



[Review of Operations]

François Olivier
President and Chief Executive Officer,
Transcontinental Inc.

PROMISING OUTREACH

In 2010 we strengthened our core business and invested in new services that meet the emerging needs of our customers, while also improving synergies and generating greater profitability. I am very proud of our results for fiscal 2010,

as they clearly show that we have the strategy, the disciplined management, the financial foundation and the people we need to continue our growth.

A promising future



I am very proud of our results for fiscal 2010 and the steps we took during the year to maximize the Corporation's value over the medium and long-term. In terms of finances, we achieved our best operating performance ever. In terms of structure, we strengthened our offering of interactive and new-media-based products, services and marketing communications solutions. These are achievements that hold great promise for Transcontinental's future.

In addition, the final quarter of fiscal 2010 marked the sixth consecutive quarter in which we improved our operating income, excluding unusual items, year over year.

We also reported organic growth in profits and revenues. Organic growth in adjusted operating income was up 14.9% and in revenues 1.2%.

The Printing Sector increased its adjusted operating income by 22.9%, and its operating income margin jumped from 9.6% to 12.5%. The Media Sector also did very well given the \$10.6 million invested in the development of digital platforms, which decreased its profitability in the short term. As for the new Interactive Sector, its revenues have improved steadily over the past three quarters compared to 2009, and investment

in the development of new services continues.



Our excellent overall performance is largely because the major investments of the past several years have allowed us to build client loyalty and gain market share.

In new print technologies, we have completed several projects that required a total investment of \$700 million since 2007. After finishing the first of these—the plant to print the *San Francisco Chronicle* in Fremont, California—and the second—modernizing the Transcontinental Transmag plant in Montreal in 2009—our Canada-wide network to print newspapers and flyers has been fully operatio-

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nal since October 2010 under a new 18-year contract valued at \$1.7 billion, which includes \$25 million in new business each year with *The Globe and Mail*.

We also continued to invest money into improving the content and quality of our magazines, and into ramping up the transition to mobile technology, particularly for *Canadian Living*,

ELLE Canada, *ELLE Québec* and *The Hockey News*. In fact, *The Hockey News* has had more than one million users download its mobile application.

Another major area of growth is through the integrated solutions for local communities in Canada, which offer a combination of web-based and print media.

On the digital front, we launched *dealstreet.ca* for English Canada, and redesigned its Quebec counterpart, the preshopping site *publisac.ca*. Plus, our Canada-wide search engine *weblocal.ca* launched the first online reputation management tool for advertisers, and went mobile. And our community newspapers are now available on smart devices, including the iPhone and iPad.

In total, our Media Sector now has some 250 sites and portals that receive four million unique visitors per month. Revenues from digital activities amounted to \$36.8 million in 2010, up 33.8% over 2009.

In fiscal 2010 we added six titles to our portfolio of print newspapers, bringing the total in Canada to 175. The *Métro* newspaper also had a superior year and is now the most-read

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French weekday paper on the Island of Montreal.

Lastly, we gave the name "Transcontinental Interactive" to our sector which specializes in one-to-one and web-based marketing solutions, and intensified integration of its entities. We also improved its offering of mobile solutions through two acquisitions: Montreal-based LIPSO and Toronto-based Vortex Mobile.

In line with our strategy of focusing on our core traditional activities and digital development, we sold almost all of our direct mail assets in the United States for net proceeds of \$105.7 million.



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We have an effective strategy and preferred standing with our customers. Not only that, our already enviable financial position will continue to improve through the dual impact of our higher operating income and our lower capital expenditures, as we have now termi-



nated our major investments in our printing infrastructure.

We are thus in an excellent position to develop new services, particularly through acquisitions.

François Olivier
President and Chief Executive Officer



The title of our annual report, *An Integrated Transformation* clearly sums up our past year. It refers to our ability to continually evolve in keeping with new social, cultural and technological realities, and in keeping with our corporate mission and business plan.

