Annual Report 2005

A STEP FURTHER

transcontinental

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Highlights

for the years ended October 31
unaudited

(in thousands of dollars, except per share data)	2005	Change %	2004 (restated) [1]	Change %	2003 (restated) [1]
Operations					
Revenues	**$2,202,004**	8	$ 2,047,973	8	$ 1,898,752
Operating income before amortization, impairment of assets, restructuring costs and write-down of goodwill	**359,342**	(2)	366,409	9	336,210
Operating income	**237,013**	2	231,433	(4)	240,662
Income from continuing operations	**138,952**	6	131,451	(8)	143,021
Loss from discontinued operations	**–**		(2,595)	–	(12)
Net income	**138,952**	8	128,856	(10)	143,009
Income from continuing operations before impairment of assets, restructuring costs and write-down of goodwill	**142,894**	(6)	151,518	6	143,021
Cash flow from continuing operations before changes in non-cash operating items	**262,451**	(5)	275,948	11	248,370
Investments					
Acquisitions of property, plant and equipment, net amount	**147,965**	–	88,630	(36)	138,837
Business acquisitions [2]	**102,896**	–	208,992	–	5,260
Business disposals	**1,709**	–	–	–	7,245
Financial condition					
Total assets	**2,249,064**	12	2,014,119	16	1,738,396
Net indebtedness	**272,563**	(14)	316,820	1	312,887
Shareholders' equity	**1,105,869**	13	979,924	13	868,313
Net indebtedness/Total capitalization	**20%**	(4)	24%	(3)	27%
Per share data (basic)					
Income from continuing operations	**$ 1.56**	5	$ 1.48	(8)	$ 1.61
Loss from discontinued operations	**–**		(0.03)	–	–
Net income	**1.56**	7	1.45	(10)	1.61
Income from continuing operations before impairment of assets, restructuring costs and write-down of goodwill	**1.60**	(6)	1.71	6	1.61
Cash flow from continuing operations before changes in non-cash operating items	**2.94**	(5)	3.11	11	2.80
Dividends on shares	**0.21**	24	0.17	21	0.14
Shareholders' equity	**12.38**	12	11.03	13	9.79
Average number of shares outstanding (000's)	**89,141**		88,790		88,667
Number of shares at end of year (000's)	**89,307**		88,831		88,656

[1] The restatement of 2004 and 2003 is related to a change in an accounting policy with respect to asset retirement obligations, which is fully described in Note 2 to the Consolidated Financial Statements.

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


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Letter to Our Shareholders

Rémi Marcoux (right) on a business trip with a Transcontinental manager.

Transcontinental turned 30 in 2006. In founding the company, my dream was to create a long-lived business based on my personal values. Over the years, the continuity and stability that characterize family-run companies have enabled us to create a unique business model, one that is continually being revitalized. We have developed a business culture of maintaining a long-term perspective, which creates greater value for shareholders. With our new *Evolution 2010* business project, we plan to go "a step further," in light of the rapid and major changes in our economic environment.

Transcontinental is a growth-oriented company. From 2001 to 2005, our financial performance was superior to that of our main North American competitors. Our targeted development strategy, consistent capital investments and disciplined financial management are key reasons for our success. They differentiate Transcontinental in its industry.

Fiscal 2005 is an excellent example of the soundness of the Transcontinental "difference," that is, our systematic commitment to the long-term interests of our employees, customers and shareholders, the three pillars of the company. Despite a year that was more difficult due to the higher Canadian/U.S. exchange rate and unfavourable market conditions in some niches, we kept to our game plan for creating long-term value.

In 2005, we took advantage of our solid financial position to invest in the medium- and long-term development of our niches with high growth potential in North America. We did so, for instance, by acquiring the U.S. direct marketer JDM, which substantially increased our production capacity and solidified our geographic positioning; by reorganizing or consolidating our direct marketing operations in the United States and book printing in Canada; by setting up a special investment project to purchase three ultra-modern presses and auxiliary equipment to print products primarily for the U.S., which will increase our ability to compete in that market; by building a new highly automated book-printing plant in Canada; and, lastly, by investing in the brand development of our magazines and newspapers.

In 2005 we invested $258 million in our development. The positive impact of these investments will start to be felt in the second half of fiscal 2006. This ambitious program is being continued in 2006, with further capital investments as well as strategic expenditures for our new business project, *Evolution 2010*. And that does not include our special newspaper outsourcing projects or the potential acquisitions that are continually being assessed.

All these investments may have an unfavourable impact on short-term results, but we are making them for one reason and one reason only: to build long-term value for our three pillars and ensure the longevity of our Corporation.

Transcontinental's reputation for integrity gives us a key competitive edge in the current economy, and we continue to uphold that reputation. We did so, for example, when we launched *Evolution 2010* in November: we issued a detailed press release to explain the goals of our new business project and met with members of the financial community. Such actions serve the real interests of our shareholders.

Superior performance over long periods of time, a focused approach to long-term growth, strong financial discipline, a team of highly competent managers and employees with great integrity who are committed to executing our business plan: that's what Transcontinental is all about.

In 2005, many hundreds of hours were spent preparing our new business project, *Evolution 2010*, which follows up on and exceeds the initiatives of *Horizon 2005*. The project was presented to our senior managers at our annual managers' meeting in August and was officially launched in November. Rare is the company that will embark on this kind of project, aimed at mobilizing all of its employees to meet common objectives. Let me briefly review how it came about.

In 1976, my dream was to found a company built on respect for employees and business partners, on innovation, integrity and team work, on a passionate commitment to doing the job right, on the desire always to do more and do better, and on providing service that exceeds the customer's expectations. It was these values, this way of operating, which today we call a company culture, that made us a success from the very beginning.

The 1990s brought radical changes: multiple mergers, consolidation in the retail industry, the impacts of globalization and, in the wake of the convergence model, the creation of mega-corporations such as AOL-Time Warner. We were faced with a new and highly competitive market dynamic. The questions that had to be asked were: "Where do our customers want to go? How can we keep them?" Plus, I was convinced that because of its rapid growth, Transcontinental was at a crossroads. How could we ensure that our values would remain central to our day-to-day operations despite our geographic expansion in North America and the continued addition of complementary products and services? We had to instill the Transcontinental spirit throughout the company.

That was the basis for the *Horizon 2005* project launched in November, 2001. Transcontinental has changed a great deal in the past five years, on many fronts: we have established a common set of values among all our employees, improved our knowledge of our customers and their new needs, developed sales, implemented continuous-improvement programs, reduced costs, standardized many procedures, made acquisitions, and maintained a solid balance sheet, to name but a few. Increasingly, we are thinking and acting like ONE company. Above all, we have shown our ability to execute our business plan, which is one of our main advantages over our competitors since, ultimately, everything rests on that.

But while much has been achieved, much remains to be done. In business, perhaps more than in any other human endeavour, it is said that "if you're not moving ahead, you're falling behind." We must now build on our gains and take *a step further* to meet the major challenges that lie ahead: the emergence of new economies and tougher competition; the new technology environment, particularly the impact of the Internet and digital media on consumer habits; and demographic changes across North America. These are the goals of *Evolution 2010*.

Overall, we will be putting more emphasis on our role as our customers' marketing advisor and partner, which means enhancing our knowledge of their markets and integrating ourselves into the customer's value chain. This is what motivated the creation of 13 market teams that have specialized in as many niche markets in North America. Another example is our newspaper outsourcing model, which in 2005 won us a new prestigious client, *The New York Times*. Plus, two major Canadian retailers have outsourced their advertising and premedia design to us. We also set up a business partnership with Yellow Pages Group, Canada's leading phone directory publisher, to produce innovative, niche-specific guides. These guides will contain an editorial section based on the popularity of our brands and the recognized quality of their content, plus a targeted listings-advertisement section developed through our partner's expertise in advertising sales.

We plan to go even further. From now on, our goal will be to make ourselves indispensable to each and every one of our clients. For Transcontinental, this is a natural extension of our business model, which has always been based on being close to the customer. One-to-one marketing and digital media are two areas we will be focusing on, and in which we already have key assets and equipment.

We will also be providing more and better services to our advertisers, readers and website visitors, which means we will be enhancing our content, products and services, and technology platform. And we will be putting much more emphasis on organic growth, which comes from the innovative and creative energy of our people, while at the same time continuing to target strategic acquisitions.

That, in short, is our game plan for the next five years. I invite you to read the *Review of Operations*, in which Luc Desjardins, our president and chief executive officer, reviews *Horizon 2005* and provides more details about *Evolution 2010*.

In closing, I would like to thank our approximately 14,000 employees in Canada, the United States and Mexico for their dedication and commitment to Transcontinental's success. The strongest competitive edge a company can have is its employees. A business plan and growth strategy can only be carried out by motivated employees who have the skills to get the job done. My thanks also to our management team, under the leadership of Luc Desjardins, for its excellent work. Everything starts with a vision from the top, which our managers bring to life.

I would also like to thank our corporate and individual customers as well as our shareholders for their loyalty. You are the reason Transcontinental is in business, and the purpose of our new business project is to ensure that you continue to find top-quality service and superior returns with us.

Lastly, a very special thank you to the members of our Board of Directors. The primary role of the board is to represent the interests of shareholders, but its members also give Transcontinental the benefit of their impressive experience and expertise.

I want you to know that I am confident and optimistic about the future. The year ahead will be full of challenges. But we have an action plan, *Evolution 2010*, and a precious asset that only comes with time: our business credibility. That credibility has been patiently built every day over the past 30 years through our relations with investors, customers and employees, and our demonstrated commitment to social and environmental responsibility. By continuing to work as a team we intend to keep surpassing ourselves, standing head and shoulders above our competitors in North America.

"Rémi Marcoux"
(signed)

Rémi Marcoux
Executive Chairman of the Board

January 26, 2006

Luc Desjardins (centre, standing) and the head office Management Committee.
For the names of the committee members, see the diagram on page 100.

Review of Operations

Horizon 2005 was launched in 2001 and became a great success: instilling our values and culture of continuous improvement, developing talent and leadership, innovatively redeploying our sales force, incorporating value-added services, standardizing, optimizing our production infrastructure, making selective acquisitions and maintaining our superior financial performance. Now, to remain in the vanguard, we have embarked on a new business project. So, this year my report is a review of *Horizon 2005* and a brief presentation of *Evolution 2010*. Since our achievements are due to the teamwork and great enthusiasm of our people, I'll let them tell you about their experiences and expectations themselves.

To start, here are a few quick comments I heard during my regular visits to Transcontinental workplaces in the past year.

"Rémi Marcoux's values - that's why I work for this corporation."

Tim Smith, Calgary

"Everybody agrees that the corporation really does believe what it says about its values and the three pillars. They walk the talk of investing in their employees."

Andrea Giordano, Philadelphia

"When we're hiring for management positions, applicants often want to know more about Transcontinental's culture. I'm proud to tell them that at Transcontinental, we really act on our values!"

Nicole Desloges, Toronto

"Organic sales growth has been exciting for us over the past few years. The cross-selling has worked very well, and I'm looking forward to more of that."

Tamara McClintock, Toronto

"The Phil – The Three Pillars™ course really made me aware of the great chain of employees and the importance of my role as a receptionist."

Claudette Besner, Montreal

"It's clear that we want to be the leader. Not just keep up, but be the best at what we do."

Mark Pascoe, Toronto

"Employees were so pleased that they could contribute through the Kaizen workshops and that management listened to them."

Marian Kerr, Atlantic Provinces

"Horizon 2005 helped our company. It's given everyone a positive attitude, that's the big thing. We get more team commitment than we had before. I think Evolution 2010 will do the same thing."

Ian Grady, Owen Sound

"To achieve our growth objectives for the next five years, we have to keep innovating as a team!"

Jean-Paul Gagné, Montreal

What better way to summarize the achievements of *Horizon 2005* and the outlook for *Evolution 2010* than to hear it straight from our people? I invite you to join me now to learn more.

Luc Desjardins visits the future book-printing plant in Louiseville. With him, from left to right: Jacques Grégoire, senior vice president, Book Group; Gaston Marcoux, building project manager, and Richard Lafrenière, general manager.

The goal of *Horizon 2005* was to create value for the three pillars of the company. So I thought I'd test us using our own criteria. What value have we created for our employees, customers and shareholders since 2001?

With and For Our Employees

One of the greatest achievements of *Horizon 2005* was that it strengthened the *esprit de corps* right across the company and created a new dynamic. One of the main tools used to accomplish this was the *Phil – The Three Pillars*™ training course, which was given to most of our approximately 14,000 employees. Groups composed of about 12 employees from the three operating sectors and head office spent two days outside their workplaces understanding the fundamentals of the business through a simulation, then discussing Transcontinental's values, objectives and new ways of doing things. The goal was to broaden participation in the culture of continuous improvement across the company. Here again, I'll let our people speak for themselves.

"Most companies and most CEOs you hear will talk about the value of their human assets, but then they don't walk the talk," says Brian Reid, senior vice president of the Catalogue and Magazine Group. "What really struck me about the Phil *training program was that Transcontinental was following through and walking that talk, and making a huge investment in every workplace."*

I've often said that one of the most important outcomes of *Horizon 2005* was the sense of solidarity it created; our people are thinking and acting like ONE company no matter what sector or region they are in. That's what Mark Pascoe, sales rep for the magazine *TV Guide*, thinks too: *"People from different sectors each bring their own perspective and you think 'Wow, we really are a big, diverse team all working together toward a common goal.'"* The same goes for Marcel Courville, general manager of Transcontinental Digital Services in Toronto: *"It was a way to get all our employees on the same page."* The main message heard by Jim Nicholson, general manager of Transcontinental Vancouver, was *"that the company's values and vision are more than just a plaque on the wall. It's real."*

Suzanne Rabeau, administrative assistant of the executive chairman of the board, was a *Phil* instructor from the very beginning of the project: *"I discovered that people are proud to belong to Transcontinental and that they want to know what's going on in other units in their sector and in other sectors."*

This is in fact one of the fundamental aspects of the *Phil* program: it makes people aware of all the components of the company and introduces them to the decision-making process. They can then take part in the decisions made by their unit and, in so doing, they become change agents.

Since the implementation of *Horizon 2005*, we have steadily focused on improving our efficiency, primarily through Kaizen continuous improvement workshops. In all, 177 workshops were completed and about 3000 employees participated in the process. A broad range of administrative and production processes were streamlined in the three operating sectors: waste and cycle times were reduced, there was a better use of investments in equipment and property and the overall quality of our products and services was improved.

"Many employees have great ideas about how to make a certain process better but don't know how to materialize them," says Christine Landriault, coordinator, Kaizen logistics. "Kaizen provides that methodology and structure." This observation is echoed by Tim Smith, general manager of Transcontinental Calgary, which has more than 400 employees: *"We have a great group of people here, very industrious. But they were lacking a few simple tools. Kaizen really brought it together for them."* Ray Williams, press foreman at that same Calgary plant, participated in several workshops: *"Kaizen is awesome. We developed a bunch of toolboards on the press, changed the way we do makereadies, and cut back on a lot of wasted time."* For a concrete example, here's what Ian Grady said to me. Ian is the chief press operator at Transcontinental RBW Graphics, in Owen Sound, Ontario: *"The Kaizen we did last year made the process clearer for everyone after the product leaves our department and goes to the finishing area. There were sometimes mix-ups on certain jobs, and that was what we straightened out - we standardized our product and made it more trackable."*

Marian Kerr, general manager for the Atlantic provinces in Transcontinental Printing's Commercial Products Group, pointed out another aspect: *"The benefit of a Kaizen is that it's implemented right away, so you can see the impact immediately. Employees could make a huge difference and see it on the floor, which was stimulating and gratifying for both employees and management."*

Today the Kaizen techniques are integrated into the day-to-day work of our employees, which means our culture of continuous improvement will become even stronger in the years ahead. *"People have embraced it and want to participate in the next stages,"* says Nathalie Grégoire, plant manager at Transcontinental Interglobe, in Beauceville, Quebec.

To develop motivated and trained employees who can work as a team, the direction and example must come from the top. That requires leaders. Once things get rolling, everyone can do their share. That was the spirit behind the launch of the *Mission: Leadership* program, which seeks to broaden responsibility for leadership to 1500 of our managers. The goal is to provide them with the tools they need to strengthen our culture of continuous improvement, empower employees and groom new talent.

"It's our responsibility to crack open the market and help employees play an active role in continuous improvement," says Fernand Gagné, general manager of Publi-Sac Saguenay – Lac-Saint-Jean. Jim Nicholson agrees completely: *"I am a big believer in management modeling the way, so the 'Coaching for Success' module certainly reinforced that we must communicate a clear direction to our staff as well as give feedback on progress."*

Nataly Vanden Baar, market director, pharmaceuticals, corroborates this: *"As a manager, you're always working toward the win-win collaborative approach, and this course has really helped me get there in more instances."* For her part, Tamara McClintock, creative director at Transcontinental Digital Services, likes to recall the last session she was involved in: *"I was really busy, and I thought 'I don't have time for this.' But it was so pertinent to what I was dealing with that even though I had a very busy schedule, it ended up saving me time."*

This leadership training has other positive impacts. Andrea Giordano, marketing manager at Transcontinental Direct in the United States, joined us when we acquired the direct marketing firm CC3 in December, 2003. *Mission: Leadership* helped her and her co-workers integrate into Transcontinental: *"Because we were acquired, we had our own values and ways of doing things. So we still felt like we owned certain areas of the company's operations. When we started* Mission: Leadership*, it was a little competitive, but then they really showed us very quickly how to work together well. The course was extremely different from anything I'd done before."*

Comments by Martin Godcher, publisher of our weekly community paper *La Revue* in Gatineau, Quebec, sum up the achievements of the *Mission: Leadership* program very well:

"Now I have the tools I need to deal effectively with difficult cases and situations. Mission: Leadership *also showed the company's determination to invest in its people. The managers are more than willing to help you and provide guidance and advice, which means that you can grow and develop in your job and in the company. This makes it very interesting to have a career at Transcontinental, and it's a source of pride. You know that your company is really committed!"*

We have also implemented a number of measures in the past five years to recruit and retain the best people available, and to develop new leaders at all levels. That's a major challenge in the current economic environment, but we're convinced that having the best employees gives us a competitive edge. We'll continue investing in this process.

So, what value have we created for our employees through *Horizon 2005*?

- Individuals and teams now receive more recognition and support for improving production and administrative activities and can have a real impact on their workplaces.
- Our employees have greater job stability than our competitors do. That's worth a lot given the consolidations and profound changes shaking up the communications industry in North America.
- Employees are proud to be part of a major corporation that truly acts on its human values.

For Our Customers

What gives meaning to all our actions is the customer, whether that customer is a company or a consumer. Our business strategy has always been the same: to listen to our customers, accompany them as they change and grow, and greatly exceed their expectations. *Horizon 2005* has strengthened and revitalized this strategy. *"It's really about the customer," says Mark Pascoe. "How can we help them? What else can we help them with?"*

It's clear that by making operating efficiency one of our two areas of excellence, our customers benefited from shorter production times and simplified procedures. One simply has to read the descriptions of the Kaizen workshops held since 2002 to see this is true. This emphasis on execution has always been part of the Transcontinental approach.

"Horizon 2005 *reflected strategy in terms of where we want to go, but was also tactical in that there were very specific measurables and action plans to achieve those measurables," says Brian Reid. "From that standpoint, it was very practical and provided a great link between strategy and execution. Because it doesn't really matter how great a strategy you have if you can't execute it."*

There was another aspect to *Horizon 2005*. The customers we'd been serving through several satellite units had started demanding much more integration and standardization of our services throughout the company, in areas from sales to production. We had to react to that!

So, among other things, we introduced an integrated manufacturing software program in 15 of our plants in Canada and Mexico. The program covers all of the key processes, from quotes to shipping and billing, and from production workflow to cost of sales and inventory management. Not only has it made us more efficient, but our customers are now truly dealing with one company for all of their printing products and services. This program will be deployed in the rest of our plants over the next three years.

"Our customers can feel it, which is really interesting," says Marian Kerr. "They have the sense that we can really deliver on many different fronts."

Another front is the reorganization of our sales force. We started with the following fact: major North American corporations are significantly decreasing the number of suppliers they deal with by consolidating purchases of print and advertising products, and by using new channels. The challenge was to become more familiar with each customer category in order to provide an individually tailored offering from the full range of products and services we offer, and thereby satisfy a bigger part of their needs.

Two initiatives arose out of this analysis: the first was the creation of 13 teams focused on as many target markets in North America; the second was the multiplication of cross-selling initiatives with our existing customers, especially major corporations, so that we could offer them all of our printing, direct marketing, publishing, distribution and related products and services. We're making our customers' lives easier by advising them and handling a larger share of their requirements, and we're doing it through a single point of contact. *"Organic sales growth has been exciting for us over the past few years," says Tamara McClintock. "The cross-selling has worked very well, and I'm looking forward to more of that."*

Tim Smith sees a more general result from *Horizon 2005*: *"It really allowed us the opportunity to sit down as a group and start to strategize and ask 'Is this what we want to do? Is this the right way to go?' That led to synergies like cross-selling. So* Horizon 2005 *gave us a common goal. Before, we had silo goals."*

Luc Desjardins visits the editorial room of the newspaper *Les Affaires*. On his left, Pierre Marcoux, vice president, business publications.

In February, 2005 we acquired the U.S. direct marketing firm JDM. The purpose of this was to offer our direct marketing customers in the United States a broader line of products and services in order to serve them better and simplify their lives. The acquisition doubled the production capacity of Transcontinental Direct in the United States. It also brought us JDM's state-of-the-art production and control systems, logistics services, leadership in high-speed inkjet personalization technology and strong management team. JDM's five facilities in Pennsylvania joined Transcontinental's North American network of direct marketing plants in Philadelphia, Los Angeles, Dallas/Ft. Worth, Toronto and Montreal.

"We have the opportunity to grow even more and become one of the biggest direct marketing companies in the United States," Andrea Giordano said to me proudly. "Being in marketing, that's really exciting for me! I really sense the opportunity and the growth."

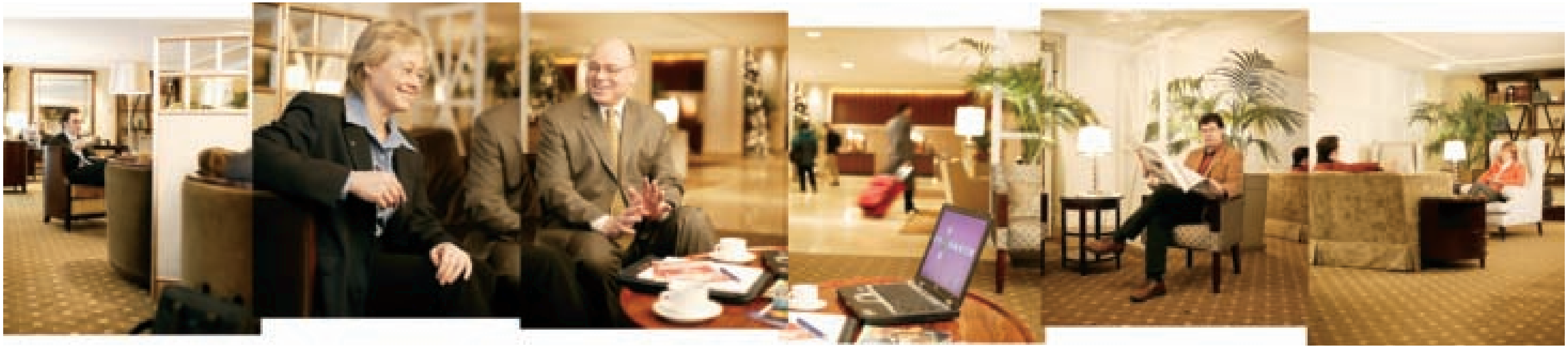
Outsourcing is an irreversible trend and a natural extension of Transcontinental's business model, which is based on being close to the customer. In 2005, we gained our first foothold in the United States for our unique outsourced newspaper printing model, signing a 10-year contract to print *The New York Times* for the Ontario and Upstate New York markets. The start-up in November was a great success and earned François Olivier, president of the Printing Products and Services sector, a note from the client indicating their great satisfaction.

Guy Manuel, in charge of the 2010 issue "Integrated Marketing Services Offering," with Nicky Milner, vice president of the Premedia Group, just before they meet with a client.

Transcontinental also extended its contract to print *The Globe and Mail* for its main markets in Canada for an extra five years, to 2015, and in October we completed the second year of our 15-year contract to print the daily paper *La Presse*. As well, Transcontinental has started printing the daily commuter newspaper *Métro* for Ottawa and part of the Toronto market. Plus, our contract to print the Canadian edition of *TIME Canada* was also extended for an additional five years. All these projects show the power of our outsourcing model and its strong potential for development.

At the same time, we started to implement our new vision of premedia. The goal is to set up an integrated digital technology system that provides extra value to our customers. We are doing this not only to remain a leader in premedia technology, but also because premedia is a strategic gateway to recruiting and keeping clients. In fact, it can lead to a customer outsourcing all their advertising design and premedia production operations to us, as two major retailers have already done. ***"When a customer entrusts you with managing their digital services, you become an important link in their business process and systems,"*** says Nicky Milner, vice president of the Premedia Group.

Setting up partnerships with complementary companies is an integral part of Transcontinental's business culture. An important strategic partnership for developing our brands and content was arranged with Yellow Pages Group, the biggest telephone directory publisher in Canada, in a project to publish niche-specific guides. The first two guides will appear in 2006 and will be aimed at consumers interested in home renovation. The new guides will use the brands of Transcontinental's magazines *Décormag* and *Style at Home*, as well as the Yellow Pages™ trademark.



Before joining Transcontinental, Jim Nicholson was one of our suppliers: *"I had always looked at Transcontinental as being very fair and a great company to do business with. As a new employee meeting Rémi for the first time and experiencing the passion he exudes for people and the business, I realized how his vision has defined our company. I truly believe that this is a differentiator between us and our competitors. That passionate attitude permeating throughout Transcontinental does not exist in many other companies."*

To summarize, what value did we create for our customers through *Horizon 2005*?

- We simplified their work in a number of ways, notably by standardizing production systems and procedures.
- Through cross-selling, we enabled them to decrease the number of suppliers they use by offering them access to a broader line of products and services through a single contact.
- We improved our knowledge of their markets so that we could act more as marketing advisors.
- We became a true business partner by taking on a bigger role in the customer's value chain, particularly by providing outsourced newspaper printing and premedia services.
- Thanks to our many Kaizen workshops, our customers benefited directly from shorter production cycles and simplified operations.

