transcontinental

PRESS RELEASE

For Immediate Release

TRANSCONTINENTAL GENERATES ORGANIC REVENUE AND PROFIT GROWTH FOR THE 5TH CONSECUTIVE QUARTER AND INCREASES ITS DIVIDEND BY 23%

Highlights

(in millions of dollars, except per share data)	Q2-2011	Q2-2010	%
Revenues	$514.7	$510.0	1%
Adjusted operating income	61.3	58.3	5%
Adjusted net income applicable to participating shares	40.1	34.1	18%
Per share	0.49	0.42	17%
Net income applicable to participating shares	33.0	67.0	(51%)
Per share	0.41	0.83	(51%)

- Increased its dividend on participating shares by 23%, raising the annual dividend from $0.44 per share to $0.54 per share
- Continued its digital transformation by partnering with Undertone®, a leading provider of video advertising solutions and the Canadian Booksellers Association for eBook solutions for retailers
- Continued to optimize its printing network

Montreal, June 8, 2011 – Transcontinental's revenues increased 1% in the second quarter of 2011, from $510.0 million to $514.7 million. This increase was primarily due to a number of new contracts, most notably from the expanded relationship with *The Globe and Mail*. Excluding acquisitions, divestitures and closures, the impact of the exchange rates and the paper component variance, organic revenue growth was 3%, with all three sectors contributing. Similarly, adjusted operating income increased 5%, from $58.3 million to $61.3 million, representing the 8th consecutive quarter of year over year growth, while the adjusted operating income margin increased from 11.4% to 11.9%. This increase was mainly due to the contribution from new contracts coupled with the synergies associated with the use of our most productive assets and continued efficiency improvement initiatives in the Printing sector. It was partially compensated by continued strategic investments in the Media and Interactive sectors and more intense competitive pressures in some of our niches. Net income applicable to participating shares went from $67.0 million, or $0.83 per share, to $33.0 million, or $0.41 per share. This decrease is mainly due to a gain related to the discontinuance of direct mail operations in the United States in the second quarter of 2010. Excluding unusual items, adjusted net income applicable to participating shares increased 18%, from $34.1 million to $40.1 million. On a per share basis it increased 17%, from $0.42 to $0.49.

"I am pleased with our second quarter results, especially with the fact that we have generated organic revenue and profit growth for the fifth consecutive quarter in an industry in profound transformation. This demonstrates our ability to manage our operations efficiently, grow market share and transform our business to better respond to our customers' evolving needs," said François Olivier, President and Chief Executive Officer. "I strongly believe that our service offering including print, media and interactive solutions is unmatched in the marketplace and represents a unique multiplatform offering. Furthermore, our solid financial position provides us with the flexibility to pursue our transformation. Today we announced that we were increasing our dividend to participating shareholders by 23%, raising our annual dividend from $0.44 per share to $0.54 per share, reflecting our strong cash flow generating ability," concluded Mr. Olivier.

Other Financial Highlights

- Free cash flow from operations increased significantly as cash flow from operations, before changes in non-cash operating items, increased 16%, from $65.8 million to $76.1 million and capital expenditures decreased, from $26.3 million to $8.4 million.

- As at April 30, 2011, the ratio of net indebtedness (including the securitization program) to adjusted operating income before amortization was 1.66x, as compared to 1.82x as at October 31, 2010 and 2.08x as at April 30, 2010. The ratio of net indebtedness to adjusted operating income before amortization is slightly above the target of 1.5x set by management. Over the next few quarters, it should get closer to the target given the expected increase in cash flow generation and reduction in capital expenditures.

- In the quarter, Transcontinental also prepaid and cancelled its $100 million term credit facility with Caisse de dépôt et placement du Québec and set up a new two-year $200 million securitization program. In addition, Transcontinental intends to prepay and cancel its five-year term loan of $50 million with SGF Rexfor Inc. next month.

For more detailed financial information, please see *Management's Discussion and Analysis for the Second Quarter Ended April 30, 2011* at www.transcontinental.com, under "Investors."

Operating Highlights

- Transcontinental continued to invest in new digital products and services. It partnered with Undertone®, a leading provider of display, high impact and video advertising solutions, in order to expand its digital advertising representation offering. This agreement enables Transcontinental to provide Canadian advertisers with a full range of digital video ad solutions, namely pre-roll advertising spots in over 25 million online video clips played every month in Canada. In addition, Transcontinental was selected as the official eBook solution provider for the Canadian Booksellers Association (CBA). This partnership will empower book retailers to create new revenue streams and bring more titles to market faster, with easy to use, intuitive software designed with online bookstores in mind.

- Transcontinental continued to build on its existing assets. It announced that it will close two printing plants, one in Quebec and one in Manitoba, which will optimize its printing network further. In both cases, production will be transferred to larger plants which have benefitted from investments in the recent past. Transcontinental also continued to grow its newspaper publishing operations by acquiring the weekly newspaper *Journal Nouvelles Hebdo* in Dolbeau-Mistassini, Quebec and by launching five community newspapers in Quebec.

- In the quarter, Transcontinental also concluded a four-year agreement with Canadian Tire, which will add about $30 to $40 million in incremental revenues on an annual basis, starting in January 2012. This new agreement makes Transcontinental Canadian Tire's leading provider of marketing solutions across Canada.

- Transcontinental also launched its second Sustainability Report, based on the Global Reporting Initiative (GRI). The full web report, a downloadable pdf as well as a highlights brochure are all available at www.transcontinental-ecodev.com.

Highlights for the Six-month Period

In the first six months of fiscal 2011, Transcontinental's revenues increased 2%, from $1,021.6 million to $1,044.8 million. Excluding acquisitions, divestitures and closures, the impact of the exchange rates and the paper component variance, organic revenue growth was 3%, with all three sectors contributing. Similarly, adjusted operating income increased 5%, from $105.6 million to $111.1 million, while the adjusted operating income margin increased from 10.3% to 10.6%. Net income applicable to participating shares went from $93.2 million, or $1.16 per share, to $59.2 million, or $0.73 per share. Excluding unusual items, adjusted net income applicable to participating shares increased 14%, from $61.2 million to $70.0 million. On a per share basis it increased 13%, from $0.76 to $0.86.

Reconciliation of Non-GAAP Financial Measures

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

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

Reconciliation of Non-GAAP financial measures

(unaudited)

(in millions of dollars, except per share amounts)	Three months ended April 30 2011	Three months ended April 30 2010	Six months ended April 30 2011	Six months ended April 30 2010
Net income applicable to participating shares	$ 33.0	$ 67.0	$ 59.2	$ 93.2
Dividends on preferred shares	1.7	1.7	3.4	3.4
Net income from discontinued operations (after tax)	-	(34.7)	-	(32.9)
Non-controlling interest	0.5	-	0.8	0.3
Income taxes	7.6	10.7	13.3	15.5
Discount on sale of accounts receivable	-	0.3	-	0.9
Financial expenses	8.6	10.5	19.4	20.5
Expenses related to long-term debt prepayment	5.8	-	5.8	-
Impairment of assets and restructuring costs	4.1	2.8	9.2	4.7
Adjusted operating income	$ 61.3	$ 58.3	$ 111.1	$ 105.6
Net income applicable to participating shares	$ 33.0	$ 67.0	$ 59.2	$ 93.2
Net income from discontinued operations (after tax)	-	(34.7)	-	(32.9)
Unusual adjustments to income taxes	-	-	-	(2.4)
Expenses related to long-term debt prepayment (after tax)	4.2	-	4.2	-
Impairment of assets and restructuring costs (after tax)	2.9	1.8	6.6	3.3
Adjusted net income applicable to participating shares	$ 40.1	$ 34.1	$ 70.0	$ 61.2
Average number of participating shares outstanding	81.0	80.8	81.0	80.8
Adjusted net income applicable to participating shares per share	$ 0.49	$ 0.42	$ 0.86	$ 0.76
Cash flow related to continuing operations	$ 57.8	$ (57.4)	$ 111.8	$ (0.8)
Changes in non-cash operating items	(18.3)	(123.2)	(33.6)	(132.8)
Cash flow from continuing operations before changes in non-cash operating items	$ 76.1	$ 65.8	$ 145.4	$ 132.0

Dividend

At its June 8, 2011 meeting, the Corporation's Board of Directors declared a quarterly dividend of $0.135 per Class A Subordinate Voting Shares and Class B shares. This dividend is payable on July 22, 2011 to participating shareholders of record at the close of business on July 4, 2011. The Corporation thus increased the dividend per participating share by 23%, or $0.10 per share, raising the new annual dividend to $0.54 per share. This increase is a reflection of Transcontinental's strong cash flow position. It follows on the 22.2% increase which took effect on December 8, 2010 and 12.5% increase which took effect on March 17, 2010.

Furthermore, at the same meeting, the Board also 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, 2011. On an annual basis, this represents a dividend of $1.6875 per preferred share.

Additional Information

Upon releasing its quarterly results, Transcontinental will hold a conference call for the financial community today at 4:15 p.m. 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 Nancy Bouffard, Director, Internal and External Communications of Transcontinental, at 514 954-2809.

Given the current strike by Canada Post, delivery of the financial statements, for the second quarter, to shareholders may be affected and may only be made when the postal system resumes in applicable regions. The financial statements have been posted electronically on SEDAR at www.sedar.com and on Transcontinental's website, in the investor relations section, at www.transcontinental.com. Shareholders can communicate directly with Caroline Hamel at 514 954-4000 to make arrangements for alternative delivery.

Profile

Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada and Mexico, and fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces, it is also one of Canada's top media groups. Thanks to a wide digital network of more than 300 websites, the company reaches over 10 million unique visitors per month in Canada. Transcontinental also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental (TSX: TCL.A, TCL.B, TCL.PR.D) has 10,500 employees in Canada, the United States and Mexico, and reported revenues of C$2.1 billion in 2010. For more information about the Corporation, please visit www.transcontinental.com.

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 implement its strategic plan and rationalization plan, 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* and *Annual Information Form*.

The forward-looking information in this release is based on current expectations and information available as at June 8, 2011. The Corporation's management disclaims any intention or obligation to update or revise any forward-looking statements unless otherwise required by the Securities Authorities.

- 30 -

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Management's Discussion and Analysis

For the second quarter ended April 30, 2011

The purpose of this Management's Discussion and Analysis is to explain management's point of view on Transcontinental's past performance and future outlook. More specifically, it outlines our development strategy, performance in relation to objectives, future expectations and how Management addresses risk and manages financial resources. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. It should therefore be read in conjunction with those documents. This Management's Discussion and Analysis is dated June 8, 2011.

In this document, unless otherwise indicated, all financial data are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All amounts are in Canadian dollars, and the term "dollar", as well as the symbols "$" and "C$", designate Canadian dollars unless otherwise indicated. In this Management's Discussion and Analysis we also use non-GAAP financial measures. Please refer to the section of this report entitled "Reconciliation of Non-GAAP Financial Measures" for a complete description of these measures, on page 16.

The consolidated financial statements include the accounts of the Corporation and those of its subsidiaries, joint ventures and variable interest entities for which the Corporation is the principal beneficiary. Business acquisitions are accounted for under the acquisition method and the results of operations of these businesses are included in the consolidated financial statements from the acquisition date. Investments in joint ventures are accounted for using the proportionate consolidation method and investments in companies subject to significant influence are accounted for using the equity method. Other investments are recorded at either amortized cost or marked-to-market through comprehensive income depending on their classification as either financial assets held to maturity or available-for sale.

