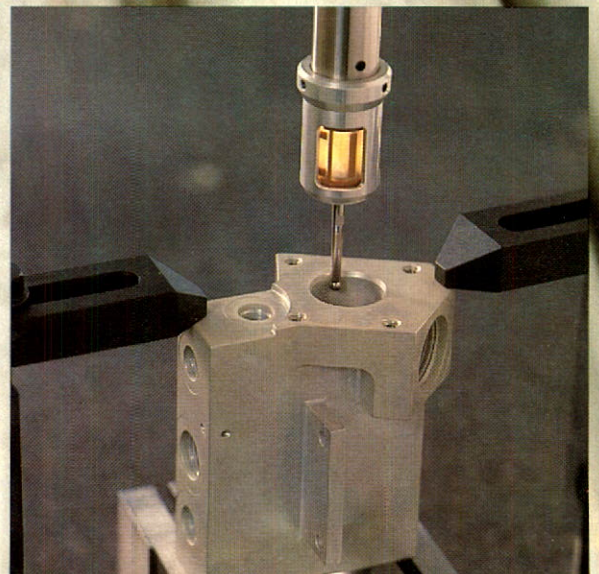
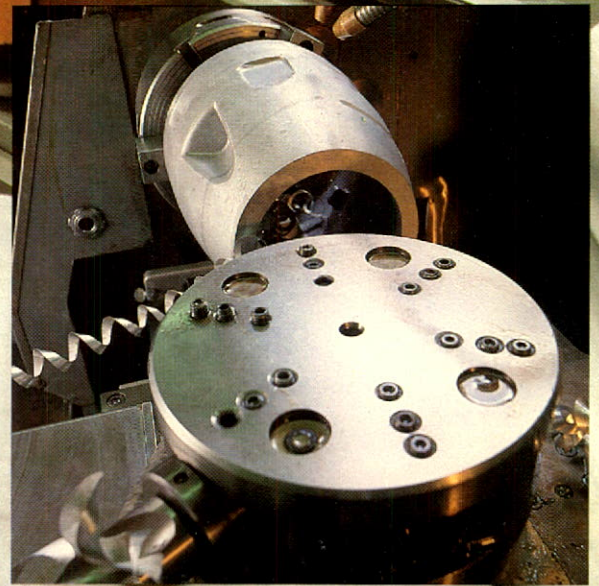
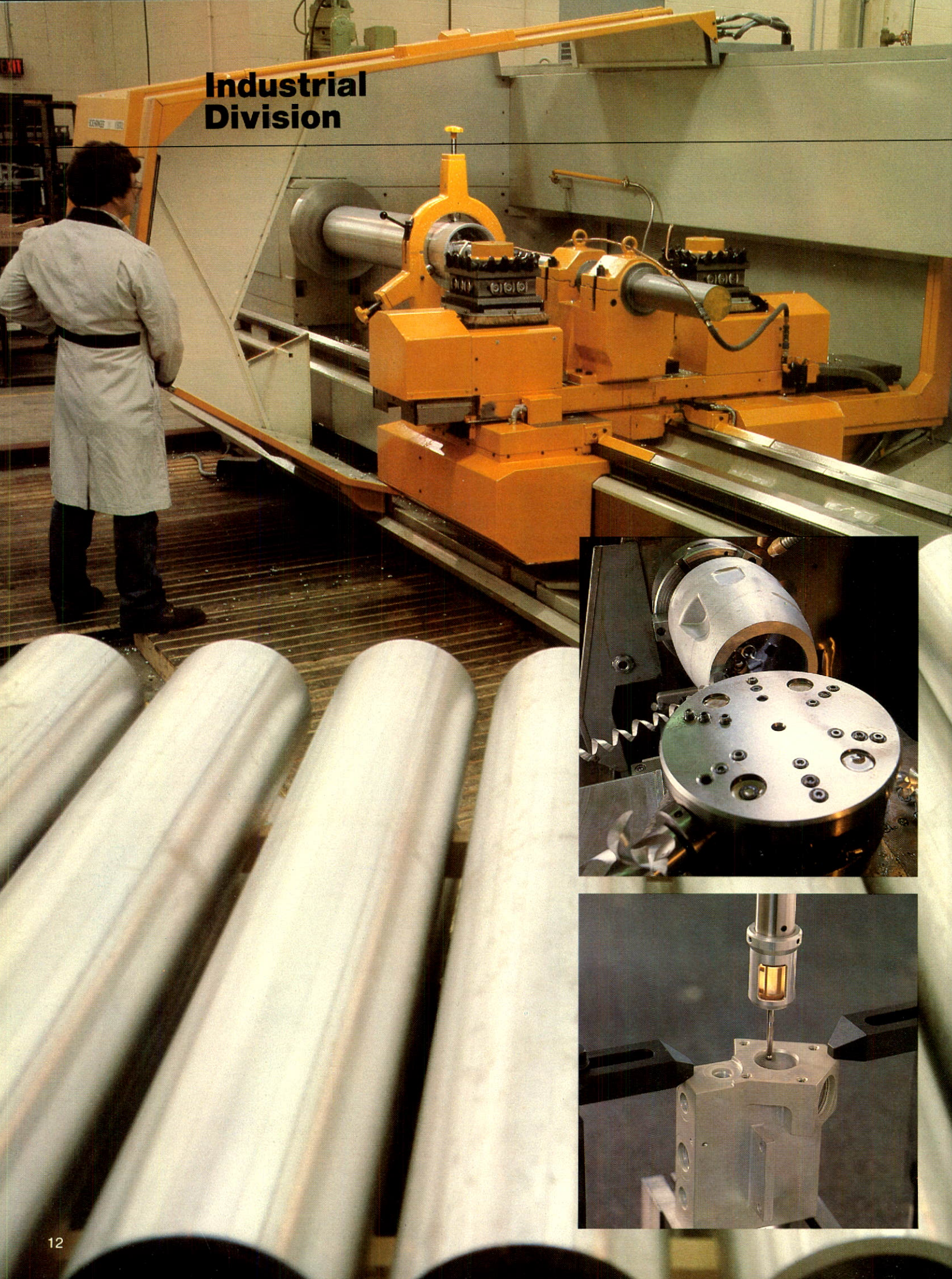
The Division's broad management and manufacturing base, integrated toolmaking and development capability, close working relationships with its customers, coupled with the dedication of each employee, will continue to produce increased opportunities and additional growth.



