Torstar Corporation

2002 Annual Report

Our Year at a Glance

The Annual Meeting of Shareholders will be held Wednesday, April 30, 2003 at the Metro Convention Centre, 255 Front Street West, Toronto, Room 206, beginning at 10 a.m. It will also be Webcast live on tmgtv.ca with interactive capabilities.

Torstar Corporation is a broadly based-media company listed on the Toronto Stock Exchange (TS.B). Its businesses include daily newspapers led by the Toronto Star, Canada's largest daily newspaper, The Hamilton Spectator, The Record (Kitchener, Cambridge and Waterloo), the Guelph Mercury, and their Internet-related businesses; Metroland Printing, Publishing & Distributing, publishers of approximately 70 community newspapers in Southern Ontario; and Harlequin Enterprises, a leading global publisher of women's fiction.

John R. Evans
Chairman,
Board of Directors

"The Board of Directors is extremely pleased that the baton of leadership has passed so smoothly and successfully."

MESSAGE FROM THE CHAIRMAN

On May 1, 2002, Robert Prichard assumed responsibility as Chief Executive Officer, having joined Torstar in May, 2001 as President of the Torstar Media Group. The seamless transition of leadership was made possible by the strong sense of shared stewardship with David Galloway, retiring CEO. It will come as no surprise to anyone who has worked with Robert Prichard that he has addressed his new responsibilities with unmatched energy and enthusiasm and demonstrated the steepest possible learning curve in gaining an appreciation of each of the businesses of Torstar. The Board of Directors is extremely pleased that the baton of leadership has passed so smoothly and successfully.

Governance has been front and centre for all corporations in 2002. Torstar has undertaken a thorough review of its governance processes to ensure that they are in line with benchmark thinking and in compliance with the expectations of the regulatory agencies. Full disclosure of our current governance practices can be found in the Information Circular. Beyond the obligations to comply with the letter of best practice of governance, there is a less easily defined spirit of governance, equally important to the corporation, which combines the independence of directors and respect for dissent with a unity of purpose of board and management.

The year also saw major changes in the composition of the board. Retiring from the board are Edward Donegan, David Lay and Murray Cockburn. Mr. Donegan brought exceptional knowledge of newspapers, served on several board committees and was Chairman of the Audit Committee during the final five years of his term. Mr. Lay joined the board in 1993, served on the Audit and Pension Committees and was Chair of the Pension Committee for the past five years. Mr. Cockburn has served Torstar with distinction for many years, as a senior officer and director, and we have benefited from his extensive knowledge of the corporation and the newspaper industry. We thank the retiring directors for their commitment and service to Torstar.

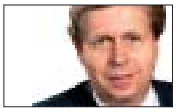
We welcome to the board Spencer Lanthier, former Chair and Chief Executive Officer of KPMG, and look forward to welcoming Neil Clark, Sabi Marwah and Ron Osborne, subject to shareholder approval at the annual meeting. All have enviable records of achievement in business and will bring new strengths and perspectives to Torstar.

The report of the President and Chief Executive Officer which follows describes the substantial achievements during 2002. On behalf of the board, I congratulate all those throughout Torstar who made these achievements possible.

John R. Evans
Chairman, Board of Directors

Leadership: It's about teamwork. It's about people. A decision to put our product in the forefront. Celebrating the individuals as parts of the whole.

Torstar's leadership team. Front row, left to right: Murray Skinner, President, Metroland; Jagoda Pike, Publisher, Hamilton Spectator, Senior Vice-President, Regional Daily Newspapers, Torstar Media Group; Donna Hayes, Publisher and Chief Executive Officer, Harlequin; John Honderich, Publisher, Toronto Star. Back row: John Evans, Chairman of the Board, Torstar; Robert Prichard, President and Chief Executive Officer, Torstar; Karen Hanna, Senior Vice President, Human Resource Strategy, Torstar; Robert Steacy, Executive Vice President and Chief Financial Officer, Torstar.



"Torstar's businesses don't just produce strong financial results. They also make a profound difference in the lives of those we serve."

J. Robert S. Prichard
President and Chief Executive Officer, Torstar

TO OUR SHAREHOLDERS

2002 was a very good year for Torstar. All of our operating businesses produced good results and two – Harlequin and Metroland – gave us record results. The overall improvements over 2001 were dramatic and, at Torstar as a whole, we enjoyed our highest earnings before interest, taxes, depreciation and amortization (EBITDA) in our history. These results allowed us to add further strength to our already strong balance sheet and announce a 10 per cent dividend increase for 2003. Equally important, in 2002 we devoted energy and resources to preparing Torstar for future growth.

Our Businesses

Torstar has two principal businesses: newspapers and book publishing. And in these two businesses, we have outstanding franchises: the pre-eminent daily newspaper franchise in Canada's most important media market, led by Canada's largest daily, the Toronto Star; the leading weekly and community newspaper business in Canada under the Metroland banner; and the world's leading publisher of romance and women's fiction in Harlequin Enterprises.

These businesses give Torstar enviable strengths and prospects. As market leaders, our businesses play from strength – they know their markets and their customers, they attract great people, they have the resources to weather tough times and constantly invest for future growth, and they are fuelled by a legacy of achievement and ambitions for the future.

Torstar's businesses don't just produce strong financial results. They also make a profound difference in the lives of those we serve. Our newspapers are essential pillars of a democratic society, advancing our communities and strengthening our citizenry. Our books enjoy extraordinary popularity, selling more than 146 million copies a year around the world and repeatedly placing high on the New York Times and USA Today bestseller lists.

Our Results

2002 was a year of recovery and growth for our newspapers, after a difficult year in 2001. Revenue growth, cost containment, favourable newsprint pricing and a strengthening economy combined to produce major year-over-year improvements in our results.

Our daily newspapers, led by the Toronto Star, performed well in the recovering economy. With disciplined cost containment and growing revenues, the Toronto Star nearly doubled its EBITDA in 2002. While still battling in a fiercely competitive market, the Star thrived where others faltered. The Star remains the dominant newspaper in the market by a wide margin and is increasingly profitable. Furthermore, the Star is well poised to benefit from further economic recovery, and, in particular, recovery in help wanted and careers advertising.

Our regional dailies, led by the Hamilton Spectator, provide further strength and scale to our leadership in the southern Ontario market, and enjoyed good results in 2002. Furthermore, we repositioned the Record in Kitchener-Waterloo as a morning daily, strengthened its editorial content and substantially increased circulation and readership.

Metroland had a superb year. EBITDA grew by 31 per cent. After a modest setback in 2001, Metroland is squarely back on its trajectory of double-digit growth that has seen EBITDA grow from $24 million in 1996 to its new record of $68.2 million in 2002, a compound annual growth rate (CAGR) of 19 per cent. Furthermore, the vast majority of this growth has been organic as the Metroland business model of entrepreneurship and decentralization unleashes individual initiative and creativity in the pursuit of opportunity and profit.

2002 was also a year of record results for Harlequin. Harlequin ranks with Canada's most successful global companies. While headquartered in Toronto, Harlequin earns 97 per cent of its revenues outside Canada, selling books around the world. With its sights firmly set on being the world's leading publisher of romance and women's fiction, Harlequin delivered 20 per cent growth in earnings and achieved a new record total of $126.7 million EBITDA. This extends Harlequin's remarkable record of profit growth in 16 of the last 20 years. Harlequin's most impressive results were in the North American retail market but we also made important progress in refocusing the overseas operations, stabilizing the direct-to-consumer business and fully harnessing the investments previously made in eHarlequin. Harlequin is clearly demonstrating that its focus on romance and women's fiction, using its multi-channel and global strategy, can distinguish Harlequin as a high-margin book publisher with exceptional strength and prospects.

Our Future

Past achievements and good results provide a strong foundation but are not sufficient to propel Torstar into the future. For that, we are focused on strategies for growth. For each of our operating businesses, we have set demanding multi-year financial goals and challenged the businesses to respond with strategies and plans to meet them.

All of our businesses have impressive records. Our challenge is to improve upon them. We are building plans to improve the margins in all of our daily newspapers, maintain double-digit growth at

To Our Shareholders

Metroland and raise Harlequin's growth rate above its historic CAGR of five to six per cent. We believe we can deliver on each of these goals. And while continuing to deliver strong annual results, we will make sensible investments to augment our future growth. This year, we invested in Black Press, thereby extending Torstar's geographic reach and increasing our investment in community newspapers, a business we know well and like a great deal. We also invested in the Transit Television Network, building on our success with TMG TV and believing we can add future earnings growth from multiple North American media markets.

Our overall goal is superior returns to our shareholders. We believe our intense focus on operational excellence and financial results in each of our businesses, combined with a multi-year strategy for innovation and growth, will allow us to deliver on our goal. And we will do everything in our power to do so. That is our commitment.

Our Leaders

At Torstar, we have many advantages: exceptional franchises, a strong balance sheet, unusually strong free cash flow and a committed and heavily-invested controlling shareholder group. But we have another special asset: our leaders and our people.

We are blessed with skilled and experienced management teams in each of our businesses: John Honderich at the Toronto Star, Jagoda Pike at the Regional Dailies, Murray Skinner at Metroland and Donna Hayes at Harlequin are outstanding business leaders. Equally important, they have assembled superb teams of passionate and committed colleagues around them.

We have elevated investing in leadership to a matter of the highest priority, confident that these investments will pay dividends not only in the quarters ahead, but in the decades ahead. We will continuously develop and recruit leadership talent at every level, knowing that it will be their commitment and imagination that will lift us ever higher.

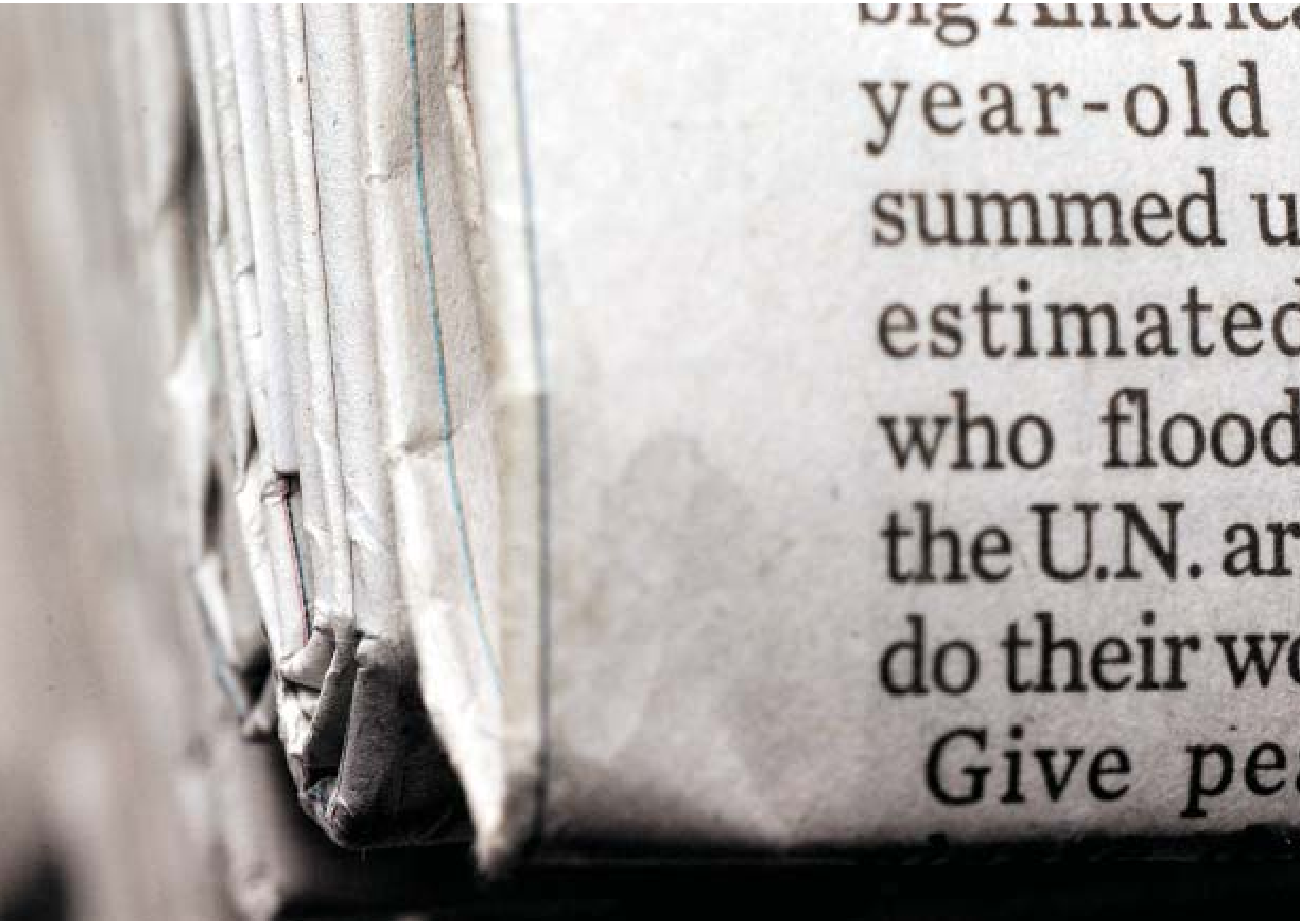
It is not just our leaders who make a difference. Our 5,900 employees who devote themselves to advancing Torstar every day make the biggest difference of all and I thank all of them for their fine performance this past year.

I also want to acknowledge and thank David Galloway, who retired as Chief Executive Officer in May, 2002. He left Torstar in excellent shape and much of what we accomplished this year can be traced directly to his wisdom and leadership. Everyone at Torstar is much in his debt.

This is not an easy time to do business. An uncertain economic outlook, particularly in the U.S.A., the prospect of war and instability in the Middle East, hesitant consumer spending and disappointing capital market results all conspire to discourage optimism and reduce expectations. But at Torstar we are optimistic and we have great expectations. We are preparing and building for achievements that will translate the outstanding results of 2002 into a mere prologue for an even better future.

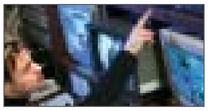
All of us working at Torstar are grateful for the opportunity. We know we are part of a worthy company and an important cause. We thank our Board of Directors for their leadership and counsel and we thank you, our shareholders, for vesting your confidence in us.

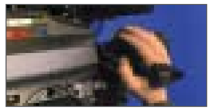
J. Robert S. Prichard
President and Chief Executive Officer



Newspapers

No other media company can offer more reach and penetration in Canada's most lucrative market than the Torstar Media Group of newspapers.



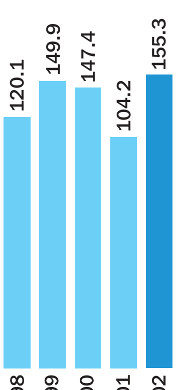


TORSTAR MEDIA GROUP

Torstar Media Group's vision is to be the premiere source of local and regional news, information and entertainment in southern Ontario. No other media company can offer more reach and penetration in Canada's most lucrative market than TMG. Torstar's combination of daily, community and specialty newspapers gives the company the unique ability to reach and influence a large group of consumers, as well as specifically focus highly-targeted communities. Torstar is the dominant newspaper publisher in southern Ontario. Torstar's newspaper businesses are in the second-fastest growing urban market in North America. They include four leading daily newspapers, approximately 70 award-winning community newspapers, 50 per cent ownership of the largest Chinese daily in Canada, 50 per cent ownership of Toronto's transit paper, and a host of specialty publications. Torstar continues to develop new relationships with consumers through its online properties and investment in Torstar Media Group Television (TMG TV).