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

TABLE OF CONTENTS

DEFINITIONS OF TERMS USED IN THIS REPORT 3
CAUTION REGARDING FORWARD-LOOKING STATEMENTS 3
TRANSCONTINENTAL PROFILE.....4
SUMMARY OF ACTIVITIES IN SECOND QUARTER 2011 5
HIGHLIGHTS OF SECOND QUARTER 2011.....6
STRATEGY 6
ENVIRONMENT AND SUSTAINABLE DEVELOPMENT.....6
SELECTED FINANCIAL DATA 7
DETAILED ANALYSIS OF SECOND QUARTER 2011 OPERATING RESULTS.....8
REVIEW OF OPERATING SECTORS FOR SECOND QUARTER 2011 10
DETAILED ANALYSIS OF OPERATING RESULTS FOR THE SIX MONTHS ENDED APRIL 30, 2011.....13
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES.....16
SUMMARY OF QUARTERLY RESULTS.....17
FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES.....18
PRINCIPAL ACCOUNTING ESTIMATES 20
CHANGES IN ACCOUNTING POLICIES.....21
EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED.....21
RISKS AND UNCERTAINTIES 24
DISCLOSURE CONTROLS AND PROCEDURES 27
INTERNAL CONTROL OVER FINANCIAL REPORTING 27
OUTLOOK 27

DEFINITIONS 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 operating income before amortization	Operating income from continuing operations before amortization, asset impairment and restructuring costs and impairment of goodwill and intangible assets
Adjusted operating income	Operating income from continuing operations before impairment of assets, restructuring costs and impairment of goodwill and intangible assets
Net income (loss) applicable to participating shares	Net income (loss) minus dividends on preferred shares
Net income (loss) from continuing operations applicable to participating shares	Net income (loss) minus dividends on preferred shares and excluding discontinued operations
Adjusted net income applicable to participating shares	Net income (loss) from continuing operations applicable to participating shares before impairment of assets and restructuring costs, impairment of goodwill and intangible assets as well as expenses related to long-debt prepayment (net of related income taxes) and unusual adjustments to income taxes
Net indebtedness	Total of long-term debt plus current portion of long-term debt plus the amount drawn on the securitization program plus bank overdraft, less cash and cash equivalents
Organic growth	Growth in revenues or adjusted operating income excluding the effect of acquisitions, divestitures, closures, the exchange rates and paper

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: credit risks, data security and utilization, market dynamics, liquidity, financing and operational risks; the strength of the Canadian, Mexican and United States' 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, the euro and the Mexican peso; the impact from raw material and energy prices; the seasonal and cyclical nature of certain businesses, notably the book publishing activities, the effects of changes in interest rates; the effects of competition in the markets in which we operate; the effects of new media and the corresponding shift of advertising revenue to new platforms; judicial judgments and legal proceedings; our ability to develop new opportunities through our strategy; our ability to hire and retain qualified personnel and maintain a good reputation; our ability to complete strategic transactions; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with

critical accounting assumptions and estimates; infrastructure risks; the possible impact on our businesses from public health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies or a postal strike, technological changes and new regulations.

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

TRANSCONTINENTAL PROFILE

Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada and Mexico, and fourth-largest in North America. It is also one of Canada's top media groups as the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces. Thanks to a wide digital network of more than 300 websites, the company reaches over 10 million unique visitors per month in Canada. Transcontinental also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental (TSX: TCL.A, TCL.B, TCL.PR.D) has 10,500 employees in Canada, the United States and Mexico, and reported revenues of C$2.1 billion in 2010. For more information about the Corporation, please visit www.transcontinental.com.

SUMMARY OF ACTIVITIES IN SECOND QUARTER 2011

Transcontinental maintained its organic growth in revenues and adjusted operating income for the fifth quarter in a row, while significantly reducing its capital spending, thereby generating considerable free cash flows which further improved the Corporation's financial position.

This achievement was driven mainly by new contracts in the Printing Sector, including the contract to print *The Globe and Mail* newspaper, and all of the sector's business groups made a positive contribution to organic growth in revenues. Moreover, with the new Canada-wide hybrid platform for printing newspapers and flyers, and the closure of some printing plants since the start of fiscal 2011, the sector was able to optimize its equipment and improve its operational efficiency. The Printing Sector thus generated organic growth in adjusted operating income of 10.9% over second quarter 2010, which had already benefited from important rationalization measures implemented in fiscal 2009.

The Media Sector also achieved organic growth in revenues in the second quarter, largely driven by its digital platforms, and more specifically its advertising representation house. However, adjusted operating income was affected by numerous strategic investments in both digital and paper media during this period. The Local Solutions Group launched new publications to counter an upsurge in competition in some of its markets. Advertising spending by national clients was relatively stable during the quarter, but thanks to efficiency gains, the Business and Consumer Solutions Group improved its adjusted operating income over last year.

The Interactive Sector continued to make strategic investments to integrate its interactive marketing solutions. In addition, with the contribution of recent acquisitions in mobile solutions, the sector further developed its interactive marketing solutions to help its customers reach consumers more effectively.

The steady improvement in the Corporation's financial position in recent quarters permitted it to repay, more than three years before maturity, its five-year term credit facility of $100.0 million arranged with the Caisse de dépôt et placement du Québec in 2009. The Corporation also intends to prepay, in the third quarter 2011, the $50.0 million term loan granted by SGF Rexfor Inc.

The Corporation also set up a new, two-year, $200.0 million receivables securitization program. The terms of the new program take the current market conditions into account and are favourable compared to other sources of financing. There are no plans to use this program in the short term, but it gives the Corporation greater financial flexibility.

HIGHLIGHTS OF SECOND QUARTER 2011

- Revenues in second quarter 2011 grew 0.9% over the same quarter in 2010, from $510.0 million to $514.7 million. This growth stems primarily from new contracts in the Printing Sector, such as the contract to print *The Globe and Mail*. The increase was, however, partially offset by plant closures.
- Adjusted operating income rose 5.1%, from $58.3 million in second quarter fiscal 2010 to $61.3 million in 2011. The operating income margin thus also increased, from 11.4% to 11.9%. The increase stems mainly from higher revenues and the continuous improvement that has driven greater efficiencies from our production equipment, partially offset by ongoing strategic investments in the Media and Interactive sectors.
- Adjusted net income applicable to participating shares rose by $6.0 million, or 17.6%, from $34.1 million in 2010 to $40.1 million in 2011. On a per-share basis, it went from $0.42 to $0.49.
- Net income applicable to participating shares went from $67.0 million to $33.0 million. This was mainly due to a gain related to the discontinuance of direct mail operations in the United States in second quarter 2010. On a per-share basis, it declined from a net income of $0.83 to $0.41.
- On June 8, 2011, the Corporation announced that it was raising its quarterly dividend per participating share, with respect to its Class A and Class B shares, from $0.11 to $0.135, an increase of 22.7%.
- As at April 30, 2011, Transcontinental's ratio of net indebtedness was 1.66x, versus 1.82x as at October 31, 2010. This improvement stems mainly from the return on recent investments, the contribution of new contracts and the significant reduction in capital spending.

STRATEGY

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010.*

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

In second quarter 2011, the Corporation reiterated its commitment to report on its environmental, social and economic performance by publishing its second Sustainability Report, *Connecting Words to Actions*, prepared in accordance with Global Reporting Initiative (GRI) standards. This report is available at www.transcontinental.com.

No other major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010.*

SELECTED FINANCIAL DATA

For second quarters ended April 30
(unaudited)

(in millions of dollars, except per share data)	Three months ended April 30			Six months ended April 30		
	2011	2010	Variation in %	2011	2010	Variation in %
Operations						
Revenues	$ 514.7	$ 510.0	1%	$ 1,044.8	$ 1,021.6	2%
Adjusted operating income before amortization [1]	92.8	91.0	2%	174.8	172.1	2%
Operating income	57.2	55.5	3%	101.9	100.9	1%
Adjusted operating income [1]	61.3	58.3	5%	111.1	105.6	5%
Net income applicable to participating shares	33.0	67.0	-51%	59.2	93.2	-36%
Adjusted net income applicable to participating shares [1]	40.1	34.1	18%	70.0	61.2	14%
Cash flow from operating activities before changes in non-cash operating items [1]	76.1	65.8	16%	145.4	132.0	10%
Cash flow related to operating activities of continuing operations	57.8	(57.4)	n/a	111.8	(0.8)	n/a
Investments						
Acquisitions of property, plant and equipment	8.4	26.3	-68%	29.1	89.0	-67%
Business acquisitions [2]	0.6	2.2	-73%	5.4	2.8	n/a
Per share data (basic)						
Net income applicable to participating shares	0.41	0.83	-51%	0.73	1.16	-37%
Adjusted net income applicable to participating shares [1]	0.49	0.42	17%	0.86	0.76	13%
Cash flow from operating activities before changes in non-cash operating items [1]	0.94	0.81	16%	1.79	1.63	10%
Cash flow related to operating activities of continuing operations	0.71	(0.71)	n/a	1.38	(0.01)	n/a
Dividends on participating shares	0.11	0.09	22%	0.22	0.17	29%
Average number of participating shares outstanding (in millions)	81.0	80.8		81.0	80.8	

	As at April 30 2011	As at October 31 2011	As at April 30 2010
Financial condition			
Total assets	$ 2,423.7	$ 2,594.7	$ 2,488.2
Net indebtedness [1]	637.8	694.4	778.0
Shareholders' equity	1,282.8	1,247.0	1,193.5
Net indebtedness (including utilization of securitization program) / adjusted operating income before amortization (last 12 months) [1]	1.66x	1.82x	2.08x
Shareholders' equity per participating share	$ 14.60	$ 14.16	$ 13.53
Number of participating shares at end of period (in millions)	81.0	81.0	80.8

[1] Please refer to the section "Reconciliation of non-GAAP Financial Measures" on page 16 of this Management's Discussion and Analysis.

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

DETAILED ANALYSIS OF SECOND QUARTER 2011 OPERATING RESULTS

Analysis of Main Variances - Consolidated Results
For the second quarter ended April 30, 2011
(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income applicable to participating shares	%
Results - Second Quarter 2010	**$ 510.0**		**$ 58.3**		**$ 67.0**	
Acquisitions/Divestitures/Closures	(9.6)	(1.9) %	(0.4)	(0.7) %	(0.4)	(0.6) %
Discontinued operations	-	- %	-	- %	(34.7)	(51.8) %
Existing operations						
Paper effect	4.2	0.8 %	(0.7)	(1.2) %	(0.6)	(0.9) %
Exchange rates	(3.6)	(0.7) %	(1.7)	(2.9) %	(0.7)	(1.0) %
Organic growth	13.7	2.7 %	5.8	9.9 %	7.7	11.5 %
Impairment of assets, restructuring costs and unusual adjustments to income taxes	-	- %	-	- %	(1.1)	n/a
Expenses related to debt prepayment	-	- %	-	- %	(4.2)	n/a
Results - Second Quarter 2011	**$ 514.7**	**0.9 %**	**$ 61.3**	**5.1 %**	**$ 33.0**	**n/a**

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

- The net effect of acquisitions, divestitures and closures reduced revenues by $9.6 million, mainly due to the closure of the Boucherville plant in the Printing Sector, partially offset by recent acquisitions in the Interactive and Media sectors. For adjusted operating income and net income applicable to participating shares, the $0.4 million negative impact stems mainly from development costs in the Interactive and Media sectors, which more than compensated for the positive impact of the plant closures in the Printing Sector.

- The paper effect had a $4.2 million positive impact on revenues. This effect includes variations in the price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for our printing operations, these elements affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had a negative effect of $0.7 million on adjusted operating income and $0.6 million on net income.

- The variations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts resulted in a $3.6 million decrease in revenues and a $1.7 million decrease in adjusted operating income. In second quarter 2011, the relative impact of the exchange rates stemmed mainly from the variation in the exchange rate between the Canadian and U.S. dollars. The negative variation in average spot exchange rates in second quarter 2011 versus second quarter 2010 was 5.9% for the CAD/USD and was relatively stable for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of about $1.6 million. The negative impact of export sales, net of the currency hedging program, was $2.0 million. The conversion of results for the U.S. and Mexican units had a negative impact of $0.2 million on adjusted operating income. The positive impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was $0.7 million on adjusted operating income. Finally, the negative impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was $2.2 million on adjusted operating income. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net negative effect was $0.7 million.

- Organic growth in revenues amounted to $13.7 million, or 2.7% in second quarter 2011. The increase stems largely from the contribution of new contracts in the Printing Sector and, to a lesser extent, to higher

revenues from the digital representation house in the New Media and Digital Solutions Group in the Media Sector.

- Organic growth in adjusted operating income was $5.8 million, or 9.9%, in second quarter 2011, attributable mainly to equipment optimization and the contribution from new printing contracts. However, these elements were partially offset by the acceleration of strategic investments in the Media and Interactive sectors aimed at further developing its digital solutions and interactive marketing services.

