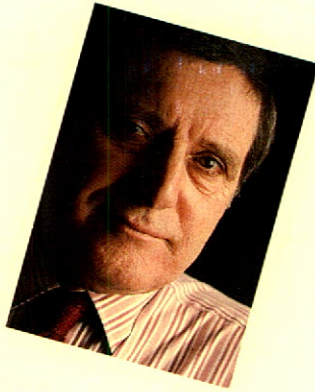


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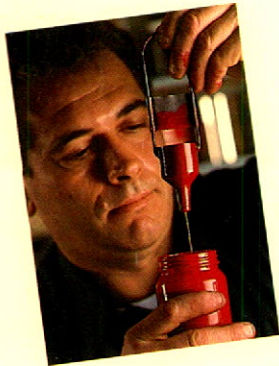
Southam Inc.

1987 Annual Report



“The employees are
the engines that drive this company.
When our people succeed, so does the company.
And so do the shareholders.”

John P. Fisher, *President*



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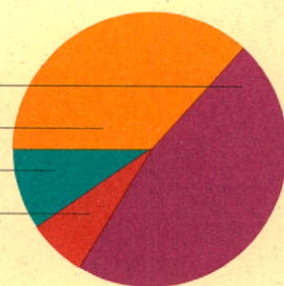
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The Year at a Glance

<i>Consolidated, with comparative figures for 1986 (thousands of dollars except where indicated*)</i>		1987	% change	1986
Income				
Revenue from operations		\$ 1,451,971	+ 13.5	\$ 1,279,370
Operating expenses		1,355,049	+ 14.1	1,187,424
Income before other items		78,302	+ 8.9	71,929
°per common share		1.32	+ 8.2	1.22
Net income		82,682	+ 23.6	66,912
Gross dividends		31,105	+ 13.4	27,418
°per common share		.52	+ 13.0	.46
Financial position				
Working capital		\$ 61,415	+ 10.0	\$ 55,826
Fixed assets (net)		393,793	+ 17.3	335,826
Total assets		1,144,736	+ 18.5	965,807
Long term debt		317,394	+ 35.9	233,473
Shareholders' equity		503,822	+ 12.3	448,524
Return on average equity		16.4%		16.9%
Statistics				
Advertising linage — ROP — newspapers (000's)		245,364	+ 1.8	241,124
Daily newspaper circulation — year (000's)		1,541		1,547
Number of employees		14,954	+ 11.1	13,465
Salaries, wages and employee benefits		\$ 532,546	+ 11.6	\$ 477,096
Price range per common share		\$ 26.25-\$15.25		\$ 27.75-\$15.50

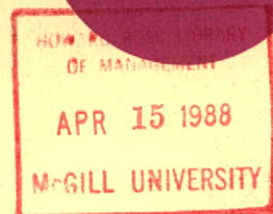
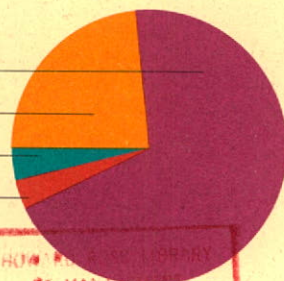
1987 Revenue by Segment (thousands of dollars)

Newspapers	\$ 695,724	47.9%
Printing	511,262	35.2%
Books	145,034	10.0%
Communications	99,951	6.9%
	\$ 1,451,971	100.0%



1987 Income by Segment (thousands of dollars)

Newspapers	\$ 96,013	69.1%
Printing	32,881	23.6%
Books	5,359	3.9%
Communications	4,771	3.4%
	\$ 139,024	100.0%



Profile

Southam Inc. is a diversified, Canadian-owned company in the communications and information industry. It provides products in four core areas.

Newspapers

Through the Southam Newspaper Group, Southam is Canada's largest newspaper publisher in terms of circulation, publishing 15 daily newspapers, a financial weekly and a variety of community publications.

Printing

In Canada, Southam Printing Limited is a major commercial printer, providing a broad range of printing services through 14 plants in six provinces.

In the United States, through Dittler Brothers, Incorporated, Southam provides products including airline, hotel, truck and delivery directories, lottery tickets and specialty promotion card games. Through Holladay-Tyler Printing Corporation in Maryland, Southam produces high-quality magazines and catalogues.

Book retailing

Through Coles Book Stores Limited, Southam operates a large chain of retail book stores across Canada, a total of 189 stores at the end of 1987.

Information services

Through Southam Communications Limited, Southam publishes a wide variety of business and professional periodicals, and produces and provides support services for trade shows.

Through Infomart, Southam provides specialized information packages electronically to the business and professional marketplace.

Associated companies

In addition, Southam Inc. has substantial investments in Torstar Corporation, a diversified communications company; in Selkirk Communications Limited, a broadcasting and cable company; in Telemedia Publishing Inc., a publisher of consumer magazines; and in JEMCOM Inc., which publishes the Kitchener-Waterloo Record.

**Statement on
Editorial
Independence**

A major strength of Southam publications is that each is absolutely independent in setting its own policy on all matters involving news and opinion. This has been Southam policy for more than a century. It is a policy we are proud of. It means that in the widely different environments in which we operate across this varied country, publishers and editors make their own editorial decisions, free from interference.

But we do insist that they constantly strive to maintain high standards of editorial quality, and of fairness in reporting and interpreting the news. Democracy must listen to many voices. In our view, publishers and editors who thoroughly understand the needs of their own communities are well placed to ensure that many voices are heard throughout the land.

A year of major decisions for Canada was also an active year for Southam. Record revenues and profits were achieved as the company strove to meet corporate objectives.

Nineteen eighty-seven was a year in which Canada grappled with its future on several fronts. Public and political debate focused on both the free trade agreement with the United States and the Meech Lake constitutional accord. Southam, as Canada's largest communications and information company, kept Canadians informed of these initiatives and their implications.

In addition to our normal coverage of the daily news, Southam contributed to the awareness of Canadians about social issues by sponsoring a major national study on the problems of illiteracy in Canada. Information is our key product and the provision of appropriate and timely information, news and comment is our challenge. We believe we served the Canadian public well in 1987.

Financial results continued to improve during 1987 while actions taken during the year will enhance the operations of the company in the future. Revenue increased over the previous year by 13.5 per cent to \$1.452 billion and income before other items increased by 8.9 per cent to \$78.3 million, or \$1.32 per share, compared with \$1.22 per share in 1986. Other items, both extraordinary and unusual, included our equity share of associated companies' other items. They also included proceeds from the sale of our 49-per-cent interest in the Brandon Sun, the sale of Coles' U.S. book stores and disposition of surplus real estate. These items totalled \$4.4 million and brought net earnings for the year to \$82.7 million, or \$1.39 per share. In summary, a year of satisfactory progress.

Improved earnings came partially from increased revenues, but mostly from steady and aggressive efforts throughout the company to expand margins by improving productivity. In today's highly competitive marketplaces, such efforts are essential to maintain the vigour and profitability of all our operations. The success of these activities was achieved broadly, and by the individual contributions of many employees.

Income from our equity holdings in associated companies provided a major contribution to profits. Torstar Corporation, in particular, had an excellent year and our equity share of their earnings increased by 31 per cent to \$19.4 million. This return on our investment tends to reinforce the wisdom of actions taken in 1985 by the company's directors.

Our involvement in Selkirk Communications Limited provided a challenge during the year. Selkirk's profits were down 28 per cent due to problems at Hamilton television station CHCH-TV and in Selkirk's television representation activities in the United States. These problems are being tackled and improved results are anticipated in 1988.

In the spring of 1987, we reviewed our investment in Selkirk and, as a result, confirmed our interest in and commitment to the broadcast industry as a natural fit with our other communications activities. A further result of this review was that we increased our ownership in Selkirk by more than four per cent, to 42 per cent of the non-voting shares. Early in 1988 this was

increased further to 47 per cent. It is our intent to continue to work through the Selkirk board to achieve appropriate returns to the shareholders on the excellent broadcast properties and other assets which Selkirk owns. We are optimistic that Selkirk will benefit from a stabilized ownership situation and that improved financial performance can and will be achieved.

The detailed reports for our operating companies are covered separately. All had busy years; most had improved results; all made good progress towards the achievement of their financial objectives and other strategic goals.

We continued to make progress toward our overall corporate growth objective of an annual 10 per cent increase in revenues when measured in constant dollars. Revenues for this measurement are those from our own operations plus our equity share of revenues of associated businesses. Measured on this basis, growth in 1987 was 8.9 per cent compared with 1986.

Return on average shareholders' equity was 16.4 per cent, compared with 16.9 per cent the previous year. The issue of treasury shares to Torstar Corporation in 1985 significantly increased the equity base of the company. Excluding the effect of the Torstar transaction, return on average equity would have been 18.5 per cent in 1987. Our corporate objective remains 20 per cent.

Human resource activities were given increased attention throughout the company. The objective is to have an organization which encourages the greatest individual contribution by each employee. We have started a President's Award program to recognize and reward particularly worthwhile individual contributions to the company. A description of the award winners and their accomplishments begins on page 8. During the year the number of employees participating in the Employee Stock Investment Plan increased by 850 to 4,342 and at year-end employees held approximately 2½ million of the company's shares. We believe this is another way in which employees show an interest in and commitment to Southam.

As part of our corporate responsibility, we continued to support charitable activities across Canada, particularly in communities in which we operate. Our policy is to contribute two per cent of pre-tax income and this resulted in 1987 donations totalling more than \$2 million.

The newspaper industry has had a history of difficult relations with its unions. Southam is committed to achieving a more open approach to the solution of union-management conflicts at the plant level. We were successful in settling in an open and co-operative fashion all labour contracts which came up for renewal during the year, with the exception of The Gazette in Montreal. In particular, the new 45-month agreements with Pacific Press employees in Vancouver were achieved without significant interruption and within a climate which should encourage improved relations in the future. The unions and management deserve credit for reaching agreement and creating an improved working environment in Vancouver.

At The Gazette in Montreal, negotiations were successful with all union locals except pressmen and mailers, whose work stoppage began in July and continued through the end of the year. The newspaper was produced throughout this period by non-striking employees and by management personnel at The Gazette with no disruption in publication. The strike was settled early in 1988 and both sides are working to return relations to normal.

Legal proceedings relating to Southam's 1985 investment in Torstar Corporation are to be renewed shortly. The Director appointed under the Canada Business Corporations Act is seeking a Supreme Court of Ontario order that the transaction be submitted to the company's shareholders for approval, or, failing that, that it be rendered null and void. Hearings are scheduled to begin in May. We stand prepared to defend our conduct as having been most responsible and judicious under the circumstances that prevailed at the time.

Norman B. Keevil, Jr., a director of the company since 1981, has asked that he not be nominated for re-election to the board, having recently accepted a two-year term as vice-chairman of the Mining Association of Canada. His wise counsel deserves the appreciation of all shareholders. David L. Johnston, principal and vice-chancellor of McGill University, will be nominated to replace Mr. Keevil on the board.

Overall, in 1987, the Canadian economy performed close to what we expected at the beginning of the year: strong in the East, weaker but improving in the West. Looking ahead at the economy in 1988, we are modestly optimistic about the impact it will have on our operations. We expect to do better than the rate of growth of the economy. Efforts to improve productivity will continue; acquisitions and investments made in 1987 will impact favourably on earnings in 1988. Most important, however, is the commitment throughout the company to continue working to achieve our corporate objectives, not only financial but also those which impact on our employees.

More so than in most industries, communications and information companies require the contributions of individuals who are well-educated, well-motivated and well-trained. While we try to foster these characteristics, it is the individual employee who achieves the results. We are very fortunate to enjoy the commitment of our employees. On behalf of the shareholders, we congratulate them for their contribution to another successful year.

Hugh G. Hallward (left)
Chairman of the board

John P. Fisher
President



Mission, Guidelines and Performance

Our mission

Our aim is to be a leader in the communications and information industry.

Within this industry we will concentrate on newspapers, commercial printing, magazine publishing, book publishing and retailing, and business, trade and professional information and services in print and electronic form.

We will pursue growth opportunities in these fields, either internally or through acquisition, to ensure consistent, appropriate, long-term growth in earnings for our shareholders.

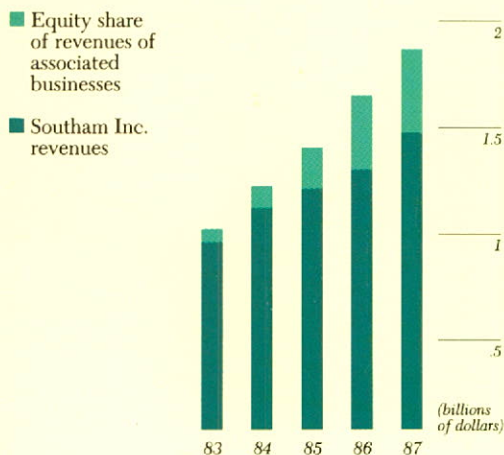
Our guidelines

We measure our performance through a series of guidelines:

- To earn consistently a return on average shareholders' equity of at least 20 per cent per year.
- To achieve an average annual increase in total revenues of 10 per cent in constant dollars.
- To provide an environment and conditions of employment that will attract and motivate individuals of integrity and quality through challenging and satisfying career development opportunities over the long term.
- To be known for high ethical standards and for fulfilling our corporate responsibilities in the countries and communities in which we operate, with the customers we serve and with our employees.
- To have a decentralized style of management, but also to ensure there is sufficient co-ordination and direction to achieve the maximum synergy and co-operation among operating units.
- To communicate effectively with employees, the investment community, our shareholders and the general public.

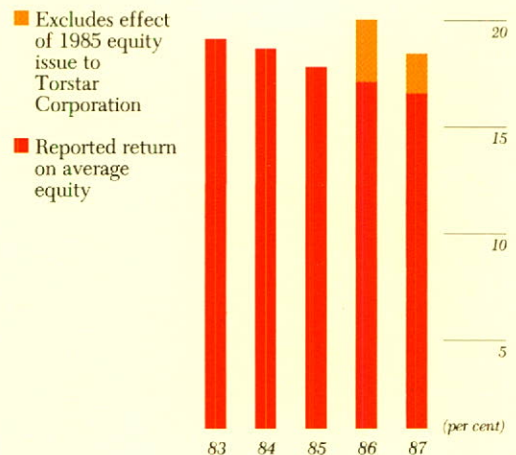
Our performance

Revenue Growth




Southam's total revenues include our equity share of the revenues of associated businesses. After adjusting for inflation to produce constant dollars, Southam's total revenues grew in 1987 by 8.9 per cent over the previous year. Our objective is 10 per cent growth per year. Over the last five years, our average annual rate of growth has been 11.5 per cent in constant dollars.

Return On Average Equity



Our objective for return on average equity is 20 per cent. In 1985, the issue of treasury shares to Torstar Corporation resulted in dilution of the equity base. This restatement is illustrated here to make the most recent years comparable with previous years.



Southam Inc.'s Corporate Management Committee, made up of the president and six vice-presidents, meets regularly to plan strategy and conduct company business. Seated, left to right: George Meadows, William Carradine, John Rothwell, John Fisher and John Craig. Standing: Paddy Sherman and William Mann.

Benefits of Excellence

Southam Inc. Awards

Any organization aiming for excellence needs employees who are extraordinary in the way they do their jobs. Only through superlative effort can full potential be realized by the organization, by the people who work in it and by the people who invest in it.

Southam recognizes the need for and the value of such extraordinary effort. In 1987, the company started two new programs to identify and reward superior contributions from its employees.

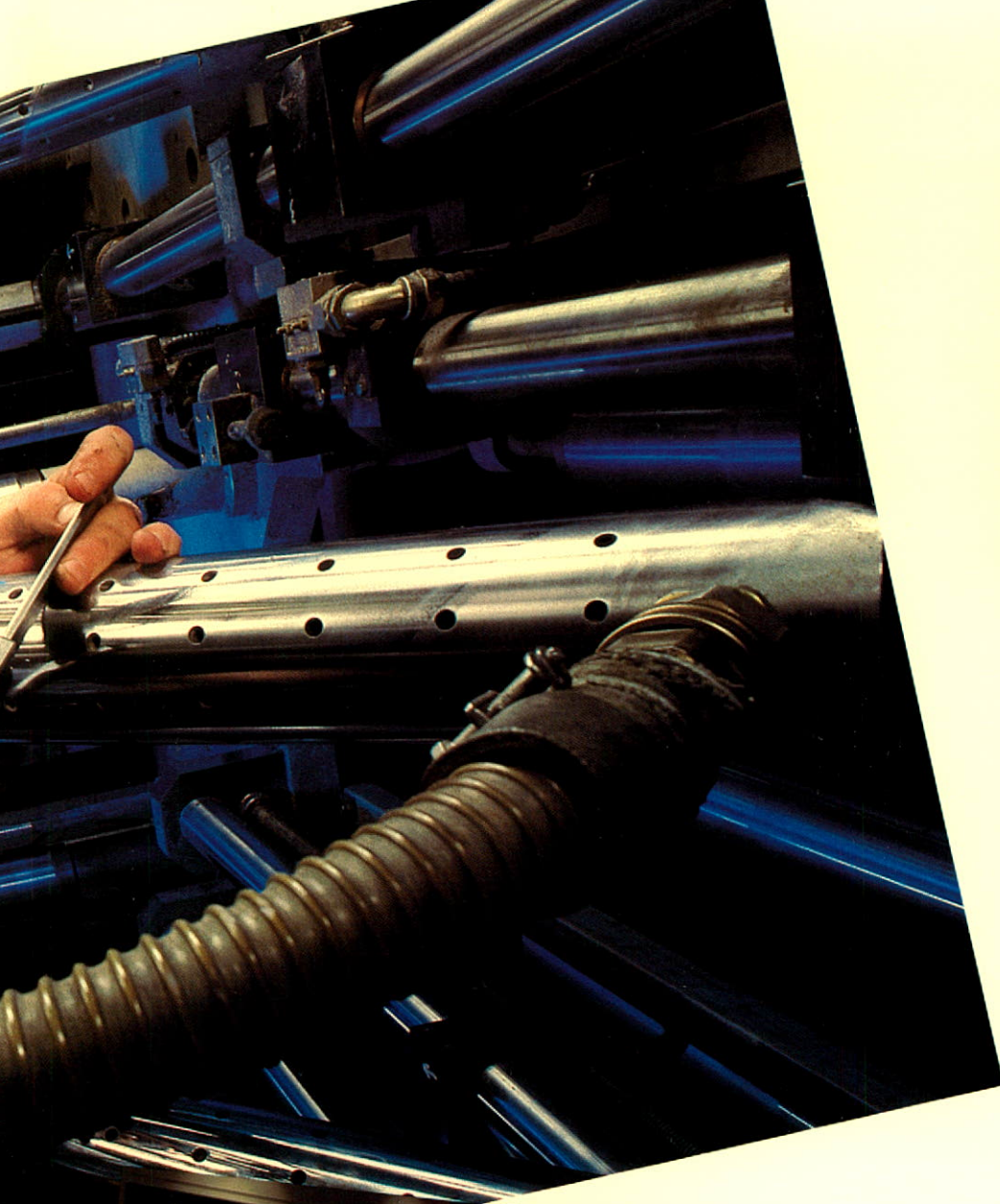
The President's Award, established by Southam Inc. president John P. Fisher, aims to recognize those whose efforts demonstrate innovation and produce significant results.

