

THOMSON  
NEWSPAPERS  
LIMITED

ANNUAL REPORT 1987



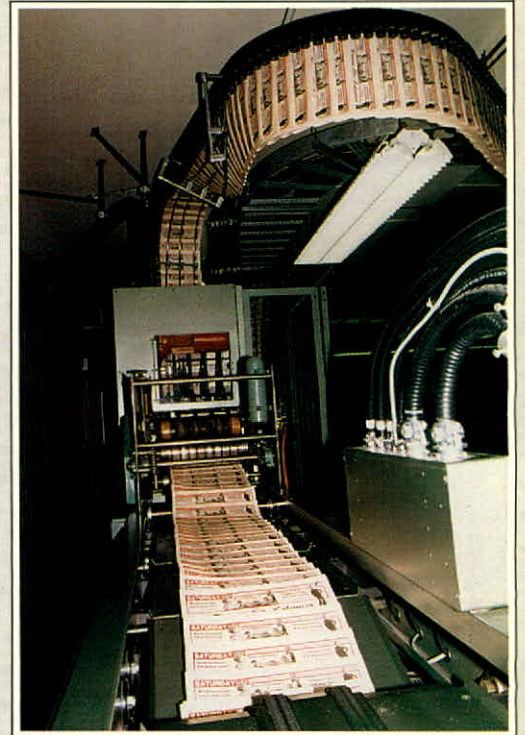
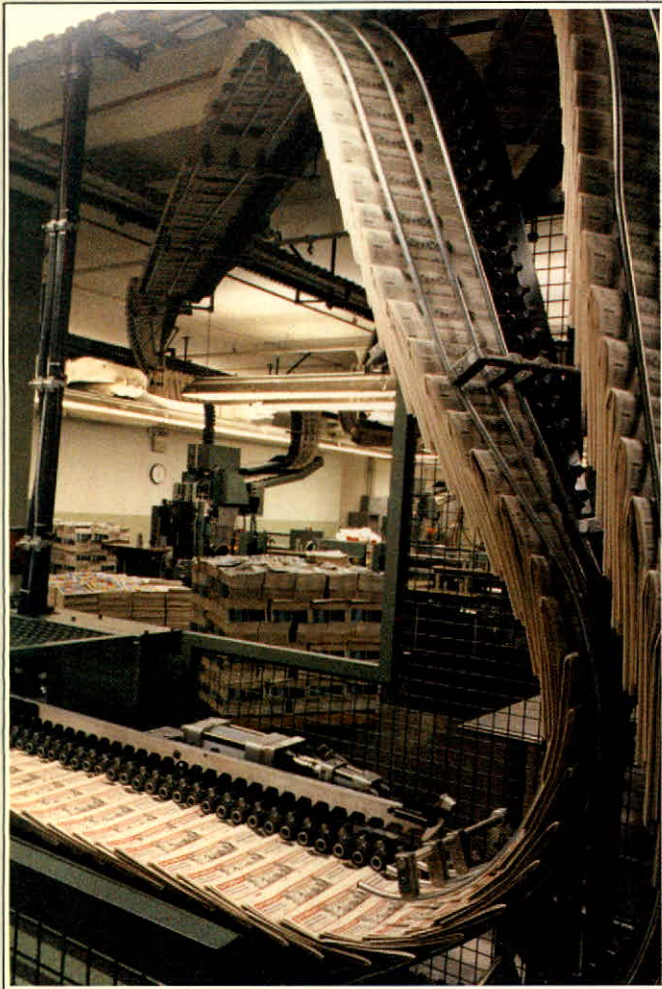
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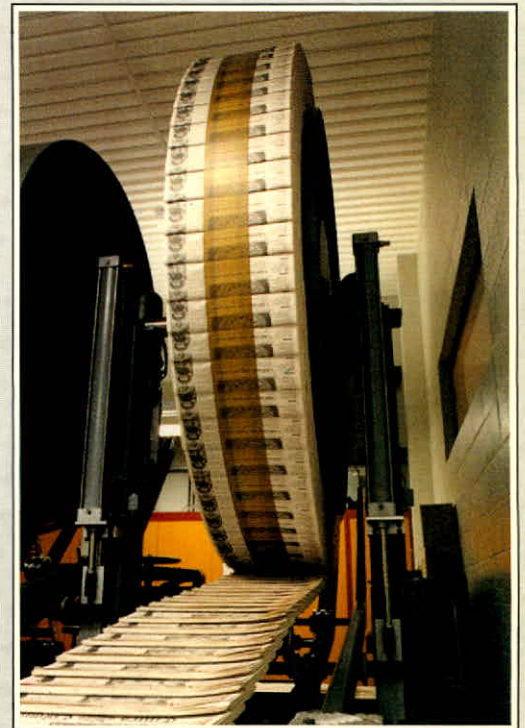
## Financial Highlights

