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# Thomson Newspapers Limited

Annual Report

1988



## Financial Highlights

	1988	1987
<i>(in thousands except per share amounts)</i>		
Operating revenue .....	\$1,207,778	\$1,095,849
Net income .....	\$ 254,875	\$ 230,659
Net Income per Class A and Class B share .....	\$1.72	\$1.56
Dividends paid		
Preference shares .....	\$ 397	\$ 423
Class A and Class B shares .....	\$ 94,515	\$ 78,072
Per Class A and Class B share .....	\$ .715	\$ .620

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## *Milestones in the History of Thomson Newspapers*

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- 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 12 conversions by the Company of weekly newspapers to daily publication (including West Bend Daily News, West Bend, Wisconsin in 1988).
- 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.



*The offices and production facilities of The Repository, Canton, Ohio.*

- 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.



*Editorial department at The Repository.*

- 1988 After 54 years of growth, the Company publishes 40 daily and 12 weekly newspapers in Canada, and 116 daily and 24 weekly newspapers in the United States, for a total of 192 newspapers at year's end. Daily circulation exceeds 3,000,000.

- 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.



*New Colorliner press being installed at the Times-Colonist, Victoria, British Columbia.*

## Report of the Directors

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, 1988, together with the Auditors' Report thereon.

Net income for 1988 was \$254.9 million compared with \$230.7 million for 1987, an increase of \$24.2 million. Operating revenue for 1988 was \$1,207.8 million compared with \$1,095.8 million. Net income per Class A and Class B share increased to \$1.72 from \$1.56 in 1987.

In 1988 your Company's revenue increased by 10% and operating income by 1%. As your Company derives 57.5% of its operating income from the United States, the decline in the value of the U.S. dollar in relation to the Canadian dollar had a significantly adverse effect on the results for the year. At 1987 average exchange rates, your Company would have reported additional net income of \$15.7 million, or 10.6 cents per share, in 1988. Net income was also adversely affected by higher interest costs and goodwill amortization arising from 1988 newspaper acquisitions. Lower tax rates and higher income of Augusta Newsprint Company had a favourable impact on net income for the year.

Your Company looks forward to continuing satisfactory growth in net income in 1989.

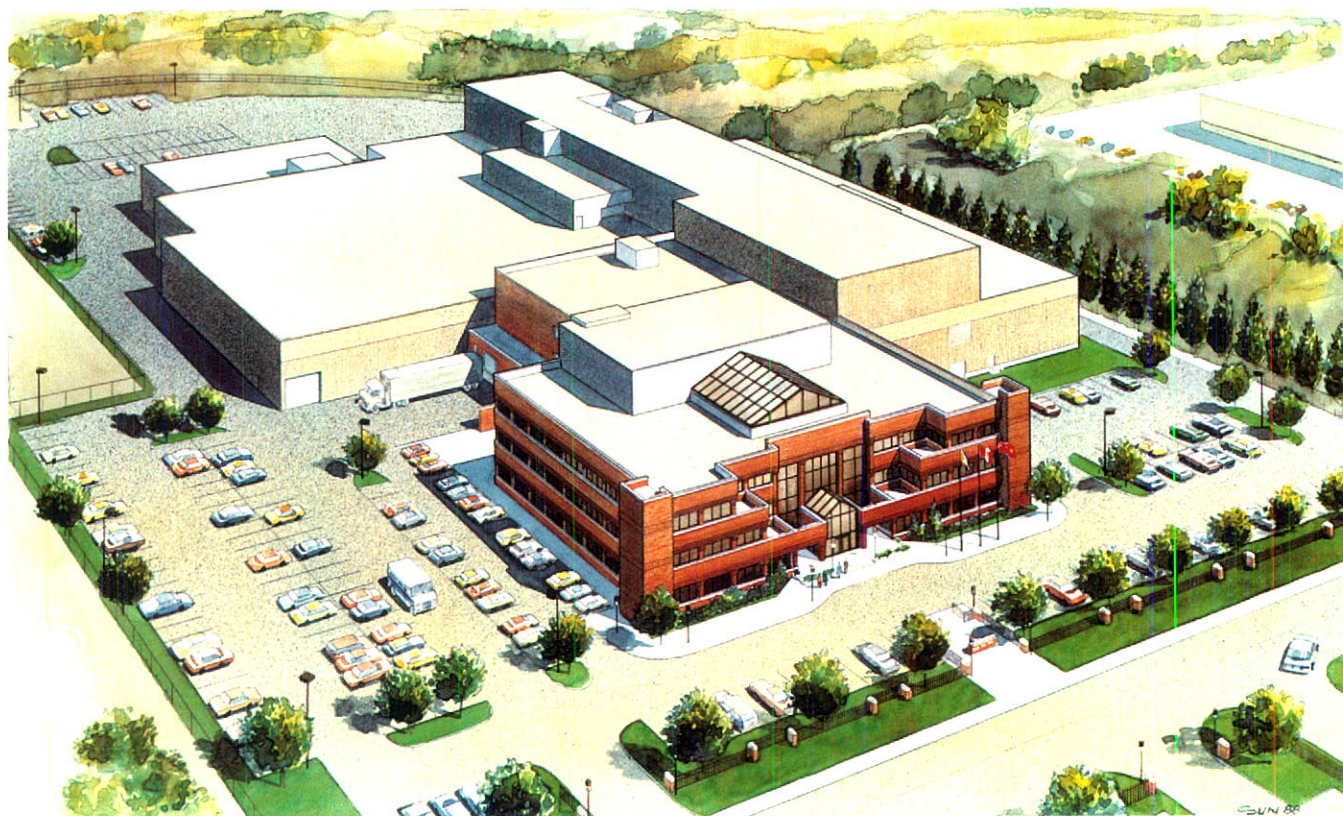
During the year, Augusta Newsprint Company earned pre-tax income of \$26.6 million (your Company's 50% share — \$13.3 million). The mill operated at capacity

throughout the year and generated \$51.4 million of cash flow. Capital expenditures of \$10.7 million were made and partnership debt was reduced by \$42.8 million.

