



MANAGEMENT'S
DISCUSSION
AND ANALYSIS

CONSOLIDATED
FINANCIAL STATEMENTS
AND NOTES

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended October 31, 2011

The purpose of this Management's Discussion and Analysis is to explain management's point of view on the past performance and future outlook of Transcontinental Inc. More specifically, it outlines our development strategy, performance in relation to objectives, future expectations and how Management addresses risk and manages financial resources. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. It should therefore be read in conjunction with those documents.

In this document, unless otherwise indicated, all financial data are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All amounts are in Canadian dollars, and the term "dollar", as well as the symbols "\$" and "C\$", designate Canadian dollars unless otherwise indicated. In this Management's Discussion and Analysis we also use non-GAAP financial measures. Please refer to the section of this report entitled "Reconciliation of Non-GAAP Financial Measures" for a complete description of these measures, on page 40.

The consolidated financial statements include the accounts of the Corporation and those of its subsidiaries and joint ventures. Business acquisitions are accounted for under the acquisition method and the results of operations of these businesses are included in the consolidated financial statements from the acquisition date. Investments in joint ventures are accounted for using the proportionate consolidation method. Other investments are recorded at cost.

To facilitate the reading of this report, the terms "Transcontinental", "Corporation", "we", "our" and "us" all refer to Transcontinental Inc. together with its subsidiaries.

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DEFINITION OF TERMS USED IN THIS REPORT

To make it easier to read this report, some terms have been shortened. The following are the full definitions of the shortened terms used in this report:

Terms Used	Definitions
Adjusted net indebtedness	Total of long-term debt plus current portion of long-term debt plus the amount drawn on the securitization program plus bank overdraft, less cash, cash equivalents as well as the amount to be paid to Quad/Graphics following the closing of the transaction to acquire the shares of Quad/Graphics Canada, subject to approval by Canadian regulatory authorities
Adjusted net indebtedness ratio	Adjusted net indebtedness divided by the last 12 months' adjusted operating income before amortization
Adjusted operating income	Operating income from continuing operations before impairment of assets, restructuring costs and impairment of goodwill and intangible assets
Adjusted operating income before amortization	Operating income from continuing operations before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets
Adjusted net income applicable to participating shares	Net income from continuing operations applicable to participating shares before impairment of assets and restructuring costs, impairment of goodwill and intangible assets as well as expenses related to long-debt prepayment (net of related income taxes) and unusual adjustments to income taxes
Net income applicable to participating shares	Net income minus dividends on preferred shares
Net income from continuing operations applicable to participating shares	Net income from continuing operations minus dividends on preferred shares and excluding discontinued operations
Net indebtedness	Total of long-term debt plus current portion of long-term debt plus the amount drawn on the securitization program plus bank overdraft, less cash and cash equivalents
Net indebtedness ratio	Net indebtedness divided by the last 12 months' adjusted income before amortization
Organic growth	Growth in revenues, adjusted operating income or net income applicable to participating shares excluding the effect of acquisitions, divestitures, closures, the exchange rates and paper

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to our medium-term goals, our outlook, business project and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "objective," the use of the conditional tense, and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: credit risks, data security and utilization, market dynamics, liquidity, financing and operational risks; the strength of the North American economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, more particularly the U.S. dollar and the euro; the impact from raw material and energy prices; the seasonal and cyclical nature of certain businesses, notably the book publishing activities, the effects of changes in

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interest rates; the effects of competition in the markets in which we operate; the effects of new media and the corresponding shift of advertising revenue to new platforms; judicial judgments and legal proceedings; our ability to develop new opportunities through our strategy; our ability to hire and retain qualified personnel and maintain a good reputation; our ability to complete and integrate strategic transactions; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; infrastructure risks; the possible impact on our businesses from public health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies or a postal strike, technological changes and new regulations.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Corporation, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf. See "Risks and Uncertainties" of this report for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on current expectations and information available as of December 8, 2011.

TC TRANSCONTINENTAL PROFILE

TC Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada, and fourth-largest in North America. It is also one of Canada's top media groups as the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces. TC Transcontinental is also the leading door-to-door distributor of advertising material in Canada through its celebrated Publisac network in Quebec and Targeo in the rest of Canada. Thanks to a wide digital network of more than 1000 websites, the company reaches over 13 million unique visitors per month in Canada. TC Transcontinental also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental Inc. (TSX: TCL.A, TCL.B, TCL.PR.D), known by the brands TC Transcontinental, TC Media and TC Transcontinental Printing, has approximately 10,000 employees in Canada and the United States, and reported revenues of C\$2.0 billion in 2011. For more information about the Corporation, please visit www.tc.tc.

PREAMBLE

The consolidated financial statements and all financial data in this report have been restated to present net results of discontinued operations. The financial information disclosed herein thus represents the Corporation's continuing operations and, except for net income applicable to participating shares, excludes the results for printing operations in Mexico.

SUMMARY OF ACTIVITIES IN FISCAL 2011

In fiscal 2011, Transcontinental reported increased organic growth in revenues and adjusted operating income compared to fiscal 2010. All sectors contributed to the higher revenues, with the greatest contribution coming from the Printing Sector, which benefited from new printing contracts, including the contract to print *The Globe and Mail* daily paper. Growth in adjusted operating income derives mainly from the Printing Sector, as indicated above, as well as the significant improvement in operational efficiency and equipment optimization. However, this increase was partially offset by the decrease in adjusted operating income in the Media and Interactive sectors. The Media Sector experienced the adverse impact of the acceleration of its strategic investments in its digital platforms and stiffer competition in some of its more traditional niches while the Interactive Sector continued its integration and the development of its interactive marketing solutions during the year.

The Corporation entered into an agreement with Quad/Graphics, subject to obtaining regulatory clearances, for the indirect acquisition of all the shares of Quad/Graphics Canada. With this transaction, the Printing Sector should be able to leverage its investments of more than \$700 million over the past few years to set up its Canada-wide hybrid printing platform, among other things. The Corporation expects the Quad/Graphics transaction to be finalized in early 2012. Also, in a separate transaction, Transcontinental inked an agreement to sell Quad/Graphics its Mexican printing operations and transfer to it its black and white book printing business destined for U.S. export. Upon approval by Mexican regulators, this transaction closed in fourth quarter 2011. These transactions represent an exchange of assets. Transcontinental believes that these transactions should generate an additional amount of at least \$40 million in operating income before depreciation and amortization, on an annualized basis, in the 12 to 24 months following the closing of the Quad/Graphics Canada transaction. The Printing Sector also benefited from new printing contracts in 2011, as noted above, and signed new agreements during fiscal 2011 that will contribute primarily in fiscal 2012, such as the agreement with Canadian Tire which should increase revenues by \$30 to \$40 million as of January 2012.

The Media Sector actively strengthened its core operations during the year with the acquisitions of Groupe Le Canada Français and Avantage Consommateurs de l'Est du Québec, as well as the launch of community papers to counter greater competition in its newspaper publishing operations in Quebec. The sector also accelerated the development of new products by considerably expanding its Canadian digital representation service through agreements with Ziff Davis and The New York Times Company. In the past year, with these new agreements and the development of its existing digital portfolio, it has tripled the audience for its digital network. The uncertainty in the North American economy in fiscal 2011 resulted in greater fluctuations in spending by national advertisers, which particularly affected the Business and Consumer Solutions Group. The Educational Book Publishing Group

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recorded a significant adverse impact related to completion of the Quebec educational reform and provincial government cutbacks in budgets for educational materials. This group did, however, implement a strategy to develop new products to partially offset this unfavourable impact in future quarters.

Given the multiplicity of communication channels and the Corporation's development plan to strengthen its core operations and build new marketing services, Transcontinental announced that since November 1, 2011, the Media and Interactive sectors have been combined into a single sector. The goal is to make the company more agile in its response to the multiplatform marketing communications needs of customers. The newly combined sector is responsible for publishing products and services, distribution, data analytics, production and management of marketing content, as well as interactive marketing and digital media solutions.

The Corporation's financial situation considerably improved in fiscal 2011, with a significant decrease in net indebtedness. The decrease stems primarily from a smaller capital spending program, which was limited to less than \$50 million in 2011, and significant cash flows generated by operations. In fiscal 2011, the adjusted net indebtedness ratio fell from 1.87x to 1.44x at October 31, 2011. Furthermore, in December 2010, the Standard & Poor's credit rating agency raise Transcontinental's rating from BBB- (stable) to BBB (stable) as a result of the Corporation's improved financial position and the continued improvement in its financial risk profile. In addition to reducing its net indebtedness, Transcontinental greatly optimized its debt portfolio. Firstly, the Corporation set up a new two-year securitization program of \$200.0 million. Secondly, the Corporation repaid, three years before maturity, its \$100.0 million term credit with the Caisse de dépôt et placement du Québec and its \$50.0 million term loan with SGF Rexfor. These repayments were made using the revolving term credit facility, which currently bears interest at a much lower rate.

HIGHLIGHTS OF FISCAL 2011

- Revenues for fiscal 2011 were up 0.8% over 2010, from \$2,028.3 million to \$2,043.6 million.
 - The increase stems mainly from new Printing Sector contracts, including the contract to print *The Globe and Mail*. The positive impact of paper prices also contributed partially offset by the adverse effect of the rise in the Canadian dollar.
- Adjusted operating income rose from \$249.9 million in fiscal 2010 to \$252.7 million in fiscal 2011.
 - The increase stems primarily from the Printing Sector, which significantly improved its operational efficiency and benefited from new printing contracts. This increase was partially offset by an increase in strategic investments in the Media and Interactive sectors, stiffer competition in some traditional Media Sector niches, and the adverse \$5.0 million impact of the rise of the Canadian dollar versus the U.S. dollar. As a result, operating income margin rose from 12.3% to 12.4%.
- Adjusted net income applicable to participating shares increased by \$5.8 million, or 3.7%, from \$155.9 million in 2010 to \$161.7 million in 2011.
 - The increase is mainly due to higher adjusted operating income in conjunction with lower financial expenses and income taxes. On a per-share basis, it rose from \$1.93 to \$2.00.
- Net income applicable to participating shares went from \$166.6 million in 2010 to \$77.8 million in 2011. The decrease is due to unusual items almost all of which have no impact on cash flow:
 - In 2010, a gain on the sale of direct mail assets in the United States of \$39.2 million was recorded, net of related income taxes.
 - In 2011, an impairment of goodwill and intangible assets as well as a net loss related to the discontinuance of the Mexican printing operations, respectively of \$45.1 million and \$22.7 million (net of related income taxes), were recorded.

On a per-share basis, it declined from \$2.06 to \$0.96.
- Transcontinental's adjusted net indebtedness ratio was 1.44x at October 31, 2011, compared to 1.87x at October 31, 2010.
 - The improvement stems mainly from the cash flows generated and the considerable reduction in capital spending, which was limited to less than \$50 million in 2011; this brought adjusted net indebtedness down from \$698.8 million at October 31, 2010 to \$489.4 million at October 31, 2011.
- The Corporation announced that the Board of Directors had confirmed the decision of its founder, Rémi Marcoux, to give up his duties as Executive Chair of the Board. Mr. Marcoux will, however, remain a board member. The Board also nominated Isabelle Marcoux as Chair of the Board. This change will take effect at the next shareholders meeting.
- The Corporation announced that as of November 1, 2011, the Corporation had a new operating structure that would make it more agile in its response to the multiplatform marketing needs of its customers. The Media and Interactive sectors were combined to form a single sector with Natalie Larivière as its president.
- After the close of its 2011 fiscal year, the Corporation announced the appointment of Nelson Gentiletti to the position of Chief Financial and Development Officer. Mr. Gentiletti joined the Corporation on December 5, 2011.
- The quarterly dividend on a per-participating-share basis was increased twice during the year. It was raised from \$0.090 to \$0.110 in the first quarter and, raised again in the third quarter to its current level of \$0.135, for a total increase of 50%.

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STRATEGY

Transcontinental's ultimate goal is to ensure its growth and profitability while promoting the common interests of its employees, customers, shareholders and communities, the four pillars of the organization. The strategy is based on several fundamental principles: to be the leader in the markets served, to have a disciplined approach to acquisitions and financial management, and to foster a culture of innovation and customer satisfaction.

Having said this, Transcontinental's mission is to help its customers identify, reach and retain their target consumers. It does so by offering printing products and services, media content, media vehicles and many new online platforms, which its customers are increasingly choosing for their marketing campaigns. The Corporation will continue to develop and adjust to new customer realities in order to help them maximize the return on their marketing dollar. Its vision is to remain Canada's leader in a number of its niches, but also to carve out a leading position as a provider of marketing products and services.

