

For Immediate Release

**TRANSCONTINENTAL ANNOUNCES ITS FIRST-QUARTER RESULTS
AND A DIVIDEND INCREASE**

- 1% revenue growth.
- Adjusted net income down 10% excluding unusual items, due mainly to lower volume in some segments, the negative impact of the exchange rate and intensified investments in the Media sector; on a per-share basis, adjusted net earnings were down 9%, from \$0.32 to \$0.29.
- Annual earnings per share objective before unusual items maintained.
- Renewal of normal course issuer bid from November 21, 2006 to November 20, 2007.
- 7.7% increase in annual shareholder dividend, which will increase to \$0.07 per share from the second quarter.
- Announcement of a \$9.2-million restructuring plan in the commercial products printing segment
- 15-year contract worth US\$1 billion to print the *San Francisco Chronicle* and related products, and establishment of a U.S. division.
- Renewal of five-year contract worth \$350 million, of which \$75 million is new business, with the Hudson's Bay Company to print its flyers and loyalty program materials.
- Solid financial position for further growth.

Montreal, March 15, 2007 – Transcontinental today reported first-quarter results that were lower than the same quarter a year ago. The acquisitions made in 2006, higher volume in certain niches and continued efforts to reduce costs partially offset the expected negative impact of the exchange rate, the weakness in the advertising market in certain segments, and the cost of special investments in brand promotion, title launches and digital initiatives in the Media sector. Transcontinental management is expecting the second half of the year to be superior to what it has been historically, compared to the first half, when the change in its business mix is taken into consideration, driven by the Chenelière Éducation acquisition last year, as well as a trend towards greater seasonality from some of its other business groups. Transcontinental is thus in an excellent position to achieve earnings per share before unusual items within the announced range of \$1.52 - \$1.65 for 2007, based on a constant exchange rate of \$1.10 CAD/USD for the rest of the year.

"Given our intensified investment program in our Media sector in the first quarter, we are very satisfied with our results," said Luc Desjardins, president and chief executive officer of Transcontinental. "We have reaped the benefits of our major restructuring initiatives, higher volume in some niches, investments in new technologies and the company-wide focus on continuous improvement. In the remainder of the year, as set out in our *Evolution 2010* business project, we will be focusing on sales development, on organic growth including newspaper outsourcing projects in the United States, and on our development plan for our Media sector."

Mr. Desjardins continued: "I'm very confident that we will continue to grow over the medium and long term, notably through acquisitions. We have the solid financial base to do so, with a net funded debt to total capitalization ratio of 28% and about \$400 million available in existing credit facilities and operating credit margins. As a sign of our confidence in the future, today we are announcing a 7.7% increase in the dividend paid to common shareholders, from \$0.26 to \$0.28 per year."



Financial Highlights

In the first quarter ended January 31, 2007, Transcontinental reported a 1% increase in consolidated revenue to \$568 million, compared to \$565 million for the same quarter a year earlier. Adjusted operating income before amortization was down 4% at \$75.7 million, compared to \$79.2 million in 2006. The decrease stems from lower volume in some segments, the negative impact of the exchange rate, and additional investment in the Media sector, factors which were partially offset by acquisitions made in 2006, higher volumes in other segments and many cost-reduction initiatives throughout the company. Fluctuations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts lowered revenue by \$5.1 million and adjusted operating income before amortization by \$3.5 million.

Net earnings were down \$7.7 million, or 28%, from \$27.9 million in the first quarter of 2006 to \$20.2 million in 2007. The decrease stems mainly from restructuring costs in certain segments, the negative impact of the exchange rate, additional investment in the Media sector and lower sales in certain businesses. On a per-share basis, net earnings declined 23%, from \$0.31 to \$0.24.

In the first quarter of fiscal 2007, the Corporation initiated a restructuring plan for its commercial printing operations in its two printing sectors which resulted in total restructuring costs of \$9.2 million before tax, of which \$6.7 million before tax was recorded in the first quarter. This restructuring, which includes, among other things, the closing of certain smaller facilities, will allow for a significant reduction in this business segment's operating costs. In total, \$7.2 million were booked for restructuring projects in the first quarter of 2007, compared to \$0.1 million in the year-earlier quarter.

Adjusted net income, which does not include unusual items related to impairment of assets and restructuring costs, decreased 10%, from \$28 million in the first quarter of 2006 to \$25 million in 2007. On a per-share basis, adjusted net income was down 9%, from \$0.32 to \$0.29.

For more detailed financial information, please see *First Quarter Ended January 31, 2007 Results* on the Transcontinental website at www.transcontinental.com, under "Investors."

Operating Highlights

The main highlights for the first quarter of 2007 are as follows:

- Transcontinental has identified newspaper printing in the United States as a major area of growth in future years. On November 17, 2006, an important step was announced with the signing of a 15-year contract, worth US\$1 billion, in which Hearst Corporation outsources the printing of the *San Francisco Chronicle* and its related products to Transcontinental. Unlike similar agreements with Canadian newspaper publishers, this contract excludes paper. On a comparable basis, it would be worth about US\$2 billion over 15 years. The *San Francisco Chronicle* is the leading paper in the Bay Area, which is the fifth most-populous market in the United States, and ranks 14th among daily papers overall with an average daily circulation of more than 400,000 copies.
- On February 21, 2007, Transcontinental announced that it has established a division that will devote all its time to the development in North America of outsourced newspaper printing and the operation of its newspaper printing plants in the United States. Ted Markle has been appointed senior vice president of this division. The prestige of the *San Francisco Chronicle* and its owner has enhanced Transcontinental's credibility and heightened awareness of Transcontinental among major daily paper publishers in the



United States. Talks are at different stages with a number of these publishers, and the Corporation is optimistic about eventually announcing another contract.

- Transcontinental leads in flyer printing in Canada and this segment continues to grow within the company, both in terms of business from major retail chains and from non-traditional advertisers. On December 12, 2006, the Corporation announced that it had signed a five-year contract with the Hudson's Bay Company to print all of its flyers for Zellers, The Bay and Home Outfitters, as well as the material for their loyalty programs. The contract also covers the use of value-added products and services, including a variety of direct mail and catalogue printing services. The five-year contract starts on February 1, 2007 and is valued at about \$350 million, of which about \$75 million is new business for Transcontinental.

To ensure its growth in this niche continues, Transcontinental also invested \$25 million to expand its Saint-Hyacinthe plant near Montreal to make room for a state-of-the-art flyer printing press. The new equipment will be fully operational by the spring.

- Transcontinental believes that in the future, TV schedules and information about TV programs will be disseminated via digital platforms. Thus, after turning *TV Guide* into an exclusively online publication last fall, the Corporation announced an agreement on November 30 to make TVGuide.ca accessible via Sympatico.MSN.ca, the most popular website in Canada. The decision announced on November 24 to sell Transcontinental's interest in *TV Hebdo* to Les Publications TVA inc. reflects this same strategy.
- Local and regional newspapers serve as the voice of their communities. Whether on paper or online, these publications are important strategic assets for the Corporation. In December 2006, Transcontinental purchased two more community papers in Saskatchewan, *The Radville Star* and *The Deep South Star*, bringing to 165 the total number of papers in its portfolio, including 12 daily papers in the Atlantic provinces and Montreal's primary free daily paper, *Métro*.
- On March 21, 2007, following an exclusive agreement with renowned U.S. publisher Meredith Corporation, Transcontinental will launch the Canadian version of *More* magazine, which has been highly successful in the United States. Aimed at women aged 40 and older, *More* mines an under-exploited niche in the Canadian market and rounds out Transcontinental's selection of women's magazines. The first issue received an enthusiastic response from advertisers and future readers.

Reconciliation of Non-GAAP Financial Measures

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



Below is a table reconciling GAAP financial measures to non-GAAP financial measures.

(in millions of dollars, except per share data)	2007	2006
Net income	\$ 20.2	\$ 27.9
Non-controlling interest	0.3	0.5
Income taxes	7.5	13.2
Discount on sale of accounts receivable	3.2	2.1
Financial expenses	7.0	6.6
Impairment of assets and restructuring costs	7.2	0.1
Amortization	30.3	28.8
Adjusted operating income before amortization	\$ 75.7	\$ 79.2
Net income	\$ 20.2	\$ 27.9
Impairment of assets and restructuring costs (after tax)	4.9	0.1
Adjusted net income	25.1	28.0
Average number of shares outstanding	85.8	88.6
Adjusted earnings per share	\$ 0.29	\$ 0.32
Cash flow related to operating activities	\$ (1.9)	\$(110.0)
Changes in non-cash operating items	(63.8)	(180.4)
Cash flow from operating activities before changes in non-cash operating items	\$ 61.9	\$ 70.4
Long-term debt	\$ 478.9	\$ 478.5
Current portion of long-term debt	10.7	8.4
Bank overdraft	—	0.5
Cash and temporary investments	(32.2)	(50.2)
Net indebtedness	\$ 457.4	\$ 437.2

Normal Course Issuer Bid

On November 15, 2006, the Corporation was authorized to purchase for cancellation on the open market, between November 21, 2006 and November 20, 2007, up to 3,448,698 of its Class A Subordinate Voting Shares, representing 5% of the 68,973,966 issued and outstanding Class A Subordinate Voting Shares as of November 7, 2006, and up to 852,907 of its Class B Shares, representing 5% of the 17,058,145 issued and outstanding Class B Shares as of November 7, 2006. 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.

Between November 21, 2006 and January 31, 2007, the Corporation purchased 427,400 of its Class A Subordinate Voting Shares at a weighted average price of \$21.32 for a total consideration of \$9.1 million and 5300 of its Class B Shares at a weighted average price of \$21.21 for a total consideration of \$0.1 million under its new normal course issuer bid.

Between November 1, 2006 and November 20, 2006, the Corporation purchased 39,600 of its Class A Subordinate Voting Shares at a weighted average price of \$20.07 for a total consideration of \$0.8 million and it did not purchase any Class B Shares, under its prior normal course issuer bid.