Impairment of Assets and Restructuring Costs

In second quarter 2011, an amount of $4.1 million before tax ($2.9 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, $3.2 million is due to workforce reductions in the Printing Sector and $0.9 million to other costs.

In second quarter 2010, an amount of $2.8 million before tax ($1.8 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, $2.4 million is due to workforce reductions and $0.4 million to asset impairment and other costs.

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

Combined, financial expenses, expenses related to debt prepayment and discount on sale of accounts receivable rose $3.6 million, from $10.8 million in 2010 to $14.4 million in 2011. The increase is mainly due to unusual expenses related to the prepayment in February 2011 of the term credit facility with the Caisse de dépôt et placement du Québec as well as the term loan with SGF Rexfor Inc. which the Corporation intends to prepay in third quarter 2011.

However, excluding these non-recurring items of $5.8 million ($4.2 million after tax), of which $1.4 million will have no impact on cash flows, financial expenses amounted to $8.6 million in second quarter 2011, down 20.4% compared to second quarter 2010. The decrease is mainly due to a significant reduction in the Corporation's net indebtedness for the quarter as compared to the same period last year.

Income Taxes

Income taxes decreased by $3.1 million, from $10.7 million in second quarter 2010 to $7.6 million in second quarter 2011. Excluding income taxes on impairment of assets and restructuring costs as well as expenses related to debt prepayment, income taxes would have amounted to $10.4 million, or a tax rate of 19.7%, compared to $11.7 million, or 24.6%, in second quarter 2010. This decrease is due to, among other factors, the change in the geographic distribution of pre-tax earnings.

Discontinued Operations

In second quarter 2010, a net income from discontinued operations of $34.7 million (net of related income taxes) was recorded. This amount includes a gain related to the discontinuance of operations of $38.3 million (net of related income taxes) and a net loss of $3.6 million related to the operation of discontinued operations (net of related income taxes). The gain is related to the sale of almost all of the Corporation's direct mail operations in the United States.

Net Income Applicable to Participating Shares

Net income applicable to participating shares declined from $67.0 million in second quarter 2010 to $33.0 million in the second quarter 2011. This decrease is mainly due to a gain related to the discontinuance of direct mail operations in the United States in 2010. On a per-share basis, net income applicable to participating shares was down, from $0.83 to $0.41.

Adjusted net income applicable to participating shares rose $6.0 million, or 17.6%, from $34.1 million in second quarter 2010 to $40.1 million in second quarter 2011. On a per-share basis, it rose $0.07, from $0.42 to $0.49.

REVIEW OF OPERATING SECTORS FOR SECOND QUARTER 2011

Analysis of Main Variances – Sector Results
For the second quarter ended April 30, 2011
(unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Interactive Sector	Inter-segment Eliminations and Other acitivities	Consolidated Results
Revenues - Second Quarter 2010	**$ 354.3**	**$ 148.3**	**$ 28.3**	**$ (20.9)**	**$ 510.0**
Acquisitions/Divestitures/Closures	(10.6)	-	1.0	-	(9.6)
Existing operations					
Paper effect	4.2	-	-	-	4.2
Exchange rates effect	(3.2)	-	(0.4)	-	(3.6)
Organic growth (negative)	16.6	0.7	0.7	(4.3)	13.7
Revenues - Second Quarter 2011	**$ 361.3**	**$ 149.0**	**$ 29.6**	**$ (25.2)**	**$ 514.7**
Adjusted operating income (loss) - Second Quarter 2010	**$ 46.9**	**$ 21.7**	**$ (2.0)**	**$ (8.3)**	**$ 58.3**
Acquisitions/Divestitures/Closures	0.3	(0.2)	(0.5)	-	(0.4)
Existing operations					
Paper effect	-	(0.7)	-	-	(0.7)
Exchange rates effect	(1.9)	-	0.2	-	(1.7)
Organic growth (negative)	5.1	(3.3)	(0.6)	4.6	5.8
Adjusted operating income (loss) - Second Quarter 2011	**$ 50.4**	**$ 17.5**	**$ (2.9)**	**$ (3.7)**	**$ 61.3**

This review of operating sectors should be read in conjunction with the information presented in the above table and the information disclosed in the Segmented Information note (note 17) to the Consolidated Financial Statements for the quarter ended April 30, 2011.

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

Printing Sector

Printing Sector revenues grew $7.0 million, or 2.0%, from $354.3 million in second quarter 2010 to $361.3 million in second quarter 2011. Excluding divestitures, closures and variance in the paper component and the exchange rates, revenues grew $16.6 million, or 4.7%. The positive organic growth is mainly due to new printing contracts in almost every group in the sector.

Adjusted operating income rose from $46.9 million in second quarter 2010 to $50.4 million in 2011, up 7.5%. This increase had a positive impact on adjusted operating income margin, which rose from 13.2% in second quarter 2010 to 13.9% in second quarter 2011. Excluding divestitures, closures and the impact of the exchange rates, adjusted operating income grew by $5.1 million, or 10.9%. Positive growth in adjusted operating income stems mainly from higher revenues and greater operational efficiency across all groups, as well as, among other factors, the closure of certain printing plants, which allowed the sector to optimize the use of more productive equipment.

In the second half of fiscal 2011, the contract to print *The Globe and Mail*, the signing of new printing contracts at our printing plant in Fremont, California and the expected gains in market share will generate additional revenues. In addition, a new agreement with Canadian Tire arranged early in the second quarter 2011 will generate additional business of $30 to $40 million per year across the Corporation starting in January 2012, and will partly benefit the Printing Sector. Lastly, the sector will continue its equipment optimization initiatives in order to further reduce its operating costs.

Media Sector

Media Sector revenues went from $148.3 million in second quarter 2010 to $149.0 million in second quarter 2011, up $0.7 million. Excluding the impact of acquisitions, which were fully compensated by the impact of divestitures and closures, the $0.7 million in organic growth in revenues in second quarter 2011 was mainly driven front the contribution of the digital advertising representation house launched in September 2010 in the New Media and Digital Solutions Group as well as from the newspaper publishing and distribution operations of the Local Solutions Group. Organic growth was partially offset by a slight decrease in revenues in the Educational Book Publishing Group and the Business and Consumer Solutions Group.

Adjusted operating income was down $4.2 million, from $21.7 million in second quarter 2010 to $17.5 million in second quarter 2011. Excluding acquisitions, divestitures, closures and the paper effect, it was down $3.3 million. The negative organic growth reflects the sector's strategy of investing in its newspaper publishing operations by launching community papers in Quebec in order to maintain and even increase its market share in a more competitive environment, and of investing in its various digital platforms to enhance its new media solutions offering. Moreover, a change in accounting policy led to a $2.0 million reduction in the quarter's operating costs for the Educational Book Publishing Group, which, however, was partially offset by lower revenues and additional investment in the development of digital educational tools. Given the above items, the Media Sector's adjusted operating income margin declined to 11.7% in second quarter 2011 compared to 14.6% in second quarter 2010.

In the second quarter, the Media Sector continued its strategic investments through its Local Solutions Group, which launched new community newspapers. Moreover, to improve its digital offering, the New Media and Digital Solutions Group established an online digital representation house by signing a partnership agreement with Undertone®, a leading provider of display, high impact and video advertising solutions.

The focus in the next two quarters of 2011 will be on accelerating the deployment of strategic investment initiatives in digital and paper platforms. Newspaper publishing operations will likely still feel the effect of strategic investments in new community newspapers, as well as heightened competition in these niches. Consequently, the Local Solutions Group should see its operating margins decrease slightly in the next two quarters compared to the same quarters last year. Through its New Media and Digital Solutions Group, the sector will intensify its efforts to monetize its digital offering, develop its new digital advertising representation house, and benefit from the growth in new markets, which should have a positive impact on revenues and profitability in coming quarters.

Interactive Sector

Revenues in the Interactive Sector grew by $1.3 million, or 4.6%, from $28.3 million in second quarter 2010 to $29.6 million in second quarter 2011. Recent acquisitions by the Mobile Solutions Division added $1.0 million to second quarter 2011 revenues as compared to last year. This increase was partly offset by the rise in the Canadian dollar versus the U.S. dollar, which decreased revenues by $0.4 million compared to 2010. Excluding the impact of acquisitions and the exchange rate, organic growth of $0.7 million stems mainly from the new contracts in the Premedia Division.

The adjusted operating loss rose from $2.0 million in second quarter 2010 to $2.9 million in second quarter 2011, up $0.9 million. As a result, the adjusted operating income margin went from a negative margin of 7.1% for the second quarter 2010 to 9.8% in 2011. Excluding acquisitions and the impact of the exchange rate, the adjusted operating loss increased by $0.6 million dollars due to development costs related to its integrated interactive marketing services offering.

For the balance of fiscal 2011, revenues should grow due to the emphasis on the development and optimization of an integrated interactive marketing solutions offering and to recent acquisitions. Operating income should improve in coming quarters with the return on recent strategic investments, which, however, will be offset by continued strategic investments in order to advance our offering of digital and interactive one-to-one marketing solutions.

Inter-segment Eliminations and Other Activities

Eliminations of inter-segment revenues combined to its other activities went from a negative total of $20.9 million in second quarter 2010 to a negative total of $25.2 million in 2011. The variation is mainly attributable to an increase in inter-segment transactions. Adjusted operating income went from a negative total of $8.3 million in second quarter 2010 to a negative total of $3.7 million in 2011, due mainly to a non-recurring curtailment charge related to replacing the pension plans in 2010 and to a decrease in Head Office costs in 2011.

DETAILED ANALYSIS OF OPERATING RESULTS FOR THE SIX MONTHS ENDED APRIL 30, 2011

Analysis of Main Variances - Consolidated Results
For the six-month period ended April 30, 2011
(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income applicable to participating shares	%
Results - Six months ended April 30, 2010	**$ 1,021.6**		**$ 105.6**		**$ 93.2**	
Acquisitions/Divestitures/Closures	(15.8)	(1.5) %	(2.2)	(2.1) %	(1.8)	(1.9) %
Discontinued operations	-	- %	-	- %	(32.9)	(35.3) %
Existing operations						
Paper effect	14.4	1.4 %	(1.0)	(0.9) %	(0.8)	(0.9) %
Exchange rates effect	(5.3)	(0.5) %	(1.9)	(1.8) %	(1.4)	(1.5) %
Organic growth	29.9	2.9 %	10.6	10.0 %	12.8	13.7 %
Impairment of assets, restructuring costs and unusual adjustments to income taxes	-	- %	-	- %	(5.7)	n/a
Expenses related to debt prepayment	-	- %	-	- %	(4.2)	n/a
Results - Six months ended April 30, 2011	**$ 1,044.8**	**2.3 %**	**$ 111.1**	**5.2 %**	**$ 59.2**	**n/a**

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

- The net impact of acquisitions, divestitures and closures reduced revenues by $15.8 million and adjusted operating income by $2.2 million. Net of financial expenses and income taxes, the negative impact on net income was $1.8 million. The reduction is due mainly to the closure of the Printing Sector's Boucherville and Moncton plants in fiscal 2011.

- The paper effect had a $14.4 million positive impact on revenues. This effect includes variations in the price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for our printing operations, these elements affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had a negative effect of $1.0 million on adjusted operating income and $0.8 million on net income.

- The rise of the Canadian dollar versus its U.S. and Mexican counterparts resulted in a $5.3 million decrease in revenues and a $1.9 million decrease in adjusted operating income in the first six months of fiscal 2011. In the first six months of fiscal 2011, the relative impact of the exchange rates stemmed mainly from the variation in the exchange rate between the Canadian and U.S. dollars. The negative variation in average spot exchange rates in the first half of fiscal 2011 versus the first half of fiscal 2010 was 5.3% for the CAD/USD; for the CAD/MXP it was relatively stable. With respect to revenues, the conversion of sales by U.S. and Mexican units had a negative impact of about $3.1 million. The negative impact of export sales, net of the currency hedging program, was $2.2 million. The conversion of results for the U.S. and Mexican units had a negative impact of $0.4 million on adjusted operating income. The negative impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was $0.5 million on adjusted operating income. Finally, the negative impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was $1.0 million on adjusted operating income. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net negative effect was $1.4 million.

