

# International Thomson Organisation Limited

Annual Report 1986



*International Thomson is a leading information and publishing and leisure travel company with strong interests in 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. We shall develop by enhancing and expanding our existing interests through active product development programs, and by acquiring other suitable businesses, 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 maximizing short term profitability.*

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

The cover picture shows some of the many new publishing products developed or acquired by International Thomson in a record year for acquisitions. Descriptions of these products can be found on page 43

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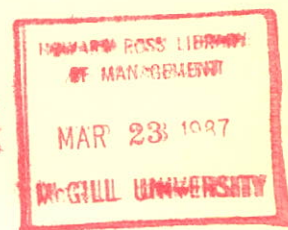
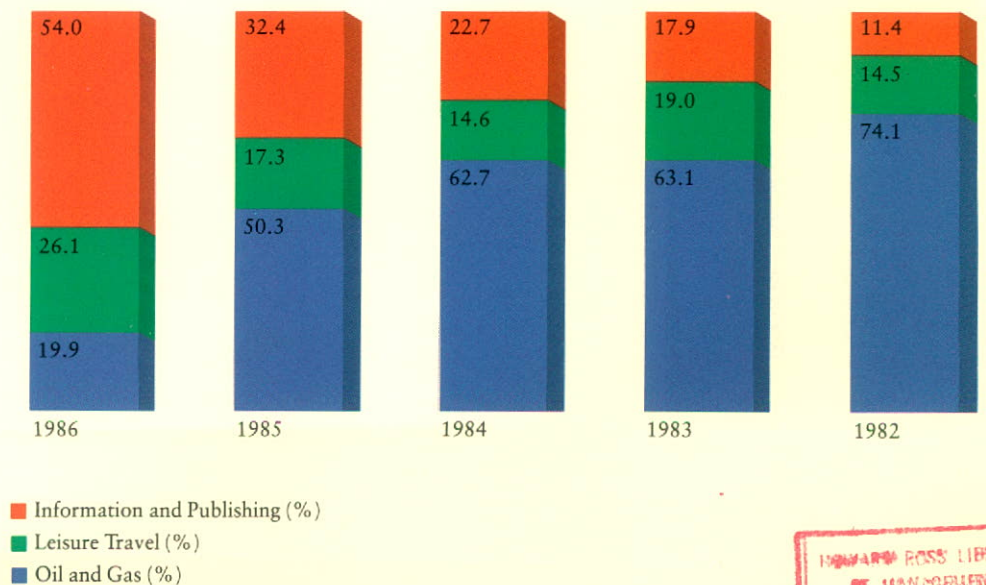
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## Results at a glance

<i>(millions of pounds sterling except per share amounts)</i>	1986	1985
<b>Sales</b>		
<i>Information and Publishing</i>	695	713
<i>Leisure Travel</i>	793	600
<i>Oil and Gas</i>	222	450
	1,710	1,763
<b>Operating profit</b>		
<i>Information and Publishing</i>	87	62
<i>Leisure Travel</i>	42	33
<i>Oil and Gas</i>	32	96
	161	191
<b>Earnings</b>	97	111
Dividends on common shares	36	38
Earnings per common share	32.8p	37.9p

Operating profit (%) by business segment



# Report to Shareholders



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

1986 was a successful year from an operating standpoint. Our information and publishing and leisure travel businesses continued their excellent progress, producing record profits and moving ahead vigorously with their development programs; and production from our North Sea oil fields exceeded our expectations. Financially, however, the year was overshadowed by the fall in oil prices which in turn led to lower Group earnings.

The Group invested £412 million in acquisitions, by far the highest annual figure in its history. Over 25 companies and product lines joined us during the year.

Strategically, we continue to develop our existing strong businesses, primarily in North America and in the UK, placing great emphasis on quality and on achieving leadership positions. We also seek to acquire related high quality businesses, serving our chosen marketplaces.

### **Financial**

Group sales were £1,710 million, compared with £1,763 million in 1985. Income before taxes was £137 million, compared with £176 million. These declines were caused by the fall in oil prices and a stronger pound. Oil prices averaged £9.74 per barrel in 1986, against £20.82 per barrel in 1985.

Earnings were £97 million, compared with £111 million in 1985. Earnings per common share, after deducting the cost of preference dividends, were 32.8p compared with 37.9p.

The payment of the January 1987 dividend was advanced to December 1986, and in future dividends will be paid in June and December. Because of the uncertainty on oil prices, the December 1986 dividend was not increased. The dividend payable in June 1987 has been increased, in US dollar terms, by 8.1%.

In information and publishing, the contribution to the Group's total operating profit increased from 32% to 54%; the operating profit from our North American companies rose from £49 million to £60 million, an increase of 22.4%, and in the UK and elsewhere from £13 million to £27 million, an increase of 107.7%. The operating margin in information and publishing rose to 12.5%, compared with 8.7% in 1985. Operating profit from the leisure travel group increased by 27.3% to £42 million. Oil and gas operating profit fell by 66.7% to £32 million.

Capital expenditure totalled £108 million, mainly in information and publishing and oil and gas. £412 million was spent on acquisitions, of which £138 million was for Cordura Corporation and £179 million for South-Western Publishing Co.

During the year, the Group raised £196 million, net of costs, from the issue of Canadian preference shares. Long term debt and capital lease obligations rose by a net £169 million to £339 million, but the Group continues to be in a strong financial



International Thomson Professional Publishing are publishers of subscription-based information for professional audiences in the fields of law, tax, banking/financial services, real estate, data processing, engineering and trademark search services

position with net cash balances at the end of the year of £248 million, £68 million above those at the end of 1985.

In October, shareholders approved a restructuring of the Group's interests in the UK, and this is expected to produce financial benefits in the years ahead.

### Strategy and Development

We have set out the Group's strategy in some detail in previous reports and it remains essentially unchanged. In recent years our major challenge has been to develop further our information and publishing and leisure travel businesses, so as to replace the declining earnings contribution from oil and gas as the inevitable fall in North Sea production occurred. The decline in oil prices has further underpinned this priority, and we are having a substantial measure of success in achieving our objective.

We believe in product quality and service and in market leadership positions. These are important to our long term growth and stability. We are determined that, in all the industries and sectors we serve, we will be amongst the most efficient and profitable operators.

In information and publishing, we were pleased that Cordura Corporation, now trading as Mitchell International, and South-Western Publishing Co joined us, providing new strategic bases.

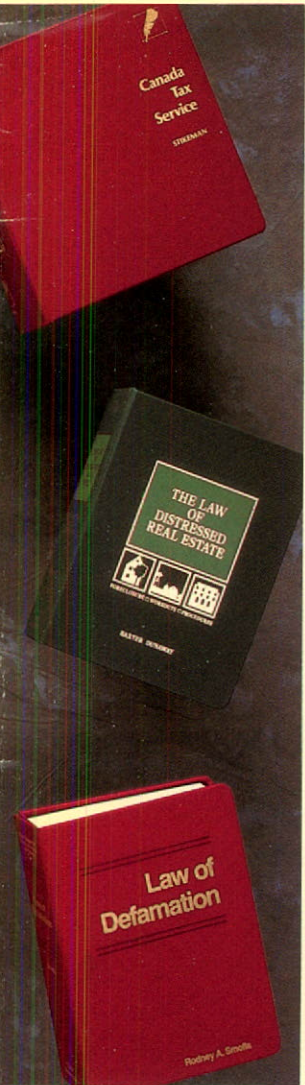
Mitchell publishes the leading range of manuals in the US for the automobile repair industry and estimating data for the casualty insurance industry. This association takes us into an attractive subscription-based sector of high interest which we intend to develop vigorously.

South-Western, the leading US publisher of business books for high schools and colleges, materially expands our specialized book activities and makes us the third largest college publisher in the US.

In addition to these larger strategic acquisitions, we are delighted that several other businesses joined us, as well as a number of individual products. These relate closely to existing areas of interest and will strengthen our market positions.

Our programs of new product creation and enhancement, the costs of which were expensed, continued at a record level. Following the refocusing in the UK in 1985, considerably more new launch activity was undertaken there, and in North America a further increase in expenditure on new products took place. While there is an element of risk with all new products, our success rate in 1986 was excellent.

In leisure travel, we successfully embarked on a program to increase materially the size and competitiveness of our UK tour operating business. We enhanced our services and created new products, most notably the major Skytours program. Against a background of intense competition and a major increase in our market share, the improvement in the leisure travel group's profit, including interest, by





International Thomson Business Press is one of North America's leading publishers of business and professional magazines with over 40 advertising-supported periodicals plus directories, newsletters and other information services in the medical, automotive, industrial, transportation and retail markets



49% to £60 million, was an outstanding achievement. We believe that we have firmly established Thomson Travel as the leading and most innovative tour operator in the UK.

In the North Sea, the Scapa field came on stream on schedule in November, while the Balmoral field's first production, also in November, was some three months ahead of schedule. The development costs of both projects were very close to their original budgets. Because of the uncertainty surrounding oil prices, we did not commit to further developments in 1986. However, we continued exploration drilling, particularly in the North Sea, where we participated in seven wells – of which two were successful – with a view to building up reserves for the future.