The President's Journalism Prize, established by Southam Newspaper Group president Paddy Sherman, honours outstanding achievement in news, editorial and feature writing within the group.

Winners in 1987 came from all corners of the company, and for all sorts of reasons. Not least of these qualifications — but by no means the sole criterion — was for coming up with a measurable contribution to the financial well-being of the company.



▲ **Benny R. Rich, Dittler Brothers, Inc., Oakwood, Georgia**
As Director of Maintenance and Facilities Development, Rich has been responsible for putting together a highly sophisticated high-speed finishing line installed recently on a web offset press at Dittler's Moreno Press facility. More than a million and a half printed pieces per hour can be handled through this innovation. The anticipated labour cost saving from one game order alone is \$750,000.



▲ Frank Nelson,
Coles Book Stores Limited, Toronto

As director of the sprawling Coles distribution facility in Toronto, Nelson is responsible for the successful shipment of millions of books every year. He has managed to effect savings of more than \$250,000 in freight and related distribution costs while still providing Coles stores with what they want, when they want it.



◀ Claude Arpin, Joan Fraser, *The Gazette*,
Robert Lee, *The Ottawa Citizen* (centre)

These journalists have been named winners of the top Southam Newspaper Group award, the President's Journalism Prize. Arpin won in the news category for his Gazette story on the real estate "flips" in the Oerlikon defence contracts affair. Fraser, Gazette Editorial Page Editor, won for editorial commentary on the Meech Lake Accord. Lee's Ottawa Citizen piece entitled The Secret Senate won in specialty writing for superb presentation and relevance.

Franks Nelson's cost-reducing redesign of Coles Book Stores' distribution system was a case in point. So was the imaginative strategy devised by Gilles Lapointe to supply Gazette Canadian's Montreal-area printing plant with paper in a time of shortages.

Benny Rich of Dittler Brothers worked with a team of colleagues to put in place a high-speed finishing line that will make the Georgia plant the envy of Dittler's competitors for years to come. At Southam Murray Printing, Phil Ripley's idea for using old equipment in a new way resulted in a fresh source of revenue.

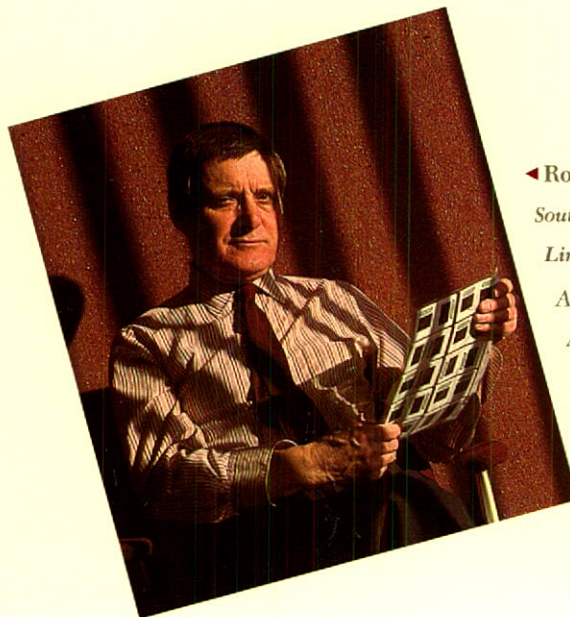
In each of these cases, technical accomplishments translated into substantial contributions to profits.

From the newspapers came two teams combining editorial commitment and business ingenuity to produce revenue gains. The Vancouver Sun's "New Homes" section, spearheaded by Susan Balcom and George Thew, was almost instantly profitable and widely read. In Calgary, Kathleen O'Halloran and Barbara Schreiner moulded a young team of Herald reporters and sales staff into a highly successful "Neighbors" section.

► *Calgary Herald team:*

Kathleen O'Halloran (right), **Barbara Schreiner**

When the Calgary Herald decided to introduce a new Neighbors section, it faced a daunting challenge. Neighbors' sales supervisor O'Halloran and administrative clerk Schreiner trained and deployed a young and enthusiastic team of employees. Neighbors produced advertising revenue of more than \$1 million in 1987, much of it from more than 1,400 accounts that are new to the Herald.



◄ **Robert Gretton,**
*Southam Communications
Limited, Toronto*

As Publisher/Editor of The Canadian Architect, Gretton has been named an honorary member of the Ontario Association of Architects and in 1987 was elected a Fellow of the Royal Society of Arts, based in London, England. He also ran a highly successful construction seminar in 1987.



▲ Gilles Lapointe, Gazette Canadian Printing, Montreal

As Purchasing Manager, Lapointe was responsible for a series of cost-saving transactions in 1987 that resulted in considerable benefits. One particularly skilful purchase from a mill in France brought about savings of \$400,000 and provided needed paper supplies during a period of tightened shipments from Canadian mills.

Robert Gretton of Southam Communications has earned the professional esteem of the architectural community over the years, and the publication he edits is the better for it. For Ben Babelowsky of The Ottawa Citizen, a favourite artistic pastime paid off in the form of generous assistance to the regional community.

The President's Journalism Prize promises to become the golden fleece of Southam's editorial staff. The Gazette's Claude Arpin set a high standard in 1987 with his exposé of the Oerlikon real estate scandal. Joan Fraser, also of The Gazette, wrote a reasoned commentary on the Meech Lake Accord that won in the editorial writing category. Robert Lee of The Ottawa Citizen crafted a feature story on the Senate that avoided hoary clichés and shed new light on an old institution.

"What we're trying to do with these programs is build into our culture the realization that employees are the engines that drive this company," said John Fisher. "When our people succeed, so does the company. And so do the shareholders."

▼ Ben Babelowsky, *The Ottawa Citizen* Babelowsky, Promotion and Public Relations Manager, has produced several series of paintings of Ottawa-area scenes. Proceeds from sales of the prints have gone to aid the psychiatrically disabled of Eastern Ontario. To date, more than \$600,000 has been raised for charity through Babelowsky's activities.





▲ *Vancouver Sun team:*

Susan Balcom, George Thew

The New Homes section, a weekly Saturday feature, has become an unqualified success in terms of revenue contribution and status within the community. Working as a team, Balcom and Thew have provided a substantial new revenue source, close to \$2 million in 1987, and one of the best read sections of the Saturday Sun.



◀ *Phil Ripley,*

Southam Murray Printing, Toronto

Ripley, an ink specialist/pressman, identified a new application for rotogravure printing, specifically the printing of beer case wraps. An agreement was reached with a major Canadian brewer resulting in an order for 24 million wraps per year and sales of more than \$1 million a year for Southam Murray.

Steps were taken to strengthen the market position of Southam newspapers as productivity gains and greater efficiencies led to an improved year. Further enhancements of service to readers and advertisers are planned in the coming year.

Southam Newspaper Group performance in 1987 exceeded the previous year's in advertising lineage, total revenue and segment income. At the same time, further steps were taken to strengthen the newspapers' position in an increasingly competitive environment and to strive for excellence in reporting and commentary.

Revenue from advertising increased by almost 7 per cent, based mainly on classified lineage. National lineage remained static while retail lineage declined slightly. Revenue from pre-printed inserts and flyer distribution increased 18 per cent. Retail advertising continued to account for more than 40 per cent of total revenue from advertising for the group, classified for more than 25 per cent, national for about 20 per cent, and insert revenue for slightly more than 6 per cent.

Circulation revenue was up by 4.8 per cent. At 1.65 million, total circulation for the group held steady. Strongest circulation gains were made at The Province in Vancouver, the Calgary Herald, The Ottawa Citizen, and in Brantford, Sault Ste. Marie and North Bay.

Southam newspapers account for 27 per cent of total Canadian newspaper circulation. Other newspaper publishing groups include the Thomson organization with 19 per cent, Torstar Corporation with 10 per cent, and Toronto Sun Publishing (in direct competition with Southam newspapers in Edmonton and Calgary) with 8 per cent.

Group performance for Southam in 1987 was buoyed by improved returns from The Vancouver Sun and The Province newspapers and by effective cost containment.

In Montreal, The Gazette registered record earnings despite taking a printing contract loss on closure of the French-language newspaper, Le Matin. Gazette managers and staff maintained on-time publication for the seven-month duration of a labour dispute which deprived the newspaper of more than 200 regular production workers. The ensuing agreement provided the employees with a competitive wage increase and job guarantees; management rights were strengthened and cost savings achieved through greater flexibility in manning arrangements.

Satisfactory agreements were reached during the year after prolonged negotiations with unionized employees in Vancouver and Ottawa, and at five other newspapers.



Paddy Sherman
President, Southam
Newspaper Group

Financial

- Revenue increased by 7.3 per cent over 1986, on moderately higher advertising volume and a slight decline in overall group circulation.
- Cash costs increased by 7.0 per cent.
- Capital expenditures of \$16.4 million were in addition to investments of \$9 million in the Flyer Force distribution system and in acquisitions.

<i>(thousands of dollars)</i>	1987	1986	1985
Revenue	\$ 695,724	\$ 648,328	\$ 600,107
Segment income	96,013	83,495	69,512
Capital expenditures	16,358	15,399	13,075
ROP advertising linage <i>(thousands of lines)</i>	245,364	241,124	236,702

People

- Retiring in 1987 were William Dane after 19 years as publisher, the last 12 at The Sault Star, and Rolf Timmermans as publisher of The Kamloops Daily News.
- Appointed publisher in Sault Ste. Marie was Clifford Sharp, whose publisher position at The Nugget in North Bay was filled by Jack Owens. Bryson Stone moved from The Prince George Citizen to take over in Kamloops and was succeeded as publisher by Alastair McNair. William Findlay was appointed publisher of the newly acquired Brabant community newspapers in the Hamilton region.
- Three editorial staffers were awarded the President's Journalism Prize: Claude Arpin and Joan Fraser of The Gazette in Montreal, and Robert Lee of The Ottawa Citizen.

Planning

- A strategic planning process involving every newspaper and operating unit was completed in 1987, bringing into sharper focus some principal strategic directions.
- The leading position of the group's daily newspapers and distribution network will be strengthened and built upon.
- New opportunities are being sought for growth in existing and new markets.
- The planning process will continue in 1988, supported by operating plans for each newspaper and within each major department.
- The group will work toward its objective of achieving 15 per cent return on revenue before tax.



This was an active year on many fronts. Corporate-to-corporate marketing arrangements were achieved with major retailers; market research capability was expanded and made available to customers; management development programs were revitalized; and co-ordinated initiatives were taken to boost circulation, adopt technological improvements and enhance existing products. New sections and features were added to serve readers and attract advertisers. Wider distribution was provided in some cities through extended market coverage. The Kamloops Daily News, TV Times and Financial Times of Canada were redesigned, the last to compete aggressively in the growing but vigorously competitive business information marketplace. New magazines, "V" — a city magazine in Vancouver papers — and Business Outlook '88, distributed in major newspapers, were added.

Existing distribution capability was expanded in Calgary, Edmonton, Vancouver, Montreal and Ottawa; new service was added with the purchase of three weekly newspapers and establishment of a fourth in Winnipeg and with the acquisition of Brabant Newspapers Ltd. in the Hamilton region. Two weekly newspapers and a small commercial printing operation were purchased in Durham and Markdale, Ont., to complement service provided to readers and advertisers by The Sun Times of Owen Sound.

The most comprehensive study of illiteracy ever undertaken in Canada was commissioned and carried out. The results, which showed the problem to be deep-rooted and widespread, aroused interest and calls for action in academic and government circles.

The company's highly regarded national and international news service, Southam News, entered into an agreement to provide its daily file to United Press International, assuring for the first time distribution across the U.S. In pursuit of editorial excellence throughout Southam newspapers, an award program was established to recognize outstanding journalistic achievement in the company.

To research and deal with business issues common among newspapers, a system of publishers' committees was established. In 1987 they examined succession planning, advertising sales, circulation, new technology, flyer distribution and magazines. Preliminary recommendations were acted upon; further steps will be taken in 1988.

The outlook for 1988 is favourable despite elements of uncertainty. The newspapers are strongly competitive, serving customers with more flexibility than ever before, and are improving production efficiency and productivity. Management is enthusiastic and committed. Key questions in 1988 include the extent of consumer spending and its impact on advertising sales, and the strength of the economic rebound in Alberta and B.C.

Last summer's Edmonton tornado produced more than this dramatic shot by Edmonton Journal photographer Steve Simon. Power was knocked out at the Journal's printing plant and it took herculean efforts by all staff as well as the presses of the Calgary Herald to get out this special Journal edition the next day.



Technological change brought new challenges to the printing industry in 1987. Southam's operations, reorganized to provide a sharper focus for divisions, grew through internal expansion as well as acquisitions.

Nineteen eighty-seven was a year of change both in the North American printing market and in Southam's printing operations. Technological change continued to accelerate through the year as new high-speed, cost-effective printing presses were introduced to the market. As this technology has advanced, so has the cost of entering or expanding in the printing industry. The result has been considerable consolidation both in Canada and the U.S. As this new capacity was introduced, printing customers were offered better quality products at more competitive prices. While this allowed printing companies to compete effectively with other forms of communications, it also placed tremendous pressure on those companies to remain current or fall behind.

In 1987, Southam recognized that changes would have to be made to printing operations if the company was to remain a leader in the North American market. Investments would have to be made and services broadened if market share was to be expanded or even maintained.

Guiding these changes for Southam, on both sides of the Canada-U.S. border, were some key goals:

- To improve the quality and lower the cost of products and services provided to customers.
- To focus efforts on those segments of the market in which the company is best able to serve customers.
- To make the necessary investments to remain at the forefront of technological change, thus to be in the first rank of printing companies.

Canadian Operations

To accomplish these goals, Southam's Canadian printing operations underwent tremendous change during the year. The net result is a much stronger company.

A reorganization of divisions was carried out. This restructuring has had the effect of providing a much clearer focus to each division. In addition, internal synergies not previously exploited will improve both sales and profits.

Acquisitions made in the year brought an expansion of products and services that will ensure the continuation of Southam's leadership position.



Michael A. Quinn
President, Southam
Printing Limited

Financial

- Revenue growth of 25.4 per cent for all printing operations was achieved primarily through acquisitions but also through introduction of new programs in faster growing market sub-segments.
- An earnings decline of 14 per cent was due to start-up costs on new presses installed late in the year and to declining margins in some sub-segments.
- Capital expenditures of \$45 million were made to upgrade existing presses and purchase new ones for the improvement of quality and service to customers.
- Dittler Brothers and LPS had sales of \$97 million, despite a decline in lottery billings.

<i>(thousands of dollars)</i>	1987	1986	1985
Revenue	\$ 511,262	\$ 407,629	\$ 388,415
Segment income	32,881	38,193	36,754
Capital expenditures	44,954	17,830	25,401

People

- A company reorganization resulted in the following appointments: Ron Chase as vice-president, corporate planning and technical resources; Ray Elliott as group president, commercial web group; Andre Beaudet as group president, business forms/specialty printing; John Morris as group president, consumer printed products.
- Also appointed in 1987: Al George, vice-president and general manager, McLaren, Morris and Todd Limited; Peter Mitchell, vice-president and general manager, Agency Press; Wayne Tyler, chairman, Holladay-Tyler Printing Corporation, with Ike Hurt, vice-chairman, and Howard Sullivan, president and C.E.O.
- Richard Newell was appointed president of LPS, Inc.
- A new human resources program was put in place during the year, with Barry Chapman appointed vice-president, human resources.

Planning

- The printing companies' strategic planning process identified a need to focus the business more sharply and to take advantage of the excellent market share Southam enjoys in some key segments.
- The reorganization of companies will contribute to that process, with commercial web, consumer printed products, business forms and specialty printing components getting special attention.
- Dittler Brothers will aim for greater diversification and development of new products.



- RBW Graphics joined Southam at the beginning of 1987. The Owen Sound company brings an outstanding reputation as a quality printer in the publications, directories and data-graphics market segments.
- Data Management Concepts, a Montreal computer services company, was acquired in July, expanding the company's capabilities in the fast-growing direct mail segment.
- Empress Graphics Inc. and Network Studios Inc. of Toronto, acquired subsequent to year-end, will add value to our printing operations and broaden the services Southam is capable of providing.

U.S. Operations

Going into 1987, Southam's major U.S. specialty printing company, Dittler Brothers, Incorporated, knew it would be precluded from participation in the U.S. lottery ticket market following the dissolving of relations with its lottery marketing partner. The litigation surrounding this situation has since been fully resolved.

