

> 2001 Annual Report

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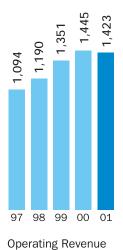


The Annual Meeting of Shareholders will be held May 1, 2002 at the King Edward Hotel, 37 King Street East, Toronto, Ontario in the Vanity Fair Ballroom beginning at 10:00 a.m. It will also be webcast live on tmgtv.ca with interactive capabilities.

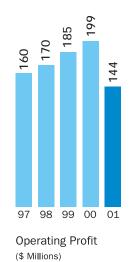
Torstar Corporation is a broadly based publishing company. Its operations include the Torstar Media Group, including The Toronto Star, Canada's largest daily newspaper, The Hamilton Spectator, The Record and Metroland Printing, Publishing & Distributing, publishers of approximately 68 community newspapers and distributors of advertising materials; Harlequin Enterprises, the world's largest publisher of series romance fiction; the Interactive Media Division, which includes Torstar's approximately 40 websites, Toronto Star Television and a portfolio of Internet-related investments.

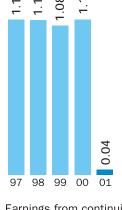
# Financial Highlights

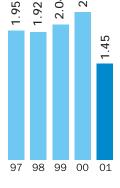
Operating Results (\$000)	2001	2000	
Operating revenue	\$1,422,663	\$1,445,074	
Operating profit	143,726	198,856	
Operating cash flow	109,333	165,598	
Income from continuing operations	2,980	83,715	
Operating Results			
Operating profit – percentage of revenue	10.1%	13.8%	
Operating cash flow – percentage of average shareholders' equity	18.3%	24.6%	
Per A and B shares			
Income from continuing operations	\$0.04	\$1.12	
Operating cash flow	1.45	2.22	
Dividends	0.58	0.58	
Price range high/low	22.50/16.01	25.85/14.00	
Financial Position (\$000)			
Long-term debt	\$508,848	\$494,477	
Shareholders' equity	534,398	660,001	



(\$ Millions)







Earnings from continuing operations per share

#### To Our Shareholders

This will be my last report to shareholders, as I will be stepping down at Torstar's 45th Annual General Meeting. It has been a privilege to serve as Chief Executive Officer of Torstar for the last 14 years and as President and CEO of Harlequin for eight years. I want to thank the Board of Directors, the Torstar Voting Trust and, particularly, Torstar employees for the support they have given me throughout my tenure.

Torstar's next CEO will be Rob Prichard. I am very proud to have someone with Rob's stature, intelligence and leadership ability replacing me. Shareholders will be well served.

#### Performance

Torstar has three wonderful businesses - daily newspapers, weekly newspapers, and book publishing - that generate a significant amount of cash. Daily newspapers tend to be cyclical and require capital investment, whereas the weeklies and Harlequin are free cash generators. The dailies have been impacted recently by the newspaper war in Toronto and a poor economy, but they are well positioned competitively and poised for a turn in the economy. Metroland's weeklies have seen their earnings before interest, taxes, depreciation and amortization (EBITDA) grow from \$24 million in 1996 to \$63 million in 2000, and decline marginally with the economy to \$56 million in 2001. Harlequin's EBITDA has shown continuous steady growth from \$93 million in 1996 to \$114 million in 2001 – with virtually no capital investment.

While our core businesses have performed well, we have had mixed results in our diversification attempts. In late 2000, we decided to cut our losses and focus on the core. The timing of our exit, with the drop in acquisition multiples in a poor economy, could not have been worse. As a result, we suffered a loss of \$90 million this year. Of some consolation is the fact that this loss, combined with previous CSEP losses, was offset for the most part by our gains on the sale of Hebdo Mag during this period. It hurts to have given back this gain.

We have provided reasonable returns to shareholders. Over the last five years, including last year, we outperformed the TSE and significantly outperformed our competitors in the newspaper

business - Quebecor, Hollinger and CanWest.

Total Return to Shareholders			
(Base=100)	5 Year	1 Year	
Torstar Corp.	152	113	
TSE 300	140	87	
Hollinger	120	77	
CanWest	112	100	
Quebecor	91	79	

# Our position on

Convergence

convergence is pretty clear: we are believers. Convergence is not new to us. We have

been cross selling and cross promoting our dailies, weeklies, eye weekly, MetroToday, and our websites for some time. The only issue for us is "convergence at what price?" There is still a large question as to whether the benefits justify the acquisition premiums being paid to achieve it.

We recognize that, while we can argue about the prices paid, we are now competing against "converged players". Fortunately, our main competitor, the Sun, does not enjoy convergence. We are by no means complacent, but our exclusive readership in the Toronto market is greater than the other three papers combined. It is difficult

NADbank-CMA % Readership					
Saturday Star vs.					
The Toronto Star	40.1	-			
The Toronto Sun	12.9	3.1x			
The Globe and Mail	10.8	3.7x			
The National Post	7.4	5.4x			

to buy around The Star if you want to reach people Toronto through newspapers. A comparison of Saturday readership is instructive.

We have applied for new

television licences to serve Kitchener-Waterloo, Hamilton and Toronto. If we win approval from the Canadian Radio-television Telecommunications Commission (CRTC), we will be able to provide both our viewers and advertisers with a truly local station. We will be able to cross-sell and cross-promote these stations with our other properties in the region. The decision by the CRTC will not be made public until after this report is issued.

#### The Newspaper War

The newspaper war continued in 2001, but we have seen signs of the war abating. Mr. Black has abandoned the field. The Aspers are determined to make the Post a viable proposition but, in our opinion, there is not room in this country for two national business papers, let alone four Toronto papers. There is only one Wall Street Journal in the U.S. and only one Financial Times of London. Why would Canada be able to support two? As a result, both the Globe and the National Post are losing substantial amounts of money. The Star remains the dominant paper in this market by a wide margin – and it remains profitable.

On another front, Torstar's "transit" paper, Today, combined forces with Swedish-owned Metro to launch MetroToday, with a circulation of approximately 182,000. This means Torstar owns The Star – the largest circulation paper in Toronto – and 50% of MetroToday – the second largest paper in the market. The Sun's entry, FYI, has closed down. MetroToday should break even in 2002.

#### Metroland

Our weekly newspapers continue to perform well. People depend on these papers for local information. But, unlike dailies, advertising drives the business; that is, if a community can support a paper more than one day a week, Metroland increases their frequency. Many Metroland papers publish three days a week. By contrast, a daily newspaper cannot drop Monday when there is not enough advertising to support it. This is a very flexible entrepreneurial – driven organization that contributed \$56 million in EBITDA in 2001.

#### Harlequin

Harlequin had another excellent year, with EBITDA growing from \$109 million to \$114 million, a 5% increase. Harlequin is a consistent performer. In the 20 years that Torstar has owned 100%

#### To Our Shareholders

of Harlequin, this is the 16th time Harlequin has grown its profit. Harlequin continues to invest close to 5% per annum in new product development to ensure it changes with the times. Book lines that accounted for 97% of sales in 1981, when Torstar bought the last 30% of Harlequin, only account for 25% of revenue today. In the last five years, our single title line (as opposed to Harlequin and Silhouette series) has grown to almost 25% of overall revenues. There is a real energy at Harlequin today that augurs well for the future.

I want to express my thanks to Brian Hickey. Brian retired as Chairman and CEO of Harlequin at the end of 2001 after 20 years of outstanding leadership. He developed a solid management team. Donna Hayes, a 16-year veteran of the company, is the new President. I am confident that she will lead Harlequin to even higher levels of growth.

#### Outlook

We have now come full circle. The disposition of non-core assets is behind us. We have a strong balance sheet with reasonable financial leverage after buying the regional dailies from Quebecor for \$345 million in early 1999. Our net debt sits at a very reasonable \$502 million. We expect to generate free cash flow after dividends (before capital expenditures) of approximately \$100 million on an annual basis.

How Torstar decides to allocate this capital in the future will be an important call for the CEO and the Board. I think it is safe to say, in the short term, that Torstar will "stick to its knitting", focusing on internal growth and paying down debt. Future acquisitions will be related to our core businesses, assuming prices are reasonable. Torstar is in a strong position in this market - there are no "must buys".

We look forward to an improved year in 2002. Our newspaper revenues depend on the economy, and revenue growth will depend on whether there is an economic turnaround in the latter half of the year. Harlequin's growth is expected to continue in the single title area, and with the launch of more contemporary series targeted at a new, younger audience.

On the cost side, we see \$31 million from newspapers and \$13 million from Harlequin flowing to the bottom line in 2002 through a combination of factors, including lower newsprint prices, labour savings in circulation, and the elimination of losses from GTA Today and Harlequin's craft program, and so on. On a base of \$200 million EBITDA, this \$44 million in savings is a good start.

Torstar is well positioned entering 2002. As I pass the reins over to Rob, I am most proud of the management team we have put in place across Torstar. Your company is in good hands.



# David Galloway

David A. Galloway joined Torstar Corporation in 1981. He became President and Chief Executive Officer for Harlequin worldwide in 1982. He deserves much of the credit for Harlequin's recovery in the early 1980's by cutting costs and enhancing Harlequin's direct marketing operations. Under his leadership, Harlequin acquired the Silhouette Book Publishing Division of Simon & Schuster, delivering a dramatic upswing in Harlequin's earnings and returning the company to its position as the largest publisher of series romance fiction in every market in which it competes. Harlequin has shown profit growth for 16 of the last 20 years, rising from \$13 million in 1982 when David took over as Chief Executive Officer to over \$100 million this year.

David was appointed President and CEO of Torstar Corporation in 1988. In his 14 years as CEO, he has led the company successfully through challenging economic and competitive climates. From the takeover bid for Sun Media Corporation in 1998, David and his team successfully negotiated the purchase of four regional daily newspapers – The Hamilton Spectator, The Record, The Cambridge Reporter and the Guelph Mercury – extending Torstar's reach into the most lucrative region outside of Toronto.

Under David's leadership, Torstar built its Interactive Media Division, which now includes Toronto Star Television and more than 40 web sites

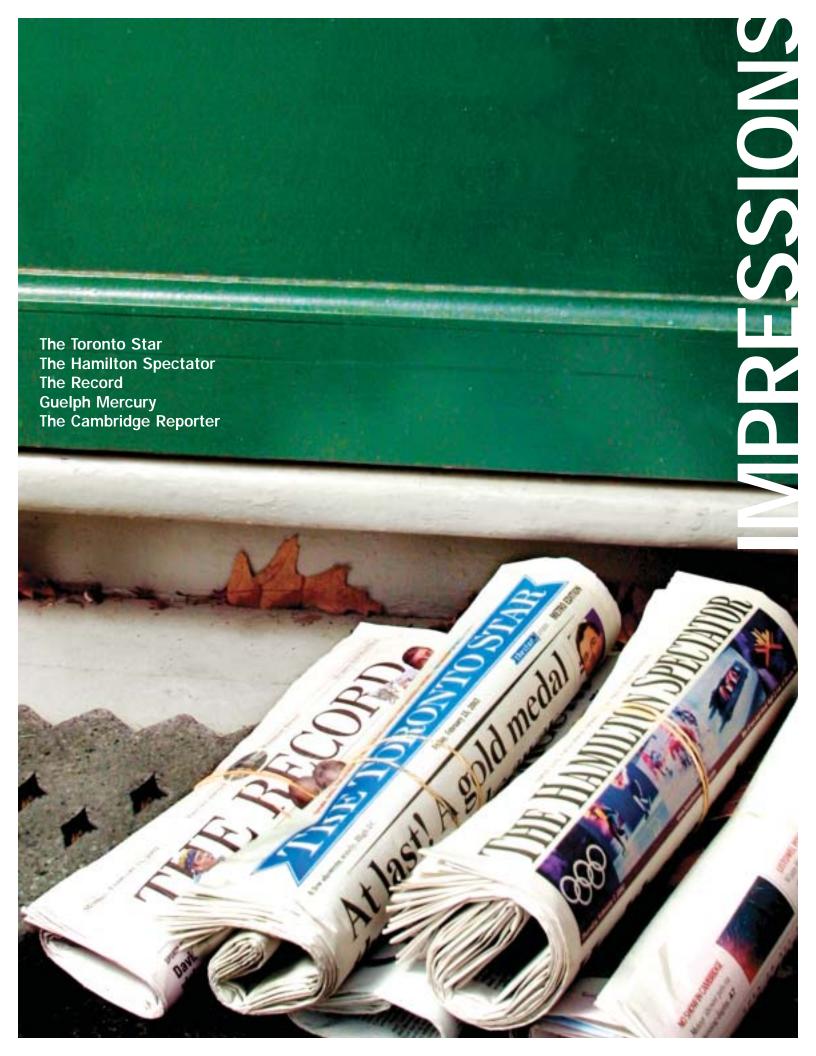
that cumulatively attract nearly one billion page views annually. He also initiated Torstar's strategy to expand its television business with Hometown Television, a proposal to build local TV stations in Toronto, Hamilton and Kitchener-Waterloo. This led to the company's formal submission to the CRTC last December.

As a pioneer of and believer in convergence, David resisted fashion and market pressure to find a convergence partner at any price. While other media companies were buying at unsupportable multiples, David was pursuing a different strategy, wisely questioning what convergence must be worth to justify the acquisition premiums. His strategy has been vindicated by subsequent changes in the relative market capitalization of Torstar and its converged media competitors.

David's most recent and significant contribution has been his role in the recruitment of an outstanding successor and in orchestrating a seamless transition in CEO leadership – a feat always expected but rarely achieved. The Board of Directors appreciates the wise and sensitive leadership David Galloway has given Torstar for more than two decades.

John R. Evans Chairman, Board of Directors







**John Honderich** Publisher, The Toronto Star

#### Torstar Media Group's vision

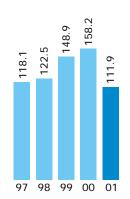
is to be the premier source of local and regional news, information and entertainment in southern Ontario. No other media company can offer the reach and penetration of Canada's most lucrative market that TMG can. Torstar's combination of daily, community and specialty newspapers gives us the unique ability to reach and influence a large group of consumers, as well as drill down into highly targeted communities.

Torstar is the dominant newspaper publisher in southern Ontario. Torstar's newspaper businesses are in the second fastest growing urban market in North America. They include four leading daily newspapers, 68 award-winning community newspapers, the largest Chinese daily in Canada, 50% ownership of Toronto's transit paper, and a host of specialty publications. Torstar has developed new relationships with consumers through its on-line properties and investment in Toronto Star TV.

The Toronto Star and the regional daily newspapers – The Hamilton Spectator, The Record, the Guelph Mercury and The Cambridge Reporter – have a combined regional circulation of approximately 662,000 papers a day. Metroland has a weekly circulation of 3.7 million people. Sing Tao's past week readership is approximately 200,000 in Canada. Revenue from daily and community newspapers in the southern Ontario market was nearly \$800 million in 2001.

The ongoing newspaper war continues to make Toronto one of the most competitive media markets in North America. At the beginning of 2001, Toronto was served by four daily newspapers and three commuter newspapers. The four daily papers remain in the market and The Toronto Star remains twice as large as any of its daily competitors.

Only one of the three commuter papers survived the year. After



EBITDA (\$ Millions) Newspaper Segment

merging its transit paper with competitor Metro International S.A., Torstar now owns 50% of the new product, MetroToday. With a circulation of 182,000, MetroToday is now the second largest circulation daily in Toronto.

Newspaper revenues decreased 5% from \$843 million in 2000 to \$800 million in 2001. The decline in advertising revenues and increased newsprint costs (prices up 12% year over year) resulted in a 29% decline in EBITDA from \$158.2 million earned in 2000 to \$111.9 million in 2001.

