

Magna International Inc.

Annual Report 1979



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1979 Annual Report of Magna  
International Inc. and its subsidiary companies.

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

The Meeting of Class A Common and Class B Shareholders will be held at 11:00 a.m. on Wednesday, December 5, 1979, in Pier Rooms 2 & 3, The Toronto Hilton Harbour Castle Hotel, One Harbour Square, Toronto, Ontario.





# Financial Highlights

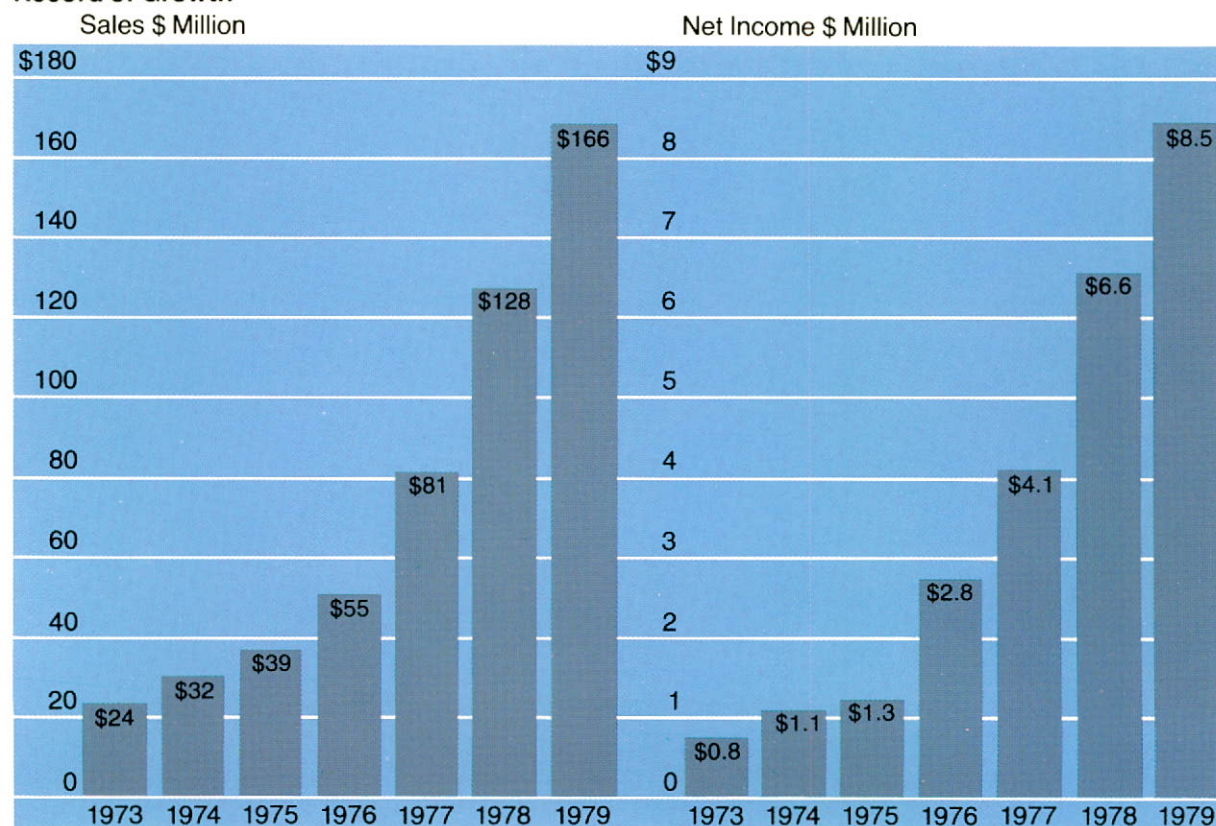
*Dollars in thousands except per share figures*

	1979	1978	1977	1976	1975	1974	1973
Sales	<b>\$166,321</b>	\$128,189	\$80,953	\$55,010	\$39,415	\$31,644	\$23,759
Income from operations	<b>15,924</b>	12,899	8,185	5,734	2,880	1,990	1,607
Net income*	<b>8,455</b>	6,595	4,093	2,786	1,339	1,080	808
Working capital	<b>18,866</b>	15,351	7,412	4,925	3,233	2,164	1,588
Earnings per share**							
Class A Common and Class B	<b>\$1.72</b>	\$1.42	\$0.95	\$0.72	\$0.34	\$0.28	\$0.21
Dividends (Annual rate)**							
Class A Common and Class B	<b>\$0.28</b>	\$0.19	\$0.12	\$0.06	\$0.03	\$0.03	\$0.03
Preference	<b>\$6.50</b>	\$6.50	\$6.50	\$6.50	\$6.50	\$6.50	\$6.50

\*Before extraordinary items

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

## Record of Growth



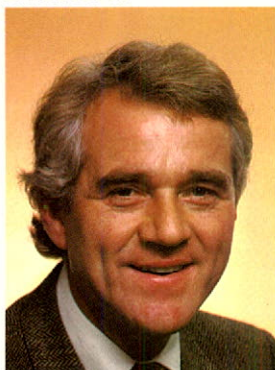




**Magna  
International  
Inc.**

# Directors and Officers

## Directors:



Frank Stronach



Helmut Hofmann



Anton Czapka



George R. Gardiner

## 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

## Stock Exchange Listing:

The Toronto Stock Exchange

## Registrars and Transfer Agents:

The Canada Trust Company, Toronto

## Banker:

The Bank of Nova Scotia, Toronto

## Head Office:

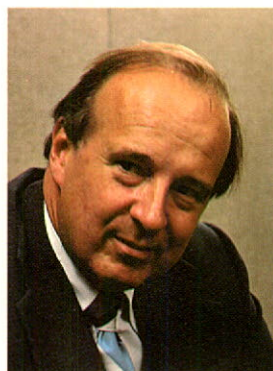
355 Wildcat Road, Downsview, Ontario. M3J 2S3



Paul B. Helliwell



Murray G. Kingsburgh, C.A.



J. Alex Langford, Q.C.



Burton V. Pabst



D. Robin Sloan



William S. Storey



# Philosophy and Operating Policies

The continuing success of a corporation depends upon a management that is 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 their standard-of-living. Corporate profits are the driving force that will allow free-enterprise societies to meet the challenges from 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.

## Employee Equity Participation

Magna believes that the key to resolving the present economic, labour and social problems, is to provide employees with the opportunity to obtain an ownership in their company through a profit sharing plan. This plan will allow employees to become shareholders with greater motivation to be productive and contribute to both the growth and well-being of their company, and their social standing. Each year Magna commits 7% of pre-tax profits to purchase shares in the Company for the benefit of employees. In the 1979 fiscal year \$1,115,000 was allocated to this plan.

## Working Conditions

Magna believes that motivated 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 that a company has responsibilities to the society 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 policy to contribute approximately 1% of pre-tax profits to selected community programs designed to develop healthy and socially responsible individuals. In the 1979 fiscal year, Magna contributed \$160,000 and considerable executive time, to assist selected projects.

## Research and Development

Magna believes that a developing technology base is essential for the long term well-being of industrial enterprise. It is Magna policy to allocate approximately 7% of pre-tax profits for approved R.&D. projects. These funds are charged as operating expenses and are not capitalized.

## Dividends

Magna believes that every investor should benefit from their investment. It is Company policy to pay dividends which represent approximately one-fifth of the profits of the previous year to Class A Common and Class B shareholders.



# Report to Shareholders

## Magna International Inc.

The 1979 fiscal year has been another record year of growth for Magna International Inc. Consolidated sales achieved an all time high of \$166,321,000; an increase of 30% over the previous year. Earnings showed corresponding growth to \$8,455,000, representing \$1.72 for both Class A Common and Class B shares.

As in prior years, the major portion of the increased sales and profits was the result of internal growth.

