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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington D.C. 20549**

# FORM 40-F

**o Registration Statement Pursuant to Section 12 of the Securities Exchange Act of 1934**

**OR**

**ý Annual Report Pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended December 31, 2004** **Commission File Number: 1-31349**

# THE THOMSON CORPORATION

(Exact name of Registrant as specified in its charter)

**N/A**
(Translation of Registrant's name into English (if applicable))

**Ontario**
(Province or other jurisdiction of incorporation or organization)

**2731**
(Primary Standard Industrial Classification Code Number (if applicable))

**98-0176673**
(I.R.S. Employer Identification Number (if applicable)
**Metro Center, One Station Place, Stamford, Connecticut 06902, (203) 539-8000**
(Address and telephone number of Registrant's principal executive offices)

**Thomson U.S. Holdings Inc.,**
**Metro Center, One Station Place, Stamford, Connecticut 06902, (203) 539-8000**
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common shares | New York Stock Exchange |

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**
None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**
None

**For annual reports, indicate by check mark the information filed with this Form:**
ý Annual information form ý Audited annual financial statements

**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:**
655,131,827 common shares and 6,000,000 Series II preference shares

**Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.**

Yes o 82-_____ No ý

**Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to filing requirements for the past 90 days.**

Yes ý No o

## CONTROLS AND PROCEDURES

**a. Disclosure controls and procedures.**

The Chief Executive Officer and Chief Financial Officer of The Thomson Corporation (the "Corporation"), after evaluating the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this annual report, have concluded that the Corporation's disclosure controls and procedures are effective to ensure that all information required to be disclosed by the Corporation in reports that it files or furnishes under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in U.S. Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Corporation's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

**b. Changes in internal controls over financial reporting.**

There was no change in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) that occurred during the Corporation's last fiscal year that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## AUDIT COMMITTEE FINANCIAL EXPERT

The disclosure provided under the heading "Audit Committee" on page 45 of Exhibit 1 (Annual Information Form) is incorporated by reference herein.

## CODE OF ETHICS

The disclosure provided under the heading "Code of Business Conduct and Ethics" on page 48 of Exhibit 1 (Annual Information Form) is incorporated by reference herein.

## PRINCIPAL ACCOUNTANT FEES AND SERVICES

The disclosure provided under the heading "Principal Accountant Fees and Services" on page 46 of Exhibit 1 (Annual Information Form) is incorporated by reference herein.

## OFF-BALANCE SHEET ARRANGEMENTS

The disclosure provided under the heading "Off-Balance Sheet Arrangements, Commitments and Contractual Obligations" on page 20 of Exhibit 2 (Management's Discussion and Analysis) is incorporated by reference herein.

## TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The disclosure provided under the heading "Off-Balance Sheet Arrangements, Commitments and Contractual Obligations" on page 20 of Exhibit 2 (Management's Discussion and Analysis) is incorporated by reference herein.

## IDENTIFICATION OF THE AUDIT COMMITTEE

The disclosure provided under the heading "Directors and Officers" on page 42 of Exhibit 1 (Annual Information

Form) is incorporated by reference herein.

**DISCLOSURE PURSUANT TO REQUIREMENTS OF THE NEW YORK STOCK EXCHANGE**

The disclosure provided under the headings "Controlled Company," "Independent Directors," "Presiding Director at Meetings of Non-Management Directors," "Communications with Non-Management Directors" and "Corporate Governance Guidelines and Board Committee Charters" beginning on page 47 of Exhibit 1 (Annual Information Form) is incorporated by reference herein.

**UNDERTAKING AND CONSENT TO SERVICE OF PROCESS**

**a. Undertaking.**

The Corporation undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

**b. Consent to Service of Process.**

The Corporation has previously filed a Form F-X in connection with the class of securities in relation to which the obligation to file this report arises.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

**THE THOMSON CORPORATION**

Date: March 2, 2005

By: /s/ Deirdre Stanley

Name: Deirdre Stanley
Title: Senior Vice President and General Counsel

**EXHIBIT INDEX**

| Exhibit Number | Description |
|---|---|
| 1 | Annual Information Form dated March 2, 2005 |
| 2 | Management's Discussion and Analysis for the fiscal years ended December 31, 2004 and 2003 and as at December 31, 2004 and 2003 |
| 3 | Audited consolidated financial statements for the fiscal years ended December 31, 2004 and 2003 and as at December 31, 2004 and 2003 (including reconciliation to U.S. GAAP for the fiscal years ended December 31, 2004 and 2003 and as at December 31, 2004 and 2003) |
| 4 | Consent of PricewaterhouseCoopers LLP, Chartered Accountants |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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OFF-BALANCE SHEET ARRANGEMENTS
TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS
IDENTIFICATION OF THE AUDIT COMMITTEE
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**EXHIBIT 1**

# THE THOMSON CORPORATION




## Annual Information Form

## For the Year Ended December 31, 2004

## March 2, 2005

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In this annual information form, "Thomson," "we," "us" and "our" each refers to The Thomson Corporation and its consolidated subsidiaries unless the context requires otherwise.

Unless the context requires otherwise, references in this annual information form to "$", "US$" or "dollars" are to United States (U.S.) dollars. References in this annual information to "C$" are to Canadian dollars. In 2004, the average exchange rate was US$1.00 = C$1.30.

Information contained on our website or any other websites identified in this annual information form is not part of this annual information form. All website addresses listed in this annual information form are intended to be inactive, textual references only. The Thomson logo and other trademarks, trade names and service names of our company and our subsidiaries mentioned in this annual information form are the property of our company and our subsidiaries.

## 1. FORWARD-LOOKING STATEMENTS

Certain statements included in this annual information form constitute forward-looking statements. When used in this annual information form, the words "anticipate," "believe," "plan," "estimate," "expect," "intend," "will," "may" and "should" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect our current expectations concerning future results and events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, which include, but are not limited to:

- actions of our competitors;
- the failure of our significant investments in technology to increase our revenues or decrease our operating costs;
- our failure to fully derive anticipated benefits from our acquisitions;
- our failure to develop additional products and services to meet our customers' needs, attract new customers or expand into new geographic markets;
- failures or disruptions of our electronic delivery systems or the Internet;
- our failure to meet the special challenges involved in expansion of our operations outside North America;
- our failure to recruit and retain high quality management and key employees;
- the consolidation of our customers;
- increased self-sufficiency of our customers;
- increased accessibility by our customers to free or relatively inexpensive information sources;
- our failure to maintain the availability of information obtained through licensing arrangements and changes in the terms of our licensing arrangements;
- changes in the general economy;
- actions or potential actions that could be taken by our principal shareholder, The Woodbridge Company Limited, or Woodbridge;
- inadequate protection of our intellectual property rights;
- an increase in our effective income tax rate; and
- impairment of our goodwill and identifiable intangible assets.

These factors and other risk factors described in this annual information form are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in our forward-looking statements. We caution you not to place undue reliance on these forward-looking statements that reflect our view only as of the date of this annual information form. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## 2. CORPORATE STRUCTURE

The Thomson Corporation was incorporated under the Business Corporations Act of Ontario, Canada by articles of incorporation dated December 28, 1977. We restated our articles on February 28, 2005. Our registered office is Suite 2706, Toronto Dominion Bank Tower, P.O. Box 24, Toronto-Dominion Centre, Toronto, Ontario M5K 1A1, Canada. Our principal executive office is at Metro Center, One Station Place, Stamford, Connecticut 06902, United States.

As of December 31, 2004, unless otherwise indicated, we beneficially owned, directly or indirectly, 100% of the voting and non-voting securities of the subsidiaries listed below. Certain subsidiaries, each of which represents not more than 10% of the consolidated assets and not more than 10% of the consolidated revenues of our company, and all of which, in the aggregate, represent not more than 20% of the total consolidated assets and the total consolidated revenues of our company at December 31, 2004, have been omitted. Indentation indicates the voting securities are directly or indirectly owned by the subsidiary listed above.

| Subsidiaries | Jurisdiction of Incorporation |
|---|---|
| Thomson Canada Limited | Ontario, Canada |
| Thomson U.S. Holdings Inc. | Delaware, U.S.A. |
| THI (U.S.) Inc. | Delaware, U.S.A. |
| Thomson U.S. Inc. | Delaware, U.S.A. |
| The Thomson Corporation Delaware Inc. | Delaware, U.S.A. |
| Thomson TradeWeb LLC | Delaware, U.S.A. |
| Thomson Healthcare Inc. | Florida, U.S.A. |
| Thomson Financial Holdings Inc. | Delaware, U.S.A. |
| Thomson Financial Inc. | New York, U.S.A. |
| Thomson Scientific Inc. | Pennsylvania, U.S.A. |
| Thomson Legal & Regulatory Inc. | Minnesota, U.S.A. |
| The Dialog Corporation | Delaware, U.S.A. |
| West Publishing Corporation | Minnesota, U.S.A. |
| West Services Inc. | Delaware, U.S.A. |
| Thomson Learning Inc. | Delaware, U.S.A. |
| Thomson Professional & Regulatory Inc. | Texas, U.S.A. |
| The Gale Group Inc. | Delaware, U.S.A. |
| Thomson Holdings Inc. | Delaware, U.S.A. |
| The MEDSTAT Group, Inc. | Delaware, U.S.A. |
| Thomson Holdings SA | Luxembourg |
| Thomson Finance S.A. | Luxembourg |
| Thomson Holdings BV | The Netherlands |
| Editorial Aranzadi SA | Spain |
| The Thomson Corporation PLC | England and Wales |
| Thomson Legal & Regulatory Europe Limited | England and Wales |
| Thomson Financial Ltd. | England and Wales |
| Datastream International Ltd. | England and Wales |

## 3. GENERAL DEVELOPMENT OF THE BUSINESS

### Overview

We are one of the world's leading information services providers to business and professional customers. We generate revenues by supplying our customers with business-critical information, which we make more valuable by adding expert analysis, insight and commentary, and couple it with software tools and applications that our customers can use to search, compare, synthesize and communicate the information. To further enhance our customers' workflows, we increasingly deliver information and services electronically, integrate our solutions with our customers' own data, and tailor the delivery of information to meet specific customer needs. As we integrate critical information with analysis, tools and applications, we place greater focus on the ways our customers use our content, rather than simply on selling the content itself. Our common shares are listed on the Toronto Stock Exchange and the New York Stock Exchange under the symbol "TOC".

### Recent Developments

As a global company that provides services in approximately 130 countries, we are affected by the market dynamics, government regulations and business conditions for each market and country in which we operate. Our business continues to evolve in conjunction with the changes in our customers' workflows. Our customers' increasing desire for information, along with their increasing technological sophistication, has translated into gains in strategically important areas of our business, such as online information, software and services. During the past few years, we have concentrated on driving efficiencies, primarily through leveraging resources, which has helped us increase our profitability. During the last three years, we also generated significant cash flow from operations, reflecting our strong results and the quality of our earnings. However, some markets in which we compete have in particular experienced difficult economic conditions and strong competition, which have led to increasing pricing pressures and affected revenue growth.

We regularly make tactical acquisitions that complement our existing information businesses. For many of our acquisitions, we purchase information or a product or service that we integrate into our operations to broaden the range of our offerings. As alternatives to the development of new products and services, these acquisitions often have the advantages of faster integration into our product and service offerings and cost efficiencies.

In 2002 and 2003, we completed 57 acquisitions for an aggregate cost of approximately $500 million. In 2003, our largest acquisition was Elite Information Group, a provider of practice management software to law firms that we acquired for $101 million. During 2002 and 2003, we also completed 19 dispositions for aggregate consideration of $475 million. The more significant of these dispositions were the sale of our 20% interest in Bell Globemedia for $279 million and the sale of our healthcare magazines for $135 million. In 2002, we also completed the integration of our Harcourt higher education and corporate training assets ahead of schedule, achieving expected synergies and driving growth in Thomson Learning. We had purchased these assets for $2.1 billion in 2001.

In 2004, we completed 57 acquisitions for an aggregate investment of approximately $1.5 billion. In 2004, our largest acquisition was Information Holdings Inc. (IHI), a provider of intellectual property and regulatory information, which we purchased for $445 million, net of cash and cash equivalents received. We also acquired TradeWeb, an online trading platform for fixed income securities, for $361 million, net of cash received, plus contingent payments of up to $150 million over the next three years based on the achievement of certain growth targets. These acquisitions further strengthened our leadership position, expanded our product offerings and have enabled us to enter adjacent markets and tap new revenue streams. In 2005, we will focus on integrating these businesses to further drive growth and efficiencies. In 2004, we sold

the Thomson Media group, a provider of largely print-based information products focused on the banking, financial services and related technology markets, for $350 million. Our other large divestitures in 2004 were the sales of Drake Beam Morin (DBM), a provider of human resource solutions, and Sheshunoff Information Services, a provider of critical data, compliance and management tools to financial institutions.

During the last few years, we have undertaken a significant initiative to increase the awareness of the Thomson brand, which has involved linking the Thomson name with our many well recognized product and service brands. We believe that heightened awareness of the Thomson brand will become a significant asset in supporting our global growth initiatives.

## 4. DESCRIPTION OF THE BUSINESS

### Overview

We serve customers principally in the following sectors: law, tax, accounting, higher education, reference information, corporate e-learning and assessment, financial services, scientific research and healthcare. We believe these sectors are fundamental to economic development globally and consequently have the greatest potential for consistent long-term growth.

We have a leading market position and well recognized and respected brands in each of our principal markets. Our revenues in 2004 were approximately $8.1 billion and we derived approximately 65% of our revenues from sales of subscription-based products, which are generally recurring in nature. In 2004, we derived 82% of our revenues from our operations in North America.

We use a variety of media to deliver our products and services to our customers. Increasingly, our customers are seeking products and services delivered electronically and are migrating away from print-based products. We deliver information electronically over the Internet, through dedicated transmission lines, CDs and, more recently, through handheld wireless devices. Electronic delivery of our products and services improves our ability to provide additional products and services to our existing customers and to access new customers around the world. In 2004, we derived 66% of our revenues from electronic products, software and services.

While we are a Canadian company, our operational headquarters are based in Stamford, Connecticut. Our corporate center initiates and executes strategy and manages other company-wide functions. We organize our operations in four market groups that are structured on the basis of the customers they serve:

- Thomson Legal & Regulatory;
- Thomson Learning;
- Thomson Financial; and
- Thomson Scientific & Healthcare.

By centralizing key functions in our corporate center, we foster a company-wide approach while allowing our market groups sufficient operational flexibility and scope for initiative in dealing with customers. In addition to identifying new business opportunities and acquisitions, our corporate center oversees the planning processes of our market groups and their implementation of strategy and assesses their performance. Our corporate center develops and executes capital strategy, including tax planning, and determines our overall direction on technology. In addition, our corporate center is responsible for appointing senior executives and overseeing their training and development. The following table

summarizes certain information about our four market groups relating to our 2004 revenues, the countries in which they operated and the number of their employees as of December 31, 2004.

**Market Groups — Operations**

| | Revenues[1] | % of Revenues[1][2] | % of Revenues from Electronic Products, Software and Services[1] | Countries | Employees |
|---|---|---|---|---|---|
| | (in millions of dollars) | | | | |
| Thomson Legal & Regulatory | $ 3,393 | 42% | 67% | 22 | 17,250 |
| Thomson Learning | $ 2,174 | 27% | 34% | 40 | 9,800 |
| Thomson Financial | $ 1,734 | 21% | 98% | 22 | 8,200 |
| Thomson Scientific & Healthcare | $ 836 | 10% | 81% | 19 | 4,300 |

(1) Market group results are presented on the basis of revenues from ongoing businesses, which exclude disposals. Disposals are businesses sold or held for sale, which do not qualify as discontinued operations.

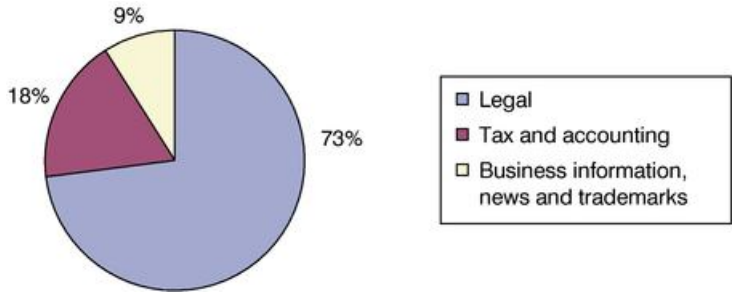
(2) Percentages are calculated on the basis of revenues from ongoing businesses.

*In the tables included below in the market group descriptions, where brands are principally associated with products and services offered in countries other than the United States, the countries are indicated in parentheses.*

**Thomson Legal & Regulatory**

Thomson Legal & Regulatory is a leading provider of integrated information solutions to legal, tax, accounting, intellectual property, compliance and other business professionals, as well as government agencies. We offer a broad range of products and services that utilize our electronic databases of legal, regulatory and business information and news. Our offerings also include software to assist lawyers and accountants with practice management functions, including document management, case management and other back office functions, and software that assists tax professionals with preparing and filing tax returns. We also offer Internet-accessible legal directories, website creation and hosting services and law firm marketing solutions to assist our customers in their client development initiatives and continuing legal educational programs. In 2004, we provided products and services to each of the 100 largest law firms in the world in terms of revenues and our databases are some of the largest in the world.

**2004 Product/Service Revenues**




In 2003, Thomson Legal & Regulatory derived 72% of its revenues from its legal businesses, 18% from its tax and accounting businesses and 10% from its business information and news and trademarks businesses.

The following table provides additional information regarding Thomson Legal & Regulatory's revenues in 2004 and 2003.

| % of Total Revenues | 2004 | 2003 |
|---|---|---|
| Electronic products, software and services | 67% | 65% |
| From North America | 84% | 85% |
| Recurring/subscription-based | 86% | 87% |

***Markets***

As the economy becomes increasingly global, the demand for legal and regulatory information on an integrated global and regional basis is growing. Customers are requiring a broader array of interlinked products and services to meet their varied informational, operational and marketing needs. Increasingly, customers prefer their information needs to be met by a primary strategic partner as opposed to multiple providers to ensure consistency. Our estimates indicate that the market for legal and regulatory information in most developed countries is relatively stable and we expect average annual revenue growth rates in the future to correlate with each country's gross domestic product growth. However, we estimate the demand for practice management and tax software and client development services in most developed countries is growing at a rate approximately twice the gross domestic product. We believe that the increased pace of the opening of certain developing economies (such as China and the former Eastern Bloc countries) could increase demand for qualified professionals in both the legal and tax services markets. Recent regulatory changes, such as the Sarbanes-Oxley Act, have also stimulated demand for compliance information and software.

Technology continues to affect the market for legal and regulatory information. The availability and reliability of the Internet and the demand for faster access to information has significantly increased the demand for products and services online. In addition, the Internet has made it much easier to both deliver and receive information and services. As a result, we believe that customers will continue to migrate from print and CDs to online offerings in the future.

Competitive differentiation in the market for legal and regulatory products is becoming increasingly difficult to demonstrate through traditional means, such as content and reliability. We believe that integrated value-added products and services are increasingly becoming the point of competitive differentiation.

Online business information and news services supply a variety of current and archival business information and news to professionals in a wide variety of areas such as marketing, strategic planning, business development and research and development.

***Operations***

*Legal*

Based primarily on our West business, we are the leading provider in the United States of legal information-based products and services. The following provides information about our major legal brands.

| Major Brands | Principal Products and Services | Customers |
|---|---|---|
| West<br>Westlaw[1]<br>Sweet & Maxwell (U.K., Asia)<br>Carswell (Canada)<br>ELLIS (The Netherlands)<br>Aranzadi (Spain)<br>Civitas (Spain)<br>Karnov (Denmark and Sweden)<br>Lawpoint (Australia)<br>Lawbook (Australia)<br>Brookers (New Zealand)<br>La Ley (Argentina)<br>Sintese (Brazil)<br>Lawtel (U.K.)<br>Consult GEE (U.K.) | Legal information-based products and services | Lawyers, law students, law librarians, trademark professionals, legal professionals |
| Thomson Elite<br>West km<br>ProLaw | Law firm management software | |
| FindLaw<br>HubbardOne<br>Glasser LegalWorks | Web-based legal directory, website creation and hosting services and law firm marketing solutions | |
| Foundation Press<br>West Law School Publishing<br>BAR/BRI<br>West LegalEdcenter | Textbooks, study aids, bar review courses and continuing education materials | |

(1) United States, United Kingdom, Australia, Canada, Denmark, Germany, Hong Kong, Spain and Sweden.

We provide legal and regulatory solutions to virtually every large law firm, significant government institution and law school in the United States and to small and medium-sized law firms and corporate in-house legal professionals. Our information includes case law, statutes, administrative material, law reviews and treatises, lawyer profiles, legal commentary, public records and legal forms, in electronic and print formats. We offered our customers the information they need from over 21,000 databases as of December 31, 2004.

Our West business publishes cases, statutes and other legal information and enhances them with headnotes, synopses, key numbers and other editorial enhancements prepared by our staff of lawyers and editorial professionals. These editorial enhancements facilitate more productive researching by our customers.

We also operate legal information businesses in Argentina, Australia, Brazil, Canada, Denmark, France, Germany, Hong Kong, Ireland, the Netherlands, New Zealand, Spain, Sweden and the United Kingdom through local operations and in Switzerland through a joint venture. Through these businesses, we provide a range of primary materials, such as case law and statutes, and secondary materials, including treatises and legal commentary specific to the countries in which we operate.

Westlaw is our primary online delivery platform. Westlaw offers numerous search features and navigation tools that enable our customers to search databases that are relevant to them to research points of law, build tables of authorities or search for other topically related commentary. Using *mywestlaw.com*, our customers can customize Westlaw by focusing on specific jurisdictions or practice areas. Our offering of *mywestlaw.com*, together with increased use of the Internet, has allowed us to further penetrate the market for smaller and specialized law firms. In 2004, we continued to enhance Westlaw Litigator, a service designed to assist attorneys in evaluating and investigating cases and preparing for trial. Through Westlaw, we also offer KeyCite, an online citation research service that,

among other things, enables our customers to trace the history of a case, statute, administrative decision or regulation to determine if it is still authoritative, retrieve a list of cases that cite a particular case or compile a table of authorities.

Westlaw UK, launched in 2000, offers a combination of legal information from the United Kingdom and the European Union that we derive from our legal publishing businesses in those jurisdictions, together with information licensed from third parties. Customers may also access, on a transactional basis, legal and regulatory information from West in the United States and our other businesses such as Dialog, our global online provider of business information and news. In 2002, we acquired Lawtel, the leading U.K. online current awareness and legal information service. As a result of the continued growth of Westlaw and Lawtel, 98 of the largest 100 U.K. law firms subscribed to our online services in 2004.

In addition, we offer country-specific online legal services in Argentina, Australia, Canada, Denmark, Germany, Hong Kong, Spain, Sweden and the United Kingdom. In each case, we offer local content, owned or licensed by our operations in that region, and supplemented with relevant information from other regions of the world such as our databases of European Council directives maintained by our ELLIS business unit.

In addition to launching customized online legal services in various countries, we also provide a basic Westlaw service, known as Westlaw International. Through Westlaw International, we are able to offer our current online products and services to customers in markets where we may not have an existing publishing presence or have not yet developed a fully customized Westlaw service. As of December 31, 2004, we provided Westlaw International in 44 countries.

Elite offers software that assists law firms and government agencies of all sizes with front and back office management functions, including document management, case management, general ledger accounting, billing and records management. We have integrated Elite with our ProLaw, West km and Law Manager businesses to offer a broad legal software suite of products. While our software customers are primarily based in the United States, Elite is currently expanding internationally.

Our FindLaw business offers client development services in the United States that include legal directories, website development, marketing solutions, legal news, a legal career center and other legal resources. FindLaw charges law firms a fee to be included in its online legal directories but users may search its legal directories and other products and services free of charge. FindLaw provided website design and hosting services to more than 6,100 law firms in 2004. In 2004, we acquired HubbardOne and Glasser LegalWorks which provide the legal market with website development services and expertise marketing solutions, respectively.

Our West Education Group is a leading provider of educational solutions to legal professionals and law students in the United States. Through BAR/BRI, we provide bar examination review courses and materials. We also have a legal textbook publishing business with over 1,600 titles in 2004, making us a leading provider of casebooks and other learning materials to law students in the United States. Our West LegalEdcenter provides online continuing legal education materials and offers one of the largest selections of video and audio continuing legal education programs on the Internet, including more than 14,000 hours of U.S.-accredited content as of December 31, 2004.

*Tax and Accounting*

We provide tax and accounting professionals with regulatory information, software, services, tools and applications to assist them in their daily work. We are one of the leading online suppliers of this type of information in the United States. The following provides information about our major tax and

accounting brands.

| Major Brands | Principal Products and Services | Customers |
|---|---|---|
| RIA<br>InSource<br>GoSystem<br>Quickfinder<br>Checkpoint<br>PPC<br>IOB (Brazil) | Tax and accounting information-based products and services | Accountants, lawyers, consultants |
| Creative Solutions<br>Fast-Tax<br>UltraTax | Tax and accounting software and services | |

Our tax and accounting information is available in both print and electronic formats. Our online tax product, Checkpoint, provides our customers with increased speed of service and the flexibility to link to a broad collection of databases. We continue to add additional content and embedded tools in this area.

Through Creative Solutions, we offer software products that perform payroll, write-up, bookkeeping, audit and practice management functions and enable our customers to interact with their clients through the Internet. In addition, we offer tax accounting software known as UltraTax that assists our customers in the preparation of tax returns and enables them to file tax returns electronically. Through our Fast-Tax business, we provide our customers with a specialized range of products for managing trust accounting, from tax preparation software to complete tax preparation services. Our tax and accounting business is currently focused on developing integrated research and workflow solutions utilizing products from our software business and our information businesses to create a broader offering to tax and accounting professionals.

While our tax and accounting customers are primarily in the United States, we also sell our products internationally on a limited basis through both our RIA business and other Thomson companies, including IOB, the leading provider of tax information in Brazil.

*Business Information & News and Trademarks*

We provide business information and news to business professionals, scientists and consultants. The following provides information about our major business information and news brands.

| Major Brands | Principal Products and Services | Customers |
|---|---|---|
| Dialog<br>NewsEdge<br>Profound<br>DataStar<br>Intelligence Data | Online database of business and scientific information and current and archival news | Business professionals, scientists, consultants |

Dialog provides business information and news to a wide range of customers of all our market groups, including business, science, engineering, financial and legal professionals. Dialog primarily licenses data from third parties and derived data from more than 200,000 sources as of December 31, 2004, such as publicly filed documents, industry literature and trade journals. This makes the Dialog database one of the largest of its kind in the world. As of December 31, 2004, Dialog provided business information and news services to more than 25,000 corporate customers and more than 100,000 professional researchers, and in 2004 was accessed by over two million end-users worldwide. In the first quarter of 2005, Thomson Legal & Regulatory transferred the Dialog DataStar business to Thomson Scientific & Healthcare and retained the Dialog NewsEdge business.

We also provide trademark search and information services to business, law and trademark professionals. The following provides information about our major trademark brands.

| Major Brands | Principal Products and Services | Customers |
|---|---|---|
| Thomson & Thomson<br>Compu-Mark (Europe)<br>Brandy (Japan)<br>O. Gracklauer (Germany) | Trademark search and information services | Business, legal and trademark professionals |

Through Thomson & Thomson, Compu-Mark and Brandy, a former Japanese joint venture in which we acquired a 100% interest in 2004, we maintain databases containing all current trademark registrations in the United States, Japan, Malaysia, Singapore, Canada and most European countries. We also offer a wide range of products and services that cover all aspects of developing and protecting trademarks, including enabling customers to screen them, determine their availability, protect them from infringement and search domain names.

***Technology***

Thomson Legal & Regulatory maintains a sophisticated electronic infrastructure and highly developed online systems and support capabilities to provide our customers with products and services primarily through the Internet. In 2004, we began updating our primary data center in Minnesota to support continued business growth and operating efficiencies. In addition, we consolidated numerous data centers into our primary Minnesota location. From our primary data center, we maintain thousands of servers that have the capacity to handle over 26 million transactions per day. We have successfully developed and are continuing to implement Novus, the next generation of our online delivery platform, which utilizes new and highly scalable technologies resulting in significantly enhanced capabilities. This platform allows us to more easily combine content from our various online services, reduce product delivery costs and reduce development time for new products and services. Our company is increasingly using the Novus platform for our other market groups. We continue to upgrade and standardize our applications and infrastructure, enabling us to enhance our ability to market and sell our products over the Internet.

***Competition***

Our primary global competitors in the legal and regulatory information market are Reed Elsevier and Wolters Kluwer, with which we compete in the United States and in most of the other countries in which we operate. Our major competitors continued to pursue acquisitions in 2004, primarily in North America and Europe. We also compete with other domestic competitors in the United States and in our international markets for legal and regulatory information, practice management and tax software and client development services.

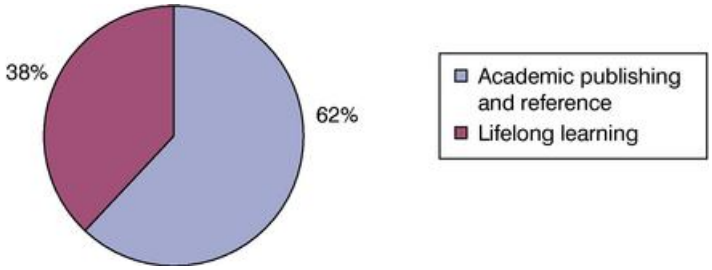
In the business information and news market, we compete with other business information and news aggregators, the most significant being Factiva (a joint venture between Reuters and Dow Jones) and Nexis (a business of Reed Elsevier).

**Thomson Learning**

Thomson Learning delivers state-of-the-art, tailored learning solutions for individuals, businesses and institutions around the world. We deliver these solutions through specialized content, applications and services that foster academic excellence, professional development and measurable competitive advantage. Thomson Learning is made up of complementary, yet diverse businesses that provide the products and services our customers need for learning.

Thomson Learning is among the world's largest providers of tailored learning solutions. In the academic marketplace, we serve secondary, post-secondary and graduate-level students, teachers and learning institutions in both traditional and distance learning environments. In the professional and corporate e-learning marketplaces, we offer adult education and certification materials for corporations, training centers and individuals. Our products and services are sold throughout the world, through direct channels and through a worldwide network of distributors.

**2004 Product/Service Revenues**




In 2003, Thomson Learning also derived 62% of its revenues from its academic publishing and reference businesses and 38% from its lifelong learning businesses.

The following table provides additional information regarding Thomson Learning's revenues in 2004 and 2003.

| % of Total Revenues | 2004 | 2003 |
|---|---|---|
| Electronic products, software and services | 34% | 33% |
| From North America | 83% | 83% |
| Recurring/subscription-based | 27% | 28% |

***Markets***

Within our primary markets, we sub-divide our businesses into the following customer groups:

- global higher education, including post-secondary, college and university education;
- library reference;
- corporate e-learning; and
- e-testing.

While printed materials continue to be the most widely used learning resource, instructors and students are increasingly seeking electronic resources. With the shift to electronic resources, scale and operating efficiency are becoming more important and, accordingly, significant investments need to be made in technology, marketing and distribution.

We believe that the global higher education market has good long-term growth potential, as the strong correlation between education level and earning power has made education a lifelong pursuit, particularly in knowledge economies. Age-group demographics and the value of higher education continue to drive stable growth in student enrollments, which are forecast to increase slightly in North America over the next three years. The higher education market is less cyclical than the primary and secondary school market because it does not rely on public school districts to adopt textbooks and other learning materials and is less exposed to government-related budget constraints. However, while post-secondary education enrollment continues to increase, many public post-secondary institutions are now dealing with cutbacks in state and local government support. While those cuts are not affecting the demand for education, the underlying economic conditions have led to further tuition increases and a reduction in some course offerings. Those conditions have made students more sensitive about textbook prices, leading in some cases to reduced textbook sales. In addition, the greater availability of used textbooks through Internet resellers has further pressured textbook sales, particularly of "backlisted" editions, which are books from previous seasons that are still in print. The higher education market is also less capital intensive because publishers in this market are not required, as in the primary and secondary school market, to invest funds for book development prior to receiving a commitment from state education bodies that their books will be adopted and purchased.

The library reference market has high electronic information adoption rates and its electronic information can be easily combined with higher education products and services. Growth in the library reference market is largely influenced by the allocation of state funds to the public and academic libraries that utilize this information. After several years of reduced spending due to challenging fiscal conditions, state budgets showed some signs of recovery in 2004. However, despite this improvement, the outlook for 2005 budget spending remains cautious. The demanding budget environment in recent years has resulted in an accelerated migration of libraries and collections to electronic products, and many libraries that had in the past purchased materials in both print and electronic formats are now choosing to purchase in electronic format only.

We believe the corporate e-learning market has strong growth potential due to high electronic information adoption rates, the cost and time efficiencies of digital delivery and the increasing importance that companies are placing on utilizing corporate e-learning products to improve the skills of their employees. For these and other reasons, businesses are increasingly outsourcing training and are shifting spending from instructor or classroom-led to technology-based training. However, the economic slowdown of the past several years has reduced corporate e-learning budgets, thereby pressuring demand for e-training and corporate e-learning products. Smaller companies that have traditionally serviced this market are facing increasing pressure to consolidate as customers are demanding training solutions that combine traditional training products with electronic products and validation of training programs. Customers are also increasingly addressing training on an enterprise-wide basis and in some cases on a global basis.

Like the corporate e-learning market, the computer-based testing market, which spans IT, professional, academic, government, and corporate customer groups, has been negatively affected by the recent economic downturn, particularly within the IT testing segment. We believe that underlying growth in the demand for knowledge validation and professional licensure, coupled with the ongoing transition from paper and pencil to computer-based testing, will support modest market growth over the next few years. The industry is highly fragmented, with providers focused on a specific market segment and area of specialization, such as test development, computer-based test delivery, or security services. Value propositions vary significantly by market segment, from test security technological capabilities to the quality or exclusivity of testing facilities.

***Operations***

*Academic Publishing and Reference*

We provide textbooks, study guides and teaching guides in print and electronic formats for use in colleges and universities and electronic, print and microfilm reference materials for libraries, reference centers, schools, colleges, universities and corporations. The following table provides information about our major academic publishing and reference brands.

| Major Brands | Principal Products and Services | Customers |
|---|---|---|
| Thomson Wadsworth | Textbooks and electronic course materials in the humanities and social sciences | Colleges, universities, professors, students, professionals |
| Thomson South-Western | Textbooks and electronic course materials in business and economics | |
| Thomson Brooks/Cole | Textbooks and electronic course materials in mathematics and sciences | |
| Thomson Heinle | Textbooks and electronic course materials for English, modern languages and English-language training | |
| Thomson Peterson's | College and university selection guides in print and electronic formats, online college registration and test preparation | |
| Thomson Nelson (Canada/Australia) | Textbooks and electronic course materials for the school and higher education markets | |
| Groupe Modulo | French language publisher of instructional materials for the Canadian primary and secondary school markets | |
| Thomson Paraninfo (Spain/Portugal) | Spanish-language higher education textbooks in business, economics and vocational subjects | |
| Universitas 21 Global (Asia-Pacific)* | Online university courses | |
| WebCT** | Course management software and enterprise software solutions for universities | |
| Thomson Gale | Printed and electronic reference materials, electronic databases of magazine, newspaper and periodical content, microfilm collections and encyclopedias | Academic and public libraries, corporations, reference centers, colleges, universities, schools |

* = Joint venture
** = Minority interest

We supplement our major textbooks with electronic teaching aids, such as online interactive supplements and websites. We publish in selected disciplines that we believe offer the highest long-term growth and where we have or believe we can attain substantial market share, such as in the humanities, social sciences, languages, science, mathematics, business and economics fields. We create proprietary reference material, aggregate periodical content and primary source research information and integrate this information into a broad array of sophisticated online reference libraries. We also maintain academic microfilm collections that we provide to our library customers.

Experts in the relevant disciplines author our textbooks and learning materials. We contract with our authors under long-term royalty arrangements. The authors work with our editors to prepare the original materials for new editions, revised editions and teaching supplements. The depth and breadth of our product offerings allow us to manage the release dates of major textbook titles so that revenues from new product releases are spread more predictably from year to year.

In May 2004, we announced collaboration with Microsoft and the University of Virginia to develop and deliver digital course material and tools that will help instructors better serve their students and help those students learn and retain more. In October 2004, we announced that Hewlett-Packard had joined the project. The two-semester pilot project, which began in the fall of 2004 at the University of Virginia's College and Graduate School of Arts and Sciences, is drawing on our rich library of digital content and learning applications and is being brought to more than 800 students through Microsoft software and Hewlett-Packard's Tablet PC hardware to build a truly mobile, collaborative learning environment. We expect that the project will result in improved student learning, enhanced faculty productivity and a better understanding of how digital materials can be designed effectively.

We are currently digitizing our microfilm collection and include this content in some of our electronic products. In particular, Gale's *Eighteenth Century Collections Online* features electronic access to approximately 150,000 printed works from across a number of academic disciplines. With full-text search capabilities across approximately 26 million pages, this collection provides a new way to conduct multi-disciplinary research.

We also provide electronic resource centers that aggregate reference information about particular topics. The Gale Resource Centers are devoted to topics such as literature, poetry, history, business, biography and health. With a single search using Gale's InfoTrac service, customers worldwide are able to access online journals through Gale and Ingenta. We are also extending our reference business into new markets by providing supplements to core curricula taught in primary and secondary schools and expanding the distribution of reference products in the international and primary and secondary school library markets. For example, in 2004, Gale added Roth Publishing's *Poem Finder* poetry database to its collection of online content. With nearly one million full-text and excerpted poems, *Poem Finder* will serve as the foundation for a new poetry resource center, extending the breadth of content Gale currently offers within its *Literature Resource Center*.

While our principal market is the United States, we also distribute our publishing and reference products internationally. In 2004, over 60% of the revenues that we earned from international sales of our academic publishing products and services were attributable to content created in local markets. We also adapt textbooks and learning materials created for the U.S. market for sales abroad by, where necessary, translating them and supplementing them with local content. In the international markets, we distribute our higher education products and services primarily to universities, colleges, schools and reference libraries.

*Lifelong Learning*

We provide electronic and print-based learning, certification and testing solutions to corporations, government agencies, students and professionals. We also offer textbooks, study guides and teaching guides, in print and electronic formats, to technical and vocational schools, trade associations, professors, students and professionals. We offer our information technology (IT) and business skills training products and services to corporate IT departments and corporate e-learning departments and government agencies worldwide.

One of the strengths of our learning and testing business is the breadth of our offerings. As of December 31, 2004, we maintained a repository of more than 85,000 electronic learning objects, which are self-contained instruction modules to teach specific skills primarily focused on information technology and business, and more than 3,500 e-training courses. These learning objects are used to create flexible and personalized training programs tailored to the needs of students. The following table provides information about our major lifelong learning brands.

| Major Brands | Principal Products and Services | Customers |
|---|---|---|
| Thomson Prometric | Technology-based test development, delivery, and results management | Corporations, professionals and professional associations, academic institutions and associations, federal and state government agencies |
| Thomson NETg | Online and instructor-led information technology and business skills training | Corporations, government agencies |
| Thomson Course Technology | Textbooks and print and electronic materials for information technology instruction | Universities, colleges, corporations |
| Thomson Delmar Learning<br>Thomson Education Direct | Textbooks and learning materials for technology, trade healthcare, professional and career education | Colleges, vocational schools, career schools, teachers, students |

We also offer textbooks, teaching guides, study guides and practice tests to professionals who are seeking to maintain or upgrade their credentials and to professors and students in degree-granting technical and vocational schools. We create our offerings for a wide variety of disciplines, including administration, automotive, computer-assisted drafting, cosmetology, education, electronics, fire rescue, healthcare, security, travel and other trades.

In 2004, our Lifelong Learning group acquired two key strategic businesses. Through the purchase of Capstar, Thomson Prometric gained expanded test development capabilities within the government and professional segments. Through the acquisition of KnowledgeNet, Thomson NETg secured the sales resources, service competencies, complementary content and technology assets necessary to achieve greater scale and to deliver a superior value proposition to its corporate e-learning customers. We believe that both transactions have positioned Lifelong Learning to capitalize on future growth opportunities by expanding existing product offerings and improving the way in which those products are delivered to the customer.

We are focused on enhancing our ability to provide comprehensive "must-have" training solutions for corporate and government customers. In particular, we are creating training solutions that are mandatory to maintain professional certifications and licenses and to comply with federal, state, and local government regulations. We are also expanding our capabilities to develop custom courses to meet our clients' specific business needs.

***Technology***

Technology is an integral element in the solutions of Thomson Learning. We are currently focused on standardizing our technological infrastructure and platforms to support the development of new electronic products and services and delivery systems. At Gale, we plan to integrate content delivery on a single technology platform so that with a single search, customers will be able to access a variety of reference materials on topics such as literature, history and health through our Gale Resource Centers. In our higher education publishing business, we are using technology to develop electronic solutions that are designed to make the learning experience more effective, while simultaneously moving towards an automated workflow that will enhance the flexibility and reduce the cost to produce our textbooks. In our lifelong learning business, we are moving towards a unified technology platform and learning infrastructure that will provide the necessary scale and content delivery to enhance profitability while

preserving the unique customer facing characteristics demanded by the different customer segments. Throughout all of Thomson Learning, we are implementing a common enterprise-wide content repository that enables our businesses to share assets and deliver content in a media-neutral fashion.

***Competition***

The higher education publishing market in the United States and internationally has a small number of major participants. In addition to us, they include Pearson Education and The McGraw-Hill Companies.

Our principal competitors in the global library print reference market are Océano Grupo Editorial and the Grolier unit of Scholastic Inc., and in the global library electronic reference market are ProQuest Company and EBSCO Industries, Inc.

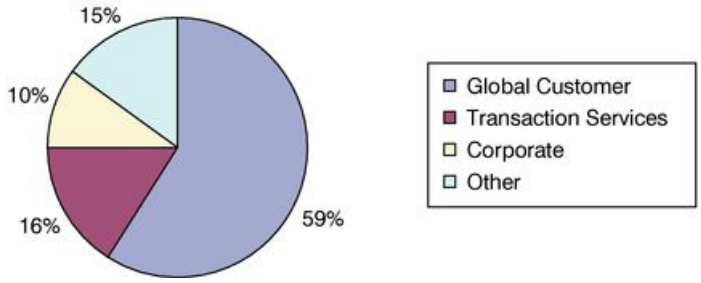
Our principal competitors in the global lifelong learning business include Pearson VUE in the computer-based testing market and SkillSoft PLC, DigitalThink, Inc., ElementK, and MindLeaders, in the electronic and print-based training markets.

**Thomson Financial**

Thomson Financial is a leading provider of integrated information and technology applications to the global financial services industry. We offer a broad range of financial data and develop individual workflow solutions and services to assist trading professionals, portfolio managers, investment bankers, stockbrokers, financial planners, corporate executives and treasury and investor relations professionals. During 2004, Thomson Financial's businesses consisted of three groups—Global Customer, Transaction Services and Corporate.

Effective January 2005, Thomson Financial largely completed another strategic realignment of its core business into two groups—(1) Corporate, Investment Banking & Investment Management and (2) Equities, Fixed Income & Retail Wealth Management. The intent of this realignment is to accelerate success in providing integrated financial solutions, increase sales by better meeting the needs of our financial group's customers and maximize the coordination among internal organizations and processes. The following section discusses our financial group and its revenues under the organization that was in place during 2004.

**2004 Product/Services Revenues**




In 2003, Thomson Financial had a different organizational structure, and derived 54% of its revenues from its banking and brokerage businesses, 31% from its investment management businesses, 8% from its corporate businesses and 7% from other businesses.

