

Transcontinental Inc.'s adjusted operating income increases for third consecutive quarter

Highlights

(in millions of dollars, except per share data)	Q2-13	Q2-12	%	YTD 2013	YTD 2012	%
Revenues	521.3	522.4	(0.2)%	1,050.0	1,010.0	4.0%
Adjusted operating income before amortization ⁽¹⁾ (Adjusted EBITDA)	83.3	83.8	(0.6)%	154.9	155.2	(0.2)%
Adjusted operating income ⁽¹⁾ (Adjusted EBIT)	56.9	55.9	1.8%	102.6	98.9	3.7%
Adjusted net income applicable to participating shares ⁽¹⁾	34.8	35.5	(2.0)%	63.3	62.6	1.1%
Per share	0.44	0.44	-	0.81	0.77	5.2%
Net income applicable to participating shares	27.5	(106.2)	-	45.3	(139.5)	-
Per share	0.35	(1.31)	-	0.58	(1.72)	-

Note 1: Please refer to the table "Reconciliation of Non-IFRS financial measures" in this press release.

- Increase of 1.8% in adjusted operating income.
- Decrease of 2.0% in adjusted net income applicable to participating shares.
- Payment of special dividend of \$1.00 per participating share or approximately \$78 million.
- Achieved more than \$30 million, to date, in synergies from the acquisition of Quad/Graphics Canada, Inc.
- Renewed several multi-year printing contracts worth more than \$200 million.
- Challenging market conditions with respect to advertising spending continued to affect our Media Sector.
- Maintained a solid financial position with a net indebtedness ratio of 1.05x.
- Renewed the Corporation's normal course issuer bid.

Montreal, June 6, 2013 -Transcontinental Inc.'s (TSX: TCL.A, TCL.B, TCL.PR.D) second-quarter revenues remained fairly stable, from \$522.4 million in 2012 to \$521.3 million in 2013. The acquisition of the printing operations of Quad/Graphics Canada, Inc., the digital operations of Redux Media and some publishing activities in the Media Sector helped stabilize revenues, which were adversely affected by the termination of the Zellers flyer printing and distribution contract due to Zellers' store closures, by a more difficult advertising environment and by incentives granted upon the renewal of certain contracts in the second half of 2012.

In the second quarter of 2013, adjusted operating income increased 1.8%, from \$55.9 million to 56.9 million. This slight increase is due mainly to the synergies obtained from the acquisition of Quad/Graphics Canada, Inc., which were, however, mitigated by the factors noted above. Net income applicable to participating shares rose from a loss of \$106.2 million, or \$1.31 per share, to a profit of \$27.5 million, or \$0.35 per share. Excluding unusual items, adjusted net income applicable to participating shares was down 2.0%, from \$35.5 million to \$34.8 million. On a per-share basis, it remained stable at \$0.44.

"I am very pleased with the synergies obtained from integrating Quad/Graphics Canada, Inc. with our printing network," said François Olivier, President and Chief Executive Officer of Transcontinental Inc. "In addition to the benefit they brought to the Printing Sector, they were realized more quickly than anticipated. Furthermore, over the course of the quarter we continued to renew several agreements with our printing clients, further proof of the quality of our state-of-the-art printing platform. However, results in this sector were partially offset by the termination of the Zellers contract due to its store closures, and by incentives granted upon the renewal of

certain contracts in the second half of 2012. In the Media Sector, the difficult advertising environment created downward pressure on revenues. The lack of visibility on the recovery of the advertising market drove us to pursue the implementation of some cost-cutting measures to limit the impact on the Media Sector's profit margin. However, given our excellent financial position, our leading brands, our quality content and our multi-platform offering, we are well positioned to judiciously and efficiently continue our transformation."

Highlights of the first half

For the first half of 2013, TC Transcontinental's revenues were up 4.0%, from \$1,010.0 million to \$1,050.0 million. The increase stems mainly from the acquisition of Quad/Graphics Canada, Inc. and acquisitions in the Media Sector. It was partly offset by the termination of the Zellers flyer printing and distribution contract, by a difficult advertising environment and by incentives granted upon the renewal of certain contracts in the second half of 2012. Adjusted operating income grew 3.7%, from \$98.9 million to \$102.6 million, due to the synergies obtained from the acquisition of Quad/Graphics Canada, Inc., but this increase was partly offset by the factors noted above. Net income applicable to participating shares rose from a loss of \$139.5 million, or \$1.72 per share, to a profit of \$45.3 million, or \$0.58 per share. Excluding unusual items, adjusted net income applicable to participating shares grew 1.1%, from \$62.6 million, or \$0.77 per share, to \$63.3 million, or \$0.81 per share.

For more detailed financial information, please see *Management's Discussion and Analysis for the second quarter ended April 30th, 2013* as well as the financial statements in the "Investors" section of our website at www.tc.tc

Outlook

Synergies from integration of the operations of Quad/Graphics Canada, Inc. will continue in the second half of fiscal 2013. This contribution will, however, be partially offset by the closing of Zellers stores, which slowed their activities starting in our fourth quarter of 2012. Since early in fiscal 2013, we have signed new agreements worth an annualized value of about \$30 million to print flyers and marketing products. The contribution from these contracts should increase more significantly as of the third quarter of 2013.

The difficult market conditions with respect to advertising spending are still likely to affect the Media Sector, so we will continue our rationalization and efficiency measures in order to limit possible impacts on the sector's profit margin. We will also continue investing in the development of new products and services to further diversify our offering.

In fiscal 2013, the excess cash flows generated in upcoming quarters, in conjunction with our excellent financial position, will permit us to invest a maximum of \$70 million in in-house projects and to make strategic acquisitions as opportunities arise.

Reconciliation of Non-IFRS Financial Measures

Financial data have been prepared in conformity with IFRS. However, certain measures used in this press release do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many readers analyze our results based on certain non-IFRS financial measures because such measures are more appropriate for evaluating the Corporation's operating performance. Internally, Management uses such non-IFRS 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 IFRS.

The following table reconciles IFRS financial measures to non-IFRS financial measures.

Reconciliation of Non-IFRS financial measures
(unaudited)

(in millions of dollars, except per share amounts)	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Net income (loss) applicable to participating shares	\$ 27.5	\$ (106.2)	\$ 45.3	\$ (139.5)
Dividends on preferred shares	1.7	1.7	3.4	3.4
Net loss (income) related to discontinued operations (after tax)	—	1.4	—	1.4
Non-controlling interests	0.4	0.2	0.1	0.2
Unusual adjustments to income taxes	—	—	—	42.0
Income tax expenses	11.7	(9.9)	15.5	(4.3)
Financial expenses related to unusual adjustments to income taxes	—	—	—	16.0
Financial expenses	5.7	6.0	13.6	13.7
Gain on business acquisition	—	(31.7)	—	(31.7)
Impairment of assets	0.7	180.0	2.8	180.8
Restructuring and other costs	9.2	14.4	21.9	16.9
Adjusted operating income	\$ 56.9	\$ 55.9	\$ 102.6	\$ 98.9
Amortization	26.4	27.9	52.3	56.3
Adjusted operating income before amortization	\$ 83.3	\$ 83.8	\$ 154.9	\$ 155.2
Net income (loss) applicable to participating shares	\$ 27.5	\$ (106.2)	\$ 45.3	\$ (139.5)
Net loss (income) from discontinued operations (after tax)	—	1.4	—	1.4
Unusual adjustments to income taxes (after tax)	—	—	—	42.0
Financial expenses related to unusual adjustments to income taxes (after tax)	—	—	—	16.0
Gain on business acquisition (after tax)	—	(31.7)	—	(31.7)
Impairment of assets (after tax)	0.6	162.1	2.1	162.7
Restructuring and other costs (after tax)	6.7	9.9	15.9	11.7
Adjusted net income applicable to participating shares	\$ 34.8	\$ 35.5	\$ 63.3	\$ 62.6
Average number of participating shares outstanding	77.9	81.0	78.0	81.0
Adjusted net income applicable to participating shares per share	\$ 0.44	\$ 0.44	\$ 0.81	\$ 0.77

	As at April 30, 2013	As at October 31, 2012
Long-term debt	\$ 132.9	204.1
Current portion of long-term debt	272.1	283.5
Cash	28.5	16.8
Net indebtedness	\$ 376.5	470.8

Adjusted operating income before amortization (last 12 months)	\$ 357.3	\$ 357.6
Net indebtedness ratio	1.05	1.32

Dividends

Dividend on Participating Shares

The Corporation's Board of Directors declared a quarterly dividend of \$0.145 per Class A Subordinate Voting Shares and Class B Shares. This dividend is payable on July 19, 2013 to participating shareholders of record at the close of business on June 28, 2013.

Dividend on Preferred shares

The Board declared a quarterly dividend of \$0.4207 per share on cumulative 5-year rate reset first preferred shares, series D. This dividend is payable on July 15, 2013. On an annual basis, this represents a dividend of \$1.6875 per preferred share.

Additional Information

Conference Call

Upon releasing its second quarter 2013 results, the Corporation will hold a conference call for the financial community today at 4:15 p.m. The dial-in numbers are (514) 807-9895 or (1 647) 427-7450 or 1-888-231-8191 and the access code is: 64147296. Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on the Corporation's Web site, which will then be archived for 30 days. For media requests for information or interviews, please contact Nathalie St-Jean, Senior Advisor, Corporate Communications of TC Transcontinental, at (514) 954-3581.

Profile

Largest printer and leading provider of media and marketing activation solutions in Canada, TC Transcontinental creates products and services that allow businesses to attract, reach and retain their target customers. The Corporation specializes in print and digital media, the production of magazines, newspaper, books and custom content, mass and personalized marketing, interactive and mobile applications, TV production and door-to-door distribution.

Transcontinental Inc. (TSX: TCL.A, TCL.B, TCL.PR.D), known by the brands TC Transcontinental, TC Media and TC Transcontinental Printing, has approximately 9,500 employees in Canada and the United States, and reported revenues of C\$2.1 billion in 2012. Website www.tc.tc

Forward-looking Statements

This press release contains certain forward-looking statements concerning the future performance of the Corporation. Such statements, based on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors, many of which are beyond the Corporation's control, including, but not limited to, the economic situation, structural changes in its industries, exchange rate, availability of capital, energy costs, increased competition, as well as the Corporation's capacity to engage in strategic transactions and integrate acquisitions into its activities. The risks, uncertainties and other factors that could influence actual results are described in the *Management's Discussion and Analysis (MD&A) for the fiscal year ended on October 31st, 2012* and in the *2012 Annual Information Form* and have been updated in the *MD&A for the second quarter ended April 30th, 2013*.

The forward-looking information in this release is based on current expectations and information available as at June 6, 2013. The Corporation's management disclaims any intention or obligation to update or revise any forward-looking statements unless otherwise required by the Securities Authorities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarter ended April 30, 2013

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 TC Transcontinental. More specifically, it is designed to give the reader a better understanding of 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.

