TORSTAR

TORONTO STAR

METROLAND

CITYMEDIA GROUP

TORSTAR DIGITAL

HARLEQUIN ENTERPRISES

2004 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

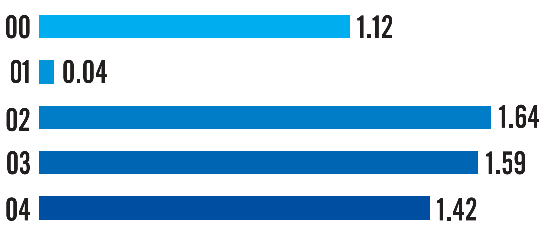
OPERATING RESULTS ($000)	2004	2003
Operating revenue	**$1,541,849**	$1,488,309
EBITDA (1)	**266,109**	275,875
Operating profit	**209,228**	220,071
Net Income	**112,703**	123,515
Cash from operating activities	**178,598**	162,976
OPERATING RESULTS		
Operating profit – percentage of revenue	**13.6%**	14.8%
Cash from operating activities – percentage of average shareholders' equity	**23.2%**	23.5%
PER CLASS A AND CLASS B SHARES		
Net Income	**$1.42**	$1.59
Dividends	**$0.70**	$0.64
Price range high/low	**$31.75/20.65**	$30.00/23.10
FINANCIAL POSITION ($000)		
Long-term debt	**$317,829**	$387,800
Shareholders' equity	**$793,661**	$745,055

The Annual Meeting of shareholders will be held Wed., May 4, 2005 at the Metro Toronto Convention Centre, 255 Front Street West, Toronto beginning at 10 a.m. It will also be webcast live on Torstar Media Group Television with interactive capabilities.

OPERATING REVENUE ($MILLIONS)

OPERATING PROFIT ($MILLIONS)

INCOME FROM CONTINUING OPERATIONS PER SHARE



EBITDA (1)

(1) Operating profit before depreciation and amortization. See note 4 on page 26.

MESSAGE FROM THE CHAIRMAN

Good governance promotes strong, viable and competitive corporations that people trust. Increased focus on governance regulation is welcome, but even the most rigorous rules have limited value unless they are developed and practiced by a Board comprised of outstanding directors.

Torstar has such a Board with extraordinarily talented and committed directors, sought after for their broad experience and respected for their integrity. The excellent record of their attendance is just one measure of their degree of engagement with the corporation.

Two directors retired from the Board in 2004: Catherine Atkinson Murray and Ruth Anne Winter. They both made many valued contributions to our work during extended terms of service – Ruth Anne for nine years and Betsy for 28 years. We sincerely appreciate their commitment to Torstar and wish them well.

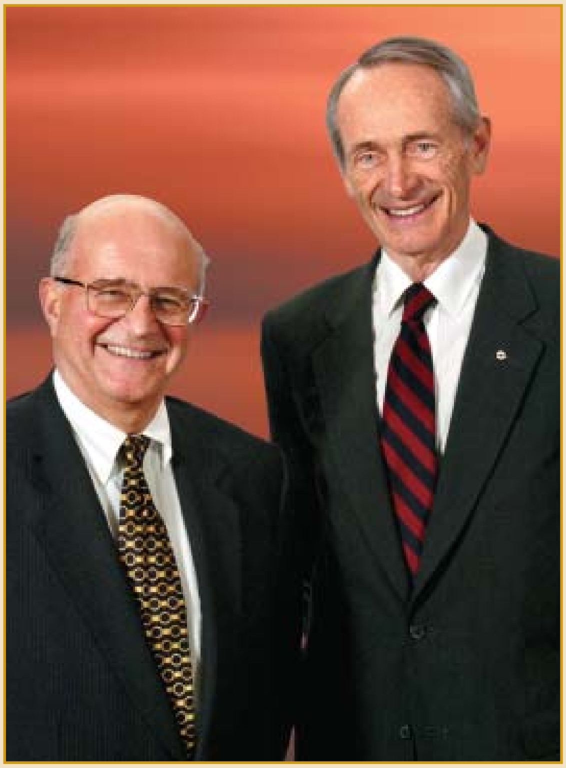
Four new directors were appointed to the Board during the past year: Don Babick, the dean of newspaper publishing in Canada, having served in leading capacities at several major media companies; Jack Fuller, recently retired President of Tribune Publishing, a past Publisher of the Chicago Tribune and a Pulitzer Prize-winning journalist; Peter Mills, an experienced corporate director; and The Hon. Frank Iacobucci, recently retired Justice of the Supreme Court of Canada, currently serving as Interim President of the University of Toronto.

It is a special privilege to report that The Hon. Frank Iacobucci will succeed me as Chairman of Torstar. He is a Canadian of great distinction. Throughout his academic, legal and judicial careers he has displayed values consistent with those of Torstar and with the Atkinson Principles which have guided its flagship newspaper since inception. He is also a nationally recognized expert on corporate finance and securities regulation. I am confident that The Hon. Frank Iacobucci will continue to elevate Torstar's governance processes.

As you read the CEO's Letter to Shareholders you will see that Torstar faced some challenges in 2004. The strong response from each business reflects the dynamism and capability of the management teams and the great direction and oversight provided by the executive leadership. The results of their efforts would be modest, however, without the commitment of staff throughout the organization. On behalf of the Board, I express our deep appreciation for their efforts at all levels.

It has been a real privilege for me to have the opportunity to serve as a director of such a fine corporation with a Board of such distinction and commitment.

John R. Evans
Chairman, Board of Directors



John Evans, Chairman, Torstar (right) and his successor the Hon. Frank Iacobucci.

J. Robert S. Prichard
President and
Chief Executive Officer

TO OUR SHAREHOLDERS

2004 was a challenging year for Torstar and our results were mixed; we had strong newspaper results and disappointing book publishing results. As a result, we fell short of our financial goals and our EBITDA dropped by 3.5 per cent from our record high in 2003. This decline was reflected in a drop in our stock price, a decline that was amplified by the rapid rise in the Canadian dollar relative to the U.S. dollar. This will reduce the translation of our U.S. dollar earnings from Harlequin once our current foreign exchange hedges terminate at the end of the year.

Our principal challenge in 2004 was Harlequin which had a difficult year. We sold fewer books and had reduced earnings in all three channels: retail, direct-to-consumer and overseas. At the core of our challenge was a very weak market for mass market paperbacks. While all book publishers suffered, we suffered more than others because the vast majority of our sales are concentrated in this segment of book sales.

While we are disappointed by our results at Harlequin, we are very focused on improving them. Harlequin's management team, led by Donna Hayes, has a strategy for stabilizing and then growing the business again. In 2005, we expect to maintain current levels of profitability while making important investments in future growth. We are investing more in promoting and developing Harlequin's brands and authors, re-invigorating our series editorial product, expanding our publishing genres and formats, strengthening our sales teams, growing our overseas business by launching in Brazil and taking numerous other steps to build the business.

Harlequin is a very good and profitable business and it contributes very importantly to Torstar's financial success. There have been other years when our newspaper businesses have been challenged and Harlequin has made steady progress. This year the tables were turned. We are determined to return Harlequin to growth and to build on its legacy of profitability.

Despite these challenges at Harlequin, there were many achievements at Torstar during the year which augur well for our future strength. The record for all our businesses and our detailed financial results follow in the remainder of our Annual Report. Highlights include:

- Our newspaper businesses performed very well and delivered record financial results.
- We made steady progress on our dual goals of growing the profits and improving the margins of our daily newspapers. CityMedia Group grew EBITDA by 22 per cent and the Toronto Star by 12 per cent with improved margins in both businesses.
- Metroland delivered on its goal of double-digit profit growth for the third year in a row, capitalizing on its entrepreneurial business model.
- We launched a major new community newspaper in the Niagara region, demonstrating Metroland's capacity for geographic expansion.
- We made numerous smaller acquisitions of newspapers and related products to build our community newspaper franchises and create value through integration synergies and growth.
- We launched Torstar Digital to strengthen the Internet-based activities in our newspapers and grow our electronic business franchises including workopolis.com and toronto.com.
- We expanded our Transit Television Network with new installations in Chicago and Atlanta and are about to expand the system to Los Angeles.

Individually, these business accomplishments were important. Collectively, they helped us make important progress towards our core goal: outstanding corporate performance that will maximize long-term shareholder value and returns.

We have many advantages: market-leading franchises, fine leaders, a great balance sheet, unusually strong free cash flow, excellent governance, a heavily invested controlling shareholder group with a long-term perspective, and a long record of delivering superior returns for our shareholders. Our challenge is to build on this legacy.

Our strong businesses allowed us to further strengthen our balance sheet and increase our dividend for the third year in a row (with a cumulative increase of 28 per cent). We are very well positioned to take advantage of opportunities for growth whether by acquisition or investments in new opportunities. We have the financial strength necessary to launch new newspapers to expand our community newspaper franchise as we did in Niagara, and to expand our free daily franchise led by Metro into new regions of Canada.

We will continue to invest to build long-term value: buying good properties when they are available at reasonable prices; building new properties when good opportunities arise; investing in our core businesses; innovating with new products and services and entering new geographic areas; and building new capabilities to adapt to the rapidly changing media environment. We will not limit ourselves to any one approach but will use all of them. And we will continue to operate all our businesses with the goal of outstanding performance. This has been our record for more than a century and we plan to extend it for many years to come.

2004 was also a year of transition for Torstar with three major personnel changes. Early in the year, Michael Goldbloom succeeded John Honderich as Publisher of the Toronto Star. After a seamless transition, Michael has provided outstanding leadership in his first year as Publisher, delivering strong financial results and recruiting Giles Gherson to lead the newsroom as Editor-in-Chief. Together they make a very strong team.

Later in the year, our Executive Vice-President and Chief Financial Officer, Bob Steacy, announced his intention to retire at the Annual General Meeting. Bob has served Torstar with great distinction for over a quarter of a century, the last 17 years as CFO.

It is testimony to Bob's leadership of our financial functions that he had a superbly trained and experienced successor within the company. David Holland, who was most recently CFO at Harlequin and has previously been CFO of our newspaper group and Director of Finance at the corporate centre, will assume Bob's position on May 4, 2005. He will continue our tradition of strong financial leadership focused on delivering superior long-term shareholder value and returns.

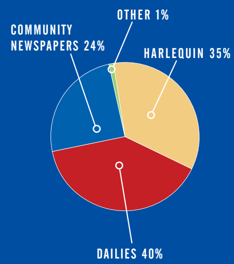
As is noted elsewhere in this report, Dr. John Evans is also retiring after 21 years on the Board of Directors including 11 years as Chairman. All of us at Torstar have felt privileged to serve with Dr. Evans as he has been a remarkably effective Chairman. Our sense of loss with his departure is mitigated by the prospect of welcoming The Hon. Frank Iacobucci as our new Chairman. Like Dr. Evans, he is a Canadian of the first rank who has led a life of accomplishment, service and leadership. He will continue Torstar's commitment to exemplary corporate governance.

To work at Torstar is to be part of a worthy company and an important cause. We began as a single great newspaper, the Toronto Star, and, from the beginning, we have always been more than just a good business. That tradition continues with our commitments: a commitment to the Atkinson Principles of the Toronto Star; a commitment to editorial excellence in all we publish; a commitment to serve and support our communities; and a commitment to make Torstar a great place to work. We remain resolute in all these commitments.

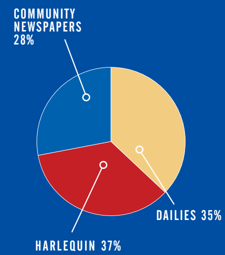
I thank all of the nearly 7,000 employees at Torstar for the fine work they do. We all thank our Board of Directors for their leadership and counsel and we thank you, our shareholders, for vesting your confidence in us. We will continue to do all we can to vindicate it.

J. Robert S. Prichard
President and Chief Executive Officer

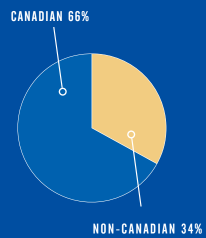
REVENUE BY BUSINESS



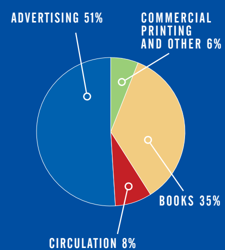
OPERATING EBITDA



REVENUE BY GEOGRAPHY



REVENUE BY SOURCE



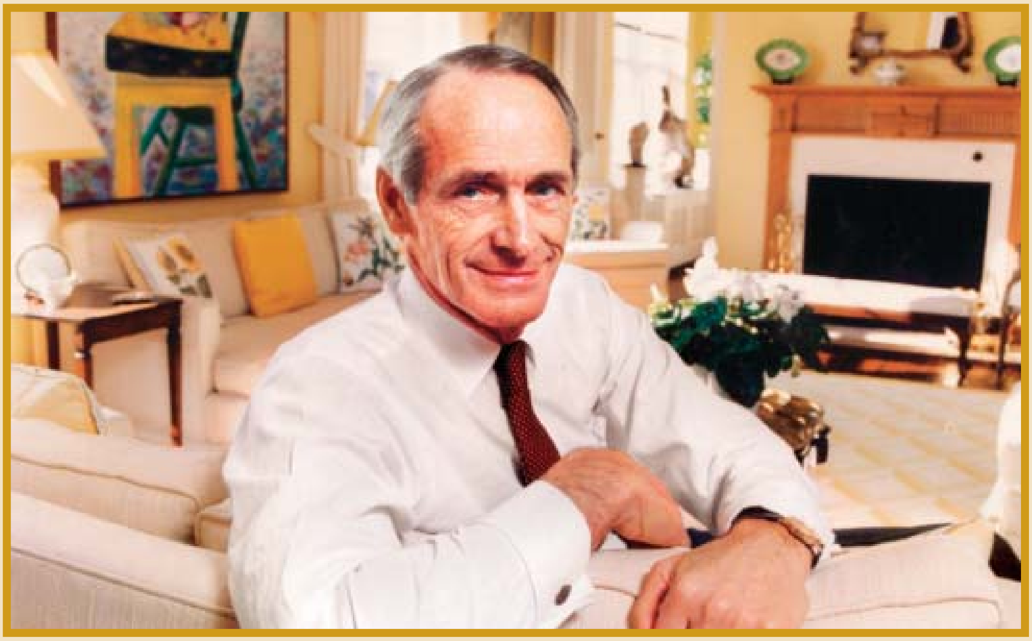


Photo: Ron Bull

John Evans will be retiring as chairman of Torstar after 21 years, including 11 years as Chairman of the Board. His leadership, like his life, has been an inspiration to all fortunate enough to serve with him.

DR. JOHN EVANS

Dr. John Evans retires this year after serving on the Board of Directors of Torstar for the past 21 years and as our Chairman for the last 11 years. His service has made a profound contribution to Torstar and we pay tribute to him.

Dr. Evans is remarkably accomplished. In all of his roles – physician, medical dean, university president, public health advocate, philanthropic leader, biotechnology founder, public servant and corporate director – he has done superb work. His extraordinary talents have been widely recognized with the highest honours of his profession, province and country. He has been elected to the Canadian Medical Hall of Fame, the Canadian Business Hall of Fame and the University of Toronto's Sports Hall of Fame. And he is a Companion of the Order of Canada and a member of the Order of Ontario.

As a director, Dr. Evans has been a leader in developing contemporary standards of corporate governance in Canada. He has been a guiding force for good governance in Canadian boardrooms for 30 years including serving as chairman of four companies – Alcan, Glyco Design, Allelix, the biotechnology company he founded, and Torstar.

As a director and then Chairman at Torstar, Dr. Evans set our goal of exemplary governance and has inspired and led the evolution of our governance practices against this standard. He proposed the creation of the Board's Editorial Advisory Committee which oversees the Toronto Star and its commitment to being a great metropolitan newspaper observing and promoting the Atkinson Principles. He has chaired the Committee for 16 years. He established principles and procedures for all aspects of our governance reflecting the best practices in the governance community and often proposed innovations to spur further advances.

Dr. Evans' outstanding success as our Chairman reflects not only his professional virtuosity but also his personal style and values. He is a wonderful listener. He is warm, self-effacing and self-depracating. He expects and inspires the best in everyone. He has a remarkable sense of humour. He is deeply committed to the conceptions of social justice, public policy and civic engagement reflected in the Atkinson Principles and has spent his life advancing them. And he has outstanding business judgment.

We will miss Dr. Evans as our leader. He has brought great credit to Torstar and it has been a privilege for all of us to serve with him. The standards he has set for Torstar will continue even as he stands down and our ability to live up to them will owe much to the leadership and example he has given us for so long.

Fortunately, among Dr. Evans' final contributions to Torstar was his leadership in recruiting and electing his successor as Chairman, The Hon. Frank Iacobucci. He is also a remarkably accomplished Canadian and, under his leadership, the Board will continue and extend its commitment to ensuring Torstar's corporate governance reflects best practices and high standards. As we do so, this will be Dr. Evans' legacy.

The Board of Directors

NEWSPAPERS

LEADING TORSTAR'S NEWSPAPER BUSINESSES FROM LEFT TO RIGHT: MICHAEL GOLDBLOOM, PUBLISHER, TORONTO STAR; PAT COLLINS, EXECUTIVE VICE-PRESIDENT, NEWSPAPERS, TORSTAR; TOMER STROLIGHT, PRESIDENT, TORSTAR DIGITAL; MURRAY SKINNER, PRESIDENT, METROLAND PRINTING, PUBLISHING & DISTRIBUTING; AND (SITTING) JAGODA PIKE, PUBLISHER, THE HAMILTON SPECTATOR AND PRESIDENT, CITYMEDIA GROUP.

Torstar's newspapers are the leading source of news, information and entertainment in Ontario's lucrative Golden Horseshoe region.

• Torstar's newspaper operation consists of the newspaper, commercial printing, Internet products and services of the Toronto Star, Metroland Printing, Publishing & Distributing, CityMedia Group and Torstar Digital. It also includes Torstar Media Group Television and Transit Television Network.

• Combined, newspaper operations accounted for 65 per cent of Torstar's revenue and 66 per cent of its EBITDA in 2004.

• The Toronto Star is the leading newspaper franchise in Canada's largest media market. With 2.2 million readers each week, the Star has the largest readership in the country.

• Metroland is Canada's leading community newspaper publisher providing local news and advertising in the country's heartland. The company publishes 67 community newspapers with 116 editions concentrated in southern Ontario and centred around Toronto.

• CityMedia Group's collection of dailies and weekly publications and commercial printing in a single geographic cluster represents a new growth opportunity for Torstar.

• Torstar Digital aims to co-ordinate the company's many Internet holdings, including workopolis.com and toronto.com, into a concentrated, integrated effort to meet the needs of online advertisers, consumers and readers.

• Torstar's newspaper operations also include a total of 10 printing plants at Metroland, CityMedia Group and the Toronto Star.

• Torstar Media Group Television is a 24-hour, direct-response television business operating the SHOP TV Canada channel, which reaches approximately 1.5 million cabled households in the Greater Toronto Area.

• Transit Television Network is a U.S.-based operation that delivers broadcast-quality information to passengers on buses via screens mounted in the vehicles.

Our Newspaper Strategy…

• To advance editorial excellence. Torstar believes that good newspapers that deliver good experiences for our readers are essential to our long-term success.