- Organic growth in revenues amounted to $29.9 million, or 2.9%, in the first six months of fiscal 2011. The increase stems largely from the contribution of new contracts in the Printing Sector, particularly the contract to print *The Globe and Mail,* to higher revenues in the Media Sector's New Media and Digital Solutions Group, and to an increase in revenues in the Local Solutions Group, mainly from its distribution operations. The Interactive Sector also contributed to growth in revenues during this period, mainly through its Custom Communications and Premedia divisions.

- Organic growth in adjusted operating income was $10.6 million, or 10.0%, in the first six months of fiscal 2011, mainly due to greater operational efficiency and new printing contracts. However, these elements were partially offset by the acceleration of strategic investments in the Media and Interactive sectors aimed at further developing its offering of digital solutions and interactive marketing services, as well as the launch of new community papers.

Impairment of Assets and Restructuring Costs

For the first six months of fiscal 2011, an amount of $9.2 million before tax ($6.6 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, $4.3 million is due to workforce reductions, $3.5 million to asset impairment and $1.4 million to other costs, all mainly related to the closure of printing plants in the Printing Sector during the fiscal year.

For the first six months of fiscal 2011, an amount of $4.7 million before tax ($3.3 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, $3.9 million is due to workforce reductions in the Printing and Media Sectors and $0.8 million to asset impairment and other costs in these two sectors.

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

Combined, financial expenses, expenses related to debt prepayment and discount on sale of accounts receivable rose $3.8 million, or 17.8%, from $21.4 million for the first half of fiscal 2010 to $25.2 million for the first half of fiscal 2011. The increase is mainly due to unusual expenses related to the prepayment in February 2011 of the term credit facility with the Caisse de dépôt et placement du Québec as well as the term loan with SGF Rexfor Inc. which the Corporation intends to prepay in third quarter 2011.

However, excluding these non-recurring items of $5.8 million ($4.2 million after tax) of which $1.4 million will have no impact on cash flows, financial expenses amounted to $19.4 million in the first six months of fiscal 2011, down 9.3% compared to the first half of fiscal 2010. The decrease is mainly due to a significant reduction in the Corporation's net indebtedness for the quarter as compared to the same period last year.

Income Taxes

Income taxes decreased by $2.2 million, from $15.5 million in the first six months of fiscal 2010 to $13.3 million in the first six months of fiscal 2011. Excluding income taxes on impairment of assets and restructuring costs and on expenses related to debt prepayment as well as unusual adjustments, income taxes would have amounted to $17.5 million, or a tax rate of 19.1%, compared to $19.3 million, or 22.9%, in the first six months of fiscal 2010. This decrease is due to, among other factors, the change in the geographic distribution of pre-tax earnings.

Discontinued Operations

In the first six months of fiscal 2010, a net income related from discontinued operations of $32.9 million (net of related income taxes) was recorded. This amount includes a gain related to the discontinuance of operations of $38.3 million (net of related income taxes) and a net loss of $5.4 million related to the operation of discontinued operations (net of

related income taxes). The gain is related to the sale of almost all of the Corporation's direct mail operations in the United States.

Net Income Applicable to Participating Shares

Net income applicable to participating shares went from $93.2 million in the first six months of fiscal 2010 to $59.2 million in the first six months of fiscal 2011. This decrease is mainly due to a gain related to the discontinuance of direct mail operations in the United States in 2010. On a per-share basis, net income applicable to participating shares was down, from $1.16 to $0.73.

Adjusted net income applicable to participating shares rose $8.8 million, or 14.4%, from $61.2 million in the first six months of fiscal 2010 to $70.0 million in the first six months of fiscal 2011. On a per-share basis, it rose $0.10, from $0.76 to $0.86.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

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

(unaudited)

	Three months ended April 30		Six months ended April 30	
(in millions of dollars, except per share amounts)	**2011**	2010	**2011**	2010
Net income applicable to participating shares	**$ 33.0**	$ 67.0	**$ 59.2**	$ 93.2
Dividends on preferred shares	**1.7**	1.7	**3.4**	3.4
Net income from discontinued operations (after tax)	**-**	(34.7)	**-**	(32.9)
Non-controlling interest	**0.5**	-	**0.8**	0.3
Income taxes	**7.6**	10.7	**13.3**	15.5
Discount on sale of accounts receivable	**-**	0.3	**-**	0.9
Financial expenses	**8.6**	10.5	**19.4**	20.5
Expenses related to long-term debt prepayment	**5.8**	-	**5.8**	-
Impairment of assets and restructuring costs	**4.1**	2.8	**9.2**	4.7
Adjusted operating income	**$ 61.3**	$ 58.3	**$ 111.1**	$ 105.6
Amortization	**31.5**	32.7	**63.7**	66.5
Adjusted operating income before amortization	**$ 92.8**	$ 91.0	**$ 174.8**	$ 172.1
Net income applicable to participating shares	**$ 33.0**	$ 67.0	**$ 59.2**	$ 93.2
Net income from discontinued operations (after tax)	**-**	(34.7)	**-**	(32.9)
Unusual adjustments to income taxes	**-**	-	**-**	(2.4)
Expenses related to long-term debt prepayment (after tax)	**4.2**	-	**4.2**	-
Impairment of assets and restructuring costs (after tax)	**2.9**	1.8	**6.6**	3.3
Adjusted net income applicable to participating shares	**$ 40.1**	$ 34.1	**$ 70.0**	$ 61.2
Average number of participating shares outstanding	**81.0**	80.8	**81.0**	80.8
Adjusted net income applicable to participating shares per share	**$ 0.49**	$ 0.42	**$ 0.86**	$ 0.76
Cash flow related to continuing operations	**$ 57.8**	$ (57.4)	**$ 111.8**	$ (0.8)
Changes in non-cash operating items	**(18.3)**	(123.2)	**(33.6)**	(132.8)
Cash flow from continuing operations before changes in non-cash operating items	**$ 76.1**	$ 65.8	**$ 145.4**	$ 132.0
Long-term debt			**$ 619.9**	$ 786.7
Current portion of long-term debt			**17.2**	5.9
Bank overdraft			**0.7**	-
Cash and cash equivalents			**-**	(14.6)
Net indebtedness			**$ 637.8**	$ 778.0
Adjusted operating income before amortization (last 12 months)			**$ 384.7**	$ 373.4
Net indebtedness ratio			**1.66x**	2.08x

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Results
(unaudited)

	2011		2010				2009	
(in millions of dollars, except per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	$ 515	$ 530	$ 570	$ 500	$ 510	$ 512	$ 570	$ 504
Adjusted operating income before amortization	93	82	120	90	91	81	120	83
Adjusted operating income margin before amortization	18.1 %	15.5 %	21.1 %	18.0 %	17.8 %	15.8 %	21.1 %	16.4
Operating income	$ 57	$ 45	$ 65	$ 58	$ 56	$ 45	$ 72	$ 47
Adjusted operating income	61	50	88	59	58	47	85	53
Adjusted operating income margin	11.8 %	9.4 %	15.4 %	11.8 %	11.4 %	9.2 %	14.9 %	10.5
Net income applicable to participating shares	$ 33	$ 26	$ 45	$ 29	$ 67	$ 26	$ 43	$ 25
Per share	0.41	0.32	0.56	0.35	0.83	0.32	0.54	0.31
Adjusted net income applicable to participating shares	40	30	63	34	34	27	53	31
Per share	0.49	0.37	0.77	0.43	0.42	0.34	0.65	0.39
% of fiscal year	- %	- %	39 %	22 %	22 %	17 %	39 %	24

The above table shows changes in Transcontinental's quarterly results. The new printing contracts increased the Corporation's revenues in the first half of fiscal 2011 year over year, despite the negative impact of the exchange rates during that period. The impact of rationalization measures implemented in 2009 greatly improved adjusted operating income margin before amortization starting in third quarter 2009 and sustained efforts were made to maintain and improve this margin. In addition, the third quarter results are better than others because advertising spending is usually higher in the fall; the third quarter is also the peak period for our Educational Book Publishing Group, and for our book printing operations.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Principal Cash Flows and Financial Condition
For quarters ended April 30
(unaudited)

(in millions of dollars)	**2011**	2010
Operating activities		
Cash flow from continuing operations before changes in non-cash operating items	**$ 76.1**	$ 65.8
Changes in non-cash operating items	**(18.3)**	(123.2)
Cash flow related to operating activities of continuing operations	**57.8**	(57.4)
Investing activities		
Business acquisitions, net of disposals	**(0.6)**	(2.2)
Acquisitions of property, plant and equipment, net of disposals	**(7.9)**	(25.5)
Other	**(5.4)**	(7.4)
Cash flow related to investing activities of continuing operations	**(13.9)**	(35.1)
Financing activities		
Increase in long-term debt	**-**	4.8
Reimbursement of long-term debt	**(100.1)**	(2.7)
Increase (decrease) in revolving term credit facility	**24.0**	(16.9)
Issuance of participating shares	**0.1**	-
Dividends on participating shares	**(8.9)**	(7.3)
Dividends on preferred shares	**(1.7)**	(1.7)
Other	**-**	2.0
Cash flow related to financing activities of continuing operations	**(86.6)**	(21.8)
Other relevant information		
Net indebtedness	**637.8**	778.0
Shareholders' equity	**1,282.8**	1,193.5
Net indebtedness (including usage of the securitization program) / adjusted operating income before amortization (last 12 months)	**1.66x**	2.08x
Credit rating		
DBRS	**BBB high**	BBB high
	Stable	Stable
Standard and Poor's	**BBB**	BBB-
	Stable	Stable

Cash Flow Related to Continuing Operations

Cash flow from operating activities before changes in non-cash operating items increased to $76.1 million in 2011, compared to $65.8 million in 2010. The change is primarily due to the increase in adjusted operating income before amortization, partially offset by the increase in financial expenses. Changes in non-cash operating items led to a cash outflow of $18.3 million in 2011, compared to a cash outflow of $123.2 million in 2010. The difference is mainly due to reduced use of our securitization program in 2010 versus at the close of the prior quarter. Consequently, cash flow from operating activities increased, leading to a cash inflow of $57.8 million in 2011, compared to a cash outflow of $57.4 million in 2010.

Cash Flow Related to Investing Activities of Continuing Operations

In second quarter 2011, the Corporation invested $7.9 million in property, plant and equipment, net of disposals, which was significantly less (by $17.6 million) than the $25.5 million invested in second quarter 2010. The decrease is primarily because the project to print *The Globe and Mail* has now been completed.

Cash Flow Related to Financing Activities of Continuing Operations

The Corporation paid $8.9 million, or 11 cents per share, in dividends on participating shares in second quarter 2011, compared to $7.3 million in 2010. The 21.9% increase is from raising the dividend by two cents per share in early 2010. Also, in second quarter 2011, the Corporation paid $1.7 million in dividends on preferred shares, the same amount as in second quarter 2010.

Shares Issued and Outstanding	At April 30, 2011	At May 31, 2011
Class A (Subordinate Voting Shares)	65,825,087	65,867,987
Class B (Multiple Voting Shares)	15,196,840	15,153,940
Series D Preferred (with rate reset)	4,000,000	4,000,000

Debt Instruments

As at April 30, 2011, net indebtedness to adjusted operating income before amortization ratio stood at 1.66x (1.82x as at October 31, 2010). The decrease stems primarily from the increase in adjusted operating income before amortization and the significant reduction in capital spending. Management plans to reduce this ratio even further and to maintain it at about 1.50x.

The term revolving credit of the Corporation, an amount of $400 million, of which $206.4 million was used as at April 30, 2011, matures in September 2012. The applicable interest rate on the term revolving credit facility is based on the credit rating assigned by Standard & Poor's Ratings Services. Depending on the form of borrowing chosen by the Corporation, the interest rate applicable to the line of credit is currently either bank prime rate, bankers' acceptance rate + 0.44%, or LIBOR + 0.44%. Fees of 0.11% are also applicable, whether the line of credit is drawn or not, and utilization fees of 0.05% are applicable if the amount drawn exceeds 66 2/3% of the term revolving credit.

As of April 30, 2011, letters of credit amounting to C$0.5 million and US$3.0 million were drawn on the term revolving credit, in addition to the amounts presented in the above paragraph.

