

C

Thomson Newspapers



**Thomson Newspapers Limited**  
**Annual Report 1986**

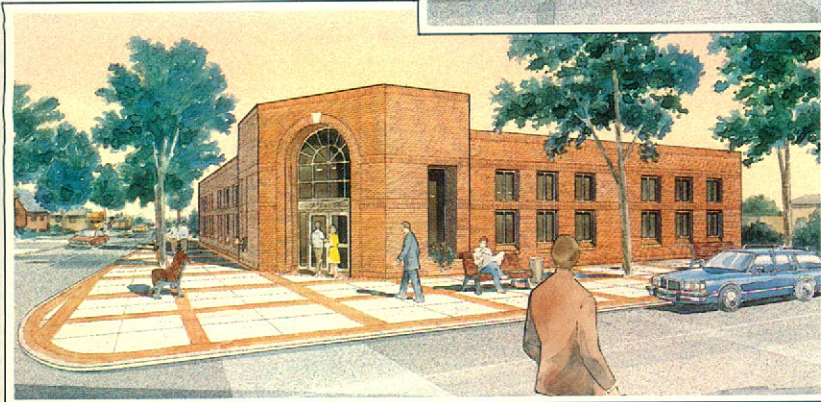
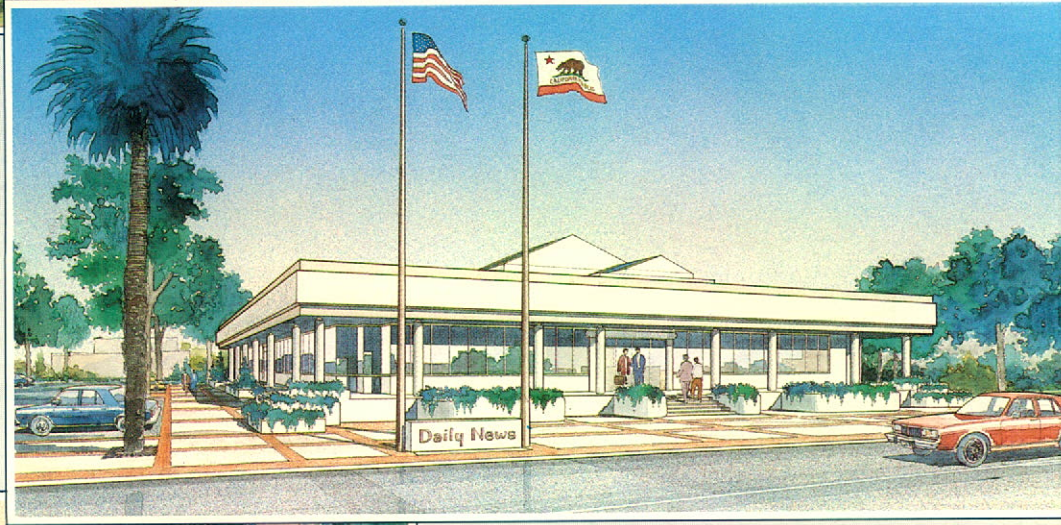
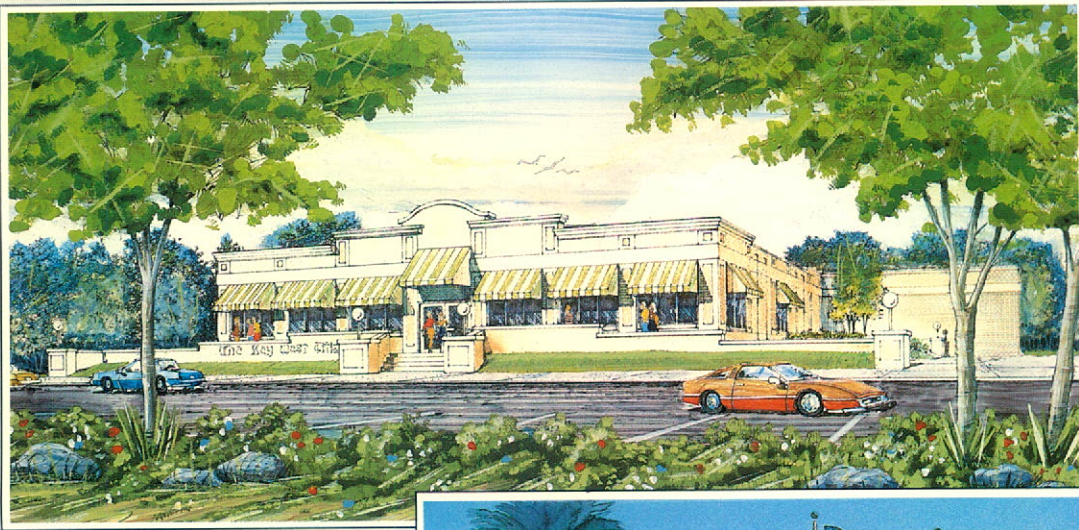
---

