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Teknion Corporation

Material Considerations

Teknion Annual Report *for* 2002

New Products 2002

Teknion continues to strengthen and expand its product portfolio with innovative, design-driven office furniture. In 2002, we launched a series of new products and concepts designed to meet our customers' needs for evolving workplaces.

ie Desking System

Designed and manufactured in Europe for European work environments, the *ie* desking system premiered in Germany at *Orgatec*, the world's largest furniture trade show.

Expansion Casegoods

Expansion Casegoods extends our family of freestanding products. We also created a range of ***Expansion Training Tables*** for the growing training, seminar, presentation and call center markets.

Belize Lounge Seating

Belize was created in response to customer requests for mobile, comfortable seating that meets the needs of casual and team workplaces.

Advanced Concepts Program

The Advanced Concepts Program is a formal process for design exploration and feeds into our product development process. In 2002, three prototypes using sustainable design as their guiding principle were featured in the *New Landscape* exhibit at the Design Exchange in Toronto. Internationally, the program was represented alongside *100% Design*, a major contemporary interior design show in London. In 2003, Teknion is implementing a major company-wide environmental program incorporating learnings from the Advanced Concepts Program and environmental initiatives, including ISO 14001.

Financial Highlights

November 30 ($000 except per share amounts)	2002	2001	2000	1999	1998
Statement of earnings data					
Sales	516,601	770,881	917,005	629,266	483,695
Earnings (loss) from operations	(54,636)	53,800	152,263	96,714	80,860
Net earnings (loss)	(32,006)	35,829	93,960	61,208	56,015
Earnings (loss) per share (basic)	$(0.50)	$0.56	$1.47	$0.97	$0.89*

November 30 ($000)	2002	2001	2000	1999	1998
Balance sheet data					
Total assets	463,589	512,940	495,532	331,631	204,952
Long-term debt	32,398	31,596	18,125	18,593	657
Shareholders' equity	290,139	322,780	284,904	191,668	115,351

* *Earnings per share in 1998 have been calculated using the weighted average number of shares outstanding had the initial public offering of July 14, 1998 occurred at the beginning of the 1998 fiscal year.*

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.

What are the foundations of our company?

Design innovation. Product leadership. Responsiveness to customers. Commitment to long-term relationships.

Dedication to these values led to our success, and will continue to guide us in the future.

These are our material considerations.

2002 marked the most difficult year in the history of our industry and our company. But despite the challenges we faced, and in some ways because of them, we emerged from the year stronger and more solidly positioned than ever before.

Prior to the recent industry downturn, our company had been growing since 1994 at a compound annual growth rate of 40%. We were in the midst of a one-million-square-foot capacity enhancement and expansion program when the unprecedented reduction in demand in our industry began. As a result, the downturn hit our company particularly hard.

During 2002, most large corporate customers significantly reduced or canceled their planned purchases of office furniture – a trend that began in 2001. In the U.S., our largest market, industry shipments have now declined on a year-over-year basis for 24 consecutive months. We have, however, laid the groundwork to grow our business in 2003.

Despite the decline in sales and the almost $200 million that we spent on plant, equipment, technology and new product tooling during 2000 through 2002, we entered 2003 from a position of considerable financial strength, and with a very healthy balance sheet. Our debt-to-equity ratio of 18% is amongst the lowest of our peers, and in fact, we reduced our net debt during the year.

We maintained this solid financial position by moving forcefully but prudently to bring down our cost structure – taking care not


solid


flexible

to jeopardize those key attributes that will allow our company to generate meaningful profits as sales grow.

We continued to consolidate our manufacturing into newer, more flexible and more efficient facilities. As a result of the modernization project, which began in 2000 and was completed in the first half of 2002, we now have the most extensive and advanced manufacturing capabilities in our history – with the ability to achieve significant economies of scale as order volumes increase.

The change in the business environment also necessitated a reduction in the size of our workforce in all areas of our company – a difficult decision we had to make. However, this environment also served as a catalyst to strengthen leadership in key areas, and we entered 2003 with the strongest management team in our history.

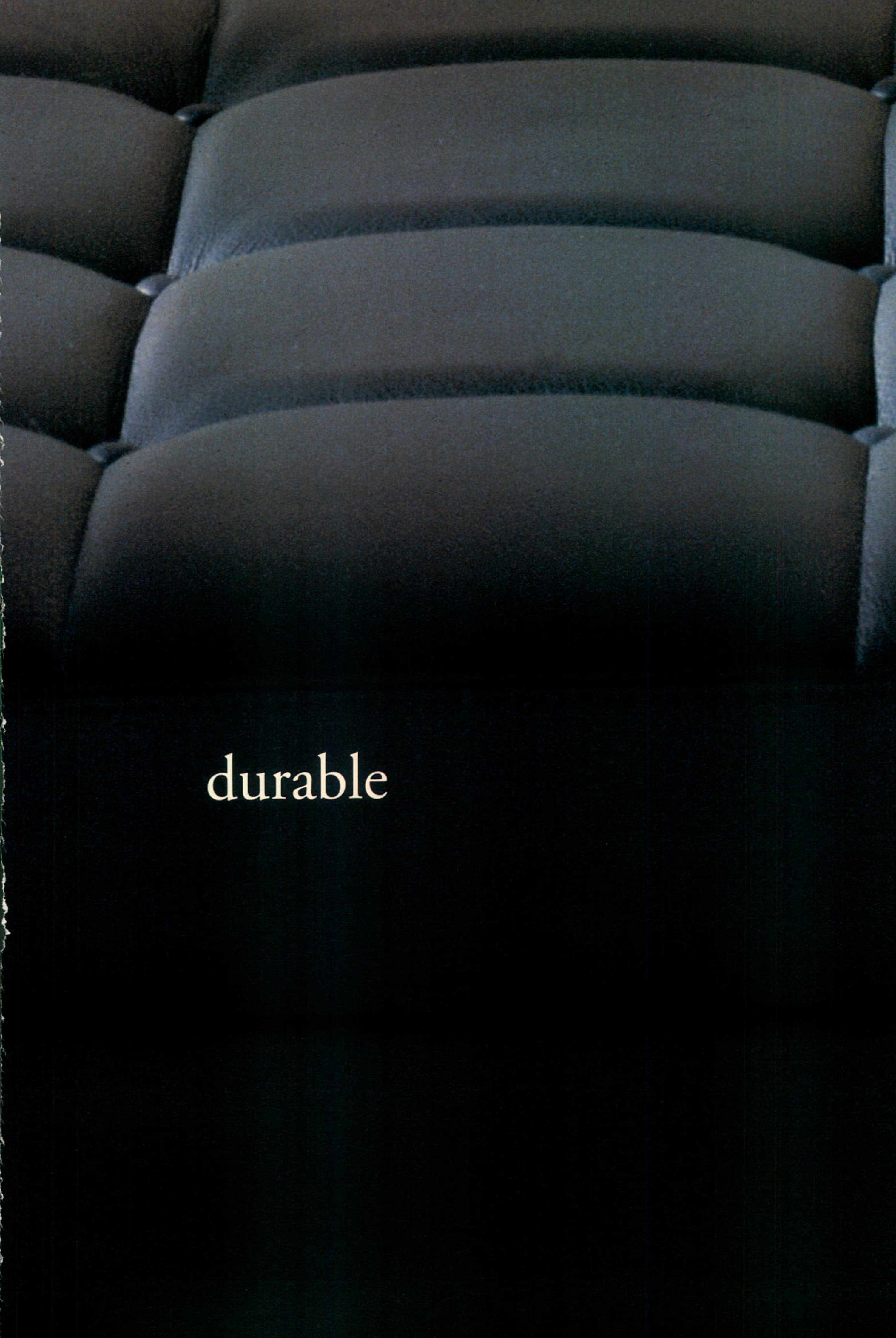
We significantly reduced our SG&A costs – from a quarterly level of over $65 million in mid-2001, to a current level of approximately $45 million, or by over $80 million on an annualized basis. These cost reductions were accomplished not by cutting services, product development or sales efforts – all key components of our historical success – but by rethinking, redefining and reengineering many of our processes. Some initiatives involved significant changes to the way we previously operated; others were simplifications to processes that had become too complicated.

