



Second Quarter Report Six Months Ended June 30, 2005

Management's Discussion and Analysis and
Unaudited Consolidated Financial Statements

THE THOMSON CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis should be read in conjunction with our consolidated financial statements prepared in accordance with accounting principles generally accepted in Canada, or Canadian GAAP, and the related notes to those financial statements. All dollar amounts in this discussion are in U.S. dollars unless otherwise specified. Unless otherwise indicated, references in this discussion to "we," "our" and "us" are to The Thomson Corporation and its subsidiaries. This management's discussion and analysis contains forward-looking statements. Readers are cautioned that these forward-looking statements are subject to risks and uncertainties, including those identified in the "Risk Factors" section of our annual information form for the year ended December 31, 2004, which is also contained in our annual report on Form 40-F for the year ended December 31, 2004. This management's discussion and analysis is dated as of July 26, 2005.

OVERVIEW

Our Business

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

As a global company that provides services in approximately 130 countries, we are affected by the market dynamics, governmental regulations and business conditions for each market and country in which we operate. Our business continues to evolve in strategically important areas such as online information, software and service offerings in conjunction with changes in our customers' workflows, as well as their increasing desire for information and their increasing technological sophistication.

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

- Thomson Legal & Regulatory
- Thomson Learning
- Thomson Financial
- Thomson Scientific & Healthcare

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.

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. The operations producing 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, as noted in our Annual Information Form, 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. Results for current and prior periods reflect these organization changes.

2005 Financial Outlook

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

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

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

Seasonality

We typically derive a much greater portion of our operating profit and operating cash flow in the second half of the year as customer buying patterns are concentrated in the second half of the year, particularly in the learning and regulatory markets. Costs are incurred more evenly throughout the year. As a result, our operating margins generally increase as the year progresses, though the seasonality of our overall results between the first and second halves has been reducing over the past several years. For these reasons, it may not be possible to compare the performance of our businesses quarter to consecutive quarter, and our quarterly results should be considered on the basis of results for the whole year or by comparing results in a quarter with the results in the same quarter of the previous year. While we report results quarterly, we view and manage our 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 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.
- *Free cash flow.* We evaluate our operating performance based on free cash flow, which we define as net cash provided by operating activities less additions to property and equipment, other investing activities and dividends paid on our preference shares. We use free cash flow as a performance measure because it represents cash available to repay debt, pay common dividends and fund new acquisitions.
- *Adjusted earnings and adjusted earnings per common share from continuing operations.* We measure our earnings attributable to common shares and per share amounts to adjust for non-recurring items, discontinued operations and other items affecting comparability, which we refer to as adjusted earnings from continuing operations and adjusted earnings per common share from continuing operations. We use these measures to assist in comparisons from one period to another. Adjusted earnings per common share from continuing operations do not represent actual earnings per share attributable to shareholders. 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 nor on cash taxes paid.
- *Net debt.* We measure our indebtedness including associated hedging instruments (swaps) on our debt less cash and cash equivalents. Given that we hedge some of our debt to reduce risk, we include hedging instruments as a better measure of the total obligation associated with our outstanding debt. We reduce gross indebtedness by cash and cash equivalents on the basis that they could be used to pay down debt.

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

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

RESULTS OF OPERATIONS

The following discussion compares our results for the three-month and six-month periods ended June 30, 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 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. Results for 2004 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 periods indicated.

<i>(millions of U.S. dollars, except per share amounts)</i>	Three months ended			Six months ended		
	2005	2004	Change	2005	2004	Change
Revenues	2,058	1,866	10%	3,908	3,548	10%
Operating profit	277	257	8%	390	354	10%
<i>Operating profit margin</i>	13.5%	13.8%		10.0%	10.0%	
Net earnings	302	192	57%	375	229	64%
Earnings per share attributable to common shares	\$ 0.46	\$ 0.29	59%	\$ 0.57	\$ 0.35	63%

Revenues. For both the three-month and six-month periods ended June 30, 2005, the increases in revenues were primarily attributable to contributions from acquired businesses and growth in existing businesses. A favorable impact of foreign currency translation also contributed to the increases in revenues. Excluding the impact of foreign currency translation, revenues grew 9% in both periods. Contributions from acquired businesses primarily related to TradeWeb in our financial group, Information Holdings Inc. (IHI) in our scientific and healthcare group and Capstar and KnowledgeNet in our learning group. For the three-month period, growth from existing businesses was exhibited in all four market groups, and most notably in our financial and legal and regulatory groups.

Operating profit. For both the three-month and six-month periods ended June 30, 2005, the increases in operating profit reflected higher revenues due to contributions from acquired and existing businesses. Margin growth was tempered by higher amortization expense in 2005 and the inclusion in the results for 2004 of insurance recoveries related to September 11, 2001 of \$14 million and \$19 million for the three-month and six-month periods, respectively. Results in 2005 for the three-month period reflected lower expense associated with stock appreciation rights, which was offset by higher pension and other defined benefit plans expense, when compared to the prior year period.

Depreciation and amortization. For the three-month and six-month periods ended June 30, 2005, depreciation increased 5% and 4%, respectively, compared to the comparable prior year periods. These increases reflected recent acquisitions and capital expenditures. Amortization increased 17% compared to the prior year in both periods due to the amortization of newly acquired identifiable intangible assets.

Net other income. Net other income in 2004 primarily related to the recognition of the second installment of \$22 million of the previously announced Skillsoft settlement and a gain on the sale of an investment.

Net interest expense and other financing costs. For the three-month period ended June 30, 2005, our net interest expense and other financing costs increased 8% compared to the prior year. This increase was attributable to the recognition of gains on certain derivatives in 2004 for which there were no comparable gains in the current year. Excluding these gains, net interest expense and other financing costs decreased slightly due to lower interest rates on outstanding debt in 2005 compared with the prior year resulting from the debt redemptions and issuances in the fourth quarter of 2004.

Income taxes Income taxes for both the three-month and six-month periods ended June 30, 2005 reflected the release of \$137 million of contingent income tax liabilities based upon the outcome of certain tax audits of prior year periods. Income taxes for both periods in the current and prior year 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 estimated effective tax rate for the full year.

