TORSTAR

CORPORATION ANNUAL REPORT

1996

TORSTAR CORPORATION
IS A BROADLY BASED
INFORMATION AND ENTERTAINMENT
COMMUNICATIONS COMPANY.
ITS OPERATIONS INCLUDE
THE TORONTO STAR
CANADA'S LARGEST DAILY NEWSPAPER;
METROLAND PRINTING
PUBLISHING & DISTRIBUTING
PUBLISHERS OF COMMUNITY
NEWSPAPERS AND DISTRIBUTORS
OF ADVERTISING MATERIALS;
HARLEQUIN ENTERPRISES,
THE WORLD'S LARGEST PUBLISHER
OF SERIES ROMANCE FICTION;
THE CHILDREN'S SUPPLEMENTARY
EDUCATION PRODUCT'S DIVISION WHICH
PUBLISHES AND PRODUCES EDUCATIONAL
PRODUCTS FOR TEACHERS, PARENTS
AND CHILDREN UNDER THE
FRANK SCHAFFER,
TOM SNYDER PRODUCTIONS,
DELTA EDUCATION
AND **BRIGHTER VISION** NAMES
AND A 57 PER CENT INTEREST
(50 PER CENT VOTING INTEREST) IN
HEBDO MAG
A PUBLISHER OF CLASSIFIED ADVERTISING
MAGAZINES AND PAPERS IN 15 COUNTRIES
THROUGHOUT NORTH AMERICA,
EUROPE AND ASIA.

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ANNUAL MEETING

The annual meeting of shareholders will be held April 30 at One Yonge Street, Toronto, Ontario, beginning at 10:00 a.m.

TRANSFER AGENT AND REGISTRAR

R-M Trust Company
Shareholder enquiries, call:
1-800-387-0825 (Canada & U.S.)
(416) 813-4600 (Toronto)
Torstar Class B shares are traded on the Toronto and Montreal Stock Exchanges under the symbol TS.B.

TORSTAR CORPORATION FINANCIAL HIGHLIGHTS

	1996	1995
OPERATING RESULTS *(thousands of dollars)*		
Operating revenue	**$1,176,822**	$1,070,784
Operating profit	**130,144**	93,573
Operating cash flow	**134,939**	100,246
Income before losses of associated businesses	**64,357**	43,495
Net income	**64,370**	38,181
OPERATING RATIOS		
Operating profit -- per cent of revenue	**11.1%**	8.7%
Income before losses of associated businesses -- per cent of revenue	**5.5%**	4.1%
Operating cash flow -- per cent of average shareholders' equity	**23.5%**	17.5%
PER A AND B SHARE *(in dollars)*		
Net income	**$1.62**	$0.95
Operating cash flow	**3.40**	2.49
Dividends	**.90**	.84
Shareholders' equity	**14.43**	14.22
Price range high/low	**35.00/22.25**	23.37/18.50
FINANCIAL POSITION *(thousands of dollars)*		
Long-term debt	**$470,571**	$333,050
Shareholders' equity	**573,853**	572,707

REPORT TO SHAREHOLDERS

Overview

The strategies put in place two years ago have started to take hold with the result that Torstar enjoyed significant growth in 1996. Operating cash flow per share was $3.40 in 1996 versus $2.49 in 1995 and earnings per share from continuing operations was $1.54 versus $0.94 in 1994.

Our strategy today is to:

- improve the earnings of the operating companies with particular focus on The Toronto Star in terms of margin improvement;
- stimulate internal growth and development of each of the operating companies with particular focus on Harlequin and The Toronto Star for new product development;
- utilize the free cash flow after dividends to diversify into children's supplementary education; and
- if cash flow is not utilized for investments, or we have significant debt capacity available, we will consider buying back our own shares.

Newspapers

The new management team at The Star and Metroland management have made excellent progress in improving market share and cash margins. Taking the impact of changing newsprint prices out of the equation, cash margins at The Star have expanded almost 14% over a two year period — a remarkable achievement. At Metroland, margins have grown 5% over two years — excellent results. The net result of this improvement was $93 million cash flow from the newspaper division on revenues of $611 million.

While margins have increased significantly at The Star, there is still room for improvement. In 1997, The Star will revamp the paper on the basis of in-depth editorial research carried out in 1996. We will work more closely with our advertisers to meet their needs and design a simplified pricing structure. And, we will continue to improve the efficiency of the operations.

New product development is the second major thrust at The Star today. We successfully launched The Real Estate News in conjunction with the Toronto Real Estate Board, and two other major projects are in development that will be announced shortly. And, we are carving out a niche in the new electronic marketplace. T-O Online was launched in 1996 and the site is receiving more than 100,000 "hits" each day. Just recently, The Star announced the launch of CitySearch, an interactive directory of businesses and guide service, for the GTA on the World Wide Web. We acquired the rights for Ontario in a company called Internet Liquidators, which has proprietary software to conduct online auctions of nationally branded, high value hard goods in Canada and the U.S. Finally, in order to serve our advertisers fully, we recently announced we are launching a Toronto Star cable channel on the Rogers system that will carry headline news, classified advertising, movie trailers and infomercials.

At Metroland, we are focusing on providing news that makes people feel part of their community. We will continue to expand our marketplace where possible either through acquisition or start-ups. In 1996, Metroland purchased the Alliston/Herald Courier, introduced the City of York Guardian on Sunday, and launched Port Perry This Week.

Book Publishing

Harlequin's earnings continued to grow in 1996 with reported earnings up $4.0 million to $80.9 million. This was after absorbing an $8.0 million paper price increase. Harlequin's cash flow helped us through the early 90s when newspaper margins collapsed and, today, it is funding our diversification efforts into children's supplementary education. An important feature of Harlequin is that 95% of the revenues come from outside Canada. This gives our shareholders an opportunity to invest in foreign operations and currencies via a Canadian company.

Harlequin continues to reinvent itself with new editorial offerings in order to ensure continued interest in contemporary romance. With the continued growth in the marketplace of single titles, as opposed to branded series, Harlequin is increasing its emphasis on the new MIRA imprint. To assist in this effort, Harlequin bought out Simon & Schuster's distribution contract which should result in a more focused retail sales effort.

Overseas, Harlequin continues to diversify its product offering by capitalizing on successful approaches tested in North America. A controlled-entry strategy in China, Russia, and Turkey is offering promising long term potential. During 1997, we plan to conduct research in India, Brazil, South Korea, Thailand and Ukraine.

We do not see Harlequin as a "cash cow." The base business continues to grow steadily. We believe the editorial, marketing, and distribution skills that exist at Harlequin can also be utilized in starting new ventures. For example, newsletters have been concept tested in 1996 and will be launched in 1997 using the direct marketing skills developed through the book clubs. Two other businesses are being investigated thoroughly in 1997 with launches planned for 1998.

Children's Supplementary Education

The CSEP Division made excellent progress in 1996. Having bought Frank Schaffer in 1994 and Warren Publishing in 1995, we completed the purchase of Tom Snyder Productions, a leading publisher of educational software products, early in 1996. Later in the year, Delta Education, a well-respected producer of science and math manipulatives for primary and middle school grades, was acquired. The "magic" of Harlequin has always been its ability to sell the same book through different channels. Our goal is to accomplish the same in CSEP. A direct-to-home program was started coupling the editorial expertise of the CSEP Division companies with the marketing expertise of Harlequin.

The essence of this business is bringing fresh ideas to the market. Plans are being made to invest heavily in new product development at both Frank Schaffer and Tom Snyder. Improving the profitability of these operations is critical, not only to achieve a reasonable internal rate of return, but also to get recognition among our investors/shareholders that we are building value. This effort will be enhanced through integration of the companies; cross-fertilization of ideas; and capturing synergies.

The challenge for CSEP in 1997 will be to absorb these acquisitions and develop solid profits. There will be no "bet the business" acquisitions, but we will continue to search for attractive niche companies. Letters of intent were signed early in 1997 with two medium size companies.

Other Business

Hebdo Mag continued with its aggressive acquisition program — papers in Milan and Moscow being the latest — with the result that at approximately $230 million revenue, Hebdo is the largest classified advertising periodical company in the world. Our partners, Louise and John MacBain, manage this business and deserve enormous credit for the success of this enterprise.

Miles Kimball, our U.S. catalogue company, had a good year in 1996, with earnings of $5.9 million and revenues of $119 million. This was a significant turnaround in performance versus the prior three years. As part of our strategic outlook, we have decided that catalogue marketing is not a core business for Torstar and accordingly we have decided to sell Miles Kimball in 1997.

Outlook

Torstar has a very positive outlook in 1997. Newspaper linage was up 7% in the last quarter of 1996, and the trend is continuing in 1997. Newsprint prices are $200/tonne lower at the start of the year than the average price in 1996. Harlequin is forecasting solid growth in 1997, and CSEP will continue to expand.

With a modern plant at The Star and no capital requirements in Harlequin or CSEP, Torstar has substantial free cash flow to make acquisitions or buy back shares. We will do both in 1997.

People make a difference. There is a positive spirit in the Torstar group of companies today. Our employees should be proud of the results they produced in 1996.

THE TORONTO STAR

Change was the main order of business at The Toronto Star in 1996 as Canada's largest newspaper moved decisively to implement a new strategic plan to maintain its dominant position in the Greater Toronto Area.

In February, a New Ventures division was created to explore and invest in new businesses. One of them appeared in July when The Star and the Toronto Real Estate Board announced the formation of a new Star subsidiary, TS-REN Ventures Limited, to produce, market and distribute The Real Estate News in Friday's home-delivered Star and in vending boxes and outlets in the GTA. With a circulation of 365,000 copies, The Real Estate News is now the largest circulated weekly real estate newspaper in Canada.

In March, Torstar launched itself on the World Wide Web with the creation of Torstar Electronic Publishing Ltd. and the company's T-O Online website, bringing together six of the Torstar group of companies, including The Toronto Star. In August, the website won the 1996 Canadian Internet Award for giving the best representation of the new medium using both electronic and print means. In December, the site set an all-time record with 100,597 accesses in a single day.

At the Vaughan Press Centre, a group of management and union volunteers formed an "insourcing" committee to investigate commercial printing possibilities. Teamwork and a spirit of co-operation allowed the committee to break new ground in exploring the Press Centre's potential and resulted in the successful printing of four-page advertising inserts called "mini-mass impacts," printing of the weekly The Real Estate News and other commercial ventures that will be fully developed in 1997.

An agreement between The Star and GCIU Local 100M was also concluded in July that permits continuous production runs in the pressroom and mailing room, allowing editorial deadlines to be pushed back to 11:45 p.m. every night. This permits The Star to better cover late-breaking news stories and late sports scores and allows the Advertising and Composing departments to accept and process late ads with less disruption and cost to the operation.

The Star also invested in 186 new automatic blanket washers for its six presses at the Press Centre, which represent a saving in time, injuries and manpower in cleaning the blankets which supply water and ink to the presses. In the Mailing Room, a third conveyor belt system was purchased to effectively double the material that can be moved off a press line, and commercial-style stackers were installed to handle smaller-sized products coming off the presses, including more commercial work.

Two high-profile appointments in 1996 were directly linked to The Star's strategic plan. In November, a vice-president of marketing was appointed to spearhead a new marketing strategy for the paper, and a new vice-president of strategic planning and new media was appointed to continue the necessary changes at The Star and further investigate electronic publishing of the newspaper.

The entire process of change throughout 1996 was marked by a remarkable level of co-operation between Star management and unions as the two groups worked closely together with the common interest of ensuring The Star's future. The unions participated in every stage of the development and implementation of the strategic plan through 1995 and 1996.

As part of the process The Star also undertook a major readership survey in 1996 to provide an accurate picture of who reads The Star, their feelings about the paper and what they expect from it. Results from the survey, the largest ever commissioned by The Star, will be integrated to provide an overall picture for the Advertising and Circulation departments, as well as Editorial, and a tracking system has been built-in to provide benchmarks for future reference. Early results show that The Star is still the dominant daily newspaper in the GTA and the only one with more than a million readers every day of the week. Recommendations from the survey will be implemented in 1997 and beyond.

Editorial

It was another award-winning year for the Editorial department with two staffers picking up prestigious National Newspaper Awards. A Star investigative series on provincial government housing, The Money Pit, was honored at the annual Michener Awards in Ottawa, while a group of Star reporters, editors and photographers was honored by Metro firefighters for coverage of the 1995 subway crash in Toronto. Other honors came from the Peel and Halton Region police forces, the Canadian Science Writers Association, the Advertising and Design Club of Canada and the Canadian Ethnic Journalists Writers Club.