The following table provides additional information regarding Thomson Financial's revenues in 2004 and 2003.

| % of Total Revenues | 2004 | 2003 |
|---|---|---|
| Electronic products, software and services | 98% | 98% |
| From North America | 80% | 79% |
| Recurring/subscription-based | 77% | 74% |

We provide our customers with financial information, including historical financial and economic information, broker research, earnings estimates, transaction data, related party trading information, corporate information and public disclosure documents. We also provide access to real-time information, including market data, trading information and financial news. We make this information more valuable to our customers as our products and services enable them to search, analyze and manipulate the data so that it can be used more effectively. We also offer our customers other services, such as the dissemination of corporate news releases, back office data processing, transaction processing and, through our joint ventures, services that facilitate trade settlement and securities issuances. We offer our products and services separately and we are increasingly combining them to provide comprehensive information and technology solutions.

In 2004, we continued our development of a suite of these combined products under the Thomson ONE brand. Thomson ONE is a flexible open architecture framework that allows for easy integration and delivery. This platform provides us with the flexibility to customize our content offering to our customers. Our current Thomson ONE solutions include:

- *Thomson ONE Advisor*—Integrated front- to back-office broker/advisory solution that simplifies advisor workflow and streamlines client-servicing activities for a larger number of customers at a lower cost.
- *Thomson ONE Analytics*—Robust research and analytical workflow solution for institutional investors, delivering content and tools for effectively monitoring, identifying and analyzing investment opportunities.
- *Thomson ONE Banker*—Investment banking solution that includes rich content, real-time market information and tools suited for senior bankers, analysts, information librarians, M&A professionals and venture capitalists.
- *Thomson ONE Corporate*—Integrated feature-rich solution that serves the needs of corporate executives and investor relations professionals for strategic investor relationship management, market intelligence, communications, compliance and disclosure.
- *Thomson ONE Equity*—Dynamic, technologically-advanced solution with real-time and historical market data, news and research, plus advanced analytical tools for a total picture of global equities markets.
- *Thomson ONE Portfolio*—Comprehensive portfolio management tool for institutional investors, ideal for strategy development, portfolio construction, performance attribution and client reporting.
- *Thomson ONE Yield*—Comprehensive fixed income solution for research, analytics, decision support and transaction services across all fixed income asset classes.

In 2004, the number of Thomson ONE workstations increased 56% to 81,000 from 52,000 at the end of 2003 as a result of user migration from legacy products and new client wins. In 2005, we plan to expand the capabilities of our Thomson ONE solutions.

To provide quality data, we have a global research group that was comprised of more than 2,300 employees in 14 countries as of December 31, 2004. This group obtains and manages the financial information that we provide. Our databases of financial information are some of the largest in the world. We derive the majority of our financial information from public sources, such as regulatory filings and analyst reports. We also conduct our own surveys to create other data collections, such as our database of institutional contacts. Our research group formats, organizes, indexes and edits the information we collect to enhance its value to our customers and continually updates it. In addition, we license content from third party suppliers, such as Dow Jones for news. Having one global research group manage all of our financial content is cost efficient, ensures its consistency and quality and enables us to offer it across all of our customer groups.

***Markets***

Thomson Financial has been monitoring market conditions heading into 2005, as the financial services sector appears to be experiencing a mixed recovery. Towards the end of 2004, we saw uneven recovery of the overall market underway. The markets ended relatively strong and economic conditions appear to be improving, although energy prices, the budget and trade deficits and geopolitical instability are creating some uncertainty. Geographically, North America is experiencing the highest growth while Europe continues to lag. Asia is experiencing recovery in Japan, but the region as a whole has remained flat and is expected to stay on that trend.

We believe that we have effectively differentiated ourselves from our major competitors in the global market for financial information. Our systems use more open architecture than our competitors, which allows our customers to more easily utilize other information and software applications with our products and services. Our products and services are also less bundled than those of some of our competitors, allowing our customers to purchase only the content and applications that they need. As a result, we often provide our products and services at a significantly lower cost to our customers than our competitors. Some of our competitors are focused solely or primarily on particular segments within the financial information market. Our primary advantage over these competitors is our ability to offer our customers a broader range of products and services to better satisfy their complete information needs.

***Operations***

*Global Customer*

Our Global Customer group focuses on providing investment bankers, private equity professionals, traders and asset managers with integrated information solutions to assist them in pursuing and completing transactions, including precedent analysis, company and market due diligence, financial analysis and modeling, preparation of presentation materials and securities offerings. The Global Customer group provides online financial data and research on companies, industries and markets that allow them to develop and analyze financial forecasts, market share, competition, industry trends, economic climates and key industry participants, offering a range of customizable products and services that help our customers work through each phase of the investment process, including research and analysis, investment decisions, stock selection, trade execution and settlement. Global Customer products are offered separately, and are increasingly being combined to provide comprehensive information solutions offering mergers and acquisitions transaction data that our customers use to identify comparable transactions, business opportunities and business trends. The Global Customer group also offers institutional securities ownership information that enables our customers to analyze

who may be buying, selling and holding securities. In addition, our customers can access news, stock price information and SEC filings and analyze this information with a set of comprehensive tools.

The following table provides information about our major Global Customer brands.

| Major Brands | Principal Products and Services | Customers |
|---|---|---|
| SDC Platinum<br>Investext<br>Global Access<br>Thomson Research<br>Thomson ONE Banker<br>Thomson ONE Portfolio<br>Thomson ONE Advisor | Online databases of brokerage research, transactional data, institutional holdings data, current and historical earnings estimates, pricing information, SEC filings and news combined with analytical functionality | Investment bankers, private equity professionals |
| Thomson ONE Equity<br>Thomson ONE Yield<br>Global Topic | Electronic financial information, including real-time market data such as pricing data, company information, news and analytics | Institutional traders, retail traders, investment advisors |
| Thomson ONE Analytics<br>Datastream<br>I/B/E/S<br>Baseline | Online databases of real-time equity and fixed income brokerage research, current and historical analyst forecast estimates, company accounts data, pricing data, global aggregated forecast data at the country, sector and industry levels, market indices data, institutional holdings data, SEC filings, news and analytical tools | Portfolio managers, portfolio analysts, buy side traders, research analysts |
| Vestek | Performance attribution and portfolio construction tools | Portfolio managers |
| StreetEvents | Electronic calendar for earnings releases, investor presentations | Investor relations professionals, financial executives, asset managers |

Through our 2004 acquisition of CCBN, we now offer StreetEvents, an electronic events calendar used by corporations to post notices of earnings releases and investor presentations. StreetEvents has a database containing transcripts of public company earnings conference calls and is also used by asset managers to monitor the companies in their portfolio or those being considered for investment.

*Transaction Services*

The Transaction Services group is primarily comprised of BETA Systems, Autex, PORTIA and Oneva. BETA allows brokerage firms to outsource the majority of their back office data processing activities, such as processing orders for securities and maintaining customer and firm accounts. Through BETA, our customers are able to generate a range of customer account documents including monthly customer statements, trade confirmations and real-time portfolios. BETA interfaces with major clearing services, depositories and exchanges to process orders for securities.

We also offer AutEx, which is a database and online real-time network for trade order indications and executions for listed and over-the-counter securities. Through AutEx, a broker/dealer is able to send a real-time indication of interest to buy or sell securities to portfolio managers. The indication of interest appears in the portfolio manager's AutEx screen and the portfolio manager can then contact the broker/dealer to make the trade. Once the trade is complete, the broker/dealer reports the transaction to

all AutEx subscribers. This allows subscribers to obtain a summary of all trades and indications of interest at any time.

The following table provides information about our major Transaction Services brands.

| Major Brands | Principal Products and Services | Customers |
|---|---|---|
| BETA | Back office data processing services | Brokers, dealers |
| AutEx | Electronic database and real-time network for trade order indications and trade executions | |
| PORTIA<br>Oneva | Portfolio management systems and order management systems | Operations managers, IT managers |

*Corporate*

Our corporate group provides information solutions primarily to investor relations professionals and financial executives. We provide online access to financial information such as broker research, ownership and peer analysis, news, stock quotes, institutional profiles and contact data. The following table provides information on our major corporate brands.

| Major Brands | Principal Products and Services | Customers |
|---|---|---|
| IR Channel<br>First Call Wire<br>Outbound<br>Thomson ONE Corporate | Web-based software applications providing corporate news and information, stock surveillance services and outbound communications services | Investor relations professionals, financial executives, asset managers |
| Capital Markets Intelligence | Market intelligence and analytical services for market valuation analysis | |

We also provide services for the dissemination of corporate news releases. Through Outbound, we offer a comprehensive offering for the investor relations professional. This builds upon our alliance with PR Newswire that allows us to distribute their news releases and corporate webcasts over First Call and Thomson ONE products.

*Other*

We acquired TradeWeb in 2004. TradeWeb is an electronic marketplace for a variety of fixed income securities, including U.S. federal government, foreign government, corporate bonds and commercial paper. TradeWeb's customers include major banks and broker/dealers.

In 2004, we also acquired Starquote. Starquote is a leading provider of real-time financial information in the Canadian financial market. Starquote provides a full overview of the North American financial markets with news, information and real-time quotes on a single screen.

In 2001, we formed Omgeo, a partnership with The Depository Trust & Clearing Corporation, to meet the expanding information and processing needs of our customers in the financial services industry resulting from a proposal to move from a three day (T+3) to a one day global settlement cycle (T+1). While the T+1 initiative has not yet been implemented, Omgeo is able to provide clients with a managed transition to a new and more efficient way of processing trades for straight-through processing and increasing trade settlement capabilities.

***Technology***

Thomson Financial maintains global data collection and management systems that have enabled us to assemble and manage one of the largest and broadest database collections of financial information in the world. We also maintain powerful delivery platforms that enable us to provide real-time market data through our Thomson ONE suite of products quickly and reliably to our customers. In addition, we have delivery architectures that allow us to offer modular web-based services that can be bundled together to integrate a number of our products and services into a single product offering. Our systems allow us to combine these technologies with our other web-based products and services, which gives us an advantage over our major competitors. We also maintain private networks, or extranets, which enable us to provide innovative community solutions such as our AutEx service, which connects a large number of firms to a network and permits the online exchange of real-time trade order indications and executions.

***Competition***

Thomson Financial's two major competitors are Bloomberg and Reuters. Bloomberg and Reuters compete in all of our market segments. Bloomberg is a principal competitor in fixed income and equities, while Reuters is a principal competitor in institutional equities and investment banking.

Thomson Financial also competes in the investment management and banking and brokerage markets with competitors such as FactSet Research Systems, Multex.com (a Reuters business), Advent Software and SunGard Data Systems, each of which focuses primarily on specific product and service areas within the various market segments.

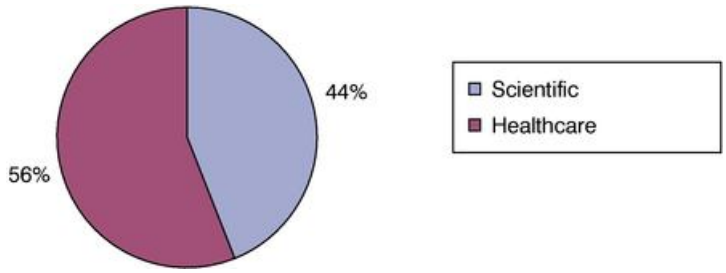
**Thomson Scientific & Healthcare**

Thomson Scientific & Healthcare is a leading provider of information and services to researchers, physicians and other professionals in the healthcare, academic, scientific, corporate and government marketplaces. We derive most of our scientific and healthcare information from public sources, academic, scientific, technical and medical journals, pharmaceutical companies, healthcare industry transaction databases, and practicing professionals. We supplement the collected information, in many cases, with proprietary analysis prepared by our staff of expert editors. The value of that information is further enhanced by ranking, organizing, summarizing and continuously updating it to make it more accessible and of greater utility to our customers. Our databases and websites are also viewed as important distribution channels by authors and publishers of journals.

- Our *scientific* solutions assist scientists and other research-oriented professionals in all stages of the research and development cycle from scientific discovery to product release.

- Our *healthcare* solutions provide critical drug and clinical information and medical education to physicians and other healthcare professionals enabling them to improve the quality of care their patients receive. We also provide integrated decision support solutions that enable healthcare managers and practitioners to more effectively manage the cost and quality of healthcare.

**2004 Product/Services Revenues**




In 2003, Thomson Scientific & Healthcare derived 42% of its revenues from its scientific businesses and 58% from its healthcare businesses.

The following table provides additional information regarding Thomson Scientific & Healthcare's revenues in 2004 and 2003.

| % of Total Revenues | 2004 | 2003 |
|---|---|---|
| Electronic products, software and services | 81% | 79% |
| From North America | 77% | 78% |
| Recurring/subscription-based | 54% | 53% |

***Markets***

*Scientific*

Scientific information markets can be divided into the primary publishing and secondary publishing segments.

- Primary publishers principally publish original articles of scientific findings, in print or electronic formats.
- Secondary publishers enhance the value of primary publication information by abstracting, indexing and ranking the information so that it is more accessible to their customers.

We operate primarily in the secondary publishing market because we believe this market presents a greater opportunity for growth. We believe that demand for scientific information will continue to grow because our customers consider scientific research and development funding to be necessary, not discretionary, expenditures.

*Healthcare*

The global healthcare information market is a very broad market. While we participate in various market segments, we are focused on the clinical and drug information, medical education, and healthcare cost and quality management information segments because we believe these areas offer stronger growth prospects than other segments. Within the healthcare information market, there is a continuing trend towards delivering clinical and drug information to physicians and other healthcare professionals at the point of care. The demand for point of care information and cost and quality management solutions is driven by a combination of consumer demand for quality healthcare, cost pressures and heightened awareness of medical errors. Medical education is a significant element of drug introductions because physicians must be made aware of the existence of a new drug and its benefits and risks before they will consider it as a treatment option for their patients. Historically, medical education has been provided in

person through meetings and seminars. However, medical education products are increasingly being provided through the Internet to communicate new clinical information on a more global scale.

***Operations***

*Scientific*

Our scientific business provides integrated information solutions that enable access to, and management of, the highest quality and most relevant published materials for researchers, information specialists and administrators in diverse fields. We also provide complementary products and services, such as bibliographic software programs, content hosting of well-established databases in the industry, and document delivery services for full-text journal articles and patents, the main publishing channels for scientific discovery. We customize our products for particular industries or other customer groups and make them available in one easily accessible, searchable database through the Internet and other electronic formats. Our objective is to be the primary resource for scientific information in the research and development process. The following table provides information about our major scientific brands.

| Major Brands | Principal Products and Services | Customers |
|---|---|---|
| Web of Knowledge | Comprehensive and integrated platform that includes the ISI Web of Science as well as third-party hosted content, editorially selected websites, and tools to access, analyze and manage research information | Corporations in the pharmaceutical, biotechnology, chemical and engineering industries, government agencies, research libraries, universities and colleges |
| ISI Web of Science | Comprehensive database for research scientists and scholars providing a source for journal article cited references and access to abstracted and indexed journals | |
| Thomson Pharma | Integrated web platform for the pharmaceutical and biotechnology industries that delivers scientific literature, patents, commercial and regulatory information, company news communications, professional meeting reports and other relevant content | |
| Delphion | Integrated platform solution, which enables technical professionals to search patents, leverage unique productivity tools to analyze and track market developments and competitive activities, and view, download, and print high-quality patent images | |
| Derwent World Patents Index | Indexed and abstracted patent database | |

Within our academic division, the Web of Knowledge integrated platform offers a single point of entry for scholarly researchers. This electronic service extends our users' access to research information by offering an integrated collection of databases covering over 20,000 evaluated peer-reviewed professional journals, leading scientific and patent information databases, journal citation reports, meetings and conference proceedings, and evaluated scientific websites. Our advanced interface enables our customers to search a single database or multiple databases concurrently and links customers to full-text journal articles provided by publishers while also allowing for the seamless return to our service upon command. The bibliographic references in our database currently cover the period from 1900 to the present. Biological Abstracts (BIOSIS), which we acquired in January 2004, enhances our coverage of the life science disciplines and the multidisciplinary ISI Web of Science citation product is used in many of the leading academic institutions and research libraries around the world.

Our corporate divisions develop customized information and workflow solutions that can be seamlessly integrated into our customer's daily workflow. Each solution assembles sophisticated software tools with relevant patent data, our comprehensive coverage of world journal literature, and other must-have content extracted from our extensive product portfolio. Through the Derwent World Patents Index, we are one of the world's leading providers of indexed patent information and patent abstracts. We assess, classify, summarize and index over 39,000 patent documents weekly from 37 international patent-issuing authorities and our databases cover the period from 1963 to the present. Our Delphion Research Site is an integrated solution that enables research and analysis of patents and related intellectual property information. Delphion allows technical professionals to search over 41 million patents from over 60 countries, leverage unique productivity tools to analyze and track market developments and competitive activities, and view, download and print high-quality patent images.

In December 2004, we introduced Thomson Pharma, a solution that provides extensive drug-specific information throughout their product lifecycles. Thomson Pharma integrates content from many of our key products with information from other businesses across Thomson. Enhanced further through powerful search tools, Thomson Pharma enables our customers in the fields of biology, chemistry, licensing, business development and competitive intelligence to retrieve critical information needed to make informed decisions. IDdb (Investigational Drugs Database), a key foundational component of Thomson Pharma, supplies information about the R&D portfolios of more than 11,000 entities involved in drug development, information about therapeutic patents, including links to the full text of the original patent, the pipeline status of over 21,000 investigational drugs, searchable chemical structures, meeting reports, and over 490,000 bibliographic references.

Our information products and solutions can be used to monitor competitors, develop research and business strategies, and protect patent portfolios. Many of the world's leading pharmaceutical, petro-chemical, automotive, semiconductor and telecommunications companies use these products and services.

Our acquisition of Information Holdings Inc. (IHI) in November 2004 broadens our full text patent offerings, adds critical regulatory-related content and enhances the functionality of our workflow solutions. Key products added to our portfolio through this acquisition include:

- *MicroPatent* — provides patent and trademark information, and analytical tools to global scientific, corporate and legal professionals.
- *IDRAC* — database service that provides information and rules and regulations for registering new drugs in 40 jurisdictions around the world.
- *Master Data Center* — provides software and services that enable companies to better manage their intellectual property portfolios.
- *Liquent* — provides software solutions that allow users throughout the pharmaceutical and biotechnology industries to collaborate in authoring, compilation, distribution, publishing and re-use of the information required for regulatory submissions.

*Healthcare*

Our healthcare business provides integrated information solutions, often at the point of care, to physicians, pharmacists, nurses and other health professionals. Our drug, clinical point of care solutions, and patient education resources enable clinicians to efficiently access the reference resources they need to make decisions during treatment and provides patients with pertinent information regarding their condition. The following table provides information about our major healthcare brands.

| Major Brands | Key Products and Services | Customers |
|---|---|---|
| Micromedex | Comprehensive database of drugs, disease information, medical emergency and poison control procedures, patient education and other relevant clinical, toxicological and environmental health and safety information. | Physicians, health professionals, pharmaceutical companies, hospitals, poison control centers, corporations, government agencies, insurance companies |
| PDR (Physicians' Desk Reference) | Database of approved drug monographs, delivered in print and electronic format | |
| Medstat (Advantage Suite) | Decision support product designed for managing healthcare costs and quality | |
| American Health Consultants | Healthcare newsletter publisher and provider of continuing medical education | |
| Physicians World Gardiner-Caldwell | Providers of medical education focused on solutions to clinical issues encountered by physicians | |

Our Micromedex healthcare products represent a comprehensive database of drug information, evidence-based acute and chronic disease information, poison and biohazard information, clinical practice guidelines and procedures, and patient education information, most of which has been compiled over more than 25 years. The database has been developed from scientific and clinical literature by expert editors and from approved drug-labeling information and was utilized by more than 7,000 facilities in over 70 countries during 2004. In the United States, our Emergency Medicine database is used in over 2,000 hospital emergency rooms, the CareNotes patient education resource is used in over 2,000 hospitals, and our poison control reference product is used in all 61 poison control centers in the United States.

The PDR (Physicians' Desk Reference) product is a drug database created in large part from Food and Drug Administration approved drug-labeling information and is distributed in a print directory format, on handheld electronic devices and through the Internet. Pharmaceutical companies provide us with the drug-labeling information and list their products in the directory. Pharmaceutical companies also sponsor the annual delivery of the PDR to approximately 480,000 practicing physicians in the United States and we sell approximately 300,000 additional copies of the directory to other healthcare professionals and consumers. Over 180,000 physicians access the PDR over the Internet and the handheld wireless version of the PDR is currently used by approximately 35,000 physicians.

Through Medstat, we provide decision support systems, market intelligence, benchmark databases and research for managing the purchase, administration and delivery of health services and benefits. We also develop and provide products and methodologies for organizing and understanding the data. Our decision support solutions and research provide a vast collection of healthcare information for corporate and governmental healthcare purchasers, the managed care and health insurance industry, hospitals and integrated delivery networks, the pharmaceutical industry and the health services research community. This information helps these customers better manage the cost, quality and strategic positioning of health services and benefits.

Primarily through our Physicians World and Gardiner-Caldwell businesses, we provide medical education for physicians, pharmacists and other healthcare professionals. These educational programs

may be developed independently as certified continuing medical education activities (CME) funded by unrestricted grants from pharmaceutical companies or as regulated medical education programs supported by fees charged to pharmaceutical companies. Most physicians in the United States are required to complete a minimum number of continuing medical education hours annually. Similar CME requirements are being introduced for physicians and other healthcare practitioners in other countries. Pharmaceutical companies fund medical education to increase physician awareness of medical conditions, new clinical research, the latest medical information, new drugs, and treatment options. We are increasingly providing our medical education products through the Internet.

***Technology***

Technology is an increasingly important element of the products and services of our scientific and healthcare group. We are focused on continuously improving our content management and delivery technologies so that we have the ability to provide our products in the media best suited to our customers. This includes delivery over dedicated networks, the Internet and handheld wireless devices. Each of our scientific and healthcare businesses deploys a common flexible content management system that improves our ability to customize and combine our products and simplifies the new product development process. These content management systems provide efficiencies in the information collection and editorial process as we are able to automatically update our databases concurrently.

Our scientific business is committed to expanding the functionality of our Web of Knowledge, Thomson Pharma, and patent information solutions platforms by introducing new features and applications. In our healthcare business, we are moving our drug and clinical information products to platforms that can be delivered to handheld and other wireless devices as we anticipate these information delivery technologies will become an increasingly important element of our point of care information solutions strategy. Furthermore, we are continuously expanding the capabilities of our Advantage Suite decision support platform to address the growing demand for healthcare cost and quality healthcare solutions.

***Competition***

*Scientific*

Our principal competitors in the scientific information market include Reed Elsevier (Science), Wolters Kluwer, CSA (formerly Cambridge Scientific Abstracts), Questel/Orbit and Information Handling Services.

*Healthcare*

Our principal competitors in the clinical and drug information market are Reed Elsevier (Science), Wolters Kluwer, First DataBank (a subsidiary of The Hearst Corporation), UpToDate and ePocrates. The remainder of our competition is from small specialized, providers of drug or clinical information.

The medical education market is served by a large number of participants including Boron, LePore (BLP Group), a division of Cardinal Health Inc., Excerpta Medica, a division of Reed Elsevier, and Phase Five Communications, a division of Grey Healthcare.

Our competitors within the healthcare cost and quality management information markets include Ingenix, a division of UnitedHealth Group, Inc, Solucient, McKesson Health Solutions and WebMD.

**Corporate and Other**

In 2004, we sold Thomson Media for gross proceeds of $350 million to Investcorp. Thomson Media had previously been managed under the category "corporate and other." Thomson Media was a business unit established in 2001 to manage the print-based businesses that we previously maintained in our financial group. These included the American Banker and Bond Buyer publications.

**Sales and Marketing**

We primarily sell directly to our customers. In the United States, some of our businesses have regional sales representatives in addition to a team of account managers and sales representatives who work out of our offices to ensure that our existing customers' needs are met. Outside of the United States, some of our businesses have regional sales forces that focus on marketing and selling our products to customers located in a particular country or area. We sometimes supplement our regional sales and account management presence with a telemarketing group to assist in meeting our customers' informational requirements. Some of our learning products are also resold through arrangements with a number of distributors.

In addition, we have been successful in selling some of our products and services over the Internet. Focusing some of our marketing and sales efforts on Internet sales has allowed us to broaden our range of customers and reduce sales and marketing costs. A number of our businesses also use the Internet to provide product support to our existing customers.

**Seasonality**

We typically derive a much greater portion of our operating profit and operating cash flow in the second half of the year as customer buying patterns are concentrated in the second half of the year, particularly in the learning and regulatory markets. Costs are incurred more evenly throughout the year. As a result, our operating margins generally increase as the year progresses, though the seasonality of our overall results between the first and second halves has been reducing over the past several years. For these reasons, it may not be possible to compare the performance of our businesses quarter to consecutive quarter, and our quarterly results should be considered on the basis of results for the whole year or by comparing results in a quarter with the results in the same quarter of the previous year. While we report results quarterly, we view and manage our business from a longer-term perspective.

**Intellectual Property**

Many of our products and services are comprised of information delivered through a variety of media, including the Internet, software-based applications, books, journals, CDs and dedicated transmission lines. Our principal intellectual property assets include our patents, trademarks, databases, copyrights in our content and other rights in our tradenames. We believe that our intellectual property is sufficient to permit us to carry on our business as presently conducted. We also rely on confidentiality agreements to protect our rights. In addition, we obtain significant content and data through third-party licensing arrangements with content providers. We have also registered a number of website domain names in connection with our publishing and Internet operations.

**Research and Development**

Innovation is essential to the success of our company and is one of the primary bases of competition in our markets. Our businesses are continuously engaged in research to develop new products and services, to improve and enhance the effectiveness and ease of existing products and services, and to develop new applications for existing products and services.

**Environmental Matters**

We believe that our operations are in material compliance with applicable environmental laws, as well as laws and regulations relating to worker health and safety. Compliance with these laws and regulations has not had, and is not expected to have, a material effect on our capital expenditures, earnings or competitive position.

**Foreign and Domestic Operations**

Financial information with respect to our revenues by geographic segment is available in Note 25 to our annual consolidated financial statements for the year ended December 31, 2004.

**Properties and Facilities**

The following table includes summary information with respect to facilities that are material to our overall operations as of December 31, 2004.

| Facility | Sq. Footage | Owned/Leased | Principal Services |
|---|---|---|---|
| Stamford, Connecticut (1) | 137,300 | Leased | Principal Corporate, Thomson Learning and Thomson Scientific & Healthcare operating headquarters |
| Boston, Massachusetts (2) | 459,500 | Leased | Thomson Financial offices |
| New York, New York | 295,000 | Leased | Thomson Financial operating headquarters |
| Independence, Kentucky | 835,000 | Leased | Thomson Learning distribution facility |
| Eagan, Minnesota | 2,518,000 | Owned | Thomson Legal & Regulatory operating headquarters and West operating facilities |

(1) Consists of two addresses.
(2) Consists of three addresses.

We own and lease office space and other facilities around the world to support our businesses. We believe that our properties are in good condition and are adequate and suitable for our present purposes.

**Employees**

As of December 31, 2004, our ongoing businesses had approximately 40,000 employees in 45 countries. Of that number, approximately 17,250 were employed by our legal and regulatory group, 9,800 by our learning group, 8,200 by our financial group and 4,300 by our scientific and healthcare group. The remaining employees were employed within our corporate center. We believe that our employee relations are good. We have adopted a Code of Business Conduct and Ethics (available on *www.thomson.com*) that applies to all of our employees.

**Risk Factors**

*The risk factors below are associated with our company. The risks and uncertainties below are not the only ones we face but represent some of the risks that our management believes are material. If any of the events or developments discussed below actually occur, our business, financial condition or results of operations could be adversely affected.*

***We operate in highly competitive markets, which may adversely affect our market share and our financial results.***

We operate in highly competitive markets with significant established competitors, such as Pearson, Reed Elsevier, Wolters Kluwer, Reuters Group, Bloomberg and The McGraw-Hill Companies, that have substantial financial resources, recognized brands, technological expertise and market experience. Our competitors are continuously enhancing their products and services, developing new products and services and investing in technology to better serve the needs of their existing customers and attract new customers. Some of our competitors are acquiring additional businesses in key sectors that will allow them to offer a broader array of products and services. Certain of our traditional competitors are trying to follow our solutions strategy and narrow our lead in many areas of technology. We may also face competition from businesses that have not traditionally participated in our markets, such as Internet service companies and web portals, that could pose a threat to some of our businesses by providing more in-depth offerings, adapting their products and services to meet the demands of our customers or combining with one of our traditional competitors to enhance its products and services. In response, we are continuing to move forward aggressively in segmenting our markets and developing our solutions tailored to customers' workflows. Competition may require us to reduce the price of our products and services or make additional capital investments that would adversely affect our profit margins. If we are unable or unwilling to do so, we may lose market share and our financial results may be adversely affected.

***Our significant investments in technology may not increase our revenues or decrease our operating costs, which may adversely affect our financial results.***

Over the past several years, we have made significant investments in technology, including spending on computer hardware, software, electronic systems, telecommunications infrastructure and digitization of content. For example, in 2004, our total capital expenditures were $619 million, of which approximately 69% was for technology-related investments. We expect our investment in technology to continue at significant levels. We cannot assure you that as a result of these significant investments in technology, we will be able to increase our revenues or decrease our operating costs and this may adversely affect our financial results.

***If we are unable to fully derive the anticipated benefits from our acquisitions, our financial results may be adversely affected.***

A key element of our strategy is the acquisition of businesses and assets that will complement our current business, increase our size, expand our geographic scope and otherwise offer growth opportunities to us. During the past several years, we have completed a number of acquisitions and we may acquire other businesses in order to enhance our ability to serve existing markets or enter new markets. During 2003 and 2004, we completed 84 acquisitions for an aggregate cost of approximately $1.7 billion. In the future, we may not be able to successfully identify attractive acquisition opportunities or make acquisitions on terms that are satisfactory to us. In addition, competition for acquisitions in the industries in which we operate is escalating, which could potentially increase costs of acquisitions or cause us to refrain from making certain acquisitions. Achieving the expected returns and synergies from our past and future acquisitions will depend in part upon our ability to integrate the

products and services, technology, administrative functions and personnel of these businesses into our market groups in an efficient and effective manner. We cannot assure you that we will be able to do so or that acquired businesses will perform at anticipated levels. If we are unable to successfully integrate acquired businesses, our anticipated revenues and profits may be lower and our operational costs may be higher.

***If we are unable to develop additional products and services to meet our customers' needs, attract new customers or expand into new geographic markets, our ability to generate additional revenues may be adversely affected.***

Our growth strategy involves developing additional products and services to meet our customers' needs for integrated information solutions. In addition, we plan to grow by attracting new customers and expanding into new geographic markets. In 2004, for example, we introduced Thomson Pharma, a solution that provides extensive drug-specific information throughout their product lifecycles. It may take a significant amount of time and expense to develop additional products and services to meet our customers' needs, attract new customers or expand into new geographic markets. If we are unable to do so, our ability to generate additional revenues may be adversely affected.

***Our businesses rely heavily on electronic delivery systems and the Internet and any failures or disruptions may adversely affect our ability to serve our customers.***

We depend heavily on the capacity, reliability and security of our electronic delivery systems and the Internet. Heavy use of our electronic delivery systems and other factors such as loss of service from third parties, operational failures, sabotage, break-ins and similar disruptions from unauthorized tampering or hacking, human error, national disasters, power loss and computer viruses could cause our systems to operate slowly or interrupt their availability for periods of time. Our ability to effectively use the Internet may be impaired due to infrastructure failures, service outages at third-party Internet providers or increased government regulation. If disruptions, failures or slowdowns of our electronic delivery systems or the Internet occur, our ability to distribute our products and services effectively and to serve our customers may be adversely affected.

***Expansion of our operations outside North America involves special challenges that we may not be able to meet and that may adversely affect our ability to grow.***

While our primary markets are in North America, we operate globally and have targeted certain markets outside North America for continued growth. In particular, we are focusing on opportunities in Europe, Latin America and Asia-Pacific for expansion. In 2004, 82% of our revenues were from North America, 13% were from Europe, 4% were from Asia-Pacific and 1% were from other countries. There are certain risks inherent in doing business in some jurisdictions outside North America, including the following:

- difficulties in penetrating new markets due to established and entrenched competitors;
- difficulties in developing products and services that are tailored to the needs of local customers;
- lack of local acceptance or knowledge of our products and services;
- lack of recognition of our brands;
- unavailability of joint venture partners or local companies for acquisition;
- instability of international economies and governments;
- changes in laws and policies affecting trade and investment in other jurisdictions;

- exposure to varying legal standards, including intellectual property protection laws, in other jurisdictions; and
- foreign currency exchange rates and exchange controls.

These risks could affect our ability to expand successfully outside North America, which may adversely affect our ability to grow.

***If we do not continue to recruit and retain high quality management and key employees, we may not be able to execute our strategy.***

The implementation and execution of our strategy depends on our ability to continue to recruit and retain high quality management and other employees across all of our businesses. We compete with many businesses that are seeking skilled individuals, including those with advanced technological abilities. We cannot assure you that we will be able to continue to identify or be successful in recruiting or retaining the appropriate qualified personnel for our businesses and this may adversely affect our ability to execute our strategy.

***Consolidation of our customers may adversely affect our financial results.***

Mergers among our customers in some of our key markets have occurred or are occurring, including among financial services companies, legal and accounting firms and scientific and healthcare research institutions. Consolidation may create larger customers with more bargaining power, which may adversely impact the prices we can charge for our products and services. In some instances following a consolidation, divisions and employees are eliminated. This may result in lower demand for our products and services. Lower demand and lower prices for our products and services may adversely affect our financial results.

***Our customers may become more self-sufficient, which may reduce demand for our products and services and adversely affect our financial results.***

Our customers may decide to independently develop certain products and services that they currently obtain from us. For example, some of the customers of Thomson Financial have established a consortium to aggregate and disseminate their research reports to their institutional clients. Customers of our corporate e-learning business may develop and implement their own corporate e-learning programs. To the extent that our customers become more self-sufficient, demand for our products and services may be reduced which may adversely affect our financial results.

***Increased accessibility to free or relatively inexpensive information sources may reduce demand for our products and services and adversely affect our financial results.***

In recent years, more public sources of free or relatively inexpensive information have become available, particularly through the Internet, and we expect this trend to continue. For example, governmental agencies have increased the amount of information they make publicly available for free. Public sources of free or relatively inexpensive information may reduce demand for our products and services. To the extent that our customers choose to use these public sources directly for their information needs, our financial results may be adversely affected.

***We may not be willing or able to maintain the availability of information obtained through licensing arrangements or the terms of our licensing arrangements may change, which may reduce our profit margins or our market share.***

We obtain significant information through licensing arrangements with content providers. For example, we do not have a proprietary news source and we license all of our news content from various sources. Some content providers may seek to increase licensing fees for providing their proprietary content to us. If we are unable to renegotiate acceptable licensing arrangements with these content providers or find alternative sources of equivalent content, we may be required to reduce our profit margins or experience a reduction in our market share.

***Parts of our businesses are affected by changes in the general economy, which may adversely affect our financial results.***

The performance of parts of our businesses is dependent on the financial health and strength of our customers, which is in turn dependent on the general economies in our major markets, North America and Europe. For example, customers of our financial group, our corporate e-learning business in our learning group and our trademark search business in our legal and regulatory group are particularly affected by fluctuations in the economy. The recent downturn in the economy led to cost-cutting measures by some of these customers. As a result, purchases of some of our products and services were reduced. Cost-cutting by our customers in response to a weak economic climate may adversely affect our financial results.

***We are controlled by Woodbridge, which is in a position to affect our governance and operations.***

Our principal shareholder, Woodbridge, beneficially owned, directly or indirectly, approximately 64% of our common shares as of February 22, 2005. Woodbridge is a private holding company that is the primary investment vehicle for Kenneth R. Thomson and other members of his family. Mr. Thomson, a director of our company, controls Woodbridge and other companies that beneficially owned 69% of our outstanding common shares as of February 22, 2005. For as long as Woodbridge has a controlling interest in us, it will generally be able to approve any matter submitted to a vote of shareholders without the consent of our other shareholders, including, among other things, the election of our board of directors and the amendment of our articles of incorporation and by-laws. In addition, Woodbridge is able to exercise a controlling influence over our business and affairs, the selection of our senior management, the acquisition or disposition of assets by us, our access to capital markets, the payment of dividends and any change of control of us, such as a merger or takeover. The effects of this control may be to limit the price that investors are willing to pay for our common shares. In addition, we cannot assure you that Woodbridge will not sell any of our common shares it owns in the future. A sale of our common shares by Woodbridge or the perception of the market that a sale may occur may adversely affect the market price of our common shares.

***Our intellectual property rights may not be adequately protected, which may adversely affect our financial results.***

Many of our products and services are comprised of information delivered through a variety of media, including the Internet, software-based applications, books, journals, CDs and dedicated transmission lines. We rely on agreements with our customers and patent, trademark, copyright and other intellectual property laws to establish and protect our proprietary rights in our products and services. Third parties may be able to copy, infringe or otherwise profit from our proprietary rights without our authorization. The lack of specific legislation relating to the protection of intellectual property rights for content delivered through the Internet or other electronic formats creates an additional challenge for us in protecting our proprietary rights in content delivered through these media.

We also conduct business in some countries where the extent of effective legal protection for intellectual property rights is uncertain. We cannot assure you that we have adequate protection of our intellectual property rights. If we are not able to protect our intellectual property rights, our financial results may be adversely affected.

***Our effective income tax rate may increase significantly, which would have a negative effect on our earnings and our available cash.***

We have benefited from a low effective income tax rate in recent years. In 2004, our income tax expense represented 23.6% of our earnings from continuing operations before income taxes and our proportionate shares of losses on investments accounted for using the equity method of accounting, compared to the statutory corporate income tax rates in Canada of 36.0% and 36.6% in 2004 and 2003, respectively. Our effective income tax rate in 2004 was lower than the Canadian corporate income tax rate due principally to the lower tax rates and differing tax rules applicable to certain of our operating and financing subsidiaries outside Canada. Specifically, while we generate revenues in numerous jurisdictions, the tax provision on earnings is computed after taking account of intercompany interest and other charges among subsidiaries resulting from their capital structure and relating to the jurisdictions in which operations, technology and content assets are owned. For these reasons, our effective tax rate differs substantially from the Canadian tax rate. In 2005, our businesses expect to continue with initiatives to consolidate the ownership of their technology platforms and content and we expect that a proportion of our profits will continue to be taxed at lower rates than the Canadian statutory tax rate. Therefore, we expect our effective tax rate in 2005 to approximate the 2004 rate of 23.6%.

Our effective tax rate and our cash tax cost depend on the laws of numerous countries and the provisions of multiple income tax conventions between various countries in which we operate. Our ability to maintain our effective rate at levels similar to those in 2004 will be dependent upon such laws and conventions remaining unchanged as well as the geographic mix of our profits. An increase in our effective tax rate could arise as a result of increases in the proportion of our earnings being generated in countries that have higher tax rates than our current effective tax rate, including the United States, the effect of changes in tax legislation and changes in tax treaties that may increase the amount of tax payable by some of our subsidiaries. An increase in our effective income tax rate would have an adverse effect on our earnings and on the amount of cash we have available.

We maintain a liability for contingencies associated with known issues under discussion with tax authorities and transactions yet to be settled and we regularly assess the adequacy of this liability. We record liabilities for known tax contingencies when, in the judgment of management, it is probable that a liability has been incurred. We reverse contingencies to income in the period when management assesses that they are no longer required or, when they become no longer required as a result of statute or resolution through the normal tax audit process. Our contingency reserves principally comprise possible issues for the years 2001 to 2004. It is anticipated that these reserves will either result in a cash payment or be reversed to income between 2005 and 2009. In particular, the outcome of audits currently underway may result in the release of a significant part of such reserves in 2005, in which case our 2005 effective tax rate would be less than our 2004 effective tax rate.

In the normal course of business, we enter into numerous intercompany transactions related to the sharing of data and technology. The tax rules governing such transactions are complex and depend on numerous assumptions. At this time, we believe that is not probable that any such transactions will result in additional tax liabilities, and therefore we have not established contingencies related to these items. However, because of the volume and complexity of such transactions, it is possible that at some future date, an additional liability could result from audits by the relevant taxing authorities.

Additionally, we utilize tax loss carryforwards to reduce our effective income tax rate. However, most of our remaining tax loss carryforwards are in Canada where our ability to use them in the future will likely be limited because our taxable earnings in Canada are likely to be insufficient to absorb the losses. In 2004, we sold certain of these tax losses to an affiliate of Woodbridge. This sale is discussed in our management's discussion and analysis for the year ended December 31, 2004.

***We have significant goodwill and identifiable intangible assets recorded on our balance sheet that may be subject to impairment losses that would reduce our reported assets and earnings.***

Identifiable intangible assets and goodwill, arising from acquired businesses, comprise a substantial portion of our total assets. At December 31, 2004, our total assets were approximately $19.6 billion, of which approximately $9.1 billion, or 46%, was goodwill and approximately $4.7 billion, or 24%, was identifiable intangible assets. Economic, legal, regulatory, competitive, contractual and other factors may affect the value of goodwill and identifiable intangible assets. If any of these factors impair the value of these assets, accounting rules require us to reduce their carrying value and recognize an impairment charge, which would reduce our reported assets and earnings in the year the impairment charge is recognized.

## 5. DIVIDENDS

### *Policy*

We presently pay quarterly dividends on our common shares and intend to continue to do so. Our policy is to pay dividends at a rate that takes into account all factors that our board of directors considers relevant, including our earnings, available free cash flow, financial condition and capital requirements. Our board currently reviews our company's dividend policy annually in the second quarter. The declaration of dividends by our board of directors and the amount of those dividends may be adjusted or eliminated at the discretion of our board of directors.

### *Dividend Reinvestment Plan*

Under our dividend reinvestment plan, our common shareholders may elect to have their dividends reinvested in additional common shares that are newly issued rather than purchased in the market. The price per common share is calculated by reference to the weighted average price of our common shares on the Toronto Stock Exchange during the five trading days immediately preceding the record date for each dividend payment. No brokerage commissions are payable in connection with the purchase of common shares under our dividend reinvestment plan and we bear all administrative costs. The plan is currently available to our registered common shareholders who are resident in Canada, the United States and the United Kingdom.

### *Common Share Dividends*

The table below sets forth the dividends declared on our common shares in 2002, 2003 and 2004. We pay dividends on our common shares in U.S. dollars, but our common shareholders have the option to receive dividends in equivalent Canadian dollars or British pounds sterling.

| Quarter | Dividend Amount Per Share |
|---|---|
| 2002 | |
| First | $ 0.175 |
| Second | $ 0.175 |
| Third | $ 0.175 |
| Fourth | $ 0.180 |
| 2003 | |
| First | $ 0.180 |
| Special[(1)] | $ 0.428 |
| Second | $ 0.180 |
| Third | $ 0.180 |
| Fourth | $ 0.185 |
| 2004 | |
| First | $ 0.185 |
| Second | $ 0.190 |
| Third | $ 0.190 |
| Fourth | $ 0.190 |

(1) Represents a special dividend in connection with the closing of the sale of our 20% interest in Bell Globemedia to a company owned by the Thomson family for $279 million.