Earnings attributable to common shares and earnings per common share. Earnings attributable to common shares for the three-month and six-month periods ended June 30, 2005 increased due to higher operating profit, as well as the release of contingent income tax liabilities. The second quarter of 2004 also benefited from the recognition of the Skillsoft settlement noted under "Net other income."

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 periods.

<i>(millions of U.S. dollars, except per common share amounts)</i>	Three months ended		Six months ended	
	June 30, 2005	2004	June 30, 2005	2004
Earnings attributable to common shares	301	191	373	227
Adjustments for one-time items:				
Net other income	—	(29)	(1)	(29)
Tax on above item	—	11	—	11
Release of tax credits	(137)	—	(137)	—
Interim period effective tax rate normalization	(8)	(11)	(24)	(28)
Discontinued operations	—	(12)	(4)	(8)
Adjusted earnings from continuing operations attributable to common shares	156	150	207	173
Adjusted earnings per common share from continuing operations	\$ 0.24	\$ 0.23	\$ 0.32	\$ 0.26

On a comparable basis, our adjusted earnings from continuing operations in both the three-month and six-month periods increased, largely as a result of higher operating profit stemming from higher revenues. These results also reflected higher pension and other benefit plans expense in 2005 and insurance recoveries of \$14 million and \$19 million in the three-month and six-month periods ended June 30, 2004, respectively.

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

<i>(millions of U.S. dollars)</i>	Three months ended			Six months ended		
	June 30, 2005	2004	Change	June 30, 2005	2004	Change
Revenues	867	804	8%	1,653	1,547	7%
Adjusted operating profit	245	228	7%	426	393	8%
Adjusted operating profit margin	28.3%	28.4%		25.8%	25.4%	

In the three-month and six-month periods ended June 30, 2005, revenues for Thomson Legal & Regulatory increased 8% and 7%, respectively. Excluding the impact of foreign currency translation, revenues increased 7% and 6%, respectively. These increases were primarily driven by higher revenues from existing businesses, but also reflected contributions from newly acquired businesses. Within our existing businesses, growth reflected the strong performance of online services, consisting primarily of Westlaw, Checkpoint and our international online services. This revenue growth was offset, in part, by the expected decline in revenue from print and CD products.

For both the three-month and six-month periods ended June 30, 2005, North American Westlaw revenue experienced growth in all of its major market segments: law firm, corporate, government and academic. This growth was driven by new sales and higher subscription retention. Within our North American tax and accounting group, our Checkpoint online service revenue increased due to higher subscription levels. FindLaw revenue increased as a result of new sales performance, as well as the impact of recent acquisitions. Outside of North America, Westlaw revenues increased particularly in Europe.

For both periods, the growth in adjusted operating profit resulted from the revenue growth described above. Growth in the adjusted operating margin was tempered by the impact of strengthening foreign currencies on our lower margin international businesses and lower initial margins on certain acquired businesses.

Thomson Learning

(millions of U.S. dollars)	Three months ended			Six months ended		
	2005	2004	Change	2005	2004	Change
Revenues	472	428	10%	855	779	10%
Adjusted operating profit (loss)	12	11	9%	(38)	(43)	12%
Adjusted operating profit margin	2.5%	2.6%		nm	nm	

nm = Not meaningful.

Thomson Learning's first half results are not indicative of its anticipated performance for the full year due to the seasonal nature of the higher education businesses in which most of the revenues and profits are realized in the second half of the year.

In both the three-month and six-month periods ended June 30, 2005, revenues for Thomson Learning increased 10%. Excluding the impact of foreign currency translation, the increases were 9% for both periods. These increases resulted from the impact of acquired businesses, primarily Capstar and KnowledgeNet, and, to a lesser extent, growth from existing businesses. Revenues from existing businesses increased primarily due to higher sales in our higher education and international operations.

In the Academic group, higher sales of new textbook editions and custom products resulted in increased revenues within our domestic higher education businesses. In addition, higher print and electronic product sales, due to modest improvements in state funding, resulted in increased revenues in the library reference business.

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 IT testing market.

For both periods, the improvement in adjusted operating profit largely reflected the increased revenues described above. Profit growth was mitigated by integration and acquisition related costs associated with acquired businesses.

Thomson Financial

(millions of U.S. dollars)	Three months ended			Six months ended		
	2005	2004	Change	2005	2004	Change
Revenues	470	416	13%	928	807	15%
Adjusted operating profit	75	68	10%	140	123	14%
Adjusted operating profit margin	16.0%	16.3%		15.1%	15.2%	

In the three-month and six-month periods ended June 30, 2005, revenues for Thomson Financial increased 13% and 15%, respectively. Excluding the impact of foreign currency translation, revenues increased 12% and 14%, respectively. These increases were due to the impact of acquired businesses, primarily TradeWeb, and growth from existing businesses. Revenues from existing businesses increased as a result of new sales and higher transaction revenues. Thomson ONE workstations increased 42% for the rolling twelve-month period, and 19% since the beginning of 2005, due to user migration from legacy products and new client wins. Increases in revenues from existing businesses were experienced in all geographic regions, including Europe.

Adjusted operating profit increased due to the increase in revenues. Included in adjusted operating profit for the three-month and six-month periods ended June 30, 2004 were insurance recoveries related to September 11, 2001 of \$14 million and \$19 million, respectively. Excluding these insurance recoveries, the adjusted operating margin increased primarily as a result of lower depreciation, as a percentage of revenues, due to lower capital spending.

