

Torstar Corporation Annual Report 1979





Torstar Corporation Annual Report 1979

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Summary of Financial Information

	15 months ended December 31 1979	12 months ended December 31 1979	12 months ended September 30 1978
Consolidated operating revenue	\$451,390,000	\$371,100,000	\$277,471,000
Net income	\$ 24,490,000	\$ 18,826,000	\$ 13,759,000
Average shares outstanding	8,146,621	8,147,359	8,143,908
Earnings per share	\$3.00	\$2.31	\$1.69
Dividends paid	\$ 6,437,000	\$ 4,890,000	\$ 3,095,000
Dividends per share	79¢	60¢	38¢

Transfer Agent and Registrar
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Toronto and Montreal Stock Exchanges

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One Yonge Street
Toronto, Ontario
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Report to Shareholders

Your directors are pleased to report continued growth in Torstar's revenue and earnings over the past 15 months since the last annual report was issued.

During 1979 the corporation changed its fiscal year end from September 30 to December 31 to establish a uniform reporting base for all subsidiaries. This report marks the first time results are reported for a fiscal period ended December 31.

Consolidated operating revenue for the 12 months ending December 31, 1979 was \$371,100,000. Net income was \$18,826,000 or \$2.31 per share, a new high for a 12-month period.

Unaudited results for the previous 12 months ending December 31, 1978 put consolidated operating revenue at \$291,356,000 and net income at \$15,943,000 or \$1.96 per share.

The previous audited results were for the 12 months ended September 30, 1978. Consolidated operating revenue for this period was \$277,471,000. Net income was \$13,759,000 or \$1.69 per share.

Earnings from newspaper operations improved slightly in 1979. The Toronto Star has incurred

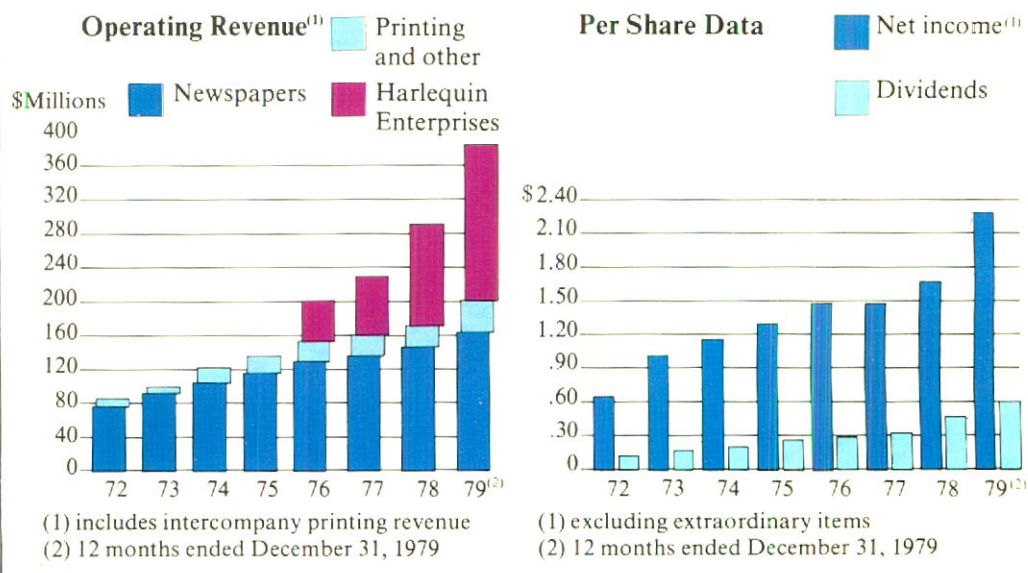


substantial start-up costs over the past three years to introduce Sunday publishing and a firm circulation base has now been established. Other investment spending, including an improved Star Week Magazine, has been undertaken to provide a strong base for future operations.

To offset sharply rising newsprint costs and also improve handling and readability of the paper, The Star plans to move to a narrower page width in 1980. As a means of improving the quality of reproduction

and achieving greater production efficiencies, The Star will also switch to the electronic processing of news and classified advertising copy and replace metal printing plates with new and improved plastic plates. These changes are designed to maintain the newspaper's readership in a highly competitive newspaper market.

Harlequin Enterprises Limited continued its rapid growth with earnings up 27 per cent over 1978. This investment, made in October, 1975, has sustained Torstar's overall



Beland H. Honderich (above) is Chairman and President of Torstar Corporation and Publisher of The Toronto Star.

earnings growth rate. During the past two years, after accounting for all costs associated with the investment, Harlequin has contributed almost one-half of the consolidated earnings per share. During 1979, Torstar increased its holding to 58.3% of Harlequin's outstanding shares, and has options to acquire a further 8.1%.

The sale of Harlequin books increased significantly in 1979 as the company expanded into new foreign markets. New investments were made to diversify the company's book and magazine publishing operations and Harlequin established its own sales force to service operations in the North American market.

Torstar's offset and rotogravure printing operations prospered during 1979.

To improve its competitive position, Metrospan integrated its printing and community newspaper publishing operations and is currently installing a new offset press designed to reproduce excellent process color through the inclusion of common impression cylinders and computerized controls providing consistent ink coverage. This project, involving a total plant and equipment investment of over \$8,000,000, will provide Metrospan with the ultimate in high speed quality printing facilities.

