

Transcontinental Inc. ends fiscal 2013 with a steady performance

(in millions of dollars, except per share data)	Q4-13	Q4-12	%	2013	2012	%
Revenues	566.3	585.1	(3.2)	2,110.1	2,112.1	(0.1)
Adjusted operating income before amortization ⁽¹⁾ (Adjusted EBITDA)	112.6	123.8	(9.0)	349.1	357.6	(2.4)
Adjusted operating income ⁽¹⁾ (Adjusted EBIT)	86.1	96.4	(10.7)	243.8	245.2	(0.6)
Adjusted net income applicable to participating shares ⁽¹⁾	58.2	61.9	(6.0)	157.2	149.4	5.2
Per share	0.75	0.77	(2.6)	2.02	1.85	9.2
Net income (loss) applicable to participating shares	(92.2)	(51.9)	-	(14.5)	(183.3)	-
Per share	(1.19)	(0.65)	-	(0.19)	(2.27)	-

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

Highlights of Fiscal 2013

- Adjusted net income applicable to participating shares grew 5.2%, from \$149.4 million to \$157.2 million; on a per share basis, it rose from \$1.85 to \$2.02.
- Excellent Printing Sector performance, including \$30 million in realized synergies from the acquisition of Quad/Graphics Canada, Inc. in 2013 and \$40 million since the acquisition in March 2012.
- Recorded an asset impairment charge (including goodwill) of \$170 million mainly due to difficult market conditions in the Media Sector.
- Successfully launched in-store marketing printing services for Canadian retailers, which generated annualized revenues of \$25 million in 2013.
- Received an amount of US\$200 million from the renegotiation of an agreement with Hearst Corporation.
- Declared a special dividend of \$1.00 per participating share, or approximately \$78 million, in addition to the regular dividend.
- Maintained a solid financial position with a net indebtedness ratio of 0.91x.
- Entered into a definitive agreement pursuant to which the Corporation will acquire all Quebec community newspapers and associated web properties from Sun Media Corporation, a subsidiary of Quebecor Media, for a total purchase price of \$75 million, as well as an agreement with Quebecor Media for the printing of some of its magazines and direct marketing material.

Montreal, December 5, 2013 – Transcontinental Inc.'s (TSX: TCL.A, TCL.B, TCL.PR.D) revenues for fiscal 2013 remained stable at \$2.1 billion. This performance is mainly related to the contribution from acquisitions, in particular the acquisition of Quad/Graphics Canada, Inc., which was however offset by the end of the contract to print and distribute Zellers flyers, a decrease in volume in our book and magazine printing operations, a difficult advertising environment and the incentives granted for the renewal of certain contracts in 2012.

Adjusted operating income declined slightly, or 0.6%, from \$245.2 million to \$243.8 million. This slight decrease is primarily due to the share-price variance in fiscal 2013, compared to fiscal 2012 (a 62% rise in share price), which increased the stock-based compensation expense, as well as the reasons mentioned above. This decrease in adjusted operating income was partially offset, however, by synergies derived from the acquisition of Quad/Graphics Canada, Inc. and the optimization of our company-wide cost

structure. Net income applicable to participating shares improved from a loss of \$183.3 million, or \$2.27 per share, to a loss of \$14.5 million, or \$0.19 per share. This improvement is mainly due to unusual income tax adjustments of \$115.2 million recorded in 2012, including financial expenses, and to a lower asset impairment charge in 2013. Adjusted net income applicable to participating shares grew 5.2%, from \$149.4 million, or \$1.85 per share, to \$157.2 million, or \$2.02 per share.

“In fiscal 2013, considering the profound transformation that is ongoing in our industry, we have delivered strong results that reflect the excellence of our manufacturing know-how and our new product and service development efforts,” said François Olivier, President and Chief Executive Officer. “I am especially proud of the solid performance delivered by our Printing Sector which increased its adjusted operating income by 12%, or \$23 million, making 2013 a record year for this operating segment. These results are due in large part to the successful integration of Quad/Graphics Canada, Inc.'s operations into our print network, which generated significant synergies and enabled greater optimization of our platform. In addition, despite the ongoing challenge of a soft advertising market, I would highlight that the launch of new digital media products in 2013, as well as investments in non-advertising related businesses, such as educational publishing, contributed to maintaining our revenues.

As a result of our excellent financial position and our ability to generate significant cash flows, we were able to both significantly reduce our debt and pay a special dividend to our participating shareholders in addition to paying the regular dividend. Our strong balance sheet gives us the financial flexibility we need to strategically pursue our transformation in conjunction with our employees, our communities, our shareholders and our customers.”

Other Highlights for Fiscal 2013

Printing Sector

In fiscal year 2013, our Printing Sector recorded a significant increase in adjusted operating income of 12%, or \$23 million, to reach \$223 million. The integration of Quad/Graphics Canada, Inc.'s operations generated \$30 million in synergies in 2013 and \$40 million since the acquisition in March 2012. During fiscal 2013, we concluded several multi-year agreements valued at over \$40 million per year, including an agreement with Safeway U.S. to print flyers at our plant in Fremont, California; a five-year agreement to print the Calgary Herald and the Vancouver Sun, both owned by Postmedia Network Inc.; and an agreement with Shoppers Drug Mart/Pharmaprix for in-store marketing, a promising new niche.

Media Sector

Ted Markle was appointed President of the Media Sector. Following his appointment, he revised the sector's organizational structure with the aim of reducing costs and increasing return on investment. We formed a strategic alliance with Zone3, further to which the latter will handle television production for TC Media's brands and which also provides for the merger of all our television production operations with those of Zone3. We successfully launched *Véro*, an inspiring women magazine, and four TC Media flagship brands on iPad: *Coup de pouce*, *Canadian Living*, *ELLE Québec* and *Elle Canada*. We successfully re-launched high-potential titles: *Coup de pouce*, *Canadian Living* and *Western Living*. In order to diversify our operations by capturing non advertising-related revenue streams, we acquired Groupe Modulo, a publisher of French-language educational materials. We launched the TC Media Incubator, a laboratory for the creation, development and incubation of new digital products. In addition, we introduced AutoGo.com and JobGO.ca, two new and innovative media platforms. In light of ongoing analysis in the Media Sector, we made the difficult decision to close *More* and *Vita*, which were no longer achieving expected results.

Financial Highlights

Fiscal 2013 was characterized by debt reduction, due to our significant cash flows and the amount of US\$200 million received from the renegotiation of an agreement with Hearst Corporation. Our adjusted net indebtedness ratio improved from 1.32x as at October 31, 2012 to 0.91x as at October 31, 2013. During fiscal 2013, TC Transcontinental continued a multi-pronged approach to capital allocation. The Corporation focused on future growth by investing \$74 million in property, plant and equipment and intangible assets as well as \$25 million in strategic acquisitions. It also distributed cash to its shareholders through the payment of quarterly dividends of

\$52 million to holders of participating and preferred shares, the payment of a special dividend of \$78 million to holders of participating shares and the repurchase of participating shares for a total amount of \$12 million.

Asset Impairment

In the fiscal year ended October 31, 2013, the Corporation recorded an asset impairment charge of \$170 million, of which \$160 million is related to goodwill, mainly as a result of the difficult market conditions in the Media Sector that continue to adversely affect the advertising revenues of certain business groups.

Fourth Quarter

TC Transcontinental's revenues for the fourth quarter declined from \$585.1 million in 2012 to \$566.3 million in 2013, mainly as a result of the difficult market conditions that affected our magazine and book printing operations. This decrease is also attributable to the soft advertising market that continued to impact our Media Sector, mostly in local markets, and to the end of the contract to print and distribute Zellers flyers after its store closures. The decrease was partially offset by new contracts in the Printing Sector.

In the fourth quarter, adjusted operating income decreased by 10.7%, from \$96.4 million to \$86.1 million. The main reason for this decline is the share-price variance in the fourth quarter of 2013, which increased the stock-based compensation expense, as well as the favourable non-recurring items recorded in the fourth quarter of 2012. The combined results of the two operating sectors were relatively stable. The Printing Sector delivered an increase of 12%, or \$7 million, in adjusted operating income as a result of synergies generated from the integration of Quad/Graphics Canada, Inc.'s operations as well as a decrease in our costs arising from the optimization of our platform. Adjusted operating income in our Media Sector declined by 28%, or \$9 million, during the fourth quarter mostly due to the soft local advertising market.

Net income applicable to participating shares decreased from a loss of \$51.9 million, or \$0.65 per share, to a loss of \$92.2 million, or \$1.19 per share, mainly due to an increase in the asset impairment charge, partially offset by the favourable effect of the write-down of tax assets recorded in the fourth quarter of 2012. Adjusted net income applicable to participating shares was down 6.0%, from \$61.9 million to \$58.2 million, mostly as a result of the decrease in our results explained above, partially offset by a decrease in income taxes and financial expenses. On a per share basis, it declined from \$0.77 to \$0.75.

For more detailed financial information, please see *Management's Discussion and Analysis for the fiscal year ended October 31, 2013* as well as the financial statements in the "Investors" section of our website at www.tc.tc

Subsequent Event

Announcement of a definitive agreement to acquire all Quebec community newspapers from Sun Media Corporation

On December 5th, 2013, the Corporation announced that it has entered into a definitive agreement pursuant to which it will acquire all Quebec community newspapers and associated web properties from Sun Media Corporation, a subsidiary of Quebecor Media, for a total purchase price of \$75 million. This agreement has been approved by the Boards of Directors of both Transcontinental Inc. and Quebecor Media Inc., and the transaction is subject to obtaining regulatory clearances under the Canadian Competition Act.

Outlook

The Printing Sector generated synergies reaching approximately \$40 million, as expected at the time of the acquisition of Quad/Graphics Canada, Inc., and should generate a few million dollars in additional synergies during fiscal 2014. In addition, since the start of fiscal 2013, we have signed new agreements to print newspapers, flyers, and marketing products whose contribution should be noted more significantly in fiscal 2014. We will continue to develop our offering to retailers, more specifically with respect to in-store marketing, and pursue our efforts to integrate other Canadian newspaper publishers into our efficient printing network. However, these items should be offset by an anticipated decrease in volume within our existing magazine and book printing operations.

In the Media Sector, the difficult market conditions with respect to advertising spending in our local and national markets are likely to persist. As a result, we will continue to optimize our cost structure to limit the potential impact on profit margins. Furthermore, we will keep on investing in the development of new products and services, mostly digital and interactive.

The new agreements announced with Quebecor Media Inc. for the printing of some of its magazines and direct marketing materials should begin to progressively have a positive impact as of February 2014. We also entered into a definitive agreement with Sun Media Corporation, a subsidiary of Quebecor Media, subject to regulatory approval, to acquire all of its Quebec community newspapers. Following the closure of this transaction, we expect these items to have an annualized impact of around \$20 million on operating income before amortization.

We will continue to generate significant cash flows in the short-term, and our excellent financial position should permit us to continue applying our three-pronged capital management approach, which allows us to reduce our debt, pay dividends and invest in our transformation focusing on our core competencies, such as manufacturing. We will also keep on developing internal projects and evaluating strategic acquisitions to maintain our position as Canadian leader in marketing activation, while developing new niches to ensure the long-term growth and profitability of the business.

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 normalized for evaluating the Corporation's operating performance. Management uses such non-IFRS financial information to evaluate the performance of its operations and managers. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with IFRS.

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

Reconciliation of Non-IFRS financial measures
(unaudited)

(in millions of dollars, except per share amounts)	Three months ended October 31		Years ended October 31	
	2013	2012	2013	2012
Net income (loss) applicable to participating shares	\$ (92.2)	\$ (51.9)	\$ (14.5)	\$ (183.3)
Dividends on preferred shares	1.7	1.7	6.8	6.8
Net loss (income) related to discontinued operations (after tax)	—	0.3	—	7.4
Non-controlling interests	0.3	0.6	0.4	0.6
Unusual adjustments to income taxes	—	57.2	—	99.2
Income tax expenses	2.0	6.6	27.6	13.1
Financial expenses related to unusual adjustments to income taxes	—	—	—	16.0
Financial expenses	5.7	7.8	25.5	30.5
Gain on business acquisition	—	(0.4)	—	(32.1)
Impairment of assets	165.3	51.2	170.0	232.0
Restructuring and other costs	3.3	23.3	28.0	55.0
Adjusted operating income	\$ 86.1	\$ 96.4	\$ 243.8	\$ 245.2
Amortization	26.5	27.4	105.3	112.4
Adjusted operating income before amortization	\$ 112.6	\$ 123.8	\$ 349.1	\$ 357.6
Net income (loss) applicable to participating shares	\$ (92.2)	\$ (51.9)	\$ (14.5)	\$ (183.3)
Net loss (income) from discontinued operations (after tax)	—	0.3	—	7.4
Unusual adjustments to income taxes	—	57.2	—	99.2
Net 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)	147.9	39.9	151.3	202.6
Restructuring and other costs (after tax)	2.5	16.8	20.4	39.6
Adjusted net income applicable to participating shares	\$ 58.2	\$ 61.9	\$ 157.2	\$ 149.4
Average number of participating shares outstanding	77.9	80.0	78.0	80.7
Adjusted net income applicable to participating shares per share	\$ 0.75	\$ 0.77	\$ 2.02	\$ 1.85

	As at October 31, 2013	As at October 31, 2012
Long-term debt	\$ 128.9	\$ 204.1
Current portion of long-term debt	218.3	283.5
Cash	(30.3)	(16.8)
Net indebtedness	\$ 316.9	\$ 470.8
Adjusted operating income before amortization (last 12 months)	\$ 349.1	\$ 357.6
Net indebtedness ratio	0.91x	1.32x

Dividends

Dividend on Participating Shares

The Corporation's Board of Directors declared a quarterly dividend of \$0.145 per share on Class A Subordinate Voting Shares and Class B Shares. This dividend is payable on January 20, 2014 to shareholders of record at the close of business on January 3, 2014.

Dividend on Preferred Shares

The Board 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, 2014. On an annual basis, this represents a dividend of \$1.6875 per preferred share.

Additional Information

Conference Call

Upon releasing its fiscal 2013 results, the Corporation will hold a conference call for the financial community today at 4:15 p.m. The dial-in numbers are 514 940-2795 or 1 416 644-3418 or 1 800-814-4861 and the access code is 4651012. Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on the Corporation's Web site, which will then be archived for 30 days. For media requests for information or interviews, please contact Nathalie St-Jean, Senior Advisor, Corporate Communications of TC Transcontinental, at 514 954-3581.

Profile

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

Transcontinental Inc. (TSX: TCL.A, TCL.B, TCL.PR.D), including TC Transcontinental, TC Media and TC Transcontinental Printing, has over 9,000 employees in Canada and the United States, and revenues of C\$2.1 billion in 2013. Website www.tc.tc.

Forward-looking Statements

Our public communications often contain oral or written forward-looking statements which are based on the expectations of management and inherently subject to a certain number of risks and uncertainties, known and unknown. By their very nature, forward-looking statements are derived from both general and specific assumptions. The Corporation cautions against undue reliance on such statements since actual results or events may differ materially from the expectations expressed or implied in them. Forward-looking statements may include observations concerning the Corporation's objectives, strategy, anticipated financial results and business outlook. The Corporation's future performance may also be affected by a number of factors, many of which are beyond the Corporation's will or control. These factors include, but are not limited to, the economic situation in the world and particularly in Canada and the United States, structural changes in the industries in which the Corporation operates, the exchange rate, availability of capital, energy costs, competition, as well as the Corporation's capacity to engage in strategic transactions and integrate acquisitions into its activities. The main risks, uncertainties and factors that could influence actual results are described in *Management's Discussion and Analysis (MD&A) for the fiscal year ended on October 31st, 2013* and in the latest *Annual Information Form*.

Unless otherwise indicated by the Corporation, forward-looking statements do not take into account the potential impact of non-recurring or other unusual items, nor of divestitures, business combinations, mergers or acquisitions which may be announced after the date of December 5, 2013.

The forward-looking statements in this press release are made pursuant to the “safe harbour” provisions of applicable Canadian securities legislation.

The forward-looking statements in this release are based on current expectations and information available as at December 5, 2013. Such forward-looking information may also be found in other documents filed with Canadian securities regulators or in other communications. The Corporation's management disclaims any intention or obligation to update or revise these statements unless otherwise required by the securities authorities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended October 31, 2013

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

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

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Our public communications often contain oral or written forward-looking statements which are based on the expectations of Management and inherently subject to a certain number of risks and uncertainties, known and unknown. By their very nature, forward-looking statements are derived from both general and specific assumptions. The Corporation cautions against undue reliance on such statements since actual results or events may differ materially from the expectations expressed or implied in them. These forward-looking statements include, among others, statements with respect to our medium-term objectives, our outlook, our strategies to achieve these objectives, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "assumptions," "strategy," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "objective," the use of the future and conditional tenses, and words and expressions of similar nature are intended to identify forward-looking statements. Such forward-looking statements may also include observations concerning the Corporation's anticipated financial results and business outlooks and the economies in which it operates. The Corporation's future performance may also be affected by a number of factors, many of which are beyond the Corporation's will or control. The main risks, uncertainties and factors that could influence actual results are described in this Management's Discussion and Analysis for the fiscal year ended October 31, 2013 and in the 2013 Annual Information Form. We caution that the table appearing on the following page regarding the Corporation's forward-looking statements is not exhaustive, and investors relying on it to make decisions with respect to Transcontinental Inc. should consider the related assumptions and risk factors.