In this document, unless otherwise indicated, all financial data are prepared in accordance with International Financial Reporting Standards (IFRS). The term "dollar," as well as the symbol "\$" designate Canadian dollars, unless otherwise indicated. In this Management's Discussion and Analysis we also use non-IFRS financial measures. Please refer to table 6 in the section of this report entitled "Reconciliation of Non-IFRS Financial Measures" for a complete description of these measures. This report should also be read in conjunction with the information presented in the condensed interim consolidated financial statements for the quarter ended April 30, 2013. Additional information about the Corporation, including its Annual Report and Annual Information Form for the fiscal year ended October 31, 2012, may also be obtained on SEDAR at www.sedar.com.

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

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 projects 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; the effects of changes in interest rates; the effects of competition in the markets in which we operate; the effects of new media and the corresponding shift of advertising revenues 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 policies, 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 TC Transcontinental, 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. The forward-looking statements contained herein are based on current expectations and information available as of June 6, 2013.

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 income applicable to participating shares	Net income from continuing operations applicable to participating shares, before restructuring and other costs, asset impairment and gain on business acquisition and unusual adjustments to income taxes and related financial expenses
Adjusted operating income	Operating income from continuing operations before restructuring and other costs, asset impairment and gain on business acquisition
Adjusted operating income before amortization	Operating income from continuing operations before amortization, restructuring and other costs, asset impairment and gain on business acquisition
Net income from continuing operations applicable to participating shares	Net income from continuing operations minus dividends on preferred shares
Net indebtedness	Total of long-term debt plus current portion of long-term debt plus bank overdraft less cash
Net indebtedness ratio	Net indebtedness divided by the last 12 months' adjusted income before amortization

PROFILE OF TC TRANSCONTINENTAL

Largest printer and leading provider of media and marketing activation solutions in Canada, TC Transcontinental creates products and services that allow businesses to attract, reach and retain their target customers. The Corporation specializes in print and digital media, the production of magazines, newspapers, books and custom content, mass and personalized marketing, interactive and mobile applications, TV production and door-to-door distribution.

Transcontinental Inc. (TSX: TCL.A, TCL.B, TCL.PR.D), known by the brands TC Transcontinental, TC Media and TC Transcontinental Printing, has approximately 9,500 employees in Canada and the United States, and reported revenues of C\$2.1 billion in 2012.

HIGHLIGHTS

- Year over year, revenues for the second quarter of 2013 were down \$1.1 million, or 0.2%, from \$522.4 million in 2012 to \$521.3 million in the quarter ended April 30, 2013.
- Adjusted operating income increased by \$1.0 million, from \$55.9 million in the second quarter of 2012 to \$56.9 million in 2013, up 1.8%.
- Adjusted net income applicable to participating shares decreased by \$0.7 million, or 2.0%, from \$35.5 million in 2012 to \$34.8 million in 2013.
- To date, we have achieved more than \$30 million in synergies related to the acquisition de Quad/Graphics Canada, Inc.
- Challenging market conditions with respect to advertising spending continued to affect our Media Sector.
- On April 26, 2013, the Corporation paid a special dividend of \$77.9 million, or \$1.00 per participating share.
- Our net indebtedness ratio went from 0.93x at January 31, 2013 to 1.05x at April 30, 2013 (1.32x at October 31, 2012).
- We renewed our share repurchase program under a normal course issuer bid.

ANALYSIS OF CONSOLIDATED RESULTS – SECOND QUARTER OF 2013

(unaudited)

Table 1:

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares
Second quarter of 2012	\$ 522.4		\$ 55.9		\$ (106.2)
Acquisitions/Closures	23.1	4.4 %	2.6	4.7 %	1.4
Existing operations	(24.2)	(4.6) %	(1.6)	(2.9) %	(2.1)
Discontinued operations					1.4
Restructuring and other costs					3.2
Impairment of assets					161.5
Gain on business acquisition					(31.7)
Second quarter of 2013	\$ 521.3	(0.2) %	\$ 56.9	1.8 %	\$ 27.5

As shown in the above table, certain factors had an impact on the differences in results for the second quarter of 2013 compared to those of the second quarter of 2012.

Revenues

Revenues decreased by \$1.1 million, or 0.2%, from \$522.4 million in the second quarter of 2012 to \$521.3 million in the second quarter of 2013, primarily due to the following factors:

- The net effect of acquisitions and closures resulted in a \$23.1 million increase in revenues, mainly due to the acquisition of Quad/Graphics Canada, Inc. and acquisitions in the Media Sector, notably Redux Media.
- Revenues from existing operations were down \$24.2 million, mainly from the loss in volume due to the closing of Zellers stores, difficult market conditions which continue to affect the Media Sector, particularly with respect to advertising spending as well as incentives granted to major clients for the early renewal of long-term printing contracts in the second quarter of 2012.

Adjusted operating income

Adjusted operating income rose \$1.0 million, or 1.8%, from \$55.9 million in the second quarter of 2012 to \$56.9 million in the second quarter of 2013, due to the following factors:

- The net effect of acquisitions and closures increased adjusted operating income by \$2.6 million, primarily due to the acquisition of the operations of Quad/Graphics Canada, Inc., and acquisitions in the Media Sector, notably Redux Media.
- Adjusted operating income from existing operations was down \$1.6 million, mainly due to the above-indicated revenue-reducing factors, offset by cost-reduction measures which included the closings, since the second quarter of 2012, of three printing plants from the Quad/Graphics Canada, Inc. acquisition in order to consolidate our printing operations in the most efficient plants, which continue to make a positive contribution to our adjusted operating income.

Restructuring and other costs

In the second quarter of 2013, an amount of \$9.2 million (\$6.7 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring and other costs, of which \$5.9 million related to workforce reductions stemming primarily from the integration of the operations of Quad/Graphics Canada, Inc. and \$3.3 million to other restructuring costs.

In the second quarter of 2012, an amount of \$14.4 million before tax (\$9.9 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring and other costs. Of this amount, \$16.6 million stems from workforce reductions related principally to the integration of the printing operations of Quad/Graphics Canada, Inc., offset by a gain on pension plan curtailment of \$3.5 million.

Asset impairment

An asset impairment charge of \$0.7 million (\$0.6 million after tax) was recorded in the second quarter of 2013.

In the second quarter of 2012, the Corporation recorded a goodwill impairment of \$180.0 million (\$162.1 million after tax), almost entirely related to a goodwill write-down in the Media Sector.

Net financial expenses

Net financial expenses were down \$0.3 million in the second quarter of 2013, from \$6.0 million in 2012 to \$5.7 million in 2013. The decrease stems mainly from the lower net indebtedness versus the second quarter of 2012, offset by an adverse exchange rate impact of \$1.3 million in the second quarter of 2013 compared to the the same quarter in 2012, stemming mainly from an exchange gain in the second quarter of 2012.

Income taxes

Income taxes went from a recovery of \$9.9 million in the second quarter of 2012 to an expense of \$11.7 million in the second quarter of 2013, mainly due to an income tax recovery of \$17.9 million due to the asset impairment recorded in the second quarter of 2012.

Excluding unusual adjustments, income taxes would have amounted to \$14.3 million in the second quarter of 2013, for a tax rate of 27.9%, compared to \$12.5 million, or 25.1%, in the second quarter of 2012. The increase stems mainly from the geographical distribution of the income before tax.

Net income applicable to participating shares

Net income applicable to participating shares rose from -\$106.2 million in the second quarter of 2012 to \$27.5 million in the second quarter of 2013. The change stems mainly from an asset impairment and a gain on business acquisition recorded in the second quarter of 2012, for an after-tax amount of -\$130.4 million. On a per-share basis, net income applicable to participating shares rose from \$-1.31 to \$0.35.

Adjusted net income applicable to participating shares was down \$0.7 million, or 2.0%, from \$35.5 million in the second quarter of 2012 to \$34.8 million in the second quarter of 2013. On a per-share basis, it remained at \$0.44 as a result of share repurchases since the third quarter of 2012.

Discontinued operations

There were no discontinued operations in the second quarter of 2013. In the second quarter of 2012, the Corporation recorded a net loss related to discontinued operations of \$1.4 million, primarily due to a \$1.3 million adjustment on the gain related to the discontinuation of printing operations in Mexico.

ANALYSIS OF SECTOR RESULTS – SECOND QUARTER OF 2013

(unaudited)

Table 2:

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment Eliminations and Other activities	Consolidated Results
Revenues - Second quarter of 2012	\$ 370.7	\$ 173.6	\$ (21.9)	\$ 522.4
Acquisitions/Closures	14.1	9.0	—	23.1
Existing operations	(17.2)	(6.8)	(0.2)	(24.2)
Revenues - Second quarter of 2013	\$ 367.6	\$ 175.8	\$ (22.1)	\$ 521.3
Adjusted operating income (loss) - Second quarter of 2012	\$ 47.5	\$ 12.7	\$ (4.3)	\$ 55.9
Acquisitions/Closures	1.8	0.8	—	2.6
Existing operations	6.0	(6.2)	(1.4)	(1.6)
Adjusted operating income (loss) - Second quarter of 2013	\$ 55.3	\$ 7.3	\$ (5.7)	\$ 56.9

In this section, Management uses adjusted operating income to evaluate the financial performance of its operating sectors and deems this measure is appropriate.

Printing Sector

Printing Sector revenues were down \$3.1 million, or 0.8%, from \$370.7 million in the second quarter of 2012 to \$367.6 million in the second quarter of 2013. The acquisition of the printing operations of Quad/Graphics Canada, Inc. on March 1, 2012 contributed \$14.1 million to sector revenues, but this was offset by the \$17.2 million decrease in revenues from existing operations. Organic growth in revenues was down, primarily due to the volume decrease stemming from the closure of the Zellers stores and incentives granted for early renewal of several major long-term contracts in the second half of 2012.

Adjusted operating income was up 16.4%, or \$7.8 million, from \$47.5 million in the second quarter of 2012 to \$55.3 million in the second quarter of 2013. The increase is largely due to the synergies generated from the acquisition of the operations of Quad/Graphics Canada, Inc. on March 1, 2012, the closures of three Quad/Graphics Canada, Inc. printing plants and the merger of two Ontario plants since the second quarter of 2012, as part of efforts to consolidate printing operations in our most efficient plants. However, the synergies were offset by the loss of volume following the closure of the Zellers stores and incentives granted to major clients for early renewal of long-term contracts in the second half of 2012. As a result, the adjusted operating income margin rose from 12.8% in the second quarter of 2012 to 15.0% in the second quarter of 2013.

Media Sector

Media Sector revenues were up \$2.2 million, or 1.3%, from \$173.6 million in the second quarter of 2012 to \$175.8 million in the second quarter of 2013. The increase is largely due to the contribution from the acquisitions of Redux Media, Q-Net Media (Quad), Groupe Modulo and the purchase of all outstanding shares of our *Métro* Montréal partners. Additional revenue was also generated during the quarter by our new television production house and content-creation operations. However, these increases were largely offset by lower revenues from our newspaper publishing operations due to difficult market conditions, particularly with respect to advertising spending, and the loss of volume from the closure of Zellers stores.