Star sports received a major boost in mid-1996 with an expanded and revitalized sports section that met with an extremely positive reader response.

The Star's growing commitment to investigative reporting was also confirmed in 1996 with the appointment of a full-time investigative editor who will spearhead a new team approach to in-depth projects, drawing on every department in the newsroom for resources. Special investigative projects published during the year include Bloodlines, a special section on Canada's tainted blood scandal, Canada, Canada on the Somalia affair, and a gut-wrenching series on child prostitution in Asia.

Pagination, or the complete production of the newspaper by electronic means, went forward in from 1996 with the installation of a new computer system that electronically connects the key areas of the newspaper – editorial, advertising, composing, operations, electronic imaging, engraving, corporate systems – to permit full desktop composition of Star pages, paving the way for full pagination by mid-1997.

Advertising

Advertising revenues contributed a healthy gain of $19 million to The Star in 1996, an increase of 7% 1995. The gain resulted mainly from a higher average line rate as total linage increased by one per cent in the year. Increases recorded in the employment, properties and travel categories were offset by a decline in national advertising due to lower spending by a few major telecommunications sector advertisers and lower government spending.

An important initiative undertaken in 1996 as a direct result of the new strategic plan was a major re-organization of the Advertising department. Two large-scale projects were mounted during the year to review both the management and sales structure and resulted in the most in-depth study ever undertaken in the division. The result, rolled out in early 1997, is a new, streamlined department with a less-complicated reporting structure that clarifies roles and responsibilities and improves the decision-making process, a new training program for staff and management to better prepare them to compete in the marketplace, and a new staff incentive plan that recognizes individuals for their performance. The goal is to enable sales staff to excel and make the department more customer focused.

Circulation

Circulation had a successful year in 1996, with increased revenues of $6 million, an 8.1% increase over 1995. GTA Home delivery of the newspaper from Monday to Friday rose to an average of 286,000 copies a day, up 600 from the previous year and only 400 copies short of the all-time high for the category. Saturday home delivery sales set a record in the GTA with an average of 363,300 copies a day, while Sunday sales were slightly lower. Single copy sales declined in 1996, as it was difficult to compete with the major news events that boosted sales in 1995 – the Bernardo and OJ Simpson trials, the Quebec referendum, the provincial election, etc.

A number of initiatives were undertaken by Circulation in 1996 to increase revenues and improve service. The Star's distribution system was adapted for commercial work, resulting in a contract for distribution and marketing of Toronto's Spanish-language newspaper, el popular, and distribution of The Real Estate News with The Star every Friday. Circulation also made The Star one of the most successful newspapers in North America in switching its subscribers to monthly credit card payments for their newspaper, which results in higher subscriber retention levels. The department also appointed a new retention manager to develop programs that will boost subscriber loyalty to the paper. Customer service improved in 1996, as well, with the number of customers having to wait more than two minutes on the phone being reduced by 57%.

Community

For the first time in its 80-year history, The Star's Santa Claus Fund, which provides gift boxes for needy children at Christmas, set the goal of raising $1 million during the 1996 campaign. And once again, the generosity of Star readers proved overwhelming as donations poured in from every sector to put the fund over the top and provide 35,000 children with a gift box containing warm clothing, a book and toy and Christmas candies. The Star pays every cent of the administration costs for The Santa Claus Fund and its summertime partner, The Fresh Air Fund.

The Star was one of the first companies in Canada to respond to the devastating floods that hit the Saguenay region of Quebec in July with a relief fund that collected more than $180,000 in donations from readers. A formal thank you letter was received from the Quebec government to show its appreciation for The Star's efforts.

In June, The Star held a giant street party for readers at its One Yonge Street location to help celebrate the 200th anniversary of the construction of Yonge Street. This was followed by another party in December to unveil an historical marker from the Ontario Heritage Foundation and celebrate The Star's 25th anniversary at One Yonge Street.

Other

A major study of repetitive strain injuries (RSI) at The Star was also launched to determine the extent of RSI-related injuries at The Star and to recommend preventative measures to reduce the disorder. In the first phase, a company-wide survey was conducted by the Toronto-based Institute for Work and Health, which worked with a joint management-union steering committee at The Star throughout the year. The second part of the study, which will involve several hundred employees who participated in the original survey, will examine key RSI factors at the newspaper and will lead to a full set of recommendations in 1997.

METROLAND PRINTING PUBLISHING & DISTRIBUTING

Metroland had the most profitable year in its history in 1996. Earnings reached $19.3 million, up from the $13.9 million earned in 1995.

The company, Ontario's leading publisher of community newspapers, has 35 newspapers which publish 69 editions from 24 locations. Geographically, the newspapers surround Metro Toronto from Burlington to Oshawa, north to Newmarket and expands into ten other communities, including Kingston, Port Perry, Peterborough and Barrie. Total circulation on Tuesday/Wednesday exceeds 1.1 million newspapers, with Thursday/Friday copies totalling 468,000 and weekend newspapers totalling 1.2 million copies.

Highlights

The trend over the last few years of declining linage ended, with total advertising linage increasing by 1.6 % in 1996. Growth in retail and classified linage was partially offset by declines in real estate and national. Average line rates increased by 8% over 1995.

Metroland had another record year for the number of advertising inserts distributed, with total pieces increasing to 949 million from 932 million in 1995.

Stable newsprint prices in 1996 combined with the above noted revenue gains to produce record profits in the year. The previous record for earnings was $16 million in 1989.

Metroland purchased the Alliston Herald/Courier (Wednesday/Saturday) in March, 1996. In September, the company introduced the City of York Guardian (Sunday) and in the same month started up Port Perry This Week (Tuesday/Sunday).

Community Shows, Events and Promotions

Metroland continues to maintain and develop its leadership role within each local newspaper market through community involvement.

The Mirror newspapers were the major media sponsors for the bicentennial celebrations in the City of Scarborough and the community of Leaside, as well as co-sponsoring the annual business awards in each of Scarborough, North York, Etobicoke and East York.

A variety of special interest shows and events was produced by a number of Metroland's newspapers in 1996. They included bridal shows, tax planning and financial seminars, career fairs conducted in conjunction with local boards of education, registration and continuing education shows, seniors shows, professional women shows, first time home buyer seminars and local market home shows.

The Mississauga News' highly successful Christmas Bureau fund, operated in conjunction with The Salvation Army, celebrated its 29th consecutive year of operation, during which time it has raised more than $3.4 million. The money is used to buy gifts and food for the needy in Mississauga at Christmas.

Trade Shows

Metroland continued to present various trade shows including the Great Canadian Travel and Maturity Show staged by its Today's Seniors division in Toronto and Hamilton. These shows are produced in the spring and fall in each market. City Parent held its second annual City Parent Family Show in July.

Metroland purchased The Cottage Show at the end of 1996 with the first event scheduled for early February, 1997.

Editorial Excellence

Metroland continues to garner acclaim for editorial excellence by winning a total of 37 Ontario Community Newspaper Association and Canadian Community Newspaper Association awards during 1996. Of particular note, in the largest circulation class of the Ontario competition for "General Excellence," Metroland's Burlington Post, Newmarket Era-Banner, and Whitby This Week swept the top three positions.

Market Research

Metroland commissioned Kubas Consultants to conduct its fifth consecutive readership study covering each Metroland newspaper market. The field work was completed in late 1996, with the results released in January, 1997. More than 5,000 households from across Metroland participated in this study, making it one of the largest in North America.

The 1997 readership study confirms the strong growth of Metroland throughout Southern Ontario and provides a complete profile of each Metroland newspaper market including receipt and readership of Metroland's newspapers, use of other media, shopping habits, purchase intentions, leisure activities and other topics. The survey found that of the 1.5 million households throughout Metroland's markets, 226,000 households (15%) are currently connected to the Internet, with 134,000 households (9%) intending to connect in 1997. By comparison, 1,204,100 households (79%) reported receiving at least one of the past four issues of a Metroland publication.

The research also confirms Metroland's dominance in each community. In total, 2,328,700 adults read a Metroland newspaper last week. Metroland readers tend to be younger, better educated and have higher incomes than the market as a whole.

When asked to rank which topics they are interested in reading, Metroland area adults listed "local news" first (93 %), followed closely by "regional news" (88%), "medicine and health" (87%) and "local shopping information" (86%).

The Metroland readership study, which has both editorial and marketing objectives, will be used extensively throughout 1997 to improve Metroland's editorial package and to increase advertiser participation.

Outlook

We intend to acquire or start newspapers in adjacent markets over the next few years.

In 1996 we started Port Perry This Week and the City of York Guardian, and we acquired the Alliston Herald/Courier.

We are also planning to introduce new products that will complement our newspapers. We started Bargain Xpress in Barrie, Aurora and Newmarket during 1996. This publication is a paid advertising product that features classified advertising. We also started a tabloid publication in Halton Region during 1996 titled Success Business Publication.

Distribution will benefit from the combination of softening newsprint prices, which should lead to increased flyer production, and Canada Post's withdrawal from economy admail flyer delivery.

HARLEQUIN ENTERPRISES

Harlequin is the world's largest publisher of series romance fiction. In 1996, Harlequin achieved record operating profits of $80.9 million, up 5.2 % from 1995 despite significant paper cost increases.

Since its founding in 1949, Harlequin has set many precedents within the industry. Harlequin introduced and developed the mass-market romance series concept, pioneered the use of consumer-goods techniques in bookselling and was the first to offer its name as a promise of consistent quality. Harlequin has also been able to bring to life the concept of a global product – in 1996, Harlequin sold approximately 175 million books in 24 languages in more than 100 international markets.

A key to Harlequin's international success is its product quality and diversity. With 13 romance series published under the Harlequin and Silhouette imprints, the publisher is able to satisfy the varied interests of today's women around the globe. Harlequin also publishes mainstream, mass-market paperbacks, a part of the business which the company continues to expand.

Harlequin books are sold through retail outlets and by direct mail and both of these operations are well-developed in North America. In overseas markets, Harlequin sells books primarily through retail outlets, however, direct-mail operations exist in the United Kingdom, Australia, the Netherlands, Germany, France, Scandinavia and Italy. Harlequin continues to build the business through product diversification, new marketing techniques and geographic expansion.

North America

In 1996, Harlequin's strategic plans for growth included a determined reach for new customers as well as targeting current customers with greater choice through excellent new editorial content. Quality writing and superior promotion in both series and non-series business appealed to a broad base of customers.

A new Harlequin series of humorous, contemporary romances, Love & Laughter, was launched in August, 1996. During the year, the focus was on the core business through many promotional efforts including the celebration of the 1,000th Silhouette Desire title and Harlequin Superromance's specially-packaged Family Man promotion – just two examples of series innovations and promotional opportunities that drive new sales.

Harlequin continues to grow its non-series business, reaching new readers and supplementing the needs of current readers. From the very successful launches of new limited series such as Fortune's Children to its best-selling holiday-themed single titles, Harlequin has enjoyed excellent results from the non-series business. Two titles in oversized paperback format were launched in 1996, with both titles appearing on the weekly USA Today list of the top-selling 150 titles in the U.S.

MIRA, Harlequin's mainstream fiction program, continues to grow. Since the launch in 1994, MIRA titles have appeared more than 80 times on the USA Today bestseller list and have garnered more than 100 book reviews in the popular press. Media attention has generated more than 120 million impressions for the new imprint. 1997 will be a year of increased promotion and the publication of many top authors, including New York Times best-selling authors Debbie Macomber, Janet Dailey, Jennifer Blake and Rebecca Brandewyne.

Several new product initiatives in 1996 reached readers beyond the existing customer base, capitalizing on interests beyond romance fiction and penetrating other demographic markets:

- Harlequin entered the non-fiction market with mass-market titles for women, Harlequin Ultimate Guides. Plans continue for three to five titles a year, covering different topics such as home repair for women, travel and investment planning. The Harlequin Ultimate Guides promise to provide informative reading material to women for many different aspects of their lives.

- In March, Harlequin launched a Spanish-language program, giving Hispanic readers in North America the opportunity to purchase romance books in their language in targeted retail outlets.
- Direct marketing entered the newsletter publishing market in 1996. Test marketing of newsletters on a variety of non-romance, non-fiction topics such as health and finance will be conducted over a two-year period to confirm their appeal and gauge the division's ability to launch a family of newsletters having attractive profit potential. The program is on target with five newsletter tests in 1997.