Transcontinental's transformation continues as it guides the customer's marketing activation process, drawing on both its traditional and its interactive and digital products and services. The company's approach is two-pronged: 1) leverage its existing operations and 2) develop new avenues in interactive and digital marketing solutions. Consequently, in addition to conducting its existing operations more effectively, it is ramping up the development of new avenues on new digital platforms. Transcontinental is also gradually shifting from a more general offering to one that is more differentiated, innovative and tailored to each client, activated through all of its print and digital products and services. The Corporation believes that this will maximize its growth potential over the medium and long-term.

1) Leverage its existing operations

From the very beginning, Transcontinental has taken calculated risks to support growth in its operations. Whether this involves investments in property, plant and equipment, or the acquisition of other businesses, the company has always had a single goal: to serve its customers better while generating attractive returns for its shareholders. These decisions have resulted in a solid base of what could be called conventional print, content and media vehicle operations. In these traditional activities, Transcontinental is characterized by the quality of its workforce, its strong and loyal customer base, its position as a Canadian leader, its strong brands and its network of state-of-the-art printing plants. The Corporation also has key advantages that can help it grow new services: outstanding expertise in the printing of communication products, top-quality content production, effective distribution of such content through its targeted multi-channel platforms, and the fact that it continues to be a customer-focused organization serving both advertisers and consumers.

Here are some of Transcontinental's achievements in fiscal 2011:

- Signing of an agreement to acquire all shares of Quad/Graphics Canada; the agreement is subject to approval by Canadian regulators.
- Higher revenues in the Local Solutions Group
 - Acquisition of the assets of Groupe Le Canada Français: 11 weekly papers and a series of web portals
 - Acquisition of the assets of Avantage Consommateurs de l'Est du Québec: three weekly papers and a regional information portal
 - Launch of several weekly papers in Quebec
 - Increase in distribution revenues
- New agreements were signed in fiscal 2011, bringing to more than a dozen the number of publications printed at its Fremont, California plant.

Over the next year, as the leader in several of its niches and given its enviable financial position, the Corporation will continue to strengthen its core operations in order to maintain its gross profit margins and preserve its market share.

2) Develop new directions in interactive and digital marketing solutions

Transcontinental derives most of its revenues from the marketing budgets of its clients. In recent years, to meet their changing needs, Transcontinental's offering has greatly evolved and it has integrated one-to-one marketing and new platforms for interactive marketing communications into its broad line of print products and media content for both its own brands and for customers. The following is a selected list of the Corporation's achievements in fiscal 2011:

- Acquisition of Vortxt Interactive, a Canadian leader in mobile solutions. This acquisition, in conjunction with that of Lipso Systems in April 2010, enhances Transcontinental's mobile solutions offering.
- In fiscal 2011, the Media Sector tripled its digital audience by, among other things, winning new major contracts and rolling out new websites:
 - Online advertising representation for Ziff Davis and The New York Times Company, to represent Canadian advertising inventory for their respective brands
 - Launch of themegacatch.com site to meet the needs of local advertisers and communities
 - Launch of BidGo.ca, an innovative site dedicated entirely to local auctions
- The Interactive Sector was named by Red Pill Email as the leading supplier of email and messaging solutions in Canada.
- The Interactive Sector won more than 30 major awards at the 2011 Magnum Opus Awards, which recognizes excellence in publishing, concept and strategy in custom media.
- The Canadian Booksellers Association (CBA) chose the Printing Sector as its official supplier of ebook solutions for distribution by online bookstores.

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In short, Transcontinental plans to leverage its unique marketing products and services to accelerate development of its new integrated services for advertisers. The Corporation's solid foundation built up over time by its existing operations, its niche strategy and its positioning in new emerging marketing and media trends will allow it to take advantage of opportunities that will arise in the medium and long term. Implementation of these new services should accelerate in the next few years.

However, certain challenges must be overcome to ensure the Corporation maximizes the integration and development of its new activities. The focus must be on developing interactive marketing strategies for customers, while further integrating existing products and services. Given the sweeping changes in the print and publishing industries, Transcontinental aims to achieve an integrated approach that allows it to respond to the evolving needs of its customers as well as new consumer behaviours.

In order to accelerate the implementation of the marketing activation offering across the Corporation, a new operating structure was introduced effective November 1, 2011. The purpose of the new structure is to group all digital and interactive marketing solutions in order to ramp up the integration of Transcontinental's marketing activation offering.

Trends in the Marketplace

The Corporation does business in industries that are transforming at a rapid rate. In fact, unprecedented changes are sweeping the publishing and printing industries, presenting both opportunities and risks. Marketing is increasingly based on a one-to-one approach and the customers who use such services are focusing more and more on return on investment and measurability. As such, campaigns are becoming increasingly targeted as advertisers seek to establish and develop a relationship with their customer base. Concurrently, the rise of new media, digital platforms and changing consumer habits coupled with the increasing availability of data and technology to make better use of this data, is increasing audience fragmentation, personalization of content, user-generated content and web-based communities. The velocity of a number of trends has increased. This is especially true for the rate of adoption of digital technologies and the ensuing migration of advertising dollars toward online platforms.

The ongoing transformation of the media and marketing industries is having a profound impact on the printing industry. Print products remain key components in the media mix, but their growth is limited due to the growing impact of the trends noted above. The printers who will be able to benefit from this fast-evolving market are those who have the latest technology and can offer a full line of multiplatform solutions. These new technologies enable a better response to customers' needs, while simultaneously enhancing printers' operational efficiency.

In addition, macroeconomic factors such as the economic slowdown, the volatility of the Canadian dollar, the rise of environmental and social consciousness and globalization of markets all have an effect on Transcontinental's business.

Taken as a whole, these new trends have started to have an impact on the demands and expectations of customers. In fact, they have driven customers to increasingly experiment with one-to-one marketing, new platforms and an integrated service offering from their suppliers. The Corporation has therefore designed its strategy to profit from these trends.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Transcontinental recognizes the critical nature of environmental issues, and takes extensive precautions to protect the environment. The Corporation is not a major contributor to greenhouse gases (GHG). However, we are concerned about the impact of its activities on air quality. Striving every day to improve its environmental performance, the Corporation's policies and procedures are founded on three main guiding principles: (1) protect the environment for present and future generations, (2) reduce risks and improve efficiencies, and (3) introduce advanced technology and processes.

Also, in February 2011, the Corporation tabled its *Sustainability Report 2010 – Connecting Words to Actions*, based on the *Global Reporting Initiative* (GRI) standard. This report articulates Transcontinental's commitment to the path of sustainable development around four themes:

- **Engagement and ownership:** Mobilize employees at all levels of the organization, as well as suppliers, customers and partners.
- **Innovation is the key driver, internally and externally:** Supporting and rewarding initiative as a key component of the strategy
- **Connecting words to actions:** Setting targets and key performance indicators to measure progress.
- **Shared journey:** Communicating challenges and progress at each step of the way.

For more information, please see the *Sustainability Report 2010 – Connecting Words to Actions*, at www.transcontinental-ecodev.com

In fiscal 2011, Transcontinental distinguished itself in the environmental arena and in the community. First, for the third year in a row, Transcontinental was included in the Maclean's/Jantzi Sustainability ranking of the 50 most responsible companies in Canada. This ranking is established by measuring a broad range of environmental, social and governance (ESG) indicators. Also, once again, the Corporation was ranked by Corporate Knights as one of Canada's best 50 corporate citizens. This is the fifth consecutive year that Transcontinental has been included in this ranking. Corporate Knights is an independent Canadian-based media company which annually evaluates corporations based on their community engagement, occupational health and safety and governance practices.

Transcontinental has introduced environmental policies to minimize its environmental impacts. See Transcontinental's *Annual Information Form* for more information.

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SELECTED FINANCIAL DATA

For fourth quarters and fiscal years ended October 31 (unaudited)

(in millions of dollars, except per share data)	Three months ended October 31			For fiscal years ended October 31		
	2011	2010	Variation in %	2011	2010	Variation in %
Operations						
Revenues	\$ 537.5	\$ 556.4	-3%	\$ 2,043.6	\$ 2,028.3	1%
Adjusted operating income before amortization ⁽¹⁾	116.7	118.8	-2%	373.0	373.2	0%
Operating income	25.9	66.9	-61%	182.1	222.5	-18%
Adjusted operating income ⁽¹⁾	86.3	88.9	-3%	252.7	249.9	1%
Net income applicable to participating shares	8.0	44.5	-82%	77.8	166.6	-53%
Adjusted net income applicable to participating shares ⁽¹⁾	60.2	62.7	-4%	161.7	155.9	4%
Cash flow from operating activities before changes in non-cash operating items ⁽¹⁾	103.7	111.8	-7%	311.0	311.1	0%
Cash flow related to operating activities of continuing operations	118.7	43.7	n/a	304.7	156.0	n/a
Investments						
Acquisitions of property, plant and equipment	10.2	16.0	-36%	47.4	125.0	-62%
Business acquisitions ⁽²⁾	30.4	7.1	n/a	35.8	14.0	n/a
Per share data (basic)						
Net income applicable to participating shares	0.10	0.55	-82%	0.96	2.06	-53%
Adjusted net income applicable to participating shares ⁽¹⁾	0.74	0.78	-5%	2.00	1.93	4%
Cash flow from operating activities before changes in non-cash operating items ⁽¹⁾	1.28	1.38	-7%	3.84	3.85	0%
Cash flow related to operating activities of continuing operations	1.47	0.54	n/a	3.76	1.93	95%
Dividends on participating shares	0.14	0.09	56%	0.49	0.35	40%
Average number of participating shares outstanding (in millions)	81.0	80.9		81.0	80.8	
				As at October 31 2011	As at October 31 2010	
Financial condition						
Total assets				\$ 2,453.6	\$ 2,594.7	
Net indebtedness ⁽¹⁾				489.4	698.8	
Shareholders' equity				1,329.0	1,247.0	
Net indebtedness ratio ⁽¹⁾				1.31x	1.87x	
Shareholders' equity per participating share				\$ 15.17	\$ 14.16	
Number of participating shares at end of period (in millions)				81.0	81.0	

⁽¹⁾ Please refer to the section "Reconciliation of non-GAAP Financial Measures" on page 41 of this Management's Discussion and Analysis.

⁽²⁾ Total consideration in cash or otherwise for businesses acquired through the purchase of shares or assets.

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DETAILED ANALYSIS OF FISCAL 2011 OPERATING RESULTS

Analysis of Main Variances - Consolidated Results

For the fiscal year ended October 31, 2011

(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income applicable to participating shares	%
Results - For fiscal 2010	\$ 2,028.3		\$ 249.9		\$ 166.6	
Acquisitions/Divestitures/Closures	0.9	0.0 %	(2.1)	(0.8) %	(1.6)	(1.0) %
Existing operations						
Paper effect	19.3	1.0 %	(1.8)	(0.7) %	(1.4)	(0.8) %
Exchange rates effect	(11.0)	(0.5) %	(5.0)	(2.0) %	(4.0)	(2.4) %
Organic growth	6.1	0.3 %	11.7	4.7 %	12.8	7.7 %
Discontinued operations	-	-	-	-	(50.6)	(30.4) %
Impairment of assets, restructuring costs						
impairment of goodwill and intangible assets and						
and unusual adjustments to income taxes	-	-	-	-	(39.8)	(23.9) %
Expenses related to debt prepayment	-	-	-	-	(4.2)	(2.5) %
Results - For fiscal 2011	\$ 2,043.6	0.8 %	\$ 252.7	1.1 %	\$ 77.8	(53.3) %

As shown in the above table, a number of factors contributed to the variation between results in fiscal 2011 and fiscal 2010.