The result of these initiatives has been not just reduced costs, but improved quality, speed and service. Most importantly, we believe that we have made durable improvements to our operations. Together with our enhanced manufacturing capabilities, these process improvements position us more strongly than ever before to generate profitable growth.

We are cautiously optimistic that we have seen the bottom of the downturn, but we are not relying on an improvement in the overall economy to return Teknion to its track record of industry-leading growth and profitability.

The U.S. remains our largest opportunity. We are focusing our resources on market segments that are growing, where we previously did not have a significant presence. This includes areas such as the healthcare, educational and government sectors. The groundwork that was laid in 2002 has already generated incremental sales and we expect meaningful growth in these areas this year.

Internationally, Teknion has always had a strong presence, which has allowed us to better meet the needs of our global clients and win foreign domestic business. We will continue to evaluate opportunities to expand our worldwide presence on a financially prudent basis.


durable


complementary

In Canada, Teknion strengthened its position as the leader in the contract office furniture market, a tribute to the Teknion team, our strong dealer base, long-standing customer relationships and a compelling product lineup.

We continued to expand our product portfolio, providing customers with an even more comprehensive offering of innovative, design-driven office furniture. A new desking system designed and manufactured in Europe for the European market was well received when it was previewed at the world's largest furniture trade fair in Germany last fall. Teknion bolstered its seating collection with two new lines, and we enhanced our flagship task chair. We addressed the need for cost-effective, freestanding and private office furniture with a new casegoods line and, within the same product family, introduced a multi-purpose line of complementary table products for training, seminar, presentation and call center environments.

Of the 14 product and design awards we earned in 2002, our proudest achievement was receiving the Outstanding Corporate Innovator award. This prestigious honor – presented to Teknion and BMW Group AG by the Product Development & Management Association – provides international recognition for companies demonstrating sustained excellence in new product development.

Our *material consideration* remains the maximization of long-term shareholder value. We will continue to work to expand our presence and market share; to leverage the economies of scale resulting from the vertical integration and recent expansion of our manufacturing facilities; and to maintain our strong focus on design and innovation to ensure we can respond quickly with new and enhanced products to meet the needs of our customers.

In closing, we would like to thank all members of the Teknion team for their commitment and hard work throughout this difficult year. We sincerely believe that Teknion has never been better positioned from a product or operational perspective. Current market conditions will continue to test us; but since its inception, Teknion has thrived on overcoming challenges. We are confident that Teknion will soon return to profitability and growth.

