

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010

(in millions of dollars, except per share data)

1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canada, as established in Part V of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, and include the following significant accounting policies:

a) Consolidation

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, in accordance with Section 1581 "Business Combinations" of the CICA Handbook, and their operating results 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.

b) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions which are based on subjective or complex judgments, that affect the amounts reported in the consolidated financial statements of the Corporation. Although management regularly reviews its estimates, actual results could differ from them. The most significant areas requiring the use of management estimates are: provisions, including provisions for bad debts, for inventory obsolescence and for legal contingencies, impairment of assets, restructuring costs, amortization periods of property, plant and equipment and intangible assets, valuation of goodwill and intangible assets, stock-based compensation costs and accounting for income taxes and pension plans.

c) Revenue recognition

The Corporation recognizes revenues when the following criteria are met:

- there is persuasive evidence of the existence of an agreement for exchange of products or services;
- the products were shipped or delivered, or services provided;
- the selling price is fixed or determinable;
- the collection of the sale is reasonably assured.

i) In the Printing sector, printing is the main source of revenues. These revenues are recognized when products are shipped or delivered, in accordance with the customer agreement. Most sales are promptly delivered to customers; consequently, the Corporation does not have significant finished goods in inventory.

ii) Interactive sector revenues are recognized as follows:

Printing revenues:

Printing revenues are recognized when products are shipped or delivered, in accordance with the customer agreement.

Content preparation revenues:

Content preparation revenues are recognized based on the percentage of completion method, in accordance with the customer agreement.

Custom publication revenues:

Custom publication revenues are recognized when products are shipped or delivered, or when services are provided, in accordance with the customer agreement. Revenues for updating digital publications are recognized based on the percentage of completion method.

Revenues for the use of computerized tools:

Revenues for the use of computerized tools are recognized based on usage, storage space or reports generated, in accordance with the customer agreement. Revenues billed also consider volume discounts.

Marketing project revenues:

Marketing project revenues are recognized based on the percentage of completion method, in accordance with the customer agreement.

iii) Media sector revenues are recognized as follows:

Advertising revenues:

Advertising revenues are recognized at the publication date in the case of a daily or weekly publication, and at the date of issue in the case of a monthly publication.

Subscription revenues:

Subscription revenues are recognized using the straight-line method, based on subscription terms, which represent the period during which the services are provided. These amounts received are therefore recorded in deferred subscription revenues when collected, and subsequently transferred to income based on the subscription terms.

Distribution revenues:

Door-to-door distribution revenues are recognized at the delivery date of the advertising material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newsstand revenues:

Newsstand revenues are recognized at the time of delivery, net of a provision for returns and delivery costs.

Educational books revenues:

Educational books revenues are recognized when the books are shipped to customers, in accordance with the customer agreement.

Publishing revenues:

Revenues from government programs related to publishing are recognized based on the percentage of completion method, in accordance with the customer agreement.

d) Non-monetary transactions

In the normal course of business, the Corporation offers advertising in exchange for goods or services. The related revenues are accounted for based on the fair value of the goods and services received or given. For the year ended October 31, 2011, the Corporation recognized an amount of \$9.5 million as non-monetary transactions (\$7.4 million for the year ended October 31, 2010).

e) 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 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.

f) Government assistance

Government assistance, including investment tax credits related to the purchase of property, plant and equipment or intangible assets, is recorded as a reduction in the cost of the underlying asset. Government assistance, including investment tax credits related to operating costs, is recorded as a reduction of these costs.

g) Cash and cash equivalents

Cash and cash equivalents include cash, bank overdraft and highly liquid investments with original maturities of less than three months. Cash and cash equivalents are presented at fair value.

h) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method, and includes the acquisition costs of raw materials and manufacturing costs, such as direct labor and a portion of manufacturing overhead.

i) Vendor rebates

The Corporation records vendor rebates as a reduction in the price of vendor's products or services received, and reduces operating costs and related inventory in the consolidated statements of income and balance sheets. These rebates are estimated based on anticipated purchases.

j) Property, plant and equipment

Property, plant and equipment are stated at cost, and amortized using the straight-line method over their estimated useful lives, as follows:

Buildings	20-40 years
Machinery and equipment	3-15 years
Machinery and equipment under capital leases	3-15 years
Other equipment	2-5 years
Leasehold improvements	Term of the lease

Costs, such as interest, directly incurred for the acquisition or construction of property, plant and equipment are capitalized and amortized over the useful life of the corresponding asset. Assets under construction are not amortized until they are ready for their intended use.

k) Leases

The Corporation accounts for capital leases as a property, plant and equipment and long-term debt when substantially all the benefits and risks incident to ownership of the property are transferred. The cost of assets under capital leases represents the present value of future minimum lease payments, and is amortized on a straight-line basis over the lease term.

Leases that do not transfer substantially all the benefits and risks incident to ownership of the property are accounted for as operating leases, under which the rental costs are recorded to income on a straight-line basis over the term of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Disposal of long-lived assets and discontinued operations

Long-lived assets held for sale are presented separately in the consolidated balance sheets and are measured at their carrying value or fair value less selling costs, whichever is less, and they are not amortized while they are presented as available for sale. The net results related to items that were disposed of by sale, or classified as held for sale, are presented as discontinued operations when the results and cash flows associated to these items have been or will be eliminated from continuing operations as a result of the sale, and if the Corporation no longer participate significantly in the operation of the item after the sale. Part of a business means an item whose net income and cash flows can be clearly distinguished from the rest of the net results and cash flows of the Corporation for both operating purposes and presentation of financial information.

m) 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 tested annually for impairment or more frequently if changes in circumstances indicate a potential impairment.

In assessing whether or not there is an impairment, the Corporation uses a combination of approaches to determine the fair value of a reporting unit, including both the market and the discounted future cash flows approaches. Under the market approach, the Corporation estimates the fair value of the reporting unit by multiplying normalized earnings before amortization, interest and income taxes by multiples based on market inputs. If there is an indication of impairment, the Corporation uses a discounted future cash flow model in estimating it, and compares it with the fair value of the net identifiable assets. The future cash flows are based on the Corporation's estimates and include consideration for expected future operating results, economic conditions and a general outlook for the industry in which the reporting unit operates.

n) Intangible assets

Intangible assets are stated at cost and amortized as follows:

	Term	Method
Customer relationships	12 years	Straight-line
Educational books prepublication costs	Maximum 7 years	On historical sales patterns
Educational books titles	6-9 years	On historical sales patterns
Acquired printing contracts	Term of the contract	Straight-line
Non-compete agreements	2-5 years	Straight-line
Long-term technology project costs	5 years	Straight-line

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

o) Contract acquisition costs

Contract acquisition costs are amortized as reductions of revenues using the straight-line method over the related contract term or on sales volumes. Whenever changes occur that impact the related contract, including significant declines in anticipated profitability, the Corporation evaluates the carrying value of the contract acquisition costs to determine whether impairment has occurred. These costs are included in other assets in the consolidated balance sheets.

p) Asset retirement obligations

Legal obligations linked to removal obligations on certain buildings are recorded in the period in which they are contracted, when they can be reasonably evaluated. The obligations are initially measured at fair value using the discounted cash flow technique, and are subsequently adjusted for any changes in the initial timing or amounts of the expected cash flow. Initially, these obligations are capitalized as capital assets, and then amortized over their remaining useful life. A liability related to the asset retirement obligation is also established over time, due to accretion, and recorded as operating costs.

q) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying amount exceeds the total undiscounted cash flows expected from their use and potential disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

r) Pension and post-retirement benefits

The Corporation offers various contributory and non-contributory defined benefit pension plans, defined contribution pension plans and registered savings plans to its employees and those of its participating subsidiaries. Since June 1, 2010, most employees participate only in defined contribution pension plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Defined benefits pensions 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 assumptions. 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 CICA Handbook in November 2000 is also amortized over the EARSL of the employee group covered by the plans. For the purpose of calculating the expected return on plan assets, the fair value is used.

ii) Defined contributions pensions plans

Under the defined contributions pension plans, the Corporation makes contributions to the participating employees pension plans using a predetermined percentage of the employees salary and has no legal or implicit obligation to pay additional amounts. The cost for these plans is recorded when services are rendered by employees, which is generally at the same time the contributions are made.

s) Stocks based compensation

The Corporation offers stock option plan and share unit plans for the benefit of senior executives and directors.

i) Stock option plan

Stock options are valued at fair value at the time of their issuance using the Black-Scholes model. Compensation costs related to stock options are recognized to income on a straight-line basis at a rate of 25% per year, which is the period over which the rights on the options are acquired, and an equal amount is recorded to contributed surplus included in shareholders' equity. When senior executives exercise their stock options, the amounts received from them are credited to share capital. For stock options granted since November 1, 2002, the amount previously accounted for as an increase to contributed surplus is also transferred to share capital.

ii) Share unit plan for senior executives

Compensation costs related to share units plan for senior executives are recognized on a straight-line basis over the three-year vesting period, either on the achievement of performance targets for the units related to performance, or on tenure for other units. The liability for these units is adjusted to the intrinsic value at the end of each reporting period, using the trading price of Class A Subordinate Voting Shares of the Corporation, until settlement. Any changes in the intrinsic value is recognized to income. At the end of each reporting period, the Corporation reviews its estimate of the number of units for which vesting is forecasted, and recognizes the impact of this revision to income, if any.