Dividend Increase

At its March 15, 2007 meeting, the Corporation's Board of Directors declared a quarterly dividend of \$0.07 per share on Class A Subordinate Voting Shares and Class B Shares, which represents an increase of 7.7% over the dividend paid in the previous quarter. These dividends are payable on April 27, 2007 to shareholders of



record at the close of business on April 9, 2007. On an annual basis, this represents a dividend of \$0.28 per common share.

Additional Information

Upon releasing its quarterly results, Transcontinental will hold a conference call for the financial community today at 4:15 p.m. Media may hear the call in listen-in mode or tune in to the simultaneous audio broadcast on Transcontinental's website, which will be archived for 30 days.

Profile

The largest printer in Canada and sixth-largest in North America, Transcontinental also ranks as the country's leading publisher of consumer magazines and French-language educational resources, and its 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 company offers its clients integrated solutions which include a continent-leading direct marketing offering, a diverse digital platform and a door-to-door advertising material distribution network. Transcontinental is a company whose values, including respect, innovation and integrity, are central to its operation.

Transcontinental (TSX: TCL.A, TCL.B) has more than 14,500 employees in Canada, the United States and Mexico, and reported revenues of C\$2.3 billion in 2006.

Note: This press release contains certain forward-looking statements concerning the future performance of the Corporation. Such statements, based on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors, many of which are beyond the Corporation's control, including, but not limited to, the economic situation, exchange rate, energy costs, increased competition, the Corporation's capacity to implement its strategic plan and cost-reduction program and make and integrate acquisitions. The risks, uncertainties and other factors that could influence actual results are described in the *Management's Discussion and Analysis for the first quarter of 2007* and *Management's Discussion and Analysis for the fiscal year ended October 31, 2006* and the 2006 *Annual Information Form*.

The forward-looking information in this release is based on current expectations and information available as of March 15, 2007. We disclaim any intention or obligation to update or revise any forward-looking statements unless otherwise required by the Securities Authorities.

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Management's Discussion and Analysis

For the first quarter ended January 31, 2007

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. This Management's Discussion and Analysis is dated March 15, 2007.

In this document, unless otherwise indicated, all financial data are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All amounts are in Canadian dollars, and the term "dollar", as well as the symbols "\$" and "C\$", designate Canadian dollars unless otherwise indicated. In this Management's Discussion and Analysis we also use non-GAAP financial measures. Please refer to the section of this report entitled "Reconciliation of Non-GAAP Financial Measures" for a complete description of these measures on page 13.

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 2007, 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", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "objective", the use of the conditional tense, and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: 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 seasonal nature of certain businesses notably the Educational Publishing Group, the effects of changes in interest rates; the effects of competition in the markets in which we operate; judicial judgments 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, but not limited to, timely development and introduction of new products and services, changes in tax laws, technological changes, new regulations; 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 Corporation, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf. See "Risks and Uncertainties" for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on information available as of March 15, 2007.

HIGHLIGHTS

- 1% growth in revenues principally as a result of acquisitions completed last year and an increase in sales volumes of certain businesses, notably the Mexico Group, the Book Group and the Distribution Group. This was partially offset by the negative foreign exchange impact, the soft advertising market, which affected our newspaper publishing and printing operations as well as our retail operations, and by divestitures and ceased publications of certain businesses.
- 4% decrease in adjusted operating income before amortization due to a decrease in volume of certain businesses, the foreign exchange impact and an increase in certain investments in the Media sector, partially offset by the contribution from acquisitions completed last year, the increase in volume of certain businesses and cost reduction initiatives.
- Adjusted operating income margin before amortization of 13.3% in the first quarter of 2007, compared to 14.0% in the first quarter of 2006.
- Announced a restructuring plan for commercial printing operations, in both the Printing Products and Services and Marketing Products and Services sectors, for a total cost of \$9.2 million. Impairment of assets and restructuring costs totalling \$7.2 million before tax (or \$4.9 million after tax), including this latest restructuring plan, was charged to income for the first quarter.
- Net income for the first quarter decreased by \$7.7 million, or 28%, from \$27.9 million in the first quarter of 2006 to \$20.2 million in the first quarter of 2007. On a per-common-share basis, it decreased 23%, from \$0.31 to \$0.24, as the decrease was softened by the share buy-back program.
- Adjusted net income, which does not take into account impairment of assets and restructuring costs, decreased by 10%, from \$28.0 million in the first quarter of 2006 to \$25.1 million in the first quarter of 2007. On a per-common-share basis, it decreased 9%, from \$0.32 to \$0.29.
- Acquired two community newspapers in the Saskatchewan area, divested our interest in *TV Hebdo* and launched our web strategy for *TV Guide*.
- The bulk of the \$5 million investment, for the extension of our digital network, the development of new products and services and the leverage of our brands, previously announced for the Media sector, was recorded in the first quarter.
- Signed an agreement for an exclusive five-year contract with Hudson's Bay Company, valued at approximately \$350 million, of which approximately \$75 million is new business for Transcontinental and is slated to start in the second quarter.
- Signed an exclusive 15-year contract with Hearst Corporation, valued at US\$1 billion excluding paper, to print the *San Francisco Chronicle* daily newspaper and its related products, as well as provide complete post-press services.
- The Corporation announced today it was increasing its quarterly dividend by 7.7% to \$0.07 per share.
- Renewed our normal course issuer bid. Between November 1, 2006 and March 14, 2007, the Corporation purchased for cancellation 674,300 shares under its normal course issuer bid, for a total consideration of \$14.4 million.
- Solid financial position to pursue growth, with a net indebtedness to total capitalization ratio of 28% and approximately \$400 million available under existing credit facilities and operating lines of credit as at January 31, 2007.
- Taking into consideration a constant exchange rate of 1.10 CAD/USD for the remainder of the year, Transcontinental's management maintains its previously stated earnings-per-share objective before unusual items of \$1.52 to \$1.65 for fiscal 2007. It is important to note that we expect the second half of the year to be superior to what it has been historically, compared to the first half, mainly due to the trend towards greater seasonality from some of our business segments.

STRATEGIC ORIENTATION UPDATE: *EVOLUTION 2010*

The largest printer in Canada and sixth-largest in North America, Transcontinental is also the country's leading consumer magazine publisher, second largest community newspaper publisher and largest publisher of French-language educational resources. 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.A, TCL.B) has more than 14,500 employees in Canada, the United States and Mexico, and reported revenues of \$2.3 billion in 2006.

Evolution 2010, our business project, builds on the achievements of *Horizon 2005* but goes a step further. Transcontinental is adapting and changing to the new realities of increased competition and globalization, a stronger Canadian dollar, technological advances and the emergence of new media channels. We are investing more than ever in our long-term development.

Growth will continue to 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 even 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 to improve 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 the innovative and creative initiatives of our people, while continuing to target strategic acquisitions. We will also be investing more heavily in our long-term development.

From the start, management believed that the goals of this business project could be achieved in five ways. However, after the first year of execution, management came to the conclusion that these five ways needed to be slightly tweaked in order to reflect the work in process. Although they encompass basically the same content as before, they are worded differently and add an innovative component: develop an innovative culture across the organization; implement a talent management strategy; reduce cycle times in both production and administrative functions by optimizing the processes; expand our offer by adding digital products and services (media: increase our revenues coming from the Internet and other digital platforms; print: expand our offer by adding value added services); exploit organic growth opportunities (media: launch new products and services that complement our activities; print: exploit opportunities such as outsourcing, cross selling etc.). Below is a description of what was accomplished, with regards to *Evolution 2010*, in the first quarter of 2007.

We signed an exclusive 15-year contract with Hearst Corporation to print the *San Francisco Chronicle* daily newspaper and its related products, as well as provide complete post-press services. The production is slated to begin in the spring of 2009 in a new plant equipped with state-of-the-art technology in the San Francisco Bay Area. The contract with the *Chronicle* plus the printing of other products at this new facility will surpass US\$1 billion in total revenues (US\$2 billion including paper) over the 15-year period. This contract with Hearst Corporation is yet another vote of confidence for our market-leading newspaper production model, and is just the first of many strategic footprints Transcontinental is developing in the U.S. with newspaper industry leaders. In line with this strategy, we have set up a new division to be responsible for the management of newspaper printing operations in the U.S. While we have started to work on this project, a dedicated team is currently in place to further develop sales in this unique newspaper outsourcing model.

In addition, we launched the new web strategy for *TV Guide*. Essentially, we transitioned the paper publication of *TV Guide* to web only. *TV Guide's* move to the web is an exciting new direction for this mature and trusted brand, and in this case, going with a web-only product is a fitting format for the time-sensitive and frequently changing nature of the

content this publication provides. Available across Canada at Sympatico.MSN.ca, the new *TV Guide* online publication offers timely and detailed television listings, region-specific programming line-ups and updates, and the same highly consulted and original editorial content, entertainment news and commentary readers have come to rely on from Canada's most recognized and trusted brand for TV information. In line with this strategy, we also sold our interest in *TV Hebdo*. We also re-launched the web portal for lesaffaires.com in February. Furthermore, we are currently working on launching new web portals in upcoming months and are preparing the launch of the Canadian version of *More* magazine in the spring of 2007.

Moreover, we continue to implement a talent management strategy. Teams are in place to execute this strategy as well as structure it to monitor some of the progress. The initiatives launched in the first quarter are *Succession Plans for Key Positions & Leadership Review*, *Employer Branding*, *Senior Management Assessment Tool* and *Corporate Management Trainee Program*. Besides these four initiatives, we will focus on accelerating the development, mobilization and acquisition of skills and talent. We will also continue to move forward with our other initiatives, such as *Mission: Leadership*, which was deployed to over 80% of our managers so far.

Finally, we put in place pilot projects in a few plants using various tools to help us improve productivity and efficiency. After these projects deliver the anticipated results, we will roll them out to our other plants. In addition, we are continuing to deploy our integrated manufacturing software across all our printing plants.

