transcontinental

PRESS RELEASE

For Immediate Release

TRANSCONTINENTAL'S BEST OPERATING PERFORMANCE IN ITS HISTORY IN 2010

In the fourth quarter 2010

- Growth of 3.8% in adjusted operating income, from $85.0 million to $88.2 million, and organic growth of 7.3%.
- Growth in adjusted operating income margin, from 14.9% to 15.5%.
- Growth in net income applicable to participating shares, from $43.1 million to $44.5 million; on a per-participating-share basis, from $0.53 to $0.55.
- Growth of 20.0% in adjusted net income applicable to participating shares, from $52.4 million to $62.9 million; on a per-share basis, increase of 12 cents, from $0.65 to $0.77.
- Positive organic growth in revenues of 1.3%.

For fiscal 2010

- Growth of 16.3% in adjusted operating income, from $217.1 million to $252.5 million, and organic growth of 14.9%.
- Growth in adjusted operating income margin, from 10.0% in 2009 to 12.1% in 2010.
- Remarkable growth in net income applicable to participating shares, from a loss of $82.3 million to income of $166.6 million; on a per-participating-share basis, increase from a loss of $1.02 to earnings of $2.06.
- Growth of 18.7% in adjusted net income applicable to participating shares, from $133.5 million to $158.5 million; on a per-share basis, increase of 31 cents, from $1.65 to $1.96.
- Positive organic growth in revenues of 1.2% compared to 2009 and decrease of 3.6% in consolidated revenues, mainly due to divestitures or closures of plants and publications, and the exchange rate and paper effects.
- Increase of 12.5% in the dividend on participating shares in the first quarter of 2010, followed by an increase of 22.2% on December 8, 2010, which raised the annual dividend from $0.32 to $0.44.
- In October started printing *The Globe and Mail* under a new 18-year contract worth $1.7 billion, including $25 million in new business per year.
- Acquisitions of LIPSO, a leading Montreal-based provider of integrated mobile solutions in Canada, and Toronto-based Vortex Mobile (one day after the fiscal year end) a provider of mobile marketing solutions to build consumer loyalty.

- **Total revenues for digital operations in the Media Sector amounted to $36.8 million in 2010, up 33.8% over 2009, and launch of a digital advertising representation house for magazine advertisers.**
- **Launch or acquisition of six community newspapers and their websites, bringing to 175 the number of newspapers Transcontinental owns in Canada.**
- **Ratio of net indebtedness (including use of the securitization program) to adjusted operating income before amortization of 1.82 as at October 31, 2010, versus 2.59 as at October 31, 2009.**

Montreal, December 8, 2010 – Transcontinental increased its profitability in the fourth quarter compared to a solid fourth quarter in 2009 and, for fiscal 2010 as a whole, had the best operating performance in its history. This brings to six the number of consecutive quarters in which the Corporation has improved its operating income, excluding unusual items, year over year; it also achieved positive organic growth in revenues and profits on an annual basis. We note the good performance of the Printing Sector and of the Media Sector, which increased its digital sales by more than 30%. Revenues for the new Interactive Sector have grown over the past three quarters and it has become the Canadian leader in several strategic segments, including email marketing, e-flyers and mobile applications.

"I am very proud of our results for the fourth quarter and all of fiscal 2010, as they clearly show that we have the strategy, the disciplined management, the financial foundation and the people we need to continue our growth," said François Olivier, President and Chief Executive Officer of Transcontinental. "In the past year we have strengthened our core business and invested in new services that meet the emerging needs of our customers, while also improving synergies and generating greater profitability.

"I am very optimistic about the future," Mr. Olivier said. "Having started printing *The Globe and Mail* on our new Canada-wide network of hybrid presses in October, the three major capital projects in which we have invested some $700 million since 2007 are now fully operational. This will lead to significant cash inflows in 2011 and thereafter. We will use this to further reduce our debt levels and continue investing in the development of new digital and interactive marketing services."

The Corporation further improved its financial position with a ratio of net debt (including use of the securitization program) to adjusted operating income before amortization of 1.82 as at October 31, 2010 compared to 2.59 as at October 31, 2009. Management's objective is to continue to reduce this ratio and to maintain it at about 1.50.

Financial Highlights

In the fourth quarter ended October 31, 2010, Transcontinental's consolidated revenues were stable at $570 million despite a strong fourth quarter in 2009, with organic growth of 1.3%. Adjusted operating income was up 3.8%, from $85.0 million to $88.2 million, with organic growth of 7.3%.

Net income applicable to participating shares rose from $43.1 million in 2009 to $44.5 million in 2010; on a per-participating-share basis, it increased from $0.53 to $0.55. Adjusted net income applicable to

participating shares, which excludes unusual items, was up 20.0%, from $52.4 million to $62.9 million; on a per-participating-share basis, it increased 12 cents, from $0.65 to $0.77.

For the 12-month period ended October 31, 2010, the Corporation reported organic growth in revenues of 1.2%. This growth stems from new printing contracts and a recovery in advertising spending in its newspapers and magazines. Consolidated revenues were down 3.6%, from $2.2 billion to $2.1 billion, mainly due to divestitures or closures of plants and publications, the impact of the exchange rate and the paper effect.

Adjusted operating income was up 16.3%, from $217.1 million to $252.5 million. This increase is mainly due to strict controls on costs and the asset portfolio as well as greater efficiency, which largely offset the Corporation's strategic investments; those investments had an immediate impact on earnings, notably in the digital services developed by the Media Sector. Organic growth in adjusted operating income was 14.9%.

Net income applicable to participating shares rose $248.9 million, from a loss of $82.3 million in 2009 to income of $166.6 million in 2010; on a per-participating-share basis, it went from a net loss of $1.02 to net earnings of $2.06. This remarkable growth stems mainly from a significant increase in operating income and a gain related to the discontinuance of direct mail operations in the United States. Adjusted net income applicable to participating shares, which excludes unusual items, rose 18.7%, from $133.5 million to $158.5 million; on a per-participating-share basis, it increased by 31 cents, from $1.65 to $1.96.

For more detailed financial information, please see *Management's Discussion and Analysis for the fiscal year ended October 31, 2010* and the complete financial statements on our website at www.transcontinental.com, in the Investors section.

Operating Highlights

In 2010, Transcontinental continued to implement its unique growth strategy based on two intertwined components: build the new and strengthen traditional core activities. This strategy reflects its mission to help businesses and advertisers identify, reach and retain their target consumers. Transcontinental is defining itself as a provider of custom marketing solutions on both digital and print communication platforms.

Here, in light of that strategy, are the main operating highlights of fiscal 2010.

Build the New

Transcontinental's future growth will be based on its ability to offer customers Web-based advertising personalization and interactive marketing communications solutions that meet their new business needs. Fiscal 2010 has a number of examples of actions and achievements in this area.

- To emphasize its goal of becoming the leading provider of interactive marketing solutions in North America, management changed the name of the Marketing Communications Sector to the Interactive Sector and began integrating the entities acquired in recent years. Now grouped under Transcontinental Interactive, these business units are in a better position to combine their forces and offer customers integrated marketing strategy and planning services, data analytics, premedia, online direct marketing, one-to-one marketing, mobile marketing and custom communications, as well as the digital printing of marketing products.

- The development and marketing of mobile applications is a major growth area for Transcontinental. Two acquisitions enriched this offering in 2010: LIPSO, a leading Canadian provider of integrated mobile solutions, and Vortex Mobile (one day after the fiscal year end), a provider of integrated mobile marketing solutions designed to build consumer loyalty. Note that two promising agreements were signed with the Toronto Transit Commission, the third largest public transit system in North America, and the Société de transport de Laval, north of Montreal, to provide custom text-message services for riders.

- Thanks to the power of its brands and its outstanding content, Transcontinental Media continued to expand its presence on the Web and in mobile applications. Today it represents some 150 websites and portals that reach an average of nine million unique visitors a month. Furthermore, the mobile applications launched for *Canadian Living, ELLE Canada, ELLE Québec, Investment Executive, Les Affaires, Finance et Investissement, Métro, Weblocal.ca* and *The Hockey News* have been hugely popular with users. In 2010, *The Hockey News* mobile app *thn.mobi* hit the one-million user mark, making it one of the top mobile downloads in Canada. Total revenues for digital operations amounted to $36.8 million in 2010, up 33.8% over 2009. Complementing its revenue stream from ad-page sales, Transcontinental now also sells advertising programs that integrate print products and digital applications from the Media Sector, and the rest of company, through its 360 Solutions sales team.

- Transcontinental Media launched a digital advertising representation house, an agency that enhances the offering for advertisers in Media magazines (especially women's magazines) through exclusive partnerships with the largest online content providers in North America. Transcontinental has thus improved its offer by adding websites that represent name brands in Canada and the United States, thereby giving its advertisers more ways to reach potential customers on Internet.

- The integrated solutions offering for local communities in Canada is one of the Corporation's main growth areas and combines a broad selection of print and digital channels. In Web-based services in 2010, Transcontinental launched the pre-shopping site dealstreet.ca and its French-language counterpart, publisac.ca. These sites deliver thousands of retail discount coupons every day to consumers, specifically tailored to their geographic locations in Canada. Also in 2010, the Canada-wide search engine weblocal.ca launched the first online reputation management tool for advertisers who subscribe to its services. Transcontinental also has other sites aimed at local communities, including merkado.ca and inmemoriam.ca. In addition, community papers can be viewed on smart devices (iPhone, iPad, etc.)

Strengthen our Traditional Core

Transcontinental also continued to win market share in its publishing and printing operations where it is a leading player in Canada.

- Communities value their local papers for the information and advertising they provide. Transcontinental contributes greatly to the development and enhancement of Canada's community papers by investing in editorial content, graphic design and state-of-the-art printing equipment. In 2010, we added six Quebec weeklies and their websites (*Point de vue Sainte-Agathe*, *Point de vue Mont-Tremblant* and *Journal Le Nord* in the Laurentians, *Abitibi Express*, for Val-d'Or and Amos, *Courrier Saguenay*, and *Rive-Sud Express,* in Longueuil) to our portfolio of papers. The total number of Transcontinental newspapers in Canada is now 175. Note also the excellent performance of *Métro*, which is consolidating its position as the most-read weekday paper on the Island of Montreal.

- Transcontinental is Canada's largest publisher of consumer magazines, with some 40 highly regarded publications that have a loyal following of more than 11 million readers a month, most of them women. In 2010 these magazines continued to refine their content and graphic design to make them more relevant and attractive to the major communities of interest they serve. They also grouped their advertising offer to reflect communities of interest. Along with their websites and mobile applications, they added activities such as the organization of specialized events and the development of a TV component. In 2010, Transcontinental launched Canada's first French-language bookzine: *PREMIUM – l'intelligence en affaires*, a high-end bi-monthly management publication that complements the Corporation's portfolio of business publications. Combining the best of both book and magazine, *PREMIUM* is available online, on newsstands and by subscription.

- Printing is one of the Corporation's core competencies and Transcontinental has always been known for its technological innovation and efficiency. Since 2007, the Corporation has invested some $700 million in property, plant and equipment, primarily in three major projects that are now all up and running. After completing the first of these—the plant to print the *San Francisco Chronicle* in Fremont, California—and the second—modernization of the Transcontinental Transmag plant in Montreal in 2009—our Canada-wide network of hybrid presses to print newspapers and flyers is now also fully operational since October 2010. That project was undertaken to fulfil a new 18-year contract worth $1.7 billion, including $25 million in new business each year, with *The Globe and Mail*. With this unique network of hybrid presses Transcontinental will achieve important synergies and efficiency gains, while *The Globe and Mail* and retail customers will benefit from top-notch print quality, as well as formatting and colour options that are unequalled in Canada. Transcontinental will reap the full benefit of these investments in the years ahead.

- In line with its strategy to focus on its core operations and develop its Web-based products and services, in 2010 Transcontinental sold almost all of its direct mail operations in the United States to IWCO Direct, a U.S. company headquartered in Minnesota, for net proceeds of $105.7 million.

The facilities were located in Warminster and Hamburg in Pennsylvania, in Fort Worth, Texas, and in Downey, California. Transcontinental is still the leader in direct marketing in Canada.

Reconciliation of Non-GAAP Financial Measures

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

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

Reconciliation of non-GAAP financial measures

(unaudited)

	For the quarters ended October 31		For the years ended October 31	
(in millions of dollars, except per share amounts)	**2010**	2009	**2010**	2009
Net income (loss) applicable to participating shares	**$ 44.5**	$ 43.1	**$ 166.6**	$ (82.3)
Dividends on preferred shares	**1.7**	0.5	**6.8**	0.5
Net loss (income) related to discontinued operations (after tax)	**0.9**	0.3	**(27.4)**	17.7
Non-controlling interest	**0.6**	-	**0.9**	0.3
Income taxes	**6.5**	13.5	**34.0**	6.6
Discount on sale of accounts receivable	**-**	0.6	**0.9**	4.5
Financial expenses	**11.6**	14.2	**42.4**	40.9
Impairment of goodwill and intangible assets	**12.5**	3.3	**12.5**	172.6
Impairment of assets and restructuring costs	**9.9**	9.5	**15.8**	56.3
Adjusted operating income	**88.2**	85.0	**252.5**	217.1
Amortization	**31.5**	35.1	**129.5**	121.8
Adjusted operating income before amortization	**$ 119.7**	$ 120.1	**$ 382.0**	$ 338.9
Net income (loss) applicable to participating shares	**$ 44.5**	$ 43.1	**$ 166.6**	$ (82.3)
Net loss (income) related to discontinued operations (after tax)	**0.9**	0.3	**(27.4)**	17.7
Impairment of assets and restructuring costs (after tax)	**7.1**	5.8	**11.3**	40.2
Impairment of goodwill and intangible assets (after tax)	**10.4**	3.2	**10.4**	157.9
Unusual adjustments to income taxes	**-**	-	**(2.4)**	-
Adjusted net income applicable to participating shares	**62.9**	52.4	**158.5**	133.5
Average number of participating shares outstanding	**80.9**	80.8	**80.8**	80.8
Adjusted net income applicable to participating shares per share	**$ 0.77**	$ 0.65	**$ 1.96**	$ 1.65
Cash flow related to continuing operations	**$ 49.8**	$ 91.9	**$ 162.2**	$ 101.5
Changes in non-cash operating items	**(56.9)**	(3.8)	**(153.8)**	(145.6)
Cash flow from continuing operations before changes in non-cash operating items	**$ 106.7**	$ 95.7	**$ 316.0**	$ 247.1
Long-term debt			**$ 712.9**	$ 818.8
Current portion of long-term debt			**17.8**	7.0
Cash and cash equivalents			**(36.3)**	(34.7)
Net indebtedness			**$ 694.4**	$ 791.1

Sustainable Development

Transcontinental has long been recognized as a pioneer in environmental protection, so it was natural for the Corporation to incorporate sustainable development into its business plan. This commitment is part of its broader engagement as a corporate citizen to combine business success with social responsibility.

One of the Corporation's achievements in 2010 was the publication of its first Sustainability Report based on the Global Reporting Initiative (GRI), an internationally recognized standard for methodology. GRI addresses community engagement; talent development; employee health, safety and wellness; raw materials purchasing policy; environmental certifications obtained by the organization's facilities in North America and efforts made to address the challenges posed by climate change.

In the field, Transcontinental implemented many initiatives to optimize water consumption, energy use and building engineering and to preserve the boreal forest. Transcontinental Northern California, which prints the *San Francisco Chronicle*, was one of the first printing plants in North America to be built to *Leadership in Energy and Environmental Design* (LEED) standards. Prior to that, the Corporation's 35 printing facilities in Canada and the United States obtained triple forest product chain-of-custody certifications, which guarantee that the highest standards of sustainable forest management are being met. In the wake of the recent historic agreement to conserve the boreal forest, signed May 18, 2010, Transcontinental's paper purchasing policy was recognized for its major contribution to preservation efforts. The boreal forest agreement, signed by 21 major forest companies and nine environmental groups, seeks to preserve a large area of the boreal forest, to protect the endangered woodland caribou, and to apply the highest environmental standards to forest management.

Transcontinental has also contributed to sustainable development in its role as publisher, launching voirvert.ca, the first French-language portal in Canada dedicated to sustainable and environmentally friendly building practices. The site contains invaluable information for industry professionals on the sustainable design, construction and operation of buildings.

In 2010, Transcontinental was honoured with many awards for its contribution to sustainable development. These included, for the seventh year in a row, being ranked by Corporate Knights as one of Canada's Best 50 Corporate Citizens. In addition, *PrintAction* magazine awarded the Corporation Best of Show for most environmentally progressive printing company, all categories combined, and Gold for most environmentally progressive printer in Canada. Lastly, in Quebec, Transcontinental won the 2010 Qi Ecoresponsibility Grand Prize.

Dividend

At its December 8, 2010 meeting, the Corporation's Board of Directors declared a quarterly dividend of $0.11 per participating share on Class A Subordinate Voting Shares and Class B shares. These dividends are payable on January 21, 2011 to participating shareholders of record at the close of the Toronto Stock Exchange on January 7, 2011. The Corporation thus increased the dividend per participating share by 22.2%, or $0.08 per share, raising the new annual dividend to $0.44 per share.

This increase, which takes effect today, follows on the 12.5% increase which took effect on March 17, 2010. In nine months, the annual dividend per participating share has risen from 32 cents to 44 cents.

Furthermore, at the same meeting, the Board also declared a quarterly dividend of $0.4253 per share on cumulative rate reset first Preferred Shares, series D. These dividends are payable on January 15, 2011. On an annual basis, this represents a dividend of $1.6875 per Preferred Share.

Additional Information

Upon releasing its fiscal 2010 results, Transcontinental will hold a conference call for the financial community today at 4:15 p.m. (ET). Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on the Corporation's Web site, on the Investors section home page. The broadcast will then be archived for 30 days. To join the meeting, dial 514-807-9895 or 1-888-231-8191. For media requests for information or interviews, please contact Nancy Bouffard, Director, External Communications, at 514-954-2809.

Profile

Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada and Mexico, and fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces, it is also one of Canada's top media groups. In addition, its digital platforms deliver unique content through more than 150 websites. Transcontinental also offers interactive marketing products and services that use new communications platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

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

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

The forward-looking information in this release is based on current expectations and information available as of December 8, 2010. The Corporation's management disclaims any intention or obligation to update or revise any forward-looking statements unless otherwise required by the Securities Authorities.

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Management's Discussion and Analysis

for the fiscal year ended October 31, 2010

The purpose of this Management's Discussion and Analysis is to explain management's point of view on Transcontinental's past performance and future outlook. More specifically, it outlines the development strategy, performance in relation to objectives, future expectations and how Management addresses risk and manages financial resources. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. It should therefore be read in conjunction with those documents. This Management's Discussion and Analysis is dated December 8, 2010.

In this document, unless otherwise indicated, all financial data are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All amounts are in Canadian dollars, and the term "dollar", as well as the symbols "$" and "C$", designate Canadian dollars unless otherwise indicated. This Management's Discussion and Analysis also uses non-GAAP financial measures. Please refer to the section of this report entitled "Reconciliation of Non-GAAP Financial Measures" for a complete description of these measures on page 19.

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

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

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DEFINITIONS OF TERMS USED IN THIS MD&A

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

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Corporation, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf. See "Risks and Uncertainties" for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on current expectations and information available as of December 8, 2010.

SUMMARY OF ACTIVITIES IN FISCAL 2010

Transcontinental had an excellent year in fiscal 2010; it was in fact the best ever in terms of adjusted operating income before amortization, which amounted to $382.0 million for the year. This shows the effectiveness of the rationalization plan announced in February 2009 to deal with the economic slowdown and the fast-paced changes in the printing and publishing industries. In addition, the continuous improvement of our printing operations combined with our state-of-the-art printing platform and leading position in Canada enabled us to outperform most of our peers in the same period.

Along with our major cost-reduction measures, we sold almost all of our direct mail operations in the United States, in April 2010, for net proceeds of $105.7 million, resulting in an after-tax gain of $39.2 million. We also announced the closure of two other plants in October and November 2010 respectively, in order to shift production to more productive plants and optimize use of our equipment.

On October 1, 2010 we successfully started printing *The Globe and Mail* daily paper under an 18-year contract signed in 2008. Efficient management of this project enabled us to begin printing ahead of the January 1, 2011 deadline, allowing our client to benefit from the peak advertising season. With the advanced technology in this Canada-wide hybrid printing platform, not only can we produce top-quality products with maximum efficiency, we also have a highly flexible platform that meets the needs of both publishers and retailers. This investment will also reduce the need for capital expenditures going forward.

In fiscal 2010, the Media Sector acquired or introduced six weekly papers, each with their own website, in order to establish a presence in more communities and offer more local content to Quebec businesses. National and local advertising spending was up during the year, benefiting all groups except the Educational Book Publishing Group.

In the third quarter 2010, the Corporation replaced its hybrid and defined benefit pension plans with defined contribution plans. This change limits the Corporation's risk to the past service credited under the hybrid and defined benefit plans, while maintaining its contribution of its employees plan.

