

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 - <br> percentage of revenue | $10.1 \%$ | $13.8 \%$ |
| :--- | :--- | :--- |
| Operating cash flow - <br> 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 |



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,

| 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 | Hollinger and CanWest.

## Convergence

Our position on 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 | 3.1 x |
| The Globe and Mail | 10.8 | 3.7 x |
| The National Post | 7.4 | 5.4 x | to buy around The Star if you want to reach people in 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 16 th 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 intemal 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


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

## 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 TM G 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 merging its transit paper with competitor


EBITDA (\$ Millions)
Newspaper Segment Metro Intemational 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
Following the devastating terrorist attacks in New York and Washington on September 11, The Star was swift to react with a special eightpage 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 oneday 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.


The Star's circulation grew in the latest $A B C$ results.
Source: ABC Audit Statements ending Sept. 30, 2001

Circulation
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 less than $2 \%$.

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 ( $A B C$ ) 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 VicePresident of Regional Daily Newspapers. She replaced former Spectator Publisher Pat Collins, who became CFO and Senior Vice-President of Operations for Torstar Media Group.
agoda Pike
Publisher, The Hamilton Spectator

## 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, thestar.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

## thestarcom

WAYMORESPORTS: 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 site.

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

ALL YOU NEED TO KNOW ABOUT T.O. 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.
Torstar media Group
TELEVI 号I D N



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 southem 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)
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.

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

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 Stouffille 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.

## 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 27 th, 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 1834. This demographic is important to advertisers for their longterm 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 ).



## 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 wellrecognized 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.


EBITDA (\$ Millions)

Harlequin has also extended beyond publishing to create activitybased 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 nonreaders hold of romantic fiction."—USA Today.

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 and 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-toConsumer Group. This new group will combine all of the skills of the Intemet 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

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 largerformat, 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.


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 <br> 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 <br> 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: |  |  |  |  |
| - operating profit | 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: |  |  |  |  |
| - operating profit | 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: |  |  |
| - operating profit | 18.5\% | 17.7\% |
| - segment EBITDA | 19.6\% | 18.8\% |
| Books sold (thousands) |  |  |
| - North America | 77,000 | 76,000 |
| - Overseas | 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 rates.

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 Intemet 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 ITl 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:

|  | Amount <br> Y.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.

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.
(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 share
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) <br> - basic | $(\$ 1.24)$ | $\$ 0.03$ | $(\$ 0.10)$ | $\$ 0.15$ |
| Net income (loss) <br> - diluted | $(\$ 1.24)$ | $\$ 0.03$ | $(\$ 0.10)$ | $\$ 0.15$ |

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

|  | March 31 | June 30 | Sept. 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 non-voting share
Income (loss) from
continuing operations

- basic
$\$ 0.23 \quad \$ 0.29 \quad \$ 0.67$
(\$0.06)
Income (loss) from
continuing operations
- diluted

Net income (loss)

- basic

Net income (loss)

- diluted $\quad \$ 0.21 \quad \$ 0.31 \quad \$ 0.69 \quad(\$ 0.74)$

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.

|  | 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 <br> Amortization of goodwill <br> (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 | $(90,000)$    <br> Net income (loss) $(\$ 92,681)$ $\$ 1,909$ $(\$ 7,604)$$\$ 11,356$ |  |  |  |

Per Class A and Class B share
Income (loss) from
continuing operations $\quad(\$ 0.04) \quad \$ 0.03 \quad(\$ 0.10) \quad \$ 0.15$

## 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 intemal 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.

\author{

- David A. Galloway, <br> President and Chief Executive Officer <br> February 25, 2002
}

■ Robert J. Steacy,<br>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.

[^0]
## - Torstar Corporation

(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
Accounts payable and ac
Income taxes payable
Current portion of long-te
Discontinued operations
Total current liabilities
Long-term debt (note 6)
Other liabilities (note 7)

Future income tax liabilities (note 9)
Discontinued operations (note 13)
Shareholders' equity:
Share capital (note 8)

| \$1,901 | \$9,759 |
| :---: | :---: |
| 237,300 | 238,656 |
| 34,051 | 43,792 |
| 55,881 | 100,000 |
|  | 48,540 |
| 329,133 | 440,747 |
| 508,848 | 494,477 |
| 76,126 | 78,635 |
| 41,649 | 65,147 |
|  | 16,757 |
| 295,371 | 288,316 |
| 240,975 | 371,641 |
| $(1,948)$ | 44 |
| 534,398 | 660,001 |
| \$1,490,154 | \$1,755,764 |