Despite the decline in lottery sales, Dittler demonstrated its corporate resilience and the strength of its base businesses. A 62-per-cent growth in sales of promotional games further enhanced the company's position as the world leader. Similarly, specialty commercial work grew 58 per cent over 1986 sales. The company also maintained its position as the world's leading printer of airline timetables and hotel/motel directories.

Dittler Brothers has long recognized the importance of having a diversified product line so that success is not dependent on one product or market segment. In keeping with this belief, a renewed commitment to diversification and future growth was made through marketing development activity to identify new products and customers.

Dittler is poised for major growth in 1988, as evidenced by a record level year-end backlog of orders. Additionally, a sister company, LPS, Inc., has been established as Dittler's new lottery marketing partner. LPS has already won lottery ticket contracts in the states of New Hampshire, Washington, Vermont and the District of Columbia.

LPS provides governmental lotteries with a full range of lottery services, including instant game tickets and on-site support assistance in marketing, data processing, administration and security. With a new president, Richard Newell, and a number of other key executives, LPS looks forward to combining its skills with those of Dittler Brothers as the pre-eminent lottery production service team.

Also in the U.S., Southam Printing moved into the commercial web field with the acquisition of Holladay-Tyler Printing Corporation, a high-quality publications printer located in the Maryland suburbs of Washington, D.C. Holladay-Tyler has a substantial client list that includes the National Geographic Society. The firm's 1987 income was affected by the move of presses into a new building but it is expected to be a significant contributor in 1988.



This Baker Perkins G-14 8-unit press, installed in late 1987 at Southam Murray Printing in Toronto, is fully computerized and runs at a speed of 2,200 feet per minute. It was just one of several major presses installed at Southam plants in 1987. Capital expenditures on printing operations totalled almost \$45 million during the year.

Coles Book Stores moved to improve profitability by concentrating on the book retailing market in Canada. Sales targets are aggressive but will benefit from new marketing strategies in the coming year.

Heading into its 1987 fiscal year, Coles faced considerable challenges. In order to maintain its position as Canada's leading book retailer with a market share of approximately 20 per cent, it knew that revitalization of existing stores was critical. So was identification of new marketing opportunities and other means of improving service to customers.

But first, Coles had to come to terms with the geography of its business. Over the past five years, the company had focused on improving profitability and making more effective use of its assets. Its U.S. division had been a continual source of concern. Geographic dispersement and lack of name recognition contributed to an inability to grow effectively and generate acceptable profits. After careful analysis and consideration, it was concluded that the opportunity for profitable increased market share would be difficult and expensive to obtain. So the U.S. assets were sold in September to a major U.S. retailer.

The effect of this disposition has been to allow Coles to refocus its resources and effort on continuing growth in the Canadian market, in which it competes with another major chain and with small regional chains and local independents.

Coles identified other major objectives to be achieved in 1987, including improvement of inventory turnover, implementation of a new information system in a group of test stores, development of a test market advertising campaign and a major research project, and continued emphasis on training programs oriented to customer service, selection and value.

Results were achieved in all these areas. Canadian sales increased 11.7 per cent. Twenty micro-computers were successfully implemented in test stores, with plans in place to have all stores fully automated by early 1989. A nine-month advertising test was conducted, the results of which will be used in future campaigns. An extensive market research project was conducted to identify new market opportunities.

In a continuing effort to create a comfortable retail ambience, the company introduced a new color scheme — grey and burgundy — which has been met with very positive consumer reaction. The new look is being introduced to all new stores and those units requiring major renovations.

Coles' 1988 plan continues to project aggressive sales growth and increased profitability. Sales increases in the first quarter (1987 Christmas season) provide a strong start.



William E. Ardell
President, Coles Book
Stores Limited

Financial

- Consolidated sales grew by 3.4 per cent over 1986, led by growth in Canada of 11.7 per cent.
- Consolidated profits increased 62 per cent to a record earnings level of \$5.4 million.
- Expenses increased by 9 per cent, including the cost of new store openings.

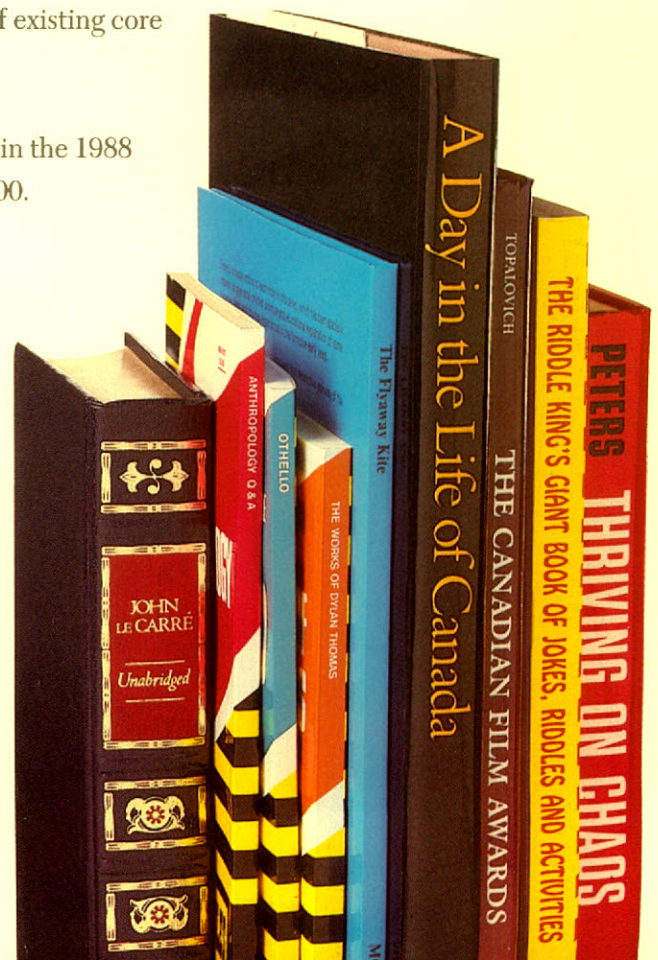
<i>(thousands of dollars)</i>	1987	1986	1985
Revenue	\$ 145,034	\$ 140,265	\$ 127,908
Segment income	5,359	3,310	3,776
Capital expenditures	3,726	4,628	4,718

People

- The company maintained staunch support of the Canadian Give the Gift of Literacy Foundation.
- The Writers Development Trust benefited from company-sponsored dinners.
- Coles established Supplier of the Year and Author of the Year awards, their recipients recognized for excellence in support of Coles sales and marketing efforts.

Planning

- An extensive five-year strategic plan was conducted, including an in-depth self-assessment and evaluation of future growth opportunities through expansion of existing business and/or acquisition of complementary business.
- Key issues have been identified and will be acted on in 1988 to maximize the efforts of existing core activities and test identifiable new business opportunities.
- 11 new stores are planned to open in the 1988 fiscal year, bringing total stores to 200.



A revitalized publishing sector paved the way for a marked turnaround by Southam Communications. Trade and consumer shows and audio visual operations were also bolstered and are expected to contribute to improved segment income in 1988.

Southam Communications Limited experienced a significant turnaround in 1987, its segment income increasing from \$1.9 million in 1986 to \$4.8 million on revenues that grew to \$100 million from \$83 million the previous year.

Leading in the turnaround and showing the largest increase in operating income was a strengthened publishing sector. A concerted effort to strengthen management, as well as consolidate and upgrade publications in 1985 and 1986, put the company in a good position to take advantage of 1987's robust economy. The acquisition of Allied Publications, a highly successful U.S.-based publisher of regional construction and trucking magazines, is expected to further enhance the group's performance in 1988.

Southex, the company's principal producer of trade shows and show services, extended its dominance of the Canadian trade and consumer show field. Operating profit was up 14 per cent over 1986. The purchase of Vancouver-based Tracon Exhibitions, along with the addition of the Toronto Home Improvement Show, added to Southex's growing status as a major home show producer in the North American market. The group also made important inroads in the U.S.

The newly-created Southam Audio Visual Group also had a successful year in 1987, more than doubling operating profit over 1986. The purchase of Canadian Audio Visual Communications Inc. confirmed the group's leading position in the Toronto audio visual equipment rental market. While Vancouver operations did not do as well as expected, they will benefit in 1988 from a contract to be the official supplier of audio visual services to the new Vancouver Trade and Convention Centre.

Despite having a strong fourth quarter, the company's direct marketing operations felt the effects of keener competition and a shift in demand to lower margin services. The result was a 54-per-cent drop in operating profit. These operations will be reassessed in 1988, and tailored to better meet evolving client demand.

The company's information services sector had a generally solid year. With a significant investment in Atlanta-based Construction Market Data (CMD), the company established a firm foothold in the U.S. regional construction information services market. The energy group exceeded expectations in coping with an uncertain energy market in Alberta.



Richard A. Gardner
President, Southam
Communications
Limited

Financial

- Revenue increased by 20.2 per cent over 1986.
- Segment income was \$4.8 million, up 151 per cent over 1986.
- Publishing sector revenues increased by more than 25 per cent over 1986, and operating profits by 83 per cent.

(thousands of dollars)

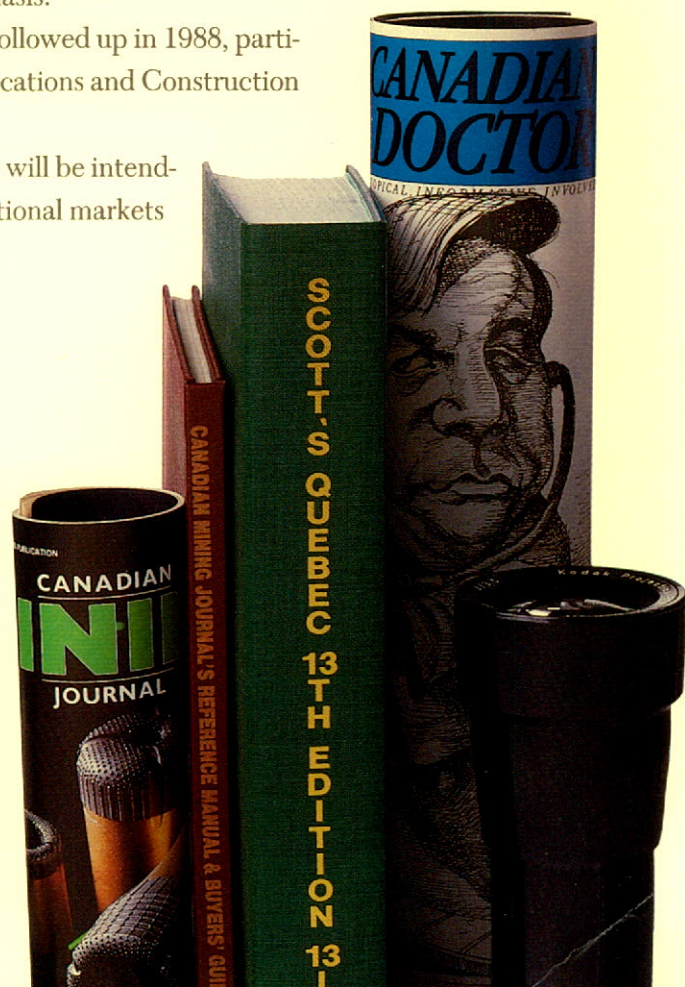
	1987	1986	1985
Revenue	\$ 99,951	\$ 83,148	\$ 68,001
Segment income	4,771	1,901	1,047
Capital expenditures	4,182	10,261	8,138

People

- An enhanced orientation program was launched for new and current employees, featuring a multi-projector slide show.
- A series of seminars for working parents, called Families at Work, was offered at no charge to all employees.
- An employee information database allowed the human resources department to maintain instant, up-to-date data on employees' history, training and development.

Planning

- Through a combination of acquisitions and new product development, growth objectives have been identified for all components of the company. Expansion in the United States is to be given particular emphasis.
- Major steps taken in 1987 will be followed up in 1988, particularly in the U.S., with Allied Publications and Construction Market Data to play key roles.
- Expansion in the publishing group will be intended to strengthen its position in traditional markets as well as in new high-growth areas.



Associated Businesses

Torstar Corporation

A broadly-based information and entertainment communications company, based in Toronto, with operations in newspapers and printing, book publishing and catalogue marketing. Business operations in Canada and abroad.

Torstar's operations include:

- The Toronto Star — Canada's highest-circulation daily newspaper.
- Metroland Printing, Publishing and Distributing — commercial printers, publishers of community newspapers and distributors of advertising materials.
- Harlequin Enterprises — the world's largest publisher of romance fiction.
- Miles Kimball Co. — direct mail catalogue marketers of home, gift and business products.
- Marshall Editions — packager of hard-cover, non-fiction books.

Southam Inc. owns 30 per cent of Torstar's Class B non-voting shares. Financial information appears in Note 3 on Page 39.

Selkirk Communications Limited

A diversified communications company, based in Toronto, with operations in radio and television stations, cable systems, radio and television advertising time sales operations, satellite and other communications businesses.

Selkirk's operations include:

- Television stations in Vancouver, Victoria and Kelowna, B.C.; Lethbridge and Calgary, Alta.; and Hamilton, Ont.
- Radio stations in Vancouver, Victoria, Vernon and Elkford, B.C.; Lethbridge, Calgary, Edmonton, Canmore/Banff, Blairmore and Grande Prairie, Alta.; Toronto and Brampton, Ont.
- Cable systems in Ottawa, Ont., and Fort Lauderdale, Fla.
- All-Canada Radio and Television — sales representation services in Canada.
- Seltel Inc. — television sales representation services in the United States.
- Seltech Limited — satellite distribution of radio programs, news, financial data and video signals to broadcasters and other customers.

Southam Inc. owns 47 per cent of the Class A non-voting shares of Selkirk Communications Limited and 20 per cent of the Class B voting shares. Financial information appears in Note 3 on Page 39.

Others:

Telemedia Publishing Inc.

A major Canadian publisher of consumer publications, including TV Guide, Canadian Living, Canadian Living Food Magazine, Harrowsmith, Equinox, TV Hebdo, TV Plus, Coup de Pouce. Southam Inc. owns 35 per cent of Telemedia Publishing Inc.

JEMCOM Inc.

Publishes the Kitchener-Waterloo Record, a daily newspaper. Operates Ainsworth Press Inc., a quality printer with clients principally in Ontario and Quebec. Southam Inc. owns 48 per cent of JEMCOM Inc.

Canadian Bond Rating Service

Operates Canada's largest rating agency, located in Montreal. Southam Inc. acquired 34 per cent of CBRS in early 1988.

Financial Report

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Financial Review

Summary Income before other items in 1987 was \$78.3 million, an increase of 8.9 per cent over \$71.9 million in 1986. Earnings per common share before other items increased from \$1.22 in 1986 to \$1.32. Final net income in 1987 was \$82.7 million or \$1.39 per common share after including \$4.4 million of other items.

Revenue Revenue from operations was \$1,452.0 million, an increase of \$172.6 million or 13.5 per cent over 1986. The printing segment accounted for \$103.7 million of the increase, mainly due to business acquisitions during the year.

<i>Segment (millions of dollars)</i>	<i>1987</i>	<i>1986</i>	<i>increase</i>	<i>% change</i>
Newspapers	\$ 695.7	\$ 648.3	\$ 47.4	7.3
Printing	511.3	407.6	103.7	25.4
Books	145.0	140.3	4.7	3.4
Communications	100.0	83.2	16.8	20.2
	\$1,452.0	\$1,279.4	\$172.6	13.5

Revenues in the printing segment in 1987 were \$511.3 million or 35.2 per cent of total revenue from operations. Acquisitions in 1987 accounted for \$104.7 million of 1987 printing revenues and included RBW Graphics, Holladay-Tyler Printing Corporation and Data Management Concepts. The results of RBW Graphics were included for the full year whereas Holladay-Tyler and Data Management Concepts were included only for the latter half of the year. Excluding the effect of acquisitions in 1987, revenue from Canadian operations increased 6.0 per cent. Printing revenues in the United States, excluding acquisitions, were down \$18.5 million or 16.0 per cent, reflecting reduced lottery billings. Other business lines at Dittler Brothers were strong, increasing 22.1 per cent in the year with strength in promotional games.

Newspaper revenues were \$695.7 million or 47.9 per cent of total revenue from operations. Revenue increased \$47.4 million or 7.3 per cent over 1986 and accounted for 27.5 per cent of the total revenue increase. Approximately 50.7 per cent of daily newspaper revenue was derived from our Eastern newspapers which grew approximately 8.1 per cent in the year. Revenue at our Western daily newspapers increased 4.8 per cent as weakness in the Alberta economy affected operations in that province. ROP lineage overall was up 1.8 per cent; Eastern daily newspapers lineage increased 2.5 per cent with lineage in the West up 1.0 per cent. The main area of lineage growth was in classified, up 5.2 per cent, while national lineage was flat and retail down 4.0 per cent. Circulation levels in 1987 declined slightly. Circulation revenue increased 4.8 per cent and represented 17.3 per cent of total newspaper revenue.

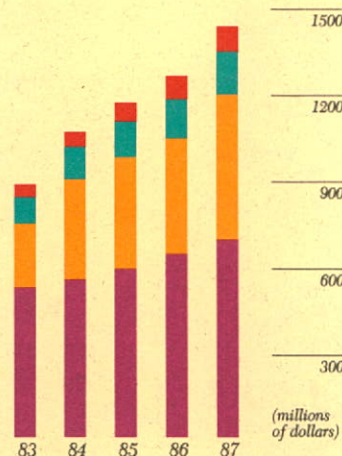
Revenue in the books segment increased \$4.7 million or 3.4 per cent to \$145.0 million, however the results are not comparable because of the sale of all U.S. stores in September 1987. Sales in Canada were \$120.0 million in 1987, an increase of 11.7 per cent over 1986. Almost all of the growth came from existing stores, although there was a net increase of 5 stores during the year to 189 stores.

