Torstar Corporation
1983 Annual Report

TORSTAR

Toronto Star
Harlequin
Metroland
Miles Kimball

TORSTAR

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 marketers of gifts and business supplies; and Torstar Books and Marshall Editions, which produce high quality non-fiction books for the consumer.

Contents

Transfer Agent and Registrar

National Trust Company, Limited

Listed

Class B Shares
$2.68 First Preference Shares 1981 Series
Warrants
Toronto and Montreal Stock Exchanges

Annual Meeting

The 1984 Annual Meeting of Shareholders will be held at 10:00 a.m., Wednesday, April 25th 1984, at One Yonge Street, Toronto.

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

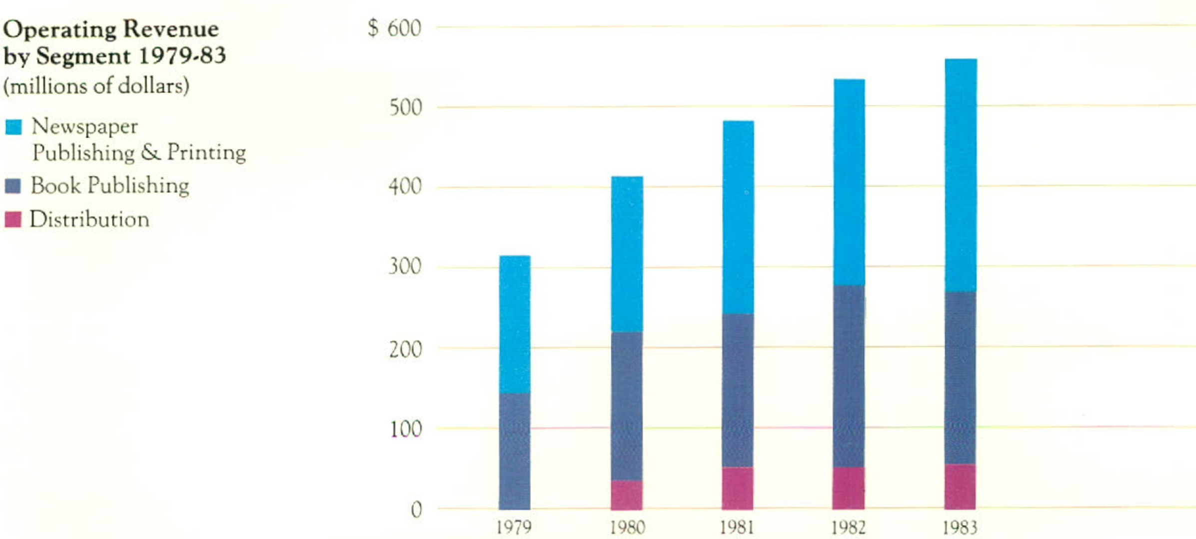
Financial Highlights

	1983	1982
Continuing operations		
Operating revenue	$562,520,000	$536,287,000
Operating profit	47,674,000	47,102,000
Interest and exchange (expense)	(27,465,000)	(38,393,000)
Income from continuing operations – after tax	11,609,000	2,709,000
– Per A and B share*	80¢	9¢
Discontinued operations (net loss)	(2,192,000)	(2,615,000)
Income before extraordinary items	9,417,000	94,000
– Per A and B share (loss)*	62¢	(13¢)
Extraordinary (loss) gain	(4,080,000)	3,316,000
Net income for the year	5,337,000	3,410,000
– Per A and B share*	30¢	14¢
Shareholders' equity	$132,841,000	$132,283,000
– Per A and B share**	$9.27	$9.34

*After deducting preference dividends.

**After deducting preference shares from equity.

Operating Revenue by Segment 1979-83
(millions of dollars)



Report to Shareholders

Overview

The skills and expertise of Torstar lie in newspaper and book publishing, printing, and direct mail distribution of gifts, books and other products. The company operates on a worldwide basis with approximately half of revenues generated outside Canada.

Our medium-term strategy is to extend these businesses, primarily through internal diversification.

In 1983 we continued our policy of emphasizing debt reduction and improving productivity. At the same time we developed new products and services to maintain the leadership of our companies in their markets.

Financial Results

Consolidated revenues increased to $563 million in 1983 from $536 million in 1982. Income from continuing operations was $11.6 million, compared with $2.7 million in the previous year. After payment of preference dividends, earnings per share from continuing operations increased to 80 cents per Class A and B share from 9 cents in 1982.

Consolidated operating profits increased marginally. Newspaper and printing earnings exceeded pre-recession levels but there was a major decline in book publishing and somewhat lower results in direct mail gift distribution.

Interest expense was greatly reduced, largely as a result of lower rates.

After reflecting losses on discontinued operations, income before extraordinary items rose to $9.4 million from a marginal profit in 1982.

