



## PRESS RELEASE

### Linamar Announces Second Quarter Results Linamar Continues to Drive Strong Sales and Bottom Line Growth

August 11, 2004, Guelph, Ontario, Canada – Linamar Corporation (TSX:LNR) (“Linamar” or “the company”), a global supplier who designs, develops and manufactures precision machined components, modules and systems for engine, transmission, chassis and industrial applications primarily for the North American and European automotive marketplace, today announced its financial results for the second quarter ended June 30, 2004.

(CDN dollars in thousands except per share figures)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
Sales	467,082	373,038	904,018	750,241
Gross Margin	64,114	46,686	122,660	96,261
Operating Earnings <sup>1</sup>	39,272	24,765	74,110	47,413
Earnings from Continuing Operations	23,595	15,979	43,836	28,242
Diluted Earnings per Share from Continuing Operations	0.33	0.23	0.62	0.40

#### Second Quarter Operating Highlights

In the second quarter, sales increased by 25.2%, or \$94.0 million, to \$467.1 million compared to \$373.0 million in the same quarter last year. The first six months also reflect strong results with a sales increase of \$153.8 million or 20.5% for a total of \$904.0 million, as compared to \$750.2 million in 2003. The increase was the result of strong performance in, and the accelerated ramp up of new programs launched in recent periods (net of programs ending), strong sales in continuing light vehicle and heavy truck automotive programs, the consolidation of acquisitions made in 2003, and continued growth in sales of industrial products.

Second quarter operating earnings increased by 58.6% to \$39.3 million compared to \$24.8 million for the same quarter a year ago. In the first six months of 2004, operating earnings grew 56.3% to \$74.1 million compared to \$47.4 million in 2003. The increase is the result of strong growth in automotive programs and excellent performance in the industrial products area. Geographically, earnings strengthened or improved in each of Canada, U.S. and Europe with considerable improvement continuing in Mexico.

<sup>1</sup> Operating earnings, as used by the company throughout this press release, is a non-GAAP measure. Management of Linamar Corporation use operating earnings in the monitoring of the performance of the business specifically at the segmented level. Operating earnings is calculated by the company as gross margin less selling, general and administrative expenses.

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
Gross margin	64,114	46,686	122,660	96,261
Selling, general and administrative	24,842	21,921	48,550	48,848
Operating earnings	39,272	24,765	74,110	47,413

The non-GAAP financial measure does not have standard meaning and may not be comparable to similar measures used by other issuers.



Earnings from continuing operations for the second quarter of 2004 were \$23.6 million or 5.1% of sales compared to \$16.0 million or 4.3% of sales in the prior year. This result represents an increase of \$15.6 million or 55.2% for the year to date. Diluted earnings per share from continuing operations for the quarter increased to \$0.33 compared to \$0.23 in the prior year. To date, diluted earnings per share from continuing operations is \$0.62 as compared to \$0.40 in 2003, an increase of 55%.

The average value of the Canadian Dollar relative to the U.S. Dollar was comparable to second quarter levels for 2003. However, the effect of the stronger Canadian dollar against the U.S. dollar in the first quarter of 2004 versus the first quarter of 2003 still impacts sales results year to date. Year to date sales would otherwise have increased by an additional \$20.4 million resulting in an overall increase of 23.2% assuming a constant exchange rate compared to the reported increase of 20.5%.

North American content per vehicle in the quarter grew by 19.7% to \$76.49 per vehicle compared to \$63.90 in the prior year. Comparing the last six months to the same time period in 2003, content grew 13.1% to \$74.51 from \$65.90. European content per vehicle for the quarter grew by 10.7% to \$8.92 per vehicle. In comparison to year to date results for 2003, content grew by 11.7% from \$8.08 to \$9.03 per vehicle.

A more detailed discussion of the consolidated results for the quarter and the year to date period ended December 31, 2003 is contained in the attached Management Discussion and Analysis ("MD&A") which follows the interim consolidated financial statements and the notes thereto.

### **Dividends**

The Board of Directors today declared a dividend in respect to the quarter ended June 30, 2004 of CDN\$0.04 per share on the common shares of the company, payable on or after September 15, 2004 to shareholders of record on August 27, 2004.

### **Outlook**

In the second quarter, North American Original Equipment Manufacturers ("OEM") light vehicle and medium to heavy truck production was up 0.9% compared to the same period last year. In 2004, North American light vehicle production is expected to grow slightly and medium to heavy truck is forecast to grow by 15 to 20%.

In the first quarter, European vehicle production also grew by 1.3% compared to the same period last year. European production growth is expected to be flat during 2004 compared to 2003.

Considering these forecasts and taking into consideration Linamar's new program launches, new business won late last year which will launch in 2004, improved volumes on programs ramping up during 2004, and higher volumes on existing business, Linamar has revised its North American content to grow by 12 to 17%. In Europe, content growth is being negatively affected by the announced cancellation of the General Motors Corporation ("GM") continuously variable transmission ("CVT") program but other programs have increased in volume, making up some of that shortfall. Consequently, content growth during 2004 is expected to be consistent with current levels.

The Industrial Products group, consisting primarily of Skyjack Inc. ("Skyjack"), continued to post strong sales growth in the second quarter of 2004 compared to the same period in 2003, building on similar results in the previous two quarters. For the near term, this market trend appears to be continuing. Consequently, the Industrial Products group's results are expected to be positively affected by this trend. However, this market is very competitive and price pressure is severe. Skyjack remains one of the leading companies in the elevated work platform market and is continuing to develop its European and North American markets.



### **Risk and Uncertainties (forward looking statements)**

Certain information provided by Linamar in these unaudited interim financial statements, MD&A and other documents published throughout the year that are not recitation of historical facts may constitute forward looking statements. The words "estimate", "believe", "expect" and similar expressions are intended to identify forward-looking statements. Persons reading this report are cautioned that such statements are only predictions and the actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements.

Such forward-looking information may involve important risks and uncertainties that could materially alter results in the future from those expressed or implied in any forward-looking statements made by, or on behalf of, Linamar.

Some risks and uncertainties may cause results to differ from current expectations. The factors which are expected to have the greatest impact on Linamar include but are not limited to (in the various economies in which Linamar operates): the extent of OEM outsourcing, industry cyclicity, trade and labour disruptions, pricing concessions and cost absorptions, delays in program launches, the company's dependence on certain engine and transmission programs and major OEM customers, currency exposure, and technological developments by Linamar's competitors.

A large proportion of the company's sales are denominated in U.S. dollars and the company also purchases a significant amount of raw materials, supplies and equipment in U.S. dollars. The strengthening of the Canadian dollar has the potential to have a negative impact on the financial results. The company has employed a hedging strategy to attempt to mitigate the impact but cannot be completely assured that the entire exchange effect has been offset. As a result of current levels of consumer spending on automobiles, the OEMs are constantly facing volume challenges which are reflected in the results of Linamar through reduced volumes on some existing programs. The OEMs do, however, continue to outsource, although not at expected levels, which allows Linamar to expand and diversify its product base.

Other factors and risks and uncertainties that cause results to differ from current expectations discussed in this MD&A include, but are not limited to: fluctuations in interest rates, environmental emission and safety regulations, governmental, environmental and regulatory policies and changes in the competitive environment in which Linamar operates. Linamar assumes no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those reflected in the forward-looking statements.

For further information regarding this press release, please contact: Linda Hasenfratz or Keith Wettlauffer at (519) 836-7550. Alternatively, forward e-mail requests to Andrea Bowman, Investor Relations [andrea.bowman@linamar.com](mailto:andrea.bowman@linamar.com) or visit Linamar's website at [www.linamar.com](http://www.linamar.com).



**LINAMAR CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

As at June 30, 2004 with comparatives as at December 31, 2003 (Unaudited)  
(in thousands of dollars)

	June 30 2004	December 31 2003
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	20,051	34,050
Accounts receivable	375,792	306,513
Inventories	179,567	165,172
Prepaid expenses	13,186	9,814
Future income taxes	4,536	10,764
Current assets – discontinued operations	2,796	3,036
	595,928	529,349
<b>Other Long-Term Assets</b>	25,090	14,307
<b>Goodwill and Other Intangible Assets</b>	35,008	34,643
<b>Property, Plant and Equipment</b>	808,657	716,187
<b>Property, Plant and Equipment – Discontinued Operations</b>	1,799	1,851
<b>Future Income Taxes – Discontinued Operations</b>	625	397
	1,467,107	1,296,734
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Unpresented cheques	30,023	4,720
Short-term bank borrowings	190,208	151,998
Accounts payable and accrued liabilities	324,444	257,872
Current portion of long-term debt	32,235	23,284
Income taxes payable	9,473	9,445
Current portion of deferred gain (note 3)	13,294	15,213
Current liabilities – discontinued operations	2,720	2,366
	602,397	464,898
<b>Long-Term Debt</b>	143,282	152,158
<b>Deferred Gain (note 3)</b>	4,561	9,206
<b>Future Income Taxes</b>	22,034	22,038
<b>Non-Controlling Interests</b>	27,247	21,323
	799,521	669,623
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital Stock</b>	102,913	102,913
<b>Retained Earnings</b>	582,216	544,589
<b>Contributed Surplus (note 2)</b>	78	-
<b>Cumulative Translation Adjustment</b>	(17,621)	(20,391)
	667,586	627,111
	1,467,107	1,296,734

On behalf of the Board of Directors:

