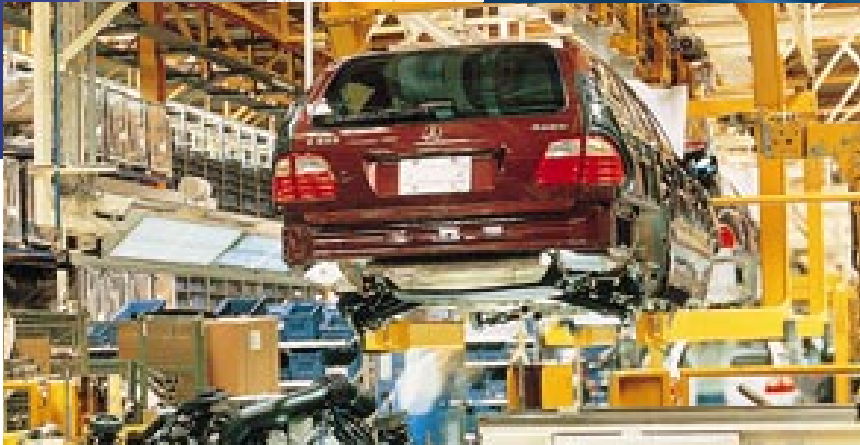




Report to Shareholders
for the Five Month
Period Ended
December 31, 1998



Corporate Profile

Magna International Inc. is a leading global supplier of technologically advanced automotive systems, components and complete modules. The Company employs more than 51,000 employees in 162 manufacturing operations and 29 product development and engineering centres in 18 countries.

As the most diversified automotive components supplier in the world, Magna designs, engineers, and manufactures a complete range of exterior and interior vehicle systems. Magna also engineers and assembles niche vehicles for its customers.

Magna is recognized by its customers, the major automotive Original Equipment Manufacturers (OEMs), for its innovative technology and product design and total vehicle program management.

Magna is a public company with Class A shares listed and traded on The New York Stock Exchange in the United States (MGA), and The Toronto Stock Exchange and the Montreal Exchange in Canada (MG.A). The Class B shares are listed and traded in Canada on The Toronto Stock Exchange (MG.B).

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Shareholders' Meeting for the Five Month Period Ended December 31, 1998

The Annual Shareholders' Meeting for the five month period ended December 31, 1998 will be held at The Westin Prince Hotel, Prince North Ballroom, 900 York Mills Road, Toronto, Ontario, Canada on Tuesday, May 25, 1999, commencing at 2:00 p.m.

Copies of this Report may be obtained from:

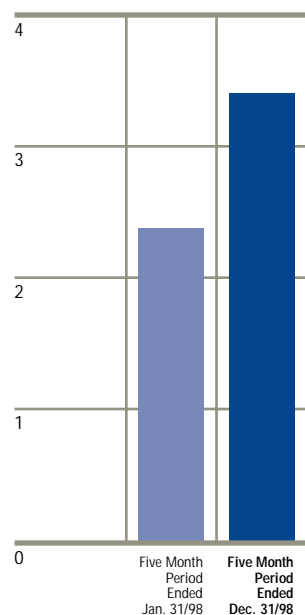
The Secretary, Magna International Inc.
337 Magna Drive, Aurora, Ontario, Canada L4G 7K1

Financial Highlights

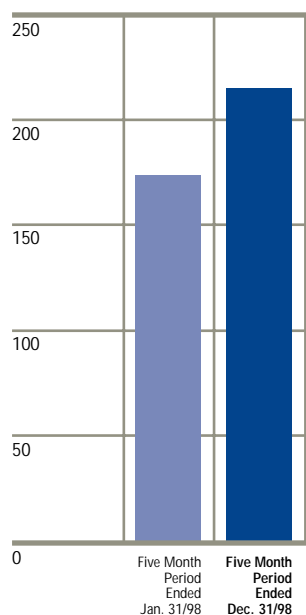
[U.S. dollars in millions, except per share figures]

	Years Ended July 31			Five Month Period Ended January 31, 1998	Five Month Period Ended December 31, 1998
	1996	1997	1998		
Sales	\$3,826	\$5,024	\$6,006	\$2,381	\$3,396
Operating Income	328	429	464	174	215
Net Income	209	392	330	134	137
Fully Diluted Earnings Per Class A or B Share	3.08	5.07	4.07	1.72	1.55
Capital Expenditures and Investments	327	733	1,186	393	571
Shareholders' Equity	1,801	2,134	3,231	2,334	3,411

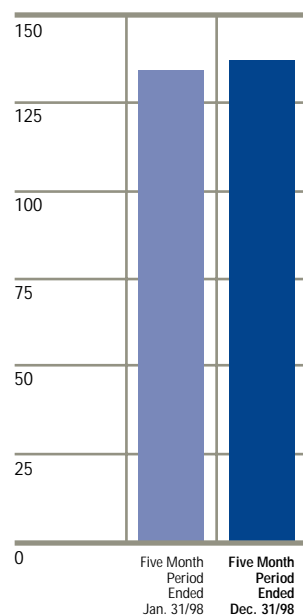
Sales
[US\$ Billions]



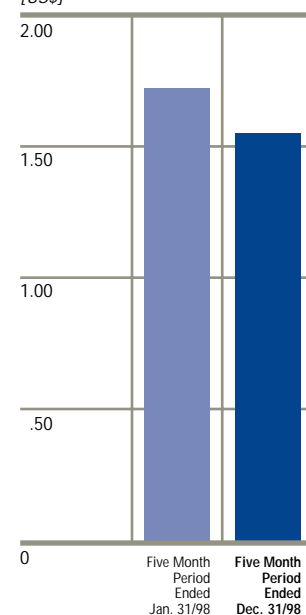
Operating Income
[US\$ Millions]



Net Income
[US\$ Millions]



Fully Diluted
Earnings Per Share
[US\$]



CHANGE IN YEAR-END REPORTING

In order to provide greater comparability with Magna's principal competitors in the automotive industry, Magna shareholders approved at the December 1998 Annual and Special Shareholders' Meeting a change in the Company's fiscal year end to December 31 from July 31.

CHANGE IN REPORTING CURRENCY

In order to more fully reflect Magna's growing international stature, Magna shareholders approved at the December 1998 Annual and Special Shareholders' Meeting a change in the Company's reporting currency to United States dollars. Commencing with the five month period ended December 31, 1998, Magna's financial results have been reported in United States dollars.

Magna's Corporate Constitution

EMPLOYEE EQUITY AND PROFIT PARTICIPATION

Ten percent of Magna's profit before tax will be allocated to employees. These funds will be used for the purchase of Magna shares in trust for employees and for cash distributions to employees, recognizing length of service.

SHAREHOLDER PROFIT PARTICIPATION

Magna will distribute, on average, not less than 20 percent of its annual net profit after tax to shareholders.

MANAGEMENT PROFIT PARTICIPATION

To obtain long-term contractual commitment from senior management, the Company provides a compensation arrangement which, in addition to a base salary below industry standards, allows for the distribution of up to six percent of Magna's profit before tax.

RESEARCH AND DEVELOPMENT

Magna will allocate a minimum of seven percent of its profit before tax for research and development to ensure the long-term viability of the Company.

SOCIAL RESPONSIBILITY

The Company will allocate a maximum of two percent of its profit before tax for charitable, cultural, educational and political purposes to support the basic fabric of society.

MINIMUM PROFIT PERFORMANCE

Management has an obligation to produce a profit. If Magna does not generate a minimum after-tax return of four percent on share capital for two consecutive years, the Class A shareholders, voting as a class, will have the right to elect additional directors.

UNRELATED INVESTMENTS

Class A and Class B shareholders, with each class voting separately, will have the right to approve any investment in an unrelated business in the event such investment together with all other investments in unrelated businesses exceeds 20 percent of Magna's equity.

BOARD OF DIRECTORS

Magna believes that outside directors provide independent counsel and discipline. A majority of the members of Magna's Board of Directors will be outsiders.

Magna's Corporate Constitution publicly declares and defines the rights of employees and investors to participate in the Company's profits and growth while also imposing certain disciplines on management. These features strike a balance between employees, investors and management while allowing the Company to maintain an entrepreneurial environment which encourages productivity.

Magna is a public company with two classes of shares: a Class B share which carries a multiple vote, held primarily by management and their associates, and a Class A share for investors and employees which carries a single vote. This share structure has been in place since 1978 and enables management to have operating control of the Company on a day-to-day basis, provided it adheres to the Corporate Constitution.

Any change to Magna's Corporate Constitution requires the approval of the Class A and Class B shareholders, with each class voting separately.

The five month period ended December 31, 1998 saw Magna build upon the sales momentum of fiscal 1998 while also capitalizing on many of the strategic steps taken during the previous year.

The Company placed significant focus on positioning its newly-created Symatec Group at the forefront of the automotive supply industry. With the capability to engineer complete vehicle modules, Symatec will bring together the systems expertise of Magna's diversified product groups to offer our customers cross-group modules. Symatec's primary emphasis in calendar 1999 will be on obtaining further contracts for derivative models to add to its existing contracts.

In Europe, Magna completed the acquisition of 100% ownership of Steyr-Daimler-Puch AG ("SDP"). SDP gives Magna the unprecedented capability among suppliers to provide customers with complete vehicle engineering and niche vehicle assembly. As a testament to its world-class quality, SDP became the first company outside of the DaimlerChrysler Corporation to win the DaimlerChrysler "Crystal Award" for excellence related to the production of the Jeep Grand Cherokee. Together, Symatec and SDP will lead Magna's growth well into the next century.

During the five month period, increases in the dollar content per vehicle of Magna products continued to drive sales growth in both North America and Europe. Sales for the period were \$3.4 billion, a 43 percent increase over the comparable period of the prior fiscal year. Also of significance was an increase in tooling and other sales, which were \$370 million during the period, reflecting increased involvement by Magna in new programs and vehicle launches by OEM customers. Net income, excluding other income, was \$137 million, a 23 percent increase compared to the comparable period of the prior fiscal year. Fully diluted earnings per share for the period, excluding other income, increased 8% to \$1.55.

In January, *Forbes Magazine* awarded Magna the distinction of being the world's best automotive supplier. The magazine selected the world's best companies by assessing financial performance in the areas of return on capital, sales growth, stock price performance, net profits per employee and estimated earnings per share growth.

The five month period also saw Magna continue the development of its core systems capabilities in both North America and Europe while making its first significant inroad in the increasingly important South American market by opening a major new facility in Brazil. Going forward, the Company will increasingly focus on developing and acquiring new technologies that are critical to the Company's long-term strategic plan. Although expansion will primarily be through

greenfield operations designed to support customer programs in North America and Europe, Magna will continue to examine opportunities to acquire businesses which have leading-edge automotive technologies that complement or enhance Magna's expanding technological base.

The Company changed its fiscal year end to December 31, effective December 31, 1998, and also changed the reporting currency for its financial statements to United States dollars. These changes more fully reflect the global nature of Magna's business.

Since the December 1998 Annual and Special Shareholders' Meeting, the Company has taken certain steps to further its previously stated intention of rolling out Magna's non-automotive assets into a separate public company. In March 1999, Magna's Board of Directors approved a proposal to establish a new company known as Ventures. Ventures will develop real estate for commercial and recreational purposes and will also invest in entertainment and gaming businesses. Subject to review and final approval by the Board, the Company proposes to establish Ventures as a separate public company with the intention of reducing its ownership in Ventures to a minority equity position.

Ventures will have its own management team separate from the management of Magna, thereby allowing Magna to remain focussed on the development of its core automotive business. The establishment of Ventures is a significant first step in making Magna a pure automotive company.

In closing, we wish to thank our investors for their continued support of the Company's overall strategic direction, and we wish to thank our customers, who continue to reward us with significant new vehicle programs that are helping to change the face of the automotive industry.



Donald Walker
President and Chief Executive Officer



James Nicol
Vice-Chairman



Siegfried Wolf
Vice-Chairman

The Magna Employee's Charter

THE MAGNA EMPLOYEE'S CHARTER

Magna is committed to an operating philosophy which is based on fairness and concern for people.
It includes these principles:

JOB SECURITY

Being competitive by making a better product for a better price is the best way to enhance job security.
Magna is committed to working together with you to help protect your job security.

To assist you, Magna will provide:

- **Job Counselling**
- **Training**
- **Employee Assistance Programs**

A SAFE AND HEALTHFUL WORKPLACE

Magna strives to provide you with a working environment which is safe and healthful.

FAIR TREATMENT

Magna offers equal employment opportunities based on an individual's qualifications and performance, free from discrimination or favouritism.

COMPETITIVE WAGES AND BENEFITS

Magna will provide you with information which will enable you to compare your total compensation of total wages and total benefits with those earned by employees of your competitors, as well as with other plants in your community. If your total compensation is found not to be competitive, then your wages will be adjusted.

EMPLOYEE EQUITY AND PROFIT PARTICIPATION

Magna believes that every employee should own a portion of the Company.

COMMUNICATION AND INFORMATION

Through regular monthly meetings between management and employees and through publications, Magna will provide you with information so that you will know what is going on in your company and within the industry.

THE HOTLINE

Should you have a problem, or feel the above principles are not being met, we encourage you to call the Hotline or use the self-addressed Hotline Envelopes to register your complaints.

You do not have to give your name, but if you do, it will be held in strict confidence.

Hotline Counsellors, speaking several languages, will answer your call.

Your concern will then be forwarded to the Magna Corporate Employee Relations Department.

The Magna Corporate Employee Relations Department is committed to investigate and resolve all concerns or complaints and must report the outcome to the Employee Relations Advisory Board.

EMPLOYEE RELATIONS ADVISORY BOARD

The Employee Relations Advisory Board is a group of people who have proven recognition and credibility relating to humanitarian and social issues. This Board will monitor, advise and ensure that Magna operates within the spirit of the Magna Employee's Charter and the principles of Magna's Corporate Constitution.

Management's Discussion and Analysis of Results of Operations and Financial Condition

OVERVIEW

In order to position Magna International Inc. (the "Company") on a basis consistent with many other large multinational corporations and improve investors' ability to compare the Company's results with those of most businesses in the automotive industry, the Company changed its fiscal year end from July 31 to December 31 commencing December 31, 1998 and changed its reporting currency to United States ("U.S.") dollars. Accordingly, all amounts presented herein are in U.S. dollars unless otherwise noted. See the "Significant Accounting Policies – Reporting Currency" note to the Consolidated Financial Statements for additional information. As a consequence of the change in year end, the Company is reporting a five month period ended December 31, 1998 and, for comparative purposes, unaudited results for the five month period ended January 31, 1998 have also been presented.

Automotive Operations

The Company believes that it is uniquely positioned as one of the most diversified automotive suppliers in the world to take advantage of current trends in the automotive industry. These trends include increased OEM outsourcing of larger, more complex modules and complete systems to independent suppliers, the increasing prevalence of OEM derivative vehicles and the greater participation by suppliers in the design and engineering of automotive systems. As previously announced, in order for the Company and its subsidiaries (collectively "Magna") to take full advantage of Magna's position in the automotive industry, Magna established "Symatec" as a new operating group. Throughout the five month period ended December 31, 1998, the Company continued to position, through Symatec, its extensive capabilities to design, engineer and sell cross-group modules and systems to the OEMs, secure program management and integration contracts, provide complete vehicle engineering services and assemble niche or derivative vehicles for Magna's OEM customers.

During the five month period ended December 31, 1998, Magna fully completed the strategic acquisition of Steyr-Daimler-Puch AG ("SDP") by acquiring the remaining 6% minority interest for cash consideration of \$17 million. In the fourth quarter of the year ended July 31, 1998, Magna acquired 94% of the outstanding shares of SDP and the 50% equity interest of Steyr-Daimler-Puch Fahrzeugtechnik AG & Co. KG ("SFT") not held by SDP (SDP and SFT and their subsidiaries are collectively referred to as "Steyr") for cash consideration (net of cash acquired) of \$248 million. Steyr, an Austrian based group, has contracts to assemble complete vehicles, including the DaimlerChrysler G-class, E-class and M-class 4-wheel drive vehicles and the Jeep Grand Cherokee. Steyr also provides vehicle engineering services and produces a variety of components, including 4-wheel drive transmission systems, for the European automotive industry. The acquisition of Steyr significantly enhances Magna's capabilities in complete vehicle engineering, in the assembly of niche or derivative vehicles for OEM customers, in the supply of technologically advanced integrated automotive systems and components, and in the provision of a wide range of services and products for the design and development of integrated automotive systems.

During the year ended July 31, 1998, Magna also completed a number of other acquisitions. Magna acquired 70% of Decomex Inc. ("Decomex") and 100% of each of the plastics exterior and interior component operations of the YMOS Automotive Group ("YMOS"), Roltra Morse S.p.A. ("Roltra Morse"), Paulisch GmbH & Co. KG ("Paulisch") and TRIAM Automotive Inc. ("TRIAM"). Consideration paid for each of these acquisitions amounted to \$18 million for Decomex, \$95 million for YMOS, \$28 million for Roltra Morse, \$17 million for Paulisch and \$51 million for TRIAM. Decomex was formed to purchase the operations and assets of a Mexican based manufacturer of fascias, grilles and other exterior appearance components. YMOS is a leading supplier of fascias, grilles, exterior trim, body side and other mouldings, instrument panels and consoles to the European automotive industry. Roltra Morse supplies automotive latches, window regulators, cable systems, door modules and gear shift mechanisms for OEMs in Europe and South America. Paulisch manufactures complete seats, seat frames and other seating components for the European automotive industry. TRIAM is a North American based manufacturer of automotive components.

