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

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

For the fiscal year ended December 31, 2005 **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)
2741
(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 Holdings Inc.
Attn: Deirdre Stanley, Esq., Senior Vice President and General Counsel
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:
Debt Securities

For annual reports, indicate by check mark the information filed with this Form:
☑ Annual information form ☑ 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:

648,948,992 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 ☑

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 such filing requirements for the past 90 days.

Yes ☑ 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 control 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 41 of Exhibit 99.1 (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 45 of Exhibit 99.1 (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 42 of Exhibit 99.1 (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 24 of Exhibit 99.2 (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 24 of Exhibit 99.2 (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 39 of Exhibit 99.1 (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 Directors at Meetings of Non-Management and Independent Directors,” “Communications with Non-Management and Independent Directors and Presiding Directors” and “Corporate Governance Guidelines and Board Committee Charters” beginning on page 44 of Exhibit 99.1 (Annual Information Form) is incorporated by reference herein.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

a. Undertaking.

The Registrant 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 Registrant 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.

SIGNATURES

Pursuant to the requirements of the Exchange Act, 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

By: /s/ Deirdre Stanley
Name: Deirdre Stanley
Title: Senior Vice President and General Counsel

Date: March 1, 2006

EXHIBIT INDEX

Exhibit Number	Description
99.1	Annual Information Form for the year ended December 31, 2005
99.2	Management’s Discussion and Analysis for the year ended December 31, 2005
99.3	Audited Consolidated Financial Statements for the year ended December 31, 2005
99.4	Consent of PricewaterhouseCoopers LLP, Chartered Accountants
99.5	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.6	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.7	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.8	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 99.1

THE THOMSON CORPORATION

THOMSON

Annual Information Form

For the Year Ended December 31, 2005

March 1, 2006

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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 2005, the average daily exchange rate was US$1.00 = C$1.21.

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;
- our failure to fully derive anticipated benefits from our acquisitions;
- 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;
- the failure of our significant investments in technology to increase our revenues or decrease our operating costs;
- our failure to develop additional products and services to meet our customers’ needs, attract new customers or expand into new geographic markets;
- 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;
- our failure to recruit and retain high quality management and key employees;
- increased self-sufficiency of our customers;
- inadequate protection of our intellectual property rights;
- actions or potential actions that could be taken by our principal shareholder, The Woodbridge Company Limited, or Woodbridge;
- 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 represent risks that our management believes are material. Other factors not presently known to us or that we presently believe are not material could also 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.

The following provides information about our intercorporate relationships with our principal subsidiaries as of December 31, 2005. As of that date, we beneficially owned, directly or indirectly, 100% of the voting and non-voting securities of each of these subsidiaries. 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, 2005, have been omitted. Indentation indicates the voting securities are directly or indirectly owned by the subsidiary listed above. Our legal structure is not indicative of our operational structure.

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.
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 S.A.	Luxembourg
Thomson Finance SA	Luxembourg
Thomson Holdings B.V.	The Netherlands
The Thomson Corporation PLC	England and Wales
TTC (1994) Limited	England and Wales
Thomson Legal & Regulatory Europe Limited	England and Wales
Thomson Information & Solutions Limited	England and Wales
Thomson Financial Limited	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 solutions and services. We make our information 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. We are increasingly enabling our customers' decisions in addition to informing them. 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 economic and 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 electronic products, 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 2003, 2004 and 2005, we completed 119 acquisitions for an aggregate cash outlay of approximately $1.8 billion.

- In 2003, we completed 28 acquisitions for an aggregate cash outlay of approximately $211 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.
- In 2004, we completed 56 acquisitions for an aggregate cash outlay of approximately $1.3 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 a three year period ending in 2007 based on the achievement of certain growth targets. In 2005, we paid $50 million in contingent consideration associated with this acquisition.

- In 2005, we completed 35 acquisitions for an aggregate cash outlay of approximately $289 million. These acquisitions were tactical in nature and our reduced acquisition activity was primarily due to a focus on integrating our prior year acquisitions. We did not purchase any individual business for more than $75 million.

These acquisitions further strengthened our leadership position, expanded our product offerings and have enabled us to enter adjacent markets and tap new revenue streams.

During 2003, 2004 and 2005, we also completed 16 dispositions for aggregate consideration of approximately $1.0 billion. The more significant of these dispositions were the sale in 2003 of our 20% interest in Bell Globemedia for $279 million and the sale of our healthcare magazines for $135 million. 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 DBM, a provider of human resource solutions, and Sheshunoff Information Services, a provider of critical data, compliance and management tools to financial institutions. In 2005, we decided to sell our scientific and healthcare group's American Health Consultants business, a medical newsletter publisher and medical education provider. This sale is expected to take place during 2006.

In February 2006, our Board of Directors approved our plan to dispose of three separate businesses within our Thomson Learning market group. These businesses are Peterson's, a college preparatory guide, the U.S. operations of Thomson Education Direct, a consumer-based distance learning career school and K.G. Saur, a German publisher of biographical and bibliographical reference titles serving the library and academic community. The combined annual revenues of these businesses in 2005 were approximately $145 million.

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 2005 were approximately $8.7 billion and we derived approximately 65% of our revenues from subscription or other similar contractual arrangements, which are generally recurring in nature. In 2005, we derived 83% 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 2005, electronic, software and services comprised 69% of our revenues.

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 2005 revenues, the countries in which they operated and the number of their employees as of December 31, 2005.

Market Groups – Operations

	2005 Revenues (1)	% of Revenues	% of Revenues from Electronic, Software and Services	Countries	Employees
Thomson Legal & Regulatory	$ 3,491	40%	68%	22	17,300
Thomson Learning	$ 2,319	26%	37%	39	9,400
Thomson Financial	$ 1,897	22%	98%	22	8,700
Thomson Scientific & Healthcare	$ 1,018	12%	87%	26	4,700

(1) In millions of U.S. dollars.

In the first quarter of 2005, Thomson Legal & Regulatory transferred its Dialog DataStar business to Thomson Scientific & Healthcare. Revenue amounts, percentages and other data in the table above and elsewhere in this section reflect this transfer, as if Dialog DataStar was part of Thomson Scientific for all of the periods presented. In addition, in the tables included in the market group descriptions below, 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

Overview

Thomson Legal & Regulatory is a leading provider of 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. We are also one of the largest publishers of legal textbooks and materials. 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, continuing legal educational programs and we provide strategic consulting advisory services to the legal industry. In 2005, 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.

Thomson Legal & Regulatory divides its businesses between:

- North American Legal;
- Thomson Tax and Accounting; and
- TLR International.

In 2005 and 2004, Thomson Legal & Regulatory generated revenues of approximately $3.5 billion and $3.3 billion, respectively. The following table provides additional information regarding Thomson Legal & Regulatory's revenues in 2005 and 2004.

	% of Total Revenues	
	2005	2004
North American Legal	68%	68%
Thomson Tax and Accounting	15%	15%
TLR International	17%	17%
Electronic, software and services	68%	65%
From North America	85%	84%
Recurring/subscription-based	85%	85%

Products and Services

North American Legal

As a result of 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 North American Legal brands.

Major Brands	Principal Products and Services	Customers
West Westlaw LIVEDGAR Carswell (Canada)	Legal information-based products and services	Lawyers, law students, law librarians, trademark professionals, legal professionals
Thomson Elite West km ProLaw	Law firm management software	
Hildebrandt International	Strategic consulting advisory services	
FindLaw HubbardOne LegalWorks	Web-based legal directory, website creation and hosting services and law firm marketing solutions	
Foundation Press West Law School Publishing BAR/BRI West LegalEdcenter	Textbooks, study aids, bar review courses, continuing education materials and seminars	
Business Intelligence NewsEdge Profound	Online collection of databases and tools to support news, broker research and market research	Business professionals, lawyers and consultants

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, news, public records and legal forms, in electronic and print formats. Our North American Legal businesses offered our customers the information they need from over 28,000 databases as of December 31, 2005.

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.

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 2005, we continued to enhance Westlaw Litigator, a service designed to assist attorneys in evaluating and investigating cases and preparing for trial. With 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. Our acquisition of Global Securities Information (GSI)'s LIVEDGAR in 2005 enhanced our ability to provide corporate and transactional lawyers with value-added services for preparing and completing commercial transactions.

Carswell provides integrated knowledge and business solutions for the legal, finance and human resources markets in Canada. Online delivery to the legal market is provided through eCarswell.

Thomson Elite offers a broad range of 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, timekeeping, billing and records management. We have integrated Thomson 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, Thomson 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 6,500 law firms in 2005.

Hildebrandt International, which we acquired in 2005, is a leading provider of strategic consulting advisory services to the legal industry. Hildebrandt provides strategic advice to law firms, corporate law departments and government law departments throughout the world.

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 2005, 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 approximately 19,000 hours of U.S.-accredited content as of December 31, 2005.

Through Business Intelligence, NewsEdge and Profound, we also provide online business information, news and tools to business professionals, lawyers and consultants.

Thomson 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 Quickfinder Checkpoint PPC	Tax and accounting information-based products and services	Accountants, lawyers, consultants, tax practitioners
Creative Solutions InSource GoSystem Fast-Tax UltraTax Tax Partners	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, our UltraTax software 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. In 2005, we acquired Tax Partners to provide sales and use tax outsourcing 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.

TLR International

Through TLR International, we provide services to a number of markets primarily outside of North America. The following provides information about TLR International's major brands.

Major Brands	Principal Products and Services	Customers
Westlaw (1) Sweet & Maxwell (U.K., Asia) ELLIS (The Netherlands) Aranzadi (Spain) Civitas (Spain) Karnov (Denmark and Sweden) Lawpoint (Australia) Lawbook (Australia) Brookers (New Zealand) La Ley (Argentina) Sintese (Brazil) Lawtel (U.K.) Consult GEE (U.K.)	Legal information-based products and services	Lawyers, law students, law librarians, trademark professionals, legal professionals
IOB (Brazil)	Tax, legal and accounting information-based products and services	Accountants, lawyers, consultants, tax practitioners
Compu-Mark (Europe) Brandy (Japan) O. Gracklauer (Germany) Thomson & Thomson	Trademark search and protection information services	Business, legal and trademark professionals

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

TLR International operates legal information businesses in Argentina, Australia, Brazil, Canada, Denmark, France, 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 UK 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. We also operate Lawtel, the leading U.K. online current awareness and legal information service. As a result of the continued growth of Westlaw and Lawtel, 99 of the largest 100 U.K. law firms subscribed to our online services in 2005.

In addition, we offer country-specific online legal services in Argentina, Australia, Denmark, Hong Kong, Spain, Sweden and the United Kingdom. In each case, we offer local content, owned or licensed by our operations in that region, 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, 2005, we provided Westlaw International in 42 countries.

Our IOB business provides tax, legal and regulatory information to accountants, lawyers and tax practitioners throughout Brazil.

Through Thomson Compu-Mark, we operate various trademark-related businesses — Compu-Mark, Brandy, O. Gracklauer and Thomson & Thomson. Through these businesses, we maintain databases containing all current trademark registrations in the United States, Australia, Canada, Japan, Malaysia, Mexico, Singapore, South Korea 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 electronic products and services primarily through the Internet. In 2005, we completed the upgrade of our primary data center in Minnesota to support continued business growth and operating efficiencies. From our primary data center, we have the capacity to handle over 40 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. As greater numbers of people are turning to the Internet with an expectation of instantaneous access to current information, it has fueled demand for online products and services.

Competition

Our primary global competitors in the legal and regulatory information market are Reed Elsevier (which operates Lexis-Nexis) and Wolters Kluwer NV 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 2005, 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, such as Factiva (a joint venture between Reuters Group PLC and Dow Jones) and Nexis.

Thomson Learning

Overview

Thomson Learning delivers state-of-the-art, tailored learning solutions for colleges, universities, professors, students, libraries, reference centers, government agencies, corporations and professionals around the world. We deliver these solutions through specialized content, applications and services that foster academic excellence, professional development and measurable competitive advantage. While printed materials continue to be the most widely used learning resource, instructors and students are increasingly seeking electronic resources from us. Thomson Learning is made up of complementary, yet diverse businesses that provide the products and services that our customers need for learning.

Thomson Learning divides its businesses into:

- Academic publishing and reference; and
- Lifelong learning and international.

In 2005 and 2004, Thomson Learning generated revenues of approximately $2.3 billion and $2.2 billion, respectively. The following table provides additional information regarding Thomson Learning’s revenues in 2005 and 2004.

	% of Total Revenues	
	2005	2004
Academic publishing and reference	56%	57%
Lifelong learning and international	44%	43%
Electronic, software and services	37%	34%
From North America	84%	83%
Recurring/subscription-based	26%	27%

In 2005, Thomson Learning moved its international businesses from its academic publishing and reference group to its lifelong learning group. In addition, Thomson Learning moved its Delmar and Course Technology businesses from its lifelong learning group to its academic publishing and reference group. Revenue amounts stated above for the academic publishing and reference and lifelong learning and international groups have been restated as if these organizational changes occurred at the beginning of 2004.

Products and Services

Academic Publishing and Reference

We provide textbooks, study guides and teaching guides in print and electronic formats for use in colleges, universities, technical and vocational schools, trade schools and trade associations, and for use by professors, students and professionals. In addition, we offer 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 Course Technology	Textbooks and print and electronic materials for information technology instruction	Universities, colleges, corporations
Thomson Delmar Learning	Textbooks and learning materials for technology, trade healthcare, professional and career education	Colleges, vocational schools, career schools, teachers, students
Thomson Gale	Print 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

While our academic publishing and reference business derives a majority of its revenues from print materials at this time, we have been increasingly accelerating the shift to digital and hybrid solutions. In creating customized digital solutions, we work closely with our customers to ensure that our solutions meet their needs and integrate into their workflows. For example, we supplement a number of 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.

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.

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 mean that release dates of major textbook titles are spread out so that revenues from new product releases are spread more predictably from year to year.

We are currently digitizing our microfilm collection and include this content in some of our electronic products. Gale’s *The Making of Modern Law, Legal Treatises, 1800-1926* is an example of our continuing endeavor to make primary documents available electronically. This unprecedented digital collection features a fully searchable database of approximately 10 million pages and more than 21,000 works. It provides researchers with a logical, interdisciplinary approach to the study of legal history and allows a vast segment of the literature of law to be searched by keywords or phrases, full text, author, title, date, subject, source library and more.

We also provide electronic resource centers that aggregate reference information about particular topics. Our 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.

Lifelong Learning and International

We provide electronic and print-based learning, certification and testing solutions to corporations, government agencies, students and professionals. We also 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, 2005, 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 IT 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 and international 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 Heinle	Textbooks and electronic course materials for English, modern languages and English-language training	Colleges, universities, schools, professors, students
Thomson Nelson (Canada/Australia)	Textbooks and electronic course materials for the school and higher education markets	
Groupe Modulo (Canada)	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	

* = Joint venture

We offer comprehensive test creation, management and delivery capabilities within the government and professional segments. In addition, we provide comprehensive 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.

We also distribute our publishing, reference, e-learning and e-testing products internationally. In 2005, approximately 25% 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 products and services primarily to universities, colleges, schools and reference libraries.

Technology

Technology is an integral element in the solutions of Thomson Learning. We continue to focus on standardizing our technological infrastructure and platforms to support the development of new electronic products and services and delivery systems. 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 building a unified technology platform and learning infrastructure to develop our courseware, consolidate our production organization and establish standardized workflows. We believe that a common platform will provide the necessary scale and content delivery to enhance profitability while preserving the unique customer facing characteristics demanded by the different customer segments. This technology also will be the backbone for all of Thomson Learning's courseware development. Throughout all of Thomson Learning, we are also implementing a common enterprise-wide content repository that enables our businesses to share assets and deliver content in a media-neutral fashion.

Competition

Our primary competitors in the higher education publishing market in the United States and internationally include Pearson Education (a division of Pearson Plc), The McGraw-Hill Companies, Houghton Mifflin Company, John Wiley & Sons, Inc. and Georg von Holtzbrinck GmbH.

In the global library print reference market, we primarily compete with Océano Grupo Editorial and the Grolier unit of Scholastic Inc. In the global library electronic reference market, our principal competitors include ProQuest Company and EBSCO Industries, Inc.

Our primary competitors include Pearson VUE (a division of Pearson Plc) in the global lifelong learning market, Promissor (also part of Pearson Plc) in the computer-based testing market and SkillSoft PLC, DigitalThink, Inc., Element K LLC, and MindLeaders.com, Inc. in the highly-fragmented electronic and print-based training markets.

Thomson Financial

Overview

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.

Thomson Financial divides its core business into three groups:

- Corporate, Investment Banking & Investment Management;
- Equities, Fixed Income & Retail Wealth Management; and
- Omgeo.

In 2005 and 2004, Thomson Financial generated revenues of approximately $1.9 billion and $1.7 billion, respectively. The following table provides additional information regarding Thomson Financial's revenues in 2005 and 2004.

	% of Total Revenues	
	2005	2004
Corporate, Investment Banking and Investment Management	51%	53%
Equities, Fixed Income and Retail Wealth Management	42%	41%
Omgeo	7%	6%
Electronic, software and services	98%	98%
From North America	80%	80%
Recurring/subscription-based	77%	76%

Products and Services

Thomson Financial offers a variety of content, analytical applications and transaction platforms to financial professionals worldwide in the following segments:

- Investment banking;
- Wealth management;
- Investment management;
- Institutional equities;
- Fixed income;
- Corporate management;
- Equity research; and
- Private equity and consultants.

While we continue to sell many of our products and services separately, our applications are also combined under the Thomson ONE brand to provide integrated workflow solutions. 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 workflow solutions are designed to meet the distinct needs of professional users in each segment that we serve.

In 2005, the number of Thomson ONE workstations increased 45% to 118,000 from 81,000 at the end of 2004 as a result of user migration from legacy products and new client wins. In 2005, we completed the rollout of over 24,000 Thomson ONE workstations in approximately 550 Merrill Lynch offices in the United States. In 2006, we plan to expand the capabilities of our Thomson ONE solutions and achieve continued growth in Thomson ONE workstations.

We derive our financial information from regulatory bodies, public sources, proprietary research, third party providers with which we have license arrangements, and contributors with whom we have developed trusted relationships. To provide industry-leading, high-quality information, Thomson Financial employed a global research group of approximately 2,300 employees in 12 countries as of December 31, 2005. This group collects, enhances and manages all key content to deliver financial information to our clients. Our databases of financial information are some of the largest in the world and many have decades worth of invaluable history. Our global research group is cost efficient, ensures consistency, and best supports the workflow solutions offered by Thomson Financial.

Corporate, Investment Banking & Investment Management

Our Corporate, Investment Banking & Investment Management group focuses on providing investment bankers, private equity professionals, corporate executives, investor relations personnel and asset managers with integrated information solutions to assist them in analyzing markets and pursuing and completing transactions, including precedent analysis, company and market due diligence, financial analysis and modeling, preparation of presentation materials and securities offerings. Our products are offered both as distinct modules as well as through a comprehensive information solution.

The Corporate, Investment Banking & Investment Management group provides online financial data and research on companies, industries and markets that allow our customers to develop and analyze financial forecasts, market share, competition, industry trends, economic climates and key industry participants. We offer 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 and stock selection. We also offer institutional securities ownership information that enables our customers to analyze who may be buying, selling and holding securities as well as mergers and acquisitions transaction data that our customers use to identify comparable transactions, business opportunities and business trends. In addition, our customers can access news, stock price information and SEC filings and analyze this information with a set of comprehensive tools. Our offerings to investment managers also include StreetEvents, which possesses a robust electronic events calendar used by corporations to post notices of earnings releases and investor presentations and by investment managers to monitor the activities of their company portfolios. StreetEvents also has a database containing transcripts and archived webcasts of public company earnings conference calls.

For corporations, we provide 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. Additionally, our Corporate group provides services for the dissemination of corporate news releases, as well as comprehensive offerings for investor relations professionals that include hosting of investor websites, product webcasts for earnings calls and the dissemination of critical information to shareholders through common communication mechanisms.

The following table provides information about our major Corporate, Investment Banking and Investment Management brands.

Major Brands	Principal Products and Services	Customers
Thomson ONE Investment Banking SDC Platinum Investext Global Access Thomson Research	Analytical tools and databases of brokerage research, transactional data, institutional holdings data, current and historical earnings estimates, pricing information, SEC filings and news	Investment bankers, private equity professionals
Thomson ONE Investment Management Datastream I/B/E/S Baseline StreetEvents	Security and portfolio analytical tools as well as databases of real-time equity and fixed income brokerage research, current and historical analyst forecast estimates, investor presentations, company accounts data, pricing data, global aggregated forecast data at the country, sector and industry levels, market indices data, institutional holdings data, SEC filings and news	Portfolio managers, portfolio analysts, buy side traders, research analysts
Thomson ONE Corporate IR Channel First Call Wire	Internet-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 (CMI)	Market intelligence and analytical services for market valuation analysis	

Equities, Fixed Income & Retail Wealth Management

Our Equities, Fixed Income & Retail Wealth Management group focuses on providing wealth managers, brokers and equity and fixed income traders with integrated information solutions to assist them in managing client portfolios, analyzing securities and executing securities transactions.

We provide wealth managers with workflow solutions that combine market data, news and analysis, together with sophisticated financial planning and portfolio and client management tools. These workflow solutions are designed specifically to meet the needs of financial advisors, brokers and sales support staff requiring real-time market data, news, charts and quotes.

TradeWeb is the leading online multi-dealer-to-customer institutional marketplace for fixed income securities and derivatives. As of December 31, 2005, its multi-dealer auction model linked the trading desks of 36 of the world's leading fixed income dealers with more than 2,200 buy-side institutions in North America, Europe and Asia. By the end of 2005, TradeWeb was averaging approximately $200 billion in daily trading volume. TradeWeb is also a leading electronic "straight-through-processing" (STP) network for fixed income markets, providing dealers and buy-side institutions with paperless trade allocations and confirmations. TradeWeb's STP network includes AccountNet, which is the first derivatives counterparty management tool and a leading data warehouse for standing settlement instructions and over-the-counter derivatives legal documentation.

BETA Systems 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 Equities, Fixed Income & Retail Wealth Management brands.

Major Brands	Principal Products and Services	Customers
Thomson ONE Wealth Management Thomson ONE Equity Research Thomson ONE Fixed Income Global Topic ILX	Electronic financial information, including real-time market data such as pricing data, company information, news and analytics	Institutional traders, retail traders, investment advisors
TradeWeb	Online marketplace for fixed income securities	Fixed income traders
BETA	Back office data processing services	Brokers, dealers
AutEx	Electronic database and real-time network for trade order indications and trade executions	Equity traders

Omgeo

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. 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. This delivery architecture allows 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. 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. Similarly, TradeWeb's dealer-to-customer online marketplace uses client/server architecture to display real-time, best bid and offer prices from the largest dealers for a range of fixed income products, and offers secure, interactive and simultaneous trading over its Internet-based network.

Competition

Thomson Financial faces competition in each of the market segments in which it operates. Thomson Financial's two major competitors are Bloomberg L.P. and Reuters Group PLC, which compete in all of its market segments. Both Bloomberg and Reuters are principal competitors in fixed income, institutional equities and investment management, while Reuters is a principal competitor in investment banking.