### Management and Staff

Our success in information and publishing and leisure travel and the containment of the problems created by the fall in oil prices, were achieved as a result of the excellent performance of the Group's staff at all levels. With the decline in the contribution to earnings from oil, we recognize that our future growth will more than ever be dependent on our own efforts.

We are paying ever greater attention to executive training and development. In addition to having programs at group level to provide successors for the most senior positions, our operating companies now have programs to provide for succession at middle management level.

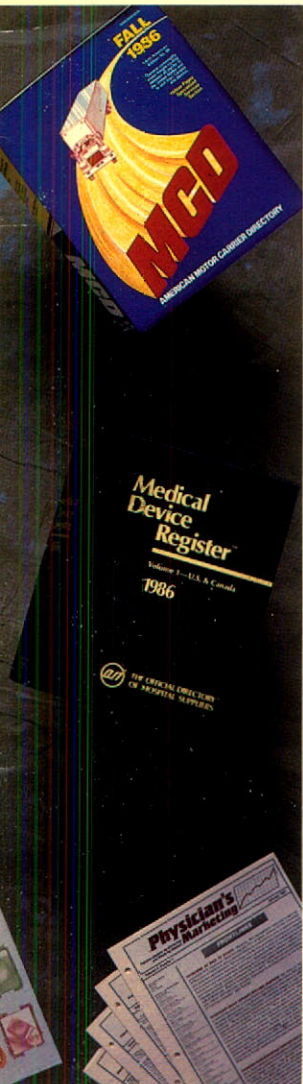
During the year we completed our organizational restructuring with the appointment of Robert Jachino as President and Chief Executive of our information and publishing activities world-wide. We now have three operational groupings, each with its own chief executive, in information and publishing; in leisure travel; and in oil and gas. Following a number of changes to strengthen management, we now go forward with a proven and experienced executive group, operating through a decentralized structure.

As a consequence of the restructuring of our UK activities, we lost the services of James Evans, who had worked for the Group for almost 30 years, most recently as Chairman and Chief Executive of its principal UK subsidiary. He was an outstanding executive and made a major contribution to the Group.

We were saddened by the death of James Coltart at the age of 82. He was a close colleague of the first Lord Thomson, and retired in 1976 as Deputy Chairman. As the Group's first Managing Director, he was a leading figure in its early development, and in the communications industry in the UK and overseas.

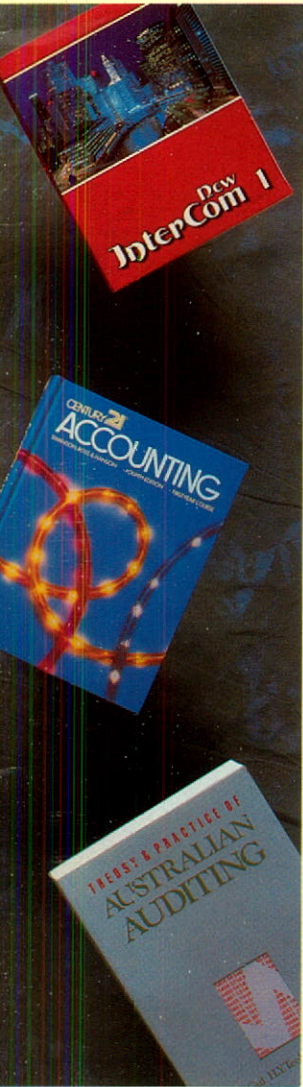
### Outlook

We feel positive about our future prospects. Our information and publishing activities are firmly established to provide growing profits and cash flows of high quality. We see continuing opportunities in our marketplaces. We have strong bases





International Thomson Publishing serves world-wide markets in the education, professional/reference and library fields



on which to build and to grow organically through continued investment in new product development, and this will remain a high priority to secure our long term growth. Furthermore, to strengthen our existing operations, we will continue to seek to acquire suitable products which fit with the businesses we have and the markets we serve. Such tactical acquisitions, which relate closely to our existing businesses, can add significantly to profitability and will remain an important element in our development.

We will continue to pursue strategic opportunities to take us into new areas of information and publishing, although we recognize that it may be increasingly difficult to make such acquisitions on acceptable terms.

In leisure travel, our strategy to raise volumes, and so enjoy cost levels which our competitors find difficult to match, will continue. We aim to provide exceptional value for money and service to our customers. We see revenues rising and are determined to translate this into larger and better quality profits and cash flows, and to be the best in the industry.

While there are potentially profitable opportunities open to us, so long as uncertainty remains on oil prices we will be cautious about further major oil and gas investment. Selective exploration drilling will continue, especially in the North Sea, as this gives us the potential for an increase in the value of reserves discovered should prices rise, while not entailing immediate major investment. Production from the Piper and Claymore fields will decline rapidly and, as a result, oil and gas will not have the financial significance in the future which it has had in the recent past, although we see a useful ongoing contribution being generated.

We expect that by the early 1990s over half our profits will be generated from North America, with most of the remainder arising in the UK. By then oil and gas will be a much smaller proportion of our total profits, limiting our exposure to this sector but still giving us potential; leisure travel will be a materially larger, higher quality business; and information and publishing will be providing a substantially larger share of our profits. We expect our activities to continue to generate excellent cash flows. We look to the future with confidence.

Thomson of Fleet  
Chairman

Michael Brown  
President

*On pages 10 to 24 the Report on Operations deals with our interests in Information and Publishing, Leisure Travel and Oil and Gas in more detail.*

# Report on Operations



InFiNet (International Financial Networks) offers high-utility information to the professional financial community, through the provision of print and electronic services

# Information and Publishing

The Group's information and publishing interests are now organized into six operating groups. International Thomson Professional Publishing, International Thomson Business Press, International Thomson Publishing and InFiNet (International Financial Networks) operate primarily in North America, while Thomson Regional Newspapers and Thomson Information Services are based in the UK and operate primarily outside North America. Each grouping has clearly defined objectives which conform with the Group's strategic aims.

In total, the information and publishing group has over 13,000 individual products. These include 106 magazines, 70 newspapers, over 10,500 books and directories, 52 electronic services and over 2,000 other products, mainly journals and abstracts, looseleaf services and microfiche.

1986 was a successful trading year with increased operating profit. A feature of the year was the scale of our acquisition program. In addition to the strategic acquisitions of Cordura Corporation and South-Western Publishing Co, eight important tactical acquisitions were completed, as well as a number of individual publications and product lines. At the same time several relatively minor activities which were no longer consistent with the Group's aims were sold.

Our active new product development programs continued, with close to £20 million being expensed.

## **International Thomson Professional Publishing**

International Thomson Professional Publishing (ITPP) provides high quality reference information and services to business and professional audiences. 1986 was a year of record sales and profits and over 100 new products were successfully launched.

All companies in this grouping serve the legal sector, and in addition address a wide range of specialities including taxation, trademarks, accounting, banking/financial services, engineering, data processing and real estate.

Warren, Gorham & Lamont (WG&L) had a record year with the largest increase in both sales and profits in its history. Practitioners Publishing Company, which publishes for accountants and joined WG&L early in 1986, enjoyed exceptional growth. Management Reports, publishers of newsletters for bankers and attorneys, and the 'Housing and Development Reporter' in real estate, also joined WG&L during the year.

Callaghan & Company, Clark Boardman Company and Richard De Boo Publishers all enjoyed their best years ever. Callaghan continued to increase its list and successfully launched a major revision of its classic work, 'Mertens Law of Federal Income Taxation'. Clark Boardman introduced 15 new publications to broaden and strengthen its product line, and was joined by the Taft Group, publishers for non-profit organizations. Richard De Boo successfully published 20 new publications.

Thomson & Thomson strengthened its well established position in trademark research by offering further new products and a faster service, while maintaining the highest quality in its search reports. During the year Compu-Mark International,





Thomson Regional Newspapers, the leading regional newspaper group in the United Kingdom, consists of one Sunday, four morning, eight evening and over 50 weekly papers, including some of the most prestigious titles in Britain

a Belgium-based trademark research company, joined ITPP. We believe that there are excellent prospects for further growth in trademark research.

ITPP continues to emphasize development both organically and through acquisitions, and its plans for 1987 will ensure that the momentum of recent years is maintained.

#### **International Thomson Business Press**

International Thomson Business Press (ITBP) now comprises five divisions – Medical, Retail, Industrial, Transportation and Mitchell International. In 1986 ITBP achieved sales growth in its core businesses and broadened its base with a number of important acquisitions.

In a difficult market, Medical Economics maintained its number one industry position. During the year it was joined by McKnight Medical Communications, expanding the division's influence into nursing homes and medical distributors; and by Directory Systems, publishers of 'Medical Device Register', an annual compendium of medical equipment and company information.

The Retail division, although adversely affected by the decline in advertising by Japanese consumer electronics manufacturers, ended the year in a stronger position. 'Consumer Electronics Monthly' maintained its market-leading position, and 'Video Business' had another record year. During the year several publications joined the division, extending its range into toys, non-food merchandising, floor coverings and convenience stores.

The Industrial division continued to suffer from weak manufacturing advertising, but Ward's Communications had another excellent trading year and strengthened its publishing thrust with the successful launch of 'Ward's Automotive International', a subscription newsletter for automobile executives world-wide.