In January 2011, the Corporation began reimbursing its six-year loan from a European bank bearing interest at EURIBOR + 1.60%, in equal instalments of capital plus interest. This debt instrument was arranged to purchase production equipment and is payable every six months from January 2011. As at April 30, 2011, the capital amount remaining to be paid is €44.3 million ($62.2 million). On December 1, 2009, the Corporation arranged a cross-currency swap, which matures in six years, to set the exchange rate at 1.5761 and the interest rate on this facility at bankers' acceptance rates plus 2.55%.

On February 1, 2011, the Corporation entered into an agreement setting the interest rate on a $50 million debenture with the Solidarity Fund QFL at 5.58% for the eight years remaining on the debenture's 10-year term. The bond forward contract entered into to lock the portion of the rate based on the Canadian Government Bonds rate at 4.34%,

came to maturity on November 5, 2010 and resulted in a cash disbursement which will increase the effective rate by 1.50% for the remaining term of the debenture.

In addition, on February 17, 2011, the Corporation used its revolving term credit to repay, more than three years before the end of its term and in accordance with agreed-upon terms and conditions, its five-year $100.0 million term credit facility with Caisse de dépôt et placement du Québec which bore interest at the bankers' acceptance rate + 6.36%. Although this debt prepayment currently optimizes the Corporation's debt portfolio by reducing its average interest rate cost, it led to a non-recurring charge of $4.5 million, of which $1.1 million will have no effect on cash flows. In addition, the Corporation revoked the hedge designation on two interest rate swaps of $50.0 million each, used to set the rate at 8.39% for five years. The impact of this revocation of designation on the net loss for the period is negligible.

Lastly, Transcontinental also intends to prepay, in the third quarter of fiscal 2011, its $50.0 million term loan awarded by SGF Rexfor Inc. which matures in July 2014.

Off-Balance Sheet Arrangements (Securitization)

On February 16, 2011, the Corporation set up a new securitization program for two years with a trust officer whose agent of financial services is a Canadian bank, to sell, from time to time, certain accounts receivable of its subsidiaries. The maximum net consideration permitted under the program is $200.0 million over two years, of which up to 20% of U.S. dollars accounts receivable. The terms of the new program take the current market conditions into account and are favourable compared to other sources of financing. As at April 30, 2011, no amount had been drawn on this source of financing.

As at April 30, 2010, the accounts receivable sold under the securitization program amounted to $191.4 million, all of which was kept by the Corporation as retained interest, for a nil net consideration. At April 30, 2010, the maximum net consideration which the Corporation could have obtained under the program was $155.1 million. The retained interest is recorded in the Corporation's accounts receivable at the lower of cost and fair market value. Under the program, the Corporation recognized a total discount of $0.3 million for the second quarter 2010 on the sale of accounts receivable.

PRINCIPAL ACCOUNTING ESTIMATES

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

In accordance with Canadian GAAP, in second quarter 2011 the Corporation performed impairments tests. At the conclusion of the first step, the Corporation identified certain reporting units in Interactive sector for which their book value exceed their fair value. A goodwill of approximately $25.0 million is allocated to these reporting units. At the moment of the publication of this management's discussion and analysis, the Corporation has not yet completed the second step of the test, due to important changes in the business plan recently implemented in the Interactive sector. These changes generate uncertainty on future cash flows of the reporting units identified in the first step. Therefore, it is impossible to estimate the amount of the potential impairment. The Corporation expects to complete the second

step by the end of fiscal 2011. As a result, no impairment of goodwill has been recorded in the second quarter of fiscal 2011.

CHANGES IN ACCOUNTING POLICIES

Section 3064 of the CICA Handbook, Goodwill and intangible assets, allows the capitalization of employee salaries, wages and benefits directly attributable to an internally generated intangible asset. For its educational books prepublication costs, the Corporation was not capitalizing these costs as its information systems could not allocate this information per book. On November 1, 2010, the Company modified its information systems in order to compile employee salaries, wages and benefits per book and decided to change its accounting policy. Consequently, for the three-month period ended April 30, 2011, this change in accounting policy resulted in an increase in intangible assets of $2.0 million and in long-term future income tax liability of $0.6 million, as well as a decrease in operating costs of $2.0 million and an increase in income tax expense of $0.6 million. For the six-month period ended April 30, 2011, the change in accounting policy resulted in an increase in intangible assets of $3.6 million and in long-term future income tax liability of $1.1 million, as well as a decrease in operating costs of $3.6 million and an increase in income tax expense of $1.1 million. These intangible assets will be amortized as operating costs over a maximum of 5 years, based on historical sales patterns. The application of this accounting policy is prospective as the Corporation cannot generate the information for prior periods to apply this change retrospectively.

EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

International Financial Reporting Standards (IFRS)

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

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

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

The Corporation's conversion plan consists of three phases: evaluation, conversion and implementation of the IFRS. The Corporation commenced the implementation phase in early 2011 and the conversion is proceeding as planned. Please see *Management's Discussion and Analysis for the Year Ended October 31, 2010* for a detailed description of the phases and conversion plan.

Differences between the IFRS and the Corporation's Accounting Policies

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

Subject	Items that could have an impact on the Corporation's financial statements
Employee Benefits (IAS 19)	• Under the IFRS, an entity may elect to recognize actuarial gains and losses using a corridor approach (which the Corporation uses) or recognize them immediately in other comprehensive income. The Corporation plans to continue using the corridor approach to recognition of actuarial gains and losses. • An exposure draft has been issued proposing the immediate recognition of actuarial gains and losses in other comprehensive income and the presentation of service costs and financial expenses in the profit or loss statement. The standard will be published in 2011.
Impairment of Assets (IAS 36)	• Asset impairment testing is done at the lowest cash generating unit (CGU) level. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. According to Canadian GAAP, asset impairment testing is done at the level of the asset group, which is not necessarily the same as a CGU. • Goodwill is allocated to the CGU or groups of CGUs that should benefit from the synergies of a business combination, while under Canadian GAAP, goodwill is allocated to operating units that are equivalent to an operating sector or to one level below. Given that the impairment test could be performed at the level of a group of assets that is smaller than that for Canadian GAAP, asset impairment may be recognized at different times depending on the IFRS. • To determine whether an asset impairment should be recognized, the carrying amount of the asset is compared to its recoverable amount, which is the higher of fair value less costs to sell and value in use (present value of future cash flows). Under Canadian GAAP, a two-step test is conducted: first, the carrying amount of the asset is compared to undiscounted future cash flows; then, if an impairment is required, the amount of the impairment is determined by comparing the carrying amount of the asset to its fair value. • Asset impairments other than goodwill impairments can be reversed under certain circumstances. Canadian GAAP did not permit reversals. • The Corporation is currently evaluating the impact of these elements as at the transition date.
Income Taxes (IAS 12)	• Under Canadian GAAP and IFRS, future income taxes are calculated on temporary differences, i.e. differences between the tax basis of an asset or liability and its carrying amount on the balance sheet. Under Canada's Income Tax Act, the maximum deductible for "eligible capital expenditures" is 75% of the cost incurred. Canadian GAAP addresses this particular situation and specifies that the tax basis must be increased by 25%, thus eliminating the temporary difference. IFRS does not address this specific situation, and therefore a temporary difference exists between the tax basis and the carrying amount of assets that must be recognized in the case of eligible business combination transactions. • The Corporation is currently evaluating the impact of this difference for intangible assets that qualify as eligible capital expenditures, and anticipates an adjustment that will lead to an increase in future income tax liabilities and an adjustment in retained earnings as at the transition date.
Financial Instruments: Recognition and Measurement (IAS 39)	• Under IFRS, an entity may derecognize a financial asset under certain conditions based on the concept of transferring risks and benefits. Under Canadian GAAP, the conditions for derecognizing a financial asset are based, instead, on the notion of transfer of control of the asset. For the Corporation, accounts receivable sold under the securitization arrangement may no longer satisfy the conditions for being derecognized under IFRS. • As at the IFRS transition date, this difference will have no impact on the financial statements because no securitization program was in effect as at October 31, 2010.

Interests in Joint Ventures (IAS 31)	• IFRS currently allows the recognition of interests in joint ventures using the proportionate consolidation method (which is used by the Corporation) or the equity method. The Corporation plans to continue using the proportionate consolidation method. • A new standard IFRS 11 *Joint Arrangements* was published in May 2011 and now only allows the use of the equity method. IFRS 11 will come into effect for periods beginning January 1, 2013 and the Corporation is currently evaluating its impact.

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

Exemption	Description and Status
Employee Benefits	IAS 19 Employee Benefits requires actuarial gains and losses to be measured in accordance with IFRS from plan start dates to the date of transition to IFRS. IFRS 1 allows recognition of accumulated actuarial gains and losses in retained earnings as at the transition date and prospective application of IAS 19. The Corporation plans to use this exemption, which will result in a decrease of about $7 million in accrued benefit assets and $2 million in future income tax liability, an increase of $35 million in accrued benefit liability and $9 million in future income tax assets, and a decrease of about $31 million in retained earnings as at the transition date.
Borrowing Costs	IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Under Canadian GAAP, an entity has the option of capitalizing borrowing costs or recognizing them as an expense. The Corporation's accounting policy is to capitalize borrowing costs. IFRS offers more direct guidance than Canadian GAAP regarding the nature of capitalizable borrowing costs. An exemption under IFRS 1 allows IAS 23 requirements to be applied prospectively for all qualifying assets where capitalization commences on a date earlier than the transition date or on the transition date. The Corporation plans to use this exemption, which will result in a decrease of about $13 million in property, plant and equipment and $3 million in future income tax liability, as well as a decrease of about $10 million in retained earnings at the transition date.
Deemed Cost	IFRS 1 allows for assets to be evaluated at their fair value at the transition date and to use this fair value as the deemed cost at that date. The deemed cost is then used instead of the cost or amortized cost, and the subsequent amortization is calculated using the deemed cost. The Corporation is evaluating the possibility of using this exemption for certain assets.
Cumulative Translation Differences	IAS 21 *Effects of Changes in Foreign Exchange Rates* requires that translation differences be calculated in compliance with IFRS from the acquisition date or from the date of creation of the foreign operation. IFRS 1 allows the cumulative translation differences for all foreign operations to be set to zero at the date of transition. The gain or loss on subsequent disposal of a foreign operation will therefore only include foreign exchange differences arising subsequent to the date of transition to IFRS. The Corporation plans to use this exemption, which will result in an increase in accumulated other comprehensive income and a decrease in retained earnings at the transition date of about $25 million.

RISKS AND UNCERTAINTIES

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

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

Operational Risks

Economic Cycles

No major changes occurred in second quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Competition

In the first six months of 2011, some of our more traditional niches faced an upsurge in competition. To limit this impact, the Corporation continues to focus on the development of new products and services in print and digital. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

New Media

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Operational Efficiency

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Regulation

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Geographic Distribution and Exchange Rates

The average exchange rate was 0.9872 CAD/USD in second quarter 2011, compared to an average of 1.0495 CAD/USD in first quarter 2010. The currency-hedging program uses derivatives to protect the Corporation from the risk of short-term currency fluctuations. Moreover, Transcontinental attempts to match cash inflows and outflows in the same currency. The policy approved by the Corporation's Board of Directors permits hedging of 50% to 100% of net cash flows for a period of one to 12 months, 25% to 50% for the subsequent 12 months and up to 33% for the following 12 months.

As at April 30, 2011, using forward contracts to manage the exchange rate related to its exports to the United States, the Corporation had contracts to sell US$71 million (US$113 million as at April 30, 2010), of which $26 million and $45 million will be sold in fiscal 2011 and 2012, respectively. The terms of these forward contracts range from one month to 17 months, with rates varying from 1.0310 to 1.2245. Hedging relationships were effective and in accordance with risk management objectives and strategies throughout second quarter 2011.

