

## INTERIM REPORT

### Linamar Announces Fourth Quarter Results and Reduced Dividend

March, 5 2009, Guelph, Ontario, Canada – Linamar Corporation (TSX:LNR) is a diversified global manufacturing company of highly engineered products. The company's Powertrain and Driveline focused divisions are world leaders in the collaborative design, development and manufacture of precision metallic components, modules and systems for global vehicle and energy markets. The company's Industrial division is a world leader in the design and production of innovative mobile industrial products, notably its class-leading aerial work platforms and award winning cordless rechargeable lawn mower. With close to 11,300 employees in 37 manufacturing locations, 5 research and development ("R&D") centers and 10 sales offices in Canada, the US, the UK, Mexico, Germany, Sweden, Hungary, China, Korea and Japan, Linamar generated sales over \$2.2 Billion in 2008. For more information about Linamar Corporation and its industry leading products and services, visit [www.linamar.com](http://www.linamar.com)

(CDN dollars in thousands except per share figures)

	Three Months Ended Dec 31		Twelve Months Ended Dec 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
Sales	476,686	528,180	2,257,000	2,313,551
Gross Margin	22,585	52,765	229,642	288,182
Selling, general and administrative	28,475	27,763	126,027	116,022
Operating Earnings	(5,890)	25,002	103,615	172,160
Earnings from Continuing Operations	(8,766)	25,063	56,040	108,987
Net Earnings	(2,595)	25,407	70,350	109,331
Diluted Earnings per Share				
from Continuing Operations	(0.14)	0.36	0.84	1.56
Diluted Earnings per Share	(0.04)	0.36	1.05	1.57

#### Fourth Quarter Operating Highlights

Sales for the fourth quarter of 2008 were \$476.7 million, down \$51.4 million from \$528.1 million for the fourth quarter of 2007. Sales for Powertrain/Driveline segment decreased by \$6.0 million, or 1.4% in the fourth quarter to \$422.1 million compared to \$428.1 million in the fourth quarter of 2007. The decrease was driven by significant volume reductions by North American OEMs notably GM, Chrysler and Ford. Industrial segment sales decreased 45.5% or \$45.5 million for the quarter from \$100.1 million in the fourth quarter of 2007 to \$54.6 million in the fourth quarter of 2008. The sales for the fourth quarter of 2008 differed from the corresponding period in 2007 due to significant volume reductions as a result of uncertainty in the market and restricted credit availability.

The company's operating earnings decreased to a loss of \$5.9 million for the fourth quarter of 2008 compared to a profit of \$25.0 million for the fourth quarter of 2007, a decrease of \$30.9 million. Fourth quarter operating earnings for the Powertrain/Driveline segment were lower by \$23.8 million or 140.8% to a loss \$6.9 million over the same quarter of 2007 where operating earnings were \$16.9 million. The Operating Earnings for the Industrial segment were \$1.0 million in fourth quarter 2008, a decrease of \$7.1 million or 87.7% over the fourth quarter of 2007. The decrease in both segments was driven by under absorption of fixed costs due to the significant volume reductions.

Earnings from continuing operations for the quarter were a loss of \$8.8 million (1.8% of sales) versus a profit of \$25.1 million (4.8% of sales) in 2007.

### **Dividends**

The Board of Directors today declared an eligible dividend in respect of the quarter ended December 31, 2008 of CDN\$0.03 per share on the common shares of the company, payable on or after April 15, 2009 to shareholders of record on April 1, 2009. In light of current conditions affecting the company and its businesses, the Board of Directors determined that this reduction in the company's quarterly dividend for the fourth quarter of 2008 is a prudent step and is in the best interests of the company. In considering future dividends, the Board will consider prevailing financial, economic, operating and other relevant circumstances, including the company's working capital requirements and overall financial position.

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

Linamar no longer provides a financial outlook.

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 cyclicality, 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 cash flows are denominated in foreign currencies. The movement of foreign currency exchange rates against the Canadian dollar has the potential to have a negative impact on financial results. The company has employed a hedging strategy as appropriate to attempt to mitigate the impact but cannot be completely assured that the entire exchange effect has been offset.

Other factors and risks and uncertainties that could cause results to differ from current expectations are discussed in the MD&A and 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.

**Conference Call Information**

*Q4 Conference Call Information*

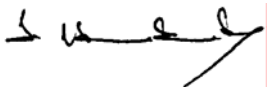
Linamar will hold a conference call on March 5, 2009 at 5:00 p.m. EST to discuss its fourth quarter/year end results. The numbers for this call are (416) 640-3404 (local/overseas) or (866) 322-1159 (North America) confirmation number 2204708, with a call-in required 10 minutes prior to the start of the conference call. The conference call will be chaired by Linda Hasenfratz, Linamar's Chief Executive Officer. A copy of the company's full quarterly financial statements, including the Management's Discussion & Analysis will be available on the company's website after 4 p.m. EST on March 5, 2009 and at [www.sedar.com](http://www.sedar.com) by the start of business on March 5, 2009. A taped replay of the conference call will also be made available starting at 11:00 p.m. on March 4, 2009 for seven days. The number for replay is (647) 436-0148 or (888) 203-1112, Conference ID 2204708. The conference call can also be accessed by web cast at [www.linamar.com](http://www.linamar.com), by accessing the investor relations/events menu, and will be available for a 7 day period.

*Q1 Conference Call Information:*

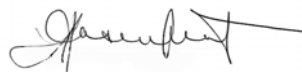
Linamar will hold a conference call on May 4, 2009 at 5:00 p.m. EST to discuss its first quarter results. The numbers for this call are (416) 640-3404 (local/overseas) or (866) 322-1159 (North America) confirmation number 5141377, with a call-in required 10 minutes prior to the start of the conference call. The conference call will be chaired by Linda Hasenfratz, Linamar's Chief Executive Officer. A copy of the company's full quarterly financial statements, including the Management's Discussion & Analysis will be available on the company's website after 4 p.m. EST on May 4, 2009 and at [www.sedar.com](http://www.sedar.com) by the start of business on May 5, 2009. A taped replay of the conference call will also be made available starting at 11:00 p.m. on May 4, 2009 for seven days. The number for replay is (647) 436-0148 or (888) 203-1112, Conference ID 5141377. The conference call can also be accessed by web cast at [www.linamar.com](http://www.linamar.com), by accessing the investor relations/events menu, and will be available for a 7 day period.

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For further information regarding this release please contact Linda Hasenfratz at (519) 836-7550.



Frank Hasenfratz  
Chairman of the Board



Linda Hasenfratz  
Chief Executive Officer

Guelph, Ontario  
March 5, 2009

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

As at December 31, 2008 with comparatives as at December 31, 2007 (Unaudited)  
(in thousands of dollars)

	December 31 2008	December 31 2007
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	89,535	120,319
Accounts receivable	351,515	389,811
Inventories (note 3)	317,988	279,299
Prepaid expenses	7,627	7,156
Income taxes recoverable	28,928	-
Current portion of long-term receivables	871	691
Future income taxes	8,787	6,726
Derivative financial instruments (note 10)	-	4,265
Current assets – discontinued operations (note 6)	-	1,726
	805,251	809,993
<b>Deferred Charges</b>	1,996	2,128
<b>Long-Term Receivables</b>	2,369	1,564
<b>Goodwill and Other Intangibles</b>	61,564	64,613
<b>Property, Plant and Equipment</b>	927,264	899,944
<b>Future Income Taxes</b>	43,159	32,303
<b>Property, Plant and Equipment – Discontinued Operations</b> (note 6)	-	1,438
<b>Future Income Taxes – Discontinued Operations</b> (note 6)	-	1,836
	1,841,603	1,813,819
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Unpresented cheques	6,039	16,574
Short-term bank borrowings	81,090	143,778
Accounts payable and accrued liabilities	337,903	329,857
Income taxes payable	-	3,739
Derivative financial instruments (note 10)	15,167	-
Current portion of long-term debt	170,324	4,756
Current liabilities – discontinued operations (note 6)	-	4,195
	610,523	502,899
<b>Long-Term Debt</b>	222,126	324,380
<b>Derivative Financial Instruments</b> (note 10)	25,765	1,235
<b>Future Income Taxes</b>	66,944	62,785
<b>Non-Controlling Interests</b>	37,923	31,962
	963,281	923,261
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital Stock</b> (note 4)	108,215	116,782
<b>Retained Earnings</b>	848,300	851,515
<b>Contributed Surplus</b> (note 4)	3,026	2,246
<b>Accumulated Other Comprehensive Loss</b> (note 5)	(81,219)	(79,985)
	878,322	890,558
	1,841,603	1,813,819

On behalf of the Board of Directors:

Frank Hasenfratz  
**Director**

Linda Hasenfratz  
**Director**

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

For the twelve months ended December 31, 2008 and December 31, 2007 (Unaudited)  
(in thousands of dollars, except per share figures)

	Three Months Ended December 31		Twelve Months Ended December 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Sales</b>	476,686	528,180	2,257,000	2,313,551
Cost of Sales	409,848	431,104	1,850,479	1,857,201
Amortization	44,253	44,311	176,879	168,168
<b>Gross Margin</b>	22,585	52,765	229,642	288,182
Selling, general and administrative	28,475	27,763	126,027	116,022
<b>Earnings Before the Following:</b>	(5,890)	25,002	103,615	172,160
<b>Other Income (Expense)</b>				
Interest on long-term debt	(4,329)	(3,513)	(16,455)	(14,137)
Other interest expense	(1,427)	(2,906)	(5,379)	(7,171)
Interest earned	288	1,144	2,274	4,717
Other income	623	1,583	2,169	3,398
	(10,735)	21,310	86,224	158,967
<b>Provision for (Recovery of) Income Taxes</b>				
Current	(10,378)	(563)	13,803	47,381
Future	9,342	(3,839)	14,584	(1,593)
	(1,036)	(4,402)	28,387	45,788
	(9,699)	25,712	57,837	113,179
<b>Non-Controlling Interests</b>	(933)	649	1,797	4,192
<b>Earnings from Continuing Operations</b>	(8,766)	25,063	56,040	108,987
<b>Goodwill Impairment</b>	(5,127)	-	(5,127)	-
<b>Discontinued Operations</b> (note 6)	416	344	416	344
<b>Income before Extraordinary Items</b>	(13,477)	25,407	51,329	109,331
<b>Extraordinary item, net of tax</b> (note 15)	10,882	-	19,021	-
<b>Net Earnings for the Period</b>	(2,595)	25,407	70,350	109,331
<b>Basic Earnings per Share</b>				
<b>from Continuing Operations</b> (notes 4 and 12)	(0.14)	0.36	0.84	1.56
<b>Diluted Earnings per Share</b>				
<b>from Continuing Operations</b> (notes 4 and 12)	(0.14)	0.36	0.84	1.56
<b>Basic Earnings per Share</b> (notes 4 and 12)	(0.04)	0.36	1.05	1.57
<b>Diluted Earnings per Share</b> (notes 4 and 12)	(0.04)	0.36	1.05	1.57

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

For the twelve months ended December 31, 2008 and December 31, 2007 (Unaudited)  
(in thousands of dollars)

	Three Months Ended December 31		Twelve Months Ended December 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Balance – Beginning of Period, as Previously Reported</b>	857,965	830,298	851,515	762,833
Change in accounting policies	-	-	-	(3,706)
<b>Balance – Beginning of Period</b>	857,965	830,298	851,515	759,127
Net Earnings for the Period	(2,595)	25,407	70,350	109,331
Dividends	(3,882)	(4,190)	(15,959)	(16,758)
Excess over assigned value of common shares purchased and cancelled (note 4)	(3,188)	-	(57,606)	(185)
<b>Balance – End of Period</b>	848,300	851,515	848,300	851,515

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

For the twelve months ended December 31, 2008 and December 31, 2007 (Unaudited)  
(in thousands of dollars)

	Three Months Ended December 31		Twelve Months Ended December 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Net Earnings for the Period</b>	(2,595)	25,407	70,350	109,331
<b>Other Comprehensive Earnings (Loss)</b>				
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations (note 5)	3,813	113	28,657	(42,121)
Change in unrealized gains (losses) of derivative instruments designated as cash flow hedges (net of income taxes of \$7,911 and \$12,252 year to date, 2007 - \$2,503 and \$2,877 year to date) (notes 5 and 10)	(16,918)	(5,112)	(26,112)	(5,807)
Reclassification to earnings of gains (losses) on cash flow hedges (net of income taxes of \$2,395 and \$1,819 year to date, 2007 - \$1,199 and \$5,647 year to date) (notes 5 and 10)	(4,975)	2,376	(3,779)	11,352
	(18,080)	(2,623)	(1,234)	(36,576)
<b>Comprehensive Earnings for the Period</b>	(20,675)	22,784	69,116	72,755

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

For the twelve months ended December 31, 2008 and December 31, 2007 (Unaudited)  
(in thousands of dollars)