The Transportation division, which achieved an improvement in profits, was further strengthened by the addition of 'Pacific Traffic', 'Motor Carrier Directory' and 'Traffic World', and the successful launch of 'Electronic Shipping News'.

Mitchell International, which provides automobile repair and collision estimating data services, has been reorganized to take advantage of the growing opportunities available in the automobile trade, as well as in the provision of information services to insurance companies. Mitchell's revenue is primarily subscription-based and its addition improves the balance between advertising and subscription revenue for ITBP as a whole.

In 1987 ITBP intends to continue to strengthen its core businesses through carefully planned development programs and, where available, high quality tactical acquisitions.

#### **International Thomson Publishing**

International Thomson Publishing (ITP) embraces the Group's specialized book publishing and library services activities world-wide.

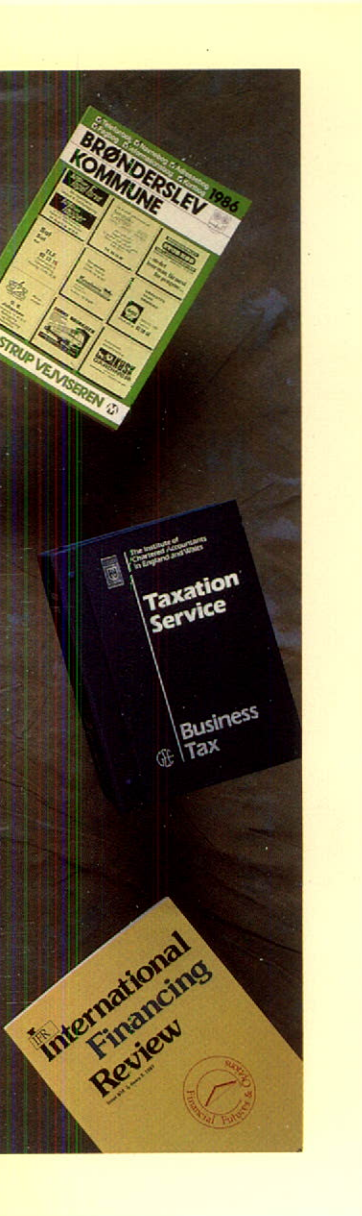
The refocusing of the US college publishing operations mentioned in last year's report brought the expected gains in market share, and Wadsworth in particular





Thomson Information Services consists of magazines, information services, professional and reference publishing and local directories based in the United Kingdom and other countries outside North America





enjoyed a good year. Delmar Publishers achieved planned growth with profit substantially above the 1985 level.

The most significant event of 1986 was our new association with South-Western Publishing Co, the leading North American high school and college publisher in business education. It enjoys strong market shares in typewriting and accounting courses in secondary and proprietary schools. Operating profit from the book companies will be almost doubled as a result of this acquisition, and it makes ITP the third largest college publisher in the US.

Other new associations strengthening our business included Merton Publishing Company, a travel and tourism publisher, which joined Delmar, and the AVI food service and food technology list, which joined Van Nostrand Reinhold.

Nelson Canada, a leading schools publisher, enjoyed another good year. The company is investing heavily in new publishing programs which should result in major growth in the future. Outside North America, education markets were weak, but the UK and Australian education/reference publishing companies achieved planned profits.

In library services, Gale Research Company, in its first full year with us, published a record number of new products and achieved excellent results in difficult market conditions. The IMS 'Directory of Publications' joined Gale during the year and will further strengthen ITP's position in the library market.

Research Publications, a microform publisher of library reference materials, again achieved excellent results.

#### **InFiNet (International Financial Networks)**

This grouping now comprises AutEx Systems, a provider of electronic information services mainly to brokerage houses and financial institutions in North America; American Banker and The Bond Buyer, which were transferred from ITPP early in 1986; and two recent additions, Technical Data Corporation and Business Research Corporation.

AutEx completed a major upgrade of the computers on its principal service, the Trading Information System, resulting in increased throughput and improved responsiveness to customers' requirements, and developed several new print products. Profits were substantially above the 1985 level.

American Banker/The Bond Buyer had another profitable year and launched a new publication, 'Banking Week'. In the mortgage-backed securities field, the company strengthened its base by acquiring Mortgage Commentary Publications and the interest of a joint venture partner in Lloyd Bush.

Technical Data Corporation, a publisher of time-sensitive financial information and developer and supplier of micro-computer software, and Business Research Corporation, a business database designer that delivers an on-line database containing company and industry research reports, brought added depth and potential to InFiNet through their products in the fixed income and equity markets.

Overall, InFiNet made a significant contribution to profits and took further important steps towards becoming a major provider of information services to the

professional financial community. In this rapidly changing and developing environment, prospects for further profitable growth, both through new product development and by acquisition, are excellent.

#### **Thomson Regional Newspapers**

Thomson Regional Newspapers' (TRN) highest priority in 1986 was to make substantial progress in the use of computers in its ten publishing centres. By the year-end the commercial operations in seven centres were fully converted to the direct use of computers and in five of these journalists are also inputting their material directly. In the three remaining centres, modern equipment is being used only partially, but it is intended that it will be in use fully in all centres by the end of 1987. A provision has been made in the 1986 earnings for the associated redundancy costs. With modern production methods, staffing was reduced by a further 8%, significantly improving productivity.

1986 was a year of further improvement in TRN's profitability, with sales increasing by 6% and operating margins improving further to 13.4%.

Although it was generally a sluggish year for the circulations of provincial newspapers, 'The Scotsman', 'Evening Gazette' (Teesside) and weekly newspapers in Cheshire and South Wales achieved increases.

During the year Edinburgh benefitted from increased financial advertising, while retail developments in the region and improved productivity set Newcastle on a growth path for the future. Excellent progress was made in merging the operations of our two companies in Chester, and this development will be concluded in 1987. Cardiff is well placed for new sales initiatives in 1987. In Aberdeen the fall in oil prices depressed the local economy and had an adverse impact on our titles. However, speedy corrective action was taken and there were signs towards the year-end that trading performance was improving once again.

With the completion of the new technology demanning program in 1987, we are confident that the foundation will have been laid for a prosperous and expanding future.

#### **Thomson Information Services**

Magazines, information services, professional and reference publishing and local directories based in the UK and other countries outside North America are managed by Thomson Information Services Limited (TISL).

1986 was a year of considerable progress for TISL with a significantly increased operating profit. Many new publications and services were launched during the year and the thrust of TISL is now one of development and growth.

UK business magazines moved ahead strongly, firmly based on the core publications – 'Construction News', 'Drapers Record', 'Meat Trades Journal', 'Retail Jeweller' and 'Broadcast'. Successful innovations included full colour in 'Construction News' and the launches of 'Invision' and 'Building Trades News'. Early in 1987, Glenigan Limited, the UK's foremost provider of contract information services to the building and construction industry, joined TISL.

'Family Circle' and 'Living', our two specialized consumer magazines, both had excellent years with circulation and profit gains.

Our companies in Scandinavia and Australia all showed good profit gains and Karnov, the Danish legal service, joined the group.

Glass's Guide (51%) had an excellent year with many new developments including the relaunch of the Palgrave repair manuals.

Derwent Publications achieved further growth in profits and is investing heavily in new product development to enhance its market-leading position in patents. In 1986 an additional 820,000 abstracts were loaded on to the searchable database.

With uncertainty in the level of defence industry spending, Jane's Publishing had a difficult year. Nevertheless, Jane's consolidated its position as a leading international provider of defence information, and 'Jane's Defence Weekly' increased market share.

Professional Publishing Limited had a successful year, publishing in the areas of accounting, taxation and financial services. 'International Financing Review' increased circulation markedly and is benefitting from the new information opportunities in the financial services industry.

Thomson Directories, jointly owned with Dun & Bradstreet Corporation, continued to develop and expand its local directory publishing business with increased usage and another year of very strong sales growth.

## **O u t l o o k**

1986 saw major growth and a strengthening of the Group's information and publishing bases. An important task for 1987 is to assimilate successfully businesses that have joined us recently, while continuing our active new product development programs. We plan to spend some £30 million on creating new products across the group.

We will continue to pursue attractive potential acquisitions aggressively but, as the process of concentration in the industry continues, these will become more difficult to find, and the emphasis will increasingly be on internally generated new product development to increase market shares, and on improving productivity still further.

We believe that there are still many attractive opportunities in the markets we serve and our expectation is that the information and publishing group will continue to grow in the years ahead.



Thomson Travel, one of the world's leading leisure air travel and holiday groups, with sales of £793 million, had an outstanding year in 1986, with the number of tour operating passengers carried increasing from 1.8 million to 3 million

## Leisure Travel

Thomson Travel is one of the world's largest leisure travel groups and the leading company by a substantial margin in the large and growing UK market for overseas holidays. The principal companies in the group are Thomson Holidays, Portland Holidays, Britannia Airways and Lunn Poly in the UK, and Thomson Vacations in the US.

1986 was an outstanding year – a year in which we made substantial volume gains in all our UK businesses; gained a record market share in tour operating while at the same time maintaining quality levels; and, not least, made record profits.

Our established UK holiday brands, Thomson Holidays and Portland Holidays, made substantial volume gains in a fiercely competitive market environment, which saw lower overall holiday prices in the main summer 1986 season compared with summer 1985.