After the close of fiscal 2010, the Corporation announced that its Marketing Communications Sector had changed its name to the Interactive Sector. This name change marks our commitment to becoming the leader in interactive marketing solutions in North America, and to placing more focus on integration of recent acquisitions. The units now under Transcontinental Interactive will combine their forces to offer clients integrated marketing, data analytics, premedia, direct online marketing, one-to-one marketing, mobile marketing and custom communications, as well as digital printing of marketing products.

In 2010 we first acquired LIPSO Systems, then Vortex Mobile after the close of fiscal 2010. These two Canadian leaders in mobile communications enhance the digital marketing solutions offered by the Interactive Sector.

As a result of the sale of almost all of our direct mail operations in the United States, the decrease in capital expenditures and the increase in adjusted operating income before amortization compared to 2009, the Corporation's financial position improved considerably during the year. As at October 31, 2010, the ratio of net indebtedness (including the use of the securitization program) to adjusted operating income before amortization was 1.82, compared to 2.59 as at October 31, 2009. Management plans to reduce this ratio even further and to keep it at about 1.50.

HIGHLIGHTS OF FISCAL 2010

- Revenues for fiscal 2010 were down 3.6% from fiscal 2009, from $2,169.8 million to $2,091.6 million. This was mainly due to the transfer or closure of plants and publications, the exchange rate effect and the paper effect. Organic growth in revenues amounted to $25.6 million, or 1.2%, mainly due to the contribution of new printing contracts and revenue growth in the Media Sector related to the recovery in advertising spending by national and local advertisers.
- Adjusted operating income was up 16.3%, from $217.1 million to $252.5 million. The increase stems mainly from strict controls over costs and the asset portfolio, the effective rationalization plan announced in February 2009, and new printing contracts, partly offset by strategic investments. Adjusted operating income margin rose from 10.0% in 2009 to 12.1% in 2010.
- Net income applicable to participating shares rose by $248.9 million, from a loss of $82.3 million in 2009 to a gain of $166.6 million in 2010. This remarkable change is due to higher operating income and a gain from

the sale of direct mail operations in the United States on April 1, 2010. On a per-share basis, net income applicable to participating shares rose from a net loss of $1.02 to net income of $2.06.

- Adjusted net income applicable to participating shares was up $25.0 million, or 18.7%, from $133.5 million in 2009 to $158.5 million in 2010. On a per-share basis, it rose 31 cents, from $1.65 to $1.96.
- In the first quarter of 2010, the Corporation increased its quarterly dividend to $0.09 per share for its Class A and Class B shares, for a total dividend of $0.35, compared to $0.32 in 2009, an increase of more than 9%. In addition, on December 8, 2010, the Corporation increased the quarterly dividend by two cents, or 22.2%, to $0.11 per share, bringing its annual dividend to $0.44 per share.
- As at October 31, 2010, the ratio of net indebtedness (including the use of the securitization program) to adjusted operating income before amortization was 1.82 (2.59 as at October 31, 2009). Management plans to reduce this ratio even further and to keep it at about 1.50.

TRANSCONTINENTAL PROFILE

Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada and Mexico, and fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces, it is also one of Canada's top media groups. In addition, its digital platforms deliver unique content through more than 150 websites. Transcontinental also offers interactive marketing products and services that use new communications platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

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

PREAMBLE

The consolidated financial statements and all financial data presented in this report have been restated to present our results from continuing operations. Accordingly, the financial information presented, except for net income available to participating shares, exclude the results from our direct mail activities in the United States.

STRATEGY

Our ultimate goal is to ensure the growth and profitability of Transcontinental while promoting the common interests of its employees, customers and shareholders, the three pillars of the organization. Our strategy is based on several fundamental principles: to be the leader in the markets we serve, to have a disciplined approach to acquisitions and financial management, and to foster a culture of continuous improvement.

Having said this, Transcontinental's mission is to help its customers identify, reach and retain their target consumers. We do so by offering printing products and services, media content, media vehicles and many new online platforms, which customers are increasingly choosing for their marketing campaigns. We will continue to develop and adjust to new customer realities in order to help them maximize the return on their marketing dollar. Our vision is to remain the Canadian leader in a number of our niches, but also to carve out a leading position as a provider of interactive digital solutions.

Trends in the Marketplace

The Corporation does business in industries that are transforming at a rapid rate. Unprecedented changes are sweeping the publishing and printing industries, presenting both opportunities and risks. Marketing is increasingly based on a one-to-one approach and the customers who use such services are focusing more and more on return on investment and measurability. As such, campaigns are becoming increasingly targeted as advertisers seek to establish and develop a relationship with their customer base. Concurrently, the rise of new media, digital platforms and changing consumer habits coupled with the increasing availability of data and technology to make better use of this data, is increasing audience fragmentation, personalization of content, user-generated content and web-based communities. The velocity of a number of trends has increased. This is especially true for the rate of adoption of digital technologies and the ensuing migration of advertising dollars toward online platforms.

The ongoing transformation of the media and marketing industries is having a profound impact on the printing industry. Print products remain key components in the media mix, but their growth is limited due to the growing impact of the trends noted above. The printers who will be able to benefit from this fast-evolving market are those who have the latest technology. These new technologies enable a better response to customers' ever-growing needs, while simultaneously enhancing printers' operational efficiency.

In addition, macroeconomic factors such as the globalization of markets, the rise of environmental and social consciousness and the volatility of the Canadian dollar are all having an effect on our business, as are more recent events including the economic slowdown.

Taken as a whole, these new trends have started to have an impact on the demands and expectations of our customers. In fact, they have driven our customers to increasingly experiment with one-to-one marketing, new platforms and an integrated service offering from their suppliers. The Corporation has therefore designed its strategy to profit from these trends.

Our Two-Pronged Strategy

Given these rapid changes in our industries, we are pursuing our transformation so that we can guide the activation of our customers' marketing process using our products and services, whether conventional, interactive or web-based. This we believe we can accomplish via a two-pronged approach: (1) build on our existing business and (2) develop new opportunities in interactive marketing and digital solutions. Consequently, in addition to making our existing operations even more efficient, we are ramping up the development of the new online platforms. Transcontinental is gradually shifting from a more general offer to a differentiated and innovative client-based offer that draws from all of its products and services—print and digital. Transcontinental is in fact one of the only printers in Canada with an offering that integrates print with the new one-to-one and interactive advertising tools demanded by our customers, particularly retailers. This is how we believe we can maximize our growth potential over the medium and long term.

1) Build on our existing business

Transcontinental has, from the very beginning, taken calculated risks to ensure a solid foundation for its operations. Whether this has meant capital investments or business acquisitions, the Corporation has always had only one goal in mind: to serve customers better while generating an attractive return for shareholders. Past decisions have resulted in a strong base for our traditional printing operations, media content and media vehicles. In its traditional industries, Transcontinental is characterized by top-quality employees, a committed base of loyal clients, a leading position in Canada, strong brands and a network of state-of-the-art printing plants. We also have key advantages that can help us grow new services: we control the printing of communications products, we produce excellent content, we know how to disseminate that content through the broad reach of our targeted multi-channel platforms, and we will continue to be a client-centric organization that serves both advertisers and consumers.

Here are some of our achievements in fiscal 2010:

- On October 1, we successfully started printing *The Globe and Mail* daily paper on our new Canada-wide hybrid printing platform, under an 18-year contract signed in 2008.

- We acquired or launched six new weekly papers in Quebec, and their websites, to offer more local content to communities and businesses.

- We launched *PREMIUM*, an innovative and high-end publication that is Quebec's first bookzine.

- New agreements were signed to add print volume to the *San Francisco Chronicle* at our plant in Fremont.

- We renewed contracts with terms of one to three years worth more than $350 million in our Printing Sector.

With the significant competitive advantages noted above, and our achievements in fiscal 2010, we believe that going forward, all three Transcontinental sectors can win market share.

2) Develop new opportunities in interactive marketing and digital solutions

Most of Transcontinental's revenues come from the marketing budgets of its customers. In recent quarters, given the rapid change in its traditional activities and new customer needs, Transcontinental's offering has evolved considerably to integrate its diversified mix of print products and media content—both mass and targeted—along with one-to-one advertising and new interactive marketing communications platforms. Below is a list of our selected accomplishments in fiscal 2010:

- We acquired LIPSO Systems, a Quebec company and leading provider of mobile solutions in Canada. With this acquisition Transcontinental adds a number of key services to its marketing communications mix, including cell-phone bar-code readers for mobile couponing in retail sales, and electronic ticketing in transportation and entertainment. Note that in November 2010, after the close of fiscal 2010, Transcontinental also acquired Vortex Mobile, an Ontario company and also a Canadian leader in mobile solutions, to strengthen our product and services offering in our Interactive Sector.

- We launched a digital representation house, an agency that sells advertising on the Web, to augment our offering to advertisers in our magazines, particularly women's magazines, through exclusive partnerships with the largest online content publishers in North America.

- We signed two separate agreements with the Toronto Transit Commission and the Société de transport de Laval to provide real-time custom text messaging that alerts riders to the times of bus and streetcar stops.

- We made strategic investments of about $10.6 million in the Media Sector, primarily to develop our new digital platforms such as publisac.ca and dealstreet.ca, as well as an online reputation management application through weblocal.ca, our Canada-wide search engine.

- After the close of fiscal 2010, the Corporation announced that its Marketing Communications Sector would henceforth be called the Interactive Sector. This name change marks our commitment to being the leader in interactive marketing solutions in North America, and to focusing more on integrating recent acquisitions. The units now under Transcontinental Interactive will combine their forces to offer clients integrated marketing, data analytics, premedia, direct online marketing, one-to-one marketing, mobile marketing and custom communications, as well as digital printing of marketing products.

- The mobile applications we launched in September 2009 for the popular magazine *The Hockey News* were a great success. The Hockey News Mobile has become the indispensable companion to over one million hockey fans, who can now download game data in real time and access rich content on their smart phones. Downloads have also increased, to a lesser degree, on mobile applications for *Elle Canada*, *Elle Québec, Canadian Living*, the *Métro* daily, *Les Affaires*, *Finance et Investissement* and *Investment Executive*.

In short, we plan to use our unique products and marketing services to ramp up development of our new integrated services for advertisers. The solid foundations laid down over time in our existing operations, our niche strategy and the exploitation of the new emerging channels put us in a very competitive position to take advantage of opportunities in the medium and long term. We plan to deploy these new services at a much faster pace going forward.

However, certain challenges must be overcome in order for us to maximize the integration and development of our new platforms. We will focus on developing interactive marketing strategies for our customers, and further integrate our existing products and services. In line with the transformation in the printing and publishing industries, Transcontinental will push forward with an integrated transformation that will satisfy the new needs of its customers and adapt to new consumer behaviours.

Although the economic situation had a somewhat limiting impact on the growth of these new services early in the year, we took advantage of that time to further integrate all of our products and services so that we could offer the most comprehensive interactive marketing solutions in Canada.

Evolution 2010

This business project, launched in November 2005, ended on October 31, 2010. You will find on the next page a table summarizing the financial objectives of *Evolution 2010* and Transcontinental's performance in relation to these objectives over the course of the program. It is important to note that these financial objectives are not to be construed as guidance or forecasts for any individual year, but rather as long-term targets that we strove to achieve during this business project.

Financial Objectives	2006	2007	2008	2009	2010	Analysis & Comments
Increase economic value creation (variance compared to previous year).	n/a *	($18 M)	($28 M)	($15 M)	$34 M	We were able to increase the economic value created in 2010 because it was an excellent year, whereas 2009 was more difficult. However, we were unable to increase the economic value created during the *Evolution 2010* project. This was mainly due to the economic situation, the negative impact of the exchange rate, and capital expenditures required for major projects (*San Francisco Chronicle, The Globe and Mail* and Transcontinental Transmag), which all required capital outlays before they could fully contribute to earnings.
Grow sales organically by 5% on average per year.	0%	3%	2%	-11%	1%	Despite the impact of the North American recession on the publishing and printing industries, fiscal 2009 was the only year in which organic growth in sales fell off. However, organic growth remained below the 5% objective.
Grow adjusted earnings per share excluding the foreign exchange impact by 10% on average per year.	n/a *	11%	19%	-11%	19%	We exceeded our objective over the 5 years of the project, except, given the negative impact of the North American recession on our operations, in fiscal 2009.
Maintain a range of net debt to total capitalization ratio excluding securitization of 35% to 50%.	25%	29%	39%	42%	36%	This indicator was maintained within the target range throughout the project. It did rise, however, in fiscal 2008 and 2009, due to major investments in our outsourced newspaper printing projects (*San Francisco Chronicle* and *The Globe and Mail)*. However, with the sale of almost all of our direct mail operations in the United States and the increase in cash flows in 2010, this indicator improved considerably in the final year.

Invest $120 million on average per year in capital assets (excluding newspaper outsourcing projects).	$114 M	$92 M	$131 M	$86 M	$37 M	Our capital expenditures net of newspaper printing outsourcing projects, were, mainly in 2009 and 2010, lower than our objective. Improved equipment productivity, gains in operational efficiency as well as more flexible printing services lead to lower capital expenditures over the last two years. We now believe that we have a state-of-the-art structure that gives us a significant competitive advantage, and we have achieved this by minimizing capital expenses in relation to *Evolution 2010*.
Sustain dividend growth.	19%	10%	13%	2%	9%	The Corporation was able to increase its dividend every year despite the economic slowdown and the credit crisis, without hampering development and growth.

**Following the restatement of the financial statements in December 2007, this data is no longer available.*

Although there is no formal successor program to *Evolution 2010*, in the years ahead we will be focusing on innovation. Transcontinental evolved successfully from a printer and publisher to a marketing solutions integrator because of new ideas, and we plan to continue cultivating innovation. The transformation of our cultural, technological and business environment will manifest through our employees all across the company, ensuring that we continue to meet the needs of our customers. Even though we have made important gains in synergies and integration in recent years, to become a leader in interactive marketing solutions in North America while consolidating our leading position in many of our niches in Canada, we must innovate.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

We recognize the critical nature of environmental issues, and take extensive precautions to protect our natural world. Transcontinental is not a major contributor to Greenhouse Gases (GHG). But that does not mean that we are not concerned about the impact of our activities on air quality. Striving every day to improve our environmental performance, our Corporate environmental policies and procedures are founded on three main guiding principles: (1) protect the environment for present and future generations, (2) reduce risks and improve efficiencies, and (3) introduce advanced technology and processes.

In the second quarter of 2010, the Environmental Printing Awards recognized the Corporation's commitment to sustainable development. Transcontinental won Best of Show, which honours the most environmentally progressive printer of the past year, all categories combined. The Corporation also won a Gold award for most environmentally progressive printing company in Canada, 500+ employees.

Also, in February 2010, the Corporation tabled its *Sustainability Report 2009 – Committing ourselves to performance*, based on the *Global Reporting Initiative* (GRI) standard. This report articulates Transcontinental's commitment to the path of sustainable development around four themes:

- **Engagement and ownership**: Mobilize employees at all levels of the organization, and our suppliers, customers and partners.

- **Innovation is the key driver, internally and externally**: Supporting and rewarding initiative as a key component of the strategy.

- **Connecting words to actions**: Setting targets and key performance indicators to measure progress.

- **Shared journey**: Communicating challenges and progress at each step of the way.

For more information, please see our *Sustainability Report 2009* on our website at www.transcontinental.com.

Transcontinental has introduced environmental policies to minimize its environmental impacts. See our *Annual Information Form* for more information.

SELECTED FINANCIAL DATA

For fiscal years ended October 31
(unaudited)

(in millions of dollars, except per share data)	2010	2009	Variation in %
Operations			
Revenues	$ 2,091.6	$ 2,169.8	-4%
Adjusted operating income before amortization [1]	382.0	338.9	13%
Operating income (loss)	224.2	(11.8)	n/a
Adjusted operating income [1]	252.5	217.1	16%
Net income (loss) applicable to participating shares	166.6	(82.3)	n/a
Adjusted net income applicable to participating shares [1]	158.5	133.5	19%
Cash flow from operating activities before changes in non-cash operating items [1]	316.0	247.1	28%
Cash flow related to operating activities of continuing operations	162.2	101.5	60%
Investments			
Acquisitions of property, plant and equipment	126.8	256.8	-51%
Business acquisitions [2]	14.0	14.4	-3%
Per share data (basic)			
Net income (loss) applicable to participating shares	2.06	(1.02)	n/a
Adjusted net income applicable to participating shares [1]	1.96	1.65	19%
Cash flow from operating activities before changes in non-cash operating items [1]	3.91	3.06	28%
Cash flow related to operating activities of continuing operations	2.01	1.26	60%
Dividends on participating shares	0.35	0.32	9%
Average number of participating shares outstanding (in millions)	80.8	80.8	

	As at October 31 2010	As at October 31 2009
Financial condition		
Total assets	$ 2,594.7	$ 2,531.0
Net indebtedness [1]	694.4	791.1
Shareholders' equity	1,247.0	1,115.2
Net indebtedness (including utilization of securitization program) / adjusted operating income before amortization	1.82	2.59 [3]
Shareholders' equity per participating share	$ 14.16	$ 12.56
Number of participating shares at end of period (in millions)	81.0	80.8

[1] Please refer to the section "Reconciliation of non-GAAP Financial Measures" on page 19 of this Management's Discussion and Analysis.

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

[3] As initially reported.

DETAILED ANALYSIS OF FISCAL 2010 OPERATING RESULTS

Analysis of Main Variances - Consolidated Results
For the fiscal year ended October 31, 2010
(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares	%
Results - for Fiscal 2009	**$ 2,169.8**		**$ 217.1**		**$ (82.3)**	
Acquisitions/Divestitures/Closures	(54.9)	(2.5) %	2.2	1.0 %	1.8	n/a
Discontinued operations	-	- %	-	- %	45.1	n/a
Existing operations						
Paper effect	(24.9)	(1.1) %	4.3	2.0 %	3.4	n/a
Exchange rate	(24.0)	(1.1) %	(3.5)	(1.6) %	0.2	n/a
Organic growth	25.6	1.2 %	32.4	14.9 %	25.9	n/a
Impairment of assets and restructuring costs, impairment of goodwill and intangible assets and unusual adjustments to income taxes	-	- %	-	- %	178.8	n/a
Dividends on preferred shares	-	- %	-	- %	(6.3)	n/a
Results - for Fiscal 2010	**$ 2,091.6**	**(3.6) %**	**$ 252.5**	**16.3 %**	**$ 166.6**	**n/a**

As shown in the above table, a number of factors contributed to the variation between results in fiscal 2009 and fiscal 2010.

- The acquisitions made in 2009 and 2010, net of divestitures and closures, reduced revenues by $54.9 million and added $2.2 million to adjusted operating income. Net of impairment of assets, restructuring costs, impairment of goodwill and intangible assets, financing expenses and income taxes, their contribution to net income applicable to participating shares amounted to $1.8 million.

- The paper effect had a $24.9 million negative impact on revenues. This effect includes the variation in the price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for printing operations, these elements affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had a positive impact of $4.3 million on adjusted operating income and $3.4 million on net income applicable to participating shares.

- The variations in the exchange rates between the Canadian dollar and its U.S. and Mexican counterparts had a considerable impact on the fiscal 2010 results, resulting in a $24.0 million decrease in revenues and a $3.5 million decrease in adjusted operating income. It is important to note that the variation in average spot exchange rates in fiscal 2010 versus fiscal 2009 was 11.6% for the CAD/USD and 6.5% for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of $12.1 million. The negative impact of export sales from Canadian plants, net of the currency hedging program, was $11.9 million. The conversion of results for the U.S. and Mexican units had a negative impact of $0.1 million on adjusted operating income. The negative impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was $3.9 million on adjusted operating income. Finally, the positive impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was $0.5 million on adjusted operating income. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net positive effect was $0.2 million, mainly due to the positive impact of $3.8 million in financial expenses.

- Revenues in our base business were up $25.6 million, or 1.2% in fiscal 2010. The increase stems mainly from the Media Sector and the recovery in local and national advertising, and the New Media and Digital Solutions Group. In the Printing Sector, new contracts in the Newspaper Group and the Marketing Products Group could not completely offset lower revenues in the Magazine, Book and Catalogue Group.

- The positive organic growth in adjusted operating income of $32.4 million, or 14.9% in fiscal 2010, stems mainly from the Printing Sector and our effective rationalization measures, as well as new printing contracts. This growth was, however, slightly offset by results for the Media and Interactive sectors, due to the strategic investments made in those sectors.

Impairment of Assets and Restructuring Costs

An amount of $15.8 million before tax ($11.3 million after tax) was accounted for separately in the consolidated statement of income for fiscal 2010 as impairment of assets and restructuring costs. Details are as follows:

- Restructuring costs of $13.0 million before tax ($9.3 million after tax) related to labour force reductions. Most of these expenses stem from the rationalization measures announced towards the end of the fiscal year, in which a Printing Sector plant was closed in order to optimize utilization of our equipment.

- Asset impairment and other costs of $2.8 million before tax ($2.0 million after tax) relating primarily to Printing Sector production equipment that was no longer required due to reduced activity in some of our business units.

An amount of $56.3 million before tax ($40.2 million after tax) was accounted for separately in consolidated results for fiscal 2009 as impairment of assets and restructuring costs. Of this amount, $33.9 million was related to labour force reductions as part of the rationalization plan announced in early fiscal 2009 and $22.4 million to impairment of assets and other costs.