Adjusted operating income was down \$5.4 million, or 42.5%, from \$12.7 million in the second quarter of 2012 to \$7.3 million in the second quarter of 2013, and the adjusted operating margin declined from 7.3% in the second quarter of 2012 to 4.2% in 2013. In our existing operations, adjusted operating income was significantly affected by the above-mentioned lower revenues and by investments to set up our television production house.

Inter-segment elimination, other activities and Head Office

Eliminations of inter-segment revenues and other activities remained stable at -\$21.9 million in the second quarter of 2012 versus -\$22.1 million in the second quarter of 2013. Head Office adjusted operating income was down \$1.4 million, from -\$4.3 million to -\$5.7 million, primarily due to increased stock-based executive compensation caused by a higher share price during the second quarter of 2013, combined with a decrease in share price in the second quarter of 2012.

Analysis of Consolidated Results - cumulative (unaudited)

Table 3:

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares
Six months ended April 30, 2012	\$ 1,010.0		\$ 98.9		\$ (139.5)
Acquisitions/Closures	82.2	8.1 %	13.4	13.5 %	10.0
Existing operations	(42.2)	(4.2) %	(9.7)	(9.8) %	(9.3)
Discontinued operations					1.4
Restructuring and other costs					(4.2)
Impairment of assets					160.6
Gain on business acquisition					(31.7)
Financial expenses related to unusual adjustments to income taxes					16.0
Unusual adjustments to income taxes					42.0
Six months ended April 30, 2013	\$ 1,050.0	4.0 %	\$ 102.6	3.7 %	\$ 45.3

As shown in the above table, certain factors had an impact on the differences in results for the first half of 2013 and the first half of 2012.

Revenues

Revenues were up 4.0%, from \$1,010.0 million in the first six months of 2012 to \$1,050.0 million for the same period in 2013, due to the following factors:

- The net effect of acquisitions and closures increased revenues by \$82.2 million, mainly due to the acquisition of Quad/Graphics Canada, Inc. and acquisitions in the Media Sector.
- Revenues from existing operations were down \$42.2 million, or 4.2%, in the first half of 2013, primarily due to incentives granted for early renewal of several major long-term contracts in 2012, the volume decrease stemming from the closure of the Zellers stores, and difficult market conditions with respect to advertising spending which continue to particularly affect the Media Sector.

Adjusted Operating Income

Adjusted operating income was up 3.7%, from \$98.9 million in the first half of 2012 to \$102.6 million in the second half of 2013, due to the following factors:

- The net effect of acquisitions and closures raised adjusted operating income by \$13.4 million, principally due to the contribution from the operations of Quad/Graphics Canada, Inc. in the first five months of fiscal 2013.
- For existing operations, adjusted operating income was down \$9.7 million, or 9.8%, in the first six months of 2013. This decrease stems mainly from the decrease in consolidated revenues indicated above, partially offset by synergies from the integration of the operations of Quad/Graphics Canada, Inc. with our existing operations.

Net Income Applicable to Participating Shares

Net income applicable to participating shares rose from \$-139.5 million in the first half of 2012 to \$45.3 million in the first half of 2013. The increase is mainly due to an asset impairment of \$180.8 million (\$162.7 million after tax) and a provision for \$58.0 million (\$58.0 million after tax) with respect to the re-assessment notice issued by tax authorities in the first half of 2012. On a per share basis, net income applicable to participating shares rose from \$-1.72 to \$0.58.

Adjusted net income applicable to participating shares rose \$0.7 million, or 1.1%, from \$62.6 million in the first half of 2012 to \$63.3 million in the first half of 2013. On a per share basis, it increased from \$0.77 to \$0.81; the increase stems mainly from the share repurchases since the third quarter of 2012.

Restructuring, integration and acquisition costs

In the first six months of 2013, an amount of \$21.9 million (\$15.9 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring, integration and acquisition costs. Of that amount, \$11.8 million stems from workforce reductions, mainly due to the integration of the Quad/Graphics Canada, Inc. printing operations, and \$10.1 million from other restructuring costs, including \$6.1 million related to the closure of the Lasalle printing plant.

In the first six months of 2012, an amount of \$16.9 million (\$11.7 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring, integration and acquisition costs. Of that amount, \$18.1 million stemmed from workforce reductions, primarily in the Printing Sector, partially offset by the \$3.5 million gain on pension plans curtailment.

Asset impairment

In the first six months of fiscal 2013, an asset impairment charge of \$2.8 million (\$2.1 million after tax) was recorded, primarily for impairment of assets in the Printing Sector.

In the first six months of fiscal 2012, an impairment charge of \$180.8 million before tax (\$162.7 million after tax) was recorded, almost entirely related to loss of goodwill value in the Media Sector.

Gain on business acquisition

During the first half of 2012, we recorded a gain on business acquisition of \$31.7 million (\$31.7 million after tax), resulting from the initial recording of the transaction for the acquisition of Quad/Graphics Canada, Inc. in March 2012.

Net financial expenses

Net financial expenses decreased by \$16.1 million in the first six months of 2013, from \$29.7 million in 2012 to \$13.6 million in 2013. The decrease is principally due to financial expenses of \$16.0 million related to unusual income tax adjustments in the first half of 2012.

In 2012, adjusted net financial expenses excluding unusual income tax adjustments amounted to \$13.7 million versus \$13.6 million in the first half of 2013, a decrease of \$0.1 million. The decrease is mainly due to lower indebtedness than in the first half of 2012, offset by an adverse exchange rate impact of \$2.2 million in the first half of 2013 compared to the same period in 2012, stemming from an exchange gain in the first half of 2012 combined with an exchange loss in the first half of 2013.

Income taxes

Income taxes were down \$22.2 million, from \$37.7 million in the first half of 2012 to \$15.5 million in the first half of 2013. The decrease is mainly due to a \$42.0 million provision in the first quarter of 2012 pertaining to notices of tax re-assessment. This item was, however, offset by lower income taxes related to the asset impairment charge in the second quarter of 2012.

Excluding income taxes on restructuring and integration expenses, acquisition costs, asset impairment, the gain on business acquisition, and unusual adjustments, income taxes would have amounted to \$22.2 million in the first half of 2013, for a tax rate of 24.9%, compared to \$19.0 million, or 22.3%, in the first half of 2012. The increase is mainly due to higher non-deductible expenses and the geographic distribution of income before income taxes.

Discontinued operations

There were no discontinued operations in the first half of 2013, whereas a net loss of \$1.4 million was recorded in the first half of 2012 from an unfavourable adjustment related to a price adjustment clause based on working capital at the close of the sale of our print operations in Mexico.

Analysis of Sector Results - Cumulative

(unaudited)

Table 4:

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment Eliminations and Other activities	Consolidated Results
Revenues - Six months ended April 30, 2012	\$ 715.8	\$ 332.1	\$ (37.9)	\$ 1,010.0
Acquisitions/Closures	60.1	22.1	—	82.2
Existing operations	(27.1)	(12.9)	(2.2)	(42.2)
Revenues - Six months ended April 30, 2013	\$ 748.8	\$ 341.3	\$ (40.1)	\$ 1,050.0
Adjusted operating income (loss) - Six months ended April 30, 2012	\$ 93.0	\$ 13.6	\$ (7.7)	\$ 98.9
Acquisitions/Closures	10.1	3.3	—	13.4
Existing operations	(1.3)	(7.0)	(1.4)	(9.7)
Adjusted operating income (loss) - Six months ended April 30, 2013	\$ 101.8	\$ 9.9	\$ (9.1)	\$ 102.6

In this section, Management uses adjusted operating income to evaluate the financial performance of its operating sectors and deems this measure is appropriate.

Printing Sector

Printing Sector revenues increased 4.6%, or \$33.0 million, from \$715.8 million for the first two quarters of 2012 to \$748.8 million for the same period in 2013. The increase stems from the acquisition of the operations of Quad/Graphics Canada, Inc. on March 1, 2012, which contributed \$60.1 million to sector revenues. Excluding this acquisition, revenues were down \$27.1 million, or 3.8%. The negative organic growth stems mainly from the loss of volume related to the closure of Zellers stores and incentives granted to major clients for the early renewal of long-term printing contracts in 2012.

Adjusted operating income was up \$8.8 million, or 9.5%, from \$93.0 million in the first two quarters of 2012 to \$101.8 million for the same period in 2013. Adjusted operating margin was also up, from 13.0% in the first half of 2012 to 13.6% for the same period in 2013. These increases are mainly due to the integration of sales volume acquired from Quad/Graphics Canada, Inc., combined with the synergies generated, partially offset by the loss of volume related mainly to the closure of Zellers and incentives granted for the early renewal of contracts in the second half of fiscal 2012.

Media Sector

Media Sector revenues grew 2.8%, or \$9.2 million, from \$332.1 million in the first two quarters of 2012 to \$341.3 million for the same period in 2013. The increase is mainly due to the contribution from the acquisitions of Redux Media, and from the purchase of all the shares of our partners *Métro* Montréal, Q-Net Media (Quad/Graphics Canada, Inc.) and Groupe Modulo. Additional revenues were also generated in the first half of the year through our television production house and content creation activities. This increase was partially offset by the lower volume of local and national advertising spending, which affected our newspaper and magazine publishing operations, and the loss of volume related to the closure of Zellers stores.

In the first half of 2013, adjusted operating income was down \$3.7 million, or 27.2%, from \$13.6 million in the first two quarters of 2012 to \$9.9 million in the first two quarters of 2013. As indicated above, existing operations were affected by the lower volume of local and national advertising spending, partially offset by acquisitions, primarily Redux Media. The sector's adjusted operating margin declined from 4.1% for the first two quarters of 2012 to 2.9% for the same period in 2013.

Inter-Segment Eliminations and Other Activities

Eliminations of inter-segment revenues and other activities went from \$-37.9 million in the first half of 2012 to \$-40.1 million in the first half of 2013. The negative change of \$2.2 million is mainly due to an increase in inter-segment transactions. Adjusted operating income decreased, from \$-7.7 million in the first half of 2012 to \$-9.1 million in the first half of 2013, primarily related to stock-based executive compensation, due to an increase in share price during the second quarter of 2013 combined with a decrease in share price during the second quarter of 2012.

SUMMARY OF QUARTERLY RESULTS

(unaudited)

Table 5:

	2013		2012				2011	
(in millions of dollars, except per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	\$ 521	\$ 529	\$ 585	\$ 517	\$ 522	\$ 488	\$ 522	\$ 479
Adjusted operating income before amortization ⁽¹⁾	83	71	124	79	84	71	110	86
Adjusted operating income margin before amortization	15.9 %	13.4 %	21.2 %	15.3 %	16.1 %	14.5 %	21.1 %	18 %
Adjusted operating income ⁽¹⁾	57	46	96	50	56	43	80	57
Adjusted operating income margin	10.9 %	8.7 %	1.6 %	9.7 %	1.1 %	8.8 %	15.3 %	11.9 %
Net income (loss) applicable to participating shares	\$ 28	\$ 18	\$ (52)	\$ 8	\$ (106)	\$ (33)	\$ 31	\$ 31
Per share	0.35	0.23	(0.65)	0.10	(1.31)	(0.41)	0.38	0.39
Adjusted net income applicable to participating shares ⁽¹⁾	35	29	61	25	36	27	54	33
Per share	0.44	0.37	0.77	0.31	0.44	0.33	0.68	0.40
% of fiscal year	— %	— %	41 %	17 %	24 %	18 %	35 %	21 %

⁽¹⁾ Please refer to the section "Reconciliation of non-IFRS Financial Measures" in table 6 of this Management's Discussion and Analysis.