	Three Months Ended December 31		Twelve Months Ended December 31	
	2008	2007	2008	2007
<b>Cash Provided By (Used In)</b>	\$	\$	\$	\$
<b>Operating Activities</b>				
Earnings from continuing operations	(8,766)	25,063	56,040	108,987
Non-cash charges (credits) to earnings:				
Amortization of property, plant and equipment	42,937	43,086	171,530	164,954
Amortization of other intangible assets	1,316	1,225	5,349	3,214
Future income taxes	9,342	(3,839)	14,584	(1,593)
Non-controlling interests	(933)	649	1,797	4,192
Unrealized exchange (gain) loss on debt	1,590	412	1,785	(3,118)
Net loss on disposal of property, plant and equipment	(12)	(734)	1,408	(393)
Capital asset impairment	6,684	5,534	11,423	8,071
Stock-based compensation	(1,814)	2,246	780	2,246
Other	1,582	552	2,372	1,102
	51,926	74,194	267,068	287,662
Changes in non-cash working capital:				
(Increase) decrease in accounts receivable	98,503	119,051	89,010	(35,474)
(Increase) decrease in inventories	(5,865)	(23,928)	(12,508)	(52,485)
(Increase) decrease in prepaid expenses	3,790	1,766	(254)	2,951
Increase (decrease) in income taxes payable	831	(9,288)	(35,032)	(4,783)
Increase (decrease) in accounts payable and accrued liabilities	(43,930)	(826)	(50,669)	18,877
Cash flow – continuing operations	105,255	160,969	257,615	216,748
Cash flow – discontinued operations (note 6)	1,732	173	1,221	(678)
	106,987	161,142	258,836	216,070
<b>Financing Activities</b>				
Proceeds from (repayments of) short-term bank borrowings	(69,834)	(102,880)	(63,987)	113,378
Proceeds from long-term debt	59,571	59,628	62,134	59,628
Repayment of long-term debt	(1,216)	(4,985)	(5,405)	(16,452)
Repurchase of shares (note 4)	(3,859)	-	(66,173)	(209)
Decrease (increase) in long-term receivables	(2,171)	13	(992)	669
Dividends to shareholders	(3,882)	(4,190)	(15,959)	(16,758)
	(21,391)	(52,414)	(90,382)	140,256
<b>Investing Activities</b>				
Payments for purchase of property, plant and equipment	(45,847)	(52,281)	(181,820)	(185,490)
Proceeds of disposal of property, plant and equipment	1,397	-	4,733	5,355
Business acquisitions (note 15)	-	(2,984)	(11,823)	(108,603)
Extraordinary item (note 15)	(85)	-	(1,756)	-
	(44,535)	(55,265)	(190,666)	(288,738)
	41,061	53,463	(22,212)	67,588
<b>Effect of Translation Adjustment</b>	(26)	961	1,963	(2,130)
<b>Increase (Decrease) in Cash Position</b>	41,035	54,424	(20,249)	65,458
<b>Cash Position - Beginning of Period</b>	42,461	49,321	103,745	38,287
<b>Cash Position - End of Period</b>	83,496	103,745	83,496	103,745
<b>Comprised of:</b>				
Cash	89,535	120,319	89,535	120,319
Unpresented cheques	(6,039)	(16,574)	(6,039)	(16,574)
	83,496	103,745	83,496	103,745

# LINAMAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended December 31, 2008 and December 31, 2007 (Unaudited)

### 1. Significant Accounting Policies

Management prepared these interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") using the same accounting policies and methods of their application as the most recent annual consolidated financial statements, except as noted below. These interim consolidated financial statements do not include all the information and footnotes as required in the annual consolidated financial statements and as such should be read in conjunction with the company's most recent audited annual consolidated financial statements. These 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 Canadian Institute of Chartered Accountants ("CICA") Handbook.

#### *Changes in accounting policies*

Effective January 1, 2008, the company adopted the CICA Handbook Section 3862, Financial Instruments – Disclosures ("CICA 3862"), Section 3863, Financial Instruments – Presentation ("CICA 3863"), Section 1535, Capital Disclosures ("CICA 1535") and Section 3031, Inventory ("CICA 3031").

CICA 3862 and CICA 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation. CICA 3862 emphasizes disclosure on the significance of financial instruments, including hedging instruments, and the nature and extent of risks arising from those financial instruments and how management manages such exposures. CICA 3863 carries forward, unchanged from CICA Section 3861, standards for presentation of financial instruments and non financial instruments.

CICA 1535 requires supplementary disclosure regarding the company's capital management and compliance with any externally imposed capital requirements.

CICA 3031, Inventory replaces section 3030 and establishes standards for the measurement of inventories, allocation of overhead, accounting for write-downs and disclosures.

The adoption of these new accounting standards did not impact the company's net earnings or financial position.

### 2. Foreign Exchange (in thousands of dollars)

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

	Three Months Ended December 31		Twelve Months Ended December 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
Foreign Exchange Gain/(Loss)	(361)	887	1,326	397

### 3. Inventories (in thousands of dollars)

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and market. For raw materials, market is defined as replacement cost; for work-in-process and finished goods, market is defined as net realizable value. A provision for obsolescence for slow moving inventory items is estimated by management based on historical and expected future sales and is included in cost of goods sold. In the quarter ending December 31, 2008 the company recognized a write-down of slow moving and obsolete material of \$5,427 in comparison to \$(120) reversal in the same quarter last year. Lower of cost or market adjustments are made on a regular basis and have no material effect on the financial statements.

Section 3031, Inventory replaces Section 3030 and established standards for the measurement of inventories, allocation of overhead, accounting for write-downs and disclosures. The new recommendations were adopted effective January 1, 2008, and had no material impact on the financial statements.

### 4. Capital Stock (in thousands of dollars except for per share figures)

During the first quarter of 2008, the company purchased shares for cancellation under its normal course issuer bid. The company repurchased 37,800 shares for total consideration of \$640 subsequent to December 31, 2007 until January 30, 2008. The normal course issuer bid, which permitted the company to acquire up to 5,083,839 of its outstanding common shares, expired on January 30, 2008.

On January 29, 2008, the company renewed its normal course issuer bid. The current bid permits the company to acquire up to 5,084,699 of its outstanding common shares and expires on January 30, 2009. The company has repurchased 5,084,600 shares for total consideration of \$65,533 subsequent to January 31, 2008.

On August 14, 2008, 818,001 options with tandem share appreciation rights ("SARs") were granted with an average exercise price of \$11.44 per option. 545,334 of the options vested 10% on date of grant with additional 10% vesting on each of the

next twelve consecutive anniversary dates of grant. The remaining 272,667 options vested 33.33% on the date of grant with additional 33.33% vesting on each of the next two consecutive anniversary dates of grant.

The weighted average fair value of share options granted, and the weighted average assumptions used in the fair value estimation at the time of grant, using the Black-Scholes model, are as follows

Share option fair value (per share)	\$5.36
Risk free interest rate	3.75%
Expected life (years)	10.0
Expected volatility	39.84%
Dividend yield	1.32%

The risk-free interest rate used in determining the fair value of the options granted is based on a Government of Canada 10 year zero coupon yield that was current at the time of the grant. The expected life is the maximum term of the share options. The expected volatility considers the historical volatility of the company's shares. The dividend yield is the annualized dividend current at the date of grant divided by the average exercise price.

The company recognized \$780 in total compensation expense in 2008 relating to the vested options (2007 - \$2,246).

In December 2008, the option holders surrendered all issued and unexercised share options to the company. The options were subsequently cancelled by the company.

There were no options outstanding as of Dec 31, 2008.

**5. Accumulated Other Comprehensive Loss** (in thousands of dollars)

	Three Months Ended December 31		Twelve Months Ended December 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Balance – Beginning of Period, as Previously Reported</b>	(63,139)	(77,362)	(79,985)	(39,896)
Change in accounting policies	-	-	-	(3,513)
<b>Balance – Beginning of Period, as after changes in accounting policies</b>	(63,139)	(77,362)	(79,985)	(43,409)
Other comprehensive earnings (loss) for the period	(18,080)	(2,623)	(1,234)	(36,576)
<b>Balance – End of Period</b>	<b>(81,219)</b>	<b>(79,985)</b>	<b>(81,219)</b>	<b>(79,985)</b>

**6. Discontinued operations**

During the quarter, management reviewed the original estimates made with respect to the wind-up and closure of the company's in-house casting operation. The company completed the windup of these discontinued operations in the quarter, which resulted in a small recovery. The results from discontinued operations have been reported separately within these interim financial statements.

**7. 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 and year-to-date periods:

	Three Months Ended December 31		Twelve Months Ended December 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
Government sponsored	3,501	3,534	20,082	19,410
Company sponsored	2,364	2,438	11,710	9,846

**8. 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 December 31, 2008, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately \$104,820. Of this amount, \$100,559 relates to the purchase of manufacturing equipment and \$4,261 relates

to general contracting and construction costs in respect of plant construction in Ontario. All of these commitments are due within the next twelve months.

#### 9. 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 \$12,602 paid to a company owned by the spouse of an officer and director. In addition, the company has a commitment of \$932 to the same entity. Included in cost of sales, are maintenance costs of \$783 paid to the same company. The maintenance and construction costs and the commitment represent general contracting and construction activities related to plant construction, improvements, additions and maintenance for a number of facilities. Included in sales is \$28 related to equipment and services sold to the same company.

The company has designed an independent process to ensure building construction and improvements are transacted at fair value. Other transactions have been recorded at the exchange amount.

#### 10. Financial Instruments (in thousands of dollars)

Classification and fair value of financial instruments

- i) Cash is classified as "Assets held for trading". Cash is measured at fair value and the gains or losses resulting from the re-measurement at the end of each period are recognized in net earnings.
- ii) Accounts receivable and long-term receivables are classified as "Loans and receivables". They are recorded at cost, which upon their initial measurement is equal to their fair value. The carrying amounts of accounts receivable approximate their fair values due to the relatively short periods to maturity. Subsequent measurements on long-term receivables are recorded at amortized cost using the effective interest method.
- iii) Short-term bank borrowings, accounts payable and accrued liabilities and long-term debt are classified as "Financial liabilities". They are recorded at cost, which upon their initial measurement is equal to their fair value. The carrying amounts of short-term bank borrowings, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity. Subsequent measurements of the long-term debt are recorded at amortized cost using the effective interest method.
- iv) Derivative financial instruments designated as cash flow hedges are classified as "held for trading" and are measured at fair value at the end of each period with the gains or losses resulting from re-measurement recognized in other comprehensive income, any ineffective portion is recognized in net earnings. Derivative financial instruments designated as fair value hedges are classified as "held for trading" and are measured at fair value at the end of each period with the gains or losses resulting from the re-measurement recognized in net earnings. The fair values are determined based on observable market data.

As at December 31, 2008 the carrying value of the derivative financial instruments designated as hedges are as follows:

	Liabilities \$
Derivative financial instruments designated as cash flow hedges	40,932
Derivative financial instruments designated as fair value hedges	4,386

#### Financial risk management

##### Foreign exchange risk

The company operates in several different geographical regions in the world and has many business arrangements with customers and suppliers also based in different geographical regions; the company therefore is impacted by changes in foreign exchange rates. These foreign exchange rate changes affect net sales and expenses based in foreign currencies and the translation of foreign currency monetary balances in relation to functional currencies. Approximately 64% of the company's foreign exchange exposure relates to U.S. dollar activity, 8% based on GBP activity and 13% based on Euro activity. This exposure is measured against Canadian dollar, Hungarian forint, Mexican peso, U.S. dollar and British pound functional currency reporting entities.

The company enters into forward exchange contracts to manage exposure to currency rate fluctuations related primarily to its future cash inflows and outflows of U.S. dollars, Euros, and British pounds from operations. The company uses forecasted future cash flows of foreign currencies to determine the level of hedges required. As at December 31, 2008 the company has contracts in place with maturity dates out to 2011. The company elected to apply hedge accounting for foreign exchange forward contracts purchased as cash flow hedges. The reclassification of gains and losses that are currently reported in accumulated other comprehensive earnings, net of taxes, will be recognized in net earnings in the same period as the transactions which generate the cash flows. For the three month periods ending December 31, 2008 and December 31, 2007, the company recognized in other comprehensive earnings an unrealized loss of \$9,534, net of \$4,465 in income taxes and an unrealized loss of \$4,101, net of \$2,043 in income taxes respectively and for 2008 and 2007, the company recognized unrealized losses of \$16,364 net of \$7,726 in income taxes, and \$5,890 net of \$2,927 in income taxes respectively in other comprehensive earnings. This represents the effective portion of the change in the fair value of the foreign exchange forward contracts designated as cash flow hedges. A reclassification from accumulated other comprehensive loss to sales and selling, general and administrative expenses netting to \$4,975 in losses, net of \$2,395 in income taxes and a net gain of \$2,376, net of \$1,199 in income taxes were made in the fourth quarter of 2008 and 2007 quarters respectively. A reclassification from accumulated other comprehensive loss to sales and selling, general and administrative expenses netting to \$3,779 in losses,

net of \$1,819 in income taxes and a net gain of \$11,352, net of \$5,647 in income taxes were made in 2008 and 2007 respectively. The company anticipates a loss of \$8,965 net of taxes of \$4,317, will be included in net earnings over the next twelve months.

In addition, the company elected to apply hedge accounting to its long-dated foreign exchange forwards which are accounted for as fair value hedges. These derivatives are measured at fair value at the end of each period and the gains or losses resulting from this measurement are recognized in net earnings. As at December 31, 2008, the company has contracts in place with maturity dates in 2009 and 2014. For the three month periods ending December 31, 2008 and December 31, 2007, the company recognized a loss of \$1,094, net of \$491 in related income taxes and a loss of \$243, net of \$109 in related income taxes respectively, in net earnings representing the change in the fair value of the derivatives designated as fair value hedges. For 2008 and 2007, the company recognized a loss of \$1,274, net of \$572 in related income taxes and a gain of \$1,953, net of \$1,122 in related income taxes, respectively.

The company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities.

Assuming all other variables are held constant, at December 31, 2008, a 5% strengthening of the U.S. dollar against the functional currency of the company and its self-sustained foreign subsidiaries would result in an exchange gain of \$1,612 recorded in net earnings and an exchange gain of \$7,537 recorded in other comprehensive earnings. Similarly, a 5% strengthening of the British pound would result in an exchange gain of \$344 recorded in net earnings. A 5% strengthening of the Euro would result in an exchange gain of \$718 recorded in net earnings. There would be no impact to other comprehensive earnings on the British pound and Euro based financial instruments.

#### Interest rate risk

Due to the company's capital structure, there is some degree of exposure to changes in the market rate of interest. The company does invest excess funds at times to maximize interest income earned. The investment quality must meet internal standards for ratings and liquidity to safeguard the company's cash and cash equivalents. Interest rate swap agreements are used by the company to manage the fixed and floating interest rate mix of the company's total debt portfolio and related overall cost of borrowing. The company elected to apply hedge accounting to interest rate swaps purchased as cash flow hedges.

