Teknion Corporation

Teknion Annual Report 2003

Teknion

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2003 Highlights

- First office furniture manufacturer to achieve Greenguard Certification for indoor air quality for all its major product lines
- First to receive ISO 14001 Certification – the most comprehensive international standard for environmental systems – for all major facilities
- Received Outstanding Corporate Innovator award from the Product Development & Manufacturing Association (shared with BMW)
- Received Industrial Design Excellence Award from Industrial Designers Society of America and *Business Week* magazine for xm furniture collection
- Launched next generation of mesh seating – the European-designed Contessa office chair – in North America
- Launched the European-designed **ie** desking system in Europe, which led to major installations in England, Belgium and Italy
- Continued to expand our product portfolio with new seating, new desk-based furniture line and two major enhanced systems furniture lines
- Collected awards in the IIDEX/NeoCon Canada, Awards for Design Excellence and OFDA Dealers' Choice Circle of Excellence competitions

Teknion is a leading international designer, manufacturer and marketer of office systems and related products for the contract segment of the office furniture industry. We are the market share leader in Canada, with an expanding presence overseas, and over the past decade have been among the fastest growing major office furniture companies in the United States.

Financial Highlights

($000 except per share amounts)

November 30	2003	2002	2001	2000	1999
STATEMENT OF EARNINGS DATA					
Sales	**502,788**	525,800	785,528	935,345	641,851
Earnings (loss) from operations	**(49,435)**	(54,636)	53,800	152,263	96,714
Net earnings (loss)	**(30,112)**	(32,006)	35,829	93,960	61,208
Earnings (loss) per share (basic)	**$ (0.47)**	$ (0.50)	$ 0.56	$ 1.47	$ 0.97

($000)

November 30	2003	2002	2001	2000	1999
BALANCE SHEET DATA					
Total assets	**412,125**	463,589	512,940	495,532	331,631
Long-term debt	**24,558**	32,398	31,596	18,125	18,593
Shareholders' equity	**256,744**	290,139	322,780	284,904	191,668

Top left: Transit panel system with xm freestanding storage
Top right: Leverage panel system
Lower: Contessa mesh seating

Dear fellow shareholders,

For Teknion, and the contract office furniture industry, 2003 was another difficult year. Customer demand declined for the third consecutive year, pricing pressure increased, and the value of the currency in which we receive the bulk of our revenues – the U.S. dollar – declined by 17%.

Despite the challenging business conditions, we were able to achieve a number of significant objectives during the year in design and product development, our environmental initiatives, and our continuing program of cost reduction. Most importantly, although overall industry shipments declined in 2003, we were able to grow revenues and gain share in our largest market, the United States.

During the year we continued to work closely with the architecture and design community, winning important new customers in the commercial market. In the United States, our area of greatest opportunity, we also broadened our customer base into market segments where we previously did not have a strong presence, including the healthcare, educational and government sectors. As a result of these initiatives and other sales and marketing programs, in fiscal 2003 we grew our sales in the United States – measured in U.S. dollars – by over 4% compared to an industry decline of 5% as measured by BIFMA, the Business and Institutional Furniture Manufacturer's Association.

Building on our heritage of design-driven innovation, we continued in 2003 to extend the breadth and depth of our product offering, particularly in ancillary product areas such as seating, filing, wood products and desking. Highlights of this program include: **Contessa**, a major new European-designed office chair regarded as the next generation of mesh seating; the **Argus** line of mid-priced task chairs that offers an attractive combination of design, function and value; and **Expansion Desking**, a desk-based office system with multiple applications for today's open office configurations.

We also launched a completely new desking system called **ie**. Designed initially for the European market and previewed in 2002 at Orgatec, the World's Largest Trade Fair for Furnishing and Management of Offices, **ie** has already

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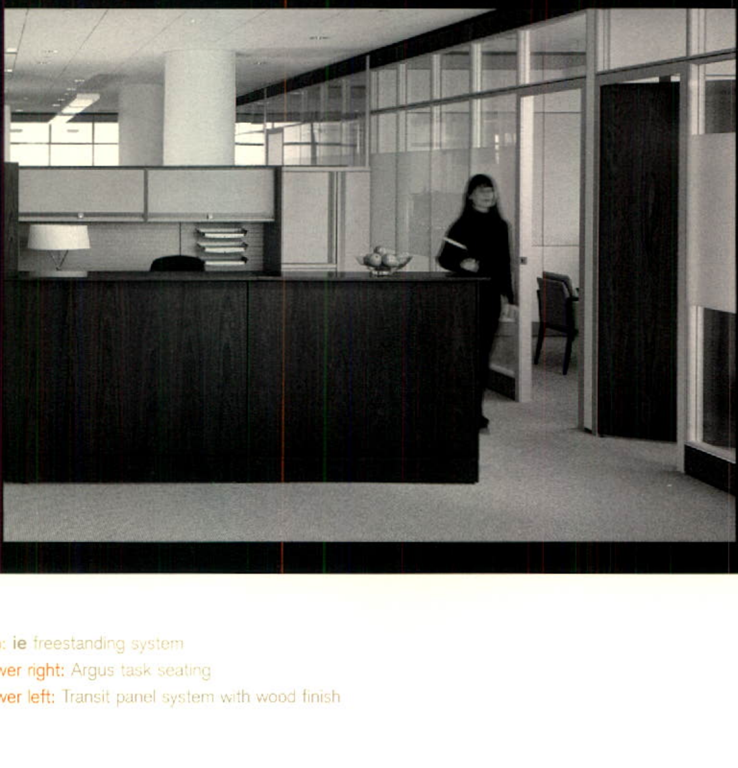
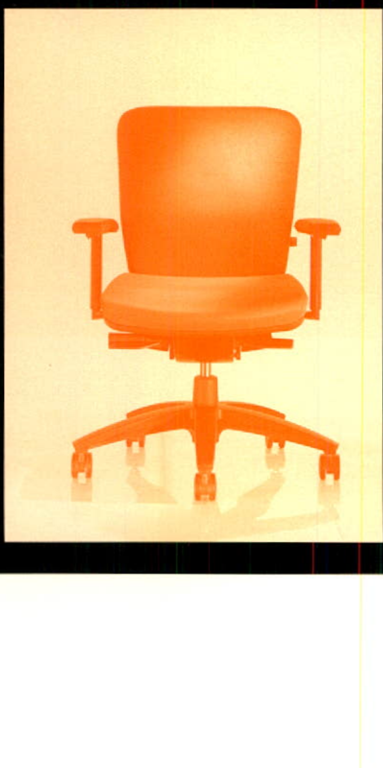




Top: ie freestanding system
Lower right: Argus task seating
Lower left: Transit panel system with wood finish

been installed at a number of major European corporate facilities. Demand for this product also led to its North American preview last year, and we will complete our first North American installation in 2004.

In consultation with our customer, employee and design constituencies, we determined that the environment and the principles of sustainable development would be areas of major focus for us in 2003. We set some ambitious goals – and we reached them. With tremendous effort and cooperation of people from throughout our company we made great strides in becoming the first in our industry to achieve Greenguard Certification for indoor air quality for all our major product lines. We also recently became the first in our industry to have all major facilities certified to ISO 14001 environmental management standards. We will continue to work to ensure that our customers and Teknion can progress toward our shared goals of sustainable development and environmental responsibility.