Revenue in the communications segment increased \$16.8 million for a 20.2 per cent increase. Acquisitions during the year accounted for \$11.7 million of the increase, the majority of which relates to Allied Publications, a trucking and construction magazine publisher based in Indianapolis. Results for Allied were included effective July 1, 1987. Slightly less than one-half of the revenue in the communications segment was derived from publications. The next largest revenue source was trade shows and related activities. Acquisitions accounted for most of the growth in publications and show services. Audio visual revenue increased due to strong growth at Rutherford Audio Visual and Stronco, plus the acquisition during the year of Canadian Audio Visual.

Revenue from Operations

- Newspapers
- Printing
- Books
- Communications

Southam's revenue is broadly based in the communications and information industry. Newspapers remain the dominant portion of Southam's business, accounting for 47.9 per cent of total revenue in 1987. The revenue contribution from the printing segment has increased from 24.5 per cent in 1983 to 35.2 per cent in 1987.

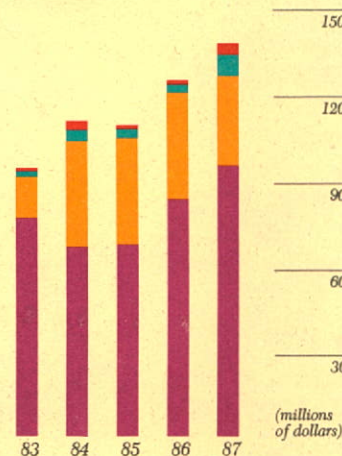


Segment Income

- Newspapers
- Printing
- Books
- Communications

Segment income is defined as pre-tax and pre-interest income after deducting amortization of goodwill. Segment income represented 9.6 per cent of revenue in 1987, and newspapers contributed 69.1 per cent of total segment income.

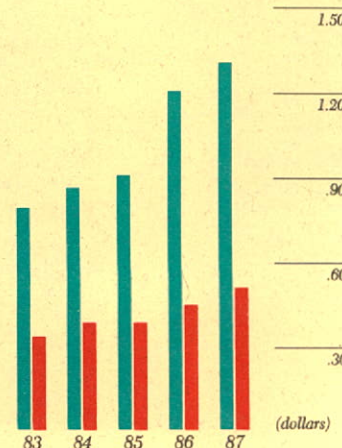
Newspaper segment income in 1987 was 13.8 per cent of revenue, and the objective is to increase this performance to 15 per cent of revenue in the future.



Earnings per Share and Dividend Rate

- Earnings per share (from continuing operations)
- Dividends per common share

Southam's earnings per share before other items increased 8.2 per cent in 1987. Dividends paid during 1987 increased by 13.4 per cent. In 1987, Southam's dividend was \$.52 per share, which represents 40 per cent of 1987 earnings before other items. Southam's policy is to pay dividends of approximately 40 per cent of earnings.



Financial Review

Segment income Segment income in 1987 was \$139.0 million, an increase of \$12.1 million or 9.6 per cent over 1986.

<i>Segment (thousands of dollars)</i>	1987	1986	Change	% Change
Newspapers	\$ 96,013	\$ 83,495	\$12,518	15.0
Printing	32,881	38,193	(5,312)	(13.9)
Books	5,359	3,310	2,049	61.9
Communications	4,771	1,901	2,870	151.0
	\$139,024	\$126,899	\$12,125	9.6

Almost all of the increase in segment income was derived from newspapers, which increased \$12.5 million or 15.0 per cent. The largest dollar gains were at Pacific Press, The Hamilton Spectator and The Ottawa Citizen. Both The Gazette and Windsor Star showed positive improvements during the year although extra costs at The Gazette were incurred due to the lengthy strike. Total labour costs increased 5.5 per cent during the year while newsprint costs increased 4.7 per cent reflecting price increases from newsprint suppliers.

Printing segment income declined \$5.3 million or 13.9 per cent. Canadian printing income declined 4.8 per cent, although if the effect of acquisitions was removed, the decline was more dramatic. Price competition and start-up costs related to new equipment installations lowered Canadian printing income. In the U.S., income at Dittler and LPS, Inc. was reduced due to the low level of lottery printing revenues. Relocation costs and start-up problems associated with new press equipment negatively affected results at newly acquired Holladay-Tyler.

Books segment income increased from \$3.3 million to \$5.4 million due to improved margins and strong sales growth in Canada and lower losses in the U.S. book stores prior to disposition.

Communications segment income increased due to acquisitions, the discontinuance of some publications at the end of last year, the strong performance by Daily Commercial News, and improved profitability at Rutherford Audio Visual.

Interest expense Interest expense of \$33.0 million increased by \$4.3 million over 1986. Debt levels were substantially higher as a result of the acquisition of new businesses and an increased investment in Selkirk Communications Limited. Higher short term interest rates during most of the year had a negative effect on total debt costs. Our interest coverage declined slightly in 1987 as operating income before taxes and interest was 3.9 times interest expense compared with 4.2 times in 1986.

Corporate expense Corporate expenses in 1987 totalled \$9.1 million compared with \$6.3 million in 1986. In 1987, corporate expenses included the pre-tax losses of Infomart in the amount of \$2.2 million. In previous years, the losses of Infomart were included in income from associated businesses and in 1986, the pre-tax loss of Infomart was \$3.6 million or \$2.1 million after tax. Effective in 1987, the company changed its method of accounting for pension costs in accordance with the new standards issued by the Canadian Institute of Chartered Accountants. The effect in determining pension costs in 1987 was insignificant compared to the determination of pension expense in 1986.

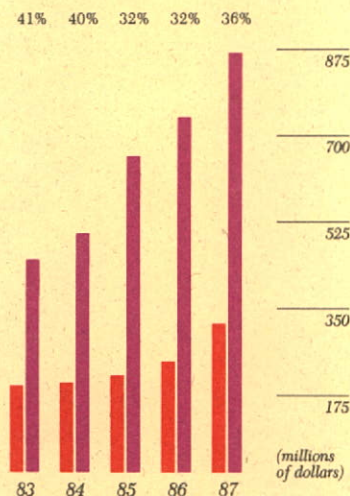
Associated businesses Equity in income of associated businesses increased from \$19.2 million last year to \$24.7 million. The company's 30 per cent interest in Torstar Corporation contributed \$19.4 million (\$.17 per share) of equity earnings compared with \$14.8 million (\$.10 per share) in 1986.

Another significant investment is Selkirk Communications Limited. The company's interest in Selkirk increased during the year from 38 per cent to just over 42 per cent, but the company's share of earnings declined due to weakness at CHCH-TV and Seltel, their U.S. television representation firm.

Long Term Debt and Capitalization

- Long term debt
- Capitalization

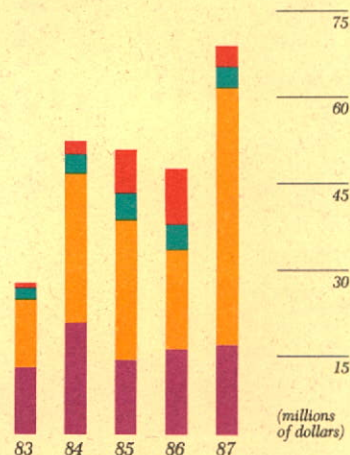
An important measure of financial leverage is the relationship of long term debt to capitalization (long term debt plus deferred taxes plus shareholders' equity). As a financial guideline, Southam will keep this ratio below 50 per cent on average over time. Long term debt was 36 per cent of capitalization at the end of 1987.



Capital Expenditures by Segment

- Newspapers
- Printing
- Books
- Communications

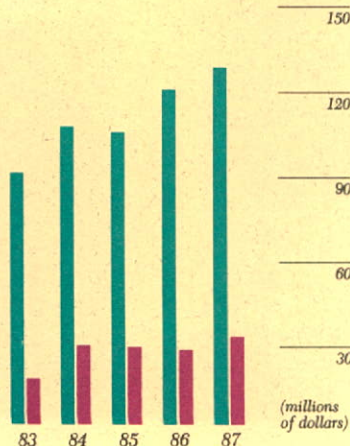
Southam's capital expenditures totalled \$69.2 million in 1987, an increase of 44 per cent over 1986. The heaviest expenditures occurred in the printing segment, with 65 per cent of total capital expenditures in 1987. Newspapers accounted for 24 per cent and other segments for 11 per cent.



Operating Income and Interest Expense

- Operating income
- Interest expense

An important measure of financial strength is the relationship of operating income to interest expense. As a guideline, Southam will endeavour to maintain its interest coverage in excess of 3 times. Interest coverage in the last few years has been in excess of 3.5 times with 1987 at 3.9 times.



Financial Review

Other items	<p>A gain of \$4.4 million was realized in 1987 versus a loss of \$5.0 million in 1986. Other items include the company's share of extraordinary items reported by Torstar (1987 net loss of \$1.4 million; 1986 net loss of \$2.7 million) and extraordinary and unusual items from Selkirk (1987 net gain of \$3.1 million; 1986 net gain of \$0.6 million). In addition, gains of \$2.4 million and \$2.3 million were realized on the sale of the company's 49-per-cent interest in Sun Publishing Company Limited (Brandon) and the sale of surplus real estate by Southam Communications respectively, and a \$1.0 million loss was realized on the disposition of the Coles U.S. stores. The discontinuance of a major magazine and the wind-up of a business accounted for the balance of the other items.</p>
Earnings	<p>Earnings per common share have been calculated using the weighted average number of shares outstanding during the year after deducting the company's pro rata interest in its own shares held by Torstar.</p> <p>Income before other items in 1987 of \$78.3 million represented a return on average historical equity of 16.4 per cent compared with 16.9 per cent in 1986. The issue of treasury shares to Torstar Corporation in August 1985 significantly increased the equity base of the company. Excluding the effect of the Torstar transaction, return on average equity would have been 18.5 per cent in 1987.</p>
Financial position	<p>Total assets at December 31, 1987, were \$1,145 million compared with \$966 million in 1986.</p> <p>Total debt at the end of 1987 was \$384 million compared with \$302 million at the end of 1986. The proportion of Southam's capital employed represented by long term debt was 36 per cent compared with 32 per cent at the end of 1986.</p> <p>As a guideline, the company would not normally increase long term debt above 50 per cent of total capitalization. Debt retiring ability as measured by cash flow from operations (including dividends from associated businesses) was 30 per cent of total debt compared with 36 per cent in 1986. The lower ratio in 1987 reflects the timing of acquisitions, none of which contributed significant operating cash flow during the year.</p> <p>The company's debt management strategy is to maintain a reasonable balance of floating rate versus fixed rate debt combined with the use of interest rate hedging instruments. At year end, approximately 33 per cent of long term debt was at fully fixed rates and it is the company's intention to increase this level in 1988 as opportunities arise. Committed lines of credit totalled \$400 million at December 31, 1987, an increase from \$210 million at the end of 1986. The company's policy is to maintain sufficient bank lines of credit to sustain its operations, including its commercial paper program.</p>
Cash flow	<p>Cash generated from operations, excluding working capital changes, increased to \$103.3 million from \$99.3 million in 1986. An amount of \$2.4 million was generated from higher accounts payable and lower inventories net of increases in accounts receivable.</p> <p>Uses of cash during the year included additions to fixed assets in the amount of \$69.2 million (an increase of \$21.1 million over 1986), and business acquisitions totalling \$77.4 million (\$4.4 million in 1986). The more significant acquisitions included RBW Graphics and Holladay-Tyler in the printing segment, and Allied Publications in the communications segment. Investments acquired totalled \$16.5 million (\$5.6 million in 1986), and included an investment of \$11.0 million in the non-voting shares of Selkirk Communications Limited to increase the company's interest from 38 per cent to 42 per cent. These purchases were made through the facilities of the Toronto Stock Exchange. In January, 1988, the company increased its interest to 47 per cent through a private agreement for a total consideration of \$16.9 million. Dividends paid during the year were \$31.1 million, of which \$29.9 million was paid in cash, with the balance in stock dividends. Dividends per share increased from \$.46 to \$.52 as the quarterly dividend rate increased from \$.12 to \$.14 for the last two quarters of the year.</p> <p>During the year 1,588,269 shares were issued to employees under the company's employee stock investment plan, and 56,339 shares were issued as stock dividends. As part of the company's normal course issuer bid, cash in the amount of \$24.2 million was used to repurchase 1,226,725 common shares.</p>

Net assets and capital employed

At the end of 1987, our capital employed was financed 36 per cent by long term debt (1986 – 32 per cent), 6 per cent by deferred taxes (1986 – 7 per cent) and 58 per cent (1986 – 61 per cent) by shareholders' equity. Investments are a significant portion of capital employed, accounting for 33 per cent of net assets.

<i>Net Assets Employed (millions of dollars)</i>	1987		1986	
Working capital	\$ 61.4	7%	\$ 55.8	8%
Investments	288.3	33	245.1	33
Fixed assets	393.8	45	335.8	46
Goodwill and other assets	130.4	15	96.1	13
	\$ 873.9	100%	\$ 732.8	100%

<i>Capital Employed (millions of dollars)</i>	1987		1986	
Long term debt	\$ 317.4	36%	\$ 233.5	32%
Deferred income taxes	52.6	6	50.8	7
Shareholders' equity	503.9	58	448.5	61
	\$ 873.9	100%	\$ 732.8	100%

Auditors' Report

To the Shareholders of Southam Inc.


We have examined the consolidated statement of financial position of Southam Inc. as at December 31, 1987 and the consolidated statements of income, reinvested earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Ernst & Whinney

Chartered Accountants
Toronto, Canada, February 19, 1988

Thorne Ernst & Whinney
Chartered Accountants

Member of  Ernst & Whinney International

Summary of Accounting Policies

December 31, 1987

The principal accounting policies followed by Southam Inc. and subsidiary companies are summarized hereunder to facilitate a comprehensive review of the financial statements contained in this report. All policies conform to generally accepted accounting principles and have been consistently applied.

Principles of consolidation	The consolidated financial statements include the accounts of all subsidiaries of which the more substantial are Southam Printing Limited, Southam Communications Limited, Coles Book Stores Limited, and Dittler Brothers, Incorporated. The accounts of Coles are consolidated on a two month delay basis due to its fiscal year having ended in October. The results of operations of subsidiaries are included in the consolidated financial statements from the dates of acquisition of control.
Associated businesses	<p>The company follows the equity method of accounting for all associated businesses and accordingly, the equity in earnings attributable to these investments is included in income. Goodwill included in investments in associated businesses is accounted for in conformity with the method set out below.</p> <p>A portion of the excess of the cost of the investment over the underlying book value of Torstar Corporation at acquisition has been attributed to circulation. This amount is not being amortized but will be written down pro rata in the event that the level of applicable circulation falls permanently below the level capitalized at the date of the acquisition of the investment.</p>
Inventories	Materials and supplies included in inventories are valued at the lower of cost and replacement cost. Inventories of work in process and finished goods are valued at the lower of cost and net realizable value. Work in process and finished goods include cost of raw materials, direct labour and manufacturing overhead expenses. Retail merchandise is valued at the lower of cost and net realizable value less normal profit margin.
Fixed assets	<p>Land, buildings, machinery and equipment and leasehold improvements are stated at cost. Depreciation is provided primarily on a straight line basis, using rates of 2½ per cent per annum for buildings and 4 to 14 per cent per annum for machinery and equipment. Leasehold improvements are amortized over the term of the applicable lease.</p> <p>When fixed assets are disposed of, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in income.</p>
Goodwill	Goodwill is recorded as an asset to be systematically amortized by charges to earnings over periods not to exceed 40 years.
Income taxes	<p>The company provides for income taxes currently payable and, in addition, provides for deferred income taxes resulting from timing differences between financial and taxable income.</p> <p>Federal investment tax credits have been deferred and are being amortized over the depreciable life of the related fixed assets.</p>
Reciprocal shareholdings	An associated business owns shares in the company. The company's effective interest in the cost of its shares owned by the associated business has been deducted from shareholders' equity and the company's investment in the holdings of the associated business.
Pension costs	Effective January 1, 1987 the company changed its method of accounting for pension costs in accordance with the new standard issued by the Canadian Institute of Chartered Accountants. Under this new standard, pension costs related to current service are charged to income for the period during which the services are rendered. This cost reflects management's best estimates of the pension plans' expected investment yields, salary escalations, mortality of members, terminations and the ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are being amortized over the expected average remaining service life of employees.
Translation of foreign subsidiaries financial statements	<p>The financial statements of self-sustaining foreign subsidiaries are translated using the current rate method whereby assets and liabilities are translated at year end exchange rates and revenues and expenses at the average exchange rate for the year. Adjustments arising from the translation of the financial statements are deferred and included in a separate component of shareholders' equity.</p> <p>The financial statements of integrated foreign subsidiaries are translated using the temporal method whereby monetary assets and liabilities are translated at year end rates, non-monetary items at historical rates, and revenues and expenses at the rate in effect on the transaction date except for inventory and depreciation which are translated at their respective historical rates. Gains and losses arising from the translation of the financial statements are included in income except for unrealized gains and losses on long term monetary items, which are deferred and amortized over the remaining life of the respective assets and liabilities.</p>
Earnings per common share	Earnings per common share are calculated by using the weighted average number of shares outstanding during the year after deducting the company's pro rata interest in its own shares held by an associated business.

