

Magna International Inc.
Annual Report 1978



1978 Annual Report of Magna
International Inc. and Subsidiaries.

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

Over 70% of Magna's sales are exported. Magna is a Canadian-owned public company listed on the Toronto Stock Exchange.

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Annual Meetings

The Meeting of Class A Special Shareholders will be held at 10:00 a.m. on Wednesday, November 29, 1978 in the Harbour Ballroom "A", The Toronto Hilton Harbour Castle, One Harbour Square, Toronto, Ontario.

The Annual and Special General Meeting of the Common Shareholders will be held at 11:00 a.m. on Wednesday, November 29, 1978 in the Harbour Ballroom "A", the Toronto Hilton Harbour Castle, One Harbour Square, Toronto, Ontario.

Financial Highlights

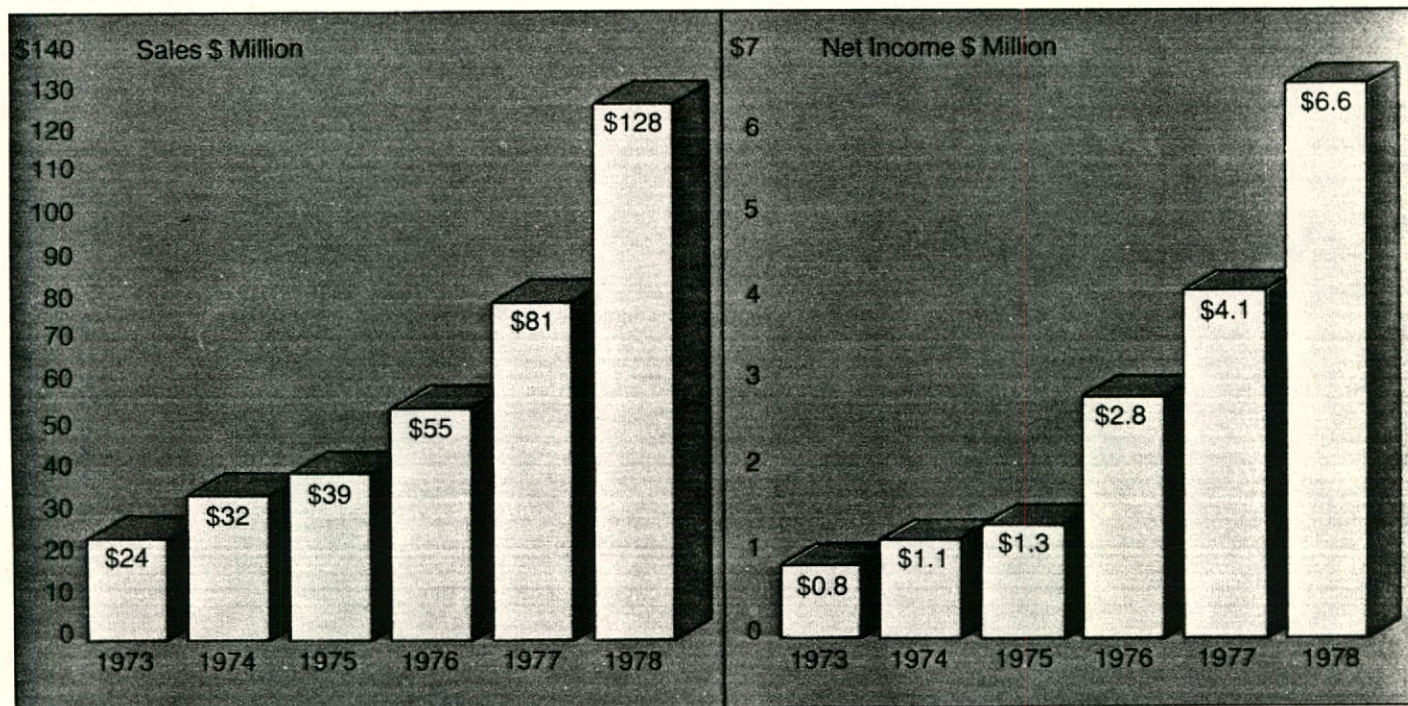
Dollars in thousands except per share figures

	1978	1977	1976	1975	1974	1973
Sales	\$128,189	\$80,953	\$55,010	\$39,415	\$31,644	\$23,759
Income from operations	12,899	8,185	5,734	2,880	1,990	1,607
Net Income*	6,595	4,093	2,786	1,339	1,080	808
Working capital	15,351	7,412	4,925	3,233	2,164	1,588
Earnings per share**						
Class A	\$5.30	\$3.63	\$2.69	\$1.29	\$1.04	\$0.80
Common	\$4.24	\$2.90	\$2.15	\$1.03	\$0.84	\$0.64
Dividends (Annual rate)						
Class A	\$0.72	\$0.52	—	—	—	—
Common	\$0.56	\$0.40	\$0.40	\$0.20	\$0.10	\$0.10
Preference	\$6.50	\$6.50	\$6.50	\$6.50	\$6.50	\$6.50

*Before extraordinary items

**Adjusted for years prior to 1977 to give effect to the creation of Class 'A' shares during 1977.

Record of Growth





**Magna
International
Inc.**

Directors:

Anton Czapka
George R. Gardiner
Paul B. Helliwell
Helmut Hofmann
Murray G. Kingsburgh, C.A.
J. Alex Langford, Q.C.
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 G. Kingsburgh, C.A.
Vice President Finance and Secretary
Robert M. Jones,
Vice President Sales and Marketing (Automotive)
James N. Renner, P. Eng.,
Vice President Engineering
D. Robin Sloan,
Vice President

Auditors:

Clarkson, Gordon & Co., Toronto

Solicitors:

Miller, Thomson, Sedgewick, Lewis & Healy, Toronto

Registrars and Transfer Agents:

The Canada Trust Company, Toronto

Banker:

The Bank of Nova Scotia, Toronto

Head Office:

355 Wildcat Road, Downsview, Ontario. M3J 2S3

Philosophy

Operating Policies

Magna believes in the following principles:

- the growth of a company is ultimately dependent upon the growth of the individuals within the organization.
- every member of an organization, whose efforts contribute to its success, has a moral right to share in that success.
- free enterprise is the most efficient economic system and every investor deserves to be compensated for taking risk.
- a company has responsibilities to the society of which it is a part and can only discharge these obligations if it grows and remains economically healthy.
- a strong developing technology base is essential for the long term well-being of an industrial enterprise.

Organization

Magna has created a unique organizational structure to ensure that there is an effective working relationship between management and employees. This structure consists of a network of small manufacturing plants or units serving specific markets. Each plant functions as a separate profit centre under the direction of a plant manager. Management and employees share in the profits of the operation. Individual plants are responsible for developing their own technical skill, tooling and manufacturing capacity. In this way, the benefits of small size, an entrepreneurial spirit and strong management-employee relationships, are fostered throughout the organization.

Corporate functions include long range planning, financial allocation and control, research and development and technical assistance, employee safety policies, marketing support, and intergroup co-ordination.

Employee Equity Participation

Magna shares its success with its employees through equity ownership. Each year a portion of the profit is used to purchase shares of the Company for the benefit of employees.

Dividends

It is Magna's policy to pay dividends to shareholders representing approximately one-fifth of the Company's profits.

Social Responsibility

Magna actively supports selected community programs designed to develop economically healthy and socially responsible individuals.

Research and Development

It is a company policy to allocate approximately seven per cent of before-tax profits for special projects. These funds are provided as operating expenses and are not capitalized.