- The net effect of acquisitions, divestitures and closures increased revenues by \$0.9 million and decreased adjusted operating income by \$2.1 million. Net of financial expenses and income taxes, the negative effect on net earnings amounted to \$1.6 million. This decrease compared to 2010 stems mainly from the development costs and integrating acquisitions in the Interactive Sector, partially offset by the positive impact of Media Sector acquisitions in fiscal 2011.
- The paper effect increased revenues by \$19.3 million. This figure includes variations in the price of paper, paper supplied and changes in the type of paper used by customers of its printing operations. Note that for its printing operations, these elements affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had a \$1.8 million negative impact on adjusted operating income and a \$1.4 million negative impact on net income.
- The rise in the Canadian dollar versus the U.S. dollar had an impact on fiscal 2011 results, decreasing revenues by \$11.0 million and adjusted operating income by \$5.0 million. The negative variation in average spot exchange rates in fiscal 2011 versus fiscal 2010 was 5.4%. With respect to revenues, the conversion of sales of the U.S. units had a negative impact of about \$5.7 million. The negative impact of export sales, net of currency hedging, was \$5.3 million. The conversion U.S. units activities had a negative impact of \$0.6 million on adjusted operating income. The negative impact of export sales, net of currency hedging and purchases in U.S. dollars, was \$5.8 million on adjusted operating income. Finally, the positive impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was \$1.4 million on adjusted operating income. Taking into consideration the operations, financial expenses and income taxes, the net negative effect was \$4.0 million.
- Organic growth in revenues amounted to \$6.1 million, or 0.3%, in fiscal 2011. The increase stems largely from the contribution of new contracts in the Printing Sector, particularly the contract to print *The Globe and Mail*, to higher sales in the Media Sector's New Media and Digital Solutions Group, and to higher revenues in distribution and newspaper publishing operations of the Local Solutions Group. The Interactive Sector contributed to revenue growth in fiscal 2011, primarily through its premedia and custom communications divisions. However, this increase was partially offset by the volume decrease in magazine, book and catalogue printing, and, for the Educational Book Publishing Group, completion of the educational reform in Quebec, as well as a decline in national advertising which affected the Business and Consumer Solutions Group. Organic growth in adjusted operating income, which rose 4.7% to \$11.7 million in fiscal 2011, stems mainly from greater operational efficiency and new printing contracts. These elements were, however, partially offset by the acceleration of strategic investments in the Media and Interactive sectors in order to further develop digital solutions and interactive marketing services, stiffer competition in some of the more traditional niches and the adverse impact of the completion of the educational reform in Quebec.

Impairment of Assets and Restructuring Costs

In fiscal 2011, an amount of \$18.4 million before tax (\$13.4 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, \$12.1 million is due to workforce reductions across the Corporation, \$3.9 million stems from asset impairment and \$2.4 million to other costs, all mainly related to plant closures in the Printing Sector.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In fiscal 2010, an amount of \$14.9 million before tax (\$10.7 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, \$12.1 million is due to workforce reductions and \$2.8 million to asset impairment and other costs in the Printing and Media sectors.

Impairment of Goodwill and Intangible Assets

For fiscal 2011, an amount of \$52.2 million before tax (\$45.1 million after tax) was accounted for separately in the consolidated statement of income as impairment of goodwill and intangible assets. Most of this impairment stems from the impairment of goodwill, primarily related to one-to-one marketing activities in the Interactive Sector, and trade-name write-downs for some publications in the Media Sector.

In fiscal 2010, an amount of \$12.5 million before tax (\$10.4 million after tax) was accounted for separately in the consolidated statement of income as impairment of goodwill and intangible assets. Most of this impairment stems from trade-name write downs for some publications in the Media Sector.

Financial Expenses, Expenses Related to Debt Prepayment and Discount on Sale of Accounts Receivable

Combined, financial expenses, expenses related to debt prepayment and discount on sale of accounts receivable rose by \$1.6 million, or 3.7%, from \$43.5 million for fiscal 2010 to \$45.1 million for fiscal 2011. This increase comes mainly from expenses related to early repayment of the term credit facility with the Caisse de dépôt et placement du Québec and to the early repayment of the term loan from SGF Rexfor.

However, excluding these non-recurring expenses of \$5.8 million (\$4.2 million after tax) of which \$1.4 million had no impact on cash flows, financial expenses amounted to \$39.3 million for fiscal 2011, down 9.7% compared to 2010. The decrease is mainly due to a significant reduction in the Corporation's net indebtedness in fiscal 2011 and a lower weighted average interest rate compared to last year.

Income Taxes

Income taxes decreased by \$3.8 million, from \$34.1 million in fiscal 2010 to \$30.3 million in fiscal 2011. Excluding income taxes on impairment of assets and restructuring costs, on impairment of goodwill and intangible assets, on expenses related to early payment of long-term debt and unusual adjustments to income taxes, income taxes would have amounted to \$44.0 million, or a tax rate of 20.6%, compared to \$42.8 million, or 20.7%, in fiscal 2010.

Discontinued Operations

In the third quarter 2011, the Corporation signed an agreement to sell its Mexican printing operations to Quad/Graphics. This transaction was approved by Mexican regulators and closed in fourth quarter 2011. For fiscal 2011, the net loss from these discontinued operations, net of related income taxes, amounted to \$21.2 million. This loss is composed of a:

- Net loss on divestiture of \$22.7 million, related mainly to a non-cash item related to the currency translation of its investment in Mexico.
- Gain of \$1.5 million related to operations of discontinued operations.

In fiscal 2010, net income from discontinued operations of \$29.4 million, net of related income taxes, was recorded. Net income was comprised of a:

- Gain from discontinuance of operation of \$39.2 million, net of related income taxes, following the sale of almost all direct mail operations in the United States in April 2010 for net proceeds of \$105.7 million
- Net loss in 2010 of \$11.8 million related to the operation of discontinued operations, net of related income taxes.
- Net income of \$ 2.0 million in 2010 regarding the operation of Mexican printing operations, net of related income taxes.

Net income applicable to participating shares

Net income applicable to participating shares went from \$166.6 million in fiscal 2010 to \$77.8 million in fiscal 2011. This decrease is mainly due to a gain related to the discontinuance of direct mail operations in the United States in 2010, to a loss related to the discontinuance of printing operations in Mexico in 2011 and to an increase in impairment of goodwill and intangible assets expense in fiscal 2011. On a per-share basis, net income applicable to participating shares was down, from \$2.06 to \$0.96.

Adjusted net income applicable to participating shares rose \$5.8 million, or 3.7%, from \$155.9 million in fiscal 2010 to \$161.7 million in fiscal 2011. On a per-share basis, it rose \$0.07, from \$1.93 to \$2.00.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues Generated in U.S. dollars For fiscal years ended October 31 (unaudited)

(in millions of US dollars)	2011	Breakdown	2010	Breakdown	Change \$ 2011 vs 2010	Change % 2011 vs 2010
Exports from Canada to the U.S.	\$ 142.9	57.7 %	\$ 146.3	57.9 %	\$ (3.4)	(2.3) %
Revenues generated in the U.S. by U.S. business units	104.6	42.3	106.3	42.1	(1.7)	(1.6)
Total revenues	\$ 247.5	100.0 %	\$ 252.6	100.0 %	\$ (5.1)	(2.0) %

Geographic Distribution of Total Revenues in Canadian Dollars For fiscal years ended October 31 (unaudited)

(in millions of Canadian dollars)	2011	Breakdown	2010	Breakdown	Change \$ 2011 vs 2010	Change % 2011 vs 2010
Canada	\$ 1,787.5	87.5 %	\$ 1,756.7	86.6 %	\$ 30.8	1.8 %
U.S.						
Imports from Canada	152.3	7.5	160.4	7.9	(8.1)	(5.0)
Domestic market	103.8	5.0	111.2	5.5	(7.4)	(6.7)
Total U.S.	256.1	12.5	271.6	13.4	(15.5)	(5.7)
Total revenues	\$ 2,043.6	100.0 %	\$ 2,028.3	100.0 %	\$ 15.3	0.8 %

As shown in the top table above, revenues generated in U.S. dollars were down slightly in fiscal 2011 compared to 2010. This decrease is due to lower U.S. exports by Canadian business units, expressed in U.S. dollars, which were down 2.3%, from US\$146.3 million in 2010 to US\$142.9 million in 2011. The decrease stems mainly from the sale of Transcontinental's black and white printing destined for U.S. export to Quad/Graphics in September 2011. Revenues generated by U.S. business units were also down, from US\$106.3 million in 2010 to US\$104.6 million in 2011, or 1.6%, mainly due to higher revenues at the Fremont printing plant in California; these were more than offset by the decrease in digital printing and direct marketing activities in the Interactive Sector's operations in the United States. As shown in the table directly above, after conversion into Canadian dollars the decrease increases to \$7.4 million, or 6.7%, illustrating the negative impact of the rise of the Canadian dollar against the U.S. dollar in fiscal 2011 compared to fiscal 2010.

The increase in revenues generated in Canada stems mainly from new printing contracts, including the contract to print *The Globe and Mail*, as well as the contribution from acquisitions and the launch of weekly papers in Quebec, partially offset by the lower volume of magazine, book and catalogue printing. With respect to revenues in the U.S. domestic market expressed in Canadian dollars, the decrease is mainly due to the rise in the Canadian dollar versus the U.S. dollar. The average exchange rate in 2011 was 0.9898 CAD/USD compared to 1.0460 CAD/USD in 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF OPERATING SECTORS FOR FISCAL 2011

Analysis of Main Variances – Sector Results For the fiscal year ended October 31, 2011 (unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Interactive Sector	Inter-segment Eliminations and Other activities	Consolidated Results
Revenues - For Fiscal 2010	\$ 1,379.4	\$ 608.3	\$ 123.3	\$ (82.7)	\$ 2,028.3
Acquisitions/Divestitures/Closures	(5.2)	3.5	2.6	-	0.9
Existing operations					
Paper effect	19.3	-	-	-	19.3
Exchange rates effect	(9.1)	-	(1.9)	-	(11.0)
Organic growth (negative)	16.4	0.6	1.4	(12.3)	6.1
Revenues - For Fiscal 2011	\$ 1,400.8	\$ 612.4	\$ 125.4	\$ (95.0)	\$ 2,043.6
Adjusted operating income (loss) - For fiscal 2010	\$ 179.6	\$ 92.5	\$ (3.6)	\$ (18.6)	\$ 249.9
Acquisitions/Divestitures/Closures	(0.4)	0.3	(2.0)	-	(2.1)
Existing operations					
Paper effect	-	(1.8)	-	-	(1.8)
Exchange rates effect	(5.1)	-	0.1	-	(5.0)
Organic growth (negative)	26.8	(19.7)	(4.8)	9.4	11.7
Adjusted operating income (loss) - For fiscal 2011	\$ 200.9	\$ 71.3	\$ (10.3)	\$ (9.2)	\$ 252.7

This review of operating sectors should be read in conjunction with the information presented in the above table and the information disclosed in the Segmented Information note (note 28) to the Consolidated Financial Statements for the fiscal year ended October 31, 2011.

Management believes that adjusted operating income by business segment used in this section is a meaningful measure of its financial performance.

Printing Sector

Printing Sector revenues grew by \$21.4 million, or 1.6%, from \$1,379.4 million in fiscal 2010 to \$1,400.8 million in 2011. Excluding divestitures, closures and variations in the paper and exchange rates, revenues grew \$16.4 million, or 1.2%. The growth resulted mainly from new printing contracts, especially the contract to print *The Globe and Mail*. Revenues from new contracts more than offset the difficult market conditions that affected magazine, book and catalogue printing.

Adjusted operating income was up 11.9%, from \$179.6 million in fiscal 2010 to \$200.9 million in fiscal 2011. As a result, the adjusted operating income margin rose from 13.0% in 2010 to 14.3% in fiscal 2011. Excluding divestitures, closures and exchange rate impact, adjusted operating income rose by \$26.8 million, or 14.9%. This positive organic growth was mainly due to increased revenues and the consolidation of operations in certain plants, as well as the use of the new hybrid printing platform, which prints both newspapers and flyers.

In third quarter 2011, an agreement was signed with Quad/Graphics to indirectly acquire all shares of Quad/Graphics Canada, including six printing plants and a premedia service centre. This transaction is being reviewed by Canadian regulators and the Corporation believes that it will be finalized in early 2012. In a separate transaction, Transcontinental sold the Printing Sector's Mexican assets to Quad/Graphics. This second transaction has been approved by Mexican regulators and closed in the fourth quarter.

New revenues will be generated in fiscal 2012 from new printing contracts signed in fiscal 2011, like the one with Canadian Tire in second quarter 2011, which should add \$30 to \$40 million to revenues annually starting in January 2012. This contract indicates the effectiveness of the Corporation's strategy to integrate its marketing activation offering by combining new interactive marketing solutions with traditional products and services. In addition, given the significant investment in its print network in recent years, and more efficient equipment operation, the Corporation believes that the transactions with Quad/Graphics could result in additional income before depreciation of at least \$40 million on an annualized basis in the 12 to 24 months following the completion of the Quad/Graphics Canada transaction. The Sector will also benefit of the Interactive Sector's digital printing operations in 2012, following the merge of the Interactive and Media Sector. Finally, building on the positive impacts of its efforts to optimize use of its top-performing equipment in recent years, the Printing Sector will continue these efforts going forward.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Media Sector

Media Sector revenues were up \$4.1 million, from \$608.3 million in fiscal 2010 to \$612.4 million in fiscal 2011. Excluding acquisitions, divestitures and closures, revenues increased \$0.6 million, or 0.1%. The increase comes mainly from the launch of new weekly papers in Quebec in fiscal 2011, and recent strategic investments in the New Media and Digital Solutions Group. However, the revenue increase was partially offset by the completion of the five-year educational reform in Quebec in which all high schools were required to purchase new textbooks, and provincial government cutbacks in budgets for educational materials, which had benefited the Educational Book Publishing Group in fiscal 2010. Revenues in the Business and Consumer Solutions Group, which was affected by volatility in national advertising throughout the year, were also down in fiscal 2011.