Impairment of Goodwill and Intangible Assets

For fiscal 2010, an amount of $12.5 million before tax ($10.4 million after tax) was accounted for separately in the consolidated statement of income as impairment of goodwill and intangible assets. Most of this impairment stems from the reduction in value of the trade names for some publications in our Media Sector.

In fiscal 2009, an amount of $172.6 million before tax ($157.9 million after tax) was accounted for separately in the consolidated statement of income as impairment of goodwill and intangible assets. Of this amount, $166.5 million was for the goodwill write-down in the Printing and Interactive sectors, mainly related to our commercial printing operations. The remaining $6.1 million was for trade-name write-downs in the Business and Consumer Solutions Group in the Media Sector.

Financial Expenses and Discount on Sale of Accounts Receivable

Combined, financial expenses and discount on sale of accounts receivable decreased by $2.1 million, or 4.6%, from $45.4 million in fiscal 2009 to $43.3 million in fiscal 2010. This decrease was mainly due to a significant drop in net debt in fiscal 2010 stemming from increased operating cash flows, the sale of almost all direct mail assets in the United States, a decrease in capital expenditures in 2010 and the positive impact of the exchange rate. The preferred share issue in October 2009 also had a positive impact on our financial expenses, partially offset by an increase in the interest rates on debt contracted in fiscal 2009.

Income Taxes

Income taxes increased by $27.4 million, from $6.6 million in 2009 to $34.0 million in 2010. Excluding income taxes on impairment of goodwill and intangible assets, impairment of assets and restructuring costs, as well as unusual adjustments to income taxes, income taxes would have been $43.0 million, with an income tax rate of 20.6%, compared to $37.3 million, or 21.7%, in fiscal 2009. This decrease is mainly due to the change in the geographic distribution of pre-tax earnings.

Discontinued Operations

In fiscal 2010, the Corporation reported a net income from discontinued operations of $27.4 million, net of related income taxes, following the sale of almost all its direct mail operations in the United States on April 1, 2010, for net proceeds of $105.7 million. Net income from discontinued operations includes a gain related to the discontinuance of operations of $39.2 million, net of related income taxes, and a net loss of $11.8 million ($17.7 million in 2009) related to the operation of discontinued operations, net of related income taxes.

Net Income Applicable to Participating Shares

Net income applicable to participating shares rose $248.9 million, from a net loss of $82.3 million in fiscal 2009 to a net gain of $166.6 million in fiscal 2010. This remarkable increase is mainly due to operating income and a gain related to the discontinuance of direct mail operations in the United States on April 1, 2010. On a per-share basis, net income applicable to participating shares rose from a loss of $1.02 to earnings of $2.06.

Adjusted net income applicable to participating shares increased $25.0 million, or 18,7%, from $133.5 million in fiscal 2009 to $158.5 million in fiscal 2010. On a per-share basis, it increased 31 cents, from $1.65 to $1.96.

Revenues Generated in U.S. Dollars
For fiscal years ended October 31
(unaudited)

(in millions of US dollars)	2010	Breakdown	2009	Breakdown	Change $ 2010 vs 2009	Change % 2010 vs 2009
Exports from Canada to the U.S.	$ **155.9**	59.5 %	$ 181.1	69.6 %	$ (25.2)	(13.9) %
Revenues generated in the U.S by U.S. business units	**106.3**	40.5	79.2	30.4	27.1	34.2
Total revenues	$ **262.2**	100.0 %	$ 260.3	100.0 %	$ 1.9	0.7 %

Geographic Distribution of Total Revenues in Canadian dollars
For fiscal years ended October 31
(unaudited)

(in millions of Canadian dollars)	2010	Breakdown	2009	Breakdown	Change $ 2010 vs 2009	Change % 2010 vs 2009
Canada	$ **1,746.7**	83.5 %	$ 1,789.9	82.5 %	$ (43.2)	(2.4) %
U.S. and Mexico						
Imports from Canada	**170.4**	8.2	210.0	9.7	(39.6)	(18.9)
Domestic markets	**174.5**	8.3	169.9	7.8	4.6	2.7
Total U.S. and Mexico	**344.9**	16.5	379.9	17.5	(35.0)	(9.2)
Total revenues	$ **2,091.6**	100.0 %	$ 2,169.8	100.0 %	$ (78.2)	(3.6) %

Note that, in the first table of the previous page, revenues from U.S. exports by Canadian business units, expressed in U.S. dollars, were down $25.2 million, or 13.9%. The decrease stems primarily from lower print volumes in our Magazine, Book and Catalogue Group, due to decreased demand and the significant appreciation of the Canadian dollar in fiscal 2010. Furthermore, as is indicated in the second table, after translation into Canadian currency, this decrease increases to $39.6 million, or 18.9%, illustrating the negative impact of the average rise in the Canadian dollar versus the U.S. dollar in fiscal 2010 versus fiscal 2009.

The 2.4%, or $43.2 million, decrease in revenues generated in Canada compared to 2009 is lower than the 3.6% decrease in the Corporation's consolidated revenues, mainly due to our diversified operations and leading position in most of our niches. With respect to revenues in the U.S. and Mexican domestic markets, the 2.7% increase stems mainly from the printing of the *San Francisco Chronicle* for a full year in 2010, versus only four months in 2009; revenues were partially offset by the rise in the Canadian dollar versus its U.S. and Mexican counterparts, and a slight decrease in revenues in the Mexico Group.

REVIEW OF OPERATING SECTORS FOR FISCAL 2010

Analysis of Main Variances – Sector Results
For the fiscal year ended October 31, 2010
(unaudited)

(in millions of dollars)	Printing Sector	Interactive Sector	Media Sector	Inter-segment and Other Results	Consolidated Results
Revenues - for Fiscal 2009	**$ 1,530.8**	**$ 123.5**	**$ 607.0**	**$ (91.5)**	**$ 2,169.8**
Acquisitions/Divestitures/Closures	(44.2)	2.7	(13.4)	-	(54.9)
Existing operations					
Paper effect	(24.9)	-	-	-	(24.9)
Exchange rate effect	(17.5)	(6.5)	-	-	(24.0)
Organic growth (negative)	(1.5)	3.6	14.7	8.8	25.6
Revenues - for Fiscal 2010	**$ 1,442.7**	**$ 123.3**	**$ 608.3**	**$ (82.7)**	**$ 2,091.6**
Adjusted operating income - for Fiscal 2009	**$ 147.0**	**$ 1.4**	**$ 93.3**	**$ (24.6)**	**$ 217.1**
Acquisitions/Divestitures/Closures	0.6	(0.5)	2.1	-	2.2
Existing operations					
Paper effect	-	-	4.3	-	4.3
Exchange rate effect	(3.1)	(0.4)	-	-	(3.5)
Organic growth (negative)	36.1	(4.1)	(7.2)	7.6	32.4
Adjusted operating income - for Fiscal 2010	**$ 180.6**	**$ (3.6)**	**$ 92.5**	**$ (17.0)**	**$ 252.5**

This review of operating sectors should be read in conjunction with the information presented in the above table and the information disclosed in the Segmented Information note (note 28) to the Consolidated Financial Statements for the fiscal year ended October 31, 2010.

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

Printing Sector

Printing Sector revenues were down $88.1 million, or 5.8%, from $1,530.8 million in fiscal 2009 to $1,442.7 million in 2010. The decrease stems primarily from the sale in May 2009 of the Retail Group plant in Ohio. Also, the Magazine, Book and Catalogue Group was affected during the year by the appreciation of the Canadian dollar versus the U.S. dollar. Excluding divestitures, closures, the negative effect of fluctuations in the exchange rate and the paper effect,

revenues were stable, down only $1.5 million, or 0.1%. Our diversified client base combined with our leading position in most of our niches and the contribution of new printing contracts, such as the *San Francisco Chronicle* and Rogers, offset the market conditions which affected our magazine, book and catalogue printing as well as our marketing products printing during the year.

Adjusted operating income increased, from $147.0 million in fiscal 2009 to $180.6 million in 2010, up 22.9%. This $33.6 million increase also improved the adjusted operating income margin from 9.6% in fiscal 2009 to 12.5% in 2010. Each group in the sector contributed to the positive organic growth in adjusted operating income of $36.1 million, or 24.6%, in fiscal 2010. This positive growth clearly indicates the effectiveness of the rationalization plan adopted in February 2009 for all groups in the sector, the continuous improvement of our operations and the contribution of new printing contracts.

On October 1, 2010, Transcontinental successfully started printing the new edition of *The Globe and Mail* in most major markets in Canada, and did so three months ahead of schedule, thereby enabling our client to benefit from the peak advertising period. This project initiated in 2009 involved setting up a new, innovative and Canada-wide hybrid platform to print newspapers and flyers. With this network, *The Globe and Mail* can be printed on coated stock, with colour on ever page; the platform can thus also meet the needs of our retail customers. This investment will generate about $25 million in new revenues; it will also create considerable synergies. Overall efficiency will be improved through more productive use of equipment and capabilities. The investment will reduce capital expenditures in the Retail Group in coming years, and will enable us to better meet the needs of our customers in the retail market.

The Corporation also recently announced the closure of two printing plants as part of its strategy to optimize its equipment and further consolidate its leading position in Canada by gaining market share.

Interactive Sector *(formerly the Marketing Communications Sector)*

Revenues in the Interactive Sector were stable at $123.3 million in 2010 versus $123.5 million in 2009. With the positive impact of the integration of products and services, starting in the second quarter of 2010 revenues improved over the last three quarters of 2010 compared to the corresponding quarters of 2009. The acquisitions of Totem, Conversys and LIPSO Systems added $2.7 million to revenues in fiscal 2010 versus 2009. This increase was more than offset by the rise in the Canadian dollar versus the U.S. dollar, which explains the revenue decrease of $6.5 million versus 2009, primarily in the Digital Printing Solutions Division. Excluding the impact of acquisitions and the exchange rate, positive organic growth of $3.6 million is primarily due to the Premedia and Digital Printing Solutions divisions, which benefited from new contracts in fiscal 2010. However, in the One-to-One Marketing Solutions Division the reduced demand for our products and services in the automobile industry in the United States partially offset the increase in organic growth in revenues. However, this market appears to be recovering.

Adjusted operating income was down $5.0 million, from a gain of $1.4 million in fiscal 2009 to a loss of $3.6 million in 2010. Organic growth in adjusted operating income was down $4.1 million, mainly due to higher amortization expenses and higher costs related to strategic investments to develop our integrated digital products and marketing services. Adjusted operating income margin also decreased, from 1.1% for fiscal 2009 to minus 2.9% in 2010.

In fiscal 2010 we acquired LIPSO Systems, a leading Canadian provider of integrated mobile solutions. We followed this on November 1, 2010 with the acquisition of Vortex Mobile, which specializes in integrated mobile marketing solutions. With these two acquisitions we added key new services to our interactive marketing solutions, namely the capacity to design and fully implement marketing campaigns using mobile technology and new media. Also, in early fiscal 2011, we announced that the name of the Marketing Communications Sector was being changed to the Interactive Sector. The sector's mission remains the same: to develop interactive marketing communications solutions on digital channels.

In the next fiscal year, although our activities are to some extent dependent on the marketing budgets of our customers, Interactive Sector revenues should continue to increase because of our development efforts, optimization of our interactive marketing solutions, and growing demand from customers. Operating income should also improve, but at a slower pace, given that we are ramping up our investments to further enhance and integrate our digital communications platforms, including mobile.

Media Sector

Media Sector revenues were up $1.3 million, or 0.2%, from $607.0 million in fiscal 2009 to $608.3 million in 2010. Excluding acquisitions and publications that were closed or sold, revenues grew by $14.7 million, or 2.4%.

In fiscal 2010, organic growth in revenues increased in most groups, except the Educational Book Publishing Group. The strongest growth came from our Business and Consumer Solutions Group, which benefited from the recovery in national advertising, primarily in the automobile and finance sectors. Ongoing development of our digital services and the impact of the economic recovery also helped our digital operations, whose revenues were up 33.8% in 2010 over 2009. The Local Solutions Group benefited from higher advertising spending in its community newspaper publishing and distribution operations. Organic growth was also positive in each of the last three quarters of 2010, an encouraging indicator of the recovery in both national and local advertising.

Adjusted operating income decreased by $0.8 million, or 0.9%, from $93.3 million in fiscal 2009 to $92.5 million in 2010. Excluding acquisitions, divestitures, closures and the paper effect, adjusted operating income was down $7.2 million or 7.7%. The decrease occurred mainly in the Local Solutions and the New Media and Digital Solutions groups, which continued their strategic investments in various digital and print platforms during the year. The decrease was partially limited by the positive impact of the additional revenues noted above, and the impact of the rationalization plan. Adjusted operating income margin at the end of fiscal 2010 was 15.2%, down slightly from 15.4% at the end of fiscal 2009.

The Media Sector launched a number of new products in fiscal 2010, enhancing both its digital and more conventional media offerings. The Local Solutions Group introduced six new weekly papers: *Point de vue Mont-Tremblant*, *Point de vue Sainte-Agathe, Abitibi Express* in two communities, *Rive-Sud Express, Le Nord* and *Courrier du Saguenay*, all with their own websites. The main goal of these new publications is to increase local content for Quebec communities and businesses. In fiscal 2010 the sector also launched the pre-shopping site dealstreet.ca, and revamped its French-language counterpart, publisac.ca. Also, through our Canada-wide local search site weblocal.ca, the sector introduced an online reputation management tool for advertisers. The Business and Local Consumers Group brought out the magazine *PREMIUM,* an innovative and high-end publication. The Media Sector continues to develop its applications for social media and mobile dissemination, such as *The Hockey News* mobile application, which has been downloaded by over a million users. Lastly, we launched a digital representation house, an agency whose goal is to improve our offering to advertisers in our magazines through exclusive partnerships with the biggest online content publishers in North America.

In fiscal 2011, the Media Sector will focus its efforts on its numerous digital platforms, and more specifically on recent sites such as the pre-shopping sites dealstreet.ca and publisac.ca, and on the online business management tool offered by weblocal.ca. It will also make it a priority to increase the monetization of its digital products by expanding its sales network. Lastly strategic investments will continue in digital and paper products to enhance the scope of its integrated offer to local communities.

Inter-Segment and Other Activities

Revenues of inter-segment and other activities went from a negative total of $91.5 million in fiscal 2009 to a negative total of $82.7 million in 2010. The variation is mainly due to the decrease in other activities. Adjusted operating income

went from a negative total of $24.6 million in fiscal 2009 to a negative total of $17.0 million in 2010, mainly due to a gain on the sale of a building and the program to streamline costs at Head Office.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

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

For fiscal years ended October 31
(unaudited)

(in millions of dollars, except per share amounts)		2010		2009
Net income (loss) applicable to participating shares	$	166.6	$	(82.3)
Dividends on preferred shares		6.8		0.5
Net loss (income) related to discontinued operations (after tax)		(27.4)		17.7
Non-controlling interest		0.9		0.3
Income taxes		34.0		6.6
Discount on sale of accounts receivable		0.9		4.5
Financial expenses		42.4		40.9
Impairment of goodwill and intangible assets		12.5		172.6
Impairment of assets and restructuring costs		15.8		56.3
Adjusted operating income		252.5		217.1
Amortization		129.5		121.8
Adjusted operating income before amortization	$	382.0	$	338.9
Net income (loss) applicable to participating shares	$	166.6	$	(82.3)
Net loss (income) related to discontinued operations (after tax)		(27.4)		17.7
Impairment of assets and restructuring costs (after tax)		11.3		40.2
Impairment of goodwill and intangible assets (after tax)		10.4		157.9
Unusual adjustments to income taxes		(2.4)		-
Adjusted net income applicable to participating shares		158.5		133.5
Average number of participating shares outstanding		80.8		80.8
Adjusted net income applicable to participating shares per share	$	1.96	$	1.65
Cash flow related to continuing operations	$	162.2	$	101.5
Changes in non-cash operating items		(153.8)		(145.6)
Cash flow from continuing operations before changes in non-cash operating items	$	316.0	$	247.1
Long-term debt	$	712.9	$	818.8
Current portion of long-term debt		17.8		7.0
Cash and cash equivalents		(36.3)		(34.7)
Net indebtedness	$	694.4	$	791.1

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Results
(unaudited)

	2010				2009			
(in millions of dollars, except per share amounts)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	**$ 570**	$ 500	$ 510	$ 512	$ 570	$ 504	$ 531	$ 565
Adjusted operating income before amortization	**120**	90	91	81	120	83	77	59
Adjusted operating income margin before amortization	**21.1 %**	18.0 %	17.8 %	15.8 %	21.1 %	16.4 %	14.5 %	10.4
Operating income (loss)	**$ 65**	$ 58	$ 56	$ 45	$ 72	$ 47	$ (146)	$ 14
Adjusted operating income	**88**	59	58	47	85	53	48	31
Adjusted operating income margin	**15.4 %**	11.8 %	11.4 %	9.2 %	14.9 %	10.5 %	9.0 %	5.5
Net income (loss) applicable to participating shares	**$ 45**	$ 29	$ 67	$ 26	$ 43	$ 25	$ (144)	$ (6)
Per share	**0.56**	0.35	0.83	0.32	0.54	0.31	(1.79)	(0.08)
Adjusted net income applicable to participating shares	**63**	34	34	27	53	31	30	19
Per share	**0.77**	0.43	0.42	0.34	0.65	0.39	0.37	0.24
% of fiscal year	**39 %**	22 %	22 %	17 %	39 %	24 %	22 %	15

The above table shows changes in the Corporation's quarterly results. Note the impact on revenues of the North American recession in 2009; starting in the third quarter 2009, the rationalization measures announced in February 2009 limited the recession's impact on earnings. Asset divestitures and the appreciation of the Canadian dollar versus its U.S. and Mexican counterparts also affected revenues in 2010 compared to 2009. The fourth quarter is higher than the others since advertising spending is generally higher in the fall.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Principal Cash Flows and Financial Condition
For fiscal years ended October 31
(unaudited)

(in millions of dollars)	2010	2009
Operating activities		
Cash flow from continuing operations before changes in non-cash operating items	$ 316.0	$ 247.1
Changes in non-cash operating items	(153.8)	(145.6)
Cash flow related to operating activities of continuing operations	162.2	101.5
Investing activities		
Business acquisitions, net of disposals	(14.0)	(14.4)
Acquisitions of property, plant and equipment, net of disposals	(115.9)	(243.5)
Other	(23.7)	(27.1)
Cash flow related to investing activities of continuing operations	(153.6)	(285.0)
Financing activities		
Increase in long-term debt	40.5	281.4
Reimbursement of long-term debt	(10.1)	(107.3)
Decrease in revolving term credit facility	(95.4)	(89.7)
Issuance of preferred shares	-	96.8
Issuance of participating shares	2.1	0.2
Dividends on participating shares	(28.3)	(25.8)
Dividends on preferred shares	(7.0)	-
Other	(0.2)	(0.6)
Cash flow related to financing activities of continuing operations	(98.4)	155.0
Other relevant information		
Net indebtedness	694.4	791.1
Shareholders' equity	1,247.0	1,115.2
Net indebtedness (including usage of the securitization program) / adjusted operating income before amortization	1.82	2.59 [1]
Credit rating		
DBRS	BBB high	BBB high
	Stable	Stable
Standard and Poor's	BBB-	BBB-
	Stable	Stable

[1] As initially reported.

Cash Flow Related to Continuing Operations

Cash flow from operating activities before changes in non-cash operating items increased from $247.1 million in 2009 to $316.0 million in 2010. The change is primarily due to the increase in adjusted operating income before amortization. Changes in non-cash operating items were similar to the prior year, with an outflow of $153.8 million in 2010, compared to an outflow of $145.6 million in 2009. In both cases, the main factor affecting the outflow was the

reduction in use of the securitization program. Consequently, cash flow from operating activities increased, generating a cash inflow of $162.2 million in 2010, compared to a cash inflow of $101.5 million in 2009.

Cash Flow Related to Investing Activities of Continuing Operations

In 2010, $115.9 million was invested in property, plant and equipment, net of disposals, significantly less (by $127.6 million) than the $243.5 million invested in 2009. Most of the investment was used to set up the unique Canada-wide newspaper and flyer-printing platform required to print *The Globe and Mail* daily paper. We invested in this project in 2009 also, and in the project to print the *San Francisco Chronicle* in Fremont, California. Both these projects have now been completed.

Cash Flow Related to Financing Activities of Continuing Operations

The Corporation paid $28.3 million, or 35 cents per share, in dividends on participating shares in 2010, compared to $25.8 million, or 32 cents per share, in 2009. This is an increase of more than 9%. The Corporation also paid $7.0 million in dividends on Series D Preferred Shares in 2010; no such dividend was paid in 2009. Dividends paid by Transcontinental to Canadian residents are eligible dividends as per provincial and federal income tax laws.