Net loss from extraordinary items was $4.1 million, compared with a gain of $3.3 million in 1982. Final net income for the year was $5.3 million or 30 cents per share, up from $3.4 million or 14 cents per share in 1982.

Financial Condition

Long term debt was reduced in 1983 by $25 million to $198 million. Funds for repayment were realized from increased profits and from the sale of investments and of Ideals Publishing Company.

Cash provided by operations is substantial, and we do not foresee abnormal requirements for capital expenditure. Cash flow will benefit in 1984 and 1985 from tax credits available in Canada and the U.S. Consequently, we expect to continue to reduce debt steadily.

Newspaper Publishing and Printing

Our interests include The Toronto Star, Canada's largest daily newspaper, and the Metroland printing plants and community newspapers in suburban areas surrounding Toronto; together, they serve a market representing some 16 per cent of Canada's economy. The Star and Metroland made record earnings in 1983, both benefitting from lower newsprint prices and a recovery of advertising linage as economic conditions improved in the last half of the year.

The Toronto Star increased its weekday and Saturday and Sunday circulation while advertising linage increased by 4 per cent, reaching an all-time high in 1983.

Major new developments in the year included launches of morning home delivery in the Toronto area and the expansion of Business Today, The Star's business section. Additional editorial improvements were made in January, 1984 with the introduction of an enlarged Saturday edition, including the

Expanded coverage of business news, including unique presentation of stock market listings, has contributed to circulation growth of The Star, especially in the morning.

new Saturday Magazine section. Circulation of The Saturday Star averaged an all-time high of 807,736 in 1983.

Metroland newspapers enjoyed 7.6 per cent higher advertising linage in 1983 and profits increased from both newspaper and printing operations.

Book Publishing

Operating profit from Harlequin book publishing, before goodwill amortization and prior year adjustments, was about $14 million. Earnings in 1982, adjusted for the same items, were about $27 million.

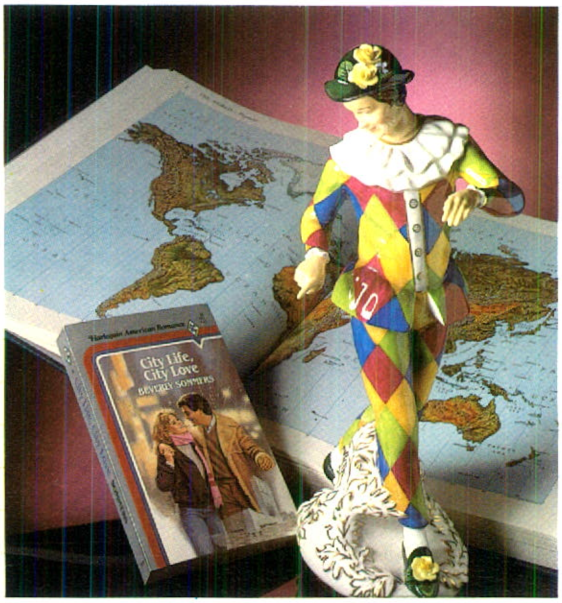
The substantial decline in Harlequin's earnings resulted from a proliferation of competitive romance fiction titles at a time when the market was shrinking. While overseas markets continued to make progress, competition in North America eroded earnings of the highly profitable direct mail business and made the retail business only marginally profitable.

Harlequin maintained its market leadership by developing new romance series. It increased the breadth of its product line by launching American Romances in the spring of 1983 and another major new series, Harlequin Temptation, in early 1984. After introduction in North America, these new series are available for worldwide publication through Harlequin's network of overseas operating companies.

Harlequin moved to cut overhead and sales expenses substantially in 1983. The company also led the industry in a program to implement a more efficient distribution system, designed to reduce the high level of retail book returns in North America.

Distribution

Miles Kimball's sales of gifts were slightly depressed by a substantial increase in direct mail catalogue offers. Although these mailings were not directly



The successful introduction of the American Romance series during 1983 added to Harlequin's leadership in a global marketplace.

competitive, they reduced the effectiveness of Miles Kimball's mailing activity to prospective new customers. Gift orders by established customers have not yet returned to pre-recession levels, contributing to a modest decline in 1983 operating profits.

Discontinued Operations and Extraordinary Items

In 1983, the company disposed of certain assets and operations considered non-essential to meet strategic objectives. Ideals Publishing Company was sold, as was a $10 million mortgage bond held on The Star building. In addition, a number of problems were encountered by Harlequin in its Arabic operations and it was decided to phase down operations in the Middle East.

A loss of $2.2 million was incurred in 1983 on discontinued operations and an extraordinary loss of $4.1 million resulted from their disposal.

1984 Outlook

The lower debt level and stable interest rates should allow earnings per share to increase in 1984. All our operations have potential for increased earnings if economic conditions continue to improve.

Human Resources

We thank the employees throughout all of our businesses for their responsible contribution during a difficult year when cost reductions were essential.