#### The Toronto Star

Despite dramatic changes in the competitive landscape in 2001, year three of Toronto's newspaper war saw The Toronto Star maintain its position as the pre-eminent paper in the marketplace. Significant changes at the competing National Post – including the exit of Conrad Black from the Toronto newspaper scene – did not distract The Star from waging a highly successful battle for newspaper supremacy. The Star remains by far the number one newspaper in Greater Toronto and the largest circulation daily in Canada. Despite a severe downturn in advertising results, The Star generated \$40.7 million of EBITDA, down from \$70.1 million earned in 2000.

#### Editorial

Unspeakable horror descends on the world

Following the devastating terrorist attacks in New York and Washington on September 11, The Star was swift to react with a special eight-

page Extra that hit city streets five hours after the first plane hit the Twin Towers. The next day, The Star sold an additional 172,000 copies of a special edition of the paper, setting a one-day record for single copy sales. The Star also devoted significant resources to covering the disaster's aftermath and the resulting war on terrorism, assigning more editorial staff and photographers to cover the war in Afghanistan than any other Toronto daily.

The Star also led the way with coverage of the other big story of 2001, Toronto's bid for the 2008 Summer Olympics. The Star's editorial excellence was recognized in 2001 with three prestigious National Newspaper Awards. Latin American bureau chief Linda Diebel won for a look at kidnapping in Colombia; photographer Andrew Stawicki was honoured in the feature photography category for a poignant photo of a husband comforting his wife about to undergo organ transplant surgery; and Leslie Papp, a member of The Star's medical investigative team, won for a series of stories on the burgeoning herbal medicine industry. Diebel also won the 2001 Amnesty International Canadian media award for a story on children who disappeared during the military dictatorship in Argentina.

A program of strategic hiring continued in the newsroom with the addition of several high-profile writers and columnists including entertainment columnist Martin Knelman and business columnists Jennifer Wells and David Olive. Editorial expanded its business coverage during the year and unveiled a new Prestige Wheels section. STARWEEK, The Star's television and entertainment magazine, was redesigned and relaunched in March with a larger format, more photos and more engaging editorial content.

The Star continued to build an ongoing partnership with the Canadian Broadcasting Corporation with a series of joint projects. In May 2001, Star Publisher John Honderich was elected chairman of Canadian Press, Canada's national news service.

#### **Advertising**

The economic downturn, the highly competitive Toronto newspaper market and the aftermath of the September 11 tragedy contributed to declines in most advertising categories in 2001. Linage declined by 12.7% as compared to prior year. Substantial declines were experienced in categories such as Careers/Help Wanted, National and Technology.

Despite this, The Star responded to readers and advertisers with flexibility, creativity and an eye to creating value. The Star launched a midweek Travel section to aid an industry in distress after the events of September 11th. It also created two new products to support the homebuilder industry - a weekday Home Buyer's Guide and a Home Builder Profile magazine.

The company reaffirmed its vision for and commitment to integrated marketing and sales across the Torstar Media Group in 2001. The group intends to build on the success of fully integrated sales campaigns with Scotiabank Mortgages and the Rogers AT&T Cup in 2002.

A company-wide effort resulted in a dazzling 3D edition of The Star in April, containing 67 three-dimensional photographs. One million cardboard 3D viewing glasses were distributed for free in STARWEEK Magazine and at selected retailers in the GTA. 3D Day won an international award and was showcased at several industry conventions as an example of innovation in newspaper advertising.

Beating out 120 Canadian companies, Advertising's Classifieds Call Centre was ranked number one for employee satisfaction for the 2001 Service Quality Management Award.

#### TOTAL WEEKDAY CIRCULATION Circulation

2000 2001 454,240 GLOBE SUN **POST** 

Third Quarter Comparison

The Star's circulation grew in the latest ABC results.

Source: ABC Audit Statements ending Sept. 30, 2001 less than 2%.

With 453,935 average daily sales, The Star's weekday circulation remains very close to the previous year's levels. On Saturday, The Star experienced an average decline in circulation for the year of 2.4%, due in part to the impact of a carrier strike last spring. A 10% decline in Sunday circulation reflects the impact of a circulation offer we ended last fall with sister papers The Record (Kitchener-Waterloo) and The Cambridge Reporter. Without this impact, the true decline in Sunday circulation is

There was significant change in the marketplace in the last half of 2001, including a change of ownership, layoffs and editorial sections cut at the National Post. An analysis of the Audit Bureau of Circulations (ABC) figures from the last three months of the ABC year (from July – September) shows the Post down 12.6% on weekdays and 8.6% on Saturday. During this time, The Star's weekday circulation grew 0.8% and declined 0.7% on Saturday.

The Star has maintained its leadership position while, at the same time, outsourcing the management of its home delivery operation in the Greater Toronto Area. This transition was completed on schedule by the end of August, reducing staff distribution costs by more than 50 per cent, and generating savings of more than six million dollars a year. On-time delivery of The Star was significantly improved during the year and the customer complaints ratio was dramatically reduced.

#### **Philanthropy**

The Star's public charities, The Fresh Air Fund and The Santa Claus Fund, were again successful in helping children in Toronto. The Fresh Air Fund, which celebrated its 100th anniversary in 2001, over-achieved its goal of \$470,000 and collected more than \$615,000 from Star readers to help send underprivileged children to summer camp. The Santa Claus Fund, which provided more than 40,000 Christmas gift boxes to deserving children in 2001, collected an impressive \$1.1 million in its fall campaign.

The Star also ran a successful employee United Way campaign in 2001, collecting more than \$265,000 in staff donations. An equal amount was contributed at the corporate level bringing The Star's total contribution to more than \$500,000. This contribution placed The Star among the top 10 United Way contributors in Toronto.

# Regional Dailies

Local newspapers are an important medium for all markets. No other company has the voice and relationships with consumers in Hamilton, Kitchener-Waterloo, Cambridge and Guelph as Torstar enjoys with its local daily newspapers. The Regional Daily newspaper group consists of The Hamilton Spectator and the three Grand River Valley Newspapers: The Record, the Guelph Mercury, and The Cambridge Reporter. These rich and diversified markets complete the coverage of Canada's most lucrative region outside of Toronto, reaching 60% of all adults across the region.

Leadership at the Regional Dailies changed in 2001 with former Toronto Star General Manager, Jagoda Pike, becoming Publisher of The Hamilton Spectator and Senior Vice-President of Regional Daily Newspapers. She replaced former Spectator Publisher Pat Collins, who became CFO and Senior Vice-President of Operations for Torstar Media Group.



Jagoda Pike
Publisher, The Hamilton Spectator
Senior Vice-President, Regional Daily Newspapers, TMG

#### The Hamilton Spectator

A major focus at The Hamilton Spectator in 2001 was cost reduction, given the economic softness and the resulting decline in advertising revenue, particularly in the national category. Earnings declined despite the positive impact of the cost reduction measures and the creation of new revenue sources, including an innovative auction program. Advertisers offered their product for a Spectator auction with the funds raised going toward the purchase of advertising space. The program generated more than \$600,000 in ad revenue at The Spectator and has since been shared with other newspapers within TMG. Additionally, an agreement was struck with CanWest to sell auction services to most of their newspapers across Canada.

Despite the availability of low-priced, competing Toronto newspapers, The Spectator maintained net paid circulation levels by focusing on high editorial quality and leveraging its local news franchise. A series on mental health was awarded the B'nai Brith Canada Media Human Rights Award and The Spectator received three Western Ontario Newspaper Awards. Special afternoon editions of The Spectator were published and sold through single copy outlets on September 11 following the terrorist attacks in the U.S. and on October 8 following the start of air strikes in Afghanistan. Improvements such as a Saturday magazine section and an expanded and redesigned Spectator TV television listings book were also introduced in 2001. As a result, The Hamilton Spectator remains the dominant paper in the Hamilton/Burlington market with NADbank six-day cumulative readership increasing more than three percentage points to 71.6% of adults.

The Spectator successfully negotiated settlements with unions in the editorial and mailroom departments. The mailroom settlement contains provisions that improve efficiency and reduce wage costs significantly over the three-year term.

Early in the year, The Spectator became the first daily newspaper in North America to achieve ISO 9002 registration. This internationally recognized standard was awarded following the establishment of quality systems that meet the rigorous standards required for ISO 9002 status.

Recognition was also received from the International Newspaper Marketing Association with an award for promoting Newspaper In Education programs at The Spectator. Six first place awards were also received from the Northeast Classified Advertising Managers' Association for excellence in classified advertising initiatives.

On the community relations front, The Spectator's Summer Camp fund enjoyed its most successful year with donations up more than 30% from 2000. The fund raised more than \$150,000 to help send underprivileged children to camp.

#### **Grand River Valley Newspapers**

2001 was a year of change for the Grand River Valley Newspapers (GRVN) comprised of The Record, the Guelph Mercury and The Cambridge Reporter. Efforts that began in 2000 to integrate operations of the three newspapers continued in 2001 in order to improve efficiency and grow revenue by sharing resources.

Wayne MacDonald retired in March following 10 successful years as Publisher of The Record. In July, Fred Kuntz was appointed Publisher, The Record and Group Publisher, Grand River Valley Newspapers. The makeup of the senior management team changed significantly as new Directors of Advertising, Circulation, Finance, Production, Human Resources and Marketing were all appointed during the year.

Declining ad revenue negatively affected earnings at GRVN in 2001 as lower ad linage more than offset significant gains in The Record's advertising line rate. Improved print quality and colour capability when The Record transferred printing to the Vaughan Press Centre in 2000 were positive factors in growing the line rate. A new, improved television book was launched during the year and The Record earned an impressive 11 Western Ontario Newspaper Awards for editorial excellence.

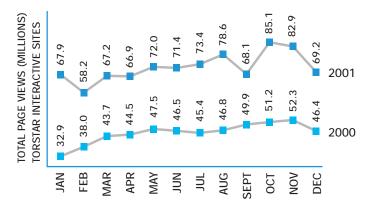
GRVN leadership carefully studied and analyzed the market to develop a regional strategy that would strengthen the franchise in the face of declining circulation at The Record and the Guelph Mercury, and financial losses at The Cambridge Reporter. The resulting initiatives, announced in November 2001, will be implemented in 2002 to improve the products, market share and profitability.

As part of the change, GRVN will stop publishing the Guelph Mercury's Sunday edition and reinvest those resources into the other six publication days to improve editorial content. The Cambridge Reporter is being transformed from a daily newspaper with a circulation of 7,000 to a twice weekly community newspaper delivered free to 50,000 homes in Cambridge and south Kitchener, offering excellent advertising reach and insert distribution.

The Record, the last afternoon-delivery newspaper of its size in Canada, will convert to a morning publication, offering delivery by 6:30 a.m. Monday to Friday. This is expected to increase readership and circulation of The Record and improve advertising effectiveness as the newspaper becomes more timely and available for longer during the day. The Record will also target the Cambridge market as the only daily newspaper providing local, regional, national and world news.

#### Interactive Media

Torstar Media Group's interactive properties continue to support core businesses and grow into profitable entities. The newspapers' interactive properties generated total revenues of \$25.8 million in 2001 compared with \$14.9 million in 2000. EBITDA losses decreased from \$10.8 million in 2000 to \$7.7 million in 2001 due to reduced development spending.



#### thestar.com

In 2001, the star.com continued to reach new highs in both traffic and revenue. Record-breaking page views of 5.9 million per week in September and October, due largely to the interest in breaking news post September 11, contributed to an overall increase in traffic on newspaper web sites of 45% over 2000. Revenues continued to grow by double-digits despite a decline in the Canadian online advertising market in 2001.

2001 also saw the launch of WayMoreSports.com, a sports portal serving all of Torstar's properties. WayMoreSports.com offers coverage of all major sports from professional to the high school level and includes detailed content on sports that receive only limited

coverage in the newspapers. With WayMoreSports.com, traffic to the company's online sports content grew by 60% over the previous year, to average page views of 1.1 million per week in December.



Much effort in 2001 was spent preparing the web sites for improved performance in the future. Major initiatives in 2001 included automating the content publishing system and building a publishing system for online Classifieds. As a result of these activities, Torstar web sites now have automatic access to all editorial content of The Toronto Star that can be instantly repurposed to the web by our editors. As a result of our Classified online publishing system, The Toronto Star has unbundled the online component of classified ads and has begun charging its Classified advertisers to place their ads on thestar.com.

# workopolis.com

workopolis.com, Canada's largest job site, saw significant revenue improvement in 2001, growing by 96% year-over-year to \$13.8 million. This was accomplished in the face of a recruitment market hit hard by a weak economy. Throughout the year, Workopolis averaged

over 900 companies posting to its job database and 500 searching its resume database per month. Workopolis also acquired Campus Worklink this year, giving it the leading position in online Canadian campus recruiting.

A number of new services were launched including Workopolis Corporate Works, a service that gives employers the ability to have Workopolis' industry-leading functionality power their own recruitment

Workopolis provides clear evidence that, by combining the promotional capacity of newspapers with the accessibility and ubiquity of the internet, one can create a Canadian company better able to serve job-seeking Canadians and recruiters. In 2001, Torstar Media Group exercised a condition in the original partnership agreement with Bell Globemedia and increased its ownership share in Workopolis from 40% to 50%.

#### toronto.com

toronto.com not only increased revenue by 16%, but it also reduced its losses by \$2 million and expects to break even in 2002. Torstar owns 50% of toronto.com. toronto.com is Canada's leading city guide and the second most trafficked city guide in North America. It finished the year with 11 million page views in December, an increase of 30%

over the prior year. Over 1,000 businesses in Toronto now benefit from toronto.com's unique ability to deliver a highly targeted audience.



# Torstar Media Group Television

Torstar Media Group Television (TMG TV) has enjoyed significant gains in the infomercial business, commercial television production and broadband services.

TMG TV operates: Toronto Star TV, a successful 24-hour infomercial channel reaching 1.4 million households in the Greater Toronto Area; TMG Production, a full-service video production facility featuring Avid editing suites, a 3D virtual set studio, postproduction, webcasting and encoding services; and TMG Entertainment, which develops television concepts and pilots to extend Torstar brands into television and onto the web. TMG Entertainment was instrumental in the development of the new teen series on YTV, Road Scholars, and its companion web site.

Torstar made its submission to the Canadian Radio-television Telecommunications Commission (CRTC) for three licensed television stations in Toronto, Hamilton and Kitchener-Waterloo in December 2001. Torstar's approach, called Hometown Television, will be overwhelmingly Canadian, drawing on the roots of television. As local stations serving the Golden Horseshoe, Hometown Television would greatly expand access to television and provide cost-effective advertising opportunities for local businesses. The CRTC is expected to issue its decision in the Spring of 2002.





#### **Community Newspapers**



Murray Skinner President

# Metroland Printing, **Publishing & Distributing**

Metroland, Ontario's largest and most successful community newspaper publisher, provides local news and advertising media in Canada's heartland. It currently publishes 68 newspapers with a total of 114 editions. Combined distribution of Metroland's newspapers exceeds 3.8 million copies per week. Newspapers are concentrated in southern Ontario and centred around Toronto.

There is more to Metroland than community newspapers. Metroland also publishes seven local "Business Times" editions, monthly specialty products such as Forever Young and City Parent, annual large-print phone books, a variety of niche products, and a number of other publications. The company produces several consumer shows including the Toronto and Montreal Golf and Travel Shows, the National Bridal Show and the Fifty Plus Lifestyles and Travel Show.

Metroland prints most of its own newspapers on company-owned presses housed in five different printing locations. Metroland is also a large commercial printer for other publications.

Metroland is one of the most sophisticated distributors of flyers and circulars in Canada. Flyers are distributed to households in advertiser-defined areas, primarily using Metroland's newspapers. Flyers are also delivered in bags and hung on apartment doors in communities with a high concentration of apartment buildings.

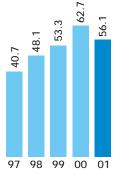
Metroland's flyer distribution volumes continued to grow in 2001 to more than 1.8 billion pieces, an increase of 9.3% over 2000 levels. Distribution volumes have grown every year for 18 consecutive years.