Selected financial data Unaudited

(in millions of dollars, except per share data)	Three months ended		Change in %
	January 31		
	2007	2006	
Operations			
Revenues ⁽¹⁾	\$ 568.2	\$ 565.3	1
Adjusted operating income before amortization ^{(2) (3)}	75.7	79.2	(4)
Operating income	38.2	50.3	(24)
Net income	20.2	27.9	(28)
Adjusted net income ^{(2) (4)}	25.1	28.0	(10)
Cash flow from operating activities before changes in non-cash operating items ⁽²⁾	61.9	70.4	(12)
Cash flow used in operating activities	(1.9)	(110.0)	-
Investments			
Acquisitions of property, plant and equipment	26.1	22.7	15
Business acquisitions ⁽⁵⁾	10.0	-	-
Financial condition			
Total assets	2,192.8	2126.2	3
Net indebtedness ^{(2) (6)}	457.4	437.2	5
Shareholders' equity	1,164.6	1098.4	6
Net indebtedness / Total capitalization	0.28	0.28	-
Per share data (basic)			
Net income	\$ 0.24	\$ 0.31	(23)
Adjusted net income ^{(2) (4)}	0.29	0.32	(9)
Cash flow from operating activities before changes in non-cash operating items ⁽²⁾	0.72	0.79	(9)
Cash flow used in operating activities	(0.02)	(1.24)	-
Dividends on shares	0.065	0.055	18
Shareholders' equity	13.61	12.51	9
Average number of shares outstanding (in millions)	85.8	88.6	
Number of shares at end of period (in millions)	85.6	87.8	

⁽¹⁾ Prior period revenues have been reclassified to conform with the current period presentation.

⁽²⁾ Please refer to the section "Reconciliation of non-GAAP financial measures" on page 13 in this Management's Discussion and Analysis.

⁽³⁾ Adjusted operating income before amortization refers to operating income before amortization, impairment of assets and restructuring costs.

⁽⁴⁾ Adjusted net income refers to net income before impairment of assets and restructuring costs, net of income taxes (See Note 4 to the consolidated financial statements).

⁽⁵⁾ Total consideration in cash or otherwise for businesses acquired through the purchase of shares or assets.

⁽⁶⁾ Net indebtedness refers to long-term debt plus current portion of long-term debt plus bank overdraft less cash and temporary investments.

DETAILED ANALYSIS OF FIRST QUARTER 2007 OPERATING RESULTS

Analysis of Main Variances - Consolidated Results For the First Quarter Ended January 31, 2007 (unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income before amortization	%	Net income	%
Results –First Quarter 2006	\$ 565.3		\$ 79.2		\$ 27.9	
Acquisitions/Divestitures/Closings	6.4	1.1%	3.7	4.7%	0.5	1.8%
Existing operations						
Paper effect	(1.7)	(0.3%)	0.6	0.8%	0.4	1.4%
Exchange rate	(5.1)	(0.9%)	(3.5)	(4.4%)	(2.3)	(8.2%)
Impairment of assets and restructuring costs	–	–	–	–	(4.8)	(17.2%)
Organic growth	3.3	0.6%	(4.3)	(5.4%)	(1.5)	(5.4%)
Results –First Quarter 2007	\$ 568.2	0.5%	\$ 75.7	(4.4%)	\$ 20.2	(27.6%)

As shown in the above table, a number of factors contributed to the variation between results in the first quarter of 2007 and the first quarter of 2006.

- The acquisition of educational book publisher Chenelière Éducation and small but strategic acquisitions completed in 2006 net of the divestiture of *TV Hebdo* and the web strategy for *TV Guide* contributed \$6.4 million to revenues and \$3.7 million to adjusted operating income before amortization. Net of financing and other expenses, the contribution to net income was \$0.5 million.
- The paper effect had a \$1.7 million negative impact on revenues. This effect includes the variation in the price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for printing operations, these elements affect revenues without impacting adjusted operating income before amortization. For the Media sector, the variation in the price of paper had a positive impact of \$0.6 million on adjusted operating income before amortization and \$0.4 million on net income.
- Variations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts caused a \$5.1 million decrease in revenues and a \$3.5 million decrease in adjusted operating income before amortization. It is important to note that the spot exchange rate was 1.14CAD/USD on average in the first quarter of 2007 versus 1.17 CAD/USD on average in the first quarter of 2006, a 3% variation. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of approximately \$2.3 million. For export sales from Canadian plants, net of the currency hedging program, the negative impact was \$2.8 million. The negative impact of the conversion of results for U.S. and Mexican units was \$0.2 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 \$4.0 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 \$0.7 million on adjusted operating income before amortization. Taking into consideration amortization, financial expenses and income taxes denominated in foreign currencies, the net negative effect was \$2.3 million, representing a 8.2% negative variation on net income.
- Organic revenue growth, which excludes acquisitions, divestitures, closings, the paper and exchange-rate effects as well as unusual items, was \$3.3 million, or 0.6%, in the first quarter of 2007. The increase comes mainly from our Mexico Group, the Distribution Group and the Book Group. These activities more than offset

lower volumes from our businesses affected by the soft advertising market, which includes newspaper printing, newspaper publishing and retail printing as well as the delay of certain orders in the Catalogue and Magazine Group.

- Organic growth in adjusted operating income before amortization was negative in the first quarter of 2007; it decreased by \$4.3 million, or 5.4%. Cost reduction initiatives combined with the increase in volume from our Mexico Group, Distribution Group and Book Group were unable to offset the investments for initiatives relating to the *Evolution 2010* business project and the timing of circulation and promotion expenses in the Media sector, lower volumes from our businesses affected by the soft advertising market mentioned above and lower volume from the Catalogue and Magazine Group. At the net-income level, it decreased by \$1.5 million or 5.4%.

Amortization

Amortization expense increased by \$1.5 million, or 5%, in the first quarter of 2007, to \$30.3 million compared to \$28.8 million in the first quarter of 2006. This increase results mostly from acquisitions and new machinery and equipment acquired for the book printing manufacturing platform last year.

Impairment of assets and restructuring costs

During the first quarter of fiscal 2007, the Corporation initiated a restructuring plan for its commercial printing operations in the Printing Products and Services and Marketing Products and Services sectors. Total restructuring costs related to this plan are expected to reach \$9.2 million within the next twelve months, of which \$3.5 million are for an impairment of assets for building and equipment that are no longer necessary in the ongoing operations of the Corporation, \$3.1 million are for workforce reduction costs and \$2.6 million for the transfer of printing equipment and other costs. This plan includes, among others, the closing of certain smaller facilities and will allow for a significant reduction in operating costs of this business segment in order to re-establish its competitive position.

An amount of \$7.2 million before tax (\$4.9 million after tax) was accounted for separately in the consolidated statement of income for the first quarter of 2007 as "Impairment of assets and restructuring costs". This amount is related to the following:

- An amount of \$6.7 million was charged to income related to the aforementioned restructuring plan of which \$3.5 million is for an impairment of assets, \$3.1 million is for workforce reduction costs, and \$0.1 million is for the transfer of printing equipment and other costs
- An amount of \$0.4 million was charged to income for the transfer of printing equipment and other costs relating to the consolidation of commercial products and direct marketing printing facilities located in the Toronto area in the Marketing Products and Services sector - initiated in 2006
- An amount of \$0.1 million was charged to income for the transfer of printing equipment and other costs relating to the consolidation of certain book printing operations in the Printing Products and Services sector - initiated in 2005

In 2006, an amount of \$0.1 million was accounted for 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.

Financial expenses and discount on sale of accounts receivable

When combined, financial expenses and discount on the sale of accounts receivable increased \$1.5 million, or 17%, from \$8.7 million in the first quarter of 2006 to \$10.2 million in the first quarter of 2007. This increase is primarily due to financial expenses linked to acquisitions, an increase in interest rates and the share buy-back program.

Income taxes

The income tax rate decreased from 31.7% in the first quarter of 2006 to 26.8% in the first quarter of 2007, mainly due to the change in the geographic composition of pre-tax earnings. Excluding the impairment of assets and restructuring costs, the income tax rate would have been 27.9% for the first quarter of 2007.

Net income

Net income decreased by \$7.7 million, or 28%, from \$27.9 million in the first quarter of 2006 to \$20.2 million in the first quarter of 2007, coming mainly from impairment of assets and restructuring costs related to commercial printing operations, the negative foreign exchange impact, investments for initiatives relating to the Evolution 2010 business project, a decrease in the volumes of certain businesses, as well as increases in amortization and financial expenses. These items were partially offset by a lower income tax rate. On a per-common-share basis it decreased by 23% from \$0.31 to \$0.24, as the decrease was softened by the share buy-back program.

Adjusted net income, which does not take into account an amount of \$4.9-million after-tax for impairment of assets and restructuring costs in the first quarter of 2007 or a \$0.1 million after-tax impairment of assets and restructuring costs in the first quarter of 2006, decreased by 10%, from \$28.0 million in the first quarter of 2006 to \$25.1 million in the first quarter of 2007. On a per-common-share basis, it decreased by 9%, from \$0.32 to \$0.29, as the decrease was softened by the share buy-back program.

REVIEW OF OPERATING SECTORS FOR THE FIRST QUARTER OF 2007

Analysis of Main Variances – Sector Results For the First Quarter Ended January 31, 2007 (unaudited)

(in millions of dollars)	Printing Products and Services Sector	Marketing Products and Services Sector	Media Sector	Inter-segment and Other Results	Consolidated Results
Revenues – First Quarter 2006	\$ 175.6	\$ 280.6	\$ 133.8	\$ (24.7)	\$ 565.3
Acquisitions/Divestitures/Closures	–	–	6.4	–	6.4
Existing operations					
Paper effect	0.4	(2.1)	–	–	(1.7)
Exchange rate	(1.5)	(3.6)	–	–	(5.1)
Organic growth	7.9	(8.2)	2.4	1.2	3.3
Revenues – First Quarter 2007	\$ 182.4	\$ 266.7	\$ 142.6	\$ (23.5)	\$ 568.2
Adjusted operating income before amortization –First Quarter 2006	\$ 25.5	\$ 37.6	\$ 19.7	\$ (3.6)	\$ 79.2
Acquisitions/Divestitures/Closures	–	–	3.7	–	3.7
Existing operations					
Paper effect	–	–	0.6	–	0.6
Exchange rate	(1.0)	(2.5)	–	–	(3.5)
Organic growth	6.9	(4.5)	(4.3)	(2.4)	(4.3)
Adjusted operating income before amortization –First Quarter 2007	\$ 31.4	\$ 30.6	\$ 19.7	\$ (6.0)	\$ 75.7

This review of operating sectors should be read in conjunction with the information presented in the above table and the information disclosed in the Segmented Information note (note 13) to the Consolidated Financial Statements for the three-month period ended January 31, 2007.

