



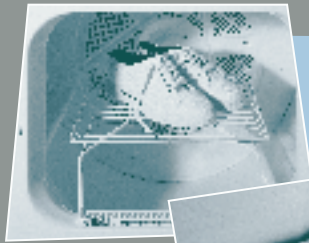
**2002** annual report



## Profile

From its incorporation in 1977, Camco Inc. has become the largest Canadian manufacturer, marketer, exporter, distributor, and service provider of home appliances.

Camco has manufacturing facilities in Hamilton, Ontario and Montreal, Quebec, that produce ranges, refrigerators, dishwashers, and dryers. Camco also has a service network, run from our Customer Service Centre in Moncton, New Brunswick, of trained technicians for in-home service across Canada.



## Four Year Statistical Review

*(in thousands of dollars,  
except for per share amounts)*

	2002	2001	2000	1999
<b>OPERATIONS</b>				
Sales of products and services	<b>\$ 665,238</b>	\$ 617,182	\$ 697,196	\$ 638,336
Net income for the year	<b>11,121</b>	(3,995)	14,091	5,544
Percent to sales	<b>1.7%</b>	(0.6%)	2.0%	0.9%
Earnings per share	<b>0.56</b>	(0.20)	0.70	0.28
Return on shareholders' equity	<b>27.5%</b>	(13.6%)	39.1%	7.2%
Dividends paid	–	2,800	1,200	3,600
Dividends paid per share	–	0.14	0.06	0.18
<b>BALANCE SHEET</b>				
Working capital	<b>(16,376)</b>	(30,809)	(12,668)	(8,441)
Property, plant and equipment	<b>77,812</b>	88,419	91,789	94,004
Shareholders' equity				
Common shares	<b>37,442</b>	37,442	37,442	37,442
Retained earnings	<b>2,950</b>	(8,171)	(1,376)	39,743
	<b>40,392</b>	29,271	36,066	77,185
<b>Number of shares outstanding</b>				
<i>(in thousands)</i>	<b>20,000</b>	20,000	20,000	20,000
Book value per share	<b>2.02</b>	1.46	1.80	3.86

## To Our Shareholders

The 2002 fiscal year was a much-improved period for Camco as the Company returned to profitability after the challenges of 2001. The principal factors that drove this performance were a robust Canadian appliance market, solid sales execution, stable operations in both Plants and continued focus on costs.

### Canadian Appliance Sales

The Canadian appliance market grew a surprising 12% during 2002. Sales for the GE brand in Canada rose by more than 18%, demonstrating a significant shift towards higher value products. Central to this performance was growth in dishwashers, HandiHite refrigerators and dryers. The GE Max dishwasher was one of the most successful product launches in Camco's history. Offering state of the art electronics, the most versatile racking system, quiet performance and elegant styling, this platform exceeded estimates month after month. HandiHite refrigerator sales grew by 25% in Canada, continuing to demonstrate strong growth since its inception in 1998. Late in 2002, Camco announced a new dryer program, called Sahara, targeted at the market for stand-alone dryers in Canada. Given Camco's world-class cost and quality position in dryer manufacturing, we expect our dryer models to continue to be our high growth product opportunity.

We continued to work with major retailers and builders in 2002 to redefine appliance merchandising and distribution, producing benefits for consumers and for our partners. Driven by Camco's innovative home delivery capability, The Home Depot grew to be one of our most significant accounts in Canada. In addition, we started our relationship as the exclusive major appliance supplier to Costco, and we continued with our long-term strategic partnership with The Hudson's Bay Corporation. Camco also grew the number of GE Appliance Centres operated by our dealer/partners across Canada from 40 to 49. Our Builder business flourished in 2002 as we continued to add leading builders such as Calgary's Jayman Homes to our list of partners.

## Export and OEM Sales

Camco's export business from our Montreal facility regained momentum in 2002. Our export dryer sales to GE Consumer Products (GCEP) grew significantly to 711,000 units, which was well ahead of 2001 but still behind the record set in 2000. Camco's intention is to continue to increase our share of GCEP's dryer business by delivering superior quality, cost and innovation.

Unfortunately, export products from the Hamilton facility did not achieve a similar level of success in 2002. GCEP sales of HandiHite refrigerators were essentially flat with 2001 levels, which was disappointing. CustomStyle refrigerator sales were also disappointing and well below the contractual minimum volumes agreed with GCEP.

## Service and Service Contracts

The market for appliance service in Canada continued to decline in 2002. This fall was driven by two powerful influences. First, appliance reliability has improved dramatically during the past decade, reducing the need for service calls or replacement parts. Secondly, appliance prices have declined so significantly in recent years that consumers are much more inclined to replace appliances rather than call for service when they do experience a failure. Given this environment, Camco's focus in 2002 was to reduce capacity and costs without impacting service levels.

Camco's Service Contract business has been a profitable addition to the Company for several years. Recently, our focus has been on growing sales in channels and products outside of the core major appliance market. To address these growth opportunities with more scale and expertise, on January 6, 2003, we announced the formation of Comerco Service Inc. This new organization is comprised of Camco's Service Protection Plus (SPP)

program, the brokerage and backroom capabilities of Comerco Brokerage Plus Inc., and the assets of Eastern Warranty Inc. We are very excited by the growth opportunities available to this new, integrated company, and we look forward to receiving significant benefits as a shareholder.



*James R. Fleck, President and Chief Executive Officer*

## Plant Operations

The Montreal and Hamilton plant operations both ran well in 2002. In Montreal, productivity improvements offset price reductions in the market. Both dryer and dishwasher products experienced significant improvements in quality that was best demonstrated by a 15% reduction in GECP's already low US service call rate for Camco manufactured dryers.



*Charles H. Hantho, Chairman*

The Hamilton Plant operated well through a transition year. In 2002, Camco stopped manufacturing 16 and 18 cubic foot top mount refrigerators. The decision to cease production was made in 1999 in response to new Natural Resource Canada (NRCan) regulations mandating a 30% reduction in energy consumption by December 2002. The investment required by Camco to meet this target could not be justified, and as a result of our exit, no such units are manufactured in Canada.

## 2003 Priorities

Camco's priorities for 2003 are to drive growth in the Canadian market, increase dryer exports and focus on the strategic issues facing the Hamilton Plant and the Service business.

Our strategy for the Canadian market is to continue to build on our partnerships with leading retailers and builders to add value and to help increase their outlet share. We will continue to build our home delivery capability, as well as our web based technologies that allow our partners to work seamlessly with Camco. In terms of product, we will leverage the GECP system to source the most competitive products worldwide. We will continue to drive higher value added products, where the GE brand is most effective.

Our strategy for the export dryer business is straightforward – to exploit our position as the leading supplier of dryers to the GECP system through continued investment in innovation, cost and quality. The dryer business will be the focus of our investments during the next three years as we execute this strategy.

In an appliance market that is becoming increasingly global, the most significant challenge facing Camco is to determine a role for the Hamilton Plant. At current production levels,

the operations are not sustainable. As a result, the Company is currently evaluating four options including the development of additional product mandates, continuation of manufacturing at a reduced cost base, a sale of the facility, or a closure.

We anticipate another year of declining demand for consumer service and parts. The challenge in both of these businesses continues to be to position Camco as the service leader in Canada while restructuring the organization to match market requirements.

## People

The Company's success in 2002 was driven by the creativity, energy and perseverance of the Camco team. The appliance industry has many challenges and, at Camco, our expectations for each other are very high. However, in the right culture, rising to any challenge can be fun and invigorating. We encourage people to take risks and try new things, and we take the time to celebrate our successes. We actively promote teamwork, recognizing that complex, new projects like direct to home delivery can only be implemented by the active participation of many people in many different functions. We respect work-family balance because we recognize that well-rounded employees are our most important assets.