	1987	1986
<i>(in thousands except per share amounts)</i>		
Operating revenue . . . . .	\$1,095,849	\$1,027,614
Income before extraordinary items . . . . .	\$ 230,659	\$ 200,695
Net income . . . . .	\$ 230,659	\$ 221,272
Income per Class A and Class B share		
Income before extraordinary items . . . . .	\$1.56	\$1.36
Net income . . . . .	\$1.56	\$1.50
Dividends paid		
Preference shares . . . . .	\$ 423	\$ 445
Class A and Class B shares . . . . .	\$ 78,072	\$ 79,571
Per Class A and Class B share . . . . .	\$ .62	\$ .54



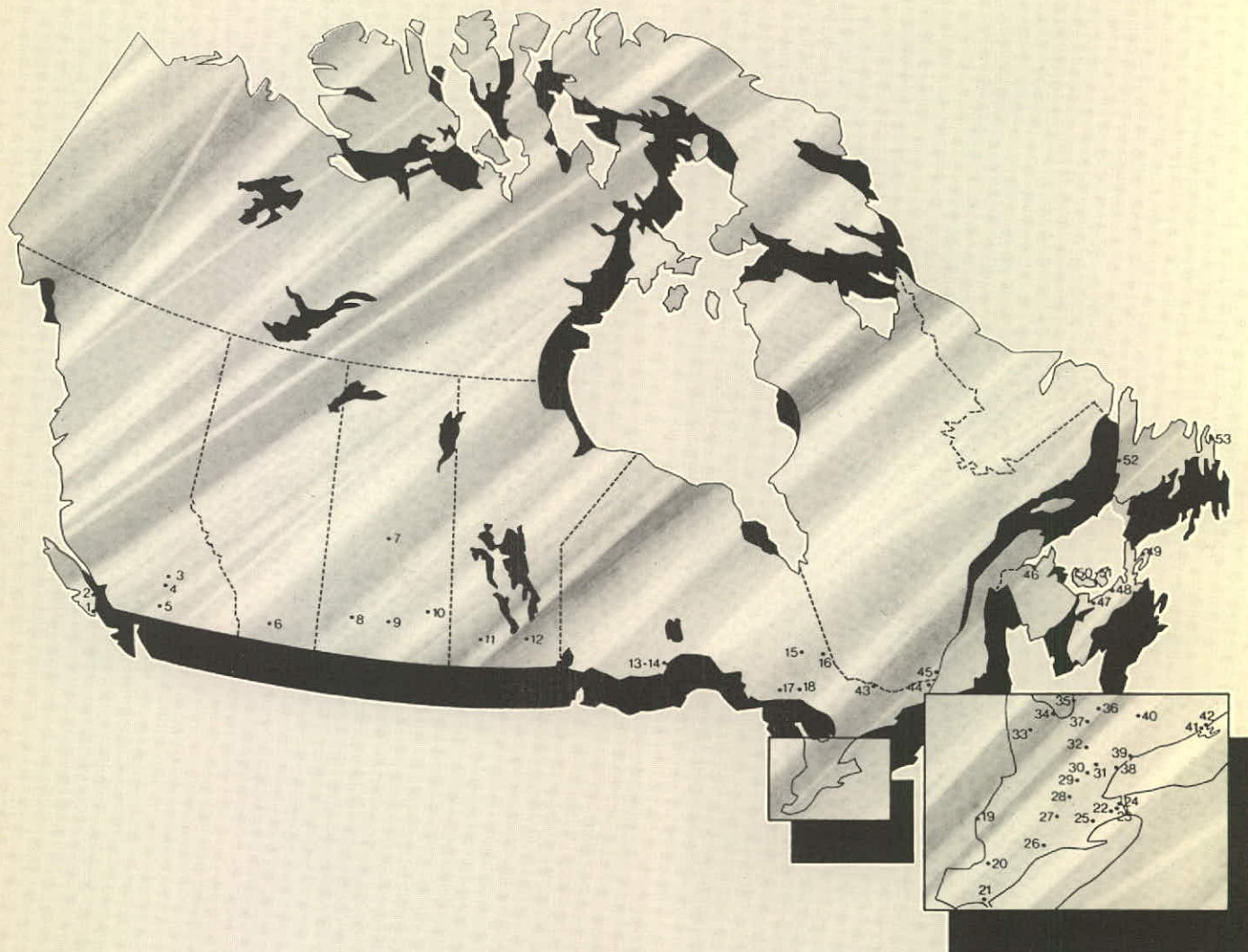


Elements of the on-line inserting and bundling system recently installed in the mailroom at the Times-Colonist, Victoria, British Columbia — the first of its kind in North America.