For the three month periods ending December 31, 2008 and December 31, 2007, the company recognized an unrealized loss of \$7,384, net of \$3,446 in income taxes and an unrealized loss of \$1,011, net of \$460 in incomes taxes respectively. The unrealized losses were recorded in other comprehensive earnings representing the effective portion of the change in fair value of the interest rate swaps designated as cash flow hedges. For the twelve month periods ending December 31, 2008 and December 31, 2007, the company recognized an unrealized loss of \$9,748, net of \$4,526 in income taxes and an unrealized gain of \$83, net of \$50 in income taxes, respectively. There were no reclassifications to net earnings out of accumulated other comprehensive earnings made in either the December 31, 2008 or 2007 year-to-date periods with respect to the interest rate swaps.

As at December 31, 2008, an interest rate change of 50 basis points (all other variables held constant) would have no impact on net earnings for the quarter. An interest rate change of 50 basis points would impact other comprehensive earnings by approximately \$2,242.

#### Liquidity risk

Liquidity risk is the company's ability to meet its financial obligations when they come due. The company manages the liquidity risk of forecasted cash flows from operations by ensuring that there are cash resources available to meet these needs. As at December 31, 2008, the company's syndicated revolving bank facility had available credit of \$217,313. The facility does not mature until 2011.

The amount of financial resources available to invest in a company's growth is dependent upon its size and willingness to utilize debt and issue equity. The company has fewer financial resources than some of its principal competitors. If the company deviates from its growth expectations, it may require additional debt or equity financing. There is no assurance that the company will be able to obtain additional financial resources that may be required to successfully compete in its markets on favourable commercial terms. Failure to obtain such financing could result in the delay or abandonment of certain strategic plans for product manufacturing or development.

The company's current credit facility and Private Placement Notes Series A and B, require the company to comply with certain financial covenants, including the following:

Revolving credit facility key covenants:

- (1) Net Funded Debt<sup>1</sup> ("NFD") to EBITDA<sup>2</sup> must be not more than 2.5 for the trailing four quarters on a rolling basis; and
- (2) EBITDA must be not less than 3.0 times interest expense for the trailing four quarters on a rolling basis.

	Dec 31, 2008	Dec 31, 2007
NFD/EBITDA	1.5	1.1
EBITDA/Interest	12.8	16.3

Private Placement Notes key covenants:

- (1) Book value of Consolidated Shareholders' Equity<sup>3</sup> must be not less than \$450.0 million; and
- (2) Consolidated Debt<sup>4</sup> to Consolidated Capitalization<sup>5</sup> must be not greater than 50%

(in millions of dollars)	Dec 31, 2008	Dec 31, 2007
Consolidated Shareholders' Equity	878.3	890.6
Consolidated Debt to Consolidated Capitalization	38.4%	36.0%

Series A of the Private Placement Notes are due In November 2009.

The undiscounted contractual maturities of the company's financial liabilities as at December 31, 2008 are as follows:

	Current Year	Maturing in 1 to 2 Years	Maturing after 2 Years	Total
	\$	\$	\$	\$
Short-term bank borrowings	81,090	-	-	81,090
Long-term debt	162,916	3,773	214,930	381,619
Derivative financial instruments designated as fair value hedge	6,792	-	5,418	12,210
Derivative financial instruments designated as cash flow hedge	16,204	11,024	6,241	33,469
	267,002	14,797	226,589	508,388

#### Credit risk

The maximum exposure to credit risk at the balance sheet date is represented by the net carrying amount of the company's cash, accounts receivable, derivative financial instruments and financial guarantees (see note 14) the company has provided. The company is exposed to credit risk from potential default by counterparties that carry the company's cash and cash equivalents and derivative financial instruments. The company attempts to mitigate this risk by dealing only with large financial institutions with good credit ratings. All of the financial institutions within the bank syndicate providing the company's credit facility meet these qualifications. Any short term investments are made in products rated R1 Mid or higher.

Credit risk also arises from the inability of customers to discharge their obligation to the company. A substantial portion of the company's accounts receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. At December 31, 2008, the accounts receivable from the company's three largest customers amounted to 13.2%, 8.8% and 7.1% (December 31, 2007 – 13.8%, 10.2%, and 10.0%) of total receivables. The level of accounts receivable that are past due as at December 31, 2008 are part of normal payment patterns within the industry and the allowance for doubtful accounts are less than 1.0% of total trade receivables. The company does not believe it is exposed to a significant concentration of credit risk.

<sup>1</sup> "Net Funded Debt" is defined in the credit facility agreement and means, in summary, all indebtedness of the consolidated company net of cash and cash equivalents.

<sup>2</sup> "EBITDA" is defined in the credit facility agreement and means, in summary, Net Income of the consolidated company before deduction of interest expense, taxes, depreciation, amortization and non-cash extraordinary items less any cash payments on previously provided extraordinary items made during such period, determined on a consolidated basis in accordance with GAAP.

<sup>3</sup> "Consolidated Shareholder's Equity" is defined in the Private Placement Notes and means, in summary, the amount of the capital stock accounts plus the surplus in retained earnings of the company and its designated Restricted Subsidiaries on a consolidated basis in accordance with GAAP.

<sup>4</sup> "Consolidated Debt" is defined in the Private Placement Notes and means, in summary, all liabilities for borrowed money including capital leases, guarantees and letters of credit for the consolidated company.

<sup>5</sup> "Consolidated Capitalization" is defined in the Private Placement Notes and means, in summary, the of Consolidated debt plus Consolidated Shareholder's Equity less the capital of any unrestricted subsidiaries.

**11. Capital Disclosures** (in thousands of dollars)

The company's capital management objectives are to ensure the stability of its capital so as to support continued operations, provide an adequate return to shareholders and generate benefits for other stakeholders. The company's capital is composed of shareholders' equity, and is not subject to any capital requirements imposed by a regulator.

The company's private placement note holders do require the company to maintain a minimum book value of shareholders' equity of \$450,000. Linamar is in compliance with this covenant. Book value of shareholders' equity as at December 31, 2008 was \$878,322 (2007 - \$890,558).

The company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the company may attempt to issue or re-acquire shares, acquire or dispose of assets, and adjust the amount of cash and cash equivalents balances. There were no changes in the company's capital risk management strategy during the period.

**12. Earnings Per Share** (in thousands of dollars except for per share figures)

	Three Months Ended December 31		Twelve Months Ended December 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
Earnings from Continuing Operations	(8,766)	25,063	56,040	108,987
Net Earnings for the Period	(2,595)	25,407	70,350	109,331
Weighted average common shares	64,739,684	69,824,276	66,808,774	69,827,323
Incremental shares from assumed conversion of stock options	-	-	-	-
Adjusted weighted average shares for diluted earnings per share	64,739,684	69,824,276	66,808,774	69,827,323
Earnings Per Share from Continuing Operations				
Basic	(0.14)	0.36	0.84	1.56
Diluted	(0.14)	0.36	0.84	1.56
Earnings Per Share from Net Earnings				
Basic	(0.04)	0.36	1.05	1.57
Diluted	(0.04)	0.36	1.05	1.57

Earnings per share are calculated using the weighted daily average number of shares outstanding during the period.

**13. Segmented Sales and Earnings Information** (from Continuing Operations in thousands of dollars)

The company has two operational segments – Powertrain/Driveline and Industrial. Corporate headquarters and other small operating entities are allocated to the Powertrain/Driveline and Industrial operational segments accordingly.

The company operates in five geographic segments – Canada, United States, Mexico, Europe and Asia Pacific.

The company accounts for inter-segment sales and transfers at current market rates. The company ensures that the measurement and policies are consistently followed among the company's reportable segments for earnings from continuing operations, net earnings and assets. The company's three largest customers account for 14.2%, 12.3% and 9.5% (2007 – 14.5%, 11.6%, and 8.8%) of total segmented sales and are all part of the Powertrain/Driveline segment.

Geographic	Three Months Ended		Twelve Months Ended	
	2008	December 31 2007	2008	December 31 2007
	\$	\$	\$	\$
Sales to external customers				
Canada	298,143	356,699	1,436,041	1,579,727
United States	34,187	58,742	211,976	216,228
Asia Pacific	7,074	3,918	32,802	10,868
Mexico	49,427	47,832	196,933	204,519
Europe	87,855	60,989	379,248	302,209
Total	476,686	528,180	2,257,000	2,313,551

Operational	Three months ended December 31, 2008			Twelve months ended December 31, 2008			Assets from Continuing Operations
	Sales to external customers	Inter- segment sales	Operating earnings (loss)	Sales to external customers	Inter- segment sales	Operating earnings (loss)	
	\$	\$	\$	\$	\$	\$	\$
Powertrain/Driveline	422,050	4,712	(6,898)	1,813,388	28,518	67,300	1,491,288
Industrial	54,636	429	1,008	443,612	1,037	36,315	350,315
Total	476,686		(5,890)	2,257,000		103,615	1,841,603

	Three months ended December 31, 2007			Twelve months ended December 31, 2007			Assets from Continuing Operations
	Sales to external customers	Inter- segment sales	Operating earnings (loss)	Sales to external customers	Inter- segment sales	Operating earnings (loss)	
	\$	\$	\$	\$	\$	\$	\$
Powertrain/Driveline	428,058	7,935	16,926	1,795,930	30,636	105,026	1,513,249
Industrial	100,122	314	8,076	517,621	675	67,134	295,570
Total	528,180		25,002	2,313,551		172,160	1,808,819

#### 14. 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 2011. The company is receiving a guarantee fee during the lease term. As at the quarter end, the maximum potential amount of future payments is \$13,742 over the remaining lease term, of which \$7,516 is recorded in capital leases.

The company has various other guarantees for a maximum potential future payment of \$24,590 over various terms of 4 to 5 years. The company has estimated recourse, in the form of equipment, in the amount of \$11,607.

#### 15. Business Acquisitions (in thousands of dollars)

The following acquisitions have been accounted for using the purchase method with the results of operations included in these financial statements from the effective date of acquisition:

##### a) Volvo Material Handling Equipment

On April 25, 2008, the company purchased the assets of Volvo's Material Handling Equipment (MHE) Business based in Shippensburg, Pennsylvania, USA. Volvo's MHE business compliments the acquisition of Carelift Equipment, completed in August of 2007. This acquisition was accounted for using the purchase method with the results of operations included in these financial statements from the effective date of acquisition. Total consideration for the acquisition has amounted to \$11,541.

##### b) Visteon Swansea Limited

On July 7, 2008, the company acquired 100% of the issued and outstanding shares of Visteon Swansea Limited, subsequently named Linamar Automotive Systems Swansea Company Limited ("LASSCo"), an automotive manufacturing facility based in Wales, United Kingdom. LASSCo is the sister plant of the company's recently acquired Power Transfer Units business in Nuevo Laredo, Mexico.

This acquisition was accounted for using the purchase method, with results of operations included in the consolidated financial statements from the acquisition date. The net purchase price of \$1,756 was allocated based on the fair value of the net identifiable assets acquired. This allocation resulted in an excess of the fair value of the net identifiable assets over the cost of the purchase, which is sometimes referred to as negative goodwill. The negative goodwill was allocated to the fair value of the long-term assets acquired and the remaining excess of \$19,021 was recognized as an extraordinary gain.

The LASSCo total equity investment is not sufficient to finance its operations without additional support and as such the operations are classified as a variable interest entity. Management determined that the company is the primary beneficiary of the variable interest entity and consolidates the accounts of LASSCo.

**c) Carelift Equipment Limited**

On August 22, 2007, the Company purchased Carelift Equipment Limited ("Carelift") located in Breslau, Ontario, Canada. Carelift is a leading designer and manufacturer of telehandlers for the aerial work platform market. The total consideration for the acquisition of all of the outstanding shares of Carelift amounted to \$33,132, consisting of \$23,492 paid in cash, and \$9,640 of assumed debt.

**d) Power Transfer Unit Business**

On September 1, 2007, the Company purchased the assets of Ford Motor Company's Power Transfer Unit ("PTU") business located in Nuevo Laredo, Mexico. The PTU is a critical driveline system that provides all-wheel-drive control to vehicles. The acquisition also includes the product engineering group which will be based in our US Sales office. The total consideration for the acquisition amounted to \$68,554.

**e) N-C Lifteknik AB**

On August 16, 2007, the Company purchased N-C Lifteknik AB, a distributor of the Company's Skyjack products, located in Gotenorg, Sweden. The total consideration for the acquisition of all of the outstanding shares of N-C Lifteknik AB amounted to \$1,535, consisting of \$952 of assumed debt, and \$583 in cash to be paid over the course of two years from the date of acquisition.

	<b>2008</b>		
	<b>Volvo MHE</b>	<b>Swansea</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Inventory	8,949	11,312	20,261
Property, plant and equipment	1,822	6,272	8,094
Intangible assets	1,414	23,396	24,810
Future Tax Asset	-	9,465	9,465
<b>Total assets acquired</b>	<b>12,185</b>	<b>50,445</b>	<b>62,630</b>
<b>Total liabilities assumed</b>	<b>(644)</b>	<b>-</b>	<b>(644)</b>
<b>Net assets acquired</b>	<b>11,541</b>	<b>50,445</b>	<b>61,986</b>
<b>Total cash consideration</b>	<b>11,541</b>	<b>1,756</b>	<b>13,297</b>
Negative goodwill	-	48,689	48,689
Negative goodwill assigned to property, plant and equipment and intangible assets	-	29,668	29,668
Remaining negative goodwill classified as extraordinary item	-	19,021	19,021

	<b>2007</b>			<b>Total</b>
	<b>Carelift</b>	<b>Power Transfer Unit Business</b>	<b>N-C Lifteknik</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	-	-	15	15
Other current assets	12,026	15,285	146	27,457
Property, plant and equipment	716	48,987	821	50,524
Future income tax liabilities	(4,287)	-	-	(4,287)
Goodwill	9,727	-	-	9,727
Intangible assets	14,950	4,282	553	19,785
<b>Total assets acquired</b>	<b>33,132</b>	<b>68,554</b>	<b>1,535</b>	<b>103,221</b>
<b>Total liabilities assumed</b>	<b>9,640</b>	<b>-</b>	<b>952</b>	<b>10,592</b>
<b>Total cash consideration</b>	<b>23,492</b>	<b>68,554</b>	<b>583</b>	<b>92,629</b>

**16. 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 Year Ended December 31, 2008*

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 for the year ended December 31, 2008 and related notes thereto.