• To deliver double-digit annual profit growth at Metroland.

• To grow the business and improve margins at all our daily newspapers.

TORONTO STAR

The Toronto Star is Canada's pre-eminent newspaper with the largest circulation and readership of any daily in the country and a commanding lead in Canada's largest and most competitive newspaper market.

At the Toronto Star, we strive to sustain the highest standards of journalistic excellence while thriving as a financially strong business. In 2004, we completed our first year of a three-year strategic plan, which focuses on five areas:

Investing in editorial excellence

• A year-long effort resulted in the launch of a new magazine-style Sunday paper early in 2005, complete with a bold new front page design, dominated every week by a striking full-page photograph, many more features and full colour on every page, a first for North American newspapers.

• Star writers and photographers won five prestigious National Newspaper Awards (NNAs) in 2004. The Star has won 101 NNAs and has been nominated 179 times, the most wins and nominations of any Canadian newspaper.

Maintaining strong circulation and readership

• Star readership remained unrivalled in 2004 with significant growth throughout the year, while its Toronto competitors suffered ongoing losses, according to the Newspaper Audience Databank. The Star continues to have more exclusive readers than all three of the other paid newspapers combined, with the best balance of male and female readers of all the dailies. The Toronto Star also continues to reach more upscale adults, more university educated adults and more business executives in the Greater Toronto Area than the two competing broadsheets combined. With 2.2 million readers every week, no other Canadian newspaper approaches its reach.

• The Toronto Star is the circulation leader in Canada's most competitive newspaper market. Total paid circulation is 454,128 copies Monday through Friday, 656,549 copies on Saturday, and 446,856 copies on Sunday (Source: Audit Bureau of Circulations for the 12 months ended September 30, 2004).

Growing advertising revenue

• The Toronto Star's strategy of growing advertising line rates at above-market rates was successful in 2004, despite continued discounting by its competitors. The Toronto Star leveraged its colour quality and capacity during the year to increase colour revenues and achieve a higher overall line rate. Advertising revenues for 2004 were $327.5 million.

Managing costs

• Operating costs were reduced in 2004 through a voluntary separation program that will reduce staff by 50. The program also facilitated restructuring in several areas, including in Circulation and the newsroom.

• Concerted effort was made to reduce newsprint usage and waste at the paper's Vaughan printing facility. Other divisional operating costs remained flat in 2004, and a virtual hiring freeze remained in effect.

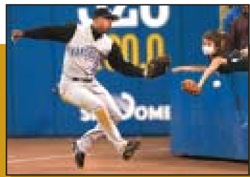
Expanding beyond ink-on-paper

• Revenue from the Toronto Star's Internet properties continued to grow in 2004. EBITDA for both workopolis.com and thestar.com continued to be positive and growing.

• thestar.com recorded average monthly page views of almost 32 million in 2004, and average monthly unique visitors of 1.7 million.

Summary

The above revenue and cost initiatives resulted in a 1.6 per cent improvement in operating margins in 2004.



The Toronto Star captured five National Newspaper Awards in 2004 for reporting and photography reflected in these images.

METROLAND

Metroland Printing, Publishing & Distributing is Ontario's leading community newspaper publisher. We have a proud track record of profit and growth.

Metroland publishes 67 community newspapers in 116 editions circulating more than four million copies in southern Ontario each week. We are one of the largest and most sophisticated distributors of advertising circulars in the country, distributing almost 2.3 billion pieces in 2004, up 14 per cent from 2003.

Our strategic goal is to achieve double-digit annual profit growth through organic growth in new products and innovation, through new lines in adjacent businesses (like community directories, coupon envelopes and vertical publications), through acquisitions and start-ups and by investing in people, technology and infrastructure to support rapid expansion.

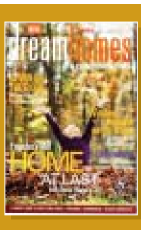
In 2004, excluding an investment in the successful April launch of Niagara This Week, Canada's largest community newspaper, Metroland achieved its goal of double-digit profit growth for the third consecutive year.

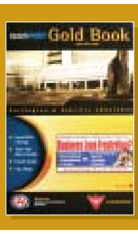
Traffic to Metroland's newspaper websites continues to grow as additional readers turn to the Web for news. Counts of average monthly unique visitors and average monthly page views are each up more than 59 per cent.

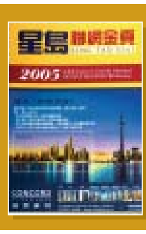
Metroland jointly owns Metro, one of Toronto's free commuter dailies, and Sing Tao, Canada's largest Chinese daily newspaper. Both publications performed extremely well in 2004. With weekday circulation of 230,000, Metro is the second largest daily newspaper in Toronto. Sing Tao operates in Toronto, Vancouver and Calgary.

In 2004, we delivered on our strategy by:

- Making a number of acquisitions, the largest being the Grimsby Lincoln News, The Port Perry Star and Oakville Today. Other important acquisitions include World of Wheels magazine, Canadian Auto World, Flyer Network distributors, Port Colborne Leader, Scott's Fort Erie Shopper, Thorold News, Gold Book directories, Heart of the Country craft shows, Awesome Productions trade shows and an interest in Action Pak coupon envelopes;
- Creating a multitude of new products including Centre of The City magazine, Dream Homes magazine, The Moment newspaper, Vacancy magazine, and Metroland Bonus Pak coupon envelopes;
- Earning a combined 160 industry awards for editorial excellence from the Ontario Community Newspaper Association, the Canadian Community Newspaper Association, and the Suburban Newspapers of America;
- Completing the installation of the new KBA Colora press at our Tempo printing plant on time and on budget. This represents the largest single capital investment in Metroland's history and positions us for further growth in 2005 and beyond.







CITYMEDIA GROUP INC.

CityMedia Group publishes award-winning newspapers along with specialty publications and a directory that, together with the Toronto Star and Metroland, position Torstar as the leading publisher in the Golden Horseshoe. Our combination of dailies, weeklies and commercial printing in a single geographic cluster represents a new growth opportunity for Torstar.

CityMedia Group has grown from four daily newspapers in southwestern Ontario, to 23 publications primarily in Hamilton, Kitchener, Waterloo, Cambridge and Guelph. The publications include three daily newspapers in growing Ontario markets, 10 weekly newspapers, nine specialty publications and an annual directory. We also operate three printing plants. Dailies include The Hamilton Spectator, The Record (Kitchener, Cambridge and Waterloo) and the Guelph Mercury.

CityMedia's strategy in 2004 was to grow our newspaper business and improve margins. This was achieved in the year with operating profits up 32 per cent including the effect of acquisitions and up 20 per cent excluding the results of acquisitions. At the same time, CityMedia's EBITDA margin of 18.5 per cent improved by more than two percentage points over last year.

Other highlights include:

• Realizing financial results that exceeded expectations following the acquisition of weekly newspaper and printing assets in 2003. The favourable results were from cost reductions and product improvements made during the year.

• Our acquisition of two weekly newspapers – the Grand River Sachem in Caledonia and the Glanbrook Gazette in Hamilton. We also grew with the addition of the renamed Hamilton Spectator Gold Book directory, which was added when Metroland purchased four Gold Book directories and the 701.com website.

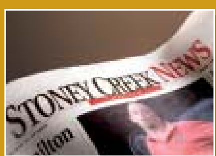
• The Hamilton Spectator earned a National Newspaper Award (NNA) in 2004 for a series entitled Poison about a man believed to be Hamilton's worst serial killer. We received a total of four NNA nominations last year, three for The Spectator and one for the Guelph Mercury. CityMedia dailies also won 12 Ontario Newspaper Awards and our weeklies earned four Canadian Community Newspaper Awards.

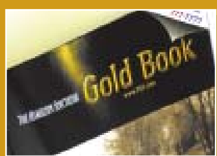
• In May, The Record achieved a contract settlement with its unionized employees that includes commission-based variable pay for sales representatives. All CityMedia properties now have commission-based pay that is aligned with company goals. The Record also sold its main location and moved its offices to a new address in downtown Kitchener improving the work environment for staff.

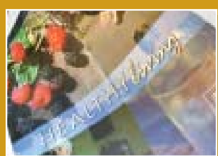
• The Hamilton Spectator completed an $8 million colour installation on two of its presses last summer, on schedule and on budget. This investment significantly increases colour capacity and helps to increase colour advertising revenues.

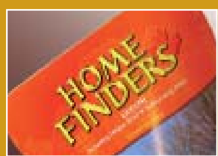
• Independent research completed by The Hamilton Spectator showed a positive readership trend in the desired demographic groups of women and baby boomers following innovative content and design changes at the paper in late 2003.

• The Hamilton Spectator was selected as the first Canadian newspaper and only the fourth newspaper in North America to participate in the Learning Newsroom project funded by the Knight Foundation. Under the program, The Hamilton Spectator qualifies for training resources covering several key learning areas including innovation and communications.









TORSTAR DIGITAL

Believing that the Internet is crucial to its long-term success, Torstar moved in early 2005 to create a new division – Torstar Digital – to co-ordinate the company's many newspaper Internet holdings into a concentrated, integrated effort to meet the needs of online advertisers, consumers and readers.

Torstar Digital was created after a detailed study on Internet opportunities and threats showed substantial growth in both online advertising revenues and time spent on the Internet over the past several years. Additionally, the growing financial success of many online-only companies, including those owned by Torstar, indicated an expanding business opportunity for the company.

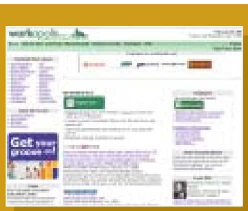
This new division has been delegated the responsibility of identifying and pursuing initiatives, opportunities and online priorities to grow the newspaper businesses. Torstar Digital will allow Torstar's newspapers to act quickly and in a co-ordinated way to address online opportunities.

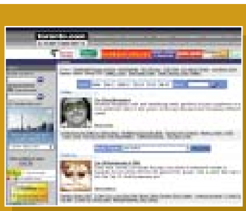
Torstar Digital will inform the newspapers' online strategies and offer technology solutions for the company's newspaper websites including: thestar.com, thespec.com, therecord.com, yorkregion.com, Mississauga.com, Northpeel.com, Singtao.com, Haltonsearch.com, Simcoe.com, Niagarathisweek.com, Eye.net, Mykawartha.com, Insidetoronto.com, Durhamregion.com and GuelphMercury.com.

toronto.com and Torstar's interest in workopolis.com will operate from within Torstar Digital. toronto.com, now wholly owned by Torstar, ranks second only to New York as the most successful city guide site in North America, while workopolis.com, which was created in conjunction with Bell Globemedia, is now Canada's leading Internet careers website.

workopolis.com averaged more than 64 million page views per month in 2004, and more than 2.8 million resumes were posted as of December 2004. On a monthly basis, toronto.com averaged 12.7 million page views in 2004 and more than 615,000 unique visitors.

In 2005, Torstar Digital will investigate online search solutions and classified ads, features that will allow users to create a personalized package of news and information, and tools for online enablement of various business processes.





BOOK PUBLISHING

LEADING HARLEQUIN, TORSTAR'S BOOK PUBLISHING BUSINESS, FROM LEFT TO RIGHT ARE: LORIANA SACILOTTO, EXECUTIVE VICE-PRESIDENT, GLOBAL PUBLISHING AND STRATEGY; STEVE MILES, EXECUTIVE VICE-PRESIDENT, OVERSEAS; MARK MAILMAN, EXECUTIVE VICE-PRESIDENT, DIRECT-TO-CONSUMER; CRAIG SWINWOOD, EXECUTIVE VICE-PRESIDENT, RETAIL MARKETING AND SALES; DAVID HOLLAND, SENIOR VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER; AND DONNA HAYES, PUBLISHER AND CHIEF EXECUTIVE OFFICER.

Harlequin is unique in the publishing industry. It has evolved from a predominantly series romance publisher to a diversified women's fiction publisher offering a variety of women's fiction genres in many different formats (mass-market paperback, trade paperback, hardcover) in multiple channels (retail, direct-to-consumer, e-commerce) in 94 international markets. While Harlequin's highly profitable series romance business is the foundation of the company, Harlequin's single title business has grown significantly and now accounts for 44 per cent of global retail sales.

Industry

The U.S. consumer book publishing industry had a particularly difficult year in 2004 in the mass-market paperback segment. Statistics published by the Association of American Publishers indicate that net billings of mass-market paperbacks were down 8.9 per cent in 2004. Harlequin is more affected by this dynamic than other publishers as the majority of Harlequin's retail business (85 per cent) is in the mass-market paperback segment. The major reasons for the poor performance of mass-market paperbacks seem to be a shift in purchasing dollars to bestsellers, an increase in sales in hardcover and trade paperback formats and fierce discounting to consumers in the mass merchandiser channel. In 2004, the direct-to-consumer environment also remained challenging due to competition from alternate channels and lack of available mailing lists. These trends were not restricted to the U.S. market but were global in nature, and therefore affected Overseas markets as well.

Operational review

As a result of these trends, 2004 was a challenging year for Harlequin. In 2004, Harlequin achieved EBITDA of $105.7 million, down 20 per cent from 2003. Revenues declined by $46.5 million to $538.4 million from 2003 results.

Harlequin's strategy

In 2004, Harlequin remained focused on executing its strategy of being a leading women's fiction publisher. Harlequin has committed itself to seven core strategic objectives in order to maintain and grow its share of the women's fiction market.

1. Attracting and developing authors

Harlequin is unique in the publishing industry developing more authors than any other publisher. Harlequin also attracts and acquires many top-level authors.

2004 Accomplishments

• Signed several top-level authors including Debbie Macomber, Christina Skye, Shannon Drake, Carole Matthews, Carly Phillips and Mercedes Lackey.

• Increased investment in developing top authors, resulting in strong bestseller placements and performance for those authors in 2004. For example, Diana Palmer's hardcover *Renegade* placed in the top 15 on the *New York Times* Bestseller hardcover list, a first for Diana Palmer and for Harlequin.

2005 Initiatives

• Harlequin will increase its efforts to develop and promote its top authors.

• Focus will be placed on recruiting new authors to broaden the range of editorial Harlequin publishes.

2. Achieving editorial excellence

Harlequin recognizes the need to publish books that are highly entertaining and relevant to women's lives and has embarked on a multi-year editorial plan, underpinned by robust consumer research, to ensure that we are publishing stories that have high appeal to our readers.

2004 Accomplishments

• Harlequin's outstanding editorial was recognized by the industry through numerous awards including the Christy Award for inspirational fiction given to *Hideaway* by Hannah Alexander.

• Harlequin titles appeared on the *New York Times* Bestseller lists for a total of 156 weeks.

2005 Initiatives

Under new editorial leadership, Harlequin plans to:

• Continue to develop more contemporary, relevant editorial in all lines.

• Broaden its editorial line up from romance to thrillers to literary fiction to appeal to a wider group of female readers.

3. Driving product innovation

Innovation is at the core of Harlequin's business. Each year, Harlequin strives to create and develop new, relevant, innovative products that readers will find appealing.

2004 Accomplishments

• Harlequin successfully launched three new innovative imprints – HQN, LUNA and Steeple Hill Café – as well as an exciting new series, Silhouette Bombshell.

• Harlequin increased the number of books published in hardcover and trade paperback by 60 per cent over 2003, from 65 to 104 titles.

• Harlequin also successfully tested a new Direct-To-Consumer program focusing on the large print niche.

2005 Initiatives

• Harlequin will launch a number of product initiatives in 2005, including: Next, a new contemporary women's fiction series; Love Inspired Suspense; the addition of two new titles each month to the Blaze series; and the development of an African American romance imprint. Harlequin continually reviews its product mix and discontinues underperforming lines.

• Harlequin will focus on expanding beyond the mass-market paperback format into more hardcover and trade paperback titles in 2005.

4. Investing in its brands

Harlequin excels in developing, publishing and promoting both imprint and author brands.

2004 Accomplishments

• Harlequin spent close to $25 million on retail advertising and promotion to support its brands and authors, creating more than 750 million media impressions.

2005 Initiatives

• Harlequin will invest significantly more in promoting and developing Harlequin's brands and authors, including advertising, promotion and sampling efforts.

• Harlequin also plans to place more emphasis on breakout, bestseller editorial.

5. Broadening and enhancing its channels

Unlike most other publishers, Harlequin leverages both the direct-to-consumer and Overseas channels in addition to North American Retail to drive sales. Harlequin is continuously improving and expanding its channels to sell more books to more women.

2004 Accomplishments

• Harlequin launched new single title businesses in France and Holland, which gives Harlequin an entry into the bookstore channel in those markets.

2005 Initiatives

• Harlequin has aggressive plans to broaden its distribution into the bookstore channel around the world.

• The company plans to expand geographically through the launch of a new business in Brazil in partnership with the second largest consumer trade publisher in Brazil.

• Harlequin also plans to enhance e-commerce distribution through eHarlequin and other online channels.

6. Managing and reducing costs

Harlequin has industry leading profit margins reflecting its efforts to produce high quality books efficiently and ensure a cost-conscious organization.

2004 Accomplishments

• Harlequin focused on organizational effectiveness as a goal and reduced its cost base during 2004 by $2.8 million in payroll and other costs.

2005 Initiatives

• Harlequin plans to maintain its excellent cost management practices in all areas of the business.

7. Expanding into high-growth niches

Harlequin believes it is critical to identify and explore high-growth niches in consumer book publishing that will position the company well for the future.

2004 Accomplishments

• Harlequin began exploring potential high-growth niches to expand into through both organic start-ups and acquisitions.

2005 Initiatives

• Through increased corporate development efforts, Harlequin will focus on identifying new product, demographic, and format niches as well as geographic expansion opportunities.

Future outlook

Harlequin's focus on the women's fiction segment positions it in one of the most resilient book publishing categories, as women buy more books than men. Furthermore, Harlequin will focus on other high-growth niches in publishing. 2005 will be a year of investing in the Harlequin business to further its long-term strategy of being a leading global publisher of women's fiction and building the long-term health and growth of the franchise.

TRANSIT TELEVISION NETWORK

Transit Television Network (TTN) is a business that delivers full-motion, broadcast-quality information, entertainment and advertising to passengers on buses, rail and other modes of mass transit on LCD screens mounted in the vehicles. Revenues are principally derived from the sale of advertising.

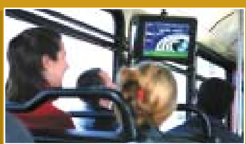
TTN was established in 2002 as a joint venture between Torstar and ITEC Entertainment Corporation until Torstar acquired 100 per cent of the business in the second quarter of 2003. The company is headquartered in Orlando, Florida. The venture is still in its early stages and good progress was made in 2004. By the end of the year, the system was fully operational in five cities: Orlando, Florida; Milwaukee, Wisconsin; Atlanta, Georgia; Virginia Beach, Virginia; and the PACE bus system in the Chicago suburbs. A contract has also been awarded to install the system in Los Angeles. The transit systems in these five cities provide more than 210 million rides annually, each averaging between 30 and 45 minutes in duration. In the United States, more than four billion trips are taken annually on public transit.

Over the course of 2005, the company expects to install the system on 2,000 buses in Los Angeles, and sign and execute contracts in at least one additional major U.S. market. A key benefit to transit authorities, in addition to a share of the advertising revenue, is the provision of an audible and visual stop announcement system for hearing and visually impaired passengers, allowing the transit authority to comply with the requirements of the Americans with Disabilities Act.

