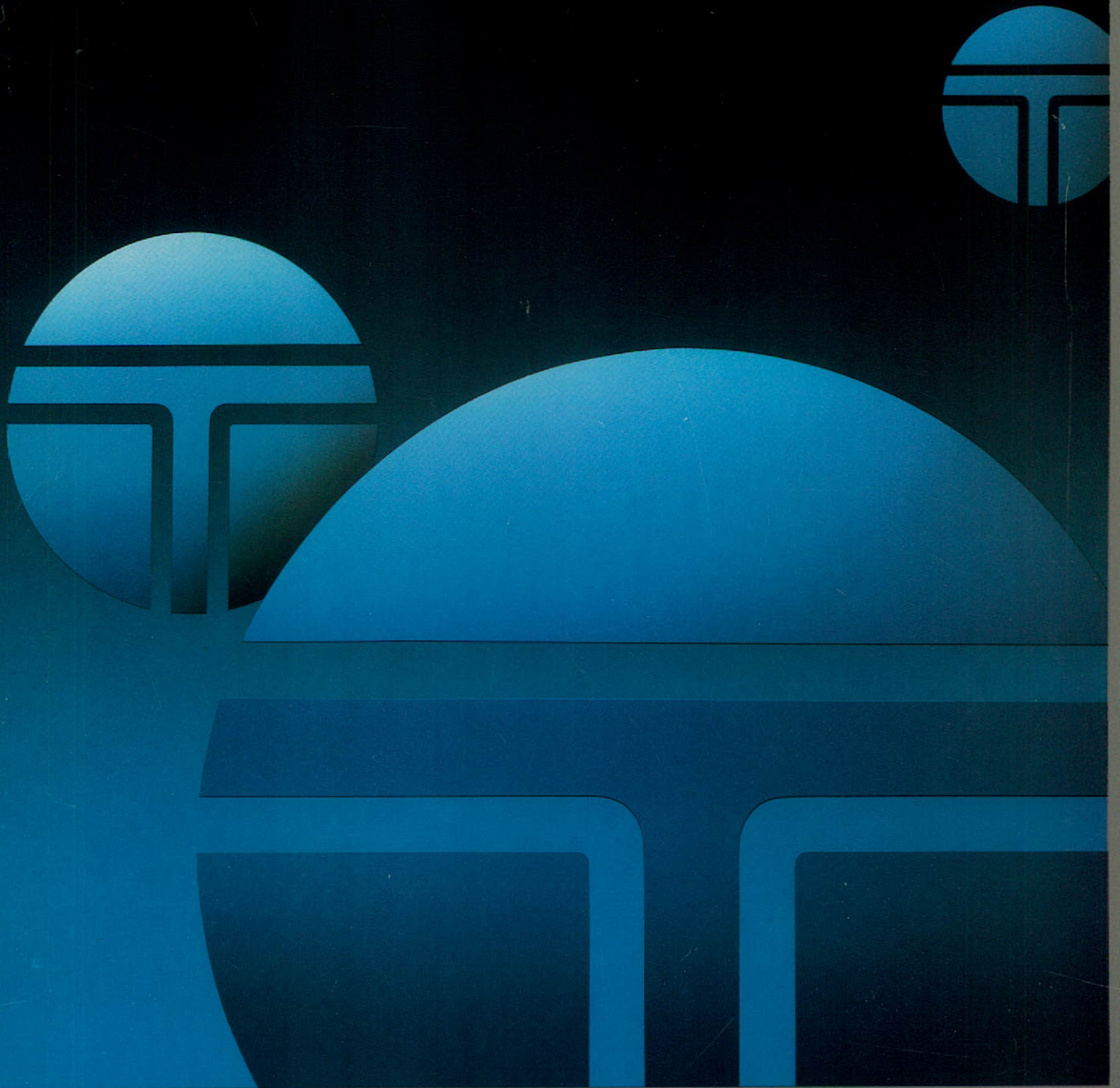


International
Thomson
Organisation
Limited



Annual Report 1985

International Thomson is a leading publishing and information company with strong interests in travel and oil and gas. We believe that these sectors provide us with sufficient opportunity to grow and prosper. We operate primarily in the United Kingdom and North America.

The Group is entrepreneurial by tradition and is characterized by a decentralized style of management. Our objective is to expand our existing activities and to acquire new ones, concentrating on high quality products in strong or growing markets. We seek leading positions and our philosophy favours the longer term when this conflicts with optimization of short term profitability.

Some 73% of the common shares of International Thomson are owned by the Thomson family. The balance are owned by institutional and individual investors primarily in the United Kingdom and North America, where the shares are listed on the London and Toronto Stock Exchanges.

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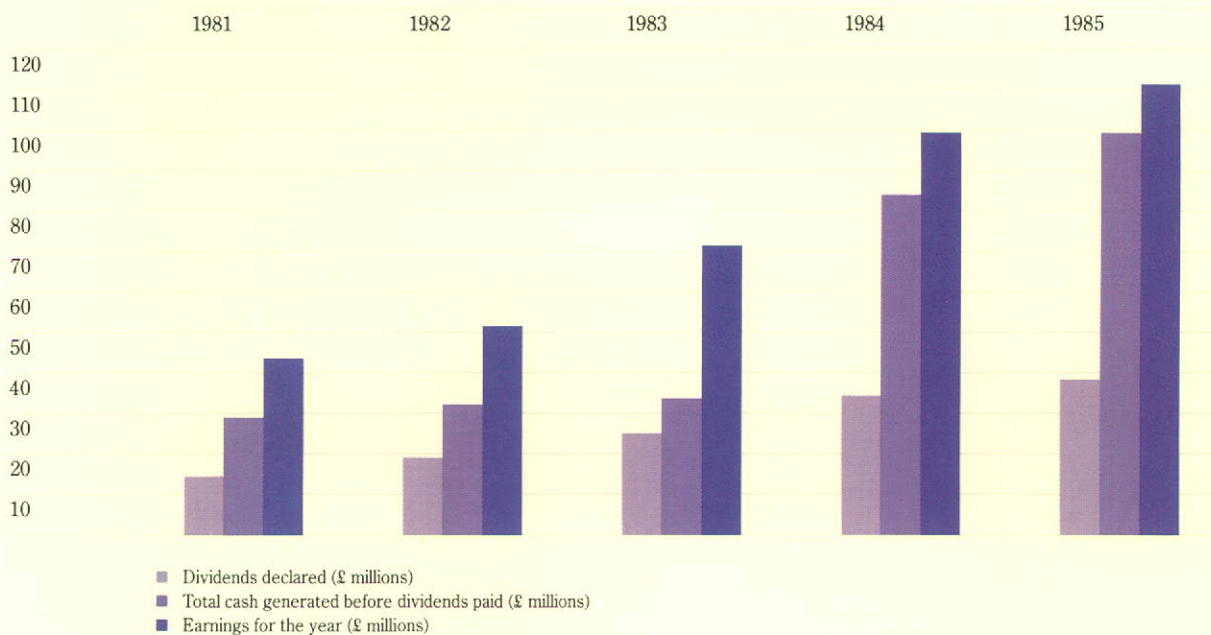
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Results at a glance

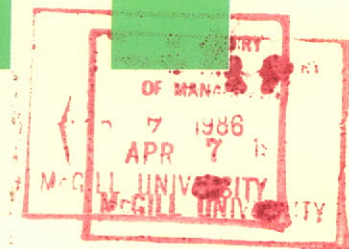
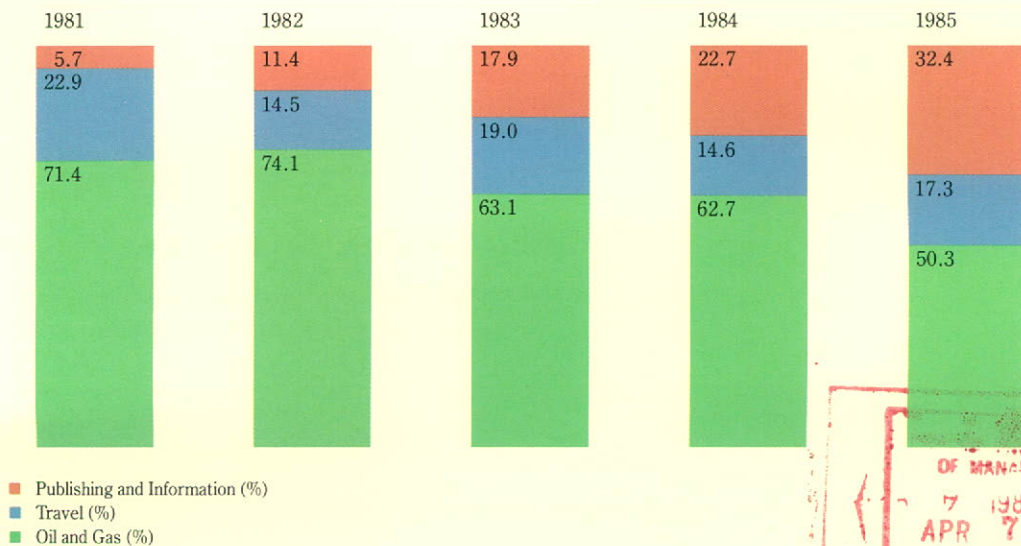
(millions of pounds sterling except per share amounts)

Sales	1,763	1,735
Operating profit	191	185
Earnings for the year	111	99
Dividends on common shares	38	34
Earnings per share for the year	37.9p	33.7p

5 year financial summary



Operating profit by business segment



1985 was a year of further progress. Earnings exceeded the £100 million mark for the first time. Investment in acquisitions and in the creation of new products reached a record level. At the same time, a program of refocusing our publishing and information businesses was completed.