This MD&A has been prepared as at March 5, 2009.

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).

### OVERALL CORPORATE PERFORMANCE

#### Overview of the Business

Linamar Corporation (TSX:LNR) is a diversified global manufacturing company of highly engineered products. The company's Powertrain and Driveline focused divisions are world leaders in the collaborative design, development and manufacture of precision metallic components, modules and systems for global vehicle and energy markets. The company's Industrial division is a world leader in the design and production of innovative mobile industrial products, notably its class-leading aerial work platforms and award winning cordless rechargeable lawn mower. With close to 11,300 employees in 37 manufacturing locations, 5 research and development ("R&D") centers and 10 sales offices in Canada, the US, the UK, Mexico, Germany, Sweden, Hungary, China, Korea and Japan, Linamar generated sales over \$2.2 Billion in 2008. For more information about Linamar Corporation and its industry leading products and services, visit [www.linamar.com](http://www.linamar.com).

#### Overall Corporate Results

The following table sets out certain highlights of the company's performance in 2008:

<i>(in millions of dollars, except content per vehicle numbers)</i>	Three Months Ended December 31				Year Ended December 31			
	2008	2007	+/-	%	2008	2007	+/-	%
Sales	\$476.7	\$528.2	(\$51.5)	(9.8%)	\$2,257.0	\$2,313.6	(\$56.6)	(2.4%)
Gross Margin	22.6	52.8	(30.2)	(57.2%)	229.6	288.2	(58.6)	(20.3%)
Operating Earnings/(Loss)	(5.9)	25.0	(30.9)	(123.6%)	103.6	172.2	(68.6)	(39.8%)
Earnings/(Loss) from Continuing Operations	(8.8)	25.1	(33.9)	(135.1%)	56.1	109.0	(52.9)	(48.5%)
Net Earnings/(Loss)	(2.6)	25.4	(28.0)	(110.2%)	70.4	109.3	(38.9)	(35.6%)
Content per Vehicle – North America	\$120.41	\$92.76	\$27.65	29.8%	\$106.22	\$95.08	\$11.14	11.7%
Content per Vehicle – Europe	\$8.59	\$6.88	\$1.71	24.9%	\$8.91	\$6.91	\$2.00	28.9%
Content per Vehicle – Asia Pacific	\$2.24	\$0.70	\$1.54	220.0%	\$1.83	\$0.48	\$1.35	281.3%

**The changes in these financial highlights are discussed in detail in the following sections of this analysis.**

Certain unusual items affected earnings in both 2008 and 2007 as noted in the table below:

(in millions of dollars, except per share figures)	Three Months Ended December 31		Year Ended December 31	
	2008	2007	2008	2007
<b>Net Earnings/(Loss)</b>	\$ (2.6)	\$ 25.4	\$ 70.4	\$109.3
<b>Adjustments due to one-time items (after tax)</b>				
1) Expenses related to the release of employees	8.3	-	11.0	-
2) Foreign Exchange loss (gain) on Hungarian Forints held in Escrow	-	(1.0)	(2.0)	3.0
3) Ontario Capital Tax - eliminated retroactively to Jan 1, 2007	-	-	(3.0)	-
4) Ontario Automotive Investment Strategy "OAIS" 2005/2006 Recovery	-	-	-	(4.3)
5) Program specific asset write down	-	-	3.2	-
6) Capital Asset Impairments due to Market Conditions	6.0	-	6.0	-
7) Rate changes on future income taxes in Canada	-	(6.8)	-	(6.8)
<b>Adjusted Net Earnings/(Loss)</b>	\$ 11.7	\$ 17.6	\$ 85.6	\$101.2
As a percentage of Sales	2.5%	3.3%	3.8%	4.4%
Change over Prior Year	-33.5%		-15.4%	
Earnings per Share	0.18	0.25	1.28	1.45

1) During the third and fourth quarters of 2008, the company incurred certain expenses related to the release of employees as the company adjusted to new sales volumes.

2) On February 26, 2007, the company announced its public purchase offer for the balance of the outstanding shares of its consolidated subsidiary Linamar Hungary Nyrt. The offer expired in May of 2007. During the offer period, the company purchased 981,727 of the shares that it did not already own for \$16.7 million to bring its ownership total to 70.1%. On January 22, 2008, the company announced the repatriation of the remaining funds that were held in escrow in Hungary that were intended for the purchase. The money was repatriated at the same exchange rate at which it was placed in escrow which resulted in a foreign exchange gain in the first quarter of 2008. Currently, the company owns 70.3% of Linamar Hungary Nyrt.

3) In the 2007 Economic Outlook and Fiscal Review, the Government of Ontario proposed to eliminate the Capital Tax effective January 1, 2008, for Ontario companies primarily engaged in manufacturing and resource activities. In the March 2008 Budget, the Government committed to retroactively eliminate the Capital Tax one year earlier, effective January 1, 2007, for Ontario companies primarily engaged in manufacturing and resource activities.

4) In May 2006, Linamar and the Ontario government announced an investment partnership in people and technology development, specifically in support of the development, adaptation and commercialization of cutting edge machining, manufacturing and environmental technologies in the production of powertrain and driveline components and systems (Ontario Automotive Investment Strategy – "OAIS"). On February 9, 2007 the company and the Ontario government formalized this investment agreement. The agreement provides for a conditional grant of up to \$44.5 million and is dependent upon the company satisfying various program investment criteria and achieving a cumulative job target over the term of the agreement. To the extent the investment and/or job targets are not met, a pro-rata clawback arrangement exists. The term of the agreement is January 14, 2005 through January 14, 2015. During the third quarter of 2007, the company recognized government assistance from the OAIS program in the financial statements, \$6.7 million of it relating to 2005 and 2006.

5) In the first quarter of 2008, the company re-assessed the fair value of a specific asset that was not meeting performance requirements as committed to by the vendor. The company's attempts to correct the performance issues have had limited success. The company was required to invest in additional equipment to ensure that customer delivery and quality was not compromised. Accordingly, the original equipment has been written down to its fair value.

6) In the fourth quarter of 2008, the company assessed the recoverability of the carrying cost of its property, plant and equipment based on the production volumes that existed in the quarter and the expectation that volumes will remain suppressed in 2009. As a result, the company identified assets, on specific programs, where the carrying value was impaired and the appropriate write down was taken in the quarter.

7) The one-time decrease recognized in the fourth quarter of 2007 from the reduction of Canadian tax rates.

## BUSINESS SEGMENT REVIEW

The company reports its results of operations in two business segments: Powertrain/Driveline and Industrial. The segments are different by the products that each produces and reflect how the chief decision makers of the company manage the business. The following should be read in conjunction with note 25 to Linamar's consolidated financial statements for the financial year ended December 31, 2008.

(in millions of dollars)	Three Months Ended December 31					
	2008			2007		
	Powertrain /Driveline	Industrial	Linamar	Powertrain /Driveline	Industrial	Linamar
Sales	\$ 422.1	\$ 54.6	\$ 476.7	\$ 428.1	\$ 100.1	\$ 528.2
Operating Earnings/(Loss)	(6.9)	1.0	(5.9)	16.9	8.1	25.0

(in millions of dollars)	Year Ended December 31					
	2008			2007		
	Powertrain /Driveline	Industrial	Linamar	Powertrain /Driveline	Industrial	Linamar
Sales	\$ 1,813.4	\$ 443.6	\$ 2,257.0	\$ 1,795.9	\$ 517.7	\$ 2,313.6
Operating Earnings/(Loss)	67.3	36.3	103.6	105.1	67.1	172.2

### Powertrain/Driveline Highlights

(in millions of dollars)	Three Months Ended December 31				Year Ended December 31			
	2008	2007	+/-	%	2008	2007	+/-	%
			\$					
Sales	\$ 422.1	\$ 428.1	(6.0)	(1.4%)	\$ 1,813.4	\$ 1,795.9	\$ 17.5	1.0%
Operating Earnings/(Loss)	-6.9	16.9	(23.8)	(140.8%)	67.3	105.1	(37.8)	(36.0%)

Sales for the Powertrain/Driveline Segment ("Powertrain/Driveline") decreased by \$6.0 million, or 1.4% in the fourth quarter compared with 2007.

The sales decrease in the fourth quarter was impacted by:

- significant volume reductions by North American original equipment manufacturers ("OEMs") notably GM, Chrysler and Ford.

The decrease was offset by:

- the acquisition of the driveline plant in Swansea, Wales (“the Swansea Plant”) from Visteon in the third quarter of 2008;
- the ramping up of key programs that were in the start-up phase in 2007 including new 4 cylinder engine programs and 6 speed transmissions;
- the growth in Europe; and
- the continuing ramp up of the Asian operations.

For the year, sales increased \$17.5 million in comparison with the same period of 2007. The increase is a result of the same sales growth items that helped mitigate the decline in sales in the fourth quarter. The year was also impacted by a full year of sales from the acquisition of the driveline plant in Mexico in 2007. These growth factors were also impacted by volume reductions by North American OEM's as was seen in the fourth quarter, but to a lesser extent.

Fourth quarter operating earnings for Powertrain/Driveline were lower by \$23.8 million or 140.8% over the same quarter of 2007. The 2008 operating earnings for Powertrain/Driveline were lower by \$37.8 million or 36.0% over the same period in 2007.

The Powertrain/Driveline segment experienced the following in the fourth quarter:

- improved margins as key programs exited the start up phase;
- improved margins as a result of increased focus on cost reductions;
- improved results in Asia from the sales growth; and
- in 2007, the segment's portion of the foreign exchange loss on the Hungarian Forints held in Escrow.

These improvements were more than offset by:

- under absorption of fixed costs due to the significant volume reductions by North American OEMs notably GM, Chrysler and Ford;
- capital asset impairments that were recognized on certain specific programs due to the continuing suppression of volumes that are expected to continue in the short to mid term period of 2009;
- expenses relating to the release of employees as the company adjusted to new sales volumes;
- increased raw material costs driven by high commodity price levels including metal market surcharges; and
- increased engineering costs with the addition of the Driveline Systems Engineering Group.

In addition to the items that impacted the fourth quarter, the segment experienced the following positive impacts in 2008 in comparison to 2007:

- elimination of the Ontario capital tax; and
- the segment's portion of the foreign exchange gain on the repatriation of Hungarian Forints held in escrow.

These improvements were limited by:

- a program specific asset write-down in the first quarter of 2008 as previously discussed.

## Industrial Highlights

(in millions of dollars)	Three Months Ended December 31				Year Ended December 31			
	2008	2007	+/-	%	2008	2007	+/-	%
Sales	\$ 54.6	\$ 100.1	\$(45.5)	(45.5%)	\$ 443.6	\$ 517.7	\$(74.1)	(14.3%)
Operating Earnings/(Loss)	1.0	8.1	(7.1)	(87.7%)	\$ 36.3	\$ 67.1	\$(30.8)	(45.9%)

The Industrial Segment (“Industrial”) product sales decreased 45.5% or \$45.5 million for the fourth quarter, leading to a drop in 2008 Industrial sales of \$74.1 million or 14.3% to \$443.6 million from \$517.7 million in 2007.

The sales decreased for both the three month and twelve month periods ending December 31, 2008 from the corresponding periods in 2007 due to:

- significant volume reductions due to uncertainty in the market and restricted credit availability; and
- a shift in scissor lift sales mix to smaller units with lower per unit revenues in 2008 at the company’s Skyjack Inc. (“Skyjack”) subsidiary.

The sales decrease was offset partially by:

- additional sales relating to the introduction of the boom and telehandler product lines; and
- higher sales in the European Fabrication division.

Operating earnings decreased \$7.1 million or 87.7% over the fourth quarter of 2007 to \$1.0 million. The decrease in Industrial operating earnings has been predominantly driven by:

- under absorption of fixed costs due to the volume reductions;
- lower margins on new boom and telehandler sales still in the ramp-up phase;
- a shift in Skyjack’s sales mix to smaller units with lower per unit margins in 2008;
- launch costs related to the continued start up of the energy market business; and
- increased investment in sales and marketing related to the marketing of the new product offerings of booms and telehandlers.

The operating earnings decrease was partially offset by:

- improved results due to the higher sales at the European Fabrication division;
- improved results in the Consumer Products Division; and
- a favourable variance to the fourth quarter of 2007 when operating earnings included a foreign exchange loss on the Hungarian Forints held in Escrow.

Operating Earnings decreased \$30.8 million or 45.9% over the full year of 2007 to \$36.3 million. The decrease in Industrial operating earnings for the twelve month period has been predominantly driven by the same issues as the fourth quarter but the following additional issues helped to minimize the impact:

- in 2007, the operating earnings included a foreign exchange loss on the Hungarian Forints held in Escrow;
- in 2008, the operating earnings included a gain on the repatriation of the Hungarian Forints held in Escrow; and
- the elimination of the Ontario capital tax.

