tc • TRANSCONTINENTAL

Press Release

For Immediate Release

TRANSCONTINENTAL INC. INCREASES ITS REVENUES BY 12%
AND ADJUSTED OPERATING INCOME BY 21% IN THE 4TH QUARTER

Highlights of the Fourth Quarter

(in millions of dollars, except per share data)	Q4-12	Q4-11	%
Revenues	**$585.1**	**$521.6**	**12.2 %**
Adjusted operating income before amortization [1] (Adjusted EBITDA)	**123.8**	**110.0**	**12.5 %**
Adjusted operating income [1] (Adjusted EBIT)	**96.4**	**80.0**	**20.5 %**
Adjusted net income applicable to participating shares [1]	**61.9**	**54.5**	**13.6 %**
Per share	**0.77**	**0.68**	**13.2 %**
Net income applicable to participating shares	**(51.9)**	**30.8**	**---**
Per share	**(0.65)**	**0.38**	**---**

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

- Increase of 12.2% in revenues and 20.5% in adjusted operating income.
- Increase of 12.5% in adjusted operating income before amortization.
- Decrease in net income applicable to participating shares due to unusual items totaling $113.5 million.
- Reached an agreement in principle with Hearst Corporation for new terms and conditions to print the *San Francisco Chronicle*.
- Continued integration of Quad/Graphics Canada, Inc., which was acquired on March 1, 2012.
- Start of TC Media's television production activity.
- Maintained a solid financial position with a net indebtedness ratio of 1.32x.

Montreal, December 6, 2012 – Transcontinental Inc. (TSX: TCL.A TCL.B TCL.PR.D) ended fiscal 2012 on a very good note with revenues up 12.2% in the fourth quarter from $521.6 million to $585.1 million. This increase is mainly due to the acquisition of Quad/Graphics Canada, Inc. and acquisitions in the Media Sector, namely Redux Media. Excluding acquisitions and closures, and the impact of fluctuations in the exchange rate and paper, organic revenue growth was $0.8 million, or 0.2%.

Fourth quarter adjusted operating income rose 20.5%, from $80.0 million to $96.4 million. This increase stems mainly from the synergies from the integration of Quad/Graphics Canada, Inc., the optimization of the operational structure of digital operations and a higher volume from educational book publishing activities. Adjusted net income applicable to participating shares, which excludes unusual items and discontinued operations, rose 13.6%, from $54.5 million, or $0.68 per share, to

$61.9 million, or $0.77 per share. Net income applicable to participating shares declined, from $30.8 million, or $0.38 per share, to a loss of $51.9 million, or $0.65 per share. This decrease stems mainly from a $57.2 million impairment charge of the carrying value of our U.S. deferred tax asset related to a decrease of activities in this country.

"I am especially pleased with how we have ended fiscal 2012, said François Olivier, President and Chief Executive Officer. As expected, despite the volatile advertising market, revenues and profitability in the fourth quarter grew due to the contribution from the integration of Quad/Graphics Canada, Inc. and the good performance of the Media Sector.

In 2012, thanks to the strategic acquisition of Quad/Graphics Canada, Inc., we confirmed our position as Canada's largest printer. In the midst of this transaction, we integrated a certain number of the acquired plants into our state-of-the-art printing network in order to maximize the utilization of our most efficient equipment. Furthermore, we sold operations which we considered less strategic for the Corporation over the longer term. We renewed several multi-year printing and distribution agreements and we launched and acquired titles to expand the scope of our newspaper network. In addition, because of our excellent financial position and our ability to generate significant cash flows, we maintained the necessary flexibility to continue to develop TC Transcontinental. We continued to enhance our new services by entering the television production space, by investing in our flagship brands, by expanding the scope of our digital advertising representation and by continuing to rollout mobile apps for our clients and our own brands. I am certain that our achievements in the past year put us in an excellent position to pursue our transformation."

Highlights of Fiscal 2012

(in millions of dollars, except per share data)	2012	2011	%
Revenues	**$2,112.1**	**$1,989.3**	**6.2 %**
Adjusted operating income before amortization [(1)] (Adjusted EBITDA)	**357.6**	**365.4**	**(2.1 %)**
Adjusted operating income [(1)] (Adjusted EBIT)	**245.2**	**246.6**	**(0.6 %)**
Adjusted net income applicable to participating shares [(1)]	**149.4**	**155.3**	**(3.8 %)**
Per share	**1.85**	**1.92**	**(3.6 %)**
Net income applicable to participating shares	**(183.3)**	**120.7**	**---**
Per share	**(2.27)**	**1.49**	**---**

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

In 2012, TC Transcontinental's revenues increased 6.2%, from $1,989.3 million to $2,112.1 million. This increase stems mainly from the acquisitions of Quad/Graphics Canada, Inc. and Redux Media. It was, however, mitigated by the incentives granted at the renewal of certain printing contracts and by non-recurring revenue from the printing contract for the Canadian Census in 2011. Adjusted operating income remained relatively stable, from $246.6 million to $245.2 million. The slight decrease of 0.6% derives primarily from the Media Sector, due to the end of the school reform in Quebec, which impacted educational book publishing revenues, as well as a soft national advertising market. The decrease was mitigated by new printing contracts, the synergies from the integration of Quad/Graphics Canada, Inc., and the optimization of the operational structure of our digital operations.

Net income applicable to participating shares declined, from $120.7 million, or $1.49 per share, to a loss of $183.3 million, or $2.27 per share. The decrease stems mainly from a $232.0 million asset impairment related to the Media Sector, which was non-cash. The decrease also stems from a $58.0 million provision for notices of re-assessment from tax authorities, which the Corporation is currently contesting, a $57.2 million impairment charge of the carrying value of our U.S. deferred tax asset, and $55.0 million in restructuring and other costs mostly related to the integration of Quad/Graphics Canada, Inc. These items were, however, partially offset by a gain on acquisition of $32.1 million. Excluding unusual items and discontinued operations, adjusted net income applicable to participating shares decreased 3.8%, from $155.3 million, or $1.92 per share, to $149.4 million, or $1.85 per share.

For more detailed financial information, please see *Management's Discussion and Analysis for the fiscal year ended October 31st, 2012* as well as the financial statements in the "Investors" section of our website at www.tc.tc

Subsequent event: Transcontinental Inc. and Hearst Corporation have reached an agreement in principle for new terms and conditions to print the San Francisco Chronicle

Transcontinental Inc. and Hearst Corporation today reached an agreement in principle to amend the terms and conditions of the 15-year contract started July 2009 to print the *San Francisco Chronicle*. Under the new agreement, which will be effective January 1st, 2013, TC Transcontinental will receive a one-time cash payment of US$200 million from Hearst Corporation to compensate for price reductions on future services. TC Transcontinental will continue to print the *Chronicle* over the term of the agreement, receive payment for services and maintain ownership of the printing plant and equipment.

Given the new market reality in the San Francisco Area, the *Chronicle* will only require the use of up to two-thirds of the printing equipment under the original contract. As a result, the *Chronicle* will benefit from price reductions of approximately US$30 million per year from TC Transcontinental, over the remaining term of the agreement, to account for the upfront payment and the reduction in the use of the printing equipment.

The impact on the profitability of TC Transcontinental's Fremont, California plant will not be significant as the US$200 million upfront payment will be deferred and transferred to revenues over the remaining life of the contract and the Corporation will be able to reduce its cost base to compensate for the reduction in the use of the required printing equipment. Furthermore, TC Transcontinental will focus on using the available capacity for other potential customers.

"We are pleased to continue to foster our growing relationship with Hearst Corporation, not only in printing, but also in magazine publishing, with our *Elle* brand partnership in Canada, and in digital solutions with our advertising representation partnership," said François Olivier, president and CEO of Transcontinental Inc.

Other Highlights of Fiscal 2012

Strengthening core operations

For the Printing Sector, the acquisition of Quad/Graphics Canada, Inc., which was completed on March 1, 2012, should generate close to $200 million in annual revenues and a net increase in adjusted operating income before amortization of more than $40 million by the end of 2014, of which $11.4 million was realized in 2012. In the midst of this transaction, the Corporation began reorganizing its printing operations in Canada by ensuring the use of its most productive equipment. Moreover, black and white book printing operations were sold in 2012. A number of multi-year agreements with retail customers and with Rogers, valued at more than $1.75 billion, were renewed and expanded.

In fiscal 2012, the Media Sector expanded its content offering by acquiring or launching several community newspapers and purchasing, from its partners, all outstanding shares of the *Métro* Montréal newspaper. The introduction of the brand *Fresh Juice*, which offers food-related content on a number of different platforms, and the addition of Éditions Caractère to the portfolio of educational books for the general public, enhanced the catalogue of titles published by the Corporation. However, in the process of reviewing its brand portfolio and to channel its efforts toward the development of its leading multiplatform brands, the Corporation decided to stop publishing the *More* and *Vita* brands.

Development of new services

In 2012, TC Transcontinental added television production to its service offering. Several mobile apps were also developed for its own properties and those of its partners, namely *On the Table* and *P$ Mobile Service* for Stationnement de Montréal. The job search site JobGo.ca was also launched. In addition, the Corporation expanded its digital offering by signing numerous advertising representation agreements and partnerships and by acquiring Redux Media, a leading online advertising network. Through its innovation program, the Corporation introduced *Panoramax*, the largest promotional insert in Canada printed on high-volume presses.

Financial highlights

The adjusted net indebtedness ratio improved from 1.48x as at October 31, 2011 to 1.32x as at October 31, 2012. Under its share purchase program, as at October 31, 2012, the Corporation bought back 2,011,600 of its Class A Subordinate Voting Shares at a weighted average price of $8.86, for a total consideration of $17.8 million. Transcontinental Inc. also put in place a new five-year unsecured term-credit facility of $400 million which matures in February 2017. An amount of $194.9 million was drawn on this facility as at October 31, 2012.

Changes in the Board of Directors

On February 16, 2012, Rémi Marcoux stepped down as Chair of the Board of Transcontinental Inc., and was replaced by Isabelle Marcoux. Mr. Marcoux remains on the Board as a director. In September 2012, Alain Tascan, President and CEO of Sava Transmedia, which publishes and develops social games on mobile and online platforms, joined the Board. Ms. Marcoux was also recognized in early December 2012 for her strategic vision and leadership when she received the prestigious *Canada's Most Powerful Women: Top 100TM Award.*

Outlook

In fiscal 2013, the acceleration of synergies from the integration of the operations of Quad/Graphics Canada, Inc., optimization of the Media Sector structure and continuation of the marketing activation strategy which has enabled the Corporation to renew and expand contracts with key accounts in 2012, should enable it to improve its profitability in a fast-changing industry. These elements should offset the loss of Zellers, a major client who announced in 2012 that it will be closing all its stores by March 2013. The Corporation is also starting fiscal 2013 in an excellent financial position with a net indebtedness ratio of 1.32x. Also, given its planned investment of about $70 million in property, plant and equipment, it should also be generating considerable net cash flows, which will allow it to further reduce its indebtedness, invest in the development of new marketing services and strategic acquisitions, and return funds to its shareholders.

Reconciliation of Non-IFRS Financial Measures

Financial data have been prepared in conformity with IFRS. However, certain measures used in this press release do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many readers analyze our results based on certain non-IFRS financial measures because such measures are more appropriate for evaluating the Corporation's operating performance. Internally, Management uses such non-IFRS financial information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with IFRS.

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

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Reconciliation of Non-IFRS financial measures

(unaudited)

(in millions of dollars, except per share amounts)	Three months ended October 31 **2012**	2011	For fiscal years ended October 31 **2012**	2011
Net income (loss) applicable to participating shares	**$ (51.9)**	$ 30.8	**$ (183.3)**	$ 120.7
Dividends on preferred shares	**1.7**	1.7	**6.8**	6.8
Net loss (income) related to discontinued operations (after tax)	**0.3**	(27.6)	**7.4**	(28.6)
Non-controlling interests	**0.6**	0.1	**0.6**	0.9
Unusual adjustments to income taxes	**57.2**	-	**99.2**	-
Income tax expenses	**6.6**	5.2	**13.1**	31.5
Expenses related to long-term debt repayments	**-**	-	**-**	5.8
Financial expenses related to unusual adjustments to income taxes	**-**	-	**16.0**	-
Financial expenses	**7.8**	9.9	**30.5**	39.2
Gain on business acquisition	**(0.4)**	-	**(32.1)**	-
Impairment of assets	**51.2**	51.3	**232.0**	55.2
Restructuring and other costs	**23.3**	8.6	**55.0**	15.1
Adjusted operating income	**$ 96.4**	$ 80.0	**$ 245.2**	$ 246.6
Amortization	**27.4**	30.0	**112.4**	118.8
Adjusted operating income before amortization	**$ 123.8**	$ 110.0	**$ 357.6**	$ 365.4
Net income (loss) applicable to participating shares	**$ (51.9)**	$ 30.8	**$ (183.3)**	$ 120.7
Net loss (income) from discontinued operations (after tax)	**0.3**	(27.6)	**7.4**	(28.6)
Unusual adjustments to income taxes (after tax)	**57.2**	-	**99.2**	-
Expenses related to long-term debt repayments (after tax)	**-**	-	**-**	4.2
Financial expenses related to unusual adjustments to income taxes (after tax)	**-**	-	**16.0**	-
Gain on business acquisition (after tax)	**(0.4)**	-	**(32.1)**	-
Impairment of assets (after tax)	**39.9**	44.4	**202.6**	47.3
Restructuring and other costs (after tax)	**16.8**	6.9	**39.6**	11.7
Adjusted net income applicable to participating shares	**$ 61.9**	$ 54.5	**$ 149.4**	$ 155.3
Average number of participating shares outstanding	**80.0**	81.0	**80.7**	81.0
Adjusted net income applicable to participating shares per share	**$ 0.77**	$ 0.68	**$ 1.85**	$ 1.92

	As at October 31, 2012	As at October 31, 2011
Long-term debt	**$ 204.1**	$ 292.5
Current portion of long-term debt	**283.5**	271.9
Cash	**(16.8)**	(75.0)
Net indebtedness	**$ 470.8**	$ 489.4
Amount to be paid to Quad/Graphics following the closing of the transaction to acquire the shares of Quad/Graphics Canada	**-**	50.0
Adjusted net indebtedness	**$ 470.8**	$ 539.4
Adjusted operating income before amortization (last 12 months)	**$ 357.6**	$ 365.4
Net indebtedness ratio	**1.32x**	1.34x
Adjusted net indebtedness ratio	**1.32x**	1.48x

Dividends

At its December 6, 2012 meeting, the Corporation's Board of Directors declared a quarterly dividend of $0.145 per Class A Subordinate Voting Shares and Class B Shares. This dividend is payable on January 18, 2013 to participating shareholders of record at the close of business on December 31, 2012. On an annual basis, this represents a dividend of $0.58 per share. Furthermore, at the same meeting, the Board also declared a quarterly dividend of $0.4253 per share on cumulative 5-year rate reset first preferred shares, series D. This dividend is payable on January 15, 2013. On an annual basis, this represents a dividend of $1.6875 per preferred share.

Additional Information

Upon releasing its fiscal 2012 results, Transcontinental Inc. will hold a conference call for the financial community today at 4:15 p.m. The dial-in numbers are (514) 807-9895 or (647) 427-7450 or 1-888-231-8191 and the access code is: 86820766. Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on the Corporation's Web site, which will then be archived for 30 days. For media requests for information or interviews, please contact Nathalie St-Jean, Senior Advisor, Corporate External Communications of TC Transcontinental, at (514) 954-3581.

Profile

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

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

Forward-looking Statements

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

The forward-looking information in this release is based on current expectations and information available as at December 6, 2012. The Corporation's management disclaims any intention or obligation to update or revise any forward-looking statements unless otherwise required by the Securities Authorities.

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AMENDED MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended October 31, 2012

The purpose of this Management's Discussion and Analysis is to explain management's point of view on the past performance and future outlook of TC Transcontinental. More specifically, it is designed to give the reader a better understanding of our development strategy, performance in relation to objectives, future expectations and how Management addresses risk and manages financial resources. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes.

In this document, unless otherwise indicated, all financial data are prepared in accordance with International Financial Reporting Standards (IFRS). The term "dollar," as well as the symbol "$" designate Canadian dollars, unless otherwise indicated. Note 34 of the consolidated financial statements for the fiscal year ended October 31, 2012 presents a reconciliation of the differences between our financial statements prepared according to Canadian General Accepted Accounting Principles (« GAAP ») and those prepared using IFRS for the fiscal year ended October 31, 2011. In this Management's Discussion and Analysis we also use non-IFRS financial measures. Please refer to the section of this report entitled "Reconciliation of Non-IFRS Financial Measures" for a complete description of these measures, on page 12. This report should be read in conjunction with the information presented in the consolidated financial statements of income for the fiscal year ended October 31, 2012.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: credit risks, data security and utilization, market dynamics, liquidity, financing and operational risks; the strength of the North American economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, more particularly the U.S. dollar and the euro; the impact from raw material and energy prices; the seasonal and cyclical nature of certain businesses; the effects of changes in interest rates; the effects of competition in the markets in which we operate; the effects of new media and the corresponding shift of advertising revenues to new platforms; judicial judgments and legal proceedings; our ability to develop new opportunities through our strategy; our ability to hire and retain qualified personnel and maintain a good reputation; our ability to complete and integrate strategic transactions; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; infrastructure risks; the possible impact on our businesses from public health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in policies, technological changes and new regulations.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to TC Transcontinental, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf. See "Risks and Uncertainties" on page 16 in this Management's Discussion and Analysis for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on current expectations and information available as of December 6, 2012.

DEFINITION OF TERMS USED IN THIS REPORT

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

Terms Used	Definitions
Adjusted net income applicable to participating shares	Net income from continuing operations applicable to participating shares, before restructuring and other costs, asset depreciation and gain on business acquisition, and before expenses related to long-term debt prepayment (net of related income taxes) and unusual adjustments to income taxes and related financial expenses
Adjusted net indebtedness	Total of long-term debt plus current portion of long-term debt, less cash and the amount paid to Quad/Graphics upon conclusion of the transaction to acquire the shares of Quad/Graphics Canada
Adjusted net indebtedness ratio	Adjusted net indebtedness divided by the last 12 months' adjusted income before amortization
Adjusted operating income	Operating income from continuing operations before restructuring and other costs, asset depreciation and gain on business acquisition
Adjusted operating income before amortization	Operating income from continuing operations before amortization, restructuring, and other costs, asset depreciation and gain on business acquisition
Net income from continuing operations applicable to participating shares	Net income from continuing operations minus dividends on preferred shares and excluding discontinued operations
Net indebtedness	Total of long-term debt plus current portion of long-term debt plus the amount drawn on the securitization program less cash
Net indebtedness ratio	Net indebtedness divided by the last 12 months' adjusted income before amortization
Organic growth	Growth in revenues, adjusted operating income or net income applicable to participating shares excluding the effect of acquisitions and closures, as well as the effects of the exchange rates and paper

PROFILE OF TC TRANSCONTINENTAL

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

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

PREAMBLE

The consolidated financial statements and all financial data in this report have been restated to present net results from discontinued operations. The financial information disclosed herein thus represents the Corporation's continuing operations and, except for net income applicable to participating shares, excludes the results from our printing operations in Mexico and our black and white book printing business destined for U.S. export sold to Quad/Graphics, Inc. in September 2011, as well as the results from our black and white book printing operations at the Louiseville and Sherbrooke printing plants sold to Marquis Imprimeur Inc. in July 2012.

HIGHLIGHTS OF FISCAL 2012

- Revenues rose 6.2%, from $1,989.3 million in 2011 to $2,112.1 million in fiscal 2012.
- Adjusted operating income decreased 0.6%, from $246.6 million in 2011 to $245.2 million in 2012.
- Adjusted net income applicable to participating shares decreased 3.8%, from $155.3 million in 2011 to $149.4 million.
- The adjusted net indebtedness ratio improved in fiscal 2012, from 1.48x at October 31, 2011 to 1.32x at October 31, 2012.
- Completed the indirect acquisition of the shares of Quad/Graphics Canada, Inc., with its six printing plants and one premedia centre as well as successfully integrated its operations.
- Renewed and expanded multi-year agreements with several major accounts, for a total of more than $1.75 billion in revenues.
- Acquired a majority stake in Redux Media, a leading online advertising network, as well as all outstanding shares of our partners' of the newspaper *Métro* Montréal, to become the sole owner of this property and its interactive platforms.
- Sold the assets of our black and white book printing plants in Louiseville and Sherbrooke to Marquis Imprimeur Inc.
- Opened our television production studio and started broadcasting the morning show "Ça commence bien" on September 3, 2012.
- Announced the election by the Board of Directors of Isabelle Marcoux as Chair of the Board, replacing Rémi Marcoux, founder of Transcontinental Inc., who remains on the Board. Also announced the appointment of Alain Tascan, CEO of Sava Transmedia, to the Corporation's Board of Directors.
- In the second quarter of 2012, the Corporation was authorized to repurchase Class A Subordinate Voting Shares and Class B Shares for cancellation on the open market, between April 13, 2012 and April 12, 2013. In the fiscal year ended October 31, 2012, the Corporation redeemed 2,011,600 of its Class A Subordinate Voting Shares at a weighted average price of $8.86 for a total consideration of $17.8 million.

STRATEGY

From the very beginning, the mission of TC Transcontinental has been to enable businesses to attract, acquire and retain their target audiences while ensuring its own long-term growth and profitability and protecting the interests of the four pillars of the Corporation: its employees, customers, shareholders and the communities in which it operates.

The strategy is based on several fundamental principles: to be a leader in the markets served, to maintain a disciplined approach to acquisitions and financial management, and to instill a culture focused on innovation, respect, teamwork and performance. Over the years, TC Transcontinental has become a Canadian leader in marketing activation, which involves the creation of integrated campaigns that are based on knowledge of the consumer, driven by content and delivered on multiple media platforms through digital and interactive solutions as well as print products. Such programs meet customers' marketing challenges and are supported by their brand image and operational strengths.

Insight

TC Transcontinental makes use of multiple platforms to connect with Canadian consumers, in French and English, from coast to coast. Through its print media, online properties, social media, the partnerships it has formed and its advertising material distribution system, the Corporation reaches more than 23 million consumers. This gives TC Transcontinental access to a large number of databases that it can use to analyze consumer profiles, trends and behaviours. Analysis of consumer pre-purchase, purchase and post-purchase data is a key component of customer retention and loyalty programs. Given its platform reach and analytical capabilities, TC Transcontinental is ideally positioned to know what Canadian consumers want.

Content

TC Transcontinental has created awareness of its own brands, such as *Canadian Living, Coup de Pouce*, *Les Affaires* and *Style at Home*, among millions of Canadian consumers who rely on them for information, entertainment and advice. It has strong brands in targeted communities of interest, namely Business & Finance, Fashion & Lifestyle, Food & Cooking, Health & Wellness, Local Communities, Home & Garden, Leisure & Entertainment, Family Life, Senior Living, and Sports & Outdoor. TC Transcontinental also creates incisive and targeted content for its customers' brands. Quality content, in French and English, can be used in mass-marketing or personalized campaigns. Such content is supported by the power of paid media (mainly newspapers, magazines and TV), owned media (such as company magazines, websites and in-store promotional materials) and earned media (including Facebook, Twitter and blogs). In addition

to creating brand-related content, TC Transcontinental also offers a wide range of other services, including graphic design, photography, writing and video services.

Deployment

TC Transcontinental delivers content through traditional print media such as magazines, newspapers, books, retail flyers and marketing products. It also offers a full line of distribution services, from direct mail to door-to-door delivery (in Quebec, through Publisac). As a complement to more conventional methods, TC Transcontinental also delivers content through digital and interactive channels, such as email marketing, e-flyers, social media and promotional websites. And, since mobility and the adoption of smartphones is a rapidly expanding phenomenon that is revolutionizing traditional marketing approaches, TC Transcontinental also offers new forms of marketing communications, such as mobile apps, mobile couponing, mobile advertising and text messaging.

With its unique marketing activation strategy, TC Transcontinental plans to differentiate itself in industries that are undergoing an unprecedented transformation. The marketing communications market is oriented toward a "personalized" approach. Customers of these services are putting more and more emphasis on ROI and measurability. Campaigns have become more targeted and advertisers strive to establish and develop a special relationship with their target clientele. At the same time, the emergence of new media, digital platforms and changes in consumer behaviour, coupled with the increasing availability of data and technologies that allow for better data mining, have led to a fragmentation of audiences, personalization of content and the emergence of content generated by online users and communities. A number of trends are taking hold with increasing speed. This acceleration can particularly be seen in the rate of adoption of new media and the migration of the advertising dollar to online platforms.

The current transformation of the media and marketing industries has had profound impacts on the printing industry as a whole. Print products are still a key component of the media mix, but their growth is restricted by the growing importance of the above trends. The printers who will be able to profit from this evolving market are those who use state-of-the art technology to lower their productions costs, and who can offer a full line of cross-platform solutions.

In addition, certain macroeconomic factors, including the economic slowdown, the strengthening environmental and social awareness and globalization of markets all have an impact on our business.

As a whole, these new trends have started to have an impact on customers' demands and expectations. More and more customers are turning to personalized marketing, new platforms and the integrated services proposed by their providers. The Corporation plans to take full advantage of these trends through its marketing activation strategy.

SUSTAINABILITY

TC Transcontinental recognizes the critical nature of sustainability and has always taken steps to promote and incorporate sustainable development in its operations by mobilizing stakeholders, supporting innovation and publicizing its achievements. In February 2012, the Corporation thus tabled its third report, *Sustainability Report 2011 – Delivering on our commitment, based on the Global Reporting Initiative* (GRI) standard. This report articulates Transcontinental's commitment to the path of sustainable development around four themes:

- **People**: Invest in the well-being of our people and the community.
- **Environment**: Protect and restore ecosystems and optimize the use of resources.
- **Prosperity**: Protect Company value and invest in future growth.
- **Governance**: Maintain and enhance good governance.

For more information, please see the *Sustainability Report 2011 – Delivering on our commitment*, at www.transcontinental-ecodev.com.

ANALYSIS OF CONSOLIDATED RESULTS – FISCAL 2012

(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares	%
For fiscal 2011	**$ 1,989.3**		**$ 246.6**		**$ 120.7**	
Acquisitions/Closures	164.6	8.3 %	11.6	4.7 %	8.0	6.6 %
Existing operations						
Paper effect	1.4	0.1 %	0.4	0.2 %	0.3	0.2 %
Exchange rate effect	(3.8)	(0.2) %	(5.0)	(2.0) %	(3.2)	(2.7) %
Organic growth (negative)	(39.4)	(2.0) %	(8.4)	(3.4) %	(11.0)	(9.1) %
Discontinued operations					(36.0)	(29.8) %
Restructuring and other costs					(27.9)	(23.1) %
Impairment of assets					(155.3)	n/a
Gain on business acquisition					32.1	26.6 %
Expenses related to debt repayment					4.2	3.5 %
Financial expenses related to unusual adjustments to income taxes					(16.0)	(13.3) %
Unsual adjustments to income taxes					(99.2)	(82.2) %
For fiscal 2012	**$ 2,112.1**	**6.2 %**	**$ 245.2**	**(0.6) %**	**$ (183.3)**	**n/a**

Note: The favourable effect obtained by transferring some printing operations to the most productive equipment is henceforth presented on the « Organic growth » line in the above table except the volume obtained from the Quad/Graphics Canada, Inc. acquisition. The effect of these transfers was previously presented on the «Acquisitions/Closures » line.

As shown in the above table, certain factors had an impact on the differences in results for 2012 compared to those of 2011.

Revenues

Revenues rose 6.2%, from $1,989.3 million in 2011 to $2,112.1 million in fiscal 2012, primarily due to the following factors:

- The net effect of acquisitions and closures resulted in a $164.6 million increase in revenues, mainly due to the acquisition of de Quad/Graphics Canada, Inc. and Media Sector acquisitions.
- Organic revenue growth was negative at -$39.4 million, or -2.0%. This was mainly due to the completion of a major contract to print the five-year Canada census form in 2011, and incentives granted for early renewal of several major and long-termcontracts. The soft national advertising market and the end of the school reform in Quebec in 2011 also had a negative impact on Media Sector revenues. These decreases were, however, partially offset by the increase in our digital revenues.

