



**Thomson
Newspapers
Limited**

Annual Report 1985

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Financial Highlights

	1985	1984
Operating revenue	\$954,145,181	\$811,756,886
Net income	\$175,616,705	\$153,819,818
Net income per Class A and Class B share	\$1.19	\$1.04
Dividends paid		
Preference shares	\$ 467,514	\$ 509,202
Class A and Class B shares	\$ 68,175,774	\$ 57,822,649
Per Class A and Class B share	\$.462	\$.392

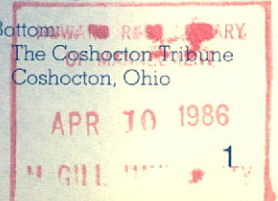


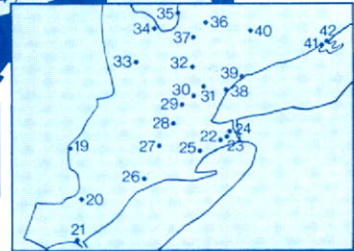
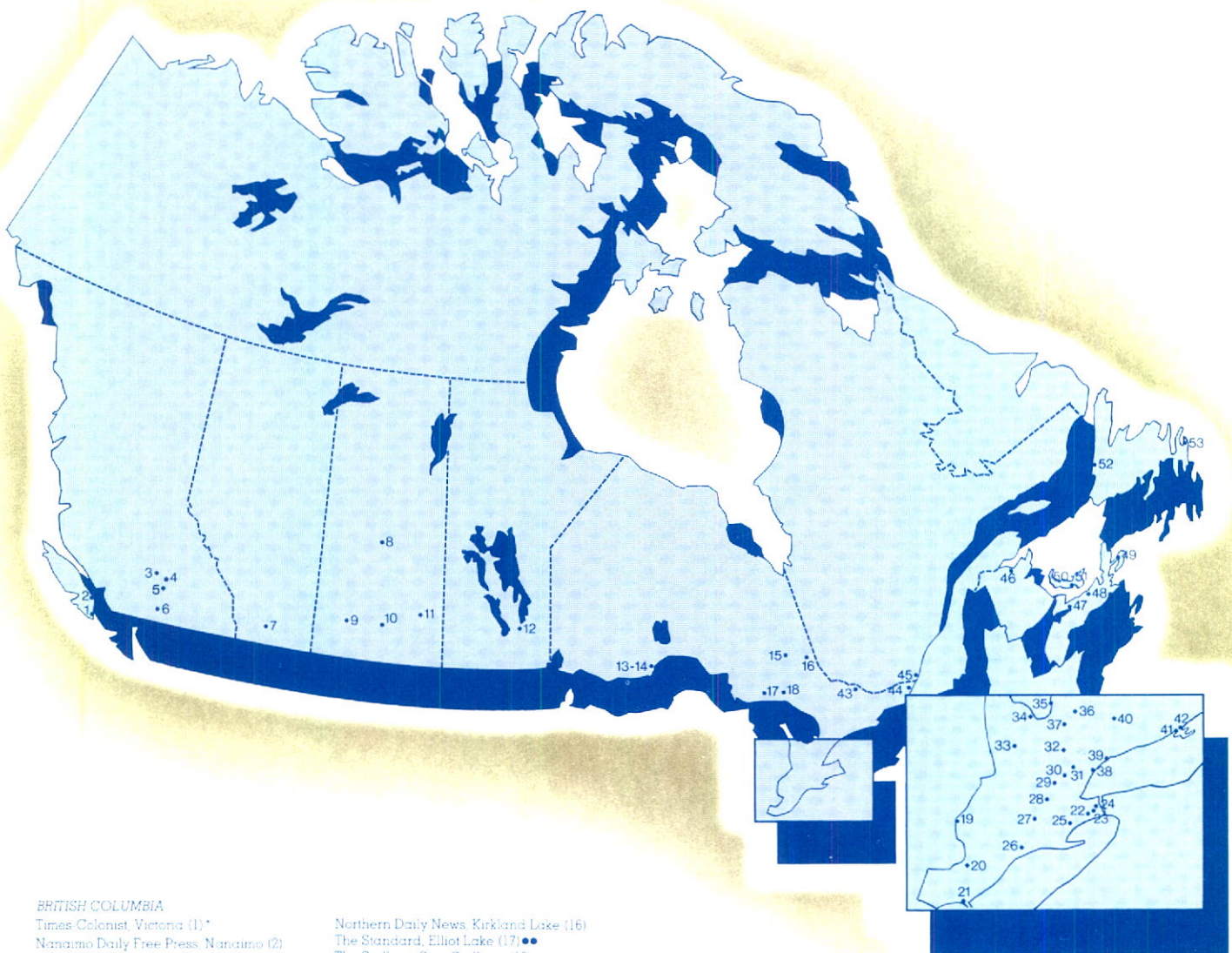
Pictures illustrate new offices and production facilities started or completed during 1985 for three Thomson newspapers. The buildings were designed to be compatible with their surroundings.