During the year ended July 31, 1997, Magna acquired Douglas & Lomason Company ("D&L"), Caradon Automotive Components Group ("Caradon"), Tricom Group Holdings Limited ("Tricom") and Georg Naher GmbH ("GNG"). Consideration paid for each of these acquisitions amounted to \$119 million for D&L, \$29 million for Caradon, \$46 million for Tricom and \$32 million for GNG. D&L is primarily a U.S. based manufacturer of seating systems, seat frames, seat mechanisms and other seating components and soft tops. Caradon is a U.K. based manufacturer of exterior components. Tricom is a U.K. based company which designs, engineers and manufactures complete seats, seat frames and other seating components. GNG is a European based manufacturer of trunk linings, interior panels and multi-functional carpet and sound insulation systems. Also in the year ended July 31, 1997, Magna acquired the remaining minority interest in Atoma International Inc. for a purchase price of \$76 million.

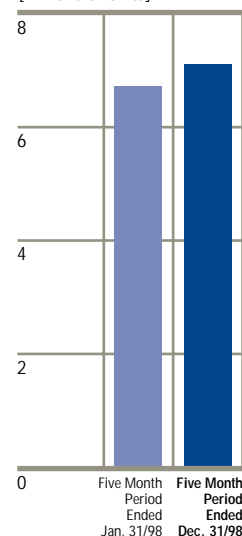
Capital spending in the five month period ended December 31, 1998 of \$383 million, as compared to \$265 million in the five month period ended January 31, 1998, reflects spending to support continued substantial new business awards.

The acquisitions and capital spending described above are part of Magna's implementation of its long-term strategic plan of expanding its product and technical capabilities and strengthening its position as a full service systems and modular supplier through a combination of internal growth and acquisitions in both Europe and North America. Magna has now substantially developed its core systems capabilities in both Europe and North America. Going forward, the Company will increasingly focus on developing and acquiring new technologies that are critical to the Company's long-term strategic plan. Although expansion will primarily be through greenfield operations designed to support customer programs in North America and Europe, Magna will continue to examine opportunities to acquire businesses which have leading-edge automotive technologies that complement or enhance Magna's expanding technological base.

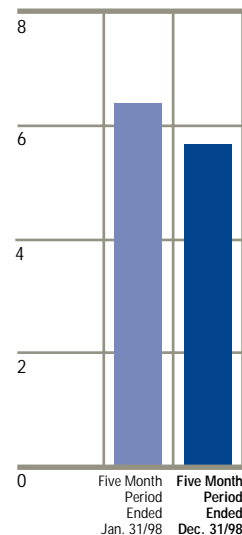
In the years ended July 31, 1998 and 1997, Magna, through a series of transactions, disposed of its investments in its airbag and steering wheel business carried on through MST Automotive GmbH Automobil-Sicherheitstechnik ("MST") and TEMIC Bayern-Chemie Airbag GmbH ("TBCA"), and recognized gains, net of tax, of \$23 million and \$91 million, respectively.

Magna follows a corporate policy of functional and operational decentralization. It conducts its automotive operations through divisions which function as autonomous operating units. Divisions are then grouped geographically and along product lines into operating groups, which are overseen by a Group management team. In furtherance of the commitment to decentralization, the Company has established certain of its operating groups as separate public corporations. Magna's significant automotive operations are divided into three segments: Public Automotive, North America Automotive and Europe Automotive.

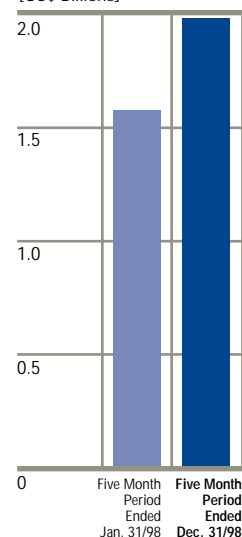
North American Vehicle Production
[Millions of Units]



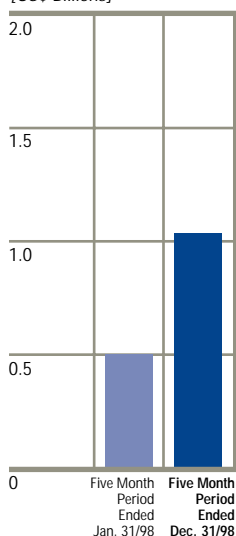
European Vehicle Production
[Millions of Units]



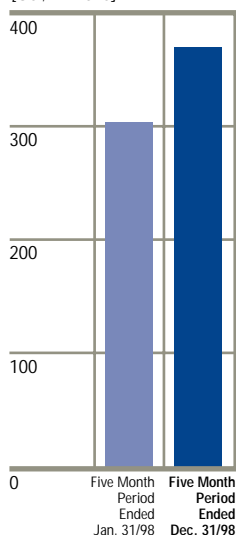
North American Production Sales
[US\$ Billions]



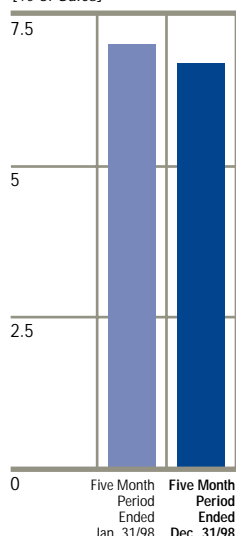
European Production Sales
[US\$ Billions]



Tooling and Other Sales
[US\$ Millions]



S,G&A
[% of Sales]



The Public Automotive segment includes Tesma International Inc. ("Tesma"), a publicly traded supplier of engine, transmission and fueling systems and components; and Decoma Exterior Systems ("Decoma"). Decoma includes: Decoma International Inc., a publicly traded full service supplier of plastic fascia systems and body panels; Decoma Exterior Trim, which specializes in exterior ornamentation, sealing and greenhouse systems; and Bestop, a supplier of soft tops for sport utility vehicles. The operations of Decoma Exterior Trim and Bestop are closely coordinated with those of Decoma International Inc.

Magna's North America Automotive segment includes the following significant operating groups: Cosma Body & Chassis Systems ("Cosma"), a supplier of metallic body and chassis systems including hydroformed components and assemblies; Magna Seating Systems ("MSS"), which supplies complete seat systems, seat tracks, seat frames, integrated child safety seats and other seating components; Magna Interior Systems ("MIS"), a supplier of instrument panels, cockpit modules, consoles, package trays, overhead systems and side wall systems; and Symatec, which is focusing on securing key integrator contracts to design, engineer and deliver complete vehicle modules and to assemble niche vehicles on behalf of its OEM customers. The North America Automotive segment also includes Atoma Closure and Electronic Systems ("Atoma"), a full service supplier of closure and electronic systems.

Magna's Europe automotive operations, other than those European operations which are managed on a global basis by one of the North America or Public Automotive segments' operating groups, (collectively the Europe Automotive segment) are divided by product line into the following groups: MATAG Body & Chassis Systems ("MATAG"), a supplier of metallic body and chassis systems; Magna Seating Systems ("MSS Europe"), a supplier of complete seat systems, seat frames and other seating components; Magna Interior Systems ("MIS Europe"), which supplies instrument panels, cockpit modules, consoles, glove boxes, door trim panels, automotive carpets, interior panels and other components and systems; Magna Exterior Systems ("MES Europe"), a supplier of plastic and metallic exterior components and systems including fascias, grilles, body panels, trim products, door frames and various exterior mouldings; Magna Mirror Systems ("MMS"), which supplies exterior and interior mirror systems; and Steyr, which assembles complete vehicles for OEMs, provides vehicle engineering services and produces a variety of automotive components.

Both Atoma and MMS are managed on a global basis.

Magna's results are directly affected by the levels of North American and European car and light truck production and its ability to obtain new production contracts. Magna's results are also directly affected by the average exchange rate used to translate, for periods up to and including December 31, 1998, the results of its operations having a functional currency other than the Canadian dollar into Canadian dollars and, for periods after December 31, 1998, the results of its operations having a functional currency other than the U.S. dollar into U.S. dollars. Current factors impacting the automotive industry and the ability to obtain new production contracts from OEM customers include the requirement for suppliers to manufacture and supply more complex systems including modular systems, maintain the financial strength to expand, support and supply OEMs, provide increased engineering, effectively manage complete programs, and have full service supplier capabilities, in each case on a global basis. The Company believes that Magna's product diversity and overall capabilities position it to benefit from these factors. In addition, as a result of the continued globalization of the automotive industry, increased outsourcing by OEM customers of larger modules and systems to independent Tier One suppliers and the continuing consolidation of the supplier base, the Company expects continued customer penetration in North America and Europe during calendar 1999, thereby increasing Magna's average production content per vehicle in both markets.

Car and light truck production volumes for the five month period ended December 31, 1998 were 7.1 million units and 5.7 million units, respectively, for North America and Europe. These volumes represent an increase of 5% in North America and a decrease of 11% in Europe compared to the volumes for the five months ended January 31, 1998. The 11% decline in European production volumes is primarily the result of seasonal differences relating to the one-month variation in the comparable period as August production volumes are lower due to European OEM summer shutdowns. Although there can be no certainty as to future levels of production, the Company expects car and light truck production levels for calendar 1999 to be approximately 15.6 million units in North America and approximately 14.1 million units in Europe. OEM production volumes may be impacted by many factors, including interest rates, the general economy, fuel prices and availability, legislative changes, environmental emission and safety issues and labour and/or trade relations.

Magna's reliance on its OEM customers makes it susceptible to risks generally applicable to industry participants, including the extent of OEM outsourcing. The extent of OEM outsourcing is dependent on a number of factors, including the cost, quality and timeliness of external production relative to in-house production by OEMs, technological capability, the degree of unutilized capacity at OEM manufacturing facilities and OEM labour relations.

Automotive Real Estate and Non-Automotive Operations

Magna has taken certain steps to further its previously stated intention of establishing its non-automotive assets in a separate public company.

The Company's Board of Directors approved, in March 1999, the establishment of a new company ("Ventures") to hold all the non-automotive assets (including non-automotive real estate) of Magna. Ventures will operate separately from MI Developments Inc. and its subsidiaries (collectively "MID").

MID will continue to hold, develop and manage substantially all of Magna's current and future automotive related real estate and will be 100% owned by Magna. MID's automotive related real estate assets had a pro forma net book value as of March 1, 1999 of approximately \$650 million.

Ventures will develop real estate for commercial and recreational purposes and invest in entertainment and gaming businesses. In this regard, in December 1998, Magna acquired the Santa Anita Race Track and approximately 305 acres of related real estate for \$126 million. Ventures plans to make further investments including improvements to the Santa Anita Race Track and the redevelopment of the adjacent real estate as well as the purchase and redevelopment of other racetrack operations. As of March 1, 1999, Magna's pro forma investment in Ventures and the pro forma net book value of Ventures was approximately \$550 million, composed of non-automotive assets of approximately \$300 million and cash of \$250 million. Ventures will have its own management team separate from the management of Magna.

In March 1999, the Company's Board of Directors also approved in principle a proposal to establish Ventures as a separate public company by distributing a minority equity interest in Ventures, in the form of subordinate voting shares, to shareholders of the Company. Subject to detailed analysis of this proposal and subsequent approval by the Board, the particulars of such distribution and the exact structure of Ventures are expected to be announced at or before the next annual meeting of shareholders of the Company, scheduled for May 25, 1999.

Once Ventures is established as a separate public company, it is Magna's intention to reduce its ownership in Ventures to a minority equity position. As market conditions permit, it is expected that this will be accomplished through a combination of:

- (i) secondary sales by Magna of its shares of Ventures; and/or
- (ii) treasury share issues by Ventures, in connection with capital markets transactions, acquisitions and/or the investment by strategic partners in Ventures.

Magna will not make any further investment in Ventures prior to its becoming a public company. At such time, Magna will undertake in a legally binding form that it will not, for a period of seven years, without the prior consent of the holders of the majority of the Company's Class A Subordinate Voting Shares:

- (i) make debt or equity investments in Ventures or any of its subsidiaries, or otherwise give financial assistance to Ventures or any of its subsidiaries; or
- (ii) invest in any non-automotive related businesses or assets other than through its investment in Ventures.

The following is a comparison of Magna's results of operations and financial condition, liquidity and capital resources for the five month periods ended December 31, 1998 and January 31, 1998 and the years ended July 31, 1998 and 1997.

RESULTS OF OPERATIONS FOR THE FIVE MONTH PERIODS ENDED DECEMBER 31, 1998 AND JANUARY 31, 1998

Sales: The Company's consolidated sales increased by 42.6% to \$3,396 million for the five months ended December 31, 1998 from \$2,381 million for the five months ended January 31, 1998. This reflects North American production sales increasing to \$1,986 million from \$1,577 million, European production sales increasing to \$1,040 million from \$500 million and consolidated tooling and other sales increasing to \$370 million from \$304 million, in each case for the five months ended December 31, 1998 compared to the five months ended January 31, 1998.

North American production sales in the five months ended December 31, 1998 increased by 25.9% or \$409 million over the comparable period. This increase was a result of an improvement in Magna's average North American production content per vehicle and a 5% increase in North American production volumes. The increase in North American production volumes reflects the favourable effects in the current period from the end of the General Motors strike in the fourth quarter of the year ended July 31, 1998 as well as substantially greater DaimlerChrysler LH volumes in the current period due to the unusually slow ramp up of this program in the comparable period. Magna's average North American production content per vehicle increased by 19.7% in the five months ended December 31, 1998. This increase reflects new production programs that commenced in the latter part of the year ended July 31, 1998 and in the five month period ended December 31, 1998, including sales with respect to the GMT 800 program, the acquisition of TRIAM in May 1998 and an increase in reported production sales as a result of the strengthening of the U.S. dollar relative to the Canadian dollar. North American production content per vehicle was also favourably affected by increased DaimlerChrysler LH production sales as a result of Magna's substantial content on this program.

European production sales for the five months ended December 31, 1998 increased by 108% or \$540 million over the five months ended January 31, 1998 to \$1,040 million. This was primarily a result of acquisitions completed subsequent to January 31, 1998, including Steyr, Roltra Morse and Paulisch; the inclusion of a full five months' results in the current period for YMOS which was acquired part way through the comparable period; increased European production content per vehicle as a result of obtaining new production contracts; and an increase in reported production sales as a result of the strengthening of the German Deutschmark, Austrian Schilling and British Pound relative to the Canadian dollar; offset in part by a decrease in production volumes.

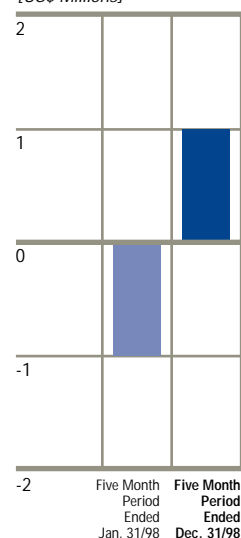
Tooling and other sales included in consolidated sales increased by 21.7% or \$66 million in the five months ended December 31, 1998 to \$370 million, reflecting continued involvement by Magna in new programs and vehicle launches by OEM customers as well as engineering and other sales at Steyr.

The Public Automotive segment's total sales amounted to \$604 million in the five months ended December 31, 1998. Included in this amount are Decoma's total sales of \$388 million which increased by 27.2% or \$83 million over the five months ended January 31, 1998. The increase in Decoma's total sales was due to improved North American production volumes and increased production content per vehicle on new and existing programs. Also included in the Public Automotive segment's sales are Tesma's total sales of \$216 million which were 28.6% or \$48 million higher than the five months ended January 31, 1998. Tesma's total sales increased due to an improvement in North American and European production content per vehicle, higher tooling sales, the impact of recent acquisitions including the acquisition from Magna of TRIAM's Sterling Heights operation effective August 1, 1998 and an increase in reported sales due to a strengthening German Deutschmark relative to the Canadian dollar.

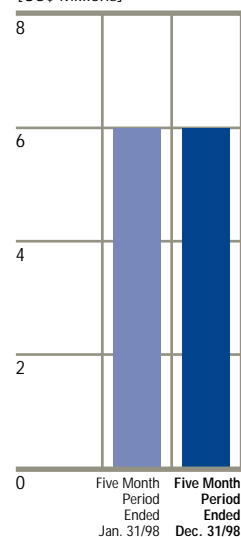
Magna's North America Automotive segment's total sales amounted to \$1,620 million in the five months ended December 31, 1998. This includes: Cosma's total sales of \$721 million which increased by 17.4% or \$107 million over the five months ended January 31, 1998, primarily as a result of increased production content per vehicle on new and existing programs including sales with respect to the GMT 800 program at Cosma's Formet division, offset in part by a decline in tooling sales as a result of the launch in the current period of the GMT 800 program; MSS's total sales of \$473 million with no significant change over total sales for the five months ended January 31, 1998; MIS's total sales of \$109 million which increased by 43.4% or \$33 million over the five months ended January 31, 1998, primarily related to sales on new programs including GMT 800 program sales; and Atoma's total sales of \$303 million which increased by 36.5% or \$81 million over the comparable period primarily as a result of increased sales on new and existing programs and the consolidation of Roltra Morse which was acquired in February 1998.

