TC • TRANSCONTINENTAL

Press Release

For Immediate Release

Transcontinental Inc. announces its financial results for the second quarter of fiscal 2018

Highlights

- Revenues increased by $36.0 million, or 7.2%, from $498.7 million to $534.7 million. Adjusted revenues, which exclude an amount of $62.3 million for the accelerated recognition of deferred revenues related to the agreement signed with Hearst in December 2017, decreased by $26.3 million, or 5.3%, to $472.4 million. This decrease is mainly due to the sale of our media assets in Atlantic Canada and of local and regional newspapers in Québec.
- Operating earnings increased by $31.2 million, or 46.0%, from $67.8 million to $99.0 million. Adjusted operating earnings, which exclude an amount of $46.6 million for the accelerated recognition of deferred revenues net of accelerated depreciation related to the agreement signed with Hearst in December 2017, as well as restructuring and other costs (gains) and impairment of assets, increased by $2.0 million, or 3.1%, from $63.7 million to $65.7 million.
- Net earnings increased by $22.5 million, or 48.5%, from $46.4 million to $68.9 million. Adjusted net earnings, which exclude the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, net of related income taxes, increased by $2.6 million, or 6.1%, from $42.5 million to $45.1 million.
- Acquired Multifilm Packaging Corporation, a flexible packaging supplier located in Elgin, Illinois.
- Sold 33 publications, including 32 local newspapers, of which those sold on June 6, 2018, and the *Métro* Montréal daily newspaper, as well as their related web properties.
- Completed the acquisition of Coveris Americas on May 1, 2018. TC Transcontinental becomes a North American leader in flexible packaging. The Corporation acquired 21 production facilities located in the United States, Canada, Ecuador, Guatemala, Mexico, the United Kingdom, New Zealand and China for US$1.32 billion (C$1.697 billion) and welcomed 3,100 employees. For its fiscal year ended December 31, 2017, Coveris Americas generated US$966 million in revenues (about C$1.26 billion).
- Ranked by Corporate Knights as one of the Best 50 Corporate Citizens in Canada.

Montréal, June 7, 2018 - Transcontinental Inc. (TSX: TCL.A TCL.B) announces its results for the second quarter of fiscal 2018, which ended April 29, 2018.

"Our good performance in the second quarter demonstrates that our strategic decisions in our three business lines contributed to the strong results for our entire portfolio, said François Olivier, President and Chief Executive Officer of TC Transcontinental. We are therefore in an excellent position to begin a new phase of our growth plan with enthusiasm and conviction.

"During the quarter, we positioned ourselves as a North American leader in flexible packaging with the transformational acquisition of Coveris Americas. This is a pivotal point in our evolution as our packaging division is now the largest division in terms of our pro forma revenues. This transaction is in addition to the acquisition of Multifilm Packaging, in Illinois, which was completed in March.

"The printing division experienced a stable quarter, and certain initiatives implemented to optimize our platform continued to bear fruit. In our Media Sector, we are very pleased with the results of the sale process of local publications. All titles in Québec are now owned by local players, and the vast majority of jobs were maintained. We only have one local newspaper remaining to be sold in Ontario.

"Supported by these results and our solid financial position, we begin the integration of Coveris Americas with confidence. We expect to continue generating significant cash flows, which should enable us to reduce our net indebtedness, while pursuing our growth strategy in packaging."

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Financial Highlights

(in millions of dollars, except per share amounts)	Q2-2018	Q2-2017	Variation in %	SIX MONTHS 2018	SIX MONTHS 2017	Variation in %
Revenues	$ 534.7	$ 498.7	7.2 %	$ 1,036.4	$ 1,002.3	3.4 %
Adjusted Revenues (1)	472.4	498.7	(5.3)	934.3	1,002.3	(6.8)
Operating earnings before depreciation and amortization	138.7	94.2	47.2	293.4	183.2	60.2
Adjusted operating earnings before depreciation and amortization (1)	89.7	90.1	(0.4)	180.7	178.0	1.5
Operating earnings	99.0	67.8	46.0	222.5	130.2	70.9
Adjusted operating earnings (1)	65.7	63.7	3.1	131.8	125.0	5.4
Net earnings	68.9	46.4	48.5	127.1	89.1	42.6
Net earnings per share	0.89	0.60	48.3	1.64	1.15	42.6
Adjusted net earnings (1)	45.1	42.5	6.1	93.7	83.8	11.8
Adjusted net earnings per share (1)	0.58	0.55	5.5	1.21	1.08	12.0

(1) Please refer to the section entitled "Reconciliation of Non-IFRS financial measures" in this press release for adjusted data presented above.

2018 Second Quarter Results

Revenues increased by $36.0 million, or 7.2%, from $498.7 million in the second quarter of 2017 to $534.7 million in the corresponding period in 2018. Excluding the $62.3 million favourable effect of the accelerated recognition of deferred revenues related to the agreement signed with Hearst in December 2017, adjusted revenues went from $498.7 million in the second quarter of 2017 to $472.4 million in the corresponding period in 2018, a decrease of 5.3%. However, excluding the unfavourable impact of the sale of newspapers and other media assets in 2017 related to the Corporation's strategy, as well as the unfavourable exchange rate effect, adjusted revenues increased by $7.1 million, or 1.5%. This increase is mostly attributable to the contribution from the acquisitions of Les Industries Flexipak and Multifilm Packaging as well as the organic growth in revenues in the packaging division due to the increase in volume in all our plants. In the printing division, revenues from our service offering to Canadian retailers slowed down slightly. The decline in revenues from the other printing division verticals continued as a result of the same trends in the advertising market as well as the end of the printing of *The Globe and Mail* in the Maritimes, of *La Presse* and of the *San Francisco Chronicle* as of April 1, partially offset by additional volume in the marketing products vertical.

Operating earnings increased by $31.2 million, or 46.0%, from $67.8 million in the second quarter of 2017 to $99.0 million in the second quarter of 2018. This increase in mostly attributable to the favourable effect of the accelerated recognition of deferred revenues and the decrease in operating expenses resulting from the sale of media assets and cost reduction initiatives. This increase was partially offset, mainly, by the increase in restructuring and other costs (gains) and the effect of accelerated depreciation. Adjusted operating earnings increased by $2.0 million, or 3.1%, from $63.7 million in the second quarter of 2017 to $65.7 million in the second quarter of 2018. Excluding the unfavourable impact of the sale of newspapers and other media assets in 2017 and the unfavourable exchange rate effect, adjusted operating earnings increased by $5.5 million, or 9.1%. This increase is mostly attributable to the organic growth in adjusted operating earnings as a result of the favourable effect of cost reduction initiatives Corporation-wide, partially offset by the above-mentioned decreases in volume. This quarter, the change in the stock-based compensation expense as a result of the change in the share price in the second quarter of 2018 compared to the corresponding period in 2017 and the change in exchange rates had no material impact on operating earnings.

Net earnings increased by $22.5 million, or 48.5%, from $46.4 million in the second quarter of 2017 to $68.9 million in the second quarter of 2018. This increase is mostly attributable to the growth in operating earnings, partially offset by higher income taxes. On a per share basis, net earnings went from $0.60 to $0.89. Excluding the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, net of related income taxes, adjusted net earnings increased by $2.6 million, or 6.1%, from $42.5 million in the second quarter of 2017 to $45.1 million in the second quarter of 2018. This increase is attributable to the growth in adjusted operating earnings, as explained above. On a per share basis, adjusted net earnings went from $0.55 to $0.58.

2018 First Six Months Results

Revenues increased by $34.1 million, or 3.4%, from $1,002.3 million in the first six months of 2017 to $1,036.4 million in the corresponding period in 2018. Excluding the $102.1 million favourable effect of the accelerated recognition of deferred revenues related to the agreement signed with Hearst in December 2017, adjusted revenues went from $1,002.3 million in the first six months of 2017 to $934.3 million in the same period in 2018, a decrease of 6.8%. However, excluding the unfavourable impact of the sales of newspapers and other media assets in 2017 related to the Corporation's strategy, as well as the unfavourable exchange rate effect, adjusted revenues remained relatively stable. The decrease in revenues from verticals that are not related to services to retailers as a result of the same trends in the advertising market and the end of the printing of *The Globe and Mail* in the Maritimes and of *La Presse*, as well as the decrease in revenues from unsold newspapers in the local and regional newspaper publishing niche in Québec and Ontario in the first six months of 2018, were offset by the stable demand for our retailer-related services, the contribution from the acquisitions of Les Industries Flexipak and Multifilm Packaging and the organic growth in revenues in the packaging division.

Operating earnings increased by $92.3 million, or 70.9%, from $130.2 million in the first six months of 2017 to $222.5 million in the corresponding period in 2018. This increase is mostly attributable to the favourable effect of the accelerated recognition of deferred revenues, the decline in operating expenses, higher gains on the sale of certain activities in the Media Sector and net gains on the sale of buildings, partially offset by the effect of accelerated depreciation. Adjusted operating earnings increased by $6.8 million, or 5.4%, from $125.0 million to $131.8 million. Excluding the stock-based compensation expense, which decreased by $6.8 million as a result of the change in the share price in the first six months of 2018 compared to the corresponding period in 2017, the unfavourable impact of the sale of newspapers and other media assets in 2017 and the unfavourable exchange rate effect, adjusted operating earnings increased by $5.6 million, or 4.4%. This increase is mostly attributable to the organic growth in adjusted operating earnings as a result of the favourable effect of Corporation-wide cost reduction initiatives, partially offset by the above-mentioned decreases in volume.

Net earnings increased by $38.0 million, or 42.6%, from $89.1 million in the first six months of 2017 to $127.1 million in the corresponding period in 2018. This increase is mostly attributable to the growth in operating earnings, partially offset by higher income taxes. On a per share basis, net earnings went from $1.15 to $1.64. Excluding the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, net of related income taxes, as well as the impact of the U.S. tax reform on deferred taxes, adjusted net earnings increased by $9.9 million, or 11.8%, from $83.8 million in the first six months of 2017 to $93.7 million in the corresponding period in 2018. On a per share basis, adjusted net earnings went from $1.08 to $1.21.

Subsequent Events

Acquisition of Coveris Americas, issuance of shares and new financing

On May 1, 2018, the Corporation announced that it had completed the acquisition of Coveris Americas previously held by Coveris Holdings S.A. Headquartered in Chicago, Illinois, Coveris Americas manufactures a variety of flexible plastic and paper products, including rollstock, bags and pouches, coextruded films, shrink films, coated substrates and labels. For its fiscal year ended December 31, 2017, Coveris Americas generated US$966 million in revenues, operating earnings of US$68 million and adjusted operating earnings before depreciation and amortization of US$128 million.

TC Transcontinental adds 21 well-invested production facilities in the United States, Canada, Ecuador, Guatemala, Mexico, the United Kingdom, New Zealand and China to its network of 7 flexible packaging plants. With this acquisition, TC Transcontinental leads a network of 28 packaging plants and positions itself as a North American leader in flexible packaging. The Corporation also welcomes 3,100 employees, the majority of whom are located in North America and Latin America.

The purchase consideration is $1,697.0 million (US$1,320.0 million), subject to customary adjustments for working capital and the bearing of certain liabilities at the acquisition date, for a net purchase consideration of $1,567.0 million (US$1,219.0 million). At the acquisition date, the Corporation financed the purchase consideration as well as the acquisition costs out of a combination of 1) cash on hand for an amount of $290.0 million, 2) an amount drawn from existing credit facilities of approximately $167.0 million; 3) an amount drawn from new credit facilities of approximately $964.0 million (US$750.0 million); 4) and the net proceeds of a bought deal public offering of subscription receipts for an amount of $276.0 million.

For more detailed financial information, please see the *Management's Discussion and Analysis for the second quarter ended April 29, 2018* as well as the financial statements in the "Investors" section of our website at www.tc.tc

Outlook for 2018

In the printing division, we expect revenues from our service offering to Canadian retailers to remain relatively stable in fiscal 2018 compared to the same period in 2017, considering the already announced renewal of our multi-year agreement with the Loblaw Companies Limited. This agreement includes the full range of our retailer-related services as well as additional volume for in-store marketing product printing, premedia services and commercial printing. In all the other printing verticals, we expect that our revenues will continue to be affected by a decline in volume caused by the same trends in the advertising market. We also stopped printing the *San Francisco Chronicle* as of April pursuant to the agreement signed with Hearst in December 2017. Therefore, we will no longer have the accelerated recognition of deferred revenues and consequently the net effect of this agreement on revenues will be a decrease of approximately $25 million and the net effect on operating earnings will be a decline of approximately $7 million in the second half of this fiscal year compared to the same period in 2017, substantially all of which will have no impact on cash flows. Lastly, to partially offset the decline in volume, we will continue with our operational efficiency initiatives and will benefit from the closure of a plant located in Montréal, which occurred at the end of the first quarter of 2018.

In our packaging division, our acquisitions, in particular Coveris Americas, Multifilm Packaging and Les Industries Flexipak, will contribute to the fiscal 2018 results. During the second half of the fiscal year, we will proceed with the integration of Coveris Americas and start achieving the anticipated synergies. We also rely on our sales force to continue developing our sales funnel and we expect other sales to materialize in order to achieve organic sales growth similar to 2017 for our pre-Coveris Americas acquisition portfolio. We expect Coveris Americas' revenues to be similar to those in 2017. We intend to report the financial data of the packaging division separately from those of the printing division as of the third quarter of 2018.

In the Media Sector, we expect revenues from our activities in the Business and Education niche to remain stable. Furthermore, as our entire Québec local newspaper portfolio has been sold, we plan to continue adjusting our cost structure accordingly.

To conclude, we expect to continue generating significant cash flows from all our operating activities, which should enable us to reduce our net indebtedness.

Reconciliation of Non-IFRS Financial Measures

The financial information has been prepared in accordance with IFRS. However, financial measures used, namely the adjusted revenues, the adjusted operating earnings, the adjusted operating earnings before depreciation and amortization, the adjusted net earnings, the adjusted net earnings per share, the net indebtedness and the net indebtedness ratio, for which a complete definition is presented in the

Management's Discussion and Analysis for the second quarter ended April 29, 2018, and for which a reconciliation is presented in the following table, do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many of our readers analyze the financial performance of the Corporation's activities based on these non-IFRS financial measures as such measures may allow for easier comparisons between periods. These measures should be considered as a complement to financial performance measures in accordance with IFRS. They do not substitute and are not superior to them.

We also believe that the adjusted revenues, the adjusted operating earnings before depreciation and amortization, the adjusted operating earnings, that takes into account the impact of past investments in property, plant and equipment and intangible assets, and the adjusted net earnings are useful indicators of the performance of our operations. Furthermore, management also uses some of these non-IFRS financial measures to assess the performance of its activities and managers.

Regarding the net indebtedness and net indebtedness ratio, we believe that these indicators are useful to measure the Corporation's financial leverage and ability to meet its financial obligations.