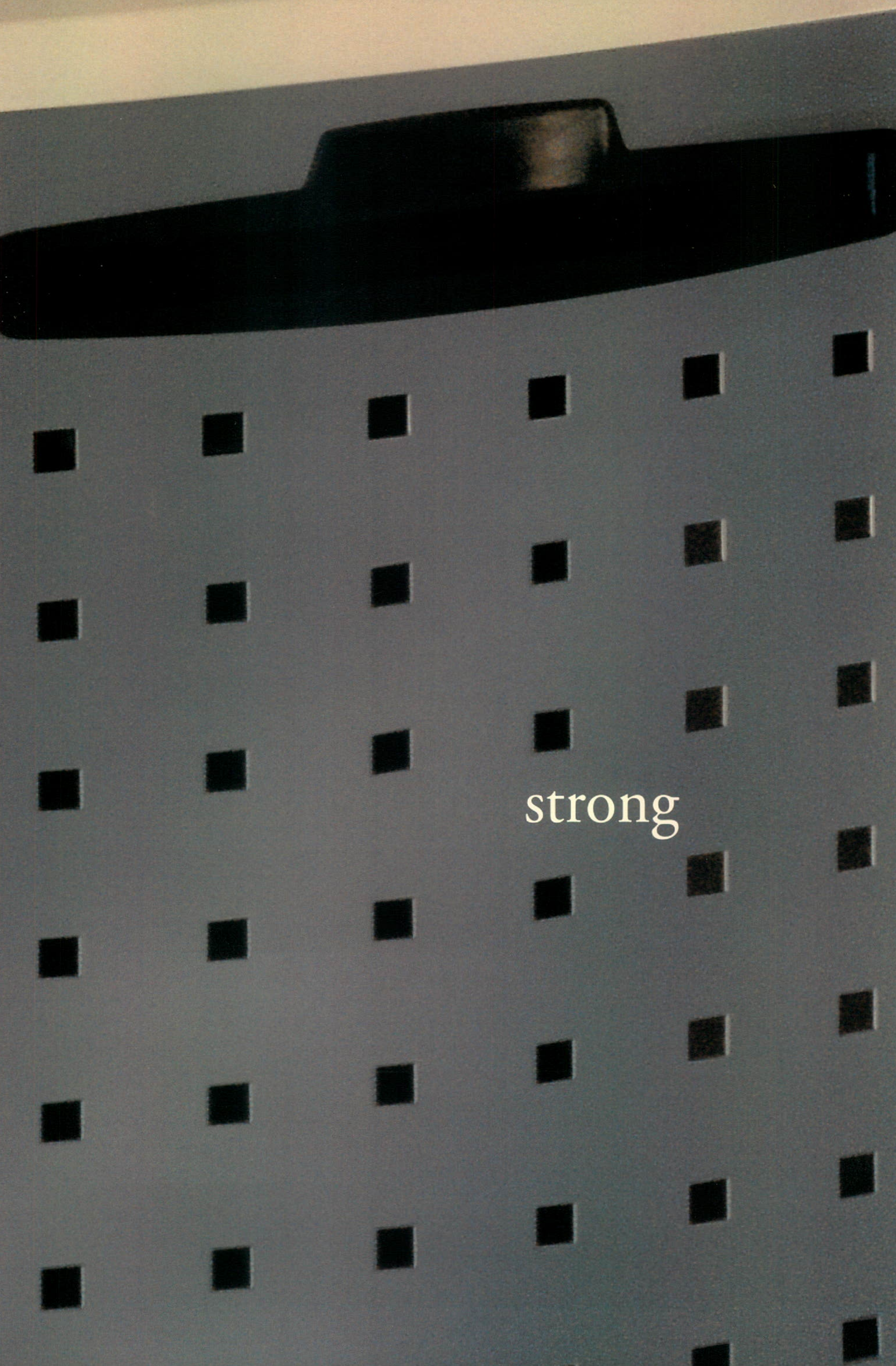
Sincerely,

David Feldberg

President and
Chief Executive Officer

Saul Feldberg

Chairman of the Board


strong

A system of simple, harmonious components, Leverage is easy to specify, install and reconfigure within the open plan.

Aegis is a collection of contemporary benches and lounge seating suitable for public spaces, as well as the private executive office.

Amicus addresses the full range of ergonomic requirements and individual workstyles.

Teknion's wood casegoods collection is designed to meet the needs of the executive office, while preserving the tradition of finely crafted wood furniture.

Readily integrating with freestanding or panel-based furniture, Ability makes existing systems more responsive to ever-evolving needs.

Altos is a full-height, architectural wall system designed to create interior spaces of varied dimensions and planning requirements for today and tomorrow.

Teknion

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, 2002 and 2001 should be read in conjunction with the Company's consolidated financial statements and the notes to those statements included in the 2002 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 three 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 2002. The Company's products are sold through authorized dealers around the world.

From 1994 through fiscal 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 2002, Teknion's sales and profitability were negatively impacted by an economic slowdown experienced in most of the Company's markets. This economic downturn, and the continued level of uncertainty in the Company's markets, resulted in an unprecedented reduction in purchases of office furniture as many of the Company's current and prospective customers postponed or canceled the completion of current projects and deferred planned expansion programs. As a result, the Company's total sales declined by 33% in fiscal 2002 compared to a decline in U.S. shipments of 19% for calendar 2002 as reported by BIFMA. According to BIFMA, industry sales in the office systems product category were hardest hit in 2002, declining 27% compared to 2001. As noted above, office systems comprise the substantial majority of the Company's sales. Primarily as a result of a 33% decline in sales in 2002, and increased discounting of selling prices, the Company experienced a reduction in its gross margin compared to the prior year and incurred a net loss for the year.

During 2002, management took a number of steps to reduce 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 2002, the Company introduced a number of new products as well as enhancements to its existing product lineup. Significant new products introduced by the Company include a new desking system designed and manufactured in Europe for the European market, a product well received when previewed at the world's largest furniture trade fair in Germany in the fall. The Company also added to its seating collection with two new lines, and enhanced its flagship task chair. As well, the Company introduced a new casegoods line and, within the same product family, introduced a multi-purpose table line for training, seminar, presentation and call center applications.

Teknion is strongly positioned to capitalize on renewed demand as business conditions improve.

RESULTS OF OPERATIONS

Annual

Years ended November 30, ($000 except per share amounts)	**2002**	2001	2000
Sales	**516,601**	770,881	917,005
Gross margin	**177,585**	311,276	393,355
Gross margin (% of sales)	**34.4%**	40.4%	42.9%
Expenses	**235,482**	260,655	243,819
Net earnings (loss)	**(32,006)**	35,829	93,960
Earnings (loss) per share (basic)	**$ (0.50)**	$ 0.56	$ 1.47
Earnings (loss) per share (diluted)	**$ (0.50)**	$ 0.55	$ 1.45

Quarterly

Fiscal 2002 *($000 except per share amounts)*	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	**118,957**	**136,268**	**136,581**	**124,795**	**516,601**
Gross margin	**39,801**	**48,603**	**48,748**	**40,433**	**177,585**
Gross margin (% of sales)	**33.5%**	**35.7%**	**35.7%**	**32.4%**	**34.4%**
Expenses	**56,491**	**57,180**	**56,250**	**65,561**	**235,482**
Net loss	**(8,875)**	**(4,697)**	**(3,156)**	**(15,278)**	**(32,006)**
Loss per share (basic)	**$ (0.14)**	**$ (0.07)**	**$ (0.05)**	**$ (0.24)**	**$ (0.50)**
Loss per share (diluted)	**$ (0.14)**	**$ (0.07)**	**$ (0.05)**	**$ (0.24)**	**$ (0.50)**

Fiscal 2001 *($000 except per share amounts)*	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	236,853	211,843	157,774	164,411	770,881
Gross margin	102,183	87,168	58,232	63,693	311,276
Gross margin (% of sales)	43.1%	41.1%	36.9%	38.7%	40.4%
Expenses	67,449	71,367	59,204	62,635	260,655
Net earnings	22,292	11,351	663	1,523	35,829
Earnings per share (basic)	$ 0.35	$ 0.18	$ 0.01	$ 0.02	$ 0.56
Earnings per share (diluted)	$ 0.34	$ 0.18	$ 0.01	$ 0.02	$ 0.55

Sales

Teknion reported consolidated sales of $516.6 million for the year ended November 30, 2002, a decline of 33.0% compared to the prior year. Sales were negatively impacted by the industry downturn, particularly in the Company's U.S. markets. Sales in fiscal 2001 were $770.9 million compared to $917 million in 2000, a decline of 15.9% caused mainly by the same factors.