Capital expenditures on new plant and equipment and additions or alterations to existing plants amounted to \$79.2 million in 1988. Capital expenditures in 1989 are expected to amount to approximately \$154 million including payments for new production equipment, state of the art presses and completion of construction of a new building at Winnipeg, Manitoba; final payments for a new press and plate making and colour processing equipment at Victoria, British Columbia and other locations; new presses and other significant capital improvements at several larger newspapers in the United States as well as normal upgrading of facilities at other locations.

The dividend for the first quarter of 1988 on the Class A and Class B shares was at the rate of 16 cents per share. Dividends for the last three quarters were at the increased rate of 18.5 cents per share. During the year the Company issued a total of 412,869 Class B shares by way of stock dividends on its Class B shares.

During 1988 your Company acquired thirteen daily newspapers in the United States as follows: Bluefield Daily Telegraph, Bluefield, West Virginia; Enid Morning News & Eagle, Enid, Oklahoma; 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; New Castle News, New Castle, Pennsylvania; Olean Times Herald, Olean, New York; The Telegram and The Bridgeport Post, Bridgeport, Connecticut; and Kerrville Daily Times, Kerrville, Texas. Additional acquisitions are under active consideration. In addition, the West Bend News, West Bend, Wisconsin was converted to daily publication.

In January 1989 the Company sold the Charlotte Herald-News, Punta Gorda, Florida.

Mr. Brian W. Slight recently announced his intention to retire as Executive Vice-President and Chief Operating Officer of the Company and accordingly he will not be standing for re-election as a Director at the forthcoming annual meeting. Mr. Slight has served as a Director since 1975 and has made an outstanding contribution to the Company's growth and development since he joined it over 35 years ago. He will be greatly missed and we wish him well in his future endeavours.

Mr. St. Clair McCabe has also decided to retire as President of Thomson Newspapers Holdings Inc., your Company's principal subsidiary in the United States. Accordingly, he too will not stand for re-election to the Board. Mr. McCabe has been employed by your Company for more than 52 years, including a period as President and Chief Operating Officer. He has an intimate knowledge of the newspaper publishing business and has played a key role in the growth and success of your Company. We thank him sincerely for his many years of dedicated service.

Messrs. John H. Coleman and John S. Dewar will also be stepping down as Directors at the time of the annual meeting. They have both been members of the Board for the past 12 years and we are grateful for the contributions they have made to the Company's success.

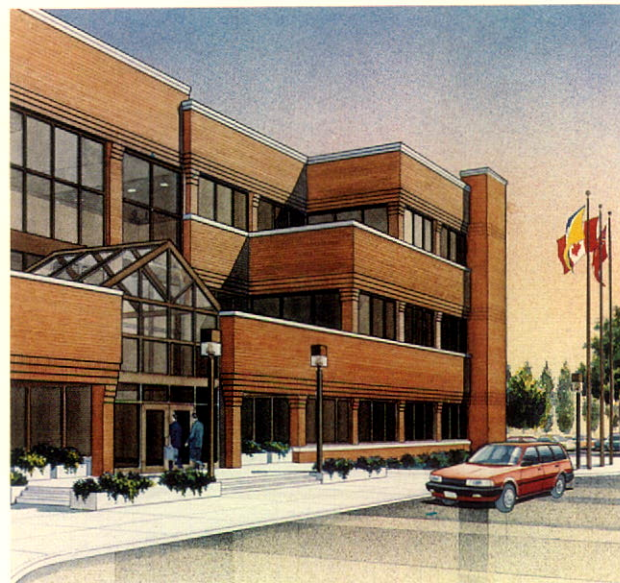
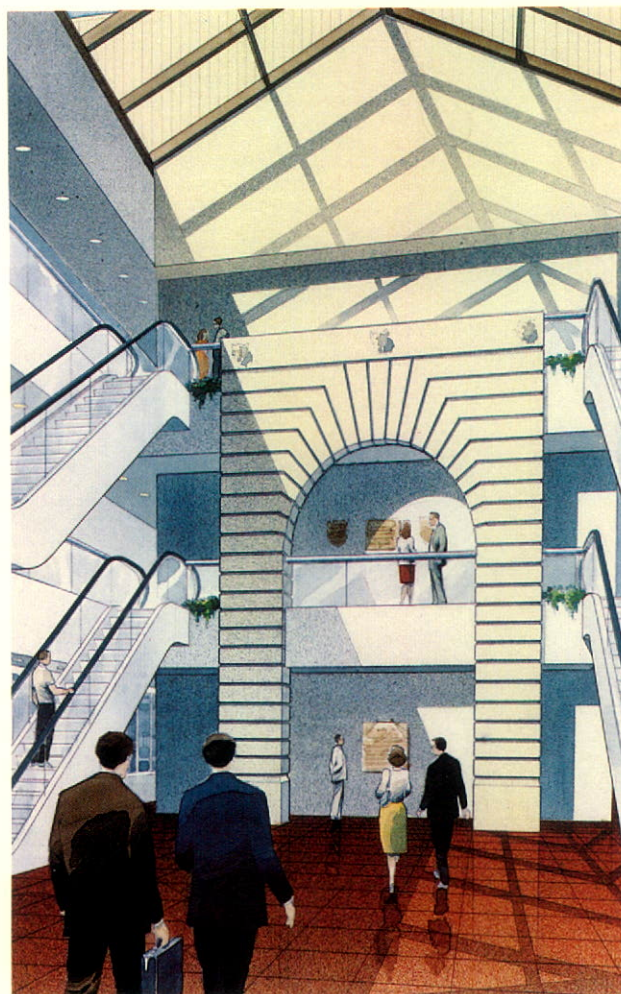
Mr. Michael W. Johnston has been appointed Executive Vice-President and Chief Operating Officer to succeed Mr. Brian W. Slight. Mr. Johnston, formerly Senior Vice-President and General Manager, Canada, began his career at the Press-Courier, Oxnard, California, in 1958. He joined the Company in 1967 when it acquired the Brush-Moore group and has served in positions of increasing responsibility since that time.