BLACK PRESS

Torstar owns a 19.35 per cent share of Black Press Ltd., a privately-owned and operated company with its head office in Victoria, British Columbia. Black Press publishes 95 primarily community newspapers and has 17 printing plants in Western Canada, Washington State and Hawaii.

Leveraging Metroland's expertise in community newspapers, Torstar's strategy is to help grow Black Press in the years ahead, adding significant new regions to Torstar's reach. Annual revenues at Black Press are approximately $250 million.




TORSTAR

PHILANTHROPY

Torstar believes that serving and being a part of our many communities is both our responsibility and our privilege.

Imagine A Caring Company

Torstar is proud to be an Imagine Caring company donating more than one per cent of pre-tax profits to charitable organizations each year. Our newspaper and book publishing businesses have a long tradition of providing cash and in-kind contributions in support of their communities.

Harlequin Enterprises

Harlequin launched More Than Words last year to honour ordinary women who make extraordinary contributions to their communities. Nominations flooded in from Harlequin readers all over North America.

Now in its second year, the program is honouring five more women whose dedication and compassion are improving lives and inspiring change. Harlequin will donate $10,000 to each of these women's associated charities and promote their causes online and through a publicity campaign. In addition, five of Harlequin's leading authors will contribute to More Than Words Volume 2, a collection of short stories inspired by this year's award winners. Proceeds from the book are reinvested in Harlequin's charitable initiatives.

This year's Harlequin More Than Words award recipients are:

• Janet Lavender founded Dress for Success Los Angeles in 1996. The event has provided more than 10,000 women with professional development assistance.

• Abigail Rosin's Groove With Me program provides free dance classes at their Spanish Harlem dance studio for 220 underprivileged girls in New York.

• Lauren Spiker created Melissa's Living Legacy Foundation, a tribute to her daughter, to provide an online environment for teens to learn about and share their cancer experiences at www.TeensLivingWithCancer.org.

• Paula Kay (P.K.) Beville's Georgia-based organization, Second Wind Dreams, makes dreams come true for seniors living in nursing homes and assisted living. Since 1997, seniors in more than 400 facilities in 38 states, Canada and India have benefited from the program.

• Peggy Ann Walpole founded Street Haven at the Crossroads in 1965. Today, the shelter, based in Toronto, Ontario, provides emergency housing, food, clothing, medical attention and counselling for up to 60 women every day.

Toronto Star

The Toronto Star has a long tradition of community support focusing primarily on children. For more than 100 years, the Star has covered all administrative costs of The Toronto Star Children's Charities so that every penny contributed by Star readers goes directly to providing services to more than 65,000 children.

Joseph Atkinson launched The Toronto Star Santa Claus Fund in 1906 to ensure that no child went without a gift at Christmas. This fund will proudly celebrate its 100th anniversary in 2005. With money raised from Star readers, gift boxes filled with a sweater, hat, mitts, socks, candy, a book and toy are delivered directly to children's homes by thousands of volunteers.

In 2004, the Toronto Star and sister newspapers, The Mississauga News, Brampton Guardian and The Ajax Pickering News Advertiser, raised more than $1.3 million dollars to give 45,000 needy children in Toronto, Brampton, Mississauga, Ajax and Pickering a gift box at Christmas. An expanded program is being considered to celebrate the fund's centennial in 2005.

The Toronto Star Fresh Air Fund began in 1901 when Star Publisher Joseph Atkinson appealed to Star readers to help poor children escape the sweltering heat. Today, children with crippling illnesses, mental and physical handicaps and those from low-income families get a chance to enjoy some summer fun. Last summer, The Toronto Star Fresh Air Fund raised $550,000 to send 25,000 children to 98 day and residential camps.

CityMedia Group

CityMedia newspapers focus their donations primarily on literacy, education, health and wellness and projects that support disadvantaged youth and families. In 2004, more than $2.5 million in cash and in-kind support was provided to local community groups.

• The Hamilton Spectator's Summer Camp Fund sent almost 1,200 children from low-income families to summer camp in 2004.

• The Guelph Mercury Kids to Camp Fund enables disadvantaged children to enjoy the benefits of camp. In an effort to raise funds in 2004, the Mercury resurrected Guelph's historical Thanksgiving Day Races, which had originally launched in the late 1800s and continued until the 1970s.

• The Record announced a $300,000 donation to Heartwood Place in Cambridge, a charity committed to addressing housing needs in the Waterloo Region. The former Cambridge Reporter building will be sold to Heartwood to become affordable housing for the region.

• The Record was proud to partner with the University of Waterloo as it launched its Building a Talent Trust Fund to increase the concentration of talented people at the university and enhance Waterloo's ability to attract such talent.

• The Hamilton Spectator earned the Canada Post National Literacy Award for Business Leadership in Canada for its support of local literacy programs like the Summer Reading Program with Hamilton Public Libraries in which more than 10,000 children attend reading programs at 32 local libraries during the summer.

Metroland Printing, Publishing & Distributing

Metroland properties donated in-kind advertising and promotion totaling more than $2.5 million in 2004.

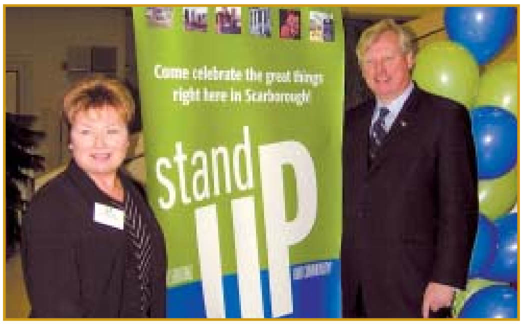
As Metroland expands in Ontario, so too do the number of communities that benefit from its assistance. For example, the company contributed more than $200,000 in in-kind advertising to community groups in the Niagara Region since the launch of Niagara This Week in April 2004.

Metroland supported a broad range of worthwhile causes in 2004 including:

• Car Guide magazine ran a charity golf tournament for the Oakville-Trafalgar Memorial Hospital Charitable Foundation generating a donation of $25,000 in cash while the Oakville Beaver contributed more than $25,000 in in-kind advertising.

• Metroland's Toronto Community News plays a leading role in the civic booster campaign Stand Up Scarborough. Stand Up Scarborough's website is sponsored and maintained by The Mirror. Publisher Betty Carr is the campaign's Honourary Chairperson.

• Celebration of the Arts is a community event created and hosted by Metroland's York Region Newspaper Group. Now in its fifth year, the event offers aspiring local performers an opportunity to apply for performance bursaries. Since its inception, 45 bursaries have been awarded.



David Holland (left) will become Torstar's Executive Vice-President and Chief Financial Officer in May 2005 when Bob Steacy retires after more than 25 years with the company.

TRANSITION IN LEADERSHIP

After 18 years of financial leadership in Torstar's newspaper and book publishing businesses, David Holland will succeed Bob Steacy as Executive Vice-President and Chief Financial Officer of the company in May 2005. Bob announced his plans to retire from Torstar last summer.

Bob has been an integral part of Torstar's success and an exemplary leader, highly respected in the company and throughout the broader financial community. He has provided remarkable service to Torstar for more than 25 years, including 17 years as the company's most senior financial officer. We are very grateful for Bob's many contributions which have advanced Torstar's financial results and strengths so substantially.

David will be a very able successor for Bob. He is superbly qualified for this role after more than 25 years as a financial executive. Since joining Torstar in 1986, David has served in numerous capacities, most recently as Senior Vice-President and Chief Financial Officer of Harlequin Enterprises Limited and before that, as Vice-President of Finance for Torstar's Daily Newspaper Group.

We look forward to David's continuing leadership, and we wish Bob well in his retirement.

J. Robert S. Prichard
President and Chief Executive Officer

FINANCIAL REPORT

FINANCIAL TABLE OF CONTENTS

FINANCIAL RESULTS

Torstar's newspaper businesses reported record profits in 2004 while book publishing profit was down, producing mixed results for the year.

- The Toronto Star had a strong year and met its two principle financial goals, increasing EBITDA by 12 per cent and improving cash margin despite a soft advertising market.
- Metroland delivered another excellent year, growing its revenues and profits while also investing substantially in future growth. This reflects the strength of Metroland's franchise.
- CityMedia had the highest growth rate among Torstar's three newspaper businesses. Its effective integration of daily and community newspapers resulted in higher revenues, operating profits and EBITDA.
- 2004 was a difficult year for Harlequin as it faced a very soft mass-market paperback environment. Revenues and operating profits were down during the year.

Torstar's goals for 2005 are to extend the record of growth in its newspapers and to invest in Harlequin's future growth while maintaining current levels of profitability in book publishing.

Certain statements in this report may constitute forward-looking statements that reflect management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "anticipate", "believe", "expect", "intend" and similar expressions have been used to identify these 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. References in this discussion to "Torstar" are to Torstar Corporation and its subsidiaries as presented in Torstar's December 31, 2004 consolidated financial statements.

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

RESULTS OF OPERATIONS – FULL YEAR 2004

OVERALL PERFORMANCE

Total revenue was $1,541.8 million in 2004, up $53.5 million from $1,488.3 million in 2003. Newspaper revenue grew $100.1 million to $1,003.5 million including $38.1 million from a change in accounting for circulation revenue at the daily newspapers and $18.1 million from acquisitions. Book Publishing revenues were $538.4 million in 2004, down $46.5 million from $584.9 million in 2003. The strengthening of the Canadian dollar reduced Book Publishing revenues by $19.3 million but the decline was more than offset by a gain on U.S. dollar hedges of $21.4 million. Sales volumes were down in almost all of Harlequin's markets in 2004, which reduced revenues by $42.4 million.

Newspaper Segment operating profits were $127.6 million in 2004, up $17.5 million from $110.1 million in 2003. Lower newsprint costs, higher Internet profits and cost containment measures at the Toronto Star, CityMedia and TMG TV provided $13.0 million of the increase. Metroland's operating profits were up $5.2 million in 2004 including $1.7 million from the jointly owned Sing Tao and Metro publications. TTN's operating losses were $8.9 million in 2004, up $4.0 million from $4.9 million in 2003. Acquisitions provided $3.2 million of the increase in newspaper operating profits in 2004.

Book Publishing operating profits were $97.2 million in 2004, down $26.9 million from $124.1 million in 2003. The strengthening of the Canadian dollar reduced Book Publishing operating profits by $6.9 million, offset by $7.2 million of higher gains on U.S. dollar and other currency hedges. Operating profits were down $27.2 million in 2004, with declines in each of Harlequin's divisions.

Corporate costs were $15.6 million in 2004, up $1.4 million from $14.2 million in 2003. The increase was from higher payroll costs including $0.8 million related to the expensing of stock-based and medium-term incentive compensation.

Interest expense was $10.9 million in 2004, down $1.9 million from $12.8 million in 2003. The decrease was from the lower level of debt outstanding during the year. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $306 million in 2004, down from $382 million in 2003. Torstar's effective interest rate of 3.6% in 2004 was slightly higher than the 3.4% incurred in 2003.

During 2004, the Canadian dollar strengthened relative to the U.S. dollar. This resulted in Torstar reporting a non-cash foreign exchange loss of $1.7 million on the translation of its net U.S. dollar asset position. Torstar has U.S. dollar denominated debt which provides a hedge against its U.S. dollar assets. However the offset is not exact as the U.S. dollar assets are primarily working capital with amounts fluctuating daily. In 2003 there was a loss of $4.0 million on the translation of Torstar's net U.S. dollar asset position.

Torstar reported a loss of $12.3 million in 2004 from unusual items compared with a $0.7 million loss in 2003. Torstar has reported these items as unusual as they did not occur in the normal course of Torstar's operating businesses and could otherwise distort an assessment of future operating results.

In order to reduce costs and improve operating margins both the Toronto Star and CityMedia undertook restructuring activities during 2004. The Toronto Star had total restructuring costs of $7.9 million primarily related to a voluntary severance program and CityMedia incurred severances for a total cost of $0.7 million. These restructurings will result in a net reduction of 73 full time employees with annual savings of $4.7 million that will be fully realized by late 2005.

Harlequin completed a restructuring of its North American and U.K. operations in 2004 in order to reduce costs. These restructurings had a cost of $1.1 million and resulted in a reduction of 28 full time employees with annual savings of $2.1 million.

Harlequin had established a provision at the end of 2003 for the closure of its craft kit business. Part of the business was ultimately sold and some obligations were finalized in the third quarter at a lower cost than originally estimated. Combined, these items reduced the closure costs by $1.3 million, which was recognized as an unusual gain in the third quarter.

A $3.9 million provision was taken in 2004 to write off all of Torstar's remaining Interactive portfolio investments. These investments are all in nonpublic funds and companies and were committed to in the late 1990's as a part of Torstar's former Interactive Media segment.

The 2003 loss from unusual items included $6.6 million for restructuring in the Newspaper segment, $4.4 million for the closure of Harlequin's craft kit business, and $3.0 million of write-downs on the Interactive portfolio. Offsetting the losses were gains of $6.7 million realized on a sale of eight newspapers and $6.6 million realized on the sale of an investment in Miles Kimball Company.

Torstar's effective tax rate was 39.1% in 2004, unchanged from 2003. Excluding the impact of unusual items and the impact in 2003 of the change in provincial income taxes, the effective rate was 38.2% in 2004, up from 36.5% in 2003. This increase was from changes in the underlying mix of income, including the increased losses at TTN that are not being tax-effected.

Income from associated businesses was $0.5 million in 2004, up $0.4 million from $0.1 million in 2003 reflecting improved results at Black Press Ltd.

Net income was $112.7 million in 2004, down $10.8 million from $123.5 million in 2003. Net income per share was $1.42 in 2004, down $0.17 from $1.59 in 2003. The average number of Class B non-voting shares outstanding in 2004 was 79.2 million, up from 77.6 million in 2003 as a result of the exercise of stock options, offset partially by the repurchase of shares under a normal course issuer bid.

The following chart provides a continuity of earnings per share from 2003 to 2004:

Net income per share 2003	$1.59
Operations	(0.07)
Foreign exchange	0.03
Unusual items	(0.11)
Tax rate – 2003 statutory change	0.06
Tax rate – effective rate	(0.05)
Dilution effect	(0.03)
Net income per share 2004	$1.42

NEWSPAPERS

The Newspaper Segment includes the newspaper, commercial printing and Internet results of the Toronto Star, CityMedia Group and Metroland Printing, Publishing and Distributing. CityMedia Group publishes three daily newspapers – The Hamilton Spectator, The Record (Kitchener, Cambridge and Waterloo) and the Guelph Mercury – along with 10 weekly and a number of specialty and monthly publications. Metroland publishes 67 community newspapers, a number of specialty publications, operates several consumer shows and publishes the jointly owned Toronto daily commuter paper Metro and the Chinese language newspaper Sing Tao Daily. This segment also includes the results of Torstar Media Group Television ("TMG TV") and Transit Television Network ("TTN").

Newspapers generate revenue from advertising and circulation with advertising being the more significant source. Advertising revenue is a combination of linage (volume) and rate. Linage has traditionally been tied to the economy in the newspaper's local market. As the economy improves linage has tended to increase with linage decreases occurring during poor economic times. Over the past five years, newspapers have seen linage affected by the migration of advertising to other media including the Internet.

The rate a newspaper can charge for advertising depends on the market position of the newspaper and its readership base[1]. Total number of readers as well as exclusive readers and readers in key demographics are important factors in establishing market positioning for newspapers. Should long-term readership of newspapers continue to decline, market share will become more important to the individual newspaper. Details on the average weekday readership for Torstar's daily newspapers can be found in Torstar's 2005 Annual Information Form.

Circulation revenue is a combination of the number of copies sold and the net selling price per copy. Circulation statistics are important as they support readership levels and market positioning. Newspapers are sold via home delivery, single copy (in stores and street boxes) and in bulk (primarily for promotional and sampling purposes). Circulation results for Torstar's daily newspapers can be found in Torstar's 2005 Annual Information Form.

The Internet competes with printed newspapers for advertising, particularly in the employment and other classified categories. Recognizing that there has been a structural shift in advertising, Torstar's newspapers have all established Internet operations to complement their printed products. In addition, partial ownership of workopolis.com – Canada's largest employment website – ensures that Torstar maintains its share of the employment advertising market. In 2005, Torstar has established Torstar Digital as a reporting unit within the Newspaper Segment. Torstar Digital will be a cooperative effort of all the newspapers to develop integrated online solutions in the areas of local advertising, classifieds, news, information and business processes that will meet the needs of online advertisers, consumers and readers.

Newsprint pricing has a significant impact on the results of the Newspaper Segment. Torstar's newspapers consume approximately 150,000 tonnes of newsprint each year. A $10 change in the price per tonne affects operating profits by $1.5 million. In 2004, Torstar's newsprint prices were on average 1% higher than in 2003. Current market expectations are that the average newsprint price will increase by 4% in 2005. This could be higher if the U.S. economy strengthens significantly thereby increasing the demand for newsprint. Changes in the Canadian/U.S. dollar exchange rate could also impact pricing in 2005.

Labour is the other significant cost for the newspaper segment. Salary and wage cost increases are subject to several collective agreements and have been generally tied to cost of living increases.

The Toronto Star's collective agreements covering approximately 1,300 employees all expired at the end of 2004. Negotiations for a new agreement began in the fourth quarter of 2004 and are continuing.

During 2004, CityMedia reached three-year collective agreements with staff at The Record and the Brabant newspapers and five-year agreements at the Fairway newspapers. These agreements, covering approximately 270 employees, provide for a first-year wage increase between 1.1% and 2.5% and a CPI formula with a minimum of 1.5% and a maximum of 3.0% for the later years. Contract negotiations are ongoing with The Hamilton Spectator's editorial and part-time mailroom employees (approximately 210 employees) whose collective agreement expired on December 31, 2003. Production and mailroom staff at the Hamilton Web printing facility have been on strike since December 5, 2004. Hamilton Web has continued operations throughout the duration of the strike. CityMedia has two collective agreements covering 24 employees at the Guelph Mercury and one covering 95 advertising employees at The Hamilton Spectator that will expire during 2005.

Metroland reached three new collective agreements during 2004, covering 142 employees that provided for an increase of 2.5% in the first year and an increase between 2% and 3% in the later years, based on Ontario cost of living. A collective agreement covering 45 employees at one printing plant expired at the end of 2004 and negotiations began in February 2005. Sing Tao reached a three-year collective agreement with their employees during 2004. The agreement provided for an increase of 2.5% in the first year and an increase between 2% and 3% in the later years, based on Toronto CPI. Metroland has no collective agreements that will expire during 2005.

[1]Readership statistics for Canadian daily newspapers are independently reported by the Newspaper Audience Databank ("NADbank") twice a year.

