

Hayes-Dana Inc.



Annual Report 1983



**Financial Highlights**

	1983	1982
Net sales to customers	\$282,829,000	\$217,175,000
Net income after tax	7,379,000	1,932,000
—per common share	1.07	.30
Dividends declared	\$ 3,395,000	\$ 3,039,000
—per common share	.48	.48
Stockholders' equity	\$ 74,724,000	\$ 58,205,000
—per common share	9.83	8.90
Shares traded during year	949,708	592,388
Average number of shares outstanding	6,901,876	6,445,319
Shareholders at year-end	3,821	3,766
Employment at year-end	2,397	1,940

The Company

Founded in 1922, Hayes-Dana Inc. is a diversified Canadian organization. The corporation manufactures and/or distributes a broad range of products and services to the five markets described below. With 2,400 employees working in over 50 manufacturing plants, distribution warehouses, regional and local outlets, Hayes-Dana is well prepared for profitable growth.

The Markets

Highway Vehicle: The original equipment manufacturers of highway vehicles comprise Hayes-Dana's largest market.



Truck Parts Distribution: The Canadian market for replacement parts and services for trucks and trailers is estimated to exceed \$1 billion annually.



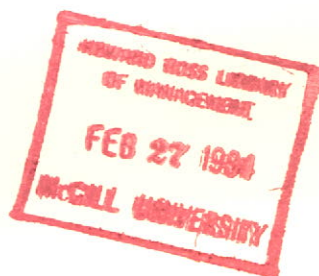
Automotive Distribution: Automotive jobbers, wholesale distributors and mass merchandisers constitute a market of growing significance.



Mobile Off-Highway: The manufacturers of off-highway vehicles, such as agricultural equipment, loaders and graders, form another key market.



Industrial Equipment: This market consists of the manufacturers of transportation equipment and of processing equipment who serve all primary industries.





Welcome to Hayes-Dana! Product Display in entrance foyer of Corporate offices, which incorporates our motto: "Our Goal is to be the Leading Canadian Corporation Turning Power into Progress".

TO OUR SHAREHOLDERS

We were optimistic about 1983, as last year ended. Our financial results have confirmed this positive outlook. Economic improvement within the various industries and markets, which we serve, has been gradual and in varying strengths. However, during the year we have out-performed these market sectors, resulting in the highest sales in our corporate history. Profits achieved a marked increase from 1982, and we expect continued improvement to more normal levels in the future. This is being accomplished in spite of continuing difficult competition from other global suppliers. In addition, with the growth in activity, employment levels increased, averaging 8% above 1982 levels.

Your dividends were continued in 1983, and the market value of your stock improved. Closing at \$14%, the share value was 33% higher than at the previous year end. When combined, this resulted in a 37% total return on your December, 1982 investment of \$11.

1983 in Review

Sales for 1983 were \$283 million, up 30% from \$217 million in 1982. Profits were \$7.4 million, more than 3 times the \$1.9 million earned in the previous year. On an earnings per share basis, this amounts to \$1.07, compared to \$0.30 in 1982.

The strongest market improvement was recorded in the Highway Vehicle Market. Here, higher sales of frames, extensions and drive shafts resulted from model mix and greater automotive and light truck production in an improving economy. In addition, higher sales of truck axle housings from our new Barrie plant were a positive contribution in the last half of the year. This new business resulted from the Dana-Harvester agreement, which was discussed in the 1982 Report.

Sales to the Automotive Distribution, Truck Parts Distribution and Industrial Equipment Markets were all better than their respective market

improvements. Sales to the Mobile Off-Highway Market also increased, in spite of poor conditions in the agricultural and natural resource industries.

Continuing our emphasis on improved quality, productivity and customer service, improvements were made and planned at all production facilities. We have detailed some of our programs later in this Report. The ability to provide "just-in-time" delivery of quality products to our customers, continues a practice started several years ago at our regional facility in Burnaby, B.C. In the last quarter, we officially opened a new Regional Assembly Facility in Chatham, to assemble front and rear truck axles and drive shafts for International Harvester.

Today's markets require better quality and flexibility, and as a result, certain older machinery does not satisfactorily fit updated production requirements. During 1983, certain outdated equipment, which will not be used or must be replaced as we prepare for future growth, was written down by \$2.2 million.

During the year, we have integrated the Mascot Truck Parts operation into our Truck Train Division and consolidated our existing warehouse and regional depot facilities into the Distribution Division. Further efficiencies will be made in 1984.

At mid-year, we issued one million additional common shares, by private placement. The proceeds were used to retire about \$12 million of short term debt. This issue has significantly improved our balance sheet, and will allow further growth in the future from a stronger financial position.

In the last quarter, a wholly-owned subsidiary, St. Catharines Financial Inc., was incorporated. It will make investments in venture projects and our holdings in CSL Silicones Ltd. were transferred to it. It will hold certain real estate, which may be used by Hayes-Dana and others, as well as by future truckline associate locations.

Prospects for 1984

We achieved record sales in the fourth quarter of 1983, and 1984 should continue at this higher level. As our manufacturing plants attain higher production levels, and further gains are made in our various distribution markets, 1984 should be a stronger year, both in sales and profits.

We anticipate increased sales to the Highway Vehicle and Mobile Off-Highway Markets. We expect current light vehicle sales to continue through 1984, while heavy vehicle sales are just beginning a recovery, which should also improve throughout the year. These higher sales will be matched with improved production costs, resulting from the addition of new equipment to provide further flexibility, plus better quality and delivery across the country.

We are planning to have our marketing and distribution groups add additional product lines and customers in each market segment. The Canadian markets served by these groups are also beginning a recovery, which should expand through 1984. In any case, we plan to again out-perform our respective markets.

We acknowledge the significant contribution to our 1983 results, which has been made by all of our people. We believe this commitment results from the "Hayes-Dana Style", which is discussed later in the Report. Since the majority of our employees are also shareholders, we can, as a team with our other shareholders, look to 1984 and beyond with great confidence of continued success.



G. D. DORESCO, Chairman



V. E. OECHSLE, President

OUR MARKETS

Highway Vehicle Market

Sales to original equipment automobile and truck manufacturers have always represented Hayes-Dana's base for growth. Product and market knowledge gained in this market have assisted our diversification into other markets. The automotive industry, particularly in North America, improved in 1983, and your Company has shared this improvement, as sales improved by 39% to \$170 million.

Sales of light truck frames, frame extensions, automotive stub frames, drive shafts, universal joints, precision forgings, gaskets and hydraulic fittings, improved from comparable figures in 1982, reflecting the improved economy and O.E.M. customer production volumes.

In addition, the arrangement to provide heavy truck axle housings to International Harvester resulted in improved volumes in 1983. Production of these housings started in mid-year at our new Barrie plant.