Reconciliation of revenues - Second quarter and cumulative

	Three months ended		Six months ended	
(in millions of dollars)	**April 29, 2018**	April 30, 2017	**April 29, 2018**	April 30, 2017
Revenues	**$ 534.7**	$ 498.7	**$ 1,036.4**	$ 1,002.3
Accelerated recognition of deferred revenues (1)	**(62.3)**	—	**(102.1)**	—
Adjusted revenues	**$ 472.4**	$ 498.7	**$ 934.3**	$ 1,002.3

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

Reconciliation of operating earnings - Second quarter and cumulative

	Three months ended		Six months ended	
(in millions of dollars)	**April 29, 2018**	April 30, 2017	**April 29, 2018**	April 30, 2017
Operating earnings	**$ 99.0**	$ 67.8	**$ 222.5**	$ 130.2
Accelerated recognition of deferred revenues (1)	**(62.3)**	—	**(102.1)**	—
Accelerated depreciation (1)	**15.7**	—	**22.0**	—
Restructuring and other costs (gains)	**11.6**	(5.4)	**(14.3)**	(7.7)
Impairment of assets	**1.7**	1.3	**3.7**	2.5
Adjusted operating earnings	**$ 65.7**	$ 63.7	**$ 131.8**	$ 125.0
Depreciation and amortization	**39.7**	26.4	**70.9**	53.0
Accelerated depreciation (1)	**(15.7)**	—	**(22.0)**	—
Adjusted operating earnings before depreciation and amortization	**$ 89.7**	$ 90.1	**$ 180.7**	$ 178.0

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

Reconciliation of net earnings - Second quarter

	Three months ended			
	April 29, 2018		April 30, 2017	
(in millions of dollars, except per share amounts)	**Total**	**Per share**	Total	Per share
Net earnings	**$ 68.9**	**$ 0.89**	$ 46.4	$ 0.60
Accelerated recognition of deferred revenues [(1)], net of related taxes	**(46.0)**	**(0.60)**	—	—
Accelerated depreciation [(1)], net of related taxes	**11.6**	**0.15**	—	—
Restructuring and other costs (gains), net of related taxes	**9.2**	**0.12**	(4.8)	(0.06)
Impairment of assets, net of related taxes	**1.4**	**0.02**	0.9	0.01
Adjusted net earnings	**$ 45.1**	**$ 0.58**	$ 42.5	$ 0.55

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

Reconciliation of net earnings - Cumulative

	Six months ended			
	April 29, 2018		April 30, 2017	
(in millions of dollars, except per share amounts)	**Total**	**Per share**	Total	Per share
Net earnings	**$ 127.1**	**$ 1.64**	$ 89.1	$ 1.15
Accelerated recognition of deferred revenues [(1)], net of related taxes	**(75.4)**	**(0.98)**	—	—
Accelerated depreciation [(1)], net of related taxes	**16.3**	**0.21**	—	—
Restructuring and other costs (gains), net of related taxes	**(13.6)**	**(0.18)**	(7.1)	(0.09)
Impairment of assets, net of related taxes	**2.8**	**0.04**	1.8	0.02
Impact of the U.S. tax reform on deferred tax	**36.6**	**0.47**	—	—
Adjusted net earnings	**$ 93.8**	**$ 1.20**	$ 83.8	$ 1.08

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

Reconciliation of net indebtedness

(in millions of dollars, except ratios)	**As at April 29, 2018**	As at October 29, 2017
Long-term debt	**$ 298.4**	$ 348.3
Current portion of long-term debt	**50.0**	—
Cash	**(298.1)**	(247.1)
Net indebtedness	**$ 50.3**	$ 101.2
Adjusted operating earnings before depreciation and amortization (last 12 months)	**$ 399.4**	$ 396.7
Net indebtedness ratio	**0.1 x**	0.3 x

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

Dividend

The Corporation's Board of Directors declared a quarterly dividend of $0.21 per share on Class A Subordinate Voting Shares and Class B Shares. This dividend is payable on July 11, 2018 to shareholders of record at the close of business on June 28, 2018.

Conference Call

Upon releasing its second quarter 2018 results, the Corporation will hold a conference call for the financial community today at 4:15 p.m. The dial-in numbers are 1 647 788-4922 or 1 877 223-4471. Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on the Corporation's website, which will then be archived for 30 days. For media requests or interviews, please contact Nathalie St-Jean, Senior Advisor, Corporate Communications of TC Transcontinental, at 514 954-3581.

Profile

TC Transcontinental is a leader in flexible packaging in North America, and Canada's largest printer. The Corporation is also a Canadian leader in its specialty media segments. For over 40 years, TC Transcontinental's mission has been to create products and services that allow businesses to attract, reach and retain their target customers.

Respect, teamwork, performance and innovation are strong values held by the Corporation and its employees. TC Transcontinental's commitment to its stakeholders is to pursue its business activities in a responsible manner.

Transcontinental Inc. (TSX: TCL.A TCL.B), known as TC Transcontinental, has over 9,000 employees, the majority of which are based in Canada, the United States and Latin America. TC Transcontinental had revenues of approximately C$2.0 billion for the fiscal year ended October 29, 2017. The Corporation has completed, on May 1, 2018, the transformational acquisition of Coveris Americas which generated approximately C$1.26 billion in revenues (US$966 million) for its fiscal year ended December 31, 2017. For more information, visit TC Transcontinental's website at 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, structural changes in the industries in which the Corporation operates, the exchange rate, availability of capital, energy costs, competition, the Corporation's capacity to engage in strategic transactions and effectively integrate acquisitions into its activities without affecting its growth and its profitability, while achieving the expected synergies, the political, social, regulatory and legislative environment, in particular with regard to the environment and sustainable development, the safety of its packaging products used in the food industry, innovation of its offering, the protection of its intellectual property rights, concentration of its sales in certain segments, cybersecurity and data protection, recruiting and retaining qualified personnel in certain geographic areas and industry sectors, taxation, interest rate and net indebtedness level. The main risks, uncertainties and factors that could influence actual results are described in the *Management's Discussion and Analysis (MD&A) for the fiscal year ended October 29, 2017* and in the latest *Annual Information Form*, and have been updated in the *MD&A for the second quarter ended April 29, 2018*.

Unless otherwise indicated by the Corporation, forward-looking statements do not take into account the potential impact of nonrecurring or other unusual items, nor of divestitures, business combinations, mergers or acquisitions which may be announced after the date of June 7, 2018.

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 June 7, 2018. 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 second quarter ended April 29, 2018

The purpose of this Management's Discussion and Analysis is to help the reader better understand the business, development strategy and future outlook of Transcontinental Inc., how we manage risk, as well as to analyze the Corporation's results and financial position for the second quarter ended April 29, 2018. It should be read in conjunction with the information in the unaudited condensed interim consolidated financial statements and the accompanying notes included in this report. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, may also be obtained on SEDAR at www.sedar.com.

In this document, unless otherwise indicated, all financial data are prepared in accordance with International Financial Reporting Standards (IFRS) and the term "dollar", as well as the symbol "$" designate Canadian dollars.

In addition, in this Management's Discussion and Analysis we also use non-IFRS financial measures for which a complete definition is presented below and for which a reconciliation to financial information in accordance with IFRS is presented in Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" and in Note #3 "Segmented Information" in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018. These measures should be considered as a complement to financial performance measures in accordance with IFRS. They do not substitute and are not superior to them.

Terms Used	Definitions
Adjusted revenues	Revenues before the accelerated recognition of deferred revenues (1)
Adjusted operating earnings before depreciation and amortization	Operating earnings before depreciation and amortization as well as the accelerated recognition of deferred revenues (1), restructuring and other costs (gains) and impairment of assets
Adjusted operating earnings	Operating earnings before the accelerated recognition of deferred revenues (1), accelerated depreciation (1), restructuring and other costs (gains) and impairment of assets
Adjusted operating earnings margin	Adjusted operating earnings divided by adjusted revenues
Adjusted income taxes	Income taxes before income taxes on the accelerated recognition of deferred revenues (1), accelerated depreciation (1), restructuring and other costs (gains) and income taxes on impairment of assets, as well as the effect of the U.S. tax reform on deferred tax
Adjusted net earnings	Net earnings before the accelerated recognition of deferred revenues (1), accelerated depreciation (1), restructuring and other costs (gains) and impairment of assets, net of related income taxes, as well as the effect of the U.S. tax reform on deferred tax
Net indebtedness	Total of long-term debt plus current portion of long-term debt less cash
Net indebtedness ratio	Net indebtedness divided by the last 12 months' adjusted operating earnings before depreciation and amortization

(1) Related to the agreement signed with Hearst on December 21, 2017 . Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

Finally, to facilitate the reading of this report, the terms "TC Transcontinental", "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 the Management's Discussion and Analysis for the fiscal year ended October 29, 2017 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 disposals, business combinations, mergers or acquisitions which may be announced or concluded after the date of June 7, 2018.

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 June 7, 2018. Such 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.

PROFILE OF TC TRANSCONTINENTAL

TC Transcontinental is a leader in flexible packaging in North America, and Canada's largest printer. The Corporation is also a Canadian leader in its specialty media segments. For over 40 years, TC Transcontinental's mission has been to create products and services that allow businesses to attract, reach and retain their target customers.

Respect, teamwork, performance and innovation are strong values held by the Corporation and its employees. TC Transcontinental's commitment to its stakeholders is to pursue its business activities in a responsible manner.

Transcontinental Inc. (TSX: TCL.A TCL.B), known as TC Transcontinental, has over 9,000 employees, the majority of which are based in Canada, the United States and Latin America. TC Transcontinental had revenues of approximately C$2.0 billion for the fiscal year ended October 29, 2017. The Corporation has completed, on May 1, 2018, the transformational acquisition of Coveris Americas which generated approximately C$1.26 billion in revenues (US$966 million) for its fiscal year ended December 31, 2017. For more information, visit TC Transcontinental's website at www.tc.tc.

HIGHLIGHTS - SECOND QUARTER

Table #1:

(in millions of dollars, except per share amounts)	**Q2-2018**	Q2-2017	Variation in $	Variation in %
Revenues	**$ 534.7**	$ 498.7	$ 36.0	7.2 %
Adjusted revenues (1)	**472.4**	498.7	(26.3)	(5.3)
Operating earnings	**99.0**	67.8	31.2	46.0
Adjusted operating earnings (1)	**65.7**	63.7	2.0	3.1
Net earnings	**68.9**	46.4	22.5	48.5
Net earnings per share	**0.89**	0.60	0.29	48.3
Adjusted net earnings (1)	**45.1**	42.5	2.6	6.1
Adjusted net earnings per share (1)	**0.58**	0.55	0.03	5.5

(1) Please refer to the section entitled "Reconciliation of Non-IFRS Financial Measures" in this Management's Discussion and Analysis for adjusted data presented above.

- Revenues increased by $36.0 million, or 7.2%, from $498.7 million to $534.7 million. Adjusted revenues, which exclude an amount of $62.3 million for the accelerated recognition of deferred revenues related to the agreement signed with Hearst in December 2017, decreased by $26.3 million, or 5.3%, to $472.4 million. This decrease is mainly due to the sale of our media assets in Atlantic Canada and local and regional newspapers in Québec.
- Operating earnings increased by $31.2 million, or 46.0%, from $67.8 million to $99.0 million. Adjusted operating earnings, which exclude an amount of $46.6 million for the accelerated recognition of deferred revenues net of accelerated depreciation related to the agreement signed with Hearst in December 2017, as well as restructuring and other costs (gains) and impairment of assets, increased by $2.0 million, or 3.1%, from $63.7 million to $65.7 million.

- Net earnings increased by $22.5 million, or 48.5%, from $46.4 million to $68.9 million. Adjusted net earnings, which exclude the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, net of related income taxes, increased by $2.6 million, or 6.1%, from $42.5 million to $45.1 million.
- On March 7, 2018, the Corporation acquired Multifilm Packaging Corporation, a flexible packaging supplier located in Elgin, Illinois.
- On April 2, 2018, Transcontinental Inc. announced the transformational acquisition of Coveris Americas.
- On April 20, 2018, Transcontinental Inc. closed a bought-deal subscription receipt offering for net proceeds of $276.0 million following the announcement of the Coveris Americas acquisition.
- On April 27, 2018, the Corporation sold 30 publications, including 29 local newspapers and the *Métro* Montréal daily newspaper, as well as their related web properties.
- On May 1, 2018, Transcontinental Inc. completed the acquisition of Coveris Americas, thus becoming a North American leader in flexible packaging. The Corporation acquired 21 production facilities located in the United States, Canada, Ecuador, Guatemala, Mexico, the United Kingdom, New Zealand and China for US$1.32 billion (C$1.697 billion) and welcomed 3,100 employees. For its fiscal year ended December 31, 2017, Coveris Americas generated US$966 million in revenues (about C$1.26 billion).
- On May 1, 2018, the Corporation financed part of the purchase price of Coveris Americas out of an amount drawn from new credit facilities of approximately $964.0 million (US$750.0 million).

RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(unaudited)

The financial information has been prepared in accordance with IFRS. However, financial measures used, namely the adjusted revenues, the adjusted operating earnings, the adjusted operating earnings before depreciation and amortization, the adjusted net earnings, the adjusted net earnings per share, the net indebtedness and the net indebtedness ratio, for which a reconciliation is presented in the following table, do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many of our readers analyze the financial performance of the Corporation's activities based on these non-IFRS financial measures as such measures may allow for easier comparisons between periods. These measures should be considered as a complement to financial performance measures in accordance with IFRS. They do not substitute and are not superior to them.

We also believe that the adjusted revenues, the adjusted operating earnings before depreciation and amortization, the adjusted operating earnings, that takes into account the impact of past investments in property, plant and equipment and intangible assets, and the adjusted net earnings are useful indicators of the performance of our operations. Furthermore, management also uses some of these non-IFRS financial measures to assess the performance of its activities and managers.

Regarding the net indebtedness and net indebtedness ratio, we believe that these indicators are useful to measure the Corporation's financial leverage and ability to meet its financial obligations.

Table #2:

Reconciliation of revenues - Second quarter and cumulative

	Three months ended		Six months ended	
(in millions of dollars)	**April 29, 2018**	April 30, 2017	**April 29, 2018**	April 30, 2017
Revenues	**$ 534.7**	$ 498.7	**$ 1,036.4**	$ 1,002.3
Accelerated recognition of deferred revenues [1]	**(62.3)**	—	**(102.1)**	—
Adjusted revenues	**$ 472.4**	$ 498.7	**$ 934.3**	$ 1,002.3

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

Reconciliation of operating earnings - Second quarter and cumulative

	Three months ended		Six months ended	
(in millions of dollars)	**April 29, 2018**	April 30, 2017	**April 29, 2018**	April 30, 2017
Operating earnings	**$ 99.0**	$ 67.8	**$ 222.5**	$ 130.2
Accelerated recognition of deferred revenues (1)	**(62.3)**	—	**(102.1)**	—
Accelerated depreciation (1)	**15.7**	—	**22.0**	—
Restructuring and other costs (gains)	**11.6**	(5.4)	**(14.3)**	(7.7)
Impairment of assets	**1.7**	1.3	**3.7**	2.5
Adjusted operating earnings	**$ 65.7**	$ 63.7	**$ 131.8**	$ 125.0
Depreciation and amortization	**39.7**	26.4	**70.9**	53.0
Accelerated depreciation (1)	**(15.7)**	—	**(22.0)**	—
Adjusted operating earnings before depreciation and amortization	**$ 89.7**	$ 90.1	**$ 180.7**	$ 178.0

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

Reconciliation of net earnings - Second quarter

	Three months ended			
	April 29, 2018		April 30, 2017	
(in millions of dollars, except per share amounts)	**Total**	**Per share**	Total	Per share
Net earnings	**$ 68.9**	**$ 0.89**	$ 46.4	$ 0.60
Accelerated recognition of deferred revenues (1), net of related taxes	**(46.0)**	**(0.60)**	—	—
Accelerated depreciation (1), net of related taxes	**11.6**	**0.15**	—	—
Restructuring and other costs (gains), net of related taxes	**9.2**	**0.12**	(4.8)	(0.06)
Impairment of assets, net of related taxes	**1.4**	**0.02**	0.9	0.01
Adjusted net earnings	**$ 45.1**	**$ 0.58**	$ 42.5	$ 0.55

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

Reconciliation of net earnings - Cumulative

	Six months ended			
	April 29, 2018		April 30, 2017	
(in millions of dollars, except per share amounts)	**Total**	**Per share**	Total	Per share
Net earnings	**$ 127.1**	**$ 1.64**	$ 89.1	$ 1.15
Accelerated recognition of deferred revenues (1), net of related taxes	**(75.4)**	**(0.98)**	—	—
Accelerated depreciation (1), net of related taxes	**16.3**	**0.21**	—	—
Restructuring and other costs (gains), net of related taxes	**(13.6)**	**(0.18)**	(7.1)	(0.09)
Impairment of assets, net of related taxes	**2.8**	**0.04**	1.8	0.02
Impact of the U.S. tax reform on deferred tax	**36.6**	**0.47**	—	—
Adjusted net earnings	**$ 93.8**	**$ 1.20**	$ 83.8	$ 1.08

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

Reconciliation of net indebtedness

(in millions of dollars, except ratios)	As at April 29, 2018	As at October 29, 2017
Long-term debt	**$ 298.4**	$ 348.3
Current portion of long-term debt	**50.0**	—
Cash	**(298.1)**	(247.1)
Net indebtedness	**$ 50.3**	$ 101.2
Adjusted operating earnings before depreciation and amortization (last 12 months)	**$ 399.4**	$ 396.7
Net indebtedness ratio	**0.1 x**	0.3 x

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the second quarter ended April 29, 2018.