Dependence on Information Systems

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Recruiting and Talent Retention

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Impairment Tests

In accordance with Canadian GAAP, in second quarter 2011 the Corporation performed impairments tests. At the conclusion of the first step, the Corporation identified certain reporting units in Interactive sector for which their book value exceed their fair value. A goodwill of approximately $25.0 million is allocated to these reporting units. At the moment of the publication of this management's discussion and analysis, the Corporation has not yet completed the second step of the test, due to important changes in the business plan recently implemented in the Interactive sector. These changes generate uncertainty on future cash flows of the reporting units identified in the first step. Therefore, it is impossible to estimate the amount of the potential impairment. The Corporation expects to complete the second step by the end of fiscal 2011. This potential devaluation could give rise to a non-cash charge that would reduce the net income applicable to participating shares. However, it would have no significant impact on the Corporation's compliance with the debt ratio it must maintain under the terms of its current credit facilities and would not, therefore, limit its borrowing power. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Exchange of Confidential Information and Privacy

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Business Development

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Integration of Acquisitions

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Loss of Reputation

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Participating Shares and Preferred Shares

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Financial Risks

Availability of Capital and Use of Financial Leverage

The Corporation's term revolving credit currently consists only of Tranche A, an amount of $400 million, which matures in September 2012, of which $206.4 million was used as at April 30, 2011. The Corporation plans to use this facility for prepayment of the $50.0 million term loan granted by SGF Rexfor inc. in July 2009. However, the financial risk of the repayment is mitigated by the new two-year, $200 million receivables securitization program which was set up in the second quarter 2011. This source of financing, which was unused at April 30, 2011, gives the Corporation greater financial flexibility. Moreover, the Corporation is in a very good financial position, with a ratio of net indebtedness to adjusted operating income before amortization of 1.66x; furthermore, the Corporation's cash flows should be higher in upcoming quarters given the significant reduction in its capital spending program and the contribution from printing *The Globe and Mail*.

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

Interest Rate

Transcontinental is exposed to market risks related to interest-rate fluctuations. At the end of second quarter 2011, considering the derivative financial instruments used, the fixed rate portion of the Corporation's long-term debt represented 63% of the total, while the floating rate portion represented 37% (65% and 35%, respectively, as at April 30, 2010). In order to mitigate its exposure to the risk of interest rate fluctuations, the Corporation tries to keep a good balance of fixed versus floating rate debt.

Credit

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Pension Plans

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Environmental Risks

No major changes occurred in second quarter 2011. For more information, please refer to the "Environment" section in *Management's Discussion and Analysis for the Year Ended October 31, 2010* and the *Sustainability Report 2010 – Connecting Words to Actions.*

Raw Material and Postal Risk

Raw Materials and Energy Prices

No major changes occurred in second quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Postal Services

If the Canada Post employees go on strike, some of the Corporation's businesses could be affected, primarily direct marketing operations in the Printing Sector and the Business and Consumer Solutions Group in the Media Sector. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

DISCLOSURE CONTROLS AND PROCEDURES

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The President and Chief Executive Officer and the Vice President and Chief Financial Officer have evaluated whether there were changes to internal control over financial reporting during the quarter ended April 30, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

OUTLOOK

Transcontinental will pursue its strategy to strengthen its core business while developing new directions in interactive and digital marketing solutions through its Media and Interactive sectors, in order to offer its customers integrated marketing solutions for reaching consumers. The new arrangement with Canadian Tire negotiated in second quarter 2011 reflects this strategy and will enable the Corporation to generate $30 to $40 million in new business each year, for a period of four years. All sectors in the Corporation will benefit from this agreement, which will take effect in January 2012.

The printing of *The Globe and Mail* will generate new revenues for the Printing Sector by the end of this fiscal year, as will new contracts, though of lesser scope, in all the sector's business groups. Moreover, to further improve its operational efficiency, the Printing Sector will continue its initiatives to maximize efficiency of its equipment, such as automating a plant in the Retail Group and integrating flyer printing at its Vaughan printing plant in the Newspaper

Group. These initiatives, combined with new potential contracts, should increase its operating income by the end of the fiscal year.

Given the Media Sector's strategy to continue investing in the development of digital and paper platforms, and the upsurge in competition in some of its niches, adjusted operating income in this sector will likely be negatively affected in coming quarters, mainly due to its Local Solutions Group, while its revenues should pursue its slight increase with, among other factors, the contribution of its New Media and Digital Solutions Group.

The Interactive Sector will accelerate the development of its integrated interactive marketing solutions to better meet customers' growing demand for customized marketing programs, and build on the emerging digital platforms. Revenues in this sector should increase in coming quarters; its operating income should also improve in the second half of fiscal 2011.

In addition, the Corporation's financial position should continue to improve given the considerable reduction in capital spending, which will be no more than $60 million in fiscal 2011, and the generation of significant cash flows, which will allow the Corporation to further improve its net indebtedness ratio over the next several quarters.

On behalf of management,

Benoît Huard
Vice President and Chief Financial Officer
June 8, 2011

CONSOLIDATED STATEMENTS OF INCOME

unaudited

(in millions of dollars, except per share data)	Three months ended April 30		Six months ended April 30	
	2011	2010	**2011**	2010
Revenues	**$ 514.7**	$ 510.0	**$ 1,044.8**	$ 1,021.6
Operating costs	**362.1**	356.2	**751.7**	729.9
Selling, general and administrative expenses	**59.8**	62.8	**118.3**	119.6
Operating income before amortization, impairment of assets and restructuring costs	**92.8**	91.0	**174.8**	172.1
Amortization (Note 3)	**31.5**	32.7	**63.7**	66.5
Impairment of assets and restructuring costs (Note 4)	**4.1**	2.8	**9.2**	4.7
Operating income	**57.2**	55.5	**101.9**	100.9
Financial expenses (Note 6)	**8.6**	10.5	**19.4**	20.5
Expenses related to long-term debt prepayment (Note 11)	**5.8**	-	**5.8**	-
Discount on sale of accounts receivable	**-**	0.3	**-**	0.9
Income before income taxes and non-controlling interest	**42.8**	44.7	**76.7**	79.5
Income taxes (Note 7)	**7.6**	10.7	**13.3**	15.5
Non-controlling interest	**0.5**	-	**0.8**	0.3
Net income from continuing operations	**34.7**	34.0	**62.6**	63.7
Net income from discontinued operations (Note 8)	**-**	34.7	**-**	32.9
Net income	**34.7**	68.7	**62.6**	96.6
Dividends on preferred shares, net of related income taxes	**1.7**	1.7	**3.4**	3.4
Net income applicable to participating shares	**$ 33.0**	$ 67.0	**$ 59.2**	$ 93.2
Net income per participating share - basic and diluted (Note 12)				
Continuing operations	**$ 0.41**	$ 0.40	**$ 0.73**	$ 0.75
Discontinued operations	**-**	0.43	**-**	0.41
	$ 0.41	$ 0.83	**$ 0.73**	$ 1.16
Weighted average number of participating shares outstanding - basic (in millions)	**81.0**	80.8	**81.0**	80.8
Weighted average number of participating shares outstanding - diluted (in millions)	**81.1**	80.9	**81.1**	80.9

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
unaudited

(in millions of dollars)	Three months ended April 30		Six months ended April 30	
	2011	2010	**2011**	2010
Net income	**$ 34.7**	$ 68.7	**$ 62.6**	$ 96.6
Other comprehensive income (loss):				
Net change in fair value of derivatives designated as cash flow hedges, net of income taxes of $1.1 million and $1.7 million for the three-month and six-month periods ended April 30, 2011 ($1.5 million and $(0.4) million for the same periods in 2010)	**3.8**	(0.3)	**3.6**	(5.4)
Reclassification adjustments for net change in fair value of derivatives designated as cash flow hedges in prior periods, transferred to net income in the current period, net of income taxes of $(0.6) million and $(0.5) million for the three-month and six-month periods ended April 30, 2011 ($0.5 million and $0.6 million for the same periods in 2010)	**(2.5)**	5.3	**(1.1)**	7.2
Net change in fair value of derivatives designated as cash flow hedges	**1.3**	5.0	**2.5**	1.8
Net losses on translation of financial statements of self-sustaining foreign operations	**(6.1)**	(2.0)	**(8.6)**	(2.9)
Other comprehensive income (loss) (Note 15)	**(4.8)**	3.0	**(6.1)**	(1.1)
Comprehensive income	**$ 29.9**	$ 71.7	**$ 56.5**	$ 95.5

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

(in millions of dollars)	Six months ended April 30	
	2011	2010
Balance, beginning of period	**$ 784.0**	$ 645.9
Net income	**62.6**	96.6
	846.6	742.5
Dividends on participating shares	**(17.8)**	(13.8)
Dividends on preferred shares	**(3.4)**	(3.6)
Balance, end of period	**$ 825.4**	$ 725.1

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(in millions of dollars)	unaudited As at April 30, 2011	audited As at October 31, 2010
Current assets		
Cash and cash equivalents	$ -	$ 36.3
Accounts receivable (Note 10)	382.0	454.8
Income taxes receivable	25.6	19.7
Inventories	82.6	82.9
Prepaid expenses and other current assets	25.3	21.6
Future income taxes	16.5	17.7
	532.0	633.0
Property, plant and equipment	852.2	918.3
Property, plant and equipment held for sale (Note 4)	6.2	-
Goodwill (Note 5)	682.1	678.1
Intangible assets	174.9	179.1
Future income taxes	142.3	146.7
Other assets	34.0	39.5
	$ 2,423.7	$ 2,594.7
Current liabilities		
Bank overdraft	$ 0.7	$ -
Accounts payable and accrued liabilities	259.8	358.2
Income taxes payable	22.4	28.8
Deferred subscription revenues and deposits	32.2	38.6
Future income taxes	2.7	2.5
Current portion of long-term debt	17.2	17.8
	335.0	445.9
Long-term debt (Note 11)	619.9	712.9
Future income taxes	143.3	138.1
Other liabilities	41.9	50.0
	1,140.1	1,346.9
Non-controlling interest	0.8	0.8
Shareholders' equity		
Share capital	478.8	478.6
Contributed surplus (Note 14)	14.0	13.7
Retained earnings	825.4	784.0
Accumulated other comprehensive loss (Note 15)	(35.4)	(29.3)
	790.0	754.7
	1,282.8	1,247.0
	$ 2,423.7	$ 2,594.7

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
unaudited

(in millions of dollars)	Three months ended April 30 2011	Three months ended April 30 2010	Six months ended April 30 2011	Six months ended April 30 2010
Operating activities				
Net income	$ 34.7	$ 68.7	$ 62.6	$ 96.6
Less : Net income from discontinued operations (Note 8)	-	34.7	-	32.9
Net income from continuing operations	34.7	34.0	62.6	63.7
Items not affecting cash and cash equivalents				
Amortization (Note 3)	38.7	38.7	77.2	78.8
Impairment of assets (Note 4)	-	0.2	3.5	0.3
Gain on disposal of assets	(0.3)	(0.2)	(0.3)	(0.6)
Future income taxes	0.2	(2.6)	0.5	(9.1)
Stock-based compensation (Note 13)	0.1	0.2	0.3	0.4
Other	2.7	(4.5)	1.6	(1.5)
Cash flow from operating activities before changes in non-cash operating items	76.1	65.8	145.4	132.0
Changes in non-cash operating items	(18.3)	(123.2)	(33.6)	(132.8)
Cash flow related to operating activities of continuing operations	57.8	(57.4)	111.8	(0.8)
Cash flow related to operating activities of discontinued operations	-	7.1	-	5.8
	57.8	(50.3)	111.8	5.0
Investing activities				
Business acquisitions (Note 16)	(0.6)	(2.2)	(5.4)	(2.8)
Acquisitions of property, plant and equipment	(8.4)	(26.3)	(29.1)	(89.0)
Disposals of property, plant and equipment	0.5	0.8	0.6	1.6
Increase in intangible assets and other assets	(5.4)	(7.4)	(10.9)	(10.6)
Cash flow related to investing activities of continuing operations	(13.9)	(35.1)	(44.8)	(100.8)
Cash flow related to investing activities of discontinued operations	-	93.0	-	92.2
	(13.9)	57.9	(44.8)	(8.6)
Financing activities				
Increase in long-term debt	-	4.8	-	37.7
Reimbursement of long-term debt	(100.1)	(2.7)	(107.4)	(7.8)
Increase (decrease) in revolving term credit facility	24.0	(16.9)	31.2	(29.6)
Dividends on participating shares	(8.9)	(7.3)	(17.8)	(13.8)
Dividends on preferred shares	(1.7)	(1.7)	(3.4)	(3.6)
Issuance of participating shares	0.1	-	0.2	-
Bond forward contract	-	-	(6.0)	-
Other	-	2.0	-	1.4
Cash flow related to financing activities of continuing operations	(86.6)	(21.8)	(103.2)	(15.7)
Cash flow related to financing activities of discontinued operations	-	(0.9)	-	(0.9)
	(86.6)	(22.7)	(103.2)	(16.6)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	(0.5)	-	(0.8)	0.1
Decrease in cash and cash equivalents	(43.2)	(15.1)	(37.0)	(20.1)
Cash and cash equivalents at beginning of period	42.5	29.7	36.3	34.7
Cash and cash equivalents (bank overdraft) at end of period	$ (0.7)	$ 14.6	$ (0.7)	$ 14.6
Additional information				
Interest paid	$ 11.6	$ 11.1	$ 19.5	$ 20.4
Income taxes paid	$ 16.6	$ 35.0	$ 23.1	$ 34.1

The notes are an integral part of the consolidated financial statements.