For Our Shareholders

Now let's take a look at what we've done for our shareholders. I'd just like to point out that creating value for our shareholders also benefits the other pillars of the company. By keeping our existing shareholders and attracting new ones, we secure a significant portion of our investments in capital and in our brands, both of which are vital to our growth.

"Now, when I have a decision to make, I automatically try to make the best decision for the employees, the customers and the shareholders, the three pillars," says Tamara McClintock.

Since the launch of *Horizon 2005*, Transcontinental has performed better than most of its competitors on most financial indicators, including share price. Behind this achievement lie a number of elements that make up the "Transcontinental difference": solid growth, disciplined financial management, optimal use of equipment, major investments in state-of-the-art technology, and daily attention to reducing our costs, particularly by consolidating our purchases. This has been accomplished through our concerted efforts, coordination and teamwork, both at head office and in our three operating sectors.

"We're not working in silo mode anymore, we're working like ONE company and are taking advantage of synergies and sharing best practices," says Nathalie Grégoire. "That means we can serve our customers better and meet shareholders' expectations."

To avoid spreading ourselves too thin, we decided to concentrate our efforts on the North American market and on certain niches. Our goal is not to be the biggest, but the best in specific segments. In the past five years we have taken concrete steps to achieve this.

For example, the acquisitions of the CanWest and Optipress newspapers in the Atlantic provinces made Transcontinental the most important publisher of community newspapers in Eastern Canada. The acquisition of the Avid Media magazines strengthened our position as Canada's leading consumer magazine publisher. *"The integrations I've seen — Avid Media and Telemedia — have been seamless," Mark Pascoe told me. "The 100-day integration plan was followed and everything went very smoothly."*

With the acquisitions of CC3 in December, 2003 and JDM in February, 2005, Transcontinental became one of the biggest producers of printed direct marketing items in North America and the leading supplier of services to financial institutions. The integration of these two entities required a major reorganization that we will start to reap benefits from in the second half of fiscal 2006.

Since the launch of *Horizon 2005*, we have invested close to $700 million in the acquisition of 14 companies in our strategic niches.

In the area of organic growth, we launched a number of new products, such as the *Métro* daily paper, and redesigned major titles, including *Coup de pouce*, *Canadian Living* and the *Daily News* in Halifax. We also built Transcontinental Metropolitan, the most modern newspaper printing plant in North America, where we've been printing *La Presse* since

October, 2003. Our model for outsourced newspaper printing combines sophisticated technology with a participative management style based on autonomous teams. It also builds on the trust and business credibility associated with the name "Transcontinental." In addition, we built a new direct marketing facility in Dallas, Texas, and are doing the same for book printing in Louiseville, Quebec.

One of the ways of creating value for shareholders is to make optimal use of existing equipment and resources and to invest wisely in state-of-the-art technologies. This was the aim of the review of our manufacturing strategy.

"We are following a specific plan," says Jean Denault, corporate vice president, production and procurement efficiency. "First, we made sure that the existing equipment in the Transcontinental network was being used to its maximum potential, and we transferred some equipment within the network. Once that was done, we evaluated the new printing and finishing technologies and implemented an investment plan for each of the Corporation's niches."

The Corporation's $155-million investment program in 2005 included the first part of a special two-year, $53-million project that involves buying three state-of-the-art presses to print magazines, catalogues and books, as well as an additional $20 million to build a highly-automated book-printing plant in Louiseville, Quebec.

Since the abovementioned products are primarily destined for the U.S. market, these investments will reduce the negative impact of the exchange rate by increasing Transcontinental's ability to compete. The positive impacts will gradually start to be felt in the second half of fiscal 2006 and in 2007. We have also invested in the development of our magazine and newspaper brands.

In total, since August, 2001, we have invested half a billion dollars in capital assets. In 2006, the Corporation plans to spend about $125 million in capital assets, in addition to the $10 million in strategic expenses for *Evolution 2010*.

Another important aspect for our shareholders is our transparency and integrity. Today, investment decisions, like business decisions, are increasingly being made in light of a company's reputation for honesty, because that is the foundation of any relationship of trust. Transcontinental is an acknowledged model for corporate governance, and we will continue to live up to our reputation.

Shareholders also want to invest in corporations that are socially responsible, particularly in relation to the environment. In February, 2005, along with our partners the Montreal Transit Corporation and Cascades, Transcontinental and its daily *Métro* paper launched a recycling awareness campaign with the slogan *Un métro qui nous est propre* ("Our clean subway, Our own subway"). In the culmination of this ambitious project, about 200 recycling bins were put in the Montreal subway system. Every year, more than 400 tonnes of paper will be recovered, about eight tonnes a week. Note that *Métro* is printed on paper composed of 40% recycled fibres.

"The primary objective is to make the subway cleaner, in a sustainable and responsible way," explained Stéphane Gagné, publisher of Métro, at the launch. "Plus, people who use the recycling bins also help the fight against illiteracy, because we donate a significant portion of the money from selling the recycled paper to the Literacy Foundation. It's a cause we really believe in as publishers."

To sum up, what value did we create for our shareholders through *Horizon 2005*?

- Disciplined financial management and a sound balance sheet, which puts Transcontinental in an excellent position to pursue its growth.
- The capacity to generate significant cash flow.
- State-of-the-art equipment installed throughout the company.
- Strategic positioning in niches with high growth potential.
- Proactive risk management.
- Superior stock market performance: from November 1, 2001 to October 31, 2005 the share price rose, after a two-for-one stock split, from $10.83 to $21.14, representing annual compound growth of 18.2%.
- Increasing dividend.

Essentially, *Horizon 2005* revitalized, in light of the economic reality of the early 21st century, the values, business plan and development strategy that have made Transcontinental a success since 1976. *Horizon 2005* was a major achievement and Transcontinental has changed a great deal in the past five years. We must now strengthen these gains on all fronts. But we must also take *a step further* to confront the challenges that lie ahead. I am thinking in particular of the emergence of new economies and increased competition; of the technology environment, especially the influence of the Internet and digital media on consumer habits; and of the demographic changes in North America.

Strengthening our gains and taking *a step further* to confront new challenges: that's the dual objective of *Evolution 2010*.

"The name is really appropriate because it's a continuation of what we've already started," says Terry Mounce, general manager of Transcontinental Halifax. "It's not us heading in an entirely new direction. It's us saying that we've identified a track, that we've made tremendous progress along that track, but that we want to keep going." Tim Smith agrees: *"*Horizon 2005 *was great in bringing us together and getting us to act as one. As we get into* Evolution 2010, *it really starts to solidify that foundation and draw more people to the forefront to participate in active improvements."*

The slogan "Innovating, Improving, Growing" means that we'll build on the gains made during *Horizon 2005* in continuous improvement, that we'll remain a growth-oriented company, and that we'll make company-wide innovation the priority in the years ahead because of our greater emphasis on organic growth. Would you like to hear how our people have reacted?

"The three words - innovating, improving, growing - really sum up that we're looking to the future, and that we're very proactive, not reactive," says Mark Pascoe. Jean-Paul Gagné, publisher of *Les Affaires*, welcomes the emphasis on innovation over the next five years: *"The primary value that will help us deal with strong competition in our niches is innovation. Innovation in our products, services and processes, innovation in how we serve the customer, and innovation also in finding new solutions for clients. To achieve our growth targets, we'll have to be even more innovative as a team."* Ray Williams agrees: *"The innovation part of it is what caught my eye. It's exciting that the company is going to look at new ideas and new formats. Transcontinental is always looking for better ways to do things, and it's great that they're not just sitting back and watching things go by. The way the world's changing, we have to stay ahead."*

Overall, we'll emphasize our role as marketing advisor by developing an even greater familiarity with our customers' markets and becoming integrated into their value chain. We'll also do more to serve advertisers, readers of our publications and visitors to our websites, by enhancing content, the products and services we offer and our technology platform. This means that we'll be developing a better understanding of consumers, both

Réal Boulet (blue shirt), responsible for the 2010 issue "Cycle-Time Reduction," goes over the stages of a business process with his team.

as the customers of our customers and as our own customers. And we'll continue to invest in our people.

To meet these goals, we've adopted a corporate vision that takes into account the technology environment and new consumer habits; not only that, we've updated our mission, our guiding principles and our development strategy; and we've identified five major "2010 issues."

Our Vision

This is our new vision, which shows what we want to become:

To be the leader in our printing and marketing niches, as well as in the creation and dissemination of content and the delivery of complementary services aimed at communities of interest or specific markets.

"Leader" means "be recognized as a key player in each of our niches." Not necessarily the biggest, but the best in what we do. It also means "offer more products and services in each market we serve." We added "and marketing" to demonstrate our move toward playing a more strategic role in the customer's value chain, whether upstream or downstream.

François Olivier, responsible for the 2010 issue "Organic Sales Growth," proudly holding one of the first copies of *The New York Times*, hot off the presses of Transcontinental Interweb Toronto.

The second part shows that we are open to expanding our publishing activities beyond print, but will remain focused on communities of interest or age, and on specific regions.

Our Mission

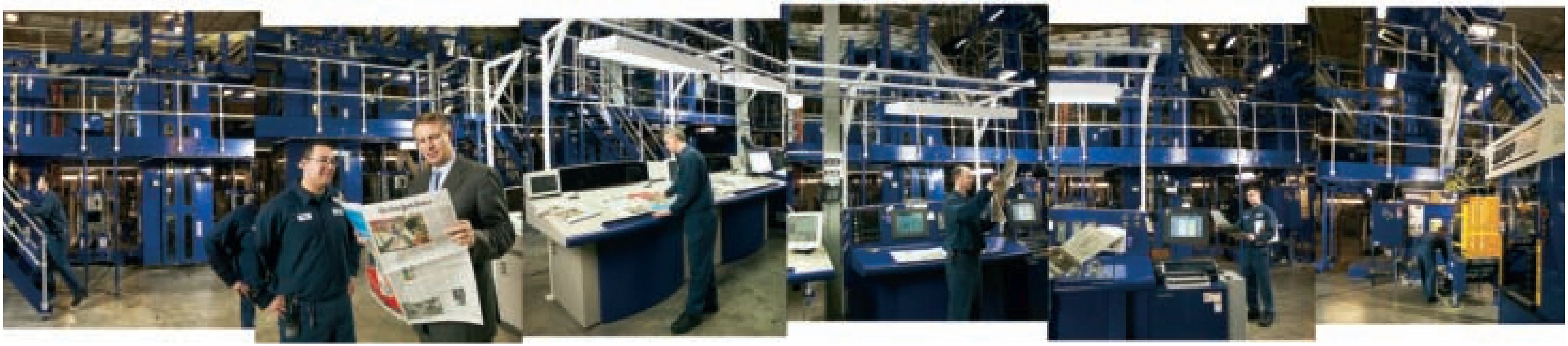
The mission is a company's reason for being in business. With this in mind, we reformulated our mission as follows:

To develop value-added products and services along with multiple delivery channels in order to reach consumers and build loyalty more effectively.
To optimize the interests of our employees, our customers and our shareholders.

By "develop," we're saying that we'll be putting more emphasis on creativity and innovation. The mention of "value-added products and services" is part of our vision of becoming more of an advisor and business partner to our customers, which will help us move, in the customer's value chain, from a supplier of commodities to one of services.

Guiding Principles

The guiding principles provide the framework for our day-to-day actions and decisions. Basically, we reformulated our existing principles by adding more details. Here are our five revamped guiding principles:



To listen to our customers, anticipate their needs and exceed their expectations.

To make innovation central to our business practices while remaining at the leading edge of trends and new technologies.

To promote the development of our employees, their ability to adapt to change and their commitment to continually improving our processes and practices.

To pursue our development through acquisitions and organic growth while creating value for shareholders and maintaining a disciplined approach to financial management.

To be in the vanguard in matters of social responsibility and corporate governance.

Values

With the completion of *Horizon 2005*, I think our values have been instilled in all our employees and are now integrated into our day-to-day business practices. Those values are central to the trust we have established with our customers and shareholders. But nothing can be taken for granted. As Jean-Paul Gagné says, we must *"continually remind ourselves, and our employees, that we must - always - be accountable, consistent and honest."* Our values are:

Respect for others / Professionalism and integrity / Judgement and discipline / Creativity and innovation / Leadership / Entrepreneurship

Nicole Desloges, vice president, human resources for the Marketing Products and Services sector, points out another aspect: *"I find it particularly interesting that the second component of our business project has five new issues, as well as its own mission and vision. The issues are exactly what we need to be addressing. But one aspect remains the same, and that's what makes this such a strong company: the values. They haven't changed, even with the new business project. In fact, they are still the same as Transcontinental's founding values in 1976."*

The vision, mission, guiding principles and values form the conceptual and moral framework for our activities. These building blocks of any organization take concrete form through our financial objectives and the specific avenues of development we choose to pursue.

Financial Objectives

The financial objectives of *Evolution 2010* are as follows: to create economic value; increase our revenues by 5% per year through organic growth; achieve 10% average annual growth in earnings per share from continuing operations, before unusual items (excluding the impact of the exchange rate); make strategic acquisitions; maintain the net funded debt to total capitalization ratio at 35% to 50% (excluding the securitization program); invest $120 million on average per year in capital assets (excluding newspaper printing outsourcing projects); and, finally, increase the dividend paid to shareholders.

2010 Issues

The issues highlight Transcontinental's primary means for achieving its strategy and financial objectives. *Evolution 2010* has five issues, which the teams comprising members from all three sectors as well as from head office have already been working and making progress on for several months now.

Issue 1: New products and services on a "multichannel" platform

Media fragmentation is accelerating, information is becoming more widely disseminated via digital media and technology is making it possible to collect and store large amounts of consumer data. In this new environment, we will be developing new consumer products and services through database management and a "multichannel" distribution strategy.

We intend to go beyond the 'paper and ink' model by disseminating existing and new content via multiple digital platforms. That means we have to increase our knowledge of the consumer. With the millions of readers our magazines attract, we're in an excellent position to do so.

Issue 2: Integrated marketing services offering

Our market continues to evolve and our clients are now demanding value-added services that complement those we already offer them. Upstream, they want to automate and simplify the critical steps in their supply chain. This goes for everything from the infrastructure to the software required to effectively manage digital documents supported by premedia services. Our printing and personalization offer must be supported by data management and a set of related services. Downstream, clients are looking for a supplier who can handle the management of their logistics by offering personalized warehousing and distribution services.

"The main objective," says Guy Manuel, who is responsible for this issue and is president of the Marketing Products and Services sector, "is to become one of the rare suppliers who can integrate all of these competencies and provide turnkey service to our valued customers."

Issue 3: Cycle-time reduction

The economic environment will become even more competitive in the next few years. One simply has to think of the excess capacity in certain niches in the industry, the emergence of new economies like China, and the strength of the Canadian dollar. In our culture of continuous improvement, we'll be working to reduce administrative and production cycle times by optimizing our business and production processes throughout the company.

"Optimizing our processes is definitely part of looking after the interests of our three pillars," says Réal Boulet, responsible for this issue and vice president and chief information officer of the Corporation. "It will be easier for our customers to do business with us and we will be able to serve them more quickly. And by eliminating activities that have no added value, we'll significantly reduce costs for our shareholders and create a more pleasant and stimulating workplace for employees."

Issue 4: Organic sales growth

Transcontinental will continue to develop through acquisitions and internal growth, but we will increase internal growth by fully exploiting possibilities to sell our existing products and services to our current and new customers. Our goal is to achieve average internal growth in revenues of 5% per year.

"To increase the demand for our services, we have to convince our customers that we can offer them added value," says François Olivier, who is in charge of the organic sales growth issue and is also president of the Printing Products and Services sector. "And we have already convinced many high-profile customers we are the source for the added value they seek, by relying on our newspaper outsourcing printing service, our many investments in equipment and facilities, and the development of our market teams and cross-selling."

Issue 5: Talent development

The pool of talent is shrinking, the workforce is ever more mobile, what workers consider important is changing, and the demand for new skills is very high. Transcontinental requires a global talent strategy to support its initiatives. Each employee must be equipped with a development plan and training program that meet his or her career ambitions, potential and values. Developing new leaders is part of this process. To be true to its values, Transcontinental must also make sure that the work environment is motivating for all employees and makes them feel valued.

"To understand the importance of talent development," says Julien Houle, who is responsible for this issue and corporate vice president of human resources, "just imagine how much better we could do things if we gave each of our employees, at every level, the opportunity and tools to express their full potential. The difference would be incredible!"

New Structure

To make it easier to implement *Evolution 2010*, we made some changes to our organizational structure. The names of the two printing sectors have changed. The Information Products Printing sector is now the Printing Products and Services sector, and the Marketing Products Printing sector has become the Marketing Products and Services sector. The new names highlight the increasing importance of value-added services in both sectors. Similarly, we eliminated the expression "information products" as it has become less and less representative. In the second printing sector we are now highlighting the marketing aspect, which differentiates us in the North American printing industry.

We also created two new groups that reflect the importance of new technologies: the Premedia Group in the Marketing Products and Services sector, and the Digital Media Group in the Media sector.

With *Evolution 2010*, I am convinced that Transcontinental will continue to differentiate itself and remain in the vanguard of our industry. We will succeed as a team, through our values and culture of continuous improvement. I can guarantee you that our people are enthusiastic about the idea of taking *a step further* together, in the interests of the company's three pillars. I'll give them the last word in this review of fiscal 2005.

"People feel more motivated after the Phil training course or a Kaizen workshop. I always tell them that when they get back to their jobs, they'll be the ones promoting the Phil philosophy: 'We need to adopt these values and behaviours and convey them to others.' You can't, of course, change overnight, but an openness to change is now found throughout the company."

Suzanne Rabeau

"It's very promising. We feel like management has a strategy and long-term vision. Given the current context, it's reassuring to know that they're making major investments in training people and state-of-the-art technology."

Nathalie Grégoire

"I've been here for 20 years, and have seen the company go from small printer to large multinational communications company. It's amazing to see us always adapt to change. And Evolution 2010 is the tool we need to take the next step. To me, the outlook is very positive."

Marcel Courville

"I've been in my position at Transcontinental for the past 15 years, and for me the important thing is to continue to do my job well. I like this company a lot and I've seen it grow. It's gotten much bigger, but despite that, there's still that family feeling, like at the beginning. That inspires me."

Claudette Besner

"It's exciting to be part of such a large company that's aiming at such growth. The 2010 issues really make sense here in my business unit. I'm very proud to be able to say that I work for Transcontinental."

Tamara McClintock

"I believe in Transcontinental's values, like respect for others, professionalism and integrity, and leadership. Every day I try to live those values as best I can in my work and in my personal life."

Fernand Gagné

"We have big challenges ahead of us with Evolution 2010: to work in a coordinated and concerted way on advertising sales for print and the Internet; to develop more and more our digital services; to increase our emphasis on web/paper solutions; and to extend our brands. It's clear, given globalization and intense competition in the print and advertising markets, that business projects like Horizon 2005 and Evolution 2010 provide us with the tools we need to succeed. What will also help us is the quality of our human resources, the way our people are mobilized and innovate, and the commitment to continuous improvement."

Jean-Paul Gagné

In the middle, Julien Houle, responsible for the 2010 issue "Talent Development," on a recruiting mission among students at HEC Montréal, accompanied by Lyne Pothier (orange jacket), corporate human resources manager.

"In terms of the Media sector, I'm delighted by the investments we'll be making in new technologies, an area that has enormous potential for us."

Katya Laviolette
Vice president of human resources, Media sector

"Horizon 2005 was great in bringing us together and getting us to act as one. As we get into Evolution 2010, it really starts to solidify that foundation and draw more people to the forefront to participate in active improvements. It's going to allow us to gain from the synergies we have as a large corporation."

Tim Smith

"Kaizen works on anything. It does make you think a lot differently. Nothing but good has come out of it. A lot of the changes we've made here are things we've wanted to do for years but never had the backing to do it. Kaizen forces everyone to get it done right now. It's all positive change all the time. Everything you do is positive change."

Ray Williams

"The company keeps setting the bar high, and that's a good thing. If you don't set the bar high, you won't reach for what you can do."

Marian Kerr

"The Phil course gave us a chance to talk to people in other parts of the company. Plus, the workshop format with games and exercises made it much easier to absorb the information. At the end of the two days, I didn't think I'd remembered much, but when I went back to work, I realized how much I'd learned. Not only did meeting people from the other sectors expose us to other problems, it brought us into contact with solutions and ideas that we could use. Phil taught me about our company culture and got me more interested in Transcontinental."

Marilaine Bolduc-Jacob
Information Director,
central Montreal newspapers

"Evolution 2010 is another opportunity for the senior executives to say 'we've listened, we've surveyed the landscape, and these are the critical initiatives we must undertake between now and 2010 if we are to be successful.' I think it sends a great message to the marketplace, and to employees, when we communicate that we know where we are trying to go. The synergies that this creates across the entire company allow us to achieve things that I don't think we could achieve as individual plants deciding what we should do for our own area. Bottom line: none of this happens without people embracing it. And with Evolution 2010, as with Horizon 2005, management is saying, 'this is the direction we want to head in. Now, help us get there.'"

Jim Nicholson

"It means a lot that the company is putting in the time to train us and keep on training us. Kaizen is such a great learning tool. I know it's put in place to save the company time, but it's definitely changed the way I look at things as well. It has affected the way I run the household, for example: you have to pre-plan the week. I plan ahead more and better now than I ever used to. Life just isn't fun when you feel like you're running around all the time."

Tamara McClintock

"Horizon 2005 didn't change my perception of Transcontinental; it reinforced it. It gave clarity to Rémi Marcoux's values, which we'd sensed before. It made them concrete. Once the foundation is solid, you just keep building. You make it stronger each and every year. We're now ready to face the next frontier. I recently changed provinces, but it wasn't a huge adjustment. I really got the sense of what Luc Desjardins talks about - that this is one company."

Marian Kerr

"For me, values have always been very important. I come from a Dutch background, and my upbringing was very strong on values. The fact that I'm working for a company that also has strong values makes for a good personal fit. You then bring those values back into your personal life, your family life. When you have a good balance between your personal and professional life, you feel stable. And Transcontinental can expect good performance from employees who are healthy and stable and feel good about where they work."

Nataly Vanden Baar

"If you create an environment where people feel they are valued and making a contribution, you can capture their imagination. When you put an initiative like Evolution 2010 *in front of people and give them clarity of direction, great things happen. The biggest thrill for me is to put a challenge before someone, watch them make it their own and take it to places you couldn't have imagined; that's one of the most rewarding parts of my role as a general manager."*

Jim Nicholson

"Before the Phil *training program, most people came in and did their job, whether it's running a press or working on the end of a stitching line or whatever the machine was. For most employees, their perspective was limited to that particular piece of equipment.* Phil *exposed them to all aspects of running a business and what goes on behind different decisions that are made, and I think that has really helped in terms of employees understanding how things run and why things happen the way they do."*

Brian Reid

"Coming from a privately owned company, when you think of the corporate world you think it's a lot more elaborate, or that they don't care about people as much. You fear that you'll become a number, or get lost in the day-to-day business. But the training [at Transcontinental] made me feel like upper management really does value every employee. They'll walk down the hallway when they're here and shake your hand and give a friendly hello. And you just know they've really worked hard to get where they are, and their experience adds value but also perspective to our own work lives. You can really see that management wants you to get out of the office at the end of the day and enjoy your family life."

Andrea Giordano

"The future of Transcontinental? I think it's very positive. I like the message from Luc Desjardins: it shows that he and his management team have a lot of courage and leadership. From Horizon 2005 *to* Evolution 2010*, the message is that we're moving forward."*

Fernand Gagné

"We're not working in silo mode anymore, we're working like ONE company and we're developing synergies and sharing best practices."

Nathalie Grégoire,

"It's important to feel listened to and know that anybody can propose ideas and solutions to help the company improve continuously. I think it gives employees a lot of confidence. For myself, I wouldn't want to change my job: I love it! I've been working in estimating for the past 19 years, with the last seven at Transcontinental. I can tell you that before I came to Transcontinental Quebec City, I'd never seen such a commitment to human values in any other company. The Phil *training course and the team spirit of the people I work with have inspired me to put even more into my job and take an active role in improvement initiatives."*

Marie-Josée Vallières

With *Evolution 2010*, I am convinced that Transcontinental will continue to distinguish itself and remain in the vanguard of our industry. We will succeed as a team thanks to our values and our continuous improvement culture. I can guarantee you that our people are enthusiastic about taking *a step further* together, in the interest of the three pillars of the Corporation.

"Luc Desjardins"
(signed)

Luc Desjardins
President and Chief Executive Officer

January 18, 2006

Daniel Denault in an interview on TV.

Management's Discussion and Analysis

Solid growth, disciplined financial management, a strong balance sheet, optimal use of equipment, investments in long-term development and state-of-the-art technologies, and reduction in costs: that's the Transcontinental "difference" when it comes to finance.

Definitive test: from 2001 to 2005, the company's financial performance was superior to that of most of its competitors.

The positive impacts of investments made in 2005 will begin to be felt in the second half of 2006. By 2010, excluding exchange-rate fluctuations, the target is average annual growth of 10% in earnings per share.

The purpose of this *Management's Discussion and Analysis* is, as required by regulators, to explain management's point of view on Transcontinental's past performance and future outlook. More specifically, it outlines our development strategy, performance in relation to objectives, future expectations and how we address risk and manage our 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.

In this document, unless otherwise indicated, all financial data is prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts are in Canadian dollars, and the term "dollar," as well as the symbols "$" and "C$", designate Canadian dollars unless otherwise indicated. In this *Management's Discussion and Analysis* we also use "operating income before amortization, impairment of assets, restructuring costs and write-down of goodwill" and "operating income margin before amortization, impairment of assets, restructuring costs and write-down of goodwill" as financial performance indicators for the Corporation and its operating sectors. Although these performance measurements are not in accordance with GAAP and could be calculated differently by other companies, they allow us to compare our results from year to year without regard to debt servicing, income taxes, amortization and unusual items. We believe that this information is useful to investors and other readers and will help them better assess our financial performance.

In this report, references to "adjusted operating income before amortization" mean "operating income before amortization, impairment of assets, restructuring costs and write-down of goodwill", while references to "adjusted operating income margin before amortization" means "operating income margin before amortization, impairment of assets, restructuring costs and write-down of goodwill".

Please note, when reading the financial statements and this report, that the fiscal year ended October 31, 2003 contained 53 weeks of activity, compared to 52 weeks for the fiscal years ended October 31, 2005 and 2004. The additional week in 2003 gave rise to additional revenues of $22 million and additional adjusted operating income before amortization of $5 million.