Frank Hasenfratz  
Chairman of the Board

Linda Hasenfratz  
Director

**LINAMAR CORPORATION**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

For the six months ended June 30, 2004 and June 30, 2003 (Unaudited)  
(in thousands of dollars, except per share figures)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Sales</b>	467,082	373,038	904,018	750,241
Cost of Sales	373,548	302,297	722,830	606,330
Amortization	29,420	24,055	58,528	47,650
<b>Gross Margin</b>	64,114	46,686	122,660	96,261
Selling, general and administrative	24,842	21,921	48,550	48,848
<b>Earnings Before the Following:</b>	39,272	24,765	74,110	47,413
Interest on long-term debt	(1,693)	(1,854)	(3,418)	(3,496)
Other interest expense	(1,460)	(598)	(2,752)	(1,135)
Interest earned	148	292	419	507
Dilution loss	-	-	(248)	-
Other income	42	33	525	95
	36,309	22,638	68,636	43,384
<b>Provision for (Recovery of) Income Taxes</b>				
Current	10,355	8,131	17,070	17,495
Future	1,445	(1,980)	6,448	(3,226)
	11,800	6,151	23,518	14,269
	24,509	16,487	45,118	29,115
<b>Non-Controlling Interests</b>	914	508	1,282	873
<b>Earnings from Continuing Operations</b>	23,595	15,979	43,836	28,242
<b>Results of Discontinued Operations</b>	(520)	801	(520)	920
<b>Net Earnings for the Period</b>	23,075	16,780	43,316	29,162
<b>Basic Earnings per Share from Continuing Operations</b>	0.33	0.23	0.62	0.40
<b>Diluted Earnings per Share from Continuing Operations</b>	0.33	0.23	0.62	0.40
<b>Basic Earnings per Share</b>	0.32	0.23	0.61	0.41
<b>Diluted Earnings per Share</b>	0.32	0.23	0.61	0.41

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

For the six months ended June 30, 2004 and June 30, 2003 (Unaudited)  
(in thousands of dollars)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Balance - Beginning of Period</b>	561,965	524,903	544,589	515,345
Stock based compensation (note 2)	-	-	(41)	-
<b>Balance - As restated (note 2)</b>	561,965	524,903	544,548	515,345
Net earnings for the period	23,075	16,780	43,316	29,162
Dividends	(2,824)	(2,824)	(5,648)	(5,648)
<b>Balance - End of Period</b>	582,216	538,859	582,216	538,859

**LINAMAR CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the six months ended June 30, 2004 and June 30, 2003 (Unaudited)  
(in thousands of dollars)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Cash Provided By (Used In)</b>				
<b>Operating Activities</b>				
Earnings from continuing operations	23,595	15,979	43,836	28,242
Non-cash charges (credits) to earnings:				
Amortization of property, plant and equipment	29,420	24,055	58,528	47,650
Future income taxes net of unrealized exchange loss	1,445	375	6,448	(871)
Non-controlling interests	914	508	1,282	873
Unrealized exchange loss (gain) on debt	580	1,741	(769)	2,953
Amortization of deferred exchange gain	(5,957)	(1,550)	(9,349)	(1,550)
Loss (gain) on disposal of property, plant and equipment	241	130	518	(665)
Other	180	33	334	66
	50,418	41,271	100,828	76,698
Changes in non-cash working capital:				
Increase in accounts receivable	(28,110)	(22,197)	(77,137)	(80,956)
Increase in inventories	(20,788)	(12,762)	(13,748)	(17,495)
(Increase) decrease in prepaid expenses	(4,788)	(727)	(3,294)	890
Increase in income taxes payable	3,776	3,169	101	9,433
Increase in accounts payable and accrued liabilities	30,349	3,128	42,611	33,730
	30,857	11,882	49,361	22,300
Deferred gain	-	30,452	2,785	30,452
Cash flow – continuing operations	30,857	42,334	52,146	52,752
Cash flow – discontinued operations	316	1,340	(102)	760
	31,173	43,674	52,044	53,512
<b>Financing Activities</b>				
Proceeds from short-term bank borrowings	21,752	50,993	38,519	55,635
Proceeds from long-term debt	5,549	8,132	7,770	8,692
Repayment of long-term debt	(1,900)	(2,082)	(8,612)	(2,082)
Dividends to shareholders	(2,824)	(2,824)	(5,648)	(5,648)
	22,577	54,219	32,029	56,597
<b>Investing Activities</b>				
Payments for purchase of property, plant and equipment	(65,981)	(36,034)	(128,242)	(68,105)
Proceeds on disposal of property, plant and equipment	542	15	664	3,289
Business acquisitions	-	(37,541)	-	(37,541)
Investment by minority shareholders	-	-	3,738	-
Other	324	(635)	8	208
Discontinued operations	23	97	-	97
	(65,092)	(74,098)	(123,832)	(102,052)
	(11,342)	23,795	(39,759)	8,057
<b>Effect of Translation Adjustment</b>	67	2,433	457	619
<b>(Decrease) Increase in Cash Position</b>	(11,275)	26,228	(39,302)	8,676
<b>Cash Position - Beginning of Period</b>	1,303	10,374	29,330	27,926
<b>Cash Position - End of Period</b>	(9,972)	36,602	(9,972)	36,602
<b>Comprised of:</b>				
Cash	20,051	55,272	20,051	55,272
Unpresented cheques	(30,023)	(18,670)	(30,023)	(18,670)
	(9,972)	36,602	(9,972)	36,602

LINAMAR CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the six months ended June 30, 2004 (Unaudited)

1. Management prepared these interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles using the historical cost basis of accounting and approximation and estimates based on professional judgments. These interim consolidated financial statements contain all adjustments that management believes are necessary for a fair presentation of the company's financial position, results of operations and changes in cash flows. These statements should be used in conjunction with the company's most recent annual consolidated financial statements. The accounting policies used in preparing these interim consolidated financial statements are consistent with those used in preparing the annual consolidated financial statements with one addition. During the prior quarter, the company began to amortize, to earnings, the estimated fair value of the options granted after January 1, 2002 over their remaining vesting period.

**Stock Based Compensation:** Effective January 1, 2004, the company adopted the revised Canadian Institute of Chartered Accountants Handbook Section 3870 "Stock-based compensation and other stock-based payments" ("CICA 3870"). The company has adopted the fair value method of accounting for stock-based compensation and recognizes a compensation expense for all stock options granted to employees and directors. The company only issues stock options to employees, including directors. The fair value of the options issued in the year is determined using the Black-Scholes option pricing model. The estimated fair value of the options is amortized to income over the vesting period.

Prior to January 1, 2004, the company disclosed the pro-forma net income and earnings per share, as if the fair value based accounting method had been used to account for stock-based compensation.

2. **Stock Based Compensation** (in thousands of dollars, except per share figures)

The fair value of the stock options granted since January 1, 2002 was determined using the Black-Scholes option pricing model based on the following underlying assumptions:

- 4 year risk free interest rate of 4.6%
- Average expected life of 4 years
- Average expected volatility of 36.5%
- Expected dividends of \$0.16 per share per year

Beginning January 1, 2004 the company has adopted revised CICA 3870 retroactively and has chosen not to restate prior periods as permitted under the revised Handbook Section. The effect of the restatement was the setup of contributed surplus in the amount of \$78 for the fair value of options granted after January 1, 2002 and a reduction in the balance of opening retained earnings by \$41 as the cumulative effect of the change on prior periods for the amount that would have been expensed. For the three and six months ended June 30, 2004, \$4 for the quarter and \$8 year-to-date was recorded as the compensation cost.

3. **Financial Instruments**

As at December 31, 2002, the company was committed to a series of monthly forward contracts to buy and sell U.S. dollars, Euros, and British Pounds. In the second quarter of 2003, the company placed forward contracts to buy U.S. dollars, effectively locking in the gains on the contracts in place at December 31, 2002. This transaction resulted in cash proceeds of \$30.5 million. During the first quarter of 2004 the company locked in additional gains of \$2.8 million. The gains have been deferred and are being amortized to income based on the terms of the original underlying contracts. Additional forward contracts have been placed as indicated in the table below. As these forward contracts qualify for accounting as hedges, the unrealized gains and losses are deferred and recognized in the same period as the sales and expenditures which generate the net cash flows. The company has continued to place forward contracts after the quarter end.

Year	Amount Hedged - Sell	Currency	Average Exchange Rate
2004	U.S. \$48,000,000	For Canadian dollars	1.4004
2005	U.S. \$24,000,000	For Canadian dollars	1.4000
2006	U.S. \$6,000,000	For Canadian dollars	1.4000
2004	GBP £7,415,000	For Canadian dollars	2.3725

#### 4. Segmented Sales and Earnings Information (Continuing Operations in thousands of dollars)

Geographic	For the three months ended June 30, 2004			For the six months ended June 30, 2004		
	Sales to external customers	Inter-segment sales	Operating earnings (loss)	Sales to external customers	Inter-segment sales	Operating earnings (loss)
	\$	\$	\$	\$	\$	\$
Canada	344,929	1,179	35,003	672,901	1,788	65,971
United States	36,863	1,816	2,571	74,223	3,535	5,566
Mexico	33,222	-	1,256	61,687	-	2,476
Europe	52,068	1,919	442	95,207	3,837	97
<b>Total</b>	<b>467,082</b>		<b>39,272</b>	<b>904,018</b>		<b>74,110</b>

	For the three months ended June 30, 2003			For the six months ended June 30, 2003		
	Sales to external customers	Inter-segment sales	Operating earnings (loss)	Sales to external customers	Inter-segment sales	Operating earnings (loss)
	\$	\$	\$	\$	\$	\$
Canada	271,448	504	25,691	553,651	2,450	51,385
United States	30,314	1,345	702	59,399	2,048	1,634
Mexico	25,782	-	(1,715)	52,861	-	(4,359)
Europe	45,494	3,015	87	84,330	6,074	(1,247)
<b>Total</b>	<b>373,038</b>		<b>24,765</b>	<b>750,241</b>		<b>47,413</b>