Thomson Scientific & Healthcare

(millions of U.S. dollars)	Three months ended			Six months ended		
	2005	2004	Change	2005	2004	Change
Revenues	254	224	13%	482	426	13%
Adjusted operating profit	54	42	29%	82	60	37%
Adjusted operating profit margin	21.3%	18.8%		17.0%	14.1%	

In both the three-month and six-month periods ended June 30, 2005, revenues for Thomson Scientific & Healthcare increased 13%. Excluding the impact of foreign currency translation, revenues increased 12% for both periods. These increases were attributable to revenues from acquired companies, primarily IHI, which we acquired in November 2004. Revenues from existing businesses approximated that of the prior year as higher volumes were largely offset by the unfavorable effect of changes in foreign currency exchange rates on transactions involving U.S. dollar revenues within the group's European businesses. Our existing businesses benefited from higher customer spending for healthcare decision support products, as well as higher subscription revenues for ISI Web of Science and the Micromedex electronic product portfolio. These increases were partially offset by a decline in medical education revenues related to reduced spending on education programs by pharmaceutical companies.

In both periods, the increases in adjusted operating profit and the corresponding margin compared to the prior year reflected the higher revenues, integration efforts and the favorable timing of certain expenses.

Corporate and Other

Corporate and other expenses were \$27 million for the three-month period ended June 30, 2005, compared with \$22 million in the prior year. For the six-month period, Corporate and other expenses were \$56 million in 2005 and \$39 million in 2004. The increases were primarily due to higher expenses for pensions and other defined benefit plans and severance and other charges associated with the outsourcing and reorganization of certain functions within our human resources department. Results in the second quarter of 2005 reflected a \$5 million lower expense associated with stock appreciation rights compared to the prior year period.

Discontinued Operations

The following three businesses, which were sold in 2004, were classified as discontinued operations. None of these businesses was considered fundamental to the integrated information offerings of Thomson.

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.

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 \$3 million in the second quarter of 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 loss of \$4 million in the first quarter of 2004 on this sale.

In the first half of 2005, discontinued operations consisted of adjustments to tax liabilities previously established for Thomson Newspapers, which we sold in 2000 and 2001. The liabilities were released in conjunction with the expiration of certain tax audit periods.

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

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

At June 30, 2005, our total assets were \$19,053 million, which represented a 3% decrease from the total of \$19,643 million at December 31, 2004. This decrease was primarily due to the impact of foreign currency translation and the effects of depreciation and amortization.

Our total assets by market group as of June 30, 2005 and December 31, 2004 were as follows:

<i>(millions of U.S. dollars)</i>	As at June 30, 2005		As at December 31, 2004	
	Total assets	Percentage of total assets	Total assets	Percentage of total assets
Thomson Legal & Regulatory	7,184	38%	7,316	37%
Thomson Learning	5,321	28%	5,549	28%
Thomson Financial	3,470	18%	3,518	18%
Thomson Scientific & Healthcare	1,737	9%	1,794	9%
Corporate and other	1,341	7%	1,466	8%
Total assets	19,053	100%	19,643	100%

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

<i>(millions of U.S. dollars)</i>	As at	
	June 30, 2005	December 31, 2004
Short-term indebtedness	169	7
Current portion of long-term debt	221	295
Long-term debt	3,920	4,013
Total debt	4,310	4,315
Swaps	(171)	(192)
Total debt after swaps	4,139	4,123
Less: cash and cash equivalents	(318)	(405)
Net debt	3,821	3,718
Shareholders' equity	9,905	9,962
Net debt/equity ratio	0.39:1	0.37:1

In March 2005, we repaid \$125 million of floating rate notes.

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

The following table shows the changes in our shareholders' equity for the six months ended June 30, 2005:

<i>(millions of U.S. dollars)</i>	
Balance at December 31, 2004	9,962
Earnings attributable to common shares for the six months ended June 30, 2005	373
Additions to contributed surplus related to stock compensation expense	11
Common share issuances	9
Repurchase of common shares	(45)
Common share dividend payments	(250)
Change in cumulative translation adjustment	(155)
Balance at June 30, 2005	9,905

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 June 30, 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 when incurred.

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. Through June 30, 2005, we repurchased 1.35 million common shares for approximately \$45 million, representing an average cost per share of \$33.58. Shares repurchased under the bid are cancelled.

From time to time, when we do not possess material nonpublic 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.

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 subsection 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 the three-month period ended June 30, 2005 was \$397 million compared to \$344 million for the comparable prior year period. Cash provided by our operating activities in the six-month period ended June 30, 2005 was \$660 million compared to \$634 million for the comparable prior year period. In both periods, the improvement was primarily the result of higher operating profits and, to a lesser extent, the favorable timing of payments for normal operating expenses. Additionally, the three-month period in 2005 benefited from the favorable timing of accounts receivable collections.

Investing activities. Cash used in our investing activities in the three-month period ended June 30, 2005 was \$180 million compared to \$589 million for the comparable prior year period. Cash used in our investing activities in the six-month period ended June 30, 2005 was \$473 million compared to \$813 million for the comparable prior year period. In both periods, the reduction in the use of cash was primarily the result of a decrease in spending on acquisitions. Results for the six-month period include tax payments in 2005 of \$105 million associated with our sale of Thomson Media. Additionally, results for the six-month period ended June 30, 2004 reflect proceeds from our sale of DBM.

Capital expenditures in both periods declined compared to the prior year. In the three-month period ended June 30, 2005, capital expenditures declined to 7.0% of revenues compared to 8.3% in the prior year period. In the six-month period ended June 30, 2005, capital expenditures declined to 6.6% of revenues compared to 7.6% in the prior year period. In both periods, the reduction was due to timing and management initiatives to improve the efficiency of our capital spending.

Financing activities. Cash used in our financing activities was \$224 million in the three-month period ended June 30, 2005, compared to cash provided from these activities of \$305 million in the prior year period. In the six-month period ended June 30, 2005, cash used in financing activities was \$269 million compared to cash provided of \$105 million in the prior year period. The increased outflow of cash for both periods reflected the proceeds from two debt issuances in 2004 (see "Financial Position")

and, to a lesser extent, the repurchase of shares (see "Normal Course Issuer Bid") in 2005. Additionally, in the six-month period for 2005, we used \$125 million to repay our floating rate notes, which matured in March 2005.

The following table sets forth our common share dividend activity.