#### **Financial Highlights**

Metroland continued its legacy of success and profits in 2001. Although the company finished behind its record profit of 2000, Metroland recorded its second most profitable year in history. Metroland earned \$51.0 million in 2001 compared to \$58.2

million in 2000 and \$49.3 million in 1999. The economic downturn, which affected all media companies in 2001, had a negative affect on earnings but was minimized through cost control and new sales initiatives. These included the introduction of on-line auctions, additional special sections and a variety of advertising packages. These new initiatives contributed to Metroland's operating revenue of \$265 million in 2001, up 2.7% from the prior year.

Advertising linage in 2001 fell 1.2% from 2000 levels (down 4.3% after backing out the effect of acquisitions made during 2000). The downturn had its largest effect on classified advertising, which started the year



EBITDA (\$ Millions)

Metroland continued its tradition as an industry leader by producing community newspapers that are consistently rated the best in Ontario or best in Canada. During 2001, Metroland received 42 national awards from the Canadian Community Newspaper Association (CCNA) including 18 first-place, seven second-place and 17 third-place finishes. Of particular

with strong first quarter linage results but weakened as the year progressed and finished 8.4% below 2000.

EBITDA for 2001 was \$56.1 million compared to \$62.7 million in 2000 and \$53.3 million in 1999.

note, the Oshawa/Whitby This Week was named best all-around newspaper in Canada in the largest circulation class.

A Tradition of Excellence

At the provincial level, Metroland was honoured with 49 awards from the Ontario Community Newspaper Association (OCNA), including 18 first-place, 12 second-place and 19 third-place awards. The awards included firsts in general excellence for the Stouffville Sun (under 1,999 circulation), the Bowmanville Statesman (12,500 to 24,999 circulation) and the Newmarket Era-Banner (above 25,000 circulation).

Metroland also garnered a number of awards at the annual Suburban Newspapers of America (SNA) competition including Ron Lenyk, Publisher of The Mississauga News, being recognized as Suburban Newspaper Publisher of the Year and winner of the Dean Lesher Award.

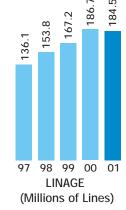
#### 2001 Market Research

Metroland commissioned Kubas Consultants to conduct its seventh consecutive biennial readership study covering each Metroland newspaper. The study is the largest and most comprehensive, dedicated community newspapers readership study in North America.

Results of the 2001 study confirm that Metroland newspapers are well read, and deliver results for advertisers. For example, 3.2 million adults read a Metroland newspaper in the last week, a

> number that has more than doubled in the last 10 years. Metroland readers spend an average of 20 minutes reading each Metroland newspaper issue, they keep it in their homes for an average of 2.5 days and refer to each issue an average of 1.8 times.

Metroland newspapers are rated ahead of daily newspapers, radio, television and direct mail as a good or excellent source of shopping news and information in the markets they serve. Over 81% of adults receiving a Metroland newspaper find flyers very useful or somewhat useful and 56.8% or 2.6 million adults receiving a Metroland newspaper prefer to receive flyers in their Metroland newspaper.



#### **Community Newspapers**

#### **Business Ventures**

This group consists of MetroToday, the Sing Tao dailies, eye weekly and Real Estate News. The Business Ventures Group had revenues of \$26.8 million in 2001, a 4% increase from 2000. Labour disruptions at Sing Tao and start up losses associated with Today resulted in an EBITDA loss of \$3.7 million in 2001 compared with a loss of \$1.6 million in 2000.

In early 2002, Business Ventures was reorganized as a division of Metroland Printing, Publishing and Distributing. In this new structure, Business Ventures will continue as an important growth vehicle for Torstar.

#### MetroToday

Torstar entered into a joint venture with the Swedish-owned Metro International S.A. to merge Torstar's transit paper Today with Metro. The original two free daily papers were launched in July 2000 and had been competing vigorously prior to the merger. The newly merged MetroToday launched on July 9th, 2001. Daily circulation is 182,000 copies across the GTA, making it the second largest circulation newspaper in Toronto. The other free daily, FYI, published by Sun Media, ceased operation in October 2001.

Monday to Friday, MetroToday strives to publish a daily newspaper that meets the needs of customers, readers and advertisers. Editorially the paper is designed for the timestarved, young, educated, employed person who has a light appetite for traditional daily newspapers. The paper delivers a complete but succinct news package that can be read in less than 30 minutes.

MetroToday provides the advertiser with a cost effective vehicle that targets a primary audience of non-newspaper readers between the ages of 18-34, skewing slightly female. The concise format of 24 to 32 pages increases advertising awareness.

#### Sing Tao

In 1998, Torstar formed a strategic alliance with Sing Tao Holdings Limited. Torstar owns an approximate 50% interest in the Canadian operations of Sing Tao's media group. Sing Tao Daily publishes the largest Chinese language newspaper in Canada, with editions in Toronto, Vancouver, Calgary and Montreal. In addition to the newspaper, Sing Tao's Canadian media group is also involved in printing, outdoor advertising, radio broadcasting and magazines. Past week readership in Canada is approximately 200,000. Sing Tao provides Chinese language news radio programs through a strategic alliance with CHIN Radio-TV International.

Sing Tao's operations in Toronto were unionized in 2000. The newspaper continued to publish every edition during a six-week strike in early spring 2001, and successfully negotiated a first contract for its staff in May 2001.

Sing Tao also announced a Canada-wide restructuring plan, including a staff reduction, that resulted in savings of \$1.6 million annually.

Sing Tao launched its new, full-colour Sunday magazine on January 27th, 2002. Since then, Sunday circulation is up 50% in Toronto, despite a price increase. Circulation is also up significantly in Vancouver.

#### eye Weekly

eye, a weekly arts and entertainment publication, commenced publishing in 1991. eye is distributed free every Thursday to over 2,400 outlets in Metropolitan Toronto. eye reaches the much sought after demographic of readers between the ages of 18-34. This demographic is important to advertisers for their long-term buying power and potential. eye's appeal and successful penetration among this group is a result of its ability to reflect its readers' active lifestyle. Circulation is approximately 108,000 copies per week, while readership is around 267,000, according to the Print Measurement Bureau.

#### **Real Estate News**

Real Estate News is Toronto's largest real estate publication, and is produced, marketed, printed and distributed weekly by The Toronto Star through a joint venture agreement with the Toronto Real Estate Board. Real Estate News comprises three weekly publications: Real Estate News GTA edition (with a circulation of approximately 100,000); Kitchener-Waterloo Real Estate News (with a circulation of approximately 10,000); and Town & Country Real Estate News, published in Stratford servicing Huron and Perth counties (with a circulation of approximately 5,000).



# MetroToday



# Harlequin Enterprises



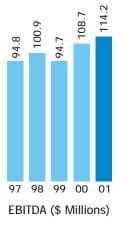
**Donna Hayes**President & Chief Operating Officer

# **Harlequin Enterprises**

Harlequin creates entertaining and enriching experiences for women to enjoy, to share and to return to.

Harlequin is a leading publisher of women's fiction, with 2001 revenues of \$583 million.

Harlequin is unique in the publishing business, combining imprints – Harlequin, Silhouette and MIRA – that are well-recognized by consumers, global reach in 94 international markets, a highly successful book club, and a web site which is second to none. These unique capabilities allow Harlequin to promote and sell its authors around the world, wherever and whenever women shop. In 2001, Harlequin sold 150 million books, written by over 1,300 authors and achieved EBITDA (excluding eHarlequin) of \$114.2 million, a 5% increase over 2000.



Harlequin has also extended beyond publishing to create activity-based products that deliver on the company's promise of providing wonderful experiences for a woman's discretionary time.

Harlequin's overall strategy is to continue to show excellent results in the core series romance business, aggressively grow its market share in the broader arena of single title women's fiction and extend its reach into other areas of women's discretionary time through its Creativity Division. Under the Harlequin and Silhouette imprints, the company enjoys a very strong position in the romance category, publishing 13 different series with 64 titles each month. Each series is distinctly positioned, offering a wide variety of stories to capture readers' interest. In addition, Harlequin publishes anthologies and single titles under the Harlequin and Silhouette imprints. As well, several Harlequin romance series in Spanish are exported into the U.S. market and, through the Steeple Hill imprint, Harlequin publishes heartwarming inspirational romance for the Christian market.

MIRA is Harlequin's fastest growing imprint in mainstream women's fiction, ranging from romance to psychological suspense to relationship novels. MIRA publishes at least four new titles each month, many of which become national and international bestsellers with multiple listings on the New York Times, USA Today and many other lists.

The company has also expanded its recently launched hardcover and trade size format publishing program and views this as an opportunity for significant growth in the future. Additionally, Harlequin's Worldwide Mystery imprint publishes excellent mystery fiction and the Gold Eagle imprint publishes action adventure fiction.

#### **Editorial**

Harlequin has established a strong level of reader trust and brand equity within the imprints by consistently delivering quality editorial content that meets readers' taste and exceeds their expectations.

Editors in three acquisition centres in Toronto, New York and London are responsible for publishing more than 1,000 new titles annually, working closely with our 1,300-plus authors.

The Harlequin and Silhouette imprints acquire and develop more first-time authors than most publishers, maintaining a strong, diverse author base that is able to respond to the changing needs of the marketplace. Red Dress Ink, Harlequin's newest imprint, demonstrates the company's ability to find and develop new talent and new voices, with almost half the first year's young authors making their publishing debut. A young woman from Denmark became the first author acquired through eHarlequin.com's writer website. Of the over 20,000 aspiring authors' work that is assessed each year, between 25-50 new authors join the Harlequin family.

Harlequin's multi-national editorial group continues to deliver on a tradition of excellence and innovation that has sustained and expanded the author base, readership and genre for decades. Editors effectively select and build talent from within, in addition to acquiring brand new as well as established and successful top authors in the women's fiction field through the very successful MIRA imprint.

#### Retail - North America

The North American retail business showed excellent growth in 2001, posting revenue gains of 17%, fuelled by strong series and MIRA product introductions and the continuing success of Harlequin's dedicated sales force.

In response to strong reader demand for sexier editorial, Harlequin added a new series, Harlequin Blaze, to its product offering in 2001. The successful launch of Harlequin Blaze was supported by a national print campaign, coupons, public relations and consumer promotions programs in North America, and the new series is currently being rolled out around the world.

Capitalizing on the new genre of women's fiction known as "chick lit", made famous by the success of Bridget Jones' Diary, Harlequin launched an exciting new program in trade paperback format under a new imprint. Red Dress Ink is a women's fiction program that depicts young, single, primarily urban women coping with the pressures that accompany a career, the dating scene and all other aspects of modern life. The launch of Red Dress Ink was met with accolades from reviewers: "Harlequin gets hip"—The New York Post; "Harlequin flirts with young female readers. Red Dress Ink novels are different from the stereotype many non-readers hold of romantic fiction."—USA Today.

# Harlequin Enterprises

This imprint is key in attracting new and younger readers to Harlequin. Both media attention and response from the trade and consumers has been extremely positive.

Overall, Harlequin's titles made a strong showing on the New York Times bestseller list in 2001. Across all imprints, Harlequin placed six titles among the top 15 bestsellers for a total of 29 weeks, with Nora Roberts' Time and Again spending four weeks at #1. Authors like Debbie Macomber and Sandra Brown also figured prominently. Carla Neggars, Susan Wiggs, Heather Graham, Erica Spindler, Candace Camp and others have become national bestsellers, with multiple appearances on key lists such as USA Today and book retailer lists. In the first full year of the hardcover program, over half of the titles Harlequin published placed among the top 30 New York Times bestsellers.



Harlequin's commitment to building the Harlequin Silhouette brands and MIRA authors is significant. Harlequin ran a \$3 million consumer print campaign in support of the brand in nationally distributed magazines such as People, Cosmopolitan, Glamour, Soap Opera Digest and Parenting. Harlequin's annual

Romance Report generated more than 300 million media impressions in 2001. Harlequin's quarterly newsletter, Inside Romance, reaches over 300,000 women with news about upcoming titles and promotions. Television, print and radio advertising, public relations campaigns, consumer contests and special in-store merchandising resulted in millions of advertising impressions reaching the consumer throughout the year. Harlequin's website, eHarlequin.com, promoted the Harlequin business through more than 200 million impressions.

#### **Direct-to-Consumer Group**

In early 2002, eHarlequin.com and the Direct Marketing division merged into one group that will be known as the Direct-to-Consumer Group. This new group will combine all of the skills of the Internet group with Harlequin's direct marketing capabilities from consumer insight to cost-effective customer acquisition. In addition, the Internet marketing initiatives will benefit from the success in loyalty marketing achieved in the Direct channel. The combined group will achieve its revenue and earnings targets in 2002 by focusing on providing more choice and convenience to Harlequin's customers through customer development, product development and technology and by achieving cost savings in the streamlined operation.

#### **Direct Marketing**

The Direct Marketing Division provides Harlequin with a unique, competitive advantage in the marketplace, allowing Harlequin authors exposure to a completely different segment of the reading public. 2001 Direct Marketing results were solid, but were pressured by a general industry decline in the direct mail list market and by the combined impact of three United States postal rate increases totaling 25% in an eighteen-month period.

Harlequin eliminated the use of sweepstakes in its direct mail acquisition programs in 2001. Legislative pressures and market reactions to highly promotional sweepstakes offers resulted in a decline in the effectiveness of these techniques. Helping combat negative market pressures, the Direct Marketing group launched the "Diamond Club" loyalty program. This program, aimed at the most loyal of Harlequin's direct-to-home consumers, rewards longstanding customers with a variety of benefits and has had an extremely positive impact on how well members pay and how long they remain active with Harlequin.

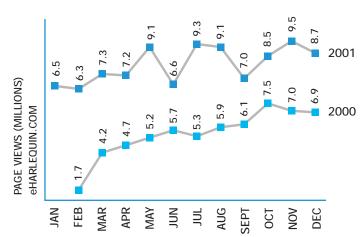
The continued success of Steeple Hill is opening up new market niches for the Direct Marketing group. Strong growth in this area has helped offset the decline in the traditional direct mail list market.

#### eHarlequin.com

eHarlequin.com provides Harlequin with an outstanding opportunity to speak directly to Harlequin's readers around the world, to create a community where readers and authors can come together, and to promote and sell books. eHarlequin.com moved into its second year of operation in 2001. Revenues reached \$13.3 million in 2001, up 121% from 2000. EBITDA losses decreased by \$11 million to \$6 million, as the start-up development and marketing costs in 2000 were not repeated in 2001.

Despite challenges posed by a disintegrating Internet supplier network, eHarlequin achieved several key objectives, the most significant of which was the delivery of an exceptional online experience for the Harlequin reader. In particular, the eHarlequin Community or message boards continued to grow as readers eagerly contributed their thoughts on reading and writing Harlequin books. To tap into this keen reader interest in writing, a new channel called "Learn to Write" was launched in March. The Online Reads channel continues to be the most popular. These serialized stories are exclusive to the site and prove to be an excellent free sampling mechanism for new and avid readers alike.

The financial instability that plagued the entire Internet industry in 2001 affected eHarlequin.com to the extent that several of its suppliers went out of business. As a result, effort intended to deliver new features to the site was redirected to putting new



# Harlequin Enterprises

supporting structures in place. In particular, eHarlequin.com's partner Women.com was acquired by iVillage and the resulting combined network of women's sites no longer held significant value for the achievement of eHarlequin.com's objectives. eHarlequin.com is no longer part of the Women.com/iVillage network and has seen no negative impact due to ending the relationship.



While the behind-the-scenes work proved challenging in 2001, consumer facing activity met with great success. Over 500,000 new members joined eHarlequin.com in North America, viewing over 95 million pages of content. According to Bizrate.com, which collects direct feedback from millions of customers immediately after online purchase, eHarlequin.com ranks #2 among all online booksellers in North America. eHarlequin sites were launched in eight overseas markets in 2001, further extending Harlequin's global reach.