Our focus on building a positive work atmosphere is paying off. Last year we completed an analysis of our employee attrition rate. Losing employees is very damaging to the organization, as it can take months or years to recruit or train a new person who may never be as effective as the one who left. We were very pleased to conclude that our attrition rate has declined steadily and significantly over a multi-year period. We will continue to build on this positive work culture at Camco, and to measure our performance.

In conclusion, thank you for your support in 2002. We look forward to 2003 with a clear focus on our priorities – driving growth in Canada, building our position as the primary dryer supplier to GECP and resolving the strategic options for the Hamilton Plant.



Charles H. Hantho  
Chairman



James R. Fleck  
President and Chief Executive Officer



# Management Discussion and Analysis

## Results of Operations – Overview

### Financial Highlights

The Company returned to profitability in 2002 and recorded net income of \$11.1 million (\$0.56 per share) on sales of \$665 million. A net loss of \$4.0 million was recorded in 2001 principally as a result of a 10-week strike in the Montreal facility and the recognition of one-time start-up and restructuring costs. Full production coupled with new product introductions and a strong domestic market contributed to the Company's profit recovery.

Comparative results for 2002 and 2001 by quarter are:

<i>(\$ millions except for per share data)</i>	Sales	Income from Operations	Net Income	Income from Operations per Share	Net Income per Share
March – 2001	\$ 138.9	\$ 1.4	\$ 0.8	\$ 0.07	\$ 0.04
June – 2001	130.4	(6.4)	(4.2)	(0.32)	(0.21)
September – 2001	168.7	0.3	(0.1)	0.02	(0.01)
December – 2001	179.1	0.5	(0.5)	0.02	(0.02)
<b>Total 2001</b>	<b>617.1</b>	<b>(4.2)</b>	<b>(4.0)</b>	<b>(0.21)</b>	<b>(0.20)</b>
March – 2002	\$ 136.7	\$ 0.6	\$ 0.2	\$ 0.03	\$ 0.01
June – 2002	175.5	5.1	2.9	0.26	0.15
September – 2002	170.6	3.5	1.9	0.18	0.10
December – 2002	182.4	10.2	6.1	0.50	0.30
<b>Total 2002</b>	<b>665.2</b>	<b>19.4</b>	<b>11.1</b>	<b>0.97</b>	<b>0.56</b>

## Canadian and US Market Overview

In 2002, the Canadian major appliance market as reported by the Canadian Appliance Manufacturer's Association (CAMA), grew by 12.2% to 3.5 million units. This increase, which has not been seen in decades, was driven principally by new home construction and resale home activity. New home construction increased 25.9% as builders started 205,000 homes, townhouses, and condominiums during the year. December results, on an annualized, seasonally adjusted basis, showed 198,500 starts leading industry experts to believe that the high level of demand will continue into 2003. Resale housing activity in major markets ended the year with over 296,000 units being sold representing an increase of over 10.2%. Low mortgage rates, growing employment, and increased incomes are factors that contributed to the new home sales and resale activity.

As reported by Stevenson & Co., the US major appliance market was also strong in 2002 with growth of approximately 6.6% over the year to 41.1 million units. New home starts and resales were up 4.6% and 4.7% respectively as consumers took advantage of low mortgage rates.

## Results of Operations – Statement of Income

### Sales

The Company's revenues were \$665.2 million in 2002 up 7.8% from \$617.2 million in 2001. Domestic and export revenues were adversely impacted in 2001 by a 10-week labour disruption in the Montreal facility where dryers and dishwashers are manufactured. Export sales of \$266.4 million were up \$30.0 million (13%) from 2001. Despite general economic uncertainty in 2002, domestic demand remained very strong with sales of \$398.8 million compared to \$380.8 million in 2001.

### Operating Costs

Total operating costs of \$644.5 million in 2002 were up \$27.1 million from \$617.4 million in 2001. The increase in operating costs is attributable to higher variable costs as a result of higher volume. Higher employee wages (which were approximately 3.5% greater than in 2002) were offset by operational productivity improvements.

### Unusual Items

In 2002, three non-operational items of note were recorded:

1. On December 2, 2002, the Company received notification from the Financial Service Commission of Ontario approving the merger of two Company pension plans. As a result of the approval, the Company was able to reduce 2002 pension expense from \$5.1 million to \$2.6 million;
2. Under the supply agreement between the Company and the Consumer Products division of GE (GECF), GECF committed to purchase a minimum annual volume of CustomStyle™ refrigeration units through to December 31, 2005. GECF purchases of these units in 2002 were well below its contractual obligation. In December 2002, GECF agreed to pay Camco \$1.8 million in compensation for units not ordered;
3. As a result of discontinuing the manufacture of 16 and 18 cubic foot top-mount refrigerators in the Hamilton facility in 2002, the Company recorded \$1.4 million in severance, obsolescence, and asset write-down costs in the fourth quarter.

### Interest and Other Expenses

Principally as a result of increased borrowings to finance working capital and capital investments, interest and other expenses increased from \$1.5 million in 2001 to \$1.7 million in 2002.

### Income Taxes

On pre tax income of \$17.7 million, the Company recorded a tax expense of \$6.5 million, (an effective rate of 37%). In 2001, with a pre tax loss of \$5.7 million, the Company recorded a tax credit of \$1.7 million (an effective tax rate of 29.3%). The increase in the effective tax rate is principally attributable to large corporation and capital taxes that, in 2001, offset the federal and provincial tax credit recorded on the pre-tax income loss.

## Results of Operations – Cash Flows

### Overview

The Company ended the year with cash and cash equivalents on hand of \$3.7 million, which was down \$9.0 million from 2001. The principal activities affecting the Company's cash position were as follows:

### Cash Flows from Operating Activities

Total cash used in operations amounted to \$13.9 million in 2002 compared to cash generated of \$15.7 million in 2001. There were three primary factors that contributed to the year over year variance:

1. Incremental cash used for working capital requirements amounted to \$23.0 million in 2002 versus \$16.7 million of cash generated in 2001. As a result of the Montreal strike in 2001, the Company invoked a cash management program that reduced inventories by \$15.2 million and increased accounts payable balances by \$9.9 million. Upon recovery from the strike in 2002, the Company increased inventory levels by \$11.1 million and reduced accounts payable balances by \$20.9 million. In addition, the Company's sundry receivable balance decreased in 2002 by \$6.9 million principally as a result of the collection of a temporary advance of \$6.6 million that was required in December 2001. The advance was required as collateral for a segment of the receivables sold under the securitisation program. These items were normally secured by a letter of credit that expired in December and was subsequently renewed in January 2002.
2. The second contributing factor that resulted in operational cash usage was the Company's pension funding obligations. In 2002, the Company contributed \$28.9 million in cash to pension plans versus \$19.2 million in 2001.
3. Increased working capital and pension cash requirements were offset by the generation of positive income (\$11.1 million) in 2002 versus a loss of (\$4.0 million) in 2001.

### **Cash Flows from Investing Activities**

Total capital asset additions were \$6.7 million in 2002 versus \$13.7 million in 2001. Approximately \$4.2 million was spent in the Montreal plant while \$2.5 million was invested in the Hamilton facility and other areas.