A 13.3% increase in earnings was achieved despite the start of the expected decline in the combined production from the Piper and Claymore oil fields, and at a time of falling oil prices. As recently as 1982, Piper and Claymore accounted for some 75% of our operating profit, whereas in 1985 they contributed just over 50%. This proportion will continue to fall in the future.

The principal economies in which we operate provided a satisfactory trading environment in 1985.

Financial

Group sales rose by 1.6% to £1,763 million and income before taxes by 2.9% to £176 million. The tax charge continued to fall as rates declined in the UK and earnings before extraordinary items rose by 13.3% to £111 million. Dividends were increased by 11.8% to £38 million.

Geographically, 20.4% of operating profit was generated in North America and 79.6% in the UK and elsewhere. In publishing and information, the operating profit of the North American companies rose from £33 million to £49 million, an increase of 48.5%, and the operating profit of the UK companies from £9 million to £13 million, an increase of 44.4%. Operating profit from the travel group increased by 22.2% to £33 million. Oil and gas operating profit fell by 17.2% to £96 million.

Cash generation was satisfactory. After capital expenditure, mainly in oil and gas and in travel, and spending on publishing and information acquisitions totalling £110 million, our cash balances exceeded those at the end of 1984.

Strategy

We believe that the present spread of our interests – publishing and information, leisure travel and oil and gas – provides us with more than enough opportunity to grow and prosper. Our main development thrust remains unchanged and is aimed at specialized, high quality areas of publishing and information where we seek to provide valuable, differentiated and leading products to users in the professions, government, commerce and industry, as well as in higher education markets. By the strict application of this strategy, we are concentrating on those product and market areas where we believe we can excel. The bulk of our new investment is in the UK and North America and we intend to focus mainly on these territories in the future.

We continue to aim for leading positions in strong, growing markets and, where relevant, our philosophy favours the longer term when this conflicts with optimization of short term profitability. We build on our strengths and we back our successes. Our new product development programs are undertaken within strict financial and product criteria. We prefer to move into new marketplaces through acquisition of strong base businesses, on which we can then build. Our experience here has out-performed start-ups in unfamiliar markets.

Generally, we are now positioned in markets with good prospects. We recognize however that, with lower inflation and growing competition, product price increases may be more difficult to obtain than previously. We are ensuring therefore that we operate with an efficient cost base and we are putting greater emphasis on productivity, underpinned by the utilization of modern computer technology.

Rationalization

In our last annual report, we explained that we had begun a program to redefine our activities and concentrate on our core areas – businesses we wished to retain and develop for the long term. We completed this program in 1985 by disposing of a number of activities which could not match our criteria or were not viable.

The largest single divestment was Thomson Withy Grove (TWG). This contract printing operation, serving only other newspaper publishers, was sold to British Newspaper Printing Corporation (BNPC). BNPC took over 540 of the staff for their continuing operation and arrangements were made for some 325 employees to join other newspaper printers. Regrettably, the remaining 830 employees became redundant from TWG. The termination costs incurred were in line with a provision we had made previously. We now have no interests in



Lord Thomson, Chairman of International Thomson (left), with Mr Michael Brown, President of the Company

contract printing. A special tribute is due to George Dunn, the former Chairman and Chief Executive of TWG, for his outstanding contribution over this difficult period.

We also sold our consumer book publishing interests on both sides of the Atlantic, our minority interest in The Solicitors' Law Stationery Society and a number of individual magazines including "Illustrated London News". In addition, we sold or terminated a number of development programs, none of which had any prospect of profitability within a time-frame acceptable to us.

During 1985 we reviewed and refined our organizational structure and in the process reduced central overhead costs.

With this period of readjustment completed without undue disruption, we moved into 1986 with a strong, profitable group of continuing businesses.

Development

New product creation by our established businesses, in markets we know, is financially attractive and in 1985 this development continued actively and successfully. We see opportunities for us to continue to create a high level of new product, leading to growing profits in the medium and longer term. The costs of new product development are expensed as they are incurred.

Competition to acquire high quality, specialized publishing and information companies on acceptable terms has increased. Against this background, we were delighted that several such companies joined the Group in 1985. We intend to seek aggressively and make further high quality acquisitions in the future.

In the UK travel group, we introduced new products in Thomson Holidays and took delivery of two further Boeing 767 aircraft, taking our 767 fleet to four. With sales of two Boeing 737s in 1985 and three in 1986, Britannia's capacity is being held broadly constant, giving us on average a younger fleet, a better mix of aircraft and a cost structure unequalled in the UK charter market.

We committed to developing the Scapa field in the North Sea, where our share of development costs is estimated to be £31 million. Proved reserves attributable to our 20% interest are 8.3 million barrels of oil. Progress on the Balmoral development continued on schedule.

In total, over the year, we spent £268 million on the further development of our activities; notably £66 million on aircraft, £36 million on the Scapa and Balmoral oil fields and £110 million on acquisitions in publishing and information.

Management and Staff

Our staff performed extraordinarily well in 1985, taking us through a period of both development and rationalization, and we are pleased that they have much to look forward to in terms of career opportunities within the Group.

To achieve our aims, we are placing greater emphasis on management quality and performance and are fortunate to have an excellent group of senior executives. For the most part, we are not constrained by lack of development opportunities nor indeed by financial resources, but the availability of outstanding, creative and commercially orientated managers is increasingly important as we grow. We have long recognized the importance of management development and succession planning. Our training programs are kept under constant review, both to ensure that they are closely related to the requirements of our companies and individual managers' needs and to secure excellent performance in accordance with our plans and expectations.

We have agreed with each of our operating company chief executives the mission, focus and performance we expect of their companies and we delegate operationally through our decentralized structure. Our most senior executives have incentive schemes which identify them with the Group's objectives.

Robert Jachino, President and Chief Executive Officer of International Thomson Organisation

Inc, the holding company for our publishing and information interests in the US, was appointed a Director and an Executive Vice-President of International Thomson Organisation Limited (ITOL). Joe Darby, Chairman and Chief Executive of Thomson North Sea and Roger Davies, Chairman and Chief Executive of Thomson Travel, were appointed Vice-Presidents of ITOL.

James Evans, a Director and an Executive Vice-President of ITOL and Managing Director and Chief Executive of International Thomson Organisation PLC (ITOPLC), the principal subsidiary of ITOL in the UK, was additionally appointed Chairman of ITOPLC.

David Cole, who has worked for group companies for some 40 years, most recently as Deputy Managing Director of ITOPLC, has announced his retirement. We thank him for his outstanding contribution and wish him well.

Outlook

Our publishing and information interests are well positioned to take advantage of opportunities and will continue to provide a rising proportion of our profits. We intend to be the most dynamic participant in the principal publishing and information markets we serve and will, therefore, continue to increase our new product development spending. Although we hope to make further acquisitions to provide bases in new areas or to strengthen and enhance existing businesses, we will remain selective and adhere to our criteria. We intend to grow, but size is not an objective in itself. With increased utilization of modern technologies and growth in volume, we foresee further significant increases in productivity, increasing both the amount and the quality of our earnings.

In 1986 it is probable that our North American publishing and information activities will become our largest single profit centre. With subscription publishing being the largest element, they enjoy excellent financial characteristics and prospects. In the UK, too, we have strong subscription publishing activities, which have exceptional prospects. Regional newspaper circulations have stabilized after a long period of decline, productivity is improving steadily throughout the business and we are making real progress on the efficient use of modern computer technology. The restructuring of our magazine and book groups has been completed and their profits are increasing.

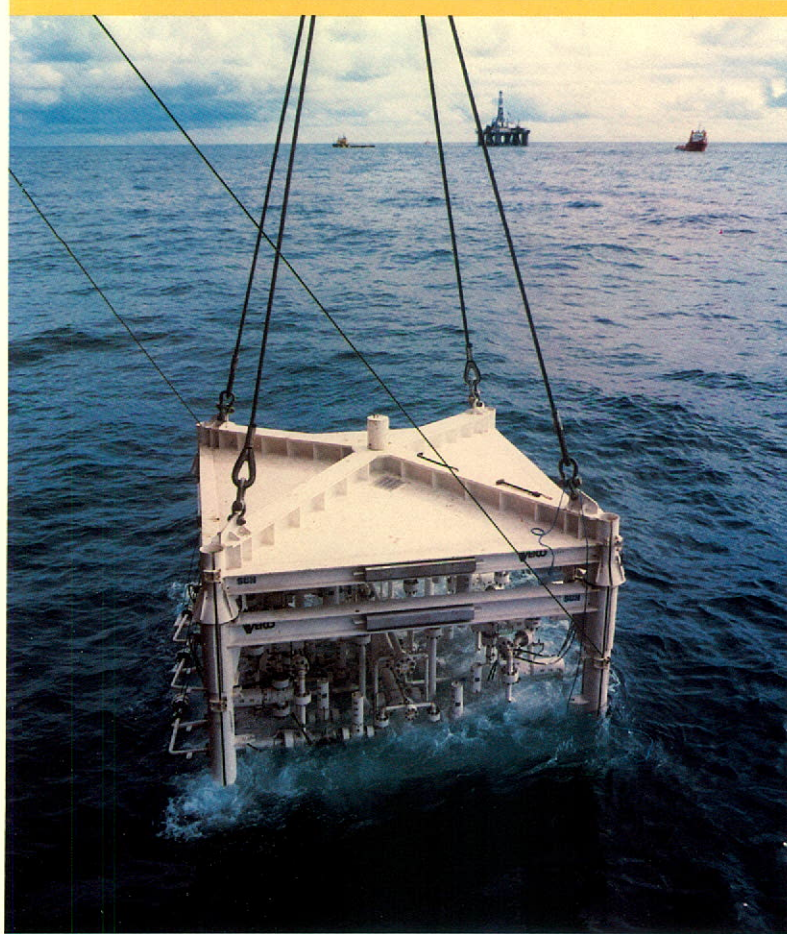
In the travel group, where we expect a growing marketplace overall, we are determined to strengthen our leading position in the UK. Accordingly, for the 1986 summer program we have reduced brochure prices and improved customer guarantees and as a result substantially



Many of our publications have distinguished reputations in their particular fields. The full titles and publishers of this distinguished array are listed on the inside back cover of this Report



Britannia Airways' engineers servicing an engine of one of the airline's Boeing 767s. At the end of 1985 Britannia's fleet comprised four 767s and twenty-seven 737s



The Balmoral subsea production manifold, which contains equipment to control the flow of oil from producing wells, was installed offshore in mid-1985. The development of the North Sea Balmoral field is on schedule for production early in 1987

increased the number of holidays being sold. We have an excellent and creative management team with unrivalled marketing flair; a high reputation for quality and reliability; and the potential to benefit further from the substantial investment we have made in computerization. Our leisure airline, Britannia Airways, remains extremely efficient and profitable.