Operational	For the three months ended June 30, 2004			For the six months ended June 30, 2004		
	Sales to external customers	Inter-segment sales	Operating earnings (loss)	Sales to external customers	Inter-segment sales	Operating earnings (loss)
	\$	\$	\$	\$	\$	\$
N.A. Automotive Systems	362,782	2,774	38,454	703,666	4,538	73,945
Europe	41,523	1,919	(1,080)	78,977	3,837	(3,891)
Other	62,777	7,184	1,898	121,375	13,207	4,056
<b>Total</b>	<b>467,082</b>		<b>39,272</b>	<b>904,018</b>		<b>74,110</b>

	For the three months ended June 30, 2003			For the six months ended June 30, 2003		
	Sales to external customers	Inter-segment sales	Operating earnings (loss)	Sales to external customers	Inter-segment sales	Operating earnings (loss)
	\$	\$	\$	\$	\$	\$
N.A. Automotive Systems	300,472	1,269	30,007	613,291	2,677	60,554
Europe	37,227	3,306	27	71,011	6,784	(1,277)
Other	35,339	5,379	(5,269)	65,939	10,534	(11,864)
<b>Total</b>	<b>373,038</b>		<b>24,765</b>	<b>750,241</b>		<b>47,413</b>

#### 5. Related Party Transactions (in thousands of dollars)

Included in the purchase of property, plant and equipment are the construction of buildings, building additions and building improvements in the aggregate amount of \$1,675 by a company owned by the spouse of a director. Included in cost of sales, are maintenance costs of \$174 by the same company.

These transactions have been recorded at the exchange amount.

#### 6. Pension Costs (in thousands of dollars)

The company has various contributory and non-contributory defined contribution pension plans which cover most employees. Current service pension costs are charged to earnings as they accrue. The following was expensed during the quarter:

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
Government sponsored	4,437	3,852	8,398	7,541
Company sponsored	1,969	1,754	3,915	3,624

**7. Foreign Exchange** (in thousands of dollars)

Included as part of Selling, general and administrative expenses are gains (losses) resulting from foreign exchange as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	\$	\$	\$	\$
Foreign Exchange Gains (Losses)	185	(928)	1,030	(3,184)

**8. Guarantees** (in thousands of dollars)

The company has guaranteed the lease payments of Eagle Manufacturing LLC, a joint venture, for the full term of the lease which ends in 2010. The company is receiving a guarantee fee during the lease term. As at the quarter end the maximum potential amount of future payments is \$15,777 over the remaining lease term.

The company has a commitment for its 50% joint venture interest in Weslin Industries Inc. in the form of a bank guarantee for a maximum potential future payment of \$2,629.

The company has various other guarantees for a maximum potential future payment of \$1,742 over various terms of 4 to 5 years. The company has estimated recourse, in the form of property, plant and equipment, to recover a portion of the guarantee payable from customers if balances remain unpaid in the amount of \$1,407.

**9. Contingent Liabilities and Commitments** (in thousands of dollars)

The company is involved in certain lawsuits and claims. Management believes that adequate provisions have been recorded in the accounts. Although it is not possible to estimate the potential costs and losses, if any, management is of the opinion that there will not be any significant additional liability other than amounts already provided for in these financial statements.

As at June 30, 2004, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately \$70,475.

**10. Comparative Figures**

Certain comparative figures have been reclassified in accordance with the current quarter's presentation.

## **LINAMAR CORPORATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*For the Quarter Ended June 30, 2004*

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Linamar Corporation ("Linamar" or the "company") should be read in conjunction with its consolidated financial statements and related notes thereto as well as the annual MD&A for the year ended December 31, 2003. The accompanying interim consolidated financial statements and the notes thereto have not been reviewed by the company's external auditors pursuant to a review engagement applying review standards set out in the CICA handbook. This MD&A has been prepared as at August 10, 2004.

This MD&A has been prepared by reference to the new MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators.

Additional information regarding Linamar, including copies of its continuous disclosure materials such as its annual information form, is available on its website at [www.linamar.com](http://www.linamar.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).

In this MD&A, reference is made to operating earnings which is not a measure of financial performance under Canadian Generally Accepted Accounting Principles ("GAAP"). Operating earnings is calculated by the company as gross margin less selling, general and administrative ("SG&A") expenses. The company has included information concerning operating earnings because it is used by management as a measure of performance and management believes it is used by certain investors and analysts as an evaluation of the company's financial performance. This indicator is not necessarily comparable to similarly titled measures used by other companies and should not be construed as alternatives to net earnings or cash flows from operating activities as determined in accordance with Canadian GAAP nor as a measure of liquidity.

## OVERALL CORPORATE PERFORMANCE

### Overview of the Business

Linamar designs, develops and manufactures precision machined components, modules and assemblies for Brakes, Engine, Steering and suspension, and Transmission and driveline applications ("B.E.S.T.") for sale primarily to Original Equipment Manufacturers ("OEMs") and Tier 1 customers for the North American and European car and light to heavy truck markets. The company's business includes industrial and agricultural products that utilize the core competencies of precision machining, manufacturing and assembly.

The following table sets out certain highlight's of the company's performance for the second quarter of 2004 and 2003:

<i>(in thousands of dollars, except content per vehicle)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Sales	\$467,082	\$373,038	\$904,018	\$750,241
Gross Margin	64,114	46,686	122,660	96,261
Operating Earnings <sup>2</sup>	39,272	24,765	74,110	47,413
Earnings from Continuing Operations	23,595	15,979	43,836	28,242
Net Earnings	23,075	16,780	43,316	29,162
Content per Vehicle – North America	\$76.49	\$63.90	\$74.51	\$65.90
Content per Vehicle – Europe	\$8.92	\$8.06	\$9.03	\$8.08

### Overall Corporate Results

Sales continued to grow in the second quarter, achieving a level of \$467.1 million as compared to \$373.0 million for the second quarter of 2003, an increase of \$94.0 million or 25.2%. The second quarter contributed to a strong six months year to date where sales increased by \$153.8 million or 20.5% to \$904.0 million from \$750.2 million in 2003. The increase was the result of strong performance in, and accelerated ramp up of new programs launched in recent periods (net of programs ending), strong sales in continuing automotive programs, the consolidation of acquisitions made in 2003 and continued growth in the sale of industrial products.

Second quarter operating earnings increased by \$14.5 million or 58.6% to \$39.3 million as compared to \$24.8 million for the same quarter a year ago. The company's operating earnings grew by \$26.7 million or 56.3% to \$74.1 million for the first six months as compared to 2003. The increase is the result of strong growth in automotive earnings and excellent performance in the sale of industrial products.

Geographically, earnings strengthened or improved in each of Canada, U.S. and Europe with continuing improvement in Mexico where an overall profitable quarter was reported.

<sup>2</sup> Operating earnings, as used by the company throughout this press release, is a non-GAAP measure. Management of Linamar Corporation use operating earnings in the monitoring of the performance of the business specifically at the segmented level. Operating earnings is calculated by the company as gross margin less selling, general and administrative expenses.

	Three Months Ended June 30		Six Months Ended June 30	
	2004 \$	2003 \$	2004 \$	2003 \$
Gross margin	64,114	46,686	122,660	96,261
Selling, general and administrative	24,842	21,921	48,550	48,848
Operating earnings	39,272	24,765	74,110	47,413

The non-GAAP financial measure does not have standard meaning and may not be comparable to similar measures used by other issuers.

Earnings from continuing operations for the quarter were \$23.6 million or 5.1% of sales compared to \$16.0 million or 4.3% of sales in the prior year. Performance improvements are also evident in the results for the first six months with earnings from continuing operations of \$43.8 million, an increase of \$15.6 million or 55.2% compared to earnings of \$28.2 million in 2003. As a percentage of sales, the current year's year to date results were 4.8% compared to 3.8% for the same period a year ago. Diluted earnings per share from continuing operations to date increased to \$0.62 compared to \$0.40 in the prior year. The second quarter contributed an improvement of \$0.10 cents per share to \$0.33, compared to \$0.23 in the second quarter of 2003.

<b>Sales</b> (in thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Canada	\$344,929	\$271,448	\$672,901	\$553,651
U.S.	36,863	30,314	74,223	59,399
Mexico	32,222	25,782	61,687	52,861
Europe	52,068	45,494	95,207	84,330
<b>Total external sales</b>	<b>\$467,082</b>	<b>\$373,038</b>	<b>\$904,018</b>	<b>\$750,241</b>

Canadian sales were \$344.9 million for the quarter, an increase of \$73.5 million or 27.1%, compared to sales of \$271.4 million for the same quarter in 2003. The strong second quarter contributed to the sales growth of 21.5% in the first half of the year to \$672.9 million as compared to \$553.7 million in 2003. The increase in sales is due to a combination of acquisitions in 2003 now fully consolidated in 2004, net new business awarded and launched and net volume increases on existing programs.

Second quarter 2004 U.S. sales increased \$6.6 million or 21.6% to \$36.9 million from \$30.3 million in the comparable quarter in 2003. For the year to date, sales improved 25.0% or \$14.8 million to \$74.2 million. The increase in sales is due to volume increases in products and services, the inclusion of acquisitions from 2003, and a general improvement in overall market conditions.

Second quarter 2004 sales in the company's Mexican operations increased \$7.4 million or 25.0% to \$33.2 million and \$8.8 million or 16.7% to \$61.7 million for the year to date due to overall volume increases, the effect of new programs launched and the return to normal Renault production. In the second quarter of 2004, Europe realized sales of \$52.1 million, \$6.6 million or 14.4% over the comparative quarter in 2003. To date in 2004, Europe has posted a sales increase of \$10.9 million or 12.9%; the company's acquisition in Linamar Antriebstechnik GmbH ("LAT") accounts for the largest portion of the increase in both quarters. Also for the year to date, the company's share in the Weslin Industries Inc. ("Weslin Inc.") joint venture contributed stronger sales while Linamar Hungary RT ("Linamar Hungary") experienced a slight down turn related to programs which ended, a slower agricultural market, and the recent announcement of the cancellation of General Motors Corporation ("GM") continuously variable transmission ("CVT") program which has seen limited production so far this year.