The financial position of your Company was also significantly improved through the reorganization of its capital structure and through the addition of \$3.5 million to working capital and \$8.8 million to shareholders' equity.

Additionally, your Company has further developed its internal management capabilities to complement the "group management structure" for continued efficient management of the Company's expanding operations. Appointments to this senior management level were made from internal promotion of proven individuals and selected external recruitment.

### Automotive Division

The Automotive Division is comprised of six major operating groups which account for approximately 70% of your Company's sales. Sales are made to the major automobile manufacturers, generally in proportion to their respective share of the North American automotive market.

New productive capacity was added to all operating groups during the period. Six new wholly-owned manufacturing facilities were created in order to improve our service to the automotive industry. In addition, Magna has entered into two joint venture agreements with well-established

corporations providing your Company with a means for rapidly acquiring technology and market acceptance in two new selected areas. It is expected that all of these new operations will add to the projected 1980 revenues.

### Industrial Division

The Industrial Division also experienced a year of expansion. This Division, which includes Hermes Electronics and the Aerospace/Defence and Structural Steel companies, has undergone some re-organization in order to provide additional manufacturing capacity and further management support to enhance profitability.

A new technology centre has been created to support the Canadian Government's expanding programme for defence modernization. This centre will provide a technology base for future defence production.

During the year, your Company also purchased the assets of Marine Resources Inc. and established its first U.S. based defence production facility. The assets and business of Marine Resources support the capabilities of Hermes Electronics and provide the Company with an immediate U.S. presence in the field of ceramics and underwater acoustics.

### Future Outlook

The current economic condition in North America is overshadowed by the uncertainties of the current world wide energy crisis. These are times of great challenge for business, particularly in the automotive industry. For Magna, these challenges are opportunities.

Automotive manufacturers are moving rapidly toward more fuel-efficient designs. Magna is well positioned to support these efforts. Your Company has emphasized the manufacture of light weight components made of aluminum, high



strength steels, stainless steel and plastics. The thrust to new design requires extensive retooling. This represents a growth opportunity for the Company on the basis of its substantial tooling capability and capacity.

Magna currently maintains a significant market share in its traditional automotive parts sector, however, on an overall basis, your Company's share of the total North American market is slightly less than 1%.

We are confident that through proper research, customer relations and efficient production, we will be able to increase our market share by being able to capitalize on the opportunities provided by these challenging times.

The industrial division of Magna delivers high technology industrial, aircraft and defence equipment to a variety of customers, including domestic and foreign governments. The outlook in the aerospace/defence markets in both Canada and the United States is favourable. U.S. defense spending is expanding. In Canada, the government is committed to major programs for defence modernization. The recent addition of a technology centre to primarily serve the needs of the Canadian government gives Magna a strong position for future programs. The highly specialized products developed and manufactured at Hermes Electronics give Magna an unique Canadian-based market position.

Your Company expects to continue to make capital expenditures to seize the near term opportunities in the buoyant industrial market.

The backbone of our future capabilities depends upon our ability to develop new technology in response to market demands.

Your Company continues to give high priority to the field of research and development. During the year many new research programs were initiated; several were transferred to production status; while others continue.

In summary, our analysis indicates that there are additional opportunities available in all major business sectors, that your Company's financial position is strong and that with Magna's continued good reputation with its customers, there are considerable opportunities for greater diversification, market penetration and continued growth. Our current backlog of orders for the 1980 fiscal year verifies our confidence and indicates that growth will continue through the current fiscal year.

The results reported in this annual report would not have been possible without the continued good relations with all of our customers and the dedicated efforts of our employees. On behalf of the Board of Directors, we express our thanks for making this the most successful year in your Company's history.



Frank Stronach  
Chairman of the Board,  
and Chief Executive Officer



Helmut Hofmann  
President,  
and Chief Operating Officer



# Financial Review

## Sales and Earnings

The rapid growth in both sales and earnings experienced through the 1970's continued in the current year. 1979 sales rose to a record level of \$166.3 million up from \$128.2 million reported in 1978. Earnings, before extraordinary items, also increased to a record plateau of \$8.5 million; up from \$6.6 million recorded last year.

Sales and earnings by quarter for the past two years were as follows:

Quarter	Sales		Earnings	
	1979	1978	1979	1978
First	37,288	28,560	1,711	1,287
Second	39,316	28,632	1,921	1,300
Third	41,188	31,282	2,163	1,719
Fourth	48,529	39,715	2,660	2,289
TOTAL	166,321	128,189	8,455	6,595

## Financial Position

During 1978, \$7,000,000 was raised through convertible debentures to finance in part the Company's capital expenditure programme for both 1978 and 1979. In 1979, capital expenditures were \$20.7 million (net of proceeds) to prepare for growth in operations for 1980 and future years. Additional funds of \$14.5 million were raised primarily in mortgages and lien notes to support this level of expenditure. As a result, working capital increased by \$3.5 million to \$18.9 million. The working capital ratio at the end of fiscal 1979 was 1:43, a financially strong ratio for our Company's type of operations.

Capital expenditure requirements over the next two years are anticipated to be similar to those in 1979. In order to finance a part of these expenditures for 1980 and 1981, \$11.2 million (5.6 million each in convertible debentures and convertible preference shares) was raised early in fiscal 1980. Under the conversion terms of the issue, there is only a nominal dilution factor to reported earnings in future years. The balance of monies will be raised, as in the past, through the conventional methods of mortgages, lien notes, and grants.

## Capital Reorganization

Approval was given at Magna's 1978 Annual Meeting to the following changes to the capital of the Company:

- Each holder of four Class A Special shares was given five new Class A Common shares which are entitled to a vote and have the same dividend per share as the other class. These five new Class A Common shares were split 3:1.
- The existing Common shares were converted into Class B shares entitled to 500 votes and to the same dividends as paid on the Class A Common, and no more. These Class B shares were then split 3:1.

## Dividends

Magna's policy is to pay dividends to shareholders representing approximately one-fifth of the previous year's profits which result in an increase in the annual dividend rate for each Class A Common and Class B shareholder from 28¢ in 1979 to 36¢ in 1980.

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



# Consolidated Statement of Income and Retained Earnings

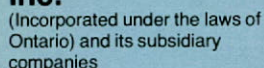
Year ended July 31, 1979 (with comparative figures for 1978)

Dollars in thousands except per share figures

	1979	1978		
<b>Sales</b>	<b>\$166,321</b>	<b>\$128,189</b>		
<b>Income before the following</b>	<b>\$ 24,634</b>	<b>\$ 18,280</b>		
Deduct:				
Depreciation	4,644	3,349		
Interest on long-term debt (including amortization of debenture issue expense)	2,899	1,535		
Other interest expense	1,099	489		
Amortization of goodwill	68	8		
	8,710	5,381		
<b>Income before income taxes, minority interest and extraordinary items</b>	<b>15,924</b>	<b>12,899</b>		
Income taxes	6,677	5,563		
Income before minority interest and extraordinary items	9,247	7,336		
Minority interest	792	741		
Income before extraordinary items	8,455	6,595		
Extraordinary items (note 2)	272	795		
<b>Net income for the year</b>	<b>8,727</b>	<b>7,390</b>		
Retained earnings, beginning of year	17,094	10,527		
	25,821	17,917		
Deduct dividends:				
Preference shares	7	8		
Class A Common and Class B shares	1,255	815		
	1,262	823		
Retained earnings, end of year	\$ 24,559	\$ 17,094		
Earnings per share				
	1979	1978		
	Before extraordinary items	After extraordinary items	Before extraordinary items	After extraordinary items
<i>Basic</i> –				
Class A Common and Class B	\$1.72	\$1.78	\$1.42	\$1.59
<i>Fully diluted</i> –				
Class A Common and Class B	\$1.50	\$1.55	\$1.21	\$1.35

(See accompanying Notes to Consolidated Financial Statements)