Unless otherwise indicated by the Corporation, forward-looking statements do not take into account the potential impact of non-recurring or other unusual items, nor of divestitures, business combinations, mergers or acquisitions which may be announced after the date of December 5, 2013.

These forward-looking statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities legislation.

The forward-looking statements in this Management's Discussion and Analysis are based on current expectations and information available as at December 5, 2013. Forward-looking statements may also be found in other documents filed with Canadian securities regulators or in other communications. The Corporation's Management disclaims any intention or obligation to update or revise these statements unless otherwise required by the securities authorities.

Forward-looking Statements	Assumptions	Risk Factors
Continuing ability to generate excess cash.	<ul style="list-style-type: none"> - Low rate of decline within local and national advertising markets. - Ability to control our costs. - Volume with most of our major customers will be maintained. - Stable level of competition in the markets in which we operate. - Low but stable growth rate of the Canadian economy. 	<ul style="list-style-type: none"> - The effects of new media and the corresponding shift of advertising revenues to new platforms. - Our ability to develop new opportunities through our strategy. - The Corporation must continually improve its operational efficiency in order to maintain or improve profitability. There is no guarantee that the Corporation will be able to do so in the future.
Expected impact of commercial agreements signed with customers.	<ul style="list-style-type: none"> - Level of demand expected upon signature of agreements will not fluctuate significantly. 	<ul style="list-style-type: none"> - Significant increase in the price of our raw materials and inputs. - A quick and significant shift of product demand from print to digital.
Estimated increase in operating income before amortization related to the announced acquisition of all Quebec local newspapers from Sun Media Corporation, a subsidiary of Quebecor Media	<ul style="list-style-type: none"> - The transaction must be approved by the competition bureau. - A smooth and efficient transition to our operations. - We will be capable of ensuring the retention of key employees throughout the transition. 	<ul style="list-style-type: none"> - The increase in operating income before amortization may not be completely realized and/or could take more time than anticipated.
Internal and external investments aimed at achieving our operating strategies.	<ul style="list-style-type: none"> - Our investments in the development of new products and services will generate additional revenues and increase profitability. - Low rate of decline within local and national advertising markets. - Low but stable growth rate of the Canadian economy. - Our internal projects will generate savings and efficiencies that will improve our profitability. 	<ul style="list-style-type: none"> - Inappropriate selection of priority investments and an inability to create value. - Well-established competitors entering our various markets could force us to change our investment strategies.

DEFINITION OF TERMS USED IN THIS REPORT

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

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

PROFILE OF TC TRANSCONTINENTAL

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

Transcontinental Inc. (TSX: TCL.A, TCL.B, TCL.PR.D), including TC Transcontinental, TC Media and TC Transcontinental Printing, has over 9,000 employees in Canada and the United States, and revenues of C\$2.1 billion in 2013. Website www.tc.tc.

HIGHLIGHTS OF FISCAL 2013

- Revenues decreased by \$2.0 million, or 0.1%, from \$2,112.1 million in 2012 to \$2,110.1 million in fiscal 2013.
- Adjusted operating income decreased by \$1.4 million, or 0.6%, from \$245.2 million in 2012 to \$243.8 million in 2013.
- Adjusted net income applicable to participating shares increased by \$7.8 million, or 5.2%, from \$149.4 million in 2012 to \$157.2 million in 2013.
- The adjusted net indebtedness ratio improved in fiscal 2013, from 1.32x as at October 31, 2012 to 0.91x as at October 31, 2013.
- Recorded an asset impairment charge (including goodwill) of \$170 million mainly due to the difficult market conditions in the Media Sector.
- Generated approximately \$40 million in synergies from the integration of the operations of Quad/Graphics Canada, Inc. since its acquisition.
- Received, in January 2013, an amount of US\$200.0 million (\$197.0 million) from the renegotiation of our agreement with Hearst Corporation to print the *San Francisco Chronicle*.
- Paid, on April 26, 2013, a special dividend of \$77.9 million, or \$1.00 per participating share.
- Renewed our share repurchase program under a normal course issuer bid.
- Acquired, on January 31, 2013, Groupe Modulo, a publisher of French-language educational resources.
- Signed agreements with Postmedia Network Inc. to print the *Calgary Herald* and the *Vancouver Sun* that do not require additional investments by TC Transcontinental.
- The Corporation announced that it has entered into a definitive agreement, subject to regulatory approval, under which it will acquire all Quebec community newspapers and associated web properties from Sun Media Corporation, a subsidiary of Quebecor Media, for a total purchase price of \$75 million. An agreement with Quebecor Media Inc. for the printing of some of its magazines and direct marketing materials was also concluded.

STRATEGY

From the very beginning, the mission of TC Transcontinental has been to enable businesses to attract, reach 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, teamwork, respect 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.

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 24 million consumers on a regular basis. 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 one of the best positioned companies to know what Canadian consumers want.

Content

TC Transcontinental has created awareness of its own brands, such as *Canadian Living*, *Elle Canada*, *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 and magazines), 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, the 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 economic slowdowns, strengthening environmental and social awareness and the 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.

ANALYSIS OF CONSOLIDATED RESULTS - FISCAL YEAR

(unaudited)

Table #1:

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares
For fiscal 2012	\$ 2,112.1		\$ 245.2		\$ (183.3)
Acquisitions/Closures	87.5	4.1 %	14.0	5.7 %	10.0
Existing operations	(89.5)	(4.2) %	(15.4)	(6.3) %	(2.2)
Discontinued operations					7.4
Restructuring and other costs					19.2
Impairment of assets					51.3
Gain on business acquisition					(32.1)
Financial expenses related to unusual adjustments to income taxes					16.0
Unusual adjustments to income taxes					99.2
For fiscal 2013	\$ 2,110.1	(0.1) %	\$ 243.8	(0.6) %	\$ (14.5)

Revenues

Revenues were down 0.1%, from \$2,112.1 million in 2012 to \$2,110.1 million in 2013. This change is due to the following factors:

- Revenues from existing operations were down \$89.5 million, or 4.2%, in fiscal 2013, due to the loss of volume from the closing of Zellers stores, the decrease in volume in our book and magazine printing operations and difficult market conditions that continue to affect the Media Sector particularly with respect to advertising spending in our local and national markets. Incentives granted to major customers for early renewal of long-term contracts in 2012 also contributed to the decrease in revenues.
- The net effect of acquisitions and closures resulted in an \$87.5 million, or 4.1%, increase in revenues, mainly due to the impact on the first four months of fiscal 2013 of the acquisition of Quad/Graphics Canada, Inc. and, to a lesser extent, acquisitions in the Media Sector.

Adjusted Operating Income

Adjusted operating income was down 0.6%, from \$245.2 million in 2012 to \$243.8 million in 2013. This change is due to the following factors:

- Adjusted operating income from existing operations was down \$15.4 million, or 6.3%, in fiscal 2013. This decrease is partially attributable to the difficult market conditions affecting our Media Sector. However, our Printing Sector's adjusted operating income compensated for most of this decrease through the synergies from the integration of the operations of Quad/Graphics Canada, Inc., which more than offset the impact of the closing of Zellers stores and the incentives granted for contract renewals in 2012. Finally, the impact of the increase in our share price on the stock-based compensation expense also had a significant negative impact on our adjusted operating income.
- The net effect of acquisitions and closures raised adjusted operating income by \$14.0 million, or 5.7%, principally due to the contribution in the first four months of fiscal 2013 from the operations of Quad/Graphics Canada, Inc., acquired on March 1, 2012, and, to a lesser extent, from the acquisition of Redux Media in May 2012.

Restructuring and Other Costs

In fiscal 2013, an amount of \$28.0 million (\$20.4 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring and other costs, mainly due to the integration of the printing operations of Quad/Graphics Canada, Inc. Reductions in the workforce represent \$19.4 million of this amount and \$8.6 million is attributable to other restructuring costs, including the settlement of defined benefit plans following workforce reductions.

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, mostly due to the integration of the printing operations of Quad/Graphics Canada, Inc. This charge was principally composed of \$32.7 million for workforce reductions, primarily in the Printing Sector, \$11.3 million for expenses related to multi-employer pension plans and \$6.4 million for onerous contracts for leases for facilities no longer used by the Corporation as a result of rationalization initiatives.

Asset Impairment

In fiscal 2013, an asset impairment charge of \$170.0 million (\$151.3 million after tax) was recorded. Impairment charges of \$75.0 million were recorded in the Business and Consumer Solutions Group and in the Local Solutions Group as a result of difficult market conditions. An impairment charge of \$10.0 million was also recorded in the Educational Book Publishing Group due to budget cuts implemented by our customers. The remainder of the impairment charge is related to property, plant and equipment, mainly in our Printing Sector. These impairment charges had no impact on the Corporation's operations, cash or compliance with debt covenants.

In fiscal 2012, an asset impairment charge of \$232.0 million before tax (\$202.6 million after tax) was recorded separately on the Consolidated Statement of Income. The majority of this amount was related to our Consumer Solutions Group and Local Solutions Group, due to the soft advertising market. An impairment charge of \$20.4 million was also recorded in the Educational Book Publishing Group as a result of the end of the educational reforms in Quebec's high school education program. Lastly, a \$20.7 million asset impairment was recorded 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), stemming from the accounting of the transaction regarding the acquisition of Quad/Graphics Canada, Inc. in March 2012.

Net Financial Expenses

Net financial expenses decreased by \$21.0 million in fiscal 2013, from \$46.5 million in 2012 to \$25.5 million in 2013. The decrease is principally due to an unfavourable unusual adjustment of \$16.0 million in fiscal 2012 pertaining to notices of reassessment issued by tax authorities.

Excluding the above-mentioned unusual adjustment, adjusted net financial expenses amounted to \$30.5 million in 2012 versus \$25.5 million in 2013, a decrease of \$5.0 million. The decrease is mainly due to a lower net indebtedness and a lower weighted average interest rate than in 2012, partially offset by an exchange loss.

Income Taxes

Income taxes were down \$84.7 million, from \$112.3 million in fiscal 2012 to \$27.6 million in fiscal 2013. The decrease is mainly due to unfavourable items amounting to \$99.2 million recorded in fiscal 2012.

Excluding income taxes on restructuring and other costs, asset impairment, the gain on business acquisition and non-recurring items, income taxes would have amounted to \$53.9 million in fiscal 2013, for a tax rate of 24.7%, compared to \$57.9 million, or 27.0%, in fiscal 2012. The lower tax rate stems mainly from favourable adjustments in 2013 combined with an unfavourable adjustment in 2012 mainly related to the difference between the estimated accounting provision and the actual tax expense, and adjustments related to the tax treatment of certain expenses.

Net Income Applicable to Participating Shares

Net income applicable to participating shares rose from \$-183.3 million in fiscal 2012 to \$-14.5 million in fiscal 2013. The improvement is mainly due to unusual income tax adjustments of \$115.2 million recorded in 2012, including financial expenses, and to a lower asset impairment charge in 2013. On a per share basis, net income applicable to participating shares improved from \$-2.27 to \$-0.19.

Adjusted net income applicable to participating shares increased by \$7.8 million, or 5.2%, from \$149.4 million in fiscal 2012 to \$157.2 million in fiscal 2013, principally as a result of lower income taxes and financial expenses. On a per share basis, it increased from \$1.85 to \$2.02.

Discontinued Operations

A net loss from discontinued operations of \$7.4 million was recorded in fiscal 2012. That loss was mainly related to our black and white book printing operations sold to Marquis Imprimeur inc., as well as an unfavourable adjustment related to a price adjustment clause based on working capital at the close of the sale of our printing operations in Mexico, which were divested in the fourth quarter of 2011.

ANALYSIS OF SECTOR RESULTS - FISCAL YEAR

(unaudited)

Table #2:

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment eliminations, other activities and head office	Consolidated Results
Revenues - For fiscal 2012	\$ 1,480.5	\$ 712.0	\$ (80.4)	\$ 2,112.1
Acquisitions/Closures	60.1	27.4	—	87.5
Existing operations	(63.8)	(27.8)	2.1	(89.5)
Revenues - For fiscal 2013	\$ 1,476.8	\$ 711.6	\$ (78.3)	\$ 2,110.1
Adjusted operating income (loss) - For fiscal 2012	\$ 199.6	\$ 54.3	\$ (8.7)	\$ 245.2
Acquisitions/Closures	10.1	3.9	—	14.0
Existing operations	12.9	(17.8)	(10.5)	(15.4)
Adjusted operating income (loss) - For fiscal 2013	\$ 222.6	\$ 40.4	\$ (19.2)	\$ 243.8

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 decreased by 0.2%, or \$3.7 million, from \$1,480.5 million in 2012 to \$1,476.8 million in 2013. The decrease stems from the \$63.8 million, or 4.3%, decrease in revenues related to our existing operations, mainly due to the loss of volume from the closing of Zellers stores, the incentives granted for the early renewal of several major long-term contracts in 2012 and the difficult market conditions within our magazine and book printing activities. The operations related to the acquisition of QuadGraphics Canada, Inc. on March 1, 2012, which contributed \$60.1 million to sector revenues in the first four months of 2013, almost entirely offset this decrease.

Adjusted operating income was up \$23.0 million, or 11.5%, from \$199.6 million in 2012 to \$222.6 million in 2013. The adjusted operating margin was also up, from 13.5% in 2012 to 15.1% in fiscal 2013. These increases are mainly due to synergies resulting from the ongoing integration of the acquired volume of Quad/Graphics Canada, Inc., combined with the optimization of the use of our equipment and our more efficient cost structure. These items were partially offset by the revenue decrease explained above.

Media Sector

Media Sector revenues were down 0.1%, or \$0.4 million, from \$712.0 million in 2012 to \$711.6 million in fiscal 2013. The decrease in revenues from our existing operations is mostly attributable to the lower volume of advertising spending which affected our consumer solutions operations. The loss of volume related to the closing of Zellers stores, in particular in our distribution and custom content operations, also had an impact on our revenues. This decrease was offset by the contribution from the acquisition of Redux Media, the purchase of all the shares of the *Métro* Montréal newspaper, the acquisition of Groupe Modulo and the acquisition of the premedia operations of Quad/Graphics Canada, Inc.

Adjusted operating income decreased by \$13.9 million, or 25.6%, from \$54.3 million in 2012 to \$40.4 million in fiscal 2013, due to lower revenues from our existing operations and the impact of our multiplatform investments, partially offset by the contribution from acquisitions and cost reduction initiatives. The sector's adjusted operating margin declined from 7.6% in 2012 to 5.7% in fiscal 2013.

Inter-segment Eliminations, Other Activities and Head Office

Eliminations of inter-segment revenues and other activities declined from \$-80.4 million in 2012 to \$-78.3 million in fiscal 2013. Adjusted operating income decreased from \$-8.7 million in 2012 to \$-19.2 million in fiscal 2013, primarily due to an \$8.1 million dollar impact on our stock-based compensation expense resulting from a higher share-price variance in 2013 than in 2012.

ANALYSIS OF CONSOLIDATED RESULTS – FOURTH QUARTER

(unaudited)

Table #3:

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares
Fourth quarter of 2012	\$ 585.1		\$ 96.4		\$ (51.9)
Acquisitions/Closures	1.6	0.3 %	(0.5)	(0.5) %	(0.7)
Existing operations	(20.4)	(3.5) %	(9.8)	(10.2) %	(3.0)
Discontinued operations					0.3
Restructuring and other costs					14.3
Impairment of assets					(108.0)
Gain on business acquisition					(0.4)
Unusual adjustments to income taxes					57.2
Fourth quarter of 2013	\$ 566.3	(3.2) %	\$ 86.1	(10.7) %	\$ (92.2)

Revenues

Revenues decreased by \$18.8 million, or 3.2%, from \$585.1 million in the fourth quarter of 2012 to \$566.3 million in the fourth quarter of 2013. This change is due to the following factors:

- Revenues from existing operations were down \$20.4 million, notably due to the difficult market conditions with respect to advertising spending which continue to affect the Media Sector, the loss of volume from the closing of Zellers stores and the decrease in our magazine and book printing operations.
- The net effect of acquisitions and closures resulted in a \$1.6 million increase in revenues, mainly due to the acquisition of Groupe Modulo, partially offset by closures of publications in the Media Sector.

Adjusted Operating Income

Adjusted operating income decreased by \$10.3 million, or 10.7%, from \$96.4 million in the fourth quarter of 2012 to \$86.1 million in the fourth quarter of 2013. This change is due to the following factors:

- Adjusted operating income from existing operations was down \$9.8 million, due to the soft local and national advertising market affecting our newspaper and magazine publishing operations, which was offset for the most part by an improvement in our Printing Sector due to synergies from the integration of the operations of Quad/Graphics Canada, Inc. Our costs related to other head office activities increased significantly, principally as a result of the impact on our stock-based compensation expense of a higher share-price variance in the fourth quarter of 2013 compared to the corresponding quarter of 2012 as well as favourable non-recurring items recorded in 2012.

Restructuring and Other Costs

In the fourth quarter of 2013, an amount of \$3.3 million (\$2.5 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring and other costs, of which \$4.4 million is related to cost reduction initiatives, mainly in the Media Sector. This is offset by a \$1.1 million positive effect mostly related to a more efficient use of our real estate assets.

In the fourth quarter of 2012, an amount of \$23.3 million before tax (\$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 pension plans and \$9.4 million stems from workforce reductions in connection with the integration of the printing operations of Quad/Graphics Canada, Inc.