Infomart—Torstar's 50%-owned vehicle for development in electronic publishing—greatly expanded its activities in 1979. With rapid expansion of technology and increasing user acceptance predicted over the next several years, electronic publishing could become a major business in the latter half of the 1980s.

The directors wish to



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Newspaper reading among young people is encouraged through The Star's Newspaper-In-Education program.

acknowledge the debt your corporation owes to Hon. Walter L. Gordon who retired from the Board of Directors in December following ten years of extremely valuable counsel and advice as a Torstar director.

The directors also wish to thank employees for their performance in the past

year. Looking ahead, we are confident that the corporation is well staffed and situated to meet the challenges of the decade ahead.

On behalf of the Board

Beland Honderich
Beland H. Honderich,
Chairman and President
March 19, 1980



Much-travelled writers and editors like Tom Harpur, shown here in Calcutta, give Star readers a Canadian perspective of news wherever it happens.

The Toronto Star

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Report on Operations

Toronto Star President Martin Goodman (right) making a presentation at The Star Indoor Games, one of The Star's many community involvements.

As it enters the 1980s, The Toronto Star has completed or has in progress major projects to improve the printing quality and cost-efficiency of its production. The transfer of all type composition from hot lead to photocomposition has been completed. Electronic processing of news and classified advertising matter has been started. Plastic plates are replacing stereo plates on our presses. Early in 1980, the width of a page in The Star will be reduced by one and one-quarter inches to offset rising newsprint prices and to make the paper easier to handle and read. All of these changes are radical departures from historic newspaper practices, but are in keeping with the current needs of readers



and advertisers.

Star earnings improved moderately in 1979 as a result primarily of a buoyant advertising market and tight cost controls. Star advertising lineage grew 6.9 per cent to 57,326,300 lines. All major advertising segments showed increases in the year, although there was weakness in automotive, alcoholic beverages, travel and properties.

Average circulation of The Sunday Star for the 12 months ending September 30, 1979 (the latest audited figures available) was 314,105 up 38,444 or almost 14 per cent from the previous year. Circulation price

increases affected the sale of the Saturday and weekday papers but circulation was off less than one per cent from the previous year—Saturday down 3,406 copies to an average of 771,895 and weekdays down 1,202 copies to an average of 485,084.

As of March 30 The Star introduces a revised Sunday package. The City magazine will cease publication and the news-stand price of The Sunday Star will be reduced in the Toronto area from 30c to 25c per

The dominant news story of the year was the election and defeat of the Conservative Government and the election campaign which subsequently led to Pierre Trudeau's return to power.



copy. The cost of the coated paper on which The City is printed has increased to the point that would require advertising rates that would be prohibitively high. The most popular features from The City will continue to be carried in the main body of The Sunday Star. A section named Review will be introduced to provide readers more background and analysis in their Sunday paper, as well as considerably more business news and features.

The Sunday changes are in response to reader requests, especially of the larger numbers of Star subscribers Monday through Saturday, for greater depth without losing the lightness and brightness that has attracted so many new readers to the Sunday Star in 1979. The Sunday Star has achieved reader acceptance without reducing circulation of The Star on Saturdays. It is hoped that the first major changes since its introduction in 1977 will enable the Sunday Star to approach the circulation of The Star on other publishing days.

Star Week, the Saturday television and entertainment magazine, underwent an almost complete change in October. Heavier-weight glossy paper was added to the magazine to create an attractive full-color medium for advertisers and allow more use of editorial color. Listings were revised and expanded and other editorial content broadened to include lifestyle articles and features on celebrities, places and events in the entertainment spotlight. The various changes make Star Week a much more complete entertainment guide for inside and outside the home.

The Saturday paper begins in March to carry Today, the extensively



revamped weekend supplement that replaces Canadian/Weekend.

The Star's coverage of major news events intensified during 1979, with on-the-spot staff coverage of such major stories as the Vietnamese refugees, Three Mile Island nuclear danger, Iran hostage-taking and the Soviet invasion of Afghanistan. New service features and new columnists were added and editorial use of ROP color increased considerably, with improved quality.

The Star won several

awards for editorial excellence during 1979. These included National Newspaper Awards to writers Bill Dampier and Val Sears; a Canadian Press picture-of-the-year award to Boris Spremo; and the B'nai B'rith Canada's League for Human Rights award for over-all excellence in human rights coverage.

The Star signed collective agreements during 1979 with the Southern Ontario Newspaper Guild and our six craft unions. Guild employees agreed to a 37-month contract to July 31, 1982, while the craft unions signed 36-month agreements expiring December 31, 1981.

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For 74 years Star readers have ensured that needy children have gifts at Christmas time.

The Mutt Show is another community event sponsored annually by The Toronto Star.



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France is now one of 90 countries in which Harlequin books are sold.

In 1979 Harlequin acquired the distinguished fine arts magazine, ARTnews, in the United States.

Harlequin's 1979 launch in Japan resulted in several titles making the best sellers list.



Harlequin Enterprises

Harlequin continued to grow in 1979, both through expansion into new markets and increased volume of book sales. The company's publications are now sold in more than 90 countries and Harlequin publishes in 10 different languages. Total paperback books sold increased from 125 million in 1978 to approximately 168 million in 1979.

A highlight of 1979 was

very rapid success in France only a year after Harlequin books were first introduced in that country. New operations were established in the year to publish Harlequin books in Japan, Mexico, Greece and in three Scandinavian languages. A major line of romantic suspense novels, *Mystiques*, was launched in 1979 and is indicative of Harlequin's interest in new imprints as a vehicle for future growth.