*Automatic Tensioners*



# Industrial Division





## **Aerospace/Defence Group Hermes Electronics Structural Steel**

The Industrial Division includes three groups: Aerospace/Defence Group, Hermes Electronics and Structural Steel. Each group is a separate, decentralized, self-sufficient entity. This structure focuses capabilities and resources on specific markets enabling each Group to give undivided attention to its customers. It also aids costs monitoring and emphasizes individual profitability. The Division's sales account for 15% of Magna's consolidated revenue.

The Aerospace/Defence Group provides a wide spectrum of services in metal fabrication. Products manufactured include components for military and commercial aircraft, navigational equipment, transducers and a variety of military hardware. There are four operating units within this Group all equipped with modern computer controlled machine tools and staffed by highly skilled people with extensive engineering and manufacturing expertise capable of the design, development, testing and production of military components and systems. Production of gun barrels using a continuous cold forging process is planned and when in place will become the only Canadian source of expertise in this process. This Group is also the sole source product support centre for a significant sector of defence hardware for the Canadian Armed Forces. The technology centre contains a range of technical expertise and supports existing programs as well as giving the Group considerable strengths in the domestic and international aerospace and defence markets. The centre adds an extra dimension to the unique engineering capability of the Group's sophisticated high precision manufacturing activities. The latest addition is an extensive Computer Assisted Design and Manufacturing System (CAD/CAM).

*Left: Precision turning of large pieces on a computer controlled lathe.*

*Left, top: Machining of a military hardware component.*

*Left: Sophisticated dimensional verification of a machined casting.*

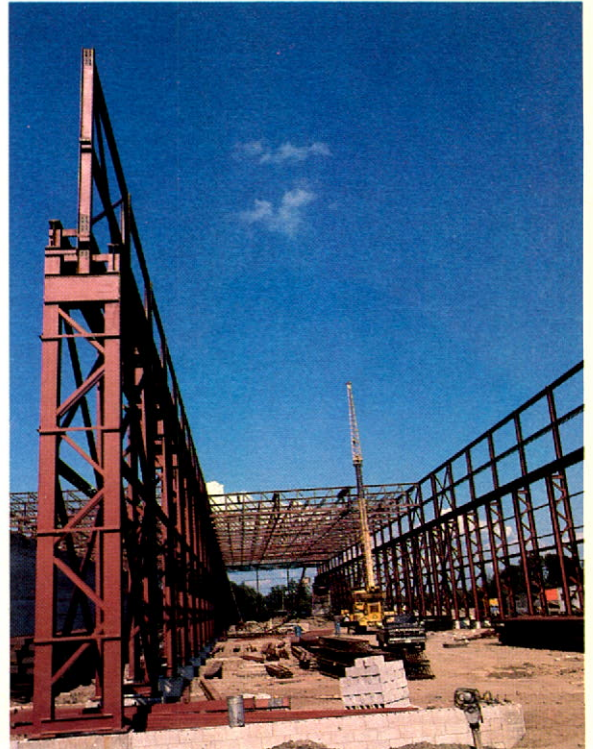
Hermes Electronics is recognized as a leader in the development, design and manufacture of hydro-acoustic data analysis and transfer systems as well as high frequency communication equipment to meet exacting military specifications.

Hermes is one of three North American manufacturers of highly critical passive submarine detection sensors. This technology is continuing to be an increasingly important component of North American defence strategy. The Group is in the final development stage of a new generation of sensors.

Hermes has a leading position in the design of advanced oceanographic data acquisition and analysis systems. Such systems are used by oil companies in offshore oil explorations, as well as by oceanographic scientists and weather forecasting agencies.

The hydro-acoustic test and development centre at Hermes is the most advanced in private Canadian industry. The development program capabilities of this centre will continue to evolve new products and product applications for future production.

