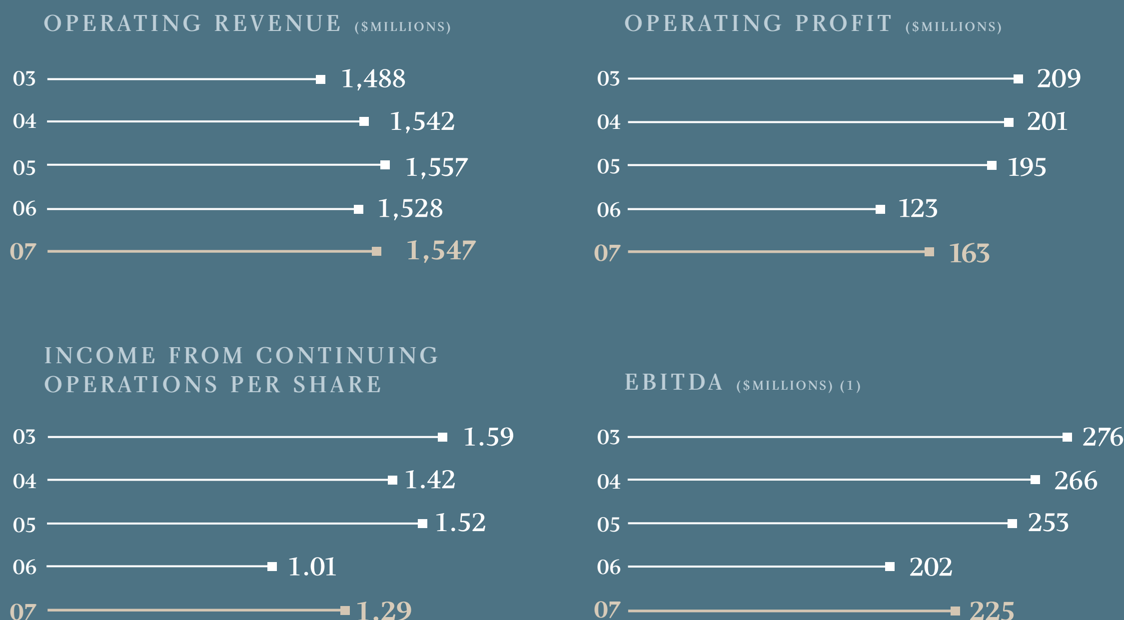
2007 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

OPERATING RESULTS ($000)	2007	2006
Operating revenue	$1,546,537	$1,528,270
EBITDA (1)	225,421	202,134
Operating profit	162,780	123,332
Net income	101,391	79,141
Cash from operating activities	136,152	111,591
OPERATING RESULTS		
EBITDA – Percentage of revenue	14.6%	13.2%
Operating profit – percentage of revenue	10.5%	8.1%
Cash from operating activities – percentage of average shareholders' equity	15.2%	13.0%
PER CLASS A AND CLASS B SHARES		
Net income	$1.29	$1.01
Dividends	$0.74	$0.74
Price range (high/low)	$23.40/17.86	$23.66/16.90
FINANCIAL POSITION ($000)		
Long-term debt	$650,798	$724,193
Shareholders' equity	$917,761	$872,746

The Annual Meeting of shareholders will be held Wed., April 30, 2008 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.



(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" provisions 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

Although challenges are often difficult, they can bring opportunities for change and improvement. As with the media and book environment generally, this year continued to be one of challenges for Torstar and its businesses. At the same time, though, many opportunities presented themselves to strengthen the company. In his message to shareholders, our President and Chief Executive Officer elaborates more specifically on the many challenges, achievements, opportunities and changes that occurred during the year.

We were pleased to have finished the year with positive results, and I wish to emphasize the key role of our management and employees in the achievement of these results. Torstar is blessed with talented people whose commitment and industry are central to converting a challenge into an opportunity and, ultimately, into success. We, on the Board of Directors, wish to salute all our business leaders and staff for another year of first-class effort and dedication.

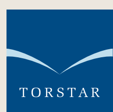
I would also like to acknowledge my colleagues on the Board, whose background, experience and skills have been instrumental in contributing to the successful handling of the issues that have come before the Board. I am proud to say that we have a strong Board whose commitment to Torstar is exemplary, and it is an honour for me to serve as Chairman.

The Board is also most conscious of good governance practices and continually reviews its structure and functioning to ensure we have top governance policies and practices. Infusing these policies and practices of governance is a commitment to the values referred to as the Atkinson Principles, developed a century ago by an extraordinary Publisher, Joseph E. Atkinson. Although these Principles apply formally only to the Toronto Star, nonetheless their underlying commitments to doing good work are shared by all of Torstar's businesses. The Board has an obligation to these Principles. It also has a commitment to the creation of long-term value for all of Torstar's businesses.

On a sad note, this year marks the retirement of one of our long-serving directors, Lance Primis. Lance has served the Board of Torstar with great distinction for more than 10 years and has understandably decided to reduce his commitments. Lance joined the Board after a stellar career as President of the New York Times and he has made many valuable contributions to the work of the Board that have drawn on his wide experience and standards of excellence that he attained during his career. We will miss Lance and are grateful to him for his outstanding service.

To conclude, I wish to thank Torstar management and the employees of Torstar and its businesses for their inexorable efforts during the year and for the collaborative relationship that exists between the Board and management. Finally, I thank my colleagues on the Board for their unalloyed commitment to serve the best interests of our shareholders.

FRANK IACOBUCCI



J. ROBERT S. PRICHARD

President and Chief Executive Officer

TO OUR SHAREHOLDERS

2007 was a good year for Torstar as we performed well throughout the year and as we delivered stronger results in all of our businesses.

A year ago I wrote of our determination to grow earnings in 2007 over 2006. I am pleased to report we did exactly that and more. Overall, we grew EBITDA by 11% and net income by 28%. At the same time, we continued to invest in our future growth, maintained our strong dividend and strengthened our balance sheet. As a result, we are a stronger company with a higher base of earnings than a year ago. Despite challenging industry conditions and a higher Canadian dollar, we made real and measurable progress over the year.

Our success in 2007 reflected changes we made a year ago when we streamlined our organization, restructured our businesses and charged our leadership teams with focused execution and the imperative of growth. We were also assisted by favourable cost trends for newsprint that boosted the performance of our community and daily newspaper businesses.

All of our businesses grew in 2007. Our largest business, Metroland Media Group, grew EBITDA by 10%, delivering on its goal of double-digit growth and demonstrating again that community newspapers are a growing business and a wonderful platform for serving communities. It was an excellent performance which emphasizes the importance of Torstar's concentration in this most attractive segment of the newspaper industry.

Community newspapers focus on local news, for which there are few substitutes. We use this core platform to serve our communities and advertisers in multiple ways, both in print and online. Metroland's business includes community newspapers, magazines, directories, consumer trade shows, flyer distribution, online newspapers, community calendars and much more.

Harlequin Enterprises, our second-largest business, also grew, increasing its EBITDA by 6% (excluding foreign exchange) and delivering on its promise of stabilization and growth. As significant as Harlequin's financial success was, its success in stabilizing North American series sales and worldwide units was even more so. Management's top priority has been to refresh, renew and stabilize the series business, knowing that with this foundation secured, growth from a variety of programs and initiatives is then possible. Achieving this goal represents a major achievement with lasting consequences and we are very pleased with it. With the underlying Harlequin business stabilized and numerous initiatives in place to drive growth, we are optimistic about Harlequin's prospects.

Our third-largest business, Star Media Group, delivered EBITDA growth of 15%, reflecting favourable cost trends at the Toronto Star, the non-recurrence of losses from Weekly Scoop which we closed in 2006 and the overall strength of Star Media Group, which includes Metro, Sing Tao and our digital properties. We intend to make all our businesses as prominent online as they are in print, believing this will allow us to serve our readers, advertisers and communities best.

The Toronto Star remains Canada's largest and most successful daily newspaper committed to observing and promoting the Atkinson Principles. It lies at the heart of Star Media Group and provides an exceptional editorial foundation on which we have built multiple print and online products to serve Toronto and beyond. While large city daily newspapers across North America face challenges, we are confident the Toronto Star, as the leading newspaper franchise at the heart of one of North America's leading media markets, will remain not only a powerful voice, but also a vital business.

Torstar Digital led the growth of our digital revenues in 2007, primarily through Workopolis and Olive Canada Network. Overall, Torstar's digital revenues grew 46%. As I wrote a year ago, the digital revolution compels us to transform all our businesses and we are making good progress.

Good performance often attracts good luck and we had some of that in 2007 as well. Newsprint pricing, the benefits of restructuring and other favourable cost trends all gave us a good boost, helping raise our EBITDA from $202 million a year ago to $225 million today.

We also strengthened our balance sheet during the year as net borrowings dropped from $680 million to $620 million. Combined with our growing EBITDA, our debt to EBITDA ratio dropped from 3.4 times to 2.8 times.

As we grew our earnings in 2007, we also continued to invest in growth. In Metroland Media Group, our Niagara expansion turned profitable during the latter part of the year and we continue to build our community newspaper platform in the Ottawa region. Similarly, we are investing in our directories initiative, Gold Book, and are very pleased with the results. We have directories in virtually every community covered by our newspapers. Metroland will continue to add new products and services to drive growth and expand into new geographic areas when good opportunities arise.

At Harlequin, we launched our business in India, which has the largest English-speaking population in the world with more than 400 million English-speaking citizens. While it will take time to build our business there to its full potential, we start with a well-established brand name and an exceptional opportunity. Harlequin has been built over decades through a combination of growing its North American business and international expansion. We are committed to this recipe for growth as globalization increasingly opens new opportunities for us.

In Star Media Group, we launched the Halifax edition of Metro in February 2008, partnering with Transcontinental and Metro International. We now have the nation's leading free daily newspaper franchise stretching from coast to coast with editions in Vancouver, Calgary, Edmonton, Toronto, Ottawa and Halifax and a close working relationship with Metro in Montreal. We also invested in new online products, including wheels.ca, which has rapidly seized a prominent place in the marketplace for cars.

Within Torstar Digital, we are continuing aggressive growth plans for both Workopolis and the Olive Canada online advertising sales network. Recently, Workopolis acquired Brainhunter's North American industry association job boards business to add a new growth platform to Workopolis' portfolio of businesses. We plan to build on the Workopolis and Olive Canada platforms through organic growth and acquisitions to claim the leadership positions in both these fields.

In addition to Torstar's operating businesses, we have two major investments that add significantly to Torstar's portfolio: our 20% interests in CTVglobemedia and Black Press. CTVglobemedia is Canada's premier multimedia company and Black Press is Western Canada's leading community newspaper franchise. These investments diversify Torstar's portfolio of media assets and give us additional opportunities for long-term value creation and strategic options. Both CTVglobemedia and Black Press are able to make accretive investments not available to us directly and supported by their respective balance sheets, thus extending Torstar's opportunities for growth beyond our operating businesses alone.

The only significant disappointment in 2007 was that our share price declined even as we grew our earnings, strengthened our balance sheet, maintained our strong dividend and invested in the future. This reflects broader forces in equity markets as traditional media company valuations retreated, led by concerns about the daily newspaper business and the impact of the Internet and the North American economic outlook. Torstar's relative total shareholder returns have held up well compared to our North American peers, but we have not been immune to the broader forces. We do, however, enjoy a differentiated portfolio with a concentration in community, not daily, newspapers and book publishing. Our flagship Toronto Star represents less than 20% of Torstar's overall portfolio. As we stay focused on growing earnings and transforming our businesses in the digital age, in due course we expect the real strength of our portfolio and performance to be fairly valued.

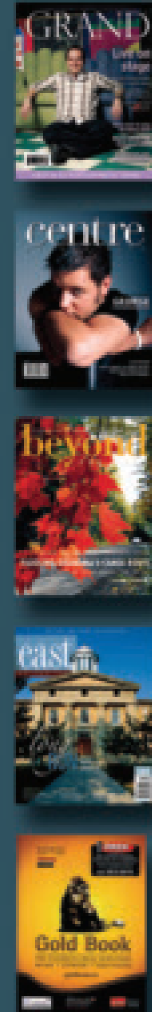
Looking forward to 2008, we are no less determined than we were a year ago. We will continue to make the changes and investments necessary to grow our businesses. The current economic outlook is challenging and some of the particularly favourable cost trends of 2007 are unlikely to recur in 2008. Furthermore, in the short term, the strong Canadian dollar exposes us to foreign exchange headwinds. All these forces will make 2008 tougher for us than 2007. However, we still aim to grow, albeit at a more modest rate than in 2007. We enter 2008 with higher earnings, a stronger balance sheet, great franchises and experienced and determined leadership teams.

Our most significant advantage is the talent and commitment of my colleagues throughout Torstar. We are fortunate to attract and keep very fine people throughout our businesses.

We also have excellent leaders of our operating businesses. One of them, Murray Skinner, President of Metroland Media Group, will retire on July 1, 2008, and be succeeded by Ian Oliver. Murray has led Metroland with great distinction for the past eight years. On his watch, Metroland has become our largest and most profitable business. Everyone at Torstar is grateful for Murray's outstanding service for over 33 years. We will miss him as a fine colleague and friend. Ian Oliver is a very worthy successor who currently serves as Executive Vice-President of Metroland. He is an experienced, successful leader with a strong record of innovation and growth. We expect that under Ian's leadership, Metroland will extend its enviable record of growth and profitability.

I thank the more than 7,000 employees of Torstar for all they do to advance our cause. We 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

OTHER PUBLICATIONS

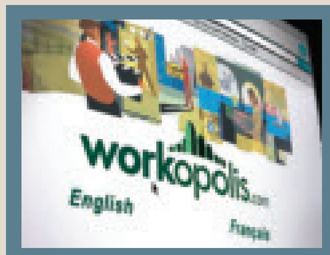
Torstar's Newspapers and Digital business operation is largely concentrated in the Golden Horseshoe region of Ontario, the largest and most attractive media market in Canada. In 2007, revenues of the division were $1.08 billion, up 2.6% versus prior year. This represents 70% of Torstar's revenue.

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.

The media environment continues to evolve and we remain focused on advancing our digital initiatives to broaden our offerings and better serve our readers and advertisers.

Newspapers and Digital is comprised of 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 U.S.-based operation that delivers broadcast-quality information to passengers on buses via screens mounted in the vehicles.

WEBSITES



JAGODA PIKE

Publisher, Toronto Star and President, Star Media Group

STAR MEDIA GROUP

Star Media Group is broadly based with interests in print, digital and broadcast media, led by its flagship property, the Toronto Star, Canada's largest daily newspaper. Created in 2006, Star Media Group also includes our online newspaper business at thestar.com, toronto.com, Torstar Syndication Services, TMGTV, Eye Weekly, Sway Magazine, Desi Life, Real Estate News and The Canadian Immigrant. In addition, it has an interest in the jointly owned Metro free daily newspapers in Toronto, Ottawa, Vancouver, Calgary, Edmonton and Halifax, and in Sing Tao Daily, the largest Chinese-language newspaper in Canada. For financial reporting purposes, Star Media Group includes Torstar Digital.

In 2007, Star Media Group enjoyed a particularly good year, increasing overall revenues and earnings while continuing to invest in the development of key content and products in both its newspaper and online businesses with the goal of further strengthening revenues and earnings in future years through diversification.

This is particularly true in the Toronto Star's digital business, thestar.com, where revenues rose more than 40% in 2007. Indeed, thestar.com is the number one newspaper website destination in the Greater Toronto Area. Overall, digital revenue for Star Media Group properties grew significantly in 2007 with revenue from our digital properties growing to more than 8% of overall revenue.

While 2007 was another difficult year for many large metropolitan newspapers across North America, the Toronto Star was able to maintain its leading position in both readership and circulation in the Greater Toronto Area (GTA).

While revenue remained under pressure in the highly competitive Greater Toronto Area media market, the Toronto Star undertook several important initiatives to address these challenges.

With 2.9 million readers in print and online Monday to Sunday, the Toronto Star once again maintained its leading position as the largest daily newspaper in Canada. In May, the Toronto Star launched its redesigned paper, which is easier to read and handle and is filled with more of the content our readers enjoy. Chief among the editorial changes were enhanced local news coverage, a new World and Comment section, an expanded Living section, larger print size and more spacing between each line.

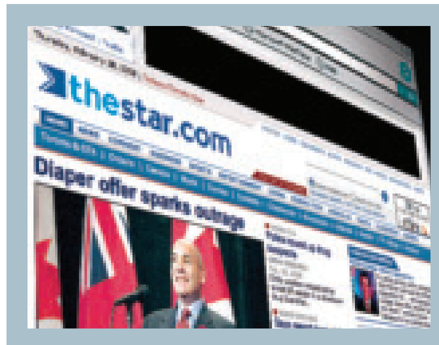
In August, the Toronto Star began to convert its six presses to allow the newspaper to be printed in a more convenient size. With this move, completed in October, the Toronto Star became the first major metropolitan newspaper in North America to move to a 46-inch web width (four pages wide). The change allowed the Toronto Star to offer a size that is friendlier to its readers and the environment, while reducing newsprint consumption.

The Toronto Star continued its tradition of crusading journalism grounded in the spirit of the Star's founder, Joseph E. Atkinson, launching several major editorial initiatives. These included an anti-poverty campaign that led to improvements in government programs for the disadvantaged, extensive environmental and climate change coverage and in-depth reporting on diversity in the Greater Toronto Area.

The Toronto Star continued to be recognized both in Canada and internationally for its outstanding journalism. The Star won three National Newspaper Awards (NNA), adding to its record of having garnered the most NNAs of any paper in Canada. It also won 15 Society for News Design awards for excellence in design and photography, placing it among the best in the world. Other awards included a Michener Awards Foundation nomination for an investigative series on the state of air traffic safety conducted jointly by the Toronto Star, The Hamilton Spectator and The Record, an investigative journalism award by the Canadian Association of Journalists and an International Online Journalism Award for a series on immigration consultants, Lost in Migration.

