# MOORE®

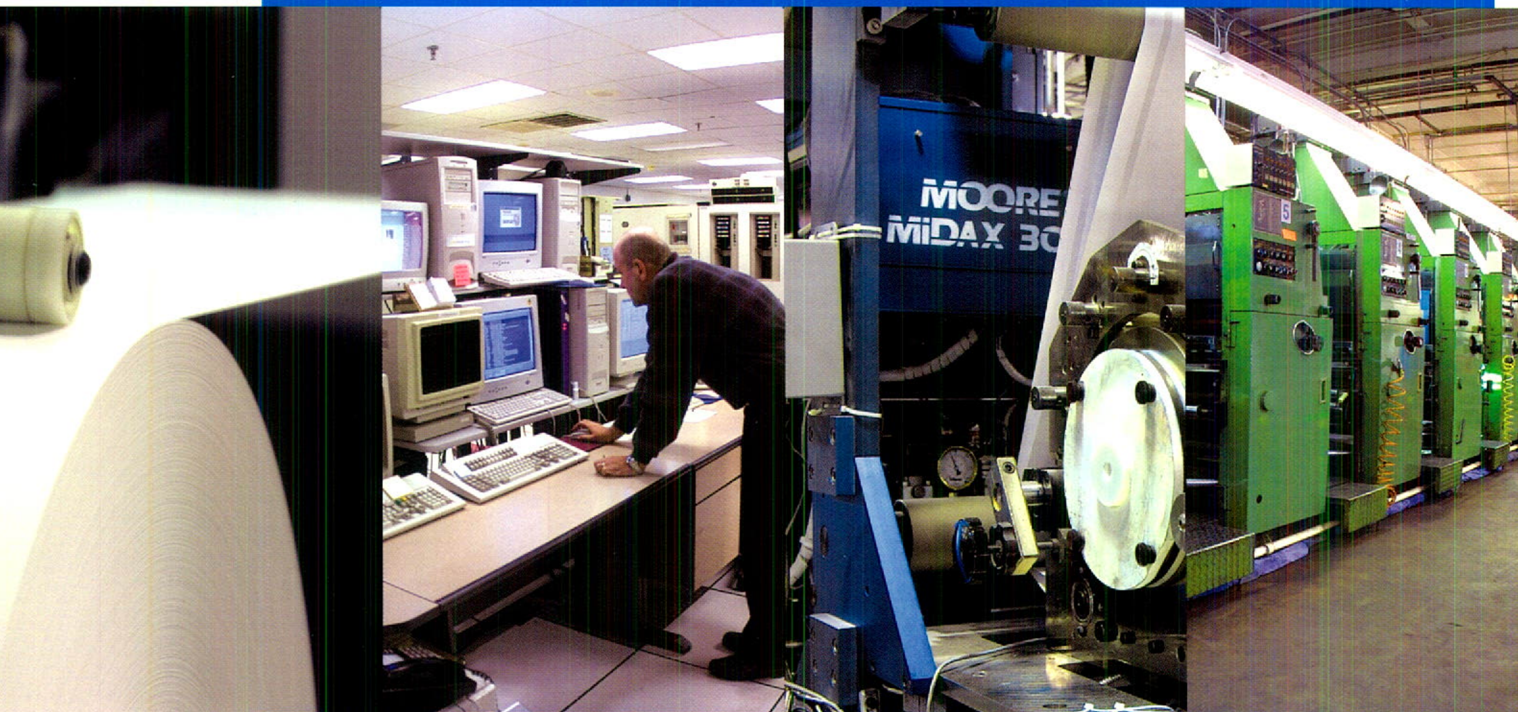
2002 ANNUAL REPORT

LIBRARY USE ONLY

CONTINUING TO DELIVER

# TABLE OF CONTENTS


1 Financial Highlights
2 Message to Shareholders
5 Senior Management
6 Business Unit: Outsourcing
8 Business Unit: Commercial
10 Business Unit: Forms & Labels
12 Cross Selling
13 H&R Block Case Study
14 Board of Directors
15 Shareholder Information
16 Management's Discussion and Analysis
30 Financial Statements and Notes

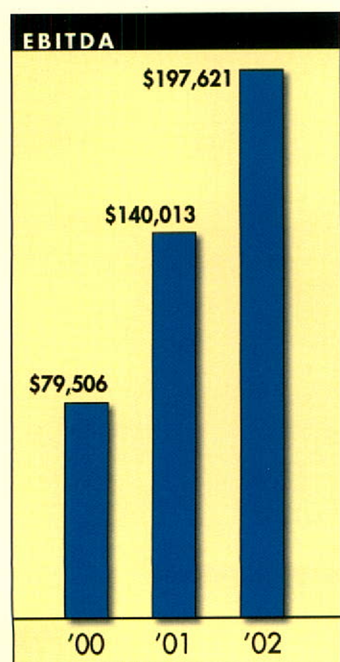



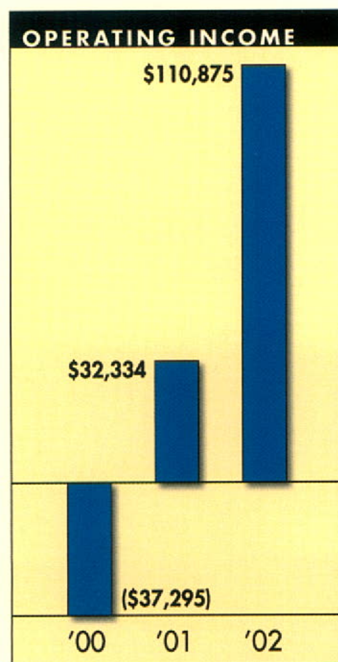

Founded in 1882, Moore Corporation Limited is an international leader in the management and distribution of print and digital information. Moore operates in three complementary business segments: Outsourcing, Commercial and Forms & Labels. The Outsourcing business provides high-quality, high-volume variably imaged print and mail, electronic statement and database management services. The Commercial business produces high-quality, multicolor personalized business communications and provides direct marketing services, including project, database and list management services. The Forms & Labels business designs, manufactures and sells paper-based and electronic business forms and labels and provides electronic print management solutions. The Moore Internet address is www.moore.com

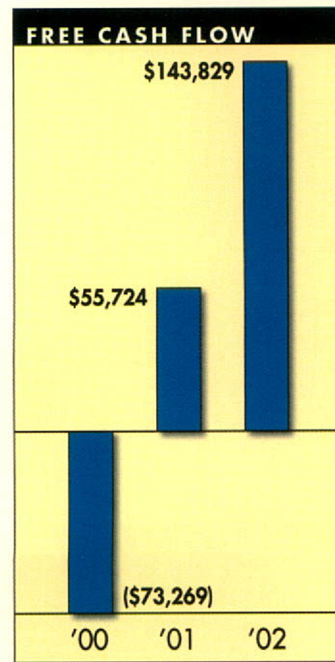
# CONTINUING TO DELIVER

## FINANCIAL HIGHLIGHTS

| In thousands of U.S. dollars | 2002 | 2001 | 2000 |
|---|---|---|---|
| Net Sales | $ 2,038,039 | $ 2,154,574 | $ 2,258,418 |
| EBITDA (1) | $ 197,621 | $ 140,013 | $ 79,506 |
| Operating Income (2) | $ 110,875 | $ 32,334 | $ (37,295) |
| Free Cash Flow (3) | $ 143,829 | $ 55,724 | $ (73,269) |




All references to "Moore," "Corporation" or the "Company" in this annual report refer to Moore Corporation Limited and its subsidiaries.

(1) EBITDA represents normalized net income before interest, taxes, investment and other income (expense), minority interest, depreciation and amortization. EBITDA is not a recognized term under generally accepted accounting principles and does not purport to be an alternative to operating income as an indicator of operating performance, or to cash flows from operating activities as a measure of liquidity.

(2) Normalized results (EBITDA, operating income, and free cash flow) are before restructuring and other charges. Normalized results are not intended to represent cash flows for the period, nor have they been presented as an alternative to actual operating results under Canadian generally accepted accounting principles or as an indicator of future operating performance.

(3) Free cash flow represents normalized EBITDA adjusted for the interest paid, taxes paid, dividends paid and capital expenditures.

* The Corporation believes that the presentation of normalized results provides investors and analysts with useful supplementary information concerning the Corporation's ongoing operations. Furthermore, the Corporation has historically used normalized results as an internal measure of the Corporation's performance. Normalized measures do not have standardized meanings and are therefore unlikely to be comparable to similar measures presented by other companies. Normalized results are presented for informational purposes only and should not be considered as a substitue for the historical financial information presented in accordance with generally accepted accounting principles. A reconcilitaion of normalized results to the Corporation's financial results under generally accepted accounting principles is provided in "Management's Discussion and Analysis" on page 16. These results should be read in conjunction with the Corporation's audited financial statements which begin on page 30.

# FELLOW SHAREHOLDERS

### CONTAINING COSTS, USING CASH FLOW ACCRETIVELY, AND TURNING AN EYE TO GROWTH

Two years ago, our management team outlined a clear strategy for returning Moore to profitability and restoring Moore's image as an industry leader.

This strategy was centered on bringing the company "Back to Basics," returning the company to the core competency that made it successful for the first 120 years of its existence: Printing.

We followed a simple six-point plan that called for: hiring the best managers; significantly reducing our overall cost structure; selling non-core operations; leveraging our size to gain greater efficiencies; creating a cross selling program to drive organic growth; and acquiring complementary print-related assets to drive top line and bottom line growth.

By any measure, management has kept its promise.

The progress to date has been remarkable. Not only has the company been right-sized and turned around, but we have brought it stability and financial discipline. Most important, we have launched a host of new initiatives designed to put Moore firmly on track for future success.

The company has performed very well since 2000. We met or exceeded our internal targets every quarter despite adverse market conditions. Our strict financial discipline allowed us significantly to increase our operating margins, pay down debt and generate substantial free cash flow. Our performance has resulted in a strengthened balance sheet, increased profitability and improved share price.

The company's cash flow or EBITDA, a key measure of profitability, increased to US$197.6 million, up 149% since 2000. Net earnings per share increased to US$0.64 from a loss of US$0.75 in 2000. And, our share price is up 350% from 2000 levels.

In the process, we have regained credibility and the confidence of our investors, our customers and our employees.

*Alfred C. Eckert III*

*Mark A. Angelson*

The credit for this dramatic turnaround belongs to the talented group of managers that we have recruited since 2000, who have provided us with a strong platform for future growth and profitability.

Our friend, Bob Burton, was central to that recruiting effort and to the turnaround of this business. We extend to him our sincere thanks for keeping his promises and for a job very well done.

Despite our turnaround success, we will not lose sight of the need continually to drive down costs and further leverage our size in order to gain greater efficiencies. We will continue to focus on cross selling as a way to drive organic sales growth.

We will also turn an eye to incremental growth and continued improvement in profitability. We took a major step toward this goal in January when we announced our agreement to merge with Wallace Computer Services, Inc. to form one of the largest providers of print management solutions in the world.

Upon closing, the combined company, which will be called Moore Wallace Incorporated and will trade on the Toronto and New York Stock Exchanges under the symbol "MWI," will be the world's largest integrated provider of commercial print, direct mail, outsourced customer communications, forms, labels, fulfillment and distribution services. On December 31, 2002, the combined companies had more than US$3.6 billion in sales and more than 18,800 employees worldwide.

The new company will bring good news to our customers who will benefit from the most innovative and cost-effective solutions for all of their print needs. Our Commercial division will offer coast-to-coast geographic coverage across North America and substantially enhanced products and services in the direct mail and marketing sector. We will be the leading provider of forms and labels and serve customers even more effectively than in the past in print fulfillment, sourcing, and other areas.

The merger meets our criteria of achieving growth and profitability and is expected to be accretive to earnings for shareholders in the first year of combined operation.

# MANAGEMENT HAS KEPT ITS PROMISE

Finally, the combined company will offer to the best employees from each company enhanced career opportunities through the merged operations.

Of course, merging two companies of Moore's and Wallace's size is not without its challenges. And, like all acquisitions, seamless integration is essential to the realization of full value. We will spend considerable time and effort in 2003 bringing the two companies together in ways that are most productive and beneficial to customers and our fellow shareholders.

2002 was an important year for Moore as we executed our turnaround strategy. We have made major strides toward achieving our goal: to be the premier printing company with the highest standards of performance and service, and to deliver results that customers and shareholders expect.

In 2003 we will continue to grow our business and will maintain the same relentless focus on costs that we have for the past two years. Last year in this report, we stated, "excuses are unacceptable." They were unacceptable then and they are unacceptable now. This is an exciting time to be at the helm of Moore. We thank you for the privilege and we pledge to work relentlessly until we achieve our mutual goals.

Alfred C. Eckert III
Chairman of the Board

Mark A. Angelson
Chief Executive Officer

# SENIOR MANAGEMENT

**MARK A. ANGELSON**
Chief Executive Officer

**THOMAS W. OLIVA**
President & Chief Operating Officer

**THOMAS J. QUINLAN III**
Executive Vice President, Office of the Chief Executive

**MARK S. HILTWEIN**
Executive Vice President, Chief Financial Officer

**DEAN E. CHERRY**
President, Commercial & Subsidiary Operations

*Dean E. Cherry, Mark A. Angelson, Thomas W. Oliva, Mark S. Hiltwein, Thomas J. Quinlan III*

# OUTSOURCING

*Our state-of-the-art data centers are staffed by highly trained professionals who manage and deliver consistent results for our clients every day.*

The trend for corporations to outsource all activities non-core to their business operations began in the mid-1990s and continued in 2002. Companies are seeking strategic partners to take on their total data and print management requirements, so they can focus their attention and capital investments on growing their own core operations.

Moore Business Communication Services (BCS or Outsourcing) is answering the outsourcing call.

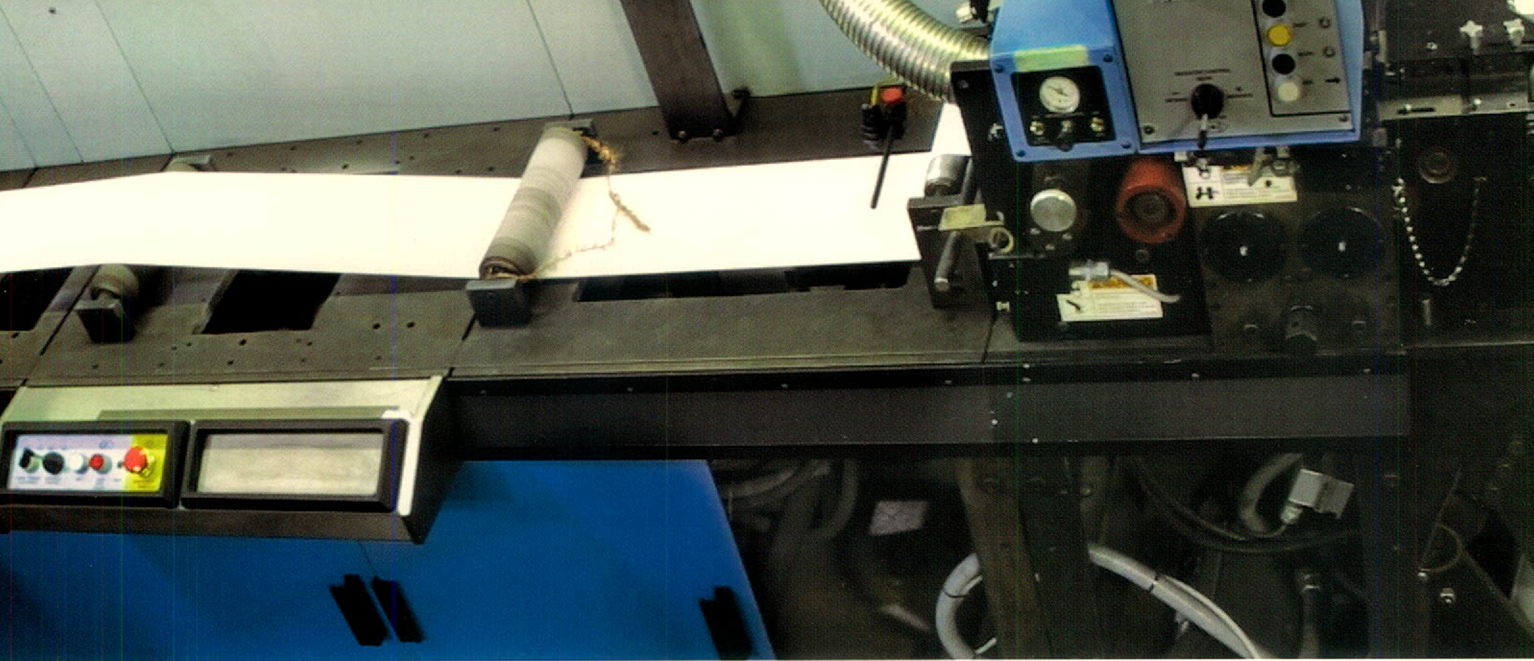
Understanding the budget requirements placed on corporations, the Moore BCS division has positioned itself to provide cost savings and operational efficiency to large volume print and mail users. Customers and prospects are quick to understand the benefits of utilizing Moore's outsourcing competencies through utilization of established processes and products. Continued investment in advanced technological products and processes keep Moore at the forefront of this business.

Understanding the data management, format and security requirements are key elements to providing the best solution to our customers.

As a recognized leader in the document printing and Internet presentment industry, Moore's Outsourcing group combines vast print experience with state-of-the-art data management technologies. Moore BCS provides customized transaction-based outsourcing solutions to over 700 clients, primarily in the financial services, health care, insurance, and telecommunications industries.

Managing customers' data and providing mission critical communications can only be accomplished by a company with a robust network of resources and capabilities. With seven production facilities strategically located throughout North America, Moore BCS can reduce the time to deliver your critical customer communication documents. Each location uses technologies supported by a team of highly trained data processing professionals to deliver consistent results.

The Moore BCS team, made up of over 60 sales professionals averaging over 15 years of print sales experience, works with customers to create the best solution, ensure data integrity, and deliver consistent results. Once the solution is identified, a highly trained team of project managers, programmers and implementers work diligently to ensure a flawless transition and production ramp. As one of the largest First Class mailers, Moore BCS works closely with the United States Postal Service and Canada Post to reduce postal costs



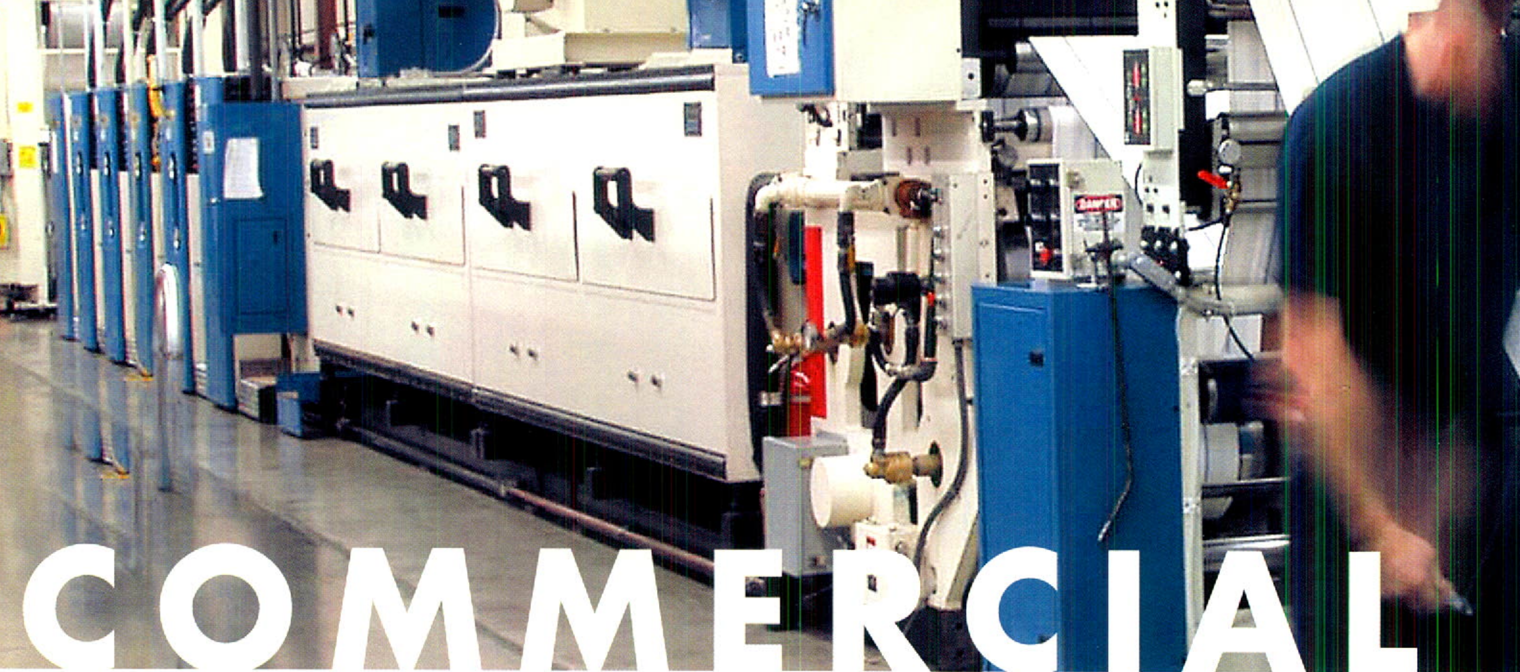
and meet our customers' expedited delivery requirements to improve their customer communications and cash flow. During 2002 Moore BCS helped a major investment services firm re-engineer and implement a daily confirmation project reducing production time and ensuring consistent delivery to the investor.

Outsourcing solutions include: periodic account statements, wireless telephone bills, enrollment kits, daily transaction confirmations, insurance policies, checks, privacy mailings, and tax reporting documents (IRS Series 1099), to name a few. Moore BCS continues to develop and integrate the latest technologies for the cost-effective production and distribution of business communications through print, mail, e-mail, fax, CD-ROM, Internet, and Wireless delivery channels.

During 2002 we produced over a billion mail pieces in our ISO 9000 Certified facilities. Plans for 2003 include aggressive growth through tactical selling expertise, as well as an expansion of manufacturing and delivery facilities strategic to our customers' needs.

