

TORSTAR

TORSTAR CORPORATION ANNUAL REPORT 1985







**Torstar Corporation is a broadly based information and entertainment communications company. Its operations include The Toronto Star, Canada's leading metropolitan daily newspaper; Harlequin Enterprises, the world's largest publisher of romance fiction; Metroland Printing & Publishing, commercial printers and publishers of community newspapers; the Miles Kimball Company, direct mail catalogue marketers of gifts and business supplies; and Torstar Books, which produces high quality non-fiction books for the consumer. The company operates on a worldwide basis with approximately half of its revenues generated outside Canada. Torstar has a 25 per cent interest in Southam Inc., a diversified Canadian communications and information company which publishes 15 daily newspapers and a financial weekly.**

#### **About the Cover**

Shown on the cover of Torstar's 1985 Annual Report are moulded bronze decorative grilles installed in the previous Toronto Star building at 80 King Street West which was opened in 1929.

The grilles accompanied The Star when it moved to its present One Yonge Street address in 1971 and are installed in the reception area of Torstar Corporation.

They are a constant reminder of Torstar's roots - The Toronto Star. Although it now accounts for slightly less than half of the corporation's revenues and operating profits, The Toronto Star remains Torstar's largest business.

#### **Annual Meeting**

The 1986 Annual Meeting of Shareholders will be held at 10 a.m., Wednesday, April 30, 1986, at One Yonge Street, Toronto

#### **Corporate Office**

One Yonge Street  
Toronto, Ontario  
M5E 1P9  
(416) 367-4595

#### **Transfer Agent and Registrar**

National Trust Company

#### **Listed**

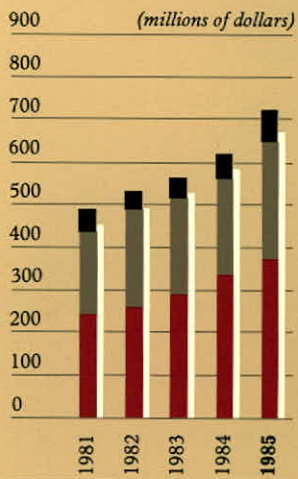
Class B Shares  
\$2.68 First Preference Shares  
\$1.70 First Preference Shares  
Warrants  
Toronto and Montreal Stock  
Exchanges

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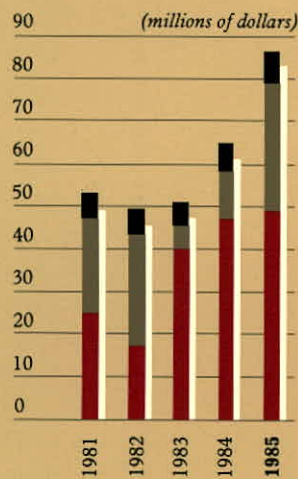


		1985	1984
<b>Operating Results</b> (thousands of dollars)	Operating revenue	\$712,290	\$619,441
	Operating profit	81,959	60,919
	Income before equity in earnings of Southam Inc.	44,208	20,320
	Net income	50,147	20,320
<b>Operating Ratios</b> (percent)	Operating profit - percent of revenue	11.5%	9.8%
	Income before equity in earnings of Southam Inc. - percent of revenue	6.2%	3.3%
	Net income - percent of average shareholders' equity	19.2%	14.5%
<b>Per A and B Share</b> (in dollars)	Net income - fully diluted	\$3.05	\$1.46
	Shareholders' equity after deducting preference shares	18.71	10.26
	Price range High/Low	33.75/16.50	17.25/10.50
<b>Financial Position</b> (thousands of dollars)	Long-term debt	\$211,301	\$205,535
	Shareholders' equity	375,326	146,928



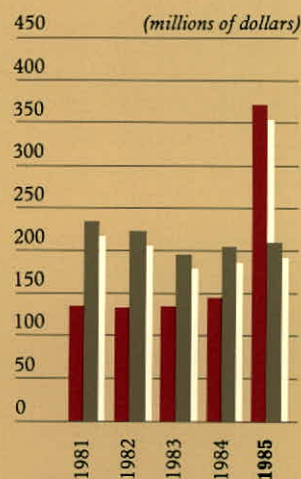
OPERATING REVENUE

■ Newspaper & Printing  
■ Book Publishing  
■ Catalogue Marketing



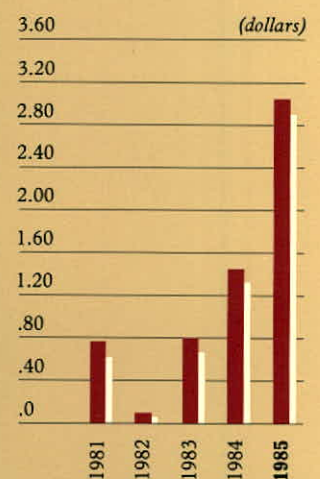
SEGMENTED OPERATING PROFIT

■ Newspaper & Printing  
■ Book Publishing  
■ Catalogue Marketing



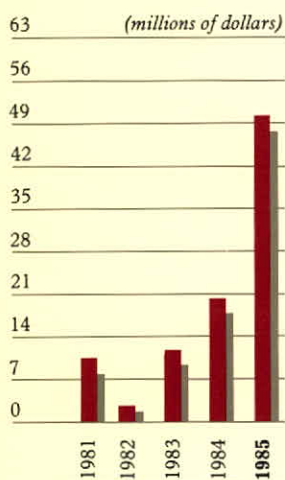
CAPITALIZATION

■ Shareholders' equity  
■ Long-term debt



EARNINGS PER SHARE





**INCOME FROM  
CONTINUING  
OPERATIONS**

### Overview

After four trying years during which profits plummeted and then slowly began to recover, it is a pleasure to report that Torstar once again is achieving new performance records.

Consolidated revenue in 1985 increased 15 per cent to \$712 million. Led by strong gains in book publishing, consolidated operating profit was \$82 million, exceeding the previous high in 1980 of \$68 million.

Net income was \$50.1 million or \$3.05 per A and B share on a fully diluted basis with material gains coming from lower interest rates, favorable foreign exchange trends and a lower corporate tax rate. Earnings in 1984 were \$20.3 million or \$1.46 per share.

The substantial improvement in earnings, along with our major mid-year investment in Southam Inc., combined to make 1985 a year of significant achievement.

### Investment in Southam Inc.

The \$267 million investment in Southam was largely accomplished by a share exchange under which Torstar acquired 25 per cent of Southam and Southam acquired a 30 per cent interest in Torstar. This investment, the largest in Torstar's history, broadens the corporation's earnings base geographically in the Canadian newspaper business and

through an interest in commercial printing throughout Canada and in specialized printing in the United States. These are businesses in which Torstar has sound knowledge and experience.

The Southam investment also adds diversity to Torstar through Southam's interests in broadcasting, bookstores and other communications enterprises.

Despite the effect of the additional shares issued to Southam, Torstar's 1985 earnings improved by 4 cents per share as a result of the Southam investment. This beneficial result was due in part to seasonal factors. Moderate dilution can be expected in 1986, although we expect further earnings enhancement in the medium and long term. Southam is a public company which issues its own annual and interim reports.

### Operations

Harlequin's book publishing earnings benefitted substantially from the mid-1984 purchase of the Silhouette romance fiction lines. In North America the additional Silhouette volume, with very little additional overheads, enabled Harlequin to record substantially higher earnings both at retail and through its direct mail book clubs. Improved methods in Harlequin's direct mail operations also added to higher earnings through better retention of existing Harlequin and Silhouette book club members and more cost-effective new member promotion.



Toronto Star newspaper results were improved over the record level achieved in 1984. Advertising linage, led by classified help wanted and careers categories, was 4 per cent higher than the previous year. Circulation also showed strong growth.

Metroland's community newspapers and printing plants achieved strong earnings growth in 1985. A new heatset offset plant was opened to complement existing coldweb offset and rotogravure capabilities. A second new heatset press will be added in the first half of 1986.