In Chatham, we established a Regional Assembly Facility during 1983, to supply completed front and rear axles and drive shafts to the Harvester

truck assembly plant in Chatham. This facility, the first of its scope in the North American truck business, is an improvement from the facility started some years ago in British Columbia. Components from several Hayes-Dana and Dana plants are final-assembled in the same sequence as the customer's production plans. Deliveries are then made several times per day, as required.

We anticipate significantly higher sales to this market in 1984. At mid-year, we will commence production of frame extensions for the new Ford Aerostar mini-van. We have an order to produce drive shafts for the new Volvo—760 GLE sedan, and we are actively pursuing other potential

New Volvo—760 GLE sedan, which will incorporate our drive shaft, in mid 1984.



International Harvester "Conventional Transtar" truck, which incorporates the "Spicer" power transmission system, including clutch, transmission, drive-line, and axles (front and rear).



off-shore automotive business for our Drive Train facility.

In 1984, we will ship a full year's sales of axle housings and related parts from Barrie and Chatham, having absorbed pre-production and start-up costs during 1983. We are also evaluating the suitability of other products for the Chatham facility, and the possibility of establishing Regional Assembly Facilities for other O.E.M. customers.

Truck Parts Distribution

Hayes-Dana is the leading supplier of heavy duty truck and trailer parts to the aftermarket transportation industry in Canada. In 1983, sales increased by 23% to \$54 million.

Last year, we announced the acquisition of a major Canadian rebuilder of transmissions and differentials for the heavy truck market. At that time, there were major rebuilding facilities at Mississauga and Edmonton, and smaller rebuilding facilities in Ottawa and Calgary. In 1983, we added rebuilding facilities in Moncton, London, Regina and Coquitlam, B.C. We plan to add two

more in 1984. Our national coverage provides a strong competitive edge, when negotiating to supply parts to national transport carriers.

We have 24 "Truckline Parts" branches across Canada, which are supplied out of three major "Truck Train" warehouses. Product is replenished on a day-to-day basis in major centres by our own trucks to ensure prompt service and quick inventory turnover at the branch level. We offer our own proprietary products, as well as other brand name items, such as S.K.F., Neway, Kelsey-Hayes and Abex, mainly related to the power train, suspension, wheels and braking systems on a truck.

The "Truckline Parts Branches" target the trucking fleets and owner-operators as their primary market. The "Truck Train Warehouses" and rebuild centres target the independent sub-distributors and truck dealers.

We have been reviewing potential benefits from franchising "Truckline Parts" branches in smaller cities. A comprehensive associate program for businessmen across Canada could significantly increase our sales potential into this market.

"Truckline Parts" fleet truck, exhibiting our new logo which has been introduced at our branches across Canada.



Our full product package—rebuilt transmissions, clutches, drive shafts, universal joints, rear axle differentials, etc.—is unique in this market, and should benefit from this program of market expansion.

We have accomplished many changes in 1983, consolidating some facilities and expanding others. We are prepared to grow in 1984 on this firmer base.

Automotive Distribution Market

The Canadian market for automotive replacement parts exceeds \$1 billion, and is growing at an average rate of 2-3% a year. In spite of relatively flat growth in 1983, we achieved gains in market penetration over the past year, so that sales increased by 10% to \$20 million. We expect this growth trend to continue over the next few years. This was, and is being, accomplished with aggressive marketing and promotional programs, together with the introduction of new Hayes-Dana and Dana products for this market.

Our primary customers are national and regional warehouse distributors who supply automotive

wholesalers. In addition, some of our products such as cruise controls, are sold through several leading mass merchandisers.

Our brand name products for this market, which are available from coast to coast, are all recognized as top quality and competitively priced. These products include Spicer universal joints, Victor gaskets and seals, Weatherhead fittings, Speedostat speed controls, Perfect Circle parts and rings, and Nasco remanufactured clutches and electrical components. Sales of silicone-based sealants for cars and trucks, produced by CSL Silicones Ltd., are also sold to this market.

Hayes-Dana will continue to make major commitments to this market with advanced training programs, new marketing techniques and timely customer service.

Mobile Off-Highway Market

This market includes customers who manufacture and maintain off-highway vehicles used in the agricultural, construction, forestry, material handling and mining industries. Hayes-Dana supplies products for mechanical power and

Display of many products sold into this market, including universal joints, gaskets, fittings, speed controls, and remanufactured electrical components.



Hayes-Dana is one of the main suppliers of components for Canada's logging industry. Equipment builders use our Spicer brand drive-shafts, axles, transmissions, clutches, and our Chelsea, Gresen, Tyrone, Weatherhead, Lessard, Lantex and Hyco hydraulic products.

hydraulic fluid power transmissions. Customers in these industries were adversely affected by the recession during 1983, although modest turn-around was experienced by some, late in the year. In spite of the negative market influences, we increased our sales to \$26 million, a change of 6% from 1982.

Hayes-Dana is in the unique position of being able to market a complete power train system for mobile equipment, under the Spicer brand name. Beginning with the clutch, and following through the transmission, drive shaft, rear axles, and front axles, Hayes-Dana can supply a complete system. For four or more wheel drive vehicles, Hayes-Dana can also supply the gearboxes and driving front axles necessary to meet tough off-road conditions.

The Company's sole position as a complete power train system supplier is mirrored in the fluid power side of its business. Beginning with the broadest range of auxiliary power take-offs in the business, Hayes-Dana carries a complete line of fluid power products, including pumps, valves, motors, cylinders, and the hose and tubing necessary to connect these components together. Again, Hayes-Dana is unique in this capacity.

As we noted last year, the equipment of a U.S. manufacturer of agricultural drive shafts was purchased and moved to our plant in St. Thomas.

We have been able to acquire some related customers, which has significantly increased our market penetration in this very depressed industry. Ultimately, this acquisition will be very beneficial.

In 1984, we intend to start a broad move into "systems marketing", particularly with our fluid power product line. In addition, we intend to place the agricultural products into our country-wide distribution system and proceed to sell these components in other markets. Accordingly, we anticipate improved growth in 1984 and future years.

Industrial Equipment Market

The industrial equipment market is Hayes-Dana's most diverse area of activity. It includes original equipment and replacement parts for marine, rail and air transportation products, manufacturers of resource processing and materials handling equipment, business machines and other uses. During 1983, the recession was particularly

Hayes-Dana is a major supplier to the agricultural equipment industry of "Agmaster" drive-lines, and well-known brands of hydraulic pumps, valves, cylinders, fittings, etc.



severe in these market segments. Many O.E.M. customers were operating at 50% capacity or less. However, our sales into the market increased substantially by 50% to \$13 million.

Hayes-Dana industrial products fall into three broad categories—clutches and brakes, couplings and variable speed drives. This broad range of highly technical components is sold by a well trained sales force, covering O.E.M. and aftermarket sales. Product applications range from magnetic tensioners for the manufacture of fibre-optics to Formsprag holdback units to prevent run-back on large ski chair-lifts.