I have decided to illustrate this integration by discussing four main processes: innovation, the power of our brands in cyberspace, the evolution of our service offering toward custom solutions and our transition to sustainable development.

From technological innovation to a culture of integrated innovation



As many examples from our history show, Transcontinental grew out of and then grew through innovation.

We were the first printer to offer a flyer prepress-printing-distribution service through a one-stop shop. We developed Publisac, which remains a very popular advertising vehicle. We were one of the first to publish a free daily paper in Canada, *Métro*, to meet the fast-paced information needs of a younger readership. We developed a whole new way to satisfy the outsourcing needs of newspaper publishers. We were pioneers in protecting the environment. We were the first publisher-printer to put all its interactive services under the umbrella of one sector.

On the shop floor, the commitment to innovation has evolved from an emphasis on technology to the actual integration of innovation into the culture of the company.



As a printer, we have always stood out for our investments in state-of-the-art technology. In the past decade, the Corporation has spent an average of \$150 million a year on capital improvements, a figure that, as a percentage of revenues, is much higher than the industry average. This annual average includes special programs, totalling \$700 million since 2007.

Our technological edge has allowed us to deliver customers a more varied and higher-quality line of products with shorter turnaround times, and has made us the leading printer in Canada. This in turn has translated into contracts with major clients.

Technological innovation has always meant more than just having advanced equipment. From the very beginning our people took steps to optimize the potential and efficiency of our equipment, making modifications to meet the specific needs of customers. To take this even further, starting in 2000 a large percentage of our employees have taken continuous improvement training in order to improve administrative and marketing processes as well as production processes.

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This is how technological innovation has, over the years, turned into an integrated culture of innovation, both in the pre- and post production of our products and services, and it is true of the entire company. It is this approach that has allowed Transcontinental to find original solutions that fulfill the new needs of its customers.



A fine example of this in fiscal 2010 was when we started to print *The Globe and Mail* on our new network of hybrid presses.

With this new platform, Transcontinental has consolidated \$1.7 billion in revenues over the next 18 years, with \$25 million in new business annually. We also benefit from a unique network that will increase our market share in strategic niches.

Using the latest technology was a necessary, but insufficient condition for meeting the new needs of our client. We had to add the ingenuity and creativity of our people, and draw on their knowledge of the market and the issues facing daily papers in

North America and at *The Globe and Mail* to arrive at a truly innovative solution.



Transcontinental is changing from a product-based manufacturing approach to an advisor-based approach in which market intelligence and



*Find original solutions
to meet the new needs
of our customers*

Our culture of innovation

To remain a leader with its readers and advertisers, *The Globe and Mail* needed two extra capabilities: to put colour on every page, and to print on coated stock so it would look more like a magazine.

Providing this would require an investment of some \$175 million, and we had to make it a profitable investment to justify it to shareholders. What did we do?

Working with *The Globe and Mail*, we came up with an innovative solution: a network of hybrid presses that would use the latest technology to print newspapers and flyers, and would do so all across Canada. The management of *The Globe and Mail* found this solution exactly to its liking. Plus, our retail customers now have access to faster printing, superior colour quality and a broader selection of sizes and formats.

innovation are employed to meet the needs of our customers. Key to this effort are the design of new products, new services, new marketing strategies and directions, new and better ways of doing what we already do, combined with an innovative approach to work organization and the ability to take swift action on growth opportunities.

All our employees are called upon to be innovative on the job, no matter which business unit or sector they work in.

To that end, in fiscal 2011, the Corporation is inviting every employee to participate in an Innovation Challenge. The purpose of this exercise is, on one hand, to develop a shared language and, on the other, to support the creation of new products, services and solutions, as well as the development of new markets and improved management of operations. Transcontinental, already known for its many continuous improvement initiatives, plans to use this.

The prestige of our brands helps advertisers extend their reach on the Web and in mobile

As a publisher, Transcontinental is characterized by the original and relevant content it prepares for some 18 million readers. Every month, our publications reach specific communities of interest – for our magazines that community is primarily women, and for our newspapers it is primarily local communities.

