CANADIAN MARCONI COMPANY

ANNUAL REPORT 1981

CANADIAN MARCONI COMPANY

Canadian Marconi Company is a manufacturer of electronic systems, equipment and components. Originally founded in 1902 as a communications operating company by Guglielmo Marconi, the inventor of radio, it soon became apparent that it was necessary also to produce the equipment used in communicating. The company commenced and continued in the dual role of operator and manufacturer from 1910 until 1972 at which time the commercial broadcast television and radio stations were sold. The Canadian Marconi Company of 1981 produces a wide range of electronic goods and services.

The headquarters and manufacturing plant is located in Montreal, Canada, where most of the Company's 2500 personnel are employed. In Ottawa, Canada, a significant number of technical staff is engaged in development of various products. Sales and services depots are found in 16 major centers across Canada, and a subsidiary company, CMC Electronics, Inc., is located near Washington, D.C.

The General Electric Company Limited of London, England, one of the world's major electrical and electronics manufacturers, controls 51.6 percent of Canadian Marconi's common stock.

OPERATING DIVISIONS

AVIONICS DIVISION

Development, manufacturing and marketing of:

- airborne systems including Doppler Navigation, Automatic Omega, Vertical Instrument Displays, GPS NAVSTAR, Aircraft Status Displays, Flight Advisory Computers, and Digital Avionics.
- ground based systems including Satellite Doppler Survey, Telex Exchanges, and Photogrammetric Processors.

COMPONENTS DIVISION

Design, manufacturing and marketing of electronic components including multi-layer printed circuit boards, thin film, thick film and hybrid microcircuits, magnetic devices, integrally illuminated panels, alpha-numeric displays, power supplies. Custom machining, sheet metal fabrication, finishing processes and injection moulding of plastics.

MARINE AND LAND COMMUNICATIONS DIVISION

Development, manufacturing, marketing and servicing of FM mobile two-way radio and base station equipment in the VHF and UHF frequency range, portable, mobile, and fixed HF single side-band transceivers, marine radiotelephones and marine radar. Marketing and servicing of portable radiotelephones, marine navigation and fish-finding equipment, and electronic test instruments.

RADAR DIVISION

Development, manufacturing and marketing of surveillance radar transmitter/ receivers, antennas, signal processing equipment and systems for commercial and military use in land and sea environments.

SPECIAL SERVICES DIVISION

Installation and maintenance of ground-based radar, communications and air navigation systems; operation of defence communications and detection systems; repair and overhaul of radar, sonar and communications equipment; repair and calibration of test equipment and standards. Maintenance of antenna farms.

TELECOMMUNICATIONS DIVISION

Development, manufacturing and marketing of military land-based tactical communications equipment including receiver-transmitters, delta modulation multiplexers, digital order wires, line terminating units, small and medium capacity field switchboards, and special-to-type test equipment.

Design and installation of air-transportable vehicle-mounted, military communications systems.

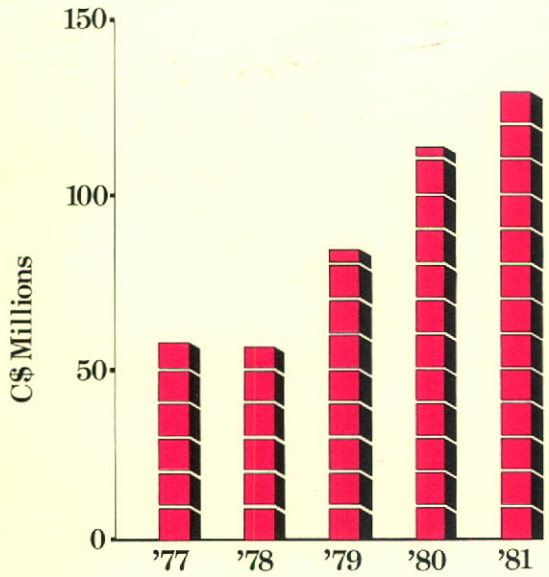
Cover:
Lucie Smith. Assembly Line Operator
See page 6

CANADIAN MARCONI COMPANY

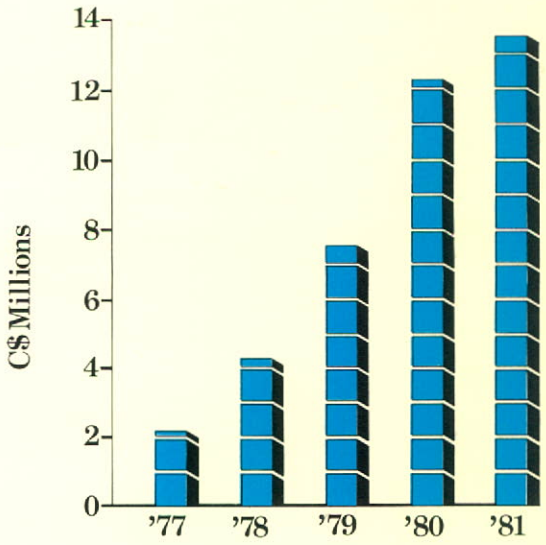
Financial Highlights

(in thousands of dollars, except as otherwise stated) — Year ended March 31

	1977	1978	1979	1980	**1981**
Sales and other revenues	$58 325	$57 252	$84 223	$112 830	**$129 417**
Net income	2 068	4 184	7 603	12 170	**13 547**
Dividends	1 189	1 263	1 575	2 526	**2 971**
Shareholders' equity	41 052	43 973	50 001	59 645	**70 221**
Working capital	40 815	42 977	47 823	55 212	**62 832**
Number of shares (in thousands)	5 943	5 943	5 943	5 943	**5 943**
Per share data (in dollars)					
Net income	0.35	0.70	1.28	2.05	**2.28**
Dividends	0.20	0.2125	0.265	0.425	**0.50**
Shareholders' equity	6.91	7.40	8.41	10.04	**11.82**