Shares Issued and Outstanding	As at October 31, 2010	As at November 30, 2010
Class A (Subordinate Voting Shares)	65,806,497	65,806,497
Class B (Multiple Voting Shares)	15,196,840	15,196,840
Series D Preferred (with rate reset)	4,000,000	4,000,000

Debt Instruments

As at October 31, 2010, net indebtedness (including use of the securitization program) to adjusted operating income before amortization ratio stood at 1.82 (2.59 as at October 31, 2009) mainly due to the sale of almost all the assets of the Direct Mail Group in the United States, a significant reduction in capital expenditures and the increase in adjusted operating income before amortization. Furthermore, Management plans to reduce this ratio even further and to keep it at about 1.50.

On December 4, 2009, the Corporation repaid $150 million and cancelled Tranche B of its term revolving credit facility. The term revolving credit facility of the Corporation now consists solely of Tranche A, an amount of $400 million, which matures in September 2012; $178.2 million of this amount had been used as at October 31, 2010. The applicable interest rate on the revolving term credit facility is based on the credit rating assigned by Standard & Poor's Ratings Services. Depending on the form of borrowing chosen by the Corporation, the interest rate applicable for the line of credit is currently either bank prime rate, bankers' acceptance rate + 0.615%, or LIBOR + 0.615%. Fees of 0.135% are also applicable, whether the line of credit is drawn or not, and utilization fees of 0.1% are applicable if the amount drawn exceeds $66^{2/3}$%.

As of October 31, 2010, letters of credit amounting to C$0.2 million and US$3.0 million were drawn on the term revolving credit, in addition to the amounts presented in the previous paragraph.

In the third quarter of fiscal 2009, the Corporation obtained financing of €55.6 million ($78.7 million of dollars) from a European bank with a six-year term bearing interest at EURIBOR + 1.60%, to purchase production equipment over the two subsequent years. This financing will be drawn in tranches, based on equipment delivery dates and will be

payable in equal instalments of capital plus interest every six months from January 2011. On December 1, 2009, the Corporation arranged a cross-currency swap, which matures in six years, to set the exchange rate at 1.5761 and the interest rate on this facility at bankers' acceptance rates plus 2.55%.

In fiscal 2010, the Corporation was not in default under any of its obligations.

Apart from its long-term debt, the Corporation's commitments are mainly comprised of operating leases. The table below shows the breakdown of these obligations and commitments for future years.

Contractual Obligations and Business Commitments
For years ending October 31

Contract type (in millions of dollars)	2011	2012	2013	2014	2015	2016 and thereafter	Total
Long term debt	$ 17.8	$ 270.4	$ 92.0	$ 231.0	$ 65.2	$ 60.5	$ 736.9
Other commitments	43.8	31.9	25.7	21.4	17.5	66.0	206.3
Total commitments	$ 61.6	$ 302.3	$ 117.7	$ 252.4	$ 82.7	$ 126.5	$ 943.2

Off-Balance-Sheet Arrangements (Securitization)

Under its securitization agreement, the Corporation sold, on an ongoing basis, certain of its receivables to a trust that sold its beneficial interest to third-party investors. The maximum net consideration allowable under this agreement was $300.0 million, including a maximum of US$100.0 million. This agreement came to an end in August 2010 and no new agreement has been signed to date. Although the Corporation currently has sufficient capital, it is exploring various financing options in order to increase its financial flexibility.

As at October 31, 2009, the accounts receivable sold under the securitization program amounted to $240.3 million, of which $128.4 million was kept by the Corporation as retained interest, resulting in a net consideration of $111.9 million, including C$77.3 million and US$32.0 million. As at October 31, 2009, the maximum net consideration the Corporation could have obtained under the terms of the program was $202.3 million. The retained interest is recorded in the Corporation's accounts receivable at the lower of cost and fair market value. Under the program, the Corporation recognized a total discount of $0.9 million in fiscal 2010 ($4.5 million for fiscal 2009) on the sale of accounts receivable. The Corporation was in compliance with all its covenants under the agreements governing this program.

PRINCIPAL ACCOUNTING ESTIMATES

The Corporation prepares its consolidated financial statements in Canadian dollars and in accordance with Canadian GAAP. A summary of the significant accounting policies is presented in Note 1 of the Consolidated Financial Statements. Some of the Corporation's accounting policies require Management to use estimates and judgments. The most significant areas requiring the use of management estimates and judgments include: provisions, including provisions for bad debts and inventory obsolescence, impairment of assets, restructuring costs, amortization periods of property, plant and equipment and intangible assets, accounting for income taxes, valuation of goodwill and intangible assets, stock-based compensation costs and accounting for pension plans.

Goodwill

Goodwill represents the excess of acquisition cost over fair value of net assets of acquired businesses. Goodwill has

an indefinite useful life and is not amortized, but it is tested annually for impairment or more frequently if impairment indicators arise.

Intangible Assets

Intangible assets are accounted for at cost and amortized as follows:

	Term	Method
Customer relationships	12 years	Straight-line
Educational books prepublication costs	Maximum 5 years	On historical sales patterns
Educational book titles	6 - 9 years	On historical sales patterns
Printing contracts	Term of the contract	Straight-line
Non-compete agreements	2 - 5 years	Straight-line
Long-term technology project costs	5 years	Straight-line

Non-amortizable intangible assets consist of acquired trade names, mainly magazines and newspapers, and their related circulation. These assets have an indefinite useful life and are not amortized, but tested annually for impairment or more frequently if impairment indicators arise.

Pension Plans

The accrued benefit obligation is determined by independent actuaries using the projected benefit method prorated on services and is based on management's best economic and demographic estimates. The Corporation amortizes the unrecognized net aggregate actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, and past service costs, over the expected average remaining service life (EARSL) of the employee group covered by the plans, which ranges from 10 to 12 years. The transitional obligation resulting from the initial application of Section 3461 of the Canadian Institute of Chartered Accountants' (CICA) Handbook in November 2000 is also amortized over the EARSL of the employee group covered by the plans. Fair market value is used to calculate the expected return on plan assets.

Income taxes

The Corporation records income taxes using the liability method of accounting. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount and the tax basis of the assets and liabilities and are measured using tax rates in effect when these differences are expected to reverse in accordance with enacted laws or those substantively enacted at the date of the financial statements. A valuation allowance is recorded as a reduction of the carrying value of future tax assets when it is more likely than not that these assets will not be realized.

EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

Business Combinations

In January 2009, CICA issued Section 1582, Business Combinations, which supersedes the like-named Section 1581. This Section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The Section establishes standards for the recognition of a business combination.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which supersedes the likenamed Section 1600. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated financial statements.

Non-controlling Interests

In January 2009, the CICA issued Section 1602, Non-controlling Interests, which supersedes Section 1600, Consolidated Financial Statements. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements subsequent to a business combination.

International Financial Reporting Standards (IFRS)

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

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

The Corporation is required to qualitatively disclose its changeover impacts in conjunction with its 2010 financial reporting as well as quantitative information if available, with its interim and annual financial reporting for the year ending October 31, 2011. This information will be used by the Corporation to present comparative information in its financial statements for the year ending October 31, 2012.

The Corporation set up an organizational project management team composed of members from different levels and positions to oversee project coordination and monitoring. Regular progress reports are submitted to the Audit Committee. Staff with the appropriate qualifications and experience have been assigned to the project.

The Corporation's conversion plan consists of three phases:

Phase 1 – Evaluation

During this phase the Corporation performed a high-level identification of the major differences between IFRS and the Corporation's accounting policies as well as an evaluation of the key areas that may be impacted by the transition to IFRS. A detailed conversion plan was developed. Since changes are expected to IFRS standards during the conversion period and could impact the conversion plan, a monitoring process was established.

Phase 2 – Conversion

In this phase, the Corporation designs and develops solutions to address the differences identified in phase 1. Changes required to the existing accounting policies, financial reporting, information systems, business processes and internal controls will be identified in order to perform conversion to IFRS. Impacts on contractual arrangements are evaluated and modifications made as required. A change management strategy is implemented to respond to the information and training needs of the different stakeholders.

Phase 3 – Implementation

The objective of this final phase is to enable continued IFRS reporting and to facilitate knowledge sharing. Changes identified in phase 2 are implemented and tested to ensure that any difference is addressed prior to the changeover date. The change management strategy initiated in phase 2 continues until completion of the conversion.

The Corporation has completed phases 1 and 2 of the project. Phase 3 will start in 2011.

The following table shows the progress of the IFRS changeover as at October 31, 2010.

	Main Activities	Schedule	Status
Financial Information	Identify and analyze the differences between IFRS and the Corporation's accounting policies. Design and develop solutions to resolve the differences. Select from among the IFRS accounting standards and the exemptions permitted in accordance with IFRS 1. Develop a model for IFRS financial statements, including notes.	Completed before October 31, 2010. Follow up and updates during fiscal 2011.	Completed: Analysis of differences in accounting policies. Developed: Solutions to resolve the differences. Senior management and the audit committee have conditionally approved the selected IFRS 1 accounting standards and exemptions. In progress: Development of a model for financial statements.
	Prepare the opening balance sheet and compile the financial information for preparing the comparative IFRS financial statements.	During fiscal 2011.	To come.
Information Systems and Processes	Evaluate the impact of the changes on information systems and processes and make changes as required. Formulate and implement a strategy for compiling the information in parallel (based on Canadian GAAP and IFRS) during fiscal 2011.	Modify the information systems and processes finalized in time to compile financial information during fiscal 2011. Follow up and update during fiscal 2011.	Completed: Evaluation of impact on information systems and processes. Changes are being made. Formulated: Strategy for parallel compilation of information.

Internal Controls	Evaluate the impact of the changes to internal controls on financial information and controls and procedures for communicating information and implement the changes as required.	Implement the changes required starting in second quarter of fiscal 2011. Follow up and updating during fiscal 2011.	Evaluated: Impact on internal controls, plus detailed analysis of differences with respect to financial information.
Training and Communication	Identify training needs and provide training.	Training sessions in fiscal 2010 and 2011.	Specific training given to primary actors in the changeover and general training given to finance function employees.
	Communicate the progress of the changeover plan to stakeholders.	Regular communications in fiscal 2010 and 2011.	Developed: Communication plan with regular communication of the plan as it progresses.
Business	Evaluate the impact on the Corporation's contractual undertakings (compliance with restrictive financial clauses, compensation plans, etc.). Make changes required to contractual agreements.	Changes made before October 31, 2011.	Completed: Overall evaluation of potential impacts on agreements. Evaluated: Impact on contractual agreements, plus detailed analysis of differences with respect to financial information.

Differences between IFRS and the Corporation's accounting policies

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

Subject	Items that could have an impact on the Corporation's financial statements
Employee Benefits (IAS 19)	• Under the IFRS, an entity may elect to recognize actuarial gains and losses using a corridor approach (which the Corporation uses) or recognize them immediately in other comprehensive income. The Corporation plans to continue using the corridor approach to recognition of actuarial gains and losses • An exposure draft has been issued proposing the immediate recognition of actuarial gains and losses in other comprehensive income and the presentation of service costs and financial expenses in the profit or loss statement. The standard will be published in 2011
Impairment of Assets (IAS 36)	• Asset impairment testing is done at the lowest cash generating unit (CGU) level. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. According to Canadian GAAP, asset impairment testing is done at the level of the asset group, which is defined much like a CGU.

	• Goodwill is allocated to the CGU or groups of CGUs that should benefit from the synergies of a business combination, while under Canadian GAAP, goodwill is allocated to operating units that are equivalent to an operating sector or to one level below. Given that the impairment test could be performed at the level of a group of assets that is smaller than that for Canadian GAAP, asset impairment may be recognized at different times depending on the IFRS. • To determine whether an impairment should be recognized, the carrying amount of the CGU is compared to its recoverable amount, which is the higher of fair value less costs to sell and value in use (present value of future cash flows). Under Canadian GAAP, the carrying amount is compared to undiscounted future cash flows and if an impairment is required, the amount of the impairment is determined by comparing the carrying amount of the asset to its fair value. The impacts for the Corporation will be determined during the asset impairment test which will be done during the transition to IFRS. • Asset impairments other than goodwill impairments can be reversed under certain conditions. Canadian GAAP did not permit reversals.
Property, Plant and Equipment (IAS 16)	• Each part of property, plant and equipment having a material cost in relation to the total cost of the asset must be amortized separately. Under Canadian GAAP, an entity must amortize a major component separately when it is reasonably possible to do so and the service life of each component can be estimated. The Corporation does not foresee any significant impact related to this difference because the major components are already amortized over the service life of the component.
Income Taxes (IAS 12)	• Under Canadian GAAP and IFRS, future income taxes are calculated on temporary differences, i.e. differences between the tax basis of an asset or liability and its carrying amount on the balance sheet. Under Canada's Income Tax Act, the maximum deductible for "eligible capital expenditures" is 75% of the cost incurred. Canadian GAAP addresses this particular situation and specifies that the tax basis must be increased by 25%, thus eliminating the temporary difference. IFRS does not address this specific situation, and therefore a temporary difference exists between the tax basis and the carrying amount of assets that must be recognized in the case of eligible business combination transactions. The Corporation is currently evaluating the impact of this difference for intangible assets that qualify as eligible capital expenditures, and anticipates an adjustment that will lead to an increase in future income tax liabilities and an adjustment in retained earnings as at the transition date.
Financial Instruments: Recognition and Measurement (IAS 39)	• Under IFRS, an entity may derecognize a financial asset under certain conditions based on the concept of transferring risks and benefits. Under Canadian GAAP, the conditions for derecognizing a financial asset are based, instead, on the notion of transfer of control of the asset. For the Corporation, accounts receivable sold under a securitization arrangement may no longer satisfy the conditions for being derecognized under IFRS.
Interests in Joint Ventures (IAS 31)	• IFRS allows the recognition of interests in joint ventures using the proportionate consolidation method (which is used by the Corporation) or the equity method. The Corporation plans to continue using the proportionate consolidation method. • An exposure draft has been issued proposing to eliminate the proportionate consolidation method in some situations. The standard is expected to be published in 2011.

IFRS 1, "First-time Adoption of International Financial Reporting Standards" is the standard which the Corporation must apply in preparing its opening IFRS statement of financial position. The purpose of this standard is to provide a starting point for IFRS-compliant accounting without spending more on the process than the benefits warrant. Thus certain relief measures, called exemptions and exceptions, are permitted to avoid retroactive application of some standards. The exemptions are optional and the exceptions are required. The following list presents some exemptions that could have a significant impact for the Corporation. This list is not definitive or exhaustive and the quantitative impacts will be disclosed when they are known.

Exemption	Description and Status
Employee Benefits	IAS 19 Employee Benefits requires actuarial gains and losses to be measured in accordance with IFRS from plan start dates to the date of transition to IFRS. IFRS 1 allows recognition of accumulated actuarial gains and losses in retained earnings as at the transition date and prospective application of IAS 19. The Corporation plans to use this exemption.
Borrowing Costs	IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Under Canadian GAAP, an entity has the option of capitalizing borrowing costs or recognizing them as an expense. The Corporation's accounting policy is to capitalize borrowing costs. IFRS offers more direct guidance than Canadian GAAP regarding the nature of capitalizable borrowing costs. An exemption under IFRS 1 allows IAS 23 requirements to be applied prospectively for all qualifying assets where capitalization commences on a date earlier than the transition date or on the transition date. The Corporation plans to use this exemption.
Cumulative Translation Differences	IAS 21 Effects of Changes in Foreign Exchange Rates requires that translation differences be calculated in compliance with IFRS from the acquisition date or from the date of creation of the foreign operation. IFRS 1 allows the cumulative translation differences for all foreign operations to be set to zero at the date of transition. The gain or loss on subsequent disposal of a foreign operation will therefore only include foreign exchange differences arising subsequent to the date of transition to IFRS. The Corporation plans to use this exemption.

RISKS AND UNCERTAINTIES

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

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

Operational Risks

Economic Cycles

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

However, due to the implementation of a development strategy based on becoming a leader in its niches, and because it is well diversified, the Corporation believes it can limit its exposure to economic cycles without, however,

eliminating their occurrence or controlling their magnitude. The Corporation believes it mitigates this risk by the very composition of its operations, since a substantial segment of the client base operates in less cyclical markets, such as food and personal care. Furthermore, in the Media Sector, Transcontinental relies on a good balance between local and national advertising. It should be noted that in recent years close to half the advertising revenue in this sector has come from local advertising, which has been less volatile than national advertising.

Competition

Competition is based on price, quality of products and services and the range of services offered. Some of the printing niches in which the Corporation operates are highly competitive. To reduce this risk, the Corporation continually strives to improve operational efficiency while maximizing the use of its most productive equipment. We believe that this risk is also limited by our position as Canadian leader, and by the fact that we have a diversified client base in which more than half the revenues are generated under medium and long-term agreements ranging from one to 18 years.

On the media side, magazines and newspapers, whether of general interest or with a special focus, as well as other media (television, radio, Internet and other communication or advertising platforms) compete with Transcontinental's magazines, newspapers, Internet sites and complementary communication platforms for sale of advertising space as well as subscription and newsstand sales in some cases. In addition, the availability in Canada of a number of magazines published by U.S. and international publishers also creates competition for Transcontinental's magazines. To mitigate this risk, the Corporation continues to focus on continuous improvement programs, cost-reduction initiatives and developing new digital and print products and services in order to broaden its integrated service offer to local and national businesses.

Moreover, with consumers having rapidly adopted digital communications, more and more content is being produced and aimed at a target audience, and there is increasing competition among digital and mobile solutions. Although this situation could well generate business opportunities, these new realities are evolving very quickly and if we don't offer our customers an attractive return on investment, the effect on our bottom line could be negative. However, due to the recent acquisitions in the Interactive Sector, the Corporation has taken a leading position in a number of interactive niches, and has developed an integrated service offering of interactive solutions that differentiate the Corporation from its competitors in Canada.

New Media

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

Nevertheless, business opportunities also exist to recover advertising budgets invested in other media platforms. To limit the risk and capitalize on this opportunity, Transcontinental has been shifting its focus towards the digital market through its Interactive and Media sectors. The Corporation has targeted development areas in its strategy for digital media and interactive solutions in order to position itself as a content creator and to deliver on new media platforms and other digital solutions.

Our success depends on the quality of our products and services. Consequently, we must continue to invest in research and development to improve our digital platforms as well as introduce new high-potential products and services. On the other hand, these investments could affect our operating results.

Operational Efficiency

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

Regulation

The Corporation is subject to many regulations that may be amended by municipal, provincial or federal authorities. Any changes to these regulations could result in a material increase in costs for the Corporation if it must comply by increasing its workforce, enhancing compensation and employee benefits, or investing in raw materials or new or improved equipment.

Geographic Distribution and Exchange Rate

In fiscal 2010, revenues generated outside Canada accounted for 17% of consolidated revenues, compared to 18% in 2009. This drop is due mainly to the rise of the Canadian dollar against its U.S. and Mexican counterparts during the fiscal year and to a decline in our revenues in Mexico that was partially offset by an increase in our operating revenues in the United States as a result of printing the *San Francisco Chronicle* for the full year in 2010 versus four months in 2009.

The currency-hedging program uses derivatives to protect the Corporation from the risk of short-term currency fluctuations. Moreover, Transcontinental attempts to match cash inflows and outflows in the same currency. The policy approved by the Corporation's Board of Directors permits hedging of 50% to 100% of net cash flows for a period of one to 12 months, 25% to 50% for the subsequent 12 months and up to 33% for the following 12 months.

As at October 31, 2010, using forward contracts to manage the exchange rate related to its exports to the United States, the Corporation had contracts to sell US$107 million (US$118 million as at October 31, 2009), of which $62 million and $45 million will be sold in fiscal 2011 and 2012, respectively. The terms of these forward contracts range from one month to 23 months, with rates varying from 1.0302 to 1.2800. Hedging relationships were effective and in accordance with risk management objectives and strategies throughout fiscal 2010.

Dependence on Information Systems

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

Recruiting and Keeping Talent

Social and demographic trends are making it more challenging to hire and retain qualified personnel. There is a diminishing pool of qualified talent, an increase in professional mobility, an increase in technology use and a high demand for emerging skill sets. There is a risk that the Corporation will have difficulty hiring and retaining qualified personnel. Development plans for high-potential and promotable executives were discussed in the biannual Leadership Review process. To ensure execution, each senior leader established specific objectives and committed to provide operational growth opportunities and challenges to further accelerate each person's development. In addition, senior managers are now evaluated on their implementation of succession plans for key positions. We continually assess our leadership depth to meet organizational challenges and ensure on-going identification of successors and acquisition of new skills.

Impairment Tests

The Corporation conducts impairment tests that could lead to reductions in asset values and as a result have an unfavourable impact on shareholders' equity. Under Canadian generally accepted accounting principles, the Corporation must regularly test the impairment of long-term assets to determine whether the value of the asset in question has decreased. When an impairment test results in asset devaluation, it is recorded as a non-cash charge that reduces the Corporation's reported earnings.

Exchange of Confidential Information and Privacy

This risk involves the use and manipulation of confidential information provided by our customers. The potential dissemination of such information to the wrong individuals could cause significant damage to our customers' relationships with their clients and thus to our own relationships with our customers and could result in legal actions. To mitigate this risk, various measures to improve prevention and control have been implemented. In fiscal 2010, we strengthened our security measures, specifically with respect to information systems.

Furthermore, it is possible that some of our operations infringe on the privacy of users and others. While we have introduced strict controls in this area, our practices with respect to the collection, use, disclosure or security of personal information or other related confidentiality issues could damage our reputation.