Holiday bookings and projected aircraft utilization levels for 1986 are exceeding our best expectations and we fully expect to achieve our objective of a higher market share for Thomson Holidays.

In 1986 we expect total production from our North Sea oil fields to fall by over 15% from the 1985 level. At this time, it is impossible to predict the level at which oil prices will eventually settle or to know how sterling will react. Inevitably, earnings from our oil and gas businesses will be materially lower in 1986 if present price levels persist.

We will continue to benefit from declining tax rates and in future years from the ability to absorb loss carry forwards in the US.

Overall, we remain optimistic about our prospects. With the expected decline in earnings from our oil and gas activities and with the current competitive situation in the travel market, our strategy is underpinned by our investment in high quality publishing and information businesses. We believe that an increased share of the UK travel market will enhance the medium and longer term profitability and the worth of our travel business; we will continue to have a profitable oil and gas business into the 1990s; and we have a valuable and growing publishing and information business. We are stronger managerially than we have ever been and, with strong cash flows from all sectors, we are well placed to take advantage of attractive acquisition opportunities as they arise.

Thomson of Fleet, *Chairman*

Michael Brown, *President*

On pages 8 to 18 the Report on Operations deals with our interests in Publishing and Information, Travel and Oil and Gas in more detail.

Report on Operations

Publishing and Information

North America

International Thomson Organisation Inc (ITOI), the holding company for our US publishing and information interests, is a leading, high quality, specialized publisher and information provider and in 1985 achieved sales and operating profit gains for the sixth consecutive year. Several factors contributed to this progress and all give us confidence for the future. The established companies within the group achieved impressive growth while continuing a high level of new product development; four important acquisitions were concluded during the year – Gale Research, AutEx Systems, UTLAS and Practical Accountant Group; and a rigorous review of all our businesses resulted in several activities being sold or merged into other operations.

Our North American publishing interests now embrace: Professional Publishing, Education/Reference Books, Library Services, Business Magazines and InFiNet (International Financial Network). Each group has a clearly focused mission and objectives.

We have a good spread of solid, core businesses and our primary objective is to enhance and optimize their potential. Concurrently, we are seeking further opportunities to buy good businesses that complement our existing operations.

Professional Publishing

This group has some 560 products and provides mainly specialized “have to have” information, usually sold by subscription, to lawyers, accountants, engineers, realtors, data processing executives, bankers and brokers. The principal companies are Warren, Gorham & Lamont, American Banker/The Bond Buyer and Callaghan & Company.

Warren, Gorham & Lamont performed exceptionally well, with large gains in both sales and operating profit, and continued to strengthen its base in continuous publishing for accountants with the acquisition of the leading accounting magazine, “Practical Accountant”, and its sister publication, “Computers in Accounting”. Early in 1986, the company also acquired Practitioners Publishing Company, an accounting publisher in Fort Worth, Texas. Although American Banker was hampered by an industry-wide slow-down in advertising, the group as a whole achieved record sales.

In legal publishing, all our companies made further progress. Callaghan enjoyed another excellent year, increasing the number of publications sold by some 22% and opening new ac-

counts at a record rate. Clark Boardman continued its expansion and, with new publications launched in the second half of the year, prospects for 1986 are bright. After a loss in 1984, Richard De Boo moved into profit. New product development and aggressive marketing should further improve results in 1986.

Thomson & Thomson, our trademark research company, further enhanced its leading market position with the highly successful online service TRADEMARKSCAN, which attained a usage level averaging 1,000 hours per month.

The emphasis for Professional Publishing as a whole continues to be on development, both by seeking acquisitions and by launching new products – 70 new products were successfully launched during the year and, with the successful testing of others, this momentum will be maintained in 1986.

Education/Reference Books

This group experienced difficult trading conditions in 1985, particularly in the college market, where Wadsworth was unable to maintain the pace of sales increases of recent years. With a soft college market, the decision was taken to merge Anaheim Publishing, our data processing and computer sciences publisher, into Wadsworth, retaining the publishing programs but saving substantially on overheads and fulfillment costs. Linguistics International, which publishes in the foreign language and computer sciences areas, made impressive gains in the size and quality of its lists. This company is poised for another excellent year. With these developments, we are now more precisely focused in the college market, our lists are stronger and we see good growth prospects ahead in our chosen subject areas.

Following the disposal of its trade lists, Van Nostrand Reinhold is concentrating exclusively on professional/reference publishing. Delmar Publishers and Nelson Canada, publishers of vocational texts and educational materials, both achieved impressive results. With their heavy commitment to new publishing programs over the next two years, we anticipate they will continue to be major and growing forces in their respective markets.

Elsewhere, trading conditions in some markets were difficult, but the UK and Australian education/reference publishing companies, which are managed from the US, produced excellent results overall.

Library Services

The main event of the year was the major strengthening of our already significant presence in the library market by the acquisition of Gale Research. Gale, a leading provider of reference



The publications shown here demonstrate International Thomson's determination to provide valuable, differentiated and leading products to users in the professions, government, commerce and industry, as well as in higher education markets. Their full titles and publishers are listed on the inside back cover of this Report

publications and services, joined the group in May 1985 and is achieving our best expectations. Its principal reference works include the "Encyclopedia of Associations", "Contemporary Authors" and "Contemporary Literary Criticism". Gale will continue its rapid pace of new product creation and emphasis on utilizing electronic technologies to broaden the availability and utility of its databases and will expand through the acquisition of related companies and publications.

UTLAS, a Toronto-based bibliographic and information utility, strengthened its market position in automated library systems. Research Publications, a microform publisher of library reference materials, again achieved excellent results and is moving more strongly into the area of intellectual property.

Overall, this group has 2,500 products, principally reference books and microfiche.

Business Magazines

This group comprises five divisions – Medical, Industrial, Electronics, Communications and Transportation – publishing 35 magazines and 22 directories, mainly advertising based, and 30 newsletters and other services.

Medical Economics Company, our largest and most profitable group of publications, performed well in 1985 despite softness in its markets. "Physicians' Desk Reference", the compendium of drug information, was particularly successful. Although we anticipate a slow-down in the expansion of advertising outlays in medical magazines, the company plans several launches, laying the groundwork for sustained growth in the future.

The Industrial division had a good year, largely because of a superb performance by "Ward's Auto World". The Ward's Automotive group of publications continues to increase market share and plans two new launches in 1986. Huebner Publications, which serves production and design engineers and purchasing professionals, had another profitable year.

The Electronics division had some excellent performers, notably "Home Satellite Marketing", a 1984 launch, which has become the leading magazine in its field. Another launch is planned in the consumer electronics area in 1986.

Results of the Communications division were disappointing and, as a consequence, some activities were sold and others merged into

stronger units or reduced in size to improve profitability.

While the Transportation division showed a profit improvement on 1984, additional new products are being sought to enable it to make a more significant contribution.

Overall, 1985 saw a material improvement in the results of the magazine group and with aggressive, but controlled, launches planned for 1986, we anticipate a further strengthening in the future.

InFiNet

Our new grouping, InFiNet, was created after the acquisition of AutEx Systems, a provider of unique electronic information services to brokerage houses, banks and other institutions throughout the US. AutEx achieved sizable revenue gains on 1984 and performed ahead of expectations. We plan to develop InFiNet vigorously as a major provider of information services to the financial community.

Outlook

The outlook for our publishing and information businesses in North America is encouraging. Vigorous new product development programs are underway in each company and in 1986 there are plans to launch more than 70 titles in Professional Publishing, five periodicals in Business Magazines and numerous books and microfilm collections. With productivity gains anticipated from automation, and senior management that continues to mature and produce results, ITOI is well positioned to be an aggressive competitor in all its markets.

United Kingdom

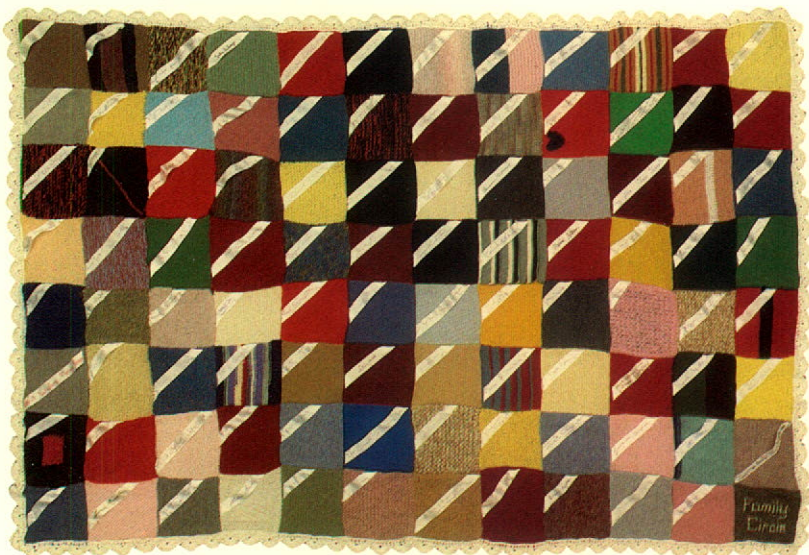
1985 was a very important year for the UK-managed publishing group, which comprises regional newspapers, magazines and information services, professional and reference publishing, and local directories. Almost all our businesses achieved profit improvements over 1984.

