



Front Cover
Inside a high
temperature
diffusion furnace
used in the
manufacture of
integrated circuits.

Precision bonding
of I.C. contacts on
a Thick-Film Hybrid



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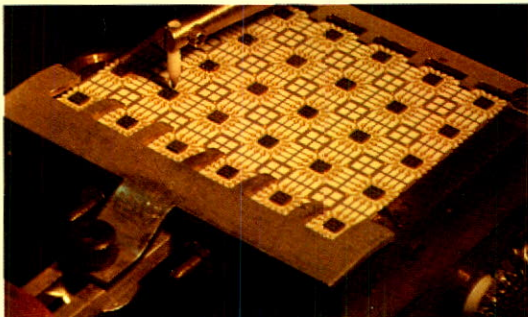
HOWARD ROSS LIBRARY
OF MANAGEMENT
AUG 24 1981
MCGILL UNIVERSITY

2 Introduction

This annual report reviews the outstanding achievements of Mitel in the past year and outlines the progress of the company in technology and production expansion. As a North American leader in the manufacture of PABX switching systems, Mitel is expanding in response to ever-increasing market demands. In the production of both specialized telecommunications equipment and innovative microelectronic devices, Mitel has become recognized by the industry as a world class competitor.

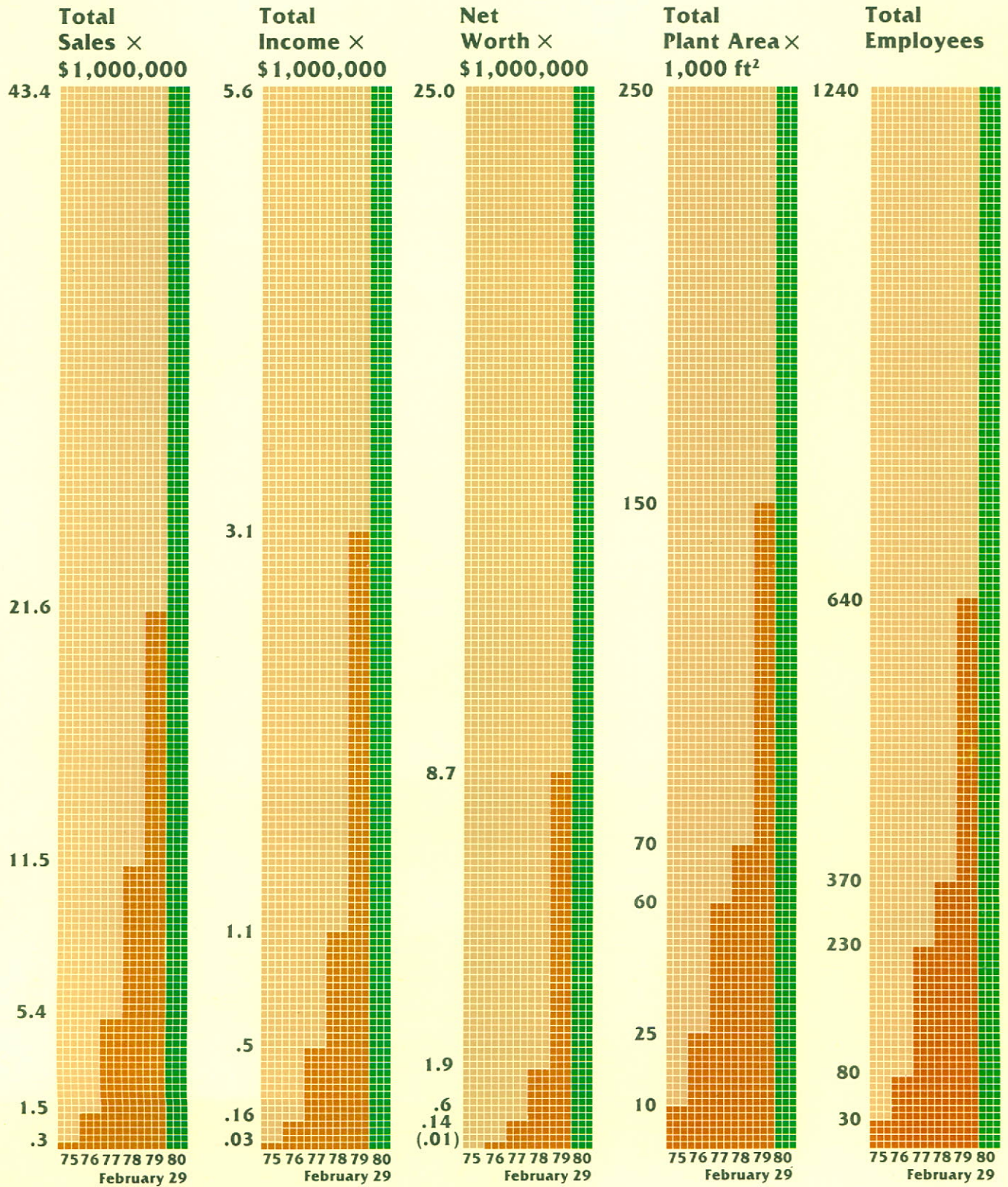
As in the past five years, Mitel has achieved a doubling in sales. Manufacturing space will be doubled during Fiscal Year '81. The dedication and momentum essential for growth and strong leadership are assets of the Mitel team. The Company and employees are committed to the future and to the efforts required to meet the worldwide demand for Mitel products.

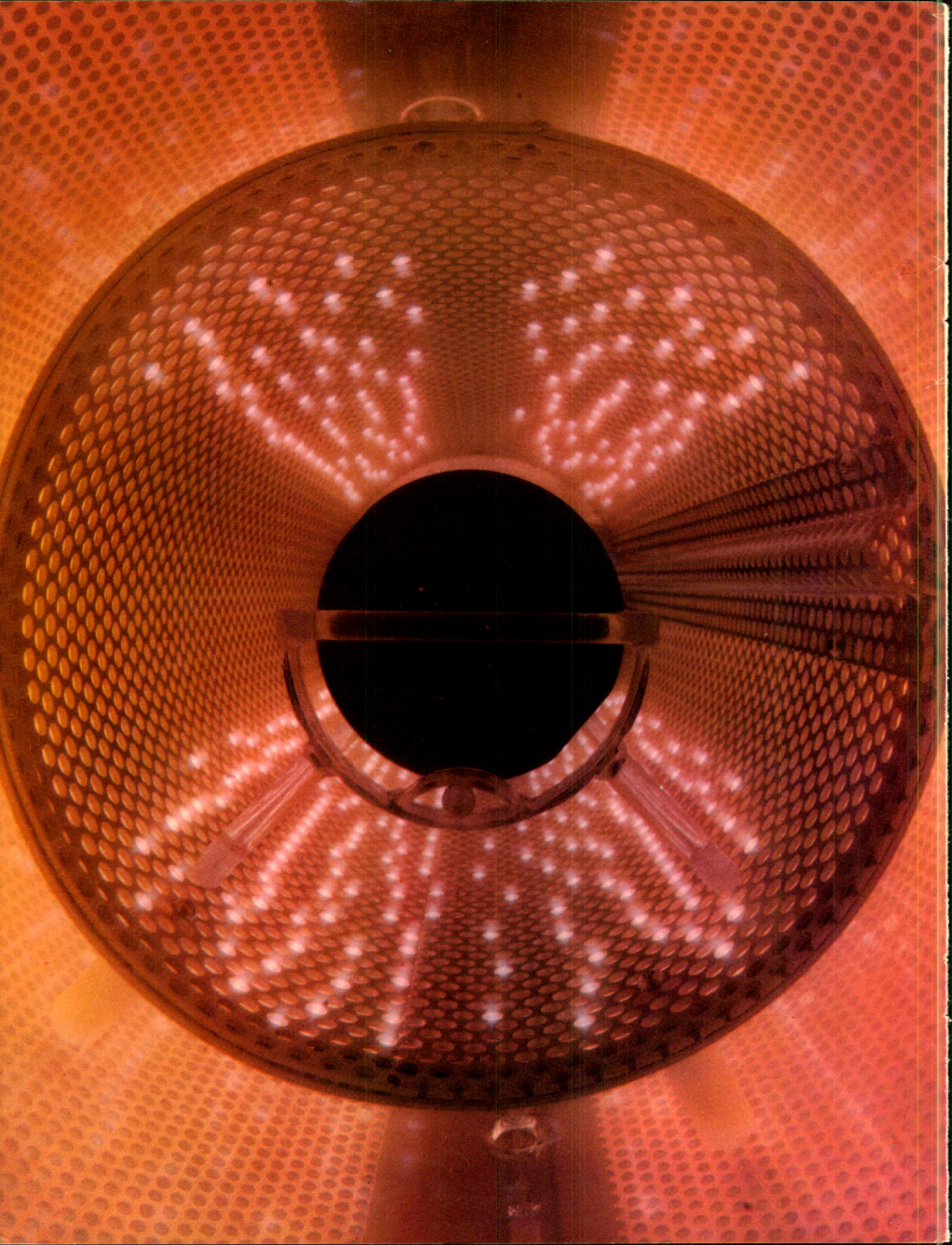
Wire bonding
integrated circuits
to chip carriers.



Microscopic
inspection of
solder contacts in
a Thick-Film Hybrid
Receiver/Decoder.







Before Mitel Corporation became a public company in June 1979, sales of \$40 million and profit of \$5 million were announced as goals for Fiscal Year '80. I am pleased to report that both of these goals were exceeded. Sales increased 101% to \$43.4 million from \$21.6 million and net income increased 80% to \$5.6 million from \$3.1 million, last fiscal year.

During the year, Mitel established itself as a world leading supplier of electronic telephone switching equipment with the SX-200, SX-100 and SX-20 PABX products. Mitel switching systems have rapidly earned a reputation for technical excellence, reliability and cost effectiveness. Over 1,800 PABX systems were shipped to customers in the U.S.A., Canada, Europe and the Middle East in Fiscal Year '80. Demand continues to increase in all market areas and to meet this demand, the company plans to manufacture over 10,000 PABX systems. In Fiscal Year '81 Mitel expects to sell more PABX systems than any other manufacturer in North America and ship more PABX lines than any other independent manufacturer. Major expansion of manufacturing and support facilities is under way in Florida, Canada, England, Puerto Rico and New York to achieve this goal.