Magna's Europe Automotive segment had total sales of \$1,210 million for the five months ended December 31, 1998 which increased by 116.5% or \$651 million over the comparable period. The increase was primarily the result of the consolidation of acquisitions completed subsequent to January 31, 1998 including Steyr and Paulisch, the inclusion of a full five months' results in the current period for YMOS which was acquired part way through the comparable period, and increased production content per vehicle as a result of obtaining new production contracts offset in part by lower production volumes. Steyr's total sales included in the Europe Automotive segment's results for the five month period ended December 31, 1998 were \$474 million.

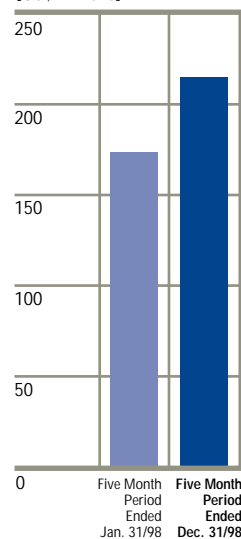
Interest Income (Expense)
[US\$ Millions]



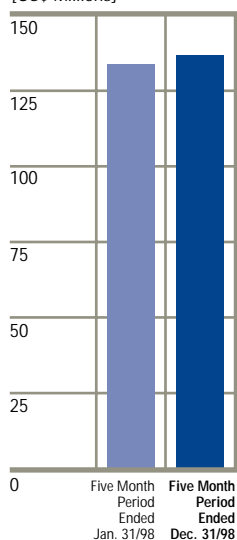
Equity Income
[US\$ Millions]



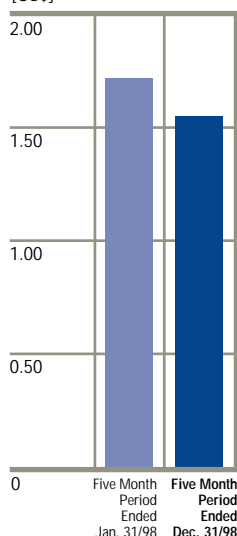
Operating Income
[US\$ Millions]



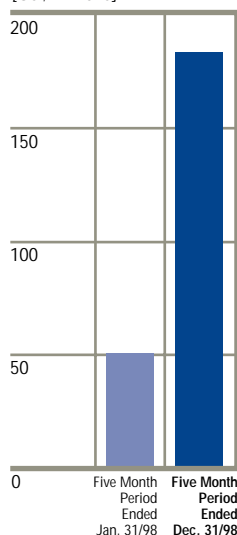
Net Income
[US\$ Millions]



Fully Diluted Earnings Per Share
[US\$]



Cash Flow from Operations
[US\$ Millions]



The sales amounts in the segmented discussion above are before intercompany eliminations.

Substantially all of Magna's sales are generated from the sale of automotive parts, components, assemblies, modules and systems, vehicle assembly and related tooling to North American and/or European OEMs. Approximately 25% and 22% of Magna's consolidated production sales during the five month periods ended December 31, 1998 and January 31, 1998, respectively, were in respect of products supplied for inclusion in five vehicle body types (including approximately 11% supplied for the DaimlerChrysler minivans for each of the five month periods ended December 31, 1998 and January 31, 1998).

Facilities: As of December 31, 1998, Magna had 162 automotive manufacturing facilities (including 14 joint venture facilities), of which 96 are in North America, 62 are in Europe, two are in Korea, one is in Brazil and one is in China, as well as 29 product development and engineering centres.

Gross Margin: Gross margin, as a percentage of consolidated sales, for the five months ended December 31, 1998 was 16.6% compared to 17.3% for the five months ended January 31, 1998. The decrease in gross margin percentage was primarily a result of the acquisitions of YMOS, Paulisch and Roltra Morse which currently operate at lower gross margin percentages; the acquisition of Steyr, where assembly margins are lower than production margins; the low margins being experienced at Formet on GMT 800 program sales as production levels continue to ramp up as well as GMT 800 program launch costs at other operating divisions; offset in part by margin improvement from the significant increase in DaimlerChrysler LH vehicle production volumes and other improvements in gross margin percentages at certain other divisions.

The competitive environment within the automotive industry has caused OEMs to increase pressure on suppliers for price concessions and to absorb more engineering costs related to product design, tooling costs, certain capital costs and other items previously paid for directly by its OEM customers. In addition, Magna may not be able to fully pass on price increases from its own suppliers to its OEM customers. Although there can be no certainty regarding Magna's ability to successfully respond to future competitive pressures, Magna has in the past been largely successful in responding to these pressures through a number of means, including improved operating efficiencies and cost reductions and believes that its current cost reduction programs will enable it to remain competitive.

Depreciation and Amortization: Depreciation and amortization expense increased \$50 million over the comparative period as a result of subsidiaries acquired subsequent to January 31, 1998 and the inclusion of a full five months' results in the five months ended December 31, 1998 for businesses acquired during the five months ended January 31, 1998, additional depreciation now that the GMT 800 program has launched, an increase in reported depreciation and amortization as a result of the weakening of the Canadian dollar against the U.S. dollar, German Deutschmark and British Pound, and increased depreciation as a result of capital and other asset spending.

S,G&A: Selling, general and administrative expenses as a percentage of total sales was 6.7% in the five months ended December 31, 1998 compared to 7.0% in the comparable period. Selling, general and administrative expenses as a percentage of sales, adjusted to exclude the effects of Tesma's settlement of the Stant litigation in the comparable period, was unchanged at 6.7%. Expenditures on selling, general and administrative expenses were \$229 million for the five months ended December 31, 1998 representing an increase of \$63 million over the five months ended January 31, 1998. The dollar increase in these expenses was principally attributable to the selling, general and administrative expenses of the subsidiaries acquired subsequent to January 31, 1998, the inclusion of a full five months' results in the current period for businesses acquired part way through the five months ended January 31, 1998, the higher level of sales activity during the five months ended December 31, 1998 and infrastructure costs to support the expected increase in sales during calendar 1999 for new programs.

Interest Expense: Interest income (net of interest expense) increased during the five months ended December 31, 1998 to \$1 million, compared to \$1 million of interest expense for the five months ended January 31, 1998. This reflects increased interest income earned by the Company due to higher average cash balances during the five months ended December 31, 1998 compared to the five months ended January 31, 1998. Average higher cash balances arose primarily due to proceeds received on the issuance of the 4.875% convertible subordinated debentures in February 1998 and the issuance of Class A Subordinate Voting Shares in June 1998 net of spending on acquisitions, capital expenditures and investments. The above increase in interest income was offset in part by higher interest expense as a result of the issuance of the 4.875% convertible subordinated debentures net of interest expense savings due to the redemption of the 7.25% convertible subordinated debentures in July 1998.

Equity Income: Income from equity accounted investments of \$6 million for the five months ended December 31, 1998, was unchanged compared to the five months ended January 31, 1998.

Operating Income: Operating income for the five months ended December 31, 1998 was \$215 million, compared to \$174 million for the five months ended January 31, 1998. The increase in operating income reflects the gross margin earned on the higher sales levels offset in part by a decline in the gross margin percentage, increases in selling, general and administrative expenses and depreciation and amortization charges net of an increase in interest income.

Other Income: During the five months ended January 31, 1998 the Company recognized other income of \$25 million on the sale of its remaining 20% interest in MST and TBCA.

Segmented Income: Magna's Public Automotive, North America Automotive and Europe Automotive segments generated income before income taxes and minority interest ("segmented income") of \$46 million, \$108 million and \$30 million during the five months ended December 31, 1998, respectively. This represents improvements in segmented income over the five months ended January 31, 1998 of \$20 million and \$14 million in the Public Automotive and North America Automotive segments, respectively. The improvement in the Public Automotive segmented income is due to margin earned on increased sales, improved operating performance at certain divisions, favourable product mix and the effects of Tesma's settlement of the Stant litigation in the comparable period. The improvement in the North America Automotive segmented income is due to margin earned on increased sales, margin improvement from the significant increase in DaimlerChrysler LH vehicle production volumes and other improvements in gross margin percentages at certain divisions, partially offset by: the acquisition of Roltra Morse which currently operates at a lower gross margin percentage; the low margins being experienced at Formet on GMT 800 program sales as production levels continue to ramp up as well as GMT 800 program launch costs at other operating divisions; increased depreciation as a result of capital spending and the launch of the GMT 800 program; and increased selling, general and administrative expenses to support higher sales levels. The Europe Automotive segmented income declined by \$19 million over the comparable period. Excluding the gain on the sale of the remaining interests in MST and TBCA in the five months ended January 31, 1998, Europe Automotive segmented income

improved by \$6 million. This improvement is due to margin earned on increases in Europe Automotive sales, partially offset by a decline in gross margin percentage which was primarily the result of the acquisitions of YMOS and Paulisch which currently operate at lower gross margin percentages and the acquisition of Steyr where assembly margins are lower than production margins. The improvement in Europe Automotive segmented income was also partially offset by increases in selling, general and administrative expenses and depreciation and amortization costs. See Note 16 to the Consolidated Financial Statements for additional information.

Income Taxes: Magna's effective income tax rate for the five months ended December 31, 1998 was 34.0%. Excluding other income and the related tax thereon, Magna's effective income tax rate on operating income for the five months ended January 31, 1998 was 34.5%. The 0.5% reduction in Magna's effective tax rate primarily reflects favourable foreign rate differentials.

Minority Interest: Minority interest expense for the five months ended December 31, 1998 increased by \$2 million over the comparable period to \$5 million as a result of the increased minority interest expense related to the reduction of the Company's ownership interest in Decoma International Inc. in the latter part of the year ended July 31, 1998, offset in part by the acquisition of the remaining 6% minority interest in Steyr in the current period.

Earnings Per Share: On a fully diluted basis, earnings per share for the five months ended December 31, 1998 was \$1.55 compared to \$1.72 in the five months ended January 31, 1998. Excluding other income, net of related income taxes, the five months ended December 31, 1998 fully diluted earnings per share improved to \$1.55 as compared to \$1.43 in the five months ended January 31, 1998. The average number of shares outstanding for the five months ended December 31, 1998 on a fully diluted basis was approximately 91.3 million shares which was 11.1 million shares or 13.8% higher than in the five months ended January 31, 1998. This increase is primarily due to the issuance of the 4.875% convertible subordinated debentures by the Company in February 1998 and is also due to the issuance by the Company of Class A Subordinate Voting Shares for consideration on the acquisition of TRIAM, a public offering, and the redemption of the 7.25% convertible unsecured subordinated debentures in May, June and July of 1998, respectively.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flow from Operations: During the five months ended December 31, 1998, cash flow from operations before changes in non-cash working capital increased by \$95 million over the comparable period to \$281 million. Cash invested in non-cash working capital during the five months ended December 31, 1998 amounted to \$97 million as a result of increases in accounts receivable to support higher sales levels offset in part by a modest decline in inventory levels and increases in accounts payable and other current liabilities. This investment in non-cash working capital compares favourably with the corresponding investment in the comparable period of \$135 million. Overall, cash flow from operations for the five months ended December 31, 1998 was \$184 million, representing an increase of \$133 million over the five months ended January 31, 1998.

Capital and Investment Spending: Capital spending totalled \$383 million for the five months ended December 31, 1998 compared to \$265 million for the five months ended January 31, 1998, principally reflecting higher fixed asset spending to support increased production activities, the construction of new production facilities and the expansion of existing production facilities. Investment and other spending for the five months ended December 31, 1998 was \$188 million compared to \$128 million for the comparable period, and included \$145 million for acquisitions, including the acquisitions of the Santa Anita Race Track and related real estate; and the remaining minority interest in Steyr. Capital and investment spending for existing businesses and projects is expected to be approximately \$900 million for calendar 1999. The majority of the current period and upcoming year's capital spending relates to the award of new production contracts, new production facilities, maintenance improvements and planned efficiency enhancements. The Company believes Magna is in a position to meet all planned cash requirements from its cash balances on hand, existing credit facilities and funds from operations as well as a future planned MID public or private financing on a basis which is expected to be non-recourse to Magna.

Foreign Currency Activities: Magna's North American operations negotiate sales contracts with North American OEMs for payment in both U.S. and Canadian dollars. Materials and equipment are purchased in various currencies depending upon competitive factors, including relative currency values. The North American operations use labour and materials which are paid for in both U.S. and Canadian dollars.

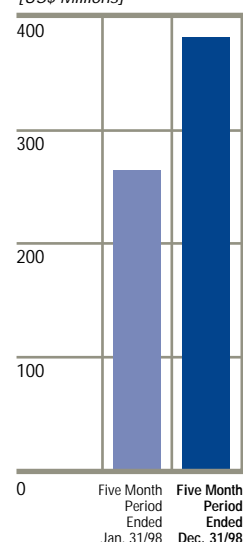
Magna's European operations negotiate sales contracts with European OEMs for payment principally in the Euro, certain legacy currencies which are as of January 1, 1999 locked against the Euro, and British Pound. The European operations' material, equipment and labour are paid for principally in the Euro, certain legacy currencies and British Pound.

Magna employs hedging programs, primarily through the use of foreign exchange forward contracts and foreign exchange range forward contracts, in an effort to manage the foreign exchange exposure which arises when manufacturing facilities have committed to the delivery of products for which the selling price has been quoted in foreign currencies. These commitments represent contractual obligations by Magna to deliver products over the duration of the product programs which can last for a number of years. The amount and timing of the forward contracts will be dependent upon a number of factors, including anticipated production delivery schedules and anticipated production costs, which may be paid in the foreign currency. Despite these measures, significant long-term fluctuations in relative currency values could affect Magna's results of operations, particularly a significant change in the relative values of the U.S. dollar, Canadian dollar, Euro and certain legacy currencies (particularly the German Deutschmark and Austrian Schilling), or the British Pound.

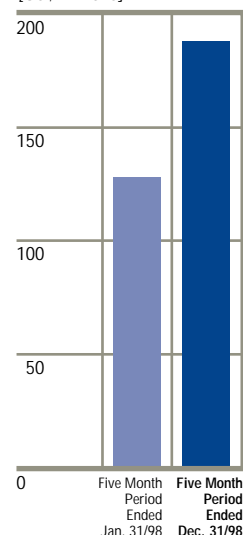
Financing: During the five months ended December 31, 1998, Magna issued debt amounting to \$209 million and made debt repayments of \$15 million.

Dividends: The Company has declared cash dividends of Cdn\$0.33 and \$0.14 per Class A Subordinate Voting Share and Class B Share in respect of the three months ended October 31, 1998 and the two months ended December 31, 1998, respectively. The dividend declaration for the two months ended December 31, 1998 approximates the dividend with respect to the quarter ended October 31, 1998 of Cdn\$0.33 per Class A Subordinate Voting Share and Class B Share prorated to reflect the two month period and converted to U.S. dollars. Dividends paid in the five month period ended December 31, 1998 amounted to Cdn\$0.33 per Class A Subordinate Voting Share and Class B Share representing payment of the dividend declared in respect of the fourth quarter of the year ended July 31, 1998. Additional dividends of Cdn\$0.33 per Class A Subordinate Voting Share and Class B Share, representing the dividend declared in respect of the three months ended October 31, 1998, were accrued but unpaid at December 31, 1998.

Fixed Asset Spending
[US\$ Millions]



Investment Spending
[US\$ Millions]



Dividends paid in the five month period ended January 31, 1998 amounted to Cdn\$0.30 representing payment of the dividend declared in respect of the fourth quarter of the year ended July 31, 1997 and Cdn\$0.33 representing the dividend declared in respect of the three months ended October 31, 1997.

Dividend payments have been financed out of cash flow from operations.

RESULTS OF OPERATIONS FOR THE YEARS ENDED JULY 31, 1998 AND 1997

Sales: The Company's consolidated sales increased by 19.5% to \$6,006 million for the year ended July 31, 1998 ("fiscal 1998") from \$5,024 million for the year ended July 31, 1997 ("fiscal 1997"). This reflects North American production sales increasing to \$3,848 million from \$3,393 million, European production sales increasing to \$1,452 million from \$981 million and consolidated tooling and other sales increasing to \$706 million from \$650 million, in each case for fiscal 1998 compared to fiscal 1997.

North American production sales in fiscal 1998 increased by 13.4% or \$455 million over the prior fiscal year. This increase resulted almost entirely from an improvement in Magna's average North American production content per vehicle, as fiscal 1998 North American production volumes were essentially unchanged from the prior fiscal year. Magna's average North American production content per vehicle increased by 12.4% during fiscal 1998 reflecting new production programs that commenced in the latter part of fiscal 1997 and fiscal 1998, the inclusion of the full year results of D&L which was acquired in the first quarter of fiscal 1997, the acquisition of Decomex in fiscal 1998 and an increase in reported production sales as a result of the strengthening of the U.S. dollar relative to the Canadian dollar during fiscal 1998.