The interim financial statements should be read in conjunction with the most recent annual consolidated financial statements.

1. Significant accounting policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), using the same accounting policies as outlined in Note 1 and Note 2 to the consolidated financial statements for the year ended October 31, 2010. The operating results for the interim periods are not necessarily indicative of full-year results due to the seasonality of certain operations of the Corporation. Results of operations are significantly influenced by the advertising market, which is stronger in the second and fourth quarters. The back-to-school period is also the strongest for book printing and for our educational resources publishing unit.

2. Change in accounting policies

Section 3064 of the CICA Handbook, Goodwill and intangible assets, allows the capitalization of employee salaries, wages and benefits directly attributable to an internally generated intangible asset. The Corporation was not capitalizing the educational books prepublication costs as its information systems could not allocate these costs per book. On November 1st, 2010, the Corporation modified its information systems in order to compile employee salaries, wages and benefits per book, and decided to change its accounting policy. Consequently, for the three-month period ended April 30, 2011, this change in accounting policy resulted in a decrease in operating costs of $2.0 million and an increase in income tax expense of $0.6 million. For the six-month period ended April 30, 2011, this change in accounting policy resulted in an increase in intangible assets of $3.6 million and in long-term future income tax liability of $1.1 million, as well as a decrease in operating costs of $3.6 million and an increase in income tax expense of $1.1 million These intangible assets will be amortized as operating costs over a maximum of 5 years, based on historical sales patterns. The application of this accounting policy is prospective, as the Corporation cannot generate the information for prior periods to apply this change retrospectively.

3. Amortization

	Three months ended April 30		Six months ended April 30	
(in millions of dollars)	**2011**	2010	**2011**	2010
Property, plant and equipment	**$ 27.3**	$ 28.8	**$ 55.6**	$ 58.6
Intangible assets	**4.2**	3.9	**8.1**	7.9
	31.5	32.7	**63.7**	66.5
Intangible assets and other assets, presented in revenues, operating costs and financial expenses	**7.2**	6.0	**13.5**	12.3
	$ 38.7	$ 38.7	**$ 77.2**	$ 78.8

4. Impairment of assets and restructuring costs

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

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

b) The Corporation is currently carrying rationalization measures to deal mainly with excess production capacity in some specialized plants of the Printing sector, due to important structural changes in the printing industry which result in lower demand in certain niche markets. It is expected that these measures will be completed over fiscal 2011 and 2012.

The following table provides details of these plans:

	Three months ended April 30					
(in millions of dollars)	2011				2010	
	Liability as at January 31, 2011	Charged to income	Paid	Liability as at April 30, 2011	Charged to income	Paid
a) Rationalization Measures 2009 - 2010						
Printing						
Workforce reduction costs	$ 1.1	$ -	$ 0.8	$ 0.3	$ 2.2	$ 3.7
Other costs	-	-	-	-	0.2	0.2
Interactive						
Workforce reduction costs	0.2	-	0.2	-	-	0.1
Media						
Workforce reduction costs	0.2	-	0.2	-	0.2	0.2
	1.5	-	1.2	0.3	2.6	4.2
Printing						
Impairment of assets	n/a	-	n/a	n/a	0.1	n/a
Media						
Impairment of assets	n/a	-	n/a	n/a	0.1	n/a
	$ 1.5	$ -	$ 1.2	$ 0.3	$ 2.8	$ 4.2
b) Rationalization Measures 2011 - 2012						
Workforce reduction costs	$ 2.0	$ 3.2	$ 1.4	$ 3.8	$ -	$ -
Other costs	0.3	0.9	1.2	-	-	-
	2.3	4.1	2.6	3.8	-	-
Impairment of assets	n/a	-	n/a	n/a	-	n/a
	$ 2.3	$ 4.1	$ 2.6	$ 3.8	$ -	$ -
Total						
Workforce reduction costs	$ 3.5	$ 3.2	$ 2.6	$ 4.1	$ 2.4	$ 4.0
Other costs	0.3	0.9	1.2	-	0.2	0.2
Impairment of assets	n/a	-	n/a	n/a	0.2	n/a
	$ 3.8	$ 4.1	$ 3.8	$ 4.1	$ 2.8	$ 4.2

4. Impairment of assets and restructuring costs (continued)

	Six months ended April 30							
(in millions of dollars)	Total		2011				2010	
	Charged to income	Forecasted	Liability as at October 31, 2010	Charged to income	Paid	Liability as at April 30, 2011	Charged to income	Paid
a) Rationalization Measures 2009 - 2010								
Printing								
Workforce reduction costs	$ 28.9	$ 28.9	$ 2.9	$ -	$ 2.6	$ 0.3	$ 3.5	$ 5.7
Other costs	4.3	4.3	-	-	-	-	0.5	0.3
Interactive								
Workforce reduction costs	2.1	2.1	0.6	-	0.6	-	-	0.2
Other costs	0.2	0.2	-	-	-	-	-	-
Media								
Workforce reduction costs	10.4	10.4	0.4	-	0.4	-	0.4	3.1
	45.9	45.9	3.9	-	3.6	0.3	4.4	9.3
Printing								
Impairment of assets	18.4	18.4	n/a	-	n/a	n/a	0.2	n/a
Media								
Impairment of assets	1.6	1.6	n/a	-	n/a	n/a	0.1	n/a
	$ 65.9	$ 65.9	$ 3.9	$ -	$ 3.6	$ 0.3	$ 4.7	$ 9.3
b) Rationalization Measures 2011 - 2012								
Workforce reduction costs	$ 9.8	$ 9.8	$ 5.5	$ 4.3	$ 6.0	$ 3.8	$ -	$ -
Other costs	1.4	2.0	-	1.4	1.4	-	-	-
	11.2	11.8	5.5	5.7	7.4	3.8	-	-
Impairment of assets	4.2	4.2	n/a	3.5	n/a	n/a	-	n/a
	$ 15.4	$ 16.0	$ 5.5	$ 9.2	$ 7.4	$ 3.8	$ -	$ -
Total								
Workforce reduction costs	$ 51.2	$ 51.2	$ 9.4	$ 4.3	$ 9.6	$ 4.1	$ 3.9	$ 9.0
Other costs	5.9	6.5	-	1.4	1.4	-	0.5	0.3
Impairment of assets	24.2	24.2	n/a	3.5	n/a	n/a	0.3	n/a
	$ 81.3	$ 81.9	$ 9.4	$ 9.2	$ 11.0	$ 4.1	$ 4.7	$ 9.3

Property, plant and equipment held for sale

Property, plant and equipment held for sale include certain real estate assets that were no longer necessary in the ongoing operations following the 2011-2012 rationalization measures. These real estate assets are no longer amortized. No loss was recognized in the consolidated statement of income, since the estimated fair value less costs to sell is greater than their carrying amount. The future potential gain on disposal resulting from the sale of these real estate assets will be presented against restructuring costs.

5. Goodwill

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

At the conclusion of the first step, the Corporation identified certain reporting units in Interactive sector for which their book value exceed their fair value. A goodwill of approximately $25.0 million is allocated to these reporting units.

At the moment of the publication of these consolidated financial statements, the Corporation has not completed the second step of the test, due to important changes in the business plan recently implemented in the Interactive sector. These changes generate uncertainty on future cash flows of the reporting units identified in the first step. Therefore, it is impossible to estimate the amount of the potential impairment. The Corporation expects to complete the second step by the end of fiscal 2011. As a result, no impairment of goodwill has been recorded in the second quarter of fiscal 2011.

6. Financial expenses

(in millions of dollars)	Three months ended April 30 2011	2010	Six months ended April 30 2011	2010
Financial expenses on long-term debt	$ 8.1	$ 9.5	$ 18.2	$ 19.9
Other expenses	1.0	0.8	2.0	1.5
Foreign exchange loss (gain)	(0.5)	0.2	(0.8)	(0.9)
	$ 8.6	$ 10.5	$ 19.4	$ 20.5

For the three-month and six-month periods ended April 30, 2011, negligible amounts of interest were capitalized on property, plant and equipment ($0.6 million and $1.3 million for the same periods in 2010).

7. Income taxes

(in millions of dollars)	Three months ended April 30 2011	2010	Six months ended April 30 2011	2010
Income taxes at statutory tax rate	$ 12.4	$ 13.4	$ 22.0	$ 23.9
Effect of foreign tax rate differences	(1.4)	(1.8)	(2.3)	(3.7)
Effect of Ontario corporate income tax rate reductions (a)	-	-	-	(2.4)
Reduction in tax expense resulting from the recognition of tax losses not previously recognized	(1.9)	(3.7)	(3.7)	(4.1)
Other	(1.5)	2.8	(2.7)	1.8
Income taxes at effective tax rate	$ 7.6	$ 10.7	$ 13.3	$ 15.5
Income taxes include the following items:				
Income taxes before the following items:	$ 10.4	$ 11.7	$ 17.5	$ 19.3
Income taxes on impairment of assets and restructuring costs (Note 4)	(1.2)	(1.0)	(2.6)	(1.4)
Income taxes on expenses related to long-term debt prepayment (Note 11)	(1.6)	-	(1.6)	-
Effect of Ontario corporate income tax rate reductions (a)	-	-	-	(2.4)
Income taxes at effective tax rate	$ 7.6	$ 10.7	$ 13.3	$ 15.5

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

8. Discontinued operations

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

The following table presents the results of discontinued operations:

(in millions of dollars)	Three months ended April 30 2011	2010	Six months ended April 30 2011	2010
Revenues	$ -	$ 29.9	$ -	$ 77.5
Expenses	-	34.5	-	84.6
Loss before income taxes	-	(4.6)	-	(7.1)
Income taxes recovered	-	(1.0)	-	(1.7)
Loss related to the operation of discontinued operations	-	(3.6)	-	(5.4)
Gain related to the discontinuance of operations, net of related income taxes of $25.0	-	38.3	-	38.3
Net income from discontinued operations	$ -	$ 34.7	$ -	$ 32.9

9. Pension plans

The Corporation offers various contributory and non-contributory defined benefit pension plans and defined contribution pension plans to its employees and those of its participating subsidiaries.

The cost related to these plans is as follows:

	Three months ended April 30		Six months ended April 30	
(in millions of dollars)	**2011**	2010	**2011**	2010
Defined benefit pension plans	**$ (0.4)**	$ 7.3	**$ (0.7)**	$ 11.3
Defined contribution pension plans	**4.6**	0.5	**9.1**	1.1
	$ 4.2	$ 7.8	**$ 8.4**	$ 12.4

10. Accounts receivable

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

As at April 30, 2011, no amount was drawn from this source of financing.

11. Long-term debt

On February 17, 2011, the Corporation prepaid, according to the terms described in the agreement, its $100.0 million term credit facility granted by Caisse de dépôt et placement du Québec during the second quarter of fiscal 2009. This five-year financing bore interest at bankers' acceptance rate + 6.375%. This debt prepayment was made using the revolving credit facility, and resulted in unusual costs of $4.5 million in the second quarter of fiscal 2011, of which $1.1 million had no effect on cash flows. In addition, the Corporation reclassified in the consolidated statement of income for the three-month period ended April 30, 2011, gains and losses related to its two interest rate swaps of $50.0 million each, which were used to lock interest rate for five years at 8.39% per year, due to the discontinuance of cash flow hedge accounting, as future operations originally anticipated will not happen. The impact of this discontinuance of hedge accounting on the consolidated statement of income for the period is negligible.