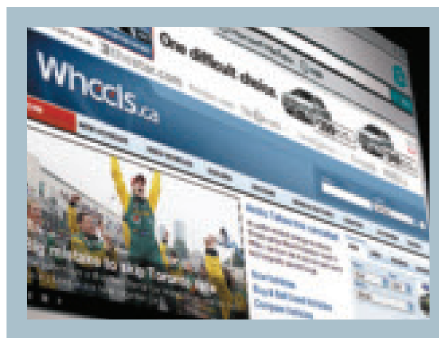
In addition, the Toronto Star received numerous other national and international awards and citations, including for newspaper marketing, photo editing, circulation promotion and media innovation.

The Toronto Star also developed a new sales strategy based on modular advertising and sectional pricing for launch in January 2008. This sales plan will allow for better return on advertiser investment, cleaner and more attractive layouts, more choice and price options for advertisers, with the ability to target audiences more effectively.



In March 2007, the Toronto Star launched Desi Life, a bi-monthly magazine created specifically for the burgeoning South Asian community in the GTA. Each edition of the magazine is distributed to more than 70,000 homes by targeted home delivery, and through select retail locations across the GTA.

thestar.com recorded its highest readership in 2007, with more than 3 million monthly unique visitors (individual readers) in May and more than 58 million unique page views in October.



In 2007, thestar.com continued to provide readers with more features, better content and easier accessibility. The Toronto Star believes it is imperative to win in the digital space, and it is confident the improvements it has launched will help it compete successfully in today's media landscape.

In May, Star Media Group took one of Canada's most trusted automotive resources online with the launch of wheels.ca, an automotive website designed to help users navigate all phases of buying a car, from choosing a model to the final purchase. Drawing content from multiple Torstar sources, including the Toronto Star, Car Guide and World of Wheels, the site contains the latest auto news, 10 years of automotive reviews, a car comparison tool and a dealership locater. By year-end, wheels.ca was attracting more than 400,000 unique visitors a month.

In 2007, toronto.com installed a new management team, executed an aggressive consumer marketing campaign and realigned the local sales force under Olive Canada Network. The results of these changes proved significant: toronto.com increased unique visitors by 20% and national sales reached record levels. The addition of interactive functionality on the site, including "send to phone," user ratings and personalization features also contributed to the website's growing appeal.

LiveDeal.ca is a partnership with Gesca Ltée. that provides Canadians with an online marketplace for buying and selling goods at both the local and national level.

TMGTV includes SHOP TV Canada, a 24-hour shopping channel reaching approximately 1.7 million homes in southern Ontario and Nova Scotia, with a potential reach of more than 4 million people. SHOP TV airs both short-form and long-form advertising, with lengths ranging from 15 seconds to 30 minutes. TMGTV also operates an award-winning, full-service suite of video production and post-production facilities, as well as a 360-degree virtual studio.

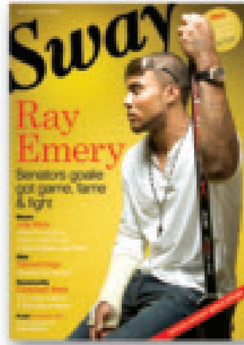
Eye Weekly is one of Canada's leading urban weeklies. This exciting, informative entertainment resource now reaches more than 280,000 readers every Thursday. In October, eyeweekly.com was relaunched utilizing the Torstar Digital TOPS platform to offer readers enhanced content, and advertisers new opportunities to reach readers aged 18 to 34.

Sway is a quarterly magazine launched in 2006 that celebrates the power and influence of Canada's black community. In March, The Canadian Immigrant Magazine, first started in Vancouver, launched a Toronto edition. With 30,000 copies distributed in Vancouver and 50,000 in Toronto, The Canadian Immigrant gives advertisers a unique vehicle to reach Canada's growing immigrant population.

Sing Tao is Canada's most widely read Chinese-language newspaper, with daily editions in Toronto, Calgary and Vancouver. In March, Sing Tao acquired CCUE Chinese Media Inc., an Internet publisher, to expand its online presence and service offerings.

Real Estate News has been around for nearly four decades. In June, REN.ca was launched using the real estate platform developed by Sing Tao subsidiary CCUE. In October, Real Estate News moved from being a bi-weekly magazine to a weekly zoned tabloid distributed every Friday through home subscriber copies of the Toronto Star within the GTA. Real Estate News continues to be Toronto's only real estate publication endorsed by the Toronto Real Estate Board.

In March, B Magazine – Beauty and Beyond – was launched in partnership with Paper City Mag Inc. This monthly magazine is designed for women aged 25 to 55. Some 50,000 copies are distributed free throughout the GTA.



Torstar Syndication Services provides value-added services to publishers, companies, governments and consumers by collecting, packaging, marketing, licensing and distributing content, including text, photos and graphics. From an archive of almost 1 million images, covering 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.

Metro, Toronto's largest-reach free daily newspaper, launched papers in two new markets in 2007, adding Metro Calgary in March and Metro Edmonton in April. Metro Halifax was launched in February 2008 in partnership with Metro S.A. and Transcontinental Media. In May 2007, Torstar and Metro S.A. acquired all of the interest held by CanWest MediaWorks in the Metro Vancouver and Metro Ottawa editions.

In 2007, Star Media Group acquired Insurance Hotline.com, a web-based business that allows consumers to compare easily a wide range of insurance companies to determine the lowest auto, home and life insurance rates for their unique situation.

Star Media Group remains fully committed to providing both readers and advertisers with exceptional content and service, both in print and online. In 2008, we will remain focused on growing print and online products and improving the financial performance of our flagship paper, the Toronto Star.

TOMER STROLIGHT
President, Torstar Digital
VP, Digital Media, Star Media Group

TORSTAR DIGITAL

Torstar Digital's vision is to build the Great Canadian Digital Media Company. Over the past three years, Torstar Digital has made significant progress toward that goal by assembling a portfolio of leading online franchises through both development and partnerships.

2007 was a year of investment at each of Torstar Digital's properties, which included, among others, significant marketing investment in Workopolis to cement its leadership plan; the first full year of operation at Olive Canada Network; the first full year of deployment of TOPS, Torstar Digital's online content management system; and the launch of Torstar Digital's first digital lab initiative in social networking, ourfaves.com.

The Torstar Digital audience continued to grow, reaching more than 13 million monthly unique visitors in 2007, up from 9 million in 2006.

WORKOPOLIS.COM

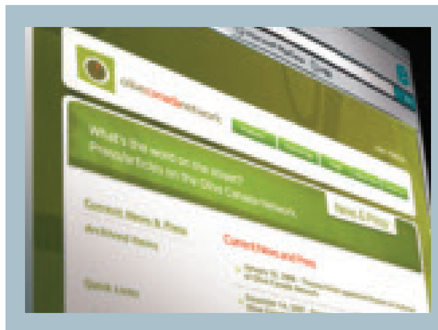
Workopolis, Canada's largest career website, is a 50/50 partnership between Torstar and Gesca Ltée. In 2007, Workopolis achieved record levels on several key measures. It had more than 3.3 million unique visitors monthly, more than 665,000 jobs posted and more than 1.5 million searchable resumés posted, resulting in record revenues.

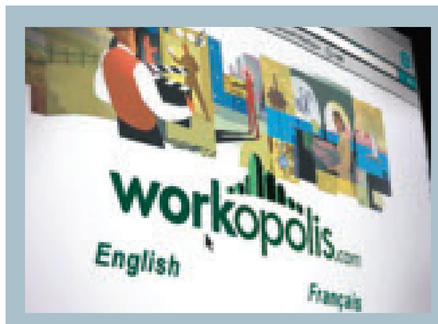
Workpolis also made a significant investment to upgrade its infrastructure to continue to support its strong growth in the online job category. These changes will allow for more rapid development of the site and support the traffic growth expected in future years.

In January 2008, Workopolis purchased Brainhunter's CareerSite North American industry association job boards business, a network of nearly 100 association niche sites that will provide the more than 10,000 employers that now post to Workopolis an opportunity to extend their reach to large numbers of new candidates.

OLIVE CANADA NETWORK

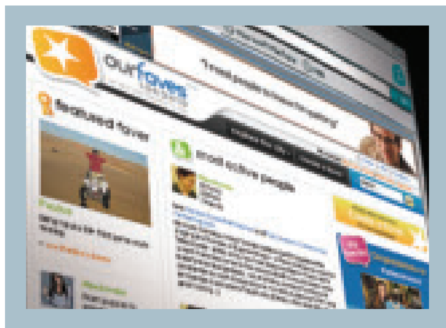
In 2007, Olive Canada Network continued to be a key driver of audience growth and revenue for Torstar Digital. Its network of exclusively represented, premium-branded websites grew in 2007 from 18 to more than 40, including iVillage, CNET and Babycenter. With a reach of more than 13 million unique Canadian visitors, the Olive Canada Network offers media buyers one-stop access to many of the most desired, premium websites. In January 2007, Torstar sold 25 per cent of Olive Canada Network to Gesca Ltée, with the intent of strengthening its competitive advantage by offering a national, bilingual service. This partnership brought 11 French-language sites into the network, including Cyberpresse and LaPresseAffaires. It also increased Olive Canada Network's reach by approximately 3.5 million unique visitors.





OURFAVES.COM

Launched in May 2007, ourfaves.com is Torstar's first web 2.0 site. It combines three major trends in online media: user-generated content, social networking and local search to allow users to share and discover favourite places and things in Toronto. The site has maintained month-over-month growth of more than 80% since it was launched, and attracted more than 100,000 unique visitors in December 2007. In 2008, ourfaves.com plans to expand to additional cities.



TOPS

Developed and launched in 2006, TOPS (Total Online Publishing System) is Torstar Digital's integrated online publishing platform. In 2007, TOPS migrated all remaining Torstar newspaper websites onto the new technology platform, relaunching a total of more than 60 Torstar sites. Key development priorities in 2008 include ongoing development of the platform and functionality to enable user-generated content and social networking for its internal client sites.

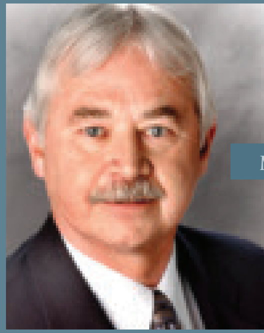
GERRY NOBLE

President and CEO,
Transit Television Network

TRANSIT TELEVISION NETWORK

Transit Television Network (Transit TV) develops, installs, services and manages digital out-of-home advertising networks, primarily on mass transit bus systems 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. Transit TV reaches a daily audience of 1.7 million riders through 8,500 screens installed on bus systems in Los Angeles, California; Chicago, Illinois; Atlanta, Georgia; Milwaukee, Wisconsin; and Orlando, Florida. Its network is the largest of its kind in North America and operates in each of its markets through exclusive long-term contracts with the local transit agencies.

In 2007, Torstar initiated a strategic review process. As a result of that process, Transit TV entered into a strategic sales relationship with IdeaCast in January 2008. IdeaCast operates one of North America's largest health-club based digital advertising networks. In addition to the sales relationship, Torstar entered into a letter of intent that provides IdeaCast with an option to acquire Transit TV in exchange for shares in IdeaCast. The option can be exercised in the second quarter of 2008.



MURRAY SKINNER

President,
Metroland Media Group

METROLAND MEDIA GROUP

Metroland Media Group celebrated another record year in 2007, its first full year operating both community and daily newspapers following a corporate restructuring in late 2006.

Metroland's revenue increased more than $19 million in 2007, with growth registered in both daily and community newspaper segments. Operating profit jumped 10% to $110 million, with increases in each of the major groups, including daily newspapers, community newspapers, flyer distribution and printing.

In 2007, Metroland achieved significant progress in three key areas of investment: Niagara community newspapers, Ottawa community newspapers and Gold Book Directories.

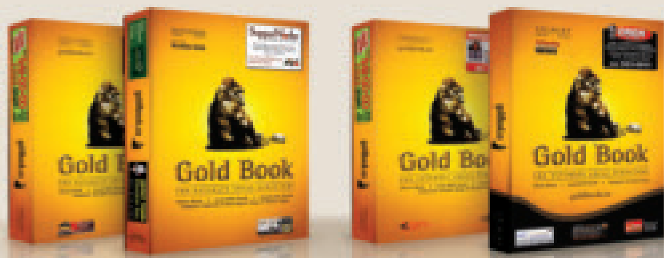
The recent community newspaper expansion in both the Niagara region and Ottawa area resulted in increased revenue in 2007 and further solidified their market positions.

An aggressive campaign to expand Gold Book Directories was successfully implemented in 2007. The number of print and online directories in Metroland's southern Ontario markets rose to 25 from nine, resulting in impressive revenue growth. Gold Book's innovative online offerings, in combination with the promotional capabilities of Torstar's newspapers and Metroland's distribution network, have contributed to the success of the new directories.

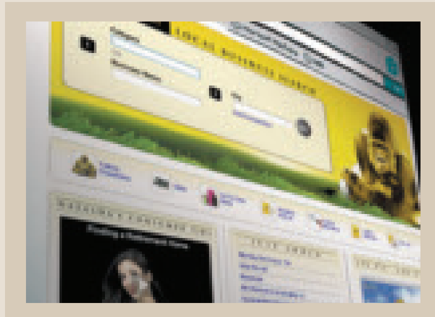
During 2007, Metroland continued to grow through acquisitions and by launching new publications. Metroland purchased the Brighton Independent weekly newspaper, the Parkdale Liberty monthly newspaper, Kitchener's This Week in Real Estate publication, and the Great Toronto Getaway and Great Ontario Getaway publications. The company launched three new weekly community newspapers: the Bradford West Gwillimbury Topic, the Innisfil Journal and the South Asian Focus in Brampton. Metroland also launched Guelph Life, which joined Metroland's stable of local magazines, and bought the Kawartha Home & Cottage Country Show.

All of Metroland's more than 100 newspapers are heavily involved in the communities they serve. Local news and content make each paper the leading source of information in its respective market.

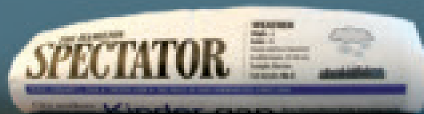
In 2007, Metroland won a record number of awards for its editorial and online excellence. The Hamilton Spectator received the Excellence in Journalism Award from the Canadian Journalism Foundation, becoming the only Canadian media outlet to be awarded the honour twice.



GOLD BOOK DIRECTORIES

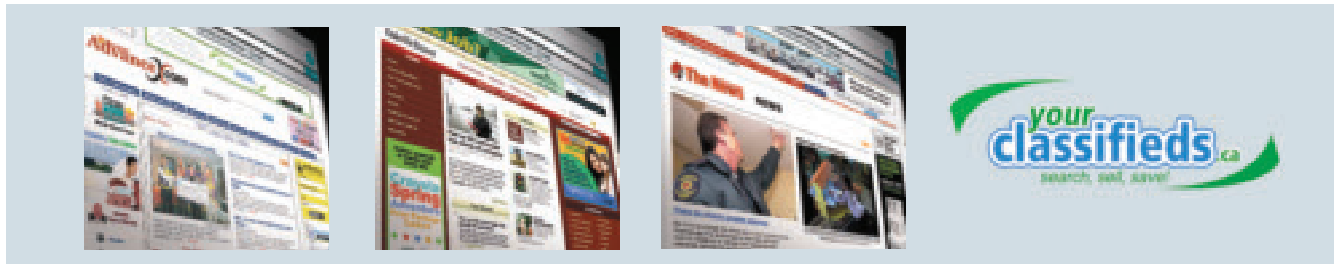


goldbook.ca



DAILY PAPERS

COMMUNITY PAPERS



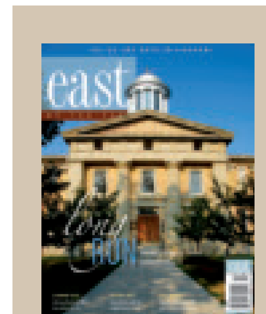
The Hamilton Spectator also garnered eight Ontario Newspaper Awards, and three National Newspaper Award (NNA) nominations. The Record received an NNA for editorial writing, an NNA nomination for sports writing, and five Ontario Newspaper Awards. The Guelph Mercury received the Canadian Journalism Foundation Excellence in Journalism Award for small media, one National Newspaper Award nomination and four Ontario Newspaper Awards.

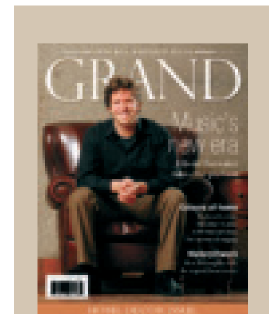
Collision Course, a joint investigation of air safety in Canada by The Spectator, The Record and the Toronto Star, was honoured with several top national awards, including a Michener Awards Foundation citation of merit.

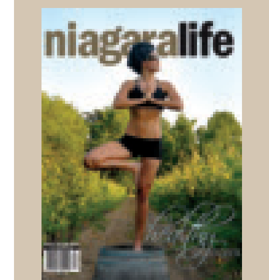
Metroland's community newspapers continued to dominate the Ontario Community Newspaper Awards and the Canadian Community Newspaper Awards. They also were recognized by Suburban Newspapers of America with the second-highest number of awards won by any group in North America.

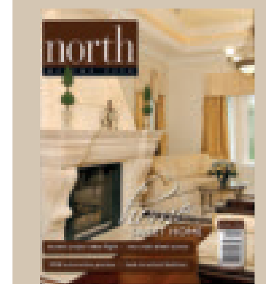
In 2007, the Metroland Media Group accelerated online efforts at the individual newspaper level with increased interactivity and local focus. Metroland developed and launched a new online classified advertising site in late 2007, yourclassifieds.ca, which provides a wide range of classified listings including merchandise, help wanted, real estate sales and rentals and services. Early results are very promising for this new venture. At the same time, a centralized group was established to drive initiatives for the benefit of all local papers. Metroland's commitment to online was recognized by the Suburban Newspapers of America with 14 awards in its local community website contest, including first-place finishes for various Metroland websites in the categories of Best Site Architecture, Best Reader Interactivity, Best Multi-Media Initiative, Best Real Estate Site and Best Advertising Initiative.