European production sales for fiscal 1998 increased by 48% or \$471 million over fiscal 1997 to \$1,452 million. This was primarily a result of acquisitions completed in fiscal 1998, including YMOS, Roltra Morse, Paulisch and Steyr; the inclusion of the full year results of Caradon which was acquired in the second quarter of fiscal 1997 and of Tricom and GNG, each of which were acquired in the fourth quarter of fiscal 1997; and higher European production volumes and increased European production content per vehicle, offset in part by the reduction in production sales as a result of equity accounting the Company's remaining investment in MST commencing January 1997 and a decrease in reported production sales as a result of the decline in value of the German Deutschmark and Austrian Schilling relative to the Canadian dollar.

Tooling and other sales included in consolidated sales increased by 8.6% or \$56 million in fiscal 1998 to \$706 million, reflecting continued involvement by Magna in new programs and vehicle launches by OEM customers as well as the impact of acquisitions made in fiscal 1997 and fiscal 1998.

The Public Automotive segment's total sales amounted to \$1,184 million in fiscal 1998. Included in this amount are Decoma's total sales of \$762 million which increased by 22.7% or \$141 million over the prior fiscal year. The increase in Decoma's total sales was due to increased production content per vehicle on new and existing programs and the consolidation of Decomex which was acquired in fiscal 1998, partially offset by a \$23 million decrease in tooling sales in fiscal 1998. Also included in the Public Automotive segment's sales are Tesma's total sales of \$422 million which were 16.9% or \$61 million higher than fiscal 1997. Tesma's total sales increased due to increased North American and European production content per vehicle, higher tooling sales and the impact of recent acquisitions.

Magna's North America Automotive segment's total sales amounted to \$3,317 million in fiscal 1998. This includes: Cosma's total sales of \$1,418 million which increased by 6.9% or \$91 million over fiscal 1997, primarily as a result of increased production content per vehicle on new and existing programs and increased tooling sales to support new programs; MSS's total sales of \$1,098 million which increased by 7.2% or \$74 million over fiscal 1997, primarily as a result of increased production content per vehicle on new and existing programs, increased tooling sales to support new programs and the inclusion of the full year results of D&L which was acquired in the first quarter of fiscal 1997; MIS's total sales of \$175 million which increased by 12.9% or \$20 million over fiscal 1997, primarily related to sales on new programs; and Atoma's total sales of \$595 million which increased by 30.5% or \$139 million over fiscal 1997 primarily as a result of increased production content per vehicle on new and existing programs and the consolidation of Roltra Morse which was acquired in fiscal 1998.

Magna's Europe Automotive segment had total sales of \$1,573 million for fiscal 1998 which increased by 44.3% or \$483 million over fiscal 1997. The increase was primarily the result of the full year consolidation of Caradon, Tricom and GNG, the consolidation of YMOS, Paulisch and Steyr and increased production content per vehicle, partially offset by a reduction in sales arising from equity accounting Magna's remaining interest in MST from January 1997 until its disposition in January 1998. Steyr's total sales included in the Europe Automotive segment's fiscal 1998 total sales were \$150 million.

The sales amounts in the segmented discussion above are before intercompany eliminations.

Approximately 20% and 29% of Magna's consolidated production sales during fiscal 1998 and fiscal 1997, respectively, were in respect of products supplied for inclusion in five vehicle body types (including approximately 12% and 16% supplied for the DaimlerChrysler minivans during fiscal 1998 and fiscal 1997, respectively).

Facilities: As of July 31, 1998, Magna had 159 automotive manufacturing facilities (including 14 joint venture facilities), of which 96 are in North America, 61 are in Europe, one is in Brazil and one is in China, as well as 31 product development and engineering centres.

Gross Margin: Gross margin, as a percentage of consolidated sales, for fiscal 1998 was 17.5% compared to 17.2% for fiscal 1997. The increase in gross margin percentage was primarily a result of improved operating efficiencies at North American and European operations, reduced in part by the impact of the slow launch of the newly redesigned DaimlerChrysler LH mid-size vehicles in the first half of fiscal 1998 and the GM strike in the last quarter of fiscal 1998.

S,G&A: Selling, general and administrative expenses as a percentage of total sales was 6.7% in fiscal 1998 compared to 6.3% in the prior fiscal year. Expenditures on selling, general and administrative expenses were \$404 million for fiscal 1998 representing an increase of \$90 million over fiscal 1997. The dollar increase in these expenses was principally attributable to the selling, general and administrative expenses of the subsidiaries acquired during fiscal 1998 and fiscal 1997, the higher level of sales activity during fiscal 1998 and infrastructure costs to support the expected increase in sales as a result of new program awards.

Interest Income: Interest income (net of interest expense) decreased during fiscal 1998 by \$8 million to \$2 million, compared to \$10 million for fiscal 1997. This reflects higher interest expense due to the 4.875% convertible subordinated debentures issued in the third quarter of fiscal 1998 and reduced interest income earned by the Company due to lower average cash balances maintained during fiscal 1998 compared to the prior fiscal year. Lower average cash balances arose primarily due to increased spending on acquisitions, capital expenditures and investments during fiscal 1998.

Equity Income: Income from equity accounted investments decreased by \$6 million to \$15 million for fiscal 1998, compared to \$21 million for fiscal 1997. The decrease in equity income is due to the disposition of Magna's remaining interest in MST and TBCA in January 1998, offset in part by improved operating results of Magna's other equity accounted investments.

Operating Income: Operating income for fiscal 1998 was \$464 million, compared to \$429 million for fiscal 1997. The increase in operating income reflects the gross margin earned on the higher sales level and a higher gross margin percentage, offset in part by the impact of the slow launch of the DaimlerChrysler LH and the GM strike, a decrease in interest and equity income and increases in selling, general and administrative expenses and depreciation and amortization charges.

Other Income: During fiscal 1998 the Company recognized other income of \$35 million, consisting of a gain of \$25 million on the sale of its remaining 20% interest in MST and TBCA and a gain of \$10 million related to the reduction of Magna's ownership interest in Decoma International Inc., arising from the treasury issue to the public of shares by this subsidiary. During fiscal 1997 the Company recognized other income of \$124 million, consisting of a gain of \$97 million on the sale of an 80% interest in MST and TBCA and gains totalling \$27 million related to the reduction of its ownership interest in Tesma, arising from the treasury issue to the public of shares by Tesma, and the Company's sale of Tesma shares as part of such public offering.

Segmented Income: Magna's Public Automotive, North America Automotive and Europe Automotive segments generated income before income taxes and minority interest of \$70 million, \$269 million and \$83 million during fiscal 1998, respectively. The Public Automotive segmented income decreased by \$1 million over the prior fiscal year due to Tesma's settlement of the Stant litigation in the current period, launch costs at Bestop and certain of Decoma Exterior Trim's facilities, and costs incurred to restructure the operations of Bestop, offset in part by margin earned on increased sales. North America Automotive segmented income improved by \$28 million over the prior fiscal year due to margin earned on increased sales offset in part by increased selling, general and administrative costs and depreciation charges to support the higher sales activity. Europe Automotive segmented income decreased by \$79 million over the prior fiscal year. Excluding gains on the sale of MST and TBCA in fiscal 1998 and fiscal 1997, Europe Automotive segmented income decreased by \$7 million. This reflects reduced equity income and earnings as a result of the disposition of the remaining interests in MST and TBCA in fiscal 1998 and increases in selling, general and administrative expenses and depreciation and amortization costs to support the significant increase in the size of the Europe Automotive segment substantially offset by margin earned on increased sales. See Note 16 to the Consolidated Financial Statements for additional information.

Income Taxes: Magna's effective income tax rate for fiscal 1998 was 32.3%. Excluding other income and the related tax thereon, Magna's effective income tax rate for fiscal 1998 on operating income was 34.4%, which is an increase of 1.2% over the prior fiscal year primarily reflecting the lower level of equity income recognized in fiscal 1998 compared to fiscal 1997, which is not subject to tax. The effective income tax rate on other income recognized in the fiscal year was 5.7%, as the gain on the sale of MST and TBCA was subject to favourable foreign tax rates and the gain from the reduction in Magna's ownership interest in Decoma International Inc., arising from the treasury issue of shares by this subsidiary, was not subject to tax.

Minority Interest: Minority interest expense for fiscal 1998 decreased by \$1 million from fiscal 1997 to \$8 million as a result of the elimination of the remaining minority interest in certain subsidiaries during fiscal 1997 and fiscal 1998 and the sale of Magna's 80% interest in MST in the second quarter of fiscal 1997, offset in part by increased minority interest expense related to the reduction of the Company's ownership interests in Tesma in fiscal 1997 and Decoma International Inc. in fiscal 1998.

Earnings Per Share: On a fully diluted basis, earnings per share for fiscal 1998 was \$4.07 compared to \$5.07 in the prior fiscal year. Excluding other income, net of related income taxes, fiscal 1998 fully diluted earnings per share improved to \$3.66 from fiscal 1997 fully diluted earnings per share of \$3.60, despite the negative impact of the slow DaimlerChrysler LH launch and the GM strike in fiscal 1998. The average number of shares outstanding for fiscal 1998 on a fully diluted basis was approximately 83.7 million shares which was 4.4 million or 5.5% higher than in fiscal 1997, primarily as a result of the issuance of the 4.875% convertible subordinated debentures by the Company in the third quarter of fiscal 1998 and the issuance by the Company of Class A Subordinate Voting Shares through a public offering and as consideration on the acquisition of TRIAM, each during the fourth quarter of fiscal 1998.

IMPACT OF YEAR 2000 ISSUE

Certain computer software and microprocessors use two digits rather than four digits to define the applicable year. Any computer programs that have date-sensitive software and microprocessors may recognize a date using "00" as the year 1900 rather than the year 2000. This phenomenon (the "Year 2000 Issue") could cause a disruption of Magna's operations, including, among other things, a temporary inability to utilize manufacturing equipment, send invoices or engage in similar normal business activities.

Magna has dedicated internal and external resources at the corporate, group and divisional levels to address this challenge. The scope of this effort at Magna includes an extensive review of its operational and business systems, including assessments of the Year 2000 readiness of its customers, suppliers and business partners. Through its participation with the Automotive Industry Action Group ("AIAG"), Magna is following an approach to the Year 2000 Issue that is consistent with that taken by its customers and other automotive suppliers of similar stature.

The Company has a Year 2000 Project Management Office ("PMO") at the corporate level to ensure that each operating group and division within Magna systematically addresses the Year 2000 Issue. Each of Magna's operating groups has a Year 2000 Project Management function and all divisions have cross-functional teams to address issues within their respective facilities. The Company presently estimates that over 500 people within Magna are engaged in Year 2000-related activities on either a full-time or part-time basis. The Company has made Year 2000 readiness a part of its regular operational reviews and Executive Management is updated regularly. The PMO makes periodic reports on the progress of its Year 2000 efforts to Executive Management and the Audit Committee of the Company's Board of Directors.

During calendar 1998, the Company's Year 2000 efforts concentrated on manufacturing and processing equipment and its primary business computing systems. With respect to its manufacturing and processing systems, the Company believes that the processes of remediation and component level testing were substantially complete at December 31, 1998. System-wide testing will continue through the first half of calendar 1999 and is expected to be completed by June 30, 1999.

With respect to its primary administrative business computer systems, Magna predominantly utilizes a variety of commercial off-the-shelf software throughout its facilities which are common in the automotive industry. With these types of systems, remediation consists primarily of acquiring and installing upgrades or new releases from third party vendors that address the Year 2000 Issue. In certain cases, the necessary upgrades or new releases will not be available until early or mid-1999; however, the Company does not believe that these situations will materially impact the overall timetable for completion. The Company estimates that, as of December 31, 1998, approximately 60% of its primary administrative business computer systems were remediated and put into production, subject to final validation and testing as considered necessary which will take place during calendar 1999. Of the portion remaining, 19% require upgrades or new releases, 13% consist of replacements that are underway and 8% will be addressed by the above or through other means. The Company currently believes that substantially all of the remaining remediation activities will be completed by June 30, 1999.

Magna is continuing to communicate with suppliers to determine the extent to which it may be vulnerable to such parties' failure to remediate their own Year 2000 Issues. These activities take the form of paper-based surveys, face-to-face meetings with supplier representatives from critical suppliers and a limited number of on-site reviews of certain suppliers' Year 2000 preparedness. These activities commenced in mid-calendar 1998 and are expected to continue until approximately mid-calendar 1999. The information gained from these activities will then be factored into Magna's contingency plans.

Contingency plans for the Year 2000 Issue are being developed during the first half of calendar 1999 as scheduled, concurrent with ongoing system testing activities and the evaluations of suppliers' and customers' readiness. These contingency plans will be aimed at ensuring the continued operation of Magna's manufacturing facilities, including addressing the primary business computing systems required to support production and administrative functions. These plans will address critical systems even where remediation and testing are considered to have been completed, due to the possibility that certain elements may have been overlooked, or that testing did not reveal all areas of exposure, or that unanticipated problems encountered by third parties could have an impact on Magna's facilities or operations. Contingency measures will include, but will not necessarily be limited to, a combination of alternate processing facilities or capabilities, manual processes and safety stocks held by Magna's facilities and/or its suppliers.

In addition to its own personnel, external consultants have been and will continue to be employed to establish testing methodologies for industrial equipment, conduct internal assessments of Year 2000 activities and to assist with certain remediation efforts. Magna has also retained the services of two independent companies to perform limited reviews of the Year 2000 activities at a significant number (but not all) of its facilities in North America and Europe. These reviews will be conducted substantially to a standard that was developed by the AIAG and which has gained acceptance within the automotive industry in both North America and Europe. The reviews commenced in late calendar 1998 and are expected to be completed early in the second quarter of 1999. The purpose of these reviews is to assist management in making any necessary adjustments to its Year 2000 efforts to ensure that the necessary remediation activities, testing and contingency plans will be completed in a timely manner. In addition, Magna has undergone, and expects during 1999 to undergo similar reviews at certain of its facilities by other third parties on behalf of certain of its OEM customers.

Based on the results of its efforts to date, the Company believes that there are two scenarios arising from the Year 2000 Issue that are more likely than others to potentially impact on Magna. One such scenario is that one or more of Magna's OEM customers will not receive an adequate supply of necessary parts from a Tier One supplier, resulting in temporary disruption at one or more of the OEMs' facilities. Depending on the OEM facilities affected, this would likely result in reduced shipments from one or more of Magna's facilities, lowering sales and profits. However, the likelihood of this occurrence, which would probably be of short duration, combined with the diversification of Magna's sales across the OEM customer base and across vehicle platforms with any given customer, would mitigate the financial impact on Magna.

A second such scenario would be the failure on the part of one or more of Magna's suppliers to maintain deliveries of raw materials, components or utilities to one or more of Magna's manufacturing facilities. This could result in reduced shipments to OEM customers, leading to lower revenues and profits, and possibly other economic sanctions from any affected customer. Mitigating against this potential occurrence are Magna's efforts to ensure that its suppliers are addressing the Year 2000 Issue, together with the contingency measures that the Company expects to be able to put in place during calendar 1999. The diversification of Magna's revenues across its many production facilities is a further mitigating factor. If such a disruption arising from Magna's supplier base were to occur, the Company believes that it would probably be of short duration and limited impact.

Magna has determined that it will be required to either modify or replace significant portions of its computer software or microprocessors other than in its manufacturing and processing equipment in order to accurately process dates. The cost of this activity, which is not anticipated to have a material adverse effect on the financial condition of Magna, is currently estimated to be \$20 million, of which \$12 million will be capitalized and the remainder will be expensed. Of these amounts, \$6 million was incurred through December 31, 1998, of which \$4 million was capitalized and \$2 million was expensed. The Company expects that the greater part of the remaining expenditures will be made during the first half of calendar 1999. The above expenditures reflect the incremental amounts that are considered to be required solely to address the Year 2000 Issue. Where such expenditures were made in the normal course of business, but may also have addressed the Year 2000 Issue, the amounts are not considered to be Year 2000 costs. Magna incurred total capital expenditures for computer hardware and software of \$15 million and \$22 million in the five months ended December 31, 1998 and in the year ended July 31, 1998, respectively.

In summary the Company believes that it is making every reasonable effort to resolve the Year 2000 Issue and to mitigate its potential effects on its business. Based on its current assessment, the Company believes that the Year 2000 Issue will not have a material adverse impact on Magna's results of operations and financial condition, but given the inherent complexities of the issue as a result of the interrelationships amongst Magna and its business partners there can be no assurance that Magna can achieve Year 2000 compliance and thus guarantee the success of its remediation efforts.

EURO CONVERSION

On January 1, 1999, eleven member countries of the European Union established fixed conversion rates between their legacy currencies and a new currency, the "Euro". The eleven member countries have adopted the Euro as their common legal currency and no longer control their own monetary policies, which are now directed by a new European Central Bank. The legacy currencies of each participating country will remain as legal tender in the participating countries as denominations of the Euro until December 31, 2001, after which time each participating country will issue new Euro-denominated currency for cash transactions. Many of Magna's automotive customers in Europe are expected to require that transactions be denominated in Euro before December 31, 2001. Where necessary, Magna's relevant systems have been modified to accommodate the Euro in addition to accommodating certain historic legacy currencies. The remaining relevant systems will be modified over the period to December 31, 2001 as necessary in order to meet customer and other requirements. Based on the Company's current assessment, the Euro conversion and elimination of legacy currencies is not expected to have a material adverse impact on the results of operations and financial condition of Magna.