With the objective of increasing demand and purchase among new customers, Harlequin's communications campaigns in 1996 reached millions of women in the United States.

- The company used newly-tested television commercials with a strong message directing consumers to retail stores to buy Harlequin books. In 1996, a new commercial supporting the Harlequin brand was aired in specific U.S. markets and the television commercial for the Silhouette brand aired again in more markets than in the prior year.
- A new national print campaign highlighting the fantasy and escape that our readers enjoy when immersed in Harlequin books ran in a broad range of magazines.
- Direct marketing also continued to invest heavily in direct mail and alternate media to acquire new Reader Service customers, resulting in strong opening membership file sizes.
- The Harlequin World Wide Web site was introduced in early 1996 with the new website address (http://www.romance.net) published in all its consumer communications. Attracting approximately 25,000 accesses a day, the site features the current month's titles as well as information on promotional events at retail outlets.

Harlequin established global task forces to tackle such complex issues as management of an international brand and potential opportunities with the youth market on a global basis.

Additionally, an inter-departmental task force was formed to identify ways to appeal to the 50-plus population. The task force recommendations have been incorporated into late 1996 and 1997 publishing and promotion plans.

Harlequin continues to work with film companies on a plan to adapt more Harlequin and Silhouette books to the television screen. Watched by audiences in the U.S. and Canada, the first six made-for-TV Harlequin romance movies are now being shown around the world.

In the fourth quarter, Harlequin renegotiated its relationship with its U.S. distributor, Simon & Schuster. Harlequin will assume responsibility for the sales function formerly provided by Simon & Schuster and S&S will continue to provide order processing, billing and collection services. This new arrangement will heighten Harlequin's focus on the sales effort for both the core business and new product launches.

More than 50 million women in the U.S. have read a book published by Harlequin. Harlequin continues to find opportunities to maintain its leadership position through superb and innovative editorial, comprehensive trade and consumer research and effective marketing techniques to alert consumers to Harlequin's excellent variety.

Overseas

Harlequin expects to achieve further growth overseas from both its established operations and in new markets. In established markets, direct marketing investments made in recent years have led to improved earnings and growth in active customer lists. Harlequin has also established a centralized operation facility in London to support all European direct marketing businesses. This provides Harlequin's companies with an internally-developed software system tailored to the order fulfillment and analysis needs of the business. Growth in direct marketing is expected to continue in the U.K., Australia, France, Scandinavia and Italy. However, direct marketing tests conducted in Germany and the Netherlands have not generated expected results and promotional spending in these markets will be reduced in 1997. Harlequin is also exploring opportunities for subscriptions in Poland and Hungary.

Product diversification has also resulted in incremental sales in overseas operations. Market research confirms that an opportunity exists to generate growth through mainstream fiction. As a result, the MIRA program was launched in five more overseas markets in 1996 and is now established in 12 international markets. Since the 1994 launch, more than 12 million MIRA books have been sold worldwide. MIRA is a profitable program which Harlequin will continue to develop. In addition to MIRA, overseas operations will increase the number of promotional and special-occasion titles.

Higher paper prices had an impact on overseas profitability in 1996. Intense competition and difficult economic conditions also continued to affect the relatively new markets in Poland, Hungary and the Czech Republic. However, these markets are profitable and in 1996 earnings improved in all three countries.

Harlequin continues to believe that geographic expansion is a significant opportunity for growth in the mid- to long-term and in 1996 developed these opportunities within acceptable risk parameters.

Harlequin entered Russia in 1994 and continued testing in 1995 with excellent results. Nevertheless, 1996 was a difficult year in this market. While no growth in annual unit sales was achieved, two new products were tested and branding was strengthened with the Harlequin trademarks on all titles. Russia is a profitable market but the potential earnings will not be realized until the economy and distribution system improve and consumers are able to increase spending on leisure products.

Working closely with two local publishers, Harlequin launched both its Harlequin and Silhouette imprints in China in 1995. Publishing schedules were extended in 1996 and experience to date indicates a successful franchise can be built over time. Harlequin will continue to develop publishing relationships and investigate distribution opportunities in China in 1997.

In 1996, Harlequin began selling Spanish-language editions in Mexico, Central and South America. Although economic conditions are difficult for consumers in several of these nations, initial results are encouraging and these markets are expected to generate modest profits in 1997 and beyond.

Late in 1996, Harlequin concluded agreements with two publishers in Indonesia to test publication in the Bahasa language, but this is not expected to have a significant impact on earnings in the near future.

Further research was conducted in India and Turkey in 1996. English-language titles have been exported into India for many years. In 1997, Harlequin will assess the feasibility of testing publication in one or more local languages.

Editorial

With more than 1,500 authors around the world and four editorial offices in Toronto, New York, London and Fribourg, Switzerland, Harlequin continues to be the world's most prolific publisher of romance novels. While the editorial offices work independently to produce competitive Harlequin and Silhouette series, all offices participate in the development of seasonal collections, MIRA titles and several successful re-issue programs. The editors also acquire titles for Harlequin's award-winning mystery reprint series, Worldwide Mystery, and original works for the Gold Eagle action adventure series.

Each year, Harlequin acquires more than 1,000 new titles, chosen from the thousands of manuscripts submitted by current authors, as well as from some 20,000 unsolicited manuscripts and queries received annually. In 1996, 64 new authors joined the Harlequin family of 1,500 writers.

Harlequin enters 1997 in a strong position, with a level of energy, commitment and strategic focus that will ensure growth in 1997 and beyond.

CHILDREN'S SUPPLEMENTARY EDUCATIONAL PUBLISHING

Business Background and Strategy

Torstar has been in the Children's Supplementary Educational Publishing (CSEP) market for three years and is fast becoming a strong competitor in this market. CSEP consists of six businesses – four acquired and two new:

- Frank Schaffer Publications (Schaffer) – a leading publisher of teaching aids mainly for primary grades, based in Los Angeles, CA, acquired in 1994.
- Warren Publishing House (Warren) – a small but well known publisher of teaching aids for pre-schoolers under the Totline brand name, acquired in 1995 and merged with the operations of Schaffer.
- Tom Snyder Productions (TSP) – a leading publisher of educational software products for primary and middle schools, located near Boston, MA, acquired in 1996.
- Delta Education (Delta) – a respected producer of mainly science and math educational manipulatives (teaching tools) for primary and middle school grades, located in Nashua, NH, acquired in 1996.
- Brighter Vision – a publisher of educational continuity programs marketed directly to homes, using the editorial expertise of other CSEP companies and the marketing expertise of Harlequin. Product testing began in 1995.
- Brighter Vision Education – a publisher of supplementary educational products based in London, England. It was also created by adapting editorial expertise of other CSEP companies for the United Kingdom market and launched in early 1996.

Harlequin/Torstar's main objective in this area is to build a strong, sizeable, profitable and defensible position in the CSEP market, publishing quality educational products for teachers, children and parents. The strategy for achieving this objective is to:

- acquire a number of attractive and complementary companies, starting with a sizeable "cornerstone" acquisition – Schaffer.

- build around these businesses by drawing on Harlequin's capabilities and the combined skills of the companies to create new businesses and extend the product ranges and distribution channels of the companies.

The Businesses in 1996

Frank Schaffer Publications and Warren Publishing House

Sales of the combined Schaffer/Warren companies climbed a substantial 18% in 1996, to $44 million. The year saw significant increases in investment, mainly in new product development and by increasing the sales force to solidify its reputation for innovation, as well as expanding coverage of the company's products to position it well against competitors. The company launched several new product lines in 1996, including a software and a religious education line.

Overall, profits rose at a slightly slower rate than revenues (though they remain at attractive levels), reflecting the long-term nature of investments in new products and sales force. The new energy the company has demonstrated should position it well to continue a healthy growth pattern, while maintaining current net profit margins.

Tom Snyder Productions

1996 was a year of transition for TSP. The company invested heavily in product development over the last two years to create new CD-ROM products and to update many of its flagship products. The company also experimented with new dealer network models, resulting in declines in the early part of the year, which have been reversed. New creative and list testing in the second half of 1996 showed great potential and significant gains were made in the area of professional development. The company continues to enjoy success with its animated television comedy series, Dr. Katz: Professional Therapist, which TV Guide just listed as one of the top 10 shows in America for 1997. TSP has plans to use its skills in this area to create a new line of educational products for the classroom and television. Sales for the year rose 13 per cent over 1995, to almost $12 million. Profits rose at a significantly higher rate, driven partly by product mix. Many of the excellent products released in late 1996 should achieve their full sales potential in 1997. TSP has many other new product ideas under development which should ensure the company's reputation as a major innovator remains intact.

Delta Education

Delta was acquired in late 1996 and contributed in a minor way to the year's results. However, Delta achieved sales of almost $44 million in 1996, so it should add significantly to CSEP Division results for 1997. This acquisition adds an important component to the CSEP Division strategy for growth. Manipulatives are a key component of the elementary and middle school teaching process and along with the acquisitions in print and technology provide a full range of products and subject areas for elementary and middle school teachers. Joint product and distribution initiatives are underway between Delta and other CSEP companies and should favorably impact the 1997 results for each of the companies.

Brighter Vision

Brighter Vision has combined the product development expertise of Schaffer and Warren with the marketing skills of Harlequin to create and test educational products directly to homes. The company is in various stages of development and testing of several educational programs and market segments and is expanding the product range with input from other CSEP companies. The business invested a further $1.1 million in research and testing in 1996, in addition to a similar amount in 1995. Testing has exceeded expectations and growth prospects are favorable as the business rolls out in coming years.

Brighter Vision Education (U.K.)

Brighter Vision Education was launched in March, 1996 in the United Kingdom to good reviews from teachers, using products developed by CSEP companies and adapted for the U.K. market. 1996 was viewed as a test year and, as such, it resulted in a net investment of $500,000. The business is currently testing different products and broadening its distribution coverage, a sizeable challenge, since the U.K. has a more fragmented distribution system than Canada and the U.S.

Plans For Further Growth

The CSEP Division should exceed the $100 million level in revenue in 1997, even without further acquisitions. CSEP plans to continue its strategy of acquiring attractive and complementary businesses, building new businesses and growing existing businesses.

AFFILIATED BUSINESS

HEBDO MAG

The Hebdo Mag operation has grown substantially since Torstar initially acquired its interest in June, 1989. With the December, 1996 acquisition of the Secondamano Group of Italy, Hebdo Mag has become the largest free ad publisher and the largest classified advertising periodical company in the world in terms of number of publications, distribution and geographic coverage.

Revenues have grown from $14 million in 1989 to an expected $230 million in 1997. Torstar's share of Hebdo Mag operating profits increased to $16.1 million in 1996, up from $9.4 million in 1995. The profit improvement reflects Torstar's increased equity interest (57.4% versus 50.0% in 1995), the full year impact of 1995 acquisitions and improved results in France and Hungary.

Like Torstar, Hebdo Mag earns more than 50% (66%) of its revenue from outside Canada. It publishes classified advertising magazines in 15 countries throughout North America, Europe and Asia.

Hebdo Mag actively seeks acquisitions in its industry sector on a global basis and develops new product opportunities in local markets where it is already present.

On the acquisition front, Hebdo was active in 1996 and early 1997, spending over $100 million on seven acquisitions. The two largest acquisitions were the Secondamano Group and Car News Publications Ltd.

In December, 1996, Hebdo Mag acquired 80% of the Secondamano Group, one of the leading publishers of free ad papers in Europe. Secondamano, based in Milan, Italy, publishes 18 editions of free ad papers, which sell eight million copies annually in Milan, Turin, Florence and other northern Italian cities. It also has a majority interest in Is Ruk Vruki, which publishes 30 editions throughout Russia and the Commonwealth of Independent States, including a daily Moscow publication with annual sales of 21 million copies. Secondamano also has a majority interest in the leading free ad paper in Holland and has a small interest in the dominant free ad publisher in the United Kingdom and Ireland.

In April, 1996, Hebdo Mag purchased 55% of Car News Publications Ltd. which owns and publishes two magazines in Taiwan–Car News Publication and Car Buys. Both of these magazines are leaders in the advertising market for new and used car transactions, selling approximately 43,000 copies per month.

Hebdo continued its strategy of growth in the mid-west United States through the acquisition of Peddler's Post, a free ad paper which serves northern Indiana.