On behalf of the Board

Beland Honderich, Chairman

E. Paul Zimmerman, President

March 28, 1984

The Toronto Star

The Toronto Star, Canada's largest newspaper, achieved highly satisfactory circulation and advertising sales during 1983 as newspaper competition intensified. The overall sales performance, coupled with reduced operating costs and lower newsprint costs, led to record profits in the year.

On the 363 publishing days in 1983, almost 200 million copies of The Star were purchased and read by an average of 2.25 adults per copy. This exceptional readership market penetration was the highest in the paper's 91-year history.

Circulation

Circulation continued to rise in 1983. Average sales of The Saturday Star were 807,736, an all-time record and almost 9,000 copies ahead of 1982. Sales of the Monday-to-Friday Star averaged 500,373 per day, up more than 10,000 copies from 1982. This was the first time that weekday circulation had exceeded the half-million level since 1974. Sales of The Sunday Star, launched just six years ago, averaged 488,311 in 1983, up more than 25,000 from a year earlier.

The Star's weekday home delivery was extended in October, 1983 to include a morning edition in the greater Toronto area as an option in addition to afternoon delivery. By year end, more than 20,000 subscribers were taking 7-day morning delivery.

More than 20,000 subscribers in the greater Toronto area have ordered morning home delivery of The Star, on their doorsteps daily by 7 o'clock.

Advertising Linage

The latter part of 1983 recorded a milestone in The Star's advertising linage performance. The 5,990,000 lines of advertising in November were the most in any month in the paper's history. That achievement, coupled with strong demand throughout the year, established 1983 as a record year for linage. The total of 60,540,000 lines was above the previous high set in 1981.

The major growth areas in linage were inserts, classified other than help wanted and properties, and retail advertising, other than department stores. Help Wanted trends turned favourable in the last half of the year, but the volume of this important advertising category remains well below pre-recession levels.

In 1983, printing capacity limited the size of the Saturday edition. Early in 1984 an extra print run was started for the Saturday Star enlarging the paper to nine sections. This makes additional editorial and advertising space available as well as enhanced colour capacity. A new Saturday magazine section and a separate Business Today section resulted from these changes.

Editorial Developments

Editorial improvements played a major role in 1983's performance. The Star's Business Today section was expanded and is now published six days a week. This business section is proving increasingly attractive to advertisers, particularly for careers advertisements.

Music critic Peter Goddard and columnist Joey Slinger won prestigious National Newspaper Awards. Other award winners were financial writer Diane Francis, reporters Marilyn Dunlop, Val Sears and Al Sokol, reporter-photographer Jim Wilkes and photographers Dick Darrell, Jeff Goode and Jim Russell. As well, art directors Keith Branscombe and Jim Harrison accepted, on behalf of The Star's art staff, 14 awards in the 1983 worldwide competition of the Society of Newspaper Design.

The expanding Saturday Star is now nine sections, including the new Saturday Magazine and a free-standing section for Business Today.

Labour Relations

Late in October, 1983, The Star and the Southern Ontario Newspaper Guild reached agreement on a new two-year contract. This contract, which expires on July 31, 1985, followed a four-day strike by the union during which, however, publication of the paper was not interrupted.

Community Affairs

The Star continued in 1983 to play a leading role in community activities. The Star Indoor Games and the Great Salmon Hunt remained popular attractions and plans were finalized for a major participation in activities marking Toronto's sesquicentennial in 1984. These include dedication of The Martin Goodman Trail, a waterfront recreational facility honoring The Star's late President.

Contributions to The Star Fresh Air Fund and Santa Claus Fund, which provide summer camp holidays and Christmas gifts to underprivileged children, reached a record $653,000 in 1983. The Star pays all administrative costs and all reader donations flow directly to the beneficiaries.

1984 Prospects

Results in 1983 were aided materially by lower newsprint prices, a condition not expected to continue in 1984. We expect another satisfactory year but earnings growth will depend on whether or not the economic recovery of 1983 continues. Advertising volume early in 1984 has been encouraging.

Metroland

Each week, Metroland community newspapers provide local news and advertising information to more than 1.5 million readers in 20 suburban communities in and around Metropolitan Toronto. Four production plants provide a complete publishing, printing and distribution service.

Newspapers

The 20 community newspapers are distributed mid-week to over 480,000 households, and weekend editions in three of the communities have a further 122,000 distribution.

An overall 7.6 per cent gain in advertising linage was recorded in 1983. The growth was in retail, while classified and real estate declined slightly.

The Metroland papers continued in 1983 their long tradition of winning community newspaper awards for editorial content and graphics.

Distribution

Metroland's distribution capabilities are a strength for the future. The company has provided independent verification to advertisers of the distribution of newpapers and advertising material by carriers.

Metroland has continued to offer innovative vehicles to extend the reach of advertiser messages beyond the pages of the newspapers. These include extensive printing and distribution of advertising inserts and flyers; distribution of advertising material on other than publishing days; extension of the TODAY section of certain newspapers to reach an additional 65,000 households on a weekly basis; publication of magazine-type tabloids in Oshawa, Burlington and Mississauga; and a business paper oriented to local businessmen, published in several communities.