Toronto Star and the regional daily newspapers – The Hamilton Spectator, The Record and the Guelph Mercury – have a combined regional circulation of approximately 650,000 papers a day. Metroland's community newspapers have a combined weekly circulation of 3.8 million papers. Sing Tao's past-week readership is approximately 281,000 in Canada. After merging its transit paper with competitor Metro International S.A. in 2001, Torstar now owns 50 per cent of the new product, Metro, which has a circulation of 182,000 per day.

Torstar's online properties include *thestar.com* and *toronto.com*, as well as the jointly-owned operation of *workopolis.com*. *Thestar.com* is the online complement to the daily newspaper and is one of Canada's leading news and information Web sites. *Toronto.com* is Canada's leading city guide and the second-most-visited city guide in North America. *Workopolis.com*, of which Torstar owns 40 per cent, has become the pre-eminent integrated electronic recruiting solution in Canada.



EBITDA ($ Millions)

TMG TV operates Toronto Star TV, a successful 24-hour infomercial channel reaching 1.4 million households in the Greater Toronto Area, and TMG TV Productions, a full-service video production facility featuring Avid editing suites, a 3D virtual set studio and post-production services.

Torstar Media Group revenues increased four per cent from $826 million in 2001 to $857 million in 2002. The combination of a strengthening economy which contributed to increased advertising revenue and decreased newsprint costs (prices down 20 per cent year over year) resulted in a 49 per cent increase in EBITDA from $104.2 million earned in 2001 to $155.3 million in 2002.


John Honderich
Publisher,
Toronto Star

"The Star's successful strategy in 2002 encompassed three goals: to advance the cause of social justice with the paper's trademark journalistic excellence, to maintain circulation levels, and to meet or exceed advertising revenue goals."

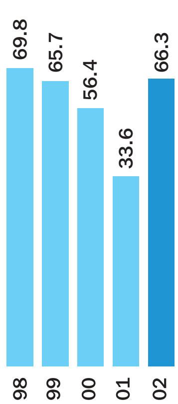
TORONTO STAR

The Toronto Star's operations include the country's largest daily newspaper, commercial printing at the Vaughan Press Centre, and the Interactive Media group of businesses. EBITDA for the year was $66.3 million, nearly double the $33.6 million earned in 2001.

As a newspaper, the Star was once again successful in maintaining its position as the dominant daily paper in Canada's most competitive media market. The Star's successful strategy in 2002 encompassed three goals: to advance the cause of social justice with the paper's trademark journalistic excellence, to maintain circulation levels, and to meet or exceed advertising revenue goals.

Editorial

The year began with the January launch of a year-long crusade calling for a new deal for Canadian cities. This initiative carried through with stories in almost every section of the paper, as well as Star-sponsored public forums and speeches, all of them placing the issue very much on national, provincial and municipal agendas. A number of hard-hitting investigative stories also had a major impact. A team of Star reporters and data analysis experts used a massive police database to show that Toronto police seem to stop black drivers for no apparent reason and tend to deal more harshly with blacks arrested on drug charges. The Star series – *Race and Crime* – sent shock waves through the community and sparked a heated debate that continues today. After a pair of Star reporters went undercover to look into the shady world of fraudulent telemarketing, their stories resulted in more than 200 Toronto "boiler rooms" being closed down by the crooks running them. Throughout the summer, reporter Moira Welsh and photographer Peter Power visited Toronto's Tent City shantytown, revealing, among other things, the birth of a baby to Tent City residents, a development that sparked outrage from Queen's Park to City Hall. The coverage culminated when authorities evicted Tent City residents, prompting a seven-page special section written on deadline for the next day's paper. In the *Code Zero* investigative series, a team of 25 Star reporters and photographers spent a week with health care workers and patients in east Toronto; the week-long stories concluded with an inside look at the rough-and-tumble world of hospitals and identified many of the ills plaguing Canada's health care system. Two new sections were also unveiled during the year – *High Yield* and *Your Home*. The Star's policy of hiring the best journalists in the country was also continued with several marquee writers, editors and designers joining the Star team.



EBITDA ($ Millions)

The Star and its readers were saddened in April at the death of popular political columnist Dalton Camp, and again in November, when former Star president and publisher David Jolley passed away.

Circulation

In an extremely competitive market, no other Toronto daily comes close to matching the size or readership of the Star. The Audit Bureau of Circulation (ABC) reported that the Star's overall circulation in 2002 had been successfully maintained, with only a slight decline over the previous year. At the same time, paid circulation plummeted at all three of Toronto's other dailies. The Saturday Star remained dominant in the market, with only a slight slippage of 1.5 per cent to 671,609 copies, while the Globe and Mail and The National Post experienced sharp declines, with a somewhat smaller drop at the Toronto Sun. Monday-to-Friday Star circulation, at 445,678 copies, was down only 1.2 per cent from the previous year, while sales of the Sunday Star fell about 4.4 per cent to 437,468. As the Star's circulation director said at the time: "We're thrilled about where our circulation numbers have ended up in a very competitive environment. We're exactly where we expected to be and all of our competitors are much worse off than they were this time last year."

Advertising

Despite intensive competition, a softening economy and structural changes within, the Star's advertising department was successful in over-achieving its revenue and linage objectives for the year. Advertising revenues were $310 million, up $3 million from $307 million in 2001. The automotive, real estate and national categories experienced gains over the previous year, while recruitment/employment advertising was soft. The Star was also successful in maintaining its advertising share of market without resorting to heavy discounting. Several exciting new initiatives were begun in the advertising department. A new classified "up sell" program that encourages customers to place their ads on the paper's Web site, as well as in the paper, was a huge success; a new Travel Extra section was created; seven new special sections were published; regional advertising sections were introduced for the retail auto section; and a new Perspectives format was created to accommodate 'advertorial' opportunities. The Canadian Media Directors Council voted the Star's advertising sales force the best sales and service team in the country, and Canada's largest advertising agency voted two Star ad staffers as newspaper representatives of the year.

Awards

The Star was nominated for six prestigious National Newspaper Awards in April, with photographer Peter

Power winning in the feature photography category. The Star holds more NNAs than any newspaper in Canada. Veteran columnist and author Richard Gwyn and Editor Emeritus Haroon Siddiqui were inducted into the Order of Canada. *Medical Secrets*, an investigative project in late 2001 that exposed a provincial regulatory system that routinely fails to discipline doctors who harm patients, received double honours in the spring when it was nominated for a National Newspaper Award and the Michener Award. Star reporter Barbara Turnbull was named one of the year's Women of Distinction by the YWCA of Greater Toronto for her social action in the community. Reporter Peter Edwards was presented with the first Debwewin Citation for excellence in journalism on aboriginal issues for his reporting – and subsequent book – on the 1995 police killing of native Dudley George during a protest at Ipperwash Provincial Park. The Star was honoured for the third consecutive time when the prestigious International Newspaper Colour Quality Club awarded another two-year membership to the paper for its consistently high standards of colour reproduction. The club rated the Vaughan press facility as one of the top 50 printing plants in the world.

Celebrations

To celebrate the Star's 110th birthday in November, a team of writers, photographers and researchers – along with prominent members of the community who wrote guest pieces – published special commemorative sections every day in the 11 days surrounding the November 3 anniversary date. Each section dealt with a decade in the life and times of the Star and received an overwhelmingly positive response from readers. The anniversary celebrations culminated with the unveiling of a redesigned Toronto Star, its first major facelift in 10 years. The revamped Star includes a new typeface designed exclusively for the paper, a more open and appealing layout of editorial and advertising content, and strong, bold use of photographs and design elements. To highlight the new-look Star, one million copies of the paper were printed on November 12 – the largest single press run ever produced by the Star – and distributed free to non-subscribers across the GTA. The Star's Web site, *thestar.com*, was also redesigned in conjunction with the newspaper's redesign.

Community

The Toronto Star Santa Claus Fund underwent a major expansion in 2002 to include Brampton and Mississauga under its umbrella. The fund was successful in reaching its goal of $1.2 million, thanks to the generosity of thousands of readers across the GTA, providing more than 44,000 needy children with a Christmas gift box. The Star's other charity, the 101-year-old Toronto Star Fresh Air Fund, also had a successful year, raising $500,000 from readers to give deserving inner-city kids the chance to attend a summer camp. Every cent donated to the two funds goes directly to the programs, with the Star paying all administrative and operating costs.

Operations

At the Vaughan Press Centre production facility, newsprint wastage was reduced significantly, resulting in hefty savings for the paper; an improved pricing structure for all TMG holdings was negotiated; the rate for colour ink purchases was renegotiated; newsprint pricing was held in check to market movements; and energy consumption was reduced by 20 per cent at the same time as new commercial work was taken on. Outsourcing of the paper's delivery function was also completed during the year.

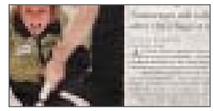
INTERACTIVE MEDIA

2002 was a transitional year for *thestar.com*, one of Canada's premiere newspaper Web sites. Emerging from a successful reorganization in 2001, *thestar.com* team had its best year, showing significant gains in both audience and revenue. *Thestar.com* launched a new look and feel – in conjunction with the Star's redesign – instantly capturing the attention and accolades of users. Total traffic for 2002 increased by 24.2 per cent over 2001. *Thestar.com* consistently garners more than one million unique visitors a month and is poised to leverage that strength in 2003. New products and features were also added during the year, such as up-to-date scoreboards, larger photos, more logical navigation and a self-serve subscription service. An exciting new online venture, *Pages of the Past*, was launched as well, featuring a digitized look at almost every Toronto Star published since its birth in 1892. *WayMoreSports.com* continued to see traffic numbers increase – a reflection of the in-depth and exhaustive sports content available on the site. *WayMoreSports.com* traffic increased by 41.5 per cent over 2001. The site continues to contain and update one of the largest variety of sports news in Canada. Workopolis continued to lead the Canadian job-site market with *workopolis.com* and *workopolisCampus.com*. Over the year, Workopolis posted 364,608 jobs from 30,466 companies and continued to post more jobs in every province than any of its competitors. *Toronto.com* had a very strong year in 2002 with unique users increasing 21 per cent to more than 500,000 per month. Page views grew at a rate of only 10 per cent after a shift to more corporate links was initiated in 2002.

Overall revenue increased by 12 per cent over 2001, despite a difficult advertising sales environment.

“During 2002, Metroland continued to build its business in the market through both acquisitions and start-ups.”

Murray Skinner
President,
Metroland



METROLAND

Metroland Printing, Publishing & Distributing Limited is the largest and most successful publisher of community newspapers in Canada. Metroland’s community newspaper operations are concentrated in southern Ontario and centred around Toronto. Each paper is staffed and managed in a regional group to meet the local needs of the individual community. Papers publish once, twice, or three times weekly depending on market requirements.

During 2002, Torstar’s business ventures operations were reorganized as an additional division of Metroland. The Business Ventures group develops and manages both wholly-owned and joint-ventures products.

Building

Metroland publishes 69 weekly community newspapers with a total of 115 editions and 3.8 million copies each week. Readers know their local Metroland paper as the Mississauga News, Oshawa This Week, Oakville Beaver, Scarborough Mirror, Barrie Advance, Brampton Guardian, Newmarket Era-Banner, or by one of 62 other titles. In addition, the papers produce dozens of monthly, quarterly and annual products designed to serve local market needs, as well as both regional and local consumer shows. Monthly publications include Forever Young, a tabloid for people over 50 with a circulation of 360,000 (including eight franchises) and City Parent, with a circulation of 182,000 (including one franchise).

The Business Ventures properties now operating as a division of Metroland include *eye*, a weekly arts and entertainment publication. It registered the highest single readership gain of any PMB-measured publication in Canada in 2002 and is distributed in more than 2,400 outlets throughout Toronto; and the weekly Real Estate News, produced in conjunction with the Toronto Real Estate Board. Business Ventures also includes the joint-venture interests in Sing Tao and the commuter paper, Metro. Sing Tao Daily publishes Canada’s largest Chinese-language newspaper, with editions in Toronto, Vancouver and Calgary. In addition to the newspaper, Sing Tao’s Canadian media group is also involved in printing, outdoor advertising, radio broadcasting and magazines. Readership is approximately 280,000 in Canada.

EBITDA ($ Millions)

Sing Tao launched a new full-colour Sunday magazine in January, 2002, resulting in an increase in Sunday readership of more than 50 per cent.

In August, 2002, the name of Metro Today was formally changed to Metro. NADbank’s latest study shows that readership is up 23 per cent over the previous year with total readership on a “read yesterday” basis at 326,000. Approximately 182,000 copies of Metro are distributed through 1,250 boxes and racks throughout the GTA on a daily basis (Monday-Friday).

During 2002, Metroland continued to build its business in the market through both acquisitions and start-ups. Metroland acquired the 20-year-old annual Markham Home Show and integrated this successful consumer show into its York Region Newspaper Group. Metroland also acquired the weekly 15,500-circulation Stratford City Gazette newspaper and the monthly Kawartha Region seniors publication called Prime Time.

Many successful new products were launched in 2002 including the glossy upscale magazine West of the City, an exciting monthly publication for youth called News 4 Kids, and a miniature guide for recent parents called Toronto Baby Book.

In addition, Metroland accelerated the process of creating new products and services to serve local market needs by launching a number of special divisions, including Dynamic Publishing & Consumer Shows in Durham Region, YRNG Event Management in York Region and Event Horizon Marketing in Toronto.

Metroland continued to build its presence on the Internet in 2002. The company launched print-to-Web initiatives in multiple markets, allowing advertising content to be accessible through Metroland’s regional portal sites.

Contributing

The hallmark of Metroland’s newspapers is the depth of involvement in local communities and the quality of contributions by both the papers and Metroland’s employees. For example, during 2002, Metroland’s Toronto publisher, Betty Carr, was honoured with a lifetime achievement award from the North York Chamber of Commerce, and Durham editor Joanne Burghardt was appointed a governor for Canada’s newest university, the Ontario Institute of Technology, in Oshawa.

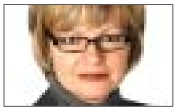
Metroland’s newspapers were recognized throughout Ontario, Canada and North America in 2002 with more than 120 industry awards for excellence. Metroland newspapers dominated the 2002 Ontario Community Newspapers Association (OCNA) Better Newspapers competition, including a sweep of the general excellence awards in the highest-circulation class with the Oakville Beaver in first, the Burlington Post in second and The Era-Banner in third. Metroland won a total of 71 Ontario awards including a sweep of all three places (first, second and third) for best sports photo, best feature photo, best sports story, education writing and best news story. Stephen Shaw of Oshawa-Whitby This Week was named the OCNA's reporter of the year, and Metroland photographers swept the category for photographer of the year, with Barry Erskine of the Oakville Beaver taking the first place award, followed by Graham Paine of Milton and Ian Kelso of Etobicoke. At the 2002 Canadian Community Newspapers Association (CCNA) annual awards, Metroland staff won a total of 36 awards including Kingston This Week's Lynn Rees Lambert, who was named outstanding columnist nationally. The first place awards included outstanding community service, outstanding reporter initiative, and many more. At the Suburban Newspapers of America (SNA) competition, Metroland garnered 18 awards for excellence.