Hebdo Mag also acquired 100% of Traders' Connection, a provider of online classified advertising services, based in Indianapolis. It will serve as Hebdo Mag's platform for participating in the electronic publishing area.

Hebdo Mag has significant presence in a number of markets. In Canada, it publishes more than 60 publications, focusing primarily on the second hand car, truck and boat market, as well as real estate sales and rentals. The company also owns the leading group of free distribution computer industry publications which serve seven major metropolitan areas.

In France, Hebdo publishes La Centrale des Particuliers, which sells 62,000 copies per week. La Centrale has become the bible for person-to-person auto transactions and has over 220,000 paid ads annually.

In Hungary, Hebdo Mag owns the daily classified ads newspaper Expressz. It is published six times per week in the Budapest region and enjoys a strong circulation volume of 264,000 copies per week.

In Sweden, the company owns the leading classified advertising paper in Stockholm, Gula Tidningen, a free ad paper, which has a circulation of 53,000 copies weekly.

In the mid-west of the United States, Hebdo Mag owns 13 publications that serve the Indianapolis and Nashville areas.

Hebdo Mag's strategy is tightly focused on publishing classified ads in a variety of media, bringing buyers and sellers closer together and providing them with relevant information for their transactions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS OF THE CORPORATION

The principal activities of Torstar are the publishing of newspapers and romance fiction and the sale of children's supplementary educational products. Torstar also jointly controls a global publisher of classified advertising magazines and papers.

Torstar's operations are internationally diversified with 52% of Torstar's revenues and 66% of operating profit derived from outside Canada.

CONSOLIDATED OPERATING RESULTS

Results were up substantially over 1995 due to improved performance from all operations led by significant gains in the newspaper division. Torstar has decided to sell Miles Kimball, its catalogue marketing operation and accordingly has included its results in discontinued operation. Results are summarized in the table below:

	Per Share Amounts	
	1996	1995
Income from continuing operations	$1.54	$0.94
Net income	$1.62	$0.95
Operating cash flow	$3.40	$2.49

Income from continuing operations in 1996 increased to $61 million, up $23 million from 1995. Operating cash flow increased to $135 million, up $35 million over 1995. Net income for 1996 was $64 million after $3 million in income from discontinued operation.

On a per share basis income from continuing operations increased by $0.60 to $1.54 from $0.94 while operating cash flow increased by $0.91 to $3.40 from $2.49.

Revenues of $1.2 billion in 1996 were up 10% over 1995.

NEWSPAPERS

The Newspapers division consists of the operations of The Toronto Star, Metroland's community newspapers, a 57% equity interest (50% in 1995) in Hebdo Mag International Inc. ("Hebdo Mag") and other operations including eye Weekly, The Real Estate News and Torstar's proportionate interest in the Popcorn Channel which was shut down in 1996.

Operating Results

Operating profit of the division increased by $32 million from $20 million to $52 million primarily as a result of a $23 million improvement in operating profit of The Toronto Star.

	Toronto Star	Metroland	Hebdo Mag	Other	Total
	(thousands of dollars)				
1996					
Operating revenue	$357,752	$151,074	$98,279	$3,719	$610,824
Operating profit	$25,317	19,312	16,116	(8,903)	51,842
Depreciation & amortization	29,499	4,565	6,740	200	41,004
Segment cash flow	$54,816	$23,877	$22,856	($8,703)	$92,846
Return on revenue:					
- operating profit	7.1%	12.8%	16.4%		8.5%
- segment cash flow	15.3%	15.8%	23.3%		15.2%
1995					
Operating revenue	$333,628	$142,449	$70,735	$2,992	$549,804
Operating profit	2,250	13,873	9,394	(5,821)	19,696
Depreciation & amortization	29,419	4,399	5,228	173	39,219
Segment cash flow	$31,669	$18,272	$14,622	($5,648)	$58,915
Return on revenue:					
- operating profit	0.7%	9.7%	13.3%		3.6%
- segment cash flow	9.5%	12.8%	20.7%		10.7%

Toronto Star

Operating profit increased by $23.1 million to $25.3 million from $2.2 million in 1995. The improvement in operating profit is attributable to a $24 million increase in revenue offset by a $1 million increase in operating costs.

Revenue rose 7% from $334 million to $358 million. Advertising revenue contributed $19 million to the revenue gain, increasing by 7% from $255 million to $274 million. The advertising revenue gain resulted mainly from a higher average line rate as total lineage increased 1% in the year. Lineage increases in employment (up 7%), properties (up 11%) and travel (up 14%) were offset by a decline in national (down 20%). Lower national advertising was attributable to reduced spending by a few major advertisers from the telecommunications sector and government. Circulation revenue increased by $6 million in 1996 due to the full year impact of 1995 price increases as circulation volumes were down approximately 3% year over year. Within the GTA, year over year home delivery sales were stable but single copy sales were down due to fewer major news stories in 1996. Outside the GTA, a decline in circulation resulted from the combination of fewer major news stories, increased prices to cover costs and the elimination of home delivery and vending boxes in some areas.

Operating costs of the newspaper rose by $1 million in 1996; a $2 million or approximately 1% increase in costs excluding newsprint was offset in part by a $1 million decline in newsprint cost. The savings in newsprint cost was attributable to reduced consumption as the average price per ton rose by 2%. Continuing efforts to use newsprint effectively resulted in a 4% reduction in consumption from 95,000 tonnes in 1995 to 91,500 tonnes in 1996.

Metroland

Metroland's community newspapers reported a record $19.3 million operating profit in 1996, $5.4 million higher than the $13.9 million reported in 1995 and $3.3 million greater than the previous high of $16.0 million in 1989.

Revenue increased by 6% from $142 million to $151 million. Advertising revenues rose by 10%. An 8% increase in the average line rate and a 2% increase in lineage were responsible for the improved revenues. Strength in retail and classified lineage more than offset weakness in real estate. The flyer distribution business continues to grow with pieces distributed increasing by 2% from 932 million in 1995 to 949 million in 1996. Distribution revenues increased by 1%.

Hebdo Mag

Operating profits of Hebdo Mag reported by Torstar increased from $9.4 million in 1995 to $16.1 million in 1996. The profit improvement reflects Torstar's increased equity interest (57% versus 50%), the full year impact of 1995 acquisitions and improved results in France and Hungary.

Other

Other operations include Torstar's share of the Popcorn Channel's development expenses which amounted to $6.6 million in 1996 versus $4.7 million in 1995. During 1996, the decision was made to close down the operation. The Popcorn Channel was unable to make satisfactory progress in obtaining channel access on cable systems which had an adverse impact on revenues. Gaining access to channel capacity is a problem facing many independent cable channels.

Future Prospects

The outlook for The Toronto Star depends on a number of factors. Three of the more critical factors include the economic outlook for the Greater Toronto Area ("GTA"), the ability of The Toronto Star to continue to position itself as a leading provider of valued services to both advertisers and readers in the GTA, and finally, the cost of newsprint.

There has traditionally been a high correlation between economic activity and media spending including advertising lineage. In the past few years fragile consumer confidence has resulted in low growth in domestic activity. This has been reflected in deteriorating newspaper lineage since the peak in 1989. Recent indicators such as growth in retail sales and the increase in resale housing activity are signs that consumer confidence may be strengthening. The major restraint on confidence is job market instability. According to the Conference Board of Canada, consumer confidence rose to its highest level in two years during the fourth quarter of 1996. Further evidence that trends may be improving are the quarterly lineage statistics at The Toronto Star and Metroland. Toronto Star lineage was down 2% in the first quarter, 3% in the second quarter, stabilized in the third quarter and was up 7% in the fourth quarter. Metroland lineage started slowly, down 6% in the first quarter followed by growth of 2%, 3% and 8% in each of the next three quarters. The fourth quarter lineage trends have continued through January, 1997.

The Toronto Star's challenge is to grow its share of media spending in its marketplace. There are a number of dailies and niche publications that compete for advertising dollars and the attention of readers in the GTA. In addition to competing directly with other print media, The Toronto Star must also demonstrate its value to its customers versus many other forms of advertising including direct mail, broadcast, and more recently the internet. Management recognizes that continued success will depend on development of a strong customer focus and its creativity in exploiting its franchise to provide a broad range of valued services to both readers and advertisers. With the assistance of the Boston Consulting Group, management and union staff conducted a strategic review of Toronto Star operations in 1995. Many areas for both operational and revenue improvement were identified. The Toronto Star continued the review process in 1996 and has been in the process of acting on its numerous findings. In 1996, major initiatives were undertaken and accomplished with the unions across all departments. Substantial progress has been made in improving the production process which has both increased efficiency and allowed The Toronto Star to offer a wider range of services to advertisers. In early 1997, a major restructuring of the advertising department occurred. The purpose of the restructuring was to enable sales staff to excel and improve customer focus. The process of improving levels of service and operation is an ongoing one. Toronto Star revenue initiatives in 1996 included the joint venture with the Toronto Real Estate Board to publish The Real Estate News as a supplement to The Toronto Star on a weekly basis and an increased commitment to the sports' reader and advertisers by expanding the coverage in the Sports section of the Toronto Star. The Toronto Star intends to aggressively pursue a broad range of business opportunities to protect and grow its franchise in the GTA.

Technological advances are an important factor to consider in assessing whether The Toronto Star will be able to grow its share of media spending in its marketplace. Considerable debate continues on whether advances in technology represent an opportunity or a threat to newspapers. Torstar increased its commitment to electronic publishing with the 1996 launch of T-O Online (http://www.t-o.com). T-O Online is an internet site for the Torstar group of companies, including a Toronto Star site (http://www.thestar.com). The site has enjoyed steady growth in the number of hits per day and now averages more than 110,000 hits per day. Early in 1997, The Toronto Star selected Internet Liquidators International Inc. ("ILII") as its platform for online commerce. The Toronto Star views the ILII platform as a turnkey solution for commercial content. Community focused programming will offer online auctions and internet based shopping malls as an additional channel of distribution for Ontario retailers, charities and community organizations. In order to serve advertisers fully, The Toronto Star announced the launch of a cable channel on the Rogers system that will carry news, classified advertising and infomercials. The Toronto Star currently markets and distributes information through T-O Online, CD-ROM, StarPhone and Infomart. Torstar is also about to launch an interactive directory and guide for the GTA on the internet. The Toronto Star will continue to monitor and invest in new media in order to better serve its readers and advertisers.

The level of economic activity and The Toronto Star's position in the market are two key factors contributing to the outlook for newspaper lineage. Results of The Toronto Star are very sensitive to changes in lineage given the high fixed cost base of operating the newspaper. Assuming a constant line rate, a 1% change in lineage at The Toronto Star affects operating profit by $2 million.

On the cost side, newsprint pricing is critical in assessing the prospects of the Toronto Star. The price has been volatile in the past three years. The price bottomed at $485/tonne in early 1994, peaked at $1,035/tonne in early 1996 and as a result of eight consecutive price declines, settled back to approximately $700/tonne in late 1996. Toronto Star results are sensitive to this volatile pricing as 1997 consumption is expected to be 90,000 tonnes. A $100/tonne change in price affects The Toronto Star operating profit by approximately $9 million. The average price per tonne experienced by the Toronto Star has increased from $530/tonne in 1994 to approximately $875/tonne in 1995 and $900/tonne in 1996. Management expects the 1997 average price per tonne to decline from 1996 levels. Medium to longer term prediction of pricing is difficult. Efforts by management to reduce unnecessary newsprint consumption by reducing waste at the press centre and eliminating unnecessary circulation have been successful. Management remains committed to the effective use of newsprint.

Metroland's community newspapers continue to benefit from the focus of the publications in each of their 35 markets, the diversity of the customer base and the strength of the flyer distribution business. Each of the community oriented newspapers compete primarily against the daily newspaper for lineage and insert business available in the local market. Over the past few years, results have been aided substantially by price increases and the growth of the flyer distribution business. Prior to the 2% increase in lineage experienced in 1996, lineage had declined in each of the three prior years. Since 1993, lineage has declined by 6% but the impact on revenue has been more than offset by a 30% increase in line rate. Flyer distributions in the same period have grown by 17% to 949 million pieces. Metroland's exposure to newsprint price increases is much less than The Toronto Star with each $100/tonne movement in price affecting operating profit by $1.3 million.

In 1996, the Post Office announced that it is exiting the flyer distribution business. In an effort to grow their respective distribution businesses, both The Toronto Star and Metroland are actively pursuing former customers of the Post Office.

