

THOMSON NEWSPAPERS LIMITED

Annual Report 1978

1078

HOWARD ... RABE
...
...
MILL UNIVERSITY



Contents

	Page	
Newspaper Locations		Consolidated Statement of Retained Earnings 8
Canada	2	
United States	3	Consolidated Statement of Changes in Financial Position 9
Officers and Directors . . .	4	
Financial Highlights	4	Notes to Consolidated Financial Statements 10-12
Report of the Directors . . .	5	Auditors' Report 12
Consolidated Balance Sheet	6-7	
Consolidated Statement of Income	8	



Greenville, Ohio



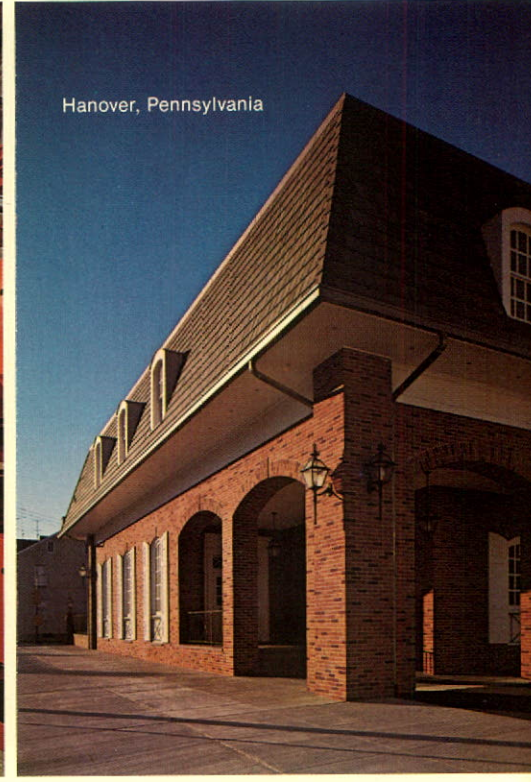
Oxnard, California



Sarnia, Ontario



Hanover, Pennsylvania



Hanover, Pennsylvania



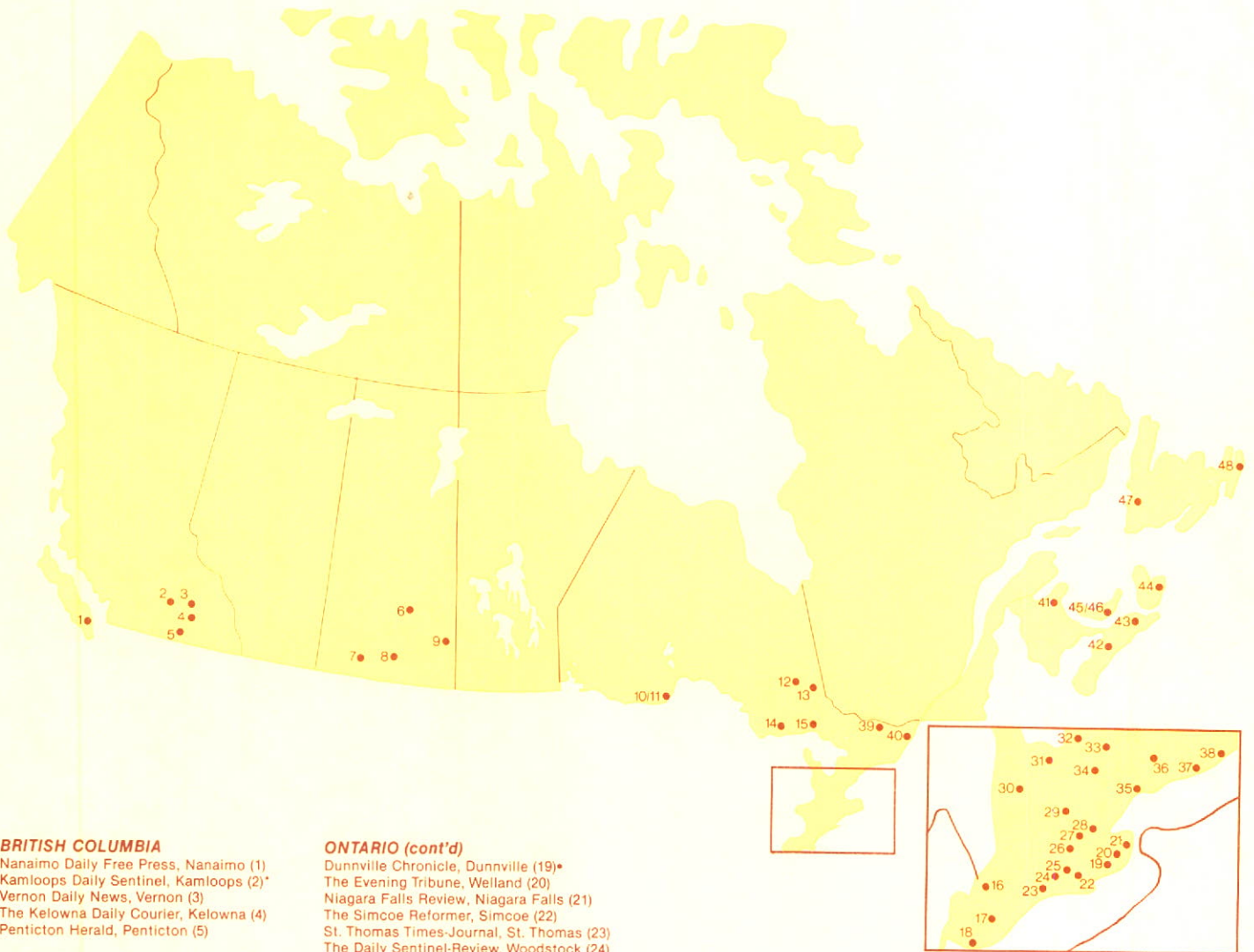
Truro, Nova Scotia



West Covina, California

Thomson Newspapers Limited

Thomson Newspapers in Canada



BRITISH COLUMBIA

Nanaimo Daily Free Press, Nanaimo (1)
 Kamloops Daily Sentinel, Kamloops (2)*
 Vernon Daily News, Vernon (3)
 The Kelowna Daily Courier, Kelowna (4)
 Penticton Herald, Penticton (5)

SASKATCHEWAN

Prince Albert Daily Herald, Prince Albert (6)
 The Sun, Swift Current (7)**
 Moose Jaw Times-Herald, Moose Jaw (8)
 The Yorkton Enterprise, Yorkton (9)*

ONTARIO

The Times-News, Thunder Bay (10)
 The Chronicle-Journal, Thunder Bay (11)
 The Daily Press, Timmins (12)