<b>Assets:</b>	<b>1979</b>	<b>1978</b>
<b>Current assets:</b>		
Cash	\$ 306	702
Accounts receivable	26,823	19,022
Inventories (note 3)	34,756	21,710
Prepaid expenses	1,158	787
Total current assets	63,043	42,221
Investment in associate company (at equity in net assets)	345	319
<b>Fixed assets:</b>		
Land	3,718	2,277
Buildings	9,475	5,438
Machinery and equipment	49,822	34,332
	63,015	42,047
Less accumulated depreciation	15,926	11,778
	47,089	30,269
<b>Other assets:</b>		
Goodwill (excess of purchase price of interests in subsidiary companies over fair value of underlying net tangible assets)	3,417	2,416
Debenture issue expense, at amortized cost	262	92
Sundry assets, at cost	927	261
	4,606	2,769
	<b>\$115,083</b>	<b>\$75,578</b>

On behalf of the Board:

Director

Director



*Dollars in thousands*

<b>Liabilities:</b>	<b>1979</b>	<b>1978</b>
<b>Current liabilities:</b>		
Bank indebtedness (accounts receivable and inventories pledged as security)	\$ 17,173	\$ 7,022
Accounts payable and accrued charges	18,456	13,772
Income and other taxes payable	4,502	3,345
Long-term debt and lease obligations due within one year	4,046	2,731
Total current liabilities	44,177	26,870
<b>Long-term debt (notes 5 and 8)</b>	<b>26,961</b>	<b>16,607</b>
<b>Deferred income and lease obligations (note 4)</b>	<b>3,480</b>	<b>2,981</b>
<b>Deferred income taxes</b>	<b>5,539</b>	<b>4,026</b>
<b>Minority interest in subsidiary companies</b>	<b>2,733</b>	<b>1,714</b>
<b>Shareholders' equity (notes 6 and 8)</b>		
Capital stock		
Authorized:		
8,573 6½% cumulative sinking fund preference shares with a par value of \$100 each, redeemable at \$105		
100,000,000 Preference shares with par value, issuable in series		
2,100,000 Class B shares without par value		
18,750,000 Class A Common shares without par value		
Issued:		
1,073 6½% Preference shares (1978 – 1,104 shares)	107	110
2,017,818 Class B shares (1978 – 1,984,368 shares)	2,303	2,237
3,035,273 Class A Common shares (1978 – 2,844,371 shares)	5,224	3,939
Retained earnings	24,559	17,094
	32,193	23,380
	<b>\$115,083</b>	<b>\$75,578</b>





# Consolidated Statement of Changes in Financial Position

Year ended July 31, 1979 (with comparative figures for 1978)

Dollars in thousands

	1979	1978
<b>Sources of working capital:</b>		
<i>From operations</i>		
Net income before extraordinary items	\$ 8,455	\$ 6,595
Charges to net income which do not reduce working capital, including depreciation, deferred income taxes, amortization and minority interest	6,820	6,565
	15,275	13,160
Proceeds from disposal of fixed assets (net of income taxes)	2,375	2,380
Income taxes recoverable in respect of prior years' losses	495	416
Notes payable	6,830	4,843
Mortgages payable	6,584	1,250
Convertible debentures		7,000
Lease obligation	667	801
Capital assistance grants	388	321
Class A Common and Class B shares issued	1,351	1,437
	33,965	31,608
<b>Uses of working capital:</b>		
Additions to fixed assets	23,085	16,231
Cost of acquisition of minority interests in subsidiaries	750	1,269
Increase in equity in associate company	26	374
Acquisition of controlling interests in subsidiary companies (net of working capital deficiencies)	896	
Decrease in long-term debt	3,576	4,832
Dividends	1,262	823
Increase in debenture issue expense	189	
Increase in sundry assets	666	140
	30,450	23,669
Increase in working capital	3,515	7,939
Working capital, beginning of year	15,351	7,412
<b>Working capital, end of year</b>	<b>\$18,866</b>	<b>\$15,351</b>

(See accompanying Notes to Consolidated Financial Statements)

## Auditors' Report

To the Shareholders of Magna International Inc.:

We have examined the consolidated balance sheet of Magna International Inc. as at July 31, 1979 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, 1979 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.

Toronto, Canada,  
October 30, 1979.

*Galanter, Gordon & Co.*

Chartered Accountants



# Notes to the Consolidated Financial Statements

July 31, 1979

## 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 of \$1 U.S. = \$1.16 Cdn.

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

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

Sales of U.S. subsidiaries in 1979 were U.S. \$14,575,000; equity in U.S. subsidiaries was U.S. \$2,277,000 at the year end.

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 soon as 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 \$1.1 million in 1979.

### Government assistance

In connection with its industrial division, the company makes periodic applications for financial assistance under available government incentive programs. Grant amounts resulting from these applications are recorded in the accounts on the following basis:

#### Capital grants:

Grants relating to capital expenditures are reflected as a reduction of the cost of such assets.

#### Operating grants:

Grants relating to current period expenditures are recorded as a reduction of expense at the time the eligible expenses are incurred.

### 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 income taxes of \$1,508,000 in 1979 (\$2,055,000 in 1978).

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. This treatment is commonly referred to as the "flow through" method. As a result, the provision was reduced by a net amount of \$388,000 in 1979 and \$200,000 in 1978.

### 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; the net gain or loss is 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 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 tangible 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 since, in the view of management, there has been no impairment in such value. For acquisitions subsequent to April, 1974 the value is being amortized over such periods as is deemed appropriate for each acquisition. (To date this amortization has been determined to be over a period of 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 8¾% convertible debentures been converted into Class A Common shares at the beginning of each 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.

Earnings per share for 1978 have been adjusted to reflect the capital reorganization which took place in December, 1978 as explained in note 6.





## 2. EXTRAORDINARY ITEMS

Extraordinary items comprise the following:

	<i>Dollars in thousands</i>	
	1979	1978
Income taxes recoverable from losses of subsidiaries incurred in prior years	\$495	\$515
Gain on disposal of divisions and surplus assets (net of income taxes of \$285,000)		389
	495	904
Deduct portion relating to minority interests	223	109
	\$272	\$795

## 3. INVENTORIES

	<i>Dollars in thousands</i>	
	1979	1978
Raw materials and supplies	\$17,416	\$10,327
Finished and in process	17,340	11,383
	\$34,756	\$21,710

## 4. DEFERRED INCOME AND LEASE OBLIGATIONS

Deferred income and lease obligations include:

	<i>Dollars in thousands</i>	
	1979	1978
Deferred profit on sale of properties leased back from purchasers under ten-year leases with no option to repurchase (amortized over terms of leases)	\$ 83	\$ 104
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	3,397	2,877
	\$3,480	\$2,981

At July 31, 1979 the company had other lease commitments expiring between 1980 and 1989 requiring annual rental payments of approximately \$1,800,000 in each of the next five years.

## 5. LONG-TERM DEBT (SEE ALSO NOTE 8)

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

	<i>Dollars in thousands</i>	
	1979	1978
6½% sinking fund debentures due December 1, 1987 maturing \$75,000 annually with the balance due in 1987	\$ 124	\$ 124
8¾% convertible debentures due January 15, 1988	7,000	7,000
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 thereafter (with provision for anti-dilution)		
Non-forgivable capital assistance grants — non-interest bearing due 1980 to 1985	713	357
Mortgages payable (secured by land, buildings and equipment of subsidiary companies) — 9% due 1980 to 2004	8,611	2,268
Lien notes payable (mainly at prime interest rate plus ½% to 1%) — due 1980 to 1989	14,329	9,484
	30,777	19,233
Less due within one year	3,816	2,626
	\$26,961	\$16,607

(b) Required payments (including \$230,000 each year relating to lease obligations capitalized as referred to in note 4) are as follows:

1980	—	\$4,046
1981	—	3,867
1982	—	3,815
1983	—	3,319
1984	—	2,152

## 6. SHAREHOLDERS' EQUITY (SEE ALSO NOTE 8)

### 6½% cumulative sinking fund preference shares

During the year the company purchased for cancellation 31 preference shares.