The number of tour operating passengers carried increased from 1.8 million to 3 million. Thomson Travel is now the largest inclusive tour operator in the world. Thomson Holidays is the UK's leading brand, carrying one in four of all inclusive tour holidaymakers. Portland Holidays is the UK's largest operator selling holidays direct to the public, and the fourth largest brand in the inclusive tour market as a whole.

1986 saw the launch of Simply Greece, offering inexpensive holidays to Greece and the Greek Islands using basic accommodation in tavernas, apartments and village rooms. In total, 100,000 Simply Greece holidays were sold in its first season.

In addition, we relaunched the Skytours brand, which had remained dormant since the early 1970s, to compete in the budget end of the market. In nine months of trading, Skytours carried 170,000 holidaymakers, making it the most successful launch ever of a new brand.

In total, our year-round UK market share increased to an estimated 29.5% (1985 20.0%), giving us a lead over our nearest competitor of around twelve share points.

In spite of unprecedented increases in volume in the period of a single year, Thomson Holidays set new quality standards for the inclusive tour industry with the introduction of a new range of customer guarantees – the Thomson New Deal. Furthermore, customer satisfaction, as measured by our questionnaires, showed that quality had been maintained at very similar levels to the record we achieved in 1985.

Thomson Holidays once again was voted the top tour operator by travel agents in the two trade newspaper surveys, and Britannia Airways was voted the best charter airline. In the widely read 'Woman' magazine annual survey, Portland Holidays was voted the top tour operator with Thomson Holidays a close second.

The year also saw a further substantial investment in technology. An additional Amdahl computer was delivered in November and this allowed for a substantial



increase in the number of lines on TOP, Thomson Holidays' computerized reservations system. Accordingly, at the end of the year, travel agents were asked to make all bookings – with minor exceptions – on TOP. This is proving very successful.

Britannia Airways had a most successful year with carryings up 28% to 5.5 million, excellent utilization levels and record profits. With the strong growth of the summer 1986 market, Britannia obtained the necessary additional capacity through short-term leases. Its fleet of Boeing 737s and Boeing 767 wide-bodied aircraft achieved excellent increases in utilization over 1985 levels. Britannia Airways is Britain's leading leisure airline and the second largest in the UK for international passenger carryings. Although the large increases in volume demanded additional manpower, major gains in productivity associated with the increased utilization were achieved.

In addition to servicing the mainstream business, we continued to generate secondary but substantial revenues, which included the sale of goods on board the aircraft; maintenance of third party aircraft at Britannia's large engineering facility at Luton; training of other airlines' personnel, particularly on Britannia's two flight simulators; and ground handling for other companies. In 1986 such activities provided 21% of total contribution.

Quality standards were maintained at high levels throughout the year. The results from questionnaires given to passengers on all airlines servicing Britannia's major customer, Thomson Holidays, consistently recorded the airline's performance as superior to that of its competitors. Other statistics showed that Britannia continued to lead the field in its on-time departure record.

1986 was Lunn Poly's most successful year in terms of profits, sales volumes and market share growth. Sales revenue increased by 31% in a year when average prices were down 8%. 1986 saw a continuation of the build-up of the Lunn Poly retail travel chain of Holiday Shops. The number of shops was increased by 38, bringing the total chain to 243 shops by the year-end. Sales productivity increased substantially during the year both in terms of sales per employee, which improved by 32%, and sales per shop, which improved by 28%. With the sale of Lunn Poly's commercial

travel division in early 1986, management's effort is now concentrated on Lunn Poly becoming the major force in the UK in the sales of overseas inclusive tours.

In the US, 1986 was somewhat disappointing. Although the division was profitable and Thomson Vacations increased profitability on carryings similar to 1985, the Unitours retail division had a most difficult year, due to the well-publicized reduction in the number of American tourists travelling to Europe, and the lower margins made on domestic air tickets resulting from the continuing price wars between the major airlines.

### **Outlook**

We expect 1987 to be a good year, although the UK market is expected to show less growth than in 1986. Winter 1986/87 is performing strongly, with our volume sold running 40% higher than last year. For summer 1987, market bookings started strongly and at the year-end we had confirmed bookings of over one million holidays, against 800,000 at the end of 1985 for the summer 1986 programs.

Sales of the Skytours brand, in only its second year, are already above those achieved for the whole of the 1986 program.

Britannia Airways will operate with significantly increased capacity in 1987, all of which is fully committed for the summer. A fifth Boeing 767 will join the fleet in spring 1987 with a sixth contracted for delivery in 1988.

In the US, Thomson Vacations has started the year strongly with its high season winter 1986/87 program selling very strongly.

Overall, the outlook is encouraging.



Major interests of the oil and gas group include shares in the Piper, Claymore, Scapa and Balmoral fields, all of which are situated in the North Sea

<i>(millions of barrels)</i>	Piper field	Claymore field	Scapa field	Total
<i>Original proved reserves based on current estimates</i>	951.8	441.5	39.7	1433.0
<i>ITOL's share of original proved reserves</i>	190.4	88.3	7.9	286.6
<i>Remaining ITOL share as at December 31, 1986</i>	38.6	30.8	7.0	76.4



The precipitous fall in oil prices during 1986 seriously impacted our oil and gas businesses in both the UK and North America. With the average sterling oil price falling to £9.74 per barrel, from £20.82 per barrel in 1985, and a 7% decline in oil production, the operating profit of the oil and gas group fell sharply. Despite some firming of prices towards the year-end, we remain cautious and have written down the value of our North American oil and gas reserves by £6.0 million, and this was expensed.

Our UK activities continued to dominate the oil group with Thomson North Sea (TNS) having a successful year, oil prices apart. Production from the Piper, Claymore and Scapa fields, in which TNS has a 20% interest, averaged 262,000 barrels per day in 1986 compared with 277,000 barrels per day in 1985, despite a two week shut-down in December caused by a pipeline leak. The leak, which occurred following a failure of a welded joint in the Claymore pipeline, was repaired without difficulty.

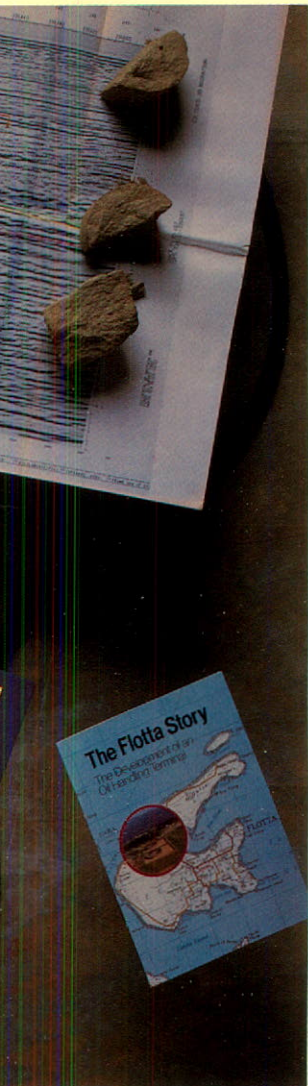
Both Piper and Claymore, our two major fields, continued their excellent performance, declining at a slower rate than we had expected. In their year-end report, independent petroleum consultants DeGolyer and MacNaughton increased their estimates of original proved reserves in Piper by 27.3 million barrels to 951.8 million barrels and in Claymore by 50.4 million barrels to 441.5 million barrels. As at December 31, 1986 cumulative production from these fields amounted to some 80% and 65% respectively of the new reserve estimates.

The Scapa field, five miles to the south-west of Claymore, contributed 8,000 barrels per day to production in 1986. The subsea template and processing facilities on the Claymore platform were completed on schedule and first oil production via the template commenced in November. DeGolyer and MacNaughton's estimate of original proved reserves in the field was slightly reduced to 39.7 million barrels.

A summary of DeGolyer and MacNaughton's reserve estimates for Piper, Claymore and Scapa as at December 31, 1986 are shown in the table opposite.

The Balmoral development project in which TNS has a 7.4% interest, and is carrying Clyde Petroleum for its 9.2% interest, came on stream in November, three months ahead of schedule. The final capital development cost was only 2% above the original estimate. The field is presently producing close to its peak rate of 35,000 barrels per day. The operator's estimate of original proved reserves remains unchanged at 68 million barrels, of which the Group's share is 5 million barrels.

In common with the rest of the industry, our UK exploration activity in 1986 was curtailed due to the fall in oil prices. TNS participated in seven exploration and appraisal wells, compared with 13 in 1985. Nevertheless, notable successes were



recorded in our North Birch prospect, block 16/12a, where a new discovery well tested oil at more than 12,000 barrels per day and gas at 7 million cubic feet per day; and in our South-East Piper field, block 15/17, where an appraisal well tested oil at 5,800 barrels per day. Techniques to develop economically these and the other small fields in which we have an interest – Glamis, South Birch and Galley – are under investigation.

In the First Round of Onshore Licensing, TNS was awarded three licenses which supplemented our offshore interests in 27 blocks. Exploration and appraisal drilling both onshore and offshore will continue in 1987 and nine wells are currently planned. In the Tenth Round of Offshore Licensing which closed on February 17, 1987 TNS applied as a member of five consortia. The announcement of awards is expected in the summer.