Adjusted operating income

Adjusted operating income decreased 0.6%, from $246.6 million in fiscal 2011 to $245.2 million in fiscal 2012, due to the following:

- The net effect of acquisitions and closures led to an increase of $11.6 million in adjusted operating income due to the acquisition of Quad/Graphics Canada, Inc. and acquisitions in the Media Sector.
- Fluctuations in the Canadian and U.S. exchange rates resulted in a $5.0 million decrease in adjusted operating income. The decrease stems mainly from export sales net of the currency hedging program and purchases in U.S. dollars and the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency.
- Adjusted operating income was negative at -$8.4 million, or -3.4%, in fiscal 2012. This stems from the incentives granted for early renewal of several major long-term contracts, as well as the end of the Quebec school reform in 2011, which affected our educational book publishing division. In addition, the completion in 2011 of a major contract to print the five-year Canada census forms and a soft national advertising market also had a negative impact on organic growth. These items were partially offset by

better utilization of our printing network through the transfer of jobs to more productive equipment, and optimization of the operating structure for our digital operations in 2012.

Restructuring and other costs
In fiscal 2012, an amount of $55.0 million ($39.6 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring and other costs, of which $32.7 million related to workforce reductions, $11.3 million to multi-employer pension plans and $6.4 million to onerous contracts, i.e., operating leases for facilities no longer used by the Corporation, primarily related to the integration of the Quad/Graphics Canada, Inc. printing plants.

In fiscal 2011, an amount of $15.1 million ($11.7 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring and other costs. Of that amount, $9.4 million stemmed mainly from workforce reductions in the Printing Sector and $3.3 million from other costs incurred with respect to the acquisition and integration of Quad/Graphics Canada, Inc.

Asset impairment
In fiscal 2012, an asset impairment charge of $232.0 million ($202.6 million after tax) was recorded as a goodwill impairment related to certain groups of the Media Sector, which has no impact on cash flows. An impairment charge of $100.6 million was recorded in the Business and Consumer Solutions Group, stemming from the decline in national advertising and from the adoption in 2012 of new rates for 2010, 2011 and 2012 concerning contributions by businesses to cover costs incurred by Quebec municipalities for waste recovery services, which had a negative impact on operating costs, and hence on the operating income for this group. An impairment charge of $89.0 million was recorded in the Local Solutions Group due to the decline in national advertising, especially outside Quebec, and intensified competition in Quebec, which had an adverse impact on the operating income of this group. An impairment charge of $20.4 million was also recorded in the Educational Book Publishing Group stemming from the end of the educational reforms in Quebec's high school education program. Lastly, $20.7 million was accounted for separately on the Consolidated Statement of Income as an asset impairment related to the trade names of some Media Sector publications.

In fiscal 2011, an amount of $55.2 million before tax ($47.3 million after tax) was accounted for separately on the Consolidated Statement of Income as an asset impairment; most of this amount was due to a goodwill impairment in our Digital Solutions Group, as well as an asset impairment related to the trade names of some Media Sector publications.

Gain on business acquisition
In fiscal 2012, we recorded a gain on business acquisition of $32.1 million ($32.1 million after tax). This gain resulted from the recording of the transaction to acquire Quad/Graphics Canada, Inc. and the assessment that the estimated fair value of net assets acquired exceeded the consideration transferred.

Net financial expenses
Net financial expenses rose by $1.5 million in fiscal 2012, from $45.0 million in 2011 to $46.5 million in 2012. This increase is principally due to financial expenses related to unusual income tax adjustments of $16.0 million in the first quarter of 2012, offset by expenses associated with long-term debt repayments in the second quarter of 2011.

However, excluding the financial expenses associated with unusual income tax adjustments and long-term debt repayments, net financial expenses were down $8.7 million, from $39.2 million in 2011 to $30.5 million in 2012. This is because of a significant reduction in our adjusted net indebtedness and the weighted average interest rate of our debt portfolio compared to last year, due to optimization during the fiscal year.

Income taxes
Income taxes were up $80.8 million, from $31.5 million in fiscal 2011 to $112.3 million in fiscal 2012. This increase is due to a $57.2 million impairment charge of the carrying value of our U.S. deferred tax assets recorded in the fourth quarter of 2012, related to a lower activity of our operations in the United States. In addition, a charge of $42.0 million was recorded in the first quarter of 2012 related to notices of re-assessment. These items were, however, offset by lower income taxes related to the asset impairment charge recorded in fiscal 2012.

Excluding unusual adjustments, income taxes would have amounted to $57.9 million in fiscal 2012, for a tax rate of 27.0%, compared to $44.4 million, or 21.4%, in fiscal 2011 which is due to an adjustment for previous years, and also to the geographical distribution of the income before tax.

Net income applicable to participating shares
Net income applicable to participating shares fell from $120.7 million in fiscal 2011 to -$183.3 million for fiscal 2012. The decrease is mainly due to a $232.0 million ($202.6 million after tax) asset impairment charge, a $58.0 million ($58.0 million after tax) expense for the

re-assessment notices received from tax authorities, and a $57.2 million impairment charge of the carrying value of our U.S. deferred tax assets. On a per share basis, net income applicable to participating shares decreased from $1.49 to -$2.27.

Adjusted net income applicable to participating shares was down $5.9 million, or -3.8%, from $155.3 million in fiscal 2011 to $149.4 million in fiscal 2012. The decrease is related to the decrease in adjusted operating income and higher income taxes, partially offset by lower financial expenses. On a per share basis, it went from $1.92 to $1.85.

Discontinued operations

Net loss related to discontinued operations was -$7.4 million, net of related income taxes, in fiscal 2012. The loss stems primarily from the sale of our black and white book printing operations to Quad/Graphics, Inc. in September 2011 and to Marquis Imprimeur Inc. in July 2012, as well as an unfavourable adjustment related to a working capital price adjustment on the sale of our printing operations in Mexico, which were divested in fiscal 2011.

In fiscal 2011, a net loss related to discontinued operations of $28.6 million, net of related income taxes, was recorded, mainly related to a gain on the sale of our print operations in Mexico and our black and white book printing operations sold to Quad/Graphics, Inc. in September 2011.

ANALYSIS OF SECTOR RESULTS – FISCAL 2012

(unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment Eliminations and Other acitivities	Total
Revenues - Fiscal year ended October 31, 2011	**$ 1,374.4**	**$ 697.0**	**$ (82.1)**	**$ 1,989.3**
Acquisitions/Closures	128.2	36.4	-	164.6
Existing operations				
Paper effect	1.4	-	-	1.4
Exchange rate effect	(3.2)	(0.6)	-	(3.8)
Organic growth (negative)	(20.3)	(20.8)	1.7	(39.4)
Revenues - Fiscal year ended October 31, 2012	**$ 1,480.5**	**$ 712.0**	**$ (80.4)**	**$ 2,112.1**
Adjusted operating income (loss) - Fiscal year ended October 31, 2011	**$ 197.5**	**$ 61.5**	**$ (12.4)**	**$ 246.6**
Acquisitions/Closures	8.2	3.4	-	11.6
Existing operations				
Paper effect	-	0.4	-	0.4
Exchange rate effect	(4.3)	(0.7)	-	(5.0)
Organic growth (negative)	(1.8)	(10.3)	3.7	(8.4)
Adjusted operating income (loss) - Fiscal year ended October 31, 2012	**$ 199.6**	**$ 54.3**	**$ (8.7)**	**$ 245.2**

Note: The favourable effect obtained by transferring some printing operations to the most productive equipment is henceforth presented on the « Organic growth » line in the above table except the volume obtained from the Quad/Graphics Canada, Inc. acquisition. The effect of these transfers was previously presented on the «Acquisitions/Closures » line.

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

Printing Sector

Printing Sector revenues were up 7.7%, or $106.1 million, from $1.374.4 million in fiscal 2011 to $1,480.5 million in 2012. The increase is entirely due to the acquisition of Quad/Graphics Canada, Inc., which contributed $128.2 million. Excluding the effect of acquisitions, paper and the exchange rate, revenues were down $20.3 million, or -1.5%. This negative organic growth stems mainly from the completion of a major contract to print the five-year Canada census form in 2011, which generated about $18 million in revenues, and to incentives

granted for early renewal of several major long-term contracts. However, these items were partially mitigated by new book and retail flyer-printing contracts.

Adjusted operating income was up 1.1%, or $2.1 million, from $197.5 million in 2011 to $199.6 million in 2012. The slight increase stems mainly from the progressive synergies generated by the integration of the operations of Quad/Graphics Canada, Inc. Organic growth was negative at -$1.8 million, or -0.9% in fiscal 2012, due to the incentives granted for early renewal of several major long-term contracts and the completion in 2011 of the contract to print the five-year Canada census forms. These items were, however, considerably offset by the improvements in operational efficiency obtained by transferring print jobs to the most productive assets. Adjusted operating income was down in fiscal 2012, from 14.4% in 2011 to 13.5% in 2012, due to the contribution of the Quad/Graphics Canada, Inc. printing platform, which has an adjusted operating income margin that is significantly lower than that of TC Transcontinental. However, the rapid integration and accelerated synergies should improve the adjusted operating income margin in the next fiscal year.

Media Sector

Media Sector revenues rose from $697.0 million in fiscal 2011 to $712.0 million in fiscal 2012, up $15.0 million, or 2.2%, due to the strategic acquisitions of Redux Media and all outstanding shares of the *Métro* Montréal newspaper in fiscal 2012. Organic growth was negative at -20.8 million, or -3.0%, primarily due to the end of the school reform in Quebec in 2011, which had generated revenues of $7.5 million, and the decline in national advertising spending, which mainly affected our magazine publishing operations and our newspaper publishing activities outside Québec.

During this same period, adjusted operating income decreased -$7.2 million, or -11.7%, from $61.5 million in 2011 to $54.3 million in 2012. The decrease stems from organic growth of -$10.3 million, or -16.7%, directly related to the negative organic growth mentioned in the above paragraph, a $2.2 million charge recorded in our magazine publishing division following the adoption by the Quebec government of new rates for businesses for the 2010-2012 period to cover the costs incurred by Quebec municipalities for waste recovery services, and to investments to launch our television production house. However, this decrease was partially offset by a contribution of $3.4 million from acquisitions net of closures in fiscal 2012. The adjusted operating income margin was down, from 8.8% in 2011 to 7.6% in 2012.

Inter-segment elimination, other activities and Head Office

Eliminations of inter-segment revenues and other activities went from -$82.1 million for 2011 to -$80.4 million for 2012. The $1.7 million decrease is mainly due to a decrease in inter-segment transactions during this period. Adjusted operating income improved, from -$12.4 million for 2011 to -$8.7 million for 2012, primarily due to compensation received from Quad/Graphics, Inc. between the time we sold them our Mexican operations in September 2011 and the transaction to acquire the shares of Quad/Graphics Canada, Inc. was finalized on March 1, 2012, and due to lower head office expenses.

ANALYSIS OF CONSOLIDATED RESULTS – FOURTH QUARTER 2012

(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares	%
Fourth Quarter of 2011	**$ 521.6**		**$ 80.0**		**$ 30.8**	
Acquisitions/Closures	66.2	12.7 %	9.4	11.8 %	9.0	29.2 %
Existing operations						
Paper effect	(1.0)	(0.2) %	0.2	0.3 %	0.2	0.6 %
Exchange rate	(2.5)	(0.5) %	(2.3)	(2.9) %	(1.1)	(3.6) %
Organic growth (negative)	0.8	0.2 %	9.1	11.4 %	(0.7)	(2.3) %
Discontinued operations					(27.9)	(90.6) %
Restructuring and other costs					(9.9)	(32.1) %
Impairment of assets					4.5	14.6 %
Gain on business acquisition					0.4	1.3 %
Unsual adjustments to income taxes					(57.2)	n/a
Fourth Quarter of 2012	**$ 585.1**	**12.2 %**	**$ 96.4**	**20.5 %**	**$ (51.9)**	**n/a %**

Note: The favourable effect obtained by transferring some printing operations to the most productive equipment is henceforth presented on the « Organic growth » line in the above table except the volume obtained from the Quad/Graphics Canada, Inc. acquisition. The effect of these transfers was previously presented on the «Acquisitions/Closures » line.

As shown in the above table, certain factors had an impact on the differences in results for the fourth quarter of 2012 compared to those for the fourth quarter of 2011.

Revenues

Revenues rose from $521.6 million in the fourth quarter of 2011 to $585.1 million in the fourth quarter of 2012, up 12.2%, mainly due to the following elements:

- The net effect of acquisitions and closures resulted in a $66.2 million increase in revenues, primarily due to the acquisition de Quad/Graphics Canada, Inc. and acquisitions in the Media Sector.

- Organic revenue growth amounted to $0.8 million, primarily due to the contribution of new contracts in the Printing Sector and an increase in our educational book publishing activities in the Media Sector in the fourth quarter of 2012, partially offset by the incentives granted to major accounts for early renewal of long-term printing contracts.

Adjusted operating income

Adjusted operating income was up 20.5%, from $80.0 million in the fourth quarter of 2011 to $96.4 million in the fourth quarter of 2012, due to the following items:

- The net effect of acquisitions and closures increased adjusted operating income by $9.4 million, primarily due to the synergies generated by the integration of the operations of Quad/Graphics Canada, Inc., as well as Media Sector acquisitions.

- Fluctuations in the Canadian/U.S. dollar exchange rate resulted in a $2.3 million decrease in adjusted operating income. The decrease stemmed mainly from export sales, net of the currency hedging program.

- Organic growth in adjusted operating income was $9.1 million, or 11.4%, in the fourth quarter of 2012. The increase stems from the optimization of the operational structure of our digital operations, our educational book publishing operations and cost reductions in our newspaper publishing operations in Quebec.

Restructuring and other costs

In the fourth quarter of 2012, an amount of $23.3 million ($16.8 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring and other costs, of which $11.3 million is related to provisions for multi-employer plans and $9.4 million from workforce reductions related to the integration of the printing operations of Quad/Graphics Canada, Inc.

In the fourth quarter of 2011, an amount of $8.6 million ($6.9 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring and other costs, of which $5.2 million stemmed from workforce reductions.

Asset impairment

In the fourth quarter of 2012, an amount of $51.2 million ($39.9 million after tax) was accounted for separately on the Consolidated Statement of Income as an asset impairment, primarily related to a goodwill impairment of $30.0 million in our magazine publishing operations and of $20.7 million in the trade names of some publications in the Media Sector.

In the fourth quarter of 2011, an amount of $51.3 million ($44.4 million after tax) was accounted for separately on the Consolidated Statement of Income as an asset impairment related to Media Sector assets. Most of this amount was due to a goodwill impairment in our Digital Solutions Group, as well as an asset impairment related to the trade names of some Media Sector publications.

Net financial expenses

Net financial expenses were down $2.1 million in the fourth quarter of 2012, from $9.9 million in 2011 to $7.8 million in 2012. The decrease is primarily due to the reduction of our debt portfolio.

Income taxes

Income taxes rose from $5.2 million in the fourth quarter of 2011 to $63.8 million in the fourth quarter of 2012, mainly due to a $57.2 million impairment charge of the carrying value of our U.S. deferred tax assets recorded in the fourth quarter of fiscal 2012 related to a lower activity of our U.S. operations.

Excluding unusual adjustments, income taxes would have amounted to $24.4 million in the fourth quarter of 2012, for a tax rate of 27.5%, compared to $13.8 million, or 19.7%, in the fourth quarter of 2011. The increase is mainly due to the merger with Quad/Graphics Canada, Inc., and to a lesser extent, to the geographical distribution of the income before tax.

Net income applicable to participating shares

Net income applicable to participating shares fell from $30.8 million in the fourth quarter of 2011 to -$51.9 million in the fourth quarter of 2012. The decrease stems from a $57.2 million impairment charge of the carrying value of our U.S. deferred tax assets, and an adverse change of $27.9 million in net income related to discontinued operations. On a per share basis, net income applicable to participating shares dropped from $0.38 to -$0.65.

Adjusted net income applicable to participating shares was up $7.4 million, or 13.6%, from $54.5 million in the fourth quarter of 2011 to $61.9 million in the fourth quarter of 2012. The increase is related to the increase in adjusted operating income, offset by higher income taxes. On a per share basis, it went from $0.68 to $0.77.

Discontinued operations

A net loss related to discontinued operations of -$0.3 million, net of related income taxes, was recorded in the fourth quarter of 2012 related to adjustments in our black and white book printing business sold to Marquis Imprimeur Inc. in July 2012.

In the fourth quarter of 2011, net income related to discontinued operations of $27.6 million, net of related income taxes, was recorded, mainly due to a gain on the sale of our Mexican printing operations and our book printing operations sold to Quad/Graphics, Inc. in September 2011.

ANALYSIS OF SECTOR RESULTS – FOURTH QUARTER

(unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment Eliminations and Other acitivities	Consolidated Results
Revenues - Fourth Quarter of 2011	**$ 353.3**	**$ 191.0**	**$ (22.7)**	**$ 521.6**
Acquisitions/Closures	54.1	12.1	-	66.2
Existing operations				
Paper effect	(1.0)	-	-	(1.0)
Exchange rate effect	(2.1)	(0.4)	-	(2.5)
Organic growth (negative)	(3.1)	3.6	0.3	0.8
Revenues - Fourth quarter of 2012	**$ 401.2**	**$ 206.3**	**$ (22.4)**	**$ 585.1**
Adjusted operating income (loss) - Fourth quarter of 2011	**$ 57.6**	**$ 23.5**	**$ (1.1)**	**$ 80.0**
Acquisitions/Closures	7.8	1.6	-	9.4
Existing operations				
Paper effect	-	0.2	-	0.2
Exchange rate effect	(2.1)	(0.2)	-	(2.3)
Organic growth	0.9	5.4	2.8	9.1
Adjusted operating income - Fourth quarter of 2012	**$ 64.2**	**$ 30.5**	**$ 1.7**	**$ 96.4**

Note: The favourable effect obtained by transferring some printing operations to the most productive equipment is henceforth presented on the « Organic growth » line in the above table except the volume obtained from the Quad/Graphics Canada, Inc. acquisition. The effect of these transfers was previously presented on the «Acquisitions/Closures » line.

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

Printing Sector

Printing Sector revenues rose $47.9 million, or 13.6%, from $353.3 million in the fourth quarter of 2011 to $401.2 million in the fourth quarter of 2012. The increase stems from the acquisition of the operations of Quad/Graphics Canada, Inc. on March 1, which contributed $54.1 million to fourth quarter 2012 revenues. Organic growth was -$3.1 million, or -0.9%, mainly due to the incentives granted for early renewal of several major long-term contracts.

Adjusted operating income rose $11.5%, or $6.6 million, from $57.6 million in the fourth quarter of 2011 to $64.2 million in the fourth

quarter of 2012. The increase stems mainly from the acquisition of the operations of Quad/Graphics Canada, Inc. on March 1, 2012, which, due to the synergies generated, added $7.8 million to the sector's adjusted operating income in the fourth quarter of 2012. Organic growth amounted to $0.9 million, or 1.6%, largely because of the transfer of printing jobs to our most productive equipment.

The adjusted operating income margin was down, from 16.3% in the fourth quarter of 2011 to 16.0% in the fourth quarter of 2012. The decrease stems mainly from the lower margin contribution from the operations of Quad/Graphics Canada, Inc. and the incentives granted to major accounts for early renewal of long-term contracts. These items were, however, largely offset by the increased efficiency of our hybrid printing platform and the synergies generated with the integration of Quad/Graphics Canada, Inc.

Media Sector

Media Sector revenues were up $15.3 million, or 8.0%, from $191.0 million in the fourth quarter of 2011 to $206.3 million in the fourth quarter of 2012, mainly due to the contribution from the acquisitions such as Redux Media and the acquisition of all outstanding shares of *Métro* Montréal in fiscal 2012. Organic growth amounted to $3.6 million, or 1.9%, due to higher revenues in our educational book publishing division, partly offset by lower revenues from national advertising spending which affected our magazine publishing operations.

Adjusted operating income rose $7.0 million, or 29.8%, from $23.5 million in the fourth quarter of 2011 to $30.5 million in the fourth quarter of 2012. Organic growth amounted to $5.4 million, or 23.0%, while the adjusted operating margin rose from 12.3% in the fourth quarter of 2011 to 14.8% in 2012. These increases mainly result from the optimization of our digital and interactive operational structure, and cost-reduction measures in our newspaper distribution and publishing operations in Quebec. However, these growth elements were partly offset by lower revenues from national advertising.

Inter-segment eliminations, other activities and Head Office

Eliminations of inter-segment revenues and other activities went from -$22.7 million in the fourth quarter of 2011 to -$22.4 million in the fourth quarter of 2012. This change is mainly due to a decrease in inter-segment transactions during this period. Adjusted operating income went from -$1.1 million in the fourth quarter of 2011 to $1.7 million in the same period in 2012, primarily due to a decrease in head office expenses.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

(unaudited)

	2012				2011			
(in millions of dollars, except per share amounts)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenues	**$ 585**	**$ 517**	$ **522**	$ **488**	$ 522	$ 479	$ 486	$ 502
Adjusted operating income before amortization (1)	**124**	**79**	**84**	**71**	110	86	90	79
Adjusted operating income margin before amortization	**21.2 %**	**15.3 %**	**16.1** %	**14.5** %	21.1 %	18.0 %	18.5 %	15.7 %
Adjusted operating income (1)	**96**	**50**	**56**	**43**	80	57	61	49
Adjusted operating income margin	**16.4 %**	**9.7 %**	**10.7** %	**8.8** %	15.3 **%**	11.9 **%**	12.6 **%**	9.8 **%**
Net income applicable to participating shares	**$ (52)**	$ **8**	$ **(106)**	$ **(33)**	$ 31	$ 31	$ 33	$ 26
Per share	**(0.65)**	**0.10**	**(1.31)**	**(0.41)**	0.38	0.38	0.41	0.32
Adjusted net income applicable to participating shares (1)	**61**	**25**	**36**	**27**	54	33	39	29
Per share	**0.77**	**0.31**	**0.44**	**0.33**	0.68	0.40	0.48	0.36
% of fiscal year	**41 %**	**17 %**	**24**	**18** %	35 **%**	21 **%**	25 **%**	19 %

(1) Please refer to the section "Reconciliation of non-IFRS Financial Measures" on page 12 of this Management's Discussion and Analysis.

The above table shows changes in our quarterly results for the past eight quarters. The Quad/Graphics Canada, Inc. acquisition contributed to revenues as of the second quarter of 2012, and had a more significant impact on adjusted operating income in the fourth quarter of 2012 due to the synergies generated with the integration. However, completion of the contract to print the five-year Canada census forms affected our fourth-quarter revenues in 2011 and in the first and second quarters of 2012 versus the corresponding quarter of the previous fiscal year. Optimization of the operational structure in our digital operations and cost reductions in our newspaper publishing operations in Quebec also had a positive impact on adjusted operating income as of the fourth quarter of 2012. Lastly, fourth quarter results are higher than other quarters since our customers' marketing spending is normally higher in the fall.

RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

Financial data have been prepared in conformity with IFRS. However, certain measures used in this report do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many readers analyze our results based on certain non-IFRS financial measures because such measures are normalized for evaluating the Corporation's operating performance. Internally, Management uses such non-IFRS financial information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with IFRS. The following table reconciles IFRS financial measures to non-IFRS financial measures.

(unaudited)

	Three months ended October 31		For fiscal years ended October 31	
(in millions of dollars, except per share amounts)	**2012**	2011	**2012**	2011
Net income (loss) applicable to participating shares	**$ (51.9)**	$ 30.8	**$ (183.3)**	$ 120.7
Dividends on preferred shares	**1.7**	1.7	**6.8**	6.8
Net loss (income) related to discontinued operations (after tax)	**0.3**	(27.6)	**7.4**	(28.6)
Non-controlling interests	**0.6**	0.1	**0.6**	0.9
Unusual adjustments to income taxes	**57.2**	-	**99.2**	-
Income tax expenses	**6.6**	5.2	**13.1**	31.5
Expenses related to long-term debt repayments	**-**	-	**-**	5.8
Financial expenses related to unusual adjustments to income taxes	**-**	-	**16.0**	-
Financial expenses	**7.8**	9.9	**30.5**	39.2
Gain on business acquisition	**(0.4)**	-	**(32.1)**	-
Impairment of assets	**51.2**	51.3	**232.0**	55.2
Restructuring and other costs	**23.3**	8.6	**55.0**	15.1
Adjusted operating income	**$ 96.4**	$ 80.0	**$ 245.2**	$ 246.6
Amortization	**27.4**	30.0	**112.4**	118.8
Adjusted operating income before amortization	**$ 123.8**	$ 110.0	**$ 357.6**	$ 365.4
Net income (loss) applicable to participating shares	**$ (51.9)**	$ 30.8	**$ (183.3)**	$ 120.7
Net loss (income) from discontinued operations (after tax)	**0.3**	(27.6)	**7.4**	(28.6)
Unusual adjustments to income taxes (after tax)	**57.2**	-	**99.2**	-
Expenses related to long-term debt repayments (after tax)	**-**	-	**-**	4.2
Financial expenses related to unusual adjustments to income taxes (after tax)	**-**	-	**16.0**	-
Gain on business acquisition (after tax)	**(0.4)**	-	**(32.1)**	-
Impairment of assets (after tax)	**39.9**	44.4	**202.6**	47.3
Restructuring and other costs (after tax)	**16.8**	6.9	**39.6**	11.7
Adjusted net income applicable to participating shares	**$ 61.9**	$ 54.5	**$ 149.4**	$ 155.3
Average number of participating shares outstanding	**80.0**	81.0	**80.7**	81.0
Adjusted net income applicable to participating shares per share	**$ 0.77**	$ 0.68	**$ 1.85**	$ 1.92

	As at October 31, 2012	As at October 31, 2011
Long-term debt	**$ 204.1**	$ 292.5
Current portion of long-term debt	**283.5**	271.9
Cash	**(16.8)**	(75.0)
Net indebtedness	**$ 470.8**	$ 489.4
Amount to be paid to Quad/Graphics following the closing of the transaction to acquire the shares of Quad/Graphics Canada	**-**	50.0
Adjusted net indebtedness	**$ 470.8**	$ 539.4
Adjusted operating income before amortization (last 12 months)	**$ 357.6**	$ 365.4
Net indebtedness ratio	**1.32x**	1.34x
Adjusted net indebtedness ratio	**1.32x**	1.48x

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES – FISCAL YEAR

(unaudited)

(in millions of dollars)		2012		2011
Operating activities				
Cash flow from continuing operations before changes in non-cash operating items and income tax paid	**$**	**320.8**	$	373.0
Changes in non-cash operating items		**(43.8)**		(21.7)
Income tax paid		**(48.0)**		(19.5)
Cash flow related to operating activities of continuing operations	**$**	**229.0**	$	331.8
Investing activities				
Business acquisitions	**$**	**(60.4)**	$	(35.8)
Acquisitions of property, plant and equipment, net of disposals		**(33.7)**		(44.6)
Acquisitions of intangible assets		**(22.0)**		(17.5)
Cash flow related to investing activities of continuing operations	**$**	**(116.1)**	$	(97.9)
Financing activities				
Reimbursement of long-term debt	**$**	**(89.8)**	$	(168.7)
Net increase in revolving term credit facility		**11.4**		4.4
Financial expenses on long-term debt		**(26.1)**		(30.5)
Expenses related to debt repayment		**-**		(4.4)
Interest on tax contingencies paid		**(8.1)**		-
Issuance of participating shares		**0.5**		0.2
Redemption of participating shares		**(17.3)**		-
Dividends on participating shares		**(46.0)**		(39.7)
Dividends on preferred shares		**(6.8)**		(6.8)
Bond forward		**-**		(6.0)
Cash flow related to financing activities of continuing operations	**$**	**(182.2)**	$	(251.5)

Financial position		**As at October 31, 2012**		As at October 31, 2011
Adjusted net indebtedness [(1)]	**$**	**470.8**	$	539.4
Adjusted net indebtedness ratio [(1)]		**1.32x**		1.48x
Credit rating				
DBRS		**BBB**		BBB high
		Negative		Stable
Standard and Poor's		**BBB**		BBB
		Negative		Stable

[(1)] Please refer to the section "Reconciliation of non-IFRS Financial Measures" on page 12 of this Management's Discussion and Analysis.

Cash Flow Related to Continuing Operations

Cash flow from operating activities before changes in non-cash operating items and income tax paid decreased from $373.0 million in 2011 to $320.8 million in 2012, mainly due to higher restructuring costs and a decrease in our adjusted operating income before amortization. Furthermore, changes in non-cash operating items led to a cash outflow of $43.8 million in 2012, compared to $21.7 million in 2011. We also had a cash outflow of $48.0 million for income taxes in 2012, compared to $19.5 million in 2011, including $23.5 million related to the re-assessment notices received early in fiscal 2012, which are being contests. Consequently, cash flow from operating activities decreased, leading to a cash inflow of $229.0 million in 2012, compared to $331.8 million in 2011.