### Class A Common, Class B and Preference shares

By an amendment to the articles of the corporation dated December 15, 1978 the authorized capital of the corporation was amended as follows:



Authorized capital of the company increased by the creation of 100,000,000 Preference shares with par value, issuable in series.

5,000,000 authorized Class A Special shares without par value were subdivided into and reclassified as 6,250,000 Common shares without par value and designated as Class A Common shares on the basis of 1 1/4 Class A Common share for 1 Class A Special share. Subsequently, the 6,250,000 authorized Class A Common shares were split three for one increasing the authorized share capital to 18,750,000 Class A Common shares.

1,000,000 authorized Common shares without par value were reduced by the cancellation of 300,000 existing unissued Common shares. The remaining 700,000 Common shares were converted into 700,000 special shares without par value designated as Class B shares having the following attributes:

- Each share is entitled to 500 votes per share at all meetings of shareholders.
- Each share shall participate equally as to dividends with each Class A Common share.
- Each share may be converted at any time into a fully-paid Class A Common share on a one-for-one basis.

Subsequently the 700,000 authorized Class B shares were split three for one increasing the authorized share capital to 2,100,000 Class B shares.

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.

1978 figures relating to share capital have been restated to give effect to the above amendments.

During the year the following Class A Common and Class B shares were issued (except for the conversion of Class B shares into Class A Common shares, the value of the shares issued was at the approximate market price as at the date of the respective agreements):

	Class A		Class B shares	
	Common shares		Number	Value
	Number	Value	Number	Value
Purchase of minority interests	50,000	\$ 750,000		
Employee purchase (payable, without interest 1980 to 1985; unpaid balance included in accounts receivable)	16,667	208,325		
Employee purchase (paid in cash)	32,812	210,000		
Employee stock options (paid in cash)	69,373	91,575	55,500	\$91,575
Conversion of Class B shares to Class A Common shares (at average value)	22,050	25,137	(22,050)	(25,137)
	190,902	\$1,285,037	33,450	\$66,438

No employee stock options are outstanding at July 31, 1979.

## 7. ACQUISITIONS

During the year the company acquired controlling interests in two electro-mechanical related operations and one marine resources related operation. The net assets obtained in these acquisitions, which were accounted for as purchases, are as follows:

	Dollars in thousands		
	Marine resources	Electro-mechanical	Total
Working capital (deficiency)	\$ 13	\$(77)	\$(64)
Property, plant and equipment	430	455	885
Sundry assets	5		5
	448	378	826
Deduct:			
Liabilities	330	253	583
Minority interest	22	286	308
	352	539	891
Net assets acquired at assigned values	96	(161)	(65)
Excess of cost of shares over assigned values of net assets acquired	147	750	897
Cash consideration	\$243	\$589	\$832
Effective date of acquisition	April 1	August 1 and April 1	

## 8. SUBSEQUENT EVENT

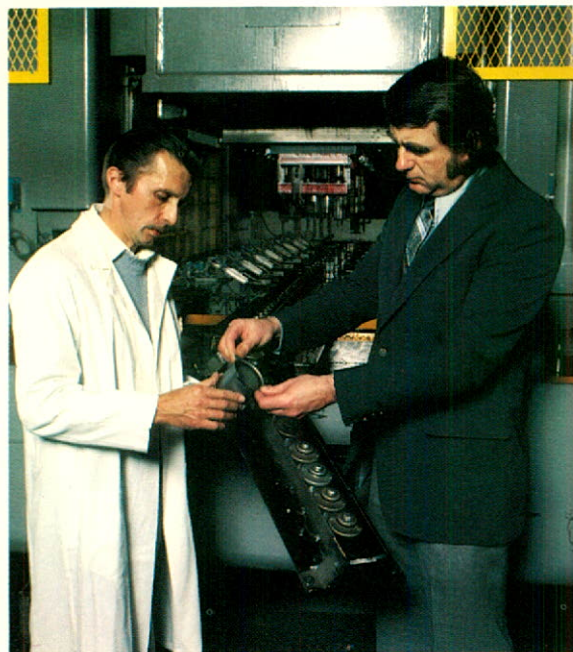
In order to provide for capital expenditure requirements in future fiscal periods, on October 19, 1979, the company issued \$5.6 million 10% unsecured convertible debentures at par and \$5.6 million 7% non-voting cumulative convertible term Preference shares at \$25 par value. The debentures are convertible into Class A Common shares at a value of \$19 per share until 1982 and at varying amounts from \$21.50 to \$29 per share from 1983 to 1989. The term 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 6 1/2% cumulative sinking fund Preference shares are outstanding at that time.

The issue of these convertible debentures and Preference shares will have the effect of reducing future fully diluted earnings for Class B and Class A Common shares by approximately 4%.

## 9. COMPARATIVE FIGURES

Certain of the prior year's accounts have been reclassified to conform with the current year's presentation.









# Operating Structure

## The 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 persons allowing the General Manager to have close contact with his personnel and 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. The Group Manager is an individual with proven general management capabilities from on-line experience.

The Group Manager provides support to the individual 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.

## Industrial Markets

aerospace  
defence  
oceanographic  
structural steel

## Automotive Markets

original equipment  
automotive aftermarket

## Executive Management

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

This group is responsible for the allocation of corporate resources to the automotive and industrial markets, and for monitoring all acquisition opportunities.

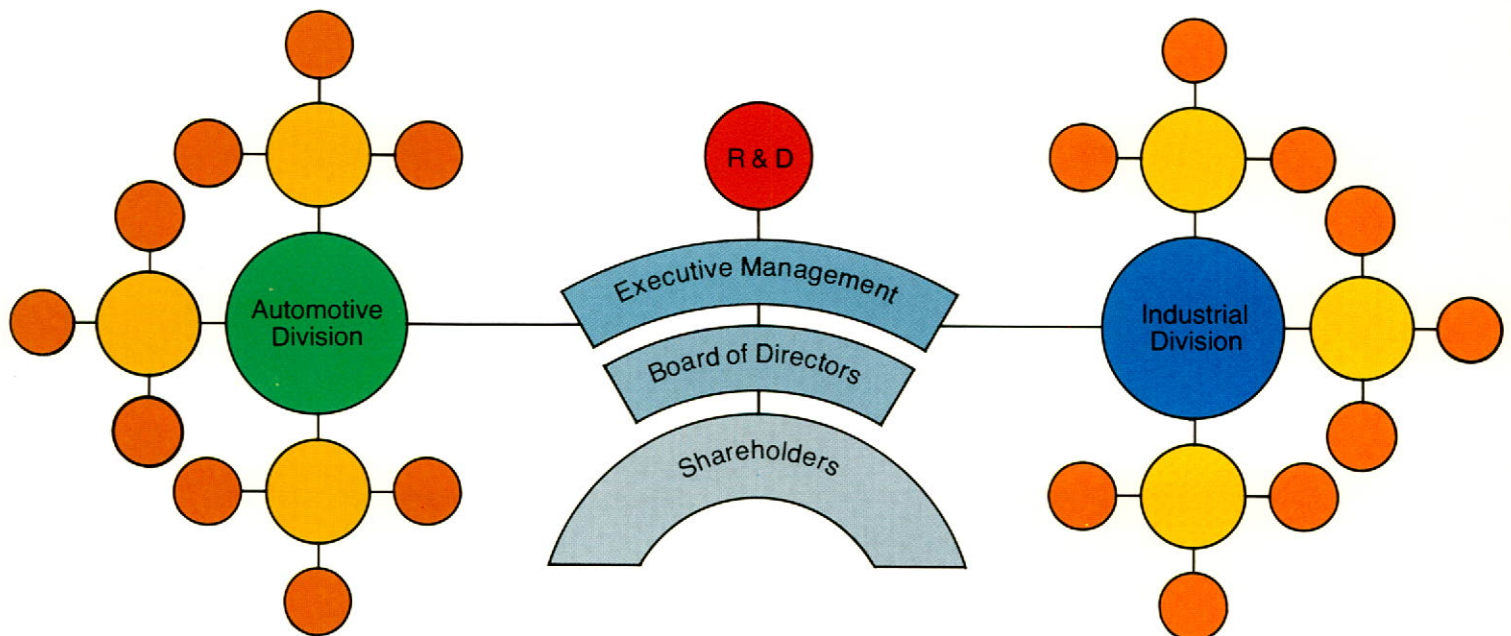
The Executive Management coordinates efforts which affect all areas of operation, such as sales and marketing, finance and corporate administration, safety, personnel and employment standards.