In Canada, despite success in exploration drilling which increased our oil reserves, the fall in oil prices led to the Thomson-Jensen partnership recording a loss for the year overall. As a consequence, exploration has been curtailed and only modest new development spending is planned.

The performance of our Thomson-Monteith partnership in the US was satisfactory. Gas sales from the Corinne field in Mississippi exceeded our expectations and generated substantial cash flows. The value of our oil properties, however, was reduced by the fall in oil prices and, as a result, Thomson-Monteith recorded a loss overall for the year.

## **Outlook**

After the traumatic events of 1986, we are hoping for firmer, more stable oil prices in 1987. A promising start has been made, but the outcome will depend on the continued adherence of OPEC members to their production quotas.

While the uncertain climate persists, we shall continue to evaluate exploration and development opportunities with caution. Our attention will be focused primarily on our activities in the UK, where we enjoy a favourable tax position, with the aim of building up reserves for future development.

## Financial Information

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32	Consolidated statement of changes in cash position
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**Five year summary**

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**Consolidated statement of earnings**

<i>(millions of pounds sterling except per share amounts)</i>	1986	1985	1984	1983	1982
Sales	1,710	1,763	1,735	1,504	1,334
Earnings	97	111	99	72	52
Dividends on common shares	36	38	34	25	19
Earnings per common share	32.8p	37.9p	33.7p	25.6p	18.5p

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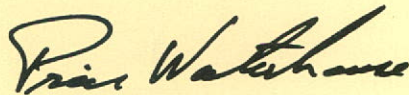
**Consolidated balance sheet**

<i>(millions of pounds sterling)</i>	1986	1985	1984	1983	1982
<b>Assets</b>					
Current assets	594	482	489	404	322
Oil and gas properties	213	194	200	180	154
Property and equipment	190	167	181	153	129
Aircraft and spares	171	188	139	92	72
Publishing rights	420	206	192	142	113
Goodwill	218	84	67	49	34
Other assets	28	29	40	33	30
	1,834	1,350	1,308	1,053	854
<b>Liabilities and shareholders' equity</b>					
Current liabilities	491	449	470	441	364
Long-term debt and obligations	339	170	103	80	88
Provision for site restoration costs	47	42	36	32	28
Other liabilities	70	49	45	32	27
Deferred taxes	151	142	121	121	117
Preference shares of a subsidiary	40	40	40	—	—
Shareholders' equity	696	458	493	347	230
	1,834	1,350	1,308	1,053	854

To the shareholders of International  
Thomson Organisation Limited

We have examined the consolidated balance sheet of International Thomson Organisation Limited as at December 31, 1986 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, 1986 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 4, 1987

### 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.

### Foreign currency translation

The consolidated financial statements are expressed in pounds sterling. Assets and liabilities denominated in currencies other than pounds sterling are translated at December 31 rates of exchange. The results of operations denominated 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 or net realizable value. Cost of certain information and publishing inventories is determined on a last-in, first-out basis and a first-in, first-out basis is used for all other inventories.

### 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 over periods not in excess of 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 due in advance is included in deferred revenue until the date of tour departure.

Subscription revenue due in advance is included in deferred revenue and as information services are rendered or publications are delivered 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

<i>(millions of pounds sterling except per share amounts)</i>	Year ended December 31	
	1986	1985
Sales	1,710	1,763
Cost of sales, selling, general and administrative expenses	1,417	1,295
Depreciation, depletion and amortization:		
Oil and gas properties	37	38
Property and equipment	31	32
Aircraft and spares	13	12
Publishing rights and goodwill	12	9
UK petroleum revenue tax	65	207
Net interest income (note 3)	(2)	(6)
	1,573	1,587
Income before taxes	137	176
Income taxes (note 4)	37	62
Dividends on preference shares of a subsidiary (note 14)	3	3
Earnings	97	111
Earnings per common share*	32.8p	37.9p

## Consolidated statement of retained earnings

<i>(millions of pounds sterling)</i>	Year ended December 31	
	1986	1985
Balance beginning of year	327	254
Earnings	97	111
	424	365
Preference share issue expenses	3	—
Dividends on preference shares of ITOL (note 5)	1	—
Dividends on common shares (note 5)	36	38
Balance end of year	384	327

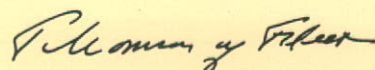
\*Earnings per common share are calculated after deducting dividends on preference shares of ITOL.



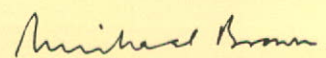
## Consolidated balance sheet

	December 31	
<i>(millions of pounds sterling)</i>	1986	1985
<b>Assets</b>		
Current assets:		
Cash and bank term deposits	186	176
Short-term investments, at cost which approximates market	68	13
Accounts receivable	171	165
Inventories (note 6)	101	68
Prepaid expenses and other current assets	68	60
	594	482
Oil and gas properties (note 7)	213	194
Property and equipment (note 8)	190	167
Aircraft and spares (note 9)	171	188
Publishing rights	420	206
Goodwill	218	84
Other assets	28	29
	1,834	1,350
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Short-term bank indebtedness	6	9
Accounts payable	239	199
Deferred revenue	173	123
Dividends payable on common shares	—	19
UK petroleum revenue tax	13	52
Income taxes	24	24
Current portion of long-term obligations (notes 10 to 12)	36	23
	491	449
Long-term debt (note 10)	224	64
Limited recourse long-term debt (note 11)	49	24
Capital lease obligations (note 12)	66	82
Provision for site restoration costs	47	42
Other liabilities	70	49
Deferred taxes (note 13)	151	142
Preference shares of a subsidiary (note 14)	40	40
	1,138	892
Shareholders' equity:		
Share capital (note 15)	282	83
Foreign currency translation gains (note 16)	30	48
Retained earnings	384	327
	696	458
	1,834	1,350

Approved by the board



Thomson of Fleet  
Director



Michael Brown  
Director

## Consolidated statement of changes in cash position

<i>(millions of pounds sterling)</i>	Year ended December 31	
	1986	1985
Cash provided by (used for):		
Operations		
Earnings	97	111
Add (deduct) items not involving cash		
Depreciation, depletion and amortization	93	91
Deferred taxes	9	22
Other	(4)	18
	195	242
Change in non-cash working capital	13	17
	208	259
Investing activities		
Acquisition of businesses, less cash therein of £26 million (1985 – nil)	(386)	(110)
Proceeds from disposal of businesses and investments	26	26
Additions to oil and gas properties, less disposals of £1 million (1985 – nil)	(56)	(51)
Additions to property and equipment, less disposals of £9 million (1985 – £10 million)	(37)	(31)
Additions to aircraft and spares	(5)	(66)
Proceeds from disposal of aircraft	14	12
	(444)	(220)
Financing activities		
Proceeds from long-term debt	210	31
Obligations incurred under capital leases	—	83
Repayment of long-term debt and obligations	(33)	(36)
Net proceeds from preference shares of ITOL	196	—
Other	(2)	3
	371	81
Dividends paid on common shares	(55)	(38)
Foreign currency translation losses	(12)	(21)
Increase in cash*	68	61

\*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 28 and 29.

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

### 2 Segmented information

ITOL's principal activities are information and publishing, leisure travel, and oil and gas.

The tables below show certain information relating to the principal activities:

<i>Business segment</i>	Sales		Depreciation, depletion and amortization		Operating profit	
	1986	1985	1986	1985	1986	1985
Information and publishing	695	713	25	26	87	62
Leisure travel	793	600	19	18	42	33
Oil and gas(1)	222	450	37	38	32	96
	<u>1,710</u>	<u>1,763</u>	<u>81</u>	<u>82</u>	<u>161</u>	<u>191</u>
Corporate			—	—	(12)	(7)
Amortization of publishing rights and goodwill			12	9	(12)	(9)
			<u>93</u>	<u>91</u>	<u>137</u>	<u>175</u>
Non-operating losses, net					(2)	(5)
Net interest income					2	6
Income before taxes					<u>137</u>	<u>176</u>

	Acquisition of businesses		Additions to fixed assets(2)		Assets	
	1986	1985	1986	1985	1986	1985
Information and publishing	412	110	33	31	1,044	630
Leisure travel	—	—	16	73	299	295
Oil and gas	—	—	58	54	237	253
Funds available for investment, and other	—	—	1	—	254	172
	<u>412</u>	<u>110</u>	<u>108</u>	<u>158</u>	<u>1,834</u>	<u>1,350</u>

<i>Geographic segment</i>	Sales		Operating profit		Assets	
	1986	1985	1986	1985	1986	1985
United Kingdom	1,174	1,195	107	151	772	752
United States	478	500	54	38	895	488
Canada	29	33	(2)	1	91	52
Other countries	29	35	2	1	76	58
	<u>1,710</u>	<u>1,763</u>	<u>161</u>	<u>191</u>	<u>1,834</u>	<u>1,350</u>

(1) Oil and gas sales are before deduction of UK Government royalties of £18 million (1985 - £51 million).