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

	METROLAND	TORONTO STAR	CITYMEDIA	OTHER[2]	TOTAL
2004					
Revenue[3]	$378,084	$454,392	$158,230	$12,767	$1,003,473
Operating profit	74,856	36,041	24,024	(7,320)	127,601
Depreciation	6,701	34,187	5,263	2,110	48,261
Segment EBITDA	$81,557	$70,228	$29,287	($5,210)	$175,862
Margins:					
Operating profit	19.8%	7.9%	15.2%	n/a	12.7%
EBITDA[4]	21.6%	15.5%	18.5%	n/a	17.5%
2003					
Revenue	$331,263	$418,517	$142,621	$10,984	$903,385
Operating profit	68,524	27,910	18,179	(4,497)	110,116
Depreciation	6,046	34,780	5,741	1,330	47,897
Segment EBITDA	$74,570	$62,690	$23,920	($3,167)	$158,013
Margins:					
Operating profit	20.7%	6.7%	12.7%	n/a	12.2%
EBITDA	22.5%	15.0%	16.8%	n/a	17.5%
Restated 2003 Margins[3]:					
Operating profit	n/a	6.2%	12.3%	n/a	11.7%
EBITDA	n/a	13.9%	16.2%	n/a	16.8%

METROLAND

Metroland had a successful year with new records for revenues – $378.1 million, EBITDA – $81.6 million and operating profit – $74.9 million. Metroland continued its growth strategy in 2004 with geographic expansion, acquisitions and new products.

During the second quarter of 2004, Metroland successfully launched Niagara This Week, a full-colour, free circulation, tabloid weekly newspaper delivered on Friday to every home in the Niagara region. With 185,000 copies printed each week, Niagara This Week has the largest press run of any community newspaper in Canada. In the fourth quarter, Niagara This Week expanded to a second publishing day for the St. Catharines area in order to meet customer demand for a mid-week product. A new monthly business publication that is distributed to more than 5,000 businesses in the region, the Niagara Business Times, was also launched in the fourth quarter.

Metroland completed several acquisitions during 2004 including Gold Book directories, World of Wheels and Canadian Auto World magazines, the Port Perry Star, the Grimsby Lincoln News, and Oakville Today newspapers and the Flyer Network (a flyer and distribution business). The installation of Metroland's new KBA Colora printing press was completed on time and on budget during the second quarter of 2004. This new press increased

[2] Consists of TMGTV, TTN and newspaper segment new venture costs. TTN was 51% owned in the first quarter of 2003 and became a wholly-owned subsidiary in the second quarter of 2003.

[3] Effective 2004, Torstar has begun to report home delivery circulation revenues for the Toronto Star and CityMedia on a gross basis rather than net of certain distribution costs. The 2004 adjustment to revenue was $32.4 million for the Toronto Star and $5.7 million for CityMedia. The 2003 results have not been restated for this change. The restated 2003 margins illustrate what the impact would have been on margins had the revenues been restated. For more details on the change, see the discussion in "Changes in Accounting Policies".

[4] Torstar 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, unusual items, taxes, depreciation and amortization of intangible assets ("EBITDA") as an estimate of the cash generated by the business, in addition to the GAAP measures. Torstar calculates segment EBITDA as operating profit before depreciation and amortization of intangible assets. Torstar's method of calculating EBITDA may differ from other companies and accordingly, may not be comparable to measures used by other companies.

Metroland's printing and colour capacity and allows for more newspapers to be printed internally. Metroland started printing part of Metro's print run during the third quarter of 2004.

Metroland's revenues of $378.1 million were up $46.8 million or 14.1% from $331.3 million in 2003. Newspaper advertising revenues increased $16.3 million in 2004 with linage up 5.7% at the community newspapers and a 0.8% increase in the effective line rate. Sing Tao and Metro both had strong advertising revenue growth in 2004 contributing $4.5 million of Metroland's increased revenue. Distribution revenues were $83.6 million, up $9.9 million or 13.4% in 2004 with almost 2.3 billion pieces distributed. Other revenues, which include magazines, directories and trade shows, were up $19.4 million with just over one half of the growth from magazine publication acquisitions. Commercial printing revenues were up $1.4 million from 2003 acquisitions and Metroland's new press, which came on-line mid-year.

Metroland's newsprint costs increased $3.2 million due to higher consumption by the newspaper and commercial printing operations. Payroll costs were up $17.9 million in 2004 including general wage increases of $2.2 million, higher commissions of $3.6 million (reflecting the higher advertising revenues) and higher pension costs of $0.5 million. The remainder of the increase in payroll costs was related to the acquisitions, additional staff required for geographic expansion, new products and investment in the infrastructure required to support Metroland's growing operations.

Metroland's EBITDA was $81.6 million in 2004, up $7.0 million or 9.4% from $74.6 million in 2003. Depreciation expense was up $0.7 million as a result of Metroland's new printing press. Metroland's operating profit was $74.9 million, an increase of $6.4 million or 9.3% from $68.5 million earned in 2003.

TORONTO STAR

The Toronto Star grew EBITDA by $7.5 million or 12.0% in 2004 despite facing a highly competitive marketplace and a soft advertising market. Toronto's six daily newspapers continue to compete vigorously for both share of readers and advertisers. Slowdowns in automotive, travel and major retail advertising categories were combined with the ongoing migration of employment advertising to the Internet.

The Toronto Star completed the transition of several new members of its executive management team during the year including the appointment of Michael Goldbloom as Publisher in May, and Giles Gherson as Editor-in-Chief in September. In the third quarter of 2004, the Toronto Star launched a voluntary severance program. This program will result in the reduction of 50 full-time employees by the end of 2005.

Toronto Star revenues were $454.4 million in 2004, up $35.9 million from $418.5 million in 2003. The increase included $32.4 million from the change in accounting for circulation revenues.

Newspaper advertising revenues were flat year over year as a small increase in insert revenues offset a slight decline in in-paper advertising revenues. The Toronto Star's advertising linage was down 7.7% year over year with declines occurring in most categories. Automotive linage was down 9.0% in the year as the manufacturers and retailers spent less on newspaper advertising. Retail linage, excluding automotive, was down 8.1% as several large retailers reduced their in-paper advertising spend. Travel linage was down 5.1% in the year and employment linage continued to decline, down 8.7% in the year. The linage declines were offset by an 8.2% increase in the effective line rate in 2004. The rate increase was a combination of a higher rate card, colour and position premiums, and advertisers not reaching the levels necessary to qualify for volume discounts in 2004.

The Toronto Star's Internet properties provided an offset to declining linage in 2004. Torstar's share of Workopolis.com revenue was up $2.4 million, as on-line employment advertising continued to grow. On-line employment classified revenues at thestar.com were up $0.7 million in the year.

Circulation revenue was up $0.7 million excluding the change in accounting, as increases in home delivery and Saturday single copy pricing were partially offset by slightly lower circulation levels. Sunday circulation levels were up during 2004 while Saturday circulation was down, primarily in single copy sales.

Toronto Star newsprint costs were down $3.0 million in 2004. Cost savings of $4.0 million from lower consumption levels were partially offset by $1.0 million of higher newsprint prices. The lower consumption levels reflected the lower advertising linage and efforts to reduce costs through page count reductions. Payroll costs were $1.0 million higher in 2004 as general wage increases from collective agreements were partially offset by lower pension costs.

The Toronto Star's EBITDA was $70.2 million in 2004, up $7.5 million from $62.7 million in 2003. Depreciation expense was $0.6 million lower in 2004. Operating profit was $36.0 million in 2004, up $8.1 million from $27.9 million in 2003.

CITYMEDIA

CityMedia had significant growth in 2004 with operating profits of $24.0 million, up $5.8 million or 31.9% from $18.2 million in 2003. Acquisitions made in 2003 and 2004 contributed $2.2 million of the growth while the remaining $3.6 million was realized through revenue growth and cost containment.

Colour upgrades were completed on the presses at both The Hamilton Spectator and Hamilton Web. These upgrades provide the opportunity for increased advertising and commercial printing revenues. With the new collective agreement reached at The Record in June, all of CityMedia's properties now have commission-based variable pay for sales representatives. During the third quarter CityMedia completed the purchase of two small community newspapers and agreed to manage, publish and distribute the Hamilton edition of the Gold Book directory. In January 2005, The Record completed its relocation to a leased facility in downtown Kitchener.

CityMedia revenues were $158.2 million in 2004, up $15.6 million including $5.7 million from the change in accounting for circulation revenues and $8.0 million from acquisitions. The Hamilton Spectator's revenues were down slightly in 2004 with both advertising and circulation revenues lower. Linage was down 7.1% with weakness in automotive and major retail advertising. Part of the impact of the lower linage was offset by a 5.2% increase in the effective line rate. The Record and Guelph Mercury had $2.1 million of higher revenues in 2004. Advertising revenue was up 3.0% at The Record with a strong effective line rate more than offsetting a 2.6% decrease in linage. The Brabant, Fairway and Hamilton Web revenues were up $0.6 million with higher advertising and insert revenues partially offset by lower commercial printing revenues.

Newsprint costs were down $0.2 million for CityMedia in 2004 as lower consumption from newsprint reduction initiatives and lower advertising linage was partially offset by the impact of acquisitions. Labour costs were up $4.0 million in 2004 including $3.2 million from acquisitions and $0.8 million from contractual wage increases which were partially offset by staff reductions.

CityMedia's EBITDA was $29.3 million in 2004, up $5.4 million or 22.6% from $23.9 million in 2003. Excluding the impact of acquisitions, EBITDA was up $3.3 million or 13.8%. Depreciation expense was down $0.5 million in the year. Operating profit was $24.0 million in 2004, up $5.8 million from $18.2 million in 2003. Operating profit was up $3.7 million or 20.3% excluding the impact of acquisitions.

OTHER

TMG TV is a 24-hour direct response television business operating the SHOP TV Canada channel and TMG TV Productions. The direct response television business in Canada continues to be challenging. The expectation for TMG TV in 2004 was for strong revenue growth after the negative impact of SARS in 2003 and for cost containment from restructuring activities. New federal regulations on products, a shift to digital tuning (reducing channel surfing) and a strengthening Canadian dollar, which increases the cost to U.S. advertisers, prevented the higher growth that had been anticipated and revenues were flat year over year. TMG TV realized on its cost containment objectives in 2004. Operating profit was $1.6 million in 2004, up $0.5 million from $1.1 million in 2003.

TTN is a U.S.-based operation that 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. Originally a joint venture between Torstar and ITEC Entertainment Corporation, Torstar acquired 100% of the business in the second quarter of 2003. TTN made solid progress during 2004. The passenger information and entertainment system was installed in the Virginia Beach trolleys and Chicago PACE buses mid year and the Atlanta buses late in the year. With the new installations, revenues reached $2.8 million in 2004 up $1.6 million from $1.2 million in 2004. Operating losses were $8.9 million in 2004, up $4.0 million from $4.9 million in 2003.

2005 OUTLOOK

The outlook for 2005 for the Newspaper Segment is difficult to predict. Torstar's newspapers have maintained their circulation and readership levels and strengthened their advertising line rates during 2004. They completed restructurings that produced cost reductions and should improve operating margins. They are positioned to be able to take full advantage of any improvements that are realized in the newspaper advertising market. It is difficult to accurately predict future advertising linage as the majority of newspaper advertisements are placed within a week of the publication date. Newspaper revenues are sensitive to changes in linage. A 1% shift in advertising linage at the daily newspapers impacts revenues by approximately $3.5 million over a full year.

The creation of Torstar Digital in 2005 will provide improved focus on the Internet and the related revenue opportunities for the newspapers. The challenge for the newspapers is to ensure that the value of their content and relationships with local and national advertisers are optimized in both their print and Internet products.

TTN will continue to expand during 2005. A contract was awarded in January 2005 for the installation of the passenger information and entertainment system in Los Angeles. This installation, which will more than double the number of buses that TTN has installed their system on, should be complete by the end of 2005. The Atlanta and Chicago PACE markets should reach monthly EBITDA break-even by the end of 2005. As the market expansion continues, TTN's operating losses are expected to be slightly higher in 2005 than they were in 2004.

BOOK PUBLISHING

The Book Publishing Segment reports the results of Harlequin Enterprises Limited, a leading global publisher of women's fiction. Harlequin publishes women's fiction around the world, selling books through the retail channel and directly to the consumer by mail and the Internet. Harlequin's women's fiction publishing operations are comprised of three divisions: North America Retail, North America Direct-To-Consumer and Overseas. In 2004, Harlequin published books in 25 languages in 94 international markets. Harlequin sold a total of 130 million books in 2004, down from 144 million in 2003.

Harlequin sells books under several imprints including Harlequin, Silhouette, MIRA, Red Dress Ink, Steeple Hill, LUNA and HQN. Different genres of women's fiction are published under the various imprints ranging from Red Dress Ink titles that reflect the lifestyles of today's urban, single women to Steeple Hill's inspirational romance titles. HQN, Harlequin's newest imprint launched in August 2004, is dedicated to publishing single title romance novels.

Harlequin publishes books in both series and single title formats. Harlequin publishes series titles primarily under the Harlequin and Silhouette brands. Series titles are published monthly in mass-market paperback format under an imprint that identifies the type of story to the reader. Each series typically has a pre-set number of titles that will be published each month. The single title publishing program provides a broader spectrum of content in a variety of formats (mass-market paperback, trade paperback, hardcover) and generally a longer book. New single title books are published each month and the individual titles have a longer shelf life.

Harlequin sells books through the retail channel and directly to the consumer by mail and the Internet. In retail, both the number of books that are distributed and the number sold are important factors for profitability and optimizing this relationship is a key business objective. Books sold through the retail channel are sold to wholesalers and retailers with a right of return. A provision for returns is made when the books are shipped and is adjusted as actual returns are received over time. Series books are on sale for approximately one month. Returns for these books are normally received within one year, with more than 95% received within the first six months. Single title books are on sale for several months and, as a result, experience a longer return period. The difference between the initial estimate of returns and the actual returns realized has an impact on Harlequin's results during subsequent periods as the returns are received.

A key business objective for the Direct-To-Consumer business is maintaining the customer base through a combination of acquiring new customers and keeping the existing ones. A significant source of new customers has historically been through promotional direct mailings. The direct marketing industry continues to face considerable challenges from a lack of available mailing lists, increased regulation and competitive pressure from alternate channels. This has made the acquisition of new customers more difficult and the ability to retain customers even more important. In addition to loyalty programs for its customers, Harlequin actively promotes new titles and series to its existing customer base.

As an international publisher, Harlequin's results are affected by changes in foreign exchange rates relative to the Canadian dollar. The most significant is the change in the U.S.$/Cdn.$ exchange rate. To offset some of this risk, Torstar has entered into forward foreign exchange and option contracts for U.S. dollars, Euros, Yen and Pound Sterling. Effective January 1, 2004, the impact of the U.S. dollar hedges were reported in revenue. In 2003, they were reported directly in operating profit along with the impact from the other currency hedges.

The following chart identifies the impact of foreign currency movements, foreign currency hedges and underlying operations on reported revenue and operating profits (in $000's):

	2004	2003
Reported revenue, prior year	**$584,924**	$618,093
Impact of currency movements	**(19,277)**	(38,043)
Impact of U.S. dollar hedges[5]	**21,396**	
Change in operating revenue	**(48,667)**	4,874
Reported revenue, current year	**$538,376**	$584,924
Reported operating profit, prior year	**$124,121**	$119,168
Impact of currency movements	**(6,920)**	(13,193)
Impact of U.S. dollar hedges[6]	**7,648**	14,924
Impact of other currency hedges	**(436)**	513
Change in operating profit	**(27,231)**	2,709
Reported operating profit, current year	**$97,182**	$124,121
Depreciation and amortization	**8,502**	7,780
Segment EBITDA	**$105,684**	$131,901
Reported margins:		
Operating profit	**18.1%**	21.2%[7]
EBITDA	**19.6%**	22.6%[7]
Impact of foreign exchange contracts on margins:		
Reported operating profit, current year	**$97,182**	$124,121
Hedge gains	**22,025**	14,813
Operating profit before hedge gains	**$75,157**	$109,308
Operating profit margin	**14.5%**	18.7%
EBITDA margin	**16.2%**	20.0%

Book Publishing revenues were down $48.6 million in 2004 excluding the impact of foreign exchange. North America Retail was down $18.5 million, North America Direct-To-Consumer was down $12.6 million and Overseas was down $11.3 million. In 2003, the former Creativity division had revenues of $6.2 million.

Book Publishing operating profits were down $27.2 million in 2004 excluding the impact of foreign exchange. North America Retail was down $19.4 million, North America Direct-To-Consumer was down $4.7 million and Overseas was down $5.1 million. In 2003, the former Creativity division had operating losses of $2.0 million.

North America Retail results reflected the weakness in the U.S. mass-market paperback segment of the consumer book publishing industry in 2004. Statistics published by the Association of American Publishers indicate that net billings of mass-market paperbacks were down 8.9% in 2004. This segment, which represents the majority of Harlequin's sales, was negatively affected by mega best sellers, including fiction, diet and lifestyle books that drew away consumer dollars and reading time.Harlequin also faced heavy discounting of some products by competitors. North America Retail sold fewer books in 2004 as both series and single title programs were affected by this trend.

[5] The impact of the U.S. dollar hedges is reported in revenue effective January 1, 2004. The 2003 U.S. dollar hedges were reported directly in operating profit. Torstar has hedged $75 million of its U.S. dollar revenue at $1.58 in 2004 and $76 million at $1.59 in 2005. There are no hedges in place for 2006. For more details see Note 13 in Torstar's December 31, 2004 annual financial statements.

[6] Gains on the U.S. dollar hedges were recorded in operating profit in 2003. Therefore the impact on operating profit in 2004 is the year over year change.

[7] If the 2003 U.S. dollar hedge gain had been reported in revenue, the 2003 operating and EBITDA margins would have been 20.7% and 22.0% respectively.

North America Direct-To-Consumer revenues and operating profits were down as a result of the lower customer base, including a smaller number of new members acquired in 2004. This reflected the continued challenges of sourcing new, profitable members. The decline in sales volumes and higher distribution costs were partially offset by lower advertising and promotional costs, a mid-year price increase and lower overhead costs.

Overseas, most markets reported lower retail sales of series books in 2004. Harlequin continued to work on expanding its single title programs in the Overseas markets. This initiative met with some success in 2004, in particular in Germany, Australia and France.

The U.K. had a difficult year with lower retail sales and higher distribution costs associated with the mid-year transition to a new distributor. The Japanese market continued to struggle in 2004. Declines in retail sales of series books were only partially offset by gains in the single title business.

2005 OUTLOOK

Harlequin's focus for 2005 will be on stabilizing the unit sales after the significant declines experienced in 2004. The U.S. mass-market paperback segment continues to be highly competitive, challenging and soft. Editorial innovation remains a focus as Harlequin strives to publish new, relevant product that readers will find appealing. Plans are in place for increased promotional support for Harlequin's brands and individual authors.

Growth in North America Direct-To-Consumer book sales and related revenue is not expected in 2005, as the number of new members is not likely to offset members lost to attrition. The goal will be to slow the decline and stabilize the customer base. Product initiatives will be used to attract new Direct-To-Consumer customers and increased investment will be made in loyalty programs to retain existing ones.

The overseas paperback book publishing markets are also expected to remain highly competitive in 2005. Further development of the single title business will be continued in each of the major overseas markets. Format and cover changes will be made to series titles in the overseas markets in an effort to stabilize sales.

ASSOCIATED BUSINESSES

Torstar has a 19.35% equity investment in Black Press Ltd. Black Press Ltd. is a privately held company that publishes 95 newspapers (both dailies and weeklies) and has 17 printing plants in Western Canada, Washington State and Hawaii. This investment is accounted for using the equity method. Torstar may make additional investments in Black Press under certain circumstances. The Black Press business is growing well and continues to exceed expectations.