Cash Flow Related to Investing Activities of Continuing Operations

Our business acquisitions and our investments in tangible and intangible assets, net of disposals, rose from $97.9 million in fiscal 2011 to $116.1 million in 2012. This increase is due to the $47.1 million we paid upon closing the transaction to indirectly acquire all of the shares of Quad/Graphics Canada, Inc., partially offset by a reduction in property, plant and equipment expenses.

Cash Flow Related to Financing Activities of Continuing Operations

In fiscal 2012, we paid $46.0 million in dividends on participating shares and $6.8 million on preferred shares compared to $39.7 million and $6.8 million respectively in fiscal 2011. The dividends paid on participating shares rose due to the increase announced in March 2012, which raised the quarterly dividend from $0.135 in the third quarter of 2011 to $0.145 in 2012. Also, in the fiscal year ended October 31, 2012, we spent $17.3 million on our share buyback program.

Debt Instruments

At October 31, 2012, the adjusted net indebtedness ratio stood at 1.32x (1.48x at October 31, 2011). The cash flows generated combined with the reduction in our investments in tangible and intangible assets were partially offset by costs related to the integration of Quad/Graphics Canada, Inc., which led to a decrease in the adjusted net indebtedness from $539.4 million at October 31, 2011 to $470.8 million at October 31, 2012.

In the second quarter of 2012, we announced a new five-year unsecured term-credit facility of $400.0 million, which matures in February 2017, of which an amount of $194.9 million was drawn as at October 31, 2012. It should be noted that this portion is classified as current liabilities under IFRS due to the characteristics of this debt.

In fiscal 2013, senior unsecured notes will mature in December 2012 for an amount of US$75.0 million (C$74.9 million), which will be repaid through our term credit facility. Lastly, our securitization program, which was unused at October 31, 2012, will mature in February 2013 and the Corporation does not plan to renew it.

Contractual Obligations and Business Commitments

Contract type (in millions of dollars)	2013	2014	2015	2016	2017	2018 and thereafter	Total
Long term debt	$ 283.5	$ 80.4	$ 63.5	$ 10.8	$ 0.6	$ 51.7	$ 490.5
Other commitments	37.3	33.4	32.0	30.3	27.9	84.9	245.8
Total commitments	$ 320.8	$ 113.8	$ 95.5	$ 41.1	$ 28.5	$ 136.6	$ 736.3

Share Capital

In the second quarter of 2012, the Corporation was authorized to purchase for cancellation on the open market, between April 13, 2012 and April 12, 2013, up to 3,295,096 of its Class A Subordinate Voting Shares, representing 5% of the 65,901,932 issued and outstanding Class A Subordinate Voting Shares as of April 2, 2012, and up to 757,561 of its Class B Shares, representing 5% of the 15,151,235 issued and outstanding Class B Shares as of April 2, 2012. In accordance with the Toronto Stock Exchange requirements, the maximum daily purchase is 23,975 Class A Subordinate Voting Shares and a total of 1,000 Class B Shares. The purchases are made in the normal course of business at market prices through the facilities of the Toronto Stock Exchange and/or alternative Canadian trading platforms in accordance with the requirements of the exchange. In the fiscal year ended October 31, 2012, the Corporation redeemed 2,011,600 of its Class A Subordinate Voting Shares at a weighted average price of $8.86, for a total cash consideration of $17.3 million and an amount payable of $0.5 million, mostly in fourth quarter of 2012. The excess of the total consideration paid over the book value of the shares, an amount of $6.8 million, was accounted for as a reduction in retained earnings.

No Class B Shares were purchased in fiscal 2012. The change in Class B Shares in fiscal 2012 is due to the conversion of 145,619 of these shares into Class A Shares.

The following table provides data on shares issued and outstanding at October 31, 2012 and at November 30, 2012 :

Shares Issued and Outstanding	At October 31, 2012	At November 30, 2012
Class A (Subordinate Voting Shares)	64,056,651	63,190,951
Class B (Multiple Voting Shares)	15,005,616	15,005,616
Series D Preferred (with rate reset)	4,000,000	4,000,000

FUTURE CHANGES IN ACCOUNTING POLICIES

The following new accounting standards were not early adopted by the Corporation. The Corporation is currently evaluating the impact of these new standards on its consolidated financial statements.

Financial instruments
In October 2010, the IASB issued IFRS 9, "Financial Instruments", the first part of a three-part project to replace IAS 39, "Financial Instruments: Recognition and Measurement" and IFRIC 9, "Reassessment of Embedded Derivatives". This first part covers classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting will be addressed in the other two parts.

In order to determine whether a financial asset should be measured at amortized cost or fair value, IFRS 9 uses a single approach that replaces the multiple measurement and category models established by IAS 39. Under IFRS 9, determination is based on how an entity manages its financial instruments and the characteristics of the contractual cash flows of its financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward to IFRS 9. However, requirements concerning measurement of financial liabilities at fair value have changed; the portion of changes in fair value related to the entity's own credit risk must be presented in other comprehensive loss rather than in the Consolidated Statement of Income (Loss). IFRS 9 will apply to annual periods beginning on or after January 1, 2015, and earlier application is permitted.

Consolidated financial statements
In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", intended to replace IAS 27, "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation - Special Purpose Entities". IFRS 10 defines the concept of control as the determining factor in whether an entity should be included in the basis of consolidation in another entity's consolidated financial statements. IFRS 10 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Joint arrangements
In May 2011, the IASB issued IFRS 11, "Joint Arrangements", intended to replace IAS 31, "Interests in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-monetary Contributions by Venturers". IFRS 11 deals with the contractual rights and obligations inherent in a joint arrangement, rather than the legal form of the arrangement. IFRS 11 eliminates the election to use the proportionate consolidation method when recognizing interests in jointly controlled entities, and requires use of the equity method. IFRS 11 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Currently, the Corporation uses the proportionate consolidation method to recognize interests in joint ventures, but will have to apply the equity method under IFRS 11. Under this method, the Corporation's share of the net assets, net income (loss) and other comprehensive income (loss) in the joint ventures will be presented in a single line item in the Consolidated Statement of Financial Position, the Consolidated Statement of Income (Loss) and the Consolidated Statement of Comprehensive Income (Loss), respectively.

Disclosure of interests in other entities
In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities". IFRS 12 complements the disclosure requirements concerning interests that an entity holds in subsidiaries, joint ventures, associates and consolidated structured entities. The standard requires an entity to disclose information regarding the nature and risks associated with all its interests in other entities and the effect of those interests on its financial position, financial performance and cash flows. IFRS 12 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Fair value measurement
In May 2011, the IASB issued IFRS 13, "Fair Value Measurement". IFRS 13 improves consistency and reduces complexity by providing a specific definition of fair value. IFRS 13 therefore replaces the guidance on measurement of fair value contained in individual IFRS with a

single source of guidance on all measurements of fair value. IFRS 13 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Employee benefits

In June 2011, the IASB issued an amended version of IAS 19, "Employee Benefits", in order to reflect significant changes in the recognition and measurement of the defined benefit pension expense and termination benefits. Under the amended IAS 19, use of the "corridor" approach, under which the recognition of actuarial gains and losses could be deferred, has been eliminated. The amended IAS 19 introduces a new approach to calculating and presenting net interest expense on defined benefit liabilities (assets), under which the return on the asset will be identical to the rate used to discount the liability. The amended IAS 19 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Financial Instruments: Offsetting financial assets and liabilities

In December 2011, the IASB issued amended versions of IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation", to clarify the requirements for offsetting financial instruments and to require new disclosures on the effect of offsetting arrangements on an entity's financial position. The amended IFRS 7 will be applied retrospectively for annual periods beginning on or after January 1, 2013. The amended IAS 32 will be applied retrospectively for annual periods beginning on or after January 1, 2014, and earlier application is permitted.

RISKS AND UNCERTAINTIES

The Corporation continually manages its exposure to certain market-related risks in its normal operations. As a result, Management continually reviews overall controls and preventive measures to ensure they are better matched to significant risks to which the Corporation's operating activities are exposed. A report on its risk-management program is reviewed regularly by the Audit Committee.

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

Operational Risks

Economic Cycles

A significant risk that the Corporation faces, and which it has difficulty controlling, is related to economic cycles, including the risk of economic recession. As well, more than 80% of the Corporation's operating revenues depend, directly or indirectly, on retailers' advertising budgets. Advertising spending by advertisers tends to be cyclical, reflecting the global economic climate and consumers' buying habits.

However, the Corporation believes it mitigates this risk through the very composition of its operations, since a substantial segment of the client base operates in less cyclical markets, such as food and personal care. Furthermore, in the Media Sector, the Corporation relies on a good balance between local and national advertising. It should be noted that in recent years close to half the advertising revenue in this sector has come from local advertising, which is less affected than national advertising in periods of economic slowdown. Lastly, because it has implemented a development strategy based on becoming a leader in its niches, the Corporation believes it can limit its exposure to economic cycles without, however, eliminating their occurrence or magnitude.

Competition and New Markets

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

On the media side, some of the more traditional niches experienced greater competition in 2012. Other media (television, radio, Internet and other communication or advertising platforms), whether general or specialized, compete with the Corporation's magazines, newspapers, Internet sites and complementary communication platforms for advertising space sales, as well as subscription and newsstand sales in some cases. In addition, the availability in Canada of a number of magazines published by U.S. and international publishers also creates competition for the Corporation's magazines. To mitigate this risk, the Corporation continues to focus on continuous improvement programs, cost-reduction initiatives and developing new digital and print products and services in order to

broaden its integrated service offer to local and national businesses. The Corporation has thus instituted a total multi-service strategy so that its existing and future customers have more direct access to all of its services.

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

Operational Efficiency

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

Regulation

The Corporation is subject to many regulations that may be amended by municipal, provincial or federal authorities. Any changes to these regulations could result in a material increase in costs for the Corporation if it must comply by increasing its workforce, enhancing compensation and employee benefits, or investing in raw materials or new or improved equipment. Thus, Quebec's Bill 88 amending the Environment Quality Act and the Regulation respecting compensation for municipal services was adopted on June 10, 2011 and received assent on June 13, 2011. The contribution by businesses to cover waste-recovery costs incurred by Quebec municipalities will thus rise from 80% in 2011 to 100% in 2013. Similarly, the Corporation must ensure its procedures and communications comply with federal Bill C-28 regulating massive mailings of commercial electronic messages; the bill received assent on December 15, 2010 and came into force in January 2012.

Geographic Distribution and Exchange Rate

In fiscal 2012, revenues generated outside Canada accounted for 10.7% of consolidated revenues, compared to 11.6% in 2011. This decrease is due mainly to the increase in sales generated in Canada through the acquisition of the printing operations of Quad/Graphics Canada, Inc. since the volume of exports to the United States and revenues from U.S. entities was relatively stable in comparison to 2011.

The currency-hedging program uses derivatives to protect the Corporation from the risk of short-term currency fluctuations. Moreover, the Corporation 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.

Dependence on Information Systems

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

Recruiting and Keeping Talent

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

Impairment Tests

The Corporation conducts impairment tests that could lead to reductions in asset values and as a result have an unfavourable impact on shareholders' equity. Under International Financial Reporting Standards (IFRS), the Corporation must regularly test the impairment of long-term assets to determine whether the value of the asset in question has decreased. Any asset devaluation from impairment testing reduces the net income applicable to participating shares but has no major impact on conformity with the debt ratio the Corporation must respect under the terms of its current credit facilities, nor on its borrowing power.

Confidential Information, Privacy and Copyright

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

Furthermore, it is possible that some of the Corporation's activities could infringe on the privacy of users and others. It is also possible that some copyright rules could be contravened with the publication of different types of content in the various media used by the Corporation. While it has introduced strict controls in this area, practices with respect to the collection, use, disclosure or security of personal information or other related confidentiality issues could damage its reputation.

Integration of Acquisitions and Reorganization

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

The transaction to acquire all outstanding shares of Quad/Graphics Canada, Inc was approved by regulators in early 2012. The first phase of the plan to integrate these operations was completed in fiscal 2012 and was carried out as planned. The integration will continue over the next two fiscal years. It is always possible that this integration could result in the potential loss of contracts and/or customer relationships, to temporary disruptions in production or to problems retaining key employees. Also, the anticipated synergies could fail to completely materialize, or could take more time than expected to materialize. However, to limit this risk, the Corporation has experienced due diligence teams and rigorous integration methods and believes that it is in a position to generate synergies from the integration of these operations because of the major investments made in recent years in its Printing Sector.

Loss of Reputation

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

Risks Related to Government Subsidies

The Corporation benefits from certain government subsidy programs for magazines, books and television production. Any change in the rules for applying these government programs in the future could have a material impact on the Corporation's operating results.

Raw Materials and Energy Prices

The primary raw materials used by the Corporation's Printing Sector are paper, ink and plates. Printing activities consume energy, i.e., electricity, natural gas and oil. Fluctuations in raw materials and energy prices affect its operations.

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

Environmental Risks

The Corporation operates in two industries, printing and publishing, which use large quantities of paper for their day-to-day operations. Consumers are expressing mounting concern over the protection of the environment as well as sustainable development. Also, the amendments introduced when the Quebec government passed Bill 88 could have an adverse impact on the Media Sector, and more specifically on the Local Solutions Group and the Business and Consumer Solutions Group. To mitigate this risk, the Corporation tries to be at the forefront of its industry in terms of commitment to the environment and, in collaboration with its suppliers, is looking on an ongoing basis to reduce its costs. Please refer to the Sustainability section in this Management's Discussion and Analysis for further details.

Financial Risks

Availability of Capital and Use of Financial Leverage

At October 31, 2012, an amount of $194.9 million was drawn on the $400.0 million revolving credit facility which matures in February 2017. Senior unsecured notes for US$75.0 million (C$74.9 million) will also mature in December 2012. This risk is mitigated by the fact that the Corporation is in a very good financial position, with an adjusted net indebtedness ratio of 1.32x. In addition, the Corporation's financial position should improve further, due to the considerable cash flows which will again be generated in the next fiscal year, since capital expenditures will be limited to $70 million. Also, the $200.0 million receivables securitization program also matures in February 2012. This program was unused at October 31, 2012 and will likely not be renewed.

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due, or that it will be able to meet them, but at an excessive cost. The Corporation and its subsidiaries ensure there is sufficient cash flow from operating activities and sufficient financing sources available to meet future cash requirements for long-term investments, working capital, interest and debt payments, pension fund contributions, dividends and share repurchases, as applicable.

Interest Rate

The Corporation is exposed to market risks related to interest-rate fluctuations. At the end of fiscal 2012, considering the derivative financial instruments used, the fixed rate portion of the Corporation's long-term debt represented 67% of the total, while the floating rate portion represented 33% (81% and 19%, respectively, at October 31, 2011). The fixed rate portion of the debt decreased when interest rate swaps matured in September 2011 for an amount of $125.0 million. The floating rate portion of the debt bears interest at rates based on LIBOR or bankers' acceptance rates. In order to mitigate this risk the Corporation tries to keep a good balance of fixed versus floating rate debt.

Credit

The volatile economic conditions could have an impact on the availability of capital in general, but also more specifically in certain vulnerable niches. To limit this risk, the Corporation is maintaining its strict controls on receivables and senior management is putting greater emphasis on analyzing and reviewing the financial health of its customers; rigorous evaluation procedures are applied to all new customers. A specific credit limit is established for each customer and reviewed periodically by the Corporation. As well, the Corporation is protected against any concentration of credit risk through its products, clientele and geographic diversity. As at October 31, 2012, the maximum exposure to credit risk related to receivables is the carrying amount. The Corporation also has a credit insurance policy covering most of its major customers, for a maximum amount of $20.0 million, which ends on April 30, 2013. The policy contains the usual clauses and limits regarding the amounts that can be claimed by event and year of coverage.

Pension Plans

At October 31, 2012, almost all of TC Transcontinental's active employees were participating to defined contribution pension plans. As a result, the Corporation has no obligation beyond its current contribution to these plans. However, the risks related to the benefits earned through the defined benefit pension plans that were in place prior the 2010 migration to the defined contribution plans are still assumed by the Corporation. Also, the active employees of the recently acquired Quad/Graphics Canada, Inc., participate to defined benefit pension plans. Pension funding is based on actuarial estimates and is subject to limitations under applicable income tax and other regulations. Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels to the time of retirement and the anticipated long-term rate of return on pension plan assets. Accrued benefit obligation, fair value of plan assets and plan asset composition are measured at the date of the annual financial statements. The most recent actuarial valuation of the pension plans for funding purposes was made as of December 31, 2011. The actuarial funding valuation report determines the amount of cash contributions that the Company is required to make to the registered retirement plans. The December 31, 2011 funding report showed the registered retirement plans to be in a solvency deficit position. Consequently, the Corporation will be required to increase its cash funding contributions during the next fiscal year. If the financial markets or interest rates drop significantly again, the Corporation would likely be required to further increase its cash funding contributions.

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

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

Strategic Risks

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

To limit this risk, the Corporation has been shifting its focus towards the digital market through its Media Sector. The Corporation has targeted development areas in its strategy for digital media and interactive solutions in order to position itself as a content creator and to deliver on new interactive or digital platforms.

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

Control Held
At October 31, 2012, Capinabel inc., a company controlled by Rémi Marcoux, directly or indirectly held 16.9% of shares outstanding and 72.6% of voting rights attached to the equity shares outstanding of Transcontinental Inc. Given the controlling stake of this shareholder, it is possible that in some situations the interests of the controlling shareholder might not correspond to the interests of other Transcontinental Inc. equity shareholders.

Conclusion on Risks and Uncertainties
The Corporation is pursuing its strict approach to risk management, remaining alert to any new risk or change in an existing risk which could affect its operations and ensuring effective implementation of existing controls. Management will continue its stringent approach to risk prevention, risk control and planning for business continuity, taking proactive steps to encourage business units to prevent risk, manage organizational change and recover efficiently from unexpected events.

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

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

The President and Chief Executive Officer and the Chief Financial and Development Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures as at October 31, 2012, have concluded that the Corporation's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Corporation and its subsidiaries would have been known to them.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As at October 31, 2012, Management excluded Quad/Graphics Canada, Inc. from its internal review of financial controls, as permitted by the Autorité des marchés financiers (AMF) in the first year after acquisition. At the time of the acquisition, Quad/Graphics Canada, Inc. had six printing plants, a premedia centre and close to 1000 employees. The following table provides additional information about this acquisition:

Balance Sheet	At October 31, 2012
Current assets	$46.3M
Non-current assets	$173.8M
Current liabilities	$31.6M
Non-current liabilities	$74.3M

Income Statement	Fiscal Year Ended October 31, 2012
Revenues	$133.7M
Adjusted operating income	$9.0M

Please refer to Note 26 in the annual consolidated financial statements for fiscal 2012 for supplementary information about the acquisition of Quad/Graphics Canada, Inc.

In the fiscal year ended October 31, 2012, except for the information provided above, no change that has materially affected or is reasonably likely to materially affect internal control over financial reporting was brought to the attention of Management, including the President and Chief Executive Officer, and the Chief Financial and Development Officer of the Corporation.

Management evaluated the effectiveness of internal controls with respect to financial information at October 31, 2012, and based on that evaluation has determined that internal control over financial information was effective.

SUBSEQUENT EVENT

Renegotiation of the agreement with Hearst Corporation

On December 6, 2012, the Corporation announced the renegotiation of its agreement with Hearst Corporation to print the *San Francisco Chronicle*. The Corporation will receive in January 2013 an amount of US$200.0 million in consideration for price reductions on the remaining term of the contract. The amount received will be recognized as deferred revenues and transferred to revenues based on the remaining term of the contract.

OUTLOOK

In fiscal 2013, the acceleration of synergies from the integration of the operations of Quad/Graphics Canada, Inc., the optimization of the Media Sector structure and the continuation of our marketing activation strategy which has enabled us to renew and expand contracts with key accounts in 2012, should enable us to improve our profitability in a fast-changing industry. These elements should offset the loss of Zellers, a major client who announced in 2012 that it will be closing all its stores by March 2013. We are also starting fiscal 2013 in an excellent financial position with a net indebtedness ratio of 1.32x. Also, given our planned investment of about $70 million in property, plant

and equipment, we should also be generating considerable net cash flows, which will allow us to further reduce our indebtedness, invest in the development of new marketing services and strategic acquisitions, and return funds to our shareholders.

On behalf of Management,

(s) Nelson Gentiletti
Chief Financial and Development Officer

December 6, 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Transcontinental Inc.

We have audited the accompanying consolidated financial statements of Transcontinental Inc., which comprise the consolidated statements of financial position as at October 31, 2012, October 31, 2011 and November 1, 2010, the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years ended October 31, 2012 and October 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Transcontinental Inc. as at October 31, 2012, October 31, 2011 and November 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended October 31, 2012 and October 31, 2011 in accordance with International Financial Reporting Standards.

KPMG LLP*

December 6, 2012

Montréal, Canada

*FCPA auditor, FCA, public accountancy permit No. A106087

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years ended October 31, 2012 and 2011
(in millions of Canadian dollars, except per share data)

	Notes	2012	2011
Revenues		**$ 2,112.1**	$ 1,989.3
Operating expenses	4	**1,754.5**	1,623.9
Restructuring and other costs	19	**55.0**	15.1
Impairment of assets	5	**232.0**	55.2
Gain on business acquisition	26	**(32.1)**	-
Operating income before amortization		**102.7**	295.1
Amortization	6	**112.4**	118.8
Operating income (loss)		**(9.7)**	176.3
Net financial expenses	7	**46.5**	45.0
Income (loss) before income taxes		**(56.2)**	131.3
Income taxes	8	**112.3**	31.5
Net income (loss) from continuing operations		**(168.5)**	99.8
Net income (loss) from discontinued operations	9	**(7.4)**	28.6
Net income (loss)		**(175.9)**	128.4
Non-controlling interests		**0.6**	0.9
Net income (loss) attributable to shareholders of the Corporation		**(176.5)**	127.5
Dividends on preferred shares, net of related taxes		**6.8**	6.8
Net income (loss) attributable to participating shares		**$ (183.3)**	$ 120.7
Net income (loss) per participating share - basic and diluted			
Continuing operations	22	**$ (2.18)**	$ 1.14
Discontinued operations		**(0.09)**	0.35
		$ (2.27)	$ 1.49
Weighted average number of participating shares outstanding - basic (in millions)	22	**80.7**	81.0
Weighted average number of participating shares - diluted (in millions)	22	**80.7**	81.1

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended October 31, 2012 and 2011
(in millions of Canadian dollars)

	Notes	2012	2011
Net income (loss)		**$ (175.9)**	$ 128.4
Other comprehensive loss			
Items that will be reclassified to net income (loss):			
Net change related to cash flow hedges			
Net change in the fair value of derivatives designated as cash flow hedges		**(0.6)**	5.3
Reclassification of the net change in the fair value of derivatives designated as cash flow hedges in prior periods, recognized in net income (loss) during the period		**3.9**	(7.6)
Related income taxes		**0.9**	(0.5)
		2.4	(1.8)
Cumulative translation differences			
Net gains (losses) on the translation of the financial statements of foreign operations		**0.7**	(1.9)
Items that will not be reclassified to net income (loss):			
Changes in actuarial gains and losses in respect of defined benefit pension plans			
Actuarial losses in respect of defined benefit pension plans	28	**(81.9)**	(26.4)
Related income taxes		**(22.5)**	(6.5)
		(59.4)	(19.9)
Other comprehensive loss	24	**(56.3)**	(23.6)
Comprehensive income (loss)		**$ (232.2)**	$ 104.8
Attributable to:			
Shareholders of the Corporation		**$ (232.8)**	$ 103.9
Non-controlling interests		**0.6**	0.9
		$ (232.2)	$ 104.8

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended October 31, 2012 and 2011
(in millions of Canadian dollars)

	Attributable to shareholders of the Corporation						
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total	Non-controlling interests	Total equity
Balance as at November 1, 2011	**$ 478.1**	**$ 1.8**	**$ 750.3**	**$ (28.1)**	**$ 1,202.1**	**$ 0.8**	**$ 1,202.9**
Net income (loss)	**-**	**-**	**(176.5)**	**-**	**(176.5)**	**0.6**	**(175.9)**
Other comprehensive loss	**-**	**-**	**-**	**(56.3)**	**(56.3)**	**-**	**(56.3)**
Shareholders' contributions and distributions to shareholders							
Participating share redemptions (Note 21)	**(11.0)**	**-**	**(6.8)**	**-**	**(17.8)**	**-**	**(17.8)**
Exercise of stock options (Note 21)	**0.6**	**(0.1)**	**-**	**-**	**0.5**	**-**	**0.5**
Dividends	**-**	**-**	**(52.8)**	**-**	**(52.8)**	**-**	**(52.8)**
Stock-option based compensation (Note 23)	**-**	**0.8**	**-**	**-**	**0.8**	**-**	**0.8**
Balance as at October 31, 2012	**$ 467.7**	**$ 2.5**	**$ 514.2**	**$ (84.4)**	**$ 900.0**	**$ 1.4**	**$ 901.4**
Balance as at November 1, 2010	$ 477.9	$ 1.1	$ 669.3	$ (4.5)	$ 1,143.8	$ 0.8	$ 1,144.6
Net income	-	-	127.5	-	127.5	0.9	128.4
Other comprehensive loss	-	-	-	(23.6)	(23.6)	-	(23.6)
Shareholders' contributions and distributions to shareholders							
Exercise of stock options (Note 21)	0.2	-	-	-	0.2	-	0.2
Dividends	-	-	(46.5)	-	(46.5)	(0.9)	(47.4)
Stock-option based compensation (Note 23)	-	0.7	-	-	0.7	-	0.7
Balance as at October 31, 2011	$ 478.1	$ 1.8	$ 750.3	$ (28.1)	$ 1,202.1	$ 0.8	$ 1,202.9

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Years ended October 31, 2012 and 2011
and opening balances as at November 1, 2010
(in millions of Canadian dollars)

	Notes	**As at October 31, 2012**	As at October 31, 2011	As at November 1, 2010
Current assets				
Cash		**$ 16.8**	$ 75.0	$ 31.9
Accounts receivable	10	**449.8**	425.5	428.8
Income taxes receivable		**38.9**	14.7	19.5
Inventories	11	**82.5**	77.2	74.2
Prepaid expenses and other current assets	12	**14.7**	18.1	19.1
Current assets related to discontinued operations	9	**-**	14.0	41.8
		602.7	624.5	615.3
Property, plant and equipment	13	**651.2**	680.4	760.0
Intangible assets	14	**171.5**	149.6	179.1
Goodwill	15	**487.0**	679.2	674.8
Deferred income taxes	8	**192.6**	192.6	189.9
Other assets	16	**31.2**	20.2	32.3
Non-current assets related to discontinued operations	9	**-**	13.5	65.1
		$ 2,136.2	$ 2,360.0	$ 2,516.5
Current liabilities				
Accounts payable and accrued liabilities	17	**$ 336.8**	$ 287.1	$ 324.3
Provisions	19	**15.5**	8.6	15.6
Income taxes payable	8	**50.3**	33.5	29.0
Deferred subscription revenues and deposits		**39.3**	32.5	38.4
Current portion of long-term debt	18	**283.5**	271.9	293.8
Current liabilities related to discontinued operations	9	**-**	7.6	18.2
		725.4	641.2	719.3
Long-term debt	18	**204.1**	292.5	436.9
Deferred income taxes	8	**68.4**	120.7	119.0
Provisions	19	**45.3**	13.9	15.8
Other liabilities	20	**191.6**	88.8	80.2
Non-current liabilities related to discontinued operations	9	**-**	-	0.7
		1,234.8	1,157.1	1,371.9
Equity				
Share capital	21	**467.7**	478.1	477.9
Contributed surplus		**2.5**	1.8	1.1
Retained earnings		**514.2**	750.3	669.3
Accumulated other comprehensive loss	24	**(84.4)**	(28.1)	(4.5)
Attributable to shareholders of the Corporation		**900.0**	1,202.1	1,143.8
Non-controlling interests		**1.4**	0.8	0.8
		901.4	1,202.9	1,144.6
		$ 2,136.2	$ 2,360.0	$ 2,516.5

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 31, 2012 and 2011
(in millions of Canadian dollars)

	Notes	2012	2011
Operating activities			
Net income (loss)		**$ (175.9)**	$ 128.4
Less: Net income (loss) from discontinued operations	9	**(7.4)**	28.6
Net income (loss) from continuing operations		**(168.5)**	99.8
Adjustments to reconcile net income (loss) from continuing operations and cash flows from operating activities:			
Amortization	6	**132.9**	144.6
Impairment of assets	5	**232.0**	55.2
Gain on business acquisition	26	**(32.1)**	-
Financial expenses on long-term debt	7	**27.0**	34.6
Interest on tax contingencies	7 & 8	**16.0**	-
Expenses related to long-term debt prepayment	7	**-**	5.8
Net loss (gain) on disposal of assets		**(1.2)**	1.2
Income taxes	8	**112.3**	31.5
Stock-option based compensation	23	**0.8**	0.7
Other		**1.6**	(0.4)
Cash flows generated by operating activities before changes in non-cash operating items and income tax paid		**320.8**	373.0
Changes in non-cash operating items	25	**(43.8)**	(21.7)
Income tax paid		**(48.0)**	(19.5)
Cash flows from continuing operations		**229.0**	331.8
Cash flows from discontinued operations		**0.9**	7.2
		229.9	339.0
Investing activities			
Business combinations	26	**(60.4)**	(35.8)
Acquisitions of property, plant and equipment		**(37.3)**	(47.2)
Disposals of property, plant and equipment		**3.6**	2.6
Increase in intangible assets		**(22.0)**	(17.5)
Cash flows from investments in continuing operations		**(116.1)**	(97.9)
Cash flows from investments in discontinued operations		**10.0**	48.8
		(106.1)	(49.1)
Financing activities			
Reimbursement of long-term debt	18	**(89.8)**	(168.7)
Net increase in revolving term credit facility	18	**11.4**	4.4
Financial expenses on long-term debt	7	**(26.1)**	(30.5)
Expenses related to long-term debt prepayment	7	**-**	(4.4)
Interest on tax contingencies paid	8	**(8.1)**	-
Dividends on participating shares		**(46.0)**	(39.7)
Dividends on preferred shares		**(6.8)**	(6.8)
Issuance of participating shares	21	**0.5**	0.2
Participating share redemptions	21	**(17.3)**	-
Bond forward contract		**-**	(6.0)
Cash flows from the financing of continuing operations		**(182.2)**	(251.5)
Effect of exchange rate changes on cash denominated in foreign currencies		**0.2**	0.3
Net change in cash		**(58.2)**	38.7
Cash at beginning of year		**75.0**	36.3
Cash at end of year		**$ 16.8**	$ 75.0
Non-cash investing and financing activities			
Net change in capital asset acquisitions financed by accounts payable		**$ 2.7**	$ (14.2)

Cash includes an amount from discontinued operations of $4.4 million as at November 1, 2010.