Report to Shareholders



Frank Stronach

The financial year just ended was a period of substantial growth for your company. Additions to productive capacity were made in all sectors of our business. Organizational changes were made in order to maintain management control and performance.

Internal growth of existing companies and the creation of new manufacturing centres, as distinct from acquisitions, contributed, by far, the largest portion of the approximately 50 per cent increase in productive capacity. An initial entry into plastics manufacturing is a part of this growth and reflects the continuing increased demand for plastic components.

Our Automotive Division, which continued to contribute about 70 per cent of your company's sales is now comprised of five distinct operating groups. Included in the Division are the Automotive Trim Group, Stamping Group, Pulley Group and Electromechanical Device Group, which are segregated by product, and the International Manufacturing Group which is geographically distinct.

Our Industrial Products Division, which includes Hermes Electronics, the Aerospace and Defence, and the Structural Steel Groups of companies continued to contribute approximately 30 per cent of the expanded sales revenue by virtue of internal growth and the acquisition of Hermes.

Considerable capital investment in equipment, representing the latest manufacturing technology, was made to respond to increased North American defence spending.

Hermes, acquired during fiscal 1977, has continued to show improved performance and made an appropriate addition to both sales and profits during 1978.

To provide management support for our expanded scope of operations, two new positions of Director of Manufacturing and Director of Sales and Administration were created in the Automotive Division and filled through internal promotions.

Financial support was provided by a record purchase of fixed assets; however, substantial increases in both equity and long term debt resulted in the doubling of the working capital amount and a marked improvement in the working capital ratio.

All of these investments were made in response to active markets in both the Automotive and Defence sectors and in anticipation of continuing growth in these areas.

These initiatives have already proven effective. As a result, fiscal 1978 sales rose to an unprecedented \$128.2 million from \$80.9 million the year earlier, a dramatic increase of 59 per cent.

Profit performance kept pace with revenue, reaching net earnings, before extraordinary income, of \$6.6 million in the 1978 financial year



Helmut Hofmann

compared with \$4.1 million reported in 1977. Earnings per share were up commensurately. Common shares earned \$4.24 per share, while earnings allocated to Class "A" Special Shares was \$5.30. In comparison, the 1977 data was \$2.90 and \$3.63 per share.

Extraordinary income of \$7.9 million from the gain on disposal of Divisions and surplus assets and prior years' income tax recoveries resulted in additional earnings of \$.50 and \$.62 per Common and Class "A" Special Share respectively.

Your company's operating results reflect the basic strength and stability of the markets we serve. Since our company's growth is several factors larger than the underlying market expansion, it is apparent that we are benefiting from greater diversification and market penetration, indicative of our competitive position.

We continue to export approximately 70 per cent of our output. The significant reduction in value of Canadian currency has had some beneficial effects on our performance. However, our considerable foreign purchases of raw materials and services tend to offset a large part of this apparent benefit. Additionally, large portions of our foreign sales are in Canadian Dollars.

We continue to build our business on our product development base. Notably, our development of unique pulley manufacturing technology has led to an expanded joint development

program with one of the major automobile manufacturers. This program, in turn, gave us a significant lead in the rapidly evolving market for single belt drive system pulleys for automotive use.

Our development of innovative designs for small direct current motors continues to take a larger share of this market.

An independent engineering report evaluating the Magna method for the extraction of oil from the Athabaska Tar Sands is nearing completion and should assist materially in forming a proposed joint venture for further development.

Development programs carried out by Hermes in the area of electronics and ocean data technology are paying dividends in the form of stronger market position in both the defence and commercial sectors.

During the year, Mr. G. R. Gardiner and Mr. D. R. Sloan were elected to your Board of Directors. We welcome Mr. Gardiner and Mr. Sloan and their contribution to the Board.

Looking ahead to 1979, present sales backlog has again increased from last year, indicating good growth potential. Although we expect the automotive market to remain stable, the major manufacturers are proceeding with their phased implementation of new, more energy efficient automobile design concepts.

In the defence market, active procurement by the Canadian Government is creating new domestic and export potential.

As a result of these market adjustments and our continued good reputation with our customers, there are considerable opportunities for greater diversification, market penetration, and continued growth.

We wish to express, on behalf of the Board of Directors, our appreciation to our customers, suppliers, investors, bankers, auditors, solicitors, and various government agencies for their support, and to especially thank all Magna employees for their efforts in making 1978 the most prosperous period in your company's history.



Frank Stronach
Chairman of the Board,
and Chief Executive Officer



Helmut Hofmann
President,
and Chief Operating Officer

Automotive Division

Trim Group

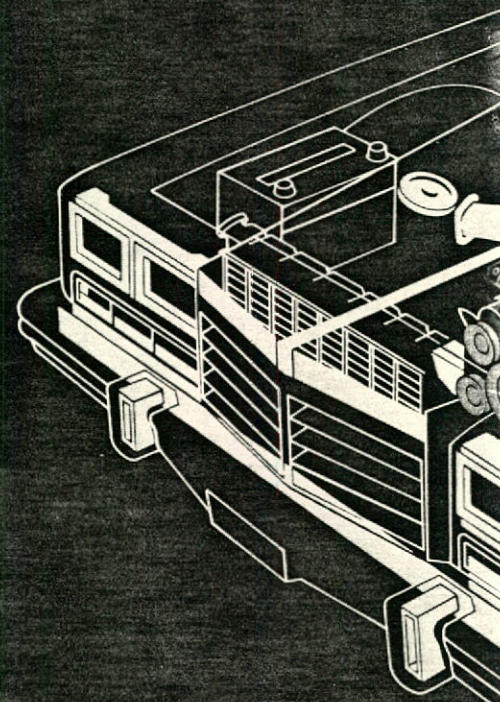
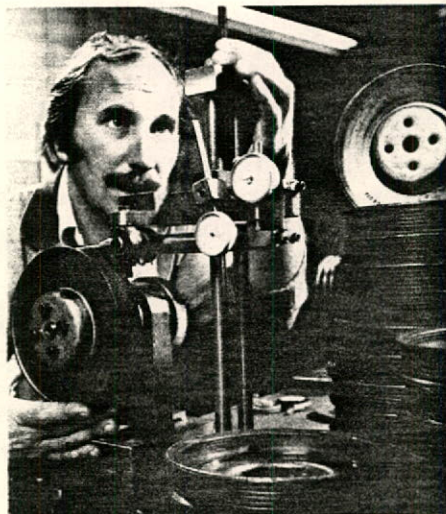
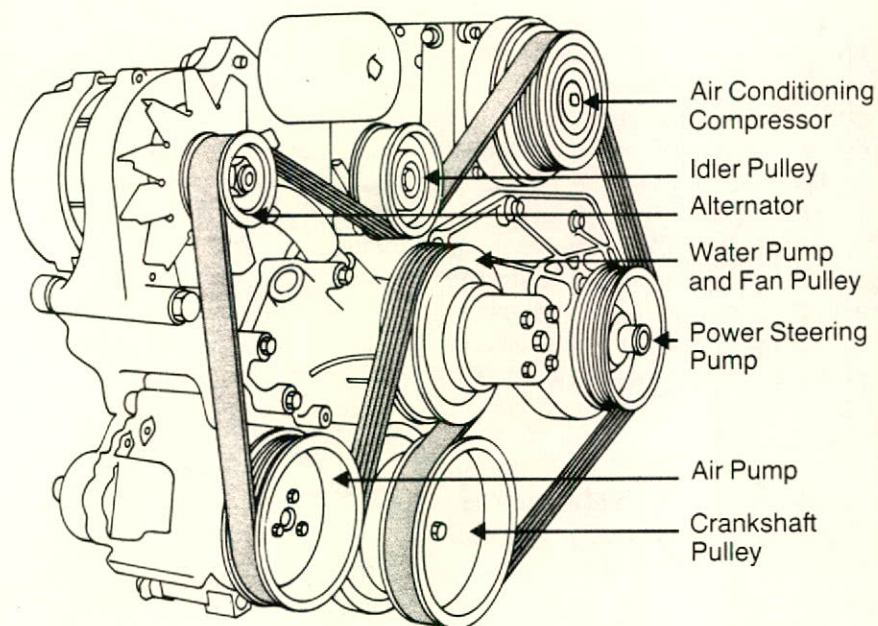
Stamping Group

Pulley Group

Electromechanical Device
Group

International Manufacturing
Group

Single Belt Engine Accessory Drive System.