The excellent sales increase during 1983 was due to the implementation of several marketing thrusts. For the first time, product was inventoried in our distribution centres and regional depots, providing more prompt delivery to customers. New products were introduced and Canadian sales responsibility was assumed for other products, such as gears, hydraulic and clutch elements, formerly sold by commission arrangement. New distributors were added, and now 80 distributors and their sales representatives are handling our products. In this connection, we started programs of technical training, in conjunction with new sales promotion assists. We also improved our relationships with engineering firms, allowing our products to be specified as original equipment.

Our Lo-Rez operation in Vancouver started production of parts for installation in vessels for the

U.S. Navy, and is looking forward to its best year ever in 1984.

1984 will see the addition of several new distributors, and we feel well positioned for the eventual market turnaround by the important Canadian industries within this market.

This ski chair-lift incorporates a Formsprag hold-back unit, sold by our Industrial Power Division, to prevent run-back while in operation.



SUMMARY OF SALES BY MARKET

Market	Sales (\$ Millions)	% Increase from 1982
Highway Vehicle	\$170	39%
Truck Parts	54	23
Automotive Distribution	20	10
Mobile Off-Highway	26	6
Industrial	13	50
	\$283	30%

STYLE AND ORGANIZATION

Over the years, Hayes-Dana has grown into an increasingly diverse company. Today, we operate over 50 facilities, which span Canada from Duncan, on Victoria Island, to Dartmouth, Nova Scotia. We have large manufacturing plants of 400,000 square feet, employing nearly 600 people, as well as branches of 2,000 square feet with 2 people. Obviously, our operations are both diverse and widespread.

The common factor tying together all the Hayes-Dana people across Canada is the Hayes-Dana Style, based on the belief that the best management is self-management. We believe that our personnel know how to do their individual jobs better than anyone else in the Company. This encourages our people to contribute to the managing of their Company's survival and growth.

The elements of the Hayes-Dana Style—the values defining how we work with people at Hayes-Dana and our world-wide affiliates, with our customers, and with the communities in which we live and work—are presented in our one-page "goal and policies" sheet that outlines our philosophy. There are no thick instruction manuals that our managers must follow. The basic information each manager needs is stated in our "goal and policies" sheet. This deals with earnings, people, customers, communication, organization, planning, safety and environmental protection, growth and citizenship.

Our purpose as a corporation is to earn money for our shareholders and to increase the value of their investment. We believe that productivity—

working together to become more competitive—is the best way to achieve our purpose. Productivity improvement is the job of every Hayes-Dana person and the Hayes-Dana Style is the basic tool for getting the job done. We know that the people who are most productive and competitive will also be the most successful and secure for the long haul.

Our Style emphasizes the importance of keeping our people involved and informed, so they can identify with Hayes-Dana, be committed to our philosophy, and contribute to our success. Some of the ways we encourage identity are:

- We endorse productivity plans whereby all people have an opportunity to manage their operation and share in the rewards.
- We believe on-the-job experience to be the best way to learn productivity skills and we endorse broadening the skills of our people.
- We believe that promotion from within is the best way to fill job opportunities and we encourage our people to prepare themselves for such opportunities.
- Hayes-Dana training programs, and our tuition refund program for courses at local universities and colleges, are available for all our people. Through our affiliation with the Dana Corporation, we utilize the resources of Dana U.
- We encourage our personnel to own part of Hayes-Dana through our Stock Purchase Plan. Almost 75% of our 2,400 employees are shareholders of the Company.

We know Hayes-Dana people are committed and involved when they are kept informed of our strategies and results. We believe the best way to communicate is person-to-person, rather than through memos and paperwork. Hayes-Dana has a network of communications groups to keep our people informed throughout the various divisions of the Company.

The Hayes-Dana Style—working hard to keep it simple—frees our people to be managers of their own productivity. It gives every Hayes-Dana person the opportunity to innovate, to grow, to be competitive, and to share in the results.

G. B. Mitchell, Chairman of Dana Corporation and a Director of Hayes-Dana Inc., addressing one of the regular "People Meetings", at the Chassis Products Division.



MANUFACTURING TECHNOLOGY

Our manufacturing technology is supplying the competitive edge necessary to meet our basic customer needs of price, quality and service. With today's emphasis on high technology and the regular use of related "high-tech" terminology, we believe it is important to continually review and improve our applied philosophy of "working hard to keep it simple".

Robotics: In 1979, the arc welding line at the Barrie Axle Plant began operation, utilizing 18 computer-controlled robots. At that time, it was considered to be the first multi-robot arc welding line in the world. This year saw the installation of electronics and software revisions to provide diagnostics for ease of maintenance, fail safe control for consistent quality, and improved controls for faster changeover.

Programmable Controllers: The by-product of the electronics and logic technology learned through the application of the robotic arc welding, has provided the basis for the application of programmable controllers to the traditional machining equipment. This is sometimes referred to as stand-alone computer-aided manufacturing (CAM). Again, ease of maintenance and faster changeover simplify our manufacturing through new technology.

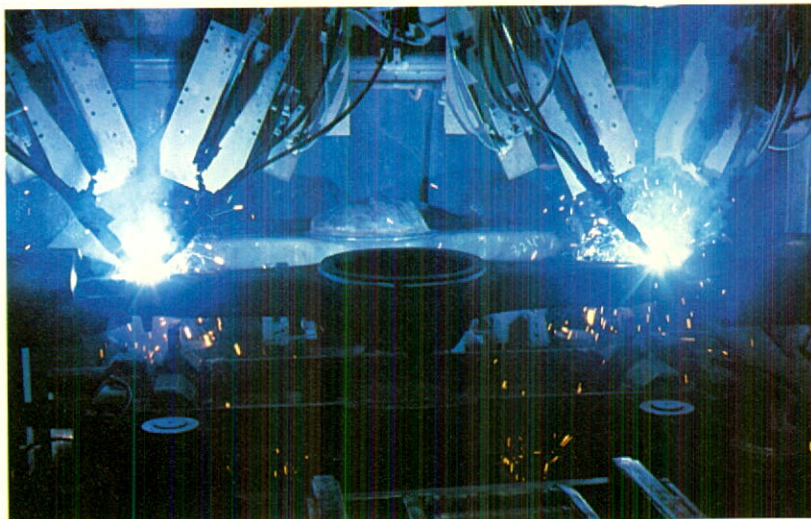
Statistical Process Control: 1983 will be remembered as the year all of the management teams became committed to the use of S.P.C. Implementation of this commitment to continuous

quality improvement varies from just starting, to full involvement by all employees. Resultant productivity improvements consist of reduced scrap and rework, increased available time of equipment and a more consistent quality product to our customers. We are also proud of the high rankings each of our plants receives from customer quality audit surveys.