During 2004, Torstar acquired a 30% interest in Q-ponz Inc., a coupon envelope business based in Toronto.

Torstar's share of net income from associated businesses was $0.5 million in 2004 and $0.1 million in 2003.

FOURTH QUARTER – 2004

OVERALL PERFORMANCE

Total revenues were $414.5 million in the fourth quarter of 2004, up $26.7 million from $387.8 million in the fourth quarter of 2003. Newspaper revenues were $285.1 million, up $34.3 million from $250.8 million in the same quarter last year. $9.6 million of the increase was from the change in accounting for circulation revenues and $3.8 million was from acquisitions. Higher advertising and distribution revenues at Metroland provided $12.0 million of the increase in the quarter. Book Publishing revenues were $129.4 million in the quarter, down $7.6 million from $137.0 million in the fourth quarter of 2003. The strengthening of the Canadian dollar reduced Book Publishing revenues by $5.6 million in the quarter but this was more than offset by a gain on U.S. dollar hedges of $7.5 million. Sales volumes were down in almost all of Harlequin's markets in the fourth quarter, which reduced revenues by $7.9 million. In the fourth quarter of 2003, the former Creativity Division had revenues of $1.6 million.

Newspaper Segment operating profits were $49.5 million in the fourth quarter of 2004, up $7.3 million from $42.2 million in the fourth quarter of 2003. The 9.8% increase in revenue (excluding the change in accounting for circulation revenue) and lower costs at the daily newspapers provided $8.0 million of growth in the quarter with only $0.5 million coming from acquisitions. TTN's operating losses were $1.2 million higher in the fourth quarter of 2004.

Book Publishing operating profits were $24.9 million in the fourth quarter of 2004, down $3.9 million from $28.8 million in the fourth quarter of 2003. The strengthening of the Canadian dollar reduced Book Publishing operating profits by $1.4 million, offset by $1.6 million of higher gains on U.S. dollar and other currency hedges. Operating profits were down $4.5 million in the fourth quarter of 2004, with each of Harlequin's divisions reporting lower revenues. In the fourth quarter of 2003, the former Creativity Division had an operating loss of $0.4 million. As expected, the 2004 fourth quarter results were consistent with the level of profits reported in the second and third quarters of 2004.

Corporate costs were up slightly in the fourth quarter to $3.3 million from $3.1 million in 2003 due to higher payroll costs. Interest expense was $2.8 million in the fourth quarter of 2004, down $0.7 million from $3.5 million in the fourth quarter of 2003. The decrease was from the lower level of debt outstanding during the quarter.

The 2003 fourth quarter loss of $7.8 million from unusual items included $4.6 million for restructuring in the Newspaper Segment and $4.4 million for the closure of Harlequin's craft kit business. Offsetting the losses was a $1.2 million gain that arose from the finalization of the gain realized on the sale of newspapers in the second quarter and additional proceeds from the first quarter sale of an investment in Miles Kimball Company.

Torstar's effective tax rate was 37.6% in the fourth quarter of 2004, down significantly from 47.0% in the fourth quarter of 2003. Excluding the impact of unusual items and the fourth quarter 2003 impact of the change in provincial income taxes, the effective rate was 38.1% in the fourth quarter of 2003. The 0.5% lower effective tax rate reflects the change in mix of income during the fourth quarter.

Net income was $42.6 million in the fourth quarter of 2004, up $12.2 million from $30.4 million in the fourth quarter of 2003. Net income per share was $0.54 in the quarter, up $0.15 from $0.39 in the same quarter last year. The weighted average number of shares outstanding in the fourth quarter of 2004 was 78.8 million, up slightly from 78.0 million in the fourth quarter of 2003.

The following chart provides a continuity of fourth quarter earnings per share from 2003 to 2004:

Net income per share 2003	$0.39
Unusual items in 2003	0.06
Tax rate – 2003 statutory change	0.06
Operations	0.03
Net income per share 2004	$0.54

NEWSPAPERS

The Newspaper Segment grew EBITDA in the fourth quarter despite only limited advertising revenue growth at the daily newspapers. Lower costs at the Toronto Star and CityMedia dailies improved both operating profit and EBITDA margins. Metroland's revenues and operating profits were up over the fourth quarter of 2003.

Selected financial information for the Newspaper Segment for the fourth quarter (in $000's):

	TORONTO STAR	METROLAND	CITYMEDIA	OTHER	TOTAL
2004					
Revenue[8]	$125,672	$111,747	$44,720	$2,993	$285,132
Operating profit	20,569	21,481	9,797	(2,397)	49,450
Depreciation	8,459	1,910	882	652	11,903
Segment EBITDA	$29,028	$23,391	$10,679	($1,745)	$61,353
Margins:					
Operating profit	16.4%	19.2%	21.9%	n/a	17.3%
EBITDA	23.1%	20.9%	23.9%	n/a	21.5%
2003					
Revenue	$117,231	$89,948	$41,043	$2,610	$250,832
Operating profit	16,518	19,785	7,767	(1,902)	42,168
Depreciation	8,713	1,538	1,491	381	12,123
Segment EBITDA	$25,231	$21,323	$9,258	($1,521)	$54,291
Margins:					
Operating profit	14.1%	22.0%	18.9%	n/a	16.8%
EBITDA	21.5%	23.7%	22.6%	n/a	21.6%
Restated 2003 Margins[8]:					
Operating profit	13.2%	n/a	18.3%	n/a	16.2%
EBITDA	20.1%	n/a	21.8%	n/a	20.8%

Advertising revenues at the Toronto Star were up slightly in the fourth quarter as a 10.2% increase in the effective line rate offset a 9.2% decrease in linage. National advertising rose 3.6% but declines were experienced in each of retail, travel and classified, down 9.9%, 7.4% and 13.5% respectively. Automotive advertising was down 12.8% (mostly classified) and employment advertising declined 6.4%. On-line advertising revenues at thestar.com and workopolis.com were up $0.6 million in the fourth quarter. Circulation revenues were up slightly in the quarter, excluding the $8.1 million impact from the change in accounting.

Lower newsprint consumption offset partially by higher pricing reduced the Toronto Star's paper costs by $1.2 million in the fourth quarter. Labour costs were down $1.0 million as lower pension and long-term disability costs more than offset general wage increases. Other costs were down $1.6 million due primarily to reduced promotional activities in the fourth quarter.

Metroland's revenues were up $21.8 million in the fourth quarter including $2.5 million from acquisitions. Advertising linage at the community newspapers was up 13.2% in the quarter, slightly offset by a 1.3% decrease in the effective line rate. Distribution revenue was up $4.8 million or 22.3% in the fourth quarter as over 700 million pieces were delivered. A portion of the increase is timing resulting from an extra Friday (which is the largest distribution day) in December 2004. This impact will reverse in the first quarter of 2005. Sing Tao and Metro had strong fourth quarters and contributed a combined $1.5 million of additional advertising revenue.

Metroland's costs were up in the quarter, reflecting the increased costs related to the revenue growth from product and geographic expansion. Depreciation expense was $0.4 million higher in the fourth quarter of 2004 due to the new press that came on-line during the second quarter of 2004.

[8] Effective 2004, Torstar has begun to report home delivery circulation revenues for the Toronto Star and CityMedia on a gross basis rather than net of certain distribution costs. The fourth quarter 2004 adjustment to revenue was $8.1 million for the Toronto Star and $1.5 million for CityMedia. The 2003 results have not been restated for this change. The restated 2003 margins illustrate what the impact would have been on margins had the revenue been restated. For more details on the change, see the discussion in "Changes in Accounting Policies".

CityMedia revenues were up $0.9 million in the fourth quarter excluding the $1.5 million impact of the accounting change for circulation revenues and $1.3 million from acquisitions. Advertising revenue was flat in the fourth quarter at The Hamilton Spectator as a 4.5% linage decline was offset by a higher effective line rate. However, the fourth quarter linage decrease was the smallest year-over-year decline during 2004. The Record had a small increase in advertising revenue as a strong effective line rate slightly offset a 7.8% decline in linage. CityMedia costs were relatively flat year over year in the fourth quarter.

TTN's revenues were flat in the fourth quarter year over year. Operating losses were $2.7 million in the fourth quarter of 2004, up $1.2 million from $1.5 million in the fourth quarter of 2003. Depreciation expense was $0.3 million higher in the quarter as more systems were installed and operating.

BOOK PUBLISHING

The details of the changes in reported revenues and operating profits for the fourth quarter of 2004 are as follows (in $000's):

Reported revenue, 2003	$137,008
Impact of currency movements	(5,636)
Impact of U.S. dollar hedges[9]	7,545
Change in operating revenue	(9,526)
Reported revenue, 2004	$129,391
Reported operating profit, 2003	$28,819
Impact of currency movements	(1,422)
Impact of U.S. dollar hedges[10]	2,495
Impact of other currency hedges	(900)
Change in operating profit	(4,127)
Reported operating profit, 2004	$24,865
Depreciation and amortization	2,235
Segment EBITDA	$27,100

	2004	2003
Reported:		
Operating margin	19.2%	21.0%[11]
EBITDA margin	20.9%	22.5%
Impact of foreign exchange contracts on margins:		
Reported operating profit	$24,865	$28,819
Hedge gains	6,966	5,372
Adjusted operating profit	$17,899	$23,447
Operating profit margin	14.7%	17.1%
EBITDA margin	16.5%	18.6%

Book Publishing revenues were down $9.5 million in the fourth quarter of 2004 excluding the impact of foreign exchange. North America Retail was down $3.3 million, North America Direct-To-Consumer was down $2.2 million and Overseas was down $2.4 million. In the fourth quarter of 2003, the former Creativity division had revenues of $1.6 million.

Book Publishing operating profits were down $4.1 million in the fourth quarter of 2004 excluding the impact of foreign exchange. North America Retail was down $3.6 million, North America Direct-To-Consumer was up $0.9 million and Overseas was down $1.8 million. In the fourth quarter of 2003, the former Creativity division had operating losses of $0.4 million.

North America Retail continued to face challenges in the U.S. mass-market paperback segment. In the North America Direct-To-Consumer division, favourable payment rates and a June 2004 price increase offset the impact of lower volumes and provided an increase in operating profits. In Overseas, Japan and Germany reported lower net sales in the core retail series programs in the fourth quarter. The U.K. had lower net sales for both its series and single title programs.

[9] The impact of the U.S. dollar hedges is reported in revenue effective January 1, 2004. The 2003 U.S. dollar hedges were reported directly in operating profit. Torstar has hedged $75 million of its U.S. dollar revenue at $1.58 in 2004 and $76 million at $1.59 in 2005. There are no hedges in place for 2006. For more details see Note 13 in Torstar's December 31, 2004 annual financial statements.

[10] Gains on the U.S. dollar hedges were recorded in operating profit in 2003. Therefore the impact on operating profit in 2004 is the year over year change.

[11] If the 2003 U.S. dollar hedge gain had been reported in revenue, the fourth quarter 2003 operating profit margin would have been 20.3%.

FINANCIAL INSTRUMENTS

FOREIGN EXCHANGE

Harlequin's international operations provide Torstar with approximately 33% of its operating revenues. As a result, fluctuations in exchange rates can have a significant impact on Torstar's reported profitability.

In order to offset the exchange risk on its balance sheet from net U.S. dollar denominated assets, Torstar maintains a certain level of U.S. dollar denominated debt. These net assets are primarily current in nature, and to the extent that the amount of net U.S. dollar assets differs from the amount of the U.S. dollar debt, a foreign exchange gain or loss is recognized in earnings.

To manage the exchange risk in its operating results, Torstar has entered into forward foreign exchange and currency options contracts. Torstar's most significant exposure is to the movements in the U.S.$/Cdn.$ exchange rate, but it also manages its exchange risk on movements in the Euro, Pound Sterling and Yen relative to the Canadian dollar.

Effective January 1, 2004, (see discussion under "Changes in Accounting Policies") the U.S. dollar contracts are designated as hedges against the U.S. dollar revenues. In 2004, gains of $21.4 million were reported in Book Publishing revenues. In 2003, gains of $13.7 million on the U.S. dollar contracts were recorded in Book Publishing operating profit upon maturity of the contract.

Effective January 1, 2004, Euro, Pound Sterling and Yen contracts ceased to qualify for hedge accounting and are marked to market each quarter. The mark to market gain or loss plus the realized gain or loss on these contracts is recorded in Book Publishing operating profit. Gains of $0.6 million and $1.1 million were recorded on these contracts during 2004 and 2003 respectively.

At December 31, 2004, Torstar had entered into forward foreign exchange and currency option contracts to establish the following exchange rates or ranges:

YEAR	CURRENCY	AMOUNT	EXCHANGE RATE OR RANGE
2005	U.S. dollars	76,000,000	$1.59 – 1.64
2006	Euros	4,000,000	$1.68

If the outstanding U.S. dollar contracts were marked-to-market at December 31, 2004, there would be a gain of $29.2 million. Torstar will close out the 2006 Euro contracts evenly throughout 2005. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. Further details are contained in Note 13 of the consolidated financial statements.

INTEREST RATES

In order to manage its interest rate risk on its long-term debt, Torstar has entered into interest rate swaps and collars. In 2004, these instruments established an interest rate of approximately 3.5% on $80 million of U.S. dollar denominated debt and a range of 2.7% to 3.4% on an average of $205 million of Canadian dollar denominated debt.

Torstar is party to a U.S. interest rate swap arrangement that fixes the interest rate on U.S. $80 million of borrowings at approximately 3.5% for four years ending December 2007.

During 2004, Torstar had an interest rate collar agreement that established a Canadian dollar weighted average interest range of 2.7% to 3.4%. The collar was for $250 million of Canadian dollar denominated debt in the first quarter of 2004 and was reduced by $30 million each quarter for the remainder of 2004. This arrangement ended in December 2004.

All of Torstar's Canadian dollar debt is at floating rates. Torstar has not entered into any interest rate derivative instruments for its Canadian dollar debt for 2005.

Torstar's exposure to credit related losses in the event of non-performance by counterparties to the interest rate swap and collar arrangements is mitigated by accepting only major financial institutions with high credit ratings as counterparties. Further details are contained in Note 6 of the consolidated financial statements.

PENSION OBLIGATIONS

Torstar maintains a number of defined benefit plans which provide pension benefits to its employees in Canada and the U.S. Torstar also maintains defined contribution plans in the U.S. and in certain of Harlequin's overseas operations.

The accounting for defined benefit plans requires the use of actuarial estimates for pension expense and pension plan obligations. In making the estimates, certain assumptions must be made. The significant assumptions made by Torstar in 2004 and 2003 for determining the pension plan obligations and expenses were:

	2004	2003
Discount rate	5.75%	6.0%
Rate of future compensation increase	3.0% to 3.5%	4.0%
Expected long-term rate of return on plan assets	7.0%	7.0%
Average remaining service life of active employees (years)	7 to 16	13 to 18

The December 31, 2003 assumptions were used to determine the 2004 pension expense. The discount rate of 5.75% is the yield at December 31, 2004 on high quality fixed income investments with maturities that match the expected maturity of the pension obligations (as prescribed by the Canadian Institute of Chartered Accountants ("CICA")). A 1% increase in the discount rate would result in a decrease in the total pension plan obligation of $67.8 million and a decrease in the current year expense of $6.8 million. A 1% decrease in the discount rate would increase the total pension plan obligation by $78.4 million and increase current year expense by $7.9 million.

The rate of future compensation increases was reduced to a range of 3.0% to 3.5% for the December 31, 2004 obligation calculation as a result of management's review of actual increases over the past several years and expectations regarding future increases. This change in estimate decreased the accrued benefit obligation by $4.5 million and will reduce pension expense by approximately $1.3 million in 2005.

Torstar has maintained its expected long-term rate of return on plan assets at 7%, as management believes it to be a reasonable estimate. Although market returns were low or negative a few years ago, the returns realized in 2003 and 2004 have exceeded 7%. A 1% decrease in the expected return on plan assets would increase the current year expense by $5.0 million.

The average remaining service life of active employees is used to amortize past service costs from plan improvements and net actuarial gains or losses. Torstar has reduced its estimate of this time period from 13-18 years (weighted average of 15 years) to 7-16 years (weighted average of 11 years). This change reflects the current composition of Torstar's workforce and expectations for staff turnover. The estimate of the average remaining service life is generally reviewed on a three-year basis. This change has no impact on the benefit obligation but will bring plan variances into expense over a shorter period.

Torstar's pension plans are in a net unfunded position of $30.3 million at December 31, 2004 down from $54.9 million at the end of 2003. This balance includes $15.7 million ($23.6 million in 2003) for an executive retirement plan, which is not funded until payments are made to the executives upon retirement or termination of employment, but is supported by a letter of credit. Excluding the executive retirement plan, the net unfunded position decreased from $31.3 million in 2003 to $14.6 million in 2004.

Torstar also provides post-employment benefits including health and life insurance benefits for employees, primarily in the Canadian newspaper operations. At December 31, 2004, the unfunded obligation for these benefits was $60.1 million, up from $56.8 million at December 31, 2003. The key assumptions for this obligation are the discount rate and the health care cost trends. The discount rate is the same as the prescribed rate for the pension obligation. For health care costs, the estimated trend was for a 10% increase for the 2004 expense with a 0.5% decrease each year until 2014. A 1% increase or decrease in the estimated increase in health care costs would increase or decrease the obligation by about $3.5 million. The change in the annual expense would be less than $0.5 million.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

Funds are generally used for capital expenditures, debt repayment and distributions to shareholders. Long-term debt is used to supplement funds from operations and as required for acquisitions. It is expected that future cash flows from operating activities, combined with the credit facilities available will be adequate to cover forecasted financing requirements.

In 2004, $178.6 million of cash was generated by operations, $62.6 million was used for investing activities and $124.6 million was used for financing activities. Cash and cash equivalents net of bank overdraft decreased by $9.6 million in the year from $50.4 million to $40.8 million.

OPERATING ACTIVITIES

Operating activities provided cash of $178.6 million in 2004, up $15.6 million from $163.0 million in 2003.

Other adjustments of $14.2 million in 2004 included $22.7 million to reflect the pension contributions made in excess of pension expense, reduced by the non-cash foreign exchange loss, stock-based compensation and the write-off of the Internet portfolio. The pension adjustment was $25.5 million in the fourth quarter of 2004 reflecting the higher payments made. In the fourth quarter of 2003, Torstar made an incremental contribution of $23.0 million to its pension plans. The 2003 adjustments also included the gains realized on the sale of community newspapers and an investment in Miles Kimball Company.

The non-cash adjustment for future income taxes was $9.0 million in 2004 from the use of loss carryforwards and the impact of pension funding. In 2003, the adjustment was $23.1 million, which included the taxes related to the incremental pension payment made and the change in the Ontario corporate income tax rate.

Non-cash working capital, excluding the impact of foreign exchange, decreased $14.8 million in 2004 as increases in trade, employee and taxes payable more than offset higher receivables from increased newspaper revenues. In 2003, non-cash working capital increased $23.7 million as taxes and other payables decreased, due to timing of payments, and receivables and prepaid expenses increased.

INVESTING ACTIVITIES

During 2004, $62.6 million was used for investments, down from $95.5 million in 2003.