iii) Share unit plan for directors

Compensation costs related to share units for directors are recognized at the time of grant. These units are initially measured at fair value based on the trading price of Class A Subordinate Voting Shares of the Corporation, and are revalued at the end of each reporting period, until settlement. Any changes in fair value are recognized to income.

t) Foreign currency translation

Operating foreign subsidiaries, with the exception of foreign sales offices of the Canadian operations, are considered self-sustaining foreign operations and the current rate method is used to translate their financial statements into Canadian dollars. The resulting translation adjustments are reported under "Accumulated other comprehensive loss" in the consolidated balance sheets and recognized in income only when a reduction of the investment in these foreign operations has been realized. Integrated foreign operations, including foreign sales offices and foreign currency transactions, are translated using the temporal method and the foreign exchange gains or losses are recognized to income.

u) Financial instruments

Financial assets and liabilities are classified and valued as follows:

	Category	Subsequent evaluation
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable and other financial assets	Loans and receivables	Amortized costs
Investments	Available for sale	Fair value or cost if there is no quoted market
Accounts payable and other financial liabilities	Other financial liabilities	Amortized costs
Long-term debt	Other financial liabilities	Amortized costs
Derivative financial instruments	Held for trading	Fair value

Transactions costs are capitalized to the cost of financial assets and liabilities when they are not classified as held for trading. Thus, issuance costs of long-term debt are classified as a reduction in long-term debt, and amortized using the effective rate method.

Changes in fair value of financial instruments held for trading are recorded in the consolidated statement of income in the appropriate period. Changes in fair value of financial instruments designated as cash flow hedges are recorded, for the efficient portion, in the consolidated statement of comprehensive income in the appropriate period until their realization, after which they are recorded in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Derivative financial instruments and hedge accounting

The Corporation identifies, evaluates and manages financial risks related to changes in interest rates and foreign exchange rates in order to minimize the effect on its results and financial position, using derivative financial instruments for which parameters have been defined and approved by the Board of Directors. If the Corporation did not use derivative financial instruments, exposure to market volatility would be greater.

When applying hedge accounting, the Corporation documents relationship between the derivatives and hedged items, as well as its objective and risk management strategy underlying its hedging activities. This process includes linking all derivatives designated as a hedge to specific assets and liabilities, firm commitments or specific anticipated transactions.

When a hedging relationship is put in place and throughout its duration, the Corporation must have a reasonable assurance that the relationship will remain effective and in accordance with its risk management objective and strategy as initially documented. The effectiveness of the hedging relationship must be confirmed in each quarter. The effective portion of the hedge is recognized in other comprehensive income and the ineffective portion is recognized in the consolidated statement of income. The effective portion of the currency risk hedging related to future purchases of production equipment, deferred in accumulated other comprehensive income, is reclassified against the production equipment at its initial recognition. The effective portion of the currency risk hedging related to interest and capital payments is reclassified to income during the period in which the hedged item affects earnings.

When hedging instruments mature or become ineffective before their maturity and are not replaced within the Corporation's documented hedging strategy, any gains, losses, revenues or expenses associated with the hedging instrument that had previously been recognized in other comprehensive income as a result of applying hedge accounting are carried forward to be recognized in net income in the same period or periods during which the asset acquired or liability incurred affects net income. If the hedged item ceases to exist due to its maturity, expiry, cancellation or exercise before the hedging instrument expires, any gains, losses, revenues or expenses associated with the hedging instrument that had previously been recognized in other comprehensive income (loss) as a result of applying hedge accounting are recognized in the reporting period's net income along with the corresponding gains, losses, revenues or expenses recognized on the hedged item.

Derivative financial instruments offering economic hedging without being eligible to hedge accounting are accounted for at fair value with change in fair value recorded in the statements of income. The Corporation does not use derivative financial instruments for speculative or transactional purposes.

2 CHANGE IN ACCOUNTING POLICIES

Section 3064 of the CICA Handbook, Goodwill and intangible assets, allows the capitalization of employee salaries and benefits directly attributable to an internally generated intangible asset. The Corporation was not capitalizing the books prepublication costs as its information systems could not allocate these costs per book. On November 1, 2010, the Corporation modified its information systems in order to compile employee salaries and benefits per book, and decided to change its accounting policy. Consequently, for the year ended October 31, 2011, this change in accounting policy resulted in an increase in intangible assets of \$5.3 million and in long-term future income tax liability of \$1.5 million, as well as a decrease in operating costs of \$5.3 million and an increase in income tax expense of \$1.5 million. These intangible assets are now 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.

3 EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

International Financial Reporting Standards

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 ended October 31, 2012.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

The Corporation is currently completing the analysis of the impact that the adoption of these new standards will have on the consolidated financial statements. The consolidated financial statements of the first quarter of fiscal 2012 will be prepared according to these new standards.

4 AMORTIZATION

	2011	2010
Property, plant and equipment	\$ 104.1	\$ 105.8
Intangible assets	16.2	17.5
	120.3	123.3
Intangible assets and other assets, presented in revenues, operating costs and financial expenses	27.2	24.6
	\$ 147.5	\$ 147.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

5 IMPAIRMENT OF ASSETS AND RESTRUCTURING COSTS

Over the last fiscal years, the Corporation initiated restructuring plans as follows:

a) During the second quarter of fiscal 2009, the Corporation announced major rationalization measures to address the recession, including substantive cost-cutting measures throughout Canada and the United States. The deterioration of the economy had reduced the communication and marketing investments of a number of customers of the Corporation. Therefore, commercial printing projects and magazine and newspaper advertising placements were cancelled or postponed by companies also affected by the recession. These measures were completed during fiscal 2010 and final disbursements occurred during fiscal 2011.

b) The Corporation is currently carrying rationalization measures aimed at all its operating sectors. These measures aim, among others, to deal with excess production capacity in some specialized plants of the Printing sector, due to important structural changes in the printing industry which result in lower demand in certain niche markets. These measures also aim the implementation of a new operating structure from November 1, 2011, combining the majority of Interactive sector activities with those of the Media sector to form a single sector, in order to better meet the multi-platform marketing communication needs of the customers. For their part, the digital printing activities established in the United States will complete the product offering of the Printing sector. It is expected that these measures will be completed over fiscal 2012.

The following table provides details of these plans:

	Total		2011				2010	
	Charged to income	Forecasted	Liability as at October 31, 2010	Charged to income	Paid	Liability as at October 31, 2011	Charged to income	Paid
a) Rationalization Measures 2009 - 2010								
Printing								
Workforce reduction costs	\$ 27.2	\$ 27.2	\$ 2.9	\$ -	\$ 2.9	\$ -	\$ 4.3	\$ 10.2
Other costs	4.3	4.3	-	-	-	-	1.1	1.2
Interactive								
Workforce reduction costs	2.1	2.1	0.6	-	0.6	-	0.9	1.1
Other costs	0.2	0.2	-	-	-	-	-	-
Media								
Workforce reduction costs	10.4	10.4	0.4	-	0.4	-	1.4	4.7
	44.2	44.2	3.9	-	3.9	-	7.7	17.2
Printing								
Impairment of assets	16.5	16.5	n/a	-	n/a	n/a	0.9	n/a
Media								
Impairment of assets	1.6	1.6	n/a	-	n/a	n/a	0.1	n/a
	\$ 62.3	\$ 62.3	\$ 3.9	\$ -	\$ 3.9	\$ -	\$ 8.7	\$ 17.2
b) Rationalization Measures 2011 - 2012								
Printing								
Workforce reduction costs	\$ 13.7	\$ 13.7	\$ 5.5	\$ 8.2	\$ 8.0	\$ 5.7	\$ 5.5	\$ -
Other costs	2.4	3.2	-	2.4	2.4	-	-	-
Interactive								
Workforce reduction costs	1.7	1.7	-	1.7	0.7	1.0	-	-
Media								
Workforce reduction costs	2.2	2.2	-	2.2	1.3	0.9	-	-
	20.0	20.8	5.5	14.5	12.4	7.6	5.5	-
Printing								
Impairment of assets	4.6	4.6	n/a	3.9	n/a	n/a	0.7	n/a
	\$ 24.6	\$ 25.4	\$ 5.5	\$ 18.4	\$ 12.4	\$ 7.6	\$ 6.2	\$ -
Total								
Workforce reduction costs	\$ 57.3	\$ 57.3	\$ 9.4	\$ 12.1	\$ 13.9	\$ 7.6	\$ 12.1	\$ 16.0
Other costs	6.9	7.7	-	2.4	2.4	-	1.1	1.2
Impairment of assets	22.7	22.7	n/a	3.9	n/a	n/a	1.7	n/a
	\$ 86.9	\$ 87.7	\$ 9.4	\$ 18.4	\$ 16.3	\$ 7.6	\$ 14.9	\$ 17.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

6 FINANCIAL EXPENSES

	2011	2010
Financial expenses on long-term debt	\$ 34.6	\$ 39.7
Other expenses	5.0	3.6
Foreign exchange gain	(0.3)	(0.7)
	\$ 39.3	\$ 42.6

7 INCOME TAXES

	2011	2010
Income taxes at statutory tax rate	\$ 39.2	\$ 53.7
Effect of differences in tax rates in other jurisdictions	(9.6)	(12.2)
Effect of Ontario corporate income tax rate reductions (a)	-	(2.4)
Income taxes on non-deductible expenses and non-taxable portion of capital gain	9.0	4.7
Changes in valuation allowance on capital losses	(3.4)	(6.6)
Other	(4.9)	(3.1)
Income taxes at effective tax rate	\$ 30.3	\$ 34.1

Income taxes include the following items:

Income taxes before the following items:	\$ 44.0	\$ 42.8
Income taxes on impairment of assets and restructuring costs	(5.0)	(4.2)
Income taxes on impairment of goodwill and intangible assets	(7.1)	(2.1)
Income taxes on expenses related to long-term debt prepayments	(1.6)	-
Effect of Ontario corporate income tax rate reductions (a)	-	(2.4)
Income taxes at effective tax rate	\$ 30.3	\$ 34.1

(a) Corporate tax rate reductions announced in the March 26, 2009 Ontario budget were adopted on December 15, 2009. These reductions in corporation tax rates have reduced the income tax expense and net future income tax liabilities by \$2.4 million in the first quarter of fiscal 2010.

