2006 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

OPERATING RESULTS ($000)	2006	2005
Operating revenue	$1,528,270	$1,556,888
EBITDA (1)	202,134	253,491
Operating profit	123,332	194,549
Net income	79,141	118,843
Cash from operating activities	111,591	124,140
OPERATING RESULTS		
Operating profit – percentage of revenue	8.1%	12.5%
Cash from operating activities – percentage of average shareholders' equity	13.0%	15.2%
PER CLASS A AND CLASS B SHARES		
Net income	$1.01	$1.52
Dividends	$0.74	$0.74
Price range (high/low)	$23.66/16.90	$26.91/21.39
FINANCIAL POSITION ($000)		
Long-term debt	$724,193	$334,317
Shareholders' equity	$872,746	$841,652

The Annual Meeting of shareholders will be held Wed., May 2, 2007 at the Toronto Star building, 3rd Floor Auditorium, One Yonge Street, Toronto beginning at 10 a.m. It will also be webcast live on the internet by Torstar Media Group Television with interactive capabilities.

OPERATING REVENUE ($MILLIONS)

Year	Value
02	1,475
03	1,488
04	1,542
05	1,556
06	1,528

OPERATING PROFIT ($MILLIONS)

Year	Value
02	212
03	209
04	201
05	195
06	123

INCOME FROM CONTINUING OPERATIONS PER SHARE

Year	Value
02	1.64
03	1.59
04	1.42
05	1.52
06	1.01

EBITDA ($MILLIONS) (1)

Year	Value
02	269
03	276
04	266
05	253
06	202

(1) Operating profit before depreciation, amortization and restructuring provisions. Please see "Non-GAAP Measures" on page 22.

This annual report contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" prorisions of the Securities Act (Ontario). We caution readers not to place undue reliance on these statements as a number of factors could cause our results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. Additional information about these factors is contained on page 22 under the heading "Forward-Looking Statements".

FRANK IACOBUCCI
Chairman, Board of Directors

MESSAGE FROM THE CHAIRMAN

As Marcus Aurelius said centuries ago, the universe is change and our life is what our thoughts make it. Last year Torstar effected numerous changes to strengthen the company in challenging times.

More specifically, Torstar made a number of leadership and structural changes to its businesses to be more responsive to the challenges facing the company. These changes demonstrate the Board's and management's resolve to continue to focus on our long-term success and to create shareholder value.

In a highly competitive media environment, Torstar is not only setting attainable financial goals, but also being mindful of the values that are foundational to the mission of Torstar. Here I refer to the Atkinson Principles which in reference to the Toronto Star provide a set of beliefs that guide the Board and management in the operation of our flagship newspaper.

Of particular challenge to our newspapers is the rapidly evolving new technology. I am pleased at the ways in which Torstar, Star Media Group, Torstar Digital, and Metroland Media Group are seeking to convert a challenge into an opportunity to provide increased services to our readers and added value to our shareholders.

This year marks the retirement of two of our long-serving directors, Martin Connell and Christina Gold. Martin is our senior director having served with distinction for seventeen years. His own record of business leadership, progressive values and community involvement is a model for the values we prize. We are very grateful for his long service and many contributions.

Christina Gold has served on the Board for nine years. She is the Chief Executive Officer of Western Union and with the recent public listing of the company on the NYSE and her world-wide travel obligations, her schedule has made it too difficult for her to maintain her directorship with us. We will miss her valued contributions and continue to take pride in her as a Canadian woman providing leadership to an important global company.

Hon. Roy Romanow is standing for election to the Board this year. He is a Canadian of great distinction who has contributed richly to building a strong and progressive Canada. His experience, wisdom and judgment will be welcome additions to our deliberations.

This past year of challenge and change reinforces the importance of the remarkable people who work in the businesses of the Torstar family. Much was asked of them during the past year and they answered with their typical loyalty and inexorable commitment to further the interests of the businesses. I also wish to thank my colleagues on the Board and management for their collaborative stewardship in 2006.

FRANK IACOBUCCI

J. ROBERT S. PRICHARD
President and Chief Executive Officer

TO OUR SHAREHOLDERS

2006 was a challenging year for Torstar, but we finished the year with improving results and are well positioned for stronger results in 2007.

In 2006 we faced both difficult business conditions and a substantial negative foreign exchange impact on our earnings. As a result, we reported lower earnings throughout the year and our share price declined 11.5 percent. Our reported results in 2006, should not, however, be allowed to disguise numerous achievements and the steps we have taken to strengthen Torstar for the future. Adversity faces most businesses at some point and the true test of a company is how it responds. In this respect, I am proud of our work at Torstar this year.

Reviewing our results in 2006, the pattern is uneven, including both strengths and weaknesses. First, the strengths:

- Metroland, our community newspaper franchise and largest business, performed strongly and reported record revenues and profits. It was a very good year for Metroland. Metroland has an enviable record of innovation and growth and we remain confident that the community newspaper business is a good one with good prospects for growth.
- Harlequin, our book publishing franchise and second largest business, stabilized unit sales and – excluding foreign exchange – delivered earnings that were close to last year's. Absent the bankruptcy of a logistics supplier early in the year, profits would have been flat to last year. And in the final quarter of the year, Harlequin reported increased unit sales and, excluding foreign exchange, increased revenues and profits.
- Torstar Digital also performed well led by our online employment and careers business, Workopolis. We are investing in growing audiences and revenue for Torstar Digital and were encouraged by our progress in 2006.

These considerable strengths were more than offset by three areas of weakness. In particular:

- Foreign exchange reduced our reported profits by almost $37 million in 2006. As our 2003 to 2005 US dollar hedge ended, we faced the full impact of the rise in the Canadian dollar on our US dollar earnings from Harlequin. This impact reduced our profits by about $9 million every quarter and swamped any financial progress in our underlying operating businesses. It is important to remember that this reduction in reported profits was not a reflection of reduced strength in Harlequin's business.
- The Toronto Star had a tough year and reported lower profits on lower linage and advertising revenue. The combined forces of headwinds for large city daily newspapers and the very competitive Toronto newspaper market hurt our results as did our celebrity magazine, Weekly Scoop.
- Transit TV did not meet our revenue expectations and continued to put a drag on Torstar's overall earnings.

Faced with these mixed results, we took action to build on our strengths and reverse the negative trends. The principal steps were the following:

- In June, we closed down Weekly Scoop and stopped the losses when it was clear the path to profitability was too long and murky.
- In September, we simplified our newspaper business, integrating the CityMedia Group into Metroland to create the Metroland Media Group. This injected Metroland's culture of innovation and growth into the CityMedia properties and expanded the footprint of our best performing business.
- Later in September, we took a restructuring charge at Harlequin to reduce costs and improve profitability. We did not, however, reduce Harlequin's capacity to innovate, launch new products, expand geographically and embrace the digital space as we grow Harlequin's business.
- In October, we put new leadership in place at the Toronto Star and created the Star Media Group. In Jagoda Pike, the new Publisher, we have a highly experienced and effective business leader with a clear determination to arrest any further decline in the profitability of the Toronto Star.

- In December, we took restructuring charges at both the Star Media Group and the Metroland Media Group to reduce costs in our daily newspapers. Rigorous cost controls and focused reductions are essential to the long-term health of daily newspapers and these restructurings have allowed us to make progress on this agenda while maintaining our commitment to excellent journalism.
- In late December, we initiated a strategic review of our options for our Transit TV business and are actively considering various alternative scenarios. Whatever choice we make and execute, we expect to have lower operating losses for Transit TV in 2007 than 2006.
- Throughout the year we moved aggressively to reduce corporate costs, reducing the activities of the corporate centre and relying instead on simplification and decentralization of various functions. The cost reductions will allow us to absorb inflationary pressures without increasing overall corporate costs.

The changes we have made are the right choices for Torstar and they will strengthen our performance in 2007 and beyond. They were not easy choices and they were particularly tough for employees who lost their positions as a result. We are grateful to all of them for their contributions to Torstar and wish them well.

With these changes in place, we have strengthened our core businesses and set the stage for stronger financial performance for Torstar as a whole. We expect to deliver better results in 2007 than we did in 2006 and, with the negative foreign exchange impact behind us, this improvement will drop directly to our bottom line.

Improving the performance of our core businesses is the first step in strengthening Torstar but it is not our only step. We are also investing in our future by building our digital businesses and extending our portfolio of businesses more broadly into the multi-media space.

The digital revolution compels us to transform our existing businesses and we are working hard to do so. It also creates new opportunities for us and we are working equally hard to seize them. Our newspaper websites allow us to extend the reach and penetration of our newspapers and to create new opportunities for our advertisers. We intend to be leaders in this respect. The Internet also allows us to build new businesses not bounded by the location of our printing presses. In Workopolis, in partnership with Gesca Ltd., we have a great national franchise which is one of Canada's best Internet businesses. We have also built the Olive Canada Network which is emerging as a national leader in the online advertising market in Canada and launched LiveDeal.ca as our national online classified solution. These national initiatives, boosted by partnerships, take us beyond our traditional regional footprint to reach more consumers and serve more advertisers.

In 2006 we also increased our investment in CTVglobemedia (formerly Bell Globemedia) as CTVglobemedia acquired CHUM. The acquisition of CHUM adds strength in conventional TV, specialty TV and radio and was CTVglobemedia's top strategic priority. The combined businesses will form a preeminent Canadian media company and we are very pleased to have joined with excellent partners in owning it. We invested on the same terms as two of Canada's most respected investors – Woodbridge and Teachers'. In addition to the solid financial foundation to this investment, we have broadened our exposure as a media company to include television and radio, increased the strategic options available to Torstar and expanded our range of corporate development opportunities, particularly in the digital space.

We are also invested in Black Press, expanding our community newspaper exposure to British Columbia and Alberta. This investment has performed strongly for Torstar over the past four years and, like CTVglobemedia, has expanded our strategic options for the longer term.

In 2007, we must both deliver better results than we did in 2006 and continue to build a stronger future for Torstar through improved performance in our core franchises, the growth of our digital initiatives and the success of our investments in CTVglobemedia and Black Press. We believe we are well positioned to do just this. A combination of the changes made in 2006 and a relentless focus on operations and execution in 2007 should allow us to deliver on our goal.

Fortunately, however, as we pursue our goals, we have a lot of advantages: market leading franchises, fine leaders, a strong Board and a heavily invested controlling shareholder group with a long-term perspective. We also have confidence, borne of our long history, that we will prevail just as we have in earlier challenging times.

Our most significant advantage is the talent, creativity and commitment of my colleagues throughout Torstar. We are fortunate to attract and keep very fine people throughout our businesses. They are drawn to Torstar to be part of a worthy company that does important work. They share in our commitments: a commitment to the Atkinson Principles at 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. They care about our company and are committed to our future. By harnessing all their talent, we will succeed.

I thank all of the more than 7,000 employees at Torstar for all they do to advance our cause. We all thank our Board of Directors for their wise counsel and we thank you, our shareholders, for vesting your confidence in us. We will do our utmost to vindicate it with our work.

ROBERT PRICHARD

NEWSPAPERS AND DIGITAL

NEWSPAPERS

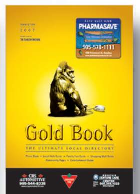
RIM'S BIG 'MISTAKES'
HEAD-SHOT HEADACHE
TORONTO STAR
Icy fear freezes city core
Flaherty banks on fee cuts for ATM service
Whiteouts trigger 75-vehicle pileup

metro
GTA marks Women's Day

星島日報
預先張揚的攻擊　付出沉重的代價
殲200塔利班 加軍10死傷
越裔男子頭部中槍致命

The Mississauga News
CVH out of touch: Doctors
Exclusive
Catholic trustees stripped of power
Phone customers left on hold
Fiery 403 car crash devastates family
Terror suspect denied bail
SOFTRON INC.

Gravenhurst
Orillia
Owen Sound
Collingwood
Barrie
Lindsay
Peterborough
Flesherton
Walkerton
Newmarket
Mount Forest
Orangeville
Cobourg
Richmond Hill
Bowmanville
Arthur
Toronto
Waterloo Guelph
Oakville
Grand Bend
Stratford
Kitchener
Hamilton
St Catharines
Woodstock
Fort Erie
Simcoe



OTHER PUBLICATIONS

Torstar's Newspapers and Digital business operation is largely concentrated in the Golden Horseshoe region of Ontario, the largest and most attractive media market in Canada. In 2006, revenues of the division were $1.06 billion, up 2% versus prior year. This represents 69% of Torstar's revenue.

Through its numerous media properties within the division, Torstar is committed to delivering editorial excellence and innovative approaches to serve readers and advertisers with relevant, local content and services across all of its properties.

As the media environment continues to evolve, special emphasis is being placed on digital initiatives to ensure we seize the opportunity to broaden our offerings to better serve our readers and advertisers.

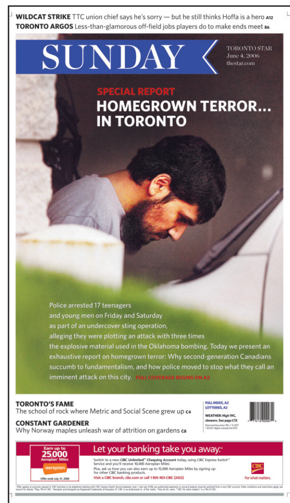
Newspapers and Digital is comprised of the Star Media Group which includes the flagship newspaper, the Toronto Star, and Torstar Digital; Metroland Media Group, built on a foundation of community papers and focused on serving local needs; and Transit Television Network, a US based operation that delivers broadcast quality information to passengers on buses via screens mounted in the vehicles.

WEBSITES

STAR MEDIA GROUP

Created in 2006, Star Media Group includes Torstar's flagship newspaper, the Toronto Star, thestar.com, Shop TV, Eye Weekly, Sway Magazine, Real Estate News, The Canadian Immigrant magazine and Torstar Syndication Services. It has an interest in the Metro free daily newspapers in Toronto, Ottawa, Calgary and Vancouver and Sing Tao Daily in Toronto, Calgary and Vancouver. In addition, for financial reporting purposes, Star Media Group includes Torstar Digital.

2006 was a difficult year for large urban dailies in North America and the Toronto Star was no exception. While readership and circulation remained stable, revenue was under substantial pressure due to structural impacts including that of the web and the increasingly competitive Toronto media market. A number of growth and cost reduction initiatives were undertaken during the year in response to these challenges.



With more than 2.7 million readers Monday to Sunday, the Toronto Star once again retained its position as Canada's leading daily newspaper by a wide margin.

The Toronto Star's editorial team provided outstanding coverage in several areas including extensive, leading coverage of Canada's efforts in Afghanistan, breaking comprehensive coverage of the arrest of 17 Toronto area residents on terrorism charges in June and, in the spirit of its founder, Joseph E. Atkinson, in-depth coverage of the ongoing issues of poverty and the working poor. The Toronto Star also published a number of investigative series including: Collision Course (an eye-opener on the state of air traffic safety), Brothels in the Sky (an examination of Toronto's growing blight of high rise brothels with a look at how to fix the problem) and Methadone (a three part series on Ontario Addiction Methadone Clinics and Programs, which are fraught with fraud and abuse).

The Toronto Star continued to be recognized for its outstanding journalism winning 25 Society of Newspaper Design Awards for excellence in design and photography, which placed the Toronto Star first in Canada and 7th in the world. Other awards included a Michener nomination, two investigative journalism awards by the Canadian Association of Journalists and six Inland Press awards for special sections created jointly by Editorial and Advertising teams.

The Toronto Star continues to boast the most National Newspaper Awards (NNAs) of any newspaper, with nine nominations and two wins in 2006. Most recently, Toronto Star photographers won first and second place in the Eastern Canada News Photographers Association Photographer of the Year Awards, and nine Star photographers placed in the top twenty.

The Toronto Star continued to invest in the products and services most important to its readers and advertisers. In recognition of the importance of retail marketplaces, the Toronto Star expanded its zoning initiative in 2006 from the Wheels section to the GTA section on Thursday and Shopping section on Saturday. 2006 also saw the launch of glossy new Wheels, Fashion, and Décor Extra sections. These initiatives have attracted many new advertisers to the Toronto Star.

In September, the Toronto Star introduced a new advertising campaign with the tagline "ask why" to reinforce the unique strengths of newspapers as compared to other forms of media, and of the Toronto Star as compared to other newspapers. This significant multi-media campaign represents the Toronto Star's largest marketing effort in several years. The response from readers and advertisers has exceeded expectations.

The Toronto Star launched Star P.M., North America's first downloadable newspaper available for free every afternoon at www.thestar.com/starpm.

thestar.com recorded its highest ever readership with almost 51 million monthly page views in November 2006 and 2.7 million monthly unique visitors (individual readers) in September 2006.

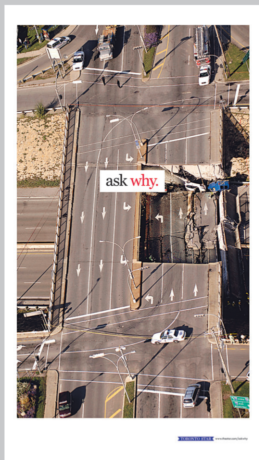
JAGODA PIKE
Publisher, Toronto Star and President,
Star Media Group

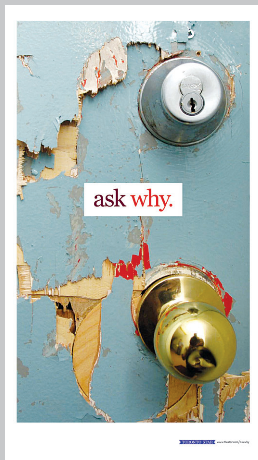
In December, thestar.com was relaunched in a new dynamic format with even better content and more features for our readers. Winning in the digital space is a strategic imperative for the Toronto Star and the re-launch is a critical foundation for the next phase of thestar.com's growth.

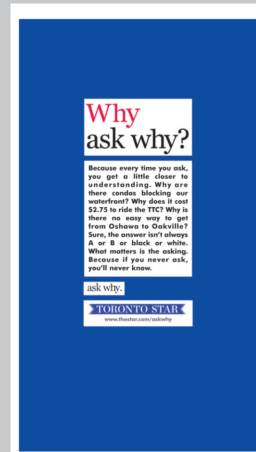
The new website is powered by a completely new content management system developed by Torstar Digital called TOPS, or Torstar Open Source Publishing System. This powerful publishing system permits faster handling of breaking news, greater innovation in presentation and content sharing and supports a wide array of advertising formats.

Real Estate News has been around for nearly four decades. Published online and in print every other Friday, Real Estate News is Toronto's only real estate book endorsed by The Toronto Real Estate Board.

Torstar Syndication Services provides value-added services to publishers, companies, governments and consumers by collecting, packaging, marketing, licensing and distributing content (text, photos and graphics). From an archive of almost one million images, covering local, national and international events for the past 100 years, Torstar Syndication Services offers reprints of more than 30,000 Toronto Star photographs







and full-pages for commercial and personal use. Registered users may also license and download images for commercial and editorial use.

SHOP TV is a shopping channel catering to the GTA. It airs both short and long form advertising with commercial lengths ranging from 30 seconds to 30 minutes. A basic cable offering, SHOP TV is available in approximately 1.5 million homes in Southern Ontario with a potential reach of over 4 million people. It also boasts an award-winning full service video production and post-production facility, including a 3D virtual set studio.

Eye Weekly is the largest circulation urban weekly in Canada. This exciting, informative entertainment resource now reaches over 280,000 readers every Thursday.