Community

Metroland's newspapers continued to be recognized in 2002 for their positive contributions to the communities they serve. Countless unsolicited letters are received throughout the year acknowledging the leadership and support the papers provide to their communities. In one letter, the Human Services Planning Coalition of York Region applauded Metroland's journalists for their Human Factor series:
"Lisa Queen's coverage was powerful and comprehensive ... her leadership in organizing the health forum raised important considerations ... and continues to provide informative facts in a local context. Jeff Mitchell's investigation ... was compassionate and thoughtful. Mike Adler's ... analysis of the implications for York Region's residents was excellent. The Human Factor series is an important contribution to the well being of the entire community. We expect a responsive and responsible media – which covers human services with a firm but balanced approach. The Human Factor series fulfilled, and exceeded, that expectation. Thank you."
Metroland contributes even more than great editorial content. During 2002, Metroland's newspapers donated more than $1 million of advertising space in support of local events, charities and other causes.

Earnings

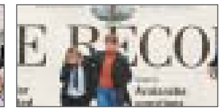
Metroland continued its legacy of success and profits in 2002, achieving its most profitable year in history. Metroland (including Business Ventures in 2002) earned $62.1 million operating profit in the year, up from $51.0 million in 2001. EBITDA for the year was $68.2 million compared to $52.2 million in 2001. Company revenues continued to strengthen throughout the year and finished ahead of the prior year by 4.8 per cent. Advertising linage in the community newspapers was below the previous year after the first quarter but finished the year up five per cent to 193.7 million lines. This represents more advertising linage than was carried in the five Toronto dailies combined. Flyer pieces increased 2.4 per cent to a record 1.86 billion pieces.



Jagoda Pike
Publisher,
The Hamilton Spectator,
Senior Vice-President,
Regional Daily Newspapers,
Torstar Media Group

"The Hamilton Spectator is particularly proud of Bringing Back the Bay, an ambitious and breathtaking seven-part series that explored the often-troubled history of Hamilton harbour."





REGIONAL DAILIES

Torstar's Regional Daily Newspapers continued to dominate in the strong markets west of Toronto: Hamilton, Kitchener-Waterloo, Guelph and Cambridge. The Regional Dailies consist of The Hamilton Spectator and the three Grand River Valley Newspapers: The Record in Kitchener-Waterloo and Cambridge, the Guelph Mercury and The Cambridge Reporter. The largest newspapers in the group are The Hamilton Spectator, with average daily circulation of 108,000, and The Record, with average daily circulation of 69,000.

The Hamilton Spectator

The Hamilton Spectator is particularly proud of Bringing Back the Bay, an ambitious seven-part series that explored the often-troubled history of Hamilton harbour. The Spectator told a story of redemption, employing non-traditional writing, haunting documentary photography, commissioned artwork, never-before-seen underwater topography and Spectator-commissioned scientific research. The result was a spectacular investigative and explanatory body of work, which garnered tremendous interest and praise. Also noteworthy in 2002 was the introduction of Spectator "Town Halls," monthly forums hosted by Spectator journalists and broadcast live on cable television. They have become, in short order, a trusted vehicle from which city residents can learn about issues key to their lives and the life of the city. The Spectator earned a National Newspaper Award nomination in 2002 along with 18 nominations for Western Ontario Newspaper Awards.


THE HAMILTON SPECTATOR

FILM

STYLE

Criminal charges loom against Martha Stewart

'Sooner or later you go broke'

In a successful expansion project, one of The Spectator's three offset presses was upgraded to accommodate The Record's printing requirements. The position of Vice President, Human Resources was added during the year to lead human resources initiatives in support of the growth plans at both The Spectator and the Grand River Valley Newspapers.

Community

The Hamilton Spectator's tradition of strong community support continued throughout 2002 with more than $1.2 million in cash and advertising space donated to local charitable and not-for-profit groups. Additionally, The Spectator's Summer Camp Fund raised more than $150,000 to help send needy children in the community to summer camp. The Spectator's ongoing support of arts organizations was recognized when the Council for Business and The Arts in Canada awarded The Spectator its national award for media support of the arts. Publisher Jagoda Pike was active in community and industry support during the year as she was elected vice-chair of the Canadian Newspaper Association and co-chair of the Hamilton bid committee for the 2010 Commonwealth Games. The successful bid led to Hamilton being selected as Canada's nominated city to host the Commonwealth Games. The work of the bid committee continues throughout 2003 leading to a decision at the end of the year as to whether Canada and Hamilton will be granted the 2010 Games.

Earnings

Supported by advertising revenue growth, lower newsprint pricing and the effects of cost reductions implemented at the beginning of the year, Hamilton Spectator EBITDA grew by 12 per cent in 2002 from the prior year. Higher advertising linage, up four per cent from 2001, was a key contributor to the improved ad revenues. In support of advertising sales, the innovative auction initiative begun in 2001 was expanded in 2002. In addition to in-paper advertising from auction participants, revenue was also earned from the sale of auction operating services to other newspapers in North America. The daily printing of The Record was transferred to The Spectator from the Toronto Star's Vaughan plant in the second quarter following the early year transfer of National Post printing from Hamilton to Vaughan.

Grand River Valley Newspapers

A wide-ranging new strategy was implemented in 2002 to strengthen the three GRVN newspapers and better position them for growth. The Record, which had been the last afternoon-delivery newspaper of its size in

Regional Dailies

Canada, converted to morning delivery in June, 2002. Building on editorial improvements previously implemented and supported by a new marketing campaign, the change to morning was very well accepted by the market. Research to measure the effect of the change on readership showed a 14 per cent increase in the number of adults reading the average weekday issue of The Record following the conversion to morning. Average circulation of The Record rose in 2002 by more than three per cent from 2001.

At the Guelph Mercury, the paper was bolstered by discontinued publication of the Sunday Mercury and investment of those resources into the other six days of the week. The improved Mercury was well received with daily circulation growing by 13 per cent over 2001 levels.

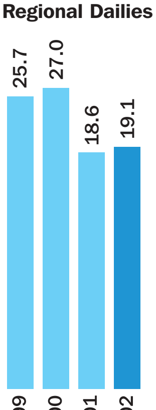
The Cambridge Reporter was transformed early in 2002 from a daily newspaper with 7,000 circulation to a true community newspaper with twice-weekly, free delivery to 52,000 homes in Cambridge and south Kitchener. The increased distribution improved both the advertising reach and insert distribution capabilities of The Reporter.

The Record was proud to be recognized with the prestigious Michener Award in 2002 for its in-depth editorial coverage of a local financial scandal. The same coverage also earned a National Newspaper Award nomination. At the Western Ontario Newspaper Awards, GRVN newspapers were nominated for 14 awards. One of the awards earned by The Record was journalist of the year for the fourth straight year.

Community

In a year of so many changes at the newspapers, community support remained a priority at GRVN with more than $0.8 million distributed throughout the markets in cash and donated advertising space. Additionally, the Guelph Mercury and The Cambridge Reporter run Kids to Camp Funds, which enabled almost 1,000 area children to attend summer camp.

Regional Dailies



EBITDA ($ Millions)

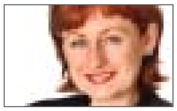
For the past several years, The Record and the Guelph Mercury have leveraged the promotional power of their newspapers to run a Books For Kids book drive late in the calendar year. In 2002, The Record and the Guelph Mercury together collected almost 4,000 books for needy children in their community. The Record also established the James Summer Memorial Scholarship, named for a Record newspaper carrier who succumbed to illness at age 11. Two scholarships are granted annually under this new program.

Earnings

ROP advertising revenue at The Record increased in 2002 by seven per cent with improvements in all three categories of national, retail and classified revenue. As expected, expenses were up in a year of such major change and investment, and EBITDA at GRVN declined from the prior year, but was only marginally below the 2002 target. The changes, however, were key to improving the products and market share of the newspapers and they position GRVN operations for future growth.

Book Publishing

Harlequin is unique in the women's fiction market, combining imprints – Harlequin, Silhouette, Steeple Hill, MIRA and Red Dress Ink – that are well recognized by readers, a global reach in 94 international markets, a highly successful reader service, and a Web site that is second to none. These unique capabilities enable Harlequin to promote and sell its authors around the world, wherever and whenever women shop.



Donna Hayes
Publisher &
Chief Executive Officer

"Achieving record-setting EBITDA of $127 million in 2002, Harlequin is a leading global force in women's fiction, offering women a broad range of books, from romance to psychological thrillers to relationship novels, wherever, whenever and however they choose to buy. Our leadership position continues to grow and be strengthened through our authors, our talented employees and our focus on editorial innovation."

HARLEQUIN ENTERPRISES

Harlequin's overall strategy is to aggressively grow the core series romance business as well as to grow its market share in the broader arena of single title women's fiction.

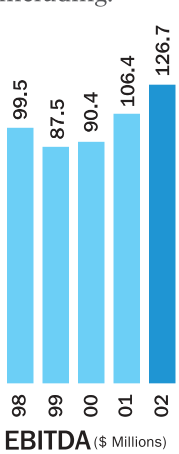
Harlequin has long held the title of the publisher with the highest return on sales in its industry category because it has focused on a specific niche in publishing – series romance – where Harlequin has achieved a dominant global market share. Growth in 2003 and beyond will come from expanding the market to the broader category of women's fiction.

Harlequin's editorial content has been evolving towards women's fiction since the mid-'90s through its single title program. Harlequin has moved with its authors and attracted new readers by entering this broader market. This reflects a global trend in what women want to read – longer, more complex stories that contain elements beyond traditional romance. Harlequin is uniquely suited to capitalize on this trend and create future growth. Harlequin's large author base, strong brands, multiple sales channels and efficient publishing infrastructure allow it to build on its series romance legacy and create additional growth.

Harlequin is unique in the women's fiction market, combining imprints – Harlequin, Silhouette, Steeple Hill, MIRA and Red Dress Ink – that are well recognized by readers, a global reach in 94 international markets, a highly successful reader service, and a Web site that is second to none. These unique capabilities enable Harlequin to promote and sell its authors around the world, wherever and whenever women shop.

In 2002, the focus was on building Harlequin as an increasingly powerful player in the women's fiction market, across all formats, with some imprints focusing entirely on romance and others on mainstream fiction for women of all ages.

Several significant milestones were achieved in 2002, including:



- doubling the number of titles which appeared on the New York Times bestseller list to 12;
- simultaneously holding the number one spot for four consecutive weeks on the mass market paperback, trade and hardcover romance bestseller lists of one of the largest bookselling chains in the U.S. market;
- the debut of two authors, Diana Palmer and Sharon Sala, on the New York Times bestseller list;
- signing significantly more bestselling authors than the year before, including Susan Wiggs, Stella Cameron, Heather Graham, Carole Matthews and Susan Anderson;
- placing four titles concurrently among the top 15 New York Times bestsellers.

Building Harlequin's Authors

Harlequin's authors are its greatest asset. Harlequin has more than 1,300 authors who often begin their careers in the series business, supported by the power of the Harlequin brands. The frequent and consistent publication of Harlequin's authors in the series business builds a fan base for authors that is unmatched and allows star authors within series to progress to writing single titles. Publishing series authors in the women's fiction programs broadens the authors' audience exposure and provides the opportunity to achieve bestseller status. In 2002, two of Harlequin's most popular series authors achieved New York Times bestseller status for the first time. Furthermore, through dedicated and individualized author growth strategies, Harlequin's authors achieve global recognition.

The *eHarlequin.com* Web site further supports the building of strong author/reader relationships, providing readers with a rich and dynamic environment to "talk books" with each other, with authors and with Harlequin.

In addition to *eHarlequin.com*, *reddressink.com* and *mirabooks.com* were launched in 2002 to support single title authors and showcase their books.

Building Brands

Harlequin's brands are recognized worldwide and are destination buys. The Harlequin and Silhouette imprints continue to hold the highest share of the romance category. Harlequin maintains its dominant position in romance through outstanding authors, an in-depth understanding of reader preferences and constant innovation in editorial, cover design, packaging and marketing initiatives.

Globally, Harlequin spends more than $25 million a year on retail advertising and promotion to support its brands and authors. Harlequin's global presence provides a unique opportunity to communicate a single message to readers around the world in the same way. In 2002, a new global advertising campaign was launched. The "Live the Emotion" campaign, generating 160 million media impressions in North America alone, can be seen in six countries with further rollout expected in 2003. Other promotional activities in 2002 included the Romance Report, Harlequin's quarterly newsletter – the Diamond Club Romance Magazine – reaching more than 200,000 women with news about upcoming titles and promotions, and, via *eHarlequin.com*, online acquisition and email newsletter programs. In total,

Harlequin Enterprises

Global campaign Harlequin's *Live the Emotion* global advertising campaign generated 160-million media impressions in North America alone in 2002.

more than 760-million media impressions were generated in 2002 for Harlequin's brands.

Building The Product Pipeline – Innovation

Harlequin continues to deliver on a tradition of excellence and innovation that has sustained and expanded the author base, readership and genre for decades. Harlequin's focus on product innovation, both within existing businesses and on new businesses, has resulted in successes such as Harlequin Blaze, Harlequin's sexiest read; Red Dress Ink, featuring an edgy style, light tone, and witty observations about modern city living as viewed by hip young women; and Love Inspired, Harlequin's inspirational line of books.

Operating Highlights

In 2002, Harlequin's EBITDA grew from $106.4 million to $126.7 million, a record level of profitability for the business. Continued momentum in North America Retail business and reductions in spending drove the growth. Revenue grew by four per cent to $618 million.

North America Retail

The North America Retail business continued to show excellent growth in 2002, with revenue gains of 14 per cent and earnings gains of 20 per cent. Both the series and the single title businesses posted gains over 2001, fuelled by higher distribution and book sales and expansion of the hardcover and trade programs.

Accounting for 50 per cent of the revenue in North America Retail, Harlequin's single title women's fiction programs contributed significantly to the company's performance in 2002. Harlequin's Red Dress Ink program showed gratifying results in its first full year of publication and has driven Harlequin's expansion into the popular trade format of publishing. MIRA, Harlequin's mainstream program, has shown unprecedented growth with its multi-format publishing program growing to 93 titles with 20 appearing on the top 35 New York Times bestsellers list for a total of 51 weeks.

Direct-To-Consumer

The Direct-To-Consumer (DTC) group was created in early 2002 by merging the Direct Marketing and *eHarlequin.com* divisions. Serving two million customers, this combination has led to synergies in the way that Harlequin sells books to readers directly in their home. Combating a three-to-five-year declining trend in the availability of names to mail, DTC is maintaining impressive earnings relative to competitors through list management, product innovation, cost improvement and enhanced retention and loyalty efforts for customers. In 2002, DTC revenues were flat compared to the previous year, while earnings grew 19 per cent, fuelled by a reduction in Internet-related spending.

eHarlequin.com also continues to provide Harlequin with additional means to build relationships with readers, sample product, gather consumer insight and sell more books. Online sales in 2002 increased by 50 per cent over 2001 and, in total, more than 140 million page views were generated by all the sites, a 44 per cent increase over 2001.