(See accompanying notes)

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 - Diluted | \$0.04 | \$1.11 |
| Net income (loss) - Basic | (\$1.16) | \$0.48 |
| Net income (loss) - Diluted | (\$1.15) | \$0.48 |

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) | $(87,020)$ | 36,125 |
|  | 284,621 | 417,576 |
| Deduct: |  |  |
| Dividends | 43,646 | 43,334 |
| Premium on the purchase of shares for cancellation (note 8(d)) |  | 2,601 |
| Retained earnings, end of year | \$240,975 | \$371,641 |

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 | $(1,901)$ | $(9,759)$ |
|  | \$62,854 | \$29,710 |
| Operating cash flow per share (note 8(f)) |  |  |
| Basic | \$1.45 | \$2.22 |
| Diluted | \$1.44 | \$2.20 |

[^1]
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## 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.


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- Past service costs resulting from plan amendments are amortized on a straight-line basis over the average remaining senvice 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 |  |  |  |
| leasehold improvements | 208,858 | \$82,046 | 126,812 |
| Machinery and equipment | 641,944 | 369,662 | 272,282 |
| Total | \$862,135 | \$451,708 | \$410,427 |
| 2000 |  |  |  |
| Land | \$11,333 |  | \$11,333 |
| Buildings and |  |  |  |
| 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 Ioan can be extended for up to four additional 364day terms with the lenders' consent or can be converted to

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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 semiannually.
(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 |  |  |
|  |  |  | $\$ 76,126$ |
|  |  |  |  |

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 provisions

Class B shares are non-voting unless eight consecutive quarterly dividends have not been paid.

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(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 |  | 2000 |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: |
| 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 <br> 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 Exercisable |  |  |
| ---: | ---: | ---: |
| Range of <br> exercise price | Number exercisable <br> December 31, 2001 | Weighted average <br> 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 31 were:

|  | Shares | Amount |
| :--- | :---: | :---: |
| 2000 | $75,004,928$ | $\$ 288,316$ |
| 2001 | $\underline{75,432,084}$ | $\$ 295,371$ |

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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 outstanding during the year.

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 <br> - stock options <br> - employee share purchase plan | $\begin{array}{r} 500 \\ 26 \end{array}$ | $\begin{array}{r} 523 \\ 51 \end{array}$ |
| 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\%) <br> (Increase) decrease in taxes resulting from: | (\$18,300) | $(\$ 68,000)$ |
| Foreign income taxed at lower rates | 7,600 | 13,400 |
| Manufacturing and processing profits allowance | 500 | 2,700 |
| Large Corporations tax and other taxes | $(3,000)$ | $(3,400)$ |
| Future taxes resulting from changes in statutory tax or income inclusion rates | 4,500 | 1,800 |
| Non-taxable portion of capital 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:

|  | Companyl 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 eamout payment to a maximum of U.S. $\$ 6.0$ million based on future growth expectations up to and including 2004.

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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:

| (thousands of dollars) | Pension Plans |  | Post Employment Benefit Plans |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 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: <br> 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    <br> Discount rate $6.5 \%$ $7 \%$  |  |  |  |  |
|  |  |  |  |  |
| Expected long-term rate of return |  |  |  |  |
| Rate of compensation increase | 4\% | 2.5 to 4\% | N/A | NA |
| Average remaining service period of active employees <br> 13 to 18 years <br> 13 to 19 years <br> N/A <br> 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 senvice 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.

## - Torstar Corporation

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 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 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 | 2000 |
| :---: | :---: | :---: |
|  | U.S.\$ |  |
| 2001 | $\$ 70,000 \$ 1.56-1.67$ |  |
| 2003 | $\$ 70,000 \$ 1.56-1.66$ |  |

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 Leaming 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 downtum 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 <br> Operating revenue <br> Results of discontinued operations <br> prior to measurement date <br> (including tax of $\$ 600)$ | $\$ 88,724$ | $\$ 153,193$ |
| Net loss from discontinued operations <br> (net of tax of $\$ 9,000)$ |  |  |
| (2000 $-\$ 10,800)$ | $(\$ 1,334)$ |  |
| Loss from discontinued operations | $(\$ 90,000)$ | $(46,256)$ |

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 |
|  |  | \$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 | $(\$ 29,300)$ |  |
| Strike costs | $(24,600)$ |  |
| Restructuring provisions | $(13,000)$ | $(\$ 30,400)$ |
| Pension cost | $(4,200)$ | 28,800 |
| Gain on sale of land and building | $(\$ 71,100)$ | $(\$ 1,600)$ |

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.