Demand for Mitel tone-to-pulse converters, key system intercoms, toll denial systems and other interface products also continues to grow. A new division, Mitel Telecom Products, located in the former Corporate Headquarters building concentrates on this market area.

The team oriented management of Mitel continues to demonstrate that it has the flexibility required to accommodate rapid growth and maintain a high speed of response to market opportunities.

Inside the plasma etching tunnel used in the processing of integrated circuits. The bright spots around the wafer boat are recombination centers (hot spots) which are the result of the de-activation of excited nitrogen molecules.

October 1979 marked the completion of a new Corporate Headquarters, engineering and manufacturing facility at a new site in Kanata, Ontario (photograph shown below). The building was specially designed to enhance the interaction between LSI (Large Scale Integration), Thick-Film Hybrid, switching system and software designers and the manufacturing and marketing groups at Mitel. The emphasis placed on this synergetic interaction is one of the reasons for the continuing ability of Mitel to introduce world leading products.

The leadership position Mitel has established within the industry is strenghtened by our in-house microelectronic and advanced software capability.

The Microelectronic divisions made outstanding progress during this year. The Mitel ISO-CMOS integrated circuit (I.C.) process is now regarded as one of the most advanced CMOS processes in the industry. This technology combined with the Company's high density thick film process gives Mitel the ability to optimize integrated circuit chips and packaging techniques. These skills are key factors in our present leadership in analog switching systems, and promise to be even more effective in the new digital switching products that Mitel has under development. A \$72 million expansion of Microelectronic technology will continue over the next few years. A \$21 million development incentive program, made available from the Canadian Government, Special Electronics Fund, will accelerate this growth.

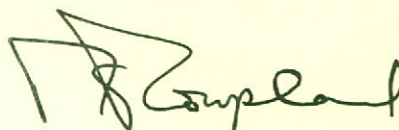
The new
82,000 sq.ft.
Headquarters in
Kanata.



Growth prospects for the current year and the future are excellent with no slowdown in sight.

Demand for advanced communications products is accelerating on a world-wide basis. The "openness" of the market place to Mitel, as a competitive supplier, is increasing due to the end user demand for improved office productivity through cost effective and advanced feature products.

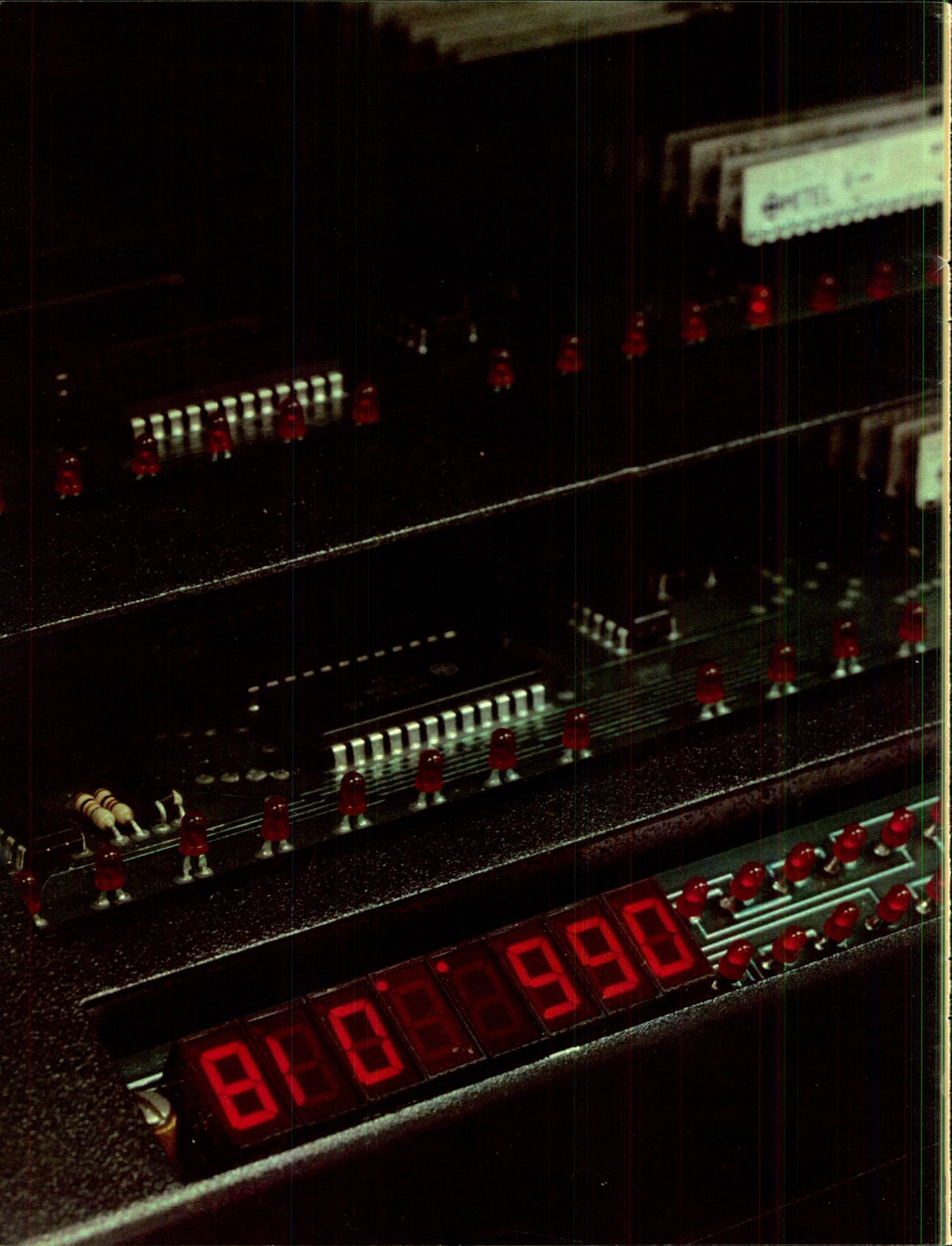
Our greatest asset is our talented and dedicated employees who have already achieved so much and continue to drive for the challenges and opportunities ahead.



Dr. Michael C. J. Cowpland
President



Lobby of the Headquarters, featuring a 4000 times photographic enlargement of a Mitel integrated circuit.



Market demand for all Mitel products was strong in Fiscal Year 1980. The year ended with a backlog of over \$29 million, scheduled for delivery during Fiscal Year '81. More important is the large number of telephone companies that have now standardized on Mitel telecommunications and switching products. Marketing opportunities expanded in all areas during 1979, in particular the United States, Canada, Europe and the Far East.

In the United States, penetration of the Mitel product line during 1979 improved considerably with type approval by the U.S. Bell System. Western Electric became a supply contractor of Mitel Telecom Products. In addition, two major distribution companies were added to the existing network to bring the number of nationally known distributors of the Mitel product line to eight. The number of Mitel marketing offices in the U.S.A. also increased last year, with new offices established in Chicago, Illinois; Rome, New York; Deerfield Beach, Florida; and Augusta, Georgia.

In Canada, a new office was opened in Toronto. In Halifax and Vancouver, offices were relocated and doubled in floorspace to support the growth of the market.

In England and Hong Kong, the Company added substantially to the number of marketing and technical support personnel to take care of the considerable market penetration that will continue to occur in these areas.

Switching System Products

Mitel has gained a significant increase in PABX market share, over the last 12 months. The most dramatic inroads for the SUPERSWITCH™ product line were made in the United States. Subsequent to the national contract of uniform terms and conditions negotiated with American Telephone & Telegraph (AT&T) in July 1979, tariffs have been established for the SX-200™ switching system by Bell Telephone operating companies in 13 states.

Mitel will also be adding the SX-100 to the existing AT&T contract during Fiscal Year '81. In addition, Mitel anticipates tariffs will be filed in a number of other states by Bell Telephone companies. To date, the SX-200 has been tarified by 19 of the 25 major independent telephone companies which represent 85% of the business of the 1,500 independent telephone companies in the U.S. These include United Telephone, Mid-Continent and Commonwealth Telephone.

The SX-20™, the newest member of the SUPERSWITCH family, attracted so much early interest that U.S. orders of over 2,000 units accumulated prior to the start-up of production in the 4th quarter.

In Canada, SX-200 and SX-100 PABX systems are now available to approximately 90% of consumers, through almost every major Canadian telephone company.

Inside the SX-20 PABX, Mitel integrated circuits and Hybrid circuits are used to optimize the low power requirements and compact design characteristic of Mitel SUPERSWITCH systems.

Mitel should make considerable market penetration with this product line in Fiscal Year 1981. It is worth noting that every member of the TransCanada Telephone System is currently evaluating the new SX-20 PABX.

In Europe, significant sales were recorded with a number of large private network users, who were attracted by the flexibility and feature content of the SUPERSWITCH PABX product line. In many cases, the Mitel product has been standardized resulting in continued sales to this market. The SX-200 and SX-100 have also been designed into private networks as both an end office and tandem switching system.

PABX evaluations are currently underway by several European telephone administrations and private network users. The continued penetration of the SX-20, SX-100 and SX-200 systems in this market area, appears to be assured.

In South East Asia, Mitel has established a distributor network for all major market centres. The response in this area has been very favourable to the SUPERSWITCH family of products and sales during Fiscal '81 should reach significant levels.

Attesting to the reliability of the SX-200 design, the product has been evaluated and approved for ruggedized Military applications in Europe and North America. During 1979, Mitel PABX systems were installed in environments ranging

from North Sea oil drilling rigs to outposts of the Arabian Desert.

Telecom Products

Products manufactured by the Telecom Products division are designed essentially to enhance existing telecommunications equipment used by telephone companies, by adding new features, increasing productivity or adapting older equipment to meet modern needs.

Sales of Telecom products grew about 30% during 1979 with significantly increased sales of tone-to-pulse conversion

Automated equipment used in high volume testing of assembled printed circuit boards.



equipment to the U.S. Bell System and to a number of export markets, including the total conversion of telephone exchange equipment in Singapore.