Toronto is Canada's most ethnically diverse community and Sway is a new quarterly magazine launched that celebrates the power and influence of Canada's black community. Canadian Immigrant magazine, launched three years ago in Vancouver and now also published in Toronto, is Canada's first magazine for all immigrants.

Metro, Toronto's largest reach free daily newspaper, launched three new successful weekly features in 2006, including Metro Carguide and Metro dreamhomes, which are co-branded with Star Media Group properties. In April, Sing Tao, the most widely read Chinese newspaper in Canada, introduced the Sing Tao Gourmet Guide. This free weekly supplement, which is distributed with Sing Tao, helped to increase the newspaper's circulation during 2006.

Star Media Group is committed to providing readers and advertisers with innovative solutions and services. In 2007, we will remain dedicated to building our products and our brands in print or online and to arresting any further decline in financial performance at our flagship paper, the Toronto Star.

torstar digital

TOMER STROLIGHT
President, Torstar Digital

TORSTAR DIGITAL

http://www.torstardigital.com

Torstar Digital, created in 2005 to plan and manage online strategy for Torstar, continued in 2006 its mission to deliver technology and strategic leadership to our online-only properties and to create winning online businesses that can leverage Torstar's wealth of media assets.

In 2006, Torstar Digital achieved its most important goal of building audience and made excellent progress in all of our priority areas.

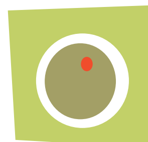
AUDIENCE

Torstar Digital's main goal in 2006 was to implement strategies to build audience and traffic and set the stage for meaningful revenue growth. The Torstar Digital audience grew from 1.7 million unique visitors in 2005 to 9.2 million in 2006. This growth was primarily due to the launch of our Olive Canada Network business and we expect to continue growth in this area in 2007.

WORKOPOLIS.COM

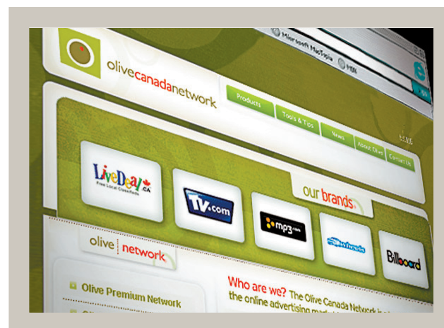
Torstar increased its ownership share in Workopolis (workopolis.com) from 40% to 50% in October of 2006 with Gesca Ltd. now owning the remaining 50%. As Canada's leading careers website, workopolis.com continued to reach record revenue, earnings and unique visitor levels. Workopolis successfully bid for and won the rights to be an official sponsor for the 2010 Olympics in Vancouver.

OLIVE CANADA NETWORK



olivecanadanetwork

Launched in July of 2006, the Olive Canada Network was a key driver of audience growth and revenue for Torstar Digital in 2006. The Olive Canada Network provides an unparalleled opportunity for national advertisers to reach a Canadian audience of more than 9.2 million unique visitors via 18 premium branded websites, including among others: CNET, ArtistDirect, Maxim and Billboard. In a very short time, Olive Canada Network has obtained a high level of brand recognition from media buying agencies and national advertisers. Olive expects to add more sites and increase its audience numbers during 2007.



TOPS 2.0

TOPS 2.0
online publishing solution

A key initiative for Torstar Digital in 2006 was the development of an integrated online publishing platform for all of Torstar's newspaper properties. During 2006, thestar.com, toronto.com and several Metroland divisions migrated to this new platform. All remaining Torstar newspaper sites are expected to be migrated during the first half of 2007.

TORONTO.COM

toronto.com
be in the know

In 2006, toronto.com was redesigned and relaunched on the new TOPS 2.0 platform, offering users a much improved user experience with increased functionality and search engine refinements. The relaunch resulted in record traffic and unique visitor levels; additionally, the increased value proposition created by the redesign attributed to significant growth in toronto.com's audience.

LIVEDEAL.CA

In January 2006, Torstar Digital and Livedeal.com launched Livedeal.ca, which provides Canadians with an online marketplace for buying and selling goods at both the local and national level. Later in 2006, Gesca Digital Ltd joined the Livedeal.ca partnership. By the end of 2006, LiveDeal.ca was averaging more than 300,000 unique visitors per month and carrying on average 45,000 listings. To increase audience distribution, agreements to host online classified sections powered by Livedeal.ca have been signed with CTV, TELUS, Aliant, Standard Radio, AOL and Lycos.

TRANSIT TELEVISION NETWORK

GERRY NOBLE
President and CEO,
Transit Television Network

Transit Television Network (Transit TV) develops, installs, services and manages digital out-of-home advertising networks on buses, rail and other modes of mass transit through LCD screens mounted inside the vehicles. It delivers full motion, broadcast quality information and entertainment programming to its audience, including audio and visual "next stop" announcements, local and national news, weather and sports, advertising and lifestyle programming. In 2006, Transit TV completed the installation of its largest market, the Metro transit system in Los Angeles, California.

Together with its systems in Orlando, Florida; Milwaukee, Wisconsin; Chicago, Illinois; Atlanta, Georgia; and Virginia Beach, Virginia, Transit TV now reaches a daily audience of 1.7 million riders through 8,900 screens in the fast growing digital out-of-home advertising market. Transit TV has also been awarded the right to negotiate a contract to install its system on the San Diego, California transit system. Other proposals are at various stages for several North American cities.

METROLAND MEDIA GROUP

ALMAGUIN NEWS

One 'i' to dot for arena

Health staff call

Ambulance service to round-the-clock

Nepean This Week WEEKENDER

Candidates of record to keep an 'Eye on Ottawa'

The Perth Courier

Hefty price tag for library expansion

Hockey Now

Shooting for the Stars

Smiths Falls THIS WEEK

YOUR COMMUNITY • YOUR NEWS

Slow start to budget planning

Is spring on its way?

2006 ACQUISITIONS AND START-UPS

2006 was a year of significant growth and change in the Metroland Media Group.

It was Metroland's first full year operating acquired newspapers in the expanded territories of Muskoka and Ottawa. During 2006, the company continued its growth in these regions through the acquisitions of the Almaguin News (Burks Falls), Nepean This Week and the Perth Courier. Metroland also launched two new publications, Smiths Falls This Week and Perth Weekender.

Later in 2006, Torstar announced a realignment of newspaper properties. Operations of the former CityMedia Group, including its three daily newspapers (The Hamilton Spectator, The Record (Waterloo Region) and the Guelph Mercury), plus two community newspaper groups (Hamilton Community News and the Fairway Group), became a part of Metroland while Torstar's interest in the Chinese language daily Sing Tao, Metro commuter dailies, and other specialty publications, including Eye Weekly and Real Estate News, transferred to Star Media Group.

This realignment resulted in a name change to Metroland Media Group Ltd., a reflection of the broad geographic coverage and depth of media offerings provided by the company. Metroland's newspaper properties now occupy a broad territory stretching from Niagara to Muskoka, from southwestern Ontario to the Kawartha Lakes, plus the Ottawa Valley region. This vast territory encompasses 3.1 million households and makes up two-thirds of Ontario. Metroland's newspapers reach 4.3 million readers, and associated web sites attract 1.5 million monthly unique visitors.

All of Metroland's more than 100 newspapers are deeply involved in the communities they serve. Local news and content makes each paper the leading source of community information in its respective market. Editorial excellence throughout Metroland was recognized again in 2006 with significant editorial awards. For the second year in a row, The Hamilton Spectator won the prestigious National Newspaper Award for investigative journalism for its "Blind Faith" series on the ties between university researchers and pharmaceutical companies. As well, Guelph Mercury reporter Deirdre Healey received the Canadian Association of Journalists award for investigative journalism for her series covering crack cocaine use in Guelph.

goldbook.ca

GOLD BOOK DIRECTORIES

MURRAY SKINNER
President,
Metroland Media Group

Metroland's community newspapers again dominated the Ontario Community Newspaper Awards, the Canadian Community Newspaper Awards and were recognized by the Suburban Newspapers of America with the second-most awards won by any group in North America.

Metroland newspapers serve thousands of local, regional and national advertisers. During 2006, Metroland newspapers carried more than 350 million lines of advertising and delivered more than 3.2 billion pre-printed inserts. Metroland concluded 2006 with a solid financial performance including 6% growth in EBITDA.

During 2006, Metroland aggressively expanded its Gold Book phone directories in both print editions and online. A significant investment in staff and infrastructure will result in 25 print directories to be published in 2007.

Also during 2006, Metroland installed the first phase of new mechanical inserting machines in seven locations. These machines were fully operational by year-end and will assist in maintaining a strong youth carrier force while providing significant cost savings.

At the end of 2006, Metroland undertook a staff reduction program including a voluntary severance program at the dailies.

With year-end restructuring complete, including new publishers Ian Oliver in Hamilton and Dana Robbins in Kitchener, Metroland looks forward to continued growth in 2007.

MAGAZINES

COMMUNITY PAPERS

DAILY PAPERS

HARLEQUIN

Harlequin is unique in the publishing industry. Building on strong brands and its dominance of series romance publishing, Harlequin publishes books for women in a variety of genres. In addition, Harlequin complements these strengths with longstanding Retail channel partner relationships and its unique Direct-To-Consumer and Overseas channels.

Harlequin remains committed to being a leading publisher of great reading entertainment for women. Pursuit of this vision is built upon four strategic themes:

1. Relevant portfolio of reading for women
2. Optimal channel and market management
3. Cost reduction and execution
4. Engaging the right people

In 2006, Harlequin made progress against these themes and positioned itself for further success in the future.

The direct-to-consumer environment in which Harlequin operates continues to prove challenging. Sales in the traditional U.S. direct mail industry continue to decline, with similar weakness in certain Overseas direct-to-consumer businesses. As with other industries, however, consumers' migration to the Internet opens new opportunities for publishers to reach readers directly. Harlequin has responded to consumer demand for online sales and social community, seeing double-digit sales growth via retail partners' websites and eHarlequin.com.

In addition, publishers are driving technological advances in the creation, promotion, and distribution of their content. Digital presence is increasing, as audiobooks and eBooks gain traction. Publishers are executing integrated online strategies and Harlequin made very good progress on this in 2006.

OPERATING REVIEW

In 2006, Harlequin earned EBITDA of $63.4 million, down $39.7 million from $103.1 million in 2005. The strengthening of the Canadian dollar and the non-recurrence of the U.S. dollar hedge contracts in place in 2005 accounted for $36.6 million of the decline. Excluding the effect of foreign

HARLEQUIN'S STRATEGY

In 2006, Harlequin focused on four strategic themes.

1. Relevant Portfolio of Reading for Women

Stabilizing the series business continues to be Harlequin's number one priority. Investing in product development,

DONNA HAYES
Publisher and Chief
Executive Officer

and promotion are the keys to delivering a relevant series reading experience. Outside of series, Harlequin continues to serve a broader group of women with entertaining content across a variety of single title genres and imprints.

2006 Progress

- In 2006, Harlequin launched several successful product lines
  - Silhouette Nocturne, a paranormal romance series
  - Kimani Romance, the only African-American romance series
  - Spice, an erotic fiction imprint
- Supporting the continued success of one of Harlequin's longest running series, title output in the Harlequin Presents line increased
- As a result of evolving editorial content and effective promotion, research revealed significant improvement in the relevance of Harlequin editorial for consumers
- Top selling authors under Harlequin imprints reached new levels of achievement
  - Collectively, Harlequin authors enjoyed 181 weeks on the New York Times Bestseller Lists; 45 titles reached the lists in 2006, up from 42 in 2005
  - Debbie Macomber reached a larger audience than ever before, generating a 29% increase in the number of weeks her titles spent on the New York Times Bestseller Lists
  - Susan Wiggs, Heather Graham and Carla Neggers also had their best years to date
- One year after launching a North American eBook program, Harlequin has the largest offering of romance eBooks in the market and 6,000 titles in its global digital warehouse

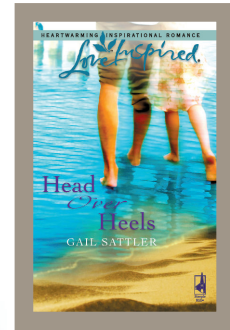
2007 Initiatives

- Drive product innovation by building on consumer expertise
- Continue to improve the relevance and appeal of series romance books
- Launch Harlequin Everlasting Love, a new sweeping epic romance series
- Launch Kimani TRU, a new fiction line for African-American teens
- Broaden the range of content Harlequin publishes
  - Increase emphasis on thriller and paranormal fiction
  - Expand into nonfiction, a segment representing 60% of the U.S. consumer book publishing market

- Maintain focus on developing and promoting Harlequin's top authors to higher levels of performance

2. Optimal Channel and Market Management

Serving existing channels more effectively and identifying new channels through which to sell books remain top priorities for Harlequin.



2006 Progress

- Retail North America significantly improved the efficiency of series book sales – distributing fewer books and selling more
- In partnership with key North American retailers, Harlequin conducted a large scale series sampling program to drive awareness and trial
- Key Overseas markets performed well, particularly Australia, Japan, and the Nordic region
- Harlequin's Brazil joint venture ended its first full fiscal year on track to profitability
- eHarlequin.com delivered double-digit sales growth and expanded to support eBook sales

2007 Initiatives

- Continue to optimize sales of series books in the Retail North America channel
- Continue to introduce Harlequin titles to new distribution channels, particularly in Overseas markets
- Grow online sales via Harlequin's Internet partners and eHarlequin.com in all markets
- Continue to grow sales of digital products, including audiobooks, eBooks and mobile content in the U.S. and Japan
- Sign new license deals in eastern Europe and conduct research and build relationships in potential expansion markets, such as India, Taiwan, and China

3. Cost Reduction and Execution

While Harlequin has stabilized net units and grown revenue before the effect of foreign exchange, costs have grown at a faster pace in recent years. In response to this margin pressure, Harlequin undertook a significant cost reduction initiative in 2006.

2006 Progress

- Reduced overheads globally
- Focused advertising and promotion budgets on the most effective activities in Retail North America and Direct-To-Consumer
- Streamlined processes and created efficiencies in managing resources and assets, such as cover art and paper usage
- Invested in short-run printing capabilities that will reduce inventory costs and improve availability of top authors' titles

2007 Initiatives

Going forward, Harlequin will continue to identify ways to reduce costs and improve workflow.

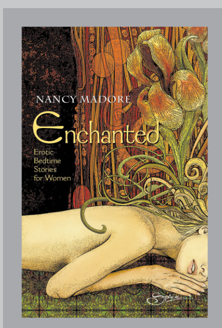
4. Engaging the Right People

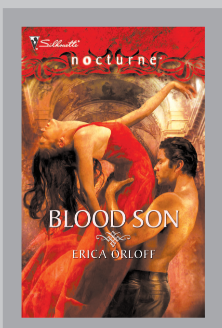
The foundation of Harlequin's business lies in the talent of its author base and employees. Accordingly, Harlequin works to align the organization with its strategies, develop and retain talent, and reward performance. Balanced with these activities is Harlequin's need to maintain an efficient cost structure.

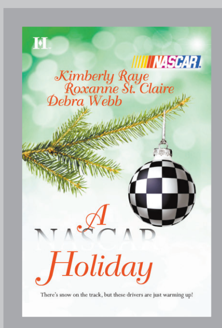
FUTURE OUTLOOK

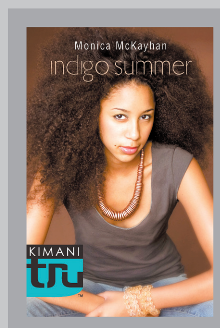
By continuing to publish books that women want to read, Harlequin maintains its unique position in an increasingly competitive market. Publishing editorial in diverse genres allows Harlequin to reach new readers, while remaining fresh and relevant to its loyal base.

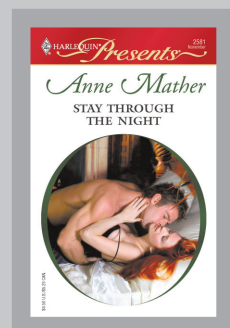
Looking ahead, Harlequin will continue to deliver relevant editorial in innovative formats. Expanding and optimizing channels will make Harlequin books more widely available at attractive margins. Reducing costs and improving execution are expected to grow Harlequin's profitability, while facilitating continued investment in brands and authors.











CTV GLOBEMEDIA

CTVglobemedia

On August 30th 2006, Torstar completed its acquisition of its 20 percent equity interest in CTVglobemedia Inc. for $283 million. This acquisition was originally announced in December 2005, subsequently received all regulatory approvals, and closed in August, 2006. CTVglobemedia is one of Canada's leading multimedia companies. Its assets include the CTV television network, Canada's leading private broadcaster with 21 conventional television stations across Canada, and interests in 17 specialty channels including TSN, Discovery Channel, The Comedy Network and various others; The Globe and Mail, Canada's national newspaper; an approximate 15% interest in Maple Leaf Sports and Entertainment, owner of the Toronto Maple Leafs, Toronto Raptors and the Air Canada Center; and a 50% interest in Dome Productions, a North American leader in the provision of mobile high definition production facilities.

The CTVglobemedia investment gives Torstar exposure to conventional and specialty television in Canada and strengthens Torstar as a broadly based media company by diversifying through its participation in CTVglobemedia's national revenue streams. A second strategic consideration of the investment in CTVglobemedia was its potential to provide Torstar with the opportunity to participate in Canadian media industry consolidation opportunities. Such a consolidation opportunity presented itself in July 2006 with Chum Limited's decision to consider offers for the company and CTVglobemedia's subsequent announcement that it would make an offer to acquire all outstanding shares of Chum Limited with the full support of the controlling shareholders.

Chum is one of Canada's leading media companies and content providers. It owns and operates 33 radio stations, 12 local television stations and 21 specialty channels, as well as an extensive international licensing program for Chum original content, which reaches into 130 countries.

Torstar participated in this transaction by subscribing for $94 million of additional equity to maintain its 20% interest in CTVglobemedia. Chum Limited had been CTVglobemedia's top strategic acquisition prospect. This transaction remains subject to regulatory approval.

In October 2006, Torstar along with Gesca announced that together they had acquired CTVglobemedia's 40% interest in Workopolis. Workopolis is Canada's leading internet-based careers and recruitment business and was formed in 2000 by Torstar and the Globe and Mail with Gesca entering the partnership in 2002. With this transaction Torstar increased its ownership stake from 40% to 50% and Gesca increased its ownership stake from 20% to 50%. The transaction valued Workopolis at $300 million and although no longer an equity owner of Workopolis, CTVglobemedia will continue its support of the business through a marketing and distribution arrangement.

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, B.C. Black Press publishes more than 150 newspapers (both dailies and weeklies) and has 17 press centres in Western Canada, Washington State, Ohio and Hawaii.

During 2006, Black Press expanded its presence in the United States. In the summer of 2006, Black Press acquired the Akron Beacon Journal, the daily newspaper in Akron, Ohio. The purchase price was approximately U.S. $165 million. Through a series of acquisitions, Black Press also increased its community newspaper holdings in the Washington state area.

Through this investment, Torstar has expanded its community based newspaper presence into Western Canada and the United States. Torstar will leverage Metroland's expertise in community newspapers to help Black Press grow in the years ahead.

COMMITMENT TO OUR COMMUNITIES

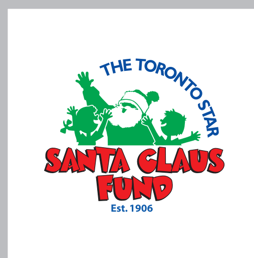
At Torstar, we believe that serving and being a part of our many communities are both our responsibility and our privilege.

