

EVOLVING MARKET DYNAMICS

Fiscal 2011 was one of the most fruitful for the development of TC Transcontinental. The Corporation embarked on a number of promising projects for the future: announcement of the acquisition of Quad/Graphics Canada, Inc. (subject to the approval of the Canadian Competition Bureau); the amalgamation of the Media and Interactive sectors to make it easier to promote and market our multiplatform offerings; the growth of our network of websites and digital sales; the expansion of our network of community newspapers; the updating of our values; and the launch of a new branding and positioning: TC Transcontinental, a *marketing activation company*. These multiple achievements will help us actively pursue our transformation in a rapidly changing world.

At TC Transcontinental, this world is defined by the printing, media and interactive marketing industries in which approximately 80% of our revenues are generated directly or indirectly from the advertising and marketing budgets of our customers. As a result, advertising and marketing spending trends have an effect on our business. Over the past several years, the multiplication of communication platforms has caused audience fragmentation, which in turn is increasingly making integrated offerings more appealing to our customers.

This new playing field has redefined the competitive landscape. Print markets are now suffering from overcapacity and more intense competitive pressures in certain niches. Conventional media businesses have been under pressure due to the greater volatility in national advertising spending as a result of technological change, but also unstable economic conditions. On the other hand, many new online products and services are being introduced in the local and national advertising market.

These evolving market dynamics do not change our mission, but it does mean we need to adjust our strategy to continue to fulfill our customers' needs. This playing field is essentially presenting us with both challenges and opportunities going forward.

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ADAPTING OUR STRATEGY

A few years ago TC Transcontinental put forward a “Two-Prong” strategy:

- Strengthen its existing assets by leveraging the credibility built in the marketplace over the years, its strong competitive position and its current products and services.
- Build new marketing services in conventional business as well as new digital and interactive communication platforms by leveraging its strong balance sheet and strong customer relationships.

So far, this strategy has proven to be quite successful. On the Printing side we leveraged the over \$700 million we invested over the past few years in our printing platform; we gained new contracts with *The Globe and Mail* and Canadian Tire, among others; and we divested non-core businesses such as our Mexican operations. We also announced the indirect acquisition of all the shares of Quad/Graphics Canada, Inc. On the Media and Interactive side, we increased our access to audiences by significantly increasing our web traffic which now reaches 50% of the Canadian web audience. We also strengthened our community newspaper footprint and grew our marketing communication service offering. And we did all this by continuing to exert financial discipline. In 2011, we reduced our debt, optimized our debt portfolio and increased our dividends to participating shareholders.

The market continues to evolve at a fast pace. As new technologies enter the market, our customers’ needs are changing. Customers want closer relationships with premium suppliers that understand their needs and can provide strategic solutions. They increasingly want integrated offers combining both print and digital solutions as well as mass and one-to-one offerings. In order to keep our appeal for our customers, and provide them with a product and service offering that reflects their evolving needs, we activated change a step further this past year.

ACTIVATING CHANGE

We took steps to position ourselves for the future by adjusting three fundamental elements of our strategy: our positioning, the way we develop our business and our go-to-market approach. Continuously adjusting our way of doing business with our customers is the key to success.

First, we refreshed our brand image by changing it to TC Transcontinental and we introduced a new positioning focused on marketing activation. The new brand is more contemporary but remains linked to our past and is evocative of our future. It is as much about change as continuity. It reflects what we are striving to become: a leading player in the marketing communications arena.

Second, we reviewed and actualized our values and competencies in the context of our new market reality. Our values now center around Innovation, Teamwork, Respect and Performance and our competencies focus on Leadership, Critical Thinking, Building Expertise and Delivering Results. We started to re-iterate these values and competencies in our corporate culture this year through the “Innovation Challenge”, a company-wide business competition that was designed to strengthen the culture of innovation internally.

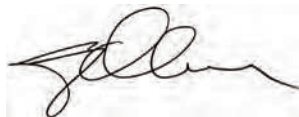
Finally, in order to become more agile at meeting the multiplatform marketing communication needs of our customers, we adjusted our go-to-market strategy by combining the Interactive and Media sectors starting November 1, 2011. This reorganization will make it easier to communicate strategically with our clients, market our products and services and emphasize our offer on the various communication platforms, while continuing to deploy our other media and printing products.

The evolution of our market positioning, corporate culture and organizational structure represents yet another step in our disciplined development that will continue to support our future growth. We have now laid the ground work to accelerate our development.

PROMISING FUTURE

We have evolved alongside our customers from the beginning, always one step ahead. We listened to them and adapted our strategy to better respond to their needs. We have always been rooted in the present, in what works now, while keeping our eyes wide-open on what the future holds. And today we can deliver efficient solutions through an integrated marketing activation offering.

TC Transcontinental is very well positioned to be a Canadian leader in marketing activation, helping our customers attract, reach and retain their target consumers. We have unique customer relationships and custom offerings including a state-of-the-art printing network, distribution capabilities, outstanding media content, brands and reach, as well as a strong digital and interactive offering. With TC Transcontinental, customers get the best of both worlds, the proven and the upcoming.



François Olivier
President and Chief Executive Officer
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