Another area of accomplishment in 2003 was the important success that Teknion had in lowering its cost structure. Broadly, our costs can be divided into two areas: manufacturing expenses; and selling, general and administrative (SG&A) costs. As many of you know, for most of the last decade our greatest manufacturing challenge was to keep up with customer demand. During the course of the current industry downturn, however, our operating setting has shifted to one where we are now more focused on doing things faster, better and at lower cost. The reduction in sales volume, the pressure on selling prices and the decline in the value of the U.S. dollar have veiled the very significant, wide-ranging and durable improvements that we have made to the speed, quality and cost with which we manufacture products. We expect the benefits of these improvements to become evident as business conditions improve and capacity utilization increases.

We have also been successful in reducing our SG&A expenses – from $179 million in 2002 to $148 million last year. We continue to focus on lowering our cost structure, being careful not to jeopardize those aspects of our operations that are critical to servicing customers and developing new products essential to our long-term profitability and growth. Our commitment to great design is a cornerstone of our corporate culture, and we believe that design success is intrinsic to business success.

Top: Expansion Desking system
Lower right: Altos architectural wall system with Transit worksurfaces
Lower left: Transit panel system with Ability mobile tables

Looking ahead

The operating environment continues to be difficult. Overall monthly office furniture industry shipments, on a year-over-year basis, have declined for 34 of the past 37 months. Although the size of the declines has diminished in recent months, no sustained order recovery has occurred, and BIFMA currently forecasts no growth in shipments until the middle of 2004.

Fortunately, we are progressing through this challenging period from a solid business foundation. Our international presence remains strong – and as a result of our recent restructuring is more efficient. We are gaining share in our largest market, the United States. And in Canada, we are the leader in the contract furniture business, a tribute to our extensive dealer base and long-standing customer relationships.

Looking ahead, we expect to achieve a modest increase in revenues in 2004, which together with a decrease in expenses as compared to last year, should result in a meaningful improvement in our financial results. Longer term, the steps we have taken to broaden our customer base and expand our product offering, together with our focus on costs, position us well for growth and increased profitability as business conditions improve.

On behalf of our entire management team, we would like to thank the Board of Directors for their guidance and leadership, our employees for their hard work and commitment, and our customers, dealers and shareholders for their continued support.

Sincerely,

David Feldberg
President and Chief Executive Officer

Saul Feldberg
Chairman of the Board

Management's Discussion and Analysis

The following management's discussion and analysis of the financial condition and results of operations for Teknion Corporation ("Teknion" or the "Company") for the years ended November 30, 2003 and 2002 should be read in conjunction with the Company's consolidated financial statements and the notes to those statements included in the 2003 Annual Report.

Overview

Teknion is an international designer, manufacturer and marketer of office systems and related office furniture products. Since commencing business in 1981, the Company has grown from one 30,000-square-foot manufacturing facility in Toronto to approximately 2.7 million square feet of vertically integrated manufacturing space, sales and marketing operations and showrooms located in major markets around the world. From its inception with a single office system product, the Company has grown and expanded into all major office furniture product categories, including companion product lines such as seating, storage, filing and tables. The Company's primary product offering remains office systems, which accounted for a substantial majority of the Company's sales in fiscal 2003. The Company's products are sold through authorized dealers around the world.

From 1994 through 2000 the Company grew at a compound annual growth rate in excess of 40%. Over this period, Teknion consistently outperformed the overall contract office furniture industry as measured by the Business and Institutional Furniture Manufacturer's Association (BIFMA). Teknion attributes its superior track record of growth over this period to its ability to introduce new and innovative products, expand into new geographic markets and increase market share.

Beginning in mid-2001 and continuing through fiscal 2003, the contract office furniture industry experienced an unprecedented reduction in demand. Industry sales on a year-over-year basis in the United States – as reported by BIFMA – have declined for 34 of the past 37 months. The estimated total production of office furniture in the U.S. has declined from approximately U.S. $13 billion in 2000 to approximately U.S. $8.5 billion in 2003. In recent months, the rate of the decline has diminished and for the fiscal year ended November 30, 2003, U.S. industry sales declined by 5%.

Primarily as a result of increased discounting of selling prices, the continuing weakness in customer demand, and the decline in the value of the U.S. dollar compared to the Canadian dollar, the Company experienced a reduction in its gross margin compared to the prior year and incurred a net loss for the year.

During 2003, management continued to take steps to improve the Company's cost structure. The Company has been careful, however, not to jeopardize those aspects of its operations that are critical to servicing customers and developing new products which are essential to its long-term sales growth and return to profitability.

In 2003, Teknion launched a number of new products, and enhanced two of its major systems furniture offerings. The Company introduced a desk-based system – **Expansion Desking** – with multiple open office applications. **Contessa**, a major new European-designed office chair billed as the next generation of mesh seating, was one of two families of seating successfully launched. As well, the Company's new desking system – **ie** – was launched in Europe, previewed in North America, and will be available in Canada in 2004. Several environmentally friendly panel and seating fabrics were also brought to market, along with a comprehensive new wood finishes program.

The environment was an area of major focus for Teknion in 2003, and the Company became the first in its industry to achieve Greenguard Certification for indoor air quality for all major product lines. The Company intends to continue its initiatives in this area going forward.

During 2003, management continued to take steps to improve the Company's cost structure.

Results of Operations

ANNUAL

($000 except per share amounts)

Years ended November 30,	**2003**	2002	2001
Sales	**502,788**	525,800	785,528
Gross margin	**137,878**	157,452	279,750
Gross margin (% of sales)	**27.4%**	29.9%	35.6%
Expenses	**190,702**	215,349	229,129
Net earnings (loss)	**(30,112)**	(32,006)	35,829
Earnings (loss) per share (basic)	**$ (0.47)**	$ (0.50)	$ 0.56
Earnings (loss) per share (diluted)	**$ (0.47)**	$ (0.50)	$ 0.55

QUARTERLY

Fiscal 2003

($000 except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	**139,625**	**131,095**	**120,005**	**112,063**	**502,788**
Gross margin	**40,149**	**34,996**	**34,119**	**28,614**	**137,878**
Gross margin (% of sales)	**28.8%**	**26.7%**	**28.4%**	**25.5%**	**27.4%**
Expenses	**45,868**	**45,355**	**55,907**	**43,572**	**190,702**
Net loss	**(2,670)**	**(6,107)**	**(14,032)**	**(7,303)**	**(30,112)**
Loss per share (basic and diluted)	**$ (0.04)**	**$ (0.10)**	**$ (0.22)**	**$ (0.11)**	**$ (0.47)**

QUARTERLY

Fiscal 2002

($000 except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	121,430	139,262	138,369	126,739	525,800
Gross margin	34,968	43,954	43,639	34,891	157,452
Gross margin (% of sales)	28.8%	31.6%	31.5%	27.5%	29.9%
Expenses	51,658	52,531	51,141	60,019	215,349
Net loss	(8,875)	(4,697)	(3,156)	(15,278)	(32,006)
Loss per share (basic and diluted)	$ (0.14)	$ (0.07)	$ (0.05)	$ (0.24)	$ (0.50)

Management's Discussion and Analysis

Sales

Teknion reported sales of $502.8 million for the year ended November 30, 2003, a decline of 4.4% compared to the prior year. Sales were negatively impacted by increased discounting of selling prices, weak customer demand, and the decline in the value of the U.S. dollar compared to the Canadian dollar. Sales in fiscal 2002 were $525.8 million compared to $785.6 million in 2001, a decline of 33.1% caused primarily by the steep industry downturn, particularly in the U.S. market, which is the Company's largest market, and by increased discounting of selling prices due to competitive pressures.