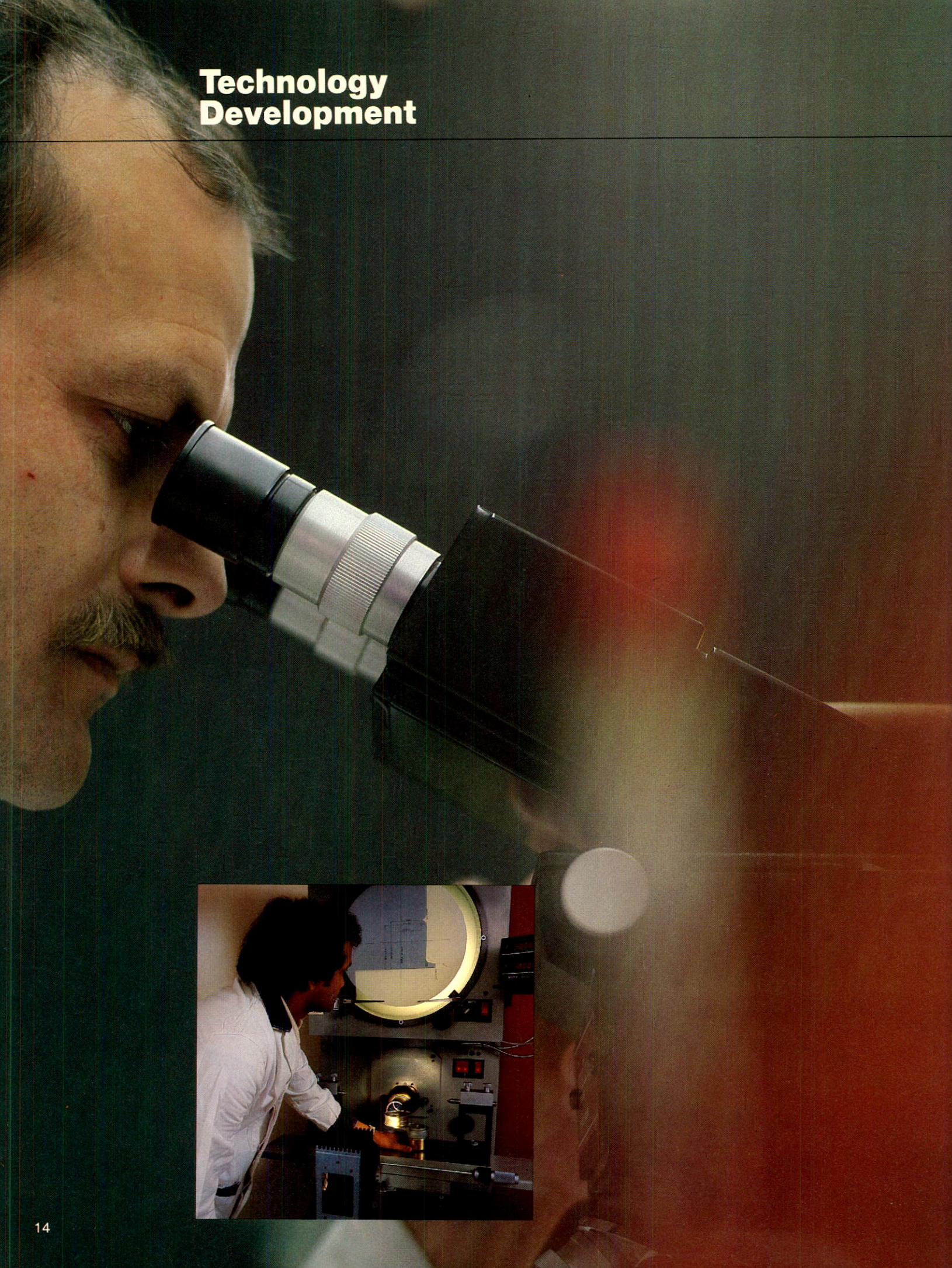
The Structural Steel subsidiary is engaged in the design and manufacture of fabricated structural steel. Products are used in commercial and industrial construction and for resource and utility requirements.



*Structural steel being supplied and erected at a heavy industrial site.*



# Technology Development





Commitment to technology and product development will continue to be emphasized by Magna.

Development programs in the Automotive Division have resulted in new products and processes able to support the rapidly changing component technology of the automotive industry. Technology development in the Industrial Division has enabled the company to remain competitive in the aerospace and defence markets.

It is company policy to allocate approximately 7% of pretax earnings to support development projects.

Programs within the Automotive Division have produced a new generation of electric motor for radiator cooling fans. This motor was specifically developed for the world market of front wheel drive automobiles.

An electronic DC motor is currently being designed. This highly efficient motor will be able to meet a variety of automotive applications.

A unique automatic tensioner device, used on single belt systems, has been developed. This device is the first in the North American automotive market.

A family of new automotive magnetic capsule switches was successfully developed. These switches are used in automotive deceleration, idle speed tracking, cruise release and other applications.

Development efforts are also being focused on speech synthesized audible alarms and electronic fuel level sensors.