Prior year acquisitions represented a total sales increase of \$7.2 million for the quarter and \$15.8 million for the year to date.

### **Automotive Sales**

Automotive sales in the following discussion are based on content per vehicle determined by the final vehicle production location and, as such, there are differences in the figures as reported under the North American automotive systems segment. This segment is based primarily on the company's location of manufacturing. These differences are the result of products being sold directly to one continent but the final vehicle being assembled on another continent. It is necessary to show the sales based on the vehicle build location to provide accurate comparisons to the production vehicle units for each segment.

Content per Vehicle	Three Months Ended June 30			Six Months Ended June 30		
	2004	2003	% Change	2004	2003	% Change
<i>North America</i>						
Vehicle Production Units *	4.3	4.3	0.9%	8.5	8.5	1.1%
Automotive Sales **	\$329,576	\$272,822	20.8%	\$636,673	\$557,026	14.3%
Content Per Vehicle	\$76.49	\$63.90	19.7%	\$74.51	\$65.90	13.1%
<i>Europe</i>						
Vehicle Production Units*	4.3	4.2	0.2%	8.5	8.4	0.8%
Automotive Sales**	\$37,941	\$34,190	11.0%	76,879	68,313	12.5%
Content Per Vehicle	\$8.92	\$8.06	10.7%	\$9.03	\$8.08	11.7%

\* Vehicle Production Units are shown in million of units

\*\* Automotive Sales are shown in thousands of dollars

North American vehicle production units, used by Linamar for the determination of the company's content per vehicle, include medium and heavy truck volumes. European vehicle production units exclude medium and heavy trucks.

North American vehicle production volumes for 2004 to date were approximately 8.5 million, consistent with 2003 production levels. The second quarter production remained consistent as well at approximately 4.3 million units.

European vehicle production was up slightly for the six months ended June 30 at approximately 8.5 million units produced as compared to 8.4 million units in the prior year. Unit production in the quarter was consistent at 4.2 million units.

Total automotive sales for North America and Europe were \$367.5 million for the second quarter compared to \$307.0 million in 2003, an increase of 19.7%. Sales results for the six months year to date were \$713.6 million, an increase of 14.1% over sales of \$625.3 million in 2003. The impact of the strengthening dollar did not have a significant impact on the second quarter as the rates were consistent with the same period last year. For the year to date, automotive sales are estimated to have been negatively impacted by the strengthening Canadian dollar by \$19.9 million. Removing this impact, total North American and European sales for the six months in 2004 would have improved \$108.2 million or 17.3%. By comparison, combined North American and European vehicle production increased slightly by 0.9% in the first two quarters of 2004 as compared with 2003.

Second quarter North American automotive sales increased to \$329.6 million or 20.8% over 2003. In contrast, North American vehicle production units were up only 0.9%. Content per vehicle for the quarter was \$76.49, an increase of 19.7% as compared to \$63.90 for the second quarter in 2003. Sales for the six months year to date were \$636.7 million as compared to \$557.0 million in 2003, an increase of 14.3%. North American vehicle production increased 1.1% over the same six month period. Content for the first six months is \$74.51 as compared to \$65.90 last year – an increase of 13.1%.

North American automotive sales benefited from continued growth in a number of new and existing programs. For example, contributing programs in the second quarter continue to be the Caterpillar Inc. ("CAT") ACERT head program, the Detroit Diesel Corporation ("DDC") overhead assembly, the Ford Motor Company ("Ford") 5.4L cylinder head program, the connecting rod program for the GM Gen IV engine and two new GM 3.8L connecting rod programs for normally aspirated and super charged engines.

For the first six months of 2004, European automotive sales increased 12.5% from \$68.3 million in 2003 to \$76.9 million, which compares favourably to unit production growth of 0.8%. Content per vehicle for the just completed six month period continued to grow and achieved a level of \$9.03, as compared to \$8.08, an increase of 11.7% over 2003. Results for the second quarter are comparable with sales growth

of 11.0% to \$37.9 million and relatively flat unit production levels. Content for the quarter grew by 10.7% to \$8.92.

The 2004 year to date increase in European automotive sales relates to a number of factors. LAT, Linamar's new camshaft plant acquired in June 2003 which utilizes hydro forming technology contributed to the 2004 sales growth. Linamar Hungary has experienced volume increases in the Denso Corporation ("Denso") plate housing along with the Robert Bosch GmbH common rails. Manifold programs at Weslin Autoipari RT ("Weslin") for Honeywell International, Inc. ("Honeywell") Garrett and Peak projects continue to ramp up along with the turbine housings produced for another Tier 1 customer. In contrast, GM has made a decision to cancel the CVT program which has had very limited production this year. This decision will result in reduced sales levels at Linamar Hungary and will have a negative impact on results for the remainder of the year.

Automotive tooling sales for the second quarter of \$4.4 million were \$3.2 million lower than in 2003. For the year to date, tooling sales are \$11.0 million as compared to \$12.9 million in 2003. In addition, the new CAT programs are treated as deferred tooling as payment for the tooling is amortized into the piece price. To date in 2004, deferred customer tooling has a net increase of \$1.9 million. Tooling sales during the quarter relate to the DaimlerChrysler AG ("DCX") flange, Castech S.A. de C.V. ("Castech") cylinder heads, Borg Warner races, as well as the current amortization related to the CAT deferred tooling.

During the first quarter, tooling revenues related to the Eaton Corporation differential case, DCX front and rear flange programs, as well as cylinder heads for GM.

### Other Sales

Industrial products continued to post strong sales in the second quarter of 2004. Revenues grew by \$30.6 million to \$66.3 million for the second quarter and by \$61.8 million for the six months to date to a total of \$126.5 million. The growth is mainly associated with the Skyjack Inc. ("Skyjack") aerial lift platform sales levels. The majority of Skyjack's sales are in the North American market with the European market representing 14.7% for the year to date.

Linamar also records machined product sales in the marine, transportation, defense, nuclear, power generation and small engine sectors.

Small engine sales remained consistent for the second quarter and six months ended June 30, 2004 as compared to 2003 levels. The related product lines continue to be strategically de-emphasized. These sales are included in the North American automotive systems operational segment but are not included in content per vehicle calculations.

<b>Gross Margin</b> <i>(in thousands of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Sales	\$467,082	\$373,038	\$904,018	\$750,241
Cost of sales	373,548	302,297	722,830	606,330
Amortization	29,420	24,055	58,528	47,650
Gross margin	\$64,114	\$46,686	\$122,660	\$96,261
Gross margin percentage	13.7%	12.5%	13.6%	12.8%

Gross margin was 13.7% for the second quarter of 2004, up from 12.5% for 2003. The year to date margin increased from 12.8% in 2003 to 13.6% in 2004. This improvement was achieved in spite of the higher material content on many machining and assembly programs launched over the past few years. Programs such as cylinder heads and blocks, rocker arm assemblies, and connecting rods carry a higher material content where the casting and many assembled components are purchased. Industrial programs also experience higher material content compared to Linamar's core precision machining business, effectively reducing the gross margin percentage. As sales levels for industrial products continue to increase and labour utilization and overhead absorption rates continue to improve, margins have improved as well.

One of the factors contributing to the higher margin is improved overall efficiency and better utilization of labour. For example, new programs have ramped up over the last twelve months from low sales in the first quarter of 2003 to more typical production levels in the first six months of 2004. These operations use more automation thereby reducing effective labour cost as production levels outpace additional labour requirements.

While amortization for the second quarter increased to \$29.4 million as compared to \$24.0 million in 2003, amortization as a percentage of sales for the second quarter decreased to 6.3% from 6.5% in the same period in 2003. For the first six months of 2004, amortization is 6.5% of sales as compared to 6.4% in 2003. As new programs such as the CAT and Ford cylinder head programs and the new DCX differential case program ramp up, more production capacity is brought into use. Amortization is expected to increase marginally as a percent of sales over 2004 as there are many capital intensive, long running programs scheduled for launch or ramp up during the year.

<b>Operating Earnings</b> <i>(in thousands of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Gross margin	\$64,114	\$46,686	\$122,660	\$96,261
Less				
Selling, general and administrative	24,842	21,921	48,550	48,848
Operating earnings	\$39,272	\$24,765	\$74,110	\$47,413
Percentage of sales	8.4%	6.6%	8.2%	6.3%

SG&A costs increased \$2.9 million to \$24.8 million in the second quarter of 2004 as compared to \$21.9 million in the second quarter of 2003. For the six months year to date, SG&A costs of \$48.6 are at consistent levels with 2003, which include the effect of exchange gains and losses. SG&A excluding the impact of foreign exchange has improved as a percentage of sales at 5.4% for the quarter as compared to 5.6% for the same period in 2003.

The company experienced exchange gains during the quarter of \$0.2 million as compared to a loss of \$0.9 million in the second quarter of 2003. For 2004 year to date, the company has a gain of \$1.0 million as compared to losses of \$3.2 million in 2003. The improvement is due, in part, to by Euro-based transactions at Linamar Hungary. Linamar Hungary holds Euro denominated debt which affords a much lower interest rate than funds borrowed in Hungarian Forints. New and growing business at Linamar Hungary is also Euro-based. As the Hungarian Forint has strengthened in value against the Euro in 2004, the company has consequently experienced exchange gains. During the first six months of 2003, the Forint had weakened against the Euro, resulting in the losses shown in 2003. The Hungarian currency strategy anticipates the future move to the use of the Euro. The company's Mexican subsidiaries have receivables denominated in U.S. dollars in excess of same currency dollar liabilities. With the weakening Peso against the U.S. dollar, the Mexican operations have continued to experience gains during 2004.