Income tax expense for the years ended October 31 is as follows:

	2011	2010
Current	\$ 31.4	\$ 23.7
Future		
Reduction of future income taxes related to impairment of assets and restructuring costs	(5.0)	(4.2)
Reduction of future income taxes related to impairment of goodwill and intangible assets	(7.1)	(2.1)
Income taxes on expenses related to long-term debt prepayments	(1.6)	-
Reduction of future income taxes related to the reduction of the Ontario corporate income tax rate	-	(2.4)
Increase in future income tax expense due to other temporary differences	12.6	19.1
	\$ 30.3	\$ 34.1

The tax impact of the temporary differences resulting in future income tax assets and liabilities are as follows as at October 31:

	2011	2010
Losses carried forward	\$ 130.1	\$ 120.2
Property, plant and equipment, net of tax credits	(96.0)	(77.6)
Other assets (liabilities)		
Non-deductible provisions	10.2	5.2
Pension plans	(1.9)	2.3
Goodwill and intangible assets	(33.1)	(34.7)
Other	9.9	6.6
Total future income taxes	\$ 19.2	\$ 22.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

7 INCOME TAXES (CONTINUED)

	2011	2010
Future income taxes include the following:		
Future income tax assets - short-term	\$ 16.8	\$ 16.6
Future income tax assets - long-term	144.9	145.3
Future income tax liabilities - short-term	(2.0)	(2.5)
Future income tax liabilities - long-term	(140.5)	(137.4)
Total future income taxes	\$ 19.2	\$ 22.0

The Corporation has capital losses of \$34.4 million that can be carried forward indefinitely, and for which the benefits arising therefrom have not been recognized. In addition, the Corporation has losses carried forward in certain U.S. states, which expire between 2013 and 2031, and for which the value after federal tax deduction is \$5.3 million. Considering that some limitations may apply to the use of these losses, the Corporation recorded a valuation allowance of \$4.1 million against them, leaving a net value of \$1.2 million in the consolidated balance sheet as at October 31, 2011.

8 DISCONTINUED OPERATIONS

On July 12, 2011, the Corporation has entered into a definitive agreement with Quad/Graphics, Inc. to sell its Mexican printing operations, for net proceeds of \$81.8 million. The Corporation received an amount of \$50.0 million and recorded an amount of \$32.8 million in its accounts receivable. This transaction resulted in a net loss on disposal of \$22.7 million, including an amount of \$50.5 million relating to the reversal of losses accumulated under "Foreign currency translation adjustment" in "Accumulated other comprehensive income (loss)", that the Corporation was required to consider in the book value of net assets related to Mexican printing operations. Mexican printing operations generated revenues of approximately \$63.3 million in 2010 and employed about 900 people in three locations. The closing of the transaction took place on September 8, 2011.

On February 10, 2010, the Corporation signed an agreement with IWCO Direct, a U.S.-company headquartered in Minnesota, to sell substantially all of its high-volume direct mail assets in the United States, for net proceeds of \$105.7 million. The closing of the transaction took place on April 1, 2010.

The following table presents the results of discontinued operations:

	2011	2010
Revenues	\$ 55.3	\$ 140.9
Expenses	53.3	153.9
Income (loss) before income taxes	2.0	(13.0)
Income taxes (recovered)	0.5	(3.2)
Income (loss) related to the operation of discontinued operations	1.5	(9.8)
Gain (loss) related to the discontinuance of operations, net of related income taxes of nil in 2011 and \$24.1 in 2010	(22.7)	39.2
Net income (loss) from discontinued operations	\$ (21.2)	\$ 29.4

9 ACCOUNTS RECEIVABLE

On February 16, 2011, the Corporation put in place a new two-year securitization program with a trust whose financial services agent is a Canadian bank, to sell, from time to time, certain accounts receivable of its subsidiaries. The maximum net consideration permitted under this program is \$200.0 million, of which up to 20% of accounts receivable denominated in U.S. dollars.

As at October 31, 2011, no amount has been drawn from this source of financing.

10 INVENTORIES

	2011	2010
Raw materials	\$ 43.8	\$ 40.9
Work in progress and finished goods	36.4	36.7
	\$ 80.2	\$ 77.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

11 PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	Net book value
2011			
Land	\$ 46.1	\$ -	\$ 46.1
Buildings	305.6	97.8	207.8
Machinery and equipment	1,149.5	690.8	458.7
Machinery and equipment under capital leases	14.8	8.4	6.4
Other equipment	162.7	128.8	33.9
Leasehold improvements	46.4	22.6	23.8
Assets under construction and deposits on equipment	10.4	-	10.4
	\$ 1,735.5	\$ 948.4	\$ 787.1
2010			
Land	\$ 47.5	\$ -	\$ 47.5
Buildings	307.2	87.3	219.9
Machinery and equipment	1,222.0	708.1	513.9
Machinery and equipment under capital leases	19.5	7.8	11.7
Other equipment	163.9	122.7	41.2
Leasehold improvements	44.6	21.1	23.5
Assets under construction and deposits on equipment	13.9	-	13.9
	\$ 1,818.6	\$ 947.0	\$ 871.6

Interest capitalized to property, plant and equipment.

For the year ended October 31, 2011, negligible amounts of interest were capitalized on property, plant and equipment (\$2.2 million for the year ended October 31, 2010).

12 GOODWILL

The changes in book value of goodwill are as follows:

	Printing Sector	Interactive Sector	Media Sector	Other activities and unallocated amounts	Consolidated
2011					
Balance, beginning of year	\$ 129.7	\$ 38.6	\$ 508.9	\$ 0.9	\$ 678.1
Acquisitions (Note 23)	-	3.5	31.9	-	35.4
Impairment	-	(29.5)	(1.5)	-	(31.0)
Balance, end of year	\$ 129.7	\$ 12.6	\$ 539.3	\$ 0.9	\$ 682.5
2010					
Balance, beginning of year	\$ 131.4	\$ 33.2	\$ 507.9	\$ 0.9	\$ 673.4
Acquisitions (Note 23)	-	5.6	1.8	-	7.4
Disposals	(1.4)	-	(0.3)	-	(1.7)
Foreign currency translation and other	(0.3)	(0.2)	(0.5)	-	(1.0)
Balance, end of year	\$ 129.7	\$ 38.6	\$ 508.9	\$ 0.9	\$ 678.1

During fiscal 2011, the Corporation has conducted its annual impairment test of goodwill. This test is carried in two steps. In the first step, the Corporation estimates the fair value of the reporting unit by multiplying normalized earnings before amortization, interest and income taxes by multiples based on market inputs. If at the conclusion of this first step there is an indication of impairment, the Corporation carries the second step to determine the amount of the impairment. In the second step, the Corporation estimates the fair value of the reporting unit using discounted future cash flows, considering expected future operating results, economic conditions and a general outlook for the industry in which the reporting unit operates, and compares it with the fair value of the net identifiable assets in order to evaluate the fair value of the goodwill.

Considering the major changes in the communications marketing industry, the Corporation recorded, in fiscal 2011, an amount of \$31.0 as impairment of goodwill, mostly related to personalized marketing activities of the Interactive sector, due to lower profitability than what was originally forecasted. No charge for impairment of goodwill was recorded in fiscal 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

13 INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value
2011			
Amortizable intangible assets			
Customer relationships	\$ 23.8	\$ 7.9	\$ 15.9
Educational books prepublication costs	71.6	50.3	21.3
Educational books titles	20.0	19.1	0.9
Acquired printing contracts	11.2	7.0	4.2
Non-compete agreements	2.4	1.2	1.2
Long-term technology project costs	36.2	20.4	15.8
Other	1.0	0.5	0.5
	166.2	106.4	59.8
Non-amortizable intangible assets			
Trade names and circulation	91.0	-	91.0
	\$ 257.2	\$ 106.4	\$ 150.8
2010			
Amortizable intangible assets			
Customer relationships	\$ 32.2	\$ 7.0	\$ 25.2
Educational books prepublication costs	60.3	41.1	19.2
Educational books titles	20.0	15.1	4.9
Acquired printing contracts	11.1	6.2	4.9
Non-compete agreements	2.0	0.8	1.2
Long-term technology project costs	40.1	19.9	20.2
Other	0.9	0.4	0.5
	166.6	90.5	76.1
Non-amortizable intangible assets			
Trade names and circulation	103.0	-	103.0
	\$ 269.6	\$ 90.5	\$ 179.1

For the year ended October 31, 2011, the Corporation capitalized costs directly attributable to the creation of internally generated intangible assets amounting to \$17.5 million (\$19.0 million for the year ended October 31, 2010).