Consolidated Statement of Income

Year ended December 31

<i>(thousands of dollars)</i>	1987	% increase	1986
Revenue from operations			
Newspapers	\$ 695,724	7.3	\$ 648,328
Printing	511,262	25.4	407,629
Books	145,034	3.4	140,265
Communications	99,951	20.2	83,148
	<u>1,451,971</u>	13.5	<u>1,279,370</u>
Cost of operations			
Operating expenses	1,274,659	14.2	1,116,030
Depreciation	43,155	8.7	39,704
Amortization of goodwill	4,281	39.1	3,078
Interest <i>(note 6)</i>	32,954	15.2	28,612
	<u>1,355,049</u>	14.1	<u>1,187,424</u>
Operating income before income taxes	96,922	5.4	91,946
Income taxes <i>(note 10)</i>	43,332	10.4	39,258
Operating income	53,590	1.7	52,688
Equity in income of associated businesses <i>(note 3)</i>	24,712	28.4	19,241
Income before other items	78,302	8.9	71,929
Other items <i>(note 8)</i>	4,380		(5,017)
Net Income	<u>\$ 82,682</u>	23.6	<u>\$ 66,912</u>
Earnings per common share <i>(note 7)</i>			
Before other items	\$ 1.32		\$ 1.22
After other items	\$ 1.39		\$ 1.13
Average number of common shares outstanding <i>(note 7)</i>	<u>59,399,348</u>		<u>59,128,842</u>

Consolidated Statement of Reinvested Earnings

Year ended December 31

<i>(thousands of dollars)</i>	1987	1986
Balance at beginning of year	\$ 287,752	\$ 248,258
Net income	82,682	66,912
	<u>370,434</u>	<u>315,170</u>
Deduct dividends		
Common shares: \$.52 per share (1986: \$.46 per share)		
Cash	29,878	25,331
Stock dividends (1987 — 56,339 shares, 1986 — 103,590 shares)	1,227	2,087
	<u>31,105</u>	<u>27,418</u>
Balance at end of year	<u>\$ 339,329</u>	<u>\$ 287,752</u>

Consolidated Statement of Financial Position

December 31

<i>(thousands of dollars)</i>	1987	1986
Current assets		
Accounts receivable	\$ 212,551	\$ 173,067
Inventories <i>(note 4)</i>	108,589	102,348
Prepaid expenses	11,148	13,440
	<u>332,288</u>	<u>288,855</u>
Deduct		
Current liabilities		
Bank loans and short term promissory notes <i>(note 6)</i>	40,864	62,178
Accounts payable and accrued liabilities	167,728	124,029
Income taxes	13,180	13,087
Deferred revenue	23,721	26,992
Long term debt due within one year <i>(note 6)</i>	25,380	6,743
	<u>270,873</u>	<u>233,029</u>
Working capital	61,415	55,826
Add		
Investments		
Associated businesses <i>(note 3)</i>	258,959	227,343
Other investments, at cost	4,606	4,579
Fixed assets, less accumulated depreciation <i>(note 5)</i>	393,793	335,826
Advances — employee stock investment plans	24,742	13,109
Goodwill and other assets	130,348	96,095
Capital employed	<u>873,863</u>	<u>732,778</u>
Deduct		
Long term debt <i>(note 6)</i>	317,394	233,473
Deferred income taxes	52,647	50,781
	<u>370,041</u>	<u>284,254</u>
Shareholders' equity	<u>\$ 503,822</u>	<u>\$ 448,524</u>
Derived from		
Capital stock <i>(note 7)</i>		
Common shares issued — 64,106,053 shares (1986 — 63,688,170 shares)	\$ 236,246	\$ 231,237
Reinvested earnings	339,329	287,752
Equity adjustment from foreign currency translation	166	1,454
	<u>575,741</u>	<u>520,443</u>
Less the company's interest in its shares held by an associated business	71,919	71,919
	<u>\$ 503,822</u>	<u>\$ 448,524</u>

Contingent liability (note 12)

Approved by the Board of Directors



Hugh G. Hallward, Director



John P. Fisher, Director

Consolidated Statement of Changes in Financial Position

Year ended December 31

<i>(thousands of dollars)</i>	1987	1986
Cash Provided from (Used for)		
Operations		
Operating income before other items	\$ 78,302	\$ 71,929
Add items not affecting cash	24,988	27,373
	<u>103,290</u>	<u>99,302</u>
Changes in:		
Accounts receivable	(15,493)	(14,735)
Inventories	4,573	(4,882)
Prepaid expenses	3,110	(5,081)
Accounts payable and accrued liabilities	13,567	(5,292)
Income taxes	(76)	6,123
Deferred revenue	(3,271)	2,665
	<u>2,410</u>	<u>(21,202)</u>
	<u>105,700</u>	<u>78,100</u>
Financing activities		
Common shares issued	27,967	12,926
Dividends paid	(29,878)	(25,331)
Long term borrowing	107,934	34,472
Long term debt repaid or currently payable	(26,979)	(10,957)
Common shares purchased for cancellation	(24,185)	(16,803)
	<u>54,859</u>	<u>(5,693)</u>
Investment activities		
Additions to fixed assets	(69,220)	(48,118)
Acquisition of subsidiaries (note 2)	(77,383)	(4,383)
Investments acquired	(16,493)	(5,612)
Other assets acquired	(6,319)	(409)
Advances to employee stock investment plans	(11,633)	(2,788)
Proceeds from sale of fixed assets and investments	13,052	2,650
Dividends from associated businesses	10,182	8,653
Other	(68)	(4,002)
	<u>(157,882)</u>	<u>(54,009)</u>
Net cash provided	2,677	18,398
Short term indebtedness at beginning of year	68,921	87,319
Short term indebtedness at end of year	\$ 66,244	\$ 68,921
Comprised of:		
Bank loans and short term promissory notes	\$ 40,864	\$ 62,178
Long term debt due within one year	25,380	6,743
	<u>\$ 66,244</u>	<u>\$ 68,921</u>

Notes to Consolidated Financial Statements

December 31, 1987

(tabulated dollars in thousands)

1. Accounting policies and segmented information

The summary of accounting policies contained herein represents the principal accounting policies applied in preparation of these consolidated financial statements.

Additional industry and geographic segmented information supplementing that set out in these consolidated financial statements is provided herein. The directors of the company have determined the various industry and geographic segments for the company and its principal wholly owned subsidiaries on the following basis:

<i>Industry</i>	<i>Corporate entity</i>	<i>Geographic</i>
Newspapers	Southam Inc.	Canada
Printing	Southam Printing Limited Dittler Brothers, Incorporated	Canada-United States United States
Books	Coles Book Stores Limited	Canada
Communications	Southam Communications Limited	Canada-United States

2. Acquisition of subsidiaries

During the year the company acquired 100 per cent of the following businesses which were accounted for using the purchase method, whereby operating results are included from the date of acquisition.

<i>Segment</i>		<i>Date of acquisition</i>
Newspapers	Winnipeg weeklies (Herald, The Times, Metro One)	April 7
	Saugeen Press	June 2
	Brabant Newspapers Ltd.	November 1
Printing	RBW Graphics	January 1
	Data Management Concepts Z.E.D. Ltd.	July 1
	Holladay-Tyler Printing Corporation	July 21
Communications	Allied Publications, Inc.	June 1
	The Toronto Home Improvement Show	June 17
	Canadian Audio Visual Communications Inc.	June 25
	Tracon Exhibitions	September 25

Details of the acquisitions are as follows:

	<i>Business segment</i>			<i>Total</i>
	<i>Newspapers</i>	<i>Printing</i>	<i>Communications</i>	
Non-cash assets acquired				
Working capital (deficiency)	\$ 518	\$ 8,085	\$ (928)	\$ 7,675
Fixed assets	861	39,264	1,802	41,927
Goodwill	5,525	12,551	15,805	33,881
	6,904	59,900	16,679	83,483
Liabilities assumed				
Long term debt	—	6,990	542	7,532
Deferred income taxes	91	(1,523)	—	(1,432)
	91	5,467	542	6,100
Net non-cash assets acquired	6,813	54,433	16,137	77,383
Cash (bank loan) assumed	92	(23,162)	102	(22,968)
Net assets acquired at fair value for cash	\$ 6,905	\$ 31,271	\$ 16,239	\$ 54,415

3. Investments in associated businesses

	% interest	Carrying value	
		1987	1986
Newspaper and publishing			
Torstar Corporation (fully diluted, net of reciprocal holdings)	30	\$ 169,191	\$ 156,359
Telemedia Publishing Inc.	35	14,070	12,843
JEMCOM Inc.	48	10,468	8,840
Sun Publishing Company, Limited (Brandon)			1,033
Electronic communications			
Selkirk Communications Limited A (non-voting)	42	61,907	46,628
B (voting)	20		
Other		3,323	1,640
		\$ 258,959	\$ 227,343

In June of 1987, the company sold its 49-per-cent interest in Sun Publishing Company, Limited (Brandon) for a gain of \$2,376,000.

During the year the company increased its percentage ownership of Class A shares of Selkirk to 42 per cent (38 per cent in 1986) with the purchase of 508,300 Class A shares for a total consideration of \$10,976,000. Subsequent to year end, the company acquired an additional 629,500 Class A shares and 30,300 warrants for a total consideration of \$16,854,000 and exercised 478,300 warrants at a cost of \$8,012,000 bringing its ownership of Class A shares to 47 per cent.

The company's proportionate share of assets, liabilities, revenues and expenses of associated businesses is set out below. This information is based on audited financial statements for the 1987 fiscal year.

	Proportionate share of associated businesses and the company's percentage interest therein			Total
	Torstar Corporation (30%)	Selkirk Communications Limited (42%)	Other (see below)	
Condensed balance sheet				
Current assets	\$ 84,036	\$ 27,094	\$ 15,488	\$ 126,618
Fixed assets, net	24,474	38,637	5,639	68,750
Investment in Southam Inc.	62,794			62,794
Other assets	70,416	37,883	12,981	121,280
	\$ 241,720	\$ 103,614	\$ 34,108	\$ 379,442
Current liabilities	\$ 47,865	\$ 24,108	\$ 7,761	\$ 79,734
Non-current liabilities	7,064	2,248	7,336	16,648
Long term debt	45,995	12,776	2,609	61,380
Shareholders' equity	140,796	64,482	16,402	221,680
	\$ 241,720	\$ 103,614	\$ 34,108	\$ 379,442
Condensed income statement				
Revenue	\$ 269,268	\$ 77,163	\$ 54,881	\$ 401,312
Expenses	232,745	71,142	49,078	352,965
	36,523	6,021	5,803	48,347
Income taxes	16,241	2,514	2,923	21,678
Equity in income of Southam Inc.	3,750			3,750
Income before other items	24,032	3,507	2,880	30,419
Other items	(586)	3,054		2,468
Net income	\$ 23,446	\$ 6,561	\$ 2,880	\$ 32,887

The company's percentage interest in the column "Other" consists of JEMCOM Inc. (48 per cent) and Telemedia Publishing Inc. (35 per cent).

Notes to Consolidated Financial Statements — Continued

4. Inventories	1987	1986
Materials and supplies	\$ 45,706	\$ 36,546
Work in process	19,749	14,389
Finished goods	7,562	6,688
Retail merchandise	35,572	44,725
	<u>\$ 108,589</u>	<u>\$ 102,348</u>

5. Fixed assets	1987	1986
Land	\$ 22,968	\$ 22,835
Buildings	144,690	141,660
Machinery and equipment	534,982	403,422
Leasehold improvements	14,847	17,296
	<u>717,487</u>	<u>585,213</u>
Less accumulated depreciation	323,694	249,387
	<u>\$ 393,793</u>	<u>\$ 335,826</u>

6. Long term debt The company's \$400 million credit facility with banks provides committed revolving lines of credit to 1989 with automatic annual extensions thereafter subject to bank approval. A term loan option provides for repayments in 1989 through 1992. The credit facility is available for general corporate purposes and support for issuance of short term promissory notes. The amount of the credit facility not borrowed at December 31, 1987 was \$359 million.

Long term debt of the company and its subsidiaries is as follows:

	1987	1986
Borrowings under or supported by credit facilities at variable rates of interest averaging 8.7% at December 31, 1987 (1986 — 8.3%)	\$ 209,254	\$ 106,355
Notes		
Maturing 1988, at 12.0%	21,000	21,000
Maturing 1990, at 10.0% to 11.8%	19,000	19,000
Maturing 1991, at 9.8% to 10.1%	25,500	25,500
Maturing 1991, at 12.6% (U.S. \$45,000)	58,469	62,123
Other	9,551	6,238
	<u>342,774</u>	<u>240,216</u>
Less current portion	25,380	6,743
	<u>\$ 317,394</u>	<u>\$ 233,473</u>

Approximate annual maturities of long term debt utilizing the term loan option for repayment in each of the next five years are 1988 — \$25,380,000, 1989 — \$28,091,000, 1990 — \$74,313,000, 1991 — \$162,440,000, 1992 — \$52,550,000.

Current bank loans and short term promissory notes are net of cash of \$10,824,000 (U.S. \$8,331,000) (1986 — \$10,678,200 (U.S. \$7,735,020)).

Interest expense is comprised as follows:

	1987	1986
Long term debt	\$ 29,191	\$ 23,103
Other	3,763	5,509
	<u>\$ 32,954</u>	<u>\$ 28,612</u>

7. Capital stock**Share constraint**

The issue or transfer of the company's shares to non-Canadian persons or corporations is restricted to a maximum of 25 per cent of both the number of shares outstanding and the paid up capital attributable thereto. This restriction ensures that the company will continue to have Canadian status so that advertisers may deduct, for income tax purposes, the cost of advertising in any of its publications.

Common shares

The directors may determine whether to pay dividends in cash or by issuing fully paid common shares and which shareholders have the right to elect to receive such dividends in shares.

The directors have determined that shareholders who come within the "constrained class" or who are indebted in respect of shares included in the Employee Stock Investment Plans are ineligible to receive stock dividends on such shares.

Summary of share transactions

	<i>Shares</i>	<i>Amount</i>
Issued at January 1, 1987	63,688,170	\$ 231,237
Stock dividends	56,339	1,227
Employee stock investment plan	1,588,269	27,967
	<u>65,332,778</u>	<u>260,431</u>
Shares purchased for cancellation	(1,226,725)	(24,185)
Issued at December 31, 1987	64,106,053	\$ 236,246
Average number of common shares outstanding (net of reciprocal holdings)	<u>59,399,348</u>	

8. Other items

Other items include extraordinary and unusual items as follows:

	<i>1987</i>	<i>1986</i>
Gain on sale of 49-per-cent interest in Sun Publishing Company, Limited (Brandon) (net of income taxes of \$295,000)	\$ 2,376	
Gain on disposition of surplus real estate (net of income taxes of \$1,450,000)	2,335	
Loss on disposition of Coles U.S. book stores	(1,034)	
Write-off of other investments and closing costs related to certain trade publications (net of income tax reduction of \$660,000) (1986 — \$1,652,000)	(1,002)	\$ (1,831)
Equity in net gain of associated businesses arising on sale of investments and closing of divisions (net of income taxes of \$375,000) (1986 — income tax reduction of \$2,321,000)	3,402	(3,186)
Equity in unusual losses of associated business (net of income tax reduction of \$976,000)	(1,697)	
	<u>\$ 4,380</u>	<u>\$ (5,017)</u>

9. Pension plans

The company and its subsidiaries have defined benefit contributory pension plans which are available to substantially all full time employees.

The most recent estimates as at December 31, 1987 for the defined benefit plans indicate actuarial asset valuations and accrued pension benefits as follows:

Pension fund assets	\$ 322,514
Accrued pension benefits	272,479
Excess of assets over pension benefits	<u>\$ 50,035</u>

Notes to Consolidated Financial Statements – Continued

10. Income taxes

	1987	1986
Current	\$ 41,342	\$ 32,868
Deferred	1,990	6,390
	<u>\$ 43,332</u>	<u>\$ 39,258</u>

The following table reconciles the statutory federal and provincial income tax rate to the consolidated effective tax rate on operating income before income taxes:

	1987	1986
Operating income before income taxes	\$ 96,922	\$ 91,946
Provision for income taxes based on combined basic Canadian federal and provincial income tax rate of 49.2% (1986 – 48.9%)	\$ 47,694	\$ 44,962
Increase (decrease) in taxes resulting from:		
Manufacturing and processing profits deduction	(6,214)	(5,329)
Non-deductibility of amortization of goodwill	1,317	1,349
Other	535	(1,724)
	<u>\$ 43,332</u>	<u>\$ 39,258</u>
Effective income tax rate	<u>44.7%</u>	<u>42.7%</u>

11. Commitments

- (a) Capital expenditures in 1988 are estimated at \$59,000,000 of which \$11,705,000 has been approved by the company.
- (b) The company has obligations under long term operating leases extending for various periods to the year 2000. The minimum aggregate payments in each of the next five years are 1988 – \$15,945,000, 1989 – \$14,311,000, 1990 – \$12,392,000, 1991 – \$10,336,000, 1992 – \$8,951,000, and \$35,068,000 thereafter.
- (c) Subsequent to year end, in addition to the increased investment in Selkirk referred to in note 3, the company acquired additional businesses for a total consideration of approximately \$18,000,000 cash.

12. Contingent Liability

The Director under the Canada Business Corporations Act has started an action in the Supreme Court of Ontario dealing with the August 1985 share exchange between the company and Torstar Corporation. The Director is seeking an order requiring the company to call a meeting of its shareholders to ratify the share exchange, and if ratification is not obtained, requiring the companies to unwind the share exchange. An order is also sought that any shareholder damaged by the share exchange should be compensated. Management and the directors believe that they acted properly and will defend the action. Counsel is of the view that the order sought to set aside the 1985 share exchange should not be granted and that Southam Inc. should not be liable for damages.