HOWARD RESS LIBRARY  
OF MANAGEMENT  
MAR 29 1988  
MCGILL UNIVERSITY





Enlargement of area indicated at left.

**BRITISH COLUMBIA**

- Times-Colonist, Victoria (1)\*
- Nanaimo Daily Free Press, Nanaimo (2)
- Vernon Daily News, Vernon (3)
- The Kelowna Daily Courier, Kelowna (4)
- Penticton Herald, Penticton (5)

**ALBERTA**

- The Lethbridge Herald, Lethbridge (6)

**SASKATCHEWAN**

- Prince Albert Daily Herald, Prince Albert (7)
- The Sun, Swift Current (8)\*\*
- Moose Jaw Times-Herald, Moose Jaw (9)
- The Yorkton Enterprise, Yorkton (10)\*\*

**MANITOBA**

- Brandon Sun, Brandon (11)
- 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)

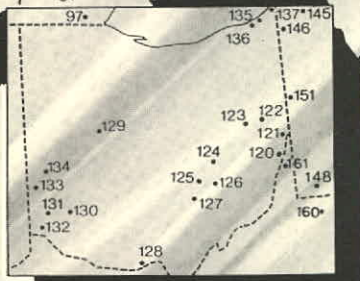
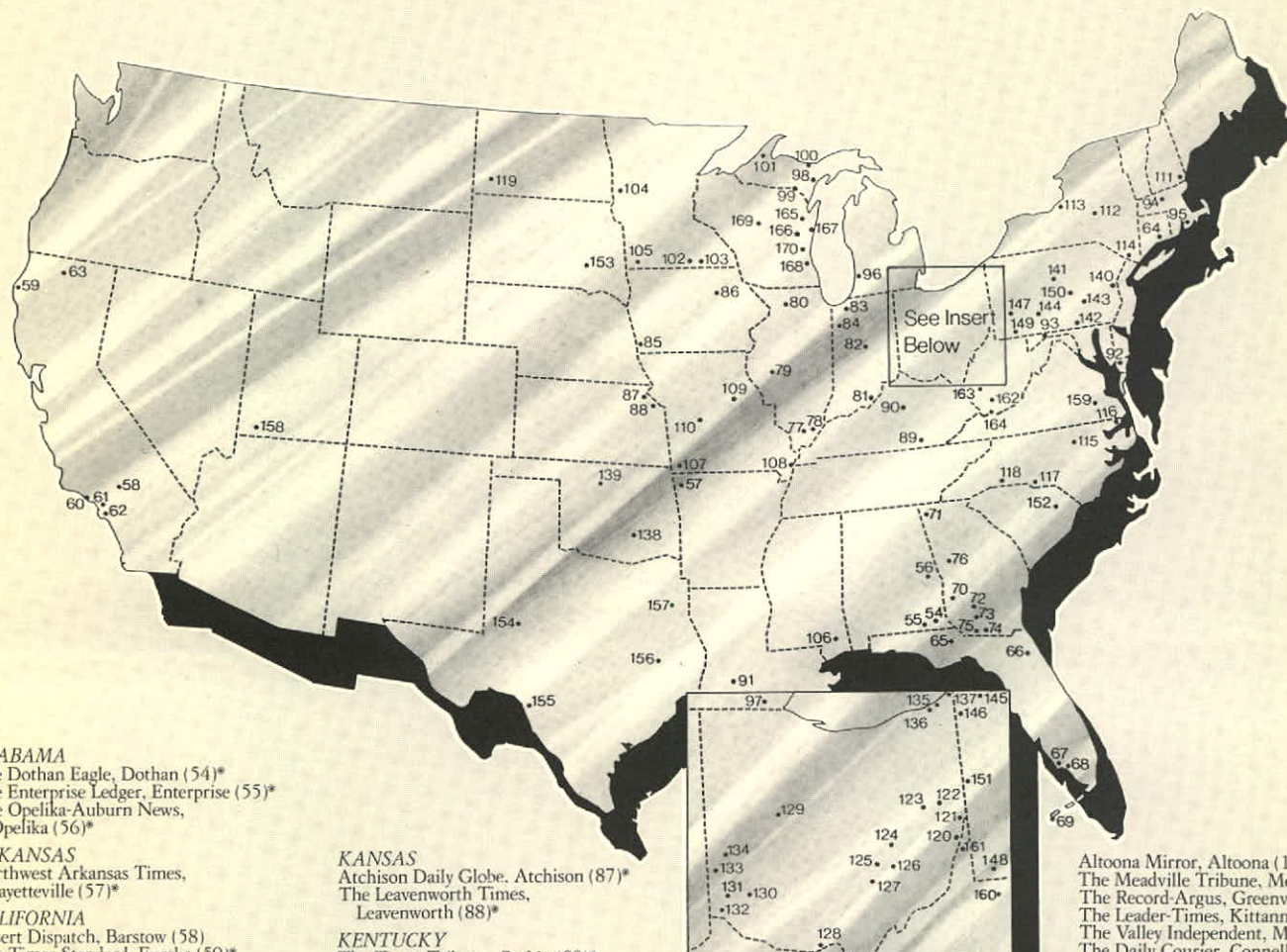
**NEWFOUNDLAND**