This illustration shows some of the automotive parts manufactured by Magna, among which are the following:

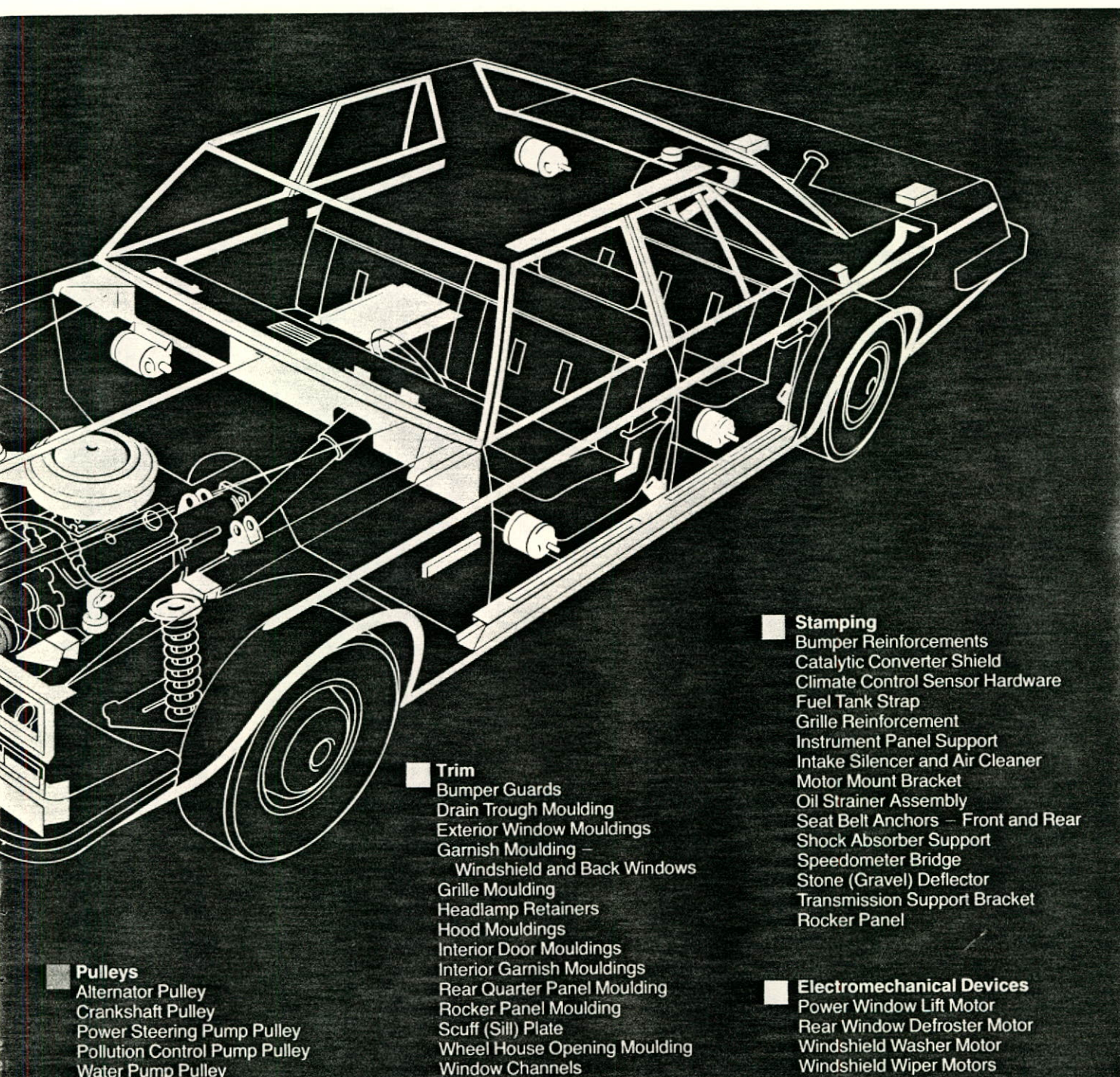
The Automotive Division comprises five groups of companies having a widely diversified manufacturing base. Products within the Automotive Trim, Stamping, Pulley, Electromechanical Device and International Manufacturing Groups range from aluminum, stainless steel and chrome plated decorative trim to direct current motors and engine pulleys to plastic components.

Nearly all modern metal forming and processing methods, including roll forming, transfer stamping, anodizing and chrome plating, are utilized in the Division. The illustration below, identifies a representative sample of manufactured components.

The Division continues to use its large pool of skilled labour to enhance its already excellent reputation as a dependable, competitive supplier of high quality tooling and original

equipment parts to the North American Automobile Industry.

As the first manufacturer of pulleys for single belt engine drive systems, the pulley group has assumed a leading position in this evolving technology.



- Trim**
- Bumper Guards
 - Drain Trough Moulding
 - Exterior Window Mouldings
 - Garnish Moulding -
 - Windshield and Back Windows
 - Grille Moulding
 - Headlamp Retainers
 - Hood Mouldings
 - Interior Door Mouldings
 - Interior Garnish Mouldings
 - Rear Quarter Panel Moulding
 - Rocker Panel Moulding
 - Scuff (Sill) Plate
 - Wheel House Opening Moulding
 - Window Channels