ANALYSIS OF CONSOLIDATED RESULTS - SECOND QUARTER

Revenues

Revenues increased by $36.0 million, or 7.2%, from $498.7 million in the second quarter of 2017 to $534.7 million in the corresponding period in 2018. This increase is mainly attributable to the $62.3 million favourable effect of the accelerated recognition of deferred revenues related to the agreement signed with Hearst in December 2017, the contribution from the acquisitions of Les Industries Flexipak and Multifilm Packaging, as well as the organic growth in revenues in the packaging division. This increase was partially offset by the effect of disposals and closures, the unfavourable exchange rate effect and the organic decline in revenues in certain verticals in the printing division and from unsold newspapers in the local and regional newspaper publishing niche in Québec and Ontario during the second quarter of 2018. Excluding the favourable effect of the accelerated recognition of deferred revenues, adjusted revenues decreased by $26.3 million, or 5.3%. A more detailed analysis of adjusted revenues is presented in the "Analysis of Sector Results - Second quarter" section.

Operating and Other Expenses

Operating expenses decreased by $25.9 million, or 6.3%, in the second quarter of 2018 compared to the corresponding period in 2017. This decline is mostly attributable to the effect of disposals and closures and to the favourable effect of Corporation-wide cost reduction initiatives, partially offset by new operating expenses related to acquisitions. The stock-based compensation expense remained stable.

Restructuring and other costs (gains) went from a gain of $5.4 million in the second quarter of 2017 to an expense of $11.6 million in the second quarter of 2018. The unfavourable impact is mostly due to to the write-off of a receivable related to a previous transaction and higher business acquisition costs, related in particular to the acquisition of Coveris Americas.

The asset impairment charge increased by $0.4 million, from $1.3 million in the second quarter of 2017 to $1.7 million in the second quarter of 2018. This slight increase is mostly due to the recording of an asset impairment charge on intangible assets in the local and regional newspaper publishing activities.

Depreciation and amortization increased by $13.3 million, from $26.4 million in the second quarter of 2017 to $39.7 million in the second quarter of 2018, mostly as a result of the accelerated depreciation related to the agreement with Hearst. Excluding this item, depreciation and amortization decreased by $2.4 million mostly as a result of fully depreciated assets in the printing division.

Operating Earnings

Operating earnings increased by $31.2 million, or 46.0%, from $67.8 million in the second quarter of 2017 to $99.0 million in the second quarter of 2018. This increase is mostly attributable to the favourable effect of the accelerated recognition of deferred revenues and the decrease of operating expenses, partially offset, mainly, by the increase in restructuring and other costs (gains) and the effect of accelerated depreciation. Adjusted operating earnings increased by $2.0 million, or 3.1%, from $63.7 million to $65.7 million. A more detailed analysis of adjusted operating earnings is presented in the "Analysis of Sector Results - Second Quarter" section.

Net Financial Expenses

Net financial expenses decreased by $1.0 million, from $4.4 million in the second quarter of 2017 to $3.4 million in the second quarter of 2018. This decrease is mainly attributable to higher interest income in the second quarter of 2018 compared to the same period in 2017.

Income Taxes

Income taxes increased by $9.6 million, from $17.1 million in the second quarter of 2017 to $26.7 million in the second quarter of 2018 as a result of the increase in operating earnings. Excluding income taxes on the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, adjusted income taxes amounted to $16.9 million in the second quarter of 2017, for an effective tax rate of 28.5%, compared to $17.2 million in the second quarter of 2018, for an effective tax rate of 27.6%. This slight decrease in the effective tax rate is mostly attributable to the geographic distribution of earnings before taxes.

Net Earnings

Net earnings increased by $22.5 million, or 48.5%, from $46.4 million in the second quarter of 2017 to $68.9 million in the second quarter of 2018. This increase is mostly attributable to the growth in operating earnings, partially offset by higher income taxes. On a per share basis, net earnings went from $0.60 to $0.89. Excluding the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, net of related income taxes, adjusted net earnings increased by $2.6 million, or 6.1%, from $42.5 million in the second quarter of 2017 to $45.1 million in the second quarter of 2018. On a per share basis, adjusted net earnings went from $0.55 to $0.58.

ANALYSIS OF CONSOLIDATED RESULTS - CUMULATIVE

Revenues

Revenues increased by $34.1 million, or 3.4%, from $1,002.3 million in the first six months of 2017 to $1,036.4 million in the corresponding period in 2018. This increase is mainly attributable to the $102.1 million favourable effect of the accelerated recognition of deferred revenues related to the agreement signed with Hearst in December 2017, the contribution from the acquisitions of Les Industries Flexipak and Multifilm Packaging, as well as the organic growth in revenues in the packaging division. This increase was partially offset by the effect of disposals and closures, the unfavourable exchange rate effect and the organic decline in revenues in certain verticals in the printing division and from unsold newspapers in the local and regional newspaper publishing niche in Québec and Ontario during the first six months of 2018. Excluding the favourable effect of the accelerated recognition of deferred revenues, adjusted revenues decreased by $68.0 million, or 6.8%. A more detailed analysis of adjusted revenues is presented in the "Analysis of Sector Results - Cumulative" section.

Operating and Other Expenses

Operating expenses decreased by $70.7 million, or 8.6% in the first six months of 2018 compared to the corresponding period in 2017. Excluding the stock-based compensation expense, which decreased by $6.8 million as a result of the change in the share price during these periods, operating expenses decreased by $63.9 million, or 7.9%. This decline in operating expenses is mostly attributable to the effect of disposals and closures and to the favourable effect of Corporation-wide cost reduction initiatives, partially offset by new operating expenses related to acquisitions.

Restructuring and other costs (gains) went from a gain of $7.7 million in the first six months of 2017 to a gain of $14.3 million in the corresponding period in 2018. The favourable effect is mostly attributable to higher gains on the sale of certain activities in the Media Sector and net gains on the sale of buildings, partially offset by the write-off of a receivable related to a previous transaction, higher business acquisition costs and higher workforce reduction costs.

The asset impairment charge increased by $1.2 million, from $2.5 million in the first six months of 2017 to $3.7 million in the corresponding period in 2018. This increase is mostly due to the recording of an asset impairment charge on intangible assets in the local and regional newspaper publishing activities.

Depreciation and amortization increased by $17.9 million, from $53.0 million in the first six months of 2017 to $70.9 million in the corresponding period in 2018, mostly as a result of the accelerated depreciation related to the new agreement with Hearst. Excluding this item, depreciation and amortization decreased by $4.1 million mostly as a result of fully depreciated assets in the printing division.

Operating Earnings

Operating earnings increased by $92.3 million, or 70.9%, from $130.2 million in the first six months of 2017 to $222.5 million in the corresponding period in 2018. This increase is mostly attributable to the favourable effect of the accelerated recognition of deferred revenues, the decline in operating expenses, higher gains on the sale of certain activities in the Media Sector and net gains on the sale of buildings, partially offset, by the effect of accelerated depreciation. Adjusted operating earnings increased by $6.8 million, or 5.4%, from $125.0 million to $131.8 million. Excluding the stock-based compensation expense, which decreased by $6.8 million as a result of the change in the share price in the first six months of 2018 compared to the corresponding period in 2017, adjusted operating earnings remained stable at $136.4 million. A more detailed analysis of adjusted operating earnings is presented in the "Analysis of Sector Results - Cumulative" section.

Net Financial Expenses

Net financial expenses decreased by $3.5 million, from $9.5 million in the first six months of 2017 to $6.0 million in the corresponding period in 2018. This decrease is mostly attributable to higher interest income and higher net foreign exchange gains.

Income Taxes

Income taxes increased by $57.9 million, from $31.6 million in the first six months of 2017 to $89.5 million in the corresponding period in 2018 as a result of the increase in operating earnings and the impact of the U.S. tax reform on deferred taxes. On December 22, 2017, the *Tax Cuts and Jobs Act,* which reforms income taxes in the United States, was enacted. This reform lowers the federal statutory tax rate for U.S. corporations from a progressive tax rate of up of 35% to a fixed rate of 21% effective January 1, 2018. During the first six months of 2018, this decrease reduced previously recognized deferred tax assets by $36.6 million. Excluding income taxes on the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, as well as the impact of the U.S. tax reform on deferred taxes, adjusted income taxes amounted to $31.7 million in the first six months of 2017, for an effective tax rate of 27.4%, compared to $32.2 million in the first six months of 2018, for an effective tax rate of 25.5%. This decrease in the effective tax rate is mostly attributable to the geographic distribution of earnings before taxes.

Net Earnings

Net earnings increased by $38.0 million, or 42.6%, from $89.1 million in the first six months of 2017 to $127.1 million in the corresponding period in 2018. This increase is mostly attributable to the growth in operating earnings, partially offset by higher income taxes. On a per share basis, net earnings went from $1.15 to $1.64. Excluding the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, net of related income taxes, as well as the impact of the U.S. tax reform on deferred taxes, adjusted net earnings increased by $9.9 million, or 11.8%, from $83.8 million in the first six months of 2017 to $93.7 million in the corresponding period in 2018. On a per share basis, adjusted net earnings went from $1.08 to $1.21.

ANALYSIS OF SECTOR RESULTS - SECOND QUARTER

(unaudited)

Table #3:

(in millions of dollars)	Printing & Packaging Sector	Media Sector	Head office and Inter-Segment Eliminations	Consolidated results
Adjusted revenues [1] - Second quarter of 2017	**$ 449.5**	**$ 59.0**	**$ (9.8)**	**$ 498.7**
Acquisitions/disposals and closures	8.6	(28.6)	—	(20.0)
Existing operations				
Exchange rate effect	(4.5)	—	—	(4.5)
Organic growth (decline)	(1.8)	(5.6)	5.6	(1.8)
Adjusted revenues [1] - Second quarter of 2018	**$ 451.8**	**$ 24.8**	**$ (4.2)**	**$ 472.4**
Adjusted operating earnings [1] - Second quarter of 2017	**$ 75.7**	**$ (1.4)**	**$ (10.6)**	**$ 63.7**
Acquisitions/disposals and closures	0.3	(3.4)	—	(3.1)
Existing operations				
Exchange rate effect	(0.2)	—	—	(0.2)
Organic growth (decline)	0.2	3.1	2.0	5.3
Adjusted operating earnings [1] - Second quarter of 2018	**$ 76.0**	**$ (1.7)**	**$ (8.6)**	**$ 65.7**

(1) Please refer to Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" in this Management's Discussion and Analysis for adjusted data presented above.

Printing & Packaging Sector

Printing & Packaging Sector adjusted revenues increased by $2.3 million, or 0.5%, from $449.5 million in the second quarter of 2017 to $451.8 million in the second quarter of 2018. In the printing division, revenues from our service offering to Canadian retailers slowed down slightly. The decline in revenues from the other printing division verticals continued as a result of the same trends in the advertising market as well as the end of the printing of *The Globe and Mail* in the Maritimes, of *La Presse* and of the *San Francisco Chronicle* as of April 1, partially offset by additional volume in the marketing products vertical. Our packaging division recorded an increase in revenues resulting from the contribution from the acquisition of Les Industries Flexipak and Multifilm Packaging and the organic growth in revenues attributable to the increase in volume in all of our plants. Lastly, the unfavourable exchange rate effect mitigated the increase in the Printing & Packaging Sector adjusted revenues.

Adjusted operating earnings increased by $0.3 million, or 0.4%, from $75.7 million in the second quarter of 2017 to $76.0 million in the second quarter of 2018. This slight increase is mainly attributable to the contribution from our acquisitions and the organic growth in revenues in the packaging division, as well as the favourable effect of our operational efficiency initiatives in the printing division, in particular the already announced closure of a plant in Montréal. However, the unfavourable exchange rate effect mitigated the increase in adjusted operating earnings. The Sector's adjusted operating earnings margin remained stable at 16.8% in the second quarter of 2018 compared to the corresponding period in 2017.

Media Sector

Media Sector revenues decreased by $34.2 million, or 58.0%, from $59.0 million in the second quarter of 2017 to $24.8 million in the second quarter of 2018. This decrease is mainly due to the impact of the sale of our media assets in Atlantic Canada and local and regional newspapers in Québec. The organic decline in revenues from the local and regional newspaper publishing niche in Québec and Ontario caused by the reduction in advertising revenues also explains the decrease in the Sector's revenues. Revenues from activities in the Business and Education niche remained relatively stable.

Adjusted operating earnings went from a loss of $1.4 million in the second quarter of 2017 to a loss of $1.7 million in the second quarter of 2018. This decrease is due to the unfavourable impact of the sale of our media assets in Atlantic Canada and of local and regional newspapers in Québec, partially offset by the contribution from our cost reduction initiatives related to our local and regional newspaper publishing activities.

Head Office and Inter-Segment Eliminations

Inter-segment revenue eliminations went from -$9.8 million in the second quarter of 2017 to -$4.2 million in the second quarter of 2018. This change is mostly attributable to the decrease in inter-segment transactions caused by the disposals and closures of newspapers in our Media Sector that we were printing and distributing. Adjusted operating earnings improved by $2.0 million, from -$10.6 million in the second quarter of 2017 to -$8.6 million in the second quarter of 2018. This change is mainly attributable to the favourable effect of our cost reduction initiatives.

ANALYSIS OF SECTOR RESULTS - CUMULATIVE

(unaudited)

Table #4:

(in millions of dollars)	Printing & Packaging Sector	Media Sector	Head office and Inter-Segment Eliminations	Consolidated results
Adjusted revenues (1) - Six months ended April 30, 2017	**$ 899.6**	**$ 122.1**	**$ (19.4)**	**$ 1,002.3**
Acquisitions/disposals and closures	11.6	(56.3)	—	(44.7)
Existing operations				
Exchange rate effect	(9.5)	—	—	(9.5)
Organic growth (decline)	(13.7)	(11.4)	11.3	(13.8)
Adjusted revenues (1) - Six months ended April 29, 2018	**$ 888.0**	**$ 54.4**	**$ (8.1)**	**$ 934.3**
Adjusted operating earnings (1) - Six months ended April 30, 2017	**$ 146.7**	**$ (2.7)**	**$ (19.0)**	**$ 125.0**
Acquisitions/disposals and closures	0.6	(5.0)	—	(4.4)
Existing operations				
Exchange rate effect	(0.3)	—	—	(0.3)
Organic growth (decline)	(4.2)	7.6	8.1	11.5
Adjusted operating earnings (1) - Six months ended April 29, 2018	**$ 142.8**	**$ (0.1)**	**$ (10.9)**	**$ 131.8**

(1) Please refer to Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" in this Management's Discussion and Analysis for adjusted data presented above.

Printing & Packaging Sector

Printing & Packaging Sector adjusted revenues decreased by $11.6 million, or 1.3%, from $899.6 million in the first six months of 2017 to $888.0 million in the corresponding period in 2018. In the printing division, revenues from our service offering to Canadian retailers remained stable. The decline in revenues from the other printing division verticals continued as a result of the same trends in the advertising market as well as the end of the printing of *The Globe and Mail* in the Maritimes and of *La Presse*. Our packaging division recorded an increase in revenues resulting from the contribution from the acquisitions of Les Industries Flexipak and Multifilm Packaging and organic growth in revenues. Lastly, the unfavourable exchange rate effect added to the decrease in the Printing & Packaging Sector adjusted revenues.