REVENUE



NET INCOME

CONTENTS

1 Financial Highlights
2 Directors and Officers
4 People
14 Directors' Report to Shareholders
16 Consolidated Balance Sheet
18 Consolidated Statement of Income
18 Consolidated Statement of Retained Earnings
19 Consolidated Statement of Changes
20 Notes to Financial Statements

DIRECTORS

Roger O. Beauchemin
Senior Partner
Beauchemin-Beaton-Lapointe Inc.
Montreal, Canada

*Sidney Dobb, F.C.A.
Assistant Managing Director
GEC-Marconi Electronics Ltd.
London, England

*Thomas S. Dobson
Chairman
Easton United Securities Limited
Calgary, Canada

James F. Grandy
President
Reisman & Grandy Limited
Ottawa, Canada

Edgar O. Herzfeld
Vice Chairman
Canadian Marconi Company
Montreal, Canada

**Howard J. Lang
Chairman of the Executive Committee
Canron Inc.
Toronto, Canada

Jack E. Pateman, C.B.E., M.I.E.E.
Managing Director
Marconi Avionics Ltd.
London, England

Ian D. Sinclair, Q.C.
Chairman and Chief Executive Officer
Canadian Pacific Enterprises Ltd.
Montreal, Canada

Sir Robert Telford, C.B.E., F.Eng.
Director
The General Electric Company Limited
Managing Director
GEC-Marconi Electronics Ltd.
London, England

Rhys J. Williams
President and Chief Executive Officer
Canadian Marconi Company
Montreal, Canada

**Chairman Audit Committee *Member Audit Committee

OFFICERS

Edgar O. Herzfeld
Vice Chairman

Rhys J. Williams
President and Chief Executive Officer

William Baillie
Senior Vice President, and
Manager, Products and Markets

Philip E. Wheatley
Senior Vice President, and
Chief Financial Officer

John W. Dodds, PhD
Vice President, Special Services Division

Claude Filiatrault
Vice President, General Counsel and
Secretary

Gary Gorfinkel
Vice President, Marine and Land
Communications Division

Jack A. Howlett
Vice President, Administration

John H. Simons
Vice President, Avionics Division

Claude St. Arnaud
Vice President
Telecommunications Division

J. Gustave McInnes
Comptroller

Gerry Stuurop
Treasurer

REGISTERED OFFICE

2442 Trenton Avenue
Montreal, Canada H3P 1Y9
Telephone: (514) 341-7630

SUBSIDIARY

CMC Electronics, Inc.
1900 North Beauregard St.
Suite 103
Alexandria, Va.
22311
Tel. (703) 820-6767

EXCHANGE LISTINGS

Toronto Stock Exchange
Montreal Stock Exchange
American Stock Exchange

The Annual General Meeting of Shareholders will be held at the Corporation's Registered Office in the City of Montreal, 90 Trenton Avenue entrance, on Thursday, August 6, 1981 at 11 o'clock.

Pour obtenir une copie française de notre rapport annuel, prière d'adresser votre demande au Secrétaire de la Société.

REGISTRAR

Montreal Trust Company
Montreal, Canada

TRANSFER AGENT

Canada Permanent Trust Company
600 Dorchester Boulevard West
Montreal, Canada H3B 1N6

AUDITORS

Price Waterhouse & Co.
1200 McGill College Avenue
Montreal, Canada
H3B 2G4

THE CORPORATE OFFICERS

Edgar Herzfeld, seated left, confers with his corporate colleagues Rhys Williams, seated right, and Gerry Stuurop, Jack Howlett, Philip Wheatley, Bill Baillie, Claude Filiatrault, Gus McInnes.

THE OPERATIONAL OFFICERS

John Simons, left, explains a new concept in electroluminescent status displays to his fellow operational managers; seated, Rhys Williams, Bill Baillie; standing, Jack Dodds, Gary Gorfinkel, Claude St-Arnaud.

PEOPLE

WORLD LEADERSHIP

Since the turn of the century, Canadian Marconi Company has transformed new ideas into successful products. A pioneer in the Canadian telecommunications industry, CMC is today a world leader in aerospace, communications and radar equipment, contributing to Canada's reputation as a successful exporter of high-technology products designed, developed and manufactured in Canada.

CMC's ability to achieve this foremost position among world electronics firms is directly attributable to its 2500 employees.

PEOPLE THE KEY

It was CMC's people who created the world's first broadcasting service, North America's first intercontinental radio telegram and telephone operation, the first CW Doppler radar navigation system and, more recently, the first multiprocessor data switch in public service.

In 1980 its people made CMC one of Canada's top three defence equipment exporters for the third consecutive year. The Company won the "Sikorsky Supplier of the Year" Award and a prestigious Canadian award for international marketing.