## SELECTED ANNUAL INFORMATION

The following table sets out selected financial data relating to the company's year ended December 31, 2008, 2007 and 2006 prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and reported in Canadian dollars. This financial data should be read in conjunction with the company's audited consolidated financial statements for these years:

<i>(in millions of dollars, except per share amounts)</i>	2008	2007	2006
Sales	\$2,257.0	\$2,313.6	\$2,262.1
Earnings from Continuing Operations	56.1	109.0	105.3
Discontinued Operations, net of Income Tax Effect	0.4	0.3	(5.8)
Net Earnings for the year	70.4	109.3	99.5
Total Assets	1,841.6	1,813.8	1,616.1
Total Long-term Liabilities	352.8	420.4	372.3
Cash Dividends declared per share	0.24	0.24	0.24
Earnings Per Share From Continuing Operations			
Basic	\$ 0.84	\$ 1.56	\$1.48
Diluted	0.84	1.56	1.48
Earnings Per Share From Net Earnings			
Basic	\$ 1.05	\$ 1.57	\$1.40
Diluted	1.05	1.57	1.40

## Automotive Sales and Content per Vehicle<sup>6</sup>

Automotive sales in the following discussion are determined by the final vehicle production location and, as such, there are differences in the figures as reported under the geographic segment disclosure, which is based primarily on the company's location of manufacturing and includes both automotive and non-automotive sales. These differences are the result of products being sold directly to one continent, and 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 continent.

As vehicle production continues to expand in Eastern Europe, the company has decided to state European content per vehicle based on all European production effective March 2008. In prior years, content per vehicle was expressed in terms of Western European production only. The 2007 comparative figures have been adjusted accordingly.

	Three Months Ended December 31			Year Ended December 31		
	2008	2007	% Change	2008	2007	% Change
<i>North America</i>						
Vehicle Production Units <sup>2</sup>	2.85	3.67	(22.3%)	12.93	15.47	(16.4%)
Automotive Sales <sup>3</sup>	\$ 342.7	\$ 340.1	0.8%	\$ 1,373.2	\$ 1,470.7	(6.6%)
<b>Content Per Vehicle</b>	<b>\$ 120.41</b>	<b>\$ 92.76</b>	<b>29.8%</b>	<b>\$ 106.22</b>	<b>\$ 95.08</b>	<b>11.7%</b>
<i>Europe</i>						
Vehicle Production Units <sup>2</sup>	4.25	5.56	(23.6%)	21.30	21.60	(1.4%)
Automotive Sales <sup>3</sup>	\$ 36.6	\$ 38.2	(4.2%)	\$ 189.7	\$ 149.3	27.1%
<b>Content Per Vehicle</b>	<b>\$ 8.59</b>	<b>\$ 6.88</b>	<b>24.9%</b>	<b>\$ 8.91</b>	<b>\$ 6.91</b>	<b>28.9%</b>
<i>Asia Pacific</i>						
Vehicle Production Units <sup>2</sup>	5.70	5.58	2.2%	23.30	21.22	9.8%
Automotive Sales <sup>3</sup>	\$ 12.8	\$ 3.9	228.2%	\$ 42.7	\$ 10.2	318.6%
<b>Content Per Vehicle</b>	<b>\$ 2.24</b>	<b>\$ 0.70</b>	<b>220.0%</b>	<b>\$ 1.83</b>	<b>\$ 0.48</b>	<b>281.3%</b>

North American automotive sales decreased \$97.5 million or 6.6% to \$1,373.2 million in a market which saw the overall decrease in vehicle production of 16.4%. As a result, content per vehicle increased by 11.7% to \$106.22 from \$95.08 a year earlier.

European automotive sales improved by \$40.4 million to \$189.7 million as compared to 2007. Vehicle production volumes decreased 1.4% and content per vehicle improved 28.9% to \$8.91 from \$6.91 in 2007.

Content per vehicle for Asia Pacific continues at its anticipated low level, during the start-up phase but still increased content per vehicle by over 280% to \$1.83 from \$0.48 in a market that was only up 9.8% in terms of vehicle production for 2008.

## Gross Margin

<i>(in millions of dollars)</i>	Three Months Ended December 31		Year Ended December 31	
	2008	2007	2008	2007
Sales	\$476.7	\$528.2	\$2,257.0	\$2,313.6
Cost of sales	409.8	431.1	1,850.5	1,857.2
Amortization	44.3	44.3	176.9	168.2
<b>Gross Margin</b>	<b>\$22.6</b>	<b>\$52.8</b>	<b>\$229.6</b>	<b>\$288.2</b>
<b>Gross Margin Percentage</b>	<b>4.7%</b>	<b>10.0%</b>	<b>10.2%</b>	<b>12.5%</b>

<sup>6</sup> Measured as the amount of Linamar automotive sales dollars per vehicle, not including tooling sales.

<sup>2</sup> Vehicle production units are shown in millions of units. 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 and Asia Pacific vehicle production units exclude medium and heavy trucks and the off-road (heavy equipment) market. All volume information is as regularly reported by industry sources.

<sup>3</sup> Automotive sales are shown in millions of dollars.

Gross margin percentage decreased to 4.7% for the fourth quarter from 10.0% for the same quarter in 2007. Cost of sales as a percentage of sales increased to 86.0% for the fourth quarter of 2008 compared to 81.6% for 2007.

Cost of sales increased as a percentage of sales during the fourth quarter as a result of the issues discussed earlier in this analysis but specifically due to the:

- under absorption of fixed costs due to the significant volume reductions by North American OEMs notably GM, Chrysler and Ford as well as rapid declines in the Access Equipment Market supplied by Skyjack;
- expenses relating to the release of employees as the company adjusted to new sales volumes;
- capital asset impairments that were recognized on certain specific programs due to the continuing suppression of volumes that are expected to continue in the short to mid-term period of 2009; and
- increased raw material cost driven by high commodity price levels including metal market surcharges.

Fourth quarter amortization increased to 9.3% of sales as compared to 8.4% in the same quarter in 2007. The increase in amortization is mainly attributable to the significant volume reductions that occurred in the quarter.

For 2008, gross margin decreased to 10.2% from 12.5% when compared to 2007. The 2008 decreased gross margin is mainly driven from the same issues that impacted the gross margin for the quarter as mentioned above.

Annual amortization increased \$8.7 million to 7.8% of sales as compared to 7.3% in 2007. This increase relates mainly to the capital burden of machinery for the new transmission and engine programs where the volumes have not reached mature levels and lower volumes on mature programs due to industry conditions in North America. The annual amortization is also impacted by the capital burden of machinery in Asia and Europe as these facilities continue to ramp up.

## Selling, General and Administration

<i>(in millions of dollars)</i>	Three Months Ended December 31		Year Ended December 31	
	2008	2007	2008	2007
Selling, general and administrative ("SG&A")	\$28.5	\$27.8	\$126.0	\$116.0
SG&A Percentage	6.0%	5.3%	5.6%	5.0%

Selling, general and administrative ("SG&A") costs increased \$0.7 million in the fourth quarter of 2008 to \$28.5 million when compared to the same quarter of 2007. As a percentage of sales, SG&A costs were 6.0% in the fourth quarter of 2008 and 5.3% in the fourth quarter of 2007.

For the fiscal year, SG&A was \$126.0 million or 5.6%, compared to \$116.0 million or 5.0% in 2007.

This increase is primarily due to:

- increased engineering costs with the addition of the Driveline Systems Engineering Group;
- increased sales and marketing costs related to the new product offerings of Booms and Telehandlers;
- increased investment in R&D in the Industrial segment; and
- the addition of costs from the acquisition of the Swansea Plant.

These issues were partially offset by the exchange loss on the Hungarian forint held in escrow that occurred in 2007 versus an exchange gain in 2008.

## Expenses and Other Income

(in millions of dollars)	Three Months Ended December 31		Year Ended December 31	
	2008	2007	2008	2007
Operating Earnings/(Loss)	(\$5.9)	\$25.0	\$103.6	\$172.2
Other Income (Expense)				
Net Interest Expense	(5.4)	(5.3)	(19.5)	(16.6)
Other Income	0.6	1.6	2.2	3.4
Provision for (Recovery of) Income Taxes	(1.0)	(4.4)	28.4	45.8
Non-Controlling Interests	0.9	(0.6)	(1.8)	(4.2)
<b>Earnings/(Loss) from Continuing Operations</b>	<b>(\$8.8)</b>	<b>\$25.1</b>	<b>\$56.1</b>	<b>\$109.0</b>
Goodwill Impairments	(5.1)	-	(5.1)	-
Discontinued Operations	0.4	0.3	0.4	0.3
Extraordinary Item	10.9	-	19.0	-
<b>Net Earnings/(Loss)</b>	<b>(\$2.6)</b>	<b>\$25.4</b>	<b>\$70.4</b>	<b>\$109.3</b>

## Interest

Interest on long-term debt during the fourth quarter increased \$0.8 million over the same quarter in 2007, to \$4.3 million. For the twelve month period, interest on long-term debt increased \$2.3 million over the same period in 2007 to \$16.1 million. This resulted from an increase in long-term debt as the company converted short-term debt through interest rate swaps in the fourth quarter of 2007 and 2008. Additionally, interest on long-term debt increased due to a weaker Canadian Dollar in the fourth quarter of 2008 vs. the fourth quarter of 2007 on the company's U.S. dollar interest expenses. The net increase in debt was the result of acquisitions that took place during 2007. The consolidated effective interest rate was higher in the fourth quarter of 2008 at 5.2% as compared to 4.9% in 2007 also due to the weaker Canadian Dollar. The annual effective interest rate is lower at 5.0% as compared to 5.1% in 2007.

Average short-term borrowings decreased during the current quarter due to the above noted interest rate swaps. This was partially offset by increased short-term borrowings due to share repurchases made in 2008 under the normal course issuer bid. Short-term borrowings has benefited from lower interest rates in the current quarter compared to rates in the same quarter in 2007. Interest expense from short-term borrowings for 2008 is lower by \$1.8 million compared to 2007.

## **Provision for Income Taxes**

The effective tax rate for the fourth quarter of 2008 was 9.7%, an increase from negative 20.7% in the same quarter of 2007. The increased tax rate is attributed to the factors discussed below. The annual effective tax rate for 2008 was 32.9%, an increase from 28.8% in the same period of 2007. This increase in the annual effective rate is due primarily to:

- the one-time decrease recognized in the fourth quarter of 2007 from the reduction of Canadian tax rates (\$6.8 million or 4.3%); and
- a \$2.9 million increase to the valuation allowance taken in the fourth quarter of 2008 related to the future Hungarian tax credits.

This increase was offset by:

- a decrease in the Canadian federal income tax rate from 22.12% in 2007 to 19.5% effective January 1, 2008; and
- a greater percentage of income taxed at lower foreign rates in 2008 compared to 2007.

## **Non-Controlling Interests**

Non-Controlling Interests increased by \$1.5 million from \$0.6 million loss in the fourth quarter of 2007 to \$0.9 million gain in the same quarter of 2008 and by \$2.4 million from \$4.2 million loss in 2007 to \$1.8 million loss in 2008.

## **Goodwill Impairments**

Historically, the annual goodwill impairment analysis is completed in the fourth quarter of each year. The Company has determined that goodwill could potentially be impaired with respect to two of its reporting units, namely the Hungary and McLaren reporting units. The reporting units of the Company have been defined as the component of an operating segment level based on the level at which discrete financial information is available and for which segment management regularly reviews the operating results of that component. In certain cases the components are aggregated when they have similar economic characteristics.

With respect to Hungary, the Company made a reasonable estimate of the goodwill impairment by determining the implied fair value of goodwill in the same manner as if the Company had acquired the reporting unit at year end. Based on this it was determined that the goodwill attributable to this reporting unit was fully impaired and as a result a change of \$5,127 has been recorded against the goodwill.

With respect to the McLaren reporting unit, while it has been determined that the carrying amount of this reporting unit exceeds its fair value, the impairment test has not been completed and a reasonable estimate of the impairment, if any, cannot yet be determined. Fair value must be determined with reference to the most current forecasts, and in light of the high level of volatility and uncertainty of the global vehicles markets, these forecasts are constantly changing. Furthermore this reporting unit,

which aggregates a number of components within the Powertrain/Driveline operating segment comprises a significant portion of the Company's overall operations and as such will take some time to reasonably determine the implied fair value of goodwill as if the Company had acquired this very large reporting unit as at year end. As the carrying value of the goodwill attributable to this reporting unit is \$10,573 the measurement uncertainty with respect to the potential impairment ranges from an impairment of nil to an impairment of \$10,573. The actual impairment, if any, once reasonably estimated will be recorded in the subsequent reporting period.

### **Discontinued Operations**

The windup of the company's discontinued operations was completed in 2008 which resulted in a small recovery of \$0.4 million after tax.

### **Extraordinary Gain**

The purchase during the third quarter of the new automotive manufacturing facility, a former Visteon plant, in Swansea, Wales, United Kingdom (UK) resulted in the company recognizing an extraordinary gain. The purchase price allocation method used for accounting, determined fair value of assets in excess of the purchase price. This difference, to the extent it can not be eliminated by allocating it as a reduction of the amounts that otherwise would be assigned to the acquired assets, is required to be reported as an extraordinary gain under Canadian GAAP. The purchase price accounting for this acquisition was finalized in the fourth quarter of 2008.

### **Shareholders' Equity**

Book value per share<sup>7</sup> increased to \$13.57 per share at December 31, 2008, as compared to \$12.75 per share at December 31, 2007. Earnings net of dividends contributed \$54.4 million for the year to retained earnings. In December 2008, the option holders surrendered all outstanding options to the company. As of December 31, 2008, there are no options issued or outstanding..

### **OUTSTANDING SHARE DATA**

Linamar is authorized to issue an unlimited number of common shares, of which 64,701,876 common shares were outstanding as of March 5, 2009. As of March 5, 2009, there were no options outstanding under Linamar's share option plan.

### **SUMMARY OF QUARTERLY RESULTS OF OPERATIONS**

The following table sets forth unaudited information for each of the eight quarters ended March 31, 2007 through December 31, 2008. 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

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<sup>7</sup> "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. For more information refer to the Non-GAAP Measures section of this MD&A

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.