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 15, 1989



*This page and facing page:*

Artists' representations of the new office and production facilities under construction in Winnipeg, Manitoba.



**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 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 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)\*\*
- Free Press, Midland (35)\*\*
- The Packet & Times, Orillia (36)
- The Examiner, Barrie (37)
- The Globe and Mail, Toronto (38)
- The Times, Oshawa (39)
- Peterborough Examiner, Peterborough (40)
- The Trentonian and Tri-County News, Trenton (41)†
- The Intelligencer, Belleville (42)
- 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**

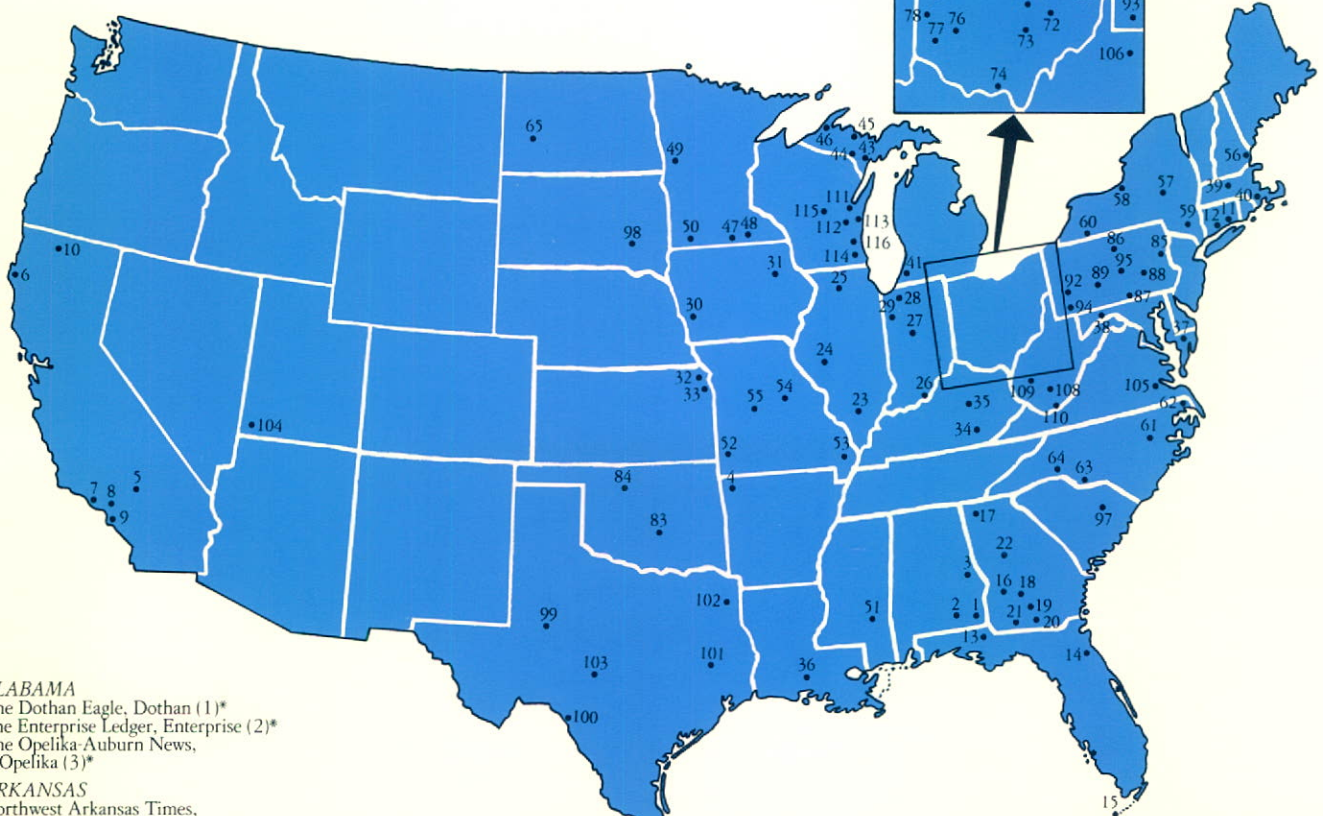
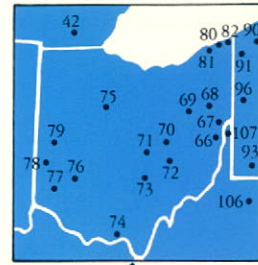
- The Guardian, Charlottetown (50)
- The Evening Patriot, Charlottetown (51)