Thomson Financial also competes with FactSet Research Systems Inc., Standard & Poor's (a division of The McGraw-Hill Companies), SunGard Data Systems Inc. and MarketAxess Holdings Inc., plus a number of other smaller firms, each of which focuses primarily on specific product and service areas within the various financial market segments.

Thomson Scientific & Healthcare

Overview

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. We further enhance the value of that information by ranking, organizing, summarizing and continuously updating it to make it more accessible and of greater utility to our customers.

- Our *scientific* solutions assist scientists and other research-oriented professionals in all stages of the research and development (R&D) 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.

In 2005 and 2004, Thomson Scientific & Healthcare generated revenues of approximately $1.0 billion and $0.9 billion, respectively. The following table provides additional information regarding Thomson Scientific & Healthcare's revenues in 2005 and 2004**.**

	% of Total Revenues	
	2005	2004
Scientific	55%	52%
Healthcare	45%	48%
Electronic, software and services	87%	85%
From North America	78%	78%
Recurring/subscription-based	63%	60%

Products and Services

Scientific

Our scientific business operates primarily in the secondary publishing market. Secondary publishers enhance the value of primary publication information by abstracting, indexing and ranking the information so it is more accessible to their customers. Our products and services add further value by providing integrated workflow 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 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 also 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 scientific solutions are used by many of the leading academic institutions and research libraries around the world. Additionally, many of the largest global pharmaceutical, biotechnology, chemical, electronics and other high-technology companies also use our scientific information solutions to monitor competitors, develop research and business strategies, and protect patent portfolios.

The following table provides information about our major scientific brands.

Major Brands	Principal Products and Services	Customers
ISI Web of Knowledge	Comprehensive and integrated platform that includes the 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 andcolleges
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	
Liquent InSight	Global intellectual property management and regulatory compliance software	
Delphion/ MicroPatent PatentWeb	Integrated platform solutions which enable 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 full-text patent images	
Derwent World Patents Index	Comprehensive database of patent abstracts	
Master Data Center	Intellectual property rights solution that processes patent annuity and trademark renewal payments, and comprehensive global patent and trademarks regulations database	
Dialog DataStar	Online database of current and archival scientific and business information	

Within our academic and government division, the ISI 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 22,000 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. Our databases and websites are also viewed as important distribution channels by authors and publishers of journals.

Our Thomson Pharma solution 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. Through powerful search and analytical 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. Thomson Pharma supplies information about the R&D portfolios of more than 16,000 entities involved in drug development, information about therapeutic patents, including links to the full text of the original patent, the pipeline status of investigational drugs, searchable chemical structures, meeting reports, and bibliographic references.

Our Liquent InSight software enables our scientific customers to comply with complex rules and standards promulgated by regulatory authorities in jurisdictions around the world. Liquent InSight software also provides our customers with the ability to create, review and amend regulatory-compliant filings and dossiers to accelerate the regulatory approval process allowing them to bring their products to market faster. Liquent InSight also keeps our customers current on international regulatory developments.

Thomson Scientific & Healthcare's corporate business unit develops customized information solutions that can be seamlessly integrated into our customers' daily workflows. Each solution assembles sophisticated software tools with relevant patent data, our comprehensive coverage of world journal literature and other 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 patent documents from 38 international patent-issuing authorities and our databases cover the period from 1963 to the present. Our integrated Delphion and MicroPatent PatentWeb solution provides business and professional researchers with access to full-text international patent documents supported by search, retrieval, analysis and other workflow productivity tools. In addition, our Master Data Center business has been providing intellectual property management services, including patent payment and trademark renewal processing, for over 30 years.

Dialog DataStar provides information and news to customers across all our market groups, including business, science, engineering, financial and legal professionals. Our Dialog DataStar business primarily licenses data from third parties and maintains content from the most authoritative publishers in science and technology, intellectual property, news and business. Dialog DataStar is an extensive source for patents, trademarks, scientific and technical journals, drug pipeline files, regulatory information, current news, company profiles and financials, and market research reports.

Healthcare

Our healthcare business provides integrated information solutions and knowledge-based tools, 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 diagnose conditions, make decisions during treatment and provide patients with pertinent information regarding their condition. 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. In addition, medical education is a significant element of drug introductions because physicians and others 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.

The following table provides information about our major healthcare brands.

Major Brands	Key Products and Services	Customers
Micromedex (Healthcare Series)	Comprehensive database set 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 FDA approved drug monographs, delivered in print and electronic format	
Medstat (Advantage Suite)	Decision support product designed for managing healthcare costs and quality	
Physicians World Gardiner-Caldwell	Providers of medical education focused on solutions to clinical issues encountered by physicians	

Our Micromedex Healthcare Series represent a set of comprehensive databases 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 2005.

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 additional copies of the directory to other healthcare professionals and consumers. Over 200,000 physicians are registered users to PDR over the Internet and usage of our handheld wireless version of the PDR continues to grow.

Through Medstat, we provide decision support systems, market intelligence, benchmarking 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 an extensive 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 communications for physicians, nurses, pharmacists and other healthcare professionals. Educational programs may be developed independently, as certified continuing medical education activities (CME) through accredited CME providers funded by unrestricted educational grants from pharmaceutical companies, or as regulated education or communications 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. Pharmaceutical companies fund medical education programs to increase physician awareness of medical conditions, new clinical research, the latest medical information, new drugs, and treatment options. Historically, medical education has been provided in person through meetings and seminars. However, many of our medical education programs are now provided through the Internet to communicate new clinical information on a more global scale.

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 NV, CSA (formerly Cambridge Scientific Abstracts) and Questel/Orbit, Inc.

Healthcare

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

Our competitors within the healthcare cost and quality management information markets include Ingenix (a division of UnitedHealth Group, Inc.), McKesson Health Solutions (a division of McKesson Corporation), WebMD Inc., Solucient, LLC, Electronic Data Systems Corporation (EDS) and ACS Healthcare Solutions (a division of ACS, Inc.).

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

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. 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.

Properties and Facilities

The following table includes summary information with respect to facilities that are material to our overall operations as of December 31, 2005.

Facility	Sq. Footage	Owned/Leased	Principal Services
Stamford, Connecticut (1)	154,500	Leased	Principal Corporate, Thomson Learning and Thomson Scientific & Healthcare operating headquarters
Boston, Massachusetts (2)	459,500	Leased	Thomson Financial offices
New York, New York	437,000	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, 2005, our company had approximately 40,500 employees in 45 countries. Of that number, approximately 17,300 were employed by our legal and regulatory group, 9,400 by our learning group, 8,700 by our financial group and 4,700 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 represent certain 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. Other factors not presently known to us or that we presently believe are not material could also affect our business, financial condition or results of operations.

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 search providers, 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.

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, 2004 and 2005, we completed 119 acquisitions for an aggregate cash outlay of approximately $1.8 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.

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. In 2005, electronic, software and services comprised 69% of our revenues. 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, Asia-Pacific and Latin America for expansion. In 2005, 83% of our revenues were from North America, 12% 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.

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 2005, our total capital expenditures were $642 million, of which approximately 68% 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 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 the first quarter of 2005, for example, we commercially launched 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.

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. A downturn in the economy a few years ago 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.

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.

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.

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 and the Internet may facilitate these activities. 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.

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 65% of our common shares as of February 15, 2006. 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 15, 2006. 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.

If our effective income tax rate were to increase significantly in the future, our earnings and available cash would be negatively affected.

Our income tax expense in 2005 represented 23.7% of our earnings from continuing operations before income taxes. This compares with equivalent effective rates of 23.5% in 2004 and 14.9% in 2003. Our effective income tax rate is lower than the Canadian corporate income tax rate of 36%, 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, our 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.

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 a low effective rate 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 represent liabilities for the years 2000 to 2005. It is anticipated that these reserves will either result in a cash payment or be reversed to income between 2006 and 2009.

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, 2005.

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, 2005, our total assets were approximately $19.4 billion, of which approximately $9.0 billion, or 46%, was goodwill and approximately $4.5 billion, or 23%, 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.

The value of our Canadian dollar-denominated common shares can be negatively impacted by a strengthening of the Canadian dollar relative to the U.S. dollar.

We have U.S. dollar-denominated common shares which trade on the New York Stock Exchange and Canadian dollar-denominated shares which trade on the Toronto Stock Exchange. A significant portion of our revenues are generated in U.S. dollars and our financial statements are expressed in U.S. dollars. As such, an appreciation of the Canadian dollar relative to the U.S. dollar can have an adverse effect on the value of our Canadian dollar-denominated common shares. 2005 was the third consecutive year that the Canadian dollar strengthened against the U.S. dollar. During 2005, the Canadian dollar strengthened 6.9%, with an average exchange rate of C$1.21=US$1.00 compared to C$1.30=US$1.00 for 2004, C$1.40=US$1.00 for 2003 and C$1.57=US$1.00 for 2002.

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. Effective February 2006, our Board reviews our company's dividend policy annually in the first 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. Shareholders resident in other jurisdictions are allowed to participate in the plan only if our company determines that participation should be made available to those shareholders taking into account the necessary steps to comply with the laws relating to the offering and the sale of common shares in the jurisdiction of those shareholders.

Common Share Dividends

The table below sets forth the dividends declared on our common shares in 2003, 2004 and 2005. 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.

Year/Quarter	Dividend Amount Per Share
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
2005	
First	$ 0.190
Second	$ 0.200
Third	$ 0.200
Fourth	$ 0.200

(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 2003, 2004 and 2005.

Year/Quarter	**Dividend Amount Per Share**
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
2005	
First	C$0.183390
Second	C$0.185428
Third	C$0.188789
Fourth	C$0.208197

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 2003.

Year/Month	**Dividend Amount Per Share**
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, 2005, there were 648,948,992 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 "A" 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. A stable outlook is assigned when ratings are not expected to change in the near 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 "R-1" 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" 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 2005 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 2005.

Month	High	Low	Close	Trading Volume
January	C$42.76	C$40.30	C$42.15	9,670,142
February	C$44.99	C$41.88	C$41.95	11,638,843
March	C$42.50	C$40.00	C$40.57	21,003,081
April	C$41.70	C$38.80	C$41.59	12,471,399
May	C$43.37	C$41.34	C$42.31	11,596,995
June	C$42.70	C$40.71	C$41.02	12,556,479
July	C$43.19	C$40.38	C$42.83	8,469,490
August	C$45.34	C$42.71	C$44.03	11,076,882
September	C$45.50	C$43.17	C$43.40	11,353,155
October	C$43.62	C$40.05	C$40.10	10,841,858
November	C$42.25	C$39.81	C$41.03	14,370,234
December	C$41.49	C$39.40	C$39.66	13,635,412

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 2005.

Month	High	Low	Close	Trading Volume
January	US$ 35.29	US$ 33.15	US$ 34.05	1,129,400
February	US$ 36.48	US$ 33.92	US$ 33.99	1,236,500
March	US$ 35.18	US$ 32.82	US$ 33.35	885,000
April	US$ 33.50	US$ 31.09	US$ 33.07	759,400
May	US$ 34.30	US$ 33.05	US$ 33.85	961,600
June	US$ 34.23	US$ 32.73	US$ 33.61	674,600
July	US$ 35.12	US$ 32.51	US$ 34.92	391,000
August	US$ 37.97	US$ 34.86	US$ 37.27	589,400
September	US$ 38.55	US$ 36.76	US$ 37.51	786,600
October	US$ 37.43	US$ 33.98	US$ 34.04	621,900
November	US$ 35.81	US$ 33.55	US$ 35.22	571,000
December	US$ 35.76	US$ 33.82	US$ 34.60	610,800

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 2005.

Month	High	Low	Close	Trading Volume
January	C$25.60	C$25.10	C$25.39	37,342
February	C$25.40	C$24.61	C$25.05	61,190
March	C$25.44	C$25.00	C$25.10	599,418
April	C$25.40	C$25.02	C$25.30	173,577
May	C$26.05	C$24.75	C$25.05	278,378
June	C$26.00	C$25.06	C$25.40	798,428
July	C$25.47	C$25.24	C$25.46	19,320
August	C$25.60	C$25.05	C$25.60	36,880
September	C$25.99	C$25.20	C$25.59	368,845
October	C$25.59	C$25.21	C$25.50	172,606
November	C$25.86	C$25.35	C$25.79	24,543
December	C$25.87	C$25.35	C$25.78	319,614

In August 2005, we sold $400 million of 5.50% debentures due 2035. These debentures are not listed or quoted on a marketplace.

8. DIRECTORS AND OFFICERS

The names, municipalities and countries of residence, offices and principal occupations of our directors and executive 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 3, 2006. All of our directors are expected to be re-elected at the upcoming shareholders meeting, except for David H. Shaffer, 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 and executive officers have been engaged for more than five years in their present principal occupations or in other capacities within Thomson, except where noted below. At February 15, 2006, our directors and executive officers as a group beneficially owned, directly or indirectly, or exercised control or direction over, approximately 70% of our common shares.

Directors and Executive Officers Name and Municipality of Residence	Office and Principal Occupation	Director Since
David K.R. Thomson (1) Toronto, Ontario, Canada	Chairman of Thomson and Deputy Chairman of The Woodbridge Company Limited (holding company)	1988
W. Geoffrey Beattie (1)(2)(3) Toronto, Ontario, Canada	Deputy Chairman of Thomson and President of The Woodbridge Company Limited (holding company)	1998
Richard J. Harrington Westport, Connecticut, U.S.A.	President and Chief Executive Officer of Thomson	1993
Ron D. Barbaro (2)(4)(5) Toronto, Ontario, Canada	Corporate director	1993
Mary Cirillo (2) (6) New York, New York, U.S.A.	Corporate director	2005
Robert D. Daleo Alpine, New Jersey, U.S.A.	Executive Vice President and Chief Financial Officer of Thomson	2001
Steven A. Denning (3)(7) Greenwich, Connecticut, U.S.A.	Chairman of General Atlantic LLC (private equity firm)	2000
V. Maureen Kempston Darkes, O.C.(2)(3)(8) Miramar, 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) 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) Minneapolis, Minnesota, U.S.A.	President and Chief Executive Officer of Key Investment Inc. (holding company)	1996
David H. Shaffer (9) Rancho Santa Fe, California, U.S.A.	Executive Vice President of Thomson	1998

Directors and Executive Officers Name and Municipality of Residence	Office and Principal Occupation	Director Since
John M. Thompson (2)(4)(10) Toronto, Ontario, Canada	Chairman of the Board of The Toronto-Dominion Bank (financial institution)	2003
Kenneth R. Thomson Toronto, Ontario, Canada	Chairman of The Woodbridge Company Limited (holding company)	1978
Peter J. Thomson (11) Toronto, Ontario, Canada	Deputy Chairman of The Woodbridge Company Limited (holding company)	1995
Richard M. Thomson, O.C. (3)(4) Toronto, Ontario, Canada	Corporate director	1984
John A. Tory (1)(3) Toronto, Ontario, Canada	President of Thomson Investments Limited (holding company)	1978
Robert C. Cullen (12) 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 Colorado Springs, Colorado, U.S.A.	Executive Vice President of Thomson and President and Chief Executive Officer of Thomson Legal & Regulatory	N/A
Sharon T. Rowlands (13) New York, New York, U.S.A.	Executive Vice President of Thomson and President and Chief Executive Officer of Thomson Financial	N/A
Ronald H. Schlosser (14) Princeton Junction, New Jersey, U.S.A.	Executive Vice President of Thomson and President and Chief Executive Officer of Thomson Learning	N/A
Robert B. Bogart (15) New York, New York, U.S.A.	Executive Vice President, Human Resources	N/A
Michael E. Wilens (16) Eagan, Minnesota, U.S.A.	Executive Vice President, Corporate Chief Technology and Operations Officer	N/A
Brian T. Martin (17) Ridgefield, Connecticut, U.S.A.	Senior Vice President, Corporate Affairs	N/A
Deirdre Stanley (18) New York, New York, U.S.A.	Senior Vice President and General Counsel	N/A
Richard J. Benson-Armer (19) Brookfield, Connecticut, U.S.A.	Senior Vice President, Corporate Chief Strategy Officer	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) Since September 2003, Ms. Cirillo has served as an advisor to Hudson Ventures, a venture capital fund. Ms. Cirillo served as Chairman and Chief Executive Officer of OpCenter, LLC from March 2000 to September 2003.

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

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

(9) From 2002 to 2005, Mr. Shaffer was Chief Executive Officer of Thomson Financial. Prior to 2002, 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) Mr. Cullen has been the President and Chief Executive Officer of Thomson Scientific & Healthcare since 2002. Prior to this appointment, Mr. Cullen was President and Chief Executive Officer of Thomson Learning International.

(13) Ms. Rowlands was appointed President and Chief Executive Officer of Thomson Financial in 2005. Prior to 2005, she was President of Thomson Financial and previously served as Chief Operating Officer of Thomson Financial.

(14) Mr. Schlosser has been the President and Chief Executive Officer of Thomson Learning since 2002. Prior to this appointment, Mr. Schlosser was President and Chief Executive Officer of Thomson Scientific & Healthcare.

(15) Mr. Bogart was appointed Executive Vice President, Human Resources of Thomson in 2005. From 2003 to 2005, he was Senior Vice President of Human Resources for Thomson Financial. Prior to joining Thomson Financial, he was the senior human resources executive and a member of the operating committee at Primerica Corporation.

(16) Mr. Wilens was appointed Executive Vice President, Corporate Chief Technology and Operations Officer of Thomson in 2006. Prior to this appointment, he was President and CEO of Thomson Legal & Regulatory's North American Legal division. Prior to that, he was Chief Technology Officer of our company and Thomson Legal & Regulatory.

(17) Prior to joining us in 2003, Mr. Martin was Senior Vice President for Corporate Communications at Avon Products, Inc.

(18) 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.

(19) In 2006, Mr. Benson-Armer was appointed Senior Vice President, Corporate Chief Strategy Officer of Thomson. Prior to this appointment, he was Senior Vice President, Strategic Planning and Business Development at Thomson Learning. Prior to joining our company in 2004, he was a partner at McKinsey & Company.

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 (within the meaning of the NYSE listing standards and Canadian Securities Administrators' Multilateral Instrument 52-110 (*Audit Committees*)) as well as financially literate (within the meaning of the NYSE listing standards and Multilateral Instrument 52-110).

- 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, is Chairman of The Brick Group Income Fund, a Toronto Stock Exchange listed income fund, and is also 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 as Chairman and a member of 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 the non-executive independent Chairman of the Board of The Toronto-Dominion Bank, a Toronto Stock Exchange and New York Stock Exchange listed company, and was formerly the Vice Chairman of the Board of IBM Corp., a New York Stock Exchange listed company. Prior to that, he held various senior executive positions with IBM. He also serves as the member of the supervisory board of Royal Philips Electronics, 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, a Toronto Stock Exchange and New York Stock Exchange listed company. He also serves as a director and 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. He is also Vice Chairman and a member of the audit committee of S.C. Johnson & Son, Inc. Mr. Thomson received an MBA from Harvard Business School. Mr. Thomson is not related to the family of Kenneth R. Thomson, our controlling shareholder.

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).

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, 2005 and 2004 were as follows:

(in millions of U.S. dollars)	**2005**	2004
Audit fees	**$ 12.1**	$ 11.4
Audit-related fees	**3.0**	$ 3.0
Tax fees	**6.9**	$ 6.9
All other fees	**0.1**	$ 0.3
Total	**$ 22.1**	$ 21.6

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, 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, 2005, 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 listing standards require a listed company to have, among other things, a majority of independent directors on its Board and solely independent directors on its compensation committee and corporate governance committee. The 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 solely of independent directors.

Our company is controlled by Kenneth R. Thomson, who directly and indirectly controlled approximately 69% of our common shares as of February 15, 2006. The Board has determined that it is appropriate for directors affiliated with the controlling shareholder to serve on the Board committees apart from the audit committee. Accordingly, the Board has approved the company’s 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 the shareholders other than the Thomson family. Mr. Shaffer, a non-independent director, is not standing for re-election at our upcoming annual meeting of shareholders to be held in May 2006, with the result that a majority of the directors (eight of 15) standing for election at the meeting are independent.

Independent Directors

In February 2006, 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 listing standards and as referenced in National Instrument 58-101. The Board also reviewed the results of annual questionnaires completed by each director. After considering a wide variety of factors and information disclosed by each director, our Board determined that of the 15 directors standing for election at our upcoming annual meeting of shareholders, eight are independent. At our meeting of shareholders in May 2005, 16 directors were elected, of whom eight are independent.

- Three of the directors, Messrs. Harrington, Daleo and Shaffer, are not independent because they are members of senior management of Thomson. Mr. Shaffer is not standing for re-election at the upcoming annual meeting of shareholders.
- Five directors are executive officers of Woodbridge, the Thomson family’s principal holding company, or its affiliates other than our company (Kenneth R. Thomson, David K.R. Thomson, Peter J. Thomson, W. Geoffrey Beattie and John A. Tory). None of these individuals are members of The Thomson Corporation’s management team. While the Board considers these directors’ interests to be fully aligned with the interests of minority shareholders, and although they do not act as part of our executive management, the NYSE listing standards suggest that they be considered not independent.
- The independent directors are Mary Cirillo, V. Maureen Kempston Darkes and Messrs. Barbaro, Denning, Martin, Opperman, 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 all relevant facts and circumstances, including that in the normal course of business, The Thomson Corporation provides services to, and receives services from, companies that some of our directors are affiliated with. For example, various in-house legal departments of a number of these companies subscribe to Thomson Legal & Regulatory’s Westlaw service. The Board determined that these types of relationships were categorically immaterial. In particular, the Board also acknowledged that Messrs. Denning and Thompson were also directors of companies that our company has a relationship with, but determined that these relationships also were not material and did not preclude a finding of independence.

- Mr. Denning, one of our independent directors, is also a director of Hewitt Associates Inc. 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 did not participate in negotiations related to the contract and refrained from deliberating and voting on the matter at meetings of the human resources committee and the Board.
- Mr. Thompson, another of our independent directors, is the non-executive independent Chairman of the Board of The Toronto-Dominion Bank. In the normal course of business, our company has a banking relationship with The Toronto-Dominion Bank and one of the bank's affiliates has served as a dealer for our company's recent offerings of debt securities in Canada.

Pursuant to applicable rules, the Chairman cannot be considered independent because he is an executive officer of Woodbridge. 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 and facilitating a constructive relationship between the Board and senior management.

Presiding Directors at Meetings of Non-Management and Independent Directors

At the conclusion of all Board meetings, the non-management directors meet as a group. W. Geoffrey Beattie, the Deputy Chairman, chairs these sessions and informs management of the substance of the meetings to the extent that action is required by management. In addition, our independent directors meet at least once each year without management directors or directors affiliated with our controlling shareholder. These meetings are chaired by John M. Thompson.

Communications with Non-Management and Independent Directors and Presiding Directors

Shareholders may contact either our non-management or independent directors as a group or the directors who preside over their meetings 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 employees, directors and officers, including our Chief Executive Officer, Chief Financial Officer and principal accounting officer/controller. All of our employees, directors and officers are required to submit an acknowledgement that they have received and read a copy of the Code and understand their obligations to comply with the principles and policies outlined in it. In 2005, in an effort to further promote a culture of ethical business conduct through the corporation, we launched a mandatory online training course related to the Code. The corporate governance committee also receives an annual report regarding the Code and our ethics hotline from our General Counsel. No material violations were reported in 2005. Also, no waivers under the Code were sought by or granted to our directors or executive officers in 2005. A copy of the Code is available on our website at *www.thomson.com* as well as at *www.sedar.com* and *www.sec.gov*.