Sales by Geographic Region

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

Years ended November 30, ($000)	**2002**	%	2001	%	2000	%
Canada	**196,784**	**38.1**	236,861	30.7	203,591	22.2
United States	**274,177**	**53.1**	466,484	60.5	636,924	69.5
International	**45,640**	**8.8**	67,536	8.8	76,490	8.3
Total	**516,601**	**100**	770,881	100	917,005	100

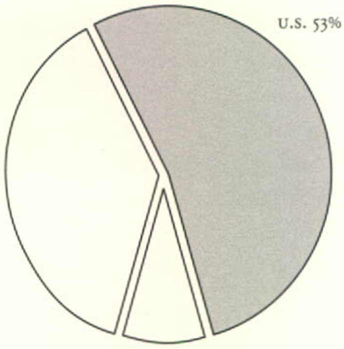
The industry downturn negatively impacted all of Teknion's markets in 2002, resulting in lower sales in each of its geographic segments. Sales in Canada experienced a 16.9% decline in 2002 following a 16.3% increase in 2001. The Company is the largest participant in the Canadian contract office furniture 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 41.2% in 2002 following a 26.8% reduction in 2001, both due to the significant impact of the economic slowdown in the U.S. market. 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 declined to a greater extent than the overall contract furniture market, which includes such additional product categories as seating, filing, storage and casegoods.

During the year, 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 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 $9 billion U.S. contract office furniture market.

Sales to international markets, which include Europe, South America, the Middle East and the Pacific Rim, were also negatively impacted by the industry and general economic downturn, declining 32.4% in fiscal 2002 and 11.7% in fiscal 2001.

Looking ahead, management remains confident that its focused strategies, proven sales and marketing initiatives, and innovative products will generate sales growth as economic conditions improve. BIFMA forecasts that the U.S. office furniture market will grow by approximately 5% in 2003 over the prior year.



The Company's most significant opportunity for growth remains in the United States.

Gross Margins

Consolidated gross margin as a percentage of sales declined in fiscal 2002 to 34.4% of sales compared to 40.4% in 2001. This reduction was due primarily to deeper discounting, increases in steel costs and decreased fixed overhead absorption resulting from the lower sales volume in the period. 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 2000 was 42.9%. During fiscal 2002, the Company undertook a number of initiatives to reduce costs, consolidate facilities and realize production efficiencies following similar initiatives that it had established in the latter half of fiscal 2001. Management is confident that these initiatives will position the Company for enhanced gross margins as economic conditions improve.

Operating Expenses

Selling, general and administrative ("SG&A") expenses in fiscal 2002 decreased compared to the prior year as overall sales declined and as the Company reduced expenses to bring its cost structure more in line with current business conditions. SG&A for the fourth quarter of fiscal 2002 included unusual items totaling $6 million. These charges included a write-down of costs associated with the discontinuance of the "dna" initiative, severance costs and plant consolidation costs. In total, SG&A expenses for the 2002 fiscal year included $13 million of unusual items. SG&A expenses in 2001 increased compared to the prior year as the Company had expanded its sales and marketing infrastructure to capitalize on strong market growth in fiscal 2000 and through the beginning of fiscal 2001. Due to the significant reduction in sales in fiscal 2002, SG&A expenses, excluding the unusual charges incurred in the year, rose as a percentage of sales to 36.0% from 30.3% in fiscal 2001 and 24.2% in fiscal 2000.

For fiscal 2003, management expects its SG&A expenses as a percentage of sales to be lower than the prior year. The Company will continue to diligently review and manage its cost structure in what is expected to be a continuing difficult business environment over the near-term.

Other Expenses

Depreciation and amortization rose in fiscal 2002 to $28.7 million from $24.1 million in fiscal 2001 and $19.4 million in fiscal 2000 due primarily 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. Among its investments, the Company also opened a new U.S. headquarters in New Jersey in 2001, including a modern showroom as well as marketing and design 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. While these initiatives have resulted in newer, more flexible and efficient operations, certain restructuring charges to income were incurred as a result of the consolidations outlined above.

In addition, in the fourth quarter of 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.

Net interest expense rose in fiscal 2002 to $2.8 million from $2.6 million in 2001 and $3.1 million in fiscal 2000 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 2002 as a result of applying losses incurred in 2001 to prior year earnings. The effective tax rate for fiscal 2002 was (44.7%) compared to 29.2% in the prior year primarily because a larger portion of losses were incurred in the U.S., which has a higher income tax rate. The effective tax rate in fiscal 2001 declined to 29.2% from 37.2% in fiscal 2000 due to reduced profits in the Company's U.S. operations (where the income tax rate is higher than other jurisdictions), lower Canadian income tax rates in the period, 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 $32.0 million or $0.50 per share (basic) in 2002 compared to net earnings of $35.8 million or $0.56 per share (basic) in 2001 and $94.0 million or $1.47 per share (basic) in fiscal 2000. On a basic weighted average basis, there were 64.1 million shares outstanding in fiscal 2002 compared to 64.0 million in fiscal 2001 and 63.8 million in fiscal 2000.

LIQUIDITY AND CAPITAL RESOURCES

Years ended November 30, ($000)	2002	2001	2000
Cash from operating activities	43,671	81,029	60,907
Capital expenditures	32,819	98,774	62,913
Long-term debt to equity	0.11:1	0.10:1	0.06:1

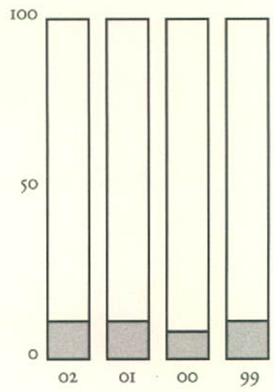
Since its initial public offering in July 1998, the Company's cash requirements have been satisfied through cash generated by operating activities and operating lines of credit. These sources of funds are expected to be sufficient to finance the capital needs of the Company for the foreseeable future. As at November 30, 2002, the Company utilized $35.3 million of its $63.8 million operating lines of credit with the majority of its credit lines bearing interest at the bank's prime rate plus 0.5% per annum.