Management believes that adjusted operating income before amortization by business segment used in this section is a meaningful measure of its performance. Management uses this measure in evaluating the Corporation's financial performance by business segment.

Printing Products and Services Sector

Revenues in the Printing Products and Services sector rose from \$175.6 million in the first quarter of 2006 to \$182.4 million in the first quarter of 2007, an increase of \$6.8 million, or 4%. Excluding foreign exchange and paper, revenue increased 7.9 million, or 5%. Organic growth was primarily generated in our Mexico Group, as a result of business development with existing customers as well as further inroads in the magazine market. In addition, the Book Group generated new sales following the revamp of its manufacturing platform. The strong performance from these two groups was partially offset by the Newspaper Group which was negatively affected by a soft advertising market.

Adjusted operating income before amortization rose from \$25.5 million in the first quarter of 2006 to \$31.4 million in the first quarter of 2007, an increase of \$5.9 million, or 23%. Excluding foreign exchange, organic growth was 27%. Organic growth was primarily generated from sales development efforts in our Mexico Group and from cost cutting initiatives across all groups. While the sales from the Commercial Products Group are challenging in the current market environment, we were able to improve our competitiveness by better controlling our costs as a result of specific initiatives put in place. As a result, the adjusted operating income margin before amortization increased from 14.5% in the first quarter of 2006 to 17.2% in 2007.

In the quarter we signed an exclusive 15-year contract with Hearst Corporation to print the *San Francisco Chronicle* daily newspaper and its related products, as well as provide complete post-press services. The production is slated to begin in the spring of 2009 in a new plant equipped with state-of-the-art technology in the San Francisco Bay Area. The contract with the Chronicle plus the printing of other products at this new facility will surpass US\$1 billion in total revenues (US\$2 billion including paper) over the 15-year period. This contract with Hearst Corporation is yet another vote of confidence for our market-leading newspaper production model, and is just the first of many strategic footprints Transcontinental is developing in the U.S. with newspaper industry leaders.

For the balance of the year, the Newspaper Group is expected to continue to pursue the development of its newspaper outsourcing model and benefit from higher page counts and use of color. The Book Group will continue to work on developing new customers in order to leverage its new manufacturing platform and will start gearing up for the strong book printing season in the summer and fall months. The Commercial Products Group will continue to look for new ways to improve its competitiveness within the current market environment. Finally our Mexico Group is expected to accelerate the sales development in the magazine market and leverage existing customers for additional business.

Marketing Products and Services Sector

Revenues in the Marketing Products and Services sector decreased from \$280.6 million in the first quarter of 2006 to \$266.7 million in the first quarter of 2007, a decrease of \$13.9 million, or 5%. Excluding paper and foreign exchange, revenue decreased \$8.2 million, or 3%. This revenue decrease was primarily due to the Catalogue and Magazine Group which was affected by the delay of certain orders. In addition, the Retail Group experienced reduced programs from retailers, due to poor Christmas results and unusual winter weather conditions, combined with the full impact of last year's price erosions. In fact, retail spending seems to be becoming more seasonal with highs in the spring and the fall.

Adjusted operating income before amortization decreased from \$37.6 million in the first quarter of 2006 to \$30.6 million in the first quarter of 2007, a decrease of \$7.0 million or 19%. Excluding foreign exchange, it decreased \$4.5 million, or 12%. This decrease was directly related to the sales shortfall in the Catalogue and Magazine Group

and the Retail Group as explained above. Furthermore, this decrease was exacerbated by an unfavourable product mix in the Direct Marketing Group which effectively reduced profitability. In fact, while market conditions for direct mail were strong in the first quarter, we are seeing a trend to simpler packages as we approach the postal rate increase in the spring. This is partially offset by increased activity in commingling services. As a result, the adjusted operating income margin before amortization decreased from 13.4% in the first quarter of 2006 to 11.5% in the first quarter of 2007.

In the quarter, we signed an agreement for an exclusive five-year contract with Hudson's Bay Company for all flyer printing for Zellers, The Bay, Home Outfitters and HBC Loyalty Programs. The contract also includes extensive use of Transcontinental's value-added product and service offering that supports its market-leading flyer-printing capabilities, including catalogue printing, the full suite of direct marketing services including database analytics, custom publishing and, in select regions, flyer distribution. The five-year contract began February 1, 2007 and is valued at approximately \$350 million, of which approximately \$75 million is new business for Transcontinental.

For the balance of the year, the Direct Marketing Group is expected to continue developing business in new vertical markets, benefit from its newly revamped manufacturing platform and leverage its value added services. The Retail Group is expected to start benefiting from the new extended contract with the Hudson's Bay Company and the new KBA press in Saint-Hyacinthe as well as continue to develop non-traditional customers and offer more value-added services in order to gain market share. The Catalogue and Magazine Group is expected to continue to grow sales in both Canada and the U.S. by exploiting its sales funnel. Finally, the Premedia Group is expected to continue to grow its customer base and expand its product and service offering.

Media Sector

Revenues in the Media sector rose from \$133.8 million in the first quarter of 2006 to \$142.6 million in the first quarter of 2007, an increase of \$8.8 million, or 7%. Excluding acquisitions, divestitures and closings, revenue growth was \$2.4 million, or 2%. The contribution from strategic acquisitions in digital media, newspaper publishing and book publishing completed last year was partially offset by the sale of *TV Hebdo* and the transition of the paper publication of *TV Guide* to web only. The net revenue contribution from these activities was \$6.4 million. Organic growth was primarily generated by the Distribution Group, driven by higher national sales, the women's digital portals and the Magazine Group, fuelled by our strong brand *Coup de Pouce*. The performance of these three groups more than offset the Newspaper Group which was negatively affected by a soft advertising market across all geographic areas.

Adjusted operating income before amortization remained stable at \$19.7 million. The net contribution from the strategic acquisitions and divestitures mentioned above was \$3.7 million. Excluding acquisitions, divestitures, closings and paper, adjusted operating income before amortization decreased \$4.3 million, or 22%. In fact, organic growth from the Distribution Group was more than offset by a decrease in the Newspaper Group fuelled by a soft advertising market, the timing of circulation and promotion expenses and investments for initiatives relating to the *Evolution 2010* business project. For the first quarter, these investments were in large part linked to the launch of the Canadian version of *More* magazine in the spring. As a result, the adjusted operating income margin before amortization decreased to 13.8% from 14.7%.

In the first quarter of 2007 we acquired *Radville Star Management*, owner of two newspapers, *The Radville Star*, founded in 1911 and *The Deep South Star*, founded in 1993. The two well-established papers cover more than 2000 homes in the Radville area of Saskatchewan. The acquisition brings Transcontinental Media's newspaper total to 165 community publications across Canada, totalling some 220 million copies annually. This acquisition is part of our long-term strategy to create a greater presence in Saskatchewan. With four well established papers in the area we are building a strong editorial presence in Southern Saskatchewan, and now have great advertising solutions to offer our clients who want an opportunity to expand their reach in Southern Saskatchewan.

For the balance of the year, the Distribution Group should continue to perform well. The Newspaper Group should benefit from the upcoming provincial elections in Quebec and possibly other provinces. The Magazine Group should continue to benefit from its strong brands and contract publishing. While the investments for initiatives relating to our Evolution 2010 business project will negatively affect our short term results, over the mid-to-long term, we expect they will significantly contribute to the achievement of our strategic goals. In addition, while sales will be negatively affected by the divestiture of *TV Hebdo* and the new web strategy for *TV Guide*, the bottom line should improve. The Educational Publishing Group should benefit from the strong anticipated back to school period. Finally, the Digital Media Group should continue to develop new growth platforms.

Inter-Segment and Other Results

Inter-segment and other revenues went from a negative \$24.7 million in 2006 to a negative \$23.5 million in 2007. The variation is attributable to a decrease in inter-segment revenues. Adjusted operating income before amortization went from a negative \$3.6 million to a negative \$6.0 million. The variation is explained by certain expenses related to strategic investments to support the *Evolution 2010* business project and various other expenses.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

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

Reconciliation of non-GAAP financial measures For the First Quarter Ended January 31 (unaudited)

(in millions of dollars, except per share amounts)	2007	2006
Net income	\$ 20.2	\$ 27.9
Non-controlling interest	0.3	0.5
Income taxes	7.5	13.2
Discount on sale of accounts receivable	3.2	2.1
Financial expenses	7.0	6.6
Impairment of assets and restructuring costs	7.2	0.1
Amortization	30.3	28.8
Adjusted operating income before amortization	\$ 75.7	\$ 79.2
Net income	\$ 20.2	\$ 27.9
Impairment of assets and restructuring costs (after tax)	4.9	0.1
Adjusted net income	25.1	28.0
Average number of shares outstanding	85.8	88.6
Adjusted earnings per share	\$ 0.29	\$ 0.32
Cash flow related to operating activities	\$ (1.9)	\$ (110.0)
Changes in non-cash operating items	(63.8)	(180.4)
Cash flow from operating activities before changes in non-cash operating items	\$ 61.9	\$ 70.4
Long-term debt	\$ 478.9	\$ 478.5
Current portion of long-term debt	10.7	8.4
Bank overdraft	—	0.5
Cash and temporary investments	(32.2)	(50.2)
Net indebtedness	\$ 457.4	\$ 437.2