The above table shows changes in our quarterly results for the past eight quarters. Note the increase in our revenues as of the third quarter of 2012 compared to the third quarter of 2011 due to the acquisition of Quad/Graphics Canada, Inc., which, due to the synergies generated, had a more significant impact on adjusted operating income as of the fourth quarter of 2012. However, this revenue increase was partially offset by difficult market conditions, particularly with respect to advertising spending by our local and national customers. Lastly, our volume of activity is cyclical, since it is mainly generated, directly or indirectly, by our customers' marketing spending, which is higher in the fall, most notably in our fourth quarter.

RECONCILIATION OF NON-IFRS MEASURES (unaudited)

Financial data have been prepared in conformity with IFRS. However, certain measures used in this report do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many readers analyze our results based on certain non-IFRS financial measures because such measures are normalized for evaluating the Corporation's operating performance. Internally, Management uses such non-IFRS 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 IFRS. The following table reconciles IFRS financial measures to non-IFRS financial measures.

Table 6:

(in millions of dollars, except per share amounts)	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Net income (loss) applicable to participating shares	\$ 27.5	\$ (106.2)	\$ 45.3	\$ (139.5)
Dividends on preferred shares	1.7	1.7	3.4	3.4
Net loss (income) related to discontinued operations (after tax)	—	1.4	—	1.4
Non-controlling interests	0.4	0.2	0.1	0.2
Unusual adjustments to income taxes	—	—	—	42.0
Income tax expenses	11.7	(9.9)	15.5	(4.3)
Financial expenses related to unusual adjustments to income taxes	—	—	—	16.0
Financial expenses	5.7	6.0	13.6	13.7
Gain on business acquisition	—	(31.7)	—	(31.7)
Impairment of assets	0.7	180.0	2.8	180.8
Restructuring and other costs	9.2	14.4	21.9	16.9
Adjusted operating income	\$ 56.9	\$ 55.9	\$ 102.6	\$ 98.9
Amortization	26.4	27.9	52.3	56.3
Adjusted operating income before amortization	\$ 83.3	\$ 83.8	\$ 154.9	\$ 155.2
Net income (loss) applicable to participating shares	\$ 27.5	\$ (106.2)	\$ 45.3	\$ (139.5)
Net income related to discontinued operations (after tax)	—	1.4	—	1.4
Unusual adjustments to income taxes (after tax)	—	—	—	42.0
Financial expenses related to unusual adjustments to income taxes (after tax)	—	—	—	16.0
Gain on business acquisition (after tax)	—	(31.7)	—	(31.7)
Impairment of assets (after tax)	0.6	162.1	2.1	162.7
Restructuring and other costs (after tax)	6.7	9.9	15.9	11.7
Adjusted net income applicable to participating shares	\$ 34.8	\$ 35.5	\$ 63.3	\$ 62.6
Average number of participating shares outstanding	77.9	81.0	78.0	81.0
Adjusted net income applicable to participating shares per share	\$ 0.44	\$ 0.44	\$ 0.81	\$ 0.77

	As at April 30, 2013	As at October 31, 2012
Long-term debt	\$ 132.9	204.1
Current portion of long-term debt	272.1	283.5
Cash	28.5	16.8
Net indebtedness	\$ 376.5	470.8
Adjusted operating income before amortization (last 12 months)	\$ 357.3	357.6
Net indebtedness ratio	1.05 x	1.32 x

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES – SECOND QUARTER ENDED APRIL 30

Table 7: (unaudited)

(in millions of dollars)	2013	2012
Operating activities		
Cash flow from continuing operations before changes in non-cash operating items and income tax paid	\$ 78.6	\$ 69.4
Changes in non-cash operating items	(5.1)	(29.7)
Income tax paid	(3.4)	(2.1)
Cash flow related to operating activities of continuing operations	\$ 70.1	\$ 37.6
Investing activities		
Business acquisitions	\$ (1.7)	\$ (57.8)
Acquisitions of property, plant and equipment, net of disposals	(7.5)	(8.5)
Acquisitions of intangible assets	(7.8)	(4.8)
Cash flow related to investing activities of continuing operations	\$ (17.0)	\$ (71.1)
Financing activities		
Reimbursement of long-term debt	\$ (0.6)	\$ (73.1)
Net decrease in revolving term credit facility	44.0	89.9
Financial expenses on long-term debt	(4.8)	(6.3)
Issuance of participating shares	—	0.2
Dividends on participating shares	(89.2)	(11.8)
Dividends on preferred shares	(1.7)	(1.7)
Cash flow related to financing activities of continuing operations	\$ (52.3)	\$ (2.8)

Financial position	As at April 30, 2013	As at October 31, 2012
Net indebtedness	\$ 376.5	\$ 470.8
Net indebtedness ratio ⁽¹⁾	1.05 x	1.32 x
Credit rating		
DBRS	BBB	BBB
Outlook	Negative	Negative
Standard and Poor's	BBB-	BBB
Outlook	Stable	Negative

Balance Sheet	As at April 30, 2013	As at October 31, 2012
Current Assets	\$ 515.3	\$ 602.7
Current Liabilities	600.6	725.4
Total Assets	1,996.4	2,136.2
Total Liabilities	1,164.1	1,234.8

⁽¹⁾ Please refer to table 6 in the section "Reconciliation of non-IFRS Financial Measures" of this Management's Discussion and Analysis.

Cash Flow Related to Continuing Operations

Cash flow from continuing operations before changes in non-cash operating items and income tax paid increased, from \$69.4 million in the second quarter of 2012 to \$78.6 million in the second quarter of 2013. Furthermore, changes in non-cash operating items led to a cash outflow of \$5.1 million in the second quarter of 2013, compared to \$29.7 million in the second quarter of 2012. We also had a cash outflow of \$3.4 million for income taxes in the second quarter of 2013, compared to \$2.1 million in the second quarter of 2012. Consequently, cash flow from operating activities rose, leading to a cash inflow of \$70.1 million in the second quarter of 2013, compared to \$37.6 million in the second quarter of 2012. The increase is principally due to improved management of accounts receivable in the second quarter of 2013.

Cash Flow Related to Investing Activities of Continuing Operations

Business acquisitions and investments in tangible and intangible assets, net of disposals, went from \$71.1 million in the second quarter of 2012 to \$17.0 million in the second quarter of 2013. This decrease stems mainly from the \$50.0 million paid to Quad/Graphics Inc., upon conclusion of the transaction to acquire the shares of Quad/Graphics Canada, Inc., on March 1, 2012.

Cash Flow Related to Financing Activities of Continuing Operations

In the second quarter of 2013, we paid \$89.2 million in dividends on participating shares and \$1.7 million on preferred shares, compared to \$11.8 million and \$1.7 million respectively in the first quarter of 2012. The higher dividend was due to a special dividend of \$1.00 per participating share, for a total of \$77.9 million, at the end of April 2013.

Debt Instruments

At April 30, 2013, our net indebtedness ratio stood at 1.05x (1.32x at October 31, 2012) and net indebtedness declined from \$470.8 million at October 31, 2012 to \$376.5 million at April 30, 2013. The cash flows generated, combined with the deposit of an amount of US\$200.0 million (\$197.0 million) under our renegotiated agreement with Hearst Corporation to print the *San Francisco Chronicle*, helped improve our net indebtedness ratio. The decrease in net debt was partially offset by the payment of special dividend of \$1.00 per share at the end of the second quarter of 2013.

Share Capital

In the second quarter ended April 30, 2013, the Corporation did not redeem any of its Class A Subordinate Voting Shares under its share repurchase program put in place in April 2012; the program ended on April 14, 2013. Since implementation of the program, we have redeemed 3,173,200 Class A Subordinate Voting Shares, or 96.3% of the program. The program has been renewed for one year effective April 15, 2013, with authorization to purchase for cancellation on the open market up to 3,906,520 of the Corporation's Class A Subordinate Voting Shares and up to 742,440 of its Class B shares. No Class B Share were repurchased in the second quarter of 2013.

The following table provides data on shares issued and outstanding at April 30, 2013 and at May 31, 28, 2013:

Shares Issued and Outstanding	At April 30, 2013	At May 31, 2013
Class A (Subordinate Voting Shares)	63,053,751	63,053,751
Class B (Multiple Voting Shares)	14,846,916	14,846,816
Series D Preferred (with rate reset)	4,000,000	4,000,000

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for implementing and maintaining adequate internal control. The purpose of internal control with respect to financial information is to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of consolidated financial statements in accordance with IFRS.

In the quarter ended April 30, 2013, no change that has materially affected or is reasonably likely to materially affect internal control over financial reporting was brought to the attention of Management, including the President and Chief Executive Officer, and the Chief Financial and Development Officer of the Corporation.

OUTLOOK

Synergies from integration of the operations of Quad/Graphics Canada, Inc. will continue in the second half of fiscal 2013. This contribution will, however, be partially offset by the closing of Zellers stores, which slowed their activities starting in our fourth quarter of 2012. Since early in fiscal 2013, we have signed new agreements worth an annualized value of about \$30 million to print flyers and marketing products. The contribution from these contracts should increase more significantly as of the third quarter of 2013.

The difficult market conditions with respect to advertising spending are still likely to affect the Media Sector, so we will continue our rationalization and efficiency measures in order to limit possible impacts on the sector's profit margin. We will also continue investing in the development of new products and services to further diversify our offering.

In fiscal 2013, the excess cash flows generated in upcoming quarters, in conjunction with our excellent financial position, will permit us to invest a maximum of \$70 million in in-house projects and to make strategic acquisitions as opportunities arise.