Overseas

Overseas operations supported the corporate strategic direction through investments made in various countries to enable the launch of new series and the building of the global single title programs. In 2002, Harlequin Blaze was launched in six countries and Red Dress Ink in eight countries.

Overall, the single title program realized a healthy 32 per cent revenue growth in 2002. The programs in the U.K., Japan and Germany have been most successful, realizing 58 per cent growth. Single title programs will account for almost half the projected revenue growth in 2003. Diversification into single titles also enables the expansion into new channels of distribution, such as book stores.

In March, the Czech Republic business was closed and rolled into the Polish business based in Warsaw. This significantly reduced losses in Eastern Europe as Harlequin waits for that economy to begin to rebound with its inclusion in the EEC in 2004.

In the Overseas operations, revenues grew eight per cent as readers continued the trend of buying fewer, bigger and more expensive books. Favourable foreign exchange movements contributed to revenue and earnings growth. Earnings were slightly up in 2002 over the previous year, as the Overseas operations struggled with economic and political conditions in large key markets, namely Japan and Germany, as well as in smaller, yet profitable markets in Argentina and other South American countries.

Creativity Division

In 2002, the Creativity Division focused on strengthening its two core operating units: Brighter Vision Learning Adventures (BVLA) and Curiosity Kits (CK). BVLA had another successful year in 2002, generating attractive levels of profitability, while Curiosity Kits, affected by a difficult environment, had a challenging year.
The Creativity Division will continue to focus on building its two core operating units in 2003, reversing the trend in CK and exploring additional ways to use these platforms to pursue future growth opportunities.

Future Focus

In 2003, Harlequin will achieve growth through a focus on innovation, author acquisition and brand building in the series and single title programs around the world, positioning Harlequin even further into the forefront of women's fiction.

A record week Three Harlequin authors – Nora Roberts, Diana Palmer and Sharon Sala – achieved bestseller status on the New York Times bestseller list during the week of November 17, with two of Nora Roberts' books placing in the top 10.

HARLEQUIN®

Steeple Hill®

RED DRESS INK™

Silhouette®

MIRA®

WORLDWIDE® MYSTERY

Financial Statements

Torstar's operations produce significant free cash flow which allows it to continue to strengthen its balance sheet and provide increased dividends to shareholders, while still positioning the company to take advantage of future opportunities.

Robert Steacy
Executive Vice-President & Chief Financial Officer

"Torstar produced record earnings in 2002. Harlequin and Metroland enjoyed record results, and lower newsprint and interest costs contributed to the significant profit improvement in the year."

MANAGEMENT'S DISCUSSION & ANALYSIS

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

Business of the Corporation

The principal activities of Torstar are the publication of newspapers and women's fiction books. Torstar reports its operations in two segments: Newspapers and Book Publishing.

Prior to 2002, Torstar reported its operations in three segments: Newspapers, Book Publishing and Interactive Media. In early 2002, the interactive businesses were merged with the core operations. The change in segmented reporting has been applied retroactively with prior periods being restated. Gains or losses on Torstar's portfolio investments that were previously reported as part of the Interactive Media segment are now included in unusual items.

Consolidated Operating Results

Net income from continuing operations was $125 million in 2002, up $122 million from $3 million in 2001. The increase came from revenue gains and significant cost savings in both operating segments as well as several non-recurring charges in the prior year.

Revenues were up in the Newspaper segment by $31 million as 2002 saw improvement in the economy and the advertising market. Book publishing revenues were up $21 million due to strong North American retail net units arising from the continuing growth in the single title business.

Operating profits were $212 million in 2002, an increase of $69 million from $143 million in 2001. $51 million of the increase came from the Newspaper segment where revenue increases, lower newsprint pricing, reduced Internet and startup spending offset increases in pension costs. Improved revenues, lower Internet spending and reduced losses from the Creativity division drove Book Publishing operating profits up $20 million to $119 million in 2002. Corporate costs were $13 million in 2002, up $2 million from $11 million in 2001.

Interest expense was $13 million in 2002, down $16 million from $29 million in 2001. The lower expense reflects lower debt levels and interest rates in 2002.

Torstar reported unusual losses of $3 million in 2002 compared with unusual losses of $71 million in 2001. The 2002 loss included a loss of $6 million on Torstar's Interactive Media portfolio compared with a gain of $1 million realized in 2001. In 2002, a recovery of $2 million was realized against a $4 million provision made in 2001 for the windup of an overseas pension plan. A gain of $1 million resulted from the final settlement of foreign sales tax issues in 2002. In 2001, unusual losses also included a $29 million write-off of Torstar's investment in ITI Education Corporation, $25 million for the costs associated with the strike by the Toronto Star's carrier force and a strike at Sing Tao, and a $13 million provision for restructuring primarily within the Newspaper segment.

In 2002, Torstar reported income from associated businesses of $0.5 million from its equity investment in Black Press Ltd. In 2001, a loss from associated businesses of $8 million was reported from its equity investment in ITI Education Corporation.

The company adopted on a prospective basis the new Canadian Institute of Chartered Accountants (CICA) accounting standards for Business Combinations and Goodwill effective January 1, 2002. As a result, the company ceased to amortize its goodwill from acquisitions. In 2002, there was no impairment of goodwill either on the adoption of the new standard or as a result of the annual impairment assessment. In 2001, amortization expense net of taxes of $18 million was recorded.

The significant difference in the amounts reported as unusual items, income (loss) from associated businesses and the amortization of goodwill provided $70 million of the year-over-year improvement in the company's income from continuing operations.

Earnings per share from continuing operations was $1.64 in 2002, up $1.60 from $0.04 in 2001. Adjusting for unusual items, income (loss) from associated businesses and the amortization of goodwill, the growth in earnings per share from continuing operations was $0.67 per share, from $1.01 in 2001 to $1.68 in 2002.

	2002	2001
Earnings per share from continuing operations as reported	**$1.64**	$0.04
Unusual items	**0.04**	0.65
Income (loss) of associated business		0.08
Amortization of goodwill (net of tax)		0.24
Earnings per share from continuing operations before unusual items, associated businesses and goodwill amortization	**$1.68**	$1.01

In 2001, the company had a loss of $90 million from discontinued operations related to its divestiture of its Children's Supplementary Education Publishing (CSEP) segment.

Net income was $125 million or $1.64 per share in 2002 compared with a net loss of $87 million or $1.16 per share in 2001.

Newspapers

The Newspaper segment consists of Daily Newspapers, Community Newspapers and Television. The newspaper operations include both print products and Internet activities. The Daily Newspapers include the Toronto Star, The Hamilton Spectator, The Record (Kitchener, Cambridge and Waterloo) and the Guelph Mercury. The Community Newspapers include the newspaper and distribution operations of Metroland Printing, Publishing and Distributing as well as the jointly-owned Metro commuter newspaper and Sing Tao newspapers. Television includes TMG TV as well as Torstar's 51% interest in Transit Television Network.

2002 was a good year for the Newspaper segment. Revenues for the segment increased $31 million from $826 million in 2001 to $857 million in 2002. Advertising revenues strengthened during the second half of the year, providing $23 million of the total revenue increase for the year. Commercial printing and other revenues increased $12 million during the year, while circulation revenues were down $4 million.

The Newspaper segment's operating results benefited by $28 million from lower newsprint pricing in 2002. This benefit was partially offset by increased newsprint consumption, primarily related to increased commercial printing activities, for a net savings of $20 million on newsprint costs. Total labour costs increased $7 million in 2002 driven by an increase of $6 million in pension costs. Internet development spending was down $5 million in the year and other cost reductions, mainly in the commuter newspaper, produced savings of $2 million.

The $31 million of increased revenues combined with the $20 million of net cost savings produced an operating profit for the Newspaper segment of $105 million in 2002. This was almost double the $54 million earned in 2001 in this segment.

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

2002	Toronto Star	Regional Dailies	Community Papers	Television	Total
Operating revenue	**$412,409**	**$126,720**	**$306,542**	**$11,285**	**$856,956**
Operating profit	29,551	12,842	62,113	989	105,495
Depreciation	36,722	6,246	6,053	797	49,818
Segment EBITDA[1]	**$66,273**	**$19,088**	**$68,166**	**$1,786**	**$155,313**
Return on Revenue					
• operating profit	7.2%	10.1%	20.3%	8.8%	12.3%
• segment EBITDA	16.1%	15.1%	22.2%	15.8%	18.1%
2001[2]					
Operating revenue	**$393,672**	**$129,582**	**$292,580**	**$9,931**	**$825,765**
Operating profit (loss)	(3,647)	12,941	45,976	(970)	54,300
Depreciation	37,282	5,629	6,235	728	49,874
Segment EBITDA	**$33,635**	**$18,570**	**$52,211**	**($242)**	**$104,174**
Return on Revenue					
• operating profit	n/a	10.0%	15.7%	n/a	6.6%
• segment EBITDA	8.5%	14.3%	17.8%	n/a	12.6%

[1] The company reports its financial results under Canadian generally accepted accounting principles (GAAP). However, management believes that many of the company's shareholders, creditors, other stakeholders and analysts prefer to assess the company's performance using earnings before interest, taxes, depreciation and amortization (EBITDA) in addition to the GAAP measures. The company's method of calculating EBITDA may differ from other companies and accordingly may not be comparable to measures used by other companies.

[2] 2001 results have been restated to reflect the changes in segmented reporting as described in Note 18 of Torstar's consolidated financial statements.

The economy in southern Ontario recovered somewhat during the second half of the year. The one area where the Newspaper segment has not yet realized any improvement is in employment advertising. Both the economy and the Internet have had a negative effect on employment advertising. While the rate of decline is improving, recovery will likely be slow.

Newsprint pricing has a major impact on the results for the Newspaper segment. Torstar's newspapers consume approximately 150,000 tonnes of newsprint each year. For every $10 change in the price per tonne, operating results are affected by $1.5 million. During 2002, newsprint prices were on average 20% lower than in 2001. Newsprint prices are forecast by industry experts to increase by an average of 12% during 2003, which would result in a $13 million increase in newsprint costs for the segment. Newsprint price increases in 2003 will largely depend on demand in the U.S. newspaper markets.

The Toronto Star reached collective agreements with all of its unions in May of 2002. The new contracts will expire at the end of 2004. The Hamilton Spectator has five agreements covering 400 employees. Contract talks are currently underway with 100 advertising employees whose contract expired at the end of 2002. Two other Hamilton contracts will expire at the end of May 2003 with the remaining two contracts expiring at the end of 2003. The Record has four collective agreements that will expire on December 31, 2003. Negotiations are ongoing for 21 editorial employees at the Guelph Mercury whose contract expired May, 2002. In Cambridge, a three-year agreement was reached in June, 2002 that will expire in 2004. Metroland has four agreements covering 195 employees that will expire in 2003 and 2004.

Pension costs increased by $6 million in 2002 for the Newspaper segment. These costs are expected to increase a further $7 million in 2003 reflecting the impact of the poor performance of the equity markets.

Overall, the Newspaper segment is well positioned going into 2003. If the advertising market continues to strengthen, revenue increases should be sufficient to offset the expected rising cost of newsprint and pensions. The key factor will be the continuing recovery of the southern Ontario economy, which could be unfavourably affected by world events.

Daily Newspapers – Toronto Star

The Toronto newspaper environment continues to be extremely competitive. While the Toronto Star has maintained its market share, it has been challenged by the competitive pressures of low price circulation sales, competitive advertisement pricing and the competition for marquee editorial talent. The economy has recovered somewhat from the significant slowdowns experienced in 2001. However, the recovery has been slow, occurring mostly in the latter part of the year.

Toronto Star revenues were $412 million in 2002, an increase of $18 million from $394 million in 2001. Commercial printing contributed $14 million of the increase with increases of $5 million in newspaper advertising and $2 million in Internet advertising offset by a decrease of $3 million in circulation revenues.

Run of press (ROP) advertising revenues were $310 million in 2002, up 1% from $307 million in 2001 on flat linage. First quarter linage was down 10%, the second quarter was flat, the third quarter was up 2.5% and the fourth quarter was up 5% year over year. Advertising revenues followed a similar pattern during 2002 from a year-over-year decline in the first quarter to growth in the fourth quarter.

National advertising was very strong throughout 2002 with linage increases of almost 16% over 2001. Employment advertising, however, remained quite weak. Employment advertising linage improved each quarter in 2002, but it was still down 37% year over year. Excluding employment advertising, the Toronto Star's advertising revenues would have been up 7% on linage increases of 4% year over year.

Circulation levels were maintained during 2002 although revenues were down 5% from 2001. This revenue decline was offset by cost savings of $4 million realized from the first full year of outsourced distribution. Circulation revenue continues to be under pressure in the Toronto market for all the dailies. The Toronto Star believes that the deep discount subscriptions that are being marketed by its competitors will not serve to build a strong readership and circulation base in the long run. As a result, the Toronto Star has begun focusing more on who its readers are and using that information to try alternative sales efforts.

In 2002, the Toronto Star's commercial printing division began printing the National Post. This new contract provided the increase of $14 million in commercial printing revenues. In prior years, The Hamilton Spectator's commercial printing group had a contract for printing a portion of the National Post.

Reductions in newsprint pricing, offset in part by higher usage from increased commercial printing, produced cost savings of $13 million for the Toronto Star in 2002. Labour costs were down $4 million from prior year restructurings but were up $4 million for increased pension costs and $6 million for bonus and profit-sharing payments. In 2001, profit targets had not been met and as a result there were no comparable bonus or profit-sharing payments made. Cost savings of $5 million were realized by the Toronto Star's Interactive

Media operations through significant cost reductions at *thestar.com* and improved performance of the jointly-owned *workopolis.com*. Other costs, including depreciation, were down $3 million from the prior year.

The Toronto Star's operating profit was $30 million in 2002, up $33 million from a loss of $3 million in 2001.

In 2003, the Toronto Star will be affected by the expected increase in newsprint prices, forecasted at an average 12% increase, and a $6 million increase in pension costs. However, by maintaining its market position and managing divisional costs, the Toronto Star should be well positioned to benefit from any improvements in the economy next year. One large factor will be whether employment advertising improves. Employment advertising in the Toronto daily newspaper market is down 51% from two years ago. While a portion of this decline may have permanently migrated to the Internet, an improved economy should result in increases in newspaper employment advertising over 2002 levels.

Daily Newspapers – The Regional Dailies

The Regional Dailies include the operations of The Hamilton Spectator and the Grand River Valley Newspapers – The Record, the Guelph Mercury and The Cambridge Reporter. Total revenues for the regional dailies were $127 million in 2002, down $3 million from $130 million in 2001 including a $5 million decrease in commercial printing revenue. The regional dailies produced operating profits of $13 million in 2002, consistent with their 2001 results.

The Hamilton Spectator had total revenues of $72 million in 2002, down $2 million from $74 million in 2001. Advertising revenues were up just over $1 million in 2002 due to strong national advertising, led by automotive and retail revenues, which offset declines in employment and real estate. Circulation revenues were down slightly while commercial printing revenues declined $3 million. In 2001, commercial printing revenues included the printing of a portion of the National Post. Lower newsprint costs and reduced commercial printing volumes generated savings of $4 million that were offset by a $1 million increase in pension costs.