Former Toronto Star publisher, Joseph E. Atkinson, was relentless in pressing for social and economic programs to help the less advantaged members of our city. His strong values and beliefs formed what are now called The Atkinson Principles and are the leading force behind the Toronto Star's editorial and charitable endeavours. For more than one hundred years, the Atkinson Principles have echoed Mr. Atkinson's words and have been the guidelines for future generations of Toronto Star staff and readers to follow. His passion for the youngest and most needy in our community resulted in the establishment of two separate children's charities. Mr. Atkinson's goal was to ensure that underprivileged children were given a memorable camp experience in the summer, and were not forgotten at Christmas. This legacy is now ours to continue in the community, well into the next century.

The Toronto Star covers all administrative expenses of The Toronto Star Children's Charities. This tradition has ensured that 100 per cent of public donations are spent directly on the young and vulnerable. In 2006, more than 75,000 children and teens were supported by the Funds.

The Toronto Star Fresh Air Fund was launched in 1901. Joseph Atkinson appealed to Toronto Star readers to help underprivileged children escape the sweltering heat wave that summer. His message did not go unnoticed or forgotten. Today, children with a multitude of debilitating illnesses, mental and physical handicaps and children from low-income families are given the opportunity to explore the fun and lessons of camp each summer. In 2006, The Toronto Star Fresh Air Fund once again helped alleviate the daily stresses for more than 25,000 children by providing them with lasting, memorable summer camp experiences. The Fund raised $591,452 to support 98 day and residential camps.

2006 proved to be another stellar fundraising year for The Toronto Star Santa Claus Fund. The fund celebrated its 101st year and ensured that 45,000 children received a gift at Christmas. Surpassing its $1.4 million goal, the fund raised in excess of $1.5 million by December 23, 2006 from Toronto Star readers as well as supporters of our sister papers, The Mississauga News, The Brampton Guardian and Ajax-Pickering News Advertiser. The gift boxes, delivered directly to children's homes by thousands of volunteers, contained the traditional warm sweater, hat, mittens, socks, candy, book and small toy. In 2005, a dental hygiene kit was included in gift boxes for children aged 4 to 12. This item was continued in 2006 as was the youth program for 5,500 teens, age 13 to 17. Each youth received movie passes and a gift certificate to the theatre's concession stand.



The Toronto Star continues to extend a helping hand in the community by supporting the Toronto Public Library literacy programs, Children's Aid Foundation and journalism education with scholarships to Ryerson University, Loyalist College, Humber College and Sheridan College.

HARLEQUIN

Now in its fourth year of operation, the Harlequin More Than Words program honours ordinary women who make extraordinary contributions to their communities. Each year nominations are received from across North America and Harlequin presents five women with the More Than Words award. Harlequin is proud to make a $10,000 donation to each of the award winners' associated charities and to promote the charities online and through a North America-wide publicity campaign. In addition, five of Harlequin's leading authors donate their time and creative talents to a collection of short stories inspired by the award winners' dedication and compassion. Proceeds from the book are reinvested in Harlequin's charitable initiatives. For more information about this program and the award winners, please visit www.HarlequinMoreThanWords.com.

METROLAND MEDIA GROUP

Metroland Media Group's newspapers provide support and leadership to literally hundreds of charitable efforts throughout the communities they serve. In 2006, Metroland properties donated in-paper space worth more than $4.6 million to a variety of worthy causes. Each newspaper selects suitable local charities and provides support by donating promotional space in the newspapers. Here are just a few examples:

The Hamilton Spectator has a long tradition of providing camping experiences for disadvantaged children, through funding raised in the Summer Camp Fund. In 2006, more than 1,300 children spent a week at camp. Also in 2006, The Hamilton Spectator launched an exciting new initiative stemming from its trailblazing editorial initiative, The Poverty Project, launched in 2005. Kids Unlimited is an outreach program by employees to directly support poverty reduction in the Hamilton community. The first initiative is the 'adoption' of a local elementary school in the inner city, in which nearly half of the families live in poverty. Kids Unlimited is putting corporate and human resources towards helping the students reach their full potential.

Since 1996, The Record has held its annual Books for Kids book drive, providing new books for children of need in Waterloo Region. In 2001, the Guelph Mercury joined forces with The Record and the campaign grew to service Guelph and Wellington County. Since 1996, over 50,000 books have been collected by Books for Kids and distributed to area children through the Salvation Army's Christmas Bureau program.

The Annual Scarborough Walk of Fame, launched in 2006, showcases Scarborough citizens whose accomplishments bring pride to the community. The Scarborough Mirror played a key role in the planning and implementation of the annual event. The Walk of Fame committee, of which The Mirror was one of three key sponsors, also presented three charitable organizations that serve at-risk youth with cheques for $10,000 each.

In 2006, Mississauga News staff organized and served the first annual community thanksgiving dinner to more than 100 families, including seniors, who experience hunger and rely on local food banks for nutrition. The dinner is an extension of the summer breakfast program organized and staffed by The Mississauga News. The program runs during July and August to bridge the gap between school-based programs that end in June.

The Mississauga News was recognized with an award from Heritage Mississauga for a significant contribution for the preservation and conservation of the Port Credit Log Cabin. In addition to the preservation of local heritage, the cabin will be used as a relaxed meeting place for older children who have fled from abusive homes.

DAVID HOLLAND
Executive Vice-President and
Chief Financial Officer

FINANCIAL RESULTS

Results from underlying operations were mixed in 2006 with growth experienced in Metroland Media Group, continuing stability in results at Harlequin and a decline in earnings in the Star Media Group. Revenues were $1.53 billion, down 1.8% versus prior year. Excluding foreign currency related impacts, revenues were up 2% in the year. Earning before interest, taxes, depreciation and amortization ("EBITDA") before restructuring charges declined to $202.1 million in 2006 from $253.5 million in 2005. The decline in EBITDA was primarily due to $36.6 million in foreign currency related year over year impact, the majority of which was due to the non-recurrence of a 2005 gain from hedging U.S. dollars.

- The Metroland Media Group, focused on serving its local communities, had a strong year. Revenue grew by 5.2% to $558.2 million and EBITDA grew by 6.3% to $113.5 million.
- Harlequin had a solid year in 2006, experiencing a modest decline of 4.5% in underlying EBITDA to $63.4 million excluding foreign currency related impact. Results in the year were negatively affected by the bankruptcy of a supplier to the Direct to Consumer business. The North America Retail business continued to maintain its positive momentum.
- The Star Media Group's results were $52.8 million, down $18.9 million versus prior year. The Toronto Star continued to face revenue challenges similar to many large urban newspapers in North America.

Looking ahead to 2007, we will remain focused on execution of our plans and at the same time will be disciplined about making the investments necessary to enhance value over the long term.

DAVID HOLLAND

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For the year ended December 31, 2006

Dated: February 28, 2007

The following review and analysis of Torstar Corporation's ("Torstar") operations and financial position is supplementary to, and should be read in conjunction with the audited consolidated financial statements of Torstar Corporation for the year ended December 31, 2006.

Torstar reports its financial results under Canadian generally accepted accounting principles ("GAAP") in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding for the applicable period.

Non-GAAP Measures

Management uses both operating profit, as presented in the consolidated statements of income, and EBITDA as measures to assess the performance of the reporting units and business segments. EBITDA is a measure that is also used by many of Torstar's shareholders, creditors, other stakeholders and analysts as a proxy for the amount of cash generated by the reporting unit or segment. EBITDA is not the actual cash provided by operating activities and is not a recognized measure of financial performance under GAAP. Torstar calculates EBITDA as the reporting unit or segment's operating profit before restructuring provisions, interest, gains on sale of properties, taxes, 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.

Forward-looking statements

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 as of the date of this report. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate", "believe", "plan", "forecast", "expect", "intend", "would", "could", "if", "may" and similar expressions. All such statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. These statements reflect current expectations of management regarding future events and operating performance, and speak only as of the date of this report. The Company does not intend, and disclaims any obligation to, update any forward-looking statements whether as a result of new information or otherwise.

By their very nature, forward-looking statements require management to make assumptions and are subject to inherent risks and uncertainties. There is a significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that management's assumptions may not be accurate and that actual results, performance or achievements may differ significantly from such predictions, forecasts, conclusions or projections expressed or implied by such forward-looking statements. We caution readers to not place undue reliance on the forward-looking statements in this MD&A as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, outlooks, expectations, goals, estimates or intentions expressed in the forward-looking statements.

These factors include, but are not limited to: general economic conditions in the principal markets in which the Company operates, the Company's ability to operate in highly competitive industries, the Company's ability to compete with other forms of media, the Company's ability to attract advertisers, cyclical and seasonal variations in the Company's revenues, newsprint costs, labour disruptions, foreign exchange fluctuations, restrictions imposed on existing credit facilities, litigation, and uncertainties associated with critical accounting estimates.

We caution that the foregoing list is not exhaustive of all possible factors, as other factors could adversely affect our results. For more information, please see the discussion starting on page 24 concerning the effect certain risk factors could have on actual results, as well as the discussion in the Company's current Annual Information Form, which is incorporated herein by reference.

In addition, a number of assumptions, including those assumptions specifically identified throughout this MD&A, were applied in making the forward-looking statements set forth in this MD&A, some or all of which may prove to be incorrect.

OVERVIEW

Torstar Corporation is a broadly based media company listed on the Toronto Stock Exchange (TS.B). Torstar reports its operations in two segments: Newspapers and Digital; and Book Publishing. Its Newspapers and Digital Segment includes the Star Media Group led by the Toronto Star, Canada's largest daily newspaper and digital properties including thestar.com, toronto.com, LiveDeal.ca, Workopolis, and Olive Canada Network; and Metroland Media Group, publishers of community and daily newspapers in Ontario. Its Book Publishing Segment represents Harlequin Enterprises, a leading global publisher of women's fiction. Torstar also has investments in CTVglobemedia Inc. ("CTVgm") and Black Press Limited which are accounted for as Associated Businesses, using the equity method. In 2006, Torstar had revenues of $1.5 billion and net income of $79.1 million.

NEWSPAPERS AND DIGITAL SEGMENT

The Newspapers and Digital Segment includes the Star Media Group; Metroland Media Group ("Metroland"); and Transit Television Network ("Transit TV").

The Star Media Group and Metroland Media Group reporting units have been aggregated into one segment due to their similar economic factors, geography, customers, distribution channels and the level of interaction between the reporting units. Transit TV has been included in the Newspapers and Digital Segment as it, like the other businesses in this segment, is a platform providing news content and generates advertising revenue. However, this reporting unit is small relative to the other reporting units in the segment. Each of the reporting units is discussed separately in the MD&A in order to provide more specific information about their operations.

During the fall of 2006 and early 2007, Torstar announced restructurings of its newspaper and digital operations. These restructurings resulted in the realignment of Torstar's various newspaper and digital businesses into the Star Media Group and Metroland Media Group reporting units. The financial results presented in this report have been restated to reflect this change in the reporting units.

Star Media Group includes the Toronto Star, with the largest circulation and readership of any daily newspaper in Canada; Torstar's interests in Sing Tao Daily and the Toronto, Ottawa and Vancouver editions of Metro; thestar.com; Toronto.com; LiveDeal.ca; and Torstar Media Group Television ("TMG TV"). Recognizing the level of interaction between the Star Media Group digital businesses and Torstar Digital, including common systems and strategic planning, Star Media Group also includes the Torstar Digital corporate group, Workopolis and Olive Canada Network.

Torstar owns 100% of Toronto.com, a local search site offering business, event and entertainment listings and information. LiveDeal.ca is a web classified site with a broad selection of free listings that is ideal for trading hard-to-ship items such as automobiles, furniture, appliances, real estate and other "try before you buy" items. Torstar owns 40% of LiveDeal.ca in partnership with Gesca Ltd. and LiveDeal, Inc. Torstar owns 50% of Workopolis, Canada's leading provider of Internet recruitment and job search solutions, in partnership with Gesca Ltd. Olive Canada Network is a premium content network that reaches over 13 million unique Canadian visitors monthly on its network of top-tier sites including CNET.com, ArtistDirect.com, thestar.com, LiveDeal.ca, toronto.com, cyberpresse.ca and tetesaclaques.tv. Torstar owns 75%[1] of Olive Canada Network in partnership with Gesca Ltd.

The Toronto Star's Vaughan Press Centre primarily supports the Toronto Star's printing needs but is also engaged in commercial printing, including printing the National Post. TMG TV is a 24–hour direct response television business operating the SHOP TV Canada channel and TMG TV Productions.

Metroland Media Group (the combination of the former Metroland and CityMedia Group Inc.) publishes in print and on-line more than 100 community newspapers and three daily newspapers – The Hamilton Spectator, The Record (Kitchener, Cambridge and Waterloo) and the Guelph Mercury. It is also the publisher of Goldbook Directories, a number of specialty publications, and operates several consumer shows throughout Ontario through its Premier Consumer Shows division. Metroland Media Group has nine web press facilities which print the Metroland newspapers but also engage in commercial printing.

Transit TV is a U.S. based operation that delivers full motion, broad-cast–quality information and entertainment to passengers on buses, rail and other modes of mass transit on screens mounted in the vehicle. Torstar is currently reviewing its strategic options for Transit TV.

[1] *Effective January 1, 2007.*

BOOK PUBLISHING SEGMENT

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 2006 Harlequin published books in 26 languages in 109 international markets. Harlequin reported a total of 131 million books sold in 2006, consistent with 2005.

Harlequin sells books under several imprints including Harlequin, Silhouette, MIRA, Red Dress Ink, Steeple Hill, LUNA, HQN and Kimani Press. Different genres of women's fiction are published under the various imprints.

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 preset 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.

ASSOCIATED BUSINESSES

On August 30, 2006, Torstar acquired a 20% equity interest in Bell Globemedia Inc. for $283 million. In January, 2007, Bell Globemedia changed its name to CTVglobemedia Inc. ("CTVgm"). CTVgm is a Canadian multi-media company with ownership interests in Canada's leading media properties including: CTV Inc., the number-one private broadcaster, and The Globe and Mail, the leading national daily newspaper. CTV operates 21 conventional television stations across Canada and offers a wide-range of quality news, sports, information and entertainment programming. Additionally, CTV has interests in 17 specialty channels. The Globe and Mail also publishes Report on Business magazine and also owns many interactive properties including globeandmail.com. Other CTVgm investments include: an approximate 15 percent interest in Maple Leaf Sports and Entertainment Ltd., which owns the Toronto Maple Leafs, Toronto Raptors and the Air Canada Centre; and a 50 percent interest in Dome Productions, a North American leader in the provision of mobile high definition production facilities. During September and October 2006 CTVgm acquired the issued and outstanding shares of CHUM. The common shares of CHUM have been placed in trust pending regulatory approval of the transaction. CHUM owns and operates 33 radio stations, 12 local television stations and 21 specialty channels. Torstar made an additional investment of $94 million in CTVgm in September 2006 in order to provide its pro-rata share of the equity contribution in respect of the CHUM purchase price, maintaining its 20% interest.

Torstar has a 19.35% equity investment in Black Press Ltd. and a 30% equity interest in Q-ponz Inc. Black Press Ltd. is a privately held company that publishes more than 150 newspapers (both dailies and weeklies) and has 17 press centres in Western Canada, Washington State, Ohio and Hawaii. In 2006, Black Press acquired the Akron Beacon Journal, the daily newspaper in Akron, Ohio. Torstar may make additional investments in Black Press under certain circumstances. Black Press faces many of the same risks as Torstar's community newspapers, but in a different geography which may have a different impact on revenues and operating income. Qponz Inc. is a coupon envelope business based in Toronto.

KEY FACTORS AND RELATED RISKS AFFECTING REVENUES AND OPERATING INCOME

Torstar is subject to a number of risks and uncertainties, including those set forth below. A risk is the possibility that an event might happen in the future that could have a negative effect on the financial condition, results of operations or business of Torstar. The actual effect of any event on Torstar's business could be materially different from what is anticipated. A further discussion of risks affecting Torstar and its businesses is set forth in Torstar's current Annual Information Form, which is incorporated herein by reference.

Revenues

Torstar's newspapers generate revenue primarily from advertising and from paid circulation for the daily newspapers. Advertising revenue includes in-paper advertising, inserts/flyers, specialty publications as well as on-line ads. Competition for advertising revenue comes from local and regional newspapers, radio, broadcast and cable television, direct mail, Internet and other communications and advertising media that operate in Torstar's markets. The extent and nature of such competition is, in large part, determined by the location and demographics of each market and the number of media alternatives available. For example, just considering the competition from other daily newspapers, the Toronto Star is part of an intense battle with five other daily newspapers in the Greater Toronto Area ("GTA"), including two free daily papers.

Advertising revenue is sensitive to prevailing economic conditions, including changes in local and regional economic conditions, and the level of consumer confidence. A large portion of Torstar's advertising revenue is derived from the automotive, technology, retail, telecommunications, travel and entertainment sectors. These sectors have

historically been sensitive to changes in economic conditions. Advertising revenue tends to be cyclical with the second and fourth quarters being stronger than the first and third.

Advertising revenues are sensitive to changes in linage and rate. A 1% shift in either advertising linage or the average line rate at the combined daily newspapers impacts Torstar’s revenues by approximately $3.6 million over a full year. A 1% shift at the community newspapers impacts revenues by approximately $2.4 million over a full year.

Readership levels are an important factor in the ability of a newspaper to generate advertising revenues. Changes in everyday lifestyle may mean that people choose not to devote as much time to reading newspapers as often as they used to. In addition, increased usage of the Internet over the past decade has changed how people receive news and other information which may also reduce their newspaper reading and purchasing habits.

In response to this trend, Torstar’s newspapers have established electronic versions which are updated regularly during the day for breaking news and which have various interactive features. These sites complement the printed product and provide both readership and advertising opportunities. In addition, Torstar has made investments in digital operations including classified websites where revenues have migrated over the past few years. In 2006, digital revenues represented 3.2% of Torstar’s Newspaper and Digital Segment revenues. However, digital revenues tend to be lower than traditional media, due in part to the lower cost structure and, in some cases, low barriers to entry. Generating a significant level of digital revenues may require a large volume of transactions at relatively low rates. To get the volume of transactions, a critical mass of relevant content and brand recognition and effective technology are key requirements. A challenge for Torstar in the digital space is that the playing field continues to change at a rapid pace, there are lower barriers to entry and the competitors include global players with access to greater financial and other resources than Torstar.

TMG TV generates revenues primarily by selling time for direct response advertising on the SHOP TV Canada channel. The direct response television business in Canada has been challenging for several years. Federal regulations on products and a shift to digital tuning (reducing channel surfing) have negatively affected the Canadian direct response television business. Channel placement with the cable networks is an important selling feature for this business. TMG TV’s contract with Rogers for access to their cable network in the Toronto area expired on December 31, 2006. A new contract has not been negotiated but the current access arrangements have continued.

The Transit TV model is to generate revenues by selling advertising space on programming broadcast on buses. The medium enjoys the advantage of a relatively “captive” audience, is less expensive for advertisers than television and may provide better access to key demographics. However, as a new product, there is no guarantee of commercial success and Torstar’s experience to date is that advertisers have been slow to embrace it.