***Preference Share Dividends***

We pay dividends on our Series II preference shares quarterly at an annual rate of 70% of the Canadian bank prime rate applied to the stated capital of such shares. The table below sets forth the dividends declared on our Series II preference shares in 2002, 2003 and 2004.

| Quarter | Dividend Amount Per Share | |
|---|---|---|
| 2002 | | |
| First | C$ | 0.163973 |
| Second | C$ | 0.173648 |
| Third | C$ | 0.196288 |
| Fourth | C$ | 0.198493 |
| 2003 | | |
| First | C$ | 0.195904 |
| Second | C$ | 0.215969 |
| Third | C$ | 0.209962 |
| Fourth | C$ | 0.198493 |
| 2004 | | |
| First | C$ | 0.185792 |
| Second | C$ | 0.164906 |
| Third | C$ | 0.165839 |
| Fourth | C$ | 0.184314 |

In April 2003, we redeemed all 18,000,000 of our outstanding Series V preference shares. Prior to redemption, we paid dividends on these shares monthly at a rate that floated in relation to changes in both the Canadian bank prime rate and the calculated trading price of these shares. The table below sets forth the dividends declared on our Series V preference shares in 2002 and 2003.

| Month | Dividend Amount Per Share | |
|---|---|---|
| 2002 | | |
| January | C$ | 0.064520 |
| February | C$ | 0.065630 |
| March | C$ | 0.068750 |
| April | C$ | 0.074130 |
| May | C$ | 0.080000 |
| June | C$ | 0.087850 |
| July | C$ | 0.091060 |
| August | C$ | 0.093750 |
| September | C$ | 0.093750 |
| October | C$ | 0.093750 |
| November | C$ | 0.093750 |
| December | C$ | 0.093750 |
| 2003 | | |
| January | C$ | 0.093750 |
| February | C$ | 0.093750 |
| March | C$ | 0.095330 |
| April[(1)] | C$ | 0.040750 |

(1) Represented accrued dividends through the day prior to the redemption date.

## 6. DESCRIPTION OF CAPITAL STRUCTURE

**Capital Structure**

Our authorized share capital consists of an unlimited number of common shares and an unlimited number of preference shares, issuable in series of which 6,000,000 shares consist of a series designated as Cumulative Redeemable Floating Rate Preference Shares, Series II. At December 31, 2004, there were 655,131,827 common shares and 6,000,000 Series II preference shares outstanding. In April 2003, we redeemed all 18,000,000 of our Cumulative Redeemable Preference Shares, Series V.

*Common Shares*

Each common share entitles its holder to one vote at meetings of our shareholders and to receive dividends when declared by our board of directors. All dividends that our board of directors declares will be paid equally on all common shares, subject to the rights of holders of the preference shares. Holders of common shares will participate equally in any distribution of our assets upon our liquidation, dissolution or winding-up, subject to the rights of the holders of the preference shares. There are no preemptive, redemption, purchase or conversion rights attaching to the common shares.

*Preference Shares*

Our preference shares may be issued in one or more series as determined by our board of directors. Our board of directors is authorized to fix the number, the consideration per share and the rights and restrictions of the preference shares of each series. The preference shares of each series are to rank on a parity with the preference shares of each other series with respect to the payment of dividends and the return of capital on our liquidation, dissolution or winding-up. The preference shares are entitled to preference over the common shares and any other shares ranking junior to the preference shares with respect to the payment of dividends and the return of capital. The special rights and restrictions attaching to the preference shares as a class may not be amended without approval of at least two-thirds of the votes cast at a meeting of the holders of preference shares. The holders of preference shares are not entitled to any voting rights except as provided by our board of directors when authorizing a series or as provided by law.

The Series II preference shares are non-voting and are redeemable at our option for C$25.00 per share, together with accrued dividends. Dividends are payable quarterly at an annual rate of 70% of the Canadian bank prime rate applied to the stated capital of such shares.

**Ownership Restrictions**

There is no law or governmental decree or regulation in Canada that restricts the export or import of capital, or affects the remittance of dividends, interest or other payments to non-resident holders of common shares, other than withholding tax requirements.

There is no limitation imposed by Canadian law or by our articles of incorporation or other charter documents on the right of a non-resident to hold or vote our common shares, other than as provided by the Investment Canada Act, which requires notification and, in certain cases, advance review and approval by the Government of Canada of the acquisition by a non-Canadian of control of a Canadian business.

**Ratings**

The following table sets forth the ratings that our company has received from rating agencies in respect of our outstanding securities.

| | Moody's | Standard & Poor's | Dominion Bond Rating Service |
|---|---|---|---|
| Long-term debt | A3 | A- | A (low) |
| Commercial paper | — | — | R-1 (low) |
| Trend/Outlook | Stable | Stable | Stable |

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are indicators of the likelihood of payment and of the capacity and willingness of a company to meet its financial commitment on an obligation in accordance with the terms of the obligation. A description of the rating categories of each of the rating agencies in the table above is set out below.

Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. Credit ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. We cannot assure you that a rating will remain in effect for any given period of time or that a rating will not be revised or withdrawn entirely by a rating agency in the future.

*Moody's Investor Services (Moody's)*

Moody's long-term credit ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. Moody's A3 rating assigned to our long-term debt instruments is the third highest rating of nine rating categories. Obligations rated "A" are considered upper-medium grade and are subject to low credit risk. Moody's appends numerical modifiers from 1 to 3 to its long-term debt ratings, which indicates where the obligation ranks in its ranking category, with 1 being the highest. Moody's also assigned a stable outlook to the rating, which is its assessment regarding the likely direction of the rating over the medium-term.

*Standard & Poor's (S&P)*

S&P's long-term credit ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. S&P's A- rating assigned to our long-term debt instruments is the third highest rating of 10 major rating categories. An "A" rating indicates that the obligor's capacity to meet its financial commitment is strong, but that the obligation is somewhat more susceptible to adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. S&P uses "+" or "-" designations to indicate the relative standing of securities within a particular rating category. S&P also assigned a stable outlook to the rating, which is its assessment regarding the potential direction of the rating over the immediate to long-term.

*Dominion Bond Rating Service (DBRS)*

DBRS's short-term ratings are on a scale ranging from R-1 (high) to D, representing the highest to lowest quality. DBRS's R1 (low) rating assigned to our commercial paper/short-term instruments is the third highest of 10 rating categories and indicates satisfactory credit quality. The overall strength and outlook for key liquidity, debt and profitability ratios for entities with this rating is not normally as favorable as with higher rating categories, but these considerations are still respectable. DBRS's long-term credit ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. DBRS's A (low) rating assigned to our long-term debt is the third highest of the 10 rating categories for long-term debt. Debt securities rated "A" are of satisfactory credit quality and protection of interest and principal is considered substantial. A reference to "high" or "low" reflects the relative strength within the rating category. DBRS also assigned a stable outlook to the ratings, which helps give investors an understanding of DBRS's opinion regarding the outlook for the ratings.

## 7. MARKET FOR SECURITIES

Our common shares are listed and traded on the Toronto Stock Exchange and the New York Stock Exchange under the symbol "TOC." Of the two marketplaces, the greatest volume of trading in 2004 occurred on the Toronto Stock Exchange. Our Series II preference shares are also listed on the Toronto Stock Exchange under the symbol "TOC.PR.B".

The following table sets forth the reported trading prices in Canadian dollars and trading volumes for our common shares on the Toronto Stock Exchange during each month in 2004.

| Month | High | Low | Close | Trading Volume |
|---|---|---|---|---|
| January | C$ 47.99 | C$ 43.81 | C$ 43.95 | 10,276,569 |
| February | C$ 45.74 | C$ 39.86 | C$ 42.67 | 11,525,415 |
| March | C$ 43.96 | C$ 39.95 | C$ 40.55 | 10,519,877 |
| April | C$ 44.97 | C$ 40.50 | C$ 43.65 | 9,666,153 |
| May | C$ 45.01 | C$ 43.01 | C$ 44.67 | 8,674,668 |
| June | C$ 47.40 | C$ 43.03 | C$ 44.53 | 9,604,829 |
| July | C$ 45.89 | C$ 41.94 | C$ 45.10 | 6,186,513 |
| August | C$ 45.10 | C$ 42.50 | C$ 43.43 | 5,505,762 |
| September | C$ 44.69 | C$ 42.77 | C$ 43.89 | 7,002,097 |
| October | C$ 45.57 | C$ 41.09 | C$ 42.28 | 10,659,463 |
| November | C$ 43.46 | C$ 40.85 | C$ 41.16 | 10,829,471 |
| December | C$ 42.50 | C$ 40.84 | C$ 42.27 | 9,151,006 |

The following table sets forth the reported trading prices in U.S. dollars and trading volumes for our common shares on the New York Stock Exchange during each month in 2004.

| Month | High | Low | Close | Trading Volume |
|---|---|---|---|---|
| January | US$ 37.29 | US$ 33.08 | US$ 33.20 | 977,500 |
| February | US$ 34.54 | US$ 30.05 | US$ 31.98 | 1,028,300 |
| March | US$ 32.65 | US$ 29.84 | US$ 30.86 | 1,065,300 |
| April | US$ 32.86 | US$ 30.15 | US$ 31.81 | 782,300 |
| May | US$ 33.08 | US$ 31.12 | US$ 32.67 | 549,700 |
| June | US$ 35.12 | US$ 31.98 | US$ 33.46 | 728,900 |
| July | US$ 34.69 | US$ 32.10 | US$ 34.18 | 639,000 |
| August | US$ 34.25 | US$ 32.42 | US$ 32.95 | 518,800 |
| September | US$ 34.92 | US$ 32.92 | US$ 34.69 | 540,300 |
| October | US$ 36.13 | US$ 32.97 | US$ 34.69 | 975,100 |
| November | US$ 36.40 | US$ 34.16 | US$ 34.79 | 657,700 |
| December | US$ 35.57 | US$ 33.25 | US$ 35.29 | 1,097,400 |

The following table sets forth the reported trading prices in Canadian dollars and trading volumes for our Series II preference shares on the Toronto Stock Exchange during each month in 2004.

| Month | High | Low | Close | Trading Volume |
|---|---|---|---|---|
| January | C$ 25.01 | C$ 24.67 | C$ 24.85 | 50,551 |
| February | C$ 25.19 | C$ 24.81 | C$ 25.19 | 76,487 |
| March | C$ 25.99 | C$ 24.75 | C$ 25.00 | 57,527 |
| April | C$ 25.30 | C$ 24.65 | C$ 25.25 | 22,828 |
| May | C$ 25.30 | C$ 24.55 | C$ 25.00 | 34,622 |
| June | C$ 25.25 | C$ 24.75 | C$ 25.25 | 545,018 |
| July | C$ 25.20 | C$ 24.58 | C$ 24.90 | 62,105 |
| August | C$ 25.19 | C$ 24.70 | C$ 25.09 | 366,448 |
| September | C$ 25.15 | C$ 24.63 | C$ 25.00 | 193,016 |
| October | C$ 25.74 | C$ 25.00 | C$ 25.60 | 26,777 |
| November | C$ 25.75 | C$ 25.06 | C$ 25.75 | 42,611 |
| December | C$ 26.10 | C$ 25.10 | C$ 25.39 | 345,513 |

## 8. DIRECTORS AND OFFICERS

The names, municipalities and countries of residence, offices and principal occupations of our directors, executive officers and other officers are shown below. Each director has been a director since the year indicated below and has been elected or appointed to serve until our next annual meeting of shareholders to be held on May 4, 2005. All of our directors are expected to be re-elected at the upcoming shareholders meeting, except for Mr. Fraser, who has decided not to stand for re-election. We have a finance committee, a corporate governance committee, a human resources committee and an audit committee and the members of each committee are shown below. All of our directors, executive officers and other officers have been engaged for more than five years in their present principal occupations or in other capacities within Thomson, except where noted. At March 1, 2005, our directors, executive officers and other officers as a group beneficially owned, directly or indirectly, or exercised control or direction over, approximately 69% of our common shares.

| Directors and Officers<br>Name and Municipality of Residence | Office and Principal Occupation | Director Since |
|---|---|---|
| David K.R. Thomson[1]<br>Toronto, Ontario, Canada | Chairman of Thomson and Deputy Chairman of The Woodbridge Company Limited (holding company) | 1988 |
| W. Geoffrey Beattie[1][2][3]<br>Toronto, Ontario, Canada | Deputy Chairman of Thomson and President of The Woodbridge Company Limited (holding company) | 1998 |
| Richard J. Harrington<br>Westport, Connecticut, U.S.A. | President and Chief Executive Officer of Thomson | 1993 |
| Ron D. Barbaro[2][4][5]<br>Toronto, Ontario, Canada | Corporate director | 1993 |
| Robert D. Daleo<br>Alpine, New Jersey, U.S.A. | Executive Vice President and Chief Financial Officer of Thomson | 2001 |
| Steven A. Denning[3][6]<br>Greenwich, Connecticut, U.S.A. | Chairman of General Atlantic LLC (private equity firm) | 2000 |
| John F. Fraser, O.C.[2][7]<br>Winnipeg, Manitoba, Canada | Corporate director | 1989 |
| V. Maureen Kempston Darkes, O.C.[2][3][8]<br>Miami, Florida, U.S.A. | Group Vice President, General Motors Corporation and President of GM Latin America, Africa and Middle East (automobile manufacturer) | 1996 |
| Roger L. Martin[4]<br>Toronto, Ontario, Canada | Dean of the Joseph L. Rotman School of Management at the University of Toronto (post secondary education) | 1999 |
| Vance K. Opperman[4]<br>Minneapolis, Minnesota, U.S.A. | President and Chief Executive Officer of Key Investment Inc. (holding company) | 1996 |

| Directors and Officers<br>Name and Municipality of Residence | Office and Principal Occupation | Director Since |
|---|---|---|
| David H. Shaffer[9]<br>New York, New York, U.S.A. | Executive Vice President of Thomson and Chief Executive Officer of Thomson Financial | 1998 |
| John M. Thompson[2][4][10]<br>Toronto, Ontario, Canada | Chairman of the Board of The Toronto-Dominion Bank (financial institution) | 2003 |
| Kenneth R. Thomson<br>Toronto, Ontario, Canada | Chairman of The Woodbridge Company Limited (holding company) | 1978 |
| Peter J. Thomson[11]<br>Toronto, Ontario, Canada | Deputy Chairman of The Woodbridge Company Limited (holding company) | 1995 |
| Richard M. Thomson, O.C.[3][4]<br>Toronto, Ontario, Canada | Corporate director | 1984 |
| John A. Tory[1][3]<br>Toronto, Ontario, Canada | President of Thomson Investments Limited (holding company) | 1978 |
| Robert C. Cullen[12]<br>Stamford, Connecticut, U.S.A. | Executive Vice President of Thomson and President and Chief Executive Officer of Thomson Scientific & Healthcare | N/A |
| Brian H. Hall<br>Colorado Springs, Colorado, U.S.A. | Executive Vice President of Thomson and President and Chief Executive Officer of Thomson Legal & Regulatory | N/A |
| Ronald H. Schlosser[13]<br>Princeton, New Jersey, U.S.A. | Executive Vice President of Thomson and President and Chief Executive Officer of Thomson Learning | N/A |
| James C. Smith[14]<br>Ridgefield, Connecticut, U.S.A. | Executive Vice President, Human Resources and Administration | N/A |
| Brian T. Martin[15]<br>Ridgefield, Connecticut, U.S.A. | Senior Vice President, Corporate Affairs | N/A |
| Stephane Bello[16]<br>Darien, Connecticut, U.S.A. | Senior Vice President and Treasurer | N/A |
| David J. Hulland<br>Stamford, Connecticut, U.S.A. | Senior Vice President, Finance | N/A |
| Deirdre Stanley[17]<br>New York, New York, U.S.A. | Senior Vice President and General Counsel | N/A |
| Frank J. Golden[18]<br>Armonk, New York, U.S.A. | Vice President, Investor Relations | N/A |
| Janey M. Loyd<br>Ramsey, New Jersey, U.S.A. | Vice President, Communications | N/A |

| Directors and Officers<br>Name and Municipality of Residence | Office and Principal Occupation | Director Since |
|---|---|---|
| John J. Raffaeli, Jr.<br>Pound Ridge, New York, U.S.A. | Senior Vice President, Human Resources | N/A |
| Joseph J.G.M. Vermeer<br>Stamford, Connecticut, U.S.A. | Senior Vice President, Director of Taxes | N/A |
| Linda J. Walker<br>Easton, Connecticut, U.S.A. | Vice President, Controller | N/A |
| David W. Binet<br>Toronto, Ontario, Canada | Secretary to the Board of Directors and Senior Vice President and Secretary of The Woodbridge Company Limited (holding company) | N/A |

(1) Member of the finance committee.

(2) Member of the corporate governance committee.

(3) Member of the human resources committee.

(4) Member of the audit committee.

(5) Prior to 2004, Mr. Barbaro was Chairman and Chief Executive Officer of the Ontario Lottery and Gaming Corporation.

(6) Prior to 2005, Mr. Denning was the Managing Partner of General Atlantic Partners, LLC.

(7) Mr. Fraser was a director of Air Canada when it filed for protection under the Companies' Creditors Arrangement Act (CCAA) in April 2003. Air Canada successfully emerged from the CCAA proceedings and was restructured pursuant to a plan of arrangement in September 2004.

(8) Prior to 2001, Ms. Kempston Darkes was President and General Manager of General Motors of Canada Limited.

(9) In 2002, Mr. Shaffer was appointed Chief Executive Officer of Thomson Financial. Prior to this appointment, Mr. Shaffer was Chief Executive Officer of Thomson Learning.

(10) Mr. Thompson was Vice Chairman of the board of directors of IBM Corporation from 2000 to 2002. From 1995 to 2000, Mr. Thompson held various senior executive positions with IBM.

(11) Peter J. Thomson was a director of Exchange Resources, Inc. when it filed a petition for credit protection under Chapter 11 of the U.S. Bankruptcy Code in September 1996.

(12) In 2002, Mr. Cullen was appointed President and Chief Executive Officer of Thomson Scientific and Healthcare. Prior to this appointment, Mr. Cullen was President and Chief Executive Officer of Thomson Learning International.

(13) In 2002, Mr. Schlosser was appointed President and Chief Executive Officer of Thomson Learning. Prior to this appointment, Mr. Schlosser was President and Chief Executive Officer of Thomson Scientific and Healthcare.

(14) Mr. Smith has been an Executive Vice President of Thomson since 2002. Prior to this appointment, Mr. Smith held a number of positions with our company, primarily in our newspaper group that we sold in 2000 and 2001.

(15) Prior to joining us in 2003, Mr. Martin was senior vice president for corporate communications at Avon Products, Inc.

(16) Prior to joining us in 2001, Mr. Bello was Assistant Treasurer of General Motors Corporation (GM). He previously held a number of senior business development and financial positions with GM in Brussels and New York.

(17) Prior to joining us in 2002, Ms. Stanley was Executive Vice President, Business Development and Strategy for the Electronic Commerce Solutions division of USA Interactive (formerly USA Networks, Inc.). Ms. Stanley joined USA Networks in 1999 as the deputy general counsel.

(18) Prior to joining us in 2004, Mr. Golden was a Vice President and subsequently a Senior Vice President of Investor Relations at Cablevision Systems Corporation.

**Audit Committee**

The members of our audit committee are Vance K. Opperman (Chair), Ron D. Barbaro, Roger L. Martin, John M. Thompson and Richard M. Thomson. The Board has determined that all of the members of the audit committee are independent as well as financially literate.

- Mr. Opperman is currently President and Chief Executive Officer of Key Investment Inc., and was formerly the President of West Publishing Company. He also serves on the boards of Delta Dental Plans Association, Blue Cross/Blue Shield of Minnesota and Avenet LLC. Mr. Opperman received a J.D. from the University of Minnesota Law School.

- Mr. Barbaro is a corporate director and was formerly the Chairman and CEO of the Ontario Lottery and Gaming Corporation. He was also formerly the President of the Prudential Insurance Company of America. Mr. Barbaro also serves on the board of Flow International Corp., a Nasdaq listed company, and is chairman of Trans Global Life Insurance Company.

- Mr. Martin is currently the Dean of the Joseph L. Rotman School of Management at the University of Toronto. He also serves on the audit committee of Workbrain Corporation, a Toronto Stock Exchange listed company. Mr. Martin received an MBA from Harvard Business School.

- Mr. Thompson is currently Chairman of the Board of The Toronto-Dominion Bank and was formerly the Vice Chairman of the Board of IBM Corp. He also serves as the member of the supervisory board of Koninklijke Philips Electronics NV, a New York Stock Exchange listed company. Mr. Thompson received his undergraduate degree from the University of Western Ontario and completed the executive management programs at the Richard Ivey School at the University of Western Ontario and the Kellogg Graduate School of Business at Northwestern University.

- Mr. Thomson is a corporate director and was formerly the Chairman and Chief Executive Officer of The Toronto-Dominion Bank. He also serves as a member of the audit committees of Nexen Inc., a Toronto Stock Exchange and New York Stock Exchange listed company, and Trizec Properties Inc., a New York Stock Exchange listed company. Mr. Thomson received an MBA from Harvard Business School.

Our Board of Directors has also determined that Richard Thomson is qualified as an "audit committee financial expert" (within the meaning of applicable SEC rules) and that he has "accounting or related financial management expertise" (within the meaning of the NYSE listing standards). Mr. Thomson is not related to the family of Kenneth R. Thomson, our controlling shareholder.

A copy of the charter of our audit committee is attached to this annual information form as Schedule A and is also available on our website, *www.thomson.com*.

**Principal Accountant Fees and Services**

PricewaterhouseCoopers LLP has been the auditor of our company since our incorporation in 1977.

Fees payable to PricewaterhouseCoopers LLP for the years ended December 31, 2004 and 2003 were as follows:

| Fees in millions of U.S. dollars | 2004 | 2003 |
|---|---|---|
| Audit fees | **$ 11.4** | $ 10.7 |
| Audit-related fees | **$ 3.0** | 6.3 |
| Tax fees | **$ 6.9** | 7.5 |
| All other fees | **$ 0.3** | 1.7 |
| Total | **$ 21.6** | $ 26.2 |

*Audit Fees*

These audit fees were for professional services rendered for the audits of our consolidated financial statements, review of interim financial statements included in our quarterly reports and services that generally only the independent auditor can reasonably provide, such as comfort letters, statutory audits, consents, and assistance and review of documents filed with the Securities and Exchange Commission and Canadian securities regulatory authorities.

*Audit-Related Fees*

These audit-related fees were for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under the "audit fees" category above. These services included Sarbanes-Oxley Section 404 advisory services, internal control reviews, audits of our various employee benefit plans, transaction due diligence, subsidiary audits, and other services related to acquisitions and dispositions.

*Tax Fees*

Tax fees were for tax compliance, tax advice and tax planning. These services included the preparation and review of corporate and expatriate tax returns, assistance with tax audits and transfer pricing matters, advisory services relating to federal, state, provincial and international tax compliance for customs and duties, compliance for customs and duties, common forms of domestic and international taxation (i.e., tax credits, income tax, VAT, GST and excise taxes) and regarding restructurings, mergers and acquisitions.

*All Other Fees*

Fees disclosed in the table above under the item "all other fees" were for services other than the audit fees, audit-related fees and tax fees described above. These services included:

- Insurance, transaction and benefit plan advisory services; and
- French translations of financial statements, management's discussion and analysis and financial information included in our annual information form, prospectuses and other offering documents.

*Pre-Approval Policies and Procedures*

Our audit committee is responsible for overseeing the work of the independent auditors and has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence. The audit committee has adopted a policy regarding its pre-approval of all audit and permissible non-audit services provided by the independent auditors. The policy gives detailed guidance to our management as to the specific types of services that have been pre-approved by the audit committee. The policy requires the audit committee's specific pre-approval of all other permitted types of services that have not already been pre-approved. Our senior management periodically provides the audit committee with a summary of services provided by the independent auditors in accordance with the pre-approval policy. The audit committee's charter delegates to its Chair the authority to evaluate and approve engagements in the event that the need arises for approval between audit committee meetings. If the Chair approves any such engagements, he reports his approval decisions to the full audit committee at its next meeting. For the year ended December 31, 2004, none of the audit-related, tax or all other fees described above made use of the *de minimus* exception to pre-approval provisions contained in Rule 2-01(c)(7)(i)(C) of SEC Regulation S-X or Section 2.4 of the Canadian Securities Administrators' Multilateral Instrument 52-110 (*Audit Committees*).

**Controlled Company**

The NYSE Listed Company Manual requires a listed company to have, among other things, a majority of independent directors on its board and only independent directors on its corporate governance committee and compensation committee. The NYSE rules permit a "controlled company" to be exempt from these requirements. A "controlled company" is a company of which more than 50% of the voting power is held by an individual, group or another company. Controlled companies are not, however, exempt from the requirement that the audit committee must be comprised of solely independent directors.

Our company is controlled by Kenneth R. Thomson, who directly and indirectly controlled approximately 69% of our common shares as of February 22, 2005. Our Board has determined that it is appropriate for directors affiliated with the controlling shareholder to serve on Board committees other than the audit committee. Accordingly, the Board has approved our reliance on the controlled company exemption. One-half of our current directors are independent of both management and the controlling shareholder with the result that 50% of the directors independently represent the 31% interest in our company held by shareholders other than the Thomson family.

**Independent Directors**

In February 2005, our Board conducted its annual assessment of the independence of each of its members. In determining independence, the Board examined and relied on the definition of "independent" in the NYSE Listed Company Manual and "unrelated director" in the Guidelines of the Toronto Stock Exchange, or the TSX Guidelines. After considering a wide variety of factors and information disclosed by each director, the Board determined that of the 16 directors, eight are independent.

- Three of the directors, Messrs. Richard J. Harrington, Robert D. Daleo and David H. Shaffer, are not independent because they are members of senior management of Thomson.

- Five directors are either members of the family of Kenneth R. Thomson (Mr. Thomson and his sons, David K.R. Thomson and Peter J. Thomson), or employees of The Woodbridge Company Limited, the Thomson family's principal holding company, or its affiliates other than our company (W. Geoffrey Beattie and John A. Tory). While the Board considers that these directors' interests are fully aligned with the interests of minority shareholders, and that they do act independently of management, the NYSE Listed Company Manual suggests that they be considered not independent.

- The independent directors are V. Maureen Kempston Darkes and Messrs. Ron D. Barbaro, Steven A. Denning, John F. Fraser, Roger L. Martin, Vance K. Opperman, John M. Thompson and Richard M. Thomson. Richard M. Thomson is not related to the family of Kenneth R. Thomson. In determining that all of these directors are independent, the Board considered the fact that some directors were also directors of companies that our company has a relationship with, but determined that these relationships were not material and did not impair on the independence of these individuals.

For purposes of the TSX Guidelines, all of our directors except for Messrs. Harrington, Daleo and Shaffer are considered to be "unrelated". The Chairman is not independent by virtue of the Thomson family ownership position. As Chairman, David Thomson directs the operations of the Board in such a way that it operates independently of management. The Chairman is responsible for establishing the agenda for meetings, ensuring that the Board has sufficient resources and information to carry out its functions, making decisions in the best interests of all shareholders, and maintaining a constructive relationship between the Board and senior management.

**Presiding Director at Meetings of Non-Management Directors**

At the conclusion of all Board meetings that are held in person, the non-management directors meet as a group without management participation. The non-management directors also meet from time to time after Board meetings that are held by telephone. The Chairman or Deputy Chairman chairs these sessions and informs management of the substance of the meetings to the extent that action is required by management. Each of our non-management directors is "unrelated" as such term is used in the TSX Guidelines.

**Communications with Non-Management Directors**

Shareholders may contact our non-management directors as a group by writing to them c/o Secretary to the Board of Directors, The Thomson Corporation, Suite 2706, Toronto Dominion Bank Tower, P.O. Box 24, Toronto-Dominion Centre, Toronto, Ontario M5K 1A1 Canada or by e-mail at *board.secretary@thomson.com*.

**Code of Business Conduct and Ethics**

In 2003, we adopted a code of business conduct and ethics that applies to all directors, officers and employees, including our chief executive officer, chief financial officer and principal accounting officer. The code of business conduct and ethics is available on our website, *www.thomson.com*.

**Corporate Governance Guidelines and Board Committee Charters**

Our corporate governance guidelines and charters for each committee of our Board are posted on our website at *www.thomson.com.*

Our code of business conduct, corporate governance guidelines and committee charters are also available in print or electronically to any shareholder who requests a copy. Requests should be made to our company at the address set forth in Item 12, "Additional Information," of this annual information form.

## 9. LEGAL PROCEEDINGS

We are involved in various legal proceedings in the ordinary course of business.

In addition, from time to time, one of our businesses may be the subject of a government investigation arising in the ordinary course of business. In October 2004, Thomson Financial received a subpoena from the U.S. Securities and Exchange Commission (SEC) for certain documents related to the operations of its Capital Markets Intelligence (CMI) business. CMI is one of several companies providing market intelligence services. CMI collects stock ownership data solely as an appointed agent of its public company clients seeking a better understanding of their institutional shareholder base. In 2004, approximately $34 million of our financial group's CMI revenues were related to the identification of institutional investors for its clients. We are cooperating fully with the SEC. At this time, we do not anticipate that the outcome of this matter will have a material adverse impact to our financial condition.

In January 2005, we became aware of an inquiry by the Serious Fraud Office (SFO) in the United Kingdom regarding the refund practices relating to certain duplicate subscription payments made by some of our customers in our Sweet & Maxwell and Gee businesses in the United Kingdom. We are cooperating fully with the authorities in their inquiry. At this time, we do not anticipate that the outcome of this matter will have a material adverse impact to our financial condition.

In our opinion, no legal proceedings or ongoing government investigation, if decided adversely, could reasonably be expected to have a material adverse impact on our financial position or results of operations.

## 10. TRANSFER AGENT AND REGISTRARS

The transfer agent and registrar for our common shares in Canada is Computershare Trust Company of Canada, with transfer facilities in Toronto, Montreal, Calgary and Vancouver. In the United States, our transfer agent is Computershare Trust Company, Inc., with transfer facilities in New York, New York and Denver, Colorado. Computershare Investor Services PLC is our transfer agent in the United Kingdom in London. Computershare Trust Company of Canada is also the transfer agent and registrar for our Series II preference shares, with transfer facilities only in Toronto.

## 11. INTERESTS OF EXPERTS

Our independent auditors are PricewaterhouseCoopers LLP. As of February 28, 2005, to our knowledge, the partners and employees of PricewaterhouseCoopers LLP collectively owned beneficially less than 1% of our outstanding common shares.

## 12. ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our common shares and securities authorized for issuance under our equity compensation plans, is contained in our management information circular for our most recent annual meeting of shareholders held in May 2004 that involved the election of directors. In the next few weeks, we intend to file and make publicly available our management information circular related to our upcoming annual meeting of shareholders to be held in May 2005. Additional financial information is provided in our audited consolidated financial statements and management's discussion and analysis (MD&A) for the year ended December 31, 2004. When available, copies of these documents may be obtained upon written request from The Thomson Corporation, Suite 2706, Toronto Dominion Bank Tower, P.O. Box 24, Toronto-Dominion Centre, Toronto, Ontario M5K 1A1, Canada or by sending a request by e-mail to *investor.relations@thomson.com*.

You may access other information about our company, including our disclosure documents, reports, statements or other information that we file with the Canadian securities regulatory authorities through SEDAR at *www.sedar.com* and in the United States with the SEC at *www.sec.gov*.

Information required to be provided pursuant to Form 52-110F1 ( *Audit Committees*) is contained in Item 8, "Directors and Officers," of this annual information form.

**SCHEDULE A TO**
**ANNUAL INFORMATION FORM**

# AUDIT COMMITTEE CHARTER

**THE THOMSON CORPORATION**
**AUDIT COMMITTEE CHARTER**

## 1. RESPONSIBILITY

The Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities in relation to:

- the integrity of the Corporation's financial statements;
- the Corporation's compliance with legal and regulatory requirements;
- the qualifications and independence of the Corporation's auditor;
- the design and implementation of internal controls and disclosure controls;
- the performance of the Corporation's internal audit function and independent auditor; and
- any additional matters delegated to the Audit Committee by the Board.

## 2. MEMBERS

The Board must appoint a minimum of three and a maximum of five directors to be members of the Audit Committee. The members of the Audit Committee will be selected by the Board on the recommendation of the Corporate Governance Committee. All of the members of the Audit Committee will meet the criteria for independence contained in applicable laws and stock exchange rules and regulations and at least a majority must be residents of Canada (so long as this is required under applicable law).

In addition, every member of the Audit Committee will be Financially Literate and at least one member will have accounting or related financial management expertise (as the Board interprets such qualification in its business judgement). The Board will determine whether at least one member is an Audit Committee Financial Expert and will make appropriate disclosure. A member of the Audit Committee may not serve on more than two other public company audit committees except with the prior approval of the Board.

Members of the Audit Committee (i) may not accept directly or indirectly any consulting, advisory, or other compensatory fee from the Corporation or any of its subsidiaries, other than director and committee fees and pensions or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), and (ii) may not be an "affiliated person" (within the meaning of applicable law or regulations) of the Corporation or any of its subsidiaries.

## 3. DUTIES

The Audit Committee is responsible for performing the duties set out below as well as any other duties delegated to the Audit Committee by the Board.

### (a) Appointment and Review of the Auditor

The auditor is ultimately accountable to the Audit Committee and reports directly to the Audit Committee. Accordingly, the Audit Committee will evaluate and be responsible for the Corporation's relationship with the auditor. Specifically, the Audit Committee will:

- select, evaluate and nominate the auditor to be proposed for appointment or reappointment, as the case may be, by the shareholders;

- review and approve the auditor's engagement letter;

- after seeking and taking into account the opinions of senior management and the officer in charge of internal audit, review the independence, experience, qualifications and performance of the auditor, including the lead audit partner, in recommending its appointment or reappointment, including considering whether the auditor's quality controls are adequate and the auditor's provision of any permitted non-audit services is compatible with maintaining its independence;

- oversee the auditor's work, including resolving any disagreements between management and the auditor regarding financial reporting;

- at least annually, obtain and review a report by the auditor describing its internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditor and any steps taken to deal with any such issues; and all relationships between the auditor and the Corporation; and

- where appropriate, terminate the auditor.

**(b) Confirmation of the Auditor's Independence**

At least annually, and before the auditor issues its report on the Corporation's annual financial statements, the Audit Committee will:

- confirm that the auditor has submitted a formal written statement describing all of its relationships with the Corporation;

- discuss with the auditor any disclosed relationships or services that may affect its objectivity and independence;

- obtain written confirmation from the auditor that it is objective with respect to the Corporation within the meaning of the Rules of Professional Conduct adopted by the provincial institute or order of Chartered Accountants to which it belongs and is an independent public accountant with respect to the Corporation within the meaning of the federal securities legislation administered by the United States Securities and Exchange Commission and of the Independence Standards of the Canadian Institute of Chartered Accountants, and is in compliance with any independence requirements adopted by the Public Company Accounting Oversight Board; and

- confirm that the auditor has complied with applicable laws with respect to the rotation of certain members of the audit engagement team.

**(c) Pre-Approval of Non-Audit Services**

The Audit Committee will pre-approve the appointment of the auditor for any non-audit service to be provided to the Corporation or its subsidiaries, provided that it will not approve any service that is prohibited under applicable laws, rules and regulations. The Audit Committee has established policies and procedures, and may revise such from time to time, which pre-approve the appointment of the auditor for certain non-audit services. In addition, the Audit Committee may delegate to one or more independent members the authority to pre-approve the appointment of the auditor for any non-audit service to the extent permitted by applicable law, provided that any pre-approvals granted pursuant to such delegation shall be reported to the full Audit Committee at its next scheduled meeting following such pre-approval.

**(d) Communications with the Auditor**

The Audit Committee has the authority to communicate directly with the auditor and will meet privately with the auditor as frequently as the Audit Committee feels is appropriate to fulfill its responsibilities, which will not be less frequently than annually, to discuss any items of concern to the Audit Committee or the auditor, including, without limitation:

- planning and staffing of the audit;
- any material written communications between the auditor and management, such as any management letter or schedule of unadjusted differences;
- whether or not the auditor is satisfied with the quality and effectiveness of financial recording procedures and systems;
- the extent to which the auditor is satisfied with the nature and scope of its examination;
- any instances of fraud or other illegal acts involving senior management of the Corporation;
- whether or not the auditor has received the full co-operation of senior management and other employees of the Corporation and whether the auditor has encountered any audit problems or difficulties in the course of its audit work, including any restrictions on the scope of the auditor's work or access to required information and any significant disagreements with management (along with management's response);
- the auditor's opinion of the competence and performance of the Chief Financial Officer and other key financial personnel; and
- the items required to be communicated to the Audit Committee under the Canadian authoritative guidance or under Canadian generally accepted auditing standards.

**(e) Review of the Audit Plan**

The Audit Committee will discuss with the auditor the nature of an audit and the responsibility assumed by the auditor when conducting an audit under Canadian generally accepted auditing standards. The Audit Committee will review a summary of the auditor's audit plan for each audit.

**(f) Review of Audit Fees**

The Audit Committee will determine the auditor's fee and the terms of the auditor's engagement. In determining the auditor's fee, the Audit Committee should consider, among other things, the number and nature of reports to be issued by the auditor, the quality of the internal controls of the Corporation, the size, complexity and financial condition of the Corporation and the extent of internal audit and other support to be provided to the auditor by the Corporation.

**(g) Review of Financial Statements**

The Audit Committee will review and discuss with management and the auditor the annual audited financial statements, together with the auditor's report thereon, and the interim financial statements, before recommending them for approval by the Board. The Audit Committee will also review and discuss with management and the auditor:

- management's discussion and analysis relating to the annual audited financial statements and interim financial statements;

- any reconciliation of the Corporation's financial statements from Canadian generally accepted accounting principles to U.S. generally accepted accounting principles;

- all critical accounting policies and practices used or to be used by the Corporation; and

- all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor.

The Audit Committee will also engage the auditor to review the interim financial statements and any reconciliation of the Corporation's financial statements prior to the Audit Committee's review of such financial statements or reconciliation.

**(h) Review of Other Financial Information**

The Audit Committee will:

- review annual and interim earnings press releases prior to their public release, as well as financial information and earnings guidance provided to analysts and rating agencies. The Audit Committee will also review the use of "pro forma" or "adjusted" non-GAAP information in such press releases. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;

- ensure that adequate procedures are in place for management's review of all other financial information extracted or derived from the Corporation's financial statements that were previously reviewed by the Audit Committee before such information is released to the public, including, without limitation, financial information or statements for use in prospectuses or other offering or public disclosure documents and financial statements required by regulatory authorities, and the Audit Committee shall periodically assess the adequacy of those procedures; and

- review the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements.

**(i) Review of the Internal Audit Function**

The Audit Committee will review the mandate, budget, planned activities, staffing and organizational structure of the Corporation's internal audit function (which may be outsourced to a firm other than the auditor) to confirm that it is independent of management and has sufficient resources to carry out its mandate. The Audit Committee will discuss this mandate with the auditor.

The Audit Committee will review the appointment and replacement of the officer in charge of internal audit and will review the significant reports to management prepared by the internal auditing department and management's responses.

The Audit Committee has the authority to communicate directly with the officer in charge of internal audit. In addition, as frequently as it deems necessary to fulfill its responsibilities but not less often than annually, the Audit Committee will meet privately with the officer in charge of internal audit to discuss any areas of concern to the Audit Committee or the officer in charge of internal audit.

**(j) Relations with Senior Management**

The Audit Committee members will meet privately with senior management as frequently as the Audit Committee feels is appropriate to fulfil its responsibilities, which will not be less frequently than annually to discuss any areas of concern to the Audit Committee or senior management.

**(k) Oversight of Internal Controls and Disclosure Controls**

The Audit Committee will review with senior management the adequacy of the internal controls that have been adopted by the Corporation to safeguard assets from loss and unauthorized use, to prevent, deter and detect fraud, and to verify the accuracy of the financial records. The Audit Committee will review any special audit steps adopted in light of material control deficiencies.

The Audit Committee will review with senior management the controls and procedures that have been adopted by the Corporation to confirm that material information about the Corporation and its subsidiaries that is required to be disclosed under applicable law or stock exchange rules is disclosed within the required time periods.

The Audit Committee will also review disclosures made to it by the Chief Executive Officer and Chief Financial Officer during their certification process for applicable securities law filings about any significant deficiencies and material weaknesses in the design or operation of the Corporation's internal control over financial reporting which are reasonably likely to adversely affect the Corporation's ability to record, process, summarize and report financial information required to be disclosed by the Corporation in the reports that it files or submits under U.S. federal securities law or applicable Canadian federal and provincial legislation and regulations within the required time periods, and any fraud, whether or not material, involving management or other employees who have a significant role in the Corporation's internal control over financial reporting.

**(l) Legal Compliance**

The Audit Committee will review with the Corporation's legal counsel any legal matters that could have a significant effect on the Corporation's financial statements. It will also review with legal counsel material inquiries received from regulators and governmental agencies and advise the Board accordingly.

**(m) Risk Management**

The Audit Committee will review periodically with senior management the Corporation's policies with respect to risk assessment and risk management, including the steps taken to monitor and control risks.

**(n) Taxation Matters**

The Audit Committee will periodically review with senior management the status of significant taxation matters of the Corporation.

**(o) Hiring Employees of the Auditor**

The Audit Committee has established and will continue to maintain and monitor compliance with policies for hiring partners and employees and former partners and employees of the auditor.

**4. COMPLAINTS PROCEDURE**

The Audit Committee has established, and will continue to maintain, procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, auditing matters and disclosure controls and procedures for the confidential, anonymous submission of concerns by employees of the Corporation regarding questionable accounting or auditing matters or disclosure controls.

**5. REPORTING**

The Audit Committee will regularly report to the Board on:

- the auditor's independence;
- the performance of the auditor and the Audit Committee's recommendations regarding its reappointment or termination;
- the performance of the internal audit function;
- the adequacy of the Corporation's internal controls and disclosure controls;
- its recommendations regarding the annual and interim financial statements of the Corporation and any reconciliation of the Corporation's financial statements, including any issues with respect to the quality or integrity of the financial statements;
- its review of the annual and interim management's discussion and analysis;
- the Corporation's compliance with legal and regulatory requirements related to financial reporting; and
- all other significant matters it has addressed and with respect to such other matters that are within its responsibilities.

**6. REVIEW AND DISCLOSURE**

The Audit Committee will review this Charter at least annually and submit it to the Corporate Governance Committee together with any proposed amendments. The Corporate Governance Committee will review this Charter and submit it to the Board for approval with such further amendments as it deems necessary and appropriate.

**7. ASSESSMENT**

At least annually, the Corporate Governance Committee will review the effectiveness of the Audit Committee in fulfilling its responsibilities and duties as set out in this Charter and in a manner consistent with the corporate governance guidelines adopted by the Board.

**8. CHAIR**

Each year, the Board will appoint one member to be Chair of the Audit Committee. If, in any year, the Board does not appoint a Chair, the incumbent Chair will continue in office until a successor is appointed.

**9. REMOVAL AND VACANCIES**

Any member may be removed and replaced at any time by the Board, and will automatically cease

to be a member as soon as the member ceases to meet the qualifications set out above. The Board will fill vacancies on the Audit Committee by appointment from among qualified members of the Board. If a vacancy exists on the Audit Committee, the remaining members will exercise all of its powers so long as a quorum remains in office.

**10. ACCESS TO INDEPENDENT COUNSEL AND OTHER ADVISORS**

In carrying out its duties, the Audit Committee may retain independent counsel and any other outside advisor at the expense of the Corporation without Board approval at any time and has the authority to determine any such counsel's or advisor's fees and other retention terms.

**11. DEFINITIONS**

Capitalized terms used in this Charter have the meanings attributed to them below:

**"Audit Committee Financial Expert"** means a person who has the following attributes:

(a) an understanding of generally accepted accounting principles and financial statements;

(b) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

(c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements, or experience actively supervising one or more person's engaged in such activities;

(d) an understanding of internal controls and procedures for financial reporting; and

(e) an understanding of audit committee functions acquired through any one or more of the following;

(i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;

(ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;

(iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or

(iv) other relevant experience.