Adjusted operating income was down \$21.2 million, from \$92.5 million for fiscal 2010 to \$71.3 million in 2011. Excluding acquisitions, divestitures, closures and the paper effect, the decrease was \$19.7 million. The decrease was mainly from investments in its digital platforms made in 2011. Also, stiffer competition and the initiatives rolled-out to counter it had a negative impact on adjusted operating income in fiscal 2011. The above-mentioned decline in Educational Book Publishing Group revenues also contributed to the decrease. Furthermore, a change in accounting policy led to a \$5.3 million decrease in operating costs in the Educational Book Publishing Group in fiscal 2011 versus fiscal 2010. Consequently, the Media Sector's adjusted operating income margin decreased, to 11.6% in fiscal 2011 compared to 15.2% in 2010.

In fiscal 2011, the Media Sector continued its strategic investments in its traditional offering, such as community newspapers, and its digital offering. The Local Solutions Group launched several new weekly papers in Quebec and made several acquisitions, purchasing the publishing assets of Groupe Le Canada Français on Montreal's South Shore, which comprise several print titles and a series of regional online portals, as well as most of the assets of l'Avantage Consommateurs de l'Est du Québec, composed of three weekly papers and a regional information portal. For its part, the New Media and Digital Solutions Group signed online advertising representation agreements with The New York Times Company and Ziff Davis. With these agreements and the strategic investments of recent quarters, the sector tripled the audience for its digital network in less than a year.

Effective November 1, 2011, the Corporation implemented a new operating structure that combined the Interactive Sector with the Media sector. The aim is to ramp up the development of the sector's marketing activation offering, particularly building on its digital platforms and interactive marketing solutions, thereby retaining its position as the Canadian leader in a number of its niches.

Initiatives in 2011 will continue in fiscal 2012 with further strategic investments in digital and print platforms. To capitalize on the recent success of the New Media and Digital Solutions Group, the sector will accelerate its efforts to monetize its digital offering and develop its new digital representation house in order to take advantage of the new markets; this should have a positive impact on revenues and profitability in fiscal 2012. The revenues of the Business and Consumer Solutions Group will continue to be affected by volatility in the advertising spending of national clients, and it will continue to adjust its cost structure and product offering to market realities. Lastly, since the educational reform in Quebec has now been completed, the Educational Book Publishing Group will continue to focus its educational content development efforts on penetrating new niches in coming years.

Interactive Sector

Interactive Sector revenues rose from \$123.3 million in 2010 to \$125.4 million in 2011, up \$2.1 million. The increase is mainly due to the acquisition of Vortxt Interactive, a provider of integrated mobile marketing solutions. The appreciation of the Canadian dollar versus the U.S. dollar had a negative impact of \$1.9 million on revenues. Excluding acquisitions and the impact of the exchange rate, organic growth of \$1.4 million derives mainly from major new contracts in the Premedia Division and the Customer Communications Division, partially offset by lower revenues in the One to One Marketing Solutions Division.

Adjusted operating loss rose from \$3.6 million in 2010 to \$10.3 million in 2011, an increase of \$6.7 million. Excluding the impact of business acquisitions and the exchange rate, the adjusted operating loss increased by \$4.8 million. The negative variance is largely due to strategic investments to develop its marketing activation offering. The operating income margin was also down, from a negative margin of 2.9% in 2010 to a negative margin of 8.2% in 2011.

In fiscal 2011, Red Pill Email named the Interactive Sector as the leading supplier of email and messaging solutions in Canada. The Interactive Sector also did well at the Magnum Opus Awards, where its excellent work in the areas of publication in general and for the quality of its online content won it numerous awards. These accolades are the result of ongoing and targeted investments in the sector to ensure it remains an expert provider of interactive marketing solutions in North America.

Inter-segment Eliminations and Other Activities

Eliminations of inter-segment revenues and other activities went from a negative total of \$82.7 million in 2010 to a negative total of \$95.0 million in 2011. The change is mainly due to an increase in inter-segment transactions. Adjusted operating income went from a negative total of \$18.6 million in fiscal 2010 to a negative total of \$9.2 million in 2011, stemming mainly from a decrease in the expense related to executive and directors' compensation, a favourable variance in connection to the defined benefit plan provision and a decrease in Head Office costs in 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DETAILED ANALYSIS OF OPERATING RESULTS FOR FOURTH QUARTER 2011

Analysis of Main Variances - Consolidated Results For the fourth quarter ended October 31, 2011 (unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income applicable to participating shares	%
Results - Fourth Quarter 2010	\$ 556.4		\$ 88.9		\$ 44.5	
Acquisitions/Divestitures/Closures	1.8	0.3 %	0.1	0.1 %	0.1	0.2 %
Existing operations						
Paper effect	1.8	0.3 %	(0.3)	(0.3) %	(0.2)	(0.4) %
Exchange rates	(1.8)	(0.3) %	(0.3)	(0.3) %	(0.2)	(0.4) %
Organic growth (negative)	(20.7)	(3.7) %	(2.1)	(2.4) %	(2.2)	(4.9) %
Discontinued operations	-	- %	-	- %	(0.1)	(0.2) %
Impairment of assets, restructuring costs impairment of goodwill and intangible assets and and unusual adjustments to income taxes	-	- %	-	- %	(33.9)	(76.2) %
Results - Fourth Quarter 2011	\$ 537.5	(3.4) %	\$ 86.3	(2.9) %	\$ 8.0	(82.0) %

As shown in the above table, a number of factors contributed to the variance in results for fourth quarter 2011 and fourth quarter 2010.

- The net impact of acquisitions, divestitures and closures raised revenues by \$1.8 million, mainly due to recent acquisitions in the Interactive and Media sectors, partially offset by plant closures in the Printing Sector. The same factors had a positive impact of \$0.1 million on adjusted operating income. Net of financial expenses and income taxes, the positive impact on net income applicable to participating shares was \$0.1 million.
- The paper effect had a positive \$1.8 million impact on revenues. This effect includes variations in the price of paper, paper supplied and changes in the type of paper used by customers of its printing operations. Note that for its printing operations, these elements affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had a negative effect of \$0.3 million on adjusted operating income and \$0.2 million on net income.
- The variations in the exchange rate between the Canadian and U.S. dollars decreased revenues by \$1.8 million and adjusted operating income by \$0.3 million. The negative variation in average spot exchange rates in fourth quarter 2011 compared to fourth quarter 2010 was 4.5%. With respect to revenues, conversion of sales by U.S. units had a negative impact of about \$1.1 million. The negative impact of export sales, net of currency hedging, was \$0.7 million. The conversion of results for U.S. units had a negative impact of \$0.1 million on adjusted operating income. The negative impact of export sales, net of currency hedging and purchases in U.S. dollars, was \$2.1 million on adjusted operating income. Finally, the positive impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was \$1.9 million on adjusted operating income. Taking into consideration the operations, financial expenses and income taxes denominated in foreign currencies, the net negative effect was \$0.2 million.
- Base business revenues decreased 3.7% to \$20.7 million in fourth quarter 2011, largely due to the termination of a major contract to print Canada census forms; the forms are printed every five years. Operations in the Media and Interactive sectors generated a level of revenues similar to that for the same period in 2010. The decrease in adjusted operating income, which stood at \$2.1 million, or 2.4%, in fourth quarter 2011, stems mainly from strategic investments by both the Interactive and Media sectors related to the launch of new weekly newspapers in Quebec and the development of digital offerings; this was partially offset by the impact of equipment optimization and the contribution of new contracts in the Printing Sector.

Impairment of assets and restructuring costs

In fourth quarter 2011, an amount of \$8.2 million before tax (5.9 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, \$7.7 million is due to workforce reductions across the Corporation and \$0.5 million to other costs.

In fourth quarter 2010, an amount of \$9.5 million before tax (\$6.7 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, \$7.6 million stems from workforce reductions, \$1.4 million to impairment of assets and restructuring costs and \$0.5 million to other costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Impairment of Goodwill and Intangible Assets

In fourth quarter 2011, an amount of \$52.2 million before tax (\$45.1 million after tax) was accounted for separately in the consolidated statement of income as impairment of goodwill and intangible assets. Most of this impairment stems from impairment of goodwill, primarily related to one-to-one marketing activities in the Interactive Sector, and trade-name write-downs for some publications in the Media Sector.

In fourth quarter 2010, an amount of \$12.5 million before tax (\$10.4 million after tax) was accounted for separately in the consolidated statement of income as impairment of goodwill and intangible assets. Most of this impairment stems from trade-name write downs for some publications in the Media Sector.

Financial Expenses

Financial expenses were down \$1.8 million, from \$11.7 million in 2010 to \$9.9 million in 2011. The decrease is due to a significant reduction in the Corporation's net indebtedness and its weighted average interest rate versus last year.

Income Taxes

Income taxes decreased by \$2.3 million, from \$7.3 million in fourth quarter 2010 to \$5.0 million in fourth quarter 2011. Excluding income taxes on impairment of assets and restructuring costs, and on impairment of goodwill and intangible assets, income taxes would have amounted to \$14.4 million, or a tax rate of 18.8%, compared to \$12.2 million, or 15.8%, in fourth quarter 2010. This increase is due to the geographic distribution of pre-tax earnings, among other factors.

Discontinued Operations

In the third quarter 2011, the Corporation signed an agreement to sell its Mexican printing operations to Quad/Graphics. This transaction was approved by Mexican regulators and closed in fourth quarter 2011. The net loss from these discontinued operations, net of related income taxes, amounted to \$1.2 million.

In fourth quarter 2010, a net loss related to the operation of discontinued operations of \$0.9 million, net of related income taxes, was recorded following the sale of almost all direct mail operations in the United States in April 2010. Also, a net loss related to the operation of the Mexican discontinued operations of \$0.2 million, net of related income taxes was recorded in fourth quarter 2010.

Net Income Applicable to Participating Shares

Net income applicable to participating shares went from net income of \$44.5 million in fourth quarter 2010 to \$8.0 million for fourth quarter 2011. The decrease is mostly due to the increase in the impairment of goodwill and intangible assets for fourth quarter 2011. On a per-share basis, the net income applicable to participating share decreased, from net income of \$0.55 to \$0.10.

Adjusted net income applicable to participating shares was down \$2.5 million, or 4.0%, from \$62.7 million in fourth quarter 2010 to \$60.2 million in fourth quarter 2011. On a per-share basis, it went from \$0.78 to \$0.74.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF OPERATING SECTORS - FOURTH QUARTER 2011

Analysis of Main Variances – Sector Results For the fourth quarter ended October 31, 2011

(unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Interactive Sector	Inter-segment Eliminations and Other activities	Consolidated Results
Revenues - Fourth Quarter 2010	\$ 380.2	\$ 169.2	\$ 33.4	\$ (26.4)	\$ 556.4
Acquisitions/Divestitures/Closures	(2.3)	3.8	0.3	-	1.8
Existing operations					
Paper effect	1.8	-	-	-	1.8
Exchange rates effect	(1.6)	-	(0.2)	-	(1.8)
Organic growth (negative)	(14.5)	0.4	(0.5)	(6.1)	(20.7)
Revenues - Fourth Quarter 2011	\$ 363.6	\$ 173.4	\$ 33.0	\$ (32.5)	\$ 537.5
Adjusted operating income (loss) - For fiscal 2010	\$ 57.4	\$ 30.1	\$ (1.2)	\$ 2.6	\$ 88.9
Acquisitions/Divestitures/Closures	(0.4)	0.7	(0.2)	-	0.1
Existing operations					
Paper effect	-	(0.3)	-	-	(0.3)
Exchange rates effect	(0.4)	-	0.1	-	(0.3)
Organic growth (negative)	4.0	(5.1)	(0.8)	(0.2)	(2.1)
Adjusted operating income (loss) - For fiscal 2011	\$ 60.6	\$ 25.4	\$ (2.1)	\$ 2.4	\$ 86.3

Management believes that adjusted operating income by business segment used in this section is a meaningful measure of its financial performance.