The September, 1979 Harlequin launch in Japan was especially significant. Introduced with a major promotion campaign, the new series comprises four books each month in the Japanese language. Several titles are currently on the

best sellers list in Japan.

Harlequin Books, the company's paperback publishing division in North America, announced in April that its own sales and customer-service operation would be established to cover all of the United States and Canada. The new company, Harlequin Sales Corporation, started operation in January 1980. Books were formerly sold in the U.S. through agents.

Harlequin undertook further steps during the year in the development of its magazine operations in North America by acquiring interests ranging from 49.5% to 60% in *ARTnews*, *Antiques World* and *Photo Life*.



Metrospan Printing & Publishing

During the year, management of Metrospan Community Newspapers, the Newsweb offset printing plant and The Star Rotogravure Division were combined to provide an integrated publishing and printing entity geared to community newspaper publishing and advertiser printing and distribution requirements for the 1980

Metrospan serves the growing communities adjoining the city of Toronto with nine community newspapers as well as seven Consumer advertising supplements. Combinations of these publications offer advertisers selective or saturation distribution in twelve suburban markets. Metrospan's total community distribution, including The Consumer, now exceeds 470,000 weekly.

The quality of local coverage is reflected by Metrospan newspapers winning nine awards in the annual Canadian Community Newspaper competition and eight awards in the Ontario competition.

Among its awards, The Mississauga Times was judged the Best Tabloid in Canada, and was also honoured by the Ontario Association for the Best Special Edition published in 1979 for its 24-page section devoted to the November train derailment and subse-



quent explosion which caused the evacuation of some 260,000 Mississauga residents. It was one of Canada's biggest news stories of the year and The Mississauga Times covered it in depth, also winning the Mississauga Firefighters' Association best picture award.

Both the Metrospan offset division and The Star rotogravure division registered increased earnings in 1979.

The growth of the offset division will be further accelerated in mid-1980 when installation of a Goss Metroliner Press is completed. A feature unique in North America will be the facility to provide 32 pages of back-to-back process color through the inclusion of common impression cylinders allowing excellent color reproduction on adjacent pages. The total investment in this project, including an expanded 30,000 sq. ft. plant and ancillary equipment, is over \$8 million.

With the new press, Metrospan will be able for the first time to print all of its community newspapers internally and to offer much improved color capacity and reproduction for its advertisers as well as for commercial printing customers.

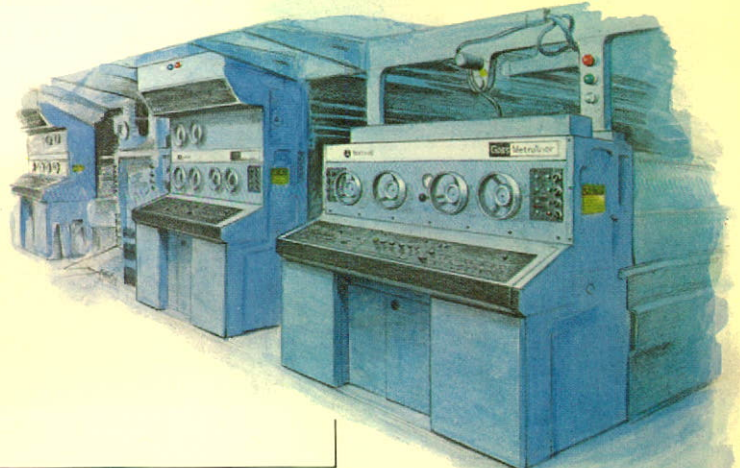


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Coverage of the Mississauga train disaster and evacuation won awards for The Mississauga Times.



An \$8 million new press facility and plant expansion will greatly increase Metrospan's offset printing quality and capacity.



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Comac's management committee of Hugh Rosser, Neil Clark, Ted Gittings and Jeff Shearer is responsible for publishing four magazines.

Madame Au Foyer is edited by Pierrette Laberge-Ferth (left) for the Quebec market.

Comac Communications

Comac has established a leadership position in Canada's growing consumer magazine industry as publisher of four national controlled-circulation magazines. Homemaker's Magazine, Madame Au Foyer, Quest and City Woman now command nearly 15% of the national magazine advertising market in Canada.

Net earnings were reduced in 1979 as a result of first-year start-up costs in City Woman, more frequent publication of Homemaker's Magazine and Madame Au Foyer and higher than expected postal and paper price increases. After a slow start, all four magazines



showed advertising gains during the last four months of the year. This strength has accelerated during the first quarter of 1980 and earnings for the year are currently expected to be much improved over 1979.

Comac magazines continue to win high praise editorially, receiving impressive awards during 1979 in both Canadian and international editorial and graphic competitions.



Peter Ustinov talks with camera crew on location in Leningrad during filming of Cities series.

pleted a 26-episode series, Portraits of Power, co-produced with the New York Times, and the 13-episode Cities series, featuring major cities of the world as introduced by native-born celebrities including Peter Ustinov, Germaine Greer, Glenn Gould and others. Early screenings of Cities have received widespread critical praise.

The company continued to add to its creative stature in 1979. The Newcomers, now the recipient of 18 awards, won gold medals in both Chicago and New York Film Festivals and an award for Best Special at the Canadian Film and Television Awards. Cities also won a gold medal and Portraits of Power won a silver medal at the New York Film Festival. Lynn Seymour: In a Class of Her Own, won a gold plaque at the Chicago International Dance Film Festival.