Sales by Geographic Region

Teknion's sales, represented by geographic region, are set forth below.

($000)

Years ended November 30,	2003	%	2002	%	2001	%
Canada	**$ 197,211**	**39.2**	$ 204,330	38.9	$ 239,417	30.5
United States	**263,853**	**52.5**	274,959	52.3	478,080	60.9
International	**41,724**	**8.3**	46,511	8.8	68,031	8.6
Total	**$ 502,788**	**100**	$ 525,800	100	$ 785,528	100

The industry downturn negatively impacted all of Teknion's markets in 2003, resulting in lower sales in each of its geographic segments. Sales in Canada experienced a 3.5% decline in 2003 following a 14.7% decline in 2002. The Company is the largest participant in the Canadian contract office furniture industry. The Company's strong and long-standing relationships with its dealers and customers partially mitigated the impact of the industry decline in the Canadian marketplace.

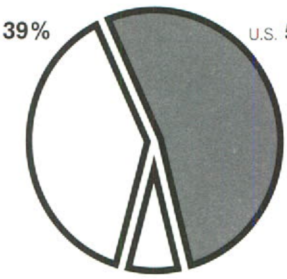
Sales in the U.S. declined by 4.0% in 2003 following a 42.5% reduction in 2002. As measured in U.S. dollars, however, sales in the U.S. increased by 4.3% in 2003, compared to an industry decline of approximately 5%. The change in relative performance is due to a number of factors. Amongst the major participants in the U.S. contract furniture industry, Teknion is the most newly established. Accordingly, and in contrast to the Canadian market, the Company has a relatively smaller installed client base from which to generate replacement or repeat business. As well, the majority of the Company's sales have always been in the office systems segment of the contract furniture market, and this segment of the market has in recent years declined to a greater extent than the overall contract furniture market, which includes such additional product categories as seating, filing, storage and casegoods.

In 2002, the above-noted factors and the steep decline in overall industry sales resulted in a percentage decline in revenues that was greater than the industry average. However, during 2002 the Company undertook a number of sales and marketing initiatives to broaden its customer base into market segments in the U.S. where the Company previously did not have a strong presence, including the healthcare, educational and government sectors.

Management's Discussion and Analysis

Teknion grew revenues in its largest market, the United States.

Geographic Sales
(percentage)



In 2003, the benefit of these initiatives, together with the Company's strategy of expanding the breadth and depth of its product lines – particularly in ancillary areas such as seating, desking, wood products and filing – resulted in the Company's U.S. operations achieving moderate growth in the face of continuing industry decline.

Management believes the Company's most significant opportunity for growth remains in the U.S., where historically, Teknion has been amongst the fastest growing of the major participants in the contract furniture business. Management estimates that the Company currently has a 2% share of the estimated U.S. $8.5 billion U.S. contract office furniture market.

Sales to international markets, which include Europe, South America, the Middle East and the Pacific Rim, constitute approximately 8.3% of the Company's overall revenues, and were also negatively impacted by weak demand, declining 10.3% in fiscal 2003 and 31.6% in fiscal 2002.

Looking ahead, management remains confident that its focused strategies, proven sales and marketing initiatives, and innovative products will generate sales growth as business conditions improve. BIFMA forecasts that the U.S. office furniture market will grow by approximately 6% in 2004 over the prior year.

Gross Margins

Gross margin as a percentage of sales declined in fiscal 2003 to 27.4% compared to 29.9% in 2002. This reduction was due mainly to decreased fixed overhead absorption resulting from lower revenues caused by increased discounting of selling prices, weak customer demand, and the decline in the value of the U.S. dollar compared to the Canadian dollar during the year, partially offset by improvements in

Management's Discussion and Analysis

the purchasing of materials and by the reduction of fixed overhead. Gross margins were also negatively impacted by a shift towards value-oriented products in the mix of products purchased by customers. Such products tend to have lower margins. Gross margin as a percentage of sales in fiscal 2001 was 35.6%. During fiscal 2003, the Company undertook a number of initiatives to reduce costs, consolidate facilities and realize production efficiencies following similar initiatives that it had completed in fiscal 2002. Management is confident that these initiatives position the Company for improved gross margins as business conditions improve. However, management is concerned about recent increases in the cost of raw materials, in particular the cost of steel. Steel represents the largest component of the Company's material costs. The spot-market price of hot-rolled steel – an industry benchmark – has risen dramatically during the first quarter of 2004, and is widely predicted to reach an eight-year high during the second quarter of 2004, before moderating later in the year. Although Teknion does purchase a portion of its steel requirements in advance of its use, there is a limited ability for companies such as Teknion to hedge the impact of changes in the price of steel. The Company is closely monitoring steel prices and is reviewing its own pricing strategies in light of current conditions.

Operating Expenses

Selling, general and administrative ("SG&A") expenses in fiscal 2003 decreased compared to the prior year as the Company continued its program of cost reduction. For the year, SG&A expenses totaled $148.3 million compared to $178.6 million in fiscal 2002 – a reduction of over $30 million or approximately 17%. In 2003, the Company incurred $12 million of restructuring costs (see Note 15 to annual consolidated financial statements) related to the Company's international operations which, while not included in SG&A, formed part of the Company's total operating expenses. In fiscal 2002, the Company incurred a charge to income of $4.7 million in connection with the write-down of software, non-productive equipment and other capital assets.

SG&A expenses in 2002 decreased compared to the prior year as sales volume declined and the Company adjusted its expenses in light of market conditions. Due to the significant reduction in SG&A in fiscal 2003, SG&A expenses declined as a percentage of sales to 29.5% from 34.0% in fiscal 2002. In fiscal 2001, SG&A as a percentage of sales was 25.7%.

For fiscal 2004, management expects its SG&A expenses to reduce further as the benefits of the international restructuring undertaken in 2003 are realized and as the Company continues to diligently review and manage its cost structure in what is expected to remain a difficult business environment over the near-term.

Management's Discussion and Analysis

Other Expenses

Depreciation and amortization decreased in fiscal 2003 to $27.0 million from $28.7 million in fiscal 2002 due primarily to the significantly lower level of capital spending in 2003 as compared to both 2002 and 2001 and the corresponding reduction in the Company's depreciable capital assets (see Note 4 to annual consolidated financial statements). Depreciation and amortization increased in fiscal 2002 and was higher than the fiscal 2001 amount of $24.1 million due to a full year's depreciation in 2002 of the Company's capital investment and expansion programs begun in fiscal 2000 and completed in fiscal 2002.

As part of the Company's above-noted investment program, approximately 500,000 square feet of new and expanded production, office and showroom space was added in fiscal 2001 and 2002 across all of the Company's facilities. This increase in overall square footage is net of a reduction of approximately 400,000 square feet of leased space, where the related leases expired or were otherwise terminated, or where such space was sublet during fiscal 2001 and fiscal 2002 as the Company consolidated a number of its manufacturing and office facilities. In fiscal 2003, the Company added no new facilities and it reduced its existing facilities by approximately 250,000 square feet of leased space.

Net interest expense rose in fiscal 2003 to $3.2 million from $2.8 million in 2002 due primarily to higher average debt levels during the year. Net interest expense rose in fiscal 2002 to $2.8 million from $2.6 million in fiscal 2001 due primarily to higher average debt levels during the year offset partially by lower interest rates in fiscal 2002 compared to the prior year.