"**Financially Literate**" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

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**EXHIBIT 2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 AND**
**AS OF DECEMBER 31, 2004 AND 2003**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following management's discussion and analysis is intended to assist you in better understanding and evaluating material changes in our financial condition and operations for the year ended December 31, 2004, compared to the preceding fiscal year. We recommend that you read this discussion and analysis in conjunction with our consolidated financial statements prepared in accordance with accounting principles generally accepted in Canada, or Canadian GAAP, and the related notes to those financial statements. All dollar amounts in this discussion are in U.S. dollars unless otherwise specified. Unless otherwise indicated, references in this discussion to "we," "our" and "us" are to The Thomson Corporation and its subsidiaries. This management's discussion and analysis contains forward-looking statements. Readers are cautioned that these forward-looking statements are subject to risks and uncertainties, including those identified on page 30 of this management's discussion and analysis and in the "Risk Factors" section of our annual information form, which is also contained in our annual report on Form 40-F. This management's discussion and analysis is dated as of February 22, 2005.*


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### OVERVIEW

#### Our Business

We are one of the world's leading information services providers to business and professional customers. We generate revenues by supplying our customers with business-critical information, which we make more valuable by adding expert analysis, insight and commentary, and couple it with software tools and applications that our customers can use to search, compare, synthesize and communicate the information. To further enhance our customers' workflows, we increasingly deliver information and services electronically, integrate our solutions with our customers' own data and tailor the delivery of information to meet specific customer needs. As we integrate critical information with analysis, tools and applications, we place greater focus on the way our customers use our content, rather than simply on selling the content itself.

As a global company that provides services in approximately 130 countries, we are affected by the market dynamics, governmental regulations and business conditions for each market and country in which we operate. Our business continues to evolve in conjunction with changes in our customers' workflows. Our customers' increasing desire for information, along with their increasing technological sophistication, has translated into gains in strategically important areas of our businesses such as online information, software and service offerings. However, while we face unique challenges in each of our markets, the European financial market and the IT testing market in the United States in particular have experienced difficult economic conditions and strong competition, which have led to increasing pricing pressures and affected revenue growth.

During the past few years, we have concentrated on driving efficiencies, primarily through leveraging resources, which has helped us increase our profitability and is reflected in our higher profit margins. We also generated significant cash flow from operations, reflecting our strong results and the quality of our earnings.

The following table summarizes selected financial information for 2004 and 2003, including certain metrics that are non-GAAP financial measures. Please see the section below entitled "Use of Non-GAAP Financial Measures" for definitions of these terms and refer to the "Reconciliations" section at the end of this management's discussion and analysis for a reconciliation of these measures to the most directly comparable Canadian GAAP measures.

| | Year ended December 31, | | |
|---|---|---|---|
| **(millions of U.S. dollars, except per share amounts)** | **2004** | **2003** | **Change** |
| *Consolidated Statement of Earnings Data:* | | | |
| Revenues | **8,098** | 7,436 | 9% |
| Operating profit | **1,341** | 1,174 | 14% |
| Earnings attributable to common shares [1] | **1,008** | 877 | 15% |
| Basic and diluted earnings per common share [1] | **$ 1.54** | $ 1.34 | 15% |
| *Consolidated Balance Sheet Data:* | | | |
| Cash and cash equivalents | **405** | 683 | |
| Total assets | **19,643** | 18,685 | |
| Total liabilities | **9,681** | 9,492 | |
| Shareholders' equity | **9,962** | 9,193 | |
| Other Data [2]: | | | |
| Adjusted EBITDA | **2,247** | 2,040 | 10% |
| Adjusted earnings from continuing operations | **805** | 694 | 16% |
| Adjusted earnings per common share from continuing operations | **$ 1.23** | $ 1.06 | 16% |
| Net debt | **3,718** | 3,373 | |
| Free cash flow | **1,123** | 983 | |

(1) *Results are not directly comparable due to certain one-time items. For more information, please see the "Results of Operations" section of this management's discussion and analysis.*

(2) *Non-GAAP financial measures.*

We organize our operations into four market groups that are structured on the basis of the customers they serve:

- *Thomson Legal & Regulatory* is a leading provider of integrated information solutions to legal, tax, accounting, intellectual property, compliance and other business professionals, as well as government agencies. Major brands include Westlaw, Aranzadi, BAR/BRI, Carswell, Checkpoint, Compu-Mark, Creative Solutions, Dialog, Thomson Elite, FindLaw, Gee, IOB, Lawbook, RIA, Sweet & Maxwell and Thomson & Thomson.

- *Thomson Learning* is a leading provider of tailored learning solutions to colleges, universities, professors, students, libraries, reference centers, government agencies, corporations and professionals. Major brands include Thomson Course Technology, Thomson Delmar Learning, Thomson Gale, Thomson Heinle, Thomson Nelson, Thomson NETg, Thomson Peterson's, Thomson Prometric, Thomson South-Western and Thomson Wadsworth.

- *Thomson Financial* is a leading provider of products and integration services to financial and technology professionals in the corporate, investment banking, institutional, retail wealth management, and fixed income sectors of the global financial community. Its flagship brand is Thomson ONE. Other major businesses and brands include AutEx, Baseline, BETA Systems, CCBN, Datastream, First Call, I/B/E/S, IFR, Investext, IR Channel, SDC Platinum and TradeWeb.

- *Thomson Scientific & Healthcare* is a leading provider of information and services to researchers, physicians and other professionals in the healthcare, academic, scientific, corporate and government marketplaces. Major businesses and information solutions include Derwent World Patents Index, Medstat, Micromedex, MicroPatent, PDR (Physicians' Desk Reference), Thomson Pharma, ISI Web of Science and Web of Knowledge, and continuing medical education providers Physicians World and Gardiner-Caldwell.

We also report financial results for a corporate and other reporting category, as well as discontinued operations. The corporate and other category principally includes corporate expenses and costs associated with our stock-related compensation.

We face a changing competitive landscape. Certain of our traditional competitors are trying to follow our solutions strategy and narrow our lead in many areas of technology. But in the years ahead, other competitors could come from outside our traditional competitive set. For instance, Internet service companies could pose a threat to some of our businesses by providing more in-depth offerings. In response to this, we are continuing to move forward aggressively in segmenting our markets and developing solutions tailored to our customers' workflows.

**2005 Financial Outlook**

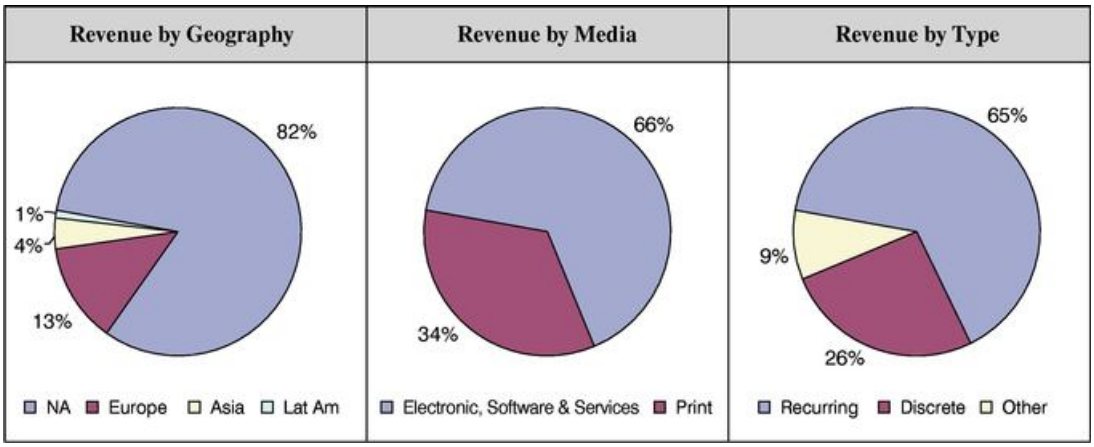
We expect full-year 2005 revenue growth to be in line with our long-term target of 7% to 9%, excluding the effects of currency translation. Full-year 2005 revenue growth will continue to be driven by growth from existing businesses and supplemented by tactical acquisitions.

Adjusted EBITDA margins are expected to expand slightly in 2005, reflecting continued operating improvements, partially offset by higher pension costs and corporate expenses.

We also expect to continue to generate strong free cash flow in 2005.

**Revenues**

The following graphs show the percentage of our 2004 revenues by geography, media and type.




Our revenues are derived from a diverse customer base. In both 2004 and 2003, no single customer accounted for more than 2% of our total revenues.

We segment our revenues geographically by origin of sale in our financial statements. In 2004, 82% of our revenues were from our operations in North America, consistent with that in 2003. In the long-term, we are seeking to increase our revenues from outside North America as a percentage of our overall revenues. We can modify and offer internationally many of the products

and services we developed originally for customers in North America without excessive customization or translation. This represents an opportunity for us to earn incremental revenues. For some of the products and services we sell internationally, we incur additional costs to customize our products and services for the local market and this can result in lower margins if we cannot achieve adequate scale. Development of additional products and services and expansion into new geographic markets are integral parts of our growth strategy. While development and expansion present an element of risk, particularly in foreign countries where local knowledge of our products may be lacking, we believe that the quality and brand recognition of our products and services help to mitigate that risk.

We use a variety of media to deliver our products and services to our customers. Increasingly, our customers are seeking products and services delivered electronically and are migrating away from print-based products. We deliver information electronically over the Internet, through dedicated transmission lines, CDs and, more recently, through handheld wireless devices. We expect that electronic, software and services revenues as a percentage of our total revenues will increase slightly in 2005 compared to 2004 as we continue to emphasize electronic delivery, add solution-based and software-based acquisitions to our portfolio, and as markets outside of North America continue to incorporate technology into their workflow. In 2004, electronic, software and services revenues, as a percentage of our total revenues, increased primarily due to acquisitions within our financial group and the continued evolution of customers' preferences towards electronic products and solutions. Electronic delivery of our products and services improves our ability to provide additional products and services to our existing customers and to access new customers around the world.

Approximately 65% of our revenues are generated from subscription or similar contractual arrangements, which we refer to as recurring revenues. Subscription revenues are from sales of products and services that are delivered under a contract over a period of time. Our subscription arrangements are most often for a term of one year, after which they automatically renew or are renewable at our customers' option, and the renewal dates are spread over the course of the year. Because a high proportion of our revenues come from subscription and similar arrangements where our customers contract with us for a period of time, our revenue patterns are generally more stable compared to other business models that sell products in discrete or one-off arrangements. In the case of some of our subscription arrangements, we realize additional fees based upon usage. We recognize revenues from sales of some products, primarily our textbooks, after we estimate customer returns. We sell our textbooks and related products to bookstores on terms that allow them to return the books to us if they are not sold. In 2004, revenues from recurring arrangements remained consistent with that of the prior year at 65% of total revenues. As a result of acquisitions in 2004, we anticipate that this percentage will increase.

*Expenses*

As an information provider, our most significant expense is labor. Our labor costs include all costs related to our employees, including salaries, bonuses, commissions, benefits and payroll taxes, but do not include costs related to our stock-related compensation. Labor represented approximately 57% of our cost of sales, selling, marketing, general and administrative expenses (operating costs) in 2004 compared to approximately 58% in 2003. No other category of expenses accounted for more than 15% of our operating costs in either 2004 or 2003.

*Acquisitions and Dispositions*

During 2003 and 2004, we completed 84 acquisitions for an aggregate cost of approximately $1.7 billion through cash outlays and other financing arrangements. Many of these acquisitions were tactical in nature and related to the purchase of information, products or services that we integrated into our operations to broaden the range of our product and service offerings to better serve our customers. This is the key principle that drives our overall acquisition strategy. As alternatives to the development of new products and services, tactical acquisitions often have the

advantages of faster integration into our product and service offerings and cost efficiencies. During 2003 and 2004, acquired businesses generated a significant portion of the growth in our total revenues and a lesser portion of the growth in our operating profit. Generally, the businesses that we acquired in 2003 and 2004 have initially had lower margins than our existing businesses. In 2004, our largest acquisitions were Information Holdings Inc. (IHI), a provider of intellectual property and regulatory information, for $445 million, net of cash and cash equivalents received, and TradeWeb, an online trading platform for fixed income securities, for $361 million, net of cash received, plus contingent payments of up to $150 million over the next three years based upon the achievement of certain growth targets. In 2005, we expect that the total amount of cash outlays for acquisitions will decrease from the 2004 level of $1.3 billion.

When integrating acquired businesses, we focus on eliminating cost redundancies and combining the acquired products and services with our existing offerings. We may incur costs, such as severance payments to terminate employees and contract cancellation fees, when we integrate businesses. We include many of these costs in deriving our operating profit.

During 2003 and 2004, we completed 16 dispositions for aggregate consideration of approximately $1.0 billion. While a number of these businesses possessed strong brand equity, loyal customer bases and talented employees, these businesses did not provide the type of synergies that strengthen our core integrated information solutions. The more significant of these dispositions were the sale of our 20% interest in Bell Globemedia Inc., or BGM, in April 2003 for $279 million, the sale of our healthcare magazines in October 2003 for $135 million and the sale of Thomson Media group in October 2004 for gross proceeds of $350 million. The BGM transaction is discussed in the section entitled "Related Party Transactions" and the healthcare magazines and Thomson Media group transactions are discussed in the section entitled "Discontinued Operations."

**Seasonality**

We typically derive a much greater portion of our operating profit and operating cash flow in the second half of the year as customer buying patterns are concentrated in the second half of the year, particularly in the learning and regulatory markets. Costs are incurred more evenly throughout the year. As a result, our operating margins generally increase as the year progresses, though the seasonality of our overall results between the first and second halves has been reducing over the past several years. For these reasons, it may not be possible to compare the performance of our businesses quarter to consecutive quarter, and our quarterly results should be considered on the basis of results for the whole year or by comparing results in a quarter with the results in the same quarter of the previous year. While we report results quarterly, we view and manage our business from a longer-term perspective.

**USE OF NON-GAAP FINANCIAL MEASURES**

In addition to our results reported in accordance with Canadian GAAP, we use non-GAAP financial measures as supplemental indicators of our operating performance and financial position. We use these non-GAAP financial measures internally for comparing actual results from one period to another, as well as for future planning purposes. We have historically reported non-GAAP financial results as we believe their use provides more insight into our performance. The following discussion defines the measures that we use and explains why we believe they are useful measures of our performance, including our ability to generate cash flow:

- *Adjusted EBITDA.* We define adjusted EBITDA as earnings from continuing operations before interest, taxes, depreciation and amortization, net other income (expense) and equity in net losses of associates, net of tax. Because adjusted EBITDA excludes amortization, interest and taxes, it provides a more standard comparison among businesses by eliminating the differences that arise between them due to the manner in which they were acquired or funded. We use the measure as a supplemental cash flow metric as adjusted EBITDA also excludes depreciation and amortization of identifiable

intangible assets, which are both non-cash charges. Net other income, which normally includes non-operating items such as gains and losses on sales of investments, is excluded from adjusted EBITDA as this item is not considered relevant to operating performance. Finally, as the results of equity in associates are not directly under our control, we exclude this item from our analysis of current operating performance. We also use adjusted EBITDA margin, which we define as adjusted EBITDA as a percentage of revenues.

- *Adjusted operating profit*. Adjusted operating profit is defined as operating profit before amortization of identifiable intangible assets. We use this measure for our segments because we do not consider amortization to be a controllable operating cost for purposes of assessing the current performance of our segments. We also use adjusted operating profit margin, which we define as adjusted operating profit as a percentage of revenues.

- *Free cash flow*. We evaluate our operating performance based on free cash flow, which we define as net cash provided by operating activities less additions to property and equipment, other investing activities and dividends paid on our preference shares. We use free cash flow as a performance measure because it represents cash available to repay debt, pay common dividends and fund new acquisitions.

- *Adjusted earnings and adjusted earnings per common share from continuing operations* . We measure our earnings attributable to common shares and per share amounts to adjust for non-recurring items, discontinued operations and other items affecting comparability, which we refer to as adjusted earnings from continuing operations and adjusted earnings per common share from continuing operations. We use these measures to assist in comparisons from one period to another. Adjusted earnings per common share from continuing operations do not represent actual earnings per share attributable to shareholders.

- *Net debt*. We measure our indebtedness including associated hedging instruments (swaps) on our debt less cash and cash equivalents. Given that we hedge some of our debt to reduce risk, we include hedging instruments as a better measure of the total obligation associated with our outstanding debt. We reduce gross indebtedness by cash and cash equivalents on the basis that they could be used to pay down debt.

These and related measures do not have any standardized meaning prescribed by Canadian GAAP and, therefore, are unlikely to be comparable with the calculation of similar measures used by other companies. You should not view these measures as alternatives to operating profit, cash flow from operations, net earnings, total debt or other measures of financial performance calculated in accordance with GAAP. We encourage you to review the reconciliations of these non-GAAP financial measures to the most directly comparable Canadian GAAP measure within this management's discussion and analysis.

**RESULTS OF OPERATIONS**

The following discussion compares our results in the fiscal years and the three-month periods ended December 31, 2004 and 2003 and provides analyses of results from continuing operations and discontinued operations.

**Basis of Analysis**

Our results from continuing operations include the performance of acquired businesses from the date of their purchase and exclude results from operations classified as discontinued. Results from operations that qualify as discontinued operations have been reclassified to that category for all periods presented. Please see the section entitled "Discontinued Operations" for a discussion of these operations. In analyzing the results of our operating segments, we measure the

performance of existing businesses and the impact of acquired businesses and foreign currency translation. Additionally, our operating segment results represent ongoing businesses, which exclude the results of businesses sold or held for sale that do not qualify as discontinued operations, i.e., disposals. The principal businesses included in disposals were various businesses in our financial market group.

The following table summarizes our consolidated results for the years indicated.

| (millions of U.S. dollars, except per share amounts) | Year ended December 31, 2004 | 2003 | Change |
|---|---|---|---|
| Revenues | **8,098** | 7,436 | 9% |
| Adjusted EBITDA | **2,247** | 2,040 | 10% |
| Adjusted EBITDA margin | **27.7%** | 27.4% | |
| Operating profit | **1,341** | 1,174 | 14% |
| Operating profit margin | **16.6%** | 15.8% | |
| Net earnings | **1,011** | 865 | 17% |
| Earnings attributable to common shares | **1,008** | 877 | 15% |
| Earnings per share attributable to common shares | **$ 1.54** | $ 1.34 | 15% |

*See the "Reconciliations" section for a reconciliation of the above non-GAAP financial measures to the most directly comparable Canadian GAAP measures.*

*Revenues*. The increase in revenues was primarily attributable to contributions from acquisitions and from growth in existing businesses and, to a lesser extent, the impact of favorable foreign currency translation. Excluding the impact of foreign currency translation, revenues grew 7%. Growth from existing businesses was exhibited by all of our market groups. Contributions from acquisitions were primarily from CCBN and TradeWeb in our financial group and BIOSIS in our scientific and healthcare group.

*Operating profit*. Operating profit and related margin growth in 2004 reflected the higher revenues from existing businesses, continued efficiency efforts across the corporation and, to a lesser extent, contributions from acquisitions and the favorable impact of foreign currency translation. Included in the results for 2004 were insurance recoveries related to September 11, 2001 of $19 million and a $7 million benefit from an adjustment to accrued expenses related to health insurance claims for active employees. See "Corporate and Other" for further discussion regarding the insurance claims. Results for 2004 also included a benefit for stock appreciation rights of $6 million compared to an expense in the prior year of $7 million. Operating profit growth in 2004 was tempered by a $27 million increase in pension and other defined benefit plans expense compared to the prior year.

*Adjusted EBITDA and Adjusted operating profit* . Adjusted EBITDA and Adjusted operating profit and related margins increased for the same reasons discussed in the "Operating profit" discussion in the immediately preceding paragraph.

*Depreciation and amortization*. Depreciation in 2004 increased $33 million, or 6%, compared to the prior year. This increase reflected recent acquisitions and capital expenditures. Amortization increased $7 million, or 3%, compared to the prior year, as increases due to the amortization of newly acquired assets were partially offset by decreases arising from the completion of amortization for certain intangible assets acquired in previous years.

*Net other income*. In 2004, net other income was $24 million, compared to $74 million in 2003. The 2004 amount primarily consisted of a $35 million gain on the sale of an investment, the receipt of the second settlement payment of $22 million from Skillsoft PLC and a $14 million gain on the sale of a wholly-owned subsidiary, whose only asset consisted of tax losses, to a company controlled by Kenneth R. Thomson (discussed under "Related Party Transactions"). These gains were partially offset by a $53 million loss associated with our early redemption of certain debt securities (discussed in the section entitled "Cash Flows"). In 2003, net other income primarily

consisted of a gain on the sale of our 20% interest in BGM (discussed in the section entitled "Related Party Transactions"), and the receipt of the first $22 million settlement payment from Skillsoft.

*Net interest expense and other financing costs* . Our net interest expense and other financing costs in 2004 decreased 7% compared to 2003. This decrease in net interest expense and other financing costs reflected lower average levels of outstanding net debt and lower interest rates in 2004 compared with 2003. Included in net interest expense and other financing costs in 2004 was a net benefit of $1 million related to new accounting guidance on derivatives. See the section entitled "Accounting Changes" for more information.

*Income taxes*. Our income tax expense in 2004 represented 23.6% of our earnings from continuing operations before income taxes and our proportionate share of losses on investments accounted for using the equity method of accounting. This compares with an equivalent effective rate of 15.1% in 2003. Included in the 2004 income tax provision was a benefit resulting from the release of a valuation allowance of $41 million related to new legislation in the United Kingdom. In 2003, the income tax provision included a benefit of $64 million principally related to the release of tax contingencies in the United Kingdom associated with a favorable tax settlement.

Our effective income tax rates in 2004 and 2003 were lower than the Canadian corporate income tax rate of 36.0% and 36.6%, respectively, due principally to the lower tax rates and differing tax rules applicable to certain of our operating and financing subsidiaries outside Canada. Specifically, while we generate revenues in numerous jurisdictions, the tax provision on earnings is computed after taking account of intercompany interest and other charges among our subsidiaries resulting from their capital structure and from the various jurisdictions in which operations, technology and content assets are owned. For these reasons, our effective tax rate differs substantially from the Canadian corporate tax rate. In 2005, our businesses expect to continue with initiatives to consolidate the ownership of their technology platforms and content and we expect that a proportion of our profits will continue to be taxed at lower rates than the Canadian statutory tax rate. Therefore, we expect our effective tax rate in 2005 to approximate the 2004 rate of 23.6%. Our effective tax rate and our cash tax cost depend on the laws of numerous countries and the provisions of multiple income tax conventions between various countries in which we operate. Our ability to maintain our effective rate at levels similar to those in 2004 will be dependent upon such laws and conventions remaining unchanged as well as the geographic mix of our profits. We are not aware of any significant changes in existing laws or conventions at this time that would cause our effective tax rate to increase.

The balance of our valuation allowance against our deferred tax assets at December 31, 2004 was $408 million compared to $440 million at December 31, 2003. The net movement in the valuation allowance from 2003 to 2004 primarily relates to:

- Reversals related to UK losses and tax credit carryforwards which are now considered more likely than not to be used due to changes in tax laws; lower required allowances against Canadian losses which, while still fully provided against, are first offset by deferred tax liabilities which increased in 2004 from the revaluation of debt and currency swaps; and reversals due to the sale of Canadian net operating losses which previously had full valuation allowances offsetting the related assets (see the section entitled "Related Party Transactions" for further discussion).

- Additions from Canadian losses sustained in 2004; certain tax losses arising on the disposal of businesses; and the impact of currency translation.

We maintain a liability for contingencies associated with known issues under discussion with tax authorities and transactions yet to be settled and we regularly assess the adequacy of this liability. We record liabilities for known tax contingencies when, in the judgment of management, it is probable that a liability has been incurred. We reverse contingencies to income in the period when management assesses that they are no longer required or, when they become no longer required as a result of statute or resolution through the normal tax audit process. Our

contingency reserves principally comprise possible issues for the years 2001 to 2004. It is anticipated that these reserves will either result in a cash payment or be reversed to income between 2005 and 2009. In particular, the outcome of audits currently underway may result in the release of a significant part of such reserves in 2005, in which case our 2005 effective tax rate would be less than our 2004 effective tax rate.

In the normal course of business, we enter into numerous intercompany transactions related to the sharing of data and technology. The tax rules governing such transactions are complex and depend on numerous assumptions. At this time, we believe that it is not probable that any such transactions will result in additional tax liabilities, and therefore we have not established contingencies related to these items. However, because of the volume and complexity of such transactions, it is possible that at some future date an additional liability could result from audits by the relevant taxing authorities.

*Equity in net losses of associates, net of tax* . Equity in net losses of associates, net of tax, includes our proportionate share of net losses of investments accounted for using the equity method. In 2004, equity in net losses of associates, net of tax, improved compared to the prior year due to the performance of equity method investees.

*Earnings attributable to common shares and earnings per common share* . Earnings attributable to common shares were $1,008 million in 2004 compared to $877 million in 2003. Earnings per common share were $1.54 in 2004 compared to $1.34 in 2003. The increases in reported earnings and earnings per common share were largely the result of higher operating profit and gains on the sales of discontinued operations. However, these results are not directly comparable because of certain one-time items, as well as the variability in discontinued operations due to the timing of dispositions.

The following table presents a summary of our earnings and our earnings per common share from continuing operations for the periods indicated, after adjusting for items affecting comparability in both years.

| | Twelve months ended December 31, | |
|---|---|---|
| **(millions of U.S. dollars, except per common share amounts)** | **2004** | **2003** |
| Earnings attributable to common shares | **1,008** | 877 |
| Adjustments for one-time items: | | |
| Net other income | **(24)** | (74) |
| Tax on above item | **10** | 8 |
| Release of tax credits | **(41)** | (64) |
| Net gain on redemption of Series V preference shares | **—** | (21) |
| Discontinued operations | **(148)** | (32) |
| Adjusted earnings from continuing operations attributable to common shares | **805** | 694 |
| Adjusted earnings per common share from continuing operations | **$ 1.23** | $ 1.06 |

On a comparable basis, our adjusted earnings from continuing operations for 2004 increased, largely as a result of higher operating profit stemming from higher revenues and improved operating efficiencies. These results also reflected benefits from insurance recoveries, stock appreciation rights and an accrual adjustment associated with health insurance claims for active employees, as well as lower net interest expense, offset by higher pension and other benefit plans expense and a higher effective tax rate.

**Operating Results by Business Segment**

*See the "Reconciliations" section for a reconciliation of the non-GAAP financial measures to the most directly comparable Canadian GAAP measures.*

***Thomson Legal & Regulatory***

| (millions of U.S. dollars) | Year ended December 31, 2004 | 2003 | Change |
|---|---|---|---|
| Revenues | **3,393** | 3,138 | 8% |
| Adjusted EBITDA | **1,085** | 979 | 11% |
| Adjusted EBITDA margin | **32.0%** | 31.2% | |
| Adjusted operating profit | **882** | 797 | 11% |
| Adjusted operating profit margin | **26.0%** | 25.4% | |

In 2004, revenues for Thomson Legal & Regulatory increased 8%. Excluding the impact of foreign currency translation, revenues increased 6%. The increase was primarily driven by higher revenues from existing businesses with strong performances by Westlaw, Checkpoint, the International online services, FindLaw and our legal education business. This revenue growth was offset, in part, by continued weakness in the news and business information sector, which experienced a decline in transactional activity. Revenue from print and CD products decreased from that of the prior year as customers continue to migrate towards our online solutions. Growth attributable to newly acquired businesses had a smaller impact in 2004 and was principally attributable to Thomson Elite, which we acquired in May 2003.

In 2004, North American Westlaw revenue experienced growth in all of its major market segments: law firm, government, corporate and academic. Outside of North America, Westlaw revenues increased particularly in Europe and the Asia-Pacific region. The North American tax and accounting businesses experienced higher revenues in 2004, led by the Checkpoint online service and higher tax software sales. Revenue from our legal education business also increased in 2004 primarily due to higher enrollments. Finally, FindLaw revenue increased as a result of continued strong new sales performance and the benefit of acquisitions.

The growth in adjusted EBITDA and adjusted operating profit in 2004 resulted from the revenue growth described above. The increase in the corresponding margins was attributable to this revenue growth and the impact of improved operating efficiencies.

Growth in the overall legal information market remains modest but steady. We expect that customer spending on print and CD products will continue to decline, but will be more than offset by growth in spending for online products and integrated information offerings such as Westlaw Litigator. The impact of Sarbanes-Oxley Act requirements has significantly affected the accounting labor market, increasing the demand for compliance information and software and for labor saving and outsourcing solutions. In this environment, we anticipate continued strong demand for our tax and accounting compliance products and outsourcing solutions.

***Thomson Learning***

| (millions of U.S. dollars) | Year ended December 31, 2004 | 2003 | Change |
|---|---|---|---|
| Revenues | **2,174** | 2,052 | 6% |
| Adjusted EBITDA | **521** | 520 | 0% |
| Adjusted EBITDA margin | **24.0%** | 25.3% | |
| Adjusted operating profit | **327** | 336 | (3%) |
| Adjusted operating profit margin | **15.0%** | 16.4% | |

Revenues for Thomson Learning increased 6% in 2004 compared to the prior year. Excluding the impact of foreign currency translation, revenues increased 4%. This increase was attributable to both acquired businesses and growth from existing businesses.

In the Academic group, revenues increased primarily due to higher sales in our international markets, driven by growth in our English language training business. In higher education, overall textbook sales increased largely as a result of custom product offerings. However, growth in other offerings was tempered and return levels increased, particularly in the United States, as students seek alternate sources for their course materials to address pricing concerns. To minimize the impact of supply from alternate sources, our higher education businesses focused on shifting demand for older editions to customized or specialized products and services only available from the original publisher. Revenues in 2004 from our library reference business increased slightly compared to the prior year as increased sales of electronic products more than offset declines in print offerings. An accelerated migration of collections to electronic products reflected state government budget constraints, which have impacted the funds that libraries have to spend on multiple media formats of reference material.

Lifelong Learning's revenues increased primarily due to growth in the government and professional testing offerings, sales in the vocational and career markets, and the impact of acquired businesses. Growth was moderated by the expiration in the fourth quarter of 2004 of a significant e-testing government contract in the United Kingdom, for which a subsequent contract was awarded to a business headquartered in the United Kingdom. The competitive environment and ongoing corporate budget constraints in the corporate e-training and information technology markets continued to limit growth for our businesses in these segments in 2004.

In 2004, adjusted EBITDA, adjusted operating profit and the related margins were impacted by restructuring costs of $9 million which were recorded in the fourth quarter and were associated with consolidating operations of existing and acquired businesses. Additionally, comparisons with the prior year and the fourth quarter were affected by net credits of $11 million recorded in the fourth quarter of 2003. The net credits of $11 million were comprised of a $27 million benefit largely related to the reversal of incentive accruals, partially offset by $16 million of charges related to severance and lease termination costs. Excluding these items, the adjusted EBITDA and adjusted operating profit margins declined slightly due to additional product and market investments and the impact of acquired businesses that have lower initial margins.

Education has become a lifelong pursuit in a global knowledge-based economy, and we expect to benefit from this growing trend. Technology will continue to transform the learning market and allow us to deliver high-value solutions designed to meet customer needs. For example, we are currently collaborating with professors, students and institutions to design, build and deliver new instructional solutions that leverage our content, media assets, test banks, applications and expertise, which we expect will improve instructors' productivity and students' learning efficiency. However, in the short term, we anticipate that tough competition in the corporate training market will depress the prices of our offerings in businesses in that market. Additionally, as electronic offerings continue to grow as a percentage of total revenues, we expect that, over time, the dramatic seasonal swings in our revenues from quarter to quarter will lessen. However, since revenues from electronic offerings are generally recognized in equal installments over a period of time, as opposed to all at once on the sale of a print product, our reported revenue growth may be tempered as this transition occurs.

***Thomson Financial***

| | Year ended December 31, | | |
|---|---|---|---|
| **(millions of U.S. dollars)** | **2004** | **2003** | **Change** |
| Revenues | **1,734** | 1,510 | 15% |
| Adjusted EBITDA | **480** | 403 | 19% |
| Adjusted EBITDA margin | **27.7%** | 26.7% | |
| Adjusted operating profit | **298** | 228 | 31% |
| Adjusted operating profit margin | **17.2%** | 15.1% | |

Revenues for Thomson Financial increased 15% over those of the prior year. Excluding the impact of foreign currency translation, revenues increased 12%. This increase was primarily due to the impact of acquired businesses, including CCBN and TradeWeb, but also reflected growth from existing businesses. Revenues from existing businesses in the United States increased in 2004 as a result of new sales and higher usage and transaction revenues. Thomson ONE workstations increased 56% for the twelve-month period, due to user migration from legacy products and new client wins. In 2004, European revenues from existing businesses declined compared with the prior year due to difficult market conditions. European market conditions began to exhibit certain positive trends in 2004, but continued to lag the improvements being exhibited in the United States. Many of our customers responded to these difficult market conditions by tightening their capital spending and budgets, which in turn led to some product cancellations and pressure on our pricing.

Adjusted EBITDA and adjusted operating profit increased due to the increase in revenues. Included in both adjusted EBITDA and adjusted operating profit were insurance recoveries related to September 11, 2001 of $19 million in 2004 and $4 million in 2003. Excluding the insurance recoveries related to September 11, 2001 in both the current and prior year, the adjusted EBITDA margin in 2004 was consistent with that of the prior year as increases in operating efficiency were offset by acquisition-related expenses and investments for our online news service and a data center, as well as higher data costs. The adjusted operating margin increased as a result of lower depreciation, as a percentage of revenues, due to the timing of capital spending.

We anticipate mixed market conditions in 2005, with the North American market expected to achieve the highest growth, Europe to continue lagging behind North America, and Asia to be essentially flat. We expect limited growth in technology investments by our customers and continued pressure on pricing. Revenue growth is anticipated as a result of the full year impact of acquisitions made in 2004 and from existing businesses, especially those associated with transactional activity.

***Thomson Scientific & Healthcare***

| | Year ended December 31, | | |
|---|---|---|---|
| **(millions of U.S. dollars)** | **2004** | **2003** | **Change** |
| Revenues | **836** | 760 | 10% |
| Adjusted EBITDA | **251** | 217 | 16% |
| Adjusted EBITDA margin | **30.0%** | 28.6% | |
| Adjusted operating profit | **222** | 186 | 19% |
| Adjusted operating profit margin | **26.6%** | 24.5% | |

Revenues for Thomson Scientific & Healthcare increased 10% compared to the prior year. Excluding the impact of foreign currency translation, revenues increased 7%. This increase was attributable to higher revenues from existing businesses and contributions from acquired companies, primarily BIOSIS, a provider of databases and services for life sciences research acquired in January 2004. Revenue growth benefited from higher subscription revenues for the ISI Web of Science, Web of Knowledge and the Micromedex electronic product portfolio, as well as increased customer spending for healthcare decision support products. These increases reflect continuing investments by our customers in basic research and drug development and the increasing demand for healthcare point-of-care and management information solutions.

The increases in adjusted EBITDA, adjusted operating profit and the corresponding margins compared to the prior year reflected the higher 2004 revenues and effective integration and cost management efforts.

In November 2004, we completed our acquisition of IHI for $445 million, net of cash and cash equivalents received. IHI provides intellectual property and regulatory information to the

scientific, legal, and corporate markets. This acquisition will allow our scientific and healthcare group to offer our pharmaceutical and corporate customers a significantly broader range of intellectual property and drug development workflow solutions.

We believe that demand for scientific information will continue to grow because scientific research and development funding are considered to be necessary, not discretionary, expenditures for our customers. Within the healthcare information market, we see a continuation of the trend toward delivering information to physicians and other healthcare professionals at the point of care.

***Corporate and Other***

Corporate and other expenses were $98 million in 2004, virtually unchanged from the prior year. Increases in expenses for pensions and other defined benefit plans, as well as other corporate expenses, were offset by an accrual reversal related to insurance claims and a benefit associated with stock appreciation rights. A benefit of $7 million resulted from an adjustment to accrued expenses related to health insurance claims for active employees. Results in 2004 also reflected a benefit associated with stock appreciation rights of $6 million compared to an expense of $7 million in 2003.

***Discontinued Operations***

The following businesses, along with one other small business from Thomson Learning, which was sold in June 2003, are classified as discontinued operations within the consolidated financial statements for all periods presented. None of these businesses was considered fundamental to our integrated information offerings.

In October 2003, we sold our portfolio of healthcare magazines for $135 million and recorded the related post-tax gain of $63 million in the fourth quarter of 2003. The magazines had previously been managed within our scientific and healthcare group.

In February 2004, we sold DBM, a provider of human resource solutions, which had been managed within our learning group. Based on the status of negotiations at December 31, 2003, an impairment charge relating to goodwill of $62 million before income taxes was recorded in the fourth quarter of 2003. We recorded a post-tax gain of $7 million in 2004 related to the completion of the sale.

In the second quarter of 2004, we sold Sheshunoff Information Services Inc., a provider of critical data, compliance and management tools to financial institutions, which had been managed within Thomson Media. Based on estimates of fair value, an impairment charge relating to identifiable intangible assets and goodwill of $24 million before income taxes was recorded in the fourth quarter of 2003 and a charge of $6 million relating to intangible assets was recorded in the first quarter of 2004. We recorded a post-tax gain of $6 million in 2004 related to the completion of the sale.

In November 2004, we sold the Thomson Media group, a provider of largely print-based information products focused on the banking, financial services and related technology markets, for gross proceeds of $350 million. We recorded a post-tax gain on this transaction of $94 million in the fourth quarter of 2004 related to the sale. The results of Thomson Media had previously been reported within our Corporate and other segment.

For more information on these discontinued operations, see Note 6 to our consolidated financial statements.

**Return on Invested Capital**

We measure our return on invested capital (ROIC) to assess, over the long-term, our ability to create value for our shareholders. Our goal is to show continuous improvement in this return by

efficiently and effectively utilizing our capital to invest in areas with high returns and realizing operating efficiencies to further enhance our profitability. ROIC is calculated as the ratio of our adjusted operating profit (including discontinued operations), less cash taxes paid, to our average invested capital (see the "Reconciliations" section for the calculation and a reconciliation to the most directly comparable Canadian GAAP measures). For 2004, our ROIC was 7.6%, a slight increase from 7.4% for the prior year. As assets acquired are recorded at their fair values, this has had the effect of increasing the recorded value of our asset base to be much closer to its fair value, thereby tempering our return. We focus on driving efficiency, increasing our operating profit margin and, in particular, improving free cash flow. We believe that success in these areas is indicative of the long-term capability to improve our ROIC. Since 2000, we have increased our free cash flow at a compounded rate of 39% to $1.1 billion in 2004.

**Review of Fourth Quarter Results**

The following table summarizes our consolidated results for the fourth quarter of 2004 and 2003.

| | Quarter ended December 31, | | |
|---|---|---|---|
| **(millions of U.S. dollars, except per share amounts)** | **2004** | **2003** | **Change** |
| Revenues | **2,327** | 2,131 | 9% |
| Adjusted EBITDA | **737** | 707 | 4% |
| Adjusted EBITDA margin | **31.7%** | 33.2% | |
| Operating profit | **495** | 481 | 3% |
| Operating profit margin | **21.3%** | 22.6% | |
| Net earnings | **438** | 396 | 11% |
| Earnings per share attributable to common shares | **$ 0.67** | $ 0.60 | 12% |

*See the "Reconciliations" section for a reconciliation of the above non-GAAP financial measures to the most directly comparable Canadian GAAP measures.*

*Revenues.* The increase in revenues for the three-month period ended December 31, 2004 was primarily attributable to contributions from acquisitions and, to a lesser extent, from growth in existing businesses and the impact of favorable foreign currency translation. Excluding the impact of foreign currency translation, revenues grew 8%. Growth from existing businesses was exhibited by our financial, scientific and healthcare, and legal and regulatory groups. Revenues from existing businesses declined in our learning group due to lower sales of print reference products in our library reference group, lower sales of textbooks, and a greater amount of deferred revenue. We are beginning to see more deferred revenue in our learning group arising from a change in our sales mix toward more electronic products, which results in the recognition of revenue over time rather than all at the time of sale. Contributions from acquisitions were primarily from CCBN and TradeWeb in our financial group, BIOSIS and IHI in our scientific and healthcare group, and KnowledgeNet in our learning group.

*Operating profit.* The increase in operating profit for the three months ended December 31, 2004 reflected the higher revenues from existing businesses and contributions from acquisitions. Our operating margin declined in the fourth quarter of 2004 compared to the prior year period primarily as a result of restructuring costs in our learning group and the shift in print shipments to earlier periods in the year in our legal and regulatory group. Additionally, results in the fourth quarter of 2003 for our learning group included net credits associated with the reversal of incentive accruals offset by charges for restructuring activity. See the section entitled "Thomson Learning" for further details.

*Adjusted EBITDA and Adjusted operating profit.* Adjusted EBITDA, adjusted operating profit and related margins for the three months ended December 31, 2004 increased for the same reasons discussed in the "Operating profit" discussion in the immediately preceding paragraph.

*Depreciation and amortization.* Depreciation for the three months ended December 31, 2004 increased $9 million, or 6%, compared to the prior year. Amortization for the three months ended December 31, 2004 increased $7 million, or 10%, compared to the prior year. These increases reflected recent acquisitions and capital expenditures.

*Net other expense.* In the fourth quarter of 2004 and 2003, net other expense was $4 million and $5 million, respectively. The 2004 amount comprised primarily a $35 million gain on the sale of an investment, as well as a $14 million gain on the sale of a wholly-owned subsidiary, whose only asset consisted of tax losses, to a company controlled by Kenneth R. Thomson (see further discussion under "Related Party Transactions"). These gains were offset by a $53 million loss associated with the early redemption of certain debt (discussed in the section entitled "Cash Flows").

*Net interest expense and other financing costs.* Our interest expense for the three months ended December 31, 2004 decreased 2% compared to 2003. This decrease in net interest expense and other financing costs reflected lower interest rates on outstanding net debt in 2004 compared with 2003.

*Income taxes.* Income tax expense for the three-month period ended December 31, 2004 was $119 million, compared to $17 million in the three months ended December 31, 2003. The lower expense in the period ended December 31, 2003 reflected a reduction of our liability for tax contingencies of $64 million, principally arising from a favorable tax settlement in the United Kingdom, as well as a higher recognition of tax attributes. Comparability of both periods was further impacted by a refinement of the calculation by which we allocated estimated full year income tax expense among interim periods in 2004. See the section entitled "Accounting Changes" for more information. Because of the seasonality in our businesses, our interim effective tax rate for a particular quarter is not indicative of our estimated effective tax rate for the full year.

*Equity in net income (loss) of associates, net of tax.* Equity in net income (loss) of associates, net of tax, includes our proportionate share of net income of investments accounted for using the equity method. For the three months ended December 31, 2004, equity in net income of associates, net of tax, improved compared to the prior period due to the performance of equity method investees.

*Earnings attributable to common shares and earnings per common share.* Earnings attributable to common shares were $437 million for the three months ended December 31, 2004 compared to $395 million in the prior year period. Earnings per common share were $0.67 in the three months ended December 31, 2004 compared to $0.60 in the prior year period. The increases in earnings and earnings per common share were primarily due to gains recognized within discontinued operations. However, these results are not directly comparable to those of the prior year because of certain one-time items, a change in our accounting for income taxes for interim periods, and the variability in discontinued operations due to the timing of dispositions.