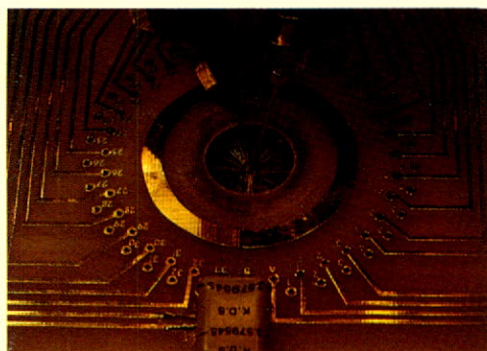
Receipt of FCC approval for almost all telecom products during 1979 has opened up new market areas in the U.S.A. and specifically is expected to result in marked increases in sales of toll denial equipment.

In the future, telecom products will continue to show strong profitable growth, with increased activity in export markets.

Microelectronic Components

In 1979, Mitel became firmly established as an industry leader in the supply of I.C. components to telephone manufacturers worldwide. The Mitel tone ringer I.C. was introduced into the volume production of major telecommunications equipment manufacturers in Denmark, Germany and France. In addition, the Mitel telephone dialer chip became widely accepted, with further penetration of European telephone set manufacturers anticipated for 1980.

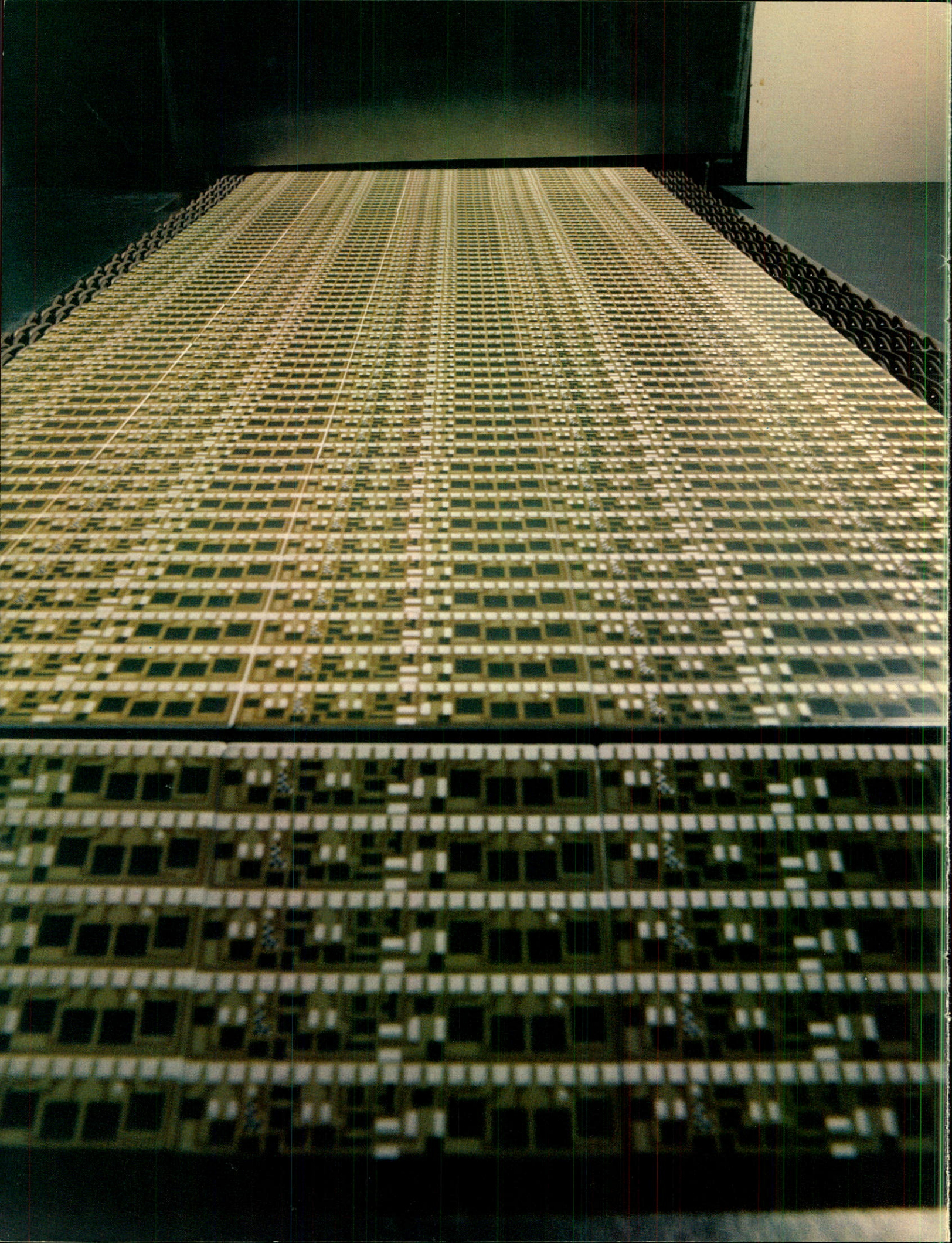
The probe section of an automatic tester used in the testing of integrated circuit wafers.



Mitel Thick-Film Hybrid tone receivers became recognized over the last year as industry standard components. They are now used extensively throughout the industry, as well as in Mitel switching equipment. These Mitel designed Thick-Film Hybrid tone receivers are second sourced by ITT.

1980 overall should be an excellent year in Mitel microelectronic components with further standardization of telecommunications components as well as the launching of a high speed, low power microprocessor family. Mitel microelectronic components are sold worldwide through an extensive distribution network. At this time, there are 12 distributor organizations with 23 locations throughout the U.S., which provide local service to original equipment manufacturers, nationwide. In addition, there are distributors in each Western European country, Japan, Korea, Taiwan, Hong Kong, India, South Africa, Israel and Australia. These distributors receive technical support and sales management direction from Mitel regional offices located in Kanata, Ontario; Havertown, Pennsylvania; San Diego, California; Slough, England; Copenhagen, Denmark and Kowloon, Hong Kong.

Terence H. Matthews
Executive Vice President



Production more than doubled in Fiscal Year '80 over the previous year and plans are well under way for an even larger increase in output capability for the next year. This achievement is possible because of the outstanding dedication of the entire operations group. Manufacturing systems have been put in place throughout the company together with special Mitel designed equipment to simplify assembly and testing. The highly skilled test equipment design and manufacturing group works closely with the product designers to make production testing equipment for all phases of Mitel manufacturing. This increased testing capability, fully

automated assembly systems and a greatly expanded manufacturing information system will enable Mitel to ship in excess of 10,000 PABX systems in Fiscal Year '81.

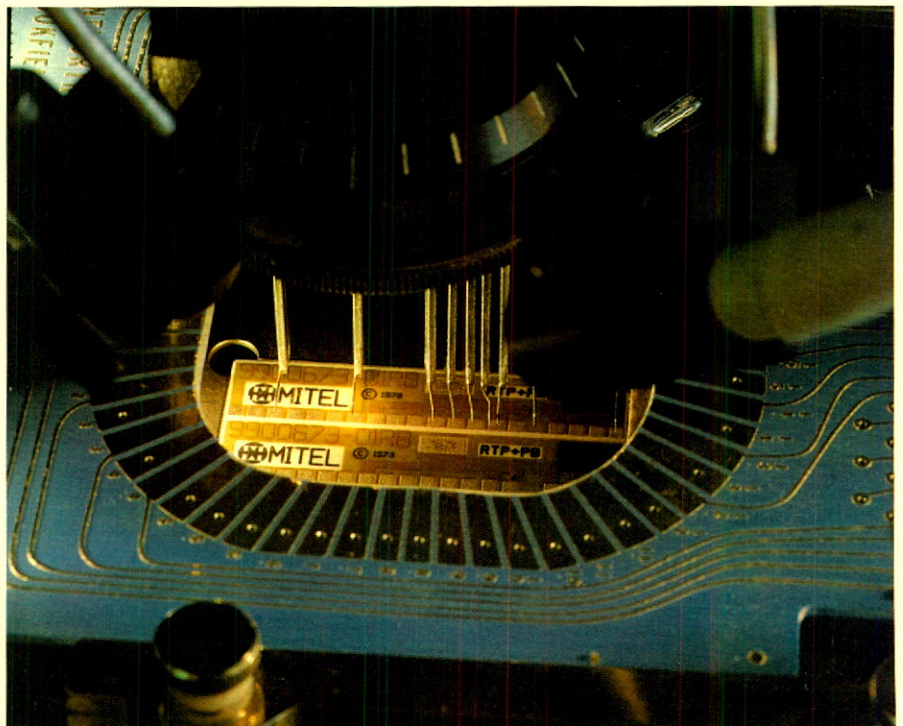
The rapid and efficient set-up of the SX-20 PABX production line demonstrates the ability of Mitel to respond to demand in the marketplace for advanced communications systems. This immediate response to market demands has established Mitel as a source of tomorrow's technology today.

Hybrid circuits coming off of the conveyor after high temperature, overglaze "firing".

The major function of the newly created Mitel Telecom Products Division is the design and manufacture of all non-PABX products. With plants in Ogdensburg and Kanata, the Telecom Products Division maintains the commitment to customers and engineering initiative that established the Company as a responsive manufacturer for the telephone industry.

Major expansion is presently under way at all Mitel manufacturing locations in Canada, the United States and Puerto Rico. Manufacturing space in Canada will increase to 150,000 square feet during Fiscal Year 1981. In the United States and Puerto Rico production areas will increase to a total of 200,000 square feet at Mitel facilities in Ogdensburg (New York), Boca Raton (Florida) and Catano (Puerto Rico). By early 1981, it is anticipated that facilities in England will be expanded to approximately 60,000 square feet.

Inside the laser trimmer, probing a SLIC (subscriber line interface circuit) which is used in PABX equipment.