FORWARD-LOOKING STATEMENTS

The previous discussion contains statements which, to the extent that they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. The words "estimate", "anticipate", "believe", "expect", and similar expressions are intended to identify forward-looking statements. Such forward-looking information involves important risks and uncertainties that could materially alter results in the future from those expressed in any forward-looking statements made by, or on behalf of, Magna. These risks and uncertainties include, but are not limited to, industry cyclicality, trade and labour disruptions, pricing concessions and cost absorptions, dependence on certain vehicles and major OEM customers, currency exposure, technological developments by Magna's competitors, government and regulatory policies, changes in the competitive environment in which Magna operates and the impact of the Year 2000 Issue. Persons reading this Management's Discussion and Analysis of Results of Operations and Financial Condition are cautioned that such statements are only predictions and that actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors which could cause actual events or results to differ materially from those indicated by such forward-looking statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Company's management is responsible for the preparation and presentation of the consolidated financial statements and all the information in this Report to Shareholders. The consolidated financial statements were prepared by management in accordance with accounting principles generally accepted in Canada. Where alternative accounting methods exist, management has selected those it considered to be most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis designed to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this Report to Shareholders has been prepared by management to ensure consistency with that in the consolidated financial statements. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of the Company.

Management is responsible for the development and maintenance of systems of internal accounting and administrative cost controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that Magna's assets are appropriately accounted for and adequately safeguarded.

The Company's Audit Committee is appointed by its Board of Directors annually and is comprised solely of outside directors. The Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent auditors' report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the Company. The independent auditors have full and unrestricted access to the Audit Committee.

Magna International Inc.

February 26, 1999.

AUDITORS' REPORT

To the Shareholders of **Magna International Inc.**

We have audited the consolidated balance sheets of **Magna International Inc.** as at December 31, 1998 and July 31, 1998 and the consolidated statements of income and retained earnings and cash flows for the five month period ended December 31, 1998 and for each of the years in the three year period ended July 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and July 31, 1998 and the results of its operations and its cash flows for the five month period ended December 31, 1998 and for each of the years in the three year period ended July 31, 1998 in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Toronto, Canada,
February 26, 1999
(except as to Note 18(a)
which is as of March 5, 1999).

Ernst & Young LLP
Chartered Accountants

Significant Accounting Policies

Basis of Presentation

Magna International Inc. changed its fiscal year end from July 31 to December 31, effective December 31, 1998. For comparative purposes, unaudited consolidated statements of income and retained earnings and cash flows for the five month period ended January 31, 1998 have been presented.

The consolidated financial statements have been prepared in U.S. dollars following accounting policies generally accepted in Canada. These policies are also in conformity, in all material respects, with accounting policies generally accepted in the United States, except as described in note 19 to the consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of Magna International Inc. and its subsidiaries [the "Company"], some of which have a minority interest. The Company accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant intercompany balances and transactions have been eliminated.

Reporting Currency

Historically, the Company's consolidated financial statements have been presented in Canadian dollars. In order to more fully reflect the global nature of the Company's business and to improve investors' ability to compare the Company's results with those of most other publicly traded businesses in the automotive industry, the U.S. dollar has been adopted as the Company's reporting currency effective December 31, 1998. The consolidated financial statements and notes thereto have been restated in U.S. dollars for all periods presented, in accordance with accounting principles generally accepted in Canada, using the December 31, 1998 exchange rate of Cdn\$1.5305 per US\$1.00. The functional currencies of each of the Company's operations are unchanged.

For periods up to and including December 31, 1998, the assets and liabilities of the Company's operations having a functional currency other than the Canadian dollar were translated into Canadian dollars using the exchange rate in effect at the period-end and revenues and expenses were translated at the average rate during the period. Exchange gains or losses on translation of the Company's net equity investment in these operations were deferred as a separate component of shareholders' equity.

For years after December 31, 1998, the assets and liabilities of the Company's operations having a functional currency other than the U.S. dollar will be translated into U.S. dollars using the exchange rate in effect at the year-end and revenues and expenses will be translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations will be deferred as a separate component of shareholders' equity.

The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction, as a result of capital transactions, in the Company's net investment in the operations that gave rise to such exchange gains and losses.

Foreign exchange gains and losses on transactions occurring in a currency different than an operation's functional currency were, and will continue to be, reflected in income except for gains and losses on foreign exchange contracts used to hedge specific future commitments in foreign currencies. Gains or losses on these contracts are accounted for as a component of the related hedged transaction. Gains and losses on translation of foreign currency long-term monetary liabilities are deferred and amortized over the period to maturity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on account, demand deposits and short-term investments with original maturities of less than three months and excludes outstanding cheques, which are classified as accounts payable.

Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overhead.

Investments

The Company accounts for its investments in which it has significant influence on the equity basis.

Fixed Assets

Fixed assets are recorded at historical cost including interest capitalized on construction in progress and land under development less related government subsidies.

Depreciation is provided on a straight-line basis over the estimated useful lives of fixed assets at annual rates of 2 1/2% to 5% for buildings, 7% to 10% for general purpose equipment and 10% to 30% for special purpose equipment.

Costs incurred in establishing new facilities which require substantial time to reach commercial production capability are capitalized as deferred preproduction costs. Amortization is provided over periods up to five years from the date commercial production is achieved.

Goodwill

Goodwill, which represents the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions, is amortized over periods ranging from 20 to 40 years. The Company reviews the valuation and amortization periods of goodwill whenever events or changes in circumstances warrant such a review. In doing so, the Company evaluates whether there has been a permanent impairment in the value of unamortized goodwill based on the estimated undiscounted cash flows of each business to which the goodwill relates.

Convertible Subordinated Debentures

The Company's convertible subordinated debentures are recorded in part as debt and in part as shareholders' equity.

The debt component consists of the present value of the future interest payments on the convertible subordinated debentures to maturity and is presented as debentures' interest obligation. Interest on the debt component is recognized in income as incurred.

The equity component includes the present value of the principal amount of the convertible subordinated debentures which can be satisfied by issuing Class A Subordinate Voting Shares of the Company at the option of the Company. This amount will be accreted to the face value of the convertible subordinated debentures over the term to maturity through periodic charges, net of income taxes, to retained earnings. Also included in the equity component is the value of the holder's option to convert the convertible subordinated debentures into Class A Subordinate Voting Shares of the Company. The holders' conversion options are valued using a residual value approach. The equity components are disclosed as other paid-in capital in shareholders' equity.

Revenue Recognition

Revenue from the sale of manufactured products is recognized upon shipment to customers.

Government Financing

The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which the Company operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are recorded as a reduction of expense at the time the eligible expenses are incurred. The Company also receives loans which are recorded as liabilities in amounts equal to the cash received.

Research and Development

The Company carries on various applied research and development programs, certain of which are partially or fully funded by governments or by customers of the Company. Funding received is accounted for using the cost reduction approach. Research costs are expensed as incurred and development costs which meet certain criteria where future benefit is reasonably certain or which will be reimbursed by customers are deferred to the extent of their estimated recovery.

Income Taxes

In the year ended July 31, 1998, the Company adopted the liability method of tax allocation for accounting for income taxes as provided for in the new recommendations of The Canadian Institute of Chartered Accountants. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Under this method, future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

Earnings Per Share

Basic earnings per share are calculated on net income less the accretion of other paid-in capital using the weighted average number of shares outstanding during the year.

Fully diluted earnings per share are calculated on the weighted average number of shares that would have been outstanding during the year had all the dilutive options and convertible subordinated debentures been exercised or converted into Class A Subordinate Voting Shares at the beginning of the year, or date of issuance, if later. The earnings applicable to the Class A Subordinate Voting Shares and Class B Shares are increased by the amount of interest, net of applicable taxes, that would have been earned on funds received due to the exercise of the options and by the amount of financing costs, net of applicable taxes, that would have been eliminated due to the conversion of the convertible subordinated debentures.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the amounts reported and disclosed in the consolidated financial statements. Actual results could differ from those estimates.

Consolidated Statements of Income and Retained Earnings

[U.S. dollars in millions, except per share figures]

	Note	Five month periods ended		Years ended July 31,		
		December 31, 1998	January 31, 1998	1998	1997	1996
			[unaudited]			
Sales		\$3,396	\$2,381	\$6,006	\$5,024	\$3,826
Cost of goods sold		2,833	1,970	4,955	4,160	3,143
Depreciation and amortization		126	76	200	152	124
Selling, general and administrative		229	166	404	314	247
Interest (income) expense, net	9, 10	(1)	1	(2)	(10)	(3)
Equity income		(6)	(6)	(15)	(21)	(13)
Operating income		215	174	464	429	328
Other income	3, 4		25	35	124	
Income before income taxes and minority interest		215	199	499	553	328
Income taxes	8	73	62	161	152	106
Minority interest		5	3	8	9	13
Net income		137	134	330	392	209
Retained earnings, beginning of period		1,108	870	850	523	368
		1,245	1,004	1,180	915	577
Accretion of other paid-in capital		(10)	(6)	(19)	(13)	(9)
Dividends on Class A Subordinate Voting Shares and Class B Shares		(33)	(29)	(61)	(52)	(45)
Cumulative adjustment for change in accounting policy	8			8		
Retained earnings, end of period		\$1,202	\$ 969	\$1,108	\$ 850	\$ 523
Earnings per Class A Subordinate Voting Share or Class B Share:						
Basic		\$ 1.62	\$ 1.82	\$ 4.34	\$ 5.41	\$ 3.20
Fully diluted		\$ 1.55	\$ 1.72	\$ 4.07	\$ 5.07	\$ 3.08
Cash dividends paid per Class A Subordinate Voting Share or Class B Share		\$ 0.22	\$ 0.41	\$ 0.84	\$ 0.74	\$ 0.71
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the period [in millions]:						
Basic		78.4	71.2	71.9	70.4	62.2
Fully diluted		91.3	80.2	83.7	79.3	69.6

See accompanying notes

Consolidated Statements of Cash Flows

[U.S. dollars in millions]

	Note	Five month periods ended		Years ended July 31,		
		December 31, 1998	January 31, 1998	1998	1997	1996
			[unaudited]			
Cash provided from (used for):						
OPERATING ACTIVITIES						
Net income		\$137	\$134	\$330	\$392	\$209
Items not involving current cash flows	15	144	52	203	57	143
		281	186	533	449	352
Changes in non-cash working capital	15	(97)	(135)	(121)	19	(147)
		184	51	412	468	205
INVESTMENT ACTIVITIES						
Fixed asset additions		(383)	(265)	(659)	(471)	(216)
Purchase of subsidiaries	2	(145)	(99)	(427)	(230)	(96)
Increase in investments and other		(43)	(29)	(100)	(32)	(15)
Proceeds from disposition of investments and other	3,4	24	107	172	256	13
		(547)	(286)	(1,014)	(477)	(314)
FINANCING ACTIVITIES						
Issues of debt	9	209	114	66	38	21
Issues of convertible subordinated debentures	10			435		297
Issues of Class A Subordinate Voting Shares	11			260		331
Issues of shares by subsidiaries	4		1	29	45	
Repayments of debt	9	(15)	(5)	(68)	(118)	(18)
Repayments of debentures' interest obligation	10	(12)	(7)	(15)	(14)	(8)
Repayment of notes payable on acquisition of subsidiary						(23)
Dividends paid to minority interests		(1)		(1)	(5)	(1)
Dividends		(17)	(29)	(60)	(52)	(45)
		164	74	646	(106)	554
Effect of exchange rate changes on cash and cash equivalents		16	10	49	(23)	(3)
Net (decrease) increase in cash and cash equivalents during the period		(183)	(151)	93	(138)	442
Cash and cash equivalents, beginning of period		667	449	574	712	270
Cash and cash equivalents, end of period		\$484	\$298	\$667	\$574	\$712

See accompanying notes

[U.S. dollars in millions]

	Note	As at December 31, 1998	As at July 31, 1998
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 484	\$ 667
Accounts receivable	17	1,452	1,177
Inventories	6	681	715
Prepaid expenses and other		54	49
		2,671	2,608
Investments	17	106	97
Fixed assets, net	7	2,873	2,442
Goodwill, net	2	306	304
Other assets		209	182
		\$6,165	\$5,633
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Bank indebtedness	9	\$ 262	\$ 151
Accounts payable		1,281	1,166
Accrued salaries and wages		237	227
Other accrued liabilities		333	255
Income taxes payable	8	41	47
Long-term debt due within one year	9	42	46
		2,196	1,892
Long-term debt	9	205	136
Debentures' interest obligation	10	181	192
Future tax liabilities	8	55	59
Minority interest	2	117	123
Shareholders' equity:			
Capital stock	11		
Class A Subordinate Voting Shares			
[issued: December 31, 1998 – 77,256,183; July 31, 1998 – 77,253,520]		1,430	1,430
Class B Shares			
[convertible into Class A Subordinate Voting Shares] [issued: December 31, 1998 – 1,098,109; July 31, 1998 – 1,098,309]		1	1
Other paid-in capital	10	599	585
Retained earnings	5,8	1,202	1,108
Currency translation adjustment	13	179	107
		3,411	3,231
		\$6,165	\$5,633

See accompanying notes

On behalf of the Board:


Director


Chairman of the Board

Notes to Consolidated Financial Statements

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in millions)

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company are set out under "Significant Accounting Policies" preceding these consolidated financial statements.

2. BUSINESS ACQUISITIONS

The following acquisitions were accounted for using the purchase method:
Acquisitions in the five month period ended December 31, 1998

Steyr

During the five month period ended December 31, 1998, the remaining 6% minority interest in Steyr-Daimler-Puch AG ["SDP"] was purchased by the Company for total cash consideration of \$17 million.

Santa Anita

During December 1998, the Company completed the acquisition of the Santa Anita Race Track and approximately 305 acres of related real estate for \$126 million.

Summary of acquisitions in the five month period ended December 31, 1998

Consideration paid for acquisitions, including the transactions described above, consisted of cash consideration of \$145 million. The net effect on the Company's consolidated balance sheet was a decrease in net working capital of \$1 million, increases in fixed and other assets of \$129 million, an increase in goodwill of \$4 million and a decrease in minority interest of \$13 million.

Acquisitions in the year ended July 31, 1998

Decomex

In August 1997, the Company acquired 70% of Decomex Inc. ["Decomex"] for cash consideration of \$18 million. Decomex was formed to purchase the operations and assets of Moldes Para Plastico Ayareb, S.A. de C.V., a Mexican based manufacturer of fascias, grilles and other exterior appearance components.

YMOS Automotive Group

The Company acquired the operations of the YMOS Automotive Group ["YMOS"], a European based manufacturer of exterior and interior components, for cash consideration of \$95 million. The results of operations for YMOS are included in the Company's consolidated results commencing November 1997.

Roltra Morse

In February 1998, all of the outstanding share capital of Roltra Morse S.p.A. ["Roltra Morse"] was acquired by the Company for cash consideration of \$28 million. Roltra Morse is a European and South American based supplier of automotive latches, window regulators, cable systems, door modules and gear shift mechanisms.

Paulisch

The Company purchased all the outstanding share capital and limited partnership interests of Paulisch GmbH & Co. KG ["Paulisch"] for cash consideration of \$17 million. Paulisch manufactures complete seats, seat frames and other seating components for the European automotive industry. The results of operations of Paulisch are included in the Company's consolidated results commencing March 1998.

TRIAM

In May 1998, the Company acquired all the outstanding share capital of TRIAM Automotive Inc. ["TRIAM"], a North American based manufacturer of automotive components. Consideration amounted to \$51 million and consisted of cash and the issuance of 629,887 Class A Subordinate Voting Shares of the Company.

Steyr

In June 1998, the Company initially acquired a 66.8% share interest in SDP and the 50% interest in Steyr-Daimler-Puch Fahrzeugtechnik AG & Co. KG not held by SDP [collectively "Steyr"]. Subsequent to the initial acquisition, an additional 27.2% share interest in SDP was purchased. The total cash consideration paid for these transactions was \$248 million (net of cash acquired of \$127 million). Steyr, an Austrian based company, assembles complete vehicles for OEMs, provides vehicle engineering services and produces a variety of components, including 4-wheel drive transmission systems, for the European automotive industry. SDP also owns several businesses outside the Company's core automotive systems operations, certain of which will be sold. Business units to be sold are not significant to

the Company. Subsequent to December 31, 1998, the Company sold one of these businesses for cash proceeds of \$34 million and a note receivable of \$24 million. No gain or loss arose on this transaction.

Summary of acquisitions in the year ended July 31, 1998

Consideration paid for acquisitions, including the transactions described above, consisted of cash and share consideration of \$471 million. The net effect on the Company's consolidated balance sheet was a decrease in net working capital of \$8 million and increases in fixed assets of \$604 million, goodwill of \$119 million, debt of \$247 million, future tax assets of \$22 million and minority interest of \$19 million.