#### Overseas

In Overseas, revenues were stable as readers purchased larger-format, more expensive books, despite a small decline in overall unit sales. Revenue growth is expected in 2002 as this strategic effort gathers momentum in all overseas markets. The MIRA single title program launch in Japan was particularly successful, attracting outstanding press coverage and retail involvement.

The United Kingdom was successful in getting its first two MIRA titles onto the bestseller list in the U.K. for the first time, which is key to growing sales and distribution in that market. The MIRA single-title business in every overseas market will be expanded in 2002 and beyond.

In 2001, earnings in Overseas were flat as a result of some restructuring changes which, combined with the general softening of economies around the world, made trading conditions more difficult than in 2000. Japan struggled to maintain its impressive 2000 series growth rates, and Spain/Latin America saw a number of its South American markets soften with the political and economic unrest in countries such as Argentina. The U.K., the second largest overseas market after Japan, grew earnings by almost 20%, Australia grew profits more than 20% over the soft 2000 results and the Polish business recovered very well from a significant loss in 2000, due largely to efforts in marketing and distribution.

The launch of eight additional Overseas Harlequin websites (making a total of nine – all with a common look and feel) in the second half of 2001 will not only generate sales, but will

open a new channel for customer communications and services. Two new product launches will take place in most markets in 2002 – Red Dress Ink and the Harlequin Blaze series (The U.K. and Australia successfully launched Blaze in the last quarter of 2001), both targeted to a new, younger audience. With a number of new country managers in place, and an emphasis on growing the series business while

introducing the very successful MIRA single-title program around the world, Overseas anticipates a strong 2002 with growth in books sold, revenues and earnings.

#### **Creativity Division**

Within Harlequin's mission to "create entertaining and enriching experiences for women to enjoy, to share, and to return to," the Creativity Division's mandate is to extend those experiences beyond book publishing to include activity-based products that address other relevant areas in women's lives.

In 2001 the Creativity Division focused its efforts on its two core business units: Brighter Vision Learning Adventures (BVLA), and Curiosity Kits, and decided to cease further investment in a number of additional continuity concepts that were in test phase. BVLA and Curiosity Kits represent established businesses creating and marketing products to mothers of young children. The products they create help mothers help their children develop early childhood and preschool skills and express their creativity and imagination.

Brighter Vision Learning Adventures is a direct-to-home continuity program for children aged one to six. It is designed to allow mothers and children to spend quality time together developing early school skills. 2001 marked another successful year in this business with earnings growing 21% over 2000. In addition, substantial effort was directed at expanding the program's distribution as well as developing additional new products, setting the stage for another strong year in 2002.

Curiosity Kits creates and markets activity kits for children aged four to 14 and sells to consumers predominantly through specialty retail channels. After a very successful 2000, Curiosity Kits experienced a difficult 2001, due primarily to the impact of retailer consolidation in the specialty channel. The company invested in strengthening its sales force and product development capabilities in 2001 and should benefit from these initiatives in 2002.

# ACCOUNTABILITY



Robert Steacy Vice-President, Finance

Certain statements in this report may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

#### **BUSINESS OF THE CORPORATION**

The principal activities of Torstar are the publication of newspapers, women's fiction and their related Internet activities. Torstar reports its operations in three segments: Newspapers, Book Publishing, and Interactive Media.

#### **Consolidated Operating Results**

Earnings per share from continuing operations fell to \$0.04 in 2001 versus \$1.12 in 2000. The lower earnings were due to significant unusual losses in the year and the economic driven decline in newspaper results.

Excluding the impact of the unusual items and the Interactive Media portfolio gains which cause variability in comparing the company's year over year results, earnings per share from continuing operations would have been:

	2001	2000
As reported	\$0.04	\$1.12
Unusual items	0.60	(0.05)
Interactive media portfolio (gains) losses	0.05	(0.21)
	\$0.69	\$0.86

Revenues were \$1.423 billion in 2001, down \$22 million from \$1.445 billion in 2000. Revenue for the Newspaper segment was down \$43 million, while Interactive Media and Book Publishing revenues were up \$17 million and \$4 million respectively.

The 2001 results include an unusual loss of \$71 million. This loss consists of a \$29 million write-off of Torstar's investment in ITI Education Corporation, \$25 million for the costs associated with the strike by The Toronto Star's carrier force and a strike at Sing Tao, a \$13 million provision for restructuring primarily within the Newspaper segment, and \$4 million related to the windup of an overseas pension plan.

Income from continuing operations before the amortization of goodwill fell to \$21 million in 2001 from \$101 million in 2000. The amortization of goodwill, net of tax, was \$18 million in 2001 compared with \$17 million in 2000. Beginning in 2002, Torstar will apply the recommendations of The Canadian Institute of Chartered Accountants ("CICA") on business combinations and intangible assets and will cease to amortize its goodwill.

During 2001, Torstar sold the education operations – Frank Schaffer Publications, Tom Snyder Productions and Delta Education – of its Children's Supplementary Education Publishing ("CSEP") segment. The results of these operations have been accounted for as a discontinued operation. Due to a downturn in market conditions, the proceeds on the sale were lower than originally anticipated, resulting in losses from discontinued operations of \$90 million in 2001 (\$48 million in 2000).

Net loss, including the loss from discontinued operations, was \$87 million in 2001 compared to a net income of \$36 million in 2000.

#### **NEWSPAPERS**

The Newspaper segment consists of both daily and community newspapers. The daily newspapers include The Toronto Star and the Regional Dailies – The Hamilton Spectator and the Grand River Valley Newspapers (The Record (Kitchener-Waterloo), The Cambridge Reporter, and the Guelph Mercury). The Community Newspapers include the newspaper and distribution operations of Metroland Printing, Publishing and Distributing as well as the jointly owned MetroToday and Sing Tao newspapers, the wholly owned eye Weekly, and the Real Estate News publications.

Revenues for the segment decreased 5% from \$843 million in 2000 to \$800 million in 2001. The decline in revenues along with higher operating costs produced operating profit for the segment of \$64 million in 2001 compared with \$112 million in 2000.

Details (in thousands of dollars) are set out in the table below.

2001	Toronto Star	Regional Dailies	Community Newspapers	Total
Operating revenue	\$378,943	\$129,582	\$291,437	\$799,962
Operating profit	4,951	13,176	46,268	64,395
Depreciation	35,754	5,629	6,125	47,508
Segment EBITDA	\$40,705	\$18,805	\$52,393	\$111,903
Return on revenue:				
<ul> <li>operating profit</li> </ul>	1.3%	10.2%	15.9%	8.0%
• segment EBITDA	10.7%	14.5%	18.0%	14.0%
2000				
Operating revenue	\$423,386	\$136,237	\$283,443	\$843,066
Operating profit	34,244	21,961	55,610	111,815
Depreciation	35,892	5,050	5,455	46,397
Segment EBITDA	\$70,136	\$27,011	\$61,065	\$158,212
Return on revenue:				
<ul> <li>operating profit</li> </ul>	8.1%	16.1%	19.6%	13.3%
• segment EBITDA	16.6%	19.8%	21.5%	18.8%

EBITDA is earnings before interest, taxes, depreciation and amortization. Management believes that most of its shareholders, creditors, other stakeholders and analysts prefer to analyze the company's results based on this performance measure.

This has been a difficult year for the Newspaper segment. Each of the operating units felt the impact of the softening of advertising revenues that began in the last quarter of 2000 and continued throughout the year. The tragic events of September 11th exacerbated the market challenges.

The economic situation in Southern Ontario strongly impacts this segment. The Conference Board of Canada reported an increase in Canadian consumer confidence in December of 2001 and is expecting the U.S. economy to rebound in the second half of 2002. Both of these factors could result in an improvement in the Southern Ontario economy during 2002.

In addition to the economy, newsprint prices directly impact the results for the Newspaper segment. As the economy has softened, newsprint prices have been rolled back. The spring 2001 price increase was fully rescinded by mid year and newsprint prices have declined every month since. The current expectation is that newsprint prices will be stable for the upcoming year. The Newspaper segment consumes approximately 150,000 tonnes of newsprint each year. If current pricing holds, the Newspaper segment will realize savings of \$13 million over 2001 costs.

During 2001, this segment undertook various cost reduction initiatives. The Toronto Star completed the outsourcing of its home delivery distribution and the restructuring of its interactive operations, Sing Tao restructured its workforce, and both Metroland and the Regional Dailies reduced staff. In total, 254 positions were eliminated for annual estimated savings of \$12 million. In 2002, the Newspaper segment will reap most of the full year benefit of these initiatives.

The Toronto Star's collective bargaining agreements all expired at the end of 2001. Contract negotiations began at the end of November with proposals being exchanged with the Joint Council of Unions. Negotiations are continuing with The Star's unions. The Regional Dailies have 12 agreements covering approximately 700 employees. The largest two agreements, covering 300 employees, will expire in 2003. An agreement covering 100 advertising employees in Hamilton will expire in December 2002. Metroland has four agreements covering 190 employees that will expire in 2003 and 2004.

The Newspaper segment is expected to show some recovery in operating profits in 2002, realizing on the full year benefit of cost reductions undertaken in 2001 as well as revenue growth. The revenue growth is, however, contingent on a recovery in the Southern Ontario economy by at least the middle of the year.

#### Daily Newspapers - The Toronto Star

Operating profit at The Toronto Star declined to \$5 million in 2001, driven by a 10% decrease in revenues. An 8% reduction in newsprint consumption helped to partially offset higher newsprint prices resulting in variable costs being 3% higher. Labour and other costs were down 7% from 2000 reflecting in part a partial year's savings from the outsourcing of circulation.

The strong competition in the Toronto newspaper market continued throughout 2001, but with some changes late in the year. The National Post's strategy appears to have been altered with CanWest's acquisition of Hollinger's interests in September. Under CanWest's ownership, the National Post has laid off 130 employees, eliminated sections and features like Saturday Night, and reduced the number of bulk copies being distributed. Bell Globemedia continues to compete strongly in the national market with the Globe and Mail, while integrating its various media properties together. While there is some indication that some stability may be coming to the market place, it is anticipated that the advertising market will continue to be a challenge in 2002.

R.O.P advertising revenues of \$307 million were 8% lower than last year due to a 13% linage decline. The linage decline can be attributed to economic conditions impacting the key advertising categories of employment (down 38%), retail and national (both down 11%). The World Trade Center tragedy on September 11th caused a dramatic decline in the travel category. A portion of the linage decline has been offset by a 6% realized increase in line rates.

The Star's circulation faced a number of challenges during the year including the outsourcing of home delivery and the threeweek strike by its carrier force. Circulation revenues were down \$6 million to \$60 million, while net paid circulation volumes have been maintained.

In early 2002, The Star entered into an agreement with CanWest Global Communications to print the entire southern Ontario edition of the National Post at the Vaughan Press Centre. The Hamilton Spectator had previously printed half of the National Post. This contract provides The Star with an opportunity to utilize printing capacity at the Vaughan facility.

In 2002, The Star will continue to emphasize its market dominance in Toronto. The need for advertisers to be in The Star - "you can't buy around it" - will continue, while some competitors make changes that reduce their market reach. The Star will continue its efforts to maintain circulation levels. The successful completion of outsourcing in 2001 will provide stability in circulation performance in 2002. The plan is for reduced bulk sales in 2002, without significant decreases in total circulation.

#### Daily Newspapers - Regional Dailies

At the Regional Dailies, revenues in 2001 were \$130 million, down from \$136 million in 2000. Operating costs increased slightly, resulting in operating profits of \$13 million for the year compared with \$22 million in 2000.

Operating profit at The Hamilton Spectator was primarily affected by declining advertising revenue. Lower advertising demand in the automotive and telecommunication categories, as well as weakening local retail and classified revenue after September 11th were key factors in a decline in R.O.P. advertising revenue. Lower newsprint costs and cost reduction initiatives undertaken in

late 2001 are expected to generate annual savings of \$1 million beginning in 2002, which will offset some of the contribution lost from the departure of the National Post commercial printing contract. The challenge for The Spectator in 2002 will be to grow revenue in an uncertain economy.

The Grand River Valley Newspapers (The Record, The Cambridge Reporter and the Guelph Mercury) had a difficult year as their economies were also affected by the downturn. The Record was printed at The Star's Vaughan facility for all of 2001. This allowed it to leverage its colour capacity to help increase its average line rates. Despite a 13% drop in linage, advertising revenues at The Record declined only 6%. The Grand River Valley Newspapers saw significant changes in management during 2001. With most of the changes complete by the end of the year, these papers are ready to tackle their growth plans for 2002. As part of those plans, The Record will move to morning delivery and The Reporter will convert from a daily to a community-based twice weekly paper. These initiatives are expected to result in the newspapers better serving their markets.

#### **Community Newspapers**

The Community Newspapers are those that focus on a specific community or market segment. They include the 68 community newspapers published by Metroland and the publications of MetroToday, Sing Tao Daily, eye Weekly and Real Estate News.

Revenues for the Community Newspapers were \$291 million in 2001, up \$8 million from 2000. This division reported operating income of \$46 million in 2001 compared to \$56 million in 2000.

Metroland felt the impact of the economic slow-down in 2001. Earnings were \$51 million, which were \$7 million lower than the record profits of \$58 million reported in 2000. Revenues reached \$265 million, up \$7 million from the previous year.

Metroland's R.O.P. linage dropped only slightly year over year (1%) but was down 4% after backing out the effect of acquisitions made in mid 2000. Most of the linage decline occurred in the second half of the year. Average line rates increased by almost 2% during 2001. The distribution business remained strong with 1.8 billion pieces distributed in 2001, up 9% over 2000. The increase in volume was mainly due to the business transferred as a result of the closure of The Toronto Star's Total Market Coverage product.

Metroland's 68 newspapers currently publish 114 editions. Their unique business model focuses on local markets, which allows the company to experiment with new editions, sections and related products with a minimum amount of investment and limited risk. Metroland has responded to the economic challenges of the past year by decreasing staff, eliminating some editions and introducing new special sections.

Metroland is expected to weather the current economic difficulties by continuing to control costs and create new sales initiatives. Metroland is positioned to take full advantage of an economic turnaround.

During the first six months of 2001, Torstar published GTA Today, a free commuter newspaper in Toronto. In the second quarter, Torstar and Metro International S.A. (publisher of Metro, a competing publication) reached an agreement to jointly publish MetroToday. The first issue of MetroToday was published on July 9, 2001. With a 182,000 copy press run, MetroToday is the second largest circulation newspaper in Toronto (second only to The Toronto Star). MetroToday's only remaining direct competitor, FYI (published by Quebecor) ceased publication in mid October. The merging of operations resulted in lower operating losses in the latter half of 2001 and the \$5 million in start-up losses of Today will be saved in 2002.

Torstar owns approximately 50% of the Sing Tao Canadian Media Group, a leading Chinese language publisher. A six-week strike and the subsequent first contract settlement with Sing Tao's union in the spring of 2001 impacted the Sing Tao operations in Toronto. These events and a weak economy resulted in a 40% decline in operating profits. Sing Tao ceased publication of Vancouver's Taiwan Daily in July and has just completed a restructuring and streamlining plan. With these changes in place, Sing Tao should return to historical profit levels in 2002.

#### **BOOK PUBLISHING**

Harlequin Enterprises Limited is a leading publisher of women's fiction, both series romance and single title. It also operates a Creativity Division which produces craft kits and a children's direct-to-home continuity program. In 2001, Harlequin sold 150 million books in 26 languages in 89 international markets. The book business is comprised of three divisions: North America Direct Marketing; North America Retail Marketing; and Overseas.

Harlequin publishes globally under the three main imprints of Harlequin, Silhouette and MIRA. While Harlequin continues to dominate the series romance fiction market, its mainstream single title women's fiction program has grown significantly. This program now accounts for approximately one-half of North American Retail revenues with expansion plans for Overseas in 2002.