The Company's long history of successful military contracts includes the sale of over one thousand LN66 radars to the US Navy and US Army. CMC is also the largest non-U.S. supplier of equipment to the U.S. Army by virtue of its AN/GRC-103 tactical radio relay system, which has been adapted to meet both North American and EUROCOM specifications. In 1981, CMC was awarded an important contract to develop a tactical radio terminal system for the U.S. Marine Corps, which will include the same radio and other units designed by CMC. The Company's Instrument Standards Laboratory, containing the most comprehensive set of physical and electrical standards in Canadian industry, won a contract for the calibration of test equipment for all Canadian Armed Forces bases located from Winnipeg, Canada, to Lahr, West Germany.

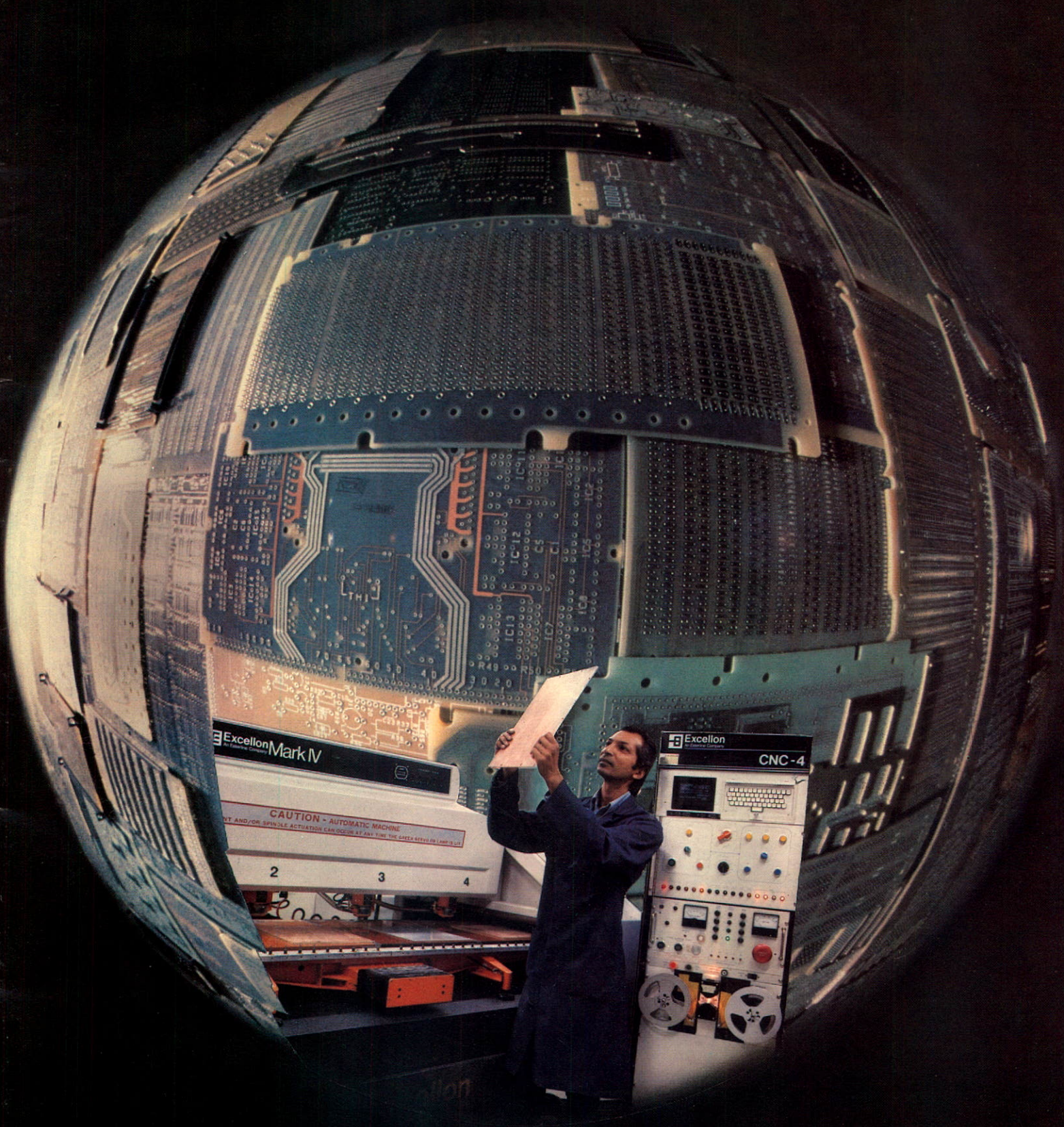
NONE BUT THE BEST

It is no accident that these successes have been accomplished by the Company and its people, because management believes that the best people are required and only the best people are acceptable. To attract them has involved the creation of a constructive working environment in over 800 job categories. This has resulted in six autonomous divisions with widely varying management structures.

These divisions contend with intense international competition and severe domestic inflation. An added challenge is the ever-increasing tempo of change in product technology. The Montreal plant houses the design, manufacture, testing, marketing and servicing of a wide range of advanced products, encompassing airborne electronics, radar, radio communications, digital and analogue switching and specialized components. The steadily growing Ottawa engineering facility is already working on the development of future products in the fields of naval radar, navigation systems and switching software.