The Company consumed cash in operations of $3.3 million in fiscal 2002 compared to generating cash of $66.8 million in fiscal 2001 and $113.0 million in fiscal 2000. This is primarily due to the reduction in earnings during these periods. Including the net change in operating working capital, the Company generated $43.7 million in cash from operations in 2002 compared to $81.0 million in fiscal 2001 and $60.9 million in fiscal 2000. The reduction in accounts receivable and inventories generated less cash in fiscal 2002 compared to the prior year.

Accounts receivable decreased significantly in fiscal 2002 and fiscal 2001, reflecting the reduced levels of business experienced by the Company in both years. Days outstanding for accounts receivable were 86 as at November 30, 2002, compared to 88 at November 30, 2001. Inventories declined in fiscal 2002 to $53.9 million from $57.8 million in 2001, due again to the decreased level of business in fiscal 2002. The number of days of production in inventory was 60 as at November 30, 2002, compared to 51 days as at November 30, 2001, as a result of lower sales and the need to maintain minimum levels of raw material and work in process inventory. Despite the difficult year, the Company's balance sheet remains strong. The working capital ratio at the end of fiscal 2002 was 1.6:1, which is unchanged from the previous two fiscal year-ends. In addition, the Company's long-term debt to equity ratio remained stable at a conservative level of 0.11:1.

Despite the difficult year, Teknion's balance sheet remains strong.

Debt
(as a percentage of assets)



To mitigate the risk presented by foreign exchange rates, the Company enters into foreign exchange contracts from time to time to reduce exposure to fluctuations in the value of the U.S. dollar. As at November 30, 2002, the Company held foreign exchange contracts maturing within 14 months for the sale of U.S. $47.5 million at a weighted average rate of exchange of $1.54. (See Note 13 (a) to annual consolidated financial statements.)

The Company used cash in financing activities of $11.5 million in 2002 primarily to reduce operating loans during the year. In fiscal 2001 the Company generated cash from financing activities of $19.6 million due primarily to increased long-term debt used to finance the construction of the Company's new U.S. corporate headquarters, showroom, marketing and design center during the year. Cash was also generated from the issuance of subordinate voting shares upon the exercise of options pursuant to the Company's employee stock option plan.

Cash used in investing activities declined substantially to $40.1 million in fiscal 2002 from $98.7 million in fiscal 2001 due primarily to a significant reduction in capital investments. In fiscal 2001 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. As the Company has now completed the investment program, which commenced in 2000, for the fiscal year ending November 30, 2003, the Company's capital spending requirements are significantly reduced. In fiscal 2003, the Company expects to spend approximately $15 million on capital expenditures.

Risks and Uncertainties

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 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; 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. 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.

New CICA Reporting Requirements

The Company has assessed the impact of complying with the amended Canadian Institute of Chartered Accountants (CICA) Handbook section 3870 (Stock-Based Compensation and Other Stock-Based Payments).

Amended Handbook section 3870 will be adopted effective the first quarter of fiscal 2003. The Company does not intend to adopt the fair value based method for all employee stock-based compensation plans pending the outcome of CICA's proposed amendments to section 3870 which would mandate the use of a fair value based method for all stock-based compensation. The Company does not anticipate incurring material retroactive charges to retained earnings upon adoption of this section.

Subsequent Event

Subsequent to the year-end, the Company refinanced its primary operating facility. As at January 31, 2003, the Company had operating lines of credit of up to $106.8 million, an increase from the $63.8 million as at the end of fiscal 2002 (see Note 7 to annual consolidated financial statements). As at January 31, 2003, the Company utilized $46.7 million of the operating line.

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 GDP.

While the challenging economic conditions experienced in fiscal 2002 will continue to negatively impact the contract furniture industry, as well as Teknion's financial performance over the short term, 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 initiated in 2001 and 2002 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 successful execution of the Company's business strategies, management expects to generate improved financial performance in fiscal 2003 compared to fiscal 2002.

However, management expects that significant sales growth will not occur until economic conditions in the Company's markets improve and result in customers increasing their purchases of office furniture.

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 expansion 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.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Teknion Corporation as at November 30, 2002 and 2001 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, 2002 and 2001 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
January 31, 2003 · Toronto, Canada

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 31, 2003

Robert E. Boyd
Chief Financial Officer
and Secretary
January 31, 2003

Consolidated Balance Sheets

(in thousands of dollars) – November 30, 2002 and 2001

	2002	2001
Assets		
Current assets:		
Cash	$ 15,864	$ 23,786
Accounts receivable (note 2(a))	96,236	147,852
Income taxes receivable	24,340	22,861
Inventory	53,868	57,828
Prepaid expenses and other deposits	6,618	8,121
Due from affiliated companies (note 2(b))	–	1,235
Future income taxes (note 3)	4,674	5,312
	201,600	266,995
Future income taxes (note 3)	9,159	–
Capital assets (note 4)	217,084	217,014
Loan receivable (note 5)	4,872	–
Goodwill (note 6)	30,874	28,931
	$ 463,589	$ 512,940
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loans (note 7)	$ 35,271	$ 46,198
Accounts payable and accrued liabilities (note 2(a))	86,145	97,305
Due to affiliated companies (note 2(b))	1,277	–
Current portion of long-term debt (note 8)	3,327	24,055
	126,020	167,558
Long-term debt (note 8)	29,071	7,541
Future income taxes (note 3)	18,359	15,061
Shareholders' equity:		
Share capital (note 9)	106,851	106,680
Retained earnings	185,062	217,068
Currency translation adjustment	(1,774)	(968)
	290,139	322,780
	$ 463,589	$ 512,940

Subsequent event (note 7)