Based on the combination of strong local focus, diversified product mix, and entrepreneurial culture, Metroland looks forward to continuing its legacy of growth in 2008.









MAGAZINES

HARLEQUIN

DONNA HAYES

Publisher and Chief Executive Officer

HARLEQUIN

Harlequin is unique in the publishing industry. With strong brands and a dominant position in series romance publishing, Harlequin is a global publisher of books for women in a variety of genres, in both print and digital formats. Also, Harlequin continues to invest in 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. Four strategic themes guide the pursuit of this vision:

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

In 2007, Harlequin made good progress against these themes and positioned itself for further success in the future.

INDUSTRY

Consumer book publishing remains a relatively stable, modest growth industry. Book retailing in the United States was stable in 2007 and Harlequin's North America Retail business performed well during the year.

The direct-to-consumer environment in which Harlequin operates continues to prove challenging for all participants. Sales in the traditional U.S. direct mail industry have declined steadily in recent years. Similar weakness exists in certain Overseas direct-to-consumer businesses as well, as consumers shift their buying behaviour to other channels. 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 third-party websites and eHarlequin.com in 2007.

In addition, publishers are using technology to drive advances in the creation, promotion and distribution of their content. As audiobooks and eBooks become more popular with readers, digital publishing has emerged as a relatively small, but rapidly growing, market. Harlequin has established itself as a leader in digital publishing and now releases all new titles, which total more than 100 a month, in electronic formats.

OPERATING REVIEW

In 2007, Harlequin earned EBITDA of $65.5 million, up $2.1 million from $63.4 million in 2006. Excluding the effect of foreign exchange, Harlequin EBITDA would have been $4.1 million higher in 2007 than in 2006. Books sold declined slightly in 2007 to 130 million from 131 million. After excluding the impact of foreign exchange, revenue was stable at $462.7 million in 2007.

HARLEQUIN'S STRATEGY

In 2007, Harlequin maintained its focus on four strategic themes.

1. Relevant Portfolio of Reading for Women

The series publishing model is unique to Harlequin, with close to 80 titles published each month across 15 series. In 2007, Harlequin ensured the series business remains vibrant by investing in product development, editorial quality and promotion. Harlequin introduced innovative editorial within existing series and through new series development. This editorial also reached readers in new ways, through eBooks in North America and mobile phone downloads and manga comics in print and digital formats in Japan.

In addition to series, Harlequin continues to serve a broader group of women with entertaining content across a variety of single title genres and imprints.

2007 Progress

- In 2007, Harlequin strengthened its editorial offering with new and expanded innovative product lines including:
  - Introducing Kimani TRU, a new fiction line for African-American teens;
  - Expanding its Love Inspired Suspense inspirational line;
  - Launching digital and print manga comics in Japan;
  - Incorporating emerging trends in existing product lines.
- In response to evolving editorial content, U.S. consumers gave Harlequin editorial its highest relevance scores to date in a national survey.
- Top selling authors under Harlequin imprints reached new levels of achievement:
  - Collectively, Harlequin authors enjoyed 230 weeks on the New York Times Bestseller Lists, up from the 181 weeks achieved in 2006.
  - Debbie Macomber achieved the #1 ranking simultaneously on the New York Times, USA Today and Publishers Weekly Bestseller Lists for her book 74 Seaside Avenue, a first for a Harlequin author.
- In the North American digital publishing program's second year, Harlequin published its entire frontlist in eBook format, and grew the number of titles in Harlequin's digital warehouse to more than 9,000.

2008 Initiatives

- Drive product innovation by building on consumer expertise.
- Continue to improve the relevance and appeal of series romance books.
- Broaden the range of content Harlequin publishes:
  - Continue increased emphasis on thriller, suspense and paranormal fiction.
  - Expand into non-fiction, a segment representing 60% of the U.S. consumer book publishing market.
  - Build on the success of the Love Inspired series line with an extension into historical inspirational romance.
- 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.

2007 Progress

- In partnership with key North American retailers, Harlequin focused on maximizing efficient distribution opportunities and using its sampling program to build awareness and trial.
- Key Overseas markets performed well, particularly the Nordic region.
- In France, certain series product lines were relaunched with positive results.
- Harlequin established operations in India, one of the world's largest English-speaking markets.
- eHarlequin.com and the digital publishing business delivered double-digit sales growth.

2008 Initiatives

- Continue to optimize sales of series and single title books in the North America Retail channel.
- Continue to introduce Harlequin titles to new distribution channels, particularly in Overseas markets.
- Grow online sales via eHarlequin.com and Harlequin's Internet partners' websites.
- Continue to grow sales of digital products, including audiobooks, eBooks and mobile content in the U.S. and Japan.
- Expand existing Overseas operations into adjacent markets to reach new readers while leveraging existing resources.

3. Cost Reduction and Execution

While Harlequin has stabilized net units and revenue, excluding 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 and pursued it further in 2007. These efforts will continue in 2008 in an effort to ensure Harlequin grows revenue faster than costs.

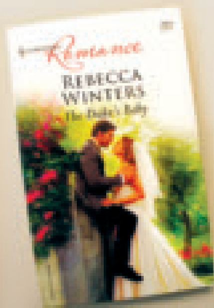
4. Engaging the Right People

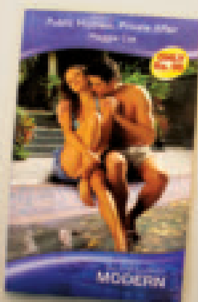
The foundation of Harlequin's business lies in the talent of its author base and employees. Accordingly, Harlequin works to align the organization with its strategies, develop and retain talent and reward performance.

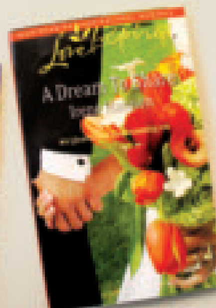
FUTURE OUTLOOK

By continuing to publish excellent editorial for women, Harlequin maintains its unique position in the book publishing industry. 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 around the world. Key growth initiatives will include Harlequin's entry into non-fiction in late 2008 and continued growth in digital publishing in North America and abroad. Broadening distribution channels will make Harlequin books more widely available, reaching women where they already shop. Reducing costs and improving execution will grow Harlequin's profitability, while facilitating continued investment in brands and authors.







CTVglobemedia

CTVglobemedia

Torstar acquired a 20% equity interest in CTVglobemedia in 2006 for $283 million. Subsequent to this investment, CTVglobemedia acquired CHUM Ltd. Torstar participated in this transaction by subscribing for $94 million of additional equity to maintain its 20% interest in CTVglobemedia. In June 2007, the CHUM transaction closed after meeting the regulatory requirement to divest the Citytv stations, which were sold to Rogers Communications Inc.

The CHUM acquisition represented a top strategic priority for CTVglobemedia and provides several important benefits. It creates a broader TV platform to leverage fixed programming costs, expands CTV's stable of specialty channels, diversifies CTVglobemedia's revenue stream through the addition of radio and adds properties that better target young viewers and listeners.

Torstar's investment in CTVglobemedia gives it exposure to the Canadian conventional and specialty television industries and strengthens Torstar as a broadly based media company by diversifying its revenue streams and geographic concentration. The CTVglobemedia investment has also provided Torstar with the opportunity to participate in Canadian television industry consolidation on financially reasonable terms through the CHUM acquisition.

The combination of CTVglobemedia and CHUM has led to the creation of Canada's premier multimedia company, representing many of the industry's strongest properties.

In conventional television, the CTV Television Network includes 21 stations and is the nation's leading private broadcaster. Programs on the network held more top 10 and top 20 ratings positions than any other broadcaster. The addition of CHUM's six "A Channel" stations further strengthens this position.

In specialty television, CTV has combined its specialty channels with CHUM's channels to create the nation's leading specialty channel provider with 35 specialty channels and many of the leading franchises. These include TSN, MuchMusic, The Comedy Network, Discovery Channel, Space and Bravo!.

In newspapers, the Globe and Mail is one of Canada's leading publications.

In radio, the CHUM Radio Network operates 35 radio stations across Canada, including CHUM FM, which is Canada's leading FM station.

CTVglobemedia also holds a 15% interest in Maple Leaf Sports and Entertainment Ltd., owner of the Toronto Maple Leafs, the Toronto Raptors and the Air Canada Centre.

The combination of CTVglobemedia and CHUM creates a powerful multimedia platform with strong positions in newspapers, radio and conventional television, and significant exposure to the attractive specialty television segment. With the acquisition and initial integration completed in 2007, CTVglobemedia is well positioned to realize the strategic and operating benefits of the broader platform in 2008.

BLACK PRESS

Torstar owns a 19.35% 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 daily and weekly newspapers, and has 17 press centres in Western Canada, Washington state, Ohio and Hawaii.

While Black Press's primary operations are in Western Canada, the company has expanded its presence in the United States in recent years. In the summer of 2006, Black Press acquired the Akron Beacon Journal, a daily newspaper in Akron, Ohio. Through a series of acquisitions in 2007, Black Press also increased its community newspaper holdings in the Washington state area.

Through this investment, Torstar has expanded its community-based newspaper presence in Western Canada and the United States.

COMMITMENT TO OUR COMMUNITIES

Torstar and each of its companies are proud of their long tradition of providing cash and in-kind contributions to support the communities in which they operate

TORONTO STAR

Toronto Star Publisher Joseph E. Atkinson relentlessly pressed for social and economic programs to help the marginalized, the less fortunate and, particularly, children. His strong values and beliefs inspired the Atkinson Principles, which are the driving force behind the Toronto Star's editorial and charitable endeavours. For more than a century, the Toronto Star has held fast to the Atkinson Principles. Atkinson's passionate campaigns for social justice led him to create two of the Greater Toronto Area's most successful charities – The Toronto Star Fresh Air Fund and The Toronto Star Santa Claus Fund. His 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.

The Toronto Star covers all administrative expenses of The Toronto Star Children's Charities. This tradition has ensured that every dollar contributed by readers goes directly to supporting vulnerable children and youth. In 2007, more than 80,000 children and teenagers were supported by the funds.

The Toronto Star Fresh Air Fund was launched in 1901 during one of the worst heat waves on record. Atkinson appealed to Toronto Star readers to help poor children escape the sweltering city heat by providing funds for picnics, excursions and vacations at camp. His message did not go unnoticed or forgotten. In the 1930s, the emphasis switched to camps in the country where disadvantaged children could spend two or three weeks running in the woods, swimming in a lake or learning to paddle a canoe. Today, The Toronto Star Fresh Air Fund gives children with serious illnesses, mental and physical handicaps, and children from low-income families, the chance to create some summertime memories at camp. In 2007, The Toronto Star Fresh Air Fund raised $606,633 by the end of the campaign to send more than 25,000 children to 103 day and residential camps.

2007 proved to be another stellar fundraising year for The Toronto Star Santa Claus Fund. The fund, which celebrated its 102nd year, ensured that 45,000 children received a gift at Christmas. Surpassing its $1.4 million goal, the fund raised more than $1.6 million by Christmas Eve from Toronto Star readers, as well as readers of our sister papers, The Mississauga News, The Brampton Guardian and the Ajax-Pickering News Advertiser. The bright gift boxes, delivered directly to children's homes by thousands of volunteers, are filled with a warm shirt, socks, mitts and hat, a book, small toy and candy. In addition, The Toronto Star Santa Claus Fund was able to support some 10,500 teens, aged 13 to 17, by giving them movie passes and gift certificates for theatre concession stands.

The Toronto Star also continues to extend a helping hand in the community by supporting such agencies as the United Way, ShareLife and the United Jewish Appeal, as well as Toronto Public Library literacy programs, the Children's Aid Foundation and journalism scholarships at Ryerson University, Loyalist College, Humber College Institute of Technology and Advanced Learning and Sheridan Institute of Technology and Advanced Learning.

HARLEQUIN

Now in its fifth year of operation, the Harlequin More Than Words program honours ordinary women who make extraordinary contributions to their communities. From nominations it receives each year from across North America, 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 to hundreds of charitable efforts throughout the communities they serve. In 2007, Metroland properties donated millions of dollars of in-paper space to a wide variety of worthy causes. Each newspaper selects suitable local charities and cultural organizations and provides support by donating promotional space in the newspaper. Here are just a few examples:

In Simcoe County, the total value of donated promotional space in community newspapers topped $750,000. Some 55 local organizations benefited, including the Royal Victoria Hospital, Talk Is Free Theatre, Theatre by the Bay, the Rotary Club of Barrie and the Barrie Agricultural Society.

The Mississauga News partnered with the Maggie Steacy Summer Breakfast Program to provide healthy morning meals for children during July and August, when school-based programs are not operating. The News worked with Lancaster Public School to help deliver a fully integrated, unique program for recent immigrants. Lancaster, a Malton neighbourhood school, was the one-stop venue for the program, which allowed parents to enrol in English language classes and provided their children with summer camp programs. In addition, The News ran three other programs throughout Mississauga.

The Hamilton Spectator continued its lengthy tradition of providing camping experiences for disadvantaged children, through funds raised in the Summer Camp Fund. In 2007, more than 1,100 children spent a week at camp. In addition, Hamilton Spectator employees continued their Kids Unlimited initiative, an outreach program through a partnership with an inner-city school to support poverty reduction in the Hamilton community. Among the projects in 2007 were the launch of an after-school program, volunteer support for a breakfast club, a literacy/mentorship program, special holiday meals, new team uniforms, sponsorship of 25 families for holiday gifts and clothing, and raising thousands of dollars to support these ongoing programs.

The Toronto Community News division undertook a variety of initiatives in Toronto neighbourhoods, including a first annual holiday gift drive, a Toronto Children's Breakfast Club and continued support of community organizations, such as the Dorothy Ley Hospice, Scarborough Walk of Fame and the Rouge Valley Health System.

The Grand River Media Books for Kids drive collected approximately 5,000 books for the Salvation Army's annual Christmas hamper program. In addition, The Record supported more than 400 regional non-profit organizations with in-kind advertising linage or cash donations.

DAVID HOLLAND

Executive Vice-President and
Chief Financial Officer

FINANCIAL RESULTS

Torstar enjoyed positive financial performance in 2007; a combination of modest revenue growth and favourable cost factors resulted in good earnings growth for the year. Revenues increased to $1.55 billion, up 1.2% versus prior year. Excluding foreign currency related impact, revenues were up 1.7%. Earnings before interest, taxes, depreciation and amortization ("EBITDA") before restructuring charges increased by $23.3 million, or 11.5%, from $202.1 million to $225.4 million in the year. Each of the major businesses contributed to the growth experienced in the year.

•The Metroland Media Group, focused on serving its local communities, had another strong year building on the growth achieved in 2006. EBITDA grew by $11.2 million, or 9.8%, to $124.7 million. Revenue increased by 3.5% to $577.4 million.

•Following a difficult 2006, Star Media Group reported improved results in 2007. EBITDA was $60.8 million, an improvement of $8.0 million from $52.8 million in 2006. Lower newsprint and pension costs were important factors contributing to the improved EBITDA. Revenue of the group increased to $504.2 million, up 1.5% for the year.

•Harlequin had a good year in 2007, growing EBITDA to $65.5 million. The underlying EBITDA growth, excluding foreign currency related impact, was $4.1 million or 6.5%. Continued growth in the North American Retail business and a recovery from a difficult 2006 for North America Direct-To-Consumer more than offset lower results in Overseas. Excluding currency impact, revenue of $462.7 million was stable compared to prior year.

Torstar made good progress on its net borrowing position in 2007, closing the year at $620.3 million, a reduction of $60.0 million from the December 31, 2006 position of $680.3 million. The favourable movement in the borrowing position resulted from solid operating results, favourable working capital movements, low investment in acquisitions and the favourable impact of the stronger Canadian dollar on the translation of U.S. debt.

Looking ahead to 2008, acknowledging the uncertain economic outlook, we will remain focused on execution of our plans, which depend on operating effectively and on leveraging the strength of our leading franchises. We will also remain disciplined about seeking opportunity and making the investments necessary to enhance value over the long term.

DAVID HOLLAND

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For the year ended December 31, 2007

Dated: February 27, 2008

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, 2007.

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, unusual items, 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 MD&A and in the Company's oral and written public communications 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 written or oral, or 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. In addition, forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

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, reliance on its printing operations, reliance on technology and information systems, 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 4 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 of the key assumptions include, without limitation, assumptions regarding the performance of the North American economy; tax laws in the countries in which we operate; continued availability of printing operations; continued availability of financing on appropriate terms; exchange rates; market competition; and successful development of new products. There is a risk that some or all of these assumptions 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. The 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 Limited, a leading global publisher of books for women. Torstar also has investments in CTVglobemedia Inc. ("CTVgm") and Black Press Limited which are accounted for as Associated Businesses, using the equity method. In 2007, Torstar had revenues of $1.5 billion and net income of $101.4 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 media platform providing news content and generating 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.

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, Vancouver, Edmonton, Calgary and Halifax[1] editions of Metro; thestar.com; toronto.com; LiveDeal Canada; and Torstar Media Group Television ("TMG TV"). Recognizing the level of interaction between the Star Media Group digital businesses and Torstar Digital, Star Media Group also includes Workopolis, Olive Canada Network and the Torstar Digital corporate group.

Torstar owns 100% of toronto.com, an online destination for where to go and what to do in the Greater Toronto Area. Torstar owns 60% of LiveDeal Canada, a web classified site; 50% of Workopolis, Canada's leading provider of Internet recruitment and job search solutions; and 75% of Olive Canada Network, an advertising network of premium websites that reaches over 13 million unique Canadian visitors monthly on its network of top-tier sites including CNET.com, ArtistDirect.com, thestar.com, toronto.com, cyberpresse.ca and tetesaclaques.tv. Gesca Ltd. is Torstar's partner in each of these partnerships.

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 publishes in print and online 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 Gold Book Directories, a number of specialty publications, and operates several consumer shows throughout Ontario. 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, broadcast-quality information and entertainment to passengers on buses and rail transit on screens mounted in the vehicle. In 2007, Torstar undertook a strategic review of Transit TV. In early 2008 Torstar announced a sales relationship with IdeaCast, Inc. (a U.S. provider of custom television content and advertising to health clubs) and a letter of intent giving IdeaCast an option to acquire Transit TV in the second quarter of 2008. If the option is exercised, the consideration for the acquisition would be IdeaCast shares. Torstar's carrying value in Transit TV's net assets at December 31, 2007 was approximately $19.0 million.