Supplementary Segmented Information

1987 (thousands of dollars)	Industry segments				Total Consolidated	Geographic segments	
	Newspapers	Printing	Books	Communi-cations		Canada	United States
External sales	\$695,724	\$511,262	\$145,034	\$99,951	\$1,451,971	\$1,286,450	\$165,521
Intercompany sales	2,586	26,390			28,976	28,976	
	\$698,310	\$537,652	\$145,034	\$99,951	1,480,947	1,315,426	165,521
Consolidating adjustments					(28,976)	(28,976)	
Operating revenue					\$1,451,971	\$1,286,450	\$165,521
Gross income	\$114,409	\$ 54,288	\$ 9,226	\$ 8,537	\$ 186,460	\$ 168,918	\$ 17,542
Depreciation	17,434	19,518	2,996	3,207	43,155	35,469	7,686
Amortization of goodwill	962	1,889	871	559	4,281	3,293	988
Segment income	\$ 96,013	\$ 32,881	\$ 5,359	\$ 4,771	139,024	\$ 130,156	\$ 8,868
Corporate expenses					9,148		
Interest					32,954		
Income taxes					43,332		
Operating income					\$ 53,590		
Current assets	\$122,606	\$151,404	\$ 37,407	\$20,871	\$ 332,288	\$ 301,861	\$ 30,427
Fixed assets	160,918	193,978	14,329	24,568	393,793	316,400	77,393
Goodwill and other assets	41,045	43,879	19,593	25,831	130,348	89,078	41,270
Assets employed in operations	\$324,569	\$389,261	\$ 71,329	\$71,270	856,429	707,339	149,090
Investments					288,307	285,717	2,590
Total assets					\$1,144,736	\$ 993,056	\$151,680
Additions to fixed assets	\$ 16,358	\$ 44,954	\$ 3,726	\$ 4,182	\$ 69,220	\$ 60,920	\$ 8,300
<i>1986 (thousands of dollars)</i>							
External sales	\$648,328	\$407,629	\$140,265	\$83,148	\$1,279,370	\$1,128,638	\$150,732
Intercompany sales	1,909	25,679			27,588	27,588	
	\$650,237	\$433,308	\$140,265	\$83,148	1,306,958	1,156,226	150,732
Consolidating adjustments					(27,588)	(27,588)	
Operating revenue					\$1,279,370	\$1,128,638	\$150,732
Gross income	\$104,316	\$ 54,331	\$ 6,694	\$ 4,340	\$ 169,681	\$ 150,561	\$ 19,120
Depreciation	19,905	14,875	2,765	2,159	39,704	32,760	6,944
Amortization of goodwill	916	1,263	619	280	3,078	2,190	888
Segment income	\$ 83,495	\$ 38,193	\$ 3,310	\$ 1,901	126,899	\$ 115,611	\$ 11,288
Corporate expenses					6,341		
Interest					28,612		
Income taxes					39,258		
Operating income					\$ 52,688		
Current assets	\$102,751	\$122,581	\$ 46,455	\$17,068	\$ 288,855	\$ 253,956	\$ 34,899
Fixed assets	162,760	134,107	16,072	22,887	335,826	270,387	65,439
Goodwill and other assets	30,256	34,966	20,193	10,680	96,095	65,822	30,273
Assets employed in operations	\$295,767	\$291,654	\$ 82,720	\$50,635	720,776	590,165	130,611
Investments					245,031	242,633	2,398
Total assets					\$ 965,807	\$ 832,798	\$133,009
Additions to fixed assets	\$ 15,399	\$ 17,830	\$ 4,628	\$10,261	\$ 48,118	\$ 38,888	\$ 9,230

Five-Year Summary of Industry Segment Information

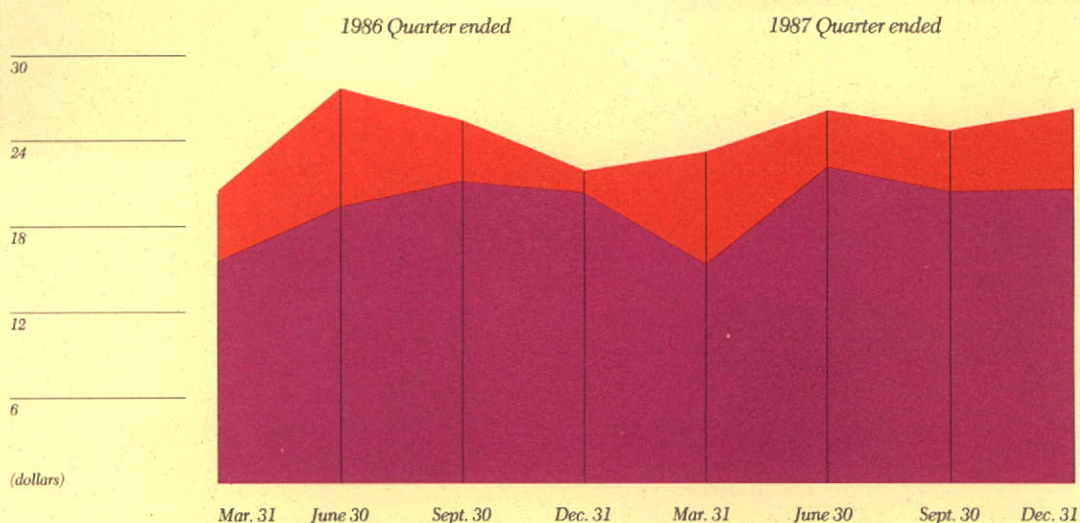
<i>(thousands of dollars)</i>		1987	1986	1985	1984	1983
Revenue						
Newspapers	\$	695,724	\$ 648,328	\$ 600,107	\$ 548,470	\$ 535,706
Printing		511,262	407,629	388,415	361,494	219,660
Books		145,034	140,265	127,908	112,048	93,531
Communications		99,951	83,148	68,001	62,317	49,360
	\$	<u>1,451,971</u>	<u>\$ 1,279,370</u>	<u>\$ 1,184,431</u>	<u>\$ 1,084,329</u>	<u>\$ 898,257</u>
Segment income						
Newspapers	\$	96,013	\$ 83,495	\$ 69,512	\$ 68,219	\$ 78,674
Printing		32,881	38,193	36,754	37,114	14,507
Books		5,359	3,310	3,776	3,707	655
Communications		4,771	1,901	1,047	3,469	2,306
	\$	<u>139,024</u>	<u>\$ 126,899</u>	<u>\$ 111,089</u>	<u>\$ 112,509</u>	<u>\$ 96,142</u>
Assets employed						
Newspapers	\$	324,569	\$ 295,767	\$ 289,661	\$ 288,909	\$ 287,028
Printing		389,261	291,654	278,286	260,552	208,668
Books		71,329	82,720	78,741	73,684	66,906
Communications		71,270	50,635	39,754	24,332	24,840
Assets employed in operations		856,429	720,776	686,442	647,477	587,442
Investments		288,307	245,031	219,913	69,055	45,150
Total assets	\$	<u>1,144,736</u>	<u>\$ 965,807</u>	<u>\$ 906,355</u>	<u>\$ 716,532</u>	<u>\$ 632,592</u>
Capital expenditures						
Newspapers	\$	16,358	\$ 15,399	\$ 13,075	\$ 20,621	\$ 11,682
Printing		44,954	17,830	25,401	25,705	12,590
Books		3,726	4,628	4,718	3,613	1,616
Communications		4,182	10,261	8,138	2,364	1,410
	\$	<u>69,220</u>	<u>\$ 48,118</u>	<u>\$ 51,332</u>	<u>\$ 52,303</u>	<u>\$ 27,298</u>

Summarized Quarterly Financial Data

(unaudited, in thousands of dollars except per common share data)	1987 Quarter Ended				1986 Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Revenue								
Newspapers	\$ 159,819	179,951	164,330	191,624	\$ 152,970	168,315	150,836	176,207
Printing	116,767	111,265	125,997	157,233	99,580	103,906	95,320	108,823
Books	54,496	30,008	29,506	31,024	51,153	27,689	28,444	32,979
Communications	21,010	22,959	25,638	30,344	19,303	24,304	16,833	22,708
	\$ 352,092	344,183	345,471	410,225	\$ 323,006	324,214	291,433	340,717
Segment income (loss)								
Newspapers	\$ 15,619	29,647	16,248	34,499	\$ 17,484	24,187	11,943	29,881
Printing	11,295	5,114	4,065	12,407	13,235	11,225	7,856	5,877
Books	7,744	(1,550)	(1,618)	783	6,619	(1,855)	(1,610)	156
Communications	306	2,751	—	1,714	(385)	1,785	(1,336)	1,837
	\$ 34,964	35,962	18,695	49,403	\$ 36,953	35,342	16,853	37,751
Income before other items	\$ 18,914	22,627	8,168	28,593	\$ 21,551	22,204	6,547	21,627
Net income	\$ 21,754	24,974	8,591	27,363	\$ 21,551	22,204	6,547	16,610
Per common share								
Income before other items	\$.32	.38	.14	.48	\$.37	.37	.11	.37
Net income	\$.37	.42	.14	.46	\$.37	.37	.11	.28
Market price per common share								
High	\$ 23.38	26.25	24.87	26.25	\$ 20.50	27.75	25.50	22.00
Low	\$ 15.25	22.25	20.50	20.63	\$ 15.50	19.50	21.13	20.50

Stock price data

■ High
■ Low



Company Divisions, Products and Services

Southam Newspaper Group

Profile

Canada's largest daily newspaper group in terms of circulation. Average daily circulation in 1987 — 1,541,200. Established 1877 through half-interest in *The Hamilton Spectator* purchased by William Southam.

Corporate office

150 Bloor Street West
Suite 910
Toronto, Ontario M5S 2Y9
Telephone (416) 927-1877
Fax (416) 927-7242

Newspapers

The Gazette, Montreal
The Ottawa Citizen
The Nugget, North Bay
The Hamilton Spectator
The Expositor, Brantford
The Sun Times, Owen Sound
The Windsor Star
The Sault Star
Medicine Hat News
The Edmonton Journal
Calgary Herald
The Province, Vancouver
The Vancouver Sun
The Prince George Citizen
The Kamloops Daily News
Financial Times of Canada, Toronto
Community newspapers:
Hamilton region, Durham and Markdale, Ont., and Winnipeg

Southam News bureaux

Ottawa	Calgary	Nicosia
(main bureau)	Vancouver	Harare,
Halifax	Washington	Zimbabwe
Montreal	London	San Jose,
Toronto	Hong Kong	Costa Rica
		Moscow

Southam Syndicate

Ottawa, Toronto

Magazines

TV Times, Business Outlook

Newspaper advertising offices

Toronto, Montreal, Vancouver;
representation in Ottawa

Marketing research service

Marketscope, Toronto

Distribution service

The Flyer Force:
Montreal, Ottawa, Hamilton,
Winnipeg, Edmonton, Calgary and
Vancouver

Southam Printing Limited

Profile

A leading North American printing company. Active in commercial web, consumer printed products, business forms and specialty printing market segments. Operates plants throughout Canada and in the United States.

Corporate office

150 Bloor Street West,
Suite M130
Toronto, Ontario M5S 2X9
Telephone (416) 925-4596
Fax (416) 925-4752

Canada

Commercial web group
Canadian Publishers, Calgary,
Winnipeg
Gazette Canadian Printing,
Candiac, Que.
RBW Graphics, Owen Sound, Ont.
Southam Murray Printing, Toronto
Consumer printed products group
Agency Press, Vancouver
McLaren, Morris and Todd Limited,
Mississauga, Ont.
Offset Print & Litho, Markham, Ont.
Business forms/specialty printing
Southam Paragon Graphics,
Candiac, Dorval, Granby, Que.;
Mississauga, Ont.; Regina, Sask.

Printing services

Empress Graphics Inc.,
Scarborough, Ont.
Network Studios Inc.,
Toronto, Mississauga, Ont.

United States

Dittler Brothers, Incorporated,
Atlanta, Georgia
Holladay-Tyler Printing Corporation,
Glenn Dale, Maryland
LPS, Inc., Atlanta, Georgia
Moreno Press, Oakwood, Georgia

Coles Book Stores Limited

Profile

Canada's largest book retailer, with 189 stores in 90 cities and communities across the country.

Owens and operates *World's Biggest Bookstore* in Toronto.

Corporate office

90 Ronson Drive
Rexdale, Ontario M9W 1C1
Telephone (416) 243-3132
Fax (416) 243-8964

Infomart

Profile

An electronic publishing company developing new products for the distribution of financial and general information to the business and professional marketplace.

Operates *Infomart Online*, a full-text newspaper retrieval service pooling information resources of Southam newspapers and others in Canada and the U.S.

Corporate office

164 Merton Street
Toronto, Ontario M4S 3A8
Telephone (416) 489-6640
Fax (416) 489-5778

Company Divisions, Products and Services

Southam Communications Limited

Profile

A leading provider of specialized information products and services in Canada and the U.S.

Corporate office

1450 Don Mills Road
Don Mills, Ontario M3B 2X7
Telephone (416) 445-6641
Fax (416) 442-2077

Canadian business publications

Automotive Marketer
Bath & Kitchen Marketer
Bodyshop
British Columbia Lumberman
Canadian Architect, The
Canadian Construction Record
Canadian Consulting Engineer
Canadian Doctor
Canadian Forest Industries
Canadian Industrial Equipment News
Canadian Mining Journal
Canadian Office Products and Stationery
Canadian Plastics
Canadian Transportation & Distribution Management
Canadian Underwriter
Centre
Daily Commercial News & Construction Record
Dental Practice Management
Eastern Trucker
Electrical Equipment News
Genie-Construction
Gifts & Tablewares
Health Care
Heating, Plumbing & Air Conditioning
Housewares Canada
Human Resources Reporter
Jobber News
Journal of Commerce
L'Automobile
Laboratory Product News
Modern Medicine of Canada/
Médecine Moderne du Canada
Motor Truck
Occupational Health & Safety Canada
Opérations Forestières
Oral Health
Plomberie, Chauffage et Climatisation

Pulp & Paper Canada
Pulp & Paper
Convention Reporter
Service Station & Garage Management
Southam Building Guide
Trucking Canada

U.S. business publications

Allegheny Trucker
Badger Trucker
Buckeye Trucker
California Trucker
Cascade Trucker
Central States Trucker
Construction Digest
Illinois Trucker
Indiana Trucker
Mid-West Contractor
Mountain America Truck Trader

Consumer publications

Select Homes

Annuals and directories

Atlantic Building and Construction Handbook
Canadian Handbook Medical Surgical Specialists
Canadian Highway Carriers Guide
Canadian Medical Directory
Canadian Mining Journal Reference Manual & Buyers' Guide
Canadian Oil Register
Canadian Plastics Directory & Buyers' Guide
Canadian Ports & Seaway Directory
Canadian Truckers' Guide
Canadian Underwriter Statistical Issue
Corpus Administrative Index
Corpus Almanac & Canadian Sourcebook
Energy in Canada
General Practitioner's Sourcebook
Hazardous Waste Management Handbook
Jobber News Annual Marketing Guide
Manuel de Construction du Quebec
Occupational Health & Safety Manual
Ontario Building and Construction Handbook
Ontario Insurance Directory
Pulp & Paper Canada Annual & Directory
Scott's Industrial Directories

Western Canada's Building and Construction Handbook
Yardsticks for Costing

Newsletters and looseleaf services

Canadian Occupational Health and Safety News
Canadian Occupational Safety and Health Legislation
Corpus Chemical Report
CPI Product Profiles
Daily Oil Bulletin
Eco/Log Canadian Pollution Legislation
Eco/Log Week
Energy Analects
Energy Pricing News
Public Sector, The

Canadian shows and exhibitions

Alberta Fall Gift Show
Alberta Spring Gift Show
B.C. Business Information Show
B.C. Computer & Business Show
Calgary Fall Home Show
Calgary Spring Home Show
Canadian Auto Body Show
Canadian Home Improvement Show
Canadian Mining & Industrial Equipment Exhibition
Canadian Pool & Spa Show
Canadian Specialty Food Show
Canadian Stationery Show
Canadian Tire Products Parade
Edmonton Money Mart
Edmonton Spring Home Show
Electronicom
Expocam
Fall National Home Show
Firesafe — National Fire Prevention, Security & Safety Equipment Exhibition
Forest Industries Equipment Exhibition
Garden Festival
Graphic Trade Show
Hamilton ISA Show
International Food & Wine Fair
International Materials Handling & Distribution Show
Kitchener-Waterloo Business/Computer Show & Seminar
Med-Tech '88 London
Montreal Fall Gift Show
Montreal Spring Gift Show
National Home Show
National Petroleum Show
Northlands Farm & Ranch Show
Plastex