Printing

Metroland's printing plants produce the community newspapers and special publications as well as the television listings of StarWeek Magazine for The Toronto Star. The plants compete aggressively with several commercial printers for advertising inserts and flyers.

Outlook

Metroland's profit tripled in 1983. This result was attained because of an efficient service operation, competitively priced, aggressively marketed and aided by a significant newsprint cost reduction.

While commercial printing competition continues at an intense level, 1984 began on a strong note. Earnings growth for the full year will depend on sustained economic recovery. The longer-term outlook for Metroland is encouraging.

Metroland's mid-week and weekend newspapers have total distribution of more than 600,000 copies to households in Metropolitan Toronto and surrounding communities each week.

Harlequin Enterprises sold more than 200 million books during 1983 and maintained its position as the largest publisher of romance fiction in every major market. The company operates the largest book club in the industry and is unique in having operating companies in 12 overseas countries.

Retail earnings in North America were reduced as a result of intensive competition for reader attention. The increased number of titles published by all industry participants resulted in high book returns. This condition was intensified by a drop in romance paperback series unit volume of some 15 per cent in 1983, following a growth of almost 50 per cent in the previous two-year period.

While direct mail sales units remained static, costs of attracting new book club members increased. In addition, among new members, there was deterioration in terms of bad debts, product returns and member retention rates. Thus, direct mail earnings in North America declined substantially.

Overseas earnings were at record levels in 1983, despite increasing competition and start-up costs of direct mail operations. Particularly good results were reported in Germany, Italy, Japan and Scandinavia. Arabic-language operations are being written down largely because of unsettled conditions in the Middle East.

Positive action has been taken to strengthen the company's future progress:

Product Line Development

New romance fiction series are being launched to maintain Harlequin as the industry leader in all key reader taste segments. The American Romance series, released in North America in March, 1983, is already profitable and appears to have established a solid reader base. Subsequent launches in Sweden, France and Australia, and planned releases in other overseas markets, should further underpin the growth of Harlequin's international operations.

Harlequin expanded its bestseller program in 1983. Individual titles included Anne Mather's Wild Concerto, which made the New York Times Bestseller list.

A new contemporary series of North American style romances – Harlequin Temptation – was introduced in March, 1984. Other opportunities for product diversification on a worldwide basis are being researched in advance of release to ensure they will complement Harlequin's unique international publishing growth.

Editorial Development

The editorial centres in New York and Toronto were strengthened in 1983. This enabled Harlequin to expand its base of leading U.S. romance authors to complement the traditional editorial strength in London, England. A key factor in the continued and long-term success of Harlequin will be in using the best authors on both sides of the Atlantic.

Operating Efficiency

Programs to control book returns have been instituted in all key markets to reduce the cost of sales. In North America, Harlequin has led the industry in working with distributors to analyze sales patterns and allocate shipments to points of sale on a more efficient basis. A major reduction in gross shipments was made in the second half of 1983 to lower returns. Although net sales were reduced somewhat by this change, offsetting cost savings should increase earnings in future years.

Overhead expenses at all operating levels were under constant review in the year. In North America, a restructuring of the company's retail sales force will reduce 1984 costs by about $5 million.

Outlook

The pressure on profits throughout the North American publishing industry, particularly in series romance fiction, has resulted in some lines being cancelled. It is too early to forecast when satisfactory profits for the industry will be restored. Accordingly, we are not assuming a substantial recovery in book publishing profits in 1984. Harlequin's strategy is to stress operating efficiency while maintaining leadership in editorial quality, marketing and distribution – the key market disciplines of series romance fiction publishing.

Harlequin remains the largest publisher of romance fiction in major markets around the world, selling more than 200 million books during 1983.

Miles Kimball

Miles Kimball, located in Oshkosh, Wisconsin, sells gifts, Christmas cards and home products by direct mail throughout the United States. The company is renowned for its high level of service, with more than 93 per cent of all orders completed and shipped back to the customer within 48 hours of receipt. Miles Kimball is the leading direct mail company in its segment of the U.S. market.

Gift Catalogues

Miles Kimball catalogues are mailed to several million established customers, in addition to prospect catalogues mailed to obtain new customers. While mailings are made throughout the year, Miles Kimball's gift business is quite seasonal and profits arise mainly in the last quarter of the year.

Sales by direct mail have been increasingly recognized for their growth potential, primarily because of their convenience for the customer. The number of catalogue mailings from a multitude of suppliers has dramatically increased. While the vast majority of these catalogues do not offer competitive merchandise, they cause confusion among prospective Miles Kimball consumers and this condition was prevalent in 1983.

Although Miles Kimball increased its prospect catalogue mailing in 1983, the additional cost was not recovered. In addition, established customers have not yet returned to a pre-recession level of spending.