## Contents

	Page
Financial Highlights . . . . .	Inside Front Cover
Newspaper Locations	
Canada . . . . .	2
United States . . . . .	3
Officers and Directors . . . . .	4
Report of the Directors . . . . .	5
Consolidated Balance Sheet . . . . .	6
Consolidated Statement of Income . . . . .	7
Consolidated Statement of Retained Earnings . . . . .	7
Consolidated Statement of Changes in Cash Position . . . . .	8
Notes to Consolidated Financial Statements . . . . .	9-11
Auditors' Report . . . . .	11
Summary of Selected Consolidated Financial Information . . . . .	12
Milestones in the History of Thomson Newspapers . . . . .	12

## Financial Highlights

	1986	1985
<i>(in thousands except per share amounts)</i>		
Operating revenue . . . . .	\$1,029,592	\$954,145
Income before extraordinary items . . . . .	\$ 200,695	\$175,617
Net income . . . . .	\$ 221,272	\$175,617
Income per Class A and Class B share		
Income before extraordinary items . . . . .	\$1.36	\$1.19
Net income . . . . .	\$1.50	\$1.19
Dividends paid		
Preference shares . . . . .	\$ 445	\$ 467
Class A and Class B shares . . . . .	\$ 79,571	\$ 68,176
Per Class A and Class B share . . . . .	\$.540	\$.462

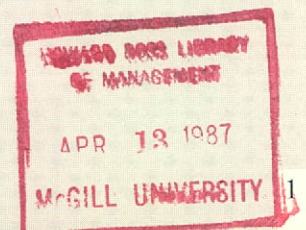


Artists' representations of new offices and production facilities scheduled for construction during 1987 by Thomson Newspapers.

*Top:*  
The Key West Citizen  
Key West, Florida

*Centre:*  
The Daily News  
Whittier, California

*Bottom:*  
The Enterprise-Bulletin  
Collingwood, Ontario





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)
- Penticton Herald, Penticton (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)\*
- Brampton 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