CAPITAL INVESTMENT

To support the skills of CMC's workforce requires a commitment to provide them with the best tools. Each of the past five years has seen a new record set for capital expenditures, especially on electronic test and production equipment. The results of this period show that in serving the Company, automation has served its people. Increased competitiveness has meant more sales, which in turn has meant a bigger payroll. In addition, many less skilled workers have upgraded their abilities. Job monotony has decreased as time-consuming, repetitive tasks are performed by machines — often themselves controlled by



Machinist Afzal Mohammed checks a printed circuit board to detect any obvious defects after its computer controlled drilling operation. His machine is capable of drilling 300 holes per minute with position and size accuracy of 1/10000 inch while executing any one of 3000 computer tapes, each representing a printed circuit board design. The continuing introduction and replacement of such machines combined with the constant updating of people skills allow CMC to maintain its position in the forefront of PCB manufacturers, particularly among those producing multilayer boards.

microprocessor techniques similar to those found in CMC's products.

CMC's principal resources available to meet its diverse needs are its heavy investment in R&D and ongoing capital outlays, its uniquely strong technical team, and most important, its loyal employees.

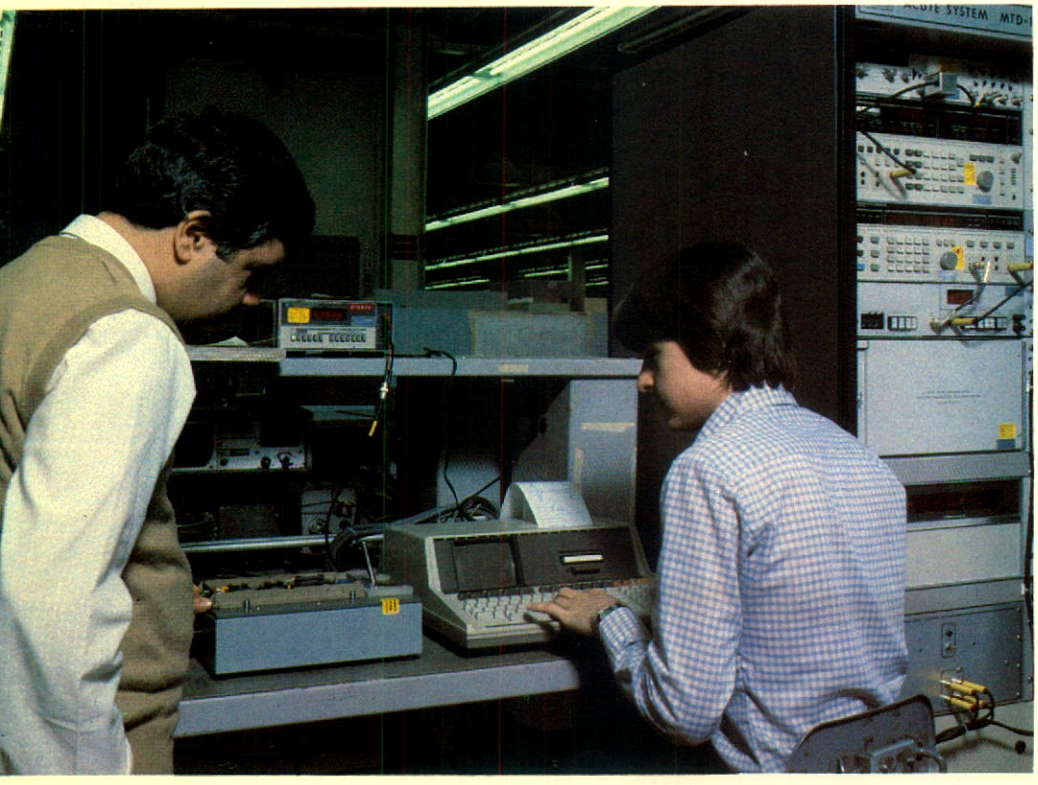
OUTSTANDING LOYALTY

The depth of experience available throughout the Company is illustrated by the remarkable fact that, despite the unprecedented expansion of the payroll in the last few years, no less than one-fifth of today's employees were with CMC over 25 years ago. The stability and quality of the workforce, the result of decades of attention to in-house training and development of individual skills, has made CMC the envy of its competitors throughout North America.

Canadian Marconi's philosophy is reflected in its people and its products. The performance of the people is the guarantee of the product.

Bronia Matowski, like our cover girl Lucie Smith, is an Assembly Line Operator. They and their 400 male and female companions in this trade are the backbone of production within CMC. They build the most complicated circuitry with the exacting precision required to provide maximum reliability, whether the end product is to be used in the commercial/industrial world or in the extreme environments to which military systems are subjected. The Company's reputation for product reliability indicates that they more than meet their responsibilities.

Joseph Iliothe and our back cover subject Pierre Piche are Test Technicians. In the process of building electronic equipment, Test Technicians stand very high in order of importance. They must have a considerable formal education in electronics to be selected for the role and then undergo many weeks of on-the-job training for each specific equipment. Experienced Test Technicians contribute to equipment quality and reliability by detection of faults and suggestions for modifications to improve products. In addition they provide invaluable service to engineers during the research and development phase.



Developing a product often means that you must design your own system to test and monitor it. Testing boards for the MTD-1010 Deltaplex delta modulation multiplexer has been reduced from three hours to 10 minutes per board since CMC engineers produced "ACUTE", an automatic digital/analog tester which increases reliability and uniformity as well as speeding the testing process.

Test Supervisor Charlie Gatto watches Technician Patrick Doucet using a combination of seven measuring units which have been specially adapted to be controlled by CMC-developed software by means of a CMC-designed interface unit.