Toronto Star and Metroland management are co-ordinating their efforts in developing initiatives that will better service their customer base in the GTA.

The Hebdo Mag operation has grown substantially since Torstar initially acquired its interest in June, 1989. The focus of the operation is almost exclusively on the classified advertising business. With the December 1996 acquisition of a controlling interest in free ad papers in four countries, Hebdo Mag has become the largest free ad publisher and the largest classified advertising periodical company in the world. Revenues have grown from $14 million in 1989 to $171 million in 1996; 1997 revenues are expected to be $230 million. Hebdo Mag is internationally diversified with 66% of 1996 revenues from outside Canada. Success to date is attributable to both acquisitions and new product development. Continued success will depend on the response to competitive pressures and the ability to make investments in acquisitions or start-up operations at a cost which permits creation of shareholder value.

It is expected that advances in technology will have an impact on the classified advertising business. The extent of the impact and the implications for publishers such as Hebdo Mag are difficult to predict. Hebdo Mag believes it is well positioned in the electronic environment given its strong brand name recognition, its data base and existing operating infrastructure.

BOOK PUBLISHING

The Book Publishing segment consists of the book publishing operations of Harlequin, the world's largest publisher of series romance fiction. In 1996, Harlequin sold approximately 175 million books in 24 languages in more than 100 international markets. The business is comprised of three markets, North American direct marketing, North American retail and Overseas.

Operating Results

Book Publishing succeeded in growing its operating profits for the fifth consecutive year.

	1996	1995
	(thousands of dollars)	
Operating revenue	**$509,262**	$484,825
Operating profit	**80,929**	76,964
Depreciation and amortization	**11,965**	11,298
Segment cash flow	**$92,894**	$88,262
Return on revenue:		
- operating profit	**15.9%**	15.9%
- segment cash flow	**18.2%**	18.2%
Units sold (thousands)		
- North America	**89,500**	86,000
- Overseas	**86,000**	90,500
	175,500	176,500

Book Publishing revenues rose to $509 million in 1996, up 5% from the previous high set in 1995. North American revenue increased by $32 million due to higher cover prices and a 4% increase in units sold. Overseas revenues were down $8 million due to the depreciation of foreign currencies versus the Canadian dollar.

Book Publishing profits rose to a record $80.9 million, up 5% from the prior year's $77.0 million despite an $8.0 million increase in paper costs. A $6.6 million improvement in Overseas profits was offset in part by a $2.7 million decline in North American profits.

The major reasons for the improved Overseas profits were non-recurring losses in 1995 of $3.4 million associated with closed operations in Taiwan and Bulgaria and the closure of the Overseas head office in Switzerland. Improved results from both the U.K. and the Central European markets (Poland, Hungary and the Czech Republic) and lower Overseas administration costs also contributed to the growth in profit. Earnings declined in the Japanese market due to the depreciation of the Yen.

North American operating profits were down in the year with lower direct marketing profits offset in part by improved retail earnings. Retail performance improved as increased book sales and a January 1996 price increase more than offset higher paper costs. Direct marketing results were down as growth in revenue from increased unit sales and higher pricing was insufficient to offset increased paper prices and higher advertising and promotional spending incurred to build the customer base. Foreign exchange rate movement had little impact on year over year North American results. The $1.38 rate of exchange experienced on translation of U.S. dollar cash flows was similar to the rate experienced in 1995.

FUTURE PROSPECTS

Harlequin is the leading publisher of series romance fiction under the imprints of Harlequin and Silhouette. Harlequin entered into the mainstream single title romance fiction market in 1994 and continues to build the program with the imprint, MIRA. The outlook for Harlequin depends on management's ability to identify and act on opportunities to leverage its brand and skills in both building its core women's fiction business and capitalizing on related opportunities.

For the past few years, Harlequin's consistent growth in profit has resulted from publishing high quality products, editorial and marketing innovation, cost control, managing price increases and the favourable impact of a declining Canadian dollar versus many of the world's currencies. In the past five years, units sold have been stable in North America and have declined by 28% in the Overseas markets. The decline in Overseas units sold has been due to lower sales in the emerging Central European markets, competitive pressures and product rationalization. Achieving profitable growth in units sold is a priority for management.

The core of the Harlequin business is the appeal of the product to the reader. Given its leading position in the series romance market, management's challenge is to both encourage the purchase of more romance fiction books by existing readers and to reach new customers. Continually developing new editorial product coupled with superior promotion are critical to meeting this challenge. 1996 initiatives included a new Harlequin series, Love and Laughter and a new limited series, Fortune's Children. With the launch of MIRA in 1994, Harlequin diversified out of series romance into the mainstream market with author based single titles. Harlequin intends to participate in the growing single title market with this imprint. From launch through 1996, 12 million units have been sold. The 1997 goal is to publish 25 original titles compared to 22 in 1996. Investment in new marketing initiatives is aimed at strengthening the Harlequin/Silhouette/MIRA brands and is intended to support plans to grow the business.

Increasing unit sales at a profit depends on effective distribution. This requires expanding distribution channels in existing markets and expanding into new markets.

In the key North American retail market, the distribution channel is undergoing significant change. Fewer distributors are making larger buying decisions as the smaller independent distributors are being acquired. During 1996, Harlequin renegotiated its relationship with its U.S. retail distributor Simon & Schuster. Under the terms of the 10 year agreement, Harlequin will pay U.S. $16 million and will assume responsibility for the sales function formerly provided by Simon & Schuster. Simon & Schuster will continue to provide order processing and billing and collection services and will receive ongoing commissions in addition to the $16 million payment. Management believes this will prove to have a positive impact on the sales effort for both the core business and new product launches into the more concentrated, demanding retail channel. The feasibility of distribution into non-traditional channels where our readers shop such as music stores, craft stores and deep discount stores will be assessed in 1997.

In North American direct marketing, two success factors include attracting new customers and retaining customers. Success in attracting new customers cost-effectively depends on continually identifying attractive mailing lists of potential customers and developing creative approaches to improve response to promotion. Legislative changes are restricting the use of highly promotional direct mail techniques in some states, causing Harlequin to alter its direct mail approach and rely on alternative sources such as direct response television and ads in women's magazines. Retention of customers depends on outstanding customer service and on the success of holding efforts. During 1996, a number of new initiatives were executed which contributed to achieving a substantial increase in the direct marketing customer base going into 1997. At this stage, it is difficult to predict whether the new initiatives will ultimately prove to be successful.

In its Overseas markets, Harlequin relies primarily on retail distribution. Consistent with its strategy of expanding distribution channels in existing markets, Harlequin continues to commit funds to development of direct marketing operations to complement the retail channel. Harlequin's direct marketing initiatives have generally been successful. However, there are exceptions such as Germany and the Netherlands where response to the initiative has not met expectations. During 1996, a centralized operation facility to support all European direct marketing business was established in London.

Harlequin is well positioned to expand into new geographic markets given the leverage in Harlequin's book publishing business and the broad appeal of romance fiction. In the past seven years, Harlequin's expansion efforts have met with mixed success. Operations are profitable in Poland, Hungary and the Czech Republic however, competition is intense as women's magazine publishers attempt to gain market share in these developing markets. Expansion into Taiwan and Bulgaria was not successful and these operations were closed in 1995. Harlequin will continue its controlled entry into new markets such as China and Russia. In both of these markets, the long-term opportunity is significant, but it is essential that the development of the opportunity be at a controlled pace, consistent with developments in the market. Harlequin has minimal exposure to its newer markets both in terms of assets and operating profit. Less than 1% of book publishing net assets and 4% of expected 1997 profits are from markets developed since 1990.

Harlequin is committed to developing new businesses that leverage its brand and skills in areas outside the publishing of women's fiction. Specific initiatives include publishing of non-fiction books and newsletters. In addition, Harlequin continues to work with film companies to adapt manuscripts to the television screen.

Paper and postage costs in 1996 represented about 21 percent of Book Publishing revenue compared to 17 percent in 1995. Changes in paper prices are cyclical and postage costs tend to increase significantly every two to three years.

More than 95% of Book Publishing revenues come from outside Canada and as a result are susceptible to movements in the value of the Canadian dollar relative to other foreign currency exchange rates, particularly the U.S. dollar. Each 1 cent movement in the Canadian dollar versus the U.S. dollar represents a change of approximately $600,000 in operating profits. To reduce foreign exchange risk, Torstar has sold forward half and optioned the other half of its anticipated U.S. dollar cash flow in 1997. The minimum and maximum Canadian per U.S. dollar exchange rate for cash flow in 1997 is $1.39 - $1.42. For 1998, Torstar has sold forward $15 million U.S. at $1.44 and guaranteed a minimum rate of $1.36 on another $30 million. The 1996 rate was $1.38. Other significant currencies, including the Japanese yen, German mark and U.K. pound, are periodically hedged.

SUPPLEMENTARY EDUCATION

The Supplementary Education industry is made up of companies selling products which supplement the text books and core curriculum teachers use in the classroom. Products are sold to school districts and to individual teachers through sales calls on schools, catalogues, teacher's stores and trade shows. Total North American sales in the industry category in 1996 were $4 billion.

Torstar's Supplementary Education business segment was formed in May 1994 with the $81 million acquisition of Frank Schaffer Publications Inc., a leading producer of children's supplementary educational materials. Torstar continued its financial commitment to this strategic thrust by investing $63 million in two 1996 acquisitions, Tom Snyder Productions Inc. and Delta Education Inc. Tom Snyder Productions Inc., acquired in March 1996, is a leading publisher of educational software, CD-ROMS, videodisc, videotape and print materials. Delta Education Inc., acquired in November 1996, is a leading provider of science and math kits and hands-on material for schools.

Operating Results

Acquisitions are responsible for the growth in operating profit and most of the increase in revenue in 1996.

	1996	1995
	(thousands of dollars)	
Operating revenue	$56,736	$36,155
Operating profit	5,140	4,624
Depreciation and amortization	3,382	2,251
Segment cash flow	$8,522	$6,875
Return on revenue:		
- operating profit	9.1%	12.8%
- segment cash flow	15.0%	19.0%

The largest operation of the Supplementary Education division, Frank Schaffer Publications Inc., reported similar operating profits in 1996 compared to 1995. A 17% increase in revenue was offset by increased costs to expand the sales force, higher new product development spending and administration costs. Revenue was short of expectations primarily due to poor performance of 1995 product introductions and the timing of the sales force expansion and new product introductions. Warren Publishing House, which features products that help teach preschool children, was acquired in late 1995 and its results exceeded expectations. Operating results of Tom Snyder Productions Inc. were in line with expectations.

The division continues to invest in extending distribution of the Supplementary Education product to other markets by using Harlequin's skills and experience. In 1996, $1.1 million was invested in testing of a direct-to-home continuity program and $0.5 million was invested in development of the business in the U.K.

Future Prospects

Torstar's strategy is to make selective acquisitions to establish a strong, sizable, profitable position in the Supplementary Education market. Management's goal is to add value by extending traditional means of distribution through its expertise in direct marketing, leverage of Harlequin's U.S. retail sales force, and international distribution. The acquisitions of Tom Snyder Productions Inc. and Delta Education Inc. represent a good step towards achievement of the desired position in the industry. Revenues of the division are expected to exceed $100 million in 1997. Torstar continues to look for quality acquisitions that complement existing operations.

The ability to develop quality product at a reasonable cost is critical to success. Frank Schaffer revenues from 1995 product introductions were disappointing. However, management is committed to taking the action necessary to ensure development of a quality product. Frank Schaffer is in the process of extending its product line. Examples include software and religious educational products which were launched in 1996.

Across the division's operations, management is increasing investment in the sales and marketing effort as well as product development with a view to fueling growth both within the individual operating units and through synergies between units.

Management is prepared to take a long-term view in expanding and creating new distribution channels to create value. Use of Harlequin skills to develop a direct-to-home continuity program remains a priority. Testing commenced in the fall of 1995 and response has consistently exceeded expectations. To date, $2.7 million has been invested in this initiative. An additional $1.5 million is budgeted for 1997. In the retail channel, the division plans to test a mass market initiative in the second half of 1997. The Harlequin sales force will represent supplementary educational products in the same distribution channel where Harlequin books are currently sold. Expansion of distribution geographically is also being investigated. Efforts to date have focused on the U.K. market. Products have been well received at trade shows and efforts to secure distribution are ongoing. Expansion into other markets will be reviewed in the second half of 1997.