The Business Book

The Business Book is a mail order catalogue of office supply products for small businesses. The venture was launched in mid-1982 to increase the utilization of the company's customer service, printing and production facilities, with particular emphasis on the January through August period.

The operating objectives established for this project are being met and the customer list is building steadily. Repeat orders are increasing in size, allowing margins to be improved and overheads absorbed. This new business venture should break even by the end of 1984 and make a profit contribution in 1985.

Miles Kimball enjoyed continued growth of The Business Book, a mail order catalogue of office supplies for small businesses.

Corporate Development

In addition to internal development of products and services by Torstar's operating companies, corporate development continues in two areas:

Through a new subsidiary, Torstar Books, the corporation is developing a series of non-fiction books for sale to North American consumers by direct mail. Consumer research and a number of market tests were carried out in 1983 to determine the future potential of various non-fiction book projects. The development of two market tested series book projects is well under way and sales will start in 1984. Continued research and development of additional non-fiction book products will be carried out in 1984.

Marshall Editions, established for several years as a book packaging firm developing books on contract for other publishers worldwide, continues to produce high quality special interest books. Particularly successful in the year were an Illustrated Animal Encyclopedia and a Personal Computer Handbook.

Torstar continued its development in videotex electronic publishing through Infomart in co-operation with Southam Inc. Increased start-up costs were incurred in 1983 in Toronto, Winnipeg and Ottawa.

Following the year end, Southam and Torstar agreed to revise their Infomart partnership arrangements. Torstar will reduce its financial participation and concentrate on developing videotex services for the Toronto market using Infomart's technology. Southam will assume the majority financial interest in Infomart and full management responsibility.

Infomart's public Teleguide terminals provide dining, entertainment, shopping and other useful information to visitors to, and residents of, the greater Toronto area.

Torstar Corporation.
(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

December 31, 1983 (with comparative figures at December 31, 1982 (note 1))

Assets	**1983**	1982
		(thousands of dollars)
Current:		
Cash and short term investments	$ 12,656	$ 11,345
Receivables (note 2)	71,698	71,027
Inventories	20,006	20,845
Prepaid expenses	22,597	23,244
Prepaid and recoverable income taxes (note 3)	11,655	10,094
Total current assets	138,612	136,555
Income taxes recoverable (note 3)	26,747	25,951
Investments and other non-current assets	5,880	27,094
Fixed assets at cost:		
Land	4,608	4,660
Buildings and leasehold interests	22,097	20,296
Machinery and equipment	72,674	69,392
	99,379	94,348
Less accumulated depreciation	(45,929)	(39,376)
Net fixed assets	53,450	54,972
Mailing lists at amortized cost	11,859	13,683
Subscription list at amortized cost	5,917	6,250
Goodwill at amortized cost	203,464	209,040
Total assets	$445,929	$473,545

(See accompanying notes)

On behalf of the Board

Director

Director

Liabilities and Shareholders' Equity	1983	1982
		(thousands of dollars)
Current:		
Bank indebtedness and notes payable	**$ 33,818**	$ 33,236
Accounts payable and accrued liabilities	**62,696**	58,870
Income taxes payable	**9,424**	15,543
Current portion of long-term debt	**194**	3,921
Total current liabilities	**106,132**	111,570
Long-term debt (note 4)	**197,638**	222,948
Deferred income taxes	**6,482**	4,044
Employees' shares subscribed (note 5)	**2,836**	2,700
Shareholders' equity:		
Share capital (note 5)		
First Preference Shares (non-voting)	**16,244**	16,124
Class A (voting) shares and Class B (non-voting) shares	**17,627**	15,876
Contributed surplus	**3,114**	3,114
Retained earnings	**95,856**	97,169
Total shareholders' equity	**132,841**	132,283
Total liabilities and shareholders' equity	**$445,929**	$473,545

(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, 1983 and the consolidated statements of income, retained earnings and changes in financial position 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, 1983 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.

Clarkson Gordon

Chartered Accountants

March 21, 1984
Toronto, Ontario

Consolidated Statement of Income

Year ended December 31, 1983 (with comparative figures for 1982 (note 1))

	1983	1982
		(thousands of dollars)
Operating revenue	**$562,520**	$536,287
Operating profit		
Newspaper publishing and printing	39,999	17,382
Book publishing	5,472	25,823
Distribution	5,454	6,570
Corporate administration	(3,251)	(2,673)
Consolidated operating profit	47,674	47,102
Interest (net) (note 6)	(26,846)	(37,930)
Foreign exchange	(619)	(463)
Income before taxes	20,209	8,709
Income taxes (note 3)	8,600	6,000
Income from continuing operations	11,609	2,709
Net loss from discontinued operations (note 7)	(2,192)	(2,615)
Income before extraordinary items	9,417	94
Extraordinary (loss) gain (note 8)	(4,080)	3,316
Net income for the year	$ 5,337	$ 3,410
Earnings per Class A and Class B share after allowing for dividends on First Preference shares (note 9)		
From continuing operations	80¢	9¢
Before extraordinary items (loss)	62¢	(13¢)
Net income for the year	30¢	14¢