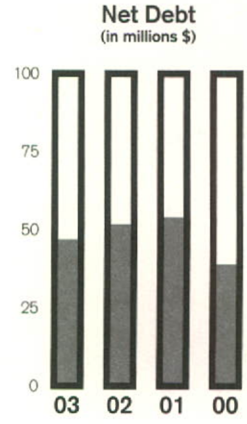
The Company received income tax refunds in fiscal 2003 as a result of applying losses incurred in 2002 to the prior year's earnings. The effective tax rate for fiscal 2003 was 43.0% compared to 44.7% in the prior year. The effective tax rate in fiscal 2002 increased to 44.7% from 29.2% in fiscal 2001 because a larger portion of losses was incurred in the Company's U.S. operations (where the income tax rate is higher than in other jurisdictions in which the Company operates), and the impact of international tax planning strategies instituted in the latter half of fiscal 2001.

Net Earnings

The Company incurred a net loss of $30.1 million or $0.47 per share (basic) in 2003 compared to a net loss of $32.0 million or $0.50 per share (basic) in 2002 and net earnings of $35.8 million or $0.56 per share (basic) in 2001. On a basic weighted average basis, there were 64.1 million shares outstanding in fiscal 2003 and fiscal 2002 compared to 64.0 million in fiscal 2001.

Management's Discussion and Analysis

Despite incurring net losses in 2003 and 2002, the Company reduced its net debt in both years.



Liquidity and Capital Resources

($000)

Years ended November 30,	2003	2002	2001
Cash from operating activities	**$ 13,288**	$ 42,592	$ 81,029
Capital expenditures	**$ 9,407**	$ 32,819	$ 98,774
Net debt to equity	**0.18:1**	0.18:1	0.17:1

The Company's cash requirements have traditionally been satisfied through cash generated by operating activities and operating lines of credit. Despite incurring net losses in 2003 and 2002, the Company reduced its net debt in both years. (The Company defines its net debt as total operating loans plus long-term debt less cash.) This reduction was achieved through a combination of: a decline in working capital resulting from lower sales volumes in the periods; better management of working capital; the collection of prior years' income tax refunds; and reduced capital spending requirements as a result of the completion of the Company's capital investment and expansion program in 2002. As at November 30, 2003, the Company utilized $30.3 million of its $76.2 million operating lines of credit with the majority of its credit lines bearing interest at the banks' prime rate plus 0.5% per annum.

The Company used cash in operations of $8.9 million in fiscal 2003 compared to a use of cash of $3.3 million in fiscal 2002 and cash generated of $66.8 million in fiscal 2001. Including the net change in operating working capital, the Company generated $13.3 million in cash from operations in 2003 compared to $42.6 million in fiscal 2002 and $81.0 million in fiscal 2001.

Accounts receivable decreased significantly in fiscal 2003 and fiscal 2002, reflecting the reduced levels of business experienced by the Company in both years. Days outstanding for accounts receivable were 67 as at November 30, 2003, compared to 85 at November 30, 2002. Inventories declined in fiscal 2003 to $43.9 million from $53.9 million in 2002, due again to the decreased level of business in fiscal 2003 and the Company's effectiveness at managing its inventory levels. The number of days of production in inventory was 49 as at November 30, 2003, compared to 55 days as at November 30, 2002. Despite the difficult year, the Company's balance sheet remains strong. The working capital ratio at the end of fiscal 2003 was 1.4:1, a slight reduction from the ratio of 1.6:1 at the previous two fiscal year-ends. In addition, the Company's net debt-to-equity ratio remained stable at a conservative level of 0.18:1 at November 30, 2003 and November 30, 2002 compared to 0.17:1 at November 30, 2001.

We remain confident in our ability to capitalize on renewed demand as business conditions improve.

As noted under Sales by Geographic Region, more than half of the Company's sales are U.S.-based and are accordingly billed and paid for in U.S. dollars. In addition, approximately half of international sales are transacted in U.S. dollars. Accordingly, the Company is subject to changes in the value of the U.S. dollar compared to the Canadian dollar. The Company's current policy is to hedge a portion of its U.S. dollar exposure based on forecast U.S. dollar revenues, on a rolling four-quarter basis by entering into foreign exchange contracts. As well, the Company has an inherent or "natural" hedge which, at current sales levels, covers more than half of its U.S. dollar exposure. This natural hedge derives principally from the purchase of products and material in U.S. dollars, and from the cost of running the Company's U.S. operations. As at November 30, 2003, the Company held foreign exchange contracts maturing within 12 months for the sale of U.S. $35.0 million at a weighted average rate of exchange of $1.41 (see Note 13(a) to annual consolidated financial statements).

The Company used cash in financing activities of $7.6 million in 2003 primarily to reduce operating loans and long-term debt, compared to a use of cash in financing activities of $9.8 million in 2002 primarily to reduce operating loans.

Cash used in investing activities declined substantially to $9.1 million in fiscal 2003 from $40.1 million in fiscal 2002 due primarily to a significant reduction in capital expenditures. In fiscal 2002 the Company invested in the completion of capital investment and expansion projects initiated in fiscal 2000. During fiscal 2001 and 2002 the Company added approximately 500,000 net square feet to its production, office and showroom facilities, including its new U.S. headquarters. The Company also invested in new production equipment, software and hardware technologies. This investment program was completed in fiscal 2002 resulting in the significant decline in capital spending in fiscal 2003. Approximately half of the spending in fiscal 2003 related to tooling for new products, while the balance was primarily related to information technology, health and safety, and maintenance. In fiscal 2004, the Company expects to spend approximately $10 million on capital expenditures on a similar basis.

New CICA Reporting Requirements

Effective December 1, 2002, the Company prospectively adopted the recommendation issued by the CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The recommendation establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees. Accordingly, no restatement of prior periods was required as a result of the adoption of the standard (see Note 9 to annual consolidated financial statements).

As of February 1, 2003, the Company adopted the accounting recommendation on Guarantees, AcG 14, issued by the CICA. The accounting recommendation requires a guarantor to disclose significant information on guarantees it has provided, without regard to whether it will have to make any payments under the guarantees and in addition to the accounting required by Contingencies, Section 3290. As of the year ended November 30, 2003, there were no significant guarantees entered into by the Company that would require any additional financial statement note disclosure (see Note 1(l) to annual consolidated financial statements).

Risks and Uncertainties

Factors that could cause actual results to differ from expectations include, but are not limited to, fluctuations in the Company's operating results due to product demand arising from competitive and general economic and business conditions in the Company's North American and international markets and operations; significant fluctuations in exchange rates for currencies in which the Company does business; changes in the cost of raw materials; the ability to maintain the proprietary nature of the Company's intellectual property in the design and manufacturing of its products; changes in the size and timing of customers' order patterns; changes in the Company's markets, including technology change, changes in customer requirements, frequent new product introductions by competitors and emerging standards; the Company's dependence on key personnel; the Company's dependence on key commitments from significant dealers and distributors; potential liabilities arising from product defects; and environmental matters.

Outlook

Management continues to believe that, over the long term, the worldwide business environment will increasingly require that organizations and institutions utilize costly office space more effectively and improve the working environment to increase employee productivity. The Company also believes that these factors, combined with increased commercial construction and capital spending, as well as the growing use of technology and the increasing awareness of workplace health and safety, will allow long-term growth in the contract office furniture industry to exceed growth in GDP.