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 purchase 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.

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

Caution Regarding Forward-Looking Statements

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to our objectives for 2006, our medium-term goals, our outlook, objectives under our *Evolution 2010* 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," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective," 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, management of credit, market dynamics, liquidity, funding 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, particularly the U.S. dollar and the Mexican peso; the effects of changes in interest rates; the effects of competition in the markets in which we operate; judicial judgements and legal proceedings; our ability to successfully realign our organization, resources and processes; our ability to complete strategic acquisitions and joint ventures and to integrate our acquisitions and joint ventures successfully; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors may affect future results including, timely development and introduction of new products and services, changes in tax laws, technological changes, new regulation; 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.

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 company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. 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 information available as of December 15, 2005.

Highlights

- In fiscal 2005: completed the *Horizon 2005* business project; invested in state-of-the-art equipment and the development of new products and services for the long-term growth of the Corporation; reorganized and consolidated certain entities; leveraged our brands and content; and signed a 10-year strategic contract to print *The New York Times* for Ontario and Upstate New York.

- Launched our new *Evolution 2010* business project on November 16, 2005, with a focus on organic growth and five new strategic issues to lead us one step further toward our ultimate goal of becoming the top performer in our industry.

- 8% growth in revenues, principally as a result of i) acquisitions, ii) an increase in sales volume in U.S. direct marketing activities, Mexican operations, magazine and catalogue printing operations and distribution of advertising material, and iii) paper price increases. These items were partially offset by the negative impact of the exchange rate and persistent pricing pressures in certain niches of the printing industry.

- 2% decrease in adjusted operating income before amortization, primarily due to the negative impact of the exchange rate, persistent pricing pressures in some niches of the printing industry, non-capitalized investments for long-term development and production disruptions related to the consolidation and reorganization of certain entities, partially offset by the impact of acquisitions.

- Adjusted operating income margin before amortization of 16.3%, compared to 17.9% in 2004.

- Income from continuing operations before impairment of assets, restructuring costs and write-down of goodwill of $143 million, or $1.60 per share, down 6% from $152 million, or $1.71 per share, in fiscal 2004, following a decrease in adjusted operating income before amortization, but within last August's revised annual earnings-per-share objective range of $1.57 to $1.65 for 2005.

- In fiscal 2005, a total of $6 million for negative unusual items ($4 million after taxes, or $0.04 per share), broken down as follows: $4 million as part of the consolidation of the book printing operations, $1 million for an asset impairment in Mexican operations and $1 million as part of the consolidation of the Winnipeg retail-flyer printing operations.

- Income from continuing operations of $139 million, or $1.56 per share, up 6% from $131 million, or $1.48 per share, in 2004, as a number of unusual items negatively affected 2004 results.

- 8% increase in net income to $139 million, or $1.56 per share, in 2005 compared to $129 million, or $1.45 per share, in 2004, mainly attributable to unusual items.

- Cash flow from operations before changes in non-cash operating items of $262 million, or $2.94 per share in 2005, used in large part to finance growth through acquisitions and investments in capital expenditures.

- 24% increase of dividends paid to shareholders.

- Fiscal 2006 objective for earnings per share from continuing operations before unusual items of between $1.50 and $1.60 set out by management. Excluding the anticipated negative impact of the exchange rate estimated at $0.12 per share, the target range would be between $1.62 and $1.72, an increase of 1% to 8% over 2005, which is below the Corporation's long-term growth objective of 10% (excluding variations in the exchange rate). Starting in 2007, our non-capitalized investments in long-term development and the benefits arising from current consolidations and reorganizations should enable us to get back to growth rates more in line with our target growth objective, outlined in our *Evolution 2010* business project, of an average of 10% a year for the period 2006-2010 (excluding variations in the exchange rate).

Financial flexibility for pursuing our niche-based growth strategy with a net funded debt to total capitalization ratio of 20% at year-end and over $400 million available under existing credit facilities and operating lines of credit.

Our Company

The largest printer in Canada and seventh in North America, Transcontinental is also the country's leading consumer magazine publisher and second largest community newspaper publisher. Transcontinental distinguishes itself by creating strategic partnerships that integrate the company into its customers' value chain, notably through its unique newspaper printing outsourcing model and its value-added services. From mass to highly-personalized marketing, the Corporation offers its clients integrated solutions which also include a diverse digital platform and a door-to-door distribution network for advertising material. Transcontinental is a company whose values, including respect, innovation and integrity, are central to its operation.

Transcontinental (TSX: TCL.SV.A, TCL.MV.B) has more than 14,000 employees in Canada, the United States and Mexico, and reported revenues of C$2.2 billion (US$1.9 billion) in 2005.

Strategic Orientation

Our main long-term goal is to become the top performer in our industry. To do so, we are building customer loyalty by putting forward an integrated sales offer and deepening our knowledge of specific markets in our niches. We are also constantly enhancing our efficiency by upgrading production through technologically advanced equipment and by changing our processes using the best of each of our 14,000 employees. On the employee front, we are also promoting training at every level to improve our ability to execute and innovate and to strengthen the sense of attachment to Transcontinental. That is how we intend to become a company that designs innovative solutions and is easy to do business with.

Horizon 2005

As part of our efforts to become the top performer in our industry, in late 2001, we developed a four-year business project called *Horizon 2005*. This project involved a broad employee mobilization aimed at rethinking our processes, attitudes and ways of doing things so that we could continue to create value for employees, customers and shareholders, the three pillars of the Corporation. The financial objectives of this business project were to increase sales by 15% on average per year through acquisitions and organic growth; to increase earnings per share by 15% on average per year; and finally, maintain a net debt to total capitalization ratio below 45%.

Management believed that this business project could be achieved in four ways: by hiring, retaining and developing qualified personnel; by improving sales processes in order to offer customers complete and customized value-added solutions; by continually improving efficiency, notably through the use of Kaizen techniques and simplifying and standardizing functions and systems throughout the organization; and, lastly, by maintaining a disciplined approach to acquisitions.

Our *Horizon 2005* business project came to a conclusion on October 31, 2005. A new business project, which builds on the strategic issues identified in *Horizon 2005* and is a logical next step in our effort to become the top performer in our industry, entitled *Evolution 2010*, was launched November 16, 2005 and will be described in more detail in the last part of this section.

The following part details the achievements of the *Horizon 2005* business project in 2005 and since its launch in late 2001.

Strategic Issue: Human Resources

Since the launch of *Horizon 2005*, the majority of our 14,000 employees have taken the *Phil – The Three Pillars* ™ training course. The goal of this course was to disseminate Transcontinental's values, objectives and new ways of doing things in order to broaden the culture of continuous improvement and employee participation at every level of the organization.

In addition, in late 2004, the Corporation launched the *Mission: Leadership* program. The aim of this program was to broaden the responsibility for leadership within the Corporation to approximately 1,500 managers in the organization by providing them with the tools they needed to strengthen our culture of continuous improvement, increase accountability and develop talent. As at October 31, 2005, the 1,500 managers targeted for this program had attended the first two modules and are in the process of attending the third. The *Mission: Leadership* program is expected to be completed within the next two years.

In conjunction with these two formal training programs, over the past four years the Corporation has implemented a number of measures to hire and retain the best people available as well as develop qualified personnel. The Corporation improved its recruitment process, recognition programs and retention rate, increased internal communications and established formal career management and development plans, a leadership review process and disciplined annual reviews.

In summary, since the launch of *Horizon 2005*, tremendous progress has been made with regard to our human capital. We provided our employees with opportunities for greater involvement in the Corporation's activities, a greater impact on their own work environment and greater job stability. Employees are engaged, motivated and excited about the future. We continue to believe that investing in our human capital today will give us a major competitive edge tomorrow.

Strategic Issue: Sales Development

Since the launch of *Horizon 2005* in late 2001, Transcontinental has significantly improved its sales processes in order to offer customers comprehensive and customized value-added solutions. The Corporation established thirteen market teams. These teams have a deeper knowledge of customers' needs and specific trends in our target markets, simplify customers' work by providing a full range of services and advice through a single point of contact, suggest innovative solutions to customers and actively seek out new clients by offering them a significant competitive advantage. Furthermore, the Corporation increased the number of individual cross-selling initiatives with current customers, particularly major corporations, revised the sales force's remuneration package from a sales focus to a profitability focus and, finally, upgraded its customer service by training its customer sales representatives to become customer sales and service coordinators.

In addition, we continued to successfully develop our unique newspaper outsourcing model. In late 2002, the Corporation signed a 15-year contract to print the daily *La Presse* in Montreal and invested $100 million to build a new plant. We started printing the paper in September 2003, which proved to be a great success. Moreover, in 2005, we extended our contract to print *The Globe and Mail* until 2015 and signed a 10-year strategic contract to print *The New York Times* for the regions of Ontario and Upstate New York. Our newspaper outsourcing model is progressing very well. In fact, we are currently in discussions with other U.S. newspaper publishers.

Furthermore since 2001, we launched a number of new publications including *Métro*, Montreal's daily commuter newspaper, *Elle Canada* and *Mon Chalet*. We also revamped a number of publications, including *Coup de pouce*, *Canadian Living*, the *Daily News* in Halifax, *Western Living* and *Vancouver Magazine*.

In summary, since the launch of *Horizon 2005* we have transformed our sales development process. We are now able to present and deliver, when needed, a highly-integrated print, publishing and distribution services proposal to our existing or potential customers, in our various vertical markets. We are simplifying our customers' work by meeting more of their needs, and we are doing so from a single point of contact when needed. This has enabled us to generate additional revenues from a number of customers in all three operating sectors.

Strategic Issue: Continuous Improvement and Standardization

Since the launch of *Horizon 2005* in late 2001, the Corporation has continually improved efficiency, notably through the use of Kaizen techniques and a reduction in procurement costs as well as simplified and standardized functions and systems throughout the organization. One hundred and seventy-seven Kaizen workshops were completed from 2001 to 2005, involving about 3,000 employees. Administrative and production processes were improved in all three operating sectors, and a number of initiatives have had a cross-sector impact. These workshops have reduced waste and cycle time, decreased the need for capital investments and improved the quality of various products and services. The use of Kaizen techniques has been integrated into the daily life of our employees and has enabled us to strengthen our continuous-improvement culture. In addition, the Corporation has worked to reduce procurement costs by centralizing the purchasing function in several key areas in order to leverage its size. Significant benefits were generated from this more structured approach and we continue to analyze and identify new opportunities for cost savings on an ongoing basis.

The Corporation has also installed an integrated manufacturing software program in 15 plants so far in Canada and Mexico. This software covers every key process from the job quote to shipping and billing, not to mention production, costing and supply management. It has increased our efficiency and ensures that customers will truly be dealing with one company for all of their printing product needs. This software will be installed in the remaining plants in Canada and Mexico over the course of the next three years.

Management also completed an in-depth review of its manufacturing strategy and determined that significant investment in state-of-the-art equipment as well as the reorganization of certain units to make operations more efficient was necessary to remain

Acquisitions and Disposals Realized **Since the Launch of Horizon 2005**

Date	Acquisition	Target niches
February 2005	JDM	Direct marketing
June 2004	Avid Media	Magazine publishing
March 2004	Liberty Graphics	Direct marketing
January 2004	Optipress	Commercial printing and community newspaper publishing
December 2003	CC3	Direct marketing
June 2003	Cumberland Publishing	Community newspaper publishing
August 2002	Canwest (Atlantic and Saskatchewan newspapers)	Community newspaper publishing and printing
July 2002	Three printing plants from Gesca	Newspaper publishing
June 2002	Ottawa Business Journal	Community newspaper publishing
June 2002	Éditions Versicolores	Magazine publishing
May 2002	Tener Solutions Group	Direct marketing (database)
May 2002	Editorial Offset	Book and commercial printing
February 2002	Coronet/Fahlke Printers	Commercial printing (sheet fed)
February 2002	O'Keefe Printing	Commercial printing (sheet fed)
Date	**Disposal**	**Niches**
July 2004	Winnipeg, publishing and distribution assets	Community newspapers and distribution
May 2004	Infinet Communications	Specialized web solutions
October 2003	Sodema	Call center

competitive in the future and mitigate our negative exchange-rate effect. A $53-million investment was announced in November 2004 for the purchase of three Goss presses and highly automated finishing equipment to replace seven existing presses. The press in our printing plant in Owen Sound is installed, the one in Boucherville has been installed and is currently ramping up while the press in Beauceville will be installed in the second quarter of 2006.

In parallel with this investment, we consolidated and re-organized certain units to make them more efficient. First, in late 2004 the Winnipeg retail flyer printing operations were closed and consolidated into existing facilities. Second, in 2005 our Peterborough operations were closed and temporarily consolidated in our existing Louiseville facility. We invested $20 million to build a new, larger facility in Louiseville to replace the existing facilities. This new facility is currently in the process of receiving production and equipment transfers. Finally, we reorganized the U.S. direct marketing operations from seven facilities to three in the Philadelphia area, as part of the three-year integration plan following the acquisition of CC3 in December 2003.

In sum, since the launch of *Horizon 2005* we have invested over half a billion dollars in capital assets, streamlined our operations, reduced cycle times and procurement costs, increased efficiency, simplified and standardized functions and systems throughout the Corporation and embedded a culture of continuous improvement throughout the organization.

Strategic Issue: Growth Through Acquisitions

Since the launch of *Horizon 2005* in late 2001, we have spent close to $700 million to acquire 14 businesses in our strategic niches: magazine and community newspaper publishing; newspaper printing and commercial printing; and direct marketing. In addition, we disposed of operations that were no longer core to the Corporation. The list of these acquisitions and disposals and their target niches is found in the table on the previous page.

Over the last four years, we have maintained a disciplined approach to acquisitions and applied our stringent acquisition criteria to evaluate their strategic fit with our organization. The acquisition criteria are that it fit our core business, be profitable and growing, provide synergies with our operations, have good management and compatible corporate culture, and be accretive to earnings within a year and create positive economic value within two years. We also ensured the companies acquired undergo our exhaustive requisition list for due diligence and are integrated using our internally developed integration methodology.

Since the launch of *Horizon 2005*, Transcontinental grew revenues by 5% on average per year, earnings per share from continuing operations before unusual items by 6% on average per year (9% excluding the negative foreign-exchange effect due to the rapid strengthening of the Canadian dollar versus the U.S. dollar) and maintained its net debt to total capitalization ratio significantly below the 45% target set by the Corporation. While the growth figures are below the objectives originally set out in 2001, they are satisfactory given the difficult market conditions and significant negative foreign-exchange impact experienced in the past few years.

Horizon 2005 was a revitalization of our business model, development strategy and values that have made Transcontinental a success since 1976. Four years after it was launched, Transcontinental has changed significantly: we have a more mobilized workforce, a new sales development process, we are more efficient and have grown through acquisitions. Most importantly, we are increasingly thinking and acting as one company.

Evolution 2010

Evolution 2010, our new business project launched on November 16, 2005, builds on the achievements of *Horizon 2005* but will go one step further. Transcontinental needs to adapt and change to the new realities of increased competition and globalization, a stronger Canadian dollar, technological advances and the emergence of new media channels. We will thus need to invest more than ever in our long-term development. In order to address these new challenges, the Corporation developed a new vision and a revised mission, elaborated hereafter.

Financial Performance Since the Launch of Horizon 2005

for the years ended October 31

(in millions of dollars, except per share data)	**2005**	2004	2003	2002	2001	CAGR [2]
Revenues	**$2,202**	$ 2,048	$1,899	$1,769	$1,779	5%
Earnings per share [1]	**1.60**	1.71	1.61	1.46	1.27	6
Net debt to total capitalization ratio	**20%**	24%	27%	34%	28%	–

[1] Earnings per share from continuing operations before impairment of assets, restructuring costs and write-down of goodwill.

[2] Compound Annual Growth Rate.

Vision: To be the leader in our printing and marketing niches, as well as in the creation and dissemination of content and the delivery of complementary services aimed at communities of interest or specific markets.

Mission: To develop value-added products and services along with multiple delivery channels in order to reach consumers and build loyalty more effectively. To optimize the interests of our employees, our customers and our shareholders.

Growth will be challenging in the coming years due to intense competition in some printing segments and increased strategic expenses needed to further differentiate ourselves. *Evolution 2010* will put more emphasis on our role as a marketing advisor to our customers, by developing an even greater knowledge of their markets and integrating ourselves into their value chain. We will also aim at improving our content, product and service offering, and technology platform so that we can serve our advertisers, readers and website visitors even better. Furthermore, we will be stressing organic growth, based on innovative and creative initiatives by our people while continuing to target strategic acquisitions. We will also be investing more heavily in our long-term development.

The financial objectives of this business project are to increase economic value creation, grow sales organically by 5% on average per year, grow earnings per share from continuing operations before unusual items by 10% on average per year (excluding the foreign-exchange impact), consider larger strategic acquisitions, maintain a range of net debt to total capitalization ratio of between 35% and 50% (excluding securitization), invest $120 million on average per year in capital assets (excluding newspaper outsourcing projects) and sustain dividend growth.

Management believes that this business project could be achieved in five ways: by introducing new products and services on a multi-channel platform; by offering integrated marketing services with a focus on value-added services; by reducing cycle times in both production and administrative functions; by growing sales organically; and lastly, by developing our talent. The following sections detail the strategic issues identified within our *Evolution 2010* business project.

Strategic Issue: New Products and Services on a Multi-Channel Platform

New Products and Services on a Multi-Channel Platform is in response to the changing face of the media industry. We now live in a multi-channel environment where media fragmentation is accelerating, information is increasingly being distributed on digital platforms and technology makes it possible to capture and store massive amounts of data throughout the entire lifecycle of a customer relationship. In Canada, the web is gaining popularity. In fact, advertisers are increasingly asking for custom-tailored, targetable and measurable packages delivered on multiple platforms through multiple channels. As a result, the Internet's share of advertising dollars has grown significantly in recent years, although it still remains a small portion of overall advertising spending.

In response to these trends, we have decided to develop new products and services for consumers by leveraging information through data management and a "multi-channel" delivery strategy. In effect, we must get to know consumers better in order to provide them with better content and reach them more effectively.

Strategic Issue: Integrated Marketing Services Offering

Integrated Marketing Services Offering is in response to the new trends in marketing campaigns. There is a major trend towards a more targeted marketing approach. Companies are re-thinking their marketing communication strategies and want return on investment-driven and data-driven marketing solutions. In addition, there is a push for an integrated services offering. Cycle times are being reduced, print runs are getting shorter and a need for personalization is driving growth in both variable and digital printing.

In response to these trends we have decided to develop, through a personalized service offering, integrated marketing services supported by data management and other complementary services. In effect, we will sell more front-end (before the print portion) and back-end (after the print portion) value-added services in order to become more integrated in the value chain of our customers. Specifically, we will further develop database management capabilities, leverage recent investments in pre-media to grow outsourcing opportunities, expand digital printing applications, evaluate fulfillment opportunities and offer more complex and personalized services.

Strategic Issue: Cycle-Time Reduction

Cycle-Time Reduction is in response to the increasingly competitive environment in which we operate. In the past few years, competition has increased due to overcapacity in some niches of the printing industry, the impact of China and other emerging countries as low-cost producers in the North American marketplace and the strength of the Canadian dollar.

In response to these trends and as a logical next step to further develop our continuous improvement culture, we are looking to reduce administrative and production cycle times by optimizing our business processes company-wide. We believe that by doing this we will gain a competitive advantage by serving our customers faster, reduce our costs and operate in a better working environment. Specifically, we will rethink our manufacturing and administrative processes, better coordinate our production and scheduling functions and eliminate non-value-added activities and bottlenecks.

Strategic Issue: Organic Sales Growth

Organic Sales Growth is in response to the challenging growth opportunities in our industry. We want to increase our market share by fully exploiting the opportunities for selling existing and new products and services to existing and new customers. Our goal is to obtain 5% organic growth in revenues on average per year. Specifically, we will further develop our newspaper outsourcing model, leverage recent investments in new equipment and plants, redefine our service offering to existing and new customers, leverage our talent and finally provide appropriate marketing support and service tools. In addition, we will continue to develop cross-selling opportunities within our network and leverage the work that has been done over the past few years with respect to our market teams.

Strategic Issue: Talent Development

Talent Development is in response to social and demographic trends. In essence, there is a diminishing pool of talent, an increase in professional mobility, changing values, an increase in technology use, and a high demand for emerging skill sets.

In response to these trends we have decided to implement a global talent-management strategy to support corporate initiatives by offering employees professional development opportunities and programs. Specifically, we will provide every employee with a development plan and learning opportunities by building on their strengths, while respecting their ambitions and values; we will reduce missed opportunities by having key positions vacant for shorter periods of time; reduce replacement costs by increasing our retention rate and improving the quality of the hiring process; have successors at the appropriate readiness level for some key positions to support growth and new initiatives; and have a working environment where the values, behaviours, processes and practices foster mobilization.

In conclusion, our *Evolution 2010* business project is our strategy that will enable us to adapt to current realities in order to remain in the vanguard of our industry. While we will continue to grow through acquisitions, we will look for larger ones while maintaining a disciplined approach to financial management and will be intensifying our organic growth initiatives through innovation and operations improvement. We will work as a team and now have a culture of continuous improvement to build on.

In order to facilitate the execution of this strategy, we have made a few changes to our organizational structure. The two printing sectors are changing their names. The Information Products Printing Sector has now become the Printing Products and Services Sector, while the Marketing Products Printing Sector is now known as the Marketing Products and Services Sector. The new names highlight the growing importance of value-added services in these two sectors, hence the use of the words "products and services." We are eliminating the expression "information products" because it has become too limiting and is less and less representative of the work the sector actually does. As for the former Marketing Products Printing Sector, we are emphasizing the notion of marketing by eliminating the word "printing"; this will enable this sector to differentiate itself better in the North American marketing industry.

The Catalogue and Magazine and the Commercial Products groups are changing sectors and two other groups are being added to reflect the importance of new technologies: the Premedia Group in the Marketing Products and Services Sector and the Digital Media Group in the Media Sector. These changes have been in effect since November 1, 2005, the beginning of our 2006 fiscal year. Our financial results will reflect these changes starting in the first quarter of 2006.

Overview of the Past Three Fiscal Years

Fiscal 2004 demonstrated a good level of growth as compared to fiscal 2003: revenues increased by 8%, adjusted operating income before amortization increased by 9% and the adjusted operating income margin before amortization improved from 17.7% to 17.9%. This growth was driven primarily by acquisitions and programs to reduce costs and improve efficiency.

However, fiscal 2005 proved to be more challenging as compared to fiscal 2004 as the foreign exchange impact, persistent pricing pressures in certain niches of the printing industry, non-capitalized investments for the long-term growth of the Corporation and production disruptions stemming from the reorganization and consolidation of certain entities more than offset organic growth in other areas of the organization and the contribution from acquisitions: revenues increased 8% but adjusted operating income

Operating Results **Highlights**

for the years ended October 31

(in millions of dollars, except per share data)	**2005 52 weeks**	2004 52 weeks	Change %	2003 53 weeks	Change %
Operations					
Revenues	**$2,202**	$ 2,048	8	$ 1,899	8
Adjusted operating income before amortization	**359**	366	(2)	336	9
Adjusted operating income margin before amortization	**16.3 %**	17.9 %	–	17.7 %	–
Amortization	**$ 117**	$ 112	4	$ 96	17
Impairment of assets and restructuring costs	**6**	10	–	–	–
Write-down of goodwill	**–**	13	–	–	–
Operating income	**237**	231	2	241	(4)
Income from continuing operations	**139**	131	6	143	(8)
Loss from discontinued operations	**–**	(3)	–	–	–
Net income	**139**	129	8	143	(10)
Income from continuing operations before impairment of assets, restructuring costs and write-down of goodwill	**143**	152	(6)	143	6
Cash flow from continuing operations before changes in non-cash operating items	**262**	276	(5)	248	11
Total assets	**2,249**	2,014	12	1,738	16
Net indebtedness	**273**	317	(14)	313	1
Per share data					
Income from continuing operations	**$ 1.56**	$ 1.48	5	$ 1.61	(8)
Loss from discontinued operations	**–**	(0.03)	–	–	–
Net income	**1.56**	1.45	7	1.61	(10)
Income from continuing operations before impairment of assets, restructuring costs and write-down of goodwill	**1.60**	1.71	(6)	1.61	6
Dividends on shares	**0.21**	0.17	24	0.14	21

before amortization decreased 2% and the adjusted operating income margin before amortization declined from 17.9% to 16.3%.

Overall in the past two years, despite programs to improve efficiency and reduce costs, sales development efforts and the contribution from acquisitions, earnings per share from continuing operations before impairment of assets, restructuring costs and write-down of goodwill remained relatively flat, from $1.61 per share in fiscal 2003 to $1.60 per share in fiscal 2005.

Over the past three fiscal years, in the aggregate we generated $787 million in cash flow from continuing operations before changes in non-cash operating items. This cash flow was used mainly for growth through acquisitions in our strategic niches, but also to invest in state-of-the-art equipment in order to improve our competitiveness. It also enabled us to reduce the net funded debt to total capitalization ratio to 20% at the end of 2005 from 27% at the end of 2003. Lastly, we increased our dividends on shares by 21% in 2004 and by 24% in 2005.

As shown in the table at the bottom of this page, the variance between fiscal 2005 and fiscal 2004 results is due to a number of factors.

- Acquisitions completed in fiscal 2004 and fiscal 2005 (CC3, Optipress, Avid Media and JDM), contributed $121 million to revenues and $10 million to adjusted operating income before amortization, for a margin of 8%. These acquisitions created a temporary decrease in Transcontinental's consolidated adjusted operating income margin before amortization. However, the margin from the contribution of these acquisitions is expected to gradually increase in future quarters as the identified synergies materialize.

- The paper effect had a $25-million positive 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 the two printing sectors. Note that for printing operations, these elements affect revenues without affecting adjusted operating income before amortization. For the Media sector, the variation in the price of paper did not have a material impact on adjusted operating income before amortization.

- Changes in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts caused a $43-million decrease in revenues and a $15-million decrease in adjusted operating income before amortization during fiscal 2005. It is important to note that the spot exchange rate was $1.22 C/US on average in fiscal 2005 versus $1.32 C/US on average in fiscal 2004, an 8% variation. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of approximately $24 million. For export sales from Canadian plants, net of the currency hedging program, the negative impact was $19 million. The negative impact of the conversion of results for U.S. and Mexican units was $2 million on adjusted operating income before amortization. The negative impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was $15 million on adjusted operating income before amortization. Finally, the positive impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was $2 million on adjusted operating income before amortization.