Acquisitions in the year ended July 31, 1997

D&L

The Company acquired all of the common shares of Douglas & Lomason Company ["D&L"], a U.S. based manufacturer of seating systems, seat frames, seat mechanisms, other seating components and soft tops, for cash consideration of \$119 million. D&L's results of operations are included in the Company's consolidated results commencing October 1996.

Caradon Automotive Components Group

In December 1996, the Company acquired the Caradon Automotive Components Group, a U.K. based manufacturer of exterior components, for cash consideration of \$29 million.

Atoma

The remaining minority interest in Atoma International Inc. ["Atoma"] was acquired for a purchase price of \$76 million. The purchase price was satisfied by the issuance of 1,572,911 Class A Subordinate Voting Shares of the Company and the transfer of 99,397 Series 1 Preferred Shares of a subsidiary of the Company, Tesma International Inc. ["Tesma"], that were owned by the Company.

GNG

All of the outstanding share capital of Georg Naher GmbH ["GNG"], a European based manufacturer of trunk linings, interior panels and multi-functional carpet and sound insulation systems, was acquired by the Company for cash consideration of \$32 million. GNG's results of operations are included in the Company's consolidated results commencing May 1997.

Tricom

In May 1997, the Company acquired all of the outstanding share capital of Tricom Group Holdings Limited, a U.K. based company which designs, engineers and manufactures complete seats, seat frames and other seating components, for cash consideration of \$46 million.

Summary of acquisitions in the year ended July 31, 1997

Consideration paid for acquisitions, including the transactions described above, consisted of cash and share consideration of \$305 million. The net effect on the Company's consolidated balance sheet were increases in net working capital of \$26 million, fixed assets of \$179 million, goodwill of \$141 million, debt of \$81 million and future tax liabilities of \$6 million and a decrease in minority interest of \$46 million.

Acquisitions in the year ended July 31, 1996

Marley Automotive Components Group

In April 1996, the Company acquired the Marley Automotive Components Group, a U.K. based manufacturer of interior components, for cash consideration of \$72 million.

Pebra

In July 1996, the Company acquired substantially all of the automotive components operations and assets of Pebra GmbH Paul Braun, a German based manufacturer of exterior components, for cash consideration of \$19 million.

Summary of acquisitions in the year ended July 31, 1996

Consideration paid for acquisitions, including the transactions described above, consisted of cash of \$96 million. The net effect on the Company's consolidated balance sheet were increases in net working capital of \$7 million, fixed assets of \$58 million, goodwill of \$30 million and debt of \$2 million and a decrease in minority interest of \$3 million.

Notes to Consolidated Financial Statements

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in millions)

Pro-forma Impact

If the acquisitions and disposals completed during the five month period ended December 31, 1998 and the years ended July 31, 1998 and 1997 had occurred on August 1, 1996, the Company's unaudited pro-forma consolidated sales would have been \$3.4 billion for the five month period ended December 31, 1998 [for the years ended July 31, 1998 – \$7.0 billion; 1997 – \$6.6 billion] and there would have been no material impact on the net income of the Company.

3. MST AND TBCA TRANSACTIONS

During the year ended July 31, 1997, the Company purchased the remaining interests not owned by it in MST Automotive GmbH ["MST"] and TEMIC Bayern-Chemie Airbag GmbH ["TBCA"] and immediately resold an 80% interest in these companies. During the year ended July 31, 1998, the Company sold its remaining 20% interest in MST and TBCA. The Company recognized gains on these transactions of \$97 million and \$25 million, respectively, which have been reported in other income.

4. SUBSIDIARY PUBLIC OFFERINGS

During the year ended July 31, 1998, Decoma International Inc. ["Decoma"], a subsidiary of the Company, completed an initial public offering by issuing shares to third parties for aggregate cash consideration, net of share issue expenses, of \$26 million. The Company recognized a gain of \$10 million from its ownership dilution arising from the issue. The gain realized was not subject to income taxes as the issue was completed on a primary basis by Decoma.

During the year ended July 31, 1997, Tesma completed a public offering by issuing shares for aggregate cash consideration, net of share issue expenses, of \$44 million. The Company recognized a gain of \$22 million from its ownership dilution arising from the issue. The gain realized was not subject to income taxes as the issue was completed on a primary basis by Tesma. The Company also recorded a gain of \$5 million on the sale of 1,000,000 Class A Subordinate Voting Shares of Tesma acquired on the conversion of 110,250 Series 3 Preferred Shares of Tesma.

The gains described above have been reported in other income.

5. INTERESTS IN JOINTLY CONTROLLED ENTITIES

The following is the Company's combined proportionate share of the major components of the financial statements of the jointly controlled entities in which the Company has an interest (before eliminations):

Balance Sheets

	December 31, 1998	July 31, 1998
Current assets	\$165	\$152
Long-term assets	129	124
Current liabilities	98	82
Long-term liabilities	39	34

Statements of Income

	Five month period ended			
	December 31, 1998	1998	1997	1996
Sales	\$260	\$517	\$478	\$315
Cost of goods sold, expenses and income taxes	249	492	445	293
Net income	\$ 11	\$ 25	\$ 33	\$ 22

Statements of Cash Flows

	Five month period ended			
	December 31, 1998	1998	1997	1996
Cash provided from (used for):				
Operating activities	\$ 16	\$ 68	\$ 49	\$ 34
Investment activities	(18)	(27)	(21)	(16)
Financing activities	(3)	(30)	(14)	(17)

The Company's share of equity in jointly controlled entities includes undistributed earnings of \$88 million [July 31, 1998 – \$87 million].

6. INVENTORIES

Inventories consist of:

	December 31, 1998	July 31, 1998
Raw materials and supplies	\$ 239	\$ 238
Work-in-process	108	126
Finished goods	131	137
Tooling and other	203	214
	\$ 681	\$ 715

7. FIXED ASSETS

Fixed assets consist of:

	December 31, 1998	July 31, 1998
Land	\$ 381	\$ 260
Buildings	851	722
Machinery and equipment	2,550	2,322
	3,782	3,304
Accumulated depreciation [i]	940	874
	2,842	2,430
Deferred preproduction costs	31	12
	\$2,873	\$2,442

Notes:

- [i] Accumulated depreciation includes \$128 million for buildings [July 31, 1998 – \$136 million] and \$812 million for machinery and equipment [July 31, 1998 – \$738 million].
- [ii] Included in the cost of fixed assets are construction in progress expenditures of \$385 million [July 31, 1998 – \$457 million].
- [iii] Interest capitalized on construction in progress in the five month period ended December 31, 1998 amounted to \$3 million [for the years ended July 31, 1998 – \$4 million; 1997 – \$5 million; 1996 – nil].

8. INCOME TAXES

- [a] In the year ended July 31, 1998, the Company adopted the liability method of tax allocation for accounting for income taxes. The consolidated financial statements for periods prior to the year ended July 31, 1998 have not been restated. The cumulative effect, as at August 1, 1997, of adopting these recommendations was a reduction in future tax liabilities and an increase in retained earnings of \$8 million. There was no material impact on net income for the five month period ended December 31, 1998 and the year ended July 31, 1998.
- [b] The provision for income taxes differs from the expense that would be obtained by applying Canadian statutory rates as a result of the following:

	Five month period ended			
	December 31, 1998	1998	1997	1996
Canadian statutory income tax rate	44.6%	44.6%	44.6%	44.6%
Manufacturing and processing profits deduction	(9.0)	(9.0)	(9.0)	(9.0)
Expected income tax rate	35.6	35.6	35.6	35.6
Foreign rate differentials	(0.9)	0.2	0.2	(0.7)
Earnings of equity investees	(1.0)	(1.1)	(1.3)	(1.3)
Gains on sale and issues of shares by subsidiaries		(2.1)	(6.5)	
Other	0.3	(0.3)	(0.5)	(1.3)
Effective income tax rate	34.0%	32.3%	27.5%	32.3%

- [c] The details of income before income taxes and minority interest by jurisdiction are as follows:

	Five month period ended			
	December 31, 1998	1998	1997	1996
Canadian	\$161	\$348	\$353	\$248
Foreign	54	151	200	80
	\$215	\$499	\$553	\$328

Notes to Consolidated Financial Statements

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in millions)

[d] The details of the income tax provision are as follows:

	Five month period ended			
	December 31, 1998	Years ended July 31,		
	1998	1998	1997	1996
Current provision -				
Canadian federal taxes	\$34	\$ 54	\$ 70	\$ 46
Provincial taxes	20	33	41	28
Foreign taxes	7	39	26	23
	61	126	137	97
Future provision -				
Canadian federal taxes	4	23	7	4
Provincial taxes	2	14	5	3
Foreign taxes	6	(2)	3	2
	12	35	15	9
	\$73	\$161	\$152	\$106

[e] Future income taxes have been provided on temporary and timing differences which consist of the following:

	Five month period ended			
	December 31, 1998	Years ended July 31,		
	1998	1998	1997	1996
Costs capitalized for accounting [net of amortization], deducted for tax	\$ 8	\$ 15	\$ 7	\$ 2
Tax depreciation in excess of book depreciation	6	17	7	9
Other	(2)	3	1	(2)
	\$12	\$ 35	\$ 15	\$ 9

[f] Future tax assets and liabilities consist of the following temporary differences:

	December 31, 1998	July 31, 1998
Assets:		
Tax benefit of loss carry forwards		
Pre-acquisition	\$47	\$53
Post acquisition	53	21
Share and convertible subordinated debenture issue costs	6	7
	106	81
Valuation allowance against tax benefit of loss carryforwards		
Pre-acquisition	(37)	(37)
Post acquisition	(12)	(12)
	57	32
Liabilities:		
Tax depreciation in excess of book depreciation	95	89
Other	17	2
	112	91
Net future income taxes	\$55	\$59

[g] Income taxes paid in cash were \$79 million for the five month period ended December 31, 1998 [for the years ended July 31, 1998 - \$119 million; 1997 - \$103 million; 1996 - \$121 million].

[h] At December 31, 1998, the Company has income tax loss carryforwards of approximately \$139 million which relate to certain foreign subsidiaries, including \$110 million of losses obtained on acquisitions, the tax benefits of which have not been recognized in the consolidated financial statements. Of the total losses, \$75 million expire between 1999 and 2005 and the remainder have no expiry date.

[i] Consolidated retained earnings includes approximately \$430 million at December 31, 1998 of undistributed earnings of foreign subsidiaries that may be subject to tax if remitted to the Canadian parent company. No provision has been made for such taxes as these earnings are considered to be reinvested on a long term basis.

9. DEBT AND COMMITMENTS

[a] The Company's long-term debt, which is substantially unsecured, consists of the following:

	December 31, 1998	July 31, 1998
Loans from governments at a weighted average interest rate of approximately 4%, denominated primarily in Austrian Schillings and Deutschmarks	\$141	\$ 67
Bank term debt at a weighted average interest rate of approximately 5%, denominated primarily in Austrian Schillings and Deutschmarks	84	94
Other	22	21
	247	182
Less due within one year	42	46
	\$205	\$136

[b] Future principal repayments on long-term debt are estimated to be as follows:

1999	\$ 42
2000	42
2001	30
2002	25
2003	22
Thereafter	86
	\$247

[c] At December 31, 1998, the Company has operating lines of credit totalling \$350 million and term lines of credit totalling \$332 million. The Company had outstanding letters of credit in the amount of \$32 million drawn under its lines of credit. In addition to cash resources of \$484 million, the Company had unused and available operating lines of credit of approximately \$56 million and term lines of credit of approximately \$85 million. Subsequent to December 31, 1998, the Company increased its operating lines of credit to \$873 million.

[d] Under the terms of the Company's operating and term credit agreements, it is permitted to make use of bankers' acceptances and commercial paper to borrow at effective interest rates which are, from time to time, lower than those charged under the bank lines of credit.

[e] Net interest income includes:

	Five month period ended			
	December 31, 1998	Years ended July 31,		
	1998	1998	1997	1996
Interest expense	\$11	\$ 24	\$ 13	\$ 15
Interest income	(12)	(26)	(23)	(18)
Net interest income	\$ (1)	\$ (2)	\$ (10)	\$ (3)

[f] At December 31, 1998, the Company had commitments under operating leases requiring annual rental payments as follows:

1999	\$ 60
2000	54
2001	44
2002	39
2003	36
Thereafter	133
	\$366

For the five month period ended December 31, 1998, payments under operating leases amounted to approximately \$29 million [for the years ended July 31, 1998 - \$46 million; 1997 - \$35 million; 1996 - \$29 million].

10. CONVERTIBLE SUBORDINATED DEBENTURES

[a] The convertible subordinated debentures are recorded as components of debt and shareholders' equity and are presented in the consolidated financial statements as follows:

	December 31, 1998	July 31, 1998
Debentures' interest obligation	\$181	\$192
Present value of the face amount of the convertible subordinated debentures	\$526	\$512
Holders' conversion option	79	79
Issue costs related to equity components	(6)	(6)
Total other paid-in capital	\$599	\$585

Notes to Consolidated Financial Statements

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in millions)

[b] The following is a summary of the convertible subordinated debentures:

4.875% Convertible Subordinated Debentures

On February 13, 1998, the Company issued \$480 million of 4.875% convertible subordinated debentures at par. The unsecured debentures, which are denominated in U.S. dollars, are convertible at any time at the option of the holders into Class A Subordinate Voting Shares at a conversion price of \$76.17 per share and mature on February 15, 2005. The debentures are redeemable after February 16, 2001 or at any time in the event of certain changes affecting Canadian withholding taxes, at par plus accrued and unpaid interest. Upon redemption or maturity of the debentures, or repurchase in the event of certain changes in control of the Company, the Company may at its option satisfy the amounts payable by issuing to the holders Class A Subordinate Voting Shares of the Company, based on a weighted average trading price of Class A Subordinate Voting Shares, provided that there is no continuing event of default. At December 31, 1998, all debentures remained outstanding.

5% Convertible Subordinated Debentures

On October 17, 1995, the Company issued \$345 million of 5% convertible subordinated debentures at par. The unsecured debentures, which are denominated in U.S. dollars, are convertible at any time at the option of the holders into Class A Subordinate Voting Shares at a conversion price of \$54.40 per share and mature on October 15, 2002. The debentures are redeemable after October 14, 1998 or at any time in the event of certain changes affecting Canadian withholding taxes, at par plus accrued and unpaid interest. Upon redemption or maturity of the debentures, or repurchase in the event of certain changes in control of the Company, the Company may at its option satisfy the amounts payable by issuing to the holders Class A Subordinate Voting Shares of the Company, based on a weighted average trading price of Class A Subordinate Voting Shares, provided that there is no continuing event of default. At December 31, 1998, there were debentures with a face value of \$344.5 million outstanding [July 31, 1998 - \$344.6 million].

7.25% Convertible Unsecured Subordinated Debentures

In July 1998, all of the outstanding 7.25% convertible unsecured subordinated debentures, which were to mature on July 5, 2005, were retired primarily in exchange for Class A Subordinate Voting Shares at a conversion price of Cdn\$60.25 per share.

11. CAPITAL STOCK

[a] The Company's authorized, issued and outstanding capital stock is as follows:

Preference shares – issuable in series –

The Company's authorized capital stock includes 99,760,000 preference shares, issuable in series. None of these shares are currently issued or outstanding.

Class A Subordinate Voting Shares and Class B Shares –

Class A Subordinate Voting Shares without par value [unlimited amount authorized] have the following attributes:

- [i] Each share is entitled to one vote per share at all meetings of shareholders.
- [ii] Each share shall participate equally as to dividends with each Class B Share.

Class B Shares without par value [authorized – 1,412,341] have the following attributes:

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

In the event that either the Class A Subordinate Voting 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.

[b] Changes in the Class A Subordinate Voting Shares and Class B Shares for the five month period ended December 31, 1998 and for each of the years in the three year period ended July 31, 1998 are shown in the following table (number of shares in the following table are expressed in whole numbers and have not been rounded to the nearest million):

	Class A		Class B	
	Number of shares	Stated value	Number of shares	Stated value
Issued and outstanding at July 31, 1995	60,331,027	\$ 621	1,104,309	\$1
Conversion of Class B Shares to Class A Shares	6,000		(6,000)	
Issued under the Dividend Reinvestment Plan	982			
Conversion of 7.25% convertible subordinated debentures	3,601			
Issued for cash	8,165,000	335		
Issued and outstanding at July 31, 1996	68,506,610	956	1,098,309	1
Issued for cash under the 1987 Incentive Stock Option Plan	3,500			
Issued under the Dividend Reinvestment Plan	1,533			
Issued on acquisition of a subsidiary	1,572,911	68		
Issued and outstanding at July 31, 1997	70,084,554	1,024	1,098,309	1
Issued for cash under the 1987 Incentive Stock Option Plan	16,100	1		
Issued under the Dividend Reinvestment Plan	5,498			
Conversion of 5% convertible subordinated debentures	7,513			
Issued on acquisition of a subsidiary	629,887	44		
Issued for cash	4,025,000	263		
Conversion of 7.25% convertible subordinated debentures	2,484,968	98		
Issued and outstanding at July 31, 1998	77,253,520	1,430	1,098,309	1
Conversion of Class B Shares to Class A Shares	200		(200)	
Conversion of 5% convertible subordinated debentures	1,578			
Issued under the Dividend Reinvestment Plan	885			
Issued and outstanding at December 31, 1998	77,256,183	\$1,430	1,098,109	\$1

[c] Under the 1987 Incentive Stock Option Plan originally approved by the shareholders in December 1987, as amended and subsequently approved by the shareholders in December 1995, the Company may grant options to purchase Class A Subordinate Voting Shares to full-time employees or senior officers of the Company. The maximum number of shares that can be reserved for issuance under the plan is 6.0 million shares. The number of unoptioned shares available to be reserved at December 31, 1998 was 5.7 million [July 31, 1998 – 5.7 million].