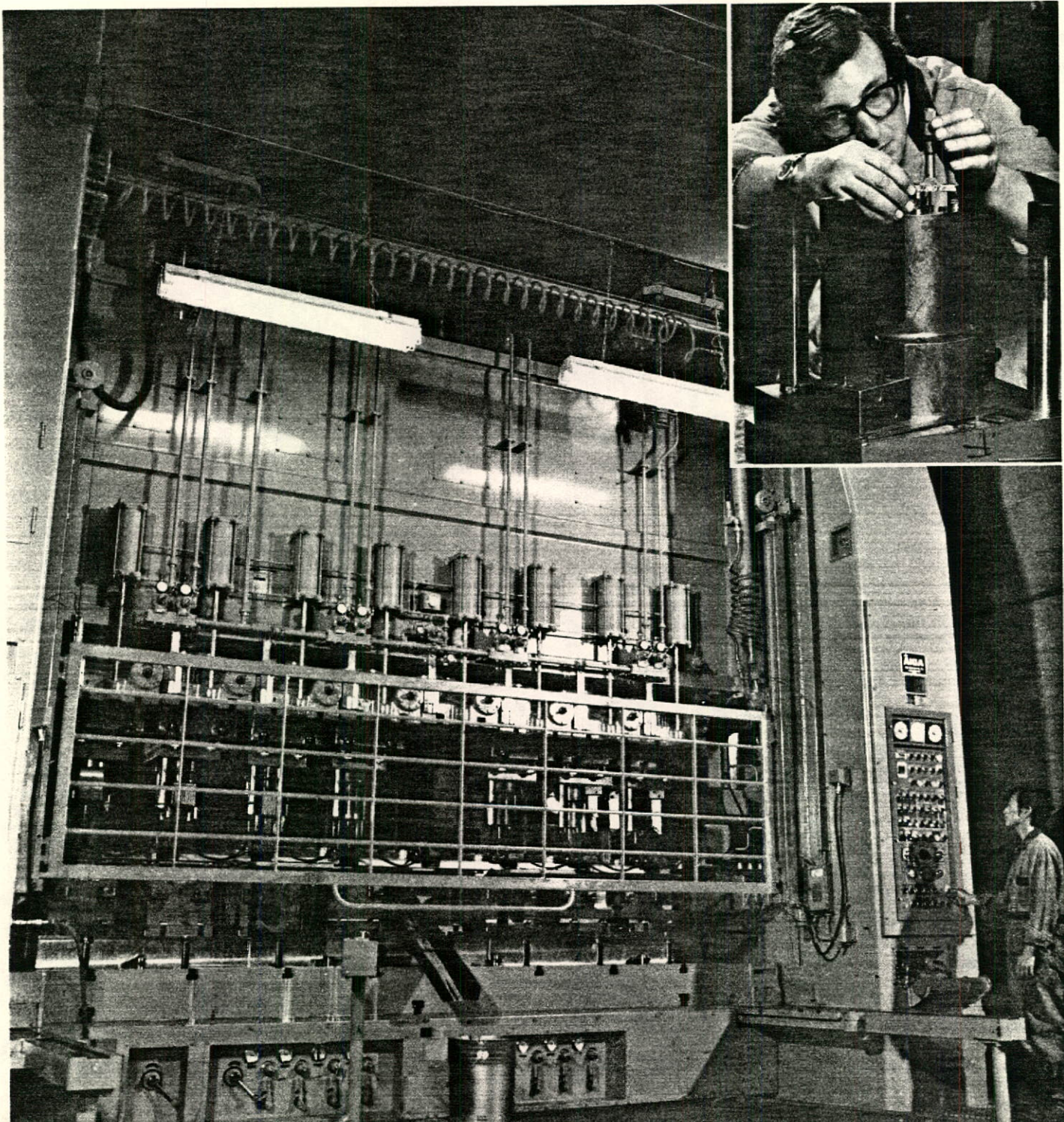
- Pulleys**
- Alternator Pulley
 - Crankshaft Pulley
 - Power Steering Pump Pulley
 - Pollution Control Pump Pulley
 - Water Pump Pulley

- Stamping**
- Bumper Reinforcements
 - Catalytic Converter Shield
 - Climate Control Sensor Hardware
 - Fuel Tank Strap
 - Grille Reinforcement
 - Instrument Panel Support
 - Intake Silencer and Air Cleaner
 - Motor Mount Bracket
 - Oil Strainer Assembly
 - Seat Belt Anchors - Front and Rear
 - Shock Absorber Support
 - Speedometer Bridge
 - Stone (Gravel) Deflector
 - Transmission Support Bracket
 - Rocker Panel

- Electromechanical Devices**
- Power Window Lift Motor
 - Rear Window Defroster Motor
 - Windshield Washer Motor
 - Windshield Wiper Motors

Innovative design and manufacturing concepts have allowed the Electromechanical Device Group to capture a significant portion of the automotive electric motor market.

The Division's broad manufacturing base, outstanding tool making capability, and its strong emphasis on quality and dependable product delivery will support its future growth in the automotive industry.



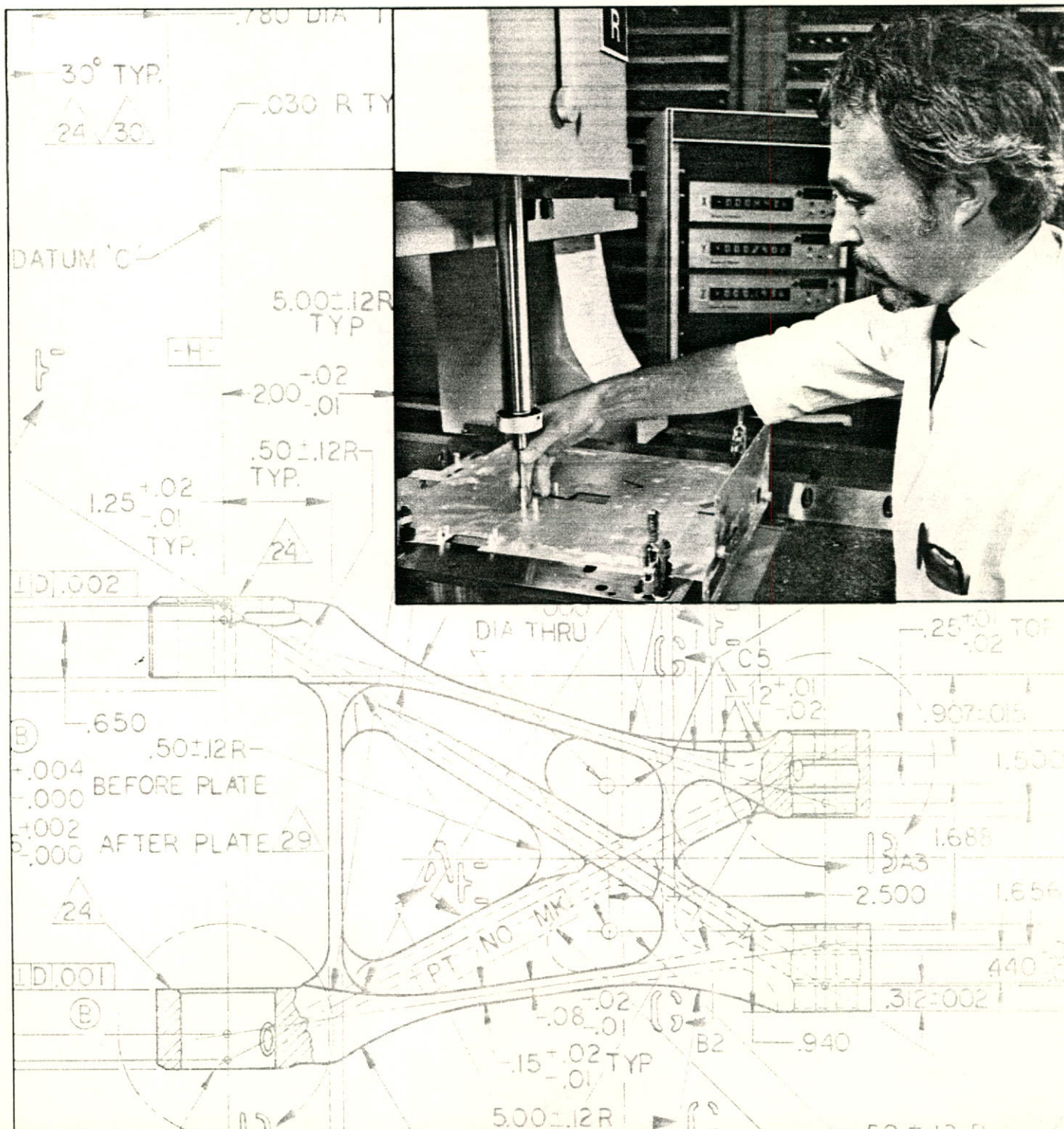
Industrial Division

Aerospace/Defence Group
Hermes Electronics
Structural Steel Group

The Aerospace and Defence Group, Hermes Electronics, and the Structural Steel Group operate within this Division. The Aerospace and Defence Group manufactures precision components for the high technology, commercial and defence markets. Components for aircraft landing gear, navigational equipment, transducers, and other sophisticated military hardware are produced utilizing