To help the reader understand the impact of the exchange rate on our revenues, a table showing revenues generated in U.S. dollars, and the geographic breakdown of revenues when converted into Canadian dollars is included on the next page.

Note that in this table, exports from Canada to the United States expressed in U.S. dollars increased by $13 million, or 7%, due to increased exports in our book, commercial and retail printing operations. After conversion into Canadian dollars, this increase actually turned into a decrease of $5 million, or 2%, illustrating the negative impact of the higher Canadian dollar against the U.S. dollar.

Analysis of Main Variances — Consolidated Results

for the years ended October 31

(in millions of dollars)	Revenues	Change %	Adjusted operating income before amortization	Change %
Results for fiscal 2004	**$2,048**		**$366**	
Acquisitions	121	6	10	3
Existing operations				
Paper effect	25	1	–	–
Exchange rate	(43)	(2)	(15)	(4)
Organic growth	51	2	(2)	(1)
Results for fiscal 2005	**$2,202**	**8**	**$359**	**(2)**

Note: The figures in this table are rounded to the nearest million for ease of reading.

Revenues Generated in **U.S. Dollars**

for the years ended October 31

(in millions of U.S. dollars)	**2005**	Breakdown %	2004	Breakdown %	Change $ 2005 vs 2004	Change % 2005 vs 2004
Exports from Canada to the U.S.	**$ 211**	46	$ 198	54	13	7
Revenues generated in the U.S. by U.S. business units	**252**	54	166	46	86	52
Total revenues	**$ 463**	100	$ 364	100	99	27

Geographic Distribution of **Revenues**

for the years ended October 31

(in millions of Canadian dollars)	**2005**	Breakdown %	2004	Breakdown %	Change $ 2005 vs 2004	Change % 2005 vs 2004
Canada	**$1,546**	70	$1,482	72	64	4
U.S. and Mexico						
Imports from Canada	**281**	13	286	14	(5)	(2)
Domestic markets	**375**	17	280	14	95	34
Total – U.S. and Mexico	**656**	30	566	28	90	16
Total revenues	**$2,202**	100	$2,048	100	154	8

The reader will also note that the table above shows growth of US$86 million in revenues generated by our business units in the United States. This is due to the acquisitions of U.S. direct marketing firms CC3 and JDM. After conversion into Canadian dollars and adding the revenues from our Mexican operations, growth in domestic market revenues outside Canada was C$95 million.

Excluding the above items, revenues from Transcontinental's existing activities grew by $51 million, or 2%, in 2005. The increase is mainly due to our direct marketing operations in the U.S., Mexican operations, our magazine and catalogue printing operations and the distribution of advertising material. These activities more than offset persistent pricing pressures in certain niches of the printing industry.

Excluding acquisitions and foreign-currency impact, adjusted operating income before amortization decreased $2 million, or 1% in 2005. This decrease is mainly attributable to persistent pricing pressures in some niches of the printing industry, non-capitalized investment in initiatives to support long-term growth, and production disruptions related to the consolidation and reorganization of certain entities, particularly in direct marketing activities in the U.S. and book printing in Canada.

Amortization

Amortization expense rose $5 million, or 4%, in 2005 to $117 million compared to $112 million in 2004. This increase stems mainly from recent acquisitions and capital investments, partially offset by lower amortization from U.S. operations as a result of the fluctuation in the exchange rate.

Impairment of Assets and Restructuring Costs

An amount of $6 million ($4 million after taxes or $0.04 per share) was accounted for separately in the consolidated statement of income for 2005 as "Impairment of assets and restructuring costs." This amount is related to the consolidation of printing operations in Winnipeg in 2004 and in Peterborough and Louiseville in 2005 as well as an impairment of assets in our Mexican operations as described below.

- On August 19, 2004, the Corporation announced plans to consolidate its Winnipeg retail printing operations. This move resulted in a total charge of $4 million before taxes, of which $1 million, related to the transfer of printing equipment and other costs, was accounted for in 2005, while $3 million had been recorded in the fiscal year ending on October 31, 2004.

- On April 5, 2005, the Corporation announced plans to consolidate its book printing operations in Canada, with production at its Peterborough, Ontario facility ending by October 2005. In Louiseville, Quebec, the Corporation completed the construction of a new, larger and highly-automated plant to replace the present facilities. This new plant is currently in the process of receiving production and equipment transfers. This move will result in a total charge of $5 million before taxes, of which $4 million, related to workforce reduction, impairment of assets, the transfer of printing equipment and other costs, was accounted for in 2005. An amount of $1 million is left to be charged in future quarters.

- During the second quarter of fiscal 2005, we recorded a $1 million impairment of assets, before taxes, in our Mexican operations for equipment no longer necessary to ongoing operations following our decision to shift product mix. As a result of the ongoing realignment of our overall operations, certain equipment available, following plant reorganizations in Canada, was rebuilt and transferred to our Mexican operations.

Financial and Other Expenses

When combined, financial and other expenses decreased $2 million, from $35 million in 2004 to $33 million in 2005. This decrease is primarily due to the reduction in indebtedness compared to last year, partially offset by an increase in interest rates.

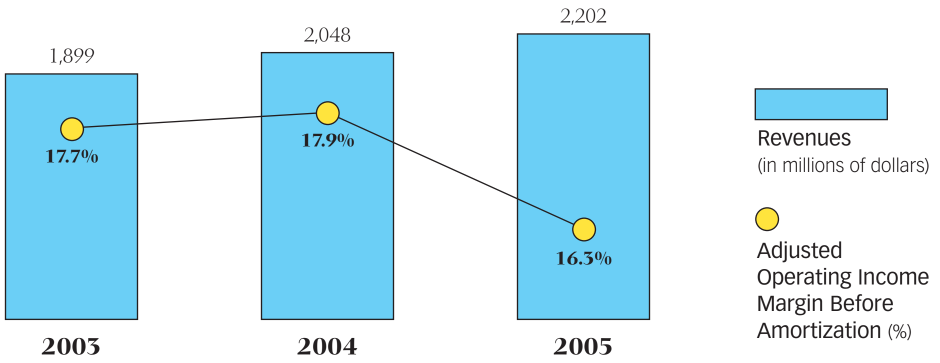
Income Taxes

The income tax rate decreased from 32.6% in fiscal 2004 to 31.4% in fiscal 2005 mainly due to the geographic composition of pre-tax earnings in 2005, the impact from the write-down of goodwill in fiscal 2004 and the impact from the full effect of the reduction in the statutory rate in 2005.

Net Income

Income from continuing operations before impairment of assets, restructuring costs and write-down of goodwill decreased 6% from $152 million, or $1.71 per share in fiscal 2004 to $143 million, or $1.60 per share in fiscal 2005, as a result of a decrease in adjusted operating income before amortization and additional amortization expense. Income from continuing operations increased 6%, from $131 million, or $1.48 per share, in fiscal 2004 to $139 million, or $1.56 per share, for fiscal 2005, as a number of unusual items negatively affected 2004 results. Including discontinued operations, notably publishing and distribution activities in the Winnipeg area which we disposed of in 2004 and the related gain on disposal, as well as a non-recurring charge related to the unfavourable ruling handed down in fiscal 2004 by a California court in the case brought by Softbank Content Services against a holding company owned equally by Transcontinental and a subsidiary of MPO S.A., net income increased 8% from $129 million in fiscal 2004, or $1.45 per share, to $139 million, or $1.56 per share, in fiscal 2005.

Revenues and Adjusted Operating Income Margin Before Amortization
Consolidated



For fiscal 2005, despite pricing pressures in some niches of the printing industry and production disruptions related to the consolidation and reorganization of certain entities, all three sectors of operations contributed to organic growth in both revenues and adjusted operating income before amortization. Note that the adjusted operating income before amortization for "Inter-segment and other" decreased by $6 million due to non-capitalized investments in initiatives to support our long-term growth.

Information Products Printing Sector

Revenues in the Information Products Printing sector were up $18 million, or 3%, to $742 million in 2005, compared to $724 million in 2004. The increase is due to the organic growth, the contribution from Optipress for a portion of the year and variation in paper prices. This growth was partially offset by the negative foreign-exchange impact. Organic revenue growth of $18 million stems from the acquisition of a number of new customers in our Mexican operations as well as increased volumes from our magazine and catalogue operations and newspaper operations. These factors more than offset the production disruptions stemming from the reorganization and consolidation activities and pricing pressures in our Book Group.

Adjusted operating income before amortization decreased $5 million, or 4%, from $150 million in 2004 to $145 million in 2005, primarily due to the negative foreign-exchange impact. Organic growth generated in our Mexican operations, newspaper operations and magazine and catalogue operations was in large part offset by the production disruptions and pricing pressures in the Book Group. As a result, adjusted

Analysis of Main Variances — Segmented Results

for the years ended October 31

(in millions of dollars)	Information Products Printing	Marketing Products Printing	Media	Inter-segment and other	Consolidated results
Revenues for fiscal 2004	**$724**	**$ 899**	**$524**	**$ (99)**	**$2,048**
Acquisitions	8	95	18	–	121
Existing operations					
Paper effect	6	19	–	–	25
Exchange rate	(14)	(29)	–	–	(43)
Organic growth	18	24	13	(4)	51
Revenues for fiscal 2005	**$742**	**$1,008**	**$555**	**$(103)**	**$2,202**
Adjusted operating income before amortization for fiscal 2004	**$150**	**$ 124**	**$ 96**	**$ (4)**	**$ 366**
Acquisitions	–	10	–	–	10
Existing operations					
Paper effect	–	–	–	–	–
Exchange rate	(6)	(9)	–	–	(15)
Organic growth	1	1	2	(6)	(2)
Adjusted operating income before amortization for fiscal 2005	**$145**	**$ 126**	**$ 98**	**$ (10)**	**$ 359**

Note: The figures in this table are rounded to the nearest million for ease of reading.

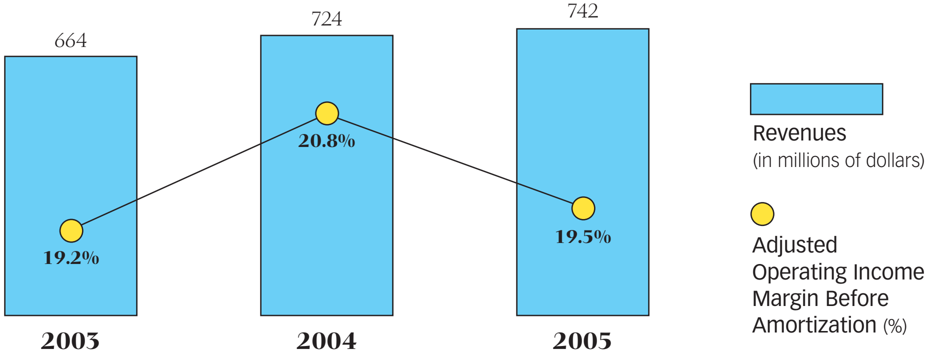
operating income margin before amortization decreased from 20.8% in 2004 to 19.5% in 2005.

The Magazine and Catalogue Group saw internal growth generated from an increase in volume from customers obtained in the latter part of fiscal 2004 as well as from higher volumes from the Media sector. The market for magazines and catalogs continued to demonstrate signs of improved demand throughout the year, especially in the U.S. This group did however experience some production disruptions in the third quarter following the installation of a new press at the Owen Sound plant as certain peripheral equipment arrived late. However, the new press and peripheral equipment are now installed and are currently running at their rated speed and efficiency.

While Mexican operations continued to face pricing pressures and a highly competitive environment, they saw significant internal growth from many new customers generated from increased sales development efforts, especially in the magazine segment. In addition, they continued to improve their efficiency levels throughout the year.

The Newspaper Group geared up for the start of *The New York Times* contract, for the markets of Ontario and Upstate New York, which started printing in November 2005. Furthermore, Transcontinental Metropolitan, which prints *La Presse*, continued to improve its operating efficiency and started to print additional work in the daytime. In addition, sheetfed printing operations continued to experience difficult market conditions, especially in the Atlantic provinces.

Revenues and Adjusted Operating Income Margin Before Amortization
Information Products Printing Sector



Finally, the Book Group had a difficult year, especially in the second half. It experienced negative growth in both revenues and adjusted operating income before amortization as the production disruptions related to the reorganization of the Louiseville plant and consolidation of its Peterborough plant, combined with strong demand in book printing, forced it to turn down some business. Moreover, these production disruptions are expected to continue into the first half of fiscal 2006. In effect, while the construction of the new plant in Louiseville is completed, equipment and production are gradually being transferred into the new building. Therefore, the ramp-up of the plant will be occurring in the second quarter of 2006. In addition, the third Goss press, related to the implementation of the revised manufacturing strategy, will be installed in the Beauceville plant in the second quarter and will thus be ramping up in the third quarter of 2006. As a result, the reorganization and consolidation of the Book Group should be completed sometime in the second half of the year.

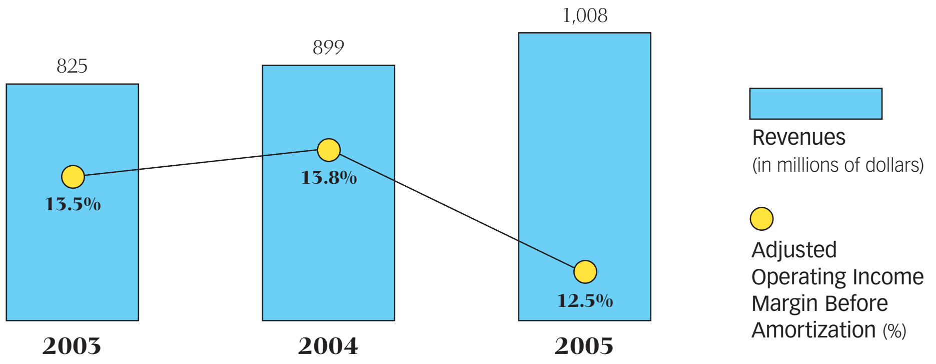
In summary, the Information Products Printing sector should demonstrate increased activity levels in fiscal 2006 as it will benefit from expected higher volumes in the educational book market and the magazine and catalogue market in the U.S.; the printing of *The New York Times* newspaper for the regions of Ontario and Upstate New York; and finally the expected benefits related to the reorganization and consolidation of the Book Group as well as the new press at the Owen Sound magazine and catalogue printing plant. However, it is important to note that the increase in natural gas and fuel prices as well as the anticipated negative foreign-exchange impact will somewhat mitigate this growth.

Marketing Products Printing Sector

Revenues in the Marketing Products Printing sector rose from $899 million in 2004 to over $1 billion in 2005, an increase of $109 million, or 12%. Revenue growth in this sector is primarily due to the acquisitions of CC3 and JDM, organic growth especially in our U.S. direct marketing operations and the variation in paper prices. These items more than offset the negative foreign-exchange impact and persistent pricing pressures in our commercial printing operations, which experienced very competitive market conditions in 2005.

Adjusted operating income before amortization rose 2%, from $124 million to $126 million, as the contribution from acquisitions was largely offset by the negative foreign exchange impact. Organic growth generated in our Retail Group was partially offset by the production disruptions related to the reorganization and consolidation of the U.S. direct marketing operations in the Philadelphia area, as well as persistent pricing

Revenues and Adjusted Operating Income Margin Before Amortization
Marketing Products Printing Sector



pressures in our commercial printing operations. As a result, the adjusted operating income margin before amortization decreased from 13.8% in 2004 to 12.5% in 2005.

The Retail Group had a strong year as a result of generating new sales to non-traditional customers and markets, benefiting from a successful new pre-media vision as well as working on cross-selling opportunities with other operations in the Transcontinental network. The transfer of activities from the Winnipeg plant to other plants was successfully completed and we were able to reap the benefits of this reorganization in the second half of the year. However, in fiscal 2006, we expect the retail-flyer market to come under pressure as the competition has intensified lately.

Commercial printing had a difficult year, especially in the second half. Its activities were negatively affected by weak demand and persistent pricing pressures in the Canadian market. It is very difficult to determine when the commercial market will turn around. We believe there is a need to restore some type of balance between supply and demand and until this happens, we anticipate continued difficult market conditions in 2006.

Finally, the direct marketing group in the U.S. underwent a significant reorganization in fiscal 2005. The addition of JDM in the Eastern U.S. operations, essentially in the midst of the integration of CC3, added several challenges, especially in the second half. The plan to consolidate seven plants into three in this region created temporary inefficiencies that were exacerbated by strong demand forcing us to outsource a portion of production. This reorganization and consolidation is expected to be completed by the end of the first quarter of 2006. Once completed, the multi-plant network combined with the complementary services of CC3 and JDM will enable Transcontinental to benefit from the previously identified synergies and thus improve profitability. It is important to highlight, however, that the plants in Dallas and Los Angeles have performed very well throughout the year.

In summary, the Marketing Products Printing sector should demonstrate mixed results in fiscal 2006. On the positive side, it will start benefiting from the reorganization and consolidation activities in the U.S. direct marketing operations in the second half of the year. On the other hand, our retail-flyer operations are expected to face more intense competitive pressures and our commercial operations should continue to face persistent pricing pressures. In addition, it will have to contend with the increase in natural gas and fuel prices and the anticipated negative foreign-exchange impact.

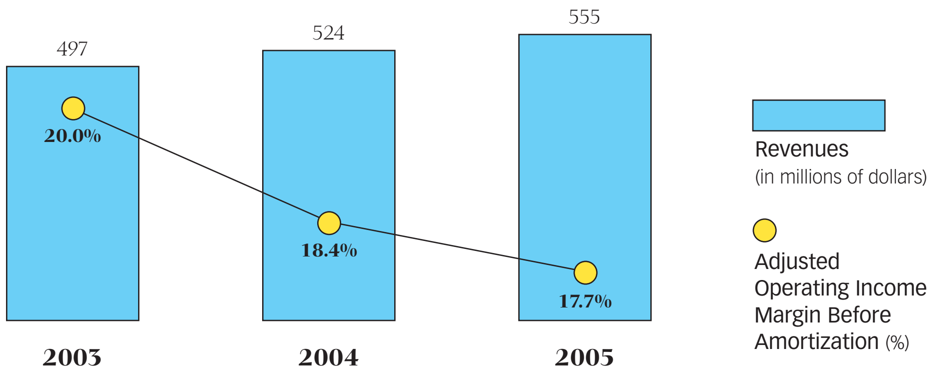
Media Sector

Revenues in the Media sector went from $524 million in 2004 to $555 million in 2005, an increase of $31 million, or 6%. Growth was due to the acquisitions of the Optipress newspapers and Avid Media, as well as organic growth in the distribution of advertising material, community newspapers in Quebec and magazine publishing. These items more than offset lower advertising spending by national advertisers, which particularly affected the revenues of our newspapers in the Atlantic provinces.

Adjusted operating income before amortization increased 2%, from $96 million in 2004 to $98 million in 2005, primarily due to organic growth in our distribution of advertising material operations, community newspapers in Quebec and magazine publishing. This growth more than offset lower national advertising in our community newspapers in the Atlantic provinces, lower revenues from *The Hockey News* publication following the National Hockey League work stoppage for the better part of the year and a marginal contribution from acquisitions. As a result, adjusted operating income margin before amortization declined from 18.4% in 2004 to 17.7% in 2005.

The Magazine Group had a good year with the contribution from Avid Media for a portion of the year and growth from consumer and business magazines. This growth was partially offset by lower revenues from *The Hockey News* and increased investments in the circulation, promotion and branding of some publications. While we will lose approximately $2 million in postal subsidies next year, we continue to expect this group to demonstrate growth in fiscal 2006.

Revenues and Adjusted Operating Income Margin Before Amortization
Media Sector



Distribution of advertising material experienced significant growth throughout the year with an increase in the activity level of key accounts. We expect this group to continue to perform well in fiscal 2006 even though higher fuel prices will have a negative impact.

Finally, community newspapers experienced a mixed year. While the community newspapers in Quebec demonstrated good growth, those in the Atlantic provinces faced a more challenging time. They continued to be affected by lower advertising spending by national advertisers, especially in the automotive and government categories; a difficult economic environment; and a slower than anticipated integration of the Optipress acquisition. During the year, a detailed turnaround plan was put in place and is currently being closely monitored. We are confident that, in the aggregate, our Atlantic newspapers will contribute to the growth in the sector's results in the second half of 2006 as we improve our operations and take advantage of our leadership position in that region to develop innovative products.

The Media sector, however, is expected to demonstrate limited growth in terms of adjusted operating income before amortization next year as it will be investing in new initiatives to develop its digital strategy with limited corresponding revenues for the first year. In terms of its base business, the distribution of advertising material, magazine publishing and community newspapers in Quebec should continue to demonstrate growth while the community newspapers in the Atlantic provinces are expected to improve as they will benefit from the turnaround plan put in place in the second half of 2005.

Summary of Quarterly Results for Fiscal Years 2005 and 2004

The table on the next page shows the evolution of the Corporation's quarterly results. Note that stronger results are in the second and fourth quarters of fiscal 2004 and 2005, which account for about 60% of the earnings per share from continuing operations before impairment of assets, restructuring costs and write-down of goodwill for the two fiscal years. Advertising spending is usually stronger in the spring and fall, generating higher revenues in both publishing and printing operations.

The table also shows a deterioration in results in the second half of fiscal 2005, mainly due to the negative impact of the exchange rate as more favourable forward hedging contracts mature, production disruptions related to the consolidation and reorganization of certain entities and persistent pricing pressures in some niches of the printing industry. In fact, these factors overshadow the increased sales volume, efficiency-improvement programs and cost-reduction initiatives that are underway across the organization.

In the first quarter, Transcontinental reported consolidated revenues that were up 12% at $517 million, compared to $460 million in the corresponding period a year earlier, principally as a result of acquisitions completed in fiscal 2004 (CC3, Optipress and Avid Media) and an increase in sales volume from existing businesses. Adjusted operating income before amortization stood at $79 million compared to $74 million in 2004, a 7% increase. The many programs to improve efficiency and reduce procurement costs were partially offset by lower sales prices in some niches of the printing industry, the negative impact of the exchange rate, the decrease in automotive and government national advertising revenues in our newspapers and acquisitions providing lower margins than our consolidated margins. Consequently, income from continuing operations increased 10% from $26 million in the first quarter of 2004 to $29 million in 2005; per share, it went from $0.30 to $0.33, as a result of the increase in adjusted operating income before amortization and the decrease in financial expenses.

In the second quarter, consolidated revenues rose to $558 million, up 7% over revenues of $520 million in the corresponding quarter of 2004. Adjusted operating income before amortization increased from $96 million in 2004 to $97 million in 2005, up 2%. The dual growth in revenues and adjusted operating income before amortization

Selected Quarterly **Financial Information**

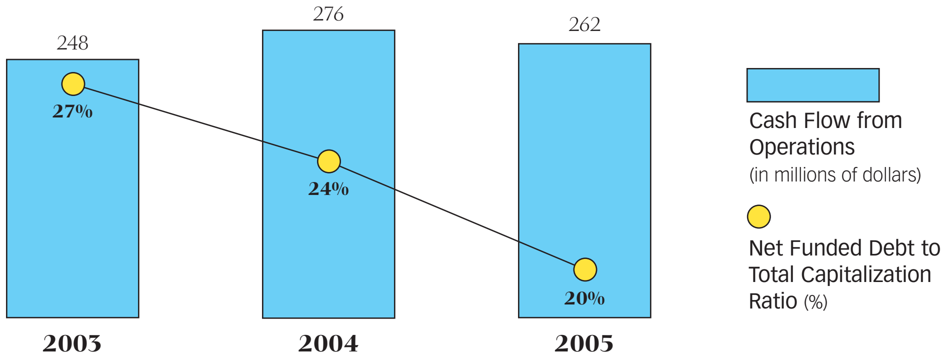
(in millions of dollars, except per share data)	**For fiscal year 2005** First quarter	Second quarter	Third quarter	Fourth quarter	For fiscal year 2004 First quarter	Second quarter	Third quarter	Fourth quarter
Revenues	**$ 517**	**$ 558**	**$ 531**	**$ 596**	$460	$520	$502	$565
Adjusted operating income before amortization	**79**	**97**	**80**	**103**	74	96	85	112
Adjusted operating income margin before amortization	**15.3%**	**17.4%**	**15.0%**	**17.3%**	16.0%	18.4%	17.0%	19.8%
Operating income	**$ 51**	**$ 64**	**$ 49**	**$ 73**	$ 48	$ 66	$ 54	$ 64
Income from continuing operations	**29**	**38**	**27**	**45**	26	39	31	34
Per share	**0.33**	**0.43**	**0.31**	**0.50**	0.30	0.44	0.35	0.39
Net income	**29**	**38**	**27**	**45**	26	39	35	28
Per share	**0.33**	**0.43**	**0.31**	**0.50**	0.30	0.44	0.39	0.32
Income from continuing operations before impairment of assets, restructuring costs and write-down of goodwill	**29**	**41**	**28**	**45**	26	39	33	53
Per share	**0.33**	**0.46**	**0.31**	**0.50**	0.30	0.44	0.37	0.59
% of fiscal year	**21%**	**29%**	**19%**	**31%**	17%	26%	22%	35%

stems mainly from the contribution of the acquisition of U.S. direct marketing firm JDM, completed in the second quarter, which added $20 million to revenues and $2 million to adjusted operating income before amortization, as well as an increase in sales volume from existing businesses. Programs to improve efficiency and reduce costs were partially offset by lower sales prices in some niches of the printing industry and the negative impact of the exchange rate. However, income from continuing operations decreased 4%, from $39 million in 2004 to $38 million in 2005, due to the recording of negative unusual items related to the implementation of certain aspects of the revised manufacturing strategy for a total of $5 million before taxes, or $0.03 per share after taxes: $3 million before taxes as part of the consolidation of the book printing operations in Canada, $1 million before taxes for an asset impairment in Mexican operations and $1 million before taxes as part of the consolidation of the Winnipeg retail-flyer printing operations. Excluding these items, income from continuing operations increased 5%, from $39 million in 2004 to $41 million in 2005; per share, it went from $0.44 to $0.46, stemming from the increase in adjusted operating income before amortization.