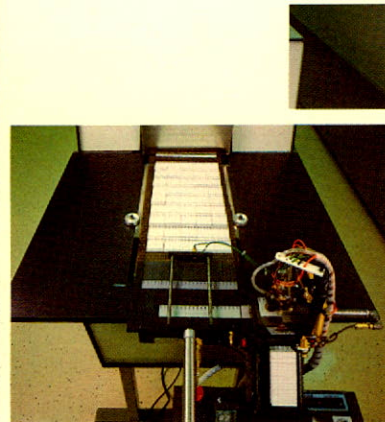
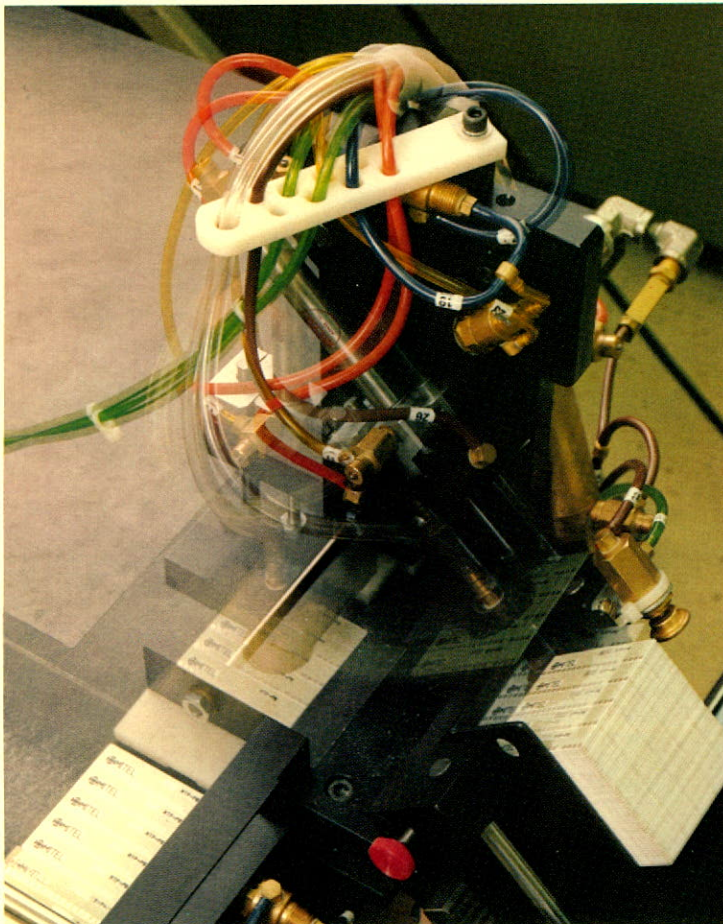


The range of microelectronic products and global operations of Mitel are powerful assets. The availability of key components from our dedicated facilities provide the Company with the stability and flexibility to manufacture telecommunications equipment and switching systems for a competitive world market.

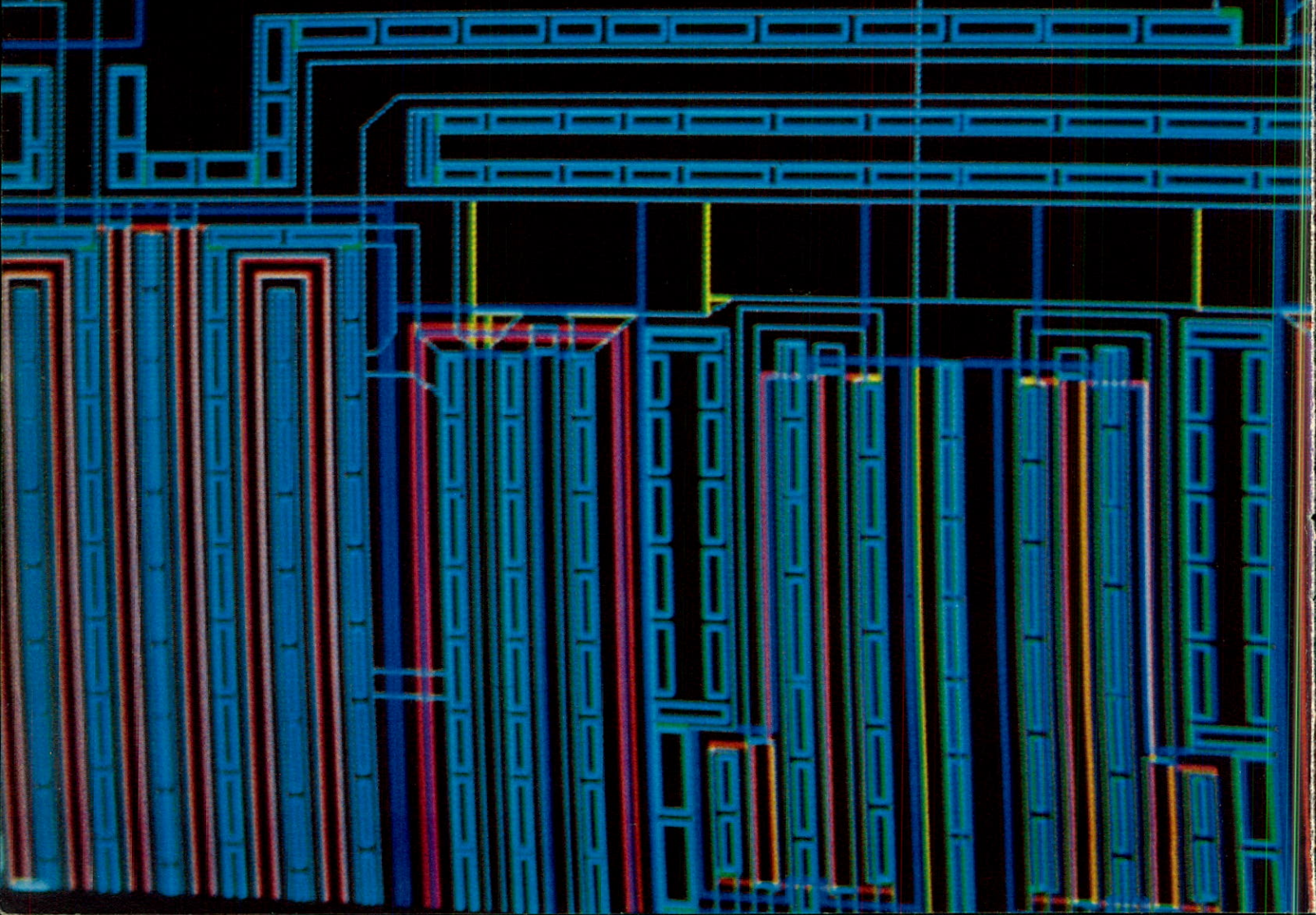
John T. McLennan

John T. McLennan
Vice President, Operations

Automatic conveyor loading at the front end of a high temperature furnace used in "firing" the inked Hybrid circuitry.



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					GET	ALL				LIB	BB?			
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During the past fiscal year, the Semiconductor and Hybrid divisions of Mitel met a number of challenges. From an organizational standpoint, the most important achievements were not only the expansion of the Semiconductor operations but also the implementation of a complete Thick-Film Hybrid production line at the new Corporate facilities in Kanata.

The Microelectronic divisions of Mitel make a key contribution to the success of the Telecom and Switching operations as well as providing reliable and innovative products to original equipment manufacturers throughout Canada, the United States, Europe and the Far East. In order to maintain and increase this important contribution, the Microelectronic divisions have developed some impressive design and production

techniques which will result in increased production capability in Fiscal Year '81 and future years.

In 1979 Mitel Semiconductor established ISO-CMOS integrated circuit technology as a large volume manufacturing process with the introduction of many new telecommunications products. During the year, yield and efficiency improvements were achieved that have further improved the profitability of the Semiconductor operations. The Mitel ISO-CMOS technology achieves industry leading speed and output drive performance of low power schottky bipolar technology at much reduced power.

Integrated circuit artwork displayed on the colour screen of Computer Aided Design equipment.

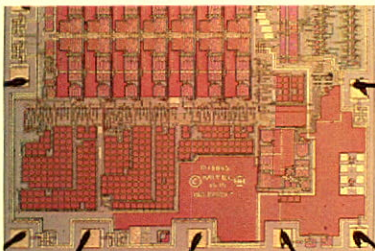
Wafer fabrication capacity has grown to seven times that of the previous year. Production Testing has tripled its product handling capacity with ever improving reliability and the introduction of automated in-house assembly such as automatic wafer sawing, die bonding and die attaching processes.

Research and development efforts have been directed toward the development of advanced VLSI (very large scale integration) products and processes, including the applications of plasma technology, ion-implantation and device scaling which will maintain the position of Mitel in the forefront of CMOS integrated circuit manufacturing.

Automated laser trimming system displaying the cutting of resistive inked circuitry of a Hybrid product.



The Mitel MT8865 Switched Capacitor DTMF Bandsplit Filter, one of the most advanced audio filters on a CMOS chip in the world.



With the successful establishment of a complete Thick-Film Hybrid production facility in Kanata, Mitel has developed an innovative print and fire process to produce products which are industry leaders for their design, performance and quality. Many are used in the SX-200, SX-100 and SX-20 PABX systems.

In February 1980, Mitel announced a \$72 million VLSI expansion program for Semiconductor operations. The Canadian Government has agreed to contribute \$21 million toward this program. The expansion will provide the Microelectronic divisions with the capacity to develop and produce many new high technology products and processes which in turn will enable Mitel to offer further industry leading telecom and switching products.

New opportunities and challenges await Mitel in Fiscal Year '81. The Microelectronic divisions are in a strong position with skilled, dedicated and motivated employees, new innovative products, tight manufacturing controls, aggressive marketing plans and committed top management to direct and encourage employee's efforts.

Mitel telecommunications equipment ready for month-end delivery.