In the short term, management expects that customer demand will not increase significantly until there is a substantial improvement in so-called white-collar employment growth and consequent new office construction.

However, the Company remains confident that its focused growth strategies, combined with its comprehensive product lines, innovative designs and extensive dealer network, will enable the Company to capitalize on renewed demand in its markets as business conditions improve. In addition, new sales and marketing programs are broadening the Company's customer base into market segments in the U.S. where the Company previously did not have a strong presence, including the healthcare, educational and government sectors.

As a result of these factors, and the Company's anticipated continuing success in reducing its cost structure, management expects to generate improved financial performance in fiscal 2004 compared to fiscal 2003.

The Company's strategies for future growth are to: continue to develop its sales and service initiatives to expand its presence and market share, focusing on market segments where the Company previously did not have a strong presence; leverage the strength and economies of scale resulting from the vertical integration and recent modernization of its manufacturing facilities and processes; maintain its focus on design and innovation to ensure it can respond quickly with new and enhanced products to meet the needs of its customers; and make prudent acquisitions that meet the Company's long-term strategic objectives.

Forward-Looking Statements

This Annual Report and management's discussion and analysis of the financial condition and results of operations contain forward-looking statements with respect to the Company's future prospects. These statements involve certain risks and uncertainties that could cause the Company's financial results to differ materially from stated expectations. Factors that could cause actual results to differ from expectations are outlined above. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Teknion Corporation as at November 30, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
January 30, 2004

Management's Responsibility for Financial Reporting

The accompanying financial statements and information included in this Annual Report have been prepared by the management of Teknion Corporation in accordance with Canadian generally accepted accounting principles, and include amounts based on management's informed judgments and estimates. Management is responsible for the integrity and objectivity of these financial statements. To fulfill this responsibility, Teknion maintains an appropriate system of internal control, policies and procedures to reasonably ensure that its reporting practices and accounting and administrative procedures provide reliable and accurate financial information, and that assets are adequately safeguarded. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements in all material respects.

KPMG LLP, the auditors appointed by the shareholders of Teknion, have examined the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the financial statements. Their report as the Company's auditors is set forth herein.

The financial statements have been further reviewed and approved by the Board of Directors and its Audit Committee. This Committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

David Feldberg
President and Chief Executive Officer
January 30, 2004

Robert E. Boyd
Chief Financial Officer and Secretary
January 30, 2004

Consolidated Balance Sheets

(In thousands of dollars)
November 30, 2003 and 2002

	2003	2002
ASSETS		
Current assets:		
Cash	$ 8,005	$ 15,864
Accounts receivable (note 2(a))	88,402	96,236
Income taxes receivable	3,506	24,340
Inventory	43,849	53,868
Prepaid expenses and other deposits	5,362	6,618
Future income taxes (note 3)	3,816	4,674
Total current assets	152,940	201,600
Future income taxes (note 3)	34,625	9,159
Capital assets (note 4)	193,351	217,084
Loan receivable (note 5)	335	4,872
Goodwill (note 6)	30,874	30,874
	$ 412,125	$ 463,589
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating loans (note 7)	$ 30,314	$ 35,271
Accounts payable and accrued liabilities (note 2(a))	76,991	86,145
Due to affiliated companies (note 2(b))	1,225	1,277
Current portion of long-term debt (note 8)	2,130	3,327
Total current liabilities	110,660	126,020
Long-term debt (note 8)	22,428	29,071
Future income taxes (note 3)	22,293	18,359
Total liabilities	155,381	173,450
Shareholders' equity:		
Share capital (note 9)	106,851	106,851
Retained earnings	154,950	185,062
Currency translation adjustment	(5,057)	(1,774)
Total shareholders' equity	256,744	290,139
Commitments (note 11)		
	$ 412,125	$ 463,589

See accompanying notes to consolidated financial statements.

On behalf of the Board:

David Feldberg
Director

George S. Taylor
Director

Consolidated Statements of Earnings

(In thousands of dollars, except per share amounts)
Years ended November 30, 2003 and 2002

	2003	2002
Sales	$ 502,788	$ 525,800
Cost of sales	364,910	368,348
Gross margin	137,878	157,452
Expenses:		
Selling, general and administrative (note 1(f))	148,254	178,645
Depreciation and amortization	26,995	28,708
Restructuring costs (note 15)	12,064	–
Write-down of capital assets	–	4,735
	187,313	212,088
Loss from operations	(49,435)	(54,636)
Interest expense, net (note 8)	3,238	2,815
Loss on disposal of capital assets	151	446
Loss before income taxes	(52,824)	(57,897)
Income tax recovery (note 3):		
Current	(2,038)	(20,727)
Future	(20,674)	(5,164)
	(22,712)	(25,891)
Loss for the year	$ (30,112)	$ (32,006)
Loss per share (note 10):		
Basic	$ (0.47)	$ (0.50)
Diluted	(0.47)	(0.50)

Consolidated Statements of Retained Earnings

(In thousands of dollars)
Years ended November 30, 2003 and 2002

	2003	2002
Retained earnings, beginning of year	$ 185,062	$ 217,068
Loss for the year	(30,112)	(32,006)
Retained earnings, end of year	$ 154,950	$ 185,062

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of dollars)
Years ended November 30, 2003 and 2002

	2003	2002
Cash provided by (used in):		
OPERATIONS:		
Loss for the year	**$ (30,112)**	$ (32,006)
Items not affecting cash:		
Depreciation and amortization	**26,995**	28,708
Future income taxes	**(20,674)**	(5,164)
Restructuring costs (note 15)	**10,946**	–
Foreign exchange loss	**3,799**	–
Loss on disposal of capital assets	**151**	446
Write-down of capital assets	**–**	4,735
	(8,895)	(3,281)
Change in non-cash operating working capital	**22,183**	45,873
	13,288	42,592
FINANCING:		
Operating loans	**(4,957)**	(10,927)
Proceeds from long-term debt	**–**	3,114
Repayment of long-term debt	**(2,623)**	(2,131)
Issue of share capital	**–**	171
	(7,580)	(9,773)
INVESTMENTS:		
Purchase of capital assets	**(9,407)**	(32,819)
Proceeds on disposal of capital assets	**399**	524
Loan receivable	**(135)**	(4,872)
Net cash paid on acquisition	**–**	(2,946)
	(9,143)	(40,113)
Foreign exchange loss on cash held in foreign currencies	**(4,424)**	(628)
Decrease in cash	**(7,859)**	(7,922)
Cash, beginning of year	**15,864**	23,786
Cash, end of year	**$ 8,005**	$ 15,864

Supplemental cash flow information (note 14)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

Note 1 – Significant accounting policies

a) Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements include the accounts of Teknion Corporation and all of its subsidiaries ("Teknion" or the "Company"). All significant intercompany transactions have been eliminated on consolidation.

b) Revenue recognition

Revenue from the sale of goods is recognized when title passes to customers, which is generally at the time the goods are shipped.

c) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

d) Capital assets

Capital assets are recorded at cost and depreciated on a declining-balance basis at the following annual rates:

Buildings	5%
Computer hardware	20%
Computer software	20%
Manufacturing equipment	10%
Office equipment	20%
Tools and dies	10%

Showrooms are depreciated on a straight-line basis over four years.