(in millions of dollars, except per share figures)	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sep 30, 2008	Dec 31, 2008
Sales	\$579.4	\$624.4	\$581.6	\$528.2	\$614.5	\$625.4	\$540.4	\$476.7
Earnings/(Loss) from Continuing Operations	26.7	31.3	25.9	25.1	29.5	32.0	3.4	(8.8)
Net Earnings/(Loss) Earnings/(Loss) per Share from Continuing Operations	26.7	31.3	25.9	25.4	29.5	32.0	11.5	(2.6)
Basic	0.38	0.45	0.37	0.36	0.43	0.48	0.05	(0.14)
Diluted Net Earnings/(Loss) per Share	0.38	0.45	0.37	0.36	0.43	0.48	0.05	(0.14)
Basic	0.38	0.45	0.37	0.36	0.43	0.48	0.17	(0.04)
Diluted	0.38	0.45	0.37	0.36	0.43	0.48	0.17	(0.04)

The quarterly results of the company are impacted by the seasonality of certain operational units. Earnings in the second quarter are positively impacted by the high selling season for both the aerial work platform, other industrial and agricultural businesses. The third and fourth quarters are generally negatively impacted by the scheduled shutdowns at automotive customers. The company takes advantage of shutdowns for maintenance activities that would otherwise disrupt normal production schedules.

## **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

### **Cash Flows**

<i>( in millions of dollars)</i>	Three Months Ended December 31		Year Ended December 31	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating Activities	\$ 107.0	\$ 161.1	\$ 258.9	\$ 216.0
Financing Activities	(21.5)	(52.4)	(90.4)	140.2
Investing Activities	(44.5)	(55.3)	(190.7)	(288.7)
Effect of Translation Adjustment	-	1.0	2.0	(2.1)
Net Increase/(Decrease) in Cash Position	41.0	54.4	(20.2)	65.4
Cash Position – Beginning of Period	42.5	49.3	103.7	38.3
Cash Position – End of Period	\$ 83.5	\$ 103.7	\$ 83.5	\$ 103.7
Comprised of:				
Cash	\$ 89.5	\$ 120.3	89.5	120.3
Unpresented Cheques	(6.0)	(16.6)	(6.0)	(16.6)
	\$ 83.5	\$ 103.7	\$ 83.5	\$ 103.7

Linamar's cash position (net of unpresented cheques) at December 31, 2008 was \$83.5 million, a decrease of \$20.2 million from the prior year.

Cash provided by operating activities was \$258.9 million, \$42.9 million more than was provided in 2007 due to lower levels of working capital being utilized.

During the year, financing activities used \$90.4 million, primarily due to the repurchase of shares under the company's normal course issuer bids and the payment of dividends.

2008 investing activities include payments for the purchase of property, plant and equipment, at a level consistent with 2007. The levels of acquisitions were similar in 2008 compared to 2007 but the 2008 acquisitions required less cash to complete.

## Operating Activities

<i>(in millions of dollars)</i>	Three Months Ended December 31		Year Ended December 31	
	2008	2007	2008	2007
Earnings/(Loss) from continuing operations	\$ (8.8)	\$ 25.1	\$ 56.1	\$ 109.0
Non-cash charges to earnings	60.8	49.0	211.1	178.7
Changes in non-cash working capital	\$ 52.0	\$ 74.1	\$ 267.2	\$ 287.7
Cash flow – continuing operations	53.3	86.8	(9.5)	(71.0)
Cash flow – discontinued operations	\$ 105.3	\$ 160.9	\$ 257.7	\$ 216.7
Cash provided (used) from operating activities	1.7	0.2	1.2	(0.7)
	\$ 107.0	\$ 161.1	\$ 258.9	\$ 216.0

Cash provided by continuing operations, before the effect of changes in non-cash working capital was a 29.8% decrease to \$52.0 million in the fourth quarter of 2008 compared to \$74.1 million in the same quarter in 2007. For the year, cash provided by continuing operations, before the effect of changes in non-cash working capital, was a 7.1% decrease to \$267.2 million in 2008 compared to \$287.7 million in 2007.

Non-cash working capital for the fourth quarter decreased \$53.3 million, compared to a \$86.8 million decrease in the fourth quarter of 2007 and increased \$9.5 million for 2008 versus a \$71.0 million increase in 2007.

## Financing Activities

<i>(in millions of dollars)</i>	Three Months Ended December 31		Year Ended December 31	
	2008	2007	2008	2007
Proceeds from (repayments of) short-term bank borrowings	\$ (69.9)	\$ (102.8)	\$ (63.9)	\$ 113.4
Proceeds from long-term debt	59.6	59.6	62.1	59.6
Repayment of long-term debt	(1.2)	(5.0)	(5.4)	(16.5)
Proceeds from common share issuance	-	-	-	-
Repurchase of shares	(3.9)	-	(66.2)	(0.2)
Decrease/(Increase) in long-term receivables	(2.2)	-	(1.0)	0.7
Dividends to shareholders	(3.9)	(4.2)	(16.0)	(16.8)
Cash provided (used) from financing activities	\$ (21.5)	\$ (52.4)	\$ (90.4)	\$ 140.2

Financing activities for the fourth quarter of 2008 used \$21.5 million of cash compared to \$52.4 million used in the same of quarter of 2007. For the full year, \$90.4 million of cash was used in financing activities in 2008 compared to providing \$140.2 million in 2007. Effective November 9, 2006, the company renewed its five-year revolving credit facility in the amount of \$520 million. This facility will mature on November 9, 2011. At the end of 2008, \$217.3 million in credit was available under the facility.

In October 2009, the series A tranche of Private Placement Notes, in the principal amount of \$80 million usd (\$105.9 million cad) will mature. The company is investigating a number of alternatives to refinance the Private Placement Notes. Given the current condition of financial markets, consideration is being given to refinancing the Private Placement Notes using the syndicated revolving credit facility.

During the year the company purchased 5,122,400 common shares for cancellation under its normal course issuer bids, for total consideration of \$66.2 million.

On February 9, 2009, the company renewed its normal course issuer bid. The current bid permits the company to acquire up to 3,791,858 of its outstanding common shares and expires on February 8, 2010.

The company continued its dividend policy with payments made quarterly at a rate of \$0.06 per share in 2008. The company has amended the dividend policy with payments made quarterly at a rate of \$0.03 per share with respect to dividends payable on or after April 15, 2009.

Long term receivables regularly arise in the industrial products marketplace. In order to manage the associated cash flow, the company periodically securitizes portions of the receivable balance. During 2008 the company's long term receivables increased from the prior year by \$1.0 million.

## Investing Activities

<i>(in millions of dollars)</i>	Three Months Ended December 31		Year Ended December 31	
	2008	2007	2008	2007
Payments for purchase of property, plant and equipment	\$ (45.8)	\$ (52.3)	\$ (181.8)	\$ (185.5)
Proceeds from disposal of property, plant and equipment	1.4	-	4.7	5.4
Business acquisitions	-	(3.0)	(11.8)	(108.6)
Extraordinary Item	(0.1)	-	(1.8)	-
<b>Cash used for investing activities</b>	<b>\$ (44.5)</b>	<b>\$ (55.3)</b>	<b>\$ (190.7)</b>	<b>\$ (288.7)</b>

Cash spent on investing activities for the fourth quarter was \$44.5 million while during the same period last year the total spent was \$55.3 million. In 2008, cash spent on investing activities was \$190.7 million compared to \$288.7 million for 2007.

During the third quarter of 2008, Linamar Corporation acquired a new automotive manufacturing facility, a former Visteon plant in Swansea, Wales, United Kingdom (UK).

During the third quarter of 2008, the company also finalized the purchase of the assets of Volvo's Material Handling Equipment ("MHE") Business based in Shippensburg, Pennsylvania, USA.

At December 31, 2008, outstanding commitments for capital expenditures under purchase orders and contracts amounted to \$100.6 million (December 31, 2006 - \$57.6 million) which relates to the purchase of manufacturing equipment. All of these commitments are in respect of 2008.

## Financing Resources

At December 31, 2008 cash on hand was \$89.5 million, with unrepresented cheques and short-term bank borrowings of \$87.1 million. At December 31, 2008, the company's syndicated revolving facility had available credit of \$217.3 million.

## Contractual Obligations

The following table summarizes contractual obligations by category and the associated payments for the next five years.

Contractual Obligations	Total	Payment Due by Period (in millions of dollars)					
		2009	2010	2011	2012	2013	Thereafter
Long-Term Debt Principal, Excluding Capital Leases	\$377.0	\$163.5	\$0.0	\$99.5	\$0.0	\$62.2	\$51.8
Capital Lease Obligations <sup>1</sup>	13.0	5.5	3.8	2.0	0.6	1.1	-
Operating Leases	26.3	7.8	6.3	4.0	2.7	2.3	3.2
Purchase Obligations <sup>2</sup>	100.6	100.6	-	-	-	-	-
Total Contractual Obligations	\$516.9	\$277.4	\$10.1	\$105.5	\$3.3	\$65.6	\$55.0

## Foreign Currency Activities

Linamar pursues a strategy of balancing its foreign currency cash flows, to the largest extent possible, in each region in which it operates. The company's foreign currency outflows for the purchases of materials and capital equipment denominated in foreign currencies are naturally hedged when contracts to sell products are denominated in those same foreign currencies. To manage the residual exposure, Linamar employs hedging programs, where rate-appropriate, through the use of forward exchange contracts. The contracts are purchased based on the projected net foreign cash flows from operations. The company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities.

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

At December 31, 2008, the company was committed to a series of forward contracts to sell U.S. dollars and British pounds. These forward contracts qualify for accounting as cash flow hedges and the fair value unrealized gains and losses are included in other comprehensive earnings, net of taxes. The gains and losses will be recognized in net earnings in the same period as the transaction which generates the cash flows.

The company was also committed to two long-dated forward contracts to buy U.S. dollars. These forward exchange contracts qualify for accounting as fair value hedges

<sup>8</sup> "Capital Lease Obligations" includes the interest component in accordance with the definition of minimum lease payments under GAAP.

<sup>2</sup> "Purchase Obligations" means an agreement to purchase goods or services that is enforceable and legally binding that 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.

and under the new standards, any fair value unrealized gains and losses are included in net earnings.

Please see note 21 of the consolidated financial statements, which is hereby incorporated by reference herein.

### **Off Balance Sheet Arrangements**

The company leases transport trucks and trailers through its subsidiaries Linamar Transportation Inc. and Linamar Transportation USA, Inc. The company currently leases approximately 98 trucks and 193 trailers. The amounts due under these operating leases are reflected under the heading "Operating Leases" in the table set out in the "Contractual Obligations" section of this document. Should the entire arrangement be terminated, the company would be responsible for the balance of the amount owing under the leases.

The company also has various operating leases for office equipment, computers, fork trucks, and other such items.

Please see note 10 of the consolidated financial statements, which are hereby incorporated by reference herein.

Under a portfolio purchase agreement signed in 2004, the company regularly sells certain long-term receivables. Although title is transferred and no entitlement or obligated repurchase agreement is in place before maturity, the company remains exposed to certain risks of default on the amount of proceeds from the receivables under securitization, less recourse in the form of the underlying physical asset. Under the agreement, receivables are sold on a fully serviced basis so that the company continues to administer the collection of such receivables. The company receives no fee for administration of the collection of such receivables.

### **Guarantees**

Linamar is a party to certain financial guarantees and contingent liabilities as discussed in notes 5, 10, 13, and 23 of the consolidated financial statements that are hereby incorporated by reference herein.

## **Transactions with Related Parties**

Included in the costs of property, plant and equipment is the construction of buildings, building additions and building improvements in the aggregate amount of \$12,602 (2007 - \$5,337) paid to a company owned by the spouse of an officer and director. Included in sales is \$28 (2007 - \$27 recovery included in selling, general and administrative costs) related to equipment and services sold to the same company. Included in cost of sales is maintenance costs of \$788 (2007 - \$723) paid to the same company. The maintenance and construction costs represent general contracting and construction activities related to plant construction, improvements, additions and maintenance for a number of facilities.

Included in cost of sales, are lease costs of \$0 (2007 - \$172) related to property leased from a company owned by two directors. Included in sales is \$0 (2007 - \$1,421) to a company for which a former officer serves as a member of the board of directors.

The company has designed an independent process to ensure building construction and improvements are transacted at fair value. Other transactions have been recorded at the exchange amount.

## **PROPOSED TRANSACTIONS**

On January 30, 2009, Linamar Corporation completed the acquisition of its joint venture partner's interest in Eagle Manufacturing LLC, a machining facility in Florence, Kentucky. Prior to this, Linamar held a 60% interest in the joint venture. Due to the timing of the closing, the purchase price allocation has not been performed. The cash consideration for the acquisition is \$1.2 million but is subject to further adjustments as transaction costs have not been finalized.

## **RISK MANAGEMENT**

### **Operational Risk**

#### **Dependence on Certain Customers**

The company's Powertrain/Driveline segment is a world leader in the collaborative design, development and manufacture of precision metallic components, modules and systems for global vehicle markets. As a result, the company typically has a limited number of customers that individually account for more than 10% of its consolidated revenues or receivables at any given time. The sales cycle is extended longer than one year for most transactions. Any disruption in the company's relationships with these major customers or any decrease in revenue from these major customers, as a consequence of current or future conditions or events in the economy or markets in general or in the automotive (including medium/heavy duty trucks) industry in particular, could have a material adverse effect on the company's business, financial condition, or results of operations. For 2008, the company's four largest customers accounted for 48.2% of consolidated revenue (59.8% of revenue for the Powertrain/Driveline operational segment).

Sales are similarly concentrated for the Industrial operational segment as product distribution is largely through major rental companies. In 2008, sales to the two largest Industrial customers were 5.2% of consolidated revenue (26.4% of revenue for the Industrial operational segment). Any disruption in the company's relationships with, or any decrease in revenues from these major industrial companies, as a consequence of

current or future conditions or events in the economy or markets in general or in the company's Industrial operational segment in particular, could have a material adverse effect on the company's business, financial condition or results of operations.