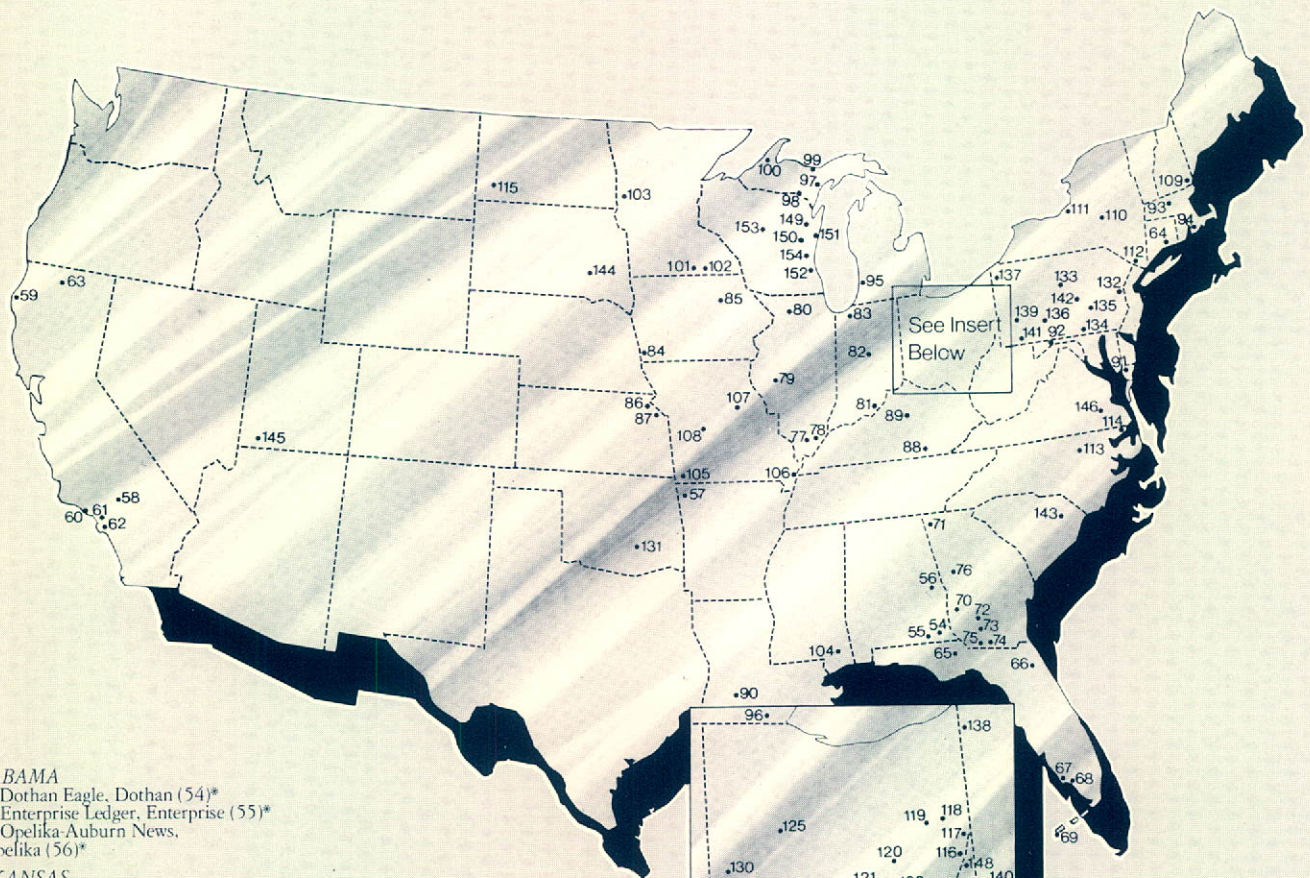
•WEEKLY

\*\*BI-WEEKLY

†TRI-WEEKLY

‡COMMERCIAL PRINTER

Total Daily Circulation in Canada — 1,124,200  
Total Daily Circulation in the United States — 1,541,700



**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)\*  
Charlotte 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)\*  
The Daily Gazette,  
Sterling-Rock Falls (80)

**INDIANA**  
The Tribune, New Albany (81)\*  
The Kokomo Tribune, Kokomo (82)\*  
The Vidette-Messenger, Valparaiso (83)

**IOWA**  
Council Bluffs Nonpareil,  
Council Bluffs (84)\*  
The Oelwein Daily Register, Oelwein (85)

**KANSAS**  
Atchison Daily Globe, Atchison (86)\*  
The Leavenworth Times,  
Leavenworth (87)\*

**KENTUCKY**  
The Times-Tribune, Corbin (88)\*  
The Richmond Register, Richmond (89)

**LOUISIANA**  
The Daily Advertiser, Lafayette (90)\*

**MARYLAND**  
The Daily Times, Salisbury (91)\*  
The Cumberland News/Evening  
Times, Cumberland (92)\*

**MASSACHUSETTS**  
Sentinel and Enterprise, Fitchburg (93)  
Taunton Daily Gazette, Taunton (94)

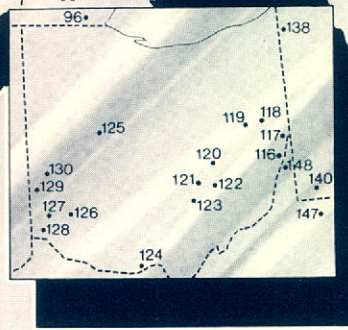
**MICHIGAN**  
The Herald-Palladium,  
Benton Harbor (95)  
Adrian Daily Telegram, Adrian (96)  
The Daily Press, Escanaba (97)  
The Daily News, Iron Mountain (98)  
The Mining Journal, Marquette (99)  
The Daily Mining Gazette,  
Houghton (100)

**MINNESOTA**  
The Evening Tribune, Albert Lea (101)\*  
Austin Daily Herald, Austin (102)\*  
The Daily Journal, Fergus Falls (103)

**MISSISSIPPI**  
Laurel Leader-Call, Laurel (104)

**MISSOURI**  
The Carthage Press, Carthage (105)  
The Daily Standard, Sikeston (106)\*  
The Mexico Ledger, Mexico (107)  
The Sedalia Democrat, Sedalia (108)\*

**NEW HAMPSHIRE**  
The Portsmouth Herald,  
Portsmouth (109)\*



Enlargement of area indicated above.