Asset Impairment

In the fourth quarter of 2013, an asset impairment charge of \$165.3 million (\$147.9 million after tax) was recorded, which is primarily related to a goodwill impairment charge of \$160.0 million. We recorded an impairment charge of \$75.0 million in both the Business and Consumer Solutions and the Local Solutions Groups as a result of the difficult market conditions. In addition, an impairment charge of \$10.0 million was recorded in the Educational Book Publishing Group due to budget cuts implemented by our customers.

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, primarily related to a goodwill impairment of \$30.0 million in our magazine publishing operations and to a \$20.7 million impairment related to the trade names of some publications in the Media Sector.

Net Financial Expenses

Net financial expenses were down \$2.1 million, from \$7.8 million in 2012 to \$5.7 million in 2013. The decrease stems mainly from lower net indebtedness than in the fourth quarter of 2012 as well as a lower weighted average interest rate.

Income taxes

Income taxes decreased from \$63.8 million in the fourth quarter of 2012 to \$2.0 million in the fourth quarter of 2013. Excluding income taxes on restructuring and other costs and asset impairment charges, income taxes would have amounted to \$20.2 million in the fourth quarter of 2013, for a tax rate of 25.1%, compared to \$24.4 million, or 27.5%, in the fourth quarter of 2012. The decrease is mostly attributable to the revaluation of certain deferred tax assets in the fourth quarter of 2013.

Net Income Applicable to Participating Shares

Net income applicable to participating shares decreased from \$-51.9 million in the fourth quarter of 2012 to \$-92.2 million in the fourth quarter of 2013. The change is mostly due to an increase in the asset impairment charge, partially offset by the favourable effect of the write-down of tax assets recorded in the fourth quarter of 2012. On a per share basis, net income applicable to participating shares decreased from \$-0.65 to \$-1.19.

Adjusted net income applicable to participating shares decreased by \$3.7 million, or 6.0%, from \$61.9 million in the fourth quarter of 2012 to \$58.2 million in the fourth quarter of 2013, mostly as a result of the decrease in our adjusted operating income explained above, partially offset by a decrease in income taxes and financial expenses. On a per share basis, it went down from \$0.77 to \$0.75.

Discontinued Operations

In the fourth quarter of 2012, the net loss related to discontinued operations amounted to \$0.3 million, net of related income taxes, and was related to our black and white book printing operations sold to Marquis Imprimeur inc.

ANALYSIS OF SECTOR RESULTS – FOURTH QUARTER

(unaudited)

Table #4:

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment eliminations, other activities and head office	Consolidated Results
Revenues - Fourth quarter of 2012	\$ 401.2	\$ 206.3	\$ (22.4)	\$ 585.1
Acquisitions/Closures	—	1.6	—	1.6
Existing operations	(10.8)	(11.4)	1.8	(20.4)
Revenues - Fourth quarter of 2013	\$ 390.4	\$ 196.5	\$ (20.6)	\$ 566.3
Adjusted operating income - Fourth quarter of 2012	\$ 64.2	\$ 30.5	\$ 1.7	\$ 96.4
Acquisitions/Closures	—	(0.5)	—	(0.5)
Existing operations	7.4	(8.1)	(9.1)	(9.8)
Adjusted operating income (loss) - Fourth quarter of 2013	\$ 71.6	\$ 21.9	\$ (7.4)	\$ 86.1

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

Printing Sector

Printing Sector revenues were down \$10.8 million, or 2.7%, from \$401.2 million in the fourth quarter of 2012 to \$390.4 million in the fourth quarter of 2013. This decrease is principally attributable to the difficult market conditions which affected our book and magazine printing operations and the loss of volume from the closing of Zellers stores, partially offset by the impact of new contracts related to our marketing product and flyer printing operations.

Adjusted operating income was up 11.5%, or \$7.4 million, from \$64.2 million in the fourth quarter of 2012 to \$71.6 million in the fourth quarter of 2013. The increase is largely due to the synergies from integrating the operations of Quad/Graphics Canada, Inc., combined with the optimization of our cost structure. However, these synergies were partially offset by the loss of volume following the closing of Zellers stores and difficult market conditions which affected our book and magazine printing operations. As a result, the adjusted operating income margin rose from 16.0% in the fourth quarter of 2012 to 18.3% in the fourth quarter of 2013.

Media Sector

Media Sector revenues were down \$9.8 million, or 4.8%, from \$206.3 million in the fourth quarter of 2012 to \$196.5 million in the fourth quarter of 2013. The decrease is largely due to a reduction in advertising spending in our local newspaper publishing operations and, to a lesser extent, a decrease in our educational book operations resulting from the favourable impact, in the fourth quarter of 2012, of the delayed start of the new school year following the student strike in Quebec. The net effect of acquisitions and closures partially offset this decline as a result of the acquisition of Groupe Modulo.

Adjusted operating income was down \$8.6 million, or 28.2%, from \$30.5 million in the fourth quarter of 2012 to \$21.9 million in the fourth quarter of 2013. The adjusted operating margin declined from 14.8% in the fourth quarter of 2012 to 11.1% in 2013. Within our existing operations, the above-mentioned lower revenues had a significant unfavourable effect on adjusted operating income mostly as a result of the soft local advertising market.

Inter-segment Eliminations, Other Activities and Head Office

Eliminations of inter-segment revenues and other activities went from -\$22.4 million in the fourth quarter of 2012 to -\$20.6 million in the fourth quarter of 2013. Adjusted operating income decreased by 9.1 million, from \$1.7 million in the fourth quarter of 2012 to -\$7.4 million in 2013. This decrease is due to favourable non-recurring items recorded in the fourth quarter of 2012 and to the favourable share-price variance in the fourth quarter of 2013 compared to the fourth quarter of 2012, which directly resulted in a significant increase in the stock-based compensation expense.

SUMMARY OF QUARTERLY RESULTS

(unaudited)

Table #5:

(in millions of dollars, except per share amounts)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$ 566.3	\$ 493.8	\$ 521.3	\$ 528.7	\$ 585.1	\$ 517.0	\$ 522.4	\$ 487.6
Adjusted operating income before amortization	112.6	81.6	83.3	71.6	123.8	78.6	83.8	71.4
Adjusted operating income margin before amortization	19.9 %	16.5 %	16.0 %	13.5 %	21.2 %	15.2 %	16.0 %	14.6 %
Adjusted operating income	86.1	55.1	56.9	45.7	96.4	49.9	55.9	43.0
Adjusted operating income margin	15.2 %	11.2 %	10.9 %	8.6 %	16.5 %	9.7 %	10.7 %	8.8 %
Net income (loss) applicable to participating shares	\$ (92.2)	\$ 32.4	\$ 27.5	\$ 17.8	\$ (51.9)	\$ 8.1	\$ (106.2)	\$ (33.3)
Per share	(1.19)	0.42	0.35	0.23	(0.65)	0.10	(1.31)	(0.41)
Adjusted net income applicable to participating shares	58.2	35.7	34.8	28.5	61.9	24.9	35.5	27.1
Per share	0.75	0.46	0.44	0.37	0.77	0.31	0.44	0.33
% of fiscal year	37 %	23 %	22 %	18 %	41 %	17 %	24 %	18 %

The above table shows changes in our quarterly results for the past eight quarters. The acquisition of Quad/Graphics Canada, Inc., effective March 1, 2012, had a positive effect on our revenues and impacted our adjusted operating income as of the fourth quarter of 2012 due to the synergies generated from the integration of these operations with our more productive equipment. However, this acquisition was offset by incentives granted for early renewal of several major long-term contracts, by the volume decrease from the closing of Zellers stores, and by difficult market conditions, particularly with respect to advertising spending in our local and national markets that affected the Media Sector. Lastly, our volume of activity is cyclical, since it is mainly generated by our customers' marketing spending, which is higher in the fall.

RECONCILIATION OF NON-IFRS MEASURES (unaudited)

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

Table #6:

(in millions of dollars, except per share amounts)	Three months ended October 31		For fiscal years ended October 31	
	2013	2012	2013	2012
Net loss applicable to participating shares	\$ (92.2)	\$ (51.9)	\$ (14.5)	\$ (183.3)
Dividends on preferred shares	1.7	1.7	6.8	6.8
Net loss related to discontinued operations (after tax)	—	0.3	—	7.4
Non-controlling interests	0.3	0.6	0.4	0.6
Unusual adjustments to income taxes	—	57.2	—	99.2
Income tax expenses	2.0	6.6	27.6	13.1
Financial expenses related to unusual adjustments to income taxes	—	—	—	16.0
Financial expenses	5.7	7.8	25.5	30.5
Gain on business acquisition	—	(0.4)	—	(32.1)
Impairment of assets	165.3	51.2	170.0	232.0
Restructuring and other costs	3.3	23.3	28.0	55.0
Adjusted operating income	\$ 86.1	\$ 96.4	\$ 243.8	\$ 245.2
Amortization	26.5	27.4	105.3	112.4
Adjusted operating income before amortization	\$ 112.6	\$ 123.8	\$ 349.1	\$ 357.6
Net loss applicable to participating shares	\$ (92.2)	\$ (51.9)	\$ (14.5)	\$ (183.3)
Net loss related to discontinued operations (after tax)	—	0.3	—	7.4
Unusual adjustments to income taxes	—	57.2	—	99.2
Net 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)	147.9	39.9	151.3	202.6
Restructuring and other costs (after tax)	2.5	16.8	20.4	39.6
Adjusted net income applicable to participating shares	\$ 58.2	\$ 61.9	\$ 157.2	\$ 149.4
Average number of participating shares outstanding	77.9	80.0	78.0	80.7
Adjusted net income applicable to participating shares per share	\$ 0.75	\$ 0.77	\$ 2.02	\$ 1.85
			As at October 31, 2013	As at October 31, 2012
Long-term debt			\$ 128.9	\$ 204.1
Current portion of long-term debt			218.3	283.5
Cash			(30.3)	(16.8)
Net indebtedness			\$ 316.9	\$ 470.8
Adjusted operating income before amortization (last 12 months)			\$ 349.1	\$ 357.6
Net indebtedness ratio			0.91 x	1.32 x

**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES – FISCAL YEAR
(unaudited)**

Table #7:

(in millions of dollars)	2013	2012
Operating activities		
Cash flows generated by operating activities before changes in non-cash operating items and income tax paid	\$ 340.6	\$ 320.8
Changes in non-cash operating items	88.2	(43.8)
Income tax recovered (paid)	(12.6)	(48.0)
Cash flows from continuing operations	\$ 416.2	\$ 229.0
Investing activities		
Business acquisitions	\$ (24.5)	\$ (60.4)
Acquisitions of property, plant and equipment, net of disposals	(42.3)	(33.7)
Increase in intangible assets	(26.8)	(22.0)
Cash flows from investments in continuing operations	\$ (93.6)	\$ (116.1)
Financing activities		
Reimbursement of long-term debt	\$ (88.8)	\$ (89.8)
Net increase (decrease) in revolving term credit facility	(57.6)	11.4
Financial expenses on long-term debt	(20.5)	(26.1)
Interest on tax contingencies paid	—	(8.1)
Issuance of participating shares	1.2	0.5
Participating share repurchases	(12.1)	(17.3)
Dividends on participating shares	(123.1)	(46.0)
Dividends on preferred shares	(6.8)	(6.8)
Dividends on non-controlling interests	(1.4)	—
Cash flows from the financing of continuing operations	\$ (309.1)	\$ (182.2)

Financial position	As at October 31, 2013	As at October 31, 2012
Net indebtedness	\$ 316.9	\$ 470.8
Net indebtedness ratio	0.91 x	1.32 x
Credit rating		
DBRS	BBB	BBB
Outlook	Negative	Negative
Standard and Poor's	BBB-	BBB
Outlook	Stable	Negative
Balance Sheet		
	As at October 31, 2013	As at October 31, 2012
Current assets	\$ 560.1	\$ 602.7
Current liabilities	571.9	725.4
Total assets	1,859.3	2,136.2
Total liabilities	1,043.9	1,234.8

Cash Flows from Continuing Operations

Cash flows generated by operating activities before changes in non-cash operating items and income tax paid increased from \$320.8 million in 2012 to \$340.6 million in 2013, primarily due to a decrease in disbursements related to restructuring activities. Furthermore, changes in non-cash operating items generated \$88.2 million in 2013, compared to using \$43.8 million in 2012, mainly as a result of the amount of US\$200.0 million (\$197.0 million) received from the renegotiation of the agreement with Hearst Corporation to print the *San Francisco Chronicle*. With respect to income taxes, we paid \$48.0 million in 2012 compared to \$12.6 million in 2013, mainly due to payments made in 2012 pertaining to notices of reassessment, which are being contested. Consequently, cash flows from operations rose, leading to a cash inflow of \$416.2 million in 2013, compared to \$229.0 million in 2012.

Cash Flows from Investments in Continuing Operations

Our business acquisitions and investments in property, plant and equipment and intangible assets, net of disposals, went from \$116.1 million in 2012 to \$93.6 million in 2013. This decrease is mostly attributable to lower disbursements for business acquisitions in 2013.

Cash Flows from the Financing of Continuing Operations

In fiscal 2013, we paid \$123.1 million in dividends on participating shares and \$6.8 million on preferred shares, compared to \$46.0 million and \$6.8 million, respectively, in 2012. The increase in dividends results from the payment, on April 26, 2013, of a special dividend of \$77.9 million, or \$1.00 per participating share.

Debt Instruments

As at October 31, 2013, our net indebtedness ratio stood at 0.91x (1.32x as at October 31, 2012), and net indebtedness declined from \$470.8 million as at October 31, 2012 to \$316.9 million as at October 31, 2013. Cash flows from operations, including the amount of US\$200.0 million (\$197.0 million) received from the renegotiation of the agreement with Hearst Corporation to print the *San Francisco Chronicle*, helped improve our net indebtedness ratio. The decrease in net indebtedness was partially offset by the payment of a special dividend of \$77.9 million, or \$1.00 per participating share, at the end of the second quarter of 2013.

Contractual Obligations and Business Commitments

Table #8:

Contract type (in millions of dollars)	2014	2015	2016	2017	2018	2019 and thereafter	Total
Long-term debt	\$ 218.3	\$ 67.8	\$ 11.2	\$ 0.6	\$ 0.4	\$ 51.2	\$ 349.5
Other commitments	39.4	29.1	27.9	26.6	20.9	62.8	206.7
Total commitments	\$ 257.7	\$ 96.9	\$ 39.1	\$ 27.2	\$ 21.3	\$ 114.0	\$ 556.2

Share Capital

Under our share repurchase program that ended on April 14, 2013, we have repurchased 3,173,200 Class A Subordinate Voting Shares, or 96.3% of the program.

During the fiscal year ended October 31, 2013, the Corporation repurchased 1,161,600 of its Class A Subordinate Voting Shares at a weighted average price of \$9.98, for a total cash consideration of \$11.6 million. During the same period, the Corporation also paid an amount of \$0.5 million, which was included in accounts payable and accrued liabilities as at October 31, 2012, for shares that were repurchased prior to October 31, 2012, but were still held by the Corporation as of that date. The Corporation was under no obligation to repurchase its Class A Subordinate Voting Shares as at October 31, 2013.

This program was renewed on April 14, 2013, to allow the Corporation to repurchase for cancellation on the open market or, subject to the approval of any securities authority, by private agreements, between April 15, 2013 and April 14, 2014, or at an earlier date if the Corporation completes or cancels the bid, up to 3,906,520 Class A Subordinate Voting Shares, representing 6.2% of its 63,051,851 issued and outstanding Class A Subordinate Voting Shares as at April 2, 2013, and up to 742,440 of its Class B Shares, representing 5% of its 14,848,616 issued and outstanding Class B Shares as at April 2, 2013. The repurchases are made in the normal course of business at market prices through the facilities of the Toronto Stock Exchange.

It should be noted that the Corporation did not repurchase any of its Class B Shares during fiscal 2013. However, during fiscal 2013, the Corporation exchanged 172,800 Class B Shares for Class A Subordinate Voting Shares.

Table #9:

Shares Issued and Outstanding	As at October 31, 2013	As at November 30, 2013
Class A (Subordinate Voting Shares)	63,188,951	63,188,951
Class B (Multiple Voting Shares)	14,832,816	14,832,816
Series D Preferred (Cumulative dividend with rate reset)	4,000,000	4,000,000

FUTURE CHANGES IN ACCOUNTING POLICIES

Impacts of adoption of the standards as at November 1, 2013

The following table presents the impacts of the standards coming into effect as at November 1, 2013. Retroactive restatements of the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), resulting from the adoption of IFRS 11 "Joint Arrangements" and amended IAS 19 "Employee benefits" for the year ended October 31, 2013 are as follows:

	As reported	Restated IFRS 11 (a)	Restated IAS 19 (b)	Restated
Revenues	\$ 2,110.1	\$ (15.4)	\$ —	\$ 2,094.7
Operating expenses	1,761.0	(13.9)	5.8	1,752.9
Restructuring and other costs	28.0	—	—	28.0
Impairment of assets	170.0	—	—	170.0
Operating income (loss) before amortization	151.1	(1.5)	(5.8)	143.8
Amortization	105.3	(0.3)	—	105.0
Operating income (loss)	45.8	(1.2)	(5.8)	38.8
Net financial expenses	25.5	(0.1)	6.4	31.8
Income (loss) before income taxes	20.3	(1.1)	(12.2)	7.0
Share of net income in interests in joint ventures	—	0.9	—	0.9
Income taxes	27.6	(0.2)	(3.3)	24.1
Net loss	(7.3)	—	(8.9)	(16.2)
Non-controlling interests	0.4	—	—	0.4
Net loss attributable to shareholders of the Corporation	(7.7)	—	(8.9)	(16.6)
Dividends on preferred shares, net of related taxes	6.8	—	—	6.8
Net loss attributable to participating shares	\$ (14.5)	\$ —	\$ (8.9)	\$ (23.4)
Net loss per participating share - basic and diluted	\$ (0.19)	\$ —	\$ (0.11)	\$ (0.30)
Other comprehensive income	62.3	—	8.9	71.2
Comprehensive income	\$ 55.0	\$ —	\$ —	\$ 55.0

a) 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.