Flexible Manufacturing: Our timely response to changing customer requirements depends mainly on the flexibility of our plants. 1983 was a year of reduced lead times and higher efficiencies throughout the manufacturing process, from forgings to finished assembly. Quicker changeovers on existing equipment, improved tooling concepts, rationalization of product design to reduce part numbers and more consistent quality, have all contributed. At the Frame Plant, improvements in efficiency saved further capital investment for capacity and have allowed production supply to match the rapidly increased demand for light truck frames. The Frame Plant was also a leader in the "just-in-time" delivery concept, by supplying light truck frames to meet the daily build requirements of the Ford Oakville assembly plant.

High technology will provide a constant challenge to harness available benefits in a simple manner. The commitment to train our employees in the use and application of such tools will continue the competitive edge in our manufacturing facilities.

Robotic welding of heavy truck axle housing at our Barrie axle plant.



FACILITIES

Hayes-Dana operates eleven production and assembly plants, five distribution warehouses, five regional depots and twenty-nine truck line or

distribution branches throughout Canada. These facilities aggregate 277 acres and 2.1 million square feet.

Production and Assembly Plants

Division	Location	Product
Automotive Marketing	Stoney Creek	Remanufactured clutches, water pumps and electrical components
Chassis Products	Thorold	Truck frames, frame extensions, cross members, rear axle housing stampings
	Barrie	Heavy truck axle housings, truck-trailer axles
Drive Train	Thorold	Universal joints, drive train components
	St. Thomas	Fluid power and fluid power transmission components and assemblies
	St. Thomas	Gaskets, washers, shims
Forge	St. Catharines	Steel and alloy forgings
Industrial Products	St. Thomas	Agricultural P.T.O. shafts, universal joints and gear boxes
	Vancouver	Flexible couplings and vibration isolators
Mobile Power	Chatham	Heavy truck axle assemblies and drive shafts
Truck Train	Georgetown	Trailer axles

In addition, CSL Silicones Ltd., controlled by St. Catharines Financial Inc., produces silicone sealants at its plant in Guelph.

Distribution Warehouses, regional depots, truck service centres, sales offices

These facilities are widely dispersed throughout the country to provide prompt customer service for our various product lines.








Province

British Columbia	Abbotsford, Burnaby, Castlegar, Duncan, Kamloops, Port Coquitlam, Vancouver
Alberta	Calgary, Edmonton, Red Deer
Saskatchewan	Regina, Saskatoon
Manitoba	Winnipeg
Ontario	Beamsville, Belleville, Chatham, Hamilton, London, Mississauga, Ottawa, Pickering, Rexdale, Sarnia, St. Catharines, St. Thomas, Sudbury, Toronto, Windsor
Quebec	Pt. Claire, St. Laurent
New Brunswick	Moncton
Nova Scotia	Dartmouth

FINANCIAL OBJECTIVES

In previous Annual Reports, we have discussed Corporate goals, philosophy, marketing strategies, organization and objectives. We feel that you would also be interested in our financial

objectives and how well our performance has measured against these goals. We intend to continue this information in future Reports.








Return on Average Equity		Percent
*1978		16.0
1979		17.6
1980		8.9
1981		10.1
1982		3.3
1983		11.5
Average		10.9

Objective

Achieve a 21% return on average equity

Performance

1983 was 11.5%, and six year average was 10.9%


Return on Sales		Percent
*1978		4.6
1979		4.1
1980		2.3
1981		2.4
1982		.9
1983		2.6
Average		2.7

Objective

Achieve a 5% return on net sales

Performance

1983 was 2.6%, and six year average was 2.7%

Assets to Sales		Percent
*1978		51.5
1979		52.6
1980		72.9
1981		62.8
1982		60.3
1983		52.1
Average		58.6

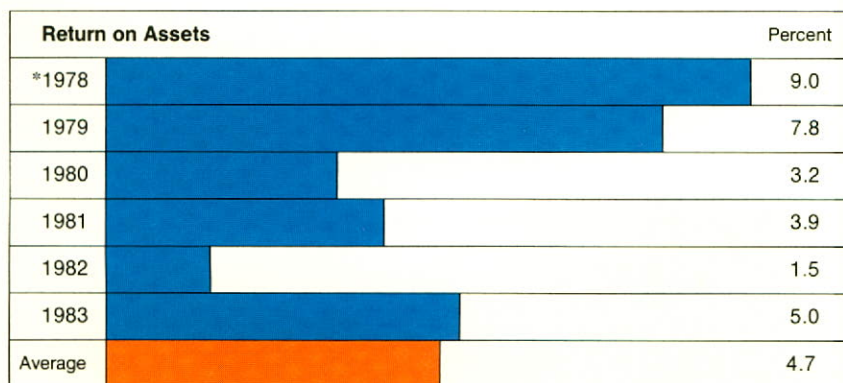
Objective

Achieve a ratio of total assets to net sales of 50%

Performance

1983 was 52.1%, and six year average was 58.6%

*1978—1980 inclusive, reflect fiscal years ended August 31
1981—1983 inclusive, reflect fiscal years ended December 31