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Patents and trademarks are amortized on a straight-line basis over 10 years.

e) Goodwill and other intangible assets

In 2001, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3062, Goodwill and Other Intangible Assets. Goodwill and intangible assets with indefinite useful lives are no longer amortized, but instead are tested for impairment at least annually by comparing their fair values with their book values. The new standard does not change the accounting for intangible assets with determinable lives, which continue to be amortized over their estimated useful lives and are tested for impairment at least annually by comparing their book values with the undiscounted cash flow expected to be received from their use.

Under the standard, as of December 1, 2001, goodwill is presumed to have an indefinite life and is no longer amortized, but rather tested, at least annually, for impairment. The goodwill impairment test is applied to the relevant reporting unit that may differ from the specific acquired entities from which the goodwill arose. Due to the integrated nature of the Company's operations and lack of differing economic characteristics among the Company's subsidiaries, the entire Company was determined to be one single

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

reporting unit. The quoted market price of the Company's stock on the impairment testing date is the basis for determining the fair value of the Company's reporting unit. If the fair value of the Company's one reporting unit exceeds its carrying amount, further evaluation is not necessary. However, if the fair value of the reporting unit is less than its carrying amount, further evaluation is required to compare the implied fair value of the reporting unit's goodwill to its carrying amount to determine if a write-down of goodwill is required. The Company determined that no impairment existed in the carrying value of the goodwill in its reporting unit as at November 30, 2003 and 2002.

f) Translation of foreign currency

Foreign operations are classified as self-sustaining or integrated.

i) Self-sustaining foreign operations:
All assets and liabilities are translated into Canadian dollars at exchange rates in effect at year-end. Revenue and expenses are translated at the average rates of exchange for the year. The resulting net gains or losses are shown under currency translation adjustment in shareholders' equity.

ii) Integrated foreign operations and accounts in foreign currencies:
Integrated foreign operations and accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, consolidated balance sheet monetary items are translated at the rates of exchange in effect at year-end and non-monetary items are translated at historical exchange rates. Revenue and expenses (other than depreciation and amortization, which are translated at the same rates as the related capital assets) are translated at the rates in effect on the transaction dates or at the average rates of exchange for the year. The resulting gains or losses are included in the consolidated statements of earnings.

Included in selling, general and administrative expenses are foreign exchange losses of $3.8 million (2002 – nil).

g) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

h) Income taxes

The Company uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and the tax basis of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable for the year or a later period.

Future income taxes are recorded at the income tax rates which are expected to apply when the future tax liability is settled or the future income tax asset is realized. Valuation allowances are established when necessary to reduce future income tax assets to the amount expected to be realized. Income tax expense consists of the income taxes payable for the year and the change during the year in future income tax assets and liabilities.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

i) Earnings per share

Effective December 1, 2001, the Company adopted the accounting recommendations of the CICA on "Earnings per Share" on a retroactive basis. The standard requires the use of the treasury stock method for calculating diluted earnings per share. Previously the imputed earnings method was used.

j) Freight revenue and expense

On December 1, 2002, the Company adopted the CICA Emerging Issues Committee Abstract 123, Reporting Revenue Gross as a Principal Versus Net as an Agent. Application of the consensus requires the Company to record freight revenue as a part of sales and freight expense as part of cost of sales. Previously, freight revenue and freight expense were reported as a net selling and delivery expense within selling, general and administrative costs. The prior year comparative figures have been reclassified to conform to the presentation adopted in fiscal 2003. The following table illustrates the amounts had the reclassification not been adopted:

	2003		2002	
	Post-implementation	**Pre-implementation**	Post-implementation	Pre-implementation
Sales	**$ 502,788**	**$ 493,269**	$ 525,800	$ 516,601
Cost of sales	**364,910**	**333,059**	368,348	339,016
Selling, general and administrative	**148,254**	**170,586**	178,645	198,778

k) Stock-based compensation plans

Effective December 1, 2002, the Company prospectively adopted the recommendation issued by the CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The recommendation establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair-value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees. Accordingly, no restatement of prior periods was required as a result of the adoption of the standard. See note 9(c) for the pro forma disclosure required by this standard.

l) Guarantees

As of February 1, 2003, the Company adopted the accounting recommendation on Guarantees, AcG 14, issued by the CICA. The accounting recommendation requires a guarantor to disclose significant information on guarantees it has provided, without regard to whether it will have to make any payments under the guarantees and in addition to the accounting required by Contingencies, Section 3290. As of the year ended November 30, 2003, there were no significant guarantees entered into by the Company that would require any additional financial statement note disclosure.

In certain situations, the Company provides performance bonds to ensure installations are carried out in accordance with the agreement. If either the contractor or the Company does not comply with the terms of the agreement, the Company would be liable for payments under the terms of the performance bond.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

The Company has not experienced a loss to date and future losses are not anticipated, therefore no liability has been recorded in the financial statements. The amount of performance bonds outstanding at year-end is not significant.

m) Derivative financial instruments
Derivative financial instruments are utilized by the Company in the management of its foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Gains and losses on foreign exchange contracts identified as a hedge of future transactions are deferred and recognized in income when the underlying hedged transaction is recognized.

Note 2 – Related party transactions and balances

a) Substantially all related party transactions occurred with an indirect shareholder, Global Upholstery Co. Limited ("Global"), and entities controlled or significantly influenced by Global.

Transactions between the Company and Global occur at prices that are in accordance with written agreements between the Company and Global. Management believes that the prices and terms at which transactions are conducted with Global are competitive with prices and terms for comparable arm's-length transactions. The Corporate Governance Committee is responsible for and reviews, monitors and establishes all policies for related party transactions.

Related party amounts included in accounts receivable and accounts payable and accrued liabilities are as follows:

	2003	2002
Accounts receivable	**$ 3,305**	$ 5,486
Accounts payable and accrued liabilities	**6,520**	9,520

Transactions with related parties are as follows:

	2003	2002
Sales	**$ 13,290**	$ 14,777
Purchases	**47,876**	65,231
Other	**7,512**	7,280

b) The amounts due to companies controlled or significantly influenced by the controlling shareholders are unsecured, non-interest bearing and payable on demand.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

Note 3 – Income taxes

Income taxes have been determined in accordance with the legislation prevailing in Canada and the applicable foreign jurisdictions. The effective income tax rate differs from the basic Canadian combined federal and provincial tax rates as follows:

	2003	2002
Loss before income taxes	$ (52,824)	$ (57,897)
Combined statutory tax rate	40.3%	40.3%
Expected recovery of income taxes	$ (21,282)	$ (23,333)
Increase (decrease) resulting from:		
Manufacturing and processing profits deduction	1,578	1,825
International rate differences	(3,059)	(3,597)
Other differences	51	(786)
	$ (22,712)	$ (25,891)
Effective income tax rate	43.0%	44.7%

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at November 30 are presented below:

	2003	2002
Future tax assets:		
Accounts receivable	$ 919	$ 775
Accounts payable and accrued liabilities	2,897	3,899
	3,816	4,674
Non-capital loss carry forward	39,363	11,244
Valuation allowance	(4,738)	(2,085)
	34,625	9,159
	38,441	13,833
Future tax liabilities:		
Capital assets – differences in accounting and tax net book values	(22,293)	(18,359)
Net future tax asset (liability)	$ 16,148	$ (4,526)

Notes to Consolidated Financial Statements
(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible.

At November 30, 2003, the Company has the following amounts available to reduce future years' income for tax purposes.