### **Cash Flows from Financing Activities**

In 2002, the Company increased its net borrowings by \$10.8 million. The Company drew \$12.0 million from a new long-term debt facility, retired \$0.8 million of a Quebec Government loan, and reduced the amount drawn under its operating line by \$0.4 million. The Company anticipates that it will draw an additional \$3.0 million from its long-term debt facility in 2003 principally to fund expansions in the Montreal facility.

Unlike 2001, the Company did not pay any dividends in 2002. In prior years, the Company has used a dividend formula that is based on a percentage of the net income of the preceding year. Since the Company recorded a net loss in 2001, a dividend was not declared in 2002.

The Board of Directors, at a meeting held on February 27, 2003, elected not to declare a 2003 dividend on the Company's common shares. Pursuant to the Company's dividend policy, the Board has historically declared a dividend if the Company generates positive income in the preceding year; the amount of such dividend being based on the Company's ratio of average debt to average equity. After considering the Company's future cash requirements for capital investments, pension funding provisions, and uncertainties regarding the resolution of options for the Hamilton facility, the Board determined that it is in the best interests of the Company not to declare a dividend to preserve cash for future obligations.

## **Liquidity**

### **Available Financial Resources**

In addition to cash generated from operations, the Company currently has four sources of available credit to finance its working capital and investment requirements. The first is a \$40 million dollar revolving line of credit that is renewed on an annual basis. The existing agreement expires on July 11, 2003, and the Company currently expects to renew the

agreement. At December 31, 2002, \$7.6 million of the line of credit was drawn versus \$8.0 million in 2001. The second form of credit is a \$15 million term facility that the Company established in 2002. At December 31, 2002, \$12 million was drawn on this facility. The third form of credit is a \$0.8 million interest free note from the Governments of Quebec and Canada that was issued to finance the Company's investment in the Montreal facility's dryer program in 1993. The final annual instalment of \$0.8 million is due in October 2003. The fourth form of financing is two accounts receivable securitisation facilities. In the first facility, the Company sells eligible trade receivables on a revolving basis to a special purpose trust sponsored by a Canadian financial institution. On both December 31, 2001 and 2002, \$60 million in outstanding trade receivables were sold as part of the program. This agreement extends through to September 2003 and the Company expects to renew the agreement. The second securitisation program pertains to the sale of receivables for retailer floor plans. At December 31, 2002, \$4.7 million (2001: \$4.4 million) of receivables were sold in this program. This agreement was renewed in January 2003. If the securitisation facilities were terminated, the Company would need to arrange new credit or securitisation programs.

The Company's borrowing needs typically increase during the first half of the year due to the payment of prior year volume rebates, employee bonuses, the technology fee payment to GE Canada and an inventory build-up prior to the annual plant shutdowns in July. The availability of financing under the accounts receivable securitisation program is also lower in the first quarter of the year due to lower available receivables due to the seasonality of sales.

<b>Contractual Obligations</b>	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Long Term Debt	\$ 12.8	\$ 2.3	\$ 6.0	\$ 4.5	–
Capital Lease Obligations	–	–	–	–	–
Operating Leases	7.7	3.5	3.6	0.6	–
Unconditional Purchase Obligations	91.8	91.8	–	–	–
Other Long Term Obligations	–	–	–	–	–
<b>Total Contractual Obligations</b>	<b>112.3</b>	<b>97.6</b>	<b>9.6</b>	<b>5.1</b>	<b>–</b>

### Exposure to Exchange Rate Fluctuations

The Company manages its exposure to exchange rate fluctuations through a periodic review of net commitments and the selective use of a variety of currency hedging instruments. For review and analysis on the Company's financial instruments, please see note 20 accompanying the financial statements.

## Capital Resources

### Short and Long Term Financing Requirements

The Company's future financing requirements will principally be dominated by two components. The first is investment in facilities, product development, capital, tooling, and cost reduction programs to ensure future quality, product feature, and cost competitiveness. In 2003, the Company anticipates that it will spend \$26.7 million in capital expansion, product, and productivity programs compared with \$15.5 million in 2002. The other major financial requirement will be the funding of the Company's pension plan deficiencies. Based on the December 31, 2001 actuarial valuation of the plans, the Company has a solvency deficit of \$48.9 million on assets of \$232.2 million and a going concern deficit of \$5.3 million. As a result of the requirement to fund solvency deficits over 5 years, the Company anticipates a \$28.0 million pension-funding requirement in 2003 versus \$28.9 million paid in 2002. Subject to the following paragraph, the Company anticipates that it will be able to meet its requirements from currently available financial resources however, in order to pursue other opportunities over and above those outlined above and to provide greater financial flexibility, the Company is currently exploring additional financing alternatives.

The Company is exploring various options pertaining to the Company's Hamilton manufacturing facility (See: Factors Affecting Current and Future Operations – Manufacturing Hamilton). Depending upon any decisions made with respect to the plant, the Company may need to renegotiate its existing credit facilities and/or obtain additional financing. No decision with respect to financing requirements has been made at this time.

Amount of Commitment Expiration per Period					
<b>Contractual Commitments</b>	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	Over 5 years
Lines of Credit	\$ 55.0	\$ 41.5	\$ 6.0	\$ 7.5	–
Standby Letters of Credit	–	–	–	–	–
Guarantees	–	–	–	–	–
Standby Repurchase Obligations	–	–	–	–	–
Other Contractual Commitment	0.8	0.8	–	–	–
<b>Total Contractual Commitments</b>	<b>55.8</b>	<b>42.3</b>	<b>6.0</b>	<b>7.5</b>	<b>–</b>

## Factors Affecting Current and Future Operations

The Company's strategic vision to maximize customer and shareholder value can be summarized in the following four elements:

*Manufacturing:* Produce products for the North American market where manufacturing competitive advantages exist and source non-manufactured products from the best global supplier;

*Domestic Distribution:* Maintain position as a leading full line marketer of major appliances in Canada, seeking opportunities to leverage the Company's Canadian distribution strengths and resources by selling distribution services, working with customers to define alternative retail formats, and offering complimentary products;

*Service:* Expand the In-home Service Repair business by utilizing the Company's national network of trained technicians and support facilities;

*Business Development:* Grow and diversify the revenue base through prudent acquisitions.

## Manufacturing – Hamilton

The year 2002 was a period of stabilization for the Hamilton production operation. In 2001, numerous changes were undertaken to retool the refrigeration lines to meet new Department of Energy (DOE) guidelines. With a much more stable operation in 2002, the plant met production targets.

As of December 31, 2002, the Hamilton manufacturing facility continued to produce three lines of refrigeration products for the domestic and export market and range products for the Canadian market. The Company ceased production of 16 and 18 cubic foot top mount refrigeration models in 2002 because the investment required to meet new energy standards on these models was prohibitive to future manufacturing viability. The Company is purchasing its requirements for these products from GECP and other manufacturers. The remaining refrigeration products manufactured in the facility are the CustomStyle™ model (a 22 cubic foot top freezer unit), the Handi-Hite™ model (an 18 cubic foot bottom freezer unit), and a 12 cubic foot top freezer model. Each of these models has historically been sold in Canada, however a significant market, particularly for the CustomStyle™ model, exists in the United States through GECP.