Corporate Governance Guidelines and Board Committee Charters

Our corporate governance guidelines and charters for each committee of our Board are posted in the “Corporate Governance” part of the “Investor Relations” section of 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 person 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. <u>LEGAL PROCEEDINGS</u>

We are a defendant in two separate class action lawsuits involving our BAR/BRI business, which is part of Thomson Legal & Regulatory. Each alleges violations of U.S. federal antitrust laws. The plaintiff in *Park v. The Thomson Corporation and Thomson Legal & Regulatory Inc.*, which was filed in the U.S. District Court for the Southern District of New York, alleges that BAR/BRI has illegally leveraged its market position in state-specific bar examination preparation courses into multi-state courses and that an unlawful tying arrangement exists, which should be remedied, in part, by restructuring BAR/BRI’s review courses into separate state-specific courses and multi-state courses. The plaintiff in *Rodriguez v. West Publishing Corp. and Kaplan Inc.*, which was filed in the U.S. District Court for the Central District of California, alleges, among other things, that our company and Kaplan Inc. (a subsidiary of The Washington Post Company) unlawfully agreed in 1997 to divide markets and not compete against one another. Discovery proceedings are underway in both lawsuits. We intend to defend ourselves vigorously in both cases.

As previously disclosed, in October 2004, Thomson Financial received a subpoena from the U.S. Securities and Exchange Corporation (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. We are cooperating fully with the SEC. In 2005, approximately $35 million of our financial group’s CMI revenues were related to the identification of institutional investors for its clients.

Also as previously disclosed, 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 continuing to cooperate fully with the authorities in their inquiry.

In addition to the matters described above, our company is engaged in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against our company, including those described above, is subject to future resolution, including the uncertainties of litigation. Based on information currently known by us and after consultation with outside legal counsel, our management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on our financial condition, taken as a whole.

10. <u>TRANSFER AGENT AND REGISTRARS</u>

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 auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditors' report dated February 23, 2006 in respect of our consolidated financial statements with accompanying notes as at and for the years ended December 31, 2005 and December 31, 2004. PricewaterhouseCoopers LLP has advised that they are independent with respect to our company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario and the rules of the U.S. Securities and Exchange Commission.

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 2005 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 and special meeting of shareholders to be held in May 2006. 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, 2005. When available, copies of these documents may be obtained by making a request in writing to Investor Relations Department, The Thomson Corporation, Metro Center, One Station Place, Stamford, Connecticut 06902, United States. Requests may also be sent 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

As approved by the Thomson Board of Directors on February 24, 2006

THE THOMSON CORPORATION
AUDIT COMMITTEE CHARTER

1. PURPOSE

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 adequacy and effectiveness of internal controls over financial reporting 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. RESPONSIBILITIES

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
- 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 that in the auditor’s professional judgment may reasonably be thought to bear on its independence;
- discuss with the auditor any disclosed relationships or services that may affect its independence;
- obtain written confirmation from the auditor that it is independent with respect to the Corporation within the meaning of the Rules of Professional Conduct adopted by the Ontario Institute of Chartered Accountants to which it belongs and that it 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
- confirm that the auditor has complied with applicable laws with respect to the rotation of certain members of the audit engagement team for the Corporation.

(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 preapprovals 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 type and presentation of information to be included in such press releases and guidance (including the use of "pro forma" or "adjusted" non-GAAP financial measures);
- 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;
- review major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of any material control deficiencies;
- review analyses prepared by management and/or the auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods of the financial statements; 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 weaknesses or significant 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 and Regulatory Compliance

The Audit Committee will review with the Corporation's legal counsel any legal or regulatory 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 Assessment and Risk Management

The Audit Committee will review periodically with senior management the Corporation's guidelines and policies with respect to risk assessment and risk management, including the steps and process 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;
- any issues that arise with respect to the Corporation's compliance with legal and regulatory requirements; 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. The Corporation shall also provide appropriate funding, as determined by the Audit Committee, for the payment of the compensation of the auditor, independent counsel and outside advisors and any ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

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 persons engaged in such activities;

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

(e) an understanding of audit committee functions.

A person shall have acquired such attributes through:

(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.

EXHIBIT 99.2

THE THOMSON CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis is intended to assist you in understanding and evaluating changes in our financial condition and operations for the year ended December 31, 2005, 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. In addition to historical information, this management's discussion and analysis contains forward-looking statements. Readers are cautioned that these forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that our management believes are material include those identified in the section entitled "Forward-Looking Statements" on page 35 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 23, 2006.

OVERVIEW

Our Business and Strategy

We are one of the world's leading information services providers to business and professional customers. Our target customers are knowledge workers whose expertise in particular markets is critical to the success of economies throughout the world. As economies evolve and become more global, we believe that the needs of knowledge workers will continue to grow.

We generate revenues by supplying knowledge workers with business-critical information solutions and services. We make our information 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, and are moving from just informing our customers to enabling their decisions. We believe our ability to embed our solutions into our customers' workflows is a significant competitive advantage as it leads to strong customer retention and barriers to entry for competitors. Over time, we believe that these attributes translate into more pricing power, higher margins and better cash flow. Thus, our shift to workflow solutions is important to our growth and profitability.

As a global company that provides services in approximately 130 countries, we are affected by economic and market dynamics, governmental regulations and business conditions for each market and country in which we operate. We have traditionally encountered competition in each of our markets from both large information providers and smaller niche market businesses. However, we now face an evolving competitive landscape. Certain of our traditional competitors are implementing solutions strategies of their own. In the future, other competitors could come from outside our traditional competitive set. For instance, Internet service companies and search providers could pose a threat to some of our businesses by providing more in-depth offerings than are currently available from such services. In response to this, we are continuing to move forward aggressively in segmenting our markets and developing solutions that will allow us to remain embedded in our customers' workflows.

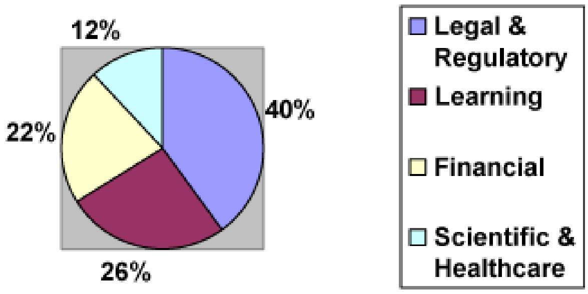
We strive for leadership positions in each market we serve in order to secure broad and deep market expertise. To maintain our leadership positions, we will continue to invest in our existing businesses and also to acquire new businesses. During the past few years, we have achieved efficiencies by leveraging resources within our various businesses, which has increased our profitability. We have had consistently strong cash flow generation, reflecting the strength of our businesses and the quality of our earnings, as well as contributions from operating efficiencies and improvements in our use of working capital.

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 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, Thomson Elite, FindLaw, Gee, IOB, Lawbook, LIVEDGAR, RIA, Sweet & Maxwell and Thomson & Thomson.
- *Thomson Learning* is a leading provider of 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 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, Datastream, First Call, I/B/E/S, Investext, IR Channel, SDC Platinum, StreetEvents 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, Gardiner-Caldwell, Medstat, Micromedex, MicroPatent, PDR (Physicians' Desk Reference), Physicians World, Thomson Pharma, ISI Web of Science and Web of Knowledge.

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.

Percentage of Total 2005 Revenues



Effective January 1, 2005, we reorganized certain businesses within our market groups. Within Thomson Learning, the international operations within the Academic Publishing and Reference group were transferred to the Lifelong Learning group. In addition, Thomson Learning's operations which produce textbook and print and electronic materials for information technology instruction (Thomson Course Technology) and textbook and learning materials for the technology, trade healthcare, professional and career education markets (Thomson Delmar Learning) were transferred from the Lifelong Learning group to the Academic Publishing and Reference group. Additionally, Thomson Legal & Regulatory transferred its Dialog DataStar operations, which provide scientific and intellectual property information, to Thomson Scientific & Healthcare. Thomson Legal & Regulatory retained its Dialog NewsEdge operations, which provide business news and information. Results for current and prior periods reflect these organizational changes.

The following table summarizes selected financial information for 2005, 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 references to the reconciliations of these measures to the most directly comparable Canadian GAAP measures.

	Year ended December 31,		
(millions of U.S. dollars, except per share amounts)	**2005**	2004	2003 *(3)*
Consolidated Statement of Earnings Data:			
Revenues	**8,703**	8,057	7,391
Operating profit	**1,464**	1,330	1,162
Earnings from continuing operations *(1)*	**926**	856	826
Earnings from discontinued operations, net of tax	**8**	155	39
Net earnings *(1)*	**934**	1,011	865
Basic and diluted earnings per share from continuing operations *(1)*	**$ 1.41**	$ 1.30	$ 1.28
Basic and diluted earnings per common share *(1)*	**$ 1.42**	$ 1.54	$ 1.34
Consolidated Balance Sheet Data:			
Cash and cash equivalents	**407**	405	683
Total assets	**19,436**	19,645	18,687
Total long-term liabilities	**6,366**	6,600	6,349
Shareholders' equity	**9,963**	9,962	9,193

(millions of U.S. dollars, except per share amounts)	Year ended December 31, 2005	2004	2003 (3)
Dividend Data:			
Dividends per common share – ordinary (US$)	**$ 0.790**	$ 0.755	$ 0.725
Dividends per common share – special (US$)	—	—	$ 0.428
Dividends per Series II preferred share (Cdn$)	**C$0.77**	C$0.70	C$0.82
Dividends per Series V preferred share (Cdn$)	—	—	C$0.32
Other Data (2):			
Adjusted earnings from continuing operations	**939**	798	687
Adjusted earnings per common share from continuing operations	**$ 1.43**	$ 1.22	$ 1.05
Net debt	**3,683**	3,718	3,373
Free cash flow	**1,194**	1,123	983

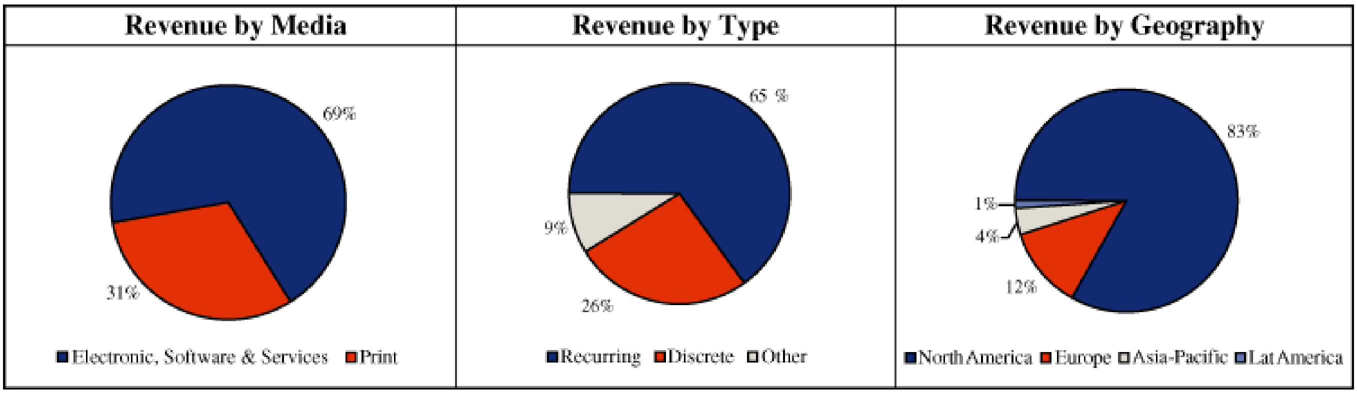
(1) Results are not directly comparable due to certain one-time items. For more information, please see the "Results of Operations" section of this management's discussion and analysis.

(2) These are non-GAAP financial measures. See page 7 for definitions.

(3) A full discussion of results for 2004 compared to 2003 is included in our management's discussion and analysis for the year ended December 31, 2004. Significant trends and items affecting comparability over the three-year period are noted within this management's discussion and analysis.

Revenues

The following graphs show the percentage of our 2005 revenues by media, type and geography.



Our revenues are derived from a diverse customer base. In 2005, 2004 and 2003, no single customer accounted for more than 2% of our total revenues.

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. In 2005, electronic, software and services revenues as a percentage of our total revenues increased to 69% from 66% in 2004 and 64% in 2003 primarily due to the continued evolution of customers' preferences towards electronic products and solutions. In the long-term, we expect that electronic, software and services revenues as a percentage of our total revenues will continue to increase as we continue to emphasize electronic delivery, add solution-based and software-based acquisitions to our portfolio, and as markets outside North America continue to incorporate technology into their workflows. 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.

For each year from 2003 to 2005, approximately 65% of our revenues were 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.

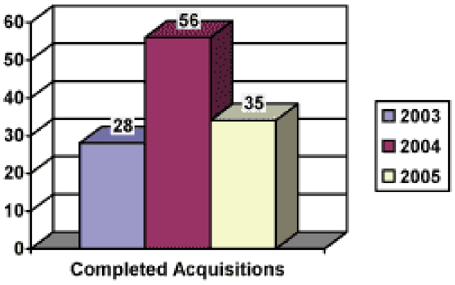
We segment our revenues geographically by origin of sale in our financial statements. In 2005, 83% of our revenues were from our operations in North America, consistent with 2004 and 2003. In the long-term, we are striving to increase our revenues from outside North America as a percentage of our overall 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.

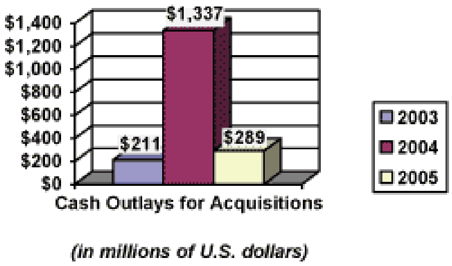
We routinely update a number of our key products and services by adding functionality or providing additional services to our existing offerings to make them more valuable and attractive to our customers and, thereby, increase our revenues from existing customers. Because of the dynamic nature of our products and services, management does not find it useful to analyze large portions of its revenue base using traditional price versus volume measurements. As it is difficult to assess our revenue changes from a pure price versus volume standpoint when products are continually evolving, we limit these measurements to our analysis of more static products and service offerings.

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, payroll taxes and stock-related compensation. Labor represented approximately 59% of our cost of sales, selling, marketing, general and administrative expenses (operating costs) in 2005 compared to approximately 57% in 2004 and 58% in 2003. No other category of expenses accounted for more than 15% of our operating costs in 2005, 2004 or 2003.

Acquisitions and Dispositions





During 2005, we completed 35 acquisitions for an aggregate cost of less than $0.3 billion with no purchase price of any individual business greater than $75 million. In 2004 and 2003, we completed an aggregate of 84 acquisitions with total cash outlays of approximately $1.5 billion. The reduction in activity was primarily due to our focus in 2005 on integrating the prior year acquisitions. In 2006, we expect that the total amount of cash outlays for acquisitions will range from $0.2 billion to $0.5 billion, net of dispositions.

Our 2005 acquisitions were tactical in nature and primarily 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. In 2005, acquired businesses generated approximately half of our total growth in revenues and a lesser portion of the growth in operating profit. Generally, the businesses that we acquired have initially had lower margins than our existing businesses. In 2005, our largest acquisition was Global Securities Information (GSI), a provider of online securities and securities-related information and research services.

In 2004 and 2003, acquired businesses generated a significant portion of the growth in our total revenues and a lesser portion of the growth in our operating profit. 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 a three year period ending in 2007 based upon the achievement of certain growth targets. In 2005, we paid $50 million in contingent consideration associated with the TradeWeb acquisition.

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.

In 2005, we decided to sell our scientific and healthcare group's American Health Consultants business, a medical newsletter publisher and medical education provider. While this business possesses strong brand equity, a loyal customer base and talented employees, it does not provide the type of synergies that strengthen our core integrated information solutions. Results from this business unit have been reclassified to discontinued operations and prior periods have been restated. Other than certain minor investments, there were no dispositions in 2005. During 2003 and 2004, we completed 16 dispositions for aggregate consideration of approximately $1.0 billion. The more significant of these dispositions were the sale of our 20% interest in Bell Globemedia Inc. (BGM) in March 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. For more information, see 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. 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 company 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 currently use and explains why we believe they are useful measures of our performance, including our ability to generate cash flow:

- *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. See the reconciliation of this measure to the most directly comparable Canadian GAAP measure in the section entitled "Reconciliations."

- *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.

  In interim periods, we adjust our reported earnings and earnings per common share to reflect a normalized effective tax rate. Specifically, the normalized effective rate is computed as the estimated full-year effective tax rate applied to the consolidated pre-tax income of the interim period. The reported effective tax rate is based on separate annual effective income tax rates for each taxing jurisdiction that are applied to each interim period's pre-tax income. Because the seasonality of our businesses impacts our geographical mix of profits in interim periods and therefore distorts the reported effective tax rate, we believe that using the expected full-year effective tax rate provides a more meaningful comparison among interim periods. The adjustment to normalize the effective tax rate reallocates estimated full-year income taxes between interim periods, but has no effect on full year income taxes or on cash taxes paid. See the reconciliation of this measure to the most directly comparable Canadian GAAP measure on page 11 and page 19.

- *Net debt*. We measure our net debt, which we define as our total 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 we believe it provides 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. See the reconciliation of this measure to the most directly comparable Canadian GAAP measure on page 20.

- *Free cash flow*. We evaluate our operating performance based on free cash flow, which we define as net cash provided by operating activities less capital expenditures, 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. See the reconciliation of this measure to the most directly comparable Canadian GAAP measure on page 23.

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.

We no longer report adjusted EBITDA, but we do report depreciation for each of our market groups. See the section below entitled "Additional Information" for these depreciation amounts.

RESULTS OF OPERATIONS

The following discussion compares our results for the fiscal years ended December 31, 2005, 2004 and 2003 and for the three-month periods ended December 31, 2005 and 2004 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 below entitled "Discontinued Operations" for a discussion of these operations. Segmented results now include the results of all operations in a segment. Previously, segmented results were presented on the basis of ongoing businesses, which excluded disposals. Disposals are businesses sold or held for sale, which did not qualify as discontinued operations. Prior years' results were reclassified to present disposals within the appropriate market group. 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.

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

	Year ended December 31,		
(millions of U.S. dollars, except per share amounts)	**2005**	2004	2003
Revenues	**8,703**	8,057	7,391
Operating profit	**1,464**	1,330	1,162
Operating profit margin	***16.8%***	*16.5%*	*15.7%*
Net earnings (1)	**934**	1,011	865
Earnings per share attributable to common shares (1)	**$ 1.42**	$ 1.54	$ 1.34

(1) Results are not directly comparable due to certain one-time items.

Revenues. In 2005, revenues grew 8%, comprised almost evenly of contributions from acquired businesses and growth from existing businesses, as foreign currency translation had a minimal impact. Contributions from acquired businesses were primarily related to Information Holdings Inc. (IHI) in our scientific and healthcare group, Capstar and KnowledgeNet in our learning group, and TradeWeb in our financial group. For our existing businesses, revenue growth was exhibited in all four market groups, reflecting customer demand for our integrated solutions and overall growth in the markets we serve. See the analysis of our segment results for further discussions of our revenue growth.

In 2004, revenues grew 7% excluding foreign currency translation. This increase was attributable to both contributions from acquisitions and from growth in existing businesses. The most significant contributions from acquisitions were derived from CCBN and TradeWeb in our financial group and BIOSIS in our scientific and healthcare group.

Operating profit. In 2005, the increase in operating profit reflected higher revenues due to contributions from existing and acquired businesses. The operating margin increased slightly as the impact of increased revenues more than offset higher pension and other defined benefit plans expenses, and severance and other charges associated with the outsourcing and reorganization of certain functions within our human resources department. Improvement in our operating margin was tempered by the inclusion in 2004 results of $19 million of insurance recoveries related to September 11, 2001.

Operating profit and related margin growth in 2004 reflected the previously mentioned insurance recoveries, as well as higher revenues from existing businesses. Additionally, operating profits benefited from continued efficiency efforts and, to a lesser extent, contributions from acquisitions and the favorable impact of foreign currency translation compared to 2003.

Depreciation and amortization. Depreciation in 2005 approximated that of 2004 primarily due to the timing and limited growth of capital expenditures. Amortization increased $24 million, or 8%, due to the amortization of newly acquired assets in 2005 and the full-year effect of those acquired in 2004.

Depreciation in 2004 increased $33 million, or 6%, compared to 2003. This increase reflected recent acquisitions and capital expenditures. Amortization increased $7 million, or 3%, compared to 2003, 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 expense/income. Net other expense in 2005 was $28 million, which primarily represented a loss associated with the early redemption of certain debt of $23 million (discussed in the section below entitled “Financial Position”) and a charge of $15 million to reduce the carrying value of one of our equity investments to its fair value, partially offset by income from equity investments and gains from the sale of certain other investments.

In 2004, net other income of $24 million 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, our controlling shareholder (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 “Financial Position”). In 2003, net other income of $61 million 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 2005 declined 5% primarily due to the refinancing of certain debt in 2005 and the full-year effect of an earlier refinancing of debt in 2004 (discussed in the section entitled “Financial Position”). Net interest expense and other financing costs in 2004 decreased 7% compared to 2003, which reflected lower average levels of outstanding net debt and lower interest rates.

Income taxes. Our income tax expense in 2005 represented 23.7% of our earnings from continuing operations before income taxes. This compares with equivalent effective rates of 23.5% in 2004 and 14.9% in 2003. Our effective income tax rate is lower than the Canadian corporate income tax rate of 36%, 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, our 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.

There were certain one-time items that impacted our income tax expense in 2005. In the second quarter of 2005, we released $137 million of contingent income tax liabilities based upon the outcome of certain tax audits of prior year periods. Additionally, in the fourth quarter of 2005, we repatriated a substantial portion of certain of our subsidiaries' accumulated profits. The repatriation was related to the recapitalization of these subsidiaries, which was effected through intercompany financing arrangements. We incurred a one-time tax charge of $125 million in connection with this repatriation, which reduced our cash flow from operations and our net earnings in the fourth quarter by the same amount. Beginning in 2006, this recapitalization is expected to lower our effective tax rate and improve net earnings and cash flow from operations. We expect to fully recoup the one-time tax charge of $125 million by the end of 2007 through lower tax payments with continuing benefits beyond that period. The net effect of both of these one-time tax items was a $12 million reduction in the tax provision for the full year of 2005.

The 2004 income tax provision included 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.

The balance of our deferred tax assets at December 31, 2005 was $1,397 million compared to $1,313 million at December 31, 2004. Our deferred tax assets consist primarily of tax losses and other credit carryforwards, the majority of which can only be utilized against taxable income in Canada. In assessing the likelihood of using our deferred tax assets, we first offset them against deferred tax liabilities. We establish valuation losses for any remaining deferred tax assets that we do not expect to be able to use against deferred tax liabilities or future taxable income. Our valuation allowance against our deferred tax assets at December 31, 2005 was $462 million compared to $408 million at December 31, 2004. The net movement in the valuation allowance from 2004 to 2005 primarily relates to additional Canadian losses sustained in 2005 which we do not anticipate using because we expect to continue to incur losses in Canada.