Top:
The Daily Spectrum
St. George, Utah

Centre:
The Cape Breton Post
Sydney, Nova Scotia

Bottom:
The Coshocton Tribune
Coshocton, Ohio





Enlargement of area indicated at left.

BRITISH COLUMBIA

- Times Colonist, Victoria (1)*
- Nanaimo Daily Free Press, Nanaimo (2)
- Kamloops Sentinel, Kamloops (3)†
- Vernon Daily News, Vernon (4)
- The Kelowna Daily Courier, Kelowna (5)
- Pentticon Herald, Pentticon (6)

ALBERTA

- The Lethbridge Herald, Lethbridge (7)

SASKATCHEWAN

- Prince Albert Daily Herald, Prince Albert (8)
- The Sun, Swift Current (9)●●
- Moose Jaw Times Herald, Moose Jaw (10)
- The Yorkton Enterprise, Yorkton (11)●

MANITOBA

- Winnipeg Free Press, Winnipeg (12)*

ONTARIO

- The Times-News, Thunder Bay (13)
- The Chronicle-Journal, Thunder Bay (14)
- The Daily Press, Timmins (15)

- Northern Daily News, Kirkland Lake (16)
- The Standard, Elliot Lake (17)●●
- The Sudbury Star, Sudbury (18)
- The Sarnia Observer, Sarnia (19)
- The Chatham Daily News, Chatham (20)
- Leamington Post, Leamington (21)●
- Dunnville Chronicle, Dunnville (22)●
- The Evening Tribune, Welland (23)
- Niagara Falls Review, Niagara Falls (24)
- The Simcoe Reformer, Simcoe (25)
- St. Thomas Times Journal, St. Thomas (26)
- The Daily Sentinel-Review, Woodstock (27)
- Cambridge Daily Reporter, Cambridge (28)
- The Daily Mercury, Guelph (29)
- The Herald, Georgetown (30)●
- The Daily Times, Brampton (31)
- The Banner, Orangeville (32)●●
- The Hanover Post, Hanover (33)●
- Enterprise Bulletin, Collingwood (34)●
- The Free Press, Midland (35)●●
- Daily Packet & Times, Orillia (36)
- The Barrie Examiner, Barrie (37)
- The Globe and Mail, Toronto (38)
- The Oshawa Times, Oshawa (39)
- Peterborough Examiner, Peterborough (40)

- The Trentonian and Tri-County News, Trenton (41)†
- The Intelligencer, Belleville (42)
- The Pembroke Observer, Pembroke (43)
- Standard Freeholder, Cornwall (44)

QUEBEC

- Montreal Standard Printers, Montreal (45)††

NEW BRUNSWICK

- The Northern Light, Bathurst (46)●

NOVA SCOTIA

- The Daily News, Truro (47)
- The Evening News, New Glasgow (48)
- Cape Breton Post, Sydney (49)

PRINCE EDWARD ISLAND

- The Guardian, Charlottetown (50)
- The Evening Patriot, Charlottetown (51)

NEWFOUNDLAND

- The Western Star, Corner Brook (52)
- The Evening Telegram, St. John's (53)

All newspapers are published DAILY except those marked as follows
 *DAILY including SUNDAY ● WEEKLY
 ●● BI-WEEKLY †TRI-WEEKLY ††COMMERCIAL PRINTER

Total Daily Circulation in Canada -1,125,900
 Total Daily Circulation in the United States -1,497,900



ALABAMA
The Dothan Eagle, Dothan (54)*
The Enterprise Ledger, Enterprise (55)*
The Opelika-Auburn News, Opelika (56)*

ARKANSAS
Northwest Arkansas Times, Fayetteville (57)*

CALIFORNIA
Desert Dispatch, Barstow (58)
The Times-Standard, Eureka (59)*
The Press-Courier, Oxnard (60)*
San Gabriel Valley Tribune, West Covina (61)*
The Daily News, Whittier (62)*
Siskiyou Daily News, Yreka (63)

CONNECTICUT
The Evening Sentinel, Ansonia (64)

FLORIDA
Jackson County Floridan, Marianna (65)*
Clay Today, Orange Park (66)
Englewood Herald, Englewood (67)●
Daily Herald-News, Punta Gorda (68)
The Key West Citizen, Key West (69)*

GEORGIA
Americus Times-Recorder, Americus (70)
The Daily Citizen-News, Dalton (71)
The Cordele Dispatch, Cordele (72)
The Tifton Gazette, Tifton (73)
The Valdosta Daily Times, Valdosta (74)*
Thomasville Times-Enterprise, Thomasville (75)
Griffin Daily News, Griffin (76)