The policy of refining the objectives of our companies and refocusing them clearly onto activities we wish to develop in the long term was completed. All problem areas have been addressed and solutions implemented.

In our established companies, increased emphasis was placed on the development of new products.

Newspapers

Thomson Regional Newspapers (TRN), which is the largest publisher of regional newspapers in the UK with 30 paid-for and 31 free newspapers, made further significant progress in 1985 towards achieving a satisfactory return on investment. Total revenue rose in real terms and cost



During 1985 the readers of our British magazine "Family Circle" knitted enough six-inch squares to send 20,000 patchwork blankets to hospital camps in Ethiopia. This particular blanket, signed by many celebrities including the British Prime Minister, Mrs. Margaret Thatcher, raised several thousand pounds when raffled

increases were contained below the level of inflation, producing a substantial improvement in operating profit.

Advertising revenue increased by 7%, with national display and situations vacant advertising performing well and helping to offset the adverse impact of the imposition of value added tax on newspaper and magazine advertising from 1 May 1985.

Circulation revenue also increased by 7%. Circulations of our daily titles were stabilized, the best circulation performance for nearly two decades.

The containment of costs was largely the result of reduced manning. During the year the work-force was reduced by a further 5.5% and this was achieved through non-replacement and voluntary severance schemes. TRN's productivity has improved by 17% since 1980.

TRN now needs modern computer technology to improve its financial margins to acceptable levels; to maintain its position in an increasingly competitive marketplace; to improve the quality of its titles and service to customers; and to provide the funds for new product development.

The classified advertising department in Edinburgh started using modern technology on a partial basis in the middle of 1985, and towards the end of the year significant progress was made on the introduction of a comprehensive system in Thames Valley Newspapers at Reading, with advertising sales personnel type-setting copy directly. Editorial staff there are also fully trained and are using the equipment. Despite the industrial relations difficulties, priority is being given in 1986 to the introduction of modern technology in a number of other centers.

With an improving financial performance, TRN has begun to seek new investment opportunities and in October 1985 acquired the Chester Observer titles. We are prepared to commit further funds to the development of TRN, but the widespread acceptance of modern technology is an essential prerequisite.

Magazines and Information Publishing

In a year of reorganization, the operating profit of the magazine and information publishing group improved considerably over 1984. The group's main activities are in specialized consumer magazines, business magazines and information publishing, principally in the UK. As anticipated in last year's report, steps were taken in 1985 to effect a considerable reduction in overhead costs and improvements in operating flexibility in 1986.

UK business magazines performed satisfactorily with operating profit well up on 1984. Major profit successes in the year were "Drapers Record" and "Construction News", with the newly acquired magazine "Broadcast" and newly launched magazine "Communications" showing strong growth in their first full year of publication within the group.

Our consumer magazines performed ahead of expectations, with "Family Circle" enjoying continuing circulation growth and "Living" benefiting from a very successful relaunch. During the year a decision was taken to dispose of all our non-supermarket publications and the division is now clearly focused on the buoyant market of specialized magazines sold through supermarkets.

The Scandinavian companies had a particularly good year with the full benefit of the RKI credit database acquisition being felt and growth being achieved in both the directory and magazine areas. Compared with 1984, results from our Australian division and Singapore company were below expectations, in the latter case not least due to the sharp deterioration in the Singapore economy.

Overall, the UK-managed magazine and information publishing group publishes 51 business magazines, two consumer magazines, 29 year-books and 296 directories.

Looking to the future, this group, operating under a new divisionalized structure with significantly reduced overheads, now stands on the threshold of further expansion and profitable growth.

Information Services

Derwent Publications, the acknowledged world leader in the field of patent information, had another record year with substantially increased sales and operating profit. The online database, "World Patents Index Online", experienced particularly rapid growth and increased profitability following the decision to load it on two additional hosts, Dialog and Questel. Already the world's largest and most complete electronic patents service, it will shortly be further enhanced by the loading of approaching an additional one million abstracts. Derwent will continue to invest heavily in new product and electronic systems development in order to protect and enhance its pre-eminent market position world-wide.

The Glass's Guide group (51%), which provides high quality market intelligence services to

the automotive industry, had another record year in all markets. The development in 1985 of several new publications and the acquisition of Palgrave Publishing, the leading UK publisher of repair manuals, will enhance our existing strengths in serving the used car market.

Professional and Reference Publishing

Jane's Publishing, the world's leading provider of authoritative military, naval and aerospace information, had a record year in terms of both profit and development. "Jane's Defence Weekly", launched in 1984 as the world's first weekly defence magazine, has seen a rapid increase in its subscription base and is now profitable and established as a leader in its field. The acquisition of DMS, a leading information provider for suppliers to the defence industry, particularly in the US, together with the development of Jane's Information Services and the continuing growth of Jane's year-books, significantly enhance this group's growth potential.

Professional Publishing, formed in 1983 to publish high quality works of reference primarily in the areas of accounting, taxation and financial services, continues to grow rapidly. 1985 saw the acquisition of Franey & Co, publishers of "Building Societies' Gazette"; Centurion Press, publishers of the "Encyclopaedia of Employment Law"; and "International Financing Review", which provides Professional Publishing with a leading position in the fast growing field of international financial information. In addition, 13 new publications were successfully launched. This subscription-based business is investing heavily in internally developed product and will continue to expand through acquisition when attractive opportunities arise.

Directories

1985 was another important year for Thomson Local Directories, jointly owned with Dun & Bradstreet Corporation. The expanded content of both free listings and sold advertisements has resulted in appreciably more usage with consequent benefits to advertisers. Advertisement revenue continues to show strong growth, which is accelerating as we go into 1986.

Outlook

After a period of restructuring and some divestment, the UK-managed publishing group is now poised to move forward more vigorously into a development phase, with increasing emphasis on the organic development of new products, and on acquisitions. In 1985, several small, but strategically important, acquisitions were made and our hope and expectation is that we can accelerate this process both in 1986 and in future years.



The launching and acquiring of new publishing and information products by International Thomson is a continuing process. The selection shown here are among our most recent. Our new product development programs are undertaken within strict financial and product criteria. The full titles of these publications, with their publishers, appear on the inside back cover of this Report

Thomson Travel is one of the world's largest leisure travel groups and in the UK is the clear leader in a £2 billion market, which is forecast to show continuing growth. Members of the group include Britannia Airways, Britain's largest leisure airline; Thomson Holidays, the UK's largest tour operator; Lunn Poly, a leading retail chain specializing in holiday sales; and Portland Holidays, brand leader in the "direct sell" sector of the inclusive tour market. In the United States, although the operation is considerably smaller, Thomson Vacations is the leading tour operator in the Mid-West. Overall in 1985 the travel group produced income before taxes that was much improved and exceeded our expectations.

United Kingdom

1985 was a difficult year for the UK overseas inclusive tour industry with the overall market recording a decline of around 8%, the first downturn since 1977. However, within this market, the group's tour operating sales were in line with 1984, resulting in an increase in market share of one percentage point to around 21%. After the excellent quality results achieved in 1984, 1985 saw further improvements, with quality ratings, as measured from questionnaires completed by returning holidaymakers, at record high levels.

During 1985 Thomson Holidays was again awarded the two premier travel awards as "Best Holiday Company" by travel agents throughout the UK in a poll conducted by "Travel News" and "Top Tour Operator" by readers of "Travel Trade Gazette". In addition, the annual survey of the widely read "Woman" magazine placed Thomson Holidays and Portland Holidays as the top two tour operators for the second year running.

Because Thomson Holidays' forward bookings for the summer season at the beginning of 1985 were well down on the previous year, a decision was taken early in January to consolidate the program and avoid the inevitable disruption to clients from cutting-back later. Our early decision resulted in little disruption to clients and very high load factors. When the demand increased later on in the season we were able to put on extra capacity to meet it. Our current winter programs are selling strongly and we continue to have a 30% share of the winter market.

Portland Holidays had another outstanding year recording a 15% growth in passengers, operating at very high load factors and producing record profits. Portland is now well established as the major company selling holidays direct to the public, with a market share of over 20% of that sector.

Britannia Airways took delivery of two further Boeing 767 aircraft in 1985, increasing the 767 fleet size to four. At the same time the opportunity was taken to dispose of two older Boeing 737 aircraft at attractive prices. 1985 also saw the introduction of Britannia's first scheduled air service from Manchester to Palma. Although the first season's experience has been encouraging and we hope to add further routes, it is unlikely that these will represent more than a small percentage of overall fleet usage over the next few years. The Britannia engineering maintenance operation continued to attract outside customers and in 1985 a contract was signed with the Ministry of Defence to overhaul a number of VC-10 aircraft.

Although, as a result of the market downturn, fleet utilization was below the 1984 level, the leasing out of surplus capacity and tight cost control resulted in an improved financial performance by Britannia.

Lunn Poly, the UK chain of 200 holiday shops, made significant progress in implementing its strategy of becoming a major force in the retailing of holidays, and financial performance for the year showed a satisfactory improvement. Heavy marketing expenditure, a new corporate image, the introduction of discounts linked to holiday insurance and consumer guarantees, resulted in Lunn Poly increasing the volume of inclusive tours sold in 1985 by 21% in a lower overall market, raising its market share by two percentage points to over 7%. Early indications for summer 1986 are that Lunn Poly will again outsell the market. Lunn Poly's strategy of concentrating on leisure retailing curtailed further investment in business travel and we felt that staff in this area would have better career opportunities if they were part of a company with a commitment to growth in business travel. We are therefore pleased that Pickfords Travel bought the Lunn Poly business travel operation in February 1986.