Each of the remaining product lines has significant uncertainties associated with it. The Company has been informed that GECP will be discontinuing the purchase of 12 cubic foot refrigeration models from the Company in the second quarter of 2003. The annual volume loss is estimated at 17% of total refrigeration production in the Hamilton facility. No replacement purchaser for this volume has been identified at this time. GECP has also informed the Company that it will be expanding its bottom mount refrigerator product offering in the United States during 2003 by purchasing a 20 cubic foot product from a new third party supplier. Although GECP has indicated that it expects to continue to purchase the 18 cubic foot Handi-Hite™ model from the Company, GECP has not made a firm volume commitment to the units they may purchase. The Company is concerned that the introduction by GECP of the new 20 cubic foot bottom mount refrigerator product may reduce export growth opportunities for the Handi-Hite™ product and impact future sales of the product to GECP. In addition, the CustomStyle™ refrigerator, on which

the Company has made significant capital and program expenditures, has not attained the market acceptance that was anticipated when the product was developed and launched. The product continues to require program expenditures to meet quality expectations and GECP's purchase commitment for this product expires on December 31, 2005.

The Company is currently exploring options with respect to the Hamilton manufacturing facility. These options include the development of additional product mandates for the plant, continuation of manufacturing at the plant on the same or a reduced basis, a sale of the facility, or closure of the plant. Each of these options involves consideration of a number of different factors. A decision to manufacture new products could involve significant expenditures on equipment, facilities and training. A sale or closure of the plant or a reduction in its operations could result in a write down of asset values and the incurrence of costs associated with reducing the size of the work force at the facility. No decision on these options has been made at this time.

#### **Manufacturing – Montreal**

In 2002, the Montreal facility experienced both domestic and export volume recoveries from the 10-week labour disruption in 2001. The facility re-established credibility with its principal customers by achieving significant improvements in quality, productivity, and cost reductions.

In the spring of 2002, the Montreal plant completed a \$3.0 million investment in a new high-end dishwasher platform known as GE Max™ which has achieved “Energy Star” rating for both the US and Canadian markets. This investment also positions the Company well for further exports to GECP pending US market demands. In late 2002, the Montreal plant began production of a new clothes dryer model known as “Edison”. This new product was launched in January 2003 and is a product extension of the “Wizard” model launched in 2001.

A significant portion of the production in the Montreal facility is sold to GECP. The Company and GECP are parties to a supply contract under which GECP has committed to purchase a minimum volume of dryers. The Company fulfilled its supply obligations under the agreement during 2002. The agreement expires on December 31, 2003, and discussions relating to the extension of the agreement are continuing.

### Canadian Distribution

The Canadian retail and builder markets were characterized by significant growth and increased competition in 2002. Asian-based manufacturers increased their position in the Canadian market, at the expense of North American manufacturers, through aggressive pricing strategies. Competition among retailers also intensified with several major new participants entering the market.

By offering products from our own manufacturing facilities, from GE and its affiliates, and from other companies around the world, the Company continued to market a full line of appliances to all customer segments. With continued manufacturing rationalization, finished goods purchased by the Company from third parties continues to grow as a percentage of total Canadian sales.

The Company's distribution agreement with Amana was concluded on December 31, 2001, following Maytag's acquisition of the company. The Company continues to seek similar relationships with other manufacturers to expand its position as the leading full line marketer, distributor, and servicer of major appliances in Canada.

During 2002, the Company continued to invest in the development of 'value-added' services to support its customer base. Significant progress was made in the area of 'home delivery', which is now performed by the Company on behalf of customers in all channels. The Company's Customer Centre in Moncton and strategic investments in systems contributed to this process.

In May 2002, the Company also launched, on a national basis, its business-to-business extranet allowing retail customers to access product and inventory information and place orders on-line. This allows customers and the Company sales resources to work with increased effectiveness.

The Company also continued to invest in its website, [www.geappliances.ca](http://www.geappliances.ca). Consumer traffic increased significantly again in 2002. Published research in Canada continues to show the importance of the internet in pre-purchase information gathering.

On August 1, 2000, the Canadian International Trade Tribunal (CITT) found that the dumping of certain top-mount refrigerators, electric household dishwashers, and gas and electric laundry dryers made by or on behalf of Whirlpool and White Consolidated Industries that were exported from the United States, had caused injury to the Company and issued an order to that effect. Two separate binational panels under NAFTA reviewed and affirmed on January 16, 2002 and April 15, 2002, respectively, the decisions of the CITT on injury and the final determination of dumping of the Commissioner of the Canada Customs and Revenue Agency. The Company has obtained some modest benefits from these rulings, but overall, is not completely satisfied with the level of protection. The Company continues to monitor market activities and is working with relevant authorities to achieve stronger enforcement.

### **Service Business**

The Company's in-home Service Business faces the challenges of a declining market due to improved product quality and the growing bias of consumers to replace rather than repair older appliances. Despite this industry trend, the Company's Service Business enjoyed significant margin improvement in 2002 due to market share growth in renewal parts, tight cost controls, and e-productivity improvements driven by technology investments made in 2001.

New handheld computers for technicians enable electronic dispatching and capture of detailed work order information. Expansion of the company's internet application for appliance parts provided customers with the opportunity to access pricing, availability, drawing number information, and to place orders on-line 24 hours a day, 7 days a week. Almost twenty percent of orders are now received on-line and this number is growing steadily. Technology investments in the central parts warehouse has enabled consistent same-day shipping over the past 15 months thereby enhancing customer confidence and loyalty.

### **Business Development**

The Company's extended warranty business entered into a new joint venture agreement with Comerco Brokerage Plus Inc. on January 1, 2003. The new joint venture, Comerco Services Inc., will be based in Laval, Quebec, and will offer the capability of formulating, implementing

and servicing extended warranty programs across Canada and the U.S. This venture will combine the Company's marketing and product development capabilities with Comerco Brokerage's brokerage and contract administration expertise.

## Other Factors Affecting Current and Future Operations

### The Appliance Market

There are a number of risks inherent in the appliance market that the Company faces. Consumers consistently require improvements in product features, quality and price that require continuous investment in product development. With the reduction in trade barriers throughout the 1990's and the subsequent market globalization, industry overcapacity exists forcing manufactures to rationalize operations. Although the Company's domestic sales are not dependent on any single customer, its export sales are primarily to the Consumer Products Division of General Electric Company (GECP). The Company has two significant supply agreements with GECP:

- The current dryer supply agreement, reached in March 1999, is effective through to December 31, 2003. This agreement provides for the Company to supply certain models of dryers to GECP with purchase guarantees of a minimum quantity of 2.7 million dryers.
- The second agreement reached in 1996 running through to December 31, 2005, provides for the Company to supply to GECP CustomStyle™ refrigerator products from its Hamilton facility.

The Company's ability to maintain this relationship with GECP and to profitably sell products is dependent on the Company being competitive in price, quality, features and delivery in the North American market.

### Asian Entrants

In recent years, a number of Asian manufacturers have entered the Canadian major appliance market. The entrance of these new suppliers has intensified pricing pressures in a market that has already undergone a number of structural changes as a result of North American rationalisation.

### Environment Legislation - Hydrochlorofluorocarbon (HCFC)

HCFC is a substance that depletes the ozone layer and is used in the manufacturing of refrigeration products. The Montreal Protocol, which was endorsed by the Canadian Government, calls for an HCFC reduction of 35% by the end of 2004 and a 65% reduction by the end of 2010. In the U.S., the Environmental Protection Agency (EPA) has legislated the banishment of certain HCFC's by January 1, 2003. In order to comply with the 2003/4 EPA and Montreal Protocols, the Company completed refrigeration product conversions in 2002.

### GSW Litigation

GSW Inc. ("GSW"), which holds 20% of the Company's shares, served the Company's majority shareholder, GE Canada and its parent GE with a statement of claim in late 2000 alleging that GE Canada and GE have dealt with the Company in a manner that has been oppressive to the Company's minority shareholders. In the statement of claim, GSW has requested an order that GE Canada or GE make an offer to GSW and other minority shareholders to purchase their shares at a value to be determined by the court. Although the Company was initially named as a defendant in the proceeding, no claim was made against or relief sought from Camco. GSW and GE have subsequently agreed that the Company be removed as a party from the claim. The action could take several years to resolve and is not expected to effect the day-to-day operations of the Company's business.