The Conference Board of Canada has estimated that the Hamilton economy will grow 4.7% in 2003. A strong local economy should provide The Hamilton Spectator with advertising growth in 2003 that will offset expected increases in newsprint pricing and pension costs. The Hamilton Spectator continues to focus on its customers – both advertisers and readers – to make The Spectator the local "must read" and the first choice for advertisers.

The Grand River Valley Newspapers, under a new management team, implemented wide-ranging strategy changes during 2002. The Record completed a successful conversion to morning delivery, the Guelph Mercury relaunched without a Sunday edition, and The Cambridge Reporter converted from a daily to a twice-weekly community newspaper.

Total revenues for the Grand River Valley Newspapers were $55 million in 2002, down $1 million from $56 million in 2001. Increases in advertising revenues of $2 million were partially offset by a $1 million reduction in circulation revenues, primarily driven by the loss of paid circulation in respect of The Cambridge Reporter. Commercial printing revenues were also down $2 million from the prior year. Savings in newsprint costs were more than offset by increased operating costs including the costs of launching the morning newspaper and higher computer and pension costs.

Looking to 2003, the local economies of Kitchener and Guelph are forecast by the Conference Board of Canada to grow about 5% in GDP due to auto, technology and housing growth. With all of the strategy changes in place, the Grand River Valley Newspapers are ready to reap the revenue benefits from robust local economies while continuing to manage operating costs in 2003.

Community Newspapers

The Community Newspapers include the publications that focus on a specific community or market segment. They include the more than 70 Metroland newspapers as well as the jointly-owned Metro commuter newspaper and the Sing Tao newspapers.

The Community Newspaper segment had a successful 2002 that resulted in a record $62 million of operating income. This improvement of $16 million over the $46 million earned in 2001 was driven by a 5% increase in revenues from $293 million in 2001 to $307 million in 2002 and lower operating costs.

The Metroland operations produced $11 million of the revenue and $9 million of the operating profit growth in the year. ROP advertising revenues were up 4% or $7 million over 2001 with strong performance in the retail automotive category. Distribution revenues were up $2 million with almost 1.9 billion pieces delivered in 2002. Other revenues, including trade show revenue, were up $2 million in the year. Operating costs increased by $2 million in 2002 as newsprint cost reductions and payroll savings realized from restructurings completed early in the year were offset by increased commissions, promotional spending, pension costs and general price increases.

The jointly-owned publications of Metro and Sing Tao provided the remaining $3 million of revenue and $7 million of operating profit increases in 2002. Metro continued to establish itself in the Toronto newspaper market during 2002. The NADbank 2002 Interim Readership Report showed that Metro had an 8.5% share of the Toronto CMA[3] 18+ population. Metro's revenues were up $2 million in 2002 and operating costs were down $3 million compared with costs, including start-up costs, incurred in 2001. Sing Tao produced revenue increases of $1 million during 2002 with both advertising and circulation revenue showing improvement. Reduced newsprint costs and lower staff costs from restructurings carried out in late 2001 contributed $1 million of increased operating profit.

The outlook in 2003 for the Community Newspapers is similar to that of the Dailies. Revenue growth will depend on a healthy economy and cost increases are expected for both newsprint and pensions. The distribution business could also be adversely affected by increased competition and Sears Canada Inc.'s announcement in late 2002 that it will reduce its insert advertising spend in 2003. However, the distribution business has historically been successful in replacing lost customers with new ones.

Television

Television consists of the operations of TMG TV and Torstar's 51% interest in Transit Television Network.

TMG TV is now in its fifth year of operations. What began as a way to promote the Toronto Star has evolved into a direct-response television business that is changing the way people shop on television. TMG TV produced $2 million of operating profit in 2002 compared with a loss of $1 million in 2001. The improvement in results was from increased revenue as well as $1 million of reduced costs from non-recurring activities. In 2003, TMG TV plans to increase viewership of the teleshopping cable channel through both time spent viewing and the number of households reached.

Transit Television Network is a joint venture between Torstar and ITEC Entertainment Corporation that was established in the third quarter of 2002. This business delivers full motion, broadcast-quality information and entertainment to passengers on buses, rail and other modes of mass transit on screens mounted in the vehicle. The venture is still in its early stages with the system fully operational in Orlando, Florida and proposals at various stages for several North American cities. Torstar's share of Transit Television Network's operating losses for 2002 was just under $1 million.

Book Publishing

The Book Publishing segment includes Harlequin Enterprises Limited, a leading global publisher of women's fiction. It also includes a Creativity division that produces craft kits and operates a children's direct-to-home continuity program. Harlequin publishes women's fiction around the world, selling books through the retail channel and directly to the consumer. In 2002, Harlequin sold 146 million books in 27 languages in 94 international markets. Women's Fiction publishing is comprised of three divisions: North America Retail, North America Direct-To-Consumer and Overseas.

Harlequin, Silhouette and MIRA are the three main imprints of Harlequin's global publishing programs. Historically Harlequin has primarily published series romance titles under the Harlequin and Silhouette imprints. Each series typically has a preset number of titles published each month. Over the past few years Harlequin has expanded its publishing activities by developing a single title women's fiction program. These books are generally longer, more diverse in content and not sold as a series. As a result, the sales performance for single titles can be more variable than for the series romance titles. The single titles are sold under all three imprints, with MIRA being used exclusively for this program.

By broadening its market to all women's fiction, Harlequin has created a significant opportunity for growth. This growth has begun to be realized with the single title program making up 50% of North America Retail revenues. Overseas, this program is at an earlier stage of development with 16% of revenues coming from single title programs.

The Book Publishing segment's revenues were $618 million in 2002, up $21 million from $597 million in 2001. Women's Fiction revenues were up $35 million or 6% with $14 million of the increase coming from foreign exchange. Revenues for the Creativity division were down $14 million with $6 million of the decline due to the wind down of an adult craft continuity program.

Operating profit for the segment grew by $20 million from $99 million in 2001 to $119 million in 2002. Women's Fiction operating profit was up $17 million, with $3 million of the increase coming from foreign exchange. Operating losses for the Creativity division were lower by $3 million.

Selected details (in thousands of dollars) are set out in the table on the following page:

[3] Toronto Census Metropolitan Area

2002	Women's Fiction	Creativity	Total
Operating revenue	**$579,563**	**$38,530**	**$618,093**
Operating profit (loss)	123,592	(4,424)	119,168
Depreciation and amortization of intangibles	7,159	353	7,512
Segment EBITDA	**$130,751**	**($4,071)**	**$126,680**
Return on Revenue			
• operating profit	21.3%	n/a	19.3%
• segment EBITDA	22.6%	n/a	20.5%
2001[4]			
Operating revenue	$544,713	$52,185	$596,898
Operating profit (loss)	107,069	(7,426)	99,643
Depreciation and amortization of intangibles	6,657	134	6,791
Segment EBITDA	$113,726	($7,292)	$106,434
Return on Revenue			
• operating profit	19.7%	n/a	16.7%
• segment EBITDA	20.9%	n/a	17.8%

Books sold (thousands)	2002	2001
North America	76,600	77,000
Overseas	69,200	72,900
	145,800	149,900

For 2003, the overall focus for Harlequin will be on developing authors, innovation and introducing high quality editorial in a variety of formats for existing and new customers. Emphasis will be placed on both the series and single title markets with the target of increasing the number of books sold.

North America Retail

North America Retail operating results are up $10 million over 2001. This increase is volume driven with revenues up 12% year over year excluding the positive impact of foreign exchange. In retail, both the number of books distributed and the number that are sold are important factors for profitability. Total retail books shipped in 2002 were up 5% with growth in both series and single titles. Net sale rates were stable for series titles year over year and the single title program continued its growth with books sold up 12% over 2001. During 2002, Harlequin doubled the number of titles that appeared on the New York Times bestseller list to 12. The Red Dress Ink single titles and the Blaze series that were both introduced in 2001 have proven successful in 2002.

While Harlequin's single title publishing program has made a significant contribution to growth over the past few years, Harlequin is committed to achieving growth in both the series and single title markets. Plans for 2003 include a new series launch, increases in titles published in two series and the introduction of several new single title concepts. North America Retail will continue to invest in brand equity, build authors and maximize its distribution levels in a highly competitive environment.

During 2002, Kmart Corporation closed almost 300 stores and has recently announced plans to close an additional 300 stores in 2003. Harlequin has plans in place to mitigate the impact of these closures on its U.S. Retail results.

North America Direct-To-Consumer

This group was formed in early 2002 through the combination of North America Direct Marketing and eHarlequin, Harlequin's Internet operations. The Direct-To-Consumer group is focused on extending its relationship with current customers and bringing new customers to the franchise. All sales made directly to the consumer are reported in this division.

The Direct-To-Consumer results increased by $5 million in 2002 due to significant reductions in Internet related costs. The Internet costs were down $8 million as Web site development and advertising and promotion costs incurred for eHarlequin in 2001 were reduced during 2002. Excluding the favourable impact of these savings, results were down $3 million mainly due to lower sales.

The direct marketing industry in North America has suffered over the past five years from the lack of available mailing lists. In response to this, Harlequin has been utilizing more specialized mailing lists, developing new marketing packages and increasing promotions to existing members. Harlequin is also using eHarlequin to source new members for its direct marketing Reader Service program as well as to encourage single book purchases.

For 2003, the challenge will be to reverse the declining unit trend in this division. New products will be introduced as well as more choices made available to customers. The Harlequin "Diamond Club" loyalty

[4] 2001 results have been restated to reflect the changes in segmented reporting as described in Note 18 of Torstar's consolidated financial statements.

program was extended to more than 200,000 customers in 2002 and, based on success to date, will be continued and improved in 2003. The online experience will be improved by fine-tuning content and increasing interactivity. Postal rates are a risk for the Direct-To-Consumer business, but there are no U.S. postal rate increases expected in 2003.

Overseas

Overseas revenues were up $15 million in 2002, including $10 million from the positive impact of foreign exchange. Reported operating profits were up $2 million in 2002 due to favourable foreign exchange rates while underlying local results were flat.

The Overseas publishing operations had a challenging year with declining units sold and economic weakness in many of the markets. Distribution issues are arising in Germany, Italy and Spain, where series books have traditionally been sold in kiosks. The number of kiosks is declining and the remaining ones are being crowded with too many items to be able to properly display books. Alternative distribution channels are under development in Italy and Germany.

Single title publishing programs have been launched in the U.K., Australia, Germany and Japan. Italy will launch a single title program in 2003 and Japan and France will launch Red Dress Ink.

Operating profits in Germany were down $1 million due to a combination of reduced unit sales, one-time restructuring costs and an investment in the single title business. Japan's results were lower in 2002 with a continuing weak economy and significant turnover of local management. A new management team and an action plan to address various business issues were in place by late 2002. The fourth quarter results for Japan showed some signs of improvement.

In the U.K., direct marketing results were lower due to reduced sales and an unusually large postal rate increase. Offsetting part of this decline was an improvement in retail results as single title volumes were up significantly year over year. The unstable economies of Latin America had a negative impact on the results from those markets. The Eastern European results improved in 2002 due to the rationalization of costs from the closing of operations in the Czech Republic.

Creativity

The Creativity division includes Curiosity Kits and Learning Adventures – the direct-to-home continuity program of children's educational products. During 2002, this division wound down an adult craft continuity program.

Revenues for the Creativity division were $39 million in 2002, down $13 million from $52 million in 2001. Operating losses were $4 million in 2002, a $3 million improvement from losses of $7 million in 2001. The wind down of the adult craft continuity program reduced divisional revenues by $6 million but improved operating results by $6 million in 2002.

Curiosity Kits had revenues of $8 million in 2002, down $2 million from $10 million in 2001. Revenues were down due to reduced levels of private label sales as well as lower sales to national accounts. Operating losses were $3 million higher in 2002 due in part to a write down of inventory. In 2003, Curiosity Kits will focus on sales growth for both regional and national accounts.

Learning Adventures' operating profits held steady with the prior year even though revenues were down $5 million to $26 million. This was achieved through reduced advertising and promotion spending as well as improved margins. The challenge for Learning Adventures continues to be member acquisition. The Internet has proven to be a good source of members with almost half of the new members in 2002 being sourced from this channel. In 2003, Learning Adventures will continue to innovatively acquire new members while developing and testing additional products that can be sold to existing members.

Associated Business

Effective October 1, 2002, Torstar made a 19.35% equity investment in Black Press Ltd. for $21 million. Black Press Ltd. is a privately-held company that publishes 88 newspapers and has 11 printing plants in western Canada, Washington State and Hawaii. Black Press's operations are very similar in nature to Torstar's community newspaper segment and this new relationship provides Torstar with a presence in newspaper publishing outside of southern Ontario.

This investment is accounted for using the equity method. Torstar may make additional investments in Black Press under certain circumstances.

Torstar's share of Black Press's net income was $0.5 million in 2002.

In 2001, Torstar reported a loss from associated business of $8 million which related to its investment in ITI Education Corporation. ITI declared bankruptcy in August, 2001 and as a result, Torstar wrote off its remaining investment.

Interest Expense

Torstar benefited from lower debt levels as well as lower interest rates in 2002. Interest expense decreased by $16 million from $29 million in 2001 to $13 million in 2002.

Torstar's effective borrowing rate for 2002 was 2.8%, down from the 5.1% cost of funds for 2001. The

December 31, 2002 effective interest rate on all borrowings was 2.6%, the same as it was at December 31, 2001. Subsequent to year-end, the company entered into interest rate collars that will establish an interest rate range of 2.5% to 3.0% for approximately 80% of its debt through most of 2003.

Foreign Exchange

Harlequin's international operations provide Torstar with 40% of its operating revenues. Fluctuations in exchange rates have an impact on the profitability of the company. The CDN$/US$ exchange rate is the most significant relationship for Torstar.

In order to manage the currency risk on the majority of its estimated future U.S. dollar cash flows, the company has entered into forward foreign exchange and currency option contracts to establish the following exchange rates:

Year	Amount (U.S. $000's)	Exchange Rate Range
2003	$75,000	$1.59 – $1.62
2004	$75,000	$1.58 – $1.64
2005	$76,000	$1.59 – $1.64

These rates are favourable compared to the average exchange rate of $1.56 applicable to 2002 U.S. dollar cash flows.

In order to manage the currency risk on expected Euro, Yen and Sterling cash flows in 2003, the company has entered into forward foreign exchange and currency option contracts to establish the following exchange rates:

Currency	Exchange Rate Range
11 million Euros	$1.63
330 million Yen	$0.013 – $0.014
3 million Sterling	$2.37 – $2.62

Torstar has also entered into forward foreign exchange contracts for the Euros required for Metroland's press acquisition payments during 2003 and 2004. The contracts establish a rate of $1.41 for approximately 13 million Euros.

Further details are contained in Note 13 of Torstar's consolidated financial statements.

Pension Obligations

Torstar maintains pension plans for its employees in Canada, the U.S. and certain overseas operations of Harlequin. In Canada and the U.S. there are defined benefit plans in addition to defined contribution plans.