Printing Sector

Printing Sector revenues were down \$16.6 million, or 4.4%, from \$380.2 million in fourth quarter 2010 to \$363.6 million in fourth quarter 2011. Excluding divestitures, closures and variations in the paper and exchange rates, revenues were down \$14.5 million, or 3.8%. Negative growth stems mainly from the difficult market conditions that continue to affect the Magazine, Book and Catalogue Group as well as to the completion of a major contract to print Canada census forms; which takes place every five years. This contract started in fourth quarter 2010 and terminated in third quarter 2011. This decrease was augmented by lower sales in the Magazine, Book and Catalogue Group, partially offset by new printing contracts for some of its business groups, particularly the contract to print *The Globe and Mail*.

Adjusted operating income was up, from \$57.4 million in fourth quarter 2010 to \$60.6 million for the same period in 2011, an increase of 5.6%. As a result, the adjusted operating income margin rose from 15.1% for fourth quarter 2010 to 16.7% for fourth quarter 2011. Excluding divestitures, closures and the impact of the exchange rate, adjusted operating income rose \$4.0 million, or 7.0%. Positive growth in adjusted operating income comes mainly from greater operational efficiency, combined with the consolidation of work in some plants and optimized use of top-performing equipment, offset by lower sales.

In third quarter 2011, an agreement was signed with Quad/Graphics to indirectly acquire all shares of Quad/Graphics Canada, including six printing plants and a premedia service centre. This transaction is being reviewed by Canadian regulators and the Corporation believes that it will be finalized in early 2012. In a separate transaction, Transcontinental sold the Printing Sector's Mexican assets to Quad/Graphics. This second transaction has been approved by Mexican regulators and closed in the fourth quarter.

Media Sector

Media Sector revenues were up \$4.2 million, from \$169.2 million in fourth quarter 2010 to \$173.4 million in fourth quarter 2011. Excluding the impact of acquisitions, divestitures and closures, revenues rose \$0.4 million, or 0.2%. The increase is the result of higher sales volume in all Media Sector groups, except the Business and Consumer Solutions Group, which was affected by lower national advertising spending. The Local Solutions Group benefited from the launch of new weekly papers in Quebec in recent quarters, while the New Media and Digital Solutions Group saw higher revenues from its digital representation house activities, benefiting from ongoing strategic investments and development efforts of recent months.

Adjusted operating income was down \$4.7 million, from \$30.1 million in fourth quarter 2010 to \$25.4 million in fourth quarter 2011. Excluding acquisitions, divestitures, closures and the paper effect, the decrease was \$5.1 million. This decrease stems primarily from investments in its digital platforms and stiffer competition in newspaper publishing operations in Quebec. The Media Sector's adjusted operating income margin was down, at 14.6% in fourth quarter 2011 compared to 17.8% in fourth quarter 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In fourth quarter 2011, the Media Sector continued its strategic investments through its Local Solutions Group, which made two acquisitions: it purchased the publishing assets of Groupe Le Canada Français on Montreal's South Shore, comprised of several print titles and a series of regional online portals, as well as most of the assets of l'Avantage Consommateurs de l'Est du Québec, composed of three weekly papers and a regional information portal.

Interactive Sector

Interactive Sector revenues were lower by 1.2%, from \$33.4 million in fourth quarter 2010 to \$33.0 million in fourth quarter 2011. This decrease is due in part to the appreciation of the Canadian dollar versus the U.S. dollar, which lowered revenues by \$0.2 million compared to 2010. Despite positive organic growth in the premedia and digital printing solutions divisions, the sector reported negative growth of \$0.5 million.

The adjusted operating loss went from \$1.2 million in fourth quarter 2010 to \$2.1 million in fourth quarter 2011, an increase of \$0.9 million. Consequently, the adjusted operating income margin went from a negative margin of 3.6% in fourth quarter 2010 to a negative margin of 6.4% in 2011. The adjusted operating loss, excluding acquisitions and the impact of the exchange rate, rose \$0.8 million, principally due to strategic investments.

Inter-segment Eliminations and Other Activities

Eliminations of inter-segment revenues and other activities went from a negative total of \$26.4 million in fourth quarter 2010 to a negative total of \$32.5 million in fourth quarter 2011. The change is mainly due to an increase in inter-segment transactions. Adjusted operating income was stable, going from \$2.6 million in fourth quarter 2010 to \$2.4 million in fourth quarter 2011, stemming mainly from a decrease in Head Office costs in 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

Financial data have been prepared in conformity with Canadian Generally Accepted Accounting Principles (GAAP). However, certain measures used in this discussion and analysis do not have any standardized meaning under GAAP and could be calculated differently by other companies. The Corporation believes that certain non-GAAP financial measures, when presented in conjunction with comparable GAAP financial measures, are useful to investors and other readers because that information is an appropriate measure for evaluating the Corporation's operating performance. Internally, the Corporation uses this non-GAAP financial information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. Below is a table reconciling GAAP financial measures to non-GAAP financial measures.

(unaudited)

(in millions of dollars, except per share amounts)	Three months ended October 31		For fiscal years ended October 31	
	2011	2010	2011	2010
Net income applicable to participating shares	\$ 8.0	\$ 44.5	\$ 77.8	\$ 166.6
Dividends on preferred shares	1.7	1.7	6.8	6.8
Net loss (income) from discontinued operations (after tax)	1.2	1.1	21.2	(29.4)
Non-controlling interest	0.1	0.6	0.9	0.9
Income taxes	5.0	7.3	30.3	34.1
Discount on sale of accounts receivable	-	-	-	0.9
Financial expenses	9.9	11.7	39.3	42.6
Expenses related to long-term debt prepayment	-	-	5.8	-
Impairment of goodwill and intangible assets	52.2	12.5	52.2	12.5
Impairment of assets and restructuring costs	8.2	9.5	18.4	14.9
Adjusted operating income	\$ 86.3	\$ 88.9	\$ 252.7	\$ 249.9
Amortization	30.4	29.9	120.3	123.3
Adjusted operating income before amortization	\$ 116.7	\$ 118.8	\$ 373.0	\$ 373.2
Net income applicable to participating shares	\$ 8.0	\$ 44.5	\$ 77.8	\$ 166.6
Net loss (income) from discontinued operations (after tax)	1.2	1.1	21.2	(29.4)
Unusual adjustments to income taxes	-	-	-	(2.4)
Expenses related to long-term debt prepayment (after tax)	-	-	4.2	-
Impairment of goodwill and intangible assets (after tax)	45.1	10.4	45.1	10.4
Impairment of assets and restructuring costs (after tax)	5.9	6.7	13.4	10.7
Adjusted net income applicable to participating shares	\$ 60.2	\$ 62.7	\$ 161.7	\$ 155.9
Average number of participating shares outstanding	81.0	80.9	81.0	80.8
Adjusted net income applicable to participating shares per share	\$ 0.74	\$ 0.78	\$ 2.00	\$ 1.93
Cash flow related to continuing operations	\$ 118.7	\$ 43.7	\$ 304.7	\$ 156.0
Changes in non-cash operating items	15.0	(68.1)	(6.3)	(155.1)
Cash flow from continuing operations before changes in non-cash operating items	\$ 103.7	\$ 111.8	\$ 311.0	\$ 311.1
Long-term debt			\$ 292.5	\$ 712.9
Current portion of long-term debt			271.9	17.8
Cash and cash equivalents			(75.0)	(31.9)
Net indebtedness			\$ 489.4	\$ 698.8
Adjusted operating income before amortization			\$ 373.0	\$ 373.2
Net indebtedness ratio			1.31x	1.87x

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Results (unaudited)

(in millions of dollars, except per share amounts)	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$ 537	\$ 493	\$ 499	\$ 515	\$ 556	\$ 481	\$ 495	\$ 495
Adjusted operating income before amortization	117	87	90	80	119	87	89	78
Adjusted operating income margin before amortization	21.8 %	17.6 %	18.0 %	15.5 %	21.4 %	18.1 %	18.0 %	15.8 %
Operating income	\$ 26	\$ 56	\$ 56	\$ 44	\$ 67	\$ 56	\$ 55	\$ 45
Adjusted operating income	86	57	60	49	89	57	57	46
Adjusted operating income margin	16.0 %	11.6 %	12.0 %	9.5 %	16.0 %	11.9 %	11.5 %	9.3 %
Net income applicable to participating shares	\$ 8	\$ 11	\$ 33	\$ 26	\$ 45	\$ 29	\$ 67	\$ 26
Per share	0.10	0.13	0.41	0.32	0.55	0.36	0.83	0.32
Adjusted net income applicable to participating shares	60	33	39	29	63	33	34	26
Per share	0.74	0.40	0.49	0.37	0.78	0.41	0.42	0.32
% of fiscal year	37 %	21 %	24 %	18 %	40 %	21 %	22 %	17 %

The above table shows changes in Transcontinental's quarterly results. New printing contracts raised the Corporation's revenues in the first three quarters of fiscal 2011, year over year. However, this increase was reduced by, among other factors, lower revenues in the Magazine, Book and Catalogue Group, the negative impact of the exchange rate, and divestitures and closures. Also, fourth-quarter results are higher than the other quarters since advertising spending is usually higher in the fall.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Principal Cash Flows and Financial Condition

For fiscal years ended October 31

(unaudited)

(in millions of dollars)	2011	2010
Operating activities		
Cash flow from continuing operations before changes in non-cash operating items	\$ 311.0	\$ 311.1
Changes in non-cash operating items	(6.3)	(155.1)
Cash flow related to operating activities of continuing operations	304.7	156.0
Investing activities		
Business acquisitions, net of disposals	(35.8)	(14.0)
Acquisitions of property, plant and equipment, net of disposals	(44.8)	(114.1)
Other	(21.1)	(24.1)
Cash flow related to investing activities of continuing operations	(101.7)	(152.2)
Financing activities		
Increase in long-term debt	-	40.5
Reimbursement of long-term debt	(168.0)	(10.1)
Increase (decrease) in revolving term credit facility	4.5	(95.4)
Issuance of participating shares	0.2	2.1
Dividends on participating shares	(39.7)	(28.3)
Dividends on preferred shares	(6.8)	(7.0)
Bond forward	(6.0)	-
Other	(1.2)	(0.2)
Cash flow related to financing activities of continuing operations	(217.0)	(98.4)
Other relevant information		
Net indebtedness	489.4	698.8
Shareholders' equity	1,329.0	1,247.0
Net indebtedness ratio	1.31x	1.87x
Credit rating		
DBRS	BBB high	BBB high
	Stable	Stable
Standard and Poor's	BBB	BBB-
	Stable	Stable

Cash Flow Related to Continuing Operations

Cash flow from operating activities before changes in non-cash operating items were stable, from \$311.1 million in 2010 to \$311.0 million in 2011. Changes in non-cash operating items led to a cash outflow of \$6.3 million in 2011, compared to a cash outflow of \$155.1 million in 2010. The difference is mainly due to the complete repayment of the securitization program during the fiscal 2010. Consequently, cash flow from operations increased, to \$304.7 million in 2011, compared to \$156.0 million in 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash Flow Related to Investing Activities of Continuing Operations

In fiscal 2011, the Corporation considerably reduced its investments in property, plant and equipment to \$44.8 million net of disposals, compared to \$114.1 million in 2010, primarily because the project to print *The Globe and Mail* was completed in 2010.

The acquisitions made in 2011 in the Media and Interactive Sector led to a cash outflow of \$35.8 million, compared to \$14.0 million in 2010. The increase is mainly due to larger acquisitions compared to 2010.

Cash Flow Related to Financing Activities of Continuing Operations

The Corporation paid \$39.7 million in dividends on participating shares in fiscal 2011, compared to \$28.3 million in 2010, up 40.3% due to two increases in recent quarters which raised the quarterly dividend from 9.0 cents to 13.5 cents per share. In addition, in fiscal 2011, the Corporation paid \$6.8 million in dividends on preferred shares, an amount similar to last year.

Dividends paid by Transcontinental to Canadian residents are eligible dividends as per provincial and federal income tax laws.

Shares Issued and Outstanding	As at October 31, 2011	As at November 30, 2011
Class A (Subordinate Voting Shares)	65,873,182	65,878,382
Class B (Multiple Voting Shares)	15,151,235	15,151,235
Series D Preferred (with cumulative rate reset)	4,000,000	4,000,000

Debt Instruments

As at October 31, 2011, the adjusted net indebtedness ratio stood at 1.44x (1.87x as at October 31, 2010). The decrease stems mainly from the significant reduction in net indebtedness related to cash flows from operating activities and a significant reduction in spending on property, plant and equipment.