### Patents and Trademarks

The Company entered into technology, trademark and patent licensing agreements with GE and GE Canada dated January 1, 1977. During 1993, GE and GE Canada agreed with the Company to extend the minimum term of the agreements from 1998 to January 1, 2006, and to provide that the agreements may only be terminated with at least six years notice. Under the terms of the agreements, the Company has been granted rights to Canadian patents and other technology and intellectual property of GE and GE Canada relating to the design, manufacture, and production of major appliances. The Company does not have any rights in GE patents or trademarks outside of Canada. The Company is also the licensee of the GE and Hotpoint trademarks for use in connection with the sale of major appliances in Canada. The Company owns the Moffat and McClary trademarks.

## Labour Relations

In 2001, agreements extending to 2004 were renewed with all unions representing Company employees.

## Related Party Transactions

General Electric Canada Inc. ("GE Canada"), a subsidiary of the General Electric Company ("GE"), owns 51% of the common shares of the Company. The Company has entered into agreements with GE Canada and GE which grant the Company a license to use certain GE Canada and GE trademarks, access to technical information of GE Canada and GE relating to the design, manufacture and production of major appliances, as well as a non-exclusive license to use GE Canada and GE patents.

The compensation payable by the Company to GE Canada pursuant to these agreements is an annual fee equal to one percent of the net sales billed less outbound transportation in each year during the term of the agreements excluding sales of: (a) large capacity dryers, (b) CustomStyle™ refrigerator, (c) service parts sold or otherwise disposed of by the Company, and (d) product types not manufactured by GE and on which the Company pays royalties to some other person. During the fiscal year ended December 31, 2002, the amount of \$4.1 million was paid or payable to GE Canada by the Company under these agreements. During the same period, the Company made sales to and purchases from GE Canada and GE of products, components and services in the ordinary course of business.

The Board of Directors annually reviews a summary of the payments to and received from GE Canada and GE for products, components and services purchased or rendered. In the aggregate, sales were \$253 million (2001: \$224 million) and purchases were \$118 million (2001: \$86 million). In light of the business relationships between the Company and its significant shareholder, GE, the Special Committee of the Board of Directors fulfils an important role in reviewing certain transactions and formulating policies and plans governing arrangements with GE Canada, its parent company GE and their respective affiliates. In particular, the Special Committee reviews and instructs management with respect to negotiations of multi-year agreements valued at greater than \$5.0 million and provides guidance and reviews summaries of other transactions with GE Canada, GE and their respective affiliates.

## Critical Accounting Policies

The notes to Camco's December 31, 2002, financial statements outline the Company's significant accounting policies. The policies discussed below are considered particularly important, as they require management to make significant judgements, some of which may relate to matters that are inherently uncertain:

### *Allowances for Future Warranty Claims*

Anticipated future costs of product warranties are expensed in the year the product is sold or as soon as a specific issue is identified. The balance of the reserve is management's best estimate of warranty liabilities for in-service products that are within warranty periods. The reserve is based on historical repair frequencies and costs.

### *Pension and Other Future Employee Benefits*

The Company's pension and other post retirement benefit expenses are calculated by actuaries based on assumptions determined by management. These assumptions include the long-term rate of return on pension assets, the rate of future compensation increases, discount rates for pension and other future employee benefit obligations, and health care inflation trends. Additional information regarding the accounting for pension and other post retirement benefit expenses is contained in note 16 of the financial statements.

For both warranty and post retirement benefit expenses, if actual experience differs from assumptions made, future expenses could increase or decrease.

## Corporate Governance

### Corporate Governance

The elements of the Company's vision have been developed in concurrence with the objectives of the Board of Directors to realize maximum shareholder value. Detailed corporate governance disclosure, as it relates to the Board of Directors, is incorporated into Camco's 2002 Management Proxy Circular.

*The Company's MD&A includes statements and expectations about future performance that are based on assumptions, uncertainties, and management's best estimates of future events. As a result, readers are cautioned that actual results may differ from expected results.*

# Auditors' Report

## To the Shareholders of Camco Inc.

We have audited the balance sheet of Camco Inc. as at December 31, 2002 and the statements of operations and retained earnings (deficit) and cash flows for the year 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 audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2001 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated January 18, 2002.

*Deloitte + Touche LLP*

Chartered Accountants

Mississauga, Ontario

January 17, 2003



# Balance Sheet

As at December 31, 2002 (in thousands of dollars) 2002 2001

## ASSETS

### Current Assets

Cash and cash equivalents	\$ 3,724	\$ 12,728
Accounts receivable – trade (Note 4)	884	3,736
Accounts receivable – other (Note 3)	7,547	14,495
Inventories (Note 5)	58,441	47,311
Future income taxes (Note 12)	17,527	16,033
Prepaid expenses and other assets	4,349	2,979

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**92,472** **97,282**

Future Income Taxes (Note 12) – 3,527

Property, Plant and Equipment (Note 7) 77,812 88,419

Accrued Benefit Asset (Notes 8 and 16) 44,351 18,048

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**\$ 214,635** **\$ 207,276**

## LIABILITIES

### Current Liabilities

Operating line of credit	\$ 7,585	\$ 8,000
Current portion of long-term debt (Note 9)	2,296	796
Accounts payable and accrued liabilities	85,940	93,495
Due to affiliates, net (Note 14)	11,750	25,126
Income taxes payable	1,277	674

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**108,848** **128,091**

Future Income Taxes (Note 12) 3,198 –

Long-Term Debt (Note 9) 10,500 796

Other Long-Term Liabilities (Note 16) 51,697 49,118

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**174,243** **178,005**

## SHAREHOLDERS' EQUITY

Common shares		
Authorized – unlimited		
Issued and outstanding – 20 million shares	37,442	37,442
Retained earnings (deficit)	2,950	(8,171)

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**40,392** **29,271**

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**\$ 214,635** **\$ 207,276**

Approved on behalf of the Board



Kenneth Harrigan, Director



James Fleck, Director

The accompanying notes are an integral part of these financial statements.

# Statements of Operations and Retained Earnings (Deficit)

Year ended December 31, 2002 <i>(in thousands of dollars)</i>	2002	2001
SALES OF PRODUCTS AND SERVICES	\$ 665,238	\$ 617,182
Operating Costs		
Employee compensation including benefits	145,986	136,023
Material, supplies, services and other costs	498,526	481,410
	<b>644,512</b>	617,433
Income (Loss) From Operations Before Start-up Costs and Restructuring Costs	20,726	(251)
Refrigeration Start-up Costs (Note 10)	-	1,419
Restructuring Costs (Note 11)	1,356	2,489
Income (Loss) From Operations	19,370	(4,159)
Interest and Other Expenses, net	(1,718)	(1,495)
Income (Loss) Before Income Taxes	17,652	(5,654)
Income Taxes (Note 12)	(6,531)	1,659
NET INCOME (LOSS)	<b>\$ 11,121</b>	\$ (3,995)
Earnings (Loss) Per Share, Basic and Diluted (Note 13)	<b>\$ 0.56</b>	\$ (0.20)
Deficit, Beginning of Year	<b>\$ (8,171)</b>	\$ (1,376)
NET INCOME (LOSS)	<b>11,121</b>	(3,995)
Dividends, declared and paid	-	(2,800)
RETAINED EARNINGS (DEFICIT), end of year	<b>\$ 2,950</b>	\$ (8,171)