Additions to property plant and equipment were $45.6 million in 2004, down from $59.0 million in 2003. The 2004 additions included $8.0 million for new presses and press upgrades and $8.3 million for TTN's build-out. In 2003, $28.5 million was spent on the new printing press for Metroland and a colour expansion for The Hamilton Spectator press.

During 2004, $16.1 million was used for acquisitions of community newspapers and directories. Metroland made several acquisitions during 2004 including Gold Book directories, World of Wheels and Canadian Auto World magazines, the Port Perry Star, the Grimsby Lincoln News, Oakville Today, and the Port Colborne Leader newspapers and the Flyer Network (a flyer and distribution business). The CityMedia Group acquired the Grand River Sachem and the Glanbrook Gazette newspapers. During the second quarter of 2004, Torstar acquired a 30% equity interest in Q-ponz Inc., a coupon envelope business.

In 2003, $51.5 million was used to purchase community newspapers including the Brabant and Fairway weekly newspaper groups, magazine publisher J.H. Robinson Publishing Ltd. and the printing operations of Hamilton Web and Silva Litho Solutions Inc. In 2003, cash of $15.9 million was received on the sale of community newspapers and an investment in Miles Kimball Company.

FINANCING ACTIVITIES

Cash of $124.6 million was used in financing activities during 2004, up from $53.1 million in 2003.

Torstar reduced long-term debt by $61.5 million in 2004 compared with a reduction of $36.0 million in 2003. Torstar repaid $150.0 million of medium-term notes and issued $88.5 million of commercial paper, net of repayments, during 2004. In 2003, $102.4 million of medium-term notes were repaid, $45.0 million of medium term notes were issued and $21.4 million of commercial paper was issued, net of repayments.

Cash dividends paid to shareholders were $54.3 million in 2004, up $6.8 million or 14.3% from $47.5 million in 2003. The increase was from the 9.4% increase in the annual dividend rate from $0.64 per share in 2003 to $0.70 per share in 2004 and the increase in the number of shares outstanding. $22.1 million of cash was received from the exercise of stock options in 2004, down slightly from $26.7 million received in 2003.

Torstar announced a normal course issuer bid on May 5, 2004 to purchase up to an aggregate of 2 million Class B non-voting shares during the period May 7, 2004 to May 6, 2005. Torstar believes that the purchase of its own shares is a prudent use of corporate funds and will help to offset the dilution resulting from the issue of shares pursuant to the exercise of stock options. As of December 31, 2004, Torstar had purchased just over 1.4 million shares for a total price of $35.0 million.

2005 CAPITAL EXPENDITURES

Capital expenditures in 2005 are expected to be approximately $50 million, consistent with 2004. In 2005, capital expenditures are expected to include $11 million for TTN's build-out in Los Angeles and $7 million for the relocation of newspapers to new premises including $4 million that was delayed from 2004. Other projects include regular replacement of production assets and IT infrastructure spending at Metroland.

LONG-TERM DEBT

At December 31, 2004, Torstar had long-term debt of $317.8 million outstanding. The debt consisted of U.S. dollar commercial paper of $116.0 million, Canadian dollar commercial paper of $156.8 million and Canadian dollar medium term notes of $45.0 million.

Torstar has a long-term credit facility for $200 million that will expire on January 31, 2007 and a 364-day revolving facility for $250 million that will expire on January 27, 2006. The 364-day revolving loan can be extended for up to one additional 364-day term with the lenders' consent or can be converted to a 364-day term loan at the company's option. These credit facilities are designated as standby lines in support of the commercial paper program and letters of credit. At December 31, 2004, there were no funds drawn under either of these facilities and a $22.7 million letter of credit was outstanding relating to the executive retirement plan.

The commercial paper is generally issued for a term of less than one year in order to provide for flexibility in borrowing. However, the commercial paper program has been and is intended to continue to be an ongoing source of financing for Torstar. Recognizing this intent, to the extent that the long-term credit facilities have sufficient credit available that they could be used to replace the outstanding commercial paper, the commercial paper is classified as long-term on Torstar's balance sheet.

Torstar has a $45 million medium term note outstanding that will mature on September 19, 2005. It is Torstar's intention to refinance the $45 million medium term note through the issuance of commercial paper. At December 31, 2004, there was in excess of $150 million available under the credit facilities after providing for the letter of credit and the outstanding commercial paper. Therefore the $45 million medium term note remains classified as long-term debt on the consolidated balance sheet.

Torstar has a policy of maintaining a sufficient level of U.S. dollar denominated debt in order to provide a hedge against its U.S. dollar assets. It is expected that the level of U.S. dollar debt will remain relatively constant during 2005.

CONTRACTUAL OBLIGATIONS

Torstar has the following significant contractual obligations:

Nature of obligation	Total	2005	2006-2007	2008-2009	2010 +
Office leases	$180,821	$12,711	$25,327	$24,626	$118,157
Capital purchases	2,452	1,329	1,123		
Long-term debt	317,800		317,800		
Total	$501,073	$14,040	$344,250	$24,626	$118,157

Office leases include the offices at One Yonge Street, in Toronto for Torstar and the Toronto Star, Harlequin's Toronto head office and the new facility in Kitchener for The Record. The One Yonge Street and Kitchener leases extend until the year 2020. Harlequin's lease will expire in 2009.

The full balance of long-term debt is shown as payable in 2007 as the long-term credit facilities will expire in January 2007. Torstar expects to be able to renew its credit facilities at that time.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Torstar prepares its consolidated financial statements in Canadian dollars and in accordance with Canadian GAAP. A summary of Torstar's significant accounting policies is presented in Note 1 of the consolidated financial statements. Some of Torstar's accounting policies require subjective, complex judgments and estimates as they relate to matters that are inherently uncertain. Changes in these judgments or estimates could have a significant impact on Torstar's financial statements. Critical accounting estimates that require management's judgments include the provision for book returns, valuation of goodwill, accounting for employee future benefits and accounting for income taxes.

PROVISION FOR BOOK RETURNS

Revenue from the sale of books, net of provisions for estimated returns, is recognized when they are shipped and title has transferred.

The provision for estimated returns is significant for retail sales where books are sold with a right of return. As books are shipped a provision is recorded for returns. This provision is estimated by management, based primarily on historic sales performance of that type of book and the author. Books are returned over time and are adjusted against the returns provision. On a quarterly basis the actual return experience is used to assess the adequacy of the provision.

The impact of the variance between the original estimate for returns and the actual experience is reported in a period subsequent to the original sale. This can have either a positive (if the actual experience is better than estimated) or negative (if the actual experience is worse) impact on reported results. A change in market conditions can therefore have a compounded effect on the book publishing results. If the market sales are declining, the estimate being made for returns on current period sales will generally be higher and the adjustment to the returns provision for prior period sales is likely to be negative (i.e. the market has softened since the original estimate was made).

Series books are on sale for approximately one month and returns are normally received within one year, with more than 95% received within the first six months. Harlequin has been publishing series books for more than 20 years and has significant experience in projecting returns for this business. Single title books are on sale for several months and, as a result, experience a longer return period. The single title publishing program has grown over the past decade. Harlequin's experience with the returns patterns and methodology used by management to project returns for single title books has also evolved over that time period. For these books, there is more variation in net sale rates between titles, even for the same author. As a result, the estimate for returns on these titles has more variability than that for the series titles.

At December 31, 2004, the returns provision deducted from accounts receivable on the consolidated balance sheets was $111 million ($101 million in 2003). A 1% change in the average net sale rate used in calculating the global retail returns provision on sales from July to December 2004 would result in a $4.0 million change in reported 2004 revenue.

VALUATION OF GOODWILL

Under Canadian GAAP, goodwill is not amortized but is assessed for impairment at the reporting unit level at least on an annual basis. Goodwill is assessed for impairment using a two-step approach. The first step is to assess whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. If the fair value of the reporting unit is less than the carrying value, the second step is required. The second step is a comparison of the fair value of goodwill to its carrying amount. If the fair value of goodwill is less than its carrying value, goodwill is considered impaired and a charge for impairment must be recognized immediately.

Reporting units are identified based on the nature of the business and the level of integration between operations. Torstar uses a market approach to determine the fair value of its reporting units. This approach uses several factors including normalized or projected earnings and price earnings multiples. Comparable transactions are reviewed for appropriate price earnings multiples. The fair value of an asset is defined as the amount at which it could be bought or sold in a current transaction between willing parties.

Torstar has completed its annual impairment test and no adjustment for impairment was required.

ACCOUNTING FOR EMPLOYEE FUTURE BENEFITS

The cost of defined benefit pension and other retirement benefits earned by employees is actuarially determined each year based on management's estimates of the long-term rate of investment return on plan assets and future compensation and health care costs. Management applies judgment in the selection of these estimates, based on regular reviews of historical investment returns, salary increases and health care costs. Expectations regarding future economic trends and business conditions, including inflation rates are also considered.

The discount rate used in measuring the liability and expected healthcare costs is prescribed to be equal to the current yield on long-term, high-quality corporate bonds with a duration similar to the duration of the benefit obligation.

Management's estimates, along with a sensitivity analysis of changes in these estimates on both the benefit obligation and the benefit expense are further discussed under "Pension Obligations" and are disclosed in Note 12 of the consolidated financial statements.

ACCOUNTING FOR INCOME TAXES

Future income taxes are recorded to account for the effects of future taxes on transactions occurring in the current period. Management uses judgment and estimates in determining the appropriate rates and amounts to record for future taxes, giving consideration to timing and probability. Previously recorded tax assets and liabilities are adjusted if the expected tax rate is revised based on current information.

The recording of future tax assets also requires an assessment of recoverability. A valuation allowance is recorded when Torstar does not believe, based on all available evidence, that it is more likely than not that all of the future tax assets recognized will be realized prior to their expiration. This assessment includes a projection of future year earnings based on historical results and known changes in operations.

More information on Torstar's income taxes is provided in Note 10 of the consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

HEDGING RELATIONSHIPS

Torstar adopted Accounting Guideline 13 "Hedging Relationships" effective January 1, 2004. This new guideline establishes conditions for applying or discontinuing hedge accounting as well as addressing new documentation requirements and effectiveness testing requirements.

Torstar had the following derivatives in place on January 1, 2004:

1. Interest rate swaps and contracts to hedge interest rate movements on portions of its U.S. and Canadian dollar denominated debt.
2. Foreign currency contracts to hedge the purchase price on purchases of capital assets in U.S. dollars and Euros.
3. Foreign currency contracts and options to hedge U.S. dollar operating earnings from integrated U.S. dollar operations.
4. Foreign currency contracts to hedge Euro operating earnings from self-sustaining Euro operations.

Torstar determined that the first three categories of derivatives continued to qualify as hedges under the new guideline. The U.S. dollar hedges were designated as hedges against U.S. dollar revenues effective January 1, 2004. The gains or losses on those derivatives were recorded against U.S. dollar revenues in 2004 rather than against operating profits as they had been in prior years.

The new guideline does not permit hedge accounting for an economic hedge on a foreign self-sustaining operation. As a result, Torstar began to mark-to-market the Euro contracts each quarter during 2004. The realized and unrealized gain or loss on the Euro contracts were reported as part of the Book Publishing Segment's operating results.

CIRCULATION REVENUE

Torstar has, consistent with industry practice, historically reported home delivery circulation revenues for its newspapers net of certain distribution costs. The Canadian Institute of Chartered Accountants Handbook Section 1100 "Generally Accepted Accounting Principles" became effective for Torstar's 2004 fiscal year. Under this section, a GAAP hierarchy is established and the ability to use industry practice has been eliminated. With this change, Torstar has begun in 2004 to report its home delivery circulation revenues on a gross basis and to include the distribution costs in operating expenses. The impact of the revision was to increase revenues and operating expenses by $38.1 million for the year ended December 31, 2004. There was no impact on operating profit or net income.

The accounting rules for the implementation of this new section do not permit for a retroactive restatement of prior years' results. The impact of the revision, had it been applied retroactively, would have been to increase revenues and operating expenses by $38.3 million for the year ended December 31, 2003.

ANNUAL INFORMATION – 3 YEAR SUMMARY

(In thousands of dollars or shares except for per share amounts)

	2004	2003	2002
Revenue	**$1,541,849**	$1,488,309	$1,475,049
Net income	**$112,703**	$123,515	$125,325
Per share (basic)	**$1.42**	$1.59	$1.64
Per share (diluted)	**$1.41**	$1.57	$1.62
Average number of shares outstanding during the year			
Basic	**79,168**	77,645	76,329
Diluted	**79,813**	78,763	77,451
Cash dividends per share	**$0.70**	$0.64	$0.58
Total assets	**$1,510,027**	$1,511,767	$1,480,721
Total long-term debt	**317,829**	387,800	448,390

Total revenues have increased over the past three years. The growth has come from higher Newspaper revenues as Book Publishing revenues have declined from a combination of the strengthening Canadian dollar and lower sales volumes.

Several factors have caused net income to decline over the past three years:

- Newspaper profits have increased during the three-year period both from acquisitions and expansion.
- Book Publishing profits increased in 2003, but then declined significantly in 2004 as all of Harlequin's markets faced challenges.
- Corporate costs have increased by $2.8 million over the three-year period, primarily from higher payroll costs. In 2003, Torstar began expensing stock-based compensation costs and replaced part of the executive option grants with a medium-term incentive plan.
- Non-cash foreign exchange translation losses of $1.7 million in 2004 and $4.0 million in 2003 were recognized on the translation of Torstar's net U.S. dollar asset position. This was as a result of the strengthening Canadian dollar.
- In 2004, unusual losses of $12.3 million were realized compared with an unusual loss of $0.7 million in 2003. In 2003, restructuring provisions were offset by gains from the disposition of community newspapers and an investment in Miles Kimball Company.
- In 2003, an increase in provincial income tax rates resulted in a charge of $4.7 million as future income tax liabilities were restated to the new rate.

Earnings per share have been impacted both by the lower net income each year but also by an increase in the average number of shares outstanding each year. On average, 2.8 million more shares were outstanding during 2004 than during 2002.

Cash dividends per share have increased in each of the three years as Torstar continued to distribute free cash flow to shareholders. During 2004, Torstar repurchased just over 1.4 million shares for a total price of $35.0 million through a normal course issuer bid.

Long-term debt has decreased by $130.7 million over the past two years due to the strengthening of the Canadian dollar and $97.5 million of debt repayments.

SUMMARY OF QUARTERLY RESULTS

(In thousands of dollars except for per share amounts)

2004 QUARTER ENDED	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
Revenue[12]	$361,748	$399,038	$366,540	$414,523
Net income	$23,038	$35,764	$11,309	$42,592
Net income per Class A voting and Class B non-voting share				
Basic	$0.29	$0.45	$0.14	$.54
Diluted	$0.29	$0.44	$0.14	$.54

2003 QUARTER ENDED	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
Revenue	$353,173	$379,256	$368,040	$387,840
Net income	$25,115	$38,330	$29,715	$30,355
Net income per Class A voting and Class B non-voting share				
Basic	$0.33	$0.50	$0.38	$0.39
Diluted	$0.32	$0.49	$0.38	$0.38

The summary of quarterly results illustrates the cyclical nature of revenues and operating profit in the Newspaper Segment. The fourth quarter is generally the strongest for the daily newspapers. The weekly and community newspapers tend to have a more even performance during the year.

Unusual income and losses have impacted the level of net income in several quarters. In 2003, the first and second quarters had unusual income of $2.1 million and $5.0 million respectively and the fourth quarter had an unusual loss of $7.8 million. In 2004, the third quarter had an unusual loss of $12.3 million.

SUBSEQUENT EVENTS

On January 14, 2005, Torstar completed the sale of the land and building that had been previously been occupied by The Record in Kitchener for proceeds of $5.8 million. Torstar will report an unusual gain of $1.3 million in the first quarter of 2005.

OTHER

At January 31, 2005, Torstar had 9,918,475 Class A voting shares and 68,255,928 Class B non-voting shares outstanding. More information on Torstar share capital is provided in Note 8 of the consolidated financial statements.

At January 31, 2005, Torstar had 5,580,493 options to purchase Class B non-voting shares outstanding to executives and non-executive directors. More information on Torstar's stock option plan is provided in Note 9 of the consolidated financial statements.

Additional information relating to Torstar including the Annual Information Form is available on SEDAR at www.sedar.com.

Dated: February 23, 2005.

[12] Quarterly revenue has been restated from that previously presented to reflect the change in accounting for circulation revenue.

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 21, 2005

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, 2004 and 2003 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, 2004 and 2003 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 21, 2005

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(thousands of dollars)

Assets	2004	2003
Current:		
Cash and cash equivalents	**$47,229**	$53,660
Receivables (note 2)	**247,942**	245,697
Inventories	**35,236**	38,041
Prepaid expenses	**68,250**	73,971
Future income tax assets (note 10)	**23,851**	24,434
Total current assets	**422,508**	435,803
Property, plant and equipment (net) (note 3)	**392,141**	401,172
Investment in associated businesses (note 4)	**22,954**	21,074
Goodwill	**499,637**	488,258
Other assets (note 5)	**114,731**	100,930
Future income tax assets (note 10)	**58,056**	64,530
Total assets	**$1,510,027**	$1,511,767
Liabilities and Shareholders' Equity		
Current:		
Bank overdraft	**$6,414**	$3,243
Accounts payable and accrued liabilities	**214,352**	204,779
Income taxes payable	**23,917**	19,032
Total current liabilities	**244,683**	227,054
Long-term debt (note 6)	**317,829**	387,800
Other liabilities (note 7)	**83,177**	87,174
Future income tax liabilities (note 10)	**70,677**	64,684
Shareholders' equity:		
Share capital (note 8)	**369,140**	349,921
Contributed surplus	**2,442**	878
Retained earnings	**425,787**	395,758
Foreign currency translation adjustment	**(3,708)**	(1,502)
	793,661	745,055
Total liabilities and shareholders' equity	**$1,510,027**	$1,511,767
Commitments and contingencies (note 16)		

(See accompanying notes)

On Behalf of the Board

John R. Evans
Director

J. Spencer Lanthier
Director

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2004 AND 2003
(thousands of dollars)

	2004	2003
Operating revenue		
Newspapers	**$1,003,473**	$903,385
Book publishing	**538,376**	584,924
	$1,541,849	$1,488,309
Operating profit		
Newspapers	**$127,601**	$110,116
Book publishing	**97,182**	124,121
Corporate	**(15,555)**	(14,166)
	209,228	220,071
Interest (note 6(f))	**(10,916)**	(12,806)
Foreign exchange	**(1,723)**	(4,011)
Unusual items (note 14)	**(12,282)**	(673)
Income before taxes	**184,307**	202,581
Income and other taxes (note 10)	**(72,100)**	(79,200)
Income before income of associated businesses	**112,207**	123,381
Income of associated businesses	**496**	134
Net income	**$112,703**	$123,515
Earnings per Class A and Class B share (note 8(d))		
Net income – Basic	**$1.42**	$1.59
Net income – Diluted	**$1.41**	$1.57

(See accompanying notes)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2004 AND 2003
(thousands of dollars)

	2004	2003
Retained earnings, beginning of year	**$395,758**	$321,992
Net income	**112,703**	123,515
Dividends	**(55,387)**	(49,749)
Premium paid on repurchase of shares for cancellation (note 8(d))	**(27,287)**	
Retained earnings, end of year	**$425,787**	$395,758

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004 AND 2003
(thousands of dollars)

	2004	2003
Cash was provided by (used in)		
Operating activities	**$178,598**	$162,976
Investing activities	**(62,623)**	(95,519)
Financing activities	**(124,557)**	(53,101)
Increase (decrease) in cash	**(8,582)**	14,356
Effect of exchange rate changes	**(1,020)**	(1,473)
Cash, beginning of year	**50,417**	37,534
Cash, end of year	**$40,815**	$50,417
Operating activities:		
Net income	**$112,703**	$123,515
Depreciation	**54,323**	53,374
Amortization	**2,558**	2,430
Future income taxes	**8,967**	23,076
Income of associated businesses	**(496)**	(134)
Other (note 15)	**(14,244)**	(15,619)
	163,811	186,642
Decrease (increase) in non-cash working capital	**14,787**	(23,666)
Cash provided by operating activities	**$178,598**	$162,976
Investing activities:		
Additions to property, plant and equipment	**($45,584)**	($59,020)
Acquisitions (note 11)	**(16,093)**	(51,493)
Proceeds on sale of businesses (note 14)		15,881
Investment in associated business (note 4)	**(1,413)**	
Other	**467**	(887)
Cash used in investing activities	**($62,623)**	($95,519)
Financing activities:		
Repayment of medium term notes	**($150,000)**	($102,384)
Issuance of medium term notes		45,000
Issuance of commercial paper debt (net)	**88,496**	21,355
Dividends paid	**(54,319)**	(47,509)
Exercise of stock options (note 8(b))	**22,104**	26,687
Purchase of shares for cancellation (note 8(c))	**(34,976)**	
Other	**4,138**	3,750
Cash used in financing activities	**($124,557)**	($53,101)
Cash represented by:		
Cash and cash equivalents	**$47,229**	$53,660
Bank overdraft	**(6,414)**	(3,243)
	$40,815	$50,417

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

1. ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 and joint ventures. The major subsidiaries are: Toronto Star Newspapers Limited; Harlequin Enterprises Limited ("Harlequin"); Metroland Printing, Publishing & Distributing Ltd. ("Metroland"), and CityMedia Group Inc. The company proportionately consolidates its joint ventures.