During 2003, the company placed forward contracts to buy U.S. dollars, effectively locking in the gains on forward contracts already in place at December 31, 2002. This transaction resulted in total cash proceeds of \$30.5 million. The gains have been deferred and are being amortized to revenue based on the terms of the original underlying contracts. During the first quarter of 2004, the company locked in related additional gains of \$2.8 million. These gains have also been deferred and will be recognized when the original sale is recorded.

## RESULTS BY SEGMENT

The following should be read in conjunction with note 19 to Linamar's consolidated financial statements for the financial year ended December 31, 2003 and note 4 of the interim financial statements.

## **Operational**

Second quarter sales for the North American automotive segment reflect an increase of \$62.3 million or 20.7% from \$300.5 million in 2003 to \$362.8 million in 2004. For the year to date, sales grew by 14.7% to \$703.7 million versus \$613.3 million in 2003 in this segment. The programs with the largest impact for the six months year to date continue to be the ramp up of the connecting rod programs for GM, the cylinder head production for CAT, the 5.4L cylinder head program for use in Ford trucks such as the F-series, as well as an overall increase in other program and platform volumes. An increase in heavy truck vehicle sales from programs such as the DDC overhead assembly has also contributed to the company's sales growth thus far during 2004. Over the past six months, the declining U.S. dollar against the Canadian dollar and the Mexican Peso has eroded sales levels. This is estimated to be a reduction of \$19.9 million, resulting in an increase otherwise occurring of \$110.3 million or 18.0% on a consistent exchange rate basis.

Second quarter operating earnings increased in North America to \$38.5 million from \$30.0 million in 2003, an increase of 28.1%, and, for the first six months, to \$73.9 million in 2004 from \$60.6 million last year, an increase of 22.1%. Earnings increased due to programs launched in 2003 which ramped up in 2004, new launches in 2004, higher volumes on existing business, and operational improvements based on the adoption of the Linamar Production System. New programs such as the new connecting rod and cylinder head programs are reaching full running volumes, improving the contribution to the segments' growing operating profit results. Also, a significant investment has been made during 2004 in a new differential case program which launches mid-year. This program will have a negative impact during the start-up period resulting from the cost of the launch. This is partially offset by some programs have come to their anticipated end. Mexico continues to post good results during both the quarter and current year due to improvements in production processes, controlling consumable costs, and reducing scrap levels.

European sales for the six months year to date in 2004 increased \$8.0 million to \$79.0 million from \$71.0 million in 2003. Growth in the second quarter at 11.6% was consistent with the first quarter over 2003 levels. Most notably, GM suspended production of the CVT and subsequently cancelled the program but gains were seen in the sales to Denso, Newage AVK-SEG Ltd., and Ford Europe through both Linamar Hungary and Weslin. The additional sales from the company's 2003 European acquisition, LAT, also accounted for a portion of the sales gains achieved. Agricultural sales continued to show a decline in the current quarter as compared to the prior year.

European operating loss for the second quarter was \$1.1 million as compared to break-even in 2003. Losses in the segment were \$3.9 million for the first six months of 2004 as compared to the 2003 loss of \$1.2 million. LAT has contributed a large part to the decline in earnings, offset by operational and volume improvements at Weslin.

Second quarter sales for the "Other" segment increased \$27.4 million or 77.6% to \$62.8 million in 2004. Sales for the first six months were \$121.4 million as compared to \$65.9 million in 2003, an increase of 84.1%. The increase relates to the significantly higher sales levels of aerial lift platforms as this market has seen strong demand beginning in the fourth quarter of 2003 and has continued through the first half of 2004.

Second quarter operating earnings in the "Other" segment improved from a loss of \$5.3 million in 2003 to an income of \$1.9 million in 2004 or, for the six month period, from a loss of \$11.9 million to income of \$4.1 million for the current year to date. This continued growth is due to the improved industrial market conditions. The focused efforts of Skyjack operations to reduce costs and alter the manufacturing strategy from one of a complete component manufacturer to a design, assembly, marketing and distribution strategy have also contributed to the noted improvements.

## **Geographical**

Canadian sales for the second quarter of 2004 were up \$73.5 million or 27.1% to \$344.9 million. For the six months year to date, revenues grew by \$119.2 million or 21.5% to \$672.9 million. The growth is the result of new programs and volume increases in automotive activities as well as contributions from the sale of industrial products due to overall improving market conditions. For example, cylinder head machining and assembly contracts awarded by CAT in 2003 and the 5.4L cylinder head program from

Ford positively impacted results as did the GM connecting rod programs. These increases were offset by anticipated contracts ending and/or volume reductions.

Second quarter operating earnings for the Canadian segment for 2004 increased \$9.3 million or 36.2% to \$35.0 million and \$14.6 million or 28.4% to \$66.0 million for the year to date as compared to 2003. Many of the Canadian facilities have continuously improved their operating performance by focusing on certain cost improvements and lean manufacturing initiatives. In addition, facilities have analyzed specific programs not achieving desired levels of performance and implemented specific actions to improve results. These initiatives, coupled with growing volumes on existing business and accelerated launches and ramp ups, have contributed to the earnings growth.

Second quarter sales in the U.S. segment increased \$6.6 million or 21.6% to \$36.9 million and \$14.8 million or 25.0% to \$74.2 million for the six months year to date. Programs at the company's U.S. joint venture came to an anticipated end but were partially offset by volumes ramping up on new programs. Sales of aerial lift platforms and replacement parts grew strongly in both the current quarter and year to date. McLaren Performance Technologies, Inc. ("McLaren"), which was added to the U.S. group September 30, 2003, also contributed to sales growth in 2004.

Operating earnings in the U.S. segment have improved \$1.9 million for the quarter and \$3.9 million for the first six months of 2004 to \$2.6 million and \$5.6 million respectively. McLaren's business, which has shorter-term testing contracts as compared to the typical programs seen in the automotive parts business, has seen lower volumes on testing activity than anticipated this year. However, improvements have been seen as a result of both sales increases and continuing cost improvements in the U.S. industrial product sales.

Sales in Mexico have improved in 2004 by \$7.4 million or 28.9% for the quarter to \$33.2 million. For the six months year to date, the increase of \$8.8 million to \$61.7 million to date represents growth of 16.7%. The volumes on the Renault engine have started to decline as anticipated; however, this decline has been outpaced by the launch of new programs such as the CAT liner program and volume increases on the Castech and GM programs.

Operating earnings in the Mexican segment have improved \$3.0 million for the quarter and \$6.8 million for the first six months of 2004 to \$1.3 million and \$2.5 million respectively. Each of the facilities have improved operating performance through reduction of maintenance and manufacturing costs, rationalization of labour and reduced scrap. All facilities in Mexico continue to operate at profitable levels.

Sales in Europe were \$52.1 million in the second quarter and \$95.2 million for the first six months, an increase of \$6.6 million or 14.5% and \$10.9 million or 12.9% respectively over 2003. GM has announced its decision to cancel the CVT programs impacting volumes at Linamar Hungary; however, gains were seen in the sales to other customers at both the Weslin joint venture and Linamar Hungary. Additional sales from the company's 2003 European acquisition, LAT, also contributed to the sales growth.

Operating earnings in this segment have continued to improve. In the second quarter, operating earnings increased by \$0.3 million and for the first six months increased by \$1.3 million. As a result, for the six months ended June 30, 2004, the European segment broke even on operating results. Offsetting the losses experienced at LAT for 2004 were improvements in the earnings related to Skyjack products through increased sales volumes. Linamar Hungary also improved operating earnings through increased volumes on programs other than the CVT. Weslin continues to improve its loss position both for the quarter and the year to date as compared to prior years.

## Net Earnings and Balance Sheet Data *(in thousands of dollars, except per share amounts)*

The following quarterly financial data should be read in conjunction with Linamar's audited consolidated financial statements for the financial years ended December 31, 2003 and 2002.

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Sales	\$467,082	\$373,038	\$904,018	\$750,241
Gross margin	64,114	46,686	122,660	96,261
Operating income	39,272	24,765	74,110	47,413
Net interest expense	(3,005)	(2,160)	(5,751)	(4,124)
Dilution loss	-	-	(248)	-
Other income	42	33	525	95
Income taxes	(11,800)	(6,151)	(23,518)	(14,269)
Non-controlling interest	(914)	(508)	(1,282)	(873)
Earnings from continuing operations	\$23,595	\$15,979	\$43,836	\$28,242
Results from discontinued operations	(520)	801	(520)	920
Net earnings	\$23,075	\$16,780	\$43,316	\$29,162
<b>Earnings Per Share From Continuing Operations</b>				
Basic	\$0.33	\$0.23	\$0.62	\$0.40
Diluted	0.33	0.23	0.62	0.40
<b>Earnings Per Share From Net Earnings</b>				
Basic	\$0.32	\$0.23	\$0.61	\$0.41
Diluted	0.32	0.23	0.61	0.41
Total Long Term Liabilities			\$197.1	\$190.7
Cash Dividends declared per share			\$0.04	\$0.04
Total Assets			\$1,467.1	\$1,178.2

## Net Income and Earnings per Share

The effective tax rate for the second quarter of 2004 was 32.5%, an increase from the effective rate of 27.2% in 2003 but a decrease from 36.2% in the first quarter of the year. For the six months ended June 30, 2004, tax rate was 34.3% as compared to 32.9% for the same period in 2003. The 2004 rate reflects the impact of rate increases enacted by the new Government of Ontario in the fourth quarter of 2003 as the majority of the company's operations are located in Ontario.