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

3	<b>Net interest income</b>	1986	1985
	Interest income	(17)	(18)
	Interest on long-term debt (including limited recourse debt) and capital lease obligations	18	15
	Interest on short-term bank indebtedness	3	2
		4	(1)
	Interest capitalized on oil and gas development	(6)	(5)
		(2)	(6)

4 **Income taxes**

The potential tax benefits arising from approximately £36 million of the accumulated losses in the United States, which expire in the years 1992 to 2001, will be included in earnings when realized.

Income tax expense as a percentage of

income before taxes is 27.0% (1985 – 35.2%) which differs from the Canadian corporate tax rate of approximately 53% due principally to the effect of lower tax rates in the countries where ITOL has the majority of its activities.

5 **Dividends**

Preference shares of ITOL:

The directors declared a Series I preference share dividend of Cdn. 46.25 cents per share payable on January 15, 1987 and totalling £1 million.

Common shares:

During 1986 dividends were declared on the common shares of ITOL, International Thomson Organisation PLC (ITOPLC) and International Thomson PLC (ITPLC) (note 15), payable as follows:

	1986	1985
July 15, 1986		
ITOL – US 9.25 cents per share (July 15, 1985 – US 8.25 cents per share)	3	2
ITOPLC – 5.9620p per share (July 15, 1985 – 6.4554p per share)	14	17
December 15, 1986		
ITOL – US 9.25 cents per share (January 15, 1986 – US 9.25 cents per share)	3	3
ITPLC – 6.4482p per share (January 15, 1986 ITOPLC – 6.4505p per share)	16	16
	36	38

6	Inventories	1986	1985
	Raw materials	10	9
	Work-in-progress	9	6
	Finished goods	82	53
		101	68

7	Oil and gas properties	Cost	Accumulated depreciation, depletion and amortization	Net 1986	Net 1985
	United Kingdom	383	208	175	143
	United States	73	59	14	23
	Canada	35	11	24	28
		491	278	213	194

ITPLC, formerly Thomson North Sea PLC, has a direct interest in the Balmoral field in the United Kingdom and in addition has entered into a carry agreement with another party under which it will pay all development costs in respect of the other party's 9.2% interest in the unitized Balmoral field. Ownership of the assets and rights to production from the 9.2% carried interest in the field rests with ITPLC

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 from the other party, at its option, of the outstanding balance of the carried interest. Included in the cost of the interest in the Balmoral field is £45 million (1985 - £28 million) in respect of the carried interest.

8	Property and equipment	Depreciation period	Cost	Accumulated depreciation	Net 1986	Net 1985
	Land and buildings	15 to 40 years	89	15	74	71
	Machinery and equipment	3 to 25 years	211	95	116	96
			300	110	190	167

9	Aircraft and spares	Depreciation period	Cost	Accumulated depreciation	Net 1986	Net 1985
	Aircraft and spares	14 to 20 years	149	69	80	93
	Aircraft under capital leases	20 years	100	9	91	95
			249	78	171	188

10	<b>Long-term debt</b>	1986	1985
	Bank – secured 1987-1995	23	32
	Bank – unsecured 1987-1993	203	32
	Other	5	6
		231	70
	Portion included in current liabilities	7	6
		224	64
	<i>Denominated in:</i>		
	Pounds sterling	178	27
	US dollars	35	36
	Other currencies	18	7
		231	70

Secured bank debt bears interest at fixed rates of up to 10<sup>3</sup>/<sub>4</sub>%. 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: £7 million in 1987, £150 million in 1988, £9 million in 1989, £8 million in 1990, and £57 million in 1991 and thereafter.

11	<b>Limited recourse long-term debt</b>	1986	1985
	Bank	62	25
	Portion included in current liabilities	13	1
		49	24
	<i>Denominated in:</i>		
	US dollars	52	25
	Canadian dollars	10	—
		62	25

Debt totalling £46 million is secured by certain related oil and gas properties. The debt bears interest at rates based on LIBOR. Oil and gas sales proceeds from the properties are committed to repayments of the debt and interest. Based on production estimates, the aggregate annual maturities are: £13 million in 1987,

£11 million in 1988, £10 million in 1989, £7 million in 1990, and £21 million in 1991 and thereafter. At maturity any unpaid principal and accrued interest due on this debt is without recourse to ITOL for repayment.

12	<b>Capital lease obligations</b>	1986	1985
	Total future minimum lease payments	90	109
	Imputed interest	8	11
		82	98
	Portion included in current liabilities	16	16
		66	82

The future minimum lease payments in 1987 to 1990 are £19 million per year and £14 million in 1991.

13 **Deferred taxes**

Deferred taxes comprise the liability for UK petroleum revenue tax of £20 million (1985 – £29 million) and deferred income taxes of £131 million (1985 – £113 million).

14 **Preference shares of a subsidiary**

Preference shares have been issued by a subsidiary and consist of 40,000,000, 7.94% cumulative redeemable preference shares of £1 each issued to banks at par. The subsidiary 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 share at par.

15 **Share capital**

	Number of shares issued	Stated capital
Preference shares:		
Series I Cdn. \$1.85 cumulative redeemable retractable shares with a stated capital of Cdn. \$25 per share	6,000,000	75
Series II cumulative redeemable floating rate shares with a stated capital of Cdn. \$25 per share	6,000,000	74
Series III Cdn. \$1.825 cumulative redeemable retractable shares with a stated capital of Cdn. \$25 per share	4,000,000	50
		199
Common shares:		
ITOL – shares without par value	292,649,756	80
ITPLC – shares with a par value of 1p each related to those of ITOL	292,649,756	3
		83
		282

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

**Preference Shares of ITOL:**

**Series I**

On October 15, 1986 ITOL issued 6,000,000 Cdn. \$1.85 per share cumulative redeemable retractable preference shares, non-voting, for a cash consideration of Cdn. \$150,000,000. Dividends are payable quarterly thereon at Cdn. \$1.85 per share per annum.

*Note 15 continued on next page.*

Note 15 continued.

Pursuant to arrangements made in connection with such issue, ITOL may be required to issue 2,000,000 additional Series I preference shares during 1987. The Series I preference shares are retractable on October 15, 1991 at the option of the holder, for Cdn. \$25.00 per share and are redeemable after October 15, 1991 at the option of ITOL until October 15, 1992 for Cdn. \$25.50 per share, thereafter and until October 15, 1993 for Cdn. \$25.25 per share, and thereafter for Cdn. \$25.00 per share, together in all cases with accrued dividends. Commencing in the quarter ending December 31, 1991 and each succeeding quarter, ITOL is required to make all reasonable efforts to purchase in the open market 1% of the Series I preference shares outstanding as of October 15, 1991 after deducting shares retracted on that date unless the market price is in excess of the then applicable retraction price. The total number of authorized Series I preference shares is 10,000,000.

#### Series II

On December 30, 1986 ITOL issued 6,000,000 cumulative redeemable floating rate preference shares, non-voting, for a cash consideration of Cdn. \$150,000,000. Dividends thereon are payable quarterly at an annual rate of 70% of the Canadian bank prime rate applied to the stated capital of such shares. The Series II preference shares are redeemable after December 30, 1989 at the option of ITOL until December 30, 1990 for Cdn. \$25.50 per share, thereafter and until December 30, 1991 for Cdn. \$25.25 per share, and thereafter for Cdn. \$25.00 per share, together in all cases with accrued dividends. The total number of authorized Series II preference shares is 6,000,000.

#### Series III

On December 23, 1986 ITOL issued 4,000,000 Cdn. \$1.825 per share cumulative redeemable retractable preference shares, non-voting, for a cash consideration of Cdn. \$100,000,000. Dividends are payable quarterly thereon at Cdn. \$1.825 per share per annum. The Series III preference shares are retractable on December 30, 1993 at the option of the holder, and are redeemable after December 30, 1993 at the option of ITOL, for Cdn. \$25.00 per share, together in each case with accrued dividends. The total number of authorized Series III preference shares is 4,000,000.

#### ITOL and International Thomson PLC (ITPLC) related common shares:

Pursuant to a reorganization approved by the shareholders and effective November 28, 1986, ITPLC, formerly Thomson North Sea PLC, became the holding company of the UK subsidiaries of ITOL. As a result of the reorganization, shareholders exchanged their common shares of ITOPLC, which they held directly or through deposit receipts, for an equal number of common shares of ITPLC. The rights attaching to the common shares of ITPLC are identical in all respects to the rights which previously attached to the common shares of ITOPLC.

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

If the ITPLC common shares have been deposited by the holder under a deposit arrangement provided for such shares, the holder thereof will be deemed to have elected to receive dividends on his ITOL common shares unless he has elected in writing to receive dividends on the ITPLC common 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 common shares are payable in US dollars. Dividends on ITPLC common 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 related dividend on the ITOL common shares is declared.

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

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

16

#### Foreign currency translation gains

	1986	1985
Balance beginning of year	48	156
Net translation loss for the year	(18)	(108)
Balance end of year	30	48
The principal rates of exchange used to translate amounts expressed in currencies other than pounds sterling were as follows:		
	1986	1985
US dollar:		
Average	1.47	1.30
At December 31	1.48	1.45
Canadian dollar:		
Average	2.04	1.77
At December 31	2.05	2.02



**Contingencies and commitments***(1) Operating lease commitments*

Operating lease payments in 1986 and future minimum payments are as follows: 1986, £24 million; 1987, £28 million;

1988, £30 million; 1989, £24 million; 1990, £20 million; 1991, £18 million; and 1992-2011, £132 million.

