



Letter to Our Shareholders



by Rémi Marcoux

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A Targeted Strategy

Transcontinental has a targeted strategy in terms of both geography and the products and services we offer. Our goal is not to be the biggest in the world, but to be the best in each of our markets and niches.

As a publisher, for instance, our newspaper strategy is based on geographic communities, and our magazine strategy on communities of interest.

Transcontinental is Canada's second-largest publisher of community newspapers, with 172 titles in seven provinces. The vital role these newspapers play in their respective communities makes them irreplaceable partners. In 2007, we acquired new titles in four Canadian provinces. In addition, our magazines are specialized in several niches, including women's and men's magazines, home and garden, sports and leisure, and business and finance. Serving communities of interest, these magazines are the perfect answer to market fragmentation and are a unique asset in the media portfolio. With the addition of several titles in 2007, including the Canadian edition of *More*, Transcontinental has consolidated its position as Canada's leading consumer magazine publisher.

an average investment of \$120 million per year, without counting special projects like the outsourcing contract to print the *San Francisco Chronicle* and our non-capitalized investments in the digital development of our Media sector. Indeed, one of these special projects involved an investment of more than \$50 million to make our Canadian printing plants more competitive on the U.S. market.

Furthermore, we took advantage of the higher Canadian dollar to increase our investments in the United States, particularly in direct marketing and our newspaper printing outsourcing model. We have also used it to make our people more aware than ever of the need for innovation and efficiency improvement. Ultimately, we have come out stronger.

That is why I am confident that we will achieve the financial objectives of *Evolution 2010*, which include an average increase in adjusted earnings per share of 10% a year, excluding the foreign exchange rate impact, and organic growth in revenue of 5% a year.



The communications industry is undergoing a period of rapid and profound change; it also offers many excellent opportunities for development, but we must have the right game plan. It is my conviction that Transcontinental has the strategy, business model, values and leaders to come out ahead.

As was the case for our industry as a whole, fiscal 2007 was a more difficult year for Transcontinental. Circumstances like the unprecedented rise in the Canadian dollar versus the U.S. dollar and the mortgage crisis in the United States particularly impacted our results. Since 2003, for instance, the exchange rate alone has reduced our revenues by \$181 million, our operating income by \$72 million and our adjusted earnings per share by \$0.57.

However, throughout this same period, Transcontinental has ranked as one of the top players in its industry. The real test, for athletes and for businesses, is maintaining success over a long period of time. Year in and year out, we have demonstrated our ability to improve our operating performance despite the challenges posed by economic conditions, competition or technological change.

First, our solid balance sheet and ability to generate operating funds provide us with the financial resources to maintain our growth; in the past three years, these resources have enabled us to invest an average of \$250 million a year in property, plant and equipment acquisitions and business acquisitions. In capital expenditures alone, our *Evolution 2010* business project calls for

designated printer, for the third consecutive volume, of the French-language edition of the Harry Potter series for the Canadian market.

Trend Watch

As a printer, we occupy the top spot in most of our niches (flyers and inserts, books, newspapers, direct marketing and commercial products) nation-wide and we are a strong second in magazines and catalogues. We plan to continue to strengthen our position in each of these niches in Canada, as shown by the acquisition of PLM Group, the country's fourth-largest printer and a leader in direct marketing.

Most of our future growth will thus come from international markets, where our strategy is also niche-based.

The United States and Mexico comprise our priority markets. This geographic diversification is a natural outcome of the ever-increasing integration of our economies. We are also employing a niche-based strategy for our products and services, focusing on segments with high growth potential. Our facilities in Pennsylvania, California and Texas make us one of the largest suppliers of integrated direct marketing services in the United States. In book printing, we have specialized in short and medium runs. This expertise earned us the title of

Our business model is based on developing close relationships with our clients, whether advertisers or consumers. This gives us a better sense of their emerging needs and of major trends in the marketplace. Of these, I can name three that are in the process of changing our industry: personalized advertising, fragmentation of delivery platforms and the shift to using fewer suppliers.

For Transcontinental, personalization is second nature. Our door-to-door distribution network is built on socioeconomic data that can be broken out by region, by neighbourhood and even by street. In addition to flyer printing, our offer to retailers includes value-added services such as data management and loyalty programs. We have thus quite naturally become an important player in the direct marketing industry in North America, a niche that thrives on data management. In 2007, we launched a custom publishing venture, Transcontinental Custom Communications, with Seven Squared, one of the most well-known agencies in this market in the United Kingdom.

As for information technology, our strategy is to offer readers and advertisers multiple channels for attracting and retaining those interested in a given niche. We are doing this by intensifying the development of digital services aimed at attracting the communities served by our publications. These services include cyberbrands, brand extensions, transactional websites, portals and webcasting. The prestige and credibility of our brands are a powerful leveraging tool.

The third trend is the desire of businesses to reduce the number of suppliers with whom they deal. In return, the "select few" must cover the broadest possible range of their customers' needs. This, in fact, is how Transcontinental has always operated. We were the first in Canada to offer retailers a full prepress-printing-distribution service via a one-stop shop. This is the guiding principle behind the way we have reorganized our sales over the past several years, with a focus on promoting cross-selling initiatives.