(See accompanying notes)

Consolidated Statement of Retained Earnings

Year ended December 31, 1983 (with comparative figures for 1982)

	1983	1982
		(thousands of dollars)
Retained earnings, beginning of year	$ 97,169	$102,593
Net income	5,337	3,410
	102,506	106,003
Dividends – First Preference Shares	1,638	1,654
– Class A and B shares	5,012	7,180
	6,650	8,834
Retained earnings, end of year	95,856	$ 97,169

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1983 (with comparative figures for 1982 (note 1))

	1983	1982
		(thousands of dollars)
Cash was provided by:		
Operations:		
Income from continuing operations	$ 11,609	$ 2,709
Items not affecting cash:		
Depreciation	8,186	7,942
Amortization	7,732	7,739
Non-current income taxes	1,642	(6,507)
Cash provided by operations	29,169	11,883
Employee share subscriptions	1,174	907
Proceeds from sale of discontinued operations	3,284	5,000
Proceeds from sale of investments	8,158	
Proceeds from sale of land		1,837
Other	1,887	1,748
Total cash provided	43,672	21,375
Cash was used for:		
Cash dividends	5,607	6,589
Fixed assets	6,664	6,240
Repurchase of stock dividends		1,093
Discontinued operations	1,635	6,418
Total cash applied	13,906	20,340
Decrease in net borrowings	29,766	1,035
Net borrowings, beginning of year	248,760	249,795
Net borrowings, end of year	$218,994	$248,760
Represented by:		
Bank indebtedness and notes payable net of cash and short-term investments	$ 21,162	$ 21,891
Long-term debt, including current portion	197,832	226,869
	$218,994	$248,760

(See accompanying notes)

Notes to Consolidated Financial Statements

December 31, 1983

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

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

(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) 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.

(f) Mailing lists

The direct mail marketing lists are amortized on a straight line basis over 10 years to 1990.

(g) Subscription list

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

(h) Goodwill

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

(i) 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.

(j) Income taxes

Provision is made for all taxes that it is estimated will be payable on the undistributed earnings of operations outside Canada to the extent that such earnings have not been reinvested in the subsidiaries' operations on a long-term basis.

(k) Comparative figures

The 1982 accounts have been restated to conform with the current basis of presentation and to exclude the individual assets, liabilities, revenues and expenses of discontinued operations.

The company's net investment in discontinued operations at December 31, 1982 and 1983 is included in investments and other non-current assets.

2. Receivables

The provisions for anticipated book returns deducted from receivables at December 31, 1983 amounted to $45 million (December 31, 1982 – $42 million).

3. Income Taxes

(a) Income taxes recoverable consist of benefits available due to losses carried forward and timing differences which are expected to reduce future income tax liabilities:

	1983	1982
	(thousands of dollars)	
Estimated U.S. tax reductions available through 1998	**$21,469**	$14,915
Estimated Canadian tax reductions available through 1990	**15,240**	18,961
Other taxes recoverable	**1,693**	2,169
	38,402	36,045
Less current portion	**11,655**	10,094
	$26,747	$25,951

In addition there are $3,459,000 in tax benefits not recognized at December 31, 1983, which may be available in future years.

(b) The provision for income taxes has been determined as follows:

Provision for income taxes recognizing the benefit of all losses	**$ 8,600**	$ 2,541
Tax benefits not recognized		3,459
	$ 8,600	$ 6,000

(c) Income taxes payable are due principally in jurisdictions outside North America.

4. Long-term Debt

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

December 31	1983	1982
	(thousands of dollars)	
Term loan agreement (a)	**$156,796**	$181,835
Bank loans (b)	**40,285**	40,285
Other debt	**557**	828
	$197,638	$222,948

(a) Term Loan Agreement: The company has a credit facility with two Canadian banks for up to $215,000,000. The facility will convert to a term loan on April 2, 1984 and is to be repaid in ten equal instalments commencing April 2, 1985.

Amounts borrowed under the facility 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. As of December 31, 1983 the loans under this term loan agreement included U.S. $69.5 million.

(b) Bank Loans: The company has borrowed $40,285,000 ($35 million U.S.) from a number of banks with interest rates based upon the prevailing London interbank rate. The loans are due 1986 to 1990.

(c) Interest rates: As of December 31, 1983 interest on long-term debt was payable as follows:

	(thousands of dollars)
At fixed rates:	
– 11⅞% until March 1986	$ 28,775
– 17% until August 1984	30,195
At floating rates (average 10.3% at December 31, 1983)	138,668
	$197,638

Subsequent to December 31, 1983, the interest rate on a further $20 million of the floating rate debt was fixed at 11% until March 1985.