 Northern Daily News, Kirkland Lake (13)
 The Standard, Elliot Lake (14)*
 The Sudbury Star, Sudbury (15)
 The Sarnia Observer, Sarnia (16)
 The Chatham Daily News, Chatham (17)
 Leamington Post, Leamington (18)*

ONTARIO (cont'd)

Dunnville Chronicle, Dunnville (19)*
 The Evening Tribune, Welland (20)
 Niagara Falls Review, Niagara Falls (21)
 The Simcoe Reformer, Simcoe (22)
 St. Thomas Times-Journal, St. Thomas (23)
 The Daily Sentinel-Review, Woodstock (24)
 The Cambridge Daily Reporter, Cambridge (25)
 The Daily Mercury, Guelph (26)
 The Herald, Georgetown (27)*
 The Daily Times, Brampton (28)
 The Banner, Orangeville (29)**
 The Hanover Post, Hanover (30)*
 Enterprise-Bulletin, Collingwood (31)*
 The Free Press, Midland (32)**
 Daily Packet & Times, Orillia (33)
 The Barrie Examiner, Barrie (34)
 The Oshawa Times, Oshawa (35)
 Peterborough Examiner, Peterborough (36)
 The Trentonian and Tri-County News, Trenton (37)†
 The Intelligencer, Belleville (38)
 The Pembroke Observer, Pembroke (39)
 Standard-Freeholder, Cornwall (40)

NEW BRUNSWICK

The Northern Light, Bathurst (41)*

NOVA SCOTIA

The Daily News, Truro (42)
 The Evening News, New Glasgow (43)
 Cape Breton Post, Sydney (44)

PRINCE EDWARD ISLAND

The Guardian, Charlottetown (45)
 The Evening Patriot, Charlottetown (46)