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

1 GENERAL INFORMATION

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

The Corporation conducts business in Canada and the United States in two separate sectors: the Printing Sector and the Media Sector. The Printing Sector includes printing activities for publishers of magazines, books and newspapers, as well as retail customers. The Media Sector includes the publishing of magazines, newspapers and books, a diversified digital platform and a door-to-door network for distributing advertising material that allows advertisers to reach consumers directly. The Media Sector also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions. Also, since April 2012, the Media Sector offers television content creation services that can be delivered on all communication platforms, from TV channels for general broadcasting to new media, Internet and mobile channels for on-demand delivery.

The Corporation's Board of Directors approved these financial statements on December 6, 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
These annual consolidated financial statements reflect first-time adoption of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and, more specifically, in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards". Since November 1, 2011, IFRSs replace Canadian Generally Accepted Accounting Principles ("GAAP"), as established in Part V of the Canadian Institute of Chartered Accountants ("CICA") Handbook. IFRS includes International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRIC").

The accounting policies in these annual consolidated financial statements differ from the policies presented in the annual consolidated financial statements for the year ended October 31, 2011. IFRS 1 has been applied to make the transition to IFRS and prepare the opening consolidated statement of financial position as at November 1, 2010 (the "date of transition"). This standard provides for retroactive application of IFRS with certain exemptions and exceptions. Note 34, "Transition to IFRS", presents the impact of the changeover from GAAP to IFRS. Moreover, it presents a reconciliation of the consolidated financial position as at November 1, 2010 and as at October 31, 2011, a reconciliation of the consolidated statement of income and consolidated cash flows for the year ended October 31, 2011, as well as a reconciliation of the equity as at November 1, 2010 and as at October 31, 2011. Certain information has also been reclassified or added to comply with IFRS disclosure requirements.

The consolidated IFRS financial statements have been prepared in accordance with the following accounting policies:

a) Basis of measurement
The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which were measured at their fair value, as indicated in the following accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

b) Basis of consolidation
The consolidated financial statements include the accounts of the Corporation, its subsidiaries and joint ventures. The accounting policies described have been applied consistently by all the subsidiaries and joint ventures.

i) Subsidiaries
Subsidiaries are entities over which the Corporation has the power to govern financial and operating policies to benefit from their activities. The financial statements of subsidiaries are integrated into the Corporation's consolidated financial statements from the date that control is obtained until loss of control. An entity that is fully consolidated but that is not wholly owned by the Corporation results in a non-controlling interest, which is presented separately in the Consolidated Statement of Income and the Consolidated Statement of Financial Position.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Corporation holds the following significant subsidiaries:

	Holding
Transcontinental Printing 2007 Inc. (Quebec)	100.0 %
Transcontinental Printing Inc. (Canada)	100.0
Transcontinental Printing 2005 G.P. (Quebec)	100.0
Transcontinental Printing Corporation (Delaware)	100.0
Transcontinental Interactive Inc. (Canada)	100.0
Transcontinental Media Inc. (Quebec)	100.0
Transcontinental Media G.P. (Quebec)	100.0

ii) Joint ventures
Joint ventures are entities over which the Corporation has contractually agreed shared control and for which strategic financial and operational decisions require unanimous consent. The Corporation's interests in joint ventures are mainly in the Media Sector, and are proportionately consolidated. The effect of these joint ventures on the Corporation's consolidated financial statements is not significant.

c) Business combinations
Business combinations are accounted for using the acquisition method, and their operating results are included in the consolidated financial statements as of the acquisition date. The consideration transferred is the total fair value of the assets given, equity instruments issued, liabilities incurred or assumed by the Corporation and contingent considerations, on the acquisition date, in exchange for control of the acquired entity. The excess of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed is recognized as goodwill. If the fair value of identifiable assets acquired and liabilities assumed exceeds the consideration transferred, the excess is recognized as gain on business acquisition in the Consolidated Statement of Income.

If the agreement includes a contingent consideration, it is measured at fair value as of the acquisition date and added to the consideration transferred, and a liability for the same amount is recognized. Any subsequent change to the fair value of the contingent consideration will be recognized in the acquisition cost, if it is related to adjustments during the measurement period, or in profit or loss, if it is related to adjustments after the measurement period. The measurement period is the period from the acquistion date to the date on which the Corporation has received complete information on the facts and circumstances that existed as of the acquisition date. This period has a maximum duration of 12 months.

The transaction costs attributable to the acquisition are recognized in profit or loss when they are incurred.

If the initial recognition of the business combination is incomplete when the disclosures are issued for the period during which the acquisition occured, the Corporation presents provisional amounts for the items for which measurement is incomplete. Adjustments to the original recognition of the business combination will be recorded as an adjustment to the assets acquired and liabilities assumed during the measurement period. Adjustments after the measurment period will be recognized in profit or loss.

In the case of a business acquisition of less than 100%, a non-controlling interest is measured, either at fair value or at the non-controlling interest's share of the net identifiable assets of the acquiree. The basis of measurement is decided on a transaction-by-transaction basis.

d) Revenue recognition
Revenues are measured at the fair value of the consideration received or receivable, less the estimated amount of discounts and other similar reductions granted to customers.

When it sells goods, the Corporation recognizes revenues when the following conditions have been satisfied:
- the significant risks and rewards of ownership have been transferred;
- the Corporation retains neither continuing managerial involvement nor effective control over the goods sold;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Corporation;
- the costs incurred or to be incurred in respect of the transaction can be reliably measured.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When rendering services, the Corporation recognizes revenues when the following conditions have been satisfied:

- the amount of revenue can be reliably measured;
- the stage of completion of the activity can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Corporation;
- the costs incurred or to be incurred in respect of the transaction can be reliably measured.

i) In the Printing Sector, printing is the main source of revenue. Printing revenue is recognized when the products are shipped or delivered, in accordance with the customer agreement.

ii) Media sector revenues are recognized as follows:

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

Subscription revenues:
Subscription revenues are recognized using the straight-line method, based on subscription terms, which represent the period during which the services are provided. Accordingly, amounts received are recorded in deferred subscription revenues, and subsequently transferred to income based on the length of term of the subscription.

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

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

Book revenues:
Book revenues are recognized when the books are shipped to customers, net of a provision for returns.

Publishing, content preparation and marketing project revenues:
Publishing, content preparation and marketing project revenues are recognized based on the percentage of completion, in accordance with the customer agreement.

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

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

Television broadcasting revenues:
Revenues from the sale of television content broadcasting rights are recognized over the broadcast period.

e) Exchange transactions

In the normal course of business, the Corporation offers advertising in exchange for goods or services. The related revenues are measured at the fair value of the goods and services received or given when the fair value of the goods or services received cannot be reliably measured. For the year ended October 31, 2012, the Corporation recognized an amount of $10.3 million as exchange transactions ($9.5 million for the year ended October 31, 2011).

f) Income taxes

The Corporation records income taxes using the liability method of accounting. Income tax expense represents the sum of current and deferred taxes. It is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Current tax
Current tax is the expected tax payable or receivable on the period's taxable income, using tax rates enacted or substantively enacted at the date of the financial statements, and any adjustment to tax expense or recovery in respect of previous years. Taxable income differs from the income reported on the Consolidated Statement of Income due to items of income and expense that are taxable or deductible during other periods, or items that will never be taxable, or deductible.

ii) Deferred tax
Deferred tax is determined on the basis of temporary differences between the carrying amounts and the tax bases of assets and liabilities, and is measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the date of the financial statements. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. The carrying value of deferred tax assets is reviewed at the end of each period and a reduction to the carrying amount is recognized when it is probable that these assets will not be realized.

g) Government assistance
Investment tax credits related to the purchase of property, plant and equipment or intangible assets are recorded as a reduction in the cost of the underlying asset. Investment tax credits related to operating expenses are recorded as a reduction of these costs. Government assistance related to publishing activities is recorded as a reduction to publishing costs.

h) Cash and cash equivalents
Cash and cash equivalents include cash, bank overdraft and highly liquid investments with original maturities of less than three months.

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

j) Supplier rebates
The Corporation records supplier rebates as a reduction in the price of products or services received, and reduces operating expenses in the Consolidated Statements of Income and related inventory in the Consolidated Statements of Financial Position. These rebates are estimated based on anticipated purchases.

k) Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated amortization and impairment losses. The cost includes expenditures directly attributable to the acquisition of the property, plant and equipment. The costs, such as borrowing costs incurred directly for the acquisition or construction of property, plant and equipment, are capitalized until the asset is ready for its intended use, and are amortized over the useful life of the related asset. Property, plant and equipment under construction is not amortized as long as it has not been put in service.

Property, plant and equipment are amortized on a straight-line basis over the following estimated useful lives:

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

Major parts of property, plant and equipment with different useful lives are accounted for as separate components of the asset, and amortized over their respective useful lives.

Amortization methods, useful lives and residual values are reviewed and adjusted prospectively, if applicable, at each reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered mainly through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of the disposal group, are re-measured at the lower of their carrying amount or fair value less cost to sell. Any impairment losses on a disposal group is allocated to goodwill, then to other assets and liabilities pro rata on the basis of their carrying amounts. However, no impairment losses are allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be valued in accordance with the Corporation's accounting policies. Any impairment losses on initial classification as held for sale or subsequent gain or loss on re-measurement are recognized in profit or loss. Gains on re-measurement, which exceed the cumulative impairment losses, are not recognized.

m) Discontinued operations

A discontinued operation is a component of the Corporation's activities that represents a significant and distinct line of business or geographical area of operations that the Corporation has disposed of or has classified as held for sale. Classification as a discontinued operation occurs on disposal or on the date on which the operation meets the criteria for classification as held for sale, whichever comes first. When an operation is classified as discontinued, comparative Statements of Income and Comprehensive Income are presented as if the operations were discontinued at the beginning of the comparative period.

n) Leases

Leases are classified as finance leases when substantially all risks and rewards of ownership of the leased property are transferred to the lessee. Other leases are classified as operating leases.

Property, plant and equipment held under a finance lease is initially recognized at the lesser of the fair value of the asset and the present value of the minimum lease payments. The leased item is then recognized in the same manner as other, similar assets held by the Corporation. The related liability payable to the lessor is recorded as a debt resulting from a finance lease and a finance charge is recognized in profit or loss for the duration of the lease.

Leases are recorded to income on a straight-line basis over the term of the lease.

o) Intangible assets

i) Identifiable intangible assets acquired in a business combination

Identifiable intangible assets acquired in a business combination are recorded at fair value upon the acquisition date, and subsequently recognized at cost less any accumulated amortization and accumulated impairment losses.

ii) Internally generated intangible assets

Internally generated intangible assets consist of book prepublication costs and long-term technology project costs. The cost of an internally generated intangible asset includes all the directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Expenses incurred in research activities are expensed in the period in which they are incurred. Expenses incurred in development activities are also expensed in the period in which they are incurred, except if they meet all the criteria for capitalization. The initial amount recognized as an internally generated intangible asset is equal to the sum of expenditures incurred from the date when the intangible asset first meets the recognition criteria.

Following initial recognition, internally generated intangible assets are stated at cost less accumulated amortization and impairment.

Intangible assets with finite useful lives are amortized according to the following methods and estimated useful lives:

	Term / Rate	Method
Customer relationships	10%-25%	Declining balance
Book prepublication costs	Maximum 7 years	Based on historical sales patterns
Acquired printing contracts	Term of the contract	Straight-line
Non-compete agreements	2-5 years	Straight-line
Long-term technology project costs	3-5 years	Straight-line

Amortization methods, useful lives and residual values are reviewed and adjusted prospectively, if applicable, on each reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets with indefinite useful lives are not amortized and consist of trade names, mainly from acquired magazines and newspapers, and their related circulation. The value attributed to a trade name is based on the reputation that a publication has built historically. Given that this value is not affected by the passage of time, it is impossible to allocate it systematically over time. Intangible assets with indefinite useful lives are tested annually for impairment, or more frequently if changes in circumstances indicate a potential impairment.

iii) Goodwill

Goodwill is recognized at cost, which represents the amount by which the consideration transferred exceeds the fair value of the net identifiable assets of the acquired businesses, and at the cost less accumulated impairment losses thereafter. Goodwill has an indefinite useful life and is not amortized.

p) Impairment of non-financial assets

The Corporation reviews the carrying value of its non-financial assets, other than inventories and deferred tax assets, at each reporting date of the financial statements in order to determine whether there is an indication of potential impairment.

Goodwill and intangible assets that have indefinite useful lives (trade names and circulation) acquired in business combinations are allocated to cash generating units ("CGU"), and assessed for impairment annually, or more frequently if changes in circumstances indicate potential impairment. In the presence of such changes, an estimate is made of the asset's recoverable amount.

Goodwill acquired in a business combination is allocated, beginning on the acquisition date, to the CGU group that will benefit from the synergies of the combination. For the purpose of impairment testing, assets that cannot be tested individually for impairment are grouped to form the smallest group of assets that generates, through continuing use, cash flows that are largely independent of the cash flows from other assets. Each group of CGU to which goodwill is allocated may not be larger than an operating segment, and represents the lowest level at which goodwill is monitored through internal management.

The recoverable amount of a CGU (or CGU group) is the greater of its value in use and its fair value less costs to sell. Value in use is determined by discounting estimated future cash flows, using a pre-tax discount rate that reflects current assessments of the market, of the time value of money and of the risks specific to the CGU (or CGU group). Fair value less costs to sell is determined using an EBITDA (earnings before interest, taxes, depreciation and amortization) multiple of comparable companies operating in similar industries for each CGU (or CGU group).

An impairment loss is recognized if the carrying amount of an asset, a CGU (or CGU group) exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or CGU group), and then to reduce the carrying amounts of the other assets in the CGU (or CGU group) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. Previously impaired assets are reassessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

q) Contract acquisition costs

Contract acquisition costs are amortized using the straight-line method over the related contract term, as reductions of revenues. Whenever changes occur that impact the related contract, including significant declines in anticipated profitability, the Corporation evaluates the realizable value of the contract acquisition costs to determine whether impairment has occured. These costs are included in other assets in the Consolidated Statement of Financial Position.

r) Provisions

Provisions are liabilities of uncertain timing or amount. Provisions are recognized when the Corporation has a present legal or implicit obligation arising from past events, when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the Corporation's best estimate of the present obligation at the end of the reporting period. When the effect of discounting is significant, the amount of the provision is determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Corporation's main provisions are related to restructuring costs, onerous real estate contracts, asset retirement obligations and multi-employer plans. Provisions are reviewed on each reporting date and any changes to estimates are reflected in the Consolidated Statement of Income.

i) Restructuring

A restructuring provision is recorded when the Corporation has a formal and detailed restructuring plan, and a valid expectation has been created among those affected, either by commencing execution of the plan or by announcing its main characteristics. Future operating losses are not subject to a provision.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Onerous real estate contracts
An onerous real estate contract provision is recorded when the Corporation has a contract under which it is more likely than not that the unavoidable costs of meeting the contractual obligations will be greater than the economic benefits that the Corporation expects from the contract. An onerous real estate contract provision represents the lesser of the cost of exiting from the contract and the cost of fulfilling it.

iii) Asset retirement obligations
Legal or constructive obligations linked to restoration of certain buildings are recorded in the period in which they are contracted, when they can be reasonnably estimated. The obligations are initially measured at fair value using the discounted cash flow method, and are subsequently adjusted for any changes in the initial timing or amounts of the expected cash flow. Initially, these obligations are capitalized as property, plant and equipment, and then amortized over the useful life of the asset. A liability related to the asset retirement obligation is also recognized initially, and remeasured over time, due to accretion.

iv) Multi-employer plans
Obligations relating to multi-employer plans are recognized when the amount can be estimated reliably and the Corporation does not have all the information necessary for the recognition of these plans as defined benefit plans.

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

The Corporation participates in multi-employer pension plans accounted for as defined contribution plans. Under IFRS, in accordance with IAS 19 "Employee Benefits", the multi-employer plans that include implicit obligations are accounted for as defined benefit plans when the Corporation has sufficient information to identify its share of the obligation under defined benefit, its share of plan assets and costs associated with the plans. The Corporation does not have all the information to be able to recognize these plans as defined benefit plans, but it has sufficient information to record this obligation as a provision. Contributions to the plans are recognized in profit or loss at the time of delivery of services by employees.

i) Defined benefit plans
The cost of defined benefit pension plans and other post-employment defined benefit plans are established with the assistance of independent actuaries on each reporting date, using the Projected Unit Cost Method and based on management’s best estimates regarding the expected rate of return of the plans’ investments, salary increases, changes in healthcare costs, the retirement age of employees and life expectancies.

The defined benefit asset (liability) recognized in the Consolidated Statement of Financial Position is the present value of the defined benefit obligation, less the fair value of plan assets. The value of plan assets is limited to the total of unrecognized past service cost and the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Any surplus is immediately recognized in profit or loss.

A minimum liability is recognized when the minimum statutory financing of past service exceeds the economic benefits available, either as a plan repayment or as a reduction in future plan contributions.

Net cumulative actuarial gains and losses related to plan assets and the defined benefit obligation, as well as the effect of the limit on the employer's share of the cost of the future benefits, are recognized in comprehensive income during the period in which they occur.

Current service cost is recognized as an expense in the Consolidated Statement of Income, to the extent that benefit rights have become vested. Past service cost related to unvested benefits is deferred and amortized on a straight-line basis over the average period until the benefits become vested. Past service cost, the expected return on plan assets and the accretion of the defined benefit obligation are recognized in profit or loss during the period in which they occur.

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

The Corporation's contributions that are paid to state plans are managed by government bodies.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Stock-based compensation

The Corporation offers stock option plans and share unit plans for certain officers, senior executives and directors.

i) Stock option plan

Stock options are valued at fair value at the time they are granted using the Black-Scholes model, and are recognized to income on a straight-line basis at a rate of 25% per year, which is the period over which the rights on the options vest, and according to the Corporation's estimate of the number of options that will vest. On each reporting date, the Corporation reviews its estimates of the number of options that are expected to vest and recognizes the impact of this review in profit or loss as required.

ii) Share unit plan for certain officers and senior executives

Compensation costs related to share unit plans for certain officers and senior executives are recognized on a straight-line basis over the three-year vesting period, either on the achievement of performance targets for the units related to performance, or on tenure for other units. The liability for these units is remeasured at fair value at the end of each reporting period. Any changes in the fair value is recognized in profit or loss. At the end of each reporting period, the Corporation reviews its estimate of the number of units expected to vest, and recognizes the impact in profit or loss when applicable.

iii) Share unit plan for directors

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

u) Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation. The functional currency is the currency of the primary economic environment in which the Corporation operates. The functional currency of the operating foreign subsidiaries, with the exception of foreign sales offices of the Canadian operations, is the U.S. dollar.

Transactions denominated in a currency other than the functional currency of the Corporation or of a foreign subsidiary whose functional currency is the Canadian dollar, are accounted for using the exchange rate prevailing on the transaction date. On each reporting date, monetary items denominated in a foreign currency are translated using the exchange rate prevailing on that date, and non-monetary items that are measured at historical cost are not adjusted. Exchange differences are recognized in profit or loss in the period during which they occur.

The assets and liabilities of foreign subsidiaries whose functional currency is not the Canadian dollar are translated into Canadian dollars by applying the exchange rate prevailing as at the reporting date. Revenue and expense items are translated at the average exchange rate for the period. Exchange differences are recognized in other comprehensive income under "Cumulative translation differences" and are accumulated in equity. The accumulated amount of exchange differences is reclassified in net income upon disposal or partial disposal of an interest in a foreign operation.

v) Financial instruments

Financial assets and liabilities are initially recognized at fair value and their subsequent valuation is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments.

Financial assets and liabilities are classified and subsequently valued as follows:

	Category	Subsequent valuation
Cash	Loans and receivables	Amortized cost, at the effective interest rate
Accounts receivable, other receivables and other financial assets	Loans and receivables	Amortized cost, at the effective interest rate
Investments	Available for sale	Fair value or cost if there is no quoted market
Accounts payable, other accrued liabilities and other financial liabilities	Other financial liabilities	Amortized cost, at the effective interest rate
Long-term debt	Other financial liabilities	Amortized cost, at the effective interest rate
Derivative financial instruments	Held for trading	Fair value

Transaction costs directly related to the acquisition or issue of a financial asset or liability are capitalized to the cost of financial assets and liabilities when they are not classified as held for trading. Thus, issuance costs of long-term debt are classified as a reduction in long-term debt, and amortized using the effective interest rate method.

Changes in fair value of financial instruments held for trading are recorded in the Consolidated Statement of Income in the appropriate period. Changes in fair value of financial instruments designated as cash flow hedges are recorded, for the effective portion, in the Consolidated Statement of Comprehensive Income in the appropriate period until their realization, after which they are recorded in the Consolidated Statement of Income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

w) Derivative financial instruments and hedge accounting

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

When applying hedge accounting, the Corporation formally documents the relationship between the financial instruments and the hedged items, as well as its objective and risk management strategy underlying its hedging activities, as well as the methods that will be used to assess hedge effectiveness. This process includes linking all derivative financial instruments designated as a hedge to specific assets and liabilities, firm commitments or specific anticipated transactions.

At the inception of the hedging relationship and throughout its duration, the Corporation must have reasonable assurance that the relationship will remain effective and in accordance with its risk management objective and strategy as initially documented. The effectiveness of the hedging relationship must be confirmed at each reporting date. The effective portion of the hedging relationship, and the effective portion of changes in fair value of the derivative, are recognized in other comprehensive income and the ineffective portion is recognized in the Consolidated Statement of Income. The effective portion of the currency risk hedging relationship related to future purchases of production equipment, deferred in accumulated other comprehensive income, is reclassified against the production equipment at its initial recognition. The effective portion of the currency risk hedging relationship related to interest and capital payments is reclassified to income during the period in which the hedged item affects earnings.

When hedging instruments mature or become ineffective before their maturity, any gains, losses, revenues or expenses associated with the hedging instrument that had previously been recognized in other comprehensive income as a result of applying hedge accounting are carried forward to be recognized in net income in the period during which the asset acquired or liability incurred affects net income. If the hedged item ceases to exist due to its maturity, expiry, cancellation or exercise before the hedging instrument expires, any gains, losses, revenues or expenses associated with the hedging instrument that had previously been recognized in other comprehensive income as a result of applying hedge accounting are recognized in the reporting period's net income along with the corresponding gains, losses, revenues or expenses recognized on the hedged item.

Derivative financial instruments offering economic hedging without being eligible for hedge accounting are accounted for at fair value with changes in fair value recorded in profit or loss. The Corporation does not use derivative financial instruments for speculative or trading purposes.

x) Critical judgments and sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and contingent liabilities on the reporting date, and amounts of revenues and expenses for the relevant period. Although management regularly reviews its estimates, actual results may differ. The impact of changes to accounting estimates is recognized in the period during which the change occurs, and in the affected future periods, when applicable. Areas in which the estimates and assumptions are significant or which are complex, are as follows:

i) Business combination

Determination of fair value associated with identifiable intangible assets following a business combination requires management to make assumptions. More specifically, this is the case when the Corporation calculates fair values internally using appropriate valuation techniques, which are generally based on a prediction of expected future cash flows. These valuations are closely related to the assumptions made by management about the future return on the related assets and the discount rate applied. Significant changes to these assumptions could significantly change the fair values associated with identifable intangible assets following a business combination. Accordingly, such changes could result in the recognition of an impairment loss, which is recognized in the period in which the changes occur, as required.

ii) Impairment of non-financial assets

As part of assessing goodwill, property, plant and equipment and intangible assets for impairment, the recoverable value of a CGU is determined using a complex valuation method that requires the use of a number of methods, including the discounted future cash flow method and the market-based method.

When a method based on discounted future cash flow is used, cash flow projections are made for the next three years, based on past experience, and represent management's best estimate of future results. Beyond this period, no growth is applied to the cash flows. The recoverable value of a CGU is also influenced by the discount rate used in the model, the growth rate used to make the extrapolation, the average weighted cost of capital and tax rates.

When a market-based method is used, the Corporation estimates the fair value of the CGU by multiplying the normalized results before amortization, interests and taxes by a multiple that is based on market data.

These methods rely on numerous assumptions and estimates that may have a significant impact on the recoverable value of a CGU, and thereby, on the amount of impairment, if there is. The impact of material changes in assumptions and the review of estimates is recognized in profit or loss in the period in which the changes occur or the estimates are reviewed, as required.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Provisions

Provisions are liabilities of uncertain timing or amount. Determination of an amount for provisions requires that management make assumptions and estimates of discount rates, projected costs and timelines, and the probability of occurence of the obligations. Material changes to these assumptions may significantly change the amounts determined as provisions. The impact of such changes is recognized in profit or loss in the period in which the changes occur, as required.

iv) Income taxes

In the calculation of current tax, the Corporation is required to make significant estimates due to the liability of the Corporation to the tax laws of many jurisdictions in which it operates. Similarly, the amount of current tax may change as a result of various factors, such as future events, changes in income tax laws or the outcome of reviews by tax authorities and related appeals.

In the calculation of deferred tax, estimates must be used to determine the appropriate rates and amounts and to take into account the probability of their occurence. Deferred income tax assets also reflect the benefit of unutilized tax losses that can be carried forward to reduce income taxes in future years. This assessment requires the Corporation to exercise significant judgments in determining whether or not it is probable that the deferred income tax assets can be recovered from future taxable income and therefore, that they can be recognized in the Corporation's consolidated financial statements. The Corporation relies, among other things, on its past experience to apply its judgment.

Once the final amounts have been determined, they may result in adjustments to current and deferred income tax assets and liabilities.

v) Employee benefits

The costs of defined benefit pension plans and the defined pension benefit assets (liabilities) are valued using actuarial methods. Actuarial valuations are based on assumptions such as discount rates, expected rates of return on assets, compensation growth rates and mortality rates. Due to the long-term nature of these obligations, these estimates are subject to significant uncertainty. Management reviews these assumptions annually and the impact of the review is recognized in the Statement of Financial Position and in comprehensive income in the period in which the estimates are reviewed, as required.

The preparation of financial statements in accordance with IFRS also requires management to make judgments, other than those involving estimations, in the process of applying the Corporation's accounting policies. Areas in which judgments are significant are as follows:

vi) Impairment of non-financial assets

Goodwill acquired in a business combination is allocated, beginning on the acquisition date, to the CGU group that will benefit from the synergies of the combination. During this process, the Corporation applies judgment based on the objectives aimed in the business acquisition and on how it manages business. Application of a different judgment could lead in a different result in regards with the annual impairment test of non-financial assets.