(d) Minimum long-term debt repayment requirements in each year to 1988 are: 1984-$.2 million; 1985-$15.9 million; 1986-$24.4 million; 1987-$25.5 million; 1988-$25.3 million.

(e) If the long-term debt payable in foreign currencies were translated into Canadian dollars at the exchange rates in effect at the end of the year, long-term debt at December 31, 1983 would have increased by $4.7 million ($2.9 million in 1982). It is anticipated that these borrowings will be repaid out of earnings in the same currencies.

5. Share Capital

(a) The following is a summary of changes in the company's share capital during the year. There were no changes in the 1981 Series of First Preference shares.

	Authorized	Outstanding Shares	Amount (000's)
First preference shares, non-voting			
$2.68 – 1981 series			
Balance at beginning and end of year	1,673,400	578,555	$14,464
$1.00 – 1982 series			
Balance at beginning of year	139,800	66,400	1,660
Issued during year		9,800	245
Redeemed during year	(5,000)	(5,000)	(125)
Balance at end of year	134,800	71,200	1,780
Total First Preference Shares			$16,244

	Authorized	Outstanding Shares	Amount (000's)
Class A (voting) and Class B (non-voting) shares			
Balance at beginning of year	21,474,566		
Class A shares			
Balance at beginning of year		2,606,230	$ 2,833
Converted to Class B shares		(10,905)	(12)
Balance at end of year		2,595,325	2,821
Class B shares			
Balance at beginning of year		9,835,127	13,043
Converted from Class A shares		10,905	12
Issued as stock dividends		83,464	1,043
Issued under employees' share purchase plan		54,377	703
Other		441	5
Balance at end of year		9,984,314	14,806
Total Class A and B shares	21,474,566	12,579,639	$17,627
Class C (non-voting) shares			
Balance at beginning of year	66,770,843		
Issued during the year as stock dividends on Class A and B shares		7,622,305	$ 762
Redeemed for cash within 15 days of the dates of issue	(7,622,305)	(7,622,305)	(762)
Balance at end of year	59,148,538	Nil	Nil
Common shares (voting)	1,890,560	Nil	Nil

(b) The Ontario Business Corporations Act, 1982 which was proclaimed in force on July 29, 1983, deems all shares in corporations governed thereby to be without par value. The First Preference Shares originally had a par value of $25.00 each.

(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 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 "1982 series")**
Subject to certain employment conditions and achievement of earnings objectives, the 1982 series, which has been set aside for stock purchase loans to executives, may be eligible for conversion in 1985 and future years into approximately 162,000 Class B shares. The 1982 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) **Class A (voting) and Class B (non-voting) shares**
Class A shares are convertible at any time at the option of the holder into Class B shares. Shareholders may elect to receive dividends on Class A and Class B shares in cash or stock dividends in the form of Class B or Class C shares.
Class B shares are non-voting unless eight consecutive quarterly dividends have not been paid. In that event, and until the company has paid eight consecutive quarterly dividends, holders will be entitled to one vote per share held.

(iv) **Class B share purchase warrants**
The 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, 1983 there were 605,103 warrants outstanding.

(v) Restrictions on transfer
The registration of a transfer of any 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) 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, 1983, outstanding employee subscriptions were as follows:

Number of shares	Subscription rate per share	Maturing
155,239	$ 9.74	April 1984
106,342	$12.45	April 1985

6. Interest

Interest revenue and expense for the years ended December 31, 1983 and 1982 consisted of the following:

	1983	1982
	(thousands of dollars)	
Interest expense		
– non-current	$28,879	$37,703
– other	2,247	4,803
Interest revenue	(4,280)	(4,576)
	$26,846	$37,930

7. Discontinued Operations

The net losses from operations discontinued in 1983 and 1982 are summarized as follows:

	1983	1982
	(thousands of dollars)	
Total operating losses	$ 2,562	$ 4,202
Income tax recovery	(370)	(1,587)
Net loss from discontinued operations	$ 2,192	$ 2,615

8. Extraordinary Items

Extraordinary (losses) gains in 1983 and 1982 are summarized as follows:

	1983	1982
	(thousands of dollars)	
Gain on sale of land		$ 1,794
Loss on sale of investments	$(3,432)	
Net (loss) gain on disposal of discontinued operations	(4,853)	4,543
	(8,285)	6,337
Income tax recovery (expense)	4,205	(3,021)
Net (loss) gain	$(4,080)	$ 3,316

9. Earnings Per Class A and Class B Share

For purposes of calculating earnings per Class A and Class B share, net income for the year has been reduced by dividends paid on First Preference Shares. The effect on the earnings per share calculation of imputed income arising from the exercise of the Class B share purchase warrants and the potential future conversion of 1982 First Preference Shares is anti-dilutive and has been excluded.

10. Pension Plans

The unamortized past service costs for pension benefits in effect at December 31, 1983 approximate $6 million.