ILLINOIS
The Register-News, Mount Vernon (77)
McLeansboro Times-Leader, McLeansboro (78)●
Jacksonville Journal Courier, Jacksonville (79)*

INDIANA
The Tribune, New Albany (80)*
The Kokomo Tribune, Kokomo (81)*
The Vidette-Messenger, Valparaiso (82)

IOWA
Council Bluffs Nonpareil, Council Bluffs (83)*
The Oelwein Daily Register, Oelwein (84)

KANSAS
Atchison Daily Globe, Atchison (85)*
The Leavenworth Times, Leavenworth (86)*

KENTUCKY
The Times-Tribune, Corbin (87)*
The Richmond Register, Richmond (88)

LOUISIANA
The Daily Advertiser, Lafayette (89)*

MARYLAND
The Daily Times, Salisbury (90)*

MASSACHUSETTS
The Daily Sentinel and Leominster Enterprise,
Fitchburg (91)
Taunton Daily Gazette, Taunton (92)

MICHIGAN
The Herald-Palladium, Benton Harbor (93)
Adrian Daily Telegram, Adrian (94)
The Daily Press, Escanaba (95)
The Daily News, Iron Mountain (96)
The Mining Journal, Marquette (97)
The Daily Mining Gazette, Houghton (98)

MINNESOTA
The Evening Tribune, Albert Lea (99)*
Austin Daily Herald, Austin (100)*
The Daily Journal, Fergus Falls (101)

MISSISSIPPI
Laurel Leader-Call, Laurel (102)

MISSOURI
The Carthage Press, Carthage (103)
The Daily Standard, Sikeston (104)*
The Southeast Missourian,
Cape Girardeau (105)*

Enlargement of area indicated above.

NEW HAMPSHIRE
The Portsmouth Herald, Portsmouth (106)*

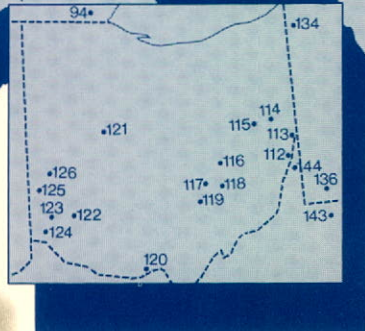
NEW YORK
The Evening Telegram, Herkimer (107)
The Palladium-Times, Oswego (108)
The Evening News, Newburgh (109)*

NORTH CAROLINA
The Evening Telegram, Rocky Mount (110)*

NORTH DAKOTA
The Dickinson Press, Dickinson (111)*

OHIO
The Herald-Star, Steubenville (112)*
The Evening Review, East Liverpool (113)
The Salem News, Salem (114)
The Repository, Canton (115)*
The Coshocton Tribune, Coshocton (116)*
The Advocate, Newark (117)*
The Times Recorder, Zanesville (118)*
Lancaster Eagle-Gazette, Lancaster (119)
The Daily Times, Portsmouth (120)
The Marion Star, Marion (121)*
The Xenia Daily Gazette, Xenia (122)
The Franklin Chronicle, Franklin (123)●
Middletown Journal, Middletown (124)*
The Daily Advocate, Greenville (125)
The Piqua Daily Call, Piqua (126)

OKLAHOMA
The Ada Evening News, Ada (127)*



PENNSYLVANIA
The Express, Easton (128)*
The Express, Lock Haven (129)
The Evening Sun, Hanover (130)
The Daily News, Lebanon (131)*
Altoona Mirror, Altoona (132)
The Meadville Tribune, Meadville (133)
The Record-Argus, Greenville (134)
The Leader-Times, Kittanning (135)
The Valley Independent, Monessen (136)
The Daily Courier, Connellsville (137)
The News-Item, Shamokin-Mount Carmel (138)

SOUTH CAROLINA
Florence Morning News, Florence (139)*

SOUTH DAKOTA
The Daily Republic, Mitchell (140)

UTAH
The Daily Spectrum, St. George (141)*

VIRGINIA
The Progress-Index, Petersburg (142)*

WEST VIRGINIA
The Times-West Virginian, Fairmont (143)*
The Weirton Daily Times, Weirton (144)

WISCONSIN
The Post-Crescent, Appleton (145)*
The Reporter, Fond du Lac (146)*
Herald-Times-Reporter, Manitowoc (147)*
Waukesha Freeman, Waukesha (148)
The Daily Tribune, Wisconsin Rapids (149)
West Bend News, West Bend (150)●●

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

Officers

K. R. Thomson

Chairman of the Board and President

John A. Tory, Q.C.

Deputy Chairman

Brian W. Slight

Executive Vice-President

Peter T. Bogart, F.C.A.

Vice-President—Finance and Treasurer

Michael R. Doody

Secretary

Ronald B. Mitchell, C.A.