Process Equipment & Instrument Show

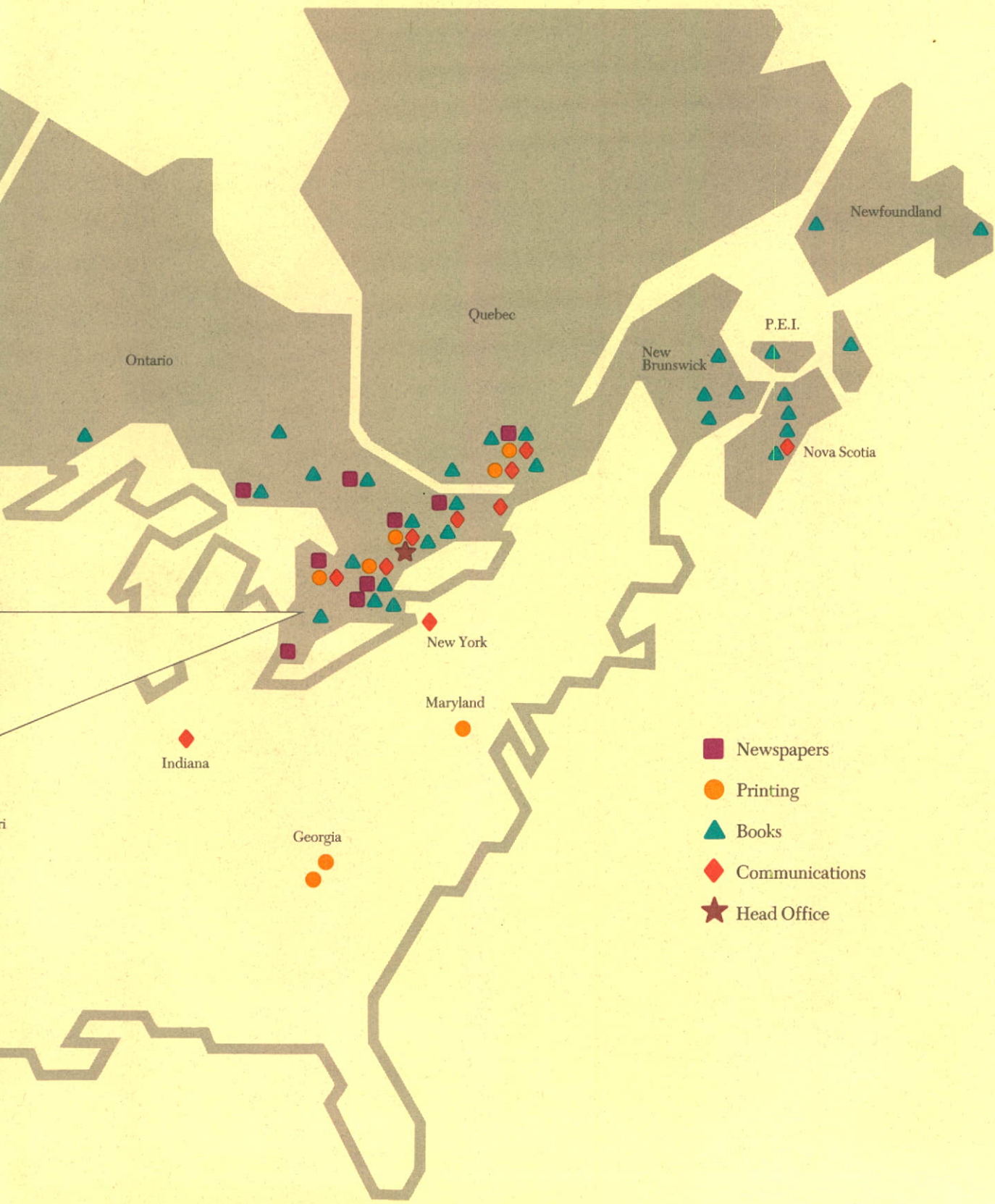
Radiocom '88
Toronto Fall Gift Show
Toronto Homebuilder's Trade Show
Toronto ISA Instrument Show
Toronto Spring Gift Show
Truckcan
Vancouver Fall Gift Show
Vancouver Spring Gift Show
Vancouver Home & Garden Show
Vancouver Money Mart
Wood Expo

U.S. shows and exhibitions

Buffalo Computer & Business Show
Buffalo Fall Home Show
Buffalo Home & Garden Show
Central States Truck Show
Dayton Industrial Show
East Coast Truck Show
Great Lakes Truck Show
Indianapolis Home Show
Michigan Truck & Trailer Show
Missouri Truck Show
Nashville Sports & Outdoors Show
Nashville Truck Show
Oakland County Home Show
Ohio Sports Show
Philadelphia Home Show
Rochester Computer & Business Show
Toledo Industrial Exhibition
Toledo Computer & Office Products Expo

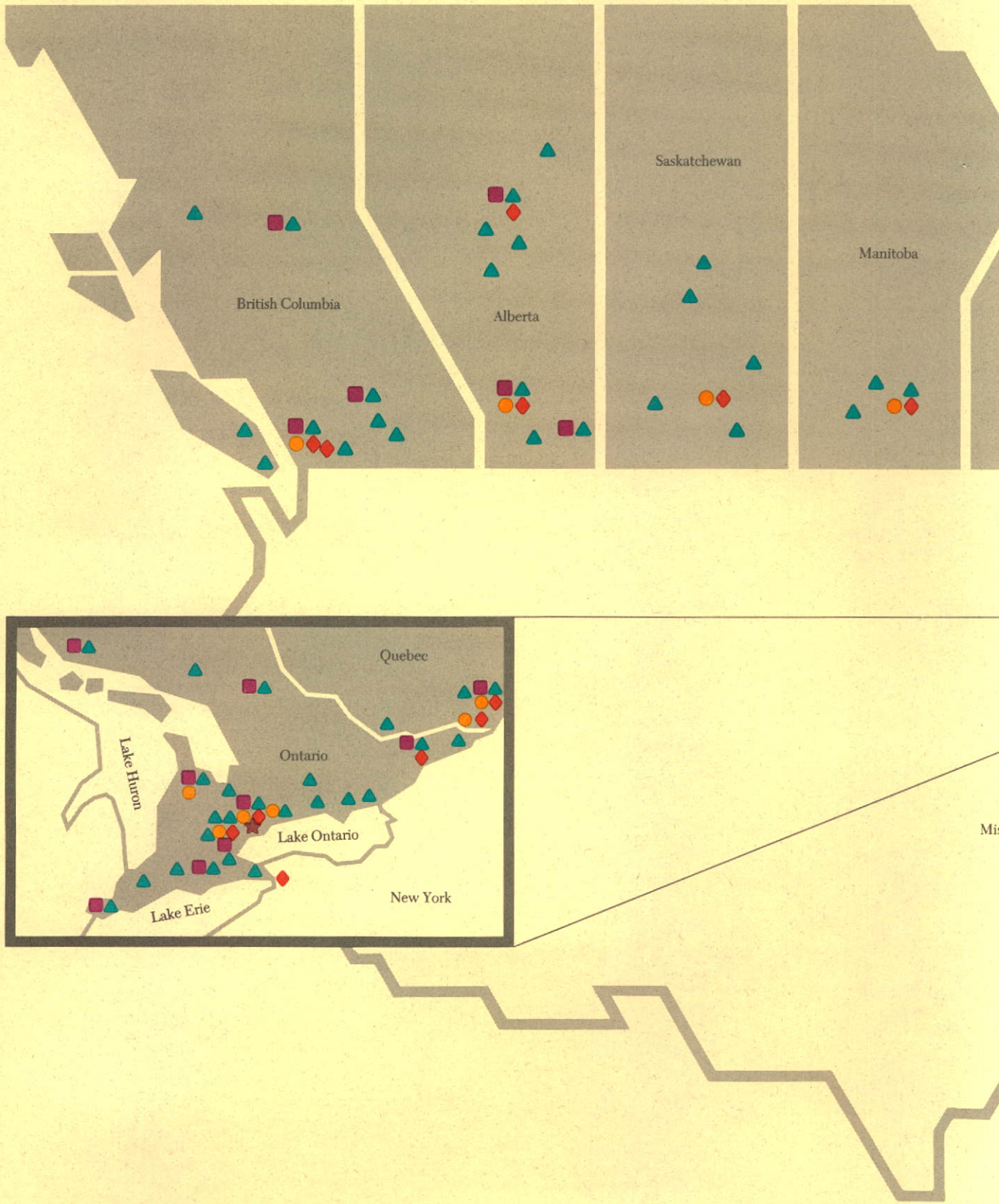
Services

Action Mailers
Avcor
CanaData
Canadian Audio-Visual Communications
Corpus Editorial/Publishing Services
Panex Show Services
Rutherford Audio Visuals
Seminar/Conference Consultants
Southam Audio Visual Group
Southam Building Reports
Southam Direct Marketing Services
Southam Product Cards
Southam Typesetting
Stampede Display and Convention Services
Stronco Audio Visuals
Stronco Designs
The Telemarketing Group
Trade Show Consultants



- Newspapers
- Printing
- ▲ Books
- ◆ Communications
- ★ Head Office

Southam's Business Presence



Directors and Officers

Southam Inc.

Directors

Hugh G. Hallward <i>chairman of the board</i>	George E. Connell, Ph.D. <i>Toronto, Ontario</i>	Beland H. Honderich <i>Don Mills, Ontario</i>	Paddy Sherman <i>Toronto, Ontario</i>
John P. Fisher <i>president and chief executive officer</i>	E. L. Donegan, QC <i>Toronto, Ontario</i>	Norman B. Keevil, Jr., Ph.D. <i>Vancouver, British Columbia</i>	Harvey S. Southam <i>Vancouver, British Columbia</i>
Walter M. Bowen, QC <i>Toronto, Ontario</i>	John R. Evans, MD <i>Toronto, Ontario</i>	Marnie Paikin <i>Burlington, Ontario</i>	Wilson J. H. Southam <i>Stoney Creek, Ontario</i>
Ronald L. Cliff, CM, CA <i>Vancouver, British Columbia</i>	John T. Ferguson, CA <i>Edmonton, Alberta</i>	Gaston Pouliot, QC <i>Town of Mount Royal, Quebec</i>	Adam H. Zimmerman, FCA <i>Toronto, Ontario</i>
		Norman W. Robertson <i>Calgary, Alberta</i>	

Committees of the Board

Executive Committee	Audit Committee	Investment Committee	Nominating Committee
Hugh G. Hallward <i>chairman</i>	Adam H. Zimmerman <i>chairman</i>	John P. Fisher <i>chairman</i>	Hugh G. Hallward <i>chairman</i>
E. L. Donegan	Ronald L. Cliff	Hugh G. Hallward	E. L. Donegan
John R. Evans	Hugh G. Hallward	Adam H. Zimmerman	John R. Evans
John P. Fisher	Human Resources Committee		Beland H. Honderich
Beland H. Honderich	Marnie Paikin <i>chairman</i>		Wilson J. H. Southam
Wilson J. H. Southam	George E. Connell		Adam H. Zimmerman
Adam H. Zimmerman	Wilson J. H. Southam		

Corporate Officers

Hugh G. Hallward <i>chairman of the board</i>	John G. Craig, CA <i>senior vice-president, finance and secretary</i>	L. John Rothwell <i>vice-president, technical resources</i>	Brian R. Gibbings <i>treasurer</i>
John P. Fisher <i>president and chief executive officer</i>	William J. Mann <i>vice-president, human resources</i>	Paddy Sherman <i>senior vice-president and president, Southam Newspaper Group</i>	Paul G. Renaud, CA <i>corporate controller</i>
William J. Carradine <i>senior vice-president, corporate planning</i>	George L. Meadows, CA <i>senior vice-president, communications group</i>		Margaret Marwood <i>assistant secretary</i>

Operating companies

Southam Newspaper Group

John P. Fisher <i>chairman of the board</i>	Gerald P. Haslam <i>director and vice-president and publisher Pacific Press Limited</i>	John R. Owens <i>publisher The Nugget, North Bay</i>	E. H. Wheatley <i>director and president and chief executive officer Pacific Press Limited</i>
Paddy Sherman <i>director and president</i>	Alastair J. McNair <i>publisher The Prince George Citizen</i>	David W. Perks <i>vice-president, finance</i>	George S. Willcocks <i>publisher Medicine Hat News</i>
Gordon Bullock <i>director and vice-president and publisher The Hamilton Spectator</i>	Russell A. Mills <i>director and vice-president and publisher The Ottawa Citizen</i>	Clifford C. Sharp <i>director and publisher The Sault Star</i>	E. Paul Wilson <i>vice-president, marketing</i>
Clark W. Davey <i>director and vice-president and publisher The Gazette, Montreal</i>	William Newbigging <i>director and vice-president and publisher The Edmonton Journal</i>	Bryson W. Stone <i>director and publisher The Kamloops Daily News</i>	Walter M. Bowen <i>director</i>
John G. Doherty <i>publisher The Sun Times, Owen Sound</i>	J. Patrick O'Callaghan <i>director and vice-president and publisher Calgary Herald</i>	David Tafler <i>publisher Financial Times of Canada</i>	Hugh G. Hallward <i>director</i>
J. Howard Gaul <i>publisher The Expositor, Brantford</i>		James S. Thomson <i>director and vice-president and publisher The Windsor Star</i>	Wilson J. H. Southam <i>director</i>

**Operating
companies**
Southam Printing Limited

George L. Meadows <i>chairman of the board</i>	Ronald W. Chase <i>vice-president, corporate planning and technical resources</i>	Wayne Tyler <i>vice-president chairman, Holladay-Tyler Printing Corporation</i>	Hugh G. Hallward <i>director</i>
Michael A. Quinn <i>director and president</i>	J. Raymond Elliott <i>group president commercial web group</i>	Gilbert Bachman <i>director</i>	Harvey S. Southam <i>director</i>
Andre N. Beaudet <i>group president business forms and specialty printing</i>	C. G. J. Hewitt, CA <i>vice-president, finance and secretary-treasurer</i>	E. L. Donegan <i>director</i>	J. Ross Southam <i>director</i>
Barry G. Chapman <i>vice-president, human resources</i>	W. John Morris <i>group president, consumer printed products group</i>	John P. Fisher <i>director</i>	

Dittler Brothers, Incorporated

Gilbert Bachman <i>chairman of the board and chief executive officer</i>	James J. Breen <i>director and senior vice-president</i>	W. G. Shockley <i>director and vice-president, finance and treasurer</i>	John P. Fisher <i>director</i>
Wayne Aaron <i>president and chief operating officer</i>	Robert M. Hartman <i>director and president, Moreno Press</i>	John G. Craig <i>director</i>	George L. Meadows <i>director</i>
			Michael A. Quinn <i>director</i>

LPS, Inc.

George L. Meadows <i>chairman of the board</i>	Calum I. Gillespie <i>director and vice-president, finance and secretary</i>	Robert D. Johnson <i>executive vice-president of international sales</i>	L. John Rothwell <i>director</i>
Richard A. Newell <i>director and president</i>		Frank A. Lipari <i>director and senior vice-president</i>	

Coles Book Stores Limited

George L. Meadows <i>chairman of the board</i>	N. A. Elliott <i>vice-president, information services</i>	Peter W. Ross <i>vice-president, marketing and merchandising</i>	Richard A. Gardner <i>director</i>
William E. Ardell <i>director and president</i>	Carl Fine <i>director of finance</i>	Richard L. Terry <i>vice-president, human resources</i>	Michael McMurrich <i>director</i>
Leonard A. Berger <i>senior vice-president, purchasing</i>	Stephen J. Levitan <i>vice-president, real estate</i>	E. L. Donegan <i>director</i>	Marnie Paikin <i>director</i>
Thomas T. Bryden <i>vice-president, operations, construction and planning</i>		John P. Fisher <i>director</i>	Harvey S. Southam <i>director</i>

Southam Communications Limited

George L. Meadows <i>chairman of the board</i>	Donald E. McClure <i>vice-president</i>	A. Patrick Varcoe, CA <i>senior vice-president and secretary</i>	John P. Fisher <i>director</i>
Richard A. Gardner <i>director and president</i>	Bruce M. Morrison, CA <i>vice-president, finance</i>	William E. Ardell <i>director</i>	Michael McMurrich <i>director</i>
Ward G. Brandow <i>vice-president, western operations</i>	Brian Nairn <i>vice-president, human resources</i>	E. L. Donegan <i>director</i>	Marnie Paikin <i>director</i>
	Gene G. Stewart <i>senior vice-president</i>		J. Ross Southam <i>director</i>

Directors

Hugh G. Hallward

Chairman of the Board. Elected director 1974. President, Argo Construction Inc. Born Montreal, 1926. BA (McGill). Chairman, Board of Governors, McGill University.

John P. Fisher

President. Elected director 1985. Born Knowlton, Quebec 1927. B.Eng. (McGill). Chairman and chief executive officer, Fraser Inc. 1982-1985, president 1976-1982. Chairman, executive board, Canadian Pulp and Paper Association 1983. Member, Board of Governors, McGill University. Director, Selkirk Communications Limited, Torstar Corporation.

Walter M. Bowen, QC

Elected director 1986. Partner, law firm Cassels, Brock & Blackwell. Born Trenton, Ontario 1934. BA (Toronto) LL.B. (Toronto). Called to Ontario Bar in 1962. Director of a number of Canadian companies.

Ronald L. Cliff, CM, CA

Elected director 1984. Chairman, Inland Natural Gas Co. Ltd., Trans Mountain Pipe Line Co. Ltd. Born Vancouver, B.C. 1929. B.Comm. (U.B.C.). Hon. Treasurer, Pearson College of the Pacific. Director of a number of Canadian companies.

George E. Connell, Ph.D.

Elected director 1985. President, University of Toronto. Born Saskatoon, Saskatchewan 1930. Ph.D. (Toronto). Professor of Biochemistry, University of Toronto 1957-1977. President, University of Western Ontario 1977-1984.

Edward L. Donegan, QC

Elected director 1983. Partner, law firm Blake, Cassels & Graydon. Born Sudbury, Ontario 1935. BA Sc. (Toronto), LL.B. (Toronto). Called to Ontario Bar in 1962. Director of a number of Canadian companies.

John R. Evans, MD

Elected director 1985. Chairman and chief executive officer, Allelix Inc. Born Toronto, 1929. MD (Toronto). President, University of Toronto 1972-1978. Director, Population, Health and Nutrition Department, The World Bank 1979-1983. Chairman, board of trustees, Rockefeller Foundation. Director of a number of Canadian companies.

John T. Ferguson, CA

Elected director 1985. President and chief executive officer, Princeton Developments Ltd. Born Edmonton, 1941. B.Comm. (Alberta) CA (Alberta). Trustee, Ernest C. Manning Awards. Director, Ridley College, Bow Valley Industries Ltd., Selkirk Communications Limited, TransAlta Utilities Corporation, Swiss Bank Corporation (Canada), Barbican Properties Inc.

Beland H. Honderich

Elected director 1985. Chairman and chief executive officer, Torstar Corporation. Chairman and publisher, Toronto Star Newspapers Ltd. Born Kitchener, 1918. Trustee, The Atkinson Charitable Foundation. Founding member Ontario Press Council; served as a director of Canadian Press, American Newspaper Publishers' Association and Newspaper Advertising Bureau.

Norman B. Keevil, Jr., Ph.D.

Elected director 1981. President and chief executive officer, Teck Corporation. Born Cambridge, Mass. 1938. Ph.D. (Berkeley). Director, Lomex Mining Corporation Limited. Member, National Advisory Council on Mineral Industry. Vice-chairman, Mining Association of Canada. Chairman, Cominco Ltd.