The accounting for defined benefit plans requires the use of an actuarial estimate for pension expense and pension plan obligations. In making the estimates, certain assumptions must be used. The significant assumptions used by Torstar are:

Pension obligation discount rate	6.5%
Expected long-term rate of return on plan assets	7%
Rate of compensation increase	4%
Average remaining service period of active employees	13 to 18 years

The discount rate of 6.5% is the yield at December 31, 2002 on high quality fixed income investments with maturities that match the expected maturity of the obligations (as prescribed by the CICA). A one per cent increase in the discount rate would result in a decrease in the total pension plan obligation of $61 million and a decrease in the current year expense of $4 million. A one per cent decrease in the discount rate would increase the total pension plan obligation by $70 million and increase current year expense by $7 million. Although market returns have been low or negative over the past two years, the expected long-term rate of return on plan assets of 7% is still considered a reasonable estimate. Torstar has used this rate for several years and believes that it is below the average rate being used by Canadian companies. A one percent decrease in the expected return on plan assets would increase the current year expense by $4 million.

A one per cent increase in the expected rate of compensation increase would increase the total pension plan obligation by $11 million and increase the current year expense by $2 million.

Torstar's pension plans are in a net unfunded position of $68 million at December 31, 2002. This balance includes $22 million for an executive retirement plan, which is not funded until payments are made to the executives, but is supported by a letter of credit.

Accounting Changes

Effective January 1, 2002, the company adopted the CICA new accounting standards for Business Combinations and Goodwill and for Stock-Based Compensation. These standards were applied prospectively.

Under the Business Combinations and Goodwill standards, the company has ceased to amortize its goodwill acquired in acquisitions. There was no adjustment for impairment of goodwill upon implementation of the standard. In 2001, amortization net of taxes of $18 million was recorded.

The new standard for Stock-Based Compensation has been applied to stock options granted on or after

January 1, 2002 and to the 2002 program under the employee share purchase plan. The company has provided note disclosure in the consolidated financial statements of the impact on earnings that these plans would have had, had the fair value method been chosen. The impact was not material in 2002. In late 2002, the CICA issued an exposure draft on changes to the accounting standard for Stock-Based Compensation. The revised standard, which will require the use of the fair value method, is expected to be effective for fiscal years beginning on or after January 1, 2004 and the company will adopt the new standard when it becomes effective.

Liquidity and Capital Resources

Cash and cash equivalents net of bank overdraft decreased by $25 million in 2002 including the effect of exchange rate changes. Operating activities provided $168 million of cash during the year, while $58 million was used for investing activities and $137 million was used for financing activities, including $115 million of net long-term debt repayment.

Operating cash flow was $203 million in 2002, up $94 million from $109 million in 2001. The increase came from improved operating results and the utilization of corporate income tax loss carryforwards in 2002. Working capital requirements increased $35 million during 2002. This increase came mainly from higher accounts receivables in both business segments due to a 10% increase in fourth quarter revenues.

In 2002, $5 million was spent on acquisitions including $4 million for Transit Television Network. $35 million was invested in property, plant and equipment and $21 million was invested in Black Press Ltd. In 2001, $10 million was spent on acquisitions, $37 million was invested in property, plant and equipment and $118 million was received as proceeds from the sale of the CSEP businesses.

Net repayments of long-term debt used $115 million of cash while dividends of $43 million were paid. $18 million of cash was generated from the exercise of stock options during the year. Torstar intends to continue to use free cash flows to repay long-term debt during 2003. Capital expenditures will increase to approximately $64 million in 2003 compared with the $35 million spent in 2002. The largest single project is $26 million for the second year of the three-year press replacement for Metroland. Other projects include regular production equipment renewal for the newspapers and computer hardware upgrades for book publishing. The amount of capital expenditures required in 2003 for the Transit Television Network venture will depend on the rate at which contracts are entered and the scale of the transit systems served.

Torstar's policy is to match the denomination of debt to the currency of operating assets whenever possible in order to provide a hedge against foreign exchange movements. As a result, approximately 29% of Torstar's debt is denominated in U.S. dollars. This mix of debt is expected to stay constant through 2003.

During 2003, two medium-term notes totaling $117 million will mature. It is the company's intention to refinance these borrowings through its commercial paper borrowing program.

At December 31, 2002, the company had cash and cash equivalents net of bank overdraft of $38 million and unused credit facilities of $235 million. Cash balances, operating cash flow, existing credit facilities and the borrowing capacity of the company are considered to be adequate to cover forecasted financing requirements.

Quarterly Information

2002 Quarter Ended
(Thousands of $ except per share amounts)

	March 31	June 30	Sept. 30	Dec. 31
Revenue	$338,246	$368,932	$362,609	$405,262
Income from continuing operations	23,330	35,094	25,292	41,609
Net income	$23,330	$35,094	$25,292	$41,609
Per Class A voting and Class B non-voting share				
Income from continuing operations				
• basic	$0.31	$0.46	$0.33	$0.54
• diluted	$0.31	$0.45	$0.33	$0.53
Net income				
• basic	$0.31	$0.46	$0.33	$0.54
• diluted	$0.31	$0.45	$0.33	$0.53

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

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

Consolidated Financial Statements

Management's Report on Responsibility for Financial Reporting

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

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

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

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

J. Robert S. Prichard
President and Chief Executive Officer
February 24, 2003

Robert J. Steacy
Executive Vice-President
and Chief Financial Officer

Auditors' Report to the Shareholders of Torstar Corporation

We have audited the consolidated balance sheets of Torstar Corporation as at December 31, 2002 and 2001 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario,
February 24, 2003

Ernst & Young LLP
Chartered Accountants

Torstar Corporation

(Incorporated under the laws of Ontario)

Consolidated Balance Sheets

December 31, 2002 and 2001

(thousands of dollars)	**2002**	2001
Assets		
Current:		
Cash and cash equivalents	**$39,966**	$64,755
Receivables (note 2)	**251,374**	210,063
Inventories	**43,607**	45,699
Prepaid expenses	**77,537**	70,925
Prepaid and recoverable income taxes	**5,474**	27,844
Future income tax assets (note 10)	**26,210**	26,212
Total current assets	**444,168**	445,498
Property, plant and equipment (net) (note 3)	**391,521**	410,427
Investment in associated business (note 4)	**21,233**	
Goodwill (net)	**446,903**	447,095
Other assets (note 5)	**91,118**	95,871
Future income tax assets (note 10)	**85,778**	91,263
Total assets	**$1,480,721**	$1,490,154
Liabilities and Shareholders' Equity		
Current:		
Bank overdraft	**$2,432**	$1,901
Accounts payable and accrued liabilities	**224,046**	237,300
Income taxes payable	**30,081**	34,051
Current portion of long-term debt (note 6)		55,881
Total current liabilities	**256,559**	329,133
Long-term debt (note 6)	**448,390**	508,848
Other liabilities (note 7)	**81,277**	76,126
Future income tax liabilities (note 10)	**50,989**	41,649
Shareholders' equity:		
Share capital (note 8)	**317,690**	295,371
Retained earnings	**321,992**	240,975
Foreign currency translation adjustment	**3,824**	(1,948)
	643,506	534,398
Total liabilities and shareholders' equity	**$1,480,721**	$1,490,154

Contingent liabilities (note 16)

(See accompanying notes)

On Behalf of the Board

John R. Evans
Director

J. Spencer Lanthier
Director

Torstar Corporation

Consolidated Statements of Income
Years ended December 31, 2002 and 2001

(thousands of dollars)	2002	2001
Operating revenue		
Newspapers	**$856,956**	$825,765
Book publishing	**618,093**	596,898
	$1,475,049	$1,422,663
Operating profit		
Newspapers	**$105,495**	$54,300
Book publishing	**119,168**	99,643
Corporate	**(12,764)**	(10,773)
	211,899	143,170
Interest (note 6(g))	**(12,751)**	(29,143)
Foreign exchange	**973**	392
Unusual items (note 15)	**(3,300)**	(70,544)
Income before taxes	**196,821**	43,875
Income and other taxes (note 10)	**(72,000)**	(14,900)
Income before income (loss) of associated businesses	**124,821**	28,975
Income (loss) of associated businesses (note 4)	**504**	(8,022)
Income from continuing operations before amortization of goodwill	**125,325**	20,953
Amortization of goodwill (net of tax)		(17,973)
Income from continuing operations	**125,325**	2,980
Discontinued operations (note 14)		(90,000)
Net income (loss)	**$125,325**	($87,020)
Earnings (loss) per Class A and Class B share (note 8(c))		
Income from continuing operations – Basic	**$1.64**	$0.04
Income from continuing operations – Diluted	**$1.62**	$0.04
Net income (loss) – Basic	**$1.64**	($1.16)
Net income (loss) – Diluted	**$1.62**	($1.15)

(See accompanying notes)

Consolidated Statements of Retained Earnings
Years ended December 31, 2002 and 2001

(thousands of dollars)	2002	2001
Retained earnings, beginning of year	**$240,975**	$371,641
Net income (loss)	**125,325**	(87,020)
Dividends	**(44,308)**	(43,646)
Retained earnings, end of year	**$321,992**	$240,975

(See accompanying notes)

Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001

(thousands of dollars)	2002	2001
Cash was provided by (used in)		
Operating activities	**$167,732**	$50,419
Investing activities	**(58,252)**	60,479
Financing activities	**(137,131)**	(78,291)
(Decrease) increase in cash	**(27,651)**	32,607
Effect of exchange rate changes	**2,331**	537
Cash, beginning of year	**62,854**	29,710
Cash, end of year	**$37,534**	$62,854
Operating activities:		
Income from continuing operations	**$125,325**	$2,980
Depreciation	**55,276**	54,653
Amortization	**2,170**	21,721
Future income taxes	**14,183**	(20,729)
(Income) loss of associated businesses	**(504)**	8,022
Write-off of associated business		29,300
Other	**6,395**	13,386
Operating cash flow	**202,845**	109,333
Increase in non-cash working capital	**(35,113)**	(17,622)
Discontinued operations (note 14)		(41,292)
Cash provided by operating activities	**$167,732**	$50,419
Investing activities:		
Acquisitions (note 11)	**($4,852)**	($10,274)
Additions to property, plant and equipment	**(35,167)**	(36,588)
Investment in associated business (note 4)	**(20,729)**	
Other	**2,496**	(10,425)
Discontinued operations (note 14)		117,766
Cash (used in) provided by investing activities	**($58,252)**	$60,479
Financing activities:		
Repayment of long-term debt	**($120,429)**	($159,712)
Issuance of long-term debt	**5,261**	118,256
Dividends	**(43,092)**	(42,183)
Exercise of stock options (note 8(b))	**17,772**	2,217
Other	**3,357**	3,131
Cash used in financing activities	**($137,131)**	($78,291)
Cash represented by:		
Cash and cash equivalents	**$39,966**	$64,755
Bank overdraft	**(2,432)**	(1,901)
	$37,534	$62,854

(See accompanying notes)

Notes to Consolidated Financial Statements

December 31, 2002 and 2001
(Tabular amounts in thousands of dollars)

1 Accounting policies

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

(a) Principles of consolidation

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

(b) Foreign currency translation

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

(c) Derivative financial instruments

The company manages its exposure to currency fluctuations, primarily U.S. dollars, through the use of derivative financial instruments. Foreign exchange contracts and options to sell U.S. dollars, and certain other foreign currencies, have been designated as hedges against future net cash flows from operating activities. Gains and losses on these instruments are not recognized until realized.

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

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

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

(d) Cash and cash equivalents

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

(e) Receivables

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

(f) Inventories

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

(g) Property, plant and equipment

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

Buildings:
- straight-line over 25 years or 5% diminishing balance

Leasehold Improvements:
- straight-line over the life of the lease

Machinery and Equipment:
- straight-line over 10 to 20 years or 20% diminishing balance

(h) Investments in associated businesses

Investments in associated businesses are accounted for using the equity method.

(i) Goodwill

Effective January 1, 2002, the company adopted the Canadian Institute of Chartered Accountants ("CICA") new accounting standards for Business Combinations and Goodwill. Under these new standards, which can only be applied prospectively, the company has ceased in 2002 to amortize its goodwill acquired in acquisitions. There was no adjustment for impairment required upon adoption of the new standard. Goodwill is tested for impairment on an annual basis. Goodwill is allocated to reporting units and any potential impairment is identified by comparing the carrying value of the reporting unit with its fair value. Any impairment loss would be charged against current period earnings and shown as a separate item in the Consolidated Statement of Income.

As at the date of adoption of the new standard the company had unamortized goodwill in the amount of $447 million, which is no longer being amortized. This change in accounting policy resulted in no amortization expense related to goodwill being recorded in 2002. In 2001, $18 million of amortization of goodwill (net of tax) was recorded. Had goodwill not been amortized in 2001, the basic and diluted net loss per share would have decreased by $0.24 per share and the net loss would have been $69 million.

(j) Other assets

The cost of a distribution services agreement is amortized on a straight-line basis over the 10-year term of the agreement.

Portfolio investments are accounted for by the cost method.

(k) Employee future benefits

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

- The cost and obligations of pensions and post employment benefits earned by employees are actuarially determined using the projected benefit method prorated on service and management's best estimate of assumptions of future investment returns for funded plans, salary changes, retirement ages of employees and expected health care costs.
- For the discount rate used for the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- As prescribed by the CICA, the discount rate used for determining the benefit obligation is the current interest rate at the balance sheet date on high quality fixed income investments with maturities that match the expected maturity of the obligations.
- Past service costs resulting from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the plans ranges from 13 to 18 years.

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

(l) Employee share purchase plans and executive stock options

Effective January 1, 2002, the company adopted the CICA's new accounting standard for stock-based compensation. This change had no impact on the financial position or results of operations of the company. This new standard has been applied for all options granted under the stock option plan on or after the effective date and to the employee share purchase plan starting with the 2002 program. Options are only available to employees and directors of the company.

Amounts paid by employees to purchase shares under an executive stock option plan and an employee share purchase plan are credited to share capital. No compensation expense is recognized for these plans when stock or stock options are issued to employees (note 9(d)).

(m) Income taxes

The company follows the liability method of accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(n) Revenue recognition

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

(o) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

2. Receivables

The provisions for anticipated book returns deducted from receivables at December 31, 2002 amounted to $126 million (December 31, 2001 - $117 million).

3. Property, plant and equipment

	Cost	Accumulated	Net
2002			
Land	**$11,302**		**$11,302**
Buildings and leasehold improvements	**213,390**	**$90,104**	**123,286**
Machinery and equipment	**641,713**	**384,780**	**256,933**
Total	**$866,405**	**$474,884**	**$391,521**
2001			
Land	$11,333		$11,333
Buildings and leasehold improvements	208,858	$82,046	126,812
Machinery and equipment	641,944	369,662	272,282
Total	$862,135	$451,708	$410,427

4. Investment in associated business

Effective October 1, 2002, the company completed the purchase

of a 19.35% interest in Black Press Ltd. The $20.7 million investment includes $16.7 million of goodwill. Additional investments may be made under certain circumstances.
The company's investment in ITI was written off during 2001 as a result of ITI's declaration of bankruptcy in August 2001. The $29.3 million write-off was included in unusual items in 2001 (note 15). The Consolidated Statement of Income for 2001 includes a loss of $8.0 million which was the company's share of ITI's losses for the first seven months of the year.