Some of the most highly recognized corporate names trust Moore BCS to meet their business communications requirements, including Verizon Wireless, Countrywide Home Loans, American Century Investors, Cingular Wireless, Frontier Airlines, American Express Incentive Service, Rexel Canada, Kaiser Foundation Health Plan of Colorado, UnitedHealth Group, Primus Telecommunications of Canada, and Phoenix Equity Planning Corporation to name just a few. We provide the very best innovative, cost-effective solutions with every customer communication project that is entrusted to us.

*Our ISO 9000 certified facilities produce over a billion pieces of mail annually for clients such as Verizon, Cingular and UHG.*




Moore has been a favorite among clients for more than 120 years. In 2002, we continued the efforts we began in 2001 to establish Moore as a leader in print management solutions. With renewed focus, we continued our cost containment program, made strategic investments and targeted relationships with key customers, old and new.

With over 3,000 dedicated employees domestically and internationally, the Commercial division offers our customers a wide variety of high-end print and networked solutions. From annual reports to high-quality marketing brochures and from targeted direct mailers to publication printing, our Commercial business can handle virtually all of our customers' print and related business communication needs.

## RESPONSE MARKETING SERVICES

Moore Response Marketing Services (RMS) is a leading international provider of integrated direct marketing services. RMS creates world-class direct mail programs that help direct marketers across North America and Europe acquire new customers and expand relationships with existing customers.

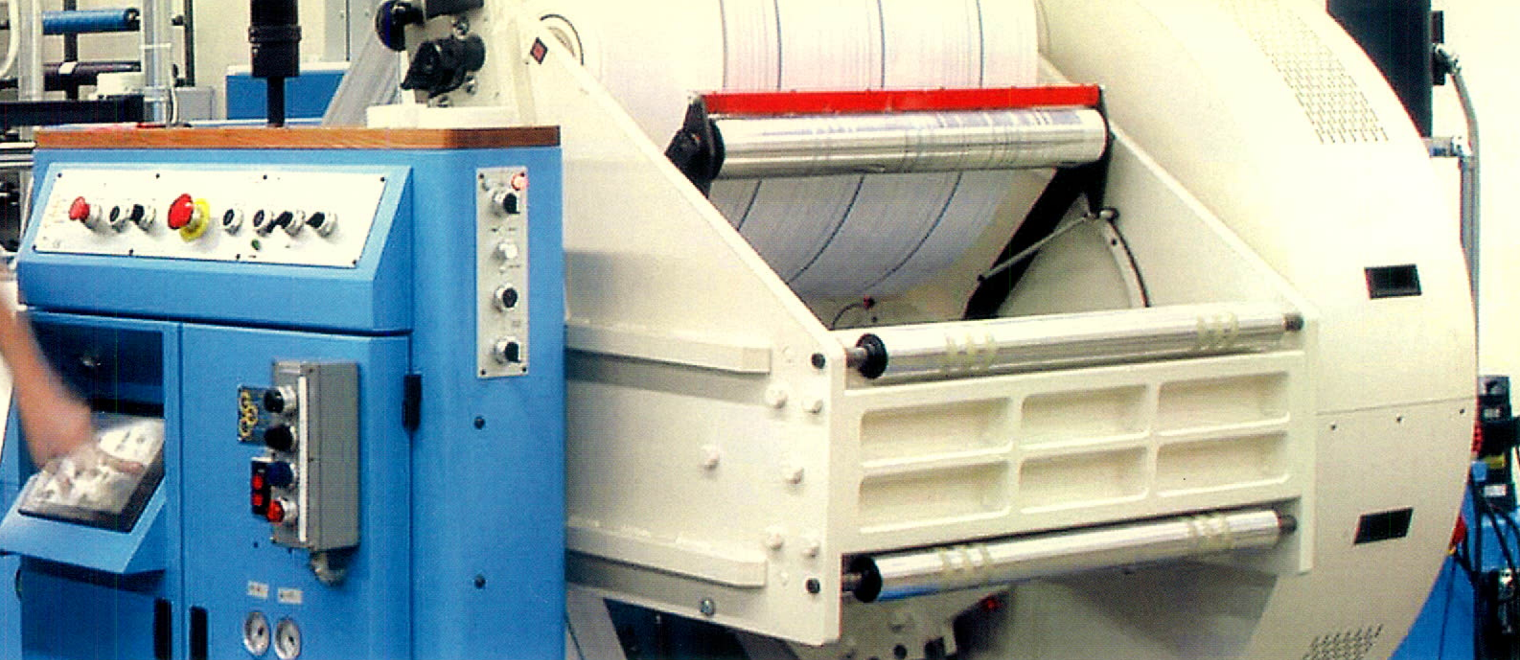
Moore has unique abilities to manage and interpret marketing data and to write and design compelling direct mail solutions that are meaningful and relevant to the individual consumer. Using our proprietary production technologies we are able to personalize and assemble over a billion pieces of highly customized direct mail every year.

Our performance is measured by the outstanding financial results we deliver for some of the world's most respected names in the financial, banking, insurance publishing, merchandising and non-profit sectors.

## COMMERCIAL PRINT

In 2002, Moore acquired The Nielsen Company, a leader in high-quality commercial printing. Our product line includes annual reports, brochures, catalogs, pharmaceutical inserts and packaging, as well as an array of multi-color promotional material. Moore uses state-of-the-art technology in web-based ordering, variable printing, color digital printing, sheet fed, web and fulfillment systems. We offer our customers the solutions they need to meet the challenges they encounter in managing their complete marketing programs.

We also focused on living up to Moore's reputation as a leader in the production of data-intensive publications such as directories, business-to-business catalogs, parts/price lists, manuals, and professional/reference/trade books. Our services include print, digital services, and a nationwide distribution and fulfillment network. With Moore as a partner, customers can execute a print strategy that aligns inventory levels with their demands, while improving turnaround times and reducing overall print costs.



**PEAK TECHNOLOGIES, INC.**

PEAK Technologies is a leading international systems integrator of bar code data collection products and systems, enterprise printing solutions and on-going maintenance and support services. As one of the world's most experienced providers of automatic identification and data collection equipment and systems, PEAK combines the latest technology with extensive knowledge of warehousing, manufacturing, distribution and field service operations. Through its unique position, PEAK brings together the experience, expertise and resources to maximize customers' productivity, efficiency and accuracy through the provision and maintenance of low-risk, proven solutions.

In addition, with its focus on line, laser, and thermal printing solutions, PEAK complements Moore's Forms & Labels business by delivering a complete turnkey printing solution. Whatever the industry or application, customers can rest assured that PEAK and Moore are uniquely qualified to deliver forms and labels, functionality, printers, and performance to enhance business processes.

*Our commercial divisions offer customers the full resources to support all their marketing programs. Such products include annual reports, catalogs, directories and direct mail for clients such as Pacific Bell, General Motors and Scotts.*

For more than 120 years, Moore's Forms & Labels business has had strong and deep relationships with companies big and small throughout North America, including a majority of Fortune 500 corporations, providing its client base with a wide range of traditional print and digital manufacturing capabilities.

Moore's leadership in forms and labels, combined with its deep customer base, has enabled it to leverage growth areas in other parts of our business, most notably in our Outsourcing and Commercial groups. This is resulting in extraordinary opportunities — and value — for our clients. Today, our clients have access to virtually every print and print-related product in the market from forms and labels, to commercial print, and from warehousing to the outsourcing of all their printing needs.

For many of our clients, the Forms & Labels business addresses some of their most important day-to-day printing needs. Utilizing the largest print distribution system in the Americas, the Forms & Labels business sells, composes, manufactures, warehouses, and delivers a wide range of printed and electronic communication products. Our clients have very specific requirements when it comes to the forms and labels they use to operate their businesses internally and to communicate externally. That is because our clients know and understand that the forms and labels they get from Moore help to create efficiencies and, ultimately, profitability in their businesses. Moore's Forms & Labels business delivers on those requirements.

Examples of our extensive product line include: express "overnight" package labels; tax forms; "Pressure Seal" payroll checks; linerless labels; security documents such as vehicle titles, certificates, and checks; airport luggage labels; and digital documents printed on-demand.

Beyond the product itself, Moore's Forms & Labels business provides value-added services to its clients, whether they are in the "Fortune 500" or medium- to smaller-sized companies. We know our customers operate in very different industries and businesses, and we have responded with a wide range of options geared toward meeting our clients' needs. Our print fulfillment business offers a solution to meet our customers' varying print-

on-demand needs. Our investment into high-end digital printing technology enables us to produce digital documents that may be printed on-demand by our customers, allowing them more accurately to control print runs and decrease costs. Our extensive warehousing and distribution capabilities allow us to be a leader in the kitting, storage, and distribution of our customers' printed and non-printed products.

In short, Moore's Forms & Labels business has been, and will continue to be, the ideal single-source partner for delivering a customized, "One-Stop Shopping" solution to our clients' print and digital communication needs. We do this through a multi-site, state-of-the-art print, distribution, and warehousing network specifically designed to provide customized products and services.

*Our Forms & Labels facilities continue to lead the industry in providing sophisticated solutions in the delivery of business documents for clients like JCPenney, UPS and Bank of America.*

*We manage and deliver our clients' information in any form, anywhere, every day.*

As we continued our focused strategy of driving organic growth within our customer base, 2002 proved to be a resounding success for the Cross Selling initiative within Moore. Our sales organization effectively communicated, with a unified and empowered voice, the benefits of our diversified manufacturing platform and technology offerings. Our clients warmly embraced our "One-Stop Shopping" Integrated Print Management solution set of products and services.

Our Integrated Print Management offering includes an extensive array of products and services: forms and labels management, commercial print, publications, print-on-demand, warehouse and distribution services, systems integration, business communication outsource management, direct mail services, corporate identity programs and e-commerce solutions, to name a few.

This program takes a comprehensive look at the total universe of print and communication requirements and delivers a lower overall cost of ownership for our clients. With the ability to leverage our complete set of products and services, Moore can create the optimum blend of digital and traditional print solutions, accessed and delivered through the most efficient means possible, on time and with the highest levels of quality and service.

Our customers see the benefits of Integrated Print Management and are enthusiastic about Moore's ability to streamline their print management process, help reduce overall print and distribution costs, and deliver their products to market faster by leveraging a powerful and strategically located distribution network. The H&R Block story featured is just one example of the power of managing a customer's total print supply chain, positioning Moore in a class by itself.

We look forward to the continued success of our Cross Selling efforts in 2003 and to renewing our mission to become the leading provider of print management solutions in our industry. We are passionate about the power of our message and will continue to bring value to our clients with a unified voice from our sales organization leveraging "All of Moore."

# H&R BLOCK CASE STUDY

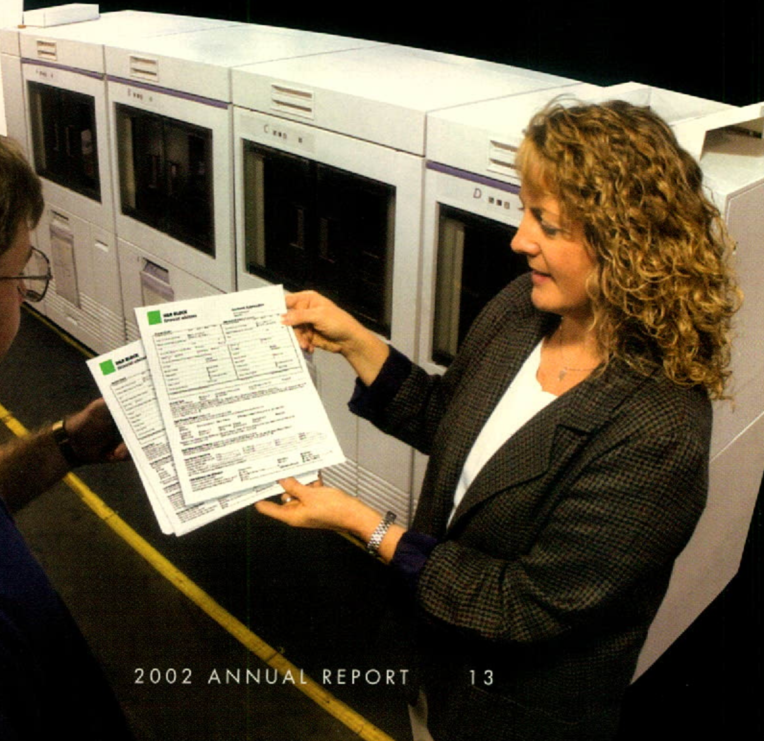
*The full value of our Cross Selling solution is evident with customers such as H&R Block. Over the past year, Moore has become H&R Block's total print provider, delivering nearly 100% of their print needs.*

*Using our diversified product offering, we are able to manage the entire print chain for H&R Block and its affiliates across the U.S. This includes printing and warehousing more than 700 types of items, which are then distributed in due course to more than 10,000 H&R Block locations. By leveraging "All of Moore," we are able to streamline their print management process, help them reduce overall print and distribution costs, and deliver H&R Block's product to market faster.*

*For example, last year, Moore shipped more than 130,000 separate orders using our e-procurement technology solution, with more than 85% of the orders being distributed in H&R Block's time sensitive period between October and January.*

*With so much volume occurring in such a period of time, ensuring control and integrity of materials is essential. Moore provides this level of attention by affording online ordering capabilities to more than 10,000 H&R Block employees, including reporting tools for analysis of available print quantities. We also provide daily and monthly statements for H&R Block's financial advisors and Internet archiving for quick document retrieval.*

*The results: increased efficiencies, improved integration of all print-related materials, and lower overall costs.*



# BOARD OF DIRECTORS

**MARK A. ANGELSON**
Director since November 2001
Chief Executive Officer

**ROBERT F. CUMMINGS, JR.**[3]
Director since January 2003

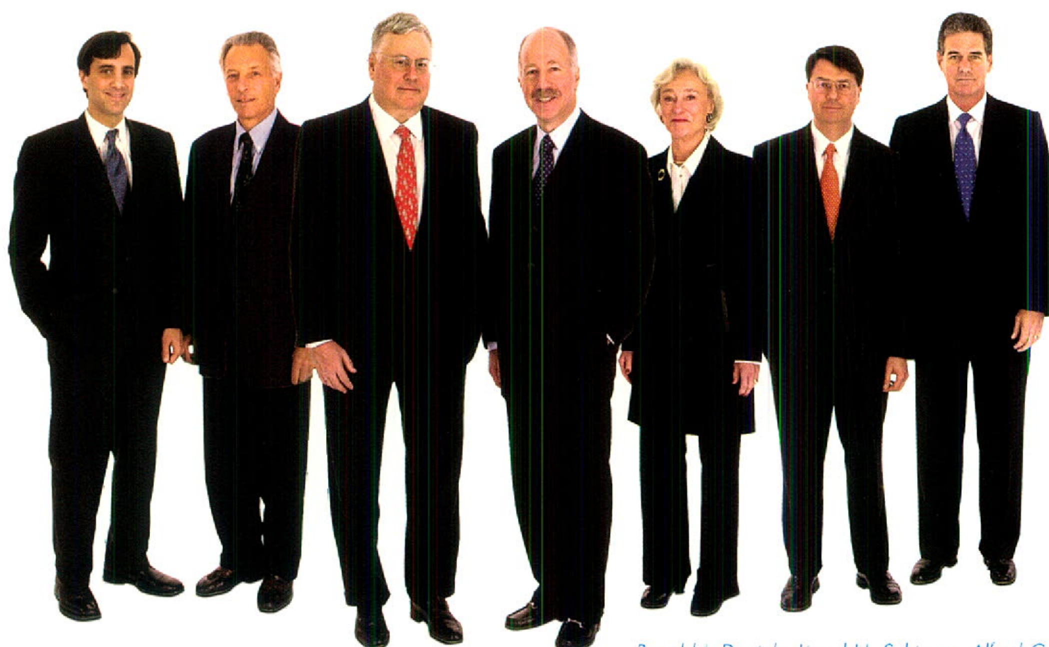
**RONALD J. DANIELS**[2]
Director since July 2001

**ALFRED C. ECKERT III**[1,3]
Director since December 2000
Chairman

**JOAN D. MANLEY**[2]
Director since March 2002

**LIONEL H. SCHIPPER**[1,3]
Director since April 2001

**JOHN W. STEVENS**[1,2]
Director since December 2000



*Ronald J. Daniels, Lionel H. Schipper, Alfred C. Eckert III, Mark A. Angelson, Joan D. Manley, John W. Stevens, Robert F. Cummings, Jr.*

(1) Nominating and Governance Committee
(2) Audit Committee
(3) Compensation Committee

# SHAREHOLDER INFORMATION

## REGISTERED OFFICE

Moore Corporation Limited
6100 Vipond Drive
Mississauga, Ontario Canada
L5T 2X1
Telephone: (905) 362-3100
Internet: http://www.moore.com

## STOCK EXCHANGE LISTINGS

Stock Symbol: MCL
CUSIP No: 615785 10 2
Markets: Toronto and New York
At December 31, 2002, the common shares of the Corporation are also included in the TSE 300 Composite Index.

## MARKET PRICE OF COMMON SHARES

The following table sets forth the high and low prices of the common shares of the Corporation on The Toronto Stock Exchange and the New York Stock Exchange.

| | The Toronto Stock Exchange (C$) | | New York Exchange (US$) | |
|---|---|---|---|---|
| | **HIGH** | **LOW** | **HIGH** | **LOW** |
| **2002** | | | | |
| 4th quarter | 18.25 | 12.05 | 11.72 | 7.85 |
| 3rd quarter | 19.18 | 13.65 | 12.34 | 8.70 |
| 2nd quarter | 22.15 | 16.50 | 14.45 | 10.87 |
| 1st quarter | 21.18 | 14.51 | 13.38 | 9.18 |
| **2001** | | | | |
| 4th quarter | 15.30 | 10.88 | 9.50 | 6.90 |
| 3rd quarter | 12.95 | 8.00 | 8.30 | 5.25 |
| 2nd quarter | 9.25 | 5.67 | 5.95 | 3.67 |
| 1st quarter | 7.70 | 4.55 | 5.19 | 3.06 |

## DIVIDENDS

In 2001, the Corporation paid a dividend of 5¢ (U.S.) per common share for the first quarter. On April 25, 2001, the Board of Directors decided to suspend future dividends. The Corporation does not anticipate declaring and paying cash dividends on the common stock at any time in the foreseeable future.

## SHAREHOLDER ACCOUNT INQUIRIES

Computershare Trust Company of Canada operates a telephone information inquiry line that can be reached by dialing toll-free 1-800-663-9097 or (416) 981-9633. Shareholders can also e-mail at careiristryinfo@computershare.com

Their Internet address is www.computershare.com.
Correspondence may be addressed to:
Moore Corporation Limited
c/o Computershare Trust Company of Canada
100 University Avenue, 11th Floor
Toronto, Ontario Canada
M5J 2Y1

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common shares of the Corporation is Computershare Trust Company of Canada, at its offices in Montreal, Toronto, Winnipeg, Calgary and Vancouver. The co-transfer agent and registrar is Computershare Trust Company, Inc. of Colorado.

## INVESTOR RELATIONS

Institutional and individual investors seeking financial information about the Corporation may contact Rob Burton, Senior Vice President of Investor Relations at (203) 406-3712.

## FORM 10-K/ANNUAL INFORMATION FORM

The Annual Report on Form 10-K is filed with the United States Securities and Exchange Commission and with the Canadian securities authorities as the Annual Information Form. You may view our filings with securities regulators in Canada and the U.S., including our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments thereto, free of charge through our website located at www.moore.com.

## INDEPENDENT AUDITORS

Deloitte & Touche LLP
Suite 1400, BCE Place
181 Bay Street
Toronto, Ontario Canada
M5J 2VI

## ANNUAL & SPECIAL MEETING OF SHAREHOLDERS

The Annual and Special Meeting of Shareholders will be held at 6100 Vipond Drive, Mississauga, Ontario, Canada on Wednesday, April 23, 2003 at 8:00 am Eastern Standard Time.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

**THIS SECTION PROVIDES A REVIEW OF THE FINANCIAL PERFORMANCE OF MOORE CORPORATION LIMITED DURING THE THREE YEARS ENDED DECEMBER 31, 2002. THE ANALYSIS IS BASED ON THE CONSOLIDATED FINANCIAL STATEMENTS THAT ARE PREPARED IN ACCORDANCE WITH CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP). DIFFERENCES BETWEEN CANADIAN AND U.S. GAAP ARE DISCLOSED IN NOTE 25 TO THE CONSOLIDATED FINANCIAL STATEMENTS. WHERE APPROPRIATE, COMPARATIVE FIGURES HAVE BEEN RECLASSIFIED TO CONFORM TO THE CURRENT PRESENTATION IN THE CORPORATION'S CONSOLIDATED FINANCIAL STATEMENTS.**

Moore Corporation Limited, established in 1882, is a diversified printing company that operates in three distinct operating segments. The three segments are Forms & Labels, Outsourcing and Commercial. According to Printing Impressions, a leading industry publication, Moore is the third largest diversified printing company in North America based on revenues. The Corporation offers its products and services principally in the United States and Canada, but it also has operations in Europe and in Latin America, primarily in Mexico and Brazil.

The Forms & Labels segment provides a wide array of products and services, including the design and production of business forms, labels and related products, as well as electronic print management solutions. The Outsourcing segment provides fully integrated business-to-business and business-to-consumer solutions involving high quality variable image print and mail, electronic statement and database management services. The Commercial segment provides high quality multi-color personalized business communications and direct marketing services, including project, database and list management services. For the year ended December 31, 2002, approximately 55%, 16% and 29% of consolidated net sales were attributable to the Forms & Labels, Outsourcing and Commercial segments, respectively.

Like many other companies, net sales in 2001 and 2002 have been affected by the economic downturn in the United States. Historically, net sales have not been materially affected by seasonal factors.

The Corporation's financial results for the periods discussed herein have been affected by changes in business strategy and restructuring actions. In early 2001, the management team initiated a business strategy to maximize margins and capitalize on the Corporation's core competencies. As a result, management realigned the operating segments, restructured the operations, disposed of non-core businesses, exited unprofitable accounts and product lines and acquired complementary businesses. These initiatives have resulted in improved performance during 2002, relative to last year.