A key risk for book publishing revenue is to be able to publish books that consumers want to read and to have them available where and when consumers are making their purchasing decision. Given the large percentage of its sales in the U.S., Harlequin has considerable exposure to trends occurring in the U.S. book market. Harlequin regularly introduces new product lines in order to attract new readers and discontinues products where consumer interest has declined. Harlequin also continues to expand its distribution network through retail stores, by direct mail and through the Internet.

Books sold through the retail channel are sold to wholesalers and retailers with a right of return leaving the ultimate sales risk with Harlequin. In order to reflect the ability of the retailers to return books that they don’t sell, a provision for returns is made when revenue is recognized. (See additional information in the Critical Accounting Policies and Estimates section of this MD&A.) The provision is then 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. Single title books tend to have a higher variability in return rates than series books, increasing the related risk in the provision for returns estimate.

A key revenue risk for Harlequin’s direct-to-consumer business is maintaining the customer base. This is done 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, regulation and competitive pressure from alternate channels. This makes the acquisition of new customers through promotional mailings difficult. Harlequin has responded to these challenges in a number of ways including the use of its Internet site, eharlequin.com, to attract new customers.

Employees

Torstar has a number of collective agreements at its newspaper operations that have historically tied annual wage increases to cost of living. The newspapers face the risk of future labour negotiations and the potential for business interruption should a strike, lockout or other labour disruption occur. Such an interruption could materially adversely affect Torstar’s revenue. The level of unionization at the newspapers also impacts the ability of Torstar to respond quickly to downturns in the economy that negatively impact revenue.

Five of the Toronto Star’s collective agreements covering approximately 770 employees at One Yonge Street and 80 employees at the Vaughan Press Centre will expire at the end of 2007. Three additional agreements covering approximately 400 employees at the Vaughan Press Centre will expire at the end of 2011. Sing Tao’s two collective agreements covering 125 employees expired at the end of 2006. A tentative settlement of both contracts was reached subsequent to year end and both are scheduled for a ratification vote the first week of March. In February 2007, approximately 50 employees at Metro Toronto voted in favour of unionization. Negotiations for a first contract are expected to be scheduled during 2007.

Metroland Media Group has a number of collective agreements throughout their operations covering approximately 900 employees. Five agreements were settled at the end of 2006 and negotiations are being scheduled for six agreements covering approximately 400 employees that expired at the end of 2006. Five other agreements covering approximately 175 employees will expire during 2007. During the second quarter of 2006, a settlement was reached for the 18-month strike at the Hamilton Web facility.

Newsprint Costs

Newsprint costs are the single largest raw material expense for Torstar’s newspapers and are one of the Newspapers and Digital Segment’s most significant operating costs. Newsprint is priced as a commodity with price increases or decreases implemented at regular intervals. In 2006, Torstar’s newsprint price was on average 3.5% higher than in 2005. Based on pricing trends, the average newsprint price is expected to decline in 2007. 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.

Distribution

Distribution of newspapers is made through independent contractors with adults primarily used for the daily newspapers and local youth used for many of the community newspapers. For the community newspapers, the ability to attract and retain a youth carrier force is a key business concern. For all of the newspapers, distribution costs are negatively impacted by higher fuel prices.

Technology

The media industry is experiencing rapid and significant technological changes. This requires Torstar to be able to attract and retain appropriately skilled staff to manage the changes and may require capital investments in the future.

Foreign Exchange

As an international publisher, approximately 95% of Harlequin’s revenues are earned in currencies other than the Canadian dollar. As a result, Harlequin’s reported revenues and operating profits are affected by changes in foreign exchange rates relative to the Canadian dollar. The most significant risk is from changes in the U.S.$/Cdn.$ exchange rate. Harlequin also has exposure to many other currencies, the most significant of which are the Euro, Yen and British Pound. From 2005 to 2006, the Canadian dollar strengthened by 6% relative to the U.S. dollar, Euro and the British Pound and by 12% to the Yen. The total impact of Harlequin’s exposure to foreign currencies in 2006 as compared to 2005 was a decrease of $7.9 million in Harlequin’s reported operating income.

To offset some of this exposure, Torstar enters into forward foreign exchange and option contracts, primarily for U.S. dollars. (See additional information on foreign exchange risks in the Financial Instruments section of this MD&A.) In 2006, Torstar realized gains of $0.8 million related to $30.0 million of U.S. dollar contracts at an average exchange rate of $1.16. (In 2005, gains of $29.5 million related to U.S. $76.0 million of U.S. dollar contracts at an average rate of $1.59.) These gains were included in Harlequin’s reported revenue and operating income. The U.S. dollar contracts that matured in 2005 were entered into in 2002 when the Canadian dollar was much weaker. The level of gains realized in 2005 on U.S. dollar contracts is not expected to recur in the future.

Interest Expense

Torstar may be exposed to fluctuations in interest rates under its borrowing arrangements. With the increased levels of long-term debt arising from Torstar's investment in CTVgm in 2006, Torstar has entered into interest rate swap agreements to fix the rate of interest on $250 million of Canadian dollar borrowings at 4.3% (plus the interest rate spread based on Torstar's long-term credit rating, currently 0.6%) for the next five years. Torstar also has a U.S. interest rate swap arrangement that fixes the interest rate on U.S. $80 million of borrowings at approximately 3.5% (plus the interest rate spread based on Torstar's long-term credit rating, currently 0.6%) through December 2007.

OPERATING RESULTS – YEAR ENDED DECEMBER 31, 2006

Overall Performance

Total revenue was $1,528.3 million in 2006, down $28.6 million from $1,556.9 million in 2005. Newspaper and Digital revenue grew $20.7 million to $1,056.5 million including $14.3 million from acquisitions. Reported Book Publishing revenue was $471.8 million in 2006, down $49.3 million from $521.1 million in 2005. Underlying revenue growth of $9.4 million was more than offset by a $30.0 million decline from the strengthening of the Canadian dollar during the year and $28.7 million from lower gains on U.S. dollar hedges year over year.

Operating profit was $123.3 million in 2006, down $71.2 million from $194.5 million in 2005. The decrease included $20.2 million of higher restructuring provisions in 2006. Newspaper and Digital Segment operating profit was $107.8 million in 2006, down $12.5 million from $120.3 million in 2005 as lower revenue at the Toronto Star and the investment in Torstar Digital more than offset improved results at Metroland Media Group's community newspapers. Book Publishing reported operating profit was $56.3 million in 2006, down $39.1 million from $95.4 million in 2005. Underlying operating profit was down only $2.5 million in the year while the strengthening Canadian dollar decreased profits by $7.9 million and lower gains on the U.S. dollar hedges decreased profits by $28.7 million year over year. Underlying results were up for North America Retail and Overseas but were more than offset by lower North America Direct-To-Consumer results.

Corporate costs were $18.5 million in 2006, down $0.5 million from $19.0 million in 2005. EBITDA, excluding restructuring provisions was $202.1 million in 2006, down $51.4 million from $253.5 million in 2005. Excluding the impact of foreign exchange and restructuring provisions, EBITDA was down $14.8 million in the year.

Restructuring provisions of $22.3 million were incurred in 2006. Star Media Group undertook several initiatives, including the renegotiation of its labour contracts at the Vaughan Press Centre which resulted in a workforce reduction, the outsourcing of its circulation call centre and a fourth quarter targeted separation program for a total cost of $13.6 million. Restructuring provisions of $6.0 million were recorded by Metroland Media Group from restructuring of operations triggered by the combination of the CityMedia and Metroland operations. Harlequin reduced its global workforce by 4% in the third quarter of 2006 at a cost of $2.7 million. In 2005, the Toronto Star recorded a restructuring provision of $2.1 million for a voluntary severance program at the Vaughan Press Centre.

Interest expense was $20.8 million in 2006, up $10.3 million from $10.5 million in 2005. This almost doubling of the expense was from the higher level of debt outstanding during 2006, primarily from the investment in CTVgm, and higher interest rates. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $446.2 million in 2006, up from $290.2 million in 2005. Torstar's effective interest rate was 4.7% in 2006 and 3.6% in 2005.

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. As a result of the inexact offset and changes in the relative strength of the Canadian dollar, Torstar reports a non-cash foreign exchange gain or loss each year on the translation of its net U.S. dollar asset position. The Canadian dollar strengthened relative to the U.S. dollar by approximately 6% in 2006 and 7% in 2005. In 2006, there was a non-cash translation gain of $0.1 million on the translation of Torstar's net U.S. dollar asset position compared with a loss of $2.7 million reported in 2005.

Income from associated businesses was $16.0 million in 2006 compared with $0.6 million in 2005. The income in 2006 includes $14.0 million from CTVgm's results for the quarter ended November 30, 2006 (its first quarter of fiscal 2007) adjusted for the impact of the allocation of Torstar's purchase price to CTVgm's underlying assets and liabilities. (As Torstar and CTVgm do not have coterminous quarter-ends, Torstar reflects CTVgm's operations with a one-month lag.) CTVgm had a strong first quarter with revenues and EBITDA up in both its broadcast and print operations. During the quarter CTVgm acquired 100% of CHUM, completed a refinancing and sold its 40% interest in Workopolis. CTVgm is equity accounting for CHUM while the common shares are being held in a trust pending regulatory approval of the transaction. Torstar's income from Black Press was $1.8 million in 2006 compared with $0.6 million in

2005. Black Press had a strong 2006, with EBITDA up from acquisitions and improved operations. Black Press' results were negatively impacted during 2006 by a non-cash mark-to-market loss on foreign exchange and interest rate derivatives.

Torstar reported a gain on the sale of properties of $12.4 million in 2005 from the sale of the land and building in Kitchener that had previously been occupied by The Record and the sale of surplus land at 7 Queen's Quay East in Toronto. On an after-tax basis the 2005 gain was $0.13 per share.

Torstar's effective tax rate was 33.3% in 2006 compared with 38.8% in 2005. During 2006, the Canadian federal government enacted corporate income tax decreases for future years. Under Canadian generally accepted accounting principles the impact of these changes on Torstar's future income tax assets and liabilities is to be recorded during the period the tax changes are substantially enacted. The impact was to reduce Torstar's tax expense by $4.6 million and its effective tax rate by 3.9%. Excluding this adjustment, Torstar's effective tax rate was 37.2%. The effective tax rate was lower in 2006 from the impact of the significant increase in income of associated businesses which is tax effected at a capital gains rate.

Net income was $79.1 million in 2006, down $39.7 million from $118.8 million in 2005. Net income per share was $1.01 in 2006, down $0.51 from $1.52 in 2005. The average number of Class B non-voting shares outstanding in both 2006 and 2005 was 78.2 million.

The following chart provides a continuity of earnings per share from 2005 to 2006:

Net income per share 2005		$1.52
Changes		
• Operations	(0.12)	
• Currency impact on operations	(0.30)	
• Restructuring provisions	(0.17)	
• Gain on sale of properties in 2005	(0.13)	
• Non-cash foreign exchange	0.04	
• Income from associated businesses	0.16	
• Interest on CTVgm investment	(0.05)	
• Change in statutory tax rates	0.06	
Net income per share 2006		$1.01

Segment Operating Results – Newspapers and Digital

The following tables set out, in $000's, the results for the reporting units within the Newspapers and Digital Segment for the years ended December 31, 2006 and 2005.

	Operating Revenue		Operating Profit (Loss)		Profit Margin	
	2006	2005[2]	2006	2005	2006	2005
Star Media	$496,518	$501,627	$20,474	$37,806	4.1%	7.5%
Metroland Media	558,156	530,694	99,911	94,251	17.9%	17.8%
Transit TV	1,788	3,495	(12,536)	(11,769)	n/a	n/a
Segment Total	$1,056,462	$1,035,816	$107,849	$120,288	10.2%	11.6%

	Depreciation and Amortization		EBITDA[3]		EBITDA Margin	
	2006	2005	2006	2005	2006	2005
Star Media	$32,297	$33,894	$52,771	$71,700	10.6%	14.3%
Metroland Media	13,624	12,574	113,535	106,825	20.3%	20.1%
Transit TV	3,342	2,574	(9,194)	(9,195)	n/a	n/a
Segment Total	$49,263	$49,042	$157,112	$169,330	14.9%	16.3%

[2] Metroland's 2005 revenue has been restated as a result of the January 1, 2006 adoption, with retroactive restatement, of EIC-156 – "Accounting by a vendor for consideration given to a customer". The effect was to decrease both revenues and operating expenses by $5.3 million in 2005. The 2005 profit and EBITDA margin percentages increased as a result of the restatement but there was no impact on operating profit or EBITDA.

[3] EBITDA is calculated as reporting unit or segment operating profit plus depreciation and amortization. It excludes restructuring provisions.

Total revenue of the Newspaper and Digital Segment was $1,056.5 million in 2006, up $20.7 million from $1,035.8 million in 2005, including $14.3 million from acquisitions. Digital revenues were 3.2% of the total in 2006, up from 2.6% in 2005.

Star Media Group

The Star Media Group reported revenues of $496.5 million in 2006, a decline of $5.1 million from $501.6 million in 2005 primarily from lower advertising revenue at the Toronto Star offset partially by higher digital revenues. Star Media Group's EBITDA was $52.8 million in 2006, down $18.9 million from $71.7 million in 2005. $1.3 million of the decline in EBITDA was from higher losses related to Weekly Scoop in 2006. The Star Media Group had an operating profit of $20.5 million in 2006, down $17.3 million from $37.8 million in 2005.

Advertising revenue continued to be a significant challenge for the Toronto Star throughout 2006. Advertising linage was down 7.2% in the year with declines across all major categories. National, travel and classified linage were each down approximately 10%. Retail linage was relatively stable as this category benefited from the new zoned advertising sections. The effective average line rate was up 2.4% in 2006. The jointly-owned Sing Tao Daily and Metro newspapers grew revenues by $4.6 million in 2006 from a combination of market expansion, increased advertising volumes and higher effective average rates. Workopolis continued its trend of increasing revenues and Olive Canada Network contributed to the Torstar Digital revenue growth in its first year of operations.

Higher newsprint pricing and promotional costs were mitigated by savings in labour and pension expenses for the Toronto Star in 2006. During 2006, the Toronto Star undertook several initiatives to reduce costs, including the renegotiation of its labour contracts at the Vaughan Press Centre, the outsourcing of its circulation call centre and a targeted separation program. The cost savings from these programs will be realized in 2007.

Torstar Digital payroll and operating costs were higher in 2006 from the investment in building the LiveDeal.ca and Olive Canada Network businesses as well as developing TOPS (an online publishing system that will power all of Torstar's newspaper web sites and Toronto.com). Promotional costs were higher as Workopolis undertook a significant marketing program.

Weekly Scoop incurred operating losses of $4.5 million in the first six months of 2006, prior to ceasing publication in June. Operating losses were $3.2 million in 2005. TMG TV's revenue and operating profit were down year over year as the direct response advertising market continued to be challenging.

Metroland Media Group

Revenues were up $27.5 million in 2006 at Metroland Media Group including $14.3 million from the impact of acquisitions. Advertising and distribution revenues were up at the community newspapers while the daily newspapers had a decline in advertising revenues. EBITDA was $113.5 million in 2006, up $6.7 million from $106.8 million in 2005. Operating profit was $99.9 million in the year, up $5.6 million from $94.3 million in 2005.

During 2006, Metroland made several smaller acquisitions of community newspapers and magazines as well as realizing the full-year benefits of the acquisitions made during 2005. Metroland continued its trend of new publications and market expansion during 2006 including expansion of the Gold Book Directories.

Advertising linage was up 3.1% at the community newspapers, excluding acquisitions, and down 1.1% at the daily newspapers. Distribution volumes grew 6.0% in 2006 with just over 3.2 billion pieces distributed by the community and daily newspapers. Excluding the impact of acquisitions, distribution volumes grew by 4.5% in the year.

Newsprint costs were higher in 2006 as a result of higher prices and increased consumption from acquisitions and market expansions. Payroll and department costs were up in 2006, commensurate with the increase in revenue at the community newspapers and general wage increases. Costs related to the strike at the Hamilton Web facility, which was settled during the second quarter of 2006, were $1.4 million lower in 2006. Metroland Media Group undertook a restructuring of its operations in the fourth quarter of 2006 in order to realize cost savings resulting from the combination of the CityMedia and Metroland operations.

Transit TV

Transit TV 2006 revenues of $1.8 million were down from $3.5 million in 2005. In 2005, the revenue base was primarily from local advertisers. In 2006, Transit TV changed its sales emphasis from local to national advertisers. The national advertisers have been slower than expected to adopt this new advertising media resulting in lower revenues year over year. During 2006, Transit TV completed the Los Angeles Metro (MTA) installation. Transit TV reported an EBITDA loss of $9.2 million in 2006 consistent with the loss in 2005. Transit TV's operating loss was $12.5 million in 2006, up $0.7 million from $11.8 million in 2005 with higher depreciation from the completion of the Los Angeles installation.

Segment Operating Results – Book Publishing

The following tables set out, in $000's, the results for the Book Publishing Segment, including the impact of foreign currency movements and foreign currency contracts, for the years ended December 31, 2006 and 2005.

	2006	2005[4]
Reported revenue, prior year	$521,072	$534,448
Impact of currency movements	(29,960)	(32,904)
Impact of U.S. dollar hedges	(28,666)	8,072
Change in underlying operating revenue	9,362	11,456
Reported revenue, current year	$471,808	$521,072
U.S. dollar hedge gains	802	29,468
Revenue before hedges, current year	$471,006	$491,604

	2006	2005
Reported operating profit, prior year	$95,381	$97,182
Impact of currency movements	(7,264)	(8,146)
Impact of U.S. dollar hedges	(28,666)	8,072
Impact of other currency foreign exchange contracts	(687)	214
Change in operating profit	(2,487)	(1,941)
Reported operating profit, current year	$56,277	$95,381
Gains from U.S. dollar and other currency foreign exchange contracts	958	30,311
Operating profit before foreign exchange contract gains, current year	$55,319	$65,070
Reported operating profit margin	11.9%	18.3%
Operating profit margin, before foreign exchange contract gains	11.7%	13.2%
Reported operating profit, current year	$56,277	$95,381
Depreciation and amortization	7,162	7,719
EBITDA[5], current year	$63,439	$103,100

Book Publishing revenues were up $9.4 million in 2006 excluding the impact of foreign exchange. North America Retail was up $9.9 million, North America Direct-To-Consumer was down $5.7 million and Overseas was up $5.2 million.

Book Publishing operating profits were down $2.5 million in 2006 excluding the impact of foreign exchange. North America Retail was up $2.7 million, North America Direct-To-Consumer was down $6.5 million and Overseas was up $1.3 million. Harlequin reduced its global workforce by 4% through a restructuring completed during the second half of 2006.

North America Retail increased book sales in 2006 after stabilizing in 2005. Significant efficiency improvements were made to the series business in 2006 as fewer books were printed and distributed and more books were sold. Sales of single title books also increased in 2006. Lower promotional and sales support costs were partially offset by increased product and distribution costs.

The North America Direct-To-Consumer revenue decline in 2006 was due to both fewer shipments of a children's direct-to-home continuity program and from shipping disruptions experienced early in the year associated with the bankruptcy of a key supplier. While the lower revenue in the children's direct-to-home continuity program did not impact operating profit, the shipping disruptions, in conjunction with the long-term decline in the customer base and higher product costs contributed to the year over year decline in earnings. Improved sales through the Internet channel partially offset this decline.