## Research and Development

This key area is available through the Executive Management to develop new areas of technology. Allocation of resources and establishment of research priorities are controlled by the Executive Management.

## 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.







# Automotive Division

Trim Group  
Stamping Group  
Accessory Drive Group  
Electromechanical Device Group  
Mid-West Group  
Finishing Group

The Automotive Division is organized into six major groups of companies. Aggregate sales account for 70% of the Corporation's revenues. Products range from aluminum, stainless steel, and electro-plated decorative and functional trim to direct current motors and engine pulley systems and plastic components. In traditional markets, such as trim, Magna is one of the leading suppliers. However, considering the entire market, Magna's market share is less than 1%. Consequently there is significant scope for growth. All modern metal forming and processing methods, including roll forming, transfer stamping, anodizing and chrome plating, are utilized in the Division. The accompanying illustration identifies a representative sample of manufactured components.

All groups have integrated extensive tooling, manufacturing, and product development capabilities within their manufacturing centres. These functions are augmented by Divisional and Corporate resources. Capabilities have been focused on supporting the programs initiated by the automobile manufacturers for the development of lighter, more efficient cars.

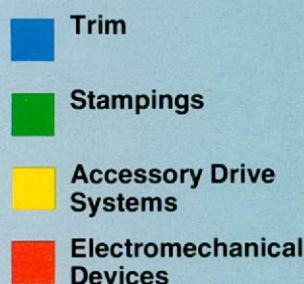
Notable products developed are light weight, high strength bumper guards and bumper components manufactured by the Mid-West Group in the United States, and a much simplified, more efficient, single belt pulley system produced by the Accessory Drive Group. The new pulley system design, which is gaining rapid acceptance from all North American automobile manufacturers, has given the Accessory Drive Group a leading position, and continues to capture additional market share.

The Electromechanical Device Group is one of the leading suppliers of direct current motors for automotive use. A recent joint venture has also provided entry into the rapidly expanding automotive electronics field.

The Stamping Group, in addition to developing expertise in the manufacture of high-strength steel components, has initiated the production of automotive lock mechanisms, latches and hardware in joint venture with a European firm.

The Division's broad management and manufacturing base, outstanding tool making development capability, and its continued emphasis on quality and dependable product delivery will assure its continued growth during this period of transition in the Automotive Market.

*Light Weight Single Belt Pulley System*



## Trim Group

Manufactures light weight aluminum and stainless steel components

## Accessory Drive Group

Leading supplier of light-weight pulleys

## Stamping Group

Producer of high-strength steel stampings

## Electromechanical Device Group

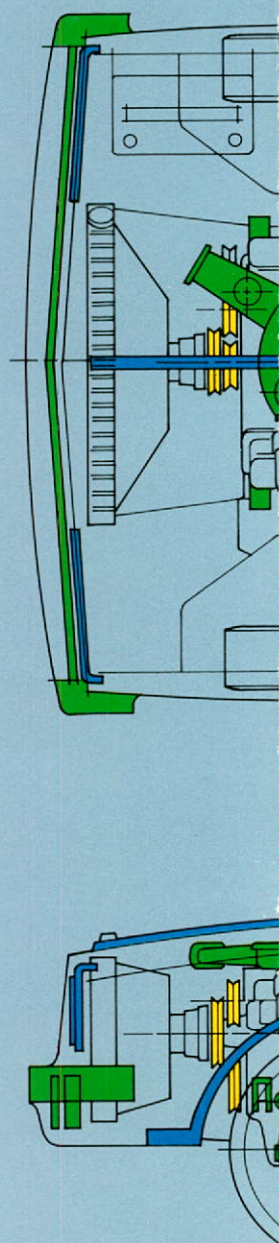
Products include D.C. motors, relays and automotive electronics

## Mid-West Group

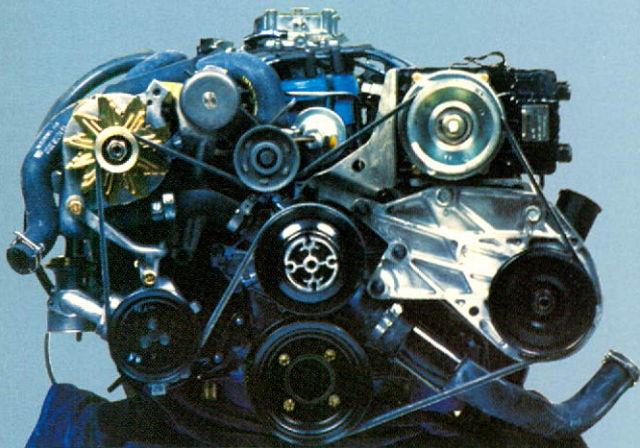
Produces high strength steel stampings, light-weight trim components, and engine oil strainers