NEWFOUNDLAND

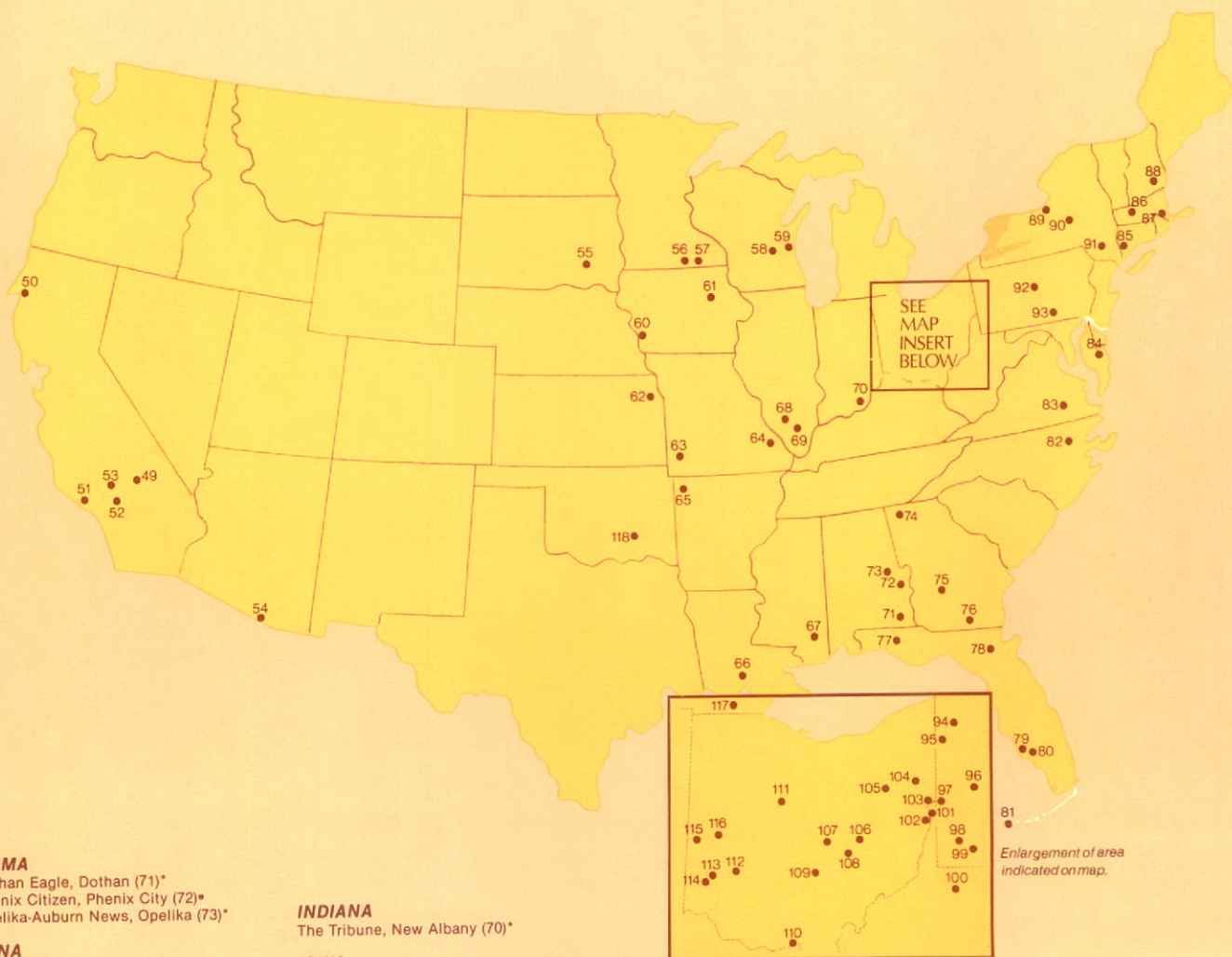
The Western Star, Corner Brook (47)
 The Evening Telegram, St. John's (48)

All newspapers are published DAILY
 except those marked as follows:
 *DAILY including SUNDAY •WEEKLY
 **BI-WEEKLY †TRI-WEEKLY

Total Daily Circulation in the United States — 1,068,031
 Total Daily Circulation in Canada — 534,788

Annual Report 1978

Thomson Newspapers in the United States



ALABAMA

The Dothan Eagle, Dothan (71)*
The Phenix Citizen, Phenix City (72)*
The Opelika-Auburn News, Opelika (73)*

ARIZONA

The Daily Dispatch, Douglas (54)

ARKANSAS

Northwest Arkansas Times, Fayetteville (65)*

CALIFORNIA

Desert Dispatch, Barstow (49)
The Times-Standard, Eureka (50)*
The Press-Courier, Oxnard (51)*
San Gabriel Valley Tribune, West Covina (52)*
Antelope Valley Daily Ledger-Gazette, Lancaster (53)

CONNECTICUT

The Evening Sentinel, Ansonia (85)

FLORIDA

Jackson County Floridan, Marianna (77)*
Orange Park Daily Clay Today, Orange Park (78)
Englewood Herald, Englewood (79)*
Daily Herald-News, Punta Gorda (80)
The Key West Citizen, Key West (81)*

GEORGIA

The Daily Citizen-News, Dalton (74)
The Cordele Dispatch, Cordele (75)
The Valdosta Daily Times, Valdosta (76)*

ILLINOIS

The Register-News, Mount Vernon (68)
M^cLeansboro Times-Leader, M^cLeansboro (69)*

INDIANA

The Tribune, New Albany (70)*

IOWA

Council Bluffs Nonpareil, Council Bluffs (60)*
The Oelwein Daily Register, Oelwein (61)

KANSAS

The Leavenworth Times, Leavenworth (62)*

LOUISIANA

The Daily Advertiser, Lafayette (66)*

MARYLAND

The Daily Times, Salisbury (84)*

MASSACHUSETTS

The Daily Sentinel and Leominster Enterprise, Fitchburg (86)
Taunton Daily Gazette, Taunton (87)

MICHIGAN

Adrian Daily Telegram, Adrian (117)

MINNESOTA

The Evening Tribune, Albert Lea (56)*
Austin Daily Herald, Austin (57)

MISSISSIPPI

Laurel Leader-Call, Laurel (67)

MISSOURI

The Carthage Press, Carthage (63)
The Southeast Missourian, Cape Girardeau (64)*

NEW HAMPSHIRE

The Portsmouth Herald, Portsmouth (88)

NEW YORK

The Palladium-Times, Oswego (89)
The Evening Telegram, Herkimer (90)
The Evening News, Newburgh (91)*