The Overseas markets had mixed results in 2006 with improvements in the United Kingdom and the Nordic Group offset by lower results in Germany. In the United Kingdom improved retail results, primarily from adjustments to prior period returns provisions, more than offset lower direct-to-consumer volumes. The Nordic Group was up significantly with growth in both the single title and series lines. Germany's results were lower in 2006 with lower sales in its single title business primarily from the level of success in 2005 from a unique publishing program that did not continue in 2006. Brazil, a joint venture launched in 2005, showed improvement in 2006 selling more books and making progress towards break-even.

[4] Harlequin's 2005 revenue has been restated as a result of the January 1, 2006 adoption, with retroactive restatement, of EIC-156 – "Accounting by a vendor for consideration given to a customer". The effect was to decrease both revenues and operating expenses by $4.8 million in 2005. The 2005 profit and EBITDA margin percentages increased as a result of the restatement but there was no impact on operating profit or EBITDA.

[5] EBITDA is calculated as segment operating profit plus depreciation and amortization. It excludes restructuring provisions.

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 2006, $111.6 million of cash was generated by operations, $449.4 million was used for investing activities and $338.0 million was generated by financing activities. Cash and cash equivalents net of bank overdraft increased by $2.9 million in the year from $41.0 million to $43.9 million.

Operating activities

Operating activities provided cash of $111.6 million in 2006, down $12.5 million from $124.1 million in 2005. The lower level of cash provided in 2006 reflected the lower operating profits offset partially by lower pension funding and a smaller increase in non-cash working capital.

Other adjustments to operating cash flows were $2.4 million in 2006 and $17.6 million in 2005. In 2006, the adjustments included pension contributions in excess of pension expense partially offset by the non-cash stock-based compensation expense. In 2005, pension contributions in excess of pension expense and the gain from the sale of land were partially offset by the non-cash foreign exchange loss and the non-cash stock-based compensation expense.

Non-cash working capital investments increased $8.4 million in 2006. Receivables increased $16.3 million in 2006 primarily from improved fourth quarter revenues in Book Publishing as the Newspaper and Digital receivables were flat year over year. Prepaid and recoverable income taxes increased $13.5 million year over year primarily due to the timing of installments in 2006. Accounts payable and accrued liabilities increased $22.3 million in 2006 from a combination of higher restructuring provisions and the timing of payments for trade payables. In 2005, non-cash working capital increased $42.7 million from increases in receivable and prepaid balances and reductions in payables.

Investing activities

During 2006, $449.4 million was used for investments, up from $74.6 million in 2005.

In 2006, $378.0 million was used for the initial purchase of 20% of CTVgm and the additional investment related to CTVgm's acquisition of CHUM. In the fourth quarter of 2006, Torstar acquired an additional 10% of Workopolis for $28.8 million. Torstar also completed a number of other acquisitions during 2006 primarily of community newspapers and magazines for a total purchase price of $4.7 million and made an additional investment in Vocel, Inc. for $1.1 million.

During 2005, $59.4 million was used for acquisitions and investments, including community newspapers in the Muskoka, Huntsville, Parry Sound and Ottawa areas. Metroland Media Group also acquired the Toronto Wine and Cheese Show and Paton Publishing (a contract publisher and producer of focused marketing campaigns aimed principally at youth audiences). The Metroland Media Group 2005 acquisitions had a total purchase price of $48.4 million. Harlequin completed the $5.0 million acquisition of BET Books from Black Entertainment Television during 2005 and Torstar made $6.0 million of portfolio investments in Vocel, Inc. and LiveDeal, Inc.

Additions to property plant and equipment were $38.3 million in 2006, up slightly from $35.3 million in 2005. The 2006 additions included general capital replacement across all the operations, $8.5 million for inserting machines at Metroland Media Group's community newspapers and $4.1 million for the completion of Transit TV's Los Angeles installation.

During 2005, total proceeds of $17.7 million were received from the sale of the property in Kitchener that had previously been occupied by The Record and the surplus land at 7 Queen's Quay East in Toronto. There were no comparable transactions in 2006.

2007 Capital expenditures

Capital expenditures in 2007 are expected to be approximately $45.0 million, $6.7 million higher than the $38.3 million spent in 2006. The 2007 capital expenditures are anticipated to include the purchase of additional inserting equipment at Metroland Media Group's community newspapers and continuing investment in technology to improve the utilization of information across the Newspaper and Digital Segment both in print and on the Internet.

Financing activities

Cash of $338.0 million was generated by financing activities during 2006, compared with a use of $45.3 million in 2005.

Torstar increased its long-term debt by $390.2 million in 2006 primarily to fund its investment in CTVgm. During 2006, Torstar issued $618.8 million of bankers' acceptances under a new banking facility and repaid $228.6 million of commercial paper. No medium term notes were issued or matured during 2006.

Cash dividends paid to shareholders were $57.2 million in 2006, up $0.3 million from $56.9 million in 2005. $3.1 million of cash was received from the exercise of stock options in 2006, down from $8.4 million received in 2005.

Torstar had two normal course issuer bids outstanding during the period May 7, 2004 to May 5, 2006. In 2005, 904,100 Class B shares were repurchased for a total price of $20.9 million. There were no shares purchased in 2006.

Long–term debt

At December 31, 2006, Torstar had long-term debt of $724.2 million outstanding. The debt consisted of U.S. dollar bankers' acceptance of $132.3 million, Canadian dollar bankers' acceptance of $491.9 million and Canadian dollar medium term notes of $100.0 million.

During the third quarter of 2006, Torstar renegotiated its long-term bank credit facilities as part of the funding for its equity investment in CTVgm. The new facilities consist of a $425 million revolving loan that will mature on January 4, 2012 and a $425 million revolving operating loan. The operating loan matures on January 11, 2008 and can be extended with the consent of all parties for up to four additional 364-day periods or can be converted to a 364-day term loan at Torstar's option. Amounts may be drawn under the facility in either Canadian or U.S. dollars. With the change in the long-term bank credit facilities and the new borrowings for the CTVgm investment, Torstar has changed from borrowing through the commercial paper program supported by the long-term credit facility to bank borrowings primarily in the form of bankers' acceptances. The bankers' acceptances normally mature over periods of 30 to 180 days but are classified as long-term as they are issued under the long-term credit facility.

Bankers' acceptances (and prior to mid 2006, commercial paper) are generally issued for a term of less than one year in order to provide for flexibility in borrowing. However, the bankers' acceptance and 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 facility has sufficient credit available that it could be used to replace the outstanding bankers' acceptance and commercial paper, the bankers' acceptance and commercial paper is classified as long-term debt on Torstar's balance sheet.

The long-term credit facility for $850 million is also designated as a standby line in support of letters of credit. At December 31, 2006, $630.8 million was drawn under the facility and a $25.2 million letter of credit was outstanding relating to the executive retirement plan. The remaining credit of $194.0 million is considered to be adequate to cover forecasted financing requirements.

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 2007.

Contractual obligations

Torstar has the following significant contractual obligations[6] (in $000's[7]):

Nature of the obligation	Total	Less than 1 Year (2007)	1 – 3 Years (2008 – 2009)	4 – 5 Years (2010 – 2011)	After 5 Years (2012 +)
Office leases	$149,605	$14,262	$25,098	$21,671	$88,574
Services	20,943	7,642	8,312	3,326	1,663
Equipment leases	4,403	1,395	1,968	1,040	
Revenue share	2,498	368	765	500	865
Capital purchases	3,098	2,357	741		
Long-term debt	724,193		25,000	75,000	624,193
Total	$904,740	$26,024	$61,884	$101,537	$715,295

[6] *This chart does not include Torstar's obligations for Employee future benefits as detailed in Note 12 of the consolidated financial statements.*

[7] *All foreign denominated obligations were translated at the December 31, 2006 spot rates.*

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

The services obligations include content for Transit TV, the outsourced Toronto Star circulation call centre and the acquisition by Olive Canada Network of ad impressions on third party websites. The revenue share obligations are the guaranteed minimum revenue share commitments to various transit commissions in connection with Transit TV's operations.

Torstar has a guarantee outstanding in relation to an operating lease for a warehouse in New Hampshire that was entered into by one of the businesses in its former Children's Supplementary Education Publishing segment. Lease payments are under U.S. $1.0 million per year and the lease runs through December 2018. The warehouse has been subleased, on identical terms and conditions, to the purchaser of that business. The sublease is secured by a U.S. $0.7 million letter of credit.

2007 OUTLOOK

The outlook for the Newspapers and Digital Segment is mixed. The community newspapers have been able to maintain linage and revenue growth over the past few years and continue to perform well. However, the daily newspaper businesses continue to face significant revenue challenges. The Toronto Star has realized linage declines of 7% and 8% for 2006 and 2005 respectively, with higher effective average line rates unable to offset the revenue loss. The level of competition for advertising dollars in Toronto, both in print and from other forms of media, remains high. New products and pricing strategies will continue to be introduced by the newspapers to meet the changing needs of advertisers. In addition, provision of services to our readers and advertisers leveraging the Internet will remain a priority. Cost savings of approximately $6.5 million are expected to be realized in 2007 from the various restructuring provisions undertaken in 2006. The focus in 2007 for Torstar Digital, led by Workopolis, is to grow revenue after building audience and market share in 2006. While some of the individual properties are expected to improve EBITDA results in 2007, overall costs for Torstar Digital, including marketing spending, are expected to offset most of the growth resulting in stable EBITDA in 2007 for Torstar Digital.

For Book Publishing, following the modest decline in profit experienced in 2006, the outlook for 2007 is for stability. Harlequin has stabilized the total number of books sold over the past three years despite difficult trends in its direct-to-consumer operations. Investment will continue in innovation and new products including digital initiatives in 2007. Cost savings of approximately $3.0 million are expected from the restructuring undertaken in late 2006. Harlequin will continue to be subject to the impact of changes in the value of the Canadian dollar relative to the U.S. dollar and other currencies. Torstar has reduced a portion of this exposure by entering into forward foreign exchange contracts to sell $27.5 million U.S. dollars during 2007 at a rate of $1.14.

Torstar's investment in CTVgm will have an uncertain impact on Torstar's earnings in 2007. The results reported by Torstar for CTVgm in the fourth quarter of 2006 are not indicative of what is expected to be reported in the next three quarters. This is due to the seasonal nature of CTVgm's businesses with the fall being the strongest quarter. Torstar will have increased interest expense in 2007 from the higher levels of debt and higher interest rates. This interest expense will be funded by Torstar's other operations as there currently is no expectation of cash distributions from CTVgm.

OPERATING RESULTS – THREE MONTHS ENDED DECEMBER 31, 2006

Overall Performance

Total revenue was $414.6 million in the fourth quarter, down $2.6 million from $417.2 million in the fourth quarter of 2005. Newspaper and Digital revenue was up $2.0 million to $294.6 million including $1.5 million from acquisitions. Reported Book Publishing revenues were $120.0 million in the fourth quarter of 2006, down $4.6 million from $124.6 million in the same period last year. Excluding the impact of $8.1 million from lower gains on U.S. dollar hedges year over year, underlying revenues were up $3.6 million in the quarter.

Operating profit was $42.7 million in the fourth quarter, down $22.4 million from $65.1 million in the fourth quarter of 2005. The decrease included $11.7 million of restructuring provisions in 2006. Newspaper and Digital Segment operating profit was $42.5 million in 2006, down $5.3 million from $47.8 million in 2005, as improved results at Metroland Media Group were more than offset by the earnings impact of the revenue decline at the Toronto Star and the investment spending at Torstar Digital. Book Publishing Segment reported operating profits were $16.6 million in the fourth quarter, down $5.8 million from $22.4 million in the same period last year. Excluding the impact of $8.1 million from lower gains on U.S. dollar hedges year over year, underlying operating profits were up $2.4 million in the fourth quarter.

Corporate costs were $4.7 million in the fourth quarter of 2006, down $0.5 million from $5.2 million in 2005. The decrease in costs in the fourth quarter is related to the timing of expenses year over year. EBITDA, excluding restructuring provisions, was $68.4 million in the fourth quarter, down $10.2 million from $78.6 million in the same period last year. Excluding the impact of foreign exchange and restructuring provisions, EBITDA was down $2.0 million in the fourth quarter.

Restructuring provisions of $11.7 million were incurred in the fourth quarter of 2006. This included a targeted separation program at the Toronto Star and a restructuring at Metroland Media Group in order to realize cost savings from the combination of the CityMedia and Metroland operations.

Interest expense was $8.8 million in the fourth quarter of 2006, up $5.9 million from $2.9 million in the fourth quarter of 2005. This significant increase was from the higher level of debt outstanding during the fourth quarter of 2006, primarily from the CTVgm acquisition, and higher interest rates. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $667.4 million in the fourth quarter of 2006, up from $284.2 million in 2005. Torstar's effective interest rate was 5.3% in the fourth quarter of 2006 and 4.1% in 2005.

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. As a result of the inexact offset and changes in the relative strength of the Canadian dollar, Torstar reports a non-cash foreign exchange gain or loss each year on the translation of its net U.S. dollar asset position. In the fourth quarter of 2006, there was a non-cash translation gain of $1.1 million on the translation of Torstar's net U.S. dollar asset position compared with a gain of $0.1 million reported in 2005.

Income from associated businesses was $14.8 million in the fourth quarter of 2006 compared with $0.3 million in 2005. The income in 2006 includes $14.0 million from CTVgm's results for the quarter ended November 30, 2006 (its first quarter of fiscal 2007) adjusted for the impact of the allocation of Torstar's purchase price to CTVgm's underlying assets and liabilities. (As Torstar and CTVgm do not have coterminous quarter-ends, Torstar reflects CTVgm's operations with a one-month lag.) CTVgm had a strong first quarter with revenues and EBITDA up in both its broadcast and print operations. During the quarter CTVgm acquired 100% of CHUM, completed a refinancing and sold its 40% interest in Workopolis. CTVgm is equity accounting for CHUM while the common shares are being held in a trust pending regulatory approval of the transaction. Torstar's income from Black Press was $0.9 million in the fourth quarter of 2006. Black Press had a strong quarter, with EBITDA up from acquisitions and improved operations. Black Press' results were negatively impacted during the quarter by a non-cash mark-to-market loss on foreign exchange and interest rate derivatives.

Torstar's effective tax rate was 27.5% in the fourth quarter of 2006, down from 39.5% in the same period in 2005. The effective tax rate was lower in the fourth quarter of 2006 from the impact of the significant increase in income of associated businesses which is tax effected at a capital gains rate, the changes in future Canadian federal corporate income tax rates, the mix of income during the quarter and the timing of the recording of permanent differences in the fourth quarter of 2005.

Net income was $36.1 million in the fourth quarter of 2006, down $1.8 million from $37.9 million in the fourth quarter of 2005. Net income per share was $0.46 in 2006, down $0.02 from $0.48 in 2005. The average number of Class B non-voting shares outstanding in the fourth quarter of 2006 was 78.4 million, consistent with 78.3 million in 2005.

The following chart provides a continuity of earnings per share from 2005 to 2006:

Net income per share fourth quarter 2005		$0.48
Changes		
• Operations	(0.02)	
• Currency impact on operations	(0.07)	
• Restructuring provisions	(0.10)	
• Non-cash foreign exchange	0.01	
• Income from associated businesses	0.16	
• Interest on CTVgm investment	(0.04)	
• Tax rate	0.02	
• Change in statutory tax rates	0.02	
Net income per share fourth quarter 2006		$0.46

Segment Results – Newspapers and Digital

The following tables set out, in $000's, the results for the reporting units within the Newspapers and Digital Segment for the fourth quarters ended December 31, 2006 and 2005.

	Operating Revenue		Operating Profit (Loss)		Profit Margin	
	2006	2005[8]	2006	2005	2006	2005
Star Media	$135,858	$140,202	$12,984	$21,081	9.6%	15.0%
Metroland Media	158,154	151,849	32,710	29,634	20.7%	19.5%
Transit TV	564	545	(3,203)	(2,892)	n/a	n/a
Segment Total	$294,576	$292,596	$42,491	$47,823	14.4%	16.3%

	Depreciation and Amortization		EBITDA[9]		EBITDA Margin	
	2006	2005	2006	2005	2006	2005
Star Media	$7,867	$7,833	$20,851	$28,914	15.3%	20.6%
Metroland Media	3,328	3,150	36,038	32,784	22.8%	21.6%
Transit TV	971	636	(2,232)	(2,256)	n/a	n/a
Segment Total	$12,166	$11,619	$54,657	$59,442	18.6%	20.3%

Newspaper and Digital revenues were up $2.0 million in the fourth quarter of 2006, including $1.5 million from acquisitions. Higher revenues at Metroland Media Group's community newspapers and Torstar Digital were reduced by lower advertising revenues at the Toronto Star. Digital revenues were 3.4% of the total in the fourth quarter of 2006, up from 2.5% in the fourth quarter of 2005.

Linage was down 9.3% in the fourth quarter of 2006 at the Toronto Star with national, travel and classified linage all having a difficult quarter. Retail linage was relatively stable. The lower linage included the impact of one less publishing Saturday compared with the fourth quarter of 2005. Both Workopolis and Olive Canada Network contributed to the revenue growth in the fourth quarter. At Metroland Media Group, community newspaper advertising revenues were up $5.0 million in the quarter with a 7.3% increase in linage, excluding the impact of acquisitions. Linage was down 4.6% at Metroland Media Group's daily newspapers in the fourth quarter with weakness in the national and multi-market retail categories. Distribution volumes were up 7.4% in the fourth quarter for the community and daily newspapers, increasing revenue by $2.8 million, excluding the impact of acquisitions.

EBITDA for the Newspaper and Digital Segment was $54.7 million in the fourth quarter, down $4.7 million from $59.4 million in 2005. Improved results at Metroland Media Group were more than offset by the earnings impact from the revenue declines and increased promotional expenses at the Toronto Star and the investment spending at Torstar Digital. In the fourth quarter of 2005, Weekly Scoop had EBITDA losses of $2.6 million. Operating profit was $42.5 million in the fourth quarter of 2006, down $5.3 million from $47.8 million in 2005.

[8] Metroland's 2005 revenue has been restated as a result of the January 1, 2006 adoption, with retroactive restatement, of EIC-156 – "Accounting by a vendor for consideration given to a customer". The effect was to decrease both revenues and operating expenses by $1.5 million in the fourth quarter of 2005. The 2005 profit and EBITDA margin percentages increased as a result of the restatement but there was no impact on operating profit or EBITDA.

[9] EBITDA is calculated as reporting unit or segment operating profit plus depreciation and amortization. It excludes restructuring provisions.

Segment Results – Book Publishing

The following tables set out, in $000's, the results for the Book Publishing Segment, including the impact of foreign currency movements and foreign currency contracts, for the fourth quarters ended December 31, 2006 and 2005.

	2006	2005[10]
Reported revenue, fourth quarter prior year	$124,631	$128,873
Impact of currency movements	(137)	(7,849)
Impact of U.S. dollar hedges	(8,065)	567
Change in underlying operating revenue	3,605	3,040
Reported revenue, fourth quarter current year	$120,034	$124,631
U.S. dollar hedge gains	47	8,112
Revenue before hedges, fourth quarter current year	$119,987	$116,519

	2006	2005
Reported operating profit, fourth quarter prior year	$22,438	$24,865
Impact of currency movements	(92)	(1,510)
Impact of U.S. dollar hedges	(8,065)	567
Impact of other currency foreign exchange contracts	(63)	686
Change in operating profit	2,357	(2,170)
Reported operating profit, fourth quarter current year	$16,575	$22,438
Gains from U.S. dollar and other currency foreign exchange contracts	91	8,219
Operating profit before foreign exchange contract gains, fourth quarter current year	$16,484	$14,219
Reported operating profit margin	13.8%	18.0%
Operating profit margin, before foreign exchange contract gains	13.7%	12.2%
Reported operating profit, fourth quarter current year	$16,575	$22,438
Depreciation and amortization	1,847	1,875
EBITDA[11], fourth quarter current year	$18,422	$24,313

Book Publishing revenues were up $3.6 million in the fourth quarter of 2006 excluding the impact of foreign exchange. North America Retail was up $5.6 million, North America Direct-To-Consumer was down $4.2 million and Overseas was up $2.2 million.