The Corporation also uses its judgment to determine whether an impairment test must be performed due to the presence of potential impairment indicators. In applying its judgment, the Corporation relies primarily on its knowledge of its business and the economic environment.

vii) Leases

For leases, the Corporation needs to assess if all risks and rewards of ownership of the leased property are transfered to the lessee. This assessment enables to classify the lease, either as an operating lease or as a finance lease, and to determine the proper recognition in the Corporation's consolidated financial statements. During this process, the Corporation relies on the clauses of the lease and on other economic factors to apply its judgment.

viii) Foreign currency translation

In determining the functional currency of its foreign subsidiaries, the Corporation needs to evaluate different factors such as the currency that mainly influences sales prices and costs, the economic environment and the degree of autonomy of the subsidiary. Following the evaluation of the different factors, when the functional currency is not obvious, the Corporation uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

3 FUTURE CHANGES IN ACCOUNTING POLICIES

The following new accounting standards were not early adopted by the Corporation. The Corporation is currently evaluating the impact of these new standards on its consolidated financial statements.

a) Financial instruments

In October 2010, the IASB issued IFRS 9, "Financial Instruments", the first part of a three-part project to replace IAS 39, "Financial Instruments: Recognition and Measurement" and IFRIC 9, "Reassessment of Embedded Derivatives". This first part covers classification and measurement of financial assets and financial liabilities, and impairment of financial assets and hedge accounting will be addressed in the other two parts.

In order to determine whether a financial asset should be measured at amortized cost or fair value, IFRS 9 uses a single approach that replaces the multiple measurement and category models established by IAS 39. Under IFRS 9, determination is based on how an entity manages its financial instruments and the characteristics of the contractual cash flows of its financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward to IFRS 9. However, requirements concerning measurement of financial liabilities at fair value have changed; the portion of changes in fair value related to the entity's own credit risk must be presented in other comprehensive income rather than in the Consolidated Statement of Income. IFRS 9 will apply to annual periods beginning on or after January 1, 2015, and earlier application is permitted.

b) Consolidated financial statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", intended to replace IAS 27, "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation - Special Purpose Entities". IFRS 10 defines the concept of control as the determining factor in whether an entity should be included in the basis of consolidation in another entity's consolidated financial statements. IFRS 10 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

c) Joint arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", intended to replace IAS 31, "Interests in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-monetary Contributions by Venturers". IFRS 11 deals with the contractual rights and obligations inherent in a joint arrangement, rather than the legal form of the arrangement. IFRS 11 eliminates the election to use the proportionate consolidation method when recognizing interests in jointly controlled entities, and requires the use of the equity method. IFRS 11 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Currently, the Corporation uses the proportionate consolidation method to recognize interests in joint ventures, but will have to apply the equity method under IFRS 11. Under this method, the Corporation's share of the net assets, net income and other comprehensive income in the joint ventures will be presented in a single line item in the Consolidated Statement of Financial Position, the Consolidated Statement of Income and the Consolidated Statement of Comprehensive Income, respectively.

d) Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities". IFRS 12 complements the disclosure requirements concerning interests that an entity holds in subsidiaries, joint ventures, associates and consolidated structured entities. The standard requires an entity to disclose information regarding the nature and risks associated with all its interests in other entities and the effect of those interests on its financial position, financial performance and cash flows. IFRS 12 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

e) Fair value measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement". IFRS 13 improves consistency and reduces complexity by providing a specific definition of fair value. IFRS 13 therefore replaces the guidance on measurement of fair value contained in individual IFRS with a single source of guidance on all measurements of fair value. IFRS 13 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

f) Employee benefits

In June 2011, the IASB issued an amended version of IAS 19, "Employee Benefits", in order to reflect significant changes in the recognition and measurement of the defined benefit pension expense and termination benefits. Under the amended IAS 19, the use of the "corridor" approach, under which the recognition of actuarial gains and losses could be deferred, has been eliminated. The amended IAS 19 introduces a new approach to calculating and presenting net interest expense on defined benefit liabilities (assets), under which the return on the asset will be identical to the rate used to discount the liability. The amended IAS 19 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

g) Financial Instruments: Offsetting financial assets and liabilities

In December 2011, the IASB issued amended versions of IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation", to clarify the requirements for offsetting financial instruments and to require new disclosures on the effect of offsetting arrangements on an entity's financial position. The amended IFRS 7 will be applied retrospectively for annual periods beginning on or after January 1, 2013. The amended IAS 32 will be applied retrospectively for annual periods beginning on or after January 1, 2014, and earlier application is permitted.

4 OPERATING EXPENSES

Operating expenses by major heading are as follows for the years ended October 31:

	2012	2011
Employee-related costs	$ 686.7	$ 650.6
Supply chain and logistics [(1)]	940.2	858.8
Other goods and services [(2)]	127.6	114.5
	$ 1,754.5	$ 1,623.9

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

[(2)] "Other goods and services" includes mainly promotion, advertising and telecommunications costs, office supplies, real estate expenses and professional fees. Operating leases recognized in operating expenses for the year ended October 31, 2012 was $25.5 million ($24.2 million for the year ended October 31, 2011). Subleasing revenues recognized in operating expenses for the year ended October 31, 2012 was $1.4 million ($0.5 million for the year ended October 31, 2011).

The amount of inventory recognized in operating expenses for the year ended October 31, 2012 was $1,117.3 million ($1,003.9 million for the year ended October 31, 2011). An amount of $0.9 million was recognized as inventory obslescence expense for the year ended October 31, 2012 ($1.0 million for the year ended October 31, 2011).

5 IMPAIRMENT OF ASSETS

	2012	2011
Property, plant and equipment	$ 1.3	$ 3.9
Intangible assets	20.7	20.3
Goodwill	210.0	31.0
	$ 232.0	$ 55.2

Intangible assets

During the year ended October 31, 2012, the Corporation performed its annual impairment test on intangible assets with an indefinite useful life. The Corporation has concluded that the recoverable amount of certain CGUs of the Local Solutions Group in the Media sector, determined on the basis of value in use, were less than their carrying amount due to a decline in profitability. The Corporation therefore recorded a $13.5 million impairment charge on trade names and circulation of certain publications of these CGUs.

During the year ended October 31, 2012, the Corporation recorded a $7.2 million impairment charge on intangible assets with a finite useful life, mainly due to a decline in the value in use of long-term technology project costs of the Media Sector’s Content Solutions Group and Digital Solutions Group.

During the year ended October 31, 2011, the Corporation had recorded a $5.7 million impairment charge on customer relationships and a $2.6 million impairment charge on long-term technology project costs, mainly related to Content Solutions Group and Digtal Solutions Group in the Media sector. The Corporation had also recorded a $12.0 million impairment charge on trade names and circulation of certain publications of the Local Solutions Group in the Media sector, specifically in the Newspaper Division of the Atlantic provinces and Saskatchewan.

5 IMPAIRMENT OF ASSETS (CONTINUED)

Goodwill

During the year ended October 31, 2012, the Corporation performed its annual goodwill impairment test. The Corporation concluded that the recoverable amount, determined on the basis of fair value less costs to sell for the CGU groups of the Business and Consumer Solutions Group and the Book Publishing Group, and determined on the basis of value in use for the CGU group of the Local Solutions Group, were lower than their carrying amounts.

The Corporation therefore recorded a $210.0 million goodwill impairment charge during the year ended October 31, 2012. An impairment charge of $100.6 million was recorded in the CGU group of the Business and Consumer Solutions Group due to a decline in national advertising, and due to the adoption in 2012 of new rates concerning contributions by businesses to cover the costs incurred by Quebec municipalities regarding waste recovery services of residual materials, which had a negative impact on operating costs, and consequently on operating income of this CGU group. An impairment charge of $89.0 million was recorded in the CGU group of the Local Solutions Group due to a decline in national advertising, particularly outside Quebec, and increased competition within Quebec, which had a negative impact on the operating income of this CGU group. An impairment charge of $20.4 million was also recorded in the CGU group of the Book Publishing Group due to the end of educational reform in Quebec's high school education program. These impairment losses had no effect on the Corporation's activities, on cash or on meeting the requirements of debt covenants.

During the year ended October 31, 2011, the Corporation had recorded a $31.0 million goodwill impairment charge, mainly related to the Digital Solutions Group in the Media sector, due to lower profitability.

The key assumptions used by the Corporation to perform impairment tests are as follow:

Growth

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

Discount rate

For the purpose of calculating value in use, the Corporation used pre-tax discount rates varying between 16.00% and 23.00%. The discount rate represents the weighted average cost of capital ("WACC") for comparable companies operating in similar industries as the applicable CGU or CGU group. The WACC is an estimate of the overall rate of return required by debt and equity holders on their investments. Determining the WACC requires analyzing the cost of equity and debt separately, and takes into account a risk premium that is based on the applicable CGU or CGU group.

Tax rate

For the purpose of calculating value in use, the Corporation used income tax rates varying between 26.00% and 26.90% based on the effective rates for the entities comprising the applicable CGU groups.

The Corporation performed a sensitivity analysis of the discount rate in its assessment of the recoverable amounts of the CGU groups tested for impairment. The results of the sensitivity analysis show that a reasonable change to key assumptions would not result in an impairment loss to the other CGU groups for which no impairment loss was required.

6 AMORTIZATION

	2012	2011
Property, plant and equipment	**$ 98.2**	$ 100.6
Intangible assets	**14.2**	18.2
	112.4	118.8
Intangible assets and other assets, recognized in revenues and operating expenses	**20.5**	25.8
	$ 132.9	$ 144.6

7 NET FINANCIAL EXPENSES

		2012		2011
Financial expenses on long-term debt	$	27.0	$	34.6
Interest on tax contingencies (Note 8)		16.0		-
Expenses related to long-term debt prepayment		-		5.8
Other expenses		4.1		4.8
Foreign exchange gain		(0.6)		(0.2)
	$	46.5	$	45.0

8 INCOME TAXES

The following table is a reconciliation of income taxes at the Canadian statutory tax rate and income taxes at the effective tax rate for the years ended October 31:

		2012		2011
Income (loss) before income taxes	$	(56.2)	$	131.3
Canadian statutory tax rate		27.15 %		28.65 %
Income taxes (recovered) at the statutory tax rate		(15.3)		37.6
Effect of reassessments related to previous years (a)		42.0		-
Reduction to the carrying amount of deferred income tax assets (b)		57.2		-
Effect of differences in tax rates in other jurisdictions		(4.4)		(9.6)
Income taxes on non-deductible expenses and non-taxable portion of capital gain		30.5		11.0
Recognition of tax losses or temporary differences not previously recognized		1.5		(3.4)
Other		0.8		(4.1)
Income taxes at effective tax rate	$	112.3	$	31.5

Income taxes include the following items:

		2012		2011
Income taxes before the following items:	$	57.9	$	44.4
Effect of reassessments related to previous years (a)		42.0		-
Reduction to the carrying amount of deferred income tax assets (b)		57.2		-
Income taxes on restructuring and other costs		(15.4)		(3.4)
Income taxes on impairment of assets		(29.4)		(7.9)
Income taxes on expenses related to long-term debt prepayment		-		(1.6)
Income taxes at effective tax rate	$	112.3	$	31.5

(a) During the year ended October 31, 2012, the Corporation received notices of reassessment from the federal and provincial tax authorities estimated at $58.0 million, including applicable interest and penalties to its fiscal years 2006 to 2010. The notices of reassessment relate to deductions on investments in capital assets made by the Corporation, as well as the interprovincial allocation of income. The Corporation recorded an expense of $58.0 million with respect to these matters, of which $16.0 million was included in financial expenses and $42.0 million in income taxes, even though the Corporation contests these notices of reassessment. Consequently, the outcome of this dispute could favorably influence the amounts recognized in the consolidated financial statements of the Corporation. The Corporation paid an amount of $31.6 million with respect to the notices of reassessment received. Notices of objection have also been filed with the relevant tax authorities.

(b) During the year ended October 31, 2012, the Corporation recorded a $57.2 million reduction to the carrying amount of deferred income tax assets in the United States related to a decrease in our activities in the United States.

8 INCOME TAXES (CONTINUED)

The statutory tax rates were 27.15% in 2012 and 28.65% in 2011. The Corporation's applicable tax rate corresponds to the combined Canadian tax rates applicable in the provinces where the Corporation operates. The decrease mainly reflects a decrease in federal income tax rate from 16.50% to 15.00%, effective January 1, 2012.

The following table presents components of income tax expense for the years ended October 31:

	2012	2011
Current income taxes		
Current year	**$ 11.6**	$ 33.8
Adjustment resulting from assessments relating to previous years	**42.0**	-
Change in the use of temporary differences	**(20.0)**	-
Adjustment for previous years	**1.7**	(2.4)
	35.3	31.4
Deferred income taxes		
Change in the use of temporary differences	**20.0**	-
Adjustment for previous years	**0.4**	1.8
Increase related to other temporary differences	**(3.5)**	4.1
Reduction to the carrying amount of deferred income tax assets	**57.2**	-
Recognition of tax losses or temporary differences not previously recognized	**1.5**	(3.4)
Impact of tax rate changes or the imposition of taxes in new jurisdictions	**1.4**	(2.4)
	77.0	0.1
Income taxes	**$ 112.3**	$ 31.5

The following table presents components of the deferred income tax asset and liability:

	As at October 31, 2012		As at October 31, 2011		As at November 1, 2010	
	Asset	**Liability**	Asset	Liability	Asset	Liability
Loss carryforwards	**$ 125.8**	**$ -**	$ 130.1	$ -	$ 119.1	$ -
Inventories	**-**	**7.7**	-	6.3	-	5.1
Property, plant and equipment	**-**	**63.2**	-	51.1	-	35.5
Intangible assets and goodwill	**-**	**22.8**	-	43.0	-	39.3
Other assets	**14.0**	**-**	-	4.3	2.1	-
Long-term debt	**-**	**14.2**	-	17.4	-	10.3
Provisions	**59.3**	**-**	45.0	-	24.6	-
Transitional provision for partnerships	**-**	**13.0**	-	-	-	-
Defined benefit pension plans	**46.4**	**-**	19.2	-	16.4	-
Other	**-**	**0.4**	-	0.3	-	1.1
	245.5	**121.3**	194.3	122.4	162.2	91.3
Offsetting of assets and liabilities	**(52.9)**	**(52.9)**	(1.7)	(1.7)	27.7	27.7
	$ 192.6	**$ 68.4**	$ 192.6	$ 120.7	$ 189.9	$ 119.0

The loss carryforwards included in deferred income tax assets expire between 2015 and 2032.

8 INCOME TAXES (CONTINUED)

Changes in deferred income tax assets and liabilities for the year ended October 31, 2012 are as follows:

	Balance as at November 1, 2011	Recognized in profit or loss	Exchange rate change	Discontinued operations	Recognized in other comprehensive loss	Business combinations	Balance as at October 31, 2012
Loss carryforwards	**$ 130.1**	**$ (82.5)**	**$ 0.1**	**$ -**	**$ -**	**$ 78.1**	**$ 125.8**
Inventories	**(6.3)**	**(1.4)**	**-**	**-**	**-**	**-**	**(7.7)**
Property, plant and equipment	**(51.1)**	**(10.7)**	**-**	**2.1**	**-**	**(3.5)**	**(63.2)**
Intangible assets and goodwill	**(43.0)**	**30.5**	**0.1**	**-**	**-**	**(10.4)**	**(22.8)**
Other assets	**(4.3)**	**7.5**	**-**	**-**	**-**	**10.8**	**14.0**
Long-term debt	**(17.4)**	**3.2**	**-**	**-**	**-**	**-**	**(14.2)**
Provisions	**45.0**	**(2.3)**	**0.2**	**-**	**-**	**16.4**	**59.3**
Transitional provision for partnerships	**-**	**(13.0)**	**-**	**-**	**-**	**-**	**(13.0)**
Defined benefit pension plans	**19.2**	**(9.1)**	**-**	**-**	**22.5**	**13.8**	**46.4**
Other	**(0.3)**	**0.8**	**-**	**-**	**(0.9)**	**-**	**(0.4)**
	$ 71.9	**$ (77.0)**	**$ 0.4**	**$ 2.1**	**$ 21.6**	**$ 105.2**	**$ 124.2**

Changes in deferred income tax assets and liabilities for the year ended October 31, 2011 are as follows:

	Balance as at November 1, 2010	Recognized in profit or loss	Exchange rate change	Discontinued operations	Recognized in other comprehensive loss	Business combinations	Balance as at October 31, 2011
Loss carryforwards	$ 119.1	$ 13.1	$ (2.1)	$ -	$ -	$ -	$ 130.1
Inventories	(5.1)	(1.2)	-	-	-	-	(6.3)
Property, plant and equipment	(35.5)	(13.5)	(0.6)	(1.5)	-	-	(51.1)
Intangible assets and goodwill	(39.3)	(3.6)	-	-	-	(0.1)	(43.0)
Other assets	2.1	(6.2)	(0.2)	-	-	-	(4.3)
Long-term debt	(10.3)	(7.1)	-	-	-	-	(17.4)
Provisions	24.6	21.8	(1.4)	-	-	-	45.0
Defined benefit pension plans	16.4	(3.7)	-	-	6.5	-	19.2
Other	(1.1)	0.3	-	-	0.5	-	(0.3)
	$ 70.9	$ (0.1)	$ (4.3)	$ (1.5)	$ 7.0	$ (0.1)	$ 71.9

The Corporation has $140.8 million in capital losses that can be used indefinitely, and for which the potential benefits have not been recognized. In addition, the Corporation has loss carryforwards in certain U.S. States and considering that there may be restrictions on the use of these losses, the Corporation has not recognized a deferred tax asset on losses totaling $68.2 million. Losses related to the unrecognized asset expire between 2013 and 2032.

As at October 31, 2012, no deferred tax liability was recognized for temporary differences arising from investments in subsidiaries because the Corporation controls the decisions affecting the realization of such liabilities and it is probable that the temporary differences will not reverse in the foreseeable future.

9 DISCONTINUED OPERATIONS

On July 16, 2012, the Corporation sold its black and white book printing assets for net proceeds of $13.0 million, subject to a price adjustment clause based on working capital at the closing of the transaction. An amount of $10.0 million was received upon closing the transaction and an amount of $3.0 million will be received over the next five years. In the fourth quarter of fiscal 2011, in connection with the acquisition of Quad/Graphics Canada, Inc., the Corporation had sold its black and white book printing business for U.S. export for $5.0 million in net proceeds. The net income (loss), assets, liabilities and cash flows related to these activities were reclassified separately in the Consolidated Statements of Income (Loss), the Consolidated Statements of Financial Position, and the Consolidated Statements of Cash Flows as discontinued operations.

On July 12, 2011, the Corporation entered into a final agreement with Quad/Graphics, Inc. to sell its Mexican printing operations. The net income (loss), cash flows, assets and liabilities related to these activities have been reclassified separately in the Consolidated Statement of Income (Loss), the Consolidated Statements of Cash Flows, and the Consolidated Statements of Financial Position as at November 1, 2010 as discontinued operations. Note 26 provides more detailed information on the terms and conditions of this transaction.

The following table presents the results of discontinued operations for the years ended October 31:

		2012		2011
Revenues	**$**	**21.5**	$	109.6
Expenses		**21.9**		110.0
Loss before income taxes		**(0.4)**		(0.4)
Income taxes recovered		**(0.1)**		(0.2)
Loss related to the operation of discontinued operations		**(0.3)**		(0.2)
Gain (loss) related to discontinuance of black and white book printing operations, net of related income taxes (recovery) of ($2.1) ($1.5 in 2011)		**(5.8)**		3.5
Gain (gain adjustment) related to discontinuance of Mexican printing operations (no tax effect)		**(1.3)**		25.3
Net income (loss) from discontinued operations [(1)]	**$**	**(7.4)**	$	28.6

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

10 ACCOUNTS RECEIVABLE

Components of accounts receivable are as follows:

		As at October 31, 2012		As at October 31, 2011		As at November 1, 2010
Trade receivables	**$**	**438.8**	$	372.9	$	406.3
Allowance for doubtful accounts		**(14.5)**		(7.2)		(10.2)
Amount related to sold activities (Note 26)		**-**		35.0		-
Other receivables		**25.5**		24.8		32.7
	$	**449.8**	$	425.5	$	428.8

The Corporation has a securitization program maturing in 2013 with a trust whose financial services agent is a Canadian bank, for the sale, from time to time, of certain accounts receivable of its subsidiaries. The maximum net consideration permitted under the program is $200.0 million, of which a maximum of 20% in accounts receivable may be in U.S. dollars.

No amount had been drawn on this source of financing as at October 31, 2012 and 2011, as well as at November 1, 2010, as part of the securitization program in effect at that date.

11 INVENTORIES

Components of inventories are as follows:

	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Raw materials	**$ 46.2**	$ 43.1	$ 40.1
Work in progress and finished goods	**42.2**	38.8	39.0
Provision for obsolescence	**(5.9)**	(4.7)	(4.9)
	$ 82.5	$ 77.2	$ 74.2

12 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Components of prepaid expenses and other current assets are as follows:

	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Prepaid expenses	**$ 14.0**	$ 14.0	$ 13.8
Fair value of derivative financial instruments	**0.7**	2.1	5.3
Other current assets	**-**	2.0	-
	$ 14.7	$ 18.1	$ 19.1

13 PROPERTY, PLANT AND EQUIPMENT

The following tables present changes in property, plant and equipment for the years ended October 31:

2012	Land	Buildings	Leasehold improvements	Machinery and equipment	Machinery and equipment under finance leases	Other equipment	Assets under construction and deposits on equipment	Total
Cost								
Balance as at November 1, 2011	**$ 39.9**	**$ 211.7**	**$ 46.4**	**$ 1,137.4**	**$ 14.8**	**$ 158.0**	**$ 10.4**	**$ 1,618.6**
Acquisitions	**0.1**	**1.1**	**4.6**	**14.2**	**-**	**9.6**	**10.4**	**40.0**
Business combinations	**5.1**	**13.3**	**-**	**15.6**	**-**	**0.4**	**0.2**	**34.6**
Disposals	**(0.4)**	**(2.4)**	**(2.3)**	**(33.1)**	**(1.6)**	**(6.0)**	**-**	**(45.8)**
Exchange rate change and other	**(1.1)**	**2.1**	**-**	**4.6**	**(4.1)**	**0.5**	**(1.0)**	**1.0**
Balance as at October 31, 2012	**$ 43.6**	**$ 225.8**	**$ 48.7**	**$ 1,138.7**	**$ 9.1**	**$ 162.5**	**$ 20.0**	**$ 1,648.4**
Accumulated amortization and impairment								
Balance as at November 1, 2011	**$ -**	**$ (97.0)**	**$ (22.6)**	**$ (684.4)**	**$ (8.4)**	**$ (125.8)**	**$ -**	**$ (938.2)**
Amortization	**-**	**(8.3)**	**(3.9)**	**(67.4)**	**(1.7)**	**(16.9)**	**-**	**(98.2)**
Disposals	**-**	**1.4**	**2.3**	**30.4**	**1.6**	**6.1**	**-**	**41.8**
Impairment	**-**	**-**	**(0.2)**	**(0.7)**	**(0.1)**	**(0.3)**	**-**	**(1.3)**
Exchange rate change and other	**-**	**(0.5)**	**0.1**	**(2.6)**	**2.6**	**(0.9)**	**-**	**(1.3)**
Balance as at October 31, 2012	**$ -**	**$ (104.4)**	**$ (24.3)**	**$ (724.7)**	**$ (6.0)**	**$ (137.8)**	**$ -**	**$ (997.2)**
Net book value	**$ 43.6**	**$ 121.4**	**$ 24.4**	**$ 414.0**	**$ 3.1**	**$ 24.7**	**$ 20.0**	**$ 651.2**

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2011	Land	Buildings	Leasehold improvements	Machinery and equipment	Machinery and equipment under finance leases	Other equipment	Assets under construction and deposits on equipment	Total
Cost								
Balance as at November 1, 2010	$ 40.7	$ 211.4	$ 44.6	$ 1,209.7	$ 19.5	$ 159.4	$ 13.9	$ 1,699.2
Acquisitions	-	2.1	4.2	16.1	-	10.6	-	33.0
Business combinations	-	-	-	-	-	0.2	-	0.2
Disposals	-	(1.0)	(2.1)	(91.7)	(2.3)	(12.4)	-	(109.5)
Exchange rate change and other	(0.8)	(0.8)	(0.3)	3.3	(2.4)	0.2	(3.5)	(4.3)
Balance as at October 31, 2011	$ 39.9	$ 211.7	$ 46.4	$ 1,137.4	$ 14.8	$ 158.0	$ 10.4	$ 1,618.6
Accumulated amortization and impairment								
Balance as at November 1, 2010	$ -	$ (89.5)	$ (21.1)	$ (700.7)	$ (7.8)	$ (120.1)	$ -	$ (939.2)
Amortization	-	(8.7)	(3.7)	(68.9)	(1.8)	(17.5)	-	(100.6)
Disposals	-	1.1	2.1	89.0	1.7	12.2	-	106.1
Impairment	-	-	-	(3.8)	-	(0.1)	-	(3.9)
Exchange rate change and other	-	0.1	0.1	-	(0.5)	(0.3)	-	(0.6)
Balance as at October 31, 2011	$ -	$ (97.0)	$ (22.6)	$ (684.4)	$ (8.4)	$ (125.8)	$ -	$ (938.2)
Net book value								
As at November 1, 2010	$ 40.7	$ 121.9	$ 23.5	$ 509.0	$ 11.7	$ 39.3	$ 13.9	$ 760.0
As at October 31, 2011	$ 39.9	$ 114.7	$ 23.8	$ 453.0	$ 6.4	$ 32.2	$ 10.4	$ 680.4

Borrowing costs capitalized to property, plant and equipment

For the years ended October 31, 2012 and 2011, negligible amounts were capitalized to property, plant and equipment as borrowing costs.