Miles Kimball's direct mail catalogue results were also higher in 1985. The main gift business achieved higher sales both in the Christmas and off-seasons and the company's mailing lists were enhanced by successful new customer solicitations.

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### Other Developments

Much improved earnings enabled the directors to increase the dividend on Class A and B shares from the previous annual rate of 40 cents per share to 50 cents in the first quarter and then to 80 cents per share effective with the fourth quarter dividend.

Early in 1986, the directors approved a further dividend increase to an annual rate of 96 cents per Class A and B share effective with the March quarterly dividend. At the same time the directors announced that shareholder approval will be sought at the Torstar annual meeting on April 30 to split A and B shares two for one.

Three directors joined the Torstar board in 1985 - Robert J. Butler, chairman, Urban Transporta-

tion Development Corporation Ltd., St. Clair Balfour and Hugh Hallward. Mr. Balfour and Mr. Hallward are the Southam nominees on the Torstar board and Dr. John Evans and I have been appointed to the Southam board.

With the retirement in April of Duncan Gordon and John Boon, the size of the board will be reduced from 17 to 15 members. John Fisher, president of Southam Inc., will be nominated as a director in place of Hugh Hallward.

The directors wish to record their appreciation for the contribution the retiring directors have made to the corporation. Mr. Gordon's business knowledge and experience were invaluable during the difficult years from 1981 to 1983. Mr. Boon added to our knowledge and understanding of book publishing, which today contributes so largely to our profits.

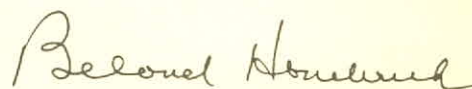
In March, 1986 the board created the Office of Chairman which consists of myself as chief executive officer, David Galloway, president of Harlequin Enterprises, and David Jolley, president of Toronto Star Newspapers. As chief executive officers of our two operating divisions - newspaper publishing and printing and book publishing and direct marketing - Mr. Jolley and Mr. Galloway have been actively involved in corporate strategy. The creation of the Office of Chairman formalizes this arrangement and will, I believe, contribute to the corporation's future development.

### Outlook

All of our operating companies, as well as Southam, ended the year on a strong note. We hope to improve earnings further in 1986 if economic conditions remain favorable. Debt reduction and internal development of our existing businesses continue to be our main priorities.

Finally, it is most important to acknowledge on behalf of the shareholders and board of directors the truly outstanding contribution made by employees of all Torstar companies to the gratifying results of 1985.

On behalf of the board



Beland Honderich, Chairman  
March 26, 1986



*NEWSPAPER AND PRINTING DIVISION*







**T**orstar's newspaper and printing division includes

*The Toronto Star, Canada's largest daily newspaper; and Metroland Printing & Publishing, which publishes weekly, twice-weekly and tri-weekly newspapers in 19 communities in Metro Toronto and suburbs, and prints and distributes advertising flyers and inserts.*

*Operating profits from the newspaper and printing division, excluding depreciation and amortization, increased in 1985 to \$56 million from \$53 million in 1984.*

*David Jolley (second from the right) is president and chief executive officer of The Toronto Star and of the newspaper and printing division. Toronto Star executives with him are, from the left, Bruce Taylor, vice-president, operations; Ray Timson, managing editor; and Tom Murtha, vice-president, marketing and sales.*

<i>(thousands)</i>	1985	1984	1983
<b>Revenue</b>	<b>\$377,158</b>	<b>\$327,205</b>	<b>\$294,579</b>
<b>Operating Profit*</b>	<b>55,850</b>	<b>52,967</b>	<b>45,597</b>
<b>Rate of Return on Revenue</b>	<b>14.8%</b>	<b>16.2%</b>	<b>15.5%</b>

*\*Before depreciation and amortization.*



Expanding readership and generally healthy economic conditions helped The Toronto Star to achieve a third consecutive year of growth in circulation and advertising lineage levels in 1985.

Throughout Metro Toronto and Ontario, more people purchased and read The Star than ever before. This growth reflected the dedication of The Star's staff to producing top-

quality news, information and advertising content and also the strength of the morning and afternoon distribution systems.

The Star, founded in 1892, is Canada's largest daily newspaper. The paper is published daily except Christmas and Good Friday and is widely distributed in all parts of southern and central Ontario.

*Ian Urquhart (left) is editor of The Star's editorial page. His responsibilities include, as well, the op-ed page and letters to the editor. John Miller (centre) and Phil McLeod are deputy managing editors, with overall responsibility to the managing editor for all editions of The Star.*

### Circulation

Almost 204 million copies of The Star – at an average size of nearly 100 pages – were purchased during 1985. The Saturday Star remained as the flagship edition, followed by Wednesday and then Sunday.

Average sales of the Monday-to-Friday Star in 1985 were a record 518,714 copies. The 1985 total was up 9,427 copies or 1.9 per cent from the 1984 level of 509,287 copies.

The October, 1985 average of 533,256 was the best single month ever for Monday-to-Friday sales.

Sales of The Saturday Star also established an all-time record in 1985, averaging 813,949. This was 7,632 copies or 1 per cent higher than the 806,317 average of last year.

The Sunday Star continued to dominate the Ontario newspaper market. Average sales rose to 525,347 copies, the highest since the Sunday edition was introduced in 1977. The total was up 11,982 copies or 2.3 per cent from the previous record, established in 1984.





### Advertising

Total advertising in The Star in 1985 was a record 67,485,000 lines, up 2,605,000 lines or 4 per cent from the previous high of 64,880,000 lines, set in 1984.

Over the past two years, linage has increased by more than 11 per cent.

As well, The Star's share of total newspaper advertising linage increased steadily through 1985. The Star now carries almost as much advertising linage as the other two Toronto newspapers combined.

Help wanted and careers linage showed the greatest gains in 1985, both for The Star and the market as a whole, reflecting general strength in the southern Ontario economy.

The volume of help wanted and careers in The Star jumped from 6,455,000 lines in 1984 to 8,756,000 lines in 1985, a gain of 35.6 per cent in a market that grew 25.8 per cent.

The growth in careers linage came not only from a favorable employment climate but also from an aggressive campaign launched in 1982 to establish The Star as the dominant newspaper in Toronto for professional and middle-management job advertising. The Star's share of careers linage at the end of 1985 was just over 60 per cent, compared with less than 14 per cent at the end of 1981.

Most other classified segments showed increases from 1984. Overall, classified volume in 1985 of 27,440,000 lines was up 13.1 per cent in a market that was up 7.2 per cent.

The only significant area of weakness was retail merchandising, which includes major department stores and food chains. A linage drop

of 14 per cent in 1985 was due partially to restructuring in the retail food business.

Special interest advertising sections and feature pages produced during 1985 covered a wide variety of subjects. Published in broadsheet or tabloid format, or in Starweek magazine, these special sections generated a linage increase in 1985 of about 25 per cent.

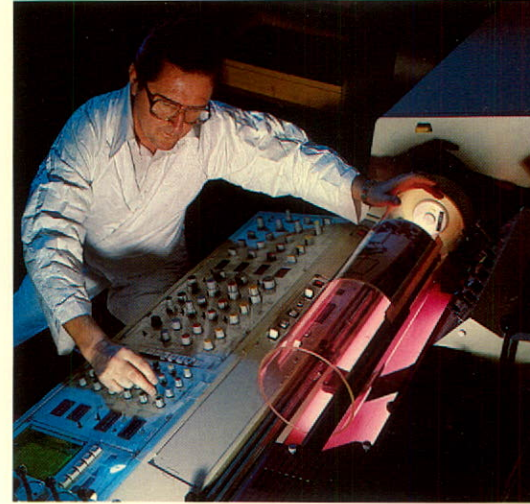
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### Editorial

Two comprehensive series in The Star in 1985 brought widespread and favorable reader response.

The Star commissioned an extensive study of the various minority groups in Metro and published the findings in a widely acclaimed eight-part series late in the year. Reprints of the series were made available to the public and the issue was debated at a Star-sponsored public forum early in 1986. The series and forum contributed to a better understanding of the minority populations in Metro and elicited an unusually large volume of reader compliments through the office of Rod Goodman, The Star's ombudsman.