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, 2002 AND 2001

	2002	2001
Sales	$ 516,601	$ 770,881
Cost of sales	339,016	459,605
Gross margin	177,585	311,276
Expenses:		
Selling, general and administrative	198,778	233,375
Depreciation and amortization	28,708	24,101
Write-down of capital assets	4,735	–
	232,221	257,476
Earnings (loss) from operations	(54,636)	53,800
Interest expense, net (NOTE 8)	2,815	2,635
Loss on disposal of capital assets	446	544
Earnings (loss) before income taxes	(57,897)	50,621
Income taxes (recovery) (NOTE 3):		
Current	(20,727)	8,434
Future	(5,164)	6,358
	(25,891)	14,792
Net earnings (loss)	$ (32,006)	$ 35,829
Earnings (loss) per share (NOTE 10):		
Basic	$ (0.50)	$ 0.56
Diluted	(0.50)	0.55

Consolidated Statements of Retained Earnings

(IN THOUSANDS OF DOLLARS)

YEARS ENDED NOVEMBER 30, 2002 AND 2001

	2002	2001
Retained earnings, beginning of year	$ 217,068	$ 181,239
Net earnings (loss)	(32,006)	35,829
Retained earnings, end of year	$ 185,062	$ 217,068

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(IN THOUSANDS OF DOLLARS) – YEARS ENDED NOVEMBER 30, 2002 AND 2001

	2002	2001
Cash provided by (used in):		
OPERATIONS:		
Net earnings (loss)	$ (32,006)	$ 35,829
Items not affecting cash:		
Depreciation and amortization	28,708	24,101
Future income taxes	(5,164)	6,358
Write-down of capital assets	4,735	–
Loss on disposal of capital assets	446	544
	(3,281)	66,832
Net change in operating working capital:		
Accounts receivable	51,616	74,738
Income taxes receivable	(1,479)	(38,426)
Inventory	3,960	13,543
Prepaid expenses and other deposits	1,503	(1,425)
Accounts payable and accrued liabilities	(11,160)	(34,171)
Due to/from affiliated companies	2,512	(62)
	46,952	14,197
	43,671	81,029
FINANCING:		
Operating loans	(10,927)	3,523
Proceeds from long-term debt	3,114	15,208
Repayment of long-term debt	(2,131)	(2,171)
Issue of share capital	171	2,527
Currency translation adjustment	(1,707)	558
	(11,480)	19,645
INVESTMENTS:		
Purchase of capital assets	(32,819)	(98,774)
Proceeds on disposal of capital assets	524	124
Loan receivable	(4,872)	–
Net cash paid on acquisition	(2,946)	–
	(40,113)	(98,650)
Increase (decrease) in cash	(7,922)	2,024
Cash, beginning of year	23,786	21,762
Cash, end of year	$ 15,864	$ 23,786

Supplemental cash flow information (NOTE 14)

See accompanying notes to consolidated financial statements.

NOTE 1. – SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION:

The consolidated financial statements are 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:

Effective December 1, 2001, the Company adopted the new standard issued by The Canadian Institute of Chartered Accountants dealing with goodwill and other intangible assets. Previously, the Company amortized goodwill on a straight-line basis over 20 years. 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 by comparing their book values with the undiscounted cash flow expected to be received from their use. A provision is made for any goodwill that is considered impaired. The Company performed its annual review of goodwill in November 2002 and no impairment was evident.

(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.

(g) **Use of estimates:**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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.

(i) **Earnings per share:**

Effective December 1, 2001, the Company adopted the new accounting recommendations of The Canadian Institute of Chartered Accountants on "Earnings per Share" on a retroactive basis. The new standard requires the use of the treasury stock method for calculating diluted earnings per share. Previously the imputed earnings method was used. The adoption of this standard increased fully diluted earnings per share as previously stated in 2001 from $0.53 to $0.55 per share.

(tabular amounts in thousands of dollars, except per share amounts)

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:

	2002	2001
Accounts receivable	$ 10,144	$ 11,902
Accounts payable and accrued liabilities	9,520	14,593

Transactions with related parties are as follows:

	2002	2001
Sales	$ 14,777	$ 21,765
Purchases	65,231	93,017
Other	7,280	6,936

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

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:

	2002	2001
Earnings (loss) before income taxes	$ (57,897)	$ 50,621
Combined statutory tax rate	40.3%	41.2%
Expected provision for (recovery of) income taxes	$ (23,333)	$ 20,856
Increase (decrease) resulting from:		
Manufacturing and processing profits deduction	1,825	(2,531)
International rate differences	(3,597)	(3,948)
Other differences	(786)	415
	$ (25,891)	$ 14,792
Effective income tax rate	44.7%	29.2%

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

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:

	2002	2001
Future tax assets:		
Accounts receivable	$ 775	$ 864
Accounts payable and accrued liabilities	3,899	4,448
	4,674	5,312
Non-capital loss carryforward	11,244	–
Valuation allowance	(2,085)	–
	9,159	–
	13,833	5,312
Future tax liabilities:		
Capital assets – differences in accounting and tax net book values	18,359	15,061
Net future tax liability	$ 4,526	$ 9,749

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.

NOTE 4. – CAPITAL ASSETS

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

2001	Cost	*Accumulated depreciation and amortization*	*Net book value*
Land	$ 8,624	$ –	$ 8,624
Buildings	57,741	2,753	54,988
Computer hardware	26,921	11,292	15,629
Computer software	15,021	5,996	9,025
Manufacturing equipment, office equipment and showrooms	118,456	34,726	83,730
Tools and dies	31,683	8,275	23,408
Leasehold improvements	30,983	10,985	19,998
Patents and trademarks	2,656	1,044	1,612
	$ 292,085	$ 75,071	$ 217,014

NOTE 5. – LOAN RECEIVABLE

During the year, a loan was made by the Company pursuant to a distribution agreement. 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 assets of the borrower.

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

NOTE 6. – GOODWILL

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

2001	Cost	Accumulated amortization	Net book value
Goodwill	$ 34,374	$ 5,443	$ 28,931

NOTE 7. – OPERATING LOANS

At November 30, 2002, Teknion had available operating lines of credit of up to $63.8 million (2001 – $89.3 million), of which $15.7 million (2001 – $80.7 million) is unsecured. Borrowings under these lines of credit bear interest at varying rates ranging from the banks' prime rate plus 2% to minus 1.25% 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.

Subsequent to year-end, the Company refinanced its primary operating facility. As at January 31, 2003, the Company has operating lines of credit of up to $106.8 million ($46.7 million drawn) of which $15.7 million is unsecured. The Company has provided a general security agreement and assigned assets to secure these borrowings.