**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  
 \*\*SEMI-WEEKLY  
 †TRI-WEEKLY  
 ‡COMMERCIAL PRINTER

Total Daily Circulation in Canada — 1,160,000  
 Total Daily Circulation in the United States — 1,900,000



- ALABAMA**  
 The Dothan Eagle, Dothan (1)\*  
 The Enterprise Ledger, Enterprise (2)\*  
 The Opelika-Auburn News, Opelika (3)\*
- ARKANSAS**  
 Northwest Arkansas Times, Fayetteville (4)\*
- CALIFORNIA**  
 Desert Dispatch, Barstow (5)  
 Times-Standard, Eureka (6)\*  
 The Press-Courier, Oxnard (7)\*  
 San Gabriel Valley Daily Tribune, West Covina (8)\*  
 The Daily News, Whittier (9)\*  
 Siskiyou Daily News, Yreka (10)
- CONNECTICUT**  
 The Evening Sentinel, Ansonia (11)  
 The Bridgeport Post/Telegram, Bridgeport (12)\*
- FLORIDA**  
 Jackson County Floridan, Marianna (13)\*  
 Clay Today, Orange Park (14)  
 The Key West Citizen, Key West (15)\*
- GEORGIA**  
 Americus Times-Recorder, Americus (16)  
 The Daily Citizen-News, Dalton (17)\*  
 The Cordele Dispatch, Cordele (18)  
 The Tifton Gazette, Tifton (19)  
 The Valdosta Daily Times, Valdosta (20)\*  
 Thomasville Times-Enterprise, Thomasville (21)  
 Griffin Daily News, Griffin (22)
- ILLINOIS**  
 Mount Vernon Register-News, Mount Vernon (23)  
 Jacksonville Journal Courier, Jacksonville (24)\*  
 The Daily Gazette, Sterling-Rock Falls (25)
- INDIANA**  
 The Tribune, New Albany (26)\*  
 Kokomo Tribune, Kokomo (27)\*  
 The Vidette-Messenger, Valparaiso (28)  
 The Rensselaer Republican, Rensselaer (29)
- IOWA**  
 Council Bluffs Nonpareil, Council Bluffs (30)\*  
 The Oelwein Daily Register, Oelwein (31)

- KANSAS**  
 Atchison Daily Globe, Atchison (32)\*  
 The Leavenworth Times, Leavenworth (33)\*
- KENTUCKY**  
 The Times-Tribune, Corbin (34)  
 The Richmond Register, Richmond (35)
- LOUISIANA**  
 The Daily Advertiser, Lafayette (36)\*
- MARYLAND**  
 The Daily Times, Salisbury (37)\*  
 The Cumberland Times-News, Cumberland (38)\*
- MASSACHUSETTS**  
 Sentinel and Enterprise, Fitchburg (39)  
 Taunton Daily Gazette, Taunton (40)
- MICHIGAN**  
 The Herald-Palladium, Benton Harbor (41)  
 The Daily Telegram, Adrian (42)  
 The Daily Press, Escanaba (43)  
 The Daily News, Iron Mountain (44)  
 The Mining Journal, Marquette (45)  
 The Daily Mining Gazette, Houghton (46)
- MINNESOTA**  
 The Albert Lea Tribune, Albert Lea (47)\*  
 Austin Daily Herald, Austin (48)\*  
 The Daily Journal, Fergus Falls (49)  
 Worthington Daily Globe, Worthington (50)
- MISSISSIPPI**  
 Laurel Leader-Call, Laurel (51)
- MISSOURI**  
 The Carthage Press, Carthage (52)  
 The Daily Standard, Sikeston (53)\*  
 The Mexico Ledger, Mexico (54)  
 The Sedalia Democrat, Sedalia (55)\*
- NEW HAMPSHIRE**  
 The Portsmouth Herald, Portsmouth (56)\*

- NEW YORK**  
 The Evening Telegram, Herkimer (57)  
 The Palladium-Times, Oswego (58)  
 The Evening News, Newburgh (59)\*  
 Olean Times Herald, Olean (60)
- NORTH CAROLINA**  
 The Daily Advance, Elizabeth City (62)\*  
 The Enquirer-Journal, Monroe (63)\*  
 The Shelby Star, Shelby (64)
- NORTH DAKOTA**  
 The Dickinson Press, Dickinson (65)\*
- OHIO**  
 The Herald-Star, Steubenville (66)\*  
 The Evening Review, East Liverpool (67)  
 The Salem News, Salem (68)  
 The Repository, Canton (69)\*  
 The Tribune, Coshocton (70)\*  
 The Advocate, Newark (71)\*  
 The Times Recorder, Zanesville (72)\*  
 Lancaster Eagle-Gazette, Lancaster (73)\*  
 Portsmouth Daily Times, Portsmouth (74)  
 The Marion Star, Marion (75)\*  
 The Xenia Daily Gazette, Xenia (76)  
 Middletown Journal, Middletown (77)\*  
 The Daily Advocate, Greenville (78)  
 Piqua Daily Call, Piqua (79)  
 The Star-Beacon, Ashtabula (80)\*  
 Geauga Times Leader, Chardon (81)\*  
 The News-Herald, Conneaut (82)\*
- OKLAHOMA**  
 The Ada Evening News, Ada (83)\*  
 Enid Morning News & Eagle, Enid (84)\*
- PENNSYLVANIA**  
 The Express, Easton (85)\*  
 The Express, Lock Haven (86)  
 The Evening Sun, Hanover (87)  
 The Daily News, Lebanon (88)\*  
 Altoona Mirror, Altoona (89)\*  
 The Meadville Tribune, Meadville (90)  
 The Record-Argus, Greenville (91)