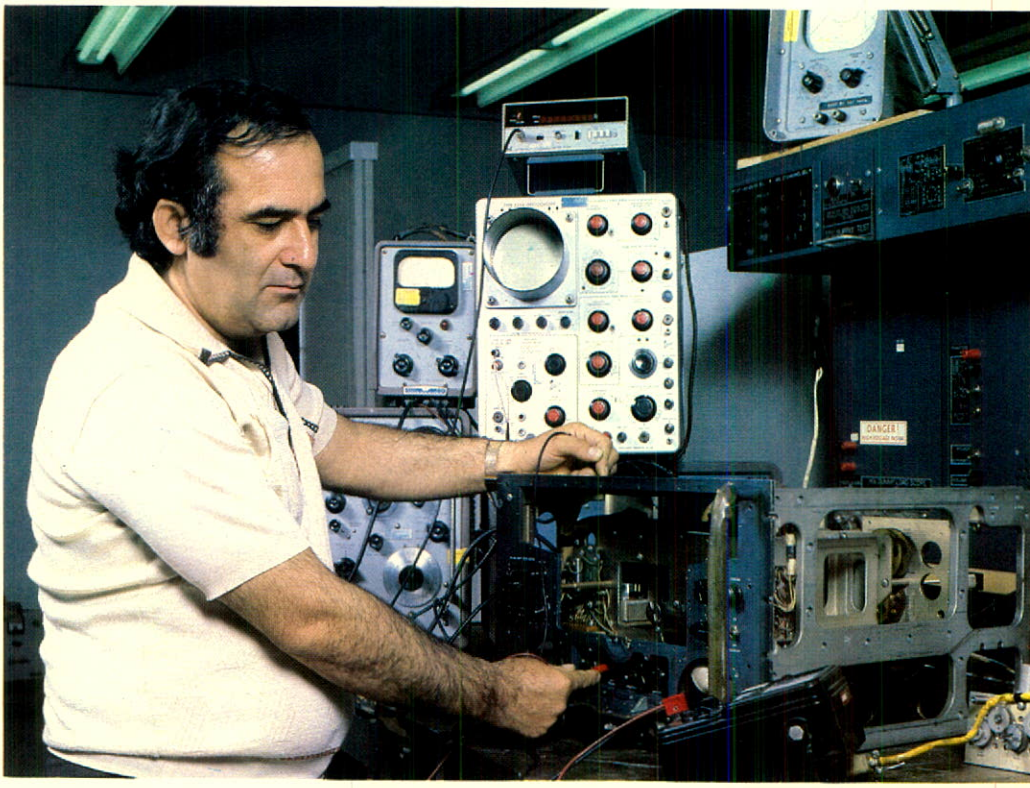
Mariella Fratangelo has discovered that her A.B. Dick Magna SL word processor can improve her productivity many times over, while eliminating the monotony of retyping corrected drafts. It allows her to input a rough draft document at high speed without worrying about errors, and readjust her entire text without retyping. Electronic storage allows her to recall individual pages to the screen in seconds, making changes as easily as when she corrected the original. When Mariella is satisfied, she commands the word processor to print the entire document at a speed of 50 words per second.

Finding sources and negotiating are what buying is all about, says veteran Buyer Norm Wilde, who purchases supplies for CMC's $50 million telex exchange order from British Telecoms. Buyers do not select products but they do search for the best supplier in terms of quality, price and delivery. The challenge of making the best buy in the volatile and fast-changing markets of high technology industry requires a specialized team of buyers for each company division. For integrated circuits, for example, the state-of-the-art technology is such that one buyer is assigned as a full-time specialist in Avionics Division. Wilde, standing, is seen studying a supply schedule with Buyer Ed Collymore.

Engineer Peter Perodeau, right, discusses a problem with colleagues Ron Ritchuk and Benny Lam. CMC expends more than 10 percent of its annual gross revenue on research and development. Turning this substantial cost into a wise investment is the responsibility of nearly 200 professional engineers. Their task is to conceive new products, translate the concepts into practical designs and supervise their evolution through the various stages of model building and testing. With the advent of the microprocessor, software plays an increasingly important role, making the demands on the engineer ever more stringent. CMC can be justly proud of the innovative success of its engineers in exploiting this new discipline.