Nielsen-Ferns International

Nielsen-Ferns is proceeding satisfactorily in carrying out Torstar's diversification into film pro-

duction, particularly for TV. The company was profitable in 1979, achieved further artistic success and added considerably to its production experience and visibility.

The year saw Nielsen-Ferns complete its highly acclaimed series The Newcomers, commissioned by Imperial Oil to mark its 100th anniversary in 1980. The company also com-

Infomart

Torstar Corporation and Southam Inc., through their jointly-owned enterprise, Infomart, committed additional funding during 1979 to accelerate development of new information packages and services for the emerging videotex field, and to expand its existing data base search business.

Videotex is a mass-market communications medium that will, when developed and marketed, connect conventional television sets to computer data banks through standard telephone or cable lines. Because it is a two-way system, users will be able to transmit or receive information on demand, from their homes or offices.

As well as providing

access to a vast store of reference information, the videotex system has the potential for a wide range of applications such as shopping at home or making travel reservations, real estate and other business transactions, income tax calculations, education, entertainment, opinion polling and media research, advertising and electronic mail.

As Canada's first videotex system operator, Infomart will be providing videotex storage and processing systems across Canada, and participating in field trials to demonstrate the viability of this new technology.

In addition, it will provide application design and page creation services to information providers, allowing Canadian organizations to mount their own data bases in Canada for distribution to the public or for private use.

The company is developing the capability to install

videotex systems on a turn-key basis for organizations in Canada and around the world.

Infomart has been providing data base search services since its formation in 1975, and markets a number of U.S. data bases in Canada including the New York Times Information Bank and System Development Corporation's Orbit Search Service.

These data bases now number over 60, and contain millions of entries on scientific, technical and business topics. Subscriber use has been growing steadily, with over 500 Canadian businesses and institutions currently linked to the company's data base search network.

Through its investment in Infomart, Torstar is at the forefront of the electronic publishing industry in Canada.

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Creation of graphic information pages for videotex field trials is part of Infomart's expanding operation.

Consolidated Balance Sheet (thousands of dollars)

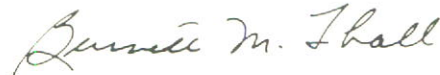
December 31, 1979 (with comparative figures at September 30, 1978 — note 2)

	December 31 1979	September 30 1978
Assets		
Current:		
Cash and short term investments	\$ 38,064	\$ 19,503
Receivables (note 3)	54,980	36,258
Inventories	18,118	15,124
Prepaid expenses	13,692	9,647
Prepaid income taxes	7,671	3,370
Total current assets	132,525	83,902
Investments and other non-current assets (note 4)	31,732	30,993
Fixed assets, at cost:		
Land	3,257	3,311
Buildings and leasehold interests	8,957	6,422
Presses and associated equipment	21,745	17,272
Non-press equipment and vehicles	26,124	21,501
	60,083	48,506
Less accumulated depreciation	24,994	21,096
Total fixed assets	35,089	27,410
Subscription list at amortized cost	7,250	7,667
Goodwill at amortized cost	43,129	36,591
Total assets	\$249,725	\$186,563

On behalf of the Board



Director



Director

Torstar Corporation (incorporated under the laws of Ontario)

	December 31 1979	September 30 1978
Liabilities and Shareholders' Equity		
Current:		
Bank indebtedness	\$ 14,542	\$ 9,719
Accounts payable and accrued liabilities	42,254	28,319
Taxes payable	19,801	11,025
Notes payable	4,690	
Dividend payable		1,059
Current portion of non-current debt	2,717	2,639
Total current liabilities	84,004	52,761
Non-current debt (note 5)	29,967	23,196
Deferred income taxes	4,743	5,353
Minority interest in subsidiaries	24,480	17,934
Employees' shares subscribed (note 6)	1,047	
Shareholders' equity:		
Share capital (note 6)		
Issued and outstanding: 1979 — 8,150, 138 shares (1978 — 8,143,908)	13,272	13,160
Retained earnings	92,212	74,159
Total shareholders' equity	105,484	87,319
Total liabilities and shareholders' equity	\$249,725	\$186,563

(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, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the fifteen months and twelve months 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, 1979 and the results of its operations and the changes in its financial position for the fifteen months and twelve months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Clarkson Gordon
Chartered Accountants
February 18, 1980
Toronto, Canada

Torstar Corporation Consolidated Statement of Income (thousands of dollars)

15 months and 12 months ended December 31, 1979

(with comparative figures for the 12 months ended September 30, 1978)

	15 months ended December 31 1979	12 months ended December 31 1979	12 months ended September 30 1978
Revenue:			
Newspapers	\$200,621	\$162,583	\$144,135
Harlequin Enterprises Limited	221,350	185,432	114,610
Printing and other	43,894	34,534	28,681
	465,865	382,549	287,426
Less intercompany printing revenue	14,475	11,449	9,955
Consolidated operating revenue	451,390	371,100	277,471
Consolidated operating profit			
Newspapers	14,066	10,684	9,555
Harlequin Enterprises Limited	47,151	38,696	30,078
Printing and other	3,741	2,616	729
Consolidated operating profit	64,958	51,996	40,362
Other income (note 7)	1,215	401	1,477
Income before taxes	66,173	52,397	41,839
Income taxes	30,395	24,771	20,549
Income before minority interest	35,778	27,626	21,290
Minority interest in earnings of subsidiary	11,288	8,800	7,531
Net income for the period	\$ 24,490	\$ 18,826	\$ 13,759
Earnings per share:	\$3.00	\$2.31	\$1.69