- The Leader-Times, Kittanning (92)  
 The Valley Independent, Monessen (93)  
 The Daily Courier, Connellsville (94)  
 The News-Item, Shamokin (95)  
 New Castle News, New Castle (96)
- SOUTH CAROLINA**  
 Florence Morning News, Florence (97)\*
- SOUTH DAKOTA**  
 The Daily Republic, Mitchell (98)
- TEXAS**  
 Big Spring Herald, Big Spring (99)\*  
 Del Rio News-Herald, Del Rio (100)\*  
 The Huntsville Item, Huntsville (101)\*  
 Marshall News Messenger, Marshall (102)\*  
 Kerrville Daily Times, Kerrville (103)\*
- UTAH**  
 The Daily Spectrum, St. George (104)\*
- VIRGINIA**  
 The Progress-Index, Petersburg (105)\*
- WEST VIRGINIA**  
 The Times-West Virginian, Fairmont (106)\*  
 The Weirton Daily Times, Weirton (107)  
 The Register-Herald, Beckley (108)\*  
 Charleston Daily Mail, Charleston (109)\*  
 Bluefield Daily Telegraph, Bluefield (110)\*
- WISCONSIN**  
 The Post-Crescent, Appleton (111)\*  
 The Reporter, Fond du Lac (112)\*  
 Herald-Times-Reporter, Manitowoc (113)\*  
 Waukesha County Freeman, Waukesha (114)  
 The Daily Tribune, Wisconsin Rapids (115)  
 West Bend Daily News, West Bend (116)
- All newspapers are published DAILY except those marked as follows:  
 \*DAILY including SUNDAY

(Incorporated under the laws of Ontario)

As at December 31, 1988

	1988	1987
	<i>(in thousands)</i>	
<b>ASSETS</b>		
Current Assets		
Cash and short-term investments .....	\$ 187,779	\$ 112,901
Trade accounts receivable .....	140,193	126,858
Other accounts receivable .....	7,612	2,929
Inventories .....	20,772	17,178
Prepaid expenses .....	1,949	1,987
	<u>358,305</u>	<u>261,853</u>
Investments and Other Assets (note 2) .....	<u>96,037</u>	<u>88,738</u>
Property, Plant and Equipment		
Land .....	47,574	43,173
Buildings, machinery and equipment .....	629,435	604,819
	<u>677,009</u>	<u>647,992</u>
Less accumulated depreciation .....	222,920	240,226
	<u>454,089</u>	<u>407,766</u>
Circulation and Goodwill .....	<u>1,100,654</u>	<u>660,885</u>
	<u>\$2,009,085</u>	<u>\$1,419,242</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities .....	\$ 77,473	\$ 57,621
Taxes payable .....	28,605	2,321
Current instalments of long-term debt .....	550	767
Prepaid subscriptions .....	28,362	25,151
	<u>134,990</u>	<u>85,860</u>
Long-Term Debt (note 3) .....	<u>599,619</u>	<u>120,196</u>
Deferred Income Taxes .....	<u>111,468</u>	<u>125,718</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock (note 4)		
Preference shares .....	5,692	6,052
Class A and Class B shares .....	54,156	54,156
	<u>59,848</u>	<u>60,208</u>
Equity Adjustment From Foreign		
Currency Translation .....	(33,416)	50,662
Retained Earnings .....	<u>1,136,576</u>	<u>976,598</u>
	<u>1,163,008</u>	<u>1,087,468</u>
	<u>\$2,009,085</u>	<u>\$1,419,242</u>
Approved by the Board		
	K. R. Thomson, Director	
	D. C. H. Stanley, Director	



Year Ended December 31, 1988

	1988	1987
	<i>(in thousands)</i>	
Operating revenue .....	\$1,207,778	\$1,095,849
Costs and operating expenses .....	<u>799,852</u>	<u>693,745</u>
Operating income before depreciation .....	407,926	402,104
Depreciation .....	<u>31,774</u>	<u>30,298</u>
Operating income .....	<u>376,152</u>	<u>371,806</u>
Other income (deductions)		
Interest and investment income .....	13,934	7,804
Interest — long-term debt .....	(38,103)	(5,592)
— other .....	(1,866)	(397)
Other (net) .....	<u>(6)</u>	<u>(463)</u>
	<u>(26,041)</u>	<u>1,352</u>
Equity in pre-tax income of Augusta Newsprint Company .....	<u>13,340</u>	<u>3,903</u>
Income before undernoted items .....	<u>363,451</u>	<u>377,061</u>
Income taxes (note 5)		
Current .....	93,420	124,668
Deferred .....	<u>6,669</u>	<u>17,273</u>
	<u>100,089</u>	<u>141,941</u>
Income before amortization of goodwill .....	<u>263,362</u>	<u>235,120</u>
Amortization of goodwill .....	<u>8,487</u>	<u>4,461</u>
Net income .....	<u>\$ 254,875</u>	<u>\$ 230,659</u>
Net income per Class A and Class B share	\$1.72	\$1.56