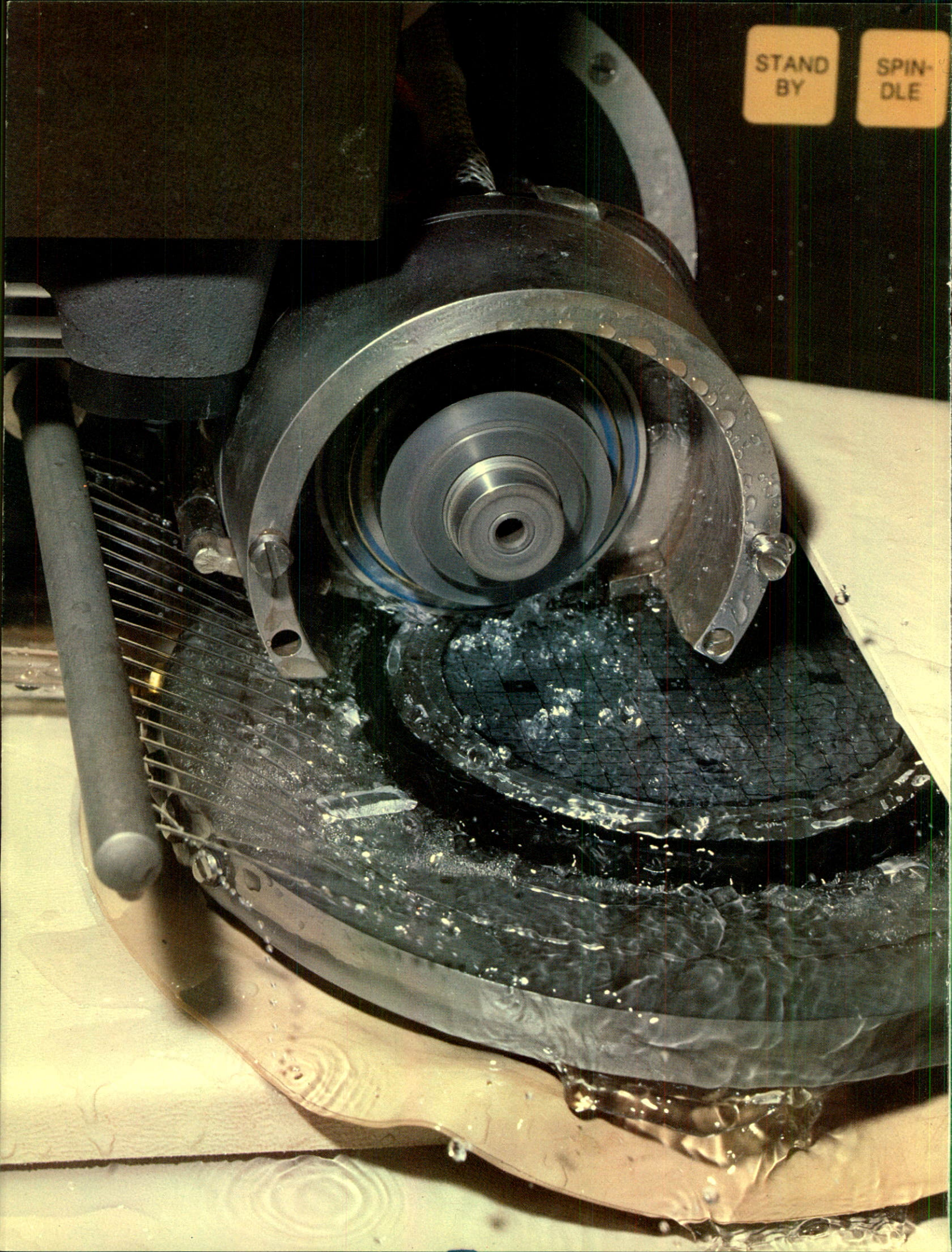
Ralph A. Bennett
Vice President and
General Manager
Microelectronic Divisions



Automated silk screening of circuitry in Hybrid production.

STAND
BY

SPIN-
DLE



Financial stability coupled with dynamic growth, a prime Mitel objective, has been achieved again during the past fiscal year.

Earnings of \$5.6M are up 80% and net income as a percentage of sales is 12.8%. These results are impressive when one realizes that the Corporation brought into mass production two major product lines, the SX-100 and SX-20, during the year. Earnings per share increased 56% over the prior year to \$0.56, an increase moderated by a 12% dilution due to our public offering in June 1979.

The excellent response to, and subsequent support of, the Mitel public offering of 1.1 million common shares reflects the confidence of the investment community in a high technology company which has a strong corporate commitment to profitability. Evidence of this confidence is shown in the chart of the share prices shown below. The success of Mitel, as reinforced by investor support, is directly attributable to the efforts of over 1200 employees.

Earnings and the proceeds from the public offering went into working capital which increased 117% from last year. The net worth of the Corporation is now \$25 million, made up of \$15.4 million in shareholder's equity and \$9.6 million in retained earnings.

The Mitel commitment to research and development continues with an investment of \$5.2 million or \$0.12 out of every sales dollar. This investment is before any government assistance or capitalization of development costs.

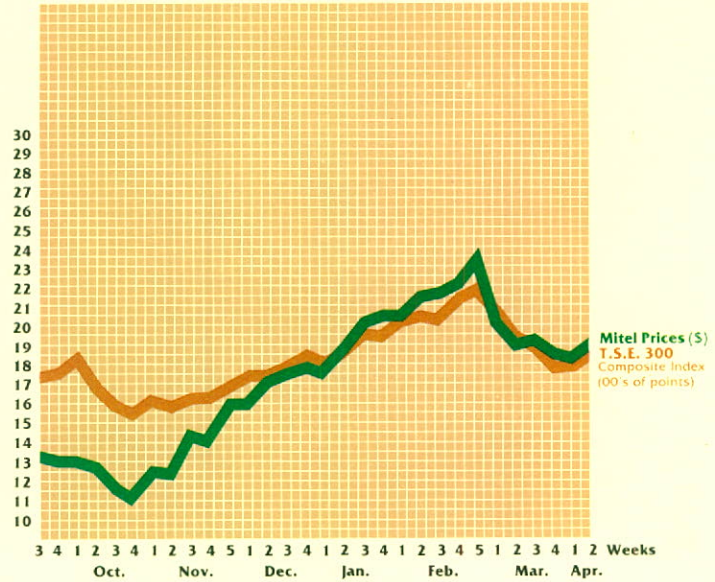
During the last fiscal year a major effort was made to streamline the organization of the Corporation by divisionalizing operating units and reducing the number of legal entities in the corporate structure. Referring to page 37 it should be noted that Mitel Semiconductor Inc. has become part of the Microelectronic division of Mitel Corporation and all subsidiaries are now owned by Stellar Holdings (Nederland) B.V. During the next year the four companies in the U.S.A. (Mitel Inc., Mitel of Delaware, Inc., Mitel Holdings Inc., and Mitel Semiconductor Company) will be merged into Mitel of Delaware, Inc. and separate divisions established. The divisionalization will enable Mitel to better monitor the performance of each strategic business unit.

Automatic wafer saw used to cut silicon wafers into individual chips.

Fiscal Year 1981 and the continuing rapid growth in sales will bring new challenges. The corporate-wide implementation of advanced computer information systems will assist in the fast and effective response to these challenges, while additions to plant space, equipment and people will enable us to attain our goals.

The Company is confident that it will maintain the consistent record of financial stability and growth in profits. Page 23 summarizes this financial success over the last six years.

Weekly Summary of Mitel Share Prices on T.S.E.



Donald R. Gibbs
Vice President, Finance



Automated wire bonding station used in the production of integrated circuits.

For the 6 years ended February 29, 1980
(thousands of dollars)

Operating Results:	1980	1979	1978	1977	1976	1975
Sales	43411	21648	11528	5407	1526	315
Expenses	37849	18552	10382	4906	1367	290
Net Income	5562	3096	1146	501	159	25
Net Income as a % of Sales	12.8%	14.3%	9.9%	9.3%	10.4%	7.9%

Capital Structure:

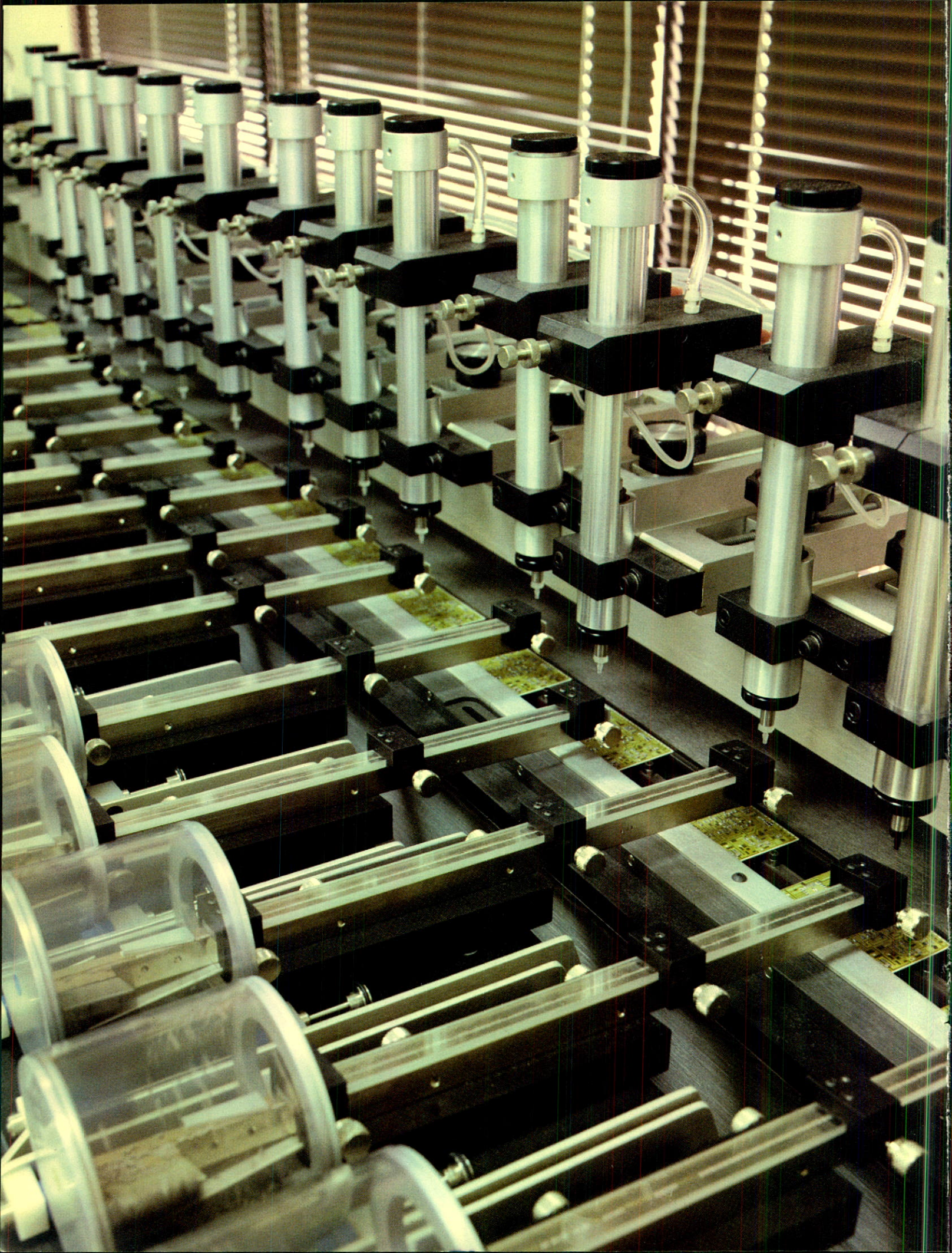
Working Capital from Operations	7158	3923	1496	662	190	26
Working Capital	15785	7272	2201	1093	71	51
Current Ratio	171%	209%	181%	154%	114%	139%
Retained Earnings	9635	4887	1791	645	144	(15)
Total Equity	24994	8696	1890	646	145	(14)
Long-Term Debt	4351	2897	2247	1702	66	114
Debt to Equity Ratio	17.4%	33.3%	118.9%	263.5%	45.5%	Nil