The culmination of efforts to reduce the number of suppliers is outsourcing, when a client entrusts you with a complete stage of his production chain. This requires a quality of

Values and Environment

relationship that cannot be improvised or imported: business credibility that is established patiently over the years. Our outsourcing expertise can take various forms. For instance, we offer our customers the possibility of taking over more of their direct marketing campaigns, or of transferring their pre-media services to us, as some major Canadian retailers have already done.

But it is in newspaper printing outsourcing that Transcontinental stands out most in North America. We have developed a unique outsourcing service, starting with prestigious clients like *The Globe and Mail*, *La Presse* and *The New York Times* for the Ontario and Upstate New York markets. A major breakthrough came in November 2006 when we announced a 15-year contract, valued at a billion U.S. dollars (excluding paper), to print the *San Francisco Chronicle*, owned by Hearst Corporation. Production will start in spring 2009. We are optimistic that we will soon announce another new contract.

Outsourcing is an invaluable asset that Transcontinental can use to great advantage in its future growth. Once we become part of a customer's value chain, we become partners in the fullest sense of the word. What we achieve, in fact, is maximum customer loyalty.

In any enterprise, it is the professional and moral values, at every level of the organization, that distinguish it from other ventures. I am proud of Transcontinental's reputation for acting with integrity and respect in its daily relations not only with investors and business partners, but also with employees and the communities we serve.

Transcontinental has always set the example when it comes to the environment. In 2007, we continued to play a leadership role in this area in our own way, by mobilizing our employees and taking concrete action. We launched *Vision durable*, a magazine devoted to sustainable development, and its website visiondurable.com; we offered book publishers 100% recycled paper at price parity; a seventh printing plant earned FSC certification; and we won many awards in the United States and Canada.

I am particularly proud of two of our initiatives. First, we established a paper purchasing policy that promotes the use of environmentally friendly papers, developed in conjunction with Markets Initiative, a non-profit organization dedicated to protecting forests and biodiversity. Second, our Publi-Sac will be biodegradable by early 2008.

Leadership

Even the best strategy will go nowhere without the people to carry it out across the organization. That is why *Evolution 2010* strongly emphasizes the leadership training of some 1500 managers. But the momentum must come from the top.

Since joining Transcontinental in May 2000, Luc Desjardins has successfully mobilized his troops in the pursuit of excellence, and I wish to pay him a well-earned tribute. He has led Transcontinental through an important stage in its development while continually protecting the interests of our shareholders. Luc will be leaving the company on February 20, 2008, the day of our annual shareholders' meeting. On behalf of the Board of Directors and all of our employees, and my own behalf, I'd like to thank him for the tremendous job he has done and wish him every success in the rest of his career.

One of Luc's great strengths has been his ability to surround himself with a strong management



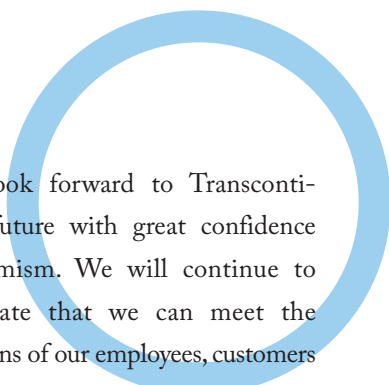
team, at head office and in our three operating sectors. The Board of Directors has thus identified an internal candidate to succeed him: François Olivier, President of the Printing Products and Services sector. François has had an impressive career at Transcontinental. Since 1993, he has worked his way up the ranks, exceeding expectations at every stage. But he is particularly known for developing our newspaper outsourcing model for North America. As an entrepreneur and innovator, François' core priorities are growth and performance. He enjoys solid credibility within the company. Since last September, he has held the position of Chief Operating Officer, to ensure a smooth transition with Luc. Your company is in good hands.

I invite you to read the *Review of Operations*, where Luc and his team present *The Race Towards Excellence*, an innovative concept that will culminate at the same time as the Olympic games in Vancouver in 2010. Given the time-frame, the analogy with sports evolved quite naturally.

In closing, I'd like to thank the members of the Board of Directors for their invaluable contribution to Transcontinental's development. They are exemplary in their efforts to represent the interests of all shareholders.

I'd particularly like to draw attention to the contributions of Hubert T. Lacroix and Robert Chevrier, who are leaving the Board after a number of years of loyal service. On January 1st, 2008, Mr. Lacroix became President and Chief Executive Officer of the Société Radio-Canada-CBC. Mr. Chevrier, for his part, has decided not to renew his term. Mr. Lacroix, as chair of the Human Resources and Remuneration Committee, and Mr. Chevrier, as chair of the Board's Audit Committee, have guided Transcontinental through a period of profound change and new regulatory requirements. On behalf of all our shareholders, I sincerely thank them.

Lastly, I'd like to thank our customers and shareholders for their loyal support year after year, as well as our some 15,000 employees for their dedication and commitment to the company's values.



I look forward to Transcontinental's future with great confidence and optimism. We will continue to demonstrate that we can meet the expectations of our employees, customers and shareholders, the three pillars of the Corporation.

"Rémi Marcoux"
(signed)

Rémi Marcoux, C.M., F.C.A.
Executive Chairman of the Board

January 4, 2008