Assistant Treasurer

Paul E. Weeks, C.G.A.

Controller

Directors

Peter T. Bogart, F.C.A.

John H. Coleman

John S. Dewar

Lorne K. Lodge

St. Clair McCabe

D. J. Peacher

Brian W. Slight

D. C. H. Stanley

K. R. Thomson

John A. Tory, Q.C.

Executive Offices

Thomson Newspapers Limited

65 Queen Street West, Toronto, Canada

L. A. DeMarchi, Assistant General Manager

M. W. Johnston, Assistant General Manager

P. A. Tissington, Assistant General Manager

2635-37th Avenue N.E., Calgary, Alberta

R. H. Laidlaw, Assistant General Manager

Thomson Newspapers Inc.

3150 Des Plaines Avenue, Des Plaines, Illinois

St. Clair McCabe, President

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

D. P. Hicks, Vice-President, Operations

R. D. Anderson, Vice-President and
Corporate Controller

R. Michael Sheppard,
Assistant General Manager

4150 Belden Village Street, Canton, Ohio

Ralph J. Martin, 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

11020 Ambassador Drive, Kansas City, Missouri

F. S. Sumner, Vice-President and
Assistant General Manager

Sales Offices

Toronto, Montreal, New York, Chicago

Auditors

Thorne Riddell

Principal Bankers

The Royal Bank of Canada

The Toronto-Dominion Bank

Chemical Bank

Solicitors

Tory, Tory, DesLauriers & Binnington

Stock Exchange Listings

Toronto and Montreal

Transfer Agent

Montreal Trust Company

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, 1985, together with the Auditors' Report thereon.

Net income for 1985 was \$175,616,705 compared with \$153,819,818 for 1984, an increase of \$21,796,887. Operating revenue for 1985 was \$954,145,181 compared with \$811,756,886. Net income per Class A and Class B share increased to \$1.19 compared with \$1.04. The net income per share has been adjusted to reflect the three for one stock split that became effective May 9, 1985.

Capital expenditures on new plant and equipment and additions or alterations to existing plants amounted to approximately \$26.9 million in 1985. Capital expenditures in 1986 are expected to amount to approximately \$27 million, including a new plant in Key West, Florida, a new building in Coshocton, Ohio and new presses and other substantial additions and improvements at various locations.

Effective May 9, 1985 your Company's Class A and Class B shares were split on a three for one basis. This was accomplished by way of a stock dividend of two Class A shares or two Class B shares for each Class A or Class B share held respectively.

The dividend for the first quarter of the year on the Class A and Class B shares was at the rate of 10.167 cents per share (30.5 cents pre-stock split). Dividends for the last three quarters were at the increased rate of 12 cents per share. As a result of changes regarding the tax treatment of stock dividends introduced in the Federal Government's May 1985 Budget, cash dividends were paid on both the Class A and Class B shares on September 15 and December 15, 1985. Your Company is presently considering the possibility of recommending payment of stock dividends on its Class B shares.

In its continuing U.S. acquisition program, the following seven daily newspapers were acquired by your Company during 1985: The Daily News, Lebanon, Pennsylvania; The Herald-Palladium, Benton Harbor-St. Joseph, Michigan; the Dickinson Press, Dickinson, North Dakota; the Daily Journal, Fergus Falls, Minnesota; The Richmond Register, Richmond, Kentucky; The News-Item, Shamokin-Mount Carmel, Pennsylvania and The Vidette-Messenger, Valparaiso, Indiana. The daily newspaper in Douglas, Arizona was sold in January, 1985. Additional acquisitions are expected to be announced in the near future.

For 1985, Augusta Newsprint Company incurred a pre-tax loss of approximately U.S. \$8 million (your Company's 50 percent share—U.S. \$4 million before tax). The mill is now operating well and the partnership is generating positive cash flow.

For 1985 as a whole, revenue increased by 17.5 percent and operating income by almost 18 percent. Growth in both revenue and operating income continued in the fourth quarter at rates better than those experienced in the first nine months.

Your Company anticipates satisfactory growth in both revenue and net income for 1986.

On behalf of the Board, I would like to express our sincere appreciation to all our employees throughout Canada and the United States whose outstanding efforts have again contributed to your Company's continuing record of achievement.