Asset Base:

Total Assets	52000	18656	6972	4762	821	266
Return on Average Total Assets	15.7%	24.2%	19.5%	17.9%	29.2%	13.9%

Capital Stock:

Average Number of Outstanding Shares (000's)	9934	8564	8196	8000	8000	8000
Earnings Per Share (Dollars)	.56	.36	.14	.06	.02	Nil



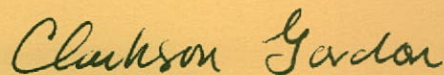
Auditor's Report

To the Shareholders of
Mitel Corporation

We have examined the consolidated balance sheet of Mitel Corporation as at February 29, 1980 and the consolidated statements of income and retained earnings and changes in financial position for the fifty-three weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. .

In our opinion these consolidated financial statements present fairly the financial position of the company as at February 29, 1980 and the results of its operations and the changes in its financial position for the fifty-three weeks then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

High volume
production "pick
and place"
equipment used in
populating
Thick-Film Hybrids
with miniature
components.



Ottawa, Canada.
May 6, 1980

Clarkson Gordon
Chartered Accountants.

Consolidated Balance Sheet

(Incorporated under the laws of Canada)

February 29, 1980

Mitel Corporation

	<u>1980</u>	<u>1979</u>
	<u>(000's)</u>	<u>(000's)</u>
Assets		
Current:		
Accounts receivable (note 5) _____	\$ 13,128	\$ 6,249
Grants receivable (note 3) _____	1,334	813
Inventories (notes 2 and 5) _____	23,305	6,815
Prepaid expenses _____	244	70
	<u>38,011</u>	<u>13,947</u>
Property, plant and equipment (notes 3, 4, 5, and 7) _____	12,913	4,586
Accumulated depreciation _____	(2,140)	(1,010)
	<u>10,773</u>	<u>3,576</u>
Other assets:		
Deferred development costs _____	2,698	584
Goodwill _____	285	307
Patents _____	180	63
Other _____	53	179
	<u>3,216</u>	<u>1,133</u>
	<u>\$ 52,000</u>	<u>\$ 18,656</u>
Liabilities and Shareholders' equity		
Current:		
Bank indebtedness (note 5) _____	\$ 10,788	\$ 1,741
Accounts payable and accrued charges _____	9,392	3,892
Income and other taxes payable _____	1,379	745
Current portion of long-term debt _____	667	297
	<u>22,226</u>	<u>6,675</u>
Long-term debt (note 6) _____	4,351	2,897
Deferred income taxes _____	429	388
	<u>4,780</u>	<u>3,285</u>
Shareholders' equity:		
Capital stock (notes 8 and 9)		
Issued: 10,300,491 shares _____	15,359	3,809
Retained earnings _____	9,635	4,887
	<u>24,994</u>	<u>8,696</u>
	<u>\$ 52,000</u>	<u>\$ 18,656</u>

(See accompanying notes to the consolidated financial statements)

On behalf of the Board:

Signed by M.C.J. Cowpland, Director

Signed by D.C. Webster, Director

Consolidated Statement of Income and Retained Earnings

Fifty-three weeks ended February 29, 1980
Mitel Corporation

	<u>1980</u>	<u>1979</u>
	<u>(000's)</u>	<u>(000's)</u>
Sales _____	\$ 43,411	\$ 21,648
Expenses:		
Operating, selling and administrative _____	33,728	15,928
Research and development (less government assistance - 1980 - \$1,055,000; 1979 - \$1,003,000) _____	1,969	1,233
Interest (note 6) _____	607	435
Income taxes _____	1,545	1,031
Minority interest _____	-	(75)
	<u>37,849</u>	<u>18,552</u>
Net income for the year _____	5,562	3,096
Retained earnings, beginning of year _____	4,887	1,791
Stock issue expenses _____	(814)	-
Retained earnings, end of year _____	<u>\$ 9,635</u>	<u>\$ 4,887</u>
Earnings per share (note 10) _____	<u>\$.56</u>	<u>\$.36</u>

(See accompanying notes to the consolidated financial statements)

Consolidated Statement of Changes in Financial Position

Fifty-three weeks ended February 29, 1980
Mitel Corporation

	<u>1980</u>	<u>1979</u>
	<u>(000's)</u>	<u>(000's)</u>
Working capital provided from:		
Operations -		
Net income _____	\$ 5,562	\$ 3,096
Depreciation & amortization _____	1,593	554
Loss (gain) on disposal of fixed assets _____	(38)	(40)
Minority interest _____	—	(75)
Deferred income taxes _____	41	388
	<u>7,158</u>	<u>3,923</u>
Increase in long-term debt for		
acquisition of fixed assets _____	2,972	1,355
Proceeds from sale of fixed assets _____	90	939
Issue of shares _____	11,550	3,710
Stock Issue expenses _____	(814)	—
Miscellaneous _____	55	—
	<u>21,011</u>	<u>9,927</u>
Working capital applied to:		
Additions to fixed assets (net of capital grants of \$989,000 - 1980; \$400,000 - 1979) _____		
	8,560	3,085
Reduction in long-term debt including current portion _____		
	1,518	705
Acquisition of minority interest in Mitel Semi-Conductor Inc. _____		
	—	44
Goodwill _____		
	—	307
Deferred development costs _____		
	2,290	606
Patents _____		
	130	65
Miscellaneous _____		
	—	44
	<u>12,498</u>	<u>4,856</u>
Increase in working capital _____	<u>8,513</u>	<u>5,071</u>
Working capital, beginning of year _____	<u>7,272</u>	<u>2,201</u>
Working capital, end of year _____	<u>\$ 15,785</u>	<u>\$ 7,272</u>

(See accompanying notes to the consolidated financial statements)

Notes to the Consolidated Financial Statements

February 29, 1980
Mitel Corporation

1. Summary of Accounting Policies

These financial statements have been prepared by Management in accordance with accounting principles generally accepted in Canada and take into consideration events occurring between February 29, 1980 and May 6, 1980, the date of their approval by Management and the Board of Directors. The more significant accounting policies are outlined below.

a) Basis of consolidation

The accompanying consolidated financial statements include the accounts of all subsidiary companies, all of which are wholly owned. The results of operations of subsidiaries acquired or incorporated during the year are included from the date of effective acquisition or incorporation. The year-end for all companies in the group is the last Friday in February, which results in a 53 week year in 1980 and a 52 week year in 1979.

b) Foreign currency translation

For purposes of consolidation with the accounts of the Canadian parent company the foreign currency accounts of foreign subsidiaries are translated to Canadian dollars on the following basis:

- Foreign currency cash and amounts receivable and payable including long-term debt (which will be collected or paid in the foreign currency) are translated at rates of exchange prevailing at the end of each year.
- Other assets and liabilities are translated at the rates in effect on their dates of acquisition.
- Revenues and expenses other than depreciation and amortization are translated at average rates of exchange for the year to reflect approximately the rates prevailing at the times the revenues were earned or expenses incurred. Depreciation and amortization are translated at the rates in effect when the related assets were acquired.

Gains and losses arising from changes in exchange rates used to translate foreign currency cash and current amounts receivable and payable (other than the current portion of long-term liabilities) are reflected in the statement of income at the time they occur. Gains and losses arising from changes in exchange rates applicable to long-term debt are deferred and amortized over the remaining term of the debt.

c) Revenue

Revenue from sales of products is recognized at the time goods are shipped to customers. Allowances for estimated warranty costs are provided at the time of sale. Revenue from sale of technology and custom work is recognized as milestones set out in the technical agreements and contracts are reached and approved.

d) Government assistance

In connection with its research and development program and expansion of its production and research facilities, the Company makes periodic applications for financial assistance under available government incentive programs. Grant amounts resulting from these applications are recorded in the accounts, after approval by the relevant government authority, on the following basis:

Capital grants -

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

Operating grants -

Grants related to current period expenditures on research and development are recorded in the income account as a reduction of expenses at the time the eligible expenses are incurred.

e) Inventories and cost of sales

Inventories are carried at the lower of cost and market. The cost of inventories on hand includes material, labour and manufacturing overhead costs where applicable. Inventory cost is determined on an average cost basis.

Market value of inventories is defined as net realizable value (selling price less costs to complete and sell) for finished goods and work-in-process, and as current replacement cost for raw materials.

Cost of sales for financial statement presentation, including warranty costs, is included in operating, selling and administrative expenses.

f) Fixed assets, patents, depreciation and amortization

i) Buildings, machinery and equipment are initially recorded at cost net of related specific government grants. Gain or loss on disposal of individual assets is recognized in income in the year of disposal.

Depreciation and amortization are provided on the bases and at rates approximating those set out below.

Assets	Depreciation or Amortization Basis	Rate
Buildings	Declining balance	5 %
Production equipment	Declining balance	20-30 %
Research and development equipment	Declining balance	20-30 %
Furniture and fixtures	Declining balance	20-30 %
Transportation equipment	Declining balance	20-30 %
Leasehold improvements	Straight-line	over life of lease

ii) The cost of product patents with continuing value is being amortized against income on a straight-line basis over 10 years.

g) Research and development costs

Development costs (which include direct labour, materials and applicable overhead costs) relating to specific products that in Management's view have a clearly defined future market are deferred and amortized on a per unit basis against future sales.