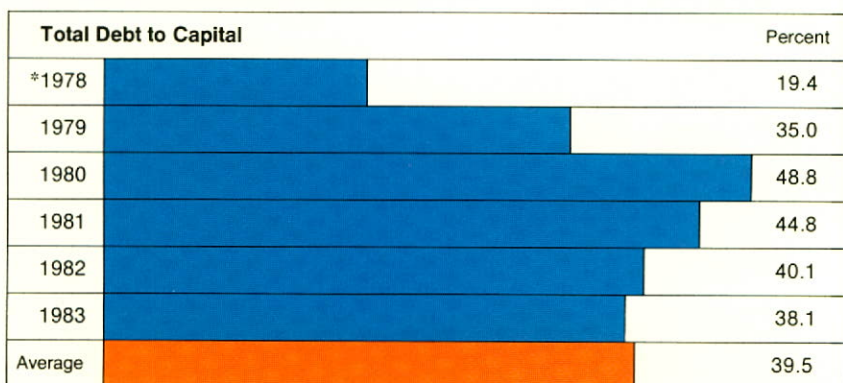


Objective

Achieve a 10% return on total assets

Performance

1983 was 5.0%, and six year average was 4.7%

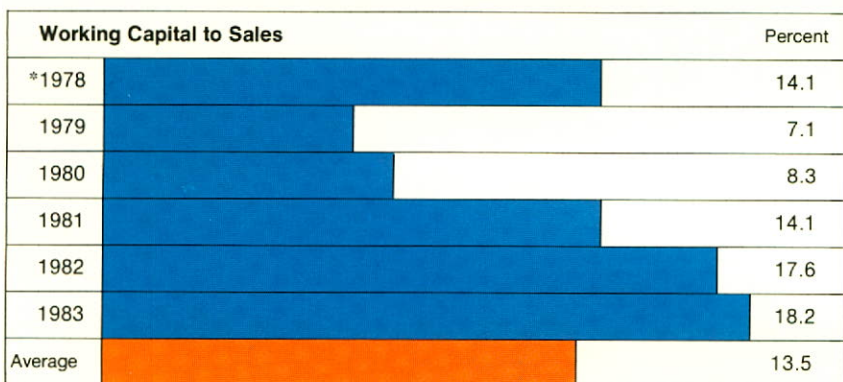


Objective

Achieve a ratio of current bank debt + long-term debt to debt plus equity of 40%

Performance

1983 was 38.1%, and six year average was 39.5%

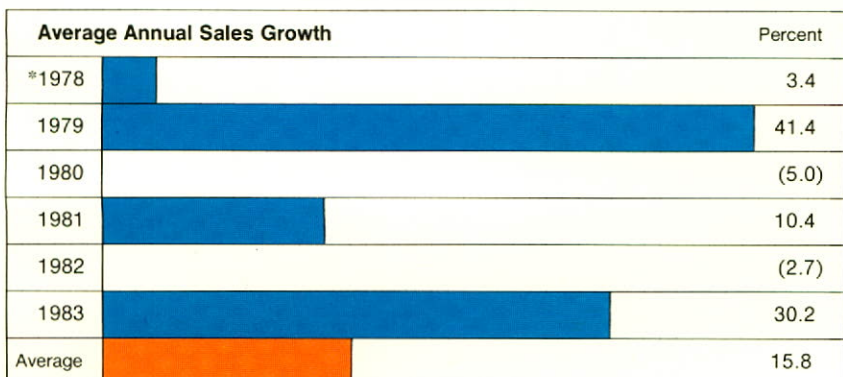


Objective

Achieve a ratio of working capital to net sales of 23%

Performance

1983 was 18.2%, and six year average was 13.5%



Objective

Achieve an average annual sales growth of 15% per year

Performance

1983 was 30.2%, and six year average was 15.8%

DIRECTORS

A. Graham Coulter
Toronto, Ontario
Corporate Director

George D. Doresco
Toledo, Ohio
Chairman of the Board
Hayes-Dana Inc.

Robert W. Korthals
Toronto, Ontario
President
Toronto-Dominion Bank

Mervyn L. Lahn
London, Ontario
President and
Chief Executive Officer
The Canada Trust Company

Gerald B. Mitchell
Toledo, Ohio
Chairman, President & C.E.O.
Dana Corporation

S. J. "Woody" Morcott
Toledo, Ohio
President
North American Operations
Dana Corporation

Benjamin P. Newman
St. Catharines, Ontario
President
Newman Steel Limited

Vernon E. Oechsle
St. Catharines, Ontario
President
Hayes-Dana Inc.

John D. Stevenson, Q.C.
Toronto, Ontario
Partner
Smith, Lyons, Torrance,
Stevenson & Mayer

John J. Wettlaufer
London, Ontario
Professor Emeritus
Business Administration
University of Western Ontario

Donald G. Willmot
Toronto, Ontario
Honorary Chairman of the Board
The Molson Companies Limited

SENIOR MANAGEMENT

Walt Baum (30 Years Service)
Division Manager—
Forge Division

Bill Brice (16 Years)
Division Manager—
Industrial Power Division

Hugh Cosgrove (34 Years)
Division Manager—
Chassis Products Division

George Hough (30 Years)
Vice President, Controller

Don Johnston (1 year)
Vice President,
Finance and Treasurer

Gerry Logan (10 Years)
General Manager—
Distribution Division

Don MacKay (16 Years)
Director of Operations

Leo Manni (13 Years)
Division Manager—
Industrial Products Division

Jim McGill (42 Years)
Manager, Facilities and Safety

Bud McLaughlin (18 Years)
Vice President,
Industrial Relations

Bob Mossberger (34 Years)
Division Manager—
Drive Train Division

Bob Neelin (32 Years)
Vice President, Planning

Vern Oechsle (19 Years)
President

Mike Ostrowski (15 Years)
Division Manager—
Mobile Power Division

Jack Phillipson (12 Years)
Division Manager—
Truck Train Division

Pat Reid (35 Years)
Corporate Secretary

Tom Saxton (24 Years)
Division Manager—
Automotive Marketing Division

Tom Wolf (12 Years)
Vice President,
Marketing and Distribution

DIVISIONAL ORGANIZATION

Hayes-Dana operates nine independent divisions, each serving one or more of the Company's five markets. Additional marketing information can be obtained directly from the centres listed below.



Highway Vehicle



Automotive Marketing Division
P.O. Box 6000
Beamsville, Ontario. L0R 1B0
(416) 563-4991



Industrial Power Division
P.O. Box 6000
Beamsville, Ontario. L0R 1B0
(416) 563-4991



Truck Parts Distribution



Chassis Products Division
P.O. Box 1048
Thorold, Ontario. L2V 4P3
(416) 227-3751



Industrial Products Division
P.O. Box 6000
Beamsville, Ontario. L0R 1B0
(416) 563-4991



Automotive Distribution



Distribution Division
109 Inkerman Street
St. Thomas, Ontario. N5P 3G8
(519) 631-8600



Mobile Power Division
P.O. Box 6000
Beamsville, Ontario. L0R 1B0
(416) 563-4991



Mobile Off-Highway



Drive Train Division
P.O. Box 1045
Thorold, Ontario. L2V 3Z6
(416) 227-3751



Truck Train Division
P.O. Box 3035
St. Catharines, Ontario. L2R 7E3
(416) 688-4565



Industrial Equipment



Forge Division
P.O. Box 3030
St. Catharines, Ontario. L2R 7L1
(416) 227-3751

Corporate Address

One St. Paul, P.O. Box 3029
St. Catharines, Ontario. L2R 7K9
(416) 688-9511

Corporate Directory

Auditors:

Price Waterhouse; Hamilton

Principal Bankers:

The Royal Bank of Canada
The Toronto-Dominion Bank
National Bank of Detroit

Registrar: Series A Debentures

The Canada Trust Company; Toronto

Solicitors:

Smith, Lyons, Torrance, Stevenson & Mayer;
Toronto

Stock Exchange Listing:

The Toronto Stock Exchange
Symbol: HAY

Transfer Agent: Common Shares

The Canada Permanent Trust Company;
Toronto

Co-Transfer Agent:

Ohio Citizens Trust Company;
Toledo, Ohio

ANNUAL MEETING

*The Annual Meeting of Shareholders of
Hayes-Dana Inc. will be held in the
Civic Ballroom of The Sheraton Centre,
Toronto, Ontario, on Wednesday,
March 7, 1984 at 11:00 a.m.*

Hayes-Dana Inc.