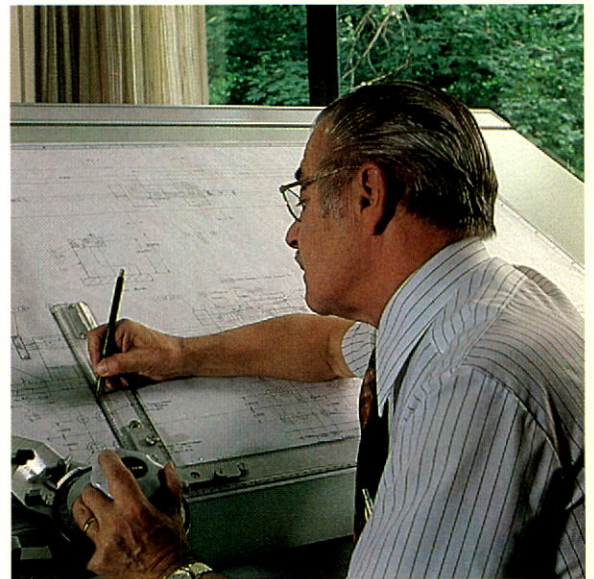
Reaction injection molding developments continue to enhance products and manufacturing processes. Reinforced reaction injection molding is also advancing in process technology.

Studies are being carried out on plastic co-extrusion, a process of extruding more than one material simultaneously.

Several other product lines are evolving to keep pace with innovations occurring in the automotive industry. Chassis components, pulley systems, decorative trim, door locks and latches are all engaged in development activities.

The Industrial Division contains a broad range of expertise in technological development. The technology centre of the Aerospace/Defence Group is working on several programs related to military hardware systems. The hydro-acoustic development centre at Hermes Electronics is continuing development of commercial data acquisition

and processing systems as well as developing a new generation of submarine detection sensors. During fiscal 1981, development expenditure exceeded normal levels in order to accelerate the introduction of these new sensors.



Top: Developmental testing of automotive door latches.

Bottom: Drafting engineering drawings for new component designs.

Left: Microscopic analysis of reaction injection molded plastic material.

Bottom Left: Profile verification of the newly designed automatic tensioner used in single belt pulley systems.



# Financial Review

## Sales and Earnings

Sales for the 1981 fiscal year increased to a record level of \$232.1 million, up by 26% from \$183.5 million in 1980. As the Company's sales are primarily from the manufacture of components for the North American automotive industry, the increase in sales must, as was the case last year, be considered extremely favourable to our organization in light of the industry's continued poor performance for the second year in succession.

Earnings, with the increase in sales, rose to \$6.9 million from \$5.6 million last year. The earnings are second highest in the Company's history, only surpassed by the results of the 1979 fiscal year.

Profit margins were pressured by a combination of much higher interest expenses together with the continued development in the Company's new technologies in plastics, electric motors, precision locks and high strength steel stampings. This development is essential in order for your Company to continue growth in both sales and profits in future years.

## Financial Position

As indicated in last year's report, the working capital ratio of 1.7 to 1 at July 31, 1980 was abnormally high because of capital funds that were raised in 1980 in part to finance capital expenditures in 1981. As at July 31, 1981, the working capital ratio was a more normal 1.47 to 1, although working capital increased to \$28.6 million up from \$27.0 million at the previous year-end. Capital expenditures of \$21.0 million decreased by approximately 10% over the levels of the previous two years. These expenditures were financed primarily through lien notes, mortgages, and capital assistance grants and loans.

It is anticipated at this time that capital expenditures for 1982 will be less than incurred in 1981, but at a level to have continued growth in operations in 1983 and future years. At this reduced level of spending, only conventional debt financing is required in order to have higher working capital at the end of 1982 over 1981 and maintain the present working capital ratio.

## Dividends

Magna's policy is to pay dividends to shareholders representing approximately one fifth of the previous year's profits. Your Directors are of the opinion that future years earnings should return to higher levels than reported in 1979. As a result, the annual dividend rate for 1982 as was the case in 1981, will be maintained at the 1980 rate of \$0.36 per annum for each Class A Common and Class B Share.



Murray G. Kingsburgh, C.A.  
Vice President Finance



**Magna International Inc.****Consolidated Statement of Income and Retained Earnings**

Year Ended July 31, 1981

(with comparative figures for 1980)

(dollars in thousands except per share figures)

	1981	1980		
<b>Sales from continuing operations</b>	<b>\$232,114</b>	<b>\$183,456</b>		
<b>Income from continuing operations before the following</b>	<b>\$ 30,742</b>	<b>\$ 23,693</b>		
Deduct:				
Depreciation	9,188	6,154		
Interest on long-term debt (including amortization of debenture issue expense)	5,273	4,908		
Other interest expense	3,922	1,573		
Amortization of goodwill	305	123		
	<b>18,688</b>	<b>12,758</b>		
Income from continuing operations	<b>12,054</b>	<b>10,935</b>		
Loss from operations discontinued in 1980		1,686		
<b>Income before income taxes, minority interest and extraordinary items</b>	<b>12,054</b>	<b>9,249</b>		
Income taxes	5,151	3,456		
Income before minority interest and extraordinary items	<b>6,903</b>	<b>5,793</b>		
Minority interest	(8)	153		
Income before extraordinary items	<b>6,911</b>	<b>5,640</b>		
Extraordinary items — principally provision for write-offs in connection with discontinued operations		(1,922)		
<b>Net income for the year</b>	<b>6,911</b>	<b>3,718</b>		
Retained earnings, beginning of year	<b>26,265</b>	<b>24,559</b>		
	<b>33,176</b>	<b>28,277</b>		
Deduct dividends:				
Preference shares	398	304		
Class A Common and Class B shares	1,838	1,708		
	<b>2,236</b>	<b>2,012</b>		
Retained earnings, end of year	<b>\$ 30,940</b>	<b>\$ 26,265</b>		
Earnings per share:				
	Before extraordinary items	After extraordinary items		
	1981	1980	1981	1980
Basic —				
Class A Common and Class B	\$1.27	\$1.06	\$1.27	\$.68
Fully diluted —				
Class A Common and Class B	\$1.13	\$ .96	\$1.13	\$.66