## Consolidated Statement of Retained Earnings

Year Ended December 31, 1988

	1988	1987
	<i>(in thousands)</i>	
Balance at beginning of year .....	\$ 976,598	\$ 824,413
Net income .....	254,875	230,659
Net discount on purchase of preference shares .....	15	21
	<u>1,231,488</u>	<u>1,055,093</u>
Dividends paid on		
Preference shares .....	397	423
Class A and Class B shares .....	<u>94,515</u>	<u>78,072</u>
	<u>94,912</u>	<u>78,495</u>
Balance at end of year .....	<u>\$1,136,576</u>	<u>\$ 976,598</u>

	Year Ended December 31, 1988	
	1988	1987
	<i>(in thousands)</i>	
Cash provided by (used in) operating activities		
Net income . . . . .	\$ 254,875	\$ 230,659
Charges to operations not requiring a current cash payment		
Depreciation . . . . .	31,774	30,298
Deferred income taxes . . . . .	6,669	17,273
Amortization of goodwill . . . . .	8,487	4,461
Equity in pre-tax income of Augusta Newsprint Company . . . . .	(13,340)	(3,903)
Other (net) . . . . .	1,381	1,308
	<u>289,846</u>	<u>280,096</u>
Net change in non-cash working capital balances related to operations . . .	3,091	(21,897)
	<u>292,937</u>	<u>258,199</u>
Cash provided by (used in) investment activities		
Acquisition of newspaper businesses (note 7) . . . . .	(537,188)	(203,998)
Purchase of property, plant and equipment . . . . .	(79,221)	(34,184)
Purchase of sundry investments . . . . .		(10,343)
Proceeds on disposal of investments and property, plant and equipment . .	3,389	1,298
	<u>(613,020)</u>	<u>(247,227)</u>
Cash provided by (used in) financing activities		
Proceeds from long-term debt . . . . .	508,137	110,997
Dividends . . . . .	(94,912)	(78,495)
Reduction in long-term debt . . . . .	(683)	(3,588)
Preference shares purchased for cancellation . . . . .	(345)	(425)
Other (net) . . . . .	(17,236)	6,051
	<u>394,961</u>	<u>34,540</u>
Net increase in cash during year . . . . .	74,878	45,512
Cash position at beginning of year . . . . .	112,901	67,389
Cash position at end of year* . . . . .	<u>\$ 187,779</u>	<u>\$ 112,901</u>

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

## *Auditors' Report*

To the Shareholders of  
Thomson Newspapers Limited

We have examined the consolidated balance sheet of Thomson Newspapers Limited as at December 31, 1988 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, 1988 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 17, 1989

Thorne Ernst & Whinney  
Chartered Accountants

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 \$84,078,000 (1987 — decrease of \$42,855,000). 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 \$327,215,000 at December 31, 1988 (1987 — \$199,865,000), are being amortized over forty years from date of acquisition. Accumulated amortization to December 31, 1988 amounted to \$24,992,000 (1987 — \$18,226,000).

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, 1988 is \$670,667,000 (1987 — \$342,208,000).

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 \$77,844,000 (1987 — \$70,735,000) is included in Investments and Other Assets.

Summarized financial information of the partnership is as follows:

	1988	1987
	<i>(in thousands)</i>	
Current assets	\$ 45,556	\$ 47,696
Plant and equipment and other assets	335,710	380,580
Total assets	<u>381,266</u>	<u>428,276</u>
Current liabilities	39,299	38,627
Long-term liabilities	186,278	248,179
Total liabilities	<u>225,577</u>	<u>286,806</u>
Partnership equity	<u>\$155,689</u>	<u>\$141,470</u>
Net sales	<u>\$239,884</u>	<u>\$227,625</u>
Company's equity in pre-tax income	<u>\$ 13,340</u>	<u>\$ 3,903</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.

## Notes to Consolidated Financial Statements

Year Ended December 31, 1988

### 3. LONG-TERM DEBT

	1988	1987
	<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. \$485,788,000 bearing interest at 9.75% at December 31, 1988, 1987 — 8.41%) .....	\$579,302	\$ 97,448
Promissory note payable, variable interest keyed to the Eurodollar rate. Principal payable semi-annually from December 17, 1991 to October 15, 1997. (U.S. \$16,000,000 bearing interest at 9.12% at December 31, 1988, 1987 — 8.89%) .....	19,081	20,788
Miscellaneous notes and mortgages payable (U.S. \$1,498,000) .....	1,786	2,727
	600,169	120,963
Less instalments included in current liabilities .....	550	767
	\$599,619	\$120,196

Long-term debt repayments are as follows:

	<i>(in thousands)</i>	
1989 .....	\$	550
1990 .....		550
1991 .....		97,896
1992 .....		99,668
1993 .....		100,503
1994 and thereafter .....		301,002
		\$600,169

### 4. CAPITAL STOCK

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

	1988	1987
	<i>(in thousands)</i>	
Authorized		
413,836 Preference shares issuable in series (1987 — 421,046 shares)		
Second preference shares issuable in series		
Class A and Class B interconvertible participating shares		
Issued		
113,836 Preference shares, Series A 6¾% cumulative redeemable (1987 — 121,046 shares) .....	\$ 5,692	\$ 6,052
148,572,218 Shares consisting of 132,277,749 Class A and 16,294,469 Class B (1987 — 148,159,349 shares consisting of 129,510,996 Class A and 18,648,353 Class B) .....	54,156	54,156
	\$59,848	\$60,208

(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 1988, 7,210 preference shares, having a stated capital of \$360,000, were purchased for cancellation. On January 27, 1989 the company called for redemption on February 28, 1989 all of the outstanding Series A preference shares at a price of \$51 per share plus accrued dividends.