BOOK PUBLISHING SEGMENT

The Book Publishing Segment reports the results of Harlequin, a leading global publisher of books for women. Harlequin publishes books around the world in a variety of genres and formats, selling through the retail channel and directly to the consumer by mail and the Internet. Harlequin's publishing operations are comprised of three divisions: North America Retail, North America Direct-To-Consumer and Overseas. In 2007 Harlequin published books in 29 languages in 107 international markets. Harlequin reported a total of 130 million books sold in 2007, down slightly from 131 million in 2006.

Harlequin sells books under several imprints including Harlequin, Silhouette, MIRA, HQN, Red Dress Ink, Steeple Hill, LUNA, Spice and Kimani Press. Harlequin publishes books in both series and single title formats. 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 lengthier book. New single title books are published each month and the individual titles have a longer shelf life.

[1] *Launched February 2008.*

ASSOCIATED BUSINESSES

Torstar owns a 20% equity interest in CTVglobemedia Inc. ("CTVgm"). CTVgm is a Canadian multi-media company with ownership interests in CTV, a Canadian private broadcaster, and, the national daily newspaper, The Globe and Mail. CTVgm owns and operates conventional television and radio stations across Canada and national specialty channels. Other CTVgm investments include: an approximate 15% interest in Maple Leaf Sports and Entertainment Ltd., which owns the Toronto Maple Leafs, Toronto Raptors and the Air Canada Centre; and a 50% interest in Dome Productions, a North American leader in the provision of mobile high definition production facilities.

Torstar has a 19.35% equity investment in Black Press Ltd. Black Press Ltd. is a privately held company that publishes more than 160 newspapers (weeklies, dailies and shoppers) including the Akron Beacon Journal, the daily newspaper in Akron, Ohio, and has 17 press centres in Western Canada, Washington State, Ohio and Hawaii. Torstar may make additional investments in Black Press under certain circumstances.

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, and specialty publications as well as on-line ads. Competition for advertising revenue comes from local and regional newspapers, radio, broadcast and cable television, outdoor, 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.

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, financial and entertainment sectors. These sectors have historically been sensitive to changes in economic conditions. Advertising revenue tends to be seasonal with the second and fourth quarters being stronger than the first and third.

In January 2008, the Toronto Star moved to modular advertising and sectional pricing. Modular advertising is the sale of advertising by standard unit sizes instead of by the line. Sectional pricing means that advertisements are placed in the section of the newspaper selected by the advertiser and that the rate for placement in that section is correlated to the readership and demographics of the audience that the section delivers. This change offers advertisers the opportunity to use the Toronto Star as a mass or targeted medium. Management believes that this change should help the Toronto Star align with the full range of media options available to advertisers, including online, TV and radio, which already offer standardized sizes and targeting opportunities. There is a risk inherent in undertaking this change as the Toronto Star is the first newspaper in Canada to adopt this approach and it may not prove to be accepted by advertisers.

Readership levels are an important factor in the ability of a newspaper to generate advertising revenues. Changes in everyday lifestyle have meant that people are choosing not to devote as much time to reading newspapers 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 development of special interest and classified websites where print revenues have migrated to over the past few years.

In 2007, digital revenues represented 4.5% of Torstar's Newspapers and Digital Segment revenues. However, digital revenues tend to be priced lower than traditional media, due in part to the lower cost structure and, in some cases, low barriers to entry. The digital space also includes competitors for the distribution of information that may have no or only a nominal profit motivation and who provide services for free. 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, brand recognition and effective technology are key requirements. A challenge for Torstar in the digital space is that the competitive environment continues to change at a rapid pace, there are lower barriers to entry, and the competitors range from start-up operations with low cost structures to 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. 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 but access has

continued through 2007 and is expected to do so in the future.

The Transit TV model is to generate revenues by selling advertising space on programming broadcast on buses and trains. 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 the ability 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 in both print and digital formats.

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. There is no guarantee that there will be a sufficient number of new customers acquired each year to offset the decline of existing 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.

Four of the Toronto Star's collective agreements covering approximately 750 employees at One Yonge Street and 70 employees at the Vaughan Press Centre expired at the end of 2007. New agreements were reached in early 2008 that provide for basic wage increases of 2% each year. Two of these expire at the end of 2010, one at the end of 2011 and one, covering approximately 40 employees, will expire at the end of 2008. The new agreements will also provide for increased flexibility in the assignment of staff and remove barriers to inefficient workflow. Three additional agreements covering approximately 400 employees at the Vaughan Press Centre will expire at the end of 2011. Sing Tao has two collective agreements covering approximately 125 employees that will expire at the end of 2009. Metro's Toronto operations have a collective agreement covering approximately 50 employees that will expire in March of 2010.

Metroland Media Group has a number of collective agreements throughout their operations covering approximately 900 employees. Eleven new collective agreements were reached during 2007 covering approximately 550 employees. These agreements generally provide for annual basic wage raises dependent upon increases in the Consumer Price Index, but in the range of 1.5% to 3.0% and will expire between the end of 2009 and mid 2011. Four additional collective agreements, with similar terms, covering approximately 175 employees will expire during 2009. There are five collective agreements covering approximately 165 employees that have either expired or will expire by the end of 2008.

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 2007, newsprint prices decreased during the year and Torstar's newsprint price was on average 13% lower than in 2006. Torstar's newspapers consume approximately 140,000 tonnes of newsprint each year. A $10 change in the price per tonne affects operating profits by $1.4 million.

Technology

The media industry is experiencing rapid and significant technological changes. The continued growth in the popularity of the Internet has increased the number of content options that

compete with newspapers. In order to be able to compete, Torstar is required to be able to attract and retain appropriately skilled staff. Torstar also must manage the changes in and acquire, develop or integrate new technologies. The cost of such acquisition, development or implementation of new technologies could be significant.

Printing Operations

In its Newspapers and Digital Segment, Torstar places considerable reliance on the functioning of its printing operations for the printing of its various publications. In the event that any of Torstar's print facilities experiences a shutdown, Torstar will attempt to mitigate potential damage by shifting the printing to its other facilities or outsourcing the work to a third party commercial printer. However, such a shutdown could result in Torstar's inability to print some publications and consequentially could negatively impact revenues.

Harlequin uses third party printing arrangements for its book publishing operations in North America and worldwide. Should there be a change in any of the existing arrangements or should they cease to be available, Harlequin would attempt to mitigate the situation by using an alternative supplier or print location. In January 2008, Quebecor World (Harlequin's printer for North American mass-market paperbacks) applied for court protection in Canada and the U.S. in order to conduct restructuring. As part of that process Quebecor World has secured new financing enabling it to continue to operate. To date, there has not been any disruption in printing services during the restructuring and management believes that the outcome of the Quebecor World restructuring process will not likely have a material impact on the book publishing business.

Litigation

Torstar is involved in various legal actions, primarily in the Newspapers and Digital Segment, which arise in the ordinary course of business. There can be no assurance as to the outcome of any future litigation or whether the outcome will have a material impact on Torstar's results.

Foreign Exchange

As an international publisher, approximately 94% 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 2006 to 2007, the Canadian dollar strengthened by 5% on average relative to the U.S. dollar and by 6.5% to the Yen. It weakened by 3% relative to both the Euro and the British Pound. The total impact of Harlequin's exposure to foreign currencies in 2007 as compared to 2006 was a decrease of $2.9 million in Harlequin's reported operating profit.

To offset some of this exposure, Torstar enters into forward foreign exchange contracts to sell U.S. dollars. (See additional information on foreign exchange risks in the Financial Instruments section of this MD&A.) In 2007, Torstar realized gains of $1.7 million related to $27.5 million of U.S. dollar contracts at an average exchange rate of $1.14. (In 2006, gains of $0.8 million related to $30.0 million of U.S. dollar contracts at an average exchange rate of $1.16.) These gains were included in Harlequin's reported revenue and operating profit.

Investment in CTVgm

Torstar has a significant investment in CTVgm. Torstar does not own a controlling interest in CTVgm and does not exercise control over its management, strategic direction or daily operations. CTVgm's results, and the value of Torstar's investment, are dependent upon the television and radio broadcasting and newspaper environment in Canada and CTVgm's position in relation to its competitors. CTVgm faces many of the same challenges as Torstar does from the growth of the Internet as well as declines in conventional television revenues. Broadcasting is subject to extensive government regulation in Canada. Changes to the applicable regulations and policies or terms of licenses could have a material effect on CTVgm's businesses. Given the level of debt carried by CTVgm, a change in CTVgm's operations could have a significant impact on the value of Torstar's investment. A negative change in the value of CTVgm could require Torstar to take a charge to earnings in order to reduce its carrying value.

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%) through 2011.

OPERATING RESULTS – YEAR ENDED DECEMBER 31, 2007

Overall Performance

Total revenue was $1,546.5 million in 2007, up $18.2 million from $1,528.3 million in 2006. Newspapers and Digital revenue grew $27.3 million to $1,083.8 million with strong growth in the digital operations and market expansions. Reported Book Publishing revenue was $462.7 million in 2007, down $9.1 million from $471.8 million in 2006 including an $8.1 million decline from the strengthening of the Canadian dollar during the year. Revenue improvements for North America Retail and Overseas were not sufficient to offset declines in North America Direct-To-Consumer.

Operating profit was $162.8 million in 2007, up $39.5 million from $123.3 million in 2006. The increase included $14.8 million of lower restructuring provisions in 2007. Newspapers and Digital Segment operating profit was $128.7 million in 2007, up $20.9 million from $107.8 million in 2006 including $13.7 million of savings from lower newsprint pricing and $4.5 million from the mid-2006 closure of Weekly Scoop. Continued investment in the digital operations offset growth in the other businesses. Book Publishing reported operating profit was $60.6 million in 2007, up $4.3 million from $56.3 million in 2006. Underlying operating profit was up $6.3 million in the year while the strengthening Canadian dollar decreased profits by $2.0 million. Underlying results were up in the North America Retail and Direct-To-Consumer divisions and down in Overseas. Corporate costs were $19.0 million in 2007, up $0.5 million from $18.5 million in 2006.

EBITDA[2], excluding restructuring provisions, was $225.4 million in 2007, up $23.3 million from $202.1 million in 2006.

	2007	2006
Newspapers and Digital	$178,921	$157,112
Book Publishing	65,473	63,439
Corporate	(18,973)	(18,417)
EBITDA, excluding restructuring provisions	$225,421	$202,134

Restructuring provisions of $7.5 million were recorded in 2007 compared with $22.3 million in 2006. In 2007, the Star Media Group offered the second voluntary severance program at the Vaughan Press Centre that had been agreed to in the 2006 contract negotiations and Metroland Media Group undertook further restructuring. Total annual savings from these restructuring activities are expected to be approximately $3.7 million.

The 2006 provisions for the Star Media Group included a voluntary severance program at the Vaughan Press Centre, the outsourcing of its circulation call centre and a fourth quarter restructuring 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.

Interest expense was $34.4 million in 2007, up $13.6 million from $20.8 million in 2006. The higher expense reflects a full year of the higher level of debt outstanding from the investment in CTVgm in the third quarter of 2006 and higher interest rates. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $660.7 million in 2007, up $214.5 million from $446.2 million in 2006. Torstar's effective interest rate was 5.2% in 2007 and 4.7% in 2006. Net debt was $620.3 million at December 31, 2007, down $60.0 million from $680.3 million at December 31, 2006.

Torstar reported a non-cash foreign exchange loss of $1.9 million in 2007. This loss arose from the translation of foreign-currency (primarily U.S. dollars) denominated assets and liabilities into Canadian dollars. The amount of the loss or gain in any year will vary depending on the movement in relative value of the Canadian dollar and on whether Torstar has a net asset or net liability position in the foreign currency. In 2006, a non-cash foreign exchange gain of $0.1 million was reported.

Income from associated businesses was $20.4 million in 2007 up from $16.0 million in 2006. CTVgm contributed $17.2 million in 2007 and $14.0 million in 2006. As Torstar's investment in CTVgm was made in September 2006, the 2007 income represents CTVgm's full year ended November 30, 2007 while the 2006 results were only the one quarter ended November 30, 2006. (As Torstar and CTVgm do not have coterminous quarter-ends, Torstar reflects CTVgm's operations with a one-month lag.) In both periods, CTVgm's results were adjusted for the impact of the accounting allocation of Torstar's purchase price to CTVgm's underlying assets and liabilities. In the fourth quarter of 2007, these adjustments included a positive $5.2 million earnings impact as future tax liabilities related to intangible assets were reduced to reflect the reduction in future Canadian federal income tax rates. Excluding this adjustment, CTVgm contributed $12.0 million in 2007. CTVgm realized operating profit growth in 2007 from their specialty television channels and the full year impact of the CHUM acquisition, which received final regulatory approval in June 2007. Offsetting this growth was higher interest expense due to higher levels of debt related to the CHUM acquisition and higher effective tax rates. CTVgm also recorded a write-down related to its 40% interest in TQS (a French-language conventional television broadcaster) which was only partially offset by adjustments related to Canadian Radio-television and Telecommunications Commission Part II fees.

Torstar's income from Black Press was $3.1 million in 2007 compared with $1.8 million in 2006. Black Press realized EBITDA growth in 2007 from the strong economy in Western Canada and from U.S. acquisitions made in mid 2006. Black Press' net income was negatively impacted during 2007 by higher interest expense related to the acquisitions.

Torstar's effective tax rate was 31.0% in 2007 compared with 33.3% in 2006. During 2006 and 2007, 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 $5.9 million in 2007 and $4.6 million in 2006. Excluding this adjustment, Torstar's effective tax rate was 35.0% in 2007 and 37.2% in 2006.

[2] *EBITDA is calculated as operating profit before restructuring provisions, interest, unusual items, taxes depreciation and amortization of intangible assets. See "non-GAAP measures".*

The effective tax rate was lower in 2007 due to changes in the mix of income.

Net income was $101.4 million in 2007, up $22.3 million from $79.1 million in 2006. Net income per share was $1.29 in 2007, up $0.28 from $1.01 in 2006. The average number of Class A and Class B non-voting shares outstanding was 78.6 million in 2007 up slightly from 78.3 million in 2006.

The following chart provides a continuity of earnings per share from 2006 to 2007:

Net income per share 2006		$1.01
Changes		
• Operations	0.24	
• Restructuring provisions	0.12	
• Non-cash foreign exchange	(0.05)	
• Income from associated businesses	0.05	
• Interest on CTVgm investment	(0.10)	
• Change in statutory tax rates	0.02	
Net income per share 2007		$1.29

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, 2007 and 2006.

	Operating Revenue		Operating Profit (Loss)		Profit Margin	
	2007	2006	2007	2006	2007	2006
Star Media	$504,153	$496,518	$28,754	$20,474	5.7%	4.1%
Metroland Media	577,425	558,156	109,996	99,911	19.0%	17.9%
Transit TV	2,250	1,788	(10,075)	(12,536)	n/a	n/a
Segment Total	$1,083,828	$1,056,462	$128,675	$107,849	11.9%	10.2%

	Depreciation and Amortization		EBITDA		EBITDA Margin	
	2007	2006	2007	2006	2007	2006
Star Media	$31,998	$32,297	$60,752	$52,771	12.1%	10.6%
Metroland Media	14,717	13,624	124,713	113,535	21.6%	20.3%
Transit TV	3,531	3,342	(6,544)	(9,194)	n/a	n/a
Segment Total	$50,246	$49,263	$178,921	$157,112	16.5%	14.9%

Total revenue of the Newspapers and Digital Segment was $1,083.8 million in 2007, up $27.3 million from $1,056.5 million in 2006. Digital revenues grew 45.7% in 2007 and were 4.5% of the total Newspapers and Digital Revenue in 2007, up from 3.2% in 2006. EBITDA was up $21.8 million in the year including $13.7 million from lower newsprint pricing and $4.5 million from 2006 losses for Weekly Scoop. Excluding these savings, EBITDA was up $3.6 million or 2.3%. Operating profit was up $20.8 million in the year.

Star Media Group

The Star Media Group reported revenues of $504.2 million in 2007, an increase of $7.7 million from $496.5 million in 2006. Strong revenue growth at the digital properties, the Metro newspapers (including the new markets) and Sing Tao more than offset lower revenue at the Toronto Star. Star Media Group's EBITDA was $60.8 million in 2007, up $8.0 million from $52.8 million in 2006. $4.5 million of the improvement in EBITDA was from the elimination of losses incurred in 2006 related to Weekly Scoop prior to it ceasing publication in June 2006. The Star Media Group had an operating profit of $28.8 million in 2007, up $8.3 million from $20.5 million in 2006.

Star Media Group's digital revenues for thestar.com, toronto.com and the jointly owned Workopolis and Olive Canada Network were up a combined 52% in the year as advertising revenues grew on each of the sites and Olive Canada Network expanded its operations. Revenues for the jointly-owned Sing Tao and Metro newspapers were up 22% in the year as Sing Tao expanded its products and Metro continued to grow its revenues in the Toronto, Vancouver and Ottawa markets and expanded into Calgary and Edmonton.

Toronto Star advertising revenues were down 3.9% in the year as declines in ROP[3] and insert revenues were only partially offset by increases in the special and zoned sections. Although the ROP revenue declines occurred throughout the year, the fourth quarter was relatively strong due to increased activity in the automotive and financial categories. Circulation revenues were down 1.9% in 2007.

Operating expenses in the digital operations were up in 2007 reflecting significant investments in promotional spending and increased staffing levels. Similarly Metro had higher operating expenses in 2007 reflecting the costs to build out the new markets. The Toronto Star realized savings from lower newsprint and labour costs in 2007 that were sufficient to offset the decline in revenues. Newsprint prices were 13% lower during the year and consumption was also lower due to reduced print runs and the benefits of converting to the smaller web-width in the second half of the year. Labour costs were lower in 2007 due to savings realized from the 2006 restructuring activities as well as lower pension expense.