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Results (unaudited)

(in millions of dollars, except per -share amounts)	2007		2006				2005	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	\$ 568	\$ 601	\$ 529	\$ 571	\$ 565	\$ 610	\$ 546	\$ 574
Adjusted operating income before amortization	76	97	75	91	79	103	80	98
Adjusted operating income margin before amortization	13.3%	16.2%	14.1%	16.0%	14.0%	16.9%	14.6%	17.0%
Operating income	\$ 38	\$ 62	\$ 45	\$ 59	\$ 50	\$ 73	\$ 49	\$ 64
Net income	20	52	25	34	28	45	27	38
Per share	0.24	0.60	0.28	0.39	0.31	0.50	0.31	0.43
Adjusted net income	25	42	28	36	28	45	28	41
Per share	0.29	0.49	0.33	0.41	0.32	0.50	0.31	0.46
% of fiscal year	—	31%	21%	27%	21%	31%	20%	29%

The table above shows the evolution of the Corporation's quarterly results. Note that stronger results are in the second and fourth quarters, as advertising spending is usually stronger in the spring and fall, generating higher revenues in both publishing and printing operations. The fall is also the strongest period for book printing and for our new Educational Publishing Group. It is important to note that we are seeing a trend towards more pronounced seasonality, in the spring and fall, in many of our businesses.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Principal Cash Flows and Financial Condition For the First Quarter Ended January 31 (unaudited)

(in millions of dollars)	2007	2006
Operating activities		
Cash flow from operating activities before changes in non-cash operating items	\$ 61.9	\$ 70.4
Changes in non-cash operating items	(63.8)	(180.4)
Cash flow from operating activities	(1.9)	(110.0)
Investing activities		
Business acquisitions, net of disposals	(10.0)	--
Acquisitions of property, plant and equipment, net of disposals	(21.9)	(21.4)
Other	(5.2)	(3.5)
Cash flow from investing activities	(37.1)	(24.9)
Financing activities		
Reimbursement of long-term debt	(2.1)	(1.1)
Issuance (redemption) of shares	(10.0)	(30.6)
Dividends on shares	(5.6)	(4.8)
Other	(0.5)	(0.5)
Cash flow from financing activities	(18.2)	(37.0)
Other relevant information		
Net indebtedness	457.4	437.2
Shareholders' equity	1,164.6	1,098.4
Net indebtedness / total capitalization ratio	28%	28%
Credit rating		
DBRS	BBB high	BBB high
	Negative trend	Stable
Standard and Poor's	BBB	BBB
	Stable	Stable

Operating activities

For the first quarter of 2007, cash flow from operating activities before changes in non-cash operating items decreased to \$61.9 million from \$70.4 million in the first quarter of 2006. Changes in non-cash operating items required an outflow of \$63.8 million in the first quarter of 2007 compared to an outflow of \$180.4 million in the first quarter of 2006, mainly due to an increase in the use of the securitization program in 2007 while it had decreased in 2006 and to the timing in the payment of income taxes. As a result, cash flow from operating activities required an outflow of \$1.9 million in the first quarter of 2007 compared to an outflow of \$110.0 million in the first quarter of 2006.

Investing activities

In the first quarter of 2007 \$21.9 million was invested in property, plant and equipment, net of disposals, in line with the \$21.4 million invested in 2006.

Financing activities

The Corporation paid \$5.6 million in dividends in the first quarter of 2007 compared to \$4.8 million in the first quarter of 2006, an increase of 17%. Moreover, the Corporation announced today an increase in its quarterly dividend by 7.7% to \$0.07 per share starting in the second quarter.

The Corporation is authorized to purchase for cancellation on the open market, between November 21, 2006 and November 20, 2007, up to 3,448,698 of its Class A Subordinate Voting Shares, representing 5% of the 68,973,966 issued and outstanding Class A Subordinate Voting Shares as of November 7, 2006, and up to 852,907 of its Class B Shares, representing 5% of the 17,058,145 issued and outstanding Class B Shares as of November 7, 2006. The purchases are 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.

Between November 21, 2006 and January 31, 2007, the Corporation purchased 427,400 of its Class A Subordinate Voting Shares at a weighted average price of \$21.32 for a total consideration of \$9.1 million and 5,300 of its Class B Shares at a weighted average price of \$21.21 for a total consideration of \$0.1 million in accordance with its renewed Normal Course Issuer Bid. Of the total consideration of \$9.2 million, \$2.4 million corresponds to the book value and \$6.8 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

Between November 1, 2006 and November 20, 2006, the Corporation purchased 39,600 of its Class A Subordinate Voting Shares at a weighted average price of \$20.07 for a total consideration of \$0.8 million and none of its Class B Shares in accordance with its previous Normal Course Issuer Bid as described in Note 17 of the consolidated financial statements for the year ended October 31, 2006. Of the total consideration of \$0.8 million, \$0.2 million corresponds to the book value and \$0.6 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

During the first quarter of fiscal 2006, the Corporation purchased 1,501,400 of its Class A Subordinate Voting Shares at a weighted average price of \$19.25 for a total consideration of \$28.9 million and 150,700 of its Class B Shares at a weighted average price of \$19.25 for a total consideration of \$2.9 million in accordance with its previous Normal Course Issuer Bid as described in Note 17 of the consolidated financial statements for the year ended October 31, 2006. Of the total consideration of \$31.8 million, \$8.5 million corresponds to the book value and \$23.3 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

Debt instruments

As at January 31, 2007, the Corporation's net indebtedness stood at \$457.4 million and its net indebtedness to total capitalization ratio was 28%, compared to 28% in the first quarter of 2006 and 25% at the end of 2006.

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. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

As of January 31, 2007, letters of credit amounting to C\$0.4 million and US\$12.2 million were drawn on the committed line of credit. In the first quarter of 2007 and during the years ended October 31, 2006 and 2005, the Corporation has not been in default under any of its obligations. Other than long-term debt obligations, the Corporation has commitments, mainly comprised of operating leases.

In 2007, Unsecured Senior Debentures totalling \$100 million will mature. These debentures are not included in the current portion of long-term debt on the consolidated balance sheets as at January 31, 2007 as they will be reimbursed using the existing term revolving credit facility.

During the first quarter of fiscal 2007, the Corporation entered into new commitments to acquire \$55.0 million (US\$42.3 million, €\$1.9 million and C\$2.2 million) of machinery and equipment. Minimum payments required in 2007, 2008 and 2009 are \$35.0 million, \$15.3 million and \$4.7million, respectively.

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.

As at January 31, 2007, \$322 million of accounts receivable (\$282 million as at October 31, 2006) had been sold under the accounts receivable securitization program, of which \$49 million (\$39 million as at October 31, 2006) were kept by the Corporation as retained interest, resulting in a net consideration of \$273 million, including C\$236 million and US\$32 million (\$243 million as at October 31, 2006, including C\$206 million and US\$33 million). This 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 sale of accounts receivable of \$3.2 million for the three-month period ended January 31, 2007 (\$2.1 million for the same period in 2006). The Corporation is in compliance with all its covenants under the agreements governing this program.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

CHANGES IN ACCOUNTING POLICIES

Financial instruments – recognition and measurement

On November 1, 2006, the Corporation adopted Section 3855 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, "Financial Instruments – Recognition and Measurement". 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 has made the following classifications:

- Cash and temporary investments are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Other than temporary investments will be classified as either financial assets held to maturity and will thus be measured at cost or as available-for-sale and will thus be marked-to-market through comprehensive income at each period end.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

- Bank overdraft, accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

The adoption of this Section is done retroactively without restatement of the consolidated financial statements of prior periods. As at November 1, 2006, the impact on the consolidated balance sheet of measuring the financial assets and liabilities using the effective interest rate method and of reclassifying the costs directly attributable to the issuance of the long-term debt was an increase in future income tax assets of \$0.1 million and a decrease in property, plant and equipment, other assets, long-term debt and opening retained earnings of \$1.2 million, \$1.8 million, \$2.7 million and \$0.2 million, respectively.

The impact on the consolidated balance sheet of measuring hedging derivatives at fair value as at November 1, 2006 was an increase in other assets, future income tax liabilities, other liabilities and accumulated other comprehensive income of \$6.5 million, \$1.8 million, \$0.9 million and \$3.8 million, respectively. Prior periods were not restated.

The Corporation selected November 1, 2002 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

Comprehensive income

On November 1, 2006, the Corporation adopted Section 1530 of the CICA Handbook, "Comprehensive Income". It describes 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 implied that the Corporation now presents a consolidated statement of comprehensive income as a part of the consolidated financial statements. The comparative statements are restated to reflect the application of this Section for changes in the balances for foreign currency translation of self-sustaining foreign operations.

Equity

On November 1, 2006, the Corporation adopted Section 3251 of the CICA Handbook, "Equity", replacing Section 3250, "Surplus". It describes standards for the presentation of equity and changes in equity for reporting period as a result of the application of Section 1530, "Comprehensive Income".

Hedges

On November 1, 2006, the Corporation adopted Section 3865 of the CICA Handbook, "Hedges". The recommendations of this Section expand the guidelines required by 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.

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. Three years ago, we created a specific position for risk management. The Director of risk management is responsible for the overall risk management program of the Corporation. 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

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

Credit

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

Difficulty Hiring Qualified Personnel

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

Economic Cycles

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

Exchange of Confidential Information

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

Geographic Distribution and Exchange Rate

Our net exposure to the exchange rate between the Canadian dollar and the U.S. dollar and Mexican pesos has not changed materially in the quarter. However, the exchange rate between the Canadian dollar and its U.S. counterpart has fluctuated significantly in the past few years and particularly in our first quarter. The spot exchange rate was 1.14 CAD/USD on average in the first quarter of 2007 and 1.17 CAD/USD on average in the first quarter of 2006, for a variation of 3%.