The following table presents a summary of our earnings and our earnings per common share from continuing operations for the periods indicated, after adjusting for items affecting comparability in both years.

| | Three months ended December 31, | |
|---|---|---|
| **(millions of U.S. dollars, except per common share amounts)** | **2004** | **2003** |
| Earnings attributable to common shares | **437** | 395 |
| Adjustments for one-time items: | | |
| Net other expense | **4** | 5 |
| Tax on above | **(1)** | — |
| Release of tax credits | **(6)** | (64) |
| Normalization of tax rate | **14** | — |
| Discontinued operations | **(124)** | 2 |
| Adjusted earnings from continuing operations attributable to common shares | **324** | 338 |
| Adjusted earnings per common share from continuing operations | **$ 0.49** | $ 0.52 |

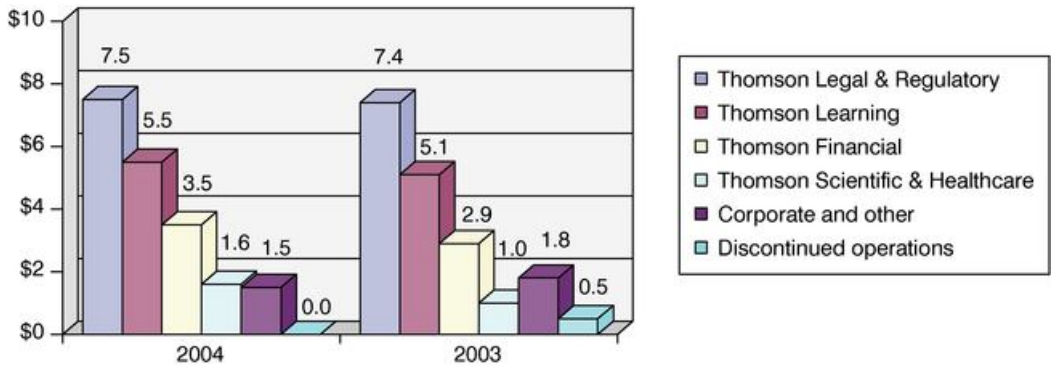
On a comparable basis, our adjusted earnings from continuing operations decreased as higher operating profit and lower interest expense were offset by higher income tax expense.

**LIQUIDITY AND CAPITAL RESOURCES**

**Financial Position**

At December 31, 2004, our total assets were $19,643 million, which represented a 5% increase from the total of $18,685 million at December 31, 2003. This increase was primarily due to the impact of foreign currency translation, an increase in intangible assets arising from acquisitions and an increase in capital expenditures, partly offset by the effect of depreciation and amortization and the sale of our Thomson Media group.

Our total assets by market group as of December 31, 2004 and 2003 were as follows:




The following table presents comparative information related to net debt, which we define as total debt, after accounting for swap arrangements, less cash and cash equivalents; shareholders' equity and the ratio of net debt to shareholders' equity:

| | As at December 31, | |
|---|---|---|
| **(millions of U.S. dollars)** | **2004** | **2003** |
| Short-term indebtedness | **7** | 87 |
| Current portion of long-term debt | **295** | 484 |
| Long-term debt | **4,013** | 3,684 |
| Total debt | **4,315** | 4,255 |
| Swaps | **(192)** | (199) |
| Total debt after swaps | **4,123** | 4,056 |
| Less: cash and cash equivalents | **(405)** | (683) |
| Net debt | **3,718** | 3,373 |
| Shareholders' equity | **9,962** | 9,193 |
| Net debt/equity ratio | **0.37:1** | 0.37:1 |

The following table displays the changes in our shareholders' equity for the year ended December 31, 2004:

| (millions of U.S. dollars) | |
|---|---|
| Balance at December 31, 2003 | 9,193 |
| Earnings attributable to common shares for the year ended December 31, 2004 | 1,008 |
| Additions to contributed surplus related to stock incentive and purchase plans | 37 |
| Issuance of common shares under stock incentive plans | 9 |
| Common share dividend payments | (484) |
| Change in cumulative translation adjustment | 199 |
| Balance at December 31, 2004 | 9,962 |

The following table sets forth the ratings that we have received from rating agencies in respect of our outstanding securities.

| | Moody's | Standard & Poor's | Dominion Bond Rating Service |
|---|---|---|---|
| Long-term debt | A3 | A– | A (low) |
| Commercial paper | — | — | R-1 (low) |
| Trend/Outlook | Stable | Stable | Stable |

The maturity dates for our long-term debt are well balanced with no significant concentration in any one year. You should be aware that a rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. We cannot assure you that our credit ratings will not be lowered in the future or that rating agencies will not issue adverse commentaries regarding our securities.

At December 31, 2004, the carrying amounts of our total current liabilities exceeded the carrying amounts of our total current assets because current liabilities include deferred revenue. Deferred revenue does not represent a cash obligation, however, but rather an obligation to perform services or deliver products in the future. The costs to fulfill these obligations are included in our operating costs.

***Cash Flow***

Our principal sources of liquidity are cash provided by our operations, borrowings under our revolving bank credit facilities and our commercial paper program and the issuance of public debt. Our principal uses of cash have been to finance working capital and debt servicing costs, repay debt, and finance dividend payments, capital expenditures and acquisitions.

*Operating activities.* Cash provided by our operating activities in 2004 was $1,808 million compared to $1,654 million for 2003. The change primarily reflected the increase in adjusted EBITDA from 2004 compared to 2003 and higher voluntary contributions to our pension plans in 2003.

*Investing activities.* Cash used in our investing activities in 2004 was $1,463 million compared to $461 million for 2003. The increased use of cash in 2004 was attributable to greater spending on acquisitions, most notably our purchase of Information Holdings Inc. for $445 million and TradeWeb for $361 million. This was partially offset by an increase in proceeds from the sale of discontinued operations, notably our sale of the Thomson Media group for gross proceeds of $350 million.

Capital expenditures in 2004 increased 9% to $619 million from $568 million in 2003, which represents 7.6% of revenues for both years. Higher capital expenditures in 2004 were incurred primarily at our financial and legal and regulatory groups, and primarily related to initiatives to standardize technology platforms across businesses.

The majority of our capital expenditures is focused on technology-related investments. We make significant investments in technology because it is essential to providing integrated information solutions to our customers and because we intend to maintain the significant competitive

advantage we believe we have in this area. Our technology expenditures include spending on computer hardware, software, electronic systems, telecommunications infrastructure and digitization of content. In 2004, approximately 69% of our total capital expenditures was for technology-related investments. Although we can give no assurance that investments in technology will result in an increase in our revenues or a decrease in our operating costs, we expect our technology-related investments to continue at a significant level. We expect our technology-related expenditures in 2005, as a percentage of revenues, to approximate that of 2004 as we continue to migrate a number of our significant online legal and regulatory, learning and financial services onto unified technology platforms and enhance our communication infrastructure.

*Financing activities.* Cash used in our financing activities was $629 million for the year ended December 31, 2004, compared to $1,228 million for the year ended December 31, 2003. The decreased use of cash largely reflected lower common dividends and the redemption of our Series V preference shares in 2003. The lower common dividend payments were primarily due to a special dividend of $279 million paid in April 2003 in connection with the sale of our 20% interest in BGM. The decrease in dividends reinvested was because our principal shareholder, The Woodbridge Company Limited, or Woodbridge, agreed to discontinue its commitment to participate in our dividend reinvestment plan. For more information, see the section entitled "Related Party Transactions" below.

The following table sets forth our common dividend activity. Prior to July 2003, reinvested dividends related primarily to Woodbridge.

| | Year ended December 31, | |
|---|---|---|
| | **2004** | **2003** |
| Regular dividends declared | **495** | 473 |
| Special dividends declared | **—** | 279 |
| Dividends reinvested | **(11)** | (94) |
| Dividends paid | **484** | 658 |

The following describes our significant financing activities from each year.

In November 2004, we redeemed Cdn$1.2 billion (US$0.8 billion) of debt securities and settled all associated currency and interest rate swaps. A loss of $53 million was recorded as a result of these redemptions, primarily related to required premiums paid for early extinguishment and non-cash write-offs of deferred costs. These redemptions were principally financed with two debt offerings that we also completed in November 2004. The offerings included Cdn$300 million of 4.35% notes due December 1, 2009 and Cdn$600 million of 5.20% notes due December 1, 2014. We entered into a swap for the 4.35% notes that converted the obligation to US$246 million at a fixed interest rate of 3.92%. We also entered into three combination currency and interest rate swaps for the 5.20% notes to convert the obligation to US$492 million. The US$492 million obligation pays interest at a fixed rate of 4.88% on US$246 million, 4.75% on US$123 million and a floating rate of interest on the remaining US$123 million.

In July 2004, we repaid Cdn$250 million of 9.15% notes for US$182 million, and repaid US$150 million of private placement debt.

We completed two long-term debt offerings in the second quarter of 2004. In May 2004, we completed an offering of US$250 million of 4.75% global notes due 2010. In June 2004, we completed an offering of Cdn$250 million of 4.50% notes due 2009. We entered into currency swaps to convert the obligation to US$184 million at a floating rate of interest. The net proceeds of $432 million from these offerings were used to repay other indebtedness and for other general corporate purposes.

In August 2003, we completed an offering of $450 million of global unsecured notes, raising approximately $445 million in net proceeds after expenses. The offering included $200 million of 4.25% notes due 2009 and $250 million of 5.25% notes due 2013. We entered into an interest rate swap related to the 4.25% notes to convert the notes from a fixed rate of interest to a floating rate of interest. This interest rate swap was unwound in 2004. We used a portion of the proceeds to redeem $250 million of preferred shares issued to a subsidiary of Woodbridge (which shares previously had been included in "Long-term debt" in our consolidated balance sheet) and used the balance of the proceeds to repay other outstanding indebtedness and for general corporate purposes.

In September 2003, we filed shelf registration statements covering the sale of up to $2 billion in debt securities in the United States and Canada. As of December 31, 2004, $0.8 billion under the registrations remained available. The shelf registrations are valid until October 2005.

In April 2003, we redeemed all 18,000,000 of our outstanding Series V preference shares for $308 million, plus $3 million of associated tax.

*Free cash flow.* The following table sets forth a calculation of our free cash flow for 2004 and 2003:

| | Year ended December 31, | |
|---|---|---|
| **(millions of U.S. dollars)** | **2004** | **2003** |
| Net cash provided by operating activities | **1,808** | **1,654** |
| Additions to property and equipment | **(619)** | **(568)** |
| Other investing activities | **(60)** | **(83)** |
| Dividends paid on preference shares | **(3)** | **(11)** |
| Additions to property and equipment of discontinued operations | **(3)** | **(9)** |
| Free cash flow | **1,123** | **983** |

Our free cash flow for 2004 benefited from increased adjusted EBITDA and lower voluntary pension contributions. Those items, however, were partially offset by higher capital expenditures, higher tax payments due to higher taxable earnings and the timing of accounts receivable collections and receipts of advanced payments from customers.

*Credit facilities and commercial paper program.* As of December 31, 2004, we maintained revolving unsecured credit facilities of $1.56 billion and a commercial paper program authorized to issue up to Cdn$1 billion. Borrowings under our commercial paper program reduce the amount available to us under our credit facilities. At December 31, 2004, our credit lines and related activity were as follows:

**(millions of U.S. dollars)**

| Type | Credit Lines | Amount Drawn | Commercial Paper Outstanding | Lines Available |
|---|---|---|---|---|
| Multi-year | 1,040 | (70) | — | 970 |
| 364-day | 520 | — | — | 520 |
| Total | 1,560 | (70) | — | 1,490 |

Our multi-year facilities currently expire in March 2008. Of our 364-day facilities, $325 million expires in March 2005 and the remaining $195 million expires in September 2005. In March 2005, we intend to finalize amendments to these credit facilities that will extend the multi-year facility maturities to March 2010, increase the aggregate amount of these facilities to $1.60 billion and terminate the 364-day facilities. Our facilities are structured such that, if our long-term debt rating was downgraded by Moody's or Standard & Poor's, our facility fee and borrowing costs under our existing multi-year credit facilities may increase, although availability would be

unaffected. Conversely, an upgrade in our ratings may reduce our facility fees and borrowing costs.

*Off-Balance Sheet Arrangements, Commitments and Contractual Obligations.* The following table presents a summary of our long-term debt and related currency swap instruments, as well as our off-balance sheet contractual obligations as of December 31, 2004 for the years indicated:

| (millions of U.S. dollars) | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Long-term debt | 295 | 86 | 342 | 835 | 652 | 2,098 | 4,308 |
| Currency swap instruments | — | — | (25) | (69) | (22) | (76) | (192) |
| Hedged debt | 295 | 86 | 317 | 766 | 630 | 2,022 | 4,116 |
| Operating lease payments | 200 | 172 | 148 | 112 | 92 | 340 | 1,064 |
| Unconditional purchase obligations | 82 | 40 | 16 | 12 | 11 | 1 | 162 |
| Capital commitments to investees | 10 | — | — | — | — | — | 10 |
| Total | 587 | 298 | 481 | 890 | 733 | 2,363 | 5,352 |

We have entered into operating leases in the ordinary course of business, primarily for real property and equipment. Payments for these leases are contractual obligations as scheduled per each agreement. With certain leases, we guarantee a portion of the residual value loss, if any, incurred by the lessors in disposing of the assets, or to restore a property to a specified condition after completion of the lease period. With certain real property leases, we guarantee the rental obligations of some of our subsidiaries that are tenants. We believe, based upon current facts and circumstances, that a material payment pursuant to such guarantees is remote.

We have various unconditional purchase obligations. These obligations are for materials, supplies and services incident to the ordinary conduct of business.

We have obligations to pay additional consideration for prior acquisitions, typically based upon performance measures contractually agreed to at the time of purchase. In connection with the acquisition of TradeWeb in 2004, we are obligated for contingent consideration up to $150 million over the next three years if certain performance measures are achieved. The contingent consideration associated with TradeWeb is the largest for which the company may become liable. We do not believe that additional payments in connection with other transactions would have a material impact on our financial statements. Additionally, we have capital commitments to investees of $10 million, which are payable upon demand.

In certain disposition agreements, we guarantee to the purchaser the recoverability of certain assets or limits on certain liabilities. We believe, based upon current facts and circumstances, that the likelihood of a material payment pursuant to such guarantees is remote.

We guarantee certain obligations of our subsidiaries, including borrowings by our subsidiaries under our revolving credit facilities. These guarantees generally require that we maintain a minimum amount of share capital and retained earnings and that our net debt-to-equity ratio not exceed 2.0:1.

Other than as described above, we do not engage in any off-balance sheet financing arrangements. In particular, we do not have any interests in unconsolidated special-purpose or structured finance entities.

For the foreseeable future, we believe that cash from our operations and available credit facilities are sufficient to fund our future cash dividends, debt service, projected capital expenditures and acquisitions that we pursue in the normal course of business.

*Contingencies.* In October 2004, our financial group received a subpoena from the U.S. Securities and Exchange Commission (SEC) for certain documents related to the operations of its Capital Markets Intelligence (CMI) business. CMI is one of several companies providing market intelligence services. CMI collects stock ownership data solely as an appointed agent of its public company clients seeking a better understanding of their institutional shareholder base. In 2004, approximately $34 million of our financial group's CMI revenues were related to the identification of institutional investors for its clients. We are cooperating fully with the SEC. At this time, we do not anticipate that the outcome of this matter will have a material adverse impact to our financial condition.

In January 2005, we became aware of an inquiry by the Serious Fraud Office (SFO) in the United Kingdom regarding the refund practices relating to certain duplicate subscription payments made by some of our customers in our Sweet & Maxwell and Gee businesses in the United Kingdom. We are cooperating fully with the authorities in their inquiry. At this time, we do not anticipate that the outcome of this matter will have a material adverse impact to our financial condition.

Income tax contingencies are outlined in the income tax expense discussion of the section entitled "Results of Operations."

***Market Risks***

Our consolidated financial statements are expressed in U.S. dollars but a portion of our business is conducted in currencies other than U.S. dollars. Changes in the exchange rates for such currencies into U.S. dollars can increase or decrease our revenues, earnings and the carrying values of our assets and liabilities in our consolidated balance sheet. Changes in exchange rates between 2003 and 2004 increased our revenues by approximately 2%. The translation effects of changes in exchange rates in our consolidated balance sheet are recorded within the cumulative translation adjustment component of our shareholders' equity. In 2004, we recorded cumulative translation gains of $199 million, reflecting changes in exchange rates of various currencies compared to the U.S. dollar.

We use derivative instruments only to reduce our foreign currency and interest rate exposures. In particular, when we borrow money in currencies other than the U.S. dollar, we generally enter into currency swap arrangements to effectively convert our obligations into U.S. dollars. All such swap arrangements are entered into only with counterparties that are investment-grade financial institutions. At December 31, 2004, 98% of our indebtedness was denominated in U.S. dollars or had been swapped into U.S. dollar obligations.

At December 31, 2004, after taking into account swap agreements, 83% of our total debt was at fixed rates of interest and the remainder was at floating rates of interest. Based upon these levels, a 100 basis point change in floating interest rates would increase or decrease our full-year interest expense by approximately $7 million.

Set out below are the U.S. dollar equivalents of our local currency revenues and operating profit for the year ended December 31, 2004. Based on our 2004 results of operations, a 10% change in the average exchange rate for each of these currencies into U.S. dollars would increase or decrease our full year revenues and operating profit by the following amounts:

**(millions of U.S. dollars)**

| Currency | Revenues as reported | Impact on revenues | Operating profit as reported | Impact on operating profit |
|---|---|---|---|---|
| U.S. dollar | 6,443 | — | 1,181 | — |
| British pound sterling | 728 | 73 | 54 | 5 |
| Canadian dollar | 259 | 26 | 37 | 4 |
| Euro | 238 | 24 | 40 | 4 |
| Australian dollar | 164 | 16 | 15 | 2 |
| Other | 266 | 27 | 14 | 1 |
| Total | 8,098 | 166 | 1,341 | 16 |

In addition to exposing us to changes in foreign currency exchange rates and interest rates, operating in foreign countries subjects us to certain risks that are inherent in doing business in certain jurisdictions outside North America, including difficulties in penetrating new markets, exposure to varying legal standards in other jurisdictions and potential instability of international economies and governments.

**RELATED PARTY TRANSACTIONS**

As at February 22, 2004, Kenneth R. Thomson, through Woodbridge and its affiliates, controlled approximately 69% of our common shares. Mr. Thomson is a member of our board of directors.

In the normal course of business, a Woodbridge-owned company rents office space from one of our subsidiaries. Additionally, a number of our subsidiaries charge a Woodbridge-owned company fees for various administrative services. In 2004 and 2003, the total amounts charged to Woodbridge for these rentals and services were approximately $3 million and $2 million, respectively. Additionally, in 2004 and 2003 we paid one of our directors, Mr. J.A. Tory, $80,000 and $89,000, respectively, for advisory services in connection with our long-term tax and capital strategies.

The employees of Jane's Information Group, a business we sold to Woodbridge in April 2001, continue to participate in our United States and United Kingdom pension plans as well as the defined contribution plan in the United States. For the pension plans, the liability associated with the active employees of Jane's as of the date of sale was assumed by Woodbridge as part of its purchase. Jane's makes proportional contributions to these pension plans as required, and makes matching contributions in accordance with the provisions of the defined contribution plan.

In February 2005, we entered into a contract with Hewitt Associates Inc. to outsource certain human resources administrative functions in order to improve operating and cost efficiencies. Under the terms of the contract, we expect to pay Hewitt an aggregate of $115 million over five years. Mr. Denning, one of our directors and chairman of our Human Resources Committee, is also a director of Hewitt. Mr. Denning did not participate in negotiations related to the contract and refrained from deliberating and voting on the matter by the Human Resources Committee and the board of directors.

In 2004, we renewed our agreement with Woodbridge that reduces the cost of our directors' and officers' insurance coverage. Under the terms of the agreement, we maintain standard directors' and officers' insurance for any amount up to $90 million with a third party insurance company. Woodbridge indemnifies this insurer for all liability in excess of $15 million but less than $90 million. For its agreement to indemnify the insurer, we pay Woodbridge an annual premium of $750,000, which is less than the premium that the company would have paid for commercial insurance.

In November 2004, we sold our interest in a wholly-owned subsidiary, whose only asset consisted of tax losses, to a company controlled by our controlling shareholder, Kenneth R. Thomson, for $14 million in cash. We had certain Canadian non-capital tax losses that we did not expect to be able to utilize prior to their expiry, and had established valuation allowances against the tax benefit of these losses in prior years. Under Canadian law, certain tax losses may only be transferred to related companies, such as those affiliated with Kenneth R. Thomson. The transaction was recorded at the exchange amount and a gain of $14 million was recorded within "Net other income" within the consolidated statement of earnings and retained earnings. In connection with this transaction, we obtained a tax ruling and Deloitte & Touche LLP, an independent accounting firm retained by our Corporate Governance Committee, provided an opinion based on their experience as professional business valuators that the sale price was not

less than the fair market value of the tax losses and represented a reasonable negotiated price between us and the purchaser from a financial point of view. After receiving the recommendation of the Corporate Governance Committee, our board of directors approved the transaction. Directors who were not considered independent because of their positions with Woodbridge refrained from deliberating and voting on the matter at both the committee and board meetings.

In September 2003, we redeemed $250 million of preferred shares issued by a Thomson subsidiary to a subsidiary of Woodbridge. The shares, which were originally issued in February 2001 and exchanged in February 2002 for separate preferred shares in the same face amount, paid a fixed annual dividend of 4.5% and by their original terms were redeemable at the option of either Woodbridge or us beginning February 2006 and annually thereafter. Prior to the redemption, the shares were included within "Long-term debt" in the consolidated balance sheet.

In July 2003, we announced that Woodbridge had agreed to discontinue its commitment to participate in our dividend reinvestment plan (DRIP). Previously, Woodbridge had agreed to reinvest at least 50% of the quarterly dividends received by it and its subsidiaries in common shares through June 2005. All eligible Thomson shareholders including Woodbridge, retain the ability to reinvest their dividends in Thomson stock on a voluntary basis under the DRIP.

In March 2003, we sold our 20% interest in BGM to a company that is owned by the Thomson family for $279 million. Our Board of Directors appointed a committee of independent directors to review the transaction. The committee retained a financial advisor to provide an opinion to us as to the fairness of the transaction to us from a financial point of view. One of our directors is also a director of the parent company of the financial advisor, but was not a member of the committee. In connection with the sale, we paid a special dividend equal to the proceeds received of $0.428 per common share.

**EMPLOYEE FUTURE BENEFITS**

We sponsor defined benefit plans providing pension and other post-retirement benefits to covered employees. The largest plan consists of a qualified defined benefit pension plan in the United States. Other smaller plans exist primarily in the United Kingdom and Canada. We use a measurement date of September 30 for the majority of these plans.

Management currently estimates that the 2005 cost of employee future benefits will increase by approximately $18 million. The determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, including an expected rate of return on assets and a discount rate to measure obligations. We consult with our actuary regarding the selection of these assumptions each year.

In determining our long-term rate of return assumption for our pension plans, we evaluated historical investment returns, as well as input from investment advisors. For our primary pension plan in the United States, we also consider our actuary's simulation model of expected long-term rates of return assuming our targeted investment portfolio mix. We will reduce our 2005 assumption of the expected rate of return on assets available to fund obligations for our primary pension plan in the United States by 0.25%. While the actual return on plan assets exceeded their expected rate of return in 2004, management nevertheless decided to adopt a more conservative long-term return for this plan. Lowering the expected rate of return on assets for this plan by another 0.25% would increase pension expense by less than $3 million in 2005.

Our discount rate is selected based on a review of current market interest rates of high-quality, fixed-rate debt securities adjusted to reflect the duration of expected future cash outflows for pension benefit payments. In developing the discount rate assumption for our primary pension plan in the United States for 2005, we reviewed the high-grade bond indices published by Moody's and Merrill Lynch as of September 30, 2004, which are based on debt securities with average durations of 10-15 years. The duration of each bond index is shorter than the duration of our expected future cash outflows for the plan, reflecting the younger workforce in our

businesses. To appropriately reflect the timing and amounts of the plan's expected future pension benefit payments, our actuary analyzed market data and constructed a hypothetical yield curve that represents yields on high quality zero-coupon bonds with durations that mirrored the duration of the expected payment stream of the benefit obligation. The discount rate determined on this basis approximated that of the prior year. Lowering the discount rate by 0.25% would result in an increase in pension expense of approximately $8 million in 2005.

As of December 31, 2004, we had cumulative unrecognized actuarial losses associated with all of our pension plans of $537 million, compared to $574 million at December 31, 2003. The large majority of these losses are a result of the decline in discount rates over the past few years reflecting the overall decline in interest rates primarily in the United States. These amounts also include actuarial gains and losses associated with the difference between our expected and actual returns on plan assets. Actuarial gains and losses are included in the calculation of our annual pension expense subject to the following amortization methodology. Unrecognized actuarial gains or losses are netted with the difference between the market-related value and fair value of plan assets. To the extent this net figure exceeds 10% of the greater of the projected benefit obligation or market-related value of plan assets, it is amortized into pension expense on a straight-line basis over the expected average service life of active participants (approximately 8 years at December 31, 2004). Unrecognized actuarial gains and losses below the 10% corridor are deferred. In applying this amortization method, the estimated pension expense for 2005 includes $34 million of the unrecognized actuarial losses at December 31, 2004.

As of December 31, 2004, the fair value of plan assets for our primary pension plan in the United States represented about 96% of the plan's projected benefit obligation. Given the strong funded status of this plan, we did not make any voluntary contributions in 2004. In the fourth quarter of 2004, we voluntarily contributed $7 million to a benefit plan in the United Kingdom. In September 2003, we contributed $50 million to our primary pension plan in the United States and, in the fourth quarter of 2003, contributed $31 million to various benefit plans, principally in the United Kingdom and Canada. While none of these contributions were required under the applicable funding rules and regulations governing each country, we decided to make the voluntary contributions to further improve the funding of the plans.

We are not required to make contributions to our primary pension plan in the United States in 2005. However, from time to time, we may elect to voluntarily contribute to the plan in order to improve its funded status. Because the decision to voluntarily contribute is based on various market-related factors, including asset values and interest rates, which are used to determine the plan's funded status, we cannot predict whether, or the amount, we may elect to voluntarily contribute in 2005.

We provide postretirement healthcare benefits for certain retired employees. However, these liabilities are significantly less than those associated with our pension plans. Retired employees share a portion of the cost of these benefits. We fund the accrued costs of these plans as benefits are paid. Annual postretirement expense for 2005 was calculated based upon a number of actuarial assumptions, including a healthcare cost trend rate of 10% that declines 100 basis points per year for five years, and thereafter remains constant at 5%. The healthcare cost trend rate is based on our actual medical claims experience and future projections of medical costs. A 1% change in the trend rate would result in an increase or decrease in the benefit obligation for post-retirement benefits of approximately $15 million at December 31, 2004.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") was signed into law in the United States. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. We have determined the portions of our U.S. benefit plan that are actuarially equivalent and anticipate that it will be eligible to receive a subsidy beginning in 2006. We assessed and quantified this benefit in the second quarter of 2004 and, in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, *Employee Future Benefits* and U.S.

Financial Accounting Standards Board ("FASB") Staff Position No. FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, have prospectively applied the expected benefit from the subsidy in our determination of benefit plan expense. This benefit reduced the employee benefit plans expense by $1 million in 2004.

**SUBSEQUENT EVENTS**

As noted in the discussion of contingencies in the section entitled "Cash Flow," in January 2005, we became aware of an inquiry by the SFO in the United Kingdom regarding the refund practices relating to certain duplicate subscription payments made by some of our customers in our Sweet & Maxwell and Gee businesses.

As noted under the section entitled "Related Party Transactions," in February 2005, we entered into a contract with Hewitt Associates Inc. to outsource certain human resources administrative functions in order to improve operating and cost efficiencies. Under the terms of the contract, we expect to pay Hewitt an aggregate of $115 million over five years.

**ACCOUNTING CHANGES**

**Derivatives and Hedging Activity**

Effective January 1, 2004, we adopted Accounting Guideline AcG-13 , *Hedging Relationships*, and Emerging Issues Committee (EIC) Abstract 128, *Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments*. AcG-13 addresses the conditions for applying hedge accounting, including the identification, designation, documentation and effectiveness of hedging relationships. EIC Abstract 128 requires that, with certain exceptions, a freestanding derivative financial instrument that does not qualify for hedge accounting under AcG-13 be recognized in the balance sheet and measured at fair value, with changes in fair value recognized in income.

As a result of the new guidance, certain derivatives previously accounted for as hedges no longer qualify for such treatment under AcG-13. In accordance with AcG-13, the deferred loss on these instruments as of January 1, 2004 of $26 million will be recognized in "Net interest expense and other financing costs" as the hedged items to which these derivatives formerly related are recognized in earnings. The change in the fair value of these derivative instruments subsequent to January 1, 2004 will also be recognized within "Net interest expense and other financing costs." For the year ended December 31, 2004, a net benefit of $1 million was recognized within "Net interest expense and other financing costs" relative to this new guidance. The net amount recognized consisted of amortization of the deferred loss incurred prior to January 1, 2004 of $10 million and the recognition of the change in the fair value of these derivatives, which resulted in income of $11 million.

**Asset Retirement Obligations**

Effective January 1, 2004, we adopted CICA Handbook Section 3110, *Asset Retirement Obligations*, with restatement of our prior periods. The new guidance describes how to recognize and measure obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets.

Our only asset retirement obligations are obligations to restore leased facilities upon termination of the leases. For the year ended December 31, 2004, we recorded expense of $2 million related to these obligations. The expense for the prior year was $2 million. Details of the restatements made to previously reported results are discussed in Note 2 to our consolidated financial statements.

**Accounting for Income Taxes in Interim Periods**

In the first quarter of 2004, we refined the calculation by which we allocate estimated full year income tax expense among interim periods. Previously, the estimated full year effective tax rate for the consolidated results was applied to the relevant interim period's consolidated pre-tax income. Beginning in 2004, we estimate separate annual effective income tax rates for each taxing jurisdiction and individually apply such rates to the interim period's pre-tax income of each jurisdiction. This change was accounted for as a change in estimate. As a result of this change, we recognized less income tax expense in the first half of 2004, and more in the second half of 2004, than we would have under our previous calculation. There was no impact on the full year income tax expense.

**Revenue Recognition**

EIC Abstract 141, *Revenue Recognition*, which incorporates the principles and summarizes the guidance in the U.S. Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 104, *Revenue Recognition*, became effective January 1, 2004. The Abstract also provides interpretive guidance on the application of CICA Handbook Section 3400, *Revenue*. Because we previously applied the provisions of SAB 104, the adoption of EIC Abstract 141 did not impact our consolidated financial statements.

Also effective January 1, 2004 was EIC Abstract 142, *Revenue Arrangements with Multiple Deliverables*. This Abstract addresses the accounting by vendors for arrangements in which the vendor will perform multiple revenue-generating activities. The Abstract conforms Canadian GAAP to U.S. GAAP set forth in Emerging Issues Task Force (EITF) Issue 00-21, also entitled *Revenue Arrangements with Multiple Deliverables*. Because we previously applied EITF Issue 00-21, the adoption of EIC Abstract 142 did not impact our consolidated financial statements.

**Generally Accepted Accounting Principles**

Effective for our fiscal year beginning January 1, 2004 was CICA Handbook Section 1100 *, Generally Accepted Accounting Principles.* This Handbook Section establishes standards for financial reporting in accordance with generally accepted accounting principles and clarifies the relative authority of various accounting pronouncements and other sources within Canadian GAAP. This Handbook Section did not impact our consolidated financial statements.

**CRITICAL ACCOUNTING POLICIES**

The preparation of our financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of our ongoing evaluation of these estimates forms the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions.

Our critical accounting policies are those that we believe are the most important in portraying our financial condition and results, and require the most subjective judgment and estimates on the part of management. A summary of our significant accounting policies, including the critical accounting policies discussed below, is set forth in Note 1 to our consolidated financial statements.

**Revenue Recognition**

Revenues from subscription-based products, excluding software, generally are recognized ratably over the term of the subscription. Where applicable, we recognize usage fees as earned.

Subscription payments received or receivable in advance of delivery of our products or services are included in our deferred revenue account on our consolidated balance sheet. As we deliver subscription-based products and services to subscribers, we recognize the proportionate share of deferred revenue in our consolidated statement of earnings and our deferred revenue account balance is reduced. Certain incremental costs that are directly related to the subscription revenue are deferred and amortized over the subscription period.

Revenues from sales of products such as books, that are separate and distinct from any other product and carry no further substantive performance obligations on our part after shipment, are recognized when delivery has occurred and significant risks and rewards of ownership have transferred to the customer, provided that the price is fixed or determinable and ultimate collection is reasonably assured. We recognize revenues from sales of discrete products net of estimated returns. Significant judgment is involved in estimating future returns. Estimates are made after taking into account historical experience and current market conditions. If future returns differ from our estimates, the impact would be recorded against future revenues and profits.

For all accounts receivable, we must make a judgment regarding the ability of our customers to pay and, accordingly, we establish an allowance for estimated losses arising from non-payment. We consider customer creditworthiness, current economic trends and our past experience when evaluating the adequacy of this allowance. If future collections differ from our estimates, our future earnings would be affected.

**Capitalized Software**

A significant portion of our expenditures relates to software that is developed as part of our electronic databases, delivery systems and internal infrastructures, and, to a lesser extent, software sold directly to our customers. During the software development process, our judgment is required to determine the expected period of benefit over which capitalized costs should be amortized. Due to rapidly changing technology and the uncertainty of the software development process itself, our future results could be affected if our current assessment of our various projects differs from actual performance.

**Identifiable Intangible Assets and Goodwill**

We account for our business acquisitions using the purchase method of accounting. We allocate the total cost of an acquisition to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we must identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives, and therefore require considerable judgment. These determinations will affect the amount of amortization expense recognized in future periods.

We review the carrying values of identifiable intangible assets with indefinite lives and goodwill at least annually to assess impairment because these assets are not amortized. Additionally, we review the carrying value of any intangible asset or goodwill whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Examples of such events or changes in circumstances include significant negative industry or economic trends, significant changes in the manner of our use of the acquired assets or our strategy, a significant decrease in the market value of the asset, or a significant change in legal factors or in the business climate that could affect the value of the asset.

We assess impairment by comparing the fair value of an identifiable intangible asset or goodwill with its carrying value. The determination of fair value involves significant management judgment. Impairments are expensed when incurred. Specifically, we test for impairment as follows:

*Identifiable intangible assets with finite lives:*

We compare the expected undiscounted future operating cash flows associated with the asset to its carrying value to determine if the asset is recoverable. If the expected future operating cash flows are not sufficient to recover the carrying value, we estimate the fair value of the asset. Impairment is recognized when the carrying amount of the asset is not recoverable and when the carrying value exceeds fair value.

*Identifiable intangible assets with indefinite lives:*

Selected tradenames comprise the balance of our identifiable intangible assets with indefinite lives. We determine the fair values of our intangible assets with indefinite lives using an income approach, the relief from royalties method. Impairment is recognized when the carrying amount exceeds fair value.

*Goodwill:*

We test goodwill for impairment on a "reporting unit" level. A reporting unit is a group of businesses: (a) for which discrete financial information is available; and (b) that have similar economic characteristics. We test goodwill for impairment using the following two-step approach:

- In the first step, we determine the fair value of each reporting unit. If the fair value of a reporting unit is less than its carrying value, this is an indicator that the goodwill assigned to that reporting unit might be impaired, which requires performance of the second step.

- In the second step, we allocate the fair value of the reporting unit to the assets and liabilities of the reporting unit as if it had just been acquired in a business combination, and as if the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. We then compare that implied fair value of the reporting unit's goodwill to the carrying value of that goodwill. If the implied fair value is less than the carrying value, we recognize an impairment loss for that excess.

We determine the fair value of our reporting units based on a combination of various techniques, including the present value of future cash flows and earnings multiples of competitors.

As the valuation of identifiable intangible assets and goodwill requires significant estimates and judgment about future performance and fair values, our future results could be affected if our current estimates of future performance and fair values change.

**Income Taxes**

We are required to estimate our income taxes in each of the jurisdictions in which we operate. For interim periods, we provide income taxes based on our estimate of how much we will earn in each jurisdiction for the full year. To the extent that our forecasts differ from actual results, we must true-up our estimates of income tax expense. Actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. To the extent our estimates differ from the final tax return, our earnings would be affected in a subsequent period.

Estimation of income taxes includes estimating a value for our existing net operating losses based on our assessment of our ability to utilize them against future taxable income before they expire. Our assessment is based upon existing tax laws and estimates of future taxable income. If our assessment of our ability to use our net operating losses proves inaccurate in the future, we might be required to recognize more or less of the net operating losses as assets, which would

decrease or increase our income tax expense in the relevant year. This would affect our earnings in that year.

Our accounting for income taxes requires us to exercise judgment for issues relating to known matters under discussion with tax authorities and transactions yet to be settled. As a result, we maintain a tax liability for contingencies and regularly assess the adequacy of this tax liability. We record liabilities for known tax contingencies when, in our judgment, it is probable that a liability has been incurred. It is reasonably possible that actual amounts payable resulting from audits by tax authorities could be materially different from the liabilities we have recorded due to the complex nature of the tax legislation that affects us.

**Employee Future Benefits**

The determination of the cost and obligations associated with our employee future benefits requires the use of various assumptions. We must select assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. These assumptions are re-evaluated each year, and variations between the actual results and the results based on our assumptions for any period will affect reported amounts in future periods. We retain an independent actuarial expert to prepare the calculations and to advise us on the selection of assumptions. See further discussion under the section entitled "Employee Future Benefits".

**RECENTLY ISSUED ACCOUNTING STANDARDS**

The Accounting Standards Board and the Emerging Issues Committee, or EIC, of the CICA, have recently issued the following accounting standards that are applicable to the our activities in future periods.

**Consolidation of Variable Interest Entities**

In June 2003, the CICA issued Accounting Guideline 15, *Consolidation of Variable Interest Entities*, which requires the consolidation of certain entities that are subject to control on a basis other than the ownership of voting interest. This Guideline provides guidance for determining when an enterprise includes the assets, liabilities and results of operations of a variable interest entity in its consolidated financial statements. The guidance related to consolidation requirements is effective for periods beginning on or after November 1, 2004. We have assessed the impact of AcG-15 and the adoption will not have an impact on the consolidated financial statements.

**Financial Instruments and Comprehensive Income**

In January 2005, the CICA approved the issuance of Handbook Section 1530, *Comprehensive Income*; Handbook Section 3855, *Financial Instruments — Recognition and Measurement*; and Handbook Section 3865, *Hedges*. The new Handbook Sections are effective for interim and annual financial statements relating to fiscal years beginning after October 1, 2006. Consequently, the mandatory effective date for us is January 1, 2007.

These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Additionally, the handbook sections introduce a new component of equity referred to as comprehensive income. For the most part, the new standards harmonize Canadian GAAP with standards previously issued by the U.S. Financial Accounting Standards Board (FASB).

Handbook Section 1530 requires companies to disclose comprehensive income, which includes, in addition to net income, other comprehensive income consisting of primarily unrealized gains and losses that bypass the traditional earnings statement and are recorded directly into

shareholders' equity. The components of other comprehensive income consist of unrealized gains and losses related to the translation of foreign currency financial statements, certain deferred gains and losses from hedging activity, and unrealized gains and losses on certain investment securities. While we are in the process of assessing the impact of these standards, we do not expect that their adoption will have a material impact on our consolidated statement of earnings and retained earnings.

**ADDITIONAL INFORMATION**

**Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in applicable U.S. and Canadian securities law) as of the end of the period covered by this management's discussion and analysis, have concluded that our disclosure controls and procedures are effective to ensure that all information required to be disclosed by our company in reports that it files or furnishes under the U.S. Securities Exchange Act and applicable Canadian securities law is (i) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission and Canadian securities regulatory authorities and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

**Changes in Internal Controls over Financial Reporting**

There was no change in our company's internal control over financial reporting that occurred during our last fiscal year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Share Capital**

As of February 22, 2005, we had outstanding 655,201,616 common shares and 6,000,000 Series II preference shares.

**Public Securities Filings**

You may access other information about our company, including our annual information form and our other disclosure documents, reports, statements or other information that we file with the Canadian securities regulatory authorities through SEDAR at www.sedar.com and in the United States with the SEC through EDGAR at www.sec.gov.