Adjusted operating earnings decreased by $3.9 million, or 2.7%, from $146.7 million in the first six months of 2017 to $142.8 million in the corresponding period in 2018. This decrease is due to the organic decline in revenues in the printing division and the unfavourable exchange rate effect, partially offset by the favourable effect of our operational efficiency initiatives in the printing division, in particular the already announced closure of a plant in Montréal, as well as the contribution from our acquisitions in the packaging division. The Sector's adjusted operating earnings margin decreased slightly from 16.3% in the first six months of 2017 to 16.1% in the corresponding period in 2018.

Media Sector

Media Sector revenues decreased by $67.7 million, or 55.4%, from $122.1 million in the first six months of 2017 to $54.4 million in the corresponding period in 2018. This decrease is mainly due to the impact of the sale of our media assets in Atlantic Canada and local and regional newspapers in Québec. The organic decline in revenues from the local and regional newspaper publishing niche in Québec and Ontario caused by the reduction in advertising revenues also explains the decrease in the Sector's revenues. Revenues from our activities in the Business and Education niche remained relatively stable.

Adjusted operating earnings increased by $2.6 million, from a loss of $2.7 million in the first six months of 2017 to a slight loss of $0.1 million in the corresponding period in 2018. This improvement is attributable to the contribution from our cost reduction initiatives related to our local and regional newspaper publishing activities, partially offset by the effect of the sale of our media assets in Atlantic Canada and of local and regional newspapers in Québec.

Head Office and Inter-Segment Eliminations

Inter-segment revenue eliminations went from -$19.4 million in the first six months of 2017 to -$8.1 million in the corresponding period in 2018. This change is mostly attributable to the decrease in inter-segment transactions caused by the disposals and closures of newspapers in our Media Sector that we were printing and distributing. Adjusted operating earnings improved by $8.1 million, from -$19.0 million in the first six months of 2017 to -$10.9 million in the corresponding period in 2018. This change is attributable to the decrease of $6.8 million in the stock-based compensation expense as a result of the change in the share price in the first six months of 2018 compared to the corresponding period in 2017 and to the favourable effect of our cost reduction initiatives.

SUMMARY OF QUARTERLY RESULTS

(unaudited)

Table #5 summarizes selected consolidated financial information derived from the Corporation's unaudited condensed interim consolidated financial statements and some non-IFRS financial measures for each of the last eight quarters.

Table #5:

	2018		2017				2016	
(in millions of dollars, except per share amounts)	**Q2**	Q1	Q4	Q3	**Q2**	Q1	Q4	Q3
Revenues	**$ 534.7**	$ 501.7	$ 527.2	$ 477.7	**$ 498.7**	$ 503.6	$ 555.6	$ 467.8
Adjusted revenues (1)	**472.4**	461.9	527.2	477.7	**498.7**	503.6	555.6	467.8
Operating earnings before depreciation and amortization	**138.7**	154.7	128.5	93.7	**94.2**	89.0	107.8	90.1
Adjusted operating earnings before depreciation and amortization (1)	**89.7**	91.0	123.3	95.4	**90.1**	87.9	133.9	89.2
Adjusted operating earnings margin before depreciation and amortization (1)	**19.0 %**	19.7 %	23.4 %	20.0 %	**18.1 %**	17.5 %	24.1 %	19.1 %
Operating earnings	**99.0**	123.5	103.6	68.2	**67.8**	62.4	81.3	63.6
Adjusted operating earnings (1)	**65.7**	66.1	98.4	69.9	**63.7**	61.3	107.4	62.7
Adjusted operating earnings margin (1)	**13.9 %**	14.3 %	18.7 %	14.6 %	**12.8 %**	12.2 %	19.3 %	13.4 %
Net earnings	**$ 68.9**	$ 58.2	$ 73.4	$ 49.0	**$ 46.4**	$ 42.7	$ 57.7	$ 45.9
Net earnings per share	**0.89**	0.75	0.94	0.64	**0.60**	0.55	0.75	0.59
Adjusted net earnings (1)	**45.1**	48.6	68.3	50.1	**42.5**	41.3	76.6	44.1
Adjusted net earnings per share (1)	**0.58**	0.63	0.88	0.65	**0.55**	0.53	0.99	0.57
% of fiscal year	**_ %**	_ %	34 %	25 %	**21 %**	20 %	39 %	23 %

(1) Please refer to Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" in this Management's Discussion and Analysis for adjusted data presented above.

The variability of financial information for interim periods is influenced by many factors, such as:

- The impact of acquisitions, disposals and closures completed in line with our transformation;
- The exchange rate effect;
- The impact of the change in the share price on the stock-based compensation expense;
- The impact of adjusting items presented in Table #2, "Reconciliation of Non-IFRS Financial Measures".

Excluding the impact of the above-mentioned items, we can note a slight decrease in our adjusted revenues. This decrease is mostly due to lower advertising spending in print media, which has a negative impact on circulation or the number of pages of certain print publications. The decline in advertising spending results from the impact of new media and the shift of advertising revenues to new platforms. However, this trend was mitigated by an increase in revenues from our service offering to Canadian retailers. Many retailers still consider printed flyers as the marketing tool of choice for generating traffic to the store. In addition, as a result of the seasonality of printing activities, we note that volume is higher in the fourth quarter.

The upward trend in financial data related to profitability results from the numerous operational efficiency and rationalization measures that were implemented over the last few years as part of our transformation.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL STRUCTURE

(unaudited)

Table #6:

		Three months ended		
(in millions of dollars)		**April 29, 2018**		April 30, 2017
Operating activities				
Cash flows generated by operating activities before changes in non-cash operating items and income taxes paid	**$**	**150.7**	$	92.9
Changes in non-cash operating items		**(77.9)**		(14.0)
Income taxes paid		**(16.7)**		(20.2)
Cash flows from operating activities	**$**	**56.1**	$	58.7
Investing activities				
Business combinations, net of acquired cash	**$**	**(43.4)**	$	(7.8)
Business disposals		**2.3**		25.1
Acquisitions of property, plant and equipment		**(9.0)**		(6.3)
Disposals of property, plant and equipment		**20.5**		0.3
Increase in intangible assets		**(4.2)**		(6.1)
Cash flows from investing activities	**$**	**(33.8)**	$	5.2
Financing activities				
Reimbursement of long-term debt	**$**	**(15.2)**	$	(0.1)
Financial expenses on long-term debt		**(2.7)**		(2.7)
Exercise of stock options		**—**		0.2
Dividends		**(16.2)**		(15.5)
Share redemptions		**(6.0)**		—
Cash flows from financing activities	**$**	**(40.1)**	$	(18.1)
Effect of exchange rate changes on cash denominated in foreign currencies	**$**	**2.2**	$	0.6
Net change in cash	**$**	**(15.6)**	$	46.4

Financial position		**As at April 29, 2018**		As at October 29, 2017
Net indebtedness (1)	**$**	**50.3**	$	101.2
Net indebtedness ratio (1)		**0.1 x**		0.3 x
Credit rating				
DBRS		**BBB (low)**		BBB (low)
Outlook		**Stable**		Stable
Standard and Poor's		**BBB-**		BBB-
Outlook		**Negative**		Stable

Balance sheet		**As at April 29, 2018**		As at October 29, 2017
Current assets	**$**	**1,084.2**	$	780.2
Current liabilities		**616.6**		365.3
Total assets		**2,374.8**		2,136.7
Total liabilities		**1,074.9**		918.0

(1) Please refer to Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" in this Management's Discussion and Analysis for adjusted data presented above.

Cash Flows from Operating Activities

Cash flows from operating activities before changes in non-cash operating items and income taxes paid went from $92.9 million in the second quarter of 2017 to $150.7 million in the second quarter of 2018 mainly due to an amount of $62.3 million related to the accelerated recognition of deferred revenues as part of the transaction with Hearst. This accelerated recognition of deferred revenues, a non-cash item, also explains the unfavourable variation of non-cash operating items, which went from -$14.0 million in the second quarter of 2017 to -$77.9 in the second quarter of 2018. Consequently, cash flows from operating activities decreased slightly from $58.7 million in the second quarter of 2017 to $56.1 million in the second quarter of 2018.

Cash Flows from Investing Activities

Cash flows from investing activities went from a cash inflow of $5.2 million in the second quarter of 2017, mainly as a result of the receipt of a portion of the proceeds from the sale of our media assets in Atlantic Canada, to a cash outflow of $33.8 million in the second quarter of 2018, resulting mostly from the acquisition of Multifilm Packaging. This cash outflow was partially offset by a cash inflow arising from the sale of some of our printing equipment related to the agreement signed with Hearst on December 21, 2017 and the sale of buildings in the second quarter of 2018.

Cash Flows from Financing Activities

Cash flows from financing activities went from a cash outflow of $18.1 million in the second quarter of 2017 to a cash outflow of $40.1 million in the second quarter of 2018. This increase is mostly due to the repayment of the debt held by Multifilm Packaging and share repurchases.

Debt Instruments

Net indebtedness went from $101.2 million as at October 29, 2017 to $50.3 million as at April 29, 2018. This decline results from our excess cash flows from operations and the cash inflow from disposals of property, plant and equipment, in particular the sale of some of our printing equipment related to the agreement signed with Hearst on December 21, 2017 and the sale of buildings, partially offset by a cash outflow related to the acquisition of Multifilm Packaging and the repayment of the debt of this company. Consequently, our net indebtedness ratio stood at 0.1x as at April 29, 2018 compared to 0.3x as at October 29, 2017. Subsequent to the reporting date, the completion of the acquisition of Coveris Americas led to a significant increase in our consolidated debt as a result of our debt financing. Accordingly, our net indebtedness ratio stood at 2.7x as at May 1, 2018.

Share Capital

Table #7:

Shares Issued and Outstanding	As at April 29, 2018	As at October 29, 2017
Class A (Subordinate Voting Shares)	**63,039,634**	**73 850 034**
Class B (Multiple Voting Shares)	**13,983,426**	**13 983 026**

Under its share repurchase program that expired on April 16, 2018 and was not renewed, the Corporation was authorized to repurchase for cancellation on the open market or, subject to the approval of securities regulators, by private agreements, between April 17, 2017 and April 16, 2018, or at an earlier date if the Corporation concludes or cancels the bid, up to 2,000,000 of its Class A Subordinate Voting Shares and up to 442,349 of its Class B Shares.

During the second quarter of 2018, 250,000 Class A Subordinate Voting Shares were repurchased at a weighted average price of $24.40 for a total cash consideration of $6.0 million. The change in the number of Class B Shares during this period is explained by the conversion of 1,500 Class B Shares into Class A Subordinate Voting Shares.

During the first six months of 2018, 529,610 Class A Subordinate Voting Shares were repurchased at a weighted average price of $24.50 for a total cash consideration of $12.9 million. The change in the number of Class B Shares during this period is explained by the conversion of 2,100 Class B Shares into Class A Subordinate Voting Shares.

CHANGES IN ACCOUNTING STANDARDS

New or amended accounting standards not yet adopted

The Corporation is currently conducting a detailed assessment of the impact of the changes in the following accounting standards on its consolidated financial statements:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"

The Corporation has not yet determined the impact of adopting the changes in accounting standards listed below. The assessment of the impact on our consolidated financial statements of the new standard or the amendment to the standard is still ongoing.

- IFRS 16 "Leases"
- Amendments to IAS 7 "Statement of Cash Flow"
- Amendments to IFRS 2 "Share-based Payment Transactions"
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- IFRIC 23 "Uncertainty over Income Tax Treatments"

Please see Note 2 to the consolidated financial statements in order to obtain more information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control. The purpose of internal control over financial reporting ("ICFR") 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. Management certifies disclosures in annual and interim filings under Regulation 52-109 using the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

During the second quarter ended April 29, 2018, no change that has materially affected or is reasonably likely to materially affect the ICFR was brought to the attention of Management, including the President and Chief Executive Officer, and the Chief Financial and Development Officer of the Corporation.

RISKS AND UNCERTAINTIES

Managing the risks to which the Corporation is exposed in the normal course of operations plays an important role in the decisions taken by Management with regards to acquisitions, capital investments, asset divestitures, plant consolidation and efforts to create synergies among operating sectors or other operating activities. This also guides decisions regarding cost reduction measures, product diversification, new market penetration and certain cash movements.

In addition to periodically re-examining current risks and the effectiveness of control and preventive measures already in place, Management assesses new risk factors. It determines the likelihood that these will occur and their potential impact, and implements strategies and processes to proactively manage these new risks. A report on the risk management program is presented regularly to the Audit Committee and Board of Directors.

Changes to the Latest Risks Reported

As part of our business strategy aimed at transforming the Corporation, we acquired Coveris Americas on May 1, 2018. Accordingly, changes to already identified risks and additional risks that might have an impact on actual results are described below. As for measures or strategies that the Corporation takes to mitigate the identified risks below, the Corporation has put in place a plan for the execution of the integration of Coveris Americas, which will be adjusted if necessary.

Integration of Coveris Americas' Business

Although Management believes that the operations of Coveris Americas and Transcontinental can be successfully integrated, there can be no assurance that this will be the case. Transcontinental could face impediments in its ability to implement its integration strategy. The integration process may also require substantial attention from Management and divert its focus and resources from other strategic opportunities and from operational matters.

Specifically, the successful integration and management of Transcontinental and Coveris Americas as a combined entity is subject to numerous risks that could adversely affect the Corporation's growth and profitability, including: (i) the risk that Management may not be able to successfully manage Coveris Americas' operations, (ii) the risk that Transcontinental's operational, financial and management systems may be incompatible with, or inadequate to effectively integrate and manage systems acquired from Coveris Americas, (iii) the risk that the acquisition may require financial resources that could otherwise be used in the development of other aspects of Transcontinental's business, (v) the risk that the integration process may result in the disruption of Transcontinental's and Coveris Americas' ongoing business and customer and employee relationships, (vi) the risk that Coveris Americas may not obtain the consents required under agreements entered into with third parties, (vii) the risk that the integration process may result in operational problems, costs, expenses, liabilities, including loss of contracts and customers, and (viii) the risk that key management or employees of Transcontinental and of Coveris Americas may not be retained or may leave following the acquisition, which could

have a significant impact on the combined entity's operations, specifically if such departures were to occur in positions or roles which require significant technical and operational knowledge and for which qualified replacement personnel is scarce. The successful integration of the acquisition will also require cooperation between the employees of Transcontinental and Coveris Americas and is subject to the risk that personnel from Coveris Americas' and Transcontinental's existing business may not be able to work together successfully, which could adversely impact the Corporation's business, financial condition and results of operations.

Transcontinental's future financial performance depends in part upon its ability to effectively combine the operations of the acquired business into its existing operations and achieve identified cost savings and other synergies. If it is unable to identify and correct operational or financial weaknesses in the acquired business or to achieve the projected cost savings, its operating results and cash flows could be negatively impacted. Failure to expand operational systems and controls or to integrate appropriate personnel at a pace consistent with its growth could also adversely affect its operating results.

Possible Failure to Achieve the Full Amount of Anticipated Cost Synergies

Although Management estimates annual cost synergies of approximately US$20 million and expects these synergies to be achieved over a 24-month period following the acquisition, inclusion of the estimated annual cost synergies should not be viewed as a representation that the Corporation will in fact achieve these synergies over a 24-month period or at all.

Transcontinental continues to evaluate its estimates of the synergies to be realized from the acquisition and to refine them and, as such, the actual cost synergies could differ materially from Transcontinental's current estimates. In addition, expenses required to realize the synergies and the sources of the synergies could differ materially from these estimates and Transcontinental cannot assure investors that the Corporation will achieve the full amount of anticipated annual cost synergies or at all. In light of these significant uncertainties, investors should not place undue reliance on the Corporation's estimates of annual cost synergies.

Increased Indebtedness

The conclusion of the acquisition of Coveris Americas led to a material increase in Transcontinental's consolidated indebtedness and, as a result, increased Transcontinental's leverage.