(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 1988 the company issued 412,869 Class B shares by way of stock dividend on its Class B shares (1987 — 444,206).

(d) In 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. No shares were purchased under this approval which expired on October 28, 1988.

### 5. INCOME TAXES

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

	1988	1987
Combined basic Canadian federal and Ontario provincial income tax rate .....	47.0%	51.0%
Decrease in the income tax rate resulting from:		
Manufacturing and processing profits deduction .....	(1.2)	(2.2)
Lower effective income tax rate on earnings of foreign subsidiaries .....	(15.9)	(9.9)
Miscellaneous (net) .....	(2.4)	(1.3)
Effective income tax rate .....	27.5%	37.6%

### 6. 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. In 1987 the company changed its method of accounting for pensions in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The effect of this change on net income for the years ended December 31, 1988 and December 31, 1987 is not material. As at December 31, 1988, the market value of the assets of the pension funds is \$158,426,000 (1987 — \$147,500,000) and the actuarial present value of accrued pension benefits attributed to service rendered to December 31, 1988 is \$142,197,000 (1987 — \$135,800,000).

## Notes to Consolidated Financial Statements

Year Ended December 31, 1988

### 7. ACQUISITIONS

During 1988 the company purchased all the outstanding capital stock of the following newspaper publishing companies:

Enid Publishing Company (Enid, Oklahoma), March 1, 1988; The News Company (New Castle, Pennsylvania), March 4, 1988; Olean Times Herald Corporation (Olean, New York), May 13, 1988; The Post Holding Company, Inc. (Bridgeport, Connecticut), June 30, 1988; Kerr Publications, Inc. (Kerrville, Texas), August 12, 1988.

On January 7, 1988 the company purchased the assets of The Daily Telegraph (Bluefield, West Virginia).

On March 1, 1988 the company purchased the assets of The Star-Beacon (Ashtabula, Ohio); Geauga Times Leader (Chardon, Ohio); The News-Herald (Conneaut, Ohio); Big Spring Herald (Big Spring, Texas); Marshall News Messenger (Marshall, Texas); Del Rio News-Herald (Del Rio, Texas) and The Huntsville Item (Huntsville, Texas).

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

	<i>(in thousands)</i>
Total assets acquired	
Cash .....	\$ 8,673
Other current assets .....	40,853
Investments and other assets .....	11,585
Property, plant and equipment .....	55,491
Circulation .....	368,595
	<u>485,197</u>
Less total liabilities assumed	
Current liabilities .....	24,606
Net assets acquired at estimated fair value .....	460,591
Excess of purchase price over estimated fair value (to be amortized over 40 years) .....	85,270
Consideration .....	<u>\$545,861</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 <i>(in thousands)</i>	Consolidated
<b>1988</b>			
Total assets .....	<u>\$334,206</u>	<u>\$1,674,879</u>	<u>\$2,009,085</u>
Operating revenue .....	<u>\$547,189</u>	<u>\$ 660,589</u>	<u>\$1,207,778</u>
Segmented operating income .....	<u>\$163,298</u>	<u>\$ 220,998</u>	<u>\$ 384,296</u>
General corporate expenses .....			8,144
Interest — long-term debt .....			38,103
— other .....			1,866
Equity in pre-tax income of Augusta Newsprint Company .....			(13,340)
Interest and investment income .....			(13,934)
Other (net) .....			6
Income taxes .....			100,089
Amortization of goodwill .....			8,487
			<u>129,421</u>
Net income .....			<u>\$ 254,875</u>
<b>1987</b>			
Total assets .....	<u>\$289,430</u>	<u>\$1,129,812</u>	<u>\$1,419,242</u>
Operating revenue .....	<u>\$500,027</u>	<u>\$ 595,822</u>	<u>\$1,095,849</u>
Segmented operating income .....	<u>\$157,444</u>	<u>\$ 221,834</u>	<u>\$ 379,278</u>
General corporate expenses .....			7,472
Interest — long-term debt .....			5,592
— other .....			397
Equity in pre-tax income of Augusta Newsprint Company .....			(3,903)
Interest and investment income .....			(7,804)
Other (net) .....			463
Income taxes .....			141,941
Amortization of goodwill .....			4,461
			<u>148,619</u>
Net income .....			<u>\$ 230,659</u>