Over the past several years we have leveraged the power and prestige of our brands to successfully deploy our content on numerous web-based channels, including mobile. Today, the Media Sector has about 250 websites and portals that receive about four million unique visitors a month.

These channels allow national and local advertisers to reach their target clientele and build a personalized relationship with their consumers.

Transcontinental is Canada's leading publisher of consumer magazines, with some 30 titles, including *Canadian Living*, *Coup de Pouce*, *More*, *Vita*, *ELLE Canada* and *ELLE Québec*.

In 2010 we continued to extend these publications onto the Web, to the benefit of our readers and advertisers. With access to our publications from their mobile devices, users can check the latest hockey scores, get the latest

financial news or find a recipe for supper, to give just a few examples. In 2010, *The Hockey News* mobile application, with its more than one million users, was among the top Canadian downloads in its niche.

A highly promising initiative for our advertisers was the launch of a digital representation house, dedicated to helping advertisers establish exclusive partnerships with the leading online publishers in North America, to help them reach every potential customer. This digital representation house leverages the long-term relationships we have developed with marketing specialists and advertisers across Canada.

Lastly, there was the launch of *PREMIUM – l'intelligence en affaires*,

Our integrated solutions for local communities are based on a broad mix of print and digital media. Our business model of being close to the communities we serve means that we have a detailed picture of what these communities, and their advertisers, require.

the first French-language bookzine in Canada, available in print or digital format.

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Our some 175 daily and weekly papers in six provinces are active players in presenting the news and issues of their communities. These papers are a source of information, an effective vehicle for advertising, and they help create a sense of belonging. Historically they are the cornerstone of Transcontinental's presence in communities.

In 2010 we added six community papers in Quebec, plus their websites: *Point de vue Sainte-Agathe*, *Point de vue Mont-Tremblant* and *Journal Le Nord* in the Laurentians, *Abitibi*

Express, for the towns of Val-d'Or and Amos, and *Courrier Saguenay* and *Rive-Sud Express* in Longueuil.

While initially based on print, including door-to-door distribution, the offering for local communities has grown to include web-based media: first through the websites for each newspaper, then through



*Transcontinental
stands out for its original
and relevant content*

***The power and prestige
of our brands***

Our in-depth knowledge of communities of interest, particularly women and local communities, is a key advantage for advertisers when they want campaigns that will really connect with their consumers. We have a special relationship with the millions of Canadians we reach every month. This means that we can develop customer-specific integrated campaigns that put local and national advertisers in touch with consumers in a powerful and relevant way. With our 360-degree approach we also optimize the synergies between our platforms, all to better meet the needs of each client.

Transcontinental thus helps the companies that advertise in its magazines and newspapers use the Web and mobile technologies to revitalize their relationship with consumers. This added value is unique, and it is what will generate an ever-growing portion of our profits in the future.

portals, search engines and mobile applications.

In 2010 we introduced the new preshopping site dealstreet.ca for English-speaking Canada, and completely redesigned publisac.ca for Quebec. These sites give Internet users access to current promotions and discounts. They also provide personalized search results based on the user's postal code and the search option chosen: product, service, brand or merchant.

In addition, the Canada-wide local search engine weblocal.ca launched the first online reputation management tool for the advertisers who subscribe to its services. Advertisers can use this tool to gather and analyze what people are saying about them on the Net and adjust their marketing strategies accordingly. Lastly, our community papers can also be accessed by smart devices like the iPhone and iPad.

From the general to the customer-specific

Transcontinental was founded on one idea: *total service*. From the start, we offered our retail customers a one-stop shop that provided a complete prepress-printing-distribution service for their flyers. Over time we have added a broad selection of print products, Internet products and new media communication platforms, including mobile, as well as advertising personalization services derived from data management.

Our driving force has always been the customer: we focus on meeting customer's existing needs and anticipating future ones. Today, Transcontinental has the ability to offer specific solutions tailored to each client. We have moved from a general offering to an offering that is differentiated

The transition from offering general solutions to customer-tailored solutions is just one more way to remain close to those we serve.

by client and draws on all the products and services we offer.