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 (Loss) and the Consolidated Statement of Comprehensive Income (Loss), respectively. The impact on the Consolidated Statement of Financial Position as at October 31, 2013 resulting from the adoption of IFRS, "Joint Arrangements" is the addition of a new line item, "Interests in joint

ventures" in the amount of \$1.7 million under non-current assets and \$0.9 million under non-current liabilities, as well as a decrease in all asset and liability items resulting in a nil impact on net assets.

b) 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. Amended IAS 19 introduces a new approach to calculating net interest expense on defined benefit liabilities (assets), under which the rate of return on the asset will be identical to the rate used to discount the obligation. The presentation has also been changed such that current and past service costs and plan administration costs are presented under "Operating expenses" and the net interest expense is presented under "Net financial expenses".

c) 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, while 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 (Loss). The effective date of IFRS 9 has not been determined.

d) 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. The Corporation must adopt IFRS 10 starting November 1, 2013. The Corporation has completed its analysis, and the adoption of this standard will have no impact on its consolidated financial statements.

e) 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. The Corporation must adopt IFRS 12 starting November 1, 2013. It is currently assessing the impact that adoption of this standard will have on the additional disclosures that will have to be made in the annual consolidated financial statements for the year ending October 31, 2014.

f) 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 an individual IFRS with a single source of guidance on all measurements of fair value. The Corporation must adopt IFRS 13 starting November 1, 2013. The Corporation has completed its analysis, and the adoption of this standard will have no impact on its consolidated financial statements.

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. The Corporation has not completed the analysis of this standard.

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 presented regularly to 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.

Strategic Risks

Competition and New Media

Competition is based on price, quality of products 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 its revenues are generated under medium and long-term agreements.

On the media side, advertisers now have a more diverse selection of media products in which to spend their advertising dollars. These products 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 marketing activation strategy so that its existing and future customers have more direct access to all of its services.

With consumers having rapidly adopted digital communications, producing content tailored to a target audience becomes critical for retaining and developing our client base. Although this situation could well generate business opportunities, these new realities are evolving very quickly and if the Corporation 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. The Corporation has targeted market segments 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 as well as their monetization. Consequently, it must continue to invest 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.

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 business of the Corporation or its stock market valuation. 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.

Control Held

At October 31, 2013, Capinabel inc., a company controlled by Rémi Marcoux, directly or indirectly held 16.94% of shares outstanding and 72.65% of voting rights attached to the participating 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 holders of participating shares of Transcontinental Inc.

Operational Risks

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, any breach with respect to the collection, use, disclosure or security of personal information or other related confidentiality issues could damage its reputation.

Dependence on Information Systems

The Corporation uses several 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. Consumers' confidence in the security of information held and transactions carried out using our online sites and our technology (including via mobile devices) is crucial to maintaining our reputation and our competitiveness on the market.

The media industry is still in the grip of massive technological change. The growing use of the Internet has increased the number of content options competing with traditional media. The Corporation must therefore 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. We manage these risks by ensuring that we maintain an agile, quality technology environment on which our internal and external clients can rely. In addition, we periodically assess our computer controls to ensure they comply with standards.

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 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 ongoing identification of successors.

Operational Efficiency

Due to the nature of its 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.

The Corporation increasingly concentrates the production of certain products in high-volume plants, which increases the risk of missing production deadlines in the event of a disaster at one of these facilities. However, the Corporation has implemented contingency plans for all facilities that deliver products on a daily basis.

Regulation

The Corporation is subject to many regulations that may be amended by municipal, provincial or federal authorities. Complying with any changes to these regulations could result in a material increase in costs for the Corporation. The Corporation could have to increase its payroll contributions, increase its workforce and enhance compensation, or invest in raw materials or equipment.

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

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,

make us lose major contracts or affect our personnel retention and our customer relationships. In addition, the identified synergies may not be fully realized or may take longer to realize than originally anticipated. However, to limit this risk, the Corporation relies on strict acquisition criteria as well as experienced due diligence teams and rigorous integration methods.

Raw Materials and Energy Prices

The primary raw materials used by the Corporation's Printing Sector are paper, ink and plates. Printing operations consume energy, i.e., electricity, natural gas and oil. Fluctuations in raw materials and energy prices affect these operations as well as our distribution operations. Consequently, the corporation continues to seek new ways to reduce energy costs.

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 the operations of the Printing Sector 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. The Corporation has agreements with its most important suppliers in order to ensure a stable flow of resources. It should also be noted that some supply agreements contain escalation clauses that index selling prices to fluctuations in raw material costs and exchange rates.

Environmental Risks

Printing and publishing 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. 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 eco-footprint.

Financial 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, the vast majority of the Corporation's operating revenues depend, directly or indirectly, on retailers' advertising budgets. Advertising spending tends to be cyclical as a result of 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. 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.

Availability of Capital and Use of Financial Leverage

As at October 31, 2013, an amount of \$137.0 million was drawn on the \$400.0 million revolving credit facility which matures in February 2018. In addition, as at October 31, 2013, letters of credit in the amount of C\$1.5 million and US\$1.0 million had been issued under this credit facility.

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. It should be noted that the Corporation's credit ratings assigned by various agencies have a significant influence on its financing ability. Consequently, the risk is that the Corporation may not be able to raise the necessary capital to meet its financing needs. This risk is mitigated by the fact that the Corporation is in a very good financial position, with an adjusted net indebtedness ratio of 0.91x. 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. Availability of capital should therefore continue to increase as a result of our declining debt.

Interest Rate

The Corporation is exposed to market risks related to interest-rate fluctuations. At the end of fiscal 2013, considering the derivative financial instruments used, the fixed rate portion of the Corporation's long-term debt represented 73% of the total, while the floating rate portion represented 27% (67% and 33%, respectively, at October 31, 2012). 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.

Exchange Rate

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 25% for the following 12 months.

Credit

Certain factors, such as economic conditions, could have an impact on the availability of capital in general and therefore could have a negative effect on our collection capacity. To limit this risk, the Corporation maintains strict controls on credit, and senior management reviews the financial health of its customers and applies rigorous evaluation procedures 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. The Corporation also has a credit insurance policy covering several of its major customers, for a maximum amount of \$20.0 million, which expires on May 1, 2014. 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, 2013, almost all of TC Transcontinental's active employees were participating in defined contribution pension plans. The risks related to the benefits earned through the defined benefit pension plans that were in place prior to the migration to the defined contribution plans are still assumed by the Corporation. Funding for defined benefit plans 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 expected long-term rate of return on pension plan assets. The defined 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 valuations for the majority of the pension plans were made as of December 31, 2012. The actuarial funding valuation report determines the amount of cash contributions that the Corporation is required to make to the registered retirement plans. The December 31, 2012 funding report showed the registered retirement plans to be in a solvency deficit position. Consequently, should the financial markets or interest rates drop significantly, the Corporation would likely be required to increase its cash contributions. The Corporation reduces this risk by adopting an allocation strategy for pension plan assets under which a portion of investments have characteristics similar to those of the long-term obligations related to these plans.

Impairment Tests

The Corporation conducts impairment tests that could lead to asset write-downs and as a result have an unfavourable impact on shareholders' equity. Under International Financial Reporting Standards (IFRS), the Corporation must regularly test long-term assets for impairment to determine whether the value of the asset in question has decreased. Any asset write-down 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.

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, 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, and the Corporation may decide not to exercise its redemption right. 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.

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, 2013, 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.

In the fiscal year ended October 31, 2013, no change that has materially affected or is reasonably likely to materially affect internal control over financial reporting was brought to the attention of Management, including the President and Chief Executive Officer, and the Chief Financial and Development Officer of the Corporation.

Management evaluated the effectiveness of internal controls with respect to financial information at October 31, 2013, and based on that evaluation has determined that internal control over financial information was effective.

SUBSEQUENT EVENT

Announcement of a definitive agreement to acquire all Quebec community newspapers from Sun Media Corporation

On December 5th, 2013, the Corporation announced that it has entered into a definitive agreement pursuant to which it will acquire all Quebec community newspapers and associated web properties from Sun Media Corporation, a subsidiary of Quebecor Media, for a total purchase price of \$75 million. This agreement has been approved by the Boards of Directors of both Transcontinental Inc. and Quebecor Media Inc., and the transaction is subject to obtaining regulatory clearances under the Canadian Competition Act.

OUTLOOK

The Printing Sector generated synergies reaching approximately \$40 million, as expected at the time of the acquisition of Quad/Graphics Canada, Inc., and should generate a few million dollars in additional synergies during fiscal 2014. In addition, since the start of fiscal 2013, we have signed new agreements to print newspapers, flyers, and marketing products whose contribution should be noted more significantly in fiscal 2014. We will continue to develop our offering to retailers, more specifically with respect to in-store marketing, and pursue our efforts to integrate other Canadian newspaper publishers into our efficient printing network. However, these items should be offset by an anticipated decrease in volume within our existing magazine and book printing operations.

In the Media Sector, the difficult market conditions with respect to advertising spending in our local and national markets are likely to persist. As a result, we will continue to optimize our cost structure to limit the potential impact on profit margins. Furthermore, we will keep on investing in the development of new products and services, mostly digital and interactive.

The new agreements announced with Quebecor Media Inc. for the printing of some of its magazines and direct marketing materials should begin to progressively have a positive impact as of February 2014. We also entered into a definitive agreement with Sun Media Corporation, a subsidiary of Quebecor Media, subject to regulatory approval, to acquire all of its Quebec community newspapers. Following the closure of this transaction, we expect these items to have an annualized impact of around \$20 million on operating income before amortization.

We will continue to generate significant cash flows in the short-term, and our excellent financial position should permit us to continue applying our three-pronged capital management approach, which allows us to reduce our debt, pay dividends and invest in our transformation focusing on our core competencies, such as manufacturing. We will also keep on developing internal projects and evaluating strategic acquisitions to maintain our position as Canadian leader in marketing activation, while developing new niches to ensure the long-term growth and profitability of the business.

On behalf of Management,

(s) Nelson Gentiletti
Chief Financial and Development Officer

December 5, 2013



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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, 2013, and October 31, 2012, the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, 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.

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, 2013 and October 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards.

December 5, 2013
Montréal, Canada

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

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years ended October 31, 2013 and 2012

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

	Notes	2013	2012
Revenues		\$ 2,110.1	\$ 2,112.1
Operating expenses	4	1,761.0	1,754.5
Restructuring and other costs	5	28.0	55.0
Impairment of assets	6	170.0	232.0
Gain on business acquisition	27	—	(32.1)
Operating income before amortization		151.1	102.7
Amortization	7	105.3	112.4
Operating income (loss)		45.8	(9.7)
Net financial expenses	8	25.5	46.5
Income (loss) before income taxes		20.3	(56.2)
Income taxes	9	27.6	112.3
Net loss from continuing operations		(7.3)	(168.5)
Net loss from discontinued operations	10	—	(7.4)
Net loss		(7.3)	(175.9)
Non-controlling interests		0.4	0.6
Net loss attributable to shareholders of the Corporation		(7.7)	(176.5)
Dividends on preferred shares, net of related taxes	22	6.8	6.8
Net loss attributable to participating shares		\$ (14.5)	\$ (183.3)
Net loss per participating share - basic and diluted			
Continuing operations	23	\$ (0.19)	\$ (2.18)
Discontinued operations		—	(0.09)
		\$ (0.19)	\$ (2.27)
Weighted average number of participating shares - basic and diluted (in millions)		78.0	80.7

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended October 31, 2013 and 2012
(in millions of Canadian dollars)

	Notes	2013	2012
Net loss		\$ (7.3)	\$ (175.9)
Other comprehensive income (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		2.8	(0.6)
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		(2.8)	3.9
Related income taxes		(0.2)	0.9
		0.2	2.4
Cumulative translation differences			
Unrealized exchange net gains on the translation of the financial statements of foreign operations		1.0	0.7
Unrealized exchange losses on the translation of a debt designated as a hedge of a net investment in foreign operations		(1.6)	—
Related income taxes		(0.2)	—
		(0.4)	0.7
Items that will not be reclassified to net income (loss):			
Changes in actuarial gains and losses in respect of defined benefit plans			
Actuarial gains (losses) in respect of defined benefit plans	29	85.2	(81.9)
Related income taxes		22.7	(22.5)
		62.5	(59.4)
Other comprehensive income (loss)	25	62.3	(56.3)
Comprehensive income (loss)		\$ 55.0	\$ (232.2)
Attributable to:			
Shareholders of the Corporation		\$ 54.6	\$ (232.8)
Non-controlling interests		0.4	0.6
		\$ 55.0	\$ (232.2)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended October 31, 2013 and 2012
(in millions of Canadian dollars)

	Attributable to shareholders of the Corporation					Total	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss				
Balance as at November 1, 2012	\$ 467.7	\$ 2.5	\$ 514.2	\$ (84.4)	\$ 900.0	\$ 1.4	\$ 901.4	
Net income (loss)	—	—	(7.7)	—	(7.7)	0.4	(7.3)	
Other comprehensive income	—	—	—	62.3	62.3	—	62.3	
Shareholders' contributions and distributions to shareholders								
Participating share redemptions (Note 22)	(6.4)	—	(5.2)	—	(11.6)	—	(11.6)	
Exercise of stock options (Note 22)	1.5	(0.3)	—	—	1.2	—	1.2	
Dividends (Note 22)	—	—	(129.9)	—	(129.9)	(1.4)	(131.3)	
Stock-option based compensation (Note 24)	—	0.7	—	—	0.7	—	0.7	
Balance as at October 31, 2013	\$ 462.8	\$ 2.9	\$ 371.4	\$ (22.1)	\$ 815.0	\$ 0.4	\$ 815.4	
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 22)	(11.0)	—	(6.8)	—	(17.8)	—	(17.8)	
Exercise of stock options (Note 22)	0.6	(0.1)	—	—	0.5	—	0.5	
Dividends (Note 22)	—	—	(52.8)	—	(52.8)	—	(52.8)	
Stock-option based compensation (Note 24)	—	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	

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Years ended October 31, 2013 and 2012
(in millions of Canadian dollars)

	Notes	As at October 31, 2013	As at October 31, 2012
Current assets			
Cash		\$ 30.3	\$ 16.8
Accounts receivable	11	421.2	449.8
Income taxes receivable		12.5	38.9
Inventories	12	82.0	82.5
Prepaid expenses and other current assets	13	14.1	14.7
		560.1	602.7
Property, plant and equipment	14	596.6	651.2
Intangible assets	15	194.2	171.5
Goodwill	16	325.7	487.0
Deferred income taxes	9	148.0	192.6
Other assets	17	34.7	31.2
		\$ 1,859.3	\$ 2,136.2
Current liabilities			
Accounts payable and accrued liabilities	18	\$ 275.8	\$ 336.8
Provisions	20	10.3	15.5
Income taxes payable		6.4	50.3
Deferred revenues and deposits	21	61.1	39.3
Current portion of long-term debt	19	218.3	283.5
		571.9	725.4
Long-term debt	19	128.9	204.1
Deferred income taxes	9	67.1	68.4
Provisions	20	40.2	45.3
Other liabilities	21	235.8	191.6
		1,043.9	1,234.8
Equity			
Share capital	22	462.8	467.7
Contributed surplus		2.9	2.5
Retained earnings		371.4	514.2
Accumulated other comprehensive loss	25	(22.1)	(84.4)
Attributable to shareholders of the Corporation		815.0	900.0
Non-controlling interests		0.4	1.4
		815.4	901.4
		\$ 1,859.3	\$ 2,136.2

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 31, 2013 and 2012
(in millions of Canadian dollars)

	Notes	2013	2012
Operating activities			
Net loss		\$ (7.3)	\$ (175.9)
Less: Net loss from discontinued operations	10	—	(7.4)
Net loss from continuing operations		(7.3)	(168.5)
Adjustments to reconcile net loss from continuing operations and cash flows from operating activities:			
Amortization	7	131.2	132.9
Impairment of assets	6	170.0	232.0
Gain on business acquisition	27	—	(32.1)
Financial expenses on long-term debt	8	20.1	27.0
Interest on tax reassessment	8 & 9	—	16.0
Net loss (gain) on disposal of assets		0.2	(1.2)
Income taxes	9	27.6	112.3
Stock-option based compensation	24	0.7	0.8
Other		(1.9)	1.6
Cash flows generated by operating activities before changes in non-cash operating items and income tax paid		340.6	320.8
Changes in non-cash operating items	26	88.2	(43.8)
Income tax paid		(12.6)	(48.0)
Cash flows from continuing operations		416.2	229.0
Cash flows from discontinued operations		—	0.9
		416.2	229.9
Investing activities			
Business combinations	27	(24.5)	(60.4)
Acquisitions of property, plant and equipment		(47.4)	(37.3)
Disposals of property, plant and equipment		5.1	3.6
Increase in intangible assets		(26.8)	(22.0)
Cash flows from investments in continuing operations		(93.6)	(116.1)
Cash flows from investments in discontinued operations		—	10.0
		(93.6)	(106.1)
Financing activities			
Reimbursement of long-term debt	19	(88.8)	(89.8)
Net increase (decrease) in revolving term credit facility	19	(57.6)	11.4
Financial expenses on long-term debt		(20.5)	(26.1)
Interest on tax reassessment	9	—	(8.1)
Dividends on participating shares	22	(123.1)	(46.0)
Dividends on preferred shares	22	(6.8)	(6.8)
Dividends paid to non-controlling interests		(1.4)	—
Issuance of participating shares	22	1.2	0.5
Participating share redemptions	22	(12.1)	(17.3)
Cash flows from the financing of continuing operations		(309.1)	(182.2)
Effect of exchange rate changes on cash denominated in foreign currencies		—	0.2
Net change in cash		13.5	(58.2)
Cash at beginning of year		16.8	75.0
Cash at end of year		\$ 30.3	\$ 16.8
Non-cash investing and financing activities			
Net change in capital asset acquisitions financed by accounts payable		\$ (3.8)	\$ 2.7

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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

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 specializes in print and digital media, the production of magazines, newspapers, books and custom content, mass and personalized marketing, interactive and mobile applications, and door-to-door distribution. The Corporation conducts business in Canada and the United States in two separate sectors: the Printing Sector and the Media Sector. The Corporation's main activities are described in Note 33 "Segment Reporting".