Unused tax losses expiring:	
2009	$ 18,554
2010	36,598
2023	31,142
Indefinite	13,554
	$ 99,848

Note 4 – Capital assets

2003	**Cost**	**Accumulated depreciation and amortization**	**Net book value**
Land	**$ 8,682**	**$ –**	**$ 8,682**
Buildings	**60,732**	**8,453**	**52,279**
Computer hardware	**27,490**	**17,605**	**9,885**
Computer software	**18,464**	**10,162**	**8,302**
Manufacturing equipment, office equipment and showrooms	**129,077**	**56,675**	**72,402**
Tools and dies	**40,435**	**13,779**	**26,656**
Leasehold improvements	**32,348**	**18,900**	**13,448**
Patents and trademarks	**3,278**	**1,581**	**1,697**
	$ 320,506	**$ 127,155**	**$ 193,351**

2002	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 8,655	$ –	$ 8,655
Buildings	60,600	5,915	54,685
Computer hardware	27,621	15,030	12,591
Computer software	18,120	7,979	10,141
Manufacturing equipment, office equipment and showrooms	130,470	45,890	84,580
Tools and dies	37,357	10,782	26,575
Leasehold improvements	33,289	15,086	18,203
Patents and trademarks	2,958	1,304	1,654
	$ 319,070	$ 101,986	$ 217,084

Notes to Consolidated Financial Statements
(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

Note 5 – Loan receivable
During the year, the Company restructured its international manufacturing operations. As a result of the restructuring, the Company recorded an impairment on the loan which was made in 2002 pursuant to a distribution agreement (note 15).

The loan is due and payable on November 30, 2007, bears interest at 2.25 basis points above the prime rate and is secured against the assets of the borrower.

Note 6 – Goodwill

2003 and 2002	Cost	Accumulated amortization	Net book value
Goodwill	$ 36,317	$ 5,443	$ 30,874

Note 7 – Operating loans
During the year, the Company refinanced its primary operating facility. The facility provides available lines of credit based on the value of assets, up to a maximum of $85 million.

At November 30, 2003, Teknion had available operating lines of credit of up to $76.2 million (2002 – $63.8 million). Borrowings under these lines of credit bear interest at varying rates ranging from the banks' prime rate plus 0.5% to plus 2.75% per annum. The Company and certain of its subsidiaries have entered into general security agreements and undertaken an assignment of certain assets to secure bank borrowings.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

Note 8 – Long-term debt

	2003	2002
U.S. $13.6 million (2002 – U.S. $14.0 million) mortgage loan, bearing interest at 1.5% over the five-year treasury rate, payable in monthly instalments of $0.038 million plus interest, secured by a first mortgage lien on real estate of the Company's New Jersey U.S. subsidiary (net book value: U.S. $18.2 million, 2002 – U.S. $21.5 million), due October 2012	$ 17,674	$ 21,961
U.S. $1.9 million (2002 – U.S. $2.3 million) 1998 industrial revenue bonds, bearing interest at the variable seven-day market rate plus 1.5%, principal repayments made monthly to March 1, 2018, secured by a second mortgage on real estate and a charge over book debts of the Company's Minnesota, U.S. subsidiary	2,494	3,576
10.9 million (2002 – 13.3 million) Malaysian ringgit term loan, bearing interest at 7%, payable in monthly instalments of 0.10 million Malaysian ringgit, secured by a charge over land, buildings and all assets of the Company's Malaysian subsidiary, due May 2009	3,756	5,517
Various loans with blended monthly repayments, bearing interest at various rates to a maximum of 8.1%, due at various dates to 2008	634	1,344
	24,558	32,398
Less current portion	2,130	3,327
	$ 22,428	$ 29,071

Annual principal repayments on long-term debt are due as follows:

2004	$ 2,130
2005	2,281
2006	2,245
2007	1,472
2008	1,013
Thereafter	15,417
	$ 24,558

Interest expensed on long-term debt was $1,552 in 2003 (2002 – $1,767).

Notes to Consolidated Financial Statements
(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

Note 9 – Share capital

	2003	2002
Authorized:		
Unlimited Class A preference shares, non-voting		
Unlimited Class B preference shares, non-voting		
39,954,646 multiple voting shares (2002 – 40,059,046)		
Unlimited subordinate voting shares		
Issued:		
39,954,646 multiple voting shares (2002 – 40,059,046)	$ 5,055	$ 5,068
24,131,810 subordinate voting shares (2002 – 24,027,410)	101,796	101,783
	$ 106,851	$ 106,851

a) Class A and Class B preference shares
Class A and Class B preference shares are issuable in series, with other attributes to be determined at the time of issue. The Class A preference shares will rank prior to the Class B preference shares and both will rank prior to the multiple voting shares and subordinate voting shares as to dividends and as to distributions in the event of liquidation, dissolution or winding up of the Company.

b) Multiple voting shares and subordinate voting shares
During fiscal 2003, certain shareholders converted 104,400 multiple voting shares (2002 – 34,800) on a one-for-one basis to subordinate voting shares. During the year, there were no stock options exercised. In fiscal 2002, 19,000 subordinate voting shares were issued for cash consideration of $171,000 on the exercise of stock options.

The multiple and subordinate voting shares rank equally on a share-for-share basis as to dividends and as to distributions in the event of liquidation, dissolution or winding up of the Company. The multiple voting shares carry 10 votes per share and are convertible into subordinate voting shares on a one-for-one basis at the option of the holder. The subordinate voting shares carry one vote per share.

c) Stock option plans
The Company has had two stock option plans for directors, officers, employees and affiliates of the Company. The stock option plans are administered by a committee of the Board of Directors of the Company. No compensation expense is recognized when shares or options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of shares is credited to share capital. If shares or stock options are repurchased from employees, the excess of consideration paid over the carrying amount of the share or stock option cancelled is charged to retained earnings.

During 2002, the limited purpose stock option plan established at the time of the initial public offering in July 1998 for existing employees of the Company expired. Each eligible employee was entitled to options to purchase 100 subordinate voting shares at an exercise price of $12.50 per share. These options vested six months after the date of grant and were exercisable for a period of four years from

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

the date of grant. The maximum number of subordinate voting shares, issuable to eligible employees pursuant to the limited purpose stock option plan, was 192,300, of which 62,100 options were either exercised or cancelled and the remaining 130,200 options expired.

The general stock option plan is for employees, officers, directors and affiliates of the Company. The option exercise price cannot be less than the market price at issue of the subordinate voting shares on any stock exchange on which the subordinate voting shares are listed. The options have a maximum term of 10 years and are non-assignable, except in certain limited circumstances. The vesting periods of options granted under the general stock option plan range from four to five years, as determined by a committee of the Board of Directors of the Company at the time the options are granted. The Board of Directors of the Company may, from time to time, amend or revise the terms of the general stock option plan, subject to applicable law and the rules of any stock exchange on which the subordinate voting shares are listed, or may discontinue the general stock option plan at any time. The maximum number of subordinate voting shares, which may be issued pursuant to the general stock option plan, is 6,072,190 subordinate voting shares.

During the year, the Company granted 776,500 stock options at an exercise price range of $5.20 to $5.40. The fair value of each option granted has been estimated at the date of grant using the Black-Scholes option pricing model under the following assumptions: dividend yield of zero, risk-free rate of return of 4.52%, volatility of 41% and expected life of the options of 10 years. The Company has assumed no forfeiture rate, as adjustments for actual forfeitures are made in the period they occur. The total estimated fair value of the 776,500 stock options granted to date would be $2.4 million. For the purpose of the pro forma disclosure the estimated fair value of the options is amortized to expense over the options' vesting periods. The following table presents the pro forma loss for the periods, as if the fair-value based accounting method had been used to account for stock-based compensation cost.