The Star Media Group EBITDA was up $3.5 million in 2007 excluding the impact of the 2006 Weekly Scoop losses, with improved EBITDA at the Toronto Star and the jointly-owned Sing Tao and Metro businesses more than offsetting the increased investment in EBITDA losses at the digital operations.

Metroland Media Group

Metroland Media Group revenues were $577.4 million in 2007, up $19.2 million from $558.2 million in 2006, including $1.2 million from acquisitions. Advertising and distribution revenues were up at both the community and daily newspapers and the Gold Book directories expanded the number of books published during the year. EBITDA was $124.7 million in 2007, up $11.2 million from $113.5 million in 2006. Operating profit was $110.0 million in the year, up $10.1 million from $99.9 million in 2006.

ROP advertising revenues were up 1.1% at the community newspapers including acquisitions. Distribution revenues were up 7.7%. At the daily newspapers, ROP advertising revenue was up 0.8% and distribution revenues were up 3.7%. Gold Book revenues were up 73% in the year with the number of directories published increasing from 9 in 2006 to 25 in 2007. Revenue from Metroland Media Group's various Internet properties, including Gold Book, increased by $0.7 million in the year.

Metroland Media Group benefited from lower newsprint pricing in 2007 along with lower labour costs at the daily newspapers as a result of the restructuring undertaken in the fourth quarter of 2006 and lower pension costs.

Metroland Media Group's EBITDA was up $11.2 million in the year as the growth at the community and daily newspapers more than offset the investment spending for the Gold Book directories.

Transit TV

Transit TV 2007 revenues of $2.3 million were up $0.5 million from $1.8 million in 2006. EBITDA losses were $6.5 million in 2007 down $2.7 million from $9.2 million in 2006. Transit TV's operating loss was $10.1 million in 2007, down $2.4 million from $12.5 million in 2006.

[3] *"Run of Press" advertising is advertising that is included in the full press run and distribution.*

Segment Operating Results – Book Publishing

The following tables set out, in $000's, a summary of operating results for the Book Publishing Segment and a continuity of revenue and operating profit, including the impact of foreign currency movements, for the years ended December 31, 2007 and 2006.

	2007	2006
Revenue	$462,709	$471,808
EBITDA	$65,473	$63,439
Depreciation & amortization	4,833	7,162
Operating profit	$60,640	$56,277
EBITDA margin	14.1%	13.4%
Operating profit margin	13.1%	11.9%

Reported revenue, prior year	$471,808
Impact of currency movements and foreign exchange contracts	(8,140)
Change in underlying revenue	(959)
Reported revenue, current year	$462,709
Reported operating profit, prior year	$56,277
Impact of currency movements and foreign exchange contracts	(1,970)
Change in underlying operating profit	6,333
Reported operating profit, current year	$60,640

Book Publishing revenues were down $1.0 million in 2007 excluding the impact of foreign exchange. North America Retail was up $3.6 million, North America Direct-To-Consumer was down $5.0 million and Overseas was up $0.4 million.

Book Publishing operating profits were up $6.3 million in 2007 excluding the impact of foreign exchange. North America Retail was up $5.8 million, North America Direct-To-Consumer was up $2.2 million and Overseas was down $1.7 million.

North America Retail operating profits were up $5.8 million in 2007 from a combination of the positive impact from the mid-year price increase on series books, a more profitable mix of titles, reduced overhead and promotion costs and lower amortization expense. Overheads were lower due to savings realized from the restructuring undertaken in late 2006. North America Retail had been recognizing $2.1 million of amortization expense each year related to the cost of a distribution agreement. This cost was fully amortized by the end of 2006. The number of books sold was stable for both series and single title product in 2007.

North America Direct-To-Consumer operating profits were up $2.2 million in 2007 with improved performance from the 2007 promotional programs. A portion of this year over year improvement was related to the shipping disruptions associated with the bankruptcy of a key supplier in 2006 which negatively affected last year's results. North America Direct-To-Consumer benefited in 2007 from higher sales via the Internet, lower promotional spending and the positive impact of the mid-year price increase on series books which helped to offset underlying volume declines.

Overseas results were down $1.7 million in 2007 with growth in the Nordic group more than offset by lower results in the United Kingdom, Japan and Holland. The Nordic group had another successful year with growth in the series and single title businesses in both their retail and direct-to-consumer markets. The United Kingdom had lower results in 2007 as lower year over year positive adjustments to returns provisions and declining volumes in their direct-to-consumer market more than offset improvements in retail series book sales. Japan experienced success with their Manga line (series based comics) and digital downloads in 2007, but these improvements were not sufficient to offset declines in the core series book sales. Holland's results were down due to lower sales volumes during the last half of the year. Decreased losses from the Brazilian joint venture operations (launched in 2005) were offset by investment spending in India.

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 2007, $136.2 million of cash was generated by operations, $41.2 million was used for investing activities and $105.5 million was used for financing activities. Cash and cash equivalents net of bank overdraft decreased by $13.4 million in the year from $43.9 million to $30.5 million.

Operating activities

Operating activities provided cash of $136.2 million in 2007, up $24.6 million from $111.6 million in 2006. The higher level of cash provided in 2007 reflected the improved operating profits and a decrease in non-cash working capital.

Other adjustments to operating cash flows were uses of cash of $10.3 million in 2007 and $2.4 million in 2006. A significant portion of this item is to adjust the pension expense recorded in operating profit to Torstar's cash funding of the pension plans.

The combination of a lower pension expense in 2007 and slightly higher funding resulted in a $15.7 million adjustment in 2007 compared with $5.1 million in 2006. The balance of the adjustment was primarily for the non-cash foreign exchange loss and stock-based compensation.

Non-cash working capital investments decreased $9.5 million in 2007. The most significant source of this change was a decrease of $19.5 million in net current taxes due to the timing of tax payments. Excluding the impact of foreign exchange, the other working capital balances changed consistent with the underlying operating results. The decrease in payables included $6.3 million related to a net reduction in restructuring provisions. In 2006, non-cash working capital increased $8.4 million from increases in receivables and prepaid and recoverable income taxes that were partially offset by increases in payables including $12.7 million related to restructuring provisions.

Investing activities

During 2007, $41.2 million was used for investments, down from $449.4 million in 2006 which included the investment in CTVgm.

Additions to property, plant and equipment were $38.1 million in 2007, down slightly from $38.3 million in 2006. The 2007 additions included general capital replacement across all the operations, $10.2 million for inserting machines at Metroland Media Group and $8.3 million for the web-width reduction at the Toronto Star.

In 2007, $4.7 million was used for the acquisition of several community newspapers and publications and Insurance Hotline. 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, $28.8 million for an additional 10% of Workopolis, $4.7 million for the acquisition of community newspapers and magazines and $1.1 million for an additional investment in Vocel, Inc.

2008 Capital expenditures

Capital expenditures in 2008 are expected to be approximately $40.0 million, $1.9 million higher than the $38.1 million spent in 2007. The 2008 capital expenditures are anticipated to include a web-width reduction and mailroom improvements at The Hamilton Spectator and continued investment in technology to improve the utilization of information across the Newspapers and Digital Segment both in print and on the Internet.

Financing activities

Cash of $105.5 million was used in financing activities during 2007, compared with $338.0 million that was generated in 2006.

Torstar repaid $51.8 million of long-term debt during 2007. In 2006, Torstar increased its long-term debt by $390.2 million primarily to fund its investment in CTVgm. The increase included the issuance of $618.8 million of bankers' acceptances under a new banking facility net of the repayment of $228.6 million of commercial paper.

Cash dividends paid to shareholders were $57.7 million in 2007, up $0.5 million from $57.2 million in 2006. $2.6 million of cash was received from the exercise of stock options in 2007, down from $3.1 million received in 2006.

Net Debt

Net debt was $620.3 million at December 31, 2007, down $60.0 million from $680.3 million at December 31, 2006.

Long–term debt

At December 31, 2007, Torstar had long-term debt of $650.8 million outstanding. The debt consisted of U.S. dollar bankers' acceptances of $108.0 million, Canadian dollar bankers' acceptances of $444.6 million and Canadian dollar medium term notes of $100.0 million reduced by $1.8 million related to fair value hedge adjustments.

Torstar has long-term bank credit facilities that consist of a $425 million revolving loan that will mature on January 4, 2012 and a $375 million revolving operating loan. The operating loan matures on January 9, 2009 and can be extended with the consent of all parties for up to three 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. Torstar borrows under the facility 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 are generally issued for a term of less than six months in order to provide for flexibility in borrowing. However, the bankers' acceptances 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' acceptances, the bankers' acceptances are classified as long-term debt on Torstar's balance sheet.

The long-term credit facility for $800 million is also designated as a standby line in support of letters of credit. At December 31, 2007, $559.0 million was drawn under the facility and a $28.6 million letter of credit was outstanding relating to an executive retirement plan. The remaining credit of $212.4 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 2008.

Contractual obligations

Torstar has the following significant contractual obligations[4] (in $000's[5]):

Nature of the obligation	Total	Less than 1 Year (2008)	2 – 3 Years (2009 – 2010)	4 – 5 Years (2011 – 2012)	After 5 Years (2013 +)
Office leases	$159,016	$17,319	$30,326	$26,594	$84,777
Services	26,470	7,242	9,748	6,763	2,717
Equipment leases	3,807	1,264	1,806	737	
Revenue share	1,685	334	470	396	485
Capital purchases	989	284	705		
Long-term debt	652,633		100,000	552,633	
Total	$844,600	$26,443	$143,055	$587,123	$87,979

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

The full amount of the bank debt is included in the above chart as maturing in 2012 on the basis that the revolving portion of the facility will be extended through 2012. Torstar expects to be able to secure new debt financing prior to the bank facility maturing in 2012 and as such does not expect to be required to fund a full debt repayment in that year.

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.

2008 OUTLOOK

Uncertainty in the economic outlook for both Canada and the U.S. may affect Torstar's businesses in 2008. Newspapers have traditionally experienced lower revenues and results in difficult economic conditions. Early indications in 2008 are that the economy may be having a negative impact on newspaper revenues. While the book publishing industry has traditionally not been as cyclical, the current economic uncertainty in the U.S. could have a negative impact on Harlequin's U.S. sales if discretionary consumer spending falls.

After delivering almost 10% EBITDA growth in 2007, Metroland Media Group is expected to continue to grow in 2008. The community newspaper business remains a good business with strong connections to their communities and an ability to react quickly to changing market conditions. Metroland Media Group will also continue to invest in new products and market expansions in 2008.

Within the Star Media Group, the Toronto Star is expected to continue to face the same declining revenue trends that are being experienced by large daily urban newspapers across North America. In order to provide some offset to the potential revenue declines, the Toronto Star announced in February 2008, a substantial voluntary separation program for employees which will reduce the size of the workforce. This program, along with other initiatives, should provide for operating cost relief.

Torstar expects revenue and profit improvements from its existing digital operations in 2008. Torstar Digital will continue to develop new products for the digital space as well as exploring acquisitions and partnership opportunities. The costs related to this start-up activity could offset some of the profit improvement from the existing businesses.

Harlequin's underlying business is expected to be stable in 2008 but with some variances in the quarters compared to 2007. Changes in the publishing schedule are expected to cause the first quarter of 2008 to be lower than the strong first quarter of 2007. The strength of the Canadian dollar will continue to have an impact on Harlequin's results during 2008. In 2007, including the impact of the U.S. dollar contracts, Harlequin's U.S. dollar earnings were translated at a rate of approximately $1.11. For 2008, Torstar has U.S. dollar contracts for $29.9 million U.S. at an average exchange rate of $1.06. The balance of Harlequin's U.S. earnings in 2008 will be translated at the average exchange rates realized during the year.

The Writers Guild of America strike is expected to have some negative impact on CTVgm's 2008 results with the most significant impact anticipated for Torstar's first quarter.

[4] *This chart does not include Torstar's obligations for Employee future benefits as detailed in Note 14 of the consolidated financial statements.*

[5] *All foreign denominated obligations were translated at the December 31, 2007 spot rates.*

OPERATING RESULTS – THREE MONTHS ENDED DECEMBER 31, 2007

Overall Performance

Total revenue was $402.9 million in the fourth quarter, down $11.7 million from $414.6 million in the fourth quarter of 2006. Newspapers and Digital revenue was up $1.7 million to $296.3 million despite lower revenue from fewer publishing days for the Metroland Media Group community newspapers. (This is the reversal of the benefit reported in the first quarter of 2007.) Reported Book Publishing revenues were $106.6 million in the fourth quarter of 2007, down $13.4 million from $120.0 million in the same period last year. Excluding the decline of $10.3 million from the impact of the strengthening Canadian dollar, underlying revenues were down $3.1 million in the quarter with declines in North America Retail and Overseas.

Operating profit was $50.2 million in the fourth quarter, up $7.5 million from $42.7 million in the fourth quarter of 2006 including $4.2 million of lower restructuring provisions. Restructuring provisions were $7.5 million in 2007 and $11.7 million in 2006. Newspapers and Digital Segment operating profit was $49.9 million in 2007, up $7.4 million from $42.5 million in 2006, including $5.5 million in savings from lower newsprint pricing. Book Publishing reported operating profits were $12.8 million in the fourth quarter, down $3.8 million from $16.6 million in the same period last year. Excluding the decline of $2.1 million from the impact of the strengthening Canadian dollar, underlying operating profits were down $1.7 million in the fourth quarter with decreases in the North America Retail and Overseas divisions more than offsetting an increase in North America Direct-To-Consumer. Corporate costs were $4.9 million in the fourth quarter of 2007, up $0.2 million from $4.7 million in 2006.

EBITDA, excluding restructuring provisions, was $71.0 million in the fourth quarter, up $2.6 million from $68.4 million in the same period last year.

	Fourth Quarter 2007	Fourth Quarter 2006
Newspapers and Digital	$61,924	$54,657
Book Publishing	13,951	18,423
Corporate	(4,905)	(4,686)
EBITDA, excluding restructuring provisions	$70,970	$68,394

Restructuring provisions of $7.5 million were recorded in the fourth quarter of 2007, down from $11.7 million in 2006. In 2007, the Star Media Group offered the second voluntary severance program at the Vaughan Press Centre that had been agreed to in the 2006 contract negotiations and Metroland Media Group undertook further restructuring. Total annual savings from these restructuring activities are expected to be approximately $3.7 million. Fourth quarter 2006 restructuring provisions included restructurings at both the Star Media Group and Metroland Media Group.

Interest expense was $8.3 million in the fourth quarter of 2007, down $0.5 million from $8.8 million in the fourth quarter of 2006. This decrease was from a lower level of debt outstanding during the fourth quarter of 2007. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $627.4 million in the fourth quarter of 2007, down $40.0 million from $667.4 million in 2006. Torstar's effective interest rate was 5.3% in the fourth quarter of both 2007 and 2006.

Income from associated businesses was $17.6 million in the fourth quarter of 2007 compared with $14.8 million in 2006. CTVgm contributed $17.1 million in 2007 and $14.0 million in 2006 from its quarter ended November 30, 2007. (As Torstar and CTVgm do not have coterminous quarter-ends, Torstar reflects CTVgm's operations with a one-month lag.) In both periods, CTVgm's results were adjusted for the impact of the accounting allocation of Torstar's purchase price to CTVgm's underlying assets and liabilities. In the fourth quarter of 2007, these adjustments included a positive $5.2 million earnings impact as future tax liabilities related to intangible assets were reduced to reflect the reduction in future Canadian federal income tax rates. Excluding this adjustment, CTVgm contributed $11.9 million in the fourth quarter of 2007. CTVgm realized operating profit growth in the fourth quarter of 2007 that was offset by higher interest expense and higher effective tax rates. CTVgm also recorded a write-down related to its 40% interest in TQS (a French-language conventional television broadcaster) which was offset by adjustments related to Canadian Radio-television and Telecommunications Commission Part II fees.

Torstar's income from Black Press was $0.6 million in the fourth quarter of 2007 compared with $0.8 million in 2006. Black Press benefited in the quarter from the strong economy in Western Canada but was negatively impacted by non-cash mark-to-market losses on foreign exchange and interest rate derivatives.

Torstar's effective tax rate was 21.3% in the fourth quarter of 2007, down from 27.5% in the same period in 2006. During 2006 and 2007, 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 $5.5 million in the fourth quarter of 2007 and $1.3 million in 2006. Excluding this adjustment, Torstar's effective tax rate in the quarter was 30.5% in 2007 and 30.2% in 2006.

Net income was $47.2 million in the fourth quarter of 2007, up $11.1 million from $36.1 million in the fourth quarter of 2006. Net income per share was $0.60 in 2007, up $0.14 from $0.46 in 2006. The average number of Class A and Class B non-voting shares outstanding in the fourth quarter of 2007 was 78.7 million, up slightly from 78.4 million in 2006.

The following chart provides a continuity of earnings per share from 2006 to 2007:

Net income per share fourth quarter 2006		$0.46
Changes		
• Operations	0.01	
• Restructuring provisions	0.04	
• Income from associated businesses	0.04	
• Change in statutory tax rates	0.05	
Net income per share fourth quarter 2007		$0.60

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, 2007 and 2006.

	Operating Revenue		Operating Profit (Loss)		Profit Margin	
	2007	2006	2007	2006	2007	2006
Star Media	$139,406	$135,858	$16,519	$12,984	11.8%	9.6%
Metroland Media	156,464	158,154	35,366	32,710	22.6%	20.7%
Transit TV	462	564	(2,024)	(3,203)	n/a	n/a
Segment Total	$296,332	$294,576	$49,861	$42,491	16.8%	14.4%

	Depreciation and Amortization		EBITDA		EBITDA Margin	
	2007	2006	2007	2006	2007	2006
Star Media	$8,014	$7,867	$24,533	$20,851	17.6%	15.3%
Metroland Media	3,270	3,328	38,636	36,038	24.7%	22.8%
Transit TV	779	971	(1,245)	(2,232)	n/a	n/a
Segment Total	$12,063	$12,166	$61,924	$54,657	20.9%	18.6%

Newspapers and Digital revenues were up $1.7 million in the fourth quarter of 2007. The impact of acquisitions was insignificant in the quarter. Digital revenues were 4.7% of the total in the fourth quarter of 2007, up from 3.4% in the fourth quarter of 2006.