The Corporation's Board of Directors approved these consolidated financial statements on December 5, 2013.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The accounting policies adopted in these annual consolidated financial statements are based on IFRS issued, in force and which were adopted by the Corporation as at October 31, 2013. Any subsequent changes to the accounting policies, that are taking effect in the Corporation's consolidated financial statements after October 31, 2013, could result in a restatement of these annual consolidated financial statements.

The consolidated IFRS financial statements have been prepared in accordance with the following significant 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.

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 to share 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 acquisition 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 occurred, 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 measurement period will be recognized in profit or loss.

In the case of a business combination 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.

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 or at the date of issue in the case of a monthly publication.

Subscription revenues:

Subscription revenues are recognized using the straight-line method, based on subscription terms, which represent the period during which the services are provided. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2013, the Corporation recognized an amount of \$9.7 million as exchange transactions (\$10.3 million for the year ended October 31, 2012).

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.

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 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 such expenses. 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 (Loss) and related inventory in the Consolidated Statements of Financial Position. These rebates are estimated based on anticipated purchases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are not amortized as long as they have 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.

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 (Loss) and Comprehensive Income (Loss) 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.

Operating 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 expenses 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
Educational book titles	6-9 years	Based on historical sales patterns
Acquired printing contracts	Term of the contract	Straight-line
Non-compete agreements	2-10 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, at each reporting date.

Intangible assets with indefinite useful lives are not amortized. They mainly consist of trade names acquired as part of business combinations for newspaper, magazine and book publication activities. The value attributed to trade names 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Contract acquisition costs

Contract acquisition costs are amortized using the straight-line method over the related contract term, as reductions of revenues. Whenever significant changes occur that impact the related contract, including declines in anticipated profitability, the Corporation evaluates the realizable value of the contract acquisition costs to determine whether impairment has occurred. 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 funds 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 contracts, and multi-employer pension plans. Provisions are reviewed at each reporting date and any changes to estimates are reflected in the Consolidated Statement of Income (Loss).

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.

ii) Onerous contracts

An onerous 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 contract provision represents the lesser of the cost of exiting from the contract and the cost of fulfilling it.

iii) Multi-employer pension 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 group 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 health care 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 other comprehensive income.

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.

Past service cost is recognized as an expense in the Consolidated Statement of Income (Loss), 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.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current 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 additional amounts. The cost for these plans is recorded when services are rendered by employees, which is generally at the same time the contributions are made.

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

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 measured 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 on each reporting period. Any changes in the fair value is recognized in profit or loss. On each reporting period, the Corporation reviews its estimate of the number of units expected to vest, and recognizes the impact of this review in profit or loss as required.

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 remeasured on 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.

During the year ended October 31, 2013, the Corporation has designated certain debts denominated in U.S. dollars as a hedge of an equivalent portion of its net investment in its foreign operations, which have the U.S. dollar as their functional currency. As a result, the effective portion of unrealized exchange gains or losses on the translation of debts denominated in U.S. dollars designated as a hedge is recognized in other comprehensive income and the ineffective portion is recognized in net income. Unrealized exchange gains or losses on the translation of debts denominated in U.S. dollars designated as a hedge of a net investment in foreign operations recognized in accumulated other comprehensive income are reclassified to net income when the corresponding net investment is reduced.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (Loss) in the appropriate period until their realization, after which they are recorded in the Consolidated Statement of Income (Loss).

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 derivative 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 item 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 (Loss). 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 net income during the period in which the hedged item affects net income.

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Business combinations

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 identifiable intangible assets following a business combination, which would impact the amortization expense.

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.

In relation to the use of the method based on discounting future cash flows, cash flow projections are established based on past experience, certain economic trends as well as industry and market trends, and represent management's best estimate as to future results. 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, interest 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 any. The impact of significant 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.

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 occurrence of the obligations. Significant 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 fact that it is subject to tax laws of the 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 occurrence. Deferred income tax assets also reflect the benefit of unused 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) Employment 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 estimates, 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 groups that will benefit from the synergies of the combination. During this process, the Corporation applies judgment based on the objectives sought in the business combination and on how it manages its operations. Application of a different judgment could lead to a different result in regards with the annual impairment test of non-financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 substantially all risks and rewards of ownership of the leased property are transferred to the lessee. This assessment helps determine the classification of the lease as either an operating lease or a finance lease, and also determines how the lease should be accounted for in the Corporation's consolidated financial statements. In performing this assessment, 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

Impacts of adoption of the standards as at November 1, 2013

The following table presents the impacts of the standards coming into effect as at November 1, 2013. Retroactive restatements of the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss), resulting from the adoption of IFRS 11 "Joint Arrangements" and amended IAS 19 "Employee benefits" for the year ended October 31, 2013 are as follows:

	As reported	Restated		Restated
		IFRS 11 ^(a)	IAS 19 ^(b)	
Revenues	\$ 2,110.1	\$ (15.4)	\$ —	\$ 2,094.7
Operating expenses	1,761.0	(13.9)	5.8	1,752.9
Restructuring and other costs	28.0	—	—	28.0
Impairment of assets	170.0	—	—	170.0
Operating income (loss) before amortization	151.1	(1.5)	(5.8)	143.8
Amortization	105.3	(0.3)	—	105.0
Operating income (loss)	45.8	(1.2)	(5.8)	38.8
Net financial expenses	25.5	(0.1)	6.4	31.8
Income (loss) before income taxes	20.3	(1.1)	(12.2)	7.0
Share of net income in interests in joint ventures	—	0.9	—	0.9
Income taxes	27.6	(0.2)	(3.3)	24.1
Net loss	(7.3)	—	(8.9)	(16.2)
Non-controlling interests	0.4	—	—	0.4
Net loss attributable to shareholders of the Corporation	(7.7)	—	(8.9)	(16.6)
Dividends on preferred shares, net of related taxes	6.8	—	—	6.8
Net loss attributable to participating shares	\$ (14.5)	\$ —	\$ (8.9)	\$ (23.4)
Net loss per participating share - basic and diluted	\$ (0.19)	\$ —	\$ (0.11)	\$ (0.30)
Other comprehensive income	62.3	—	8.9	71.2
Comprehensive income	\$ 55.0	\$ —	\$ —	\$ 55.0

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3 FUTURE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

a) 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.

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 (Loss) and the Consolidated Statement of Comprehensive Income (Loss), respectively. The impact on the Consolidated Statement of Financial Position as at October 31, 2013 resulting from the adoption of IFRS 11, "Joint Arrangements" is the addition of a new line item, "Interests in joint ventures" in the amount of \$1.7 million under non-current assets and \$0.9 million under non-current liabilities, as well as a decrease in all asset and liability items resulting in a nil impact on net assets.

b) 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. Amended IAS 19 introduces a new approach to calculating net interest expense on defined benefit liabilities (assets), under which the rate of return on the asset will be identical to the rate used to discount the obligation. The presentation has also been changed such that current and past service costs and plan administration costs are presented under "Operating expenses" and the net interest expense is presented under "Net financial expenses".

c) 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 while 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 (Loss). The effective date of IFRS 9 has not been determined.

d) 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. The Corporation must adopt IFRS 10 starting November 1, 2013. The Corporation has completed its analysis, and the adoption of this standard will have no impact on its consolidated financial statements.

e) 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. The Corporation must adopt IFRS 12 starting November 1, 2013. It is currently assessing the impact that adoption of this standard will have on the additional disclosures that will have to be made in the annual consolidated financial statements for the year ending October 31, 2014.

f) 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. The Corporation must adopt IFRS 13 starting November 1, 2013. The Corporation has completed its analysis, and the adoption of this standard will have no impact on its consolidated financial statements.

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. The Corporation has not completed the analysis of this standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 OPERATING EXPENSES

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

	2013	2012
Employee-related costs	\$ 677.6	\$ 686.7
Supply chain and logistics ⁽¹⁾	949.1	940.2
Other goods and services ⁽²⁾	134.3	127.6
	\$ 1,761.0	\$ 1,754.5

⁽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 during the year ended October 31, 2013 represent \$26.5 million (\$25.5 million for the year ended October 31, 2012). Leasing and subleasing revenues recognized during the year ended October 31, 2013 were \$2.1 million (\$1.4 million for the year ended October 31, 2012).

The amount of inventory recognized in operating expenses for the year ended October 31, 2013 was \$1,110.9 million (\$1,117.3 million for the year ended October 31, 2012). An amount of \$1.0 million was recognized as inventory obsolescence expenses for the year ended October 31, 2013 (\$0.9 million for the year ended October 31, 2012).

5 RESTRUCTURING AND OTHER COSTS

Restructuring and other costs by major headings are as follows for the years ended October 31:

	2013	2012
Workforce reductions	\$ 19.4	\$ 32.7
Multi-employer plans	—	11.3
Onerous contracts	0.4	6.4
Net losses on disposal of assets	—	1.6
Business acquisition costs ⁽¹⁾	0.3	1.8
Gain on defined benefit plans curtailment related to workforce reductions	(0.7)	(3.4)
Impact of settlement on defined benefit plans related to workforce reductions	3.6	0.3
Other costs related to restructurings	5.0	4.3
	\$ 28.0	\$ 55.0

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

6 IMPAIRMENT OF ASSETS

Impairment of assets by major headings is as follows for the years ended October 31:

	2013	2012
Property, plant and equipment	\$ 8.9	\$ 1.3
Intangible assets	1.1	20.7
Goodwill	160.0	210.0
	\$ 170.0	\$ 232.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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6 IMPAIRMENT OF ASSETS (CONTINUED)

Property, plant and equipment

During the year ended October 31, 2013, the Corporation recognized an impairment charge in respect of property, plant and equipment totalling \$8.9 million, primarily relating to machinery and equipment that was not used. During the year ended October 31, 2012, the Corporation had recorded an impairment charge in respect of property, plant and equipment in the amount of \$1.3 million.

Intangible assets

During the year ended October 31, 2013, the Corporation performed its annual impairment test on intangible assets with an indefinite useful life, which consist of trade names acquired in business combinations for newspaper, magazine and book printing activities. The Corporation has concluded that the recoverable amounts of the cash generating units ("CGU") groups subject to the test exceeded their carrying amounts. Accordingly, no impairment charge was recorded for the year ended October 31, 2013 in respect of intangible assets with an indefinite useful life. During the year ended October 31, 2013, an impairment charge in respect of intangible assets with a definite useful life totalling \$1.1 million was recorded for the cost relating to long-term technology projects.

During the year ended October 31, 2012, the Corporation recorded a \$13.5 million impairment charge on intangible assets with an indefinite useful life, due to a decline in profitability relating to the trade names of certain CGUs in the Media Sector's Local Solutions Group. The Corporation had also recorded a \$7.2 million impairment charge in respect of intangible assets with a definite useful life, relating primarily to a decline in the value in use of costs relating to long-term technology projects for the Media Sector's Content Solutions Group and Digital Solutions Group.

Goodwill

During the year ended October 31, 2013, the Corporation performed its annual goodwill impairment test. The Corporation concluded that the recoverable amounts for the CGU groups of the Business and Consumer Solutions Group, the Local Solutions Group and the Book Publishing Group were lower than their carrying amounts. The Corporation therefore recorded a \$160.0 million goodwill impairment charge during the year ended October 31, 2013. Impairment charges of \$75.0 million were recorded in the CGU groups of the Business and Consumer Solutions Group and in the Local Solutions Group due to difficult market conditions. These conditions continue to have a negative impact on the advertising revenues of these CGU groups, and therefore also on their operating results. An impairment charge of \$10.0 million was also recorded in the CGU group of the Book Publishing Group due to budget cuts affecting our customers. These conditions have a negative impact on the operating results of this CGU group. 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, 2012, the Corporation recorded an impairment charge of \$210.0 million, comprised of \$100.6 million in the CGU group of the Business and Consumer Solutions Group, \$89.0 million in the CGU group of the Local Solutions Group and \$20.4 million in the CGU group of the Book Printing Group, primarily due to a decline in profitability.

Impairment tests

The recoverable value of a CGU in respect of which intangible assets with an indefinite useful life have been allocated is based on the value in use. The recoverable value of the CGU group for which goodwill has been assigned represents the greater of the value in use and the fair value, less cost to sell.

The Corporation used the following key data and assumptions:

EBITDA

The EBITDA (earnings before interest, taxes, depreciation and amortization) used is based on the three-year financial plan approved by management. The plan is based on historical data reflecting past experience and certain economic, industry and market trends. Management develops its forecasts based on, among other things, printing and advertising revenues, printing costs and salary increases.

Growth

For the purpose of calculating value in use, future cash flows are based on the three-year financial plan approved by management, with no growth factor having been applied after three years.

Capitalization multiples

The capitalization multiples used are those of comparable companies whose activities are similar to those of the CGU group concerned. This data is obtained on the market.

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6 IMPAIRMENT OF ASSETS (CONTINUED)

Discount rate

For the purpose of calculating value in use, the Corporation used discounts rates varying between 10.00% and 13.42% (pre-tax discount rates vary between 15.79% and 24.80%). The discount rate represents the weighted average cost of capital ("WACC") for comparable companies operating in similar industries as the applicable CGU or the concerned 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 the CGU group.

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

Tax rate

For the purpose of calculating value in use, the Corporation used income tax rates varying between 25.93% and 27.87% based on the effective tax rates for the entities comprising the applicable CGU groups.

The following table presents the main CGUs subject to an impairment test for intangible assets with an indefinite useful life with the basis used as recoverable value and key assumptions used:

	Carrying amount as at October 31, 2013	Basis used as recoverable value	Capitalization multiple	Perpetual growth rate	Pre-tax discount rate
Media Sector					
<i>Cape Breton Post</i>	\$ 13.2	Value in use	n/a	— %	18.7 %
<i>The Guardian</i>	16.3	Value in use	n/a	— %	18.7 %
<i>The Telegram</i>	23.7	Value in use	n/a	— %	18.7 %

The following table presents the main CGU groups subject to an impairment test for goodwill with the basis used as recoverable value and assumptions used:

	Carrying amount as at October 31, 2013	Basis used as recoverable value	Capitalization multiple	Perpetual growth rate	Pre-tax discount rate
Printing Sector					
Magazine, Book and Catalogue Group	\$ 65.4	Fair value	5.8x	n/a	n/a
Retail and Newspaper Group	61.0	Value in use	n/a	— %	21.6 %
Media Sector					
Business and Consumer Solutions Group	33.3	Value in use	n/a	— %	23.3 %
Local Solutions Group	92.2	Value in use	n/a	— %	22.3 %
Book Printing Group	50.1	Fair value	7.5x	n/a	n/a

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7 AMORTIZATION

Amortization by major headings is as follows for the years ended October 31:

	2013	2012
Property, plant and equipment	\$ 89.5	\$ 98.2
Intangible assets	15.8	14.2
	105.3	112.4
Intangible assets and other assets, recognized in revenues and operating expenses	25.9	20.5
	\$ 131.2	\$ 132.9

8 NET FINANCIAL EXPENSES

Net financial expenses by major headings are as follows for the years ended October 31:

	2013	2012
Financial expenses on long-term debt	\$ 20.1	\$ 27.0
Interest on tax reassessment (Note 9)	—	16.0
Other expenses	4.3	4.1
Foreign exchange net losses (net gains)	1.1	(0.6)
	\$ 25.5	\$ 46.5

9 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:

	2013	2012
Income (loss) before income taxes	\$ 20.3	\$ (56.2)
Canadian statutory tax rate	26.90 %	27.15 %
Income taxes (recovered) at the statutory tax rate	5.5	(15.3)
Effect of reassessments related to previous years ⁽¹⁾	—	42.0
Reduction to the carrying amount of deferred income tax assets ⁽²⁾	—	57.2
Effect of differences in tax rates in other jurisdictions	(0.9)	(4.4)
Income taxes on non-deductible expenses and non-taxable portion of capital gain	29.0	30.5
Recognition of deferred income tax assets on tax losses or temporary differences not previously recognized	(3.2)	1.5
Other	(2.8)	0.8
Income taxes at effective tax rate	\$ 27.6	\$ 112.3

Income taxes include the following items:

Income taxes before the following items:	\$ 53.9	\$ 57.9
Tax effect of reassessments related to previous years ⁽¹⁾	—	42.0
Reduction to the carrying amount of deferred income tax assets ⁽²⁾	—	57.2
Income taxes on restructuring and other costs	(7.6)	(15.4)
Income taxes on impairment of assets	(18.7)	(29.4)
Income taxes at effective tax rate	\$ 27.6	\$ 112.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9 INCOME TAXES (CONTINUED)

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

⁽²⁾ 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.