For the year ended October 31, 2011, the Corporation recorded an impairment charge of \$12.0 million on trade names and circulation of certain publications in the Local Solutions Group in the Media sector, specifically in the Newspaper Division of the Atlantic Provinces and Saskatchewan (\$8.0 million for the year ended October 31, 2010). In addition, the Corporation recorded an impairment charge of \$6.6 million on customer relationships and an impairment charge of \$2.6 million on long-term technology project costs, primarily related to one to one marketing and digital printing activities in the Interactive sector (no impairment charge for the year ended October 31, 2010). For the year ended October 31, 2010, the Corporation recorded an impairment charge of \$4.5 million on various other intangible assets.

14 OTHER ASSETS

	2011	2010
Contract acquisition costs	\$ 13.4	\$ 20.4
Investments	0.6	0.8
Accrued pension benefit asset (Note 24)	23.6	8.4
Fair value of derivative financial instruments	0.2	2.5
Other	5.9	7.1
	\$ 43.7	\$ 39.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

15 LONG-TERM DEBT

	Effective interest rate as of	Maturity	2011	2010
	October 31, 2011			
Unsecured Senior Notes				
Series 2002 A - Tranche 1 - 5.62% (US\$75.0)	5.89 %	2013	\$ 74.4	\$ 76.5
Series 2002 A - Tranche 2 - 5.73% (US\$50.0)	5.83 %	2015	49.6	51.0
Series 2004 A - LIBOR + 0.70% (US\$37.5)	1.28 %	2012	37.2	38.3
Series 2004 B - LIBOR + 0.70% (US\$37.5)	1.28 %	2012	37.2	38.3
Series 2004 C - LIBOR + 0.80% (US\$15.0)	1.16 %	2014	14.9	15.3
Series 2004 D - LIBOR + 0.90% (US\$10.0)	1.25 %	2016	9.9	10.2
Loans secured by property, plant and equipment	-	-	-	0.5
Obligations under capital leases secured by property, plant and equipment having a net book value of \$6.4	5.43% to 8.07 %	2012-2016	4.2	5.2
Revolving credit facility in Canadian dollars	1.75 %	2012	145.0	166.0
Revolving credit facility in U.S. dollars (2011 - US\$37.0; 2010 - US\$12.0)	0.71 %	2012	36.7	12.2
Unsecured Debentures - Solidarity Fund QFL				
Series 1 - 8.06%	8.16 %	2014	50.0	50.0
Series 2 - 5.58%	5.61 %	2019	50.0	50.0
Term loan - SGF Rexfor Inc. - 8.25%	-	-	-	50.0
Term credit facility - Caisse de dépôt et placement du Québec Banker's acceptance rate + 6.375%	-	-	-	100.0
Term loan - EURIBOR + 1.60% (2011 - €39.3; 2010 - €49.2)	5.40 %	2015	55.5	69.6
Other loans at contractual rates of 0.00% to 8.00%	3.27% to 8.00 %	2012-2017	2.6	3.8
			567.2	736.9
Issuance costs of long-term debt at amortized			2.8	6.2
Total long-term debt			564.4	730.7
Current portion			271.9	17.8
			\$ 292.5	\$ 712.9

The Series 2002 A Unsecured Senior Notes are redeemable at the greater of par value and the discounted value of future cash flows, if redeemed before scheduled maturity, using an interest rate based on U.S. Treasury Securities, having similar maturities. Series 2004 A, 2004 B, 2004 C and 2004 D Unsecured Senior Notes are redeemable at their nominal value, except for Series 2004 D, which is redeemable at a premium of 0.5% as at October 31, 2011.

The Corporation has a line of credit in the form of a term revolving credit facility amounting to \$400.0 million or the U.S. dollar equivalent, which matures in September 2012. The applicable interest rate on the term revolving credit facility is based on the credit rating assigned by Standard & Poor's. According to the current credit rating and the form of borrowing chosen by the Corporation, it is either the bank prime rate, bankers' acceptance rate or LIBOR, plus 0.44%. Facility fees of 0.11% are applicable on the facility, whether it is drawn or not, and utilization fees of 0.05% are applicable if the amount drawn is over 66 2/3% of the facility.

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

The financing of \$100.0 million from the Solidarity Fund QFL is comprised of two unsecured debentures of \$50.0 million each. The first bears interest at a rate of 8.06%, payable every six months. The second bears interest at a rate of 5.58%, payable every six months. In the case of a change of control of the Corporation, the terms and conditions of the loans state that the principal and accrued interest could become due.

On February 17, 2011, the Corporation prepaid its \$100.0 million term credit facility granted by Caisse de dépôt et placement du Québec during fiscal 2009. This five-year financing bore interest at bankers' acceptance rate + 6.375%. This debt prepayment was made using the revolving credit facility, and resulted in costs of \$4.5 million in fiscal 2011, of which \$1.1 million had no effect on cash flows.

On July 4, 2011, the Corporation prepaid its term loan of \$50.0 million granted by SGF Rexfor Inc. during fiscal 2009. This five-year financing bore interest at 8.25% per year. This debt prepayment was made using the revolving credit facility, and resulted in costs of \$1.3 million that were recorded in fiscal 2011, of which \$0.3 million had no effect on cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

15 LONG-TERM DEBT (CONTINUED)

The financing of €39,3 million (\$55.5 million) from a European bank, which was used to acquire various production equipments, bears interest at EURIBOR + 1.60%. It is payable in equal instalments including principal plus interest, every six months until July 2015. On December 1, 2009, the Corporation entered into a six-year cross currency swap agreement, maturing in July 2015, to lock the exchange rate at 1.5761 and to convert the interest rate to banker's acceptance rate plus 3.36%.

The Corporation must comply with certain restrictive covenants, including the requirement to maintain certain financial ratios. For the years ended October 31, 2011 and 2010, the Corporation has not been in default under any of its obligations.

Principal payments to be made by the Corporation in forthcoming years are as follows:

	Principal payments
2012	\$ 271.9
2013	90.0
2014	80.7
2015	64.0
2016	10.4
2017 and thereafter	50.2
	\$ 567.2

Minimum payments required under capital leases, for which the principal is included in the amounts presented above, are as follows:

	Principal	Interest	Minimum payments
2012	\$ 1.3	\$ 0.2	\$ 1.5
2013	1.0	0.1	1.1
2014	1.4	0.1	1.5
2015	0.3	-	0.3
2016	0.2	-	0.2
	\$ 4.2	\$ 0.4	\$ 4.6

16 OTHER LIABILITIES

	2011	2010
Deferred subscription revenues	\$ 6.5	\$ 7.2
Long-term accrued liabilities	16.0	16.0
Accrued pension benefit liability (Note 24)	15.9	14.8
Asset retirement obligations	0.8	0.8
Fair value of derivative financial instruments	8.0	11.2
	\$ 47.2	\$ 50.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

17 SHARE CAPITAL

Authorized (unlimited number)

Class A Subordinate Voting Shares: subordinate participating voting shares carrying one vote per share, no par value;
Class B Shares: participating voting shares carrying 20 votes per share, convertible into Class A Subordinate Voting Shares, no par value;
Preferred Shares: first and second preferred shares, issuable in series in numbers limited by the Articles of Incorporation, carrying no voting rights except as provided by law or in the Corporation's Articles of Incorporation, entitling the holder to cumulative dividends.

	2011		2010	
	Number of shares	Amount	Number of shares	Amount
Issued and paid				
Participating shares				
Class A Subordinate Voting Shares	65,873,182	\$ 361.5	65,806,497	\$ 361.2
Class B Shares	15,151,235	20.5	15,196,840	20.6
	81,024,417	382.0	81,003,337	381.8
Preferred Shares				
Cumulative 5-Year Rate Reset First Preferred Shares, Series D	4,000,000	96.8	4,000,000	96.8
		\$ 478.8		\$ 478.6

The Series D Preferred Shares have a fixed cumulative annual dividend of 6.75% for the first five years, payable quarterly in January, April, July and October. Effective October 15, 2014, the cumulative annual dividend will be equivalent to the 5-Year Canadian Government Bonds Yield, plus 4.16% for the next five years. These Series D Preferred Shares are redeemable by the Corporation every five years and convertible (under certain conditions), to the holder's option, in Cumulative Floating Rate First Preferred Shares (the "Series E Preferred Shares"), effective October 15, 2014, and every five years thereafter on that date. The Series E Preferred Shares will have a cumulative quarterly dividend equivalent to the yield of Treasury Bills of the Government of Canada maturing within three months plus 4.16%. These Series E Preferred Shares will be redeemable by the Corporation after five years and will be convertible (under certain conditions), to the holder's option, into Series D Preferred Shares, effective October 15, 2019, and every five years subsequently on that date.