# Consolidated Balance Sheet

July 31, 1981

(with comparative figures at July 31, 1980)

(dollars in thousands)

## Assets

	1981	1980
<b>Current assets:</b>		
Cash	\$ 252	\$ 115
Accounts receivable	47,310	30,228
Inventories (note 2)	43,530	33,176
Prepaid expenses and deposits	1,031	1,638
Total current assets	92,123	65,157
<b>Fixed assets (note 3):</b>		
Leased	1,907	1,907
Owned	102,696	82,571
	104,603	84,478
Less accumulated depreciation	30,529	21,849
	74,074	62,629
<b>Other assets:</b>		
Goodwill	3,251	3,191
Debenture issue expense, at amortized cost	215	236
Sundry assets, at cost	866	925
	4,332	4,352


\$170,529

\$132,138

On behalf of the Board:



Director



Director



## Magna International Inc.

(Incorporated under the laws of Ontario)

### Liabilities

	1981	1980
<b>Current liabilities:</b>		
Bank indebtedness (accounts receivable and inventories pledged as security)	\$ 24,932	\$ 13,757
Accounts payable and accrued charges	27,166	16,956
Income and other taxes payable	5,783	2,844
Long-term debt and lease obligations due within one year	5,678	4,645
Total current liabilities	63,559	38,202
<b>Long-term debt (note 5)</b>	<b>53,098</b>	<b>42,591</b>
<b>Lease obligations and deferred income (note 4)</b>	<b>3,210</b>	<b>3,239</b>
<b>Deferred income taxes</b>	<b>2,668</b>	<b>4,676</b>
<b>Minority interest in subsidiary companies</b>	<b>2,682</b>	<b>3,951</b>
<b>Shareholders' equity (note 7):</b>		
Capital stock —		
Authorized:		
8,312 6½% cumulative sinking fund preference shares with a par value of \$100 each, redeemable at \$105		
Preference shares with a par value of \$25, issuable in series		
224,000 7% non-voting, cumulative, convertible preference shares, 1980 series		
18,798,310 Class A Common shares without par value		
2,051,690 Class B shares without par value		
Issued:		
812 6½% preference shares (1980 — 862 shares)	81	87
224,000 7% preference shares, 1980 Series (1980 — 224,000)	5,600	5,600
3,166,528 Class A Common shares (1980 — 3,051,532 shares)	6,417	5,244
1,991,558 Class B shares (1980 — 2,001,558 shares)	2,274	2,283
Retained earnings	30,940	26,265
	45,312	39,479
	\$170,529	\$132,138

### Auditors' Report

#### To the Shareholders of Magna International Inc.:

We have examined the consolidated balance sheet of Magna International Inc. as at July 31, 1981 and the consolidated statements of income 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 consolidated financial statements present fairly the financial position of the company as at July 31, 1981 and the results of its operations and 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.

*C. Clarkson Gordon*

Chartered Accountants

Toronto, Canada,  
November 6, 1981



# Consolidated Statement of Changes in Financial Position

Year Ended July 31, 1981

(with comparative figures for 1980)

(dollars in thousands)

	1981	1980
<b>Sources of working capital:</b>		
From operations —		
Income to shareholders — continuing operations	\$ 6,911	\$ 6,724
— discontinued operations		(1,084)
Income before extraordinary items	6,911	5,640
Charges to net income which do not reduce working capital, including depreciation, deferred income taxes, amortization and minority interest — continuing operations	7,761	6,179
— discontinued operations		233
	7,761	6,412
	14,672	12,052
Proceeds from disposal of fixed assets (net of income taxes)	203	336
Convertible debentures		5,600
Operating assistance loans	2,867	1,119
Capital contribution by minority interest	400	1,000
7% preference shares, 1980 series		5,600
Class A Common shares issued for cash	650	
	18,792	25,707
<b>Uses of working capital:</b>		
Additions to fixed assets	21,052	23,630
Financed by —		
Lien notes payable	(8,157)	(8,114)
Mortgages payable	(2,761)	(3,194)
Capital assistance grants and loans	(2,467)	(3,309)
	7,667	9,013
Reductions of long-term debt and lease obligations	5,876	4,765
Dividends	2,236	2,012
Extraordinary item		1,828
Cost of acquisition of minority interests in subsidiaries less amount financed by the issue of Class A Common shares	801	
Dividends on and redemption of preference shares held by minority interest	603	
	17,183	17,618
Increase in working capital	1,609	8,089
Working capital, beginning of year	26,955	18,866
<b>Working capital, end of year</b>	<b>\$28,564</b>	<b>\$26,955</b>



# Notes to the Consolidated Financial Statements

July 31, 1981

## 1. Significant accounting policies

### Principles of consolidation —

The consolidated financial statements include the accounts of Magna International Inc. and its subsidiaries, some of which have a minority interest. All significant intercompany balances and transactions have been eliminated in consolidation.