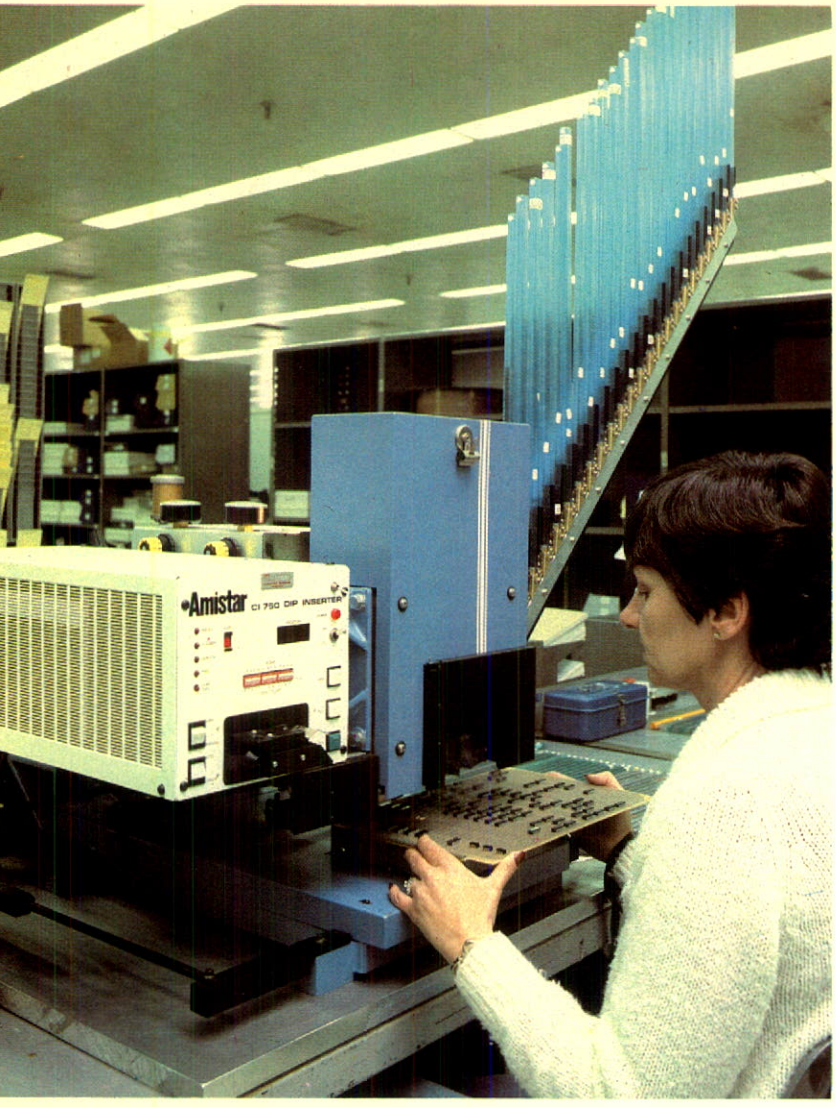
Veteran Machine Operator Jan Smolinski operates by remote control a 3-axis, numerical control machine centre which can mill, contour, drill and tap an 85-pound block of aluminum into a 6.5 pound radome frame for a Doppler antenna in only 16 hours. In the past year CMC has invested nearly a million dollars in new numerical control machinery, significantly increasing efficiency and productivity.

To maintain Canadian Marconi's position among the leaders in repair and overhaul services, the Company's specialists must be thoroughly qualified. Repair and Overhaul Technician Kostas Kagelidis, for example, required a formal technical school education plus three to four years of on-the-job training within CMC to be fully capable of performing his tasks.



Richard Kowalski, one of a score of Mechanical Designers in CMC, is a highly skilled packaging specialist, producing designs that are both elegant and cost-effective. His expertise comes from a thorough practical knowledge of basic materials and finishes, machine shop techniques and a close familiarity with both military and commercial specifications. Kowalski, a 30 year company veteran, heads a team of draftsmen engaged in designing equipment for the largest contract ever received by the Company. In background, Draftsman Huguette Provani.

Carole Oundjian operates an automatic wire bonding machine, a recent acquisition in the realm of capital equipment. The wirebonder, by its ability to solder 100 wires per minute onto a hybrid microcircuit with pinpoint precision, has relieved Carole of the intense concentration and tedious repetition necessary when performing the same operation manually. The machine has also provided a dramatic improvement in productivity.



Insertion of dual in-line integrated circuits into a printed circuit board has been greatly simplified for Winnie Lavoie by the acquisition of the equipment seen here. She now merely moves the PCB in accordance with a guiding tracer light and monitors the operation as the integrated circuits are automatically selected from their tubular containers by computer program.

This semi-automatic DIP Inserter inserts, clips and clinches integrated circuits of various configurations preparatory to passing the printed circuit boards through the wave soldering process. Acquisition of these machines has again resulted in increased cost-effectiveness and improved product consistency.

Salesman Lyman Duggan, left, discusses with a client the installation requirements of a radio system. Sales personnel are a vital force in CMC, initiating and maintaining the all-important link with the customer.

The typical CMC marketeer must have a broad background in electronics and a thorough knowledge of his specific product to be able to identify relevant applications and assist the client to meet his needs, whether in the fields of avionics, communications, components or radar.

Quality Inspector Zofia Ziemichod visually inspects an inner layer of a printed circuit board to check that tracks and spacings are within specifications before submitting the layer to a more severe machine-aided test for accurate registration.

Inspectors have a vital role among CMC personnel, providing positive assurance for the client that his specifications are met before the product is shipped. The quality of all military products is further assured by the permanent presence of some twenty inspectors from the Canadian Department of National Defence.

In background, Quality Inspector Gertrude McCready.

DIRECTORS' REPORT TO SHAREHOLDERS

REVIEW OF THE FISCAL YEAR

Following a slow start in the first six months, which was foreseen in last year's Annual Report, sales and earnings accelerated strongly towards the end of the fiscal year. In the fourth quarter alone, sales and revenues were $41,102,000, compared with $32,092,000 in the corresponding period of the previous year, while net income was $5,620,000, or 95 cents per share, compared with $3,249,000, or 55 cents per share.

As a result, the performance for the fiscal year as a whole slightly exceeded our earlier expectations. Sales and revenues totalled $129,417,000, compared with $112,830,000 in the previous year. Net income increased to $13,547,000, or $2.28 per share, against $12,170,000, or $2.05 per share.

Most of our operations showed an improvement in sales and profitability. Although domestic civilian business was depressed, due largely to prevailing economic conditions, satisfactory growth continued in all other markets. There were significant increases in export sales of electronic components, airborne engine instrumentation systems, LN66 naval radar and tactical radio relay equipment.