NORTH CAROLINA

The Evening Telegram, Rocky Mount (82)*

OHIO

Steubenville Herald-Star, Steubenville (102)*
The Evening Review, East Liverpool (103)
The Salem News, Salem (104)
The Canton Repository, Canton (105)*
The Coshocton Tribune, Coshocton (106)*
The Advocate, Newark (107)
The Times Recorder, Zanesville (108)*
Lancaster Eagle-Gazette, Lancaster (109)
The Portsmouth Times, Portsmouth (110)
The Marion Star, Marion (111)*
The Xenia Daily Gazette, Xenia (112)
The Franklin Chronicle, Franklin (113)*
Middletown Journal, Middletown (114)*
Daily Advocate, Greenville (115)
Piqua Daily Call, Piqua (116)

OKLAHOMA

The Ada Evening News, Ada (118)*

PENNSYLVANIA

The Express, Lock Haven (92)
The Evening Sun, Hanover (93)
The Meadville Tribune, Meadville (94)
The Record-Argus, Greenville (95)
The Leader-Times, Kittanning (96)
The Midland News, Midland (97)*
The Valley Independent, Monessen (98)
The Daily Courier, Connellsville (99)

SOUTH DAKOTA

The Daily Republic, Mitchell (55)

VIRGINIA

The Progress-Index, Petersburg (83)*

WEST VIRGINIA

The Times-West Virginian, Fairmont (100)*
The Weirton Daily Times, Weirton (101)

WISCONSIN

Fond du Lac Reporter, Fond du Lac (58)*
Herald-Times-Reporter, Manitowoc (59)

All newspapers are published DAILY except those marked as follows:

*DAILY including SUNDAY •WEEKLY

Thomson Newspapers Limited

Officers

K. R. Thomson

*Chairman of the Board and
Chief Executive Officer*

St. Clair McCabe

*President and
Chief Operating Officer*

Margaret L. Hamilton

Executive Vice-President

Brian W. Slaughter

*Senior Vice-President and
General Manager*

Westell G. Peaker, C.A.

*Vice-President — Finance
and Secretary-Treasurer*

William T. Dodds, C.A.

Assistant Secretary-Treasurer

Directors

S. F. Chapman, C.A.

John H. Coleman

John S. Dewar

Margaret L. Hamilton

St. Clair McCabe

D. J. Peacher

Brian W. Slaughter

D. C. H. Stanley

K. R. Thomson

John A. Tory, Q.C.

Executive Offices

Thomson Newspapers Limited

65 Queen Street West, Toronto, Canada

C. L. Butler, Assistant General Manager

K. G. Lambie, Assistant General Manager

4712-13th Street N.E., Calgary, Alberta

R. H. Laidlaw, Assistant General Manager

1888 Brunswick Street, Halifax, Nova Scotia

L. A. DeMarchi, Assistant General Manager

Thomson Newspapers Inc.

3150 Des Plaines Avenue, Des Plaines, Illinois

*F. C. Miles, Senior Vice-President and
General Manager*

*W. M. Seymour, Vice-President and
Assistant General Manager*

4150 Belden Village Street, Canton, Ohio

*D. P. Hicks, Vice-President and
Assistant General Manager*

1111 North Westshore Boulevard, Tampa, Florida

*J. Knox Dye, Vice-President and
Assistant General Manager*

36 Washington Street, Wellesley Hills, Massachusetts

*Merle Becker, Vice-President and
Assistant General Manager*

Sales Offices

Toronto, Montreal, New York, Chicago

Transfer Agent

Montreal Trust Company — Toronto, Montreal, Vancouver,
Calgary, Regina, Winnipeg, Halifax.

Financial Highlights

	1978	1977
Operating revenue	\$306,476,326	\$256,332,052
Income before amortization of goodwill	\$ 57,394,109	\$ 47,697,972
Net income	\$ 56,559,103	\$ 47,382,773
Earnings per Class A and Class B share after preference dividends		
Before amortization of goodwill	\$1.150	\$0.953
For the year	\$1.133	\$0.946
Dividends paid		
Preference shares	\$ 772,514	\$ 786,137
Class A and Class B shares	\$ 18,344,487	\$ 16,191,873
Per share — Class A convertible	\$0.373	\$0.329
— Class B convertible	\$0.373	\$0.317

Annual Report 1978

Report of the Directors

On behalf of the Board of Directors, I am pleased to present the consolidated financial statements of your Company for the year ended December 31, 1978, together with the Auditors' Report thereon.

Net income for 1978 was \$56,559,103 compared with \$47,382,773 for 1977, an increase of \$9,176,330. Operating revenue was \$306,476,326 compared with \$256,332,052. Net income per Class A and Class B interconvertible share increased to \$1.133 from \$0.946.

Revenue and earnings growth during the year resulted from improved operations of existing newspapers, the acquisition of additional newspapers and the favourable impact of the increase in the value of the U.S. dollar in terms of Canadian funds. Operations in the United States outpaced those in Canada with the latter being subject throughout the year to the guidelines established under the Anti-Inflation Program.