The effective tax rate was also impacted by the operations in Mexico and Hungary. The Hungarian operations enjoy the benefit of a tax holiday through a tax credit system which management expects to continue until 2011. The Hungarian operations have posted improved results, lowering the effective rate below the comparable Canadian tax rate of 34.1%. As these operations improve, the effective tax rate will decrease. The 2003 rate was effectively lowered through the recognition of losses not previously recognized in the company's European industrial operations. As well, certain Canadian scientific research and development benefits were recognized. These benefits are only subject to taxes at a federal level, reducing the effective rate. Both of these impacts for 2003 were recognized in the second quarter, substantially lowering the quarterly rate.

Earnings from continuing operations for the second quarter were \$23.6 million and \$43.9 million for the six months year to date for 2004. This represents an improvement of \$15.6 million or 55.2% year to date over 2003 and a significant increase over the second quarter of 2003. Growth in earnings from continuing operations is the result of sales growth coupled with improved margins. These improvements are enhanced by relatively lower selling, general and administrative expenses compared to 2003.

Diluted earnings per share from continuing operations increased \$0.10 for the quarter to \$0.33 from \$0.23 in the same period for 2003. Year to date, this improvement was \$0.22 over the prior year resulting in \$0.62 earnings per share for 2004 compared to \$0.40 in 2003.

## Interest

During the quarter, interest on long-term debt decreased by \$0.2 million over the second quarter of 2003 primarily due to the repayment on the capital leases at Eagle Manufacturing, LLC ("Eagle"). Eagle entered into a series of capital leases to support the launch of significant new programs in the prior year. As payments are made, the interest cost is reduced. Linamar has a syndicated credit facility in place for the Canadian portion of its long term debt.

Other interest expense is higher by \$1.6 million for the six months to date at \$2.8 million, and up \$0.9 million to \$1.5 million for the quarter, reflecting higher short-term debt balances. Currently, significant investment is being made in production equipment for the launch of new programs. The largest investments are for the DCX differential case line starting in 2004 and the continued expansion of the CAT and Ford cylinder head programs. Funds were used at the end of June 2003 for the purchase of LAT, and the remaining 45% of Torreon Holdings International Inc. ("Torreon") the parent company of Industrias de Linamar S.A. de C.V. ("ILSA"). Interest earned is lower for the year as excess funds have been used to draw down short term borrowings.

## Other

Effective September 28, 2001, Linamar adopted a formal plan to divest the company's wholly owned in-house casting operations, which management considered was subject to significantly different business risks than the precision machining segment. During 2003, management repealed the plan to sell the assets of one of the in-house casting operations, Diversa Cast Manufacturing. The prior year balance sheet and income statements have been reclassified to reflect the reintegration of the operation into continuing operations.

A further accrual of \$0.5 million has been taken during the second quarter of 2004 related to the remaining discontinued operation. The accrual represents the additional amounts required for the losses to be incurred and costs expected at the time of disposal. The disposition of the casting operation has taken longer than anticipated.

## Summary of Quarterly Results of Operations

The following table sets forth unaudited information for each of the nine quarters ended June 30, 2002 through June 30, 2004. This information has been derived from our unaudited consolidated financial statements which, in the opinion of management, have been prepared on a basis consistent with the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of our financial position and results of operations for those periods.

Quarter ends are in millions of dollars except per share comments as follows:

	Jun 30, 2002	Sep 30, 2002	Dec 31, 2002	Mar 31, 2003	Jun 30, 2003	Sep 30, 2003	Dec 31, 2003	Mar 31, 2004	Jun 30, 2004
Sales	\$348.7	\$350.1	\$346.9	\$377.2	\$373.0	\$371.5	\$408.5	\$436.9	\$467.1
Earnings from Continuing Operations	18.1	12.3	14.0	12.3	16.0	12.5	(1.2)	20.2	23.6
Earnings (Loss) Per Share from Continuing Operations									
Basic	0.26	0.17	0.20	0.17	0.23	0.18	(0.02)	0.29	0.33
Diluted	0.26	0.17	0.20	0.17	0.23	0.18	(0.02)	0.29	0.33
Net Earnings (Loss) Per Share									
Basic	0.26	0.17	0.20	0.18	0.23	0.18	(0.02)	0.29	0.32
Diluted	0.26	0.17	0.20	0.18	0.23	0.18	(0.02)	0.29	0.32

The quarterly results of the company are influenced by the seasonality of certain operational units. Earnings in second quarter are positively impacted by the high selling season for both the aerial lift platform and agricultural businesses. The third quarter is generally negatively affected by the scheduled

summer shut downs at the company's automotive customers. The company takes advantage of summer shut downs for maintenance activities that would otherwise disrupt normal production schedules.

The fourth quarter of 2003 was negatively impacted by the termination of all outside sales agents as the company continues to build its own internal sales force. Please see the annual MD&A for the year ended December 31, 2003 for other factors affecting the company's financial results during the previous year.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows *(in thousands of dollars)*

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Cash provided from (used for):				
Operating activities	\$31,173	\$43,674	\$52,044	\$53,512
Financing activities	22,577	54,219	32,029	56,597
Investing activities	(65,092)	(74,098)	(123,832)	(102,052)
Effect of translation adjustment	67	2,433	457	619
Net increase (decrease) in cash	\$(11,275)	\$26,228	\$(39,302)	\$8,676
Cash Position – Beginning of Period	1,303	10,374	29,330	27,926
Cash Position – End of Period	\$(9,972)	\$36,602	\$(9,972)	\$36,602
Comprised of:				
Cash	\$20,051	\$55,272	\$20,051	\$55,272
Unpresented Cheques	(30,023)	(18,670)	(30,023)	(18,670)
	\$(9,972)	\$36,602	\$(9,972)	\$36,602

Linamar's cash position (cash net of unpresented cheques) at June 30, 2004 was a deficit of \$10.0 million. Cash was used during the first two quarters of 2004 for the continued investment in manufacturing equipment which was partially offset by proceeds from continuing operations and short term bank borrowings. During the second quarter of 2003, funds were used in the acquisitions of LAT and the remaining 45% share in ILSA through the purchase of shares in the parent holding company, Torreón.

### Operating Activities *(in thousands of dollars, except per share prices)*

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Earnings from continuing operations	\$23,595	\$15,979	\$43,836	\$28,242
Items not involving current cash flows	26,823	25,292	56,992	48,456
Cash provided from operations	\$50,418	\$41,271	\$100,828	\$76,698
Net change in non-cash working capital	(19,561)	(29,389)	(51,467)	(54,398)
Deferred gain	-	30,452	2,785	30,452
Cash flow – continuing operations	\$30,857	\$42,334	\$52,146	\$52,752
Cash flow – discontinuing operations	316	1,340	(102)	760
Cash provided from operating activities	\$31,173	\$43,674	\$52,044	\$53,512

Cash provided by operating activities has remained consistent for the first six months of 2004 as compared to 2003. For the second quarter, cash from continuing operations was lower than cash generated in the second quarter of 2003 by \$11.5 million. During the second quarter of both years, gains on certain foreign exchange contracts were crystallized. Cash flows generated through the crystallization in 2003 were \$30.5 million as compared to \$2.8 million in 2004. Removing the impact of these deferred gains, operations contributed \$49.4 million during the first six months of 2004 as compared to \$22.3 million in 2003.

Non-cash charges have increased \$1.5 million to \$26.8 million for the second quarter of 2004, up from \$25.3 million in 2003. For the year to date, these charges have increased \$8.5 million to \$57.0 million. The analysis of these changes is as follows:

Amortization has increased approximately \$10.9 million for the year, \$5.4 million for the quarter, as more assets associated with new programs have come on line during 2004. Future income tax provisions have increased \$7.3 million compared to the prior year, and \$1.1 million for the second quarter. This increase is due to the timing of the recognition of the sales termination expense for taxes, and the amortization of the deferred exchange gains, a change of \$7.8 million over 2003 or \$4.4 million over the first quarter.

Investment in non-cash working capital for the year to date was \$51.5 million compared to \$54.4 million last year. During the second quarter, this investment was \$19.6 million as compared to \$29.4 million in 2003. The increase compared to last year is the result of higher accounts receivable associated with the ramp up of new programs such as the CAT cylinder head programs and significant sales increases in industrial products. Inventory levels have been built up in various facilities to meet certain customer requirements as well as high seasonal sales demands in the agricultural and industrial areas.

**Financing Activities** *(in thousands of dollars, except per share prices)*

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Proceeds from short-term bank borrowings	\$21,752	\$50,993	\$38,519	\$55,635
Proceeds from long-term debt	5,549	8,132	7,770	8,692
Repayment of long-term debt	(1,900)	(2,082)	(8,612)	(2,082)
Dividends to shareholders	(2,824)	(2,824)	(5,648)	(5,648)
Cash provided from financing activities	\$22,577	\$54,219	\$32,029	\$56,597

Cash provided by financing activities to date for 2004 was \$32.0 million compared to \$56.6 million for 2003. The second quarter required \$22.6 million compared to \$54.2 million in 2003.

The increase in short-term bank borrowings during the quarter is primarily the result of additional credit extended to fund payments for the purchase of property, plant and equipment, as well as working capital commitments for numerous new programs launching during 2004 and the increased business activity.

During the second quarter, the repayment of long-term debt of \$1.9 million was primarily related to the sales agent termination agreement. This was offset by proceeds from long term debt of \$5.5 million which Linamar Hungary used for the repayment of certain short term borrowings as well as the financing of investments in fixed assets.