**NEW YORK**  
The Evening Telegram, Herkimer (110)  
The Palladium-Times, Oswego (111)  
The Evening News, Newburgh (112)\*

**NORTH CAROLINA**  
The Evening Telegram,  
Rocky Mount (113)\*  
The Daily Advance, Elizabeth City (114)\*

**NORTH DAKOTA**  
The Dickinson Press, Dickinson (115)\*

**OHIO**  
The Herald-Star, Steubenville (116)\*  
The Evening Review,  
East Liverpool (117)  
The Salem News, Salem (118)  
The Repository, Canton (119)\*  
The Coshocton Tribune,  
Coshocton (120)\*  
The Advocate, Newark (121)\*  
The Times Recorder, Zanesville (122)\*  
Lancaster Eagle-Gazette, Lancaster (123)  
The Daily Times, Portsmouth (124)  
The Marion Star, Marion (125)\*  
The Xenia Daily Gazette, Xenia (126)  
The Franklin Chronicle, Franklin (127)\*  
Middletown Journal, Middletown (128)\*  
The Daily Advocate, Greenville (129)  
The Piqua Daily Call, Piqua (130)

**OKLAHOMA**  
The Ada Evening News, Ada (131)\*

**PENNSYLVANIA**  
The Express, Easton (132)\*  
The Express, Lock Haven (133)  
The Evening Sun, Hanover (134)  
The Daily News, Lebanon (135)\*  
Altoona Mirror, Altoona (136)  
The Meadville Tribune, Meadville (137)  
The Record-Argus, Greenville (138)  
The Leader-Times, Kittanning (139)  
The Valley Independent, Monessen (140)  
The Daily Courier, Connellsville (141)  
The News-Item, Shamokin-  
Mount Carmel (142)

**SOUTH CAROLINA**  
Florence Morning News, Florence (143)\*

**SOUTH DAKOTA**  
The Daily Republic, Mitchell (144)

**UTAH**  
The Daily Spectrum, St. George (145)\*

**VIRGINIA**  
The Progress-Index, Petersburg (146)\*

**WEST VIRGINIA**  
The Times-West Virginian,  
Fairmont (147)\*  
The Weirton Daily Times, Weirton (148)

**WISCONSIN**  
The Post-Crescent, Appleton (149)\*  
The Reporter, Fond du Lac (150)\*  
Herald-Times-Reporter,  
Manitowoc (151)\*  
Waukesha Freeman, Waukesha (152)  
The Daily Tribune,  
Wisconsin Rapids (153)  
West Bend News, West Bend (154)\*\*

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. Slaight**  
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. Slaight**  
**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, Vice-President and  
Assistant General Manager

M. W. Johnston, Vice-President and  
Assistant General Manager

P. A. Tissington, Vice-President and  
Assistant General Manager

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

R. H. Laidlaw, Vice-President and  
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

36 Washington Street, Wellesley Hills, Massachusetts

Merle Becker, Vice-President and  
Assistant General Manager

1111 North Westshore Boulevard, Tampa, Florida

11020 Ambassador Drive, Kansas City, Missouri

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

**Sales Offices**

Toronto, Montreal, New York, Chicago

**Auditors**

Thorne Ernst & Whinney

**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, it gives me great pleasure to present the consolidated financial statements of your Company for the year ended December 31, 1986, together with the Auditors' Report thereon.

Income before extraordinary items was \$200.7 million in 1986 compared with \$175.6 million in 1985, an increase of \$25.1 million. Net income after extraordinary items in 1986 was \$221.3 million. There were no extraordinary items in 1985. Operating revenue in 1986 was \$1,029.6 million compared with \$954.1 million. Income per Class A and Class B share before extraordinary items increased to \$1.36 compared with \$1.19.

Net income per Class A and Class B share after extraordinary items was \$1.50. The extraordinary items comprise income tax recoveries arising from the utilization of a related company's prior losses less U.S. withholding tax on a dividend paid by the Company's principal U.S. subsidiary.

Capital expenditures on new plant and equipment and additions or alterations to existing plants amounted to \$25.7 million in 1986. Capital expenditures in 1987 are expected to amount to approximately \$40 million including new plants at Whittier, California; Collingwood, Ontario; and Key West, Florida and press improvements and upgrading of facilities at a number of locations in Canada and the United States.

The dividend for the first quarter of the year on the Class A and Class B shares was at the rate of 12 cents per share. Dividends for the last three quarters were at the increased rate of 14 cents per share. Due to uncertainty regarding the tax treatment of stock dividends arising from proposed amendments to the Income Tax Act (Canada), cash dividends were paid on both the Class A and Class B shares on September 15 and December 15, 1985 and March 15, 1986. Following passage of these amendments and changes to the Company's articles approved at the Annual Meeting in May, 1986, your Company recommenced payment of stock dividends on its Class B shares on June 15, 1986.

As a result of further proposed changes to the Income Tax Act, the Company has discontinued its policy of purchasing in the market a number of shares equal to the number of Class B shares issued as stock dividends.