United States

1985 was a disappointing year for our US travel group after the encouraging results in 1984. Demand for European holidays was adversely affected by terrorist attacks against US citizens. Other problems faced included the earthquake in Mexico and the airline price war in the US. Worst affected was our escorted tour brand, Club Universe, and this operation has been closed.

Despite the difficult environment, the two remaining operations, Thomson Vacations in Chicago and Unitours, the travel retailer based in California, were profitable. Both operations have been consistently profitable over the last three years. In 1986 passenger carryings are planned at a similar level to 1985.

Outlook

Forward bookings in the UK for summer 1986 programs are at record levels. The strengthening of sterling, low overseas hotel inflation and low administration costs resulting from our investment in advanced computer technology, have enabled us to reduce summer 1986 brochure prices, producing the most competitive prices for a decade. Thomson Holidays, anticipating the increased demand that these prices would generate, has substantially increased its capacity, while at the same time introducing a very competitive consumer guarantee package.

This guarantee not only promised that there will be no surcharges but also introduced the "Thomson New Deal", protecting our clients from any major changes to their holiday arrangements, backed up by compensation payments. To date this guarantee in total has not been matched by any competitor and has raised the standard of consumer protection and fair trading for the industry.

To meet the demands of the more budget-conscious holidaymaker, a dormant brand, Skytours, was relaunched in late 1985 to concentrate on this sector of the market. The announcement of our low summer 1986 brochure prices and our aggressive marketing stance created an enormous amount of media coverage which helped to stimulate a return to early booking. The total number of holidays sold for the whole of summer 1985 was one million. For summer 1986 we surpassed this figure as early as the third week in January and subsequently sales have been very satisfactory indeed. In an overall market which we expect to grow by 20%, our tour operating brands should significantly increase their market share in 1986. The final profit outcome will depend, as always, on the ability of our tour companies to operate at high load factors and on the continued successful operation of Britannia Airways.



This Children's Representative, at work on the Spanish Costa Brava, is part of a Thomson team who care specially for children's needs

Oil and Gas

Our aim in oil and gas is to maintain a profitable business which makes a meaningful contribution to the Group. This will be achieved through participation in selected exploration and development opportunities in the UK and North America, with continued emphasis on high profit potential and containment of risk.

United Kingdom

Thomson North Sea

Thomson North Sea (TNS) continued to dominate the oil and gas group and will do so for the foreseeable future. On balance 1985 was a successful year. Production from our Piper and Claymore oil fields averaged 274,000 barrels per day. From October onwards this was supplemented by production from the Scapa field, which boosted the yearly average to 277,000 barrels per day, compared with 286,000 barrels per day in 1984. TNS has a 20% interest in these three fields. The average price of oil achieved by TNS fell from £22.19 per barrel in 1984 to £20.82 per barrel in 1985.

Piper's performance continued to exceed expectations, contributing 187,000 barrels per day to total production. In their year-end report, petroleum consultants DeGolyer and MacNaughton increased their estimate of original proved reserves in Piper by 34.9 million barrels to 924.5 million barrels. As at 31 December 1985, cumulative production amounted to some 74% of the new reserve estimate.

Production from the Claymore field averaged 87,000 barrels per day, some 14,000 barrels per day below that in 1984. DeGolyer and MacNaughton's estimate of original proved reserves in the field remained unchanged at 391.1 million barrels at the year-end, when cumulative production had reached some 65% of reserves.

In 1985 appraisal drilling in the Scapa field, situated in block 14/19 to the south-west of Claymore, confirmed proved reserves of 41.6 million barrels. Government approval to

develop the field by subsea wells linked to Claymore was granted in October 1985 and oil production commenced immediately through a pre-drilled well. An innovative, unsecured, limited recourse loan of US \$40 million has been arranged to fund TNS's 20% share of the £155 million development costs.

DeGolyer and MacNaughton's current estimates of original and remaining proved reserves for Piper, Claymore and Scapa are shown in the table below.

The Balmoral development project in which TNS has a 7.4% interest, and is carrying Clyde Petroleum for its 9.2% interest, is progressing well and is on schedule for production in early 1987. The floating production vessel left dry dock in July 1985 and is currently being fitted out with production equipment prior to installation in the field during this summer. At the end of 1985 all but two of the 19 development wells had been drilled and overall the project was 75% complete. The estimated development costs to completion have risen by less than 4% to £420 million. The operator, Sun Oil, estimates recoverable reserves at 68 million barrels, unchanged since the project's commencement.

Evaluation work continued on our Glamis, South Piper and Galley discoveries in order to define reserves more accurately and determine the best method of recovery. All these fields are small and their economic viability has yet to be demonstrated.

Offshore exploration activity, the cost of which qualifies for relief against our Petroleum Revenue and Corporation Tax liabilities and is therefore relatively cheap, continued strongly in 1985 with TNS participating in 13 exploration and appraisal wells. New successes were recorded in block 15/17 to the south-east of the Piper field, where well 15/17-13 tested at 13,000 barrels of oil per day, and in block 16/12a where a well in the South Birch prospect tested at 9,000 barrels of oil per day. Both discoveries will be further appraised in 1986.

In the Ninth Round of Offshore Licensing, TNS was successful in being awarded three blocks, including premium block 9/2 in the northern North Sea for £5.1 million (TNS share 20%), whilst onshore, TNS joined two consortia applying for 11 blocks in the First Onshore Licensing Round in September 1985. The announcement of awards is expected shortly.

With interests in 26 offshore blocks, the exploration and appraisal program of TNS for 1986 envisages participation in 14 new wells.

(millions of barrels)

	Piper field	Claymore field	Scapa field	Total
Original proved reserves based on current estimates	924.5	391.1	41.6	1,357.2
ITOL's share of original proved reserves	184.9	78.2	8.3	271.4
Remaining ITOL share as at 31 December 1985	47.6	27.6	7.9	83.1

North America

Thomson-Monteith

In 1985 results from our US partnership, Thomson-Monteith (T-M), were below expecta-



During the 1985 Balmoral field installation program, this giant spool aboard the reel ship Apache fed out nine miles of 14-inch export pipeline in a 40-inch deep trench specially dug on the seabed. It links the template with the Brae-Forties trunkline to the British mainland

tions. Oil and gas production fell slightly, averaging 971 barrels per day and 13.3 million cubic feet per day, respectively, net to T-M. During the year oil prices fluctuated and gas prices remained weak because of the continuing "gas bubble" in the US. This resulted in reduced revenues and profit.

The Corinne gas field in Mississippi is still the major profit centre, but production capacity continues to decline as reserves are depleted. Oil production from the Brantley Jackson and Wimberly fields remains strong and several waterflood projects are showing a positive response to injection.

Following disappointing results, T-M's joint exploration program has been curtailed, except for modest drilling for gas in Alabama where to date 7 out of 12 wells have established new reserves.

Thomson-Jensen

Thomson-Jensen's (T-J) trading results were satisfactory in 1985. Oil production averaged 851 barrels per day, up 25% on 1984, while gas production at 6.1 million cubic feet per day was down 6%.

T-J continued to focus on exploration and development on lands in Alberta acquired in the Global Arctic Islands purchase in 1983 and on new leases acquired in Crown lease sales. Approximately 13,000 net acres were added to the land inventory during the year and T-J participated in approximately 100 wells.

Recent changes in Canadian energy taxes and pricing policies have improved the economic and political climate for oil and gas development in Canada, and T-J should benefit.

Outlook

The world-wide oversupply situation and the recent dramatic fall in oil prices has resulted in widespread economic, financial and political pressures and there have been repeated calls for agreement between producing countries to restrict production. Without such agreement, oil prices are likely to remain weak and the market unstable. Our oil and gas earnings will be materially lower in 1986 if present price levels persist.

In this climate, new development opportunities will be evaluated with caution and will be more difficult to justify commercially. Drilling activity is likely to be somewhat curtailed because of reduced cash flow, but we shall continue exploration efforts in the North Sea and Canada to build up new reserves for the future.



The Floating Production Vessel for the Balmoral field in dry dock at the Götaverken Arendal yard in Sweden prior to completion of construction in 1985. The vessel was being prepared for float-out to a quayside position for installation of production and processing equipment

Financial Information

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Consolidated statement of earnings

<i>(millions of pounds sterling except per share amounts)</i>	1985	1984	1983	1982	1981
Sales	1,763	1,735	1,504	1,334	1,181
Earnings for the year	111	99	72	52	44
Dividends on common shares	38	34	25	19	15
Earnings per share for the year	37.9p	33.7p	25.6p	18.5p	15.6p

Consolidated balance sheet

<i>(millions of pounds sterling)</i>	1985	1984	1983	1982	1981
Assets					
Current assets	482	489	404	322	269
Oil and gas properties	194	200	180	154	164
Property and equipment	167	181	153	129	109
Aircraft and spares	188	139	92	72	55
Publishing rights	206	192	142	113	78
Goodwill	84	67	49	34	28
Other assets	29	40	33	30	24
	1,350	1,308	1,053	854	727
Liabilities and shareholders' equity					
Current liabilities	449	470	441	364	324
Long-term debt and obligations	170	103	80	88	63
Provision for site restoration costs	42	36	32	28	24
Other liabilities	49	45	32	27	19
Deferred taxes	142	121	121	117	128
Preference shares of a subsidiary	40	40	–	–	–
Shareholders' equity	458	493	347	230	169
	1,350	1,308	1,053	854	727

Prior year figures have been reclassified to conform with the current year's presentation.