- 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 — 1,153,100*  
*Total Daily Circulation in the United States — 1,665,300*





*Enlargement of area indicated above.*

**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 Daily 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)  
Rensselaer Republican, Rensselaer (84)

**IOWA**

Council Bluffs Nonpareil,  
Council Bluffs (85)\*  
The Oelwein Daily Register, Oelwein (86)

**KANSAS**

Atchison Daily Globe, Atchison (87)\*  
The Leavenworth Times,  
Leavenworth (88)\*

**KENTUCKY**

The Times-Tribune, Corbin (89)\*  
The Richmond Register, Richmond (90)

**LOUISIANA**

The Daily Advertiser, Lafayette (91)\*

**MARYLAND**

The Daily Times, Salisbury (92)\*  
The Cumberland News/Evening  
Times, Cumberland (93)\*

**MASSACHUSETTS**

Sentinel and Enterprise, Fitchburg (94)  
Taunton Daily Gazette, Taunton (95)

**MICHIGAN**

The Herald-Palladium,  
Benton Harbor (96)  
Adrian Daily Telegram, Adrian (97)  
The Daily Press, Escanaba (98)  
The Daily News, Iron Mountain (99)  
The Mining Journal, Marquette (100)  
The Daily Mining Gazette,  
Houghton (101)

**MINNESOTA**

The Evening Tribune, Albert Lea (102)\*  
Austin Daily Herald, Austin (103)\*  
The Daily Journal, Fergus Falls (104)  
Worthington Daily Globe,  
Worthington (105)

**MISSISSIPPI**

Laurel Leader-Call, Laurel (106)

**MISSOURI**

The Carthage Press, Carthage (107)  
The Daily Standard, Sikeston (108)\*  
The Mexico Ledger, Mexico (109)  
The Sedalia Democrat, Sedalia (110)\*

**NEW HAMPSHIRE**

The Portsmouth Herald,  
Portsmouth (111)\*

**NEW YORK**

The Evening Telegram, Herkimer (112)  
The Palladium-Times, Oswego (113)  
The Evening News, Newburgh (114)\*

Altoona Mirror, Altoona (144)\*  
The Meadville Tribune, Meadville (145)  
The Record-Argus, Greenville (146)  
The Leader-Times, Kittanning (147)  
The Valley Independent, Monessen (148)  
The Daily Courier, Connellsville (149)  
The News-Item, Shamokin-  
Mount Carmel (150)  
New Castle News, New Castle (151)

**SOUTH CAROLINA**

Florence Morning News, Florence (152)\*

**SOUTH DAKOTA**

The Daily Republic, Mitchell (153)

**TEXAS**

The Big Spring Herald, Big Spring (154)\*  
Del Rio News-Herald, Del Rio (155)\*  
The Huntsville Item, Huntsville (156)\*  
Marshall News Messenger,  
Marshall (157)\*

**UTAH**

The Daily Spectrum, St. George (158)\*

**VIRGINIA**

The Progress-Index, Petersburg (159)\*

**WEST VIRGINIA**

The Times-West Virginian,  
Fairmont (160)\*  
The Weirton Daily Times, Weirton (161)  
The Register-Herald, Beckley (162)\*  
Charleston Daily Mail, Charleston (163)\*  
Bluefield Daily Telegraph,  
Bluefield (164)\*

**WISCONSIN**

The Post-Crescent, Appleton (165)\*  
The Reporter, Fond du Lac (166)\*  
Herald-Times-Reporter,  
Manitowoc (167)\*  
Waukesha County Freeman,  
Waukesha (168)  
The Daily Tribune,  
Wisconsin Rapids (169)  
West Bend News, West Bend (170)\*\*

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



Officers

**K. R. Thomson**  
Chairman of the Board, President  
and Chief Executive Officer

**John A. Tory, Q.C.**  
Deputy Chairman

**Brian W. Slaight**  
Executive Vice-President and  
Chief Operating Officer

**Peter T. Bogart, F.C.A.**  
Senior Vice-President, Finance and Treasurer

**Michael W. Johnston**  
Senior Vice-President and  
General Manager, Canada

**Ronald B. Mitchell, C.A.**  
Vice-President and  
Assistant Treasurer

**Paul E. Weeks, C.G.A.**  
Vice-President and  
Corporate Controller

**Michael R. Doody**  
Secretary

Directors

**Peter T. Bogart, F.C.A.**  
**John H. Coleman**  
**John S. Dewar**  
**John F. Fraser**  
**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