On behalf of Management,

(s) Nelson Gentiletti

Chief Financial and Development Officer

June 6, 2013

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Unaudited

(in millions of Canadian dollars, except per share data)	Notes	Three months ended April 30		Six months ended April 30	
		2013	2012	2013	2012
Revenues		\$ 521.3	\$ 522.4	\$ 1,050.0	\$ 1,010.0
Operating expenses	3	438.0	438.6	895.1	854.8
Restructuring and other costs	10	9.2	14.4	21.9	16.9
Impairment of assets	4	0.7	180.0	2.8	180.8
Gain on business acquisition		—	(31.7)	—	(31.7)
Operating income (loss) before amortization		73.4	(78.9)	130.2	(10.8)
Amortization	5	26.4	27.9	52.3	56.3
Operating income (loss)		47.0	(106.8)	77.9	(67.1)
Net financial expenses	6	5.7	6.0	13.6	29.7
Income (loss) before income taxes		41.3	(112.8)	64.3	(96.8)
Income taxes (recovered)	7	11.7	(9.9)	15.5	37.7
Net income (loss) from continuing operations		29.6	(102.9)	48.8	(134.5)
Net loss from discontinued operations	8	—	(1.4)	—	(1.4)
Net income (loss)		29.6	(104.3)	48.8	(135.9)
Non-controlling interests		0.4	0.2	0.1	0.2
Net income (loss) attributable to shareholders of the Corporation		29.2	(104.5)	48.7	(136.1)
Dividends on preferred shares, net of related taxes		1.7	1.7	3.4	3.4
Net income (loss) attributable to participating shares		\$ 27.5	\$ (106.2)	\$ 45.3	\$ (139.5)
Net income (loss) per participating share - basic and diluted					
Continuing operations	13	\$ 0.35	\$ (1.29)	\$ 0.58	\$ (1.70)
Discontinuing operations		—	(0.02)	—	(0.02)
		\$ 0.35	\$ (1.31)	\$ 0.58	\$ (1.72)
Weighted average number of participating shares outstanding - basic and diluted (in millions)		77.9	81.0	78.0	81.0

The notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited

(in millions of Canadian dollars)	Notes	Three months ended April 30		Six months ended April 30	
		2013	2012	2013	2012
Net income (loss)		\$ 29.6	\$ (104.3)	\$ 48.8	\$ (135.9)
Other comprehensive loss					
Items that will be reclassified to net income (loss):					
Net change related to cash flow hedges					
Net change in the fair value of derivatives designated as cash flow hedges		(1.1)	(0.4)	1.0	(1.6)
Reclassification of the net change in the fair value of derivatives designated as cash flow hedge in prior periods, recognized in net income (loss) during the period		1.4	2.3	(0.1)	4.9
Related income taxes		0.1	1.2	0.3	2.8
		0.2	0.7	0.6	0.5
Cumulative translation differences					
Unrealized exchange net gains (net losses) on the translation of the financial statements of foreign operations		0.6	(0.6)	0.3	(0.1)
Unrealized exchange losses on the translation of a debt designated as a hedge of a net investment in foreign operations	16	(0.2)	—	(0.6)	—
		0.4	(0.6)	(0.3)	(0.1)
Items that will not be reclassified to net income (loss):					
Changes in actuarial gains and losses in respect of defined benefit pension plans					
Actuarial losses in respect of defined benefit pension plans		(11.7)	(14.7)	(2.6)	(30.3)
Related income taxes		(3.1)	(3.9)	(0.9)	(8.8)
		(8.6)	(10.8)	(1.7)	(21.5)
Other comprehensive loss	15	(8.0)	(10.7)	(1.4)	(21.1)
Comprehensive income (loss)		\$ 21.6	\$ (115.0)	\$ 47.4	\$ (157.0)
Attributable to:					
Shareholders of the Corporation		\$ 21.2	\$ (115.2)	\$ 47.3	\$ (157.2)
Non-controlling interests		0.4	0.2	0.1	0.2
		\$ 21.6	\$ (115.0)	\$ 47.4	\$ (157.0)

The notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

(in millions of Canadian dollars)

	Attributable to shareholders of the Corporation				Total	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss			
Balance as at November 1, 2012	\$ 467.7	\$ 2.5	\$ 514.2	\$ (84.4)	\$ 900.0	\$ 1.4	\$ 901.4
Net income	—	—	48.7	—	48.7	0.1	48.8
Other comprehensive loss	—	—	—	(1.4)	(1.4)	—	(1.4)
Shareholders' contributions and distributions to shareholders							
Participating share redemptions (Note 12)	(6.4)	—	(5.2)	—	(11.6)	—	(11.6)
Dividends (Note 12)	—	—	(103.9)	—	(103.9)	(1.4)	(105.3)
Stock-option based compensation (Note 14)	—	0.4	—	—	0.4	—	0.4
Balance as at April 30, 2013	\$ 461.3	\$ 2.9	\$ 453.8	\$ (85.8)	\$ 832.2	\$ 0.1	\$ 832.3
Balance as at November 1, 2011	\$ 478.1	\$ 1.8	\$ 750.3	\$ (28.1)	\$ 1,202.1	\$ 0.8	\$ 1,202.9
Net income (loss)	—	—	(136.1)	—	(136.1)	0.2	(135.9)
Other comprehensive loss	—	—	—	(21.1)	(21.1)	—	(21.1)
Shareholders' contributions and distributions to shareholders							
Exercise of stock options (Note 14)	0.3	—	—	—	0.3	—	0.3
Dividends (Note 12)	—	—	(26.1)	—	(26.1)	—	(26.1)
Stock-option based compensation (Note 14)	—	0.4	—	—	0.4	—	0.4
Balance as at April 30, 2012	\$ 478.4	\$ 2.2	\$ 588.1	\$ (49.2)	\$ 1,019.5	\$ 1.0	\$ 1,020.5

The notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

		As at April 30, 2013	As at October 31, 2012
(in millions of Canadian dollars)	Notes		
Current assets			
Cash		\$ 28.5	\$ 16.8
Accounts receivable		380.1	449.8
Income taxes receivable		12.8	38.9
Inventories		78.6	82.5
Prepaid expenses and other current assets		15.3	14.7
		515.3	602.7
Property, plant and equipment		619.7	651.2
Intangible assets		176.3	171.5
Goodwill	17	504.0	487.0
Deferred income taxes		152.3	192.6
Other assets		28.8	31.2
		\$ 1,996.4	\$ 2,136.2
Current liabilities			
Accounts payable and accrued liabilities		\$ 249.3	\$ 336.8
Provisions	10	12.9	15.5
Income taxes payable		10.6	50.3
Deferred revenues and deposits	11	55.7	39.3
Current portion of long-term debt	9	272.1	283.5
		600.6	725.4
Long-term debt	9	132.9	204.1
Deferred income taxes		40.6	68.4
Provisions	10	48.4	45.3
Other liabilities	11	341.6	191.6
		1,164.1	1,234.8
Equity			
Share capital	12	461.3	467.7
Contributed surplus		2.9	2.5
Retained earnings		453.8	514.2
Accumulated other comprehensive loss	15	(85.8)	(84.4)
Attributable to shareholders of the Corporation		832.2	900.0
Non-controlling interests		0.1	1.4
		832.3	901.4
		\$ 1,996.4	\$ 2,136.2

The notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

		Three months ended April 30		Six months ended April 30	
(in millions of Canadian dollars)	Notes	2013	2012	2013	2012
Operating activities					
Net income (loss)		\$ 29.6	\$ (104.3)	\$ 48.8	\$ (135.9)
Less: Net loss from discontinuing operations	8	—	(1.4)	—	(1.4)
Net income (loss) from continuing operations		29.6	(102.9)	48.8	(134.5)
Adjustments to reconcile net income (loss) and cash flows from operating activities:					
Amortization	5	32.3	34.0	64.5	67.3
Impairment of assets	4	0.7	180.0	2.8	180.8
Gain on business acquisition		—	(31.7)	—	(31.7)
Financial expenses on long-term debt	6	4.5	6.4	10.4	13.3
Interest on tax reassessment	6 & 7	—	—	—	16.0
Net losses (nets gains) on disposal of assets		0.1	0.1	(0.1)	(0.3)
Income taxes (recovered)	7	11.7	(9.9)	15.5	37.7
Stock-option based compensation	14	0.2	0.2	0.4	0.4
Other		(0.5)	(6.8)	1.7	(6.2)
Cash flows generated by operating activities before changes in non-cash operating items and income tax paid		78.6	69.4	144.0	142.8
Changes in non-cash operating items	11	(5.1)	(29.7)	149.7	(43.9)
Income tax paid		(3.4)	(2.1)	(14.2)	(4.4)
Cash flows from continuing operations		70.1	37.6	279.5	94.5
Cash flows from discontinued operations		—	2.0	—	0.4
		70.1	39.6	279.5	94.9
Investing activities					
Business combinations	17	(1.7)	(57.8)	(25.0)	(57.8)
Acquisitions of property, plant and equipment		(9.4)	(8.6)	(20.5)	(16.9)
Disposals of property, plant and equipment		1.9	0.1	2.2	0.5
Increase in intangible assets		(7.8)	(4.8)	(12.0)	(9.5)
Cash flows from investments in continuing operations		(17.0)	(71.1)	(55.3)	(83.7)
Financing activities					
Reimbursement of long-term debt	9	(0.6)	(73.1)	(81.2)	(81.2)
Net increase (decrease) in revolving term credit facility		44.0	89.9	(2.5)	55.8
Financial expenses on long-term debt		(4.8)	(6.3)	(11.4)	(12.6)
Dividends on participating shares	12	(89.2)	(11.8)	(100.5)	(22.7)
Dividends on preferred shares	12	(1.7)	(1.7)	(3.4)	(3.4)
Dividends on non-controlling interests		—	—	(1.4)	—
Issuance of participating shares	14	—	0.2	—	0.3
Participating share redemptions	12	—	—	(12.1)	—
Cash flows from the financing of continuing operations		(52.3)	(2.8)	(212.5)	(63.8)
Effect of exchange rate changes on cash denominated in foreign currencies		0.1	(0.3)	—	(0.2)
Net change in cash		0.9	(34.6)	11.7	(52.8)
Cash at beginning of period		27.6	56.8	16.8	75.0
Cash at end of period		\$ 28.5	\$ 22.2	\$ 28.5	\$ 22.2
Non-cash investing and financing activities					
Net change in capital asset acquisitions financed by accounts payable		\$ 0.2	\$ 0.3	\$ (4.6)	\$ (2.2)

The notes are an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

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(in millions of Canadian dollars, except per share data)

1 GENERAL INFORMATION

Transcontinental Inc. (the "Corporation") is incorporated under the Canada Business Corporations Act. Class A Subordinate Voting Shares, Class B Shares and Cumulative Rate Reset First Preferred Shares, Series D, are traded on the Toronto Stock Exchange. The Corporation's head office is located at 1 Place Ville Marie, Suite 3315, Montreal, Quebec, Canada H3B 3N2.

The Corporation conducts business in Canada and the United States in two separate sectors: the Printing Sector and the Media Sector. The Printing Sector includes printing activities for publishers of magazines, books and newspapers, as well as for retail customers and marketing products. The Media Sector includes the publishing of magazines, newspapers and books, a diversified digital platform and a door-to-door network for distributing advertising material that allows advertisers to reach consumers directly. The Media Sector 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. Also, the Media Sector offers television content creation services that can be delivered on all communication platforms, from TV channels for general broadcasting to new media, Internet and mobile channels for on-demand delivery.

The operating results for interim periods are not necessarily indicative of expected full-year results due to the seasonal nature of certain activities of the Corporation. Operating results are significantly influenced by the advertising market, which is stronger in the fourth quarter.

The Corporation's Board of Directors approved these interim condensed consolidated financial statements on June 6, 2013

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). In particular, these interim consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting", and, therefore, are condensed consolidated financial statements since they do not contain all disclosures required by IFRS for annual consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2012, including the significant accounting policies used by the Corporation.

The accounting methods adopted in these interim condensed consolidated financial statements are based on IFRS issued and effective for the Corporation as at April 30, 2013. Any subsequent changes to IFRS, that are taking effect in the Corporation's annual consolidated financial statements for the year ending October 31, 2013, could result in a retrospective restatement of these interim condensed consolidated financial statements.