The following is a continuity schedule of options outstanding (number of options in the table below are expressed in whole numbers and have not been rounded to the nearest million):

	Five month period ended		
	December 31, 1998	Years ended July 31, 1998 1997	
Balance, beginning of period	290,400	96,500	100,000
Issued		210,000	
Exercised		(16,100)	(3,500)
Balance, end of period	290,400	290,400	96,500
Weighted average exercise price per share on outstanding options at end of period	Cdn\$84.21	Cdn\$84.21	Cdn\$62.75

[d] The Company has a Dividend Reinvestment Plan whereby shareholders have the option to receive their dividends in the form of Class A Subordinate Voting Shares in lieu of cash.

[e] The following table presents the maximum number of shares that would be outstanding if all the dilutive instruments outstanding at December 31, 1998 were exercised:

Class A Subordinate Voting Shares and Class B Shares outstanding at December 31, 1998	78.4
5% Convertible Subordinated Debentures	6.3
4.875% Convertible Subordinated Debentures	6.3
Stock options	0.3
	91.3

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12. FINANCIAL INSTRUMENTS

[a] Foreign Exchange Contracts

The Company operates globally, which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange. The Company uses foreign exchange contracts to manage foreign exchange risk from its underlying customer contracts. In particular, the Company uses foreign exchange forward contracts and foreign exchange range forward contracts for the sole purpose of hedging certain of the Company's future committed U.S. dollar and German Deutschmark and Italian Lira outflows and inflows. Gains and losses on these hedging instruments are recognized in the same period as, and as part of, the hedged transaction. The Company does not enter into foreign exchange contracts for speculative purposes.

At December 31, 1998, the Company had outstanding foreign exchange forward contracts representing commitments to buy and sell foreign currencies in exchange for Canadian dollars as follows:

	U.S. Dollar Buy (Sell) Amount	Weighted Average Rate	German Deutschmark Sell Amount	Weighted Average Rate	Italian Lira Sell Amount	Weighted Average Rate
	<i>[Amounts in millions, except Lira in billions]</i>					
1999	\$ 248.4	1.5184	DM (88.9)	0.9308	L(17.6)	0.000835
1999	(187.8)	1.4592				
2000	(72.6)	1.4292	(22.4)	0.9123	(17.8)	0.000842
2001	(61.3)	1.4452	(19.6)	0.8333	(13.0)	0.000843
2002	(35.9)	1.4601				
2003	(14.7)	1.4884				
	\$ (123.9)		DM(130.9)		L(48.4)	

Based on forward foreign exchange rates as at December 31, 1998 for contracts with similar remaining terms to maturity, the unrecognized net losses relating to the Company's foreign exchange forward contracts are approximately \$21 million. In addition, the Company had foreign exchange range forward contracts with a total notional principal amount of \$45 million, giving the Company the right to purchase U.S. dollars at Cdn\$1.4406 and the counterparty the right to sell U.S. dollars to the Company at Cdn\$1.3681, which mature in 1999. The market value of the Company's benefit under these contracts is \$3 million based on foreign exchange rates at December 31, 1998. If the Company's forward exchange contracts ceased to be effective as hedges, for example, if projected net foreign cash inflows declined significantly, previously unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign denominated cash flows would be recognized in income at the time this condition was identified.

[b] Fair Value

The methods and assumptions used to estimate the fair value of financial instruments are described below.

Cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities

Due to the short period to maturity of the instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

Investments

Fair value information is not readily available. However, management believes the market value to be in excess of the carrying value of investments.

Long-term debt

The fair value of the Company's long-term debt and debentures' interest obligation, based on current rates for debt with similar terms and maturities, are not materially different from their carrying value.

[c] Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and foreign exchange forward contracts.

Cash and cash equivalents which consists of short-term investments, including commercial paper, is only invested in governments and corporations with an investment grade credit rating. Credit risk is further reduced by limiting the amount which is invested in any one government or corporation.

The Company, in the normal course of business, is exposed to credit risk from its customers, substantially all of which are in the automotive industry.

The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company mitigates this credit risk by dealing with counterparties who are major financial institutions and which the Company anticipates will satisfy their obligations under the contracts.

[d] Interest Rate Risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities, its insignificant long-term debt balances and the minimum periods to redemption of the Company's convertible subordinated debentures.

13. CURRENCY TRANSLATION ADJUSTMENT

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation gain of \$72 million for the five month period ended December 31, 1998 [for the year ended July 31, 1998 - \$148 million] primarily from the strengthening of the German Deutschmark, United States dollar and British Pound against the Canadian dollar during the period.

14. RESEARCH AND DEVELOPMENT

Research and development expenditures, net of amounts funded by governments or customers, for the five month period ended December 31, 1998 were \$51 million [for the years ended July 31, 1998 - \$99 million; 1997 - \$90 million; 1996 - \$74 million].

15. DETAILS OF CASH FROM OPERATING ACTIVITIES

[a] Items not involving current cash flows:

	Five month period ended			
	December 31, 1998	Years ended July 31,		
	1998	1998	1997	1996
Depreciation and amortization	\$126	\$ 200	\$ 152	\$ 124
Minority interest	5	8	9	13
Future income taxes	12	35	15	9
Equity income and other	1	(5)	5	(3)
Gains on sale and issues of shares by subsidiaries		(35)	(124)	
	\$144	\$ 203	\$ 57	\$ 143

[b] Changes in non-cash working capital:

	Five month period ended			
	December 31, 1998	Years ended July 31,		
	1998	1998	1997	1996
Accounts receivable	\$(289)	\$(104)	\$ (85)	\$(143)
Inventories	(20)	(35)	(60)	(33)
Prepaid expenses and other	(17)	(12)	(6)	4
Accounts payable and other accrued liabilities	233	21	133	48
Accrued salaries and wages	10	11	15	7
Income taxes payable	(14)	(2)	22	(30)
	\$ (97)	\$(121)	\$ 19	\$(147)

16. SEGMENTED INFORMATION

[a] During the five month period ended December 31, 1998, the Company adopted the segment disclosure requirements as provided for in the new recommendations of The Canadian Institute of Chartered Accountants. The new recommendations establish standards for reporting information about operating segments in financial statements issued to shareholders. Operating segments are defined as components of an enterprise about which separate financial information is available and which is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company's significant operating segments include:

- (i) Public Automotive - the Company's subsidiaries that are publicly traded (including Tesma and Decoma) as well as Decoma Exterior Trim Inc. and Bestop Inc., the operations of which are closely coordinated with those of Decoma;

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- (ii) North America Automotive – the North America Automotive groups (including Cosma Body and Chassis Systems, Magna Seating Systems, Magna Interior Systems, Atoma Closure and Electronic Systems and Symatec);
- (iii) Europe Automotive – the Company's Europe Automotive group (excluding operations in Europe managed by the Company's Public Automotive and North America Automotive segments); and
- (iv) MI Developments Inc. ["MID"] and Ventures – during the five month period ended December 31, 1998, substantially all of the Company's worldwide automotive real estate assets and non-automotive assets (including non-automotive real estate) were reorganized under MID. The automotive real estate assets are leased back to the Company's other segments. Prior to the five month period ended December 31, 1998, the assets in this segment were held by the Company's other segments. Subsequent to December 31, 1998, the Company's Board of Directors approved the establishment of a new company ["Ventures"] to hold all the non-automotive assets (including non-automotive real estate) of Magna. These non-automotive assets will be reorganized under Ventures during 1999 and Ventures will operate separately from MID.

Five month period ended December 31, 1998						
	Public Automotive	North America Automotive	Europe Automotive	MID and Ventures	Corporate and Other (ii)	Total
Total sales	\$ 604	\$1,620	\$1,210	\$ 22	\$ (60)	\$3,396
Income before income taxes and minority interest	\$ 46	\$ 108	\$ 30	\$ 2	\$ 29	\$ 215
Fixed assets, net	\$ 458	\$ 813	\$ 790	\$754	\$ 58	\$2,873
Fixed asset additions	\$ 56	\$ 117	\$ 117	\$ 67	\$ 26	\$ 383
Year ended July 31, 1998						
	Public Automotive	North America Automotive	Europe Automotive(i)		Corporate and Other (ii)	Total
Total sales	\$1,184	\$3,317	\$1,573		\$ (68)	\$6,006
Income before income taxes and minority interest	\$ 70	\$ 269	\$ 83		\$ 77	\$ 499
Fixed assets, net	\$ 411	\$ 911	\$ 809		\$311	\$2,442
Fixed asset additions	\$ 135	\$ 298	\$ 147		\$ 79	\$ 659
Year ended July 31, 1997						
	Public Automotive	North America Automotive	Europe Automotive(i)		Corporate and Other (ii)	Total
Total sales	\$ 982	\$2,998	\$1,090		\$ (46)	\$5,024
Income before income taxes and minority interest	\$ 71	\$ 241	\$ 162		\$ 79	\$ 553
Fixed assets, net	\$ 258	\$ 631	\$ 254		\$210	\$1,353
Fixed asset additions	\$ 85	\$ 237	\$ 71		\$ 78	\$ 471
Year ended July 31, 1996						
	Public Automotive	North America Automotive	Europe Automotive		Corporate and Other (ii)	Total
Total sales	\$ 766	\$2,218	\$ 883		\$ (41)	\$3,826
Income before income taxes and minority interest	\$ 55	\$ 201	\$ 31		\$ 41	\$ 328
Fixed assets, net	\$ 210	\$ 418	\$ 231		\$122	\$ 981
Fixed asset additions	\$ 48	\$ 77	\$ 54		\$ 37	\$ 216

Notes:

- (i) Included in Europe Automotive income before income taxes and minority interest for the year ended July 31, 1998 is a gain on the sale of MST and TBCA of \$25 million [1997 – \$97 million] as described in Note 3.

- (ii) Included in Corporate and Other income before income taxes and minority interest for the year ended July 31, 1998 are gains on the sale and issue of shares by subsidiaries of \$10 million [1997 – \$27 million] as described in Note 4. Also included in Corporate and Other income before income taxes and minority interest are intercompany fees and interest charged to the other segments.

- [b] In the five month period ended December 31, 1998, sales to the Company's four largest customers amounted to 29%, 18%, 17% and 4% [for the years ended July 31, 1998 – 22%, 21%, 15% and 6%; 1997 – 25%, 22%, 17% and 7%; 1996 – 30%, 22%, 16% and 10%] of total sales, respectively.
- [c] The following table shows certain information with respect to geographic segmentation:

	Five month period ended December 31, 1998			
	Canada	Europe	United States and Other	Total
Sales	\$1,159	\$1,244	\$ 993	\$3,396
Fixed assets, net	\$ 952	\$1,034	\$ 887	\$2,873
Goodwill, net	\$ 74	\$ 171	\$ 61	\$ 306

	Year ended July 31, 1998			
	Canada	Europe	United States and Other	Total
Sales	\$2,465	\$1,600	\$1,941	\$6,006
Fixed assets, net	\$ 934	\$ 920	\$ 588	\$2,442
Goodwill, net	\$ 78	\$ 163	\$ 63	\$ 304

	Year ended July 31, 1997			
	Canada	Europe	United States and Other	Total
Sales	\$2,281	\$1,054	\$1,689	\$5,024
Fixed assets, net	\$ 639	\$ 321	\$ 393	\$1,353
Goodwill, net	\$ 49	\$ 82	\$ 64	\$ 195

	Year ended July 31, 1996			
	Canada	Europe	United States and Other	Total
Sales	\$1,850	\$ 853	\$1,123	\$3,826
Fixed assets, net	\$ 425	\$ 284	\$ 272	\$ 981
Goodwill, net	\$ 23	\$ 59		\$ 82

17. TRANSACTIONS WITH RELATED PARTIES

Two wholly-owned subsidiaries of the Company have agreements with an affiliate of the Chairman of the Board for the provision of business development and consulting services. In addition, a wholly-owned subsidiary of the Company has an agreement with the Chairman of the Board for the provision of business development and other services. The aggregate amount expensed under these agreements with respect to the five month period ended December 31, 1998 was \$9 million [for the years ended July 31, 1998 – \$18 million; 1997 – \$15 million; 1996 – \$15 million].

During the five month period ended December 31, 1998, a subsidiary of the Company entered into an agreement to purchase from a company associated with members of the family of Mr. F. Stronach and Ms. B. Stronach, the Chairman of the Board and an Executive Vice-President respectively of the Company, approximately 200 acres of land and improvements in Aurora, Ontario for a purchase price of approximately \$11 million. This land is adjacent to land currently owned by a subsidiary of the Company. As at December 31, 1998, a subsidiary of the Company had paid \$9 million to the vendor in connection with this transaction. This acquisition will facilitate the orderly development by a subsidiary of the Company of the lands adjacent to this property, including a golf course.

During the five month period ended December 31, 1998, trusts, which exist to make orderly purchases of the Company's shares for employees either

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(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in millions)

for transfer to the employees' Deferred Profit Sharing Plan or to recipients of either bonuses or rights to purchase such shares from the trusts, borrowed up to \$23 million [for the years ended July 31, 1998 - \$31 million; 1997 - \$26 million; 1996 - \$16 million] from the Company to facilitate the purchase of Class A Subordinate Voting Shares of the Company. At December 31, 1998, the trusts' indebtedness to the Company, which is included in accounts receivable, was \$1 million [July 31, 1998 - \$23 million].

Investments include \$2 million [July 31, 1998 - \$2 million], at cost, in respect of an investment in a company that was established to acquire shares of the Company for sale to employees.

In the year ended July 31, 1997, the Company purchased the Chairman of the Board's interest in a life insurance policy maintained by the Company on his behalf for \$1 million. Subsequently, the Company surrendered the life insurance policy and received proceeds of \$5 million.

In January 1997, a wholly-owned subsidiary of the Company paid an affiliate of the Chairman of the Board a consulting fee of \$4 million related to the sale of MST and TBCA.

18. CONTINGENCIES

[a] In November 1997, the Company was sued by KS Centoco Ltd., an Ontario-based steering wheel manufacturer in which the Company has a 23% equity interest, and by Centoco Holdings Limited, the owner of the remaining 77% equity interest in KS Centoco Ltd. On March 5, 1999, the plaintiffs were granted leave to make substantial amendments to the original statement of claim. The amended statement of claim alleges, among other things: (i) breach of fiduciary duty by the Company and two of its subsidiaries; (ii) breach by the Company and two of its subsidiaries of certain of their respective obligations under a binding letter of intent between Centoco Holdings Limited, KS Centoco Ltd. and the Company; (iii) various rights of KS Centoco Ltd. to certain airbag technology in North America pursuant to an exclusive licence agreement, together with an accounting of all revenues and profits resulting from the alleged use by the Company, TRW Inc. and other unrelated third party automotive supplier defendants of such technology in North America; and (iv) a conspiracy by the Company, TRW Inc. and others to deprive KS Centoco Ltd. of the benefits of such airbag technology in North America and to cause Centoco Holdings Limited to sell to TRW Inc. its interest in KS Centoco Ltd. in conjunction with Magna's sale to TRW Inc. of its interest in MST and TBCA. The plaintiffs are seeking, amongst other things, damages of approximately Cdn\$3.5 billion. The Company is currently preparing an amended statement of defense and counterclaim.

In October 1998, a class action was filed in the United States District Court, Eastern District of York naming SDP, an Austrian-based subsidiary of the Company which was acquired by the Company in 1998, as a defendant together with one other named Austrian company which is not related to the Company. The plaintiffs claim unspecified compensatory and punitive damages, for an accounting and for restitution, all in relation to unpaid work (forced labour) performed by the plaintiffs for SDP and the other defendant at their facilities in Europe during World War II. Subsequently in January 1999, a second class action was filed in the United States District Court, District of New Jersey naming the Company, as the controlling shareholder of SDP, as a defendant together with 22 other named defendants (including General Motors Corporation, DaimlerChrysler AG, Volkswagen AG, Bayerische Motoren Werke AG and Siemens AG). The plaintiffs in this action also claim unspecified compensatory and punitive damages, for restitution and for disgorgement, all in relation to forced labour performed by the plaintiffs and other Polish nationals for SDP and the other Austrian and German corporate defendants at their facilities in Europe during World War II. Neither SDP nor the Company has been formally served in either action. Both class actions are structured to permit the addition of other Austrian and German companies as defendants in the future. Over 30 similar class actions have been commenced in the United States in the last two years against many European and American banks, insurance companies and manufacturing companies in respect of various activities during World War II, including several related to forced labour. In addition, various German and Austrian lawyers have made similar written claims against SDP and other German and Austrian companies on behalf of various individuals for compensation for forced labour, but no legal actions have been commenced against SDP in these countries at this time. The American, German and various other European governments have recently become involved, together with certain international organizations, in discussions regarding the resolution of the forced labour issues which have been raised.