The issue of "free trade" attracted increasing attention as the federal government prepared to enter bilateral discussions with the United States. A Star series by David Crane on the pros and cons of free trade contributed significantly to the debate and was also reprinted in booklet form.



*Photoengraver Wayne McMillan operates a new direct color scanner installed during 1985 in The Star's engraving department. Color separations for a typical news picture now take 30 minutes instead of 90 minutes. Virtually all editorial photo assignments are shot in color.*



**ADVERTISING LINAGE**

<i>(thousands of lines)</i>	1985	1984	1983
<b>Display</b>	<b>31,430</b>	31,890	31,488
<b>Classified</b>	<b>27,440</b>	24,252	21,400
<b>Other</b>	<b>8,615</b>	8,738	7,651
	<b>67,485</b>	64,880	60,539

Coverage of top news events during the year reinforced The Star's position as the preferred newspaper in Toronto. Star reporters and photographers travelled the world, from Toronto and Star bureaus abroad, to cover these events.

The quality of The Star's editorial content was reflected in several awards announced during 1985. The top accolades – 1984 National Newspaper Awards – went to columnists Richard Gwyn and Wayne Parrish. Gwyn had stepped down at the end of 1984 as The Star's national affairs columnist and now writes a column on international affairs from London.

Other Star award-winners of 1985 included: columnists Judy Nyman and Jim Proudfoot; reporters Ann Auman, Peter Cheney, Kathy English, Diane Francis, Patricia Orwen, Nicholas Pron, Tom Spears and Olivia Ward; photographer Boris Spremo; reporter-photographers Dale Brazao, Don Dutton, Cal Millar and Jim Wilkes; freelance columnists Terence Dickinson and Jim Kenzie; and freelance photographer Paul Regan.

As well, a major international design award was given for The Star's What's On section.

Star reporter Leslie Scrivener was one of five winners of a Southam Fellowship. The fellowships were established in 1961 to provide journalists with an opportunity to broaden their knowledge in a university setting.

A major change to The Star during 1985 was conversion of the Friday entertainment section to a comprehensive weekly guide to leisure-time activities in the greater Metro area. Called What's On, the

section has gained widespread reader and advertiser interest and has proved of particular appeal to younger people.

In the service area, Star Probe continued to solve and report on a wide range of consumer complaints. At any point, the five-person Star Probe staff is handling an active file of some 800 problems.

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### Community Participation

The Star continued in 1985 to demonstrate the view that a newspaper should play an active role in the life of the community, beyond the news and information content of the paper itself.

Of a wide range of community involvement, The Star's Great Salmon Hunt continued as a dominant and increasingly popular event. Registrations jumped more than 20 per cent for this annual Lake Ontario fishing derby and plans are being finalized to expand the hunt in 1986.

Reader support for The Star Santa Claus and Fresh Air Funds reached record levels in 1985. More than \$930,000 was donated to give 22,500 children a Christmas present and to provide 20,000 underprivileged children with a summer camp experience.

The Star continued its support of community organizations with contributions totalling \$382,000, with the largest single contribution going to the United Way of Metropolitan Toronto.

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### Management

Circulation director Jim Robinson retired in January after many years of splendid service and was succeeded by Neil Clark, formerly director of finance and administration.





*The Star's classified advertising staff handles in excess of 6,800 ads for an average day, creating ad design and entering billing information directly into a computerized copy processing and typesetting system. Shown clockwise from left are Gail Hashimoto, Pat Slater, April Galand and Paul Willis.*





*John Baxter is president,  
Metroland Printing &  
Publishing.*

**M**etroland publishes community newspapers in 19 markets in and around Metro Toronto. The company also prints and distributes advertising materials and operates four printing plants close to Toronto.

The addition of weekend editions to several community newspapers, together with strong demand for commercial printing, gave Metroland Printing & Publishing a substantial improvement in revenue in 1985.

Total revenues increased by about 30 per cent and operating profits by about 15 per cent. Overall earnings from printing operations were only slightly ahead of 1984, reflecting start-up costs of a new production plant.

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### **Newspapers**

Community newspapers have traditionally been published on a weekly basis, normally on Wednesday.

In 1985, weekend editions were introduced in a number of communities with good acceptance. In the Oshawa market, Metroland's newspaper is now published three times a week, on Wednesday, Friday and Sunday. Additional weekend publications are being launched in Aurora/Newmarket and Brampton in 1986.

The year also saw further development of Metroland's "Marketplace" publications. These are advertising shoppers distributed to target neighborhoods within seven Metroland communities. They enable smaller advertisers to reach their immediate markets at lower cost. The Marketplace program moved from a

startup loss in 1984 to approximately break-even in 1985, with expected profit contribution in 1986.

Led by publishers located in each of the communities it serves, Metroland is constantly innovating in a highly flexible manner to fulfill the news, information and marketing needs of its readers and advertisers. Distribution of midweek papers increased from 515,000 to 578,000 households in 1986. Weekend distribution rose from 120,000 to more than 200,000.

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### **Distribution**

Metroland's computerized Total Market Coverage system for the distribution of advertising material to selected markets was fully implemented in 1985.

Stored in a central computer file are the 1.2 million residential addresses in the Metroland communities from Burlington to Oshawa to Newmarket. Every address contains up to 30 pieces of demographic information.

Sixteen local distribution offices are connected to the head office computer facility through dedicated lines, and can access the data base of information through any of 44 computer terminals.

Metroland uses more than 6,000 young carriers, augmented by adult crews, to distribute the advertising material.

Almost 300 million pieces were delivered in 1985, in addition to the community newspapers and Marketplace publications. Distribution is available on any day of the week. Revenues and profit contribution from the distribution service were up over 40 per cent in the year.