## Finishing Group

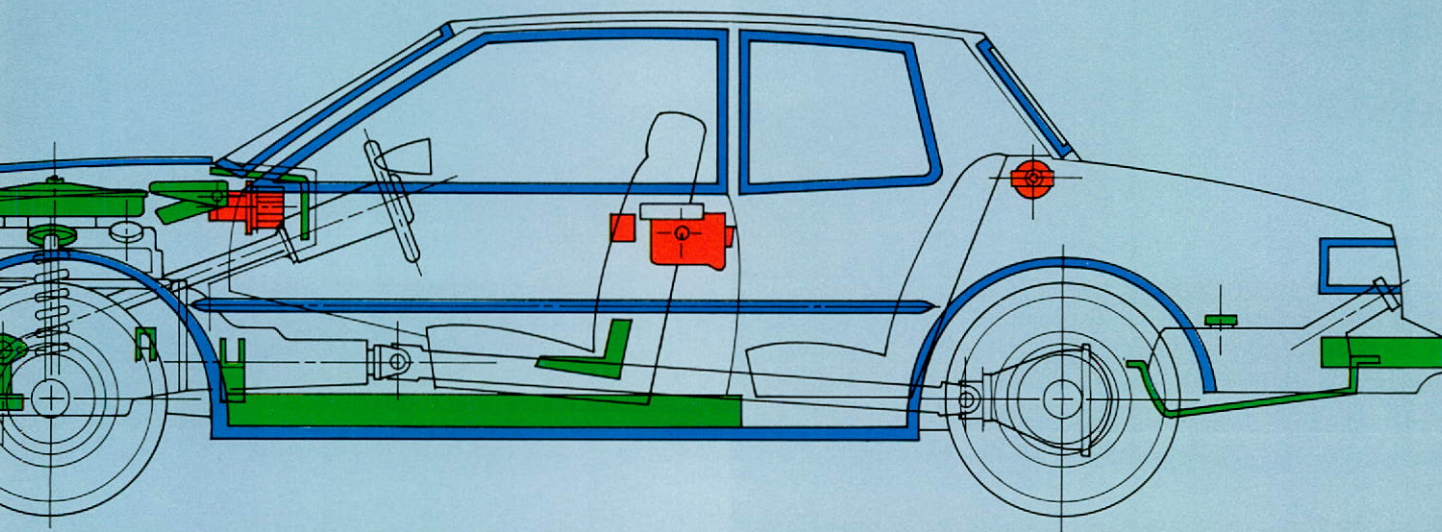
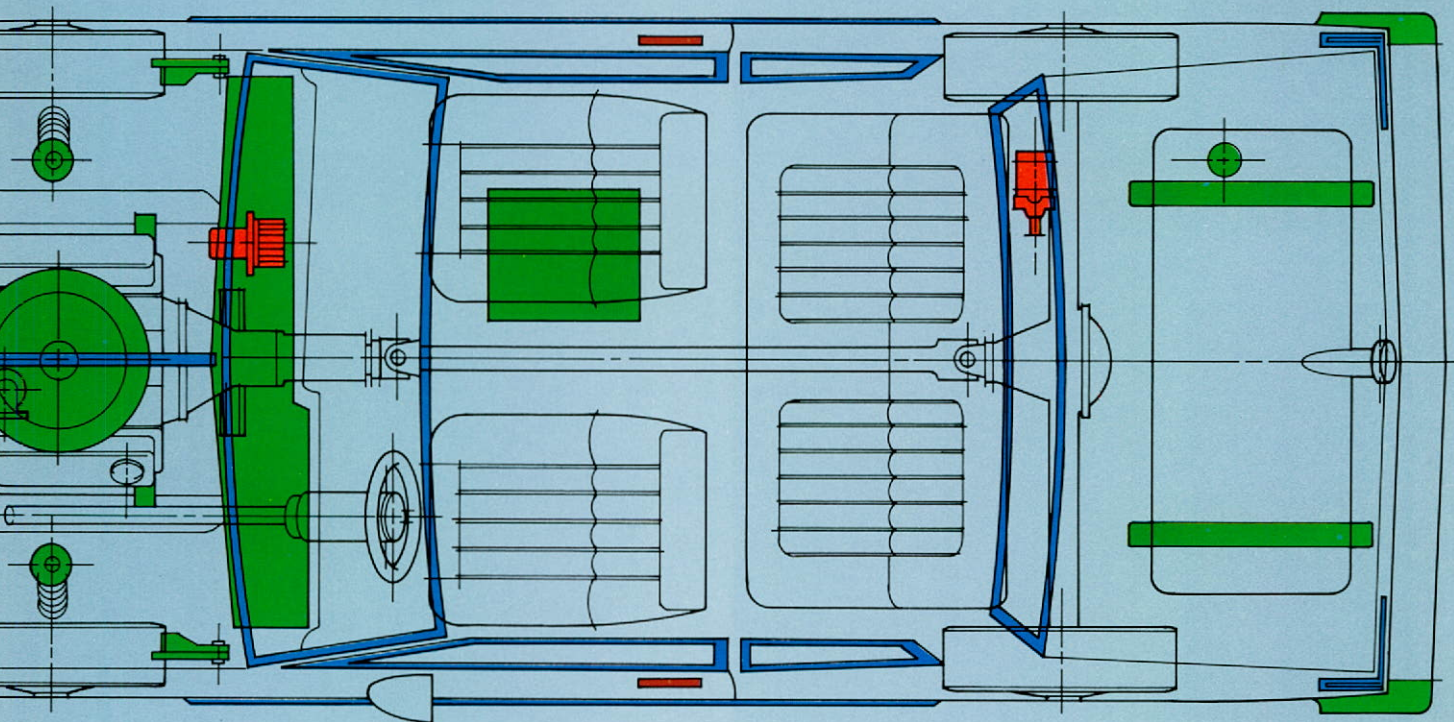
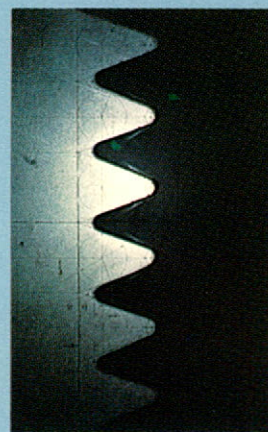
Product finishing includes anodizing, painting and chrome-plating







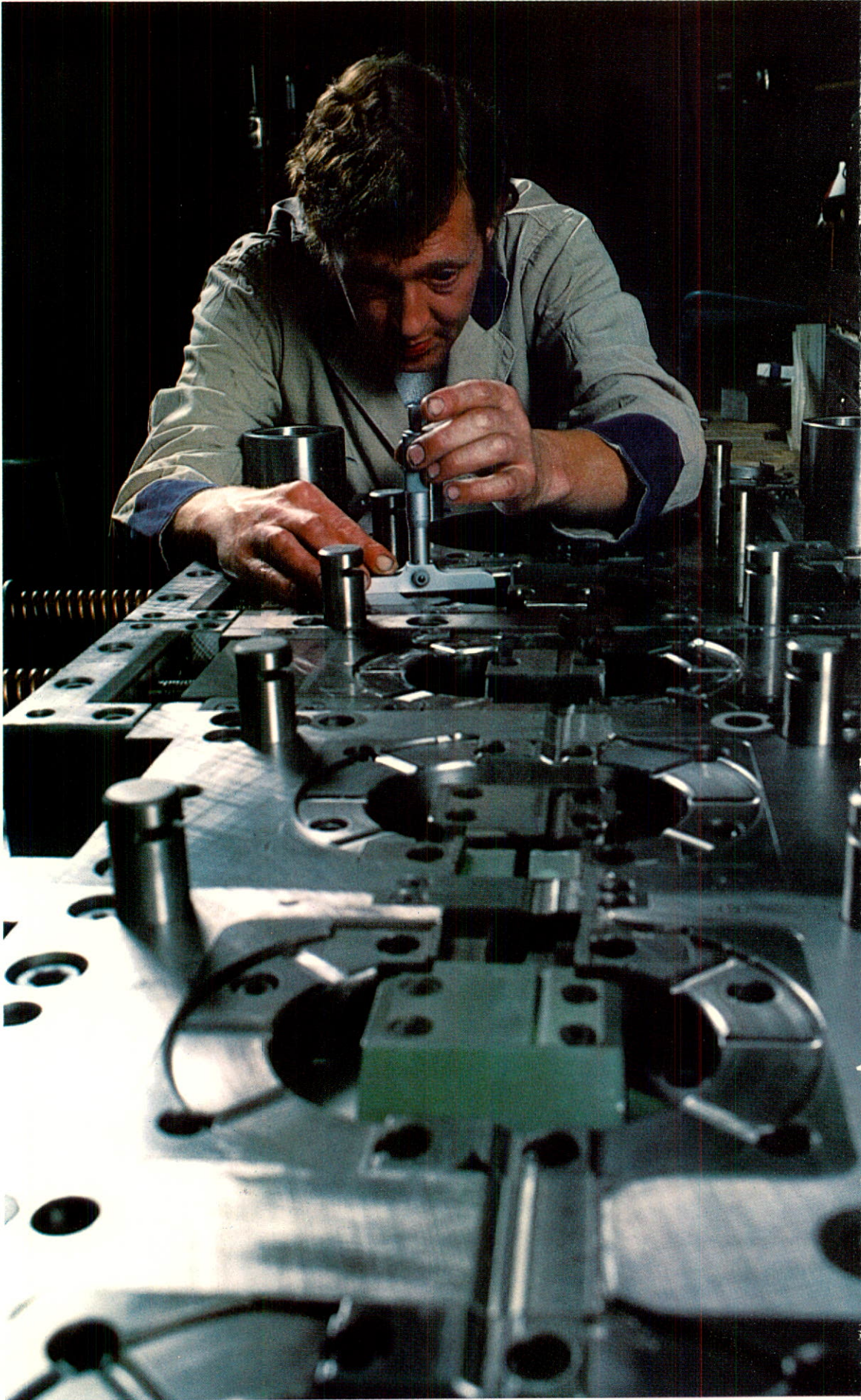
*Optical Comparator Display of  
Pulley Profile*