The Company's activities in the United States are of ever-increasing importance. This trend has been magnified in recent years by the weakening of the Canadian dollar. As a result, the method of accounting for foreign currencies has become more significant as it has for other Canadian companies with operations outside Canada. Effective for the 1978 year the Company adopted the recommendations of the Canadian Institute of Chartered Accountants relating to the translation of foreign currencies notwithstanding the recent suspension of the implementation date for these recommendations. The main item affected is our long-term debt, denominated in U.S. currency, which, under the proposed rules, would be required to be translated at current rather than historical rates of exchange with any unrealized gain or loss being amortized over the remaining life of the debt. The effect of this change has been to reduce net income per Class A and Class B share by 1.4 cents. In our circumstances, we believe this to be a conservative policy, which to some extent offsets the enhanced earnings resulting from the weakening of the Canadian dollar.

Net income reflects amortization of goodwill of \$835,006 (1.7 cents per share) in 1978 compared with \$315,199 (.7 of a cent per share) last year. It is the view of the management of your Company that goodwill, which comprises the excess of the purchase price paid over the estimated fair value of net tangible assets and circulation of newspapers acquired, has a very real and usually growing value and should only be written down if there has been a diminution in such value. However, in accordance with generally accepted accounting principles, goodwill arising after April 1, 1974 is being amortized over 40 years.

Following the expiration in October 1978 of the Anti-Inflation Program restrictions on dividends, the fourth quarter dividend on the Class A and Class B shares was increased to 11.5 cents per share from 8.586 cents. This increase reflects the resumption of your Company's long stated policy of increasing its dividend rate in line with increases in net income.

In 1978 dividends on the Class A shares were ordinary taxable dividends while those on the Class B shares were paid out of 1971 capital surplus on hand at the same rate as for the Class A shares. Provisions of the Income Tax Act (Canada) relating to the payment of "tax-deferred" dividends expired at the end of 1978 and, as a result, the March 15, 1979 quarterly dividend on both the Class A and Class B shares was an ordinary taxable dividend.

As an alternative to "tax-deferred" dividends, your Directors are proposing to introduce the payment of stock dividends on the Class B shares. At their February 27th meeting, the Directors approved a special resolution which, subject to approval at the forthcoming shareholders meeting, will amend the Company's Articles by the creation of 500,000,000 non-participating and non-voting Class C special shares with a par value of one cent each. If the special resolution is approved, dividends on the Class B shares will be paid, at the same rate as for the Class A shares, by way of stock dividend either, at the option of the Class B shareholders, in fully-paid Class B shares or in fully-paid Class C shares which will be immediately redeemed at their par value for cash. All other features of the Class A and Class B shares will remain unchanged. Of course, any Class A shareholder wishing to take advantage of the stock dividend opportunity may at any time convert all or any part of his holdings to Class B shares and then select either of the two types of stock dividend. The tax effects of these stock dividends are described in the information circular accompanying the notice of the shareholders meeting.

During the year the Company undertook capital projects for the construction of new plants and the purchase of new presses and equipment, together with additions and alterations to existing plants, amounting to approximately \$19,000,000. To the end of 1978, about \$14,500,000 had been expended with the balance carried over to 1979. This balance, together with new projects, will bring estimated capital expenditures in 1979 to approximately \$20,000,000.

In 1978 the Company continued its program of actively seeking opportunities to acquire daily newspapers in small to medium-sized communities. The Company invested over \$51 million last year in the acquisition of the following newspapers:

In Canada — The Simcoe Reformer, Simcoe, Ontario. In the United States — The Chew Newspaper Group of Ohio, comprising the Middletown Journal, The Xenia Daily Gazette, The Piqua Daily Call, The Franklin Chronicle (weekly); The Antelope Valley Daily Ledger-Gazette, Lancaster, California; The Desert Dispatch, Barstow, California; Ada Evening News, Ada, Oklahoma.

In 1979 to date the following daily newspapers have been purchased:

The Oelwein Daily Register, Oelwein, Iowa and The Globe, Atchison, Kansas.

Although the economies of both Canada and the United States in 1979 are likely to show reduced growth in real terms we are confident that your Company's revenues and profits should continue to improve. In addition, we are satisfied that your Company is well positioned to benefit from the stronger economic climate forecast for North America in the 1980's.

On behalf of the Board, I would like to express our sincere appreciation to our management and staff both in Canada and the United States whose individual and collective contributions have made possible the Company's continuing record of achievement and growth.