<i>(millions of U.S. dollars)</i>	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Dividends declared	131	125	256	246
Dividends reinvested	(3)	(3)	(6)	(6)
Dividends paid	128	122	250	240

Free cash flow. The following table sets forth a calculation of our free cash flow for the three-month and six-month periods ended June 30, 2005 and 2004:

<i>(millions of U.S. dollars)</i>	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Net cash provided by operating activities	397	344	660	634
Additions to property and equipment	(145)	(154)	(259)	(271)
Other investing activities	(9)	(14)	(14)	(28)
Dividends paid on preference shares	(1)	(1)	(2)	(2)
Additions to property and equipment of discontinued operations	—	(1)	—	(2)
Free cash flow	242	174	385	331

In the three-month and six-month periods ended June 30, 2005, our free cash flow increased as a result of higher operating profit, lower capital expenditures and, to a lesser extent, the favorable timing of payments for normal operating expenses. Additionally, the three-month period in 2005 benefited from the favorable timing of accounts receivable collections.

Credit facilities and commercial paper program. As of June 30, 2005, we maintained revolving unsecured credit facilities of \$1.6 billion and a commercial paper program authorized to issue up to Cdn\$1 billion. Borrowings under our commercial paper program reduce the amount available to us under our credit facilities. At June 30, 2005, our credit lines and related activity were as follows:

<i>(millions of U.S. dollars)</i>			
Credit Lines	Amount Drawn	Commercial Paper Outstanding	Lines Available
1,600	(70)	(146)	1,384

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.

RELATED PARTY TRANSACTIONS

As at July 26, 2005, Kenneth R. Thomson, through Woodbridge and its affiliates, controlled approximately 69% of our common shares. Mr. Thomson is a member of our board of directors.

In the normal course of business, a Woodbridge-owned company rents office space from one of our subsidiaries. Additionally, a number of our subsidiaries charge a Woodbridge-owned company fees for various administrative services. In 2004, the total

amounts charged to Woodbridge for these rentals and services were approximately \$3 million. 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, 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.

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

In June 2005, we amended our agreement with Woodbridge under which Woodbridge indemnifies a third party insurer for certain liabilities under our directors' and officers' insurance policy. The new arrangements provide that Woodbridge indemnifies current and former directors and officers of our company for up to \$100 million of liabilities. 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.

SUBSEQUENT EVENTS

In July 2005, we acquired Global Securities Information Inc. (GSI), a provider of online securities and securities-related information and research services. GSI is now a part of Thomson Legal & Regulatory.

CRITICAL ACCOUNTING POLICIES

Please refer to the "Critical Accounting Policies" section of the "Management's Discussion and Analysis" in our most recent annual information form, which is contained in our annual report on Form 40-F for the year ended December 31, 2004, for information on accounting policies that we consider critical in preparing our consolidated financial statements. Since the date of that Form 40-F, there have not been any significant changes to these policies, nor have there been any new accounting policies that we would consider critical. 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 amount 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.

NEW ACCOUNTING STANDARDS

Accounting Guideline AcG-15, Consolidation of Variable Interest Entities. Effective January 1, 2005, we adopted AcG-15, which requires the consolidation of certain entities that are subject to control on a basis other than the ownership of voting interest. This Guideline provides guidance for determining when an enterprise includes the assets, liabilities and results of operations of a variable interest entity in its consolidated financial statements. The adoption of this Guideline had no effect on our consolidated financial statements.

EIC Abstract 154, "Accounting for Pre-existing Relationships between the Parties of a Business Combination." In May 2005, the EIC issued Abstract 154. 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.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) has 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.

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. While we are in the process of assessing the impact of these standards, we do not expect that their adoption will have a material impact on our consolidated statement of earnings and retained earnings.

ADDITIONAL INFORMATION

Depreciation by Segment

The following table details depreciation expense by segment for the three and six months ended June 30, 2005 and 2004.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Legal & Regulatory	51	46	99	93
Learning	41	40	78	78
Financial	45	43	91	86
Scientific & Healthcare	10	9	20	17
Corporate and Other	1	3	4	7
Total	148	141	292	281

Disclosure Controls and Procedures

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

Changes in Internal Controls over Financial Reporting

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

Share Capital

As of July 26, 2005, we had outstanding 654,247,505 common shares and 6,000,000 Series II preference shares.

Public Securities Filings

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

Forward-Looking Statements

Certain information in this management's discussion and analysis, particularly under the heading "2005 Financial Outlook," are forward-looking statements that are not historical facts but reflect our current expectations regarding future results. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Some of the factors that could cause actual results or events to differ materially from current expectations are: actions of our competitors; failure of our technology investments to increase our revenues or decrease our operating costs; failure to fully derive anticipated benefits from our acquisitions; failure to develop additional products and services to meet our customers' needs; failures or disruptions of our electronic delivery systems or the Internet; failure to meet the special challenges involved in expanding outside North America; increased use of free or relatively inexpensive information sources; failure to obtain certain information through licensing arrangements and changes in the terms of our licensing arrangements; changes in the general economy; inadequate protection of our intellectual property rights; an increase in our effective income tax rate; and impairment of goodwill and identifiable intangible assets. Additional factors are discussed in our materials filed with the securities regulatory authorities in Canada and the United States from time to time, including our annual information form, which is contained in our 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.

QUARTERLY INFORMATION

The following table provides summary financial information for our eight most recent quarters.