Consistent with the strategy to focus on core printing operations, the Corporation disposed of various non-core businesses. In the first quarter of 2001, the Corporation sold Colleagues, its U.K.-based advertising agency and its investment in an on-line real estate listing company. In the fourth quarter of 2001, the Corporation disposed of Phoenix, its Detroit-based telemarketing customer relationship management business. In 2001 and during 2002, the Corporation also disposed of several of its interests in non-U.S. investments that were no longer strategic or where the Corporation lacked sufficient control to achieve its objectives. The Corporation has completed various acquisitions complementary to its core operations. In December 2001, the Corporation acquired Document Management Services, the print and mail business of IBM Canada Limited. In January 2002, the Corporation acquired The Nielsen Company, a commercial printer. The Corporation also purchased the remaining minority interests in its consolidated subsidiary, Quality Color Press, Inc. in May 2002 and certain of its subsidiaries in Central America in August 2002.

On January 16, 2003, the Corporation signed a definitive merger agreement with Wallace Computer Services, Inc. ('Wallace'), a leading provider of printed products and print management services, to acquire all of the outstanding shares of Wallace in exchange for average consideration of $14.40 in cash and 1.05 shares of the Corporation for each outstanding share of Wallace. The purchase price is approximately $1.3 billion based on approximately

42 million Wallace shares outstanding, which includes the assumption of approximately $210 million in debt, but does not include any direct transaction costs. The estimated purchase price was derived using the closing trading price of the Corporation's common shares on the New York Stock Exchange ('NYSE') at January 16, 2003, which approximates the average closing price of Moore shares two trading days before and after January 17, 2003, the announcement date. Completion of the Wallace merger is subject to customary closing conditions that include, among others, receipt of required approval from Wallace shareholders, required regulatory approvals and closing of the required financing. The transaction, while expected to close in the first half of 2003, may not be completed if any of the closing conditions are not satisfied. Under certain terms specified in the merger agreement, the Corporation or Wallace may terminate the agreement, and as a result, either party may be required to pay a termination fee of up to $27.5 million to the other party. Upon consummation, the transaction will be recorded by allocating the cost of the assets acquired, including intangible assets and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the cost of the acquisition over the net of amounts assigned to the fair value of the assets acquired and the liabilities assumed will be recorded as goodwill. Unless otherwise indicated, the consolidated financial statements and related notes pertain to the Corporation as a stand-alone entity and do not reflect the impact of the pending business combination transaction with Wallace.

During 2001, the Corporation undertook restructuring actions, mainly related to workforce reductions and the exiting of facilities. The Corporation's results for the periods discussed hereafter are affected by those restructuring actions. In 2001 and 2002, the Corporation reduced headcount by approximately 4,000 employees. In 2001, the Corporation also recorded charges for the impairment of assets and goodwill associated with non-core businesses that the Corporation planned to sell. In the fourth quarter of 2002, the Corporation recorded a restructuring charge related to workforce reductions primarily due to a plant closure.

The Corporation has also consolidated its vendors to improve pricing, payment terms and inventory management. While the Corporation does not anticipate additional significant reductions in the number of its suppliers, it will pursue additional opportunities to achieve cost savings with these suppliers. The Corporation has evaluated its capital expenditure and research and development requirements and has significantly reduced spending in these areas. In addition, cost reductions were achieved in the area of information technology, principally attributable to reductions in headcount and in utilization of consultants. Additional cost savings are expected to result from the implementation of a company-wide system for processing customer orders and payments. The principal benefits from this system are expected to be: improved control, reduction in cycle time and the elimination of the costs associated with maintaining redundant systems. The Corporation has also reduced waste (i.e., flawed or excess production) and improved printing throughput (i.e., increased the speed at which equipment runs).

The following discussion includes information on a consolidated basis presented in accordance with Canadian GAAP. This discussion is supplemented by a discussion of segment operating income before deductions for restructuring and other charges. This supplemental discussion should be read in conjunction with the Corporation's reported consolidated financial statements.

The Corporation's results during the period discussed have also been affected by industry-wide trends, mainly downward pricing pressure associated with the high degree of competition resulting in part from excess capacity in the industry and fragmentation in the printing market. While the Corporation believes that continued consolidation in the industry will result in greater pricing discipline within the industry and greater opportunities for cross-selling, other trends may have a countervailing effect. The eventual effect, for example, of electronic substitution on the printing industry

cannot be predicted. The Corporation has not experienced any material adverse effect from electronic substitution. The Corporation continues to adapt its product line to the evolving demands of the digital products and services market. The effect these actions will have on the Corporation's results or financial condition cannot be predicted.

Consolidated results of operations for the years ended December 31, 2002, 2001, and 2000, are shown in the accompanying consolidated statements of operations.

## CONSOLIDATED

### 2002 COMPARED TO 2001

Net sales were $2,038 million, representing a $116.6 million or a 5.4 % decrease from last year. The decrease primarily resulted from sales declines in the U.S. and Canadian Forms & Labels business principally related to the decision to exit certain non-core product lines and unprofitable customer contracts ($64.3 million); divestitures ($110.7 million); and the devaluation of certain foreign currencies ($30.2 million). The decrease was partially offset by sales from new acquisitions ($102.1 million).

Cost of sales decreased $162.6 million to $1,390 million or 68.2% of net sales compared to 72.1% in 2001. The decrease was primarily due to charges of $61.2 million for the partial settlement of the U.S. pension plan and $6.6 million non-cash write-offs of obsolete inventory included in cost of sales for 2001 and lower 2002 sales volumes. Excluding these charges, cost of sales would have been 68.9% of net sales in 2001. The Corporation has achieved and anticipates further cost reductions resulting from additional production efficiencies and reduction of vendor costs as a result of partnering with suppliers.

Selling, general and administrative expenses decreased $116 million to $459.6 million or 22.6% of net sales, compared to $575.6 million or 26.7% in 2001. Included in selling, general and administrative expenses for 2002 was $9.2 million related to an executive separation, versus 2001 which included charges of $35.4 million related to the partial settlement of the U.S. pension plan settlement and $10.4 million of other costs. Excluding these charges in 2002 and 2001, selling, general and administrative expenses would have been 22.1% and 24.6% of net sales, respectively. The remaining $79.4 million of selling, general and administrative expense reduction in 2002 compared to 2001 is attributable to the benefits achieved from the Corporation's 2001 restructuring activities and an overall focus on efficiencies and cost containment.

Depreciation and amortization expense was $86.7 million and $239.1 million in 2002 and 2001, respectively. The decrease of $152.4 million is primarily due to 2001 non-cash charges of $76.8 million related to goodwill written down to its net recoverable amount for assets held for disposition and $54.6 million for asset impairments, including plant closures and abandoned information technology projects. Commencing in 2002, in accordance with Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3062, Goodwill and Other Intangible Assets, goodwill is no longer amortized (see Note 7 to Consolidated Financial Statements).

Income from operations was $102.5 million in 2002, compared to a loss from operations of $342.3 million in 2001. This improvement resulted from the restructuring and other charges that were included in 2001 results. Excluding these charges, income from operations increased $78.6 million for 2002 due to improved operating results across all business segments and the benefits achieved from the restructuring actions, as described below.

Other income (expense) increased $14.4 million from expense of $10.7 million in 2001 to income of $3.7 million in 2002, primarily because of gains on dispositions of fixed assets.

Interest expense decreased by $11.7 million to $12.1 million in 2002. This decrease is attributable to the redemption of $100 million of senior guaranteed notes and the conversion of the Corporation's $70.5 million subordinated convertible debentures, both of which occurred in December 2001. The remaining $100 million of senior guaranteed notes were redeemed in September 2002 and the Corporation incurred a $16.7 million debt settlement cost.

The effective income tax rate was 3.2% in 2002. The 2002 difference between the statutory rate and the effective rate relates to lower tax rates in non-U.S. jurisdictions offset by the inability to recognize the tax benefit from certain foreign operating losses, combined with a partial reduction in the deferred tax valuation allowance (which is based on estimates of future taxable income), the resolution of an income tax refund, partially offset by required tax reserves. In 2001, the effective income tax benefit resulted from the partial recognition of operating losses.

Net earnings in 2002 increased $431.3 million over the prior year to $73.3 million or $0.64 per diluted share, primarily as a result of cost savings generated by the 2001 restructuring activities and other charges included in 2001 as described below.

### 2001 COMPARED TO 2000

Net sales were $2,154.6 million, representing a decrease of $103.8 million, or 4.6% over 2000, primarily resulting from the divestitures of the Colleagues and Phoenix business units, the decision to exit certain unprofitable accounts, the devaluation of certain foreign currencies and weak demand in non-core businesses due to the challenging economic environment.

Cost of goods sold increased as a percent of sales for 2001 to 72.1% versus 70.8% in 2000. The increase was primarily attributable to competitive pricing pressures, $6.6 million of non-cash write-offs of obsolete inventory related to abandoned product lines and a $61.2 million charge related to the partial settlement of the U.S. pension plan associated with plant production employees.

Selling, general and administrative expenses decreased $3 million to $575.6 million, or 26.7% of net sales for 2001 versus 25.6% in 2000. Several one-time items significantly affected this category, primarily charges related to the partial settlement of the U.S. pension plan related to non-plant production employees of $35.4 million, and $10.4 million of other costs.

Depreciation and amortization increased by $87.6 million, or 57.8%, due to the write-down of goodwill of non-core businesses of $76.8 million, as well as $54.6 million for impairment of certain assets no longer in use. The Corporation recorded the charge of $76.8 million for permanent impairment of goodwill related to the divestiture of the Phoenix business and a non-core business held for disposition. These impairment charges were recorded based on management's decisions during 2001 to sell the businesses based on significant sales declines, customer turnover and the Corporation's decision to dispose of non-print related businesses. The charges were based on independent third party valuations.

Loss from operations increased $296.1 million to a loss of $342.3 million in 2001 as a result of the $374.6 million in restructuring and other charges. These charges were partially offset by improved operating results in the Forms & Labels and Outsourcing businesses, of $74.1 million.

Interest expense for the year ended December 31, 2001, increased $2.8 million or 13.3% over the same prior year period, primarily due to an increase in debt resulting from the issuance of $70.5 million subordinated convertible debentures in December 2000, partially offset by lower borrowings under the Corporation's bank credit facility.

Included in the loss before taxes and minority interest, is a charge of $11.6 million, which primarily represents accelerated amortization of the deferred issuance costs on the $70.5 million subordinated convertible debentures, which were converted during the fourth quarter of 2001.

The decrease in the 2001 effective tax recovery rate from 2000 was primarily attributable to the inability to currently recognize future income tax benefits on certain current operating losses and the write-down of goodwill relating to non-core businesses.

Net loss available to common shareholders for the year ended December 31, 2001, increased by $307 million to $373.3 million or $(4.21) per diluted share, primarily due to the Corporation's restructuring actions. Included in the loss available to common shareholders was approximately $15.3 million, which primarily represents the fair value at December 28, 2001, of the 1,650,000 shares given to the Class A limited partners of the partnership that owned the $70.5 million subordinated convertible debentures as inducement for early conversion.

## RESTRUCTURING AND OTHER CHARGES

The following table summarizes restructuring and other charges recorded by the Corporation:

| Years ended December 31,<br>Expressed in millions of U.S. Dollars | **2002** | 2001 | 2000 |
|---|---|---|---|
| Workforce reduction | **$ 4.4** | $ 77.0 | $ — |
| Lease terminations and other facility costs | **—** | 65.5 | — |
| Recovery of restructuring costs | **(5.3)** | (12.8) | (24.0) |
| Asset and goodwill impairment | **—** | 131.4 | 34.7 |
| Pension settlement (curtailment) – net | **—** | 96.6 | (6.6) |
| Debt conversion and extinguishment | **16.7** | 12.6 | — |
| Inventory write-off | **—** | 6.6 | — |
| Asset dispositions and investments – net | **—** | 4.9 | 12.0 |
| Accounts receivable write-off | **—** | 4.6 | — |
| Other | **9.2** | 4.8 | 4.8 |
| | **$ 25.0** | $ 391.2 | $ 20.9 |

For the year ended December 31, 2002, the Corporation recorded restructuring and other charges of $25 million (see Note 17 to Consolidated Financial Statements). These charges include a restructuring provision in the Forms & Labels segment of $4.4 million for workforce reductions (154 positions) primarily related to the closure of a plant; a charge of $16.7 million associated with the redemption of $100 million of its senior guaranteed notes and an executive separation of $9.2 million included in selling, general and administrative expenses. These charges were offset by the reversal of a portion of its 1998 ($3.6 million) and 2001 ($1.7 million) restructuring reserves as a result of favorable settlements in 2002 as compared to estimates and assumptions used by management at the time the charges were recorded.

For the year ended December 31, 2001, the Corporation recorded net restructuring and other charges of $391.2 million (see Note 17 to Consolidated Financial Statements). These charges include a restructuring provision of $142.5 million primarily related to workforce reductions and lease terminations; non-cash charges of $131.4 million that are included in depreciation and amortization related to the write-down of goodwill of non-core businesses and asset impairments; non-cash charges for inventory and accounts receivable, relating to exiting certain non-core businesses, of $11.2 million included in cost of sales and selling, general and administrative expenses loss on disposal of non-core assets that were included in investment and other income of $4.9 million; other charges of $12.6 million related to the early redemption of $100 million of senior guaranteed notes and the conversion of the $70.5 million

subordinated convertible debentures; and other cash charges of $4.8 million, included in selling, general and administrative expenses partially offset by a $12.8 million reversal of restructuring reserves related to the 1998 restructuring program that are no longer required due to favorable settlements.

The Corporation also recorded a net charge of $96.6 million in 2001 associated with the partial settlement of the U.S. pension plan, which was curtailed as of December 31, 2000. In March 2001, the Corporation purchased approximately $600 million of annuity contracts settling approximately 70% of the outstanding obligation. The Corporation expects to settle the remainder of the plan upon anticipated regulatory approval and expects to incur an additional settlement loss.

Included in the 2001 restructuring charge was $48 million related to lease termination costs associated with the Corporation's obligation for its office facility in Bannockburn, Illinois. This charge was based upon management's estimates and assumptions at the time the charge was recorded. Actual results could vary based upon market conditions and the Corporation's ability to sublease the aforementioned property. Any potential recovery or additional charge may affect amounts reported in the consolidated financial statements of future periods.

For the year ended December 31, 2000, the Corporation recorded net other charges of $20.9 million, related to non-cash charges of $34.7 million for the write-down of a non-core asset held for disposal and the impairment of a component of the Enterprise Resource Planning Software System ('ERP'), both included in depreciation and amortization; loss on disposal of investment in JetForm Corporation of $8.5 million; the write-down of a permanently impaired investment of $3.5 million; and $4.8 million of other charges. These charges were offset by the reversal of a restructuring reserve of $24 million and a gain on the curtailment of the Corporation's U.S. pension plan of $6.6 million discussed above.

## OPERATING RESULTS BY SEGMENT

The following table and management discussion summarizes the operating results of the Corporation's operating segments and corporate overhead expenses excluding the impact of restructuring and other charges previously discussed.

| Years ended December 31, | Net sales | | | Operating income (loss) | | |
|---|---|---|---|---|---|---|
| Expressed in millions of U.S. Dollars | **2002** | 2001 | 2000 | **2002** | 2001 | 2000 |
| Forms & Labels | **$ 1,125.8** | $ 1,194.5 | $ 1,246.1 | **$ 136.1** | $ 110.2 | $ 50.4 |
| Outsourcing | **316.1** | 339.5 | 296.8 | **61.4** | 54.3 | 40.0 |
| Commercial | **596.1** | 620.6 | 715.5 | **49.1** | 30.7 | 6.4 |
| Corporate | **—** | — | — | **(135.7)** | (162.9) | (134.1) |
| Total | **$ 2,038.0** | $ 2,154.6 | $ 2,258.4 | **$ 110.9** | $ 32.3 | $ (37.3) |

## FORMS & LABELS

### 2002 COMPARED TO 2001

Net sales in 2002 decreased $68.7 million or 5.8% to $1,125.8 million, primarily due to declines in the North American Forms & Labels business, as a result of the Corporation's decision in 2001 to exit non-core product lines and unprofitable customer contracts and volume declines due to lower transaction levels among major print management customers ($64.3 million) partially offset by sales to new customers ($19.6 million). In Latin America, sales declined by $25.7 million primarily as a result of the devaluation of various foreign currencies (principally, the Brazilian real and Venezuelan bolivar).

Operating income in 2001 increased by $25.9 million to $136.1 million in 2002, primarily due to the Corporation's decision to streamline its Forms & Labels operations. Major factors contributing to the operating income improvement included the continued benefit from the elimination of non-customer critical positions, the consolidation

of the Canadian and U.S. management teams and administrative infrastructures, the realignment of incentive plans, and productivity improvements (waste reductions and higher throughput.)

2001 COMPARED TO 2000

Net sales in 2001 decreased $51.6 million, or 4.1% to $1,194.5 million, due to foreign currency devaluation of $28.5 million and lower volumes at the Canadian Forms & Labels business as a result of the Corporation's decision to exit certain unprofitable customer accounts. Net sales declined in North America by $28.9 million, or 2.7%, due to the decision to exit certain unprofitable accounts and lower volumes. In Latin America, sales declined by $22.7 million, or 12.6%, primarily due to the devaluation of the Brazilian real.

Operating income increased $59.8 million, or 118.7% to $110.2 million, primarily due to the Corporation's decision to streamline its Forms & Labels operations including the elimination of non-customer critical positions in support of the goal to significantly reduce costs. Cost of goods sold as a percent of sales remained constant despite volume decline, due to waste reduction programs, reduced headcount, the initial impact of purchasing synergies and exiting of certain lower margin customer contracts. Selling, general and administrative expenses in 2001 decreased $40.4 million or 14.7%, also as an immediate result of the 2001 cost containment initiatives.

**OUTSOURCING**

2002 COMPARED TO 2001

Net sales decreased $23.4 million from $339.5 million to $316.1 million in 2002 from the prior year. Growth achieved from new and existing customers in the financial, insurance, and telecommunications markets, combined with the acquisition of the Document Management Services business of IBM Canada Limited ($18.9 million), was more than offset by volume declines in the prepaid telephone card market ($24.5 million). Net sales growth was also offset by the impact of the decision to cease manufacturing the packaging for certain non-secured stored value cards.

Operating income in 2002 increased $7.1 million, or 13.1%, due to cost savings achieved through workforce reductions, cost containment and the acquisition discussed above.

2001 COMPARED TO 2000

Net sales increased $42.7 million, or 14.4% to $339.5 million, due to strong volume growth of 11.3% resulting from increased service offerings and the benefits achieved from a sharper focus on leveraging core capabilities with existing customers.

Operating income increased by $14.3 million, or 35.8% to $54.3 million, due to increased revenues, improved gross margins and cost savings achieved through workforce reductions. Selling, general and administrative expenses remained almost flat despite incremental costs associated with increased sales volume due to cost reduction initiatives implemented throughout the year.

**COMMERCIAL**

2002 COMPARED TO 2001

Net sales declined by $24.5 million or 3.9% to $596.1 million, due to the divestiture of the Phoenix business unit ($64.3 million), Colleagues and a European investment ($15.4 million), volume declines of $44.6 million in the directory publications, as well as the printer and peripherals businesses, offset by the acquisition of The Nielsen Company on January 31, 2002 ($83.2 million) and increased volumes in the domestic direct mail business ($16.6 million).

Operating income in 2002 increased $18.4 million to $49.1 million over the prior year. The increase was driven by strong volume growth in the domestic direct mail business ($5.6 million), cost reductions resulting from the 2001 restructuring activities, and the acquisition of The Nielsen Company ($9.5 million).

#### 2001 COMPARED TO 2000

Net sales declined by $94.9 million, or 13.3% to $620.6 million, primarily due to a $55.6 million decline in revenues as a result of the divestiture of Colleagues, a $21.7 million revenue decline in non-core businesses and $8.8 million decline in revenues related to the disposition of Phoenix.

Commercial contributed $30.7 million to consolidated operating income in 2001, a 379.7% increase due to aggressive cost containment, which included a $33.8 million or 22.4% decrease in selling, general and administrative expenses.

### CORPORATE

#### 2002 COMPARED TO 2001

Corporate operating expenses declined by $27.2 million, or 16.7% to $135.7 million, due to overall cost controls and a focus on discretionary spending.

#### 2001 COMPARED TO 2000

Corporate operating expenses increased by $28.8 million, or 21.5% to $162.9 million, primarily due to the reduction of pension income resulting from the pension settlement and additional retirement savings plan contributions, partially offset by a reduction in corporate overhead.

### LIQUIDITY AND CAPITAL RESOURCES

In August 2002, the Corporation entered into a $400 million secured credit facility. The facility is comprised of a five-year $125 million Revolving Credit Facility, a five-year $75 million Delayed Draw Term Loan A Facility, and a six-year $200 million Term Loan B Facility, all of which are subject to a number of financial and restrictive covenants that, among other things, limit additional indebtedness and limit the ability of the Corporation to engage in certain transactions with affiliates, create liens on assets, engage in mergers and consolidations, or dispose of assets. The financial covenants calculated on a quarterly basis include, but are not limited to, tests of leverage and fixed charges coverage. The Delayed Draw Term Loan A Facility is to be used for acquisitions and related initial working capital requirements. The facility must be drawn within 18 months of the closing in a maximum of two drawings. Proceeds from the Term Loan B Facility were used in part to refinance the existing $168 million revolving credit facility that expired on August 5, 2002, and to fund working capital requirements as necessary. At December 31, 2002, there was $179.5 million outstanding under the Term Loan B Facility bearing interest at LIBOR (London Interbank Offer Rate) plus a 300 basis point spread. At December 31, 2002, three-month LIBOR was 1.38%.

The Corporation intends to enter into a new senior secured facility if it consummates the Wallace acquisition as described above. The Corporation has entered into a commitment letter, dated January 16, 2003, with certain financial institutions. In that letter, the financial institutions have agreed, subject to certain specified conditions discussed below, to enter into definitive agreements to provide the Corporation with an $850 million senior secured credit facility and a $400 million senior unsecured credit facility. In lieu of entering into definitive agreements for the $400 million senior unsecured credit facility, the Corporation may instead decide to sell $400 million in bonds, which may be guaranteed by certain assets of the Corporation. The proceeds of the financing will be used in part to pay the

total cash consideration that will be paid in the merger, expenses related to the merger and to refinance certain existing debt of the Corporation, Wallace and their respective subsidiaries. The obligation of the financial institutions to provide the financing is subject to certain customary closing and/or borrowing conditions, including the absence of material adverse changes and agreement as to final documentation.