Financial Report 1983



Balance Sheet at December 31**1983****1982****ASSETS****Current assets:**

Cash and short-term investments	\$ 1,012,000	\$ 721,000
Accounts receivable	34,500,000	23,981,000
Income taxes recoverable	—	2,130,000
Inventories (Note 2)	67,341,000	56,358,000
Prepaid expenses	710,000	296,000

103,563,000 83,486,000

Investment in and advances to subsidiaries (note 7)	1,543,000	—
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Fixed assets:

Land and improvements	2,745,000	2,664,000
Buildings	20,738,000	20,680,000
Machinery and equipment	86,641,000	83,466,000

110,124,000 106,810,000

Less: Accumulated depreciation	63,378,000	55,097,000
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46,746,000 51,713,000

Other assets:

Unamortized deferred expenses (Note 3)	292,000	320,000
Goodwill	2,088,000	2,527,000

2,380,000 2,847,000

\$154,232,000 \$138,046,000

	1983	1982
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank advances and notes payable	\$ 9,320,000	\$ 18,247,000
Current portion of long-term debt	407,000	211,000
Accounts payable and accrued liabilities	26,133,000	18,881,000
Due to Dana Corporation and affiliates	1,839,000	2,405,000
Income taxes payable	4,482,000	—
	42,181,000	39,744,000
Long-term debt (Note 4)	24,333,000	24,683,000
Deferred income taxes	12,994,000	15,414,000
Shareholders' equity (Notes 5 and 6):		
Common shares	25,813,000	13,278,000
Retained earnings	48,911,000	44,927,000
	74,724,000	58,205,000
	\$154,232,000	\$138,046,000

Approved by the Board:



G. D. DORESCO
Director



V. E. OECHSLE
Director

Statement of Income and Retained Earnings		
	Year ended December 31	
	1983	1982
Net sales	\$282,829,000	\$217,175,000
Other income	737,000	655,000
	283,566,000	217,830,000
Costs and expenses:		
Cost of sales	245,541,000	191,202,000
Selling, general and administrative expenses	21,506,000	19,336,000
Interest on long-term debt	2,923,000	2,079,000
Other interest	1,379,000	3,166,000
	271,349,000	215,783,000
Income before income taxes	12,217,000	2,047,000
Income taxes	4,838,000	115,000
Net income	7,379,000	1,932,000
Retained earnings at beginning of year	44,927,000	46,034,000
	52,306,000	47,966,000
Dividends	3,395,000	3,039,000
Retained earnings at end of year	\$ 48,911,000	\$ 44,927,000
Net income per share	\$1.07	\$.30
Dividends per share—Declared and paid	.48	.48

Statement of Changes in Financial Position	Year ended December 31	1983	1982
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Financial resources were provided by:

Net income	\$ 7,379,000	\$ 1,932,000
Charges (credits) not requiring current funds—		
Amortization of goodwill and deferred expenses	467,000	1,498,000
Depreciation	10,140,000	7,647,000
Deferred income taxes	(2,420,000)	(1,810,000)
Working capital provided by operations	15,566,000	9,267,000
Sale of fixed assets	457,000	—
Common stock issued (Note 5)	12,535,000	2,983,000
	28,558,000	12,250,000

Financial resources were used for:

Additions to fixed assets	5,630,000	9,466,000
Investment in and advances to subsidiaries	1,543,000	—
Dividends	3,395,000	3,039,000
Decrease (increase) in long-term debt	350,000	(2,017,000)
Business acquired less working capital, goodwill and long-term debt	—	579,000
Increase in other assets, before amortization of goodwill and deferred expenses	—	1,878,000
	10,918,000	12,945,000

Increase (decrease) in working capital	17,640,000	(695,000)
Working capital at beginning of year	43,742,000	44,437,000
Working capital at end of year	\$61,382,000	\$43,742,000

Notes to Financial Statements December 31, 1983

1. Summary of accounting policies:

The significant accounting practices and policies employed in the preparation of the financial statements of Hayes-Dana Inc. are summarized below:

Inventories—

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

Fixed assets—

Fixed assets are stated at cost. Depreciation is computed over the estimated useful lives of property, plant and equipment using the straight-line method at rates of 2½% and 5% on buildings and generally 10% on machinery and equipment.

Unamortized deferred expenses—

It is the Corporation's policy to defer expenditures incurred on major expansions and model changeovers and to amortize such expenditures over a reasonably short period.

Patents are amortized on a straight-line basis over their average life.

Costs incurred in issuing long-term debt are amortized over the term of the applicable debt issue.

Goodwill—

Goodwill arising from acquisitions is being amortized on a straight-line basis over periods up to ten years.

Research and development—

All research and development costs are expensed as incurred.

Translation of foreign currencies—

Foreign currency balances and transactions are translated into Canadian dollars as follows: long-term assets and liabilities at exchange rates in effect at dates of acquisition; current assets and liabilities at rates in effect at the appropriate period end; revenue and expenses at average rates

for the period. Unrealized gains on translation of foreign currency are deferred and carried forward on the balance sheet; unrealized losses are charged to income. An unrealized gain of \$2,765,000 as at December 31, 1983 (December 31, 1982—\$1,629,000) resulting from the translation of net current balances at period end rates of exchange was deferred in the accounts.

Income taxes—

The Corporation follows the tax allocation basis of accounting for taxes on income whereby deferred income taxes are provided on all significant timing differences between accounting and taxable income, primarily accelerated depreciation claimed for tax purposes in excess of amounts recorded in the accounts. The Corporation uses the "flow-through" method of accounting for investment tax credits as a reduction of the provision for federal income taxes.

Net income per share—

Net income per share is computed on the basis of the weighted average number of shares outstanding during the year. Shares reserved for issuance under the stock option plans would not materially dilute this figure.

2. Inventories:

	December 31	
	1983	1982
Raw materials	\$10,602,000	\$ 6,820,000
Work-in-process and finished goods	56,739,000	49,538,000
	<u>\$67,341,000</u>	<u>\$56,358,000</u>

3. Unamortized deferred expenses:

	December 31	
	1983	1982
Patents	\$ 56,000	\$ 61,000
Debenture issue costs	236,000	259,000
	<u>\$ 292,000</u>	<u>\$ 320,000</u>

4. Long-term debt:

	December 31	
	1983	1982
(a) 12¼% Debentures Series A maturing April 15, 2000 and redeemable after April 15, 1985. Mandatory sinking fund payments of \$675,000 per annum commence in 1985 with the Corporation having the right, cumulative for one year, to make optional additional payments of up to \$270,000 per annum.	\$13,500,000	\$13,500,000
(b) Bank note payable maturing December 22, 1987. The interest rate fluctuates based on the cost of funds and may be fixed by the Corporation at any time from 30 days to the balance of the term.	10,000,000	10,000,000
(c) Note payable to the Ontario Development Corporation. The loan was interest free until October 15, 1983. Thereafter, interest was payable at the rate of 11¼% per annum. The loan was repaid in October, 1983.	—	1,000,000
(d) Obligations under capital leases.	1,240,000	394,000
	24,740,000	24,894,000
Less amount due within one year	407,000	211,000
	\$24,333,000	\$24,683,000

5. Stated capital:

The Corporation has an unlimited number of authorized common and preference shares, and there is no limit to the consideration to be received by it upon issue of such shares. The Corporation has an optional stock dividend plan, whereby the shareholders have the right to receive dividends in stock rather than cash. The Corporation also has a dividend reinvestment plan, wherein shareholders may have their cash dividends automatically reinvested in new shares. In addition, Hayes-Dana Inc. has a service recognition plan, whereby employees receive five shares on each quinquennial anniversary of service with the Corporation. 33,312 shares have been reserved for issuance under these three plans.