During the third quarter of fiscal 2011, the Corporation will prepay, according to the terms described in the agreement, its term loan of $50.0 million granted by SGF Rexfor Inc. during the third quarter of fiscal 2009. This five-year financing bears interest at 8.25% per year. This debt prepayment will be made using the revolving credit facility, and will result in unusual costs of $1.3 million that were recorded in the second quarter of fiscal 2011, of which $0.3 million had no effect on cash flows.

12. Net income per participating share

The following table is a reconciliation of the components used in the calculation of basic and diluted net income from continuing operations per participating share for the three-month and six-month periods ended April 30:

	Three months ended April 30		Six months ended April 30	
	2011	2010	**2011**	2010
Numerator (in millions of dollars)				
Net income from continuing operations	**$ 34.7**	$ 34.0	**$ 62.6**	$ 63.7
Dividends on preferred shares, net of related income taxes	**1.7**	1.7	**3.4**	3.4
Net income from continuing operations, applicable to participating shares	**$ 33.0**	$ 32.3	**$ 59.2**	$ 60.3
Denominator (in millions)				
Weighted average number of participating shares - basic	**81.0**	80.8	**81.0**	80.8
Weighted average number of dilutive options	**0.1**	0.1	**0.1**	0.1
Weighted average number of participating shares - diluted	**81.1**	80.9	**81.1**	80.9

In the calculation of the diluted net income per share, 987,032 stock options were considered anti-dilutive as at April 30, 2011 (1,064,160 as at April 30, 2010), since their exercise price was greater than the average stock price of the Class A Subordinate Voting Shares during the period. Therefore, these stock options were excluded from the calculation.

13. Stock-based compensation plans

Stock option plan

The Corporation offers a stock option plan for the benefit of certain of its officers and senior executives. Under the plan, each stock option entitles its holder to receive one Class A Subordinate Voting Share upon exercise and the exercise price is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option.

Stock-based compensation costs of $0.1 million and $0.2 million were charged to income and as an increase to contributed surplus of shareholders' equity for the three-month periods ended April 30, 2011 and 2010, respectively. For the six-month periods ended April 30, 2011 and 2010, the costs were $0.3 million and $0.4 million, respectively.

The following table summarizes the changes in outstanding stock options:

	Three months ended April 30			
	2011		2010	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of period	**1,678,597**	**$ 16.79**	2,045,585	$ 16.78
Exercised	**(7,750)**	**10.68**	(5,200)	10.48
Cancelled	**(56,325)**	**20.43**	(255,065)	21.40
Balance, end of period	**1,614,522**	**$ 16.70**	1,785,320	$ 16.14

	Six months ended April 30			
	2011		2010	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of period	**1,542,490**	**$ 16.76**	2,006,575	$ 17.23
Granted	**164,672**	**16.20**	173,100	13.09
Exercised	**(18,590)**	**10.26**	(20,320)	9.50
Cancelled	**(74,050)**	**18.54**	(374,035)	20.95
Balance, end of period	**1,614,522**	**$ 16.70**	1,785,320	$ 16.14
Options exercisable as at April 30	**1,141,675**	**$ 18.13**	1,254,970	$ 17.56

Exercise of stock options

When holders exercise their stock options, the amounts received from them are credited to share capital. For stock options granted since November 1, 2002, the amount previously accounted for as an increase to contributed surplus is also transferred to share capital. For the three-month and six-month periods ended April 30, 2011, the amounts received were $0.1 million and $0.2 million, respectively. For the three-month and six-month periods ended April 30, 2010, the amounts received were $0.1 million and $0.2 million respectively. No amount was transferred from contributed surplus to share capital for these periods.

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

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

13. Stock-based compensation plans (continued)

Share unit plan for senior executives

The Corporation offers a share unit plan to its senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted.

The following table provides details of this plan:

	Three months ended April 30			
Number of units	**2011**	2010	**2011**	2010
	DSU		RSU	
Balance, beginning of period	**203,397**	121,060	**744,728**	**765,121**
Units cancelled	**-**	-	**(4,974)**	**(49,929)**
Units paid	**(1,358)**	(1,306)	**-**	**-**
Dividends paid in units	**1,320**	641	**-**	**-**
Balance, end of period	**203,359**	120,395	**739,754**	**715,192**

	Six months ended April 30			
Number of units	**2011**	2010	**2011**	2010
	DSU		RSU	
Balance, beginning of period	**121,110**	127,870	**676,627**	548,808
Units granted	**40,123**	53,240	**233,383**	277,013
Units cancelled	**-**	(58,141)	**(74,558)**	(104,545)
Units paid	**(2,230)**	(3,799)	**(53,824)**	(6,084)
Units converted	**41,874**	-	**(41,874)**	-
Dividends paid in units	**2,482**	1,225	**-**	-
Balance, end of period	**203,359**	120,395	**739,754**	715,192

The expense (reversal) recorded in the consolidated statements of income for the three-month periods ended April 30, 2011 and 2010 were $(0.1) million and $0.7 million, respectively. For the six-month periods ended April 30, 2011 and 2010, the expenses recorded in the consolidated statements of income were $1.2 million and $1.5 million, respectively. Amounts of $0.9 million and $0.1 million were paid under the plan for the six-month periods ended April 30, 2011 and 2010, respectively. Negligible amounts were paid for the three-month periods ended April 30, 2011 and 2010.

Share unit plan for directors

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

The following table provides details of this plan:

	Three months ended April 30		Six months ended April 30	
Number of units	**2011**	2010	**2011**	2010
Balance, beginning of period	**167,474**	135,179	**159,803**	167,783
Directors compensation	**8,357**	8,073	**14,984**	15,614
Units paid	**-**	-	**-**	(40,923)
Dividends paid in units	**1,256**	912	**2,300**	1,690
Balance, end of period	**177,087**	144,164	**177,087**	144,164

The expense (reversal) recorded in the consolidated statements of income for the three-month periods ended April 30, 2011 and 2010 were $(0.2) million and $0.2 million, respectively. For the six-month periods ended April 30, 2011 and 2010, the expense recorded in the consolidated statements of income were $0.3 million for each period. No amount was paid for the three-month and six-month periods ended April 30, 2011, nor for the three-month period ended April 30, 2010. An amount of $0.5 million has been paid for the six-month period ended April 30, 2010.

14. Contributed surplus

(in millions of dollars)	Six months ended April 30 2011	2010
Balance, beginning of period	$ **13.7**	$ 12.9
Compensation costs relating to stock option plan (Note 13)	**0.3**	0.4
Balance, end of period	$ **14.0**	$ 13.3

15. Accumulated other comprehensive loss

(in millions of dollars)	Foreign Currency Translation Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as at November 1, 2009	$ (20.8)	$ 0.7	$ (20.1)
Net change in gains (losses), net of income taxes	(2.9)	1.8	(1.1)
Balance as at April 30, 2010	$ (23.7)	$ 2.5	$ (21.2)
Balance as at November 1, 2010	**$ (24.8)**	**$ (4.5)**	**$ (29.3)**
Net change in gains (losses), net of income taxes	**(8.6)**	**2.5**	**(6.1)**
Balance as at April 30, 2011	**$ (33.4)**	**$ (2.0)**	**$ (35.4)**

As at April 30, 2011, the amounts expected to be reclassified to net income are as follows:

(in millions of dollars)	2011	2012	2013	2014	2015 and following	Total
Gains (losses) on derivatives designated as cash flow hedges	$ 0.8	$ 2.2	$ (1.3)	$ (1.2)	$ (3.4)	$ (2.9)
Income taxes	-	(0.7)	0.3	0.3	1.0	0.9
	$ 0.8	$ 1.5	$ (1.0)	$ (0.9)	$ (2.4)	$ (2.0)

16. Business acquisitions

During the six-month period ended April 30, 2011, the Corporation has made the following acquisitions:

Operating sector	Acquisitions	Date of acquisition
Interactive	100% of the shares of Vortxt Interactive Inc. , a company operating in mobile solutions.	November 1st, 2010
Media	Assets of *Journal Nouvelles Hebdo* , a weekly newspaper in the Dolbeau-Mistassini area.	April 28, 2011

For the three-month and six-month periods ended April 30, 2011, the Corporation paid an amount of $0.6 million and $5.4 million, respectively, relating to business acquisitions completed in the current and prior periods. Of the amount of $5.4 million, $0.5 million was included in the short-term liabilities as at October 31, 2010, and $0.3 million was attributed to goodwill for the three-month period ended April 30, 2011 (4.4 million for the six-month period ended April 30, 2011).

17. Segmented information

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

(in millions of dollars)	Three months ended April 30		Six months ended April 30	
	2011	2010	**2011**	2010
Revenues				
Printing sector	**$ 361.3**	$ 354.3	**$ 739.5**	$ 716.8
Interactive sector	**29.6**	28.3	**60.8**	58.6
Media sector	**149.0**	148.3	**288.2**	284.0
Other activities and unallocated amounts	**2.0**	2.0	**4.1**	4.0
Inter-segment sales				
Printing sector	**(26.0)**	(20.2)	**(44.9)**	(35.0)
Interactive sector	**(0.5)**	(1.6)	**(0.8)**	(1.6)
Media sector	**(0.7)**	(1.1)	**(2.1)**	(5.2)
Total inter-segment sales	**(27.2)**	(22.9)	**(47.8)**	(41.8)
	$ 514.7	$ 510.0	**$ 1,044.8**	$ 1,021.6
Operating income (loss) before amortization, impairment of assets and restructuring costs				
Printing sector	**$ 73.9**	$ 71.2	**$ 145.3**	$ 136.8
Interactive sector	**(0.8)**	0.7	**(0.8)**	3.8
Media sector	**22.1**	26.0	**36.0**	42.3
Other activities and unallocated amounts	**(2.4)**	(6.9)	**(5.7)**	(10.8)
	$ 92.8	$ 91.0	**$ 174.8**	$ 172.1
Operating income (loss)				
Printing sector	**$ 41.5**	$ 44.5	**$ 83.3**	$ 83.3
Interactive sector	**(5.1)**	(2.1)	**(7.3)**	(1.9)
Media sector	**13.3**	21.4	**22.3**	33.3
Other activities and unallocated amounts	**7.5**	(8.3)	**3.6**	(13.8)
	$ 57.2	$ 55.5	**$ 101.9**	$ 100.9
Acquisitions of property, plant and equipment [(1)]				
Printing sector	**$ 5.8**	$ 12.3	**$ 9.5**	$ 54.5
Interactive sector	**0.3**	2.6	**2.5**	4.6
Media sector	**1.6**	2.5	**2.6**	4.5
Other activities and unallocated amounts	**0.4**	5.9	**0.6**	7.2
	$ 8.1	$ 23.3	**$ 15.2**	$ 70.8
Amortization of property, plant and equipment and intangible assets				
Printing sector	**$ 23.5**	$ 24.3	**$ 47.6**	$ 49.6
Interactive sector	**2.1**	2.7	**4.2**	5.6
Media sector	**4.6**	4.3	**9.3**	8.6
Other activities and unallocated amounts	**1.3**	1.4	**2.6**	2.7
	$ 31.5	$ 32.7	**$ 63.7**	$ 66.5

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

17. Segmented information (continued)

(in millions of dollars)	As at April 30, 2011	As at October 31, 2010
Assets		
Printing sector	**$ 1,400.2**	$ 1,473.8
Interactive sector	**123.0**	130.0
Media sector	**754.3**	783.7
Other activities and unallocated amounts	**146.2**	207.2
	$ 2,423.7	$ 2,594.7
Goodwill		
Printing sector	**$ 129.7**	$ 129.7
Interactive sector	**42.0**	38.6
Media sector	**509.5**	508.9
Other activities and unallocated amounts	**0.9**	0.9
	$ 682.1	$ 678.1

18. Comparative figures

Certain prior period figures have been reclassified to conform with the current period presentation.