In September 2002, the Corporation entered into interest rate swap agreements to hedge exposure to fluctuations in interest rates on the Term Loan B Facility as required by the Facility. These swap agreements exchange the variable interest rates (LIBOR) on this facility for fixed interest rates over the terms of the agreements. The resulting fixed interest rates will be the contracted swap rate plus the LIBOR basis spread on the Term Loan B Facility. At December 31, 2002, the notional amount of the swap agreements was $150 million comprised as follows: a $100 million 3.78% fixed rate agreement that expires in August 2006; and a $50 million 2.56% fixed rate agreement that expires in September 2004. The interest rate differential received or paid on these agreements is recognized as an adjustment to interest expense. These swap agreements are designated as cash flow hedges for U.S. GAAP. At December 31, 2002, the fair value of these swap agreements was a $5.1 million liability.

The Corporation also maintains uncommitted bank operating lines in the majority of the domestic markets in which it operates. These lines of credit are maintained to cover temporary cash shortfalls. Maximum allowable borrowings under these uncommitted facilities amounted to $40.2 million at December 31, 2002 ($1.4 million outstanding), and may be terminated at any time at the Corporation's option. Total availability under these facilities at December 31, 2002, was approximately $38.8 million. The Corporation has $19.9 million in outstanding letters of credit at December 31, 2002.

On September 4, 2002, the Corporation redeemed the remaining $100 million of senior guaranteed notes at a redemption price that includes a net prepayment charge of $16.7 million with proceeds from the Term Loan B Facility.

An additional source of liquidity at year-end was the Corporation's short-term investments in the amount of $125.6 million, which primarily consist of certificate and term deposits, treasury bills and bank notes. These investments are with financial institutions of sound credit rating and are highly liquid as the majority mature within one to seven days and are classified as 'cash and cash equivalents'.

At December 31, 2002 and 2001, the Corporation met its financial covenants. The Corporation believes it has sufficient liquidity to complete the remaining restructuring activities and effectively manage the operating needs of the businesses.

On December 28, 2001, the $70.5 million subordinated convertible debentures held by Chancery Lane/GSC Investors L.P. (the 'Partnership') were converted into 21,692,311 common shares. The Corporation issued 1,650,000 additional common shares ('additional shares') as an inducement to the Partnership's Class A limited partners to convert prior to December 22, 2005, the date the Corporation could have redeemed the debentures. The right to receive the additional shares was assigned by the Partnership to its Class A limited partners. Under the terms of the partnership agreement, the Class A limited partners were entitled to all the interest paid on the subordinated convertible debentures. As part of the inducement agreement, the Corporation has agreed that if at December 31, 2003, the 20 day weighted average trading price of the common shares on the NYSE is less than $10.83, the Corporation must make a payment equal to the lesser of $9 million or the value of 6,000,000 of its common shares at such date. The $9 million payment may be reduced under certain circumstances. At the option of the Corporation, these payments may be made in common shares, subject to regulatory approval. To the extent that shares or cash is paid, it will be recorded as a charge to retained earnings. At December 31, 2002, on the Corporation's 20-day weighted average trading price was less than the $10.83 measurement price. The Corporation has no indication that the 20-day weighted average share price will continue to trade

below the measurement price. Certain officers of the Corporation, including the Chairman and the Chief Executive Officer, and the former Chairman, President and Chief Executive Officer, were investors in the Partnership.

On February 7, 2002, the Corporation announced a program to repurchase up to $50 million of its common shares. The program allows for shares to be purchased on the NYSE from time to time depending upon market conditions, market price of the common shares and the assessment of the cash flow needs by the Corporation's management. As of December 31, 2002, the Corporation had repurchased 1,069,700 shares.

Net cash provided from operating activities was $158.4 million in 2002, compared to $137.1 million for the same period last year. The change was primarily due to improved profitability.

Net cash used by investing activities in 2002 was $92.5 million versus $21.9 million in 2001. The increased expenditures relate to the aforementioned acquisitions of businesses of $66 million.

Net cash provided from financing activities in 2002 was $27.1 million compared to net cash used of $93.1 million in 2001. The increase relates to long-term borrowings from the Term Loan B Facility, offset by the redemption of the remaining $100 million of senior guaranteed notes.

As of December 31, 2002, the aggregate amount of outstanding forward foreign currency contracts was $13.6 million. Unrealized gains and losses from these foreign currency contracts were not significant at December 31, 2002. The Corporation does not use derivative financial instruments for trading purposes.

The following table represents contractual obligations of the Corporation at December 31, 2002:

| | | Payment due by period | | | |
|---|---|---|---|---|---|
| Expressed in thousands of U.S. Dollars | Total | 1 Year | 2–3 Years | 4–5 Years | 5 Years Thereafter |
| Long-term debt | $ 179,829 | $ 219 | $ 110 | $ 84,500 | $ 95,000 |
| Capital lease obligations | 9,769 | 2,280 | 4,430 | 1,263 | 1,796 |
| Operating leases | 140,029 | 32,789 | 44,881 | 27,486 | 34,873 |
| Workforce reductions | 14,319 | 12,978 | 1,341 | — | — |
| Other cash obligations | 7,326 | 3,324 | 4,002 | — | — |
| Total Contractual Cash Obligations | $ 351,272 | $ 51,590 | $ 54,764 | $ 113,249 | $ 131,669 |

*Note: Above amounts exclude bank indebtedness of $18,158, which represents bank overdrafts.*

**COST INITIATIVES**

The Corporation continuously evaluates ways to reduce its cost structure, and improve the productivity of its operations. Future cost reduction initiatives may include the reorganization of operations or the consolidation of manufacturing facilities. Implementing such initiatives may result in future charges, which may be substantial.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

Effective January 1, 2002, the Corporation adopted various accounting standards as described in Note 2 to the consolidated financial statements, none of which had a material effect on the consolidated financial statements.

Pending standards and their estimated effect on the Corporation's consolidated financial statements are described in Note 26 to the Consolidated Financial Statements.

## CRITICAL ACCOUNTING POLICIES

The Corporation's significant accounting policies are more fully described in Note 1 to the consolidated financial statements. Certain accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, terms of existing contracts, observance of trends in the industry, information provided by customers and information available from other outside sources, as appropriate. Significant policies that the Corporation believes involves the application of significant judgment as described by management include:

### REVENUE RECOGNITION

The Corporation typically recognizes revenue for the majority of its products upon shipment to the customer and the transfer of title. Under agreements with certain customers, custom forms may be stored by the Corporation for future delivery. In these situations, the Corporation receives a logistics and warehouse management fee for the services it provides. In these cases, delivery and billing schedules are outlined with the customer and product revenue is recognized when manufacturing is complete, title transfers to the customer, the order is invoiced and there is reasonable assurance as to collectability. Since the majority of products are customized, product returns are not significant; however, the Corporation accrues for the estimated amount of customer credits at the time of sale.

Revenue from services is recognized as services are performed. Long-term product contract revenue is recognized based on the completed contract method or percentage of completion method. The percentage of completion method is used only for product contracts that will take longer than three months to complete, and project stages are clearly defined and can be invoiced. The contract must also contain enforceable rights by both parties. Revenue related to short-term service contracts and contracts that do not meet the percentage of completion criteria is recognized when the contract is completed.

### ACCOUNTS RECEIVABLE

The Corporation maintains an allowance for doubtful accounts, which is reviewed at least quarterly for estimated losses resulting from the inability of its customers to make required payments for product and services. Additional allowances may be necessary in the future if the ability of its customers to pay deteriorates.

### PENSION AND POSTRETIREMENT PLANS

The Corporation records annual amounts relating to its pension and postretirement plans based on calculations specified by generally accepted accounting principles, which include various actuarial assumptions, including discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates. The Corporation reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. The effect of modifications is generally recorded or amortized over future periods. The Corporation believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries.

The plan assumptions for both the United States and International qualified pension plans, which comprise approximately 75% of the projected benefit obligation at December 31, 2002, are based on current estimated market rates to settle the remaining portion of the plan as both plans have been terminated.

The health care cost trend rates used in valuing the Corporation postretirement benefit obligation are established based upon actual health care cost trends and consultation with our actuaries.

Expressed in thousands of U.S. Dollars

| The following is the 2002 effect of a 1% increase in the assumed health care cost trend rates for each future year on: | |
|---|---|
| Accumulated postretirement benefit obligation | $ 12,099 |
| Aggregate of the service and interest cost components of net postretirement benefit cost | 910 |

| The following is the effect of a 1% decrease in the assumed health care cost trend rates for each future year on: | |
|---|---|
| Accumulated postretirement benefit obligation | $ 10,850 |
| Aggregate of the service and interest cost components of net postretirement benefit cost | 842 |

In reaction to the significant increase in health care costs in recent years, the Corporation increased this assumption at the November 30, 2001, valuation date. The discount rate assumption is based upon published long-term bond indices at each measurement date. Changes in the discount rate do not have a significant effect on the postretirement benefit cost due to the maturity of the plan participants.

### INCOME TAXES

The valuation allowance at December 31, 2002, relates to net operating losses generated in the United States, Canada, Latin America, and Europe (which have limited carry-forward periods), and future deductible expenses.

The Corporation has maintained a valuation allowance to reduce its deferred tax assets based on an evaluation of the amount of deferred tax assets that management believes are more likely than not to be ultimately realized in the foreseeable future. The valuation allowance was reduced in 2002 based on management's best estimate of the amount of deferred tax assets that will more likely than not be realized.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### MARKET RISK DISCLOSURE

The risks inherent in the Corporation's market risk sensitive instruments and positions is summarized as: the potential loss arising from adverse changes in interest rates, credit worthiness, foreign currency exchange rates and certain commodity prices. There have been no material changes in market risk from the prior year.

### INTEREST RATES AND FOREIGN CURRENCY

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on its borrowings under its credit facilities. Interest rate swap agreements were entered into to hedge the Corporation's exposure to fluctuations in interest rates on its Term Loan B Facility. These swap agreements exchange the variable interest rates (LIBOR) on this facility for fixed interest rates over the terms of the agreements. The Corporation is also exposed to price risk in respect of its fixed rate financial instruments (see Note 10 to Consolidated Financial Statements).

The Corporation is exposed to the impact of foreign currency fluctuations in certain countries in which it operates. The exposure to foreign currency movements is limited because the operating revenues and expenses of its various subsidiaries and business units are substantially in the local currency of the country in which they operate. To the extent revenues and expenses are not in the local currency of the operating unit, the Corporation enters into foreign currency forward contracts to hedge the currency risk. As of December 31, 2002, the aggregate amount of outstanding forward contracts was $13.6 million. Gains and losses from these foreign currency contracts were not significant at December 31, 2002. The Corporation does not use derivative financial instruments for trading or speculative purposes.

The Corporation assessed market risk based on changes in interest rates and foreign currency rates utilizing a sensitivity analysis that measures the potential loss in earnings, fair values and cash flows based on a 10% hypothetical change in prevailing interest and foreign currency rates. Using this sensitivity analysis, the Corporation determined such changes would not have a material effect on earnings, fair values and cash flows.

### CREDIT RISK

The Corporation is exposed to credit risk on accounts receivable balances. This risk is limited due to the Corporation's large, diverse customer base, dispersed over various geographic regions and industrial sectors. No single customer comprised more than 5% of the Corporation's consolidated net sales in 2002, 2001 and 2000. The Corporation maintains provisions for potential credit losses, and any such losses to date have been within the Corporation's expectations.

### COMMODITIES

The primary raw materials used by the Corporation are paper and ink. The cost of paper and ink represents a significant portion of costs of sales. Increases in price or a lack of availability of supply of these raw materials could have a material adverse effect on the consolidated financial condition and results of operations. The Corporation uses its significant purchasing volume to negotiate long-term supply contracts that give favorable prices, terms, quality and service. While the Corporation believes that these long-term contracts will enable the Corporation to receive adequate supplies of paper in the event of a tight paper supply, there can be no assurance in this regard.

To reduce price risk caused by market fluctuations, the Corporation has incorporated price adjustment clauses in certain sales contracts. The Corporation does not think it is practicable to measure the impact of a hypothetical 10% change in the price of paper and other raw materials on its earnings and cash flows. Management believes such a change would not have a significant effect on the Corporation since these costs are generally passed through to its customers.

## CAUTIONARY STATEMENT

This Annual Report contains statements relating to the future results of Moore (including certain 'anticipated', 'believed', 'expected', and 'estimated results') and Moore's outlook concerning statements as to acquisitions being accretive, continued improvement in Moore's cost structure and achievement of revenue growth from the cross-selling initiative are 'forward-looking statements' as defined in the U.S. Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on these forward-looking statements and any such forward-looking statements are qualified in their entirety by reference to the following cautionary statements. All forward-looking statements speak only as of the date hereof and are based on current expectations and involve a number of assumptions, risks and uncertainties that could cause the actual results to differ materially from such forward-looking statements. Factors that could cause such material differences include, without limitation, the following:

- dependence on key management personnel
- the effect of competition
- the effects of paper and other raw material price fluctuations and shortages of supply
- successful execution of cross-selling, cost containment and other key strategies
- the successful negotiation, execution and integration of acquisitions
- the ability to renegotiate or terminate unprofitable contracts
- the ability to divest non-core businesses
- the rate of migration from paper-based forms to digital formats

- future growth rates in Moore's core businesses
- the impact of currency fluctuations in the countries in which Moore operates
- the potential impact of the merger with Wallace Computer Services, Inc.
- general economic and other factors beyond Moore's control
- the possibility of future terrorist activity or the outbreak of war or other hostilities in the United States, Canada or abroad
- other risks and uncertainties detailed from time to time in the Corporation's filings with United States and Canadian securities authorities

Consequently, readers of this Annual Report should consider these forward-looking statements only as our current plans, estimates and beliefs. We do not undertake and specifically decline any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. We undertake no obligation to update or revise any forward-looking statements in this Annual Report to reflect any new events or any change in conditions or circumstances. Even if these plans, estimates or beliefs change because of future events or circumstances after the date of these statements, or because anticipated or unanticipated events occur, we decline and cannot be required to accept an obligation to publicly release the results of revisions to these forward-looking statements.

## CONSOLIDATED BALANCE SHEETS

As at December 31,
Expressed in thousands of U.S. Dollars
Except share data

| | 2002 | 2001 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | **$ 139,630** | $ 84,855 |
| Accounts receivable, less allowance for doubtful accounts of $19,538 (2001 – $22,057) | **341,383** | 336,153 |
| Inventories (Note 4) | **129,889** | 128,421 |
| Prepaid expenses | **17,317** | 13,544 |
| Deferred income taxes (Note 18) | **31,912** | 13,566 |
| Total Current Assets | **660,131** | 576,539 |
| Property, plant and equipment – net (Note 5) | **255,722** | 307,640 |
| Investments (Note 6) | **32,256** | 32,204 |
| Prepaid pension cost (Note 14) | **221,520** | 215,752 |
| Goodwill – net (Note 7) | **106,254** | 41,857 |
| Other intangibles – net (Note 7) | **6,434** | 437 |
| Deferred income taxes (Note 18) | **53,938** | 47,651 |
| Other assets (Note 8) | **103,504** | 114,906 |
| Total Assets | **$1,439,759** | $1,336,986 |
| LIABILITIES | | |
| Current Liabilities | | |
| Bank indebtedness | **$ 18,158** | $ 56,181 |
| Accounts payable and accrued liabilities (Note 9) | **486,507** | 486,626 |
| Short-term debt (Note 10) | **2,135** | 18,034 |
| Income taxes | **58,562** | 27,677 |
| Deferred income taxes (Note 18) | **3,184** | 324 |
| Total Current Liabilities | **568,546** | 588,842 |
| Long-term debt (Note 10) | **187,463** | 111,062 |
| Postretirement benefits (Note 15) | **241,344** | 239,664 |
| Deferred income taxes (Note 18) | **9,482** | 13,705 |
| Other liabilities (Note 11) | **43,776** | 51,263 |
| Minority interest | **6,652** | 11,200 |
| Total Liabilities | **1,057,263** | 1,015,736 |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (Note 12) | | |
| Authorized: | | |
| Unlimited number of preference (none outstanding for 2002 and 2001) and common shares without par value | | |
| Issued: | | |
| 111,842,348 common shares in 2002; 111,803,651 common shares in 2001 | **403,800** | 397,761 |
| Unearned restricted shares (Note 12) | **(2,572)** | — |
| Retained earnings | **114,601** | 51,666 |
| Cumulative translation adjustments (Note 13) | **(133,333)** | (128,177) |
| Total Shareholders' Equity | **382,496** | 321,250 |
| Total Liabilities and Shareholders' Equity | **$1,439,759** | $1,336,986 |

Approved by the Board of Directors:

Alfred C. Eckert III
Chairman of the Board

Mark A. Angelson
Chief Executive Officer

*See notes to consolidated financial statements*

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31,
Expressed in thousands of U.S. Dollars
Except share and per share data

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| Net sales | **$ 2,038,039** | $ 2,154,574 | $ 2,258,418 |
| Cost of sales | **1,390,007** | 1,552,561 | 1,598,525 |
| Selling, general and administrative expenses | **459,613** | 575,586 | 578,642 |
| Provision for (recovery of) restructuring costs – net | **(850)** | 129,679 | (24,033) |
| Depreciation and amortization (includes impairment charges of $131,393 for 2001 and $36,621 for 2000) | **86,746** | 239,072 | 151,518 |
| | **1,935,516** | 2,496,898 | 2,304,652 |
| Income (loss) from operations | **102,523** | (342,324) | (46,234) |
| Investment and other income (expense) | **3,720** | (10,721) | (14,342) |
| Interest expense – net | **12,145** | 23,758 | 21,016 |
| Debt settlement and issue costs | **16,746** | 11,617 | — |
| Earnings (loss) before income taxes and minority interest | **77,352** | (388,420) | (81,592) |
| Income tax expense (recovery) | **2,472** | (32,192) | (17,377) |
| Minority interest | **1,622** | 1,810 | 2,157 |
| Net earnings (loss) | **$ 73,258** | $ (358,038) | $ (66,372) |
| Distribution to certain convertible debenture holders (Note 10) | **—** | 15,345 | — |
| Net earnings (loss) available to common shareholders | **$ 73,258** | $ (373,383) | $ (66,372) |
| Net earnings (loss) per common share: | | | |
| Basic | **$ 0.66** | $ (4.21) | $ (0.75) |
| Diluted | **0.64** | (4.21) | (0.75) |
| Average shares outstanding (in thousands): | | | |
| Basic | **111,556** | 88,648 | 88,457 |
| Diluted | **114,022** | 88,648 | 88,457 |

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31,
Expressed in thousands of U.S. Dollars
Except share and per share data

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| Balance at beginning of the year, as previously reported | **$ 51,666** | $ 431,821 | $ 480,049 |
| Change in accounting policy: | | | |
| Income taxes (Note 2) | **—** | — | 2,443 |
| Employee future benefits (Note 2) | **—** | — | 33,295 |
| Balance at beginning of the year, as restated | **51,666** | 431,821 | 515,787 |
| Net earnings (loss) | **73,258** | (358,038) | (66,372) |
| | **124,924** | 73,783 | 449,415 |
| Repurchase of common shares (1,069,700 in 2002) | **10,323** | — | — |
| Subordinated convertible debentures | **—** | 17,694 | — |
| Dividends (5¢ per share in 2001 and 20¢ per share in 2000) | **—** | 4,423 | 17,594 |
| Balance at end of year | **$ 114,601** | $ 51,666 | $ 431,821 |

*See notes to consolidated financial statements*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,
Expressed in thousands of U.S. Dollars

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net earnings (loss) | **$ 73,258** | $ (358,038) | $ (66,372) |
| Items not affecting cash resources: | | | |
| Depreciation and amortization [(a)] | **86,746** | 239,072 | 152,546 |
| Net (gain) loss on sale of assets | **(8,730)** | 5,824 | 2,630 |
| Net loss on write-off and sale of investments | **2,801** | — | 11,974 |
| Deferred income taxes | **(25,996)** | (35,103) | (13,027) |
| Pension settlement – net | **—** | 96,605 | — |
| Provision for (recovery of) restructuring costs – net | **(850)** | 129,679 | (24,033) |
| Debt settlement and issue cost | **16,746** | 11,617 | — |
| Restricted share compensation | **1,093** | — | — |
| Other | **(10,804)** | 3,048 | 12,367 |
| Changes in working capital other than cash resources: | | | |
| Accounts receivable – net | **(638)** | 44,684 | 69,780 |
| Inventories | **6,026** | 21,037 | 24,181 |
| Accounts payable and accrued liabilities | **(9,741)** | (19,378) | (134,989) |
| Income taxes | **32,133** | (4,417) | (639) |
| Other | **(3,649)** | 2,491 | 2,902 |
| Net cash provided by operating activities | **158,395** | 137,121 | 37,320 |
| INVESTING ACTIVITIES | | | |
| Property, plant and equipment – net | **(8,941)** | (37,072) | (39,543) |
| Long-term receivables and other investments | **(5,028)** | (3,489) | 527 |
| Acquisition of businesses | **(65,966)** | (14,565) | (3,351) |
| Proceeds from sale of investment and other assets | **—** | 38,495 | 13,178 |
| Software expenditures | **(10,958)** | (6,517) | (28,795) |
| Other | **(1,615)** | 1,210 | (842) |
| Net cash used by investing activities | **(92,508)** | (21,938) | (58,826) |
| FINANCING ACTIVITIES | | | |
| Dividends paid | **—** | (8,846) | (17,594) |
| Net change in short-term debt | **(15,899)** | 15,325 | (37,431) |
| Proceeds from issuance of long-term debt | **200,000** | 7,963 | 6,003 |
| Payments on long-term debt | **(140,264)** | (104,166) | (1,776) |
| Issuance (conversion) of convertible debentures | **—** | (1,600) | 58,660 |
| Issuance (repurchase) of common shares – net | **(7,949)** | — | — |
| Other | **(8,827)** | (1,744) | (5,753) |
| Net cash provided (used) by financing activities | **27,061** | (93,068) | 2,109 |
| Effect of exchange rate on cash | **(150)** | (551) | 1,414 |
| Increase (decrease) in cash resources | **92,798** | 21,564 | (17,983) |
| Cash resources at beginning of year [(b)] | **28,674** | 7,110 | 25,093 |
| Cash resources at end of year [(b)] | **$ 121,472** | $ 28,674 | $ 7,110 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid | **$ 13,324** | $ 26,594 | $ 25,288 |
| Income taxes paid (refunded) – net | **(1,041)** | 3,425 | 5,314 |

*(a) Includes depreciation of $1,028 that has been classified in cost of sales in 2000.*
*(b) Cash resources are defined as cash and cash equivalents less bank indebtedness.*

*See notes to consolidated financial statements*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of U.S. dollars, unless otherwise indicated.)