Marnie Paikin

Elected director 1978. Past chairman, Ontario Council on University Affairs. Born Toronto, 1936. BA (Western), LL.D. (Toronto). Director, Atomic Energy of Canada Limited. Member, National Board, Canadian Council of Christians and Jews. Board of Regents, Mount Allison University. Chairman, Governing Council, University of Toronto 1976-1980, Hamilton Place 1973-1975.

Gaston Pouliot, QC

Elected director 1975. Senior Partner, law firm Pouliot, Dion, Caron, Prévost, Bélisle. Born Farnham, Quebec 1922. Called to Quebec Bar in 1944. Director of a number of Canadian companies.

Norman W. Robertson

Elected director 1987. President and chief operating officer, ATCO Ltd. Born Regina, 1937. Director, ATCO Ltd., Canadian Utilities Limited, Labatt's Alberta Ltd., Mutual Life of Canada, Prudential Steel Ltd., Western Rock Bit Company Limited.

Paddy Sherman

President, Southam Newspaper Group. Elected director 1986. Born England, 1928. Various British newspapers 1947-1952. The Province, Vancouver, 1952, editor 1965, publisher 1972. Publisher The Ottawa Citizen 1982-1986. Director, International Press Institute, World Press Freedom Committee.

Harvey S. Southam

Elected director 1987. Vice-president, Pacific West Equities Ltd. Born Vancouver, 1948. The Winnipeg Tribune, 1972. The Province, Vancouver, 1974. The Vancouver Sun, 1976. Executive producer, CKVU-TV, 1979. Editor, Equity Magazine and V Magazine.

Wilson J. H. Southam

Elected director 1971. President and general manager, The Group at Cox. Born Calgary, 1932. BA (McGill), MA (Oxford). Reporter, The Hamilton Spectator, 1960. Canadian Broadcasting Corporation, public affairs writer, director, producer, 1963-1966.

Adam H. Zimmerman, FCA

Elected director 1970. Chairman and chief executive officer, Noranda Forest Inc. Vice-chairman, Noranda Inc. Chairman, MacMillan Bloedel Limited. Born Toronto, 1927. BA (Toronto). Chairman, Canadian Forest Industries Council. Director, various Canadian and international companies.

Directors

(left to right)

John P. Fisher, Ronald L. Cliff, George E. Connell, Walter M. Bowen, Edward L. Donegan, Hugh G. Hallward



(left to right)

Beland H. Honderich, Norman B. Keevil, Jr., John R. Evans, Gaston Pouliot, John T. Ferguson, Marnie Paikin



(left to right)

Norman W. Robertson, Wilson J. H. Southam, Adam H. Zimmerman, Harvey S. Southam, Paddy Sherman



Officers

(left to right)

John G. Craig, William J. Mann, William J. Carradine, George L. Meadows, L. John Rothwell



(left to right)

William Newbigging, James S. Thomson, Gordon Bullock, Gerald P. Haslam, Bryson W. Stone, Clark W. Davey, Clifford C. Sharp, E. H. Wheatley, J. Patrick O'Callaghan, Russell A. Mills



(left to right)

Richard A. Gardner, Gilbert Bachman, Michael A. Quinn, George L. Meadows, William E. Ardell



Officers

Corporate

William J. Carradine

Senior vice-president, corporate planning, 1986. Born Smooth Rock Falls, Ontario 1929. BA Journalism, MBA. Procter & Gamble 1954. London Free Press 1968. Vice-president Southam Inc. 1972; senior vice-president 1980; senior vice-president — Southam Newspaper Group, 1983. Director, Newspaper Advertising Bureau.

John G. Craig, CA

Senior vice-president, finance and secretary, 1985. Born Windsor, 1942. BA Business Administration. Deloitte, Haskins & Sells 1964. Multiple Access Ltd. 1969. Global Communications 1976. Vice-president, finance and secretary, Southam Inc. 1981. Member, Presidential Investment Advisory Committee, University of Toronto. Director, Financial Executives Institute.

William J. Mann

Vice-president, human resources, 1986. Born Chicago, 1942. BA Sc. Industrial Engineering, MBA. Imperial Oil Limited 1967. Vice-president, finance & administration, Esso Resources Ltd. 1980; manager, public affairs 1982. Vice-president, human resources, Imperial Oil Ltd. 1984. Chairman, employer/employee relations committee, Canadian Chamber of Commerce; Council of Human Resource Executives, Conference Board.

George L. Meadows, CA

Senior vice-president, communications group, 1984. Born Toronto, 1938. BA. Clarkson Gordon 1963. Project Group of Canada Ltd. 1973. Secretary treasurer Southam Communications Limited 1974, vice-president and secretary treasurer 1976; assistant to the president Southam Inc. 1977, vice-president, corporate development, 1978. Chairman, Coles Book Stores Ltd. 1983; Southam Communications Limited 1984; Southam Printing Limited 1986; LPS, Inc. 1987. Managing director and chief executive officer, Selkirk Communications Limited 1987. Director, BCTV Ltd., Canadian Satellite Communications Inc., Ottawa Cable.

L. John Rothwell, P.Eng.

Vice-president, technical resources, 1972. Born England, 1927. Vice-president, engineering and production Southam Inc. 1972. Previously president Crabtree-Vickers Ltd. Director, IFRA Newspaper Research Association. Member advisory board, Rochester Institute of Technology.

Newspapers

Gordon Bullock

Vice-president and publisher, *The Hamilton Spectator*, 1984. Born England, 1932. Various British newspapers 1949-1954. Daily News, Hamilton 1954. The Hamilton Spectator, 1957; managing editor 1966; executive editor 1970; business manager 1975; general manager 1976; assistant publisher The Edmonton Journal 1977; publisher The Windsor Star 1979.

Clark W. Davey

Vice-president and publisher, *The Gazette, Montreal*, 1983. Born Chatham, 1928. BA Journalism. Chatham News 1948. Northern Daily News 1951. Globe and Mail 1951; managing editor 1963. Publisher, The Sun, Vancouver 1978; vice-president, Pacific Press 1981.

Gerald P. Haslam

Vice-president and publisher, *Pacific Press Limited*, 1985. Born England, 1945. BA Sociology. Broadcaster, Winnipeg 1969. The Winnipeg Tribune 1972; managing editor 1973; editor 1976. MacMillan Bloedel Ltd. 1977. Director, Videotex Services, Southam Inc. 1979; publisher, The Province, 1982; vice-president, Pacific Press 1983. Director, Canadian Press.

Russell A. Mills

Vice-president and publisher, *The Ottawa Citizen*, 1986. Born St. Thomas, Ontario 1944. BA, MA. The London Free Press 1963. The Oshawa Times 1970. The Ottawa Citizen 1971; executive editor 1975; editor 1977; general manager 1984.

William Newbigging

Vice-president and publisher, *The Edmonton Journal*, 1982. Born Toronto, 1939. The Edmonton Journal 1957; assistant to the publisher 1971; executive assistant to the publisher The Ottawa Citizen, 1973; general manager 1976; assistant publisher and general manager 1977; publisher 1978. Director, Newspaper Marketing Bureau, Canadian Press.

J. Patrick O'Callaghan

Vice-president and publisher, *Calgary Herald*, 1982. Born Ireland, 1925. Various British newspapers, 1947-1959. Red Deer (Alberta) Advocate 1959. Assistant to the publisher The Edmonton Journal 1968; executive editor Southam News 1969; executive assistant head office 1971; publisher The Windsor Star 1972; publisher The Edmonton Journal 1976. Past president, CDNPA; chairman, Canadian Press; vice-chairman, API.

Clifford C. Sharp

Publisher, *The Sault Star*, 1987. Born Sault Ste. Marie, Ont., 1927. Singer Sewing Machine Co. 1950. Dale Carnegie Co. 1952. The Sault Star 1954, advertising manager 1959. Publisher, The Nugget, North Bay, 1979.

Bryson W. Stone

Publisher, *The Kamloops Daily News*, 1987. Born Edmonton, 1930. The Edmonton Journal 1947. Various executive positions, assistant to the publisher 1979. Publisher, The Prince George Citizen, 1980.

James S. Thomson

Vice-president and publisher, *The Windsor Star*, 1984. Born Hamilton, 1931. The Hamilton Spectator 1949; Southam Newspapers, Toronto office 1954; The Hamilton Spectator 1957; advertising manager 1962; business manager 1970; general manager 1974; publisher, The Expositor, Brantford, 1976. Director, CDNPA, NMB.

E. H. Wheatley

President and chief executive officer, *Pacific Press Limited*, 1985. Born Calgary, 1927. Calgary Herald, Southam Newspapers Toronto 1945-1958; various executive positions The Edmonton Journal 1960-1970; publisher The Expositor, Brantford 1971; publisher The Windsor Star 1976; publisher The Winnipeg Tribune 1977; president and general manager, Pacific Press 1980; publisher, The Sun, Vancouver, 1983. Director ABC, CDNPA.

Printing

Michael A. Quinn

President, chief executive officer, *Southam Printing Limited* 1987. Born Timmins, Ontario 1941. President, Canadian Laboratory Supplies, 1973. President, A.H.S. Canada, 1977. President, A.H.S. Europe, 1981. President, A.H.S. International 1982. Group Vice-President, 1985.

Dittler Brothers

Gilbert Bachman

Chairman of the board and chief executive officer, *Dittler Brothers, Incorporated*, 1981. Born New York City, 1926. BS Mechanical Engineering, Dittler Brothers 1948; executive vice-president 1960; president 1966. Director, Georgia First Bank.

Coles Book Stores

William E. Ardell

President and director, *Coles Book Stores Limited*, 1983. Born Calgary, 1944. B.Comm. Spalding Canada 1968. Shakespeare Canada 1973. Graphic Web Ltd. 1979. Executive vice-president Coles Book Stores 1982; Director, Southam Communications Limited.

Communications

Richard A. Gardner

President and director, *Southam Communications Limited*, 1984. Born Leamington, Ontario 1934. BA. Atlas Steels Company Limited 1959. The Thorne Group Ltd. 1966. Extencicare Ltd. 1974.

Eleven-Year Review

<i>(thousands of dollars except where indicated*)</i>		1987	1986	1985
Income statement				
Revenue from operations		\$ 1,451,971	\$ 1,279,370	\$ 1,184,431
Operating expenses		1,274,659	1,116,030	1,040,447
Interest expense		32,954	28,612	29,100
Depreciation and amortization		47,436	42,782	38,863
Operating income before tax		96,922	91,946	76,021
Income taxes		43,332	39,258	32,461
Operating income		53,590	52,688	43,560
Income from investments		24,712	19,241	5,830
Income from continuing operations		78,302	71,929	49,390
Extraordinary and other items		4,380	(5,017)	(12,064)
Net income		\$ 82,682	\$ 66,912	\$ 37,326
Financial position				
Working capital		\$ 61,415	\$ 55,826	\$ 16,226
Fixed assets — net		393,793	335,826	325,653
Investments		263,565	231,922	209,592
Goodwill & other assets		130,348	96,095	96,632
Total assets		1,144,736	965,807	906,355
Long term debt		317,394	233,473	210,722
Deferred income taxes		52,647	50,781	44,177
Shareholders' equity		\$ 503,822	\$ 448,524	\$ 403,525
Changes in financial position				
Cash provided from operations		\$ 105,700	\$ 78,100	\$ 107,364
Investments in: Business acquisitions		100,195	10,404	252,938
Additions to fixed assets		69,220	48,118	51,332
Gross dividends		\$ 31,105	\$ 27,418	\$ 22,116
Share data				
*Income per common share from continuing operations		\$ 1.32	\$ 1.22	\$.92
*Dividends paid per common share		\$.52	\$.46	\$.40
Percentage net income distributed		37.6	41.0	59.3
*Equity per common share		\$ 7.86	\$ 7.04	\$ 6.34
*Market value per common share — High		\$ 26.25	\$ 27.75	\$ 17.88
— Low		\$ 15.25	\$ 15.50	\$ 12.13
Average common shares outstanding (000's)		59,399	59,129	53,617
Number of common shareholders		8,370	7,397	5,606
Statistics				
Daily newspaper circulation — year average (000's)		1,541	1,547	1,543
Tons of newsprint used (000's)		193	191	186
Number of employees		14,954	13,465	13,293
Salaries and wages paid		\$ 478,877	\$ 428,697	\$ 395,201
Employee benefits		\$ 53,669	\$ 48,399	\$ 44,443
Return on revenue (operating margin)		6.7	7.2	6.4
Return on average equity		16.4	16.9	17.7

1984	1983	1982	1981	1980	1979	1978	1977
\$ 1,084,329	\$ 898,257	\$ 810,223	\$ 808,106	\$ 605,120	\$ 484,235	\$ 379,108	\$ 312,593
941,994	778,749	720,353	675,904	509,471	408,571	322,828	270,240
29,259	18,942	30,348	30,875	16,109	7,586	2,606	933
34,604	28,219	25,481	22,740	17,750	12,571	9,961	7,752
78,472	72,347	34,041	78,587	61,790	55,507	43,713	33,668
36,449	33,782	15,642	36,223	28,345	24,579	17,982	14,058
42,023	38,565	18,399	42,364	33,445	30,928	25,731	19,610
2,359	2,029	567	1,371	3,496	3,132	5,293	6,436
44,382	40,594	18,966	43,735	36,941	34,060	31,024	26,046
172	640	1,680	932	(7,552)	5,590	2,209	
\$ 44,554	\$ 41,234	\$ 20,646	\$ 44,667	\$ 29,389	\$ 39,650	\$ 33,233	\$ 26,046
\$ 25,019	\$ 25,777	\$ 23,001	\$ 19,789	\$ 16,744	\$ 13,588	\$ 22,637	\$ 15,048
308,203	282,697	234,287	234,792	200,120	117,318	101,408	80,883
68,525	44,445	42,679	48,557	43,698	48,347	38,103	35,469
92,976	95,264	65,265	62,972	62,737	30,030	30,180	5,451
716,532	632,592	514,746	534,412	462,241	323,103	274,144	187,978
196,586	183,649	125,965	129,520	125,416	27,289	39,782	6,480
45,014	40,472	40,787	41,937	30,198	22,932	18,491	14,952
\$ 253,653	\$ 224,767	\$ 199,716	\$ 196,464	\$ 169,073	\$ 159,406	\$ 134,289	\$ 115,672
\$ 40,549	\$ 53,595	\$ 40,773	\$ 84,426	\$ 76,007	\$ 46,590	\$ 69,479	\$ 40,608
30,246	76,821	8,968	4,776	45,741	834	27,354	838
52,303	27,298	27,398	56,371	81,801	31,626	24,354	18,828
\$ 20,298	\$ 17,727	\$ 18,233	\$ 20,009	\$ 19,960	\$ 14,989	\$ 14,616	\$ 10,861
\$.88	\$.80	\$.38	\$.88	\$.71	\$.65	\$.63	\$.51
\$.40	\$.35	\$.36	\$.40	\$.40	\$.30	\$.29	\$.22
45.6	43.0	88.3	44.8	67.9	37.8	44.0	41.7
\$ 4.98	\$ 4.44	\$ 3.94	\$ 3.88	\$ 3.36	\$ 3.17	\$ 2.67	\$ 2.29
\$ 13.81	\$ 12.38	\$ 9.63	\$ 10.63	\$ 10.88	\$ 7.25	\$ 6.81	\$ 5.75
\$ 10.78	\$ 7.56	\$ 6.06	\$ 7.50	\$ 6.94	\$ 6.19	\$ 4.94	\$ 4.44
50,770	50,452	50,104	49,772	49,696	49,672	49,600	49,600
3,748	3,989	4,347	4,603	4,274	3,941	4,165	4,134
1,529	1,518	1,532	1,499	1,447	1,117	1,056	989
176	181	197	228	189	162	148	142
12,846	12,070	11,017	11,602	10,795	9,571	8,814	7,203
\$ 354,919	\$ 304,007	\$ 274,422	\$ 245,291	\$ 188,912	\$ 154,632	\$ 125,777	\$ 111,879
\$ 38,713	\$ 30,284	\$ 25,111	\$ 21,752	\$ 16,379	\$ 13,209	\$ 11,298	\$ 10,457
7.2	8.1	4.2	9.7	10.2	11.5	11.5	10.8
18.6	19.1	8.6	23.3	17.3	22.1	24.8	23.6

Corporate Information

Southam Inc.	The company was incorporated under the Companies Act of Canada by letters patent on Dec. 7, 1927, and was continued under the Canada Business Corporations Act on Dec. 20, 1978. The issue or transfer of the company's shares is constrained (see Note 7 on page 41).
Listing of capital stock	The common shares of the company are listed on the Toronto, Montreal and Vancouver stock exchanges under the stock symbol "STM". The value of the company's shares on valuation day was \$4.57.
Transfer agent and registrar	The transfer agent and registrar for the common shares of the company is The Royal Trust Company at its offices in Toronto, Montreal, Winnipeg, Calgary and Vancouver.
Financial calendar 1988	Fiscal year end: December 31 Interim Reports mailed: May, July, October, February Dividend dates: March, June, September, December
Stock dividend plan	The company has a stock dividend plan available to shareholders. Holders of common shares may elect to receive their dividends in the form of new common shares instead of in cash. Shareholders or others wishing to obtain information about this plan should write to The Royal Trust Company, Corporate Trust Services, Box 7500, Station A, Toronto, Ont. M5W 1P9.
Annual and special general meeting	The annual and special general meeting of shareholders will be held at 3:00 p.m. on Thursday, May 5, 1988, in the Empress Room of the Park Plaza Hotel, 4 Avenue Road, Toronto, Ont.
Version française	On pourra se procurer le texte français, de ce rapport annuel en s'adressant au secrétariat de la société, 150 rue Bloor ouest, Bureau 900, Toronto, Ontario M5S 2Y8.
Annual information form	A copy of the Southam Inc. Annual Information Form is available from the Secretary of the company upon request at 150 Bloor Street West, Suite 900, Toronto, Ontario M5S 2Y8.

Southam Inc.

Corporate Office

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