For the years ended October 31, 2011 and 2010, the share capital of the Corporation changed as follows:

	2011		2010	
	Number of shares	Amount	Number of shares	Amount
Class A Subordinate Voting Shares				
Balance, beginning of year	65,806,497	\$ 361.2	64,749,030	\$ 357.9
Conversion of Class B Shares into Class A Subordinate Voting Shares	45,605	0.1	848,867	1.2
Exercise of stock options	21,080	0.2	208,600	2.1
Balance, end of year	65,873,182	\$ 361.5	65,806,497	\$ 361.2
Class B Shares				
Balance, beginning of year	15,196,840	\$ 20.6	16,045,707	\$ 21.8
Conversion of Class B Shares into Class A Subordinate Voting Shares	(45,605)	(0.1)	(848,867)	(1.2)
Balance, end of year	15,151,235	\$ 20.5	15,196,840	\$ 20.6
Cumulative 5-Year Rate Reset First Preferred Shares, Series D				
Balance, beginning and end of year	4,000,000	\$ 96.8	4,000,000	\$ 96.8

Exercise of stock options

When holders exercise their stock options, the amounts received from them are credited to share capital. For stock options granted since November 1, 2002, the amount previously accounted for as an increase to contributed surplus is also transferred to share capital. For the years ended October 31, 2011 and 2010, no amount was transferred from contributed surplus to share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

18 NET INCOME PER PARTICIPATING SHARE

The following table is a reconciliation of the components used in the calculation of basic and diluted net income from continuing operations per participating share for years ended October 31:

	2011	2010
Numerator		
Net income from continuing operations	\$ 105.8	\$ 144.0
Dividends on preferred shares, net of related income taxes	6.8	6.8
Net income from continuing operations, applicable to participating shares	\$ 99.0	\$ 137.2
Denominator (in millions)		
Weighted average number of participating shares - basic	81.0	80.8
Weighted average number of dilutive options	0.1	0.1
Weighted average number of participating shares - diluted	81.1	80.9

In the calculation of the diluted net income per share, 1,242,340 stock options were considered anti-dilutive as at October 31, 2011 (1,010,960 as at October 31, 2010), since their exercise price was greater than the average value of Class A Subordinate Voting Shares during the period. Therefore, these stock options were excluded from the calculation.

19 STOCK-BASED COMPENSATION PLANS

Stock option plan

The Corporation offers a stock option plan for the benefit of certain of its senior executives. The number of Class A Subordinate Voting Shares authorized for issuance and the balance of shares that could be issued under this plan as at October 31, 2011 were 6,078,562 and 4,572,478, respectively. The stock options granted before March 31, 2005 start to vest after one year at a rate of 20% per year and must be exercised no later than ten years after the grant date. The stock options granted after March 30, 2005 start to vest after one year at a rate of 25% per year and must be exercised no later than seven years after the grant date. Under the plan, each stock option entitles its holder to receive one share upon exercise and the exercise price is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option.

Stock-based compensation costs of \$0.7 million and \$0.8 million were charged to income and as an increase to contributed surplus of shareholders' equity for the years ended October 31, 2011 and 2010, respectively.

The following table summarizes the changes in outstanding stock options for the years ended October 31:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	1,542,490	\$ 16.76	2,006,575	\$ 17.23
Granted	164,672	16.20	173,100	13.09
Exercised	(21,080)	10.36	(208,600)	9.88
Cancelled	(113,442)	18.38	(428,585)	20.84
Balance, end of year	1,572,640	\$ 16.67	1,542,490	\$ 16.76
Options exercisable as at October 31	1,118,885	\$ 18.10	1,044,640	\$ 18.95

As at October 31, 2011 the balance of stock options available for grant under the plan was 2,999,838.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

19 STOCK-BASED COMPENSATION PLANS (CONTINUED)

The following table summarizes information regarding outstanding stock options as at October 31:

	Options outstanding			Options exercisable		
	Exercise price range	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
2011						
	\$ 9.64 - 13.09	490,400	4.3	\$ 10.85	220,375	\$ 10.47
	\$ 15.51 - 22.41	1,082,240	2.6	19.31	898,510	19.98
		1,572,640	3.1	\$ 16.67	1,118,885	\$ 18.10
2010						
	\$ 8.85 - 13.09	531,530	5.2	\$ 10.87	124,205	\$ 10.09
	\$ 15.51 - 22.41	1,010,960	3.0	19.86	920,435	20.15
		1,542,490	3.8	\$ 16.76	1,044,640	\$ 18.95

The following table summarizes the assumptions used to calculate the weighted average fair value of stock options granted on the date of grant using the Black-Scholes model for the years ended October 31:

	2011	2010
Fair value of stock options	\$ 5.40	\$ 4.31
Assumptions:		
Dividend rate	1.6 %	1.5 %
Expected volatility	39.8 %	38.6 %
Risk-free interest rate	2.51 %	2.74 %
Expected life	5 years	5 years

Share unit plan for senior executives

The Corporation offers a share unit plan to its senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted. A portion of share units will vest based on performance targets and another portion of share units will vest based on tenure. Vested DSUs and RSUs will be paid, at the Corporation's option, in cash or with Class A Subordinate Voting Shares of the Corporation purchased on the open market.

The following table provides details of this plan:

Number of units	2011		2010	
	DSU	RSU	DSU	RSU
Balance, beginning of year	121,110	676,627	127,870	548,808
Units granted	40,123	233,383	53,240	277,013
Units cancelled	-	(110,163)	(58,141)	(136,765)
Units paid	(31,431)	(53,824)	(4,290)	(12,429)
Units converted	66,139	(66,139)	-	-
Dividends paid in units	6,040	-	2,431	-
Balance, end of year	201,981	679,884	121,110	676,627

The expense reversal recorded in the consolidated statement of income for the year ended October 31, 2011 was \$0.4 million. The expense recorded in the consolidated statement of income for the year ended October 31, 2010 was \$4.0 million. Amounts of \$1.3 million and \$0.2 million were paid under the plan for the years ended October 31, 2011 and 2010, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

19 STOCK-BASED COMPENSATION PLANS (CONTINUED)

Share unit plan for directors

The Corporation offers a deferred share unit plan for its directors. Under this plan, directors may elect to receive either cash, deferred share units, or a combination of both for their compensation.

The following table provides details of this plan:

	2011	2010
Number of units		
Balance, beginning of year	159,803	167,783
Directors compensation	35,497	29,396
Units paid	-	(40,923)
Dividends paid in units	5,957	3,547
Balance, end of year	201,257	159,803

The expenses recorded in the consolidated statements of income for the years ended October 31, 2011 and 2010 were \$0.2 million and \$0.9 million, respectively. No amount has been paid under the plan for the year ended October 31, 2011 (\$0.5 million for the year ended October 31, 2010).

20 CONTRIBUTED SURPLUS

	2011	2010
Balance, beginning of year	\$ 13.7	\$ 12.9
Compensation costs relating to stock option plan (Note 19)	0.7	0.8
Balance, end of year	\$ 14.4	\$ 13.7

21 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Foreign currency translation adjustment	Cash flow hedges	Accumulated other com- prehensive income (loss)
Balance as at November 1, 2009	\$ (20.8)	\$ 0.7	\$ (20.1)
Net change in gains (losses), net of income taxes	(4.0)	(5.2)	(9.2)
Balance as at October 31, 2010	\$ (24.8)	\$ (4.5)	\$ (29.3)
Balance as at November 1, 2010	\$ (24.8)	\$ (4.5)	\$ (29.3)
Reclassification of a realized foreign exchange loss to net income of discontinued operations, related to the reduction of net investment in self-sustaining foreign operations (Note 8)	50.5	-	50.5
Net change in gains (losses), net of income taxes	(5.7)	(1.8)	(7.5)
Balance as at October 31, 2011	\$ 20.0	\$ (6.3)	\$ 13.7

As at October 31, 2011, the amounts expected to be reclassified to net income are as follows:

	2012	2013	2014	2015	2016 and thereafter	Total
Losses on derivatives designated as cash flow hedges	\$ (1.6)	\$ (2.2)	\$ (1.6)	\$ (0.9)	\$ (2.5)	\$ (8.8)
Income taxes	0.6	0.6	0.4	0.2	0.7	2.5
	\$ (1.0)	\$ (1.6)	\$ (1.2)	\$ (0.7)	\$ (1.8)	\$ (6.3)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

22 CASH FLOWS

The changes in non-cash operating items are as follows:

	2011	2010
Accounts receivable	\$ 37.7	\$ (146.2)
Income taxes receivable	5.0	(15.6)
Inventories	(2.7)	(6.6)
Prepaid expenses and other current assets	(3.8)	(0.3)
Accounts payable and accrued liabilities	(26.0)	13.9
Income taxes payable	4.5	2.1
Deferred subscription revenues and deposits	(6.9)	3.8
Net change in accrued pension benefit asset and liability (Note 24)	(14.1)	(6.2)
	\$ (6.3)	\$ (155.1)
Additional Information		
Interest paid	\$ 30.5	\$ 39.2
Income taxes paid	\$ 19.5	\$ 33.4

23 BUSINESS ACQUISITIONS

On July 12, 2011, the Corporation and Quad/Graphics, Inc. have entered into a definitive agreement under which the Corporation will acquire all the shares of Quad/Graphics Canada, Inc., subject to regulatory approval, including the approval under the Canadian Competition Act, and an agreement to sell to Quad/Graphics, Inc. its Mexican printing operations, and to transfer its black and white book printing business for U.S. export. Essentially, these transactions represent an exchange of assets of a net value of approximately \$85.0 million, including \$80.0 million, before adjustment for working capital and transaction costs, for the Mexican printing operations, and \$5.0 million for the black and white book printing business for U.S. export. The Canadian transaction is expected to close in early 2012, and will be settled in cash totaling \$50.0 million, and by compensation the amount related to the sale of the Mexican printing operations and the black and white book printing business for U.S. export. The Mexican transaction was approved under the Mexican Federal Law on Economic Competition, and was completed in the fourth quarter of fiscal 2011.