Star Media Group revenues were up $3.5 million in the fourth quarter with higher revenues at the digital operations and Metro more than offsetting modest declines at the Toronto Star. Star Media Group's digital revenues for thestar.com, toronto.com and the jointly owned Workopolis and Olive Canada Network were up a combined 42% in the quarter as revenues grew in each of the operations. Toronto Star advertising revenues were down 1.2% in the quarter as declines in ROP and insert revenues were almost offset by increases in the special and zoned sections. Advertising revenue was stronger in the fourth quarter due to increased activity in the automotive and financial categories. Circulation revenues were down 3.0% in the quarter.

Metroland Media Group's revenues were down $1.7 million in the fourth quarter as lower revenues at the community newspapers (affected by the calendar – as referred to below) more than offset growth at the daily newspapers and Gold Book.

As was noted in the first quarter 2007 MD&A, the comparison of Metroland Media Group's 2007 quarterly results to the prior year was impacted by the calendar. During the first quarter the daily newspapers had an extra Saturday and the community newspapers had six extra calendar days which provided at least one additional publication day for most of the weekly publications. The impact of the extra Saturday for the dailies reversed in the second quarter and the impact of the extra publishing days for the community newspapers reversed in the fourth quarter.

ROP advertising revenues were down 7.8% for the community newspapers in the fourth quarter, reflecting the impact of the loss of the calendar days and advertising in the fourth quarter of 2006 from the municipal elections. Distribution revenue was up 0.8% in the quarter. The daily newspapers had advertising revenue growth of 4.5% in the fourth quarter with improvements in both ROP and insert revenues.

Newspapers and Digital EBITDA was up $7.3 million in the quarter, including $5.5 million from lower newsprint pricing and $1.0 million from lower losses at Transit TV. Excluding these savings, EBITDA was up $0.8 million as reduced losses at Star Media Group's digital operations were offset by the fewer publishing days at Metroland Media Group's community newspapers. The loss of publishing days was estimated to reduce fourth quarter EBITDA by $1.5 million. The Newspapers and Digital Operating profit was up $7.4 million in the quarter.

Segment Results – Book Publishing

The following tables set out, in $000's, a summary of operating results for the Book Publishing Segment and a continuity of revenue and operating profit, including the impact of foreign currency movements, for the three months ended December 31, 2007 and 2006.

	Fourth Quarter	
	2007	2006
Revenue	$106,598	$120,034
EBITDA	$13,951	$18,423
Depreciation & amortization	1,189	1,848
Operating profit	$12,762	$16,575
EBITDA margin	13.1%	15.3%
Operating profit margin	12.0%	13.8%

	Fourth Quarter
Reported revenue, prior year	$120,034
Impact of currency movements and foreign exchange contracts	(10,341)
Change in underlying revenue	(3,095)
Reported revenue, current year	$106,598
Reported operating profit, prior year	$16,575
Impact of currency movements and foreign exchange contracts	(2,139)
Change in underlying operating profit	(1,674)
Reported operating profit, current year	$12,762

Book Publishing revenues were down $3.1 million in the fourth quarter of 2007 excluding the impact of foreign exchange. North America Retail was down $1.3 million, North America Direct-To-Consumer was down $0.1 million and Overseas was down $1.7 million.

Book Publishing operating profits were down $1.7 million in the fourth quarter of 2007 excluding the impact of foreign exchange. North America Retail was down $1.0 million, North America Direct-To-Consumer was up $1.0 million and Overseas was down $1.7 million.

North America Retail sales volumes were relatively flat in the fourth quarter with revenues down slightly. The decrease in operating profit in the fourth quarter was driven by higher expenses. North America Direct-To-Consumer results were up in the fourth quarter due primarily to lower promotional spending. Slightly lower sales volumes were offset by the positive impact of the mid-year price increase.

Overseas results were down in the fourth quarter. Higher results in the Nordic group and Japan were more than offset by lower results in the United Kingdom and Holland and increased investment spending in India. The Nordic group continued its growth trend during the quarter and Japan realized some cost savings. The lower United Kingdom results were due to lower year over year positive adjustments to returns provisions. Holland's results were down as it continued to be impacted by lower sales volumes during the summer and fall.

Liquidity

In the fourth quarter of 2007, $41.3 million of cash was generated by operations, $13.8 million was used for investing activities and $36.7 million was used for financing activities. Cash and cash equivalents net of bank overdraft decreased by $8.5 million in the quarter from $39.0 million to $30.5 million.

Operating activities provided $41.3 million of cash in the quarter, up $12.5 million from $28.8 million in 2006. The higher level of cash provided in the fourth quarter of 2007 was from a $6.6 million decrease in non-cash working capital. Working capital decreased in the fourth quarter of 2007 as increases in payables and taxes payable more than offset the traditionally higher receivables (due to higher fourth quarter revenues). In the fourth quarter of 2006 working capital increased $7.7 million.

During the fourth quarter of 2007, $13.8 million was used for fixed asset additions including payments for inserting machines at Metroland Media Group and the web-width reduction at the Toronto Star. $1.5 million was used for acquisitions of several community newspapers and publications during the fourth quarter of 2007. In 2006, $30.5 million was used for acquisitions, primarily for the purchase of an additional 10% of Workopolis.

Torstar repaid $22.7 million of bankers' acceptances during the fourth quarter of 2007 and paid dividends of $14.4 million. In the fourth quarter of 2006, Torstar issued $19.2 million of bankers' acceptances and paid dividends of $14.1 million.

FINANCIAL INSTRUMENTS

Foreign Exchange

Harlequin's international operations provide Torstar with approximately 28% 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 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 $29.0 million U.S. dollars during 2008 at an average rate of $1.06 and $2.5 million in 2009 at an average rate of $1.02. 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 15 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 non-cash 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's general position is to have at least one half of its debt at floating interest rates.

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 90-day bankers' acceptances rates plus 0.4%.

With the incremental debt incurred from the investment in CTVgm during 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%) through September 2011.

All of the interest rate swap arrangements have been designated as hedges. The fair value of the interest rate swap arrangements was $1.3 million unfavourable at December 31, 2007.

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 2007 and 2006 for determining the pension plan obligations and expenses were:

	2007	2006
Discount rate – year end obligation	5.25%	5.0%
Discount rate – annual expense	5.0%	5.0%
Rate of future compensation increase	3.0% to 4.0%	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)	8 to 17	7 to 17

The discount rate of 5.25% is the yield at December 31, 2007 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 $79.6 million and a decrease in the current year expense of $3.1 million. A one percent decrease in the discount rate would increase the total pension plan obligation by $90.8 million and increase current year expense by $9.4 million.

The rate of future compensation increases has been assumed to be between 3.0% and 4.0%. This rate is slightly above 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 was below the 7% rate in 2007 but exceeded it in both 2006 and 2005. Given the level of market disruption realized in the markets during 2007, management feels that the poor return for the one year does

not require an adjustment in the long-term expectations. A one percent increase (decrease) in the expected return on plan assets would decrease (increase) the current year expense by $6.7 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 8-17 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 related to defined benefit plans was $8.6 million in 2007, down from $14.9 million in 2006. Torstar's total pension funding related to defined benefit plans was $28.3 million in 2007, up from $22.4 million in 2006.

Torstar's pension plans are in a net unfunded position of $4.0 million at December 31, 2007 compared with a net funded position of $0.3 million at the end of 2006. This balance includes $26.4 million ($26.1 million in 2006) 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 $22.4 million compared with $26.4 million in 2006.

Torstar also provides post-employment benefits including health and life insurance benefits to 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 $56.2 million on its December 31, 2007 balance sheet and an annual expense of $3.6 million ($54.6 million and $5.0 million respectively in 2006). At December 31, 2007 the unfunded obligation for these benefits was $59.2 million, down slightly from $60.0 million at December 31, 2006. The key assumptions for this obligation are the discount rate and the health care cost trends. The discount rate is the same as the prescribed rate for the pension obligation. For health care costs, the estimated trend was for a 10.0% increase for the 2007 expense. For 2008, health care costs are estimated to increase by 9.5% 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 $3.4 million. The increase in the annual expense would be $0.4 million.

DISCLOSURE CONTROLS AND PROCEDURES

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Torstar's Chief Executive Officer ("CEO") and Chief Financial Officer ("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.

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.

As of December 31, 2007, 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, 2007, the Company's disclosure controls and procedures were effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Torstar's 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.

As of December 31, 2007, 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, 2007, 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 2007, 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 point-of-sale information, returns patterns and historic sales performance for 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. Single title books are on sale for several months and, as a result, experience a longer return 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, 2007, the returns provision deducted from accounts receivable on the consolidated balance sheets was $101 million ($104 million in 2006). A one percent change in the average net sale rate used in calculating the global retail returns provision on sales from July to December 2007 would have resulted in a $3.6 million change in reported 2007 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. Torstar has established September 30th as the date for its annual assessment of goodwill for impairment. 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 14 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 12 of the consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

Financial instruments

On January 1, 2007, the Company adopted four new accounting standards (i) Section 3855 "Financial Instruments – Recognition and Measurement", (ii) Section 3861 "Financial Instruments – Disclosure and Presentation", (iii) Section 3865 "Hedges" and (iv) Section 1530 "Comprehensive Income". These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, and describe when and how hedge accounting may be applied. Section 1530 provides standards for the reporting and presentation of comprehensive income. A new Statement of Comprehensive Income (Loss) now forms part of the Company's consolidated financial statements. The Company has replaced the Statement of Retained Earnings with the Statement of Changes in Shareholders' Equity which comprises sections for share capital, contributed surplus, retained earnings and accumulated other comprehensive income (loss).

There was no restatement of prior periods except for the presentation of the $9.1 million foreign currency translation adjustment as at December 31, 2006 reclassified to the opening balance of accumulated other comprehensive loss. The Company also recorded losses (net of taxes) of $0.4 million and $1.1 million to the opening balance of accumulated other comprehensive loss with respect to the forward currency contracts and interest rate swaps respectively. There was no impact on opening retained earnings.

Financial Instruments

The CICA has issued two new standards: Section 3862 "Financial Instruments – Disclosures" and Section 3863 - "Financial Instruments – Presentation". Together, these two sections replace Section 3861 "Financial Instruments – Disclosure and Presentation" and apply to the Company effective January 1, 2008. Section 3862 describes the required disclosure for the assessment of the significance of financial instruments on an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how those risks are managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

Capital Disclosures

The CICA issued Section 1535 "Capital Disclosures" which applies to the Company effective January 1, 2008. It establishes standards for disclosure of both qualitative and quantitative information that enable users to evaluate the entity's objectives, policies and processes for managing capital; the disclosure and compliance with any externally imposed capital requirements and the consequences of any non-compliance.

Inventories

The CICA issued Section 3031 "Inventories" to replace Section 3030 and is effective January 1, 2008. This section prescribes the measurement of inventories at the lower of cost and net realizable value, with guidance on cost determination including the allocation of overheads and other costs to inventory. Reversals of previous write-downs to net realizable value are permitted when there is a subsequent increase in the value of inventories.

The Company has assessed that the new standards that became effective on January 1, 2008, will not have a significant impact on net income but will require increased disclosures.

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:

	2007	2006	2005
Revenue[6]	$1,546,537	$1,528,270	$1,556,888
Net income	$101,691	$79,141	$118,843
Per share (basic)	$1.29	$1.01	$1.52
Per share (diluted)	$1.29	$1.01	$1.51
Average number of shares outstanding during the year (in 000's)			
Basic	78,620	78,250	78,214
Diluted	78,707	78,414	78,621
Cash dividends per share	$0.74	$0.74	$0.74
Total assets	$1,960,837	$2,001,473	$1,561,682
Total long-term debt	650,798	724,193	334,317

Total revenues have been steady over the past three years as growth in the Newspapers and Digital Segment has been offset by declines in Book Publishing. Revenue at Metroland Media Group has grown over the three years with growth arising from new products and market expansions. Star Media Group revenues have been down as lower revenue at the Toronto Star has more than offset higher revenues in the digital properties and the jointly-owned Metro and Sing Tao. Reported Book Publishing revenues declined $49.3 million in 2006 with declines of $30.0 million as a result of the strengthening Canadian dollar and $28.7 million of gains realized in 2005 on U.S. dollar contracts more than offsetting $9.4 million of underlying revenue growth. In 2007, reported Book Publishing revenues were down $9.1 million including $8.1 million from the strengthening of the Canadian dollar.

Net income decreased in 2006 from the negative impact of foreign exchange and the U.S. dollar contracts in Book Publishing, lower revenues at the Toronto Star, investment spending for Torstar Digital, restructuring provisions, and a gain on the sale of properties realized in 2005. In 2007, net income increased due to cost savings from lower newsprint prices, lower pension costs, the closure of Weekly Scoop in June 2006 and lower restructuring provisions.

The increase in total assets and long-term debt in 2006 reflected the $378.0 million investment in CTVgm.

[6] 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)

	2007 Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Revenue	$402,930	$369,200	$396,965	$377,442
Net income	$47,182	$8,419	$30,053	$15,737
Net income per Class A voting and Class B non-voting share				
Basic	$0.60	$0.11	$0.38	$0.20
Diluted	$0.60	$0.11	$0.38	$0.20

	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

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.

Restructuring provisions have impacted the level of net income in several quarters. In 2007, the fourth quarter had a restructuring provision of $7.5 million. In 2006, the first, third and fourth quarters had restructuring provisions of $3.7 million, $7.0 million and $11.7 million respectively.

RECENT DEVELOPMENTS

In January 2008, Workopolis purchased the specialist online employment board business of Brainhunter Inc. in Canada and the U.S. for approximately $10 million.

In February 2008, Metro announced the launch of a Halifax edition. Torstar will own approximately one-third of Metro Halifax in a joint venture with Metro International S.A. and Transcontinental Media G.P.

OTHER

At January 31, 2008, Torstar had 9,907,602 Class A voting shares and 68,839,000 Class B non-voting shares outstanding. More information on Torstar share capital is provided in Note 10 of the consolidated financial statements.

At January 31, 2008, Torstar had 5,600,206 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 11 of the consolidated financial statements.

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

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 25, 2008

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, 2007 and 2006 and the consolidated statements of income, comprehensive income, changes in shareholders' equity 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, 2007 and 2006 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 25, 2008

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

(thousands of dollars)

Assets	2007	2006
Current:		
Cash and cash equivalents	$34,096	$46,037
Receivables (note 2)	263,779	269,977
Inventories	31,807	38,208
Prepaid expenses	61,325	72,665
Prepaid and recoverable income taxes	3,097	16,665
Future income tax assets (note 12)	19,010	23,002
Total current assets	413,114	466,554
Property, plant and equipment (net) (note 3)	330,391	349,842
Investment in associated businesses (note 4)	434,294	416,320
Goodwill (net)	555,643	552,928
Other assets (note 5)	189,425	171,547
Future income tax assets (note 12)	37,970	44,282
Total assets	$1,960,837	$2,001,473

Liabilities and Shareholders' Equity	2007	2006
Current:		
Bank overdraft	$3,616	$2,173
Accounts payable and accrued liabilities	208,217	227,001
Income taxes payable	17,065	14,174
Total current liabilities	228,898	243,348
Long-term debt (note 6)	650,798	724,193
Other liabilities (note 9)	89,678	88,313
Future income tax liabilities (note 12)	73,702	72,873
Shareholders' equity:		
Share capital (note 10)	388,036	382,397
Contributed surplus	9,929	7,466
Retained earnings	535,242	491,999
Accumulated other comprehensive loss (note 8)	(15,446)	(9,116)
Total shareholders' equity	917,761	872,746
Total liabilities and shareholders' equity	$1,960,837	$2,001,473

Commitments and contingencies (note 18)

(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, 2007 AND 2006

(thousands of dollars except per share amounts)

	2007		2006
Operating revenue			
Newspapers and digital	$1,083,828		$1,056,462
Book publishing	462,709		471,808
	$1,546,537		$1,528,270
Operating profit			
Newspapers and digital	$128,675		$107,849
Book publishing	60,640		56,277
Corporate	(19,028)		(18,475)
Restructuring provisions (note 16)	(7,507)		(22,319)
	162,780		123,332
Interest (note 6(d))	(34,432)		(20,761)
Foreign exchange	(1,873)		70
Income of associated businesses	20,416		16,000
Income before taxes	146,891		118,641
Income and other taxes (note 12)	(45,500)		(39,500)
Net income	$101,391		$79,141
Earnings per Class A and Class B share (note 10(c))			
Net income – Basic	$1.29		$1.01
Net income – Diluted	$1.29		$1.01

(See accompanying notes)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2007 AND 2006

(thousands of dollars)

	2007		2006
Net income	$101,391		$79,141
Other comprehensive income (loss), net of tax:			
Unrealized foreign currency translation adjustment	(7,980)		1,823
Unrealized change in fair value of cash flow hedges	3,869		
Realized gain on cash flow hedges transferred to net income	(693)		
Other comprehensive income (loss)	(4,804)		1,823
Comprehensive income	$96,587		$80,964

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2007 AND 2006

(thousands of dollars)

	2007	2006
Share capital (note 10)	$388,036	$382,397
Contributed surplus		
Balance, beginning of year	$7,466	$4,883
Stock-based compensation expense	2,464	2,600
Transfer to share capital for stock options exercised	(1)	(17)
Balance, end of year	$9,929	$7,466
Retained earnings		
Balance, beginning of year	$491,999	$470,783
Net income	101,391	79,141
Dividends	(58,148)	(57,925)
Balance, end of year	$535,242	$491,999
Accumulated other comprehensive loss		
Unrealized foreign currency translation adjustment losses	($9,116)	($10,939)
Cumulative impact of accounting changes relating to financial instruments (note 1(s))	(1,526)	
Adjusted balance, beginning of year	(10,642)	(10,939)
Other comprehensive income (loss)	(4,804)	1,823
Balance, end of year (note 8)	($15,446)	($9,116)
Total shareholders' equity	$917,761	$872,746

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

(thousands of dollars)

	2007	2006
Cash was provided by (used in)		
Operating activities	$136,152	$111,591
Investing activities	(41,225)	(449,394)
Financing activities	(105,464)	337,997
(Decrease) increase in cash	(10,537)	194
Effect of exchange rate changes	(2,847)	2,625
Cash, beginning of year	43,864	41,045
Cash, end of year	$30,480	$43,864
Operating activities:		
Net income	$101,391	$79,141
Depreciation	53,722	53,496
Amortization	1,412	2,987
Future income taxes	885	2,752
Income of associated businesses	(20,416)	(16,000)
Other (note 17)	(10,331)	(2,354)
	126,663	120,022
Decrease (increase) in non-cash working capital	9,489	(8,431)
Cash provided by operating activities	$136,152	$111,591
Investing activities:		
Additions to property, plant and equipment	($38,139)	($38,317)
Investment in associated business (note 4)		(377,982)
Acquisitions and investments (note 13)	(4,693)	(34,647)
Other	1,607	1,552
Cash used in investing activities	($41,225)	($449,394)
Financing activities:		
Issuance of banker's acceptance	$13,541	$618,763
Repayment of banker's acceptance	(65,350)	
Repayment of commercial paper		(255,114)
Issuance of commercial paper		26,519
Dividends paid	(57,658)	(57,237)
Exercise of stock options (note 10(b))	2,586	3,054
Other	1,417	2,012
Cash provided by (used in) financing activities	($105,464)	$337,997
Cash represented by:		
Cash and cash equivalents	$34,096	$46,037
Bank overdraft	(3,616)	(2,173)
	$30,480	$43,864

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006
(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") and Metroland Media Group Limited. 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 accumulated other comprehensive loss within 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

On January 1, 2007, the Company prospectively adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 3865 "Hedges" and Section 1530 "Comprehensive Income". Under the new standards, all financial assets are classified as (i) held-for-trading, (ii) held-to-maturity investments, (iii) loans and receivables or (iv) available-for-sale. Also, all financial liabilities are classified as (i) held-for-trading or (ii) other financial liabilities. Upon initial recognition, all financial instruments are recorded on the consolidated balance sheet at their fair values. After initial recognition, the financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest rate method. Changes in the fair value of financial instruments classified as held-for-trading are recognized in net income. If a financial asset is classified as available-for-sale, any gain or loss arising from a change in its fair value is recognized in other comprehensive income until the financial asset is derecognized and all cumulative gain or loss is then recognized in net income.