Transcontinental's degree of leverage could have other important consequences for investors, including the following:

- it may limit Transcontinental's ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- the majority, in dollar terms, of Transcontinental's borrowings are at variable rates of interest and expose Transcontinental to the risk of increased interest rates;
- it may limit Transcontinental's ability to adjust to changing market conditions and place Transcontinental at a competitive disadvantage compared to its competitors that are less leveraged;
- it may increase Transcontinental's financial expense and reduce its profitability;
- Transcontinental may not be able to pay dividends on its Class A Shares and Class B Shares;
- Transcontinental may be vulnerable in a downturn in general economic conditions;
- it may be more difficult for Transcontinental to satisfy its covenants with respect to its indebtedness; and
- Transcontinental may be unable to make capital expenditures that are important to its growth and strategies.

If any of these circumstances arise in the future, this could have a material adverse effect on Transcontinental's business, financial condition, prospects and/or results of operations. Moreover, Transcontinental may not be able to achieve its strategic growth objectives where the required capital resources are not available to fund both its organic and inorganic growth strategy.

In addition, non-compliance with financial covenants set out by the lenders in the New Credit Facilities could lead to financial losses, increased costs or cross defaults, which in turn could have a material adverse impact on Transcontinental's business, financial condition, prospects and/or results of operations.

Under the terms of the New Credit Facilities, Transcontinental is permitted to incur additional debt in certain circumstances. However, doing so could increase the risks described above. The New Credit Facilities are expected to contain financial covenants which may limit Transcontinental's discretion in the operation of its business.

Loss of Certain Key Personnel of Coveris Americas

The Corporation currently intends to retain most personnel of Coveris Americas following the completion of the acquisition to continue to manage and operate Coveris Americas. The Corporation will compete with other potential employers for employees, and it may not be successful in keeping the services of the managers and other employees that it needs to realize the anticipated benefits of the acquisition. The Corporation's failure to

retain key personnel to remain as part of the management team of Coveris Americas in the period following the acquisition could adversely affect Coveris Americas, which could adversely affect the business, results of operations and financial condition of the Corporation.

Transcontinental is Exposed to Risks Related to Conducting Operations in Several Different Countries

As of May 1, 2018, Coveris Americas operated 21 production facilities worldwide, including in the United-Kingdom, the United States, China, New Zealand, Mexico, Guatemala and Ecuador. As a result, its business is subject to risks related to the differing legal, political, tax, social and regulatory requirements and economic conditions of many jurisdictions. Risks inherent in international operations include general economic, social or political conditions in the countries in which Transcontinental operates that could have an adverse effect on its earnings from operations in those countries, compliance with a variety of laws and regulations in various jurisdictions that may be burdensome, unexpected or adverse changes in laws or regulatory requirements in various jurisdictions may occur, including in particular the introduction of more stringent regulations relating to packaging that comes into contact with food, or adverse transaction and translation effects of foreign currency exchange rate fluctuations. Any of these factors could require Coveris Americas to change its current operational structure and could have a material adverse effect on its business, results of operations, financial condition and cash flows.

Because Transcontinental Relies on External Transportation and Warehousing Providers to Deliver Its Products, Any Disruption in Their Services Could Adversely Affect Transcontinental's Business

The success of Transcontinental's business depends, in large part, upon the maintenance of a strong distribution network. It relies on independent transportation and warehousing companies to store and deliver its products to its customers. Strikes, slowdowns, transportation disruptions, such as severe weather, and other conditions in the transportation industry, such as increases in fuel prices, could increase Transcontinental's costs and disrupt its operations. If any subcontractor fails to properly store or timely deliver Transcontinental's products to its customers, the results of its operations could be adversely affected. A delay in distribution could be disruptive toTranscontinental's business, which could have a material adverse effect on its business, results of operations, financial condition and cash flows and could have an adverse impact on Transcontinental's reputation.

Imports and Exports - Transcontinental is Subject to Governmental Export and Import Controls and Duties, Tariffs or Taxes that Could Subject Transcontinental to Liability or Impair Its Ability to Compete in International Markets

Certain of Transcontinental's products are subject to export controls and may be exported only with the required export license or through an export license exception. If it were to fail to comply with export licensing, customs regulations, economic sanctions and other laws, it could be subject to substantial civil and criminal penalties, including fines and incarceration for responsible employees and managers, and the possible loss of export or import privileges. In addition, if its distributors fail to obtain appropriate import, export or re-export licenses or permits, it may also be adversely affected through reputational harm and penalties. Obtaining the necessary export license for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities.

Furthermore, export control laws and economic sanctions prohibit the shipment of certain products to embargoed or sanctioned countries, governments and persons. Transcontinental cannot assure that any such shipment will not occur, which could have negative consequences including government investigations, penalties, fines, civil and criminal sanctions, and reputational harm. In addition, Transcontinental's global business can be negatively affected by import and export duties, tariff barriers, and related local government protectionist measures, and the unpredictability with which these can occur. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in Transcontinental's decreased ability to export or sell its products to existing or potential customers with international operations. Any limitation on its ability to export or sell its products could adversely affect its business, financial condition and results of operations.

Changes in Product Requirements and Their Enforcement May Have A Material Impact on Transcontinental's Operations

Changes in laws and regulations relating to the materials allowed for use in packaging and to the recycling of plastic packaging could adversely affect Transcontinental's business if implemented on a large scale in the major markets in which it operates. Changes in laws and regulations laying down restrictions on, and conditions for use of, food, beverage, pharmaceutical, agricultural or other products and the materials in contact with them, or on the use of materials and agents in the production of Transcontinental's products could also adversely affect its business. Legislation as well as voluntary initiatives aimed at reducing the level of plastic wastes could reduce the demand for certain plastic packaging, result in greater costs for plastic packaging manufacturers or otherwise impact Transcontinental's business. Future legislation and initiatives could adversely affect Transcontinental in a manner that could be material.

Tax Matters - Changes in Tax Legislation Could Adversely Affect Transcontinental's Profitability

Transcontinental is subject to income taxes in North America, Central America, Europe and other foreign jurisdictions. Its tax exposures could be adversely affected in the future as a result of a number of factors, including changes in the mix of earnings in countries with differing statutory tax rates. Transcontinental regularly assesses these matters to determine the adequacy of its assessment of its tax liability. To the extent that its assessments would be incorrect, its business, financial condition, prospects and/or results of operations could be materially affected.

Transcontinental is susceptible to possible changes of law or to possible changes in interpretation of existing law by the tax authorities. For example, the imposition of additional taxes or increases in the rate of income and other taxes or the removal of any tax incentives, from which it currently benefits in any of the jurisdictions in which it operates, may increase its effective tax rate and have a material adverse effect on its profitability. Any such changes in tax legislation, interpretation of the laws by the tax authorities, or any changes to accounting rules may have a material adverse effect on the amount of tax payable by Transcontinental as regards past and future periods. Finally, adverse outcomes from tax audits that it may be subject to in any of the jurisdictions in which it operates could result in an adverse change in its effective tax rate, which in turn could adversely affect its business, financial condition, prospects and/or results of operations.

Failure of Transcontinental's Patents, Trademarks, Models and Confidentiality Agreements to Protect Its Intellectual Property Could Adversely Affect Its Business

Proprietary protection of Transcontinental's processes, apparatuses and other technology is important to its business. If it is unable to enforce its intellectual property rights, its competitive position may suffer, as competitors imitating its products could compete aggressively against Transcontinental in the pricing of certain products.

Transcontinental also relies upon unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain its competitive position. There can be no assurance that its confidentiality agreements will not be breached or will provide meaningful protection for its trade secrets or proprietary know-how and adequate remedies in the event of an unauthorized use or disclosure of these trade secrets and know-how. In addition, there can be no assurance that others will not obtain knowledge of these trade secrets through independent development or other access by legal means.

In addition, its patents, trademarks and other intellectual property rights may not provide Transcontinental a competitive advantage. It may need to spend significant resources monitoring its intellectual property rights. Its competitive position may be harmed if it cannot detect infringement and enforce its intellectual property rights quickly or at all. Competitors might avoid infringement by designing around its intellectual property rights or by developing non-infringing competing technologies. Intellectual property rights and its ability to enforce them may be unavailable or limited in some countries which could make it easier for competitors to capture market share and could result in lost revenues.

SUBSEQUENT EVENTS

Acquisition of Coveris Americas, issuance of shares and new financing

On April 2, 2018, the Corporation announced that it had entered into a Securities Purchase Agreement (the "SPA") with Coveris Holdings S.A. ("CHSA") in connection with the acquisition (the "Acquisition") by the Corporation of all of CHSA'S net investment in Coveris Americas (the "Coveris Americas Net Investment") of the entities comprising the business of Coveris Americas. Headquartered in Chicago, Coveris Americas manufactures a variety of flexible plastic and paper products, including rollstock, bags and pouches, coextruded films, shrink films, coated substrates and labels.

The Acquisition, subject to certain usual closing conditions, in particular obtaining the approval of antitrust authorities, closed on May 1, 2018 (the "Acquisition date").

The purchase consideration is $1,697.0 million (US$1,320.0 million), subject to customary adjustments for working capital and the bearing of certain liabilities at Acquisition date, for a net purchase consideration of $1,567.0 million (US$1,219.0). At Acquisition date, the Corporation financed the purchase price on the Acquisition as well as the acquisition costs out of a combination of 1) cash on hand for an amount of $290.0 million, 2) an amount drawn from Existing Credit Facilities of approximately $167.0 million; 3) an amount drawn from New Credit Facilities of approximately $964.0 million (US$750.0 million); 4) and the net proceeds of a bought deal public offering of subscription receipts for an amount of $276.0 million.

Amounts drawn on the New Credit Facilities bear interest at the US base rate or LIBOR, plus an applicable margin ranging from 0.70% to 1.70%, payable biannually, and are reimbursable over periods from 30 to 60 months.

Existing Credit Facilities, due in February 2023, bear interest at a rate based on the credit rating assigned to the Corporation. According to the current credit rating, it is either the banker’s acceptance rate or the LIBOR, plus 1.675%, or the Canadian prime rate or U.S. base rate, plus 0.675%.

As at April 29, 2018, net proceeds from the issuance of subscription receipts were held in escrow by a subscription receipt agent pending the fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition. As the funds were not directly received by the Corporation, they are not presented in the consolidated statement of cash flows. The restricted account is included in “Restricted cash” and disclosed in the Company’s consolidated statement of financial position, with a corresponding “Liabilities for subscription receipts”. The restricted funds and the liabilities for subscription receipts can be reconciled as follows:

	As at April 29, 2018
Subscription receipts (number outstanding) (1)	10,810,000
Price per subscription receipt (in $)	$ 26.60
Liabilities for subscription receipts	$ 287.5
Less: Issuance costs	(5.8)
Restricted cash	$ 281.7

(1) Including the overallotment option of 1,410,000 subscription receipts.

Issuance costs of $5.8 million, representing 50% of amounts to be paid to Underwriters are presented in Prepaid expenses as at April 29, 2018 and will be recorded as a reduction of Share capital upon issuance of Class A Subordinate Voting Shares. Remaining amount due to Underwriters, excluding other issuance costs estimated at $1.0 million, was paid on May 1, 2018 at the conversion of Subscription receipts upon closing of the Acquisition, each subscription receipt having entitled the holder to automatically receive, without payment of additional consideration, one Class A Subordinate Voting Share of the Corporation.

In accordance with IFRS 3 "Business Combinations" ("IFRS 3"), if the date of acquisition of a business combination is after the end of the reporting period but before the financial statements are issued, the Corporation shall disclose the information required under IFRS 3, unless the initial accounting for the business combination is incomplete at the time the financial statements are issued. Due to the very limited time between the closing of the Acquisition and the issuance of these interim condensed consolidated financial statements, certain required information on business combinations under IFRS 3, mainly the preliminary purchase price allocation, have not been provided as this information is not yet available. The Corporation is in the process of assessing the fair values of the assets acquired and the liabilities assumed.

During the three-month period ended April 29, 2018, the Corporation entered into several foreign exchange contracts to hedge the foreign exchange exposure of the transaction, aiming at purchases of approximately US$477.5 million. Because these contracts did not qualify for hedge accounting, remeasurement to fair value as at April 29, 2018 was recorded in Net financial expenses.

During the three-month and six-month periods ended April 29, 2018, acquisition costs of $5.0 million and $5.2 million, respectively, were recorded in Restructuring and other costs (gains). Total acquisition costs are estimated at $13.0 million.

OUTLOOK FOR 2018

In the printing division, we expect revenues from our service offering to Canadian retailers to remain relatively stable in fiscal 2018 compared to the same period in 2017, considering the already announced renewal of our multi-year agreement with the Loblaw Companies Limited. This agreement includes the full range of our retailer-related services as well as additional volume for in-store marketing product printing, premedia services and commercial printing. In all the other printing verticals, we expect that our revenues will continue to be affected by a decline in volume caused by the same trends in the advertising market. We also stopped printing the *San Francisco Chronicle* as of April pursuant to the agreement signed with Hearst in December 2017. Therefore, we will no longer have the accelerated recognition of deferred revenues and consequently the net effect of this agreement on revenues will be a decrease of approximately $25 million and the net effect on operating earnings will be a decline of approximately $7 million in the second half of this fiscal year compared to the same period in 2017, substantially all of which will have no impact on cash flows. Lastly, to partially offset the decline in volume, we will continue with our operational efficiency initiatives and will benefit from the closure of a plant located in Montréal, which occurred at the end of the first quarter of 2018.

In our packaging division, our acquisitions, in particular Coveris Americas, Multifilm Packaging and Les Industries Flexipak, will contribute to the fiscal 2018 results. During the second half of the fiscal year, we will proceed with the integration of Coveris Americas and start achieving the anticipated synergies. We also rely on our sales force to continue developing our sales funnel and we expect other sales to materialize in order to achieve organic sales growth similar to 2017 for our pre-Coveris Americas acquisition portfolio. We expect Coveris Americas' revenues to be similar to those in 2017. We intend to report the financial data of the packaging division separately from those of the printing division as of the third quarter of 2018.

In the Media Sector, we expect revenues from our activities in the Business and Education niche to remain stable. Furthermore, as our entire Québec local newspaper portfolio has been sold, we plan to continue adjusting our cost structure accordingly.

To conclude, we expect to continue generating significant cash flows from all our operating activities, which should enable us to reduce our net indebtedness.