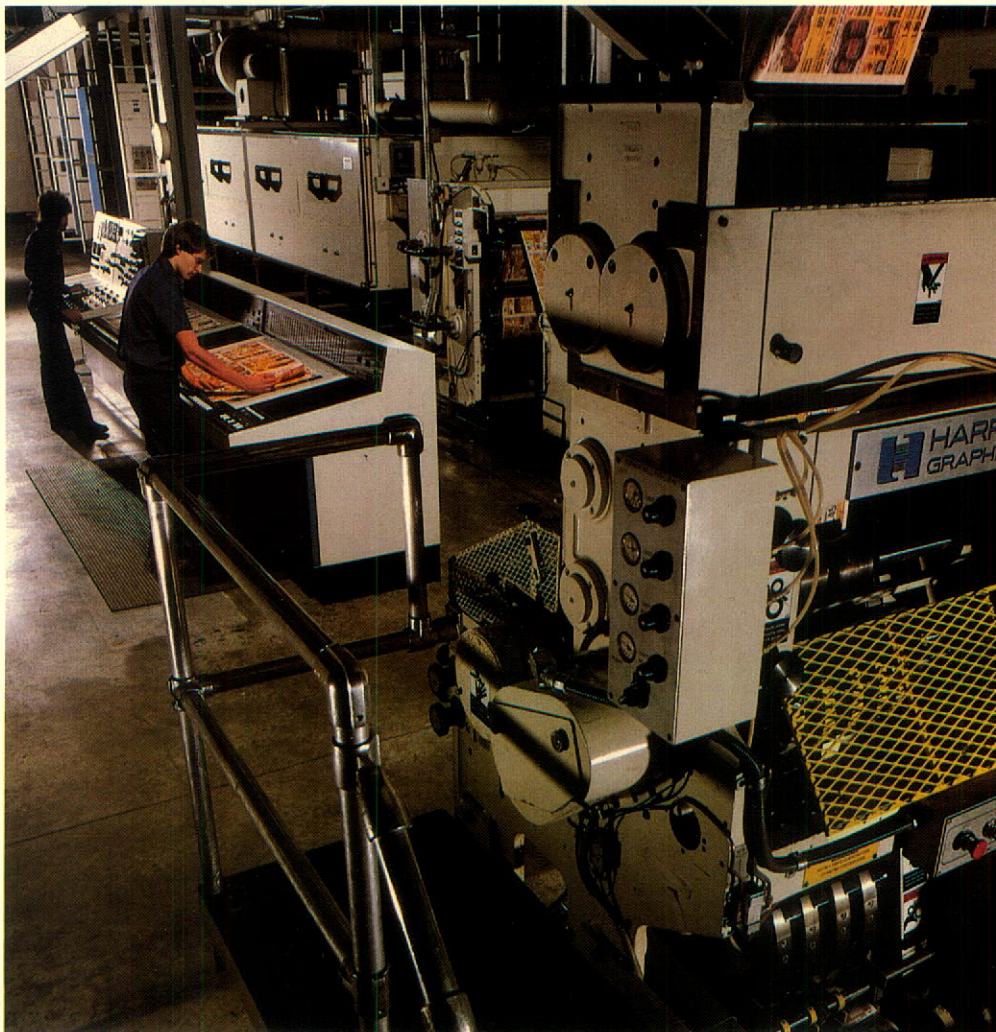


## Printing

Metroland derives well over half its printing revenues from commercial printing of advertising inserts and other material for advertisers. Many of these are distributed in Metroland newspapers or separately by Metroland's distribution force. Metroland is the largest printer of such material in southern Ontario.

Through four separate printing plants close to Toronto, Metroland has printing capabilities in three technologies. The newspapers and much advertising material are printed by the cold web offset process, which is particularly suited to printing on newsprint. A rotogravure plant specializes in very long run printing on coated paper. A new process, modified heatset offset, has gained widespread acceptance for advertising material printed on coated or glossy stock for shorter runs than are normally done by rotogravure.

Metroland brought its first heatset press on stream in a new plant in the spring of 1985. The new plant's performance exceeded first year expectations and managed to make a small profit despite start-up costs. A second heatset press will be installed and operating by the second quarter of 1986 as demand for heatset technology continues to grow.



*A new modified heatset press was installed in March in Metroland's new production plant in Scarborough. Operating the press are Martin Hawley and Joe Grillo. The press can produce 60,000 full-color impressions an hour. A second new heatset press, expected to be operational in April, 1986, will more than double production capacity.*









**T**orstar's book publishing and direct marketing division includes Harlequin Enterprises, the world's largest publisher of romantic fiction; Torstar Books, which publishes non-fiction for direct mail distribution; and Miles Kimball, a catalogue distributor of gifts and office requirements.

Operating profits from the book publishing and direct marketing division, excluding amortization and depreciation, increased in 1985 to \$51 million from \$29 million in 1984.

David Galloway (centre) is president and chief executive officer of Harlequin Enterprises and of the book publishing and direct marketing division. With him, from the left, are Brian Hickey, president, Harlequin North America; Horst Bausch, vice-president and editor-in-chief; Martin Catto, vice-president, finance and Robert Massie, executive vice-president, overseas division.

(thousands)	1985	1984	1983
Revenue	\$335,132	\$292,236	\$267,941
Operating Profit*	50,754	29,144	21,199
Rate of Return on Revenue	15.1%	10.0%	7.9%

\*Before depreciation and amortization.



**H**igher sales volume and improved direct marketing methods gave Harlequin Enterprises a significant profit increase during 1985. Before depreciation and goodwill amortization, Harlequin profits grew from \$21 million in 1984 to \$42 million in 1985.

*Reviewing new cover designs are John Biagini (left), executive vice-president, Harlequin Direct, and Michael Muoio, North American vice-president, retail marketing and sales.*



The August, 1984 acquisition of worldwide publishing rights to Silhouette, a major publisher of romantic fiction, was primarily responsible for the earnings increase. The Silhouette purchase from Simon & Schuster had little impact on 1984 operations, but it enabled Harlequin to consolidate its position as the world's largest publisher of romance fiction. In 1985, inclusion of Silhouette titles for a full year added significant sales volume, both at retail and through book club membership, with only minor cost increases.

Harlequin's profit gains in 1985 also reflected strong growth in book club membership. Improvements to computer systems, which are the cornerstone of book club direct marketing, generated higher sales volumes at lower cost.

#### **North American Retail**

Earnings from retail operations in North America in 1985 were up considerably from 1984, due largely to the addition of Silhouette titles, reduced selling costs and minor improvements in control of return of unsold books. Reduced selling costs resulted from a new distribution agreement between Harlequin and Simon & Schuster, which became effective in August, 1984.



The North American retail market for romance fiction has been declining from its peak year in 1982 but there are indications that the downward trend is slowing.

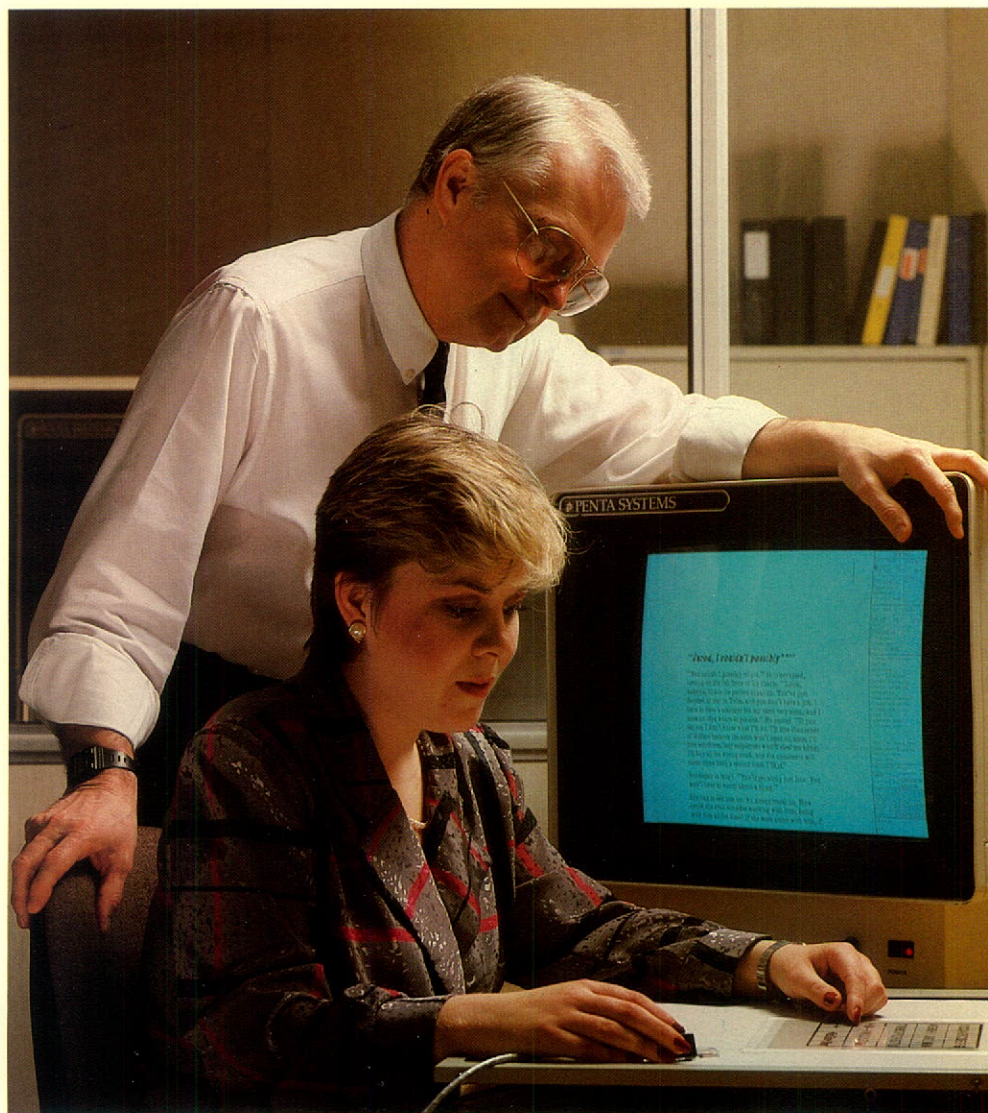
Harlequin published six titles in 1985 under a new imprint, Worldwide Library, aimed at readers in the more general women's fiction market. This market segment includes single-title romances and a portion of the historical romance interest area. Together, these segments represent about 30 per cent of the total paperback market in Canada and the United States. Harlequin plans 12 new Worldwide Library titles in 1986.