Foreign currency translation and hedge accounting

In January 2013, the Corporation has designated certain debts denominated in U.S. dollars as a hedge of an equivalent portion of its net investment in its foreign operations, which have the U.S. dollar as their functional currency. As a result, the effective portion of unrealized exchange gains or losses on the translation of debts denominated in U.S. dollars designated as a hedge of a net investment in foreign operations is recognized in other comprehensive loss and the ineffective portion is recognized in net income. Unrealized exchange gains or losses on the translation of debts denominated in U.S. dollars designated as a hedge of a net investment in foreign operations recognized in accumulated other comprehensive loss are reclassified to net income when the corresponding net investment is reduced.

3 OPERATING EXPENSES

Operating expenses by major heading are as follows:

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Employee-related costs	\$ 174.9	\$ 181.8	\$ 348.6	\$ 344.6
Supply chain and logistics ⁽¹⁾	229.3	224.7	481.8	448.1
Other goods and services ⁽²⁾	33.8	32.1	64.7	62.1
	\$ 438.0	\$ 438.6	\$ 895.1	\$ 854.8

⁽¹⁾ "Supply chain and logistics" includes production and distribution costs related to external suppliers.

⁽²⁾ "Other goods and services" includes mainly promotion, advertising and telecommunications costs, office supplies, real estate expenses and professional fees.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

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(in millions of Canadian dollars, except per share data)

4 IMPAIRMENT OF ASSETS

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Property, plant and equipment	\$ 0.7	\$ —	\$ 2.8	\$ 0.8
Goodwill	—	180.0	—	180.0
	\$ 0.7	\$ 180.0	\$ 2.8	\$ 180.8

Goodwill

Goodwill is assessed for impairment annually, or more frequently if changes in circumstances indicate potential impairment. Until October 31, 2012, the Corporation performed the annual impairment test of goodwill during the second quarter of each fiscal year. Starting from fiscal 2013, the Corporation will now perform this test during the fourth quarter, which corresponds to the period during which the management of the Corporation approves the three-year financial plan. Due to the change of period during which the Corporation performs the annual impairment test of goodwill, the Corporation conducted a test as at November 1, 2012. Therefore, the next annual impairment test of goodwill will be performed during the fourth quarter of fiscal 2013.

The Corporation has concluded that the recoverable amounts of the cash generating units ("CGU") groups subject to the test exceeded their carrying amounts. Accordingly, no goodwill impairment charge was recorded for the impairment test performed as at November 1, 2012.

The test consists of determining whether the recoverable amount of a CGU group exceeds its carrying amount, in which case no impairment charge is required. The recoverable amount of a CGU group is the greater of its value in use and its fair value less costs to sell. Value in use is determined by discounting estimated future cash flows, using a pre-tax discount rate that reflects current assessments of the market, the time value of money and the risks specific to the CGU group. Fair value less costs to sell is determined using an EBITDA (earnings before interest, taxes, depreciation and amortization) multiple of comparable companies operating in similar industries for each CGU group.

During the three-month and six-month periods ended April 30, 2012, the Corporation recorded a \$180.0 million goodwill impairment charge in the Media Sector, due to lower profitability.

The key assumptions used by the Corporation to perform the impairment test as at November 1, 2012, are as follow:

Growth

For the purpose of calculating value in use, future cash flows are based on the three-year financial plan approved by management, with no growth factor having been applied after three years. In developing the forecasts, the Corporation considered past experience, certain economic trends and industry and market trends.

Discount rate

For the purpose of calculating value in use, the Corporation used pre-tax discount rates varying between 17.00% and 28.00%. The discount rate represents the weighted average cost of capital ("WACC") for comparable companies operating in similar industries as the applicable CGU group. The WACC is an estimate of the overall rate of return required by debt and equity holders on their investments. Determining the WACC requires analyzing the cost of equity and debt separately, and takes into account a risk premium that is based on the applicable CGU group.

Tax rate

For the purpose of calculating value in use, the Corporation used income tax rates varying between 26.10% and 27.50% based on the effective tax rates for the entities comprising the applicable CGU groups.

The Corporation performed a sensitivity analysis of the discount rate in its assessment of the recoverable amounts of the CGU groups tested for impairment. The results of the sensitivity analysis show that a 1% increase in the discount rate would not change the conclusion of the test.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

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(in millions of Canadian dollars, except per share data)

5 AMORTIZATION

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Property, plant and equipment	\$ 22.6	\$ 24.8	\$ 45.6	\$ 49.5
Intangible assets	3.8	3.1	6.7	6.8
	26.4	27.9	52.3	56.3
Intangible assets and other assets, recognized in revenues and operating expenses	5.9	6.1	12.2	11.0
	\$ 32.3	\$ 34.0	\$ 64.5	\$ 67.3

6 NET FINANCIAL EXPENSES

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Financial expenses on long-term debt	\$ 4.5	\$ 6.4	\$ 10.4	\$ 13.3
Interest on tax reassessment (Note 7)	—	—	—	16.0
Other expenses	1.1	0.8	2.2	1.6
Foreign exchange losses (gains)	0.1	(1.2)	1.0	(1.2)
	\$ 5.7	\$ 6.0	\$ 13.6	\$ 29.7

7 INCOME TAXES

The following table is a reconciliation of income taxes at the Canadian statutory tax rate and income taxes at the effective tax rate:

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Income (loss) before income taxes	\$ 41.3	\$ (112.8)	\$ 64.3	\$ (96.8)
Canadian statutory tax rate	26.90 %	27.15 %	26.90 %	27.15 %
Income taxes (recovered) at the statutory tax rate	11.1	(30.6)	17.3	(26.3)
Effect of reassessments related to previous years ⁽¹⁾	—	—	—	42.0
Effect of differences in tax rates in other jurisdictions	0.5	(1.5)	(2.0)	(2.5)
Income taxes on non-deductible expenses and non-taxable portion of capital gain	0.2	23.6	1.0	26.7
Recognition of tax losses or temporary differences not previously recognized	0.1	(1.1)	(0.2)	(1.4)
Other	(0.2)	(0.3)	(0.6)	(0.8)
Income taxes (recovered) at effective tax rate	\$ 11.7	\$ (9.9)	\$ 15.5	\$ 37.7

Income taxes include the following items:

Income taxes before the following items:	\$ 14.3	\$ 12.5	\$ 22.2	\$ 19.0
Effect of reassessments related to previous years ⁽¹⁾	—	—	—	42.0
Income taxes on restructuring and other costs	(2.5)	(4.5)	(6.0)	(5.2)
Income taxes on impairment of assets	(0.1)	(17.9)	(0.7)	(18.1)
Income taxes (recovered) at effective tax rate	\$ 11.7	\$ (9.9)	\$ 15.5	\$ 37.7

⁽¹⁾ During the fiscal year ended October 31, 2012, the Corporation received notices of reassessment from the federal and provincial tax authorities totaling \$58.0 million, including applicable interest and penalties for its fiscal years 2006 to 2010. The notices of reassessment relate to deductions on investments in capital assets made by the Corporation, as well as the interprovincial allocation of income. The Corporation recorded an expense of \$58.0 million with respect to these matters, of which \$16.0 million was included in financial expenses and \$42.0 million in income taxes, even though the Corporation contests these notices of reassessment. During the fiscal year ended October 31, 2012, and during the three-month and six-month periods ended April 30, 2013, the Corporation paid amounts of \$31.6 million, \$1.9 million and \$12.5 million, respectively, with respect to the notices of reassessment received. In addition, an amount of \$11.3 million was absorbed by the use of tax attributes during year ended October 31, 2012. Notices of objection have also been filed with the relevant tax authorities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

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8 DISCONTINUED OPERATIONS

On July 16, 2012, the Corporation sold its black and white book printing assets for net proceeds of \$13.0 million, subject to a price adjustment clause based on working capital at the closing of the transaction. An amount of \$10.0 million has been received upon closing the transaction and an amount of \$3.0 million will be received over the next five years. The net loss and cash flows related to these activities were reclassified separately in the Consolidated Statements of Loss and the Consolidated Statements of Cash Flows as discontinued operations for the three-month and six-month periods ended April 30, 2012.

On July 12, 2011, the Corporation entered into a final agreement with Quad/Graphics, Inc. to sell its Mexican printing operations. During the three-month and six-month periods ended April 30, 2012, a \$1.3 million loss has been recorded as an adjustment to the gain related to the discontinued operations.

The following table presents the net loss from discontinued operations:

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Revenues	\$ —	\$ 7.0	\$ —	\$ 15.3
Expenses	—	7.2	—	15.5
Loss before income taxes	—	(0.2)	—	(0.2)
Income taxes recovered	—	(0.1)	—	(0.1)
Loss related to the operation of discontinued operations	—	(0.1)	—	(0.1)
Adjustment to the gain related to discontinuance of Mexican printing operations (no tax effect)	—	(1.3)	—	(1.3)
Net loss from discontinued operations ⁽¹⁾	\$ —	\$ (1.4)	\$ —	\$ (1.4)

⁽¹⁾ The net loss related to the discontinued operations is fully attributable to the Corporation's shareholders.

9 LONG-TERM DEBT

On December 7, 2012, the Corporation has extended by one year the credit facility amounting to \$400.0 million or the U.S. dollar equivalent, which matured in February 2017, until February 2018. The applicable interest rate on the term revolving credit facility is based on the credit rating assigned by Standard & Poor's and DBRS. According to the current credit rating, it is either the banker's acceptance rate or LIBOR, plus 1.45%, or the Canadian or U.S. prime rate, plus 0.45%.

On December 17, 2012, the Corporation repaid its Senior Note Series 2002 A - Tranche 1, amounting to US\$75.0 million (\$73.8 million). This financing was for a period of ten years at a rate of 5.62%.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Quarters ended April 30, 2013 and 2012

(in millions of Canadian dollars, except per share data)

10 PROVISIONS

The following table presents changes in provisions for the six-month period ended April 30, 2013:

	Restructuring costs	Onerous real estate contracts	Multi-employer pension plans	Other ⁽¹⁾	Total
Balance as at November 1, 2012	\$ 9.3	\$ 16.7	\$ 32.6	\$ 2.2	\$ 60.8
Provisions recorded	12.1	6.8	—	0.2	19.1
Amounts used	(15.5)	(2.4)	—	(0.3)	(18.2)
Provisions reversed	(0.3)	—	—	(0.2)	(0.5)
Other	—	0.1	—	—	0.1
Balance as at April 30, 2013	\$ 5.6	\$ 21.2	\$ 32.6	\$ 1.9	\$ 61.3
Current portion	5.6	6.1	—	1.2	12.9
Non-current portion	—	15.1	32.6	0.7	48.4
	\$ 5.6	\$ 21.2	\$ 32.6	\$ 1.9	\$ 61.3

⁽¹⁾ Other provisions include provisions for asset retirement obligations, provisions related to claims and litigations and other obligations.

Restructuring costs

The Corporation is currently implementing rationalization measures that will affect its operating segments. These measures will mainly address excess production capacity in some specialized plants of the Printing Sector following the integration of Quad/Graphics Canada, Inc., and major structural changes in the printing industry.