#### **Sources and Availability of Raw Materials**

The primary raw materials utilized by the precision machining operations are iron and aluminium castings and forgings, which are readily obtained from a variety of suppliers in North America for the Canadian, U.S. and Mexican operations. The company is not dependent on any one supplier. Occasionally, raw material is consigned to the company by its customers and any disruption in supply is the responsibility of that customer. The European segment sources its raw materials primarily from Europe. The company is continuing its efforts to locate and develop strategic suppliers in Asia to deliver parts to the company's North American facilities for further manufacturing and to create opportunities to supply the rapidly growing Asian automotive sector. During the year the company continued to source some of its requirements from Asia. This effort will continue as Linamar's presence in Asia increases.

Raw materials supply factors such as allocations, pricing, quality, timeliness of delivery, transportation and warehousing costs may affect the raw material sourcing decisions of Linamar and its plants. When appropriate and available, the company may negotiate long-term agreements with raw material suppliers to ensure continued availability of certain raw materials on favourable terms. Such contracts, due to their terms, would not be considered derivatives for accounting purposes. In the event of significant unanticipated increase in demand for the company's products and the supply of raw materials, the company may in the future be unable to manufacture certain products in a quantity sufficient to meet its customers' demand in any particular period.

#### **Technological Change and Product Launches**

The automotive and non-automotive precision machining industry may encounter technological change, new product introductions, product abandonment, and evolving industry requirements and standards. Accordingly, the company believes that its future success depends on its ability to launch new programs as well as enhance or develop current and future products at competitive prices and in a timely manner. The company's inability, given technological or other reasons, to enhance, develop, or launch products in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the company's results of operations. For the development and production of products, the ability for the company to compete successfully will depend on its ability to acquire and retain competent trades people, management, and product development staff that allow the company to quickly adapt to technological change and advances in processes. In addition, there can be no assurance that products or technologies developed by others will not render the company's products uncompetitive or obsolete.

## **Financial and Capital Management Risk**

### **Capital and Liquidity Risk**

The amount of financial resources available to invest in a company's growth is dependent upon its size and willingness to utilize debt and issue equity. The company has fewer financial resources than some of its principal competitors. If the company deviates from its growth expectations, it may require additional debt or equity financing. There is no assurance that the company will be able to obtain additional financial resources that may be required to successfully compete in its markets on favourable commercial terms. Failure to obtain such financing could result in the delay or abandonment of certain strategic plans for product manufacturing or development.

The company's current credit facility and Private Placement Notes Series A and B, require the company to comply with certain financial covenants, including the following:

Revolving credit facility key covenants:

- (1) Net Funded Debt<sup>9</sup> ("NFD") to EBITDA<sup>10</sup> must be not more than 2.5 for the trailing four quarters on a rolling basis; and
- (2) EBITDA must be not less than 3.0 times interest expense for the trailing four quarters on a rolling basis.

	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sep 30, 2008	Dec 31, 2008
NFD/EBITDA	1.1	1.1	1.4	1.1	1.2	1.2	1.4	1.5
EBITDA/Interest	16.9	17.3	17.7	16.3	15.9	15.6	14.1	12.8

Private Placement Notes key covenants:

- (1) Book value of Consolidated Shareholders' Equity<sup>11</sup> must be not less than \$450.0 million; and
- (2) Consolidated Debt<sup>12</sup> to Consolidated Capitalization<sup>13</sup> must be not greater than 50%

(in millions of dollars)	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008	Sep 30, 2008	Dec 31, 2008
Consolidated Shareholders' Equity	853.4	868.5	869.7	890.6	899.0	937.2	908.6	878.3
Consolidated Debt to Consolidated Capitalization	33.5%	32.2%	38.5%	36.0%	34.8%	34.1%	37.9%	38.4%

<sup>9</sup> "Net Funded Debt" is defined in the credit facility agreement and means, in summary, all indebtedness of the consolidated company net of cash and cash equivalents.

<sup>10</sup> "EBITDA" is defined in the credit facility agreement and means, in summary, Net Income of the consolidated company before deduction of interest expense, taxes, depreciation, amortization and non-cash extraordinary items less any cash payments on previously provided extraordinary items made during such period, determined on a consolidated basis in accordance with GAAP.

<sup>11</sup> "Consolidated Shareholder's Equity" is defined in the Private Placement Notes and means, in summary, the amount of the capital stock accounts plus the surplus in retained earnings of the company and its designated Restricted Subsidiaries on a consolidated basis in accordance with GAAP.

<sup>12</sup> "Consolidated Debt" is defined in the Private Placement Notes and means, in summary, all liabilities for borrowed money including capital leases, guarantees and letters of credit for the consolidated company.

<sup>13</sup> "Consolidated Capitalization" is defined in the Private Placement Notes and means, in summary, the Consolidated debt plus Consolidated Shareholder's Equity less the capital of any unrestricted subsidiaries.

Series A of the Private Placement Notes are due in October 2009. There can be no assurance that they can be refinanced under satisfactory terms or at all.

The investment agreement between the company and the Ontario government (Ontario Automotive Investment Strategy – “OAIS”) provides for a conditional grant of up to \$44.5 million. The grant is dependent upon the company satisfying various program investment criteria and achieving a cumulative job target over the term of the agreement. To the extent the investment and/or job targets are not met, a pro-rata clawback arrangement exists. The term of the agreement is January 14, 2005 through January 14, 2015. There is no assurance the company can meet the terms of this agreement and the company therefore may be subject to the clawback provision.

Other company credit facilities and instruments become due from time to time. There can be no assurance of the company’s ability to continue to comply with its financial covenants, to appropriately service its debt or to obtain continued commitments from debt providers or additional equity capital given current or future conditions or events in the economy or markets in general or in the company’s Powertrain/Driveline and Industrial segments in particular.

#### **Acquisition and Expansion Risk**

The company may expand its operations, depending on certain conditions, by acquiring additional businesses, products or technologies. There can be no assurance that the company will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired businesses, products or technologies into the company without substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions may involve a number of special risks, including diversion of management’s attention, failure to retain key personnel, unanticipated events or circumstances, and legal liabilities, some or all of which could have a material adverse effect on the company’s business, results of operations and financial condition. In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income. The failure of the company to manage its acquisition or expansion strategy successfully could have a material adverse effect on the company’s business, results of operations and financial condition.

#### **Foreign Currency Risk**

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 to foreign currency risk, Linamar employs hedging programs as appropriate, primarily through the use of forward contracts. The contracts are purchased based on the projected foreign cash flows from operations.

The company uses forecasted future cash flows of foreign currencies to determine the residual foreign exchange exposure. The purpose of the company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. The company does not hold or issue derivative financial instruments for trading or speculative purposes,

and controls are in place to detect and prevent these activities. The company's financial instruments are referenced in note 21 to the company's consolidated financial statements.

### **Credit Risk**

A substantial portion of the company's accounts receivable are with large customers in the automotive, truck and industrial sectors and are subject to credit risks normal to those industries. At December 31, 2008, the accounts receivable from the company's three largest customers amounted to 13.2%, 8.8% and 7.1% of accounts receivable (2007 - 13.8%, 10.2% and 10.0%).

### **Interest Rate Risk**

Interest rate swap agreements are used as part of the company's program to manage the fixed and floating interest rate mix of the company's total debt portfolio and related overall cost of borrowing. The company designates its interest rate hedge agreements as hedges of the underlying debt and reports any gains and losses in accumulated other comprehensive loss. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. Please see note 21 of the company's consolidated financial statements.

### **Seasonality, Industry Growth, and Competition**

Historically, earnings in the second quarter are positively impacted by the high selling season for both the general lift platform and agricultural businesses. Vehicle production is typically at its lowest level during the months of July and August due to model changeovers by the OEMs. Since the company's working capital requirements are dependent upon industry production volumes, they are typically at their lowest level at this time. The company takes advantage of summer shutdowns for maintenance activities that would otherwise disrupt normal production schedules. Production volumes in the month of December are usually negatively affected by the holiday season.

Through its Powertrain/Driveline businesses, Linamar principally engages in machining and assembly for the automotive industry, which generally involves long-run processes for long-term contracts. Outsourcing of brake components and assemblies, engine components, and powertrain segment by the OEM's has increased.

Management believes there is more powertrain and driveline work performed in-house by the OEM's than is currently outsourced, and therefore there is large potential for growth. However, because of various factors affecting the OEM's, such as the level of consumer spending on automobiles, labour contracts, and other economic factors, the OEM's are constantly facing volume changes and decisions on whether to outsource work or not; such changes and decisions are reflected in Linamar's results through reduced volume on some existing programs and the ability to bid on, and receive, new business.

Through its Skyjack subsidiary, the company engages in the production and sale of aerial work platforms and telehandlers. There is a relatively defined sales cycle in this industry segment, as it is closely related to, and affected by, product life cycle and the construction sector. Therefore, the risks and fluctuations in the construction industry in the countries that Skyjack operates in also affect Skyjack's sales.

The precision machining industry in North America is characterized by a large number of manufacturers. As a result, manufacturers such as Linamar tend to have a relatively small share of the North American market. Nonetheless, Linamar believes that it is currently the sole supplier being used by its customers worldwide for products that represent more than half of the company's consolidated sales.

The company faces numerous sources of competition, including its OEM customers and their affiliated parts manufacturers, other direct competitors and product alternatives. In many product areas, the primary competition comes from in-house divisions of the OEMs. As Linamar's North American customers have faced increased cost pressures, some have decided to "outsource" some of their requirements. This outsourcing has continued to represent an additional source of new business for Linamar.

Other competition in metal machining and assembly work comes from high precision machining companies which typically have several manufacturing locations and substantial capital resources to invest in equipment for high volume, high precision, and long-term contracts. Several of these companies are heavily involved in the automotive industry and are suppliers to major OEMs.

Linamar believes that there are a large number of independent suppliers which have the capability to produce some or all of the components, modules and systems which Linamar currently produces. In addition, some of these competitors are larger and may have access to greater resources than Linamar, but the company believes that none of them are dominant in the markets in which Linamar operates. The basis for supplier selection by OEMs is not typically determined solely by price, but would also typically include such elements as quality, service, historical performance, timeliness of delivery, proprietary technologies, scope of in-house capabilities, existing agreements, responsiveness and the supplier's overall relationship with the OEM, as well as being influenced by the degree of available and unutilized capacity of resources in the OEM's manufacturing facilities, labour relations issues and other factors. The number of competitors that OEMs solicit to bid on any individual product has, in certain circumstances, been significantly reduced and management expects that further reductions will occur as a result of the OEMs' stated intention to deal with fewer suppliers and to award those suppliers longer-term contracts.

### **Foreign Business Risk**

The company's operations in Europe, Mexico, China and South Korea, are subject to general business risks that do not exist in Canada or the United States. The political climate and government policies are less stable and less predictable in these countries. As well, Hungary, Mexico, China and South Korea do not currently have the same economic infrastructure as exists in Canada or the United States.

Operations outside the United States and Canada subject Linamar to other potential risks associated with international operations, including, but not limited to: complications in both compliance with and unexpected changes in foreign government laws and

regulations, tariffs and other trade barriers, potential adverse tax consequences, fluctuations in currency exchange rates, difficulty in collecting accounts receivable, difficulty in staffing and managing foreign operations, events of international terrorism, economic effects of public health threats such as Severe Acute Respiratory Syndrome or Avian Flu, recessionary environments in foreign economies, uncertainties in local commercial practices, and uncertainties in local accepted business practices and standards which may not be similar to accepted business practices and standards in Canada and which may create unforeseen business or public relations situations.

## **Insurance**

The company's business subjects it to the risk that it may incur product liability claims, warranty or recall claims, as well as business interruption claims. No assurance can be given that the insurance coverage or insurance coverage limits of the company would be adequate to protect it against any claims for product liability claims, warranty or recall claims, or business interruption claims that may arise. The company may require additional insurance coverage in these areas as the company advances its involvement with product design and development. This insurance is expensive and may not be available on acceptable terms, or at all. Any uninsured or underinsured product liability claims, warranty or recall claims, or business interruption claims could have a material adverse effect on the company's financial condition, results of operations and prospects.

## **Regulatory Risk**

### **Securities Laws Compliance and Corporate Governance Standards**

The securities laws in Canada and abroad have been changing since the collapse of Enron Corporation in the United States and the subsequent introduction of strengthened securities and governance laws such as the Sarbanes-Oxley Act. Canada has implemented similar laws. The company has complied with Canadian Securities Administrators ("CSA") National Instruments 52-109, and 52-110, among others.

### **Tax Laws**

The tax laws in Canada and abroad are continuously changing. Recently, corporate tax rates in Canada have been decreasing. There is no assurance that rates will continue to decrease in Canada or remain unchanged in other countries. The company's operations in Hungary, via a tax credit system, are subject to an effective tax holiday but there can be no assurance that this effective holiday will continue up to or beyond its anticipated end date. In addition to Hungary, the company currently has tax losses and credits in Canada, Mexico, China and the U.S. that, given unforeseen changes in tax laws, may not continue indefinitely. Finally, the company's expansion into Asia via China and South Korea subjects the company to new tax regimes that may change based on political or social conditions.

### **Emission Standards**

Recent changes in emission standards in the U.S. in certain states, such as California, may affect the future sale of certain automotive products. Even though the company

continues to implement changes to certain products via specifications from customers, there can be no assurance that the company will be able to keep pace with these changes. The introduction of the experimental fuel cell automobile by all major automotive manufacturers may affect the products and processes the company employs, the effect of which is currently undetermined. Canada, and other countries where the company's products are sold, have implemented or intend to implement the Kyoto Protocol, which sets limits for emission standards. The effect of this standard has not been fully analyzed by the automotive industry and its full effect on the financial stability of the company and its customers is as yet undetermined.