11. Lease Obligations

The company is committed to annual rentals in respect of continuing operations of approximately $6 million for each of the next five years. Included in such commitments is a long term obligation to the year 2001, requiring annual rental payments of $1.7 million plus other costs, and under which the annual rental commitment, under certain contingencies, could increase by up to $1.1 million.

12. Contingencies

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 financial position of the company.

13. Segmented Information

The company's continuing operations are classified into three business segments: Newspaper publishing and printing; Book publishing; and Distribution of consumer products through direct mail.

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

Business Segments	Operating Revenue		Operating Profit	
	1983	1982	**1983**	1982
			(thousands of dollars)	
Newspaper publishing and printing	**$294,579**	$258,697	**$39,999**	$17,382
Book publishing	**212,914**	225,395	**5,472**	25,823
Distribution	**55,027**	52,195	**5,454**	6,570
Corporate administration			**(3,251)**	(2,673)
Consolidated	**$562,520**	$536,287	**$47,674**	$47,102

	Identifiable Assets		Additions to fixed assets		Depreciation and Amortization	
	1983	1982	**1983**	1982	**1983**	1982
Newspaper publishing and printing	**$111,408**	$105,714	**$3,838**	$3,726	**$ 5,598**	$ 5,963
Book publishing	**273,332**	286,816	**2,491**	2,224	**7,164**	6,585
Distribution	**36,991**	39,672	**332**	274	**3,109**	3,081
Corporate	**24,198**	41,343	**3**	16	**47**	52
Consolidated	**$445,929**	$473,545	**$6,664**	$6,240	**$15,918**	$15,681

Geographic Segments	Operating Revenue		Operating Profit		Identifiable Assets	
	1983	1982	**1983**	1982	**1983**	1982
Canada	**$309,145**	$274,542	**$39,079**	$18,826	**$153,243**	$149,862
United States	**151,491**	162,346	**3,484**	23,820	**192,119**	196,211
Other (a)	**101,884**	99,399	**8,362**	7,129	**76,369**	86,129
Corporate administration			**(3,251)**	(2,673)	**24,198**	41,343
Consolidated	**$562,520**	$536,287	**$47,674**	$47,102	**$445,929**	$473,545

(a) Principally United Kingdom, France and Germany.

Eight-Year Operating Highlights – Continuing Operations

	1976	1977	1978	1979	1980	1981	1982	**1983**
	Years ended September 30						Years ended December 31	
Operating Revenue (thousands of dollars)								
Newspaper Publishing & Printing	137,562	139,651	150,791	172,058	191,440	242,048	258,697	**294,579**
Book Publishing	39,525	59,454	88,263	146,317	184,402	194,543	225,395	**212,914**
Distribution					38,639	52,357	52,195	**55,027**
Operating revenue	177,087	199,105	239,054	318,375	414,481	488,948	536,287	**562,520**
Operating Profit & Income from continuing operations (thousands of dollars)								
Newspaper Publishing & Printing	19,316	14,918	15,344	17,383	19,002	25,256	17,382	**39,999**
Book Publishing	7,478	17,892	28,144	41,614	44,685	22,264	25,823	**5,472**
Distribution					7,477	5,757	6,570	**5,454**
Corporate Administration		(1,507)	(1,742)	(2,620)	(2,700)	(2,376)	(2,673)	**(3,251)**
Operating profit	26,794	31,303	41,746	56,377	68,464	50,901	47,102	**47,674**
Interest & foreign exchange expense (income)	1,037	(239)	(790)	(435)	6,410	33,901	38,393	**27,465**
Income before taxes	25,757	31,542	42,536	56,812	62,054	17,000	8,709	**20,209**
Income taxes*	12,082	14,959	21,054	26,696	25,900	5,702	6,000	**8,600**
Income before minority interest	13,675	16,583	21,482	30,116	36,154	11,298	2,709	**11,609**
Minority interest in earnings of subsidiary	2,042	4,626	6,720	9,583	10,538	725		
Income from continuing operations*	11,633	11,957	14,762	20,533	25,616	10,573	2,709	**11,609**
Per Share Data (adjusted for 3 for 2 stock split in 1980)								
Income from continuing operations	97¢	98¢	$1.21	$1.68	$2.10	78¢	9¢	**80¢**
Dividends – Class A and Class B shares	19¢	21¢	25¢	40¢	55¢	76¢	58¢	**40¢**
Rate of Return on Revenue								
Operating profit	15.1%	15.7%	17.5%	17.7%	16.5%	10.4%	8.8%	**8.5%**
Income before minority interest	7.7%	8.3%	9.0%	9.5%	8.7%	2.3%	.5%	**2.1%**
Return on Equity								
Income from continuing operations as a percentage of average shareholders' equity	20.7%	16.9%	18.0%	20.8%	22.0%	8.1%	2.0%	**8.7%**

*Adjusted for 1978 recovery of taxes related to 1973-1977

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