This new stage is the logical outcome of our transformation into a true marketing partner and advisor.

The following are some of our achievements in 2010.

We have created integrated media campaigns for major advertisers in our magazines.

One example is that a prestigious car manufacturer wanted to rejuvenate its image for the launch of a new model. We used our data management services to set up a campaign that drew on the print and Internet assets of the Media Sector. Campaign components included a "lifestyle" page with articles and videos on the site AskMen.com, the sponsorship of a cultural calendar in *Les Affaires* newspaper, and a targeted email campaign.

In another case, a national chain of clothing stores wanted to become a key player in women's fashion and draw more customers into its stores. Its management decided to start with a dialogue with its target consumers. Our people designed a promotional

partnership in which a national contest was publicized in the pages of *Canadian Living* and *Coup de Pouce*, coupled with articles with content that touched on the client's products. To give the brand higher visibility, we also added two public events, one in Montreal and one in Toronto, where participating women could receive specialized consultations.

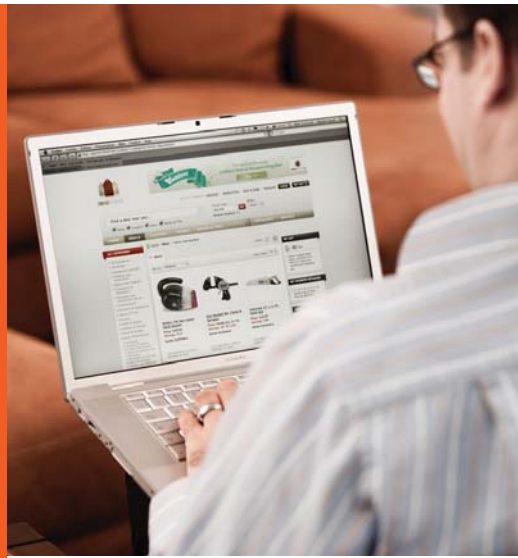
Another client also took advantage of the mobile solutions offered by the Interactive Sector by sending promotions directly to consumers who had signed up for free monthly alerts by SMS for such promotions.

With the strategic addition of mobile solutions to our customized offerings, we can facilitate client communications and transactions with an ever-growing number of wireless users. We plan to become a leader in this fast-growing segment.

Other achievements in 2010 included two agreements, one with the Toronto Transit Commission—the third-largest public transit system in North America—and one with the Laval Transit Commission, north of Montreal, to provide a text messaging service to their riders. Toronto riders can now find out, in real time, when streetcars will be stopping anywhere along their routes. Riders on the Laval system can do the same for buses.

Integrated mobile solutions, including connectivity, transaction management and applications development, make it possible for Transcontinental to add many new and vital services to its offering.

Two key acquisitions were made in 2010 in this area: LIPSO, a Montreal-based and leading Canadian provider



*Transcontinental
was born out of one idea:
total service*

*Offers tailored specifically
to each customer*

The example of a major Canadian retailer is a good illustration of how Transcontinental's offer has evolved. For a number of years, the client has benefited from the design, printing and distribution of its flyers. Now we have added new interactive marketing services to this mix. For this major retailer, Transcontinental now produces an e-flyer, a print and online magazine (handling all content and design, including photos), direct marketing programs (print and electronic), and campaigns on its entire range of media platforms, including mobile.

Identify opportunities in the marketing cycle. Catch the right consumer at the right time in the decision process. Provide the consumer with the right information at the most effective point of contact. Know the target audience and their behaviours. Design a strategy and program that meets the customer's needs. Synchronize delivery across all platforms. Coordinate program execution and operationalization. Measure performance.

All of these services are designed, produced and delivered to meet the expectations and requirements of the client, in accordance with their marketing plan.

of integrated mobile solutions, and Vortex Mobile, a Toronto-based provider of integrated mobile marketing solutions for building meaningful relationships with consumers.