Research and other development costs (except for capital assets) are charged against income in the year of expenditure.

h) Income taxes

Included in income taxes for financial statement presentation are current and deferred income taxes. Deferred income taxes arise mainly from claims for income tax purposes by the Companies of capital cost allowance in excess of the depreciation and amortization recorded in the books of account and differences in the timing of reporting foreign exchange gains and losses for income tax purposes.

Investment tax credits are accounted for on the flow through method.

Two subsidiaries receive exemptions from income tax provided that they comply with certain conditions. One subsidiary is exempt from taxes until 1988 and the other until 1991.

Dividend payments from subsidiary companies in certain countries are subject to taxes at various rates. Of the balance of unremitted earnings of subsidiaries included in consolidated retained earnings a portion would not be subject to tax; the remainder has been reinvested on a long-term basis and accordingly no provision has been made for such taxes.

i) Goodwill

Goodwill is being amortized on a straight-line basis over 20 years.

j) Long-term lease arrangements

Long-term leases that are effectively purchases are capitalized in the accounts with the present value of the remaining lease payments shown as long-term lease obligations. Lease agreements where substantially all the benefits and risks of ownership do not accrue to the Company are expensed as lease payments are made.

2. Inventories

Details of year-end inventory balances are as follows:

	<u>1980</u> (000's)	<u>1979</u> (000's)
Raw materials _____	\$ 13,305	\$ 3,640
Work-in-process _____	8,182	2,247
Finished goods _____	1,818	928
	<u>\$ 23,305</u>	<u>\$ 6,815</u>

3. Government Grants

a) Department of Regional Economic Expansion (D.R.E.E.)

Under the Regional Development Incentives Act, a subsidiary, Mitel Semi-Conductor Inc. is entitled to a grant having an authorized amount of \$383,000 for the purchase of fixed assets. The balance of the grant receivable of \$77,000 has been accrued as management is satisfied that the Company has complied with all of the conditions of the grant and will continue to do so.

b) Defence Industry Productivity Program (D.I.P.)

Mitel Semi-Conductor Inc. entered into an agreement with Government of Canada under the Defence Industry Productivity Program whereby the Government financed the acquisition of specific pieces of equipment aggregating up to a maximum of \$1,756,000. One half of such advances were forgiven and the balance is repayable without interest over five years beginning in May, 1979 (note 6). To date assets costing \$1,756,000 have been acquired and recorded in the accounts net of the 50% forgivable portion. Actual title to these assets does not pass to the Company until the final payment is made.

c) Microelectronics Development Program

The Company has signed a ten-year agreement effective June 1, 1979 with the Federal Government under which it will receive up to \$20.93 million between June 1, 1979 and March 31, 1983 from the Special Electronics Program of the Department of Industry, Trade and Commerce.

The funding is allocated between two projects:

- i) Capital Expansion Project under which the Government will contribute 50% of the direct costs of the approved capital equipment to a maximum of \$14.25 million.
- ii) Product Development Project under which the Government will contribute 75% of the direct costs, to maximum of \$6.68 million.

Under the terms of the agreement, the following conditions, amongst others, must be met:

- i) During the term of the agreement, the Company shall manufacture, in Canada, not less than seventy-five (75%) percent of all Microelectronics manufactured by it and its subsidiaries and other Corporate affiliates.
- ii) Between January 1, 1982 and December 31, 1987, the Company will invest in Canada, an amount equal to twice the amount contributed by the Federal Government towards the Capital Expansion Project. Until this condition is met, the Company will not declare or pay any cash dividend.
- iii) During the period the Federal Government is a contributor to the project, the Company will not permit the number of persons at its research and development facilities, located outside of Canada, to exceed twenty-five.

The Company has recorded \$402,900 as operating grants and \$116,650 as capital grants receivable under the program between June 1, 1979 and February 29, 1980.

4. Fixed Assets

a) Detail of year-end balances are as follows:

	<u>1980</u> <u>(000's)</u>	<u>1979</u> <u>(000's)</u>
Land _____	\$ 561	\$ 538
Buildings _____	1,850	958
Construction-in-progress _____	1,709	—
Production equipment _____	2,465	1,052
Research and development equipment _____	4,312	1,209
Furniture and fixtures _____	1,176	286
Other _____	840	543
	<u>\$ 12,913</u>	<u>\$ 4,586</u>

b) Included in the statement is a provision of \$1,593,000 (\$554,000 in 1979) for depreciation and amortization.

5. Bank Indebtedness

The company has assigned certain of its accounts receivable, inventory and fixed assets to the bank as collateral for bank indebtedness, has issued to the bank a fixed and floating charge debenture on its remaining property and assets.

6. Long-Term Debt

	<u>1980</u> <u>(000's)</u>	<u>1979</u> <u>(000's)</u>
Bank demand notes (note 5) _____	\$ —	\$ 538
Notes payable to shareholders:		
10% due October 21, 1981, annual payments of \$109,000. _____	218	435
10% due December 31, 1981, annual payments of \$44,000 beginning December 31, 1979. _____	88	132
Mortgages payable:		
9.6% until 1982, subsequently 13% until due in 1988, payable in equal monthly principal installments of \$8,000 and secured by the fixed assets of Mitel Semi-Conductor Inc. _____	675	771
7.25% due in 1996, payable in equal monthly blended installments of \$173 (U.S.) and secured by certain fixed assets of Mitel of Delaware Inc. _____	23	25
11.75% due in 1995 payable in equal monthly installments of \$9,623 commencing February 1, 1980 and secured by certain fixed assets of Mitel Corporation. _____	823	—

	<u>1980</u>	<u>1979</u>
	<u>(000's)</u>	<u>(000's)</u>
Conditional sales contracts:		
11.5% payable (U.S. \$211,000) in monthly blended installments of \$4,642 (U.S.) until February, 1981 and a final payment of \$182,584 (U.S.) in March, 1981. _____	240	288
Capital lease obligations (note 7) _____	1,276	463
Loans payable under:		
D.I.P. Program:		
Interest free loan due five years after commencement of repayment; first stage repayable in annual installments of \$108,000 beginning May 1, 1979; second stage repayable in annual installments of \$84,000 beginning April, 1980. _____	770	542
Ontario Business Incentive Loan Program:		
Interest free loan until February 15, 1984, blended monthly payments for five years commencing March 15, 1984, of \$16,484 and secured by the fixed assets purchased under the program. _____	679	—
Industrial Mortgage Term Loan Program:		
11.75% with blended monthly payments of \$5,495 commencing April 15, 1980. _____	226	—
	5,018	3,194
Less current portion _____	667	297
	<u>\$ 4,351</u>	<u>\$ 2,897</u>
Included in interest expense in the statement of income is interest on long-term debt as follows:	<u>1980</u>	<u>1979</u>
	<u>(000's)</u>	<u>(000's)</u>
Capital leases _____	\$ 68	\$ 27
Other _____	161	154
	<u>\$ 229</u>	<u>\$ 181</u>
Principal repayments, excluding capital leases (note 7), in the next five years are as follows:		
	1981	\$ 536,000
	1982	723,000
	1983	366,000
	1984	376,000
	1985	194,000

7. Capital Leases

The following is a summary of fixed assets under capital lease:

Asset Category	Asset Amount	Accumulated Depreciation	Net
Building	\$ 415,000	\$ 59,000	\$ 356,000
Furniture & Fixtures	492,000	18,000	474,000
Eng. & Lab. Equipment	<u>413,000</u>	<u>41,000</u>	<u>372,000</u>
	<u>\$1,320,000</u>	<u>\$118,000</u>	<u>\$1,202,000</u>

Future minimum lease payments and the balance of the obligation under capital leases are:

Year ending February 1981	\$ 289,000	1984	289,000
1982	289,000	1985	256,000
1983	289,000	Thereafter	<u>547,000</u>
			1,959,000
	Less: Interest _____		<u>683,000</u>
	Principal _____		<u>\$1,276,000</u>

8. Employees Stock Purchase Plan

The Company instituted a stock purchase plan, effective February 15, 1980. The plan permits employees, employed in Canada, to purchase shares at a 10% discount from the average market value of the shares between February 11 and 15, 1980. Under the plan payment for shares may be on a cash basis or payroll deduction. Subsequent to year-end, the Company issued 45,000 shares for an aggregate consideration of \$884,700 to the trustee under the plan, which shares were listed on The Toronto Stock Exchange.

9. Capital Stock

In Fiscal Year 1980, 1,100,000 shares were issued for cash of \$11,550,000 and two shares were issued in exchange for scrip certificates.

10. Earnings Per Share

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years.

11. Commitments

a) Building under construction:

The Company has begun construction of a new manufacturing facility in Boca Raton, Florida. The building has a projected cost of \$5.6 million (U.S.) and is scheduled to be completed in August, 1980. At year-end, \$1,245,600 (U.S.) had been spent on construction and was recorded under fixed assets, construction-in-progress.