As at June 30, 2004, the company's syndicated revolving facility had available credit of \$7.8 million. Linamar expects this level to improve during the second half of 2004 due to the completion of its capital expenditure program, cash in-flows from converting long term receivables to cash and the possible cash generation resulting from the resolution of the division or sale of Weslin<sup>3</sup>. In December 2003, the syndicated non-revolving term facility was renewed and increased to \$120.0 million, due in December 2006.

No options were exercised during the quarter.

The company continues its dividend policy with payments made quarterly on 70,603,476 common shares at a rate of \$0.04 per share.

<sup>3</sup> See under Proposed Transactions, page 21.

**Investing Activities** (thousands of dollars, except per share prices)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Payments for purchases of capital assets	\$(65,981)	\$(36,034)	\$(128,242)	\$(68,105)
Proceeds from disposal of capital assets	542	15	664	3,289
Business acquisitions	-	(37,541)	-	(37,541)
Investment by minority shareholder	-	-	3,738	-
Other	324	(635)	8	208
Discontinued operations	23	97	-	97
Cash used for investing activities	\$(65,092)	\$(74,098)	\$(123,832)	\$(102,052)

For the second quarter of 2004, cash spent on investing activities totaled \$65.1 million, compared to \$74.1 million for the same period in 2003. The new business units, LAT and the remaining 45% of ILSA, were acquired in June of 2003 for total consideration of \$38.4 million. For the first six months of 2004, investing activities used \$123.8 million as compared to \$102.1 million in 2003. The significant increase is the result of purchases of capital assets totaling a cash outflow of \$128.2 million for the year to date, \$66.0 million for the second quarter. For 2003, capital purchases were \$68.1 million year to date and \$36.8 million in the second quarter.

During the first six months of 2004, 23.1% of the \$128.2 million used for capital additions was spent on equipment to be used in the production of the DCX differential case module. Total additions related to manufacturing equipment to date amount to \$148.9 million, of which \$20.7 million represents increased accounts payable and accruals at the end of the quarter. Other additions are related to ramp ups and new lines at various facilities including the CAT block and liner programs, new camshaft programs for a European automaker, the DCX differential case program and the Delphi brake control bodies program. During the second quarter of 2004, an expansion project was completed at the Camtac Manufacturing ("Camtac") facility in Guelph for a total of \$2.8 million.

At June 30, 2004, outstanding commitments for capital expenditures under purchase orders or contracts were approximately \$70.5 million (December 31, 2003 - \$66.8 million).

During 2003, certain officers and directors of the company exercised options in Linamar Hungary subject to regulatory approval from the Court of Registry in Hungary. In the first quarter of 2004, the registration was completed and resulted in cash proceeds of \$3.7 million and a dilution in ownership of the subsidiary from 62.8% to 58.6%. The transaction resulted in a net dilution loss of \$0.2 million.

**Financing Resources**

Cash on hand at June 30, 2004, was \$20.1 million, with unpresented cheques and short-term bank borrowings of \$220.2 million. At this time, the company's syndicated revolving facility had available credit of \$7.8 million. In December 2003, the syndicated non-revolving term facility was renewed and increased to \$120.0 million, due in December 2006. This facility was fully drawn as at June 30, 2004, as required under the credit agreement. Of the company's consolidated long-term debt, 18.3% of the \$175.5 million is due and payable in the next 12 months.

**Contractual Obligations**

Please see the annual MD&A for the year ended December 31, 2003 for a table summarizing contractual obligations by category.

The balance of purchase obligations<sup>4</sup> is \$70.5 million at June 30, 2004, up from \$66.8 million at December 31, 2003. Long-term debt and capital lease obligations<sup>5</sup> have not significantly changed. Transactions include repayments of \$1.9 million for the quarter and \$8.6 million year-to-date and proceeds of \$5.5 million for the quarter and \$7.8 million year-to-date, in accordance to the terms similar to those as set out in the annual consolidated financial statements.

There was no other significant change in the assumptions used and balances of these critical accounting estimates during the quarter.

## Shareholder's Equity

Share capital and book value per share has grown slightly to \$9.46<sup>6</sup> per share at June 30, 2004, as compared to \$8.83 per share at June 30, 2003. Earnings net of dividends contributed \$20.3 million for the quarter and \$37.7 million year-to-date to retained earnings. The increase in the cumulative translation adjustment of \$2.8 million since December 31, 2003 represents the unrealized foreign exchange gain on Linamar's net investment in its self-sustaining foreign subsidiaries. This change is a result of the weakening Canadian dollar relative to the U.S. dollar, the Hungarian Forint and Mexican Peso.

## Foreign Currency Activities

Linamar pursues a strategy of attempting to balance its foreign currency cash flows to the largest extent possible in each region in which it operates but subsequent to negotiations with its customers on those matters. Linamar's foreign currency cash flows for the purchases of materials and certain capital equipment denominated in foreign currencies are naturally hedged when contracts to sell products are denominated in those same foreign currencies. In an effort to manage the remaining exposure, Linamar employs hedging programs primarily through the use of foreign exchange forward contracts. The contracts are purchased based on the projected net foreign cash flows from operations.

The amount and timing of forward contracts is dependent upon a number of factors including anticipated production delivery schedules, anticipated customer payment dates and anticipated costs, which may be paid in foreign currencies, and expectations with respect to future foreign exchange rates. Linamar is exposed to credit risk from the potential default by counterparties on its foreign exchange contracts and attempts to mitigate this risk by dealing only with Canadian chartered banks. Despite these measures, significant long-term movements in relative currency values could affect Linamar's results of operations. The company does not hedge the business activities of its self-sustaining foreign subsidiaries, and accordingly, Linamar's results of operations could be further affected by a significant change in the relative values of the Canadian Dollar, U.S. Dollar, Euro, Hungarian Forint and Mexican Peso.

At June 30, 2004, the company was committed to a series of monthly forward exchange contracts to sell U.S. Dollars and British Pounds which mature in the future and which the company has designated as hedges. At June 30, 2004, the net unrecognized gain on the U.S. contracts was approximately \$3.2 million (December 31, 2003 - \$12.4 million). The unrecognized gain on the Euro contracts was \$Nil (December 31, 2003 - \$0.2 million). As these forward exchange contracts qualify for accounting as hedges, the unrealized gains and losses are deferred and recognized in the same period as the sales and expenditures which generate the net cash flows.

<sup>4</sup> "Purchase Obligation" means an agreement to purchase goods or services that is enforceable and legally binding which specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

<sup>5</sup> "Capital Lease Obligations" include the interest component in accordance with the definition of minimum lease payments under GAAP.

<sup>6</sup> Book Value per share (in millions except share and per share figures)

Book Value per share, as used by the chief operating decision makers and management, indicates the value of the company based on the carrying value of the company's net assets. Book value per share is calculated by the company as shareholder's equity divided by shares outstanding at quarter-end.

June 30	2004	2003
Shareholders' Equity	\$667.6	\$623.6
Shares outstanding at quarter end	70,603,476	70,603,476
Book Value per share	\$9.46	\$8.83

The non-GAAP financial measure does not have a standard meaning and may not be comparable to similar measures used by other issuers.

During the second quarter of 2003, the company placed forward contracts to buy U.S. dollars, effectively locking in the gains on the forward contracts in place at December 31, 2002. This transaction resulted in cash proceeds of \$30.5 million. The gains have been deferred and are being amortized to revenue based on the terms of the original underlying sales they hedged. Throughout the first quarter of 2004, the company has locked in additional gains of \$2.8 million.

### **Off Balance Sheet Arrangements**

The company leases transport trucks and trailers through its subsidiary Linamar Transportation Inc. in order to ensure the best possible delivery service to its customers. This arrangement remains unchanged at June 30, 2004.

The company is also a party to certain financial guarantees as discussed in Note 8 of the quarterly consolidated financial statements, as at June 30, 2004. There has been no significant change since the issuance of the annual consolidated financial statements as at December 31, 2003.

### **Transactions with Related Parties**

As at June 30, 2004, year-to-date the company paid approximately \$1.7 million for the construction of buildings, building additions, improvements, and \$0.2 million for maintenance costs to Kiwi-Newton Construction Ltd., a company owned by the spouse of a director. On a periodic basis the company entertains a closed bid process to ensure that it receives the best price for the work to be done by a related party.

### **Proposed Transactions**

On January 28, 2004, Linamar received a notice (the "Put Notice") from Wescast Industries Inc. ("Wescast"), the owner of a 50% joint venture interest (the "Wescast Interest") in Weslin Inc., purporting to put the Wescast Interest to Linamar pursuant to the Weslin Inc. joint venture agreement. Linamar holds a 50% joint venture interest in Weslin Inc., which through its wholly-owned Hungarian subsidiary, Weslin, develops casting and molding components for the European market.

Linamar brought an application to the Ontario Superior Court of Justice disputing the validity of the Put Notice and requesting, among other things, a division of the Weslin joint venture in accordance with the joint venture agreement.

On June 8, 2004, the Court agreed with the company's position and ordered that the Weslin business be divided in accordance with the provisions of the joint venture agreement. In so doing, Wescast would retain the casting business and machining of manifolds and Linamar would retain the non-manifold machining business.

Wescast has filed a Notice of Appeal; however, no date for the appeal has been set. As well, a motion to stay the decision of the Superior Court of Justice will be heard on August 16, 2004. In the interim, the parties are continuing to follow the process set out in the joint venture agreement.

### **Critical Accounting Estimates**

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an ongoing basis, the company evaluates its estimates. However, actual results may differ from these estimates under different assumptions or conditions.

Please see the annual MD&A for the year ended December 31, 2003 for a discussion of critical accounting estimates for the Impairment of Goodwill and Other Intangibles and Future Income Tax Assets and Liabilities. There was no significant change in the assumptions used and balances of these critical accounting estimates during the quarter.