The Corporation's \$400 million revolving credit facility, of which \$181.7 million was used as at October 31, 2011, matures in September 2012. The applicable interest rate on the term revolving credit is based on the credit rating assigned by Standard & Poor's Ratings Services. In addition, senior unsecured notes denominated in U.S. dollars for the amount of C\$74.4 million will also mature in fiscal 2012. Preliminary approaches have been made and there is no indication at the moment that the Corporation will have any difficulty replacing these financing sources at attractive market conditions.

As at October 31, 2011, letters of credit amounting to C\$0.4 million and US\$2.3 million were drawn on the term revolving credit, in addition to the amounts presented in the above paragraph.

In January 2011, the Corporation began reimbursing its six-year loan from a European bank. As at October 31, 2011, the capital amount remaining to be paid is €39.3 million (\$55.5 million). On December 1, 2009, the Corporation arranged a cross-currency swap, which matures in six years, to set the exchange rate at 1.5761 and the interest rate on this facility at bankers' acceptance rates plus 3.36%

On February 1, 2011, the Corporation entered into an agreement setting the interest rate on a \$50 million debenture with the Solidarity Fund QFL at 5.58% for the eight years remaining on the debenture's 10-year term. The bond forward contract entered into to lock the portion of the rate based on the Canadian Government Bonds rate at 4.34%, came to maturity on November 5, 2010 and resulted in a cash disbursement which will increase the effective rate by 1.50% for the remaining term of the debenture.

On February 17, 2011, the Corporation repaid, more than three years before the end of its term its five-year \$100.0 million term credit facility with Caisse de dépôt et placement du Québec which bore interest at the bankers' acceptance rate + 6.375% by using its revolving term credit which currently bears interest at much lower rate. Although this debt prepayment currently optimizes the Corporation's debt portfolio by reducing its average interest rate cost, it led to a non-recurring charge of \$4.5 million, of which \$1.1 million will have no effect on cash flows.

On July 4, 2011, the Corporation pre-paid its \$50 million term loan from SGF Rexfor, which would have matured in July 2014. This term loan, with an annual interest rate of 8.25%, was repaid early using the term revolving credit facility which currently bears interest at much lower rate. Although this early repayment optimized the Corporation's debt portfolio, it generated a non-recurring expense of \$1.3 million, of which \$0.3 million had no impact on cash flows.

Apart from its long-term debt, the Corporation's commitments are mainly comprised of operating leases. The table below shows the breakdown of these obligations and commitments for future years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contractual Obligations and Business Commitments For years ending October 31

Contract type (in millions of dollars)	2012	2013	2014	2015	2016	2017 and thereafter	Total
Long term debt	\$ 271.9	\$ 90.0	\$ 80.7	\$ 64.0	\$ 10.4	\$ 50.2	\$ 567.2
Other commitments	36.5	28.0	26.1	20.4	17.1	68.8	196.9
Total commitments	\$ 308.4	\$ 118.0	\$ 106.8	\$ 84.4	\$ 27.5	\$ 119.0	\$ 764.1

Off-Balance-Sheet Arrangements (Securitization)

On February 16, 2011, the Corporation set up a new two-year securitization program with a trust whose agent of financial services is a Canadian bank. The maximum net consideration permitted under the program is \$200.0 million, with up to 20% of U.S. dollar accounts receivable. The terms of the new program take the current market conditions into account and are favourable compared to other sources of financing. As at October 31, 2011, no securitization program was in effect. The retained interest is recorded in the Corporation's accounts receivable at the lower of cost and fair market value. Under the program, no discount was recorded on the sale of accounts receivable for fiscal 2011, compared to \$0.9 million in 2010.

PRINCIPAL ACCOUNTING ESTIMATES

The Corporation prepares its consolidated financial statements in Canadian dollars and in accordance with Canadian GAAP. A summary of the significant accounting policies is presented in Note 1 of the Consolidated Financial Statements for the fiscal year ended October 31, 2010. Some of the Corporation's accounting policies require estimates and judgments. The most significant areas requiring the use of management estimates and judgments include goodwill, intangible assets, accounting for future employee benefits and income taxes. Management reviews its estimates on an on-going basis, taking into account historical data and other factors, including the current economic situation. Given that future events or changes in circumstances and their effects cannot be determined accurately, actual results could differ materially from Management's estimates. Changes in these estimates resulting from on-going change in the economic situation will be reflected in the financial statements of subsequent periods.

Goodwill

Goodwill represents the excess of acquisition cost over fair value of net assets of acquired businesses. Goodwill has an indefinite useful life and is not amortized, but it is tested annually for impairment or more frequently if impairment indicators arise.

Intangible Assets

Intangible assets are accounted for at cost and amortized as follows:

	Term	Method
Customer relationships	12 years	Straight-line
Educational book prepublication costs	Maximum 7 years	On historical sales patterns
Educational book titles	6-9 years	On historical sales patterns
Printing contracts	Contract term	Straight-line
Non-competition agreements	2-5 years	Straight-line
Long-term technology project costs	5 years	Straight-line

Non-amortizable intangible assets consist of acquired trade names, mainly magazines and newspapers, and their related circulation. These assets have an indefinite useful life and are not amortized, but tested annually for impairment or more frequently if impairment indicators arise.

Pension Plans

The accrued benefit obligation is determined by independent actuaries using the projected benefit method prorated on services and is based on management's best economic and demographic estimates. The Corporation amortizes the unrecognized net aggregate actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, and past service costs, over the expected average remaining service life (EARSL) of the employee group covered by the plans, which ranges from 10 to 12 years. The transitional obligation resulting from the initial application of Section 3461 of the Canadian Institute of Chartered Accountants' (CICA) Handbook in November 2000 is also amortized over the EARSL of the employee group covered by the plans. Fair market value is used to calculate the expected return on plan assets.

Income Taxes

The Corporation records income taxes using the liability method of accounting. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount and the tax basis of the assets and liabilities and are measured using tax rates in effect when these

MANAGEMENT'S DISCUSSION AND ANALYSIS

differences are expected to reverse in accordance with enacted laws or those substantively enacted at the date of the financial statements. A valuation allowance is recorded as a reduction of the carrying value of future tax assets when it is more likely than not that these assets will not be realized.

CHANGES IN ACCOUNTING POLICIES

Section 3064 of the CICA Handbook, Goodwill and intangible assets, allows for the capitalization of employee salaries, wages and benefits directly attributable to an internally generated intangible asset. The Corporation had not been capitalizing its educational book prepublication costs, as its information systems could not allocate this information per book. On November 1, 2010, the Company modified its information systems so that it could compile employee salaries, wages and benefits on a per-book basis and decided to change its accounting policy. Consequently, for the fiscal year ended October 31, 2011, this change in accounting policy resulted in a \$5.3 million increase in intangible assets and a \$1.5 million increase in long-term future income tax liability as well as lower operating costs \$5.3 million and an increase in the income tax of \$1.5 million. These intangible assets will be amortized as operating costs over a maximum of 7 years, based on historical sales patterns. The application of this accounting policy is prospective as the Corporation cannot generate the information for prior periods to apply this change retrospectively.

EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

For the Corporation, the conversion to IFRS will be required for interim and annual financial statements for the year ending October 31, 2012. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

The Corporation set up an organizational project management team composed of members from different levels and positions to oversee project coordination and monitoring. Staff with the appropriate qualifications and experience have been assigned to the project. Senior management and the Audit Committee receive regular status updates.

The Corporation's conversion plan consists of three phases: evaluation, conversion and implementation of the IFRS. The Corporation commenced the implementation phase in early 2011 and the conversion is proceeding as planned.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Preliminary Consolidated Opening Balance Sheet as at November 1, 2010 (non audited)

The Corporation has completed the preliminary quantification of the expected impact of differences between Canadian GAAP and IFRS and the table on the next page shows these differences on the opening balance sheet as at November 1, 2010.

(in millions of dollars)

	Canadian GAAP	A	B	C	D	E	F	G	H	Other	IFRS
Current assets											
Future income taxes	16.6								(16.7)	0.1	0.0
Other current assets	616.4										616.4
	633.0										616.4
Property, plant and equipment	871.6	(102.4)	(13.2)					16.3			772.3
Goodwill	678.1										678.1
Intangible assets	179.1										179.1
Future income taxes	145.3	18.6		11.4			0.6		16.7	1.2	193.8
Other assets	39.2			(6.9)							32.3
Assets from discontinued operations	48.4										48.4
	\$ 2,594.7	(83.8)	(13.2)	4.5	-	-	0.6	16.3	-	1.3	\$ 2,520.4
Current liabilities											
Accounts payable and accrued liabilities	\$ 345.4									(0.2)	\$ 345.2
Future income taxes	2.5								(2.7)	0.2	-
Other current liabilities	98.0										98.0
	445.9										443.2
Long-term debt	712.9										712.9
Future income taxes	137.4	(16.1)	(3.3)				3.9		2.7	(0.3)	124.3
Other liabilities	50.0			35.0						5.7	90.7
Liabilities from discontinued operations	0.7										0.7
	1,346.9	(16.1)	(3.3)	35.0	-	-	3.9	-	-	5.4	1,371.8
Non-controlling interest	0.8										0.8
Shareholders' equity											
Share capital	478.6				(0.7)						477.9
Contributed surplus	13.7				(10.5)						3.2
Retained earnings	784.0	(67.8)	(9.9)	(30.5)	11.2	(24.9)	(3.3)	16.3		(4.1)	671.1
Accumulated other comprehensive income (loss)	(29.3)					24.9					(4.4)
	754.7										666.7
	1,247.0	(67.8)	(9.9)	(30.5)	-	-	(3.3)	16.3	-	(4.1)	1,147.8
	\$ 2,594.7	(83.8)	(13.2)	4.5	-	-	0.6	16.3	-	1.3	\$ 2,520.4

IFRS 1, "First-time Adoption of International Financial Reporting Standards" is the standard which the Corporation must apply in preparing its opening IFRS statement of financial position. The purpose of this standard is to provide a starting point for IFRS-compliant accounting without spending more on the process than the benefits warrant. Thus certain relief measures, called exemptions and exceptions, are permitted to avoid retroactive application of some standards. The exemptions are optional and the exceptions are required. The following list presents some exemptions that could have a significant impact for the Corporation.

Exemption	Description and Status
A) Deemed Costs (IAS 16)	IFRS 1 allows for assets to be evaluated at their fair value at the transition date and to use this fair value as the deemed cost at that date. The deemed cost is then used instead of the cost or amortized cost, and the subsequent amortization is calculated using the deemed cost.
B) Borrowing Costs (IAS 23)	IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Under Canadian GAAP, an entity has the option of capitalizing borrowing costs or recognizing them as an expense. The Corporation's accounting policy is to capitalize borrowing costs. IFRS offers more direct guidance than Canadian GAAP regarding the nature of capitalizable borrowing costs. An exemption

MANAGEMENT'S DISCUSSION AND ANALYSIS

	under IFRS 1 allows IAS 23 requirements to be applied prospectively for all qualifying assets where capitalization commences on a date earlier than the transition date or on the transition date.
C) Employee Benefits (IAS 19)	IAS 19 Employee Benefits requires actuarial gains and losses to be measured in accordance with IFRS from plan start dates to the date of transition to IFRS. IFRS 1 allows recognition of accumulated actuarial gains and losses in retained earnings as at the transition date and prospective application of IAS 19.
D) Share-based Compensation (IFRS 2)	Under IFRS, every grant, with the same vesting period shall be assessed separately. Compensation expense should be recognized over the vesting period specific portion of the grant. In addition, the Corporation must estimate the forfeiture of stock options and exclude them from the compensation expense recorded.
E) Cumulative Translation Differences (IAS 21)	IAS 21 Effects of Changes in Foreign Exchange Rates requires that translation differences be calculated in compliance with IFRS from the acquisition date or from the date of creation of the foreign operation. IFRS 1 allows the cumulative translation differences for all foreign operations to be set to zero at the date of transition. The gain or loss on subsequent disposal of a foreign operation will therefore only include foreign exchange differences arising subsequent to the date of transition to IFRS.

In addition, the following items could have an impact on the Corporation's financial statements although they do not affect the opening balance sheet at the transition date.