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, Vice-President and  
Assistant General Manager

John F. Bauer, Assistant General Manager

4150 Belden Village Street, Canton, Ohio

Ralph J. Martin, Vice-President and  
Assistant General Manager

205 Newbury Street, Framingham, Massachusetts

Merle Becker, Vice-President and  
Assistant General Manager

11020 Ambassador Drive, Kansas City, Missouri

James C. Gleim, Assistant General Manager

1111 North Westshore Boulevard, Tampa, Florida

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, I am pleased to present the consolidated financial statements of your Company for the year ended December 31, 1987, together with the Auditors' Report thereon.

Net income for 1987 was \$230.7 million compared with income before extraordinary items of \$200.7 million in 1986, an increase of \$30 million. Net income after extraordinary items in 1986 was \$221.3 million. There were no extraordinary items in 1987. Operating revenue in 1987 was \$1,095.8 million compared with \$1,027.6 million. Net income per Class A and Class B share increased to \$1.56 compared with income before extraordinary items of \$1.36 and net income after extraordinary items of \$1.50 in 1986.

Capital expenditures on new plant and equipment and additions or alterations to existing plants amounted to \$34.2 million in 1987. Capital expenditures in 1988 are expected to amount to approximately \$96 million, including progress payments for new production equipment and state of the art presses at Winnipeg, Manitoba and Victoria, British Columbia; purchase of land and commencement of construction of a new building at Winnipeg; significant capital investment at several larger newspapers in the United States and normal upgrading of facilities at a number of locations in Canada and the United States. This higher level of capital expenditure is anticipated to continue for several years.

The dividend for the first quarter of the year on the Class A and Class B shares was at the rate of 14 cents per share. Dividends for the last three quarters were at the increased rate of 16 cents per share. As a result of amendments 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 1987 five daily newspapers in the United States and one in Canada were acquired: Worthington Daily Globe, Worthington, Minnesota; Brandon Sun, Brandon, Manitoba; and the daily newspaper publishing interests of Clay Communications consisting of a half interest in Charleston Newspapers, Charleston, West Virginia, as well as full ownership of The Register-Herald, Beckley, West Virginia; The Shelby Star, Shelby, North Carolina; and The Enquirer-Journal, Monroe, North Carolina. Charleston Newspapers, in which the Company has a 50% interest, is an unincorporated joint venture. The joint venture publishes the Charleston Daily Mail, an evening newspaper, The Charleston Gazette, a morning newspaper, and Sunday Gazette-Mail, a combined Sunday newspaper. Under the terms of the joint venture agreement, which has 49 years to run, the Company has editorial responsibility for the Charleston Daily Mail. During the year, the Company ceased publication of The Kamloops Sentinel, Kamloops, British Columbia.

To date in 1988 your Company has acquired ten daily newspapers in the United States as follows: Bluefield Daily Telegraph, Bluefield, West Virginia; Enid Morning News/Daily Eagle, Enid, Oklahoma; The Big Spring Herald, Big Spring, Texas; Del Rio News-Herald, Del Rio, Texas; The Huntsville Item, Huntsville, Texas; Marshall News Messenger, Marshall, Texas; The Star-Beacon, Ashtabula, Ohio; The News-Herald, Conneaut, Ohio; Geauga Times Leader, Chardon, Ohio; and New Castle News, New Castle, Pennsylvania. Additional acquisitions in the United States are under active consideration.

For 1987 Augusta Newsprint Company earned pre-tax income of \$7.8 million (your Company's 50% share — \$3.9 million). The mill operated at close to capacity and generated \$34.5 million of cash flow of which \$13.7 million was used for capital expenditures and \$18.3 million for the retirement of partnership debt. Higher newsprint prices which became effective January 1, 1988 should produce significantly improved results for 1988.

For 1987 as a whole revenue increased by approximately 7% and operating income by approximately 4%. The growth in revenue and operating income was adversely affected by the reduction in the value of the U.S. dollar against the Canadian dollar. Reduced interest expense and lower tax rates had a favourable impact on net income for the year.

Your Company looks forward to continuing satisfactory growth in net income for 1988.

Mr. Douglas J. Peacher is not standing for re-election as a Director of the Company at the forthcoming annual meeting. Mr. Peacher has served as a Director since 1975 and his wise counsel and broad experience will be missed.