The Company has classified its cash equivalents, short-term investments and derivative financial instruments that are not designated as hedges as held-for-trading. They are presented at their fair value and the gains or losses arising on the revaluation at the end of each period are included in net income. The carrying values of these instruments approximate their fair values.

Accounts receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. The long term debt instruments have been classified as other financial liabilities and are measured at amortized cost as the Company has the ability and intention to hold to maturity.

Portfolio investments are classified as available-for-sale and are measured at fair value except for securities that do not have a quoted market price in an active market which are carried at cost. Any changes in the fair value are recognized in other comprehensive income except for other than temporary impairment losses which are recognized in net income.

Derivative financial instruments that are designated as cash flow hedges, such as the floating to fixed interest rate swap agreements and forward exchange contracts are presented at their fair value. The gains or losses arising from the revaluation at the end of each period are included in other comprehensive income to the extent of hedge effectiveness. For effective fair value hedges, such as the fixed to floating interest rate swap agreements, changes in the fair value of the hedging derivative are recorded in net income. The carrying value of the hedged item is adjusted for unrealized gains or losses attributable to the hedged risk and also recognized in net income.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative in the balance sheet, at its fair value. The Company will recognize embedded derivatives on its consolidated balance sheet, when applicable.

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 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. Certain of 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 impairment is 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

The Company maintains both defined benefit and defined contribution plans. Details with respect to accounting for defined benefit employee future benefit plans are as follows:

- The cost and obligations of pensions and post employment benefits earned by employees are actuarially determined using the projected benefit method prorated on service and management's best estimate of assumptions of future investment returns for funded plans, salary changes, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- As prescribed by the CICA, the discount rate used for determining the benefit obligation is the current interest rate at the balance sheet date on high quality fixed income investments with maturities that match the expected maturity of the obligations.
- Past service costs resulting from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees. The average remaining service life of the active employees covered by the plans ranges from 8 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.

Company contributions to defined contribution employee future benefit plans are expensed as incurred.

(o) Stock-based compensation plans

The Company has a stock option plan, an employee share purchase plan, two deferred share unit plans and 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 RSU plan, a deferred compensation balance and an RSU equity are recorded for the total grant-date value on the date of the grant. The deferred compensation balance is recorded as a reduction of shareholders' equity and is amortized as compensation expense over the applicable vesting period. The RSU equity is recorded as an increase of shareholders' equity. The Company may choose to fund this liability at any time prior to the vesting date by purchasing Class B non-voting shares of the Company in the open market through an employee benefit trust ("Trust"). Any difference between the value of the RSU equity and the price paid for the shares purchased is recorded as an adjustment to shareholders' equity. For accounting purposes, the Trust is treated as a Variable Interest Entity and consolidated in the accounts of the Company. On consolidation, the dividends paid on the shares held by the Trust are eliminated. The shares are treated as not being outstanding for the basic earnings per share ("EPS") calculations at the time of initial purchase by the Trust. They are amortized back into basic EPS over the vesting period. All of the shares held by the Trust are included in the fully-diluted EPS calculations.

(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 revenue 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 estimated 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

Financial Instruments

On January 1, 2007, the Company adopted four new accounting standards (i) Section 3855 "Financial Instruments – Recognition and Measurement", (ii) Section 3861 "Financial Instruments – Disclosure and Presentation", (iii) Section 3865 "Hedges" and (iv) Section 1530 "Comprehensive Income". These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, and describe when and how hedge accounting may be applied. Section 1530 provides standards for the reporting and presentation of comprehensive income. A new Statement of Comprehensive Income (Loss) now forms part of the Company's consolidated financial statements. The Company has replaced the Statement of Retained Earnings with the Statement of Changes in Shareholders' Equity which comprises sections for share capital, contributed surplus, retained earnings and accumulated other comprehensive income (loss).

There was no restatement of prior periods except for the presentation of the $9,116 foreign currency translation adjustment as at December 31, 2006 reclassified to the opening balance of accumulated other comprehensive loss. The Company also recorded losses (net of taxes) of $387 and $1,139 to the opening balance of accumulated other comprehensive loss with respect to the forward currency contracts and interest rate swaps respectively. There was no impact on opening retained earnings. The impact of these changes in accounting policies on net income for the year ended December 31, 2007 was insignificant.

Future accounting changes include the following items:

Financial Instruments

The CICA has issued two new standards: Section 3862 "Financial Instruments – Disclosures" and Section 3863 - "Financial Instruments – Presentation". Together, these two sections replace Section 3861 "Financial Instruments – Disclosure and Presentation" and apply to the Company effective January 1, 2008. Section 3862 describes the required disclosure for the assessment of the significance of financial instruments on an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how those risks are managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

Capital Disclosures

The CICA issued Section 1535 "Capital Disclosures" which applies to the Company effective January 1, 2008. It establishes standards for disclosure of both qualitative and quantitative information that enable users to evaluate the entity's objectives, policies and processes for managing capital; the disclosure and compliance with any externally imposed capital requirements and the consequences of any non-compliance.

Inventories

The CICA issued Section 3031 "Inventories" to replace Section 3030 and is effective for the Company January 1, 2008. This section prescribes the measurement of inventories at the lower of cost and net realizable value, with guidance on cost determination including the allocation of overheads and other costs to inventory. Reversals of previous write-downs to net realizable value are permitted when there is a subsequent increase in the value of inventories.

The Company has assessed that these new standards relate primarily to increased disclosures and will not have a significant impact on net income.

2. Receivables

The provisions for anticipated book and magazine returns and bad debts deducted from receivables at December 31, 2007 amounted to $118 million (December 31, 2006 - $126 million). Under a billing and collection agreement with a third party, the Book publishing segment has a net receivable of $29 million at December 31, 2007 (December 31, 2006 - $40 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
2007			
Land	$7,424		$7,424
Buildings and leasehold improvements	229,113	$129,373	99,740
Machinery and equipment	785,941	562,714	223,227
Total	$1,022,478	$692,087	$330,391
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

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:

	2007	2006
Balance, beginning of year	$416,320	$23,618
Income of associated businesses	20,416	16,000
Investment in CTVgm		377,982
Change in investee foreign currency translation adjustment	(2,442)	(1,280)
Balance, end of year	$434,294	$416,320

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. Torstar and CTVgm do not have coterminous quarter-ends and these financial statements reflect the Company's share of CTVgm's results for the twelve months ended November 30, 2007 and three months ended November 30, 2006.

A summary of the Company's 20% share of the fair values of the assets and liabilities acquired in CTVgm on its August 30, 2006 acquisition, excluding its $94.2 million share of CTVgm's September 7, 2006 investment in CHUM is as follows:

Current assets	$112,860
Property, plant and equipment	65,361
Goodwill and other intangible assets	461,282
Other assets	45,125
	$684,628
Current liabilities	$58,995
Long-term debt	278,473
Other liabilities and non-controlling interests	63,402
	$400,870
Net assets acquired at fair value	$283,758

Intangible assets include the Company's share of broadcast licenses of $316.4 million, newspaper mastheads of $20.3 million and other intangibles of $2.3 million which are indefinite life assets. Fair value adjustments 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 $5.7 million and other adjustments, primarily related to debt, of $8.2 million which increase liabilities. Future income tax liabilities related to the above total $39.7 million. The fair value adjustments will be amortized over the next 5 to 15 years. None of the $122.2 million of goodwill included above is deductible for tax purposes.

Outlined below is summarized financial information for 100% of CTVgm, including fair value adjustments, for the periods ended November 30, 2007 and 2006 and the twelve months ended November 30, 2007 and three months ended November 30, 2006.

	2007	2006
Balance Sheet		
Current assets	$770,170	$580,008
Property, plant and equipment	533,305	323,660
Investment in CHUM		1,388,960
Goodwill and other intangible assets	3,515,033	2,201,964
Other assets	194,240	233,216
Other assets	$5,012,748	$4,727,808
Current liabilities	$448,254	$341,836
Long-term debt	2,091,143	2,185,765
Other liabilities and non-controlling interests	433,610	246,078
Shareholders' equity	2,039,741	1,954,129
	$5,012,748	$4,727,808
Statement of Income		
Revenues	$1,938,295	$487,402
Net income	$85,880	$70,160

The November 2007 balance sheet above reflects CTVgm's purchase price allocation with respect to the September 2006 acquisition of CHUM. The balance sheet incorporates fair value adjustments including indefinite life intangible assets with respect to the value of broadcast licenses, intangible assets for brands some of which are subject to amortization, property, plant and equipment, employee future benefits and certain liabilities including Canadian Radio-television and Telecommunications Commission benefits. CHUM's results were equity accounted between the date of acquisition and when regulatory approval was granted in June 2007. Beginning in July 2007, CHUM's results were consolidated and CTVgm's revenues for the twelve months ended November 30, 2007 include five months of revenues for CHUM.

5. Other assets

	2007	2006
Accrued benefit assets (note 14)	$139,124	$122,620
Intangible assets	35,250	35,415
Portfolio investments (note 13)	7,632	7,054
Derivative instruments (note 7)	2,473	
Other	4,946	6,458
	$189,425	$171,547

6. Long-term debt

	2007	2006
Bankers' acceptance:		
Cdn. dollar denominated	$444,632	$491,885
U.S. dollar denominated	108,001	132,308
	552,633	$624,193
Medium Term Notes:		
Cdn. dollar denominated (note 6(b))	98,165	100,000
	$650,798	$724,193

(a) Bank debt

(i) The Company has long-term credit facilities with its bankers which consist of a $425 million revolving loan that matures in January, 2012 and a $375 million revolving operating loan. The operating loan matures in January 2009 and can be extended with the consent of all parties for up to two additional 364-day periods (and a third additional period not to extend beyond January 2012) 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. The credit facilities are subject to financial tests and other covenants with which the company was in compliance at December 31, 2007.

(ii) Amounts borrowed under the bank credit facilities would primarily be in the form of bankers' acceptance (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 the LIBOR rate if in U.S. dollars, at December 31, 2007 was 0.6% and varies based on the Company's long-term credit rating (December 31, 2006 – 0.6%).

(iii) In September 2006, the Company entered into 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 subsequent five years through September 2011 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 $0.5 million favourable at December 31, 2007 (December 31, 2006 - $0.8 million unfavourable).

(iv) The average rate on Canadian dollar bank borrowings outstanding at December 31, 2007 was 5.3% (December 31 2006 – 4.9%). Including the effect of the interest rate swap noted in 6(a)(iii) the effective rate was 5.2% at December 31, 2007 (December 31 2006 – 4.9%).

(v) The Company had an interest rate swap arrangement, which expired in December 2007, to 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)). The swap was designated as a cash flow hedge. The fair value of the U.S. interest rate swap arrangement at December 31, 2006 was $1.7 million favourable.

(vi) Bank debt outstanding at December 31, 2007 included U.S. dollar borrowings of U.S. $109.3 million (December 31 2006 – U.S. $113.5 million) at an average rate of 5.6% (December 31 2006 – 6.1%). Including the effect of the expired interest rate swap noted in 6(a)(v) the effective rate was 4.8% at December 31, 2006.

(b) Medium Term Notes

The Company issued in September 2005 $75 million 3.85% medium term notes which mature in September 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 in September, 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 fair value hedges and mature on the due dates of the respective notes.

The effective interest rate on the medium term notes outstanding at December 31, 2007, including the above noted swaps, was 5.3% (December 31, 2006 – 4.9%). The fair value of the medium term notes at December 31, 2007 was $4.7 million favourable (December 31, 2006 - $3.6 million favourable). The fair value of the interest rate swap agreements related to the medium term debt issuance noted above were $1.8 million unfavourable at December 31, 2007 (December 31, 2006 - $2.7 million unfavourable). In accordance with the accounting policy for a fair value hedge, the debt has been reduced by $1.8 million to $98.2 million. There was no impact on net income or other comprehensive income.

(c) 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.

(d) Interest expense includes interest on long-term debt of $35.3 million (2006 - $21.8 million).

(e) Interest of $34.7 million was paid during the year (2006 - $22.7 million).

7. Derivative instuments at fair value

The fair values of derivatives designated as hedges as disclosed in notes 6 and 15 are as follows:

As at December 31, 2007

	Assets	Liabilities
Foreign currency hedges	$1,963	$0
Interest rate swaps	510	1,835
	$2,473	$1,835

These amounts are included in Other assets and Other liabilities.

8. Accumulated other comprehensive loss (net of tax)

	As at January 1, 2007	Other comprehensive income (loss)	As at December 31, 2007
Foreign currency translation adjustment	($9,116)	($7,980)	($17,096)[1]
Unrealized gains (losses) on cash flow hedges	(1,526)	3,176	1,650[2]
	($10,642)	($4,804)	($15,446)

[1]Net of income tax benefit of $572.

[2]Net of income tax liability of $823.

9. Other liabilities

	2007	2006
Post employment benefits (note 14)	$71,578	$70,654
Employees' shares subscribed (note 11(b))	5,558	6,547
Deferred share unit plan (note 11(e))	5,700	5,233
Derivative instruments (note 7)	1,835	
Other	5,007	5,879
	$89,678	$88,313

10. 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 7,190 shares (with a stated value of $1,953) in 2007 and 1,650 shares (with a stated value of $448) in 2006. Total Class A shares outstanding at December 31 were:

	Shares	Amount
2006	9,914,792	$2,694
2007	**9,907,602**	**$2,692**

Class B shares

The changes in the Class B shares were:

	Shares	Amount
January 1, 2006	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
December 31, 2006	68,558,932	380,939
Reduction for RSU Trust Shares (note 11(c))		(1,236)
December 31, 2006	**68,558,932**	**$379,703**
Converted from Class A	**7,190**	**2**
Issued under Employee Share Purchase Plan	**107,142**	**2,009**
Stock options exercised	**139,800**	**2,587**
Dividend reinvestment plan	**24,586**	**490**
Other	**1,325**	**27**
	68,838,975	**384,818**
Change in reduction for RSU Trust Shares (note 11(c))		**526**
December 31, 2007	**68,838,975**	**$385,344**

Totals

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

	Shares	Amount
2006	78,473,724	$382,397
2007	**78,746,577**	**$388,036**

An unlimited number of Class B shares is authorized. While the number of authorized Class A shares is unlimited, the issuance of further Class A shares, may under certain circumstances, require unanimous board approval.

(c) Earnings per share

Basic 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)	2007	2006
Weighted average number of shares outstanding, basic	**78,620**	78,250
Effect of dilutive securities		
– stock options	**57**	105
– unvested RSU shares	**30**	59
Weighted average number of shares outstanding, diluted	**78,707**	78,414

Outstanding stock options totalling 3,965,932 (2006 – 4,063,545), which are out of the money, have been excluded from the above calculation of dilutive securities.

11. Stock-based compensation plans

(a) Stock option plan

Eligible senior executives may be granted options to purchase Class B non-voting 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 10,857,613 shares have been granted as of December 31, 2007.

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

	Options	Weighted average exercise price
January 1, 2006	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
Granted	523,891	19.70
Exercised	(139,800)	(18.50)
Forfeited or expired	(659,582)	(22.94)
December 31, 2007	5,112,654	$22.57

As at December 31, 2007, outstanding stock options were as follows:

Options Outstanding			
Range of exercise price	Number outstanding December 31, 2007	Weighted average remaining contractual life	Weighted average exercise price
$15.75–18.05	250,800	1.2 years	$17.48
$18.50–22.20	3,321,217	5.6 years	$21.02
$25.00–29.01	1,540,637	3.5 years	$26.75
$15.75–29.01	5,112,654	4.8 years	$22.57

Options Exercisable		
Range of exercise price	Number exercisable December 31, 2007	Weighted average exercise price
$15.75–18.05	250,800	$17.48
$18.50–22.20	2,114,507	$20.99
$25.00–29.01	1,422,862	$26.56
$15.75–29.01	3,788,169	$22.85

Subsequent to year-end, 586,552 stock options were granted at an exercise price of $18.78 per share.