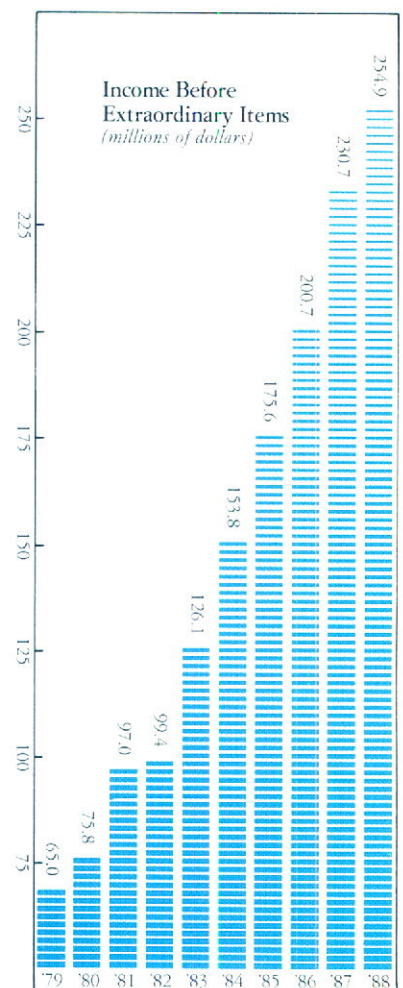
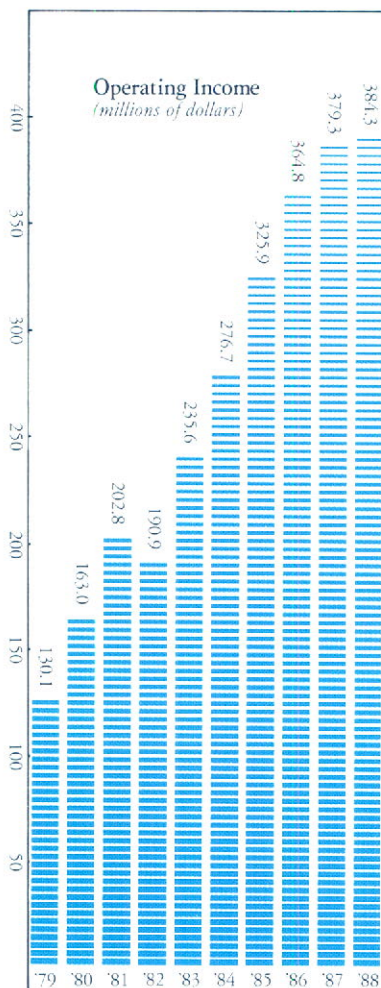
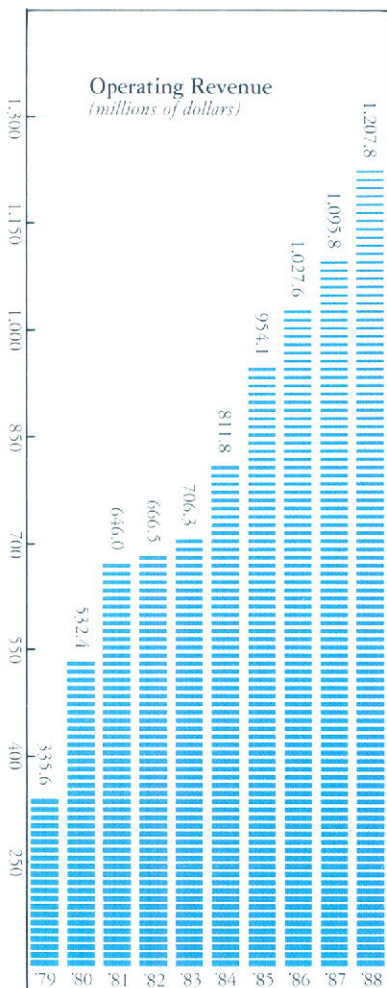
# Summary of Selected Consolidated Financial Information

Year Ended December 31

1988 1987 1986 1985 1984 1983 1982 1981 1980 1979

(in thousands except per share amounts)

Operating revenue										
Canada .....	\$ 547,189	\$ 500,027	\$ 461,014	\$432,927	\$400,685	\$361,635	\$352,936	\$365,952	\$284,572	\$103,779
United States .....	660,589	595,822	566,600	521,218	411,072	344,677	313,521	280,041	247,791	231,782
Total .....	<u>\$1,207,778</u>	<u>\$1,095,849</u>	<u>\$1,027,614</u>	<u>\$954,145</u>	<u>\$811,757</u>	<u>\$706,312</u>	<u>\$666,457</u>	<u>\$645,993</u>	<u>\$532,363</u>	<u>\$335,561</u>
Segmented operating income										
Canada .....	\$ 163,298	\$ 157,444	\$ 140,875	\$122,326	\$110,076	\$ 96,911	\$ 70,881	\$ 91,496	\$ 62,490	\$ 35,925
United States .....	220,998	221,834	223,898	203,565	166,625	138,658	119,973	111,334	100,511	94,146
Total .....	<u>\$ 384,296</u>	<u>\$ 379,278</u>	<u>\$ 364,773</u>	<u>\$325,891</u>	<u>\$276,701</u>	<u>\$235,569</u>	<u>\$190,854</u>	<u>\$202,830</u>	<u>\$163,001</u>	<u>\$130,071</u>
Income before extraordinary items .....										
	<u>\$ 254,875</u>	<u>\$ 230,659</u>	<u>\$ 200,695</u>	<u>\$175,617</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>
Per Class A and Class B share										
Income before extraordinary items ....	\$ 1.72	\$ 1.56	\$ 1.36	\$ 1.19	\$ 1.04	\$ .85	\$ .67	\$ .65	\$ .51	\$ .44
Dividends .....	\$ .715	\$ .620	\$ .540	\$ .462	\$ .392	\$ .335	\$ .292	\$ .253	\$ .206	\$ .176



Officers

**K. R. Thomson**

Chairman of the Board, President  
and Chief Executive Officer

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

Deputy Chairman

**Brian W. Slight**

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**

**St. Clair McCabe**

**Brian W. Slight**

**D. C. H. Stanley**

**David K. R. Thomson**

**K. R. Thomson**

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

Executive Offices

**Thomson Newspapers Limited**

**65 Queen Street West, Toronto, Ontario**

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 Holdings 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

J. Patrick Doyle, Manager, Administration

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

1 Woodlawn Green, Charlotte, North Carolina

David L. Smith, Manager, Administration

**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



Thomson Newspapers Limited