For the Board of Directors



Chairman and Chief Executive Officer

Consolidated

As at Decem

ASSETS	<u>1978</u>	<u>1977</u>
Current Assets		
Cash and deposit receipts	\$ 38,542,347	\$ 18,889,318
Trade accounts receivable less allowance for doubtful accounts	37,055,540	30,908,227
Other accounts receivable	1,090,906	998,370
Inventories	3,834,867	3,341,441
Prepaid expenses	746,011	608,830
	<u>81,269,671</u>	<u>54,746,186</u>
Investments and Other Assets	<u>5,498,698</u>	<u>2,643,148</u>
Property, Plant and Equipment		
Land	9,253,839	8,177,644
Buildings, machinery and equipment	156,052,540	125,893,530
	165,306,379	134,071,174
Less accumulated depreciation	55,360,979	47,837,903
	<u>109,945,400</u>	<u>86,233,271</u>
Circulation and Goodwill	<u>182,677,882</u>	<u>153,387,785</u>
	<u>\$379,391,651</u>	<u>\$297,010,390</u>

Approved by the Board

St. Clair McCabe, Director
D. C. H. Stanley, Director

PAPERS LIMITED

THE LAWS OF ONTARIO

Balance Sheet

December 31, 1978

	<u>1978</u>	<u>1977</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 14,374,069	\$ 11,627,567
Taxes payable	9,959,462	6,160,647
Notes payable	4,609,442	350,080
Current instalments of long-term debt	6,454,127	3,980,607
Prepaid subscriptions	3,553,686	2,970,258
	<u>38,950,786</u>	<u>25,089,159</u>
Long-Term Debt (note 2)	47,844,125	19,544,685
Deferred Income Taxes	9,774,229	6,868,481
Interest of Minority Common Shareholders of Subsidiary Companies	<u>995,572</u>	<u>819,728</u>
SHAREHOLDERS' EQUITY		
Capital Stock (note 3)		
Authorized		
525,713 Preference shares with a par value of \$50 each, issuable in series (1977 — 531,783 shares)		
90,000,000 Class A and Class B interconvertible participating shares without par value		
1,000 Common shares without par value		
Issued		
225,713 6¾% Cumulative redeemable preference shares, Series A (1977 — 231,783 shares)	11,285,650	11,589,150
49,236,372 Shares consisting of 47,689,027 Class A and 1,547,345 Class B (1977 — 47,648,985 Class A and 1,587,387 Class B)	<u>54,208,420</u>	<u>54,208,420</u>
	65,494,070	65,797,570
Retained Earnings	216,332,869	178,890,767
	<u>281,826,939</u>	<u>244,688,337</u>
	<u>\$379,391,651</u>	<u>\$297,010,390</u>

Thomson Newspapers Limited

Consolidated Statement of Income

Year ended December 31, 1978

	<u>1978</u>	<u>1977</u>
Operating revenue	\$306,476,326	\$256,332,052
Costs and operating expenses	<u>186,823,620</u>	<u>158,992,087</u>
Operating income before depreciation	119,652,706	97,339,965
Depreciation	<u>8,499,529</u>	<u>6,735,087</u>
Operating income	<u>111,153,177</u>	<u>90,604,878</u>
Other deductions (income)		
Interest on long-term debt	4,591,822	1,347,292
Minority interest	178,609	143,476
Interest and investment income	(1,743,450)	(828,958)
Other (net)	<u>(1,503,913)</u>	<u>(1,041,726)</u>
	1,523,068	(379,916)
Income before undernoted items	<u>109,630,109</u>	<u>90,984,794</u>
Income taxes		
Current	49,789,000	40,287,730
Deferred	<u>2,447,000</u>	<u>2,999,092</u>
	52,236,000	43,286,822
Income before amortization of goodwill	57,394,109	47,697,972
Amortization of goodwill	<u>835,006</u>	<u>315,199</u>
Net income	<u>\$ 56,559,103</u>	<u>\$ 47,382,773</u>
Earnings per Class A and Class B share		
Before amortization of goodwill	\$1.150	\$0.953
For the year	\$1.133	\$0.946
The earnings per Class A and Class B share are after deducting dividends paid on the outstanding 6¾% preference shares.		

Consolidated Statement of Retained Earnings

Year ended December 31, 1978

	<u>1978</u>	<u>1977</u>
Balance at beginning of year	\$178,890,767	\$148,486,004
Net income	<u>56,559,103</u>	<u>47,382,773</u>
	235,449,870	195,868,777
Dividends paid on		
Preference shares	772,514	786,137
Class A and Class B shares	<u>18,344,487</u>	<u>16,191,873</u>
	19,117,001	16,978,010
Balance at end of year	<u>\$216,332,869</u>	<u>\$178,890,767</u>

Annual Report 1978

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1978

	<u>1978</u>	<u>1977</u>
Working capital derived from		
Operations		
Net income	\$ 56,559,103	\$47,382,773
Items not involving working capital		
Depreciation	8,499,529	6,735,087
Deferred income taxes	2,447,000	2,999,092
Amortization of goodwill	835,006	315,199
Other (net)	705,197	180,634
	<u>69,045,835</u>	<u>57,612,785</u>
Proceeds from long-term debt	30,198,787	4,271,995
Proceeds on disposal of investments and property, plant and equipment	1,809,476	2,282,660
Other (net)	1,202,626	—
	<u>102,256,724</u>	<u>64,167,440</u>
Working capital applied to		
Purchase of property, plant and equipment	14,466,135	20,697,817
Acquisition of subsidiary companies less working capital of \$2,358,034	48,990,782	12,437,245
Reduction in long-term debt	6,717,448	4,720,300
Dividends paid on		
Preference shares	772,514	786,137
Class A and Class B shares	18,344,487	16,191,873
Preference shares purchased for cancellation	303,500	300,800
Other (net)	—	1,581,802
	<u>89,594,866</u>	<u>56,715,974</u>
Increase in working capital	12,661,858	7,451,466
Working capital at beginning of year	<u>29,657,027</u>	<u>22,205,561</u>
Working capital at end of year	<u>\$ 42,318,885</u>	<u>\$29,657,027</u>

Notes to Consolidated Financial Statements

Year ended December 31, 1978

1. ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of all subsidiary companies.