<i>(millions of U.S. dollars, except per common share amounts)</i>	Quarter ended March 31,		Quarter ended June 30,		Quarter ended September 30,		Quarter ended December 31,	
	2005	2004	2005	2004	2004	2003	2004	2003
Revenues	1,850	1,682	2,058	1,866	2,223	2,044	2,327	2,131
Operating profit	113	97	277	257	492	440	495	481
Earnings from continuing operations	69	41	302	180	328	295	314	398
Discontinued operations, net of tax	4	(4)	—	12	16	12	124	(2)
Net earnings	73	37	302	192	344	307	438	396
Dividends declared on preference shares	(1)	(1)	(1)	(1)	—	(1)	(1)	(1)
Earnings attributable to common shares	72	36	301	191	344	306	437	395
Basic and fully diluted earnings (loss) per common share								
From continuing operations	\$ 0.10	\$ 0.06	\$ 0.46	\$ 0.27	\$ 0.50	\$ 0.45	\$ 0.48	\$ 0.61
From discontinued operations	0.01	(0.01)	—	0.02	0.02	0.02	0.19	(0.01)
	\$ 0.11	\$ 0.05	\$ 0.46	\$ 0.29	\$ 0.52	\$ 0.47	\$ 0.67	\$ 0.60

RECONCILIATIONS

RECONCILIATION OF ADJUSTED OPERATING PROFIT TO OPERATING PROFIT

(millions of U.S. dollars)

For the Three Months Ended June 30, 2005

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Corporate and Other	Total
Adjusted operating profit	245	12	75	54	(27)	359
Less: Amortization	(27)	(16)	(23)	(16)	—	(82)
Operating profit	<u>218</u>	<u>(4)</u>	<u>52</u>	<u>38</u>	<u>(27)</u>	<u>277</u>

For the Three Months Ended June 30, 2004

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Corporate and Other	Total
Adjusted operating profit	228	11	68	42	(22)	327
Less: Amortization	(25)	(17)	(19)	(9)	—	(70)
Operating profit	<u>203</u>	<u>(6)</u>	<u>49</u>	<u>33</u>	<u>(22)</u>	<u>257</u>

For the Six Months Ended June 30, 2005

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Corporate and Other	Total
Adjusted operating profit	426	(38)	140	82	(56)	554
Less: Amortization	(54)	(33)	(45)	(32)	—	(164)
Operating profit	<u>372</u>	<u>(71)</u>	<u>95</u>	<u>50</u>	<u>(56)</u>	<u>390</u>

For the Six Months Ended June 30, 2004

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Corporate and Other	Total
Adjusted operating profit	393	(43)	123	60	(39)	494
Less: Amortization	(51)	(35)	(36)	(18)	—	(140)
Operating profit	<u>342</u>	<u>(78)</u>	<u>87</u>	<u>42</u>	<u>(39)</u>	<u>354</u>

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

For the Three Months Ended June 30, 2005

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Total
Adjusted operating profit	28.3%	2.5%	16.0%	21.3%	17.4%
Less: Amortization	(3.2%)	(3.3%)	(4.9%)	(6.3%)	(3.9%)
Operating profit	25.1%	(0.8%)	11.1%	15.0%	13.5%

For the Three Months Ended June 30, 2004

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Total
Adjusted operating profit	28.4%	2.6%	16.3%	18.8%	17.5%
Less: Amortization	(3.2%)	(4.0%)	(4.5%)	(4.1%)	(3.7%)
Operating profit	25.2%	(1.4%)	11.8%	14.7%	13.8%

For the Six Months Ended June 30, 2005

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Total
Adjusted operating profit	25.8%	(4.4%)	15.1%	17.0%	14.2%
Less: Amortization	(3.3%)	(3.9%)	(4.9%)	(6.6%)	(4.2%)
Operating profit	22.5%	(8.3%)	10.2%	10.4%	10.0%

For the Six Months Ended June 30, 2004

	Legal & Regulatory	Learning	Financial	Scientific & Healthcare	Total
Adjusted operating profit	25.4%	(5.5%)	15.2%	14.1%	13.9%
Less: Amortization	(3.3%)	(4.5%)	(4.4%)	(4.2%)	(3.9%)
Operating profit	22.1%	(10.0%)	10.8%	9.9%	10.0%

The Thomson Corporation
Consolidated Statement of Earnings and Retained Earnings
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(millions of U.S. dollars, except per common share amounts)	2005	2004	2005	2004
Revenues	2,058	1,866	3,908	3,548
Cost of sales, selling, marketing, general and administrative expenses	(1,551)	(1,398)	(3,062)	(2,773)
Depreciation	(148)	(141)	(292)	(281)
Amortization	(82)	(70)	(164)	(140)
Operating profit	277	257	390	354
Net other income	—	29	1	29
Net interest expense and other financing costs	(56)	(52)	(110)	(113)
Income taxes (note 5)	80	(54)	88	(48)
Equity in net earnings (losses) of associates, net of tax	1	—	2	(1)
Earnings from continuing operations	302	180	371	221
Earnings from discontinued operations, net of tax (note 6)	—	12	4	8
Net earnings	302	192	375	229
Dividends declared on preference shares	(1)	(1)	(2)	(2)
Earnings attributable to common shares	301	191	373	227
Retained earnings at beginning of period	6,755	6,210	6,808	6,295
Repurchase of common shares (note 7)	(40)	—	(40)	—
Dividends declared on common shares	(131)	(125)	(256)	(246)
Retained earnings at end of period	6,885	6,276	6,885	6,276
Basic and diluted earnings per common share (note 8):				
From continuing operations	\$ 0.46	\$ 0.27	\$ 0.56	\$ 0.34
From discontinued operations	—	\$ 0.02	\$ 0.01	\$ 0.01
Basic and diluted earnings per common share	\$ 0.46	\$ 0.29	\$ 0.57	\$ 0.35

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

The Thomson Corporation
Consolidated Balance Sheet

(millions of U.S. dollars)	June 30, 2005	December 31, 2004
	(unaudited)	
Assets		
Cash and cash equivalents	318	405
Accounts receivable, net of allowances	1,370	1,648
Inventories	340	312
Prepaid expenses and other current assets	339	313
Deferred income taxes	214	214
Current assets	2,581	2,892
Property and equipment	1,586	1,624
Identifiable intangible assets	4,600	4,721
Goodwill	9,058	9,119
Other non-current assets	1,228	1,287
Total assets	19,053	19,643
Liabilities and shareholders' equity		
Liabilities		
Short-term indebtedness	169	7
Accounts payable and accruals	1,375	1,738
Deferred revenue	1,049	1,043
Current portion of long-term debt	221	295
Current liabilities	2,814	3,083
Long-term debt	3,920	4,013
Other non-current liabilities	846	1,015
Deferred income taxes	1,568	1,570
Total liabilities	9,148	9,681
Shareholders' equity		
Capital (note 12)	2,717	2,696
Cumulative translation adjustment	303	458
Retained earnings	6,885	6,808
Total shareholders' equity	9,905	9,962
Total liabilities and shareholders' equity	19,053	19,643