During 1986 five daily newspapers in the United States were acquired: The Democrat, Sedalia, Missouri; The Daily Advance, Elizabeth City, North Carolina; Mexico Ledger, Mexico, Missouri; The Daily Gazette, Sterling-Rock Falls, Illinois; and The Cumberland News and Evening Times, Cumberland, Maryland. The daily newspaper in Cape Girardeau, Missouri was sold in June, 1986. In March, 1987 your Company acquired the daily newspaper in Worthington, Minnesota. Additional acquisitions in the United States are expected to be announced in the near future.

For 1986, Augusta Newsprint Company earned pre-tax income of U.S. \$58,000 (your Company's 50% share — U.S. \$29,000). The mill operated well and generated U.S. \$19.1 million of cash flow of which U.S. \$4.2 million was used for capital expenditures and the balance to retire partnership debt. Higher newsprint prices should produce improved results for 1987.

For 1986 as a whole, revenue increased by 8% and operating income by 12%. Growth in both revenue and operating income continued in the fourth quarter although at rates somewhat reduced from those experienced in the first nine months. Both The Globe and Mail and the Winnipeg Free Press experienced record revenues and operating incomes in 1986.

Your Company looks forward to continuing growth in both revenue and operating income in 1987.

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

For the Board of Directors

  
ORANGIST E

Chairman and President  
March 17, 1987

(Incorporated under the laws of Ontario)

As at December 31, 1986

	1986	1985
	<i>(in thousands)</i>	
<b>ASSETS</b>		
Current Assets		
Cash and term deposits .....	\$ 67,389	\$ 114,357
Trade accounts receivable .....	115,569	115,101
Other accounts receivable .....	3,005	6,156
Inventories .....	13,387	12,368
Prepaid expenses .....	1,922	1,622
	<u>201,272</u>	<u>249,604</u>
Investments and Other Assets (note 2) .....	77,077	80,619
Property, Plant and Equipment		
Land .....	43,008	41,247
Buildings, machinery and equipment .....	560,282	532,457
	<u>603,290</u>	<u>573,704</u>
Less accumulated depreciation .....	217,516	193,247
	<u>385,774</u>	<u>380,457</u>
Circulation and Goodwill .....	535,541	487,524
	<u>\$1,199,664</u>	<u>\$1,198,204</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities .....	\$ 49,523	\$ 59,597
Taxes payable .....	14,162	24,857
Current instalments of long-term debt .....	2,371	2,097
Prepaid subscriptions .....	24,262	20,432
	<u>90,318</u>	<u>106,983</u>
Long-Term Debt (note 3) .....	15,549	148,344
Deferred Income Taxes .....	115,234	96,241
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock (note 4)		
Preference shares .....	6,477	6,691
Class A and Class B shares .....	54,156	54,209
	<u>60,633</u>	<u>60,900</u>
Equity Adjustment From Foreign		
Currency Translation .....	93,517	102,385
Retained Earnings .....	824,413	683,351
	<u>978,563</u>	<u>846,636</u>
	<u>\$1,199,664</u>	<u>\$1,198,204</u>

Approved by the Board

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



*Consolidated Statement of Income*

	Year Ended December 31, 1986	
	1986	1985
	<i>(in thousands)</i>	
Operating revenue .....	\$1,029,592	\$954,145
Costs and operating expenses .....	<u>643,443</u>	<u>608,466</u>
Operating income before depreciation .....	386,149	345,679
Depreciation .....	<u>27,761</u>	<u>26,120</u>
Operating income .....	<u>358,388</u>	<u>319,559</u>
Other income (deductions)		
Interest — long-term debt .....	(7,370)	(14,545)
— other .....	(73)	(1,754)
Interest and investment income .....	8,736	7,659
Other (net) .....	151	2,426
	<u>1,444</u>	<u>(6,214)</u>
Equity in pre-tax income (loss) of Augusta Newsprint Company .....	40	(5,455)
Income before undernoted items .....	<u>359,872</u>	<u>307,890</u>
Income taxes (note 5)		
Current .....	128,326	95,033
Deferred .....	<u>27,664</u>	<u>34,203</u>
	<u>155,990</u>	<u>129,236</u>
Income before amortization of goodwill and extraordinary items .....	203,882	178,654
Amortization of goodwill .....	<u>3,187</u>	<u>3,037</u>
Income before extraordinary items .....	200,695	175,617
Extraordinary items (note 6) .....	<u>20,577</u>	<u>—</u>
Net income .....	<u>\$ 221,272</u>	<u>\$175,617</u>
Income per Class A and Class B share		
Income before extraordinary items .....	\$1.36	\$1.19
Net income .....	\$1.50	\$1.19