Business Development

The Corporation's financial leverage and corporate risk profile is liable to vary from time to time as a result of new developments in its business activities, and the investments required to support internal growth as well as external growth through acquisitions. The risk profile may differ from one strategic transaction to another depending on the characteristics of the transaction and its relevant market. The development of such strategic transactions may not necessarily lead to the anticipated results or benefits.

Integration of Acquisitions

Acquisitions have been and continue to be a key element in the Corporation's growth strategy. However, the integration of acquisitions is always a risk and this risk increases with the size of the acquisition. Integrating businesses could cause temporary disruptions to operations, to labour retention, to client relationships and/or potential loss of business. In addition, the identified synergies may not be fully realized or may take longer to realize than originally anticipated. In order to mitigate this risk, the Corporation respects its strict acquisition criteria, and ensures that each acquisition target undergoes our exhaustive requisition lists with regard to due diligence, and is integrated using our internally developed integration methodology.

Loss of Reputation

The Corporation currently enjoys a good reputation. The risk of losing or tarnishing this reputation could have an important impact on the affairs of the Corporation or its valuation in the stock market. Since its creation, the Corporation has taken important steps to mitigate this risk, mainly by ensuring strong corporate governance and establishing policies, including a Code of Ethics.

Participating Shares and Preferred Shares

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

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

Financial Risks

Availability of Capital and Use of Financial Leverage

In fiscal 2010, the Corporation repaid and cancelled Tranche B of its term revolving credit facility, an amount of $150 million. The facility now consists solely of Tranche A, an amount of $400 million, which matures in September 2012, of which $178.2 million was used as at October 31, 2010. In addition, our receivables securitization program of $300.0 million matured in August 2010 and no new agreement has been signed to date. Although we do not currently need these instruments, the Corporation is investigating various financing options that will provide it with greater flexibility. This risk is mitigated by the fact that the Corporation is in a very good financial position, with a ratio of net indebtedness (including the securitization program) to adjusted operating income before amortization of 1.82; furthermore, the Corporation's cash flows should be higher in fiscal 2011 given the significant reduction in our capital spending program and the contribution from printing *The Globe and Mail* daily paper.

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

Interest Rate

Transcontinental is exposed to market risks related to interest-rate fluctuations. At the end of fiscal 2010, considering the derivative financial instruments used, the fixed rate portion of the Corporation's long-term debt represented 70% of the total, while the floating rate portion represented 30% (64% and 36%, respectively, in 2009). The fixed rate portion of the debt increased due to higher cash flows generated in fiscal 2010, which considerably reduced the use of the term revolving credit facility. The floating rate portion of the debt bears interest at rates based on LIBOR or bankers' acceptance rates. In fiscal 2010, the Bank of Canada increased its policy rate slightly. In order to mitigate this risk the Corporation tries to keep a good balance of fixed versus floating rate debt.

Credit

Although economic conditions seem to be stabilizing, the Corporation is still exposed to credit risk. To limit this risk, the Corporation is maintaining its strict controls on receivables and senior management is putting greater emphasis on analyzing and reviewing the financial health of its customers; rigorous evaluation procedures are applied to all new customers. A specific credit limit is established for each customer and reviewed periodically by the Corporation. As well, the Corporation is protected against any concentration of credit risk through its products, clientele and geographic diversity. As at October 31, 2010, the maximum exposure to credit risk related to receivables is the carrying amount. The Corporation also has a credit insurance policy covering most of its major customers, for a maximum amount of $29.2 million, which ends on April 30, 2011. The policy contains the usual clauses and limits regarding the amounts that can be claimed by event and year of coverage. The Corporation did not file any claim against this credit insurance policy for fiscal year ended October 31, 2010.

Pension Plans

On June 1, 2010, the Corporation replaced its hybrid and defined benefit (DB) pension plans with defined contribution (DC) plans. As a result, the Corporation has limited its risk with respect to past service under the hybrid and DB plans since there is no risk associated with future service under the DC plans.

Pension funding is based on actuarial estimates and is subject to limitations under applicable income tax and other regulations. Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels to the time of retirement and the anticipated long-term rate of return on pension plan assets. Accrued benefit obligation, fair value of plan assets and plan asset composition are measured at the date of the annual financial statements. The most recent actuarial valuation of the pension plans for funding purposes was made as of December 31, 2007. The next required valuation will be as of December 31, 2010, at the latest. The actuarial funding valuation report determines the amount of cash contributions that the Company is required to contribute into the registered retirement plans. The December 31, 2007 funding report showed the registered retirement plans to be in a solvency deficit position. As the pension fund assets consist of a mix of bonds and equities, the recovery in financial markets in 2009 have increased the market value of the pension fund assets. However, if the financial markets or interest rates drop significantly again and the pension plans are in a solvency deficit on the date of the next actuarial valuation, the Corporation would likely be required to increase its cash funding contributions.

Environmental Risks

The Corporation operates in two industries, printing and publishing, which use large quantities of paper for their day-to-day operations. Consumers are expressing mounting concern over the protection of the environment as well as sustainable development. This growing concern about the environment could change the consumption habits of consumers and new regulations could force the Corporation to use materials that are more environmentally friendly, but more expensive, in its operations. To mitigate this risk, the Corporation tries to be at the forefront of its industry in terms of commitment to the environment and, in collaboration with its suppliers, is looking on an ongoing basis to reduce its costs. Please refer to the Environment section for further details.

Raw Material and Postal Risk

Raw Materials and Energy Prices

The primary raw materials the Corporation uses in its printing sector are paper, ink and plates. This sector's activities consume energy, i.e., electricity, natural gas and oil. Fluctuations in raw materials and energy prices affect our operations.

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

Future Policies of the Canadian and U.S. Postal Systems

Even though postal costs are currently less of an important element following the sale of almost all our direct mail operations in the United States, they are still a significant component of our printing customers' cost structures (direct mail in Canada, catalogues and magazines). Postal rate changes can influence the number of pieces that the Corporation's customers are willing to mail. In order to mitigate this risk, the Corporation has increased its investment in postal optimization capabilities which can offer customers a reduction in their postal costs. A significant increase in postal costs would affect not only the customers of our printing operations, but also our Media sector, particularly with respect to the distribution of our magazines. Furthermore, Canadian print magazines and non-daily newspapers benefit from the Aid to Publishers program offered by the Canada Periodical Fund. Any significant reduction or loss in these subsidies could have a negative impact on the Corporation's obligations.

In conclusion, the Corporation continues its stringent approach to risk management, remaining alert to any new risks that could affect its operations and ensuring that its current control measures are effective. Management also continues its structured approach to risk prevention and control and to business continuity planning, which establishes measures to encourage business units to prevent risk, manage organizational change and recover from unforeseeable events more effectively.

DISCLOSURE CONTROLS AND PROCEDURES

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

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

The President and Chief Executive Officer and the Vice President and Chief Financial Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures as at October 31, 2010, have concluded that the Corporation's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Corporation and its subsidiaries would have been known to them.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The President and Chief Executive Officer and the Vice President and Chief Financial Officer have supervised the evaluation of the design and effectiveness of internal controls with respect to the Corporation's financial reporting, using the integrated framework for internal controls issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, they concluded that the Corporation's internal system for controlling financial reporting is effective as at October 31, 2010.

The President and Chief Executive Officer and the Vice President and Chief Financial Officer have evaluated whether there were changes to internal control over financial reporting during the year ended October 31, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

OUTLOOK

In the first three quarters of 2010 the Corporation benefited greatly from new printing contracts and from the rationalization measures implemented as of February 2009. In 2011, the recent start-up of our Canada-wide hybrid platform to print *The Globe and Mail,* among others, will generate about $25 million in new business and result in considerable synergies. We will also be implementing major new measures to improve operational efficiency by further optimizing use of our most productive equipment; this will also further consolidate our leading position in Canada, and even gain us new market share.

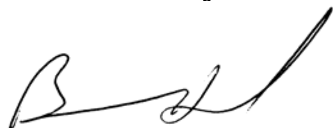
Major investments in recent years, particularly in our Canada-wide hybrid printing platform, have augmented both our production capacity and print flexibility, enabling us to limit and even retire less-productive equipment that was more costly to maintain. This will in turn allow us to reduce our capital expenditures program to about $75 million a year for the next several years, of which about half will be invested in the Media and Interactive sectors.

The Corporation will thus accelerate the development of its integrated marketing solutions; strategic investments and targeted acquisitions will enhance its unique service offering and improve its position in the Canadian market with emerging digital platforms. The Interactive Sector will also intensify its business development with customers to meet growing demand for, among other things, custom marketing programs based on digital and interactive applications. Optimization of our integrated marketing solutions should generate new sector revenue in coming quarters. With respect to operating income, the operating margin should gradually improve, but at a slower pace than revenues, given our ongoing strategic investments.

In fiscal 2010 the Media Sector observed a recovery in both national and local advertising spending. Without being able to precisely define the scope of this recovery, we believe it will continue in the next fiscal year and will have a beneficial impact on a number of our business groups, including the Business and Consumer Solutions Group. We expect revenues in the Local Solutions Group to increase in coming quarters; the operating margin will be negatively impacted by the ongoing investments in print and digital to enhance our integrated solutions for local businesses. The New Media and Digital Solutions Group will continue to develop our digital platforms, and strategic investments will be ramped up to increase business in this promising niche.

Finally, due to the significant cash flows generated in fiscal 2011 and the major reduction in our capital spending program, we expect to see ongoing improvement in our ratio of net indebtedness (including the securitization program) to adjusted operating income before amortization. Management's objective is to further reduce this ratio and to maintain it at about 1.50.

On behalf of Management,



Benoît Huard
Vice President and Chief Financial Officer

December 8, 2010

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AUDITORS' REPORT TO THE SHAREHOLDERS OF TRANSCONTINENTAL INC.

We have audited the consolidated balance sheets of Transcontinental inc. (the "Company") as at October 31, 2010 and 2009 and the consolidated statements of income (loss), comprehensive income (loss), retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP*

Chartered Accountants

Montreal, Canada

December 7, 2010

*CA Auditor permit no 10892

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CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the years ended October 31

(in millions of dollars, except per share data)

	Notes	2010	2009
Revenues		$ 2,091.6	$ 2,169.8
Operating costs		1,473.7	1,583.2
Selling, general and administrative expenses		235.9	247.7
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		382.0	338.9
Amortization	3	129.5	121.8
Impairment of assets and restructuring costs	4	15.8	56.3
Impairment of goodwill and intangible assets	11 & 12	12.5	172.6
Operating income (loss)		224.2	(11.8)
Financial expenses	5	42.4	40.9
Discount on sale of accounts receivable	8	0.9	4.5
Income (loss) before income taxes and non-controlling interest		180.9	(57.2)
Income taxes	6	34.0	6.6
Non-controlling interest		0.9	0.3
Net income (loss) from continuing operations		146.0	(64.1)
Net income (loss) from discontinued operations	7	27.4	(17.7)
Net income (loss)		173.4	(81.8)
Dividends on preferred shares, net of related income taxes		6.8	0.5
Net income (loss) applicable to participating shares		$ 166.6	$ (82.3)
Net income (loss) per participating share - basic and diluted			
Continuing operations	18	$ 1.72	$ (0.80)
Discontinued operations		0.34	(0.22)
		$ 2.06	$ (1.02)
Weighted average number of participating shares outstanding - basic (in millions)		80.8	80.8
Weighted average number of participating shares outstanding - diluted (in millions)		80.9	80.8

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended October 31

(in millions of dollars)

	Notes		2010		2009
Net income (loss)		$	173.4	$	(81.8)
Other comprehensive income (loss):					
Net change in fair value of derivatives designated as cash flow hedges, net of income taxes of $(4.0) million for the year ended October 31, 2010 ($3.0 million for the year ended October 31, 2009)			(13.7)		9.2
Reclassification adjustments for net change in fair value of derivatives designated as cash flow hedges in prior periods, transferred to net income in the current period, net of income taxes of $1.8 million for the year ended October 31, 2010 ($3.9 million for the year ended October 31, 2009)			8.5		6.7
Net change in fair value of derivatives designated as cash flow hedges			(5.2)		15.9
Net gains (losses) on translation of financial statements of self-sustaining foreign operations			(4.0)		4.7
Other comprehensive income (loss)	21		(9.2)		20.6
Comprehensive income (loss)		$	164.2	$	(61.2)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended October 31

(in millions of dollars)

		2010		2009
Balance, beginning of year	$	645.9	$	753.5
Net income (loss)		173.4		(81.8)
		819.3		671.7
Dividends on participating shares		(28.3)		(25.8)
Dividends on preferred shares		(7.0)		-
Balance, end of year	$	784.0	$	645.9

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

CONSOLIDATED BALANCE SHEETS
As at October 31

(in millions of dollars)

	Notes	2010	2009
Current assets			
Cash and cash equivalents		$ 36.3	$ 34.7
Accounts receivable	8	454.8	306.0
Income taxes receivable		19.7	4.1
Inventories	9	82.9	74.3
Prepaid expenses and other current assets		21.6	20.1
Future income taxes	6	17.7	11.0
Assets from discontinued operations	7	-	32.4
		633.0	482.6
Property, plant and equipment	10	918.3	935.5
Goodwill	11	678.1	673.4
Intangible assets	12	179.1	187.6
Future income taxes	6	146.7	141.5
Other assets	13	39.5	49.6
Assets from discontinued operations	7	-	60.8
		$ 2,594.7	$ 2,531.0
Current liabilities			
Accounts payable and accrued liabilities		$ 358.2	$ 350.4
Income taxes payable		28.8	27.0
Deferred subscription revenues and deposits		38.6	37.2
Future income taxes	6	2.5	0.5
Current portion of long-term debt	15	17.8	7.0
Liabilities from discontinued operations	7	-	25.4
		445.9	447.5
Long-term debt	15	712.9	818.8
Future income taxes	6	138.1	109.0
Other liabilities	16	50.0	34.7
Liabilities from discontinued operations	7	-	5.7
		1,346.9	1,415.7
Non-controlling interest		0.8	0.1
Commitments, guarantees and contingent liabilities	25		
Shareholders' equity			
Share capital	17	478.6	476.5
Contributed surplus	20	13.7	12.9
Retained earnings		784.0	645.9
Accumulated other comprehensive loss	21	(29.3)	(20.1)
		754.7	625.8
		1,247.0	1,115.2
		$ 2,594.7	$ 2,531.0

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended October 31

(in millions of dollars)

	Notes	2010	2009
Operating activities			
Net income (loss)		$ 173.4	$ (81.8)
Less : Net income (loss) from discontinued operations	7	27.4	(17.7)
Net income (loss) from continuing operations		146.0	(64.1)
Items not affecting cash and cash equivalents			
Amortization	3	154.1	146.1
Impairment of assets	4	1.7	19.0
Impairment of goodwill and intangible assets	11 & 12	12.5	172.6
Gain on disposal of assets		(8.5)	(1.2)
Future income taxes	6	9.9	(22.6)
Net change in accrued pension benefit asset and liability	24	(6.2)	(7.4)
Stock-based compensation	19	5.0	4.3
Other		1.5	0.4
Cash flow from operating activities before changes in non-cash operating items		316.0	247.1
Changes in non-cash operating items	22	(153.8)	(145.6)
Cash flow related to operating activities of continuing operations		162.2	101.5
Cash flow related to operating activities of discontinued operations		2.0	(22.7)
		164.2	78.8
Investing activities			
Business acquisitions	23	(14.0)	(14.4)
Acquisitions of property, plant and equipment		(126.8)	(256.8)
Disposals of property, plant and equipment		10.9	13.3
Increase in intangible assets and other assets		(23.7)	(27.1)
Cash flow related to investing activities of continuing operations		(153.6)	(285.0)
Cash flow related to investing activities of discontinued operations		92.2	(0.5)
		(61.4)	(285.5)
Financing activities			
Increase in long-term debt	15	40.5	281.4
Reimbursement of long-term debt	15	(10.1)	(107.3)
Decrease in revolving term credit facility	15	(95.4)	(89.7)
Dividends on participating shares		(28.3)	(25.8)
Dividends on preferred shares		(7.0)	-
Issuance of participating shares	17	2.1	0.2
Issuance of preferred shares	17	-	96.8
Other		(0.2)	(0.6)
Cash flow related to financing activities of continuing operations		(98.4)	155.0
Cash flow related to financing activities of discontinued operations		(1.3)	(0.7)
		(99.7)	154.3
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(1.5)	(3.6)
Increase (decrease) in cash and cash equivalents		1.6	(56.0)
Cash and cash equivalents at beginning of year		34.7	90.7
Cash and cash equivalents at end of year		$ 36.3	$ 34.7

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

1. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies:

a) Consolidation

The consolidated financial statements include the accounts of the Corporation and those of its subsidiaries, joint ventures and variable interest entities for which the Corporation is the principal beneficiary. Business acquisitions are accounted for under the acquisition method and the results of operations of these businesses are included in the consolidated financial statements from the acquisition date. Investments in joint ventures are accounted for using the proportionate consolidation method and investments in companies subject to significant influence are accounted for using the equity method. Other investments are recorded at cost.

b) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements of the Corporation. Although management regularly reviews its estimates, actual results could differ from them. The most significant areas requiring the use of management estimates are: provisions, including provisions for bad debts and inventory obsolescence, impairment of assets, restructuring costs, amortization periods of property, plant and equipment and intangible assets, accounting for income taxes, valuation of goodwill and intangible assets, stock-based compensation costs and accounting for pension plans.

c) Revenue recognition

The Corporation recognizes revenues when the following criteria are met:

- there is persuasive evidence of the existence of an agreement for exchange of products or services;
- the products were shipped or delivered, or services provided;
- the selling price is fixed or determinable;
- the collection of the sale is reasonably assured.

In the Printing sector, printing is the main source of revenues. These revenues are recognized when products are shipped or delivered, in accordance with the customer agreement. Most sales are promptly delivered to customers; consequently, the Corporation does not have significant finished goods in inventory.

Interactive sector revenues are recognized as follows:

Printing revenues:
Printing revenues are recognized when products are shipped or delivered, in accordance with the customer agreement.

Content preparation revenues:
Content preparation revenues are recognized based on the percentage of completion method, in accordance with the customer agreement.

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

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

Marketing project revenues:
Marketing project revenues are recognized based on the percentage of completion method, in accordance with the customer agreement.

Media sector revenues are recognized as follows:

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

Subscription revenues:
Subscription revenues are recognized using the straight-line method, based on subscription terms, which represents the period during which the services are provided. These amounts received are therefore, recorded in deferred subscription revenues when collected and subsequently transferred to income based on the subscription terms.

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

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

Educational books revenues:
Educational books revenues are recognized when the books are shipped to customers, in accordance with the customer agreement.

Publishing revenues:
Publishing revenues are recognized based on the percentage of completion method, in acordance with the customer agreement.

1. Significant accounting policies (continued)

d) Non-monetary transactions
In the normal course of business, the Corporation offers advertising in exchange for goods or services. The related revenues are accounted for based on the fair value of the goods and services received or given. For the year ended October 31, 2010, the Corporation recognized an amount of $7.4 million as non-monetary transactions ($9.5 million for the year ended October 31, 2009).

e) Income taxes
The Corporation records income taxes using the liability method of accounting. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount and the tax basis of the assets and liabilities, and are measured using tax rates in effect when these differences are expected to reverse, in accordance with enacted laws or those substantively enacted at the date of the financial statements. A valuation allowance is recorded as a reduction of the carrying value of future tax assets when it is more likely than not that these assets will not be realized.

f) Government Assistance
Government assistance, including investment tax credits, related to the purchase of property, plant and equipment or intangible assets, is recorded as a reduction in the cost of the underlying asset. Government assistance, including investment tax credits, related to operating costs, is recorded as a reduction of these costs.

g) Cash and cash equivalents
Cash and cash equivalents include cash, bank overdraft and highly liquid investments with original maturities of less than three months. Cash and cash equivalents are presented at fair value.

h) Transfer of receivables
The Corporation's receivables securitization program, which expired in August 2010, met the sale of assets criteria and, consequently, was recorded off-balance sheet.

i) Inventories
Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method.

j) Vendor rebates
The Corporation records vendor rebates as a reduction in the price of vendor's products or services received, and reduces operating costs and related inventory in the consolidated statements of income and balance sheets. These rebates are estimated based on anticipated purchases.

k) Property, plant and equipment
Property, plant and equipment are stated at cost and amortized using the straight-line method over their estimated useful lives, as follows:

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

Costs, such as interest, directly incurred for the acquisition or construction of property, plant and equipment are capitalized and amortized over the useful life of the corresponding asset. Assets under construction are not amortized until they are ready for their intended use.

Property, plant and equipment held for sale are stated at the lower of net book value and estimated fair value less costs to sell.

l) Goodwill
Goodwill represents the excess of acquisition cost over fair value of net assets of acquired businesses. Goodwill has an indefinite useful life and is not amortized but tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment.