### 1. SUMMARY OF ACCOUNTING POLICIES

#### PRINCIPLES OF CONSOLIDATION

Moore Corporation Limited is a corporation continued under the Canada Business Corporation Act. The consolidated financial statements, which are prepared in accordance with Canadian generally accepted accounting principles (GAAP), include the accounts of Moore Corporation Limited and its subsidiaries (collectively, the 'Corporation'). Entities that are not controlled and over which the Corporation has significant influence are accounted for under the equity method. All other investments are accounted for on the cost basis. The Corporation does not have any transactions with unconsolidated special purpose entities or variable interest entities. All intercompany transactions have been eliminated. Comparative figures have been reclassified where appropriate to conform to the current presentation. Significant differences between Canadian and U.S. GAAP are discussed in Note 25.

#### REVENUE RECOGNITION

The Corporation typically recognizes revenue for the majority of its products upon shipment to the customer and the transfer of title. Under agreements with certain customers, custom forms may be stored by the Corporation for future delivery. In these situations, the Corporation receives a logistics and warehouse management fee for the services provided. In these cases, delivery and billing schedules are outlined with the customer and product revenue is recognized when manufacturing is complete, title transfers to the customer, the order is invoiced and there is reasonable assurance of collectability. Since the majority of products are customized, product returns are not significant, however, the Corporation accrues for the estimated amount of customer credits at the time of sale.

Revenue from services is recognized as services are performed. Long-term product contract revenue is recognized based on the completed contract method or percentage of completion method. The percentage of completion method is used only for contracts that will take longer than three months to complete, and project stages are clearly defined and can be invoiced. The contract must also contain enforceable rights by both parties. Revenue related to short-term service contracts and contracts that do not meet the percentage of completion criteria is recognized when the contract is completed.

#### TRANSLATION OF FOREIGN CURRENCIES

The consolidated financial statements are expressed in United States dollars because a significant part of the Corporation's net assets and earnings are located or originate in the United States. Except for the foreign currency financial statements of subsidiaries in countries with highly inflationary economies, Canadian and other foreign currency financial statements are translated into United States dollars on the following bases: all assets and liabilities at the year-end exchange rates; income and expenses at average exchange rates during the year. Net unrealized exchange adjustments arising on translation of foreign currency financial statements are charged or credited directly to shareholders' equity and shown as cumulative translation adjustments.

The foreign currency financial statements of subsidiaries in countries with highly inflationary economies are translated into United States dollars using the temporal method whereby monetary items are translated at current exchange rates, and non-monetary items are translated at historical exchange rates. In 2001, Venezuela was the only highly inflationary economy in which the Corporation operated. In 2002, Venezuela's economy was no longer considered highly inflationary, and the impact of this change in method of translation was not material to the consolidated financial statements.

Exchange losses or gains are included in earnings. In 2001, a loss of $2,936 is included in investment and other income. Amounts included in investment and other income for 2002 and 2000 were not material. In 2002, the

Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants' (CICA) amended Handbook Section 1650, Foreign Currency Translation. The impact of the adoption of the standard was not material.

### FINANCIAL INSTRUMENTS

The Corporation enters into forward exchange contracts to hedge exposures resulting from foreign exchange fluctuations in the ordinary course of business. The contracts are normally for terms of less than one year and are used as hedges of foreign denominated revenue streams, costs and loans. The unrealized gains and losses on outstanding contracts are offset against the gains and losses of the hedged item. In 2002, the Corporation entered into interest rate swap agreements to hedge its exposure to fluctuations in interest rates on its Term Loan B Facility. The interest rate differential received or paid on these agreements is recognized as an adjustment to interest expense.

Short-term securities are highly liquid and consist of investment grade instruments in governments, financial institutions and corporations.

Unless disclosed otherwise in the notes to the consolidated financial statements, the estimated fair value of financial assets and liabilities approximates carrying value.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of highly liquid investments with a purchased maturity of three months or less.

### INVENTORIES

Inventories of raw materials and work-in-process are valued at the lower of cost or replacement cost and inventories of finished goods at the lower of cost or net realizable value. In the United States, the cost of the principal raw material inventories and the raw material content of work-in-process and finished goods inventories is determined on the last-in, first-out basis. The cost of all other inventories is determined on the first-in, first-out basis.

### PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at historical cost and are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of buildings range from 20 to 50 years and from 3 to 17 years for machinery and equipment. All costs for repairs and maintenance are expensed as incurred. Gains or losses on the disposal of property, plant and equipment are included in investment and other income, and the cost and accumulated depreciation related to these assets are removed from the accounts.

The Corporation reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The Corporation then compares expected future undiscounted cash flows to be generated by the asset to its carrying value. If the carrying value exceeds the sum of the future undiscounted cash flows, the asset would be adjusted to its net recoverable amount and an impairment loss would be charged to operations in the period identified.

### GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess cost of an acquired entity over the fair value assigned to the identifiable net assets acquired. Goodwill from acquisitions that occurred prior to July 1, 2001 was amortized over its useful life on a straight-line basis, not to exceed 40 years. Goodwill from acquisitions subsequent to July 1, 2001 was not amortized. Effective January 1, 2002, all goodwill ceased to be amortized.

Identifiable intangible assets are recognized apart from goodwill and are amortized over their estimated useful lives.

Goodwill and identifiable intangible assets are reviewed annually for impairment, unless events or changes in circumstances indicate that the carrying value may not be recoverable. In the absence of comparable market valuations, the Corporation compares expected future discounted cash flows to be generated by the asset or related business to its carrying value. If the carrying value exceeds the sum of the future discounted cash flows, the asset would be adjusted to its fair value and an impairment loss would be charged to operations in the period identified (see Note 7).

### AMORTIZATION OF DEFERRED CHARGES

Deferred charges include certain costs to acquire and develop internal-use computer software, which is amortized over its estimated useful life using the straight-line method, up to a maximum of seven years.

Deferred debt issue costs are amortized over the term of the related debt.

### PENSION AND POSTRETIREMENT PLANS

The Corporation records annual amounts relating to its pension and postretirement plans based on calculations specified by GAAP, which include various actuarial assumptions, including discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates. The Corporation reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. The effect of modifications is generally recorded or amortized over future periods. The Corporation believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries.

### INCOME TAXES

The Corporation applies the liability method of tax allocation for accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income in the period that the change occurs. No provision has been made for taxes on undistributed earnings of subsidiaries not currently available for paying dividends as such earnings have been reinvested in the business.

### STOCK-BASED COMPENSATION

The Corporation has stock-based compensation plans as described in Note 12. The Corporation accounts for stock options using the intrinsic value method. No compensation expense was recognized in 2002, 2001 or 2000 as the options have an exercise price equal to the fair market value at dates of grant. See Notes 12 and 25 for the pro forma effect of accounting for stock options under the fair value method for both Canadian and U.S. GAAP, respectively.

In October 2002, the Corporation awarded 385,000 restricted common shares under its 2001 Long-Term Incentive Plan. Compensation expense is measured based upon the fair value on the date of issue and is recognized as the shares vest (see Note 12).

### USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates. Estimates are used when accounting for items and

matters including but not limited to allowance for uncollectible accounts receivable, inventory obsolescence, amortization, asset valuations, employee benefits, taxes, restructuring and other provisions and contingencies.

## 2. CHANGES IN ACCOUNTING POLICIES

### CICA SECTION 3062 GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, the Corporation adopted the recommendations of the CICA Handbook Section 3062, Goodwill and Other Intangible Assets (see Note 7).

The transitional impairment testing required by this standard had no impact on the Corporation's consolidated financial position and result of operations since the carrying amounts of goodwill and other intangible assets did not exceed their fair values.

### CICA SECTION 1581 BUSINESS COMBINATIONS

In 2002, the Corporation adopted the recommendations of the CICA Handbook Section 1581, Business Combinations. The standard requires that all business combinations be accounted for using the purchase method of accounting. This standard had no material impact on its consolidated financial condition or results of operations.

### CICA SECTION 1650 FOREIGN CURRENCY TRANSLATION

Effective January 1, 2002, the Corporation adopted the recommendations of the CICA to amended Handbook Section 1650, Foreign Currency Translation. The amendment eliminates the deferral and amortization of unrealized translation gains and losses on non-current monetary assets and liabilities and requires that exchange gain or loss arising on translation of a foreign currency denominated non-monetary item carried at market be included in income in the current reporting period. The adoption of this standard did not have a material impact on the Corporation's consolidated financial position or results of operations.

### CICA SECTION 3870 STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Effective January 1, 2002, the Corporation adopted the recommendations of the CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The recommendations establish standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. It applies to transactions, including non-reciprocal transactions, in which an enterprise grants shares of common stock, stock options, or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments. The standard encourages, but does not require, fair value measurement and recognition of equity instruments awarded to employees and cost of services received as consideration. A pro forma disclosure of net income and earnings per share using the fair value based method of accounting has been presented for the required period.

### CICA SECTION 3500 EARNINGS PER SHARE

Effective January 1, 2001, the Corporation adopted the recommendations of the CICA Handbook Section 3500, Earnings Per Share. The standard requires the disclosure of the calculation of basic and diluted earnings per share and the use of the treasury stock method for calculating the dilutive impact of stock options. The impact on prior reported amounts was not material.

### CICA SECTION 3461 EMPLOYEE FUTURE BENEFITS

Effective January 1, 2000, the Corporation adopted the recommendations of the CICA Handbook Section 3461, Employee Future Benefits. Under past Canadian standards, the Corporation recognized the cost of postretirement

benefits other than pensions as an expense when paid. This standard requires that the expected costs of the employees' postretirement benefits be expensed during the years that the employees render services to the Corporation. In addition, the new standard changes the accounting for recognition of involuntary termination benefits.

The standard was applied retroactively without restatement of prior year financial statements. The cumulative effect of this change, as of January 1, 2000, resulted in a $33,295 increase to opening retained earnings.

### CICA SECTION 3465 ACCOUNTING FOR INCOME TAXES

Effective January 1, 2000, the Corporation adopted the new recommendations of the CICA Handbook Section 3465, Accounting for Income Taxes. This represented a change from the deferral method of tax allocation to the liability method of tax allocation.

The new standard was applied retroactively without restatement of prior year financial statements. The cumulative effect of the change as of January 1, 2000 resulted in a $2,443 increase to opening retained earnings.

## 3. ACQUISITIONS AND PENDING ACQUISITIONS

On December 31, 2001, and January 31, 2002, the Corporation acquired certain assets relating to the Document Management Services business of IBM Canada Limited and The Nielsen Company, a commercial printer, for total consideration of $14,592 and $57,202, respectively, net of cash acquired. The allocation of the purchase prices to the assets acquired and liabilities assumed based on fair values at the dates of acquisition were as follows:

| | |
|---|---|
| Working capital, other than cash | $ 10,933 |
| Property, plant and equipment | 9,475 |
| Other liabilities | (15,020) |
| Goodwill and other intangibles | 66,406 |
| Purchase price, net of cash received | $ 71,794 |

In May 2002, the Corporation purchased the remaining minority interest in its consolidated subsidiary, Quality Color Press, Inc., for total consideration of $6,680. The cost of this acquisition exceeded the fair value of the net assets acquired by $5,437 allocated to goodwill and other intangible assets. Management has reclassified this business from the Commercial segment to the Forms & Labels segment in order to reflect the business synergies and integration plans. During August 2002, the Corporation purchased the remaining minority interest of its consolidated subsidiaries located in Central America for consideration of $2,750 ($2,000 in cash and $750 payable within the next twelve months). The carrying value of the minority interests approximated the purchase price.

Pro forma disclosures for the aforementioned acquisitions have been excluded because they are not material to the Corporation's consolidated financial position or results of operations.

On January 16, 2003, the Corporation signed a definitive merger agreement with Wallace, a leading provider of printed products and print management services, to acquire all of the outstanding shares of Wallace in exchange for average consideration of $14.40 in cash and 1.05 shares of the Corporation for each outstanding share of Wallace. The purchase price is approximately $1.3 billion based on approximately 42 million Wallace shares outstanding, which includes the assumption of approximately $210 million in debt, but does not include any direct transaction costs. The estimated purchase price was derived using the closing trading price of the Corporation's common shares on the New York Stock Exchange ('NYSE') at January 16, 2003, which approximates the average closing price of Moore shares two trading days before and after January 17, 2003, the announcement date. Completion of the Wallace merger is subject to customary closing conditions that include, among others, receipt of required approval from Wallace

shareholders, required regulatory approvals and closing of the required financing. The transaction, while expected to close in the first half of 2003, may not be completed if any of the closing conditions are not satisfied. Under certain terms specified in the merger agreement, the Corporation or Wallace may terminate the agreement, and as a result, either party may be required to pay a termination fee of up to $27.5 million to the other party. Upon consummation, the transaction will be recorded by allocating the cost of the assets acquired, including intangible assets and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the cost of the acquisition over the net of amounts assigned to the fair value of the assets acquired and the liabilities assumed will be recorded as goodwill. Unless otherwise indicated, the consolidated financial statements and related notes pertain to the Corporation as a stand-alone entity and do not reflect the impact of the pending business combination transaction with Wallace.

## 4. INVENTORIES

| | 2002 | 2001 |
|---|---|---|
| Raw materials | $ 31,883 | $ 39,452 |
| Work-in-process | 10,303 | 10,048 |
| Finished goods | 84,190 | 75,149 |
| Other | 3,513 | 3,772 |
| | $ 129,889 | $ 128,421 |

The current cost of these inventories exceeds the last-in, first-out cost by approximately $16,239 at December 31, 2002 (2001 – $17,152).

## 5. PROPERTY, PLANT AND EQUIPMENT

| | 2002 | 2001 |
|---|---|---|
| Land | $ 9,952 | $ 9,973 |
| Building | 155,454 | 162,660 |
| Machinery and equipment | 800,448 | 857,452 |
| | 965,854 | 1,030,085 |
| Less: Accumulated depreciation | 710,132 | 722,445 |
| | $ 255,722 | $ 307,640 |

Depreciation expense for the year was $64,832 (2001 – $108,436; 2000 – $84,355).

In 2001 and 2000, the Corporation wrote off assets that were permanently impaired amounting to $28,549 and $1,904, respectively, which were included in depreciation and amortization (see Note 16).

## 6. INVESTMENTS

| | 2002 | 2001 |
|---|---|---|
| Equity basis | $ — | $ 1,201 |
| Cost basis | 1,700 | 4,200 |
| Long-term bonds | 30,556 | 26,803 |
| | $ 32,256 | $ 32,204 |

In the fourth quarter of 2002, the Corporation recorded a $2,500 impairment charge against its cost basis investment for a permanent decline in market value.

The fair market value of the long-term bonds at December 31, 2002, is approximately $28,200 (2001 – $27,200).

## 7. GOODWILL AND OTHER INTANGIBLES

On January 1, 2002, the Corporation adopted the recommendations of CICA Handbook Section 3062, Goodwill and Other Intangible Assets. Under this standard goodwill from acquisitions, subsequent to July 1, 2001 is not amortized but

is subject to an annual impairment test. Effective January 1, 2002, all goodwill ceased to be amortized and is subject to an annual impairment test. Previously, goodwill from acquisitions prior to July 1, 2001 was amortized on a straight-line basis over its useful life, not to exceed 40 years, or was written down when a permanent impairment in value occurred.

This standard requires reclassification of identifiable intangibles separately from previously reported goodwill. This standard also requires goodwill and identifiable intangible assets to be reviewed annually for impairment, unless events or changes in circumstances indicate their carrying values may not be recoverable.

The changes in the carrying value of goodwill by operating segment for the year ended December 31, 2002, are as follows:

| Goodwill | Balance at January 1, 2002 | Additions | Foreign Exchange | Balance at December 31, 2002 |
|---|---|---|---|---|
| Forms & Labels | $ 41,857 | $ 3,773 | $ (80) | $ 45,550 |
| Outsourcing | — | 11,866 | (20) | 11,846 |
| Commercial | — | 48,858 | — | 48,858 |
| | $ 41,857 | $ 64,497 | $ (100) | $ 106,254 |

The changes in other intangibles for the year ended December 31, 2002, are as follows:

| Other Intangibles | Balance at January 1, 2002 | Additions | Accumulated Amortization | Balance at December 31, 2002 | Amortizable Life |
|---|---|---|---|---|---|
| Trademarks, license and agreements | $ 437 | $ 2,953 | $ (463) | $ 2,927 | 4–10 Years |
| Customer intangibles | — | 2,729 | (886) | 1,843 | 3 Years |
| Indefinite-lived trademarks | — | 1,664 | — | 1,664 | Indefinite |
| | $ 437 | $ 7,346 | $ (1,349) | $ 6,434 | |

The total intangible asset amortization expense for the year ended December 31, 2002, was $1,349, included in the depreciation and amortization expense. Amortization expense for the next five years is estimated to be:

| | |
|---|---|
| 2003 | $ 1,303 |
| 2004 | $ 1,303 |
| 2005 | $ 692 |
| 2006 | $ 240 |
| 2007 | $ 228 |

The table below provides a reconciliation of the reported net loss for 2001 and 2000, to the pro forma net loss, which excludes previously recorded goodwill amortization, on goodwill outstanding at December 31, 2001 and 2000:

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | | Loss per share | | | Loss per share | |
| | Loss | Basic | Diluted | Loss | Basic | Diluted |
| Net loss available to common shareholders (as reported) | $ (373,383) | $ (4.21) | $ (4.21) | $ (66,372) | $ (0.75) | $ (0.75) |
| Add back: | | | | | | |
| Goodwill amortization – net of tax | 2,265 | 0.03 | 0.03 | 6,628 | 0.07 | 0.07 |
| Pro forma net loss | $ (371,118) | $ (4.18) | $ (4.18) | $ (59,744) | $ (0.68) | $ (0.68) |

In 2001 and 2000, the Corporation recorded charges of $76,808 and $20,965, respectively, included in depreciation and amortization, for permanent impairment of goodwill related to dispositions and assets held for disposition (see Note 16). The impairment resulted from a significant sales decline, customer turnover and the decision to hold certain assets for sale.

## 8. OTHER ASSETS

| | 2002 | 2001 |
|---|---|---|
| Computer software – net of accumulated amortization | **$ 89,208** | $ 89,763 |
| Deposit and other receivables | **3,218** | 2,361 |
| Deferred debt issue costs | **7,955** | — |
| Purchase of assets | **—** | 14,565 |
| Other | **3,123** | 8,217 |
| | **$ 103,504** | $114,906 |

Amortization expense related to computer software for 2002, 2001, and 2000 was $20,553, $22,936, and $26,846, respectively.

In 2001 and 2000, the Corporation recorded a charge of $26,036 and $13,752, respectively, included in depreciation and amortization, for the write-off of certain computer software costs, primarily related to a component of its ERP system, which would not be deployed.

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2002 | 2001 |
|---|---|---|
| Trade accounts payable | **$ 117,770** | $ 89,840 |
| Deferred revenue | **26,718** | 22,652 |
| Other payables | **40,986** | 36,711 |
| | **185,474** | 149,203 |
| Payroll costs | **85,439** | 63,896 |
| Employee benefit costs | **27,787** | 19,037 |
| Restructuring reserve (Note 17) | **81,440** | 126,673 |
| Other | **106,367** | 127,817 |
| | **$ 486,507** | $ 486,626 |

## 10. DEBT

| | 2002 | 2001 |
|---|---|---|
| Senior guaranteed notes: | | |
| Series A, 7.84%, maturing March 25, 2006 | **$ —** | $ 42,750 |
| Series B, 8.05%, maturing March 25, 2009 | **—** | 57,250 |
| Term Loan B Facility, maturing 2004 and 2006 | **179,500** | — |
| Revolving term credit facility | **—** | 15,000 |
| Other debt, including capitalized leases | **10,098** | 14,096 |
| Total | **189,598** | 129,096 |
| Less current portion | **2,135** | 18,034 |
| Long-term debt | **$ 187,463** | $ 111,062 |

In August 2002, the Corporation entered into a $400 million secured credit facility. The facility is comprised of a five-year $125 million Revolving Credit Facility, a five-year $75 million Delayed Draw Term Loan A Facility, and a six-year $200 million Term Loan B Facility, all of which are subject to a number of financial and restrictive covenants that, among other things, limit additional indebtedness and the ability of the Corporation to engage in certain transactions with affiliates, create liens on assets, engage in mergers and consolidations, or dispose of assets. The financial covenants calculated on a quarterly basis include, but are not limited to, tests of leverage and fixed charges coverage. The Delayed Draw Term Loan A Facility is to be used for acquisitions and related initial working capital requirements. The facility must be drawn within 18 months of the closing in a maximum of two drawings. Proceeds from the Term Loan B Facility were used in part to refinance the existing $168 million revolving credit facility that expired on August 5, 2002, and to fund working capital requirements as necessary. The Term Loan B Facility bears interest at LIBOR (London Interbank Offer Rate) plus a 300 basis point spread. Three-month LIBOR at December 31, 2002, was 1.38%.

For the years ended December 31, 2002 and 2001, the Corporation was in compliance with all debt covenants.

During 2002, the Corporation entered into interest rate swap agreements to hedge exposure to fluctuations in interest rates on the Term Loan B Facility. These swap agreements exchange the variable interest rates (LIBOR) on this facility for fixed interest rates over the terms of the agreements. The resulting fixed interest rates will be the contracted swap rate plus the LIBOR basis spread on the Term Loan B Facility. At December 31, 2002, the notional amount of the swap agreements was $150 million comprised as follows: a $100 million, 3.78% fixed rate agreement that expires in August 2006; and a $50 million, 2.56% fixed rate agreement that expires in September 2004. The interest rate differential received or paid on these agreements is recognized as an adjustment to interest expense. At December 31, 2002, the fair value of these swap agreements was a $5,089 liability.

On December 27, 2001, the Corporation redeemed $100 million of its senior guaranteed notes. On September 4, 2002, the Corporation redeemed the remaining $100 million of these senior guaranteed notes and incurred a net prepayment charge of $16,746.