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

The Thomson Corporation
Consolidated Statement of Cash Flow
(unaudited)

(millions of U.S. dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Cash provided by (used in):				
Operating activities				
Net earnings	302	192	375	229
Remove earnings from discontinued operations	—	(12)	(4)	(8)
Add back (deduct) items not involving cash:				
Depreciation	148	141	292	281
Amortization	82	70	164	140
Net gains on disposals of businesses and investments	—	(5)	(1)	(5)
Deferred income taxes	10	37	3	13
Equity in net (earnings) losses of associates, net of tax	(1)	—	(2)	1
Other, net	(81)	57	(31)	105
Changes in working capital and other items	(63)	(138)	(136)	(137)
Cash provided by operating activities — discontinued operations (note 6)	—	2	—	15
Net cash provided by operating activities	397	344	660	634
Investing activities				
Acquisitions (note 11)	(26)	(455)	(96)	(655)
Proceeds from disposals of businesses and investments	—	10	1	11
Additions to property and equipment, less proceeds from disposals	(145)	(154)	(259)	(271)
Other investing activities	(9)	(14)	(14)	(28)
Additions to property and equipment of discontinued operations (note 6)	—	(1)	—	(2)
Proceeds from (income taxes paid on) disposals of discontinued operations (note 6)	—	25	(105)	137
Cash used in investing activities — discontinued operations (note 6)	—	—	—	(5)
Net cash used in investing activities	(180)	(589)	(473)	(813)
Financing activities				
Proceeds of debt (note 13)	—	434	—	434
Repayments of debt (note 13)	(20)	—	(145)	—
Net (repayments) borrowings of short-term loan facilities	(35)	(6)	164	(88)
Repurchase of common share (note 7)	(45)	—	(45)	—
Dividends paid on preference shares	(1)	(1)	(2)	(2)
Dividends paid on common shares	(128)	(122)	(250)	(240)
Other financing activities	5	—	9	1
Net cash (used in) provided by financing activities	(224)	305	(269)	105
	(7)	60	(82)	(74)
Translation adjustments	(2)	—	(5)	—
(Decrease) increase in cash and cash equivalents	(9)	60	(87)	(74)
Cash and cash equivalents at beginning of period	327	549	405	683
Cash and cash equivalents at end of period	318	609	318	609

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

The Thomson Corporation

Notes to Consolidated Financial Statements (unaudited)

(unless otherwise stated, all amounts are in millions of U.S. dollars)

Note 1: Consolidated Financial Statements

Principles of Consolidation

The unaudited interim 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.

Note 2: Accounting Principles and Methods

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, *Interim Financial Statements*. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with Canadian GAAP have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements as at and for the year ended December 31, 2004, as set out in the Company's 2004 Annual Report.

In the opinion of management, the unaudited interim consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. The consolidated financial statements were prepared using the same accounting policies and methods as those used in the Company's financial statements for the year ended December 31, 2004, except as explained in Note 4.

Where necessary, certain amounts for 2004 have been reclassified to conform to the current period's presentation. 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 current and prior periods reflect this change. The restated segment results for 2004 are presented in Note 16.

Note 3: Seasonality

Typically, a greater portion of the Company's operating profit and operating cash flow is derived in the second half of the year. Customer buying patterns are concentrated in the second half of the year, particularly in the learning and regulatory markets, while costs are incurred more evenly throughout the year. As a result, operating margins generally increase as the year progresses. For these reasons, the performance of the Company's businesses may not be comparable quarter to consecutive quarter and 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 for the previous year.

Note 4: 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 Emerging Issues Committee ("EIC") of the CICA issued Abstract 154, *Accounting for Pre-existing Relationships between the Parties of a Business Combination*. The Abstract harmonizes Canadian GAAP 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 5: Income Taxes

In the second quarter of 2005, the Company recognized a 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.

Note 6: Discontinued Operations

The following three businesses, which were all sold in 2004, were classified as discontinued operations within the consolidated financial statements. None of these businesses was considered fundamental to the integrated information offerings of Thomson.

In November 2004, the Company sold the Thomson Media group, a provider of largely print-based information products focused on the banking, financial services and related technology markets for gross proceeds of \$350 million.

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 \$3 million in the second quarter of 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 loss of \$4 million in the first quarter of 2004.

In the first half of 2005, discontinued operations consisted of adjustments to tax liabilities previously established for Thomson Newspapers, which the Company sold in 2000 and 2001. The liabilities were reversed in conjunction with the expiration of certain tax audit periods.

Three months ended June 30, 2004

	Sheshunoff	Thomson Media	Total
Revenues from discontinued operations	3	50	53
Earnings from discontinued operations before income taxes	—	14	14
Income taxes	3	(5)	(2)
Earnings from discontinued operations	3	9	12

Six months ended June 30, 2004

	DBM	Sheshunoff	Thomson Media	Total
Revenues from discontinued operations	28	11	86	125
Earnings (loss) from discontinued operations before income taxes	3	(4)	15	14
Loss on sale of discontinued operations	(32)	—	—	(32)
Income taxes	27	5	(6)	26
Earnings (loss) from discontinued operations	(2)	1	9	8

Proceeds from disposals of discontinued operations within the consolidated statement of cash flow in the six months ended June 30, 2005 represent taxes paid related to the 2004 sale of Thomson Media. Proceeds from disposals of discontinued operations within the consolidated statement of cash flow in the six months ended June 30, 2004 includes taxes paid related to the 2003 sale of the portfolio of Healthcare Magazines.

Note 7: Normal Course Issuer Bid

On April 25, 2005, the Company's board of directors approved the filing of a notice to commence a normal course issuer bid. Pursuant to this filing, Thomson may acquire up to 15 million of the Company's common shares in open market transactions on the Toronto Stock Exchange or the New York Stock Exchange. Purchases commenced on May 16, 2005 and may terminate no later than May 4, 2006. 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. From time to time when the Company does not possess material nonpublic 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.