*Consolidated Statement of Retained Earnings*

	Year Ended December 31, 1986	
	1986	1985
	<i>(in thousands)</i>	
Balance at beginning of year .....	\$683,351	\$576,230
Net income .....	221,272	175,617
Net discount (premium) on purchase of preference and Class A and Class B shares .....	<u>(194)</u>	<u>147</u>
	<u>904,429</u>	<u>751,994</u>
Dividends paid on		
Preference shares .....	445	467
Class A and Class B shares .....	<u>79,571</u>	<u>68,176</u>
	<u>80,016</u>	<u>68,643</u>
Balance at end of year .....	<u>\$824,413</u>	<u>\$683,351</u>

Consolidated Statement of Changes in Cash Position

Year Ended December 31, 1986

	1986	1985
	<i>(in thousands)</i>	
Cash provided by (used in) operating activities		
Income before extraordinary items .....	\$200,695	\$175,617
Charges to operations not requiring a current cash payment		
Depreciation .....	27,761	26,120
Deferred income taxes .....	27,664	34,203
Amortization of goodwill .....	3,187	3,037
Equity in pre-tax (income) loss of Augusta Newsprint Company .....	(40)	5,455
Other (net) .....	711	(459)
	<u>259,978</u>	<u>243,973</u>
Net change in non-cash working capital balances related to operations . . .	(15,368)	18,994
	<u>244,610</u>	<u>262,967</u>
Cash provided by (used in) investment activities		
Acquisition of subsidiary companies less cash of \$3,130,000 (note 7) . . .	(80,325)	(98,117)
Purchase of property, plant and equipment .....	(25,679)	(26,913)
Investment in Augusta Newsprint Company .....	—	(12,192)
Proceeds on disposal of investments and property, plant and equipment . .	5,511	19,136
	<u>(100,493)</u>	<u>(118,086)</u>
Cash provided by (used in) financing activities		
Dividends .....	(80,016)	(68,643)
Reduction in long-term debt .....	(147,076)	(33,165)
Preference shares purchased for cancellation .....	(213)	(565)
Extraordinary items (note 6) .....	20,577	—
Proceeds from long-term debt .....	11,044	52,812
Other (net) .....	4,599	(471)
	<u>(191,085)</u>	<u>(50,032)</u>
Net increase (decrease) in cash during year .....	(46,968)	94,849
Cash position at beginning of year .....	114,357	19,508
Cash position at end of year .....	<u>\$ 67,389</u>	<u>\$114,357</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 decreased by \$8,868,000 (1985 — increase of \$35,425,000). The only significant element of the change in each year 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 circulation 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, 1986 is \$256,685,000 (1985 — \$229,698,000).

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 \$149,454,000 at December 31, 1986 (1985 — \$123,856,000), are being amortized over forty years from date of acquisition. Accumulated amortization to December 31, 1986 amounted to \$14,686,000 (1985 — \$11,664,000).

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, 1986. 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 \$71,092,000 (1985 — \$71,969,000), is included in investments and other assets.

Summarized financial information of the joint venture is as follows:

	1986	1985
	<i>(in thousands of U.S. dollars)</i>	
Current assets	\$ 35,708	\$ 27,003
Plant and equipment and other assets	302,010	316,733
Total assets	337,718	343,736
Current liabilities	29,911	18,828
Long-term liabilities	204,812	221,971
Total liabilities	234,723	240,799
Partnership equity	\$102,995	\$102,937
Net sales	\$153,826	\$139,835
Income (loss) before income taxes	\$ 58	\$ (7,991)

Year Ended December 31, 1986

3. LONG-TERM DEBT	1986	1985
	<i>(in thousands)</i>	
Promissory note payable, variable interest keyed to the Eurodollar rate. Principal payable semi-annually from December 19, 1991 to June 19, 1996 (U.S. \$8,000,000 bearing interest at 7.75% at December 31, 1986) . . . . .	\$11,044	
Promissory notes payable, interest at 7%. Principal payable annually to May 1, 1987 (U.S. \$1,000,000)	1,380	\$ 2,797
Promissory notes payable (U.S. \$103,275,000) repaid . . .		144,409
Miscellaneous notes and mortgages payable (U.S. \$3,981,000) . . . . .	5,496	3,235
	<u>17,920</u>	<u>150,441</u>
Less instalments included in current liabilities . . . . .	2,371	2,097
	<u>\$15,549</u>	<u>\$148,344</u>

Long-term debt repayments are as follows:

	<i>(in thousands)</i>	
1987 . . . . .	\$ 2,371	
1988 . . . . .	934	
1989 . . . . .	803	
1990 . . . . .	777	
1991 . . . . .	356	
1992 and thereafter . . . . .	12,679	
	<u>\$17,920</u>	