NOTE 8. – LONG-TERM DEBT

	2002	2001
U.S. $14.0 million (2001 – U.S. $14.4 million) mortgage loan, bearing interest at 1.5% over the five-year treasury rate, secured by a first mortgage lien on real estate of the Company's New Jersey, U.S. subsidiary (net book value – U.S. $21.5 million), due October 2012	$ 21,961	$ 22,648
U.S. $2.3 million (2001 – U.S. $2.6 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	3,576	4,144
13.3 million (2001 – 7.4 million) Malaysian ringgit term loan, bearing interest at rates between prime plus 2.5% and prime plus 3.0%, payable in monthly installments 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	5,517	3,118
Various loans with blended monthly repayments, bearing interest at various rates to a maximum of 8.1%, due at various dates to 2008	1,344	1,686
	32,398	31,596
Less current portion	3,327	24,055
	$ 29,071	$ 7,541

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

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

2003	$	3,327
2004		2,550
2005		2,595
2006		2,251
2007		1,776
Thereafter		19,899
	$	32,398

Interest expensed on long-term debt was $1,767 in 2002 (2001 – $1,361).

NOTE 9. – SHARE CAPITAL

	2002	2001
Authorized:		
Unlimited Class A preference shares, non-voting		
Unlimited Class B preference shares, non-voting		
40,059,046 multiple voting shares (2001 – 40,093,846)		
Unlimited subordinate voting shares		
Issued:		
40,059,046 multiple voting shares (2001 – 40,093,846)	$ 5,068	$ 5,073
24,027,410 subordinate voting shares (2001 – 23,973,610)	101,783	101,607
	$ 106,851	$ 106,680

(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 2002, certain shareholders converted 34,800 multiple voting shares (2001 – 4,753,669) on a one-for-one basis to subordinate voting shares. In fiscal 2002, 19,000 subordinate voting shares (2001 – 234,550) were issued for cash consideration of $171,000 (2001 – $2,527,000) 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 canceled is charged to retained earnings.

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

During the year, 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 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 canceled 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.

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

	2002		2001	
	Number of shares	*Weighted average price*	*Number of shares*	*Weighted average price*
Options outstanding, beginning of year	**3,315,045**	**$ 12.06**	2,894,580	$ 11.27
Exercise of options	**(19,000)**	**9.00**	(234,550)	10.77
Options canceled	**(174,230)**	**12.47**	(286,485)	11.45
Options expired	**(130,200)**	**12.50**	–	–
Grant of additional options	**821,750**	**10.42**	941,500	13.98
Options outstanding, end of year	**3,813,365**	**11.65**	3,315,045	12.06

	2002	2001
Weighted average subscription price of outstanding options	**$ 11.65**	$ 12.06
Number of options exercisable (vested) at November 30	**1,703,633**	978,664
Weighted average subscription price of outstanding exercisable options	**$ 11.98**	$ 12.09

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

	2002		2001	
	High	*Low*	*High*	*Low*
Grant of options	**$ 11.75**	**$ 7.25**	$ 21.20	$ 9.50
Exercise of options	**12.00**	**9.76**	21.25	10.50

(tabular amounts in thousands of dollars, except per share amounts)

	Total options outstanding			Total options exercisable	
Range of exercise prices	*Number outstanding, November 30, 2002*	*Weighted average remaining contractual life (years)*	*Weighted average exercise price*	*Number exercisable, November 30, 2002*	*Weighted average exercise price*
$ 7.25–$ 8.99	25,000	9.86	$ 7.25	–	$ –
$ 9.00–$12.50	2,866,365	6.31	10.94	1,432,133	11.60
$12.51–$16.00	885,000	8.15	13.76	261,750	13.78
$16.01–$21.20	37,000	8.11	19.39	9,750	19.34
	3,813,365	6.78	11.65	1,703,633	11.98

Note 10. – Earnings (Loss) per Share

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

	2002	2001
Numerator for basic and diluted earnings per share – net earnings (loss)	$ (32,006)	$ 35,829
Add back:		
Goodwill amortization	–	1,195
	$ (32,006)	$ 37,024
Denominator for basic earnings per share – weighted average shares	64,079,085	63,999,694
Denominator for diluted earnings per share:		
Weighted average shares	64,079,085	63,999,694
Effect of dilutive employee stock options	–	666,731
	64,079,085	64,666,425
Basic earnings (loss) per share:		
Reported net earnings (loss)	$ (0.50)	$ 0.56
Goodwill amortization	–	0.02
Adjusted net earnings (loss)	$ (0.50)	$ 0.58
Diluted earnings (loss) per share:		
Reported net earnings (loss)	$ (0.50)	$ 0.55
Goodwill amortization	–	0.02
Adjusted net earnings (loss)	$ (0.50)	$ 0.57

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:

2003	$ 11,603
2004	16,752
2005	15,092
2006	13,368
2007	11,933
Thereafter	20,838
	$ 89,586

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

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:

	2002	2001
Sales (based on location of customer):		
Canada	$ 196,784	$ 236,861
United States	274,177	466,484
International	45,640	67,536
	$ 516,601	$ 770,881
Total assets:		
Canada	$ 249,129	$ 259,307
United States	157,932	183,976
International	56,528	69,657
	$ 463,589	$ 512,940
Capital assets:		
Canada	$ 144,884	$ 141,449
United States	51,007	56,116
International	21,193	19,449
	$ 217,084	$ 217,014
Goodwill:		
Canada	$ 10,124	$ 10,124
United States	18,807	18,807
International	1,943	–
	$ 30,874	$ 28,931

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

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, 2002, the Company had outstanding foreign exchange contracts representing a commitment to sell approximately U.S. $47.5 million at average rates of exchange of $1.54 (2001 – U.S. $139.5 million at $1.53). The fair value of these contracts was $1.5 million in favor of the counterparties at November 30, 2002 (2001 – $5.9 million in favor of the counterparties). These contracts mature within 14 months (2001 – 9 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, due to/from affiliated companies, loan receivable, operating loans, accounts payable and accrued liabilities and long-term debt are considered to approximate fair values.