14 INTANGIBLE ASSETS

The following tables present changes in intangible assets for the years ended October 31:

	Finite useful life						Indefinite useful life	
2012	Customer relationships	Book prepublication costs	Acquired printing contracts	Non-compete agreements	Long-term technology project costs	Other	Trade names and circulation	Total
Cost								
Balance as at November 1, 2011	**$ 23.8**	**$ 71.6**	**$ 11.2**	**$ 2.4**	**$ 36.2**	**$ 21.0**	**$ 119.6**	**$ 285.8**
Additions (internally generated)	**-**	**10.6**	**-**	**-**	**11.4**	**-**	**-**	**22.0**
Business combinations	**28.1**	**-**	**-**	**6.1**	**-**	**(0.3)**	**6.6**	**40.5**
Elimination of cost on fully amortized assets	**(3.5)**	**-**	**-**	**(1.6)**	**(11.6)**	**(15.4)**	**-**	**(32.1)**
Exchange rate change and other	**-**	**(0.1)**	**-**	**-**	**2.7**	**-**	**-**	**2.6**
Balance as at October 31, 2012	**$ 48.4**	**$ 82.1**	**$ 11.2**	**$ 6.9**	**$ 38.7**	**$ 5.3**	**$ 126.2**	**$ 318.8**
Accumulated amortization and impairment								
Balance as at November 1, 2011	**$ (9.1)**	**$ (50.3)**	**$ (7.0)**	**$ (1.2)**	**$ (20.4)**	**$ (19.6)**	**$ (28.6)**	**$ (136.2)**
Amortization	**(3.8)**	**(7.0)**	**(0.7)**	**(1.5)**	**(7.1)**	**(1.1)**	**-**	**(21.2)**
Elimination of accumulated amortization and impairment on fully amortized assets	**3.5**	**-**	**-**	**1.6**	**11.6**	**15.4**	**-**	**32.1**
Impairment	**(1.6)**	**-**	**-**	**(0.6)**	**(4.9)**	**(0.1)**	**(13.5)**	**(20.7)**
Exchange rate change and other	**0.1**	**-**	**-**	**-**	**(1.8)**	**0.4**	**-**	**(1.3)**
Balance as at October 31, 2012	**$ (10.9)**	**$ (57.3)**	**$ (7.7)**	**$ (1.7)**	**$ (22.6)**	**$ (5.0)**	**$ (42.1)**	**$ (147.3)**
Net book value	**$ 37.5**	**$ 24.8**	**$ 3.5**	**$ 5.2**	**$ 16.1**	**$ 0.3**	**$ 84.1**	**$ 171.5**

14 INTANGIBLE ASSETS (CONTINUED)

2011	Finite useful life: Customer relationships	Finite useful life: Book prepublication costs	Finite useful life: Acquired printing contracts	Finite useful life: Non-compete agreements	Finite useful life: Long-term technology project costs	Finite useful life: Other	Indefinite useful life: Trade names and circulation	Total
Cost								
Balance as at November 1, 2010	$ 32.2	$ 60.3	$ 11.1	$ 2.0	$ 40.1	$ 20.9	$ 119.6	$ 286.2
Additions (internally generated)	-	11.3	-	-	6.2	-	-	17.5
Business combinations	-	-	-	0.4	-	-	-	0.4
Elimination of cost on fully amortized assets	(8.3)	-	-	-	(10.2)	-	-	(18.5)
Exchange rate change and other	(0.1)	-	0.1	-	0.1	0.1	-	0.2
Balance as at October 31, 2011	$ 23.8	$ 71.6	$ 11.2	$ 2.4	$ 36.2	$ 21.0	$ 119.6	$ 285.8
Accumulated amortization and impairment								
Balance as at November 1, 2010	$ (7.0)	$ (41.1)	$ (6.2)	$ (0.8)	$ (19.9)	$ (15.5)	$ (16.6)	$ (107.1)
Amortization	(4.6)	(9.2)	(0.8)	(0.4)	(8.3)	(4.1)	-	(27.4)
Elimination of accumulated amortization and impairment on fully amortized assets	8.3	-	-	-	10.2	-	-	18.5
Impairment	(5.7)	-	-	-	(2.6)	-	(12.0)	(20.3)
Exchange rate change and other	(0.1)	-	-	-	0.2	-	-	0.1
Balance as at October 31, 2011	$ (9.1)	$ (50.3)	$ (7.0)	$ (1.2)	$ (20.4)	$ (19.6)	$ (28.6)	$ (136.2)
Net book value								
As at November 1, 2010	$ 25.2	$ 19.2	$ 4.9	$ 1.2	$ 20.2	$ 5.4	$ 103.0	$ 179.1
As at October 31, 2011	$ 14.7	$ 21.3	$ 4.2	$ 1.2	$ 15.8	$ 1.4	$ 91.0	$ 149.6

15 GOODWILL

The following table presents changes in goodwill for the years ended October 31:

	2012	2011
Cost		
Balance, beginning of year	$ 980.4	$ 945.0
Business combinations (Note 26)	17.8	35.4
Balance, end of year	$ 998.2	$ 980.4
Accumulated impairment		
Balance, beginning of year	$ (301.2)	$ (270.2)
Impairment (Note 5)	(210.0)	(31.0)
Balance, end of year	$ (511.2)	$ (301.2)
Net book value		
Beginning of year	$ 679.2	$ 674.8
End of year	$ 487.0	$ 679.2

The carrying amount of goodwill is allocated to the CGU groups as follows:

Operating segments	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Printing Sector			
Magazine, Book and Catalogue Group	$ 65.4	$ 65.4	$ 65.4
Retail and Newspaper Group	61.0	61.0	61.0
	126.4	126.4	126.4
Media Sector			
Business and Consumer Solutions Group	108.3	208.9	208.9
Local Solutions Group	172.0	256.1	224.3
Book Publishing Group	54.9	74.2	74.2
Content Solutions Group	12.7	12.7	11.2
Digital Solutions Group	11.8	-	28.9
	359.7	551.9	547.5
Other activities	0.9	0.9	0.9
	$ 487.0	$ 679.2	$ 674.8

16 OTHER ASSETS

Components of other assets are as follows:

	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Contract acquisition costs	**$ 23.8**	$ 13.4	$ 20.4
Defined benefit asset (Note 28)	**-**	0.1	1.5
Fair value of derivative financial instruments	**0.1**	0.2	2.5
Other	**7.3**	6.5	7.9
	$ 31.2	$ 20.2	$ 32.3

17 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Components of accounts payable and accrued liabilities are as follows:

	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Accounts payable and other accruals	**$ 196.1**	$ 157.8	$ 189.5
Salaries and other benefits payable	**80.6**	79.8	81.1
Stock-based compensation	**7.3**	8.5	10.0
Taxes payable	**18.9**	11.6	13.8
Fair value of derivative financial instruments	**4.5**	6.3	10.8
Financial expenses payable	**5.6**	6.0	6.3
Other	**23.8**	17.1	12.8
	$ 336.8	$ 287.1	$ 324.3

18 LONG-TERM DEBT

Long-term debt is as follows:

	Effective Interest rate as at October 31, 2012	Maturity	**As at October 31, 2012**	As at October 31, 2011	As at November 1, 2010
Senior notes					
Series 2002 A – Tranche 1 – 5.62% (US$75.0)	6.77 %	2013	**$ 74.9**	$ 74.4	$ 76.5
Series 2002 A – Tranche 2 – 5.73% (US$50.0)	5.80 %	2015	**49.9**	49.6	51.0
Series 2004 A - LIBOR + 0.70% (US$37.5)	-	-	**-**	37.2	38.3
Series 2004 B - LIBOR + 0.70.% (US$37.5)	-	-	**-**	37.2	38.3
Series 2004 C - LIBOR + 0.80% (US$15.0)	1.34 %	2014	**15.0**	14.9	15.3
Series 2004 D - LIBOR + 0.90% (US$10.0)	1.05 %	2016	**10.0**	9.9	10.2
Loans secured by property, plant and equipment	-	-	**-**	-	0.5
Obligations under finance leases for property, plant and equipment having a net book value of $3.1	5.43% à 6.54 %	2013-2016	**2.9**	4.2	5.2
Credit facility in Canadian dollars	2.76 %	2017	**139.0**	145.0	166.0
Credit facility in U.S. dollars (2012 – US$56.0; 2011 – US$37.0; 2010 – US$12.0)	1.66 %	2017	**55.9**	36.7	12.2
Debentures – Solidarity Fund QFL					
Series 1 – 8.06%	8.15 %	2014	**50.0**	50.0	50.0
Series 2 – 5.58%	5.59 %	2019	**50.0**	50.0	50.0
Term loan - SGF Rexfor Inc. – 8.25%	-	-	**-**	-	50.0
Term credit facility - Caisse de dépôt et placement du Québec Banker's acceptance rate + 6.375%	-	-	**-**	-	100.0
Term loan - EURIBOR + 1.60% (2012 – €29.5; 2011 - €39.3; 2010 - €49.2)	7.25 %	2015	**38.1**	55.5	69.6
Other loans at zero nominal interest rates	2.93% à 3.76 %	2013-2027	**4.8**	2.6	3.8
			490.5	567.2	736.9
Issuance costs on long-term debt at amortized cost			**2.9**	2.8	6.2
Total long-term debt			**487.6**	564.4	730.7
Current portion of long-term debt [(1)]			**283.5**	271.9	293.8
			$ 204.1	$ 292.5	$ 436.9

[(1)] The current portion of long-term debt is comprised, among other things of the credit facilities in Canadian and U.S. dollars, as well as the term credit facility granted by Caisse de dépôt et placement du Québec.

Series 2002 A Senior Notes are redeemable at the greater of par value and the discounted value of future cash flows, if redeemed before scheduled maturity, using an interest rate based on U.S. Treasury Securities with similar maturities. Series 2004 C Senior Notes are redeemable at their nominal value. Series 2004 D Senior Notes are redeemable at a premium of 0.5% as at October 31, 2012. During the year ended October 31, 2012, the Corporation repaid the Series 2004 A and 2004 B Senior Notes, which matured.

The Corporation has a credit facility amounting to $400.0 million or the U.S. dollar equivalent, which matures in February 2017. The applicable interest rate on the term revolving credit facility is based on the credit rating assigned by Standard & Poor's and DBRS. According to the current credit rating, it is either the bank prime rate, banker's acceptance rate or LIBOR, plus 1.45%, or the Canadian or U.S. prime rate, plus 0.45%.

As at October 31, 2012, letters of credit amounting to C$2.0 million and US$1.5 million were drawn on the committed credit facility, in addition to the amount presented above.

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

The financing of €29.5 million ($38.1 million) from a European bank bears interest at EURIBOR plus 1.60%. It is payable in equal instalments of principal plus interest, every six months until July 2015. On December 1, 2009, the Corporation entered into a cross currency interest rate swap agreement, maturing in July 2015, to lock the exchange rate at 1.5761 and to convert the interest rate to banker's acceptance rate plus 3.36%.

18 LONG-TERM DEBT (CONTINUED)

The Corporation must comply with certain restrictive covenants, including the requirement to maintain certain financial ratios. For the years ended October 31, 2012 and 2011, the Corporation has not been in default under any of its obligations.

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

	Principal payments
2013	$ 283.5
2014	80.4
2015	63.5
2016	10.8
2017	0.6
2018 and thereafter	51.7
	$ 490.5

The present value of future minimum payments under finance leases for which the principal amount is included in the amounts presented above, are as follows:

	Future minimum payments under finance leases	Interest	Present value of future minimum payments under finance leases
Less than 1 year	$ 1.2	$ 0.1	$ 1.1
1 to 5 years	1.9	0.1	1.8
	$ 3.1	$ 0.2	$ 2.9

19 PROVISIONS

The following table presents changes in provisions for the year ended October 31, 2012:

	Restructuring costs	Onerous real estate contracts	Multi-employer plans	Other	Total
Balance as at November 1, 2011	$ 5.5	$ 9.6	$ 5.2	$ 2.2	$ 22.5
Provisions recorded	34.7	6.4	11.3	0.8	53.2
Business combination (Note 26)	1.8	2.7	16.1	0.9	21.5
Amounts used	(30.7)	(2.0)	-	(0.6)	(33.3)
Provisions reversed	(2.0)	-	-	(1.1)	(3.1)
Balance as at October 31, 2012	$ 9.3	$ 16.7	$ 32.6	$ 2.2	$ 60.8
Current portion	9.3	4.6	-	1.6	15.5
Non-current portion	-	12.1	32.6	0.6	45.3
	$ 9.3	$ 16.7	$ 32.6	$ 2.2	$ 60.8

19 PROVISIONS (CONTINUED)

Restructuring costs

The Corporation is currently implementing rationalization measures that will affect all its operating segments. These measures will address excess production capacity in some specialized plants of the Printing Sector following the integration of Quad/Graphics Canada, Inc., and due to major structural changes in the printing industry. These measures also address the implementation of a new operating structure since November 1, 2011, which includes the majority of the Interactive Sector's activities with those of the Media Sector.

Onerous real estate contracts

The provisions for onerous real estate contracts are related to the operating leases for unused spaces by the Corporation, and represent the present value of future rental expenses that the Corporation must pay under leases that cannot be cancelled, net of estimated future subleasing revenues expected to be received on these subleases. The terms of these leases vary from 1 to 9 years.

Multi-employer plans

The Corporation participates in multi-employer pension plans accounted for as defined contribution plans. Under IFRS, in accordance with IAS 19 "Employee Benefits", the multi-employer plans that include implicit obligations are accounted for as defined benefit plans when the Corporation has sufficient information to identify its share of the obligation under defined benefit, its share of plan assets and costs associated with the plans. The Corporation does not have all the information to be able to recognize these plans as defined benefit plans, but it has sufficient information to record this obligation as a provision. Provisions for multi-employer plans are based on the data provided by the most recent actuarial valuations by applying an estimated percentage of the share in the plan deficit, calculated on a going concern basis, attributable to the Corporation. There is no contractual agreement that states how the deficit of the plans will be funded by each participant and their respective shares. These elements are currently being negotiated and the amount that will lead to a settlement could be different than the amount recognized in the Corporation's consolidated financial statements.

Other

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

Restructuring and other costs by major heading were as follows for the years ended October 31:

	2012	2011
Workforce reductions	$ 32.7	$ 9.4
Multi-employer plans	11.3	-
Onerous real estate contracts	6.4	-
Gain on defined benefit plans curtailment related to workforce reductions	(3.4)	-
Net losses on disposal of assets	1.6	-
Business acquisition costs [1]	1.8	3.3
Other costs related to restructuring	4.6	2.4
	$ 55.0	$ 15.1

[1] Business acquisition costs include transactions costs, comprising legal and bank fees, and costs related to the integration of acquired businesses.

20 OTHER LIABILITIES

Components of other liabilities are as follows:

	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Deferred subscription revenues	$ 5.7	$ 6.5	$ 7.2
Accrued liabilities and other liabilities	23.8	9.0	7.3
Defined benefit liability (Note 28)	155.7	65.3	54.5
Fair value of derivative financial instruments	6.4	8.0	11.2
	$ 191.6	$ 88.8	$ 80.2

21 SHARE CAPITAL

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

For the years ended October 31, 2012 and 2011, changes to the Corporation's share capital were as follows:

	2012		2011	
	Number of shares	**Amount**	Number of shares	Amount
Participating shares				
Class A Subordinate Voting Shares				
Balance, beginning of year	**65,873,182**	**$ 360.8**	65,806,497	$ 360.5
Conversion of Class B Shares into Class A Subordinate Voting Shares	**145,619**	**0.2**	45,605	0.1
Exercise of stock options	**49,450**	**0.6**	21,080	0.2
Participating shares redeemed and cancelled	**(1,963,400)**	**(10.7)**	-	-
Treasury shares	**(48,200)**	**(0.3)**	-	-
Balance, end of year	**64,056,651**	**350.6**	65,873,182	360.8
Class B Shares				
Balance, beginning of year	**15,151,235**	**20.5**	15,196,840	20.6
Conversion of Class B Shares into Class A Subordinate Voting Shares	**(145,619)**	**(0.2)**	(45,605)	(0.1)
Balance, end of year	**15,005,616**	**20.3**	15,151,235	20.5
	79,062,267	**$ 370.9**	81,024,417	$ 381.3
Preferred shares				
Cumulative 5-Year Rate Reset First Preferred Shares, Series D				
Balance, beginning and end of year	**4,000,000**	**$ 96.8**	4,000,000	$ 96.8
	83,062,267	**$ 467.7**	85,024,417	$ 478.1

Exercise of stock options
When officers and senior executives exercise their stock options, any consideration paid is credited to share capital and the amount previously credited to contributed surplus is also transferred to share capital. For the year ended October 31, 2012, consideration of $0.5 million was received, and $0.1 million was transferred from contributed surplus to share capital. For the year ended October 31, 2011, consideration of $0.2 million was received and a negligible amount was transferred from contributed surplus to share capital.

21 SHARE CAPITAL (CONTINUED)

Participating share redemptions

The Corporation has been authorized to redeem, for cancellation on the open market, between April 13, 2012 and April 12, 2013, or at an earlier date if the Corporation concludes or cancels the offer, up to 3,295,096 of its Class A Subordinate Voting Shares, representing 5% of its 65,901,932 Class A Subordinate Voting Shares issued and outstanding as at April 2, 2012, and up to 757,561 Class B Shares, representing 5% of its 15,151,235 Class B Shares issued and outstanding as at April 2, 2012. The redemptions are being made in the normal course of business at market prices through the Toronto Stock Exchange.

For the year ended October 31, 2012, the Corporation redeemed 2,011,600 of its Class A Subordinate Voting Shares at a weighted average price of $8.86 for a total cash consideration of $17.3 million and an amount payable of $0.5 million. The excess of the total consideration paid over the carrying amount of the shares, in the amount of $6.8 million, was applied against retained earnings. As at October 31, 2012, 48,200 of the redeemed shares, having a carrying amount of $0.3 million and a redemption price of $0.5 million, were treasury shares, or shares still held by the Corporation, which were cancelled in November 2012. The Corporation was under no obligation to redeem its Class A Subordinate Voting Shares as at October 31, 2012.

For the year ended October 31, 2012, the Corporation did not redeem Class B shares and had no such obligation at that date.

Preferred shares

The Cumulative 5-Year Rate Reset First Preferred Shares, Series D have a fixed annual cumulative dividend of 6.75% for the first five years, payable quarterly on the 15th of January, April, July and October. The fixed dividend rate will be reset as at October 15, 2014, and every five years thereafter, at a rate equal to the five-year Government of Canada bond yield plus 4.16%. The Cumulative 5-Year Rate Reset First Preferred Shares, Series D are redeemable at the option of the Corporation on each five-year anniversary date, and may be converted at the option of the holder (under certain conditions) to Cumulative Floating Rate First Preferred Shares, Series E ("Series E Preferred Shares") as at October 15, 2014, and on October 15 every five years thereafter. The Series E Preferred Shares will have a quarterly dividend equal to the three-month Government of Canada Treasury Bill yield plus 4.16%. The Series E Preferred Shares will be redeemable at the option of the Corporation and may be converted at the option of the holder (under certain conditions) to Cumulative 5-Year Rate Reset First Preferred Shares, Series D as at October 15, 2019, and on October 15 every five years thereafter.

22 NET INCOME (LOSS) PER PARTICIPATING SHARE

The following table is a reconciliation of the items used to calculate basic and diluted net income (loss) from continuing operations per participating share for the years ended October 31:

	2012	2011
Numerator		
Net income (loss) from continuing operations	**$ (168.5)**	$ 99.8
Non-controlling interests	**(0.6)**	(0.9)
Dividends on preferred shares, net of related taxes	**(6.8)**	(6.8)
Net income (loss) from continuing operations, attributable to participating shares	**$ (175.9)**	$ 92.1
Denominator (in millions)		
Weighted average number of participating shares outstanding - basic	**80.7**	81.0
Weighted average number of dilutive options	**-**	0.1
Weighted average number of participating shares - diluted	**80.7**	81.1

In the calculation of the diluted net loss per share, 1,432,616 stock options were considered anti-dilutive as at October 31, 2012, being all options issued and outstanding at that date considering the loss position for the year. As at October 31, 2011, 1,242,340 options were considered anti-dilutive, since their exercise price was greater than the average share price of Class A Subordinate Voting Shares during the period. Therefore, these stock options were excluded from the calculation of diluted net income per share for that year.

Dividends of $0.55 and $0.49 per share were declared and paid to the holders of participating shares for the years ended October 31, 2012 and 2011, respectively. Dividends of $1.69 per share were declared and paid to the holders of preferred shares for the years ended October 31, 2012 and 2011.

23 STOCK-BASED COMPENSATION

Stock option plan

The Corporation offers a stock option plan for the benefit of certain officers and senior executives. The number of Class A Subordinate Voting Shares authorized for issuance and the balance of shares that are issuable under the plan as at October 31, 2012 was 6,078,562 and 4,523,028, respectively. Under the plan, each stock option entitles its holder to receive upon exercise one Class A Subordinate Voting Share. The exercise price of each option is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option.

Stock-based compensation expenses of $0.8 million and $0.7 million were charged to the Consolidated Statements of Income (Loss) and increased contributed surplus included in shareholders' equity for the years ended October 31, 2012 and 2011, respectively.

The following table summarizes the changes in the plan's status for the years ended October 31:

	2012		2011	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding at beginning of year	**1,572,640**	**$ 16.67**	1,542,490	$ 16.76
Granted	**235,984**	**12.40**	164,672	16.20
Exercised	**(49,450)**	**10.01**	(21,080)	10.36
Cancelled	**(307,958)**	**17.33**	(113,442)	18.38
Expired	**(18,600)**	**12.61**	-	-
Options outstanding at end of year	**1,432,616**	**$ 16.11**	1,572,640	$ 16.67

As at October 31, 2012, the balance of stock options available for grant under the plan was 3,090,412.

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

	Options outstanding				Options exercisable	
	Exercise price range	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
2012						
	$ 9.64 - 12.40	**462,836**	**4.6**	**$ 10.89**	**190,125**	**$ 9.64**
	$ 13.09 - 16.20	**341,520**	**4.0**	**14.90**	**190,555**	**14.85**
	$ 17.80 - 22.41	**628,260**	**0.8**	**20.61**	**628,260**	**20.61**
		1,432,616	**2.8**	**$ 16.11**	**1,008,940**	**$ 17.45**
2011						
	$ 9.64 - 11.13	330,300	3.9	$ 9.76	178,850	$ 9.87
	$ 13.09 - 16.20	440,280	5.0	14.87	137,975	14.78
	$ 17.80 - 22.41	802,060	1.8	20.50	802,060	20.50
		1,572,640	3.1	$ 16.67	1,118,885	$ 18.10

23 STOCK-BASED COMPENSATION (CONTINUED)

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

	2012	2011
Share price of Class A Subordinate Voting Shares on the stock option grant date	**$ 12.40**	$ 16.20
Weighted average fair value of the stock options	**$ 3.01**	$ 4.82
Assumptions:		
Expected dividend yield	**4.4 %**	2.7 %
Expected volatility	**40.5 %**	39.0 %
Risk-free interest rate	**1.40 %**	2.60 %
Expected remaining life	**5 years**	5 years

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

Share unit plan for certain officers and senior executives

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

The following table summarizes the changes in the plan's status for the years ended October 31:

Number of units	**2012**	2011	**2012**	2011
	DSU		RSU	
Balance, beginning of year	**201,981**	121,110	**679,884**	676,627
Units granted	**-**	40,123	**309,097**	233,383
Units cancelled	**-**	-	**(224,922)**	(110,163)
Units paid	**(49,777)**	(31,431)	**(139,506)**	(53,824)
Units converted	**17,956**	66,139	**(17,956)**	(66,139)
Dividends paid in units	**8,747**	6,040	**-**	-
Balance, end of year	**178,907**	201,981	**606,597**	679,884

As at October 31, 2012, the liability related to the share unit plan for certain officers and senior executives was $4.9 million ($6.1 million as at October 31, 2011 and $7.8 million as at November 1, 2010). The expenses (reversals) recorded in the Consolidated Statements of Income (Loss) for the years ended October 31, 2012 and 2011 were $0.9 million and ($0.4) million, respectively. Amounts of $2.1 million and $1.3 million were paid under this plan for the years ended October 31, 2012 and 2011, respectively.

Share unit plan for directors

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

23 STOCK-BASED COMPENSATION (CONTINUED)

The following table summarizes the changes in the plan's status for the years ended October 31:

Number of units	**2012**	2011
Balance, beginning of year	**201,257**	159,803
Directors' compensation	**53,643**	35,497
Units paid	**(18,573)**	-
Dividends paid in units	**11,178**	5,957
Balance, end of year	**247,505**	201,257

As at October 31, 2012, the liability related to share unit plan for directors was $2.4 million ($2.4 million as at October 31, 2011 and $2.2 million as at November 1, 2010). The expenses recorded in the Consolidated Statements of Income (Loss) for the years ended October 31, 2012 and 2011 were $0.4 million and $0.2 million, respectively. An amount of $0.4 million was paid under this plan for the year ended October 31, 2012. No amount was paid under this plan for the year ended October 31, 2011.

24 ACCUMULATED OTHER COMPREHENSIVE LOSS

	Cash flow hedges	Cumulative translation differences	Actuarial gains and losses related to defined benefit plans	Accumulated other comprehensive loss
Balance as at November 1, 2010	$ (4.5)	$ -	$ -	$ (4.5)
Net change in gains (losses), net of income taxes	(1.8)	(1.9)	(19.9)	(23.6)
Balance as at October 31, 2011	$ (6.3)	$ (1.9)	$ (19.9)	$ (28.1)
Balance as at November 1, 2011	**$ (6.3)**	**$ (1.9)**	**$ (19.9)**	**$ (28.1)**
Net change in gains (losses), net of income taxes	**2.4**	**0.7**	**(59.4)**	**(56.3)**
Balance as at October 31, 2012	**$ (3.9)**	**$ (1.2)**	**$ (79.3)**	**$ (84.4)**

As at October 31, 2012, the amounts expected to be reclassified to net income are as follows:

	2013	2014	2015	2016	2017 and thereafter	Total
Losses on derivatives designated as cash flow hedges	$ (0.6)	$ (1.2)	$ (0.9)	$ (0.8)	$ (1.8)	$ (5.3)
Income taxes	(0.2)	(0.3)	(0.2)	(0.2)	(0.5)	(1.4)
	$ (0.4)	$ (0.9)	$ (0.7)	$ (0.6)	$ (1.3)	$ (3.9)

25 SUPPLEMENTAL INFORMATION ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash operating items are as follows for the years ended October 31:

	2012	2011
Accounts receivable	**$ (12.2)**	$ 34.3
Inventories	**5.2**	(3.1)
Prepaid expenses and other current assets	**0.6**	(0.5)
Accounts payable and accrued liabilities	**(26.9)**	(22.4)
Provisions	**13.8**	(8.9)
Deferred subscription revenues and deposits	**5.7**	(6.9)
Defined benefit plans (Note 28)	**(30.0)**	(14.2)
	$ (43.8)	$ (21.7)

26 BUSINESS COMBINATIONS

Media Sector

On February 13, 2012, the Corporation acquired 100% of the shares of *Éditions Caractère* , a leader in the extracurricular book market in Quebec and publisher in the trade market. This transaction allows the Media Sector to improve its offer in the educational and extracurricular book markets in Quebec.

On February 15, 2012, the Corporation acquired the print and Internet assets of *Courrier Frontenac* , a weekly newspaper serving Thetford Mines and the surrounding area. With this transaction, the Media Sector has added a weekly publication to its existing offer in the region of Chaudière-Appalaches.

On May 17, 2012, the Corporation acquired 60% of the shares in *Redux Media* , a leading online advertising network. This transaction allows the Media Sector to expand its existing online network. The Corporation recognized this acquisition using the acquisition method, as if 100% of the shares had been acquired, given the existence of an option for the purchaser to buy or the seller to sell three years after the date of acquisition. As such, the assets acquired and the liabilities assumed on the date of purchase were consolidated, as were 100% of earnings since this date.

On June 18, 2012, the Corporation acquired an additional 60% of the shares in *Métro* (Montréal), a daily newspaper serving the Island of Montreal. This transaction allowed the Corporation to become the sole owner of *Métro* (Montréal), and thereby expand the publication's advertising opportunities, particularly through links with other products of the Media Sector. This entity, which was formerly recognized using the proportionate consolidation method, is now fully consolidated.

Given the short period between the dates of acquisition and the reporting date, management was unable to obtain all the information to complete the initial accounting for certain business combinations, and therefore it is preliminary and subject to change following a final assessment of the fair value of assets acquired and liabilities assumed. The excess of the price paid over the estimated fair value of the assets acquired and liabilities assumed from certain acquisitions in the Media Sector was fully attributed to goodwill. Consequently, the intangible assets acquired and the related amortization have not been reflected in these annual consolidated financial statements. The Corporation expects to finalize initial recognition of these business combinations in the first quarters of fiscal 2013.

Printing Sector

On July 12, 2011, the Corporation and Quad/Graphics, Inc. have entered into a definitive agreement under which the Corporation agreed to acquire all the shares of Quad/Graphics Canada, Inc., which operates in the printing sector and has seven facilities in Canada: three in Ontario, two in Quebec, one in Alberta and one in Nova-Scotia, representing six printing plants and one premedia facility. In consideration for this transaction, the Corporation sold its Mexican printing operations and its black and white book printing business for U.S. export. On March 1, 2012, the Corporation completed the acquisition of 100% shares of Quad/Graphics Canada, Inc. With this transaction, the Printing Sector has reinforced its printing assets, and the Corporation expects to benefit from operating synergies by taking advantage of major investments made in the printing platform over the last few years.

This transaction was settled in cash for an amount of $47.1 million, and by offsetting amounts receivable of $30.0 million related to the sale of the Mexican printing operations and $5.0 million for the black and white book printing business for U.S. export. The Mexican transaction was completed on September 8, 2011, for net proceeds of $80.5 million. This transaction generated a net gain on disposal of $24.0 million. A $25.3 million gain was recorded in the year ended October 31, 2011 and a $1.3 million loss was recorded in the year ended October 31, 2012.

During the year ended October 31, 2012, the Corporation made a final assessment of the fair value of assets acquired and liabilities assumed in this transaction. The estimated fair values assigned to assets acquired and liabilities assumed are based on a combination of independent valuations and internal estimates. The fair value of identifiable net assets is greater than the consideration paid, which gives rise to an amount of negative goodwill which was recorded as a gain on business acquisition in the Consolidated Statement of Loss for the year ended October 31, 2012. This negative goodwill was primarily due to the recognition of deferred income tax assets attributable to tax losses acquired in the business combination.