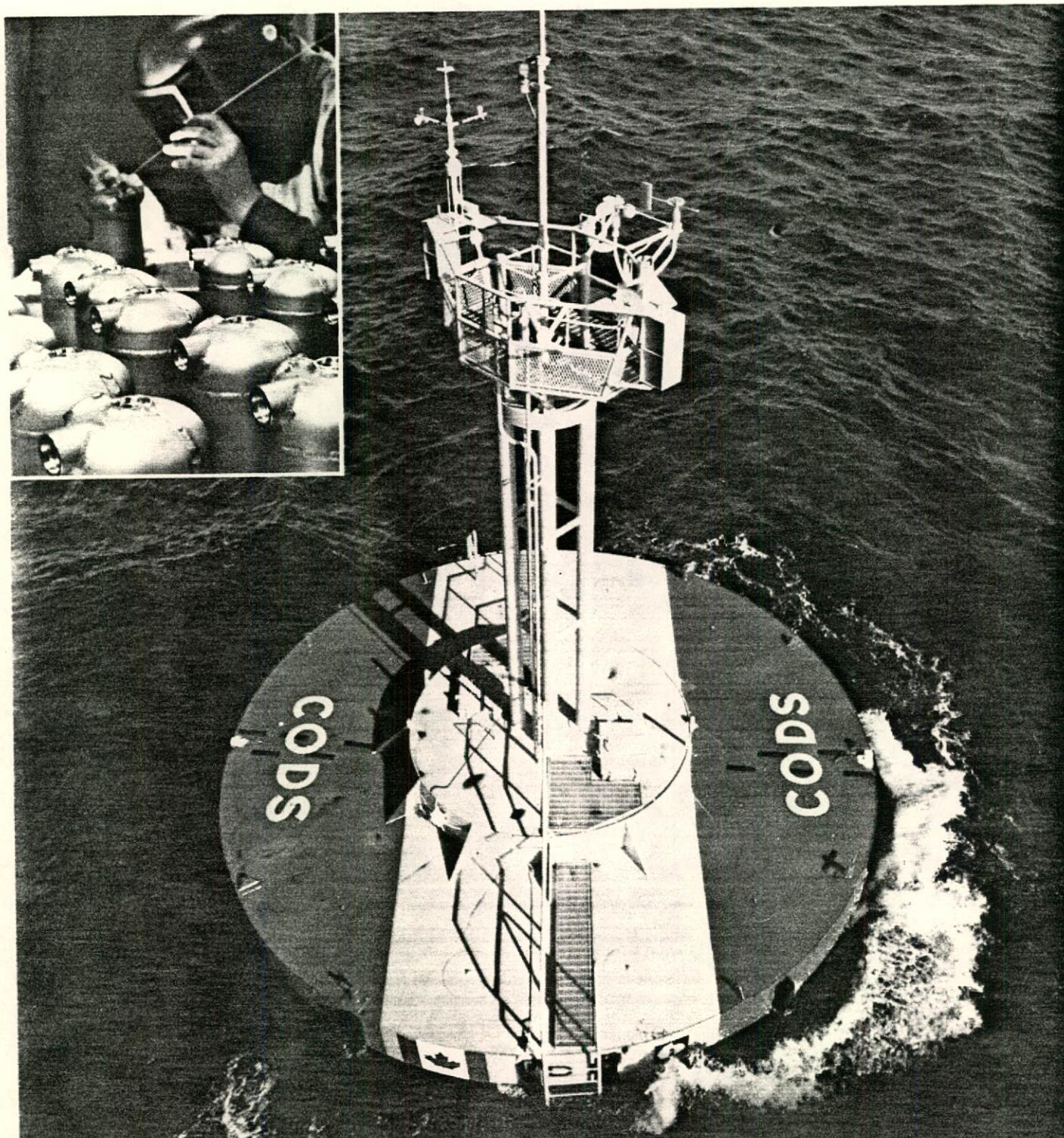
modern computer controlled machine tools and quality assurance methods.

Increased Canadian defence spending is providing additional domestic and export business opportunities.

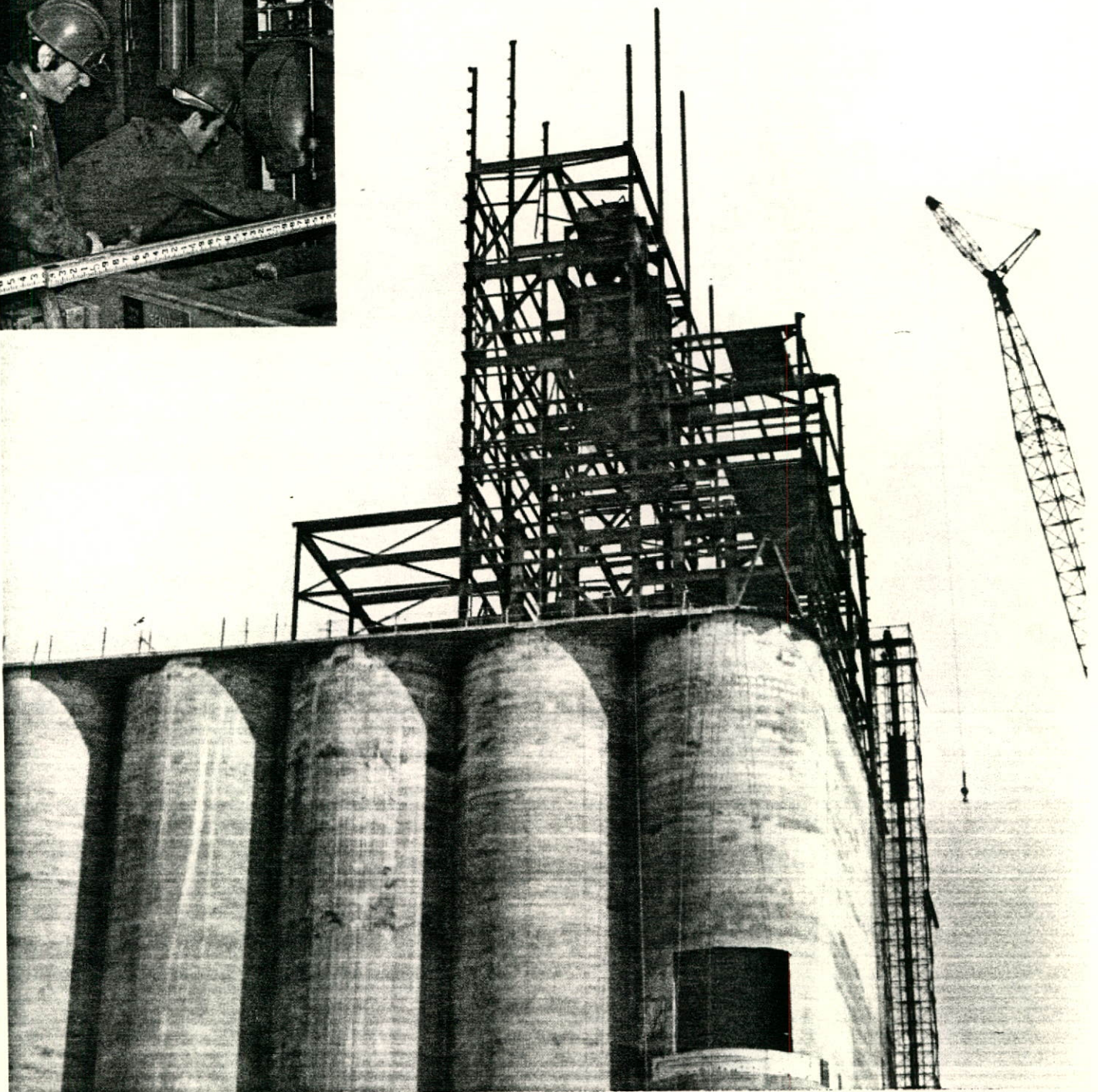
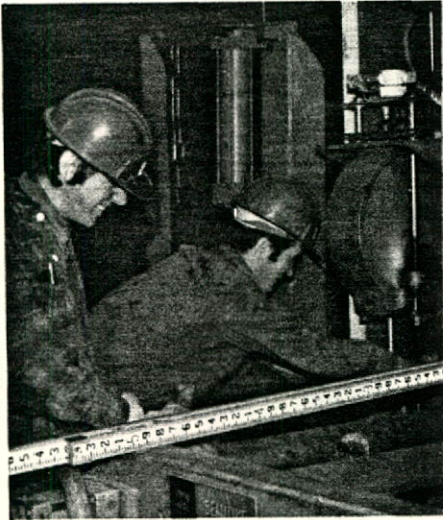