Book Publishing operating profits were up $2.4 million in the fourth quarter of 2006 excluding the impact of foreign exchange. North America Retail was up $3.3 million, North America Direct-To-Consumer was down $2.1 million and Overseas was up $1.2 million.

North America Retail revenues and operating profits were up in the fourth quarter with higher series and single title net unit sales and lower promotional expenses. North America Direct-To-Consumer revenues were lower in the fourth quarter from the lower sales of the children's direct-to-home continuity program and the lower customer base including the impact of the shipping disruption earlier in the year. Overseas gains included continued strong results from the Nordic Group and improved results in the United Kingdom.

Liquidity

In the fourth quarter of 2006, $28.8 million of cash was generated by operations, $39.4 million was used for investing activities and $6.6 million was generated by financing activities. Cash and cash equivalents net of bank overdraft decreased by $1.1 million in the quarter from $45.0 million to $43.9 million.

Operating activities provided $28.8 million of cash in the quarter, down from $34.8 million in 2005. The decrease reflected the lower level of operating income, lower pension funding and a smaller increase in non-cash working capital in the fourth quarter year over year.

During the fourth quarter of 2006, $30.5 million was used for acquisitions, primarily for the incremental 10% of Workopolis. During the fourth quarter of 2005, $24.5 million was spent on acquisitions and investments including the community newspapers in Ottawa, BET Books and the portfolio investment in LiveDeal, Inc. Fixed asset additions were $9.0 million in the quarter down slightly from $10.2 million in 2005.

Torstar issued $19.2 million of bankers' acceptances during the fourth quarter of 2006 and paid dividends of $14.1 million. Torstar issued $13.2 million of commercial paper during the fourth quarter of 2005 and paid dividends of $14.3 million. During the fourth quarter of 2005, Torstar purchased 314,900 shares for a total price of $7.0 million under the normal course issuer bid that opened on May 6, 2005.

[10] Harlequin's 2005 revenue has been restated as a result of the January 1, 2006 adoption, with retroactive restatement, of EIC-156 – "Accounting by a vendor for consideration given to a customer". The effect was to decrease both revenues and operating expenses by $1.0 million in the fourth quarter of 2005. The 2005 profit and EBITDA margin percentages increased as a result of the restatement but there was no impact on operating profit or EBITDA.

[11] EBITDA is calculated as segment operating profit plus depreciation and amortization. It excludes restructuring provisions.

FINANCIAL INSTRUMENTS

Foreign Exchange

Harlequin's international operations provide Torstar with approximately 30% of its operating revenues. As a result, fluctuations in exchange rates can have a significant impact on Torstar's reported profitability.

To manage the exchange risk in its operating results, Torstar enters into forward foreign exchange and currency option contracts. Torstar's most significant exposure is to the movements in the U.S.$/Cdn.$ exchange rate. Torstar's current practice is to hedge, one year in advance on a quarterly basis, U.S. dollar revenues equivalent to approximately 50% of its expected U.S. dollar operating profit. Torstar has entered into forward foreign exchange contracts to sell $27.5 million U.S. dollars during 2007 at a rate of $1.14 and $3.0 million in 2008 at a rate of $1.17. These contracts are designated as revenue hedges for accounting purposes and any resulting gains or losses are recognized in Book Publishing revenues as realized.

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.

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.

Interest rates

Torstar has long-term debt in the form of medium-term notes and bankers' acceptances issued under a bank loan facility. Torstar issues debt in both Canadian and U.S. dollars with the U.S. dollar debt used as a hedge against the U.S. dollar denominated assets in the Book Publishing Segment. Torstar issues bankers' acceptances at floating rates and medium term notes with either fixed or floating interest rates.

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% (plus the interest rate spread based on Torstar's long-term credit rating, currently 0.6%) through December 2007. The U.S. $80 million was based on the expectation that Torstar will hold at least that level of U.S. dollar debt as an economic hedge against Harlequin's U.S. operations over the long term.

With the increased borrowings for the CTVgm investment, Torstar decided to fix the interest rate on a portion of the incremental Canadian dollar debt. In the third quarter of 2006, Torstar entered into interest rate swap agreements to fix the rate of interest on $250 million of Canadian dollar borrowings at 4.3% (plus the interest rate spread based on Torstar's long-term credit rating, currently 0.6%) for the next five years.

Torstar has decided to have floating interest rates on the remainder of its Canadian dollar debt. Torstar has entered into swap agreements that effectively convert the $100 million of Canadian dollar fixed rate medium term notes that were issued in 2005 into floating rate debt based on a spread over 90-day bankers' acceptance rates.

All of the interest rate swap arrangements have been designated as hedges. The fair value of the interest rate swap arrangements was $1.8 million unfavourable at December 31, 2006.

Torstar's exposure to credit related losses in the event of non-performance by counterparties to the interest rate swaps and derivatives 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 Canada, 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 2006 and 2005 for determining the pension plan obligations and expenses were:

	2006	2005
Discount rate – year end obligation	5.0%	5.0%
Discount rate – annual expense	5.0%	5.75%
Rate of future compensation increase	3.0% to 3.5%	3.0% to 3.5%
Expected long-term rate of return on plan assets	7.0%	7.0%
Average remaining service life of active employees (years)	7 to 17	7 to 17

The discount rate of 5.0% is the yield at December 31, 2006 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 one percent increase in the discount rate would result in a decrease in the total pension plan obligation of $92.9 million and a decrease in the current year expense of $6.8 million. A one percent decrease in the discount rate would increase the total pension plan obligation by $106.8 million and increase current year expense by $11.0 million.

The rate of future compensation increases has been assumed to be between 3.0% and 3.5%. This rate is consistent with the level of increases over the past few years and is management's best estimate of future compensation increases.

Torstar has maintained its expected long-term rate of return on plan assets at 7%, as management believes it to be a reasonable estimate. The return on plan assets has exceeded this rate for the past three years. A one percent increase (decrease) in the expected return on plan assets would decrease (increase) the current year expense by $6.8 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's estimate of this time period is 7–17 years. This range reflects the current composition of Torstar's workforce and expectations for staff turnover. The estimate of the average remaining service life is generally reviewed every three years.

Torstar's total pension expense was $14.9 million in 2006, down from $16.4 million in 2005. Total pension funding was $19.5 million in 2006, down from $36.7 million in 2005.

Torstar's pension plans are in a net funded position of $0.3 million at December 31, 2006 compared with a net unfunded position of $42.6 million at the end of 2005. This balance includes $26.1 million ($25.6 million in 2005) for an executive retirement plan, which is not funded until payments are made to the executives upon retirement, but is supported by a letter of credit. Excluding the executive retirement plan, Torstar's pension plans are in a net funded position of $26.4 million compared with a net unfunded position of $17.0 million in 2005.

Torstar also provides post-employment benefits including health and life insurance benefits for certain grandfathered employees, primarily in the Canadian newspaper operations. This obligation is being funded as payments are made to retirees. Torstar has recorded a liability of $54.6 million on its December 31, 2006 balance sheet and an annual expense of $5.0 million ($52.0 million and $3.9 million respectively in 2005). At December 31, 2006 the unfunded obligation for these benefits was $60.0 million, down from $67.8 million at December 31, 2005. 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 9.5% increase for the 2006 expense. For 2007, health care costs are estimated to increase by 10.0% with a 0.5% decrease each year until 2017. A 1% increase in the estimated increase in health care costs would increase the obligation by $3.3 million. The increase in the annual expense would be less than $0.5 million.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As required by Multilateral Instrument 52–109 issued by the Canadian Securities Administrators, Torstar's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") will be making certifications related to the information in Torstar's annual filings (as defined in Multilateral Instrument 52–109) with the securities regulatory authorities. As part of the certification, the CEO and CFO must certify that they are responsible for establishing and maintaining disclosure controls and procedures and have designed such disclosure controls and procedures (or caused such disclosure controls and procedures to be designed under their supervision) to ensure that the material information with respect to Torstar, including its consolidated subsidiaries, is made known to them and that they have evaluated the effectiveness of Torstar's disclosure controls and procedures as of the end of the period covered by these annual filings. The CEO and CFO must also certify that they have designed a system of internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by Torstar in reports filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to Torstar's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Torstar's management, including the CEO and CFO, does not expect that Torstar's disclosure controls will prevent or detect all misstatements due to error or fraud. Because of the inherent limitations in all control systems, an evaluation of control can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, within Torstar have been detected. Torstar has adopted or formalized such controls and procedures as it believes are necessary and consistent with its business and internal management and supervisory practices. Torstar is continually improving its systems of controls and procedures.

Evaluation of disclosure controls and procedures

As of December 31, 2006, under the supervision of, and with the participation of the CEO and CFO, Torstar's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, Torstar's CEO and CFO have concluded that, as at December 31, 2006, the Company's disclosure controls and procedures were effective.

Evaluation of internal controls over financial reporting

As of December 31, 2006, under the supervision of, and with the participation of the CEO and CFO, Torstar's management also evaluated the effectiveness of the design of its internal controls over financial reporting. Based on this evaluation, Torstar's CEO and CFO have concluded that, as at December 31, 2006, the Company's internal controls over financial reporting were designed effectively.

There have been no changes in Torstar's internal controls over financial reporting that occurred during the fourth quarter of 2006, the most recent interim period, that have materially affected, or are reasonably likely to materially affect, Torstar's internal controls over financial reporting.

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 for retail sales based on the publication date and for sales made directly to the consumer when the books 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 revenue is recognized, 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 returns 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, 2006, the returns provision deducted from accounts receivable on the consolidated balance sheets was $104 million ($109 million in 2005). A one percent change in the average net sale rate used in calculating the global retail returns provision on sales from July to December 2006 would have resulted in a $4.0 million change in reported 2006 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" in the MD&A 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

Accounting by a Vendor for Consideration Given to a Customer (EIC–156)

This EIC was effective for Torstar's 2006 fiscal year with retroactive restatement. EIC–156 provides guidance on the classification in the vendor's financial statements of consideration given to its customers. The guidance determines whether a consideration is to be treated as an adjustment of the selling price or as a cost incurred by the vendor to sell goods or services and the timing of when such amounts should be recorded. The impact of the change for the year ended 2005 was to decrease revenue and operating expenses by $10.1 million for advertiser volume rebates and trade incentives. There was no impact on operating profit or net income.

Financial Instruments (Sections 3855, 3861, 3865 and 1530)

The CICA has issued four new standards which will be effective prospectively for the company beginning January 1, 2007. Section 3855, "Financial Instruments – Recognition and Measurement", determines when and at what value a financial instrument is to be recognized on the balance sheet and how gains or losses are to be recorded. Section 3861, "Financial Instruments – Disclosures and Presentation", provides standards for disclosures and presentation of financial instruments. Section 3865, "Hedges", specifies how hedge accounting is applied and related disclosure.

Section 1530, "Comprehensive Income", introduces new standards for the presentation and disclosure of comprehensive income and its components. Certain unrealized gains or losses which would otherwise be excluded from the calculation of net income and unrealized foreign currency translation amounts arising from self-sustaining foreign operations will be recorded in a Statement of Other Comprehensive Income. Other comprehensive income will form part of shareholders' equity.

Torstar has interest rate swaps and foreign exchange forward contracts which are accounted for as hedges. Under these new sections, Torstar will be required to recognize changes in their fair values to the extent of hedge effectiveness, as defined by accounting standards, in comprehensive income. Any ineffective portion, as defined by accounting standards, will be recognized in net income. For certain other financial instruments, Torstar will be required to recognize the asset or liability on the balance sheet at its fair values on January 1, 2007 with subsequent changes in fair value recorded in net income for held-for-trading items and in comprehensive income for available-for-sale items. Changes in unrealized foreign exchange gains or losses which arise from the translation of self-sustaining operations subsequent to January 1, 2007 will also be recorded in comprehensive income. Net income is not expected to change significantly as a result of the new accounting standards. However, there may be significant fluctuations in comprehensive income from period to period as financial instruments are adjusted to market value.

ANNUAL INFORMATION – 3 YEAR SUMMARY

The following table presents, in $000's (except for per share amounts) selected key information for the past three years:

	2006	2005	2004
Revenue[12]	$1,528,270	$1,556,888	$1,541,849
Net income	$79,141	$118,843	$112,703
Per share (basic)	$1.01	$1.52	$1.42
Per share (diluted)	$1.01	$1.51	$1.41
Average number of shares outstanding during the year (in 000's)			
Basic	78,250	78,214	79,168
Diluted	78,414	78,621	79,813
Cash dividends per share	$0.74	$0.74	$0.70
Total assets	$2,001,473	$1,561,682	$1,510,027
Total long-term debt	724,193	334,317	317,829

Total revenues have been steady over the past three years. The daily newspapers have experienced declining revenues while the community newspapers have continued to see growth. The Book Publishing revenues have declined significantly in 2005 and 2006 as a result of the strengthening Canadian dollar and lower gains from U.S. dollar hedge contracts. Underlying revenues were down significantly in 2004 but have improved versus prior year in 2005 and 2006.

Net income increased between 2004 and 2005 from the impact of a $12.4 million unusual gain in 2005 compared with an unusual loss in 2004. Operating profits for both Newspapers and Digital and Book Publishing were down in 2005 and corporate costs were up. In 2006, net income was negatively impacted by foreign exchange in the Book Publishing Segment; the Newspaper and Digital Segment had lower revenues in its daily newspapers and investment spending for Torstar Digital; and restructuring provisions of $22.3 million were recorded.

The increase in total assets in 2006 reflected the $378.0 million investment in CTVgm.

RECENT DEVELOPMENTS

In February 2007, Torstar and Metro International announced the launch of Metro Calgary on March 5th and Metro Edmonton on April 2nd. The new editions will be distributed through a combination of promoters, street boxes and strategic locations ramping up to a total daily circulation of 60,000 copies per city.

[12] *Torstar's 2005 revenue has been restated as a result of the January 1, 2006 adoption, with retroactive restatement, of EIC-156 – "Accounting by a vendor for consideration given to a customer". The effect was to decrease both revenues and operating expenses by $10.1 million in 2005. There was no impact on net income.*

SUMMARY OF QUARTERLY RESULTS

(In thousands of dollars except for per share amounts)

	2006 Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Revenue	$414,610	$366,216	$390,331	$357,113
Net income	$36,068	$7,667	$25,631	$9,775
Net income per Class A voting and Class B non-voting share				
Basic	$0.46	$0.10	$0.33	$0.13
Diluted	$0.46	$0.10	$0.33	$0.12

	2005 Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Revenue[13]	$417,227	$378,002	$402,851	$358,808
Net income	$37,894	$23,698	$36,112	$21,139
Net income per Class A voting and Class B non-voting share				
Basic	$0.48	$0.30	$0.46	$0.27
Diluted	$0.48	$0.30	$0.46	$0.27

The summary of quarterly results illustrates the cyclical nature of revenues and operating profit in the Newspapers and Digital Segment. The fourth and second quarters are generally the strongest for the newspapers.

Gains from the sale of properties and restructuring provisions have impacted the level of net income in several quarters. In 2006, the first, third and fourth quarters had restructuring provisions of $3.7 million, $7.0 million and $11.7 million respectively. In 2005, the third quarter had a restructuring provision of $2.1 million and the first and third quarters had gains from the sale of properties of $1.3 million and $11.1 million respectively.

OTHER

At January 31, 2007, Torstar had 9,909,402 Class A voting shares and 68,564,397 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, 2007, Torstar had 5,841,942 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**.

[13] Torstar's 2005 revenue has been restated as a result of the January 1, 2006 adoption, with retroactive restatement, of EIC-156 – "Accounting by a vendor for consideration given to a customer". The effect was to decrease both revenues and operating expenses by $2.3 million, $2.6 million, $2.6 million and $ 2.5 million in each of the first, second third and fourth quarters respectively. There was no impact on net income.

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 26, 2007

David P. Holland
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, 2006 and 2005 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, 2006 and 2005 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 26, 2007

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

(thousands of dollars)

Assets	**2006**	**2005**
Current:		
Cash and cash equivalents	**$46,037**	$47,783
Receivables (note 2)	**269,977**	253,718
Inventories	**38,208**	35,568
Prepaid expenses	**72,665**	77,211
Prepaid and recoverable income taxes	**16,665**	3,130
Future income tax assets (note 10)	**23,002**	21,630
Total current assets	**466,554**	439,040
Property, plant and equipment (net) (note 3)	**349,842**	365,665
Investment in associated businesses (note 4)	**416,320**	23,618
Goodwill	**552,928**	537,545
Other assets (note 5)	**171,547**	145,712
Future income tax assets (note 10)	**44,282**	50,102
Total assets	**$2,001,473**	$1,561,682

Liabilities and Shareholders' Equity		
Current:		
Bank overdraft	**$2,173**	$6,738
Accounts payable and accrued liabilities	**227,001**	204,710
Income taxes payable	**14,174**	15,047
Total current liabilities	**243,348**	226,495
Long-term debt (note 6)	**724,193**	334,317
Other liabilities (note 7)	**88,313**	85,689
Future income tax liabilities (note 10)	**72,873**	73,529
Shareholders' equity:		
Share capital (note 8)	**382,397**	376,925
Contributed surplus	**7,466**	4,883
Retained earnings	**491,999**	470,783
Foreign currency translation adjustment	**(9,116)**	(10,939)
Total shareholders' equity	**872,746**	841,652
Total liabilities and shareholders' equity	**$2,001,473**	$1,561,682

Commitments and contingencies (note 16)

(See accompanying notes)

ON BEHALF OF THE BOARD

The Hon. Frank Iacobucci
Director

J. Spencer Lanthier
Director

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005

(thousands of dollars except per share amounts)

	2006	2005
Operating revenue		
Newspapers and digital	$1,056,462	$1,035,816
Book publishing	471,808	521,072
	$1,528,270	$1,556,888
Operating profit		
Newspapers and digital	$107,849	$120,288
Book publishing	56,277	95,381
Corporate	(18,475)	(19,001)
Restructuring provisions (note 14(a))	(22,319)	(2,119)
	123,332	194,549
Interest (note 6(f))	(20,761)	(10,463)
Foreign exchange	70	(2,723)
Income of associated businesses	16,000	565
Gain on sale of properties (note 14(b))		12,415
Income before taxes	118,641	194,343
Income and other taxes (note 10)	(39,500)	(75,500)
Net income	$79,141	$118,843
Earnings per Class A and Class B share (note 8(d))		
Net income – Basic	$1.01	$1.52
Net income – Diluted	$1.01	$1.51

(See accompanying notes)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2006 AND 2005

(thousands of dollars)

	2006	2005
Retained earnings, beginning of year	$470,783	$425,787
Net income	79,141	118,843
Dividends	(57,925)	(57,869)
Premium paid on repurchase of shares for cancellation (note 8(c))		(15,978)
Retained earnings, end of year	$491,999	$470,783

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

(thousands of dollars)

	2006	2005
Cash was provided by (used in)		
Operating activities	$111,591	$124,140
Investing activities	(449,394)	(74,630)
Financing activities	337,997	(45,335)
Increase in cash	194	4,175
Effect of exchange rate changes	2,625	(3,945)
Cash, beginning of year	41,045	40,815
Cash, end of year	$43,864	$41,045
Operating activities:		
Net income	$79,141	$118,843
Depreciation	53,496	54,274
Amortization	2,987	2,549
Future income taxes	2,752	9,309
Income of associated businesses	(16,000)	(565)
Other (note 15)	(2,354)	(17,563)
	120,022	166,847
Increase in non-cash working capital	(8,431)	(42,707)
Cash provided by operating activities	$111,591	$124,140
Investing activities:		
Additions to property, plant and equipment	($38,317)	($35,260)
Investment in associated business (note 4)	(377,982)	
Acquisitions and investments (note 11)	(34,647)	(59,358)
Proceeds on sale of properties (note 14)		17,744
Other	1,552	2,244
Cash used in investing activities	($449,394)	($74,630)
Financing activities:		
Issuance of banker's acceptance	$618,763	
Repayment of commercial paper	(255,114)	($92,150)
Issuance of commercial paper	26,519	58,390
Repayment of medium term notes		(45,000)
Issuance of medium term notes		100,000
Dividends paid	(57,237)	(56,869)
Exercise of stock options (note 8(b))	3,054	8,390
Purchase of shares for cancellation (note 8(c))		(20,858)
Other	2,012	2,762
Cash provided by (used in) financing activities	$337,997	($45,335)
Cash represented by:		
Cash and cash equivalents	$46,037	$47,783
Bank overdraft	(2,173)	(6,738)
	$43,864	$41,045

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005
(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 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.