On behalf of Management,

(s) Nelson Gentiletti
Chief Financial and Development Officer

June 7, 2018

CONSOLIDATED STATEMENTS OF EARNINGS

Unaudited

(in millions of Canadian dollars, unless otherwise indicated and per share data)	Notes	Three months ended April 29, 2018	Three months ended April 30, 2017 (1)	Six months ended April 29, 2018	Six months ended April 30, 2017 (1)
Revenues	18	**$ 534.7**	$ 498.7	**$ 1,036.4**	$ 1,002.3
Operating expenses	5	**382.7**	408.6	**753.6**	824.3
Restructuring and other costs (gains)	6 & 19	**11.6**	(5.4)	**(14.3)**	(7.7)
Impairment of assets	7	**1.7**	1.3	**3.7**	2.5
Operating earnings before depreciation and amortization		**138.7**	94.2	**293.4**	183.2
Depreciation and amortization	8 & 18	**39.7**	26.4	**70.9**	53.0
Operating earnings		**99.0**	67.8	**222.5**	130.2
Net financial expenses	9	**3.4**	4.4	**6.0**	9.5
Earnings before share of net earnings in interests in joint ventures and income taxes		**95.6**	63.4	**216.5**	120.7
Share of net earnings in interests in joint ventures, net of related taxes		**—**	0.1	**0.1**	—
Income taxes	10	**26.7**	17.1	**89.5**	31.6
Net earnings		**$ 68.9**	$ 46.4	**$ 127.1**	$ 89.1
Net earnings per share - basic		**$ 0.89**	$ 0.60	**$ 1.64**	$ 1.15
Net earnings per share - diluted		**$ 0.89**	$ 0.60	**$ 1.64**	$ 1.15
Weighted average number of shares outstanding - basic (in millions)	14	**77.1**	77.4	**77.3**	77.3
Weighted average number of shares - diluted (in millions)	14	**77.2**	77.6	**77.4**	77.5

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

(in millions of Canadian dollars)	Notes	Three months ended April 29, 2018	Three months ended April 30, 2017	Six months ended April 29, 2018	Six months ended April 30, 2017
Net earnings		**$ 68.9**	$ 46.4	**$ 127.1**	$ 89.1
Other comprehensive income (loss)					
Items that will be reclassified to net earnings					
Net change related to cash flow hedges					
Net change in the fair value of derivatives designated as cash flow hedges		**(1.4)**	(2.3)	**—**	(0.9)
Reclassification of the net change in the fair value of derivatives designated as cash flow hedges in prior periods, recognized in net earnings during the period		**(0.4)**	0.4	**(1.1)**	0.8
Related income taxes		**(0.5)**	(0.5)	**(0.3)**	—
		(1.3)	(1.4)	**(0.8)**	(0.1)
Cumulative translation differences					
Net unrealized exchange losses on the translation of the financial statements of foreign operations		**22.8**	19.7	**(0.6)**	10.3
Net change in the fair value of derivatives designated as hedges of net investments in foreign operations		**(1.1)**	(2.2)	**0.4**	(1.0)
Related income taxes		**(0.3)**	(0.6)	**0.1**	(0.3)
		22.0	18.1	**(0.3)**	9.6
Items that will not be reclassified to net earnings					
Changes in actuarial gains and losses in respect of defined benefit plans					
Actuarial gains in respect of defined benefit plans	16	**(5.3)**	(1.2)	**0.1**	18.6
Related income taxes		**(1.4)**	(0.4)	**0.3**	5.0
		(3.9)	(0.8)	**(0.2)**	13.6
Other comprehensive income (loss)	16	**16.8**	15.9	**(1.3)**	23.1
Comprehensive income		**$ 85.7**	$ 62.3	**$ 125.8**	$ 112.2

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

(in millions of Canadian dollars)	Notes	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensiv income (loss)	Total equity
Balance as at October 29, 2017		**$ 371.6**	**$ 1.1**	**$ 851.5**	**$ (5.5)**	**$ 1,218.7**
Net earnings		**—**	**—**	**127.1**	**—**	**127.1**
Other comprehensive loss		**—**	**—**	**—**	**(1.3)**	**(1.3)**
Shareholders' contributions and distributions to shareholders						
Share redemptions	13	**(2.9)**	**—**	**(10.0)**	**—**	**(12.9)**
Dividends	13	**—**	**—**	**(31.7)**	**—**	**(31.7)**
Balance as at April 29, 2018		**$ 368.7**	**$ 1.1**	**$ 936.9**	**$ (6.8)**	**$ 1,299.9**
Balance as at October 31, 2016		$ 361.9	$ 3.2	$ 700.9	$ 2.7	$ 1,068.7
Net earnings		—	—	89.1	—	89.1
Other comprehensive income		—	—	—	23.1	23.1
Shareholders' contributions and distributions to shareholders						
Exercise of stock options	13	6.7	(1.3)	—	—	5.4
Dividends	13	—	—	(29.8)	—	(29.8)
Balance as at April 30, 2017		$ 368.6	$ 1.9	$ 760.2	$ 25.8	$ 1,156.5

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(in millions of Canadian dollars)	Notes	**As at April 29, 2018**	As at October 29, 2017
Current assets			
Cash		**$ 298.1**	$ 247.1
Restricted cash	19	**281.7**	—
Accounts receivable		**333.1**	380.6
Income taxes receivable		**17.9**	17.2
Inventories		**130.0**	116.9
Prepaid expenses and other current assets	19	**23.4**	18.4
		1,084.2	780.2
Property, plant and equipment and investment properties		**466.1**	500.8
Intangible assets		**183.3**	171.1
Goodwill		**540.7**	505.0
Investments in joint ventures		**—**	2.3
Deferred taxes		**65.7**	139.0
Other assets		**34.8**	38.3
		$ 2,374.8	$ 2,136.7
Current liabilities			
Accounts payable and accrued liabilities		**$ 250.7**	$ 304.7
Liabilities for subscription receipts	19	**287.5**	—
Provisions	12	**4.0**	6.4
Income taxes payable		**4.5**	9.5
Deferred revenues and deposits	18	**19.9**	44.7
Current portion of long-term debt	11	**50.0**	—
		616.6	365.3
Long-term debt	11	**298.4**	348.3
Deferred taxes	10	**47.9**	44.1
Provisions	12	**2.2**	1.3
Other liabilities	18	**109.8**	159.0
		1,074.9	918.0
Equity			
Share capital	13	**368.7**	371.6
Contributed surplus		**1.1**	1.1
Retained earnings		**936.9**	851.5
Accumulated other comprehensive income (loss)	16	**(6.8)**	(5.5)
		1,299.9	1,218.7
		$ 2,374.8	$ 2,136.7

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(in millions of Canadian dollars)	Notes	Three months ended April 29, 2018	Three months ended April 30, 2017 [1]	Six months ended April 29, 2018	Six months ended April 30, 2017 [1]
Operating activities					
Net earnings		**$ 68.9**	$ 46.4	**$ 127.1**	$ 89.1
Adjustments to reconcile net earnings and cash flows from operating activities:					
Impairment of assets	7	**1.7**	1.3	**3.7**	2.5
Depreciation and amortization	8	**45.7**	32.5	**83.5**	65.5
Financial expenses on long-term debt	9	**4.4**	4.3	**8.8**	8.7
Net losses (gains) on disposal of assets		**(4.7)**	0.2	**(4.2)**	(2.8)
Net gains on business disposals	4 & 6	**(2.0)**	(8.8)	**(35.2)**	(10.4)
Income taxes	10	**26.7**	17.1	**89.5**	31.6
Net foreign exchange differences and other		**10.0**	(0.1)	**11.1**	1.8
Cash flows generated by operating activities before changes in non-cash operating items and income taxes paid		**150.7**	92.9	**284.3**	186.0
Changes in non-cash operating items [2]		**(77.9)**	(14.0)	**(109.2)**	(14.5)
Income taxes paid		**(16.7)**	(20.2)	**(29.0)**	(31.8)
Cash flows from operating activities		**56.1**	58.7	**146.1**	139.7
Investing activities					
Business combinations, net of acquired cash	4	**(43.4)**	(7.8)	**(54.8)**	(16.0)
Business disposals	4	**2.3**	25.1	**32.6**	25.2
Acquisitions of property, plant and equipment		**(9.0)**	(6.3)	**(18.1)**	(16.8)
Disposals of property, plant and equipment		**20.5**	0.3	**20.6**	7.0
Increase in intangible assets		**(4.2)**	(6.1)	**(7.9)**	(10.2)
Dividends received from equity investments		**—**	—	**3.4**	—
Cash flows from investing activities		**(33.8)**	5.2	**(24.2)**	(10.8)
Financing activities					
Reimbursement of long-term debt		**(15.2)**	(0.1)	**(18.9)**	(0.2)
Financial expenses on long-term debt		**(2.7)**	(2.7)	**(8.2)**	(8.2)
Exercise of stock options	13	**—**	0.2	**—**	5.4
Dividends	13	**(16.2)**	(15.5)	**(31.7)**	(29.8)
Share redemptions	13	**(6.0)**	—	**(12.9)**	—
Cash flows from financing activities		**(40.1)**	(18.1)	**(71.7)**	(32.8)
Effect of exchange rate changes on cash denominated in foreign currencies		**2.2**	0.6	**0.8**	0.6
Net change in cash		**(15.6)**	46.4	**51.0**	96.7
Cash at beginning of period		**313.7**	67.0	**247.1**	16.7
Cash at end of period		**$ 298.1**	$ 113.4	**$ 298.1**	$ 113.4
Non-cash investing activities					
Net change in capital asset acquisitions financed by accounts payable		**$ —**	$ (1.4)	**$ (0.4)**	$ (1.4)

[1] Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

[2] Includes the accelerated recognition of deferred revenues balance as at October 29, 2017 as part of the transaction with Hearst for the three and six-month periods ended April 29, 2018, respectively (note 18).

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

1 GENERAL INFORMATION

Transcontinental Inc. (the "Corporation") is incorporated under the Canada Business Corporations Act. Its Class A Subordinate Voting Shares and Class B Shares are traded on the Toronto Stock Exchange. The Corporation's head office is located at 1 Place Ville Marie, Suite 3240, Montreal, Quebec, Canada H3B 0G1.

The Corporation is Canada's largest printer and a key supplier of flexible packaging in North America. The Corporation is also a leader in its specialty media segments. The Corporation conducts business in Canada and the United States in two separate sectors: the Printing and Packaging Sector and the Media Sector. The Corporation's main activities are described in Note 3 "Segmented Information".

The Corporation changed its fiscal year end date from a calendar year end to a floating year end, thus the end of the quarter will always be the last Sunday of the month. This change was effective at the beginning of the previous fiscal year.

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

The Corporation's Board of Directors approved these condensed interim consolidated financial statements on June 7, 2018.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation
These interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). In particular, these interim consolidated financial statements were prepared in accordance with IAS 34 "Interim Financial Reporting", and therefore, are condensed consolidated financial statements since they do not contain all disclosures required by IFRS for annual consolidated financial statements. These condensed interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended October 29, 2017, which include the significant accounting policies used by the Corporation.

The accounting policies adopted in these condensed interim consolidated financial statements are based on IFRS issued, in force and which were adopted by the Corporation as at April 29, 2018. Any subsequent changes to the accounting policies, that will take effect in the Corporation's annual consolidated financial statements for the year ending October 28, 2018 or after, could result in a retrospective restatement of these condensed interim consolidated financial statements.

New accounting policy
Investment properties owned by the Corporation and which it does not primarily occupy for its own use are held to earn rental income or capital appreciation. Investment properties are initially recorded at the transaction price plus transaction costs upon acquisition, or at previous amortized cost in the case of buildings transferred from Property, plant and equipment. These properties are subsequently valued at amortized cost. Investment properties are depreciated on a straight-line basis over a period of 20 to 40 years. Rental income is recognized in the Statement of Earnings linearly according to the term of the lease, and operating expenses of properties are recorded in Operating expenses.

New or amended accounting standards not yet adopted

- **Revenue from Contracts with Customers**
  In May, 2014 the IASB issued IFRS 15 "Revenue from Contracts with Customers". IFRS 15 will replace IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations.

  The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to depict the transfer of promised goods or services to customers.

  Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

  IFRS 15 will be applicable to the Corporation for the annual period beginning on October 29, 2018, with earlier application permitted.

  The analysis of this standard requires the Corporation to compile historical data for all of its contracts. Accordingly, the Corporation devotes the time and effort necessary to develop and implement the accounting policies, estimates, judgments and accounting processes (including incremental requirements of information technology systems) needed to have in place in order to comply with this standard.

  At this time, the Corporation is performing a detailed impact assessment that this standard and its amendments will have on its consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to what is disclosed in the Corporation's annual consolidated financial statements for the year ended October 29, 2017, new accounting standards or interpretation were published and not adopted.

- **Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**
  On February 7, 2018, the IASB issued "Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)". The amendments apply for plan amendments, curtailments or settlements that will occur during annual periods beginning on or after January 1, 2019, or the date on which they are first applied. Early adoption is permitted. The amendments to IAS 19 clarify that:
  - on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
  - the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan.

  The Corporation intends to adopt the amendments to IAS 19 in its financial statements for the annual period beginning on November 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

- **IFRIC 23 Uncertainty over Income Tax Treatments**
  On June 7, 2017, the IASB issued IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires:
  - an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
  - an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
  - if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

  The Corporation intends to adopt the Interpretation in its financial statements for the annual period beginning on November 1, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

3 SEGMENTED INFORMATION

The operating segments were determined and grouped by management in two separate sectors, according to the type of activity, which are manufacturing and publishing activities. The Printing and Packaging Sector includes the manufacturing activities of the Corporation and generates revenues from activities such as the printing of retail flyers, magazines, newspapers, color books, personalized and mass marketing products, premedia and geotargeted door-to-door distribution services and the production of flexible packaging solutions in Canada and the United States. The Media Sector generates revenues through print and digital publishing products, in French and English, of the following type: newspapers, educational books and specialized publications for professionals. Inter-segment sales of the Corporation are recognized at agreed transfer price, which approximates fair value. Transactions other than sales are recognized at carrying amount.

The following tables present the various segment components of the Consolidated Statements of Earnings:

For the three-month period ended April 29, 2018	Printing and Packaging Sector	Media Sector	Head office and inter-segment eliminations	Consolidated Results
Revenues	**$ 514.1**	**$ 24.8**	**$ (4.2)**	**$ 534.7**
Operating expenses	**354.6**	**25.4**	**2.7**	**382.7**
Restructuring and other costs	**3.1**	**7.8**	**0.7**	**11.6**
Impairment of assets	**0.4**	**1.3**	**—**	**1.7**
Operating earnings before depreciation and amortization	**156.0**	**(9.7)**	**(7.6)**	**138.7**
Depreciation and amortization	**36.9**	**1.1**	**1.7**	**39.7**
Operating earnings	**$ 119.1**	**$ (10.8)**	**$ (9.3)**	**$ 99.0**
Adjusted operating earnings before depreciation and amortization (1)	**$ 97.2**	**$ (0.6)**	**$ (6.9)**	**$ 89.7**
Adjusted operating earnings (1)	**76.0**	**(1.7)**	**(8.6)**	**65.7**
Acquisitions of non-current assets (2)	**$ 8.7**	**$ 3.5**	**$ 1.0**	**$ 13.2**

For the three-month period ended April 30, 2017	Printing and Packaging Sector	Media Sector (3)	Head office and inter-segment eliminations	Consolidated Results (3)
Revenues	$ 449.5	$ 59.0	$ (9.8)	$ 498.7
Operating expenses	351.3	58.3	(1.0)	408.6
Restructuring and other costs (gains)	1.6	(7.3)	0.3	(5.4)
Impairment of assets	—	1.3	—	1.3
Operating earnings before depreciation and amortization	96.6	6.7	(9.1)	94.2
Depreciation and amortization	22.5	2.1	1.8	26.4
Operating earnings	$ 74.1	$ 4.6	$ (10.9)	$ 67.8
Adjusted operating earnings before depreciation and amortization (1)	$ 98.2	$ 0.7	$ (8.8)	$ 90.1
Adjusted operating earnings (1)	75.7	(1.4)	(10.6)	63.7
Acquisitions of non-current assets (2)	$ 5.9	$ 3.5	$ 1.6	$ 11.0

3 SEGMENTED INFORMATION (CONTINUED)

For the six-month period ended April 29, 2018	Printing and Packaging Sector	Media Sector	Head office and inter-segment eliminations	Consolidated Results
Revenues	**$ 990.1**	**$ 54.4**	**$ (8.1)**	**$ 1,036.4**
Operating expenses	**701.8**	**52.3**	**(0.5)**	**753.6**
Restructuring and other costs (gains)	**5.9**	**(7.2)**	**(13.0)**	**(14.3)**
Impairment of assets	**0.6**	**3.1**	**—**	**3.7**
Operating earnings before depreciation and amortization	**281.8**	**6.2**	**5.4**	**293.4**
Depreciation and amortization	**65.4**	**2.2**	**3.3**	**70.9**
Operating earnings	**$ 216.4**	**$ 4.0**	**$ 2.1**	**$ 222.5**
Adjusted operating earnings before depreciation and amortization [(1)]	**$ 186.2**	**$ 2.1**	**$ (7.6)**	**$ 180.7**
Adjusted operating earnings [(1)]	**142.8**	**(0.1)**	**(10.9)**	**131.8**
Acquisitions of non-current assets [(2)]	**$ 17.4**	**$ 6.5**	**$ 1.6**	**$ 25.5**

For the six-month period ended April 30, 2017	Printing and Packaging Sector	Media Sector [(3)]	Head office and inter-segment eliminations	Consolidated Results [(3)]
Revenues	$ 899.6	$ 122.1	$ (19.4)	$ 1,002.3
Operating expenses	707.6	120.7	(4.0)	824.3
Restructuring and other costs (gains)	2.8	(8.4)	(2.1)	(7.7)
Impairment of assets	0.1	2.4	—	2.5
Operating earnings before depreciation and amortization	189.1	7.4	(13.3)	183.2
Depreciation and amortization	45.3	4.1	3.6	53.0
Operating earnings	$ 143.8	$ 3.3	$ (16.9)	$ 130.2
Adjusted operating earnings before depreciation and amortization [(1)]	$ 192.0	$ 1.4	$ (15.4)	$ 178.0
Adjusted operating earnings [(1)]	146.7	(2.7)	(19.0)	125.0
Acquisitions of non-current assets [(2)]	$ 16.4	$ 6.6	$ 2.6	$ 25.6

[(1)] The Corporation's officers mainly make decisions and assess segment performance based on adjusted operating earnings. Adjusted operating earnings before depreciation and amortization and adjusted operating earnings exclude restructuring and other costs (gains), and impairment of assets, as well as the accelerated recognition of deferred revenues and accelerated depreciation of equipments (only for adjusted operating earnings as it relates to accelerated depreciation of equipments) as part of the new agreement with Hearst signed in December 2017 (Note 18).