(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) Financial instruments

The fair value of the company's financial instruments approximates their carrying value unless otherwise stated.

The company manages its exposure to currency fluctuations, primarily U.S. dollars, through the use of derivative financial instruments. Foreign exchange contracts and options to sell U.S. dollars have been designated as hedges against future Book Publishing revenue. Gains and losses on these instruments are accounted for as a component of the related hedged transaction. Foreign exchange contracts which do not qualify for hedge accounting are reported on a mark to market basis in Book Publishing earnings (see note 1(r) with respect to change in accounting policy).

The company uses interest rate swap contracts to manage interest rate risks and has designated all interest rate swap contracts as hedges. 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 maturities on acquisition of 90 days or less.

(e) Receivables

Receivables are reduced by provisions for anticipated book returns and estimated bad debts 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) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. Any impairment loss would be determined as the excess of the carrying value of the assets over their fair value.

(i) Investments in associated businesses

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

(j) Intangible assets

Intangible assets are recorded at their fair value on the date of acquisition. The company's intangible assets consist primarily of newspaper mastheads which have an indefinite life and, accordingly, are not amortized. Intangibles with indefinite lives are tested for impairment annually or when indicated by events or changes in circumstances.

(k) Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. 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.

(l) 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.

(m) Employee future benefits

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

- The cost and obligations of pensions and post employment benefits earned by employees are actuarially determined using the projected benefit method prorated on service and management's best estimate of assumptions of future investment returns for funded plans, salary changes, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- 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 life 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 life of active employees. The average remaining service life of the active employees covered by the plans ranges from 7 to 16 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.

(n) Stock-based compensation plans

The company has a stock option plan, an employee share purchase plan and two deferred share unit plans.

The company uses the fair value method of accounting for stock options granted subsequent to December 31, 2002. Under this method, the fair value of the stock options is determined at the date of issue using an option pricing model. Over the vesting period, this fair value is recognized as compensation expense and a related credit to contributed surplus. The contributed surplus balance is reduced as options are exercised through a credit to share capital. No compensation expense has been recorded for stock options awarded and outstanding prior to January 1, 2003. The consideration paid by option holders is credited to share capital when the options are exercised.

The fair value method of accounting is utilized for the company's annual employee share purchase plans. Under this method, the company recognizes a compensation expense and a related credit to contributed surplus each period, based on the excess of the current share price over the opening price, in accordance with the terms that would apply if the plan had matured at the current share price. Upon maturity of the plan, contributed surplus is eliminated and share capital is credited. No compensation expense has been recorded for plans originating prior to January 1, 2003. The consideration paid by the plan members is credited to share capital when the plan matures.

Eligible executives and non-employee directors may receive or elect to receive deferred share units equivalent in value to Class B non-voting shares of the company. A compensation expense is recorded in the year of granting of the deferred share units and changes in the value of outstanding deferred share units, including deemed dividend equivalents, are recorded as an expense in the period that they occur. Outstanding deferred share units are recorded as long-term liabilities.

(o) 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.

(p) Revenue recognition

Newspaper 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.

(q) 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.

(r) Changes in accounting policies

Hedging relationships

Effective January 1, 2004, the company adopted CICA Accounting Guideline 13 “Hedging Relationships” (AcG 13) on a prospective basis without restatement of prior periods. AcG 13 addresses the identification, designation, documentation and effectiveness of hedging transactions for the purpose of applying hedge accounting. It also establishes conditions for applying or discontinuing hedge accounting. Under the new guideline, the company has documented its hedging relationships and demonstrated that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. The impact of adopting this guideline was insignificant with respect to the company’s financial position or results from operations. Book publishing revenues in 2004 include $21.4 million related to gains from its U.S. dollar foreign currency and option contracts. The 2003 gains of $13.7 million were included directly in Book publishing operating profit.

Circulation revenue

The CICA issued Section 1100 “Generally Accepted Accounting Principles” and EIC-147 “Implementation of Accounting Changes Resulting from the Application of CICA 1100” which became effective for the company’s 2004 fiscal year. The company has historically reported newspaper home delivery circulation revenues net of certain distribution costs, which was reflective of industry practice. As a result of adopting Section 1100, a GAAP hierarchy is established and the ability to use industry practice has been eliminated. As a consequence, the company has begun in 2004 to report its home delivery circulation revenues on a gross basis and included the distribution costs in operating expenses. The impact of the change was to increase revenue and operating expenses by $38.1 million for the year ended December 31, 2004. There was no impact on operating profit or net income. EIC-147 does not permit retroactive restatement of prior years’ results.

2. RECEIVABLES

The provisions for anticipated book returns and bad debts deducted from receivables at December 31, 2004 amounted to $136 million (December 31, 2003 – $129 million). Under a billing and collection agreement with a third party, the Book Publishing Segment has a receivable of $39 million at December 31, 2004 (December 31, 2003 – $41 million). The company believes that the credit risk associated with this balance is mitigated by the financial stability and payment history of the third party.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Net
2004			
Land	**$11,445**		**$11,445**
Buildings and leasehold improvements	**223,660**	**$106,254**	**117,406**
Machinery and equipment	**719,888**	**456,598**	**263,290**
Total	**$954,993**	**$562,852**	**$392,141**
2003			
Land	$11,318		$11,318
Buildings and leasehold improvements	219,488	$98,084	121,404
Machinery and equipment	682,464	414,014	268,450
Total	$913,270	$512,098	$401,172

4. INVESTMENT IN ASSOCIATED BUSINESSES

The company has a 19.35% interest in Black Press Ltd. The $20.7 million initial investment included $17.9 million of goodwill. Additional investments may be made under certain circumstances. The company acquired on June 17, 2004 a 30% equity interest in Q-ponz Inc.

5. OTHER ASSETS

	2004	2003
Accrued benefit assets (note 12)	**$103,216**	$86,752
Intangible assets (note 11)	**3,697**	
Distribution Services Agreement	**4,252**	6,378
Portfolio investments		4,077
Other	**3,566**	3,723
	$114,731	$100,930

6. LONG-TERM DEBT

	2004	2003
Commercial paper:		
Cdn. dollar denominated	**$156,792**	$55,364
U.S. dollar denominated	**116,037**	137,436
	272,829	192,800
Medium Term Notes:		
Cdn. dollar denominated	**45,000**	195,000
	$317,829	$387,800

(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 and matures January 27, 2006. This loan can be extended for up to one additional 364-day term 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, medium-term notes maturing within the year 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, 2004 was 2.5% (December 31, 2003 – 2.9%, see note 6 (d)).

(iii) Commercial paper outstanding at December 31, 2004 included U.S. dollar borrowings of U.S. $96.4 million (December 31, 2003 – U.S. $106.3 million). The average rate on U.S. dollar commercial paper outstanding at December 31, 2004 was 2.3% (December 31, 2003 – 1.1%). Including the effect of the interest rate swap noted in 6(d) the effective rate was 3.3% at December 31, 2004 (December 31, 2003 – 2.9%).

(c) Medium Term Notes

On September 19, 2003 and September 23, 2003, the Company issued respectively Canadian $35 million and $10 million of floating rate notes maturing September 19, 2005. Interest is based on 90 day bankers' acceptance rates plus 0.39%. Interest is paid quarterly. The notes, which mature in 2005, have been classified as long-term debt as the company has the ability and intent to refinance these amounts under existing credit facilities. The effective interest rate on the medium term notes outstanding at December 31, 2004 was 3.1% (December 31, 2003 – 3.2%, see note 6(d)).

(d) The company entered into an interest rate swap arrangement that will fix the interest rate on U.S. $80 million of borrowings at approximately 3.5% for four years beginning December 2003. The fair value of the U.S. interest rate swap arrangement was $0.3 million favourable at December 31, 2004. For Canadian dollar debt, through the use of an interest rate collar agreement, the company established a Canadian dollar weighted average interest rate range for 2004 of 2.7% to 3.4%. The collar applied to $250 million of the company's Canadian dollar debt during the first quarter of 2004 and was reduced by $30 million each quarter for the remainder of 2004. This arrangement ended in December 2004.

(e) The company is exposed to credit related losses in the event of non-performance by counterparties to the above described derivative 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.

(f) Interest expense includes interest on long-term debt of $11,319 (2003 – $13,034).

(g) Interest of $13,119 was paid during the year (2003 – $12,934).

7. OTHER LIABILITIES

	2004	2003
Post employment benefits (note 12)	**$67,607**	$73,578
Employees' shares subscribed (note 9)	**9,139**	8,385
Deferred share unit plan (note 9)	**2,061**	802
Other	**4,370**	4,409
	$83,177	$87,174

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 5,700 shares (with a stated value of $1,000) in 2004 and 24,660 shares (with a stated value of $7,000) in 2003. Total Class A shares outstanding at December 31 were:

	Shares	Amount
2003	9,924,175	$2,696
2004	**9,918,475**	**$2,695**

Class B shares

The changes in the Class B shares were:

	Shares	Amount
January 1, 2003	66,827,434	$314,987
Converted from Class A	24,660	7
Issued under Employee Share Purchase Plan	176,679	3,264
Stock options exercised	1,521,342	26,687
Dividend reinvestment plan	79,004	2,240
Other	1,540	40
December 31, 2003	**68,630,659**	**347,225**
Converted from Class A	**5,700**	**1**
Issued under Employee Share Purchase Plan	**153,047**	**3,639**
Stock options exercised	**1,139,167**	**22,138**
Purchased for cancellation	**(1,440,800)**	**(7,689)**
Dividend reinvestment plan	**43,608**	**1,068**
Other	**2,371**	**63**
December 31, 2004	**68,533,752**	**$366,445**

Totals

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

	Shares	Amount
2003	78,554,834	$349,921
2004	**78,452,227**	**$369,140**

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) The company commenced a normal course issuer bid on May 7, 2004, effective for one year, to repurchase for cancellation up to 2 million Class B shares, representing approximately 2.9% of the company's outstanding Class B shares. As at December 31, 2004 1,440,800 Class B shares were repurchased and cancelled at an average repurchase price of $24.28 for a total consideration of $34,976,000. Retained earnings were reduced by $27,287,000 representing the excess of the cost of the shares repurchased over their stated value.

(d) Earnings per share

Basic per share amounts have been determined by dividing income 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)	2004	2003
Weighted average number of shares outstanding, basic	**79,168**	77,645
Effect of dilutive securities		
– stock options	**645**	1,101
– employee share purchase plan		17
Weighted average number of shares outstanding, diluted	**79,813**	78,763

9. STOCK-BASED COMPENSATION PLANS

(a) Stock option plan

Eligible senior executives may be granted options to purchase Class B shares at an option price which shall not be less than the closing market price of the shares on the last trading day before the grant. Prior to January 1, 2003, non-executive directors were also eligible to be granted options. The maximum number of shares that may be issued under the stock option plan is 12,500,000 shares of which 9,953,471 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 ten years from the date the option is granted. Up to 25% of an option grant may be exercised twelve months after the date granted, and a further 25% after each subsequent anniversary.

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

	Shares	Weighted average exercise price
January 1, 2003	6,446,817	$19.91
Granted	620,625	25.50
Exercised	(1,521,342)	17.54
Cancelled	(91,875)	19.60
December 31, 2003	**5,454,225**	**21.19**
Granted	**661,300**	**29.01**
Exercised	**(1,139,167)**	**19.40**
Cancelled	**(39,396)**	**23.02**
December 31, 2004	**4,936,962**	**$22.63**

As at December 31, 2004 outstanding stock options were as follows:

Options Outstanding

Range of exercise price	Number outstanding December 31, 2004	Weighted average remaining contractual life	Weighted average exercise price
$15.75-18.05	556,500	3.9 years	$17.10
$18.50-22.20	2,566,375	5.7 years	$21.01
$25.00-29.01	1,814,087	6.8 years	$26.64
$15.75-29.01	4,936,962	5.9 years	$22.63

Options Exercisable

Range of exercise price	Number exercisable December 31, 2004	Weighted average exercise price
$15.75-18.05	556,500	$17.10
$18.50-22.20	1,580,874	$20.84
$25.00-29.01	704,884	$25.14
$15.75-29.01	2,842,258	$21.18

Subsequent to year-end, 643,531 stock options were granted at an exercise price of $22.00 per share.

(c) Under the company's annual employee share purchase plans, 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:

	2004		2003	
Maturing	**2005**	**2006**	2004	2005
Subscription price	**$26.45**	**$28.01**	$23.76	$26.45
Number of shares	**156,173**	**178,804**	154,201	178,531

(d) The company has recognized in 2004, compensation expense totalling $1.6 million (2003 – $0.9 million) for the stock options granted in 2004 and 2003 and the employee share purchase plan originating in 2004 and 2003. The fair value of the executive stock options granted in 2004 was estimated to be $5.52 (2003 – $5.28) per option at the date of grant using the Black-Scholes option pricing model with the assumptions of a risk free interest rate of 4.1% (2003 – 4.1%), expected dividend yield of 2.4% (2003 – 2.5%), expected volatility of 20.6% (2003 – 23.2%) and an expected time until exercise of 5 years (2003 – 5 years).

(e) No compensation expense has been recognized for the company's stock-based compensation plans granted in 2002. Had compensation cost been determined for these plans based on the fair value method of accounting for stock-based compensation, the company's 2004 and 2003 net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		2004	2003
Net income	• as reported	**$112,703**	$123,515
	• pro forma	**$110,305**	$121,149
Earnings per share	– Basic		
	• as reported	**$1.42**	$1.59
	• pro forma	**$1.39**	$1.56
Earnings per share	– Diluted		
	• as reported	**$1.41**	$1.57
	• pro forma	**$1.38**	$1.54

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 assumptions of a risk free interest rate of 4.7%, expected dividend yield of 2.6%, expected volatility of 24.7% and an expected time until exercise of 5 years.

(f) The company adopted a Deferred Share Unit Plan ("DSU"), for executives and non-employee directors during 2003.

An executive may elect to receive certain cash incentive compensation in the form of DSU units. Each unit is equal in value to one Class B non-voting share of the company. The units are issued on the basis of the closing market price per share of Torstar Class B non-voting shares on the Toronto Stock Exchange on the date of issue. The units also accrue dividend equivalents payable in additional units in an amount equal to dividends paid on Torstar Class B non-voting shares. DSU units mature upon termination of employment, whereupon an executive is entitled to receive the fair market value of the equivalent number of Class B non-voting shares, net of withholdings, in cash.

The company has also adopted a DSU for non-employee directors. Each non-employee director receives an award of DSU units as part of his or her annual Board retainer. In addition, a non-employee director holding less than 8,000 Class B non-voting shares, Class A voting shares, or DSU units, or a combination thereof, receives the cash portion of his or her annual Board retainer in the form of DSU units. Any non-employee director may elect to participate in the DSU in respect of part or all of his or her retainer and attendance fees. The terms of the director DSU are substantially the same as the executive DSU.

As at December 31, 2004, 93,942 units were outstanding at a value of $2.1 million (December 31, 2003 – 27,636 units, value $0.8 million).

10. INCOME AND OTHER TAXES

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

	2004	2003
Income before taxes	**$184,307**	$202,581
Provision for income taxes based on Canadian statutory rate of 36.1% (2003 – 36.6%)	**($66,600)**	($74,200)
(Increase) decrease in taxes resulting from:		
Foreign income taxed at lower rates	**2,400**	3,350
Foreign losses not tax effected	**(3,200)**	(1,760)
Manufacturing and processing profits allowance	**1,700**	3,410
Large Corporations tax and other taxes	**(2,500)**	(2,950)
Future taxes resulting from changes in statutory tax rates		(4,700)
Permanent differences	**(3,900)**	(2,350)
	($72,100)	($79,200)
Effective income tax rate	**39.1%**	39.1%

Income taxes of $56.8 million were paid during the year (2003 – $48.0 million).

The components of the provision for income taxes are as follows:

	2004	2003
Current tax provision	**$62,600**	$56,400
Future tax provision	**9,500**	22,800
Total tax provision	**$72,100**	$79,200

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

	2004	2003
Current future income tax assets:		
Receivables	**$18,336**	$18,694
Other	**5,515**	5,740
	$23,851	$24,434
Non-current future income tax assets:		
Tax losses carried forward	**$55,100**	$59,345
Pensions	**1,426**	4,623
Other	**1,530**	562
	$58,056	$64,530
Non-current future income tax liabilities:		
Property, plant and equipment	**$47,794**	$49,361
Pensions	**12,511**	8,069
Goodwill and other	**10,372**	7,254
	$70,677	$64,684

At December 31, 2004, the company had net operating loss carryforwards of approximately U.S. $45.1 million for income tax purposes for which no future tax asset has been recognized. U.S. $35.0 million of the U.S. carryforward will expire in 2021, U.S. $3.5 million will expire in 2023 and U.S. $6.6 million will expire in 2024.

11. ACQUISITIONS

The company completed a number of community newspaper acquisitions during 2004. The total purchase price was $16.1 million. The purchase price included $1.0 million of tangible assets including $0.2 million of property, plant and equipment and $3.7 million of intangible assets. $11.4 million of the purchase price was allocated to goodwill.