26 BUSINESS COMBINATIONS (CONTINUED)

The following table summarizes the estimated fair value of assets acquired and liabilities assumed during the year ended October 31, 2012, as at the acquisition date:

	Quad/Graphics Canada, Inc.	Other	Total
Assets acquired			
Current assets	$ 46.3	$ 11.8	$ 58.1
Property, plant and equipment	34.4	0.2	34.6
Intangible assets	31.9	8.6	40.5
Goodwill (tax basis of $5.3)	-	17.8	17.8
Deferred income taxes	107.5	0.1	107.6
	$ 220.1	$ 38.5	$ 258.6
Liabilities assumed			
Current liabilities	$ 31.6	$ 11.2	$ 42.8
Deferred income taxes	-	2.4	2.4
Long-term debt	-	2.4	2.4
Provisions	21.5	-	21.5
Other liabilities	52.8	2.4	55.2
	$ 105.9	$ 18.4	$ 124.3
	$ 114.2	$ 20.1	$ 134.3
Consideration			
Cash paid	$ 47.1	$ 15.9	$ 63.0
Cash of the acquired businesses	-	(2.6)	(2.6)
Amount related to sold activities	35.0	-	35.0
Short-term liabilities	-	1.3	1.3
Contingent consideration	-	5.5	5.5
	82.1	20.1	102.2
Gain on business acquisition	32.1	-	32.1
	$ 114.2	$ 20.1	$ 134.3

During the year ended October 31, 2012, the Corporation made a final assessment of the fair value of assets acquired and liabilities assumed for Vortxt Interactive Inc., acquired on November 1, 2010, Groupe Le Canada Français, acquired on August 1, 2011, Avantage Consommateurs de l'Est du Québec, acquired on August 29, 2011, and *Éditions Caractère* , acquired on February 13, 2012. The above table comprises these adjustments.

The Corporation's Consolidated Statement of Loss for the year ended October 31, 2012 includes the operating results of the acquired businesses since their date of acquisition, including supplementary revenues of approximately $168.1 million, operating income before amortization of $15.1 million and transaction costs of $1.8 million. The fair value of trade receivables acquired in an amount of $54.2 million, of which $8.1 million is considered uncollectible at the time of acquisition, is included in current assets upon recognition of the business combinations. If the Corporation had acquired these businesses on November 1, 2011, their operating results would have been as follows: additional revenues of $230.1 million and operating income before amortization of $22.9 million.

26 BUSINESS COMBINATIONS (CONTINUED)

Media Sector

On November 1, 2010, the Corporation acquired 100% of the shares of Vortxt Interactive inc., a company operating in mobile solutions.

On April 28, 2011, the Corporation acquired the assets of *Journal Nouvelles Hebdo* , a weekly newspaper in the Dolbeau-Mistassini area.

On August 1, 2011, the Corporation acquired the assets of Groupe Le Canada Français, representing 11 weekly and monthly titles and a series of Web portals serving the Saint-Jean-sur-Richelieu and Granby areas.

On August 29, 2011, the Corporation acquired the assets of Avantage Consommateurs de l'Est du Québec, representing three weekly and monthly publications and their Web portals, serving the territory between St-Simon and Gaspé.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed during the year ended October 31, 2011, as at the acquisition date:

Assets acquired		
Current assets	$	3.8
Property, plant and equipment		0.2
Intangible assets		0.4
Goodwill (tax basis of $23.9)		35.4
	$	39.8
Liabilities assumed		
Current liabilities	$	0.8
Deferred income taxes		0.1
	$	0.9
	$	38.9
Consideration		
Cash paid	$	35.2
Bank overdraft in acquired businesses		0.1
Short-term liabilities		3.6
	$	38.9

During the year ended October 31, 2011, the Corporation paid an amount of $0.5 million, which was included in short-term liabilities as at November 1, 2010, relating to a business combination completed in prior periods.

27 RELATED PARTY TRANSACTIONS

Transactions with joint ventures

In the normal course of business, the Corporation sells products and services to certain joint ventures. These transactions were carried out at arm's length and were recorded at the exchange amount. The following table presents the portion of these transactions attributable to the interests of other joint venturers for the years ended October 31:

		2012		2011
Sale of products and services	**$**	**5.0**	$	6.4

The following table presents the Corporation's outstanding balances with joint venturers:

		As at October 31, 2012		As at October 31, 2011		As at November 1, 2010
Accounts receivable	**$**	**0.4**	$	1.0	$	1.3

27 RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly, including any director (whether executive or otherwise) of the Corporation. Key management personnel earned the following amounts for the years ended October 31:

	2012	2011
Salaries and other short-term employee benefits	**$ 7.8**	$ 11.1
Post-employment benefits	**1.0**	1.6
Stock-based compensation	**1.6**	0.7
	$ 10.4	$ 13.4

28 EMPLOYEE BENEFITS

The Corporation offers various contributory and non-contributory defined benefit plans for pension and other post-employment benefits, defined contribution pension plans and registered group savings plans to its employees and those of its participating subsidiaries. For the defined benefit plans, the amount of benefits is generally calculated based on the employees' years of service and salaries. Plan funding is calculated based on actuarial assumptions and is subject to limitations under applicable income tax and other regulations. Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels up to the time of retirement and the anticipated long-term rate of return on pension plan assets. For defined contribution pension plans and group registered savings plans, the sole obligation of the Corporation and its subsidiaries is to make the monthly employer's contribution.

The Corporation participates in multi-employer pension plans accounted for as defined contribution plans. Under IFRS, in accordance with IAS 19 "Employee Benefits", the multi-employer plans that include implicit obligations are accounted for as defined benefit plans when the Corporation has sufficient information to identify its share of the obligation under defined benefit, its share of plan assets and costs associated with the plans. The Corporation does not have all the information to be able to recognize these plans as defined benefit plans, but it has sufficient information to record this obligation as a provision at Note 19 "Provisions".

The defined benefit obligation, the fair value of plan assets and the composition of plan assets are measured at the annual reporting date. The most recent actuarial valuation for pension plan funding purposes was done on December 31, 2011.

The composition of the pension plan assets is as follows:

	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Equity	**65 %**	68 %	69 %
Government and corporate bonds	**34**	29	29
Cash and cash equivalents	**1**	3	2
	100 %	100 %	100 %

As at October 31, 2012, the plan assets included shares of the Corporation in the amount of $0,2 million ($0,3 million as at October 31, 2011 and as at November 1, 2010).

28 EMPLOYEE BENEFITS (CONTINUED)

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

	Pension benefits		Other post-employment benefits		Total	
	2012	2011	**2012**	2011	**2012**	2011
Defined benefit obligation						
Balance, beginning of year	**$ 398.8**	$ 394.7	**$ 4.8**	$ 4.8	**$ 403.6**	$ 399.5
Business combinations	**284.5**	-	**11.0**	-	**295.5**	-
Current service cost	**2.4**	1.1	**0.1**	-	**2.5**	1.1
Past service cost	**0.1**	-	**-**	-	**0.1**	-
Interest on defined benefit obligation	**31.0**	20.8	**0.5**	0.2	**31.5**	21.0
Actuarial gains or losses on the defined benefit obligation	**87.0**	1.7	**0.3**	0.1	**87.3**	1.8
Benefits paid	**(34.6)**	(19.6)	**(0.5)**	(0.3)	**(35.1)**	(19.9)
Employee contributions	**0.8**	0.1	**-**	-	**0.8**	0.1
Gain on plans curtailment	**(1.9)**	-	**(1.5)**	-	**(3.4)**	-
Impact of settlement	**(1.5)**	-	**-**	-	**(1.5)**	-
Balance, end of year	**$ 766.6**	$ 398.8	**$ 14.7**	$ 4.8	**$ 781.3**	$ 403.6
Fair value of plan assets						
Balance, beginning of year	**$ 338.4**	$ 346.5	**$ -**	$ -	**$ 338.4**	$ 346.5
Business combinations	**256.9**	-	**-**	-	**256.9**	-
Expected return on plan assets	**32.3**	23.8	**-**	-	**32.3**	23.8
Actuarial gains or losses on plan assets	**5.4**	(24.6)	**-**	-	**5.4**	(24.6)
Benefits paid	**(34.6)**	(19.6)	**(0.5)**	(0.3)	**(35.1)**	(19.9)
Employee contributions	**0.8**	0.1	**-**	-	**0.8**	0.1
Employer contributions	**28.2**	12.2	**0.5**	0.3	**28.7**	12.5
Impact of settlement	**(1.8)**	-	**-**	-	**(1.8)**	-
Balance, end of year	**$ 625.6**	$ 338.4	**$ -**	$ -	**$ 625.6**	$ 338.4
Defined benefit liabililty	**$ (141.0)**	$ (60.4)	**$ (14.7)**	$ (4.8)	**$ (155.7)**	$ (65.2)

The defined benefit liability is included in the Corporation's Statements of Financial Position as follows:

	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Other assets	**$ -**	$ 0.1	$ 1.5
Other liabilities	**(155.7)**	(65.3)	(54.5)
	$ (155.7)	$ (65.2)	$ (53.0)

The following table presents historical information on the defined benefit plans:

	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Fair value of plan assets	**$ 625.6**	$ 338.4	$ 346.5
Defined benefit obligation	**781.3**	403.6	399.5
Deficit	**$ (155.7)**	$ (65.2)	$ (53.0)
Experience adjustments on plan assets:	**$ 5.4**	$ (24.6)	$ 14.1
Experience adjustments on plan liabilities:	**$ 4.0**	$ (7.7)	$ -

28 EMPLOYEE BENEFITS (CONTINUED)

The following table presents the funding status of defined benefit plans:

	Pension benefits			Other post-employment benefits		
	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010	**As at October 31, 2012**	As at October 31, 2011	As at November 1, 2010
Fair value of funded or partially funded plan assets	**$ 625.6**	$ 338.4	$ 346.5	**$ -**	$ -	$ -
Defined benefit obligation of funded or partially funded plans	**738.2**	382.8	379.0	**-**	-	-
Funding status of funded or partially funded plans - deficit	**$ (112.6)**	$ (44.4)	$ (32.5)	**$ -**	$ -	$ -
Defined benefit obligation of unfunded plans	**28.4**	16.0	15.7	**14.7**	4.8	4.8
Total funding status - deficit	**$ (141.0)**	$ (60.4)	$ (48.2)	**$ (14.7)**	$ (4.8)	$ (4.8)

The Corporation expects to contribute $35.4 million to its defined benefit plans for the year ending October 31, 2013. The actual amount paid may differ from the estimate based on the results of the actuarial valuations that will be done as at December 31, 2012.

The following table presents the weighted average assumptions used for the years ended October 31:

	2012	2011
Defined benefit obligation		
Discount rate, end of year	**4.40 %**	5.50 %
Rate of compensation increase	**3.07 %**	3.07 %
Defined benefit cost		
Discount rate, end of previous year	**5.25 %**	5.50 %
Expected long-term rate of return on plan assets [1]	**6.40 %**	7.00 %
Rate of compensation increase	**3.07 %**	3.07 %

[1] The expected long-term rate of return on plan assets represents the weighted average expected return on the various plan asset classes held. Management estimates the expected return based on historical trends and expected market returns for assets with a term similar to the related obligation.

As at October 31, 2012, the growth rate of health care costs on other post-employment benefit plans, was estimated at 8.0% or 7.0% depending on the plan, gradually decreasing to reach 4.5% in 2018 and 3.0% by 2027, according to the plan, and remain constant thereafter.

The following table presents the impact of changes in the major assumptions on the defined benefit obligation and on the defined benefit cost for the year ended October 31, 2012. The sensitivities of each assumption were calculated without considering changes in other assumptions.

Increase (decrease)	Defined benefit obligation	Defined benefit cost
Impact of 1% increase in expected long-term rate of return on plan assets	$ -	$ (5.0)
Impact of 1% decrease in expected long-term rate of return on plan assets	$ -	$ 5.0
Impact of 1% increase in discount rate	$ (92.9)	$ 0.9
Impact of 1% decrease in discount rate	$ 112.6	$ (1.6)
Impact of 1% increase in growth rate of healthcare costs	$ 1.4	$ 0.1
Impact of 1% decrease in growth rate of healthcare costs	$ (1.2)	$ (0.1)

28 EMPLOYEE BENEFITS (CONTINUED)

The defined benefit cost for the years ended October 31 includes the following items:

	Pension benefits		Other post-employment benefits		Total	
	2012	2011	**2012**	2011	**2012**	2011
Current service cost	**$ 2.4**	$ 1.1	**$ 0.1**	$ -	**$ 2.5**	$ 1.1
Past service cost	**0.1**	-	**-**	-	**0.1**	-
Interest on defined benefit obligation	**31.0**	20.8	**0.5**	0.2	**31.5**	21.0
Expected return on plan assets	**(32.3)**	(23.8)	**-**	-	**(32.3)**	(23.8)
Gain on plans curtailment	**(1.9)**	-	**(1.5)**	-	**(3.4)**	-
Impact of settlement	**0.3**	-	**-**	-	**0.3**	-
Defined benefit cost	**$ (0.4)**	$ (1.9)	**$ (0.9)**	$ 0.2	**$ (1.3)**	$ (1.7)

The defined benefit costs (reversals) recognized in operating expenses in the Consolidated Statements of Income (Loss) for the years ended October 31, 2012 and 2011 were $1.7 million and ($1.7) million, respectively. The gain on plans curtailment in the amount of $3.4 million and an expense of $0.4 million were recognized in restructuring and other costs in the Consolidated Statement of Loss for the year ended October 31, 2012.

The following table presents the cumulative actuarial gains and losses before income taxes in other comprehensive loss for the years ended October 31:

	Pension benefits		Other post-employment benefits		Total	
	2012	2011	**2012**	2011	**2012**	2011
Balance of actuarial gains or losses before income taxes, beginning of year	**$ 26.3**	$ -	**$ 0.1**	$ -	**$ 26.4**	$ -
Actuarial gains or losses before income taxes recognized during the year	**81.6**	26.3	**0.3**	0.1	**81.9**	26.4
Balance of actuarial gains or losses before income taxes, end of year	**$ 107.9**	$ 26.3	**$ 0.4**	$ 0.1	**$ 108.3**	$ 26.4

The following table presents the costs recognized under operating expenses in the Consolidated Statement of Income (Loss) for defined contribution pension plans and State plans for the years ended October 31:

	2012	2011
Defined contribution pension plans	**$ 16.5**	$ 17.1
State plans	**17.9**	17.1
	$ 34.4	$ 34.2

29 COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Commitments

The Corporation is committed, under various leases of premises and machinery and equipment acquisition contracts, to make payments until 2029. Minimum payments required over the coming years for these commitments are as follows:

	Less than 1 year	1 to 5 years	More than 5 years	Total
Leasing of premises	$ 36.4	$ 122.9	$ 84.9	$ 244.2
Machinery and equipment acquisition contracts	0.9	0.7	-	1.6
	$ 37.3	$ 123.6	$ 84.9	$ 245.8

Guarantees

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

a) Sublease agreements

The Corporation has entered into sublease agreements for some of its locations under operating leases, with expiry dates between 2013 and 2018. If the sublessee defaults under any of these agreements, the Corporation must indemnify the lessor. The maximum exposure in respect of these guarantees is estimated at $7.1 million. As at October 31, 2012, the Corporation had not recorded any liability associated with these guarantees, since it is not probable that a sublessee will default under an agreement.

b) Indemnification of third parties

Under the terms of debt agreements, the Corporation has agreed to indemnify the holders of such debt instruments against any increase in their costs or reduction in the amounts otherwise payable to them resulting from changes in laws and regulations. These indemnification commitments are in effect for the term of the agreements and have no limitations. Given the nature of these indemnification agreements, the Corporation is unable to estimate its maximum potential liability to third parties. Historically, the Corporation has not made any indemnification payments and, as at October 31, 2012, the Corporation had not recorded a liability associated with these indemnification agreements.

c) Business disposals

In connection with the disposal of operations or assets, the Corporation may agree to indemnify against any claims that may result from its previous activities. Given the nature of these indemnification agreements, the Corporation is unable to estimate its maximum potential liability to guaranteed parties. Historically, the Corporation has not made any significant indemnification payments and, as at October 31, 2012, the Corporation had not recorded any liability associated with these indemnification agreements.

Contingent liabilities

In the normal course of operations, the Corporation is involved in various claims and legal proceedings. Although the outcome of these pending cases as at October 31, 2012 cannot be determined with certainty, the Corporation considers that their outcome is unlikely to have a material adverse effect on its financial position and operating results, given the provisions or insurance coverage with regards to some of these claims and legal proceedings.

30 FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk that the Corporation will incur losses arising from the failure of third parties to meet their contractual obligations. The Corporation is exposed to credit risk related to its accounts receivable. It is also exposed to credit risk with regard to its normal activities involving cash and its derivative financial instrument assets.

The Corporation regularly analyses the financial position of its customers and uses special assessment procedures for new customers. The Corporation sets specific credit limits per customer and regularly reviews them.

Owing to the diversification of its products, its customers and geographic coverage, the Corporation is protected against credit risk concentration. As at October 31, 2012, no single customer accounted for more than 5% of the consolidated accounts receivable and the Corporation's 20 largest customers accounted for less than 25% of the consolidated accounts receivable. As at October 31, 2012, the maximum credit risk exposure of accounts receivable was equivalent to their carrying value. Also, the Corporation has a credit insurance policy covering most of its large customers for a maximum amount of $20.0 million. The policy's provisions include standard clauses and contain limits on amounts that may be claimed by event and by year of coverage.

The Corporation determines whether receivables are past due according to the type of customers, their payment history and in which sector the customers conduct business. The allowance for doubtful accounts and the past due receivables are reviewed on a quarterly basis by management. The Corporation records an impairment only on receivables where collection is not reasonably certain.

The Corporation is exposed to credit risk with respect to its use of derivative financial instruments if one of the parties does not meet its obligations. However, it does not foresee this possibility occuring because it deals only with recognized financial institutions with superior credit ratings. As at October 31, 2012, the maximum exposure to this type of credit risk was $0.8 million ($2.3 million as at October 31, 2011 and $7.8 million as at November 1, 2010), which is the carrying value of the derivative financial instrument recorded in the Corporation's assets.

Past due receivables :

Trade receivables	**As at October 31, 2012**	As at October 31, 2011	As at November 1, 2010
Current	**$ 298.7**	$ 238.0	$ 280.8
1-30 days past due	**86.8**	87.5	81.7
31-60 days past due	**22.8**	25.1	23.0
More than 60 days past due	**30.5**	22.3	20.8
	438.8	372.9	406.3
Allowance for doubtful accounts	**(14.5)**	(7.2)	(10.2)
Amount related to sold activities (Note 26)	**-**	35.0	-
Other receivables	**25.5**	24.8	32.7
	$ 449.8	$ 425.5	$ 428.8

Allowance for doubtful accounts:

The allowance for doubtful accounts has varied as follows for the years ended October 31:

	2012	2011
Balance, beginning of year	**$ 7.2**	$ 10.2
Business combination	**8.1**	-
Bad debt expense	**3.2**	1.8
Receivables recovered or written off	**(4.0)**	(4.8)
Balance, end of year	**$ 14.5**	$ 7.2

Based on customers payment history, the Corporation is of the opinion that the allowance for doubtful accounts is adequate to cover risks of non-payment.

30 FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they mature. The Corporation is exposed to liquidity risk related to its accounts payable, long-term debt, derivative financial instrument liabilities and contractual obligations.

The following table presents the contractual maturities of financial liabilities as at October 31, 2012:

2012	Carrying value	Contractual cash flows	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities [1]	$ **(332.3)**	$ **(332.3)**	$ **(332.3)**	$ **-**	$ **-**	$ **-**
Long-term debt	**(487.6)**	**(552.7)**	**(303.3)**	**(167.6)**	**(25.8)**	**(56.0)**
Long-term accrued liabilities [2]	**(8.0)**	**(8.0)**	**-**	**(8.0)**	**-**	**-**
	(827.9)	**(893.0)**	**(635.6)**	**(175.6)**	**(25.8)**	**(56.0)**
Derivative financial instruments						
Foreign exchange forward contracts						
Fund outflows	**-**	**(60.9)**	**(55.9)**	**(5.0)**	**-**	**-**
Fund inflows	**0.8**	**62.1**	**56.9**	**5.2**	**-**	**-**
Interest rate swaps	**(1.3)**	**(1.4)**	**(0.8)**	**(0.6)**	**-**	**-**
Cross currency interest rate swap	**(9.6)**	**(9.9)**	**(3.9)**	**(6.0)**	**-**	**-**
	(10.1)	**(10.1)**	**(3.7)**	**(6.4)**	**-**	**-**
	$ **(838.0)**	$ **(903.1)**	$ **(639.3)**	$ **(182.0)**	$ **(25.8)**	$ **(56.0)**

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

2011	Carrying value	Contractual cash flows	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities [1]	$ (280.8)	$ (280.8)	$ (280.8)	$ -	$ -	$ -
Long-term debt	(564.4)	(623.5)	(290.9)	(193.3)	(82.0)	(57.3)
Long-term accrued liabilities [2]	(2.2)	(2.2)	-	(2.2)	-	-
	(847.4)	(906.5)	(571.7)	(195.5)	(82.0)	(57.3)
Derivative financial instruments						
Foreign exchange forward contracts						
Fund outflows	-	(91.7)	(56.0)	(35.7)	-	-
Fund inflows	3.8	96.7	60.5	36.2	-	-
Interest rate swaps	(5.2)	(5.8)	(4.2)	(1.6)	-	-
Cross currency interest rate swap	(8.7)	(9.4)	(2.8)	(4.7)	(1.9)	-
	(10.1)	(10.2)	(2.5)	(5.8)	(1.9)	-
	$ (857.5)	$ (916.7)	$ (574.2)	$ (201.3)	$ (83.9)	$ (57.3)

[1] Excluding derivative financial instruments
[2] Excluding non-financial liabilities

The Corporation believes that future funds generated by operating activities and the access to additional funds on banking and financial markets will be adequate to meet its obligations. Also, the Corporation has entered into long-term contracts with the majority of its large customers. These contracts contain cost-escalation clauses equivalent to those required by the Corporation's suppliers.

30 FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

The market risk is the risk that the Corporation will incur losses arising from adverse changes in underlying market factors, including interest and exchange rates.

a) Interest rate risk

The Corporation is exposed to market risk related to interest rate fluctuations. To reduce this risk, the Corporation seeks to maintain an adequate balance of fixed and floating long-term liabilities. As at October 31, 2012, the floating rate portion of the long-term debt was 53% of the total debt (59% as at October 31, 2011), while the fixed rate portion accounted for 47% (41% as at October 31, 2011).

As at October 31, 2012, to reduce the interest rate risk, the Corporation entered into interest rate swap agreements with respect to the long-term debt in Canadian dollars, for a notional amount of $100.0 million, maturing in May 2014. Swaps are designated as cash flow hedges as at October 31, 2012 and hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the year 2012. The swap agreements convert the floating interest rate based on the banker's acceptance rate to an average fixed rate of 3.47%, including an applicable margin. Given the economic impact of the derivative financial instruments, the floating rate portion of the long-term debt is 33% of the total debt (19% as at October 31, 2011), while the fixed rate portion is 67% (81% as at October 31, 2011). On September 26, 2012, interest rate swaps on long-term debt in Canadian dollars, for a notional amount of $125.0 million, matured.

As at October 31, 2012, the Corporation entered into a cross currency interest rate swap agreement, maturing in July 2015, to convert the interest rate on the debt of € 29.5 million ($38.1 million), which bears interest at the EURIBOR rate plus 1.60%, to the banker's acceptance rate plus 3.36%. This instrument also sets the exchange rate at 1.5761. This swap is designated as cash flow hedges as at October 31, 2012 and the hedging relationship was effective and in accordance with the risk management objectives and strategies throughout the year 2012.

For the years ended October 31, 2012 and 2011, all things being equal, a hypothetical strengthening of the interest rate by 0.5% would have the following impact on net income (loss) and other comprehensive loss:

	2012		2011	
	Net income (loss)	**Other comprehensive loss**	Net income (loss)	Other comprehensive loss
	$ (0.6)	**$ 0.2**	$ (0.4)	$ 1.1

A hypothetical weakening of the interest rate by 0.5% would have the opposite effect on net income (loss) and other comprehensive income loss.

b) Foreign currency risk

The Corporation operates in and exports goods to the United States, and purchases machinery and equipment denominated in U.S. dollars and in euros. Moreover, as at October 31, 2012, the Corporation had long-term debt denominated in U.S. dollars and in euros, totalling US$206.9 million and €29.5 million (US$263.5 million and €39.3 million as at October 31, 2011). Consequently, it is exposed to risks arising from foreign currency fluctuations.

To manage foreign currency risk on exports to the United States, the Corporation enters into foreign exchange forward contracts. As at October 31, 2012, the Corporation held foreign exchange forward contracts to sell US$61.0 million (US$92.5 million as at October 31, 2011), including US$56.0 million and US$5.0 million that will be sold during the years ending October 31, 2013 and 2014, respectively. The maturities of foreign exchange forward contracts range from 1 to 13 months at rates varying from 0.9890 to 1.0554. Foreign exchange forward contracts are designated as cash flow hedges as at October 31, 2012 and hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the year 2012.

30 FINANCIAL INSTRUMENTS (CONTINUED)

For the years ended October 31, 2012 and 2011, all things being equal, a hypothetical 10.0% strengthening of the U.S. dollar and the euro compared with the Canadian dollar would have the following impact on net income (loss) and other comprehensive income loss:

	2012		2011	
	Net income (loss)	**Other comprehensive loss**	Net income (loss)	Other comprehensive loss
U.S. dollars	**$ 0.5**	**$ (4.4)**	$ 1.5	$ (5.6)
Euros	**-**	**3.6**	-	2.2

A hypothetical 10.0% weakening of the U.S. dollar and the euro compared with the Canadian dollar would have the opposite effect on net income (loss) and other comprehensive loss.

Fair value

The carrying value of certain financial instruments maturing in the short term approximates their fair value. These financial instruments include cash, accounts receivable, accounts payable and accrued liabilities and provisions. The following table indicates the fair value and the carrying value of certain financial instruments as at October 31, 2012 and 2011. Fair values are primarily determined based on the calculation of discounted cash flows or by using market rates. The fair values calculated approximate the amounts for which the financial instruments could be settled between consenting parties based on current market data for similar instruments. Accordingly, by virtue of its estimative nature, the fair value must not be interpreted as being realizable in the event of the immediate settlement of instruments.

	2012		2011	
	Fair value	**Carrying value**	Fair value	Carrying value
Long-term debt	**$ 509.0**	**$ 487.6**	$ 586.7	$ 564.4
Foreign exchange forward contracts	**0.8**	**0.8**	3.8	3.8
Interest rate swaps	**(1.3)**	**(1.3)**	(5.2)	(5.2)
Cross currency interest rate swap	**(9.6)**	**(9.6)**	(8.7)	(8.7)

Fair value hierarchy

The following table presents financial instruments recorded at fair value based on the assessment method. Various levels are defined as follows:

Level 1 - Unadjusted prices on active markets for identical assets or liabilities
Level 2 - Inputs other than the prices included within level 1, that are observable for the asset or liability, directly (prices) or indirectly (derived from prices)
Level 3 - Inputs for the asset or liability that are not based on observable market data

2012	Level 1	Level 2	Level 3	Total
Foreign exchange forward contracts	**$ -**	**$ 0.8**	**$ -**	**$ 0.8**
Interest rate swaps	**-**	**(1.3)**	**-**	**(1.3)**
Cross currency interest rate swap	**-**	**(9.6)**	**-**	**(9.6)**
	$ -	**$ (10.1)**	**$ -**	**$ (10.1)**

2011	Level 1	Level 2	Level 3	Total
Foreign exchange forward contracts	$ -	$ 3.8	$ -	$ 3.8
Interest-rate swaps	-	(5.2)	-	(5.2)
Cross currency interest rate swap	-	(8.7)	-	(8.7)
	$ -	$ (10.1)	$ -	$ (10.1)

31 CAPITAL MANAGEMENT

The Corporation manages and modifies its capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Corporation's main capital management objectives are as follows:

- Optimize the financial structure by maintaining a ratio of net debt to operating income from continuing operations before amortization, restructuring and other costs, impairment of assets and gain on business acquisition of approximately 1.50x;
- Maintain a high credit rating;
- Preserve its financial flexibility in order to benefit from potential opportunities when they arise.

The Corporation relies on the ratio of net debt (including, if any, the utilization of the securitization program) on operating income from continuing operations before amortization, restructuring and other costs, impairment of assets and gain on business acquisition as a primary measure to monitor leverage. The net debt ratio is as follows for the years ended October 31, 2012 and 2011:

		2012		2011
Long-term debt	**$**	**204.1**	$	292.5
Current portion of long-term debt		**283.5**		271.9
Cash		**(16.8)**		(75.0)
Net debt	**$**	**470.8**	$	489.4
Operating income from continuing operations before amortization, restructuring and other costs, impairment of assets and gain on business acquisition	**$**	**357.6**	$	365.4
Net debt ratio		**1.32x**		1.34x

As at October 31, 2012, the Corporation's net debt ratio was 1.32x (1.34x as at October 31, 2011). The cash flows generated by operating activities, combined with a reduction in acquisitions of property, plant and equipment and intangible assets were partly offset by costs related to business acquisitions and the integration of the activities of Quad/Graphics Canada, Inc., which led to the a slight decrease in the net debt from $489.4 million as at October 31, 2011, to $470.8 million as at October 31, 2012.