Through June 30, 2005, the Company repurchased 1.35 million common shares for approximately \$45 million, representing an average cost per share of \$33.58. Of the \$45 million, \$5 million was recorded as a reduction in capital based upon the historical average issuance price of the shares and \$40 million was charged to retained earnings.

Note 8: 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.

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.

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Earnings from continuing operations	302	180	371	221
Dividends declared on preference shares	(1)	(1)	(2)	(2)
Earnings from continuing operations attributable to common shares	301	179	369	219

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.

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Weighted average number of common shares outstanding	655,156,716	654,756,486	655,184,561	654,686,969
Vested deferred share units	561,423	476,863	556,592	448,034
Basic	655,718,139	655,233,349	655,741,153	655,135,003
Effect of stock and other incentive plans	643,481	602,595	631,562	556,266
Diluted	656,361,620	655,835,944	656,372,715	655,691,269

Note 9: Employee Benefit Plans

The Company's net defined benefit plan expense is comprised of the following elements:

	Pensions		Other post-retirement plans	
	Three months ended June 30,			
	2005	2004	2005	2004
Current service cost	14	13	1	1
Interest cost	32	31	2	3
Expected return on plan assets	(39)	(39)	—	—
Amortization of net actuarial losses	9	6	—	1
Amortization of prior service cost	—	1	—	—
Net defined benefit plan expense	16	12	3	5

	Pensions		Other post-retirement plans	
	Six months ended June 30,			
	2005	2004	2005	2004
Current service cost	27	26	1	2
Interest cost	65	62	4	6
Expected return on plan assets	(77)	(78)	—	—
Amortization of net actuarial losses	17	12	1	2
Amortization of prior service cost	1	2	—	—
Net defined benefit plan expense	33	24	6	10

Note 10: Business Interruption Insurance

In June 2004, the Company received \$14 million related to an insurance recovery for business interruption due to the events of September 11, 2001 in New York City. The recovery was due to loss of revenues, and was recorded as a reduction of "Cost of sales, selling, marketing, general and administrative expenses" within the consolidated statement of earnings and retained earnings for the three and six months ended June 30, 2004, and is included in the financial group within the segmented information.

Note 11: Acquisitions

The number of transactions completed during the three-month and six-month periods ended June 30, 2005 and 2004 and the related cash consideration were as follows:

Number of transactions	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Businesses and identifiable intangible assets acquired	8	21	17	29
Investments in businesses	—	1	—	1

Cash consideration	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Businesses and identifiable intangible assets acquired	26	452	96	652
Investments in businesses	—	3	—	3
Total	26	455	96	655

Included in these acquisitions were the purchases of:

- in May 2004, TradeWeb LLC for \$385 million plus contingent payments of up to approximately \$150 million over the next three years based on the achievement of growth targets. TradeWeb is an online global trading platform for fixed income securities.

- in March 2004, the 90% of Corporate Communications Broadcast Network, Inc. ("CCBN") that the Company did not previously own. CCBN provides web-based solutions for the investment community, offering services to enhance the way companies communicate and meet disclosure requirements, and assists investors in managing and leveraging this information.
- in January 2004, the publishing assets of Biological Abstracts, Inc. and BIOSIS. BIOSIS offers both custom and standard information resources designed to fit the information needs of researchers, students and information professionals worldwide.

Goodwill and identifiable intangible assets acquired are detailed below.

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Goodwill	8	246	27	394
Identifiable intangible assets with finite lives	17	225	65	311

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 during the six-month periods ended June 30, 2005 and June 30, 2004, the majority of the acquired goodwill is deductible for tax purposes. Allocations related to certain acquisitions may be subject to adjustment pending completion of final valuations.

As of June 30, 2005, the balance of the reserves for exit costs related to business acquisitions consummated during 2001 through 2005 totaled \$29 million. Reserves recorded in connection with businesses acquired during the six-month period ended June 30, 2005 were \$2 million. The following table presents the activity in these acquisition reserve accounts, which are included within "Accounts payable and accruals" and "Other non-current liabilities" in the consolidated balance sheet.

Type of cost	Balance December 31, 2004	2005 Utilization	2005 Additions	2005 Other Movements	Balance June 30, 2005
Severance and other employee-related costs	10	(4)	1	(1)	6
Lease cancellation and idle facility costs	19	(2)	1	3	21
Other exit costs	2	—	—	—	2
Total	31	(6)	2	2	29

Note 12: Capital

The following table details the activity in Capital for the six months ended June 30, 2005:

Balance, December 31, 2004	2,696
Common shares issued under dividend reinvestment plan	6
Repurchase of common shares	(5)
Additions to contributed surplus related to stock based compensation	11
Other common share issuances	9
Balance, June 30, 2005	2,717

Note 13: Long Term Debt

In March 2005, Thomson repaid \$125 million of floating rate notes.

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 these notes to an obligation of US\$184 million at a floating rate of interest.

The Company used the net proceeds of \$432 million from the 2004 offerings to repay other existing indebtedness and for other general corporate purposes.

Note 14: Related Party Transactions

As at June 30, 2005, through Woodbridge and its affiliates, Kenneth R. Thomson controlled approximately 69% of the Company's common shares.

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 the full year of 2004, the total amount charged to Woodbridge for these rentals and services was approximately \$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, 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.

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

In June 2005, the Company amended its agreement with Woodbridge under which Woodbridge indemnifies a third party insurer for certain liabilities under the Company's directors' and officers' insurance policy. The new arrangements provide that Woodbridge indemnifies its current and former directors and officers for up to \$100 million of liabilities. 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.

Note 15: Recently Issued Accounting Standards

The Accounting Standards Board of the CICA has 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.

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 consisting primarily of unrealized gains and losses that bypass the traditional earnings statement and are recorded directly into shareholders' equity. The components of other comprehensive income consist of unrealized gains and losses related to the translation of foreign currency financial statements, certain deferred gains and losses from hedging activity, and unrealized gains and losses on certain investment securities.