Subject	Items that could have an impact on the Corporation's financial statements
Impairment of Assets (IAS 36)	<ul style="list-style-type: none"> Asset impairment testing is done at the lowest cash generating unit (CGU) level. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. According to Canadian GAAP, asset impairment testing is done at the level of the asset group, which is not necessarily the same as a CGU. Goodwill is allocated to the CGU or groups of CGUs that should benefit from the synergies of a business combination, while under Canadian GAAP, goodwill is allocated to operating units that are equivalent to an operating sector or to one level below. Given that the impairment test could be performed at the level of a group of assets that is smaller than that for Canadian GAAP, asset impairment may be recognized at different times depending on the IFRS. To determine whether an asset impairment should be recognized, the carrying amount of the asset is compared to its recoverable amount, which is the higher of fair value less costs to sell and value in use (present value of future cash flows). Under Canadian GAAP, a two-step test is conducted: first, the carrying amount of the asset is compared to undiscounted future cash flows; then, if an impairment is required, the amount of the impairment is determined by comparing the carrying amount of the asset to its fair value. Asset impairments other than goodwill impairments can be reversed under certain circumstances. Canadian GAAP did not permit reversals. The Corporation conducted an impairment test as at the transition date and no impairment of goodwill is required.
Business Combinations (IFRS 3)	<ul style="list-style-type: none"> IFRS 1 allows the prospective application of the business combinations standard. Thus, there is no impact to the Corporation at the transition date.
Estimates (IFRS 1)	<ul style="list-style-type: none"> Estimates made by the Corporation in accordance with Canadian GAAP are consistent with the estimates under IFRS. Only estimates related to changes in accounting policies have been revised.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Differences between the IFRS and the Corporation's Accounting Policies

The following items have been identified as possibly having an impact on the Corporation's financial statements. This is not an exhaustive list of the impacts of the transition to IFRS.

Subject	Items that could have an impact on the Corporation's financial statements
F) Income Taxes (IAS 12)	<ul style="list-style-type: none"> Under Canadian GAAP and IFRS, future income taxes are calculated on temporary differences, i.e. differences between the tax basis of an asset or liability and its carrying amount on the balance sheet. Under Canada's Income Tax Act, the maximum deductible for "eligible capital expenditures" is 75% of the cost incurred. Canadian GAAP addresses this particular situation and specifies that the tax basis must be increased by 25%, thus eliminating the temporary difference. IFRS does not address this specific situation, and therefore a temporary difference exists between the tax basis and the carrying amount of assets that must be recognized in the case of eligible business combination transactions.
G) Income Taxes (IAS 12)	<ul style="list-style-type: none"> Under IFRS, a deferred tax asset should be recognized for all taxable temporary differences, except to the extent that the deferred tax asset arises from initial recognition of an asset or liability in a transaction that when it affects neither the accounting profit nor taxable profit.
H) Income Taxes (IAS 12)	<ul style="list-style-type: none"> Under IFRS, assets and future tax liabilities are presented as long-term items.

Recent developments of new IFRS not yet applied

The following items were assessed as likely to have an impact on the financial statements of the Company. These items do not represent an exhaustive list of impacts of new IFRS not yet applied and changes could be made before their adoption.

Subject	Items that could have an impact on the Corporation's financial statements
Employee Benefits (IAS 19)	<ul style="list-style-type: none"> Under the IFRS, an entity may elect to recognize actuarial gains and losses using a corridor approach (which the Corporation uses) or recognize them immediately in other comprehensive income. The Corporation plans to continue using the corridor approach to recognition of actuarial gains and losses. IAS 19 was however amended in June 2011 and now allows only one option, which is the immediate recognition of actuarial gains and losses in other comprehensive income and the presenting of service costs and financial expenses in the income statement. This amendment to IAS 19 will take effect for fiscal years starting from January 1, 2013; the Corporation is currently evaluating the impact of this change.
Financial Instruments: Recognition and Measurement (IAS 39)	<ul style="list-style-type: none"> Under IFRS, an entity may derecognize a financial asset under certain conditions based on the concept of transferring risks and benefits. Under Canadian GAAP, the conditions for derecognizing a financial asset are based, instead, on the notion of transfer of control of the asset. For the Corporation, accounts receivable sold under the securitization arrangement may no longer satisfy the conditions for being derecognized under IFRS. As at the IFRS transition date, this difference will have no impact on the financial statements because no securitization program was in effect as at October 31, 2010.
Interests in Joint Ventures (IAS 31)	<ul style="list-style-type: none"> IFRS allows the recognition of interests in joint ventures using the proportionate consolidation method (which is used by the Corporation) or the equity method. The Corporation plans to continue using the proportionate consolidation method. A new standard, IFRS 11 Joint Arrangements was issued in May 2011 and now allows only one consolidation method in certain situations, that of equity accounting. The new standard takes effect for fiscal years starting from January 1, 2013 and the Corporation is currently assessing the impact of this change.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISKS AND UNCERTAINTIES

The Corporation continually manages its exposure to risks and uncertainties that it may encounter in its operating sectors or financial situation. As a result, Management continually reviews overall controls and preventive measures to ensure they are better matched to significant risks to which the Corporation's operating activities are exposed. A report on its risk-management program is reviewed regularly by the Audit Committee.

Managing the Corporation's risks is a major factor in the decisions taken by Management with regard to acquisitions, capital investments, divestiture of assets, grouping of plants, or efforts to create synergies among operating sectors. This focus also guides decisions regarding cost-reduction measures, product diversification, new market penetration, and certain treasury movements. Below is a list of the main risks the Corporation is exposed to that could have a significant impact on its financial situation and the strategies it is taking to mitigate them.

Operational Risks

Economic Cycles

A significant risk that the Corporation faces, and which it has difficulty controlling, is related to economic cycles, including the risk of economic recession. As well, more than 80% of the Corporation's operating revenues depend, directly or indirectly, on retailers' advertising budgets. Advertising spending by advertisers tends to be cyclical, reflecting the global economic climate and consumers' buying habits. However, due to the implementation of a development strategy based on becoming a leader in its niches, and because it is well diversified, the Corporation believes it can limit its exposure to economic cycles without, however, eliminating their occurrence or controlling their magnitude. The Corporation believes it mitigates this risk by the very composition of its operations, since a substantial segment of the client base operates in less cyclical markets, such as food and personal care. Furthermore, in the Media Sector, Transcontinental relies on a good balance between local and national advertising. It should be noted that in recent years close to half the advertising revenue in this sector has come from local advertising, which is less affected than national advertising in periods of economic slowdown.

Competition

Competition is based on price, quality of products and services and the range of services offered. Some of the printing niches in which the Corporation operates are highly competitive; in addition, new competitors have arrived in the past year. To reduce this risk, the Corporation continually strives to improve operational efficiency while maximizing the use of its most productive equipment. The Corporation also believes that this risk is limited by its position as Canadian leader, and by the fact that it has a diversified client base in which more than half the revenues are generated under medium and long-term agreements ranging from one to 18 years.

On the media side, some of its more traditional niches experienced greater competition in 2011. Magazines and newspapers, whether of general interest or with a special focus, as well as other media (television, radio, Internet and other communication or advertising platforms) compete with Transcontinental's magazines, newspapers, Internet sites and complementary communication platforms for sale of advertising space as well as subscription and newsstand sales in some cases. In addition, the availability in Canada of a number of magazines published by U.S. and international publishers also creates competition for Transcontinental's magazines. To mitigate this risk, the Corporation continues to focus on continuous improvement programs, cost-reduction initiatives and developing new digital and print products and services in order to broaden its integrated service offer to local and national businesses.

Moreover, with consumers having rapidly adopted digital communications, more and more content is being produced and aimed at a target audience, and there is increasing competition among digital and mobile solutions. Although this situation could well generate business opportunities, these new realities are evolving very quickly and if Transcontinental doesn't offer its customers an attractive return on investment, the effect on its bottom line could be negative. Also, the market for interactive marketing solutions is fragmented, competitive and evolving rapidly. With the introduction of new technologies and the influx of new market players, there is a risk that competition could become entrenched and even intensify, which could hinder the Corporation's ability to increase sales and maintain its prices. It is also possible that new companies, including major well-established outfits, could enter its markets. If such companies were to decide to develop, market or resell competing interactive marketing products or services, or to acquire or form a strategic alliance with an existing competitor, Transcontinental's operating results could be affected.

New Media

The industries in which the Corporation operates are subject to the impact of new media, which are driving major developments in technology and changes in consumer behaviours. Technological change continues to improve the quality and accessibility of alternatives to print media. As a result, advertisers now have a more diverse selection of media products in which to spend their advertising dollars. Although this migration from conventional to new media could pose a risk for some of its niches, the Corporation cannot accurately predict what effect these rapid changes will have on demand for its products and services. In particular, these changes could reduce demand, increase price pressure, and require investments in equipment and technology. As well, the Corporation needs to be aware of customer needs and to respond by continually developing new solutions. This development can be costly, however, and there is no guarantee that the solutions will be accepted by customers.

Nevertheless, business opportunities also exist to recover advertising budgets invested in other media platforms. To limit the risk and capitalize on this opportunity, Transcontinental has been shifting its focus towards the digital market through its Interactive and Media sectors. The Corporation has targeted development areas in its strategy for digital media and interactive solutions in order to position itself as a content creator and to deliver on new media platforms and other digital solutions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Success depends on the quality of the Corporation's products and services. Consequently, Transcontinental must continue to invest in research and development to improve its digital platforms as well as introduce new high-potential products and services. On the other hand, these investments could affect operating results.

Operational Efficiency

Given its very competitive markets, the Corporation must continually improve operational efficiency in order to maintain or improve profitability. However, there is no guarantee that the Corporation will be able to do this in the future. As well, the need to reduce ongoing operating expenses could result in costs to downsize the workforce, close or consolidate facilities, or upgrade equipment and technology.

Regulation

The Corporation is subject to many regulations that may be amended by municipal, provincial or federal authorities. Any changes to these regulations could result in a material increase in costs for the Corporation if it must comply by increasing its workforce, enhancing compensation and employee benefits, or investing in raw materials or new or improved equipment.

Geographic Distribution and Exchange Rate

In fiscal 2011, revenues generated outside Canada accounted for 12.5% of consolidated revenues, compared to 13.4% in 2010. This drop is due mainly to the rise of the Canadian dollar against its U.S. counterpart during the fiscal year since the volume of exports to the United States and revenues from U.S. entities was relatively stable in comparison to 2010.

The currency-hedging program uses derivatives to protect the Corporation from the risk of short-term currency fluctuations. Moreover, Transcontinental attempts to match cash inflows and outflows in the same currency. The policy approved by the Corporation's Board of Directors permits hedging of 50% to 100% of net cash flows for a period of one to 12 months, 25% to 50% for the subsequent 12 months and up to 33% for the following 12 months.

As at October 31, 2011, using forward contracts to manage the exchange rate related to its exports to the United States, the Corporation had contracts to sell US\$92.5 million (US\$107 million as at October 31, 2010), of which \$56.5 million and \$36 million will be sold in fiscal 2012 and 2013, respectively. The terms of these forward contracts range from one month to 30 months, with rates varying from 0.9846 to 1.1474.

Dependence on Information Systems

The Corporation relies heavily on information technology systems. If these systems experience disruptions or breakdowns due to a system crash, power outage, virus, unauthorized access, human error, sabotage or other such events, it could have a negative effect on its operations and earnings. The media industry is still in the grip of massive technological change. The ever-growing popularity of the Internet has increased the number of content options competing with traditional media. Transcontinental must also manage the changes in these new technologies and be able to acquire, develop or integrate them. Its ability to successfully manage the implementation of new technologies could have a material impact on the Corporation's future competitiveness.

Recruiting and Keeping Talent

Social and demographic trends are making it more challenging to hire and retain qualified personnel. There is a diminishing pool of qualified talent, an increase in professional mobility, an increase in technology use and a high demand for emerging skill sets. There is a risk that the Corporation will have difficulty hiring and retaining qualified personnel. As a result, the Corporation established development plans for high-potential and promotable executives, as part of the semi-annual Leadership Review process. To ensure execution, each senior leader established specific objectives and committed to provide operational growth opportunities and challenges to further accelerate each person's development. In addition, senior managers are now evaluated on their implementation of succession plans for key positions. The Corporation continually assesses its leadership depth to meet organizational challenges and ensure on-going identification of successors and acquisition of new skills.

Impairment Tests

The Corporation conducts impairment tests that could lead to reductions in asset values and as a result have an unfavourable impact on shareholders' equity. Under Canadian generally accepted accounting principles, the Corporation must regularly test the impairment of long-term assets to determine whether the value of the asset in question has decreased. In accordance with these accounting principles, the Corporation completed its impairment tests in the fourth quarter 2011. Consequently, the Corporation recorded a non-cash charge of \$52.2 million before tax (\$45.1 million after tax) related to impairment of good will and intangible assets. This asset devaluation reduces the net income applicable to participating shares but has no major impact on conformity with the debt ratio the Corporation must respect under the terms of its current credit facilities, nor on its borrowing power.