[(2)] These amounts include internally generated intangible assets, acquisitions of property, plant and equipment and intangible assets, excluding those acquired as part of business combinations, whether they were paid or not.

[(3)] Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

3 SEGMENTED INFORMATION (CONTINUED)

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

	Three months ended		Six months ended	
	April 29, 2018	April 30, 2017	**April 29, 2018**	April 30, 2017
Printing and packaging products	**$ 461.1**	$ 389.7	**$ 884.5**	780.5
Publishing and content products	**40.6**	73.0	**84.9**	147.2
Other products and services	**33.0**	36.0	**67.0**	74.6
	$ 534.7 $	$ 498.7	**$ 1,036.4**	1,002.3

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

	As at April 29, 2018	As at October 29, 2017 (1)
Printing and packaging Sector	**$ 1,627.2**	$ 1,688.4
Media Sector	**128.3**	155.8
Head office and inter-segment eliminations (2)	**619.3**	292.5
	$ 2,374.8	$ 2,136.7

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

(2) This heading includes mainly cash, income taxes receivable, property, plant and equipment, intangible assets, deferred taxes and defined benefit asset not allocated to segments.

4 BUSINESS COMBINATIONS AND DISPOSITIONS

Business combinations

- **Flexipak**
  On October 31, 2017, the Corporation acquired all the shares of Les Industries Flexipak Inc. ("Flexipak"), a flexible packaging supplier located in Montréal, Quebec, for a purchase price of $11.1 million, subject to adjustments and including a contingent cash consideration of $0.2 million payable following the achievement of pre-established financial performance thresholds.This acquisition allows the Corporation to pursue its development in the packaging industry.

  During the three-month period ended April 29, 2018, the Corporation pursued the purchase price allocation of Flexipak and finalized the accounting for this acquisition. Changes in the fair value of assets acquired and liabilities assumed during the three-month period ended April 29, 2018 are negligible and reflected in the table thereafter.

- **Contech**
  On January 9, 2018, the Corporation acquired Contech, a leader in the building industry for training, trade show planning, networking events and competitions for construction professionals in Québec for a purchase price of $0.7 million. This acquisition is a natural fit for the Corporation's offering and strengthens its position as a leader in strategic information for the construction sector in Québec.

- **Multifilm**
  On March 7, 2018, the Corporation acquired Multifilm Packaging Corporation ("Multifilm"), a flexible packaging supplier located in Elgin, in Illinois, for a purchase price of $59.2 million, subject to adjustments and including a contingent cash consideration of $15.1 million payable following the achievement of pre-established financial performance. This acquisition is aligned with the growth strategy for the packaging division.

  The Corporation will finalize the accounting for this acquisition during the next quarters, specifically the assessment of the fair value of assets acquired and liabilities assumed and goodwill related to this acquisition.

4 BUSINESS COMBINATIONS AND DISPOSITIONS (CONTINUED)

Business combinations (Continued)

The following table presents the preliminary value of acquired companies' assets acquired and liabilities assumed at the acquisition date :

	Total [2]	
Assets acquired		
Current assets (including cash of $0.9)	13.7	$
Property, plant and equipment	25.6	
Intangible assets	30.1	
Goodwill (no tax value)	36.0	
	105.4	
Liabilities assumed		
Current liabilities	4.5	
Long-term debt (current portion included) [1]	18.9	
Deferred taxes	10.9	
	34.3	
	71.1	$
Total consideration		
Cash paid	55.8	$
Short-term contingent consideration payable	0.2	
Long-term contingent consideration payable	15.1	
	71.1	$

[1] As at January 28, 2018, total long-term debt of $18.9 million has been repaid by the Corporation.

[2] Including adjustments to the preliminary purchase price allocation made during the three-month period ended April 29, 2018.

The Corporation's Consolidated Statements of Earnings for the three-month and six-month periods ended April 29, 2018 include the operating results of the acquired companies since their acquisition date, including additional revenues of $8.6 million and $11.6 million, respectively, and operating earnings before depreciation and amortization of $1.4 million and $1.9 million, respectively, including adjustments related to the accounting of these acquisitions and excluding negligible transaction costs. The fair value of the receivables acquired of $6.3 million, including a negligible amount which was considered uncollectible at the acquisition date, is included in the current assets in the accounting of these business combinations.

If the Corporation had acquired these companies at the beginning of the six-month period ended April 29, 2018, its operating results for the six-month period ended April 29, 2018 would have been as follows : additional revenues of $13.2 million and operating earnings before depreciation and amortization of $1.4 million.

Business dispositions

- **Sale of local and regional newspapers in Quebec**
  During the six-month period ended April 29, 2018, the Corporation disposed of several groups of local and regional newspapers in the Quebec province, representing a total of 64 newspapers and web-related properties, in exchange for cash consideration and an amount receivable. These sales take place within the context of the sale process of its local and regional newspapers in Quebec and Ontario as announced on April 18, 2017.

- **Sale of CEDROM-SNi**
  On December 20, 2017, the Corporation announced the sale of CEDROM-SNi inc., an equity investment owned at 50% and which was accounted for using the equity method, in exchange for cash consideration and an amount receivable.

5 OPERATING EXPENSES

Operating expenses by major headings are as follows:

	Three months ended		Six months ended	
	April 29, 2018	April 30, 2017	**April 29, 2018**	April 30, 2017
Employee-related costs	**$ 133.2**	$ 152.3	**$ 268.5**	$ 309.8
Supply chain and logistics [1]	**223.3**	224.1	**436.8**	448.9
Other goods and services [2]	**26.2**	32.2	**48.3**	65.6
	$ 382.7	$ 408.6	**$ 753.6**	$ 824.3

[1] "Supply chain and logistics" includes mainly 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.

6 RESTRUCTURING AND OTHER COSTS (GAINS)

Restructuring and other costs (gains) by major headings are as follows:

		Three months ended		Six months ended	
	Note	**April 29, 2018**	April 30, 2017 [1]	**April 29, 2018**	April 30, 2017 [1]
Workforce reductions		**$ 2.5**	$ 3.1	**$ 7.9**	$ 4.9
Losses (Gains) related to the sale of certain activities (note 4) and other [2]		**8.7**	(8.8)	**(24.3)**	(10.4)
Net gains on sale of buildings		**(4.7)**	—	**(5.4)**	(3.8)
Onerous contracts		**—**	—	**2.1**	0.7
Business acquisition costs [3]	19	**5.1**	0.1	**5.4**	0.5
Other costs		**—**	0.2	**—**	0.4
		$ 11.6	$ (5.4)	**$ (14.3) $**	$ (7.7)

[1] Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

[2] Includes an allowance loss of $9.4 million for doubtful loan related to a previous transaction for the three-month and six-month periods ended April 29, 2018.

[3] Business acquisition costs include transaction costs, primarily legal fees and other professional fees, for potential or realized business combinations.

7 IMPAIRMENT OF ASSETS

Impairment of assets by major headings is as follows:

	Three months ended		Six months ended	
	April 29, 2018	April 30, 2017 (1)	**April 29, 2018**	April 30, 2017 (1)
Property, plant and equipment and investment properties	**$ 0.1**	$ —	**$ 0.3**	$ 1.2
Intangible assets	**1.6**	1.3	**3.4**	1.3
	$ 1.7	$ 1.3	**$ 3.7**	$ 2.5

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

During the three-month and six-month periods ended April 29, 2018, the Corporation recognized an amount of $1.6 million and $3.4 million as an impairment charge, respectively (1.3 million for three-month and six-month periods ended April 30, 2017), mainly due to costs relating to technology projects in the Media Sector for the portion following the sale of its Quebec local and regional newspapers (Note 4).

8 DEPRECIATION AND AMORTIZATION

Depreciation and amortization by major headings is as follows:

	Three months ended		Six months ended	
	April 29, 2018	April 30, 2017	**April 29, 2018**	April 30, 2017
Property, plant and equipment and investment properties	**$ 33.2**	$ 19.5	**$ 58.6**	$ 39.3
Intangible assets	**6.5**	6.9	**12.3**	13.7
	39.7	26.4	**70.9**	53.0
Intangible assets and other assets, recognized in revenues and operating expenses	**6.0**	6.1	**12.6**	12.5
	$ 45.7	$ 32.5	**$ 83.5**	$ 65.5

9 NET FINANCIAL EXPENSES

Net financial expenses by major headings are as follows:

	Three months ended		Six months ended	
	April 29, 2018	April 30, 2017	**April 29, 2018**	April 30, 2017
Financial expenses on long-term debt	**$ 4.4**	$ 4.3	**$ 8.8**	$ 8.7
Net interest on defined benefit plans asset and liability	**0.4**	0.5	**0.9**	1.0
Other expenses (revenues)	**(1.4)**	0.1	**(2.7)**	0.1
Net foreign exchange losses (gains)	**—**	(0.5)	**(1.0)**	(0.3)
	$ 3.4	$ 4.4	**$ 6.0**	$ 9.5

10 INCOME TAXES

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

	Three months ended		Six months ended	
	April 29, 2018	April 30, 2017 [1]	**April 29, 2018**	April 30, 2017 [1]
Earnings before share of net earnings in interests in joint ventures and income taxes	**$ 95.6**	$ 63.4	**$ 216.5**	$ 120.7
Canadian statutory tax rate [2]	**26.72 %**	26.82 %	**26.72 %**	26.82 %
Income taxes at the statutory tax rate	**25.5**	17.0	**57.8**	32.4
Effect of differences in tax rates in other jurisdictions	**(0.7)**	0.6	**(1.4)**	0.9
Income taxes on non-deductible expenses and non-taxable revenues	**2.0**	(0.6)	**(1.4)**	(1.1)
Change in deferred tax assets on tax losses or temporary differences not previously recognized	**—**	—	**(1.8)**	(0.3)
Impact of the U.S. Tax Act [3]	**—**	—	**36.6**	—
Other	**(0.1)**	0.1	**(0.3)**	(0.3)
Income taxes at effective tax rate	**$ 26.7**	$ 17.1	**$ 89.5**	$ 31.6
Income taxes before the following items:	**$ 29.4**	$ 16.9	**$ 53.1**	$ 31.7
Impact of the U.S. Tax Act [3]	**—**	—	**36.6**	—
Income taxes on restructuring and other costs (gains)	**(2.4)**	0.6	**0.7**	0.6
Income taxes on impairment of assets	**(0.3)**	(0.4)	**(0.9)**	(0.7)
Income taxes at effective tax rate	**$ 26.7**	$ 17.1	**$ 89.5**	$ 31.6

[1] Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

[2] The Corporation's applicable tax rate corresponds to the combined Canadian tax rates applicable in the provinces where the Corporation operates.

[3] On December 22, 2017, a U.S. tax reform (known as "Tax Cuts and Jobs Act" or U.S. Tax Act) was enacted and the Corporation measured its impacts on its earnings. The reform reduces the federal statutory tax rate for U.S. corporations from a progressive tax rate of up to 35% to a fixed rate of 21% effective January 1, 2018. During the six-month period ended April 29, 2018, this decrease reduced deferred tax assets previously recognized by $36.6 million. This deferred tax expense was calculated considering the estimated enacted tax rate upon reversal of temporary differences.

11 LONG-TERM DEBT

Credit facility extension
On December 22, 2017, the Corporation extended the maturity of its credit facility, in the available amount of $400.0 million or the U.S dollar equivalent, for one additional year, to February 2023, on the same terms.

12 PROVISIONS

The following table presents changes in provisions for the six-month period ended April 29, 2018:

	Restructuring costs	Onerous contracts	Other [1]	Total
Balance as at October 29, 2017	$ 4.6	$ 2.5	$ 0.6	$ 7.7
Provisions recorded	8.0	2.0	0.3	10.3
Amounts used	(10.4)	(1.2)	—	(11.6)
Provisions reversed	(0.1)	(0.1)	—	(0.2)
Balance as at April 29, 2018	$ 2.1	$ 3.2	$ 0.9	$ 6.2
Current portion	$ 2.1	$ 1.3	$ 0.6	$ 4.0
Non-current portion	—	1.9	0.3	2.2
	$ 2.1	$ 3.2	$ 0.9	$ 6.2

[1] Other provisions include provisions for asset retirement obligations and provisions related to claims and litigations.

13 SHARE CAPITAL

The following table presents changes in the Corporation's share capital for the six-month period ended April 29, 2018:

	Number of shares	Amount
Class A Subordinate Voting Shares		
Balance as at October 29, 2017	63,567,144	$ 352.6
Conversion of Class B Shares into Class A Subordinate Voting Shares	2,100	—
Shares redeemed and cancelled	(529,610)	(2.9)
Balance as at April 29, 2018	63,039,634	349.7
Class B Shares		
Balance as at October 29, 2017	13,985,526	19.0
Conversion of Class B Shares into Class A Subordinate Voting Shares	(2,100)	—
Balance as at April 29, 2018	13,983,426	19.0
	77,023,060	$ 368.7

Shares redemptions

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 17, 2017 and April 16, 2018, or at an earlier date if the Corporation concludes or cancels the offer, up to 2,000,000 of its Class A Subordinate Voting Shares and up to 442,349 of its Class B Shares. The repurchases are made in the normal course of business at market prices through the Toronto Stock Exchange.

The Corporation had 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, 2016 and April 14, 2017, or at an earlier date if the Corporation concludes or cancels the offer, up to 2,000,000 of its Class A Subordinate Voting Shares and up to 226,344 of its Class B Shares. The repurchases are made in the normal course of business at market prices through the Toronto Stock Exchange.

During the six-month period ended April 29, 2018, the Corporation repurchased and cancelled 529,610 of its Class A Subordinate Voting Shares at a weighted average price of $24.50, for total cash consideration of $12.9 million. The excess of the total consideration paid over the carrying amount of the shares, in the amount of $10.0 million, was applied against retained earnings. The Corporation was under no obligation to repurchase its Class A Subordinate Voting Shares and Class B Shares as at April 29, 2018.

During the six-month period ended April 30, 2017, the Corporation repurchased and cancelled 2,663 of its Class A Subordinate Voting Shares at a weighted average price of $17.48, for a total negligible consideration. The excess of the total consideration paid over the carrying amount of the shares, of a negligible amount, was applied against retained earnings. The Corporation was under no obligation to repurchase its Class A Subordinate Voting Shares and Class B Shares as at April 30, 2017.

13 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 six-month period ended April 29, 2018, no stock options were exercised. For the six-month period ended April 30, 2017, the consideration received was $5.4 million and an amount of $1.3 million was transferred from contributed surplus to share capital.