EQUITY IN ASSOCIATED BUSINESSES

Equity in associated businesses in 1996 represents Torstar's share in the losses of JCI Technologies Inc. and the write off of its remaining investment in JCI Technologies Inc. Given the stage of its development, the operation did not meet expectations. As a result, Torstar took the decision to write off the investment in 1996.

DISCONTINUED OPERATION

Torstar has concluded that Miles Kimball, its U.S. catalogue marketing company, is not a strategic business holding. Accordingly, Torstar has decided to sell Miles Kimball in 1997, discontinuing the operation in its financial statements (refer to Note 13). Miles Kimball turned around its performance in 1996 versus the three prior years. Net income from this operation improved to $3.2 million in 1996 versus $0.4 million in 1995.

INTEREST EXPENSE

Total interest expense increased to $29.4 million from $23.1 million in 1995. Torstar's share of interest expense incurred by Hebdo Mag was $12.8 million (1995 - $6.3 million). The remaining interest expense of $16.6 million (1995 - $16.8 million) related to Torstar net borrowings.

Torstar's share of Hebdo Mag's interest expense increased by $6.5 million in the year due to the full year impact of financing 1995 acquisitions, an increase in the effective interest rate on borrowing and Torstar's increased equity interest.

Torstar's interest expense, excluding its share of Hebdo Mag's interest, decreased slightly, as lower effective borrowing rates, 6.2% versus 7.7%, offset the higher debt levels.

LIQUIDITY AND CAPITAL RESOURCES

Net borrowings at the end of 1996 were $431 million versus $302 million in 1995. The reported amount includes Torstar's proportionate share of Hebdo Mag net borrowings which is non-recourse to Torstar.

The change in net borrowings is summarized below.

	1995	Change	1996
Torstar	$212	$73	$285
Hebdo	90	56	146
Reported	$302	$129	$431

The following comments relate only to Torstar as Hebdo Mag debt is non-recourse to Torstar.

Torstar net borrowings increased by $73 million in 1996 primarily due to investments of $63 million in Supplementary Education acquisitions and $22 million in the Distribution Services Agreement. The Supplementary Education investments are consistent with Torstar's strategy of establishing a strong presence in this market. Cash provided by operating activities of $103 million was more than sufficient to fund fixed asset additions of $30 million and the return to shareholders of $63 million, $35 million through cash dividends and $28 million through the share buyback.

In addition to improved operating results, cash provided by operating activities in 1996 benefited from $13 million in deferred income taxes. These deferred income taxes arose primarily on application of loss carryforwards for Canadian tax purposes to income of the current year. The balance of tax loss carryforwards available for application to income of future years is $120 million.

Fixed asset additions increased in 1996 to $30 million from $18 million due to the $10 million acquisition of the property at 1 Yonge Street. With the $425 million investment in The Toronto Star press facility completed in 1993, the Torstar group does not have major ongoing capital requirements in its operations.

The investment in the share buyback program is expected to be at least $17 million in 1997. The buyback program, expiring in July 1997, will be re-evaluated at that time based upon the best use of capital resources.

Long-term debt as a percentage of long-term debt plus equity rose to 36% in 1996 from 29% in 1995.

At December 31, 1996, 70% of long-term debt was denominated in U.S. dollars, compared to 66% in 1995. The Corporation's policy is to match, whenever possible, U.S. dollar borrowings to the carrying value of its U.S. operating assets as a hedge against exchange movements.

Torstar debt is primarily at variable rates. The December 31, 1996 effective rate on all borrowings was 5.9% (1995 - 7.2%). In March 1997, $80 million of outstanding debentures will mature. The Corporation has adequate bank credit available to repay the debentures. Torstar intends to file a prospectus to raise financing of up to $200 million through a medium-term note program to be used to replace existing debt.

At December 31, 1996 the Corporation had cash and short-term investments of $54 million and unused credit facilities, including operating lines, of $185 million. Operating cash flow, existing credit facilities and the borrowing capacity of the Corporation are more than sufficient to cover the current financing requirements.

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

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

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable information.

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

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

David A. Galloway
President and Chief Executive Officer
February 20, 1997

Robert J. Steacy
Vice-President, Finance

Auditor's Report
To the Shareholders of Torstar Corporation

We have audited the consolidated balance sheets of Torstar Corporation as at December 31, 1996 and 1995 and the consolidated statements of income, retained earnings and changes in net borrowings 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 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, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young
Chartered Accountants
February 20, 1997
Toronto, Ontario

TORSTAR CORPORATION

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEETS

December 31, 1996 and 1995

Assets	1996	1995
		(thousands of dollars)
Current:		
Cash and short-term investments (note 5(d)(iii))	**$67,448**	$61,694
Receivables (note 2)	**182,031**	145,285
Inventories	**64,004**	58,850
Prepaid expenses	**64,930**	61,442
Prepaid and recoverable income taxes	**12,207**	13,208
Total current assets	**390,620**	340,479
Property, plant and equipment (net)(note 3)	**433,566**	436,342
Goodwill and other assets (note 4)	**498,577**	373,018
Total assets	**$1,322,763**	$1,149,839

Liabilities and Shareholders' Equity		
Current:		
Bank indebtedness (note 5(d)(iii))	**$16,481**	$28,182
Accounts payable and accrued liabilities	**189,451**	168,276
Income taxes payable	**37,468**	33,873
Current portion of long-term debt (note 5)	**11,796**	2,921
Total current liabilities	**255,196**	233,252
Long-term debt (note 5)	**470,571**	333,050
Deferred income taxes	**18,864**	6,233
Employees' shares subscribed (note 6(b))	**4,279**	4,597
Shareholders' equity:		
Share capital (note 6)	**286,195**	292,876
Retained earnings	**281,453**	271,901
Foreign currency translation adjustment	**6,205**	7,930
	573,853	572,707
Total liabilities and shareholders' equity	**$1,322,763**	$1,149,839

(See accompanying notes)

On behalf of the Board

John R. Evans
Director

Burnett M. Thall
Director

Consolidated Statements of Income
Years ended December 31, 1996 and 1995 (Note 13)

	1996	1995
		(thousands of dollars)
Operating revenue	**$1,176,822**	$1,070,784
Operating profit		
Newspapers	**$51,842**	$19,696
Book publishing	**80,929**	76,964
Supplementary education	**5,140**	4,624
Corporate	**(7,767)**	(7,711)
	130,144	93,573
Interest (note 5(f))	**(29,435)**	(23,098)
Foreign exchange	**2,048**	(280)
Income before taxes	**102,757**	70,195
Income and other taxes (note 7)	**(38,400)**	(26,700)
Income before losses of associated businesses	**64,357**	43,495
Losses of associated businesses (note 4)	**(3,171)**	(5,700)
Income from continuing operations	**61,186**	37,795
Discontinued operation (note 13)	**3,184**	386
Net income	**$64,370**	$38,181
Average number of shares outstanding (thousands)	**39,732**	40,339
Earnings per Class A and Class B share		
Income from continuing operations	**$1.54**	$0.94
Net income	**$1.62**	$0.95

(See accompanying notes)

Consolidated Statements of Retained Earnings
Years ended December 31, 1996 and 1995

	1996	1995
		(thousands of dollars)
Retained earnings, beginning of year	**$271,901**	$273,707
Net income	**64,370**	38,181
	336,271	311,888
Deduct:		
Dividends - First Preference Shares	**24**	35
- Class A and B shares	**35,688**	33,858
	35,712	33,893
Premium on the purchase of shares for cancellation (note 6(c))	**19,106**	6,094
Retained earnings, end of year	**$281,453**	$271,901

(See accompanying notes)

Consolidated Statements of Changes in Net Borrowings
Years ended December 31, 1996 and 1995 (Note 13)

	1996	1995
	(thousands of dollars)	
Cash was provided by (used in)		
Operating activities	**$118,016**	$78,314
Investing activities	**(217,356)**	(93,550)
Discontinued operation	**4,416**	5,470
Dividends	**(35,099)**	(30,886)
Increase in net borrowings	**(130,023)**	(40,652)
Effect of exchange rate changes	**1,082**	1,657
Net borrowings, beginning of year	**(302,459)**	(263,464)
Net borrowings, end of year	**($431,400)**	($302,459)
Operating activities:		
Income before losses of associated businesses	**$64,357**	$43,495
Depreciation	**41,603**	39,899
Amortization	**15,132**	13,016
Deferred income taxes	**13,992**	3,704
Other	**(145)**	132
Operating cash flow	**134,939**	100,246
Increase in non-cash working capital	**(16,923)**	(21,932)
Cash provided by operating activities	**$118,016**	$78,314
Investing activities:		
Acquisitions (note 8)	**($134,216)**	($58,751)
Distribution services agreement (note 9)	**(21,795)**	
Additions to property, plant and equipment	**(32,601)**	(20,262)
Purchase of shares for cancellation (note 6(c))	**(27,510)**	(9,682)
Other	**(1,234)**	(4,855)
Cash used in investing activities	**($217,356)**	($93,550)
Net borrowings represented by:		
Long-term debt (including current portion)	**($482,367)**	($335,971)
Cash and short-term investments net of bank indebtedness	**50,967**	33,512
	($431,400)	($302,459)
Operating cash flow per share	**$3.40**	$2.49

(See accompanying notes)

1. Accounting policies

The consolidated financial statements are prepared in accordance with 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.; Miles Kimball Company; Frank Schaffer Publications Inc.; Tom Snyder Productions Inc.; and Delta Education Inc. The company's interest in Hebdo Mag International Inc. ("Hebdo Mag") which is a jointly controlled enterprise, is accounted for using the proportionate consolidation method.

During 1995 the company owned a 50% voting interest in Hebdo Mag. In December 1995 a 3.7% non-voting interest was acquired and in January 1996 a further 3.7% non-voting interest was purchased. As a result, the 1996 financial statements reflect on a line-by-line basis 57.4% of Hebdo Mag and the 1995 financial statements reflect on a line-by-line basis 53.7% of Hebdo Mag's assets and liabilities and 50% of the revenues and expenses.

(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 adjustments relating to self-sustaining foreign operations are included in shareholders' equity as foreign currency translation adjustments. These adjustments will be recognized in income in proportion to any reduction in the company's net investment in the foreign operation.

Long-term U.S. dollar denominated debt and foreign exchange contracts and options to sell U.S. dollars have been designated as hedges against U.S. dollar assets and future U.S. dollar cash flows.

(c) Derivative financial instruments

The company manages interest rate and foreign exchange risks through the use of derivative financial instruments. Payments and receipts under interest rate derivatives 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. Gains and losses on foreign exchange derivatives are unrecognized until realized.

The company is exposed to credit related losses in the event of non-performance by counterparties to these instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The company has a policy of only accepting high quality financial institutions as counterparties. The credit exposure and the difference between fair values and carrying values of derivative financial instruments as at December 31, 1996 and 1995 are not material to these financial statements.

(d) Receivables

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

(e) Inventories

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

(f) Investments in associated businesses

The company's investment in JCI Technologies Inc. ("JCI") in 1995 was accounted for using the equity method. In 1996 this investment was written off. The investment in Discis Inc. ("Discis"), which was written off in 1995, was accounted for by the cost method.

(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) Goodwill and other assets

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 a permanent impairment in the carrying value of goodwill by determining whether the unamortized goodwill balance can be recovered based on the fair value of the operation.

The cost of a distribution services agreement is amortized on a straight-line basis over the ten year term of the agreement.

(i) Pension costs and obligations

Pension obligations are valued using the projected benefit actuarial method and include best estimate assumptions of future investment returns, interest rates, salary changes, withdrawals and mortality rates. Past service costs, experience gains and losses and plan amendments are amortized on a straight-line basis over the expected average remaining service lives of pension plan members.

Current service costs are expensed in the period. Company pension contributions in excess of the amounts in the income statements are recorded as deferred charges in the balance sheets.

2. Receivables

The provisions for anticipated book returns deducted from receivables at December 31, 1996 amounted to $93 million (December 31, 1995 - $83 million).