Hermes Electronics has a leading position in the development, design and manufacture of hydroacoustic sensor and data transfer systems as well as high frequency communications equipment to exacting military specifications.

As a direct outcome of a long term development program, Hermes is the foremost Canadian designer of ocean data acquisition and analysis systems employed by the offshore oil industry, oceanographic scientists and weather forecasting agencies. The extensive system design capability is expected to provide a firm basis for growth.



The Structural Steel Group is a recognized designer and fabricator of special structural steel for commercial, industrial and heavy industrial use. Projects include nuclear power and heavy water plants, as well as other construction for which main and support structures are fabricated.



Research and Development

Magna continues to emphasize its commitment to product research and development. Development programs are expected to lead to commercially profitable methods and products.

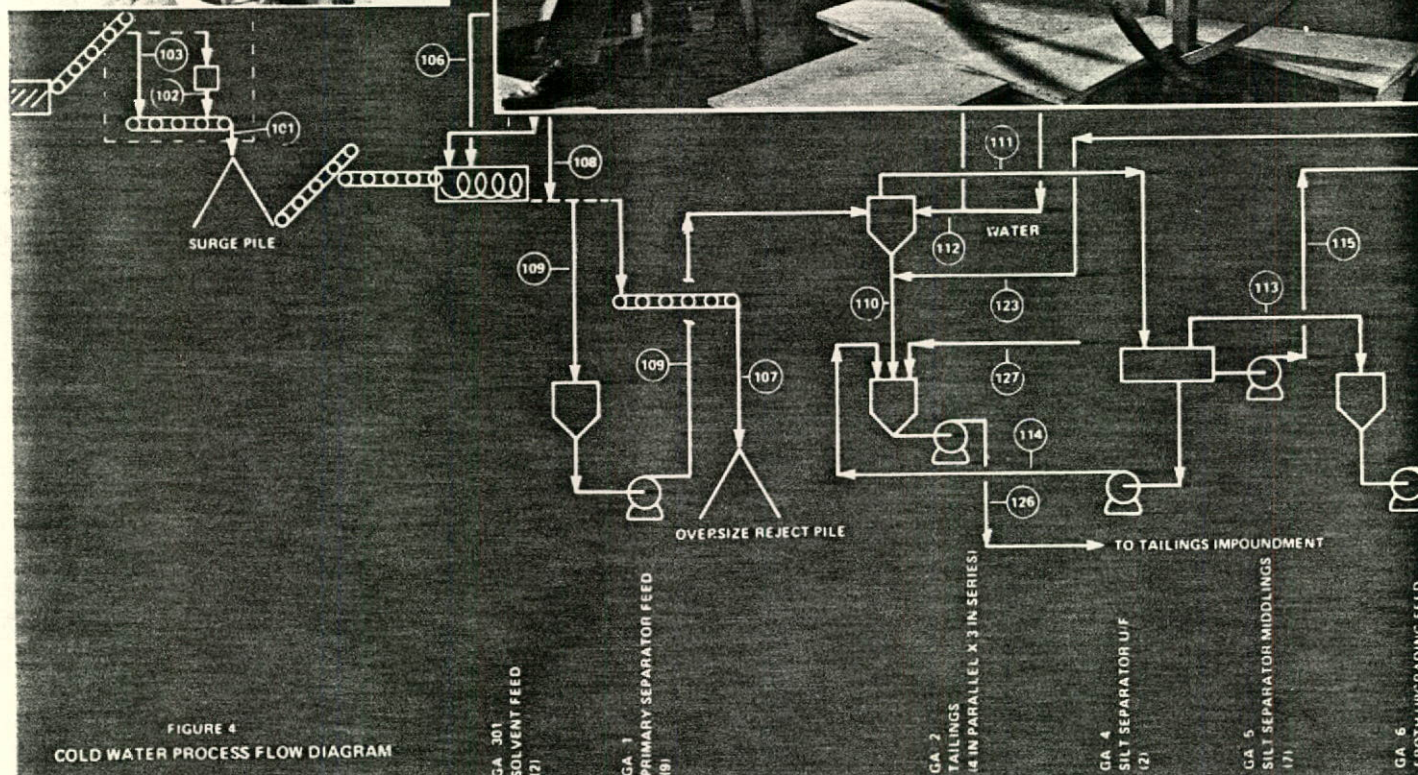
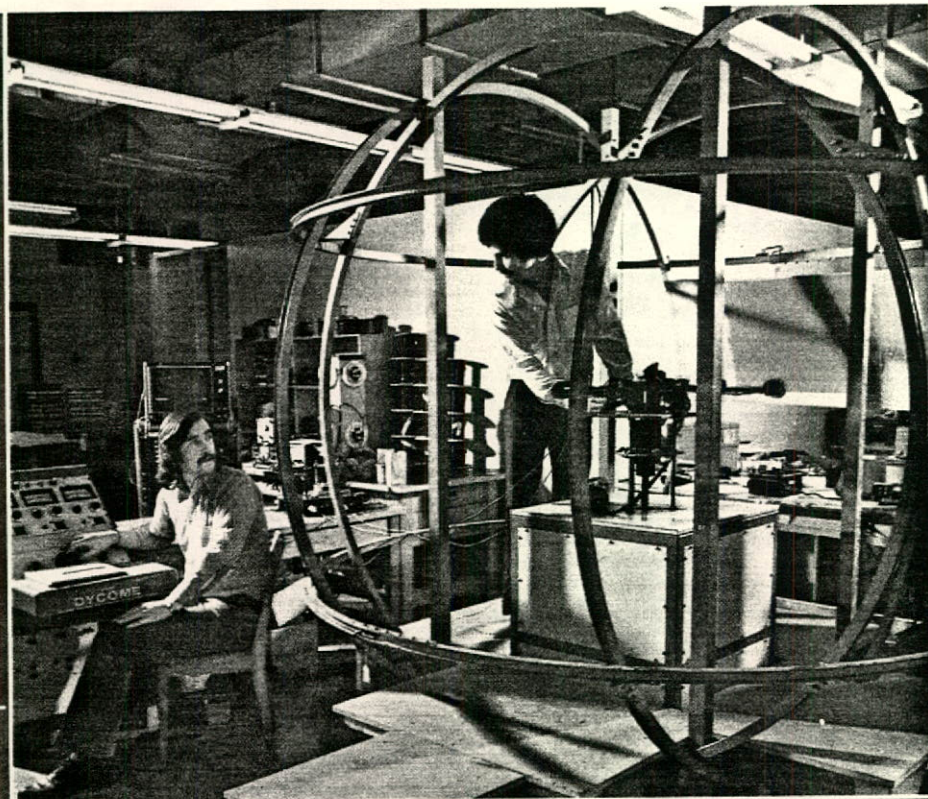
The Automotive Division has developed pulley designs which result in an advanced, cost effective and energy efficient engine auxiliary drive

system. This system has been introduced in some 1979 model automobiles.