For the Board of Directors



Chairman and President
March 18, 1986

(Incorporated under the laws of Ontario)

As at December 31, 1985

ASSETS	1985	1984
Current Assets		
Cash and term deposits	\$ 114,356,701	\$ 19,507,535
Trade accounts receivable	115,100,568	106,327,194
Other accounts receivable	6,156,435	3,984,957
Inventories	12,368,426	12,064,196
Prepaid expenses	1,622,348	1,969,657
	<u>249,604,478</u>	<u>143,853,539</u>
Investments and Other Assets (note 2)	<u>80,619,243</u>	<u>62,790,816</u>
Property, Plant and Equipment		
Land	41,246,956	39,014,544
Buildings, machinery and equipment	532,457,497	476,845,048
	<u>573,704,453</u>	<u>515,859,592</u>
Less accumulated depreciation	193,247,000	155,892,122
	<u>380,457,453</u>	<u>359,967,470</u>
Circulation and Goodwill	487,523,870	400,189,603
	<u>\$1,198,205,044</u>	<u>\$966,801,428</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 59,597,396	\$ 43,526,305
Taxes payable	24,857,080	12,388,503
Current instalments of long-term debt	2,097,237	18,516,734
Prepaid subscriptions	20,431,605	16,368,222
	<u>106,983,318</u>	<u>90,799,764</u>
Long-Term Debt (note 3)	<u>148,344,078</u>	<u>103,672,845</u>
Deferred Income Taxes	<u>96,241,463</u>	<u>67,674,594</u>
SHAREHOLDERS' EQUITY		
Capital Stock (note 4)		
Preference shares	6,690,650	7,255,900
Class A and Class B shares	54,209,420	54,208,420
	<u>60,900,070</u>	<u>61,464,320</u>
Equity Adjustment From Foreign Currency Translation	102,384,851	66,959,766
Retained Earnings	683,351,264	576,230,139
	<u>846,636,185</u>	<u>704,654,225</u>
	<u>\$1,198,205,044</u>	<u>\$966,801,428</u>

Approved by the Board

K. R. Thomson, Director
D. C. H. Stanley, Director

Consolidated Statement of Income

Year Ended December 31, 1985

	1985	1984
Operating revenue	\$954,145,181	\$811,756,886
Costs and operating expenses	608,466,382	518,850,825
Operating income before depreciation	345,678,799	292,906,061
Depreciation	26,120,343	21,923,513
Operating income	<u>319,558,456</u>	<u>270,982,548</u>
Other deductions (income)		
Interest—long-term debt	14,545,258	7,974,112
—other	1,754,104	883,551
Interest and investment income	(7,658,635)	(10,139,486)
Other (net)	(2,426,886)	615,128
	<u>6,213,841</u>	<u>(666,695)</u>
Equity in pre-tax loss of Augusta Newsprint Company	5,454,896	—
Income before undernoted items	<u>307,889,719</u>	<u>271,649,243</u>
Income taxes		
Current	95,033,000	96,358,000
Deferred	34,203,000	19,864,000
	<u>129,236,000</u>	<u>116,222,000</u>
Income before amortization of goodwill	178,653,719	155,427,243
Amortization of goodwill	3,037,014	1,607,425
Net income	<u>\$175,616,705</u>	<u>\$153,819,818</u>
Net income per Class A and Class B share	\$1.19	\$1.04

Net income per Class A and Class B share has been adjusted to reflect the 3 for 1 stock split.

Consolidated Statement of Retained Earnings

Year Ended December 31, 1985

	1985	1984
Balance at beginning of year	\$576,230,139	\$480,642,887
Net income	175,616,705	153,819,818
Net discount on purchase of preference and Class A and Class B shares	147,708	99,285
	<u>751,994,552</u>	<u>634,561,990</u>
Dividends paid on		
Preference shares	467,514	509,202
Class A and Class B shares	68,175,774	57,822,649
	<u>68,643,288</u>	<u>58,331,851</u>
Balance at end of year	<u>\$683,351,264</u>	<u>\$576,230,139</u>

Year Ended December 31, 1985

	1985	1984
Cash provided by (used in) operating activities		
Net income.....	\$175,616,705	\$153,819,818
Charges to operations not requiring a current cash payment		
Depreciation.....	26,120,343	21,923,513
Deferred income taxes.....	34,203,000	19,864,000
Amortization of goodwill.....	3,037,014	1,607,425
Equity in pre-tax loss of Augusta Newsprint Company.....	5,454,896	—
Other (net).....	(458,743)	1,306,512
	<u>243,973,215</u>	<u>198,521,268</u>
Net change in non-cash working capital balances related to operations.....	18,993,977	(21,480,902)
	<u>262,967,192</u>	<u>177,040,366</u>
Cash provided by (used in) investment activities		
Acquisition of subsidiary companies less cash of \$4,796,307 (note 5).....	(98,117,155)	(136,823,429)
Investment in Augusta Newsprint Company.....	(12,191,850)	(8,548,128)
Purchase of property, plant and equipment.....	(26,913,519)	(26,495,805)
Proceeds on disposal of investments and property, plant and equipment.....	19,136,169	816,420
	<u>(118,086,355)</u>	<u>(171,050,942)</u>
Cash provided by (used in) financing activities		
Dividends.....	(68,643,288)	(58,331,851)
Reduction in long-term debt.....	(33,165,385)	(26,057,805)
Preference shares purchased for cancellation.....	(565,250)	(503,000)
Proceeds from long-term debt.....	52,812,000	26,440,000
Other (net).....	(469,748)	3,297,807
	<u>(50,031,671)</u>	<u>(55,154,849)</u>
Net increase (decrease) in cash during year.....	94,849,166	(49,165,425)
Cash position at beginning of year.....	19,507,535	68,672,960
Cash position at end of year.....	<u>\$114,356,701</u>	<u>\$ 19,507,535</u>

1. ACCOUNTING POLICIES

(a) Basis of consolidation

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

Subsidiary companies acquired during the year have been accounted for using the purchase method. Earnings have been included from the respective dates of acquisition.