*The accompanying notes are an integral part of these financial statements.*

# Statement of Cash Flows

Year ended December 31, 2002 <i>(in thousands of dollars)</i>	2002	2001
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 11,121	\$ (3,995)
Add items not affecting cash		
Depreciation and amortization	16,498	17,056
Post employment benefits	7,514	8,031
Future income taxes	5,231	(358)
	<b>40,364</b>	20,734
Net (increase) decrease in working capital (Note 6)	<b>(23,028)</b>	16,731
Post employment benefits funding	<b>(31,238)</b>	(21,722)
	<b>(13,902)</b>	15,743
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment additions	<b>(6,719)</b>	(13,686)
Property, plant and equipment disposals	828	-
	<b>(5,891)</b>	(13,686)
<b>FINANCING ACTIVITIES</b>		
Dividends	-	(2,800)
Sale of accounts receivable	-	5,000
Increase (decrease) in borrowings	11,204	(13,296)
Increase (decrease) in operating line	(415)	8,000
	<b>10,789</b>	(3,096)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,004)</b>	(1,039)
Cash and Cash Equivalents, beginning of year	<b>12,728</b>	13,767
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 3,724</b>	\$ 12,728
Cash flows include the following elements:		
Interest paid	\$ 1,266	\$ 1,317
Income taxes paid	\$ 186	\$ 982

*The accompanying notes are an integral part of these financial statements.*

# Notes to Financial Statements

## 1. Nature Of Business

Camco Inc. ("the Company") is incorporated under the laws of Canada. The Company's majority shareholder is General Electric Canada Inc. ("GE") and its largest minority shareholder is GSW Inc. The outstanding common shares of the Company are listed on the Toronto Stock Exchange. The Company manufactures and distributes major household appliances in Canada and also exports product primarily to the United States.

## 2. Significant Accounting Policies

### Sales of products and services

Sales of products and services to customers are reported when title to products passes to the customer or when services are performed. Sales are net of customer volume rebates and cash discounts.

### Cash and cash equivalents

Cash is represented by cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash, have a maturity of less than 3 months, and are subject to an insignificant risk of change in value.

### Inventories

Raw materials and work in progress inventories are recorded at the lower of cost and replacement cost. Finished goods inventories are recorded at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method and comprises the cost of material, direct labour and applied manufacturing overhead.

### Property, plant and equipment

Property, plant and equipment are stated at cost less related investment tax credits and government incentives.

Property, plant and equipment are depreciated using a sum of the years' digits method based on the estimated useful lives of the assets as follows:

Buildings	10 to 40 years
Machinery and equipment	4 to 20 years

Tooling and software expenditures over \$2.5 are capitalized and amortized over 5 years using the straight-line method. Maintenance and repair expenditures are expensed as incurred.

### Income taxes

The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance to reduce future tax assets when it appears more likely than not that the asset will not be realized.

### Product warranty costs

A provision for potential warranty claims is provided for at the time of sale, based on warranty terms and prior claims experience.

### Foreign currency translation

Foreign currency monetary assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Foreign currency revenues and expenses are translated at the rates prevailing at the transaction date. Gains and losses on current monetary assets and liabilities resulting from the translation of foreign currencies are recognized in the statement of operations during the year in which they arise.

### **Securitisations**

Effective July 1, 2001, the Company adopted Canadian Institute of Chartered Accountants Accounting Guideline 12, Transfers of Receivables, (AcG 12), for its Receivables Purchase and Sale Agreements. The guideline addresses the accounting requirements for the transfer and servicing of receivables. AcG 12 is to be applied on a prospective basis. In accordance with the provisions of AcG 12, a portion of the securitisation portfolio continues to be accounted for and disclosed under the previously applicable accounting guidance.

Under AcG 12, transfers are accounted for as sales when the Company is considered to have surrendered control over the transferred accounts receivables and receives proceeds, other than a beneficial interest in the assets sold. Losses on these transactions are recognized as other expenses and are dependent in part on the previous carrying amount of the receivables transferred, which is allocated between the receivables sold and the retained interest, based on their relative fair value at the date of the transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable, and credit loss ratios. The receivables are transferred on a fully serviced basis. The Company recognizes a servicing liability on the date of the transfer and amortizes this liability to income over the expected life of the transferred receivables.

### **Employee benefit plans**

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies:

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Net actuarial gains (losses) over 10% of the benefit obligation or the fair value of plan assets are amortized to operations over the average remaining service period of active employees. The average remaining service period of active employees covered by the Company's benefit plans is 13 years.

### **Stock-based compensation**

Effective January 1, 2002, the Company adopted CICA 3870, Stock-based Compensation and Other Stock-based Payments. This standard establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that all stock-based awards made to non-employees be measured and recognized using a fair value based method. The standard encourages the use of a fair value based method for all awards granted to employees, but only requires the use of a fair value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets. Awards that a company has the ability to settle in stock are recorded as equity, whereas awards that the entity is required to or has a practice of settling in cash are recorded as liabilities.

The Company offers Stock Appreciation Rights ("SARs"), the details of which are described in Note 17.

The Company has historically accounted for these SARs according to the requirements of 3870, as such, no transition adjustment is recorded upon adoption.

### **Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

### 3. Accounts Receivable

The "accounts receivable – other" balance of \$7,547 (2001 - \$14,495) has decreased principally as a result of two items. The first is a temporary advance of \$6,549 that was required in 2001 as collateral for a segment of the receivables sold under the securitisation program. These items are normally secured by a letter of credit that expired in December and was subsequently renewed in January 2002. The second item of \$2,100 was amounts due for returned products, as a result of the cancellation of the Company's Canadian distribution agreement with Amana in December 2001.

### 4. Securitisations

(a) Under an agreement dated September 28, 1995, the Company may sell up to \$60 million of non-interest bearing trade receivables to a securitisation trust on a revolving basis. The Company retains an interest in the transferred receivables equal to the amount of the required reserve amount. Pursuant to the agreement, the Company continues to service the pool of receivables and its interest in collections is subordinated to the trust's interest. The purchaser will re-invest the funds from collections in the purchase of additional interests in the Company's receivables until the expiration of the agreement on September 27, 2003. As of December 31, 2002, the outstanding balance of the securitized receivables is \$60,000, of which \$45,500 continues to be accounted for under the previously applicable guidance. The servicing liability outstanding with respect to the transfers accounted for under AcG 12 is nominal as at December 31, 2002. For the year ended December 31, 2002, the Company recognized a pre-tax loss of approximately \$1,900 relating to these transfers.

(b) Under an agreement dated September 22, 2000, the Company may sell receivables related to the floor stock receivables for a specific customer to a third party. On January 22, 2002, the Company sold \$4,334 of such non-interest bearing trade receivables, all of which were outstanding on December 31, 2002.

The Company estimates the fair value of its retained interest and computes the loss on sale using a discounted cash flow model. The key assumptions underlying these models are:

Cost of funds	3.16 – 5.00%
Weighted average life in days	37 – 365 days
Average credit loss ratio	1%
Servicing fee liability	2%

The sensitivity of the current fair value of the retained interest or residual cash flows for each agreement to an immediate 10 percent and 20 percent adverse change in each of the above assumptions is not significant.