### Foreign exchange —

Assets and liabilities stated in other currencies, together with the accounts of the company's U.S. subsidiaries, are translated as follows:

Monetary assets and liabilities — at year-end rate.

Non-monetary assets and depreciation expense — at historic rates.

Revenues and expenses, other than depreciation — at average exchange rates for the year.

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts, which are reflected in income, were not significant.

### Inventories —

Inventories are valued at the lower of cost or net realizable value, with cost being determined substantially on a first-in, first-out basis.

### Revenue recognition —

Revenue from sales of manufactured products is recognized upon shipment to customers. Profits on contracts in the company's construction division are accounted for under the completed contract method. Anticipated losses to be incurred on contracts in progress are charged to income as and when the amount of such losses can be determined.

### Research and development costs —

Research and development costs (except for capital assets) are charged against income in the year of expenditure. Such costs totalled approximately \$2.4 million in 1981 (\$1.2 million in 1980).

### Government assistance —

The company makes periodic applications for financial assistance under available government incentive programs. Assistance resulting from these applications are recorded in the accounts on the following basis:

#### Capital and operating grants —

Grants relating to capital expenditures are reflected as a reduction of the cost of such assets. Grants relating to current operating expenditures are recorded as a reduction of expense at the time the eligible expenses are incurred.

The company also receives assistance in the form of non-forgivable loans which are reflected as liabilities.

### Income taxes —

In accordance with generally accepted accounting principles, the company follows the tax allocation method of providing for income taxes. Where appropriate, maximum capital cost allowance is claimed for income tax purposes and a related provision is made for deferred income taxes. Income taxes include a drawdown for deferred income taxes of \$2,008,000 in 1981 (\$250,000 provision in 1980).

Investment tax credits relating to fixed asset purchases are accounted for as a reduction in the current year's tax provision, net of the deferred income taxes where applicable. As a result, the provision was reduced by a net amount of \$425,000 in 1981 (\$175,000 in 1980).

### Property, equipment and depreciation —

Property and equipment are recorded at historical cost. Expenditures for maintenance and repairs are charged to income as incurred. Properties retired or otherwise disposed of, and the related accumulated depreciation, are removed from the accounts with the net gain or loss being included in income.

Certain lease obligations for property and equipment have been capitalized as they represent financing leases covering the estimated useful lives of the assets. The amounts capitalized in the accounts are equivalent to the present value of future lease payments using the interest rates stated in the leases.

Depreciation is provided on a straight-line basis over the estimated useful lives of leased and owned assets at annual rates of 5% for buildings and 10% for machinery and equipment.

### Goodwill (excess of purchase price of interest in subsidiary companies over fair market value of underlying net identifiable assets) —

For acquisitions which occurred prior to April, 1974, the value, which totals \$2,106,000, is being carried in the accounts at cost without amortization and in the view of management, there has been no impairment in such value. For acquisitions subsequent to April, 1974, the value, to the extent there has been no impairment, is being amortized over such periods as is deemed appropriate for each acquisition (currently, 10 years).

### Earnings per share —

Earnings per share are calculated on the weighted average number of shares outstanding during the year. Fully diluted earnings per share are calculated on the weighted average of shares that would have been outstanding during the year had all of the 8% and 10% convertible debentures been converted into Class A Common shares at the beginning of the year.

In making this calculation, the earnings applicable to Class A Common and Class B shares have been increased by the amount of the interest on the convertible debentures, net of applicable income taxes.

## 2. Inventories

Inventories consist of:

	1981	1980
	(dollars in thousands)	
Raw materials and supplies	\$21,813	\$16,584
Finished and in process	21,717	16,592
	<u>\$43,530</u>	<u>\$33,176</u>



## Magna International Inc.

### 3. Fixed assets

Fixed assets consist of:

	1981	1980
	(dollars in thousands)	
Land	\$ 6,320	\$ 4,480
Buildings	13,771	11,590
Machinery and equipment	84,512	68,408
	104,603	84,478
Less accumulated depreciation	30,529	21,849
	\$ 74,074	\$ 62,629

### 4. Lease obligations and deferred income

	1981	1980
	(dollars in thousands)	
Long-term portion of capitalized value of lease obligations at their effective interest rates ranging from 5½% to 7¼% maturing over twenty years with purchase options at nominal amounts on termination of leases	\$ 3,164	\$ 3,180
Deferred profit on sale of properties leased back from purchasers under ten-year leases with no option to re-purchase (amortized over terms of leases)	46	59
	\$ 3,210	\$ 3,239

At July 31, 1981 the company had other lease commitments expiring between 1982 and 1991 requiring annual rental payments of approximately \$2.5 million in each of the next five years.