Details (in thousands of dollars) are set out in the table below:

	2001	2000
Operating revenue	\$582,573	\$579,169
Operating profit	107,536	102,300
Depreciation and amortization of intangibles	6,618	6,384
Segment EBITDA	\$114,154	\$108,684
Return on revenue:		
<ul> <li>operating profit</li> </ul>	18.5%	17.7%
• segment EBITDA	19.6%	18.8%
Books sold (thousands)		
North America	77,000	76,000
<ul> <li>Overseas</li> </ul>	72,900	76,500
	149,900	152,500

Operating revenue increased by \$3 million in 2001 to \$583 million. North America revenues were up \$5 million, with 2001 revenues reaching \$387 million while Overseas revenues of \$196 million were slightly down from 2000. Within North America, Retail Marketing revenues were up 17% while Direct Marketing and Creativity revenues were down 7% and 2%, respectively.

2001 operating profits were \$108 million up \$5 million from 2000. North American results were up \$6 million due to higher Retail earnings (\$10 million), the closure of the Newsletter business (\$6 million) and favourable foreign exchange rates (\$4 million), offset by lower earnings in Direct (\$7 million) and increased operating losses and development spending in the Creativity Division (\$7 million). Overseas results were down \$1 million from 2000 due in part to unfavourable foreign exchange

In 2002, Harlequin will focus on aggressively growing its single title business globally while maintaining strong results in the core series business.

Total 2002 development spending is expected to be \$3 million, \$7 million lower than the \$10 million spent in 2001. This reflects the decisions to stop the non-book adult continuity programs in the Creativity Division and development spending in China.

#### North America Direct Marketing

North America Direct Marketing results declined \$7 million due to higher postage costs, a shift of business to eHarlequin and a decline in member intake. This decline was partially offset by a \$2 million increase from favourable foreign exchange rates.

North America Direct Marketing volumes continued their downward trend during 2001. During the year, a 20% decline in mail quantities and changes to the marketing program produced lower customer response rates but stronger performing customers with a better payment and retention profile. The lower mail quantities result in lower advertising and promotion costs which improve the contribution from each member.

The decline in mail quantities is partially driven by the reduction in the availability of mailing lists. This has been an ongoing problem since 1999 as the direct mail industry began to adjust its marketing approach and reduce mail volumes. Harlequin has responded to this trend, in part, by developing more specialized mailing lists and increasing promotions to existing members.

During 2001, Harlequin introduced its "Diamond Club" loyalty program on a limited basis. This program resulted in improved retention of longer-term members. This program will be provided to 250,000 members in 2002.

The U.S. mail disruptions in the fall of 2001 have created uncertainty in the direct mail industry in North America. The U.S. Direct Marketing Association has been working hard to educate both the public and their members on how to identify reputable companies and their mailings. Harlequin experienced a drop in response rates for several small mailings during the fall, but rates

appear to be returning to expected levels for its most recent main mailing.

In addition to the uncertainty caused by disruptions in mail service, postage rates are expected to increase during 2002, putting cost pressure on the direct mail business.

In early 2002, North America Direct Marketing and eHarlequin were combined to form the North America Direct-To-Consumer Group. This move recognizes the integration of the Internet with the traditional direct marketing business. The combination of the two groups will allow for a single focus on the customer while providing an alternative source of new members.

In 2002, the North America Direct-To-Consumer Group will focus on building volume through new product introductions, providing choice and convenience to consumers, loyalty programs, creating and leveraging consumer insight and delivering exceptional consumer experiences on-line.

#### North America Retail Marketing

The North America Retail Marketing Division continues to be the largest profit contributor to the Book Publishing segment. In 2001, price and volume increases arising from the growing single title business produced a profit improvement of \$10 million over 2000. Favourable foreign exchange rates provided a further \$2 million of profit improvement.

During 2001, Harlequin's share of the market for single titles continued to grow with Harlequin books appearing on many influential best-seller lists. Six titles appeared on the New York Times best seller list for a total of 29 weeks, while 59 titles appeared for a record 186 weeks on the USA Today list. Included in the single title products are the new Red Dress Ink titles that were introduced in 2001. Harlequin's single title products are higher-priced and sell better than series products, which produces higher contribution. However, they can be more variable in their sales performance.

Harlequin's growth in single titles is complemented by its continued commitment to its core series product. Harlequin Blaze was successfully introduced in 2001 as a new series. Harlequin Blaze is directed to the 18 to 34-year-old segment of the market. This is an important market segment where Harlequin has the opportunity to increase its readership.

In 2002, North American Retail will continue to expand its single title program and develop up to five new programs for the series business.

#### Overseas

Overseas results for 2001 were slightly lower than in 2000. The U.K., Australia and Poland all showed improvements in operating results, but this was offset by declines in Japan and Spain.

The single title program was launched in Japan during 2001 with 20 MIRA titles being published in September. The program started its regular publishing schedule of four new titles bi-monthly in November. While it is still early, initial sales results are positive.

For 2002, the Overseas division will look to grow its core series business through changes in the editorial line-up and pricing. However, the more significant growth potential is from single titles. In 2001, single title revenues were just 13% of Overseas revenues compared with almost 50% of North America Retail revenues. The U.K. and Australia both have single title programs that are performing well and other countries continue to add single titles to their publishing programs.

#### **Creativity Division**

This division includes the results of Learning Adventures and Curiosity Kits along with the non-book adult continuity programs developed by Harlequin.

The Creativity Division had a disappointing year with lower sales at Curiosity Kits and poor results from the non-book adult continuity programs. Operating losses were \$9 million in 2001 compared with a loss of \$2 million in 2000. Harlequin has made the decision to discontinue its non-book adult continuity programs although it will continue to fulfill existing programs during 2002. This will result in a \$6 million profit improvement in 2002.

Learning Adventures is a direct-to-home continuity program of children's education products. Despite a revenue decline of 6% and postal rate increases, Learning Adventures was able to grow its operating income by 21% to \$3 million through savings in product costs, promotion and new product development. Learning Adventures' major challenge is to continue to increase its customer base. In 2002, Learning Adventures will explore two new sources of membership (Internet and partnerships) with the goal to provide an increase in membership levels and a platform for future growth. During 2001, 14% of its new members were acquired through the Internet.

Curiosity Kits creates hands-on activities for adults and children. Operating results declined from a profit of \$2 million in 2000 to a loss of \$2 million in 2001. A significant research and analysis effort launched midway through 2001 has greatly improved Curiosity Kit's understanding of key market success factors, competitor strengths and weaknesses and its own internal capabilities. This process should position the business to rebound in 2002.

#### INTERACTIVE MEDIA

The Interactive Media segment includes the Newspapers' eContent operations, eHarlequin, Torstar's television ventures and Torstar's portfolio of Internet-related investments.

In 2001, Interactive Media lost \$17 million compared with a loss of \$5 million in 2000. The operating losses in the web-based businesses have declined by 43% from \$31 million in 2000 to \$18 million in 2001. The overall loss for the segment increased as the net gains realized on the portfolio investments were only \$1 million in 2001 compared with \$26 million in 2000. The gains on the portfolio investments are net of write-downs on investments that have had an other than temporary decline in value.

Details (in thousands of dollars) are set out in the table below.

	2001	2000
Operating revenue	\$40,128	\$22,839
Operating losses before portfolio transactions	(17,988)	(31,470)
Realized portfolio gains (net of losses & write-downs)	556	26,015
Operating losses	(17,432)	(5,455)
Depreciation	2,539	2,398
Segment EBITDA	(\$14,893)	(\$3,057)

#### Newspaper eContent

The Newspapers' eContent operations include thestar.com, waymoresports.com, newinhomes.com, Torstar Syndication Services, and the jointly owned operations of workopolis.com and toronto.com. Revenues continue to grow in these businesses and operating losses are declining. Total revenues were \$16 million in 2001 compared with \$7 million in 2000 while operating losses decreased from \$15 million in 2000 to \$9 million in 2001.

Torstar Syndication Services is a new division that pulled together several existing operations in order to sell Torstar's content assets to other publishers, companies and consumers. In late 2001, the Pages of the Past product was launched on a trial basis, allowing over 100 years of Toronto Star published pages to be available for sale for the first time in a fully searchable internet database.

Workopolis, which is owned 50% by Torstar, has become the preeminent integrated e-cruiting solution in Canada. Product enhancements were made during the year along with the acquisition of Campus Worklink, a recruitment site connecting 185 Canadian colleges and universities. Torstar's share of Workopolis' operating loss was \$1 million in 2001 compared with a loss of \$3 million in 2000. Workopolis is anticipated to be slightly profitable in 2002. Page views averaged 38 million per month in 2001, up 75% over the average of 21 million per month in 2000. Over 640,000 resumes were posted in December 2001 compared with 312,000 in December 2000.

#### eHarlequin

eHarlequin has operated for almost two years since its launch in February 2000. Revenues exceeded \$13 million in 2001, up \$7 million from 2000 and the site is generating about nine million page views per month. According to Bizrate.com, which collects direct feedback from millions of customers immediately after online purchases, eHarlequin ranks #2 among all online booksellers in North America. eHarlequin reached its target of 1 million members in 2001. By the end of the year, approximately 3% of the 650,000 active members are purchasing on-line. The challenge going forward is to grow both the active member base and the percentage of members buying on a regular basis.

The North American developed eHarlequin web site concept was used in 2001 to launch local sites in Australia, France, Germany, Holland, Italy, Japan, Spain and the U.K. In addition to being costeffective, this also ensures that all of Harlequin's sites have a consistent look, feel and functionality.

#### Television

Toronto Star Television revenues increased in 2001 to \$10 million from \$8 million in 2000 but cost increases, largely attributable to higher cable access fees, resulted in a decrease in operating profits from \$2 million to \$500,000.

In late 2000, Torstar applied to the CRTC for three new conventional over-the-air television licenses in Toronto, Hamilton and Kitchener-Waterloo. Torstar's approach, called Hometown Television, will take local television beyond the early evening news program. It will be overwhelmingly Canadian with a minimum of 85% Canadian content at all times. Hometown Television will provide local advertisers with the opportunity to purchase rateeffective local television advertising time.

If its application is successful, Torstar will be able to bring its newspaper archives and community resources to the television stations while maintaining editorial independence. These television licenses will allow Torstar to build convergence rather than buying it in order to compete on a level playing field with its competitors. The CRTC held public hearings on the applications in Hamilton for two weeks beginning December 3rd. A decision is not expected until April of 2002.

#### Internet-Related Portfolio Investments

During 2001, Torstar realized on most of its publicly traded portfolio. A gain was realized on the shares held in DigitalThink offsetting losses on the positions in ivillage (women.com) and LearningStar (smarterkids). The carrying value of Torstar's remaining publicly traded investment approximates its current market value and is expected to be realized during 2002.

Torstar has written down several of its investments in non-publicly traded companies to their expected realizable values. The positions will be realized if opportunities arise. At this time, Torstar does not anticipate making any significant new Internet related investments in 2002.

#### **ASSOCIATED BUSINESS**

Torstar owned approximately 37% of ITI Education Corporation. ITI was in the business of providing postgraduate information technology-related educational training until it declared bankruptcy in August 2001.

Torstar's share of ITI's operating losses amounted to \$8 million for the seven months prior to its closure. During 2001, Torstar wrote off its investment in ITI resulting in a loss of \$29 million, which is included in Unusual items.

The total after tax loss from the ITI investment was 33 cents per share in 2001 and seven cents in 2000.

#### INTEREST EXPENSE

Interest expense decreased by \$12 million in 2001 to \$29 million. This 29% decrease reflects lower interest rates as well as reduced debt levels throughout the year.

Torstar's effective borrowing rate for 2001 was 5.1%, down from the 6.5% cost of funds for 2000. Torstar has entered into interest rate swap agreements that fix the interest rate on approximately 60% of its debt at 2.5% throughout most of 2002. This program will offset the effect of any market increase in interest rates during 2002.

#### **FOREIGN EXCHANGE**

Harlequin's international operations provide Torstar with 40% of its operating revenues. Fluctuations in exchange rates have an impact on the profitability of the company. The CDN\$/US\$ exchange rate is the most significant relationship for Torstar. In order to manage the currency risk on the majority of its estimated future U.S. dollar cash flows, the company has entered into forward foreign exchange and currency options contracts subsequent to year end to establish the following exchange rates:

Year	Amount (U.S. \$000's)	Exchange Rate Range
2002	\$70,000	1.55
2003	\$70,000	1.56 – 1.67
2004	\$70,000	1.56 – 1.66

These rates are favourable compared to the average exchange rate of 1.54 applicable to 2001 U.S. dollar cash flows. Further details are contained in Note 12 of Torstar's consolidated financial statements.

#### **ACCOUNTING CHANGES**

The company has adopted the CICA's new accounting standards for earnings per share effective January 1, 2001. This new standard has been applied retroactively.

The company will adopt the CICA's new accounting standard for Business Combinations and Goodwill effective January 1, 2002. This standard will be applied prospectively with no goodwill impairment anticipated on its initial application. For 2002 onward, the company will cease to amortize its goodwill acquired on acquisitions. As a result, net income will increase by approximately \$18 million or \$0.24 per share in 2002. Goodwill will be tested annually for impairment under this new accounting standard.

The company will also adopt the CICA's new accounting standard for Stock-Based Compensation effective January 1, 2002. This new standard will be applied for all options granted under the share option plan on or after that date and to the employee share purchase plan starting with the 2002 program. Torstar has chosen to use the intrinsic method for options granted to employees. As a result, note disclosure will be provided of earnings per share had the fair value method been selected.

# **Quarterly Information**

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents net of bank overdraft increased by \$33 million to \$63 million during 2001. Continuing operating activities provided cash of \$92 million during the year while the operating activities of discontinued operations used cash of \$41 million.

Investing activities by continuing operations during 2001 included \$17 million for acquisitions and \$37 million for capital expenditures. Discontinued operations provided \$118 million of cash from the completed sale transactions.

Cash was used in financing activities for a net debt repayment of \$41 million and dividends of \$42 million. The exercise of stock options and other items provided cash of \$5 million.

Capital expenditures in 2002 will increase to approximately \$47 million versus the \$37 million spent on continuing operations in 2001. Major projects include the ongoing investment in an integrated software system for advertising, production and billing for The Toronto Star, colour extensions for the presses in Hamilton and the first year's portion of the three-year, \$32 million press replacement for Metroland. An additional \$20 million will be spent on capital additions if the CRTC approves Torstar's television license applications.

Approximately 24% of Torstar debt is denominated in U.S. dollars. This is consistent with the company's policy of matching the denomination of debt, wherever possible, to the currency of operating assets. The level of U.S. dollar debt has decreased during 2001, reflecting the sale of the CSEP companies which were based in the U.S. The matching of U.S. dollar debt with U.S. dollar assets provides Torstar with a hedge against foreign exchange movements.

Torstar renegotiated its long-term credit facilities in early 2002. The facilities are comprised of a \$200 million five-year, revolving loan and a \$250 million 364-day revolving loan. The \$250 million loan can be extended for up to four additional 364-day terms with the lenders' consent or can be converted to a 364-day term loan at the company's option. The renegotiation of these facilities extends Torstar's ability to borrow and is used to support its commercial paper borrowing and medium-term note programs.

At December 31, 2001, the company had cash and cash equivalents net of bank overdraft of \$63 million and unused credit facilities of \$186 million. Cash balances, operating cash flow, existing credit facilities and the borrowing capacity of the company are considered to be adequate to cover forecasted financing requirements.