## Torstar Corporation

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:



|  | Identifiable Assets |  | Additions to Capital Assets and Goodwill |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2001 | 2000 | 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 |  | Assets odwill |
| 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 |

(a) Principally - United Kingdom, Japan, Germany, Australia, Italy and France.

## - Torstar Corporation

Annual Operating Highlights Continuing Operations

|  | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| 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 | $(17,432)$ | $(5,455)$ | $(4,009)$ | $(1,581)$ | $(9,663)$ | $(8,137)$ | $(4,743)$ |
| Corporate | $(10,773)$ | $(9,804)$ | $(6,708)$ | $(5,962)$ | $(6,696)$ | $(7,767)$ | $(7,711)$ |
| Operating profit | 143,726 | 198,856 | 185,326 | 170,435 | 160,051 | 115,016 | 85,363 |
| Interest expense | $(29,143)$ | $(41,283)$ | $(32,170)$ | $(17,051)$ | $(19,733)$ | $(16,650)$ | $(16,547)$ |
| Foreign exchange | 392 | $(1,395)$ | 55 | 324 | 1,379 | 826 | 275 |
| Unusual items | $(71,100)$ | $(1,600)$ |  | $(11,500)$ |  |  |  |
| Income before taxes | 43,875 | 154,578 | 153,211 | 142,208 | 141,697 | 99,192 | 69,091 |
| Income and other taxes | $(14,900)$ | $(47,200)$ | $(52,900)$ | $(49,400)$ | $(47,200)$ | $(32,500)$ | $(23,400)$ |
| Income before earnings (losses) of |  |  |  |  |  |  |  |
| 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 |  |  |  |  |  |  |  |
| amortization of goodwill | 20,953 | 101,176 | 94,795 | 92,953 | 94,855 | 63,521 | 39,991 |
| Amortization of goodwill (net of tax) | $(17,973)$ | $(17,461)$ | $(13,975)$ | $(7,744)$ | $(7,726)$ | $(7,984)$ | $(7,972)$ |
| Income from continuing operations | $\$ 2,980$ | $\$ 83,715$ | $\$ 80,820$ | $\$ 85,209$ | $\$ 87,129$ | $\$ 55,537$ | $\$ 32,019$ |


| Operating cash flow | $\$ 109,333$ | $\$ 165,598$ | $\$ 152,416$ | $\$ 145,836$ | $\$ 152,641$ | $\$ 116,764$ | $\$ 84,202$ |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Average number of shares outstanding <br> (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 | $\$ 1.45$ | $\$ 2.22$ | $\$ 2.04$ | $\$ 1.92$ | $\$ 1.95$ | $\$ 1.47$ | $\$ 1.04$ |
| Dividends - Class A and Class B shares | $\$ 0.58$ | $\$ 0.58$ | $\$ 0.58$ | $\$ 0.565$ | $\$ 0.52$ | $\$ 0.45$ | $\$ 0.42$ |
|  |  |  |  |  |  |  |  |
| Rate of Return on Revenue | $10.1 \%$ | $13.8 \%$ | $13.7 \%$ | $14.3 \%$ | $14.6 \%$ | $11.3 \%$ |  |

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 | $\$ 1,490,154$ | $\$ 1,755,764$ | $\$ 1,726,402$ | $\$ 1,380,907$ | $\$ 1,370,490$ | $\$ 1,322,763$ | $\$ 1,149,839$ |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Total Assets | 508,848 | 494,477 | 649,712 | 355,829 | 197,322 | 321,813 | 333,050 |
| Long-term debt | 534,398 | 660,001 | 684,188 | 647,055 | 785,461 | 573,853 | 572,707 |
| Shareholders' equity | 410,427 | 425,380 | 440,673 | 389,832 | 390,312 | 408,797 | 434,434 |
| Property, plant and equipment (net) |  |  |  |  |  |  |  |

## - 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

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

David A. Galloway
President \&
Chief Executive Officer
J. Robert S. Prichard Chief Operating Officer \& President Torstar Media Group
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## - Corporate Office

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e-mail: torstar@ torstar.ca
Website: www.torstar.com/corporate

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## - 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 J apan
Harlequin Scandinavia
Harlequin Spain
Harlequin Poland

Joint Ventures:
Harlequin Germany


Harlequin France
Harlequin Italy
Harlequin Greece
Harlequin Hungary




[^0]:    - Toronto, Ontario

    ■ Ernst \& Young LLP
    February 25, 2002
    Chartered Accountants

[^1]:    (See accompanying notes)