As at January 31, 2007, the Corporation had sold US\$108.3 million, of which US\$54.0 million, US\$52.3 million and US\$2.0 million will be sold in 2007, 2008 and 2009, respectively, (US\$82 million in fiscal 2006) 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 25 months, with rates varying from 1.1074 to 1.3183. The Corporation was also party to collars totalling US\$7.5 million (US\$9.5 million in fiscal 2006). The terms of these collar contracts range from four months to six months, with floor rates at 1.1000 and cap rates from 1.2178 to 1.2201. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the first quarter of 2007. In addition, the Corporation bought €2.2 million at an average rate of 1.3958 CAD/EUR for the next 12 months in connection with specific capital expenditures. For more information please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

Integration of Acquisitions

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

Interest Rate

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

Loss of Reputation

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

New Media

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

Raw Materials and Energy Prices

No major changes have occurred in the first quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

SUBSEQUENT EVENT

The Corporation purchased 169,300 of its Class A Subordinate Voting Shares at a weighted average price of \$21.71 for a total consideration of \$3.7 million and 32,700 of its Class B Shares at a weighted average price of \$21.94 for a total consideration of \$0.7 million between February 1, 2007 and March 14, 2007 in accordance with its Normal Course Issuer Bid as described in Note 7 of the consolidated financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The President and Chief Executive Officer and the Vice President and Chief Financial Officer have evaluated whether there were changes to internal control over financial reporting during the quarter ended January 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

OUTLOOK

For the balance of the year, we will primarily focus on: sales development in the Book Group, in order to reap the full benefits from our new manufacturing platform; sales development in the Catalogue and Magazine Group; improving the competitiveness of the Commercial Products Group; sales development in complementary verticals as well as leveraging our manufacturing platform in the Direct Marketing Group and finally pursue the digital turn in our Media Sector and prepare the Educational Publishing Group for the back-to-school season.

We are expecting the second half of the year to be superior to what it has been historically, compared to the first half, when we take into consideration the change in our business mix, driven by the Chenelière Education acquisition last year as well as a trend towards greater seasonality from some of our other business groups. In addition, we expect further improvement in the Book Group, a stronger advertising market, which will benefit our newspaper printing, newspaper publishing and retail printing operations, as well as the ongoing impact from cost reduction initiatives.

It is important to note, that the exchange rate between the Canadian dollar and its U.S. counterpart has trended upward in recent months, hovering closer to the 1.15 CAD/USD range than our assumption of 1.10 CAD/USD. However, given the significant fluctuations experienced in the past few years and rapid appreciation (depreciation) in some short time periods, between these two currencies, we have decided not to change our assumption at this time and instead take a "wait and see" approach. We will nevertheless diligently review this assumption every quarter and make changes to it as need be.

Therefore, taking into consideration a constant exchange rate of 1.10 CAD/USD for the remainder of the year, the positive effect from the share buy-back program, the additional investment of approximately \$5 million for initiatives relating to the *Evolution 2010* business project, Transcontinental's management maintains its earnings-per-share objective before unusual items of \$1.52 to \$1.65 for fiscal 2007.

On behalf of Management,



Benoît Huard
Vice President and Chief Financial Officer

March 15, 2007



CONSOLIDATED STATEMENTS OF INCOME
unaudited

(in millions of dollars, except per share data)	Three months ended	
	January 31	
	2007	2006
Revenues	\$ 568.2	\$ 565.3
Operating costs	427.4	425.9
Selling, general and administrative expenses	65.1	60.2
Operating income before amortization, impairment of assets and restructuring costs	75.7	79.2
Amortization	30.3	28.8
Impairment of assets and restructuring costs (Note 4)	7.2	0.1
Operating income	38.2	50.3
Financial expenses	7.0	6.6
Discount on sale of accounts receivable (Note 6)	3.2	2.1
Income before income taxes and non-controlling interest	28.0	41.6
Income taxes (Note 3)	7.5	13.2
Non-controlling interest	0.3	0.5
Net income	\$ 20.2	\$ 27.9
Per share (basic) (Note 7)		
Net income	\$ 0.24	\$ 0.31
Per share (diluted) (Note 7)		
Net income	\$ 0.23	\$ 0.31
Average number of shares outstanding (in millions)	85.8	88.6

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



CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

(in millions of dollars)	Three months ended	
	January 31	
	2007	2006
Balance, beginning of period, as previously reported	\$ 769.0	\$ 703.1
Financial instruments - recognition and measurement (Note 2)	(0.2)	-
Restated balance, beginning of period	768.8	703.1
Net income	20.2	27.9
	789.0	731.0
Premium on redemption of shares (Note 7)	(7.4)	(23.3)
Dividends on shares	(5.6)	(4.8)
Balance, end of period	\$ 776.0	\$ 702.9

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
unaudited

(in millions of dollars)	Three months ended	
	January 31	
	2007	2006
Net Income	\$ 20.2	\$ 27.9
Other comprehensive income:		
Unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	3.7	(0.4)
Unrealized losses on derivatives designated as cash flow hedges, net of income taxes of \$1.5 million	(3.0)	-
Reclassification adjustment for gains on derivatives designated as cash flow hedges in prior periods transferred to net income in the current period, net of income taxes of \$0.6 million	(1.2)	-
Change in gains (losses) on derivatives designated as cash flow hedges	(4.2)	-
Other comprehensive income	(0.5)	(0.4)
Comprehensive income	\$ 19.7	\$ 27.5

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



CONSOLIDATED BALANCE SHEETS
unaudited

(in millions of dollars)

As at January 31, 2007

As at October 31, 2006

Current assets		
Cash and temporary investments	\$ 32.2	\$ 89.3
Accounts receivable (Note 6)	130.3	176.3
Income taxes receivable	2.0	2.2
Inventories	86.6	92.8
Prepaid expenses and other current assets	16.4	17.4
Future income tax assets	4.1	6.3
	271.6	384.3
Property, plant and equipment	712.2	713.6
Goodwill	891.9	881.5
Intangible assets	163.8	165.8
Future income tax assets	63.5	59.1
Other assets	89.8	70.4
	\$ 2,192.8	\$ 2,274.7
Current liabilities		
Accounts payable and accrued liabilities	\$ 316.1	\$ 417.4
Income taxes payable	33.5	53.3
Deferred subscription revenues and deposits	53.4	54.2
Current portion of long-term debt	10.7	12.7
	413.7	537.6
Long-term debt	478.9	467.9
Future income tax liabilities	71.4	70.1
Other liabilities	63.4	42.0
	1,027.4	1,117.6
Non-controlling interest	0.8	0.8
Commitments (Note 12)		
Shareholders' equity		
Share capital (Note 7)	405.0	407.6
Contributed surplus (Notes 7 and 8)	7.5	6.9
Retained earnings	776.0	769.0
Accumulated other comprehensive income (Note 9)	(23.9)	(27.2)
	752.1	741.8
	1,164.6	1,156.3
	\$ 2,192.8	\$ 2,274.7

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



CONSOLIDATED STATEMENTS OF CASH FLOWS
unaudited

(in millions of dollars)	Three months ended	
	January 31	
	2007	2006
Operating activities		
Net income	\$ 20.2	\$ 27.9
Items not affecting cash and cash equivalents		
Amortization	34.5	31.7
Impairment of assets (reversal) (Note 4)	3.5	(0.5)
(Gain) loss on disposal of assets	(0.2)	0.1
Future income taxes	0.3	7.3
Non-controlling interest	0.3	0.5
Accrued pension benefit asset and liability fluctuation	2.7	3.1
Stock-based compensation and other stock-based payments (Note 8)	0.6	0.4
Other	-	(0.1)
Cash flow from operating activities before changes in non-cash operating items	61.9	70.4
Changes in non-cash operating items	(63.8)	(180.4)
Cash flow used in operating activities	(1.9)	(110.0)
Investing activities		
Business acquisitions (Note 10)	(10.0)	-
Acquisitions of property, plant and equipment	(22.0)	(22.7)
Disposals of property, plant and equipment	0.1	1.3
Increase in other assets	(5.2)	(3.5)
	(37.1)	(24.9)
Financing activities		
Reimbursement of long-term debt	(2.1)	(1.1)
Dividends on shares	(5.6)	(4.8)
Redemption of shares (Note 7)	(10.0)	(31.8)
Issuance of shares (Note 7)	-	1.2
Other	(0.5)	(0.5)
	(18.2)	(37.0)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	0.1	(0.4)
Decrease in cash and cash equivalents	(57.1)	(172.3)
Cash and cash equivalents at beginning of period	89.3	222.0
Cash and cash equivalents at end of period	\$ 32.2	\$ 49.7
Cash and cash equivalents are comprised of		
Cash and temporary investments	\$ 32.2	\$ 49.7
Additional information		
Interest paid	\$ 12.5	\$ 12.2
Income taxes paid	26.7	44.0

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

The interim financial statements should be read in conjunction with the most recent annual consolidated financial statements.

1. Significant accounting policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), using the same accounting policies as outlined in Note 1 and Note 2 to the consolidated financial statements for the year ended October 31, 2006, except for the changes in accounting policies described in Note 2. The operating results for the interim periods are not necessarily indicative of full-year results due to the seasonality of certain operations of the Corporation. Results of both publishing and printing operations are significantly influenced by the advertising market, which is stronger in the second and fourth quarters.

2. Changes in accounting policies

a) Financial instruments – recognition and measurement

On November 1, 2006, the Corporation adopted Section 3855 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, "Financial Instruments – Recognition and Measurement". 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 has made the following classifications:

- Cash and temporary investments are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Other than temporary investments will be classified as either financial assets held to maturity and will thus be measured at cost or as available-for-sale and will thus be marked-to-market through comprehensive income at each period end.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.
- Bank overdraft, accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

The adoption of this Section is done retroactively without restatement of the consolidated financial statements of prior periods. As at November 1, 2006, the impact on the consolidated balance sheet of measuring the financial assets and liabilities using the effective interest rate method and of reclassifying the costs directly attributable to the issuance of the long-term debt was an increase in future income tax assets of \$0.1 million and a decrease in property, plant and equipment, other assets, long-term debt and opening retained earnings of \$1.2 million, \$1.8 million, \$2.7 million and \$0.2 million, respectively.