On December 28, 2001, the $70.5 million subordinated convertible debentures held by Chancery Lane/GSC Investors L.P. (the 'Partnership') were converted into 21,692,311 common shares. The Corporation issued 1,650,000 additional common shares ('additional shares') as an inducement to the Partnership's Class A limited partners to convert prior to December 22, 2005, the date the Corporation could have redeemed the debentures. The right to receive the additional shares was assigned by the Partnership to its Class A limited partners. Under the terms of the partnership agreement, the Class A limited partners were entitled to all the interest paid on the subordinated convertible debentures. As part of the inducement agreement, the Corporation has agreed that if at December 31, 2003, the 20-day weighted average trading price of the common shares on the NYSE is less than $10.83, the Corporation must make a payment equal to the lesser of $9 million or the value of 6,000,000 of its common shares at such date. The $9 million payment may be reduced under certain circumstances. At the option of the Corporation, these payments may be made in common shares, subject to regulatory approval. To the extent that shares or cash is paid, it will be recorded as a charge to retained earnings. At December 31, 2002, on the Corporation's 20-day weighted average trading price was less than the $10.83 measurement price. The Corporation has no indication that the 20-day weighted average share price will continue to trade below the measurement price. Certain officers of the Corporation, including the Chairman and the Chief Executive Officer, and the former Chairman, President and Chief Executive Officer, were investors in the Partnership.

For financial reporting purposes, the subordinated convertible debentures had a liability component and an equity component. The liability component was classified as long-term debt, representing the present value of interest and principal payments discounted at a rate of interest applicable to a debt only instrument of comparable term and risk. The equity component at December 28, 2001, was $8,343 representing the value of the conversion option, calculated as the difference between the proceeds and liability component.

Upon conversion, the Corporation allocated the consideration given to extinguish subordinated convertible debentures to the liability and equity components based on fair values on the date of conversion, which approximated their carrying values. As such, no gain or loss was recorded. The inducement payment of the additional shares issued was allocated to the equity component and, accordingly, charged to retained earnings. Professional fees of $1,600 incurred for the conversion were also charged to retained earnings.

Deferred issue costs of $10,396 in 2001 relating to the subordinated convertible debentures were charged to earnings upon extinguishment.

Other long-term debt, including capital leases, bears interest rates ranging from 3.4% to 14.2% and matures on various dates through 2012. Loans (excluding leases) amounting to $329 (2001 – $4,000) are payable in currencies other than United States dollars.

The net book value of assets subject to liens in 2002 is $26,563 (2001 – $27,485). The liens are primarily mortgages against property, plant and equipment and other current assets.

Payments required on long-term debt (excluding capital lease obligations) are as follows: 2003 – $219; 2004 – $110; no repayments required for 2005 and 2006; 2007 – $84,500; and thereafter – $95,000.

The Corporation also maintains uncommitted bank operating lines in the majority of the domestic markets in which it operates. These lines of credit are maintained to cover temporary cash shortfalls. Maximum allowable borrowings under these uncommitted facilities amounted to $40,221 at December 31, 2002 ($1,397 outstanding), and may be terminated at any time at the Corporation's option. Total availability under these facilities at December 31, 2002, was $38,824.

### 11. OTHER LIABILITIES

| | **2002** | 2001 |
|---|---|---|
| Unfunded pension obligations | **$ 28,170** | $ 27,728 |
| Long-term supply agreement | **10,820** | 16,934 |
| Other | **4,786** | 6,601 |
| | **$ 43,776** | $ 51,263 |

During 2000, the Corporation entered into a supply agreement to sell certain paper production assets and simultaneously entered into a long-term supply agreement with the purchaser of the assets. Proceeds received were allocated to the asset sale and supply agreement based on an independent appraisal. Since the Corporation anticipates making purchases ratably over the term of the supply agreement, the proceeds related to the agreement have been deferred and are being amortized on a straight-line basis over the term of the agreement as a reduction in cost of goods sold. The price terms of the supply agreement were no more favorable than those available from other parties.

Included in accounts payable and accrued liabilities at December 31, 2002, is $6,138 (2001 – $6,918) representing the current portion of the supply agreement.

### 12. SHARE CAPITAL

The Corporation's articles of continuance provide that its authorized share capital be divided into an unlimited number of common shares and an unlimited number of preference shares, issuable in one or more series. On February 7, 2002, the Corporation announced a program to repurchase up to $50 million of its shares. The program calls for shares to be purchased on the NYSE from time to time depending upon market conditions, market price of the common shares and the assessment of the cash flow needs by the Corporation's management.

| Changes in the Issued Common Share Capital | Shares Issued | Amount |
|---|---|---|
| Balance, December 31, 1999 and 2000 | 88,456,940 | $ 310,881 |
| Conversion of subordinated convertible debentures | 21,692,311 | 71,506 |
| Inducement for convertible debentures | 1,650,000 | 15,345 |
| Exercise of stock options | 4,400 | 29 |
| Balance, December 31, 2001 | 111,803,651 | 397,761 |
| Exercise of stock options and other | 723,397 | 6,195 |
| Restricted shares issued | 385,000 | 3,665 |
| Repurchase of common shares | (1,069,700) | (3,821) |
| Balance, December 31, 2002 | 111,842,348 | $ 403,800 |

The Corporation has a long-term incentive program under which stock options and restricted stock awards may be granted to certain key employees. At December 31, 2002, there were 583,000 common shares available for grants (2001 – 877,500; 2000 – 171,700). Stock options have an exercise price equal to the fair market value at date of grant. Options granted generally vest at 20% or 25% per year from the date of grant. Upon retirement, all options become vested. Options granted prior to 1999 are eligible for exercise for five years after the date of retirement. Options granted after 1998 are eligible for exercise for one year after the date of retirement. The options expire not more than 10 years from the date granted.

On October 17, 2002, the Board of Directors of the Corporation approved the award of 385,000 restricted shares under the Corporation's 2001 Long-Term Incentive Plan. The effective grant date of the restricted shares was October 17, 2002. The restricted shares are subject to repurchase by the Corporation at no cost in the event employment is terminated other than as a result of death, retirement or disability. These repurchase rights expire with respect to 25% of the initial restricted share grant each year beginning on the first anniversary of the restricted share award. Upon issuance of the restricted shares, unearned compensation expense equal to the market value was charged to share capital. The unearned compensation of the restricted shares is disclosed as a separate component of shareholders' equity that will be recognized as compensation expense over the vesting period. Compensation expense for 2002 was $1,093.

On December 11, 2000, the Board of Directors approved the creation of Series 1 Preference Shares, which are non-voting and entitle the holder to a non-cumulative preferential annual dividend of CDN $0.001 and to receive any dividend paid on a common share. In the event of liquidation, dissolution or winding-up of the Corporation, a holder of a Series 1 Preference Share is entitled to receive a preferential amount of CDN $0.001, together with all dividends declared and unpaid thereon. Thereafter, the Series 1 Preference Shares and common shares rank equally with each other on a share-for-share basis. Stock options to acquire 1,580,000 Series 1 Preference Shares were issued on December 11, 2000, and vest at 25% per annum. In April 2002, the shareholders of the Corporation approved the amendment of the options to purchase Series 1 Preference Shares to eliminate the cash-out provision and to make them exercisable for one common share per each Series 1 Preference Share option. The exercise price and the number of Series 1 Preference Share options remained unchanged.

A summary of the Corporation's stock option activity for the three years ended December 31, 2002, is presented below:

| Expressed in Canadian Currency | **2002** | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Weighted average exercise price** | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| COMMON SHARES | | | | | | |
| Options outstanding at beginning of year | **6,362,169** | **$ 15.63** | 6,509,686 | $ 16.46 | 6,352,486 | $ 18.73 |
| Options granted | **860,000** | **15.10** | 1,790,833 | 13.43 | 1,068,000 | 4.10 |
| Options exercised | **(714,069)** | **13.24** | (4,400) | 7.54 | — | — |
| Options forfeited and expired | **(2,109,182)** | **12.47** | (1,933,950) | 16.40 | (910,800) | 17.81 |
| Options outstanding at year-end | **4,398,918** | **$ 17.43** | 6,362,169 | $ 15.63 | 6,509,686 | $ 16.46 |
| Options exercisable at year-end | **2,778,912** | **$ 20.26** | 2,832,715 | $ 18.86 | 3,383,646 | $ 19.84 |
| SERIES 1 PREFERENCE SHARES | | | | | | |
| Options outstanding at beginning of year | **1,580,000** | **$ 3.65** | 1,580,000 | $ 3.65 | — | $ — |
| Options granted | **—** | **—** | — | — | 1,580,000 | 3.65 |
| Options forfeited | **(200,000)** | **3.65** | — | — | — | — |
| Options outstanding at year-end | **1,380,000** | **$ 3.65** | 1,580,000 | $ 3.65 | 1,580,000 | $ 3.65 |
| Options exercisable at year-end | **1,290,000** | **$ 3.65** | 395,000 | $ 3.65 | — | $ — |

The following tables summarize information about stock options outstanding at December 31, 2002 (in Canadian currency):

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number outstanding at December 31, 2002 | Weighted average remaining contractual life (years) | Weighted average exercise price | Number exercisable at December 31, 2002 | Weighted average exercise price |
| COMMON SHARES | | | | | |
| $3 to 8 | 556,383 | 7.9 | $ 4.40 | 258,608 | $ 4.33 |
| $9 to 15 | 1,766,975 | 8.9 | 14.01 | 444,744 | 12.90 |
| $16 to 23 | 851,900 | 5.5 | 19.32 | 851,900 | 19.32 |
| $24 to 30 | 1,223,660 | 3.2 | 26.96 | 1,223,660 | 26.96 |
| | 4,398,918 | 6.5 | $ 17.43 | 2,778,912 | $ 20.26 |
| SERIES 1 PREFERENCE SHARES | | | | | |
| $3.65 | 1,380,000 | 8.0 | $ 3.65 | 1,290,000 | $ 3.65 |

The weighted average fair value per option granted in 2002 was $4.70. The estimated fair values were calculated using the Black-Scholes option pricing model and the following assumptions:

| | 2002 |
|---|---|
| Risk-free interest rates | 3.2% |
| Expected lives (in years) | 5 |
| Dividend yield | — |
| Volatility | 49% |

The Corporation's 2002 net income and earnings per share on a pro forma basis using the fair value method are as follows:

| | |
|---|---|
| Net income, as reported | $ 73,258 |
| Fair value compensation expense – net of taxes | 200 |
| Pro forma net income | $ 73,058 |
| | |
| Pro forma earnings per share: | |
| Basic | $ 0.66 |
| Diluted | $ 0.64 |

In accordance with the transition rules of CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments, the pro forma results include the effect of options granted during 2002. This standard does not require previous year pro forma presentation.

During the year, the Corporation issued 219,069 (2001 — 14,636) share units as stock-based compensation for members of the Board of Directors. Share units are exercisable for either cash or common shares at the discretion of the holder. At December 31, 2002, 233,705 share units were outstanding and exercisable. For the years ended December 31, 2002 and 2001, the Corporation recorded compensation expense of $1,994 and $139 related to the issuance of these share units, respectively.

## 13. CUMULATIVE TRANSLATION ADJUSTMENTS

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| Balance at beginning of year | **$ (128,177)** | $ (126,360) | $ (118,256) |
| Currency translation | **(5,156)** | (2,461) | (8,104) |
| Amounts recognized on dispositions | **—** | 644 | — |
| Balance at end of year | **$ (133,333)** | $ (128,177) | $ (126,360) |

## 14. RETIREMENT PROGRAMS

### DEFINED BENEFIT PENSION PLANS

During 2000, the Corporation amended its United States pension plan to cease all benefit accruals effective December 31, 2000, and announced the Corporation's intention to terminate and wind-up the plan. The 2000 net pension expense includes a curtailment gain of $6,630 for this amendment. In March 2001, the Corporation partially settled this plan by purchasing approximately $600 million in annuities. This settlement reduced the projected benefit obligation and fair value of plan assets by $608,323 and $611,057, respectively, and resulted in a settlement loss of $109,115. Pension expense for 2002 and 2001 on the unsettled portion of the plan was calculated using a discount rate and rate of return on plan assets, which were based upon estimated market rates to settle the remaining portion of the plan. The Corporation anticipates settling the remainder of the plan upon receiving anticipated regulatory approval and expects to incur an additional settlement loss. Since the Corporation has no control over the timing of the regulatory approval, the amount of settlement loss cannot be determined.

During 2001, the Corporation purchased annuities to settle substantially all of the obligation under the United Kingdom pension plan. This settlement reduced the projected benefit obligation and fair value of plan assets by $99,144.

In some subsidiaries, where either state or funded retirement plans exist, there are certain small supplementary unfunded plans. Pensionable service prior to establishing funded contributory retirement plans in other subsidiaries, covered by former discretionary non-contributory retirement plans, was assumed as a prior service obligation. In addition, the Corporation has supplemental retirement programs for certain senior executives. These unfunded pension obligations are included in other liabilities and include the unfunded portion of this prior service obligation and the supplementary unfunded plans.

All of the retirement plans are non-contributory. Retirement benefits are generally based on years of service and employees' compensation during the last years of employment. At December 31, 2002, none of the United States or International plans' assets and about 62% of the Canadian plan's assets were held in equity securities with the remaining portion of the assets being mainly fixed income securities.

The components of net pension expense are as follows:

| | United States | | | Canada | | | International | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2002** | 2001 | 2000 | **2002** | 2001 | 2000 | **2002** | 2001 | 2000 |
| PENSION EXPENSE | | | | | | | | | |
| Service cost | **$ 28** | $ 20 | $ 13,287 | **$ 2,871** | $ 3,169 | $ 3,076 | **$ —** | $ 76 | $ 133 |
| Interest cost | **14,962** | 23,107 | 52,658 | **5,232** | 5,523 | 5,761 | **358** | 4,382 | 9,277 |
| Expected return on assets | **(22,020)** | (37,863) | (82,523) | **(7,188)** | (7,497) | (7,691) | **(1,204)** | (5,931) | (10,780) |
| Settlement loss | **—** | 109,115 | — | **—** | — | — | **—** | — | — |
| Curtailment gain | **—** | 2,154 | (6,630) | **—** | — | — | **—** | — | — |
| Amortization of net loss (gain) | **2,560** | — | (128) | **429** | 172 | — | **335** | (209) | (208) |
| Amortization of prior service cost | **—** | — | 832 | **—** | — | — | **—** | — | — |
| Net pension expense (credit) | **$ (4,470)** | $ 96,533 | $ (22,504) | **$ 1,344** | $ 1,367 | $ 1,146 | **$ (511)** | $ (1,682) | $ (1,578) |

The following provides a reconciliation of the benefit obligation, plan assets and the funded status of the pension plans as of December 31, 2002 and 2001:

| | United States | | Canada | | International | |
|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| FUNDED STATUS | | | | | | |
| Projected benefit obligation, beginning of year | **$ 227,730** | $ 657,678 | **$ 82,347** | $ 82,202 | **$ 6,576** | $ 100,406 |
| Service cost | **28** | 20 | **2,871** | 3,169 | **—** | 76 |
| Interest cost | **14,962** | 23,107 | **5,232** | 5,523 | **358** | 4,382 |
| Actuarial loss (gain) | **15,668** | 181,673 | **(2,764)** | 699 | **86** | (511) |
| Effect of settlement | **—** | (608,323) | **—** | — | **—** | (99,144) |
| Foreign currency adjustments | **—** | — | **677** | (3,030) | **710** | 1,367 |
| Benefits paid | **(11,126)** | (26,425) | **(5,252)** | (6,216) | **(84)** | — |
| Projected benefit obligation, end of year | **$ 247,262** | $ 227,730 | **$ 83,111** | $ 82,347 | **$ 7,646** | $ 6,576 |
| Fair value of plan assets, beginning of year | **$ 401,882** | $ 935,729 | **$ 85,283** | $ 96,690 | **$ 22,048** | $ 118,932 |
| Actual return on assets | **(8,144)** | 103,635 | **(2,363)** | (1,959) | **962** | 503 |
| Foreign currency adjustments | **—** | — | **750** | (3,232) | **2,377** | 1,757 |
| Effect of settlement | **—** | (611,057) | **—** | — | **—** | (99,144) |
| Benefits paid | **(11,126)** | (26,425) | **(5,252)** | (6,216) | **(84)** | — |
| Fair value of plan assets, end of year | **$ 382,612** | $ 401,882 | **$ 78,418** | $ 85,283 | **$ 25,303** | $ 22,048 |
| Excess (shortfall) of plan assets over projected benefit obligation | **$ 135,350** | $ 174,152 | **$ (4,693)** | $ 2,936 | **$ 17,657** | $ 15,472 |
| Unrecognized net loss | **50,756** | 7,486 | **19,056** | 12,634 | **3,394** | 3,072 |
| Prepaid pension cost | **$ 186,106** | $ 181,638 | **$ 14,363** | $ 15,570 | **$ 21,051** | $ 18,544 |
| Assumptions: | | | | | | |
| Discount rates | **6.8%** | 6.8% | **6.5%** | 7.0% | **5.0%** | 5.0% |
| Expected return on plan assets | **6.0%** | 6.8% | **8.0%** | 8.0% | **5.0%** | 8.3% |
| Rate of compensation increase | **—** | — | **4.0%** | 4.0% | **—** | 5.0% |

## DEFINED CONTRIBUTION SAVINGS PLANS

Savings plans are maintained in Canada, the United States and the United Kingdom. Only the savings plan in the United Kingdom requires Corporation contributions for all employees who are eligible to participate in the retirement plans. These annual contributions consist of a retirement savings benefit contributions ranging from 1% to 3% of annual eligible compensation depending upon age. For all savings plans, if an employee contribution is made, a portion of such contribution may be eligible for a contribution match by the Corporation. For 2002, the defined contribution savings plan expense was $8,745 (2001 – $6,913; 2000 – $4,667).

## 15. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The Corporation provides postretirement health care and life insurance benefits to certain grandfathered United States employees and to all eligible Canadian employees.

The components of net postretirement benefit cost are as follows:

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| POSTRETIREMENT BENEFIT COST | | | |
| Service cost | **$ 2,087** | $ 1,638 | $ 1,450 |
| Interest cost | **17,373** | 13,939 | 13,430 |
| Amortization of net loss | **1,846** | 51 | — |
| Amortization of prior service credit | **(6,282)** | (6,282) | (6,282) |
| Net postretirement benefit cost | **$ 15,024** | $ 9,346 | $ 8,598 |

The following provides a reconciliation of the benefit obligation and the accrued postretirement benefit cost at December 31, 2002 and 2001:

| | **2002** | 2001 |
|---|---|---|
| ACCRUED POSTRETIREMENT BENEFIT COST | | |
| Projected postretirement benefit obligation, beginning of year | **$ 247,464** | $ 181,085 |
| Service cost | **2,087** | 1,638 |
| Interest cost | **17,373** | 13,939 |
| Actuarial loss | **3,169** | 64,485 |
| Foreign currency adjustment | **127** | (468) |
| Benefits paid | **(12,982)** | (13,215) |
| Projected postretirement benefit obligation, end of year | **$ 257,238** | $ 247,464 |
| Contributions paid in December | **(1,012)** | (587) |
| Unrecognized net (loss) | **(49,913)** | (48,526) |
| Unrecognized prior service credit | **35,031** | 41,313 |
| Accrued postretirement benefit cost | **$ 241,344** | $ 239,664 |
| | | |
| ASSUMPTIONS AND OTHER INFORMATION | | |
| Weighted average discount rate | **6.7%** | 7.2% |
| Weighted average health care cost trend rate: | | |
| Before age 65 | **11.4%** | 11.8% |
| After age 65 | **13.3%** | 13.7% |
| The healthcare cost trend rate will gradually decline to the ultimate trend rate then remain level thereafter | | |
| Weighted average ultimate health care cost trend rate | **6.0%** | 6.0% |
| Year in which ultimate health care cost trend rate will be achieved: | | |
| Canada | **2008** | 2008 |
| United States: | | |
| Before age 65 | **2011** | 2011 |
| After age 65 | **2013** | 2013 |
| The following is the effect of a 1% increase in the assumed health care cost trend rates for each future year on: | | |
| Accumulated postretirement benefit obligation | **$ 12,099** | $ 13,905 |
| Aggregate of the service and interest cost components of net postretirement benefit cost | **910** | 1,182 |
| The following is the effect of a 1% decrease in the assumed health care cost trend rates for each future year on: | | |
| Accumulated postretirement benefit obligation | **$ 10,850** | $ 12,244 |
| Aggregate of the service and interest cost components of net postretirement benefit cost | **842** | 1,055 |

## 16. DISPOSITIONS AND ASSETS HELD FOR DISPOSITION

| Company | Nature of Business | Disposition Date |
|---|---|---|
| DISPOSITIONS | | |
| Colleagues Group plc | Provider of direct marketing services in the United Kingdom | March 2001 |
| Phoenix Group, Inc. | Provider of telemarketing customer relationship management in the United States | October 2001 |

In 2001, net sales of $68,251 (2000 – $132,728) and losses from operations of $47,465 (2000 – $25,998) relating to the divested businesses, are included in the Corporation's Commercial segment results. The Phoenix Group was sold for cash proceeds of $26,009 and $2,526 was received for the Colleagues Group. The net loss of $7,540 on these dispositions was recorded in investment and other income.

In the fourth quarter of 2001, based on a current valuation of a non-core business held for disposition, the Corporation wrote-off the remaining goodwill amounting to $28,528 recorded in the Commercial business segment. The valuation criteria includes in part, earnings potential, revenue and operating multiples, and other industry standards. Included in the results of the Commercial segment are net sales of $201,497 (2001 – $191,350; 2000 – $213,889) and operating income of $12,947 (operating losses of $21,491 in 2001, and income of $358 in 2000) for this business.

## 17. RESTRUCTURING AND OTHER CHARGES

For the years ended December 31, 2002 and 2001, the Corporation recorded restructuring provisions as follows:

| | **2002** | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Employee Terminations** | **Other Charges** | **Total** | Employee Terminations | Other Charges | Total |
| Forms & Labels | **$ 4,395** | **$ —** | **$ 4,395** | $ 33,597 | $ 9,422 | $ 43,019 |
| Outsourcing | **—** | **—** | **—** | 4,138 | — | 4,138 |
| Commercial | **—** | **—** | **—** | 28,365 | 7,639 | 36,004 |
| Corporate | **—** | **—** | **—** | 10,894 | 48,480 | 59,374 |
| | **$ 4,395** | **$ —** | **$ 4,395** | $ 76,994 | $ 65,541 | $ 142,535 |

In the fourth quarter of 2002, the Corporation recorded a restructuring provision of $4,395 for workforce reduction of 154 employees, primarily related to the closure of a plant.