*Toolmaker Gauging Progressive Die*





Upper left: Quality Control Inspector Checking Trim Components

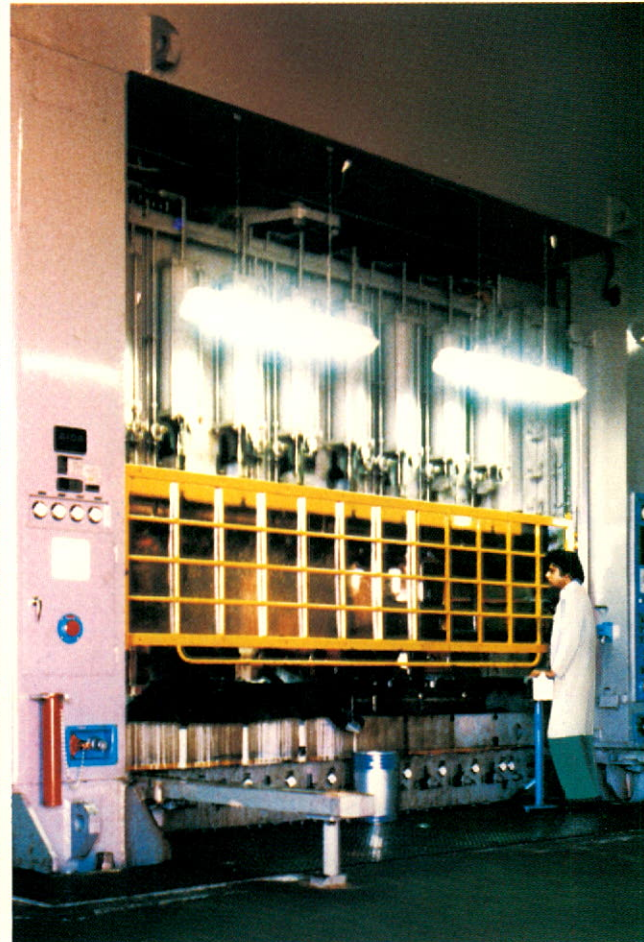
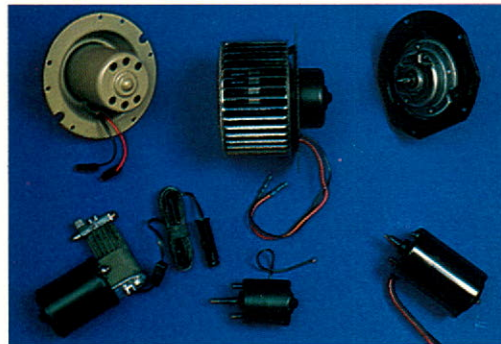
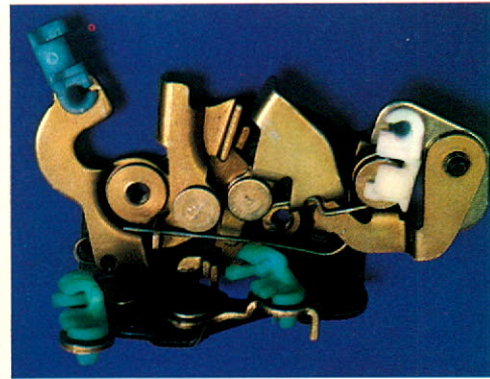
Upper right: Automotive Lock Mechanism

Middle right: Heavy Stampings Being Heat-Treated

Middle left: A Sample of D.C. Motors Produced by Magna

Lower left: Inside view of 600 Ton press – Complex Progressive Tooling Manufactured by Magna

Lower right: Modern 600 Ton Stamping Press





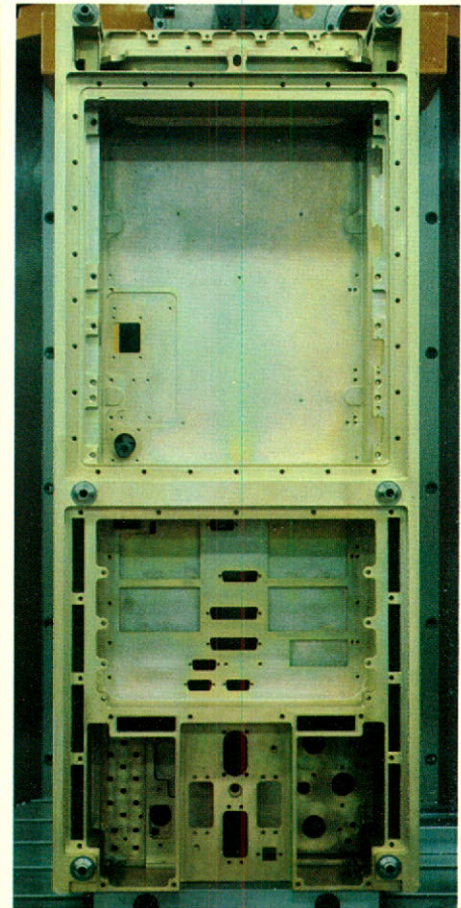
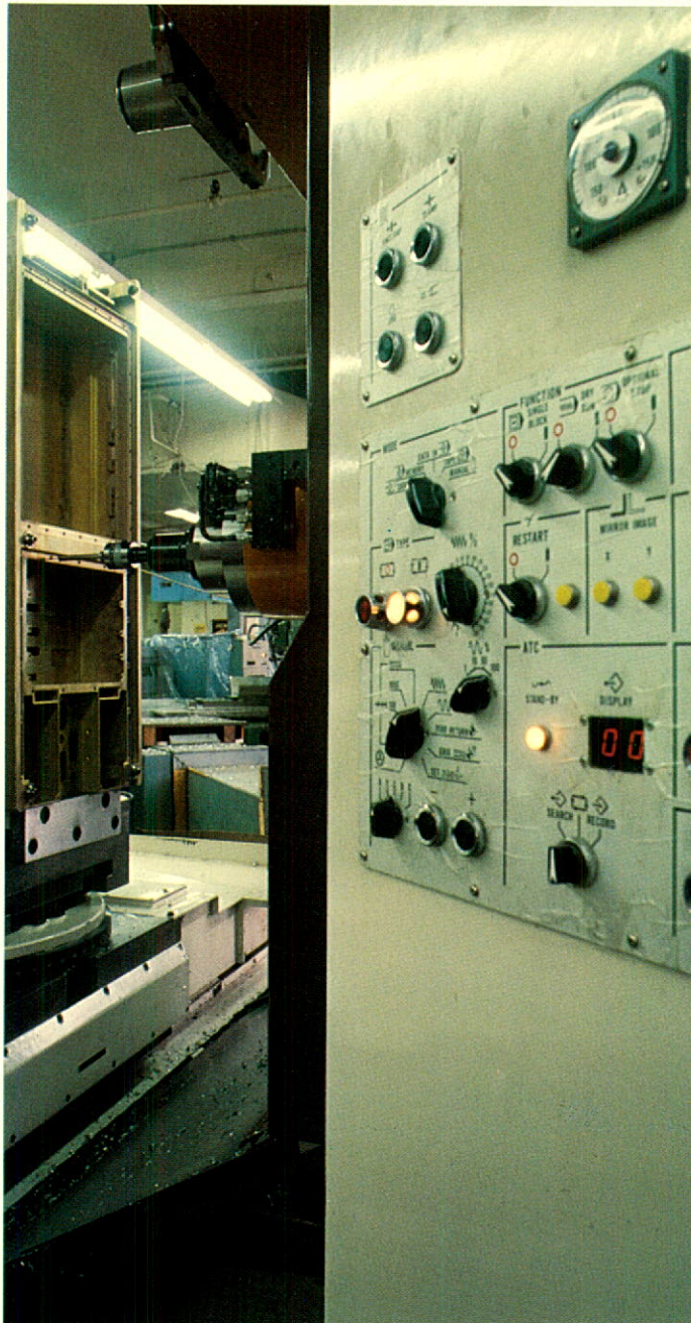


# Industrial Division

Aerospace/Defence  
Group  
Hermes Electronics  
Structural Steel

The Industrial Division accounts for about 30% of Magna's yearly sales.