*(2) Contingent liabilities*

There are contingent liabilities in respect of the performance by ITPLC 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, ITPLC 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.

*(3) Capital expenditure*

	1986	1985
Capital expenditure contracted but no related liability incurred at end of year	35	4
Capital expenditure authorized but not contracted for at end of year	19	15
Share of joint venture capital expenditure programs on the North Sea oilfields authorized but no related liability incurred at end of year	14	50
	68	69

**Acquisitions**

In December 1986, South-Western Publishing Co (South-Western) was acquired. South-Western is an Ohio-based business education publisher to the high school and college markets.

In June 1986, Cordura Corporation (Cordura), based in California, was acquired. Cordura is an information and publishing company providing information services to the automotive repair and casualty insurance industries.

During 1986 other information and publishing businesses were acquired, the majority of which are in the United States.

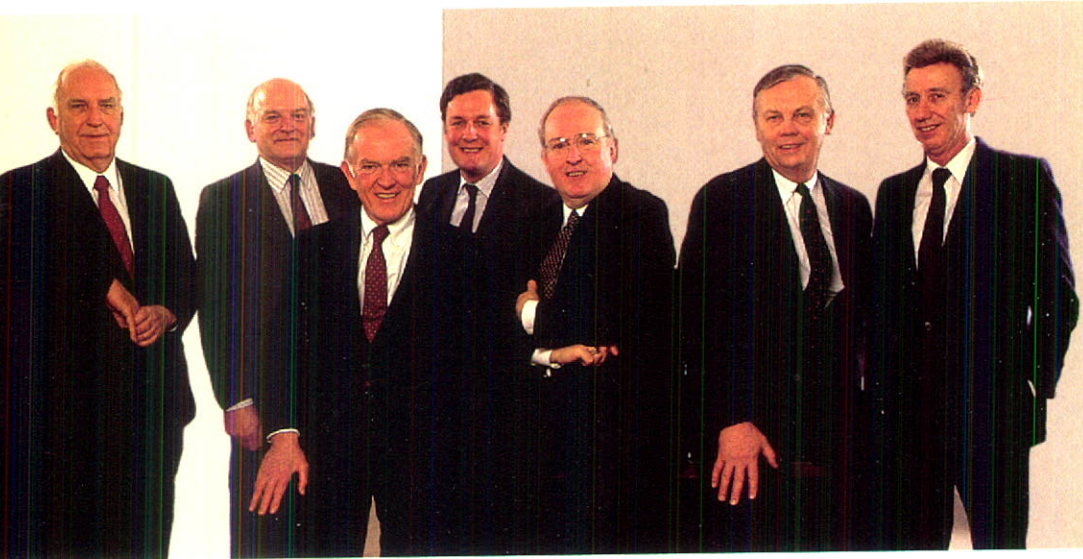
The following is a summary of these acquisitions, all of which were acquired for cash. These acquisitions have been accounted for on the purchase basis and where applicable are translated at the exchange rates at the dates of acquisition:

	South-Western	Cordura	Other	Total
Working capital, including cash of £26 million	39	7	(1)	45
Property and equipment	13	2	3	18
Publishing rights	93	70	64	227
Goodwill	40	65	35	140
Long-term debt and other liabilities	(6)	(6)	(6)	(18)
Cost	179	138	95	412

# Major Businesses and Products

## Information and Publishing

In total, the information and publishing group has over 13,000 individual products. These include 106 magazines, 70 newspapers, over 10,500 books and directories, 52 electronic services and over 2,000 other products, mainly journals and abstracts, looseleaf services and microfiche. Companies and products include:



Robert J. Jachino (third from right), President and Chief Executive of International Thomson's information and publishing interests world-wide with the chief executives of the six information and publishing groups. From left to right: Donald A. Schaefer (International Thomson Publishing), William Heeps (Thomson Regional Newspapers), Charles P. Daly (International Thomson Business Press), John A. S. Gill (Thomson Information Services), Peter H. Shipman (InFiNet), and Jack C. Fleming (International Thomson Professional Publishing)

### International Thomson Professional Publishing North America

Publishers of subscription-based information for professional audiences in the fields of law, tax, banking/financial services, accounting, business, real estate, data processing, engineering and trademark search services.

#### 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. Products include:*  
Mertens Law of Federal Income Taxation  
Nichols Encyclopedia of Legal Forms  
The Uniform Commercial Code Reporting Service  
Lanes Goldstein Trial Technique  
McQuillin Law of Municipal Corporations

#### 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. Products include:*  
Securities and Federal Corporate Law  
Searches & Seizures, Arrests & Confessions  
Licensing in Foreign & Domestic Operations

#### Richard De Boo Publishers

*Law and taxation publishers. Products include:*  
Canada Tax Service  
Ontario Corporation Manual  
Canada Corporation Manual

#### Thomson & Thomson

*Trademark search services. Products include:*  
Trademarkscan (trademark database)  
Trademark Search Reports  
Trademark Watching 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. Products include:*  
Federal Income Taxation of Corporations & Shareholders  
Journal of Taxation  
Practical Accountant  
Real Estate Review  
Bankers Magazine  
Corporate Accounting Journal

**International Thomson  
Business Press**  
*North America*

Publishers of over 40 business and professional magazines plus directories, newsletters and other information services in the medical, automotive, industrial, transportation and retail markets. Principal companies and products include:

**International Thomson Industrial Press**  
Tooling & Production  
PurchasingWorld

**Ward's Communications**  
Ward's Auto World  
Ward's Automotive International

**International Thomson Communications**  
Cablevision

**International Thomson Retail Press**  
Consumer Electronics  
Video Business  
Toy & Hobby World  
Convenience Store Merchandiser

**International Thomson Transport Press**  
American Sailings  
Traffic World  
The Official Railway Guide  
Motor Carrier Directory

**Medical Economics Company**  
Medical Economics  
Physicians' Desk Reference  
AIDS Alert  
Today's Nursing Home  
Veterinary Economics  
Drug Topics  
RN

**Med Publishing**  
Practical Cardiology

**Mitchell International**  
Mitchell Manuals  
Mitchellmatix

**International Thomson  
Publishing**  
*North America*

Specialized book publishing group serving world-wide markets in the education, professional/reference and library fields. Principal companies, imprints and products include:

**South-Western Publishing Co**  
Century 21 Accounting  
Century 21 Typewriting  
Accounting Principles & Practices

**Wadsworth**  
Biology - The Unity and Diversity of Life  
The Practice of Social Research

**PWS/Kent**  
Calculus With Analytic Geometry

**Brooks/Cole**  
Foundations of College Chemistry

**Gale Research Company**  
Encyclopedia of Associations  
Encyclopedia of Information Systems & Services

**Nelson Canada**  
Networks series  
Spelling Connections 3

**Delmar Publishers**  
Technology in Your World  
Technical Drawing and Design

**Heinle & Heinle**  
Allons-Y!

**Boyd & Fraser**  
Computer Fundamentals with Application Software  
(Shelly & Cashman)

**Van Nostrand Reinhold (US)**  
Dangerous Properties of Industrial Materials (Sax)  
Accounting Handbook for Non-Accountants  
Encyclopedia of Chemistry

**Thomas Nelson Australia**  
Diary of Weary Dunlop

**Van Nostrand Reinhold (UK)**  
Management and Cost Accounting

**Thomas Nelson (UK)**  
Peak Math

**InFiNet**  
*North America*

Print and electronic services providing high-utility information to the professional financial community. Principal products include:

AutEx Trading Information System  
Munifacts  
American Banker  
The Bond Buyer  
First Call  
The Financial Software Series  
InvestText  
Mortgage-Backed Securities Information Services

**Thomson Regional  
Newspapers**  
*United Kingdom*

The leading publisher of regional newspapers, with the main titles in the three provincial capitals, Belfast, Cardiff and Edinburgh, and two other important regional centres, Newcastle and Aberdeen. Principal products include:

The Scotsman (Edinburgh)  
Belfast Telegraph (Northern Ireland)  
Western Mail (Cardiff)  
Press and Journal (Aberdeen)  
Evening Chronicle (Newcastle)  
Evening News (Edinburgh)  
South Wales Echo (Cardiff)  
The Journal (Newcastle)  
Evening Gazette (Teesside)  
Evening Express (Aberdeen)  
Evening Telegraph (Blackburn)  
Evening Post (Reading)  
Sunday Sun (Newcastle)  
Chester Chronicle (Cheshire)  
Merthyr Express (Mid-Glamorgan)  
Glamorgan Gazette (Mid-Glamorgan)  
Crewe Chronicle (Cheshire)  
Pontypridd Observer (Mid-Glamorgan)  
Wokingham Times (Berkshire)

**Thomson Information  
Services**  
*United Kingdom*

Magazines, information services, professional and reference publishing and local directories based in the United Kingdom and other countries outside North America. Principal companies and products include:

**Jane's Publishing Company**  
Jane's Fighting Ships  
Jane's All the World's Aircraft  
Jane's Defence Weekly

**International Thomson Publishing**

Construction News  
Drapers Record  
Meat Trades Journal  
Broadcast  
Family Circle  
Living  
Glass's Guide automobile services (51% holding)  
Palgrave Technical Service Data  
Glenigan construction services  
Danish local directories  
Karnov legal services (Denmark)  
B & T (Australia)  
Truck (Australia)  
Cordell construction services (Australia)

**Thomson Directories (50% partnership)**  
UK local directories

**Derwent Publications**  
Chemical Patents Index  
Ringdoc

**Professional Publishing**  
International Financing Review  
ICAEW tax service

## Leisure Travel

One of the world's leading leisure air travel and holiday companies with operations in the UK and US, and sales in 1986 of £793 million. Most of the group's business is in the UK and accounts for 30% of Britain's total expenditure on package holidays by air.