During the year ended October 31, 2011, the Corporation has made the following acquisitions:

Operating sector	Acquisitions	Date of acquisition
Interactive	100% of the shares of Vortxt Interactive Inc., a company operating in mobile solutions.	November 1, 2010
Media	Assets of <i>Journal Nouvelles Hebdo</i> , a weekly newspaper in the Dolbeau-Mistassini area.	April 28, 2011
	Assets of Groupe Le Canada Français, representing 11 weekly and monthly titles, and a series of Web portals, serving Saint-Jean-sur-Richelieu and Granby areas.	August 1, 2011
	Assets of Avantage Consommateurs de l'Est du Québec, representing three weekly and monthly publications, and their Web portals, serving the territory between St-Simon and Gaspé.	August 29, 2011

The purchase price allocation related to other acquisitions completed in the year ended October 31, 2011 are preliminary and subject to change following the final valuation of the assets acquired and the final determination of the costs related to these acquisitions. The excess of purchase price over book value of assets acquired has been fully allocated to goodwill, consequently the acquired intangible assets and depreciation related on these assets were not included in the consolidated financial statements for the year ended October 31, 2011. The Corporation will finalize the purchase price allocation over fiscal 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

23 BUSINESS ACQUISITIONS (CONTINUED)

The fair value of assets acquired as well as adjustments to current and prior period acquisitions are summarized as follows:

	2011
Assets acquired	
Working capital	\$ 3.0
Property, plant and equipment	0.2
Goodwill (tax basis of \$23.9)	35.4
Amortizable intangible assets	0.4
	\$ 39.0
Liabilities assumed	
Future income taxes	0.1
	\$ 38.9
Consideration	
Cash paid	\$ 35.2
Bank overdraft in acquired operations	0.1
	35.3
Short-term liabilities	3.6
	\$ 38.9

For the year ended October 31, 2011, the Corporation paid an amount of \$0.5 million, included in short-term liabilities as at October 31, 2010, relating to a business acquisition completed in prior periods.

During the year ended October 31, 2010, the Corporation has made the following acquisitions:

Operating sector	Acquisitions	Date of acquisition
Interactive	10% additional shares of ThinData, Canada's leading permission-based email marketing services firm. The Corporation holds 100% of the shares of ThinData as of that date.	October 29, 2010
	25% additional shares of Totem (formerly Redwood Custom Communications), a North America's leading custom communications provider. The Corporation holds 100% of the shares of Totem as of that date.	October 29, 2010
	100% of the shares of LIPSO Systems Inc., a Canadian leader in integrated mobile solutions.	April 30, 2010
Media	100% of the shares of <i>Journal Le Nord</i> (Groupe Média-Business Inc.), a weekly newspaper serving the city of St-Jérôme.	September 13, 2010

Conversys

For the year ended October 31, 2010, adjustments were made to the purchase price allocation of Conversys, acquired January 21, 2009, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition. The table on the next page includes these adjustments.

Totem (formerly Redwood Custom Communications)

For the year ended October 31, 2010, adjustments were made to the purchase price allocation of Totem (formerly Redwood Custom Communications), acquired November 18, 2008, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition. The table on the next page includes these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

23 BUSINESS ACQUISITIONS (CONTINUED)

The fair value of assets acquired as well as adjustments to current and prior period acquisitions are summarized as follows:

2010

Assets acquired

Property, plant and equipment	\$	0.1
Goodwill (no tax basis)		6.6
Amortizable intangible assets		6.1
Future income taxes		0.2
	\$	13.0

Liabilities assumed

Other liabilities	\$	(0.1)
Future income taxes		1.8
		1.7
	\$	11.3

Consideration

Cash paid	\$	11.6
Short-term liabilities		1.3
Long-term liabilities		(1.6)
	\$	11.3

For the year ended October 31, 2010, the Corporation paid an amount of \$2.4 million relating to business acquisitions completed in prior years. Of this amount, \$1.6 million was included in short-term liabilities and \$0.8 million was allocated to goodwill.

24 PENSION PLANS

The Corporation offers various contributory and non-contributory defined benefit pension plans, defined contribution pension plans and registered savings plans to its employees and those of its participating subsidiaries. Since June 1, 2010, most employees participate only in defined contribution pension plans. For defined benefit pension plans, retirement benefits are generally based on years of service and employees' compensation. 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. For defined contribution pension plans and registered retirement savings plans, the only obligation of the Corporation and its subsidiaries is to remit the monthly contribution of the employer.

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, the valuations will be performed annually.

The composition of the pension plan assets is as follows:

	2011	2010
Canadian and foreign stocks	68 %	69 %
Government and corporate bonds	29	29
Cash and temporary investments	3	2
	100 %	100 %

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

24 PENSION PLANS (CONTINUED)

The following table presents the changes in the accrued benefit obligation and the fair value of plan assets, as well as the funded status of the defined benefit plans for the years ended October 31:

	2011	2010
Accrued benefit obligation		
Balance, beginning of year	\$ 394.7	\$ 343.2
Change in exchange rate	-	(0.1)
Current service cost	1.1	10.9
Interest on accrued benefit obligation	20.8	21.8
Actuarial losses	1.7	46.8
Benefits paid	(19.6)	(19.2)
Plans curtailment	-	(10.5)
Impact of settlement	-	(4.6)
Employee contributions	0.1	6.4
Accrued benefit obligation, end of year	\$ 398.8	\$ 394.7
Fair value of plan assets		
Balance, beginning of year	\$ 346.5	\$ 307.0
Actual return on plan assets	(0.8)	36.7
Benefits paid	(19.6)	(19.2)
Employer contributions	12.2	20.2
Employee contributions	0.1	6.4
Impact of settlement	-	(4.6)
Fair value of plan assets, end of year	\$ 338.4	\$ 346.5
Plan deficit	\$ (60.4)	\$ (48.2)
Unamortized net actuarial losses	68.2	42.1
Unamortized past service costs	0.1	0.1
Unamortized transitional obligation	(0.2)	(0.4)
Accrued benefit asset (liability)	\$ 7.7	\$ (6.4)

The accrued benefit asset (liability) is included in the Corporation's balance sheets as follows:

	2011	2010
Other assets	\$ 23.6	\$ 8.4
Other liabilities	(15.9)	(14.8)
	\$ 7.7	\$ (6.4)

Accrued benefit obligation and fair value of plan assets as at October 31 are as follows with respect to plans that are not fully funded:

	2011	2010
Fair value of plan assets	\$ 320.0	\$ 327.5
Accrued benefit obligation	380.6	377.4
Funded status - plan deficit	\$ (60.6)	\$ (49.9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

24 PENSION PLANS (CONTINUED)

The major assumptions used are as follows:

	2011	2010
Accrued benefit obligation as at October 31		
Discount rate, at year-end	5.50 %	5.50 %
Rate of compensation increase	3.00 - 4.00 %	3.00 - 4.00 %
Benefit cost for years ended October 31		
Discount rate, at previous year-end	5.50 %	6.50 %
Expected long-term rate of return on plan assets	7.00 %	7.25 %
Rate of compensation increase	3.00 - 4.00 %	3.50 - 4.50 %

The cost of the defined benefit pension plans recorded for the years ended October 31 is as follows:

	2011	2010
Current service cost	\$ 1.1	\$ 10.9
Interest on accrued benefit obligation	20.8	21.8
Actual return on plan assets	0.8	(36.7)
Actuarial losses on accrued benefit obligation	1.7	46.8
Effect of plans curtailment	-	(10.5)
Cost of defined benefit pension plans before adjustments to recognize the long-term nature of employee future benefit cost	24.4	32.3
Adjustments to recognize the long-term nature of employee future benefit cost:		
Difference between expected return and actual return on plan assets for the year	(24.6)	14.0
Difference between actuarial losses recognized for the year and actual actuarial losses on accrued benefit obligation for the year	(1.5)	(35.4)
Difference between amortization of past service costs for the year and actual plan amendments effective for the year	-	(0.1)
Amortization of the transitional obligation	(0.2)	3.2
Defined benefit cost recognized	\$ (1.9)	\$ 14.0

The cost and total cash amount paid for the defined contribution pension plans for the years ended October 31 are as follows:

	2011	2010
Employer contributions	\$ 17.7	\$ 8.6

25 COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Commitments

The Corporation is committed, under various leases of premises and contracts to acquire production equipment, to make payments until 2029. The Corporation is also committed, under contracts with certain customers, to make payments covering contract acquisition costs until 2017. Minimum payments required over the following years for these commitments are as follows:

	2012	2013	2014	2015	2016	2017 and thereafter	Total
Premises lease contracts	\$ 27.6	\$ 24.7	\$ 21.3	\$ 20.0	\$ 16.8	\$ 68.8	\$ 179.2
Production equipment acquisition contracts	1.1	0.5	0.3	-	-	-	1.9
Contract acquisition costs	7.8	2.8	4.5	0.4	0.3	-	15.8
	\$ 36.5	\$ 28.0	\$ 26.1	\$ 20.4	\$ 17.1	\$ 68.8	\$ 196.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

25 COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (CONTINUED)

Guarantees

In the normal course of business, the Corporation has provided the following significant guarantees to third parties:

a) Sub-lease agreements

The Corporation has entered into sub-lease agreements for some of its locations under operating leases, with expiry dates between 2012 and 2015. If the sub-lessee defaults under any of these agreements, the Corporation must compensate the lessor for the default. The maximum exposure in respect of these guarantees is estimated at \$2.1 million. As at October 31, 2011, the Corporation has not recorded any liability associated with these guarantees, since it is not probable that the sub-lessee will default under the agreement.

b) Indemnification of third parties

Under the terms of its debt agreements, the Corporation has agreed to indemnify the holders of such debt instruments against any increase in their costs or reduction in the amounts otherwise payable to them resulting from changes in laws and regulations. These indemnification agreements extend for the term of the agreements and do not have any limit. Given the nature of these indemnifications, the Corporation is unable to reasonably estimate its maximum potential liability payable to third parties. Historically, the Corporation has never made any indemnification payments, and as at October 31, 2011 the Corporation has not recorded a liability associated with these indemnifications.

c) Business disposals

As a result of the sale of business operations or assets, the Corporation may agree to provide indemnity against claims from previous business activities. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability that it could be required to pay to guaranteed parties. Historically, the Corporation has not made any significant indemnification payments, and as at October 31, 2011, the Corporation has not recorded any liability associated with these indemnifications.

Contingent liabilities

In the normal course of business, the Corporation is involved in various claims and legal proceedings. Although the resolution of these various cases pending as at October 31, 2011 cannot be determined with certainty, the Corporation believes that their outcome would likely not have a material adverse effect on its financial position and operating results, given the provisions on its books or insurance covering certain claims or legal proceedings.

26 FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk that the Corporation will incur losses due to non-payment of contractual obligations by third parties. The Corporation is exposed to credit risk with respect to trade receivables. It is also exposed to credit risk as part of its ongoing activities relative to its cash and cash equivalents and derivative assets.

The Corporation analyzes and reviews the financial health of its current customers on an ongoing basis and applies specific evaluation procedures to all new customers. A specific credit limit is established for each customer and reviewed periodically by the Corporation.

Due to the diversification of its products, its customers and its geographic coverage, the Corporation is protected against any concentration of credit risk. As at October 31, 2011, no single customer accounts for more than 5% of consolidated accounts receivable and the Corporation's 20 largest customers account for less than 25% of its consolidated accounts receivable. As at October 31, 2011, the maximum credit risk exposure for receivables corresponds to their carrying value. In addition, the Corporation has a credit insurance policy covering most of its major customers for a maximum of \$20.0 million. The conditions of the policy include the usual clauses and limits regarding the amounts that can be claimed per event and per year of coverage.

The Corporation determines past due receivables by considering the type of clients, historical payment terms and in which sector the clients conduct business. On a quarterly basis, allowance for doubtful accounts and past due receivables are reviewed by management. The Corporation records impairment only on receivables for which the recoverability is not reasonably certain.

The Corporation is exposed to credit risk arising from derivative financial instruments if a counterparty fails to meet its obligations; however, it does not foresee such an occurrence since it deals only with recognized financial institutions with superior credit ratings. As at October 31, 2011, the maximum exposure to credit risk is \$4.3 million (\$7.8 million as at October 31, 2010), which represents the carrying value of the financial instruments recorded as assets on the balance sheet of the Corporation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

26 FINANCIAL INSTRUMENTS (CONTINUED)

Past due accounts receivable:

	As at October 31, 2011	As at October 31, 2010
Trade receivables		
Not past due	\$ 241.5	\$ 285.9
Past due 1-30 days	88.7	82.8
Past due 31-60 days	25.4	23.3
Past due more than 60 days	22.7	21.1
	378.3	413.1
Allowance for doubtful	(7.5)	(10.9)
Other receivables	65.5	38.4
	\$ 436.3	\$ 440.6

Allowance for doubtful accounts:

Balance, beginning of year	\$ 10.9	\$ 10.2
Bad debt expense	1.8	3.4
Amounts written off	(5.2)	(2.7)
Balance, end of year	\$ 7.5	\$ 10.9

Based on the historical payment trend of the customers, the Corporation believes that this allowance for doubtful accounts is sufficient to cover the risk of default.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation is exposed to liquidity risk with respect to accounts payable, long-term debt, derivative financial instruments and contractual obligations.

The table below presents the contractual maturities of financial liabilities as at October 31, 2011:

2011	Carrying amount	Contractual cash flows	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities (1)	\$ (297.4)	\$ (297.4)	\$ (297.4)	\$ -	\$ -	\$ -
Long-term debt	(564.4)	(623.5)	(290.9)	(193.3)	(82.0)	(57.3)
Long-term accounts payable (2)	(2.2)	(2.2)	-	(2.2)	-	-
	(864.0)	(923.1)	(588.3)	(195.5)	(82.0)	(57.3)
Derivative financial liabilities						
Foreign exchange forward contracts						
Outflow	-	(91.7)	(56.0)	(35.7)	-	-
Inflow	3.8	96.7	60.5	36.2	-	-
Interest rate swaps	(5.2)	(5.8)	(4.2)	(1.6)	-	-
Cross currency swap	(8.7)	(9.4)	(2.8)	(4.7)	(1.9)	-
	(10.1)	(10.2)	(2.5)	(5.8)	(1.9)	-
	\$ (874.1)	\$ (933.3)	\$ (590.8)	\$ (201.3)	\$ (83.9)	\$ (57.3)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

26 FINANCIAL INSTRUMENTS (CONTINUED)

The table below presents the contractual maturities of financial liabilities as at October 31, 2010:

2010	Carrying amount	Contractual cash flows	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities (1)	\$ (334.6)	\$ (334.6)	\$ (334.6)	\$ -	\$ -	\$ -
Long-term debt	(730.7)	(863.5)	(50.2)	(420.1)	(320.4)	(72.8)
Long-term accounts payable (2)	(0.5)	(0.5)	-	(0.5)	-	-
	(1,065.8)	(1,198.6)	(384.8)	(420.6)	(320.4)	(72.8)
Derivative financial liabilities						
Foreign exchange forward contracts						
Outflow	-	(109.7)	(63.8)	(45.9)	-	-
Inflow	8.5	119.4	70.3	49.1	-	-
Commodity swap agreements	(0.1)	(0.1)	(0.1)	-	-	-
Interest rate swaps	(6.5)	(7.3)	(3.9)	(3.5)	0.1	-
Bond forward	(6.1)	(6.1)	(6.1)	-	-	-
Cross currency swap	(10.1)	(10.9)	(1.7)	(4.7)	(3.7)	(0.8)
	(14.3)	(14.7)	(5.3)	(5.0)	(3.6)	(0.8)
	\$ (1,080.1)	\$ (1,213.3)	\$ (390.1)	\$ (425.6)	\$ (324.0)	\$ (73.6)

(1) Excludes derivative financial instruments

(2) Excludes non-financial liabilities

The Corporation believes that future cash flows generated by operations and access to additional liquidity through capital and banking markets will be adequate to meet its financial obligations. In addition, the Corporation has concluded long-term contracts with most of its major customers. These contracts contain cost-escalation clauses equivalent to those required by the Corporation's suppliers.

Market risk

Market risk is the risk that the Corporation will incur losses resulting from adverse changes in underlying factors of the market, primarily interest rates and exchange rates.

a) Interest rate risk

The Corporation is exposed to market risks related to interest rate fluctuations. In order to mitigate this risk, the Corporation aims to maintain an adequate balance of fixed versus floating rate debt. As at October 31, 2011, the floating rate portion of long-term debt represents 59% (61% as at October 31, 2010) of the total while the fixed rate portion represents 41% (39% as at October 31, 2010).

As at October 31, 2011, in order to mitigate the interest rate risk, the Corporation entered into interest rate swap agreements on long-term debt denominated in Canadian dollars, on a notional amount of \$225.0 million, including \$125.0 million maturing in September 2012 and \$100.0 million maturing in May 2014. The latter are the only swaps designated as hedging derivative financial instruments as at October 31, 2011. The swap agreements convert the variable interest rate based on bankers' acceptance rate into a fixed rate of 6.16%, including the applicable margin. Considering the economic effect of these derivatives, the floating rate portion of long-term debt represents 19% of total debt (30% as at October 31, 2010), while the fixed rate portion represents 81% (70% as at October 31, 2010).