Restructuring and other costs by major heading were as follows:

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Workforce reductions	\$ 5.9	\$ 16.6	\$ 11.8	\$ 18.1
Onerous real estate contracts	0.9	—	6.8	—
Business acquisition costs ⁽¹⁾	—	0.7	0.3	0.7
Gain on defined benefit plans curtailment related to workforce reductions	—	(3.5)	(0.7)	(3.5)
Impact of settlement on defined benefit plans related to workforce reductions	0.8	—	1.6	—
Other costs related to restructuring	1.6	0.6	2.1	1.6
	\$ 9.2	\$ 14.4	\$ 21.9	\$ 16.9

⁽¹⁾ Business acquisition costs include transaction costs, comprising legal and bank fees, and costs related to the integration of acquired businesses.

11 DEFERRED REVENUES

During the three-month period ended January 31, 2013, the Corporation renegotiated its agreement with Hearst Corporation to print the *San Francisco Chronicle*. Its subsidiary in the United States received an amount of US\$200.0 million (\$197.0 million) in consideration for price reductions on the remaining term of the contract. The amount received and recognized as deferred revenues will be transferred to revenues based on the remaining term of the contract, without effect on cash flows. For the three-month and six-month periods ended April 30, 2013, amounts of \$6.6 million and \$9.0 million, respectively, were transferred to earnings. As at April 30, 2013, amounts of US\$26.0 million (\$26.4 million) and US\$165.1 million (\$167.9 million) are classified as deferred revenues and deposits and as other liabilities, respectively, in the Consolidated Statement of Financial Position. As part of the conversion of the financial statements of its subsidiary in the United States, the deferred revenues are translated at current exchange rate at the end of each period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(in millions of Canadian dollars, except per share data)

12 SHARE CAPITAL

The share capital of the Corporation has changed as follows:

	Three months ended April 30			
	2013		2012	
	Number of shares	Amount	Number of shares	Amount
Participating shares				
Class A Subordinate Voting Shares				
Balance, beginning of period	63,048,851	\$ 344.4	65,885,582	\$ 360.9
Conversion of Class B Shares into Class A Subordinate Voting Shares	4,900	—	100,000	0.1
Exercise of stock options	—	—	16,350	0.2
Balance, end of period	63,053,751	344.4	66,001,932	361.2
Class B Shares				
Balance, beginning of period	14,851,816	20.1	15,151,235	20.5
Conversion of Class B Shares into Class A Subordinate Voting Shares	(4,900)	—	(100,000)	(0.1)
Balance, end of period	14,846,916	20.1	15,051,235	20.4
	77,900,667	\$ 364.5	81,053,167	\$ 381.6

Preferred shares

Cumulative 5-Year Rate Reset First Preferred Shares, Series D

Balance, beginning and end of period	4,000,000	\$ 96.8	4,000,000	\$ 96.8
		\$ 461.3		\$ 478.4

	Six months ended April 30			
	2013		2012	
	Number of shares	Amount	Number of shares	Amount
Participating shares				
Class A Subordinate Voting Shares				
Balance, beginning of period	64,056,651	\$ 350.6	65,873,182	\$ 360.8
Conversion of Class B Shares into Class A Subordinate Voting Shares	158,700	0.2	100,000	0.1
Exercise of stock options	—	—	28,750	0.3
Participating shares redeemed and canceled	(1,161,600)	(6.4)	—	—
Balance, end of period	63,053,751	\$ 344.4	66,001,932	\$ 361.2
Class B Shares				
Balance, beginning of period	15,005,616	20.3	15,151,235	20.5
Conversion of Class B Shares into Class A Subordinate Voting Shares	(158,700)	(0.2)	(100,000)	(0.1)
Balance, end of period	14,846,916	20.1	15,051,235	20.4
	77,900,667	\$ 364.5	81,053,167	\$ 381.6

Preferred shares

Cumulative 5-Year Rate Reset First Preferred Shares, Series D

Balance, beginning and end of period	4,000,000	\$ 96.8	4,000,000	\$ 96.8
		\$ 461.3		\$ 478.4

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12 SHARE CAPITAL (CONTINUED)

Participating share redemptions

The Corporation has been authorized to redeem, for cancellation on the open market, between April 13, 2012 and April 12, 2013, up to 3,295,096 Class A Subordinate Voting Shares, representing 5.0% of its 65,901,932 Class A Subordinate Voting Shares issued and outstanding as at April 2, 2012, and up to 757,561 Class B Shares, representing 5.0% of its 15,151,235 Class B Shares issued and outstanding as at April 2, 2012. The redemptions were made in the normal course of business at market prices through the Toronto Stock Exchange.

The Corporation has been authorized to redeem, for cancellation on the open market or, subject to the approval of any securities authority by private agreements, between April 15, 2013 and April 14, 2014, or at an earlier date if the Corporation concludes or cancels the offer, up to 3,906,520 Class A Subordinate Voting Shares, representing 6.2% of its 63,051,851 Class A Subordinate Voting Shares issued and outstanding as at April 2, 2013, and up to 742,440 Class B Shares, representing 5.0% of its 14,848,816 Class B Share issued and outstanding as at April 2, 2013. The redemptions are being made in the normal course of business at market prices through the Toronto Stock Exchange.

During the six-month period ended April 30, 2013, the Corporation has redeemed 1,161,600 of its Class A Subordinate Voting Shares at a weighted average price of \$9.98, for a total cash consideration of \$11.6 million. The excess of the total consideration paid over the carrying amount of the shares, in the amount of \$5.2 million, was applied against retained earnings. During the same period, the Corporation also paid an amount of \$0.5 million, which was in accounts payable and accrued liabilities as at October 31, 2012, for shares that were purchased before October 31, 2012, but were still held by the Corporation at that date. The Corporation was under no obligations to redeem its Class A Subordinate Voting Shares and Class B Shares as at April 30, 2013, as well as at October 31, 2012.

Dividends

Quarterly dividends of \$0.145 per share were declared and paid to the holders of participating shares for the three-month periods ended April 30, 2013 and 2012. Dividends of \$0.4161 and \$0.4196 per share were declared and paid to the holders of preferred shares for the three-month periods ended April 30, 2013 and 2012, respectively.

On March 12, 2013, the Corporation's Board of Directors declared a special dividend of \$1.00 per share, totaling \$77.9 million, on Class A Subordinate Voting Shares and Class B Shares. This dividend has been paid on April 26, 2013 to participating shareholders of record at the close of business on April 5, 2013.

13 NET INCOME (LOSS) PER PARTICIPATING SHARE

The following table presents a reconciliation of the numerator used to calculate basic and diluted net income (loss) from continuing operations per participating share:

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Net income (loss) from continuing operations	\$ 29.6	\$ (102.9)	\$ 48.8	\$ (134.5)
Non-controlling interests	(0.4)	(0.2)	(0.1)	(0.2)
Dividends on preferred shares, net of related taxes	(1.7)	(1.7)	(3.4)	(3.4)
Net income (loss) attributable to participating shares	\$ 27.5	\$ (104.8)	\$ 45.3	\$ (138.1)

For the calculation of the diluted net income per share, 852,136 options were considered anti-dilutive as at April 30, 2013, since their exercise price was greater than the average share price of Class A Subordinate Voting Shares during the period. As at April 30, 2012, 1,698,791 stock options were considered anti-dilutive, being all options issued and outstanding at that date due to the loss position for the period. Therefore, these stock options were excluded from the calculation of diluted net income (loss) per share for these periods.

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14 STOCK-BASED COMPENSATION

Stock option plan

The Corporation offers a stock option plan for the benefit of certain officers and senior executives. Under the plan, each stock option entitles its holder to receive upon exercise one Class A Subordinate Voting Share. The exercise price of each option 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 expenses of \$0.2 million were charged to the Consolidated Statements of Income (Loss) and increased contributed surplus included in shareholders' equity for the three-month periods ended April 30, 2013 and 2012. For the six-month periods ended April 30, 2013 and 2012, expenses were \$0.4 million.

The following tables present the changes in the plan's status:

	Three months ended April 30			
	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding at beginning of period	1,516,576	\$ 14.23	1,752,424	\$ 16.12
Exercised	—	—	(16,350)	9.64
Canceled	—	—	(37,283)	15.87
Expired	(24,000)	19.38	—	—
Options outstanding at end of period	1,492,576	\$ 14.14	1,698,791	\$ 16.18

	Six months ended April 30			
	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding at beginning of period	1,432,616	\$ 16.11	1,572,640	\$ 16.67
Granted	386,940	11.33	235,984	12.40
Exercised	—	—	(28,750)	10.28
Canceled	—	—	(66,083)	17.96
Expired	(326,980)	19.43	(15,000)	11.13
Options outstanding at end of period	1,492,576	\$ 14.14	1,698,791	\$ 16.18
Options exercisable at end of period	858,074	\$ 15.62	1,218,530	\$ 17.47

Exercise of stock options

When officers and senior executives exercise their stock options, any consideration paid is credited to share capital and the amount previously credited to contributed surplus is also transferred to share capital. For the three-month and six-month periods ended April 30, 2013 there was no exercise of stock options. For the three-month and six-month periods ended April 30, 2012, the considerations received were \$0.2 million and \$0.3 million, respectively. Negligible amounts were transferred from contributed surplus to share capital during these periods.

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14 STOCK-BASED COMPENSATION (CONTINUED)

The following table summarizes the weighted average assumptions used to calculate, using the Black-Scholes option pricing model, the fair value on the grant date of the options granted during the six-month periods ended April 30:

	2013	2012
Share price of Class A Subordinate Voting Shares on the stock option grant date	\$ 11.33	\$ 12.40
Weighted average fair value of the stock options	\$ 2.42	\$ 3.01
Assumptions:		
Expected dividend yield	5.35 %	4.42 %
Expected volatility	39.31 %	40.54 %
Risk-free interest rate	1.53 %	1.36 %
Expected remaining life	5 years	5 years

The expected dividend yield is based on the actual average dividend rate of the Corporation's participating shares. The expected volatility is based on the historical volatility of the price of the Corporation's Class A Subordinate Voting Shares over a period equal to the expected life of the options. The risk-free rate is the rate of return on Government of Canada bonds over a period equal to the expected life of the options. The expected remaining life of the options represents the period of time during which the options granted are expected to be outstanding.

Share unit plan for certain officers and senior executives

The Corporation offers a share unit plan for the benefit of certain officers and senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted. Vested DSUs and RSUs will be paid, at the Corporation's discretion, in cash or with Class A Subordinate Voting Shares of the Corporation purchased on the open market.