	December 31	
	1983	1982
Total number of common shares issued and outstanding	7,602,684	6,540,666
During the year, common shares were issued and proceeds received pursuant to:		
Dividend plans	5,243	14,771
Employee share plans	56,775	23,610
Private placements 1,000,000 at \$12; (1982—160,000 at \$7.125; 43,750 at \$8)	1,000,000	203,750
Mascot acquisition in 1982	—	156,250
Total number of common shares issued	1,062,018	398,381
Total proceeds received	\$12,535,000	\$2,983,000

6. Stock options:

The employees' stock option plans provide for options to be granted to key employees to purchase up to 182,400 shares of the Corporation's common shares at prices equal to the market value of the shares on the dates granted. During the year ended December 31, 1983, 53,975 options were exercised for cash of \$523,394 and options on 65,900 shares were granted.

At December 31, the following options to purchase were outstanding:

	Option price per share	Number of shares	
Expiry date		1983	1982
September 27, 1983	\$10.000	—	36,675
September 24, 1984	10.000	25,475	37,100
September 24, 1985	9.500	37,375	45,150
October 14, 1986	7.625	46,500	52,300
June 3, 1988	12.250	65,900	—
		175,250	171,225

Of these, 39,250 share options are held by seven officers, of whom one is a director.

7. Investment in subsidiary companies:

St. Catharines Financial Inc., a wholly-owned subsidiary of Hayes-Dana Inc., commenced operations in late 1983. It has a 60% interest in CSL Silicones Ltd., which is carried on the equity method of accounting.

Since the operations and assets of St. Catharines Financial Inc. and its subsidiary are not similar to those of Hayes-Dana Inc., the investment is carried on the equity method of accounting.

A summary of St. Catharines Financial Inc. financial statements, as at December 31, 1983, is as follows:

Balance Sheet

Assets

Fixed assets	
Land	\$ 114,000
Building	491,000
	605,000
Less: Accumulated depreciation	2,000
	603,000
Investment in subsidiary	503,000
Total	\$1,106,000

Liabilities and Shareholders' Equity

Accounts payable and accrued liabilities	\$ 3,000
Due to Hayes-Dana Inc.	530,000
Deferred income tax	7,000
Shareholders' equity—	
Common shares	560,000
Retained earnings	6,000
Total	\$1,106,000

Statement of Operations

Rental income	\$ 31,000
Selling, general and administrative expenses	9,000
Interest expense	10,000
	19,000
Income from operations	12,000
Equity in income of subsidiary	1,000
Income before income taxes	13,000
Income taxes	7,000
Net income	\$ 6,000

8. Related party transactions:

Under long-standing arrangements, the Corporation obtained, at rates and terms which the Corporation believes are fair and equitable, advice, products and services from Dana Corporation, its parent company. For the year ended December 31, 1983, the Corporation's sales to and purchases from Dana Corporation represented 13% and 11% of the Corporation's total sales and cost of sales for the year, respectively.

9. Sales to major vehicle manufacturers:

The only customer which accounted for more than 10% of the Corporation's total sales for the year ended December 31, 1983 was Ford Motor Company at 30% (December 31, 1982—30%). Sales to General Motors, Chrysler Corporation and International Harvester represented 7%, 5% and 4%, respectively.

10. Pension plans:

The Corporation provides retirement benefits for substantially all of its employees under eight different pension plans. Annual costs, vested benefits, liabilities, etc., are determined by independent actuaries. The cost of funding current service benefits is expensed as incurred. Unfunded liabilities or experience deficiencies are funded in accordance with actuarial recommendations, over not more than fifteen years. The assumed rates of return used to determine plan benefits were 5% to 6% in 1983 and 1982.

Pension plan expense for the year amounted to \$4,680,000. (1982—\$4,593,000).

Aggregate plan amounts at December 31 were:

(\$ thousands)	1983	1982
—Plan assets, at market value	\$47,891	\$39,652
—Unfunded vested benefits	14,400	19,200
—Total unfunded past service liability	16,900	23,500

11. Commitments:

At December 31, 1983, the Corporation was committed under non-cancellable leases for the following future minimum lease payments:

1984	\$1,561,000
1985	1,234,000
1986	899,000
1987	738,000
1988	526,000
Thereafter	342,000
Total future minimum lease payments	\$5,300,000

Outstanding commitments relating to the purchase of fixed assets amount to approximately \$1,231,000 at December 31, 1983.

12. Segmented information

The Corporation operates principally in two business segments—Vehicular and Industrial. The Vehicular segment consists primarily of the manufacture and marketing of axle housings, truck frames, drive shafts, universal joints,

clutches and engine parts. The Industrial segment comprises the manufacture and marketing of various products for agricultural, marine and resource industries, including off-highway vehicles.

For the year ended December 31		1983	1982
(\$ thousands)			
Net sales	—Vehicular	\$243,826	\$185,002
	—Industrial	39,003	32,173
		282,829	217,175
Operating profit	—Vehicular	19,200	9,257
	—Industrial	1,375	1,659
		20,575	10,916
General corporate expense		(4,056)	(3,624)
Interest expense		(4,302)	(5,245)
Income taxes		(4,838)	(115)
Net income		7,379	1,932
Depreciation	—Vehicular	8,155	6,602
	—Industrial	1,490	770
	—Corporate	495	275
		10,140	7,647
Additions to fixed assets (net)	—Vehicular	4,177	6,010
	—Industrial	166	2,307
	—Corporate	830	1,149
		5,173	9,466
Identifiable assets	—Vehicular	124,595	107,940
	—Industrial	23,077	23,686
	—Corporate	6,560	6,420
		154,232	138,046
Export sales		119,744	86,844

Auditors' Report

To the Shareholders of Hayes-Dana Inc.:

We have examined the balance sheet of Hayes-Dana Inc. as at December 31, 1983 and the 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.

**Price
Waterhouse**

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse
Hamilton, Ontario
January 25, 1984

PRICE WATERHOUSE
Chartered Accountants

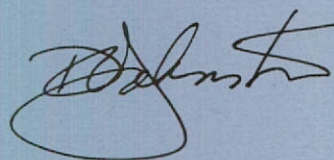
Management's Responsibility for Financial Reporting

The financial statements of Hayes-Dana Inc. have been prepared by management, which is responsible for their integrity and objectivity. These statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on judgments of management.