Dividends
Dividends of $0.21 and $0.20 per share were declared and paid to holders of shares for the three-month periods ended April 29, 2018 and April 30, 2017, respectively. Dividends of $0.410 and $0.385 per share were declared and paid to holders of shares for the six-month periods ended April 29, 2018 and April 30, 2017, respectively.

14 NET EARNINGS PER SHARE

The following table presents a reconciliation of the components used in the calculation of basic and diluted net earnings per share:

	Three months ended		Six months ended	
	April 29, 2018	April 30, 2017	**April 29, 2018**	April 30, 2017
Numerator				
Net earnings	**$ 68.9**	$ 46.4	**$ 127.1**	$ 89.1
Denominator (in millions)				
Weighted average number of shares outstanding - basic	**77.1**	77.4	**77.3**	77.3
Dilutive effect of stock options	**0.1**	0.2	**0.1**	0.2
Weighted average number of shares - diluted	**77.2**	77.6	**77.4**	77.5

As at April 29, 2018 and April 30, 2017, all the stock options are included in the calculation of the diluted net earnings per share due to their potential dilutive effect.

On May 1, 2018, following the completion of the acquisition of Coveris Americas (Note 19), the Corporation issued 10,810,000 Class A Subordinate Voting Shares which are not included in the table above.

15 STOCK-BASED COMPENSATION

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

The following table presents the changes in the plan's status for the six-month period ended April 29, 2018:

	Number of units	
	DSU	RSU
Balance as at October 29, 2017	289,786	957,312
Units granted	18,278	293,880
Units cancelled	(4,129)	(24,522)
Units paid	(5,613)	(353,927)
Units converted	(35)	35
Dividends paid in units	4,661	11,709
Balance as at April 29, 2018	302,948	884,487

15 STOCK-BASED COMPENSATION (CONTINUED)

As at April 29, 2018, the liability related to the share unit plan for certain officers and senior executives was $19.3 million ($25.1 million as at October 29, 2017). The expenses recorded in the Consolidated Statements of Earnings for the three-month and six-month periods ended April 29, 2018 were $3.4 million and $4.1 million, respectively. The expenses recorded in the Consolidated Statements of Earnings for the three-month and six-month periods ended April 30, 2017 were $3.2 million and $8.6 million, respectively. Amounts of $0.2 million and $9.9 million were paid under this plan for the three-month and six-month periods ended April 29, 2018. No amount was paid under this plan for the three-month period ended April 30, 2017. An amount of $7.8 million was paid under this plan for the six-month period ended April 30, 2017.

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 six-month period ended April 29, 2018:

	Number of units
Balance as at October 29, 2017	268,551
Directors' compensation	12,001
Units paid	(55,928)
Dividends paid in units	3,840
Balance as at April 29, 2018	228,464

As at April 29, 2018, the liability related to the share unit plan for directors was $6.5 million ($7.6 million as at October 29, 2017). The expenses recorded in the Consolidated Statements of Earnings for the three-month and six-month periods ended April 29, 2018 were $0.6 million and $0.3 million, respectively. The expense recorded in the Consolidated Statements of Earnings for the three-month and six-month periods ended April 30, 2017 were $0.8 million and $2.6 million, respectively. An amount of $1.5 million was paid under this plan for the three-month and six-month periods ended April 29, 2018. No amount was paid under this plan for the three-month period ended April 30, 2017. An amount of $1.5 million was paid under this plan for the six-month period ended April 30, 2017.

Stock option plan
The Corporation has a stock option plan for the benefit of certain officers and senior executives. Under the plan, each stock option entitles its holder to receive upon exercise one Class A Subordinate Voting Share. The exercise price of each option is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option. The Corporation ceased granting stock options during the year ended October 31, 2014.

For the three-month and six-month periods ended April 29, 2018, as well as for the three-month and six-month periods ended April 30, 2017, stock-based compensation expense was nil.

The following table presents the changes in the plan's status for the six-month period ended April 29, 2018:

	Number of options	Weighted average exercise price
Options outstanding as at April 29, 2018 and October 29, 2017	135,240	$ 11.33
Options exercisable as at April 29, 2018	135,240	$ 11.33

16 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Cash flow hedges	Cumulative translation differences	Actuarial gains and losses related to defined benefit plans	Accumulated other comprehensive income (loss)
Balance as at October 29, 2017	**$ 1.0**	**$ 21.7**	**$ (28.2)**	**$ (5.5)**
Net change in losses, net of income taxes	**(0.8)**	**(0.3)**	**(0.2)**	**(1.3)**
Balance as at April 29, 2018	**$ 0.2**	**$ 21.4**	**$ (28.4)**	**$ (6.8)**
Balance as at October 31, 2016	$ (1.6)	$ 38.7	$ (34.4)	$ 2.7
Net change in gains (losses), net of income taxes	(0.1)	9.6	13.6	23.1
Balance as at April 30, 2017	$ (1.7)	$ 48.3	$ (20.8)	$ 25.8

As at April 29, 2018, the amounts expected to be reclassified to net earnings in future years are as follows:

	2018	2019	Total
Net change in the fair value of derivatives designated as cash flow hedges	$ (0.4)	$ 0.7	$ 0.3
Income taxes	(0.1)	0.2	0.1
	$ (0.3)	$ 0.5	$ 0.2

Actuarial gains (losses) in respect of defined benefit plans
The actuarial gains (losses) in respect of defined benefit plans recognized in other comprehensive income reflect the following items:

	Three months ended		Six months ended	
	April 29, 2018	April 30, 2017	**April 29, 2018**	April 30, 2017
Actuarial gains (losses) on obligation - change in discount rate	**$ 10.3**	$ (31.1)	**$ 10.3**	$ 35.7
Actuarial gains (losses) on plan assets - excluding interest income	**(16.0)**	27.0	**(10.8)**	(12.7)
Effect of the asset ceiling	**0.4**	2.9	**0.6**	(4.4)
	$ (5.3)	$ (1.2)	**$ 0.1**	$ 18.6

Actuarial gains on obligation recognized in Statements of Comprehensive Income for the three-month and six-month periods ended April 29, 2018 are explained by the change in the discount rate, which increased from 3.6 % as at October 29, 2017 and January 28, 2018, to 3.7 % as at April 29, 2018. Actuarial losses on plan assets are due to actual rates of return on assets that were globally lower than expected for the three-month and six-month periods ended April 29, 2018.

Actuarial gains (losses) on obligation recognized in Statements of Comprehensive Income for the three-month and six-month periods ended April 30, 2017 are explained by the change in the discount rate, which increased from 3.3% as at October 31, 2016, to 3.9% as at January 29, 2017 and 3.6% as at April 30, 2017. Actuarial gains (losses) on plan assets are due to actual rate of return on assets that was greater than expected return for the three-month period ended April 30, 2017 and lower than expected return for the six-month period ended April 30, 2017.

17 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value represents the amount that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value estimates are calculated at a specific date taking into consideration assumptions regarding the amounts, the timing of estimated future cash flows and discount rates. Accordingly, due to its approximative and subjective nature, the fair value must not be interpreted as being realizable in an immediate settlement of the financial instruments.

The carrying amount of cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, and liabilities for subscription receipts approximates their fair value due to their short term maturities.

The fair value of long-term debt is determined using the discounted future cash flow method and at discount rates based on market interest rates for identical or similar issuances as determined by management.

The only financial instruments of the Corporation that are measured at fair value on a recurring basis subsequent to their initial recognition are derivative financial instruments, including foreign exchange forward contracts and contingent considerations payable related to business combinations. The fair value of derivative financial instruments is determined using an evaluation of the estimated market value, adjusted for the credit quality of the counterparty. The valuation model of the contingent considerations considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined by considering various scenarios of achievement of pre-established financial performance thresholds, the amount to be paid under each scenario and the probability of each scenario.

The Corporation presents a fair value hierarchy with three levels that reflects the significance of inputs used in determining the fair value assessments. The fair value of financial assets and liabilities classified in these three levels is evaluated 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

The following table presents the fair value and the carrying amount of other financial instruments and derivative financial instruments:

	As at April 29, 2018		As at October 29, 2017	
	Fair value	**Carrying amount**	Fair value	Carrying amount
Foreign exchange forward contracts in assets	**$ 3.4**	**$ 3.4**	$ 5.0	$ 5.0
Restricted cash	**281.7**	**281.7**	—	—
Contingent considerations	**15.3**	**15.3**	—	—
Liabilities for subscription receipts	**287.5**	**287.5**	—	—
Long-term debt	**(355.3)**	**(348.4)**	(359.6)	(348.3)
Foreign exchange forward contracts in liabilities	**(0.2)**	**(0.2)**	(0.1)	(0.1)

These financial instruments are classified in Level 2 of the fair value hierarchy, with the exception of contingent considerations payable with respect to the business combinations which are classified in Level 3. For the six-month period ended April 29, 2018, no financial instruments were transferred between levels 1, 2 and 3.

Sensitivity analysis of the Level 3 financial instruments
As at April 29, 2018, all other things being equal, a 10% increase of pre-established financial performance thresholds of acquired businesses would have resulted in a decrease of $4.9 million in net earnings. A 10% decrease of pre-established financial performance thresholds would have resulted in an increase of $7.2 million in net earnings.

The changes in Level 3 financial instruments are as follows for the six-month period ended:

	April 29, 2018
Balance, beginning of period	**$ —**
Business combinations (Note 4)	**15.3**
Balance, end of period	**$ 15.3**

18 NEW AGREEMENT WITH HEARST

On December 21, 2017, Hearst Corporation ("Hearst") terminated its printing services agreement under which the Corporation printed the San Francisco Chronicle in its Fremont, Californian facility, and a new agreement was signed under which the parties acknowledged the followings:

- the Corporation would continue to offer its printing services until April 1, 2018,
- the Corporation would sell to Hearst certain of its equipments used to print the San Francisco Chronicle,
- the Corporation would lease to Hearst its Fremont facility until 2025, with an option for a three-year renewal period,
- the Corporation would offer transition services to allow Hearst to acquire the necessary skills to operate the Fremont facility until October 31, 2018.

The initial agreement included a payment by Hearst of an amount of $31.9 million as a compensation for early termination of the printing agreement.

During the three-month and six-month periods ended April 29, 2018, the Corporation received a total amount of $13.5 million and 54.7 million relating to the previous agreement and the signing of the new one.

Deferred revenues relating to the printing services agreement, which totaled $95.0 million as at December 21, 2017, to which the termination compensation of 31.9 million was added, were recorded during the three-month and six-month periods ended April 29, 2018 as indicated in the table below, excluding the portion of deferred revenues of $16.5 million allocated to rental income and recognized as revenues over the Fremont lease contract. Due to this transaction, the Corporation reclassified the net book value of its Fremont building and land from a building for own use to an investment property for an amount of $55.3 million.

In addition, the Corporation revised the depreciation schedule and residual value of the printing equipments sold to Hearst under the new agreement, and of printing equipments to be transferred in other plants.

The following table presents the impact of this transaction on the Corporation's operating earnings for the three-month and six-month periods ended April 29, 2018:

	Three months ended	Six months ended
Recognition of deferred revenues		
Recognition for the period, printing services portion	$ 4.4	$ 12.3
Recognition for the period, lease contract portion	0.2	0.2
Accelerated recognition	62.3	102.1
	66.9	114.6
Other revenues		
Transition services and building lease	3.1	4.0
	3.1	4.0
Depreciation of printing equipments sold and to be transferred		
Depreciation for the period	(0.9)	(2.3)
Accelerated depreciation	(15.7)	(22.0)
	(16.6)	(24.3)
Net impact of the transaction on operating earnings	**$ 53.4**	**$ 94.3**

19 SUBSEQUENT EVENTS

Acquisition of Coveris Americas, issuance of shares and new financing

On April 2, 2018, the Corporation announced that it had entered into a Securities Purchase Agreement (the "SPA") with Coveris Holdings S.A. ("CHSA") in connection with the acquisition (the "Acquisition") by the Corporation of all of CHSA'S net investment in Coveris Americas (the "Coveris Americas Net Investment") of the entities comprising the business of Coveris Americas. Headquartered in Chicago, Coveris Americas manufactures a variety of flexible plastic and paper products, including rollstock, bags and pouches, coextruded films, shrink films, coated substrates and labels.

The Acquisition, subject to certain usual closing conditions, in particular obtaining the approval of antitrust authorities, closed on May 1, 2018 (the "Acquisition date").

The purchase consideration is $1,697.0 million (US$1,320.0 million), subject to customary adjustments for working capital and the bearing of certain liabilities at Acquisition date, for a net purchase consideration of $1,567.0 million (US$1,219.0). At Acquisition date, the Corporation financed the purchase price on the Acquisition as well as the acquisition costs out of a combination of 1) cash on hand for an amount of $290.0 million, 2) an amount drawn from Existing Credit Facilities of approximately $167.0 million; 3) an amount drawn from New Credit Facilities of approximately $964.0 million (US$750.0 million); 4) and the net proceeds of a bought deal public offering of subscription receipts for an amount of $276.0 million.

Amounts drawn on the New Credit Facilities bear interest at the US base rate or LIBOR, plus an applicable margin ranging from 0.70% to 1.70%, payable biannually, and are reimbursable over periods from 30 to 60 months.

Existing Credit Facilities, due in February 2023, bear interest at a rate based on the credit rating assigned to the Corporation. According to the current credit rating, it is either the banker's acceptance rate or the LIBOR, plus 1.675%, or the Canadian prime rate or U.S. base rate, plus 0.675%.

As at April 29, 2018, net proceeds from the issuance of subscription receipts were held in escrow by a subscription receipt agent pending the fulfillment or waiver of all other outstanding conditions precedent to closing the Acquisition. As the funds were not directly received by the Corporation, they are not presented in the consolidated statement of cash flows. The restricted account is included in “Restricted cash” and disclosed in the Company's consolidated statement of financial position, with a corresponding “Liabilities for subscription receipts”. The restricted funds and the liabilities for subscription receipts can be reconciled as follows:

	As at April 29, 2018
Subscription receipts (number outstanding) [(1)]	10,810,000
Price per subscription receipt (in $)	$ 26.60
Liabilities for subscription receipts	$ 287.5
Less: Issuance costs	(5.8)
Restricted cash	$ 281.7

[(1)] Including the overallotment option of 1,410,000 subscription receipts.

Issuance costs of $5.8 million, representing 50% of amounts to be paid to Underwriters are presented in Prepaid expenses as at April 29, 2018 and will be recorded as a reduction of Share capital upon issuance of Class A Subordinate Voting Shares. Remaining amount due to Underwriters, excluding other issuance costs estimated at $1.0 million, was paid on May 1, 2018 at the conversion of Subscription receipts upon closing of the Acquisition, each subscription receipt having entitled the holder to automatically receive, without payment of additional consideration, one Class A Subordinate Voting Share of the Corporation.

In accordance with IFRS 3 "Business Combinations" (“IFRS 3”), if the date of acquisition of a business combination is after the end of the reporting period but before the financial statements are issued, the Corporation shall disclose the information required under IFRS 3, unless the initial accounting for the business combination is incomplete at the time the financial statements are issued. Due to the very limited time between the closing of the Acquisition and the issuance of these interim condensed consolidated financial statements, certain required information on business combinations under IFRS 3, mainly the preliminary purchase price allocation, have not been provided as this information is not yet available. The Corporation is in the process of assessing the fair values of the assets acquired and the liabilities assumed.

During the three-month period ended April 29, 2018, the Corporation entered into several foreign exchange contracts to hedge the foreign exchange exposure of the transaction, aiming at purchases of approximately US$477.5 million. Because these contracts did not qualify for hedge accounting, remeasurement to fair value as at April 29, 2018 was recorded in Net financial expenses.

During the three-month and six-month periods ended April 29, 2018, acquisition costs of $5.0 million and $5.2 million, respectively, were recorded in Restructuring and other costs (gains). Total acquisition costs are estimated at $13.0 million.