In 2006, 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. After giving effect to the 2005 recapitalization as well as our ongoing asset consolidation initiatives, we expect our effective tax rate in 2006 will be in the low 20% range. We believe our effective rate will be sustainable. However, 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 a low effective tax rate 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.

See the section entitled "Contingencies" for further discussion of income tax liabilities.

Earnings attributable to common shares and earnings per common share. Earnings attributable to common shares were $930 million in 2005 compared to $1,008 million in 2004. Earnings per common share were $1.42 in 2005 compared to $1.54 in 2004. The decreases in reported earnings and earnings per common share were the result of gains on the sales of discontinued operations in 2004 and certain one-time items in both years, which more than offset increases in operating profit in 2005.

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.

The results for each of these periods 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 each year.

(millions of U.S. dollars, except per common share amounts)	**Year ended December 31,**		
	2005	2004	2003
Earnings attributable to common shares	**930**	1,008	877
Adjustments for one-time items:			
Net other expense (income)	**28**	(24)	(74)
Tax on above item	**1**	10	8
Release of tax credits	**(137)**	(41)	(64)
Withholding tax on dividend	**125**	—	—
Net gain on redemption of Series V preference shares	**—**	—	(21)
Discontinued operations	**(8)**	(155)	(39)
Adjusted earnings from continuing operations attributable to common shares	**939**	798	687
Adjusted earnings per common share from continuing operations	**$1.43**	$ 1.22	$1.05

Our adjusted earnings from continuing operations for 2005 increased 18% compared to 2004 largely as a result of higher operating profit stemming from higher revenues, which more than offset the impact of higher pension and other benefit plans expense. Our adjusted earnings in 2004 increased 16% compared to 2003 also as a result of higher operating profits, but additionally reflected benefits from insurance recoveries and stock appreciation rights 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

	Year ended December 31,		
(millions of U.S. dollars)	**2005**	2004	2003
Revenues	**3,491**	3,276	3,012
Adjusted operating profit	**982**	897	809
Adjusted operating profit margin	***28.1%***	*27.4%*	*26.9%*

2005 v. 2004

Thomson Legal & Regulatory's financial performance in 2005 reflected a continuation of significant trends from the prior year. Revenues increased 7% comprised of the following:

- approximately 4% due to higher revenues from existing businesses;
- almost 2% from contributions of newly acquired businesses; and
- less than 1% from the favorable impact of foreign currency translation.

Within our existing businesses, growth reflected the strong performance of online services, consisting primarily of Westlaw, Checkpoint and our international online services, which increased 11% over 2004. Revenue from sales of software and services increased 14% reflecting strong growth from FindLaw, tax and accounting software products and acquired companies. These increases were partially offset by a slight decline in CD product revenues as customers continued to migrate to our online offerings. Contributions from acquired businesses reflected the results from 18 acquisitions in 2005. Among our newly acquired businesses were Global Securities Information, Inc., a provider of securities and securities-related information and research services, which will further enhance our online offerings, and Tax Partners, LLC, a tax compliance service firm, which expands our service offerings in the outsourcing solutions market.

In 2005, North American Westlaw revenue experienced growth in all of its major market segments: law firm, corporate, government and academic. Within our North American tax and accounting group, our Checkpoint online service revenue also increased. The revenue increases for both North American Westlaw and Checkpoint were driven by new sales and higher retention. FindLaw revenue increased as a result of new sales performance, as well as the impact of recent acquisitions. Outside of North America, online revenues increased, particularly in Europe, driven by higher customer demand for our solutions.

The growth in adjusted operating profit and its corresponding margin in 2005 resulted primarily from the revenue growth described above. The operating margin increased as the effects of scale in our existing businesses more than offset the impact of lower initial margins for certain acquired businesses.

2004 v. 2003

In 2004, revenues for Thomson Legal & Regulatory increased primarily due to higher revenues from existing businesses, with strong performances by Westlaw, Checkpoint, our international online services, FindLaw and our legal education business. This revenue growth was offset, in part, by a decrease in print and CD products revenues as customers continued to migrate toward our online offerings. Revenue growth was also attributable to newly acquired businesses, principally Thomson Elite, and the favorable impact of foreign currency translation. The growth in adjusted operating profit and improvement in its corresponding margin in 2004 resulted from the higher revenues and impact of improved operating efficiencies.

Outlook

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. Law firms are increasing expenditures on talent and practice development, while exploring outsourcing of managed services. Increasing compliance requirements, such as those stemming from the Sarbanes-Oxley Act, have 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 our outsourcing solutions.

Thomson Learning

(millions of U.S. dollars)	Year ended December 31, 2005	2004	2003
Revenues	**2,319**	2,174	2,052
Adjusted operating profit	**350**	327	336
Adjusted operating profit margin	***15.1%***	*15.0%*	*16.4%*

<u>*2005 v. 2004*</u>

Results in 2005 for Thomson Learning reflected the evolving education market and the intense competitive environment. Revenues increased 7% comprised of the following:

- 4% from contributions of newly acquired businesses;
- about 2% from higher revenues of existing businesses; and
- less than 1% from the favorable impact of foreign currency translation.

The impact of acquired businesses was primarily due to Capstar and KnowledgeNet, both of which we acquired in the second half of 2004. Additionally, Thomson Learning completed eight acquisitions in 2005 that primarily supplemented its existing Academic offerings. None of the 2005 acquisitions were individually significant.

In the Academic group, higher sales of custom products and new textbook editions, particularly in business and economics, resulted in increased revenues within our domestic higher education businesses. Growth in these revenues was tempered by higher returns as students continued to seek alternate sources for their course materials to address pricing concerns. To minimize the impact of supply from alternate sources, our higher education businesses continued to focus on shifting demand for older editions to customized or specialized products and services only available from the original publisher. Revenues from our library reference business increased slightly compared to the prior year as increased sales of electronic products more than offset a decline in sales for print offerings. The migration of collections to electronic products reflected evolving customer preferences toward electronic versions and continuing government budget constraints, which limited the funds that libraries have to spend on multiple media formats of reference material. 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.

Revenues for our Lifelong Learning group increased primarily due to the impact of acquired businesses, as well as growth in our English language training business and in the professional testing market. These increases were partially offset by the loss of revenues from a significant government testing contract in the United Kingdom that ended in September 2004 and lower revenues from the information technology (IT) testing market. The competitive environment and ongoing corporate budget constraints in the corporate e-training and IT markets continued to affect our businesses in these segments.

The increase in adjusted operating profit and the slight improvement in its corresponding margin largely reflected the increased revenues described above. Profit margins were impacted by the loss of the government testing contract in the United Kingdom discussed above and higher performance-related expenses compared to the prior year.

<u>*2004 v. 2003*</u>

Revenues for Thomson Learning increased in 2004 compared to the prior year due to both acquired businesses and growth from existing businesses, as well as the favorable impact of foreign translation.

In the Academic group, revenues increased primarily due to higher sales in our vocational and career markets. In higher education, overall textbook sales increased largely as a result of custom product offerings. Lifelong Learning’s revenues increased primarily due to growth in government and professional testing offerings, sales in international markets, driven by growth in our English language training business, and the impact of acquired businesses. Growth was moderated by the expiration in September 2004 of the government testing contract in the United Kingdom discussed above.

In 2004, 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 operating profit margin declined slightly due to additional product and market investments and the impact of acquired businesses that have lower initial margins.

<u>Outlook</u>

The importance of lifelong education in a global knowledge-based economy is increasingly recognized, and we expect to benefit from this trend. We expect that the growing acceptance of blended (online and classroom) learning will transform the learning market and, given our content, technology and financial resources, place us in a strong position 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 that market. Our focus on custom publishing will become even more important as the Internet has changed the dynamics of the higher education market by creating transparency of the used book market and price sensitivity. 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)	**2005**	2004	2003
Revenues	**1,897**	1,738	1,526
Adjusted operating profit	**334**	294	230
Adjusted operating profit margin	***17.6%***	*16.9%*	*15.1%*

<u>2005 v. 2004</u>

Results in 2005 for Thomson Financial reflected improving underlying market conditions and continued success of key offerings. Revenues in 2005 increased 9% due equally to higher revenues from existing businesses and contributions from newly acquired businesses. The effect of foreign currency translation did not impact overall results.

Revenues from existing businesses increased as a result of higher usage and transaction revenues. In particular, TradeWeb revenues increased significantly due to higher volumes for its online fixed income marketplaces as a result of greater online trading activity and the introduction of new online markets, including tri-party repurchase agreements, Euro- and U.S, dollar-denominated interest rate swaps, and default swap index products. Thomson ONE workstations increased 45% in 2005 due to user migration from legacy products and new client sales. Increases in revenues from existing businesses were experienced in all geographic regions, including Europe, which was aided by improving market conditions. Contributions from acquired businesses primarily related to the full year effect of TradeWeb and CCBN, which were both acquired in the first half of 2004.

Adjusted operating profit increased due to the increase in revenues and lower depreciation expense due to lower capital spending. Included in adjusted operating profit in 2004 were insurance recoveries of $19 million related to September 11, 2001. Excluding these recoveries, the increase in adjusted operating profit and improvement in its corresponding margin would have been more pronounced.

2004 v. 2003

Revenues in 2004 for Thomson Financial increased primarily due to the impact of acquired businesses, including TradeWeb and CCBN, but also reflected growth from existing businesses and the favorable impact of foreign currency translation. 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% in 2004 due to user migration from legacy products and new client sales. In 2004, European revenues from existing businesses declined compared with the prior year due to difficult market conditions. 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 operating profit increased due to the increase in revenues. Included in adjusted operating profit were insurance recoveries related to September 11, 2001 of $19 million in 2004 and $4 million in 2003. Excluding these insurance recoveries from both 2004 and 2003, the adjusted operating margin increased as a result of lower depreciation, as a percentage of revenues, due to the timing of capital spending.

Outlook

The general trend towards privatization, market liberalization and the increasing sophistication of financial markets continues globally. In 2006, we anticipate that these trends will benefit Asia, in particular, followed by North America and Europe. In the financial services market, we continue to see increasingly complex investment and trading strategies, new types of investment instruments, and regulatory pressures. Given these expected market conditions and trends, we anticipate revenue growth for existing businesses to be driven by the continued rollout of the Thomson ONE platform and further asset class expansion for TradeWeb.

Thomson Scientific & Healthcare

	Year ended December 31,		
(millions of U.S. dollars)	**2005**	2004	2003
Revenues	**1,018**	893	826
Adjusted operating profit	**235**	195	162
Adjusted operating profit margin	***23.1%***	*21.8%*	*19.6%*

2005 v. 2004

The financial performance for Thomson Scientific & Healthcare in 2005 reflected contributions from prior year investments and further expansion of our information solutions. Revenues increased 14% comprised of the following:

- 11% from contributions of newly acquired businesses;
- over 3% due to higher revenues from existing businesses; and
- no impact from foreign currency translation.

The increases in revenue attributable to acquired businesses primarily related to IHI, which was acquired in November 2004. Additionally, Thomson Scientific & Healthcare completed three small, tactical acquisitions in 2005 that further enhanced its Thomson Pharma and healthcare decision support offerings. Growth in revenues from existing businesses was primarily a result of higher customer spending for healthcare decision support products, which help customers manage healthcare costs. Additionally, there were higher subscription revenues for ISI Web of Science and the Micromedex electronic product portfolio due to new sales and strong retention rates. These increases were reflective of continuing customer demand for our workflow solutions. Revenues from existing businesses were tempered by the unfavorable effect of changes in foreign currency exchange rates on transactions involving U.S. dollar revenues within the group’s European businesses.

Adjusted operating profit and the corresponding margin increased in 2005 compared to 2004 due to higher revenues and the benefits from integration efforts. The majority of the integration benefits were derived from our IHI acquisition. During 2005, relative to IHI, we successfully completed the consolidation of several offices, integrated back office services, consolidated and optimized sales forces for certain businesses, and consolidated technology platforms. The efficiencies and cost savings resulting from these actions are expected to be reflected in our operating margin in future periods.

2004 v. 2003

Revenues for Thomson Scientific & Healthcare in 2004 increased due 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. Revenues also benefited from a favorable impact from foreign currency translation. Revenue growth from existing business was primarily due to higher subscription revenues for the ISI Web of Science and the Micromedex electronic product portfolio, as well as increased customer spending for healthcare decision support products. The increases in adjusted operating profit and its corresponding margin compared to the prior year reflected the higher 2004 revenues and effective integration and cost management efforts.

Outlook

We believe that demand for scientific and healthcare information solutions will continue to grow due to the ongoing investments in scientific research and development in many technology-driven sectors, especially life sciences. This demand is especially high for solutions that help manage costs and facilitate effective and efficient decision support at the point-of-care. We, therefore, anticipate continued growth in our electronic information solutions and decision support products.

Corporate and Other

2005 v. 2004

Corporate and other expenses were $128 million in 2005 compared to $98 million in 2004. The increase was primarily due to higher pension and other defined benefit plans expense and severance and other charges associated with the outsourcing and reorganization of certain functions within our human resources department. See the section entitled “Employee Future Benefits” for further discussion of our pension and other defined benefit plans expense.

2004 v. 2003

Corporate and other expenses in 2004 were virtually unchanged from 2003. 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.

Outlook

We anticipate corporate and other expenses to increase in 2006. Most notably, we expect to incur greater expense associated with our pension and defined benefit plans due to greater amortization of actuarial losses.

Discontinued Operations

The following businesses, along with one other small business from Thomson Learning, which was sold in June 2003, were classified as discontinued operations within the consolidated financial statements for years ended December 31, 2005, 2004 and 2003. None of these businesses was considered fundamental to our integrated information offerings.

In December 2005, our board of directors approved our plan to dispose of American Health Consultants, a medical newsletter publisher and medical education provider. We have reclassified the results of this business to discontinued operations. Its results had previously been included within our Thomson Scientific and Healthcare segment.

In 2005, discontinued operations included adjustments to tax liabilities previously established for Thomson Newspapers, which we sold in 2000 and 2001 and Thomson Media, which we sold in 2004.

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 of $94 million in 2004.

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 the status of negotiations at March 31, 2004, we recorded a pre-tax impairment charge of $6 million relating to identifiable intangible assets 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 February 2004, we sold DBM, a provider of human resource solutions, which had been managed within Thomson Learning. We recorded a post-tax gain of $7 million in the first quarter of 2004 on this sale.

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.

For more information on 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 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 2005, our ROIC was 7.8%, a slight increase from 7.6% for 2004 and 7.4% for 2003. 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 continue to 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 2001, we have increased our operating margin from 11.6% to 16.8% and grown free cash flow at a compounded rate of almost 20% to $1.2 billion in 2005.

Review of Fourth Quarter Results

The following table summarizes our consolidated results for the fourth quarter of 2005 and 2004.

	Quarter ended December 31,	
(millions of U.S. dollars)	**2005**	2004
Revenues	**2,428**	2,313
Operating profit	**555**	488
Operating profit margin	***22.9%***	*21.1%*
Net earnings	**250**	438
Earnings per share attributable to common shares	**$ 0.38**	$ 0.67

Revenues. The 5% increase in revenues for the three-month period ended December 31, 2005 was comprised of the following:

- slightly more than 4% from growth of existing businesses;
- almost 2% from contributions of acquired businesses; and
- approximately 1% decrease due to the unfavorable impact of foreign currency translation.

The growth from existing businesses was contributed by all four market groups. Notably, the legal and regulatory group's online products and the scientific and healthcare group's hospital and decision support solutions exhibited continued strong performance. Our financial group benefited from increased transaction volumes. Increased revenues for our learning group were a result of higher international sales as domestic higher education revenues were consistent with that of 2004. Contributions from acquired businesses were primarily related to Information Holdings Inc. (IHI) in our scientific and healthcare group.

Operating profit. Operating profit for the three months ended December 31, 2005 increased 14%. This increase was primarily due to the increase in revenues. The corresponding operating margin also increased as the benefits of scale were realized. Additionally, the operating margin benefited as there were certain restructuring costs incurred in the comparable 2004 period in our learning group that did not repeat in 2005.

Depreciation and amortization. Depreciation for the three months ended December 31, 2005 decreased $6 million, or 4%, compared to the same period in 2004 due to the timing of capital expenditures. Amortization for the three months ended December 31, 2005 increased $1 million, or 1%, compared to the 2004 period reflecting the expense of newly acquired intangible assets.

Net other expense. Net other expense for the three-month period ended December 31, 2005 was $14 million. The expense primarily related to a charge to write down the carrying value of an equity investment to its fair value. The decline in fair value was reflective of our diminished expectations of future growth for our investee. In the fourth quarter of 2004, net other expense was $3 million. 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 "Financial Position").

Net interest expense and other financing costs. Our net interest expense and other financing costs for the three-month period ended December 31, 2005 declined 8% compared to the same period in 2004 primarily as a result of lower interest rates on our debt due to our refinancings of certain debt in 2005 and 2004 (discussed in the section entitled "Financial Position").

Income taxes. Income taxes for the three-month period ended December 31, 2005 increased significantly compared to the same period due to our repatriation of a substantial portion of some of our subsidiaries' accumulated profits. The repatriation was related to the recapitalization of these subsidiaries, which was affected through intercompany financing arrangements. We incurred a one-time tax charge of $125 million in connection with this repatriation. Income taxes for both periods in the current and prior years reflected the mix of taxing jurisdictions in which pre-tax profits and losses were recognized. Because the seasonality in our businesses impacts our geographic mix of pre-tax profits and losses in interim periods and, therefore, distorts our reported tax rate, our effective tax rate for interim periods is not indicative of our effective tax rate for the full year.

Earnings attributable to common shares and earnings per common share. Earnings attributable to common shares were $249 million for the three months ended December 31, 2005 compared to $437 million in the same period in 2004. Earnings per common share were $0.38 in the three months ended December 31, 2005 compared to $0.67 in the comparable period in 2004. The decreases in earnings and earnings per common share were primarily due to higher tax expense due to a one-time charge associated with the repatriation of certain earnings and the recognition of gains within discontinued operations in 2004. The results for the three months ended December 31, 2005 and 2004 are not directly comparable because of certain one-time items, the impacts from accounting for income taxes in 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.

(millions of U.S. dollars, except per common share amounts)	**Quarter ended December 31,**	
	2005	2004
Earnings attributable to common shares	**249**	437
Adjustments for one-time items:		
Net other expense	**14**	3
Tax on above item	**—**	(1)
Release of tax credits	**—**	(6)
Withholding tax on dividend	**125**	—
Interim period effective tax rate normalization	**9**	14
Discontinued operations	**5**	(129)
Adjusted earnings from continuing operations attributable to common shares	**402**	318
Adjusted earnings per common share from continuing operations	**$0.62**	$0.49

On a comparable basis, our adjusted earnings from continuing operations for the fourth quarter of 2005 improved over 2004 due primarily to higher profits, lower interest expense and a lower effective tax rate resulting from the 2005 recapitalization of certain subsidiaries through intercompany financing arrangements.

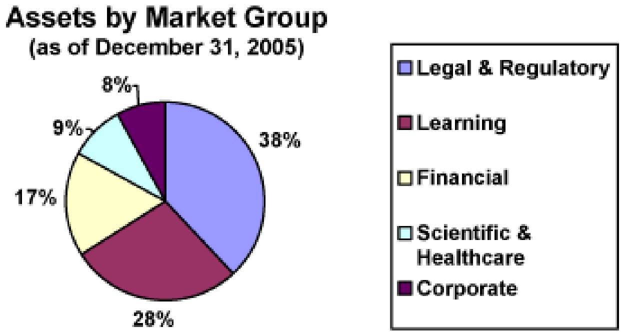
LIQUIDITY AND CAPITAL RESOURCES

Financial Position

At December 31, 2005, our total assets were $19,436 million, which represented a 1% decrease from the total of $19,645 million at December 31, 2004. This decrease was primarily due to the impact of foreign currency translation and the effect of depreciation and amortization, which more than offset increases in assets related to newly acquired intangible assets and capital expenditures.

Our total assets by market group as of December 31, 2005 and 2004 were as follows:

(millions in U.S. dollars)	**Year Ended December 31,** **2005**	2004
Thomson Legal & Regulatory	**7,388**	7,316
Thomson Learning	**5,477**	5,549
Thomson Financial	**3,346**	3,518
Thomson Scientific & Healthcare	**1,769**	1,780
Corporate and other	**1,440**	1,464
Discontinued operations	**16**	18
Total assets	**19,436**	19,645



The following table presents comparative information related to net debt, shareholders' equity and the ratio of net debt to shareholders' equity:

(millions of U.S. dollars)	As at December 31, 2005	2004
Short-term indebtedness	**202**	7
Current portion of long-term debt	**98**	295
Long-term debt	**3,983**	4,013
Total debt	**4,283**	4,315
Swaps	**(193)**	(192)
Total debt after swaps	**4,090**	4,123
Less: cash and cash equivalents	**(407)**	(405)
Net debt	**3,683**	3,718
Shareholders' equity	**9,963**	9,962
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, 2005:

(millions of U.S. dollars)	
Balance at December 31, 2004	9,962
Earnings attributable to common shares for the year ended December 31, 2005	930
Additions to paid in capital related to stock compensation plans	23
Common share issuances	22
Repurchases of common shares – normal course issuer bid	(256)
Common share dividend payments	(505)
Change in cumulative translation adjustment	(213)
Balance at December 31, 2005	9,963

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, 2005, 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.

Normal Course Issuer Bid

In May 2005, we initiated a normal course issuer bid to repurchase up to 15 million of our common shares. The bid will terminate on the earlier of May 4, 2006 or the date that we complete our purchases. From time to time, when we do not possess material non-public information about ourselves or our securities, we may enter into a pre-defined plan with our broker to allow for the repurchase of shares at times when we ordinarily would not be active in the market due to our own internal trading blackout periods and insider trading rules. Any such plans entered into with our broker will be adopted in accordance with the requirements of Rule 10b5-1 under the U.S. Securities Exchange Act of 1934 and applicable Canadian securities laws.

The following summarizes our repurchases through December 31, 2005.

Three-month period ended	Shares Repurchased	Average Price per Share	Number of shares available for repurchase
June 30, 2005	1,350,000	$33.58	
September 30, 2005	2,250,000	$37.01	
December 31, 2005	3,649,400	$34.97	
Total	7,249,400	$35.35	7,750,600

Employee Stock Purchase Plan

In October 2005, our eligible U.S. employees began participating in our new employee stock purchase plan (ESPP). Under the ESPP, participating employees may authorize payroll deductions of between 1% and 10% of their eligible compensation during a quarter, with a maximum of $21,250 for a year, to purchase newly issued shares. Using accumulated payroll deductions, participating employees purchase our common shares at a 15% discount to the New York Stock Exchange closing price on the last business day of a quarter. The discount, which amounted to $1 million in 2005, represents compensation expense for our company. In January 2006, we issued 189,176 common shares in connection with the fourth quarter 2005 employee deductions.

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. Additionally, as discussed in the section entitled "Normal Course Issuer Bid," we also used our cash to repurchase outstanding common shares in open market transactions.

Operating activities. Cash provided by our operating activities in 2005 was $1,879 million compared to $1,808 million for 2004. The change primarily reflected the increase in operating profit from 2004 to 2005 and improvements in the use of working capital, which more than offset a $125 million withholding tax payment associated with the repatriation of certain earnings. The use of working capital improved primarily due to company-wide accounts receivable collection efforts and the favorable timing of payments for normal operating expenses. In order to maximize our cash flow, we continue to focus on limiting the days outstanding of our accounts receivable balance and lengthening the payment terms of our vendors.