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 manages its exposure associated with changes in the fair value of its Deferred Share Unit Plan through the use of a derivative instrument. Changes in the fair value of this instrument are recorded as compensation expense.

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

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such derivative instrument ceases to exist as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income.

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) Prepaid expenses

Prepaid expenses include advance royalty payments to authors which are deferred until the related works are published and are reduced by estimated provisions for advances that may exceed royalties earned.

(h) 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

(i) 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.

(j) Investments in associated businesses

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

(k) Intangible assets

Intangible assets are recorded at their fair value on the date of acquisition. Intangible assets with finite lives are amortized over their useful lives and consist primarily of customer relationships which are being amortized on a straight line basis over 10 years. The company's intangible assets, which include trade and domain names and newspaper mastheads, 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.

(l) 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.

(m) Other assets

The cost of a distribution services agreement is amortized on a straight-line basis over the 10-year term of the agreement and was fully amortized by December 31, 2006. Portfolio investments are accounted for by the cost method.

(n) 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 Canadian Institute of Chartered Accountants ("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 17 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.

(o) Stock-based compensation plans

The company has a stock option plan, an employee share purchase plan and two deferred share unit plans. In addition, during 2006 the company introduced a Restricted Share Unit ("RSU") Plan.

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 grant 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 intrinsic 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.

For the new RSU plan, compensation expense equal to the grant date value of the RSU is recognized over the applicable vesting period subsequent to the date of grant.

(p) 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.

(q) Revenue recognition

Advertising revenue is recognized when publications are delivered or advertisements are broadcast or placed on the company's Web sites. Newspaper circulation is recognized when the publication is delivered. Subscription revenue for newspapers is recognized as the publications are delivered over the term of the subscription. Revenue from the sale of books is recognized for the Retail distribution channel based on the book's publication date (books are shipped prior to the publication date so that they are in stores by the publication date) and for the Direct-to-Consumer distribution channel when the books are shipped. Book publishing revenue is recorded net of provisions for estimated returns and direct-to-consumer bad debts, which are primarily based on past experience. Other revenue is recognized when the related service or product has been delivered. Amounts received in advance are included in the balance sheet in Accounts payable and accrued liabilities until the revenue is recognized in accordance with the policies noted above.

(r) 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.

(s) Changes in accounting policies

Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)

The CICA's Emerging Issues Committee issued EIC–156 "Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)" which provides guidance on the classification in the vendor's financial statements of consideration given to its customers. The guidance determines whether such consideration is to be treated as an adjustment of the selling price or as a cost incurred by the vendor to sell goods or services and the timing of when such amounts should be recorded. The company has applied EIC–156 effective January 1, 2006 with restatement of prior periods. As a result of the change, revenue and operating expenses for the year ended December 31, 2005 have been reduced by $10.1 million for advertiser volume rebates and trade incentives, with no impact on operating profit or net income.

Future accounting changes include the following items.

Financial Instruments

The CICA has issued four new standards which will be effective prospectively for the company beginning January 1, 2007. These standards are: Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income". Section 3855 determines when and at what value a financial instrument is to be recognized on the balance sheet and how gains or losses are to be recorded. Section 3865 specifies how hedge accounting is applied and related disclosure. Section 1530 introduces new standards for the presentation and disclosure of comprehensive income and its components. Certain unrealized gains or losses which would be excluded from the calculation of net income and unrealized foreign currency translation amounts arising from self-sustaining foreign operations will be recorded in a Statement of Other Comprehensive Income. Other comprehensive income will form part of shareholders' equity.

The company has swaps and forward contracts which are accounted for as hedges but will be required to recognize changes in their fair values to the extent of hedge effectiveness in comprehensive income. Any ineffective portion, as defined by the accounting standards, will be recognized in net income. For certain other financial instruments, the company will be required to recognize them on the balance sheet at their fair values with the changes in their fair values recorded in net income for held-for-trading items and in comprehensive income for available-for-sale items. Changes in unrealized foreign exchange gains or losses which arise from the translation of self-sustaining operations will also be recorded in comprehensive income. Net income is not expected to change significantly as a result of the new accounting standards. However, there may be significant fluctuations in comprehensive income from period to period as financial instruments are adjusted to market value.

2. Receivables

The provisions for anticipated book and magazine returns and bad debts deducted from receivables at December 31, 2006 amounted to $126 million (December 31, 2005 – $135 million). Under a billing and collection agreement with a third party, the Book publishing segment has a net receivable of $40 million at December 31, 2006 (December 31, 2005 – $32 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
2006			
Land	$7,451		$7,451
Buildings and leasehold improvements	228,799	$121,728	107,071
Machinery and equipment	763,921	528,601	235,320
Total	$1,000,171	$650,329	$349,842
2005			
Land	$7,451		$7,451
Buildings and leasehold improvements	227,832	$113,519	114,313
Machinery and equipment	732,384	488,483	243,901
Total	$967,667	$602,002	$365,665

4. Investment in associated businesses

The company's Investment in associated businesses includes a 20% equity interest in CTVglobemedia Inc. ("CTVgm"), a 19.35% equity interest in Black Press Ltd. and a 30% equity interest in Q-ponz Inc. The Investment in associated businesses is comprised of the following:

	2006	2005
Balance, beginning of year	$23,618	$22,954
Income of associated businesses	16,000	565
Investment in CTVgm	377,982	
Change in investee foreign currency translation adjustment	(1,280)	99
Balance, end of year	$416,320	$23,618

The $20.7 million initial investment in Black Press included $17.9 million of goodwill.

On August 30, 2006, the company acquired a 20% equity interest in CTVgm. On September 7, 2006, the company made an additional investment in CTVgm to provide its pro-rata share of the equity contribution in respect of CTVgm's acquisition of all of the common shares of CHUM Limited ("CHUM"). The total purchase price, including transaction costs, was $378.0 million. The CTVgm investment is accounted for using the equity method. Torstar and CTVgm do not have coterminous quarter-ends and these financial statements reflect the company's share of CTVgm's results for the three months ended November 30, 2006.

A summary of the company's share of the fair values of the assets and liabilities acquired in CTVgm, excluding its $94.2 million share of CTVgm's investment in CHUM, is as follows:

Current assets	$112,212
Property, plant and equipment	65,656
Goodwill and other intangible assets	441,596
Other assets	46,488
	$665,952
Current liabilities	$57,199
Long-term debt	278,473
Other liabilities and non-controlling interests	46,522
	$382,194
Net assets acquired at fair value	$283,758

Intangible assets include the company's share of broadcast licenses of $209.6 million, newspaper mastheads of $20.0 million and other intangibles of $2.4 million which are indefinite life assets. Fair value adjustments included above include an increase in other liabilities of $19.8 million for pension and post-retirement benefits, an after tax gain related to the subsequent sale of the careers web site "Workopolis" of $16.1 million, an increase in property values of $6.0 million and other adjustments, primarily related to debt, of $5.0 million which increase liabilities. Future income tax liabilities related to the above total $23.4 million. The fair value adjustments will be amortized over the next 5 to 15 years. None of the $209.1 million of goodwill included above is deductible for tax purposes. The above allocation of the fair values is subject to change upon the final determination of the valuation of certain of the intangible assets.

CTVgm's common share holdings of CHUM have been placed in trust under the terms of a voting trust agreement between CTVgm and the Trustee. Under this agreement, voting control of CHUM resides with the Trustee pending regulatory approval of the CHUM acquisition by the Canadian and Radio-television and Telecommunications Commission. The Competition Bureau is also reviewing the CHUM acquisition. As a consequence, the results of CHUM will be accounted for on an equity basis by CTVgm and the allocations of the CHUM purchase price have not been finalized by CTVgm pending regulatory approvals.

The company's income from associated businesses includes net income of $14.0 million from its investment in CTVgm for the three months ended November 30, 2006. Although the completion of the CTVgm purchase price allocation with respect to CHUM has not been finalized, the company has allocated on a preliminary basis the purchase price discrepancy to indefinite life intangibles and goodwill and therefore no amortization has been included for the three months ended November 30, 2006. The allocation is subject to change pending regulatory approval and CTVgm's finalization of the CHUM purchase price allocation.

Outlined below is summarized financial information for 100% of CTVgm, including fair value adjustments, for the three months and period ended November 30, 2006.

Balance Sheet	
Current assets	$580,008
Property, plant and equipment	323,660
Investment in CHUM	1,388,960
Goodwill and other intangible assets	2,201,964
Other assets	233,216
	$4,727,808
Current liabilities	$341,836
Long-term debt	2,185,765
Other liabilities and non-controlling interests	246,078
Shareholders' equity	1,954,129
	$4,727,808
Statement of Income	
Revenues	$487,402
Net income	$70,160

5. Other assets

	2006	2005
Accrued benefit assets (note 12)	$122,620	$116,728
Intangible assets	35,415	15,199
Distribution Services Agreement		2,126
Portfolio investments (note 11)	7,054	5,948
Other	6,458	5,711
	$171,547	$145,712

6. Long-term debt

	2006	2005
Bankers' acceptance:		
Cdn. dollar denominated	$491,885	
U.S. dollar denominated	132,308	
	624,193	
Commercial paper:		
Cdn. dollar denominated		$93,663
U.S. dollar denominated		140,654
		234,317
Medium Term Notes:		
Cdn. dollar denominated	100,000	100,000
	$724,193	$334,317

(a) Bank debt

(i) On October 19, 2006, the company finalized the renegotiation of its long-term credit facilities with its bankers. The new facilities consist of a $425 million revolving loan that matures on January 4, 2012 and a $425 million revolving operating loan. The operating loan, which matures January 11, 2008, can be extended with the consent of all parties for up to four additional 364-day periods or can be converted to a 364-day term loan at the company's option. The credit facilities 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 (or an equivalent) at varying interest rates and would normally mature over periods of 30 to 180 days. The interest rate spread above the bankers' acceptance rate if in Canadian dollars, or LIBOR rate if in U.S. dollars, at December 31, 2006 was 0.6% and varies based on the company's long-term credit rating (December 31, 2005 – 0.4%).

(iii) In September 2006, the company entered into three interest rate swap agreements with major Canadian chartered banks that will fix the interest rate on $250 million of Canadian dollar borrowings. As a result, the company will pay quarterly a fixed rate of 4.3% per annum (plus the interest rate spread referred to in 6(a)(ii)) for the next five years and will receive quarterly floating rate payments based on 90 day bankers' acceptance rates. These swap contracts have been designated as hedges. The fair value of these swap agreements was $0.8 million unfavourable at December 31, 2006.

(iv) The average rate on Canadian dollar bank borrowings outstanding at December 31, 2006 was 4.9%. Including the effect of the interest rate swap noted in 6(a)(iii) the effective rate was 4.9% at December 31, 2006.

(v) Bank debt outstanding at December 31, 2006 included U.S. dollar borrowings of U.S. $113.5 million at an average rate of 6.1%. Including the effect of the interest rate swap noted in 6(d) the effective rate was 4.8% at December 31, 2006.

(b) Commercial paper

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. No commercial paper was outstanding at December 31, 2006 and the company has suspended the program. All commercial paper outstanding at December 31, 2005 with a term of less than one year was classified as long-term debt as the company had the ability to refinance these amounts under its existing long-term credit facilities. The average rate on Canadian dollar commercial paper outstanding at December 31, 2005 was 3.3%. Commercial paper outstanding at December 31, 2005 included U.S. dollar borrowings of U.S. $120.6 million at an average rate of 4.4%. Including the effect of the interest rate swap noted in 6(d) the effective rate was 3.8% at December 31, 2005.

(c) Medium Term Notes

The company issued in September 2005 $75 million 3.85% medium term notes which mature on September 8, 2010. The company has entered into swap agreements effectively converting this debt into floating rate debt based on 90-day bankers' acceptance rates plus 0.39%. The company also issued in September 2005 $25 million 3.7% medium term notes which mature on September 9, 2009. The company has entered into a swap agreement effectively converting this debt into floating rate debt based on 90-day bankers' acceptance rates plus 0.36%. Interest on the medium term notes as well as the payments under the swap agreements is paid semi-annually. The swap agreements have been designated as hedges and mature on the due dates of the respective notes. The effective interest rate on the medium term notes outstanding at December 31, 2006, including the above noted swaps, was 4.9% (December 31, 2005

– 4.0%). The fair value of the medium term notes at December 31, 2006 was $3.6 million favourable (December 31, 2005 – $2.6 million favourable). The fair value of the interest rate swap agreements at December 31, 2006 was $2.7 million unfavourable (December 31, 2005 – $2.8 million unfavourable).

(d) The company is party to an interest rate swap arrangement that will fix the interest rate on U.S. $80 million of borrowings at approximately 3.5% (plus the interest rate spread referred to in 6(a)(ii)) through December 2007. The swap has been designated as a hedge. The fair value of the U.S. interest rate swap arrangement at December 31, 2006 was $1.7 million favourable (December 31, 2005 – $2.4 million favourable).

(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 $21.8 million (2005 – $11.1 million).

(g) Interest of $22.7 million was paid during the year (2005 – $10.8 million).

7. Other liabilities

	2006	2005
Post employment benefits (note 12)	**$70,654**	$69,801
Employees' shares subscribed (note 9(c))	**6,547**	8,031
Deferred share unit plan (note 9(f))	**5,233**	3,549
Other	**5,879**	4,308
	$88,313	$85,689

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 1,650 shares (with a stated value of $448) in 2006 and 2,033 shares (with a stated value of $1,000) in 2005. Total Class A shares outstanding at December 31 were:

	Shares	Amount
2005	9,916,442	$2,694
2006	**9,914,792**	**$2,694**

Class B shares

The changes in the Class B shares were:

	Shares	Amount
January 1, 2005	68,533,752	$366,445
Converted from Class A	2,033	1
Issued under Employee Share Purchase Plan	129,395	3,235
Stock options exercised	421,850	8,390
Purchased for cancellation	(904,100)	(4,880)
Dividend reinvestment plan	40,840	1,000
Other	1,665	40
December 31, 2005	**68,225,435**	**374,231**
Converted from Class A	**1,650**	
Issued under Employee Share Purchase Plan	**126,956**	**2,894**
Stock options exercised	**166,800**	**3,071**
Dividend reinvestment plan	**35,416**	**688**
Other	**2,675**	**55**
	68,558,932	**380,939**
Reduction for RSU Trust shares (note 9(g))		**(1,236)**
December 31, 2006	**68,558,932**	**$379,703**

Totals

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

	Shares	Amount
2005	78,141,877	$376,925
2006	**78,473,724**	**$382,397**

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) Under normal course issuer bids, the company has not repurchased any Class B shares during 2006 and the most recent issuer bid expired May 5, 2006. Under normal course issuer bids the company repurchased in 2005 904,100 Class B shares for cancellation at an average price of $23.07 per share for total consideration of $20,858,000. Retained earnings were reduced by $15,978,000 representing the excess of the cost of the shares repurchased over their stated value.

(d) Earnings per share

Basic earnings 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 after deducting the unvested shares held by the RSU Trust.

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)	2006	2005
Weighted average number of shares outstanding, basic	**78,250**	78,214
Effect of dilutive securities		
– stock options	**105**	407
– unvested RSU shares	**59**	
Weighted average number of shares outstanding, diluted	**78,414**	78,621

Outstanding stock options totalling 4,063,545 (2005 – 1,798,662), which are out of the money, have been excluded from the above calculation of dilutive securities.

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, and 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. Options to purchase 10,993,304 shares have been granted as of December 31, 2006.

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

	Options	Weighted average exercise price
January 1, 2005	4,936,962	22.63
Granted	643,531	22.00
Exercised	(421,850)	(19.89)
Forfeited or expired	(20,175)	(24.85)
December 31, 2005	5,138,468	$22.77
Granted	**583,956**	**22.14**
Exercised	**(166,800)**	**(18.30)**
Forfeited or expired	**(167,479)**	**(24.22)**
December 31, 2006	**5,388,145**	**$22.80**

As at December 31, 2006, outstanding stock options were as follows:

Options Outstanding			
Range of exercise price	Number outstanding December 31, 2006	Weighted average remaining contractual life	Weighted average exercise price
$15.75–18.05	341,100	2.2 years	$17.35
$18.50–22.20	3,315,408	5.3 years	$21.36
$25.00–29.01	1,731,657	4.1 years	$26.61
$15.75–29.01	5,388,145	4.7 years	$22.80

Options Exercisable

Range of exercise price	Number exercisable December 31, 2006	Weighted average exercise price
$15.75–18.05	341,100	$17.35
$18.50–22.20	2,333,720	$21.07
$25.00–29.01	1,355,967	$26.26
$15.75–29.01	4,030,787	$22.50

Subsequent to year-end, 502,797 stock options were granted at an exercise price of $19.61 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:

	2006		2005	
Maturing	**2007**	**2008**	2006	2007
Subscription price at entry date	**$24.99**	**$21.86**	$28.01	$24.99
Number of shares	**126,563**	**154,801**	148,392	155,028

(d) The company has recognized in 2006, compensation expense totalling $3.2 million (2005 – $2.3 million) for the stock options granted in 2003 to 2006, RSUs granted in 2006 and the employee share purchase plans originating in 2004 to 2006. In estimating the compensation expense for stock options granted in 2003 to 2006, the company uses the Black-Scholes options pricing model. The weighted average fair value of the options on the date of grant and the assumptions used are as follows:

	2006	2005	2004	2003
Fair Value	**$3.08**	$3.48	$5.52	$5.28
Risk-free interest rate	**4.2%**	3.7%	4.1%	4.1%
Expected dividend yield	**3.3%**	3.4%	2.4%	2.5%
Expected share price volatility	**16.8%**	20.7%	20.6%	23.2%
Expected time until exercise (years)	**5**	5	5	5

(e) No compensation expense has been recognized for the grants under the company's stock-based compensation plans in 2002 and prior. Had compensation cost been determined for these grants based on the fair value method of accounting for stock-based compensation, the company's 2005 net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		2005
Net income	- as reported	$118,843
	- Pro forma	$117,135
Earnings per share – Basic	- as reported	$1.52
	- Pro forma	$1.50
Earnings per share – Diluted	- As reported	$1.51
	- Pro forma	$1.49

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 has a Deferred Share Unit Plan ("DSU"), for executives and non-employee directors.