5. Other assets

	2002	2001
Accrued benefit assets (note 12)	**$71,435**	$70,981
Portfolio investments	**6,541**	13,081
Distribution Services Agreement	**8,504**	10,630
Other	**4,638**	1,179
	$91,118	$95,871

6. Long-term debt

	2002	2001
Commercial Paper		
Cdn. dollar denominated	**$133,481**	$241,444
U.S. dollar denominated	**48,178**	
	181,659	241,444
Medium Term Notes:		
Cdn. dollar denominated	**185,000**	185,000
U.S. dollar denominated	**81,731**	138,285
	266,731	323,285
	448,390	564,729
Less current portion of long-term debt		(55,881)
	$448,390	$508,848

(a) Bank debt

(i) On January 31, 2002, the company entered into long-term credit facilities comprising a $200 million five-year revolving loan and a $250 million 364-day revolving loan. The 364-day loan facility was extended for an additional 364-day term on January 30, 2003. This loan can be extended for up to three additional 364-day terms with the lenders' consent or can be converted to a 364-day term loan at the company's option. Amounts may be drawn in Canadian or U.S. dollars.

(ii) Amounts borrowed under the bank credit facilities would primarily be in the form of bankers' acceptances at varying interest rates and would normally mature over periods of 30 to 90 days. The interest rate spread above the bankers' acceptance rate if in Canadian dollars, or LIBOR rate if in U.S. dollars, is currently 0.8% and varies based on the company's long-term credit rating.

(iii) The unused facilities are designated as standby lines in support of the commercial paper program and letters of credit.

(b) Commercial paper

(i) A facility exists for the company to issue short-term notes in the form of commercial paper. These notes may be issued in Canadian or U.S. dollars to an authorized aggregate principal amount of Canadian $550 million outstanding at any one time. While the terms of the individual notes are less than one year, they have been classified as long-term as it is intended that the commercial paper program will be an ongoing source of financing and up to $450 million of the outstanding notes could be replaced at any time by bank debt as noted in (a)(iii) above.

(ii) The average rate on Canadian dollar commercial paper outstanding at December 31, 2002 was 2.9% (December 31, 2001 – 2.7%).

(iii) Commercial paper outstanding at December 31, 2002 included U.S. dollar borrowings of $30.5 million. The average rate on U.S. dollar commercial paper outstanding at December 31, 2002 was 1.4%. There was no U.S. dollar commercial paper outstanding at December 31, 2001.

(c) Medium Term Notes

(i) On May 22, 1998, the company issued Canadian $75 million 5.7% notes maturing December 1, 2003. The company has entered into a swap agreement, effectively converting this debt into a floating rate $51.7 million U.S. dollar obligation based on 90 day LIBOR pricing plus 0.15%.

(ii) On February 9, 1999, the company issued Canadian $75 million 5.6% notes maturing February 9, 2004. The company has entered into a swap agreement, effectively converting this obligation into a floating rate debt based on 90-day bankers' acceptance rates plus 0.32%.

(iii) On July 27, 1999, the company issued Canadian $75 million 5.95% notes maturing July 27, 2004. The company has entered into a swap agreement, effectively converting this debt into a floating rate debt based on 90- day bankers' acceptance rates plus 0.27%.

(iv) On January 17, 2000, the company issued Canadian $35 million of floating rate notes maturing January 17, 2003. Interest is based on 90 day bankers' acceptance rates plus 0.30%. Interest is paid quarterly.

(v) The notes identified in (i) and (iv) above, which mature in 2003, have been classified as long-term debt as the company has the ability and intent to refinance these amounts under existing credit facilities.

(vi) In each of (i) – (iii), interest on the medium term notes is paid semi-annually and where swap agreements have been entered into, payments are due either quarterly or semi-annually.

(vii) The swap agreements above mature on the due dates of the respective notes.

(viii) The effective interest rate on the Canadian dollar denominated obligations at December 31, 2002 was 3.0% (December 31, 2001 – 2.8%). The effective interest rate at December 31, 2002 was 1.7% (December 31, 2001 – 2.2%) on the Canadian dollar debt which has been effectively converted to U.S. dollar denominated obligations.

(d) The fair values of the various long-term debt instruments exceed their related carrying values by $2.5 million at December 31, 2002. The fair value of the interest rate component in the above described swap agreements was $7.2 million favourable at December 31, 2002.

(e) Subsequent to year end, the company entered into interest rate collar agreements which, net of costs, will establish an interest rate range on a portion of the company's long-term debt during 2003. For $250 million of Canadian dollar denominated debt an interest rate in the range of 3.2% to 3.5% has been established. An interest rate in the range of 1.1% to 1.8% has been established for $75 million of U.S. dollar denominated debt.

(f) The company is exposed to credit related losses in the event of non-performance by counterparties to the interest rate and currency swap instruments, but it does not anticipate any counterparties to fail to meet their obligations given their high credit ratings. The company has a policy of only accepting major financial institutions, as approved by the Board of Directors, as counterparties.

(g) Interest expense includes interest on long-term debt of $13,137 (2001 - $29,517).

(h) Interest of $14,890 was paid during the year (2001 - $32,070).

7. Other liabilities

	2002	2001
Post employment benefits (note 12)	**$69,435**	$64,445
Employees' shares subscribed	**7,280**	7,004
Other	**4,562**	4,677
	$81,277	$76,126

8. Share capital

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

(i) Class A (voting) and Class B (non-voting) shares

Class A and Class B shareholders may elect to receive dividends in cash or stock dividends in the form of Class B shares. Class A shares are convertible at any time at the option of the holder into Class B shares.

(ii) Voting provisions

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

(iii) Restrictions on transfer

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

(b) Summary of changes in the company's share capital:

Class A (voting) and Class B (non-voting) shares

Class A shares

The only changes in the Class A shares were the conversion to Class B shares of 9,000 shares (with a stated value of $2,000) in 2002 and 5,662 shares (with a stated value of $2,000) in 2001. Total Class A shares outstanding at December 31 were:

	Shares	Amount
2001	9,957,835	$2,705
2002	**9,948,835**	**$2,703**

Class B shares

	Shares	Amount
January 1, 2001	65,041,431	$285,609
Converted from Class A	5,662	2
Issued under Employee Share Purchase Plan	200,402	3,329
Stock options exercised	147,950	2,217
Stock dividends issued	76,254	1,463
Other	2,550	46
December 31, 2001	**65,474,249**	**292,666**
Converted from Class A	**9,000**	**2**
Issued under Employee Share Purchase Plan	**190,770**	**3,297**
Stock options exercised	**1,099,300**	**17,772**
Stock dividends issued	**52,606**	**1,216**
Other	**1,509**	**34**
December 31, 2002	**66,827,434**	**$314,987**

Totals

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

	Shares	Amount
2001	75,432,084	$295,371
2002	**76,776,269**	**$317,690**

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.

(c) Earnings per share

Basic per share amounts have been determined by dividing income (loss) by the weighted average number of Class A and Class B shares outstanding during the year.

The treasury stock method is used for the calculation of the dilutive effect of stock options and other dilutive securities. In calculating diluted per share amounts under the treasury stock method, the numerator remains unchanged from the basic per share calculation as the assumed exercise of the company's stock options and employee share purchase plan does not result in an adjustment to income. The reconciliation of the denominator in calculating diluted per share amounts is as follows:

(thousands of shares)	2002	2001
Weighted average number of shares outstanding, basic	**76,329**	75,292
Effect of dilutive securities		
• stock options	**1,082**	500
• employee share purchase plan	**40**	26
Weighted average number of shares outstanding, diluted	**77,451**	75,818

9. Stock-based compensation plans

(a) Stock option plan

Eligible senior executives and non-executive directors may be granted options to purchase Class B shares at an option price which shall not be less than the closing market price of the shares on the last trading day before the grant. The maximum number of shares that may be issued under the stock option plan is 10,500,000 shares of which 8,802,817 have been issued. In addition, the number of shares reserved for issuance to insiders cannot exceed 10% of the outstanding shares. The term of the options shall not exceed 10 years from the date the option is granted. Up to 25% of an option grant may be exercised 12 months after the date granted, and a further 25% after each subsequent anniversary.

(b) A summary of changes in the stock option plan is as follows:

	Shares	Weighted average exercise price
January 1, 2001	4,355,464	17.96
Granted	2,059,999	19.93
Exercised	(147,950)	14.98
Cancelled	(120,264)	19.89
December 31, 2001	**6,147,249**	**18.65**
Granted	**1,582,668**	**22.20**
Exercised	**(1,099,300)**	**16.17**
Cancelled	**(183,800)**	**20.14**
December 31, 2002	**6,446,817**	**19.91**

As at December 31, 2002 outstanding stock options were as follows:

Options Outstanding

Range of exercise price	Number outstanding December 31, 2002	Weighted average remaining contractual life	Weighted average exercise price
$10.19-11.50	85,400	2.5 years	$11.12
$15.75-18.05	2,137,582	5.5 years	$16.86
$18.50-22.20	3,512,835	7.4 years	$20.93
$25.00-26.75	711,000	4.5 years	$25.05
$10.19-26.75	6,446,817	6.4 years	$19.91

Options Exercisable

Range of exercise price	Number exercisable December 31, 2002	Weighted average exercise price
$10.19-11.50	85,400	$11.12
$15.75-18.05	1,466,383	$17.02
$18.50-22.20	528,792	$20.01
$25.00-26.75	711,000	$25.05
$10.19-26.75	2,791,575	$19.45

Subsequent to year-end, 620,625 stock options were granted at an exercise price of $25.50 per share.

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

	2002		2001	
Maturing	**2003**	**2004**	2002	2003
Subscription price	**$18.45**	**$23.76**	$17.26	$18.45
Number of shares	**176,642**	**169,248**	194,885	197,332

(d) When either stock options are granted or employees subscribe for shares, no compensation expense is recognized. When stock options and employee share purchase plans are exercised, the amount of the proceeds is included in share capital. Had compensation cost for the company's stock-based compensation plans been determined based on the fair value method of accounting for stock-based compensation, the company's net income and earnings per share would have been reduced by $1.9 million and $0.02 per share, to the pro forma amounts indicated on the following page:

Year Ended December 31, 2002		
Net income	• As reported	$125,325
	• Pro forma	$123,458
Earnings per share – Basic	• As reported	$1.64
	• Pro forma	$1.62
Earnings per share - Diluted	• As reported	$1.62
	• Pro forma	$1.59

The fair value of the executive stock options granted in 2002 was estimated to be $4.98 per option at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rate – 4.7%
Expected dividend yield – 2.6%
Expected volatility – 24.7%
Expected time until exercise – 5 years

With respect to the Employee Share Purchase Plan, the fair value of the plan is estimated each period based on the excess of the current stock price over the opening price, in accordance with the terms that would apply if the plan had currently matured. The fair value estimate is adjusted to actual in the year the specific plan matures.

10. Income and other taxes

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

	2002	2001
Income before taxes	**$196,821**	$43,875
Provision for income taxes based on Canadian statutory rate of 38.6% (2001 – 41.8%)	**($76,000)**	($18,300)
(Increase) decrease in taxes resulting from:		
Foreign income taxed at lower rates	**5,500**	7,600
Manufacturing and processing profits allowance	**4,800**	500
Large Corporations tax and other taxes	**(3,400)**	(3,000)
Future taxes resulting from changes in statutory tax or income inclusion rates		4,500
Non-taxable portion of capital transactions	**(1,300)**	(4,400)
Non-deductible expenses	**(1,600)**	(1,800)
	($72,000)	($14,900)
Effective income tax rate	**36.6%**	34.0%

Income taxes of $37.9 million were paid during the year (2001 - $56.9 million). In 2001, a tax recovery of $1.6 million was recognized with respect to the amortization of goodwill.

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

	2002	2001
Current tax provision	**$57,942**	$37,676
Future tax provision (recovery)	**14,058**	(22,776)
Total tax provision	**$72,000**	$14,900

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

	2002	2001
Current future income tax assets:		
Receivables	**$21,312**	$20,290
Restructuring provisions	**486**	2,796
Other	**4,412**	3,126
	$26,210	$26,212
Non-current future income tax assets:		
Tax losses carried forward	**$77,025**	$83,858
Pensions	**3,570**	2,643
Other	**5,183**	4,762
	$85,778	$91,263
Non-current future income tax liabilities:		
Property, plant and equipment	**$44,937**	$35,514
Pensions	**2,942**	4,637
Other	**3,110**	1,498
	$50,989	$41,649

At December 31, 2002 and 2001, the company had net operating loss carryforwards of approximately U.S. $35 million for income tax purposes that expire in 2021, for which no future tax asset has been recognized.

11. Acquisitions

The company completed a number of acquisitions during 2002 and 2001. The consideration for each acquisition was cash. Each acquisition was accounted for under the purchase method. The acquisitions are as follows:

	Company Business	Date	Purchase Price	Goodwill
2002				
Newspapers	Transit Television Network	9/9/02	**$4,019**	
	Other	Various	**833**	**$833**
			$4,852	**$833**
2001				
Newspapers	Community Newspapers	Various	$5,630	$5,058
	Other	Various	4,644	4,644
			$10,274	$9,702

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

12. Employee future benefits

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

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

(thousands of dollars)	Pension Plans		Post-employment Benefit Plans	
	2002	2001	**2002**	2001
Accrued benefit obligations				
Balance, beginning of year	**$469,109**	$431,810	**$45,793**	$41,521
Current service cost	**10,541**	7,737	**609**	453
Interest cost	**29,979**	29,354	**3,368**	2,942
Benefits paid	**(23,699)**	(35,159)	**(1,676)**	(1,574)
Actuarial losses	**5,662**	32,520		2,451
Participant contributions	**7,140**	7,289		
Past service costs	**176**	1,524		
Foreign exchange	**(92)**	1,435		
Corporate restructuring giving rise to:				
Settlements	**(17,722)**	(10,102)		
Special termination benefits	**51**	2,779		
Curtailments		(295)		
Plan amendments	**8,653**	217		
Balance, end of year	**$489,798**	$469,109	**$48,094**	$45,793
Plans' assets				
Fair value, beginning of year	**$456,537**	$478,107		
Return on plan assets	**(19,461)**	4,532		
Benefits paid	**(23,699)**	(35,159)		
Contributions to plan	**18,370**	18,507		
Foreign exchange	**(78)**	1,193		
Corporate restructuring giving rise to:				
Settlements	**(9,825)**	(10,643)		
Fair value, end of year	**$421,844**	$456,537		
Funded status – deficit	**($67,954)**	($12,572)	**($48,094)**	($45,793)
Unamortized losses	**110,203**	52,696	**1,328**	1,402
Unrecognized prior service costs	**6,517**	217		
Accrued benefit asset (liability)	**$48,766**	$40,341	**($46,766)**	($44,391)
Net benefit expense for the year				
Current service cost	**$10,541**	$7,737	**$609**	$453
Interest cost	**29,979**	29,354	**3,368**	2,942
Expected return on plan assets	**(31,047)**	(32,750)		
Past service costs	**634**	1,524		
Settlement loss		1,655		
Special termination benefit	**51**	2,779		
Amortization of losses	**1,013**	11	**4**	
Net benefit expense	**$11,171**	$10,310	**$3,981**	$3,395
Significant assumptions used				
Discount rate	**6.5%**	6.5%	**6.5%**	6.5%
Expected long-term rate of return on plan assets	**7%**	7%	**N/A**	N/A
Rate of compensation increase	**4%**	4%	**N/A**	N/A
Average remaining service period of active employees	**13 to 18 years**	13 to 18 years	**N/A**	N/A

The accrued benefit pension asset of $48,766 for 2002 reflected above is net of long-term liabilities of $22,669 primarily related to an unfunded executive retirement plan which is supported by an outstanding letter of credit of $30.5 million at December 31, 2002. For 2001, the accrued benefit pension asset of $40,341 is net of long-term liabilities of $20,054 primarily related to an unfunded executive plan and current liabilities of $10,586 related to the windup of an overseas pension plan. The net benefit expense of $10,310 in 2001 included $5,180 related to restructuring provisions that were reported as unusual items.