Investing activities. Cash used in our investing activities in 2005 was $1,071 million compared to $1,463 million for 2004. The decreased use of cash in 2005 was attributable to reduced acquisition spending. In 2004, spending on acquisitions included Information Holdings Inc. for $445 million and TradeWeb for $361 million. These outlays in 2004 were 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. Results for 2005 included tax payments of $105 million associated with our sale of Thomson Media in 2004.

Capital expenditures in 2005 increased 4% to $642 million from $619 million in 2004. This represented 7.4% and 7.7% of revenues in 2005 and 2004, respectively. Higher capital expenditures in 2005 were incurred primarily at our legal and regulatory and learning 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 2005, approximately 68% 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 also include spending to create the initial version of a textbook or other media (“pre-publication costs”) within capital expenditures. This spending declined from $120 million in 2004 to $110 million in 2005 as a result of targeted efficiency efforts.

We expect our capital expenditures to increase in 2006, but decline as a percentage of revenues as we focus on capital efficiency. We will continue to invest in product-related initiatives and to migrate certain online legal and regulatory, learning and financial services onto unified technology platforms.

Financing activities. Cash used in our financing activities was $798 million for the year ended December 31, 2005 compared to $629 million for the year ended December 31, 2004. The increased use of cash largely reflected our repurchase of common shares (see “Normal Course Issuer Bid” above) and higher dividend payments in 2005.

The following table sets forth our common share dividend activity.

	Year ended December 31,	
(millions of U.S. dollars)	**2005**	2004
Dividends declared	**517**	495
Dividends reinvested	**(12)**	(11)
Dividends paid	**505**	484

The following describes our significant financing activities from each year.

In the third quarter of 2005, we completed the early redemption of US$75 million of 7.62% privately placed notes and Cdn$400 million of 6.90% medium-term notes and settled an associated currency swap. We recorded a loss of US$23 million as a result of these redemptions, primarily related to early redemption premiums and non-cash write-offs of deferred costs. We primarily financed these redemptions with the net proceeds of an offering of US$400 million of 5.50% debentures due 2035 that we completed in August 2005. Completing these transactions allowed us to lock in historically low interest rates for a 30 year period.

In addition to the early redemptions discussed above, in December and September 2005, we also repaid US$50 million and US$75 million, respectively, of privately placed notes. In March 2005, we repaid $125 million of floating rate notes.

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.

Free cash flow. The following table sets forth a calculation of our free cash flow for 2005 and 2004:

(millions of U.S. dollars)	**Year ended December 31,** **2005**	2004
Net cash provided by operating activities	**1,879**	1,808
Capital expenditures	**(642)**	(619)
Other investing activities	**(39)**	(60)
Dividends paid on preference shares	**(4)**	(3)
Additions to property and equipment of discontinued operations	**—**	(3)
Free cash flow	**1,194**	1,123

Our free cash flow for 2005 was reduced by a $125 million withholding tax payment associated with the repatriation of certain earnings, which was more than offset by benefits from increased operating profit and working capital improvements.

Credit facilities and commercial paper program. As of December 31, 2005, we maintained revolving unsecured credit facilities of $1.6 billion and a commercial paper program authorized to issue up to Cdn$1.0 billion. Though not contractually required, we view our borrowings under our commercial paper program as a reduction of the amount available to us under our credit facilities. At December 31, 2005, our credit lines and related activity were as follows:

(millions of U.S. dollars)

Credit Lines	**Amount Drawn**	**Commercial Paper Outstanding**	**Lines Available**
1,600	(62)	(167)	1,371

In March 2005, we extended the multi-year facility maturities to March 2010, increased the aggregate amount of these facilities to $1.6 billion and terminated our 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.

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, acquisitions that we pursue in the normal course of business and share repurchases.

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, 2005 for the years indicated:

(millions of U.S. dollars)	**2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
Long-term debt	98	278	436	674	385	2,210	4,081
Currency swap instruments	—	(36)	—	(43)	—	(114)	(193)
Hedged debt	98	242	436	631	385	2,096	3,888
Operating lease payments	193	160	119	97	81	303	953
Unconditional purchase obligations	120	87	19	14	12	1	253
Total	411	489	574	742	478	2,400	5,094

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. The liability associated with these restorations is recorded on our consolidated balance sheet. 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 incidental 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 $100 million over the next two years if certain performance measures are achieved. The contingent consideration associated with TradeWeb is the largest for which we may become liable. We do not believe that additional payments in connection with other transactions would have a material impact on our financial statements.

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.

Contingencies

Lawsuits and Legal Claims. We are a defendant in two separate class action lawsuits involving our BAR/BRI business, which is part of Thomson Legal & Regulatory. Each alleges violations of U.S. federal antitrust laws. The plaintiff in *Park v. The Thomson Corporation and Thomson Legal & Regulatory Inc.*, which was filed in the U.S. District Court for the Southern District of New York, alleges that BAR/BRI has illegally leveraged its market position in state-specific bar examination preparation courses into multi-state courses and that an unlawful tying arrangement exists, which should be remedied, in part, by restructuring BAR/BRI's review courses into separate state-specific courses and multi-state courses. The plaintiff in *Rodriguez v. West Publishing Corp. and Kaplan Inc.*, which was filed in the U.S. District Court for the Central District of California, alleges, among other things, that our company and Kaplan Inc. (a subsidiary of The Washington Post Company) unlawfully agreed in 1997 to divide markets and not compete against one another. Discovery proceedings are underway in both lawsuits. We intend to defend ourselves vigorously in both cases.

As previously disclosed, in October 2004, Thomson Financial received a subpoena from the U.S. Securities and Exchange Corporation (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. We are cooperating fully with the SEC. In 2005, approximately $35 million of our financial group's CMI revenues were related to the identification of institutional investors for its clients.

Also as previously disclosed, in January 2005, we became aware of an inquiry by the Serious Fraud Office 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 continuing to cooperate fully with the authorities in their inquiry.

In addition to the matters described above, our company is engaged in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against our company, including those described above, is subject to future resolution, including the uncertainties of litigation. Based on information currently known by us and after consultation with outside legal counsel, our management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on our financial condition, taken as a whole.

Taxes. 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 represent liabilities for the years 2000 to 2005. It is anticipated that these reserves will either result in a cash payment or be reversed to income between 2006 and 2009.

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.

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 2004 and 2005 increased our revenues by less than 1%. 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 2005, we recorded cumulative translation losses of $213 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, 2005, 97% of our indebtedness was denominated in U.S. dollars or had been swapped into U.S. dollar obligations.

At December 31, 2005, after taking into account swap agreements, 81% 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 $8 million.

Set out below are the U.S. dollar equivalents of our local currency revenues and operating profit for the year ended December 31, 2005. Based on our 2005 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	6,955	—	1,293	—
British pound sterling	718	72	37	4
Canadian dollar	299	30	34	3
Euro	256	26	54	5
Australian dollar	179	18	14	1
Other	296	30	32	3
Total	8,703	176	1,464	16

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

2006 OUTLOOK

The information in this section is forward-looking and should be read in conjunction with the sections below entitled "Forward-Looking Statements" and "Material Assumptions".

Operational

Among our key operational priorities for 2006 is to continue to focus on our front-end customer strategy and better understand our customers' workflow needs.

We also will continue to focus on improving our return on invested capital. We will look to optimize our portfolio to ensure that we are investing in our parts of our business that offer the greatest opportunities to drive growth and returns. We will also look to optimize our internal infrastructure and assets by reducing redundant functions and systems across our company, increasing our presence in low-cost locations and deploying common platforms for content production and delivery.

Financial

We expect full-year 2006 revenue growth to be in line with our long-term target of 7% to 9%, excluding the effects of currency translation. Full-year 2006 revenue growth will continue to be driven by growth from existing businesses and supplemented by tactical acquisitions.

We expect continued improvement in our operating profit margin in 2006.

We also expect to continue to generate strong free cash flow in 2006.

RELATED PARTY TRANSACTIONS

As at February 23, 2006, 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.

From time to time, in the normal course of business, Woodbridge and its affiliates purchase some of our products and service offerings. These transactions are negotiated at arms length on standard terms, including price, and are not significant to our results of operations or financial condition individually or in the aggregate.

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 2005 and 2004, the total amounts charged to Woodbridge for these rentals and services were approximately $2 million and $3 million, respectively. Additionally, in 2004 we paid one of our directors, Mr. J.A. Tory, $80,000 for advisory services in connection with our long-term tax and capital strategies.

The employees of Jane's Information Group (Jane's), 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. Woodbridge assumed the pension liability associated with the active employees of Jane's as of the date of sale 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.

We purchase property and casualty insurance from third party insurers and retain the first $500,000 of each and every claim under the programs via our captive insurance subsidiary. Woodbridge is included in these programs and pays us a premium commensurate with its exposures. In 2005 and 2004, these premiums were about $45,000, which would approximate the premium charged by a third party insurer for such coverage.

In June 2005, we amended our agreement with Woodbridge under which Woodbridge previously indemnified a third party insurer for certain liabilities under our directors' and officers' insurance policy. Under the new arrangements, Woodbridge will indemnify up to $100 million of liabilities incurred either by our current and former directors and officers or by our company in providing indemnification to these individuals on substantially the same terms and conditions of our prior insurance arrangement. A third party administrator will manage any claims under the indemnity. We will pay Woodbridge an annual fee of $750,000, which is less than the premium that we would have paid for commercial insurance.

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 a five year period. In 2005, we paid Hewitt $5 million for its services. 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 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 (expense) 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.

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, which will be closed to new participants in March 2006. 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 2006 cost of employee future benefits will increase by approximately $39 million, which will be reflected in the results of our market groups and corporate and other expense. 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 2006 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% to 8.0%. While the actual return on plan assets of 15.7% exceeded the expected rate of return in 2005 due to higher than expected equity returns, management nevertheless decided to adopt a more conservative long-term return for this plan. Adjusting the expected rate of return on assets for this plan upward or downward by another 25 basis points would decrease or increase, respectively, pension expense by less than $3 million in 2006.

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 2006, we reviewed the high-grade bond indices published by Moody's and Merrill Lynch as of September 30, 2005, which are based on debt securities with average durations of 10 to 15 years. Because we have a young workforce, the duration of our expected future cash outflows for our plan tends to be longer than the duration of the bond indices we reviewed. Therefore, our discount rate tends to be higher than the rates of these benchmarks. 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 was 5.70%, approximately 35 basis points less than that of the prior year. Adjusting the discount rate upward or downward by another 25 basis points would result in a decrease or increase, respectively, in pension expense of approximately $10 million in 2006.

As of December 31, 2005, we had cumulative unrecognized actuarial losses associated with all of our pension plans of $553 million, compared to $537 million at December 31, 2004. 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 eight years at December 31, 2005). Unrecognized actuarial gains and losses below the 10% corridor are deferred. In applying this amortization method, the estimated pension expense for 2006 includes $57 million of the unrecognized actuarial losses at December 31, 2005.

As of December 31, 2005, the fair value of plan assets for our primary pension plan in the United States represented about 95% of the plan's projected benefit obligation. In September 2005, we voluntarily contributed $11 million to this plan. We did not make any voluntary contributions in 2004. In the fourth quarter of 2005, we also voluntarily contributed $14 million to benefit plans in the United Kingdom. We voluntarily contributed $7 million to these plans in 2004. While none of these contributions were required under the applicable funding rules and regulations, 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 2006. 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 2006.

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 2006 was calculated based upon a number of actuarial assumptions, including a healthcare cost trend rate of 10% that declines 50 basis points per year for ten 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 postretirement benefits of approximately $16 million at December 31, 2005.

SUBSEQUENT EVENTS

In February 2006, our board of directors approved our plan to dispose of three separate businesses within our Thomson Learning segment. These businesses are Peterson's, a college preparatory guide, the U.S. operations of Thomson Education Direct, a consumer-based distance learning career school and K.G. Saur, a German publisher of biographical and bibliographical reference titles serving the library and academic community. The results of these businesses will be classified as discontinued operations beginning with our interim financial statements to be filed for the first quarter of 2006 and prior periods will be restated to reflect this classification. The combined annual revenues of these businesses in 2005 were approximately $145 million.

In February 2006, our board of directors announced a 10%, or $0.08 per share, increase in the annualized rate of our common share dividend to $0.88 per share. Additionally, the board announced it has moved the annual dividend review period from the second quarter to the first quarter of each year.

ACCOUNTING CHANGES

Variable Interest Entities

Effective January 1, 2005, we adopted Accounting Guideline AcG-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 adoption of this Guideline had no effect on our consolidated financial statements.

Business Combinations

In May 2005, the Emerging Issues Committee (EIC) issued Abstract 154, *Accounting for Pre-existing Relationships between the Parties of a Business Combination.* The Abstract harmonizes Canadian GAAP on the issue with standards previously issued in the United States. The key issue in the Abstract is whether a business combination between two parties that have a pre-existing relationship should also reflect a settlement of the pre-existing relationship. If a settlement has occurred, the acquirer must account for the settlement separately from the business combination. Additionally, the acquirer must establish a separate identifiable intangible asset apart from goodwill for reacquired rights that the acquirer had previously granted to the acquired entity. The consensus in the Abstract is effective for business combinations completed after May 31, 2005. It did not have a material impact on 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 retained 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.

At December 31, 2005, our combined reserve for returns and allowance for bad debts was $324 million, or 16% of our gross accounts receivable balance. A 1% increase in this percentage would have resulted in additional expense of approximately $20 million.

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. At December 31, 2005, we had $749 million of capitalized costs related to software on our consolidated balance sheet.

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 entire 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, earnings multiples of competitors and multiples from sales of like-businesses.

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. At December 31, 2005, identifiable intangible assets and goodwill amounted to $13.5 billion, or 69% of our total assets on our consolidated balance sheet.

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. For 2005, our effective tax rate was 23.7% of our earnings from continuing operations before income taxes. A 1% increase in our effective tax rate would have resulted in additional income tax expense of approximately $12 million.

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” on page 28.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) and EIC have recently issued the following accounting standards that are applicable to our activities in future periods.

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. Management is considering an early adoption of these Handbook Sections in the first quarter of 2006.

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. Handbook Section 1530 also introduces a new component of equity referred to as comprehensive income. Under these new standards, all financial instruments are to be included on a company’s balance sheet (including derivatives) and are to be initially measured either at fair market value or, in limited circumstances, at cost or amortized cost. Additionally, companies will be required to disclose comprehensive income, which includes, in addition to net income, other comprehensive income primarily consisting 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.

For the most part, the new standards harmonize Canadian GAAP with standards previously issued by the U.S. Financial Accounting Standards Board. The adoption of these standards will not have a material impact on our consolidated financial statements.

Non-monetary Transactions

In June 2005, the CICA issued Handbook Section 3831, *Non-monetary Transactions*, which introduces new requirements for non-monetary transactions entered into after January 1, 2006. Adoption of this Handbook Section will not have a material impact on our consolidated financial statements.

Consideration Given to a Customer

In September 2005, the EIC issued EIC Abstract 156, *Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)*. This Abstract, which essentially harmonizes Canadian GAAP with U.S. GAAP, requires that most consideration given by a vendor to a customer be treated as a reduction of revenue. The provisions of the Abstract are applicable for financial statements for fiscal years beginning after January 1, 2006. We had previously adopted the provisions of the analogous U.S. accounting standard and, therefore, adoption of the new Abstract will not have an impact on our consolidated financial statements.

ADDITIONAL INFORMATION

Depreciation by Market Group

The following table details depreciation expense by market group for 2005, 2004 and 2003.

	Year Ended December 31,		
(millions of U.S. dollars)	**2005**	2004	2003
Legal & Regulatory	**202**	197	176
Learning	**195**	194	184
Financial	**177**	182	176
Scientific & Healthcare	**38**	35	37
Corporate and other	**10**	12	14
Total	**622**	620	587

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 (SEC) 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 Control 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 23, 2006, we had outstanding 647,128,293 common shares, 6,000,000 Series II preference shares, 223,715 restricted share units and 15,853,431 stock options.

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 "2006 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. Factors that could cause actual results or events to differ materially from current expectations include: actions of our competitors; failure to fully derive anticipated benefits from our acquisitions; 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 of our significant investments in technology to increase our revenues or decrease our operating costs; failure to develop additional products and services to meet our customers' needs, attract new customers or expand into new geographic markets; 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; failure to recruit and retain high quality management and key employees; increased self-sufficiency of our customers; inadequate protection of our intellectual property rights; actions or potential actions that could be taken by our principal shareholder; an increase in our effective income tax rate; and impairment of goodwill and identifiable intangible assets. These and other 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.

Material Assumptions

In preparing our 2006 Outlook, our material assumptions were that worldwide macroeconomic conditions would be unchanged in 2006 relative to 2005, a portion of our anticipated 2006 revenue growth would come from $200-$500 million of tactical acquisitions (net of dispositions) made during the year, and that our operating profit margin would improve in 2006, despite an estimated $39 million increase in pension and other defined benefit plans expense.

RECONCILIATIONS

Reconciliation of Adjusted Operating Profit to Operating Profit

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

For the Year Ended December 31, 2005

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Corporate and Other	Total
Adjusted operating profit	982	350	334	235	(128)	**1,773**
Less:						
Amortization	(108)	(66)	(89)	(46)	—	**(309)**
Operating profit	874	284	245	189	(128)	**1,464**

For the Year Ended December 31, 2004

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Corporate and Other	Total
Adjusted operating profit	897	327	294	195	(98)	**1,615**
Less:						
Amortization	(99)	(69)	(82)	(35)	—	**(285)**
Operating profit	798	258	212	160	(98)	**1,330**

For the Year Ended December 31, 2003

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Corporate and Other	Total
Adjusted operating profit	809	336	230	162	(97)	**1,440**
Less:						
Amortization	(99)	(83)	(64)	(32)	—	**(278)**
Operating profit	710	253	166	130	(97)	**1,162**

For the Three Months Ended December 31, 2005

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Corporate and Other	Total
Adjusted operating profit	308	139	109	109	(33)	**632**
Less:						
Amortization	(28)	(17)	(21)	(11)	—	**(77)**
Operating profit	280	122	88	98	(33)	**555**

For the Three Months Ended December 31, 2004

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Corporate and Other	Total
Adjusted operating profit	279	133	91	99	(38)	**564**
Less:						
Amortization	(26)	(17)	(23)	(10)	—	**(76)**
Operating profit	253	116	68	89	(38)	**488**

Reconciliation of Adjusted Operating Profit Margin to Operating Profit margin
(as a percentage of revenue)

(*unaudited*)

For the Year Ended December 31, 2005

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Total
Adjusted operating profit margin	28.1%	15.1%	17.6%	23.1%	**20.4%**
Less:					
Amortization	(3.1%)	(2.9%)	(4.7%)	(4.5%)	**(3.6%)**
Operating profit margin	25.0%	12.2%	12.9%	18.6%	**16.8%**

For the Year Ended December 31, 2004

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Total
Adjusted operating profit margin	27.4%	15.0%	16.9%	21.8%	**20.0%**
Less:					
Amortization	(3.0%)	(3.1%)	(4.7%)	(3.9%)	**(3.5%)**
Operating profit margin	24.4%	11.9%	12.2%	17.9%	**16.5%**

For the Year Ended December 31, 2003

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Total
Adjusted operating profit margin	26.9%	16.4%	15.1%	19.6%	**19.5%**
Less:					
Amortization	(3.3%)	(4.1%)	(4.2%)	(3.9%)	**(3.8%)**
Operating profit margin	23.6%	12.3%	10.9%	15.7%	**15.7%**

For the Three Months Ended December 31, 2005

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Total
Adjusted operating profit margin	31.6%	21.3%	22.1%	34.9%	**26.0%**
Less:					
Amortization	(2.9%)	(2.6%)	(4.3%)	(3.5%)	**(3.1%)**
Operating profit margin	28.7%	18.7%	17.8%	31.4%	**22.9%**

For the Three Months Ended December 31, 2004

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Total
Adjusted operating profit maring	30.4%	20.7%	19.1%	35.1%	**24.4%**
Less:					
Amortization	(2.8%)	(2.7%)	(4.8%)	(3.5%)	**(3.3%)**
Operating profit margin	27.6%	18.0%	14.3%	31.6%	**21.1%**

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,			
	2005	2004	2003	2002
Calculation of Adjusted Operating Profit After Taxes				
Operating profit	**1,464**	1,341	1,174	
Add:				
Amortization	**309**	286	279	
Adjusted operating profit of discontinued operations	**8**	34	68	
Adjusted operating profit — including discontinued operations	**1,781**	1,661	1,521	
Taxes paid on operations	**(326)**	(285)	(237)	
Post-tax adjusted operating profit	**1,455**	1,376	1,284	
Calculation of Adjusted Invested Capital				
Equity	**9,963**	9,962	9,193	8,961
Total debt	**4,283**	4,315	4,255	4,121
Invested capital	**14,246**	14,277	13,448	13,082
Adjustments:				
Cash and other investments [1]	**(423)**	(420)	(696)	(724)
Debt swaps [2]	**(193)**	(192)	(199)	161
Current and long-term deferred taxes [1]	**1,310**	1,356	1,427	1,413
Accumulated amortization and non-cash goodwill [3]	**1,885**	1,586	1,336	990
Present value of operating leases [4]	**754**	832	879	819
Historical intangible asset write-downs [5]	**162**	147	248	336
Other [1]	**821**	1,125	1,072	1,151
Adjusted invested capital	**18,562**	18,711	17,515	17,228
Average Invested Capital	**18,637**	18,113	17,372	
Return on Invested Capital	**7.8%**	7.6%	7.4%	

1 Items excluded as not deemed components of invested capital; “Other” primarily consists of non-current liabilities.

2 Excludes debt swaps as balances are financing rather than operating related.

3 Excludes accumulated amortization as only gross identifiable intangible assets and goodwill cost is considered component of invested capital. Excludes 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 Adds back write-downs that were not cash transactions.

QUARTERLY INFORMATION (UNAUDITED)

The following table presents a summary of our consolidated operating results for each of the eight quarters ended March 31, 2004 through December 31, 2005.

(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,**	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
Revenues	**1,845**	1,674	**2,047**	1,854	**2,383**	2,216	**2,428**	2,313
Operating profit	**113**	97	**274**	253	**522**	492	**555**	488
Earnings from continuing operations	**69**	41	**300**	178	**302**	328	**255**	309
Discontinued operations, net of tax	**4**	(4)	**2**	14	**7**	16	**(5)**	129
Net earnings	**73**	37	**302**	192	**309**	344	**250**	438
Dividends declared on preference shares	**(1)**	(1)	**(1)**	(1)	**(1)**	—	**(1)**	(1)
Earnings attributable to common shares	**72**	36	**301**	191	**308**	344	**249**	437
Basic and diluted earnings (loss) per common share								
From continuing operations	**$ 0.10**	$ 0.06	**$ 0.46**	$ 0.27	**$ 0.46**	$ 0.50	**$ 0.39**	$ 0.47
From discontinued operations	**0.01**	(0.01)	**—**	0.02	**0.01**	0.02	**(0.01)**	0.20
	$ 0.11	$ 0.05	**$ 0.46**	$ 0.29	**$ 0.47**	$ 0.52	**$ 0.38**	$ 0.67

We typically derive a much greater portion of our operating profit 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. In general, our year-over-year performance reflected increased operating profit driven by higher revenues from existing businesses and contributions from acquired businesses.