Capital expenditures exceeded $6 million in the year, most of which was directed to the expansion and upgrading of our Montreal production facility, primarily in the area of components manufacturing. Despite this, our portfolio of short-term investments rose to over $50 million by year end, and interest income increased by more than 25% from the previous fiscal year.

Although fourth-quarter shipments reached a record level, our order backlog remained at approximately $150 million at March 31, the same as the figure maintained throughout most of the fiscal year. This compares with $140 million reported one year earlier.

OUTLOOK

The present indications are that total sales and earnings in the new fiscal year will again be somewhat higher, with essentially all of the improvement generated by further growth in export shipments, to both civilian and military markets.

An increasing proportion of sales will result from product lines designed within the last few years, and the extent of the improvement in profitability in the current year will depend to a large degree on management's ability to control production costs of recently developed systems and equipment. In addition, the Company's operations will have to absorb unprecedented increases in wages and salaries and associated benefits, including the sharply higher costs of social security programs.

DIVIDENDS

In view of the Company's performance and its liquid cash position, the Directors have declared a dividend of 32.5 cents per share, payable on June 15, 1981, to shareholders of record as at May 29, 1981, an increase of 7.5 cents from the half-yearly rate paid last fiscal year. This marks the tenth consecutive fiscal year in which a dividend has been paid.

MANAGEMENT AND STAFF

With effect from April 1, 1981, the Company's electronic components operations were organized as a separate Components Division. This

recognizes the rapidly growing contribution to our overall results of the sales of high-technology components, primarily printed circuit boards and hybrid microcircuits, which are almost exclusively exported. Components Division is headed by Mr. K. Kivenko, who continues to report to Mr. J. H. Simons, Vice President — Avionics Division.

Mr. J. A. Howlett, formerly Vice President — Organization and Personnel, has been appointed Vice President — Administration, with responsibility for the planning and management of the Company's physical facilities and plant services. Mr. J-G. St-Germain now directs all personnel and industrial relations activities, reporting to the President.

We regret to report the recent death of Mr. S. M. Finlayson, who retired from the Board in 1977. Mr. Finlayson joined the Company in 1919 and rose to the position of Chief Executive Officer, which he held for many years. Mr. Finlayson will be affectionately remembered as an outstanding figure in Canadian business and public affairs.

The vital contribution of our employees to the Company's success is the theme of this year's Annual Report.

On behalf of the Board,

R. J. Williams
President and Chief Executive Officer

E. O. Herzfeld
Vice Chairman

Montreal, May 21, 1981

Since 1972, the duties of Chairman have been discharged with distinction by Mr. Edgar Herzfeld, the Vice Chairman. During this time, he led the Company through a period of difficult re-adjustment. Mr. Herzfeld has indicated that he will not be offering himself for re-election as a director at the forthcoming Annual General Meeting and I wish to thank him for his outstanding contribution to the Company's current level of performance.

I am pleased to announce that Mr. J. F. Grandy, who became a director last year, has indicated his willingness, subject to his re-election at the Annual General Meeting, to accept the Chairmanship of your Company.

R. J. Williams
President and Chief Executive Officer

Montreal, May 21, 1981

Consolidated Balance Sheet

(in thousands of dollars)

Assets	March 31 1981	1980
Current Assets:		
Cash	**$ 1 799**	$ 2 769
Short-term investments, at cost, including accrued interest (approximates market)	**50 083**	41 892
Accounts receivable	**19 884**	13 700
Owing by associated companies	**1 982**	1 313
Inventories (Note 3)	**24 448**	22 749
Prepaid expenses	**327**	276
	98 523	82 699
Fixed assets, at cost, less accumulated depreciation (Note 4)	**13 088**	10 029
	$111 611	$92 728

Approved by the Board:
E.O. Herzfeld, *Director*
R.J. Williams, *Director*

Consolidated Balance Sheet

(in thousands of dollars)

Liabilities and Shareholders' Equity	March 31 1981	1980
Current liabilities:		
Accounts payable and accrued liabilities	**$ 31 558**	$23 389
Owing to associated companies	**168**	394
Income taxes	**3 965**	3 704
	35 691	27 487
Deferred income taxes	**2 054**	1 346
Long-term debt (Note 5):		
5¾% unsecured sinking fund debentures, Series A, due May 1, 1988	**2 305**	2 621
7% unsecured sinking fund debentures, Series B, due June 1, 1989	**1 340**	1 629
	3 645	4 250
Shareholders' equity		
Stated capital—		
5 943 192 common shares	**10 216**	10 216
Retained earnings	**60 005**	49 429
	70 221	59 645
	$111 611	$92 728

Price Waterhouse & Co.
CHARTERED ACCOUNTANTS

Auditors' Report

To the Shareholders of Canadian Marconi Company:

We have examined the consolidated balance sheet of Canadian Marconi Company as at March 31, 1981 and the consolidated statements of income, retained earnings and changes in financial position for the year 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 March 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Montreal, May 19, 1981

Consolidated Statement of Income

(in thousands of dollars)

	Year ended March 31	
	1981	1980
Revenue:		
Electronic products	**$123 928**	$108 457
Income from short-term investments	**5 489**	4 373
	129 417	112 830
Operating costs and expenses:		
Manufacturing, selling and administration	**98 251**	84 890
Research and development (net of government participation — $2 509 000, 1980 — $868 000)	**5 537**	5 564
Depreciation (Note 4)	**2 785**	1 959
Interest on long-term debt	**259**	301
	106 832	92 714
Income before income taxes	**22 585**	20 116
Provision for income taxes	**9 038**	7 946
Net income	**$ 13 547**	$ 12 170
Earnings per share (in dollars)	**$ 2.28**	$ 2.05