**Forward-Looking Statements**

*Certain information in this management's discussion and analysis, particularly under the heading "2005 Financial Outlook," are forward-looking statements that are not historical facts but reflect our current expectations regarding future results. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Some of the factors that could cause actual results or events to differ materially from current expectations are: actions of our competitors; failure of our significant investments in technology to increase our revenues or decrease our operating costs; failure to fully derive anticipated benefits from our acquisitions; failure to develop additional products and services to meet our customers' needs, attract new customers or expand into new geographic markets; failures or disruptions of our electronic delivery systems or the Internet; failure to meet the special challenges involved in expansion of our operations outside North America; failure to recruit and retain high quality management and key employees; consolidation of our customers; increased self-sufficiency of our customers; increased accessibility to free or relatively inexpensive information sources; failure to maintain the availability of information obtained through licensing arrangements and changes in the terms of our licensing arrangements; changes in the general economy; inadequate protection of our intellectual property rights; an increase in our effective income tax rate; and impairment of goodwill and identifiable intangible assets. Additional factors are discussed in our materials filed with the securities regulatory authorities in Canada and the United States from time to time, including our annual information form, which is contained in our current annual report on Form 40-F. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

## RECONCILIATIONS

### RECONCILIATION OF ADJUSTED EBITDA TO NET EARNINGS AND ADJUSTED OPERATING PROFIT TO OPERATING PROFIT

*(millions of U.S. dollars)*
*(unaudited)*

| | For the Year Ended December 31, 2004 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Legal & Regulatory | Learning | Financial | Scientific & Healthcare | Corporate and Other | Ongoing | Disposals | Total |
| Adjusted EBITDA | 1,085 | 521 | 480 | 251 | (86) | **2,251** | (4) | **2,247** |
| Less: | | | | | | | | |
| Depreciation | (203) | (194) | (182) | (29) | (12) | **(620)** | — | **(620)** |
| Adjusted operating profit | 882 | 327 | 298 | 222 | (98) | **1,631** | (4) | **1,627** |
| Less: | | | | | | | | |
| Amortization | (106) | (69) | (82) | (29) | — | **(286)** | — | **(286)** |
| Operating profit | 776 | 258 | 216 | 193 | (98) | **1,345** | (4) | **1,341** |
| Net other income | | | | | | | | **24** |
| Net interest expense and other financing costs | | | | | | | | **(235)** |
| Income taxes | | | | | | | | **(267)** |
| Equity in net losses of associates, net of tax | | | | | | | | **—** |
| Earnings from continuing operations | | | | | | | | **863** |
| Earnings from discontinued operations, net of tax | | | | | | | | **148** |
| Net earnings | | | | | | | | **1,011** |

| | For the Year Ended December 31, 2003 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Legal & Regulatory | Learning | Financial | Scientific & Healthcare | Corporate and Other | Ongoing | Disposals | Total |
| Adjusted EBITDA | 979 | 520 | 403 | 217 | (83) | **2,036** | 4 | **2,040** |
| Less: | | | | | | | | |
| Depreciation | (182) | (184) | (175) | (31) | (14) | **(586)** | (1) | **(587)** |
| Adjusted operating profit | 797 | 336 | 228 | 186 | (97) | **1,450** | 3 | **1,453** |
| Less: | | | | | | | | |
| Amortization | (106) | (83) | (64) | (26) | — | **(279)** | — | **(279)** |
| Operating profit | 691 | 253 | 164 | 160 | (97) | **1,171** | 3 | **1,174** |
| Net other income | | | | | | | | **74** |
| Net interest expense and other financing costs | | | | | | | | **(252)** |
| Income taxes | | | | | | | | **(150)** |
| Equity in net losses of associates, net of tax | | | | | | | | **(13)** |
| Earnings from continuing operations | | | | | | | | **833** |
| Earnings from discontinued operations, net of tax | | | | | | | | **32** |
| Net earnings | | | | | | | | **865** |

*(millions of U.S. dollars)*
*(unaudited)*

| | For the Three Months Ended December 31, 2004 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Legal & Regulatory | Learning | Financial | Scientific & Healthcare | Corporate and Other | Ongoing | Disposals | Total |
| Adjusted EBITDA | 334 | 184 | 140 | 117 | (37) | **738** | (1) | **737** |
| Less: | | | | | | | | |
| Depreciation | (58) | (51) | (48) | (8) | (1) | **(166)** | — | **(166)** |
| Adjusted operating profit | 276 | 133 | 92 | 109 | (38) | **572** | (1) | **571** |
| Less: | | | | | | | | |
| Amortization | (28) | (17) | (23) | (8) | — | **(76)** | — | **(76)** |
| Operating profit | 248 | 116 | 69 | 101 | (38) | **496** | (1) | **495** |
| Net other expense | | | | | | | | **(4)** |
| Net interest expense and other financing costs | | | | | | | | **(59)** |
| Income taxes | | | | | | | | **(119)** |
| Equity in net earnings of associates, net of tax | | | | | | | | **1** |
| Earnings from continuing operations | | | | | | | | **314** |
| Earnings from discontinued operations, net of tax | | | | | | | | **124** |
| Net earnings | | | | | | | | **438** |

| | For the Three Months Ended December 31, 2003 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Legal & Regulatory | Learning | Financial | Scientific & Healthcare | Corporate and Other | Ongoing | Disposals | Total |
| Adjusted EBITDA | 322 | 219 | 102 | 97 | (34) | **706** | 1 | **707** |
| Less: | | | | | | | | |
| Depreciation | (48) | (53) | (44) | (8) | (3) | **(156)** | (1) | **(157)** |
| Adjusted operating profit | 274 | 166 | 58 | 89 | (37) | **550** | — | **550** |
| Less: | | | | | | | | |
| Amortization | (26) | (20) | (17) | (6) | — | **(69)** | — | **(69)** |
| Operating profit | 248 | 146 | 41 | 83 | (37) | **481** | — | **481** |
| Net other expense | | | | | | | | **(5)** |
| Net interest expense and other financing costs | | | | | | | | **(60)** |
| Income taxes | | | | | | | | **(17)** |
| Equity in net losses of associates, net of tax | | | | | | | | **(1)** |
| Earnings from continuing operations | | | | | | | | **398** |
| Loss from discontinued operations, net of tax | | | | | | | | **(2)** |
| Net earnings | | | | | | | | **396** |

**RECONCILIATION OF ADJUSTED EBITDA MARGIN AND ADJUSTED OPERATING PROFIT MARGIN TO OPERATING PROFIT MARGIN**
**(as a percentage of revenue)**

*(unaudited)*

**For the Three Months Ended December 31, 2004**

| | Legal & Regulatory | Learning | Financial | Scientific & Healthcare | Ongoing | Disposals | Total |
|---|---|---|---|---|---|---|---|
| Adjusted EBITDA | 35.3% | 28.6% | 29.5% | 43.0% | **31.7%** | (50.0%) | **31.7%** |
| Less: | | | | | | | |
| Depreciation | (6.1%) | (7.9%) | (10.1%) | (2.9%) | **(7.1%)** | — | **(7.2%)** |
| Adjusted operating profit | 29.2% | 20.7% | 19.4% | 40.1% | **24.6%** | (50.0%) | **24.5%** |
| Less: | | | | | | | |
| Amortization | (3.0%) | (2.7%) | (4.8%) | (3.0%) | **(3.3%)** | — | **(3.2%)** |
| Operating profit | 26.2% | 18.0% | 14.6% | 37.1% | **21.3%** | (50.0%) | **21.3%** |

**For the Three Months Ended December 31, 2003**

| | Legal & Regulatory | Learning | Financial | Scientific & Healthcare | Ongoing | Disposals | Total |
|---|---|---|---|---|---|---|---|
| Adjusted EBITDA | 35.7% | 35.7% | 26.6% | 40.2% | 33.2% | 33.3% | **33.2%** |
| Less: | | | | | | | |
| Depreciation | (5.3%) | (8.7%) | (11.5%) | (3.3%) | (7.4%) | (33.3%) | **(7.4%)** |
| Adjusted operating profit | 30.4% | 27.0% | 15.1% | 36.9% | 25.8% | — | **25.8%** |
| Less: | | | | | | | |
| Amortization | (2.9%) | (3.2%) | (4.4%) | (2.5%) | (3.2%) | — | **(3.2%)** |
| Operating profit | 27.5% | 23.8% | 10.7% | 34.4% | 22.6% | — | **22.6%** |

**For the Year Ended December 31, 2004**

| | Legal & Regulatory | Learning | Financial | Scientific & Healthcare | Ongoing | Disposals | Total |
|---|---|---|---|---|---|---|---|
| Adjusted EBITDA | 32.0% | 24.0% | 27.7% | 30.0% | 27.8% | (100.0%) | **27.7%** |
| Less: | | | | | | | |
| Depreciation | (6.0%) | (9.0%) | (10.5%) | (3.4%) | (7.6%) | — | **(7.6%)** |
| Adjusted operating profit | 26.0% | 15.0% | 17.2% | 26.6% | 20.2% | (100.0%) | **20.1%** |
| Less: | | | | | | | |
| Amortization | (3.1%) | (3.1%) | (4.7%) | (3.5%) | (3.6%) | — | **(3.5%)** |
| Operating profit | 22.9% | 11.9% | 12.5% | 23.1% | 16.6% | (100.0%) | **16.6%** |

**For the Year Ended December 31, 2003**

| | Legal & Regulatory | Learning | Financial | Scientific & Healthcare | Ongoing | Disposals | Total |
|---|---|---|---|---|---|---|---|
| Adjusted EBITDA | 31.2% | 25.3% | 26.7% | 28.6% | 27.4% | 22.2% | **27.4%** |
| Less: | | | | | | | |
| Depreciation | (5.8%) | (8.9%) | (11.6%) | (4.1%) | (7.9%) | (5.5%) | **(7.9%)** |
| Adjusted operating profit | 25.4% | 16.4% | 15.1% | 24.5% | 19.5% | 16.7% | **19.5%** |
| Less: | | | | | | | |
| Amortization | (3.4%) | (4.1%) | (4.2%) | (3.4%) | (3.7%) | — | **(3.7%)** |
| Operating profit | 22.0% | 12.3% | 10.9% | 21.1% | 15.8% | 16.7% | **15.8%** |

**RECONCILIATION OF RETURN ON INVESTED CAPITAL (ROIC) TO GAAP MEASURES**

*(unaudited)*

| (millions of U.S. dollars) | For the Year Ended or As of December 31, 2004 | 2003 | 2002 |
|---|---|---|---|
| **Calculation of Adjusted Operating Profit After Taxes** | | | |
| Operating profit | 1,341 | 1,174 | |
| Add: | | | |
| Amortization | 286 | 279 | |
| Adjusted operating profit of discontinued operations | 34 | 68 | |
| Adjusted operating profit — including discontinued operations | 1,661 | 1,521 | |
| Cash taxes paid (continuing operations) | (285) | (237) | |
| Post-tax adjusted operating profit | 1,376 | 1,284 | |
| **Calculation of Adjusted Invested Capital** | | | |
| Equity | 9,962 | 9,193 | 8,961 |
| Total debt | 4,315 | 4,255 | 4,121 |
| Invested capital | 14,277 | 13,448 | 13,082 |
| Adjustments: | | | |
| Cash and other investments [1] | (420) | (696) | (724) |
| Debt swaps [2] | (192) | (199) | 161 |
| Current and long-term deferred taxes [1] | 1,356 | 1,427 | 1,413 |
| Accumulated amortization and non-cash goodwill [3] | 1,586 | 1,336 | 990 |
| Present value of operating leases [4] | 832 | 879 | 819 |
| Historical intangible asset write-downs [5] | 147 | 248 | 336 |
| Other [1] | 1,125 | 1,072 | 1,151 |
| Adjusted invested capital | 18,711 | 17,515 | 17,228 |
| Average Invested Capital | 18,113 | 17,372 | |
| Return on Invested Capital | 7.6% | 7.4% | |

(1) *Items excluded as not deemed components of invested capital; "Other" primarily consists of non-current liabilities.*

(2) *Exclude debt swaps as balances are financing rather than operating related.*

(3) *Exclude accumulated amortization as only gross identifiable intangible assets and goodwill cost is considered component of invested capital. Exclude goodwill arising from adoption of CICA 3465. This goodwill was created via deferred tax liability instead of cash purchase price.*

(4) *Present value of operating leases deemed component of invested capital.*

(5) *Add back write-downs that were not cash transactions*

**QUARTERLY INFORMATION (UNAUDITED)**

The following table presents a summary of our segments and consolidated operating results for each of the eight quarters ended March 31, 2003 through December 31, 2004.

*The following table includes measurements for Adjusted EBITDA and Adjusted operating profit which do not have any standardized meaning prescribed by Canadian GAAP. These measurements are used by management to evaluate performance. A further discussion of these performance measures and a reconciliation of them to our statement of earnings and retained earnings for the year ended December 31, 2004 are included in this management's discussion and analysis.*

| | Quarter ended March 31 | | Quarter ended June 30 | | Quarter ended September 30 | | Quarter ended December 31 | |
|---|---|---|---|---|---|---|---|---|
| (millions of U.S. dollars) | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| **Revenues** | | | | | | | | |
| Legal & Regulatory | 774 | 675 | 833 | 768 | 840 | 793 | 946 | 902 |
| Learning | 351 | 327 | 428 | 397 | 752 | 714 | 643 | 614 |
| Financial | 389 | 380 | 416 | 375 | 455 | 372 | 474 | 383 |
| Scientific & Healthcare | 177 | 169 | 200 | 181 | 187 | 169 | 272 | 241 |
| Eliminations | (11) | (10) | (11) | (12) | (11) | (8) | (10) | (12) |
| | 1,680 | 1,541 | 1,866 | 1,709 | 2,223 | 2,040 | 2,325 | 2,128 |
| Disposals[1] | 2 | 7 | — | 4 | — | 4 | 2 | 3 |
| | 1,682 | 1,548 | 1,866 | 1,713 | 2,223 | 2,044 | 2,327 | 2,131 |
| **Adjusted EBITDA** | | | | | | | | |
| Legal & Regulatory | 208 | 151 | 271 | 244 | 272 | 262 | 334 | 322 |
| Learning | (16) | (23) | 51 | 46 | 302 | 278 | 184 | 219 |
| Financial | 101 | 94 | 111 | 101 | 128 | 106 | 140 | 102 |
| Scientific & Healthcare | 30 | 34 | 54 | 46 | 50 | 40 | 117 | 97 |
| Corporate and other | (13) | (10) | (19) | (24) | (17) | (15) | (37) | (34) |
| | 310 | 246 | 468 | 413 | 735 | 671 | 738 | 706 |
| Disposals[1] | (3) | 2 | — | 1 | — | — | (1) | 1 |
| | 307 | 248 | 468 | 414 | 735 | 671 | 737 | 707 |
| **Adjusted operating profit (loss)[2]** | | | | | | | | |
| Legal & Regulatory | 160 | 108 | 223 | 200 | 223 | 215 | 276 | 274 |
| Learning | (54) | (57) | 11 | 9 | 237 | 218 | 133 | 166 |
| Financial | 58 | 49 | 68 | 59 | 80 | 62 | 92 | 58 |
| Scientific & Healthcare | 23 | 27 | 47 | 37 | 43 | 33 | 109 | 89 |
| Corporate and other[1] | (17) | (14) | (22) | (27) | (21) | (19) | (38) | (37) |
| | 170 | 113 | 327 | 278 | 562 | 509 | 572 | 550 |
| Disposals[1] | (3) | 2 | — | 1 | — | — | (1) | — |
| | 167 | 115 | 327 | 279 | 562 | 509 | 571 | 550 |

*The following table includes measurements for Adjusted earnings and Adjusted earnings per common share which do not have any standardized meaning prescribed by Canadian GAAP. These measurements are used by management to evaluate performance. A further discussion of these performance measures and a reconciliation of them to our statement of earnings and retained earnings are included in this management's discussion and analysis.*

| (millions of U.S. dollars, except per common share amounts) | Quarter ended March 31 | | Quarter ended June 30 | | Quarter ended September 30 | | Quarter ended December 31 | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Earnings from continuing operations | 41 | 39 | 180 | 101 | 328 | 295 | 314 | 398 |
| Discontinued operations, net of tax | (4) | 8 | 12 | 14 | 16 | 12 | 124 | (2) |
| **Net earnings** | 37 | 47 | 192 | 115 | 344 | 307 | 438 | 396 |
| Dividends declared on preference shares | (1) | (5) | (1) | (2) | — | (1) | (1) | (1) |
| Net gain on redemption of Series V preference shares | — | 24 | — | (3) | — | — | — | — |
| **Earnings attributable to common shares** | 36 | 66 | 191 | 110 | 344 | 306 | 437 | 395 |
| **Basic and fully diluted earnings (loss) per common share** [3] | | | | | | | | |
| From continuing operations | $ 0.06 | $ 0.09 | $ 0.27 | $ 0.15 | $ 0.50 | $ 0.45 | $ 0.48 | $ 0.61 |
| From discontinued operations | (0.01) | 0.01 | 0.02 | 0.02 | 0.02 | 0.02 | 0.19 | (0.01) |
| | $ 0.05 | $ 0.10 | $ 0.29 | $ 0.17 | $ 0.52 | $ 0.47 | $ 0.67 | $ 0.60 |
| **Supplemental information** | | | | | | | | |
| Earnings attributable to common shares as above | 36 | 66 | 191 | 110 | 344 | 306 | 437 | 395 |
| Adjust: one-time items, net of tax, resulting from other (income) expense, net gain on redemption of Series V preference shares, tax settlements, and tax rate normalization, net | (17) | (81) | (29) | 3 | (20) | (14) | 11 | (59) |
| Discontinued operations | 4 | (8) | (12) | (14) | (16) | (12) | (124) | 2 |
| Adjusted earnings (loss) from continuing operations | 23 | (23) | 150 | 99 | 308 | 280 | 324 | 338 |
| Adjusted basic and diluted earnings (loss) per common share from continuing operations | $ 0.04 | ($ 0.04) | $ 0.23 | $ 0.15 | $ 0.47 | $ 0.43 | $ 0.49 | $ 0.52 |

(1) *Disposals include the results of businesses sold or held for sale that do not qualify as discontinued operations.*

(2) *Before amortization.*

(3) *Per common share amounts for the quarter are computed independently and, due to the computation formula, the sum of the quarters may not equal the year-to-date period. Please see the section entitled "Seasonality."*

## SELECTED FINANCIAL DATA

*The following tables present selected financial data for the three most recent years and are derived from our consolidated financial statements.*

| (US$ in millions except per share amounts)<br>For the years ended or as at December 31 | 2004 | 2003 | 2002 |
|---|---|---|---|
| Revenues | $ 8,098 | $ 7,436 | $ 7,270 |
| Earnings from continuing operations | $ 863 | $ 833 | $ 541 |
| Earnings from discontinued operations, net of tax | 148 | 32 | 63 |
| Net earnings | $ 1,011 | $ 865 | $ 604 |
| Basic and fully diluted earnings per common share: | $ 1.54 | $ 1.34 | $ 0.91 |
| Total assets | $ 19,643 | $ 18,685 | $ 18,556 |
| Total long-term liabilities | $ 6,598 | $ 6,347 | $ 6,390 |
| Total shareholders' equity | $ 9,962 | $ 9,193 | $ 8,961 |
| Dividends per common share — ordinary (US$) | $ 0.755 | $ 0.725 | $ 0.705 |
| Dividends per common share — special (US$) | — | $ 0.428 | — |
| Dividends per Series II preferred share (Cdn$) | $ 0.70 | $ 0.82 | $ 0.73 |
| Dividends per Series V preferred share (Cdn$) 1 | — | $ 0.32 | $ 1.00 |

**Supplemental Information (unaudited)**

| (US$ in millions except per common share amounts)<br>For the years ended December 31 | 2004 | 2003 | 2002 |
|---|---|---|---|
| Earnings attributable to common shares | $ 1,008 | $ 877 | $ 585 |
| Adjustments: | | | |
| One time items: | | | |
| Net other expense (income) | (24) | (74) | 35 |
| Restructuring charges | — | — | 4 |
| Tax on above items | 10 | 8 | — |
| Release of tax credits | (41) | (64) | — |
| BGM goodwill impairment | — | — | 67 |
| Net gain on redemption of Series V preference shares | — | (21) | — |
| Earnings from discontinued operations | (148) | (32) | (63) |
| Adjusted earnings from continuing operations 2 | $ 805 | $ 694 | $ 628 |
| Adjusted basic and fully diluted earnings per common share from continuing operations 2 | $ 1.23 | $ 1.06 | $ 0.98 |

(1) *Redeemed in April 2003.*

(2) *Non-GAAP financial measure. See the "Reconciliations" section of this management's discussion and analysis.*

QuickLinks

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 AND AS OF DECEMBER 31, 2004 AND 2003
MANAGEMENT'S DISCUSSION AND ANALYSIS

QuickLinks -- Click here to rapidly navigate through this document

**EXHIBIT 3**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

## MANAGEMENT REPORT

The management of The Thomson Corporation is responsible for the accompanying consolidated financial statements and other information included in the annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using the best estimates and judgments of management, where appropriate. Information presented elsewhere in this annual report is consistent with that in the financial statements.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded, liabilities are recognized and that the accounting systems provide timely and accurate financial reports.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities in respect of financial reporting and internal control. The Audit Committee of the Board of Directors meets periodically with management and the Corporation's independent auditors to discuss auditing matters and financial reporting issues. In addition, the Audit Committee recommends to the Board of Directors the approval of the interim and annual consolidated financial statements and the annual appointment of the independent auditors.

/s/ Richard J. Harrington

**Richard J. Harrington**
President &
Chief Executive Officer

/s/ Robert D. Daleo

**Robert D. Daleo**
Executive Vice President &
Chief Financial Officer

**February 22, 2005**

**PricewaterhouseCoopers LLP**
**Chartered Accountants**
PO Box 82
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Telephone +1 416 863 1133
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## AUDITORS' REPORT

To the shareholders of The Thomson Corporation:

We have audited the consolidated balance sheet of The Thomson Corporation (the Corporation) as at December 31, 2004 and 2003, and the consolidated statements of earnings and retained earnings and of cash flow for each of the years in the two year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of the Corporation's consolidated financial statements in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants**

Toronto, Canada
February 22, 2005

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

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**Chartered Accountants**
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## COMMENTS BY AUDITORS FOR UNITED STATES OF AMERICA READERS ON CANADA — UNITED STATES OF AMERICA REPORTING DIFFERENCES

In the United States of America, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the company's consolidated financial statements, such as the changes described in Notes 1, 2, and 26 to the consolidated financial statements of The Thomson Corporation as at and for the year ended December 31, 2004. In addition, effective January 1, 2003, the Company adopted Canadian Institute of Chartered Accountants Handbook Section 3475, Disposal of Long-lived Assets and Discontinued Operations. This new standard broadened the definition of discontinued operations resulting in certain asset groups to be disposed of as of and subsequent to January 1, 2003 being presented as discontinued operations as described in Note 6, which would not have met the previous standard for the recognition, measurement, presentation or disclosure of discontinued operations.

Our report to the shareholders dated February 22, 2005, is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the changes are properly accounted for and adequately disclosed in the consolidated financial statements.



**Chartered Accountants**

Toronto, Canada
February 22, 2005

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

**THE THOMSON CORPORATION**

**CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS**

| (millions of U.S. dollars, except per common share amounts) | Year ended December 31, 2004 | 2003 (notes 2 and 6) |
|---|---|---|
| Revenues | **8,098** | 7,436 |
| Cost of sales, selling, marketing, general and administrative expenses | **(5,851)** | (5,396) |
| Depreciation (note 10) | **(620)** | (587) |
| Amortization (note 11) | **(286)** | (279) |
| Operating profit | **1,341** | 1,174 |
| Net other income (note 3) | **24** | 74 |
| Net interest expense and other financing costs (note 4) | **(235)** | (252) |
| Income taxes (note 5) | **(267)** | (150) |
| Equity in net losses of associates, net of tax (note 14) | **—** | (13) |
| Earnings from continuing operations | **863** | 833 |
| Earnings from discontinued operations, net of tax (note 6) | **148** | 32 |
| Net earnings | **1,011** | 865 |
| Dividends declared on preference shares (note 15) | **(3)** | (9) |
| Net gain on redemption of Series V preference shares (note 15) | **—** | 21 |
| Earnings attributable to common shares | **1,008** | 877 |
| Retained earnings at beginning of year (note 2) | **6,295** | 6,191 |
| Deduct net gain on redemption of Series V preference shares recorded in Capital (note 15) | **—** | (21) |
| Dividends declared on common shares (note 15) | **(495)** | (752) |
| Retained earnings at end of year | **6,808** | 6,295 |
| Basic and diluted earnings per common share (note 7): | | |
| From continuing operations | **$ 1.31** | $ 1.29 |
| From discontinued operations | **0.23** | 0.05 |
| Basic and diluted earnings per common share | **$ 1.54** | $ 1.34 |

The related notes form an integral part of these consolidated financial statements.

**THE THOMSON CORPORATION**

**CONSOLIDATED BALANCE SHEET**

| (millions of U.S. dollars) | December 31, 2004 | 2003 (notes 2 and 6) |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **405** | 683 |
| Accounts receivable, net of allowances of $345 million (2003 — $339 million) (note 8) | **1,648** | 1,497 |
| Inventories (note 9) | **312** | 309 |
| Prepaid expenses and other current assets | **313** | 307 |
| Deferred income taxes (note 5) | **214** | 181 |
| Current assets of discontinued operations (note 6) | **—** | 67 |
| Current assets | **2,892** | 3,044 |
| Property and equipment, net (note 10) | **1,624** | 1,538 |
| Identifiable intangible assets, net (note 11) | **4,721** | 4,334 |
| Goodwill (note 12) | **9,119** | 8,089 |
| Other non-current assets | **1,287** | 1,247 |
| Non-current assets of discontinued operations (note 6) | **—** | 433 |
| Total assets | **19,643** | 18,685 |
| **Liabilities and shareholders' equity** | | |
| **Liabilities** | | |
| Short-term indebtedness (note 14) | **7** | 87 |
| Accounts payable and accruals | **1,738** | 1,520 |
| Deferred revenue | **1,043** | 939 |
| Current portion of long-term debt (note 14) | **295** | 484 |
| Current liabilities of discontinued operations (note 6) | **—** | 115 |
| Current liabilities | **3,083** | 3,145 |
| Long-term debt (note 14) | **4,013** | 3,684 |
| Other non-current liabilities | **1,015** | 998 |
| Deferred income taxes (note 5) | **1,570** | 1,608 |
| Non-current liabilities of discontinued operations (note 6) | **—** | 57 |
| Total liabilities | **9,681** | 9,492 |
| **Shareholders' equity** | | |
| Capital (note 15) | **2,696** | 2,639 |
| Cumulative translation adjustment (note 19) | **458** | 259 |
| Retained earnings | **6,808** | 6,295 |
| Total shareholders' equity | **9,962** | 9,193 |
| Total liabilities and shareholders' equity | **19,643** | 18,685 |

The related notes form an integral part of these consolidated financial statements.

Approved by the Board

/s/ David K.R. Thomson
**David K. R. Thomson**
Director

/s/ Richard J. Harrington
**Richard J. Harrington**
Director

**THE THOMSON CORPORATION**

**CONSOLIDATED STATEMENT OF CASH FLOW**

| (millions of U.S. dollars) | Year ended December 31, 2004 | 2003 (notes 2 and 6) |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operating activities** | | |
| Net earnings | **1,011** | 865 |
| Remove earnings from discontinued operations | **(148)** | (32) |
| Add back (deduct) items not involving cash: | | |
| Amortization of development costs and capitalized software for sale | **33** | 38 |
| Depreciation (note 10) | **620** | 587 |
| Amortization (note 11) | **286** | 279 |
| Net gains on disposals of businesses and investments (note 3) | **(53)** | (52) |
| Loss from redemption of bonds (notes 3 and 14) | **53** | — |
| Deferred income taxes (note 5) | **(3)** | 21 |
| Equity in net losses of associates, net of tax (note 14) | **—** | 13 |
| Other, net | **137** | 54 |
| Voluntary pension contributions (note 16) | **(7)** | (81) |
| Changes in working capital and other items (note 21) | **(157)** | (107) |
| Cash provided by operating activities — discontinued operations (note 6) | **36** | 69 |
| Net cash provided by operating activities | **1,808** | 1,654 |
| **Investing activities** | | |
| Acquisitions, less cash therein of $220 million (2003 — $25 million) (note 18) | **(1,337)** | (211) |
| Proceeds from disposals (note 18) | **87** | 288 |
| Additions to property and equipment, less proceeds from disposals of $10 million (2003 — $6 million) | **(619)** | (568) |
| Other investing activities | **(60)** | (83) |
| Additions to property and equipment of discontinued operations (note 6) | **(3)** | (9) |
| Proceeds from disposals of discontinued operations (note 6) | **474** | 137 |
| Cash used in investing activities — discontinued operations (note 6) | **(5)** | (15) |
| Net cash used in investing activities | **(1,463)** | (461) |
| **Financing activities** | | |
| Proceeds from debt (note 14) | **1,174** | 451 |
| Repayments of debt (note 14) | **(1,186)** | (468) |
| Net repayments under short-term loan facilities | **(90)** | (230) |
| Premium on bond redemption (note 14) | **(41)** | — |
| Redemption of Series V preference shares (note 15) | **—** | (311) |
| Dividends paid on preference shares (note 15) | **(3)** | (11) |
| Dividends paid on common shares (note 15) | **(484)** | (658) |
| Other financing activities, net | **1** | (1) |
| Net cash used in financing activities | **(629)** | (1,228) |
| | **(284)** | (35) |
| Translation adjustments | **6** | 9 |
| Decrease in cash and cash equivalents | **(278)** | (26) |
| Cash and cash equivalents at beginning of period | **683** | 709 |
| Cash and cash equivalents at end of period | **405** | 683 |

Supplemental cash flow information is provided in notes 4, 18 and 21.

The related notes form an integral part of these consolidated financial statements.

## Note 1: Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements of The Thomson Corporation ("Thomson" or the "Company") include all controlled companies and are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). All intercompany transactions and balances are eliminated on consolidation.

### Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

### Foreign Currency

Assets and liabilities of self-sustaining subsidiaries denominated in currencies other than U.S. dollars are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are accumulated in a separate component of shareholders' equity. Other currency gains or losses are included in earnings.

### Revenue Recognition

Revenues are recognized, net of estimated returns, when the following four criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred;
- the fee is fixed or determinable; and
- collectibility is probable.

In addition to the above general principles, the Company applies the following specific revenue recognition policies:

*Subscription-based Products (excluding software)*

Revenues from sales of subscription-based products are primarily recognized ratably over the term of the subscription. Where applicable, usage fees above a base period fee are recognized as earned. Subscription revenue received or receivable in advance of the delivery of services or publications is included in deferred revenue. Incremental costs that are directly related to the subscription revenue are deferred and amortized over the subscription period.

*Multiple element arrangements*

When a sales arrangement requires the delivery of more than one product or service, the individual deliverables are accounted for separately, if applicable criteria are met. Specifically, the revenue is allocated to each deliverable if reliable and objective evidence of fair value for each deliverable is available. The amount allocated to each unit is then recognized when each unit is delivered, provided that all other relevant revenue recognition criteria are met with respect to that unit.

If, however, evidence of fair value is only available for undelivered elements, the revenue is allocated first to the undelivered items, with the remainder of the revenue being allocated to the delivered items, according to a calculation known as the residual method. Amounts allocated to delivered items are limited if there are further obligations with respect to the delivered items.

If evidence of fair value is only available for the delivered items, but not the undelivered items, the arrangement is considered a single element arrangement and revenue is recognized as the relevant recognition criteria are met.

*Software-related Products and Services*

If the four criteria of revenue recognition are met, license fees are generally recognized ratably on a straight-line basis over the license period. Alternatively, if there is neither an associated licensing period nor future obligations, revenues are recognized upon delivery.

Certain contracts specify separate fees for software and ongoing fees for maintenance and other support. If sufficient vendor specific objective evidence of the fair value of each element of the arrangement exists, the elements of the contract are unbundled and the revenue for each element is recognized as appropriate.

*Other Service Contracts*

For service or consulting arrangements, revenues are recognized as services are performed based on appropriate measures.

**Employee Future Benefits**

Net periodic pension expense for employee future benefits is actuarially determined using the projected benefit method. Determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. For the purpose of calculating expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions. When the cumulative difference between actual and estimated results exceeds 10% of the greater of the benefit obligation or the fair value of the plan assets, such difference is amortized into earnings over the average remaining service period of active employees. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees at the date of the amendment.

**Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits and investments with an original maturity at the date of purchase of three months or less.

**Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined using either the average cost or the first-in, first-out method.

**Long-lived Assets**

Long-lived assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. When such a situation occurs, the expected future operating cash flows associated with the asset are compared to its carrying value to determine if the asset is recoverable. If the expected future operating cash flows are not sufficient to recover the asset, an estimate of the fair value of the asset is computed. Impairment of the carrying amount of a long-lived asset is recognized within operating profit of continuing or discontinued operations, as appropriate, when the carrying amount is not recoverable and is in excess of its fair value. The impairment loss recognized is equal to the excess of the carrying amount over the fair value.

**Capitalized Software**

Certain costs incurred in connection with the development of software to be used internally are capitalized once the applicable criteria specified in generally accepted accounting principles are met. The capitalized amounts, net of accumulated amortization, are included in "Property and equipment, net" in the consolidated balance sheet. The amortization expense is included within "Depreciation" in the consolidated statement of earnings and retained earnings.

In connection with the development of software that is intended to be marketed to customers, certain costs are capitalized once technological feasibility of the product is established and a market for the product has been identified. The capitalized amounts, net of accumulated amortization, are included in "Other non-current assets" in the consolidated balance sheet. The capitalized amounts are amortized over the expected period of benefit, not to exceed three years, and such amortization expense is included within "Cost of sales, selling, marketing, general and administrative expenses" in the consolidated statement of earnings and retained earnings.

**Property and Equipment**

Property and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings and building improvements | 5-40 years |
| Furniture, fixtures and equipment | 3-10 years |
| Computer hardware | 3-5 years |
| Internal-use computer software | 3-10 years |

**Identifiable Intangible Assets and Goodwill**

Upon acquisition, identifiable intangible assets are recorded at fair value. Goodwill represents the excess of the cost of the acquired businesses over fair values attributed to underlying net tangible assets and identifiable intangible assets. The carrying values of all intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Additionally, the carrying values of identifiable intangible assets with indefinite lives and goodwill are tested for impairment annually because they are not amortized. Impairment is determined by comparing the fair values of such assets with their carrying amounts.

*Identifiable Intangible Assets*

Identifiable intangible assets with indefinite lives are not amortized. Identifiable intangible assets with finite lives are amortized over their estimated useful lives as follows.

| | |
|---|---|
| Tradenames | 2-30 years |
| Customer relationships | 3-40 years |
| Databases and content | 2-25 years |
| Publishing rights | 30 years |
| Other | 2-29 years |

Identifiable intangible assets with finite lives are tested for impairment as described under "Long-lived Assets" above.

Selected tradenames comprise the balance of identifiable intangible assets with indefinite lives. For purposes of impairment testing, the fair value of tradenames is determined using an income approach, specifically the relief from royalties method.

*Goodwill*

Goodwill is tested for impairment on a "reporting unit" level. A reporting unit is a group of businesses: (a) for which discrete financial information is available; and (b) that have similar economic characteristics. Goodwill is tested for impairment using the following two-step approach:

- In the first step, the fair value of each reporting unit is determined. If the fair value of a reporting unit is less than its carrying value, this is an indicator that the goodwill assigned to that reporting unit might be impaired, which requires performance of the second step.

- In the second step, the fair value of the reporting unit is allocated to the assets and liabilities of the reporting unit as if it had just been acquired in a business combination, and as if the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared to the actual carrying value of goodwill. If the implied fair value is less than the carrying value, an impairment loss is recognized for that excess.

The fair value of the Company's reporting units is determined based on a combination of various techniques, including the present value of future cash flows and earnings multiples of competitors.

**Investments**

The equity method of accounting is used to account for investments in businesses over which Thomson has the ability to exercise significant influence. Under the equity method, investments are initially recorded at cost and the carrying amounts are adjusted to reflect the Company's share of net earnings or losses of the investee companies, and are reduced by dividends received.

The cost method of accounting is used to account for investments in businesses over which Thomson does not have the ability to exercise significant influence.

When the estimated fair values of investments fall below their carrying values, the investments are written down when such declines are considered to be other than temporary.

**Disposal of Long-lived Assets and Discontinued Operations**

Long-lived assets are classified as held for sale when certain criteria are met. Assets held for sale are measured at the lower of their carrying amounts or fair values less costs to sell and are no longer depreciated. Long-lived assets held for sale are classified as discontinued operations if the operations and cash flows will be eliminated from ongoing operations as a result of the disposal transaction and there will not be any significant continuing involvement in the operation of the disposed asset.

**Deferred Income Taxes**

Deferred income taxes are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities using the enacted or substantially enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. A valuation allowance is recorded against deferred income tax assets if management determines that it is more likely than not that such deferred income tax assets will not be realized. The income tax provision for the period is the tax payable for the period and the change during the period in deferred income tax assets and liabilities.

**Derivative Financial Instruments**

In the ordinary course of business, Thomson enters into the following types of derivative financial instruments to manage foreign currency and interest rate exposures:

- foreign currency contracts to hedge currency exposures on non-U.S. dollar denominated debt;
- foreign currency contracts to hedge forecasted cash flows denominated in currencies other than the functional currency of a particular Thomson subsidiary; and
- interest rate contracts to manage the fixed versus floating interest rate mix of debt. Such contracts require periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based.

The Company identifies a risk management objective for each transaction. All derivatives are linked to specific assets and liabilities or to specific firm commitments or forecasted transactions. For derivatives designated as hedges, periodic assessments of each derivative's effectiveness are performed.

While the derivative financial instruments are subject to the risk of loss from changes in exchange and interest rates, these losses are offset by gains on the exposures being hedged. Gains and losses on foreign currency derivative instruments designated as hedges of existing assets and liabilities are accrued as exchange rates change, thereby offsetting gains and losses from the underlying assets and liabilities. Gains and losses on foreign exchange contracts designated as hedges for firm commitments or forecasted transactions are recorded in earnings when the related transaction is realized. The differential paid or received on interest rate swap agreements is recognized as part of net interest expense. Derivative financial instruments which do not qualify as hedges are measured at fair value with changes recognized in earnings.

**Stock-based Compensation Plans**

Thomson has both a stock appreciation rights ("SAR") plan and a stock incentive plan, which are described in Note 20.

Because the benefits under the SAR plan are payable in cash, compensation expense is recognized as SARs change in value based on the fair market value of the Company's common stock at the end of each reporting period.

Under the stock incentive plan, Thomson may grant stock options and other equity-based awards to certain employees for up to 20,000,000 shares of common stock.

Stock Options

Options vest over a period of four to five years. The maximum term of an option is 10 years from the date of grant. Options under the plan are granted at the closing price of the Company's common stock on the day prior to the date of grant. Compensation expense related to stock options is recognized over the vesting period, based upon the estimated fair value of the options at issuance.

Restricted Share Units

In 2004, the Company made an initial grant of Restricted Share Units ("RSUs"). The RSUs granted in 2004 vest over a period of four years. Compensation expense related to RSUs is recognized over the vesting period, based upon the closing price of the Company's common stock on the day prior to the date of grant.

**Recently Issued Accounting Standards**

The Accounting Standards Board and the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA") have recently issued the following accounting standards that are applicable to the Company's activities in future periods.

*Accounting Guideline AcG-15, Consolidation of Variable Interest Entities.* In June 2003, the CICA issued AcG-15, which requires the consolidation of certain entities that are subject to control on a basis other than the ownership of voting interest. This Guideline provides guidance for determining when an enterprise includes the assets, liabilities and results of operations of a variable interest entity in its consolidated financial statements. The guidance related to consolidation requirements is effective for periods beginning on or after November 1, 2004. The Company has assessed the impact of AcG-15 and the adoption will not have an impact on the consolidated financial statements.

*CICA Handbook Section 1530, Comprehensive Income, CICA Handbook Section 3855, Financial Instruments — Recognition and Measurement* and *CICA Handbook Section 3685, Hedges.* These new Handbook Sections were issued in January 2005, and are effective for interim and annual financial statements relating to fiscal years beginning after October 1, 2006. Consequently, the mandatory effective date for Thomson is January 1, 2007.

These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Additionally, the Handbook sections introduce a new component of equity referred to as comprehensive income. For the most part, the new standards harmonize Canadian GAAP with standards previously issued by the U.S. Financial Accounting Standards Board ("FASB").

Handbook Section 1530 requires companies to disclose comprehensive income, which includes, in addition to net income, other comprehensive income consisting primarily of unrealized gains and losses that bypass the traditional earnings statement and are recorded directly into shareholders' equity. The components of other comprehensive income consist of unrealized gains and losses related to the translation of foreign currency financial statements, certain deferred gains and losses from hedging activity, and unrealized gains and losses on certain investment securities. While Thomson is in the process of assessing the impact of these standards, the Company does not expect a material impact to the statement of earnings and retained earnings.

**Comparative Amounts**

Prior periods have been restated for discontinued operations and changes in accounting policies as described in Note 2. Additionally, where necessary, certain amounts for 2003 have been reclassified to conform to the current year's presentation. Specifically, within Note 5, the December 31, 2003 valuation allowance against deferred income tax assets was decreased by $94 million, with an offsetting increase to net deferred tax liabilities related to financial instruments. Also, within Note 12, the December 31, 2002 goodwill balance by operating segment was reclassified to correspond with the current year's presentation. Specifically, the balance of goodwill in Legal & Regulatory increased by $13 million; Learning increased by $21 million; Scientific & Healthcare increased by $1 million; and Financial decreased by $35 million. Neither of these reclassifications had an impact on any financial statement line items.

**Note 2: Changes in Accounting Policies**

**Derivatives and Hedging Activities**

Effective January 1, 2004, Thomson adopted Accounting Guideline AcG-13 *, Hedging Relationships*, and EIC Abstract 128 *, Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments.* AcG-13 addresses the conditions for applying hedge accounting, including the identification, designation, documentation and effectiveness of hedging relationships. EIC Abstract 128 requires that, with certain exceptions, a freestanding derivative financial instrument that does not qualify for hedge accounting under AcG-13, should be recognized in the balance sheet and measured at fair value, with changes in fair value recognized in income.

As a result of the new guidance, certain derivatives previously accounted for as hedges no longer qualify for such treatment under AcG-13. In accordance with AcG-13, the deferred loss on these instruments as of January 1, 2004 of $26 million will be recognized in "Net interest expense and other financing costs" as the hedged items to which these derivatives formerly related are recognized in earnings. The change in the fair value of these derivative instruments subsequent to January 1, 2004 will also be recognized within "Net interest expense and other financing costs". For the year ended December 31, 2004, a net benefit of $1 million was recognized within "Net interest expense and other financing costs" relative to this new guidance. The net amount recognized consisted of amortization of the deferred loss incurred prior to January 1, 2004 of $10 million and the recognition of the change in the fair value of these derivatives, which resulted in income of $11 million.

**Asset Retirement Obligations**

Effective January 1, 2004, the Company adopted CICA Handbook Section 3110, *Asset Retirement Obligations*, with restatement of prior periods. The new guidance describes how to recognize and measure obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets.

The Company's only asset retirement obligations are obligations to restore leased facilities upon termination of the leases. For the year ended December 31, 2004, the Company recorded expense of $2 million (2003 — $2 million) related to these obligations.

The following details the restatements related to the adoption of CICA Handbook Section 3110 made to the previously reported consolidated financial statements, after taking into account reclassifications related to discontinued operations:

| | Year ended December 31, 2003 | |
|---|---|---|
| **Consolidated statement of earnings and retained earnings** | **As reported** | **As restated** |
| Depreciation | **584** | **587** |
| Income taxes | **151** | **150** |
| Net earnings | **867** | **865** |
| Retained earnings at beginning of year | **6,196** | **6,191** |

| | December 31, 2003 | |
|---|---|---|
| **Consolidated balance sheet** | **As reported** | **As restated** |
| Property and equipment, net | **1,533** | **1,538** |
| Other non-current liabilities | **982** | **998** |
| Net long-term deferred income tax liabilities | **1,612** | **1,608** |
| Retained earnings | **6,302** | **6,295** |

| | Year ended December 31, 2003 | |
|---|---|---|
| **Consolidated statement of cash flow** | **As reported** | **As restated** |
| Net earnings | **867** | **865** |
| Depreciation | **584** | **587** |
| Deferred income taxes | **22** | **21** |

**Revenue Recognition**

Effective January 1, 2004, the Company applied the guidance in EIC Abstract 141 *, Revenue Recognition,* which incorporates the principles and summarizes the guidance in the U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 104, *Revenue Recognition in Financial Statements.* The Abstract also provides interpretive guidance on the application of CICA Handbook Section 3400, *Revenue.* Because the Company had previously applied the provisions of SAB 104, the adoption of EIC Abstract 141 did not impact the consolidated financial statements.

Also effective January 1, 2004, the Company applied EIC Abstract 142 *, Revenue Arrangements with Multiple Deliverables*. This abstract addresses the accounting by vendors for arrangements in which the vendor will perform multiple revenue-generating activities. The Abstract conforms Canadian GAAP to the U.S. GAAP set forth in Emerging Issues Task Force ("EITF") Issue 00-21, also entitled *Revenue Arrangements with Multiple Deliverables.* Because the Company had previously applied EITF Issue 00-21, the adoption of EIC Abstract 142 did not impact the consolidated financial statements.

**Generally Accepted Accounting Principles**

CICA Handbook Section 1100*, Generally Accepted Accounting Principles* became effective for the Company's fiscal year beginning January 1, 2004. This Handbook Section establishes standards for financial reporting in accordance with generally accepted accounting principles and clarifies the relative authority of various accounting pronouncements and other sources within Canadian GAAP. This Handbook Section did not impact the consolidated financial statements.

**Note 3: Net Other Income**

During the period, Net other income includes:

| | Year ended December 31, | |
|---|---|---|
| | **2004** | **2003** |
| Net gains on disposals of investments and businesses | **53** | 52 |
| Loss from redemption of bonds | **(53)** | — |
| Other income | **24** | 22 |
| Net other income | **24** | 74 |

*Net gains on disposals of businesses and investments*

For the year ended December 31, 2004, this amount includes a gain of $35 million from the sale of an investment. Additionally, this amount includes $14 million from the sale of a wholly-owned subsidiary, whose only asset consisted of tax losses, to a company controlled by Kenneth R. Thomson. See Note 23. The most significant item in 2003 was a $55 million gain recorded upon completion of the sale of the Company's 20% interest in Bell Globemedia Inc. ("BGM") in March 2003. See Note 22.

*Loss from redemption of bonds*

On November 26, 2004, the Company redeemed four outstanding issuances of debt securities with an aggregate book value of approximately Cdn $1.2 billion (approximately US$0.8 billion). The loss primarily represents required premiums paid for early extinguishment and non-cash write-offs of deferred costs. See Note 14.

*Other income*

Other income primarily relates to a $22 million legal settlement from a competitor that was received in July 2004. In July 2003, Thomson reached a settlement with Skillsoft PLC, a competitor of Thomson Learning, regarding the Company's claims of breach of fiduciary duty, appropriation of trade secrets and patent infringement. Under the terms of the settlement, Skillsoft PLC paid Thomson $44 million in two equal installments, the first of which was received in July 2003.