In estimating the compensation expense for stock options granted in 2003 to 2007, the Company used the Black-Scholes options pricing model. The fair value of the options on the date of grant and the assumptions used are as follows:

	2007	2006	2005	2004	2003
Fair Value	$2.56	$3.08	$3.48	$5.52	$5.28
Risk-free interest rate	4.0%	4.2%	3.7%	4.1%	4.1%
Expected dividend yield	3.8%	3.3%	3.4%	2.4%	2.5%
Expected share price volatility	16.3%	16.8%	20.7%	20.6%	23.2%
Expected time until exercise (years)	6	5	5	5	5

(b) 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:

	2007		2006	
Maturing	2008	2009	2007	2008
Subscription price at entry date	$21.86	$21.00	$24.99	$21.86
Number of shares	132,356	126,871	126,563	154,801

(c) RSU Plan

Eligible senior executives may be granted RSU awards equivalent in value to Class B non-voting shares of the Company as part of their long-term incentive compensation. RSUs vest after three years at which time Class B non-voting shares of the Company will be distributed to the participants. A summary of changes in the RSU plan is as follows:

	Units	Weighted average issue price
January 1, 2006		
Granted	105,187	$20.62
Forfeited	(14,406)	(20.62)
December 31, 2006	90,781	$20.62
Granted	**102,423**	**19.71**
Forfeited	**(2,701)**	**(20.07)**
December 31, 2007	**190,503**	**$20.14**

Subsequent to year-end, 117,223 RSUs have been granted at a price of $18.97.

(d) The Company has recognized in 2007, compensation expense totalling $3.0 million for the stock options granted in 2004 to 2007, RSUs granted in 2006 to 2007 and the employee share purchase plans originating in 2005 to 2007 (2006 - $3.2 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).

(e) Deferred Share Unit Plan ("DSU")

Eligible executives 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 Class B non-voting shares of the Company 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 Class B non-voting shares of the Company. 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, 2007, 294,767 units were outstanding at a value of $5.5 million (December 31, 2006 – 264,076 units, value $5.2 million). There were 29,332 units redeemed during 2007 at an average price of $21.76 per unit (2006 – 14,994 units, average price $21.25 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. The derivative instrument is settled quarterly. As at December 31, 2007, the derivative instrument offset 277,281 units (December 31, 2006 – 252,813 units).

12. Income and other taxes

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

	2007	2006
Income before taxes	$146,891	$118,641
Provision for income taxes based on Canadian statutory rate of 36.1% (2006 – 36.1%)	($53,100)	($42,800)
(Increase) decrease in taxes resulting from:		
Foreign income taxed at lower rates	3,000	3,900
Foreign losses not tax effected	(3,700)	(4,500)
Manufacturing and processing profits allowance	1,500	900
Large Corporations tax and other taxes	(1,400)	(1,800)
Permanent differences	2,300	200
Reduction in future tax rates	5,900	4,600
	($45,500)	($39,500)
Effective income tax rate	31.0%	33.3%

Income taxes of $24.5 million were paid during the year (2006 – $54.6 million).

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

	2007	2006
Current tax provision	$40,800	$42,500
Future tax provision	4,700	(3,000)
Total tax provision	$45,500	$39,500

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:

	2007	2006
Current future income tax assets:		
Receivables	$14,464	$16,549
Other	4,546	6,453
	$19,010	$23,002
Non-current future income tax assets:		
Tax losses carried forward	$33,618	$39,763
Post employment benefits	1,255	813
Other	3,097	3,706
	$37,970	$44,282
Non-current future income tax liabilities:		
Property, plant and equipment	$34,264	$39,187
Post employment benefits	21,399	18,356
Investment in associated businesses	5,498	2,903
Goodwill and other	12,541	12,427
	$73,702	$72,873

At December 31, 2007, the Company had net operating loss carryforwards of approximately U.S. $173.8 million for U.S. income tax purposes. No future income tax asset has been recognized for U.S. $77.5 million of these losses. U.S. $131.6 million of the U.S. loss carryforwards will expire between 2019 to 2021 and U.S. $42.2 million will expire between 2023 and 2027.

The Company had Canadian income tax losses available for carryforward of approximately $5.3 million that will expire in 2025 and 2026.

13. Acquisitions and investments

The Company completed a number of acquisitions during 2007 in the newspapers and digital segment for a total purchase price of $4.1 million. These acquisitions were accounted for under the purchase method and $2.8 million has been allocated to goodwill. The Company also made an additional investment in Vocel, Inc. for $0.6 million which was accounted for by the cost method.

In the fourth quarter of 2006, the Company acquired an additional 10% of Workopolis from CTVgm which increased 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.

The consideration for each acquisition was cash. The amount of goodwill that is expected to be deductible for tax purposes is $0.3 million (2006 - $2.0 million).

14. 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	
	2007	2006	2007	2006
Accrued benefit obligations				
Balance, beginning of year	$749,248	$714,136	$59,988	$67,839
Current service cost	19,173	19,000	679	986
Interest cost	37,739	36,035	2,968	3,370
Benefits paid	(37,062)	(34,670)	(2,146)	(2,394)
Actuarial losses (gains)	(22,060)	3,529	(2,329)	(9,813)
Participant contributions	7,469	7,675		
Past service costs	1,570	2,683		
Foreign exchange	(2,378)	(7)		
Special termination benefits	534	867		
Balance, end of year	$754,233	$749,248	$59,160	$59,988
Plans' assets				
Fair value, beginning of year	$749,590	$671,495		
Return on plan assets	3,641	82,659		
Benefits paid	(37,062)	(34,670)		
Contributions to plan	35,793	30,111		
Foreign exchange	(1,712)	(5)		
Fair value, end of year	$750,250	$749,590		
Funded status – surplus (deficit)	($3,983)	$342	($59,160)	($59,988)
Unamortized losses	104,593	82,036	2,812	5,192
Unrecognized prior service costs	23,107	24,191	177	193
Accrued benefit asset (liability)	$123,717	$106,569	($56,171)	($54,603)
Recorded in:				
Other assets	$139,124	$122,620		
Other liabilities	(15,407)	(16,051)	($56,171)	($54,603)
Accrued benefit asset (liability)	$123,717	$106,569	($56,171)	($54,603)
Net benefit expense for the year				
Current service cost	$19,173	$19,000	$679	$986
Interest cost on benefit obligation	37,739	36,035	2,968	3,370
Actual return on plan assets	(3,641)	(82,659)		
Actuarial loss (gain) on benefit obligation	(22,060)	3,529	(2,329)	(9,813)
Past service costs	1,570	2,683		
Excess of (shortfall) actual return on plan assets over expected return	(48,948)	35,156		
Difference between net actuarial loss recognized and actual actuarial loss on benefit obligation	23,136	568	2,329	10,398
Difference between recognized and actual past service costs	1,067	(311)		16
Special termination benefits	534	867		
Net benefit expense	$8,570	$14,868	$3,647	$4,957

	Pension Plans		Post Employment Benefit Plans	
	2007	2006	2007	2006
Significant assumptions used				
To determine benefit obligation at end of year:				
Discount rate	5.25%	5.0%	5.25%	5.0%
Rate of future compensation increase	3.0% to 4.0%	3.0% to 3.5%	N/A	N/A
To determine benefit expense:				
Discount rate	5.0%	5.0%	5.0%	5.0%
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 4.0%	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%	10.0%
Ultimate rate	N/A	N/A	5.0%	5.0%
Year ultimate rate reached	N/A	N/A	2017	2017
Average remaining service life of active employees	8 to 17 years	7 to 17 years	12 years	15 years

Long-term liabilities includes $13.7 million related to an unfunded executive retirement plan which is supported by an outstanding letter of credit of $28.6 million at December 31, 2007.

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, 2007:

	Net Benefit Expense		Accrued Benefit Obligation	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Pension plans:				
Discount rate	($3,116)	$9,359	($79,643)	$90,812
Expected long-term rate of return on plan assets	(6,709)	6,709		
Rate of compensation increase	1,797	(1,478)	7,704	(7,368)
Post employment benefits plans:				
Discount rate	(471)	1,022	(6,760)	7,644
Per capita cost of health care	361	(176)	3,372	(3,177)

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

	2007	2006
Equity investments	64%	68%
Fixed income investments	36%	32%
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.

The total amount expensed for defined contribution plans in 2007 was $2 million (2006 - $2 million).

15. Forward foreign exchange contracts and options

The Company has entered into forward foreign exchange contracts to allow it to convert a portion of its expected future U.S. dollar revenue into Canadian dollars. The forward foreign exchange contracts establish a rate of exchange of Canadian dollar per U.S. dollar of $1.06 for U.S. $29 million in 2008 and $1.02 for U.S. $2.5 million in 2009. These forward foreign exchange contracts have been designated as cash flow hedges and the net fair value of these contracts was $2.0 million favourable at December 31, 2007.

Forward foreign exchange contracts settled in 2007 established a rate of exchange of Canadian dollar per U.S. dollar of $1.14 for U.S. $27.5 million in 2007 (2006 - $1.16 for U.S. $30 million).

16. Restructuring Provisions

Restructuring provisions of $7.5 million were incurred in 2007 compared with $22.3 million in 2006. In 2007, the Star Media Group offered the second voluntary severance program at the Vaughan Press Centre that had been agreed to in the 2006 contract negotiations and Metroland Media Group undertook further restructuring.

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.

Accounts payable and accrued liabilities include $10.7 million for restructuring provisions at December 31, 2007 ($17.0 million at December 31, 2006). The change in the liability during 2007 includes payments of $12.8 million related to provisions made in 2006 and $1.0 million for provisions made prior to 2006.

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

	2007	2006
Post employment benefits	($15,720)	($5,095)
Stock-based compensation plans	3,457	3,049
Foreign exchange	1,873	(70)
Other	59	(238)
	($10,331)	($2,354)

18. 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 $19 million in 2008, $17 million in 2009, $15 million in 2010, $14 million in 2011, $13 million in 2012 and a total of $85 million in 2013 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 11 years.

19. Related party transactions

As described in note 13, the Company purchased from CTVgm a 10% interest in Workopolis in 2006. While the Company conducts transactions in the normal course of business with CTVgm, these transactions are insignificant to these financial statements.

20. Joint ventures

The Company proportionately consolidates its interests in joint ventures. The significant joint ventures in the newspapers and digital segment include Workopolis, Sing Tao Daily Limited, Olive Canada Network and Free Daily News Group (publishes the Metro newspapers in Toronto, Vancouver, Ottawa, Edmonton and Calgary). 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 $128 million (2006 - $110 million) and operating profit is $16 million (2006 - $17 million).

21. Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 financial statements.

22. Segmented information

The Company operates two business segments: Newspapers and digital and Book publishing, which are described below.

Newspapers and digital – Includes the newspaper, digital, specialty publications and commercial printing businesses of the Star Media Group and Metroland Media Group. Daily newspapers include the Toronto Star, The Hamilton Spectator and The Record (Kitchener, Cambridge and Waterloo). Digital operations include Workopolis, Olive Canada Network, thestar.com and toronto.com. Metroland publishes over 100 community newspapers and Gold Book Directories. This segment also includes the operations of the Transit Television Network.

Book publishing – The publishing and distribution of Harlequin's 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	
	2007	2006	2007	2006	2007	2006
Newspapers and Digital	$1,083,828	$1,056,462	$50,246	$49,263	$128,675	$107,849
Book publishing	462,709	471,808	4,833	7,162	60,640	56,277
	1,546,537	1,528,270	55,079	56,425	189,315	164,126
Corporate			55	58	(19,028)	(18,475)
Restructuring provisions					(7,507)	(22,319)
Consolidated	$1,546,537	$1,528,270	$55,134	$56,483	$162,780	$123,332

	Identifiable Assets		Additions to Capital Assets		Additions to Goodwill & Intangible Assets	
	2007	2006	2007	2006	2007	2006
Newspapers and Digital	$1,159,570	$1,159,390	$36,155	$34,186	$3,748	$35,711
Book publishing	350,743	410,352	1,997	4,539		236
	1,510,313	1,569,742	38,152	38,725	3,748	35,947
Corporate	16,230	15,411	127	32		
Investment in associated businesses	434,294	416,320				
Consolidated	$1,960,837	$2,001,473	$38,279	$38,757	$3,748	$35,947

Geographic Segments

	Operating Revenue		Capital Assets and Goodwill	
	2007	2006	2007	2006
Canada	$1,107,757	$1,079,363	$764,888	$774,067
United States	237,645	251,971	93,395	101,358
Other (a)	201,135	196,936	27,833	27,762
Segment Totals	$1,546,537	$1,528,270	$886,116	$903,187

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

ANNUAL OPERATING HIGHLIGHTS CONTINUING OPERATIONS

	2007	2006	2005	2004	2003	2002	2001
Operating revenue							
(thousands of dollars)							
Newspapers and Digital	$1,083,828	$1,056,462	$1,035,816	$1,003,473	$903,385	$856,956	$825,765
Book publishing	462,709	471,808	521,072	538,376	584,924	618,093	596,898
Total	$1,546,537	$1,528,270	$1,556,888	$1,541,849	$1,488,309	$1,475,049	$1,422,663
Operating profit & Income from continuing operations							
(thousands of dollars)							
Newspapers and Digital	$128,675	$107,849	$120,288	$127,601	$110,116	$105,495	$54,300
Book publishing	60,640	56,277	95,381	97,182	124,121	119,168	99,643
Corporate	(19,028)	(18,475)	(19,001)	(15,555)	(14,166)	(12,764)	(10,773)
Restructuring provisions	(7,507)	(22,319)	(2,119)	(8,399)	(11,015)		(13,000)
Operating profit	162,780	123,332	194,549	200,829	209,056	211,899	130,170
Interest	(34,432)	(20,761)	(10,463)	(10,916)	(12,806)	(12,751)	(29,143)
Foreign exchange	(1,873)	70	(2,723)	(1,723)	(4,011)	973	392
Income (losses) of associated businesses	20,416	16,000	565	496	134	504	(8,022)
Gain on sale of assets			12,415	(3,883)	10,342	(5,924)	(28,744)
Unusual items						2,624	(28,800)
Income before taxes	146,891	118,641	194,343	184,803	202,715	197,325	35,853
Income and other taxes	(45,500)	(39,500)	(75,500)	(72,100)	(79,200)	(72,000)	(14,900)
Income from continuing operations before amortization of goodwill	101,391	79,141	118,843	112,703	123,515	125,325	20,953
Amortization of goodwill (net of tax)							(17,973)
Income from continuing operations	$101,391	$79,141	$118,843	$112,703	$123,515	$125,325	$2,980
Cash from continuing operating activities	$136,152	$111,591	$124,140	$178,598	$162,976	$167,732	$91,711
Average number of shares outstanding (thousands)	78,620	78,250	78,214	79,168	77,645	76,329	75,292
Per share Data							
Income from continuing operations	$1.29	$1.01	$1.52	$1.42	$1.59	$1.64	$0.04
Dividends – Class A and Class B shares	0.74	0.74	0.74	0.70	0.64	0.58	$0.58
Rate of Return on Revenue							
Operating profit	10.5%	8.1%	12.5%	13.0%	14.0%	14.4%	9.1%
Return on equity							
Cash from operating activities as a percentage of average shareholders' equity	15.2%	13.0%	15.2%	23.2%	23.5%	28.5%	15.4%
Financial position							
Total Assets	$1,960,837	$2,001,473	$1,561,682	$1,510,027	$1,511,767	$1,480,721	$1,490,154
Long-term debt	650,798	724,193	334,317	317,829	387,800	448,390	508,848
Shareholders' equity	917,761	872,746	841,652	793,661	745,055	643,506	534,398
Property, plant and equipment (net)	330,391	349,842	365,665	392,141	401,172	391,521	410,427

DAILY NEWSPAPERS

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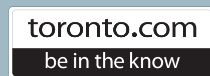

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- Oakville Beaver
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- Peterborough This Week
- Renfrew Mercury
- Richmond Hill Liberal
- Scarborough Mirror

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TORSTAR MEDIA GROUP
TELEVISION

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Production Art Director: Darlene Dewell
Printing: The Incredible Printing Group of Companies
Photography: Ken Faught/Star Photography Team
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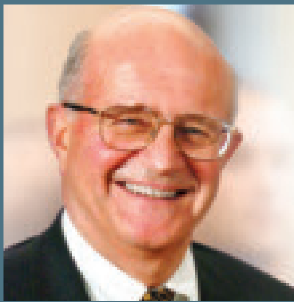

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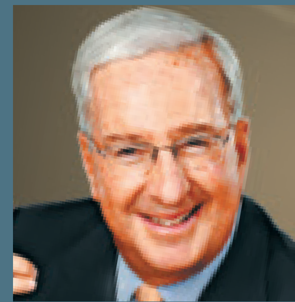

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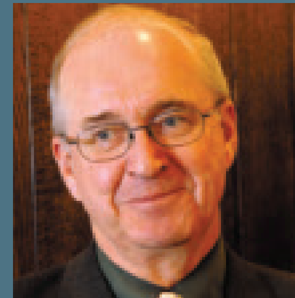

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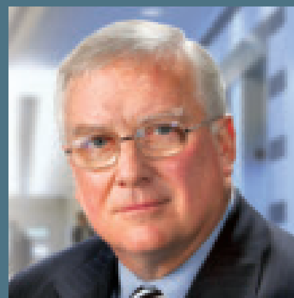

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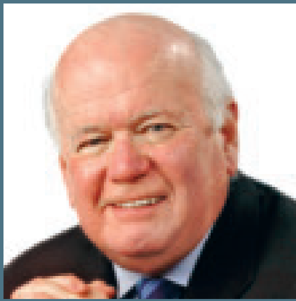

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OUR GOAL

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 women's fiction, selling books in 29 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.