The transition from offering general solutions to customer-tailored solutions is just one more way to remain close to those we serve. Increasingly, we are advisors who help our customers manage their brands and define marketing strategies based on their needs and the core competencies we offer.

This transformation also reflects our commitment to creating a tangible financial relationship by setting clear targets for results and market share.

From environmental protection to sustainable development

Transcontinental has always been recognized as a leader in environmental protection. We were one of the first companies to adopt an Environmental Policy that went well beyond regulatory requirements. Our commitment has always been combined with concrete action and has been recognized over the years through many North American awards and honours.

It was a natural move for Transcontinental to turn towards sustainable development, which both continues and expands the scope of our commitment to protect the environment.

One of the highlights of 2010 was the publication of our first Sustainability Report, prepared using the Global Reporting Initiative (GRI) methodology, an internationally recognized standard. This document reports on steps the Corporation has taken to address social, economic and environmental concerns. It covers community involvement, talent development, employee health, safety and wellness, raw materials purchasing policy, environmental certifications and measures related to the challenges of climate change. Our commitment is articulated around four themes: mobilizing employees and partners; innovation; setting concrete, meaningful and measurable objectives;

and communicating challenges and achievements.

The report is posted on our website at www.transcontinental.com.

We have also initiated many programs to optimize consumption of water and energy in our facilities, to support green building engineering, and to preserve the boreal forest. Our initiatives are in line with best corporate practices, as evidenced by our many certifications.

Here are some of our accomplishments:

Transcontinental Northern California, which prints the *San Francisco Chronicle*, was one of the first printing plants in North America to be built to

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LEED (*Leadership in Energy and Environmental Design*) standards. Prior to that, 33 of our printing plants obtained triple chain-of-custody certification; these certifications ensure that the highest standards of sustainable forest management are being implemented. We also introduced an environmental

purchasing policy for our products and consumables, as well as proven recycling programs.

Our paper purchasing policy seeks not only to preserve the boreal forest, but also to protect endangered species and support the highest standards of forest management. On May 18, 2010, an historic agreement to protect a vast area of the boreal forest was signed by 21 major pulp and paper companies and nine major environmental groups. At that time, Transcontinental was recognized for the major contribution its paper purchasing policy makes toward preserving the boreal forest.

Furthermore, we have reduced our greenhouse gas emissions; recovered some 851 tonnes of paper in the Montreal subway system, a project spearheaded by our daily paper

Métro; and, in health and safety, have decreased the accident frequency rate.

Lastly, we supported sustainable development in our role as publisher by launching voirvert.ca, the first French-language portal in Canada dedicated solely to environmental building practices. This site contains all



*Our commitment
has always taken the form
of concrete action*

The transition to sustainable development

In 2010, Transcontinental received Best of Show from *PrintAction* magazine, awarded to the Most Environmentally Progressive Printer in Canada in 2009, all categories combined, and the Gold award for Most Environmentally Progressive Printer in Canada with more than 500 employees. Lastly, in Quebec, Transcontinental was awarded the 2010 Qi Ecoresponsibility grand prize.

From the environment yesterday to sustainable development today, our efforts reflect our broad corporate commitment to combining business success with social responsibility. This puts Transcontinental at the leading edge of society's new values.

By stressing social, environmental and financial performance, Transcontinental has positioned itself to address key issues and overcome the challenges facing the print, media and web-based interactive marketing industries in the 21st century. By so doing, the organization ensures that it will never forget its responsibilities to employees, shareholders, customers and the communities in which it operates. A fine example of this is the organization of a drive for the past 17 years to collect non-perishable goods for those in need.

the information industry professionals require for environmentally friendly building design, construction and operation.

In 2010 our leading contribution to sustainable development was recognized by a number of organizations.

Corporate Knights ranked Transcontinental as one of the 50 most responsible corporate citizens in Canada. In addition to environmental practices, this ranking takes into account labour relations, community involvement, occupational health, safety and wellness, and excellence in corporate governance.