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, 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, 2006, 264,076 units were outstanding at a value of $5.2 million (December 31, 2005 – 160,316 units, value $3.5 million). There were 14,994 units redeemed during 2006 at an average price of $21.25 per unit (December 31, 2005 – 14,947 units, average price $23.39 per unit).

The company has entered into a derivative instrument in order to offset its exposure to changes in the fair value of units issued under its DSU Plan. As at December 31, 2006, the derivative instrument offset 252,813 units (December 31, 2005 – 149,880 units).

(g) During 2006, the company introduced an RSU Plan. Under the plan, eligible senior executives are granted RSU awards to receive Torstar Class B non-voting shares as part of their long-term incentive compensation. The value of an RSU is equal in value to a Torstar Class B non-voting share. RSUs vest after three years at which time Torstar Class B non-voting shares will be distributed to the participants. There were 105,187 RSUs granted in January 2006 of which 91,570 remain outstanding at December 31, 2006. Subsequent to year-end, 98,493 RSUs have been granted.

An employee benefit trust ("Trust") has been established to purchase the necessary Torstar Class B non-voting shares in the open market. For accounting purposes, the Trust is treated as a Variable Interest Entity and consolidated in the accounts of the company. As a result, unamortized compensation expense representing the related shares held by the RSU Trust is presented as a reduction of the company's share capital.

10. Income and other taxes

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

	2006	2005
Income before taxes	$118,641	$194,343
Provision for income taxes based on Canadian statutory rate of 36.1% (2005 – 36.1%)	($42,800)	($70,200)
(Increase) decrease in taxes resulting from:		
Foreign income taxed at lower rates	3,900	5,500
Foreign losses not tax effected	(4,500)	(4,300)
Manufacturing and processing profits allowance	900	1,800
Large Corporations tax and other taxes	(1,800)	(3,000)
Permanent differences	200	(5,300)
Reduction in future tax rates	4,600	
	($39,500)	($75,500)
Effective income tax rate	33.3%	38.8%

Income taxes of $54.6 million were paid during the year (2005 – $75.5 million).

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

	2006	2005
Current tax provision	$42,500	$63,600
Future tax provision	(3,000)	11,900
Total tax provision	$39,500	$75,500

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:

	2006	2005
Current future income tax assets:		
Receivables	$16,549	$17,052
Other	6,453	4,578
	$23,002	$21,630
Non-current future income tax assets:		
Tax losses carried forward	$39,763	$47,820
Post employment benefits	813	837
Other	3,706	1,445
	$44,282	$50,102
Non-current future income tax liabilities:		
Property, plant and equipment	$39,187	$45,176
Post employment benefits	18,356	17,468
Goodwill and other	15,330	10,885
	$72,873	$73,529

At December 31, 2006, the company had net operating loss carryforwards of approximately U.S. $66.3 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 while U.S. $31.3 million will expire between 2023 and 2026.

11. Acquisitions and investments

In the fourth quarter of 2006, the company acquired an additional 10% of Workopolis from CTVgm which increases its interest in Workopolis to 50%. The purchase has been accounted for under the purchase method. The total purchase price was $28.8 million and included intangible assets of $20.7 million, future income tax liabilities of $2.4 million, other assets of $0.2 million, current liabilities of $0.2 million and $10.5 million allocated to goodwill. The intangible assets identified included trade and domain names of $13.6 million, customer relationships of $6.9 million and a non-compete agreement of $0.2 million. The customer relationships and non-compete agreement will be amortized on a straight-line basis over 10 and 3 years respectively.

The company also completed a number of other acquisitions during 2006 primarily of community newspapers and magazines for a total purchase price of $4.7 million. These acquisitions were accounted for under the purchase method and $4.7 million has been allocated to goodwill. The company also made an additional investment in Vocel, Inc. for $1.1 million which was accounted for by the cost method.

Within the newspaper and digital segment, a number of community newspaper acquisitions were completed during 2005. The acquisitions included newspapers in the Muskoka, Huntsville, Parry Sound and Ottawa areas as well as the purchase of Paton Publishing and the Toronto Wine and Cheese Show. The total purchase price for these acquisitions was $48.4 million and included $2.3 million of tangible assets including $2.0 million of property, plant and equipment, $11.3 million of intangible assets and $34.8 million allocated to goodwill. These acquisitions were accounted for under the purchase method and also include $2.5 million of contingent purchase consideration based on future operating results. The intangible assets identified consist of mastheads of $8.3 million which have an indefinite life and other intangibles of $3.0 million which primarily relate to advertiser relationships and have an amortization period of 10 years.

Harlequin purchased in 2005 the assets of BET Books, the publishing arm of Black Entertainment Television for a total purchase price $5.0 million which included $1.5 million of tangible assets, $0.2 million of intangible assets and $3.3 million allocated to goodwill. This acquisition was accounted for under the purchase method.

The company also made portfolio investments in 2005 of $2.4 million in Vocel, Inc. and $3.6 million in LiveDeal Inc. (LiveDeal.com). Vocel, Inc. is a wireless application publisher with whom Harlequin has signed a licensing agreement. LiveDeal.com is a growing localized online classifieds provider that has been operating in the U.S. since 2003. These portfolio investments were accounted for by the cost method.

With respect to the 2003 purchase of the remaining 49% interest in Transit Television Network, the purchase included a contingent purchase price based on future operating results.

The consideration for each acquisition was cash. The amount of goodwill that is expected to be deductible for tax purposes is $2.0 million (2005 – $3.9 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 Canada, 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	
	2006	2005	**2006**	2005
Accrued benefit obligations				
Balance, beginning of year	**$714,136**	$599,644	**$67,839**	$60,082
Current service cost	**19,000**	14,904	**986**	752
Interest cost	**36,035**	35,366	**3,370**	3,416
Benefits paid	**(34,670)**	(24,717)	**(2,394)**	(2,374)
Actuarial losses (gains)	**3,529**	65,372	**(9,813)**	5,754
Participant contributions	**7,675**	7,404		
Past service costs	**2,683**	16,553		
Foreign exchange	**(7)**	(390)		
Special termination benefits	**867**			
Acquisitions				209
Balance, end of year	**$749,248**	$714,136	**$59,988**	$67,839
Plans' assets				
Fair value, beginning of year	**$671,495**	$569,299		
Return on plan assets	**82,659**	90,511		
Benefits paid	**(24,072)**	(24,717)		
Contributions to plan	**19,513**	36,662		
Foreign exchange	**(5)**	(260)		
Fair value, end of year	**$749,590**	$671,495		
Funded status – surplus (deficit)	**$342**	($42,641)	**($59,988)**	($67,839)
Unamortized losses	**82,036**	117,678	**5,192**	15,642
Unrecognized prior service costs	**24,191**	23,878	**193**	209
Accrued benefit asset (liability)	**$106,569**	$98,915	**($54,603)**	($51,988)
Recorded in:				
Other assets	**$122,620**	$116,728		
Other liabilities	**(16,051)**	(17,813)	**($54,603)**	($51,988)
Accrued benefit asset (liability)	**$106,569**	$98,915	**($54,603)**	($51,988)
Net benefit expense for the year				
Current service cost	**$19,000**	$14,904	**$986**	$752
Interest cost on benefit obligation	**36,035**	35,366	**3,370**	3,416
Actual return on plan assets	**(82,659)**	(90,511)		
Actuarial loss (gain) on benefit obligation	**3,529**	65,372	**(9,813)**	5,754
Past service costs	**2,683**	16,691		
Excess of actual return on plan assets over expected return	**35,156**	50,495		
Difference between net actuarial loss recognized and actual actuarial loss on benefit obligation	**568**	(61,247)	**10,398**	(6,039)
Difference between recognized and actual past service costs	**(311)**	(14,718)	**16**	
Special termination benefits	**867**			
Net benefit expense	**$14,868**	$16,352	**$4,957**	$3,883

	Pension Plans		Post Employment Benefit Plans	
	2006	2005	**2006**	2005
Significant assumptions used				
To determine benefit obligation at end of year:				
Discount rate	**5.0%**	5.0%	**5.0%**	5.0%
Rate of future compensation increase	**3.0% to 3.5%**	3.0% to 3.5%	**N/A**	N/A
To determine benefit expense:				
Discount rate	**5.0%**	5.75%	**5.0%**	5.75%
Expected long-term rate of return on plan assets	**7.0%**	7.0%	**N/A**	N/A
Rate of future compensation increase	**3.0% to 3.5%**	3.0% to 3.5%	**N/A**	N/A
Health care cost trend rates at end of year:				
Initial rate	**N/A**	N/A	**10.0%**	9.5%
Ultimate rate	**N/A**	N/A	**5.0%**	5.0%
Year ultimate rate reached	**N/A**	N/A	**2017**	2014
Average remaining service life of active employees	**7 to 17 years**	7 to 17 years	**15 years**	15 years

Long-term liabilities includes $14.3 million related to an unfunded executive retirement plan which is supported by an outstanding letter of credit of $25.2 million at December 31, 2006.

The effect of a one percent 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, 2006:

	Net Benefit Expense		Accrued Benefit Obligation	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Pension plans:				
Discount rate	($6,797)	$11,047	($92,908)	$106,806
Expected long-term rate of return on plan assets	(6,773)	6,777		
Rate of compensation increase	2,798	(2,615)	12,520	(11,938)
Post employment benefits plans:				
Discount rate	(443)	435	(6,684)	7,547
Per capita cost of health care	473	(441)	3,329	(3,149)

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

	2006	2005
Equity investments	**68%**	65%
Fixed income investments	**32%**	35%
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, 2005 and the next required valuation will be as at December 31, 2008.

13. Forward foreign exchange contracts and options

The company has made arrangements through forward foreign exchange contracts and various option contracts to allow it to convert into Canadian dollars a portion of its expected future U.S. dollar revenue. The forward foreign exchange contracts establish a rate of exchange of Canadian dollar per U.S. dollar of $1.14 for U.S. $27.5 million in 2007 and $1.17 for U.S. $3 million in 2008. In 2006, the forward foreign exchange contracts and options established a rate of exchange of Canadian dollar per U.S. dollar of $1.16 for $30 million in 2006 (2005 – $1.59 for U.S. $76 million).

14. Restructuring Provisions and Gain on Sale of Properties

(a) During 2006, restructuring charges of $22.3 million were recorded. Star Media Group undertook several initiatives including, the renegotiation of its labour contracts at the Vaughan Press Centre which resulted in a workforce reduction, the outsourcing of its circulation call centre and a fourth quarter targeted separation program for a total cost of $13.6 million. Restructuring provisions of $6.0 million were recorded by Metroland Media Group for restructuring of operations triggered by the combination of the CityMedia and Metroland operations. Harlequin reduced its global workforce by 4% in the third quarter of 2006 at a cost of $2.7 million.

During 2005, a $2.1 million provision was recorded with respect to a voluntary severance program at the Vaughan Press Centre.

Accounts payable and accrued liabilities include $17.0 million for restructuring provisions at December 31, 2006 ($4.3 million at December 31, 2005). The change in the liability during 2006 includes payments of $6.4 million related to provisions made in 2006 and $3.2 million for provisions made prior to 2006.

(b) The company recognized gains of $12.4 million in 2005 on the sale of properties which included $1.4 million from the sale of the land and building previously occupied by The Record in Kitchener and $11.0 million from the sale of surplus land at 7 Queen's Quay East in Toronto. The proceeds from these sales were $17.7 million.

15. Other cash provided by (used in) operating activities

	2006	2005
Post employment benefits	($5,095)	($11,921)
Gain on sale of properties		(12,415)
Stock-based compensation expense	3,049	3,929
Foreign exchange	(70)	2,723
Other	(238)	121
	($2,354)	($17,563)

16. Commitments and contingencies

The company is involved in various legal actions, primarily in the newspapers and digital 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 $16 million in 2007, $14 million in 2008, $13 million in 2009, $12 million in 2010, $11 million in 2011 and a total of $89 million in 2012 and thereafter. In addition, the company has guaranteed sub-lease payments to a third party of approximately U.S. $1 million for each of the next 12 years.

17. Related party transactions

Subsequent to the company's 20% investment in CTVgm, the company has recognized revenue of $0.6 million and incurred expenses of $0.3 million with CTVgm. These transactions were conducted in the normal course of business and were accounted for at the exchange amount. Minimal amounts are included in accounts receivable and payable at December 31, 2006 related to these transactions. As described in note 11, the company purchased from CTVgm a 10% interest in Workopolis.

18. Joint ventures

The company proportionately consolidates its interests in joint ventures. The significant joint ventures include the newspapers and digital properties Workopolis, Sing Tao Holdings Limited, and various Metro community papers including Toronto, Vancouver and Ottawa. Harlequin also conducts some of its businesses overseas with joint venture partners the most significant of which include France, Germany and Italy. The company's proportionate share of revenue from these businesses is $110 million (2005 – $105 million) and operating profit is $17 million (2005 – $14 million).

19. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 financial statements.

20. Segmented information

The company operates two business segments: Newspapers and Digital, and Book Publishing, which are described below.

Newspapers and Digital – 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, specialty publications (including magazines) and commercial printing businesses of the newspapers as well as the operations of Transit Television Network;

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 but before restructuring provisions.

SUMMARY OF BUSINESS AND GEOGRAPHIC SEGMENTS OF THE COMPANY:

Business Segments	Operating Revenue		Depreciation and Amortization		Operating Profit	
	2006	2005	2006	2005	2006	2005
Newspapers and Digital	$1,056,462	$1,035,816	$49,263	$49,042	$107,849	$120,288
Book publishing	471,808	521,072	7,162	7,719	56,277	95,381
	1,528,270	1,556,888	56,425	56,761	164,126	215,669
Corporate			58	62	(18,475)	(19,001)
Restructuring provisions					(22,319)	(2,119)
Consolidated	$1,528,270	$1,556,888	$56,483	$56,823	$123,332	$194,549

	Identifiable Assets		Additions to Capital Assets		Additions to Goodwill & Intangible Assets	
	2006	2005	2006	2005	2006	2005
Newspapers and Digital	$1,159,390	$1,119,806	$34,186	$34,537	$35,711	$46,068
Book publishing	410,352	401,098	4,539	2,632	236	3,579
	1,569,742	1,520,904	38,725	37,169	35,947	49,647
Corporate	15,411	17,160	32	51		
Investment in associated businesses	416,320	23,618				
Consolidated	$2,001,473	$1,561,682	$38,757	$37,220	$35,947	$49,647

Geographic Segments

	Operating Revenue		Capital Assets and Goodwill	
	2006	2005	2006	2005
Canada	$1,079,363	$1,055,202	$774,067	$778,388
United States	251,971	297,000	101,358	100,100
Other (a)	196,936	204,686	27,762	27,652
Segment Totals	$1,528,270	$1,556,888	$903,187	$906,140

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

ANNUAL OPERATING HIGHLIGHTS CONTINUING OPERATIONS

	2006	2005	2004	2003	2002	2001	2000
Operating revenue							
(thousands of dollars)							
Newspapers and Digital	**$1,056,462**	$1,035,816	$1,003,473	$903,385	$856,956	$825,765	$857,989
Book publishing	**471,808**	521,072	538,376	584,924	618,093	596,898	587,085
Total	**$1,528,270**	$1,556,888	$1,541,849	$1,488,309	$1,475,049	$1,422,663	$1,445,074
Operating profit & Income from continuing operations							
(thousands of dollars)							
Newspapers and Digital	**$107,849**	$120,288	$127,601	$110,116	$105,495	$54,300	$98,814
Book publishing	**56,277**	95,381	97,182	124,121	119,168	99,643	83,831
Corporate	**(18,475)**	(19,001)	(15,555)	(14,166)	(12,764)	(10,773)	(9,804)
Restructuring provisions	**(22,319)**	(2,119)	(8,399)	(11,015)		(13,000)	(30,400)
Operating profit	**123,332**	194,549	200,829	209,056	211,899	130,170	142,441
Interest	**(20,761)**	(10,463)	(10,916)	(12,806)	(12,751)	(29,143)	(41,283)
Foreign exchange	**70**	(2,723)	(1,723)	(4,011)	973	392	(1,395)
Income (losses) of associated businesses	**16,000**	565	496	134	504	(8,022)	(6,202)
Gain (loss) on sale of assets		12,415	(3,883)	10,342	(5,924)	(28,744)	54,815
Unusual items					2,624	(28,800)	
Income before taxes	**118,641**	194,343	184,803	202,715	197,325	35,853	148,376
Income and other taxes	**(39,500)**	(75,500)	(72,100)	(79,200)	(72,000)	(14,900)	(47,200)
Income from continuing operations before amortization of goodwill	**79,141**	118,843	112,703	123,515	125,325	20,953	101,176
Amortization of goodwill (net of tax)						(17,973)	(17,461)
Income from continuing operations	**$79,141**	$118,843	$112,703	$123,515	$125,325	$2,980	$83,715
Cash from continuing operating activities	**$111,591**	$124,140	$178,598	$162,976	$167,732	$91,711	$184,802
Average number of shares outstanding (thousands)	**78,250**	78,214	79,168	77,645	76,329	75,292	74,695
Per share Data							
Income from continuing operations	**$1.01**	$1.52	$1.42	$1.59	$1.64	$0.04	$1.12
Dividends – Class A and Class B shares	**0.74**	0.74	0.70	0.64	0.58	$0.58	$0.58
Rate of Return on Revenue							
Operating profit	**8.1%**	12.5%	13.0%	14.0%	14.4%	9.1%	9.9%
Return on equity							
Cash from operating activities as a percentage of average shareholders' equity	**13.0%**	15.2%	23.2%	23.5%	28.5%	15.4%	27.5%
Financial position							
Total Assets	**$2,001,473**	$1,561,682	$1,510,027	$1,511,767	$1,480,721	$1,490,154	$1,755,764
Long-term debt	**724,193**	334,317	317,829	387,800	448,390	508,848	494,477
Shareholders' equity	**872,746**	841,652	793,661	745,055	643,506	534,398	660,001
Property, plant and equipment (net)	**349,842**	365,665	392,141	401,172	391,521	410,427	425,380

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- Burlington Post
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- Niagara This Week
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- Oshawa/Whitby This Week
- Peterborough This Week
- Renfrew Mercury
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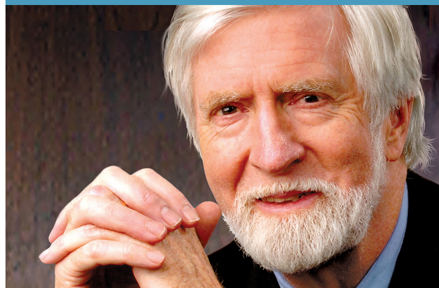

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OUR GOAL

Torstar Corporation is a broadly based media company. It 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 Media Group, Star Media Group, and Torstar Digital, which together include more than 100 newspapers, web-based businesses and related services, principally based in southern Ontario. Torstar has also built a major presence in book publishing through Harlequin, which is a leading global publisher of romance and woman's fiction, selling books in 26 languages in more than 100 international markets.

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.

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