Given the early stages of the above legal proceedings, the Company has determined that in each case it is not possible at this time to predict the final outcomes or to establish a reasonable estimate of possible damages or range of possible damages that could be awarded to the plaintiffs if their claims are successful.

[b] In addition, in the ordinary course of business activities, the Company may be contingently liable for other litigation and claims with customers, suppliers and former employees. With respect to these contingencies, management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Company.

[c] The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

19. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's accounting policies as reflected in these consolidated financial statements do not materially differ from accounting principles generally accepted in the United States ["U.S. GAAP"] except for:

- [a] The gain or loss on translation of the Company's foreign currency denominated debt is deferred and amortized over the remaining life of the debt. Under U.S. GAAP, the gain or loss on translation is included in income when it arises.
- [b] Prior to the year ended July 31, 1998, the income tax provision was based on the deferral method and adjustments were generally not made for changes in income tax rates. Under U.S. GAAP, the provision is based on the liability method and adjustments are made for enacted changes in income tax rates.
- [c] The Company's convertible subordinated debentures are recorded in part as debt and in part as shareholders' equity. Under U.S. GAAP, the convertible subordinated debentures would be recorded as debt.
- [d] The Company has certain interests in jointly controlled entities which have been proportionately consolidated in the Company's financial statements. For purposes of U.S. GAAP, these interests would be accounted for by the equity method. Net income, earnings per share and shareholders' equity under U.S. GAAP are not impacted by the proportionate consolidation of these interests in jointly controlled entities.
- [e] In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 titled "Reporting on the Costs of Start-Up Activities". This new Statement of Position requires costs of start-up activities to be expensed as incurred. The effects of adopting this statement in the year ended July 31, 1998 have been reported as the cumulative effect of a change in accounting policy.
- [f] Effective December 31, 1998, the Company adopted the U.S. dollar as its reporting currency. Prior to this change the Canadian dollar had been used as the Company's reporting currency. Under Canadian GAAP, the Company's financial statements for all periods presented through December 31, 1998 have been translated from Canadian dollars to U.S. dollars using the exchange rate in effect at December 31, 1998. Under U.S. GAAP, the financial statements for periods prior to the change in reporting currency must be translated to U.S. dollars using the current rate method, which method uses specific year end or specific annual average exchange rates as appropriate. The significant differences arising from the application of the current rate method to the periods presented are the effects on net income and comprehensive income described in item [g] below and the effects on sales and cost of goods sold. Sales and cost of goods sold under U.S. GAAP were as follows:

	Five month period ended			
	December 31, 1998	1998	1997	1996
Sales	\$3,382	\$6,432	\$5,621	\$4,299
Cost of goods sold	2,822	5,306	4,652	3,532

Notes to Consolidated Financial Statements

(all amounts in U.S. dollars unless otherwise noted and all tabular amounts in millions)

[g] The following table presents net income and earnings per share information following U.S. GAAP:

	Five month period ended			
	December 31, 1998	1998	1997	1996
Net income under Canadian GAAP	\$137	\$330	\$392	\$209
Adjustments [net of related tax effects]:				
Deferred losses on foreign currency denominated debt [net of amortization]	(5)	(35)		(5)
Additional interest expense on convertible subordinated debentures	(6)	(13)	(11)	(8)
Cumulative adjustment for change in accounting for deferred preproduction costs		(2)		
Deferred preproduction costs	(14)	(9)		
Change in reporting currency		24	49	25
Net income under U.S. GAAP	\$112	\$295	\$430	\$221
Other comprehensive income:				
Foreign currency translation adjustment	38	(54)	(103)	(22)
Comprehensive income under U.S. GAAP	\$150	\$241	\$327	\$199
Earnings per Class A Subordinate Voting Share or Class B Share under U.S. GAAP:				
Basic	\$1.43	\$4.10	\$6.11	\$3.55
Diluted	\$1.35	\$4.03	\$5.66	\$3.38

Earnings per share data were computed as follows:

	Five month period ended			
	December 31, 1998	1998	1997	1996
Basic EPS				
Net income under U.S. GAAP	\$ 112	\$ 295	\$ 430	\$ 221
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the period	78.4	71.9	70.4	62.2
Basic EPS	\$1.43	\$4.10	\$6.11	\$3.55
Diluted EPS				
Net income under U.S. GAAP for Basic EPS	\$ 112	\$ 295	\$ 430	\$ 221
Interest and issue cost amortization on 7.25% convertible subordinated debentures		4	5	5
Interest, issue cost amortization and foreign exchange on 5% convertible subordinated debentures	5		13	9
Interest, issue cost amortization and foreign exchange on 4.875% convertible subordinated debentures	6			
	\$ 123	\$ 299	\$ 448	\$ 235
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the period	78.4	71.9	70.4	62.2
7.25% convertible subordinated debentures		2.3	2.5	2.5
5.0% convertible subordinated debentures	6.3		6.3	4.9
4.875% convertible subordinated debentures	6.3			
	91.0	74.2	79.2	69.6
Diluted EPS	\$1.35	\$4.03	\$5.66	\$3.38

[h] The following table indicates the significant items in the consolidated balance sheets that would have been affected had the consolidated financial statements been prepared under U.S. GAAP:

	December 31, 1998	July 31, 1998
Future tax liabilities	\$30	\$37
Convertible subordinated debentures	825	825
Debentures' interest obligation	-	-
Other paid-in capital	-	-
Shareholders' equity	2,763	2,646

[i] Interest paid in cash was \$25 million for the five month period ended December 31, 1998 [for the years ended July 31, 1998 - \$37 million; 1997 - \$30 million; 1996 - \$24 million].

[j] The Company does not recognize compensation expense for its outstanding fixed price stock options. Had compensation expense for the stock option plan been determined based upon the fair value at the grant date for awards, consistent with the methodology prescribed under FASB Statement No. 123 "Accounting for Stock-Based Compensation", there would have been no material impact on earnings per share.

[k] Under Staff Accounting Bulletin 74, the Company is required to disclose certain information related to new accounting standards which have not yet been adopted due to delayed effective dates.

FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", is effective for fiscal periods beginning after June 15, 1999. The Company has not determined the impact, if any, of this pronouncement on its consolidated financial statements.

20. COMPARATIVE FIGURES

The comparative consolidated statements of cash flows have been restated to separately disclose the effect of exchange rate changes on cash and cash equivalents and to exclude certain non-cash investing and financing transactions as required by new accounting recommendations issued by The Canadian Institute of Chartered Accountants.

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

Financial Summary

(U.S. dollars in millions, except per share figures - see Note 1)

	Five Month Period Ended December 31,					Years ended July 31					
	1998	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Operational Data											
Sales	\$3,396	\$6,006	\$5,024	\$3,826	\$3,133	\$2,538	\$1,881	\$1,683	\$1,445	\$1,377	\$1,368
Net income (loss)	137	330	392	209	207	153	92	64	11	(146)	22
Basic earnings (loss) per Class A or Class B Share	\$ 1.62	\$ 4.34	\$ 5.41	\$ 3.20	\$ 3.40	\$ 2.73	\$ 2.02	\$ 1.90	\$ 0.39	(\$ 5.27)	\$ 0.79
Fully diluted earnings (loss) per Class A or Class B Share	\$ 1.55	\$ 4.07	\$ 5.07	\$ 3.08	\$ 3.37	\$ 2.53	\$ 1.67	\$ 1.36	\$ 0.38	(\$ 5.27)	\$ 0.78
Depreciation and amortization	126	200	152	124	107	90	81	78	76	75	71
Cash flow from operations (2)	184	412	468	205	309	244	220	155	77	113	61
Cash dividends paid per Class A or Class B Share	\$ 0.22	\$ 0.84	\$ 0.74	\$ 0.71	\$ 0.71	\$ 0.53	\$ 0.36	\$ 0.13	-	\$ 0.16	\$ 0.31
Average number of Class A and Class B Shares outstanding (thousands)	78,353	71,909	70,369	62,152	61,034	55,973	45,443	33,625	27,825	27,819	27,819
Financial Position											
Total assets	6,165	5,633	3,481	2,860	2,030	1,596	1,094	1,002	1,032	1,217	1,278
Fixed assets less accumulated depreciation and amortization	2,873	2,442	1,353	981	852	703	564	576	629	657	790
Working capital (3)	475	716	763	986	360	232	140	67	14	(422)	51
Capital expenditures	383	659	471	216	193	148	55	36	64	125	191
Long-term debt (3)	386	328	163	186	108	68	110	209	428	-	494
Shareholders' equity (4)	3,411	3,231	2,134	1,801	1,091	862	552	386	175	151	303
Equity per Class A or Class B Share	\$43.53	\$41.24	\$29.98	\$25.88	\$17.75	\$14.19	\$11.05	\$ 9.63	\$ 5.82	\$ 5.43	\$10.90
Long-term debt to shareholders' equity ratio (3,4)	0.11:1	0.10:1	0.08:1	0.10:1	0.10:1	0.08:1	0.20:1	0.54:1	2.44:1	-	1.63:1

(1) All amounts have been restated in U.S. dollars for each of the periods presented, in accordance with accounting principles generally accepted in Canada, using the December 31, 1998 exchange rate of Cdn\$1.5305 per US\$1.00.

(2) Cash flow from operations for the years ended July 31, 1998, 1997 and 1996 have been restated to exclude the effects of exchange rate changes on cash and cash equivalents as required by new accounting recommendations issued by The Canadian Institute of Chartered Accountants.

(3) 1990 figures reflect all debt as a current liability defined as "debt to be restructured".

(4) 1991 figures include \$13 million of warrants to purchase Class A Subordinate Voting Shares.

Supplementary Financial and Share Information

Supplementary Quarterly Data (unaudited)

[U.S. dollars in millions, except per share figures]

Five Month Period Ended December 31, 1998	October 31	Two Month Period Ended December 31	Total
Sales	\$1,982	\$1,414	\$3,396
Gross Margin	349	214	563
Net Income	97	40	137
Earnings per share:			
Basic	\$ 1.16	\$ 0.46	\$ 1.62
Fully Diluted	1.09	0.46	1.55

Year Ended July 31, 1998	October 31	January 31	April 30	July 31	Total
Sales	\$1,363	\$1,416	\$1,609	\$1,618	\$6,006
Gross Margin	232	241	302	276	1,051
Net Income	63	89	109	69	330
Earnings per share:					
Basic	\$ 0.82	\$ 1.22	\$ 1.47	\$ 0.83	\$ 4.34
Fully Diluted	0.80	1.14	1.33	0.80	4.07

Share Information

The Class A Subordinate Voting Shares ("Class A Shares") are listed and traded in Canada on The Toronto Stock Exchange ("TSE") and the Montreal Exchange and in the United States on The New York Stock Exchange ("NYSE"). The Class B Shares are listed and traded in Canada on the TSE. As of March 31, 1999 there were 1,080 registered holders of Class A Shares and 109 holders of Class B Shares.

Distribution of Shares

	Class A	Class B
Canada	43.05%	99.08%
United States	56.93%	.92%
Other	.02%	-

Price Range of Shares – Canada

The following table sets forth, for the fiscal periods indicated, the high and low sale prices of the Class A Shares and Class B Shares and volumes of Class A Shares and Class B Shares traded, in each case as reported by the TSE.

CLASS A (TSE) (SCDN)						
Quarter	Five Month Period Ended December 31, 1998			Year Ended July 31, 1998		
	Volume	High	Low	Volume	High	Low
1st	10,687,946	104.25	83.00	9,380,665	101.50	86.50
2nd	14,805,523	106.20	89.20	9,930,306	94.85	82.50
3rd				11,631,605	113.00	82.70
4th				8,002,354	112.50	98.50

CLASS B (TSE) (SCDN)						
Quarter	Five Month Period Ended December 31, 1998			Year Ended July 31, 1998		
	Volume	High	Low	Volume	High	Low
1st	991	104.00	84.00	2,450	105.00	91.00
2nd	5,510	105.00	92.65	1,300	95.00	90.10
3rd				7,223	109.00	84.00
4th				5,421	112.00	98.00

Price Range of Shares – United States

The following table sets forth, for the fiscal periods indicated, the high and low sale prices of the Class A Shares and volumes of Class A Shares traded, as reported on the NYSE.

CLASS A (NYSE) (S.U.S.)						
Quarter	Five Month Period Ended December 31, 1998			Year Ended July 31, 1998		
	Volume	High	Low	Volume	High	Low
1st	10,281,200	68.31	53.88	9,454,700	73.88	62.31
2nd	13,945,800	68.94	58.56	11,164,600	67.25	57.00
3rd				21,743,300	79.50	57.81
4th				12,735,800	77.81	67.25

Office Locations for Magna and its Automotive Systems Corporations

Magna International Inc.

337 Magna Drive
Aurora, Ontario, Canada L4G 7K1
Telephone: (905) 726-2462
Website: <http://www.magnaint.com>

Magna International of America, Inc.

600 Wilshire Drive,
Troy, Michigan, USA 48084
Telephone: (248) 729-2400

Magna Europa AG

Magna-Strasse 1,
A-2522 Oberwaltersdorf, Austria
Telephone: 011-43-2253-600-0

Atoma International Corp.

521 Newpark Boulevard
Newmarket, Ontario, Canada L3Y 4X7
Telephone: (905) 898-2665

Cosma International Inc.

50 Casmir Court
Concord, Ontario, Canada L4K 4J5
Telephone: (905) 669-9000

Decoma Exterior Trim Inc.

50 Casmir Court
Concord, Ontario, Canada L4K 4J5
Telephone: (905) 669-2888

Decoma International Inc.

50 Casmir Court
Concord, Ontario, Canada L4K 4J5
Telephone: (905) 669-2888

Magna Seating Systems of America, Inc.

19700 Haggerty Road, South Building
Livonia, Michigan, USA 48152
Telephone: (734) 591-4440

Magna Interior Systems Inc.

27300 Haggerty Road, Suite F-10
Farmington Hills, Michigan, USA 48331
Telephone: (248) 553-9500

Magna Mirror Systems Inc.

4185 44th Street, S.E.
Kentwood, Michigan, USA 49512
Telephone: (616) 554-3135

Steyr-Daimler-Puch AG

Franz-Josefs-Kai 51
A-1010 Vienna, Austria
Telephone: 011-43-1531-44-0

Symatec

375 Magna Drive
Aurora, Ontario, Canada L4G 7L6
Telephone: (905) 726-7200

600 Wilshire Drive

Troy, Michigan, USA 48084
Telephone: (248) 729-2400

Tesma International Inc.

99 Ortona Court
Concord, Ontario, Canada L4K 3M3
Telephone: (905) 669-5444

MI Developments Inc.

455 Magna Drive
Aurora, Ontario, Canada L4G 7A9
Telephone: (905) 713-6322

Officers

Donald Walker
President & Chief Executive Officer

James Nicol
Vice-Chairman

Siegfried Wolf
Vice-Chairman

Donald Amos
*Executive Vice-President,
Administration & Human Resources*

C. Dennis Bausch
*Executive Vice-President,
Marketing & Planning*

J. Brian Colburn
*Executive Vice-President,
Special Projects & Secretary*

Vincent J. Galifi
*Executive Vice-President,
Finance and Chief Financial Officer*

Graham J. Orr
*Executive Vice-President,
Corporate Development*

Jürgen Stockmar
*Executive Vice-President,
Engineering, Research & Development*

Belinda Stronach
Executive Vice-President

Frank Burke
Vice-President & Treasurer

Guy R. Jones
Vice-President & Controller

John Simonetti
Vice-President, Taxation

Keith J. Stein
Vice-President, Corporate Affairs

Bruce R. Cluney
Assistant Secretary

Transfer Agents and Registrars

Canada – Class A and Class B
Montreal Trust Company of Canada,
Toronto, Montreal and Vancouver

United States – Class A
The Bank of Nova Scotia Trust Company of New York,
New York

Stock Listings

Class A – The Toronto Stock Exchange (MG.A)
Montreal Exchange (MG.A)
The New York Stock Exchange (MGA)

Class B – The Toronto Stock Exchange (MG.B)

Dividends

Dividend Dates: Dividends on Class A Subordinate Voting and Class B Shares were paid on October 15, 1998 and January 15, 1999 at the rate of Cdn\$0.33 per Share for the financial quarters ending July 31 and October 31, 1998, respectively, and on April 15, 1999 at the rate of US\$0.14 per Share for the two months ending December 31, 1998. Dividends on Class A Subordinate Voting and Class B Shares, when payable to holders who are non-residents of Canada, are subject to withholding tax at a rate of 25 percent unless reduced according to the provisions of the applicable tax treaty. Currently, the reduced rate applicable to dividends paid as a resident of the United States is generally 15 percent.



337 Magna Drive
Aurora, Ontario, Canada
L4G 7K1

Telephone: (905) 726-2462
Fax: (905) 726-7164

Internet Address:
<http://www.MagnaInt.com>