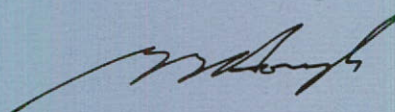
Our policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. These systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Company's assets are accounted for and protected from loss.

The Board of Directors, through its Audit Committee, which is composed of non-management directors, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee meets periodically with management and the independent auditors to review accounting, auditing and financial matters. The Committee reports its findings to the Board of Directors for consideration in approving the financial statements, for issuance to the shareholders.

The financial statements have been examined independently by Price Waterhouse, on behalf of the shareholders, in accordance with generally accepted auditing standards. Their opinion appears on the previous page.



D. G. Johnston,
Vice President, Finance and Treasurer



G. G. Hough,
Vice President, Controller

Quarterly Financial Data

The quarterly net sales, gross profit, net income and earnings per share, as previously reported in unaudited quarterly reports to shareholders are set forth in the following table (\$ thousands, except per share amounts):

	Quarter	Net Sales	Gross Profit	Net Income	Earnings per Share
1983	First	\$62,058	\$ 8,132	\$1,108	\$.17
	Second	69,991	10,305	2,040	.31
	Third	68,374	8,678	1,644	.21
	Fourth	82,406	10,910	2,587	.38
	Year	282,829	38,025	7,379	1.07
1982	First	60,301	7,371	924	.14
	Second	61,337	8,132	1,263	.20
	Third	49,447	6,323	28	—
	Fourth	46,090	4,802	(283)	(.04)
	Year	217,175	26,628	1,932	.30

Accounting for the Effects of Inflation (Unaudited)

The primary financial statements are based on historical cost accounting, which matches actual costs incurred with actual revenues received. To highlight the effect of inflation and the decline in the purchasing power of the dollar on business and management's success in coping with inflation, the Canadian Institute of Chartered Accountants (CICA) has recommended that corporations provide supplemental information to show the effect of inflation, using current cost accounting.

Current cost accounting, by definition, is a method of measuring assets and expenses associated with the use and sale of assets at their current cost or lower recoverable amount at the balance sheet date, or at the date of use or sale. Current cost data is determined by valuing inventory at current replacement cost, cost of goods sold using the LIFO method of accounting, and property, plant and equipment by indexing historical costs of indi-

vidual categories, except for land, where values are based on current market values.

This method of reporting inflationary effects requires the use of numerous assumptions and estimates, and accordingly, the resulting information, presented below, is not a precise indication of the effects of inflation on the results of Hayes-Dana's operations. In addition, the provision for income taxes, according to the CICA recommendations, remains unchanged, since adjustments to income under the current costs computations are not deductible for tax purposes. This results in a tax rate, under the current cost method, which significantly exceeds the Company's effective tax rate.

The following schedules summarize selected information for the two years ended December 31, 1982 and 1983.

Statement of Income from Continuing Operations, Adjusted for Changing Prices (\$ thousands)

	Year Ended December 31		
	Historical 1983	Current Cost 1983	1982*
Net sales and other income	\$283,566	\$283,566	\$230,361
Cost of sales	236,085	235,759	196,653
Other expenses, including interest	25,124	25,124	25,592
Depreciation	10,140	15,585	14,471
Income taxes	4,838	4,838	122
Net income (loss)	7,379	2,260	(6,477)

Schedule of Assets at December 31

Inventory	\$ 67,341	\$ 68,204	\$ 59,600
Net fixed assets	46,746	71,039	83,686
Shareholders' equity	74,724	98,908	90,552

Other Supplementary Data

	Year Ended December 31	
	Current Cost 1983	1982*
Effect of general inflation	\$ (5,696)	\$ (12,262)
Increase in current cost of inventory and fixed assets held during year	2,155	8,990
Net increase in current cost over effect of general inflation	(3,541)	(3,272)
Gain in general purchasing power from net monetary liabilities	1,364	2,440
Financing adjustment	558	2,265

* Comparative data for 1982 has been restated into 1983 dollars.

Eleven-Year Financial Summary

For the years ended	Dec. 1983	Dec. 1982	Dec. 1981	Aug. 1980	Aug. 1979	Aug. 1978	Aug. 1977	Aug. 1976	Aug. 1975	Aug. 1974	Aug. 1973
Operations Data											
(\$ millions)											
Net Sales	\$282.8	\$217.2	\$223.2	\$202.2	\$212.2	\$150.1	\$145.2	\$128.9	\$ 90.2	\$ 90.1	\$ 97.7
Cost of sales	245.5	191.2	192.9	176.1	186.3	130.0	127.3	112.7	79.8	81.1	85.8
Income before income taxes	12.2	2.0	8.1	6.8	13.7	11.3	10.8	10.0	5.3	4.3	7.9
Income taxes	4.8	.1	2.7	2.1	5.0	4.4	4.3	4.2	2.2	1.9	3.3
Net Income	7.4	1.9	5.4	4.7	8.7	6.9	6.5	5.8*	3.0	2.4	4.6
Depreciation	10.1	7.6	8.1	7.6	3.7	3.2	3.3	3.8	3.7	3.4	2.8
Interest expense	4.3	5.2	7.1	6.9	2.7	.9	.9	.9	1.2	1.2	1.0
Year-End Financial Position											
(\$ millions)											
Working capital	\$ 61.4	\$ 43.7	\$ 44.4	\$ 25.8	\$ 10.0	\$ 18.4	\$ 24.1	\$ 19.7	\$ 9.6	\$ 8.4	\$ 8.2
Ratio of current assets to current liabilities	2.5:1	2.1:1	2.6:1	1.5:1	1.1:1	1.5:1	2.9:1	2.2:1	1.5:1	1.4:1	1.4:1
Fixed assets, at cost	\$110.1	\$106.8	\$ 96.5	\$102.1	\$ 92.2	\$ 66.2	\$ 62.6	\$ 59.1	\$ 55.3	\$ 52.6	\$ 48.9
Fixed assets, less accumulated depreciation	46.7	51.7	49.3	64.5	59.0	36.6	28.2	27.8	31.2	31.2	30.8
Total assets	154.2	138.0	124.0	144.8	142.8	94.4	66.5	65.4	61.3	65.1	61.8
Long-term debt	24.3	24.7	22.7	24.2	1.0	—	4.9	4.9	1.5	4.0	6.0
Shareholders' equity	74.7	58.2	56.3	54.0	52.1	45.8	40.8	35.9	31.3	29.7	28.7
Data Per Share											
Net income	\$ 1.07	\$.30	\$.89	\$.78	\$ 1.44	\$ 1.15	\$ 1.08	\$.96*	\$.51	\$.40	\$.78
Cash dividends	.48	.48	.48	.48	.44	.32	.26	.24	.24	.24	.23
Shareholders' equity	9.83	8.90	9.17	8.88	8.59	7.59	6.76	5.94	5.22	4.96	4.80

*After extraordinary charge