In assessing whether or not there is an impairment, the Corporation uses a combination of approaches to determine the fair value of a reporting unit, including both the market and the discounted cash flows approaches. Under the market approach, the Corporation estimates the fair value of the reporting unit by multiplying normalized earnings before amortization, interest and income taxes by multiples based on market inputs. If there is an indication of impairment, the Corporation uses a discounted cash flow model in estimating it. The future cash flows are based on the Corporation's estimates and include consideration for expected future operating results, economic conditions and a general outlook for the industry in which the reporting unit operates.

1. Significant accounting policies (continued)

m) Intangible assets
Intangible assets are stated at cost and amortized as follows:

	Term	Method
Customer relationships	12 years	Straight-line
Educational books prepublication costs	Maximum 5 years	On historical sales patterns
Educational books titles	6-9 years	On historical sales patterns
Acquired printing contracts	Term of the contract	Straight-line
Non-compete agreements	2-5 years	Straight-line
Long-term technology project costs	5 years	Straight-line

Non-amortizable intangible assets consist of trade names, mainly from acquired magazines and newspapers, and their related circulation. These intangible assets have an indefinite useful life and are not amortized but tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment.

n) Contract acquisition costs
Contract acquisition costs are amortized as reductions of revenues using the straight-line method over the related contract term or on sales volumes. Whenever events or changes occur that impact the related contract, including significant declines in anticipated profitability, the Corporation evaluates the carrying value of the contract acquisition costs to determine whether impairment has occured. These costs are included in other assets in the consolidated balance sheets.

o) Asset retirement obligations
Legal obligations linked to removal obligations on certain buildings are recorded in the period in which they are contracted. The obligation is initially measured at fair value using an expected present value technique and is subsequently adjusted for any changes resulting from the passage of time and any changes to the timing of payment or the amount of the original estimate. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized as part of the carrying amount of the related asset by the same amount as the liability and is amortized into income over its remaining useful life.

p) Impairment of long-lived assets
Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and potential disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

q) Pension plans
The accrued benefit obligation is determined by independent actuaries, using the projected benefit method prorated on services and is based on management's best economic and demographic assumptions. The Corporation amortizes the unrecognized net aggregate actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, and past service costs, over the expected average remaining service life ("EARSL") of the employee group covered by the plans which ranges from 10 to 12 years. The transitional obligation resulting from the initial application of Section 3461 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook in November 2000 is also amortized over the EARSL of the employee group covered by the plans. For the purpose of calculating the expected return on plan assets, the fair value is used.

r) Foreign currency translation
Operating foreign subsidiaries, with the exception of sales offices of the canadian operations, are considered self-sustaining foreign operations and the current rate method is used to translate their financial statements into Canadian dollars. The resulting translation adjustments are reported under "Accumulated other comprehensive loss" in the consolidated balance sheet and recognized in income only when a reduction of the investment in these foreign operations has been realized. Integrated foreign operations, including foreign sales offices and foreign currency transactions, are translated using the temporal method and the foreign exchange gains or losses are recognized in income.

s) Financial instruments
The Corporation identifies, assesses and manages financial risks related to fluctuations in interest rates and in foreign exchange rates in order to minimize their impact on the Corporation's results and financial position by using derivative financial instruments. The Corporation manages its financial risks in accordance with specific criteria approved by its Board of Directors and does not engage in speculative transactions. If the Corporation did not use derivative financial instruments, it would have a greater exposure to market volatility.

Financial assets and liabilities are initially measured at fair value and their subsequent measurement depends of their classification, as described below. The classification depends on the objectives set forth when the financial instruments were purchased or issued, their characteristics and their designation by the Corporation.

1. Significant accounting policies (continued)

The Corporation has made the following classifications:

- Cash and cash equivalents, as well as derivative financial instruments not designated as hedges, are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Investments are classified as either financial assets held to maturity and are thus measured at amortized cost or as available-for-sale and thus marked-to-market, or measured at cost if there is no quoted market. If they are measured at fair value, variations are recorded through comprehensive income at each period-end.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.
- Bank overdraft, accounts payable and accrued liabilities, other liabilities and long-term debts are classified as other liabilities and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.
- Derivative financial instruments are measured at fair value. The change in fair value related to the effective portion of the hedge is recognized in other comprehensive income, net of income taxes.

Transactions costs are capitalized to the cost of financial assets and liabilities when they are not classified as held for trading. Thus, issuance costs of long-term debt are classified as a reduction in long-term debt and amortized using the effective rate method.

Derivative financial instruments and hedge accounting

The Corporation maintains proper documentation concerning its risk management objectives and strategies under which hedging activities are derived as well as for the relationships between the various hedging instruments and the hedged items. This process consists of matching all derivative hedging instruments to specific assets and liabilities, to firm commitments or specific anticipated transactions.

In managing its foreign exchange exposure, the Corporation uses various derivative financial instruments to hedge its exposure toward specific anticipated transactions and a portion of its foreign currency denominated accounts receivable. Consequently, an adjustment is made to the hedged items to reflect the hedge rate.

When a hedging relationship is put in place and throughout its duration, there must be a reasonable assurance that the relationship will remain effective and in accordance with the Corporation's risk management objective and strategy as initially documented. When hedging instruments mature or become ineffective before their maturity and are not replaced within the Corporation's documented hedging strategy, any gains, losses, revenues or expenses associated with the hedging instrument that had previously been recognized in other comprehensive income as a result of applying hedge accounting are carried forward to be recognized in net income in the same period or periods during which the asset acquired or liability incurred affects net income. If the hedged item ceases to exist due to its maturity, expiry, cancellation or exercise before the hedging instrument expires, any gains, losses, revenues or expenses associated with the hedging instrument that had previously been recognized in other comprehensive income (loss) as a result of applying hedge accounting are recognized in the reporting period's net income along with the corresponding gains, losses, revenues or expenses recognized on the hedged item.

Derivative financial instruments offering economic hedging without being eligible to hedge accounting are accounted for at fair value with change in fair value recorded in the statements of income.

2. Effect of new accounting standards not yet implemented

a) Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, which supersedes the like-named Section 1581. This Section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The Section establishes standards for the recognition of a business combination.

b) Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which supersedes the like-named Section 1600. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated financial statements.

c) Non-controlling Interests

In January 2009, the CICA issued Section 1602, Non-controlling Interests, which supersedes Section 1600, Consolidated Financial Statements. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements.

d) International Financial Reporting Standards (IFRS)

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

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

The Corporation is currently evaluating the impact of the adoption of these new standards on the consolidated financial statements.

3. Amortization

	2010	2009
Property, plant and equipment	$ 112.0	$ 108.9
Intangible assets	17.5	12.9
	129.5	121.8
Intangible assets and other assets, presented in revenues, operating costs and financial expenses	24.6	24.3
	$ 154.1	$ 146.1

4. Impairment of assets and restructuring costs

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

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

b) During the last quarter of fiscal 2010, the Corporation announced rationalization measures to deal with excess production capacity in some specialized plants of the Printing sector, due to important structural changes in the printing industry which result in lower demand in certain niche markets. It is expected that these measures will be completed over the next two fiscal years.

The following table provides details of these plans:

	Total		2010				2009	
	Charged to income	Forecasted	Liability as at October 31, 2009	**Charged to income**	**Paid**	Liability as at October 31, 2010	Charged to income	Paid
a) Rationalization Measures 2009-2010								
Printing								
Workforce reduction costs	$ 28.9	$ 28.9	$ 8.8	**$ 5.2**	**$ 11.1**	$ 2.9	$ 23.7	$ 14.9
Other costs	4.3	4.3	0.1	**1.1**	**1.2**	-	3.2	3.1
Interactive								
Workforce reduction costs	2.1	2.1	0.8	**0.9**	**1.1**	0.6	1.2	0.4
Other costs	0.2	0.2	-	**-**	**-**	-	0.2	0.2
Media								
Workforce reduction costs	10.4	10.4	3.7	**1.4**	**4.7**	0.4	9.0	5.3
	45.9	45.9	13.4	**8.6**	**18.1**	3.9	37.3	23.9
Printing								
Impairment of assets	18.4	18.4	n/a	**0.9**	**n/a**	n/a	17.5	n/a
Media								
Impairment of assets	1.6	1.6	n/a	**0.1**	**n/a**	n/a	1.5	n/a
	$ 65.9	$ 65.9	$ 13.4	**$ 9.6**	**$ 18.1**	$ 3.9	$ 56.3	$ 23.9
b) Rationalization Measures 2011-2012								
Printing								
Workforce reduction costs	$ 5.5	$ 6.0	$ -	**$ 5.5**	**$ -**	$ 5.5	$ -	$ -
Other costs	-	1.1	-	**-**	**-**	-	-	-
	5.5	7.1	-	**5.5**	**-**	5.5	-	-
Printing								
Impairment of assets	0.7	0.7	n/a	**0.7**	**n/a**	n/a	-	n/a
	$ 6.2	$ 7.8	$ -	**$ 6.2**	**$ -**	$ 5.5	$ -	$ -
Total								
Workforce reduction costs	$ 46.9	$ 47.4	$ 13.3	**$ 13.0**	**$ 16.9**	$ 9.4	$ 33.9	$ 20.6
Other costs	4.5	5.6	0.1	**1.1**	**1.2**	-	3.4	3.3
Impairment of assets	20.7	20.7	n/a	**1.7**	**n/a**	n/a	19.0	n/a
	$ 72.1	$ 73.7	$ 13.4	**$ 15.8**	**$ 18.1**	$ 9.4	$ 56.3	$ 23.9

5. Financial expenses

	2010	2009
Financial expenses on long-term debt	**$ 39.7**	$ 37.0
Other expenses	**3.4**	2.6
Foreign exchange loss (gain)	**(0.7)**	1.3
	$ 42.4	$ 40.9

6. Income taxes

		2010		2009
Income taxes at statutory tax rate	$	54.3	$	(17.7)
Effect of differences in tax rates used by other jurisdictions and impact of lower future tax rates		(12.4)		(23.4)
Permanent difference on impairment of goodwill		-		39.6
Effect of Ontario corporate income tax rate reductions (a)		(2.4)		-
Income taxes on non-deductible expenses and non-taxable portion of capital gain		4.8		11.8
Reduction in income taxes expense resulting from the recognition of tax losses not previously recognized		(6.5)		(9.5)
Other		(3.8)		5.8
Income taxes at effective tax rate	$	34.0	$	6.6

Income taxes include the following items:

		2010		2009
Income taxes before the following items:	$	43.0	$	37.4
Income taxes on impairment of assets and restructuring costs		(4.5)		(16.1)
Income taxes on impairment of goodwill and intangible assets		(2.1)		(14.7)
Effect of Ontario corporate income tax rate reductions (a)		(2.4)		-
Income taxes at effective tax rate	$	34.0	$	6.6

a) Corporate tax rate reductions announced in the March 26, 2009 Ontario budget were adopted on December 15, 2009.

Income tax expense for the years ended October 31 is as follows:

		2010		2009
Current	$	24.1	$	29.2
Future				
Reduction of future income taxes related to impairment of assets and restructuring costs		(4.5)		(16.1)
Reduction of future income taxes related to impairment of goodwill and intangible assets		(2.1)		(14.7)
Reduction of future income taxes related to the reduction of the Ontario corporate income tax rate		(2.4)		-
Increase in future income tax expense due to other temporary differences		18.9		8.2
	$	34.0	$	6.6

The tax impact of the temporary differences resulting in future income tax assets and liabilities are as follows as at October 31:

		2010		2009
Losses carried forward	$	120.2	$	91.3
Property, plant and equipment, net of tax credits		(75.8)		(42.5)
Other assets (liabilities)				
Non-deductible provisions		5.2		4.0
Pension plans		2.3		3.5
Goodwill and intangible assets		(34.7)		(23.7)
Other		6.6		10.4
Total future income taxes	$	23.8	$	43.0
Future income taxes include the following:				
Future income tax assets - short-term	$	17.7	$	11.0
Future income tax assets - long-term		146.7		141.5
Future income tax liabilities - short-term		(2.5)		(0.5)
Future income tax liabilities - long-term		(138.1)		(109.0)
Total future income taxes	$	23.8	$	43.0

The Corporation has unrecorded capital losses of $16.5 million that can be carried forward indefinitely.

7. Discontinued operations

On February 10, 2010, the Corporation signed an agreement with IWCO Direct, a U.S.-company headquartered in Minnesota, to sell substantially all of its high-volume direct mail assets in the United States, for net proceeds of $105.7 million, subject to a price adjustment clause based on the working capital at the date of transaction. This division of the Printing sector generated revenues of approximately US$170.0 million in 2009 and employed about 1,200 people. The closing of the transaction took place on April 1st, 2010.

The following table presents the results of discontinued operations:

	2010	2009
Revenues	$ 77.6	$ 199.2
Expenses	92.5	226.2
Loss before income taxes	(14.9)	(27.0)
Future income taxes	(3.1)	(9.3)
Loss related to the operation of discontinued operations	(11.8)	(17.7)
Gain related to the discontinuance of operations, net of related income taxes of $24.1	39.2	-
Net income (loss) from discontinued operations	**$ 27.4**	$ (17.7)

8. Accounts receivable

As part of a securitization agreement expired in August 2010, the Corporation sold on a continuous basis some of its accounts receivable to a trust that itself sold the beneficial rights to investors unrelated to the Corporation. The maximum net consideration that was permitted under this agreement was $300.0 million, including a maximum of US$100.0 million.

The following table provides details of accounts receivable sold under this agreement:

	As at October 31, 2009
Accounts receivable sold	$ 240.3
Retained interest	128.4
Net consideration	$ 111.9
Net consideration in Canadian dollars	$ 77.3
Net consideration in U.S. dollars (US$32.0 million)	$ 34.6

9. Inventories

	2010	2009
Raw materials	$ 45.1	$ 39.2
Work in progress and finished goods	37.8	35.1
	$ 82.9	$ 74.3

10. Property, plant and equipment

2010	Cost	Accumulated amortization	Net book value
Land	$ 52.2	$ -	$ 52.2
Buildings	315.1	90.7	224.4
Machinery and equipment	1,284.6	733.9	550.7
Machinery and equipment under capital leases	19.5	7.8	11.7
Other equipment	168.4	126.8	41.6
Leasehold improvements	44.6	21.1	23.5
Assets under construction and deposits on equipment	14.2	-	14.2
	$ 1,898.6	$ 980.3	$ 918.3

2009	Cost	Accumulated amortization	Net book value
Land	$ 49.9	$ -	$ 49.9
Buildings	326.9	85.4	241.5
Machinery and equipment	1,192.1	711.9	480.2
Machinery and equipment under capital leases	21.3	5.3	16.0
Other equipment	165.0	119.7	45.3
Leasehold improvements	33.4	19.3	14.1
Assets under construction and deposits on equipment	88.5	-	88.5
	$ 1,877.1	$ 941.6	$ 935.5

For the year ended October 31, 2010, capitalized interest on property, plant and equipment amounted to $2.2 million ($3.1 million in 2009).

11. Goodwill

The changes in book value of goodwill are as follows:

2010	Printing Sector	Interactive Sector	Media Sector	Other activities and unallocated amounts	Consolidated
Balance, beginning of year	$ 131.4	$ 33.2	$ 507.9	$ 0.9	$ 673.4
Acquisitions (Note 23)	-	5.6	1.8	-	7.4
Disposals	(1.4)	-	(0.3)	-	(1.7)
Foreign currency translation and other	(0.3)	(0.2)	(0.5)	-	(1.0)
Balance, end of year	$ 129.7	$ 38.6	$ 508.9	$ 0.9	$ 678.1

2009	Printing Sector	Interactive Sector	Media Sector	Other activities and unallocated amounts	Consolidated
Balance, beginning of year	$ 266.2	$ 68.1	$ 507.4	$ 0.9	$ 842.6
Acquisitions (Note 23)	-	(1.3)	0.5	-	(0.8)
Impairment	(134.2)	(32.3)	-	-	(166.5)
Foreign currency translation and other	(0.6)	(1.3)	-	-	(1.9)
Balance, end of year	$ 131.4	$ 33.2	$ 507.9	$ 0.9	$ 673.4

For the year ended October 31, 2010, the Corporation has conducted its annual impairment test of goodwill and no impairment of goodwill is required. For the year ended October 31, 2009, the Corporation had recorded an amount of $166.5 million as impairment of goodwill in the Printing and Interactive sectors, mostly related to commercial printing activities.

12. Intangible assets

2010	Cost	Accumulated amortization	Net book value
Amortizable intangible assets			
Customer relationships	$ 32.2	$ 7.0	$ 25.2
Educational books prepublication costs	60.3	41.1	19.2
Educational books titles	20.0	15.1	4.9
Acquired printing contracts	11.1	6.2	4.9
Non-compete agreements	2.0	0.8	1.2
Long-term technology project costs	40.1	19.9	20.2
Other	0.9	0.4	0.5
	166.6	90.5	76.1
Non-amortizable intangible assets			
Trade names and circulation	103.0	-	103.0
	$ 269.6	$ 90.5	$ 179.1

2009	Cost	Accumulated amortization	Net book value
Amortizable intangible assets			
Customer relationships	$ 29.7	$ 4.3	$ 25.4
Educational books prepublication costs	51.9	34.0	17.9
Educational books titles	20.0	10.9	9.1
Acquired printing contracts	14.6	5.5	9.1
Non-compete agreements	4.1	3.3	0.8
Long-term technology project costs	28.2	13.3	14.9
Other	1.0	1.0	-
	149.5	72.3	77.2
Non-amortizable intangible assets			
Trade names and circulation	110.4	-	110.4
	$ 259.9	$ 72.3	$ 187.6

For the year ended October 31, 2010, the Corporation recorded an impairment charge of $8.0 million on trade names related to the Local Solutions Group in the Media sector, specifically in the Newspaper Division of the Atlantic Provinces and Saskatchewan. In addition, the Corporation recorded an impairment charge of $4.5 million on various other intangible assets. For the year ended October 31, 2009, the Corporation recorded an impairment charge of $9.9 million on trade names related to the Business and Consumers Solutions Group in the Media sector, of which $3.8 million was recorded in impairment of assets and restructuring costs, and presented in Note 4.

13. Other assets

	2010	2009
Contract acquisition costs	$ 20.4	$ 27.2
Investments	0.9	1.0
Accrued pension benefit asset (Note 24)	8.4	6.1
Fair value of derivative financial instruments	2.5	7.7
Other	7.3	7.6
	$ 39.5	$ 49.6

14. Operating line of credit

During the third quarter of 2010, the Corporation cancelled its operating line of credit, which amounted to $4.5 million.

15. Long-term debt

	Effective interest rate as of October 31, 2010	Maturity		2010		2009
Unsecured Senior Notes						
Series 2002 A - Tranche 1 - 5.62% (US$75.0)	5.83 %	2013	$	76.5	$	81.1
Series 2002 A - Tranche 2 - 5.73% (US$50.0)	5.85 %	2015		51.0		54.1
Series 2004 A - LIBOR + 0.70% (US$37.5)	1.13 %	2012		38.3		40.6
Series 2004 B - LIBOR + 0.70% (US$37.5)	1.13 %	2012		38.3		40.6
Series 2004 C - LIBOR + 0.80% (US$15.0)	1.15 %	2014		15.3		16.2
Series 2004 D - LIBOR + 0.90% (US$10.0)	1.23 %	2016		10.2		10.8
Loans secured by property, plant and equipment having a negligible net book value	5.69 % to 6.28 %	2011		0.5		4.3
Obligations under capital leases secured by property, plant and equipment having a net book value of $11.7	5.35 % to 8.55 %	2011-2014		5.2		10.7
Revolving credit facility in Canadian dollars	1.92 %	2012		166.0		170.0
Revolving credit facility in U.S. dollars (2010 - US$12.0; 2009 - US$103.0)	0.90 %	2012		12.2		111.4
Unsecured Debentures - Solidarity Fund QFL						
Series 1 - 8.06%	8.16 %	2014		50.0		50.0
Series 2 - 6.77%	6.82 %	2019		50.0		50.0
Term loan - SGF Rexfor Inc. - 8.25%	8.49 %	2014		50.0		50.0
Term credit facility - Caisse de dépôt et placement du Québec Banker's acceptance rate + 6.375%	8.26 %	2014		100.0		100.0
Term loan - EURIBOR + 1.60% (2010 - €49.2; 2009 - €23.7)	4.85 %	2015		69.6		37.7
Other loans at contractual rates of 0.00% to 8.00%	3.27 % to 8.00 %	2011-2017		3.8		5.2
				736.9		832.7
Issuance costs of long-term debt at amortized cost				6.2		6.9
Total long-term debt				730.7		825.8
Current portion				17.8		7.0
			$	712.9	$	818.8

The Series 2002 A Unsecured Senior Notes are redeemable at the greater of par value and the discounted value of future cash flows, if redeemed before scheduled maturity, using an interest rate based on U.S. Treasury Securities, having similar maturities. Series 2004 A, 2004 B, 2004 C and 2004 D Unsecured Senior Notes are redeemable at their nominal value, except for Series 2004 D, which is redeemable at a premium of 0.5% as of October 31, 2010.

As at October 31, 2009, the Corporation had a committed line of credit in the form of a term revolving credit facility, totalling $550.0 million or the US dollar equivalent, divided in two tranches, A and B, of $400.0 million and $150.0 million, respectively. On December 4, 2009, the Corporation repaid and cancelled Tranche B of $150.0 million. The maturity of Tranche B was May 14, 2010. The term revolving credit facility of the Corporation now consists solely of Tranche A which matures in September 2012.