3. Property, plant and equipment

	Cost	Accumulated Depreciation	Net
1996			
Land	**$12,983**		**$12,983**
Buildings and leasehold improvements	**190,095**	**$47,729**	**142,366**
Machinery and equipment	**487,723**	**209,506**	**278,217**
Total	**$690,801**	**$257,235**	**$433,566**
1995			
Land	$8,962		$8,962
Buildings and leasehold improvements	181,606	$39,817	141,789
Machinery and equipment	462,886	177,295	285,591
Total	$653,454	$217,112	$436,342

4. Goodwill and other assets

	1996	1995
Goodwill at amortized cost	**$438,064**	$340,349
Deferred pension charges	**16,553**	11,072
Distribution Services Agreement (note 9)	**21,260**	
Investment in associated business		4,771
Non-interest bearing executive stock loans (note 6(a)(i))	**1,075**	2,456
Other Torstar	**4,583**	6,995
Other Hebdo Mag	**17,042**	7,375
	$498,577	$373,018

Losses of associated businesses in the Consolidated Statement of Income in 1996 includes Torstar's share of losses in JCI and the write-off of the company's remaining investment in JCI. The 1995 loss includes the write-off of the company's investment in Discis of $4,171 and the equity in loss of JCI in the amount of $1,529. Discis ceased operations in 1996.

5. Long term debt

	1996	1995
Torstar and Subsidiaries		
Bank debt:		
U.S. dollar denominated	**$1,691**	$ 17,902
Cdn. dollar denominated	**2,000**	
	3,691	17,902
Commercial paper:		
U.S. dollar denominated	**208,409**	140,736
Cdn. dollar denominated	**15,469**	
	223,878	140,736
Debentures due March 24, 1997	**80,000**	80,000
Balance payable for distribution services agreement (note 9)	**21,366**	
	328,935	238,638
Less current portion of balance payable for distribution services agreement	**(7,122)**	
	321,813	238,638
Hebdo Mag		
Bank debt	**79,485**	36,938
Senior and subordinated notes	**58,965**	51,654
Balance of acquisitions payable (note 8(b)(ii))	**14,982**	8,741
	153,432	97,333
Less current portion of long-term debt	**(4,674)**	(2,921)
	148,758	94,412
	$470,571	$333,050

Torstar and Subsidiaries

(a) Bank debt

(i) The company has a $340 million long-term credit facility with two Canadian banks. All amounts drawn under this facility are to be repaid in full on June 30, 1998. Amounts borrowed under the long-term credit facility are primarily in the form of banker's acceptances which are issued at varying interest rates normally slightly below prime and normally mature over periods of from 30 to 90 days. Borrowings may be made in Canadian or U.S. dollars.

(ii) Bank debt outstanding at December 31, 1996 included U.S. dollar borrowings of $1 million (December 31, 1995 - U.S. $13 million). The average rate on U.S. dollar bank debt outstanding at December 31, 1996 was 6.1% (December 31, 1995 - 6.2%).

(iii) The average rate on Canadian dollar bank debt outstanding at December 31, 1996 was 3.5%.

(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 $275 million Canadian 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 the notes could be replaced at any time by bank debt under the terms of the credit facility discussed in (a)(i) above.

The company's unused bank credit lines referred to in (a)(i) above are designated as standby lines in support of the commercial paper program.

(ii) Commercial paper outstanding at December 31, 1996 included U.S. dollar borrowings of $152 million (December 31, 1995 - U.S. $103 million). The average rate on U.S. dollar commercial paper outstanding at December 31, 1996 was 5.7% (December 31, 1995 - 6.1%).

(iii) The average rate on Canadian dollar commercial paper outstanding at December 31, 1996 was 3.2%.

(c) Debentures

(i) The company has issued 8.8% Canadian dollar debentures due March 24, 1997. Interest on the debentures is paid on a semi-annual basis.

(ii) In 1993, the company entered into an interest rate swap agreement in respect of $75 million of debt. The swap agreement expires on the due date of the debentures. Under this arrangement the company has agreed to pay variable interest rates based on the 90 day bankers' acceptance rates plus 2.9% (6.9% at December 31, 1996 and 9.3% at December 31, 1995) in exchange for fixed interest payments at 8.8%.

(iii) At maturity, the company will replace the debenture borrowings through the use of its long-term credit facility described in (a)(i) above. The debentures have therefore been classified as long-term.

Hebdo Mag

(d) (i) Hebdo Mag's debt is non-recourse to Torstar.

(ii) In December 1995, Hebdo Mag renegotiated its credit facilities. Details are as follows:

Hebdo Mag has a revolving line of credit with a number of international banks with a maximum facility of $160 million Canadian dollars. The loans are denominated principally in Canadian dollars, U.S. dollars, French francs and Swedish krona and bear interest at varying interest rates, generally based on bankers' acceptance rates or their equivalent plus a premium which is dependent on certain Hebdo Mag financial ratios. The effective interest rate on the overall facility was 8.7% at December 31, 1996 (December 31, 1995 - 8.7%). The maximum facility reduces by $36 million per year beginning in 1998 and expires in 2002.

Senior and subordinated notes:

Hebdo Mag has issued private senior and subordinated notes in the amount of U.S. $40 million and U.S. $35 million respectively (December 31, 1995 - U.S. $40 million and U.S. $30 million respectively). The senior notes bear interest at 8.4% and are repayable in three equal payments in December 2002, 2003 and 2004. The subordinated notes bear interest at 10.4% and are repayable in December 2005. Through forward foreign exchange contracts approximately 50% of the notes have been effectively converted to French francs and 10% to Canadian dollars. The effective interest rate on the notes was 9.7% at December 31, 1996 (December 31, 1995 - 9.7%).

(iii) Included in bank indebtedness is Torstar's $7 million proportionate share of a multi-currency Hungarian loan with interest at variable rates (December 31, 1995 - $12 million). As collateral for this loan, Hebdo Mag has deposited a similar amount in U.S. dollars. This amount is included in cash and short-term investments.

(e) Estimated principal repayments (Hebdo Mag amounts represent Torstar's proportionate share) for the next five years are:

	Torstar	Hebdo Mag	Total
1997	$7,122	$4,674	$11,796
1998	314,691	9,454	324,145
1999	7,122	19,879	27,001
2000		25,309	25,309
2001		20,683	20,683

(f) Interest expense includes interest on long-term debt comprised of $18,051 for Torstar and $12,785 for Hebdo Mag (1995 - $18,367 and $5,594 respectively).

(g) The differences between the fair values and carrying values of the various long-term debt instruments are not material at December 31, 1996 and 1995.

6. Share capital

(a) Rights attaching to the company's share capital:

(i) $0.25 Cumulative Convertible, Redeemable First Preference Shares.

Subject to certain employment conditions and achievement of earnings objectives, the First Preference Shares may be eligible for conversion in future years into 92,840 Class B shares (1995 - 146,775).

These Preference Shares have been set aside for executive stock purchase loans maturing in three to five years (note 4). The shares are redeemable at any time at a price of $25 per share at the option of either the holder or the company.

(ii) 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.

(iii) Voting provisions

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

(iv) Share option plan

Eligible senior executives 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 Plan is 1,000,000 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 by the executive twelve months after the date granted, and a further 25% after each subsequent anniversary.

As at December 31, 1996, outstanding options were as follows:

Number	Price	Expiry Date
275,750	20.37	2005
315,600	23.00	2006

(v) 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.

(b) Under the company's employees' 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.

As at December 31, outstanding employee subscriptions were as follows:

Maturing	1996 1997	1996 1998	1995 1996	1995 1997
Subscription Price	**$21.13**	**$24.63**	$24.31	$21.13
Number of Shares	**93,352**	**93,649**	97,285	105,618

(c) Under normal course issuer bids, during 1996 the company has repurchased 1,024,500 Class B shares (1995 - 439,900) for cancellation at an average price of $26.85 per share (1995 - $22.01) for a total consideration of $27,510,000 (1995 - $9,682,000). Retained earnings were reduced by $19,106,000 (1995 - $6,094,000) for the cost of the shares in excess of their stated value.
To December 31, 1996, 476,300 shares had been purchased under the current issuer bid which will terminate upon the purchase of 1,000,000 shares or July 31, 1997 whichever is earlier.

(d) Summary of changes in the company's share capital:
(i) **First preference shares -**

	Shares	Amount
January 1, 1995	179,380	$4,485
Redeemed	(41,644)	(1,041)
December 31, 1995	**137,736**	**3,444**
Redeemed	**(39,839)**	**(997)**
Converted to Class B shares	**(11,883)**	**(297)**
December 31, 1996	**86,014**	**$2,150**

The company has authorized 15 million preference shares. Of these shares, 185,000 have been issued or set aside for issue.
(ii) **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 3,645 shares (with a stated value of $2,000) in 1996 and 15,950 shares (with a stated value of $9,000) in 1995.
Total Class A shares outstanding at December 31 were:

	Shares	Amount
1995	5,010,206	$2,722
1996	5,006,561	$2,720

Class B Shares	**Shares**	**Amount**
January 1, 1995	35,297,037	$285,504
Converted from Class A	15,950	9
Issued under Employees' Share Purchase Plan	85,135	1,791
Purchased for cancellation	(439,900)	(3,588)
Stock dividends issued	142,225	2,982
Other	550	12
December 31, 1995	**35,100,997**	**286,710**
Converted from Class A	**3,645**	**2**
Issued under Employees' Share Purchase Plan	**81,975**	**1,960**
Converted from First Preference shares	**13,121**	**297**
Share options exercised	**3,400**	**69**
Purchased for cancellation	**(1,024,500)**	**(8,404)**
Stock dividends issued	**23,220**	**597**
Other	**3,675**	**94**

December 31, 1996	**34,205,533**	**$281,325**

Totals

The total Class A and Class B shares outstanding at December 31 were:

	Shares	Amount
1995	40,111,203	$289,432
1996	39,212,094	$284,045

The total share capital at December 31 was:

1995	$292,876
1996	**$286,195**

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.

(e) Fully diluted earnings per share

Fully diluted earnings per share and operating cash flow per share are calculated using the weighted average number of shares that would have been outstanding assuming full conversion of the Convertible First Preference shares and exercise of options under the share option plan. Details of fully diluted per share amounts are as follows:

	1996	1995
Income from continuing operations	$1.52	$0.93
Net income	$1.60	$0.94
Operating cash flow per share	$3.35	$2.46

7. Income and other taxes

The financial statement tax rate differs from the Canadian statutory rate. A reconciliation of the difference is as follows:

	1996	1995
Income before taxes	$102,757	$70,195
Provision for income taxes based on Canadian statutory rate of 44.6% (1995 - 44.5%)	($45,800)	($31,200)
(Increase) decrease in taxes resulting from:		
Amortization of goodwill and other outlays not deductible for tax purposes	(4,900)	(4,600)
Foreign income taxed at lower rates	10,500	10,000
Manufacturing and processing profits allowance	3,700	900
Large Corporations tax and other taxes	(1,900)	(1,800)
	($38,400)	($26,700)
Effective income tax rate	37.4%	38.0%

8. Acquisitions

(a) Supplementary education

On March 29, 1996, Harlequin purchased Tom Snyder Productions Inc. of Watertown, Massachusetts, a leading publisher of educational software, CD-ROM, videodisc, videotape and print materials for the school market. The cost of the acquisition was $33.9 million plus a potential earnout payment, which is based on future growth expectations, due at the end of five years. The acquisition was accounted for under the purchase method with $33.0 million of the purchase price allocated to goodwill.

On November 22, 1996 Harlequin purchased Delta Education Inc. of Nashua, New Hampshire a provider of science and math kits and hands-on materials for schools for $29.0 million. The acquisition was accounted for under the purchase method with $22.6 million of the purchase price allocated to goodwill.

On September 30, 1995, Harlequin purchased for $5.7 million Warren Publishing House, Inc. of Everett, Washington, a producer of teaching resources for early childhood education. The acquisition was accounted for under the purchase method with $5.6 million of the purchase price allocated to goodwill.

The goodwill from these acquisitions will be amortized over 40 years.

(b) Newspapers

(i) In January 1996, Torstar purchased for $11.2 million a 3.7% non-voting interest in Hebdo Mag. The consideration included a payment of $5.0 million and an increased interest in the net borrowings of Hebdo Mag. The acquisition was accounted for under the purchase method with $10.7 million of the purchase price allocated to goodwill. As a result of this purchase, and a purchase of a 3.7% non-voting interest in December 1995 for the same consideration, Torstar has a 50% voting and 7.4% non-voting interest in Hebdo Mag.

(ii) On December 30, 1996, Hebdo Mag completed the purchase of controlling interests in the dominant classified advertising publications in Italy, Russia, Holland and the Italian part of Switzerland. Torstar's proportionate share of the cost of this acquisition was $52.0 million. The acquisition was accounted for under the purchase method with $40.5 million of the purchase price allocated to goodwill.