Under the Gold Eagle imprint, Harlequin leads the highly competitive market for action adventure books. Three new Gold Eagle titles are published monthly.

#### **North America Direct Marketing**

Harlequin's direct marketing activities experienced a positive turnaround in 1985. Book club membership continued to grow, at lower cost. Profits also improved as bad debts and returns were reduced through more targeted distribution, stronger efforts to retain memberships and changes in credit policies for new members.

The addition of the Silhouette Book Club increased revenue and profits through higher volumes and reduced promotion costs.



*Lynn Allen, manager, composition services, demonstrates operation of Harlequin's new in-house computerized typesetting system for Richard Lawson (standing) vice-president, North American publishing services.*



**BOOK PUBLISHING**

(thousands)	1985	1984	1983
<b>Revenue</b>	<b>\$265,691</b>	\$233,110	\$212,914
<b>Operating Profit*</b>	<b>39,765</b>	19,292	12,636
<b>Rate of Return on Revenue</b>	<b>15.0%</b>	8.3%	5.9%

\*Before depreciation and amortization.

Direct marketing success is a function of continuous testing. Harlequin refined and expanded these activities in 1985, particularly in the selection of distribution lists and sales promotion programs. Strategies derived from these test programs will enhance direct mail sales volumes and the retention of book club members.

**Overseas**

Earnings from Harlequin's overseas operations in 1985 were about equal to those of 1984, with growth impaired by a combination of market conditions, currency rates and investment spending.

The sale early in 1985 of half of Harlequin's French company to Hachette S.A., France's leading book publisher and distributor, had a negative impact on earnings, as did lower consumer demand in Germany, France and the United Kingdom. Export operations from the U.K. suffered from currency devaluation.

During 1985 Harlequin completed the acquisition of Silhouette publishing rights in most overseas countries. Sales and earnings will be favorably affected in the full 1986 year.

Early in 1986 Harlequin arranged to acquire Silhouette publishing rights in France and for French-language editions in Quebec.

Silhouette titles continue to be published by a competitor in one major overseas market, Italy.

Spanish-language publishing was restructured in September, 1985. Our previous partners in a joint venture assumed responsibility for operations in Mexico and Latin America on a licence basis and Harlequin took sole ownership of operations in Spain.

**Development**

Harlequin is investing heavily in diversification activities.

A new women's fiction book club tested in 1985 will be expanded in 1986. A new, non-fiction condensed book club concept was developed in 1985 and the first book was mailed to initial subscribers in February, 1986.

In Canada, Harlequin also tested a new distribution method by selling hardcover, non-fiction books in business offices. The initial test results were sufficiently encouraging that the test will be expanded in 1986 to 10 major markets in the U.S.

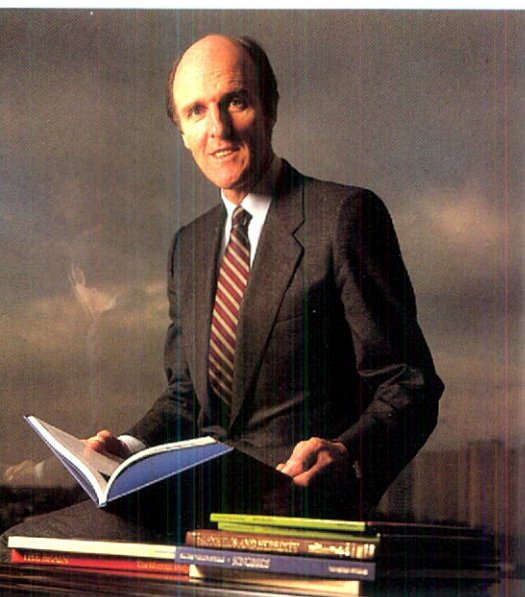
Diversification activities overseas include the testing of best-selling North American titles in France; a new youth series in Germany and Holland; audio cassettes in Australia and Sweden; and the popular board game, Trivial Pursuit, for which Harlequin holds the marketing rights in Japan.





*Harlequin's overseas operations include operating units in 11 countries, with books distributed in over 90 countries. Pictured above, from the left, are: Hans Sommer, managing director, West Germany; Jerome Malavoy, managing director, France; and Yoshihiko Shimazaki, managing director, Japan.*





*Simon Waterlow is general manager, Torstar Books.*

The Torstar Books division of Harlequin Enterprises was formed three years ago to develop a non-fiction, direct mail publishing program. The strategy for Torstar Books is to develop or license products that lend themselves to publication in series form and then capitalize on Harlequin's expertise in direct mail to identify target consumers and media markets.

Torstar Books showed revenue in 1985 of \$11 million.

In 1985, the division successfully introduced its first two non-fiction continuity series after extensive testing in 1983 and 1984. Both *Stitch by Stitch*, a home needlecraft series, and *The Human Body*, a product originally acquired from U.S. News and World Report, enjoyed strong consumer acceptance.

Two other series were tested in 1985 with promising results. *The Creative Cook* has been adapted from a successful series originally published in Holland and the U.K. It offers strong visual appeal through graphic design and photography and is marketed in a large, color, ring binder format. The second series, *All the World Animals*, is a comprehensive library of the entire animal kingdom, surveyed species-by-species and containing the latest available biological information. The series draws on an international writing group of some 380 expert contributors and is designed for consumers with interests in nature and science, especially parents with young families.

Three additional book concepts were at the research and development stage in 1985 and were scheduled for market testing in 1986. Two of these could be introduced publicly in 1987.

A working partner of Torstar Books is another Harlequin subsidiary, Marshall Editions. Marshall is a book packaging enterprise, based in the U.K., with experience in developing books for other publishers on a worldwide scale. Marshall has been closely involved in the development and introduction of Torstar Books.

Investment spending in Torstar Books in 1985 totalled \$2.6 million, with a further commitment of \$1 million planned in 1986. As initial editorial and promotion costs are absorbed, a profit contribution is anticipated in 1987.





*Ted Leyhe is president, Miles Kimball Company.*

Miles Kimball, based in Oshkosh, Wisconsin, continued in 1985 to record steady growth in earnings, despite an environment in which a number of competitive catalogues ceased publication. Miles Kimball operating profits in 1985, before depreciation and amortization, grew to \$11 million from \$9.9 million in 1984.

The company's leadership position in its field reflects not only good value from catalogue merchandise but also a superior level of service. About 93 per cent of all orders are shipped to customers within 48 hours of receipt.

Miles Kimball's profit performance in 1985 was enhanced by highly efficient inventory and cost controls, together with refinement of computer systems to generate optimum productivity in catalogue distribution.

In 1985, the company mailed more than 25 million catalogues to households in the United States. The catalogues offered more than 2,100 gifts, cards and home products – many of them available exclusively from Miles Kimball.

Growth of The Business Book continued in 1985. This 64-page catalogue was launched in 1982 to offer small businesses the convenience of shopping by mail for hundreds of items used on a daily basis in the business world.

The Business Book is approaching the break-even point as the vol-

ume and size of orders continue to grow. The purchasing economies made possible by increases in volume should make The Business Book a profitable venture by the end of 1986.

The Business Book also reflects Miles Kimball's goal of developing other catalogue concepts that can maximize use of staff and facilities on a year-round basis, balancing the gift catalogue business that tends to peak in the pre-Christmas period.