The statutory tax rates were 26.90% in 2013 and 27.15% in 2012. 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:

	2013	2012
Current income taxes		
Current year	\$ 4.7	\$ 11.6
Adjustment resulting from reassessments relating to previous years	—	42.0
Change in the use of temporary differences	—	(20.0)
Adjustment to previous years' balances	(3.8)	1.7
	0.9	35.3
Deferred income taxes		
Change in the use of temporary differences	—	20.0
Adjustment for previous years' balances	2.8	0.4
Increase related to temporary differences	27.4	(3.5)
Reduction to the carrying amount of deferred income tax assets	—	57.2
Recognition of deferred income tax assets on tax losses or temporary differences not previously recognized	(3.2)	1.5
Impact of tax rate changes	(0.3)	1.4
	26.7	77.0
Income taxes	\$ 27.6	\$ 112.3

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

	As at October 31, 2013		As at October 31, 2012	
	Asset	Liability	Asset	Liability
Loss carryforwards	\$ 55.8	\$ —	\$ 125.8	\$ —
Inventories	—	10.5	—	7.7
Property, plant and equipment	—	48.7	—	63.2
Intangible assets and goodwill	—	13.1	—	22.8
Other assets	13.8	—	14.0	—
Deferred revenues	71.9	—	—	—
Long-term debt	—	8.5	—	14.2
Provisions	19.4	—	67.9	—
Transitional provision for partnerships	—	9.2	—	13.0
Defined benefit plans	9.9	—	37.8	—
Other	0.1	—	—	0.4
	170.9	90.0	245.5	121.3
Offsetting of assets and liabilities	(22.9)	(22.9)	(52.9)	(52.9)
	\$ 148.0	\$ 67.1	\$ 192.6	\$ 68.4

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9 INCOME TAXES (CONTINUED)

The loss carryforwards included in deferred income tax assets expire between 2015 and 2033.

Changes in deferred income tax assets and liabilities for the year ended October 31, 2013 are as follows :

	Balance as at November 1, 2012	Recognized in profit or loss	Exchange rate change	Recognized in other comprehensive income	Business combinations	Balance as at October 31, 2013
Loss carryforwards	\$ 125.8	\$ (74.5)	\$ 1.4	\$ —	\$ 3.1	\$ 55.8
Inventories	(7.7)	(0.4)	—	—	(2.4)	(10.5)
Property, plant and equipment	(63.2)	13.3	0.2	—	1.0	(48.7)
Intangible assets and goodwill	(22.8)	10.5	0.6	—	(1.4)	(13.1)
Other assets	14.0	(0.5)	0.3	—	—	13.8
Deferred revenues	—	70.8	1.1	—	—	71.9
Long-term debt	(14.2)	5.2	0.1	0.4	—	(8.5)
Provisions	67.9	(50.2)	1.4	—	0.3	19.4
Transitional provisions for partnership	(13.0)	3.8	—	—	—	(9.2)
Defined benefit plans	37.8	(5.2)	—	(22.7)	—	9.9
Other	(0.4)	0.5	—	—	—	0.1
	\$ 124.2	\$ (26.7)	\$ 5.1	\$ (22.3)	\$ 0.6	\$ 80.9

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	6.3	0.2	—	—	16.4	67.9
Transitional provisions for partnership	—	(13.0)	—	—	—	—	(13.0)
Defined benefit plans	19.2	(17.7)	—	—	22.5	13.8	37.8
Other	(0.3)	0.8	—	—	(0.9)	—	(0.4)
	\$ 71.9	\$ (77.0)	\$ 0.4	\$ 2.1	\$ 21.6	\$ 105.2	\$ 124.2

The Corporation has \$139.3 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 the United States and considering that it is not probable that a sufficient future taxable income will be available, the Corporation has not recognized a deferred tax asset on these losses totaling \$68.3 million. Losses related to the unrecognized asset expire between 2016 and 2033.

As at October 31, 2013, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 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 is receivable over the five years following the transaction. Revenues, expenses and cash flows related to these operations were reclassified separately in the Consolidated Statements of Income (Loss) and the Consolidated Statements of Cash Flows as discontinued operations for the year ended October 31, 2012.

On July 12, 2011, the Corporation entered into a final agreement with Quad/Graphics, Inc. to sell its Mexican printing operations. During the year ended October 31, 2012, a \$1.3 million loss has been recorded as an adjustment to the gain related to the discontinued operations. Note 27 provides more detailed information on the terms and conditions of this transaction.

The following table presents the net loss from discontinued operations for the years ended October 31:

	2013	2012
Revenues	\$ —	\$ 21.5
Expenses	—	21.9
Loss before income taxes	—	(0.4)
Income taxes	—	(0.1)
Loss related to the operation of discontinued operations	—	(0.3)
Loss related to discontinuance of black and white book printing operations, net of related income tax of \$2.1	—	(5.8)
Adjustment to the gain related to discontinuance of Mexican printing operations (no tax effect)	—	(1.3)
Net loss from discontinued operations ⁽¹⁾	\$ —	\$ (7.4)

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

11 ACCOUNTS RECEIVABLE

Components of accounts receivable are as follows:

	As at October 31, 2013	As at October 31, 2012
Trade receivables	\$ 402.9	\$ 438.8
Allowance for doubtful accounts	(9.6)	(14.5)
Other receivables	27.9	25.5
	\$ 421.2	\$ 449.8

12 INVENTORIES

Components of inventories are as follows:

	As at October 31, 2013	As at October 31, 2012
Raw materials	\$ 44.5	\$ 46.2
Work in progress and finished goods	44.1	42.2
Provision for obsolescence	(6.6)	(5.9)
	\$ 82.0	\$ 82.5

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13 PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	As at October 31, 2013	As at October 31, 2012
Prepaid expenses	\$ 14.1	\$ 14.0
Fair value of derivative financial instruments	—	0.7
	\$ 14.1	\$ 14.7

14 PROPERTY, PLANT AND EQUIPMENT

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

2013	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, 2012	\$ 43.6	\$ 225.8	\$ 48.7	\$ 1,138.7	\$ 9.1	\$ 162.5	\$ 20.0	\$ 1,648.4
Acquisitions	—	1.0	7.9	10.3	—	4.0	20.8	44.0
Made available for use	—	2.1	0.5	12.7	—	5.5	(20.8)	—
Business combinations	—	—	—	—	—	0.1	—	0.1
Disposals and elimination of cost on fully amortized assets	(0.5)	(5.9)	(14.1)	(44.6)	—	(60.1)	—	(125.2)
Exchange rate change and other	1.3	1.8	(0.1)	4.8	(0.2)	0.7	(0.3)	8.0
Balance as at October 31, 2013	\$ 44.4	\$ 224.8	\$ 42.9	\$ 1,121.9	\$ 8.9	\$ 112.7	\$ 19.7	\$ 1,575.3
Accumulated amortization and impairment								
Balance as at November 1, 2012	\$ —	\$ (104.4)	\$ (24.3)	\$ (724.7)	\$ (6.0)	\$ (137.8)	\$ —	\$ (997.2)
Amortization	—	(8.0)	(4.1)	(63.8)	(0.8)	(12.8)	—	(89.5)
Disposals and elimination of cost on fully amortized assets	—	2.5	13.7	42.9	—	60.1	—	119.2
Impairment	—	(0.5)	(1.0)	(7.0)	—	(0.4)	—	(8.9)
Exchange rate change and other	—	(0.7)	0.2	(1.8)	0.3	(0.3)	—	(2.3)
Balance as at October 31, 2013	\$ —	\$ (111.1)	\$ (15.5)	\$ (754.4)	\$ (6.5)	\$ (91.2)	\$ —	\$ (978.7)
Net book value	\$ 44.4	\$ 113.7	\$ 27.4	\$ 367.5	\$ 2.4	\$ 21.5	\$ 19.7	\$ 596.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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	0.4	1.8	8.7	—	4.8	24.2	40.0
Made available for use	—	0.7	2.8	5.5	—	4.8	(13.8)	—
Business combinations	5.1	13.3	—	15.6	—	0.4	0.2	34.6
Disposals and elimination of cost on fully amortized assets	(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 and elimination of cost on fully amortized assets	—	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

Borrowing costs capitalized to property, plant and equipment

For the years ended October 31, 2013 and 2012, negligible amounts were capitalized to property, plant and equipment as borrowing costs.

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15 INTANGIBLE ASSETS

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

	Finite useful life						Indefinite useful life		Total
	Customer relationships	Book prepublication costs	Educational book titles	Non-compete agreements	Long-term technology project costs	Acquired printing contracts and other	Trade names		
2013									
Cost									
Balance as at November 1, 2012	\$ 48.4	\$ 82.1	\$ 4.5	\$ 6.9	\$ 38.7	\$ 12.0	\$ 126.2	\$ 318.8	
Additions (internally generated)	—	12.3	—	—	14.5	—	—	26.8	
Business combinations	3.6	3.4	8.1	3.5	—	1.8	2.1	22.5	
Elimination of cost on fully amortized assets	—	—	—	—	(4.7)	—	—	(4.7)	
Exchange rate change and other	—	0.4	—	—	(0.4)	(0.1)	—	(0.1)	
Balance as at October 31, 2013	\$ 52.0	\$ 98.2	\$ 12.6	\$ 10.4	\$ 48.1	\$ 13.7	\$ 128.3	\$ 363.3	
Accumulated amortization and impairment									
Balance as at November 1, 2012	\$ (10.9)	\$ (57.3)	\$ (4.5)	\$ (1.7)	\$ (22.6)	\$ (8.2)	\$ (42.1)	\$ (147.3)	
Amortization	(4.2)	(9.6)	(1.3)	(2.1)	(7.1)	(1.1)	—	(25.4)	
Elimination of accumulated amortization and impairment on fully amortized assets	—	—	—	—	4.7	—	—	4.7	
Impairment	—	—	—	—	(1.1)	—	—	(1.1)	
Balance as at October 31, 2013	\$ (15.1)	\$ (66.9)	\$ (5.8)	\$ (3.8)	\$ (26.1)	\$ (9.3)	\$ (42.1)	\$ (169.1)	
Net book value	\$ 36.9	\$ 31.3	\$ 6.8	\$ 6.6	\$ 22.0	\$ 4.4	\$ 86.2	\$ 194.2	

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15 INTANGIBLE ASSETS (CONTINUED)

2012	Finite useful life					Indefinite useful life		Total
	Customer relationships	Book prepublication costs	Educational book titles	Non-competes agreements	Long-term technology project costs	Acquired printing contracts and other	Trade names	
Cost								
Balance as at November 1, 2011	\$ 23.8	\$ 71.6	\$ 20.0	\$ 2.4	\$ 36.2	\$ 12.2	\$ 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)	—	(15.4)	(1.6)	(11.6)	—	—	(32.1)
Exchange rate change and other	—	(0.1)	(0.1)	—	2.7	0.1	—	2.6
Balance as at October 31, 2012	\$ 48.4	\$ 82.1	\$ 4.5	\$ 6.9	\$ 38.7	\$ 12.0	\$ 126.2	\$ 318.8
Accumulated amortization and impairment								
Balance as at November 1, 2011	\$ (9.1)	\$ (50.3)	\$ (19.1)	\$ (1.2)	\$ (20.4)	\$ (7.5)	\$ (28.6)	\$ (136.2)
Amortization	(3.8)	(7.0)	(0.9)	(1.5)	(7.1)	(0.9)	—	(21.2)
Elimination of accumulated amortization and impairment on fully amortized assets	3.5	—	15.4	1.6	11.6	—	—	32.1
Impairment	(1.6)	—	—	(0.6)	(4.9)	(0.1)	(13.5)	(20.7)
Exchange rate change and other	0.1	—	0.1	—	(1.8)	0.3	—	(1.3)
Balance as at October 31, 2012	\$ (10.9)	\$ (57.3)	\$ (4.5)	\$ (1.7)	\$ (22.6)	\$ (8.2)	\$ (42.1)	\$ (147.3)
Net book value	\$ 37.5	\$ 24.8	\$ —	\$ 5.2	\$ 16.1	\$ 3.8	\$ 84.1	\$ 171.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16 GOODWILL

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

	2013	2012
Cost		
Balance, beginning of year	\$ 998.2	\$ 980.4
Business combinations (Note 27)	(0.6)	17.8
Business disposal	(0.7)	—
Balance, end of year	\$ 996.9	\$ 998.2
Accumulated impairment		
Balance, beginning of year	\$ (511.2)	\$ (301.2)
Impairment (Note 6)	(160.0)	(210.0)
Balance, end of year	\$ (671.2)	\$ (511.2)
Net book value		
Beginning of year	\$ 487.0	\$ 679.2
End of year	\$ 325.7	\$ 487.0

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

	As at October 31, 2013	As at October 31, 2012
Operating segments		
Printing Sector		
Magazine, Book and Catalogue Group	\$ 65.4	\$ 65.4
Retail and Newspaper Group	61.0	61.0
	126.4	126.4
Media Sector		
Business and Consumer Solutions Group	33.3	108.3
Local Solutions Group	92.2	172.0
Book Publishing Group	50.1	54.9
Content Solutions Group	12.7	12.7
Digital Solutions Group	10.1	11.8
	198.4	359.7
Other activities	0.9	0.9
	\$ 325.7	\$ 487.0

17 OTHER ASSETS

Components of other assets are as follows:

	As at October 31, 2013	As at October 31, 2012
Contract acquisition costs	\$ 18.4	\$ 23.8
Defined benefit asset (Note 29)	9.3	—
Fair value of derivative financial instruments	—	0.1
Other	7.0	7.3
	\$ 34.7	\$ 31.2

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18 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Components of accounts payable and accrued liabilities are as follows:

	As at October 31, 2013	As at October 31, 2012
Accounts payable and other accruals	\$ 133.0	\$ 196.1
Salaries and other benefits payable	85.5	80.6
Stock-based compensation	15.0	7.3
Taxes payable	15.9	18.9
Fair value of derivative financial instruments	3.1	4.5
Financial expenses payable	3.7	5.6
Other	19.6	23.8
	\$ 275.8	\$ 336.8

19 LONG-TERM DEBT

Long-term debt is as follows:

	Effective interest rate as at October 31, 2013	Maturity	As at October 31, 2013	As at October 31, 2012
Senior notes				
Series 2002 A - Tranche 1 - 5.62% (US\$75.0)	—	—	\$ —	\$ 74.9
Series 2002 A - Tranche 2 - 5.73% (US\$50.0)	5.88 %	2015	52.3	49.9
Series 2004 C - LIBOR + 0.80% (US\$15.0)	1.30 %	2014	15.7	15.0
Series 2004 D - LIBOR + 0.90% (US\$10.0)	1.20 %	2016	10.5	10.0
Obligations under finance leases for property, plant and equipment having a net book value of \$2.4	5.43 to 6.51 %	2014-2016	1.9	2.9
Credit facility in Canadian dollars	1.49 %	2018	137.0	139.0
Credit facility in U.S dollars (2012 - US\$56.0)	—	2018	—	55.9
Debentures - Solidarity Fund QFL				
Series 1 - 8.06%	8.11 %	2014	50.0	50.0
Series 2 - 5.58%	5.57 %	2019	50.0	50.0
Term loan - EURIBOR + 1.60% (2013 - €19.7; 2012 - €29.5)	8.02 %	2015	28.4	38.1
Other loans at zero nominal interest rates	3.79 to 5.73 %	2014-2027	3.7	4.8
			349.5	490.5
Issuance costs on long-term debt at amortized cost			2.3	2.9
Total long-term debt			347.2	487.6
Current portion of long-term debt ⁽¹⁾			218.3	283.5
			\$ 128.9	\$ 204.1

⁽¹⁾ The current portion of long-term debt as at October 31, 2013 mainly includes the credit facility in Canadian dollars, Series 1 debentures of the Solidarity Fund QFL as well as the Series 2004 C Senior Notes.

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19 LONG-TERM DEBT (CONTINUED)

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 their nominal value on October 31, 2013. During the year ended October 31, 2013, the Corporation repaid the Series 2002 A Senior Notes (first tranche), which matured on December 15, 2012.

The Corporation has a credit facility amounting to \$400.0 million or the U.S. dollar equivalent, which matures in February 2018. The applicable interest rate on the term revolving credit facility is based on the credit rating assigned by Standard & Poor's and DBRS. According to the current credit rating, it is either the 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, 2013, letters of credit amounting to C\$1.5 million and US\$1.0 million were drawn on the committed credit facility, in addition to the amount presented above.

The financing of €19.7 million (\$28.4 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%.