(See accompanying notes)

Torstar Corporation Consolidated Statement of Retained Earnings (thousands of dollars) 15 months and 12 months ended December 31, 1979 (with comparative figures for the 12 months ended September 30, 1978 — note 2)

	15 months ended December 31 1979	12 months ended December 31 1979	12 months ended September 30 1978
Retained earnings, beginning of period	\$ 74,159	\$ 78,276	\$ 63,495
Add net income for the period	24,490	18,826	13,759
Less dividends	98,649 6,437	97,102 4,890	77,254 3,095
Retained earnings, end of period	\$ 92,212	\$ 92,212	\$ 74,159

(See accompanying notes)

Torstar Corporation Consolidated Statement of Changes in Financial Position

(thousands of dollars)

15 month and 12 month periods ended December 31, 1979

(with comparative figures for the 12 months ended September 30, 1978 — note 2)

	15 months ended December 31 1979	12 months ended December 31 1979	12 months ended September 30 1978
Source of funds:			
From operations —			
Net income	\$ 24,490	\$ 18,826	\$ 13,759
Add charges to income which did not reduce working capital:			
Minority interest	11,288	8,800	7,531
Depreciation	4,308	3,310	3,695
Amortization of goodwill and subscription list	1,758	1,404	1,201
Deferred income taxes	(610)	(688)	(172)
Total funds from operations	41,234	31,652	26,014
Increase in debt	6,771	6,319	1,751
Employee share subscriptions	1,047	1,047	
Total source of funds	\$ 49,052	\$ 39,018	\$ 27,765
Application of funds:			
Additional investment in shares of Harlequin Enterprises Limited (note 9)	6,268	6,268	4,356
Investment in other subsidiary and affiliated companies net of working capital acquired (note 8)	3,239	3,239	7,357
Fixed assets	11,987	10,937	3,953
Dividends to shareholders	6,437	4,890	3,095
Dividends paid by subsidiary to minority interest	3,226	2,538	688
Other	515	(378)	(556)
Increase in working capital	17,380	11,524	8,872
Total application of funds	\$ 49,052	\$ 39,018	\$ 27,765

(See accompanying notes)

Torstar Corporation Notes to Consolidated Financial Statements

December 31, 1979

I. Accounting policies

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

(a) Principles of consolidation —

The consolidated financial statements include the accounts of all subsidiary companies.

(b) Foreign exchange —

Accounts denominated in foreign currency have been translated to Canadian dollars as follows: current assets and liabilities at exchange rates prevailing at the period end; fixed assets, goodwill and long-term liabilities at exchange rates prevailing at dates acquired, or assumed; income and expenses (excluding depreciation and amortization) at average rates during the period. Exchange adjustments resulting from such translation practices are recognized in the consolidated statement of income.

(c) Inventories —

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

(d) Depreciation policy —

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

(i) Presses and associated equipment — straight line over 15 years.

(ii) Non-press equipment — straight line over 12½ years or 20% diminishing balance.

(e) Subscription list —

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

(f) Goodwill —

Goodwill carried on the consolidated balance sheet is being amortized on a straight line basis using an amortization period of 40 years from the dates of acquisition.

(g) 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.

(h) Income taxes —

The company follows the deferral method of income tax allocation which results in prepaid and deferred income taxes. Prepaid income taxes result from costs, principally provision for book returns, which are not currently deductible for tax purposes. Deferred income taxes result from claiming deductions for income tax purposes, principally depreciation, in excess of amounts currently charged.

(i) Leases —

All major leases of the company were entered into prior to January 1, 1979 and are reflected in the accompanying financial statements as operating leases. Generally accepted accounting principles require certain types of leases entered into on or after January 1, 1979 to be accounted for as capital leases, reflecting both a leasehold asset and a related lease obligation. While this requirement does not apply to the company's existing leases, supplementary disclosure is given (see note 11) as to how the only existing lease agreement of a capital nature would have been reflected had it been recorded as a capital lease.

2. Change of year end

During 1979, the Board of Directors approved a change of year end from September 30 to December 31. As a result, the accompanying financial statements cover the 15 month period ended December 31, 1979 and also set out the results of operations for the 12 month period ended December 31, 1979.

3. Receivables

The provision for anticipated book returns deducted from receivables at December 31, 1979 amounted to \$18,671,000 (September 30, 1978-\$9,197,000).

4. Investments and other non-current assets

As at the balance sheet date, investments consisted of (in thousands of dollars):

	December 31 1979	September 30 1978
9.25% first mortgage sinking fund bonds due December 31, 2000 (a)	\$ 10,486	\$ 10,835
8.54% second mortgage receivable maturing July 25, 2001 (a)	4,201	4,345
Shares of Western Broadcasting Ltd., at cost (b)	13,427	13,427
Other non-current assets	3,618	2,386
	<u>\$ 31,732</u>	<u>\$ 30,993</u>

(a) The first mortgage sinking fund bonds and the second mortgage are held on The Toronto Star building at One Yonge Street. In addition to interest, the first mortgage sinking fund bonds are entitled to share in profits of the building operation.

(b) The investment in Western Broadcasting Company Ltd. is represented by 1,223,520 shares or approximately 33% of Western's outstanding common shares.