*Skills in using computerized data*

*banks enable Miles Kimball to*

*retain its leadership position in*

*the direct mail gift catalogue*

*market in the United States.*

*Linda Drews (left) and Julie*

*Driscoll are shown in the*

*company's computer centre.*



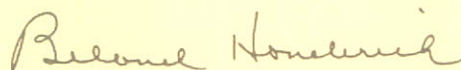


**CONSOLIDATED BALANCE SHEET**  
December 31, 1985 (with comparative figures at December 31, 1984)

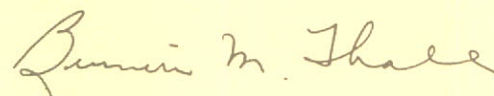
	(thousands of dollars)	1985	1984
<b>Assets</b>			
<b>Current:</b>			
Cash and short-term investments		\$ 30,606	\$ 8,649
Receivables (note 2)		102,930	78,651
Inventories		37,358	32,006
Prepaid expenses		50,356	27,389
Prepaid and recoverable income taxes		34,797	16,682
<b>Total current assets</b>		<b>256,047</b>	163,377
<b>Income taxes recoverable</b>			20,892
<b>Investment in Southam Inc. (note 3)</b>		<b>216,256</b>	
<b>Fixed assets at cost:</b>			
Land		4,599	4,475
Buildings and leasehold interests		25,787	22,440
Machinery and equipment		106,705	87,783
		<b>137,091</b>	114,698
Less accumulated depreciation		<b>(62,139)</b>	(53,016)
<b>Net fixed assets</b>		<b>74,952</b>	61,682
<b>Mailing lists at amortized cost</b>		<b>14,651</b>	17,509
<b>Subscription list at amortized cost</b>		<b>5,250</b>	5,583
<b>Goodwill at amortized cost</b>		<b>197,963</b>	202,043
<b>Other assets</b>		<b>13,520</b>	12,695
<b>Total assets</b>		<b>\$778,639</b>	\$483,781

(See accompanying notes)

On behalf of the Board



Director



Director



	(thousands of dollars)	1985	1984
<b>Liabilities and Shareholders' Equity</b>	<b>Current:</b>		
	Bank indebtedness	\$ 41,076	\$ 21,562
	Accounts payable and accrued liabilities	120,747	89,497
	Income taxes payable	15,668	5,436
	<b>Total current liabilities</b>	<b>177,491</b>	<b>116,495</b>
	<b>Long-term debt</b> (note 4)	<b>211,301</b>	<b>205,535</b>
	<b>Deferred income taxes</b>	<b>10,896</b>	<b>12,037</b>
	<b>Employees' shares subscribed</b> (note 5)	<b>3,625</b>	<b>2,786</b>
	<b>Shareholders' equity:</b>		
	Share capital (note 5)		
	First Preference Shares (non-voting)	47,179	15,708
	Class A (voting) shares and Class B (non-voting) shares	237,962	19,829
	Contributed surplus	3,114	3,114
	Retained earnings	141,463	109,530
	Foreign currency translation adjustment	(266)	(1,253)
		<b>429,452</b>	<b>146,928</b>
	Less cost of Torstar's interest in its own Class B shares (note 3)	(54,126)	
	<b>Total shareholders' equity</b>	<b>375,326</b>	<b>146,928</b>
	<b>Total liabilities and shareholders' equity</b>	<b>\$778,639</b>	<b>\$483,781</b>

(See accompanying notes)

### AUDITORS' REPORT

#### To the Shareholders of Torstar Corporation

We have examined the consolidated balance sheet of Torstar Corporation as at December 31, 1985 and the consolidated statements of income, retained earnings and changes in net borrowings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of the company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 24, 1986  
Toronto, Ontario

**Clarkson Gordon**  
Chartered Accountants



**CONSOLIDATED STATEMENT OF INCOME**  
*Year ended December 31, 1985 (with comparative figures for 1984)*

(thousands of dollars)

	1985	1984
<b>Operating revenue</b>	<b>\$712,290</b>	<b>\$619,441</b>
<b>Operating profit</b>		
Newspapers and printing	49,326	47,202
Book publishing	29,800	11,237
Catalogue marketing	7,244	6,395
Corporate administration	(4,411)	(3,915)
	<b>81,959</b>	<b>60,919</b>
Interest – non-current	(22,201)	(26,643)
– other (net)	(258)	(978)
Foreign exchange gain	4,708	1,322
	<b>64,208</b>	<b>34,620</b>
Income before taxes	64,208	34,620
Income taxes (note 6)	20,000	14,300
	<b>44,208</b>	<b>20,320</b>
Income before equity in earnings of Southam Inc.	44,208	20,320
Equity in earnings of Southam Inc. (note 3)	5,939	
<b>Net income</b>	<b>\$ 50,147</b>	<b>\$ 20,320</b>
<b>Fully diluted earnings per Class A and Class B share (note 7)</b>	<b>\$3.05</b>	<b>\$1.46</b>

(See accompanying notes)

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**  
*Year ended December 31, 1985 (with comparative figures for 1984)*

(thousands of dollars)

	1985	1984
<b>Retained earnings, beginning of year</b>	<b>\$109,530</b>	<b>\$ 95,856</b>
Net income	50,147	20,320
	<b>159,677</b>	<b>116,176</b>
Deduct:		
Dividends on First Preference shares	4,144	1,559
Dividends on Class A and B shares	9,269	5,087
Less interest in own dividends paid to Southam Inc. (note 3)	(638)	
	<b>12,775</b>	<b>6,646</b>
Share issue expenses (net of taxes)	893	
Excess of cost of shares purchased and cancelled over book value	4,546	
	<b>18,214</b>	<b>6,646</b>
<b>Retained earnings, end of year</b>	<b>\$141,463</b>	<b>\$109,530</b>

(See accompanying notes)



(thousands of dollars)

1985

1984

**Operating activities:**

Cash provided by operations:

Income before equity in earnings of Southam Inc.	\$ 44,208	\$ 20,320
Depreciation	10,176	8,694
Amortization	10,109	8,634
Deferred and recoverable income taxes	19,751	11,410
Dividend from Southam Inc.	3,176	
	<b>87,420</b>	49,058
(Increase) decrease in non-cash working capital	(34,756)	7,131
Fixed asset additions	(23,767)	(18,259)
Net cash provided by operations	<b>28,897</b>	37,930

**Investment and other activities:**

Investment in Southam Inc. (note 3 (a))	(266,981)	
Shares issued for investment in Southam Inc.	215,900	
Acquisition of Silhouette		(24,506)
Proceeds from sale of 50% of Harlequin France	7,350	
Shares purchased for cancellation	(4,854)	
Other	6,969	5,741
Cash used in investment activities	(41,616)	(18,765)
Cash dividends paid	(12,983)	(6,018)
<b>(Increase) decrease in net borrowings</b>	<b>(25,702)</b>	13,147

**Financing activities:**

Net borrowings, beginning of year	218,448	218,994
Increase in long-term debt due to revaluing at current exchange rates	8,021	12,601
Increase (decrease) in net borrowings	25,702	(13,147)
Cash from issue of Preference Shares	(30,400)	
Net borrowings, end of year	<b>\$221,771</b>	\$218,448

**Net borrowings represented by:**

Bank indebtedness net of cash and short-term investments	\$ 10,470	\$ 12,913
Long-term debt	211,301	205,535
	<b>\$221,771</b>	\$218,448

(See accompanying notes)



**1. Accounting policies**

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards. 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.

(b) Foreign exchange

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.

Exchange adjustments resulting from foreign currency translation are included in income except for those relating to self-sustaining foreign operations (which are included in shareholders' equity as unrealized exchange adjustments) and long-term debt which are amortized over the remaining term of the debt.

(c) Receivables

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

(d) Inventories

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

(e) Investment in Southam Inc.