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year ended March 31	
	1981	1980
Retained earnings, beginning of year	**$ 49 429**	$ 39 785
Net income	**13 547**	12 170
	62 976	51 955
Dividends — 50.00 cents per share (1980 — 42.50 cents per share)	**2 971**	2 526
Retained earnings, end of year	**$ 60 005**	$ 49 429

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)	Year ended March 31	
	1981	1980
Working capital was provided from:		
Operations—		
Net income	**$13 547**	$12 170
Depreciation	**2 785**	1 959
Deferred income taxes	**708**	317
	17 040	14 446
Proceeds from sale of fixed assets	**166**	234
	17 206	14 680
Working capital was applied to:		
Additions to fixed assets	**6 010**	3 982
Reduction of long-term debt	**605**	783
Dividends	**2 971**	2 526
	9 586	7 291
Increase in working capital	**7 620**	7 389
Working capital, beginning of year	**55 212**	47 823
Working capital, end of year	**$62 832**	$55 212

Notes to Consolidated Financial Statements — March 31, 1981

1. Operations:

The Company is engaged in substantially one class of business: the development, manufacture and sale of electronic products. Export sales in the fiscal year amounted to $87,021,000 (1980 — $73,770,000).

2. Summary of accounting policies:

(a) **Principles of consolidation** — The consolidated financial statements include the financial statements of Canadian Marconi Company and those of its wholly-owned subsidiary companies, Marconi Company, Inc. and CMC Electronics, Inc. All significant intercompany accounts and transactions have been eliminated.

(b) **Translation of foreign currencies** — Current assets and liabilities in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Amounts entering into results of operations are translated at average rates.

Exchange profits and losses are included in income.

(c) **Inventories** — Work in process, raw materials and bought-out components and finished products are valued at the lower of cost and estimated net realizable value. Deductions are made for progress payments received and any losses incurred or expected to be incurred on contracts not completed at the balance sheet date.

(d) **Fixed assets and depreciation** — Fixed assets are recorded at cost.

Depreciation is provided on the straight-line method at rates based on the estimated useful lives of depreciable assets.

Fixed assets retired or disposed of are eliminated from the asset and accumulated depreciation accounts. Gains and losses from disposals are included in income.

(e) **Income taxes** — The Company follows the practice of providing for income taxes based on income included in the financial statements regardless of when such income is subject to payment of taxes under the tax laws.

(f) **Recognition of revenue** — Sales are normally recognized when products are delivered to customers; however, revenue from major long-term contracts is recorded on the percentage of completion method based on the ratio of the incurred costs to date to the projected total costs of completing the contracts.

3. Inventories:

	1981	1980
	(in thousands)	
Inventories comprise —		
Raw materials and bought-out components	**$ 5 954**	$ 5 735
Work in process	**27 623**	21 037
Finished products	**4 579**	4 028
	38 156	30 800
Progress payments	**(13 708)**	(8 051)
	$24 448	$22 749

4. Fixed assets:

	1981			1980
			(in thousands)	
	Cost	**Accumulated depreciation**	**Net**	Net
Land	**$ 1 067**	**$ —**	**$ 1 067**	$ 483
Buildings	**7 752**	**4 178**	**3 574**	3 575
Plant, machinery and equipment	**10 316**	**4 012**	**6 304**	4 137
Equipment on rental	**4 694**	**2 551**	**2 143**	1 834
	$23 829	**$10 741**	**$13 088**	$10 029

The estimated useful lives of depreciable assets are as follows:

Buildings	25 to 50 years
Plant, machinery and equipment	up to 10 years
Equipment on rental	up to 4 years

Capital expenditure authorized and committed at March 31, 1981 was $2,163,000.

5. Long-term debt:

Sinking fund provisions of the series A and B debentures require payments aggregating $390,000 annually in the years 1981 to 1983 and $475,000 annually in the years 1984 to 1987. Debentures have been purchased and surrendered for cancellation in full satisfaction of the requirements of the years 1981 to 1985 inclusive, and in partial satisfaction of the requirements of the years 1986 and 1987.

6. Pension plan:

At March 31, 1981 all vested past service benefits in the Company's pension plan were fully funded.

7. Related party transactions:

The General Electric Company Limited (GEC) of London, England indirectly owns 51.6% of the outstanding shares of the Company. During the fiscal year the Company's sales to subsidiaries and units of GEC amounted to $10,536,000 (1980 — $7,581,000). The Company purchased goods and services from GEC subsidiaries amounting to $2,743,000 (1980 — $1,686,000). Terms of these transactions were essentially the same as those with unrelated parties.

1. Technologist Normand Guerette 2. Quality Inspector Manon Gauvreau 3. Repair and Overhaul Technician Raymond Pelchat 4. Assembly Line Operator Guylaine Charette 5. Engineer Raymond Cadieux 6. Typist Francine Malko 7. Mechanical Designer Erwin Klostermann 8. Assembly Line Operator Jocelyne Mercier 9. Calibration Technicians Raymond Dumont and (background) Jean Boulais 10. Engineer Erik Oltheten

Back cover:
Pierre Piché, Test Technician
See page 7