5. Non-current debt

As at the balance sheet date, non-current debt consisted of (in thousands of dollars):

	December 31 1979	September 30 1978
Bank loans due 1983-87 with interest at prime + 1/2%	\$ 27,000	\$ 20,000
Other debt due 1981-87	2,967	3,196
	<u>\$ 29,967</u>	<u>\$ 23,196</u>

Non-current debt repayment requirements amount to \$1,712,000 in 1981, \$601,000 in 1982, \$5,106,000 in 1983, \$6,106,000 in 1984, \$6,232,000 in 1985, \$7,210,000 in 1986 and \$3,000,000 in 1987.

6. Share capital

(a) Authorized, issued and outstanding shares —

At December 31, 1979, shares authorized, issued and outstanding, all without par value, were as follows:

	Authorized	Issued and outstanding
Class A	14,356,596	1,751,993
Class B		6,398,145
Class C	92,098,340	
Common	1,890,560	
		<u>8,150,138</u>

As a result of the termination of the "tax deferred" dividend system under the Income Tax Act, it became unnecessary to have two classes of each of voting and non-voting shares.

Accordingly, during the period, the shareholders passed a special resolution:

- i) reclassifying the former interconvertible non-voting Class B and Class C shares into Class B shares,
- ii) reclassifying the former interconvertible voting Class D and Class E shares into Class A shares,
- iii) creating non-voting Class C shares redeemable within 15 days of their date of issue, and
- iv) permitting the directors the right to accord to shareholders the right to elect to receive, in lieu of cash dividends, stock dividends in the form of Class B or Class C shares.

(b) Voting and conversion rights — Class A shareholders and common shareholders are entitled to one vote per share held. Class B shares are non-voting, unless the equivalent of eight consecutive quarterly dividends have not been paid. Class C shares are non-voting.

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

(c) Restrictions on transfer — The registration of a transfer of 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) Dividend entitlements — After payment to the holders of Class A shares of dividends equal to the non-cumulative preferential dividend (7.5c per share) paid to the holders of Class B shares in any year, all shareholders other than the holders of Class C shares of the company rank equally respecting the payment of any further dividends. The holders of Class C shares are not entitled to receive dividends.

Dividends may be received in cash or shareholders may elect to receive stock dividends in the form of Class B or Class C shares. Dividends paid in the form of Class C shares are redeemed immediately for cash. It is the company's practice to purchase for cancellation on the open market the number of Class B shares equivalent to the Class B shares issued as stock dividends. Accordingly, dividends paid in the form of Class B shares are not reflected as an increase in share capital. To the extent that the equivalent number of shares has not been re-purchased at the period end, full provision for the re-purchase is made in the accounts of the company.

During the period, the company issued 68,922 Class B shares as stock dividends for a value of \$1,371,000. To December 31, 1979, 43,404 of these shares had been re-purchased for cancellation at an average price of \$19.66 per share for a total consideration of \$853,000. Subsequent to the period end the company re-purchased for cancellation, 25,518 shares for a total consideration of \$585,000.

(e) Employees' share purchase plan —

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) 95% of the market price on the entry date, or
- (ii) the market price at the end of the payment period.

As at December 31, 1979 employees had subscribed for 62,890 shares at a price of \$16.625 per share. The plan matures in March 1981.

(f) During the period, the company issued 5,625 shares having a value of approximately \$105,000 to employees in recognition of long service. In addition, 605 employee share subscriptions from previous years were issued for a value of approximately \$7,000.

7. Other income

Other income for the 15 month and 12 month periods ended December 31, 1979 and the 12 month period ended September 30, 1978, consisted of the following (in thousands of dollars):

	15 months ended December 31 1979	12 months ended December 31 1979	12 months ended September 30 1978
Investment revenue	\$ 6,810	\$ 5,183	\$ 4,098
Interest expense — non-current debt	(4,340)	(3,689)	(2,423)
— other	(1,229)	(878)	(798)
Net investment income	1,241	616	877
Exchange adjustment	(26)	(215)	600
Other income	\$ 1,215	\$ 401	\$ 1,477

8. Acquisitions

(a) During 1979 Harlequin Enterprises Limited acquired, for \$1,976,000 interests ranging from 49.5% to 60% in three magazine publishing operations. In addition, Harlequin increased its interest in The Laufer Company to 82% at a cost of \$706,000. These acquisitions have been accounted for as purchases and may be summarized as follows (in thousands of dollars):

Goodwill, being the excess of the cost of investment over fair value of net assets acquired	\$3,044
Reduction of minority interest	195
	\$3,239
Less excess of current liabilities assumed over current assets acquired	557

Purchase price \$2,682

(b) Harlequin has agreed to purchase a further 17% of The Laufer Company (200,000 shares) from certain senior officers on the basis of 50,000 shares per year during each of the next four years. The purchase price will vary with the earnings of The Laufer Company, with a minimum commitment currently of approximately \$1,607,000.

9. Additional investment in shares of Harlequin Enterprises Limited

In connection with the acquisition in fiscal 1976 of a controlling interest in the outstanding shares of Harlequin Enterprises Limited, the company entered into agreements with certain senior officers of Harlequin pursuant to which the company obtained the option to buy from such officers, and the officers were granted the option to sell to the company, further common shares of Harlequin.

During the 1979 fiscal period, the company exercised an option to purchase 482,478 common shares at a price of approximately \$12.99 per share for a total purchase cost of \$6,268,000. This purchase was accounted for as a reduction of minority interest of \$1,433,000 and an increase of goodwill of \$4,835,000. As a result of these purchases the company's interest in Harlequin has been increased to 9,290,205 shares or 58.3% of Harlequin's outstanding common shares.