Loss for the year	$ (30,112)
Compensation expense related to the fair value of stock options granted, net of tax	(57)
Pro forma loss for the year	$ (30,169)
Pro forma loss per share:	
Basic and diluted	$ (0.47)

The following is a summary of the number of subordinate voting shares issuable pursuant to outstanding stock options:

	2003		2002	
	Number of shares	**Weighted average price**	Number of shares	Weighted average price
Options outstanding, beginning of year	**3,813,365**	**$ 11.65**	3,315,045	$ 12.06
Exercise of options	**–**	**–**	(19,000)	9.00
Options cancelled	**(55,750)**	**11.42**	(174,230)	12.47
Options expired	**–**	**–**	(130,200)	12.50
Grant of additional options	**776,500**	**5.20**	821,750	10.42
Options outstanding, end of year	**4,534,115**	**10.55**	3,813,365	11.65

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

	2003	2002
Weighted average subscription price of outstanding options	$ 10.55	$ 11.65
Number of options exercisable (vested) at November 30	2,622,004	1,703,633
Weighted average subscription price of outstanding exercisable options	$ 11.78	$ 11.98

The range of subscription prices for options granted was as follows:

	2003 High	2003 Low	2002 High	2002 Low
Grant of options	$ 5.40	$ 5.20	$ 11.75	$ 7.25
Exercise of options	–	–	12.00	9.76

	Total options outstanding			Total options exercisable	
Range of exercise prices	Number outstanding, November 30, 2003	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable, November 30, 2003	Weighted average exercise price
$ 5.20 – $ 8.99	800,000	9.61	$ 5.27	6,250	$ 0.02
$ 9.00 – $12.50	2,835,365	5.29	10.95	2,132,316	11.31
$12.51 – $16.00	861,750	7.17	13.75	464,438	13.77
$16.01 – $21.20	37,000	7.11	19.39	19,000	19.37
	4,534,115	6.42	10.55	2,622,004	11.78

Note 10 – Loss per share

The following table sets forth the computation of basic and diluted loss per share:

	2003	2002
Numerator for basic and diluted loss per share – loss for the year	$ (30,112)	$ (32,006)
Denominator for basic and diluted loss per share – weighted average shares	64,086,456	64,079,085
Basic and diluted loss per share	$ (0.47)	$ (0.50)

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

Note 11 – Commitments

The minimum annual lease payments under long-term operating leases for premises and equipment for the next five fiscal years and thereafter are as follows:

2004	$ 16,000
2005	15,600
2006	13,400
2007	11,200
2008	9,400
Thereafter	12,000
	$ 77,600

Note 12 – Segmented information

Industry

The Company is considered to operate in one operating segment, that being the design, manufacture and marketing of office systems and related office furniture products.

Geographic

	2003	2002
Sales (based on location of customer):		
Canada	**$ 197,211**	$ 204,330
United States	**263,853**	274,959
International	**41,724**	46,511
	$ 502,788	$ 525,800
Total assets:		
Canada	**$ 254,050**	$ 249,129
United States	**116,112**	157,932
International	**41,963**	56,528
	$ 412,125	$ 463,589
Capital assets:		
Canada	**$ 132,308**	$ 144,884
United States	**44,831**	51,007
International	**16,212**	21,193
	$ 193,351	$ 217,084
Goodwill:		
Canada	**$ 10,124**	$ 10,124
United States	**18,807**	18,807
International	**1,943**	1,943
	$ 30,874	$ 30,874

Notes to Consolidated Financial Statements
(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

Note 13 – Financial instruments

Teknion operates internationally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign exchange rates. Foreign exchange contracts are used by the Company to manage foreign exchange risk. The Company does not enter into foreign exchange contracts for speculative purposes.

a) Foreign exchange contracts

Teknion enters into foreign exchange contracts to limit its exposure to foreign exchange fluctuations on future revenue and expenditure streams. At November 30, 2003, the Company had outstanding foreign exchange contracts representing a commitment to sell U.S. $35.0 million at average rates of exchange of $1.41 (2002 – U.S. $47.5 million at $1.54). The fair value of these contracts was $2.4 million in favour of the Company at November 30, 2003 (2002 – $1.5 million in favour of the counterparties). These contracts mature within 12 months (2002 – 14 months).

b) Fair values of other financial instruments

Teknion has evaluated the fair values of its other financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms. The carrying amounts of cash, accounts receivable, operating loans, accounts payable and accrued liabilities, and amounts due to affiliates approximate fair values due to the short-term nature of these instruments. Loan receivable and long-term debt approximate market values as interest rates charged on these amounts are comparable to the current borrowing rate of the Company.

c) Credit risk

The Company, in the normal course of business, is exposed to credit risk from its customers. In addition, Teknion is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company controls this credit risk by dealing with counterparties that are major financial institutions and which the Company anticipates will satisfy their obligations under the contracts.

Note 14 – Supplemental cash flow information

	2003	2002
Income taxes paid	$ 2,369	$ 2,382
Income taxes received	21,640	21,630
Interest paid	4,087	2,971
Interest received	490	228

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended November 30, 2003 and 2002

Note 15 – Restructuring costs

During the year, the Company restructured its manufacturing operations in Malaysia and the United Kingdom. The total restructuring costs are estimated to be $12.2 million. In Malaysia, the Company has consolidated its Tangkak operations into the Company's larger Klang facility. In the United Kingdom, the Company is implementing a plan to outsource a substantial portion of its manufacturing and assembly operations, and accordingly has exited a number of leased facilities. As set forth in the table below, in connection with the restructuring, the Company has incurred, or will incur, costs related to the closure of facilities and costs of employee severance. The Company has also recorded an impairment in the value of certain capital assets and inventory related to the restructuring, as well as an impairment in the value of a loan made by the Company pursuant to a distribution agreement in the United Kingdom.

The following table presents the pre-tax restructuring charges by category:

	Severance costs	Facility exit and other related costs	Loan impairment	Capital asset impairment	Write-down of inventory	Total
Restructuring charges recorded during the year	$ 1,163	$ 2,619	$ 4,038	$ 1,510	$ 2,734	$ 12,064
Future restructuring charges	–	133	–	–	–	133
	$ 1,163	$ 2,752	$ 4,038	$ 1,510	$ 2,734	$ 12,197

The following is a summary of the restructuring accrual activity during fiscal 2003:

	Severance costs	Facility exit and other related costs	Total
Restructuring accrual, beginning of year	$ –	$ –	$ –
Restructuring charges	1,163	2,619	3,782
Cash payments	(860)	(258)	(1,118)
Restructuring accrual, end of year	$ 303	$ 2,361	$ 2,664

Note 16 – Comparative figures

Certain 2002 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2003.

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Ticker Symbol: TKN

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Annual Meeting
Tuesday, May 18, 2004
10:00 a.m. (Eastern Standard Time)
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President and Chief Executive Officer
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Frank Delfino
Senior Vice President and
President, Canadian and International Markets

Scott Bond
Chief Financial Officer and Secretary

Robert E. Boyd
(retired March 1, 2004)
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Teknion embraces sustainability as a fundamental practice, consistent with the principles that guide our business endeavors. We will continue to implement sustainable solutions because these practices are essential to the future social, economic and environmental viability of our world.