Auditors' report

**To the shareholders of International
Thomson Organisation Limited**

We have examined the consolidated balance sheet of International Thomson Organisation Limited as at December 31, 1985 and the consolidated statements of earnings, retained earnings and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of International Thomson Organisation Limited as at December 31, 1985 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Price Waterhouse
Chartered Accountants
Toronto, Canada
March 18, 1986

Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements of International Thomson Organisation Limited (ITOL) include all companies in which it holds more than a 50% interest and are prepared in accordance with accounting principles generally accepted in Canada. The results of operations of subsidiaries are included from the respective dates of acquisition.

As the majority of ITOL's operations are in the United Kingdom, the consolidated financial statements are expressed in pounds sterling.

Foreign currency translation

Assets and liabilities expressed in currencies other than pounds sterling are translated at December 31 rates of exchange. The results of operations expressed in currencies other than pounds sterling are translated at average rates of exchange for the year. Currency gains or losses arising from the translation of the investment in subsidiaries and gains or losses arising from the translation of foreign currency debt that has been designated as hedged by the net investment in subsidiaries, are accumulated and shown as a separate component of shareholders' equity. Other currency gains or losses are included in earnings.

Pensions

The cost of pension plans, including past service costs, is provided for and funded on the basis of periodic actuarial valuations. There are no material unfunded liabilities.

Interest capitalization

Interest expense incurred on major projects prior to their completion is capitalized as part of the cost of these projects.

Inventories

Inventories of raw materials, work-in-progress and finished goods are valued at the lower of cost, determined on a first-in-first-out basis, and net realizable value.

Oil and gas properties

(a) Joint venture accounting

The proportionate consolidation method is utilized whereby the amounts included in the consolidated financial statements in respect of oil and gas joint ventures reflect the interest in the assets, liabilities, revenues and expenditures of those joint ventures attributable to the ITOL ownership percentage.

(b) Exploration and development costs

Exploration costs are expensed as incurred. Upon development of a successful field all related exploration costs, including those of development dry holes, are capitalized. Licence acquisition costs of properties are capitalized; if proved unproductive, they are expensed.

(c) Depreciation, depletion and amortization

Producing properties are recorded at cost, including tangible and intangible expenditures thereon and are depreciated, depleted or amortized on a unit of production basis over the proved developed reserves.

(d) United Kingdom petroleum revenue tax (PRT)

PRT charged against earnings recognizes timing differences arising from the different treatment for accounting and tax purposes of depreciation, depletion and amortization of oil and gas properties and of the provision for site restoration costs. Timing differences are reflected as deferred taxes and are provided at the current rate.

(e) Provision for site restoration costs

The estimated cost of discharging certain liabilities which may arise in respect of site restoration at the end of production in the North Sea is being provided for on a unit of production basis over the reserves estimated to be recovered from the fields in the first ten years of their lives.

Property and equipment

Property and equipment are recorded at cost and depreciated on a straight line basis over their estimated useful lives.

Aircraft and spares

The fleet of aircraft, including the aircraft held under capital leases, is depreciated on a pool basis over its estimated useful life; annual depreciation takes account of the number of seat hours flown during the year. Spares are recorded at cost and depreciated on a straight line basis over their estimated useful lives.

Publishing rights

Publishing rights are recorded at acquisition cost and amortized over periods not exceeding forty years. Based on annual reviews, any permanent impairment in the value of publishing rights is written off against earnings.

Goodwill

Goodwill represents the excess of the cost of the investment in acquired businesses over values attributed to underlying net assets. Goodwill is amortized over periods not exceeding forty years. Based on annual reviews, any permanent impairment in the value of goodwill is written off against earnings.

Deferred revenue

Inclusive tour revenue receivable in advance is included in deferred revenue until the date of tour departure.

Subscription revenue receivable in advance is included in deferred revenue and as publications are sent to subscribers the proportionate share is recognized as revenue.

Deferred income taxes

The tax allocation method is followed in providing for income taxes whereby earnings are charged with income taxes relating to reported profits. Differences between such taxes and taxes currently payable, which result from timing differences between the recognition of income and expenses for accounting and tax purposes, principally depreciation, are reflected as deferred taxes in the financial statements.

Consolidated statement of earnings

	Year ended December 31	
<i>(millions of pounds sterling except per share amounts)</i>	1985	1984
Sales (note 2)	1,763	1,735
Cost of sales, selling, general and administrative expenses	1,295	1,258
Depreciation, depletion and amortization:		
Oil and gas properties	38	39
Property and equipment	32	25
Aircraft and spares	12	10
Publishing rights and goodwill	9	7
UK petroleum revenue tax	207	226
Net interest income (note 3)	(6)	(1)
	1,587	1,564
Income before taxes and extraordinary items	176	171
Income taxes (note 4)	62	72
Dividends on preference shares of a subsidiary (note 15)	3	1
Earnings before extraordinary items	111	98
Extraordinary items (note 5)	–	1
Earnings for the year	111	99
Earnings per share		
– before extraordinary items	37.9p	33.5p
– for the year	37.9p	33.7p

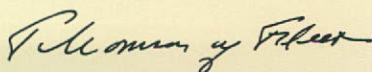
Consolidated statement of retained earnings

	Year ended December 31	
<i>(millions of pounds sterling)</i>	1985	1984
Balance beginning of year	254	191
Earnings for the year	111	99
	365	290
Stock dividend of International Thomson Organisation PLC (ITOPLC)	–	2
Dividends on common shares (note 6)	38	34
Balance end of year	327	254

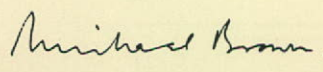
Consolidated balance sheet

	December 31	
<i>(millions of pounds sterling)</i>	1985	1984
Assets		
Current assets:		
Cash and bank term deposits	176	96
Short-term investments, at cost which approximates market	13	38
Accounts receivable	165	206
Inventories (note 7)	68	69
Prepaid expenses and other current assets	60	80
	482	489
Oil and gas properties (note 8)	194	200
Property and equipment (note 9)	167	181
Aircraft and spares (note 10)	188	139
Publishing rights	206	192
Goodwill	84	67
Other assets	29	40
	1,350	1,308
Liabilities and shareholders' equity		
Current liabilities:		
Short-term bank indebtedness	9	15
Accounts payable	199	213
Deferred revenue	123	96
Dividends payable on common shares	19	19
UK petroleum revenue tax	52	80
Income taxes	24	34
Current portion of long-term obligations (notes 11 to 13)	23	13
	449	470
Long-term debt (note 11)	64	71
Limited recourse long-term debt (note 12)	24	8
Capital lease obligations (note 13)	82	24
Provision for site restoration costs	42	36
Other liabilities	49	45
Deferred taxes (note 14)	142	121
Preference shares of a subsidiary (note 15)	40	40
	892	815
Shareholders' equity:		
Share capital (note 16)	83	83
Foreign currency translation gains (note 17)	48	156
Retained earnings	327	254
	458	493
	1,350	1,308

Approved by the board



Thomson of Fleet, *Director*



Michael Brown, *Director*

Consolidated statement of changes in cash position

	Year ended December 31	
<i>(millions of pounds sterling)</i>	1985	1984
Cash provided by (used for):		
Operations		
Earnings before extraordinary items	111	98
Add items not involving cash		
Depreciation, depletion and amortization	91	81
Deferred taxes	22	9
Other	13	(4)
	237	184
Change in non-cash working capital	17	(42)
	254	142
Investing activities		
Acquisition of businesses (less cash* therein of £6 million in 1984)	(110)	(27)
Proceeds on disposal of businesses and investments	26	29
Additions to oil and gas properties	(51)	(45)
Additions to property and equipment, less disposals of £10 million (1984 - £7 million)	(31)	(33)
Additions to aircraft and spares, less disposals of £6 million (1984 - £3 million)	(60)	(61)
	(226)	(137)
Financing activities		
Proceeds from long-term debt	31	54
Obligations incurred under capital leases	83	34
Reduction in long-term debt and obligations	(36)	(76)
Increase in other liabilities	14	19
Proceeds from preference shares issued by subsidiary	-	40
	92	71
Dividends paid on common shares	(38)	(30)
Foreign currency translation (losses) gains	(21)	8
Increase in cash*	61	54

*Cash comprises cash, bank term deposits and short-term investments less short-term bank indebtedness.

Notes to consolidated financial statements

(unless otherwise stated, all figures are in millions of pounds sterling)

1 Accounting policies

A summary of significant accounting policies of International Thomson Organisation Limited (ITOL) and its subsidiaries appears on pages 22 and 23.

The comparative figures have been reclassified to conform with the current year's presentation.

2 Segmented information

ITOL's principal activities are publishing periodicals, books, UK regional newspapers and providing information services; operating leisure airline and travel companies; participating in

the exploration, development and operation of North Sea and other oil and gas fields. The tables below show certain information relating to the principal activities:

<i>Business segment</i>	Sales		Depreciation, depletion and amortization		Operating profit	
	1985	1984	1985	1984	1985	1984
Publishing and information	713	659	26	21	62	42
Travel	600	572	18	14	33	27
Oil and gas(1)	450	504	38	39	96	116
	1,763	1,735	82	74	191	185
Corporate			–	–	(7)	(8)
Amortization of publishing rights and goodwill			9	7	(9)	(7)
			91	81	175	170
Net costs of businesses disposed of or closed					(5)	–
Net interest income					6	1
Income before taxes and extraordinary items					176	171

	Acquisition of businesses		Additions to fixed assets(2)		Assets	
	1985	1984	1985	1984	1985	1984
Publishing and information	110	27	31	34	630	622
Travel	–	6	73	68	295	263
Oil and gas	–	–	54	46	253	277
Funds available for investment, and other	–	–	–	1	172	146
	110	33	158	149	1,350	1,308

<i>Geographic segment</i>	Sales		Operating profit		Assets	
	1985	1984	1985	1984	1985	1984
United Kingdom	1,195	1,227	151	150	752	646
United States	500	442	38	35	488	503
Canada	33	23	1	–	52	86
Other countries	35	43	1	–	58	73
	1,763	1,735	191	185	1,350	1,308

(1) Oil and gas sales are before deduction of UK Government royalties of £51 million (1984 - £54 million).