The applicable interest rate on the term revolving credit facility is based on the credit rating assigned by Standard & Poor's. According to the current credit rating and the form of borrowing chosen by the Corporation, it is either the bank prime rate, bankers' acceptance rate + 0.615% or LIBOR + 0.615%. Facility fees of 0.135% are applicable on the facility, whether it is drawn or not, and utilization fees of 0.10% are applicable if the amount drawn is over 66 2/3% of the facility. This facility may be renewed on an annual basis and, if not renewed, it matures five years after its issuance or the last renewal, as the case may be. The last renewal request sent by the Corporation has been approved by the bank syndicate and has been in force since August 30, 2007.

As of October 31, 2010, letters of credit amounting to C$0.2 million and US$3.0 million were drawn on the committed line of credit in addition to the amount presented above.

15. Long-term debt (continued)

The financing of $100.0 million from the Solidarity Fund QFL is comprised of two unsecured debentures of $50.0 million each. The first bears interest at a rate of 8.06%, payable every six months. The second bears interest at a rate of 6.77%, payable every six months, for the first two years. The rate for the last eight years will be negotiated by February 2011. The rate will be based on the Canadian Government Bonds rate for the same term plus a premium based on the Corporation's credit rating. The Corporation entered into a bond forward contract of $50.0 million, which matures on November 5, 2010, to lock the portion of the rate of the second debenture based on the Canadian Government Bonds rate at 4.34% for the last eight years of its 10-year term, beginning on its second anniversary.

The financing of $50.0 million from SGF Rexfor Inc. bears interest at 8.25%, payable every three months, based on the Corporation's current credit rating assigned by Standard & Poor's.

The financing of $100.0 million from Caisse de dépôt et placement du Québec bears interest at bankers' acceptance rate + 6.375%, based on the Corporation's current credit rating assigned by Standard & Poor's. The Corporation entered into two interest rate swaps of $50.0 million each to lock the rate for five years at 8.39% until 2014.

In the case of a change of control of the Corporation, the terms and conditions of the loans received from Solidarity Fund QFL, SGF Rexfor Inc. and Caisse de dépôt et placement du Québec, state that the principal and accrued interest could become due.

The term loan with SGF Rexfor Inc. and the credit facility from Caisse de dépôt et placement du Québec are redeemable after their second anniversary, at a penalty of 2% of the principal repaid for the third year, 1% for the fourth year and without any penalty thereafter. The two unsecured debentures of the Solidarity Fund QFL are redeemable following their second anniversary, at the higher of par value or the discounted value of future cash flows using an interest rate based on the yield of Canadian Government Bonds for a similar term.

The Corporation obtained a financing of €55.6 million ($78.7 million) from a European bank, bearing interest at EURIBOR + 1.60%, to acquire various production equipment. This financing is drawn in tranches, based on equipment delivery dates, and will be payable in equal instalments including principal plus interest, every six months from January 2011. On December 1st, 2009, the Corporation entered into a six-year cross currency swap agreement, maturing in December 2015, to lock the exchange rate at 1.5761 and to convert the interest rate to banker's acceptance rate plus 2.55%.

The Corporation must comply with certain restrictive covenants, including the requirement to maintain certain financial ratios. For the years ended October 31, 2010 and 2009, the Corporation has not been in default under any of its obligations.

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

	Principal payments
2011	$ 17.8
2012	270.4
2013	92.0
2014	231.0
2015	65.2
2016 and thereafter	60.5
	$ 736.9

Minimum payments required under capital leases, for which the principal is included in the amounts presented above, are as follows:

	Principal	Interest	Minimum payments
2011	$ 2.1	$ 0.2	$ 2.3
2012	1.1	0.2	1.3
2013	0.8	0.1	0.9
2014	1.2	-	1.2
	$ 5.2	$ 0.5	$ 5.7

16. Other liabilities

	2010	2009
Deferred subscription revenues	$ 7.2	$ 4.3
Long-term accrued liabilities	16.0	6.4
Accrued pension benefit liability (Note 24)	14.8	18.7
Asset retirement obligations	0.8	1.0
Fair value of derivative financial instruments	11.2	4.3
	$ 50.0	$ 34.7

17. Share capital

Authorized (unlimited number)

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

	2010		2009	
Issued and paid	Number of shares	Amount	Number of shares	Amount
Participating shares				
Class A Subordinate Voting Shares	65,806,497	$ 361.2	64,749,030	$ 357.9
Class B Shares	15,196,840	20.6	16,045,707	21.8
	81,003,337	381.8	80,794,737	379.7
Preferred Shares				
Cumulative 5-Year Rate Reset First Preferred Shares, Series D	4,000,000	96.8	4,000,000	96.8
		$ 478.6		$ 476.5

The Series D Preferred Shares have a fixed cumulative annual dividend of 6.75% for the first five years, payable quarterly in January, April, July and October. Effective October 15, 2014, the cumulative annual dividend will be equivalent to the 5-Year Canadian Government Bonds Yield, plus 4.16% for the next five years. These Series D Preferred Shares are redeemable by the Corporation every five years and convertible (under certain conditions), to the holder's option, in Cumulative Floating Rate First Preferred Shares (the "Series E Preferred Shares"), effective October 15, 2014, and every five years thereafter on that date. The Series E Preferred Shares will have a cumulative quarterly dividend equivalent to the yield of Treasury Bills of the Government of Canada maturing within three months plus 4.16%. These Series E Preferred Shares will be redeemable by the Corporation after five years and will be convertible (under certain conditions), to the holder's option, into Series D Preferred Shares, effective October 15, 2019, and every five years subsequently on that date.

For the years ended October 31, 2010 and 2009, the share capital of the Corporation changed as follows:

	2010		2009	
	Number of shares	Amount	Number of shares	Amount
Class A Subordinate Voting Shares				
Balance, beginning of year	64,749,030	$ 357.9	64,243,743	$ 357.0
Conversion of Class B Shares into Class A Subordinate Voting Shares	848,867	1.2	488,931	0.7
Exercise of stock options	208,600	2.1	16,356	0.2
Balance, end of year	65,806,497	$ 361.2	64,749,030	$ 357.9
Class B Shares				
Balance, beginning of year	16,045,707	$ 21.8	16,534,638	$ 22.5
Conversion of Class B Shares into Class A Subordinate Voting Shares	(848,867)	(1.2)	(488,931)	(0.7)
Balance, end of year	15,196,840	$ 20.6	16,045,707	$ 21.8
Cumulative 5-Year Rate Reset First Preferred Shares, Series D				
Balance, beginning of year	4,000,000	$ 96.8	-	$ -
Issuance of shares	-	-	4,000,000	96.8
Balance, end of year	4,000,000	$ 96.8	4,000,000	$ 96.8

Exercise of stock options

When officers and senior executives exercise their stock options, the amounts received from them are credited to share capital. For stock options granted since November 1, 2002, the amount previously accounted for as an increase to contributed surplus is also transferred to share capital. For the year ended October 31, 2010, the amount received was $2.1 million, and no amount was transferred from contributed surplus to share capital. For the year ended October 31, 2009, the amount received was $0.2 million and no amount was transferred from contributed surplus to share capital.

18. Net income (loss) per participating share

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

	2010	2009
Numerator		
Net income (loss) from continuing operations	$ 146.0	$ (64.1)
Dividends on preferred shares, net of related income taxes	6.8	0.5
Net income (loss) from continuing operations, applicable to participating shares	$ 139.2	$ (64.6)
Denominator (in millions)		
Weighted average number of participating shares - basic	80.8	80.8
Weighted average number of dilutive options	0.1	-
Weighted average number of participating shares - diluted	80.9	80.8

In the calculation of the diluted earnings per share, 1,010,960 stock options were considered anti-dilutive as at October 31, 2010 (1,566,045 as at October 31, 2009), since their exercise price was greater than the average value of Class A Subordinate Voting Shares during the period. Therefore, these stock options were excluded from the calculation.

19. Stock-based compensation plans

Stock option plan

The Corporation offers a stock option plan for the benefit of certain of its officers and senior executives. The number of Class A Subordinate Voting Shares authorized for issuance and the balance of shares that could be issued under this plan as at October 31, 2010 were 6,078,562 and 4,593,558, respectively. The stock options granted before March 31, 2005 start to vest after one year at a rate of 20% per year and must be exercised no later than ten years after the grant date. The stock options granted after March 30, 2005 start to vest after one year at a rate of 25% per year and must be exercised no later than seven years after the grant date. Under the plan, each stock option entitles its holder to receive one share upon exercise and the exercise price is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option.

Stock-based compensation costs of $0.8 million and $1.6 million were charged to income and as an increase to contributed surplus of shareholders' equity for fiscal 2010 and 2009, respectively.

The following table summarizes the changes in outstanding stock options for the years ended October 31:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	2,006,575	$ 17.23	1,820,621	$ 18.61
Granted	173,100	13.09	317,700	9.64
Exercised	(208,600)	9.88	(16,356)	9.88
Cancelled	(428,585)	20.84	(115,390)	19.15
Balance, end of year	1,542,490	$ 16.76	2,006,575	$ 17.23
Options exercisable as at October 31	1,044,640	$ 18.95	1,415,620	$ 18.65

As at October 31, 2010 the balance of stock options available for grant under the plan was 3,051,068.

19. Stock-based compensation plans (continued)

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

	Options outstanding				Options exercisable	
	Exercise price range	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
2010						
	$ 8.85 - 13.09	**531,530**	**5.2**	**$ 10.87**	**124,205**	**$ 10.09**
	$ 15.51 - 22.41	**1,010,960**	**3.0**	**19.86**	**920,435**	**20.15**
		1,542,490	**3.8**	**$ 16.76**	**1,044,640**	**$ 18.95**
2009						
	$ 8.85 - 11.13	570,700	4.1	$ 9.83	257,050	$ 10.06
	$ 15.51 - 24.01	1,435,875	3.9	20.17	1,158,570	20.55
		2,006,575	4.0	$ 17.23	1,415,620	$ 18.65

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

	2010	2009
Fair value of stock options	**$ 4.31**	$ 3.90
Assumptions:		
Dividend rate	**1.5 %**	1.4 %
Expected volatility	**38.6 %**	32.2 %
Risk-free interest rate	**2.74 %**	2.09 %
Expected life	**5 years**	5 years

Share unit plan for senior executives

The Corporation offers a share unit plan to its senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted. A portion of share units will vest based on performance targets and another portion of share units will vest based on tenure. DSUs and RSUs are recognized as a compensation expense on a straight-line basis, over the three-year vesting period based on forecasted attainment of targets. DSUs and RSUs are remeasured at intrinsic value at each reporting period, until settlement in the case of DSUs or until the vesting date in the case of RSUs, which corresponds to the settlement date, using the trading price of the Corporation's Class A Subordinate Voting Shares. Intrinsic value variations are accounted for as compensation expense with a corresponding credit to accounts payable and accrued liabilities in the consolidated balance sheet. Vested DSUs and RSUs will be paid, at the Corporation's option, in cash or with Class A Subordinate Voting Shares of the Corporation purchased on the open market.

The following table provides details of this plan:

	DSU		RSU	
Number of units	**2010**	2009	**2010**	2009
Balance, beginning of year	**127,870**	103,282	**548,808**	221,357
Units granted	**53,240**	44,081	**277,013**	384,865
Units cancelled	**(58,141)**	(20,674)	**(136,765)**	(57,414)
Units paid	**(4,290)**	-	**(12,429)**	-
Dividends paid in units	**2,431**	1,181	**-**	-
Balance, end of year	**121,110**	127,870	**676,627**	548,808

The expense recorded in the consolidated statements of income (loss) for the years ended October 31, 2010 and 2009 was $4.0 million and $1.9 million, respectively. An amount of $0.2 million has been paid under the plan for the year ended October 31, 2010 (no amount was paid under the plan for the year ended October 31, 2009).

19. Stock-based compensation plans (continued)

Share unit plan for directors

The Corporation offers a deferred share unit plan for its directors. Under this plan, directors may elect to receive either cash, deferred share units, or a combination of both for their compensation. When a director chooses to receive deferred share units, the Corporation credits the account of the director for a number of units equal to the deferred compensation divided by the fair value of Class A Subordinate Voting Shares at the date of grant. When the Corporation pays dividends on Class A Subordinate Voting Shares, the accounts of the directors are credited for the amount in the form of additional units. The variation in intrinsic value is recorded as a compensation expense with the counterpart in accounts payable and accrued liabilities in the consolidated balance sheet. Following departure of a director of the Corporation, a cash payment equal to the intrinsic value of the accumulated deferred share units will be made.

The following table provides details of this plan:

Number of units	**2010**	2009
Balance, beginning of year	**167,783**	108,621
Directors compensation	**29,396**	54,521
Units paid	**(40,923)**	-
Dividends paid in units	**3,547**	4,641
Balance, end of year	**159,803**	167,783

The expense recorded in the consolidated statements of income (loss) for the years ended October 31, 2010 and 2009 was $0.9 million and $0.8 million, respectively. An amount of $0.5 million has been paid under the plan for the year ended October 31, 2010 (no amount was paid under the plan for the year ended October 31, 2009).

20. Contributed surplus

	2010	2009
Balance, beginning of year	**$ 12.9**	$ 11.3
Compensation costs relating to stock option plan (Note 19)	**0.8**	1.6
Balance, end of year	**$ 13.7**	$ 12.9

21. Accumulated other comprehensive loss

	Foreign Currency Translation Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as at November 1, 2008	$ (25.5)	$ (15.2)	$ (40.7)
Net change in gains (losses), net of income taxes	4.7	15.9	20.6
Balance as at October 31, 2009	$ (20.8)	$ 0.7	$ (20.1)
Balance as at November 1, 2009	**$ (20.8)**	**$ 0.7**	**$ (20.1)**
Net change in gains (losses), net of income taxes	**(4.0)**	**(5.2)**	**(9.2)**
Balance as at October 31, 2010	**$ (24.8)**	**$ (4.5)**	**$ (29.3)**

As at October 31, 2010, the amounts expected to be reclassified to net income in the next fiscal years are as follows:

	2011	2012	2013	2014	2015	Total
Losses on derivatives designated as cash flow hedges	$ (4.6)	$ (1.1)	$ (0.7)	$ (0.2)	$ (0.1)	$ (6.7)
Income taxes recovered	1.5	0.4	0.2	0.1	-	2.2
	$ (3.1)	$ (0.7)	$ (0.5)	$ (0.1)	$ (0.1)	$ (4.5)

22. Cash flows

The changes in non-cash operating items are as follows:

	2010	2009
Accounts receivable	**$ (144.1)**	$ (154.0)
Income taxes receivable	**(15.6)**	0.4
Inventories	**(8.9)**	15.8
Prepaid expenses and other current assets	**0.3**	(3.7)
Accounts payable and accrued liabilities	**8.7**	18.8
Income taxes payable	**2.1**	(21.1)
Deferred subscription revenues and deposits	**3.7**	(1.8)
	$ (153.8)	$ (145.6)
Additional Information		
Interest paid	**$ 39.2**	$ 38.8
Income taxes paid	**$ 33.4**	$ 43.8

23. Business acquisitions

2010

During the year ended October 31, 2010, the Corporation has made the following acquisitions:

Operating sector	Acquisitions	Date of acquisition
Interactive	10% additional shares of ThinData, Canada's leading permission-based email marketing services firm. The Corporation holds 100% of the shares of ThinData as of that date.	October 29, 2010
	25% additional shares of Totem (formerly Redwood Custom Communications), a North America's leading custom communications provider. The Corporation holds 100% of the shares of Totem as of that date.	October 29, 2010
	100 % of the shares of LIPSO Systems Inc., a Canadian leader in integrated mobile solutions.	April 30, 2010
Media	100 % of the shares of *Journal Le Nord* (Groupe Média-Business Inc.), a weekly newspaper serving the city of St-Jérôme.	September 13, 2010

Conversys
For the year ended October 31, 2010, adjustments were made to the purchase price allocation of Conversys, acquired January 21, 2009, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition. The table below includes these adjustments.

Totem (formerly Redwood Custom Communications)
For the year ended October 31, 2010, adjustments were made to the purchase price allocation of Totem (formerly Redwood Custom Communications), acquired November 18, 2008, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition. The table below includes these adjustments.

The purchase price allocation of acquisitions completed in the year ended October 31, 2010 are preliminary and subject to change following the final valuation of the assets acquired and the final determination of the costs related to these acquisitions.

The fair value of assets acquired as well as adjustments to prior period acquisitions are summarized as follows:

Assets acquired		
Property, plant and equipment	$	0.1
Goodwill (no tax basis)		6.6
Amortizable intangible assets		6.1
Future income taxes		0.2
	$	13.0
Liabilities assumed		
Other liabilities	$	(0.1)
Future income taxes		1.8
		1.7
	$	11.3
Consideration		
Cash paid	$	11.6
Short-term liabilities		1.3
Long-term liabilities		(1.6)
	$	11.3

For the year ended October 31, 2010, the Corporation paid an amount of $2.4 million relating to business acquisitions completed in prior years. Of this amount, $1.6 million was included in short-term liabilities and $0.8 million was allocated to goodwill.

23. Business acquisitions and disposals (continued)

2009

During the year ended October 31, 2009, the Corporation has made the following acquisitions:

Operating sector	Acquisitions	Date of acquisition
Interactive	100% of the shares of Conversys, first Canadian provider of electronic flyers.	January 21, 2009
	75% of the shares of Totem (formerly Redwood Custom Communications), a North America's leading custom communications provider.	November 18, 2008
Media	100% of the shares of That's the spirit.com, marketing and promotions consulting company.	December 12, 2008

Rastar, Inc.

For the year ended October 31, 2009, adjustments were made to the purchase price allocation of Rastar, Inc., acquired September 4, 2008, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition. The table below presents these adjustments.

ThinData

For the year ended October 31, 2009, adjustments were made to the purchase price allocation of ThinData, acquired March 11, 2008, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition. The amount of these adjustments is negligible.

The fair value of assets acquired as well as adjustments to prior period acquisitions are summarized as follows:

	Rastar	Other	Total
Assets acquired			
Working capital	$ (0.3)	$ 2.6	$ 2.3
Property, plant and equipment	(6.8)	2.0	(4.8)
Goodwill (tax basis adjustment of $(7.1))	(7.1)	6.3	(0.8)
Amortizable intangible assets	13.8	0.8	14.6
Future income taxes	0.7	0.3	1.0
	$ 0.3	$ 12.0	$ 12.3
Liabilities assumed			
Long-term debt	$ -	$ 0.4	$ 0.4
Other liabilities	1.3	0.3	1.6
Future income taxes	(1.2)	0.6	(0.6)
	0.1	1.3	1.4
	$ 0.2	$ 10.7	$ 10.9
Consideration			
Cash paid	$ 0.2	$ 10.8	$ 11.0
Cash in acquired operations	-	(0.4)	(0.4)
	0.2	10.4	10.6
Short-term liabilities	-	0.3	0.3
	$ 0.2	$ 10.7	$ 10.9

For the year ended October 31, 2009, the Corporation paid an amount of $3.8 million, which was included in the short-term liabilities as at October 31, 2008, an acquisition completed in a prior year.

24. Pension plans

The Corporation offers various contributory and non-contributory defined benefit pension plans and defined contribution pension plans to its employees and those of its participating subsidiaries. For defined benefit pension plans, retirement benefits are generally based on years of service and employees' compensation. Pension funding is based on actuarial estimates and is subject to limitations under applicable income tax and other regulations. Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels to the time of retirement and the anticipated long-term rate of return on pension plan assets.

On February 1st, 2010, the Corporation announced the conversion, for future service, of its defined benefit pension plans into defined contribution pension plans beginning June 1st, 2010. Consequently, a special curtailment charge of $3.3 million was recorded in the consolidated financial statements of the second quarter of fiscal 2010.

Accrued benefit obligation, fair value of plan assets and plan asset composition are measured at the date of the annual financial statements. The most recent actuarial valuation of the pension plans for funding purposes was made as of December 31, 2007. The next required valuation will be as of December 31, 2010, at the latest.