The agreements provide that the remaining options may be exercised by either party during the periods from March 31 to June 30 in the years 1980 and 1981 as follows:

(a) 1980 — 589,696 shares for approximately \$10,000,000

(b) 1981 — 696,914 shares at the greater of:

(i) \$2.94 per common share, or

(ii) 10 times the fully diluted earnings per Harlequin common share before extraordinary items if such earnings are equal to or less than 50¢ per share, or 1½ times the fully diluted earnings per Harlequin common share before extraordinary items if such earnings exceed 50¢ per share.

The earnings referred to above are defined as the earnings reflected in the consolidated income statement of Harlequin Enterprises Limited for the year ended December 31 immediately preceding each option period. The options outstanding for 1980 and 1981 represent 3.7% and 4.4% respectively of the total Harlequin shares outstanding.

10. Pension plans

The unamortized past service costs for pension benefits in effect at December 31, 1979 approximate \$3,920,000.

11. Lease obligations

The company is obligated under a lease to the year 2001 for a portion of The Toronto Star building at One Yonge Street for an annual rental cost of \$1.7 million plus municipal taxes, maintenance and other operating costs relating to the leased portion.

The company could be liable under certain contingencies to lease the whole building to 2001 with an additional rental commitment of approximately \$1.1 million plus payment of related municipal taxes, maintenance and other operating costs.

Other long-term lease obligations are not material.

Had the lease on The Toronto Star building been recorded in the financial statements as a capital lease, the following adjustments to the figures reported on the accompanying financial statements would have been required (in thousands of dollars):

Balance Sheet Adjustments

December 31, 1979

Assets

Capital lease	\$17,337
Less accumulated depreciation	3,860
Total Assets	<u>\$13,477</u>

Liabilities and Shareholders' Equity

Working capital reduction	\$ 1,432
Long term lease obligation	14,294
Deferred tax	(1,075)
Retained earnings	<u>(1,174)</u>
Total Liabilities and Shareholders' Equity	<u>\$13,477</u>

Note: Had the above adjustments been made, net income for the fifteen months ended December 31, 1979 would have declined \$129,000.

12. Material commitments

Harlequin Enterprises has entered into U.S. dollar foreign exchange contracts (at an average rate of \$1.18 Cdn.) covering anticipated net cash flow from U.S. operations for the upcoming year.

13. Other contingencies

(a) In 1975, the company commenced, and is proceeding with, an action for damages incurred from the failure of six printing presses provided by Crabtree-Vickers (Canada) to perform in accordance with the specifications pursuant to which they were sold.

(b) A number of legal actions against the company and its subsidiaries are outstanding, the ultimate disposition of which is not expected to materially affect the consolidated financial position of the company.

14. Statutory information

The aggregate remuneration charged to consolidated income during the 15 months ended December 31, 1979 in respect of directors and senior officers (as defined by The Ontario Business Corporations Act) was \$1,631,000.

15. Comparative information

Certain of the 1978 figures provided for purposes of comparison have been reclassified to conform to the presentation adopted in the current period.

Torstar Eight-year Operating Highlights

	12 months to September 30							1979	1979
	1972	1973	1974	1975	1976	1977	1978	(12 months to Dec. 31)	(15 months to Dec. 31)
Operating Revenue (thousands of dollars)									
Newspapers	\$ 77,911	\$ 91,257	\$104,388	\$116,267	\$130,195	\$133,727	\$144,135	\$162,583	\$200,621
Harlequin Enterprises Limited					47,811	70,647	114,610	185,432	221,350
Printing and other	4,420	8,263	16,158	19,090	22,468	24,506	28,681	34,534	43,894
	82,331	99,520	120,546	135,357	200,474	228,880	287,426	382,549	465,865
Less intercompany printing revenue	2,907	4,739	5,790	6,051	7,473	8,029	9,955	11,449	14,475
Consolidated operating revenue	\$ 79,424	\$ 94,781	\$114,756	\$129,306	\$193,001	\$220,851	\$277,471	\$371,100	\$451,390
Operating profit and net income (thousands of dollars)									
Newspapers	\$ 10,224	\$ 13,927	\$ 16,873	\$ 16,969	\$ 18,208	\$ 11,351	\$ 9,555	\$ 10,684	\$ 14,066
Harlequin Enterprises Limited					7,747	18,501	30,078	38,696	47,151
Printing and other	342	438	408	945	1,654	1,954	729	2,616	3,741
Consolidated operating profit	10,566	14,365	17,281	17,914	27,609	31,806	40,362	51,996	64,958
Add (deduct) other income (expense)	(1,265)	(367)	(546)	248	(1,037)	266	1,477	401	1,215
Income before taxes	9,301	13,998	16,735	18,162	26,572	32,072	41,839	52,397	66,173
Income taxes*	4,655	6,698	7,966	8,403	12,459	15,224	20,549	24,771	30,395
Income before minority interest	4,646	7,300	8,769	9,759	14,113	16,848	21,290	27,626	35,778
Minority interest in earnings of subsidiaries					2,109	4,769	7,531	8,800	11,288
Income before extraordinary items*	\$ 4,646	\$ 7,300	\$ 8,769	\$ 9,759	\$ 12,004	\$ 12,079	\$ 13,759	\$ 18,826	\$ 24,490
Per share data (adjusted for 3 for 1 stock split in 1973)									
Income before extraordinary items*	64c	99c	\$1.18	\$1.31	\$1.49	\$1.49	\$1.69	\$2.31	
Dividends	10c	15c	20c	26c	29c	32c	38c	60c	
Rate of return on revenue									
Consolidated operating profit	13.3%	15.2%	15.1%	13.9%	14.3%	14.4%	14.5%	14.0%	
Income before minority interest and extraordinary items*	5.8%	7.7%	7.6%	7.5%	7.3%	7.6%	7.7%	7.4%	
Return on equity									
Net income as a percent of average shareholders' equity	17.4%	22.7%	23.5%	22.7%	21.3%	17.1%	16.9%	19.1%	
*adjusted for 1978 recovery of taxes related to 1973-1977									