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTIONS**

**The following accounting policies and pronouncements were adopted during the first two quarters ended June 30, 2004:**

a) During the first quarter, the company introduced a policy to address the adoption of the CICA revised Handbook Section 3870 "Stock-based compensation and other stock-based payments". The company began to amortize to earnings the estimated fair value of the options granted after January 1, 2002 over their remaining vesting period:

Effective January 1, 2004, the company adopted the revised Handbook Section 3870. The company has adopted the fair value method of accounting for stock-based compensation and recognizes a compensation expense for all stock options granted to employees and directors. The company only issues stock options to employees, including directors. The fair value of the options issued in the year is determined using the Black-Scholes option pricing model. The estimated fair value of the options is amortized to income over the vesting period.

Prior to January 1, 2004, the company disclosed the pro-forma net income and earnings per share, as if the fair value based accounting method had been used to account for stock-based compensation.

b) In 2003, the CICA issued Handbook Section 3063 "Impairment of Long-lived Assets" ("CICA 3063"). CICA 3063 requires that all companies comply with changes effective for years beginning on or after April 1, 2003. Accordingly, the company has adopted the Handbook Section effective January 1, 2004. CICA 3063 applies to non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets. CICA 3063 establishes standards for the recognition, measurement, and disclosure of long-lived assets. The assets are assessed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. There has been no effect on the company's consolidated financial statements as a result of adopting CICA 3063.

c) In 2003, the CICA finalized proposed amendments to Accounting Guideline, AcG-13 "Hedging Relationships" ("AcG-13"). AcG-13 requires that all companies comply with changes effective for years beginning on or after July 1, 2003. The company will adopt the new recommendations effective January 1, 2004. The most significant change is the establishment of certain conditions for when hedge accounting may be applied. Hedge accounting modifies the normal basis for recognizing the gains, losses, revenues and expenses associated with a hedged item and a hedging item in a company's income statement. Accordingly, the company will apply hedge accounting only under conditions that justify its use.

**The following accounting pronouncements were adopted by the company after June 30, 2004:**

a) In March 2004, the CICA revised Handbook Section 3461 "Future Employee Benefits" ("CICA 3461"). CICA 3461 requires that all companies comply with changes effective for years beginning on or after June 30, 2004. The purpose of CICA 3461 is to introduce new disclosure requirements for pensions and other future employee benefits and allow readers to better understand how an employer's obligations under these plans affect the company's consolidated financial statements. The adoption of revised CICA 3461 is not expected to have an effect on the company's consolidated financial statements, other than disclosure, and is not expected to affect the company's business.

Please see the annual MD&A for the year ended December 31, 2003 for other accounting pronouncements to be adopted after the quarter.

## **OUTSTANDING SHARE DATA**

Linamar is authorized to issue an unlimited number of common shares, of which 70,603,476 common shares were outstanding as of August 10, 2004. As of August 10, 2004, options to purchase 3,833,000 common shares were outstanding under Linamar's share option plan.

## OUTLOOK

Over the next several years, the company anticipates continued growth in both sales and earnings. Linamar anticipates launching programs resulting in expected growth in content per vehicle for 2004 of 12 to 17% in North America but Europe content will increase by 0 to 5%. This guidance reflects the recent announcement that GM has cancelled the CVT program. However, there is no change in status with respect to Weslin. In North America, some of the programs launched in 2003 were responsible for growth, such as the CAT cylinder head and liner business, GM connecting rod, Hummer and Ford cylinder head programs. In addition, some programs will be launching in 2004 and beyond such as the 8.6 Differential case, Ford clutch assembly, 6F transmission components, DCX crankshaft and differential case programs. The earnings expectation is based on the assumption that improvements implemented in 2003 in two of its Mexican plants will result in improved performance as well as ongoing improvement and/or continuing strong performance in Canadian and U.S. operations. The financial results will also be affected by continuing losses at LAT and Weslin. LAT has built a new plant to launch the hydro formed camshaft in 2005 for a major European automaker. Start up costs for the facility will impact earnings in the near future. Weslin is continuing to work through a long start up process and will experience losses for most of 2004. Linamar Hungary's financial performance will be affected by the GM CVT transmission cancellation and the fluctuation in agricultural products market. It is also anticipated that the market for Skyjack products will continue to rebound in the near term as the construction equipment market improves in the next few years, continuing the improvements that began in 2003. However, the market in which Skyjack operates is highly competitive and has an excess of production capacity for those products. These expectations assume consistent levels of North American and European automobile production, no unforeseen changes in the existing business base, and are subject to overall economic conditions and world political events and factors. As certain larger programs launched in 2003 experience volume increases, the growth in future earnings is expected to outpace expected sales growth. As well, in 2004, Linamar will realize the benefits provided by the Linamar Production System. The system is based on lean principles developed at Toyota Motor Corporation ("Toyota").

Linamar believes that its strategy to focus on the B.E.S.T. components of the automobile represent a significant opportunity for growth as products in these applications are expected to be the next major area of outsourcing by the OEMs over the next 10 to 20 years. Other aspects of the vehicles such as interiors, seating, and structural components have already experienced greater levels of outsourcing. In addition, management believes other related trends include more involvement by suppliers in component and module design, a move towards global vehicle platforms and supply base consolidation.

Linamar believes that it is uniquely positioned with its core competencies in precision machining and manufacturing processes in the complete range of precision machined and assembled automotive products. To build on this strong business base, Linamar intends to continue to develop the organization and its future by enhancing its existing capability to machine every component in B.E.S.T., work towards integrating into assemblies, establishing a market leadership position in key components and assemblies, developing greater design expertise in targeted components, modules and systems, and researching opportunities in product and process innovation.

A key factor in Linamar's future growth strategy is the effect of economic fluctuations in the automotive industry and specifically vehicles produced for the markets in which Linamar participates. Variations in these factors can have a significant impact on the industry and Linamar.

In 2003, the company's results were negatively impacted by the strengthening Canadian dollar relative to the U.S. dollar. The company continues to employ a hedging strategy to mitigate these risks. As a result of current levels of consumer spending on automobiles, the OEMs are constantly facing volume challenges which are reflected in the results of Linamar through reduced volumes on some existing programs. The OEMs do, however, continue to outsource, although not at expected levels, which allows Linamar to expand and diversify its product base.

Other principal challenges and risks that the company faces moving forward are the lack of outsourcing by the OEMs in the powertrain segment, the market share shift to the Japanese automakers, and the shortage of qualified technical people in the labour pool, low cost country outsourcing and technologies that eliminate the need for machining.

In addition, the automotive industry continues to decrease the supply base mainly due to OEMs actively reducing their supply base to become more manageable. Through this reduction, there have been considerable consolidations or acquisitions of smaller suppliers.

Strategies employed to address these challenges include focusing, with Linamar's new inside sales force, on strategic sales planning and platform targeting to meet customer and product sales levels, as well as heavy capital expenditure levels (as illustrated in 2003). These expenditures, on various new programs (LAT, Camtac, Exkor Manufacturing, Vehcom Manufacturing), which target key products and expand into assemblies and modules.

Important new technologies, like hydro forming of camshafts, have been acquired (through the purchase of LAT), as well as the increased capacity to design, test and validate engine powertrains and their components (through the acquisition of McLaren). The company will continue to focus on the continued structuring for growth ahead, as well as integrating new plants and acquisitions.

Some inroads have been made with new contracts for Honda Motor Co., Ltd. ("Honda") and Toyota, and a new sales office is scheduled to be opened in 2004 in Yokohama, Japan. A new representative office is also scheduled to open in Shanghai, China in 2004. These efforts will assist the company in increasing its business with the market share-gaining Japanese automakers and addressing low cost country outsourcing issues. Linamar will continue to adjust its strategic options with regard to these two issues and, with its strong balance sheet and technical capabilities, be ready to react to opportunities as they arise. Other initiatives in 2004 that will address these challenges are the focus on training at all levels, LEAN manufacturing principles and supplier management.

### **Forward Looking Information**

Certain information provided by Linamar in this Management Discussion and Analysis in the Quarterly and Annual Reports, and other documents published throughout the year which are not recitation of historical facts may constitute forward-looking statements. The words "may", "would", "could", "will", "likely", "estimate", "believe", "expect", "plan", "forecast" and similar expressions are intended to identify forward-looking statements. Readers are cautioned that such statements are only predictions and the actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements.

Such forward-looking information may involve important risks and uncertainties that could materially alter results in the future from those expressed or implied in any forward-looking statements made by, or on behalf of, Linamar. Some of the factors and risks and uncertainties that cause results to differ from current expectations discussed in this Management Discussion and Analysis and elsewhere in the Quarterly and Annual Reports include, but are not limited to, changes in the various economies in which Linamar operates, fluctuations in interest rates, environmental emission and safety regulations, the extent of OEM outsourcing, industry cyclicalities, trade and labour disruptions, world political events, pricing concessions and cost absorptions, delays in program launches, the company's dependence on certain engine and transmission programs and major OEM customers, currency exposure, technological developments by Linamar's competitors, governmental, environmental and regulatory policies and changes in the competitive environment in which Linamar operates.

The foregoing is not an exhaustive list of the factors that may affect Linamar's forwarding looking statements. These and other factors should be considered carefully and readers should not place undue reliance on Linamar's forward-looking statements. Linamar assumes no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those reflected in the forward-looking statements.

The quarterly results of the company are impacted by the seasonality of certain operational units. Earnings in second quarter are positively impacted by the high selling season for both the general lift platform and agricultural businesses. The third quarter is generally negatively impacted by the scheduled summer shut downs at the company's automotive customers. The company takes advantage of summer shut downs for maintenance activities that would otherwise disrupt normal production schedules. The

fourth quarter of 2003 was negatively impacted by the termination of all outside sales agents as the company builds its own internal sales force.