The earnings of subsidiary companies acquired during the year, using the purchase accounting method, have been included from the respective dates of acquisition.

(b) Translation of foreign currency

The financial statements of foreign subsidiaries and accounts of the company denominated in a foreign currency have been translated to Canadian dollars on the following basis:

- (i) Current assets, current liabilities and long-term debt are translated at the rate prevailing at the balance sheet date.
- (ii) All other assets and liabilities are translated at the rates prevailing at the dates the assets were acquired or the liabilities incurred.
- (iii) Revenue and expenses are translated at the average exchange rate for the year except for depreciation, amortization and income tax. Depreciation and amortization are translated at the rates prevailing at the dates the related assets were acquired and income tax is translated at the average exchange rate for the year, except for the unpaid balance, which is at the rate prevailing at the balance sheet date.

In 1978 the Canadian Institute of Chartered Accountants announced accounting recommendations related to the translation of foreign currencies. The company has adopted these recommendations in the financial statements for the year ended December 31, 1978, notwithstanding the recent suspension of the implementation date for these recommendations. The resulting foreign currency translation gains and losses are included in the determination of net income in the current year, except for unrealized gains and losses related to monetary assets and liabilities with a fixed or ascertainable life extending beyond the end of the following fiscal year. The effect of this change in policy on the company's financial position and results of operations for the current and prior years is not significant.

(c) Inventories

Inventories are valued at the lower of cost and replacement cost.

(d) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line basis over their estimated useful lives as follows:

Buildings	40 years
Machinery and equipment	10 to 25 years
Furniture and fixtures	10 years
Automobiles	4 years
Leasehold improvements	over terms of leases

(e) Circulation and goodwill

Effective April 1, 1974 generally accepted accounting principles require a determination of the fair value of intangible assets acquired and the value of items designated as goodwill must be amortized over a period not exceeding forty years.

Prior to April 1, 1974 the excess of the purchase price over the estimated fair value of net assets acquired was not separated between amounts paid for circulation and for goodwill. Since April 1, 1974 the company has determined the cost of circulation in each purchase. This amount will not be amortized but will be written down pro rata if the level of circulation falls below the level capitalized at the date of acquisition. The aggregate amount so capitalized, net of amounts written-off, to December 31, 1978 is \$40,004,951 (1977 — \$20,656,776).

Goodwill acquired before April 1, 1974 will not be amortized but will be written down if there should be a diminution in its value. In accordance with generally accepted accounting principles, amounts designated as goodwill acquired after April 1, 1974, totalling \$26,920,835 at December 31, 1978 (1977 — \$16,378,109), will be amortized over forty years from date of acquisition. Accumulated amortization to December 31, 1978 amounted to \$1,179,463 (1977 — \$578,570).

Notes to Consolidated Financial Statements

Year ended December 31, 1978

2. LONG-TERM DEBT	<u>1978</u>	<u>1977</u>
First mortgage bonds		
Sinking fund bonds, 1960 series, interest at 6%, due November 1, 1980, annual sinking fund \$150,000	\$ 1,186,000	\$ 1,323,000
Notes payable		
Promissory note payable, interest at 106% of U.S. prime rate plus ¼% to March 31, 1981 and thereafter plus ½% to maturity. Principal payable semi-annually to December 31, 1985, subject to prepayment at the borrower's option without penalty (U.S. \$27,000,000)	32,016,600	—
Promissory notes payable, interest at 7%, increased from 6¼% effective November 1, 1978. Principal payable annually to May 1, 1987 (U.S. \$8,562,500)	10,153,413	10,184,195
Notes payable, interest at 80% of U.S. prime rate. Principal payable annually to December 30, 1984 (U.S. \$3,408,000)	4,041,206	3,928,686
Notes payable, interest at 7½%. Principal payable annually to January 2, 1981 (U.S. \$2,492,438)	2,955,533	4,242,124
Miscellaneous notes and mortgages payable (U.S. \$3,327,290)	3,945,500	3,732,875
	<u>54,298,252</u>	<u>23,410,880</u>
Less instalments included in current liabilities	6,454,127	3,866,195
	<u>\$47,844,125</u>	<u>\$19,544,685</u>

Subsequent to the year end, a subsidiary company entered into an agreement whereby approximately U.S. \$10,000,000 of the U.S. \$27,000,000 promissory note payable will be refinanced in Netherlands guilders.