**Note 4: Net Interest Expense and Other Financing Costs**

| | Year ended December 31, | |
|---|---|---|
| | **2004** | **2003** |
| Interest income | **10** | 10 |
| Interest expense on short-term indebtedness | **(2)** | (6) |
| Interest expense on long-term debt | **(243)** | (256) |
| | **(235)** | (252) |

Interest paid on short-term indebtedness and long-term debt during 2004 was $250 million (2003 — $263 million) and interest received during 2004 was $10 million (2003 — $12 million).

**Note 5: Income Taxes**

The components of earnings (loss) before taxes by jurisdiction are as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Canada | **(215)** | (127) |
| U.S. and other jurisdictions | **1,345** | 1,123 |
| Total earnings before taxes [1] | **1,130** | 996 |

[1] Represents earnings from continuing operations before equity in net losses of associates, net of tax and income taxes.

The provision for income taxes consisted of:

| | Year ended December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Canada: | | |
| Current | **1** | 1 |
| Deferred | **—** | — |
| Total Canadian | **1** | 1 |
| U.S. and other jurisdictions: | | |
| Current | **269** | 128 |
| Deferred | **(3)** | 21 |
| Total U.S. and other jurisdictions | **266** | 149 |
| Total worldwide | **267** | 150 |

The tax effects of the significant components of temporary differences giving rise to the Company's deferred income tax assets and liabilities at December 31 are as follows:

| | 2004 | 2003 |
|---|---|---|
| Accrued expenses | **184** | 178 |
| Accounts receivable allowances | **96** | 94 |
| Deferred compensation | **90** | 85 |
| Tax loss and credit carryforwards | **854** | 740 |
| Other | **91** | 77 |
| Total deferred tax asset | **1,315** | 1,174 |
| Valuation allowance | **(408)** | (440) |
| Net deferred tax asset | **907** | 734 |
| Intangible assets | **(1,594)** | (1,538) |
| Property and equipment | **(265)** | (244) |
| Financial instruments | **(214)** | (170) |
| Pension | **(154)** | (148) |
| Other | **(36)** | (61) |
| Total deferred tax liability | **(2,263)** | (2,161) |
| Net deferred tax liability | **(1,356)** | (1,427) |

The net deferred liability of $1,356 million (2003 — $1,427 million) was comprised of net current deferred tax assets of $214 million (2003 — $181 million) and net long-term deferred tax liabilities of $1,570 million (2003 — $1,608 million).

The Company records valuation allowances against deferred income tax assets when management determines that it is more likely than not that such deferred income tax assets will not be realized. The change in the valuation allowance from 2003 to 2004 primarily relates to:

- Reversals related to UK losses and tax credit carryforwards which are now considered more likely than not to be used due to changes in tax laws; lower required allowances against Canadian losses which, while still fully provided against, are first offset by deferred tax liabilities which increased in 2004 from the revaluation of debt and currency swaps; and reversals due to the sale of

Canadian net operating losses which previously had full valuation allowances offsetting the related asset.

- Additions from Canadian losses sustained in 2004; certain tax losses arising on the disposal of businesses; and the impact of currency translation.

The following is a reconciliation of income taxes calculated at the Canadian corporate tax rate of 36.0% (2003 — 36.6%) to the income tax provision:

| | 2004 | 2003 |
|---|---|---|
| Earnings before taxes | **1,130** | 996 |
| Income taxes at the Canadian corporate tax rate | **407** | 365 |
| Differences attributable to: | | |
| Effect of income taxes recorded at rates different from the Canadian tax rate | **(176)** | (173) |
| Change in valuation allowance | **36** | 33 |
| Net change to contingent tax liabilities | **14** | (64) |
| Other, net | **(14)** | (11) |
| Income tax provision on continuing operations | **267** | 150 |

The effective income tax rate in each year was lower than the Canadian corporate income tax rate due principally to the lower tax rates and differing tax rules applicable to certain of the Company's operating and financing subsidiaries outside Canada. Specifically, while Thomson generates revenues in numerous jurisdictions, the tax provision on earnings is computed after taking account of intercompany interest and other charges among subsidiaries resulting from their capital structure and from the various jurisdictions in which operations, technology and content assets are owned. For these reasons, the effective tax rate differs substantially from the Canadian corporate tax rate. The Company's effective tax rate and the cash tax cost depend on the laws of numerous countries and the provisions of multiple Income Tax Conventions between various countries in which Thomson operates.

The Company maintains a liability for contingencies associated with known issues under discussion with tax authorities and transactions yet to be settled and regularly assesses the adequacy of this liability. The Company records liabilities for known tax contingencies when, in the judgment of management, it is probable that a liability has been incurred. Contingencies are reversed to income in the period when management assesses that they are no longer required, or when they become no longer required by statute or resolution through the normal tax audit process. The Company's contingency reserves principally comprise possible issues for the years 2001 to 2004. In the fourth quarter of 2003, the Company reduced its contingent tax liabilities by a net amount of $64 million, principally arising from a favorable tax settlement.

At December 31, 2004, the Company had Canadian tax loss carryforwards of $1,074 million, tax loss carryforwards in other jurisdictions of $911 million, and U.S. state tax loss carryforwards of $1,127 million which at current U.S. state rates have an estimated value of $57 million. If not utilized, the majority of the Canadian tax loss carryforwards will expire between 2007 and 2010. The majority of the tax loss carryforwards from other jurisdictions may be carried forward indefinitely, while the U.S. state tax loss carryforwards expire between 2005 and 2023. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose. Additionally, the Company had other tax credit carryforwards of $22 million, which may be carried forward indefinitely, and $78 million of capital loss carryforwards that may be used only in offsetting future capital gains. In the fourth quarter of 2004, the Company sold a wholly-owned subsidiary, whose only asset consisted of Canadian tax loss carryforwards to a company controlled by Kenneth R. Thomson. See Note 23.

The total amount of undistributed earnings of non-Canadian subsidiaries for income tax purposes was approximately $4.4 billion at December 31, 2004. A portion of such undistributed earnings can be remitted to Canada tax free. Where tax free remittance of undistributed earnings is not possible, it is the Company's intention to reinvest such undistributed earnings and thereby indefinitely postpone their remittance. Accordingly, no provision has been made for income taxes that may become payable if undistributed earnings from non-Canadian subsidiaries were distributed by those companies. The additional taxes on that portion of the undistributed earnings, which is available for dividends, are not practicably determinable.

**Note 6: Discontinued Operations**

The following four businesses, along with one other small business from Thomson Learning, which was sold in June 2003, are classified as discontinued operations within the consolidated financial statements for all periods presented. None of these businesses was considered fundamental to the integrated information offerings of Thomson.

In November 2004, the Company sold the Thomson Media group, a provider of largely print-based information products focused on the banking, financial services and related technology markets for gross proceeds of $350 million. The Company recorded a post-tax gain of $94 million in 2004. The results of Thomson Media had previously been reported in the Corporate and other segment.

In the second quarter of 2004, Thomson sold Sheshunoff Information Services Inc. ("Sheshunoff"), a provider of critical data, compliance and management tools to financial institutions, which had been managed within Thomson Media. Based on estimates of fair value, an impairment charge relating to identifiable intangible assets and goodwill of $24 million before income taxes was recorded in the fourth quarter of 2003. Based on the status of negotiations at March 31, 2004, the Company recorded a further pre-tax impairment charge of $6 million relating to identifiable intangible assets in the first quarter of 2004. The Company recorded a post-tax gain of $6 million in 2004 related to the completion of the sale.

In February 2004, Thomson sold DBM, a provider of human resource solutions, which had been managed within Thomson Learning. Based on the status of negotiations at December 31, 2003, an impairment charge relating to goodwill of $62 million before income taxes was recorded in the fourth quarter of 2003. The Company recorded a post-tax gain of $7 million in 2004 related to the completion of the sale.

In October 2003, Thomson sold its portfolio of healthcare magazines for $135 million and recorded the related post-tax gain on the sale of $63 million in the fourth quarter of 2003. The magazines had previously been managed within Thomson Scientific & Healthcare.

The carrying amounts of assets and liabilities related to these discontinued businesses as of December 31, 2003 are as follows:

**Balance Sheet — December 31, 2003**

| | Thomson Media | DBM | Sheshunoff | Total 2003 |
|---|---|---|---|---|
| **Current assets:** | | | | |
| Accounts receivable, net of allowances | 24 | 30 | 1 | 55 |
| Other current assets | 7 | 3 | 2 | 12 |
| **Total current assets** | 31 | 33 | 3 | 67 |
| **Non-current assets:** | | | | |
| Property and equipment | 6 | 17 | 3 | 26 |
| Identifiable intangible assets | 133 | 63 | 38 | 234 |
| Goodwill | 66 | 95 | — | 161 |
| Other non-current assets | — | 5 | 7 | 12 |
| **Total non-current assets** | 205 | 180 | 48 | 433 |
| **Current liabilities:** | | | | |
| Accounts payable and accruals | 22 | 14 | 1 | 37 |
| Deferred revenue | 32 | 34 | 12 | 78 |
| **Total current liabilities** | 54 | 48 | 13 | 115 |
| **Non-current liabilities:** | | | | |
| Other non-current liabilities | 4 | — | — | 4 |
| Deferred income taxes | 26 | 27 | — | 53 |
| **Total non-current liabilities** | 30 | 27 | — | 57 |

The earnings from discontinued operations for the years ended December 31, 2004 and 2003 are summarized below:

**Year ended December 31, 2004**

| | Thomson Media | DBM | Sheshunoff | Other | Total 2004 |
|---|---|---|---|---|---|
| Revenues from discontinued operations | **152** | **28** | **11** | **—** | **191** |
| Earnings (loss) from discontinued operations before income taxes | **26** | **3** | **(4)** | **—** | **25** |
| Gain (loss) on sale of discontinued operations | **163** | **(21)** | **—** | **2** | **144** |
| Income taxes | **(77)** | **28** | **7** | **21** | **(21)** |
| Earnings from discontinued operations | **112** | **10** | **3** | **23** | **148** |

**Year ended December 31, 2003**

| | Thomson Media | DBM | Healthcare Magazines | Sheshunoff | Other | Total 2003 |
|---|---|---|---|---|---|---|
| Revenues from discontinued operations | 170 | 241 | 63 | 33 | 2 | 509 |
| Earnings (loss) from discontinued operations before income taxes | 14 | (27) | 8 | (21) | (1) | (27) |
| Gain on sale of discontinued operations | — | — | 103 | — | 5 | 108 |
| Income taxes | (5) | (10) | (43) | 5 | 4 | (49) |
| Earnings (loss) from discontinued operations | 9 | (37) | 68 | (16) | 8 | 32 |

The Company adjusts liabilities previously established for businesses that have been sold when actual results differ from estimates used in establishing such liabilities. Adjustments are made in conjunction with the expiration of representations and warranty periods or to reflect the refinement of earlier estimates. Due to the expiration of certain tax audit periods for Thomson Newspapers, which were sold in 2000 and 2001, the Company adjusted its related tax liabilities, which resulted in a tax benefit of $19 million for the year ended December 31, 2004. Additionally, in 2004 and 2003, the Company adjusted disposal liabilities related to Thomson Newspapers resulting in $2 million (2003 — $5 million) of earnings from discontinued operations for the year ended December 31, 2004. These amounts are included within "Other" above.

Proceeds from disposals of discontinued operations within the consolidated statement of cash flow for the year ended December 31, 2004 include taxes paid related to the 2003 sale of the portfolio of healthcare magazines. The tax payment related to the sale of Thomson Media will be made in the first quarter of 2005.

**Note 7: Earnings per Common Share**

Basic earnings per common share are calculated by dividing earnings attributable to common shares by the sum of the weighted-average number of common shares outstanding during the period plus vested deferred share units. Deferred share units represent the amount of common shares certain employees have elected to receive in the future in lieu of cash compensation. The holders of deferred share units have no voting rights, but are entitled to dividends at each dividend payment date, which are reinvested as additional deferred share units based upon the dividend reinvestment plan as described in Note 15.

Diluted earnings per common share are calculated using the denominator of the basic calculation described above adjusted to include the potentially dilutive effect of outstanding stock options and other securities. The Company uses the treasury stock method to calculate diluted earnings per common share.

Earnings used in determining earnings per common share from continuing operations are presented below. Earnings used in determining earnings per common share from discontinued operations are the earnings from discontinued operations as reported within the consolidated statement of earnings and retained earnings.

| | 2004 | 2003 |
|---|---|---|
| Earnings from continuing operations | **863** | 833 |
| Dividends declared on preference shares | **(3)** | (9) |
| Net gain on redemption of Series V Preference Shares | **—** | 21 |
| Earnings from continuing operations attributable to common shares | **860** | 845 |

The weighted-average number of common shares outstanding, as well as a reconciliation of the weighted-average number of common shares outstanding used in the basic earnings per common share computation to the weighted-average number of common shares outstanding used in the diluted earnings per common share computation, is presented below.

| | 2004 | 2003 |
|---|---|---|
| Weighted average number of common shares outstanding | **654,827,909** | 653,402,326 |
| Vested deferred share units | **473,448** | 369,088 |
| Basic | **655,301,357** | 653,771,414 |
| Effect of stock and other incentive plans | **625,946** | 380,364 |
| Diluted | **655,927,303** | 654,151,778 |

**Note 8: Accounts Receivable Allowances**

The change in the valuation allowances for returns, billing adjustments and doubtful accounts related to accounts receivable is as follows:

| | 2004 | 2003 |
|---|---|---|
| Balance at beginning of year | **339** | 364 |
| Charges | **437** | 444 |
| Write-offs | **(440)** | (482) |
| Other | **9** | 13 |
| Balance at end of year | **345** | 339 |

Other includes additions from acquisitions and the impact from foreign currency translation.

The Company is exposed to normal credit risk with respect to its accounts receivable. To mitigate this credit risk, the Company follows a program of customer credit evaluation and maintains provisions for potential credit losses. The Company has no significant exposure to any single customer.

**Note 9: Inventories**

Inventories consist of the following:

| | 2004 | 2003 |
|---|---|---|
| Raw materials | **23** | 26 |
| Work in process | **33** | 33 |
| Finished goods | **256** | 250 |
| | **312** | 309 |

**Note 10: Property and Equipment**

Property and equipment consist of the following:

| As at December 31, 2004 | Cost | Accumulated Depreciation | Property and equipment, net |
|---|---|---|---|
| Land, buildings and building improvements | **541** | **(221)** | **320** |
| Furniture, fixtures and equipment | **973** | **(649)** | **324** |
| Computer hardware | **1,107** | **(815)** | **292** |
| Internal-use computer software | **1,712** | **(1,024)** | **688** |
| | **4,333** | **(2,709)** | **1,624** |

| As at December 31, 2003 | Cost | Accumulated Depreciation | Property and equipment, net |
|---|---|---|---|
| Land, buildings and building improvements | **499** | **(186)** | 313 |
| Furniture, fixtures and equipment | **902** | **(593)** | 309 |
| Computer hardware | **1,026** | **(749)** | 277 |
| Internal-use computer software | **1,400** | **(761)** | 639 |
| | **3,827** | **(2,289)** | 1,538 |

Fully depreciated assets are retained in asset and accumulated depreciation accounts until such assets are removed from service. In the case of disposals, assets and related accumulated depreciation amounts are removed from the accounts, and the net amounts, less proceeds from disposals, are included in income. The depreciation charge in 2004 was $620 million (2003 — $587 million), of which $270 million (2003 — $239 million) represented amortization of capitalized internal-use computer software.

**Note 11: Identifiable Intangible Assets**

The following table presents the details of identifiable intangible assets as at December 31, 2004 and 2003.

| As at December 31, 2004 | Gross identifiable intangible assets | Accumulated amortization | Net identifiable intangible assets |
|---|---|---|---|
| Finite useful lives: | | | |
| Tradenames | **466** | **(120)** | **346** |
| Customer relationships | **2,116** | **(580)** | **1,536** |
| Databases and content | **1,377** | **(462)** | **915** |
| Publishing rights | **1,592** | **(578)** | **1,014** |
| Other | **172** | **(71)** | **101** |
| | **5,723** | **(1,811)** | **3,912** |
| Indefinite useful lives: | | | |
| Tradenames | **809** | | **809** |
| | **6,532** | **(1,811)** | **4,721** |

| As at December 31, 2003 | Gross identifiable intangible assets | Accumulated amortization | Net identifiable intangible assets |
|---|---|---|---|
| Finite useful lives: | | | |
| Tradenames | 341 | (91) | 250 |
| Customer relationships | 1,707 | (466) | 1,241 |
| Databases and content | 1,224 | (373) | 851 |
| Publishing rights | 1,565 | (501) | 1,064 |
| Other | 140 | (63) | 77 |
| | 4,977 | (1,494) | 3,483 |
| Indefinite useful lives: | | | |
| Tradenames | 851 | | 851 |
| | 5,828 | (1,494) | 4,334 |

The amortization charge in 2004 was $286 million (2003 — $279 million).

As at December 31, 2004, the average amortization life based upon the gross balance of the identifiable intangible assets with finite useful lives is approximately 20 years.

Publishing rights relate to certain historical acquisitions and are comprised of the cumulative value of tradenames, imprints and titles, databases and other intangible assets. These intangible assets are amortized over a weighted-average useful life, which approximates 30 years.

**Note 12: Goodwill**

The following table presents net goodwill by operating segment for the years ended December 31, 2004 and 2003.

| | Legal & Regulatory | Learning | Financial | Scientific & Healthcare | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2002 | 3,152 | 2,830 | 1,518 | 345 | 7,845 |
| Acquisitions | 98 | 19 | — | 2 | 119 |
| Disposals | (1) | — | (2) | — | (3) |
| Adjusted purchase price allocations | (4) | (56) | (16) | — | (76) |
| Translation and other, net | 74 | 71 | 45 | 14 | 204 |
| Balance at December 31, 2003 | 3,319 | 2,864 | 1,545 | 361 | 8,089 |
| Acquisitions | **30** | **225** | **332** | **349** | **936** |
| Disposals | **—** | **—** | **(1)** | **—** | **(1)** |
| Adjusted purchase price allocations | **(27)** | **(2)** | **(3)** | **1** | **(31)** |
| Translation and other, net | **41** | **40** | **33** | **12** | **126** |
| Balance at December 31, 2004 | **3,363** | **3,127** | **1,906** | **723** | **9,119** |

The adjusted purchase price allocations primarily relate to updated valuations of identifiable intangible assets for certain acquisitions, which resulted in decreases in goodwill of $12 million (2003 — increases of $2 million) as well as to the adjustment of certain acquisition-related assets and liabilities, which resulted in decreases in goodwill of $19 million (2003 — $78 million).

**Note 13: Capitalized Software Intended to be Marketed**

| | 2004 | 2003 |
|---|---|---|
| Capitalized software | **182** | 135 |
| Accumulated amortization | **(100)** | (86) |
| | **82** | 49 |

The amortization charge in 2004 was $33 million (2003 — $25 million).

**Note 14: Financial Instruments**

**Carrying Amounts**

Amounts recorded in the consolidated balance sheet are referred to as "carrying amounts" and are based on period-end exchange rates, as applicable.

For non-U.S. dollar denominated debt, which is hedged into U.S. dollars by derivative contracts, the primary debt carrying amounts are reflected in "Long-term debt" and "Current portion of long-term debt" in the consolidated balance sheet. The related receivables and payables arising from the translation gains and losses on the derivative contracts, which effectively offset the losses and gains on translation of the primary debt, are included within "Other non-current assets", "Prepaid expenses and other current assets" and "Accounts payable and accruals" in the consolidated balance sheet, as appropriate.

**Fair Values**

The fair values of cash and cash equivalents, accounts receivable, short-term indebtedness and accounts payable approximate their carrying amounts because of the short-term maturity of these instruments. The fair value of long-term debt, including the current portion, is estimated based on either quoted market prices for similar issues or current rates offered to Thomson for debt of the same maturity. The fair values of interest rate swaps and forward contracts are estimated based upon discounted cash flows using applicable current market rates. The fair values of the foreign exchange contracts reflect the estimated amounts at which the Company would have to settle all outstanding contracts on December 31. The fair values of publicly traded long-term investments are based on quoted market prices. The fair values of privately held long-term investments are estimated by management. The fair values represent point-in-time estimates that may not be relevant in predicting the Company's future earnings or cash flows.

**Credit Risk**

Thomson attempts to minimize its credit exposure on derivative contracts by entering into transactions only with counterparties that are major investment-grade international financial institutions.

The Company places its cash investments with high-quality financial institutions and limits the amount of exposure to any one institution. At December 31, 2004, a significant portion of the Company's cash was on deposit with three such institutions.

**Short-term Indebtedness**

At December 31, 2004, short-term indebtedness was principally comprised of bank overdrafts. At December 31, 2003, short-term indebtedness was principally comprised of $76 million of commercial paper with an average interest rate of 1.1% after accounting for hedging arrangements.

**Long-term Debt**

The following is a summary of long-term debt:

| As at December 31, 2004 | Carrying Amount | | | Fair Value | | |
|---|---|---|---|---|---|---|
| | Primary debt instruments | Currency swap instruments | Hedged debt | Primary debt instruments | Currency swap instruments | Hedged debt |
| Bank and other | **250** | **—** | **250** | **250** | **—** | **250** |
| 6.50% Debentures, due 2007 | **205** | **(25)** | **180** | **221** | **(45)** | **176** |
| 4.35% Debentures, due 2009 | **247** | **(1)** | **246** | **250** | **(4)** | **246** |
| 4.50% Debentures, due 2009 | **205** | **(21)** | **184** | **210** | **(26)** | **184** |
| 5.20% Debentures, due 2014 | **493** | **(1)** | **492** | **504** | **(11)** | **493** |
| 6.90% Medium-term notes, due 2008 | **329** | **(69)** | **260** | **362** | **(78)** | **284** |
| 6.85% Medium-term notes, due 2011 | **329** | **(75)** | **254** | **372** | **(83)** | **289** |
| 5.75% Notes, due 2008 | **400** | **—** | **400** | **423** | **—** | **423** |
| 4.25% Notes, due 2009 | **200** | **—** | **200** | **202** | **—** | **202** |
| 4.75% Notes, due 2010 | **250** | **—** | **250** | **258** | **—** | **258** |
| 6.20% Notes, due 2012 | **700** | **—** | **700** | **769** | **—** | **769** |
| 5.25% Notes, due 2013 | **250** | **—** | **250** | **260** | **—** | **260** |
| Floating rate notes | **125** | **—** | **125** | **125** | **—** | **125** |
| Private placements, due 2005-2010 | **325** | **—** | **325** | **352** | **—** | **352** |
| | **4,308** | **(192)** | **4,116** | **4,558** | **(247)** | **4,311** |
| Current portion | **(295)** | **—** | **(295)** | | | |
| | **4,013** | **(192)** | **3,821** | | | |

| As at December 31, 2003 | Carrying Amount | | | Fair Value | | |
|---|---|---|---|---|---|---|
| | Primary debt instruments | Currency swap instruments | Hedged debt | Primary debt instruments | Currency swap instruments | Hedged debt |
| Bank and other | 110 | — | 110 | 110 | — | 110 |
| 9.15% Debentures, due 2004 | 191 | (9) | 182 | 197 | (22) | 175 |
| 7.95% Debentures, due 2005 | 191 | (5) | 186 | 207 | (23) | 184 |
| 6.20% Debentures, due 2006 | 191 | (25) | 166 | 202 | (22) | 180 |
| 7.15% Debentures, due 2006 | 191 | (6) | 185 | 208 | (25) | 183 |
| 6.50% Debentures, due 2007 | 191 | (11) | 180 | 207 | (32) | 175 |
| 6.55% Medium-term notes, due 2007 | 343 | (47) | 296 | 372 | (45) | 327 |
| 6.90% Medium-term notes, due 2008 | 305 | (45) | 260 | 337 | (43) | 294 |
| 6.85% Medium-term notes, due 2011 | 305 | (51) | 254 | 339 | (46) | 293 |
| 5.75% Notes, due 2008 | 400 | — | 400 | 433 | — | 433 |
| 4.25% Notes, due 2009 | 200 | — | 200 | 203 | — | 203 |
| 6.20% Notes, due 2012 | 700 | — | 700 | 771 | — | 771 |
| 5.25% Notes, due 2013 | 250 | — | 250 | 259 | — | 259 |
| Floating rate notes | 125 | — | 125 | 125 | — | 125 |
| Private placements, due 2004-2010 | 475 | — | 475 | 522 | — | 522 |
| | 4,168 | (199) | 3,969 | 4,492 | (258) | 4,234 |
| Current portion | (484) | 9 | (475) | | | |
| | 3,684 | (190) | 3,494 | | | |

The floating rate notes will mature on March 21, 2005. Interest, which is payable quarterly, is equal to U.S.$ LIBOR plus 0.65%. The private placements, of which $125 million is due in 2005, have interest rates ranging from 6.76% to 7.74%, with a weighted-average rate of 7.32% at December 31, 2004.

Bank and other debt at December 31, 2004 was primarily U.S. dollar denominated and comprised notes issued in connection with the Capstar acquisition (see Note 18), along with foreign currency denominated loans. Bank and other debt at December 31, 2003 was primarily denominated in foreign currencies. The debentures and medium-term notes are Canadian dollar denominated and are fully hedged into U.S. dollars. The 5.75% Notes, 4.25% Notes, 4.75% Notes, 6.20% Notes, 5.25% Notes, floating rate notes and private placements are U.S. dollar denominated. The carrying amount of long-term debt, all of which is unsecured, was denominated in the following currencies:

| | Before hedging arrangements | | After hedging arrangements | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Canadian dollar | **1,808** | 1,908 | **—** | — |
| U.S. dollar | **2,418** | 2,183 | **4,034** | 3,892 |
| Other currencies | **82** | 77 | **82** | 77 |
| | **4,308** | 4,168 | **4,116** | 3,969 |

Maturities of long-term debt in each of the next five years and thereafter are as follows:

| | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Before hedging arrangements | 295 | 86 | 342 | 835 | 652 | 2,098 | 4,308 |
| After hedging arrangements | 295 | 86 | 317 | 766 | 630 | 2,022 | 4,116 |

At December 31, 2004, undrawn and available bank facilities amounted to $1,490 million.

On November 26, 2004, the Company redeemed, prior to their scheduled maturity dates, four outstanding issuances of debt securities with an aggregate book value of Cdn $1.2 billion (approximately US$0.8 billion). The redeemed issuances were as follows:

Cdn $250 million of 7.95% notes, due 2005

Cdn $250 million of 6.20% notes, due 2006

Cdn $250 million of 7.15% notes, due 2006

Cdn $450 million of 6.55% notes, due 2007

A loss of $53 million was recorded as a result of these redemptions in "Net other income" in the consolidated statement of earnings and retained earnings, primarily related to required premiums paid for early extinguishment and non-cash write-offs of deferred costs. These redemptions were principally financed with two offerings also completed in November 2004. The offerings included Cdn$300 million of 4.35% notes due December 1, 2009 and Cdn$600 million of 5.20% notes due December 1, 2014.

The Company entered into a swap for the 4.35% note that converted the obligation to US$246 million at a fixed interest rate of 3.92%. The Company also entered into three combination currency and interest rate swaps for the 5.20% notes to convert the obligation to US$492 million. The US$492 million obligation pays interest at a fixed rate of 4.88% on US$246 million, 4.75% on US$123 million and a floating rate of interest on the remaining US$123 million. The net proceeds of $733 million were used to partially fund the redemption.

In July 2004, the Company repaid Cdn$250 million of 9.15% notes for US$182 million. Additionally, in July 2004, the Company repaid US$150 million of private placement debt.

In May 2004, Thomson completed an offering of US$250 million, 4.75% global notes due 2010. In June 2004, Thomson completed an offering of Cdn$250 million, 4.50% notes due 2009. The Company entered into two currency swaps to convert the obligation to US$184 million at a floating rate of interest. The Company used the net proceeds of $432 million from these offerings to repay other existing indebtedness and for other general corporate purposes.

In August 2003, Thomson completed an offering of $450 million of global notes. The offering included $200 million of 4.25% unsecured notes due 2009 and $250 million of 5.25% unsecured notes due 2013. The Company entered into an interest rate swap related to the 4.25% notes due 2009 to convert these notes from a fixed rate of interest to a floating rate of interest. This interest rate swap was unwound in 2004. Thomson used a portion of the $445 million in proceeds to redeem $250 million of preferred shares issued to a subsidiary of Thomson's principal shareholder, The Woodbridge

Company Limited ("Woodbridge", see Note 23) and used the balance to repay other outstanding indebtedness and for general corporate purposes.

**Interest Rate Risk Exposures**

Thomson uses interest rate swap agreements to manage the mix of fixed and floating interest rates in its debt portfolio. Thomson had no interest rate swap agreements at December 31, 2004. The fair value of interest rate swap agreements as at December 31, 2003 was $49 million in favor of the counterparties.

After taking account of hedging arrangements, the fixed and floating rate mix of long-term debt is as follows:

| | 2004 | Average interest rate | % Share | 2003 | Average interest rate | % Share |
|---|---|---|---|---|---|---|
| Total fixed | **3,399** | **5.6%** | **83%** | 3,421 | 6.5% | 86% |
| Total floating | **717** | **2.6%** | **17%** | 548 | 2.0% | 14% |
| | **4,116** | **5.1%** | **100%** | 3,969 | 5.8% | 100% |

Including the effect of short-term indebtedness, the proportion of fixed to floating rate debt was 83% to 17%, respectively. Floating interest rate long-term debt is LIBOR-based and, consequently, interest rates are reset periodically.

**Foreign Exchange Contracts**

Thomson uses foreign exchange contracts to manage foreign exchange risk. Generally, foreign exchange contracts are designated for existing assets and liabilities, firm commitments or forecasted transactions that are expected to occur in less than one year.

At December 31, 2004, the fair value of foreign exchange contracts was approximately $1 million in favor of the counterparties (2003 — $4 million in favor of Thomson), and consisted of foreign exchange contracts with gains of nil (2003 — $5 million) and losses of $1 million (2003 — $1 million).

**Investments**

At December 31, 2004, investments accounted for using the equity method had a carrying amount of $87 million (2003 — $87 million). These investments did not have market quotations. Losses from equity method investments were nil in 2004 (2003 — $13 million)

At December 31, 2004, investments accounted for using the cost method totaled $8 million (2003 — $48 million). During 2004, an investment with a book value of $40 million was sold for $75 million. During 2003, Thomson determined that certain of its cost method investments had experienced losses in value that were other than temporary. A reduction in the carrying values of those investments of $4 million for the year ended December 31, 2003 was included in "Net other income" in the consolidated statement of earnings and retained earnings.

The investments accounted for under both the equity and cost methods are included in "Other non-current assets" in the consolidated balance sheet.

**Note 15: Capital**

The change in capital, which includes stated capital and contributed surplus, was as follows:

| | Common Share Capital | | Cumulative Redeemable Preference Share Capital | | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Stated Capital | Series II | Series V | Contributed Surplus | Total Capital |
| Balance, December 31, 2002 | 651,150,484 | 2,361 | 110 | 332 | 31 | 2,834 |
| Redemption of Series V Preference Shares | — | — | — | (332) | 21 | (311) |
| Common shares issued under Dividend Reinvestment Plan ("DRIP") | 3,344,390 | 94 | — | — | — | 94 |
| Common shares issued from stock option exercise and other employee programs | 84,423 | 3 | — | — | — | 3 |
| Stock option expense | | — | — | — | 19 | 19 |
| Balance, December 31, 2003 | 654,579,297 | 2,458 | 110 | — | 71 | 2,639 |
| Common shares issued under DRIP | **326,068** | **11** | **—** | **—** | **—** | **11** |
| Common shares issued from stock option exercise and other employee programs | **226,462** | **7** | **—** | **—** | **—** | **7** |
| Record deferred share units within contributed surplus | **—** | **—** | **—** | **—** | **16** | **16** |
| Transfer of contributed surplus for exercised stock options | **—** | **2** | **—** | **—** | **(2)** | **—** |
| Stock option expense | **—** | **—** | **—** | **—** | **23** | **23** |
| Balance, December 31, 2004 | **655,131,827** | **2,478** | **110** | **—** | **108** | **2,696** |

**Thomson Common Shares**

Thomson common shares, which have no par value, are voting shares. The authorized common share capital of Thomson is an unlimited number of shares.

Registered holders of the common shares may participate in the DRIP under which cash dividends are automatically reinvested in new common shares having a value equal to the cash dividend. Such shares are valued at the weighted-average price at which the common shares traded on The Toronto Stock Exchange during the five trading days immediately preceding the record date for such dividend.

**Dividends**

Dividends on the Thomson common shares are declared and payable in U.S. dollars. Shareholders also have the option of receiving dividends on the Thomson common shares in equivalent Canadian funds or pounds sterling. Dividends declared per common share in 2004 were $0.755 (2003 — $1.153, including a special dividend of $0.428. See Note 22.).

In the consolidated statement of cash flow, dividends paid on common shares are shown net of $11 million (2003 — $19 million) reinvested in common shares issued under the DRIP. In 2003, dividends paid on common shares are also shown net of $75 million reinvested through private placements of common shares with the Company's major shareholders. These private placements, together with the DRIP, satisfied the commitment of the Company's major shareholders to participate in the DRIP for at least 50% of the dividends declared on the Thomson common shares directly and indirectly owned by them. The Company's major shareholders acquired these common shares on the same terms and conditions under which Thomson issues common shares to shareholders participating in the DRIP. In July 2003, the Company's major shareholders agreed to discontinue such commitment.

**Preference Share Capital**

The authorized preference share capital of Thomson is an unlimited number of preference shares without par value. The directors are authorized to issue preference shares without par value in one or more series, and to determine the number of shares in, and terms attaching to, each such series.

**Series II, Cumulative Redeemable Preference Shares**

As at December 31, 2004 and 2003, 6,000,000 shares of Series II, Cumulative Redeemable Preference shares were outstanding. The Series II preference shares are non-voting and are redeemable at the option of Thomson for Cdn$25.00 per share, together with accrued dividends. Dividends are payable quarterly at an annual rate of 70% of the Canadian bank prime rate applied to the stated capital of such shares. The total number of authorized Series II preference shares is 6,000,000.

**Series V, Cumulative Redeemable Preference Shares**

As at December 31, 2002, 18,000,000 shares of Series V, Cumulative Redeemable Preference shares were outstanding. On April 14, 2003, Thomson redeemed all of its outstanding Series V, Cumulative Redeemable Preference Shares for $308 million, which represented a price of Cdn$25.50 per share plus accrued dividends, and associated tax of $3 million.

At December 31, 2002, the shares were recorded within "Capital" within the consolidated balance sheet at their historical value of $332 million. The $21 million increase to contributed surplus represents the difference between the historical value of $332 million and the redemption amount of $308 million, which was due to exchange rate fluctuations of $30 million less the premium paid on the redemption of $6 million, and taxes of $3 million. This gain was included in the calculation of earnings attributable to common shares.

**Note 16: Employee Future Benefits**

Thomson sponsors both defined benefit and defined contribution employee future benefit plans covering substantially all employees. Costs for all future employee benefits are accrued over the periods in which employees earn the benefits.

**Defined Benefit Plans**

Thomson sponsors defined benefit plans providing pension and other post-retirement benefits to covered employees. Net periodic pension expense for employee future benefits is actuarially determined using the projected benefit method. The Company uses a measurement date of September 30 for the majority of its plans. For the Company's largest plan, which is in the United States, an actuarial valuation is performed annually as of December 31.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") was signed into law in the United States. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Company has determined the portions of its U.S. benefit plan that are actuarially equivalent and anticipates that it will be eligible to receive a subsidy beginning in 2006. The Company assessed and quantified this benefit in the second quarter of 2004 and, in accordance with CICA Handbook Section 3461, *Employee Future Benefits* and U.S. Financial Accounting Standards Board ("FASB") Staff Position No. FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, has prospectively applied the expected benefit from the subsidy in its determination of benefit plan expense. This benefit reduced the employee benefit plans expense by $1 million in 2004. As the Act was signed after the measurement date of the Company's U.S. benefit plan, no effect of the Act was reflected in the Company's 2003 financial statements.

The following significant weighted-average assumptions were employed to determine the net periodic pension and post-retirement plans' expenses and the accrued benefit obligations:

| | Pensions | | Other post-retirement plans | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| **Assumptions used to determine net periodic pension expense:** | | | | |
| Expected long-term rate of return on plan assets | **7.6%** | 8.2% | **N/A** | N/A |
| Discount rate | **5.8%** | 6.3% | **6.1%** | 6.7% |
| Rate of compensation increase | **4.3%** | 4.7% | **N/A*** | 5.2% |
| **Assumptions used to determine benefit obligation:** | | | | |
| Discount rate | **5.8%** | 5.8% | **6.1%** | 6.1% |
| Rate of compensation increase | **4.3%** | 4.3% | **N/A*** | N/A* |

** At the end of 2004 and 2003, plans consist almost entirely of retired employees.*

The Company uses multiple techniques to determine its expected long-term rate of return on plan assets. These include the use of statistical models and the examination of historical returns.

The Company's net defined benefit plan (income) expense is comprised of the following elements:

| | Pensions | | | | Other post-retirement plans | |
|---|---|---|---|---|---|---|
| | Funded | | Unfunded | | | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Current service cost | **46** | 39 | **7** | 5 | **2** | 2 |
| Interest cost | **113** | 104 | **10** | 10 | **9** | 8 |
| Expected return on plan assets | **(156)** | (148) | **—** | — | **—** | — |
| Amortization of net transition asset | **—** | 3 | **—** | — | **—** | — |
| Amortization of net actuarial losses | **24** | 8 | **1** | — | **3** | 1 |
| Amortization of prior service cost | **1** | — | **2** | 3 | **—** | — |
| Net defined benefit plan expense | **28** | 6 | **20** | 18 | **14** | 11 |

The following information summarizes activity in all of the pension and other post-retirement benefit plans for the Company:

| | Pensions | | | | Other post-retirement plans | |
|---|---|---|---|---|---|---|
| | Funded | | Unfunded | | | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| **Benefit obligation** | | | | | | |
| Beginning benefit obligation | **1,914** | 1,632 | **173** | 142 | **159** | 126 |
| Current service cost | **46** | 39 | **7** | 5 | **2** | 2 |
| Interest cost | **113** | 104 | **10** | 10 | **9** | 8 |
| Plan participants' contributions | **5** | 4 | **—** | — | **1** | 1 |
| Actuarial losses (gains) | **39** | 126 | **(2)** | 14 | **(7)** | 33 |
| Non-routine events | **(4)** | — | **—** | 5 | **(1)** | (2) |
| Acquisitions, net | **6** | — | **—** | 1 | **2** | — |
| Benefits paid | **(105)** | (77) | **(7)** | (7) | **(11)** | (10) |
| Translation adjustments | **71** | 86 | **1** | 3 | **—** | 1 |
| Ending benefit obligation | **2,085** | 1,914 | **182** | 173 | **154** | 159 |
| **Plan assets** | | | | | | |
| Beginning fair value of plan assets | **1,821** | 1,532 | **—** | — | **—** | — |
| Actual return on plan assets | **207** | 213 | **—** | — | **—** | — |
| Employer contributions | **44** | 66 | **7** | 7 | **10** | 10 |
| Plan participants' contributions | **5** | 4 | **—** | — | **1** | 1 |
| Benefits paid | **(105)** | (77) | **(7)** | (7) | **(11)** | (10) |
| Acquisitions, net | **7** | 2 | **—** | — | **—** | (1) |
| Translation adjustments | **71** | 81 | **—** | — | **—** | — |
| Ending fair value of plan assets | **2,050** | 1,821 | **—** | — | **—** | — |
| **Funded status — deficit** | **(35)** | (93) | **(182)** | (173) | **(154)** | (159) |
| Unamortized net actuarial loss | **510** | 544 | **27** | 30 | **43** | 53 |
| Unamortized past service costs | **5** | 6 | **7** | 9 | **(1)** | — |
| Unamortized net transitional asset | **(6)** | (6) | **—** | — | **—** | — |
| Post-measurement date activity* | **1** | 26 | **2** | 2 | **2** | 3 |
| Accrued benefit asset (liability) | **475** | 477 | **(146)** | (132) | **(110)** | (103) |

**Consists primarily of contributions*

The accrued benefit assets and liabilities are included within "Other non-current assets" and "Other non-current liabilities" within the consolidated balance sheet.

The unfunded pension plans referred to above consist primarily of supplemental executive retirement plans ("SERP") for eligible employees. Thomson partially funds the liabilities of these plans through insurance contracts, which are excluded from plan assets in accordance with CICA Handbook Section 3461. The cash surrender values of insurance contracts used to fund the SERPs total $33 million at December 31, 2004 and are included in "Other non-current assets" in the consolidated balance sheet.

The benefit obligations of funded plans that had benefit obligations that exceeded plan assets at December 31, 2004 were $1,761 million (2003 — $1,584 million). These plans had related fair values of plan assets of $1,674 million (2003 — $1,467 million). While these plans are not considered fully funded for financial reporting purposes, they are adequately funded under the applicable statutory funding rules and regulations governing the particular plans.

The average healthcare cost trend rate used was 10% for 2005, which is reduced ratably to 5% in 2010. A 1% change in the trend rate would result in an increase or decrease in the benefit obligation for post-retirement benefits of approximately $15 million at December 31, 2004.

The Company's pension plans' allocation of assets as of the plans' measurement dates for 2004 and 2003 is as follows:

| | Percentage of Plans' Assets | |
|---|---|---|
| **Asset Category** | **2004** | **2003** |
| Equity securities | **56%** | 56% |
| Debt securities | **44%** | 39% |
| Other | **—** | 5% |
| Total | **100%** | 100% |

As of December 31, 2004 and 2003 there were no Thomson securities held in the Company's pension plans' assets.

Plan assets are invested to satisfy the fiduciary obligation to adequately secure benefits and to minimize Thomson's long-term contributions to the plans.

In the fourth quarter of 2004, the Company contributed $7 million to a benefit plan in the UK. In September 2003, the Company contributed $50 million to its principal qualified defined benefit pension plan in the U.S. In the fourth quarter of 2003, the Company contributed $31 million to various benefit plans, principally in the United Kingdom and Canada. While none of these contributions was required under the applicable funding rules and regulations governing each country, the Company decided to make the voluntary contributions to further improve the funding of these plans.

Based on regulatory requirements, the Company was not obligated to make contributions in 2004 to its major pension plan, which is in the U.S. However, from time to time, the Company may elect to voluntarily contribute to the plan in order to improve its funded status. Because the decision to voluntarily contribute is based on various market related factors, including asset values and interest rates, which are used to determine the plan's funded status, the Company cannot predict whether, nor the amount, it may elect to voluntarily contribute in 2005.

The benefit payments for the years ended December 31, 2004 and 2003 and the estimated payments thereafter, as assumed in the calculation of the benefit obligation as of December 31, 2004, are as follows:

| | Pensions | | Other post-retirement plans |
|---|---|---|---|
| | **Funded** | **Unfunded** | |
| **Benefit Payments:** | | | |
| 2003 | 77 | 7 | 10 |
| 2004 | 105 | 7 | 11 |
| **Estimated Future Payments:** | | | |
| 2005 | 109 | 7 | 12 |
| 2006 | 112 | 8 | 11 |
| 2007 | 116 | 8 | 11 |
| 2008 | 121 | 8 | 11 |
| 2009 | 125 | 8 | 11 |
| 2010 to 2014 | 687 | 59 | 58 |

**Defined Contribution Plans**

The Company and its subsidiaries sponsor various defined contribution savings plans that have provisions for company-matching contributions. Total expense related to defined contribution plans was $64 million in 2004 (2003 — $62 million).

**Note 17: Contingencies, Commitments and Guarantees**

**Claims and Legal Actions**

At December 31, 2004, certain lawsuits and other claims in the normal course of business were pending against Thomson. While the outcome of these matters is subject to future resolution, management's evaluation and analysis of such matters indicates that, individually and in the aggregate, the probable ultimate resolution of such matters will not have a material effect on the Company's consolidated financial statements.