For the most part, the new standards harmonize Canadian GAAP with standards previously issued by the U.S. Financial Accounting Standards Board. While Thomson is in the process of assessing the impact of these standards, the Company does not expect that their adoption will have a material impact on the consolidated statement of earnings and retained earnings.

Note 16: 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.

	Three months ended June 30, 2005		Three months ended June 30, 2004	
	Revenues	Adjusted operating profit	Revenues	Adjusted operating profit
Legal & Regulatory ¹	867	245	804	228
Learning	472	12	428	11
Financial	470	75	416	68
Scientific & Healthcare ¹	254	54	224	42
Segment totals	2,063	386	1,872	349
Corporate and other ²	—	(27)	—	(22)
Eliminations	(5)	—	(6)	—
Total	2,058	359	1,866	327

	Six months ended June 30, 2005		Six months ended June 30, 2004	
	Revenues	Adjusted operating profit	Revenues	Adjusted operating profit
Legal & Regulatory ¹	1,653	426	1,547	393
Learning	855	(38)	779	(43)
Financial	928	140	807	123
Scientific & Healthcare ¹	482	82	426	60
Segment totals	3,918	610	3,559	533
Corporate and other ²	—	(56)	—	(39)
Eliminations	(10)	—	(11)	—
Total	3,908	554	3,548	494

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. Restated segment results for 2004 are disclosed below.

2 Corporate and other includes corporate costs and costs associated with the Company's stock-related compensation expense.

As discussed in Note 2, segment results have been restated to reflect a transfer of the Dialog DataStar operation. The restated segment results for 2004 and 2003 are as follows:

December 31, 2004

(millions of U.S. dollars)	Revenues	Adjusted operating profit	Additions to capital assets	Total assets
Legal & Regulatory	3,276	897	294	7,316
Learning	2,174	327	554	5,549
Financial	1,738	294	802	3,518
Scientific & Healthcare	934	207	604	1,794
Segment totals	8,122	1,725	2,254	18,177
Corporate and other ²	—	(98)	5	1,466
Eliminations	(24)	—	—	—
Total	8,098	1,627	2,259	19,643

December 31, 2003

(millions of U.S. dollars)	Revenues	Adjusted operating profit	Additions to capital assets	Total assets
Legal & Regulatory	3,012	809	367	7,217
Learning	2,052	336	242	5,109
Financial	1,526	230	154	2,915
Scientific & Healthcare	871	175	29	1,192
Segment totals	7,461	1,550	792	16,433
Corporate and other ²	—	(97)	14	1,752
Eliminations	(25)	—	—	—
Continuing operations	7,436	1,453	806	18,185
Discontinued operations				500
Total				18,685

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.

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Adjusted operating profit	359	327	554	494
Less: Amortization	(82)	(70)	(164)	(140)
Operating profit	277	257	390	354

Note 17: Reconciliation of Canadian to U.S. Generally Accepted Accounting Principles

The consolidated financial statements have been prepared in accordance with Canadian GAAP, which differ in some respects from U.S. GAAP. The following schedules present the material differences within the statement of earnings between Canadian and U.S. GAAP.

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Net earnings under Canadian GAAP	302	192	375	229
Differences in GAAP increasing (decreasing) reported earnings:				
Business combinations	4	4	8	7
Derivative instruments and hedging activities	1	2	2	3
Income taxes	(15)	(15)	(43)	(47)
Equity in net losses of associates, net of tax	—	—	—	(6)
Net income under U.S. GAAP	292	183	342	186
Earnings under U.S. GAAP from continuing operations	292	171	338	178
Earnings under U.S. GAAP from discontinued operations	—	12	4	8
Net income under U.S. GAAP	292	183	342	186
Basic and diluted earnings per common share, under U.S. GAAP, from:				
Continuing operations	\$0.44	\$0.26	\$0.51	\$0.27
Discontinued operations, net of tax	—	\$0.02	\$0.01	\$0.01
Basic and diluted earnings per common share ¹	\$0.44	\$0.28	\$0.52	\$0.28

¹ Earnings per common share is calculated after taking into account dividends declared on preference shares.

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

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 net increase to income 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.

Derivative Instruments and Hedging Activities

Prior to January 1, 2004, in accordance with Canadian GAAP, the Company disclosed the fair values of derivative instruments in the notes to the annual consolidated financial statements, but did not record such fair values in the consolidated balance sheet. Effective January 1, 2004, Canadian GAAP requires that derivative instruments that do not qualify as hedges be recorded in the balance sheet at fair value, and the change in fair value subsequent to January 1, 2004 be recorded in the income statement. The fair value as of January 1, 2004 is deferred and amortized into earnings in conjunction with the item it previously hedged. 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.

Income Taxes

Under Canadian GAAP, the Company estimates separate annual effective income tax rates for each taxing jurisdiction and individually applies such rates to the interim period's pre-tax income of each jurisdiction. Under U.S. GAAP, the Company estimates the average annual effective income tax rate, excluding jurisdictions that generate net operating losses where the Company does not expect to receive a tax benefit, and applies that rate to the Company's interim period pre-tax income excluding the interim period pre-tax loss of those loss jurisdictions.

The income tax adjustment consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Additional provision due to different accounting principles described above	(14)	(14)	(41)	(45)
Tax effect of U.S. GAAP pre-tax reconciling items	(1)	(1)	(2)	(2)
Total income taxes per reconciliation	(15)	(15)	(43)	(47)

Equity in Net Losses of Associates, Net of Tax

Under Canadian GAAP, investments in joint ventures are proportionally consolidated. Impairments for long-lived joint venture assets are recognized when the assets are not recoverable. Under U.S. GAAP, investments in joint ventures are accounted for as an equity investment. Impairments for equity investments are recognized when the decline of their fair value below carrying value is considered to be other than temporary. The adjustment relates to a joint venture investment that has long-lived assets that are recoverable, but whose carrying value is greater than its fair value.

Note 18: Subsequent Events

In July 2005, the Company acquired Global Securities Information Inc. (GSI), a provider of online securities and securities-related information and research services. GSI is now a part of Thomson Legal & Regulatory.

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