The investment in Southam Inc. ("Southam") is accounted for by the equity method. Since Torstar owns 15,880,000 (approximately 25%) of the common shares of Southam and Southam owns 6,350,000 (approximately 30%) of Torstar's Class A and Class B shares (fully diluted), Torstar has a pro rata interest in its own Class A and Class B shares of 7.5%. Accordingly, the investment in Southam and shareholders' equity are reduced by the cost to Torstar of its interest in its own shares and the share of earnings of Southam included in the consolidated statement of income is based on Southam's income excluding its share of earnings of Torstar. The portion of Torstar's dividends applicable to its interest in its own shares is deducted from dividends in retained earnings and added to the carrying value of the investment in Southam. The excess of the cost of the investment over the underlying book value of Southam has been attributed to Southam's newspaper circulation, interest in broadcast licences, land and goodwill. Circulation is to be written down on a pro rata basis if the levels of circulation fall below the levels capitalized at the acquisition date. Broadcast licences will be written down when there has been a diminution in value. Goodwill is amortized over forty years.

(f) Depreciation

Fixed assets are depreciated using various rates and methods depending on the estimated useful lives of the assets. The rates and methods used for the major depreciable assets are as follows:

- (i) Machinery and equipment – straight line over 10 to 15 years or 20% diminishing balance;
- (ii) Buildings – straight line over 25 years or 5% diminishing balance;
- (iii) Leasehold interests – straight line over the life of the lease.

(g) Mailing lists

Purchased direct mail marketing lists are amortized on a straight line basis over 5 to 10 years.



## (h) Subscription list

The newspaper subscription list is amortized on a straight line basis over a 30-year period to 2001.

## (i) Goodwill

Goodwill is amortized on a straight line basis over periods of 20 to 40 years from the dates of acquisition.

## (j) Past service pension costs

The costs relating to improved pension benefits granted for employment in prior periods, to the extent they are not covered by pension plan surplus, are amortized over periods not exceeding 15 years from the dates at which such benefits become effective.

**2. Receivables**

The provisions for anticipated book returns deducted from receivables at December 31, 1985 amounted to \$60 million (December 31, 1984 - \$56 million).

**3. Investment in Southam Inc.**

(a) In August 1985, the company acquired 15,880,000 (25%) of the common shares of Southam Inc. at a cost of \$266,981,000. The investment can be summarized as follows:

*(thousands of dollars)*

Net book value of assets acquired	\$116,990
Fair value adjustments:	
Newspaper circulation	105,700
Interest in broadcast licences	10,400
Land	9,350
Fair value of assets acquired	242,440
Goodwill	24,541
<b>Cost of investment</b>	<b>\$266,981</b>
<b>Financed by:</b>	
Cash	\$ 51,081
Issue of shares from Treasury	215,900
	<b>\$266,981</b>

(b) Details of the investment in Southam as at December 31, 1985 are as follows:

*(thousands of dollars)*

<b>Carrying value:</b>	
Cost	\$266,981
Equity in earnings of Southam	5,939
Company's pro rata cumulative interest in its own dividends paid to Southam	638
	<u>273,558</u>
Less cost of the company's pro rata interest in its own Class B (non-voting) shares held by Southam	(54,126)
Less dividends received from Southam	(3,176)
	<u>\$216,256</u>



#### 4. Long-term debt

Long-term debt outstanding at December 31 is as follows:

(thousands of dollars)

	1985	1984
Term loan agreement (a)	<b>\$211,301</b>	\$159,286
Bank loans		46,249
	<b>\$211,301</b>	<b>\$205,535</b>

(a) Term Loan Agreement: After December 31, 1985 the company renegotiated its line of credit with two Canadian banks. The borrowing limit was increased to \$400 million, which reduces by \$40.0 million per year commencing in 1990, or later if mutually agreeable.

Amounts borrowed under the line of credit are primarily in the form of bankers' acceptances which are issued at varying interest rates normally slightly below prime and maturing over periods ranging from 30 days to one year. Borrowings may be made in Canadian dollars or U.S. dollars.

(b) Interest rates: As of December 31, 1985 interest on all long-term debt was at floating rates, which averaged 9.8%.

(c) No long-term debt repayments are required in the next five years.

(d) Long-term debt at December 31, 1985 includes U.S. \$107 million.

#### 5. Share capital

(a) The following is a summary of changes in the company's share capital during the year:

	Authorized Shares	Outstanding Shares	Amount
<b>First preference shares,</b> non-voting			<i>(thousands of dollars)</i>
Balance at beginning of year	9,932,759		
<b>\$2.68 - 1981 Series</b>			
Balance at beginning of year and end of year		577,635	\$14,441
<b>\$1.00 - Second Series</b>			
Balance at beginning of year		50,679	1,267
Issued during year		6,000	150
Redeemed during year	(3,600)	(3,600)	(90)
Converted to Class B shares	(3,550)	(3,550)	(89)
Balance at end of year		49,529	1,238
<b>\$1.70 - Third Series</b>			
Balance at beginning of year		Nil	Nil
Issued during year		1,400,000	31,500
Balance at end of year		1,400,000	31,500
<b>\$1.92 - Fourth Series</b>			
Balance at beginning of year		Nil	Nil
Issued to invest in Southam Inc.		1,350,000	45,900
Converted to Class B shares	(1,350,000)	(1,350,000)	(45,900)
Balance at end of year		Nil	Nil
<b>Total First Preference Shares</b>	<b>8,575,609</b>	<b>2,027,164</b>	<b>\$47,179</b>



	Authorized Shares	Outstanding Shares Amount	
<b>Class A (voting) and Class B (non-voting) shares</b>	Unlimited	<i>(thousands of dollars)</i>	
<b>Class A shares</b>			
Balance at beginning of year		2,581,617	\$2,806
Converted to Class B shares		(17,440)	(18)
Balance at end of year		2,564,177	2,788
<b>Class B shares</b>			
Balance at beginning of year		10,207,610	17,023
Issued to invest in Southam Inc.		5,000,000	170,000
Converted from Fourth Series preference shares		1,350,000	45,900
Acquired for cancellation		(167,900)	(307)
Issued under employees' share purchase plan		95,742	1,191
Conversion of warrants		40,003	820
Issued as stock dividends		18,732	430
Converted from Class A shares		17,440	18
Converted from Second Series preference shares		8,174	89
Other		400	10
Balance at end of year		16,570,201	235,174
<b>Total Class A and B shares</b>		19,134,378	\$237,962
<b>Class C (non-voting) shares</b>			
Balance at beginning of year	50,150,306		
Issued during the year as stock dividends on Class A and B shares		5,251,856	\$658
Redeemed for cash within 15 days of the dates of issue	(5,251,856)	(5,251,856)	(658)
Balance at end of year	44,898,450	Nil	Nil

(b) During the year the company's Articles of Incorporation were amended to provide that the maximum number of Class A and Class B shares which the company is authorized to issue is unlimited.

(c) Details with respect to rights attaching to the company's share capital are as follows:

- (i) \$2.68 Cumulative Redeemable First Preference Shares, 1981 Series (the "1981 series")

1981 series shares are retractable at the option of the holder at a price of \$25 per share plus accrued and unpaid dividends, if any, (i) at any time before July 1, 1986, provided that such retraction coincides with the exercise of an equivalent number of Class B share purchase warrants or (ii) on June 30, 1986 for cash. The shares are redeemable at the option of the company after June 30, 1986 at predetermined prices varying from \$26.25 to \$25.00 plus accrued and unpaid dividends, if any.



(ii) \$1.00 Cumulative Convertible, Redeemable First Preference Shares, Second Series (“the Second series”)

Subject to certain employment conditions and achievement of earnings objectives, the Second series, which has been set aside for stock purchase loans to executives, may be eligible for conversion in 1986 and future years into 103,350 Class B shares. The Second series shares are redeemable at any time at a price of \$25 per share at the option of either the holder or the company.

(iii) \$1.70 Cumulative Redeemable Convertible First Preference Shares, Third Series (“the Third series”)

Third series shares are convertible at the option of the holder into Class B shares until April 1990 on a one-for-one basis. The shares are redeemable at the option of the company after March 31, 1990 and, in certain circumstances between March 31, 1988 and April 1, 1990, at predetermined prices varying from \$23.50 to \$22.50 plus accrued and unpaid dividends, if any.

(iv) 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 or Class C shares.

Class A shares are convertible at any time at the option of the holder into Class B shares.