### 5. Long-term debt

(a) Long-term consists of:

	1981	1980
	(dollars in thousands)	
6½% sinking fund debentures due December 1, 1987 maturing \$75,000 annually with the balance due in 1987	\$ 121	\$ 124
8¾% convertible debentures due January 15, 1988 The 8¾% convertible debentures are convertible into Class A Common shares at a value of \$7.46 per Class A Common share until 1983 and \$9.33 per share until 1988 (unsecured)	7,000	7,000
10% unsecured convertible debentures due 1989 The 10% convertible debentures are convertible into Class A Common shares at a value of \$19 per share until 1982 and at varying amounts from \$21.50 to \$29.00 per share from 1983 to 1989	5,600	5,600

Non-forgivable capital and operating assistance loans — non-interest bearing due 1981 to 1985

10,238 5,146

Mortgages payable (secured by land, buildings and equipment of subsidiary companies) — at interest rates from 9% to 14½%, due 1981 to 2004

12,478 10,318

Lien notes payable (mainly at prime interest rate to prime plus 1%) — due 1981 to 1989

23,133 18,856

58,570 47,044

Less due within one year

5,472 4,453

\$53,098 \$42,591

(b) Required payments (including \$206,000 each year relating to lease obligations capitalized as referred to in note 4) are as follows:

	(dollars in thousands)
1982	— \$ 5,678
1983	— 5,121
1984	— 5,086
1985	— 7,964
1986	— 6,958
Thereafter—	30,973

### 6. Purchase of minority interests

During the year, the company acquired interests of certain minority shareholders of two subsidiary companies. The net assets obtained in these acquisitions, which were accounted for as purchases, amounted to \$1,917,000 of which \$365,000 was represented by goodwill. The purchase price was satisfied by the issue of 46,996 Class A Common shares and the payment of \$801,000 in cash.

### 7. Shareholders' equity

6½% cumulative sinking fund preference shares — During the year, the company purchased for cancellation 50 preference shares.

7% preference shares —

The preference shares are convertible into Class A Common shares at \$19 per share until 1986 after which the shares may be purchased for cancellation by the company at their par value. These shares are redeemable by the holder after 1989 provided that none of the 6½% cumulative sinking fund preference shares are outstanding at that time.

Class A Common and Class B shares — Class A Common shares have the following attributes:

- (a) Each share is entitled to one vote per share at all meetings of shareholders.
  - (b) Each share shall participate equally as to dividends with each Class B share.
- Class B shares have the following attributes:
- (a) Each share is entitled to 500 votes per share at all meetings of shareholders.
  - (b) Each share shall participate equally as to dividends with each Class A Common share.
  - (c) Each share may be converted at any time into a fully-paid Class A Common share on a one-to-one basis.



In the event that either the Class A Common shares or the Class B shares are subdivided or consolidated, the other class shall be similarly changed to preserve the relative position of each class.

During the year 10,000 Class B shares (\$9,000) were converted into Class A Common shares. In addition, 46,996 Class A Common shares were issued in connection with the acquisition of minority's interest in a subsidiary company and 58,000 Class A Common shares were issued for cash.

#### 8. Segment information

The company operates primarily in two industries — automotive and industrial. Automotive operations include the manufacture of automobile parts for original equipment manufacture as well as for the after market. Industrial operations are primarily manufacturing for the defence and aerospace industry.

The following is an analysis of 1981 and 1980 operations by segment (dollars in thousands):

	1981		
	Automotive	Industrial	Total
Revenue:			
Canada	\$161,863	\$39,219	\$201,082
United States	31,032		31,032
Total revenue	\$192,895	\$39,219	\$232,114
Operating profit:			
Canada	\$ 22,753	\$ 523	\$ 23,276
United States	2,385		2,385
Segment operating profit	\$ 25,138	\$ 523	25,661
Interest expense			9,195
Corporate expenses			4,412
			13,607
Income before income taxes and minority interest			\$ 12,054
Assets specifically identifiable to an industry segment:			
Canada	\$110,374	\$27,336	\$137,710
United States	17,282		17,282
	\$127,656	\$27,336	154,992
Corporate and other assets			15,537
Total assets			\$170,529
Depreciation	\$ 8,078	\$ 1,110	\$ 9,188
Capital expenditures	\$ 17,792	\$ 3,260	\$ 21,052

	1980		
	Automotive	Industrial	Total
Revenue:			
Canada	\$120,221	\$35,823	\$156,044
United States	27,412		27,412
Total revenue	\$147,633	\$35,823	\$183,456
Operating profit:			
Canada	\$ 14,780	\$ 2,180	\$ 16,960
United States	3,566		3,566
Segment operating profit	\$ 18,346	\$ 2,180	20,526
Interest expense			6,481
Corporate expenses			3,110
			9,591
Income from continuing operations			10,935
Loss from discontinued operations			1,686
Income before income taxes, minority interest and extraordinary item			\$ 9,249
Assets specifically identifiable to an industry segment:			
Canada	\$ 77,355	\$24,889	\$102,244
United States	14,718		14,718
	\$ 92,073	\$24,889	116,962
Corporate and other assets			15,176
Total assets			\$132,138
Depreciation	\$ 5,441	\$ 713	\$ 6,154
Capital expenditures	\$ 19,840	\$ 3,790	\$ 23,630

Canadian revenue includes export sales of \$154.0 million (\$96.8 million in 1980).