# 2001 Quarter Ended (Thousands of \$ except per share amounts)

	March 31	June 30	Sept. 30	Dec. 31
Revenue	\$348,588	\$357,495	\$348,632	\$367,948
Income (loss) from continuing operations	(2,681)	1,909	(7,604)	11,356
Net income (loss)	(\$92,681)	\$1,909	(\$7,604)	\$11,356
Per Class A voting and	Class B non	-voting sha	re	
Income (loss) from continuing operations • basic	(\$0.04)	\$0.03	(\$0.10)	\$0.15
Income (loss) from continuing operations • diluted	(\$0.04)	\$0.03	(\$0.10)	\$0.15
Net income (loss)  • basic	(\$1.24)	\$0.03	(\$0.10)	\$0.15
Net income (loss)  • diluted	(\$1.24)	\$0.03	(\$0.10)	\$0.15

# 2000 Quarter Ended (Thousands of \$ except per share amounts)

Dec. 31

Sept 30

	IVIAICII 3 I	Julie 30	3ept. 30	Dec. 31
Revenue	\$330,375	\$374,464	\$357,573	\$382,662
Income (loss) from continuing operations	17,185	21,566	49,701	(4,737)
Net income (loss)	\$15,865	\$23,551	\$51,983	(\$55,274)
Per Class A voting and	Class B nor	-voting sha	re	
Income (loss) from continuing operations • basic	\$0.23	\$0.29	\$0.67	(\$0.06)
Income (loss) from continuing operations • diluted	\$0.23	\$0.29	\$0.66	(\$0.06)
Net income (loss) • basic	\$0.21	\$0.32	\$0.69	(\$0.74)
Net income (loss)  • diluted	\$0.21	\$0.31	\$0.69	(\$0.74)

March 31

June 30

# **Quarterly Information**

2001 Restated Quarter Ended

#### **REPORTING CHANGE - 2002**

Torstar's Interactive operations have evolved into complementary businesses, very closely linked to the core newspaper and book publishing businesses. The "dot.coms" have become part of our "bricks and clicks" business strategy. This has changed how management views and operates the business. In early 2002, the Interactive operating activities were merged into the traditional businesses. As a result of these changes, Torstar will begin to report two operating segments: Newspapers and Book Publishing effective with the first quarter of 2002.

The Newspaper segment will include the print and interactive operations of The Toronto Star (including thestar.com, waymoresports.com; Torstar Syndication Services; workopolis.com; and toronto.com); The Hamilton Spectator; the Grand River Valley Newspapers (The Record, the Guelph Mercury and The Cambridge Reporter); the Community Newspapers (Metroland, MetroToday, Sing Tao, eye, and Real Estate News); and Toronto Star Television.

The Book Publishing Segment will include the results of Harlequin's book publishing (the newly formed North America Direct-to-Consumer Group, North America Retail Marketing and Overseas) and its Creativity Division.

The gains and losses on Torstar's portfolio investments in other interactive business will be reported as unusual items as they occur. Torstar will apply this change in financial statement presentation retroactively with prior period comparative information being restated.

The pro forma restated quarterly information for 2001 is shown in the opposite chart.

	(Thousands of \$	except per share	e amounts)	
	March 31	June 30	Sept. 30	Dec. 31
Operating revenue				
Newspapers	\$202,474	\$216,240	\$190,512	\$216,539
Book publishing	146,114	141,255	158,120	151,409
	\$348,588	\$357,495	\$348,632	\$367,948
Operating profit				
Newspapers	\$8,986	\$15,840	\$1,782	\$27,692
Book publishing	26,513	21,486	28,308	23,336
Corporate	(2,665)	(2,323)	(2,472)	(3,313)
	32,834	35,003	27,618	47,715
Interest	(9,109)	(8,178)	(6,946)	(4,910)
Foreign exchange				392
Unusual items	(19,409)	(6,214)	(25,539)	(19,382)
Income (loss)				
before taxes	4,316	20,611	(4,867)	23,815
Income and other taxes	(1,500)	(7,300)	1,800	(7,900)
Income (loss) before loss of associated business	2,816	13,311	(3,067)	15,915
Loss of associated business	(1,028)	(6,939)	(55)	
Income (loss) from continuing operations before amortization of goodwill	1,788	6,372	(3,122)	15,915
Amortization of goodwill				
(net of tax)	(4,469)	(4,463)	(4,482)	(4,559)
Income (loss) from continuing operations	(2,681)	1,909	(7,604)	11,356
Discontinued operations	(90,000)			
Net income (loss)	(\$92,681)	\$1,909	(\$7,604)	\$11,356
Per Class A and Class I Income (loss) from		¢0.03	(\$0.10)	¢0.1F
continuing operations	(\$0.04)	\$0.03	(\$0.10)	\$0.15

(\$1.24)

\$0.03

Net income (loss)

(\$0.10)

\$0.15

# Consolidated Financial Statements

#### MANAGEMENT'S REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparation of the consolidated financial statements, notes hereto, and other financial information contained in this 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 maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities by the Audit Committee of the Board. The Committee meets quarterly with management and the internal and external auditors, and separately with the internal and external auditors, to satisfy itself that management's responsibilities are properly discharged, and to discuss accounting and auditing matters. The Committee reviews the consolidated financial statements and recommends approval of the consolidated financial statements to the Board.

The internal and external auditors have full and unrestricted access to the Audit Committee to discuss their audits and their related findings as to the integrity of the financial reporting process.

■ David A. Galloway,

President and Chief Executive Officer

February 25, 2002

■ Robert J. Steacy, Vice-President, Finance

#### AUDITORS' REPORT TO THE SHAREHOLDERS OF TORSTAR CORPORATION

We have audited the consolidated balance sheets of Torstar Corporation as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

■ Toronto, Ontario February 25, 2002 ■ Ernst & Young LLP Chartered Accountants

(Incorporated under the laws of Ontario)

#### **Consolidated Balance Sheets**

December 31, 2001 and 2000

(thousands of dollars)	2001	2000
Assets		
Current:		
Cash and cash equivalents	\$64,755	\$39,469
Receivables (note 2)	210,063	220,806
Inventories	45,699	44,438
Prepaid expenses	70,925	67,331
Prepaid and recoverable income taxes	27,844	5,044
Future income tax assets (note 9)	26,212	32,647
Discontinued operations (note 13)		90,206
Total current assets	445,498	499,941
Property, plant and equipment (net) (note 3)	410,427	425,380
Investment in associated business (note 4)		29,091
Goodwill (net)	447,095	456,730
Other assets (note 5)	95,871	113,466
Future income tax assets (note 9)	91,263	80,752
Discontinued operations (note 13)		150,404
Total assets	\$1,490,154	\$1,755,764
Liabilities and Shareholders' Equity		
Current:		
Bank overdraft	\$1,901	\$9,759
Accounts payable and accrued liabilities	237,300	238,656
Income taxes payable	34,051	43,792
Current portion of long-term debt (note 6)	55,881	100,000
Discontinued operations (note 13)		48,540
Total current liabilities	329,133	440,747
Long-term debt (note 6)	508,848	494,477
Other liabilities (note 7)	76,126	78,635
Future income tax liabilities (note 9)	41,649	65,147
Discontinued operations (note 13)		16,757
Shareholders' equity:		
Share capital (note 8)	295,371	288,316
Retained earnings	240,975	371,641
Foreign currency translation adjustment	(1,948)	44
•	534,398	660,001
Total liabilities and shareholders' equity	\$1,490,154	\$1,755,764
(See accompanying notes)		

ON BEHALF OF THE BOARD John R. Evans Director

Edward L. Donegan Director

# **Consolidated Statements of Income** Years ended December 31, 2001 and 2000

(thousands of dollars)	2001	2000
Operating revenue	\$1,422,663	\$1,445,074
Operating profit		
Newspapers	\$64,395	\$111,815
Book publishing	107,536	102,300
Interactive media	(17,432)	(5,455)
Corporate	(10,773)	(9,804)_
	143,726	198,856
Interest (note 6(h))	(29,143)	(41,283)
Foreign exchange	392	(1,395)
Unusual items (note 14)	(71,100)	(1,600)
Income before taxes	43,875	154,578
Income and other taxes (note 9)	(14,900)	(47,200)
Income before loss of associated business	28,975	107,378
Loss of associated business (note 4)	(8,022)	(6,202)
Income from continuing operations before		
amortization of goodwill	20,953	101,176
Amortization of goodwill (net of tax) (note 9)	(17,973)	(17,461)
Income from continuing operations	2,980	83,715
Discontinued operations (note 13)	(90,000)	(47,590)
Net income (loss)	(\$87,020)	\$36,125
Earnings (loss) per Class A and Class B share (note 8(f))		
Income from continuing operations - Basic	\$0.04	\$1.12
Income from continuing operations - Dataset	\$0.04	\$1.12
Net income (loss) - Basic	(\$1.16)	\$0.48
Net income (loss) - Diluted	(\$1.15)	\$0.48
(See accompanying notes)	(φ1.15)	ψ0.40

# Consolidated Statements of Retained Earnings Years ended December 31, 2001 and 2000

(thousands of dollars)	2001	2000
Retained earnings, beginning of year	\$371,641	\$381,451
Net income (loss)	(87,020) 284,621	36,125 417,576
Deduct: Dividends	43,646	43,334
Premium on the purchase of shares	43,040	43,334
for cancellation (note 8(d))		2,601
Retained earnings, end of year (See accompanying notes)	\$240,975	<u>\$371,641</u>

# **Consolidated Statements of Cash Flow** Years ended December 31, 2001 and 2000

(thousands of dollars)	2001	2000
Cash was provided by (used in)		
Operating activities	\$50,419	\$175,501
Investing activities	60,479	(61,140)
Financing activities	(78,291)	(104,707)
Increase in cash	32,607	9,654
Effect of exchange rate changes	537	(376)
Cash, beginning of year	29,710	20,432
Cash, end of year	\$62,854	\$29,710
Operating activities:		
Income from continuing operations	\$2,980	\$83,715
Depreciation	54,653	53,831
Amortization	21,721	21,237
Future income taxes	(20,729)	1,088
Loss of associated business	8,022	6,202
Write-off of associated business	29,300	
Other	13,386	(475)
Operating cash flow	109,333	165,598
Decrease (increase) in non-cash working capital	(17,622)	19,204
Discontinued operations (note 13)	(41,292)	(9,301)
Cash provided by operating activities	\$50,419	\$175,501
Investing activities:		
Acquisitions (note 10)	(\$17,060)	(\$36,468)
Additions to property, plant and equipment	(36,588)	(54,522)
Proceeds on sale of land and building		45,018
Other	(3,639)	7,994
Discontinued operations (note 13)	117,766	(23,162)
Cash provided by (used in) investing activities	\$60,479	(\$61,140)
Financing activities:		
Issuance of long-term debt	\$118,256	\$70,641
Repayment of long-term debt	(159,712)	(135,939)
Dividends	(42,183)	(43,104)
Purchase of shares for cancellation (note 8(d))		(3,562)
Exercise of stock options (note 8(c))	2,217	5,108
Other	3,131	2,149
Cash used in financing activities	(\$78,291)	(\$104,707)
Cash represented by:		
Cash and cash equivalents	\$64,755	\$39,469
Bank overdraft	(1,901)	(9,759)
	<u>\$62,854</u>	\$29,710
Operating cash flow per share (note 8(f))	44.5-	40.0-
Basic	\$1.45	\$2.22
Diluted	\$1.44	\$2.20
(See accompanying notes)		

#### **Notes to Consolidated Financial Statements**

December 31, 2001 and 2000 (Tabular amounts in thousands of dollars)

#### 1. Accounting policies

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significant accounting policies.

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of the company and all its subsidiaries. The major subsidiaries are: Toronto Star Newspapers Limited; Harlequin Enterprises Limited ("Harlequin"); Metroland Printing, Publishing & Distributing Ltd. ("Metroland"), and TDNG Inc. (Torstar Daily Newspaper Group).

#### (b) Foreign currency translation

Assets and liabilities denominated in foreign currencies have been translated to Canadian dollars primarily at exchange rates prevailing at the year end. Revenues and expenses are translated at average rates for the year. Translation exchange gains or losses relating to self-sustaining foreign operations are deferred and included in shareholders' equity as foreign currency translation adjustments. A proportionate amount of these deferred gains or losses are recognized in income when there is a reduction in the company's net investment in the foreign operation.

Long-term U.S. dollar denominated debt has been designated as a hedge against U.S. dollar assets. As a result, unrealized translation exchange gains or losses are recognized during the period rather than deferred and amortized.

#### (c) Derivative financial instruments

The company manages its exposure to currency fluctuations, primarily U.S. dollars, through the use of derivative financial instruments. Foreign exchange contracts and options to sell U.S. dollars have been designated as hedges against future net U.S. dollar cash flows from operating activities. Gains and losses on these instruments are unrecognized until realized.

The company uses interest rate swap contracts to manage interest rate risks. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on an accrual basis. Any resulting carrying amounts are included in receivables in the case of favourable contracts and accounts payable in the case of unfavourable contracts.

The company does not engage in trading or other speculative activities with respect to derivative financial instruments.

The fair value of derivative financial instruments reflects the estimated amount that the company would have been required to pay if forced to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at year end. The fair value represents a point-in-time estimate that may not be relevant in predicting the company's future earnings or cash flows.

#### (d) Cash and cash equivalents

Cash and cash equivalents consists of cash in bank and shortterm investments with original maturities on acquisition of 90 days or less.

#### (e) Receivables

Receivables are reduced by provisions for anticipated book returns which are determined by reference to past experience and expectations.

#### (f) Inventories

Inventories are valued at the lower of cost and net realizable value.

#### (g) Property, plant and equipment

These assets are recorded at cost and depreciated over their estimated useful lives. The rates and methods used for the major depreciable assets are:

Buildings:

- straight-line over 25 years or 5% diminishing balance Leasehold Improvements:
- straight-line over the life of the lease Machinery and Equipment:
- straight-line over 10 to 20 years or 20% diminishing balance.

#### (h) Investment in associated business

The company's 37% interest in ITI Education Corporation ("ITI"), which was written off in 2001, was accounted for using the equity method.

#### (i) Goodwill

Goodwill is amortized on a straight-line basis primarily over a period of 40 years from the date of acquisition of operations. The company assesses whether there has been an other than temporary decline in the carrying value of goodwill by determining whether the unamortized goodwill balance can be recovered based on the undiscounted future cash flows of the operation.

#### (j) Other assets

The cost of a distribution services agreement is amortized on a straight-line basis over the 10-year term of the agreement. Interactive media investments are accounted for by the cost method. Gains or losses on the disposal of these investments are included in Interactive media operating profit.

#### (k) Employee future benefits

Details with respect to accounting for employee future benefits are as follows:

- The cost and obligations of pensions and post employment benefits earned by employees are actuarially determined using the projected benefit method prorated on service and management's best estimate of assumptions of future investment returns for funded plans, salary changes, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- The discount rate used for determining the benefit obligation is the current interest rate at the balance sheet date on high quality fixed income investments with maturities that match the expected maturity of the obligations.

- Past service costs resulting from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the plans ranges from 13 to 18 years.

Company pension contributions in excess of the amounts expensed in the statements of income are recorded as accrued benefit assets in other assets in the balance sheet. Liabilities related to unfunded post employment benefits and an executive retirement plan are included in other long-term liabilities.

#### (I) Employee share purchase plans

Amounts paid by employees to purchase shares under an executive share option plan (note 8(a)(iii)) and an employee share purchase plan (note 8(b)) are credited to share capital. No compensation expense is recognized for these plans when stock or stock options are issued to employees.

#### (m) Income taxes

The company follows the liability method of income tax allocation.

#### (n) Revenue recognition

Circulation and advertising revenue is recognized when the publication is delivered. Revenue from the sale of books is recognized when they are shipped and title has transferred, net of provisions for estimated returns and direct marketing bad debts which are primarily based on historic performance.

#### (o) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 year. Actual results could differ from those estimates.

#### 2. Receivables

The provisions for anticipated book returns deducted from receivables at December 31, 2001 amounted to \$117 million (December 31, 2000 - \$119 million).