As at October 31, 2011, the Corporation entered into a six-year cross currency swap agreement, maturing in July 2015, to convert the interest rate of the €39.3 million debt (\$55.5 million), which bears an interest of rate of EURIBOR + 1.60%, to bankers' acceptance rate plus 3.36%. This derivative financial instrument also locks the exchange rate at 1.5761.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

26 FINANCIAL INSTRUMENTS (CONTINUED)

For the years ended October 31, 2011 and 2010, all things being equal, a hypothetical increase of 0.5% in interest rates would have had the following impact on net income and on other comprehensive income (loss):

	Year ended October 31, 2011		Year ended October 31, 2010	
	Net income	Other comprehensive income (loss)	Net income	Other comprehensive income (loss)
	\$ (0.4)	\$ 1.1	\$ (0.8)	\$ 2.0

A hypothetical decrease of 0.5% in interest rates would have an opposite impact on net income and on other comprehensive income (loss).

b) Foreign exchange risk

The Corporation has operations in the United States, exports its products to the United States and purchases machinery and equipment in U.S. dollars and Euros. In addition, as at October 31, 2011, the Corporation has long-term debt in U.S. dollars and Euros for a total amount of US\$263.5 million and €39.3 million (US\$238.5 million and €49.2 as at October 31, 2010). The Corporation is therefore exposed to foreign exchange risk.

To mitigate the foreign exchange risk related to its exports to the United States, the Corporation enters into foreign exchange forward contracts. As at October 31, 2011, the Corporation entered into foreign exchange forward contracts to sell US\$92.5 million (US\$107.0 million as at October 31, 2010), of which US\$56.5 million and US\$36.0 million will be sold in fiscal years 2012 and 2013, respectively. The terms of these forward contracts range from 1 to 21 months, with rates varying from 0.9846 to 1.1474. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout fiscal 2011.

For the years ended October 31, 2011 and 2010, all things being equal, an hypothetical strengthening of 10.0% of the U.S. dollar and Euro against the Canadian dollar would have had the following impact on net income and on other comprehensive income (loss):

	Year ended October 31, 2011		Year ended October 31, 2010	
	Net income	Other comprehensive income (loss)	Net income	Other comprehensive income (loss)
U.S. dollar	\$ 1.5	\$ (5.6)	\$ 1.5	\$ (7.0)
Euro	-	2.2	-	2.3

A hypothetical weakening of 10.0% of the U.S. dollar and Euro against the Canadian dollar would have had an opposite impact on net income and other comprehensive income (loss).

Fair value

The book value of certain financial instruments maturing in the short-term approximates their fair value. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The table below shows the fair value and the book value of other financial instruments as at October 31, 2011 and 2010. The fair value is determined essentially by discounting cash flows or quoted market prices. The fair values calculated approximate the amounts for which the financial instruments could be settled between consenting parties, based on current market data for similar instruments. Consequently, as estimates must be used to determine fair value, they must not be interpreted as being realizable in the event of an immediate settlement of the instruments.

	2011		2010	
	Fair value	Book value	Fair value	Book value
Long-term debt	\$ 586.7	\$ 564.4	\$ 769.9	\$ 730.7
Foreign exchange forward contracts	3.8	3.8	8.5	8.5
Commodity swap agreements	-	-	(0.1)	(0.1)
Interest rate swap agreements	(5.2)	(5.2)	(6.5)	(6.5)
Bond forward	-	-	(6.1)	(6.1)
Cross currency swap agreement	(8.7)	(8.7)	(10.1)	(10.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

26 FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The table below presents financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices)

Level 3 - Inputs for the asset or liability that are not based on observable market data

2011	Level 1	Level 2	Level 3	Total
Foreign exchange forward contracts	\$ -	\$ 3.8	\$ -	\$ 3.8
Interest rate swap agreements	-	(5.2)	-	(5.2)
Cross currency swap agreement	-	(8.7)	-	(8.7)
	\$ -	\$ (10.1)	\$ -	\$ (10.1)
<hr/>				
2010				
Foreign exchange forward contracts	\$ -	\$ 8.5	\$ -	\$ 8.5
Commodity swap agreements	-	(0.1)	-	(0.1)
Interest rate swap agreements	-	(6.5)	-	(6.5)
Bond forward	-	(6.1)	-	(6.1)
Cross currency swap agreement	-	(10.1)	-	(10.1)
	\$ -	\$ (14.3)	\$ -	\$ (14.3)

27 CAPITAL MANAGEMENT

The Corporation's primary objectives in managing capital are to:

- Maintain an investment grade credit rating;
- Preserve its financial flexibility in order to benefit from potential opportunities as they arise.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Corporation relies on the net debt ratio (including, if any, utilization of the securitization program) to operating income from continuing operations before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets as the main indicator of financial leverage. For calculation purposes, net debt refers to long-term debt, current portion of long-term, bank overdraft and utilization of the securitization program, less cash and cash equivalents.

As at October 31, 2011, the net debt ratio was 1.31x. As at October 31, 2010, the same ratio was 1.87x. The decrease of this ratio in fiscal 2011 is primarily due to a significant reduction in net debt, which decreased from \$698.8 million as at October 31, 2010 to \$489.4 million as at October 31, 2011, primarily due to cash flows generated by operations and significant reduction in capital expenditures.

For the year ended October 31, 2011, the Corporation has not been in default under any of its obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

28 SEGMENTED INFORMATION

Sales between sectors of the Corporation are measured at the exchange amount. Transactions other than sales are measured at carrying amount.

	2011	2010
Revenues		
Printing sector	\$ 1,400.8	\$ 1,379.4
Interactive sector	125.4	123.3
Media sector	612.4	608.3
Other activities and unallocated amounts	8.1	7.8
Inter-segment sales		
Printing sector	(92.2)	(82.3)
Interactive sector	(3.3)	(2.8)
Media sector	(7.6)	(5.4)
Total inter-segment sales	(103.1)	(90.5)
	\$ 2,043.6	\$ 2,028.3
Operating income (loss) before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		
Printing sector	\$ 287.6	\$ 270.3
Interactive sector	(1.0)	6.7
Media sector	90.2	109.5
Other activities and unallocated amounts	(3.8)	(13.3)
	\$ 373.0	\$ 373.2
Operating income (loss)		
Printing sector	\$ 181.5	\$ 164.6
Interactive sector	(52.2)	(5.7)
Media sector	51.3	82.9
Other activities and unallocated amounts	1.5	(19.3)
	\$ 182.1	\$ 222.5
Acquisitions of property, plant and equipment ⁽¹⁾		
Printing sector	\$ 16.7	\$ 101.5
Interactive sector	4.1	7.3
Media sector	8.9	6.4
Other activities and unallocated amounts	3.4	3.4
	\$ 33.1	\$ 118.6
Amortization of property, plant and equipment and intangible assets		
Printing sector	\$ 86.7	\$ 90.7
Interactive sector	9.3	10.3
Media sector	18.9	17.0
Other activities and unallocated amounts	5.4	5.3
	\$ 120.3	\$ 123.3

⁽¹⁾ These amounts represent total expenditures for additions to property, plant and equipment, whether they are paid or not.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

28 SEGMENTED INFORMATION (CONTINUED)

	As at October 31, 2011	As at October 31, 2010
Operating sectors		
Assets		
Printing sector	\$ 1,284.4	\$ 1,397.5
Interactive sector	99.4	131.5
Media sector	859.9	845.6
Other activities and unallocated amounts	209.9	144.2
Assets from discontinued operations (Note 8)	-	75.9
	\$ 2,453.6	\$ 2,594.7
Geographical regions		
	2011	2010
Revenues		
Canada		
Within Canada	\$ 1,787.5	\$ 1,756.7
Exports	152.3	160.4
	1,939.8	1,917.1
United States	103.8	111.2
	\$ 2,043.6	\$ 2,028.3
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		
Canada	\$ 343.1	\$ 339.8
United States	29.9	33.4
	\$ 373.0	\$ 373.2
Operating income		
Canada	\$ 180.1	\$ 210.9
United States	2.0	11.6
	\$ 182.1	\$ 222.5
	As at October 31, 2011	As at October 31, 2010
Assets		
Canada	\$ 2,080.1	\$ 2,111.6
United States	373.5	407.2
Assets from discontinued operations (Note 8)	-	75.9
	\$ 2,453.6	\$ 2,594.7
Property, plant and equipment		
Canada	\$ 588.6	\$ 654.2
United States	198.5	217.4
	\$ 787.1	\$ 871.6
Goodwill		
Canada	\$ 682.5	\$ 674.1
United States	-	4.0
	\$ 682.5	\$ 678.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended October 31, 2011 and 2010
(in millions of dollars, except per share data)

29 SUBSEQUENT EVENTS

Reorganization of operating structure

On November 1, 2011, the Corporation implemented a new operating structure, combining the majority of Interactive sector activities with those of the Media sector to form a single sector, in order to better meet the multi-platform marketing communication needs of the customers. For their part, the digital printing activities established in the United States will complete the product offering of the Printing sector. This new operating structure will be reflected in the consolidated financial statements for the first quarter of the fiscal year ended October 31, 2012.

30 COMPARATIVE INFORMATION

Certain prior period information has been reclassified to conform with the current period presentation.