Exchange of Confidential Information and Privacy

This risk involves the use and manipulation of confidential information provided by Transcontinental's customers. The potential dissemination of such information to the wrong individuals could cause significant damage to customers' relationships with their clients and thus to the Corporation's own relationships with its customers and could result in legal actions. To mitigate this risk, various measures to improve prevention and control have been implemented. In fiscal 2011, security measures were strengthened, specifically with respect to information systems.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Furthermore, it is possible that some of the Corporation's operations infringe on the privacy of users and others. While it has introduced strict controls in this area, practices with respect to the collection, use, disclosure or security of personal information or other related confidentiality issues could damage its reputation.

Integration of Acquisitions

Acquisitions have been and continue to be a key element in the Corporation's growth strategy. However, the integration of acquisitions is always a risk and this risk increases with the size of the acquisition. Integrating businesses could cause temporary disruptions to operations, to labour retention, to client relationships and/or potential loss of business. In addition, the identified synergies may not be fully realized or may take longer to realize than originally anticipated.

In third quarter 2011, Transcontinental signed an agreement with Quad/Graphics to indirectly acquire all shares of Quad/Graphics Canada. This transaction is, however, subject to obtaining regulatory clearances; the Corporation believes that it will be finalized in early 2012. The integration of these operations could result in the potential loss of contracts and/or customer relationships, to temporary disruptions in production or to problems retaining key employees. Also, the anticipated synergies could fail to completely materialize, or could take more time than expected to materialize. However, to limit this risk, the Corporation has experienced due diligence teams and rigorous integration methods and believes that it is in a position to generate synergies from the integration of these operations because of the major investments made in recent years in its Printing Sector.

Loss of Reputation

The Corporation currently enjoys a good reputation. The risk of losing or tarnishing this reputation could have an important impact on the affairs of the Corporation or its valuation in the stock market. Also, its ability to maintain its existing customer relationships and generate new customers depends greatly on the quality of its services, reputation and business continuity. Dissatisfaction with its services, damage to its reputation, or changes to key employees could lead to a loss of business. Since its creation, the Corporation has taken important steps to mitigate this risk, mainly by ensuring strong corporate governance and establishing policies, including a Code of Ethics.

Participating Shares and Preferred Shares

Share prices may fluctuate and shareholders may not be able to sell participating shares at the issue price or a higher price. The price of participating shares could fluctuate due to a number of factors related to the Corporation's business, including new announcements, changes in the Corporation's operating results, sales of participating shares on the market, not meeting analysts' expectations, the general situation in the printing and publishing industries or in the North American economy. In recent years, participating shares, the shares of other companies operating in the same sectors and the stock market in general have experienced quite substantial price fluctuations that were not necessarily related to the operating performance of the companies concerned. It would be realistic to expect that the price of participating shares will continue to fluctuate significantly in the future, not necessarily related to the Corporation's performance.

Holders of preferred shares may not be able to sell their shares at the issue price or a higher price. The price of preferred shares could fluctuate in response to real or anticipated fluctuations in their credit rating and interest rates, which would also have an impact on the cost at which the Corporation could carry out transactions or obtain financing, and therefore on its liquidity, financial situation or operating results.

Financial Risks

Availability of Capital and Use of Financial Leverage

At October 31, 2011, an amount of \$181.7 million was drawn on the \$400.0 million revolving credit facility which matures in September 2012. Senior unsecured notes for C\$74.4 million will also mature in fiscal 2012. However, preliminary approaches have been made and there is no indication that the Corporation will have any difficulty replacing these financing sources at attractive market conditions. This risk is mitigated by the fact that the Corporation is in a very good financial position, with an adjusted net indebtedness ratio of 1.44x and the Corporation's financial position should improve further due to the considerable cash flows generated in the next fiscal year, since capital expenditures will be limited to \$75 million. Also, the \$200.0 million receivables securitization program arranged in February 2011 was unused at October 31, 2011, which gives the Corporation additional flexibility.

There is no assurance that the Corporation will be able to increase distributions to shareholders by way of dividends.

Interest Rate

Transcontinental is exposed to market risks related to interest-rate fluctuations. At the end of fiscal 2011, considering the derivative financial instruments used, the fixed rate portion of the Corporation's long-term debt represented 81% of the total, while the floating rate portion represented 19% (70% and 30%, respectively, in 2010). The fixed rate portion of the debt increased due to pre-payment in fiscal 2011 of fixed-rate debt, i.e., its term credit facility of \$100.0 million with the Caisse de dépôt et placement du Québec and its \$50.0 million term loan with SGF Rexfor. The repayments were made by drawing on the term revolving credit facility which has a floating interest rate. The interest rate swap hedges other floating rate debts, which explains the increase in the fixed rate portion of the long-term debt as at October 31, 2011. The floating rate portion of the debt, considering the derivative financial instruments, bears interest at rates based on LIBOR or bankers' acceptance rates. In order to mitigate this risk the Corporation tries to keep a good balance of fixed versus floating rate debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Credit

The volatile economic conditions could have an impact on the availability of capital in general, but also more specifically in certain vulnerable niches. To limit this risk, the Corporation is maintaining its strict controls on receivables and senior management is putting greater emphasis on analyzing and reviewing the financial health of its customers; rigorous evaluation procedures are applied to all new customers. A specific credit limit is established for each customer and reviewed periodically by the Corporation. As well, the Corporation is protected against any concentration of credit risk through its products, clientele and geographic diversity. As at October 31, 2011, the maximum exposure to credit risk related to receivables is the carrying amount. The Corporation also has a credit insurance policy covering most of its major customers, for a maximum amount of \$20.0 million, which ends on April 30, 2011. The policy contains the usual clauses and limits regarding the amounts that can be claimed by event and year of coverage.

Pension Plans

On June 1, 2010, the Corporation replaced its hybrid and defined benefit (DB) pension plans with defined contribution (DC) plans. As a result, the Corporation has limited its risk with respect to past service under the hybrid and DB plans since there is no risk associated with future service under the DC plans.

Pension funding is based on actuarial estimates and is subject to limitations under applicable income tax and other regulations. Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels to the time of retirement and the anticipated long-term rate of return on pension plan assets. Accrued benefit obligation, fair value of plan assets and plan asset composition are measured at the date of the annual financial statements. The most recent actuarial valuation of the pension plans for funding purposes was made as of December 31, 2010. From now on, valuations must be performed annually. The actuarial funding valuation report determines the amount of cash contributions that the Company is required to make to the registered retirement plans. The December 31, 2010 funding report showed the registered retirement plans to be in a solvency deficit position. Consequently, the Corporation will be required to increase its cash funding contributions during the next fiscal year. If the financial markets or interest rates drop significantly again, the Corporation would likely be required to further increase its cash funding contributions.

Environmental Risks

The Corporation operates in two industries, printing and publishing, which use large quantities of paper for their day-to-day operations. Consumers are expressing mounting concern over the protection of the environment as well as sustainable development. Also, on June 10, 2011, the Quebec government passed Bill 88 amending the Environment Quality Act and the Regulation respecting compensation for municipal services, which received assent on June 13, 2011. The percentage of the recycling costs covered by Quebec municipalities, to which businesses currently contribute, will increase from 80% in 2011 to 100% in 2013. This legislative amendment could have an adverse impact on the Media Sector, and more specifically on the Local Solutions Group and the Business and Consumer Solutions Group. To mitigate this risk, the Corporation tries to be at the forefront of its industry in terms of commitment to the environment and, in collaboration with its suppliers, is looking on an ongoing basis to reduce its costs. Please refer to the Environment section of this *Management's Discussion and Analysis* for further details.

Raw Materials and Postal Risk

Raw Materials and Energy Prices

The primary raw materials the Corporation uses in its printing sector are paper, ink and plates. These activities consume energy, i.e., electricity, natural gas and oil. Fluctuations in raw materials and energy prices affect its operations.

While paper costs are a pass through for the Printing Sector, the increase in the price of raw materials can have a negative effect on printing operations if it changes the purchasing habits of customers, in terms of number of pages printed for example. Moreover, the increase in the price of paper negatively affects the profitability of the Media Sector. In order to mitigate this risk, the Corporation does not rely on any one supplier and has agreements with its most important suppliers in order to ensure a stable flow of resources. In addition, some supply agreements contain escalation clauses that index selling prices to fluctuations in raw material costs and currency. Finally, fluctuations in the price of oil have an impact on ink and on gasoline prices. Any increase in gasoline prices would negatively affect distribution activities in the Media Sector. However, the Corporation continues to seek new ways to reduce energy costs.

Future Policies of the Canadian and U.S. Postal Systems

Postal rates are an important component of the cost structure of the Corporation's printing customers (direct mail in Canada, catalogues and magazines). Postal rate changes can influence the number of pieces that Transcontinental's customers are willing to mail. In order to mitigate this risk, the Corporation has increased its investment in postal optimization capabilities which can offer customers a reduction in their postal costs. A significant increase in postal costs would affect not only the customers of its printing operations, but also the Media Sector, particularly with respect to magazine distribution. Furthermore, Canadian print magazines and non-daily newspapers benefit from the Aid to Publishers program offered by the Canada Periodical Fund. Any significant reduction or loss in these subsidies could have a negative impact on the Corporation's obligations.

In conclusion, the Corporation continues its stringent approach to risk management, remaining alert to any new risks that could affect its operations and ensuring that its current control measures are effective. Management also continues its structured approach to risk prevention and control and to business continuity planning, which establishes measures to encourage business units to prevent risk, manage organizational change and recover from unforeseeable events more effectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DISCLOSURE CONTROLS AND PROCEDURES

Transcontinental's President and Chief Executive Officer and its Chief Financial and Development Officer are responsible for establishing and maintaining the Corporation's disclosure controls and procedures.

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management to allow timely decisions regarding required disclosure.

The President and Chief Executive Officer and the Chief Financial and Development Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures as at October 31, 2011, have concluded that the Corporation's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Corporation and its subsidiaries would have been known to them.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The President and Chief Executive Officer and the Chief Financial and Development Officer have supervised the evaluation of the design and effectiveness of internal controls with respect to the Corporation's financial reporting, using the integrated framework for internal controls issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, they concluded that the Corporation's internal system for controlling financial reporting is effective as at October 31, 2011.

The President and Chief Executive Officer and the Chief Financial and Development Officer have evaluated whether there were changes to internal control over financial reporting during the year ended October 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

SUBSEQUENT EVENTS

Structural change

On November 1, 2011, the Company implemented a new operating structure in order to better meet the actual needs in companies' multi-platform marketing communications, combining the majority of the Interactive Sector activities with those of the Media Sector into a single sector. For their part, the digital printing operations established in the United States will complete the offer of the Printing Sector. This new operating structure will be reflected in the consolidated financial statements of the first quarter of fiscal 2012.

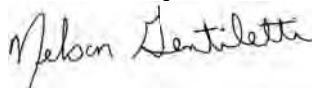
OUTLOOK

As fiscal 2012 gets underway, Transcontinental's financial condition is sound. This puts it in a good position to further its transformation and keep a solid footing in the uncertain North American economy. Considerable cash flows will be generated in fiscal 2012 and capital expenditures will be limited to a maximum of \$75 million to ensure the Corporation has extra flexibility when assessing value-generating opportunities.

With the combination of the Media and Interactive sectors on November 1, 2011, in coming quarters the Corporation should be able to ramp up integration of its marketing products and services and increase the profitability of its digital platforms. The new Media Sector will focus on integration and its marketing activation offering by developing its digital platforms and interactive platforms. Given the stiffer competition in some of its more traditional niches, the sector will pursue its initiatives to secure its market share. Lastly, any slowdown in the economy could have an impact on national advertising expenses, which would have an adverse impact on the sector, particularly in the Business and Consumer Solutions Group.

For the Printing Sector, the focus in coming quarters will be the integration of Quad/Graphics Canada's operations, subject to clearances from Canadian regulators; it is now expected that these will be obtained in early 2012. With the contribution from this transaction, and given the important investments in its print network and its Canada-wide hybrid press platform in recent years, the Printing Sector could generate additional adjusted operating income before amortization of at least \$40 million on an annualized basis over a 12 to 24-month period after the closure of the transaction. Also, new contracts signed in fiscal 2011, particularly the new long-term agreement with Canadian Tire, should enable the Corporation to generate additional revenues of \$30 to \$40 million annually as of January 2012, much of it benefiting the Printing Sector. Initiatives will be implemented to make the printing network more efficient, including accelerated integration of flyer printing on the hybrid press platform.

On behalf of Management,



Nelson Gentiletti
Chief Financial and Development Officer