#### 3. Property, plant and equipment

	Cost	Accumulated Depreciation	Net
2001			
Land	\$11,333		\$11,333
Buildings and	200.050	¢02.047	12/ 012
leasehold improvements  Machinery and equipment	208,858 641,944	\$82,046 369,662	126,812 272,282
, , ,			
Total	\$862,135	\$451,708	\$410,427
2000			
Land	\$11,333		\$11,333
Buildings and	Ψγοσο		ψ <sub>1</sub> 000
leasehold improvements	210,623	\$74,234	136,389
Machinery and equipment	604,389	326,731	277,658
Total	\$826,345	\$400,965	\$425,380

#### 4. Investment in associated business

The company's investment in ITI was written off during 2001 as a result of ITI's declaration of bankruptcy in August 2001. The \$29.3 million write-off has been included in unusual items (note 14). The Statement of Income for 2001 includes a loss of \$8.0 million which represents the company's share of losses for the first seven months of the year.

#### 5. Other assets

	2001	2000
Accrued benefit assets	\$70,981	\$71,088
Interactive media investments	13,081	28,372
Distribution Services Agreement	10,630	12,756
Other	1,179	1,250
	\$95,871	\$113,466

#### 6. Long-term debt

	2001	2000
Commercial paper:		
Cdn. dollar denominated	\$241,444	\$49,012
U.S. dollar denominated		130,203
	\$241,444	179,215
Medium Term Notes:		
Cdn. dollar denominated	185,000	285,000
U.S. dollar denominated	138,285	130,262
	323,285	415,262
	564,729	594,477
Less current portion of		
long-term debt	(55,881)	(100,000)
	\$508,848	\$494,477

#### (a) Bank debt

(i) On January 31, 2002, the company entered into long-term credit facilities comprising a \$200 million, five-year revolving loan and a \$250 million, 364-day revolving loan. The \$250 million loan can be extended for up to four additional 364day terms with the lenders' consent or can be converted to

- a 364-day term loan at the company's option. Amounts may be drawn in Canadian or U.S. dollars.
- (ii) Amounts borrowed under the bank credit facilities would primarily be in the form of bankers' acceptances at varying interest rates and would normally mature over periods of 30 to 90 days. The interest rate spread above the bankers' acceptance rate if in Canadian dollars, or LIBOR rate if in U.S. dollars, is currently 0.8% and varies based on the company's long-term credit rating.
- (iii) The unused facilities are designated as standby lines in support of the commercial paper program.

#### (b) Commercial paper

- (i) A facility exists for the company to issue short-term notes in the form of commercial paper. These notes may be issued in Canadian or U.S. dollars to an authorized aggregate principal amount of Canadian \$550 million outstanding at any one time. While the terms of the individual notes are less than one year, they have been classified as long-term as it is intended that the commercial paper program will be an ongoing source of financing and up to \$450 million of the outstanding notes could be replaced at any time by bank debt as noted in (a)(iii) above.
- (ii) The average rate on Canadian dollar commercial paper outstanding at December 31, 2001 was 2.7% (December 31, 2000 – 5.9%).
- (iii) There was no U.S. dollar commercial paper outstanding at December 31, 2001. Commercial paper outstanding at December 31, 2000 included U.S. dollar borrowings of \$87 million. The average rate on U.S. dollar commercial paper outstanding at December 31, 2000 was 6.9%.

#### (c) Medium Term Notes

- (i) On May 27, 1997, the company issued Canadian \$50 million 6.2% notes maturing May 27, 2002. The company has entered into swap agreements, effectively converting this debt into a floating rate \$35.1 million U.S. dollar obligation based on 90 day LIBOR pricing less 0.06%.
- (ii) On May 22, 1998, the company issued Canadian \$75 million 5.7% notes maturing December 1, 2003. The company has entered into a swap agreement, effectively converting this debt into a floating rate \$51.7 million U.S. dollar obligation based on 90 day LIBOR pricing plus 0.15%.
- (iii) On February 9, 1999, the company issued Canadian \$75 million 5.6% notes maturing February 9, 2004. The company has entered into a swap agreement, effectively converting this obligation into a floating rate debt based on 90 day bankers' acceptance rates plus 0.32%.
- (iv) On July 27, 1999, the company issued Canadian \$75 million 5.95% notes maturing July 27, 2004. The company has entered into a swap agreement, effectively converting this debt into a floating rate debt based on 90 day bankers' acceptance rates plus 0.27%.
- (v) On January 17, 2000, the company issued Canadian \$35 million of floating rate notes maturing January 17, 2003. Interest is based on 90 day bankers' acceptance rates plus 0.30%. Interest is paid quarterly.
- (vi) During 2001, \$100 million of Canadian dollar denominated notes matured.
- (vii) In each of (i) (iv), interest on the medium term notes is paid semi-annually and where swap agreements have been

- entered into, payments are due either quarterly or semi-annually.
- (viii) The swap agreements noted above mature on the due dates of the respective notes.
- (ix) The effective interest rate on the Canadian dollar denominated obligations at December 31, 2001 was 2.8% (December 31, 2000 6.3%). The effective interest rate at December 31, 2001 was 2.2% (December 31, 2000 7.1%) on the Canadian dollar debt which has been effectively converted to U.S. dollar denominated obligations.
- (d) The fair values of the various long-term debt instruments exceed their related carrying values by \$3.6 million at December 31, 2001. The fair value of the interest rate component in the above described swap agreements was \$10.5 million, favourable at December 31, 2001.
- (e) Subsequent to year end, the company entered into interest rate swap agreements which fix the interest rate during 2002 on \$86 million of U.S. dollar denominated debt at 2.3% and on \$185 million of Canadian dollar denominated debt at 2.6%.
- (f) The company is exposed to credit related losses in the event of non-performance by counterparties to the interest rate and currency swap instruments, but it does not anticipate any counterparties to fail to meet their obligations given their high credit ratings. The company has a policy of only accepting major financial institutions as counterparties.
- (g) Estimated principal repayments as of December 31, 2001 for the next five years are:

2002	\$55,881
2003	117,404
2004	191,444
2005	-
2006	-

- (h) Interest expense includes interest on long-term debt of \$29,517 (2000 - \$42,083).
- (i) Interest of \$32,070 was paid during the year (2000 \$41,487).

#### 7. Other liabilities

	2001	2000
Post employment benefits	\$69,122	\$71,102
Employees' shares subscribed	7,004	7,533
	\$76,126	\$78,635

#### 8. Share capital

- (a) Rights attaching to the company's share capital:
  - (i) Class A (voting) and Class B (non-voting) shares Class A and Class B shareholders may elect to receive dividends in cash or stock dividends in the form of Class B shares. Class A shares are convertible at any time at the option of the holder into Class B shares.
  - (ii) Voting provisionsClass B shares are non-voting unless eight consecutive quarterly dividends have not been paid.

#### (iii) Share option plan

Eligible senior executives and non-executive directors may be granted options to purchase Class B shares at an option price which shall not be less than the closing market price of the shares on the last trading day before the grant. The maximum number of shares that may be issued under the share option plan is 8,500,000 shares. The term of the options shall not exceed ten years from the date the option is granted. Up to 25% of an option grant may be exercised twelve months after the date granted, and a further 25% after each subsequent anniversary.

#### (iv) Restrictions on transfer

Registration of the transfer of any of the company's shares may be refused if such transfer could jeopardize either the ability of the company to engage in broadcasting or its status as a Canadian newspaper publisher.

(b) Under the company's employee share purchase plan, employees may subscribe for Class B shares to be paid for through payroll deductions over two-year periods at a purchase price which is the lower of the market price on the entry date or the market price at the end of the payment period. The value of the shares that an employee may subscribe for is restricted to a maximum of 20% of salary at the beginning of the two year period. As at December 31, outstanding employee subscriptions were as follows:

	2001		20	000
Maturing	2002	2003	2001	2002
Subscription price	\$17.26	\$18.45	\$16.60	\$17.26
Number of shares	194,885	197,332	209,943	234,536

(c) A summary of changes in the share option plan is as follows:

	Shares	Weighted average exercise price
January 1, 2000	3,365,464	18.44
Granted	1,505,600	15.76
Exercised	(384,100)	13.30
Cancelled	(131,500)	18.73
December 31, 2000	4,355,464	17.96
Granted	2,059,999	19.93
Exercised	(147,950)	14.98
Cancelled	(120,264)	19.89
December 31, 2001	6,147,249	18.65

As at December 31, 2001 outstanding options were as follows:

Options Outstanding			
Range	Number	Weighted	Weighted
of	outstanding	average	average
exercise	December 31,	remaining	exercise
price	2001	contractual life	price
\$10.19-11.50	245,700	3.2 years	\$11.12
\$15.75-18.05	3,090,882	6.3 years	\$16.78
\$18.50-21.90	2,021,667	8.7 years	\$19.93
\$25.00-26.75	789,000	5.1 years	\$25.05
\$10.19-26.75	6,147,249	6.8 years	\$18.65

Options Exercisable		
Range of	Number exercisable	Weighted average
exercise price	December 31, 2001	exercise price
\$10.19-11.50	245,700	\$11.12
\$15.75-18.05	1,627,800	\$16.94
\$18.50-21.90	104,000	\$20.30
\$25.00-26.75	625,750	\$25.04
\$10.19-26.75	2,603,250	\$18.48

It is the intention of the company, subject to shareholder approval at the company's 2002 annual meeting, to increase the maximum number of shares that may be issued under the share option plan by an additional 2,000,000 shares and to grant 1,589,168 share options at an exercise price of \$22.20 per share.

(d) Under a normal course issuer bid, the company repurchased during 2000 222,900 Class B shares for cancellation at an average price of \$15.98 per share for a total consideration of \$3,562,000. Retained earnings were reduced by \$2,601,000 for the cost of the shares in excess of their stated value. There was no issuer bid during 2001.

#### (e) Summary of changes in the company's share capital: Class A (voting) and Class B (non-voting) shares Class A shares

The only changes in the Class A shares were the conversion to Class B shares of 5,662 shares (with a stated value of \$2,000) in 2001 and 31,475 shares (with a stated value of \$8,000) in 2000. Total Class A shares outstanding at December 31 were:

	Shares	Amount
2000	9,963,497	\$2,707
2001	9,957,835	\$2,705

#### Class B Shares

	Shares	Amount
January 1, 2000	64,705,978	\$278,949
Converted from Class A	31,475	8
Issued under Employee		
Share Purchase Plan	129,771	2,255
Share options exercised	384,100	5,108
Purchased for cancellation	(222,900)	(961)
Stock dividends issued	11,882	230
Other	1,125	20
December 31, 2000	65,041,431	285,609
Converted from Class A	5,662	2
Issued under Employee		
Share Purchase Plan	200,402	3,329
Share options exercised	147,950	2,217
Stock dividends issued	76,254	1,463
Other	2,550	46
December 31, 2001	65,474,249	\$292,666

#### **Totals**

The total Class A and Class B shares outstanding at December

	Shares	Amount
2000	75,004,928	\$288,316
2001	75,432,084	\$295,371

outstanding during the year.

An unlimited number of Class B shares is authorized. While the number of authorized Class A shares is unlimited, the issuance of further Class A shares may, under certain circumstances, require unanimous board approval.

(f) Earnings and operating cash flow per share Basic per share amounts have been determined by dividing income (loss) or operating cash flow, as applicable, by the weighted average number of Class A and Class B shares

In 2001, the company has retroactively adopted the recommendations of The Canadian Institute of Chartered Accountants with respect to earnings per share. The recommendations require the application of the treasury stock method for the calculation of the dilutive effect of stock options and other dilutive securities. In calculating diluted per share amounts under the treasury stock method, the numerator remains unchanged from the basic per share calculation as the assumed exercise of the company's stock options and employee share purchase plan does not result in an adjustment to income. The reconciliation of the denominator in calculating diluted per share amounts is as follows:

(thousands of shares)	2001	2000
Weighted average number of		
shares outstanding, basic	75,292	74,695
Effect of dilutive securities		
<ul> <li>stock options</li> </ul>	500	523
<ul> <li>employee share purchase plan</li> </ul>	26	51
Weighted average number		
of shares outstanding, diluted	75,818	75,269

#### 9. Income and other taxes

A reconciliation of income taxes at the average statutory tax rate to the actual income taxes for continuing operations is as follows:

	2001	2000
Income before taxes	\$43,875	\$154,578
Provision for income taxes based on		
Canadian statutory rate of 41.8%		
(2000 – 44.0%)	(\$18,300)	(\$68,000)
(Increase) decrease in taxes		
resulting from:	7 (00	12.400
Foreign income taxed at lower rates	7,600	13,400
Manufacturing and processing	500	2.700
profits allowance Large Corporations tax and other taxes	(3,000)	2,700 (3,400)
Future taxes resulting from changes in	(3,000)	(3,400)
statutory tax or income inclusion rates	4,500	1,800
Non-taxable portion of capital	.,000	1,000
transactions	(4,400)	3,100
Benefit of capital losses not previously	( , ,	
recognized		4,500
Non-deductible expenses	(1,800)	(1,300)
	(\$14,900)	(\$47,200)
Effective income tax rate	34.0%	30.5%

A tax recovery of \$1.6 million has been recognized with respect to the amortization of goodwill (2000 - \$1.7 million). Income taxes of \$56.9 million were paid during the year (2000 - \$53.7 million).

Significant components of the provision for income taxes attributable to continuing operations are as follows:

	2001	2000
Current tax provision	\$37,676	\$55,331
Future tax recovery	(22,776)	(8,131)
Total tax provision	\$14,900	\$47,200

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the company's future income tax assets and liabilities as of December 31, 2001, are as follows:

	2001	2000
Current future income tax assets:		
Receivables	\$20,290	\$20,623
Restructuring provisions	2,796	9,360
Other	3,126	2,664
	\$26,212	\$32,647
Non-current future income tax assets:		
Tax losses carried forward	\$83,858	\$70,444
Pensions	2,643	4,546
Other	4,762	5,762
	\$91,263	\$80,752
Non-current future income tax liabilities:		
Property, plant and equipment	\$35,514	\$58,166
Pensions	4,637	5,056
Other	1,498	1,925
	\$41,649	\$65,147

At December 31, 2001, the company had net operating loss carryforwards of approximately U.S. \$35 million for income tax purposes that expire in 2021, for which no future tax asset has been recognized.

#### 10. Acquisitions

The company completed a number of acquisitions during 2001 and 2000. The consideration for each acquisition was cash. Each acquisition was accounted for under the purchase method. The acquisitions for continuing operations are as follows:

	Company/ Business	Date	Purchase Price	Goodwill
2001				
Newspapers	Community			
	Newspapers	Various	\$5,630	\$5,058
Interactive media	Various	Various	11,430	4,644
			\$17,060	\$9,702
2000				
Newspapers	Community			
	Newspapers	Various	\$10,369	\$8,779
Interactive media	Various	Various	26,099	7,108
			\$36,468	\$15,887

The 1999 acquisition of Curiosity Kits Inc. includes a potential earnout payment to a maximum of U.S. \$6.0 million based on future growth expectations up to and including 2004.

#### 11. Employee future benefits

The company maintains a number of defined benefit plans which provide pension benefits to its employees in Canada, the United States and the United Kingdom. The company also maintains defined contribution plans in the United States and in certain overseas operations of Harlequin. Post employment benefits other than pensions are also available to employees, primarily in the Canadian newspaper operations, which provide for various health and life insurance benefits.