(v) Voting provisions

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

(vi) Class B share purchase warrants

Class B share purchase warrants entitle the holder thereof to purchase one Class B share at a price of \$20.50 before July 1, 1986. At December 31, 1985 there were 564,180 warrants outstanding.

(vii) 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.

(d) Under the company’s employees’ share purchase plan, employees may subscribe for Class B shares to be paid for through payroll deductions over two-year periods at a purchase price which is the lower of:

- (i) market price on the entry date;
- or
- (ii) the market price at the end of the payment period.

As at December 31, 1985, outstanding employee subscriptions were as follows:

Number of shares	Subscription rate per share	Maturing
140,628	\$10.79	May 1986
109,273	\$19.28	May 1987



**6. Income taxes**

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

	1985	1984
Canadian statutory rate	52.0%	51.0%
Amortization of goodwill and other outlays not deductible for tax purposes	6.5	8.9
Foreign income taxed at lower rates	(15.6)	(18.2)
Foreign exchange gains not taxable	(6.7)	
Manufacturing and processing profits allowance	(2.1)	(0.4)
Other non-recurring credits	(3.0)	
Financial statement tax rate	31.1%	41.3%

**7. Earnings Per Class A and Class B Share**

Fully diluted earnings per share are calculated using the weighted average number of shares that would have been outstanding assuming full conversion of the convertible First Preference shares (Second and Third Series) and exercise of Class B share purchase warrants. In making this calculation, net income was increased by the imputed after tax earnings from the proceeds from exercise of the warrants less the dividends paid on the non-convertible First Preference shares (1981 Series).

Basic earnings per share are calculated on the weighted average number of shares outstanding during the year. Net income for purposes of this calculation has been reduced by dividends paid on all preference shares.

	1985	1984
Basic earnings per share	\$3.26	\$1.47

All earnings per share figures are after eliminating the company's pro rata interest in its own Class B shares.

**8. Pension plans**

The unamortized past service costs for pension benefits in effect at December 31, 1985 approximate \$9.1 million. Benefit improvements have been implemented in 1986 which increase pension plan liabilities by a further \$4.6 million.

**9. Commitments**

In connection with the 1984 acquisition of Silhouette Books, Harlequin Enterprises Limited has agreed to pay Simon & Schuster Inc. up to U.S. \$25 million in the period 1986 through 1992 if Harlequin's romance fiction book business earnings increase above an agreed base. An estimated 1986 payment of \$5.5 million (U.S. \$4.0 million) has been accounted for as an increase in goodwill.

**10. Segmented information**

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

Newspapers and Printing – Publishing of daily and community newspapers and commercial printing;

Book Publishing – Publishing of romance fiction, distributed through retail outlets and by direct mail, and other books distributed primarily through direct mail;

Catalogue Marketing – Distribution of gifts and business supplies through direct mail catalogues.



The following is a summary of business and geographic segments of the company:

<b>Business Segments</b>	Operating Revenue		Operating Profit before Depreciation and Amortization		Operating Profit	
	1985	1984	1985	1984	1985	1984
<i>(thousands of dollars)</i>						
Newspaper publishing and printing	\$377,158	\$327,205	\$ 55,850	\$52,967	\$49,326	\$47,202
Book publishing	265,691	233,110	39,765	19,262	29,800	11,237
Catalogue marketing	69,441	59,126	10,989	9,882	7,244	6,395
Corporate administration			(4,360)	(3,864)	(4,411)	(3,915)
Consolidated	\$712,290	\$619,441	\$102,244	\$78,247	\$81,959	\$60,919

	Identifiable Assets		Additions to fixed assets		Depreciation and Amortization	
	1985	1984	1985	1984	1985	1984
<i>(thousands of dollars)</i>						
Newspaper publishing and printing	\$148,659	\$129,755	\$16,378	\$13,117	\$6,524	\$5,765
Book publishing	324,238	290,008	6,511	4,841	9,965	8,025
Catalogue marketing	40,665	40,363	832	255	3,745	3,487
Corporate	48,821	23,655	46	46	51	51
	562,383	483,781	23,767	18,259	20,285	17,328
Investment in Southam Inc.	216,256					
Consolidated	\$778,639	\$483,781	\$23,767	\$18,259	\$20,285	\$17,328

<b>Geographic Segments</b>	Operating Revenue		Operating Profit		Identifiable Assets	
	1985	1984	1985	1984	1985	1984
<i>(thousands of dollars)</i>						
Canada	\$394,100	\$344,240	\$49,532	\$46,408	\$203,200	\$170,267
United States	228,078	181,884	31,751	13,675	218,926	207,102
Other (a)	90,112	93,317	5,087	4,751	91,436	82,757
Corporate administration			(4,411)	(3,915)	48,821	23,655
	712,290	619,441	81,959	60,919	562,383	483,781
Investment in Southam Inc.					216,256	
Consolidated	\$712,290	\$619,441	\$81,959	\$60,919	\$778,639	\$483,781

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



	1979	1980	1981	1982	1983	1984	1985
<b>Operating revenue</b> <i>(thousands of dollars)</i>							
Newspaper publishing and printing	\$172,058	\$191,440	\$242,048	\$258,697	\$294,579	\$327,205	<b>\$377,158</b>
Book publishing	146,317	184,402	194,543	225,395	212,914	233,110	<b>265,691</b>
Catalogue marketing		38,639	52,357	52,195	55,027	59,126	<b>69,441</b>
Operating revenue	318,375	414,481	488,948	536,287	562,520	619,441	<b>712,290</b>
<b>Operating profit &amp; income from continuing operations</b> <i>(thousands of dollars)</i>							
Newspaper publishing and printing	17,383	19,002	25,256	17,382	39,999	47,202	<b>49,326</b>
Book publishing	41,614	44,685	22,264	25,823	5,472	11,237	<b>29,800</b>
Catalogue marketing		7,477	5,757	6,570	5,454	6,395	<b>7,244</b>
Corporate administration	(2,620)	(2,700)	(2,376)	(2,673)	(3,251)	(3,915)	<b>(4,411)</b>
Operating profit	56,377	68,464	50,901	47,102	47,674	60,919	<b>81,959</b>
Interest (expense) income	616	(5,742)	(33,925)	(37,930)	(26,846)	(27,621)	<b>(22,459)</b>
Foreign exchange gain (loss)	(181)	(668)	24	(463)	(619)	1,322	<b>4,708</b>
Income before taxes	56,812	62,054	17,000	8,709	20,209	34,620	<b>64,208</b>
Income taxes	26,696	25,900	5,702	6,000	8,600	14,300	<b>20,000</b>
Income before minority interest and equity in earnings of Southam Inc.	30,116	36,154	11,298	2,709	11,609	20,320	<b>44,208</b>
Minority interest in earnings of subsidiary	9,583	10,538	725				
Income before equity in earnings of Southam Inc.	20,533	25,616	10,573	2,709	11,609	20,320	<b>44,208</b>
Equity in earnings of Southam Inc.							<b>5,939</b>
Income from continuing operations	\$20,533	\$25,616	\$10,573	\$2,709	\$11,609	\$20,320	<b>\$50,147</b>
<b>Per share data</b> <i>(adjusted for 3 for 2 stock split in 1980)</i>							
Income from continuing operations	\$1.68	\$2.10	78¢	9¢	80¢	\$1.46	<b>\$3.05</b>
Dividends - Class A and Class B shares	40¢	55¢	76¢	58¢	40¢	40¢	<b>57.5¢</b>
<b>Rate of return on revenue</b>							
Operating profit	17.7%	16.5%	10.4%	8.8%	8.5%	9.8%	<b>11.5%</b>
Income before minority interest and equity in earnings of Southam Inc.	9.5%	8.7%	2.3%	0.5%	2.1%	3.3%	<b>6.2%</b>
<b>Return on equity</b>							
Income from continuing operations as a percentage of average shareholder's equity	20.8%	22.0%	8.1%	2.0%	8.8%	14.5%	<b>19.2%</b>



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