During 1996, Hebdo Mag also completed a number of smaller acquisitions. Torstar's proportionate share of the cost of these acquisitions was $8.4 million with substantially all of the purchase price allocated to goodwill.

During 1995, Hebdo Mag made the following purchases:

In March, a number of classified advertising magazines and papers in the Indianapolis and Nashville areas were purchased. In June, the assets of Expressz, a daily classified advertising publication in Budapest, Hungary, the shares of Canada Computer Paper Inc. which publishes seven free distribution publications serving the computer industry across Canada, and two classified advertising publications in California were acquired. Torstar's proportionate share of the cost of these acquisitions is $35.6 million. Each of these acquisitions was accounted for under the purchase method with $34.8 million of the purchase price being allocated to goodwill. The goodwill from these acquisitions will be amortized over 40 years.

Included in long-term debt is a portion of the purchase price for the above acquisitions which is payable in future years.

(c) In 1995, Torstar invested $6.3 million in the common shares of JCI Technologies Inc. of Victoria, British Columbia. In 1995, the investment was included in Investment in Associated Business and accounted for by the equity method. At the end of the third quarter of 1996, the investment was written off (note 4).

9. Distribution Services Agreement

In September 1996, Harlequin renegotiated its relationship with its U.S. retail distributor Simon & Schuster. Under the agreement which expires December 31, 2006, in addition to ongoing commissions, Simon & Schuster will receive payments totalling U.S. $16.0 million. The payments have or will be made as follows: U.S. $0.4 million on November 15, 1996 and U.S. $5.2 million on each of May 1, 1997, 1998 and 1999. The Canadian dollar equivalent of $21.8 million has been included in Goodwill and other assets (note 4) and will be amortized over the term of the agreement.

10. Pension plans

The estimated present value of accrued pension benefits at December 31, 1996 is $273 million and the market value of net assets available to provide for these benefits is $309 million (1995 - $256 million and

$261 million respectively). The company has an obligation to ensure there are sufficient funds available over the life of its pension plans to meet pension obligations.

11. 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 the forward foreign exchange and option contracts are as follows:

(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 as follows:

	Amounts in U.S. Dollars	
	1996	**1995**
Less than one year, at rates averaging C$1.38 (1995 - C$1.36)	$30,000	$30,000
One to two years, at rates averaging C$1.44 (1995 - C$1.38)	15,000	30,000
Two to three years, at rates averaging C$1.44 in 1995	-	15,000

(b) Foreign exchange options

The company has entered into various option contracts at a cost of $3 million (1995 - $4 million) to ensure a rate of exchange in the range or minimum rate as follows:

	Amounts in U.S. Dollars	
	1996	**1995**
Less than one year, at range of C$1.45 to $1.51 (1995 C$1.44 to $1.50)	$30,000	$30,000
One to two years, at minimum rate of C$1.42 (1995 - range of C$1.45 to $1.51)	30,000	30,000
Two to three years, at minimum rate of C$1.42 in 1995	-	30,000

12. Jointly controlled enterprises

The following amounts, included in the consolidated financial statements, represent the company's proportionate interests in jointly controlled enterprises the most significant being Hebdo Mag and Harlequin's German, French and Italian operations:

	1996	1995
BALANCE SHEET		
Assets:		
Current	**$51,478**	$45,994
Non-Current (primarily Goodwill)	**194,097**	128,057
Liabilities:		
Current	**51,795**	39,783
Current portion of long term debt	**4,674**	2,921
Long-term debt and other non-current	**149,046**	94,429
STATEMENT OF INCOME		

Operating revenue	**154,675**	130,034
Operating profit	**24,399**	12,557
Net income	**7,189**	4,869

STATEMENT OF CHANGES IN NET BORROWINGS		
Cash was provided by (used in)		
Operating activities	**22,916**	9,501
Investing activities	**(78,494)**	(51,859)
Effect of exchange rate changes	**2,077**	(1,537)
Increase in net borrowings	**($53,501)**	($43,895)

Substantially all of the non-current assets and long-term debt in the above table relate to the operations of Hebdo Mag.

13. Discontinued operation

Subsequent to December 31, 1996 the company concluded that Miles Kimball, its U.S. catalogue marketing operation, is not a strategic business holding and, accordingly, has decided to sell Miles Kimball in 1997. As a result, the business segment has been presented as a discontinued operation and the statements of income and changes in net borrowings have been reclassified to reflect this presentation.

The consolidated balance sheets include the following summarized amounts applicable to the discontinued operation.

	1996	1995
Current assets	**$20,826**	$20,353
Non-current assets	**23,231**	24,555
	44,057	44,908
Current liabilities	**12,687**	12,709
	$31,370	$32,199

The summarized results of operations of the discontinued segment for the years ended December 31, 1996 and 1995 are as follows:

	1996	1995
Operating revenue	**$119,207**	$114,833
Operating profit	**$5,884**	$986
Income taxes	**2,700**	600
Income from discontinued operation	**$3,184**	$386

14. Segmented information

The company's operations are classified into three business segments:

Newspapers - Publishing of The Toronto Star (a daily newspaper), the operations of Metroland (community newspapers), the operations of Hebdo Mag (publishers of classified advertising newspapers and magazines), and related ventures;

Book Publishing - Publishing of romance fiction (distributed through retail outlets and by direct mail); and,

Supplementary education - Publishing and distribution of children's supplementary educational products.

SUMMARY OF BUSINESS AND GEOGRAPHIC SEGMENTS OF THE COMPANY:

(thousands of dollars)

Business Segments	Operating Revenue		Operating Profit before Depreciation and Amortization		Operating Profit	
	1996	1995	**1996**	1995	**1996**	1995
Newspapers	$610,824	$549,804	$92,846	$58,915	$51,842	$19,696
Book publishing	509,262	484,825	92,894	88,262	80,929	76,964
Supplementary education	56,736	36,155	8,522	6,875	5,140	4,624
Corporate			(7,383)	(7,564)	(7,767)	(7,711)
Consolidated	$1,176,822	$1,070,784	$186,879	$146,488	$130,144	$93,573

	Identifiable Asset		Additions to Fixed Assets		Depreciation	
	1996	1995	**1996**	1995	**1996**	1995
Newspapers	$706,952	$648,532	$16,285	$15,173	$36,071	$35,104
Book publishing	335,851	314,068	4,668	4,212	4,177	4,035
Supplementary education	164,834	84,810	800	418	971	613
Corporate	71,069	57,521	10,848	459	384	147
	1,278,706	1,104,931	32,601	20,262	41,603	39,899
Discontinued operation	44,057	44,908				
Consolidated	$1,322,763	$1,149,839	$32,601	$20,262	$41,603	$39,899

Geographic Segments	Operating Revenue		Operating Profit		Identifiable Assets	
	1996	1995	**1996**	1995	**1996**	1995
Canada	$569,761	$527,286	$47,281	$19,270	$527,657	$545,290
United States	349,405	292,764	46,183	50,879	407,001	272,731
Other (a)	257,656	250,734	44,447	31,135	272,979	229,389
Corporate			(7,767)	(7,711)	71,069	57,521
	1,176,822	1,070,784	130,144	93,573	1,278,706	1,104,931
Discontinued operation					44,057	44,908
Consolidated	$1,176,822	$1,070,784	$130,144	$93,573	$1,322,763	$1,149,839

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

ANNUAL OPERATING HIGHLIGHTS CONTINUING OPERATIONS

	1996	1995	
Operating revenue			
(thousands of dollars)			
Newspapers	**$610,824**	$549,804	$
Book publishing	**509,262**	484,825	
Supplementary education	**56,736**	36,155	
Total	**$1,176,822**	$1,070,784	$
Operating Profit (loss) & Income (loss) from continuing operations			
(thousands of dollars)			
Newspapers	**$51,842**	$19,696	
Book publishing	**80,929**	76,964	
Supplementary education	**5,140**	4,624	
Corporate	**(7,767)**	(7,711)	
Operating profit	**130,144**	93,573	
Interest expense (net)	**(29,435)**	(23,098)	(
Foreign exchange	**2,048**	(280)	
Unusual items			
Income (loss) before taxes	**102,757**	70,195	
Income and other taxes	**(38,400)**	(26,700)	(
Income (loss) before earnings (losses) of associated businesses	**64,357**	43,495	
Earnings (losses) of associated businesses (2)	**(3,171)**	(5,700)	
Income (loss) from continuing operations	**$61,186**	$37,795	
Operating cash flow	**$134,939**	$100,246	
Average number of shares outstanding (thousands)	**39,732**	40,339	
Per Share Data			
Income (loss) from continuing operations	**$1.54**	$0.94	
Operating cash flow per share	**$3.40**	$2.49	
Dividends - Class A and Class B shares	**$0.90**	$0.84	
Rate of Return on Revenue			
Operating profit	**11.1%**	8.7%	
Income (loss) before earnings (losses) of associated business	**5.5%**	4.1%	
Return on Equity			
Operating cash flow as a percentage of average shareholders' equity	**23.5%**	17.5%	
Financial Position			
Total assets	**$1,322,763**	$1,149,839	$1,
Long-term debt	**470,571**	333,050	
Shareholders' equity	**573,853**	572,707	
Property, plant and equipment (net)	**433,566**	436,342	

(1) Includes $1.34 unusual gain on 1992 sale of investment in Southam

(2) Hebdo Mag is proportionately consolidated subsequent to 1993, and equity accounted prior to 1994.
The comparative financial information has not been restated prior to 1994 as the information is not readily available

TORSTAR CORPORATION DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

John R. Evans
Chairman
Torstar Corporation
Director since 1984

Burnett M. Thall
Vice-President
Torstar Corporation
Director since 1967

Catherine Atkinson Murray
President
Atkinson Charitable Foundation
Director since 1976

J. Murray Cockburn
Retired Executive
Vice-President
Torstar Corporation
Director since 1978

Robert J. Butler
Retired Chairman
Gulf Canada Resources Ltd.
Director since 1985

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
Chairman
& Chief Executive Officer
National Trust Company
Director since 1993

Edward L. Donegan
Partner
Blake, Cassels & Graydon
Director since 1993

Hershell E. Ezrin
President &
Chief Executive Officer
Speedy Muffler King Inc.
Director since 1993

David W. Lay
Deputy Chairman & Director
First Place Tower Inc.
Director since 1993

John A. Honderich
Publisher
The Toronto Star
Director since 1995

Ruth Anne Winter
Executive
Director since 1995

OFFICERS

David A. Galloway
President
& Chief Executive Officer

Burnett M. Thall
Vice-President

Robert J. Steacy
Vice-President, Finance

David P. Holland
Director of Finance

D. Todd Smith
Treasurer

David C. Wetherald
General Counsel
& Secretary

Dian Kesler-Corneil
Secretary to the Board

THE TORONTO STAR

John A. Honderich, Publisher
Toronto Star is Canada's largest daily newspaper
- Star Week Magazine
- For Rent
- The Best of The Star

Toronto Star Ventures
- eye Weekly Magazine
- Real Estate News
- T-O Online
- The Toronto Star Network
- Toronto Star CitySearch

METROLAND PRINTING PUBLISHING & DISTRIBUTING
John Baxter, President
Metroland is Ontario's leading publisher of community newspapers.
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- Ajax/Pickering News Advertiser
- Alliston Herald/Courier
- Aurora Era-Banner
- Barrie Advance
- Brampton Guardian
- Burlington Post
- Clarington This Week
- City of York Guardian
- Collingwood/Wasaga Connection
- East York Mirror
- Etobicoke Guardian
- Georgetown Independent
- Georgina Era-Banner
- Halton Hills Weekend
- Kingston This Week
- Lindsay This Week
- Markham Economist & Sun
- Midland/Penetanguishene Mirror
- Milton Canadian Champion
- Mississauga News
- Newmarket Era-Banner
- Northumberland News
- North York Mirror
- Oakville Beaver
- Orillia Today
- Oshawa This Week
- Peterborough This Week
- Port Perry This Week
- Richmond Hill Liberal
- Scarborough Mirror
- Stouffville Tribune
- Uxbridge Tribune
- Vaughan Liberal

HARLEQUIN ENTERPRISES

Brian E. Hickey, President and Chief Executive Officer

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JOINT VENTURES
Harlequin Germany
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Donna Hayes, Vice-President and General Manager

Publishes and produces educational products for teachers, parents and children

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Tom Snyder Productions
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