Long-term debt repayments over the next five years amount to:

1979 — \$6,454,127; 1980 — \$7,720,657; 1981 — \$5,053,691;
1982 — \$4,932,930; 1983 — \$4,930,746

3. CAPITAL STOCK

- (a) The company has issued preference shares which are designated as 6¼% cumulative redeemable preference shares, Series A, redeemable at \$51 per share. The company is obliged, in each calendar year, to purchase for cancellation \$300,000 aggregate par value of Series A preference shares in the market (if obtainable) at a price not exceeding the amount paid up thereon plus accrued dividends and costs of purchase. During 1978, 6,070 preference shares, having an aggregate par value of \$303,500, were purchased for cancellation.
- (b) Class A participating shares are convertible into Class B participating shares, and vice versa, on a one for one basis at the option of the holders thereof. The shares of each class are voting and rank equally in all respects. In 1978 dividends declared on the Class A shares were ordinary taxable dividends while dividends declared on the Class B shares were paid out of 1971 capital surplus on hand and were at the same rate as the Class A shares. Provisions of

the Income Tax Act (Canada) relating to payment of dividends out of tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand expired December 31, 1978 and, as a result, the March 15, 1979 quarterly dividend on the Class B shares will be an ordinary taxable dividend.

- (c) Subsequent to the year end, the Directors approved a special resolution which, subject to shareholder approval, will amend the Articles of Incorporation to increase the authorized capital of the company by the creation of 500,000,000 Class C special shares, with a par value of one cent each, which are non-participating and non-voting. If the special resolution is approved by the shareholders, dividends on the Class B shares will be paid at the same rate as for Class A shares, by way of a stock dividend either, at the option of the Class B shareholders, in fully-paid Class B shares or in fully-paid Class C shares which will be immediately redeemed at their par value. All other features of the Class A and Class B shares will remain unchanged.

Thomson Newspapers Limited

Notes to Consolidated Financial Statements

Year ended December 31, 1978

4. LONG-TERM LEASE

The company leases office and storage space in a building at 65 Queen Street West, Toronto, for a term expiring in 2001 at an annual rental of approximately \$309,000. Rentals under subleases contracted to date for varying terms up to ten years, covering space not occupied by the company, aggregate approximately \$150,000 per annum.

5. ACQUISITIONS

During 1978 the company purchased all of the outstanding capital stock of the following newspaper publishing companies:

News-Journal, Inc. and affiliated companies (Middletown, Ohio), January 4, 1978; Pearce Publishing Company Limited (Simcoe, Ontario), February 28, 1978; The Antelope Valley Ledger-Gazette, Inc. (Lancaster, California), March 31, 1978; Courier Enterprises (Barstow, California), November 3, 1978; News Publishing and Printing Company (Ada, Oklahoma), November 30, 1978.

The acquisitions of the above companies have been accounted for on the purchase basis of accounting and the following acquisition equation has been based on their financial statements at the respective acquisition dates:

Total assets acquired:	
Current assets	\$ 3,528,201
Property, plant and equipment	18,573,769
Investments and other assets	686,761
Circulation	<u>19,582,288</u>
	<u>42,371,019</u>
Less total liabilities assumed:	
Current liabilities	1,170,167
Other liabilities	<u>394,851</u>
	<u>1,565,018</u>
Net assets acquired at estimated fair value (net book value \$7,373,736) ...	40,806,001
Excess of purchase price of shares over estimated fair value (to be amortized over 40 years)	<u>10,542,815</u>
Cash consideration	<u>\$51,348,816</u>

6. EMPLOYEE PENSION PLANS

The company and certain of its subsidiaries have in force a number of pension plans which provide retirement benefits for both salaried and hourly-rated employees. The principal plans comprise certain deferred annuity plans and several trustee plans to which the company and its employees contribute.

Contributions to the deferred annuity pension plans are accrued and paid on a current basis and therefore no liability for past service cost exists at December 31, 1978. The actuarially computed past service costs under the trustee plans are being amortized over periods of up to 30 years. At December 31, 1978 the unfunded past service costs under the various plans, as of the latest valuation dates, were approximately \$4,500,000. The company proposes to liquidate the obligation for unfunded past service costs under the various plans by annual payments of approximately \$300,000.

7. ANTI-INFLATION ACT

During the year, the company was regulated under the Anti-Inflation Act which provided for the restraint of prices, profit margins, compensation and dividends in Canada. As of January 1, 1979 the company is no longer subject to these regulations. In the opinion of management, the company was in compliance with the requirements of the Anti-Inflation regulations at their expiry on December 31, 1978.

8. OTHER STATUTORY INFORMATION

The direct remuneration of directors and senior officers for 1978 amounts to \$839,017 (1977 — \$834,436).

9. COMPARATIVE FIGURES

The 1977 comparative figures have been reclassified to conform to 1978 financial statement presentation.

Auditors' Report

To the Shareholders of
Thomson Newspapers Limited

We have examined the consolidated balance sheet of Thomson Newspapers Limited as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial 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 the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 7, 1979

Thorne Riddell & Co.
Chartered Accountants

Thomson Newspapers Limited