The following tables present the changes in the plan's status:

	Three months ended April 30			
Number of units	2013	2012	2013	2012
	DSU		RSU	
Balance, beginning of period	202,693	222,022	751,192	718,230
Units canceled	—	—	(19,821)	(27,806)
Units paid	(456)	(24,042)	—	—
Dividends paid in units	18,795	2,113	—	—
Balance, end of period	221,032	200,093	731,371	690,424

	Six months ended April 30			
Number of units	2013	2012	2013	2012
	DSU		RSU	
Balance, beginning of period	178,907	201,981	606,597	679,884
Units granted	—	—	321,725	309,097
Units canceled	—	—	(26,737)	(141,095)
Units paid	(456)	(24,042)	(148,874)	(139,506)
Units converted	21,340	17,956	(21,340)	(17,956)
Dividends paid in units	21,241	4,198	—	—
Balance, end of period	221,032	200,093	731,371	690,424

As at April 30, 2013, the liability related to the share unit plan for certain officers and senior executives was \$5.9 million (\$4.9 million as at October 31, 2012). The expenses recorded in the Consolidated Statements of Income (Loss) for the three-month periods ended April 30, 2013 and 2012 were \$1.3 million and \$0.2 million, respectively. The expenses recorded in the Consolidated Statements of Income (Loss) for the six-month periods ended April 30, 2013 and 2012 were \$2.5 million and \$1.1 million, respectively. A negligible amount and an amount of \$1.5 million were paid under this plan for the three-month and six-month periods ended April 30, 2013. Amounts of \$0.3 million and \$1.8 million were paid under this plan for the three-month and six-month periods ended April 30, 2012, respectively.

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14 STOCK-BASED COMPENSATION (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 as compensation either cash, deferred share units, or a combination of both.

The following table presents the changes in the plan's status:

Number of units	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Balance, beginning of period	261,534	215,726	247,505	201,257
Directors' compensation	10,052	10,938	21,058	23,261
Units paid	—	(18,573)	—	(18,573)
Dividends paid in units	24,466	2,419	27,489	4,565
Balance, end of period	296,052	210,510	296,052	210,510

As at April 30, 2013, the liability related to the share unit plan for directors was \$3.8 million (\$2.4 million as at October 31, 2012). The expenses recorded in the Consolidated Statements of Income (Loss) for the three-month periods ended April 30, 2013 and 2012 were \$0.7 million and \$0.2 million, respectively. The expenses recorded in the Consolidated Statements of Income (Loss) for the six-month periods ended April 30, 2013 and 2012, were \$1.4 million and \$0.4 million, respectively. No amount were paid under this plan for the three-month and six-month periods ended April 30, 2013. An amount of \$0.3 million was paid under this plan for the three-month and six-month periods ended April 30, 2012.

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15 ACCUMULATED OTHER COMPREHENSIVE LOSS

	Cash flow hedges	Cumulative translation differences	Actuarial gains and losses related to defined benefit plans	Accumulate other comprehensive loss
Balance as at November 1, 2012	\$ (3.9)	\$ (1.2)	\$ (79.3)	\$ (84.4)
Net change in gains (losses), net of income taxes	0.6	(0.3)	(1.7)	(1.4)
Balance as at April 30, 2013	\$ (3.3)	\$ (1.5)	\$ (81.0)	\$ (85.8)
Balance as at November 1, 2011	(6.3)	(1.9)	(19.9)	(28.1)
Net change in gains (losses), net of income taxes	0.5	(0.1)	(21.5)	(21.1)
Balance as at April 30, 2012	(5.8)	(2.0)	(41.4)	(49.2)

As at April 30, 2013, the amounts expected to be reclassified to net income are as follows:

	2013	2014	2015	2016	2017 and thereafter	Total
Gains (losses) on derivatives designated as cash flow hedges	\$ 0.1	\$ (0.9)	\$ (1.0)	\$ (0.8)	\$ (1.8)	\$ (4.4)
Income taxes recovered	—	(0.2)	(0.2)	(0.2)	(0.5)	(1.1)
	\$ 0.1	\$ (0.7)	\$ (0.8)	\$ (0.6)	\$ (1.3)	\$ (3.3)

16 FINANCIAL INSTRUMENTS

In January 2013, the Corporation has designated certain debts denominated in U.S. dollars as a hedge of an equivalent portion of its net investment in its foreign operations, which have the U.S. dollar as their functional currency. For the month of January 2013, the Corporation has designated as a hedge of the net investment in foreign operations US\$20.0 million of a debt denominated in U.S. dollars. For the three-month period ended April 30, 2013, the Corporation has designated as a hedge of the net investment in foreign operations US\$25.0 million of a debt denominated in U.S. dollars. The effective portion of unrealized exchange losses on the translation of a debt designated as a hedge of a net investment in foreign operations represents amounts of \$0.2 million and \$0.6 million for the three-month and six-month periods ended April 30, 2013, and are recorded in other comprehensive loss.

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17 BUSINESS COMBINATIONS

Media Sector

On January 31, 2013, the Corporation acquired 100% of the shares of Groupe Modulo Inc., publisher of French-language educational resources and materials in Canada. This transaction allows the Media Sector to strengthen its leadership position in higher education in Quebec and to increase its presence in the education market in French communities in Canada.

On February 25, 2013, the Corporation acquired 100% of the shares of Lusio Films Inc., which produces fiction and documentary content for film, television and multiplatform use. This transaction allows the Media Sector to further developing its TV production offering and multiplatform delivery.

Given the short period between the dates of acquisition and the reporting date, management was unable to obtain all the information necessary to complete the initial accounting for these business combinations, and, therefore, these are preliminary and subject to change following a final assessment of the fair value of the assets acquired and liabilities assumed. The excess of the purchase price over the estimated fair value of the assets acquired and liabilities assumed of this acquisition was fully attributed to goodwill. Consequently, the intangible assets acquired and the related amortization have not been reflected in these interim condensed consolidated financial statements. The Corporation expects to finalize initial recognition of these business combinations in fiscal 2013.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed, as well as adjustments to prior period acquisitions, made during the six-month period ended April 30, 2013:

Assets acquired	
Current assets	\$ 3.8
Property, plant and equipment	0.5
Intangible assets	3.5
Goodwill (no tax value)	17.3
	\$ 25.1
Liabilities assumed	
Current liabilities	\$ 1.7
Deferred income taxes	1.0
	\$ 22.4
Consideration	
Cash paid	\$ 23.3
Cash of the acquired businesses	(0.9)
	\$ 22.4

During the three-month period ended April 30, 2013, the Corporation made a final assessment of the fair value of assets acquired and liabilities assumed for *Courrier Frontenac*, acquired on February 15, 2012. The above table comprises these adjustments.

The Corporation's Interim Condensed Consolidated Financial Statements for the six-month period ended April 30, 2013 include the operating results of the acquired businesses since the acquisition date, additional revenues of \$1.4 million, operating income before amortization of \$0.1 million and transactional costs of \$0.1 million. The fair value of the receivables acquired of \$1.4 million, that no debt is uncollectible at the acquisition date, is included in the current assets in the accounting of the business combination. However, if the Corporation had acquired these businesses on November 1, 2012, its operating results would have been as follows: additional revenues of \$3.4 million and operating income before amortization of \$0.1 million.

Other

During the three-month period ended January 31, 2013, the Corporation paid an amount of \$2.6 million related to a business combination entered into during the previous year, and for which an amount of \$2.9 million was included in short-term liabilities as at October 31, 2012. Consequently, the goodwill was adjusted by an amount of \$0.3 million. The final assessment of the fair value of assets acquired and liabilities assumed of this business combination will be completed in fiscal 2013.

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18 SEGMENT REPORTING

The operating segments are defined in terms of the types of products and services offered by the Corporation. The Printing Sector generates revenues through printing activities for publishers of magazines, books and newspapers, as well as for retail customers and marketing products. The Media Sector generates revenues through the publishing of magazines, newspapers and books, a diversified digital platform and a door-to-door network for distributing advertising material that allows advertisers to reach consumers directly. The Media Sector 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. Also, the Media Sector offers television content creation services that can be delivered on all communication platforms, from TV channels for general broadcasting to new media, Internet and mobile channels for on-demand delivery. Inter-segment sales of the Corporation are recognized at the exchange amount. Transactions other than sales are recognized at the carrying amount.

The Consolidated Statements of Income (Loss) include the following components (by segment):

	Three months ended April 30		Six months ended April 30	
Operating segments	2013	2012	2013	2012
Revenues				
Printing Sector	\$ 367.6	\$ 370.7	\$ 748.8	\$ 715.8
Media Sector	175.8	173.6	341.3	332.1
Other activities and unallocated amounts	2.2	2.1	4.3	4.3
Inter-segment sales	(24.3)	(24.0)	(44.4)	(42.2)
	\$ 521.3	\$ 522.4	\$ 1,050.0	\$ 1,010.0
Operating income (loss) before amortization				
Printing Sector	\$ 68.2	\$ 88.0	\$ 122.3	\$ 152.5
Media Sector	10.2	(164.9)	15.3	(158.6)
Other activities and unallocated amounts	(5.0)	(2.0)	(7.4)	(4.7)
	\$ 73.4	\$ (78.9)	\$ 130.2	\$ (10.8)
Operating income (loss)				
Printing Sector	\$ 48.5	\$ 67.2	\$ 82.6	\$ 110.3
Media Sector	4.9	(169.7)	5.5	(169.7)
Other activities and unallocated amounts	(6.4)	(4.3)	(10.2)	(7.7)
	\$ 47.0	\$ (106.8)	\$ 77.9	\$ (67.1)
Acquisitions of non-current assets ⁽¹⁾				
Printing Sector	\$ 10.1	\$ 6.7	\$ 15.7	\$ 16.7
Media Sector	7.3	7.8	13.7	18.1
Other activities and unallocated amounts	3.2	1.7	3.5	1.9
	\$ 20.6	\$ 16.2	\$ 32.9	\$ 36.7
Amortization of property, plant and equipment and intangible assets				
Printing Sector	\$ 19.7	\$ 20.8	\$ 39.7	\$ 42.2
Media Sector	5.3	4.8	9.8	11.1
Other activities and unallocated amounts	1.4	2.3	2.8	3.0
	\$ 26.4	\$ 27.9	\$ 52.3	\$ 56.3
Impairment of assets				
Printing Sector	\$ 0.7	\$ —	\$ 2.3	\$ 0.8
Media Sector	—	180.0	—	180.0
Other activities and unallocated amounts	—	—	0.5	—
	\$ 0.7	\$ 180.0	\$ 2.8	\$ 180.8

⁽¹⁾ These amounts include acquisitions of property, plant and equipment, intangible assets and other non-current assets, excluding those acquired in business combinations, whether they have been paid or not.

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18 SEGMENT REPORTING (CONTINUED)

The Corporation's revenues by main products and services are as follows:

	Three months ended April 30		Six months ended April 30	
	2013	2012	2013	2012
Main products and services				
Printed products	\$ 343.2	\$ 346.1	\$ 705.5	\$ 673.6
Publishing products	101.2	104.5	198.5	200.3
Digital and interactive products	40.5	37.9	77.8	66.9
Other products and services	36.4	33.9	68.2	69.2
	\$ 521.3	\$ 522.4	\$ 1,050.0	\$ 1,010.0

The Corporation's total assets by segment are as follows:

	As at April 30, 2013	As at October 31, 2012
Operating segments		
Assets		
Printing Sector	\$ 1,113.2	\$ 1,237.2
Media Sector	757.6	773.0
Other activities and unallocated amounts	125.6	126.0
	\$ 1,996.4	\$ 2,136.2