The Corporation must comply with certain restrictive covenants, including the requirement to maintain certain financial ratios. For the years ended October 31, 2013, and 2012, 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
2014	\$ 218.3
2015	67.8
2016	11.2
2017	0.6
2018	0.4
2019 and thereafter	51.2
	\$ 349.5

The present value of future minimum payments under finance leases for which the principal amount is included in long-term debt, are as follows:

	Future minimum payments under finance leases	Interest	Present value of minimum payments under finance leases
Less than 1 year	\$ 1.5	\$ 0.1	\$ 1.4
1 to 5 years	0.5	—	0.5
	\$ 2.0	\$ 0.1	\$ 1.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20 PROVISIONS

The following table presents changes in provisions for the year ended October 31, 2013:

	Restructuring costs	Onerous contracts	Multi- employer pension plans	Other	Total
Balance as at November 1, 2012	\$ 9.3	\$ 16.7	\$ 32.6	\$ 2.2	\$ 60.8
Provisions recorded	20.3	9.2	—	0.9	30.4
Amounts used	(23.3)	(7.2)	—	(1.1)	(31.6)
Provisions reversed	(0.9)	(8.8)	—	(0.1)	(9.8)
Other	—	0.7	—	—	0.7
Balance as at October 31, 2013	\$ 5.4	\$ 10.6	\$ 32.6	\$ 1.9	\$ 50.5
Current portion	5.4	3.5	—	1.4	10.3
Non-current portion	—	7.1	32.6	0.5	40.2
	\$ 5.4	\$ 10.6	\$ 32.6	\$ 1.9	\$ 50.5

Restructuring costs

The Corporation is currently implementing rationalization measures in its operating segments. These measures will address mainly 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.

Onerous contracts

The provisions for onerous contracts are mainly related to the operating leases for unused space by the Corporation following rationalization measures, 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 5 years.

Multi-employer pension plans

The Corporation participates in multi-employer pension plans accounted for as defined contribution 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 estimated by weighting various possible results based on their probability using, among other things, the most recent actuarial valuations. There is no contractual agreement that states how the deficit of the plans will be funded by each participant and their respective share. These matters 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21 OTHER LIABILITIES

Components of other liabilities are as follows:

	As at October 31, 2013	As at October 31, 2012
Deferred revenues ⁽¹⁾	\$ 164.3	\$ 5.7
Accrued liabilities and other liabilities	24.6	23.8
Defined benefit liability (Note 29)	45.2	155.7
Fair value of derivative financial instruments	1.7	6.4
	\$ 235.8	\$ 191.6

⁽¹⁾ During the year ended October 31, 2013, the Corporation renegotiated its agreement with Hearst Corporation to print the *San Francisco Chronicle*. Its subsidiary in the United States received an amount of US\$200.0 million (\$197.0 million) in consideration for price reductions on the remaining term of the contract. The amount received and recognized as deferred revenues will be transferred to revenues based on the remaining term of the contract, without effect on cash flows. For the year ended October 31, 2013, an amount of \$22.3 million was transferred to revenues. As at October 31, 2013, amounts of US\$26.2 million (\$27.4 million) and US\$152.0 million (\$158.9 million) are classified as deferred revenues and deposits and as other liabilities, respectively, in the Consolidated Statement of Financial Position. As part of the conversion of the financial statements of its subsidiary in the United States, the deferred revenues are translated at the current exchange rate at the end of each period and exchange differences are recognized in other comprehensive income under "Cumulative translation differences".

22 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 Corporation's 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.

The following table presents changes in the Corporation's share capital for the years ended October 31:

	2013		2012	
	Number of shares	Amount	Number of shares	Amount
Participating shares				
Class A Subordinate Voting Shares				
Balance, beginning of year	64,056,651	\$ 350.6	65,873,182	\$ 360.8
Conversion of Class B Shares into Class A Subordinate Voting Shares	172,800	0.2	145,619	0.2
Exercise of stock options	121,100	1.5	49,450	0.6
Participating shares redeemed and cancelled	(1,161,600)	(6.4)	(1,963,400)	(10.7)
Treasury shares	—	—	(48,200)	(0.3)
Balance, end of year	63,188,951	345.9	64,056,651	350.6
Class B Shares				
Balance, beginning of period	15,005,616	20.3	15,151,235	20.5
Conversion of Class B Shares into Class A Subordinate Voting Shares	(172,800)	(0.2)	(145,619)	(0.2)
Balance, end of year	14,832,816	20.1	15,005,616	20.3
	78,021,767	\$ 366.0	79,062,267	\$ 370.9
Preferred shares				
Cumulative Rate Reset First Preferred Shares, Series D				
Balance, beginning and end of year	4,000,000	\$ 96.8	4,000,000	\$ 96.8
		\$ 462.8		\$ 467.7

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22 SHARE CAPITAL (CONTINUED)

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, 2013, consideration of \$1.2 million was received, and \$0.3 million was transferred from contributed surplus 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.

Participating share redemptions

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

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

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

For the year ended October 31, 2012, the Corporation repurchased 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 repurchased 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 repurchase its Class A Subordinate Voting Shares as at October 31, 2012.

For the years ended October 31, 2013 and 2012, the Corporation did not repurchase any of its Class B shares, and had no such obligation at those dates.

Preferred Shares

The Cumulative 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 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 Series E Preferred Shares ("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 Rate Reset First Preferred Shares, Series D as at October 15, 2019, and on October 15 every five years thereafter.

Dividends

Dividends of \$0.58 and \$0.55 per share were declared and paid to the holders of participating shares for the years ended October 31, 2013 and 2012, respectively. Dividends of \$1.69 per share were declared and paid to the holders of preferred shares for the years ended October 31, 2013 and 2012.

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

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23 NET LOSS PER PARTICIPATING SHARE

The following table is a reconciliation of the numerator used to calculate basic and diluted net loss per participating share for the years ended October 31:

	2013	2012
Numerator		
Net loss from continuing operations	\$ (7.3)	\$ (168.5)
Non-controlling interests	(0.4)	(0.6)
Dividends on preferred shares, net of related taxes	(6.8)	(6.8)
Net loss from continuing operations, attributable to participating shares	\$ (14.5)	\$ (175.9)

In the calculation of the diluted net loss from continuing operations per participating share, 1,354,076 and 1,432,616 stock options were considered anti-dilutive as at October 31, 2013 and 2012, respectively, being all options issued and outstanding at those dates considering the loss position for the years. Therefore, these stock options were excluded from the calculation of diluted net loss per participating share for those years.

24 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 of October 31, 2013 was 6,078,562 and 4,401,928, 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.

For the years ended October 31, 2013 and 2012, stock-based compensation expenses of \$0.7 million and \$0.8 million, respectively, were charged to the Consolidated Statements of Income (Loss) and increased contributed surplus included in equity.

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

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding at beginning of year	1,432,616	\$ 16.11	1,572,640	\$ 16.67
Granted	386,940	11.33	235,984	12.40
Exercised	(121,100)	9.64	(49,450)	10.01
Cancelled	—	—	(307,958)	17.33
Expired	(344,380)	19.57	(18,600)	12.61
Options outstanding at end of year	1,354,076	\$ 14.44	1,432,616	\$ 16.11

As at October 31, 2013, the balance of stock options available for future grants under the plan was 3,047,582.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 STOCK-BASED COMPENSATION (CONTINUED)

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
2013						
	\$ 9.64 - 12.40	728,676	\$ 5.2	\$ 11.33	184,734	\$ 10.42
	\$ 13.09 - 16.20	341,520	3.0	14.90	250,960	14.80
	\$ 20.90 - 22.41	283,880	0.5	21.87	283,880	21.87
		1,354,076	\$ 3.6	\$ 14.44	719,574	\$ 16.47
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

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 for options granted during the years ended October 31:

	2013	2012
Share price of Class A Subordinate Voting Shares on the stock option grant date	\$ 11.33	\$ 12.40
Weighted average fair value of the stock options	\$ 2.42	\$ 3.01
Assumptions:		
Expected dividend yield	5.35 %	4.42 %
Expected volatility	39.31 %	40.54 %
Risk-free interest rate	1.53 %	1.40 %
Expected remaining life	5 years	5 years

The expected dividend yield is based on the average dividend rate of the Corporation's participating shares when they are granted. 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.

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24 STOCK-BASED COMPENSATION (CONTINUED)

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

Number of units	2013	2012	2013	2012
	DSU		RSU	
Balance, beginning of year	178,907	201,981	606,597	679,884
Units granted	—	—	321,725	309,097
Units cancelled	—	—	(44,404)	(224,922)
Units paid	(944)	(49,777)	(148,874)	(139,506)
Units converted	21,340	17,956	(21,340)	(17,956)
Dividends paid in units	25,748	8,747	—	—
Balance, end of year	225,051	178,907	713,704	606,597

As at October 31, 2013, the liability related to the share unit plan for certain officers and senior executives was \$9.7 million (\$4.9 million as at October 31, 2012). The expenses recorded in the Consolidated Statements of Income (Loss) for the years ended October 31, 2013 and 2012 were \$6.3 million and \$0.9 million, respectively. Amounts of \$1.5 million and \$2.1 million were paid under this plan for the years ended October 31, 2013 and 2012, 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.

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

Number of units	2013	2012
Balance, beginning of year	247,505	201,257
Directors' compensation	37,767	53,643
Units paid	—	(18,573)
Dividends paid in units	33,603	11,178
Balance, end of year	318,875	247,505

As at October 31, 2013, the liability related to the share unit plan for directors was \$5.3 million (\$2.4 million as at October 31, 2012). The expenses recorded in the Consolidated Statements of Income (Loss) for the years ended October 31, 2013 and 2012 were \$2.9 million and \$0.4 million, respectively. No amount was paid under this plan for the year ended October 31, 2013 and an amount of \$0.4 million was paid under this plan for the year ended October 31, 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 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, 2012	\$ (3.9)	\$ (1.2)	\$ (79.3)	\$ (84.4)
Net change in gains (losses), net of income taxes	0.2	(0.4)	62.5	62.3
Balance as at October 31, 2013	\$ (3.7)	\$ (1.6)	\$ (16.8)	\$ (22.1)
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, 2013, the amounts expected to be reclassified to net income in future years are as follows:

	2014	2015	2016	2017	2018 and thereafter	Total
Losses on derivatives designated as cash flow hedges	\$ (1.9)	\$ (0.9)	\$ (0.8)	\$ (0.8)	\$ (0.9)	\$ (5.3)
Income taxes	(0.6)	(0.3)	(0.2)	(0.2)	(0.3)	(1.6)
	\$ (1.3)	\$ (0.6)	\$ (0.6)	\$ (0.6)	\$ (0.6)	\$ (3.7)

26 SUPPLEMENTAL INFORMATION ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2013	2012
Accounts receivable	\$ 27.0	\$ (12.2)
Inventories	1.8	5.2
Prepaid expenses and other current assets	—	0.6
Accounts payable and accrued liabilities	(65.1)	(26.9)
Provisions	(10.8)	13.8
Deferred revenues and deposits (Note 21)	170.0	5.7
Defined benefit plans (Note 29)	(34.7)	(30.0)
	\$ 88.2	\$ (43.8)

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27 BUSINESS COMBINATIONS

Media Sector

On January 31, 2013, the Corporation acquired 100% of the shares of Groupe Modulo Inc., a publisher of French-language educational resources and materials in Canada. This transaction allows the Media Sector to strengthen its position in the education market in Quebec and to increase its presence in the education market in French communities in Canada. The Corporation completed its final assessment of the assets acquired and liabilities assumed of Groupe Modulo Inc. during the year ended October 31, 2013.

During the same year, the Corporation also completed its final assessment of the fair value of assets acquired and liabilities assumed for *Courrier Frontenac*, *Redux Media* and *Métro* (Montréal), all of which are business combinations completed in the previous fiscal year. The fair value of the 40% of shares already held in *Métro* (Montréal) immediately before the acquisition of the additional 60% of the shares was \$2.2 million. This revaluation to fair value resulted in the recognition of a gain of \$2.0 million recorded as a reduction of operating expenses, which was partially offset by the recognition of an expense of \$1.7 million as a result of the revaluation of a contingent consideration related to the acquisition of *Redux Media* completed during the previous fiscal year.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the acquisition date, as well as adjustments made to prior period business combinations during the year ended October 31, 2013:

	Groupe Modulo Inc.	Other	Total
Assets acquired			
Current assets	\$ 3.1	\$ (0.9)	\$ 2.2
Property, plant and equipment	—	0.1	0.1
Intangible assets	15.2	7.3	22.5
Goodwill (no tax value)	4.8	(5.4)	(0.6)
Deferred income taxes	0.6	—	0.6
	\$ 23.7	\$ 1.1	\$ 24.8
Liabilities assumed			
Current liabilities	\$ 1.7	\$ (0.4)	\$ 1.3
Long-term debt	—	(0.5)	(0.5)
	1.7	(0.9)	0.8
	\$ 22.0	\$ 2.0	\$ 24.0
Consideration			
Cash paid	\$ 21.0	\$ —	\$ 21.0
Short-term liabilities	1.0	—	1.0
	22.0	—	22.0
Revaluation of previously held interest in <i>Métro</i> (Montréal)	—	2.0	2.0
	\$ 22.0	\$ 2.0	\$ 24.0

The Corporation's Consolidated Statement of Income (Loss) for the year ended October 31, 2013 includes the operating results of the acquired business since the acquisition date, including additional revenues of \$6.8 million, operating income before amortization of \$2.2 million and transaction costs of \$0.1 million. The fair value of the receivables acquired of \$1.3 million, of which no receivable is considered uncollectible at the acquisition date, is included in the current assets in the accounting of the business combination. If the Corporation had acquired this business on November 1, 2012, its operating results would have been as follows: additional revenues of \$8.8 million and an operating income before amortization of \$2.8 million.

During the year ended October 31, 2013, the Corporation paid an amount of \$3.5 million related to business combinations entered into during the previous fiscal year.

As at October 31, 2013, the final valuation of assets acquired and liabilities assumed for all business combinations was completed.

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27 BUSINESS COMBINATIONS (CONTINUED)

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 a 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 at the acquisition date 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.

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% of the 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 Income (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.

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27 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
Long-term debt	—	2.4		2.4
Deferred income taxes	—	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.

28 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:

	2013	2012
Sale of products and services	\$ 2.7	\$ 5.0

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28 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	As at October 31, 2013	As at October 31, 2012
Accounts receivable	\$ 0.3	\$ 0.4

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:

	2013	2012
Salaries and other short-term employee benefits	\$ 7.4	\$ 7.8
Post-employment benefits	0.5	1.0
Stock-based compensation	8.0	1.6
	\$ 15.9	\$ 10.4

29 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. 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 in Note 20 "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, 2012.

The composition of the pension plan assets is as follows:

	As at October 31, 2013	As at October 31, 2012
Equity	64 %	65 %
Government and corporate bonds	35	34
Cash and cash equivalents	1	1
	100 %	100 %

As at October 31, 2013, the plan assets included shares of the Corporation in the amount of \$0.5 million (\$0.2 million as at October 31, 2012).

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29 EMPLOYEE BENEFITS (CONTINUED)

The following table presents the changes in the defined benefit obligation and the fair value of plan assets for the years ended October 31:

	Pension benefits		Other post-employment benefits		Total	
	2013	2012	2013	2012	2013	2012
Defined benefit obligation						
Balance, beginning of year	\$ 766.6	\$ 398.8	\$ 14.7	\$ 4.8	\$ 781.3	\$ 403.6
Business combinations	—	284.5	—	11.0	—	295.5
Current service cost	1.4	2.4	—	0.1	1.4	2.5
Past service cost	—	0.1	—	—	—	0.1
Interest on defined benefit obligation	33.1	31.0	0.6	0.5	33.7	31.5
Actuarial gains or losses on the defined benefit obligation	(25.6)	87.0	(1.1)	0.3	(26.7)	87.3
Benefits paid	(38.6)	(34.6)	(0.9)	(0.5)	(39.5)	(35.1)
Employee contributions	0.6	0.8	—	—	0.6	0.8
Gain on plan curtailments	(0.4)	(1.9)	(0.3)	(1.5)	(0.7)	(3.4)
Impact of settlement	(15.2)	(1.5)	—	—	(15.2)	(1.5)
Exchange rate change and other	0.2	—	—	—	0.2	—
Balance, end of year	\$ 722.1	\$ 766.6	\$ 13.0	\$ 14.7	\$ 735.1	\$ 781.3
Fair value of plan assets						
Balance, beginning of year	\$ 625.6	\$ 338.4	\$ —	\$ —	\$ 625.6	\$ 338.4
Business combinations	—	256.9	—	—	—	256.9
Expected return on plan assets	37.1	32.3	—	—	37.1	32.3
Actuarial gains or losses on plan assets	58.5	5.4	—	—	58.5	5.4
Benefits paid	(38.6)	(34.6)	(0.9)	(0.5)	(39.5)	(35.1)
Employee contributions	0.6	0.8	—	—	0.6	0.8
Employer contributions	34.8	28.2	0.9	0.5	35.7	28.7
Impact of settlement	(18.8)	(1.8)	—	—	(18.8)	(1.8)
Balance, end of year	\$ 699.2	\$ 625.6	\$ —	\$ —	\$ 699.2	\$ 625.6
Defined benefit liability	\$ (22.9)	\$ (141.0)	\$ (13.0)	\$ (14.7)	\$ (35.9)	\$ (155.7)

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

	As at October 31, 2013	As at October 31, 2012
Other assets	\$ 9.3	\$ —
Other liabilities	(45.2)	(155.7)
	\$ (35.9)	\$ (155.7)

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29 EMPLOYEE BENEFITS (CONTINUED)

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

	As at October 31, 2013	As at October 31, 2012	As at October 31, 2011
Fair value of plan assets	\$ 699.2	\$ 625.6	\$ 338.4
Defined benefit obligation	735.1	781.3	403.6
Deficit	\$ (35.9)	\$ (155.7)	\$ (65.2)
Experience adjustments on plan assets:	\$ (58.5)	\$ 5.4	\$ (24.6)
Experience adjustments on plan liabilities:	\$ 1.3	\$ 4.0	\$ (7.7)

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

	Pension benefits		Other post-employment benefits	
	As at October 31, 2013	As at October 31, 2012	As at October 31, 2013	As at October 31, 2012
Fair value of funded or partially funded plan assets	\$ 699.2	\$ 625.6	\$ —	\$ —
Defined benefit obligation of funded or partially funded plans	694.7	738.2	—	—
Funded status of funded or partially funded plans - surplus (deficit)	\$ 4.5	\$ (112.6)	\$ —	\$ —
Defined benefit obligation of unfunded plans	27.4	28.4	13.0	14.7
Total funded status - (deficit)	\$ (22.9)	\$ (141.0)	\$ (13.0)	\$ (14.7)

The Corporation expects to contribute \$35.7 million to its defined benefit plans for the year ending October 31, 2014. The actual amount may differ from the estimate based on the results of the actuarial valuations that will be done as at December 31, 2013.