On behalf of the Board, I would like to express sincere appreciation to all of 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 8, 1988



(Incorporated under the laws of Ontario)

As at December 31, 1987

	1987	1986
	<i>(in thousands)</i>	
<b>ASSETS</b>		
Current Assets		
Cash and short-term investments .....	\$ 112,901	\$ 67,389
Trade accounts receivable .....	126,858	115,569
Other accounts receivable .....	2,929	3,005
Inventories .....	17,178	13,387
Prepaid expenses .....	1,987	1,922
	<u>261,853</u>	<u>201,272</u>
Investments and Other Assets (note 2) .....	<u>88,738</u>	<u>77,077</u>
Property, Plant and Equipment		
Land .....	43,173	43,008
Buildings, machinery and equipment .....	604,819	560,282
	<u>647,992</u>	<u>603,290</u>
Less accumulated depreciation .....	240,226	217,516
	<u>407,766</u>	<u>385,774</u>
Circulation and Goodwill .....	<u>660,885</u>	<u>535,541</u>
	<u>\$1,419,242</u>	<u>\$1,199,664</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities .....	\$ 57,621	\$ 49,523
Taxes payable .....	2,321	14,162
Current instalments of long-term debt .....	767	2,371
Prepaid subscriptions .....	25,151	24,262
	<u>85,860</u>	<u>90,318</u>
Long-Term Debt (note 3) .....	<u>120,196</u>	<u>15,549</u>
Deferred Income Taxes .....	<u>125,718</u>	<u>115,234</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock (note 4)		
Preference shares .....	6,052	6,477
Class A and Class B shares .....	54,156	54,156
	<u>60,208</u>	<u>60,633</u>
Equity Adjustment From Foreign		
Currency Translation .....	50,662	93,517
Retained Earnings .....	976,598	824,413
	<u>1,087,468</u>	<u>978,563</u>
	<u>\$1,419,242</u>	<u>\$1,199,664</u>

Approved by the Board

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



**Consolidated Statement of Income**

	Year Ended December 31, 1987	
	1987	1986
	<i>(in thousands)</i>	
Operating revenue .....	\$1,095,849	\$1,027,614
Costs and operating expenses .....	<u>693,745</u>	<u>641,465</u>
Operating income before depreciation .....	402,104	386,149
Depreciation .....	<u>30,298</u>	<u>27,761</u>
Operating income .....	<u>371,806</u>	<u>358,388</u>
Other income (deductions)		
Interest and investment income .....	7,804	8,736
Interest — long-term debt .....	(5,592)	(7,370)
— other .....	(397)	(73)
Other (net) .....	<u>(463)</u>	<u>151</u>
	<u>1,352</u>	<u>1,444</u>
Equity in pre-tax income of Augusta Newsprint Company .....	<u>3,903</u>	<u>40</u>
Income before undernoted items .....	<u>377,061</u>	<u>359,872</u>
Income taxes (note 5)		
Current .....	124,668	128,326
Deferred .....	<u>17,273</u>	<u>27,664</u>
	<u>141,941</u>	<u>155,990</u>
Income before amortization of goodwill and extraordinary items .....	235,120	203,882
Amortization of goodwill .....	<u>4,461</u>	<u>3,187</u>
Income before extraordinary items .....	230,659	200,695
Extraordinary items (note 6) .....		<u>20,577</u>
Net income .....	<u>\$ 230,659</u>	<u>\$ 221,272</u>
Income per Class A and Class B share		
Income before extraordinary items .....	\$1.56	\$1.36
Net income .....	<u>\$1.56</u>	<u>\$1.50</u>

**Consolidated Statement of Retained Earnings**

	Year Ended December 31, 1987	
	1987	1986
	<i>(in thousands)</i>	
Balance at beginning of year .....	\$ 824,413	\$ 683,351
Net income .....	230,659	221,272
Net discount (premium) on purchase of preference and Class A and Class B shares .....	21	(194)
	<u>1,055,093</u>	<u>904,429</u>
Dividends paid on		
Preference shares .....	423	445
Class A and Class B shares .....	<u>78,072</u>	<u>79,571</u>
	<u>78,495</u>	<u>80,016</u>
Balance at end of year .....	<u>\$ 976,598</u>	<u>\$ 824,413</u>