Substantially all revenue from the automotive segment is derived from sales to the North American automobile manufacturers.

#### 9. Transactions with related parties

Included on the Board of Directors is the president of a company which currently is a vendor of machinery and equipment to Magna. The company leases certain of its real estate from companies controlled by certain of the officers of Magna. Also, the company's construction division completed a contract with a company controlled by an officer of the company. Transactions between the company and these related parties totalled approximately \$3.6 million in 1981, the bulk of which relates to equipment purchases. Loans totalling \$363,000 to directors and officers to assist them to purchase shares of the company were outstanding at the year end.

#### 10. Comparative figures

Certain of the 1980 comparative figures have been reclassified to conform to the current year's method of presentation.



## ★ Eight Year Comparative Summary

*Dollars in thousands except per share figures*

	1981	1980	1979	1978	1977	1976	1975	1974
<b>Operations Data</b>								
Sales	<b>\$232,114</b>	\$183,456	\$165,738	\$128,189	\$80,953	\$55,010	\$39,415	\$31,644
Income from operations	<b>12,054</b>	9,249	15,924	12,899	8,185	5,734	2,880	1,990
Net income before extraordinary items	<b>6,911</b>	5,640	8,455	6,595	4,093	2,786	1,339	1,080
Extraordinary items		(1,922)	272	795				
Earnings per share*								
Before extraordinary items								
Class A Common and Class B	<b>\$1.27</b>	\$1.06	\$1.72	\$1.42	\$0.95	\$0.72	\$0.34	\$0.28
After extraordinary items								
Class A Common and Class B	<b>\$1.27</b>	\$0.68	\$1.78	\$1.59				
Depreciation	<b>9,188</b>	6,154	4,506	3,349	2,210	1,416	1,118	890
Cash flow from operations	<b>14,672</b>	12,052	15,275	13,160	7,542	5,171	2,757	2,241
Dividends per share*								
(Annual rate)								
Class A Common and Class B	<b>\$0.36</b>	\$0.36	\$0.28	\$0.19	\$0.12	\$0.06	\$0.03	\$0.03
<b>Financial Position</b>								
Working capital	<b>28,564</b>	26,955	18,866	15,351	7,412	4,925	3,233	2,164
Capital expenditures	<b>21,052</b>	23,630	23,085	16,231	8,584	3,456	2,016	2,237
Fixed assets (Less accum. depreciation)	<b>74,074</b>	62,629	47,089	30,269	19,387	8,940	6,900	6,001
Long-term debt	<b>53,098</b>	42,591	26,961	16,607	7,767	4,469	4,398	3,962
Equity relating to Class A Common and Class B shares	<b>39,631</b>	33,792	32,086	23,270	15,266	9,646	6,951	5,726
Equity per share*								
Class A Common and Class B	<b>\$7.68</b>	\$6.69	\$6.35	\$4.82	\$3.36	\$2.49	\$1.80	\$1.49

\*Adjusted for years prior to 1979 to give effect to the capital reorganization during 1979.



**Directors**

Anton Czapka  
Michael R. Gardiner  
Manfred Gingl  
Paul B. Helliwell  
Helmut Hofmann  
James F. McCallum  
Burton V. Pabst  
D. Robin Sloan  
William S. Storey  
Frank Stronach

**Officers:**

Frank Stronach,  
*Chairman of the Board and Chief Executive Officer*

Burton V. Pabst,  
*Vice Chairman of the Board*

Helmut Hofmann,  
*President and Chief Operating Officer*

Anton Czapka,  
*Senior Vice President*

Murray Kingsburgh, C.A.,  
*Vice President Finance*

Harry Bytzek,  
*Vice President*

Neill Elliot,  
*Vice President Sales (Automotive)*

Manfred Gingl,  
*Vice President Operations (Automotive)*

Richard G. Hrga,  
*Vice President*

Robert M. Jones,  
*Vice President Marketing (Automotive)*

Herman Koob,  
*Vice President*

James N. Renner, M.B.A., P.Eng.,  
*Vice President Engineering*

D. Robin Sloan,  
*Vice President*

J. Alex Langford, Q.C.  
*Secretary*

**Auditors:**

Clarkson Gordon, Toronto

**Solicitors:**

Miller, Thomson, Sedgewick,  
Lewis & Healy, Toronto

**Stock Exchange Listing:**

The Toronto Stock Exchange  
Symbols: Class A Common — MG A  
Class B — MG B

**Registrar and Transfer Agent:**

The Canada Trust Company,  
Toronto

**Principal Banker:**

The Bank of Nova Scotia,  
Toronto

**Head Office:**

355 Wildcat Road,  
Downsview, Ontario M3J 2S3  
Telephone: (416) 661-1485  
Telex: 065-24550





**Magna  
International Inc.**

355 Wildcat Road, Downsview,  
Ontario M3J 2S3