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

	2013	2012
Defined benefit obligation		
Discount rate, end of year	4.70 %	4.40 %
Rate of compensation increase	3.05 %	3.07 %
Defined benefit cost		
Discount rate, end of previous year	4.40 %	5.25 %
Expected long-term rate of return on plan assets ⁽¹⁾	6.00 %	6.40 %
Rate of compensation increase	3.05 %	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, 2013, the growth rate of health care costs on other post-employment benefits plans was estimated at 7.0%, gradually decreasing to reach 4.5% by 2018 or 3.0% by 2028, according to the plan, and remain constant thereafter.

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29 EMPLOYEE BENEFITS (CONTINUED)

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, 2013. 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	n/a	\$ (6.2)
Impact of 1% decrease in expected long-term rate of return on plan assets	n/a	\$ 6.2
Impact of 1% increase in discount rate	\$ (84.4)	\$ 2.3
Impact of 1% decrease in discount rate	\$ 101.4	\$ (3.5)
Impact of 1% increase in growth rate of healthcare costs	\$ 1.3	\$ —
Impact of 1% decrease in growth rate of healthcare costs	\$ (1.1)	\$ —

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

	Pension benefits		Other post-employment benefits		Total	
	2013	2012	2013	2012	2013	2012
Current service cost	\$ 1.4	\$ 2.4	\$ —	\$ 0.1	\$ 1.4	\$ 2.5
Past service cost	—	0.1	—	—	—	0.1
Interest on defined benefit obligation	33.1	31.0	0.6	0.5	33.7	31.5
Expected return on plan assets	(37.1)	(32.3)	—	—	(37.1)	(32.3)
Gain on plan curtailments	(0.4)	(1.9)	(0.3)	(1.5)	(0.7)	(3.4)
Impact of settlement	3.6	0.3	—	—	3.6	0.3
Exchange rate change and other	0.1	—	—	—	0.1	—
Defined benefit cost	\$ 0.7	\$ (0.4)	\$ 0.3	\$ (0.9)	\$ 1.0	\$ (1.3)

The defined benefit costs recognized in operating expenses in the Consolidated Statements of Income (Loss) for the years ended October 31, 2013 and 2012 were (\$1.9) million and \$1.7 million, respectively. The defined benefit costs recognized in restructuring and other costs in the Consolidated Statements of Income (Loss) for the years ended October 31, 2013 and 2012 were \$2.9 million and (\$3.0) million, respectively.

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

	Pension benefits		Other post-employment benefits		Total	
	2013	2012	2013	2012	2013	2012
Balance of actuarial gains or losses before income taxes, beginning of year	\$ 107.9	\$ 26.3	\$ 0.4	\$ 0.1	\$ 108.3	\$ 26.4
Actuarial gains or losses before income taxes recognized during the year	(84.1)	81.6	(1.1)	0.3	(85.2)	81.9
Balance of actuarial gains or losses before income taxes, end of year	\$ 23.8	\$ 107.9	\$ (0.7)	\$ 0.4	\$ 23.1	\$ 108.3

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:

	2013	2012
Defined contribution pension plans	\$ 18.9	\$ 16.5
State plans	19.1	17.9
	\$ 38.0	\$ 34.4

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30 COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Commitments

The Corporation is committed, under various operating 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 ⁽¹⁾	\$ 33.2	\$ 104.0	\$ 62.8	\$ 200.0
Property, plant and equipment acquisition contracts	6.2	0.5	—	6.7
	\$ 39.4	\$ 104.5	\$ 62.8	\$ 206.7

⁽¹⁾ The Corporation has entered into sublease agreements for some of its locations under operating leases, with expiry dates between 2014 and 2018. The Corporation estimates to recover an amount totaling \$8.3 million.

Guarantees

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

a) 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, 2013, the Corporation had not recorded a liability associated with these indemnification agreements.

b) 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, 2013, 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, 2013 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.

31 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 analyzes 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, 2013, no single customer accounted for a significant portion of the consolidated accounts receivable of the Corporation. As at October 31, 2013, the maximum credit 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 FINANCIAL INSTRUMENTS (CONTINUED)

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 occurring because it deals only with recognized financial institutions with superior credit ratings. As at October 31, 2013, the maximum exposure to this type of credit risk was insignificant (\$0.8 million as at October 31, 2012), and represents the carrying amount of the financial instruments recorded in the Corporation's assets.

Past due receivables:

	As at October 31, 2013	As at October 31, 2012
Trade receivables		
Current	\$ 248.4	\$ 298.7
1-30 days past due	106.2	86.8
31-60 days past due	24.5	22.8
More than 60 days past due	23.8	30.5
	402.9	438.8
Allowance for doubtful accounts	(9.6)	(14.5)
Other receivables	27.9	25.5
	\$ 421.2	\$ 449.8

Allowance for doubtful accounts:

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

	2013	2012
Balance, beginning of year	\$ 14.5	\$ 7.2
Business combinations	—	8.1
Bad debt expense	3.3	3.2
Receivables recovered or written off	(8.2)	(4.0)
Balance, end of year	\$ 9.6	\$ 14.5

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.

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.

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31 FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the contractual maturities of financial liabilities as at October 31, 2013:

2013	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	3-5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities ⁽¹⁾	\$ (272.7)	\$ (272.7)	\$ (272.7)	\$ —	\$ —	\$ —
Long-term debt	(347.2)	(381.3)	(229.5)	(90.4)	(8.8)	(52.6)
Long-term accrued liabilities ⁽²⁾	(9.3)	(9.7)	—	(9.7)	—	—
	(629.2)	(663.7)	(502.2)	(100.1)	(8.8)	(52.6)
Derivative financial instruments						
Foreign exchange forward contracts						
Funds outflows	(0.8)	(34.0)	(31.9)	(2.1)	—	—
Funds inflows	—	33.3	31.2	2.1	—	—
Interest rate swaps	(0.4)	(0.6)	(0.6)	—	—	—
Cross currency interest rate swap	(3.6)	(4.2)	(2.3)	(1.9)	—	—
	(4.8)	(5.5)	(3.6)	(1.9)	—	—
	\$ (634.0)	\$ (669.2)	\$ (505.8)	\$ (102.0)	\$ (8.8)	\$ (52.6)

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

2012	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	3-5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities ⁽¹⁾	\$ (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⁾	(8.1)	(8.5)	—	(8.5)	—	—
	(828.0)	(893.5)	(635.6)	(176.1)	(25.8)	(56.0)
Derivative financial instruments						
Foreign exchange forward contracts						
Funds outflows	—	(60.9)	(55.9)	(5.0)	—	—
Funds 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)	—	—
	\$ (838.1)	\$ (903.6)	\$ (639.3)	\$ (182.5)	\$ (25.8)	\$ (56.0)

⁽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.

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31 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, 2013, the floating rate portion of the long-term debt was 55% of the total debt (53% as at October 31, 2012), while the fixed rate portion accounted for 45% (47% as at October 31, 2012).

As at October 31, 2013, 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, 2013 and hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the year. 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 27% of the total debt (33% as at October 31, 2012), while the fixed rate portion is 73% (67% as at October 31, 2012).

As at October 31, 2013, the Corporation entered into a cross currency interest rate swap agreement, maturing in July 2015, to convert the interest rate on the debt of €19.7 million (\$28.4 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 a cash flow hedge as at October 31, 2013 and the hedging relationship was effective and in accordance with the risk management objectives and strategies throughout the year.

For the years ended October 31, 2013 and 2012, all things being equal, a hypothetical strengthening of the interest rate by 0.5% would have the following impact on net loss and other comprehensive income (loss):

2013		2012	
Net loss	Other comprehensive income	Net loss	Other comprehensive loss
\$ (0.3)	\$ —	\$ (0.6)	\$ 0.2

A hypothetical weakening of the interest rate by 0.5% would have the opposite effect on net 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, 2013, the Corporation had long-term debt denominated in U.S. dollars and in euros, totalling US\$75.0 million and €19.7 million (US\$206.9 million and €29.5 million as at October 31, 2012). 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, 2013, the Corporation held foreign exchange forward contracts to sell US\$32.5 million (US\$61.0 million as at October 31, 2012), including US\$30.5 million and US\$2.0 million that will be sold during the years ending October 31, 2014 and 2015, respectively. The maturities of foreign exchange forward contracts range from 1 to 15 months at rates varying from 1.0006 to 1.0671. Foreign exchange forward contracts are designated as cash flow hedges as at October 31, 2013 and hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the year.

During the year ended October 31, 2013, the Corporation has designated certain debts denominated in U.S. dollars as a hedge of an equivalent portion of its net investment in its foreign operations, which have the U.S. dollar as their functional currency. The amount designated varied from US\$20.0 million to US\$41.0 million during the year. The effective portion of unrealized exchange losses on the translation of a debt designated as a hedge of a net investment in foreign operations represents an amount of \$1.6 million for the year ended October 31, 2013 and is recorded in other comprehensive income.

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31 FINANCIAL INSTRUMENTS (CONTINUED)

For the years ended October 31, 2013 and 2012, 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 loss and other comprehensive income (loss):

	2013		2012	
	Net loss	Other comprehensive income	Net loss	Other comprehensive loss
U.S. dollars	\$ 0.4	\$ (2.6)	\$ 0.5	\$ (4.4)
Euros	—	0.9	—	3.6

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 loss and other comprehensive income (loss).

Fair value

The carrying amount 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 amount of certain financial instruments as at October 31, 2013 and 2012. 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.

	2013		2012	
	Fair value	Carrying amount	Fair value	Carrying amount
Long-term debt	\$ 354.2	\$ 347.2	\$ 509.0	\$ 487.6
Foreign exchange forward contracts	(0.8)	(0.8)	0.8	0.8
Interest rate swaps	(0.4)	(0.4)	(1.3)	(1.3)
Cross currency interest rate swaps	(3.6)	(3.6)	(9.6)	(9.6)

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

2013	Level 1	Level 2	Level 3	Total
Foreign exchange forward contracts	\$ —	\$ (0.8)	\$ —	\$ (0.8)
Interest rate swaps	—	(0.4)	—	(0.4)
Cross currency interest rate swaps	—	(3.6)	—	(3.6)
	\$ —	\$ (4.8)	\$ —	\$ (4.8)
2012				
Foreign exchange forward contracts	\$ —	\$ 0.8	\$ —	\$ 0.8
Interest rate swaps	—	(1.3)	—	(1.3)
Cross currency interest rate swaps	—	(9.6)	—	(9.6)
	\$ —	\$ (10.1)	\$ —	\$ (10.1)

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32 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 to maintain a high credit rating;
- Preserve its financial flexibility in order to benefit from potential investment opportunities when they arise.

The Corporation relies on the ratio of net debt to operating income from continuing operations before amortization, restructuring and other costs, impairment of assets and gain on business acquisition as primary indicator for measuring financial leverage. The net debt ratio is as follows for the years ended October 31:

	2013	2012
Long-term debt	\$ 128.9	\$ 204.1
Current portion of the long-term debt	218.3	283.5
Cash	(30.3)	(16.8)
Net debt	\$ 316.9	\$ 470.8
Operating income from continuing operations before amortization, restructuring and other costs, impairment of assets and gain on business acquisition	\$ 349.1	\$ 357.6
Net debt ratio	0.91x	1.32x

As at October 31, 2013, the Corporation's net debt ratio was 0.91x (1.32x as at October 31, 2012). The receipt of an amount of US\$200.0 million for the renegotiation of the agreement with Hearst Corporation to print the *San Francisco Chronicle* had a favorable impact on cash flows generated from operating activities and mainly explains the decrease of the net debt which went from \$470.8 million on October 31, 2012 to \$316.9 million on October 31, 2013.

For the year ended October 31, 2013, the Corporation was not in default regarding any of its financial obligations.

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33 SEGMENT REPORTING

The operating segments are defined in terms of the types of products and services offered by the Corporation. The Printing Sector derives revenues from activities such as the printing of retail flyers, magazines, newspapers, color books and personalized and mass marketing products. The Media Sector generates revenues through the publishing of magazines, newspapers and books, a diversified digital platform and a door-to-door network for distributing advertising material that allows advertisers to reach consumers directly. The Media Sector also offers mass and personalized interactive marketing services and products that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions. Inter-segment sales of the Corporation are recognized at fair value. Transactions other than sales are recognized at the carrying amount.

The following tables present the various segment components as reported on the Consolidated Statements of Income (Loss):

	Printing Sector	Media Sector	Other Activities	Head office and inter- segment eliminations	Total
Year ended October 31, 2013					
Revenues	\$ 1,476.8	\$ 711.6	\$ 8.9	\$ (87.2)	\$ 2,110.1
Operating expenses	1,175.8	649.9	7.8	(72.5)	1,761.0
Adjusted operating income (loss) before amortization ⁽¹⁾	301.0	61.7	1.1	(14.7)	349.1
Restructuring and other costs	15.8	12.5	—	(0.3)	28.0
Impairment of assets	7.0	162.5	—	0.5	170.0
Operating income (loss) before amortization	278.2	(113.3)	1.1	(14.9)	151.1
Amortization	78.4	21.3	0.3	5.3	105.3
Operating income (loss)	\$ 199.8	\$ (134.6)	\$ 0.8	\$ (20.2)	\$ 45.8
Adjusted operating income (loss) ⁽¹⁾	\$ 222.6	\$ 40.4	\$ 0.8	\$ (20.0)	\$ 243.8
Acquisitions of non-current assets ⁽²⁾	\$ 40.7	\$ 27.9	\$ —	\$ 12.4	\$ 81.0
Year ended October 31, 2012					
Revenues	\$ 1,480.5	\$ 712.0	\$ 8.5	\$ (88.9)	\$ 2,112.1
Operating expenses	1,195.9	636.2	7.5	(85.1)	1,754.5
Adjusted operating income (loss) before amortization ⁽¹⁾	284.6	75.8	1.0	(3.8)	357.6
Restructuring and other costs	47.3	7.7	—	—	55.0
Impairment of assets	2.5	229.5	—	—	232.0
Gain on business acquisition	(32.1)	—	—	—	(32.1)
Operating income (loss) before amortization	266.9	(161.4)	1.0	(3.8)	102.7
Amortization	85.0	21.5	0.3	5.6	112.4
Operating income (loss)	\$ 181.9	\$ (182.9)	\$ 0.7	\$ (9.4)	\$ (9.7)
Adjusted operating income (loss) ⁽¹⁾	\$ 199.6	\$ 54.3	\$ 0.7	\$ (9.4)	\$ 245.2
Acquisitions of non-current assets ⁽²⁾	\$ 49.5	\$ 36.6	\$ —	\$ 4.8	\$ 90.9

⁽¹⁾ The Corporation's primary operating decision-makers mainly make decisions and assess segment performance based on adjusted operating income (loss). Adjusted operating income (loss) before amortization and the adjusted operating income (loss) exclude restructuring and other costs, asset impairment and the gain on business acquisition.

⁽²⁾ These amounts include acquisitions of property, plant and equipment, intangible assets and other non-current assets, excluding those acquired as part of business combinations, whether they were paid or not.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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

33 SEGMENT REPORTING (CONTINUED)

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

	2013	2012
Main products and services		
Printed products	\$ 1,390.9	\$ 1,396.2
Publishing products	426.3	433.5
Digital and interactive products	151.3	144.6
Other products and services	141.6	137.8
	\$ 2,110.1	\$ 2,112.1

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

	As at October 31, 2013	As at October 31, 2012
Operating segments		
Assets		
Printing Sector	\$ 1,145.4	\$ 1,248.3
Media sector	605.7	781.1
Head office and inter-segment eliminations ⁽¹⁾	108.2	106.8
	\$ 1,859.3	\$ 2,136.2

⁽¹⁾ This heading includes mainly cash, property, plant and equipment and deferred income taxes not allocated to segments. It also includes negligible amounts in respect of other activities.

The various 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	2013	2012
Revenues		
Canada		
Domestic	\$ 1,867.4	\$ 1,885.8
Exports	137.5	125.0
United States	105.2	101.3
	\$ 2,110.1	\$ 2,112.1
	As at October 31, 2013	As at October 31, 2012
Non-current assets ⁽¹⁾		
Canada	\$ 1,019.7	\$ 1,214.0
United States	122.2	126.8
	\$ 1,141.9	\$ 1,340.8

⁽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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2013 and 2012

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

34 SUBSEQUENT EVENT

On December 5th, 2013, the Corporation announced that it has entered into a definitive agreement pursuant to which it will acquire all Quebec community newspapers and associated web properties from Sun Media Corporation, a subsidiary of Quebecor Media Inc., for a total purchase price of \$75.0 million. This agreement has been approved by the Boards of Directors of both Transcontinental Inc. and Quebecor Media Inc., and the transaction is subject to obtaining regulatory clearances under the Canadian Competition Act.