Information concerning the company's post employment benefit plans as at December 31 is as follows:

	Pensio		Post Employmer	t Benefit Plans
(thousands of dollars)	2001	2000	2001	2000
Accrued benefit obligations				_
Balance, beginning of year	\$431,810	\$402,378	\$41,521	\$40,601
Current service cost	7,737	6,818	453	374
Interest cost	29,354	28,723	2,942	2,905
Benefits paid	(35,159)	(24,105)	(1,574)	(1,310)
Actuarial (gains) losses	32,520	10,881	2,451	(1,049)
Participant contributions	7,289	7,115		,
Past service costs	1,524			
Foreign exchange	1,435			
Corporate restructuring giving rise to:	·			
Settlements	(10,102)			
Special termination benefits	2,779			
Curtailments	(295)			
Plan amendments	217			
Balance, end of year	\$469,109	\$431,810	\$45,793	\$41,521
Plans' assets				
Fair value, beginning of year	\$478,107	\$437,841		
Return on plan assets	4,532	44,302		
Benefits paid	(35,159)	(24,105)		
Contributions to plan	18,507	20,069		
Foreign exchange	1,193			
Corporate restructuring giving rise to:				
Settlements	(10,643)			
Fair value, end of year	\$456,537	\$478,107		
Funded status – surplus (deficit)	(\$12,572)	\$46,297	(\$45,793)	(\$41,521)
Unamortized amounts	52,913	(3,533)	1,402	(1,049)
Accrued benefit asset (liability)	\$40,341	\$42,764	(\$44,391)	(\$42,570)
Significant assumptions used				
Discount rate	6.5%	7%	6.5%	7%
Expected long-term rate of return				
on plan assets	7%	7%	N/A	NA
Rate of compensation increase	4%	2.5 to 4%	N/A	NA
Average remaining service period				
of active employees	13 to 18 years	13 to 19 years	N/A	NA
Net benefit expense for the year				
Current service cost	\$7,737	\$6,818	\$453	\$374
Interest cost	29,354	28,723	2,942	2,905
Expected return on plan assets	(32,739)	(30,386)		
Past service costs	1,524			
Settlement loss	1,655			
Special termination benefit	2,779			
Net benefit expense	\$10,310	\$5,155	\$3,395	\$3,279

With respect to the post employment benefit plans, a 7% annual rate of growth in the per capita cost of covered health care benefits was assumed for 2001 (2000 - 8%). The rate of growth is assumed to decrease by 1% per annum until 2003.

The company has outstanding letters of credit of \$22.5 million at December 31, 2001 supporting an unfunded executive retirement plan.

#### 12. Forward foreign exchange contracts and options

The company has made arrangements through forward foreign exchange contracts and various option contracts to allow it to convert into Canadian dollars a portion of its expected future U.S. dollar cash flows. Details of these exchange and option contracts are listed below. The forward foreign exchange contracts and options establish a rate of exchange of Canadian dollar per U.S. dollar of \$1.55 for U.S. \$70 million in 2002 and a minimum rate of \$1.56 for 2003 and 2004. In 2001, the average exchange rate applicable to U.S. dollar cash flows of the company was \$1.54.

#### (a) Forward foreign exchange contracts

The company has entered into forward foreign exchange contracts to sell U.S. dollars which will fix the exchange rate for operations as follows:

	2001		2000	0
	U.S.\$	Rate	U.S.\$	Rate
2001			\$27,000	\$1.52
2002	\$70,000	\$1.55	\$35,000	\$1.51

#### (b) Foreign exchange options

The company has entered into various option contracts which, net of costs, will ensure a rate of exchange in the range as follows:

	2001		20	000
	U.S.\$	Rate	U.S.\$	Rate
2001			\$43,000	\$1.50 – 1.61
2003	\$70,000	\$1.56 - 1.67		
2004	\$70,000	\$1.56 - 1.66		

The contracts related to 2003 and 2004 were entered into subsequent to year end.

#### 13. Discontinued operations

In late 2000, the company announced its intention to sell the education operations – Frank Schaffer Publications Inc., Tom Snyder Productions Inc. and Delta Education Inc. – of its Children's Supplementary Education Publishing ("CSEP") division. Accordingly, the results from these operations have been presented as discontinued operations. The company has retained the consumeroriented assets of the CSEP division including Curiosity Kits Inc. and Brighter Vision Learning Adventures. These businesses and their results have been included in the Book Publishing segment. The sale of the discontinued businesses was completed during 2001. Due to a downturn in market conditions, the proceeds on the sale were lower than anticipated. As a result, a further loss of \$99 million (\$90 million after tax) was recorded during 2001.

Additional information related to the discontinued operations is as follows:

	2001	2000
Statements of Income		
Operating revenue	\$88,724	\$153,193
Results of discontinued operations		
prior to measurement date		
(including tax of \$600)		(\$1,334)
Net loss from discontinued operations		
(net of tax of \$9,000)		
(2000 - \$10,800)	(\$90,000)	(46,256)
Loss from discontinued operations	(\$90,000)	(\$47,590)

No interest expense has been allocated to discontinued operations.

	2001	2000
Balance Sheet		
Current assets		\$90,206
Property, plant and equipment		23,465
Goodwill and other assets		126,939
Goodwin and other assets		\$240,610
Current liabilities		\$48,540
Future income taxes and other		16,757
		\$65,297
Statements of Cash Flow		
Cash was provided by (used in)		
Operating activities	(\$41,292)	(\$9,301)
Investing activities	117,766	(23,162)
	\$76,474	(\$32,463)

#### 14. Unusual Items

Details of unusual items in 2001 and 2000 are as follows:

	2001	2000
Write-off of investment in ITI Strike costs	(\$29,300) (24,600)	
Restructuring provisions Pension cost	(13,000) (4,200)	(\$30,400)
Gain on sale of land and building		28,800
	(\$71,100)	(\$1,600)

The strike costs include the costs associated with the settled strikes at The Toronto Star and Sing Tao. The restructuring provisions are primarily related to the newspaper segment in 2001 and 2000, of which \$13 million is included in accounts payable and accrued liabilities at December 31, 2001 (December 31, 2000 - \$30 million). The defined benefit pension plan in the U.K. is in the process of being wound up, and the pension cost reflects the final settlement of outstanding pension obligations.

#### 15. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2001 financial statements.

#### 16. Segmented information

Management has determined that the company operates three business segments:

Newspapers - Publishing of daily newspapers including The Toronto Star, The Hamilton Spectator and The Record and community newspapers including Metroland's publications.

Book Publishing - Publishing of women's fiction and creation and selling of activity based products for women and children (distributed through retail outlets and by direct mail);

Interactive Media - Interactive media businesses of the Newspapers and Book publishing operations, Toronto Star Television and investments in Interactive media companies.

Segment profit or loss has been defined as operating profit which corresponds to operating profit as presented in the Consolidated Statements of Income. No interest, foreign exchange, goodwill amortization or income taxes are allocated to business or geographic segments.

#### Summary of Business and Geographic Segments of the Company:

	Operating	Revenue	Depreciation and Amortization		Operating Profit		
Business Segments	2001	2000	2001	2000	2001	2000	
Newspapers	\$799,962	\$843,066	\$57,829	\$57,131	\$64,395	\$111,815	
Book publishing	582,573	579,169	13,323	13,097	107,536	102,300	
Interactive media	40,128	22,839	5,108	4,061	(17,432)	(5,455)	
Segment Totals	1,422,663	1,445,074	76,260	74,289	154,499	208,660	
Corporate			114	779	(10,773)	(9,804)	
						_	
Consolidated	\$1,422,663	\$1,445,074	\$76,374	\$75,068	\$143,726	\$198,856	

	Identifiab	le Assets	Additions to Capital Assets and Goodwill		
	2001 <b>2000</b>		2001	2000	
Newspapers	\$926,067	\$966,132	\$34,031	\$54,552	
Book publishing	488,063	416,162	8,069	6,131	
Interactive media	32,798	53,967	4,770	9,087	
Segment Totals	1,446,928	1,436,261	46,870	69,770	
Corporate	43,226	49,802	95	3,933	
			\$46,965	\$73,703	
Investment in associated business		29,091			
Discontinued operations		240,610			
Consolidated	\$1,490,154	\$1,755,764			

	Operating	Revenue	Capital Assets and Goodwill			
Geographic Segments	2001	2000	2001	2000		
Canada	\$848,329	\$879,670	\$744,159	\$766,658		
United States	378,544	368,324	96,225	98,389		
Other (a)	195,790	197,080	27,768	30,070		
Segment Totals	\$1,422,663	\$1,445,074	\$868,152	\$895,117		

<sup>(</sup>a) Principally - United Kingdom, Japan, Germany, Australia, Italy and France.

# **Annual Operating Highlights Continuing Operations**

	2001	2000	1999	1998	1997	1996	1995
Operating revenue (thousands of dollars)							
Newspapers	\$799,962	\$843,066	\$765,717	\$639,565	\$597,254	\$512,437	\$479,069
Book publishing	582,573	579,169	577,013	545,247	495,961	509,897	485,392
Interactive media	40,128	22,839	8,646	5,501	904	108	
Total	\$1,422,663	\$1,445,074	\$1,351,376	\$1,190,313	\$1,094,119	\$1,022,442	\$964,461
Operating Profit & Income from							
continuing operations (thousands of dollars)							
Newspapers	\$64,395	\$111,815	\$107,836	\$85,128	\$90,796	\$44,791	\$15,854
Book publishing	107,536	102,300	88,207	92,850	85,614	86,129	81,963
Interactive media	(17,432)			(1,581)			(4,743)
Corporate	(17,432)	(9,804)		(5,962)			(7,711)
Operating profit	143,726	198,856	185,326	170,435	160,051	115,016	85,363
Interest expense	(29,143)			(17,051)			(16,547)
Foreign exchange	392	(41,203)		324	1,379	826	275
Unusual items	(71,100)	(1,600)	33	(11,500)		020	275
Income before taxes	43,875	154,578	153,211	142,208	141,697	99,192	69,091
Income and other taxes	(14,900)	(47,200)	(52,900)	(49,400)		(32,500)	(23,400)
Income before earnings (losses) of	(14,700)	(47,200)	(32,700)	(47,400)	(47,200)	(32,300)	(23,400)
associated businesses	28,975	107.378	100,311	92,808	94,497	66,692	45,691
(Losses) earnings of associated businesses	(8,022)	(6,202)	(5,516)	145	358	(3,171)	(5,700)
Income from continuing operations before	(8,022)	(0,202)	(3,310)	143	330	(3,171)	(3,700)
amortization of goodwill	20,953	101,176	94,795	92,953	94,855	63,521	39,991
Amortization of goodwill (net of tax)	(17,973)		(13,975)	(7,744)		(7,984)	(7,972)
Income from continuing operations	\$2,980	\$83,715	\$80,820	\$85,209	\$87,129	\$55,537	\$32,019
meetine from continuing operations	Ψ2,700	Ψ05,715	Ψ00,020	Ψ05,207	Ψ07,127	ψυυ,υυτ	Ψ32,017
Operating cash flow	\$109,333	\$165,598	\$152,416	\$145,836	\$152,641	\$116,764	\$84,202
Average number of shares outstanding							
(thousands)	75,292	74,695	74,667	75,926	78,088	79,464	80,678
Per share Data							
Income from continuing operations	\$0.04	\$1.12	\$1.08	\$1.12	\$1.12	\$0.70	\$0.40
Operating cash flow per share	\$1.45	\$2.22	\$2.04	\$1.12	\$1.72	\$1.47	\$1.04
Dividends — Class A and Class B shares	\$0.58	\$0.58	\$0.58	\$0.565	\$0.52	\$0.45	\$0.42
Dividends — Class A and Class D shares	ψ0.30	Ψ0.50	Ψ0.30	ψ0.303	Ψ0.32	ψ0.43	Ψ0.42
Rate of Return on Revenue							
Operating profit	10.1%	13.8%	13.7%	14.3%	14.6%	11.3%	8.9%
Income before (losses) earnings of	13.170	13.070	13.770	1 1.070	1 1.070	1 1.570	3.770
associated businesses	2.0%	7.4%	7.4%	7.8%	8.6%	6.5%	4.7%
Return on equity							
Operating cash flow as a percentage of							
average shareholders' equity	18.3%	24.6%	22.9%	20.4%	22.5%	20.4%	14.7%
Financial position							
Total Assets	\$1,490,154	\$1,755,764	\$1,726,402	\$1,380,907	\$1,370,490	\$1,322,763	\$1,149,839
Long-term debt	508,848	494,477	649,712	355,829	197,322	321,813	333,050
Shareholders' equity	534,398	660,001	684,188	647,055	785,461	573,853	572,707

# Corporate Information

#### Board of Directors

#### John R. Evans

Chairman **Torstar Corporation** Director since 1984

#### Catherine Atkinson Murray

President Atkinson Charitable Foundation Director since 1976

#### David A. Galloway

President & Chief Executive Officer Torstar Corporation Director since 1988

#### Martin P. Connell

Private Investor Director since 1990

#### Campbell R. Harvey

Professor of Finance Duke University Director since 1992

#### Paul G.S. Cantor

Managing Director Canadian Operations Russell Reynolds Associates Co. Director since 1993

#### Edward L. Donegan

Partner Blake, Cassels & Graydon Director since 1993

#### David W. Lay

Corporate Director Director since 1993

#### **Ruth Anne Winter**

Associate Broker, Royal Lepage Director since 1995

#### Lance R. Primis

Managing Partner Lance R. Primis & Partners LLC Director since 1997

#### Nelson Thall

Media Scientist Director since 1998

#### Christina A. Gold

Chairman & Chief Executive Officer Excel Communications Inc. Director since 1998

#### A. Michael Spence

Partner Oak Hill Venture Partners Director since 1999

#### J. Murray Cockburn

Retired Executive Vice-President Torstar Corporation Director since 2001

#### Officers

#### David A. Galloway

President & Chief Executive Officer

#### J. Robert S. Prichard

Chief Operating Officer & President Torstar Media Group

#### Robert J. Steacy

Vice-President of Finance

#### Karen Hanna

Vice-President Human Resources Strategy

#### D. Todd Smith

Treasurer

#### **Gail Martin**

Director of Finance

#### Marie E. Beyette

Director of Legal Services & Secretary

# Corporate Office

One Yonge Street Toronto, Ontario, Canada M5E 1P9 Telephone: (416) 869-4010 Fax: (416) 869-4183

Website: www.torstar.com/corporate

e-mail: torstar@torstar.ca

# Transfer Agent & Registrar

CIBC Mellon Trust Company P.O. Box 7010 Adelaide Street Postal Station Toronto, Ontario M5C 2W9 AnswerLine (416) 643-5500 www.cibcmellon.com inquiries@cibcmellon.com

Torstar Class B shares are traded on the Toronto Stock Exchange under the symbol TS.B

# Operating Companies -**Products and Services**

#### **Torstar Daily Newspapers**

The Toronto Star The Hamilton Spectator The Record **Guelph Mercury** The Cambridge Reporter

#### **Community Newspapers**

#### Metroland Printing, Publishing & Distributing

is Ontario's leading publisher of community newspapers, publishing 68 newspapers with 114 editions. The larger publications include:

Ajax News Advertiser

Aurora/Newmarket Era-Banner

Brampton Guardian

**Burlington Post** 

Etobicoke Guardian

Mississauga News

Oakville Beaver

Oshawa This Week

Richmond Hill Liberal

Scarborough Mirror

**Business Ventures** MetroToday Sing Tao

#### Interactive Media

thestar.com workopolis.com toronto.com waymoresports.com newinhomes.com tmgtv.ca Toronto Star Television

#### Harlequin Enterprises

Harlequin is a leading publisher of women's fiction.

Harlequin Mills & Boon U.K.

Harlequin Australia

Harlequin Holland

Harlequin Japan

Harlequin Scandinavia

Harlequin Spain

Harlequin Poland

#### Joint Ventures:

Harlequin Germany

Harlequin France

Harlequin Italy

Harlequin Greece

Harlequin Hungary

#### Interactive Media:

eHarlequin.com











Torstar is proud of its record of supporting charitable organizations, donating \$1 million in 2001. The Imagine logo identifies Torstar as a caring company which has donated more than 1% of pre-tax profit to charity.