(2) Additions to fixed assets comprise oil and gas properties, property and equipment and aircraft and spares.

3 Net interest income

	1985	1984
Interest income	(18)	(14)
Interest on long-term debt (including limited recourse debt) and capital lease obligations	15	14
Interest on short-term bank indebtedness	2	1
	(1)	1
Interest capitalized on oil and gas development	(5)	(2)
	(6)	(1)

4 Income taxes

The potential tax benefits arising from approximately £40 million of the accumulated losses in the United States which expire in the years 1992 to 2000, will be included in earnings when realized.

Income tax expense as a percentage of income before taxes of 35.2% (1984 – 42.1%) differs from the Canadian corporate tax rate of approximately 52% due principally to the effect of lower tax rates in the countries where ITOL has the majority of its operations.

5 Extraordinary items

Extraordinary items in 1984 consisted of the net profits on disposal of investments (£21 million), principally Reuters Holdings PLC, and provisions

for costs on the closure or disposal of certain businesses (£20 million), including Thomson Withy Grove Limited.

6 Dividends

The directors of ITOL and ITOPLC declared dividends payable on the following dates on the related common shares of these companies:

	1985	1984
July 15, 1985		
ITOL – US 8.25 cents per share (July 16, 1984 – US 7.25 cents per share)	2	1
ITOPLC – 6.4554p per share (July 16, 1984 – 5.2158p per share)	17	14
January 15, 1986		
ITOL – US 9.25 cents per share (January 15, 1985 – US 8.25 cents per share)	3	2
ITOPLC – 6.4505p per share (January 15, 1985 – 6.4579p per share)	16	17
	38	34

7 Inventories

	1985	1984
Raw materials	9	13
Work-in-progress	6	11
Finished goods	53	45
	68	69

8 Oil and gas properties

	Cost	Accumulated depreciation, depletion and amortization	Net 1985	Net 1984
United Kingdom	332	189	143	121
United States	74	51	23	46
Canada	34	6	28	33
	440	246	194	200

Thomson North Sea Limited (TNS), a wholly owned subsidiary, has a direct interest in the Balmoral field in the United Kingdom. In addition, TNS has entered into a carry agreement with Clyde Petroleum PLC (Clyde) under which it will pay all development costs in respect of Clyde's 9.23% interest in the unitized Balmoral field. Ownership of the assets and rights to production from the 9.23% carried interest in the field rests with TNS until

payout. Payout will be achieved when full reimbursement of the expenditure together with the associated finance costs is received either from income attributable to the carried interest or by payment by Clyde, at their option, of the outstanding balance of the carried interest. Included in the cost of the interest in the Balmoral field is £28 million (1984 - £14 million) in respect of the carried interest.

9 Property and equipment

	Depreciation period	Cost	Accumulated depreciation	Net 1985	Net 1984
Land and buildings	15 to 40 years	85	14	71	82
Machinery and equipment	3 to 25 years	178	82	96	99
		263	96	167	181

10 Aircraft and spares

	Depreciation period	Cost	Accumulated depreciation	Net 1985	Net 1984
Aircraft and spares	14 to 20 years	150	57	93	107
Aircraft under capital leases	20 years	100	5	95	32
		250	62	188	139

11 Long-term debt

	1985	1984
Bank – secured 1986-1998	32	32
Bank – unsecured 1986-1993	32	35
Other – secured 1986-1999	6	9
	70	76
Portion included in current liabilities	6	5
	64	71
<i>Denominated in:</i>		
Pounds sterling	27	23
US dollars	36	47
Other currencies	7	6
	70	76

Secured bank debt bears interest at fixed rates of up to 11%. Interest rates on unsecured bank debt are based on the London inter-bank offered rate (LIBOR).

Long-term debt maturities in each of the next five years are: £6 million in 1986; £14 million in 1987; £11 million in 1988; £9 million in 1989; £30 million in 1990 and thereafter.

12 Limited recourse long-term debt

	1985	1984
Bank	25	11
Portion included in current liabilities	1	3
	24	8

The bank debt is denominated in US dollars, is secured by certain related oil and gas properties and bears interest at rates based on the LIBOR. Oil and gas sales proceeds from the secured properties are committed to repayments of the debt. Based on production estimates, the aggregate

annual maturities are £1 million in 1986, £3 million in 1987, £14 million in 1988, and £7 million in 1989. Any unpaid principal and accrued interest due on this debt is without recourse to ITOL, or any of its subsidiaries, for repayment.

13 Capital lease obligations

Future minimum lease payments, imputed interest, current and non-current obligations at December 31, 1985 are as follows:

1986	19
1987	19
1988	19
1989	19
1990	19
1991	14
	109
Imputed interest	11
	98
Portion included in current liabilities	16
	82

14 Deferred taxes

Deferred taxes comprise the liability for UK petroleum revenue tax of £29 million (1984 – £35 million) and deferred income taxes of £113 million (1984 – £86 million).

15 Preference shares of a subsidiary

In 1984, preference shares were issued by ITOPLC and consist of 40,000,000, 7.94% cumulative redeemable preference shares of £1 each issued to banks at par for cash. ITOPLC has the option to redeem the shares at par at any time. Under an agreement between the banks and another subsidiary, payments will be made

by the banks to that subsidiary or vice versa (as the case may be) compensating for any difference between equivalent market rates prevailing from time to time and the above rate of 7.94%. On or after September 28, 1987 the banks can require ITOL to purchase the preference shares at par.

16 Share capital

	Number of shares issued	Stated amount
ITOL – common shares without par value	292,649,756	80
ITOPLC – common shares with a par value of 1p each related to those of ITOL	292,649,756	3
		83

The authorized share capital of ITOL is an unlimited number of common and preference shares without par value. The directors are authorized to issue ITOL preference shares without par value in one or more series, and to determine the number of shares and terms attaching to each such series. The authorized common share capital of ITOPLC is 300,000,000 shares.

ITOL and ITOPLC related common shares:

Each common share of ITOL has related to it one common share of ITOL's principal UK subsidiary, ITOPLC. The common shares of ITOPLC are transferable only with the related common shares of ITOL. Dividends will be paid on the shares of either ITOL or ITOPLC at the option of the shareholder. These dividends will be paid on the ITOPLC shares unless the shareholder has elected in writing to receive dividends on the ITOL shares.

If the ITOPLC shares have been deposited with Montreal Trust Company as depository of

ITOPLC shares pursuant to a deposit agreement, the holder thereof will be deemed to have elected to receive dividends on the ITOL shares unless he has elected in writing to receive dividends on the ITOPLC shares.

Dividends are payable according to elections in force, notwithstanding transfers of shares. Elections may be withdrawn or new elections made at any time.

Dividends on ITOL shares are payable in US dollars. Dividends on ITOPLC shares are payable in pounds sterling in the same amount based on the pound sterling/US dollar rate of exchange at 3 p.m. in London, England on the business day prior to that on which the dividend is declared.

Dividends on the ITOPLC shares are payable in priority to any dividend on the ITOPLC voting ordinary shares, all of which are held by ITOL.

The ITOL shares are voting shares. ITOPLC shares are non-voting and may be redeemed by ITOPLC at any time at their par value on not less than six months' prior notice.

17 Foreign currency translation gains

	1985	1984
Balance beginning of year	156	74
Net translation (loss) gain for the year	(108)	82
Balance end of year	48	156

The principal rates of exchange used to translate amounts expressed in currencies other than pounds sterling were as follows:

	US\$	Cdn\$
Average 1985	1.30	1.77
Average 1984	1.33	1.73
At December 31, 1985	1.45	2.02
At December 31, 1984	1.16	1.53

18 Contingencies and commitments

(1) Performance guarantees

Indemnities have been given to banks amounting to £28 million (1984 – £24 million) to cover guarantees given by those banks to third parties

covering performance by certain subsidiary companies of their obligations in providing inclusive tour holidays.

(2) Operating lease commitments

Operating lease payments in 1985 and future minimum payments are as follows:
1985, £23 million; 1986, £23 million; 1987,

£22 million; 1988, £20 million; 1989, £19 million; 1990, £17 million; and 1991-2011, £101 million.

(3) Contingent liabilities

There are contingent liabilities in respect of the performance by TNS of its obligations as a member of joint ventures involved in exploring for, developing and operating oilfields in blocks licensed to it in the North Sea, which include that in the event of a failure by any member of the

joint ventures to pay its share of joint venture expenditure, TNS would have a liability to contribute proportionately towards the defaulting party's liability. Amounts so advanced would be secured on the defaulting party's share of the joint venture assets.

(4) Capital expenditure

	1985	1984
Capital expenditure contracted but no related liability incurred at end of year	4	71
Capital expenditure authorized but not contracted for at end of year	15	16
Share of joint venture capital expenditure programs on the North Sea oilfields authorized but no related liability incurred at end of year	50	71
	69	158

19 Acquisitions

In May 1985, Gale Research Company, a Detroit-based publishing and information company providing reference information to libraries and information centers was acquired.

During 1985 other businesses were acquired, the majority of which are involved in publishing and information activities in the United States.