**Regulatory Inquiry**

During 2004, the Company received a subpoena from the U.S. Securities and Exchange commission ("SEC") for certain documents related to the operations of its Capital Markets Intelligence ("CMI") business. The Company is cooperating fully with the SEC. CMI is one of several companies providing market intelligence services. CMI collects stock ownership data solely as an appointed agent of its public company clients seeking a better understanding of their institutional shareholder base. In 2004, approximately $34 million of the financial group's CMI revenues were related to the identification of institutional investors for its clients. At this time, the Company does not anticipate that the outcome of this matter will have a material adverse impact to its financial condition.

In January 2005, the Company became aware of an inquiry by the Serious Fraud Office in the United Kingdom regarding refund practices relating to certain duplicate subscription payments made by some of the Company's customers in the Sweet & Maxwell and Gee businesses in the United Kingdom. Thomson is cooperating fully with the authorities in their inquiry. At this time, the Company does not anticipate that the outcome of this matter will have a material adverse impact to its financial condition.

**Taxes**

The Company maintains a liability for contingencies associated with known issues under discussion with tax authorities and transactions yet to be settled and regularly assesses the adequacy of this liability. The Company records liabilities for known tax contingencies when, in the judgment of management, it is probable that a liability has been incurred. Contingencies are reversed to income in the period when management assesses that they are no longer required, or when they become no longer required by statute or resolution through the normal tax audit process. The Company's contingency reserves principally comprise possible issues for the years 2001 to 2004.

In the normal course of business, the Company enters into numerous intercompany transactions related to the sharing of data and technology. The tax rules governing such transactions are complex and depend on numerous assumptions. At this time, management believes that it is not probable that any such transactions will result in additional tax liabilities, and therefore has not established contingencies related to these items. However, because of the volume and complexity of such transactions, it is possible that at some future date an additional liability could result from audits by the relevant taxing authorities.

**Leases**

The Company enters into operating leases in the ordinary course of business, primarily for real property and equipment. Payments for these leases are contractual obligations as scheduled per each agreement. Operating lease payments in 2004 were $196 million (2003—$193 million). The future minimum operating lease payments are $200 million in 2005, $172 million in 2006, $148 million in 2007, $112 million in 2008, $92 million in 2009 and $340 million thereafter.

With certain leases, the Company guarantees a portion of the residual value loss, if any, incurred by the lessors in disposing of the assets, or in restoring a property to a specified condition after completion of the lease period. The Company believes, based upon current facts and circumstances, that the likelihood of a material payment pursuant to such guarantees is remote.

**Business Combinations and Investments**

The Company has obligations to pay additional consideration for prior acquisitions, typically based upon performance measures contractually agreed to at the time of purchase. In connection with the acquisition of TradeWeb in 2004, the Company is obligated for contingent consideration up to $150 million over the next three years, which will be considered additional purchase price, if certain performance measures are achieved. The contingent consideration associated with TradeWeb is the largest for which the Company may become liable. The Company does not believe that additional payments in connection with other transactions would have a material impact on the consolidated financial statements. Additionally, the Company has capital commitments of $10 million, all of which is payable upon demand.

In certain disposition agreements, the Company guarantees to the purchaser the recoverability of certain assets or limits on certain liabilities. The Company believes, based upon current facts and circumstances, that a material payment pursuant to such guarantees is remote.

**Note 18: Acquisitions and Disposals**

***Acquisitions***

The number of transactions and related cash consideration completed during 2004 and 2003 were as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Number of transactions | Cash Consideration | Number of transactions | Cash Consideration |
| Businesses and identifiable intangible assets acquired | **56** | **1,551** | 25 | 233 |
| Investments in businesses | **1** | **6** | 2 | 3 |
| | **57** | **1,557** | 27 | 236 |

All acquisitions have been accounted for using the purchase method and the results of acquired businesses are included in the consolidated financial statements from the dates of acquisition. For acquisitions made in 2004 and 2003, the majority of the acquired goodwill is not deductible for tax purposes.

The details of net assets acquired are as follows:

| | 2004 | 2003 |
|---|---|---|
| Cash and cash equivalents | **220** | 25 |
| Accounts receivable | **74** | 23 |
| Inventories | **2** | 4 |
| Prepaid expenses and other current assets | **15** | 5 |
| Property and equipment | **78** | 8 |
| Identifiable intangible assets | **616** | 105 |
| Goodwill | **936** | 119 |
| Other non-current assets | **38** | 6 |
| Total assets | **1,979** | 295 |
| Accounts payable and accruals | **(137)** | (27) |
| Deferred revenue | **(106)** | (29) |
| Other non-current liabilities | **(25)** | (6) |
| Total liabilities | **(268)** | (62) |
| Net assets | **1,711** | 233 |

*Allocations related to certain acquisitions, most notably Information Holdings Inc. acquired in November 2004, may be subject to adjustment pending final valuation.*

As part of the Capstar acquisition, Thomson issued promissory notes to the seller of $160 million. This is treated as a non-cash transaction and therefore is excluded from the consolidated statement of cash flow.

As of December 31, 2004, the balance of the reserves for exit costs related to business acquisitions consummated during 2001 through 2004 totaled $31 million. Reserves recorded in connection with businesses acquired during the year ended December 31, 2004 were $33 million. The following table presents the activity in these acquisition reserve accounts, which are included within "Accounts payable and accruals" and "Other non-current liabilities" in the consolidated balance sheet.

| Type of cost | Balance December 31, 2003 | 2004 Utilization | 2004 Additions | Other Movements | Balance December 31, 2004 |
|---|---|---|---|---|---|
| Severance and other employee-related costs | 1 | **(3)** | **13** | **(1)** | **10** |
| Lease cancellation and idle facility costs | 4 | **(2)** | **18** | **(1)** | **19** |
| Other exit costs | 1 | **(1)** | **2** | **—** | **2** |
| Total | 6 | **(6)** | **33** | **(2)** | **31** |

The following provides a brief description of certain acquisitions completed during 2003 and 2004.

| Date | Company | Acquiring market group | Description |
|---|---|---|---|
| November 2004 | Information Holdings Inc. | Scientific & Healthcare | A provider of intellectual property and regulatory information. |
| October 2004 | Capstar | Learning | A provider of competency assessment, learning and measurement and testing solutions |
| September 2004 | KnowledgeNet Inc. | Learning | A provider of a learning platform that offers a combination of self-paced, instructor-led and mobile learning |
| May 2004 | TradeWeb LLC | Financial | An online global trading platform for fixed income securities |
| May 2004 | Starquote | Financial | A provider of financial information to the Canadian retail equity market |
| March 2004 | CCBN.com, Inc. | Financial | A provider of web-based communications solutions for the investment community. |
| January 2004 | BIOSIS | Scientific & Healthcare | A provider of custom and standard information resources for biological researchers. |
| December 2003 | Quickfinder | Legal & Regulatory | A provider of tax reference materials and knowledge |
| July 2003 | Tax Relief | Legal & Regulatory | A provider of integrated tax compliance and accounting software products |
| July 2003 | Gage | Learning | A provider of educational materials to Canadian market |
| May 2003 | Elite | Legal & Regulatory | A provider of integrated practice and financial management applications |

The largest acquisitions in 2004 were Information Holdings Inc., which was purchased for $445 million, net of cash acquired, and TradeWeb LLC, which was purchased for $361 million, net of cash acquired, plus contingent payments of up to approximately $150 million over the next three years based upon the achievement of growth targets.

The identifiable intangible assets acquired are summarized as follows:

| | | | Weighted-average amortization period (years) | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Finite useful lives: | | | | |
| Tradenames | **77** | 14 | **8** | 14 |
| Customer relationships | **368** | 37 | **11** | 14 |
| Databases and content | **133** | 43 | **9** | 10 |
| Other | **38** | 11 | **6** | 8 |
| | **616** | 105 | | |

**Disposals**

In 2004, Thomson received $87 million (2003 — $288 million) cash consideration from the disposals of businesses and investments that did not qualify as discontinued operations within the following segments:

| | 2004 | 2003 |
|---|---|---|
| Legal & Regulatory | **—** | 4 |
| Learning | **—** | — |
| Financial | **1** | 5 |
| Scientific & Healthcare | **—** | — |
| Corporate and other | **86** | 279 |
| | **87** | 288 |

The disposals within Corporate and other in 2004 were the sale of an investment, as well as the sale of a wholly-owned subsidiary, whose only asset consisted of tax losses, to a company owned by Kenneth R. Thomson. See Note 23. The disposal within Corporate and other in 2003 was the sale of the Company's 20% interest in BGM. See Note 22.

**Note 19: Cumulative Translation Adjustment**

An analysis of the cumulative translation adjustment shown separately in shareholders' equity in the consolidated balance sheet is as follows:

| | 2004 | 2003 |
|---|---|---|
| Balance at beginning of year | **259** | (64) |
| Realized from disposal of investment | **—** | 14 |
| Net translation gains | **199** | 309 |
| Balance at end of year | **458** | 259 |

**Note 20: Stock-based Compensation**

**Stock Appreciation Rights Plan**

Thomson has a stock appreciation rights ("SAR") plan that provides for the granting of SARs to officers and key employees. The SAR provides the holder with the opportunity to earn a cash award equal to the fair market value of the Company's common stock less the price at which the SAR was issued. Compensation expense is measured based on the market price of Thomson common stock at the end of the reporting period. The SARs outstanding under the plan have been granted at the closing price of the Company's common stock on the day prior to the date of grant, vest over a four to eight-year period, and expire five to eleven years after the grant date. The compensation expense is recognized over the applicable period. At December 31, 2004, the authorized number of SARs was 20,500,000 and there were 3,179,536 units available for grant. Thomson recognized a benefit of $6 million related to the SAR plan for the year ended December 31, 2004 (2003 — $7 million expense) in the consolidated statement of earnings and retained earnings as a result of the change in the Company's share price as compared to the prior year-end.

A summary of the status of the Thomson SAR plan as of December 31, 2004 and 2003, and changes during the years ended on those dates, is as follows:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | SARs | Canadian $ weighted-average exercise price | SARs | Canadian $ weighted-average exercise price |
| Outstanding at beginning of year | **2,611,168** | **36.51** | 3,132,281 | 34.46 |
| Granted | **219,467** | **41.74** | 192,032 | 44.32 |
| Exercised | **(278,827)** | **31.09** | (415,798) | 23.44 |
| Forfeited | **(100,584)** | **44.18** | (297,347) | 38.31 |
| Outstanding at end of year | **2,451,224** | **37.28** | 2,611,168 | 36.51 |
| Exercisable at end of year | **1,953,396** | **35.85** | 2,085,323 | 34.46 |

The following table summarizes information on SARs outstanding at December 31, 2004:

| | SARs outstanding | | | SARs exercisable | |
|---|---|---|---|---|---|
| Canadian $ range of exercise prices | Number outstanding at 12/31/04 | Weighted-average remaining contractual life | Canadian $ weighted-average exercise price | Number exercisable at 12/31/04 | Canadian $ weighted-average exercise price |
| 21.77-32.125 | 489,586 | 1.9 | 23.54 | 489,586 | 23.54 |
| 35.00-44.50 | 1,718,442 | 5.3 | 39.07 | 1,255,797 | 37.84 |
| 48.40-57.45 | 243,196 | 6.5 | 52.24 | 208,013 | 52.88 |

**Stock Incentive Plan**

On January 24, 2000, the Board of Directors approved the adoption of a stock incentive plan, which authorizes the Company to grant officers and key employees stock options and other equity based awards. As of December 31, 2004 there were 5,769,181 shares available for grant (2003-8,304,840).

*Stock Options*

Under the stock option plan, the exercise price of an option equals the closing market price of the Company's stock on the day prior to the date of the grant and the maximum term of an option is 10 years. In general, grants vest 25% per year from the date of issuance. Under the plan, options may be granted in either Canadian dollars or U.S. dollars.

A summary of the status of the options granted and exercised in Canadian dollars as of December 31, 2004 and 2003, and changes during the years ended on those dates, is as follows:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Options | Canadian $ weighted-average exercise price | Options | Canadian $ weighted-average exercise price |
| Outstanding at beginning of year | **6,277,090** | **49.43** | 7,085,813 | 49.50 |
| Granted | **16,500** | **41.74** | 11,500 | 44.37 |
| Exercised | **(48,400)** | **41.00** | (53,000) | 41.00 |
| Forfeited | **(286,416)** | **49.77** | (767,223) | 50.62 |
| Outstanding at end of year | **5,958,774** | **49.46** | 6,277,090 | 49.43 |
| Exercisable at end of year | **4,952,559** | **50.16** | 3,734,394 | 50.22 |

The following table summarizes information on Canadian dollar stock options outstanding at December 31, 2004:

| Options outstanding | | | | Options exercisable | |
|---|---|---|---|---|---|
| Canadian $ range of exercise prices | Number outstanding at 12/31/04 | Weighted-average remaining contractual life | Canadian $ weighted-average exercise price | Number exercisable at 12/31/04 | Canadian $ weighted-average exercise price |
| 40.69-44.40 | 1,480,900 | 5.3 | 41.04 | 1,132,775 | 41.02 |
| 45.90-48.70 | 2,436,174 | 6.9 | 48.37 | 1,822,127 | 48.36 |
| 50.85-57.45 | 2,041,700 | 6.0 | 56.86 | 1,997,657 | 56.97 |

A summary of the status of the stock incentive plan granted and exercised in U.S. dollars as of December 31, 2004, and changes during the years ended on those dates, is as follows:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Options | U.S.$ weighted-average exercise price | Options | U.S.$ weighted-average exercise price |
| Outstanding at beginning of year | **5,240,395** | **29.96** | 2,576,802 | 26.30 |
| Granted | **2,934,033** | **33.71** | 2,689,968 | 33.42 |
| Exercised | **(59,500)** | **26.06** | (1,875) | 26.06 |
| Forfeited | **(158,625)** | **29.17** | (24,500) | 26.06 |
| Outstanding at end of year | **7,956,303** | **31.38** | 5,240,395 | 29.96 |
| Exercisable at end of year | **1,833,015** | **28.86** | 636,200 | 26.30 |

The following table summarizes information on U.S. dollar stock options outstanding at December 31, 2004:

| Options outstanding | | | | Options exercisable | |
|---|---|---|---|---|---|
| U.S.$ range of exercise prices | Number outstanding at 12/31/04 | Weighted-average remaining contractual life | U.S. $ Weighted-average exercise price | Number exercisable at 12/31/04 | U.S. $ Weighted-average exercise price |
| 26.06-29.70 | 2,318,802 | 8.0 | 26.13 | 1,127,151 | 26.10 |
| 30.79-33.76 | 5,637,501 | 9.4 | 33.55 | 705,864 | 33.26 |

The Company expenses the fair value of all stock options using the Black-Scholes pricing model to compute an estimate of fair value. Under this method, a fair value is determined for each option at the date of grant, and that amount is recognized as expense over the vesting period. For the year ended December 31, 2004, compensation expense recorded in connection with the stock incentive plan was $23 million (2003 — $19 million) before income taxes.

Using the Black-Scholes pricing model, the weighted-average fair value of options granted was estimated to be $7.56 and $7.63 for the years ended December 31, 2004 and 2003, respectively. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions. In addition, the model requires the use of subjective assumptions, including expected stock price volatility. The principal assumptions used in applying the Black-Scholes option-pricing model for the years ended December 31, 2004 and 2003 were as follows:

| | 2004 | 2003 |
|---|---|---|
| Risk-free interest rate | **3.8%** | 3.5% |
| Dividend yield | **2.3%** | 2.3% |
| Volatility factor | **22.9%** | 24.4% |
| Expected life (in years) | **6** | 6 |

*Restricted Share Units*

In 2004, the Company made an initial grant of restricted share units ("RSUs"), which give the holder the right to receive a specified number of shares at the specified vesting date. The RSUs granted in 2004 vest over a period of four years. The holders of RSUs have no voting rights, but are entitled to dividends at each dividend payment date, which are reinvested as additional restricted share units based upon the dividend reinvestment plan as described in Note 15. Compensation expense related to RSUs is recognized over the vesting period, based upon the closing price of the Company's common stock on the day prior to the date of grant. During 2004, 30,167 RSUs were granted, 3,017 vested, and a net amount of 2,060 common shares, after the withholding of applicable employee taxes, were issued. At December 31, 2004 27,150 RSUs were outstanding and have a weighted average value of $34.68. No portion of the outstanding RSUs vest until December 31, 2005.

**Note 21: Supplemental Cash Flow Information**

Details of "Changes in working capital and other items" are:

| | 2004 | 2003 |
|---|---|---|
| Accounts receivable | **(81)** | (13) |
| Inventories | **(9)** | (20) |
| Prepaid expenses and other current assets | **(44)** | (39) |
| Accounts payable and accruals | **31** | 3 |
| Deferred revenue | **—** | 63 |
| Income taxes | **(14)** | (22) |
| Other | **(40)** | (79) |
| | **(157)** | (107) |

Income taxes paid during 2004 were $322 million, $36 million of which related to the sale of the Company's portfolio of healthcare magazines (2003 — $233 million). Income tax refunds received during 2004 were $16 million (2003 — $18 million).

**Note 22: Bell Globemedia Inc.**

On March 17, 2003, the Company sold its 20% interest in Bell Globemedia Inc. ("BGM") to a company that is owned by the Thomson family for $279 million. The Company's Board of Directors appointed a committee of independent directors to review the transaction. The committee retained a financial advisor to provide an opinion to the Company as to the fairness of the transaction from a financial point of view. One of the directors of the Company is also a director of the parent company of the financial advisor, but was not a member of the committee.

In connection with the sale, the Company paid a special dividend, equal to the proceeds received, of $0.428 per common share on March 17, 2003. During the fourth quarter of 2002, the Company had reduced the carrying amount of this investment by $67 million, reflecting its share of a writedown of goodwill recorded by BGM. Upon completion of the sale of the Company's interest, it recognized a gain of $55 million recorded in "Net other income" within the consolidated statement of earnings and retained earnings, largely offsetting the previous non-cash writedown.

**Note 23: Related Party Transactions**

As at December 31, 2004 through Woodbridge and its affiliates, Kenneth R. Thomson controlled approximately 69% of our common shares. Mr. Thomson is a member of the Company's board of directors.

In the normal course of business, a Woodbridge-owned company rents office space from one of the Company's subsidiaries. Additionally, a number of the Company's subsidiaries charge a Woodbridge-owned company fees for various administrative services. In 2004, the amounts charged for these rentals and services were approximately $3 million (2003 — $2 million). Additionally, in 2004, the Company paid a director, Mr. J.A. Tory, $80,000 (2003 — $89,000) for advisory services in connection with the Company's long-term tax and capital strategies.

The employees of Jane's Information Group, a business sold by the Company to Woodbridge in April 2001, continue to participate in the Company's United States and United Kingdom pension plans as well as the defined contribution plan in the United States. Jane's makes proportional contributions to these plans as required and makes matching contributions in accordance with the provisions of the defined contribution plan.

In 2004, the Company renewed its agreement with Woodbridge to reduce the cost of the Company's directors' and officers' insurance coverage. Under the terms of the agreement, the Company maintains standard directors' and officers' insurance for any amount up to $90 million with a third party insurance company. Woodbridge indemnifies this insurer for all liability in excess of $15 million but less than $90 million. For its agreement to indemnify the insurer, the Company pays Woodbridge an annual premium of $750,000, which is less than the premium that the Company would have paid for commercial insurance.

In November 2004, Thomson sold its interest in a wholly-owned subsidiary, whose only asset consisted of tax losses, to a company controlled by the Company's controlling shareholder, Kenneth R. Thomson, for $14 million in cash. Thomson had certain Canadian non-capital tax losses that management did not expect to be able to utilize prior to their expiry, and had established valuation allowances against the tax benefit of these losses in prior years. Under Canadian law, certain tax losses may only be transferred to related companies, such as those affiliated with Kenneth R. Thomson. The transaction was recorded at the exchange amount and a gain of $14 million was recorded within "Net other income" within the consolidated statement of earnings and retained earnings. In connection with this transaction, the Company obtained a tax ruling and an independent accounting firm retained by the board of director's Corporate Governance Committee provided an opinion based on their experience as professional business valuators that the sale price was not less than the fair market value of the tax losses and represented a reasonable negotiated price between Thomson and the purchaser from a financial point of view. After receiving the recommendation of the Corporate Governance Committee, the board of directors approved the transaction. Directors who were not considered independent because of their positions with Woodbridge refrained from deliberating and voting on the matter at both the committee and board meetings.

In February 2005, the Company entered into a contract with Hewitt Associates Inc. to outsource certain human resources administrative functions. Under the terms of the contract, the Company expects to pay Hewitt an aggregate of $115 million over five years. Mr. Denning, one of the Company's directors and chairman of the Company's Human Resources Committee, is also a director of Hewitt. Mr. Denning did not participate in negotiations related to the contract and refrained from deliberating and voting on the matter by the Human Resources Committee and the board of directors.

In September 2003, the Company redeemed $250 million of preferred shares issued by a Thomson subsidiary to a subsidiary of Woodbridge. The shares, which were originally issued in February 2001 and exchanged in February 2002

for separate preferred shares in the same face amount, paid a fixed annual dividend of 4.5% and by their original term were redeemable at the option of either Woodbridge or the Company beginning February 2006 and annually thereafter. Prior to the redemption, the shares were included within "Long-term debt" in the consolidated balance sheet.

In July 2003, Thomson announced that Woodbridge had agreed to discontinue its commitment to participate in the Company's dividend reinvestment plan. Previously, Woodbridge had agreed to reinvest at least 50% of the quarterly dividends received by it and its subsidiaries in common shares through June 2005. All eligible Thomson shareholders, including Woodbridge, retain the ability to reinvest their dividends in Thomson stock on a voluntary basis under the DRIP.

In March 2003, the Company sold its 20% interest in BGM to a company that is owned by the Thomson family for $279 million. See Note 22.

**Note 24: Business Interruption Insurance**

In 2004, the Company received a $19 million insurance recovery related to the events of September 11, 2001 in New York City. Of the claim received in 2004, $14 million related to a recovery of lost revenues due to business interruption, while the remaining $5 million was for a property claim. The $14 million business interruption portion, as well as the $5 million property claim, was recorded as a reduction of "Cost of sales, selling, marketing, general and administrative expenses" within the consolidated statement of earnings and retained earnings and is included in the financial group within the segmented information.

**Note 25: Segment Information**

Thomson is a global provider of integrated information solutions for business and professional customers. Thomson operates in four reportable market segments worldwide. The reportable segments of Thomson are strategic business groups that offer products and services to target markets. The accounting policies applied by the segments are the same as those applied by the Company. The Company's four reportable segments are:

**Legal & Regulatory**

Providing integrated information solutions to legal, tax, accounting, intellectual property, compliance and other business professionals, as well as government agencies.

**Learning**

Providing tailored learning solutions to colleges, universities, professors, students, libraries, reference centers, government agencies, corporations and professionals.

**Financial**

Providing products and integration services to financial and technology professionals in the corporate, investment banking, institutional, retail wealth management and fixed income sectors of the global financial community.

**Scientific & Healthcare**

Providing information and services to researchers, physicians and other professionals in the healthcare, academic, scientific, corporate and government marketplaces.

**Operating Segments — 2004**

| | Revenues | Adjusted operating profit | Additions to capital assets[1] | Total assets |
|---|---|---|---|---|
| | | (millions of U.S. dollars) | | |
| Legal & Regulatory | **3,393** | **882** | **303** | **7,510** |
| Learning | **2,174** | **327** | **554** | **5,549** |
| Financial | **1,738** | **294** | **802** | **3,518** |
| Scientific & Healthcare | **836** | **222** | **595** | **1,600** |
| Segment totals | **8,141** | **1,725** | **2,254** | **18,177** |
| Corporate and other[2] | **—** | **(98)** | **5** | **1,466** |
| Eliminations | **(43)** | **—** | **—** | |
| | **8,098** | **1,627** | **2,259** | **19,643** |

**Operating Segments — 2003**

| | Revenues | Adjusted operating profit | Additions to capital assets[1] | Total Assets |
|---|---|---|---|---|
| | | (millions of U.S. dollars) | | |
| Legal & Regulatory[3] | 3,140 | 798 | 370 | 7,414 |
| Learning[3] | 2,052 | 336 | 242 | 5,109 |
| Financial[3] | 1,526 | 230 | 154 | 2,915 |
| Scientific & Healthcare | 760 | 186 | 26 | 995 |
| Segment totals | 7,478 | 1,550 | 792 | 16,433 |
| Corporate and other[2] | — | (97) | 14 | 1,752 |
| Eliminations | (42) | — | — | — |
| | 7,436 | 1,453 | 806 | 18,185 |
| Discontinued operations | | | | 500 |
| | | | | 18,685 |

**Geographic Information — 2004**

| | Revenues | Capital assets[1] | Total assets |
|---|---|---|---|
| | | (millions of U.S. dollars) | |
| **(by country of origin)** | | | |
| United States | **6,390** | **12,476** | **15,558** |
| Europe | **1,045** | **2,356** | **3,091** |
| Asia-Pacific | **329** | **215** | **375** |
| Canada | **261** | **293** | **423** |
| Other countries | **73** | **124** | **196** |
| Total | **8,098** | **15,464** | **19,643** |

**Geographic Information — 2003**

| | Revenues | Capital Assets[1] | Total Assets |
|---|---|---|---|
| | | (millions of U.S. dollars) | |
| **(by country of origin)** | | | |
| United States | 5,928 | 11,305 | 14,827 |
| Europe | 972 | 2,132 | 2,990 |
| Asia-Pacific | 271 | 199 | 357 |
| Canada | 198 | 204 | 313 |
| Other countries | 67 | 121 | 198 |
| Total | 7,436 | 13,961 | 18,685 |

(1) Capital assets include property and equipment, identifiable intangible assets and goodwill.

(2) Corporate and other includes corporate costs and costs associated with the Company's stock-related compensation expense.

(3) Effective January 1, 2004, the Company adopted CICA Handbook Section 3110 related to asset retirement obligations, with restatement of prior periods. As a result of the restatement, for the year ended December 31, 2003, each of Legal & Regulatory's, Learning's and Financial's Adjusted operating profit reflect an additional charge of $1 million as compared to the previously reported amounts. See Note 2 to the consolidated financial statements.

In accordance with CICA Handbook Section 1701, *Segment Disclosures,* the Company discloses information about its reportable segments based upon the measures used by management in assessing the performance of those reportable segments. The Company uses Adjusted operating profit to measure the operating performance of its segments. The Company uses this measure because management does not consider amortization of identifiable intangible assets to be a controllable operating cost for purposes of assessing the current performance of its segments. Adjusted operating profit does not have any standardized meaning prescribed by Canadian GAAP.

The following table reconciles Adjusted operating profit per the business segment information to operating profit per the consolidated statement of earnings and retained earnings.

| | For the Year Ended December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Adjusted operating profit | 1,627 | 1,453 |
| Less: | | |
| Amortization | (286) | (279) |
| Operating profit | 1,341 | 1,174 |

**Note 26: Reconciliation of Canadian to U.S. Generally Accepted Accounting Principles**

The consolidated financial statements have been prepared in accordance with Canadian GAAP, which differ in some respects from U.S. GAAP. The following schedules present the material differences between Canadian and U.S. GAAP.

| | For the year ended December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Net earnings under Canadian GAAP | **1,011** | 865 |
| Differences in GAAP increasing (decreasing) reported earnings: | | |
| Development costs | **—** | 12 |
| Asset retirement obligations | **(11)** | 3 |
| Business combinations | **36** | 15 |
| Related party transactions (notes 22 and 23) | **(14)** | (55) |
| Derivative instruments and hedging activities | **11** | 18 |
| Income taxes | **(11)** | (12) |
| Equity in net losses of associates, net of tax | **(6)** | — |
| Net income under U.S. GAAP | **1,016** | 846 |
| Other comprehensive income: | | |
| Foreign currency translation | **198** | 319 |
| Minimum pension liability (net of taxes in 2004 — ($1) million and 2003 — $2 million) | **2** | (13) |
| Net unrealized gains on cash flow hedges (net of taxes in 2004 and 2003 — $0 million) | **40** | 52 |
| Other comprehensive income | **240** | 358 |
| Comprehensive income | **1,256** | 1,204 |
| Earnings under U.S. GAAP from continuing operations | **855** | 809 |
| Earnings under U.S. GAAP from discontinued operations | **161** | 37 |
| Net income under U.S. GAAP | **1,016** | 846 |
| Basic earnings per common share, under U.S. GAAP, from: | | |
| Continuing operations | **$ 1.30** | $ 1.25 |
| Discontinued operations, net of tax | **0.25** | 0.06 |
| Basic earnings per common share [(1)] | **$ 1.55** | $ 1.31 |

(1) Earnings per common share is calculated after taking into account dividends declared on preference shares and the gain recognized in connection with the redemption of the Series V Preference Shares. For all periods, basic and diluted earnings per common share were equivalent except for discontinued operations for the year ended December 31, 2004. Diluted earnings per common share for discontinued operations was $0.24, which resulted in total diluted earnings per common share of $1.54 for the year ended December 31, 2004.

| | As at December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Shareholders' equity under Canadian GAAP | **9,962** | 9,193 |
| Differences in GAAP increasing (decreasing) reported Shareholders' equity: | | |
| Asset retirement obligations | **—** | 7 |
| Business combinations | **(618)** | (647) |
| Minimum pension liability | **(50)** | (53) |
| Derivative instruments and hedging activities | **18** | (33) |
| Income taxes | **155** | 171 |
| Shareholders' equity under U.S. GAAP | **9,467** | 8,638 |

Descriptions of the nature of the reconciling differences are provided below:

*Development Costs*

Under Canadian GAAP, certain costs classified as development are deferred and amortized over their estimated useful lives. Under U.S. GAAP, all development costs are expensed as incurred.

*Asset Retirement Obligations*

Under Canadian GAAP, effective January 1, 2004, as described in Note 2, the Company adopted CICA Handbook Section 3110, Asset Retirement Obligations, with restatement of prior periods. The equivalent U.S. GAAP standard was effective January 1, 2003. Because the Company did not consider the impact of this standard to be material for purposes of the reconciliation to US GAAP, this item was not treated as a difference between Canadian and U.S. GAAP in prior periods. The adoption of this standard in Canada reduced the December 31, 2003 balance of shareholders' equity under Canadian GAAP by $7 million. Under U.S. GAAP, the Company recognized this liability by recording it as a 2004 expense item, consisting of operating expenses of $11 million offset by a tax benefit of $4 million.

The 2003 reconciling items for asset retirement obligations represent the reversals of the Canadian GAAP restatement, as described in Note 2.

*Business Combinations*

Prior to January 1, 2001, various differences existed between Canadian and U.S. GAAP for the accounting for business combinations, including the establishment of acquisition related liabilities. The $36 million increase to income (2003 — $15 million) primarily relates to (i) costs that are required to be recorded as operating expenses under U.S. GAAP which, prior to January 1, 2001 were capitalized under Canadian GAAP; (ii) overall decreased amortization charges due to basis differences; and (iii) differences in gain or loss calculations on business disposals resulting from the above factors.

The $618 million decrease in Shareholders' equity as of December 31, 2004 (2003 — $647 million) primarily relates to basis differences in identifiable intangible assets and goodwill due to the factors discussed above, as well as a gain of $54 million recorded for U.S. GAAP resulting from a 1997 disposal mandated by the U.S. Department of Justice, which was required to be recorded as a reduction of goodwill under Canadian GAAP. On a U.S. GAAP basis, goodwill was $8,822 million at December 31, 2004 (2003 — $7,790 million). On the same basis, identifiable intangible assets, net of accumulated amortization, were $4,405 million at December 31, 2004 (2003 — $4,003 million).

*Related Party Transactions*

During the years ended December 31, 2004 and 2003, in accordance with Canadian GAAP, the Company recognized gains on transactions with entities associated with its controlling shareholder in its net earnings. Under U.S. GAAP, such related party gains are not recognizable in net earnings, but must be reflected as equity transactions. In 2004, the related party transaction was the sale of a wholly-owned subsidiary whose only asset was tax losses to a company controlled by Kenneth R. Thomson which resulted in a gain of $14 million. In 2003, the related party transaction was the sale of the Company's 20% interest in BGM to a company that is owned by the Thomson family which resulted in a gain of $55 million.

In accordance with Canadian GAAP, within the consolidated statement of cash flow, these related party transactions were included in cash used in investing activities. Under U.S. GAAP, the cash received would have been classified as a financing activity. For the year ended December 31, 2004, cash used in investing activities would have been $14 million higher, or $1,477 million (2003 — $279 million higher, or $740 million), and cash used in financing activities would have decreased by the same amount to $615 million (2003 — $949 million).

*Derivative Instruments and Hedging Activities*

Under Canadian GAAP, the fair values of derivative instruments that are treated as hedges are disclosed in the notes to the consolidated financial statements as at and for the year ended December 31, 2004, but not recorded in the consolidated balance sheet. Under U.S. Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended by SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* all derivative instruments are recognized in the balance sheet at their fair values, and changes in fair value are recognized either immediately in earnings or, if the transaction qualifies for hedge accounting, when the transaction being hedged affects earnings. Accordingly, under U.S. GAAP as at December 31, 2004, prepaid expenses and other current assets were $5 million lower (2003$6 million higher), other non-current assets were $3 million lower (2003 — unchanged), accounts payable and accruals were $1 million higher (2003 — unchanged), long-term debt was $22 million higher (2003 — $37 million higher) and other non-current liabilities were $49 million lower (2003 — $2 million higher) as compared to Canadian GAAP.

*Income Taxes*

The income tax adjustment for each period is comprised of the tax effect of the U.S. GAAP reconciling items. The adjustment to shareholders' equity relates entirely to deferred tax liabilities.

*Equity in Net Losses of Associates, net of tax*

Under Canadian GAAP, investments in joint ventures are proportionally consolidated. Impairments for long-lived joint venture assets are recognized when the assets are not recoverable. Under U.S. GAAP, investments in joint ventures are accounted for as an equity investment. Impairments for equity investments are recognized when the decline of their fair value below carrying value is considered to be other than temporary. The adjustment relates to a joint venture investment that has long-lived assets that are recoverable, but whose carrying value is greater than its fair value.

*Employee Future Benefits*

Certain of the Company's defined benefit pension plans have accumulated benefit obligations in excess of the fair market value of assets available to fund such obligations as of the annual measurement date for those plans. With respect to those plans, U.S. accounting standards require the recognition of an "additional minimum liability" of $50 million (2003—$53 million), with a corresponding reduction in shareholders' equity. If, at a subsequent date, the fair market value of the pension assets exceeds the accumulated benefit obligations, the equity adjustment would be reversed. This adjustment has no impact on income or cash flow. Because the concept of an additional minimum liability does not exist in Canadian GAAP, the liability and the reduction in equity resulted in a reconciling item.

The accumulated benefit obligation of funded pension plans that had accumulated benefit obligations that exceeded plan assets at December 31, 2004 was $168 million (2003—$150 million). These plans had related fair values of plan assets of $161 million (2003—$113 million).

*Comprehensive Income*

SFAS No. 130, *Reporting Comprehensive Income*, requires companies to disclose comprehensive income, which includes, in addition to net income, other comprehensive income consisting primarily of unrealized gains and losses which bypass the traditional income statement and are recorded directly into shareholders' equity on a U.S. GAAP basis. In 2004 and 2003, the components of other comprehensive income consist of unrealized gains and losses relating to the translation of foreign currency financial statements, minimum pension liabilities, hedging activity and certain investment securities. Accumulated other comprehensive income as at December 31, 2004 was a gain of $434 million (2003—gain of $194 million).

**Note 27: Subsequent Events**

In February 2005, the Company entered into a contract with Hewitt Associates Inc. to outsource certain human resources administrative functions. Under the terms of the contract, the Company expects to pay Hewitt an aggregate of $115 million over five years. See Note 23.

In January 2005, the Company became aware of an inquiry by the Serious Fraud Office in the United Kingdom regarding refund practices relating to certain duplicate subscription payments made by some of the Company's customers in the Sweet & Maxwell and Gee businesses in the United Kingdom. See Note 17.

**THE THOMSON CORPORATION**

**SIX-YEAR SUMMARY**
**(Unaudited)**

*The following table includes measurements for Adjusted EBITDA and Adjusted operating profit which do not have any standardized meaning prescribed by Canadian generally accepted accounting principles. These measurements are used by management to evaluate performance. A further discussion of these performance measures and a reconciliation of them to the consolidated statement of earnings and retained earnings are included in management's discussion and analysis.*

| | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| | | | (millions of U.S. dollars) | | | |
| **Revenues** | | | | | | |
| Legal & Regulatory | **3,393** | 3,140 | 2,958 | 2,840 | 2,638 | 2,389 |
| Learning | **2,174** | 2,052 | 2,036 | 1,752 | 1,429 | 1,118 |
| Financial | **1,738** | 1,526 | 1,622 | 1,704 | 1,551 | 1,255 |
| Scientific & Healthcare | **836** | 760 | 696 | 617 | 636 | 699 |
| Eliminations | **(43)** | (42) | (42) | (34) | (31) | — |
| | **8,098** | 7,436 | 7,270 | 6,879 | 6,223 | 5,461 |
| **Adjusted EBITDA**[1] | | | | | | |
| Legal & Regulatory | **1,085** | 980 | 928 | 860 | 778 | 708 |
| Learning | **521** | 520 | 465 | 385 | 345 | 258 |
| Financial | **476** | 406 | 413 | 400 | 331 | 312 |
| Scientific & Healthcare | **251** | 217 | 189 | 160 | 152 | 145 |
| Corporate and other[2] | **(86)** | (83) | (57) | (75) | (144) | (101) |
| | **2,247** | 2,040 | 1,938 | 1,730 | 1,462 | 1,322 |
| **Adjusted operating profit**[3] | | | | | | |
| Legal & Regulatory[4] | **882** | 798 | 768 | 713 | 650 | 580 |
| Learning[4] | **327** | 336 | 301 | 243 | 218 | 149 |
| Financial[4] | **294** | 230 | 244 | 246 | 206 | 209 |
| Scientific & Healthcare | **222** | 186 | 162 | 136 | 124 | 107 |
| Corporate and other[2] | **(98)** | (97) | (70) | (75) | (144) | (101) |
| | **1,627** | 1,453 | 1,405 | 1,263 | 1,054 | 944 |

(1) Adjusted EBITDA is earnings from continuing operations before interest, taxes, depreciation and amortization, as well as restructuring charges, net other income (expense) and equity in losses of associates, net of tax and, in 2000 and 1999, Year 2000 costs.

(2) Corporate and other includes corporate costs, minority interests and costs associated with the Company's stock-related compensation expense

(3) Adjusted operating profit excludes amortization and restructuring charges and, in 2000 and 1999, Year 2000 costs.

(4) Effective January 1, 2004, the Company adopted CICA Handbook Section 3110 related to asset retirement obligations, with restatement of prior periods.

Prior year amounts have been restated for discontinued operations and reclassified to conform with the current year's presentation.

**THE THOMSON CORPORATION**

**SIX-YEAR SUMMARY (CONTINUED)**
**(Unaudited)**

The following table includes measurements for adjusted earnings and adjusted earnings per common share from continuing operations which do not have any standardized meaning prescribed by Canadian generally accepted accounting principles. These measurements are used by management to evaluate performance. A further discussion of these performance measures and a reconciliation of them to our income statements are included in the management's discussion and analysis.

| | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| | (millions of U.S. dollars, except per common share amounts) | | | | | |
| **Earnings attributable to common shares [1]** | **1,008** | 877 | 585 | 741 | 1,220 | 531 |
| **Basic and diluted earnings per common share [1]** | **$ 1.54** | $ 1.34 | $ 0.91 | $ 1.18 | $ 1.96 | $ 0.86 |
| **Supplemental Information:** | | | | | | |
| Earnings attributable to common shares as above | **1,008** | 877 | 585 | 741 | 1,220 | 531 |
| Adjust: one-time items, net of tax, resulting from other (income) expense, restructuring charges, Year 2000 costs, and redemption of Series V preference shares | **(14)** | (87) | 39 | (206) | 2 | 52 |
| Proportionate share of goodwill impairment recognized by BGM | **—** | — | 67 | — | — | — |
| One-time tax benefits | **(41)** | (64) | — | — | (105) | — |
| Earnings from discontinued operations | **(148)** | (32) | (63) | (103) | (682) | (161) |
| Effect of new accounting standard [2] | **—** | — | — | 188 | 143 | 111 |
| **Adjusted earnings from continuing operations** | **805** | 694 | 628 | 620 | 578 | 533 |
| **Adjusted basic and diluted earnings per common share from continuing operations** | **$ 1.23** | $ 1.06 | $ 0.98 | $ 0.99 | $ 0.93 | $ 0.86 |

(1) Effective January 1, 2004, the Company adopted CICA Handbook Section 3110 related to asset retirement obligations, with restatement of prior periods.

(2) Under CICA Handbook Section 3062, goodwill and identifiable intangible assets with indefinite useful lives are no longer amortized beginning in 2002. This adjustment removes the amortization related to these assets in prior periods.

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**EXHIBIT 4**

**PricewaterhouseCoopers LLP**
Chartered Accountants
PO Box 82
Royal Trust Tower, Suite 3000
Toronto Dominion Centre
Toronto, Ontario
Canada M5K 1G8
Telephone +1 416 863 1133
Facsimile +1 416 365 8215

**CONSENT OF INDEPENDENT CHARTERED ACCOUNTANTS**

We hereby consent to the use in this Annual Report on Form 40-F of our report dated February 22, 2005, relating to the consolidated financial statements of The Thomson Corporation (the Company) which appears in Exhibit 3 of this Form 40-F. We also consent to the use in this Annual Report on Form 40-F of our Comments by Auditors for United States of America Readers on Canada — United States of America Reporting Differences dated February 22, 2005.

Furthermore, we hereby consent to the incorporation by reference in the registration statements on Form F-9 (No. 333-109297), Form S-8 (No. 333-105280), Form S-8 (No. 333-12284) and Form F-3 (No. 333-97203) of The Thomson Corporation of our report dated February 22, 2005 relating to the Company's consolidated financial statements and our Comments by Auditors for United States of America Readers on Canada — United States of America Reporting Differences dated February 22, 2005, which appears in Exhibit 3 of this Form 40-F.

We also consent to the reference to us under the heading "Interests in Experts" in this Annual Report.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
February 22, 2005

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

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CONSENT OF INDEPENDENT CHARTERED ACCOUNTANTS

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**EXHIBIT 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Richard J. Harrington, President and Chief Executive Officer of The Thomson Corporation, certify that:

1. I have reviewed this annual report on Form 40-F of The Thomson Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 2, 2005

/s/ Richard J. Harrington

Richard J. Harrington
President and Chief Executive Officer

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Robert D. Daleo, Executive Vice President and Chief Financial Officer of The Thomson Corporation, certify that:

1. I have reviewed this annual report on Form 40-F of The Thomson Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 2, 2005

/s/ Robert D. Daleo

Robert D. Daleo
Executive Vice President and Chief Financial Officer

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CERTIFICATION OF CHIEF FINANCIAL OFFICER

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**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of The Thomson Corporation (the "Corporation") on Form 40-F for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Harrington, President and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 2, 2005

By: /s/ Richard J. Harrington

Richard J. Harrington
President and Chief Executive Officer

A signed original of this written statement or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to The Thomson Corporation and will be retained by The Thomson Corporation and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this report or as a separate disclosure document.

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of The Thomson Corporation (the "Corporation") on Form 40-F for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert D. Daleo, Executive Vice President and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 2, 2005

By: /s/ Robert D. Daleo

Robert D. Daleo
Executive Vice President and Chief Financial Officer

A signed original of this written statement or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to The Thomson Corporation and will be retained by The Thomson Corporation and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this report or as a separate disclosure document.

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002