For the third quarter, Transcontinental reported consolidated revenues of $531 million, up 6% over revenues of $502 million in the corresponding quarter in 2004 as a result of acquisitions, an increase in sales volume in our U.S. direct marketing activities and our distribution of advertising material activity as well as paper price increases. This growth was partially offset by the negative impact from the exchange rate and persistent pricing pressures in certain niches of the printing industry. However, adjusted operating income before amortization decreased 7% from $85 million in 2004 to $80 million in 2005 due to the negative impact of the exchange rate, production disruptions related to the consolidation and reorganization of certain entities as well as persistent pricing pressures in some niches of the printing industry. Similarly, income from continuing operations decreased from $31 million in 2004 to $27 million in 2005, following the recording of a negative $1 million before taxes for the consolidation of the book printing operations in Canada, coming from the implementation of our revised manufacturing strategy. In the third quarter of 2004, we recorded a negative unusual item of $3 million before taxes for the consolidation of our retail-flyer printing operations in Winnipeg. Excluding these items, income from continuing operations decreased from $33 million in 2004 to $28 million in 2005; per share, it went from $0.37 to $0.31, stemming mainly from the decrease in adjusted operating income before amortization.

For the fourth quarter, Transcontinental reported consolidated revenues of $596 million, up 5% over revenues of $565 million in the corresponding quarter in 2004, primarily due to acquisitions; organic growth in our Mexican operations, newspaper printing

Cash Flow from Operations and Net Funded Debt to Total Capitalization Ratio



operations, magazine publishing and magazine and catalogue printing; and the variation in paper prices. This growth was partially offset by the negative impact from the exchange rate and persistent pricing pressures in certain niches of the printing industry. Adjusted operating income before amortization decreased 8% to $103 million from $112 million in 2004, principally due to the negative impact from the exchange rate, production disruptions related to the consolidation and reorganization of the Book Group and U.S. direct marketing operations in the Philadelphia region, and pricing pressures in certain niches of the printing industry. However, income from continuing operations increased 30% from $34 million in fiscal 2004 to $45 million in fiscal 2005, as a number of unusual items negatively affected 2004 results. Excluding these items, income from continuing operations decreased 15% from $53 million in 2004 to $45 million in 2005; per share, it went from $0.59 to $0.50, stemming mainly from the decrease in adjusted operating income before amortization.

Liquidity and Capital Structure

Cash Flow from Operations

For fiscal 2005, cash flow from continuing operations before changes in non-cash operating items decreased from $276 million in 2004 to $262 million in 2005, primarily due to the decrease in adjusted operating income before amortization combined with an increase of $8 million in current income taxes. Changes in non-cash operating items remained relatively stable generating a $44 million cash inflow in 2005. Operating activities thus generated $306 million in 2005, compared to $319 million in 2004, a decrease of $13 million.

Cash Flow from Investing

The net amount of investment in the acquisition of capital assets during the year was $146 million, an increase of $57 million compared to the $89 million invested in 2004, primarily as a result of investments with regard to the revised manufacturing strategy. Business acquisitions totalled $103 million in 2005, for the acquisition of JDM, as compared to $207 million in 2004, for the acquisitions of Avid Media, Liberty Graphics, CC3 and Optipress.

Cash Flow from Financing

The Corporation paid $19 million in dividends, up 24% over dividends paid in 2004. As at October 31, 2005, the Corporation's net funded debt stood at $273 million, $44 million lower than at the start of the year. The net funded debt to total capitalization ratio was 20%. Even while investing heavily in business and capital acquisitions over the past two years, the Corporation has reduced this ratio from 27% in 2003 to 20% in 2005, as a result of the strong cash flow from operations.

Transcontinental has over $400 million available under existing credit facilities and operating lines of credit. The Corporation is in compliance with all of the covenants under the credit agreements governing these facilities and would continue to be in compliance even if it drew all of the facilities at its disposal. During the year, the Corporation obtained a five-year extension of its credit facilities under more favourable terms than its previous agreement.

Late in fiscal 2004, Transcontinental concluded an agreement for an issue of US$100 million of senior unsecured notes to institutional investors through a private placement in the United States. The notes were issued in four tranches maturing in 7, 9 and 11 years, bearing interest at floating rates. Of the US$100 million, US$52.5 million was received on October 27, 2004 and US$47.5 million on March 1st, 2005. The notes are redeemable under certain conditions from the second anniversary of their issue. The net proceeds of the offering were used in part to reduce bank debt in U.S. dollars and to finance the acquisition of JDM in February 2005.

Over the next two years, debentures totalling $100 million will mature. Other payments during this period will be minimal. The payments required in subsequent years are higher but are well spread out over time. Given the significant amount of operating cash flow

Principal Cash Flows and **Financial Condition**

for the fiscal years ended October 31

(in millions of dollars)	2005	2004	2003
Cash flow from operations			
Cash flow from continuing operations before changes in non-cash operating items	**$ 262**	$ 276	$ 248
Changes in non-cash operating items	**44**	43	(31)
	306	319	217
Cash flow from investing			
Acquisitions of capital assets, net	**(146)**	(89)	(139)
Business acquisitions	**(103)**	(207)	(5)
Business disposals	**2**	–	7
Other	**(11)**	(11)	(11)
	(258)	(307)	(148)
Cash flow from financing			
Increase in revolving term credit facility and long-term debt, net	**47**	46	22
Issuance (redemption) of shares	**5**	2	(1)
Dividends on shares	**(19)**	(15)	(12)
Other	**(1)**	(2)	(14)
	32	31	(5)
Other relevant information			
Net funded debt	**273**	317	313
Shareholders' equity	**1,106**	980	869
Net funded debt to total capitalization ratio	**20%**	24%	27%
Credit rating			
DBRS	**BBB high**	BBB high	BBB high
Standard and Poor's	**BBB**	BBB	BBB

the Corporation is capable of generating, it considers that it will be able to repay or refinance these commitments as they mature.

As at October 31, 2005, there were 71,565,227 Class A Subordinate Voting Shares and 17,741,573 Class B Multiple Voting Shares of the Corporation issued and outstanding, for a total of 89,306,800 shares issued and outstanding.

On November 16, 2005, subsequent to the end of the fiscal year, the Corporation announced a normal course issuer bid to purchase for cancellation up to 5% of its Class A Subordinate Voting Shares and up to 5% of its Class B Multiple Voting Shares from November 21, 2005 to November 20, 2006. In this regard, a notice of intention has been filed with the Toronto Stock Exchange. Shareholders may obtain a copy of the notice without charge by contacting the Corporation. Transcontinental has determined that the

Contractual Obligations and Commercial Commitments

(in millions of dollars)

Type of contract	2006	2007	2008	2009	2010	Subsequent years	Total
Long-term debt	$ 8	$108	$ 7	$102	$ 2	$267	$494
Other commitments	27	24	21	15	10	27	124
Total obligations	$35	$132	$28	$117	$12	$294	$618

Note: The Corporation is further committed to acquire $18 million of equipment in 2006.

purchase of its shares will allow it to optimize its capital structure and create long term value for shareholders.

As of December 13, 2005, the Corporation had bought back 1,050,000 Class A Subordinate Voting Shares and 44,700 Class B Shares at an average price of $19.22 and $19.42, respectively, for a total consideration of approximately $21 million.

Off-Balance-Sheet Arrangements (Securitization)

Under its securitization agreement, the Corporation sells, on an ongoing basis, certain of its receivables to a trust that has sold its beneficial interest to third-party investors. The maximum net consideration allowable in the program is $300 million, including a maximum of $100 million in U.S. dollars. During the year, the Corporation obtained a three-year extension of its securitization program under terms similar to the existing agreement. The program now matures in August 2009.

As at October 31, 2005, $306 million of accounts receivable ($282 million as at October 31, 2004) had been sold under the securitization program, of which $42 million ($37 million as at October 31, 2004) was kept by the Corporation as a residual interest, resulting in a net consideration of $264 million on the sale ($245 million as at October 31, 2004), comprising C$153 million and US$94 million. The residual interest is recorded in the Corporation's accounts receivable at the lower of cost or fair market value. Under the program, the Corporation recognized an aggregate discount on sales of receivables of $6 million in fiscal 2005 ($6 million in 2004), which is included in "Other expenses" in the consolidated statements of income. The Corporation is in compliance with all its covenants under the agreements governing this program.

Fiscal 2004 Results Compared to 2003

Consolidated revenues reached $2.05 billion in fiscal 2004, up 8% from $1.9 billion in fiscal 2003, and adjusted operating income before amortization totalled $366 million, up 9% from $336 million in 2003. In both cases, growth stemmed primarily from acquisitions, which added $180 million, or 9%, to revenues and $19 million, or 6%, to adjusted operating income before amortization. This growth was partially offset by the negative impact from the exchange rate and an extra week of operations in fiscal 2003 as compared to fiscal 2004. This extra week generated $22 million in revenues and $5 million in adjusted operating income before amortization.

Organic growth generated $42 million, or 2%, in revenues and $21 million, or 6%, in adjusted operating income before amortization stemming from investments in our newspaper printing operations, an increase in sales volume from existing businesses, the turnaround of our Mexican and U.S. direct marketing operations in Warminster as well as programs to improve efficiency and reduce costs. This growth was partially offset by lower sales prices in some niches of the printing industry and weaker advertising revenues from national advertisers.

Amortization rose $16 million, or 17%, in 2004 to $112 million compared to $96 million in 2003, following the acquisitions and capital investments completed in 2004.

In fiscal 2004, $10 million was expensed for restructuring costs related to the consolidation of our printing operations in Winnipeg and the impairment of assets following the revision of our manufacturing strategy. In effect, $3 million before taxes ($2 million after taxes, or $0.02 per share) was recorded for job termination benefits for the consolidation of retail-flyer printing operations in Winnipeg while $7 million before taxes ($5 million after taxes or $0.06 per share) was recorded for the impairment of the production equipment that would no longer be used or would be replaced following the revision of our manufacturing strategy. In addition, a goodwill impairment charge of $13 million for the Mexican operations was recorded.

When combined, financial and other expenses increased $2 million, from $33 million in 2003 to $35 million in 2004. This increase is primarily due to the increase in the long-term debt used to finance part of the growth by acquisitions, as well as the financial expenses related to the investments required to print *La Presse*, which were capitalized in 2003. These items were partially offset by lower interest rates on floating-rate debt, lower discounts on the sale of receivables under the securitization program, and by cash flow from operations.

In fiscal 2004, we disposed of our Media sector publishing and distribution assets in Winnipeg. Net of related income taxes, the gain on disposal of about $3 million, or $0.04 per share, was recorded as income from discontinued operations. Furthermore, Transcontinental recorded a non-recurring charge of $6 million after taxes, or $0.07 per share, for discontinued operations, related to the unfavourable ruling handed down by a California court in the case brought by Softbank Content Services against a holding company owned equally by Transcontinental and a subsidiary of MPO S.A. Therefore, a total of $3 million, or $0.03 per share, was reported in 2004 as loss from discontinued operations.

Income from continuing operations before impairment of assets, restructuring costs and write-down of goodwill was $152 million, or $1.71 per share, an increase of 6% over 2003. Including these items, income from continuing operations was $131 million, or $1.48 per share, a decrease of 8% over 2003. Including discontinued operations, net income was $129 million, or $1.45 per share, a decrease of 10% over 2003.

For the year ended October 31, 2004, cash flow from operations before changes in non-cash operating items rose to $276 million compared to $248 million in 2003. Growth in adjusted operating income before amortization was the main component of the increase. Changes in non-cash operating items generated a cash inflow of $43 million in fiscal 2004, compared to a cash outflow of $31 million in 2003. This difference versus 2003 was mainly due to the timing of payments to certain suppliers and to the change in the level of the accounts receivable securitization program. Cash flow from operations was therefore $319 million in fiscal 2004, compared to $217 million in fiscal 2003, an increase of $102 million. As at October 31, 2004, the Corporation's net funded debt stood at $317 million. The net funded debt to total capitalization ratio was 24%.

Critical Accounting Policies and 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 estimates and judgements. The most significant areas requiring the use of management estimates and judgements include valuation of goodwill and intangibles, accounting for employee future benefits and accounting for income taxes.

Valuation of Goodwill and Intangible Assets

Goodwill is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired. This test is performed at a reporting unit level. The impairment test is accomplished mainly by determining if the fair value of the reporting unit to which the goodwill is associated is less than its carrying amount at the assessment date. If the fair value is greater than the carrying amount, no impairment is necessary; otherwise, a second test must be performed. This second test consists in a comparison of the fair value of the goodwill to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered impaired and a charge for impairment must be recognized for an amount equal to the excess. In order to establish a fair value, the Corporation uses several methods such as normalized earnings and price earnings multiples based on comparable transactions. The Corporation has completed its annual impairment test for 2005 and no adjustment for impairment was required. In 2004, an impairment of $13 million was recorded related to our Mexican operations, as explained in Note 4 of the consolidated financial statements.

Non-amortizable intangible assets are also tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. When the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The fair value is determined using discounted cash flows. The Corporation has completed its annual impairment test for 2005 and no adjustment for impairment was required.

Accounting for Employee Future Benefits

The Corporation provides defined benefit pension plans to its employees. The pension expense and the obligation for these plans are actuarially determined using management's most probable assumptions. Assumptions are made regarding the valuation of benefit obligations and return on assets. The assumptions include the discount rate, the expected long-term rate of return on plan assets, rate of compensation increase and the mortality rate. Changes in these assumptions result in actuarial gains or losses. The discount rate used in measuring the liability is equal to the current yield on long-term, high-quality corporate bonds with a duration similar to the duration of the benefit obligation. Management's estimates for the expected long-term rate of return on plan assets are based on reviews of historical investment returns for a similar portfolio, while the rate of compensation estimates are based on historical salary increases and inflation rates. 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, are amortized over the expected remaining service life of the employee group covered by the plans. Management's estimates are disclosed in Note 21 to the consolidated financial statements. The Corporation also contributes to several defined contribution plans. The pension expense under these plans is equal to the employer's contribution.

Accounting for Income Taxes

The Corporation records income taxes using the liability method of accounting. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. Management uses judgment and estimates in determining the appropriate rates and amounts to record for future taxes, giving consideration to timing and probability. Previously recorded tax assets and liabilities are remeasured 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. The recording of future tax assets also requires an assessment of recoverability. In order to make this assessment, management establishes projections of future taxable earnings based on historical and forecasted results. A valuation allowance is recorded when it is more likely than not that all of the future tax assets recognized will not be realized prior to their expiration. More information on income taxes is provided in Note 6 to the consolidated financial statements.

Changes in Accounting Policies

Asset Retirement Obligations

In 2003, the CICA issued Section 3110 of the CICA Handbook, Asset Retirement Obligations, which applies to fiscal years beginning on or after January 1, 2004. On November 1, 2004, the Corporation adopted these recommendations retroactively with restatement of prior periods. In accordance with these recommendations, a liability must be recorded at fair value in the period in which a legal obligation associated to the retirement of an asset is incurred. 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 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.

Asset retirement obligations in connection with the adoption of Section 3110 were linked to removal obligations on certain buildings. The adoption of Section 3110 has decreased the opening retained earnings for fiscal 2005, 2004 and 2003 by $0.4 million and increased property, plant and equipment, future income tax assets and other liabilities as at November 1, 2004 and 2003 by $0.5 million, $0.2 million and $1.1 million, respectively. The impact on the consolidated statements of income for fiscal 2005, 2004 and 2003 was negligible.

Consolidation of Variable Interest Entities

In 2003, the CICA issued Accounting Guideline 15 (AcG-15), Consolidation of Variable Interest Entities, which applies to fiscal years and interim periods beginning on or after November 1, 2004 and provides guidance on the application of the standards set out in CICA Handbook Section 1590, Subsidiaries, for certain entities defined as variable interest entities (VIEs). VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. AcG-15 requires the consolidation of a VIE by its primary beneficiary, i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's expected losses.

The Corporation completed the analysis of the AcG-15, and consequently, had to consolidate a VIE which was previously considered a joint venture and accounted for using the proportionate consolidation method. This recommendation was adopted retroactively without restatement of prior periods and resulted in a decrease of $2.5 million in the opening retained earnings for fiscal 2005. The impact on the consolidated statement of income for fiscal 2005 was negligible.

Impairment of Long-Lived Assets

In 2003, the CICA issued Section 3063 of the CICA Handbook, Impairment of Long-lived Assets, applicable prospectively for fiscal years beginning on or after April 1, 2003.

In accordance with these new recommendations, an impairment must be recorded when the carrying amount of a long-lived asset is no longer recoverable and exceeds its fair market value. The fair market value is based on the market price in effect at the time, if available, or on a discounted future cash flows approach. A long-lived asset is defined as property, plant and equipment, an intangible asset with a finite useful life, deferred pre-operating costs or a long-term prepaid asset. Impairments of $2.8 million and $6.8 million were charged to income for fiscal 2005 and 2004, respectively.

Stock-Based Compensation and Other Stock-Based Payments

In 2003, the CICA modified Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, which applies to fiscal years beginning on or after January 1, 2004. In accordance with these recommendations, the fair value method for all grants to employees must be used to record the stock-based compensation cost, eliminating the alternative of disclosing proforma information instead of a charge to income. Effective November 1, 2003, the Corporation adopted by anticipation these recommendations retroactively for all options granted since November 1, 2002, without restatement of fiscal 2003. The compensation cost for fiscal 2003 totalling $0.5 million ($0.00 per share) was accounted for as a reduction of the opening balance of retained earnings for fiscal 2004 and as an increase to contributed surplus of shareholders' equity. Compensation costs of $1.6 million ($0.02 per share) and $1.2 million ($0.01 per share) were charged to income and as an increase to contributed surplus of shareholders' equity for fiscal 2005 and 2004, respectively.

Foreign Currency Translation

As of November 1, 2002, the Corporation implemented the changes to Section 1650 of the CICA Handbook. According to these recommendations, gains or losses on long-term monetary items denominated in foreign currency can no longer be deferred and amortized over the life of the related items. All unrealized gains and losses on monetary items must be included in the calculation of net income for the period. This change has been applied retroactively with restatement of prior years. Opening retained earnings for fiscal year 2003 were reduced by an amount of $1.6 million, net of income taxes of $0.8 million, as a result of this change.

Operating foreign subsidiaries, with the exception of sales offices, 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, after taking into account related hedging transactions, are reported under a separate heading of shareholders' equity and recognized in income only when a reduction of the investment in these foreign subsidiaries has been realized. Foreign sales offices (considered as integrated foreign operations) and foreign currency operations are converted using the temporal method and the foreign exchange gains or losses are recognized in income.

Risks and Uncertainties

Each year, the Corporation attempts to mitigate the risks or uncertainties that could be caused by an economic slowdown or by particular occurrences in its operating sectors or treasury situation. In this regard, as part of the implementation of a formal risk-management program, management consistently reviews overall controls and preventative measures to ensure they are better matched to the significant risks to which the Corporation's operating activities are exposed. A report on our risk-management program is reviewed every quarter by the Audit Committee.

Managing the Corporation's risks is a major factor behind the decisions taken by management with regard to acquisitions, capital investments, disposal of assets, regrouping 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 major risks the Corporation is exposed to and strategies it is taking to mitigate them.

Competition

Some of the printing niches in which the Corporation operates in are highly competitive. Competition is based on price, quality, range of services offered and time to market. Over the past few years, some of these niches have experienced a reduction in demand and are experiencing over-capacity. Consequently, there has been downward pressure on prices. It is very difficult to determine if and when the situation in these niches will turn around.

Credit

With respect to credit risk, the Corporation analyzes and reviews the financial health of its current clientele on an ongoing basis and applies rigorous evaluation procedures to all new customers. A specific credit limit is established for each customer and reviewed periodically. Transcontinental is protected against any concentration of credit risk through diversification of its products, clientele and suppliers. In fact, the Corporation has a good customer mix. No single customer accounts for more than 5% of its consolidated revenues, and the Corporation's 20 largest customers account for less than 30% of its consolidated revenues. The Corporation also has a credit insurance policy covering most of its major customers. The terms of the policy include the usual covenants and limits regarding the amounts that can be claimed by event and year of coverage.

Difficulty to Hire Qualified Personnel

Social and demographic trends make it difficult to hire and retain qualified personnel. There is a diminishing pool of talent, an increase in professional mobility, an increase in technology use and a high demand for emerging skill sets. Since the companies with the best talent usually come out on top, there is a risk that the Corporation will not be able to hire and retain qualified personnel. In order to mitigate this risk, the Corporation has invested in its human capital in the past four years through its *Horizon 2005* business project and will continue to do so as detailed in its new business project *Evolution 2010*.

Economic Cycles

A significant risk that Transcontinental faces and over which it has no control is related to economic cycles. However, because the Corporation has a development strategy based on becoming a leader in market niches that have high growth potential, and because it is well diversified, it has successfully reduced its exposure to economic cycles, without, of course, eliminating their occurrence or controlling their magnitude. The Corporation believes it mitigates this risk by the very nature of the composition of its operations as described below:

- Approximately 53% of consolidated revenues stems from niches that are less exposed to cyclical changes in advertising spending, such as book, flyer and newspaper printing, publishing of local and regional newspapers and distribution of advertising material. Also, a large portion of the customer base is in less cyclical sectors, such as food, health, beauty products and home improvement.

- Transcontinental has entered into mid- and long-term agreements ranging from 1 to 15 years with customers who generate from 50% to 60% of revenues in the two printing sectors.

- In the Media sector, Transcontinental benefits from a good mix of local and national advertising. About 50% of advertising revenues generated by this sector come from local advertising, which has been less volatile than national advertising in the last few years.

Exchange of Confidential Information

This risk involves the utilization and manipulation of our customers' confidential information, particularly in direct marketing. The Company uses confidential information provided by customers in its production process. 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. This risk increased with the acquisition of certain assets of JDM, Inc. in the United States in February 2005. Various improvement measures to better prevent and control this risk are currently being implemented.

Geographic Distribution and Exchange Rate

Transcontinental has continued to diversify its geographical segmentation of revenue. In 2005, revenues generated outside Canada accounted for 30% of consolidated revenues as compared to 28% in fiscal 2004 due mainly to the acquisition of CC3 and JDM in the United States. This additional revenue combined with the increase from exports was partially offset by the negative effect due to the stronger Canadian dollar compared to its U.S. counterpart and the Mexican peso. It is important to note that our current net exposure to the U.S. and Mexican markets, in terms of foreign entities, is limited. However, over time we expect to derive a greater portion of our income in the United States and as such we will be more exposed to translation risk.

To protect itself from the impact of a stronger Canadian dollar, the Corporation will continue to improve efficiency in all sectors, focus on market niches in which it has expertise that will give it a competitive edge, reduce costs, and maintain its ongoing currency-hedging program. The currency-hedging program uses derivatives to protect the Corporation from the risk of short-term currency fluctuations. Moreover, Transcontinental attempts to maximize the matching of cash inflows and outflows in the same currency.

Given the major fluctuations in the foreign-exchange rate in the past two years, management deemed it appropriate to provide details on its currency-hedging program. The program uses forward contracts that mature in 1- to 36-months. The policy approved by the Corporation's Board of Directors allows hedging of 50% to 100% of net cash flow for a period of 1- to 12-months, of 25% to 50% for the next 12 months and up to 33% for the subsequent 12 months. The Corporation also uses collars to limit the risk of losses related to the 1-to 12-month portion that is not covered by forward contracts. As of October 31, 2005, the Corporation had sold US$73 million under forward contracts at an average rate of $1.3602 C/US for the next 12 months. For the following 12 months, US$30 million is hedged at an average rate of $1.2623 C/US, while for the subsequent 12 months, no hedging has been put in place as management does not believe that the current rates are favorable. The Corporation also uses collars totalling US$26 million. The floor rates vary from 1.15 to 1.20 and the cap rates from 1.2021 to 1.2806. See "Outlook" section for sensitivity analysis.

Integration of Acquisitions

In its new business plan, *Evolution 2010*, the Corporation has indicated that it will consider larger acquisitions than it has in the past. The integration of acquisitions is always a risk but this risk increases with the size of the acquisition. Integrating operations could cause temporary disruptions to operations 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. However, these mitigation measures are not as efficient in the U.S. operations given Transcontinental's limited pool of talent available to integrate U.S. acquisitions on site. The Corporation thus relies more on management and employees from the acquired companies to facilitate the integration process.

Interest Rate

Transcontinental is exposed to market risks related to interest-rate fluctuations. Most of the Corporation's long-term debt is set at fixed interest rates. The floating-rate portion of the debt increased by US$47.5 million on March 1, 2005 when the Corporation completed its issuance of senior unsecured notes concluded on October 27, 2004. Almost all of the outstanding floating-rate debt bears interest at rates based on three-month LIBOR. The Corporation is also exposed to interest rate fluctuations through its securitization program, since the discount on the sale of accounts receivable is based on the rate of the commercial paper issued by the trust. The trust generally issues its commercial paper on a monthly basis.

The Canadian and U.S. central banks have steadily been increasing their bank rates in the past few months, and as a result short-term rates have followed suit. The Corporation believes that this trend is likely to continue into 2006 and deems that these rate increases will have a negative impact on its short-term results.

Loss of Reputation

The Company 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.

New Media

The industries in which the Corporation operates are subject to the impact from new media such as the Internet. As a result, advertisers are presented with a greater diversity of media channels in which to spend their advertising dollars. While the total advertising pie has increased approximately 4% on average per year in Canada in the past five years, the growth of advertising on Internet-based technologies has increased significantly more, albeit from a small base, and this trend is forecasted to continue. This shift from traditional media to new media could have an adverse effect on the Corporation's future results. In response to this shift, the Corporation has laid out a digital media strategy, which it will execute as detailed previously in its *Evolution 2010* business project.

Raw Materials and Energy Prices

With respect to raw materials, the Corporation generally has supply agreements with its most important suppliers in order to ensure a stable flow of resources. In addition, the contracts signed with Printing sector customers contain escalation clauses that index selling prices to fluctuations in raw material costs. Energy prices, more specifically natural gas and oil, had never been highlighted as a major risk in the past as the prices of these energy products had not been prone to such major fluctuations in recent years. However, the average price increase of natural gas and oil in the past two years has been 8% and 34% respectively, with the largest part of the increase happening this past year. While the Corporation expects to be able to pass on a portion of the increase to its customers, the bulk will be absorbed in the current cost structure. As a result, the Corporation is currently looking into putting hedging mechanisms in place to mitigate this risk in the future. In 2006, the Corporation will continue 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 will continue its structured approach to risk prevention and control which establishes measures to encourage business units to better prevent risk and manage organizational change more effectively. The Corporation will also continue to implement a more structured approach to the development of business continuity and recovery plans, and for the sharing of best practices within the Corporation. Indeed, more and more customers are requiring an organized approach to risk management and formal plans to ensure business continuity and recovery.