(b) Translation of foreign currency

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

- (i) All assets and liabilities are translated at the rate prevailing at the balance sheet date.
- (ii) Revenue and expenses, including depreciation, amortization and income taxes, are translated at the average exchange rate for the year.

Foreign exchange gains and losses arising on translation are not included in the determination of net income but are deferred and disclosed separately within shareholders' equity.

During the year, the equity adjustment from foreign currency translation increased by \$35,425,085. The only significant element of this increase was the effect of changes in exchange rates applied to the net assets held since the beginning of the year by foreign subsidiaries.

(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 annually 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 circula-

tion and for goodwill. Since April 1, 1974 the company has determined the cost of circulation in each purchase. This amount is not being amortized but is being written down pro rata where 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, 1985 is \$229,697,697.

Goodwill acquired before April 1, 1974 is not being 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 \$123,856,704 at December 31, 1985, are being amortized over forty years from date of acquisition. Accumulated amortization to December 31, 1985 amounted to \$11,664,220.

2. INVESTMENT IN JOINT VENTURE PARTNERSHIP

In 1981 a joint venture partnership was formed between a wholly-owned subsidiary of the company and a wholly-owned subsidiary of Abitibi-Price Inc., as equal partners. The partnership, known as Augusta Newsprint Company, was formed to acquire, operate and expand an existing newsprint mill in Augusta, Georgia and to acquire and operate the mill's related woodlands. Augusta Newsprint Company had in place project financing in the amount of U.S. \$215 million at December 31, 1985. The company and Abitibi-Price Inc. have not guaranteed the loans which are therefore without recourse to either of them. The company's investment in the partnership, amounting to \$71,968,504 (U.S. \$51,468,572), is included in Investments and Other Assets and is comprised of the company's investment of U.S. \$70,800,000 less the company's equity in the pre-tax loss of the partnership since January 1, 1982 of U.S. \$19,331,428.

The company deferred all revenue and expenses related to this project until the expanded mill became fully operational late in 1984. In 1985, the company has charged its equity in the loss of the partnership against income.

Summarized financial information of the joint venture is as follows:

	1985	1984
	U.S. Dollars	
Current assets	\$ 27,003,483	\$ 24,218,928
Plant and equipment and other assets	316,732,589	324,742,154
Total assets	343,736,072	348,961,082
Current liabilities	18,827,827	22,803,334
Long-term liabilities	221,971,100	232,829,254
Total liabilities	240,798,927	255,632,588
Partnership equity	<u>\$102,937,145</u>	<u>\$ 93,328,494</u>
Net sales	<u>\$139,834,918</u>	<u>\$125,920,050</u>
Loss before income taxes	<u>\$ 7,991,349</u>	<u>\$ 22,620,378</u>

Year Ended December 31, 1985

3. LONG-TERM DEBT

	1985	1984
Promissory notes payable, variable interest keyed to the Eurodollar rate plus ½% to September 30, 1986 and thereafter plus ¾% to maturity. Principal payable annually from December 31, 1988 to September 30, 1991, subject to prepayment at the borrower's option without penalty (U.S. \$50,275,000 bearing interest at 8.88% at December 31, 1985, 1984—9.25%)	\$ 70,299,533	\$ 70,578,780
Promissory notes payable, variable interest keyed to the Eurodollar rate plus ½% to December 31, 1989 and thereafter plus ¾% to maturity. Principal payable annually from December 31, 1988 to December 31, 1994, subject to prepayment at the borrower's option without penalty (U.S. \$40,000,000 bearing interest at 8.88% at December 31, 1985)	55,932,000	
Promissory note payable, variable interest keyed to the Eurodollar rate plus ½% to maturity. Principal payable semi-annually from June 30, 1987 to December 31, 1988, subject to prepayment at the borrower's option without penalty (U.S. \$13,000,000 bearing interest at 8.80% at December 31, 1985, 1984—8.90%)	18,177,900	17,182,100
Promissory notes payable, interest at 7%. Principal payable annually to May 1, 1987 (U.S. \$2,000,000)	2,796,600	3,965,100
Promissory note payable semi-annually from June 13, 1990 to December 13, 1994, subject to prepayment at the borrower's option without penalty (U.S. \$20,000,000)		26,434,000
Miscellaneous notes and mortgages payable (U.S. \$2,313,726)	3,235,282	4,029,599
	150,441,315	122,189,579
Less instalments included in current liabilities	2,097,237	18,516,734
	<u>\$148,344,078</u>	<u>\$103,672,845</u>