The impact on the consolidated balance sheet of measuring hedging derivatives at fair value as at November 1, 2006 was an increase in other assets, future income tax liabilities, other liabilities and accumulated other comprehensive income of \$6.5 million, \$1.8 million, \$0.9 million and \$3.8 million, respectively. Prior periods were not restated.

The Corporation selected November 1, 2002 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

b) Comprehensive income

On November 1, 2006, the Corporation adopted Section 1530 of the CICA Handbook, "Comprehensive Income". It describes 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 implied that the Corporation now presents a consolidated statement of comprehensive income as a part of the consolidated financial statements. The comparative statements are restated to reflect the application of this Section for changes in the balances for foreign currency translation of self-sustaining foreign operations.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the three-month periods ended January 31

c) Equity

On November 1, 2006, the Corporation adopted Section 3251 of the CICA Handbook, "Equity", replacing Section 3250, "Surplus". It describes standards for the presentation of equity and changes in equity for reporting period as a result of the application of Section 1530, "Comprehensive Income".

d) Hedges

On November 1, 2006, the Corporation adopted Section 3865 of the CICA Handbook, "Hedges". The recommendations of this Section expand the guidelines required by 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.

3. Income taxes

	2007	2006
Statutory tax rate	30.7%	33.9%
Manufacturing and processing profits tax credits	(0.7)	(0.9)
Effect of foreign tax rate differences	(6.0)	(3.5)
Other	3.9	2.2
Effective tax rate before the following item:	27.9	31.7
Impairment of assets and restructuring costs	(1.1)	—
Effective tax rate	26.8%	31.7%

4. Impairment of assets and restructuring costs

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

(in millions of dollars)	Charged to income		Paid	
	2007	2006	2007	2006
Commercial printing operations (a)				
Impairment of assets	\$ 3.5	\$ —	\$ n/a	\$ n/a
Workforce reduction costs	3.1	—	0.4	—
Transfer of printing equipment and other costs	0.1	—	0.1	—
Toronto printing operations (b)				
Impairment of assets	—	—	n/a	n/a
Workforce reduction costs	—	—	0.4	—
Transfer of printing equipment and other costs	0.4	—	0.4	—
Book printing operations (c)				
Workforce reduction costs	—	—	—	0.7
Transfer of printing equipment and other costs	0.1	0.6	0.1	0.6
Manufacturing strategy (d)				
Workforce reduction costs	—	—	—	0.3
Winnipeg printing operations (e)				
Impairment of assets (reversal)	—	(0.5)	n/a	n/a
Workforce reduction costs	—	—	—	0.1
Transfer of printing equipment and other costs	—	—	—	0.2
	\$ 7.2	\$ 0.1	\$ 1.4	\$ 1.9



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the three-month periods ended January 31

4. Impairment of assets and restructuring costs (continued)

- a) During the first quarter of fiscal 2007, the Corporation initiated a restructuring plan for its commercial printing operations in the Printing Products and Services and Marketing Products and Services sectors. Total restructuring costs related to this plan are expected to reach \$9.2 million within the next twelve months, of which \$3.5 million are for an impairment of assets for building and equipment that are no longer necessary in the ongoing operations of the Corporation, \$3.1 million are for workforce reduction costs and \$2.6 million for the transfer of printing equipment and other costs. Of the \$9.2 million, an amount of \$6.7 million was charged to income during the first quarter of fiscal 2007, of which an amount of \$3.5 million is for an impairment of assets, \$0.2 million in the Printing Products and Services sector and \$3.3 million in the Marketing Products and Services sector; an amount of \$3.1 million is for workforce reduction costs, \$1.8 million in the Printing Products and Services sector and \$1.3 million in the Marketing Products and Services sector and an amount of \$0.1 million is for the transfer of printing equipment and other costs in the Printing Products and Services sector. As at January 31, 2007, an amount of \$2.7 million remained unpaid.
- b) During the second quarter of fiscal 2006, the Corporation adopted a plan for the consolidation of its commercial products and direct-marketing printing facilities located in the Toronto area in the Marketing Products and Services sector, which initially resulted in total restructuring costs of \$2.8 million over the six-month period following the announcement. Total restructuring costs were revised to \$4.0 million during the fourth quarter of fiscal 2006, of which \$2.8 million are for workforce reduction costs instead of the \$2.3 million initially estimated, \$1.0 million instead of the \$0.5 million initially estimated for the transfer of printing equipment and other costs and \$0.2 million for an impairment of assets, which was not initially identified. As at January 31, 2007, an amount of \$1.0 million remained unpaid.
- c) On April 5, 2005, the Corporation announced the consolidation of certain book printing operations in the Printing Products and Services sector, which initially resulted in an impairment of assets and total restructuring costs of \$6.1 million. Certain buildings and equipment that were 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 initially estimated during the second quarter of fiscal 2005 and revised to \$1.6 million during the fourth quarter of fiscal 2005. In addition, total restructuring costs expected over the twelve-month period following the announcement were \$3.8 million, of which \$1.3 million were for workforce reduction costs and \$2.5 million for the transfer of printing equipment and other costs. During the second quarter of fiscal 2006 and the fourth quarter of fiscal 2006, amounts of \$1.0 million and \$0.4 million, respectively, were added to the expected restructuring cost related to the transfer of printing equipment and other costs, which increased the total restructuring cost to \$6.8 million for this consolidation project. The consolidation was completed during the first quarter of 2007.
- d) On November 16, 2004, the Corporation announced major investment projects to purchase equipment in the Printing Products and Services and Marketing Products and Services sectors. As part of the review of the manufacturing strategy, which resulted in these investment projects, some equipment that was no longer necessary in the ongoing operations of the Corporation was identified. The expected costs were \$7.5 million, of which \$4.9 million and \$1.9 million represent an impairment of assets in the Printing Products and Services and Marketing Products and Services sectors, respectively, and \$0.3 million and \$0.4 million represent workforce reduction costs in the Printing Products and Services and Marketing Products and Services sectors, respectively. The consolidation was completed during the third quarter of 2006.
- e) On August 19, 2004, the Corporation announced the consolidation of its Winnipeg retail printing operations in the Marketing Products and Services sector. During the fourth quarter of 2005, the Corporation reversed \$0.5 million of the \$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. During the first quarter of fiscal 2006, real estate assets were sold resulting in a gain on disposal of \$0.5 million. The consolidation was completed during the first quarter of 2006.

The following table provides a reconciliation of all restructuring provisions, which are included in "Accounts payable and accrued liabilities" in the consolidated balance sheets as at January 31:

(in millions of dollars)	2007	2006
Balance, beginning of period	\$ 1.4	\$ 1.5
Additions		
Workforce reduction costs	3.1	—
Transfer of printing equipment and other costs	0.6	0.6
Reductions		
Amount paid for workforce reduction	(0.8)	(1.1)
Amount paid for transfer of printing equipment and other	(0.6)	(0.8)
Balance, end of period	\$ 3.7	\$ 0.2



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the three-month periods ended January 31

5. Employee future benefits

Pension plans

The Corporation offers various contributory and non-contributory defined benefit pension plans and defined contribution pension plans to its employees and those of its participating subsidiaries. The cost related to those plans is as follows:

(in millions of dollars)	2007	2006
Pension plans		
Defined benefit pension plans	\$ 6.2	\$ 6.2
Defined contribution pension plans	0.8	0.7
	\$ 7.0	\$ 6.9

6. Accounts receivable

As at January 31, 2007, \$322 million of accounts receivable (\$282 million as at October 31, 2006) had been sold under the accounts receivable securitization program, of which \$49 million (\$39 million as at October 31, 2006) were kept by the Corporation as retained interest, resulting in a net consideration of \$273 million, including C\$236 million and US\$32 million (\$243 million as at October 31, 2006, including C\$206 million and US\$33 million) 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 sale of accounts receivable of \$3.2 million for the three-month period ended January 31, 2007 (\$2.1 million for the same period in 2006).

7. Share capital

Earnings per share

The table below shows the calculation of basic and diluted earnings per share:

	2007	2006
Numerator (in millions of dollars)		
Net income	\$ 20.2	\$ 27.9
Denominator (in millions)		
Weighted average number of shares	85.8	88.6
Dilutive effect of stock options and warrants	0.2	—
Weighted average diluted number of shares	86.0	88.6
Basic earnings per share	\$ 0.24	\$ 0.31
Diluted earnings per share	\$ 0.23	\$ 0.31

A total of 638,340 stock options were considered to be anti-dilutive in the calculation of the diluted earnings per share for the three-month period ended January 31, 2007, since their exercise price was greater than the average stock price during this period.

A total of 1,055,160 stock options and 350,000 warrants were considered to be anti-dilutive in the calculation of the diluted earnings per share for the three-month period ended January 31, 2006, since their exercise price was greater than the average stock price during this period.

Exercise of stock options

When officers and senior executives exercise their stock options, the amounts received from them are credited to share capital. For stock options granted since November 1, 2002, the amount previously accounted for as an increase to contributed surplus is also transferred to share capital. For the three-month periods ended January 31, 2007 and 2006, the amount received was nil and \$1.2 million, respectively, while no amount was transferred from contributed surplus to share capital for the same periods.



7. Share capital (continued)

Redemption of shares

The Corporation is authorized to purchase for cancellation on the open market, between November 21, 2006 and November 20, 2007, up to 3,448,698 of its Class A Subordinate Voting Shares, representing 5% of the 68,973,966 issued and outstanding Class A Subordinate Voting Shares as of November 7, 2006, and up to 852,907 of its Class B Shares, representing 5% of the 17,058,145 issued and outstanding Class B Shares as of November 7, 2006. The purchases are 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.