(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

	2002	2001
Income taxes paid	$ 2,382	$ 46,860
Income taxes received	21,630	–
Interest paid	2,971	4,207
Interest received	228	1,487

Officers and Directors

Board of Directors

Governor James J. Blanchard
Partner
Piper Rudnick LLP

Jeffrey M. Blidner
Vice-Chairman
Brascan Financial Corporation

David Feldberg
President and Chief Executive Officer
Teknion Corporation

Saul Feldberg
Chairman
Global Upholstery Co. Limited

Allen Karp
Chairman
Cineplex Odeon Corporation

Stephen M. Miner
President and Chief Executive Officer
Teknion LLC

Christi L. Strauss
President
General Mills Canada Corporation

George S. Taylor
Consultant

Executive Officers

David Feldberg
President and Chief Executive Officer

Stephen M. Miner
Executive Vice President and
President and Chief Executive Officer, Teknion LLC

Frank Delfino
Senior Vice President and
President, Canadian and International Markets

Robert E. Boyd
Chief Financial Officer and Secretary

John Comacchio
Chief Information Officer

Ian Madell
Senior Vice President,
Marketing and Product Development

Jeff Wilson
Senior Vice President,
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Stock Listing
The Toronto Stock Exchange
Ticker Symbol: TKN

Auditors
KPMG LLP
Toronto, Canada

Annual Meeting
Wednesday, May 14, 2003
10:00 a.m. (Eastern Standard Time)
Design Exchange
234 Bay Street
Toronto Dominion Centre
Toronto, Ontario
M5K 1B2 Canada

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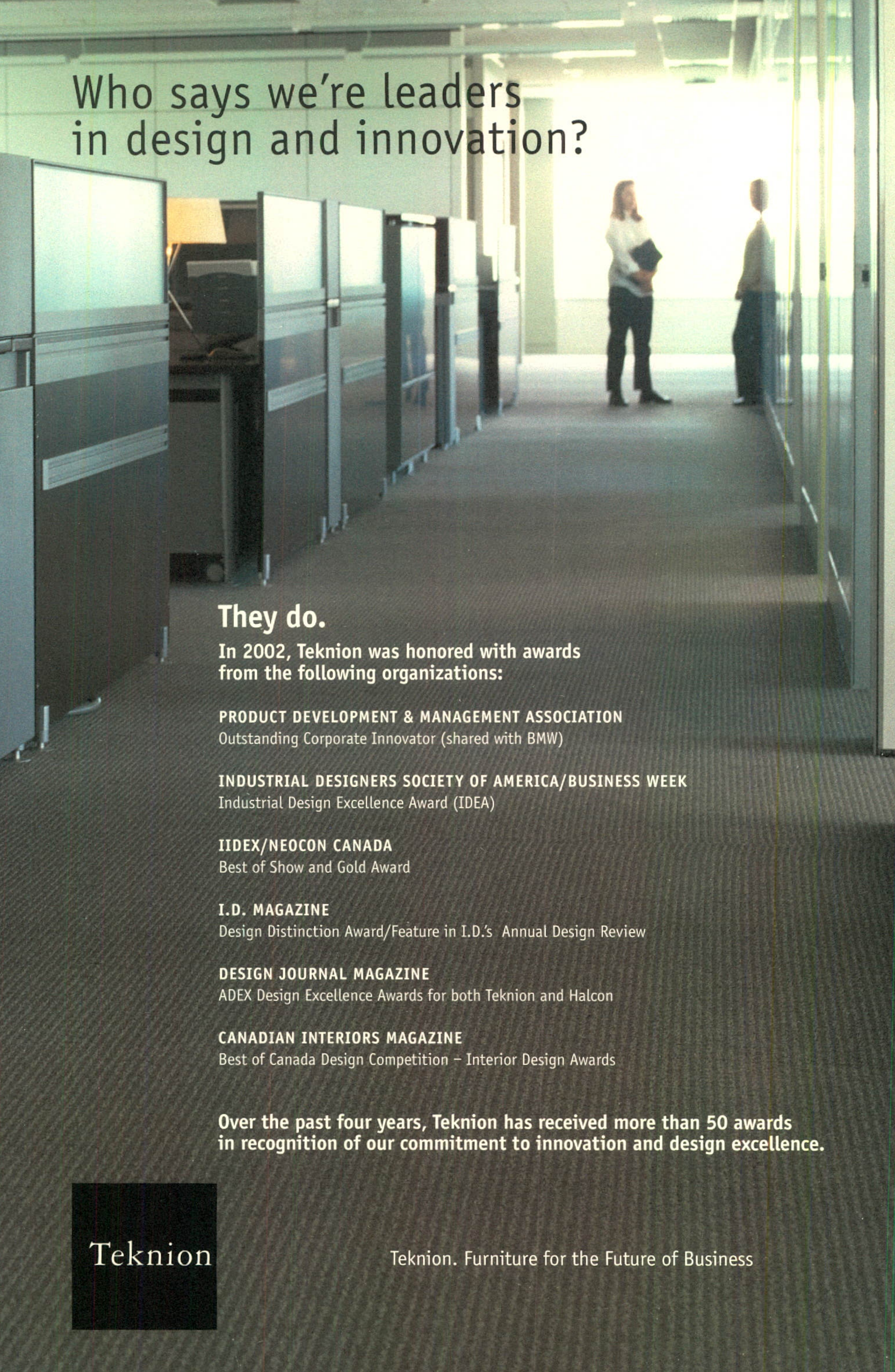
Who says we're leaders in design and innovation?
They do.
In 2002, Teknion was honored with awards from the following organizations:
PRODUCT DEVELOPMENT & MANAGEMENT ASSOCIATION
Outstanding Corporate Innovator (shared with BMW)
INDUSTRIAL DESIGNERS SOCIETY OF AMERICA/BUSINESS WEEK
Industrial Design Excellence Award (IDEA)
IIDEX/NEOCON CANADA
Best of Show and Gold Award
I.D. MAGAZINE
Design Distinction Award/Feature in I.D.'s Annual Design Review
DESIGN JOURNAL MAGAZINE
ADEX Design Excellence Awards for both Teknion and Halcon
CANADIAN INTERIORS MAGAZINE
Best of Canada Design Competition – Interior Design Awards
Over the past four years, Teknion has received more than 50 awards in recognition of our commitment to innovation and design excellence.
Teknion
Teknion. Furniture for the Future of Business