### **Environmental Matters**

Linamar's manufacturing operations are subject to a wide range of environmental laws and regulations imposed by governmental authority in the jurisdictions in which the company conducts business. Linamar has established an Environment Committee of senior management to oversee Linamar's environmental programs and to ensure that Linamar complies with applicable environmental laws. As well, the company has regular environmental compliance audits performed to check that wastes are disposed of in accordance with such laws. Twenty five of Linamar's manufacturing facilities meet the ISO 14001 standard. All other facilities are working towards qualifying under ISO 14001. To date, environmental laws and regulations have not had a material effect on Linamar's operations or financial condition. Linamar has made, and will continue to make, significant expenditures in connection with environmental matters. Changes in laws and regulations, however, and the enforcement of such laws and regulations, are ongoing and may make environmental compliance, such as emissions control, site clean-ups and waste disposal, increasingly expensive. Senior management regularly assesses the work and costs required to address environmental matters, but is not able to predict the future costs (whether or not material) that may be incurred to meet environmental obligations. Senior management is not aware of any material environmental liability facing the company at this time.

### **Dependence on Key Personnel**

Loss of certain members of the executive team or key technical leaders of the company could have a disruptive effect on the implementation of the company's business strategy and the efficient running of day-to-day operations until their replacement is found. Competition for personnel throughout the industry is intense. The company may be unable to retain its key employees or attract, assimilate, retain or train other necessary qualified employees, which may restrict its growth potential.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

### **DISCLOSURE CONTROLS AND PROCEDURES**

National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators ("CSA") requires Chief Executive Officers ("CEOs") and Chief Financial Officers ("CFOs") to certify that they are responsible for establishing and maintaining disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed and are effective in providing reasonable assurance that material information relating to the issuer is made

known to them, that they have evaluated the effectiveness of the issuer's disclosure controls and procedures, and that their conclusions about the effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

As of December 31, 2008, the company's management evaluated the effectiveness of the company's disclosure controls and procedures, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The company's management, inclusive of the CEO and the CFO, does not expect that the company's disclosure controls and procedures will prevent or detect all error and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the company have been detected.

Based on this evaluation, the CEO and the CFO have concluded that, subject to the inherent limitations noted above, the company's disclosure controls and procedures are effective in providing reasonable, not absolute assurance that the objectives of our disclosure control system have been met.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

National Instrument 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting for the issuer, that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that the issuer has disclosed any changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

As of December 31, 2008, the company's management evaluated the effectiveness of the company's internal control over financial reporting, as defined under rules adopted by the CSA. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable, not absolute assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the CEO and the CFO have concluded that, subject to the inherent limitations noted above, the company's internal control over financial reporting is effective in providing reasonable, not absolute assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

### **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

In its Annual MD&A dated March 8, 2007 and for the fiscal year ended December 31, 2006, the company reported that it, with the assistance of external specialists, had identified four areas where the internal controls over financial reporting had weaknesses requiring improvement. The company, with the assistance of its external specialists, completed in the first quarter of 2007 a remediation plan for the identified controls deficiencies, and had commenced implementation of this remediation plan.

As of January 31, 2008 all deficiencies have been remediated.

There were no further changes in the company's internal control over financial reporting during the year ended December 31, 2008, that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

## **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.

### **Impairment of Goodwill and Other Intangibles**

Management, on an annual basis, must assess for impairment of goodwill and intangible assets not subject to amortization. The company must also assess all intangible assets for impairment when events and changes in circumstances indicate that the carrying amounts may not be recoverable. The company believes that the estimate of impairment for goodwill and other intangibles is a "critical accounting estimate" because management is required to make significant forward looking assumptions. Also, different estimates that could be used or changes in estimates from period to period may have a material impact on the company's consolidated balance sheets, statements of cash flows, and statements of earnings. The company uses a discounted cash flow method to assess the fair value of goodwill and other intangible assets. Fair value is evaluated on a quarterly basis or when events or circumstances change. Uncertain changes in the discount rate used, and forward looking assumptions regarding improvement plans, costing assumptions, timing of program launches, and production volumes may affect the fair value of estimates used. No known trends, commitments, events or other uncertainties are currently believed to materially affect the assumptions used with the exception of the length and extent of the current economic conditions that are impacting the overall global economy and specifically the automotive and construction industries.

As at December 31, 2008, goodwill and other intangibles of \$61.6 million (2007 - \$64.6 million) was recorded on the consolidated balance sheet of the company. The amount of goodwill and other intangibles acquired during the current year was \$1.5 million and \$34.6 million in 2007. Amortization against goodwill and intangibles totalled \$5.3 million in the year (\$3.2 million in 2007). As previously discussed, there is \$5.1 million recorded as impairment charges with respect to goodwill and other intangibles on the company's consolidated statements of earnings (2007 - \$Nil).

### **Future Income Tax Assets and Liabilities**

Future income tax assets and liabilities result from timing differences between the financial reporting and tax bases of assets and liabilities. Loss carry forwards also

comprise a portion of the temporary differences and result in a future income tax asset. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided. The company considers this allowance a “critical accounting estimate” as highly uncertain assumptions are made at the time of estimation and differing estimates may result due to changes in the assumptions from period to period and may have a material impact on the company’s consolidated financial statements. The factors used to assess the likelihood of realization are the company’s forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets. The company has and continues to use tax planning strategies to realize future tax assets in order to avoid the potential loss of benefits. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one period to the next. Any significant change in events, tax laws, and tax rates beyond the control of the company may materially affect the consolidated financial statements.

As at December 31, 2008, the valuation allowance against the tax benefit of tax credits (excluding the Hungarian tax credits) and loss carry forwards as well as other assets with tax value in excess of book value is \$19.4 million (2007 - \$17.8 million). The valuation allowance is reflected in the net future income tax liability from continuing operations balance of \$15.0 million (2007 - \$23.8 million) on the consolidated balance sheets of the company.

### **Impairment of Long-Lived Assets**

Management assesses for impairment of long-lived assets when events and changes in circumstances indicate that the carrying amounts may not be recoverable. The company believes that the estimate of impairment for long-lived assets is a “critical accounting estimate” because management is required to make significant forward looking assumptions when events or circumstances indicating impairment arise. Also, different estimates that could have been used or changes in estimates from period to period may have a material impact on the company’s consolidated balance sheets, statements of cash flows, and statements of earnings. Recoverability is assessed by comparing the carrying amount first to the estimated undiscounted future cash flows. An impairment loss is measured when the carrying amount of the long lived asset exceeds its fair value which can be determined using the discounted future cash flows the long-lived assets are expected to generate. Uncertain changes in the discount rate used, and forward looking assumptions regarding improvement plans, costing assumptions, timing of program launches, and production volumes may affect the fair value of estimates used. During the year, the company realized impairment of long-lived assets of \$11.4 million (2007 \$8.1 million).

### **Stock-Based Compensation**

Management estimates the fair value of stock-based compensation granted after January 1, 2002. This fair value is amortized to earnings over the remaining vesting period. The fair value of the options issued each year, if applicable, is determined using the Black-Scholes option pricing model. The company believes that the estimate of stock-based compensation is a “critical accounting estimate” because management is

required to make significant forward looking assumptions. The varying inputs on which the Black-Scholes option pricing model is based can result in significantly different results and there may be a material impact on the company's consolidated balance sheets, statements of cash flows, and statements of earnings. Uncertain changes in expected stock volatility, the change in expected dividend yields, the expected option term, and changes in assumptions used to form a risk free rate during the expected option term may affect the value derived for stock-based compensation.

On December 19, 2007, 999,999 options with tandem share SARs were granted with an average exercise price of \$21.24 per option. The fair value of these options was determined using the Black-Scholes option pricing model.

On Aug 19, 2008, 818,001 options with tandem share SARs were granted with an average exercise price of \$11.44 per option. The fair value of these options was determined using the Black-Scholes option pricing model.

In December 2008, the option holders surrendered all outstanding options to the company. As of December 31, 2008, there are no options issued or outstanding.

Note 12 to the consolidated financial statements for the year ended December 31, 2008 provides additional information on the company's stock based compensation.

## **RECENT ACCOUNTING CHANGES AND EFFECTIVE DATES**

**The following accounting policies and pronouncements were adopted during the year ended December 31, 2008:**

### **A) Financial Instruments – Disclosures**

In 2006, the CICA issued CICA 3862 replacing Section 3861 – Financial Instruments – Disclosure and Presentation. This Section applies to fiscal periods beginning on or after October 1, 2007. It describes the required disclosures related to the significance of financial instruments on the entity's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. This Section complements the principles of recognition, measurement and presentation of financial instruments of Section 3855 - Financial Instruments - Recognition and Measurement, 3863 - Financial Instruments - Presentation and 3865 - Hedges.

### **B) Financial Instruments – Presentation**

In 2006, the CICA issued CICA 3863 replacing Section 3861 – Financial Instruments – Disclosure and Presentation. This Section applies to fiscal periods beginning on or after October 1, 2007. It establishes standards for presentation of financial instruments and non-financial derivatives.

### **C) Capital Disclosures**

In 2006, the CICA issued CICA 1535. This Section applies to fiscal years beginning on or after October 1, 2007. It establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies, and procedures for managing capital.

### **D) Inventories**

In 2007, the CICA issued CICA 3031 replacing Section 3030 - Inventories. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. This Section prescribes the accounting treatment for inventories, such as measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and reversal of previous write-downs of inventories arising from an increase in net realizable value. It also provides guidance on the cost methodologies that are used to assign costs to inventories and it describes the required disclosures on the carrying amount of inventories, the amount of inventories recognized as an expense and the amount of the write-downs or reversal of write-downs of inventories.

**The following accounting pronouncements will be adopted by the company effective January 1, 2009 and subsequent periods:**

A) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064 - Goodwill and Intangible Assets, replacing Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. This section applies to fiscal periods beginning on or after October 1, 2008 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The company is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.

B) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1582 – Business Combinations (“CICA 1582”) and entities adopting CICA 1582 will also be required to adopt Sections 1601 – Consolidated Financial Statements (“CICA 1601”) and 1602 – Non-Controlling Interests (“CICA 1602”). These sections replace the former Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA 1582 will require additional use of fair value measurements, recognition of additional assets and liabilities and increased disclosure. CICA 1601 and 1602 will require a change in the measurement of non-controlling interest and will require the change to be presented as part of shareholders’ equity. These standards will become effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. These sections will be equivalent to International Financial Reporting Standards (“IFRS”) 3 – Business Combinations. A discussion of the convergence to IFRS follows.

C) International Financial Reporting Standards

Additionally, in February 2008, the Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”). IFRS uses a conceptual

framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date.

These new standards will be effective for Linamar for the interim and annual financial statements beginning on January 1, 2011, with retrospective presentation of the comparative 2010 results.

We are currently in the assessment phase of the conversion. This includes identifying the differences between existing Canadian GAAP and IFRS, identifying potential business impacts, developing the project plan, assessing resource requirements and providing training to staff. A detailed analysis of the differences between IFRS and our accounting policies as well as an assessment of the impact of various alternatives are in progress. Changes in accounting policies are likely and may materially impact our consolidated financial statements.

Over the next two years, we will assess the implications of converting to IFRS, estimate the impact, implement the changes and perform work to ensure the accuracy of opening balances. It is currently not possible to fully determine the impact to the consolidated financial statements and any potential business impacts, as accounting standards and related interpretations continue to change.

## **NON-GAAP MEASURES**

The following measures used by the company do not have a standardized meaning under Canadian generally accepted accounting principles and, therefore are unlikely to be comparable to similar measures presented by other issuers.

### **Operating Earnings**

Operating earnings, as used by the chief operating decision makers and management, monitors 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 and equity loss, if any.

(in millions of dollars)	2008	2007	2006	2005	2004
Gross Margin	\$229.6	\$288.2	\$270.0	\$278.7	\$235.6
Selling, general and administrative	126.0	116.0	111.6	102.7	90.9
Operating Earnings	\$103.6	\$172.2	\$158.4	\$176.0	\$144.7

## Book Value per Share

This measure, 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 Shareholders' Equity divided by shares outstanding at year-end.

(in millions of dollars except share and per share figures)	December 31 2008	December 31 2007
Shareholders' Equity	\$878.3	\$890.6
Shares outstanding at the end of the period	64,701,876	69,824,276
Book value per share	\$13.57	\$12.75

## Debt to Total Capitalization

This measure, as used by the chief operating decision makers and management, indicates the company's reliance on debt and its financial flexibility. This measure is not the same as the measure previously discussed in terms of the company's debt covenants. Debt to total capitalization is calculated by the company as the sum of Short-term bank borrowings, Current portion of long-term debt, and Long-Term Debt divided by the sum of this total and Shareholders' Equity.

(in millions of dollars)	December 31 2008	December 31 2007
Short-term bank borrowings	\$81.1	\$143.8
Current portion of long-term debt	170.3	4.8
Long-Term Debt	222.1	324.4
Total Debt	\$473.5	\$473.0
Shareholders' Equity	\$878.3	\$890.6
Debt to Total Capitalization	35.0%	34.7%

## Return on Shareholders' Equity

This measure, as used by the chief operating decision makers and management, indicates the yearly return for shareholders. Return on Shareholders' Equity is calculated by the company as the Earnings from Continuing Operations divided by Shareholders' Equity.

December 31 (in millions of dollars)	2008	2007	2006	2005	2004
Earnings from Continuing Operations	\$56.1	\$109.0	\$105.3	\$101.0	\$90.4
Shareholders' Equity	\$878.3	\$890.6	\$839.7	\$778.6	\$692.6
Return on Shareholders' Equity	6.4%	12.2%	12.5%	13.0%	13.1%

## OUTLOOK

Effective the second quarter of 2006, the company determined it was not appropriate to provide outlook guidance.

## **FORWARD LOOKING INFORMATION**

Certain information provided by Linamar in this MD&A, in the Annual Report 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 MD&A and elsewhere in the Annual Report 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 cyclicity, 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.