In the quarters ended September 30, 2004, December 31, 2004 and June 30, 2005, earnings from continuing operations and net earnings reflected the recognition of certain tax credits. In the quarter ended December 31, 2005, earnings from continuing operations and net earnings reflected a $125 million tax charge associated with repatriated profits.

EXHIBIT 99.3

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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 23, 2006

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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, 2005 and 2004, 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, 2005. 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, 2005 and 2004, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
February 23, 2006

The Thomson Corporation

Consolidated Statement of Earnings and Retained Earnings

(millions of U.S. dollars, except per common share amounts)	Year ended December 31, 2005	2004 (note 6)
Revenues	8,703	8,057
Cost of sales, selling, marketing, general and administrative expenses	(6,308)	(5,822)
Depreciation (note 21)	(622)	(620)
Amortization (note 12)	(309)	(285)
Operating profit	1,464	1,330
Net other (expense) income (note 3)	(28)	24
Net interest expense and other financing costs (note 4)	(223)	(235)
Income taxes (note 5)	(287)	(263)
Earnings from continuing operations	926	856
Earnings from discontinued operations, net of tax (note 6)	8	155
Net earnings	934	1,011
Dividends declared on preference shares (note 15)	(4)	(3)
Earnings attributable to common shares	930	1,008
Retained earnings at beginning of year	6,808	6,295
Repurchase of common shares (note 15)	(229)	—
Dividends declared on common shares (note 15)	(517)	(495)
Retained earnings at end of year	6,992	6,808
Basic and diluted earnings per common share (note 7):		
From continuing operations	$ 1.41	$ 1.30
From discontinued operations	0.01	0.24
Basic and diluted earnings per common share	$ 1.42	$ 1.54

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, 2005	2004 (note 6)
Assets		
Cash and cash equivalents	407	405
Accounts receivable, net of allowances of $324 million (2004 — $343 million) (note 8)	1,699	1,643
Inventories (note 9)	322	312
Prepaid expenses and other current assets	325	312
Deferred income taxes (note 5)	250	212
Current assets of discontinued operations (note 6)	6	8
Current assets	3,009	2,892
Computer hardware and other property, net (note 10)	781	749
Computer software, net (note 11)	749	769
Identifiable intangible assets, net (note 12)	4,482	4,719
Goodwill (note 13)	9,019	9,113
Other non-current assets	1,386	1,393
Non-current assets of discontinued operations (note 6)	10	10
Total assets	19,436	19,645
Liabilities and shareholders' equity		
Liabilities		
Short-term indebtedness (note 14)	202	7
Accounts payable and accruals	1,730	1,734
Deferred revenue	1,058	1,030
Current portion of long-term debt (note 14)	98	295
Current liabilities of discontinued operations (note 6)	19	17
Current liabilities	3,107	3,083
Long-term debt (note 14)	3,983	4,013
Other non-current liabilities	823	1,015
Deferred income taxes (note 5)	1,560	1,572
Total liabilities	9,473	9,683
Shareholders' equity		
Capital (note 15)	2,726	2,696
Cumulative translation adjustment (note 19)	245	458
Retained earnings	6,992	6,808
Total shareholders' equity	9,963	9,962
Total liabilities and shareholders' equity	19,436	19,645

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, 2005	2004 (note 6)
Cash provided by (used in):		
Operating activities		
Net earnings	**934**	1,011
Remove earnings from discontinued operations	**(8)**	(155)
Add back (deduct) items not involving cash:		
Depreciation (note 21)	**622**	620
Amortization (note 12)	**309**	285
Net gains on disposals of businesses and investments (note 3)	**(5)**	(53)
Loss from redemption of bonds (notes 3 and 14)	**23**	53
Deferred income taxes (note 5)	**(16)**	(3)
Other, net	**55**	170
Voluntary pension contributions (note 16)	**(25)**	(7)
Changes in working capital and other items (note 21)	**(20)**	(161)
Cash provided by operating activities — discontinued operations (note 6)	**10**	48
Net cash provided by operating activities	**1,879**	1,808
Investing activities		
Acquisitions, less cash therein of $8 million (2004 - $220 million) (note 18)	**(289)**	(1,337)
Proceeds from disposals (note 18)	**4**	87
Capital expenditures, less proceeds from disposals of $2 million (2004 — $10 million)	**(642)**	(619)
Other investing activities	**(39)**	(60)
Capital expenditures of discontinued operations (note 6)	**—**	(3)
Net proceeds from (income taxes paid on) disposals of discontinued operations (note 6)	**(105)**	474
Cash used in investing activities — discontinued operations (note 6)	**—**	(5)
Net cash used in investing activities	**(1,071)**	(1,463)
Financing activities		
Proceeds from debt (note 14)	**401**	1,174
Repayments of debt (note 14)	**(621)**	(1,186)
Net borrowings (repayments) under short-term loan facilities	**191**	(90)
Premium on bond redemption (note 14)	**(22)**	(41)
Repurchase of common shares	**(256)**	—
Dividends paid on preference shares (note 15)	**(4)**	(3)
Dividends paid on common shares (note 15)	**(505)**	(484)
Other financing activities, net	**18**	1
Net cash used in financing activities	**(798)**	(629)
	10	(284)
Translation adjustments	**(8)**	6
Increase (decrease) in cash and cash equivalents	**2**	(278)
Cash and cash equivalents at beginning of period	**405**	683
Cash and cash equivalents at end of period	**407**	405

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 deferred 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

License fees are generally recognized ratably on a straight-line basis over the license period when the Company has an ongoing obligation 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. For a substantial majority of these arrangements, a customer's obligation to pay corresponds to the amount of work performed. In these circumstances, revenue is recognized as a percentage of completed work using the Company's costs as the measurement factor.

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 a market-related fair value. The market-related fair value recognizes changes in the fair value of plan assets over a five-year smoothing period. 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 in 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.

Computer Hardware and other property

Computer hardware and other property are recorded at cost and depreciated on a straight-line basis over their estimated useful lives as follows:

Computer hardware	3-5 years
Buildings and building improvements	5-40 years
Furniture, fixtures and equipment	3-10 years

Computer software

Capitalized Software for internal use

Certain costs incurred in connection with the development of software to be used internally are capitalized once a project has progressed beyond a conceptual, preliminary stage to that of application development. Costs which qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project. The capitalized amounts, net of accumulated amortization, are included in “Computer software, net” in the consolidated balance sheet. These costs are amortized over their expected useful lives, which range from three to ten years. The amortization expense is included in “Depreciation” in the consolidated statement of earnings and retained earnings.

Capitalized Software to be marketed

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 also included in “Computer software, net” in the consolidated balance sheet. The capitalized amounts are amortized over the expected period of benefit, not to exceed three years, and this amortization expense is included in “Cost of sales, selling, marketing, general and administrative expenses” in the consolidated statement of earnings and retained earnings.

Pre-publication costs

Pre-publication costs, which are costs to create the initial version of a textbook or other media, are recorded at cost within “Other non-current assets” in the consolidated balance sheet. Pre-publications costs are depreciated over the period that the majority of sales relating to the content are expected to be generated, which is generally three to five years, within “Depreciation” in the consolidated statement of earnings and retained earnings. The depreciation period generally begins on the publication date.

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 annually for impairment 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	1-30 years
Customer relationships	1-40 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 entire 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 values of the Company’s reporting units are 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 if such declines are considered to be other than temporary. Investments are included within “Other non-current assets” in the consolidated balance sheet.

Disposal of Long-lived Assets and Discontinued Operations

Long-lived assets are classified as held for sale once certain criteria are met. Such criteria include a firm decision by management or the board of directors to dispose of a business or a group of selected assets and the expectation that such disposal will be completed within a twelve month period. 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

Stock Incentive Plan

Under the stock incentive plan, Thomson may grant stock options, restricted share units ("RSUs") and other equity-based awards to certain employees for a maximum of up to 40,000,000 common shares.

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 shares on the day prior to the grant date. 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

RSUs vest over a period of up to seven years. Compensation expense related to RSUs is recognized over the vesting period, based upon the closing price of the Company's common shares on the day prior to the grant date.

Phantom Stock Plan

Benefits under the phantom stock plan are issued in the form of stock appreciation rights ("SARs"). Such benefits are payable in cash, and compensation expense is recognized as the stock appreciation rights ("SARs") change in value based on the fair market value of the Company's common shares at the end of each reporting period.

Employee Stock Purchase Plan

In the fourth quarter of 2005, the Company initiated an employee stock purchase plan whereby eligible U.S. employees can purchase Thomson common shares at a 15% discount up to a specified limit utilizing after-tax payroll deductions. The entire amount of the discount is expensed as incurred.

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.

CICA Handbook Section 1530, Comprehensive Income, CICA Handbook Section 3855, Financial Instruments—Recognition and Measurement and *CICA Handbook Section 3865, Hedges.* In January 2005, the CICA approved the issuance of Handbook Section 1530, Handbook Section 3855, and Handbook Section 3865. 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 Thomson is January 1, 2007. The Company is considering an early adoption of these Handbook Sections in the first quarter of 2006.

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. Handbook Section 1530 also introduces a new component of equity referred to as comprehensive income. Under these new standards, all financial instruments are to be included on a company's balance sheet (including derivatives) and are to be initially measured either at fair market value or, in limited circumstances, at cost or amortized cost. Additionally, companies will be required to disclose comprehensive income, which includes, in addition to net income, other comprehensive income primarily consisting 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.

For the most part, the new standards harmonize Canadian GAAP with standards previously issued by the U.S. Financial Accounting Standards Board. The adoption of these standards will not have a material impact on the Company's consolidated financial statements.

In June 2005, the CICA issued Handbook Section 3831, *Non-monetary Transactions*, which introduces new requirements for non-monetary transactions entered into after January 1, 2006. Adoption of this Handbook Section will not have a material impact on the consolidated financial statements.

In September 2005, the EIC issued EIC Abstract 156, *Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)*. This Abstract essentially harmonizes Canadian GAAP with U.S. GAAP and requires that most consideration given by a vendor to a customer be treated as a reduction of revenue. The provisions of the Abstract are applicable for financial statements for fiscal years beginning after January 1, 2006. Thomson had previously adopted the provisions of the analogous U.S. accounting standard and, therefore, adoption of the new Abstract will not have an impact on the Company's consolidated financial statements.

Comparative Amounts

Prior periods have been restated for discontinued operations. Where necessary, certain amounts for 2004 have been reclassified to conform to the current year's presentation. Specifically:

- The consolidated statement of earnings and retained earnings for prior periods reflects the reclassification of "Equity in net earnings (losses) of associates" to "Net other (expense) income."
- The consolidated balance sheet for prior periods reflects the reclassification of certain non-current assets. Specifically, capitalized software developed for internal use and capitalized software to be marketed are now presented together in a single caption. Additionally, pre-publication costs are now included in "Other non-current assets." Previously, capitalized software developed for internal use and pre-publication costs were included in "Property and equipment" which is no longer included on the balance sheet. Capitalized software to be marketed was previously included in "Other non-current assets."
- Effective January 1, 2005, Thomson Legal & Regulatory transferred its Dialog DataStar operations, which provides scientific and intellectual property information, to Thomson Scientific & Healthcare. Thomson Legal & Regulatory retained its Dialog Newsedge operations, which provides business news and information. Segment results for prior periods reflect this change.

Note 2: Changes in Accounting Policies

Effective January 1, 2005, Thomson adopted Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities*. AcG-15 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 adoption did not have an impact on the consolidated financial statements.

In May 2005, the EIC of the CICA issued Abstract 154, *Accounting for Pre-existing Relationships between the Parties of a Business Combination.* The Abstract harmonizes Canadian GAAP on the issue with standards previously issued in the United States. The key issue in the Abstract is whether a business combination between two parties that have a pre-existing relationship should also reflect a settlement of that pre-existing relationship. If a settlement has occurred, the acquirer must account for the settlement separately from the business combination. Additionally, the acquirer must establish a separate identifiable intangible asset apart from goodwill for reacquired rights that the acquirer had previously granted to the acquired entity. The consensus in the Abstract was effective for business combinations completed after May 31, 2005 and did not have a material effect on the consolidated financial statements.

Note 3: Net Other (Expense) Income

The components of net other (expense) income include:

	Year ended December 31, 2005	2004
Net gains on disposals of businesses and investments	**5**	53
Loss from redemption of debt securities	**(23)**	(53)
Equity in net earnings of associates	**5**	—
Other (expense) income	**(15)**	24
Net other (expense) income	**(28)**	24

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 22.

Loss from redemption of debt securities

In August and September 2005, the Company redeemed two outstanding issuances of debt securities with an aggregate carrying value of approximately US$400 million. In November 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). These losses primarily represent required premiums paid for early extinguishment and non-cash write-offs of deferred costs. See Note 14.

Other (expense) income

For the year ended December 31, 2005, other expense relates to a writedown of an investment to reflect current estimates of fair value. For the year ended December 31, 2004, 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

The components of net interest expense and other financing costs include:

	Year ended December 31, 2005	2004
Interest income	**16**	10
Interest expense on short-term indebtedness	**(9)**	(2)
Interest expense on long-term debt	**(230)**	(243)
	(223)	(235)

Interest paid on short-term indebtedness and long-term debt during 2005 was $219 million (2004 — $250 million) and interest received during 2005 was $15 million (2004 — $10 million).

Note 5: Income Taxes

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

	Year ended December 31,	
	2005	2004
Canada	**(198)**	(215)
U.S. and other jurisdictions	**1,411**	1,334
Total earnings before taxes [1]	**1,213**	1,119

1 Represents earnings from continuing operations before income taxes.

The provision for income taxes consisted of:

	Year ended December 31,	
	2005	2004
Canada:		
Current	**126**	1
Deferred	**—**	—
Total Canadian	**126**	1
U.S. and other jurisdictions:		
Current	**177**	265
Deferred	**(16)**	(3)
Total U.S. and other jurisdictions	**161**	262
Total worldwide	**287**	263

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:

	2005	2004
Accrued expenses	**198**	184
Deferred compensation and stock options	**116**	119
Accounts receivable allowances	**100**	94
Inventory	**47**	36
Tax loss and credit carryforwards	**846**	802
Other	**90**	78
Total deferred tax asset	**1,397**	1,313
Valuation allowance	**(462)**	(408)
Net deferred tax asset	**935**	905
Intangible assets	**(1,583)**	(1,596)
Other long-lived assets[1]	**(246)**	(265)
Financial instruments	**(237)**	(214)
Pension	**(148)**	(154)
Other	**(31)**	(36)
Total deferred tax liability	**(2,245)**	(2,265)
Net deferred tax liability	**(1,310)**	(1,360)

1. Other long-lived assets include Computer hardware and other property, Computer software for internal use and Pre-publication costs.

The net deferred liability of $1,310 million (2004 — $1,360 million) was comprised of net current deferred tax assets of $250 million (2004 — $212 million) and net long-term deferred tax liabilities of $1,560 million (2004 — $1,572 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 following details the movements in the valuation allowance for the years ended December 31, 2005 and 2004:

	2005	2004
Balance at beginning of year	**408**	440
Additional Canadian and other net operating losses with no benefit	**82**	77
Reduction due to change in deferred tax liability related to debt instruments[1]	**(63)**	(132)
Recognition of benefit of UK tax losses and credits due to tax law change[2]	—	(41)
Increase due to tax loss incurred on sale of DBM	—	68
Sale of Canadian subsidiary[3]	—	(51)
Exchange and other items	**35**	47
Balance at end of year	**462**	408

1. *Canadian losses are first offset by deferred tax liabilities before computing the required valuation allowance. The deferred tax liability increased in 2005 and 2004 from the revaluation of debt and currency swaps. As the deferred tax liability increased, the requirement for the valuation allowance decreased by the same amount.*
2. *In 2004, the Company reversed valuation allowances related to UK losses and tax credit carryforwards which were considered more likely than not to be used due to changes in tax laws.*
3. *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 22.*

The following is a reconciliation of income taxes calculated at the Canadian corporate tax rate to the income tax provision:

	2005	2004
Earnings before taxes	**1,213**	1,119
Income taxes at the Canadian corporate tax rate (36.0%)	**437**	403
Differences attributable to:		
Effect of income taxes recorded at rates different from the Canadian tax rate	**(212)**	(176)
Additions to valuation allowance due to losses with no benefit	**82**	77
Net change to contingent tax liabilities[1]	**(133)**	14
Withholding tax on repatriation of accumulated profits[2]	**125**	—
Reversal of valuation allowance due to UK tax law change	—	(41)
Other, net	**(12)**	(14)
Income tax provision on continuing operations	**287**	263

1. *In 2005, this amount includes the recognition of a net tax benefit of $137 million from the release of contingent income tax liabilities. The liabilities were released upon completion of tax audits relating to prior year periods.*
2. *During the fourth quarter of 2005, the Company repatriated a substantial portion of the accumulated profits of certain of its subsidiaries. The repatriation was related to the recapitalization of these subsidiaries. The Company incurred a one-time withholding tax of $125 million in connection with this repatriation, which reduced cash provided by operating activities and net earnings in the fourth quarter by the same amount.*

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 its 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 in which 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 represent liabilities for the years 2000 to 2005.

At December 31, 2005, the Company had Canadian tax loss carryforwards of $1,290 million, tax loss carryforwards in other jurisdictions of $901 million, and U.S. state tax loss carryforwards which, at current U.S. state rates, have an estimated value of $37 million. If not utilized, the majority of the Canadian tax loss carryforwards will expire between 2007 and 2015. 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 2006 and 2025. 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 $18 million, which may be carried forward indefinitely, and a tax benefit of $79 million related to capital loss carryforwards that may be used only in offsetting future capital gains.

The total amount of undistributed earnings of non-Canadian subsidiaries for income tax purposes was approximately $4.6 billion at December 31, 2005. 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 undistributed earnings are not practicably determinable.

Note 6: Discontinued Operations

The following businesses are classified as discontinued operations within the consolidated financial statements for all periods presented. None of the businesses are considered fundamental to the integrated offerings of Thomson.

In December 2005, the Company’s board of directors approved the sale of American Health Consultants (“AHC”). AHC is a provider of medical education and publisher of medical newsletters, and is managed within Thomson Scientific & Healthcare.

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 the status of negotiations at March 31, 2004, the Company recorded a 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. The Company recorded a post-tax gain of $7 million in 2004 related to the completion of the sale.

The carrying amounts of assets and liabilities related to these discontinued businesses as of December 31, 2005 are as follows:

Balance Sheet

	AHC	
	December 31, 2005	December 31, 2004
Current assets		
Accounts receivable, net of allowances	**5**	5
Prepaid expenses and other current assets	**—**	1
Current deferred income taxes	**1**	2
Total current assets	**6**	8
Non-current assets		
Identifiable intangible assets	**2**	2
Goodwill	**6**	6
Deferred income taxes	**2**	2
Total non-current assets	**10**	10
Current liabilities		
Accounts payable and accruals	**5**	4
Deferred revenue	**14**	13
Total current liabilities	**19**	17

The earnings from discontinued operations for the years ended December 31, 2005 and 2004 are summarized below:

Year ended December 31, 2005

	AHC	**Other**	**Total 2005**
Revenues from discontinued operations	**35**	**—**	**35**
Earnings from discontinued operations before income taxes	**6**	**—**	**6**
Gain on sale of discontinued operations	**—**	**2**	**2**
Income taxes	**(3)**	**3**	**—**
Earnings from discontinued operations	**3**	**5**	**8**

Year ended December 31, 2004

	Thomson Media	DBM	AHC	Sheshunoff	Other	Total 2004
Revenues from discontinued operations	152	28	41	11	—	232
Earnings (loss) from discontinued operations before income taxes	26	3	11	(4)	—	36
Gain (loss) on sale of discontinued operations	163	(21)	—	—	2	144
Income taxes	(77)	28	(4)	7	21	(25)
Earnings from discontinued operations	112	10	7	3	23	155

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 and other businesses, the Company adjusted its related tax liabilities which resulted in a 2005 tax benefit of $11 million (2004 — $19 million). Offsetting the release of tax liabilities in 2005 was a $9 million tax charge related to the 2004 sale of Thomson Media. Additionally, in 2005 and 2004 the Company adjusted disposal liabilities related to Thomson Newspapers resulting in $2 million of earnings from discontinued operations for the years ended December 31, 2005 and 2004. These amounts are included in "Other" above.

"Net proceeds from (income taxes paid on) disposals of discontinued operations" in the consolidated statement of cash flow for the year ended December 31, 2005 represent taxes paid related to the 2004 sale of Thomson Media. For the year ended December 31, 2004, this amount includes taxes paid related to the 2003 sale of the portfolio of Healthcare Magazines.

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.

	2005	2004
Earnings from continuing operations	**926**	856
Dividends declared on preference shares	**(4)**	(3)
Earnings from continuing operations attributable to common shares	**922**	853

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.

	2005	2004
Weighted-average number of common shares outstanding	**653,862,363**	654,827,909
Vested deferred share units	**574,385**	473,448
Basic	**654,436,748**	655,301,357
Effect of stock and other incentive plans	**531,283**	625,946
Diluted	**654,968,031**	655,927,303

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:

	2005	2004
Balance at beginning of year	**343**	338
Charges	**446**	436
Write-offs	**(458)**	(441)
Other	**(7)**	10
Balance at end of year	**324**	343

Other includes additions from acquisitions and the impact of 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:

	2005	2004
Raw materials	**22**	23
Work in process	**28**	33
Finished goods	**272**	256
	322	312

Note 10: Computer Hardware and Other Property

Computer Hardware and Other Property consists of the following:

As at December 31, 2005	**Cost**	**Accumulated Depreciation**	**Net Computer hardware & other property**
Computer hardware	**1,184**	**(873)**	**311**
Land, buildings and building improvements	**564**	**(223)**	**341**
Furniture, fixtures and equipment	**411**	**(282)**	**129**
	2,159	**(1,378)**	**781**

As at December 31, 2004	Cost	Accumulated Depreciation	Net Computer hardware & other property
Computer hardware	1,106	(814)	292
Land, buildings and building improvements	541	(221)	320
Furniture, fixtures and equipment	409	(272)	137
	2,056	(1,307)	749

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 2005 was $240 million (2004 — $249 million).

Note 11: Computer Software

Computer software consists of the following:

As at December 31, 2005	**Cost**	**Accumulated Amortization**	**Net Computer Software**
Capitalized software for internal use	**1,925**	**(1,259)**	**666**
Capitalized software to be marketed	**216**	**(133)**	**83**
	2,141	**(1,392)**	**749**

As at December 31, 2004	Cost	Accumulated Amortization	Net Computer Software
Capitalized software for internal use	1,711	(1,024)	687
Capitalized software to be marketed	182	(100)	82
	1,893	(1,124)	769

The amortization charge for internal use computer software in 2005 was $276 million (2004 — $270 million) and is included in “Depreciation” in the consolidated statement of earnings and retained earnings. The amortization charge for software intended to be marketed was $38 million (2004 — $33 million) and is included in "Cost of sales, selling, marketing, general and administrative expenses" in the consolidated statement of earnings and retained earnings.