The building, furniture and equipment are to be financed substantially by a \$7.0 million (U.S.) tax exempt industrial revenue bond issue. Lending institutions have issued commitment letters for the bond issue, the details of which are as follows:

Series A	8,375% due in 2000; repayable in equal monthly blended installments of \$30,433 U.S. with a final balloon payment due in 2000 and secured by project land and buildings. _____	\$ U.S. (000's)
		\$4,000
Series B	Interest at the greater of 60% of prime or 9%; repayable in equal monthly blended installments and secured by a second lien on project land and buildings. _____	3,000
		<u>\$7,000</u>

b) Purchase of building:

The Company is finalizing arrangements to purchase its head office building which it currently leases. A purchase price of \$4,581,000 has been negotiated and will be financed through an increase in long-term debt.

c) Operating leases:

The future minimum lease payments for operating leases excluding the building referred in 11(b) above, for which the Company is committed, are as follows:

Year ending February 1981	\$ 581,000	1984	263,000
1982	464,000	1985	203,000
1983	338,000	Thereafter	1,706,000
			<u>\$3,555,000</u>

12. Subsequent Events

a) Investment in Technology Applications Corporation:

In April 1980, the Company purchased the following investment in Technology Applications Corporation (TAC) of Mountain View, California:

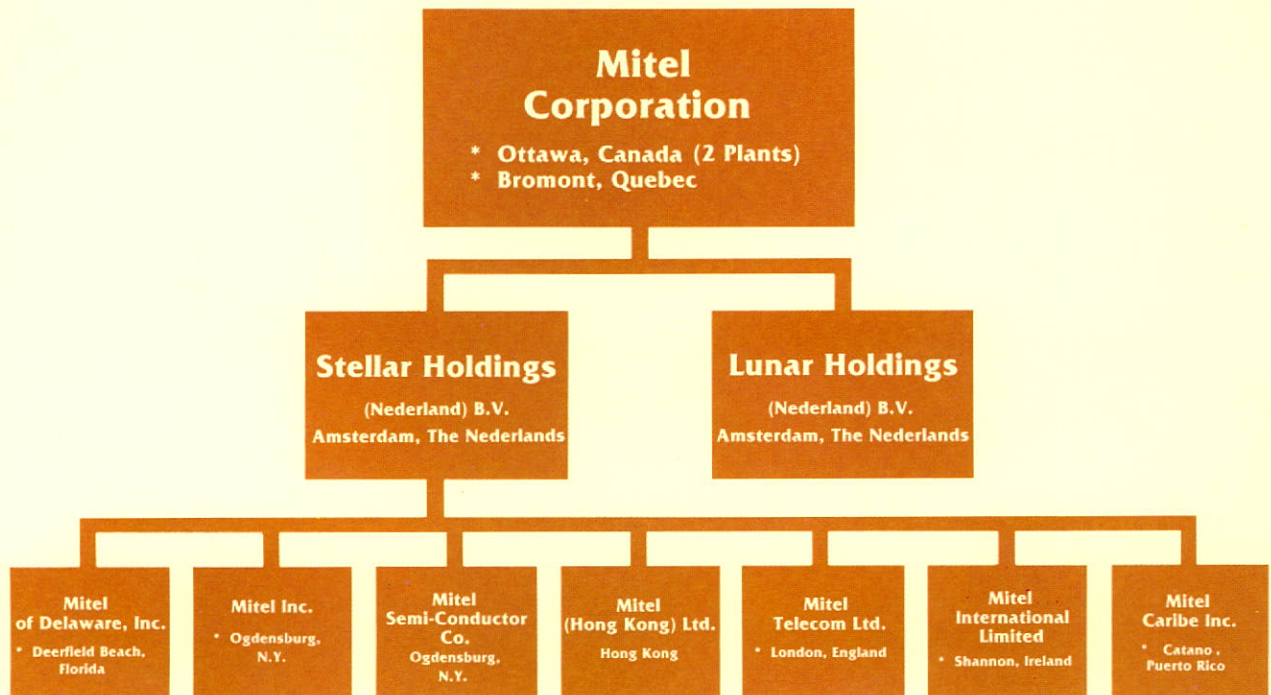
	\$ U.S.
100,000 convertible preferred shares with stock subscription warrants. _____	\$750,000
Convertible debenture in the principal amount of \$73,350 (U.S.) and 8,150 common shares. _____	134,475
Total Cost (financed through long-term bank debt) _____	<u>\$884,475</u>

Assuming full exercise of the conversion rights contained in the convertible preferred shares and convertible debentures the Company would hold approximately 20% of the issued common shares of TAC.

The Company has also entered into an agreement with the other equity security holders of TAC whereby during the period from September 30, 1982 to January 31, 1984, the Company may offer to purchase all the securities of TAC held by such other security holders at a price designated by the Company, at which time the other security holders may elect to sell their securities at the designated price or require the Company to sell its securities of TAC to them at that price.

b) Public Offering:

The company has announced an offering of additional shares.



* Manufacturing Locations



38 Corporate Directory

Board of Directors

* Douglas I.C. Cameron
Treasurer
Thurso Pulp & Paper Company
Thurso, Quebec

* Dr. Michael C.J. Cowpland
President

Terence H. Matthews
Executive Vice President

Kent H.E. Plumley
Partner
Gowling & Henderson
Ottawa, Ontario

* Robert J. Redmond
Partner
Gowling & Henderson
Ottawa, Ontario

* Donald C. Webster
President
Helix Investments Limited
Toronto, Ontario

Denzil J. Doyle
President
Digital Equipment
Canada Limited

Officers

** Dr. Michael C.J. Cowpland
President

** Terence H. Matthews
Executive Vice President

** Donald R. Gibbs
Vice President, Finance

** John T. McLennan
Vice President, Operations

** Ralph A. Bennett
Vice President & General Manager
Microelectronic Divisions

Christopher J. Elmer
Vice President, Marketing

Graham A. Neathway
Vice President,
Telecom Products Division

John R. Whitbread
Vice President,
Research and Development

Dr. Alan Aitken
Vice President,
Semiconductor Operations

John A. Cribb
Vice President, Software

Christopher Bailey
Vice President,
Microelectronics Marketing

Leslie J. Barton
Vice President, Special Projects

Dr. D. Michael Caughey
Vice President, CAD/CAM

William B. Kiss
Vice President, Product
Engineering

John A. Farmer
Corporate Secretary

Officers of Subsidiary Companies

Peter C. Madsen
Vice President
Mitel of Delaware, Inc.

Paul S. Wilker
Vice President, Operations
Mitel Telecom Ltd.

Auditors

Clarkson Gordon
Ottawa, Ontario

Legal Counsel

Gowling & Henderson
Ottawa, Ontario

Bankers

Royal Bank of Canada
Canadian Imperial Bank of
Commerce

Transfer Agents

Montreal Trust Company

Stock Exchange Listing

The Toronto Stock Exchange

* Members - Audit Committee

** Members - Executive Committee

Annual Meeting

The Annual and General Meeting of shareholders of the Company will take place at 4:30 p.m., Friday, July 4, 1980 at the Skyline Hotel in the city of Ottawa, Ontario.

For further information about Mitel facilities, operations or products, please contact:

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Kanata, Ontario
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Canada
Telephone (613) 592-2122
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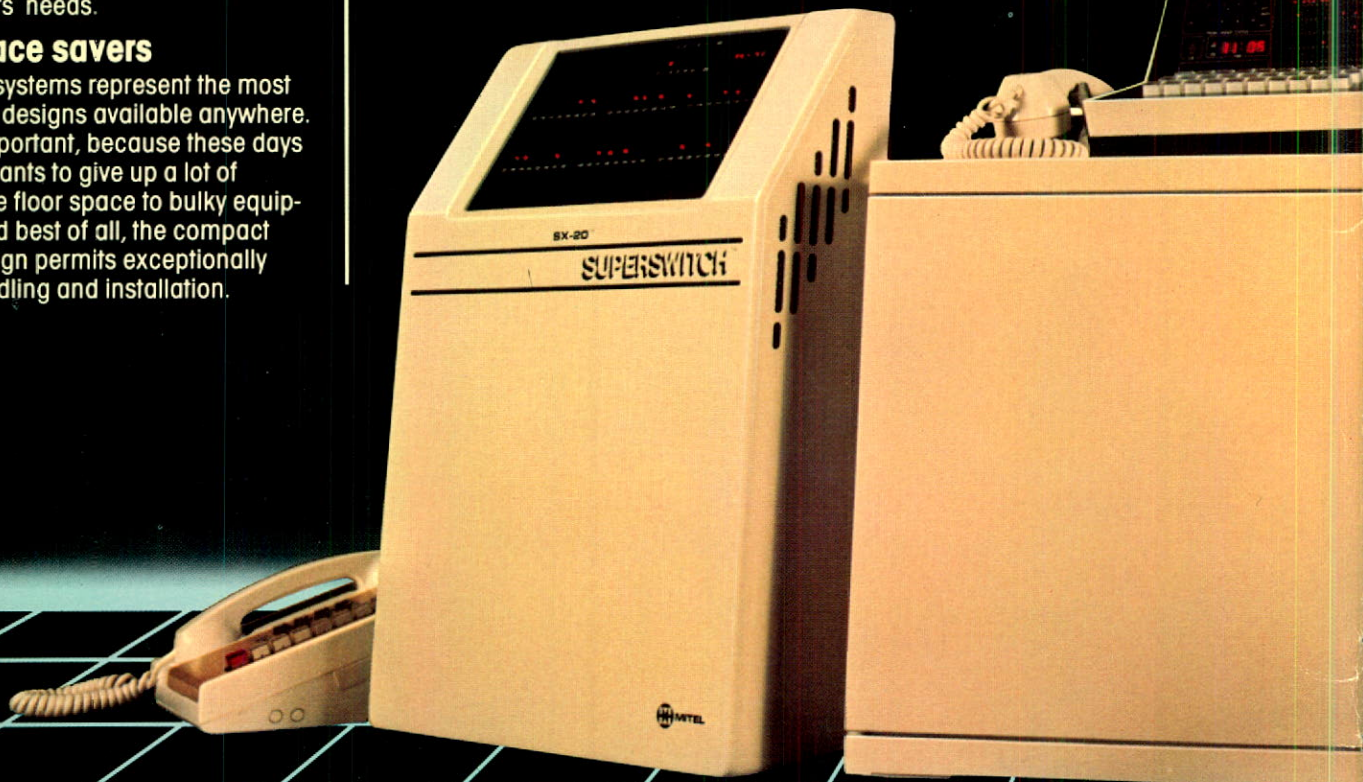
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SX-20

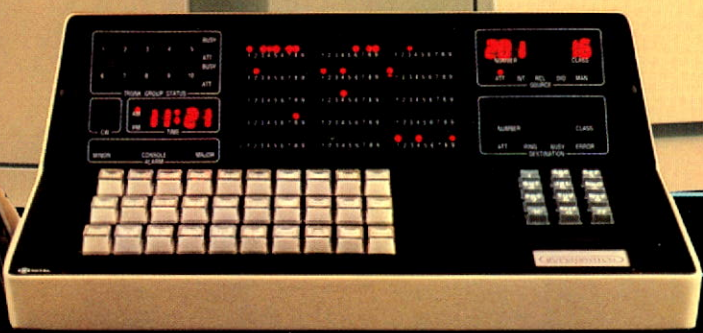
SX-100

SUPERSWITCH™



SX-100
SUPERSWITCH

SUPERSWITCH



SX-200

Produced by:

Marketing Services
Mitel Corporation
Kanata

Photography:
Hans-L. Blohm MPA

Colour Separations and Printing:
Herzig Somerville Ltd.
Toronto

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