Certification of Disclosure in Issuers' Annual and Interim Filings

The Corporation has completed the process leading to the certification of annual filings, as requested by the multilateral instrument 52-109 using the more stringent guidelines outlined in the multilateral instrument 52-111. On July 29, 2005 the Canadian Securities Administrators decided to push back the compliance date of the multilateral instrument 52-111 by one year. For us, this means that it will take effect for our fiscal year ending in October 2007. As a result, the Corporation has decided to maintain its target date for the completion of the documentation phase (October 2006), with the exception of recent acquisitions, which will be completed the following year. We will take the opportunity during that extra year to complete our revision of all financial processes in order to improve cycle time, enhance our systems and ensure efficient compliance with these new requirements.

Outlook

This past year has had a number of challenging issues, namely increasingly difficult market conditions in some niches of the printing industry, the continued strength of the Canadian dollar and rising energy costs. Fiscal 2005 also marked the end of our *Horizon 2005* business project and fiscal 2006 is the first year of our new business project *Evolution 2010*. It will be a transition year for the Corporation during which we will be investing significantly for long-term development. We will continue to execute on our revised manufacturing strategy. Specifically, we will focus on completing the reorganizations and consolidations in our book printing operations and U.S. direct marketing operations, including the ramp-up of the new plant in Louiseville, as well as the installation and ramp-up of our new presses in our printing plants in Boucherville and Beauceville. As a result, the expected benefits from these initiatives will start to materialize in the second half of the year. In addition, we plan to invest about $10 million to support a number of new non-capital expenditure initiatives, primarily in the Media sector, as outlined in our *Evolution 2010* business project.

It is important to highlight that a significant portion of our businesses are expected to continue to improve in fiscal 2006, including the distribution of advertising material, newspaper publishing in Quebec, newspaper printing, magazine and catalogue printing, magazine publishing and our Mexican operations. Others which had a tougher year in 2005 are expected to turn around in 2006, including book printing, direct marketing in the United States and newspaper publishing in the Atlantic provinces. Finally, our commercial printing operations should continue to experience difficult market conditions and our retail operations should be facing more intense competition upon renewal of contracts.

There are a number of factors that will negatively affect the Corporation's results in fiscal 2006. First, management expects foreign exchange fluctuations to have a significant impact. Based on a constant exchange rate of $1.20 C/US and taking into account the Corporation's currency hedging program, the negative impact on pre-tax income is expected to be about $15 million, with an after-tax effect of about $10 million, or $0.12 per share. Every one cent movement in the exchange rate between the Canadian dollar and its U.S. counterpart will cause an effect of approximately $1 million on pre-tax income. Second, the recent increase in energy costs are expected to have an impact on pre-tax income of $8 million, with an after-tax effect of $6 million, or $0.06 per share. While the Corporation should be able to pass on a portion of the increase to its customers, the bulk will be absorbed in the current cost structure. Third, the $10 million investment to support a number of initiatives in *Evolution 2010* will be expensed with limited corresponding revenues for this first year. This will represent an after-tax negative effect of $7 million or $0.08 per share in 2006. Finally, pension expenses will negatively affect pre-tax income by $6 million, or $0.05 per share, as the decrease in long-term interest rates has increased our liability.

Considering the above-mentioned factors, Management has set its fiscal 2006 objective for earnings per share from continuing operations before unusual items of between $1.50 and $1.60. Excluding the anticipated negative impact of the exchange rate estimated at $0.12 per share, the target range would be between $1.62 and $1.72, an increase of 1% to 8% over 2005, which is below the Corporation's long-term growth objective of 10% excluding the variation in the exchange rate. Starting in 2007, our non-capitalized investments in our long-term development and the benefits arising from current consolidations and reorganizations should enable us to get back to growth rates more in line with our target growth objective outlined in our *Evolution 2010* business project of an average of 10% a year for the period 2006-2010, excluding the variation in the exchange rate.

On behalf of Management,

"Daniel Denault"
(signed)

Daniel Denault,
Vice President and Chief Financial Officer,
December 15, 2005

Management's Responsibility for **Consolidated Financial Statements**

The accompanying consolidated financial statements of Transcontinental Inc. are the responsibility of management and have been approved by the Board of Directors of the Corporation. The financial statements include some amounts that are based on management's best estimates using reasonable judgement.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

In fulfilling their responsibilities, management of Transcontinental Inc. and its subsidiaries develop and aim to improve accounting and management systems designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements.

The Board of Directors of the Corporation fulfills its responsibility for the financial statements principally through its Audit Committee. The Audit Committee meets with management and the external auditors every quarter to discuss the results of the audit, internal controls and financial reporting matters. The external auditors appointed by the shareholders have unrestricted access to the Audit Committee, with or without the presence of management.

The financial statements have been audited by Samson Bélair/Deloitte & Touche s.e.n.c.r.l., Chartered Accountants, and their report follows.

"Luc Desjardins"
(signed)

Luc Desjardins
President and Chief Executive Officer

"Daniel Denault"
(signed)

Daniel Denault
Vice President and Chief Financial Officer

Auditors' Report to the Shareholders of Transcontinental Inc.

We have audited the consolidated balance sheets of Transcontinental Inc. as at October 31, 2005 and 2004 and the consolidated statements of income, retained earnings and cash flows for each of the years in the three-year period ended October 31, 2005. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 Corporation as at October 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2005 in accordance with Canadian generally accepted accounting principles.

"Samson Bélair Deloitte & Touche"
(signed)

Chartered Accountants
Montreal, December 13, 2005

Consolidated **Statements of Income**

for the years ended October 31

(in thousands of dollars, except per share data)	Notes	2005	2004	2003
Revenues		**$2,202,004**	$ 2,047,973	$ 1,898,752
Operating costs		**1,601,889**	1,460,473	1,372,584
Selling, general and administrative expenses		**240,773**	221,091	189,958
Operating income before the following items:		**359,342**	366,409	336,210
Amortization		**116,616**	111,760	95,548
Impairment of assets and restructuring costs	**3**	**5,713**	10,158	–
Write-down of goodwill	**4**	**–**	13,058	–
Operating income		**237,013**	231,433	240,662
Financial expenses	**5**	**26,586**	29,075	25,968
Other expenses	**8**	**6,289**	5,596	7,038
Share in loss (income) of company subject to significant influence		**265**	393	(485)
Income from continuing operations before income taxes and non-controlling interest		**203,873**	196,369	208,141
Income taxes	**6**	**64,096**	64,105	64,106
Income from continuing operations before non-controlling interest		**139,777**	132,264	144,035
Non-controlling interest		**825**	813	1,014
Income from continuing operations		**138,952**	131,451	143,021
Loss from discontinued operations	**7**	**–**	(2,595)	(12)
Net income		**$ 138,952**	$ 128,856	$ 143,009
Per share (basic)	**17**			
Income from continuing operations		**$ 1.56**	$ 1.48	$ 1.61
Loss from discontinued operations		**–**	(0.03)	–
Net income		**1.56**	1.45	1.61
Per share (diluted)	**17**			
Income from continuing operations		**$ 1.55**	$ 1.47	$ 1.60
Loss from discontinued operations		**–**	(0.03)	–
Net income		**1.55**	1.44	1.60
Average number of shares outstanding (000's)		**89,141**	88,790	88,667

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

Consolidated Statements of **Retained Earnings**

for the years ended October 31

(in thousands of dollars)	Notes	2005	2004 (restated)	2003 (restated)
Balance, beginning of year, as previously reported		**$ 585,855**	$ 472,594	$ 345,340
Foreign currency translation	**2**	**–**	–	(1,578)
Asset retirement obligations	**2**	**(426)**	(426)	(426)
Restated balance, beginning of year		**585,429**	472,168	343,336
Stock-based compensation and other stock-based payments	**2**	**–**	(499)	–
Consolidation of variable interest entities	**2**	**(2,512)**	–	–
Net income		**138,952**	128,856	143,009
		721,869	600,525	486,345
Share split expenses		**–**	–	(78)
Premium on redemption of shares		**–**	–	(1,684)
Dividends on shares		**(18,734)**	(15,096)	(12,415)
Balance, end of year		**$ 703,135**	$ 585,429	$ 472,168

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

Consolidated **Balance Sheets**

as at October 31

(in thousands of dollars)	Notes	2005	2004 (restated)
Current assets			
Cash and temporary investments		**$ 222,010**	$ 139,855
Accounts receivable	**8**	**162,814**	151,134
Income taxes receivable		**770**	3,589
Inventories	**9**	**88,576**	87,976
Prepaid expenses and other current assets		**17,973**	17,666
Property, plant and equipment held for sale	**10**	**3,911**	–
		496,054	400,220
Property, plant and equipment	**10**	**699,111**	665,762
Property, plant and equipment held for sale	**10**	**1,995**	–
Goodwill	**11**	**814,651**	749,258
Intangible assets	**12**	**149,735**	145,323
Future income tax assets	**6**	**47,223**	27,391
Other assets	**13**	**40,295**	26,165
		$2,249,064	$2,014,119

Consolidated **Balance Sheets (continued)**

as at October 31

(in thousands of dollars)	Notes	2005	2004 (restated)
Current liabilities			
Bank overdraft		**$ –**	$ 352
Accounts payable and accrued liabilities		**401,654**	385,185
Income taxes payable		**91,759**	49,447
Deferred subscription revenues and deposits		**51,412**	46,706
Current portion of long-term debt	**15**	**8,449**	11,628
		553,274	493,318
Long-term debt	**15**	**486,124**	444,695
Future income tax liabilities	**6**	**68,348**	73,455
Other liabilities	**16**	**34,699**	21,532
		1,142,445	1,033,000
Non-controlling interest		**750**	1,195
Shareholders' equity			
Capital stock	**17**	**421,485**	416,103
Contributed surplus		**5,057**	3,809
Foreign currency translation adjustment		**(23,808)**	(25,417)
Retained earnings		**703,135**	585,429
		1,105,869	979,924
		$2,249,064	$2,014,119

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

Approved on behalf of the Board of Directors,

"Rémi Marcoux"
(signed)

Rémi Marcoux,
Director

"Robert Chevrier"
(signed)

Robert Chevrier,
Director

Consolidated Statements **of Cash Flows**

for the years ended October 31

(in thousands of dollars)	Notes	2005	2004	2003
Operating activities				
Income from continuing operations		**$138,952**	$ 131,451	$ 143,021
Items not affecting cash and cash equivalents				
Amortization		**124,659**	116,788	102,838
Impairment of assets	**3**	**2,799**	6,795	–
Write-down of goodwill	**4**	**–**	13,058	–
(Gain) loss on disposal of assets		**(2,202)**	43	(920)
Future income taxes	**6**	**(8,285)**	(253)	10,154
Share in loss (income) of company subject to significant influence, net of dividends received		**265**	393	(310)
Non-controlling interest		**825**	813	1,014
Unrealized foreign exchange gain on long-term monetary items		**(263)**	(175)	(3,470)
Accrued pension benefit asset and liability fluctuation		**4,093**	5,789	(3,416)
Other		**1,608**	1,246	(541)
Cash flow from continuing operations before changes in non-cash operating items		**262,451**	275,948	248,370
Changes in non-cash operating items	**19**	**44,010**	42,947	(31,379)
Cash flow from continuing operations		**306,461**	318,895	216,991
Investing activities				
Business acquisitions	**20**	**(102,896)**	(206,891)	(5,260)
Business disposals	**20**	**1,709**	–	7,245
Acquisitions of property, plant and equipment		**(155,419)**	(92,917)	(141,325)
Disposals of property, plant and equipment		**9,268**	4,287	2,488
Other		**(10,556)**	(11,923)	(11,469)
		(257,894)	(307,444)	(148,321)

Consolidated Statements of Cash Flows (continued)

for the years ended October 31

(in thousands of dollars)	Notes	2005	2004	2003
Financing activities				
Increase in long-term debt		**$ 59,482**	$ 77,118	$ 192,169
Reimbursement of long-term debt		**(12,509)**	(31,604)	(30,368)
Reimbursement of revolving term credit facility		**–**	–	(139,386)
Settlement of a financial instrument		**–**	–	(12,390)
Dividends on shares		**(18,734)**	(15,096)	(12,415)
Redemption of shares		**–**	–	(2,464)
Issuance of shares	**17**	**5,022**	1,747	1,051
Other		**(825)**	(1,042)	(971)
		32,436	31,123	(4,774)
Effect of exchange rate changes on foreign cash and cash equivalents		**1,504**	620	2,504
Cash and cash equivalents provided by continuing operations		**82,507**	43,194	66,400
Cash and cash equivalents provided by discontinued operations	**7**	**–**	6,993	462
Increase in cash and cash equivalents		**82,507**	50,187	66,862
Cash and cash equivalents, beginning of year		**139,503**	89,316	22,454
Cash and cash equivalents, end of year		**$222,010**	$139,503	$ 89,316
Cash and cash equivalents are comprised of				
Cash and temporary investments		**$222,010**	$139,855	$ 89,316
Bank overdraft		**–**	(352)	–
Net cash and cash equivalents		**$222,010**	$139,503	$ 89,316

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 purchase 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 consolidated financial statements include amounts based on management's estimates and judgements, considering the materiality of these amounts. Actual results could differ from the estimates. The most significant areas requiring the use of management estimates relate to: valuation of goodwill and intangible assets, accounting for employee future benefits and accounting for income taxes.

c) Revenue recognition

Information Products Printing and Marketing Products Printing sector revenues are recognized when products are shipped or delivered in accordance with the customer contract or when services are rendered and the ability to collect is reasonably assured. Most sales are made according to customer specifications; consequently, the Corporation does not have significant finished goods in inventory.

Media sector revenues are recognized as follows:

Advertising revenues:

Advertising revenues are recorded at the billing date, which corresponds to the publication date in the case of a daily or weekly publication, and the date of issue in the case of a monthly publication.

Subscription revenues:

Subscription revenues are recorded on an accrual basis rather than when subscriptions are received. These revenues are therefore recorded in deferred subscription revenues and subsequently transferred to income based on the subscription term.

Distribution revenues:

Door-to-door distribution revenues are recorded at the time of billing, which corresponds to the delivery date of the advertising material.

Newsstand revenues:

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

d) 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 amounts 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. Future income tax assets are recognized only if management believes it is more likely than not that they will be realized.

1. Significant accounting policies (continued)

e) Tax credits

The Corporation benefits from income tax credits related to operating costs and property, plant and equipment, depending on the jurisdiction where they are expended. These credits are accounted for either as a reduction of operating costs or property, plant and equipment.

f) Cash and cash equivalents

Cash and cash equivalents include cash, bank overdraft and investments with original maturities of less than three months. Cash and cash equivalents are presented at cost, which approximates their market value.

g) Transfer of receivables

The Corporation's receivables securitization program complies with sale of assets criteria and, consequently, is recorded off balance sheet.

h) Inventories

Raw materials are valued at the lower of cost and replacement value and work in progress and finished goods are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method.

i) 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	5 – 15 years
Other equipment	3 – 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.

j) Goodwill

Goodwill represents the excess of acquisition cost over fair value of net assets for acquired businesses. Goodwill has an indefinite useful life and is not amortized, but it is tested annually for impairment.

1. Significant accounting policies (continued)

k) Intangible assets

Amortizable intangible assets consist of printing contracts, customer relationships and non-compete agreements. These assets are amortized on a straight-line basis over the printing contract terms, the customer relationships or the non-compete agreement terms, which vary from 5 to 15 years.

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

l) Deferred charges

Deferred charges are stated at cost less accumulated amortization. These charges are amortized on a straight-line basis over 2 to 10 year periods.

m) Employee future benefits

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 13 to 18 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 market value is used.

n) Share unit plan

Deferred share units ("DSU") and restricted share units ("RSU") are recorded when granted and are remeasured at fair market value at each reporting period, until settlement in the case of DSUs or until the vesting date in the case of RSUs, using the trading price of the Corporation's Class A Subordinate Voting Shares. Fair market value variations are accounted for as compensation expense with a corresponding credit to "Other liabilities".

o) Financial instruments

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

1. Significant accounting policies (continued)

o) Financial instruments (continued)

Hedging relationships :

The Corporation maintains proper documentation concerning its risk management objective and strategy 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.

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, deferred gains or losses on such instruments are deferred and charged to income in the same period as for the corresponding gains or losses for the hedged items, and gains and losses subsequently realized are charged directly to income. If the hedged item ceases to exist due to its maturity, expiry, cancellation or exercise before the hedging instrument expires, deferred gains or losses are charged to income.

2. Changes in accounting policies

a) Asset retirement obligations

In 2003, the CICA issued Section 3110 of the CICA Handbook, Asset Retirement Obligations, which applies to fiscal years beginning on or after January 1, 2004. On November 1, 2004, the Corporation adopted these recommendations retroactively with restatement of prior periods. In accordance with these recommendations, a liability must be recorded at fair value in the period in which a legal obligation associated to the retirement of an asset is incurred. 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 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.

Asset retirement obligations in connection with the adoption of Section 3110 were linked to removal obligations on certain buildings. The adoption of Section 3110 has decreased the opening retained earnings for fiscal 2005, 2004 and 2003 by $0.4 million and increased property, plant and equipment, future income tax assets and other liabilities as at November 1, 2004 and 2003 by $0.5 million, $0.2 million and $1.1 million, respectively. The impact on the consolidated statements of income for fiscal 2005, 2004 and 2003 was negligible.

b) Consolidation of variable interest entities

In 2003, the CICA issued Accounting Guideline 15 (AcG-15), Consolidation of Variable Interest Entities, which applies to fiscal years and interim periods beginning on or after November 1, 2004 and provides guidance on the application of the standards set out in CICA Handbook Section 1590, Subsidiaries, for certain entities defined as variable interest entities ("VIE"s). VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties. AcG-15 requires the consolidation of a VIE by its primary beneficiary, i.e., the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's expected losses.

2. Changes in accounting policies (continued)

b) Consolidation of variable interest entities (continued)

The Corporation completed the analysis of the AcG-15, and consequently, had to consolidate a VIE which was previously considered a joint venture and accounted for using the proportionate consolidation method. This recommendation was adopted retroactively without restatement of prior periods and resulted in a decrease of $2.5 million in the opening retained earnings for fiscal 2005. The impact on the consolidated statement of income for fiscal 2005 was negligible.

c) Impairment of long-lived assets

In 2003, the CICA issued Section 3063 of the CICA Handbook, Impairment of Long-lived Assets, applicable prospectively for fiscal years beginning on or after April 1, 2003. In accordance with these new recommendations, an impairment must be recorded when the carrying amount of a long-lived asset is no longer recoverable and exceeds its fair market value. The fair market value is based on the market price in effect at the time, if available, or on a discounted future cash flows approach. A long-lived asset is defined as property, plant and equipment, an intangible asset with a finite useful life, deferred pre-operating costs or a long-term prepaid asset. Impairments of $2.8 million and $6.8 million, as described in Note 3, were charged to income for fiscal 2005 and 2004, respectively.

d) Stock-based compensation and other stock-based payments

In 2003, the CICA modified Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, which applies to fiscal years beginning on or after January 1, 2004. In accordance with these recommendations, the fair value method for all grants to employees must be used to record the stock-based compensation cost, eliminating the alternative of disclosing proforma information instead of a charge to income. Effective November 1, 2003, the Corporation adopted by anticipation these recommendations retroactively for all options granted since November 1, 2002, without restatement of fiscal 2003. The compensation cost for fiscal 2003 totalling $0.5 million ($0.00 per share) was accounted for as a reduction of the opening balance of retained earnings for fiscal 2004 and as an increase to contributed surplus of shareholders' equity. Compensation costs of $1.6 million ($0.02 per share) and $1.2 million ($0.01 per share) were charged to income and as an increase to contributed surplus of shareholders' equity for fiscal 2005 and 2004, respectively.

e) Foreign currency translation

As of November 1, 2002, the Corporation implemented the changes to Section 1650 of the CICA Handbook. According to these recommendations, gains or losses on long-term monetary items denominated in foreign currency can no longer be deferred and amortized over the life of the related items. All unrealized gains and losses on monetary items must be included in the calculation of net income for the period. This change has been applied retroactively with restatement of prior years. Opening retained earnings for fiscal year 2003 were reduced by an amount of $1.6 million net of income taxes of $0.8 million, as a result of this change.

Operating foreign subsidiaries, with the exception of sales offices, 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, after taking into account related hedging transactions, are reported under a separate heading of shareholders' equity and recognized in income only when a reduction of the investment in these foreign subsidiaries has been realized. Foreign sales offices (considered as integrated foreign operations) and foreign currency operations are converted using the temporal method and the foreign exchange gains or losses are recognized in income.

(in thousands of dollars, except per share data)

3. Impairment of assets and restructuring costs

The following table summarizes the impairment of assets and restructuring costs:

	Charged to income		Paid	
	2005	2004	**2005**	2004
Mexico operations [a]				
Asset impairment	**$1,200**	$ –	**$ n/a**	$ n/a
Book printing operations [b]				
Asset impairment	**1,599**	–	**n/a**	n/a
Workforce reduction costs	**1,255**	–	**485**	–
Transfer of printing equipment and other costs	**1,105**	–	**1,105**	–
Manufacturing strategy [c]				
Asset impairment	**–**	6,795	**n/a**	n/a
Workforce reduction costs	**–**	663	**295**	–
Winnipeg printing operations [d]				
Workforce reduction costs (reversal)	**(475)**	2,700	**2,077**	–
Transfer of printing equipment and other costs	**1,029**	–	**842**	–
	$5,713	$10,158	**$4,804**	$ –

a) During the second quarter of 2005, the Corporation reviewed its manufacturing strategy for the Mexico operations in the Information Products Printing sector. Certain equipment that is no longer necessary in the ongoing operations of the Corporation was identified and an impairment was recorded.

b) On April 5, 2005, the Corporation announced the consolidation of certain book printing operations in the Information Products Printing sector, which will result in an impairment of assets and total restructuring costs of $5.4 million (initially estimated at $6.1 million as explained below). Certain buildings and equipment that are no longer necessary in the ongoing operations of the Corporation were identified as part of this consolidation and an impairment of $2.3 million was charged to income during the second quarter of 2005. In addition, total restructuring costs expected over the twelve-month period following the announcement are $3.8 million, of which $1.2 million are for workforce reductions and $2.6 million for the transfer of printing equipment and other costs.

During the fourth quarter of 2005, the Corporation sold certain real estate assets at an amount superior to what was initially estimated. Consequently, $0.7 million of the total $2.3 million impairment charge was reversed resulting in a net impairment charge of $1.6 million for the year ended October 31, 2005. Therefore, the total charge for impairment of assets and restructuring costs is expected to be $5.4 million rather than the amount initially estimated of $6.1 million.

(in thousands of dollars, except per share data)

3. Impairment of assets and restructuring costs (continued)

c) On November 16, 2004, the Corporation announced major investment projects to purchase equipment in the Information Products Printing and Marketing Products Printing sectors. As part of the review of the manufacturing strategy, which resulted in these investment projects, some equipment that is no longer necessary in the ongoing operations of the Corporation was identified. The resulting expense charged to income in 2004 was $7.5 million, of which $4.9 million and $1.9 million represent asset impairment in the Information Products Printing and Marketing Products Printing sectors, respectively, and $0.3 million and $0.4 million represent workforce reduction costs in the Information Products Printing and Marketing Products Printing sectors, respectively.

d) On August 19, 2004, the Corporation announced the consolidation of its Winnipeg retail printing operations in the Marketing Products Printing sector. Total restructuring costs expected over the period of twelve months following the announcement were $4 million, of which $2.7 million were for workforce reductions and $1.3 million for the transfer of printing equipment and other costs.

This consolidation is now complete and, during the fourth quarter of 2005, the Corporation reversed $0.5 million of the total $2.7 million initially accrued for workforce reduction costs. In addition, the actual expense for the transfer of printing equipment and other costs amounted to $1.0 million instead of the $1.3 million initially estimated.

4. Write-down of goodwill

Each year, the Corporation completes an impairment test on goodwill by estimating the operating income and future cash flows. Due to competitive market conditions in Mexico, the operating income and cash flows of the Corporation's Mexican operations were lower than forecasted for 2004. Consequently, forecasted future results for purposes of the annual impairment test were revised after October 31, 2004. The revised forecasts were insufficient to justify the recorded goodwill. An impairment of $13 million, representing the totality of the goodwill related to the Mexican reporting unit in the Information Products Printing sector, was thus charged to income in 2004.

5. Financial expenses

	2005	2004	2003
Financial expenses on long-term debt	**$ 28,828**	$ 31,152	$ 25,949
Other income	**(1,189)**	(1,052)	(1,567)
Exchange (gain) loss	**(1,053)**	(1,025)	1,586
	$ 26,586	$ 29,075	$ 25,968

(in thousands of dollars, except per share data)

6. Income taxes

	2005	2004	2003
Statutory tax rate	**32.5%**	33.5%	35.4%
Manufacturing and processing profits tax credits	**(0.4)**	(1.2)	(2.6)
Other	**(0.7)**	(1.7)	(2.0)
Effective tax rate before write-down of goodwill	**31.4**	30.6	30.8
Write-down of goodwill	**–**	2.1	–
Effective tax rate	**31.4%**	32.7%	30.8%

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

	2005	2004	2003
Current	**$72,381**	$64,358	$53,952
Future	**(8,285)**	(253)	10,154
	$64,096	$64,105	$64,106

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

	2005	2004 (restated)
Losses carry-forward	**$ 39,757**	$ 27,391
Property, plant and equipment, net of tax credits	**(18,648)**	(37,932)
Other assets	**(42,234)**	(35,523)
Total future income taxes	**$(21,125)**	$ (46,064)
Future income taxes include the following:		
Future income tax assets – long-term	**$ 47,223**	$ 27,391
Future income tax liabilities – long-term	**(68,348)**	(73,455)
Total future income taxes	**$(21,125)**	$ (46,064)

The Corporation has unrecorded tax losses of $30,017 which can be applied against future taxable income through 2025. The Corporation also has unrecorded capital losses of $14,042, which can be carried forward indefinitely.

(in thousands of dollars, except per share data)

7. Discontinued operations

On October 8, 2004, the Corporation announced that an unfavourable ruling was rendered by a California court in the suit brought by Softbank Content Services against 9112-0691 Québec inc. (previously named MPO Canada inc.), a holding company owned equally by Transcontinental Inc. and 3093-8195 Québec inc., a subsidiary of MPO S.A. The suit involved a payment guarantee awarded to Softbank by MPO Canada inc. in 1999 on behalf of Americ Disc Inc., its then wholly-owned subsidiary. Despite the fact that Transcontinental considers this ruling to be unfounded and has filed an appeal, the Corporation recorded a total amount of $5.9 million in its 2004 results, representing the amount of the unfavourable ruling, net of adjustments related to the discontinued operations recorded in 2001 when the Corporation adopted a formal plan of disposal in order to divest of its joint venture Americ Disc Inc. No tax benefit has been recorded against this charge.