The effect of a one per cent increase or decrease in significant assumptions used for the company's pension plans would result in an increase (decrease) in the net benefit expense and accrued benefit obligation at December 31, 2002:

	Net Benefit Expense		Accrued Benefit Obligation	
	1% increase	1% decrease	1% increase	1% decrease
Discount rate	($3,955)	$6,965	($60,606)	$69,654
Expected long-term rate of return on plan assets	(4,438)	4,433		
Rate of compensation increase	2,266	(2,029)	11,100	(10,360)

With respect to the post-employment benefit plans, a 6% annual rate of growth in the per capita cost of covered health care benefits was assumed for 2002 (2001 – 7%). The rate of growth is assumed to decrease by 1% per annum until 2003. The effect of a one per cent increase or decrease in the discount rate or the per capita cost of health care would result in the following changes at December 31, 2002:

	Net Benefit Expense		Accrued Benefit Obligation	
	1% increase	1% decrease	1% increase	1% decrease
Discount rate	($85)	$148	($5,686)	$6,471
Per capita cost of health care	283	(252)	4,054	(3,731)

13. Forward foreign exchange contracts and options

(a) The company has made arrangements through forward foreign exchange contracts and various option contracts to allow it to convert into Canadian dollars a portion of its expected future U.S. dollar cash flows. Details of these forward foreign exchange and option contracts are listed below. The forward foreign exchange contracts and options establish a minimum rate of exchange of Canadian dollar per U.S. dollar of $1.59 for U.S. $75 million in 2003, $1.58 for U.S. $75 million in 2004, and $1.59 for U.S. $76 million in 2005. In 2002, the average exchange rate applicable to U.S. dollar cash flows of the company was $1.56.

(i) 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:

	2002		2001	
	U.S.$	Rate	U.S.$	Rate
2002			$70,000	$1.55
2003	$55,000	$1.60		
2004	$35,000	$1.61		
2005	$40,000	$1.61		

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

	2002		2001	
	U.S.$	Rate	U.S.$	Rate
2003	$20,000	$1.56 – 1.67	$70,000	$1.56 – 1.67
2004	$40,000	$1.56 – 1.66	$70,000	$1.56 – 1.66
2005	$36,000	$1.56 – 1.68		

(b) The company has entered into forward foreign exchange and option contracts to allow it to convert a portion of its expected 2003 Euro, U.K. Pound Sterling, and Japanese Yen cash flows, to Canadian dollars. Forward foreign contracts establish a rate of exchange of Canadian dollar per Euro of $1.63 for 11 million Euros. Option contracts will ensure a rate of exchange in the range of $2.37 to $2.62 for 3 million U.K. Pound Sterling, and $0.013 to $0.014 for 330 million Japanese Yen. In addition, for payments to be made in 2003 and 2004 relating to the purchase and installation of press equipment, the company has entered into forward foreign exchange contracts to establish a rate of exchange of $1.41 Canadian dollars for 12.9 million Euros.

(c) The fair value of the forward foreign exchange contracts and options was $1.7 million favourable at December 31, 2002.

14. Discontinued operations

In late 2000, the company announced its intention to sell the education operations, Frank Schaffer Publications Inc., Tom Snyder Productions Inc. and Delta Education Inc. of its Children's Supplementary Education Publishing division. Accordingly, the results from these operations were presented as discontinued operations. The sale of the discontinued businesses was completed during 2001. Due to a downturn in market conditions, the proceeds on the sale were lower than anticipated. As a result, a further loss of $99 million ($90 million after tax) was recorded during 2001.

15. Unusual items

Details of unusual items in 2002 and 2001 are as follows:

	2002	2001
Portfolio investment (loss) gain (note 18)	**($5,924)**	$556
Pension recovery (cost)	**1,559**	(4,200)
Foreign sales tax recovery	**1,065**	
Write-off of investment in ITI		(29,300)
Strike costs		(24,600)
Restructuring provisions		(13,000)
	($3,300)	($70,544)

The 2002 loss included a loss of $5.9 million on Torstar's Interactive Media portfolio compared with a gain of $0.6 million realized in 2001. In 2002, a recovery of $1.6 million was realized against a $4.2 million provision made in 2001 for the windup of an overseas pension plan. A gain of $1.1 million in 2002 resulted from the final settlement of foreign sales tax issues.

In 2001, unusual losses also included a $29.3 million write-off of Torstar's investment in ITI Education Corporation, $24.6 million for the costs associated with the strike by the Toronto Star's carrier force and a strike at Sing Tao Newspapers, and a $13.0 million provision for restructuring primarily within the Newspaper segment. Accounts payable and accrued liabilities include $5 million for these restructuring provisions at December 31, 2002. (December 31, 2001 - $13 million).

16. Contingent liabilities

The company is involved in various legal actions, primarily in the newspaper segment, which arise in the ordinary course of business. While the final outcome of these matters cannot be predicted with certainty, any liability that may arise from such contingencies is not expected to have a material adverse effect on the financial position or results of operations of the company.

17. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2002 financial statements.

18. Segmented information

Prior to 2002, the company reported results from three business segments: Newspapers, Book Publishing and Interactive Media. However, over time the Interactive operations evolved into complementary businesses, very closely linked to the core newspaper and book publishing businesses. This changed how management views and operates the businesses. In early 2002, the Interactive operating activities were merged into the traditional businesses and the company now operates two business segments: Newspapers and Book Publishing, which are described below. Comparative financial statements have been reclassified to reflect this change, and as well, gains or losses on Torstar's portfolio investments previously reported as part of the Interactive Media segment, will be reported as unusual items (note 15).

Newspapers – Publishing of daily and community newspapers including the Toronto Star, The Hamilton Spectator, The Record (Kitchener, Cambridge and Waterloo) and Metroland's publications. This segment also includes the related Internet businesses of the newspapers;

Book Publishing – Publishing of women's fiction, creation of activity-based products for children and the distribution of both through retail outlets, by direct mail and through the Internet.

Segment profit or loss has been defined as operating profit which corresponds to operating profit as presented in the Consolidated Statements of Income.

Torstar Corporation

Summary of Business and Geographic Segments of the Company

Business Segments	Operating Revenue 2002	Operating Revenue 2001	Depreciation and Amortization 2002	Depreciation and Amortization 2001	Operating Profit 2002	Operating Profit 2001
Newspapers	**$856,956**	$825,765	**$49,818**	$62,764	**$105,495**	$54,300
Book publishing	**618,093**	596,898	**7,512**	13,496	**119,168**	99,643
Segment Totals	**1,475,049**	1,422,663	**57,330**	76,260	**224,663**	153,943
Corporate			**116**	114	**(12,764)**	(10,773)
Consolidated	**$1,475,049**	$1,422,663	**$57,446**	$76,374	**$211,899**	$143,170

	Identifiable Assets 2002	Identifiable Assets 2001	Additions to Capital Assets and Goodwill 2002	Additions to Capital Assets and Goodwill 2001
Newspapers	**$941,837**	$945,215	**$29,652**	$38,779
Book publishing	**482,127**	488,633	**7,907**	8,091
Segment Totals	**1,423,964**	1,433,848	**37,559**	46,870
Corporate	**35,524**	56,306	**117**	95
Investment in associated business	**21,233**			
Consolidated	**$1,480,721**	$1,490,154	**$37,676**	$46,965

Geographic Segments	Operating Revenue 2002	Operating Revenue 2001	Capital Assets and Goodwill 2002	Capital Assets and Goodwill 2001
Canada	**$879,709**	$848,329	**$723,660**	$744,159
United States	**384,668**	378,544	**94,890**	96,225
Other (a)	**210,672**	195,790	**29,006**	27,768
Segment Totals	**$1,475,049**	$1,422,663	**$847,556**	$868,152

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

Torstar Corporation

Annual Operating Highlights Continuing Operations

	2002	2001	2000	1999	1998	1997	1996
Operating revenue (thousands of dollars)							
Newspapers	**$856,956**	$825,765	$857,989	$774,191	$645,066	$598,158	$512,545
Book publishing	**618,093**	596,898	587,085	577,185	545,247	495,961	509,897
Total	**$1,475,049**	$1,422,663	$1,445,074	$1,351,376	$1,190,313	$1,094,119	$1,022,442
Operating profit & Income from continuing operations (thousands of dollars)							
Newspapers	**$105,495**	$54,300	$98,814	$107,562	$81,428	$81,133	$36,654
Book publishing	**119,168**	99,643	83,831	80,941	92,850	85,614	86,129
Corporate	**(12,764)**	(10,773)	(9,804)	(6,708)	(5,962)	(6,696)	(7,767)
Operating profit	**211,899**	143,170	172,841	181,795	168,316	160,051	115,016
Interest	**(12,751)**	(29,143)	(41,283)	(32,170)	(17,051)	(19,733)	(16,650)
Foreign exchange	**973**	392	(1,395)	55	324	1,379	826
Unusual items	**(3,300)**	(70,544)	24,415	3,531	(9,381)		
Income before taxes	**196,821**	43,875	154,578	153,211	142,208	141,697	99,192
Income and other taxes	**(72,000)**	(14,900)	(47,200)	(52,900)	(49,400)	(47,200)	(32,500)
Income before income (losses) of associated businesses	**124,821**	28,975	107,378	100,311	92,808	94,497	66,692
Income (losses) of associated businesses	**504**	(8,022)	(6,202)	(5,516)	145	358	(3,171)
Income from continuing operations before amortization of goodwill	**125,325**	20,953	101,176	94,795	92,953	94,855	63,521
Amortization of goodwill (net of tax)		(17,973)	(17,461)	(13,975)	(7,744)	(7,726)	(7,984)
Income from continuing operations	**$125,325**	$2,980	$83,715	$80,820	$85,209	$87,129	$55,537
Operating cash flow	**$202,845**	$109,333	$165,598	$152,416	$145,836	$152,641	$116,764
Average number of shares outstanding (thousands)	**76,329**	75,292	74,695	74,667	75,926	78,088	79,464
Per share data							
Income from continuing operations	**$1.64**	$0.04	$1.12	$1.08	$1.12	$1.12	$0.70
Dividends – Class A and Class B shares	**0.58**	$0.58	$0.58	$0.58	$0.565	$0.52	$0.45
Rate of return on revenue							
Operating profit	**14.4%**	10.1%	12.0%	13.5%	14.1%	14.6%	11.2%
Income before income (losses) of associated businesses	**8.5%**	2.0%	7.4%	7.4%	7.8%	8.6%	6.5%
Return on equity							
Operating cash flow as a percentage of average shareholders' equity	**34.4%**	18.3%	24.6%	22.9%	20.4%	22.5%	20.4%
Financial position							
Total assets	**$1,480,721**	$1,490,154	$1,755,764	$1,726,402	$1,380,907	$1,370,490	$1,322,763
Long-term debt	**448,390**	508,848	494,477	649,712	355,829	197,322	321,813
Shareholders' equity	**643,506**	534,398	660,001	684,188	647,055	785,461	573,853
Property, plant and equipment (net)	**391,521**	410,427	425,380	440,673	389,832	390,312	408,797

Corporate Information

Board of Directors

John R. Evans (1,2,4,5)
Chairman of the Board
Torstar Corporation
Director since 1984

Catherine Atkinson Murray (2,4,5)
President
Atkinson Charitable Foundation
Director since 1976

Paul G. S. Cantor (1,3,4)
Managing Partner for Canada
Russell Reynolds Associates Co.
Director since 1993

J. Murray Cockburn (1,3)
Corporate Director
Director since 2001

Martin P. Connell (2,5)
Private Investor
Director since 1990

Christina A. Gold (2,5)
President, Western Union
Financial Services Inc.
& Senior Executive Vice President,
First Data Corp.
Director since 1998

Campbell R. Harvey (5)
Professor
Duke University
Director since 1992

J. Spencer Lanthier (1,3)
Corporate Director
Director since 2002

David W. Lay (1,3)
Corporate Director
Director since 1993

J. Robert S. Prichard (3,4)
President & Chief Executive Officer
Director since 2002

Lance R. Primis (2,4)
Managing Partner
Lance R. Primis & Partners LLC
Director since 1997

A. Michael Spence
Partner
Oak Hill Venture Partners
Director since 1999

Martin E. Thall
Corporate Director
President, Thall Holdings Inc.
Director since 2002

Ruth Anne Winter (1,4,5)
Associate Broker, Royal LePage
Director since 1995

1. Member of Audit Committee
2. Member of Salary & Organization Committee
3. Member of Pension Committee
4. Member of Editorial Advisory Committee
5. Member of Nominating & Corporate Governance Committee

Officers

John R. Evans
Chairman of the Board

J. Robert S. Prichard
President &
Chief Executive Officer

Robert J. Steacy
Executive Vice-President and Chief Financial Officer

Karen Hanna
Senior Vice-President
Human Resource Strategy

Marie E. Beyette
Director of Legal Services
& Corporate Secretary

Gail Martin
Director of Finance

D. Todd Smith
Treasurer

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

Corporate Information

Operating Companies – Products and Services

Torstar Daily Newspapers

Toronto Star
The Hamilton Spectator
The Record
Guelph Mercury

Interactive Media

thestar.com
workopolis.com
toronto.com
waymoresports.com
newinhomes.com
Torstar Media Group Television
Torstar Syndication Services

Community Newspapers

Metroland Printing, Publishing & Distributing is Ontario's leading publisher of community newspapers, publishing 69 community newspapers with 115 editions.
The larger publications include:

- Ajax News Advertiser
- Aurora/Newmarket Era-Banner
- Brampton Guardian
- Burlington Post
- Etobicoke Guardian
- Mississauga News
- Oakville Beaver
- Oshawa This Week
- Richmond Hill Liberal
- Scarborough Mirror

Business Ventures

- Metro
- Sing Tao

Harlequin Enterprises

Harlequin is a leading publisher of women's fiction.

Harlequin Mills & Boon U.K.
Harlequin Australia
Harlequin Holland
Harlequin Japan
Harlequin Scandinavia
Harlequin Spain
Harlequin Poland

Joint Ventures:
Harlequin Germany
Harlequin France
Harlequin Italy
Harlequin Greece
Harlequin Hungary

Interactive Media:
eHarlequin.com

Project Direction: Bill LaBranche Creative Director: Lorne Silver Art Director: Joan Blastorah Graphic Design: Jose Luis Monzon Production: Darlene Dewell Printing: Resolution Group
Photography: Richard Lautens

Torstar is proud to be identified as an Imagine caring company, having donated more than one per cent of pre-tax profits to charitable causes in 2002.