For the year ended October 31, 2012, the Corporation was not in default regarding any of its obligations related to the term revolving credit facility, the securitization program and other financial obligations.

32 SEGMENT REPORTING

On November 1, 2011, the Corporation implemented a new operating structure, combining the majority of the Interactive Sector's activities with those of the Media Sector to form a single sector in order to better meet the multi-platform marketing communication needs of organizations. For their part, digital printing activities established in the United States will complete the product offering of the Printing Sector. Comparative figures have therefore been restated to reflect this change.

The operating segments are defined in terms of the types of products and services offered by the Corporation. The Printing Sector generates revenues through printing activities for publishers of magazines, books and newspapers, as well as retail customers. The Media Sector generates revenues through the publishing of magazines, newspapers and books, a diversified digital platform and a door-to-door network for distributing advertising material that allows advertisers to reach consumers directly, as well as through interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions. Also, since April 2012, the Media Sector offers television content creation services that can be delivered on all communication platforms, from TV channels for general broadcasting to new media, Internet and mobile channels for on-demand delivery. Sales between the Corporation's segments are recognized at the exchange amount. Transactions other than sales are recognized at the carrying amount.

32 SEGMENT REPORTING (CONTINUED)

The Consolidated Statements of Income (Loss) for the years ended October 31 include the following components (by segment):

Operating segments	2012	2011
Revenues		
Printing Sector	**$ 1,480.5**	$ 1,374.4
Media Sector	**712.0**	697.0
Other activities and unallocated amounts	**8.5**	8.1
Inter-segment sales	**(88.9)**	(90.2)
	$ 2,112.1	$ 1,989.3
Operating income (loss) before amortization		
Printing Sector	**$ 266.9**	$ 268.6
Media Sector	**(161.4)**	36.0
Other activities and unallocated amounts	**(2.8)**	(9.5)
	$ 102.7	$ 295.1
Operating income (loss)		
Printing Sector	**$ 181.9**	$ 183.9
Media Sector	**(182.9)**	8.1
Other activities and unallocated amounts	**(8.7)**	(15.7)
	$ (9.7)	$ 176.3
Acquisitions of non-current assets [(1)]		
Printing Sector	**$ 49.5**	$ 31.8
Media Sector	**36.6**	29.5
Other activities and unallocated amounts	**4.8**	4.2
	$ 90.9	$ 65.5

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

	2012	2011
Amortization of property, plant and equipment and intangible assets		
Printing Sector	**$ 85.0**	$ 84.7
Media Sector	**21.5**	27.9
Other activities and unallocated amounts	**5.9**	6.2
	$ 112.4	$ 118.8
Impairment of assets		
Printing Sector	**$ 2.5**	$ 3.9
Media Sector	**229.5**	51.3
	$ 232.0	$ 55.2

The Corporation's revenues by main products and services for the years ended October 31, were as follows:

	2012	2011
Main products and services		
Printed products	**$ 1,396.2**	$ 1,286.3
Publishing products	**433.5**	423.7
Digital and interactive products	**144.6**	135.9
Other products and services	**137.8**	143.4
	$ 2,112.1	$ 1,989.3

32 SEGMENT REPORTING (CONTINUED)

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

Operating segments	**As at October 31, 2012**	As at October 31, 2011	As at November 1, 2010
Assets			
Printing Sector	**$ 1,247.7**	$ 1,207.3	$ 1,347.7
Media Sector	**777.3**	928.7	947.8
Other activities and unallocated amounts	**111.2**	196.5	114.1
Asset from discountinued activities (Note 9)	**-**	27.5	106.9
	$ 2,136.2	$ 2,360.0	$ 2,516.5

The geographic segment components in the Consolidated Statements of Income (Loss) and Consolidated Statements of Financial Position for the years ended October 31 are as follows:

Geographic segments	**2012**	2011
Revenues		
Canada		
Domestic	**$ 1,885.8**	$ 1,758.1
Exports	**125.0**	127.4
United States	**101.3**	103.8
	$ 2,112.1	$ 1,989.3

	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010
Non-current assets [(1)]			
Canada	**$ 1,214.0**	$ 1,379.6	$ 1,472.5
United States	**126.8**	149.5	169.7
Assets related to discontinued operations (Note 9)	**-**	13.5	62.6
	$ 1,340.8	$ 1,542.6	$ 1,704.8

[(1)] These amounts include property, plant and equipment, intangible assets, goodwill and other non-current assets, and exclude derivative financial instrument assets, deferred income tax assets and defined benefit assets.

33 SUBSEQUENT EVENT

Renegotiation of the agreement with Hearst Corporation

On December 6, 2012, the Corporation announced the renegotiation of its agreement with Hearst Corporation to print the *San Francisco Chronicle* . The Corporation will receive in January 2013 an amount of US$200.0 million in consideration for price reductions on the remaining term of the contract. The amount received will be recognized as deferred revenues and transferred to revenues based on the remaining term of the contract.

34 TRANSITION TO IFRS

These consolidated financial statements are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS, as described in Note 2, "Significant accounting policies".

The Corporation's date of transition to IFRS is November 1, 2010. For the purposes of preparing the opening Consolidated Statement of Financial Position as at that date, the Corporation applied the accounting policies described in Note 2 and the relief measures, called exemptions and exceptions, permitted under IFRS 1, "First-time Adoption of International Financial Reporting Standards", in order to avoid retroactive application of certain standards. The exemptions are optional, while the exceptions are mandatory. Descriptions of the exemptions and exceptions applicable to the Corporation, along with the Corporation's elections, are presented below:

Exemptions to complete retrospective application of IFRS

a) Business combinations
IFRS 1 permits to not retrospectively apply IFRS 3, "Business Combinations", to business combinations that occured before the transition date. The Corporation has elected to apply IFRS 3 prospectively from the transition date. As a result, the carrying value of goodwill, as determined previously under Canadian GAAP for business combinations that took place before November 1, 2010, has not been restated. On the date of transition, goodwill was tested for impairment in accordance with IFRS 1 requirements with no resulting impairment expense.

b) Share-based payment transactions
IFRS 1 encourages, but does not require, application of IFRS 2, "Share-based Payment" for equity instruments granted on or before November 7, 2002, as well as those that were granted after November 7, 2002 and vested before the date of transition to IFRS. The Corporation has elected to apply IFRS 2 to all the equity instruments granted after November 7, 2002, but not vested before the date of transition to IFRS. For stock options issued and vested before November 1, 2010, the amount recognized in contributed surplus, as well as in share capital in the case of exercised options, has been reversed and recorded in retained earnings.

c) Deemed cost
IFRS 1 allows for property, plant and equipment to be valued on the date of transition at fair value and to use such fair value as deemed cost as at this date. Deemed cost is the amount used as a substitute for cost or amortized cost, with subsequent amortization calculated based on this amount. The Corporation has elected to apply this exemption to certain items of property, plant and equipment.

d) Employee benefits
IAS 19, "Employee Benefits", requires measuring actuarial gains and losses on defined benefit plans in accordance with IFRS from the commencement of the plans until the date of transition. IFRS 1 permits recognizing cumulative actuarial gains and losses in retained earnings on the date of transition, and prospective application of IAS 19. The Corporation has elected to apply this exemption and, as a result, accumulated actuarial gains and losses as at November 1, 2010 have been recognized in retained earnings for all its defined benefit plans.

e) Cumulative translation differences
IAS 21, "The Effects of Changes in Foreign Exchange Rates", requires computing translation differences in accordance with IFRS since the date that the foreign operation was acquired or established. IFRS 1 permits cumulative translation differences for all foreign operations to be deemed to be zero on the date of transition. The gain or loss on subsequent disposal of a foreign operation must exclude cumulative translation differences from before the date of transition to IFRS. The Corporation has elected to apply this exemption and, consequently, the cumulative translation differences as at November 1, 2010 have been recognized in retained earnings.

f) Borrowing costs
IAS 23, "Borrowing Costs", is more directive than Canadian GAAP regarding the nature of borrowing costs that are directly capitalized as part of the acquisition, construction or production of a qualifying asset. IFRS 1 offers an exemption that permits prospective compliance with the requirements of IAS 23 for all qualifying assets whose capitalization begins on or after the date of transition. The Corporation has elected to use this exemption and apply IAS 23 to all qualifying assets whose capitalization begins on the date of transition. Consequently, the balance of the capitalized borrowing costs in property, plant and equipment as at November 1, 2010 under Canadian GAAP has been reversed and recognized in retained earnings.

34 TRANSITION TO IFRS (CONTINUED)

Mandatory exceptions

g) Estimates
IFRS 1 states that an entity's estimates in accordance with IFRS at the date of transition to IFRS shall be consistent with those made on the same date in accordance with Canadian GAAP, unless there is objective evidence that those estimates were in error. As a result, the estimates that the Corporation had prepared under Canadian GAAP were not revised when IFRS were applied.

h) Hedge accounting
IFRS 1 does not allow hedging relationships that do not qualify for the use of hedge accounting under IFRS to be reflected in an entity's opening IFRS Statement of Financial Position. Similarly, IFRS 1 allows for hedge accounting to be applied prospectively from the date of transition only to transactions that meet the hedge accounting criteria in IAS 39, "Financial Instruments: Recognition and Measurement", on this date. Consequently, transactions entered into before November 1, 2010 were not retroactively designated as hedges.

i) Non-controlling interests
The provisions of IAS 27, "Consolidated and Separate Financial Statements", must be applied prospectively on or after the date of transition. These provisions apply in particular to the attribution of deficit balances to non-controlling interests, the recognition of changes in the ownership interests of a parent in a subsidiary that do not result in a loss of control, and accounting for the loss of control over a subsidiary.

Reconciliation of Canadian GAAP and IFRS
The following tables present the impact of adjustments made by the Corporation in order to prepare the opening Consolidated Statement of Financial Position as at November 1, 2010 under IFRS, and to restate the Consolidated Financial Statements under Canadian GAAP for the year ended October 31, 2011. Explanations regarding the restatement under IFRS of the Consolidated Financial Statements prepared in accordance with Canadian GAAP are provided in the section that follows the tables.

a) Reconciliation of equity

	Notes	As at October 31, 2011	As at November 1, 2010 $
Equity in accordance with Canadian GAAP		$ 1,329.0	$ 1,247.0
IFRS adjustments:			
Employee benefits	D	(73.5)	(47.1)
Borrowing costs	E	(12.0)	(13.2)
Deemed cost	F	(97.1)	(102.4)
Income taxes	G	12.6	16.3
Business combinations	H	(3.3)	-
Tax effect of all restatements	G, I	52.7	48.9
Other	J	(6.3)	(5.7)
		(126.9)	(103.2)
Non-controlling interests	A	0.8	0.8
Equity in accordance with IFRS		$ 1,202.9	$ 1,144.6

34 TRANSITION TO IFRS (CONTINUED)

b) Reconciliation of net income and comprehensive income

Consolidated Statement of Income and Comprehensive Income for the year ended October 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Revenues		$ 1,989.3	$ -	$ 1,989.3
Operating expenses	J	1,624.3	(0.4)	1,623.9
Restructuring and other costs	H	11.8	3.3	15.1
Impairment of assets	J	56.1	(0.9)	55.2
Operating income before amortization		297.1	(2.0)	295.1
Amortization	E, F, G, J	117.7	1.1	118.8
Operating income		179.4	(3.1)	176.3
Net financial expenses		45.0	-	45.0
Income before income taxes		134.4	(3.1)	131.3
Income taxes	I	29.5	2.0	31.5
Non-controlling interests	A	0.9	(0.9)	-
Net income from continuing operations		104.0	(4.2)	99.8
Net income (loss) from discontinued operations	B	(19.4)	48.0	28.6
Net income		84.6	43.8	128.4
Non-controlling interests	A	-	0.9	0.9
Net income attributable to shareholders of the Corporation		84.6	42.9	127.5
Dividends on preferred shares, net of related taxes		6.8	-	6.8
Net income attributable to participating shares		$ 77.8	$ 42.9	$ 120.7
Net income		84.6	43.8	128.4
Other comprehensive income (loss)	B, D, E, F, I, J	43.0	(66.6)	(23.6)
Comprehensive income		127.6	(22.8)	104.8
Net income (loss) per participating share - basic and diluted				
Continuing operations		$ 1.20	$ (0.06)	$ 1.14
Discontinued operations		(0.24)	0.59	0.35
		$ 0.96	$ 0.53	$ 1.49
Weighted average number of participating shares outstanding - basic (in millions)		81.0	81.0	81.0
Weighted average number of participating shares - diluted (in millions)		81.1	81.1	81.1

Reclassifications were made to amounts included in the annual consolidated financial statements for the year ended October 31, 2011 to present separately the net income (loss) from discontinued operations.

34 TRANSITION TO IFRS (CONTINUED)

c) Reconciliation of financial position

Consolidated Statement of Financial Position as at November 1, 2010

	Notes	Canadian GAAP	IFRS adjustements	IFRS
Current assets				
Cash		$ 31.9	$ -	$ 31.9
Accounts receivable		428.8	-	428.8
Income taxes receivable		19.5	-	19.5
Inventories		74.2	-	74.2
Prepaid expenses and other current assets		19.1	-	19.1
Deferred income taxes	A	16.6	(16.6)	-
Current assets related to discontinued operations	A	42.9	(1.1)	41.8
		633.0	(17.7)	615.3
Property, plant and equipment	E, F, G	859.3	(99.3)	760.0
Intangible assets		179.1	-	179.1
Goodwill		674.8	-	674.8
Deferred income taxes	A, G, I	145.3	44.6	189.9
Other assets	D	39.2	(6.9)	32.3
Non-current assets related to discontinued operations	A	64.0	1.1	65.1
		$ 2,594.7	$ (78.2)	$ 2,516.5
Current liabilities				
Accounts payable and accrued liabilities	A, J	$ 340.0	$ (15.7)	$ 324.3
Provisions	A	-	15.6	15.6
Income taxes payable		29.0	-	29.0
Deferred subscription revenues and deposits		38.4	-	38.4
Deferred income taxes	A	2.5	(2.5)	-
Current portion of long-term debt	A	17.8	276.0	293.8
Current liabilities related to discontinued operations		18.2	-	18.2
		445.9	273.4	719.3
Long-term debt	A	712.9	(276.0)	436.9
Deferred income taxes	A, G, I	137.4	(18.4)	119.0
Provisions	A, D	-	15.8	15.8
Other liabilities	A, D, J	50.0	30.2	80.2
Non-current liabilities related to discontinued operations		0.7	-	0.7
		1,346.9	25.0	1,371.9
Non-controlling interests	A	0.8	(0.8)	-
Equity				
Share capital	C	478.6	(0.7)	477.9
Contributed surplus	C	13.7	(12.6)	1.1
Retained earnings	B, C, D, E, F, G, I, J	784.0	(114.7)	669.3
Accumulated other comprehensive loss	B	(29.3)	24.8	(4.5)
Attributable to shareholders of the Corporation		1,247.0	(103.2)	1,143.8
Non-controlling interests	A	-	0.8	0.8
		1,247.0	(102.4)	1,144.6
		$ 2,594.7	$ (78.2)	$ 2,516.5

Reclassifications were made to amounts included in the annual consolidated financial statements for the year ended October 31, 2010 to present separately the assets and liabilities related to discontinued operations.

34 TRANSITION TO IFRS (CONTINUED)

Consolidated Statement of Financial Position as at October 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Current assets				
Cash		$ 75.0	$ -	$ 75.0
Accounts receivable		425.5	-	425.5
Income taxes receivable		14.7	-	14.7
Inventories		77.2	-	77.2
Prepaid expenses and other current assets	H	21.4	(3.3)	18.1
Deferred income taxes	A	16.8	(16.8)	-
Current assets related to discontinued operations		14.0	-	14.0
		644.6	(20.1)	624.5
Property, plant and equipment	E, F, G	776.9	(96.5)	680.4
Intangible assets	J	150.8	(1.2)	149.6
Goodwill		679.2	-	679.2
Deferred income taxes	A, G, I	144.9	47.7	192.6
Other assets	D	43.7	(23.5)	20.2
Non-current assets related to discontinued operations		13.5	-	13.5
		$ 2,453.6	$ (93.6)	$ 2,360.0
Current liabilities				
Accounts payable and accrued liabilities	A, J	$ 296.1	$ (9.0)	$ 287.1
Provisions	A	-	8.6	8.6
Income taxes payable		33.5	-	33.5
Deferred subscription revenues and deposits		32.5	-	32.5
Deferred income taxes	A	2.0	(2.0)	-
Current portion of long-term debt		271.9	-	271.9
Current liabilities related to discontinued operations		7.6	-	7.6
		643.6	(2.4)	641.2
Long-term debt		292.5	-	292.5
Deferred income taxes	A, G, I	140.5	(19.8)	120.7
Provisions	A, D	-	13.9	13.9
Other liabilities	A, D, J	47.2	41.6	88.8
Non-current liabilities related to discontinued operations		-	-	-
		1,123.8	33.3	1,157.1
Non-controlling interests	A	0.8	(0.8)	-
Equity				
Share capital	C	478.8	(0.7)	478.1
Contributed surplus	C	14.4	(12.6)	1.8
Retained earnings	B, C, D, E, F, G, H, I, J	822.1	(71.8)	750.3
Accumulated other comprehensive income (loss)	B, D, E, F, I, J	13.7	(41.8)	(28.1)
Attributable to shareholders of the Corporation		1,329.0	(126.9)	1,202.1
Non-controlling interests	A	-	0.8	0.8
		1,329.0	(126.1)	1,202.9
		$ 2,453.6	$ (93.6)	$ 2,360.0

Reclassifications were made to amounts included in the annual consolidated financial statements for the year ended October 31, 2011 to present separately the assets and liabilities related to discontinued operations.

34 TRANSITION TO IFRS (CONTINUED)

d) Reconciliation of cash flows

Consolidated Summary of Cash Flows for the year ended October 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Cash flows from operating activities	A, J	$ 308.1	$ 30.9	$ 339.0
Cash flows from investing activities	J	(52.7)	3.6	(49.1)
Cash flows from financing activities	A, J	(217.0)	(34.5)	(251.5)
Effect of exchange rate changes on cash denominated in foreign currencies		0.3	-	0.3
Increase in cash		38.7	-	38.7
Cash, beginning of year		36.3	-	36.3
Cash, end of year		$ 75.0	$ -	$ 75.0

Restatement in IFRS of the consolidated financial statements prepared in accordance with Canadian GAAP
The following items explain the most significant restatements made to the Corporation's consolidated financial statements, following application of IFRS.

A) Reclassifications

i) Deferred tax
Under Canadian GAAP, future tax assets and liabilities are allocated to short-term and long-term items according to the nature of the underlying assets and liabilities. If the future income tax assets and liabilities are not related to assets and liabilities recognized for accounting purposes, they are classified according to the date on which their realization is expected. Under IFRS, deferred income tax assets are classified as non-current items.

Consequently, as at November 1, 2010, short-term future tax assets and liabilities of $16.6 million and $2.5 million, respectively, were reclassified to deferred income taxes included in the non-current assets and liabilities in the Consolidated Statement of Financial Position. As at October 31, 2011, short-term future tax assets and liabilities that have been reclassified to deferred income taxes included in the non-current assets and liabilities in the Consolidated Statement of Financial Position, were $16.8 million and $2.0 million, respectively. As at November 1, 2010, short-term future income tax assets included in assets related to discontinued operations have been reclassified similarly.

ii) Provisions
Under Canadian GAAP, provisions are included under the heading "Accounts payable and accrued liabilities." Under IFRS, provisions are presented separately in the Consolidated Statement of Financial Position.

Consequently, as at November 1, 2010, accounts payable and accrued liabilities of $15.6 million and other liabilities of $10.6 million have been reclassified in the current and non-current provisions, respectively, in the Consolidated Statement of Financial Position. As at October 31, 2011, accounts payable and accrued liabilities of $8,6 million and other liabilities of $8.7 million have been reclassified in the current and non-current provisions, respectively, in the Consolidated Statement of Financial Position.

iii) Non-controlling interests
Under Canadian GAAP, non-controlling interests are presented as a separate component between liabilities and equity in the Consolidated Statement of Financial Position and as a reduction of net income (loss) in the Consolidated Statement of Income (Loss). Under IFRS, non-controlling interests are presented in equity in the Consolidated Statement of Financial Position and as a separate component of the Consolidated Statement of Income (Loss) as net income (loss) attributable to non-controlling interests.

Consequently, an amount of $0.8 million was reclassified to equity in the Consolidated Statements of Financial Position as at November 1, 2010 and October 31, 2011.

34 TRANSITION TO IFRS (CONTINUED)

iv) Classification of long-term debt

Under Canadian GAAP, debts that have short-term characteristics or maturity may be classified as long-term liabilities when the Corporation has the intent and ability to refinance with long-term instruments. Under IFRS, these debts are classified as current liabilities in the Consolidated Statement of Financial Position.

Consequently, as at November 1, 2010, the term revolving credit facility of $177.9 million and the term credit facility of $98.1 million granted by Caisse de dépôt et placement du Québec, which were presented in long-term liabilities, have been reclassified as current liabilities in the Consolidated Statement of Financial Position. No reclassification was made in the Consolidated Statement of Financial Position as at October 31, 2011, as the term revolving credit facility was already presented in short-term liabilities under Canadian GAAP due to its short-term maturity and the term credit facility granted by Caisse de dépôt et placement du Québec had been repaid on that date.

v) Financial expenses on long-term debt

Under Canadian GAAP, financial expenses on long-term debt are classified in operating activities in the Statement of Cash Flows. Under IFRS, an entity may elect to classify financial expenses on long-term debt in operating or financing activities in the Statement of Cash Flows. The Corporation has elected to classify financial expenses on long-term debt in financing activities in the Consolidated Statement of Cash Flows.

Consequently, $34.5 million were reclassified in financing activities in the Consolidated Statement of Cash Flows for the year ended October 31, 2011.

B) Cumulative translation differences

The Corporation's application of the IFRS 1 exemption under which cumulative translation differences for all foreign operations are deemed to be zero at the date of transition, resulted in a $24.8 million increase in accumulated other comprehensive loss with a corresponding decrease in retained earnings in the Consolidated Statement of Financial Position as at November 1, 2010. Application of this exemption also resulted in a $48.0 million increase in net income from discontinued operations for the year ended October 31, 2011, in order to reverse the realized foreign exchange loss related to the reduction of net investment in foreign operations on the sale of the Mexican printing operations.

C) Share-based payment transactions

The Corporation's application of the IFRS 2 exemption resulted in a $12.6 million decrease in contributed surplus with a corresponding increase in retained earnings in the Consolidated Statement of Financial Position as at November 1, 2010. The main reason for this restatement is that, under Canadian GAAP, the Corporation recognized the cost of compensation related to a share option grant on a straight-line basis over the maximum vesting period. Under IFRS, a cost is associated with each tranche of an award of options, and is recognized on a straight-line basis over the respective vesting period of each tranche of a share option grant. Application of the exemption under IFRS 2 also resulted in a $0.7 million decrease in share capital with a corresponding increase in retained earnings in the Consolidated Statement of Financial Position as at November 1, 2010, for exercised options affected by the exemption for which the amount credited to contributed surplus was transferred to share capital. Application of this exemption had no other effect on the consolidated financial statements for the year ended October 31, 2011.

D) Employee benefits

The Corporation's application of the IFRS 1 exemption has resulted in the recognition of cumulative unamortized actuarial gains and losses to retained earnings at the transition date. The effect of this exemption was a $6.9 million decrease in other assets, a $35.0 million increase in other liabilities and the net effect, considering deferred income taxes, was recognized in retained earnings. The reversal of cumulative unamortized actuarial gains and losses, recorded in the year ended October 31, 2011, increased other assets by $16.6 million, increased other liabilities by $9.8 million and the net effect, considering deferred income taxes, was recognized in accumulated other comprehensive loss. The reversal of unamortized cumulative actuarial gains and losses had a negligible effect on the Consolidated Statement of Income (Loss) for the fiscal year ended October 31, 2011.

Under Canadian GAAP, multi-employer pension plans are accounted for as defined contribution plans. IAS 19 "Employee Benefits" requires multi-employer plans with implicit obligations to be accounted for as defined benefit plans when the Corporation has sufficient information to identify its share of the obligation under defined benefit, its share of plan assets and costs associated with the plans. The Corporation does not have all the information to be able to recognize these plans as defined benefit plans, but it has sufficient information to record this obligation as a provision. Consequently, a provision was recognized based on the data provided by the most recent actuarial valuations by applying an estimated percentage of the share in the plan, calculated on a going concern basis, attributable to the Corporation. The recognition of a provision for multi-employer plans as at November 1, 2010, resulted in a $5.2 million increase in provisions, and the net effect, considering deferred income taxes, was recognized in retained earnings. The recognition of multi-employer plans had no effect on the consolidated financial statements for the fiscal year ended October 31, 2011.

34 TRANSITION TO IFRS (CONTINUED)

E) Borrowing costs

The Corporation's application of the IFRS 1 exemption under which interest expense previously capitalized under Canadian GAAP may be reclassified to retained earnings, resulted in a $13.2 million decrease in property, plant and equipment as at November 1, 2010. The effect of this exemption for the year ended October 31, 2011 was a $1.1 million decrease in amortization expense and a $0.1 million increase in the cumulative translation differences in the Consolidated Statement of Financial Position.

F) Deemed cost

The Corporation's application of the IFRS 1 exemption under which the fair value of certain buildings on the date of transition was used as deemed cost, resulted in a $102.4 million decrease in property, plant and equipment as at November 1, 2010. The effect of this exemption for the year ended October 31, 2011 was a $3.6 million decrease in amortization expense and a $1.7 million increase in the cumulative translation differences in the Consolidated Statement of Financial Position.

G) Income taxes

Under IFRS, deferred income tax assets should be recognized for all taxable temporary differences, except to the extent that the deferred income tax asset is generated from the initial recognition of an asset or a liability in a transaction when it affects neither the accounting nor taxable income. The effect of this restatement resulted in a $16.3 million increase in property, plant and equipment as at November 1, 2010. The effect of this restatement for the fiscal year ended October 31, 2011 was a $3.7 million increase in amortization expense.

Under Canadian GAAP and IFRS, deferred taxes are calculated based on temporary differences, which are the differences between the tax basis of an asset or liability and its carrying value in the Consolidated Statement of Financial Position. Under Canada's Income Tax Act, up to 75% of the cost of "eligible capital property" is deductible. Canadian GAAP addresses this particular situation, stating that the tax basis must be grossed up 25%. Consequently, there are no temporary differences on an accounting basis. IFRS does not address this specific situation, as such temporary differences are created between the tax bases and the carrying values of these assets. These temporary differences must be recognized when the transaction is eligible as with a business combination. The effect of this restatement on the date of transition resulted in an increase in deferred income tax assets and liabilities related to certain intangible assets of $0.6 million and $3.6 million, respectively, with a corresponding amount recorded in retained earnings. This restatement had no other effect on the consolidated financial statements for the fiscal year ended October 31, 2011.

H) Business combinations

The Corporation's application of the IFRS 1 exemption under which it is permitted to apply IFRS 3 "Business Combinations" prospectively from the transition date, resulted in a $3.3 million decrease in prepaid expenses and other current assets with a corresponding increase in restructuring and other costs for the year ended October 31, 2011. Application of this exemption had no effect on the Consolidated Statement of Financial Position as at November 1, 2010.

I) Tax effect of all restatements

The effect of all restatements as at November 1, 2010 resulted in a $103.2 million decrease in equity. These restatements result in the recognition of deferred tax assets of $27.4 million and a decrease in deferred tax liabilities of $24.5 million.

The effect of all restatements for the fiscal year ended October 31, 2011 resulted in a $3.1 million decrease in income before income taxes and the recognition of a $2.0 million additional income tax expense, a recovery of income taxes related to other comprehensive income of $ 5.7 million, and the effect on the Consolidated Statement of Financial Position resulted in an increase in deferred income tax assets of $5.2 million and an increase in deferred income tax liabilities of $1.4 million.

J) Other

The other adjustments are related to various items whose individual and total effects on the Corporation's consolidated financial statements for the yeard ended October 31, 2011 have been negligible.