On July 13, 2004, the Corporation sold its Winnipeg publishing and distribution assets in the Media sector. These discontinued operations were recorded in accordance with the recommendations of Section 3475, Disposal of Long-lived Assets and Discontinued Operations.

Loss from discontinued operations is detailed as follows:

	2005	2004	2003
Revenues	**$ –**	$ 5,407	$8,482
Operating loss from discontinued operations	**–**	(21)	(12)
Net charge related to an unfavourable ruling	**–**	(5,926)	–
Gain on disposal, net of related income taxes of $1,519 [(1)]	**–**	3,352	–
Loss from discontinued operations	**$ –**	$(2,595)	$ (12)

Cash and cash equivalents provided by (used in) discontinued operations is as follows:

	2005	2004	2003
Operating activities	**$ –**	$ (107)	$ 462
Proceeds from disposal [(1)]	**–**	7,100	–
Cash and cash equivalents provided by discontinued operations	**$ –**	$ 6,993	$ 462

[(1)] The net assets disposed of included goodwill of $1.4 million as well as working capital and property, plant and equipment totalling $0.8 million.

(in thousands of dollars, except per share data)

8. Accounts receivable

On February 27, 2004, the Corporation modified its accounts receivable securitization agreement, put in place on August 17, 2001 for a five-year period, thereby increasing the maximum net consideration from $250 million to $300 million, including a maximum of US$100 million. On July 27, 2005, the Corporation obtained a three-year extension of its securitization program under terms similar to the existing agreement, which will now mature in August 2009. Under this agreement, the Corporation sells, on an ongoing basis, certain of its accounts receivable to a trust, which has sold its beneficial interests to third-party investors. The Corporation has retained servicing responsibilities, resulting in a 0.5% subordinated interest with respect to the transferred receivables. The Corporation also has a retained interest in the trust, including a cash reserve and rights to future excess cash flows generated by the trust. The investors and the trust have no recourse on the Corporation's other assets for failure of debtors to pay when due, other than the Corporation's retained interest and an amount, not to exceed 3.5% of the net consideration received, related to the balances of certain significant customers in excess of the normal concentration limit provided for under the program.

As at October 31, 2005, $306 million of accounts receivable ($282 million as at October 31, 2004) had been sold under the accounts receivable securitization program, of which $42 million ($37 million as at October 31, 2004) were kept by the Corporation as retained interest, resulting in a net consideration of $264 million, including C$153 million and US$94 million ($245 million as at October 31, 2004), which represents the maximum net consideration the Corporation could have obtained on that date in accordance with the program terms and conditions. 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 an aggregate discount on sales of receivables of $6.3 million for fiscal 2005 ($5.6 million in 2004 and $7.0 million in 2003), which is presented in "Other expenses" in the consolidated statements of income.

The key assumptions used in measuring the fair value of the retained interest at the date of sale resulting from securitizations completed during the years ended October 31 are as follows:

	2005	2004	2003
Expected loss and dilution rates	**0.2%**	0.1%	0.1%
Expected weighted average collection period after securitization (days)	**12**	10	6

As at October 31, 2005, the effect on the fair market value of the retained interest of a 10% change in the expected rates of loss and dilution on receivables would be immaterial. These sensitivities are hypothetical and should be used with caution. The effect of a variation in a particular assumption on the retained interest has been calculated without changing any other assumptions; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

During 2005, 2004 and 2003, there were no defaulted receivables repurchased or any deemed collections or defaulted receivables or dilution amounts compensated for by the Corporation.

for the years ended October 31
(in thousands of dollars, except per share data)

9. Inventories

	2005	2004
Raw materials	**$ 58,194**	$ 52,528
Work in progress and finished goods	**30,382**	35,448
	$ 88,576	$ 87,976

10. Property, plant and equipment

2005	Cost	Accumulated amortization	Net book value
Land	**$ 26,657**	**$ –**	**$ 26,657**
Buildings	**177,504**	**59,970**	**117,534**
Machinery and equipment	**1,063,612**	**669,614**	**393,998**
Machinery and equipment under capital leases	**13,301**	**6,028**	**7,273**
Other equipment and leasehold improvements	**197,640**	**126,745**	**70,895**
Assets under construction and deposits on equipment	**82,754**	**–**	**82,754**
	1,561,468	**862,357**	**699,111**
Property, plant and equipment held for sale [1]	**8,103**	**2,197**	**5,906**
	$ 1,569,571	**$ 864,554**	**$ 705,017**
2004			(restated)
Land	$ 26,564	$ –	$ 26,564
Buildings	183,511	54,577	128,934
Machinery and equipment	1,059,725	625,194	434,531
Machinery and equipment under capital leases	13,119	3,079	10,040
Other equipment and leasehold improvements	183,580	117,887	65,693
	$ 1,466,499	$ 800,737	$ 665,762

[1] In 2005, the Corporation decided to sell certain real estate assets that are no longer necessary in the ongoing operations. These fixed assets are no longer amortized and are presented at the lower of their carrying amount and their net realizable value. A negligible amount was recorded as a loss on disposal. Subsequent to October 31, 2005, certain real estate assets held for sale and included in current assets were sold for a consideration equivalent to their carrying amount of $3,911.

Amortization of property, plant and equipment amounted to $111,460 in 2005 ($105,418 in 2004; $92,331 in 2003). Capitalized interest amounted to $723 in 2005 (nil in 2004; $2,436 in 2003).

(in thousands of dollars, except per share data)

11. Goodwill

The changes in book value of goodwill are as follows:

2005	Information Products Printing	Marketing Products Printing	Media	Other activities and unallocated amounts	Consolidated
Balance, beginning of year	**$130,256**	**$ 197,333**	**$ 420,806**	**$ 863**	**$ 749,258**
Acquisitions (Note 20)	**–**	**76,904**	**–**	**–**	**76,904**
Disposals	**–**	**(561)**	**–**	**–**	**(561)**
Foreign currency translation adjustments	**–**	**(8,371)**	**–**	**(4)**	**(8,375)**
Other	**(426)**	**(1,410)**	**(778)**	**39**	**(2,575)**
Balance, end of year	**$129,830**	**$ 263,895**	**$ 420,028**	**$ 898**	**$814,651**
2004					
Balance, beginning of year	$ 124,575	$ 105,182	$ 384,305	$ 892	$ 614,954
Acquisitions (Note 20)	14,202	105,169	37,775	–	157,146
Disposals (Note 7)	–	–	(1,381)	–	(1,381)
Write-downs (Note 4)	(13,058)	–	–	–	(13,058)
Foreign currency translation adjustments	(1,181)	(6,978)	–	(9)	(8,168)
Inter-segment transfers	6,494	(6,474)	–	(20)	–
Other	(776)	434	107	–	(235)
Balance, end of year	$ 130,256	$ 197,333	$ 420,806	$ 863	$ 749,258

(in thousands of dollars, except per share data)

12. Intangible assets

2005	Cost	Accumulated amortization	Net book value
Amortizable intangible assets			
Printing contracts	**$ 17,144**	**$4,391**	**$ 12,753**
Customer relationships and non-compete agreements	**15,202**	**2,943**	**12,259**
	32,346	**7,334**	**25,012**
Non-amortizable intangible assets			
Trade names and circulation	**124,723**	**–**	**124,723**
	$ 157,069	**$ 7,334**	**$ 149,735**
2004			
Amortizable intangible assets			
Printing contracts	$ 17,144	$ 3,125	$ 14,019
Customer relationships and non-compete agreements	7,744	1,163	6,581
	24,888	4,288	20,600
Non-amortizable intangible assets			
Trade names and circulation	124,723	–	124,723
	$ 149,611	$ 4,288	$ 145,323

Amortization of intangible assets amounted to $3,046 in 2005 ($2,419 in 2004; $1,252 in 2003).

(in thousands of dollars, except per share data)

13. Other assets

	2005	2004
Investments	**$ 914**	$ 898
Accrued pension benefit asset	**2,847**	3,561
Deferred charges, net of accumulated amortization	**30,814**	15,109
Deferred financial expenses, net of accumulated amortization	**2,958**	3,759
Other	**2,762**	2,838
	$40,295	$26,165

Deferred charges include incentives, start-up costs and long-term technology project costs.

Amortization of other assets amounted to $10,153 in 2005 ($8,951 in 2004; $9,255 in 2003).

14. Operating lines of credit

Lenders of the Corporation are unsecured and rank equally. In addition to the term revolving credit facility disclosed in Note 15, the Corporation had authorized operating lines of credit that amounted to C$5 million and US$5 million of which no amount was drawn as at October 31, 2005. The lines of credit bear interest at the bank prime rate. The authorized operating lines of credit of a Mexican subsidiary of the Corporation amounted to 50 million Mexican pesos ($5.3 million), and, as at October 31, 2005, no amount was drawn. The lines of credit generally bear interest at the short-term bank rate in effect in Mexico. These lines of credit are reviewed periodically and do not require commitment fees. Also, they are renewable annually and are not subject to any restrictive clauses.

(in thousands of dollars, except per share data)

15. Long-term debt

	Maturity	**2005**	2004
Unsecured Senior Notes			
Series 2002 A – Tranche 1 – 5.62% (US$75,000) [(1)]	2012	**$ 88,343**	$ 91,515
Series 2002 A – Tranche 2 – 5.73% (US$50,000) [(1)]	2014	**58,895**	61,013
Series 2004 A – LIBOR + 0.70% (US$37,500)	2012	**44,171**	45,675
Series 2004 B – LIBOR + 0.70% (US$37,500)	2012	**44,171**	–
Series 2004 C – LIBOR + 0.80% (US$15,000)	2014	**17,669**	18,270
Series 2004 D – LIBOR + 0.90% (US$10,000)	2016	**11,779**	–
Unsecured Senior Debentures			
Series C – 9.50%	2008	**13,640**	18,185
Series I – 6.05%	2009	**100,000**	100,000
Other – 6.20%	2007	**100,000**	100,000
Loan secured by property, plant and equipment having a net book value of $1,800, at a variable rate – prime rate + 2.5%	2007	**873**	1,284
Obligations under capital leases secured by property, plant and equipment having a net book value of $8,485, at fixed rates of 3.3% and 12.7%	2006-2014	**8,690**	12,041
Other loans at fixed rates of 0.0% to 8.0%	2007-2014	**6,342**	8,340
Total long-term debt		**494,573**	456,323
Current portion		**8,449**	11,628
		$ 486,124	$ 444,695

(1) The Corporation had fixed the interest rate on a US$50 million portion for a 10-year term in advance by using a derivative financial instrument, which was settled in 2003. The combined effective rate for the two tranches is 5.65% per annum.

On October 27, 2004, the Corporation entered into an agreement with a group of investors, which provided for the issuance of Unsecured Senior Notes amounting to US$100 million. The issue was divided into four series all bearing interest at floating rates based on London InterBank Offered Rate ("LIBOR"). Series 2004 A Notes (US$37.5 million, LIBOR + 0.70%, maturing March 1, 2012) and Series 2004 C Notes (US$15 million, LIBOR + 0.80%, maturing March 1, 2014) were issued on October 27, 2004. Series 2004 B Notes (US$37.5 million, LIBOR + 0.70%, maturing March 1, 2012) and Series 2004 D Notes (US$10 million, LIBOR + 0.90%, maturing March 1, 2016) were issued on March 1, 2005.

The Series 2002 A Unsecured Senior Notes and the Unsecured Senior Debentures, with the exception of the Series C Debenture which has an annual sinking fund of 9.09%, are redeemable at the greater of par value and the discounted value of future cash flows using an interest rate based on U.S. Treasury Securities and Canadian government bonds, respectively, having similar maturities. Series 2004 A, 2004 B, 2004 C and 2004 D Unsecured Senior Notes are redeemable as of the second anniversary of issuance at a premium of 1.0%, 1.0%, 1.5% and 2.0%, respectively. These premiums decrease by 0.5% at each subsequent anniversary until they become nil. Under the Note Purchase Agreement and the Series C Debenture trust indenture, the Corporation must maintain certain financial ratios.

(in thousands of dollars, except per share data)

15. Long-term debt (continued)

As at October 31, 2005, the Corporation had a committed line of credit in the form of a term revolving credit facility, totalling $400 million or the U.S. dollar equivalent (C$305 million and US$70 million in 2004). The applicable interest rate on this revolving term credit facility is at the option of the Corporation and depends on the credit rating assigned by Standard & Poor's Ratings Services. It is currently either, bank prime rate, bankers' acceptance rate + 0.475% or LIBOR + 0.475%. Facility fees of 0.125% are also applicable on the line of credit whether it is drawn or not and utilization fees of 0.10% are applicable if the amount drawn is over 50% of the line of credit. The committed line of credit is extendible on an annual basis and, if not extended, it matures five years after its issuance or the last extension date, as the case may be. It was last extended on September 29, 2005. Under the terms and conditions of the credit agreement, the Corporation must comply with certain restrictive covenants, including the requirement to maintain certain financial ratios. As of October 31, 2005, letters of credit amounting to C$0.5 million and US$9.7 million were drawn on the committed line of credit.

During the years ended October 31, 2005 and 2004, 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:

2006	2007	2008	2009	2010	2011 and thereafter
$ 8,449	$108,374	$7,411	$102,227	$1,546	$266,566

16. Other liabilities

	2005	2004 (restated)
Deferred subscription revenues	**$ 12,314**	$ 12,872
Long-term accrued liabilities	**10,365**	–
Accrued pension benefit liability	**10,945**	7,566
Asset retirement obligations	**1,075**	1,094
	$ 34,699	$21,532

Asset retirement obligations

Asset retirement obligations relate to estimated future costs to remove leasehold improvements brought to leased properties under operating leases. Future obligations will be settled between 2006 and 2018. To determine the initial recorded liability, the future estimated cash flows have been discounted using the Corporation's credit-adjusted risk-free rate of 5.6% on average. The value of undiscounted estimated cash flows as at October 31, 2005 and 2004 is $1,448 and $1,417, respectively.

(in thousands of dollars, except per share data)

16. Other liabilities (continued)

The reconciliation of the Corporation's liability for asset retirement obligations is as follows:

	2005	2004
Balance, beginning of year	**$1,094**	$ 1,012
Liabilities incurred	**129**	32
Accretion expense	**33**	50
Balance, end of year	**1,256**	1,094
Current portion included in accounts payable and accrued liabilities	**181**	–
	$ 1,075	$ 1,094

17. Capital stock

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.

	2005		2004	
	Number of shares	**Amount**	Number of shares	Amount
Issued and paid				
Class A Subordinate Voting Shares	**71,565,227**	**$ 397,319**	71,010,014	$ 391,829
Class B Shares	**17,741,573**	**24,166**	17,821,126	24,274
	89,306,800	**$421,485**	88,831,140	$ 416,103

(in thousands of dollars, except per share data)

17. Capital stock (continued)

Class A Subordinate Voting Shares and Class B Shares
During fiscal years 2005 and 2004, the capital stock of the Corporation changed as follows:

	2005		2004	
	Number of shares	**Amount**	Number of shares	Amount
Class A Subordinate Voting Shares				
Balance, beginning of year	**71,010,014**	**$391,829**	70,567,600	$389,683
Conversion of Class B Shares into Class A Subordinate Voting Shares	**79,553**	**108**	267,390	364
Exercise of stock options	**475,660**	**5,382**	175,024	1,782
Balance, end of year	**71,565,227**	**$ 397,319**	71,010,014	$391,829
Class B Shares				
Balance, beginning of year	**17,821,126**	**$ 24,274**	18,088,516	$ 24,638
Conversion of Class B Shares into Class A Subordinate Voting Shares	**(79,553)**	**(108)**	(267,390)	(364)
Balance, end of year	**17,741,573**	**$ 24,166**	17,821,126	$ 24,274

When officers and senior executives exercise their stock options, the amounts received from them are credited to capital stock. For stock options granted since November 1, 2002, the amount previously accounted for as an increase to contributed surplus, is also transferred to capital stock. For the year ended October 31, 2005, the amount received with respect to exercised options and the amount transferred from contributed surplus were $5 million and $0.4 million, respectively ($1.7 million and $0.1 million in 2004).

(in thousands of dollars, except per share data)

17. Capital stock (continued)

Earnings per share

The table below shows the calculation of basic and diluted earnings per share from continuing operations for the years ended October 31:

	2005	2004	2003
Numerator			
Income from continuing operations	**$138,952**	$131,451	$143,021
Denominator (000's)			
Denominator for basic earnings per share – Weighted average number of shares	**89,141**	88,790	88,667
Dilutive effect of stock options and warrants	**401**	668	680
Denominator for diluted earnings per share – Weighted average number of shares	**89,542**	89,458	89,347
Basic earnings per share from continuing operations	**$ 1.56**	$ 1.48	$ 1.61
Diluted earnings per share from continuing operations	**$ 1.55**	$ 1.47	$ 1.60

A total of 100,000 options were considered to be anti-dilutive in the calculation of the diluted earnings per share for the three-month periods ended October 31, 2005 and 2004 since their exercise price was greater than the average stock price during these periods. No options and no warrants were considered to be anti-dilutive in the calculation of the diluted earnings per share for the three-month periods ended July 31, 2005 and 2004, April 30, 2005 and 2004 and January 31, 2005 and 2004.

No options were considered anti-dilutive in the calculation of the diluted earnings per share for the three-month period ended October 31, 2003. A total of 408,400 options, 448,000 options and 328,600 options were considered anti-dilutive in the calculation of the diluted earnings per share for the three-month periods ended July 31, 2003, April 30, 2003 and January 31, 2003, respectively, since their exercise price was greater than the average stock price during the period.

Warrants

In 2004, 350,000 warrants maturing in 2007 and giving right to acquire Class A Subordinate Voting Shares were granted with an exercise price of $19.91. The fair value of the warrants, which was estimated on the grant date by using the Black-Scholes model, was $2.1 million and was accounted for as an increase to the contributed surplus of shareholders' equity. As at October 31, 2005, no warrants have been exercised.

(in thousands of dollars, except per share data)

18. Stock-based compensation plans

Stock option plan

Since 1999, the Corporation maintains a stock option plan for the benefit of certain of its officers and senior executives. On January 18, 2005, the Corporation modified its stock option plan. The number of Class A Subordinate Voting Shares authorized for issuance was increased to 6,078,562 (3,078,562 in 2004). As at October 31, 2005, the balance of shares that could be issued under this plan was 5,219,646. Under the plan, each option entitles its holder to receive one share upon exercise and the exercise price is determined using the weighted average closing price of the shares for the five days immediately preceding the grant of the option. The options granted before March 30, 2005 start to vest after one year at a rate of 20% per year and must be exercised no later than 10 years after the grant date. The 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.

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

	2005		2004	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of year	**1,995,528**	**$14.81**	1,745,804	$12.17
Granted	**404,800**	**22.41**	483,800	22.43
Exercised	**(475,660)**	**10.56**	(175,024)	9.98
Cancelled	**(185,300)**	**19.69**	(59,052)	13.53
Balance, end of year	**1,739,368**	**$17.22**	1,995,528	$14.81
Options exercisable as at October 31	**579,548**	**$13.47**	591,830	$10.78

As at October 31, 2005, the balance of options available for grant under the plan was 3,480,278.

(in thousands of dollars, except per share data)

18. Stock-based compensation plans (continued)

The table below summarizes the attributes of the outstanding options as at October 31:

		Options outstanding			Options exercisable	
	Exercise price range	Number of options	Weighted average remaining life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
2005						
	$ 8.35 – 11.13	**638,208**	**5.4**	**$ 9.82**	**374,948**	**$ 9.57**
	$17.80 – 24.01	**1,101,160**	**8.2**	**21.52**	**204,600**	**20.63**
		1,739,368	**7.2**	**$ 17.22**	**579,548**	**$13.47**
2004						
	$ 8.35 – 11.13	1,095,928	6.1	$ 9.67	508,510	$ 9.35
	$ 17.80 – 24.01	899,600	8.7	21.08	83,320	19.53
		1,995,528	7.3	$ 14.81	591,830	$ 10.78

Fair value of options granted throughout the year was estimated on the grant date by using the Black-Scholes model and the following assumptions:

	2005	2004
Dividend rate	**0.8%**	0.7 – 0.8%
Expected volatility	**30.0%**	30.0%
Risk-free interest rate	**3.92%**	4.4 – 4.5%
Expected life	**7 years**	7 years

For the years ended October 31, 2005 and 2004, the weighted average fair value of options granted is $9.11 and $9.41, respectively.

(in thousands of dollars, except per share data)

18. Stock-based compensation plans (continued)

Share unit plan

On January 18, 2005, the Corporation established a share unit plan for certain senior executives. Under this plan, a portion of their annual incentive compensation is received in the form of units. Currently, the President and Chief Executive Officer is the only participant in this plan. The share units are granted under the form of deferred share units ("DSU") or restricted share units ("RSU"). The number of units that can vest is usually dependant on the Corporation's relative financial performance versus the median of the comparator group of companies over a three-year period. A DSU is paid to an executive upon termination of employment and a RSU may be paid on or after the vesting date, which is usually three years after the grant date. 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. As at October 31, 2005, 17,348 DSUs were outstanding. The impact on the consolidated statement of income for the year ended October 31, 2005, was negligible and there was no amount paid as at October 31, 2005.

19. Cash flows

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

	2005	2004	2003
Accounts receivable	**$ (597)**	$ 8,347	$ (566)
Income taxes receivable	**3,069**	10,609	(14,194)
Inventories	**333**	(7,703)	928
Prepaid expenses and other current assets	**26**	3,724	(698)
Accounts payable and accrued liabilities	**(2,163)**	(9,224)	(10,342)
Income taxes payable	**41,810**	40,012	(6,864)
Deferred subscription revenues and deposits	**1,532**	(2,818)	357
	$ 44,010	$ 42,947	$(31,379)
Additional Information			
Interest paid	**$ 25,496**	$ 27,435	$ 26,571
Income taxes paid	**23,215**	9,191	83,554

(in thousands of dollars, except per share data)

20. Business acquisitions and disposals

2005

On February 14, 2005, the Corporation completed the acquisition of certain assets of JDM, Inc., a direct marketing company operating in the United States, in the Marketing Products Printing sector.

This transaction is summarized as follows:

Assets acquired	
Working capital	**$ 2,063**
Property, plant and equipment	**23,850**
Goodwill	**76,904**
Amortizable intangible assets	**8,014**
Future income tax assets	**1,531**
	112,362
Liabilities assumed	
Future income tax liabilities	**124**
	$112,238
Consideration	
Net cash paid	**$102,896**
Balance of sale payable of which $5 million bears interest at 5% (maturing within one year)	**5,701**
Short-term liabilities	**3,641**
	$112,238

On April 15, 2005, the Corporation sold its 51% interest in Infinet Communications Inc., in the Marketing Products Printing sector, for a net consideration of $1.7 million.

(in thousands of dollars, except per share data)

20. Business acquisitions and disposals (continued)

2004

All acquisitions were for 100% of the shares or assets of the acquired businesses. During fiscal 2004, the Corporation made the following acquisitions:

Operating sector	Acquisition	Date of acquisition
Information Products Printing	The shares of Optipress Inc. ("Optipress"), (print activities in the Atlantic Provinces)	January 15, 2004
Marketing Products Printing	Assets of CC3 Acquisition LLC and Pacific Communications Concepts LLC ("CC3"), in Pennsylvania, California and Texas	December 17, 2003
Media	The shares of Optipress, (weeklies and bi-weeklies in the Atlantic Provinces)	January 15, 2004
	Assets of Avid Media Inc., in Ontario	June 23, 2004

(in thousands of dollars, except per share data)

20. Business acquisitions and disposals (continued)

These transactions are summarized as follows:

	CC3	Optipress	Other	Total
Assets acquired				
Working capital	$ 4,537	$ 8,398	$ (7,713)	$ 5,222
Property, plant and equipment	32,387	24,712	2,701	59,800
Goodwill	104,052	31,795	21,299	157,146
Amortizable intangible assets	7,429	170	244	7,843
Non-amortizable intangible assets	–	4,829	6,112	10,941
Future income tax assets	3,753	10,688	1,054	15,495
	152,158	80,592	23,697	256,447
Liabilities assumed				
Obligations under capital leases	8,632	–	–	8,632
Long-term debt	–	15,946	–	15,946
	8,632	15,946	–	24,578
	$143,526	$64,646	$23,697	$231,869
Consideration				
Net cash paid	$130,078	$56,000	$20,813	$206,891
Warrants	2,101	–	–	2,101
Short-term liabilities	11,347	8,646	2,884	22,877
	$143,526	$64,646	$23,697	$231,869

(in thousands of dollars, except per share data)

20. Business acquisitions and disposals (continued)

2003

During fiscal 2003, the Corporation sold the following businesses: Sodema Inc. (Marketing Products Printing sector) for a total consideration of $2.3 million and the newspaper *Northern Light* in Bathurst, New Brunswick, as well as a distribution network (Media sector) for total considerations of $3.7 million and $1.2 million, respectively.

During the year ended October 31, 2003, the Corporation had acquired the following for a total cash consideration of $4.8 million:

Operating sector	Acquisition	Date of acquisition
Media	Daily newspaper *Amherst Daily News*, weekly newspapers *Citizen* and *Sackville Tribune-Post*, and related publications of Cumberland Publishing, in Nova Scotia and New Brunswick	June 5, 2003

21. Employee future benefits

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 employee's 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.

The composition of the pension plan assets is as follows:

	2005	2004
Canadian and foreign stocks	**65%**	61%
Government and corporate bonds	**33**	37
Other	**2**	2
	100%	100%

Accrued benefit obligation, fair value of plan assets and plan assets 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, 2004 and will be submitted to the appropriate authorities after year-end. The next required valuation will be as of December 31, 2007, at the latest.