*Consolidated Statement of Changes in Cash Position*

Year Ended December 31, 1987

	1987	1986
	<i>(in thousands)</i>	
Cash provided by (used in) operating activities		
Income before extraordinary items .....	\$230,659	\$200,695
Charges to operations not requiring a current cash payment		
Depreciation .....	30,298	27,761
Deferred income taxes .....	17,273	27,664
Amortization of goodwill .....	4,461	3,187
Equity in pre-tax income of Augusta Newsprint Company .....	(3,903)	(40)
Other (net) .....	1,308	711
	<u>280,096</u>	<u>259,978</u>
Net change in non-cash working capital balances related to operations . . .	<u>(21,897)</u>	<u>(15,368)</u>
	<u>258,199</u>	<u>244,610</u>
Cash provided by (used in) investment activities		
Acquisition of newspaper businesses (note 8) .....	(203,998)	(80,325)
Purchase of property, plant and equipment .....	(34,184)	(25,679)
Purchase of sundry investments .....	(10,343)	
Proceeds on disposal of investments and property, plant and equipment . .	1,298	5,511
	<u>(247,227)</u>	<u>(100,493)</u>
Cash provided by (used in) financing activities		
Dividends .....	(78,495)	(80,016)
Reduction in long-term debt .....	(3,588)	(147,076)
Preference shares purchased for cancellation .....	(425)	(213)
Proceeds from long-term debt .....	110,997	11,044
Extraordinary items (note 6) .....		20,577
Other (net) .....	6,051	4,599
	<u>34,540</u>	<u>(191,085)</u>
Net increase (decrease) in cash during year .....	45,512	(46,968)
Cash position at beginning of year .....	67,389	114,357
Cash position at end of year* .....	<u>\$112,901</u>	<u>\$ 67,389</u>

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



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 of assets and liabilities of foreign subsidiaries 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 \$42,855,000 (1986 — decrease of \$8,868,000). 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) *Investments and other assets*

The company's investment in Augusta Newsprint Company (see note 2) is accounted for on the equity basis. Other investments and other assets are recorded at the lower of cost and net realizable value.

(e) *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

(f) *Circulation and goodwill*

Amounts designated as goodwill acquired after April 1, 1974, totalling \$199,865,000 at December 31, 1987 (1986 — \$149,454,000), are being amortized over forty years from date of acquisition. Accumulated amortization to December 31, 1987 amounted to \$18,226,000 (1986 — \$14,686,000).

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, 1987 is \$342,208,000 (1986 — \$256,685,000).

Goodwill acquired before April 1, 1974 is not being amortized but will be written down if there should be a diminution in its value.

2. INVESTMENT IN JOINT VENTURE PARTNERSHIP

The company has a 50% interest in Augusta Newsprint Company, a joint venture partnership with Abitibi-Price Inc. The partnership owns and operates a newsprint mill in Augusta, Georgia and related woodlands.

The company's investment in the partnership amounting to \$70,735,000 (1986 — \$71,092,000) is included in investments and other assets.

Summarized financial information of the partnership is as follows:

	1987	1986
	<i>(in thousands)</i>	
Current assets	\$ 47,696	\$ 49,295
Plant and equipment and other assets	380,580	416,925
Total assets	<u>428,276</u>	<u>466,220</u>
Current liabilities	38,627	41,293
Long-term liabilities	248,179	282,743
Total liabilities	<u>286,806</u>	<u>324,036</u>
Partnership equity	<u>\$141,470</u>	<u>\$142,184</u>
Net sales	<u>\$227,625</u>	<u>\$213,726</u>
Company's equity in pre-tax income	<u>\$ 3,903</u>	<u>\$ 40</u>

The company and Abitibi-Price Inc. have not guaranteed the long-term debt of the partnership which is therefore without recourse to either partner.

3. LONG-TERM DEBT

	1987	1986
	<i>(in thousands)</i>	
Promissory notes payable, variable interest keyed to the Eurodollar rate. Principal payable annually from December 31, 1991 to December 31, 1996. (U.S. \$75,000,000 bearing interest at 8.41% at December 31, 1987)	\$ 97,448	
Promissory note payable, variable interest keyed to the Eurodollar rate. Principal payable semi-annually from December 17, 1991 to June 17, 1996. (U.S. \$10,000,000 bearing interest at 8.94% at December 31, 1987, 1986 — 7.75%)	12,993	\$ 11,044
Promissory note payable, variable interest keyed to the Eurodollar rate. Principal payable semi-annually from June 1, 1992 to December 1, 1996. (U.S. \$5,000,000 bearing interest at 8.81% at December 31, 1987)	6,496	



Year Ended December 31, 1987

Promissory note payable, variable interest keyed to the Eurodollar rate. Principal payable semi-annually from April 15, 1993 to October 15, 1997. (U.S. \$1,000,000 bearing interest at 8.81% at December 31, 1987) .....	1,299	
Promissory notes payable (U.S. \$1,000,000) .....		1,380
Miscellaneous notes and mortgages payable (U.S. \$2,099,000) .....	2,727	5,496
	<u>120,963</u>	<u>17,920</u>
Less instalments included in current liabilities .....	767	2,371
	<u>\$120,196</u>	<u>\$ 15,549</u>