In the Industrial Division, the acquisition of Hermes has added significantly to Magna's technology base. Several development programs are being actively pursued involving highly sensitive hydroacoustic sensors, sophisticated electronics and complex mechanical systems, all designed to exacting military technology standards. Hermes maintains a leading position in several

of these areas and is an acknowledged leader in the development of buoy mooring, and ocean data acquisition technology.

Magna has developed a new proprietary method for the extraction of oil from the Athabaska Tar Sands demonstrating considerable potential energy savings and environmental advantages. The interim results of this program are currently being reviewed by independent engineers.



Consolidated Statement of Income and Retained Earnings

Year ended July 31, 1978 (with comparative figures for 1977)

Dollars in thousands except per share figures

	1978	1977	
Sales	\$128,189	\$80,953	
Income before the following	\$ 18,272	\$11,522	
Deduct:			
Depreciation	3,349	2,210	
Interest on long-term debt (including amortization of debenture issue expense)	1,535	749	
Other interest expense	489	376	
Loss on retirement of sinking fund debentures		2	
	5,373	3,337	
Income before income taxes, minority interest and extraordinary items	12,899	8,185	
Income taxes	5,563	3,588	
Income before minority interest and extraordinary items	7,336	4,597	
Minority interest	741	504	
Net income before extraordinary items	6,595	4,093	
Extraordinary items (note 2)	795		
Net income for the year	7,390	4,093	
Retained earnings, beginning of year	10,527	6,857	
	17,917	10,950	
Deduct dividends:			
Preference shares	8	10	
Common shares	334	241	
Class A Special shares	481	172	
	823	423	
Retained earnings, end of year	\$ 17,094	\$10,527	
Earnings per share (note 3):			
	1978	1977	
	Before extraordinary items	After extraordinary items	
<i>Basic</i> —			
Class A Special	\$5.30	\$5.94	\$3.63
Common	\$4.24	\$4.75	\$2.90
<i>Fully diluted</i> —			
Class A Special	\$4.55	\$5.08	\$3.53
Common	\$3.64	\$4.06	\$2.82

(See accompanying Notes to Consolidated Financial Statements)



**Magna
International
Inc.**

(Incorporated under the laws of Ontario)
and its subsidiary companies

Consolidated Balance Sheet

July 31, 1978 (with comparative figures at July 31, 1977)

Dollars in thousands

Assets:	1978	1977
Current assets:		
Cash	\$ 702	
Accounts receivable	19,022	\$14,015
Inventories	21,710	14,395
Prepaid expenses	787	745
Total current assets	42,221	29,155
Investment in associate company (at equity in net assets)	319	
Fixed assets, at cost:		
Land	2,277	1,204
Buildings	5,438	4,732
Machinery and equipment	34,332	22,626
	42,047	28,562
Less accumulated depreciation	11,778	9,175
	30,269	19,387
Other assets:		
Government grants receivable (non-current portion)	207	207
Excess of purchase price of interests in subsidiary companies over fair value of underlying net tangible assets	2,416	2,376
Debenture issue expense, at amortized cost	92	56
Patents, at cost	54	
	2,769	2,639
	\$75,578	\$51,181

(See accompanying Notes to Consolidated Financial Statements)

On behalf of the Board:

Director

Director

Dollars in thousands

Liabilities:	1978	1977
Current liabilities:		
Bank indebtedness (accounts receivable and inventories pledged as security)	\$ 7,022	\$ 7,539
Accounts payable and accrued charges	13,698	9,599
Income and other taxes payable	3,345	2,733
Excess of progress billings over costs incurred	74	171
Long-term debt and lease obligations due within one year	2,731	1,701
Total current liabilities	26,870	21,743
Deferred income taxes	4,026	1,971
Deferred income and lease obligations (note 4)	2,981	2,471
Long-term debt (note 5)	16,607	7,767
Minority interest in subsidiary companies	1,714	1,823
Shareholders' equity (note 6):		
Capital stock		
Authorized:		
8,604 6½% cumulative sinking fund preference shares with a par value of \$100 each, redeemable at \$105		
1,000,000 common shares without par value		
5,000,000 Class A Special shares without par value		
Issued:		
1,104 preference shares (1977 – 1,400 shares)	110	140
661,456 common shares (1977 – 631,464 shares)	2,237	1,807
758,499 Class A Special shares (1977 – 706,464)	3,939	2,932
Retained earnings	17,094	10,527
	23,380	15,406
	\$75,578	\$51,181

Consolidated Statement of Changes in Financial Position

Year Ended July 31, 1978 (with comparative figures for 1977)

Dollars in thousands

	1978	1977
Sources of working capital:		
<i>From operations</i>		
Net income before extraordinary items	\$ 6,595	\$ 4,093
Charges to net income which do not reduce working capital, including depreciation, deferred income taxes, amortization and minority interest	6,565	3,449
	13,160	7,542
Proceeds from disposal of fixed assets net of income taxes	2,380	
Income taxes recoverable in respect of prior years' losses	416	
Notes payable	4,843	3,212
Mortgages payable	1,250	2,095
Convertible debentures	7,000	
Lease obligation	801	
Capital assistance grants	321	
Common and Class A Special shares issued during the year	1,437	1,950
Mortgage payments received		49
	31,608	14,848
Uses of working capital:		
Additions to fixed assets	16,231	8,584
Cost of acquisition of minority interests in two subsidiaries	1,269	
Investment in associate company	374	
Excess of fixed and other assets of subsidiary acquired during year over long-term debt and minority interest		464
Decrease in long-term debt non-current portion	4,832	2,413
Dividends	823	423
Miscellaneous	140	13
	23,669	11,897
Increase in working capital	7,939	2,951
Working capital, beginning of year	7,412	4,925
	15,351	7,876
Working capital deficit of subsidiary at date of acquisition		(464)
Working capital, end of year	\$15,351	\$ 7,412

(See accompanying Notes to Consolidated Financial Statements)

Notes to the Consolidated Financial Statements

July 31, 1978

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.

The accounts of the company's U.S. subsidiaries are translated as follows:

Monetary assets and liabilities — at year-end rate of \$1 U.S. = \$1.13 Cdn.;

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

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

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.

Inventory values are as follows:	Dollars in thousands	
	1978	1977
Raw materials and supplies	\$10,327	\$ 7,583
Finished and in process	11,383	6,812
	\$21,710	\$14,395

Construction contracts

Profits on contracts in the company's construction division are accounted for under the completed contract method. If it becomes known that a contract in progress will be completed at a loss, full provision for such loss is made in the year it is recognized.

Depreciation

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

Excess of purchase price of interest in subsidiary companies over fair value of underlying net tangible assets

For acquisitions which occurred prior to April, 1974 the value is being carried in the accounts at cost without amortization since, in the view of management, there has been no impairment in such value. For acquisitions subsequent to April, 1974, in accordance with the recommendations of the Canadian Institute of Chartered Accountants, the value is being amortized over ten years.