4. CAPITAL STOCK

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

	1986	1985
	<i>(in thousands)</i>	
Authorized		
429,544 Preference shares issuable in series (1985 — 433,813 shares)		
Second preference shares issuable in series		
Class A and Class B interconvertible participating shares		
Issued		
129,544 Preference shares, Series A 6¾% cumulative redeemable (1985 — 133,813 shares) . . . . .	\$ 6,477	\$ 6,691
147,715,143 Shares consisting of 140,714,129 Class A and 7,001,014 Class B (1985 — 147,709,116 shares consisting of 139,625,448 Class A and 8,083,668 Class B) . . . . .	54,156	54,209
	<u>\$60,633</u>	<u>\$60,900</u>

(b) The company has issued preference shares which are designated as 6¾% cumulative redeemable preference shares, Series A, redeemable at \$51 per share. The 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 1986, 4,269 preference shares, having a stated capital of \$213,000, were purchased for cancellation.

(c) 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. Dividends on the Class A shares are paid in cash. Dividends on the Class B shares are payable, as determined by the directors, in equivalent cash or as an equivalent stock dividend payable in Class B shares or as an equivalent adjustment to the rate at which the Class B shares are convertible into Class A shares. In 1986 the conditions attaching to the Class A and Class B shares were amended to give the directors the right to increase the conversion rate applicable to each Class B share in lieu of paying a cash dividend or a stock dividend and to limit the increase in stated capital with respect to any stock dividend to a maximum of \$1.00 in the aggregate.

Dividends were paid in cash on March 15, 1986 to holders of both the Class A and Class B shares. On June 15, September 15, and December 15, 1986 the company issued 151,427 Class B shares by way of stock dividend on its Class B shares. In accordance with the company's share purchase policy, 145,400 Class A shares were purchased through the facilities of The Toronto Stock Exchange. In 1985, 137,349 Class B shares were issued by way of stock dividend and an equivalent number of Class A shares was purchased. Dividends were paid in cash on September 15 and December 15, 1985 to holders of both the Class A and Class B shares.

As a result of recently announced changes in the Income Tax Act, the company has discontinued its policy of purchasing in the market a number of shares equal to the number of Class B shares issued as stock dividends.

(d) In 1986 the company cancelled the authorized and unissued Class C special non-participating, non-voting shares and common shares.

5. INCOME TAXES

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

	1986	1985
Combined basic Canadian federal and Ontario provincial income tax rate . . . . .	51.5%	51.0%
Decrease in the income tax rate resulting from:		
Manufacturing and processing profits deduction . . . . .	(1.9)	(1.8)
Lower effective income tax rate on earnings of foreign subsidiaries . . . . .	(5.7)	(7.1)
Miscellaneous (net) . . . . .	(0.6)	(0.1)
Effective income tax rate . . . . .	<u>43.3%</u>	<u>42.0%</u>

Year Ended December 31, 1986

**6. EXTRAORDINARY ITEMS**

Extraordinary items comprise the realization of \$27,500,000 in income tax recoveries as the result of a reorganization which permitted the utilization of a related company's prior losses and U.S. withholding tax of \$6,923,000 on a dividend paid by the company's principal U.S. subsidiary.

**7. ACQUISITIONS**

During 1986 the company purchased all the outstanding capital stock of the following newspaper publishing companies:

Advance Publications, Inc. (Elizabeth City, North Carolina), April 10, 1986; Sedalia Democrat Company (Sedalia, Missouri), April 10, 1986; The Sterling Gazette Company (Sterling-Rock Falls, Illinois), October 31, 1986; The Times & Alleganian Company (Cumberland, Maryland), December 12, 1986.

On May 1, 1986 the company purchased the assets of the Mexico Ledger (Mexico, Missouri).

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

(in thousands)

Total assets acquired:	
Cash .....	\$ 3,130
Other current assets .....	3,864
Investments and other assets .....	348
Property, plant and equipment .....	20,948
Circulation .....	34,865
	<u>63,155</u>
Less total liabilities assumed:	
Current liabilities .....	3,982
Other liabilities .....	3,241
	<u>7,223</u>
Net assets acquired at estimated fair value ....	55,932
Excess of purchase price over estimated fair value (to be amortized over 40 years) .....	
	<u>27,523</u>
Consideration .....	<u>\$83,455</u>