Note 12: Identifiable Intangible Assets

The following table presents the details of identifiable intangible assets as at December 31, 2005 and 2004.

As at December 31, 2005	***Gross identifiable intangible assets***	***Accumulated amortization***	***Net identifiable intangible assets***
Finite useful lives:			
Tradenames	**432**	**(145)**	**287**
Customer relationships	**2,271**	**(697)**	**1,574**
Databases and content	**1,324**	**(518)**	**806**
Publishing rights	**1,565**	**(635)**	**930**
Other	**158**	**(82)**	**76**
	5,750	**(2,077)**	**3,673**
Indefinite useful lives:			
Tradenames	**809**		**809**
	6,559	**(2,077)**	**4,482**

As at December 31, 2004	*Gross identifiable intangible assets*	*Accumulated amortization*	*Net identifiable intangible assets*
Finite useful lives:			
Tradenames	466	(120)	346
Customer relationships	2,107	(572)	1,535
Databases and content	1,377	(462)	915
Publishing rights	1,592	(578)	1,014
Other	166	(66)	100
	5,708	(1,798)	3,910
Indefinite useful lives:			
Tradenames	809		809
	6,517	(1,798)	4,719

The amortization charge for identifiable intangible assets in 2005 was $309 million (2004 — $285 million).

As at December 31, 2005, the average amortization life based upon the gross balance of the identifiable intangible assets with finite useful lives is approximately 19 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 13: Goodwill

The following table presents goodwill by operating segment for the years ended December 31, 2005 and 2004.

	Legal & Regulatory	***Learning***	***Financial***	***Scientific & Healthcare***	***Total***
Balance at December 31, 2003	3,282	2,864	1,545	393	8,084
Acquisitions	30	225	332	349	936
Disposals	—	—	(1)	—	(1)
Adjusted purchase price allocations	(27)	(2)	(3)	—	(32)
Translation and other, net	41	40	33	12	126
Balance at December 31, 2004	**3,326**	**3,127**	**1,906**	**754**	**9,113**
Acquisitions	**72**	**14**	**3**	**7**	**96**
Adjusted purchase price allocations	**(3)**	**(42)**	**10**	**17**	**(18)**
Translation and other, net	**(47)**	**(53)**	**(46)**	**(26)**	**(172)**
Balance at December 31, 2005	**3,348**	**3,046**	**1,873**	**752**	**9,019**

The adjusted purchase price allocations primarily relate to updated valuations of identifiable intangible assets for certain acquisitions, which resulted in increases in goodwill of $35 million (2004 — decreases of $12 million) as well as to the adjustment of certain acquisition-related assets and liabilities, which resulted in decreases in goodwill of $53 million (2004 — $20 million).

Note 14: Financial Instruments

Carrying Amounts

Amounts recorded in the consolidated balance sheet are referred to as "carrying amounts" and are based on year 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 in "Other non-current assets" 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, 2005, a significant portion of the Company's cash was on deposit with five such institutions.

Short-term Indebtedness

At December 31, 2005, short-term indebtedness was principally comprised of $167 million of commercial paper with an average interest rate of 4.2%. Such rate was 4.3% after taking into account hedging arrangements. At December 31, 2004, short-term indebtedness was principally comprised of bank overdrafts.

Long-term Debt

The following is a summary of long-term debt:

As at December 31, 2005	Carrying Amount Primary debt instruments	Currency swap instruments	Hedged debt	Fair Value Primary debt instruments	Currency swap instruments	Hedged debt
Bank and other	**208**	**—**	**208**	**205**	**—**	**205**
6.50% Debentures, due 2007	**215**	**(36)**	**179**	**223**	**(46)**	**177**
4.35% Notes, due 2009	**258**	**(12)**	**246**	**259**	**(22)**	**237**
4.50% Notes, due 2009	**215**	**(31)**	**184**	**217**	**(33)**	**184**
5.20% Notes, due 2014	**516**	**(24)**	**492**	**542**	**(57)**	**485**
6.85% Medium-term notes, due 2011	**344**	**(90)**	**254**	**386**	**(108)**	**278**
5.75% Notes, due 2008	**400**	**—**	**400**	**406**	**—**	**406**
4.25% Notes, due 2009	**200**	**—**	**200**	**195**	**—**	**195**
4.75% Notes, due 2010	**250**	**—**	**250**	**247**	**—**	**247**
6.20% Notes, due 2012	**700**	**—**	**700**	**736**	**—**	**736**
5.25% Notes, due 2013	**250**	**—**	**250**	**249**	**—**	**249**
5.50% Debentures, due 2035	**400**	**—**	**400**	**387**	**—**	**387**
Private placements, due 2006-2010	**125**	**—**	**125**	**133**	**—**	**133**
	4,081	**(193)**	**3,888**	**4,185**	**(266)**	**3,919**
Current portion	**(98)**	**—**	**(98)**			
	3,983	**(193)**	**3,790**			

As at December 31, 2004	Carrying Amount Primary debt instruments	Currency swap instruments	Hedged debt	Fair Value 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% Notes, due 2009	247	(1)	246	250	(4)	246
4.50% Notes, due 2009	205	(21)	184	210	(26)	184
5.20% Notes, 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			

The private placements, of which $50 million is due in 2006, have interest rates ranging from 6.76% to 7.74%, with a weighted-average rate of 7.35% at December 31, 2005.

Bank and other debt at December 31, 2005 and 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. The 6.50% Debentures, 4.35% Notes, 4.50% Notes, 5.20% Notes 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, 5.50% Debentures, 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**	
	2005	2004	**2005**	2004
Canadian dollar	**1,548**	1,808	—	—
U.S. dollar	**2,461**	2,418	**3,816**	4,034
Other currencies	**72**	82	**72**	82
	4,081	4,308	**3,888**	4,116

Maturities of long-term debt in each of the next five years and thereafter are as follows:

	2006	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
Before hedging arrangements	98	278	436	674	385	2,210	4,081
After hedging arrangements	98	242	436	631	385	2,096	3,888

At December 31, 2005, undrawn and available bank facilities amounted to $1,371 million.

2005 Activity

In the third quarter of 2005, the Company completed the early redemption of US$75 million of 7.62% privately placed notes and Cdn$400 million of 6.90% Medium-term notes and settled an associated currency swap. A loss of US$23 million was recorded as a result of these redemptions in "Net other (expense) income" in the consolidated statement of earnings and retained earnings, primarily related to early redemption premiums and non-cash write-offs of deferred costs. These redemptions were principally financed by the August 2005 offering of US$400 million of 5.50% Debentures due 2035.

In addition to the early redemptions of debt, in December and September 2005, the Company also repaid US$50 million and US$75 million, respectively, of privately placed notes and in March 2005, Thomson repaid US$125 million of floating rate notes.

2004 Activity

In the fourth quarter of 2004, the Company redeemed, prior to their scheduled maturity dates, four outstanding issues 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 (expense) 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% Notes 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.

Interest Rate Risk Exposures

From time to time, Thomson may use interest rate swap agreements to manage the mix of fixed and floating interest rates in its debt portfolio, however, no interest rate swap agreements were outstanding at either December 31, 2005 or 2004.

After taking account of hedging arrangements, the fixed and floating rate mix of long-term debt is as follows:

	2005	**Average interest rate**	**% Share**	2004	Average interest rate	% Share
Total fixed	**3,305**	**5.4%**	**85%**	3,399	5.6%	83%
Total floating	**583**	**4.6%**	**15%**	717	2.6%	17%
	3,888	**5.2%**	**100%**	4,116	5.1%	100%

Including the effect of short-term indebtedness, the proportion of fixed to floating rate debt was 81% to 19%. Floating 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, 2005 and 2004, the fair value of foreign exchange contracts was not material.

Investments

At December 31, 2005 and 2004, investments accounted for using the cost and equity methods were not material. These investments are reported within “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				
	Number of Shares	Stated Capital	Series II, Cumulative Redeemable Preference share capital	Contributed Surplus	Total Capital
Balance, December 31, 2003	654,579,297	2,458	110	71	2,639
Common shares issued under Dividend Reinvestment Plan ("DRIP")	326,068	11	—	—	11
Common shares issued from exercise of stock options 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**
Common shares issued under DRIP	**335,862**	**12**	**—**	**—**	**12**
Common shares issued from exercise of stock options and other employee programs	**730,703**	**22**	**—**	**—**	**22**
Record deferred share units within contributed surplus	**—**	**—**	**—**	**3**	**3**
Transfer of contributed surplus for exercised stock options	**—**	**4**	**—**	**(4)**	**--**
Repurchase of common shares	**(7,249,400)**	**(27)**	**—**	**—**	**(27)**
Stock option expense	**—**	**—**	**—**	**20**	**20**
Balance, December 31, 2005	**648,948,992**	**2,489**	**110**	**127**	**2,726**

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 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 Thomson common shares are declared and payable in U.S. dollars. Shareholders also have the option of receiving dividends on common shares in equivalent Canadian dollars or pounds sterling. Dividends declared per common share in 2005 were $0.79 (2004 — $0.755).

In the consolidated statement of cash flow, dividends paid on common shares are shown net of $12 million (2004 — $11 million) reinvested in common shares issued under the DRIP.

Normal Course Issuer Bid

In May 2005, the Company initiated a normal course issuer bid to repurchase up to 15 million of its common shares. The bid will terminate on the earlier of May 4, 2006 or the date that the Company completes its purchases. Decisions regarding the timing of repurchases are based on market conditions, share price and other factors. Thomson may elect to suspend or discontinue the program at any time and may also seek renewal of the program. Shares repurchased under the program will be cancelled.

During 2005, the Company repurchased 7.2 million common shares for $256 million, representing an average cost per share of $35.35. Of the $256 million, $27 million was recorded as a reduction in capital based upon the historical average issuance price of the shares and $229 million was charged to retained earnings.

From time to time when the Company does not possess material non-public information about its activities or its securities, the Company may enter into a pre-defined plan with its broker to allow for the repurchase of shares at times when the Company ordinarily would not be active in the market due to its own internal trading blackout periods and insider trading rules. Any such plans entered into with the Company's broker will be adopted in accordance with the requirement of Rule 10b5-1 under the U.S. Securities Exchange Act of 1934 and applicable Canadian securities laws.

Series II, Cumulative Redeemable Preference Shares

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. As at December 31, 2005 and 2004, 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.

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.

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	
	2005	2004	**2005**	2004
Assumptions used to determine net periodic pension expense:				
Expected long-term rate of return on plan assets	**7.5%**	7.6%	**N/A**	N/A
Discount rate	**5.8%**	5.8%	**6.1%**	6.1%
Rate of compensation increase	**4.3%**	4.3%	**N/A***	N/A*
Assumptions used to determine benefit obligation:				
Discount rate	**5.4%**	5.8%	**5.7%**	6.1%
Rate of compensation increase	**4.3%**	4.3%	**N/A***	N/A*

* *At the end of 2005 and 2004, these plans consisted 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			
	2005	2004	**2005**	2004	**2005**	2004
Components of net periodic benefit expense:						
Current service cost	**46**	46	**7**	7	**2**	2
Interest cost	**120**	113	**11**	10	**9**	9
Plan amendments	**—**	—	**1**	—	**—**	(1)
Actual return on plan assets	**(285)**	(188)	**—**	—	**—**	—
Actuarial losses (gains)	**168**	39	**12**	(2)	**9**	(7)
Subtotal	**49**	10	**31**	15	**20**	3
Adjustments *(1)*:						
Difference between expected and actual return on plan assets	**130**	32	**—**	—	**—**	—
Difference between actuarial loss (gain) recognized and actual actuarial loss (gain) on benefit obligation	**(135)**	(15)	**(11)**	3	**(7)**	10
Difference between amortization of past service costs for year and actual plan amendments for year	**1**	1	**1**	2	**—**	1
Amortization of transitional asset	**(1)**	—	**—**	—	**—**	—
Subtotal adjustments	**(5)**	18	**(10)**	5	**(7)**	11
Net defined benefit plan expense	**44**	28	**21**	20	**13**	14

(1) Adjustments reflect the deferral and amortization of experience gains and losses over applicable periods.

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			
	2005	2004	**2005**	2004	**2005**	2004
Benefit obligation						
Beginning benefit obligation	**2,104**	1,914	**182**	173	**154**	159
Current service cost	**46**	46	**7**	7	**2**	2
Interest cost	**120**	113	**11**	10	**9**	9
Plan participants' contributions	**4**	5	**—**	—	**—**	1
Plan amendments	**—**	—	**1**	—	**—**	—
Actuarial losses (gains)	**168**	39	**12**	(2)	**9**	(7)
Non-routine events	**(11)**	(4)	**—**	—	**—**	(1)
Acquisitions, net	**9**	6	**1**	—	**—**	2
Benefits paid	**(88)**	(87)	**(8)**	(7)	**(9)**	(11)
Translation adjustments	**(84)**	72	**1**	1	**—**	—
Ending benefit obligation	**2,268**	2,104	**207**	182	**165**	154
Plan assets						
Beginning fair value of plan assets	**2,050**	1,821	**—**	—	**—**	—
Actual return on plan assets	**285**	188	**—**	—	**—**	—
Employer contributions	**15**	44	**8**	7	**9**	10
Plan participants' contributions	**4**	5	**—**	—	**—**	1
Benefits paid	**(88)**	(87)	**(8)**	(7)	**(9)**	(11)
Other, net	**(2)**	7	**—**	—	**—**	—
Translation adjustments	**(83)**	72	**—**	—	**—**	—
Ending fair value of plan assets	**2,181**	2,050	**—**	—	**—**	—
Funded status—deficit	**(87)**	(54)	**(207)**	(182)	**(165)**	(154)
Unamortized net actuarial loss	**515**	529	**38**	27	**50**	43
Unamortized past service costs	**4**	5	**6**	7	**(1)**	(1)
Unamortized net transitional asset	**(5)**	(6)	**—**	—	**—**	—
Post-measurement date activity*	**14**	1	**2**	2	**2**	2
Accrued benefit asset (liability)	**441**	475	**(161)**	(146)	**(114)**	(110)

**Consists primarily of contributions*

An accrued pension benefit asset of $477 million (2004 — $519 million) is included in "Other non-current assets" in the consolidated balance sheet. An accrued pension benefit liability of $197 million (2004 — $190 million) as well as the accrued liability for other post-retirement plans are included in "Other non-current liabilities" in the consolidated balance sheet.

The unfunded pension plans referred to above consist primarily of supplemental executive retirement plans ("SERPs") 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 $205 million at December 31, 2005 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, 2005 were $1,823 million (2004 — $1,761 million). These plans had related fair values of plan assets of $1,706 million (2004 — $1,674 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.

As of December 31, 2005, the Company had cumulative unrecognized actuarial losses associated with all of its pension plans of $553 million, compared to $537 million at December 31, 2004. 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 the expected and actual returns on plan assets. Actuarial gains and losses are included in the calculation of 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 eight years at December 31, 2005). Unrecognized actuarial gains and losses below the 10% corridor are deferred.

The average healthcare cost trend rate used was 10% for 2006, which is reduced ratably to 5% in 2016. A 1% change in the trend rate would result in an increase or decrease in the benefit obligation for post-retirement benefits of approximately $16 million at December 31, 2005.

The Company's pension plans' allocation of assets as of the plans' measurement dates for 2005 and 2004 is as follows:

	Percentage of Plans' Assets	
Asset Category	**2005**	2004
Equity securities	**56%**	56%
Debt securities	**44%**	44%
Total	**100%**	100%

As of December 31, 2005 and 2004 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 September 2005, the Company contributed $11 million to its principal qualified defined benefit pension plan in the U.S. In the fourth quarter of 2005, the Company contributed $14 million to a combination of benefit plans in the UK. In the fourth quarter of 2004, the Company contributed $7 million to a benefit plan in the UK. 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 2005 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 2006.

The benefit payments for the years ended December 31, 2005 and 2004 and the estimated payments thereafter, as assumed in the calculation of the benefit obligation as of December 31, 2005, are as follows:

Benefit Payments

	Pensions		Other post-retirement plans
	Funded	Unfunded	
2004	87	7	11
2005	88	8	9
Estimated Future Payments:			
2006	90	7	10
2007	92	8	10
2008	95	9	11
2009	99	9	11
2010	103	9	12
2011 to 2015	579	62	67

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 $70 million in 2005 (2004 — $64 million), which approximates the cash outlays related to the plans.

Note 17: Contingencies, Commitments and Guarantees

Lawsuits and Legal Claims

At December 31, 2005, the Company was a defendant in two separate class action lawsuits involving the BAR/BRI business, which is part of the Legal & Regulatory segment. Each alleges violations of U.S. federal antitrust laws. The plaintiff in *Park v. The Thomson Corporation and Thomson Legal & Regulatory Inc.*, which was filed in the U.S. District Court for the Southern District of New York, alleges that BAR/BRI has illegally leveraged its market position in state-specific bar examination preparation courses into multi-state courses and that an unlawful tying arrangement exists, which should be remedied, in part, by restructuring BAR/BRI's review courses into separate state-specific courses and multi-state courses. The plaintiff in *Rodriguez v. West Publishing Corp. and Kaplan Inc.*, which was filed in the U.S. District Court for the Central District of California, alleges, among other things, that the Company and Kaplan Inc. (a subsidiary of The Washington Post Company) unlawfully agreed in 1997 to divide markets and not compete against one another. Discovery proceedings are underway in both lawsuits. The Company intends to defend itself vigorously in both cases.

In October 2004, the Company received a subpoena from the U.S. Securities and Exchange Corporation ("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. The Company is cooperating fully with the SEC. In 2005, approximately $35 million of the financial group's CMI revenues were related to the identification of institutional investors for its clients.

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.

In addition to the matters described above, the Company is engaged in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against the Company, including those described above, is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Company and after consultation with outside legal counsel, management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company, taken as a whole.

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. In the second quarter of 2005, the Company recognized a net tax benefit of $137 million from the release of contingent income tax liabilities upon completion of tax audits relating to prior year periods. The Company's remaining contingency reserves principally represent liabilities for the years 2000 to 2005.

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 2005 were $203 million (2004 — $196 million). The future minimum operating lease payments are $193 million in 2006, $160 million in 2007, $119 million in 2008, $97 million in 2009, $81 million in 2010 and $303 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 liability associated with these restorations is recorded within “Other non-current liabilities”. 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 August 2005, the Company paid $50 million for contingent consideration associated with the 2004 acquisition of TradeWeb. Relative to TradeWeb, the Company is obligated for additional contingent consideration of up to $100 million through 2007, if certain performance measures are achieved. The $50 million payment in 2005, as well as any future payments under this agreement, will be considered additional purchase price. 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.

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 completed and related cash consideration during 2005 and 2004 were as follows:

	Year ended December 31,			
	2005		2004	
	Number of transactions	**Cash Consideration**	Number of transactions	Cash Consideration
Businesses and identifiable intangible assets acquired	**34**	**232**	56	1,551
Contingent consideration payment — TradeWeb LLC	**1**	**50**	—	—
Investments in businesses	**3**	**15**	1	6
	38	**297**	57	1,557

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 2005 and 2004, the majority of the acquired goodwill is not deductible for tax purposes.

The details of net assets acquired are as follows:

	2005	2004
Cash and cash equivalents	**8**	220
Accounts receivable	**12**	74
Inventories	**4**	2
Prepaid expenses and other current assets	**12**	15
Computer hardware and other property	**2**	13
Computer software	**5**	93
Identifiable intangible assets	**157**	616
Goodwill	**96**	936
Other non-current assets	**2**	10
Total assets	**298**	1,979
Accounts payable and accruals	**(29)**	(137)
Deferred revenue	**(13)**	(106)
Other non-current liabilities	**(24)**	(25)
Total liabilities	**(66)**	(268)
Net assets	**232**	1,711

Allocations related to certain acquisitions may be subject to adjustment pending final valuation.

As part of the Capstar acquisition in 2004, Thomson issued promissory notes to the seller of $160 million. This is treated as a non-cash transaction and is therefore excluded from the consolidated statement of cash flow.

The following provides a brief description of major acquisitions completed during 2005 and 2004:

Date	***Company***	***Acquiring market group***	***Description***
July 2005	Global Securities Information, Inc.	Legal & Regulatory	A provider of online securities and securities-related information and research services
February 2005	Tax Partners, LLC	Legal & Regulatory	A provider of sales and use tax compliance services primarily servicing the telecommunications industry in the U.S.
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

The identifiable intangible assets acquired are summarized as follows:

	2005	2004	Weighted-average amortization period (years) 2005	2004
Finite useful lives:				
Tradenames	**15**	77	**10**	8
Customer relationships	**106**	368	**13**	11
Databases and content	**33**	133	**10**	9
Other	**3**	38	**3**	6
	157	616		

Disposals

In 2005, Thomson received $4 million (2004 — $87 million) cash consideration from the disposals of businesses and investments that did not qualify as discontinued operations. The disposals 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 controlled by Kenneth R. Thomson. 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:

	2005	2004
Balance at beginning of year	**458**	259
Net translation (losses) gains	**(213)**	199
Balance at end of year	**245**	458

Note 20: Stock-based Compensation

Phantom Stock Plan

Thomson has a phantom stock plan that provides for the granting of stock appreciation rights ("SAR") 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 shares less the price at which the SAR was issued. Compensation expense is measured based on the market price of Thomson common shares 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 shares 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, 2005, the authorized number of SARs was 20,500,000 and there were 3,038,922 units available for grant. Thomson recognized a benefit of $1 million related to the SAR plan for the year ended December 31, 2005 (2004 — $6 million benefit) 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 phantom stock plan as of December 31, 2005 and 2004, and changes during the years ended on those dates, is as follows:

	2005		2004	
	SARs	**Canadian $ weighted-average exercise price**	SARs	Canadian $ weighted-average exercise price
Outstanding at beginning of year	**2,451,224**	**37.28**	2,611,168	36.51
Granted	**252,154**	**40.77**	219,467	41.74
Exercised	**(382,335)**	**28.72**	(278,827)	31.09
Forfeited	**(111,540)**	**47.16**	(100,584)	44.18
Outstanding at end of year	**2,209,503**	**38.66**	2,451,224	37.28
Exercisable at end of year	**1,692,789**	**37.75**	1,953,396	35.85

The following table summarizes information on SARs outstanding at December 31, 2005:

	SARs outstanding			SARs exercisable	
Canadian $ range of exercise prices	Number outstanding at 12/31/05	Weighted-average remaining contractual life	Canadian $ weighted-average exercise price	Number exercisable at 12/31/05	Canadian $ weighted-average exercise price
21.77 — 32.125	225,626	1.1	21.77	225,626	21.77
35.00 — 44.50	1,796,171	5.0	39.35	1,279,457	38.43
48.40 — 57.45	187,706	5.4	52.35	187,706	52.35

Stock Incentive Plan

In January 2000, the board of directors approved the adoption of a stock incentive plan. The plan authorizes the Company to grant officers and employees stock options and other equity-based awards. An amendment to the plan was approved by the Company’s shareholders in May 2005, which increased the number of common shares issuable under the plan to 40,000,000. As of December 31, 2005, there were 22,991,887 awards available for grant (2004 — 5,769,181).