The 2001 restructuring plan was directed at streamlining the Corporation's processes and significantly reducing its cost structure. The restructuring provision included $76,994 for severance and other termination benefits for 3,366 employees (substantially all employees were terminated by December 31, 2002), $52,041 for lease terminations, $9,200 for facility closings, $3,600 for onerous contracts and $700 for other incremental exit costs.

In the fourth quarter of 2002 and 2001, the Corporation reversed $5,245 and $12,856, respectively, of the restructuring reserve due to the favorable settlement of liabilities for obligations and future payments related to the disposition of the European and Asian forms business. The Corporation recorded a net reversal of $24,033 of restructuring charges under the 1998 restructuring plan during the fourth quarter of 2000. In 2000, the reversals resulted from facility closing costs that were lower than originally estimated and subleasing these facilities on more favorable terms than originally estimated.

The reconciliation of the restructuring reserve at December 31, 2002, is as follows:

| | Balance at December 31, 2001 | Provision, Net | Cash Paid | **Balance at December 31, 2002** |
|---|---|---|---|---|
| Employee terminations | $ 41,955 | $ 4,395 | $ (32,031) | **$ 14,319** |
| Other | 84,718 | (5,245) | (12,352) | **67,121** |
| | $ 126,673 | $ (850) | $ (44,383) | **$ 81,440** |

The restructuring reserves classified as 'other' of $67,121 at December 31, 2002, primarily consist of the estimated remaining payments related to lease terminations and facility closing costs. Payments on these lease obligations continue until 2010. Market conditions and the Corporation's ability to sublease these properties may affect the ultimate charge related to its lease obligations. Any potential recovery or additional charge may affect amounts reported in the consolidated financial statements of future periods. The Corporation anticipates that payments associated with employee terminations will be substantially completed by the end of 2003.

At December 31, 2002, the restructuring reserve includes approximately $63,769 and $13,286 related to the 2001 and 1998 restructuring plans, respectively, primarily related to lease payments.

During 2002, the Corporation recorded an other charges of $16,746 associated with the redemption of $100 million of senior guaranteed notes and an executive separation of $9,202, included in selling, general and administrative expenses.

For the year ended December 31, 2001, the Corporation recorded other charges as follows:

| | Cost of Sales | Selling, General and Administrative Expense | Depreciation and Amortization | Investment and Other Income | Interest, Debt Settlement, and Issue Cost | Total |
|---|---|---|---|---|---|---|
| Forms & Labels | $ 861 | $ 4,287 | $ 21,873 | $ — | $ — | $ 27,021 |
| Outsourcing | — | — | 342 | — | — | 342 |
| Commercial | 5,685 | 332 | 89,551 | 4,014 | — | 99,582 |
| Corporate | 61,209 | 41,212 | 19,627 | 928 | 11,617 | 134,593 |
| | $ 67,755 | $ 45,831 | $ 131,393 | $ 4,942 | $ 11,617 | $ 261,538 |

Included in cost of sales and selling, general and administrative expenses is a charge of $11,165 for the write-off of inventory and accounts receivable relating to exiting certain non-core businesses. The Corporation also recorded a net loss of $96,605 (of which $61,209 was included in cost of sales and $35,396 in selling, general and administrative expenses) associated with the partial settlement of the U.S. pension plan, which was curtailed as of December 31, 2000, and other cash charges of $4,816 included in selling, general and administrative expense. A charge of $11,617 related to the partial redemption of the $100 million of senior guaranteed notes and the conversion of the subordinated convertible debentures is included in debt settlement cost and $1,000 for legal and other professional fees is in selling, general and administrative expense. Non-cash charges of $131,393 related to the write-down of goodwill of non-core businesses to be disposed of and asset impairments are included in depreciation and amortization. Asset impairments relate to write-offs of property, plant and equipment (see Note 5) and capitalized software (see Note 8). For the write-down of goodwill for non-core businesses to be disposed of, one non-core business was subsequently sold in 2001 and the other non-core business is being held for sale (see Note 16). A loss on disposition of non-core businesses of $4,014 and $928 for the write-down of investments were charged to investment and other income (see Note 7 and Note 16).

During 2000, the Corporation recorded net other charges of $20,913, related to non-cash charges of $34,717 for write-down of a non-core asset held for disposal and the impairment of a component of the ERP asset, both included in depreciation and amortization; loss on disposal of investment in JetForm Corporation of $8,474; the write-down of a permanently impaired investment of $3,500; and $4,885 of other charges. These charges were offset by the reversal of a restructuring reserve of $24,033 and a gain on the curtailment of the Corporation's U.S. pension plan of $6,630.

### 18. INCOME TAXES

The components of earnings (loss) before income taxes and minority interest for the years ended December 31, 2002, 2001 and 2000, are as follows:

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| EARNINGS (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST | | | |
| Canada | **$ (1,182)** | $ (68,232) | $ (40,787) |
| United States | **32,242** | (331,585) | (78,991) |
| Other countries | **46,292** | 11,397 | 38,186 |
| | **$ 77,352** | $ (388,420) | $ (81,592) |

| | **2002** | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| | **Current** | **Deferred** | Current | Deferred | Current | Deferred |
| INCOME TAX EXPENSE (RECOVERY) | | | | | | |
| Canada | **$ 66** | **$ (160)** | $ 469 | $ 54 | $ 73 | $ 364 |
| United States | **25,931** | **(27,879)** | 189 | (36,826) | (158) | (21,706) |
| Other countries | **3,585** | **266** | 2,933 | 379 | 5,631 | (2,352) |
| Withholding taxes | **663** | **—** | 610 | — | 771 | — |
| | **$ 30,245** | **$ (27,773)** | $ 4,201 | $ (36,393) | $ 6,317 | $ (23,694) |

Deferred income taxes result from a number of temporary differences in the jurisdictions in which the Corporation and its subsidiaries operate. These differences and the tax effects of each are as follows:

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| DEFERRED INCOME TAXES | | | |
| Depreciation | **$ (1,940)** | $ (459) | $ 319 |
| Pensions | **1,615** | (36,493) | 6,151 |
| Unearned revenue | **2,421** | — | (10,847) |
| Postretirement benefits | **374** | — | 1,869 |
| Restructuring | **18,566** | — | 16,548 |
| Tax benefit of loss carryforward | **(42,350)** | — | (38,244) |
| Other | **(6,459)** | 559 | 510 |
| | **$ (27,773)** | $ (36,393) | $ (23,694) |

Temporary differences and tax loss carryforwards, which give rise to deferred income tax assets and liabilities are as follows:

| | **2002** | 2001 |
|---|---|---|
| DEFERRED INCOME TAX ASSETS | | |
| Postretirement benefits | **$ 93,647** | $ 94,092 |
| Tax benefit of loss carryforwards | **142,739** | 154,605 |
| Pensions | **9,235** | 672 |
| Restructuring | **20,062** | 45,736 |
| Other | **62,162** | 57,648 |
| | **327,845** | 352,753 |
| Valuation allowance | **(113,917)** | (166,695) |
| | **$ 213,928** | $ 186,058 |
| DEFERRED INCOME TAX LIABILITIES | | |
| Depreciation | **$ 36,127** | $ 50,561 |
| Pensions | **79,135** | 77,968 |
| Other | **25,482** | 10,341 |
| | **$ 140,744** | $ 138,870 |
| Net deferred income tax asset | **$ 73,184** | $ 47,188 |
| Distributed as follows: | | |
| Current deferred income tax asset | **$ 31,912** | $ 13,566 |
| Current deferred income tax liability | **3,184** | 324 |
| Long-term deferred income tax asset | **53,938** | 47,651 |
| Long-term deferred income tax liability | **9,482** | 13,705 |

The effective rates of tax for each year compared with the statutory Canadian rates were as follows:

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| EFFECTIVE TAX EXPENSE (RECOVERY) RATE | | | |
| Canada: | | | |
| Combined federal and provincial statutory rate | **38.4%** | (41.6)% | (43.2)% |
| Corporate surtax | **1.1** | (1.1) | (1.1) |
| Manufacturing and processing rate reduction | **(4.0)** | 5.4 | 6.0 |
| Expected income tax expense (recovery) rate | **35.5** | (37.3) | (38.3) |
| Tax rate differences in other jurisdictions | **(8.0)** | (2.2) | (18.1) |
| Losses for which a benefit (has) has not been provided – net | **(27.2)** | 4.7 | 17.8 |
| Restructuring costs | **(0.4)** | 12.2 | (1.6) |
| Impaired assets | **—** | 6.4 | — |
| International divestiture | **(0.1)** | 5.4 | — |
| Non-deductible goodwill amortization and write-downs | **1.0** | 3.0 | 17.1 |
| Other | **2.4** | (0.5) | 1.8 |
| Total consolidated effective tax expense (recovery) rate | **3.2%** | (8.3)% | (21.3)% |

At December 31, 2002, the Corporation has tax loss carryforwards totaling $353 million. Of this amount, a valuation allowance has been recorded against $239 million. Of the $239 million, approximately $106 million expires between 2003 and 2012 and $133 million has no expiration. In addition, the Corporation has recorded a valuation allowance against approximately $55 million of temporary differences that are available for utilization in future years.

The 2002 difference between the statutory rate and the effective rate relates to lower tax rates in non-U.S. jurisdictions offset by the inability to recognize the tax benefit from certain foreign operating losses, combined with a partial reduction in the deferred tax valuation allowance (which is based on estimates of future taxable income), the resolution of an income tax refund, partially offset by required tax reserves. In 2001, the effective income tax benefit resulted from the partial recognition of operating losses.

The valuation allowance at December 31, 2002, relates to net operating losses generated in the United States, Canada, Latin America and Europe (which have limited carry-forward periods), and future deductible expense. The decrease (increase) in the valuation allowance of approximately $53 million and $(103) million for 2002 and 2001, respectively, primarily relates to amounts recorded against deferred tax assets in the United States.

The Corporation has reduced the valuation allowance for a portion of its deferred tax assets to the extent that it believes based on the weight of available evidence, it is more likely than not that those assets will be realized.

## 19. EARNINGS PER SHARE

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| Net earnings (loss) available to common shareholders | **$ 73,258** | $ (373,383) | $ (66,372) |
| Weighted average number of common shares outstanding: | | | |
| Basic | **111,556** | 88,648 | 88,457 |
| Dilutive options [a] | **2,219** | — | — |
| Contingent shares (see Note 10) | **247** | — | — |
| Diluted | **114,022** | 88,648 | 88,457 |
| Earnings (loss) per share | | | |
| Basic | **$ 0.66** | $ (4.21) | $ (0.75) |
| Diluted | **$ 0.64** | $ (4.21) | $ (0.75) |

*(a) For 2001 and 2000, the diluted options are excluded as their effect would be anti-dilutive.*

## 20. SEGMENTED INFORMATION

The Corporation operates in the printing industry with three distinct operating segments based on the way management assesses information on a regular basis for decision-making purposes. The three segments are Forms & Labels, Outsourcing and Commercial. These segments market print and print related products and services to a geographically diverse customer base.

As a result of acquiring the remaining interest in Quality Color Press, Inc. (see Note 3), management has reclassified this business from the Commercial segment to the Forms & Labels segment in order to reflect the business synergies and integration plans.

### FORMS & LABELS

In this segment, the Corporation derives its revenues from operations in the United States, Canada and Latin America. This segment designs and manufactures business forms, labels and related products, systems and services which include:

- custom continuous forms, cut sheets and multipart forms
- print services
- self mailers
- electronic forms & services
- integrated form-label application
- proprietary label products
- pressure sensitive labels
- security documents
- logistics, warehouse and inventory management

### OUTSOURCING

In this segment, the Corporation derives revenues from its Business Communications Services ('BCS') operations in the United States and Canada by offering outsourcing services for electronic printing, imaging, processing and distribution. BCS also manages custom, high-volume mailing applications. Products include:

- bill and service notifications
- insurance policies
- special notices
- telecommunication cards
- investment, banking, credit card, tax and year-end financial statements
- licenses

### COMMERCIAL

In this segment, the Corporation derives its revenues from operations in the United States and Europe mainly by producing highly personalized communications and database driven publications including:

- creation and production of personalized mail
- database management and segmentation services
- direct marketing program development
- response analysis services
- digital color printing
- annual reports
- corporate image and product brochures
- catalogs
- market inserts
- promotional materials

Other products within the Commercial segment include:

- variable-imaged bar codes
- printers, applicators and software products and solutions
- post processing equipment

## OPERATING SEGMENTS

| Years ended December 31, | Forms & Labels | Outsourcing | Commercial | Consolidated |
|---|---|---|---|---|
| 2002 | | | | |
| Total revenue | $ 1,129,483 | $ 317,848 | $ 606,917 | $ 2,054,248 |
| Intersegment revenue | (3,636) | (1,749) | (10,824) | (16,209) |
| Sale to customers outside the enterprise | 1,125,847 | 316,099 | 596,093 | 2,038,039 |
| Segment operating income | 132,736 | 61,374 | 50,562 | 244,672 |
| Non-operating expenses | | | | (142,149) |
| Income from operations | | | | 102,523 |
| Segment assets | 581,660 | 114,514 | 324,533 | 1,020,707 |
| Corporate assets including investments | | | | 419,052 |
| Total assets | | | | 1,439,759 |
| Capital asset depreciation and amortization | 56,811 | 14,969 | 14,966 | 86,746 |
| Capital expenditures | 20,256 | 4,416 | 7,273 | 31,945 |
| 2001 (Reclassified) | | | | |
| Total revenue | $ 1,198,173 | $ 341,485 | $ 636,343 | $ 2,176,001 |
| Intersegment revenue | (3,704) | (2,006) | (15,717) | (21,427) |
| Sale to customers outside the enterprise | 1,194,469 | 339,479 | 620,626 | 2,154,574 |
| Segment operating income (loss) | 43,445 | 49,508 | (90,904) | 2,049 |
| Non-operating expenses | | | | (344,373) |
| Loss from operations | | | | (342,324) |
| Segment assets | 645,178 | 117,243 | 261,486 | 1,023,907 |
| Corporate assets including investments | | | | 313,079 |
| Total assets | | | | 1,336,986 |
| Capital asset depreciation and amortization | 111,875 | 19,383 | 107,814 | 239,072 |
| Capital expenditures | 18,902 | 16,124 | 10,376 | 45,402 |
| 2000 (Reclassified) | | | | |
| Total revenue | $ 1,246,800 | $ 297,851 | $ 730,896 | $ 2,275,547 |
| Intersegment revenue | (690) | (1,082) | (15,357) | (17,129) |
| Sale to customers outside the enterprise | 1,246,110 | 296,769 | 715,539 | 2,258,418 |
| Segment operating income (loss) | 72,105 | 43,126 | (10,706) | 104,525 |
| Non-operating expenses | | | | (150,759) |
| Loss from operations | | | | (46,234) |
| Segment assets | 856,457 | 109,847 | 428,692 | 1,394,996 |
| Corporate assets including investments | | | | 348,591 |
| Total assets | | | | 1,743,587 |
| Capital asset depreciation and amortization | 84,264 | 19,276 | 47,978 | 151,518 |
| Capital expenditures | 61,677 | 10,651 | 32,253 | 104,581 |

GEOGRAPHIC INFORMATION

| Years ended December 31, | Canada | United States | International | Consolidated |
|---|---|---|---|---|
| 2002 | | | | |
| Sale to customers outside the enterprise | $ 208,192 | $ 1,607,418 | $ 222,429 | $ 2,038,039 |
| Capital assets, goodwill and intangibles | 51,491 | 369,544 | 36,583 | 457,618 |
| 2001 | | | | |
| Sale to customers outside the enterprise | $ 199,628 | $ 1,689,954 | $ 264,992 | $ 2,154,574 |
| Capital assets, goodwill and intangibles | 39,091 | 356,675 | 43,931 | 439,697 |
| 2000 | | | | |
| Sale to customers outside the enterprise | $ 222,311 | $ 1,685,680 | $ 350,427 | $ 2,258,418 |
| Capital assets, goodwill and intangibles | 49,736 | 540,649 | 77,243 | 667,628 |

## 21. LEASE COMMITMENTS

At December 31, 2002, lease commitments require future payments as follows:

| | |
|---|---|
| 2003 | $ 35,069 |
| 2004 | $ 28,073 |
| 2005 | $ 21,238 |
| 2006 | $ 16,185 |
| 2007 | $ 12,564 |
| 2008 and thereafter | $ 36,669 |

Rent expense amounted to $52,137 in 2002 (2001 – $56,499; 2000 – $69,897).

## 22. CONTINGENCIES

At December 31, 2002, certain lawsuits and other claims were pending against the Corporation. While the outcome of these matters is subject to future resolution, management's evaluation and analysis of such matters indicates that, individually and in the aggregate, the probable ultimate resolution of such matters will not have a material effect on the Corporation's consolidated financial statements.

The Corporation is subject to laws and regulations relating to the protection of the environment. The Corporation provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change and are not discounted. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Corporation's subsidiaries may undertake in the future, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material adverse effect upon the results of operations or consolidated financial condition of the Corporation.

The Corporation has been identified as a Potentially Responsible Party ('PRP') at the Dover, New Hampshire Municipal Landfill, a United States Environmental Protection Agency Superfund Site. The Corporation has been participating with a group of approximately 26 other PRP'S to fund the study of and implement remedial activities at the site. Remediation at the site has been on-going and is anticipated to continue for at least several years. The total cost of the remedial activity was estimated to be approximately $26,000. The Corporation's share is not expected to exceed $1,500. The Corporation believes that the reserves are sufficient based on the present facts and recent tests performed at this site.

As described in Note 3, the Corporation may be required to pay a termination fee of up to $27.5 million if the Corporation terminates its merger agreement with Wallace.

## 23. FINANCIAL INSTRUMENTS

At December 31, 2002, the aggregate amount of forward exchange contracts used as hedges was approximately $13,600 (2001– $13,700). Gains and losses from these contracts, for all years presented, were not significant.

The notional amount of interest rate swaps at December 31, 2002, use to hedge exposure to fluctuations in interest rates on the Term Loan B Facility was $150 million (see Note 10).

The Corporation may be exposed to losses if the counterparties to the above contracts fail to perform. The Corporation manages this risk by dealing only with financially sound counterparties and by establishing dollar and term limits for each counterparty. The Corporation does not use derivative financial instruments for trading or speculative purposes.

## 24. CASH FLOW DISCLOSURE

For the year ended December 31, 2001, the following non-cash transactions are required to be disclosed for both Canadian and U.S. GAAP as follows:

| | |
|---|---|
| Subordinated convertible debentures | $ 71,506 |
| Inducement to certain debenture holders | 15,345 |

## 25. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The continued registration of the common shares of the Corporation with the Securities and Exchange Commission ('SEC') and listing of the shares on the NYSE require compliance with the integrated disclosure rules of the SEC.

The accounting policies in Note 1 and accounting principles generally accepted in Canada are consistent in all material aspects with United States generally accepted accounting principles (U.S. GAAP) with the following exceptions.

### PENSIONS AND POSTRETIREMENT BENEFITS

With the adoption of CICA Handbook Section 3461, Employee Future Benefits, effective January 1, 2000, there is no longer any difference in the method of accounting for these costs. However, the transitional rules for implementing the new Canadian standard continue to result in U.S. GAAP reporting differences. Under CICA Handbook Section 3461, all past net gains (losses), net assets and prior service costs were recognized as of the date of adoption. Under U.S. GAAP, net gains (losses), net assets and prior service costs which occurred before January 1, 2000 are recognized over the appropriate amortization period.

### STATEMENT OF CASH FLOWS

For Canadian GAAP the Statements of Cash Flows discloses the net change in cash resources, which is defined as cash and cash equivalents less bank indebtedness. U.S. GAAP requires the disclosure of cash and cash equivalents. Under U.S. GAAP, net cash provided by (used in) financing activities for 2002, 2001, and 2000 would be $(10,962), $(66,315), and $18,451, respectively. Cash and cash equivalents are the same for both Canadian and U.S. GAAP.

### INCOME TAXES

The liability method of accounting for income taxes is used for both Canadian and U.S. GAAP. However, under U.S. GAAP, temporary differences are tax effected at enacted rates, whereas under Canadian GAAP, temporary differences are tax effected using substantively enacted rates and laws that will be in effect when the differences are expected to reverse (see Note 18).

### ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES

U.S. GAAP requires net unrealized gains (losses) on available-for-sale securities to be reported as a separate component of shareholders' equity until realized, whereas under Canadian GAAP such investments are carried at cost with no effect on net income or shareholders' equity. Under both Canadian and U.S. GAAP, impairments deemed to be other than temporary would be charged to earnings.

### STOCK COMPENSATION

The adoption of CICA Handbook, Section 3870 — Stock-Based Compensation and Other Stock-Based Payments, reduced most prospective differences in accounting for these costs between Canadian GAAP and U.S. GAAP. The pro forma disclosures of net income and earnings per share under the fair value method of accounting for stock options will continue to differ as CICA Handbook Section 3870 is applicable for awards granted on or after January 1, 2002. For both Canadian and U.S. GAAP the Corporation uses the intrinsic value method for accounting for stock options. Prior to CICA Handbook Section 3870, recognition of compensation expense was not required for the Corporation's Series 1 Preference Share options, whereas under U.S. GAAP, the expense is measured at the fair value of the Preference Share options, less the amount the employee is required to pay, and is accrued over the vesting period.

In April 2002, the shareholders of the Corporation approved the amendment of the options to purchase Series 1 Preference Shares (the 'Preference Shares') to eliminate the cash-out provision and to make them exercisable for one common share per each Preference Share option. The exercise price and the number of Preference Share options remained unchanged. This amendment effectively made these options common share equivalents for diluted earnings per share computations. The transition rules for CICA Handbook Section 3870 required that these common share equivalents be considered outstanding as of the beginning of the year, whereas for U.S. GAAP purposes, these Preference Share options were not considered common share equivalents until amended. The difference in the weighted average common shares between Canadian and U.S. GAAP relates solely to the amendment of the Preference Share options.

Additionally, no compensation expense or pro forma compensation expense is required to be recognized in the current and future periods under Canadian GAAP pursuant to CICA Handbook Section 3870, whereas under U.S. GAAP, unearned compensation cost will be recognized over the remaining vesting period (through December 11, 2004) based on the intrinsic value of the option on the date of approval. Pro forma fair value compensation expense will also be recorded under U.S. GAAP for the Preference Shares commencing on the amendment date. Compensation expense under U.S. GAAP for 2002 and 2001, was $11,839 and $2,700, respectively. In accordance with the transition rules for CICA Handbook Section 3870, no compensation expense was recorded for the Preference Shares for Canadian GAAP.