Supplementary Information

The consolidating schedules set out opposite this page provide condensed balance sheet, earnings and flow of funds information for Torstar Corporation and its closely controlled subsidiaries and, separately, for Harlequin Enterprises Limited.

This information is meant to supplement that supplied by the consolidated financial statements. The additional and separate disclosure is provided because of the significance of the Harlequin assets, liabilities and operations in the overall consolidated picture, and the substantial minority holdings of Harlequin shares.

Torstar Corporation Supplementary Consolidating Information (thousands of dollars)

12 month period ended December 31, 1979 (with comparative figures for the 12 month period ended September 30, 1978)

	Torstar Corporation (note)		Harlequin Enterprises Limited		Consolidating Adjustments		Total Consolidated	
	December 31 1979	September 30 1978	December 31 1979	September 30 1978	December 31 1979	September 30 1978	December 31 1979	September 30 1978
BALANCE SHEET								
Assets								
Current assets	\$ 39,108	\$ 29,974	\$ 93,417	\$ 53,928	\$	\$	\$132,525	\$ 83,902
Investments and other non-current assets	31,732	30,993					31,732	30,993
Investment in Harlequin Enterprises Limited	63,226	46,911			(63,226)	(46,911)		
Fixed assets (net)	31,292	25,213	3,797	2,197			35,089	27,410
Subscription list and goodwill	7,250	7,667	16,863	14,193	26,266	22,398	50,379	44,258
Total assets	\$172,608	\$140,758	\$114,077	\$ 70,318	\$(36,960)	\$(24,513)	\$249,725	\$186,563
Liabilities and shareholders' equity								
Current liabilities	\$ 33,949	\$ 27,615	\$ 50,055	\$ 25,146	\$	\$	\$ 84,004	\$ 52,761
Non-current debt	27,285	20,271	2,682	2,925			29,967	23,196
Deferred income taxes	4,743	5,353					4,743	5,353
Minority interest in subsidiaries	100	200	698	983	23,682	16,751	24,480	17,934
Employees' shares subscribed	1,047						1,047	
Shareholders' equity	105,484	87,319	60,642	41,264	(60,642)	(41,264)	105,484	87,319
Total liabilities and shareholders' equity	\$172,608	\$140,758	\$114,077	\$ 70,318	\$(36,960)	\$(24,513)	\$249,725	\$186,563
INCOME BEFORE MINORITY INTEREST								
Operating revenue	\$185,669	\$162,861	\$185,431	\$114,610	\$	\$	\$371,100	\$277,471
Operating costs	172,495	152,577	145,858	83,833	751	699	319,104	237,109
Operating profit	13,174	10,284	39,573	30,777	(751)	(699)	51,996	40,362
Income before taxes	11,813	10,020	41,335	32,518	(751)	(699)	52,397	41,839
Income taxes	4,718	4,055	20,053	16,494			24,771	20,549
Income before minority interest	\$ 7,095	\$ 5,965	\$ 21,282	\$ 16,024	\$ (751)	\$ (699)	\$ 27,626	\$ 21,290
CHANGES IN FINANCIAL POSITION								
Source of funds:								
Funds from operations	\$ 13,094	\$ 10,127	\$ 22,071	\$ 16,671	\$ (3,513)	\$ (784)	\$ 31,652	\$ 26,014
Increase (decrease) in long term debt	7,017	997	(698)	754			6,319	1,751
Employee share subscriptions	1,047						1,047	
Total source of funds	21,158	11,124	21,373	17,425	(3,513)	(784)	39,018	27,765
Application of funds:								
Additional investment in Harlequin Enterprises Limited	6,268	4,356					6,268	4,356
Acquisition of other subsidiary and affiliated companies			3,239	7,357			3,239	7,357
Fixed assets	8,843	2,931	2,094	1,022			10,937	3,953
Dividends to shareholders	4,890	3,095	3,513	784	(3,513)	(784)	4,890	3,095
Dividends paid by subsidiary to minority shareholders			2,538	688			2,538	688
Other application of funds	(159)	(326)	(219)	(230)			(378)	(556)
Increase in working capital	1,316	1,068	10,208	7,804			11,524	8,872
Total application of funds	\$ 21,158	\$ 11,124	\$ 21,373	\$ 17,425	\$ (3,513)	\$ (784)	\$ 39,018	\$ 27,765

Note: Includes Torstar Corporation and all subsidiary companies except Harlequin Enterprises Limited

**Torstar
Operating
Companies
and
Management**

TORSTAR CORPORATION	TORONTO STAR NEWSPAPERS LIMITED	HARLEQUIN ENTERPRISES LIMITED (58.3%)
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