The composition of the pension plan assets is as follows:

	2010	2009
Canadian and foreign stocks	69 %	67 %
Government and corporate bonds	29	31
Cash and temporary investments	2	2
	100 %	100 %

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

	2010	2009
Accrued benefit obligation		
Balance, beginning of year	$ 343.2	$ 297.8
Change in exchange rate	(0.1)	(0.3)
Current service cost	10.9	12.9
Interest on accrued benefit obligation	21.8	22.4
Actuarial losses	46.8	20.3
Benefits paid	(19.2)	(13.6)
Plan amendments	-	(0.2)
Plans curtailment	(10.5)	0.3
Impact of settlement	(4.6)	-
Employee contributions	6.4	9.3
Transfers to other plans	-	(5.7)
Accrued benefit obligation, end of year	$ 394.7	$ 343.2
Fair value of plan assets		
Balance, beginning of year	$ 307.0	$ 252.1
Change in exchange rate	-	(0.2)
Actual return on plan assets	36.7	39.1
Benefits paid	(19.2)	(13.6)
Employer contributions	20.2	24.5
Employee contributions	6.4	9.3
Impact of settlement	(4.6)	-
Transfers to other plans	-	(4.2)
Fair value of plan assets, end of year	$ 346.5	$ 307.0
Plan deficit	$ (48.2)	$ (36.2)
Unamortized net actuarial losses	42.1	20.8
Unamortized past service costs	0.1	-
Unamortized transitional obligation	(0.4)	2.8
Accrued benefit liability	$ (6.4)	$ (12.6)

The accrued benefit asset (liability) is included in the Corporation's balance sheet as follows:

	2010	2009
Other assets	$ 8.4	$ 6.1
Other liabilities	(14.8)	(18.7)
	$ (6.4)	$ (12.6)

24. Pension plans (continued)

Accrued benefit obligation and fair value of plan assets as at October 31 are as follows with respect to plans that are not fully funded:

		2010		2009
Fair value of plan assets	$	327.5	$	289.0
Accrued benefit obligation		377.4		327.7
Funded status - plan deficit	$	(49.9)	$	(38.7)

The major assumptions used are as follows:

	2010	2009
Accrued benefit obligation as at October 31		
Discount rate, at year-end	5.5 %	6.5 %
Rate of compensation increase	3.0 - 4.0 %	3.5 - 4.5 %
Benefit cost for years ended October 31		
Discount rate, at previous year-end	6.50 %	7.25 %
Expected long-term rate of return on plan assets	7.25 %	7.50 %
Rate of compensation increase	3.5 - 4.5 %	4.0 - 5.0 %

The cost of the defined benefit pension plans recorded for the years ended October 31, is as follows:

		2010		2009
Current service cost	$	10.9	$	12.9
Interest on accrued benefit obligation		21.8		22.4
Actual return on plan assets		(36.7)		(39.1)
Actuarial losses on accrued benefit obligation		46.8		20.3
Effect of plans curtailment		(10.5)		1.2
Cost of defined benefit pension plans before adjustments to recognize the long-term nature of employee future benefit cost		32.3		17.7
Adjustments to recognize the long-term nature of employee future benefit cost:				
Difference between expected return and actual return on plan assets for the year		14.0		19.6
Difference between actuarial losses recognized for the year and actual actuarial losses on accrued benefit obligation for the year		(35.4)		(20.4)
Difference between amortization of past service costs for the year and actual plan amendments effective for the year		(0.1)		0.1
Amortization of the transitional obligation		3.2		0.1
Defined benefit cost recognized	$	14.0	$	17.1

The cost and total cash amount paid for the defined contribution pension plans for the years ended October 31 are as follows:

		2010		2009
Employer contributions	$	8.6	$	3.2

25. Commitments, guarantees and contingent liabilities

Commitments

The Corporation is commited, under various leases of premises and contracts to acquire production equipment, to make payments until 2029. The Corporation is also committed, under contracts with certain customers, to make payments covering contract acquisition costs until 2015. Minimum payments required over the following years for these commitments are as follows:

		2011		2012		2013		2014		2015		2016 and thereafter		Total
Premises lease contracts	$	27.8	$	24.8	$	20.9	$	17.4	$	16.6	$	66.0	$	173.5
Production equipment acquisition contracts		12.4		0.7		0.5		0.3		-		-		13.9
Contract acquisition costs		3.6		6.4		4.3		3.7		0.9		-		18.9
	$	43.8	$	31.9	$	25.7	$	21.4	$	17.5	$	66.0	$	206.3

Guarantees

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

a) Sub-lease agreements

The Corporation has entered into sub-lease agreements, for some of its locations under operating leases, with expiry dates between 2012 and 2015. If the sub-lessee defaults under any of these agreements, the Corporation must compensate the lessor for the default. The maximum exposure in respect of these guarantees is estimated at $2.7 million. As at October 31, 2010, the Corporation has not recorded any liability associated with these guarantees, since it is not probable that the sub-lessee will default under the agreement.

25. Commitments, guarantees and contingent liabilities (continued)

b) Indemnification of third parties

Under the terms of its debt agreements, the Corporation has agreed to indemnify the holders of such debt instruments against any increase in their costs or reduction in the amounts otherwise payable to them resulting from changes in laws and regulations. These indemnification agreements extend for the term of the agreements and do not have any limit. Given the nature of these indemnifications, the Corporation is unable to reasonably estimate its maximum potential liability payable to third parties. Historically, the Corporation has never made any indemnification payments and as at October 31, 2010, the Corporation has not recorded a liability associated with these indemnifications.

c) Business disposals

As a result of the sale of business operations or assets, the Corporation may agree to provide indemnity against claims from previous business activities. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability that it could be required to pay to guarantee parties. Historically, the Corporation has not made any significant indemnification payments, and, as at October 31, 2010, the Corporation has not recorded any liability associated with these indemnifications.

Contingent liabilities

In the normal course of business, the Corporation is involved in various claims and legal proceedings. Although the resolution of these various cases pending as at October 31, 2010, cannot be determined with certainty, the Corporation believes that their outcome would likely not have a material adverse effect on its financial position and operating results, given the provisions on its books or insurance covering certain claims or legal proceedings.

26. Financial instruments

Credit risk

Credit risk is the risk that the Corporation will incur losses due to non-payment of contractual obligations by third parties. The Corporation is exposed to credit risk with respect to trade receivables. It is also exposed to credit risk as part of its ongoing activities relative to its cash and cash equivalents and derivative assets.

The Corporation analyzes and reviews the financial health of its current customers on an ongoing basis and applies specific evaluation procedures to all new customers. A specific credit limit is established for each customer and reviewed periodically by the Corporation.

Due to the diversification of its products, its customers and its geographic coverage, the Corporation is protected against any concentration of credit risk. As at October 31, 2010, no single customer accounts for more than 5% of consolidated accounts receivable, and the Corporation's 20 largest customers account for less than 25% of its consolidated accounts receivable. As at October 31, 2010, the maximum credit risk exposure for receivables corresponds to their carrying value. The Corporation also has a credit insurance policy covering most of its major customers, for a maximum amount of $29.2 million. The policy contains the usual clauses and limits regarding the amounts that can be claimed by event and year of coverage. The Corporation did not file any claim against this credit insurance policy for the year ended October 31, 2010.

The Corporation determines past due receivables by considering the type of clients, historical payment terms and in which sector the clients conduct business. On a quarterly basis, allowance for doubtful accounts and past due receivables are reviewed by management. The Corporation records impairment only on receivables for which the recoverability is not reasonably certain.

The Corporation is exposed to credit risk arising from derivative financial instruments if a counterparty fails to meet its obligations; however, it does not foresee such an occurrence since it deals only with recognized financial institutions with superior credit ratings. As at October 31, 2010, the maximum exposure to credit risk is $7.8 million ($11.9 million as at October 31, 2009), which represents the carrying value of the financial instruments recorded as assets on the balance sheet of the Corporation.

Past due accounts receivable:

Trade receivables	**As at October 31, 2010**	As at October 31, 2009
Not past due	**$ 293.7**	$ 209.0
Past due 1-30 days	**84.7**	50.0
Past due 31-60 days	**24.2**	7.6
Past due more than 60 days	**26.6**	21.5
	429.2	288.1
Allowance for doubtful accounts	**(12.9)**	(11.8)
Other receivables	**38.5**	29.7
	$ 454.8	$ 306.0

Allowance for doubtful accounts:

Balance, beginning of year	**$ 11.8**	$ 10.0
Bad debt expense	**3.8**	7.0
Amounts written off and recoveries	**(2.7)**	(5.2)
Balance, end of year	**$ 12.9**	$ 11.8

Based on the historical payment trend of the customers, the Corporation believes that this allowance for doubtful accounts is sufficient to cover the risk of default.

26. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation is exposed to liquidity risk with respect to accounts payable, long-term debt, derivatives and contractual obligations.

The table below presents the contractual maturities of financial liabilities as at October 31, 2010

2010	Carrying amount	Contractual cash flows	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities (1)	$ (347.4)	$ (347.4)	$ (347.4)	$ -	$ -	$ -
Long-term debt	(730.7)	(863.5)	(50.2)	(420.1)	(320.4)	(72.8)
Long-term accounts payable (2)	(0.5)	(0.5)	-	(0.5)	-	-
	(1,078.6)	(1,211.4)	(397.6)	(420.6)	(320.4)	(72.8)
Derivative financial liabilities						
Foreign exchange forward contracts						
Outflow	-	(109.7)	(63.8)	(45.9)	-	-
Inflow	8.5	119.4	70.3	49.1	-	-
Commodity swap agreements	(0.1)	(0.1)	(0.1)	-	-	-
Interest rate swaps	(6.5)	(7.3)	(3.9)	(3.5)	0.1	-
Bond forward	(6.1)	(6.1)	(6.1)	-	-	-
Cross currency swap	(10.1)	(10.9)	(1.7)	(4.7)	(3.7)	(0.8)
	(14.3)	(14.7)	(5.3)	(5.0)	(3.6)	(0.8)
	$ (1,092.9)	$ (1,226.1)	$ (402.9)	$ (425.6)	$ (324.0)	$ (73.6)

2009	Carrying amount	Contractual cash flows	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities (1)	$ (345.2)	$ (345.2)	$ (345.2)	$ -	$ -	$ -
Long-term debt	(825.8)	(963.5)	(42.2)	(497.3)	(349.4)	(74.6)
Long-term accounts payable (2)	(0.2)	(0.2)	-	(0.2)	-	-
	(1,171.2)	(1,308.9)	(387.4)	(497.5)	(349.4)	(74.6)
Derivative financial liabilities						
Foreign exchange forward contracts						
Outflow	-	(128.2)	(63.3)	(64.9)	-	-
Inflow	8.1	134.6	65.5	69.1	-	-
Commodity swap agreements	(0.8)	(0.8)	(0.8)	-	-	-
Interest rate swaps	(3.6)	(4.7)	(5.5)	(2.2)	3.0	-
Bond forward	(1.3)	(1.3)	-	(1.3)	-	-
Total return swap agreement	(0.1)	(0.1)	(0.1)	-	-	-
	2.3	(0.5)	(4.2)	0.7	3.0	-
	$ (1,168.9)	$ (1,309.4)	$ (391.6)	$ (496.8)	$ (346.4)	$ (74.6)

(1) Excludes derivatives
(2) Excludes non-financial liabilities

The Corporation believes that future cash flows generated by operations and access to additional liquidity through capital and banking markets will be adequate to meet its financial obligations. In addition, the Corporation has concluded long-term contracts with most of its major customers. These contracts contain cost-escalation clauses equivalent to those required by the Corporation's suppliers.

26. Financial instruments (continued)

Market risk

Market risk is the risk that the Corporation will incur losses resulting from adverse changes in underlying factors of the market, primarily interest rates and exchange rates.

a) Interest rate risk

The Corporation is exposed to market risks related to interest-rate fluctuations. In order to mitigate this risk, the Corporation aims to maintain an adequate balance of fixed versus floating rate debt. As at October 31, 2010, the floating rate portion of long-term debt represents 61% (63% as at October 31, 2009) of the total while the fixed rate portion represents 39% (37% as at October 31, 2009).

As at October 31, 2010, in order to mitigate the interest rate risk, the Corporation entered into interest rate swap agreements on long-term debt denominated in Canadian dollars, on a notional amount of $225.0 million, including $125.0 million maturing in September 2012 and $100.0 million maturing in May 2014. These swap agreements convert the variable interest rate, based on bankers' acceptance rate, into an average fixed interest rate of 6.16% including the applicable margin. Considering the effect of these derivative financial instruments, the floating rate portion of long-term debt represents 30% of the total (36% as at October 31, 2009), while the fixed portion represents 70% (64% as at October 31, 2009). Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the year ended October 31, 2010.

For the year ended October 31, 2009, the Corporation entered into a bond forward contract of $50.0 million, which matures on November 5, 2010, to lock the portion of the rate of the second debenture based on the Canadian Government Bonds rate at 4.34%, plus a premium based on the Corporation's credit rating, for the last eight years of its 10-year term, beginning on its second anniversary. The rate for the last eight years will be negotiated by February 2011.

On December 1st, 2009 the corporation entered into a six-year cross currency swap agreement, maturing in December 2015, to convert the interest rate of the €55.6 million debt ($78.7 million), which bears an interest of rate of EURIBOR plus 1.60%, to bankers acceptance rate plus 2.55%. This derivative financial instrument also locks the exchange rate at 1.5761.

For the years ended October 31, 2010 and 2009, all things being equal, a hypothetical increase of 0.5% in interest rates would have had the following impact on net income and on other comprehensive loss:

	Year ended October 31, 2010		Year ended October 31, 2009	
	Net Income	**Other Comprehensive Loss**	Net Income	Other Comprehensive Loss
	$ (0.8)	**$ 2.0**	$ (1.5)	$ 4.2

A hypothetical decrease of 0.5% in interest rates would have an opposite impact on net income and on other comprehensive loss.

b) Foreign exchange risk

The Corporation has operations in the United States and Mexico, exports its products to the United States and purchases machinery and equipment in U.S. dollars and Euros. In addition, as at October 31, 2010, the Corporation has long-term debt in U.S. dollars and Euros for a total amount of US$238.5 million and €49.2 million (US$331.9 million and €23.7 as at October 31, 2009). The Corporation is therefore exposed to foreign exchange risk.

To mitigate the foreign exchange risk related to its exports to the United States, the Corporation enters into foreign exchange forward contracts. As at October 31, 2010, the Corporation entered into foreign exchange forward contracts to sell US$107.0 million (US$118.0 million as at October 31, 2009), of which US$62.0 million and US$45.0 million will be sold in fiscal years 2011 and 2012, respectively. The terms of these forward contracts range from 1 to 23 months, with rates varying from 1.0302 to 1.2800. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the year 2010.

For the years ended October 31, 2010 and 2009, all things being equal, an hypothetical strengthening of 10.0% of the U.S. dollar and Euro against the Canadian dollar would have had the following impact on net income and on other comprehensive loss:

	Year ended October 31, 2010		Year ended October 31, 2009	
	Net income	**Other Comprehensive Loss**	Net income	Other Comprehensive Loss
U.S. dollar	**$ 1.5**	**$ (7.0)**	$ 1.5	$ (8.7)
Euro	**-**	**2.3**	(3.2)	-

A hypothetical weakening of 10.0% of the U.S. dollar and Euro against the Canadian dollar would have had an opposite impact on net income and other comprehensive loss.

26. Financial instruments (continued)

Fair value

The book value of certain financial instruments maturing in the short-term approximates their fair value. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The table below shows the fair value and the book value of other financial instruments as at October 31, 2010 and 2009. The fair value is determined essentially by discounting cash flows or quoted market prices. The fair values calculated approximate the amounts for which the financial instruments could be settled between consenting parties, based on current market data for similar instruments. Consequently, as estimates must be used to determine fair value, they must not be interpreted as being realizable in the event of an immediate settlement of the instruments.

	2010		2009	
	Fair value	**Book value**	Fair value	Book value
Long-term debt	**$ 769.9**	**$ 730.7**	$ 837.6	$ 825.8
Foreign exchange forward contracts	**8.5**	**8.5**	8.1	8.1
Commodity swap agreements	**(0.1)**	**(0.1)**	(0.8)	(0.8)
Interest rate swap agreements	**(6.5)**	**(6.5)**	(3.6)	(3.6)
Bond forward	**(6.1)**	**(6.1)**	(1.3)	(1.3)
Cross currency swap agreement	**(10.1)**	**(10.1)**	-	-
Total return swap agreement	**-**	**-**	(0.1)	(0.1)

Fair value hierarchy

The table below presents financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3 - Inputs for the asset or liability that are not based on observable market data

2010	Level 1	Level 2	Level 3	Total
Foreign exchange forward contracts	**$ -**	**$ 8.5**	**$ -**	**$ 8.5**
Commodity swap agreements	**-**	**(0.1)**	**-**	**(0.1)**
Interest rate swap agreements	**-**	**(6.5)**	**-**	**(6.5)**
Bond forward	**-**	**(6.1)**	**-**	**(6.1)**
Cross currency swap agreement	**-**	**(10.1)**	**-**	**(10.1)**
	$ -	**$ (14.3)**	**$ -**	**$ (14.3)**

2009	Level 1	Level 2	Level 3	Total
Foreign exchange forward contracts	$ -	$ 8.1	$ -	$ 8.1
Commodity swap agreements	-	(0.8)	-	(0.8)
Interest rate swap agreements	-	(3.6)	-	(3.6)
Bond forward	-	(1.3)	-	(1.3)
Total return swap agreement	-	(0.1)	-	(0.1)
	$ -	$ 2.3	$ -	$ 2.3

27. Capital management

The Corporation's primary objectives in managing capital are to:

- Optimize the financial structure by targeting a net debt ratio (including, if any, utilization of the securitization program) to operating income from continuing operations before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets of about 1.50;
- Maintain an investment grade credit rating;
- Preserve its financial flexibility in order to benefit from potential opportunities as they arise.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Corporation relies on the net debt ratio (including, if any, utilization of the securitization program) to operating income from continuing operations before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets as the main indicator of financial leverage. For calculation purposes, net debt refers to long-term debt, current portion of long-term, bank overdraft and utilization of the securitization program, less cash and cash equivalents.

As at October 31, 2010, the net debt ratio (including, if any, utilization of the securitization program) to operating income from continuing operations before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets was 1.82. As at October 31, 2009, the same ratio was 2.59. The decrease of this ratio in fiscal 2010 was mainly due to a decrease in net debt related to the sale of all of its high-volume direct mail assets in the United States, as well as a reduction in our capital expenditures combined with our increased operating income from continuing operations before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets.

For the year ended October 31, 2010, the Corporation has not been in default under any of its obligations.

28. Segmented information

In November 2010, the Corporation announced that the Marketing Communications sector, became the Interactive sector.

In November 2009, the Corporation changed its operating structure to strengthen the position of the Corporation in the printing, interactive and media markets. Consequently, management has decided to transfer all of its Canadian commercial printing activities from the Interactive sector to the Printing sector. The comparative figures have been reclassified in order to present the information in accordance with the new operating structure.

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

Operating sectors	2010	2009
Revenues		
Printing sector	$ 1,442.7	$ 1,530.8
Interactive sector	123.3	123.5
Media sector	608.3	607.0
Other activities and unallocated amounts	7.8	7.7
Inter-segment sales		
Printing sector	(82.3)	(79.5)
Interactive sector	(2.8)	(1.4)
Media sector	(5.4)	(18.3)
Total inter-segment sales	(90.5)	(99.2)
	$ 2,091.6	$ 2,169.8
Operating income (loss) before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		
Printing sector	$ 277.5	$ 237.3
Interactive sector	6.7	8.2
Media sector	109.5	110.4
Other activities and unallocated amounts	(11.7)	(17.0)
	$ 382.0	$ 338.9
Operating income (loss)		
Printing sector	$ 164.7	$ (30.2)
Interactive sector	(5.7)	(32.4)
Media sector	82.9	76.7
Other activities and unallocated amounts	(17.7)	(25.9)
	$ 224.2	$ (11.8)
Amortization of property, plant and equipment and intangible assets		
Printing sector	$ 96.9	$ 90.2
Interactive sector	10.3	6.9
Media sector	17.0	17.0
Other activities and unallocated amounts	5.3	7.7
	$ 129.5	$ 121.8
Acquisitions of property, plant and equipment[(1)]		
Printing sector	$ 103.8	$ 215.4
Interactive sector	7.3	3.9
Media sector	6.4	10.5
Other activities and unallocated amounts	3.4	7.0
	$ 120.9	$ 236.8

(1) These amounts represent total expenditures made to acquire property, plant and equipment, whether they are paid or not

28. Segmented information (continued)

Operating sectors	As at October 31, 2010	As at October 31, 2009
Assets		
Printing sector	$ 1,473.8	$ 1,449.5
Interactive sector	130.0	113.7
Media sector	783.7	793.4
Other activities and unallocated amounts	207.2	81.2
Assets from discontinued operations (Note 7)	-	93.2
	$ 2,594.7	$ 2,531.0

Geographical regions	2010	2009
Revenues		
Canada		
Within Canada	$ 1,746.7	$ 1,789.9
Exports	170.4	210.0
	1,917.1	1,999.9
United States and Mexico	174.5	169.9
	$ 2,091.6	$ 2,169.8
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		
Canada	$ 341.8	$ 321.3
United States and Mexico	40.2	17.6
	$ 382.0	$ 338.9
Operating income (loss)		
Canada	$ 213.0	$ (3.6)
United States and Mexico	11.2	(8.2)
	$ 224.2	$ (11.8)

	As at October 31, 2010	As at October 31, 2009
Assets		
Canada	$ 2,111.6	$ 1,918.7
United States and Mexico	483.1	519.1
Assets from discontinued operations (Note 7)	-	93.2
	$ 2,594.7	$ 2,531.0
Property, plant and equipment		
Canada	$ 653.8	$ 641.9
United States and Mexico	264.5	293.6
	$ 918.3	$ 935.5
Goodwill		
Canada	$ 674.1	$ 670.0
United States and Mexico	4.0	3.4
	$ 678.1	$ 673.4

29. Comparative figures

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