Principal companies:



Roger Davies, Managing Director and Chief Executive of the Thomson Travel group (seated left), with (left to right, standing) Paul Brett, Managing Director, Thomson Holidays; John MacNeill, Managing Director, Lunn Poly; Richard A Roberts-Miller, President, Thomson Travel (US) and (seated right) Derek H Davison, Chairman and Chief Executive, Britannia Airways

### Thomson Holidays (including Skytours)

*UK's biggest inclusive tour operator, carrying over 2.6 million customers in 1986, one in four of all Britain's package tour holidaymakers.*

### Portland Holidays

*UK's largest direct sell inclusive tour operator offering holidays at prices significantly lower than those available through travel agents.*

### Britannia Airways

*Britain's leading leisure airline. In 1986 the airline carried 5.5 million passengers and its fleet of Boeing 737 and 767 wide-bodied aircraft flew a total of 111,000 hours, averaging 11.4 hours per day.*

### Lunn Poly

*Through its chain of 243 holiday shops, Lunn Poly is now the UK's second largest chain selling overseas inclusive tours.*

### Thomson Vacations

*One of the top ten tour operators in the US in volume, and regularly rated the number one tour operator by travel agents in the Mid West.*

## Oil and Gas

Oil and gas development in the UK and North America. Major interests include shares in the Piper, Claymore, Scapa and Balmoral fields, all of which are situated in the UK North Sea.

Principal companies:



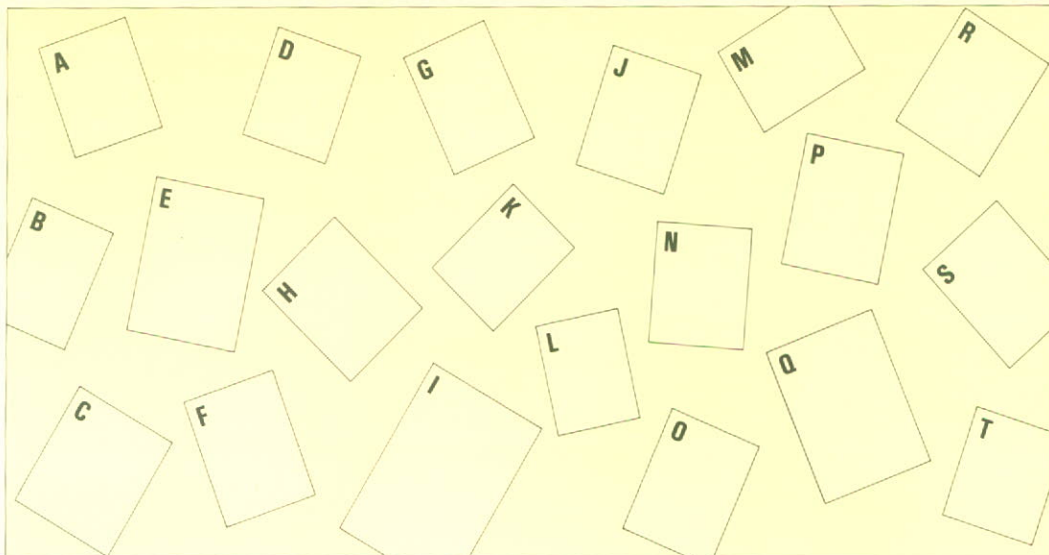
Joe Darby, Chairman and Chief Executive of Thomson North Sea (right), with Joe Rumble, Managing Director

### Thomson North Sea *(United Kingdom)*

### Thomson-Jensen *(Canada)*

### Thomson-Monteith *(United States)*

## Cover illustration



Brief descriptions of some of International Thomson's many new publishing products, either developed or acquired during the year, and shown on the cover

- |  |   |  |
|--|---|--|
| <p><b>A Business Law: Principles Cases Legal Environment – Revised Edition</b><br/><i>(South-Western):</i><br/>For 30 years this has been the leading textbook for undergraduate business law students</p>   | <p><b>H Manuals For Automotive Professionals</b><br/><i>(Mitchell):</i><br/>The authoritative source for repair and collision information</p>   | <p><b>N Computer Fundamentals with Application Software</b><br/><i>(Boyd &amp; Fraser):</i><br/>During the year over 50,000 students used this product to learn the concepts of data processing, as well as how to use three of the leading commercial software packages. (First produced in 1986)</p> |
| <p><b>B Plast Panorama</b><br/><i>(Thomson Communications Scandinavia):</i><br/>The leading plastics magazine for the Danish market</p>  | <p><b>I Banking Week</b><br/><i>(American Banker):</i><br/>First published in 1986 as a weekly overview of the banking industry</p>   | <p><b>O The Financial Software Series</b><br/><i>(Technical Data Corporation):</i><br/>Microcomputer software designed for the management and analysis of fixed income securities</p>  |
| <p><b>C Managing Residential Real Estate</b><br/><i>(Warren, Gorham &amp; Lamont):</i><br/>A guide to managing properties for small owners of multi-occupancy residential property and professional managers of larger properties, complete with text, forms and checklists. (First published in 1986)</p> | <p><b>J Computer Law Forms Handbook</b><br/><i>(Clark Boardman Company):</i><br/>A legal guide to negotiating and drafting computer-related contracts. (First published in 1986)</p>  | <p><b>P Ward's Automotive International</b><br/><i>(Ward's Communications):</i><br/>First comprehensive world-wide journal for the automotive manufacturing industry. (First published in 1986)</p>  |
| <p><b>D Grand Jury Law &amp; Practice</b><br/><i>(Callaghan):</i><br/>Guides attorneys through one of the more complex areas of criminal law; one of 10 new publications introduced in 1986 by Callaghan</p>   | <p><b>K Karnov</b><br/><i>(International Thomson Information, Denmark):</i><br/>The leading legal service in Denmark</p>  | <p><b>Q Toy &amp; Hobby World</b><br/><i>(International Thomson Retail Press):</i><br/>The bible of the US retail toy industry</p>   |
| <p><b>E Non-Foods Merchandising</b><br/><i>(International Thomson Retail Press):</i><br/>A publication exclusively for general merchandise in the supermarket industry</p>   | <p><b>L Quinn's UCC Forms and Practice</b><br/><i>(Warren, Gorham &amp; Lamont):</i><br/>A book for lawyers with commercial and banking practices, providing forms for each section of the Uniform Commercial Code together with extensive practice commentary. (First published in 1986)</p> | <p><b>R The 1986 IMS Directory of Publications</b><br/><i>(Gale):</i><br/>This longest, continuously published directory provides essential information on a wide range of North American periodicals</p>  |
| <p><b>F InvesText</b><br/><i>(Business Research Corporation):</i><br/>Company and industry intelligence reports from Wall Street</p>   | <p><b>M block: DATA</b><br/><i>(AutEx):</i><br/>Started in 1986 to provide monthly reports on the institutional block trading market</p>  | <p><b>S Century 21 Keyboarding</b><br/><i>(South-Western):</i><br/>Used in more schools in the US than all other basic keyboard textbooks combined</p>   |
| <p><b>G Invision</b><br/><i>(Thomson Information Services):</i><br/>A new magazine first published in 1986 as a monthly supplement to the UK media magazine Broadcast</p>  |   | <p><b>T Litigating Age Discrimination Cases</b><br/><i>(Callaghan):</i><br/>Provides comprehensive coverage of a rapidly growing segment of US Law. (First published in 1986)</p>  |

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**Registered Office**  
International Thomson  
Organisation Limited  
Suite 2206, Box 45  
20 Queen Street West  
Toronto  
Ontario M5H 3R3  
Canada

**Principal Registrar**  
Montreal Trust Company  
15 King Street West  
Toronto  
Ontario M5H 1B4  
Canada

**Branch Registrar**  
Ravensbourne  
Registration Services Ltd.  
Bourne House  
34 Beckenham Road  
Beckenham,  
Kent BR3 4TU  
United Kingdom

**Auditors**  
Price Waterhouse  
Toronto-Dominion  
Centre, Toronto  
Ontario M5K 1G1  
Canada

*For information about any  
aspect of International  
Thomson please write to:*

**Canada**

Suite 2206, PO Box 45  
20 Queen Street West  
Toronto  
Ontario M5H 3R3

**United States of America**

245 Park Avenue  
New York  
New York 10167

**United Kingdom**

The Quadrangle  
PO Box 4YG  
180 Wardour Street  
London W1A 4YG