The following is a summary of these acquisitions, which have been accounted for on the purchase basis and where applicable are translated at the exchange rates at the dates of acquisition:

	Gale Research Company	Other	Total
Working capital	5	(4)	1
Property and equipment	8	7	15
Publishing rights	24	39	63
Goodwill	20	14	34
Other assets	—	3	3
Long-term debt	(2)	(4)	(6)
Cost	55	55	110

Publishing and Information

North America

Professional Publishing

Callaghan & Company

Specializing in all types of legal publishing with emphasis on corporate and commercial law, municipal law, federal law, taxation and all aspects of trial and general practice

Clark Boardman Company, Ltd

Publishers of legal treatises, annual handbooks and monthly law reports, specializing in the law of immigration, securities regulation, international transactions, licensing, patents and trademarks, and entertainment

Richard De Boo Publishers

Law and taxation publishers

Thomson & Thomson

Trademark search services

Warren, Gorham & Lamont, Inc

Publishers of professional books, looseleaf services, newsletters, journals and directories, primarily in the fields of tax, banking, business, law, real estate, accountancy, data processing and engineering

"Thomson", the UK-based

Thomson Local Directories cat,

had considerable advertising

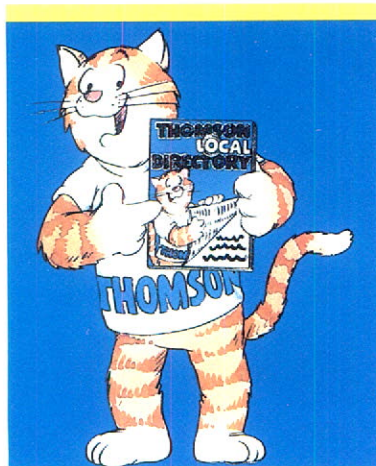
exposure during 1985. Directories,

jointly owned with Dun &

Bradstreet Corporation, continued

to show strong advertising

revenue growth



Education/Reference Books

Delmar Publishers Inc

Educational/vocational

Linguistics International, Inc

Publishers of foreign language, ESL materials and computer science texts

Nelson Canada

Elementary, secondary and college textbooks

NFER-Nelson Publishing Company Ltd

*(based in United Kingdom)
(50% holding)
Measurement and guidance, psychological tests and educational research*

Thomas Nelson & Sons Ltd

*(based in United Kingdom)
Primary, secondary and English language teaching*

Thomas Nelson Australia

*(based in Australia)
Educational and trade*

Van Nostrand Reinhold Company Inc

Professional and reference

Van Nostrand Reinhold (UK) Company Ltd

*(based in United Kingdom)
Professional, reference and college*

Wadsworth, Inc

College textbook publishers

Library Services

Gale Research Company

Providers of reference publications and services

Research Publications Inc

Micropublishing academic and professional reference materials, newspapers, US and foreign patents

UTLAS Inc

Library automation services

Business Magazines

International Thomson Business Press Inc

*Medical division
American Health Consultants, Inc
International Thomson Medical Information, Inc
Med Publishing, Inc
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Patient Care Communications Inc
Veterinary Medicine Publishing Company*

*Industrial division
Huebner Publications, Inc
Ward's Communications, Inc*

*Electronics division
CES Publishing Corporation*

*Communications division
International Thomson Communications Inc*

*Transportation division
International Thomson Transport Press Inc*

InFiNet

American Banker Inc and The Bond Buyer Inc

Information to the financial services community, primarily in the banking, thrift, municipal and public finance industries

AutEx Systems

Providers of electronic information services to brokerage houses, banks and financial institutions

United Kingdom

Newspapers

Thomson Regional Newspapers Ltd

Publishers of 4 daily, 8 evening, 1 Sunday and 17 weekly regional newspapers, and 31 free newspapers

Magazines and Information Publishing

International Thomson Publishing Ltd

*(primarily in the United Kingdom but also internationally)
Publishers of business, trade and technical magazines, directories, municipal hand books, welcome books, municipal budgets and credit information and consumer magazines*

*International subsidiaries include:
Informasjonsforlaget A/S
Mostrups Forlag A/S
RKI A/S
Thomson Communications (Scandinavia) A/S
Thomson Publications Australia
Thomson Publications SA (Pty) Ltd*

Information Services

Derwent Publications Ltd

Publishers of patents and journal literature information services in book, card, microfilm, tape and online formats

ESDU International Ltd

Validated engineering design data and software

Glass's Guide Service Ltd

*(51% holding)
Vehicle pricing information and automotive market intelligence services*

Professional and Reference Publishing

Jane's Publishing Company Ltd

Publishers of defence and transport year books and Jane's Defence Weekly

Professional Publishing Ltd

Publishers for professionals in banking, finance, accounting, taxation and law, primarily in loose-leaf format

Directories

Thomson Directories

*(50% partnership)
Local directory publishers*

A Thomson Vacations Resort Representative at Nassau in the Bahamas. Thomson travel companies' resort reps are there to make certain our customers have everything they need to make their stay enjoyable



Travel

United States

Thomson Travel Inc

*Thomson Vacations Division
Unitours Retail Division
Inclusive tours and travel retailing*

United Kingdom

Thomson Holidays Ltd

Inclusive tour operators

Portland Holidays Ltd

Direct sell inclusive tour operators

Britannia Airways Ltd

Leisure airline

Lunn Poly Ltd

Travel agencies

Oil and Gas

Thomson North Sea Ltd

(United Kingdom)

Thomson-Jensen

(Canadian oil and gas interests in which International Thomson holds a 92.5% interest)

Thomson-Monteith

(United States oil and gas interests in which International Thomson holds a 90% interest)

A drilling operation at Willmar, Saskatchewan by our Canadian based oil and gas partnership, Thomson-Jensen. The well being drilled was completed as an oil producer



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Details of our publications pictured on page 5

Physicians' Desk Reference

(Medical Economics): Most used US source of drug information

Mertens Law of Federal Income Taxation (Callaghan): A major US tax publication

Dangerous Properties of Industrial Materials (Van Nostrand Reinhold): Soon to go into a seventh edition, it is the definitive world-wide reference in the toxic chemical field (US)

Tooling & Production (Huebner): Leading magazine for the US machine tool industry

Ward's Auto World (Ward's): Highly regarded magazine for US automobile manufacturers

The Scotsman (Thomson Regional Newspapers): One of Britain's oldest and most respected regional newspapers

Encyclopedia of Associations (Gale): The original publication of Gale Research (US)

Jane's Fighting Ships (Jane's Publishing): One of Jane's world renowned year-books providing authoritative information and comment on military, naval and transportation subjects

American Banker (American Banker and The Bond Buyer): Leading publication for the US banking community, 150 years old

Foundations of College Chemistry (Wadsworth): A leading US textbook in its field for over 15 years

Canada Tax Service, by Stike-man (Richard De Boo): Continuing analysis of Income Tax Act, with weekly updates

Glass's Guide (Glass's Guide Service): Required reading by UK auto dealers

Institute of Chartered Accountants Taxation Service: Personal Tax (Professional Publishing): One of the information and reference services for practitioners, published with The Institute of Chartered Accountants of England and Wales

Details of publications photographed on page 9

Construction News (International Thomson Publishing): The leading publication in the UK construction sector

Writing and How: The writing component in Nelson Canada's new Networks Program

Allons - Y! (Heinle): The best-selling introductory French text-book on the US market

Pacific Shipper (I T Transportation Press): Weekly information on shipping movements

Derwent Chemical Patents Index: One of the many products of UK-based Derwent, the world's leading source of patent information

Family Circle (International Thomson Publishing): In 1985 it became the highest selling women's monthly magazine in the UK

Consumer Electronics (CES): Leading magazine for US consumer electronics retailers

Drapers Record (International Thomson Publishing): Celebrates its 50th anniversary in 1987, continues to be the major UK publishing force covering the textile retail trade

Medical Economics (Medical Economics): Higher advertising revenues than any other US magazine for physicians

The Journal of Taxation (Warren, Gorham & Lamont): Leading US magazine for tax practitioners

Credit Markets (American Banker and The Bond Buyer): The US fixed income securities weekly

The Bond Buyer (American Banker and The Bond Buyer): US daily newspaper devoted to news of state and municipal securities

Biology, The Unity and Diversity of Life, by Starr (Wadsworth): Best-selling US textbook in the field of biology

Contemporary Authors (Gale): A series featuring biographical information

Computer Fundamentals (Anaheim): Selling over 100,000 copies annually

Details of some of our most recent publishing products (see picture page 13)

Guide to Auditor's Reports (Practitioners Publishing): Acquired 1986 (US)

Home Satellite Marketing (CES): Launched in the US in 1984 and already number one in its market

The Practical Accountant (Warren, Gorham & Lamont): Acquired 1985 (US)

American Insects (Van Nostrand Reinhold): Winner of the prestigious R R Hawkins Award as the outstanding professional and reference publication of 1985, American Insects continues VNR's tradition of excellence

International Financing Review (Professional Publishing): This important recent UK acquisition is the leading international journal of syndicate loans, bonds and futures

Market Intelligence Reports: Middle East Africa: An example of the market intelligence reports published by DMS, a recent acquisition which is part of the UK-based Jane's publishing group

Chester Observer (Thomson Regional Newspapers): Acquired in the UK in 1985 to join its sister paper Chester Chronicle, already owned by TRN

The Building Societies' Gazette (Professional Publishing): The monthly journal of the UK building society movement, acquired in 1985

Hospital Infection Control (American Health Consultants): Timely information to improve hospital infection control procedures

Acquisitions and Mergers: Negotiated and Contested Transactions (Clark Boardman): Introduced in 1985 (US)

Medical Laboratory Products (Medical Economics): Introduced in 1986 (US)

Using Computers in an Information Age (Delmar): The most important new book in Delmar's history, taking it into a new student marketplace (US)

Broadcast (International Thomson Publishing): Recently acquired in the UK and showing major growth in revenue

UTLAS Brochure (UTLAS): The leading library services company in Canada

Real Estate Syndication Handbook (Clark Boardman): One of 15 new publications from Clark Boardman in 1985 (US)