Stock Options

Under the plan, the exercise price of an option equals the closing market price of the Company’s stock on the New York Stock Exchange 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, 2005 and 2004, and changes during the years ended on those dates, is as follows:

	2005		2004	
	Options	**Canadian $ weighted-average exercise price**	Options	Canadian $ weighted-average exercise price
Outstanding at beginning of year	**5,958,774**	**49.46**	6,277,090	49.43
Granted	**28,000**	**40.85**	16,500	41.74
Exercised	**(242,100)**	**41.00**	(48,400)	41.00
Forfeited	**(293,010)**	**51.59**	(286,416)	49.77
Outstanding at end of year	**5,451,664**	**49.67**	5,958,774	49.46
Exercisable at end of year	**5,384,539**	**49.77**	4,952,559	50.16

The following table summarizes information on Canadian dollar stock options outstanding at December 31, 2005:

	Options outstanding			Options exercisable	
Canadian $ range of exercise prices	Number outstanding at 12/31/05	Weighted-average remaining contractual life	Canadian $ weighted-average exercise price	Number exercisable at 12/31/05	Canadian $ weighted-average exercise price
40.69 — 44.40	1,259,800	4.5	41.05	1,197,675	41.03
45.90 — 48.70	2,276,174	5.9	48.36	2,271,174	48.36
50.25 — 57.45	1,915,690	4.9	56.90	1,915,690	56.90

A summary of the status of the options granted and exercised in U.S. dollars as of December 31, 2005 and 2004, and changes during the years ended on those dates, is as follows:

	2005		2004	
	Options	**U.S.$ weighted-average exercise price**	Options	U.S.$ weighted-average exercise price
Outstanding at beginning of year	**7,956,303**	**31.38**	5,240,395	29.96
Granted	**3,084,846**	**35.11**	2,934,033	33.71
Exercised	**(330,285)**	**27.77**	(59,500)	26.06
Forfeited	**(240,875)**	**30.50**	(158,625)	29.17
Outstanding at end of year	**10,469,989**	**32.62**	7,956,303	31.38
Exercisable at end of year	**3,392,303**	**30.41**	1,833,015	28.86

The following table summarizes information on U.S. dollar stock options outstanding at December 31, 2005:

	Options outstanding			Options exercisable	
U.S.$ range of exercise prices	Number outstanding at 12/31/05	Weighted-average remaining contractual life	U.S. $ Weighted-average exercise price	Number exercisable at 12/31/05	U.S. $ Weighted-average exercise price
26.06 — 29.70	1,962,017	7.0	26.12	1,401,941	26.10
30.79 — 33.76	5,449,626	8.5	33.55	1,990,362	33.45
33.87 — 38.16	3,058,346	9.9	35.13	—	—

The Company expenses the fair value of all stock options using the Black-Scholes pricing model to calculate 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, 2005, compensation expense recorded in connection with stock options was $20 million (2004 — $23 million).

Using the Black-Scholes pricing model, the weighted-average fair value of options granted was estimated to be $7.27 and $7.56 for the years ended December 31, 2005 and 2004, 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, 2005 and 2004 were as follows:

	2005	2004
Risk-free interest rate	**4.4%**	3.8%
Dividend yield	**2.3%**	2.3%
Volatility factor	**18.8%**	22.9%
Expected life (in years)	**6**	6

Restricted Share Units

In 2004, the Company made its initial grant of RSUs. RSUs give the holder the right to receive a specified number of common shares at the specified vesting date or upon the achievement of certain performance goals. RSUs vest over a period of up to seven years. The holders of RSUs have no voting rights, but accumulate additional units based on notional dividends paid by the Company on its common shares at each dividend payment date, which are reinvested as additional restricted share units. Compensation expense related to RSUs is recognized over the vesting period, based upon the closing price of the Company's common shares on the day prior to the date of grant. For the year ended December 31, 2005, compensation expense recorded in connection with RSUs was $1 million (2004 — nil).

A summary of the status of the restricted share units granted and vested as of December 31, 2005 and 2004, and changes during the years ended on those dates, is as follows:

	2005		2004	
	RSUs	**U.S.$ weighted-average value**	RSUs	U.S. $ weighted-average value
Outstanding at beginning of year	**27,150**	**34.68**	—	—
Granted	**201,194**	**33.77**	30,167	34.68
Vested	**(4,629)**	**34.69**	(3,017)	34.68
Outstanding at end of year	**223,715**	**33.86**	27,150	34.68

During 2005, a total of 4,629 RSUs vested. In January 2006, 2,991 shares were issued in connection with the vesting of the RSUs after the withholding of applicable employee taxes. In 2004, 2,060 common shares were issued after the withholding of applicable employee taxes. No other outstanding RSUs vest until December 31, 2006.

Employee Stock Purchase Plan

In 2005, the Company initiated an Employee Stock Purchase Plan ("ESPP") under which eligible U.S. employees may purchase a maximum of 6,000,000 common shares. Each quarter, employees may elect to withhold up to 10% of their eligible compensation, up to a maximum of $21,250 per year, to purchase Thomson common shares at a price equal to 85% of the closing price of the shares on the New York Stock Exchange as of the last business day of the quarter. The Company recognized an expense of $1 million in 2005 relating to the 15% discount of purchased shares.

Note 21: Supplemental Cash Flow Information

The following sets forth the components of depreciation expense:

	2005	2004
Computer hardware and other property	**240**	249
Capitalized software for internal use	**276**	270
Pre-publication costs	**106**	101
	622	620

Details of "Changes in working capital and other items" are:

	2005	2004
Accounts receivable	**(74)**	(55)
Inventories	**(8)**	(5)
Prepaid expenses and other current assets	**(7)**	(38)
Accounts payable and accruals	**102**	14
Deferred revenue	**36**	(24)
Income taxes	**(6)**	(18)
Other	**(63)**	(35)
	(20)	(161)

Income taxes paid during 2005 were $556 million, which included $105 million relating to the 2004 sale of Thomson Media and $125 million for a withholding tax from the repatriation of earnings of its subsidiaries. For 2004, income taxes paid were $322 million, which included $36 million relating to the 2003 sale of Healthcare Magazines. Income tax refunds received during 2005 were $6 million (2004 — $16 million).

Note 22: Related Party Transactions

As at December 31, 2005, through Woodbridge and its affiliates, Kenneth R. Thomson controlled approximately 69% of the Company's common shares. Mr. Thomson is a member of the Company's board of directors.

From time to time, in the normal course of business, Woodbridge and its affiliates purchase products and service offerings from the Company. These transactions are negotiated at arm's length on standard terms, including price, and are not significant to the Company's results of operations or financial condition either individually or in the aggregate.

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 2005, the amounts charged for these rentals and services were approximately $2 million (2004 — $3 million). Additionally, in 2004, the Company paid a director, Mr. J.A. Tory, $80,000 for advisory services in connection with the Company's long-term tax and capital strategies.

The employees of Jane's Information Group ("Jane's"), a business sold by the Company to Woodbridge in April 2001, continue to participate in the Company's pension plans in the United States and United Kingdom, as well as the defined contribution plan in the United States. Woodbridge assumed the pension liability associated with the active employees of

Jane’s as of the date of sale 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.

Thomson purchases property and casualty insurance from third party insurers and retains the first $500,000 of each and every claim under the programs via the Company’s captive insurance subsidiary. Woodbridge is included in these programs and pays Thomson a premium commensurate with its exposures. In 2005 and 2004, these premiums were approximately $45,000, which would approximate the premium charged by a third party insurer for such coverage.

In June 2005, the Company amended its agreement with Woodbridge under which Woodbridge previously indemnified a third party insurer for certain liabilities under the Company’s directors’ and officers’ insurance policy. Under the new arrangements, Woodbridge will indemnify up to $100 million of liabilities incurred either by the Company’s current and former directors and officers or by Thomson in providing indemnification to these individuals on substantially the same terms and conditions of our prior insurance arrangement. A third party administrator will manage any claims under the indemnity. The Company will pay Woodbridge an annual fee of $750,000, which is less than the premium that would have been paid for commercial insurance.

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 through the five year period ending in 2010. In 2005, Thomson paid Hewitt $5 million. 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 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 in “Net other (expense) income” in 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 directors’ 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.

Note 23: 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” in the consolidated statement of earnings and retained earnings and is included in the financial group within the segmented information.

Note 24: 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 information solutions to legal, tax, accounting, intellectual property, compliance and other business professionals, as well as government agencies.

Learning

Providing 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.

Reportable Segments — 2005

(millions of U.S. dollars)	***Revenues***	***Depreciation***	***Adjusted operating profit***	***Additions to capital assets[1] and goodwill***	***Total assets***
Legal & Regulatory[2]	**3,491**	**202**	**982**	**420**	**7,388**
Learning	**2,319**	**195**	**350**	**257**	**5,477**
Financial	**1,897**	**177**	**334**	**201**	**3,346**
Scientific & Healthcare[2]	**1,018**	**38**	**235**	**65**	**1,769**
Segment totals	**8,725**	**612**	**1,901**	**943**	**17,980**
Corporate and other[3]	**—**	**10**	**(128)**	**12**	**1,440**
Eliminations[2]	**(22)**	**—**	**—**	**—**	**—**
Continuing operations	**8,703**	**622**	**1,773**	**955**	**19,420**
Discontinued operations					**16**
Total					**19,436**

Reportable Segments — 2004

(millions of U.S. dollars)	*Revenues*	*Depreciation*	*Adjusted operating profit*	*Additions to capital assets[1] and goodwill*	*Total assets*
Legal & Regulatory[2]	3,276	197	897	294	7,316
Learning	2,174	194	327	554	5,549
Financial	1,738	182	294	802	3,518
Scientific & Healthcare[2]	893	35	195	604	1,778
Segment totals	8,081	608	1,713	2,254	18,161
Corporate and other[3]	—	12	(98)	5	1,466
Eliminations[2]	(24)	—	—	—	—
Continuing operations	8,057	620	1,615	2,259	19,627
Discontinued operations					18
Total					19,645

Geographic Information — 2005

(by country of origin) (millions of U.S. dollars)	***Revenues***	***Capital assets[1] and goodwill***	***Total assets***
United States	**6,890**	**12,373**	**15,690**
Europe	**1,058**	**2,127**	**2,738**
Asia-Pacific	**367**	**208**	**359**
Canada	**300**	**301**	**437**
Other countries	**88**	**132**	**212**
Total	**8,703**	**15,141**	**19,436**

Geographic Information — 2004

(by country of origin) (millions of U.S. dollars)	*Revenues*	*Capital assets[1] and goodwill*	*Total assets*
United States	6,349	12,468	15,560
Europe	1,045	2,356	3,091
Asia-Pacific	329	215	375
Canada	261	293	423
Other countries	73	124	196
Total	8,057	15,456	19,645

1. *Capital assets include computer hardware and other property, capitalized software for internal use, identifiable intangible assets and pre-publication costs.*
2. *Effective January 1, 2005, the Dialog DataStar operation was transferred from Legal & Regulatory to Scientific & Healthcare. Comparative periods' results have been reclassified to conform to the current period's presentation.*
3. *Corporate and other includes corporate costs and costs associated with the Company's stock-based compensation expense.*

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, which is Operating profit before amortization of identifiable intangible assets, to measure the operating performance of its segments. Management uses this measure because amortization of identifiable intangible assets is not considered to be a controllable operating cost for purposes of assessing the current performance of the 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,	
	2005	2004
Adjusted operating profit	**1,773**	1,615
Less: Amortization	**(309)**	(285)
Operating profit	**1,464**	1,330

Note 25: Reconciliation of Canadian to U.S. Generally Accepted Accounting Principles

The consolidated financial statements have been prepared in accordance with Canadian GAAP, which differs 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,	
	2005	2004
Net earnings under Canadian GAAP	**934**	1,011
Differences in GAAP increasing (decreasing) reported earnings:		
Asset retirement obligations	**—**	(11)
Business combinations	**15**	36
Related party transactions (note 22)	**—**	(14)
Derivative instruments and hedging activities	**4**	11
Income taxes	**(6)**	(11)
Net other (expense) income	**—**	(6)
Net income under U.S. GAAP	**947**	1,016
Other comprehensive income:		
Foreign currency translation	**(211)**	198
Minimum pension liability (including tax benefits of $4 million (2004 - $1 million))	**21**	2
Net unrealized gains on cash flow hedges (net of taxes in 2005 and 2004 of nil)	**26**	40
Other comprehensive income	**(164)**	240
Comprehensive income	**783**	1,256
Earnings under U.S. GAAP from continuing operations	**939**	848
Earnings under U.S. GAAP from discontinued operations	**8**	168
Net income under U.S. GAAP	**947**	1,016
Basic earnings per common share, under U.S. GAAP, from:		
Continuing operations	**$ 1.43**	$ 1.29
Discontinued operations, net of tax	**0.01**	0.26
Basic earnings per common share[1]	**$ 1.44**	$ 1.55

1 *Earnings per common share is calculated after taking into account dividends declared on preference shares. For 2005, basic and diluted earnings per common share were equivalent. For the year ended December 31, 2004, diluted earnings per common share for discontinued operations was $0.25, which resulted in total diluted earnings per common share of $1.54 for the year ended December 31, 2004.*

	As at December 31,	
	2005	2004
Shareholders’ equity under Canadian GAAP	**9,963**	9,962
Differences in GAAP increasing (decreasing) reported Shareholders’ equity:		
Business combinations	**(605)**	(622)
Employee future benefits	**(33)**	(50)
Derivative instruments and hedging activities	**48**	18
Income taxes	**157**	159
Shareholders’ equity under U.S. GAAP	**9,530**	9,467

Descriptions of the nature of the reconciling differences are provided below:

Asset Retirement Obligations

Under Canadian GAAP, effective January 1, 2004, 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 U.S. GAAP, this item was not treated as a difference between Canadian and U.S. GAAP in prior periods. 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.

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 $15 million increase to income (2004 — $36 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 $605 million decrease in Shareholders’ equity as of December 31, 2005 (2004 — $622 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 $8,722 million at December 31, 2005 (2004 — $8,816 million). On the same basis, identifiable intangible assets, net of accumulated amortization, were $4,183 million at December 31, 2005 (2004 — $4,403 million).

Related Party Transactions

During 2004, 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 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 and cash used in financing activities would have decreased by the same amount to $615 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, 2005, prepaid expenses and other current assets were $3 million lower (2004 — $5 million lower), other non-current assets were $67 million higher (2004 — $46 million higher), accounts payable and accruals were unchanged (2004 — $1 million higher) and long-term debt was $16 million higher (2004 — $22 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.

Net other (expense) income

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 $39 million (2004 — $55 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, 2005 was $80 million (2004 — $168 million). These plans had related fair values of plan assets of $68 million (2004 — $161 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 in shareholders' equity on a U.S. GAAP basis. In 2005 and 2004, the components of other comprehensive income consist of unrealized gains and losses relating to the translation of foreign currency financial statements, pension accounting, hedging activity and certain investment securities, as well as the realization of previously deferred gains and losses on certain derivatives. Accumulated other comprehensive income as at December 31, 2005 was a gain of $270 million (2004 — gain of $434 million).

Recently Issued Accounting Standards

In December 2004, the U.S. Financial Accounting Standards Board revised SFAS 123, *Share Based Payment* ("SFAS 123(R)") which, most notably, requires the expensing of stock-based compensation. While this provision of SFAS 123(R) will not impact the Company as Canadian GAAP already requires the expensing of stock-based compensation, there are other provisions in the U.S accounting standard related to stock appreciation rights ("SARs") that will create a difference between the Company's U.S. and Canadian GAAP results. Under SFAS 123(R), SARs must be accounted for at their fair value, while Canadian GAAP provides for these instruments to be accounted for at their intrinsic value. Given the Company's limited issuances of SARs, it does not believe that this difference will be material. SFAS 123(R) is effective for years beginning after December 15, 2005.

Note 26: Subsequent Events

In February 2006, the Company's board of directors approved the plan to dispose of three separate businesses within the Learning segment. These businesses are Peterson's, a college preparatory guide, the U.S. operations of Thomson Education Direct, a consumer-based distance learning career school and K.G. Saur, a German publisher of biographical and bibliographical reference titles serving the library and academic community. The results of these businesses will be classified as discontinued operations beginning with the interim financial statements to be filed for the first quarter of 2006 and prior periods will be restated to reflect this classification. The combined annual revenues of these businesses in 2005 were approximately $145 million.

In February 2006, the Company's board of directors announced a 10%, or $0.08 per share, increase in the annualized rate of the Company's common share dividend to $0.88 per share. Additionally, the Board announced it has moved the annual dividend review period from the second quarter to the first quarter of each year.

The Thomson Corporation
Six-Year Summary
(unaudited)

The following table includes measurements for Adjusted operating profit that 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 is included in management's discussion and analysis and a reconciliation of them to the consolidated statement of earnings and retained earnings are included on page 42.

(millions of U.S. dollars)	**2005**	2004	2003	2002	2001	2000
Revenues						
Legal & Regulatory[1]	**3,491**	3,276	3,012	2,822	2,684	2,526
Learning	**2,319**	2,174	2,052	2,036	1,752	1,429
Financial	**1,897**	1,738	1,526	1,622	1,704	1,551
Scientific & Healthcare[1]	**1,018**	893	826	774	723	703
Eliminations[1]	**(22)**	(24)	(25)	(25)	(19)	(16)
	8,703	8,057	7,391	7,229	6,844	6,193
Adjusted operating profit [2]						
Legal & Regulatory[1]	**982**	897	809	782	715	648
Learning	**350**	327	336	301	243	218
Financial	**334**	294	230	244	246	206
Scientific & Healthcare[1]	**235**	195	162	137	123	117
Corporate and other [3]	**(128)**	(98)	(97)	(70)	(75)	(144)
	1,773	1,615	1,440	1,394	1,252	1,045

1 *Effective January 1, 2005, the Dialog DataStar operation was transferred from Legal & Regulatory to Scientific & Healthcare. Comparative periods' results have been reclassified to conform to the current period's presentation.*

2 *Adjusted operating profit excludes amortization and restructuring charges and, in 2000, Year 2000 costs.*

3 *Corporate and other includes corporate costs, minority interests and costs associated with the Company's stock-based compensation expense.*

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 that do not have any standardized meanings prescribed by Canadian generally accepted accounting principles. These measurements are used by management to evaluate performance. A further discussion of these performance measures is included in the management's discussion and analysis.

(millions of U.S. dollars, except per common share amounts)	**2005**	2004	2003	2002	2001	2000
Earnings attributable to common shares	**930**	1,008	877	585	741	1,220
Basic and diluted earnings per common share	**$1.42**	$ 1.54	$1.34	$0.91	$1.18	$ 1.96
Supplemental Information:						
Earnings attributable to common shares as above	**930**	1,008	877	585	741	1,220
Adjust: one-time items, net of tax, resulting from other (income) expense, restructuring charges, Year 2000 costs, and redemption of Series V preference shares	**29**	(14)	(87)	39	(206)	2
Proportionate share of goodwill impairment recognized by BGM	**—**	—	—	67	—	—
One-time tax benefits	**(12)**	(41)	(64)	—	—	(105)
Earnings from discontinued operations	**(8)**	(155)	(39)	(70)	(109)	(687)
Effect of new accounting standard [1]	—	—	—	—	188	143
Adjusted earnings from continuing operations	**939**	798	687	621	614	573
Adjusted basic and diluted earnings per common share from continuing operations	**$1.43**	$ 1.22	$1.05	$0.97	$0.98	$ 0.92

1 *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.*

The Thomson Corporation

Reconciliation of Adjusted Operating Profit to Operating Profit

(millions of U.S. dollars)

(unaudited)

	For the Year Ended December 31, 2005					
	Legal & Regulatory	**Learning**	**Financial**	**Scientific & Healthcare**	**Corporate and Other**	**Total**
Adjusted operating profit	982	350	334	235	(128)	**1,773**
Less: Amortization	(108)	(66)	(89)	(46)	—	**(309)**
Operating profit	874	284	245	189	(128)	**1,464**

	For the Year Ended December 31, 2004					
	Legal & Regulatory	**Learning**	**Financial**	**Scientific & Healthcare**	**Corporate and Other**	**Total**
Adjusted operating profit	897	327	294	195	(98)	**1,615**
Less: Amortization	(99)	(69)	(82)	(35)	—	**(285)**
Operating profit	798	258	212	160	(98)	**1,330**

	For the Year Ended December 31, 2003					
	Legal & Regulatory	**Learning**	**Financial**	**Scientific & Healthcare**	**Corporate and Other**	**Total**
Adjusted operating profit	809	336	230	162	(97)	**1,440**
Less: Amortization	(99)	(83)	(64)	(32)	—	**(278)**
Operating profit	710	253	166	130	(97)	**1,162**

	For the Year Ended December 31, 2002					
	Legal & Regulatory	**Learning**	**Financial**	**Scientific & Healthcare**	**Corporate and Other**	**Total**
Adjusted operating profit	782	301	244	137	(70)	**1,394**
Less: Amortization	(83)	(97)	(65)	(29)	—	**(274)**
Restructuring charges	(4)	—	—	—	—	**(4)**
Operating profit	695	204	179	108	(70)	**1,116**

	For the Year Ended December 31, 2001					
	Legal & Regulatory	**Learning**	**Financial**	**Scientific & Healthcare**	**Corporate and Other**	**Total**
Adjusted operating profit	715	243	246	123	(75)	**1,252**
Less: Amortization	(179)	(103)	(107)	(38)	—	**(427)**
Restructuring charges	(7)	—	(20)	(3)	—	**(30)**
Operating profit	529	140	119	82	(75)	**795**

	For the Year Ended December 31, 2000					
	Legal & Regulatory	**Learning**	**Financial**	**Scientific & Healthcare**	**Corporate and Other**	**Total**
Adjusted operating profit	648	218	206	117	(144)	**1,045**
Less: Amortization	(167)	(70)	(36)	(40)	—	**(313)**
Restructuring charges	(12)	(16)	(1)	(4)	(4)	**(37)**
Y2K costs	(1)	(1)	(1)	(1)	—	**(4)**
Operating profit	468	131	168	72	(148)	**691**

PRICEWATERHOUSECOOPERS

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CONSENT OF INDEPENDENT CHARTERED ACCOUNTANTS

We hereby consent to the use in this Annual Report on Form 40-F of our report dated February 23, 2006, relating to the consolidated financial statements of The Thomson Corporation (the Company) which appears in Exhibit 99.3 of this Form 40-F.

Furthermore, we also consent to the incorporation by reference in the registration statements on Form F-9 (No. 333-128045), Form S-8 (No. 333-105280), Form S-8 (No. 333-12284), Form S-8 (No. 333-126782) and Form F-3 (No. 333-97203) of The Thomson Corporation of our report dated February 23, 2006 relating to the Company's consolidated financial statements.

We also consent to the reference to us under the heading "Interests of Experts" in this Annual Report.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
February 23, 2006

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.

EXHIBIT 99.5

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 period covered by the annual report 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 1, 2006

/s/ Richard J. Harrington

Richard J. Harrington
President and Chief Executive Officer

EXHIBIT 99.6

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 period covered by the annual report 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 1, 2006

/s/ Robert D. Daleo

Robert D. Daleo
Executive Vice President and Chief Financial Officer

EXHIBIT 99.7

**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, 2005, 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 1, 2006

By: /s/ Richard J. Harrington
Richard J. Harrington
President and Chief Executive Officer

A signed original 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.

EXHIBIT 99.8

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, 2005, 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 1, 2006

By: /s/ Robert D. Daleo
Robert D. Daleo
Executive Vice President and Chief Financial Officer

A signed original 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.