The table below shows certain cash flows received from and paid to the securitisation trusts for the year ended December 31, 2002:

Proceeds from new securitisation	\$ 4,334
Proceeds from revolving reinvestment of collections	\$709,834

At December 31, 2002, the Company has recorded the following amounts:

Accounts receivable – trade and due from affiliates	\$ 69,307
Less: securitized receivables	\$ (64,334)
	<u>\$ 4,973</u>

The \$4,973 is recorded within accounts receivable-trade and due from affiliates and includes a retained interest in the transferred receivables of approximately \$3,600. The greater than 90 day balance outstanding at December 31, 2002 is \$1,569. Credit losses for the year were \$625.

### 5. Inventories

	2002	2001
Finished goods	\$ 44,107	\$ 32,663
Raw materials and work in progress	14,334	14,648
	<u>\$ 58,441</u>	<u>\$ 47,311</u>

## 6. Change In Working Capital

Change in working capital includes changes in the following accounts:

	2002	2001
Accounts receivable – trade	\$ 2,852	\$ 6,363
Accounts receivable – other	6,948	(11,006)
Inventories	(11,130)	15,246
Prepaid expenses and other assets	(1,370)	(533)
Accounts payable and accrued liabilities	(7,555)	3,891
Income taxes payable	603	(3,230)
Due to affiliates	(13,376)	6,000
Net (decrease) increase in working capital	\$ (23,028)	\$ 16,731

## 7. Property, Plant and Equipment

	2002		
	Accumulated Depreciation		Net Book Value
	Cost	Amortization	
Land	\$ 3,577	\$ –	\$ 3,577
Buildings	35,270	20,070	15,200
Machinery and equipment	146,748	101,708	45,040
Software	9,913	6,285	3,628
Tooling	29,749	19,382	10,367
	<b>\$225,257</b>	<b>\$147,445</b>	<b>\$ 77,812</b>

	2001		
	Accumulated Depreciation		Net Book Value
	Cost	Amortization	
Land	\$ 3,577	\$ –	\$ 3,577
Buildings	34,709	18,618	16,091
Machinery and equipment	144,415	95,941	48,474
Software	9,627	4,533	5,094
Tooling	28,549	14,231	14,318
Construction- in-progress	865	–	865
	<b>\$221,742</b>	<b>\$133,323</b>	<b>\$ 88,419</b>

The estimated amount required to complete approved capital projects as at December 31, 2002 is \$723 (2001 - \$1,672). In addition, the Company has commitments of approximately \$723 (2001 - \$1,262) associated with these capital projects.

## 8. Accrued Benefit Asset

The accrued benefit asset comprises the cumulative excess of pension funding over pension expense at December 31.

## 9. Financing Arrangements

At December 31, 2002, the Company had credit facilities consisting of:

- (a) Operating line of credit of up to \$40,000 (2001 – \$35,000), of which \$7,585 was drawn at December 31, 2002, in addition to letter of credits of \$6,911 that were outstanding at December 31, 2002. At the option of the Company, the operating line of credit may be used by requesting prime rate advances in Canadian dollars, bankers acceptances in Canadian dollars, base rate advances in U.S. dollars, LIBOR advances in U.S. dollars, or Letters of Credit in either Canadian or U.S. dollars.
- (b) In December 1993, the Government of Canada and the Government of Quebec offered a repayable interest free loan up to a maximum of \$4,000 to the Company to implement and complete the dryer leadership project no later than October 1, 1997. The Company received a total of \$3,980. The loan is to be repaid in five annual installments of \$796 beginning October 1, 1999.
- (c) A \$15,000 term loan with a major Canadian chartered bank, of which \$12,000 was drawn at December 31, 2002. The Company will be required to make equal quarterly repayments through 2008, commencing in 2003.

The interest rate on the operating line of credit for prime based loans is Canadian prime plus 2%. The interest rate on the operating line of credit for bankers acceptances, base rate advances and LIBOR advances is the applicable rate at the time of application. The interest rate on the term loan is bankers acceptance plus 2.25%.

Long-term debt comprises:

	2002	2001
Term loan	\$ 12,000	\$ -
Government loans	796	1,592
	<b>12,796</b>	1,592
Less current portion	<b>2,296</b>	796
	<b>\$ 10,500</b>	\$ 796

The Company has agreed to meet certain financial covenants and conditions with respect to their operating line of credit and term loan, all of which have been satisfied at December 31, 2002. The Company has pledged substantially all assets as collateral for the operating line of credit.

Interest expense on financing arrangements approximated \$1,103 (2001 - \$1,435).

#### 10. Refrigeration Start Up Costs

In 2001, the Company incurred \$1,419 in start up costs primarily comprising labour expenditures, relating to the launch of the new Department of Energy compliant refrigerators.

#### 11. Restructuring Costs

During 2002, restructuring costs totaling \$1,356 (2001 - \$2,489) were incurred. The 2002 costs comprise three components all relating to the exit of 16 and 18 cubic foot refrigeration manufacturing in the Hamilton facility. Specifically, these costs include severance, property, plant and equipment charges, and inventory charges.

#### 12. Income Taxes

The Company's effective income tax rate is derived as follows:

	2002	2001
Combined basic federal and provincial income tax rates	<b>37.0%</b>	39.4%
Manufacturing and processing allowance	<b>(3.4%)</b>	(5.1%)
Large corporation tax	<b>0.9%</b>	(2.7%)
Other items	<b>2.5%</b>	(2.2%)
Effective tax rate	<b>37.0%</b>	29.4%

Represented by:

Current income tax expense (recovery)	<b>\$ 411</b>	\$ (212)
Future income tax expense (recovery)	<b>6,120</b>	(1,447)
Income tax expense (recovery)	<b>\$ 6,531</b>	\$ (1,659)

The composition of the Company's net future income tax assets and liabilities is as follows:

	2002	2001
Current future income tax assets		
Accrued charges not currently deductible for tax	<b>\$ 8,697</b>	\$ 7,878
Research and development investment tax credits	<b>6,656</b>	6,257
Other	<b>2,174</b>	1,898
Net current future income tax assets	<b>\$ 17,527</b>	\$ 16,033
Non-current future income tax assets (liabilities)		
Property, plant and equipment	<b>\$ (2,833)</b>	\$ (4,225)
Research and development investment tax credits	<b>(2,107)</b>	(1,968)
Post employment benefits	<b>1,742</b>	9,720
Net non-current future income tax assets (liabilities)	<b>\$ (3,198)</b>	\$ 3,527

### 13. Earnings Per Share

Earnings per share has been calculated as follows:

	Earnings (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
<b>2002</b>	<b>\$ 11,121</b>	<b>20,000</b>	<b>0.56</b>
2001	\$ (3,995)	20,000	(0.20)

The Company has no convertible instrument that would be included in calculating diluted EPS.

### 14. Related Party Transactions

The Company has entered into various supply agreements with the Consumer Products Division of GE ("GECP"). The agreement to supply GECP with dryers expires on December 31, 2003. Management expects that this agreement will be renewed through 2006. The agreement to supply GECP with CustomStyle refrigerators, which includes minimum purchase commitments, expires on December 31, 2005. GECP has also informed the Company that it will be discontinuing its purchase of 12 cubic foot refrigeration models in the second quarter of 2003. Management has not yet identified a replacement purchaser for this volume.

The Company's total annual volume of transactions with GE and its wholly-owned affiliates were as follows:

	<b>2002</b>	2001
Purchase of finished goods, parts and services	<b>\$ 117,963</b>	\$ 85,599
Sale of products	<b>252,699</b>	224,174
Technology fees due to GE Canada	<b>4,095</b>	3,722
Amounts due to GE and its affiliates at year end were:		
Purchase of finished goods, parts and services	<b>7,655</b>	21,404
Technology fees due to GE Canada	<b>4,095</b>	3,722
	<b>\$ 11,750</b>	\$ 25,126

### 15. Research And Development

The Company recorded \$2,550 (2001 – \$5,200) of research and development expenses on which it earned federal and provincial investment tax credits of approximately \$510 (2001 – \$1,040).