**8. SEGMENTED INFORMATION**

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

	Canada	United States	Consolidated
		(in thousands)	
<b>1986</b>			
Total assets .....	\$252,409	\$947,255	\$1,199,664
Operating revenue ..	\$460,700	\$568,892	\$1,029,592
Segmented operating income .....	\$140,875	\$223,898	\$ 364,773
General corporate expenses .....			6,385
Interest — long-term debt .....			7,370
— other .....			73
Equity in pre-tax income of Augusta Newsprint Company .....			(40)
Interest and investment income .....			(8,736)
Other (net) .....			(151)
Income taxes .....			155,990
Amortization of goodwill .....			3,187
Extraordinary items ..			(20,577)
			<u>143,501</u>
Net income .....			<u>\$ 221,272</u>
<b>1985</b>			
Total assets .....	\$229,361	\$968,843	\$1,198,204
Operating revenue ..	\$432,927	\$521,218	\$ 954,145
Segmented operating income .....	\$122,326	\$203,565	\$ 325,891
General corporate expenses .....			6,332
Interest — long-term debt .....			14,545
— other .....			1,754
Equity in pre-tax loss of Augusta Newsprint Company .....			5,455
Interest and investment income .....			(7,659)
Other (net) .....			(2,426)
Income taxes .....			129,236
Amortization of goodwill .....			3,037
			<u>150,274</u>
Net income .....			<u>\$ 175,617</u>

To the Shareholders of  
Thomson Newspapers Limited

We have examined the consolidated balance sheet of Thomson Newspapers Limited as at December 31, 1986 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, 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.

Toronto, Canada  
February 19, 1987

Thorne Ernst & Whinney  
Chartered Accountants

	1986	1985
Operating revenue		
Canada .....	\$ 460,700	\$432,927
United States .....	568,892	521,218
Total .....	<u>\$1,029,592</u>	<u>\$954,145</u>
Segmented operating income		
Canada .....	\$ 140,875	\$122,326
United States .....	223,898	203,565
Total .....	<u>\$ 364,773</u>	<u>\$325,891</u>
Income before extraordinary items .....	<u>\$ 200,695</u>	<u>\$175,617</u>
Per Class A and Class B share		
Income before extraordinary items .....	\$ 1.36	\$ 1.19
Dividends .....	\$ .540	\$ .462

### *Milestones in the History of Thomson Newspapers*

1934	Roy Thomson purchases Timmins Press, a weekly, and begins his first publishing venture.	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.
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.	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.
1940	The opening of the Timmins Daily Press building, the most modern newspaper plant in northern Ontario.	1965	The Company makes its first issue of equity shares to the public.
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.		

## Summary of Selected Consolidated Financial Information

Year Ended December 31

1984                  1983                  1982                  1981                  1980                  1979                  1978                  1977

*(in thousands except per share amounts)*

<u>\$400,685</u>	<u>\$361,635</u>	<u>\$352,936</u>	<u>\$365,952</u>	<u>\$284,572</u>	<u>\$103,779</u>	<u>\$ 96,541</u>	<u>\$ 89,001</u>
411,072	344,677	313,521	280,041	247,791	231,782	209,935	167,331
<u>\$811,757</u>	<u>\$706,312</u>	<u>\$666,457</u>	<u>\$645,993</u>	<u>\$532,363</u>	<u>\$335,561</u>	<u>\$306,476</u>	<u>\$256,332</u>
<u>\$110,076</u>	<u>\$ 96,911</u>	<u>\$ 70,881</u>	<u>\$ 91,496</u>	<u>\$ 62,490</u>	<u>\$ 35,925</u>	<u>\$ 31,192</u>	<u>\$ 28,779</u>
166,625	138,658	119,973	111,334	100,511	94,146	83,967	65,326
<u>\$276,701</u>	<u>\$235,569</u>	<u>\$190,854</u>	<u>\$202,830</u>	<u>\$163,001</u>	<u>\$130,071</u>	<u>\$115,159</u>	<u>\$ 94,105</u>
<u>\$153,820</u>	<u>\$126,090</u>	<u>\$ 99,396</u>	<u>\$ 96,984</u>	<u>\$ 75,830</u>	<u>\$ 65,029</u>	<u>\$ 56,559</u>	<u>\$ 47,383</u>
\$ 1.04	\$ .85	\$ .67	\$ .65	\$ .51	\$ .44	\$ .38	\$ .32
\$ .392	\$ .335	\$ .292	\$ .253	\$ .206	\$ .176	\$ .124	\$ .110

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 F.P. Publications Limited. Total daily circulation in Canada passes the one million mark.

1986 After 52 years of growth, the Company publishes 39 daily and 13 weekly newspapers in Canada, and 97 daily and 5 weekly newspapers in the United States, for a total of 154 newspapers at year's end.