### COMPREHENSIVE INCOME

Statement of Financial Accounting Standards ('SFAS') No. 130 requires disclosure of comprehensive income and its components. Comprehensive income is the change in equity of the Corporation from transactions and other events other than those resulting from transactions with owners, and is comprised of net income and other comprehensive income. The components of other comprehensive income for the Corporation are unrealized foreign currency translation adjustments, change in fair value of derivatives and unrealized gains (losses) on available-for-sale securities. Under Canadian GAAP, there is no standard for reporting comprehensive income.

### ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

For U.S. GAAP purposes the Corporation's interest rate swaps are designated as cash flow hedges and changes in their fair value are recorded in other comprehensive income. Under Canadian GAAP, there is no standard requiring the recognition of the fair value of derivatives through comprehensive income.

## FOREIGN CURRENCY TRANSLATION

Under U.S. GAAP, foreign currency translation gains or losses are only recognized on the sale or substantial liquidation of a foreign subsidiary. Under Canadian GAAP, a foreign currency gain or loss due to a partial liquidation is recognized in income.

## BUSINESS PROCESS REENGINEERING

Under U.S. GAAP, business process reengineering activities are expensed as incurred. Prior to October 28, 1998, Canadian GAAP permitted these costs to be capitalized or expensed. Subsequent to October 28, 1998, Canadian GAAP requires expensing these costs. Prior to October 28, 1998, the Corporation capitalized business process reengineering costs and classified them as computer software.

In 2000, certain deployment and training costs related to the implementation of the Corporation's ERP system were expensed for U.S. GAAP purposes and capitalized for Canadian GAAP purposes. In those years, such expenses exceeded the amortization differential since the ERP system was not placed in service until 2000. In 2002 and 2001, the U.S. GAAP reconciling item for computer software relates solely to the amortization differential of the capitalized amounts.

## CONVERTIBLE DEBENTURES

Canadian GAAP requires that a portion of the subordinated convertible debentures be classified as equity. The difference between the carrying amount of the debenture and contractual liability is amortized to earnings. U.S. GAAP requires classification of subordinated convertible debentures as a liability.

Under U.S. GAAP, when convertible debt is converted to equity securities pursuant to an inducement offer, the debtor is required to recognize in earnings, the fair value of all securities and other consideration transferred in excess of the fair value of the securities issuable in accordance with the original conversion terms. Under Canadian GAAP, the fair value of the securities issued is charged to retained earnings. Also under Canadian GAAP, certain other contingent consideration is not recognized until paid.

Under U.S. GAAP, when convertible debt is converted to equity securities, unamortized deferred debt issuance costs are charged to share capital. Under Canadian GAAP, these costs are charged to earnings.

The components of 'Debt conversion costs' included in the U.S. GAAP reconciliation for 2001 are as follows:

| | |
|---|---|
| Inducement shares issued | $ (15,345) |
| Deferred debt issuance costs | 10,396 |
| Contingent consideration | (2,000) |
| Debt conversion costs | $ (6,949) |

The value of the inducement shares represents the fair market value of 1,650,000 of the Corporation's common shares and is based upon the closing price of these shares on the NYSE on December 28, 2001, the date the shares were issued. For Canadian GAAP purposes, the fair value of the inducement shares was charged to equity and additionally shown on the statement of operations as a reduction to the amount available to common shareholders in the calculation of earnings per share. For U.S. GAAP purposes, the fair value of the inducement shares was recognized as an increase to share capital and recognized as a charge to earnings for the period. The deferred debt issuance costs represent the unamortized balance of the deferred issuance costs related to the convertible debentures at conversion. For Canadian GAAP purposes, these costs were recognized in earnings for the period, whereas for U.S. GAAP purposes, these costs were recorded as a component of share capital. The contingent consideration represents the right granted with the inducement shares for the holder to potentially receive additional consideration

in the future based on the 20-day weighted average share price of the Corporation's stock at December 31, 2002 and 2003 (see Note 10). For Canadian GAAP purposes, to the extent that any stock or cash is paid, it will be recorded as a charge to retained earnings. For U.S. GAAP purposes, the fair value of this contingent consideration is recognized in earnings and recorded at fair market value in subsequent reporting periods. The fair value of the consideration was based upon an independent third party valuation using an option pricing valuation model that includes, but is not limited to the following factors: the Corporation's stock price volatility; cost of borrowings; and certain equity valuation multiples.

### SETTLEMENTS OF PENSION PLANS

Under U.S. GAAP, a gain or loss arising upon the settlement of a pension plan is only recognized once responsibility for the pension obligation has been relieved. Under Canadian GAAP, prior to January 1, 2000, an intention to settle or curtail a pension plan that was expected to result in a loss, required recognition once the amount was likely and could be reasonably estimated.

The following tables provide a reconciliation of net earnings (loss) as reported under Canadian GAAP to net earnings (loss) under U.S. GAAP.

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| Net earnings (loss) as reported | **$ 73,258** | $ (358,038) | $ (66,372) |
| U.S. GAAP ADJUSTMENTS: | | | |
| Pension expense | **4,199** | 144,917 | 18,263 |
| Postretirement benefits | **17,290** | 17,275 | 18,833 |
| Computer software | **6,764** | 17,287 | (2,300) |
| Interest expense | **—** | 258 | — |
| Debt conversion costs | **832** | (6,949) | — |
| Stock-based compensation | **(11,839)** | (2,700) | — |
| Income taxes | **(6,726)** | (82,014) | (13,728) |
| Net earnings (loss) under U.S. GAAP | **$ 83,778** | $ (269,964) | $ (45,304) |
| Net earnings (loss) per share: | | | |
| Basic | **$ 0.75** | $ (3.05) | $ (0.51) |
| Diluted | **$ 0.74** | $ (3.05) | $ (0.51) |
| Average shares (in thousands): | | | |
| Basic | **111,556** | 88,648 | 88,457 |
| Diluted | **113,298** | 88,648 | 88,457 |

| Comprehensive Income (loss) | | | |
|---|---|---|---|
| Net earnings (loss) | **$ 83,778** | $ (269,964) | $ (45,304) |
| Other comprehensive income (loss), net of tax: | | | |
| Currency translation adjustments | **(5,156)** | (1,817) | (8,104) |
| Change in fair value of derivatives | **(3,104)** | — | — |
| Reclassification adjustment for losses included in income | — | (798) | 11,092 |
| Unrealized losses on available-for-sale securities | **—** | — | (6,041) |
| Total comprehensive income (loss) | **$ 75,518** | $ (272,579) | $ (48,357) |

For U.S. GAAP purposes, the costs related to the early extinguishment of debt are classified as an extraordinary item. On September 4, 2002, the Corporation redeemed $100 million of the senior guaranteed notes at a redemption price that includes a net prepayment charge of $16,746 or $10,215 net of taxes. Net earnings before extraordinary items for 2002 is $93,993. Basic and diluted earnings per share before extraordinary items for 2002 are $0.84 and $0.83, respectively.

Gains and (losses) on the disposal of property, plant and equipment for 2002, 2001 and 2000 were $8,730, $(792) and $(2,630), respectively. For U.S. GAAP purposes these amounts are recorded in income from operations.

Interest expense is net of investment income of $1,843, $2,895 and $4,545 for 2002, 2001 and 2000, respectively.

BALANCE SHEET ITEMS

| As at December 31, | **2002** | | 2001 | |
|---|---|---|---|---|
| | **As Reported** | **U.S. GAAP** | As Reported | U.S. GAAP |
| Net pension asset | **$ (193,350)** | **$ (129,193)** | $ (188,024) | $ (119,668) |
| Computer software – net | **(89,208)** | **(63,672)** | (89,763) | (57,463) |
| Fair value of derivatives-liability | **—** | **5,089** | — | — |
| Postretirement benefits | **241,344** | **366,077** | 239,664 | 381,687 |
| Deferred income taxes-net | **(73,184)** | **(156,239)** | (47,188) | (134,982) |
| Accounts payable and accrued liabilities | **486,507** | **481,676** | 486,626 | 485,325 |
| Accumulated other comprehensive income | **(133,333)** | **(101,253)** | (128,177) | (92,993) |
| Share capital | **403,800** | **405,337** | 397,761 | 384,759 |
| Retained earnings (deficit) | **114,601** | **(50,645)** | 51,666 | (124,100) |

The weighted average fair value per option granted in 2002, 2001 and 2000 was $9.26, $3.91 and $0.67, respectively. The estimated fair values were calculated using the Black-Scholes option pricing model and the following assumptions.

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| Risk-free interest rates | **4.1%** | 4.5% | 5.5% |
| Expected lives (in years) | **5** | 5 | 6 |
| Dividend yield | **—** | — | 7.6% |
| Volatility | **48.1%** | 46.0% | 39.0% |

The Corporation's U.S. GAAP net income and earnings per share on a pro forma basis using the fair value method are as follows:

| | **2002** | 2001 | 2000 |
|---|---|---|---|
| Net income (loss) | **$ 83,778** | $ (269,964) | $ (45,304) |
| Pro forma adjustments, net of tax: | | | |
| Stock compensation recorded | **7,222** | — | — |
| Fair value compensation expense | **(11,305)** | (1,949) | (1,746) |
| Pro forma net income (loss) | **$ 79,695** | $ (271,913) | $ (47,050) |
| Income (loss) per share | | | |
| Basic | **$ 0.71** | $ (3.07) | $ (0.53) |
| Diluted | **$ 0.70** | $ (3.07) | $ (0.53) |

**26. PENDING ACCOUNTING STANDARDS**

In May 2002, the Financial Accounting Standards Board ('FASB') issued SFAS No. 145, 'Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections.' Among other things, under the provision of SFAS No. 145, gains and losses from the early extinguishment of debt are no longer classified as an extraordinary item, net of income taxes, but are included in the determination of pretax earnings. The effective date for SFAS No. 145 is for fiscal years beginning after May 15, 2002, with early application encouraged. Upon adoption, all gains and losses from the extinguishment of debt previously reported as an extraordinary item shall be reclassified to pretax earnings. It is anticipated that the adoption of SFAS No. 145 will have no impact on the financial position or results of operations of the Corporation.

In July 2002, the FASB issued SFAS No. 146, 'Accounting for Costs Associated with Exit or Disposal Activities' ('SFAS 146'). This statement addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ('EITF') has set forth in EITF Issue No. 94-3, 'Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).' The principal difference between SFAS 146 and EITF 94-3 is that SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred versus the EITF 94-3 where a liability was recognized on the date an entity committed to an exit plan. SFAS 146 is effective for exit and disposal activities that are initiated after December 31, 2002.

In January 2003, the FASB issued SFAS No. 148, 'Accounting for Stock-Based Compensation — Transition and Disclosure' ('SFAS 148'). The Statement provides alternative methods of transitioning to the fair value based method of accounting for stock-based employee compensation. Also, this Statement amends the previous disclosure requirements to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

In November 2002, the FASB issued FASB Interpretation No. 45 ('FIN 45'), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. This interpretation expands the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or equity security of the guaranteed party. Certain guarantee contracts are excluded from both the disclosure and recognition requirements of this interpretation. Other guarantees are subject to the disclosure requirements of FIN 45 but not to the recognition provisions and include, among others, a guarantee accounted for as a derivative instrument under SFAS 133. The disclosure requirements of FIN 45 are effective for the Corporation as of December 31, 2002, and require disclosure of the nature of the guarantee, the maximum potential amount of future payments that the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of FIN 45 are to be applied prospectively to guarantees issued or modified after December 31, 2002. Significant guarantees that have been entered into by the Corporation are disclosed in Note 10. The Corporation does not expect the requirements of FIN 45 to have a material impact on results of operations, financial position or liquidity.

In 2002, the CICA Handbook Sections 3063 — Impairment of Long Lived Assets and 3475 — Disposal of Long Lived Assets and Discontinued Operations were issued to harmonize with SFAS No. 144. The standards will require an impairment loss to be recognized when the carrying amount of an asset held for use exceeds the sum of undiscounted cash flows. The impairment loss would be measured as the amount by which the carrying amount exceeds the fair value of the asset. An asset held for sale is to be measured at the lower of carrying cost or fair value less cost to sell. In addition, this guidance broadens the concept of a discontinued operations and eliminates the ability to accrue operating losses expected between the measurement date and the disposal date. CICA Section 3063 is effective for fiscal years beginning on or after April 1, 2003, and CICA Section 3475 applies to disposal activities initiated by an enterprise's commitment to a plan on or after May 1, 2003. The sections will be applied prospectively with early adoption encouraged.

In 2002, the Accounting Standards Board of the CICA issued Accounting Guidelines No. 13 that increases the documentation, designation and effectiveness criteria to achieve hedge accounting. The guideline requires the discontinuance of hedge accounting for hedging relationships established that do not meet the conditions at the date it is first applied. It does not change the method of accounting for derivatives in hedging relationships, but requires fair value accounting for derivatives that do not qualify for hedge accounting. The new guideline is applicable for fiscal years commencing July 1, 2003. The Corporation is evaluating the impact this standard might have on its results of operations and financial position.

**27. SUBSEQUENT EVENT**

As previously stated in Note 3, on January 16, 2003, the Corporation entered into a definitive merger agreement with Wallace.

**MANAGEMENT REPORT**

All of the information in this annual report is the responsibility of management and has been approved by the Board of Directors. The financial information contained herein conforms to the accompanying consolidated financial statements, which have been prepared and presented in accordance with accounting principles generally accepted in Canada and necessarily include amounts that are based on judgments and estimates applied consistently and considered appropriate in the circumstances.

The consolidated financial statements as of and for the two year period ended December 31, 2002, have been audited by the Corporation's independent auditors, Deloitte & Touche LLP, and their report is included herein. The consolidated financial statements for the year ended December 31, 2000, have been audited by PricewaterhouseCoopers LLP.

The Corporation maintains a system of internal control that is designed to provide reasonable assurance that assets are safeguarded, that accurate accounting records are maintained, and that reliable financial information is prepared on a timely basis.

To monitor compliance with the system of internal controls and to evaluate its effectiveness, management employs individuals in an ongoing program of internal auditing.

The Audit Committee of the Board of Directors is composed entirely of independent directors and meets quarterly with management and Deloitte & Touche LLP to review management's evaluation of internal controls, approve the scope of the program of internal auditing, and discuss the scope and results of audit examinations. Deloitte & Touche LLP has unrestricted access to the Audit Committee including the ability to meet without management representatives present.

Alfred C. Eckert III
Chairman of the Board
February 13, 2003

Mark A. Angelson
Chief Executive Officer
February 13, 2003

**AUDITORS' REPORT**

**TO THE SHAREHOLDERS OF MOORE CORPORATION LIMITED:**

We have audited the consolidated statements of operations, retained earnings and cash flows of Moore Corporation Limited for the year ended December 31, 2000. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada and the United States of America. 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 results of the Corporation's operations, the changes in its retained earnings and cash flows for the year ended December 31, 2000 in accordance with generally accepted accounting principles in Canada.

PricewaterhouseCoopers LLP
Charted Accountants
Toronto, Canada
February 22, 2001

**COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA-U.S. REPORTING DIFFERENCE**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Corporation's financial statements, such as the changes for employee future benefits and accounting for income taxes described in Note 2 to the financial statements. Our report to the shareholders dated February 22, 2001 is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

PricewaterhouseCoopers LLP
Charted Accountants
Toronto, Canada
February 22, 2001

**AUDITORS' REPORT**

**TO THE SHAREHOLDERS OF MOORE CORPORATION LIMITED:**

We have audited the consolidated balance sheets of Moore Corporation Limited as at December 31, 2002 and 2001 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 and auditing standards generally accepted in the United States of America. 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 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.

The financial statements for the year ended December 31, 2000, prior to the change in accounting policy for earnings per share as described in Note 2, the reclassification of segmented information in Note 20 to conform with management's process for making decisions with regard to resource allocation and performance evaluation and reclassification of various amounts to conform to the current year's presentation and disclosure of net loss and net loss per share adjusted to exclude amortization expense related to goodwill as described in Note 7, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 22, 2001. We have audited the adjustments and reclassifications to the 2000 financial statements and, in our opinion, such adjustments and reclassifications, in all material respects, are appropriate and have been properly applied.

Deloitte & Touche LLP
Toronto, Canada
February 12, 2003

**COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA-U.S. REPORTING DIFFERENCE**

In the United States of America, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the Corporation's financial statements, such as the changes described in Note 2 to the financial statements. Our report to the shareholders dated February 12, 2003 is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

Deloitte & Touche LLP
Toronto, Canada
February 12, 2003

## FIVE-YEAR SUMMARY

Years ended December 31,
Expressed in thousands of U.S. Dollars
Except share and per share data

| | **2002** | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| INCOME STATISTICS | | | | | |
| Net sales | **$ 2,038,039** | $ 2,154,574 | $ 2,258,418 | $ 2,425,116 | $ 2,717,702 |
| Income (loss) from operations | **102,523** | (342,324) | (46,234) | 141,681 | (630,500) |
| Income tax expense (recovery) | **2,472** | (32,192) | (17,377) | 35,286 | (94,330) |
| Net earnings (loss) | **73,258** | (358,038) | (66,372) | 92,599 | (547,866) |
| Per common share – basic | **$ 0.66** | $ (4.21) | $ (0.75) | $ 1.05 | $ (6.19) |
| Per common share – diluted | **$ 0.64** | $ (4.21) | $ (0.75) | $ 1.04 | $ (6.19) |
| Dividends | **—** | 4,423 | 17,594 | 17,692 | 34,057 |
| Per common share | **—¢** | 5.0¢ | 20.0¢ | 20.0¢ | 38.5¢ |
| Earnings retained in (losses and dividends funded by) the business | **$ 62,935** | $ (380,155) | $ (83,966) | $ 74,907 | $ 581,923 |
| BALANCE SHEET AND OTHER STATISTICS | | | | | |
| Current assets | **$ 660,131** | $ 576,539 | $ 690,888 | $ 750,860 | $ 894,343 |
| Current liabilities | **568,546** | 588,842 | 468,247 | 622,464 | 941,034 |
| Working capital | **91,585** | (12,303) | 222,641 | 128,396 | (46,691) |
| Property, plant and equipment – net | **255,722** | 307,640 | 409,099 | 458,808 | 466,198 |
| Long-term debt | **187,463** | 111,062 | 272,465 | 201,686 | 4,841 |
| Shareholders' equity | **382,496** | 321,250 | 624,685 | 672,674 | 610,145 |
| Total assets | **$ 1,439,759** | $ 1,336,986 | $ 1,743,587 | $ 1,630,293 | $ 1,726,135 |
| Average shares outstanding (in thousands) | **111,556** | 88,648 | 88,457 | 88,457 | 88,456 |
| Number of shareholders of record at year-end | **3,818** | 4,194 | 4,455 | 5,074 | 5,506 |
| Number of employees (rounded) | **11,800** | 12,300 | 16,200 | 15,800 | 17,100 |

## QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Years ended December 31,
Expressed in thousands of U.S. Dollars
Except per share data

| | 2002 | | | |
|---|---|---|---|---|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Net sales | $ 521,980 | $ 486,767 | $ 499,791 | $ 529,501 |
| Cost of sales | 353,335 | 333,900 | 341,764 | 361,008 |
| Income from operations | 29,431 | 28,581 | 22,651 | 21,860 |
| Net earnings | 28,021 | 17,498 | 15,246 | 12,493 |
| Per common share – basic | $ 0.25 | $ 0.16 | $ 0.14 | $ 0.11 |
| Per common share – diluted | $ 0.24 | $ 0.15 | $ 0.13 | $ 0.11 |
| Net earnings based on U.S. GAAP (Note 25) | 28,256 | 22,247 | 18,434 | 14,841 |
| Per common share – basic | $ 0.25 | $ 0.20 | $ 0.17 | $ 0.13 |
| Per common share – diluted | $ 0.25 | $ 0.20 | $ 0.16 | $ 0.13 |

| | 2001 | | | |
|---|---|---|---|---|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Net sales | $ 537,249 | $ 510,603 | $ 532,526 | $ 574,196 |
| Cost of sales | 373,008 | 349,864 | 368,757 | 460,932 |
| Loss from operations | (59,716) | (1,773) | (51,521) | (229,314) |
| Net loss | (84,041) | (12,171) | (60,366) | (201,460) |
| Per common share – basic | $ (1.11) | $ (0.14) | $ (0.68) | $ (2.28) |
| Per common share – diluted | $ (1.11) | $ (0.14) | $ (0.68) | $ (2.28) |
| Net loss based on U.S. GAAP (Note 25) | (116,781) | (8,335) | (53,211) | (91,637) |
| Per common share – basic | $ (1.32) | $ (0.09) | $ (0.60) | $ (1.04) |
| Per common share – diluted | $ (1.32) | $ (0.09) | $ (0.60) | $ (1.04) |

## TRADEMARK INFORMATION

### BCS

Verizon Wireless is a trademark of Bell Atlantic Trademark Services LLC

Exclusively YOURS is a trademark of American Express Company

SEI INVESTMENTS is a registered trademark of SEI Investments, Inc.

Cingular Wireless is a trademark of Cingular Wireless LLC

### COMMERCIAL

Longaberger is a registered trademark of The Longaberger Company

Cheverolet is a registered trademark of General Motors Corporation

Federated is a registered trademark of Federated Department Stores, Inc.

SBC Pacific Bell is a registered trademark of SBC Communications, Inc.

Porsche Stuttgart is a registered trademark of Dr. Ing. h.c. F. Porsche AG

Scotts is a registered trademark of The Scotts Company

American Express Publishing is a trademark of American Express Company

### FORMS & LABELS

UPS is a registered trademark of United Parcel Service of America, Inc.

Bank of America is a registered trademark of Bank of America Corporation

AT&T is a trademark of AT&T Corp

JC Penney is a registered trademark of J.C. Penney Company, Inc.

AFLAC is a registered trademark of American Family Life Assurance Company of Columbus

UnitedHealth Group is a registered trademark of UnitedHealth Group Incorporated

H&R Block is a registered trademark of HRB Royalty, Inc.

# CONTINUING TO DELIVER

**PRINTING** Litho Industries, a Moore Company, Durham, NC **PAPER** Unisource/Sappi Scout/Mountie Matte **DESIGN** The Wyant Simboli Group, Inc., Norwalk, CT

MOORE®

MOORE CORPORATION LIMITED