On June 6, 2003, the company acquired for $40.6 million the assets of the Brabant and Fairway newspaper groups, the printing operations of the Hamilton Printing Group, the Flamborough Review and the Orangeville Banner. Net tangible assets acquired were $4.3 million including $2.2 million of property, plant and equipment. $36.3 million of the purchase price has been allocated to goodwill.

The company purchased on December 1, 2003, J.H. Robinson Publishing Limited and Silva Litho Solutions Inc., for a purchase price of $8.9 million. Net tangible assets acquired were $3.2 million including $1.6 million of property, plant and equipment. $5.7 million of the purchase price has been allocated to goodwill. A number of other smaller community newspaper purchases were completed during 2003 for a total purchase price of $1.1 million including $0.9 million allocated to goodwill.

On May 8, 2003, the company acquired the remaining 49% interest in Transit Television Network for $0.8 million plus a contingent purchase price based on future operating results.

Each of the acquisitions above were accounted for under the purchase method. The consideration for each acquisition was cash. The amount of goodwill that is expected to be deductible for tax purposes is $3.3 million (2003 – $27.7 million).

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:

	Pension Plans		Post Employment Benefit Plans	
	2004	2003	**2004**	2003
Accrued benefit obligations				
Balance, beginning of year	**$557,496**	$492,595	**$56,815**	$47,609
Current service cost	**13,375**	11,067	**660**	589
Interest cost	**33,368**	31,785	**3,369**	3,086
Benefits paid	**(35,377)**	(21,292)	**(2,271)**	(2,099)
Actuarial losses	**21,375**	36,525	**1,509**	7,430
Participant contributions	**7,760**	7,387		
Past service costs	**388**			
Foreign exchange	**(802)**	(2,159)		
Special termination benefits	**2,009**			
Acquisitions		430		200
Plan amendments	**52**	1,158		
Balance, end of year	**$599,644**	$557,496	**$60,082**	$56,815
Plans' assets				
Fair value, beginning of year	**$502,572**	$421,844		
Return on plan assets	**52,574**	63,359		
Benefits paid	**(35,377)**	(21,292)		
Contributions to plan	**50,078**	17,057		
Incremental employer contribution		23,000		
Foreign exchange	**(548)**	(1,396)		
Fair value, end of year	**$569,299**	$502,572		
Funded status – deficit	**($30,345)**	($54,923)	**($60,082)**	($56,815)
Unamortized losses	**107,120**	107,727	**9,612**	8,260
Unrecognized prior service costs	**9,304**	8,925		
Accrued benefit asset (liability)	**$86,079**	$61,729	**($50,470)**	($48,555)
Recorded in:				
Other assets	**$103,216**	$86,752		
Other liabilities	**(17,137)**	(25,023)	**($50,470)**	($48,555)
Accrued benefit asset (liability)	**$86,079**	$61,729	**($50,470)**	($48,555)
Net benefit expense for the year				
Current service cost	**$13,375**	$11,067	**$660**	$589
Interest cost on benefit obligation	**33,368**	31,785	**3,369**	3,086
Actual return on plan assets	**(52,574)**	(63,359)		
Actuarial loss on benefit obligation	**21,375**	36,525	**1,509**	7,430
Past service costs	**595**	1,340		
Difference between expected return and actual return on plan assets	**17,481**	34,006		
Difference between net actuarial loss recognized and actual actuarial loss on benefit obligation	**(17,712)**	(32,104)	**(1,299)**	(7,427)
Difference between recognized and actual past service costs	**133**	(706)		
Net benefit expense	**$16,041**	$18,554	**$4,239**	$3,678

	Pension Plans		Post Employment Benefit Plans	
	2004	2003	**2004**	2003
Significant assumptions used				
To determine benefit obligation at end of year:				
Discount rate	**5.75%**	6.0%	**5.75%**	6.0%
Rate of future compensation increase	**3.0% to 3.5%**	4.0%	**N/A**	N/A
To determine benefit expense:				
Discount rate	**6.0%**	6.5%	**6.0%**	6.5%
Expected long-term rate of return on plan assets	**7.0%**	7.0%	**N/A**	N/A
Rate of future compensation increase	**4.0%**	4.0%	**N/A**	N/A
Health care cost trend rates at end of year:				
Initial rate	**N/A**	N/A	**9.5%**	10.0%
Ultimate rate	**N/A**	N/A	**5.0%**	5.0%
Year ultimate rate reached	**N/A**	N/A	**2014**	2014
Average remaining service life of active employees	**7 to 16 years**	13 to 18 years	**15 years**	15 years

Long-term liabilities includes $15.7 million related to an unfunded executive retirement plan which is supported by an outstanding letter of credit of $22.7 million at December 31, 2004.

In December 2003, in order to reduce the unfunded status, the company made an incremental contribution of $23.0 million to its Canadian deferred benefit pension plans. This contribution was in addition to the required annual employer contributions.

The effect of a 1% increase or decrease in significant assumptions used for the company's pension and post employment benefit plans would result in an increase (decrease) in the net benefit expense and accrued benefit obligation at December 31, 2004:

	Net Benefit Expense		Accrued Benefit Obligation	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Pension plans:				
Discount rate	($6,836)	$7,934	($67,761)	$78,351
Expected long-term rate of return on plan assets	(5,014)	5,014		
Rate of compensation increase	2,851	(2,639)	9,490	(8,993)
Post employment benefits plans:				
Discount rate	(228)	392	(6,703)	7,555
Per capita cost of health care	425	(396)	3,525	(3,314)

Pension plan assets, measured as at December 31, are as follows:

	2004	2003
Equity investments	**64%**	61%
Fixed income investments	**36%**	39%
Total	**100%**	100%

The company measures the accrued benefit obligations and the fair value of the Plans' assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the Plans' for funding purposes was performed as at December 31, 2003 and the next required valuation will be as at December 31, 2006.

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 2005 U.S. dollar revenue. 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. $76 million in 2005. In 2004, the forward foreign exchange contracts and options established a rate of exchange of Canadian dollar per U.S. dollar of $1.58 for U.S. $75 million.

(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:

	2004		2003	
	U.S.$	Rate	U.S.$	Rate
2004			$35,000	$1.61
2005	**$40,000**	**$1.61**	$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:

	2004		2003	
	U.S.$	Rate	U.S.$	Rate
2004			$40,000	$1.56 – 1.66
2005	**$36,000**	**$1.56 – 1.68**	$36,000	$1.56 – 1.68

(b) The company has entered into forward foreign exchange contracts which will establish a rate of exchange of Canadian dollar per Euro of $1.68 to sell 4 million Euro for 2006. The company has entered into offsetting positions with respect to 6 million Euro forward foreign exchange contracts which will mature during 2005.

(c) The fair value of the forward foreign exchange contracts and options described in notes 13(a) and 13(b) was $29.6 million favourable at December 31, 2004.

14. UNUSUAL ITEMS

Details of unusual items in 2004 and 2003 are as follows:

	2004	2003
Restructuring provisions	**($8,399)**	($11,015)
Portfolio investment loss	**(3,883)**	(2,975)
Gain on sale of newspapers		6,697
Gain on sale of Miles Kimball		6,620
	($12,282)	($673)

The 2004 unusual loss includes restructuring costs, primarily related to severance, of $8.6 million in the Newspaper Segment and $1.1 million in the Book Publishing Segment. A $1.3 million recovery was recorded related to the restructuring provision made in 2003 for the closure of Harlequin's craft kit business. In addition, a $3.9 million write-off of the company's remaining interactive portfolio investments was recorded.

The 2003 unusual loss includes restructuring provisions of $11.0 million ($6.6 million for restructuring in the Newspaper Segment and $4.4 million for the closure of Harlequin's craft kit business), and $3.0 million of write-downs on Torstar's interactive portfolio. Offsetting the losses are a gain of $6.7 million realized on a sale of eight newspapers and a gain of $6.6 million realized on the sale of an investment in Miles Kimball Company. The proceeds from these sales totaled $15.9 million.

Accounts payable and accrued liabilities include $8.4 million for restructuring provisions at December 31, 2004 ($9.4 million at December 31, 2003).

15. OTHER CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

	2004	2003
Post employment benefits	**($22,656)**	$11,697
Incremental pension contribution (note 12)		(23,000)
Write-down of portfolio investments	**4,077**	2,975
Stock-based compensation expense	**2,857**	1,680
Foreign exchange	**1,723**	4,011
Gain on sale of newspapers		(6,697)
Gain on sale of Miles Kimball		(6,620)
Other	**(245)**	335
	($14,244)	($15,619)

16. COMMITMENTS AND CONTINGENCIES

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. The company has operating lease commitments of approximately $12 million for each of the next five years.

17. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2004 financial statements.

18. SEGMENTED INFORMATION

The company operates two business segments: Newspapers and Book Publishing, which are described below. 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 and distribution of women's fiction 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.

Summary of Business and Geographic Segments of the Company:

Business Segments	Operating Revenue		Depreciation and Amortization		Operating Profit	
	2004	2003	**2004**	2003	**2004**	2003
Newspapers	**$1,003,473**	$903,385	**$48,261**	$47,897	**$127,601**	$110,116
Book publishing	**538,376**	584,924	**8,502**	7,780	**97,182**	124,121
Segment Totals	**1,541,849**	1,488,309	**56,763**	55,677	**224,783**	234,237
Corporate			**118**	127	**(15,555)**	(14,166)
Consolidated	**$1,541,849**	$1,488,309	**$56,881**	$55,804	**$209,228**	$220,071

	Identifiable Assets		Additions to Capital Assets		Additions to Goodwill & Intangible Assets	
	2004	2003	**2004**	2003	**2004**	2003
Newspapers	**$1,054,632**	$1,022,139	**$42,804**	$57,271	**$15,075**	$42,940
Book publishing	**415,114**	431,264	**2,970**	7,438		
Segment Totals	**1,469,746**	1,453,403	**45,774**	64,709	**15,075**	42,940
Corporate	**17,327**	37,290	**28**	66		
Investment in associated businesses	**22,954**	21,074				
Consolidated	**$1,510,027**	$1,511,767	**$45,802**	$64,775	**$15,075**	$42,940

Geographic Segments	Operating Revenue		Capital Assets and Goodwill	
	2004	2003	**2004**	2003
Canada	**$1,023,190**	$926,242	**$769,869**	$771,946
United States	**308,118**	345,361	**98,838**	96,297
Other (a)	**210,541**	216,706	**28,553**	29,315
Segment Totals	**$1,541,849**	$1,488,309	**$897,260**	$897,558

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

ANNUAL OPERATING HIGHLIGHTS CONTINUING OPERATIONS

	2004	2003	2002	2001	2000	1999	1998
Operating revenue (thousands of dollars)							
Newspapers	**$1,003,473**	$903,385	$856,956	$825,765	$857,989	$774,191	$645,066
Book Publishing	**538,376**	584,924	618,093	596,898	587,085	577,185	545,247
Total	**$1,541,849**	$1,488,309	$1,475,049	$1,422,663	$1,445,074	$1,351,376	$1,190,313
Operating profit & Income from continuing operations (thousands of dollars)							
Newspapers	**$127,601**	$110,116	$105,495	$54,300	$98,814	$107,562	$81,428
Book Publishing	**97,182**	124,121	119,168	99,643	83,831	80,941	92,850
Corporate	**(15,555)**	(14,166)	(12,764)	(10,773)	(9,804)	(6,708)	(5,962)
Operating profit	**209,228**	220,071	211,899	143,170	172,841	181,795	168,316
Interest	**(10,916)**	(12,806)	(12,751)	(29,143)	(41,283)	(32,170)	(17,051)
Foreign exchange	**(1,723)**	(4,011)	973	392	(1,395)	55	324
Unusual items	**(12,282)**	(673)	(3,300)	(70,544)	24,415	3,531	(9,381)
Income before taxes	**184,307**	202,581	196,821	43,875	154,578	153,211	142,208
Income and other taxes	**(72,100)**	(79,200)	(72,000)	(14,900)	(47,200)	(52,900)	(49,400)
Income before income (losses) of associated businesses	**112,207**	123,381	124,821	28,975	107,378	100,311	92,808
Income (losses) of associated businesses	**496**	134	504	(8,022)	(6,202)	(5,516)	145
Income from continuing operations before amortization of goodwill	**112,703**	123,515	125,325	20,953	101,176	94,795	92,953
Amortization of goodwill (net of tax)				(17,973)	(17,461)	(13,975)	(7,744)
Income from continuing operations	**$112,703**	$123,515	$125,325	$2,980	$83,715	$80,820	$85,209
Cash from continuing operating activities	**$178,598**	$162,976	$167,732	$91,711	$184,802	$113,582	$165,251
Average number of shares outstanding (thousands)	**79,168**	77,645	76,329	75,292	74,695	74,667	75,926
Per share Data							
Income from continuing operations	**$1.42**	$1.59	$1.64	$0.04	$1.12	$1.08	$1.12
Dividends – Class A and Class B shares	**$0.70**	$0.64	$0.58	$0.58	$0.58	$0.58	$0.565
Rate of Return on Revenue							
Operating profit	**13.6%**	14.8%	14.4%	10.1%	12.0%	13.5%	14.1%
Income before income (losses) of associated businesses	**7.3%**	8.3%	8.5%	2.0%	7.4%	7.4%	7.8%
Return on equity							
Cash from operating activities as a percentage of average shareholders' equity	**23.2%**	23.5%	28.5%	15.4%	27.5%	17.1%	23.1%
Financial position							
Total Assets	**$1,510,027**	$1,511,767	$1,480,721	$1,490,154	$1,755,764	$1,726,402	$1,380,907
Long-term debt	**317,829**	387,800	448,390	508,848	494,477	649,712	355,829
Shareholders' equity	**793,661**	745,055	643,506	534,398	660,001	684,188	647,055
Property, plant and equipment (net)	**392,141**	401,172	391,521	410,427	425,380	440,673	389,832

CORPORATE INFORMATION

OPERATING COMPANIES – PRODUCTS AND SERVICES

TORSTAR DAILY NEWSPAPERS

TORONTO STAR

CityMedia GROUP

THE HAMILTON SPECTATOR

THE RECORD
Proudly serving Waterloo Region

GUELPH MERCURY

TORSTAR DIGITAL

TORONTO STAR
www.thestar.com

workopolis.com

toronto.com
ALL YOU NEED TO KNOW ABOUT T.O.

newinhomes.com
Ontario's Largest New Home & Condo Website.

TORSTAR INITIATIVES

TORSTAR MEDIA GROUP
TELEVISION

Transit Television Network

Black Press Ltd.

COMMUNITY NEWSPAPERS

Metroland Printing, Publishing & Distributing is Ontario's leading publisher of community newspapers, publishing 67 community newspapers in 116 editions. Some of the larger publications include:

- Ajax/Pickering News Advertiser
- Aurora/Newmarket Era-Banner
- Barrie Advance
- Brampton Guardian
- Burlington Post
- Etobicoke Guardian
- Markham Economist & Sun
- Mississauga News
- Niagara This Week
- Oakville Beaver
- Oshawa/Whitby This Week
- Richmond Hill Liberal
- Scarborough Mirror

Metroland

DAILY PARTNERSHIPS

metro

Sing Tao

SPECIALTY PRODUCTS

- eye Weekly
- Forever Young
- Real Estate News
- Car Guide
- Boat Guide
- City Parent
- Premier Consumer Shows

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

HARLEQUIN

INTERACTIVE MEDIA:

eHARLEQUIN.com

PROJECT DIRECTION: Catherine Yates, Yates Communications CREATIVE DIRECTOR: Lorne Silver ART DIRECTOR AND GRAPHIC DESIGN: Joan Blastorah / Jose Luis Monzon PRODUCTION ART DIRECTOR: Darlene Dewell PRINTING: Topline Printing and Graphics PHOTOGRAPHY: Dick Loek CENTRAL IMAGING: Maria Doyle

CORPORATE INFORMATION

TORSTAR BOARD OF DIRECTORS, SEATED FROM LEFT TO RIGHT: MARTIN P. CONNELL; JOHN HONDERICH; JOHN R. EVANS; J. ROBERT S. PRICHARD; CHRISTINA A. GOLD; AND CAMPBELL R. HARVEY. STANDING FROM LEFT TO RIGHT: JACK FULLER; PETER W. MILLS; SARABJIT S. MARWAH; J. SPENCER LANTHIER; LANCE R. PRIMIS; RONALD W. OSBORNE; B. NEIL CLARK; MARTIN E. THALL; THE HON. FRANK IACOBUCCI; AND DON BABICK.

BOARD OF DIRECTORS

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

Don Babick (4)
Corporate Director
Director since 2004

B. Neil Clark (3,5)
Corporate Director
Director from 2003
to May 2004.
Reappointed June 2004

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

Jack Fuller (4)
Corporate Director
Director since 2004

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

Campbell R. Harvey (5)
Professor
Fuqua School of Business
Duke University
Director since 1992

John Honderich (3,4,5)
Corporate Director
Special Ambassador to
Mayor of Toronto
on Urban Issues
Director since 2004

The Hon. Frank Iacobucci (2,4)
Former Justice of the Supreme
Court of Canada and
Interim President
University of Toronto
Director since 2004

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

Sarabjit S. Marwah (1,3)
Senior Executive Vice-President
and Chief Financial Officer
The Bank of Nova Scotia
Director since 2003

Peter W. Mills, Q.C. (2)
Corporate Director and
Business Adviser
Director since 2004

Ronald W. Osborne (1,2)
Corporate Director
Director since 2003

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

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

Martin E. Thall (1,3)
Corporate Director
President and
Chief Executive Officer
Thall Group of Companies
Director since 2002

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
Board of Directors

J. Robert S. Prichard
President and
Chief Executive Officer

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

Karen Hanna
Senior Vice-President
Human Resource Strategy

Patrick J. Collins
Executive Vice-President
Newspapers

Marie E. Beyette
Director of Legal Services
& Corporate Secretary

Gail Martin
Vice-President of Finance

D. Todd Smith
Treasurer

CORPORATE OFFICE

One Yonge Street
Toronto, Ontario
Canada
M5E 1P9
Telephone: (416) 869-4010
Fax: (416) 869-4183
e-mail: torstar@torstar.ca
Web site: www.torstar.com

TRANSFER AGENT & REGISTRAR

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
AnswerLine (416) 643-5500 or
1-800-387-0825
(toll-free in North America)

www.cibcmellon.com/InvestorInquiry
inquiries@cibcmellon.com

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

TORSTAR

Our Goal

Torstar is a broadly based Canadian media company. Torstar was built on the foundation of its flagship newspaper, the Toronto Star, which remains firmly committed to being a great metropolitan newspaper dedicated to observing and promoting the principles of its long-time publisher, Joseph Atkinson.

From this foundation, Torstar's media presence has expanded through Metroland Printing, Publishing and Distributing, and CityMedia Group, which together include almost 100 newspapers and related services, principally in Southern Ontario. Torstar has also built a major presence in book publishing through Harlequin, which is a leading global publisher of romance and women's fiction, selling books in over 90 countries and in 25 languages.

Torstar strives to be one of Canada's premier media companies. Torstar and all of its businesses are committed to outstanding corporate performance in the areas of maximizing long-term shareholder value and returns, advancing editorial excellence, creating a great place to work and having a positive impact in the communities we serve.