Between November 21, 2006 and January 31, 2007, the Corporation purchased 427,400 of its Class A Subordinate Voting Shares at a weighted average price of \$21.32 for a total consideration of \$9.1 million and 5,300 of its Class B Shares at a weighted average price of \$21.21 for a total consideration of \$0.1 million in accordance with its renewed Normal Course Issuer Bid. Of the total consideration of \$9.2 million, \$2.4 million corresponds to the book value and \$6.8 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

Between November 1, 2006 and November 20, 2006, the Corporation purchased 39,600 of its Class A Subordinate Voting Shares at a weighted average price of \$20.07 for a total consideration of \$0.8 million and none of its Class B Shares in accordance with its previous Normal Course Issuer Bid as described in Note 17 of the consolidated financial statements for the year ended October 31, 2006. Of the total consideration of \$0.8 million, \$0.2 million corresponds to the book value and \$0.6 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

During the first quarter of fiscal 2006, the Corporation purchased 1,501,400 of its Class A Subordinate Voting Shares at a weighted average price of \$19.25 for a total consideration of \$28.9 million and 150,700 of its Class B Shares at a weighted average price of \$19.25 for a total consideration of \$2.9 million in accordance with its previous Normal Course Issuer Bid as described in Note 17 of the consolidated financial statements for the year ended October 31, 2006. Of the total consideration of \$31.8 million, \$8.5 million corresponds to the book value and \$23.3 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

8. Stock-based compensation plans

Share unit plan

On December 14, 2006, the Corporation modified its current share unit plan to include additional senior executives. Previously, the only participant in this plan was the President and Chief Executive Officer. The share units are granted under the form of deferred share units ("DSU") or restricted share units ("RSU"). A portion of share units will vest based on economic value creation compared to a target and another portion of share units will vest based on tenure.

During the three-month period ended January 31, 2007, 138,310 DSU and 30,788 RSU were granted.

As at January 31, 2007, 202,391 share units were outstanding. The impact on the consolidated statements of income for the three-month period ended January 31, 2007 was \$0.1 million. The impact on the consolidated statements of income for the three-month period ended January 31, 2006 was negligible. No amount has been paid under the plan for the three-month periods ended January 31, 2007 and 2006.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the three-month periods ended January 31

8. Stock-based compensation plans (continued)

Stock option plan

As at January 31, 2007, 1,973,961 stock options had been granted, of which, 1,001,496 could be exercised.

During the three-month periods ended January 31, 2007 and 2006, 160,100 and 505,400 stock options were granted with a weighted average exercise price of \$20.90 and \$19.29, respectively.

The table below summarizes the weighted average assumptions used to calculate the fair value of stock options granted on the date of the grant using the Black-Scholes model for the three-month periods ended January 31:

	2007	2006
Weighted average fair value of stock options	\$ 5.16	\$ 5.19
Assumptions:		
Dividend rate	1.1%	0.9%
Expected volatility	22.6%	25.0%
Risk-free interest rate	3.96%	3.95%
Expected life	5 years	5 years

Stock-based compensation costs of \$0.6 million and \$0.4 million were charged to income for the three-month periods ended January 31, 2007 and 2006, respectively.

9. Accumulated other comprehensive income

(in millions of dollars)	2007	2006
Balance, beginning of period, as previously reported	\$ —	\$ —
Unrealized losses on translation of financial statements of self-sustaining foreign operations	(27.2)	(23.8)
Financial instruments – recognition and measurement (Note 2)	3.8	—
Restated balance, beginning of period	(23.4)	(23.8)
Other comprehensive income	(0.5)	(0.4)
Balance, end of period	\$ (23.9)	\$ (24.2)

As at January 31, 2007, gains on derivatives designated as cash flow hedges of \$0.4 million, net of income taxes of \$0.1 million, reported in “Accumulated other comprehensive income” in the consolidated balance sheet are expected to be reclassified to net income within the next twelve months. The remaining losses of \$0.8 million, net of income taxes of \$0.4 million, are expected to be reclassified to net income over a three-year period.



10. Business acquisitions

Chenelière Education Inc.

During the three-month period ended January 31, 2007, adjustments were made to the purchase price allocation of Chenelière Education Inc. which was acquired on August 31, 2006.

Amortizable intangible assets were decreased by \$0.7 million to reflect the final valuation of the assets acquired and a decrease of \$0.3 million in the balance of sale payable was recorded following the final determination of the costs related to the acquisition. Future income tax assets related to these adjustments were increased by \$0.2 million. The impact of these adjustments was an increase of \$0.2 million in goodwill.

During the three-month period ended January 31, 2007, the Corporation paid an amount of \$9.6 million, comprised of \$0.3 million of short-term liabilities and \$9.3 million of balance of sale payable. As at January 31, 2007, the balance in short-term liabilities is of \$0.5 million, which is included in "Accounts payable and accrued liabilities" and the balance of sale payable is \$6.3 million, of which \$3.2 million are included in "Current portion of long-term debt" and \$3.1 million are included in "Long-term debt" in the consolidated balance sheet.

Radville Star Management

On December 20, 2006, the Corporation acquired 100% of the shares of Radville Star Management, owner of two newspapers, The Radville Star and The Deep South Star in Saskatchewan, in the Media Sector for a total consideration paid of \$0.4 million.

11. Financial instruments

During the first quarter of fiscal 2007, the Corporation entered into a total return swap agreement with a financial institution in order to minimize the impact of the fluctuations in its Class A Subordinate Voting Share price on its compensation expense which includes a charge related to its share unit plan as described in Note 8. The Corporation now receives or pays, on a quarterly basis, the difference between the fixed share price of the total return swap and the Class A Subordinate Voting Share price, less any amount previously received or paid. As at January 31, 2007, the total return swap agreement covered 118,000 Class A Subordinate Voting Shares. The term of this total return swap agreement ranges from one to five years, with a fixed price of \$21.07. The hedging relationship was effective and in accordance with the risk management objectives and strategies during the three-month period ended January 31, 2007.

12. Commitments

During the first quarter of fiscal 2007, the Corporation entered into new commitments to acquire \$55.0 million (US\$42.3 million, €\$1.9 million and C\$2.2 million) of machinery and equipment. Minimum payments required in 2007, 2008 and 2009 are \$35.0 million, \$15.3 million and \$4.7million, respectively.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 unaudited
 For the three-month periods ended January 31

13. Segmented information

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

(in millions of dollars)	Three months ended	
	January 31	
	2007	2006
Revenues		
Printing Products and Services	\$ 182.4	\$ 175.6
Marketing Products and Services	266.7	280.6
Media	142.6	133.8
Other activities and unallocated amounts	3.5	3.0
Inter-segment sales		
Printing Products and Services	(15.4)	(15.2)
Marketing Products and Services	(8.2)	(9.1)
Media	(3.4)	(3.4)
Total inter-segment sales	(27.0)	(27.7)
	\$ 568.2	\$ 565.3
Operating income before amortization, impairment of assets and restructuring costs		
Printing Products and Services	\$ 31.4	\$ 25.5
Marketing Products and Services	30.6	37.6
Media	19.7	19.7
Other activities and unallocated amounts	(6.0)	(3.6)
	\$ 75.7	\$ 79.2
Operating income		
Printing Products and Services	\$ 19.9	\$ 15.5
Marketing Products and Services	10.2	22.2
Media	15.4	17.3
Other activities and unallocated amounts	(7.3)	(4.7)
	\$ 38.2	\$ 50.3
Acquisitions of property, plant and equipment ⁽¹⁾		
Printing Products and Services	\$ 2.8	\$ 13.1
Marketing Products and Services	21.3	7.5
Media	1.0	1.3
Other activities and unallocated amounts	1.0	0.8
	\$ 26.1	\$ 22.7
Amortization of property, plant and equipment		
Printing Products and Services	\$ 9.0	\$ 8.7
Marketing Products and Services	15.0	15.6
Media	2.9	2.2
Other activities and unallocated amounts	1.1	0.9
	\$ 28.0	\$ 27.4

⁽¹⁾ This amount includes acquisitions of machinery and equipment unpaid of \$4.1 million for the three-month period ended January 31, 2007

(in millions of dollars)	As at January 31	As at October 31
	2007	2006
Assets		
Printing Products and Services	\$ 524.4	\$ 544.2
Marketing Products and Services	788.1	787.4
Media	765.0	773.3
Other activities and unallocated amounts	115.3	169.8
	2,192.8	\$ 2,274.7
Goodwill		
Printing Products and Services	\$ 110.4	\$ 110.5
Marketing Products and Services	283.1	273.2
Media	497.5	496.9
Other activities and unallocated amounts	0.9	0.9
	\$ 891.9	\$ 881.5

14. Subsequent events

Redemption of shares

The Corporation purchased 169,300 of its Class A Subordinate Voting Shares at a weighted average price of \$21.71 for a total consideration of \$3.7 million and 32,700 of its Class B Shares at a weighted average price of \$21.94 for a total consideration of \$0.7 million between February 1, 2007 and March 14, 2007 in accordance with its Normal Course Issuer Bid as described in Note 7.

15. Effect of new accounting standards not yet implemented

Financial instruments – Disclosures

In December 2006, CICA issued Section 3862, “Financial instruments – Disclosures”. This Section applies to fiscal years beginning on or after October 1, 2007. It describes the required disclosures related to the significance of financial instruments on the entity’s financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. This Section complements the principles of recognition, measurement and presentation of financial instruments of Sections 3855, “Financial instruments – Recognition and measurement”, 3863, “Financial instruments – Presentation” and 3865, “Hedges”. The Corporation is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.

Financial instruments – Presentation

In December 2006, CICA issued Section 3863, “Financial instruments – Presentation”. This Section applies to fiscal years beginning on or after October 1, 2007. It establishes standards for presentation of financial instruments and non-financial derivatives. It complements standards of Section 3861, “Financial instruments – Disclosure and Presentation”. The Corporation is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.

Capital disclosures

In December 2006, CICA issued Section 1535, « Capital disclosures ». This Section applies to fiscal years beginning on or after October 1, 2007. It establishes standards for disclosing information about entity’s capital and how it is managed to enable users of financial statements to evaluate the entity’s objectives, policies and procedures for managing capital. The Corporation is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.

16. Comparative figures

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