**The Aerospace/Defence Group** manufactures precision components for the high technology defence and commercial 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. The group is the sole-source supplier of product support services for a significant sector of Canadian military hardware. The Canadian government is pursuing an ambitious defence modernization program. The recent addition of a Technology Centre in support of these programs gives the Group additional strength in both the domestic and buoyant foreign markets.



*Top: Components Manufactured by the Aerospace/Defence Group are Incorporated into Modern High Performance Aircraft.*

*Left: Computer Controlled High Precision Machining*

*Right: Radar System Instrument Case*

*Lower Right: Quality Control Testing of Landing Gear Component*



Hermes is one of three North American manufacturers of highly critical passive submarine detection sensors. Submarine detection and monitoring is continuing to be an increasingly important component of the North American defence strategy. Activities in this area are expected to continue to expand. The accompanying illustration outlines the functions of these disposable sensor systems in locating submarines and in transmitting critical data to monitoring aircraft, ships or ground stations.

A new technically advanced hydroacoustic test centre is being completed during the 1979 calendar year. This centre is the most modern facility of its type in private Canadian industry. The further strengthened extensive systems development and design capability will continue to provide an excellent basis for additional growth.

*Passive submarine detection  
system manufactured by Hermes  
– monitoring the oceans.*







*Top left: Final Electronics Test  
of Sonobuoys*

*Top right: Performance Verifi-  
cation – Drifter Buoys*



**The structural steel** Company is an accredited designer and fabricator of structural steel for resource and utility requirements and for commercial and industrial use. Projects range from structures that combine function with esthetic appeal, to steel framing for large buildings, to fabrications required by nuclear power and heavy water plants.



*Lower: Harbourfront Toronto –  
Bridge Fabrication by Magna*



# Research and Development

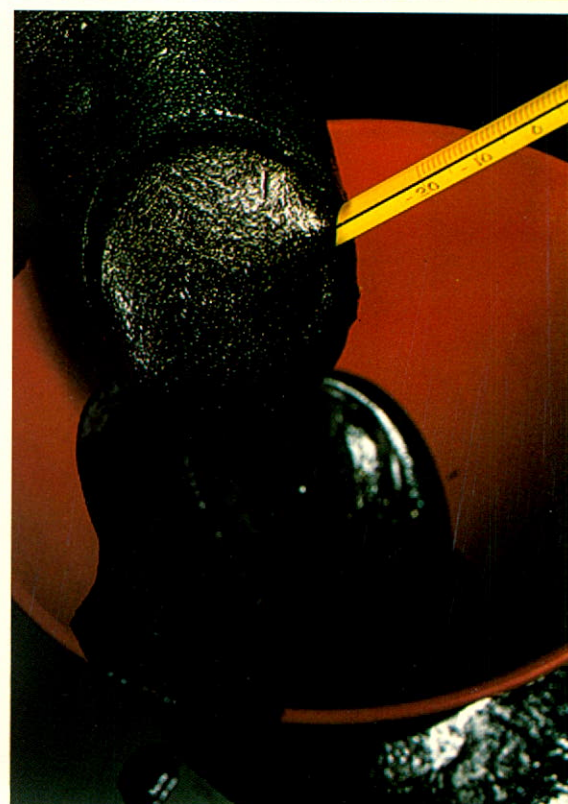
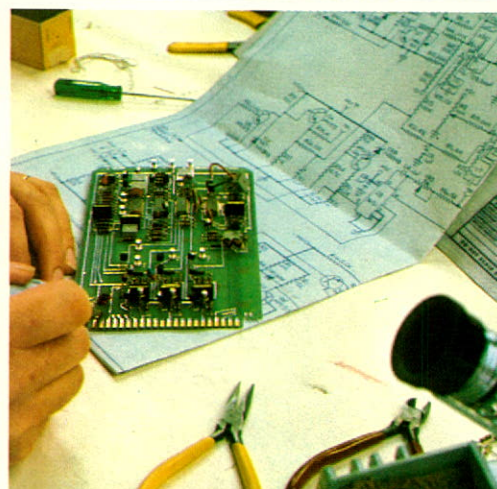
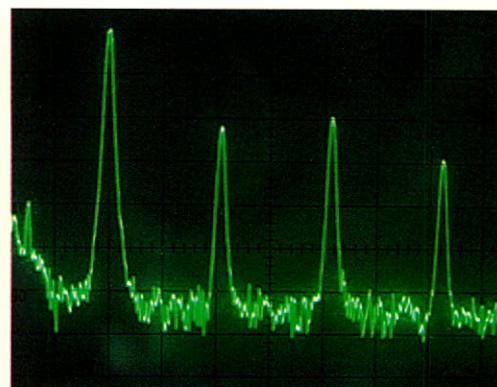
Magna's policy of allocating about 7% of pre-tax earnings to research and product development continues to provide the resources to emphasize this commitment. These funds, which are charged against income when expended, support programs which are expected to develop commercially profitable technology and products.

New development programs in the automotive electronics field have been initiated. Also, engineering studies assessing the use of plastics as structural components in cars are being carried out. The refinement of the technology for the manufacture of a single belt pulley system is continuing to support its rapid market acceptance.

Hermes has added a new engineering test facility to support its technology in highly sensitive hydroacoustic sensors.

In the Aerospace/Defence Group, the creation of a new technology centre has provided the means for development programs related primarily to defence products.

Magna's proprietary method for the extraction of bitumen from Oil Sand has been reviewed by independent engineers, who have issued a favourable report supporting the projected energy savings and environmental advantages of the process. Alternative options for the exploitation of this potential technology are being identified and assessed.



*Top left: Anechoic Chamber – Electronic Development*

*Top right: Engineering Test – Prototype Performance*

*Middle right: Prototype Fabrication – Defence Systems*

*Lower left: Athabasca Oil Sand*

*Lower right: Heavy Oil Produced by Magna Extraction Process*





# Seven Year Comparative Summary

*Dollars in thousands except per share figures*

Year	1979	1978	1977	1976	1975	1974	1973
<b>Operations Data</b>							
Sales	<b>\$166,321</b>	\$128,189	\$80,953	\$55,010	\$39,415	\$31,644	\$23,759
Income from Operations	<b>15,924</b>	12,899	8,185	5,734	2,880	1,990	1,607
Net Income before Extraordinary Items	<b>8,455</b>	6,595	4,093	2,786	1,339	1,080	808
Extraordinary Items	<b>272</b>	795					
Earnings per share*							
Before extraordinary items							
Class A Common and Class B	<b>1.72</b>	1.42	0.95	0.72	0.34	0.28	0.21
After extraordinary items							
Class A Common and Class B	<b>1.78</b>	1.59					
Depreciation	<b>4,644</b>	3,349	2,210	1,416	1,118	890	572
Cash Flow from Operations	<b>15,275</b>	13,160	7,542	5,171	2,757	2,241	1,447
Dividends per share* (Annual rate)							
Class A Common and Class B	<b>0.28</b>	0.19	0.12	0.06	0.03	0.03	0.03
<b>Financial Position</b>							
Working Capital	<b>18,866</b>	15,351	7,412	4,925	3,233	2,164	1,588
Capital Expenditures	<b>23,085</b>	16,231	8,584	3,456	2,016	2,237	1,014
Fixed Assets							
(Less accum. depreciation)	<b>47,089</b>	30,269	19,387	8,940	6,900	6,001	3,745
Long-Term Debt	<b>26,961</b>	16,607	7,767	4,469	4,398	3,962	2,503
Equity relating to Class A Common and Class B shares	<b>32,086</b>	23,270	15,266	9,646	6,951	5,726	4,677
Equity per share*							
Class A Common and Class B	<b>6.35</b>	4.82	3.36	2.49	1.80	1.49	1.21

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

Our growth reflects the dedicated efforts of our employees.