## 16. Employee Benefit Plans

The Company has a number of defined benefit plans providing pension, other retirement and post-employment benefits to most of its employees. Information about the Company's defined benefit plans and post employment plans, in aggregate, is as follows:

	Pension Benefit Plans 2002	Other Benefit Plans 2002	Pension Benefit Plans 2001	Other Benefit Plans 2001
Accrued benefit obligation				
Balance at beginning of year	\$ 241,049	\$ 49,118	\$ 223,110	\$ 46,688
Current service cost	5,282	1,198	4,960	1,318
Interest cost	16,381	3,740	16,001	3,595
Employee contributions	92	-	108	-
Plan amendments	677	-	10,439	-
Benefits paid	(17,491)	(2,383)	(15,431)	(2,531)
Actuarial loss	5,927	24	1,862	48
Balance at end of year	251,917	51,697	241,049	49,118
Plan assets				
Fair value at beginning of year	218,794	-	221,486	-
Actual return on plan assets	(18,436)	-	(6,560)	-
Employer contributions	28,861	2,383	19,191	2,531
Employee contributions	92	-	108	-
Benefits paid	(17,491)	(2,383)	(15,431)	(2,531)
Fair value at end of year	211,820	-	218,794	-
Funded status plan deficit	(40,097)	(51,697)	(22,255)	(49,118)
Unamortized net actuarial loss	75,018	-	33,293	-
Unamortized past service cost	9,430	-	9,596	-
Valuation allowance	-	-	(2,586)	-
Accrued benefit asset (liability), net of valuation allowance	\$ 44,351	\$ (51,697)	\$ 18,048	\$ (49,118)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	Pension Benefit Plans 2002	Other Benefit Plans 2002	Pension Benefit Plans 2001	Other Benefit Plans 2001
Discount rate	6.75%	6.75%	7.00%	7.00%
Expected long-term rate of return on plan assets	8.25%	-	8.25%	-
Rate of compensation increase	3.50%	3.00%	3.50%	3.00%

The Company's net benefit plan expense is as follows:

	Pension Benefit Plans 2002	Other Benefit Plans 2002	Pension Benefit Plans 2001	Other Benefit Plans 2001
Current service cost	\$ 5,282	\$ 1,198	\$ 4,960	\$ 46,688
Interest cost	16,381	3,740	16,001	3,595
Expected return on plan assets	(18,537)	-	(18,733)	-
Amortization of net actuarial loss	1,175	24	785	48
Amortization of past service costs	837	-	-	-
Valuation allowance	(2,586)	-	57	-
Net benefit plan expense	\$ 2,552	\$ 4,962	\$ 3,070	\$ 4,961

## 17. Stock-based Compensation

The Company provides SARs, the purpose of which is to provide incentives to retain high potential, high value employees; to recognize and reward their significant contributions to the long-term success of the Company; and to align their interests more closely with the shareholders of the Company.

The Company measures compensation cost associated with its SARs based on the difference between the quoted market value of the underlying shares of the Company's stock and the exercise/strike price.

This amount is accrued over the vesting period of the related SAR.

SARs are awarded to employees on an annual basis with an exercise price equal to the market rate of the Company's stock on the day of issuance. The SARs expire 5 years after the grant date.

## 18. Lease Commitments

The future minimum lease payments for each of the next five years and thereafter under operating leases are as follows:

2003	\$	3,499
2004		2,381
2005		1,185
2006		575
2007		48
2008 and thereafter		–
	\$	7,688

## 19. Foreign Currency

The U.S. dollar denominated accounts receivable and accounts payable at December 31, 2002 and 2001 were as follows:

<i>(in US\$)</i>	2002	2001
Due to affiliates, net	\$ 4,887	\$ 13,287
Accounts receivable – trade	\$ 1,340	\$ 2,334
Accounts payable	\$ 11,808	\$ 17,527

## 20. Financial Instruments

### Fair value

Management believes its cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities are indicative of fair values because of their short maturity.

At December 31, 2002, management believes the carrying value of the non-interest bearing debt to be less than the fair value.

### Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable.

The Company, in the normal course of business, is exposed to credit risk from its customers.

### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Company is not exposed to significant interest rate risk with respect to its monetary current assets, current liabilities and long-term debt.

## 21. Segmented Information

The Company manages its business as a single operating segment – manufacturing, distributing and servicing household appliances. Its manufacturing operations are all located in Canada, specifically, in Hamilton, Ontario and Montreal, Quebec. The Company sells primarily to the U.S. and Canadian markets. Export sales for 2002 totaled \$266,356 (2001 – \$236,442).

## 22. Subsequent Events

Effective January 1, 2003, the Company merged its extended contract business with Comerco Brokerage Inc.'s service contract operation. The new joint venture, Comerco Services Inc., will be based in Quebec, and will offer the capability of formulating, implementing and servicing extended warranty programs across Canada and the U.S. The contribution of Camco's warranty business to the new joint venture will not materially impact Camco's financial statements.

## Board of Directors

- \* **Charles H. Hantho, C.M.**
- \*\*\* Chairman, Camco Inc.
  
- \*\* **Peter J. Dey**
- \*\*\* Partner, Osler, Hoskin & Harcourt
  
- James R. Fleck**  
President and Chief Executive Officer,  
Camco Inc.
  
- \*\* **Robert T. E. Gillespie**  
Chairman and Chief Executive Officer,  
General Electric Canada Inc.
  
- \* **Kenneth W. Harrigan, O.C.**
- \*\*\* Past Chairman,  
Ford Motor Company of Canada, Limited
  
- \* **Jerry Rose**  
Product General Manager,  
GE Consumer Products – General Electric Company
  
- \*\* **John M. Sollazzo**  
Vice President Human Resources,  
GE Consumer Products – General Electric Company
  
- \* **Daniel F. Sullivan**
- \*\*\* Deputy Chairman,  
Scotia Capital Inc.
  
- \* Member of Audit Committee
  
- \*\* Member of Human Resources and  
Corporate Governance Committee
  
- \*\*\* Member of Special Committee

## Officers

- Kevin Breen**  
Vice President – Purchasing
  
- Anna Cvecich**  
Vice President – Human Resources
  
- M. James Evans**  
Senior Vice President – Business Development
  
- James R. Fleck**  
President and Chief Executive Officer
  
- Neil G. Gartshore**  
Vice President Finance and Chief Financial Officer
  
- Jay S. Hamilton**  
Comptroller and Secretary
  
- Allan R. Holden**  
Vice President – Information Technology
  
- René Lecours**  
Vice President – Montreal Operations
  
- Richard Martel**  
Vice President – Technology
  
- Michael J. McCrea**  
Senior Vice President – Operations
  
- Giuseppe Santoro**  
Vice President – Hamilton Operations
  
- Robert I. Slessor**  
Treasurer
  
- Kevin E. Smith**  
Senior Vice President – Sales & Marketing

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## Corporate Information

**Camco Inc.**  
175 Longwood Road South  
Hamilton, Ontario  
L8N 3Y5

**Share Transfer Agent**  
CIBC Mellon Trust Company

**Auditors**  
Deloitte & Touche LLP

**Major Facility Locations**  
Hamilton, Montreal, Moncton

**Annual Shareholders Meeting**  
May 9, 2003 at 11:00 a.m.  
Toronto Hilton Hotel  
145 Richmond St. W.,  
Toronto, Ontario