Long-term debt repayments are as follows:

	<i>(in thousands)</i>	
1988 .....	\$ 767	
1989 .....	659	
1990 .....	568	
1991 .....	17,691	
1992 .....	20,287	
1993 and thereafter .....	80,991	
	<u>\$120,963</u>	

#### 4. CAPITAL STOCK

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

	1987	1986
	<i>(in thousands)</i>	
Authorized		
421,046 Preference shares issuable in series (1986 — 429,544 shares)		
Second preference shares issuable in series		
Class A and Class B interconvertible participating shares		
Issued		
121,046 Preference shares, Series A 6¾% cumulative redeemable (1986 — 129,544 shares) .....	\$ 6,052	\$ 6,477
148,159,349 Shares consisting of 129,510,996 Class A and 18,648,353 Class B (1986 — 147,715,143 shares consisting of 140,714,129 Class A and 7,001,014 Class B) .....	54,156	54,156
	<u>\$60,208</u>	<u>\$60,633</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 1987, 8,498 preference shares, having a stated capital of \$425,000, 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. The articles of the corporation limit the increase in stated capital with respect to any stock dividend to a maximum of \$1.00 in the aggregate.

In 1987 the company issued 444,206 Class B shares by way of stock dividend on its Class B shares.

On March 15, 1986 dividends were paid in cash 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 and 145,400 Class A shares were purchased through the facilities of The Toronto Stock Exchange. In 1986 the company 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 November, 1987 the company received approval from the Toronto and Montreal Stock Exchanges to purchase in the market up to five million of its Class A interconvertible participating shares. To date no shares have been purchased.

#### 5. INCOME TAXES

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

	1987	1986
Combined basic Canadian federal and Ontario provincial income tax rate .....	51.0%	51.5%
Decrease in the income tax rate resulting from:		
Manufacturing and processing profits deduction .....	(2.2)	(1.9)
Lower effective income tax rate on earnings of foreign subsidiaries .....	(9.9)	(5.7)
Miscellaneous (net) .....	<u>(1.3)</u>	<u>(0.6)</u>
Effective income tax rate .....	<u>37.6%</u>	<u>43.3%</u>

#### 6. EXTRAORDINARY ITEMS

Extraordinary items in 1986 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. PENSION PLANS

The company and its subsidiaries in Canada and the United States sponsor defined benefit pension plans covering substantially all permanent salaried and hourly employees. The company has, on a prospective basis, changed its method of accounting for pensions in accordance with the







Year Ended December 31

1987                      1986                      1985                      1984

*(in thousands except per share amounts)*

Operating revenue				
Canada .....	\$ 500,027	\$ 461,014	\$432,927	\$400,685
United States .....	595,822	566,600	521,218	411,072
Total .....	<u>\$1,095,849</u>	<u>\$1,027,614</u>	<u>\$954,145</u>	<u>\$811,757</u>
Segmented operating income				
Canada .....	\$ 157,444	\$ 140,875	\$122,326	\$110,076
United States .....	221,834	223,898	203,565	166,625
Total .....	<u>\$ 379,278</u>	<u>\$ 364,773</u>	<u>\$325,891</u>	<u>\$276,701</u>
Income before extraordinary items .....	<u>\$ 230,659</u>	<u>\$ 200,695</u>	<u>\$175,617</u>	<u>\$153,820</u>
Per Class A and Class B share				
Income before extraordinary items .....	\$ 1.56	\$ 1.36	\$ 1.19	\$ 1.04
Dividends .....	\$ .620	\$ .540	\$ .462	\$ .392

*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*

1983	1982	1981	1980	1979	1978
\$361,635	\$352,936	\$365,952	\$284,572	\$103,779	\$ 96,541
344,677	313,521	280,041	247,791	231,782	209,935
<u>\$706,312</u>	<u>\$666,457</u>	<u>\$645,993</u>	<u>\$532,363</u>	<u>\$335,561</u>	<u>\$306,476</u>
\$ 96,911	\$ 70,881	\$ 91,496	\$ 62,490	\$ 35,925	\$ 31,192
138,658	119,973	111,334	100,511	94,146	83,967
<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>\$126,090</u>	<u>\$ 99,396</u>	<u>\$ 96,984</u>	<u>\$ 75,830</u>	<u>\$ 65,029</u>	<u>\$ 56,559</u>
\$ .85	\$ .67	\$ .65	\$ .51	\$ .44	\$ .38
\$ .335	\$ .292	\$ .253	\$ .206	\$ .176	\$ .124

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.

1987 After 53 years of growth, the Company publishes 40 daily and 12 weekly newspapers in Canada, and 103 daily and 5 weekly newspapers in the United States, for a total of 160 newspapers at year's end.