Long-term debt repayments are as follows: 1986—\$2,097,237, 1987—\$11,140,061, 1988—\$35,249,845, 1989—\$26,048,914, 1990—\$26,046,351, 1991 and thereafter—\$49,858,907

4. CAPITAL STOCK

(a) Authorized and issued share capital are as follows:

	1985	1984
Authorized		
433,813 Preference shares issuable in series (1984—445,118 shares)		
Second preference shares issuable in series		
Class A and Class B interconvertible participating shares		
Class C special non-participating, non-voting shares		
Common shares		
Issued		
133,813 Preference shares, Series A 6¼% cumulative redeemable (1984—145,118 shares)	\$ 6,690,650	\$ 7,255,900
147,709,116 Shares consisting of 139,625,448 Class A and 8,083,668 Class B (1984—46,474,182 Class A and 2,762,190 Class B)	54,209,420	54,208,420
	<u>\$60,900,070</u>	<u>\$61,464,320</u>

company is obliged, in each calendar year, to purchase for cancellation, Series A preference shares with a stated capital of \$300,000, in the market (if obtainable) at a price not exceeding the stated capital thereon plus accrued dividends and costs of purchase. During 1985, 11,305 preference shares, having a stated capital of \$565,250, were purchased for cancellation.

(d) 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 shareholder. The shares of each class are voting and rank equally in all respects. Dividends on the Class B shares are payable at the same rate as on the Class A shares either in the form of cash dividends or by way of stock dividend as determined by the directors. Stock dividends are paid, at the option of the Class B shareholders, either (i) in fully-paid Class B shares or (ii) in fully-paid Class C shares which are immediately redeemable at \$01 per share. Dividends on the Class A shares are paid in cash. As a result of the changes announced in the May, 1985 Federal Budget, cash dividends were paid on September 15 and December 15, 1985 to holders of both the Class A and Class B shares.

On March 15 and June 15, 1985 the company issued 137,349 Class B shares (after adjustment for the three for one stock split that became effective May 9, 1985) by way of stock dividend on its Class B shares. In accordance with the company's share purchase policy, an equivalent number of Class A shares has been purchased through the facilities of The Toronto Stock Exchange. Also, 1,639,757 Class C shares, issued as stock dividends on the Class B shares, were redeemed at \$01 per share.

(b) Effective May 9, 1985, the company's Class A and Class B shares were split on a three for one basis. This was accomplished by way of a stock dividend of two Class A shares or two Class B shares for each Class A or Class B share held respectively. The stock dividend was paid on May 31, 1985 to shareholders of record on May 15, 1985 and resulted in an increase of \$1,000 in the company's stated capital.

(c) The company has issued preference shares which are designated as 6¼% cumulative redeemable preference shares, Series A, redeemable at \$51 per share. The

Year Ended December 31, 1985

5. ACQUISITIONS

During 1985 the company purchased all the outstanding capital stock of the following newspaper publishing companies:

Lebanon News Publishing Company, Inc. (Lebanon, Pennsylvania), January 10, 1985; Dickinson Newspapers, Inc. (Dickinson, North Dakota), May 31, 1985; Fergus Journal Company (Fergus Falls, Minnesota), July 16, 1985; Richmond Publishing Corporation (Richmond, Kentucky), August 30, 1985; News Publishing and Printing Company (Shamokin, Pennsylvania), September 30, 1985; The Vidette-Messenger Company (Valparaiso, Indiana), October 31, 1985.

On February 28, 1985 the company purchased the assets of The Herald-Palladium (Benton Harbor-St. Joseph, Michigan).

These acquisitions have been accounted for using the purchase method. The acquisition equation is as follows:

Total assets acquired:	
Cash	\$ 4,796,307
Other current assets	4,630,518
Investments and other assets	592,174
Property, plant and equipment	40,934,046
Circulation	47,275,143
	<u>98,228,188</u>
Less total liabilities assumed:	
Current liabilities	7,439,571
Other liabilities	451,898
	<u>7,891,469</u>
Net assets acquired at estimated fair value	90,336,719
Excess of purchase price over estimated fair value (to be amortized over 40 years)	12,576,743
Consideration	<u>\$102,913,462</u>

6. INCOME TAXES

The company's effective income tax rate is made up as follows:

	1985	1984
Combined basic Canadian federal and Ontario provincial income tax rate	51.0%	51.0%
Decrease in the income tax rate resulting from:		
Manufacturing and processing profits deduction	(1.8)	(1.9)
Lower effective income tax rate on earnings of foreign subsidiaries	(7.1)	(5.9)
Miscellaneous (net)	(0.1)	(0.4)
Effective income tax rate	<u>42.0%</u>	<u>42.8%</u>

7. SEGMENTED INFORMATION

The company operates solely in newspaper publishing and printing. The following is a summary of the geographic segments of the company:

1985	Canada	United States	Consolidated
Total assets	\$229,362,005	\$968,843,039	\$1,198,205,044
Operating revenue	\$432,927,137	\$521,218,044	\$ 954,145,181
Operating income	\$122,325,630	\$203,565,572	\$ 325,891,202
General corporate expenses			6,332,746
Interest—long-term debt			14,545,258
—other			1,754,104
Equity in pre-tax loss of Augusta Newsprint Company			5,454,896
Interest and investment income			(7,658,635)
Other (net)			(2,426,886)
Income taxes			129,236,000
Amortization of goodwill			3,037,014
			<u>150,274,497</u>
Net income			<u>\$ 175,616,705</u>
1984			
Total assets	\$193,791,066	\$773,010,362	\$ 966,801,428
Operating revenue	\$400,684,765	\$411,072,121	\$ 811,756,886
Operating income	\$110,075,500	\$166,625,112	\$ 276,700,612
General corporate expenses			5,718,064
Interest—long-term debt			7,974,112
—other			883,551
Interest and investment income			(10,139,486)
Other (net)			615,128
Income taxes			116,222,000
Amortization of goodwill			1,607,425
			<u>122,880,794</u>
Net income			<u>\$ 153,819,818</u>

Auditors' Report

To the Shareholders of
Thomson Newspapers Limited

We have examined the consolidated balance sheet of Thomson Newspapers Limited as at December 31, 1985 and the consolidated statements of income, 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 the company as at December 31, 1985 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 21, 1986

Thorne Riddell
Chartered Accountants

Milestones in the History of Thomson Newspapers

- 1934 Roy Thomson purchases Timmins Press, a weekly, and begins his first publishing venture.
- 1935 Timmins Press converts to daily publication, the first of what would eventually be 11 conversions by the Company of weekly newspapers to daily publication.
- 1940 The opening of the Timmins Daily Press building, the most modern newspaper plant in northern Ontario.
- 1944 Expansion begins with the acquisition of newspapers in Galt, Woodstock, Sarnia and Welland. The Company becomes the publisher of the largest number of daily newspapers of any group in Ontario.
- 1954 Roy Thomson leaves for Scotland to begin a new phase of his career in the United Kingdom. The Company now publishes the largest number of newspapers of any group in Canada.
- 1959 With the decline in the opportunities to acquire Canadian newspapers, the major thrust of the Company's acquisition program moves to the United States.
- 1965 The Company makes its first issue of equity shares to the public.
- 1967 With the acquisition of the 12 daily newspapers of the Brush-Moore group, and four other U.S. daily newspapers, the Company now publishes more daily newspapers in the United States (32) than in Canada (27).
- 1974 The number of newspapers published by the Company passes the 100 mark.
- 1976 Roy Thomson dies. At year's end, the Company publishes a total of 110 newspapers in Canada and the United States.
- 1977 Total daily circulation in the United States passes the one million mark.
- 1980 The Company acquires FP. Publications Limited. Total daily circulation in Canada passes the one million mark.
- 1985 After 51 years of growth, the Company publishes 39 daily and 13 weekly newspapers in Canada, and 93 daily and 5 weekly newspapers in the United States, for a total of 150 newspapers at year's end.

Summary of Selected Consolidated Financial Information

	Year Ended December 31				
	1985	1984	1983	1982	1981
	(dollar amounts in thousands except per share amounts)				
Operating revenue					
Canada	\$432,927	\$400,685	\$361,635	\$352,936	\$365,952
United States	521,218	411,072	344,677	313,521	280,041
Total	<u>\$954,145</u>	<u>\$811,757</u>	<u>\$706,312</u>	<u>\$666,457</u>	<u>\$645,993</u>
Operating income (segmented)					
Canada	\$122,326	\$110,076	\$ 96,911	\$ 70,881	\$ 91,496
United States	203,565	166,625	138,658	119,973	111,334
Total	<u>\$325,891</u>	<u>\$276,701</u>	<u>\$235,569</u>	<u>\$190,854</u>	<u>\$202,830</u>
Income before extraordinary items	<u>\$175,617</u>	<u>\$153,820</u>	<u>\$126,090</u>	<u>\$ 99,396</u>	<u>\$ 96,984</u>
Per Class A and Class B share					
Income before extraordinary items	\$ 1.19	\$ 1.04	\$.85	\$.67	\$.65
Dividends	\$.462	\$.392	\$.335	\$.292	\$.253