(in thousands of dollars, except per share data)

21. Employee future benefits (continued)

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:

	2005	2004
Accrued benefit obligation		
Balance, beginning of year	**$191,831**	$ 157,053
Change in exchange rate	**(217)**	(489)
Current service cost	**16,591**	13,305
Interest on accrued benefit obligation	**13,561**	11,477
Actuarial losses	**51,684**	7,830
Benefits paid	**(8,057)**	(6,507)
Plan amendments	–	287
Employee contributions	**10,283**	8,875
Accrued benefit obligation, end of year	**$ 275,676**	$191,831
Fair value of plan assets		
Balance, beginning of year	**$169,027**	$ 137,342
Change in exchange rate	**(121)**	(250)
Actual return on plan assets	**27,600**	20,011
Benefits paid	**(8,057)**	(6,507)
Employer contributions	**13,826**	9,556
Employee contributions	**10,283**	8,875
Fair value of plan assets, end of year	**$212,558**	$169,027
Plan deficit	**$ (63,118)**	$ (22,804)
Unamortized net actuarial losses	**47,522**	10,920
Unamortized past service costs	**4,152**	4,416
Unamortized transitional obligation	**3,346**	3,463
Accrued benefit liability	**$ (8,098)**	$ (4,005)

(in thousands of dollars, except per share data)

21. Employee future benefits (continued)

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

	2005	2004
Other assets	**$ 2,847**	$ 3,561
Other liabilities	**(10,945)**	(7,566)
	$ (8,098)	$ (4,005)

Accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	2005	2004
Accrued benefit obligation	**$ 263,594**	$167,332
Fair value of plan assets	**199,109**	141,121
Funded status — plan deficit	**$ (64,485)**	$(26,211)

The major assumptions used are as follows:

	2005	2004
Accrued benefit obligation as at October 31		
Discount rate, at year-end	**5.5 %**	6.5%
Rate of compensation increase	**4.0 – 5.0 %**	4.0 – 5.0%
Benefit costs for years ended October 31		
Discount rate, at previous year end	**6.5 %**	6.75%
Expected long-term rate of return on plan assets	**7.25 %**	7.25%
Rate of compensation increase	**4.0 – 5.0 %**	4.0 – 5.0%

(in thousands of dollars, except per share data)

21. Employee future benefits (continued)

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

	2005	2004	2003
Current service cost	**$ 16,591**	$ 13,305	$ 10,626
Interest on accrued benefit obligation	**13,561**	11,477	9,392
Actual return on plan assets	**(27,600)**	(20,011)	(15,370)
Actuarial losses on accrued benefit obligations	**51,684**	7,830	11,630
Plan amendments	**–**	287	–
Costs of the defined benefit pension plans before adjustments to recognize the long-term nature of employee future benefit costs	**54,236**	12,888	16,278
Adjustments to recognize the long-term nature of employee future benefit costs:			
Difference between expected return and actual return on plan assets for the year	**14,766**	9,948	7,432
Difference between actuarial loss recognized for the year and actual actuarial loss on accrued benefit obligation for the year	**(51,450)**	(7,554)	(11,537)
Difference between amortization of past service costs for the year and actual plan amendments effective for the year	**264**	(23)	235
Amortization of the transitional obligation	**117**	118	118
Defined benefit costs recognized	**$ 17,933**	$ 15,377	$ 12,526

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

	2005	2004	2003
Employer contributions	**$ 1,551**	$ 1,203	$ –

(in thousands of dollars, except per share data)

22. Commitments, guarantees and contingent liabilities

Commitments

Pursuant to various contracts and obligations, mainly for operating leases, the Corporation is committed to future minimum payments of $123,462. Minimum payments required over the following years for these commitments are as follows:

2006	2007	2008	2009	2010	2011 and thereafter
$26,445	$23,929	$20,918	$14,880	$10,015	$27,275

The Corporation is further committed to acquire $18,388 of equipment in 2006.

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 2007 and 2010. 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 $1,914. As at October 31, 2005, the Corporation had not recorded any liability associated with these guarantees, since it is not probable that the sub-lessee will default under the agreement.

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. Furthermore, the Corporation provides certain indemnifications to third parties under the terms of its securitization agreement. These indemnifications require the Corporation to make payments to third parties in the event of (i) changes to certain laws and regulations, (ii) any collection shortfalls resulting from negative changes in foreign currency rates, and (iii) any litigation matters relating to the arrangement and/or underlying receivables sold. 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, 2005, 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 occasionally 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, 2005, the Corporation has not recorded any liability associated with these indemnifications.

22. Commitments, guarantees and contingent liabilities (continued)

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, 2005, cannot be determined with certainty, the Corporation believes that their outcome would not likely have a material adverse effect on its financial position and operating results, given the provisions on its books or insurance covering a number of these items.

23. Financial instruments

Credit risk

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

The Corporation is protected against any concentration of credit risk through diversification of its products and clientele. In addition, the Corporation has a credit insurance policy covering most of its major customers. The policy contains the usual clauses and limits the amounts that can be claimed by event and year of coverage. 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. The Corporation is exposed to credit risk arising from 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.

Foreign exchange risk

The Corporation has operations in the United States and Mexico and exports its products to the United States. It is therefore exposed to foreign exchange risks.

As at October 31, 2005, the Corporation had sold US$103 million (US$131 million in 2004) using foreign exchange forward contracts related to its strategy of hedging foreign currency cash flows from its exports to the United States against currency fluctuations. The terms of these forward contracts range from one month to 20 months, with rates varying from 1.1642 to 1.5791. The Corporation was also party to collars totalling US$26 million (US$29 million in 2004). The terms of these collar contracts range from one month to nine months, with floor rates varying from 1.1500 to 1.2000 and the cap rates from 1.2021 to 1.2806.

Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout fiscal 2005.

During the fourth quarter of 2003, the Corporation settled a derivative financial instrument, in which it had entered during the first quarter of 2003, resulting in a cash outflow of $12 million.

(in thousands of dollars, except per share data)

23. Financial instruments (continued)

Interest rate risk

As stated below, the majority of the Corporation's currently outstanding long-term debt is at fixed interest rates. Almost all floating rate debt bears interest at rates based on three-month LIBOR. The Corporation is also exposed to interest rate fluctuations through its securitization program as the discount on the sale of receivables is based on the rate of commercial paper issued by the trust. The latter generally issues its commercial paper on a monthly basis.

		Interest rate	
	Total loans	Fixed	Floating
Long-term debt			
2005	**$494,573**	**$375,674**	**$118,899**
2004	456,323	390,907	65,416

Fair value

The book value of certain financial instruments maturing in the short-term approximates their fair value. These financial instruments include cash, temporary investments, accounts receivable, bank overdraft, accounts payable and accrued liabilities. The table below shows the fair value and the book value of other financial instruments as at October 31, 2005 and 2004. The fair value is determined essentially by discounting cash flows using 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.

	2005		2004	
	Fair value	**Book value**	Fair value	Book value
Long-term debt	**$505,308**	**$494,573**	$ 472,750	$ 456,323
Foreign exchange forward contracts and collars	**16,800**	**2,868**	34,185	3,307

(in thousands of dollars, except per share data)

24. Segmented information

The Corporation operates in the communications industry. The three operating sectors are: Information Products Printing, Marketing Products Printing and Media. The accounting policies used within the sectors are applied in the same manner as for the consolidated financial statements. Sales between sectors of the Corporation are made at fair value. Transactions, other than sales, are made at carrying value.

The corporate office is responsible for financing, development, investor relations and control of the Corporation and offers services in the fields of human resources, information technology, legal affairs, public relations, taxation and insurance and risk management.

Operating sectors	**2005**	2004	2003
Revenues			
Information Products Printing	**$ 742,131**	$ 723,546	$ 663,948
Marketing Products Printing	**1,007,822**	899,454	824,875
Media	**555,293**	524,337	496,871
Other activities and unallocated amounts	**12,663**	6,394	5,042
Inter-segment sales	**(115,905)**	(105,758)	(91,984)
	$2,202,004	$2,047,973	$1,898,752
Operating income before amortization, impairment of assets, restructuring costs and write-down of goodwill			
Information Products Printing	**$ 144,853**	$ 150,401	$ 127,571
Marketing Products Printing	**126,214**	123,790	111,158
Media	**98,450**	96,623	99,592
Other activities and unallocated amounts	**(10,175)**	(4,405)	(2,111)
	$ 359,342	$ 366,409	$ 336,210
Operating income			
Information Products Printing	**$ 94,042**	$ 85,980	$ 88,375
Marketing Products Printing	**69,511**	67,581	67,857
Media	**88,717**	87,463	91,241
Other activities and unallocated amounts	**(15,257)**	(9,591)	(6,811)
	$ 237,013	$ 231,433	$ 240,662

(in thousands of dollars, except per share data)

24. Segmented information (continued)

Operating sectors (continued)	2005	2004	2003
Acquisitions of property, plant and equipment			
Information Products Printing	**$ 79,332**	$ 29,367	$ 76,339
Marketing Products Printing	**61,845**	46,957	46,067
Media	**9,818**	11,940	12,099
Other activities and unallocated amounts	**6,238**	4,653	6,820
	$ 157,233 [1]	$ 92,917	$ 141,325
Amortization of property, plant and equipment			
Information Products Printing	**$ 43,188**	$ 43,675	$ 38,253
Marketing Products Printing	**54,383**	49,230	42,770
Media	**9,210**	8,515	7,434
Other activities and unallocated amounts	**4,679**	3,998	3,874
	$ 111,460	$ 105,418	$ 92,331

[1] This amount includes acquisitions of machinery and equipment under capital leases of $1,814 for the year ended October 31, 2005.

	As at October 31, 2005	As at October 31, 2004 (restated)
Assets		
Information Products Printing	**$ 571,704**	$ 544,933
Marketing Products Printing	**741,408**	635,692
Media	**659,594**	628,067
Other activities and unallocated amounts	**276,358**	205,427
	$ 2,249,064	$ 2,014,119

(in thousands of dollars, except per share data)

24. Segmented information (continued)

Geographical regions	2005	2004	2003
Revenues			
Canada			
Within Canada	**$1,546,439**	$1,481,853	$1,419,860
Exports	**280,837**	286,381	321,492
	1,827,276	1,768,234	1,741,352
United States and Mexico	**374,728**	279,739	157,400
	$2,202,004	$2,047,973	$1,898,752
Operating income before amortization, impairment of assets, restructuring costs and write-down of goodwill			
Canada	**$ 332,547**	$ 340,778	$ 336,103
United States and Mexico	**26,795**	25,631	107
	$ 359,342	$ 366,409	$ 336,210
Operating income (loss)			
Canada	**$ 243,299**	$ 241,854	$ 255,120
United States and Mexico	**(6,286)**	(10,421)	(14,458)
	$ 237,013	$ 231,433	$ 240,662

(in thousands of dollars, except per share data)

24. Segmented information (continued)

Geographical regions (continued)	As at October 31, 2005	As at October 31, 2004 (restated)
Assets		
Canada	**$1,818,942**	$ 1,617,818
United States and Mexico	**430,122**	396,301
	$2,249,064	$ 2,014,119
Property, plant and equipment		
Canada	**$ 576,278**	$ 533,330
United States and Mexico	**128,739**	132,432
	$ 705,017	$ 665,762
Goodwill		
Canada	**$ 625,739**	$ 644,921
United States and Mexico	**188,912**	104,337
	$ 814,651	$ 749,258

25. Effect of new accounting standards not yet implemented

a) Comprehensive income

In April 2005, the CICA issued Section 1530 of the CICA Handbook, regarding "Comprehensive Income". This Section applies to fiscal years beginning on or after October 1, 2006. It exposes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions and events from sources other than the Corporation's shareholders. These transactions and events include changes in the currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses resulting from changes in fair value of certain financial instruments.

The adoption of this Section on November 1, 2006 implies that the Corporation will present comprehensive income and its components in a separate financial statement.

b) Financial instruments – recognition and measurement

In April 2005, the CICA issued Section 3855 of the CICA Handbook on "Financial Instruments – Recognition and Measurement Income". This Section applies to fiscal years beginning on or after October 1, 2006. It exposes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value.

The Corporation is currently evaluating the impact on its consolidated financial statements of adopting these recommendations on November 1, 2006.

c) Hedges

In April 2005, the CICA issued Section 3865 of the CICA Handbook regarding "Hedges". This Section applies to fiscal years beginning on or after October 1, 2006. The recommendations expand the guidelines exposed in Accounting Guideline 13 (AcG-13), Hedging Relationships. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item.

The Corporation is currently evaluating the impact on its consolidated financial statements of adopting these recommendations on November 1, 2006.

26. Subsequent event

On November 16, 2005, the Corporation has been authorized to purchase for cancellation on the open market, between November 21, 2005 and November 20, 2006, up to 3,578,325 of its Class A Subordinate Voting Shares, representing 5% of the 71,566,506 issued and outstanding Class A Subordinate Voting Shares as of November 11, 2005, and up to 887,015 of its Class B Shares, representing 5% of the 17,740,294 issued and outstanding Class B Shares as of November 11, 2005. The purchases will be made in the normal course of business at market prices through the facilities of the Toronto Stock Exchange in accordance with the requirements of the exchange.

As at December 13, 2005, the Corporation had purchased 1,050,000 of its Class A Subordinate Voting Shares at an average price of $19.22 and 44,700 of its Class B Shares at an average price of $19.42.

27. Comparative figures

Certain prior year figures have been reclassified to comply with the current year's presentation.

Historical Financial Review

For the years ended October 31

(in thousands of dollars, except per share data and ratios)	**2005**	2004
Operations		
Revenues	**$2,202,004**	$ 2,047,973
Adjusted operating income before depreciation and amortization (1)	**359,342**	366,409
Operating income	**237,013**	231,433
Income from continuing operations before amortization of goodwill	**138,952**	131,451
Per share (non diluted)	**1.56**	1.48
Income (loss) from continuing operations	**138,952**	131,451
Per share (non diluted)	**1.56**	1.48
Net income	**138,952**	128,856
Per share (non diluted)	**1.56**	1.45
Income from continuing operations before unusual items (2)	**142,894**	151,518
Per share (non diluted)	**1.60**	1.71
Cash flow from continuing operations before changes in non-cash operating items	**262,451**	275,948
Per share (non diluted)	**2.94**	3.11
Average number of common shares outstanding (000's)	**89,141**	88,790
Investments and financial condition		
Acquisition of capital assets	**157,233**	92,917
Business acquisitions (3)	**102,896**	208,992
Average net assets employed (4)	**1,689,278**	1,549,720
Total assets	**2,249,064**	2,014,119
Total net indebtedness	**272,563**	316,820
Shareholders' equity	**1,105,869**	979,924
Financial ratios		
Adjusted operating income margin before amortization (5)	**16.3%**	17.9%
Operating margin (6)	**10.8**	11.3
Return on average net assets employed (7)	**9.3**	11.0
Return on average common equity	**13.3**	13.9
Net indebtedness/Total capitalization	**19.8**	24.4
Net indebtedness/Adjusted operating income before amortization	**0.8:1**	0.9:1
Coverage of financial expenses by adjusted operating income before amortization	**13.5:1**	12.6:1

(1) Operating income before amortization, impairment of assets, restructuring costs and write-down of goodwill.

(2) Unusual items include impairment of assets, restructuring costs, write-down of goodwill, amortization of goodwill, disposal of certain assets and write-down of investments.

(3) Total consideration in cash or otherwise for businesses acquired through the purchase of shares or assets.

2003	2002	2001	2000	1999	1998	1997	1996
$1,898,752	$1,769,021	$ 1,779,377	$1,629,445	$1,373,281	$1,188,399	$974,624	$915,582
336,210	302,680	270,464	234,716	188,443	155,127	111,322	102,620
240,662	212,884	190,765	159,776	121,680	101,456	67,088	60,167
143,021	123,675	101,413	84,031	58,668	48,675	38,253	4,729
1.61	1.46	1.26	1.13	0.75	0.61	0.50	0.02
143,021	123,675	77,258	61,554	49,659	42,410	34,037	1,589
1.61	1.46	0.96	0.83	0.62	0.53	0.44	(0.02)
143,009	124,012	21,826	60,779	49,843	39,506	34,833	5,450
1.61	1.46	0.27	0.82	0.63	0.49	0.46	0.03
143,021	123,675	101,413	84,031	61,558	48,675	38,253	28,729
1.61	1.46	1.26	1.13	0.78	0.61	0.50	0.37
248,370	231,284	196,916	163,233	130,774	111,316	87,423	74,939
2.80	2.73	2.46	2.20	1.72	1.46	1.21	1.03
88,667	84,680	80,114	74,316	74,362	73,996	69,440	69,780
141,325	118,253	108,300	100,214	85,879	83,665	51,388	29,890
5,260	405,838	31,870	153,926	104,713	153,009	57,846	3,803
1,389,458	1,103,141	977,074	880,005	734,706	565,010	431,788	512,186
1,738,396	1,702,879	1,339,880	1,301,434	1,067,600	973,401	632,035	584,486
312,887	386,863	222,295	397,589	235,949	208,307	32,043	72,834
868,313	763,909	559,209	475,635	453,265	422,348	352,331	322,509
17.7%	17.1%	15.2%	14.4%	13.7%	13.1%	11.4%	11.2%
12.7	12.0	10.7	9.8	8.9	8.5	6.9	6.6
11.2	11.5	11.9	10.6	10.3	10.4	9.2	7.2
17.5	18.7	4.2 [8]	13.7	12.5	11.4	11.7	1.9
26.5	33.6	28.4	45.5	34.2	32.9	8.3	18.4
0.9:1	1.3:1	0.8:1	1.7:1	1.3:1	1.3:1	0.3:1	0.7:1
12.9:1	13.8:1	9.7:1	8.8:1	10.3:1	8.6:1	18.4:1	7.1:1

[4] Assets, including accumulated amortization of goodwill, less cash, accounts payable and accrued liabilities, income taxes payable and deferred subscription revenues. [5] Adjusted operating income before amortization to revenues.
[6] Operating income to revenues. [7] Operating income net of income taxes before amortization of goodwill on average net assets employed. [8] 14.7% excluding the loss on discontinued operations.

Shareholder **Information**

For the years ended October 31

	2005	2004
Class A Subordinate Voting Shares (TCL.SV.A)		
Number of shares outstanding (as at October 31)	**71,565,227**	71,010,014
Public float [1] (as at October 31)	**71,266,378**	70,459,780
Volume of shares traded	**27,545,082**	28,491,600
Average daily volume of shares traded	**105,537**	109,583
High	**$28.07**	$ 28.35
Low	**20.05**	21.50
Closing	**21.14**	24.06
Change in stock price	**(12.1)%**	10.1%
Class B Shares (TCL.MV.B)		
Number of shares outstanding (as at October 31)	**17,741,573**	17,821,126
Public float [1] (as at October 31)	**4,521,333**	4,600,886
Volume of shares traded	**271,458**	699,200
Average daily volume of shares traded	**1,040**	2,689
High	**$28.00**	$ 28.26
Low	**20.10**	21.53
Closing	**20.53**	23.99
Stock price appreciation	**(14.4)%**	11.1%
Total number of shares outstanding (as at October 31)	**89,306,800**	88,831,140
Market capitalization (in thousands of $)	**1,877,123**	2,137,277
Total enterprise value (in thousands of $) [2]	**2,149,686**	2,454,097
Shareholders' equity (in thousands of $)	**1,105,869**	979,924
Per share	**$12.38**	$ 11.03
Dividend per share	**0.21**	0.17
Dividend yield	**1.0 %**	0.8%

[1] Number of shares outstanding excluding those owned by Management and Directors. [2] Total enterprise value: market capitalization plus net indebtedness.

Fiscal year-end:	October 31
Fiscal quarter-end:	January 31, April 30, July 31 and October 31
Stock listing:	Class A Subordinate Voting Shares and Class B Shares are listed on the Toronto Stock Exchange under the trading symbols TCL.SV.A and TCL.MV.B, respectively.
Investor Relations Department:	(514) 954-4176, elaine.pelletier@transcontinental.ca
Transfer agent and registrar:	CIBC Mellon Trust Company, 2001 University Street, Suite 1600, Montreal, Quebec H3A 2A6, 1 800 387-0825

2003	2002	2001	2000	1999	1998	1997	1996
70,567,600	70,330,970	56,519,856	47,463,406	46,741,706	46,922,992	39,137,360	36,136,220
69,942,426	70,075,890	56,025,260	47,046,250	45,667,398	45,872,894	38,774,592	35,776,536
30,714,300	34,233,000	28,667,126	26,812,712	14,096,148	17,947,454	25,732,240	15,771,526
117,679	131,160	109,836	102,730	54,008	68,764	98,590	60,428
$ 22.40	$ 21.50	$ 12.13	$10.13	$ 10.45	$8.63	$ 6.23	$5.95
15.25	10.43	7.68	7.53	6.25	5.50	4.75	4.38
21.85	19.23	10.75	8.75	9.25	6.25	5.83	5.03
13.6%	78.9%	22.9%	(5.4)%	48.0%	7.2%	15.9%	(1.9)%
18,088,516	18,366,244	25,982,728	27,110,626	27,399,704	27,673,470	30,136,076	33,737,944
4,868,276	5,146,004	5,697,890	6,816,188	7,240,008	7,275,270	7,719,876	11,477,078
1,853,900	1,947,800	3,122,098	1,000,148	378,062	205,988	555,364	251,950
7,103	7,462	11,962	3,832	1,448	790	2,128	966
$ 22.43	$ 21.22	$ 12.00	$10.25	$ 10.25	$8.60	$ 6.20	$5.88
15.42	10.75	8.30	7.88	6.23	5.63	4.88	4.75
21.60	19.13	11.14	8.85	9.55	6.25	6.15	5.03
12.9%	71.7%	25.9%	(7.3)%	52.8%	1.6%	22.3%	0.6%
88,656,116	88,697,214	82,502,584	74,574,032	74,141,410	74,596,462	69,273,436	69,874,164
1,937,136	1,705,643	886,907	652,523	685,804	466,225	403,861	351,466
2,250,021	2,092,067	1,109,198	1,050,112	921,757	674,535	435,561	423,952
868,313	763,909	559,209	475,635	453,265	422,348	352,331	322,509
$ 9.79	$ 8.61	$ 6.78	$ 6.38	$ 5.57	$5.13	$ 4.51	$4.04
0.14	0.12	0.10	0.10	0.08	0.08	0.06	0.06
0.7%	1.1%	1.1%	1.1%	1.3%	1.4%	1.2%	1.2%

Board of **Directors**

Rémi Marcoux

Executive Chairman of the Board, Transcontinental Inc.

Luc Desjardins

President and Chief Executive Officer, Transcontinental Inc.

Lucien Bouchard

Partner, Davies Ward Phillips & Vineberg LLP

Pierre Brunet

Chairman of the Board, Caisse de dépôt et placement du Québec

Robert Chevrier

President, Société de gestion Roche Inc.

J.V. Raymond Cyr, O.C.

Chairman of the Board, Polyvalor Inc.

Claude Dubois

President, Gestion Phila Inc.

Richard Fortin

Executive Vice President and Chief Financial Officer, Alimentation Couche-Tard Inc.

Harold P. Gordon, c.r.

Chairman of the Board, Dundee Corporation

Hubert T. Lacroix

Senior Advisor, Stikeman Elliott LLP

Monique Lefebvre

Psychologist and Consultant Specialized in Business Coaching

Isabelle Marcoux

Vice President, Corporate Development, Transcontinental Inc.

Pierre Marcoux

Vice President, Business Publications, Transcontinental Media G.P.

Member of the Audit Committee of the Board of Directors

Member of the Human Resources and Compensation Committee of the Board of Directors

Member of the Corporate Governance Committee of the Board of Directors

Lead Director of the Board of Directors

Corporate Senior **Management**

Luc Desjardins 3

President and Chief Executive Officer

Michel Bisson

Director of Internal Audit

Jean Blouin 4

Vice President, Public Relations

Réal Boulet 1

Vice President and Chief Information Officer

Daniel Denault 8

Vice President and Chief Financial Officer

Jean Denault 2

Vice President, Production and Procurement Efficiency

Christine Desaulniers 7

Vice President, Chief Legal Officer and Secretary

Julien Houle 6

Vice President, Human Resources

Benoît Huard

Treasurer

Guy Manuel

President, Marketing Products and Services Sector

Isabelle Marcoux 5

Vice President, Corporate Development

Stéphane Milot

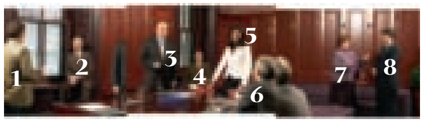
Director, Public and Investor Relations

François Olivier

President, Printing Products and Services Sector

Dated January 26, 2006

This photo presents the composition of the head office's management committee. The numbers identify the members in the list above.



General **Inquiries**

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Media

For general information about the Corporation, please contact the Public Relations Department.

Duplicate Communications

Some shareholders may receive more than one copy of publications such as quarterly financial statements and the Annual Report. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should advise CIBC Mellon Trust Company at 1 800 387-0825.

Shareholders, Investors and Analysts

For further financial information or to order supplementary documentation about the Corporation, please contact the Investor Relations Department.

Information

This annual report is also available in the "Investors" section of Transcontinental's Web site: www.transcontinental.com.

The list of Transcontinental's business units is available on the Corporation's Web site.

Des exemplaires en français du rapport annuel, de la notice annuelle, des rapports de gestion et des états financiers trimestriels sont disponibles sur demande en communiquant avec le Service des relations avec les investisseurs.

Notice of Annual Meeting of Shareholders

Transcontinental Inc.'s Annual Meeting of Shareholders will be held at 4:00 p.m. on March 22, 2006, at the Hotel Omni Mont-Royal, Salon des Saisons, 1050 Sherbrooke Street West, Montreal, Quebec, Canada.

Care to Receive Quarterly Financial Results?

The Corporation's results are published in the financial press at the end of each quarter. The Corporation maintains a mailing list to ensure that shareholders receive quarterly press releases, management's discussion and analysis, and financial results. To have your name added to this list, please return the enclosed mail-in card. Quarterly and annual financial results are also available in the "Investors" section of the Transcontinental Web site as soon as they are released to the public.

Vision

To be the leader in our printing and marketing niches, as well as in the creation and dissemination of content and the delivery of complementary services aimed at communities of interest or specific markets.

Mission

To develop value-added products and services along with multiple delivery channels in order to reach consumers and build loyalty more effectively. To optimize the interests of our employees, our customers and our shareholders.

Guiding **Principles**

To listen to our customers, anticipate their needs and exceed their expectations.

To make innovation central to our business practices while remaining in the forefront of trends and new technologies.

To promote the development of our employees, their ability to adapt to change and their commitment to continually improving our processes and practices.

To pursue our development through acquisitions and organic growth while creating value for shareholders and maintaining a disciplined approach to financial management.

To be in the vanguard in matters of social responsibility and corporate governance.

Corporate **Governance**

Transcontinental believes that sound corporate governance is important to running an efficient operation. For a detailed description of the Corporation's governance practices, see the Management Proxy Circular.

Main **Addresses**

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Photography:
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