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 provision for deferred taxes of \$2,055,000 in 1978 (\$687,400 in 1977).

2. EXTRAORDINARY ITEMS

Extraordinary items comprise the following:

Gain on disposal of divisions and surplus assets (net of income taxes of \$285,000)	\$389,000
Income taxes recoverable from losses of subsidiaries incurred in prior years	515,000
	904,000
Deduct portion relating to minority interests	109,000
	\$795,000

3. EARNINGS PER SHARE

Earnings per share for 1978 are calculated as follows:

	<i>Dollars in thousands except per share figures</i>	
	Before extra- ordinary items	After extra- ordinary items
Basic—		
Net income	\$6,595	\$7,390
Less dividends on preference shares	8	8
Net income available to Class A Special and common shares	\$6,587	\$7,382
Shares outstanding (average during year) —		
Class A Special	726,203	
Add 25% (note 6)	181,550	
Common shares	645,692	
Notional common shares outstanding	1,553,445	
Earnings per common share	\$4.24	\$4.75
Earnings per Class A Special share	\$5.30	\$5.94
Fully diluted —		
Net income available to Class A Special and common shares (as above)	\$6,587	\$7,382
Add interest income (at 8 $\frac{3}{4}$ % net of tax) on conversion of debt and exercise of options (note 6)	358	358
Net income available to Class A Special and common shares	\$6,945	\$7,740
Shares outstanding —		
Class A Special (as above)	726,203	
Add shares issued on conversion of debentures (note 5) and exercise of options (note 6)	268,500	
	994,703	
Add 25% (note 6)	248,676	
	1,243,379	
Common shares	645,692	
Options outstanding	18,500	
Notional common shares outstanding	1,907,571	
Earnings per common share	\$3.64	\$4.06
Earnings per Class A Special share	\$4.55	\$5.08

4. DEFERRED INCOME AND LEASE OBLIGATIONS

Deferred income and lease obligations include:

Deferred profit on sale of properties leased back from purchasers under ten year leases with no option to repurchase (amortized over terms of leases)	\$ 104,000
Long-term portion of capitalized value of lease obligations at effective interest rates ranging from 5 $\frac{1}{2}$ % to 6 $\frac{1}{4}$ % maturing over twenty years with purchase options at nominal amounts on termination of leases	2,877,000
	\$2,981,000

At July 31, 1978 the company had other lease commitments expiring between 1979 and 1988 requiring annual rental payments of approximately \$1,500,000 in each of the next five years.

5. LONG-TERM DEBT

(a) An analysis of the company's long-term debt is as follows:

	<i>Dollars in thousands</i>	
	1978	1977
6 $\frac{1}{2}$ % sinking fund debentures due December 1, 1987, maturing \$75,000 annually with the balance due in 1987	\$ 124	\$ 381
8 $\frac{3}{4}$ % convertible debentures due January 15, 1988	7,000	
The 8 $\frac{3}{4}$ % convertible debentures are convertible into Class A Special shares at a value of \$28 per Class A Special share until 1983 and \$35 per share thereafter (with provision for anti-dilution).		
Capital assistance grants — non-interest bearing due 1978 to 1980	357	169
Mortgages payable — (secured by land, buildings and equipment of subsidiary companies) — 8% due 1978 to 1993	2,268	2,549
Lien notes payable (mainly at prime interest rate plus 1%) — due 1978 to 1988	9,484	6,369
	19,233	9,468
Less due within one year	2,626	1,701
	\$16,607	\$7,767

- (b) Required payments (including \$155,000 each year relating to lease obligations) are as follows:

1979	—	\$2,731,000
1980	—	2,451,000
1981	—	2,418,000
1982	—	2,123,000
1983	—	1,474,000

6. SHAREHOLDERS' EQUITY

Preference shares

During the year the company purchased for cancellation 296 preference shares for \$26,519. The discount of \$3,081 realized on redemption has been included in contributed surplus.

The Class A Special shares have the following attributes:

- (a) Each Class A share shall participate in dividends and other distributions of retained earnings and other surplus accounts in an amount equal to 125% of the dividend or other distribution payable to each common share.
- (b) The Class A shares are not entitled to a vote except on a resolution to change the attributes of the Class A shares.

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

During the year 37,043 Class A Special shares (valued at \$878,000) and 15,000 common shares (valued at \$302,000) were issued as partial consideration for the purchase of the minority interests in two subsidiary companies. In addition 14,992 Class A Special shares and 14,992 common shares were issued on the conversion of \$257,000 of 6½% debentures.

Employee stock options for 18,500 Class A Special shares and 18,500 common shares exercisable until July 31, 1980 at \$4.95 per share for each class were outstanding at July 31, 1978.

Retained earnings

Retained earnings include \$16,142 of contributed surplus arising from the redemption of preference shares.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year remuneration paid to directors excluding full time employees was \$24,000. Remuneration paid to senior officers as defined by the Business Corporations Act of Ontario totalled \$1,101,000.

8. ANTI-INFLATION LEGISLATION

The company and its Canadian subsidiaries are subject to the Anti-Inflation Legislation enacted by the Government of Canada effective on October 14, 1975 to provide for the restraint of profit margins, prices, employee compensation and dividends.

The compliance reports which are being filed with the Anti-Inflation Board indicate that the company and its Canadian subsidiaries did not earn excess revenue for the year ended July 31, 1978.

Auditors' Report

To the Shareholders of Magna International Inc.:

We have examined the consolidated balance sheet of Magna International Inc. as at July 31, 1978 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, 1978, 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.

Toronto, Canada,
October 19, 1978.

Galanter, Gordon & Co.

Chartered Accountants

Six Year Comparative Summary

<i>Dollars in thousands except per share figures</i>						
Year	1978	1977	1976	1975	1974	1973
Operations Data						
Sales	\$128,189	\$80,953	\$55,010	\$39,415	\$31,644	\$23,759
Income from Operations	12,899	8,185	5,734	2,880	1,990	1,607
Net Income before Extraordinary Items	6,595	4,093	2,786	1,339	1,080	808
Extraordinary Items	795					
Earnings per share*						
Before extraordinary items						
CLASS 'A'	5.30	3.63	2.69	1.29	1.04	0.80
COMMON	4.24	2.90	2.15	1.03	0.84	0.64
After extraordinary items						
CLASS 'A'	5.94					
COMMON	4.75					
Depreciation	3,349	2,210	1,416	1,118	890	572
Cash Flow from Operations	13,160	7,542	5,171	2,757	2,241	1,447
Dividends per share (Annual rate)						
CLASS 'A'	0.72	0.52				
COMMON	0.56	0.40	0.40	0.20	0.10	0.10
Financial Position						
Working Capital	15,351	7,412	4,925	3,233	2,164	1,588
Capital Expenditures	16,231	8,584	3,456	2,016	2,237	1,014
Fixed Assets						
(Less accum. depreciation)	30,269	19,387	8,940	6,900	6,001	3,745
Long-Term Debt	16,607	7,767	4,469	4,398	3,962	2,503
Equity relating to Class 'A' and Common Shares	23,270	15,266	9,646	6,951	5,726	4,677
Equity per share*						
CLASS 'A'	18.06	12.59	9.34	6.75	5.58	4.55
COMMON	14.45	10.07	7.47	5.40	4.46	3.64

*Adjusted for years prior to 1977 to give effect to the creation of Class 'A' shares during 1977.

