

*For immediate release*

**TRANSCONTINENTAL CONTINUES SOLID PERFORMANCE IN ITS THIRD-QUARTER AND  
MAINTAINS EARNINGS PER SHARE OBJECTIVE FOR 2007**

- Growth of 9% in adjusted<sup>1</sup> operating income before amortization; excluding the foreign exchange rate impact, growth of 17%.
- Organic growth in revenues of 3.4% and 5.5% organic growth in adjusted<sup>1</sup> operating income before amortization.
- Growth of 22% in cash flow from operations before changes in non-cash operating items.
- Growth of 13% in net income; on a per-share basis, net earnings rose 18%, from \$0.28 to \$0.33.
- Slight increase in adjusted<sup>1</sup> net income; on a per-share basis, adjusted<sup>1</sup> net earnings rose from \$0.33 to \$0.34, up 3%, but growth of 18% excluding the foreign exchange rate impact.
- Annual earnings-per-share objective of \$1.52 to \$1.65 maintained, as announced at the start of the fiscal year, despite the rising Canadian dollar.
- Announcement on August 21 of takeover bid to acquire PLM Group, Canada's fourth-largest printer and mailing of takeover bid circular to PLM Group shareholders on September 10.
- Excellent financial position for further growth.

Montreal, September 13, 2007 – Transcontinental today reported solid financial results for its third quarter ended July 31, 2007, despite a negative foreign exchange impact. After its promising second quarter, all financial performance indicators are up in the third quarter over the same period in 2006.

"We are very satisfied with the results for the third quarter and first nine months of the year," said Luc Desjardins, president and chief executive officer of Transcontinental. "We had said in the two prior quarters that the second half, and particularly the fourth quarter, would be better than it historically has been compared to the first half, primarily because of the evolution of our business portfolio and the trend to greater seasonality in some niches. We are also reaping the benefit of our major reorganization projects, especially in commercial printing in Canada, as well as the turnaround in our Mexican operations. These achievements have more than offset the negative impact of the exchange rate, the higher-than-expected cost of starting up our new flyer printing equipment, which is now fully operational, and lower-than-expected direct-marketing revenue in the United States."

Mr. Desjardins continued: "For the rest of the year we will focus our efforts on sales development, digital development in our Media sector and further improvement in our competitiveness. Taking into account a constant exchange rate of \$1.05 CAD/USD, we are maintaining our earnings-per-share

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<sup>1</sup> Please refer to page 4, "Reconciliation of Non-GAAP Financial Measures."



objective of \$1.52 to \$1.65 for fiscal 2007. We would maintain this objective even if the CAD/USD achieved parity by the end of the year.”

The Corporation is in an excellent financial position for further growth through acquisitions, among other things, with a net funded debt to total capitalization ratio of 27% as at July 31, 2007, which is below the 35% - 50% objective set by the Board of Directors. *Pro forma* the PLM acquisition, which will be paid in cash and financed from existing credit facilities, the net debt to total capitalization ratio would have been about 32%.

### Financial Highlights

In its third quarter, Transcontinental reported a 3% increase in consolidated revenues, to \$546.5 million, compared to \$528.9 million for the same quarter a year earlier. Adjusted operating income before amortization rose 9%, from \$74.8 million in 2006 to \$81.3 million in 2007. Excluding the exchange rate fluctuations between the Canadian dollar and its U.S. and Mexican counterparts, which lowered revenue by \$7.6 million and adjusted operating income before amortization by \$6.3 million, revenue would have grown 4.8% and adjusted operating income before amortization 17.1%. Thus the acquisitions made in 2006, higher volumes in certain segments and many cost-reduction initiatives throughout the Corporation more than offset the lower volume in other segments.

Net income rose 13%, from \$24.7 million to \$27.8 million; on a per-share basis, net earnings were up 18%, from \$0.28 to \$0.33. Adjusted net income, which does not take into account unusual items related to asset impairment, restructuring costs and unusual adjustments to income taxes of \$2.4 million in 2006, was up slightly, from \$28.3 million to \$28.4 million; on a per-share basis, adjusted net income rose 3%, from \$0.33 to \$0.34. Excluding the exchange rate impact, adjusted earnings per share grew 18%.

In the first nine months of fiscal 2007, consolidated revenue was up 2%, from \$1.665 billion to \$1.695 billion, while adjusted operating income before amortization was up 2%, from \$245.4 million to \$249.8 million. Excluding the exchange rate impact, which reduced revenue by \$16.2 million and adjusted operating income before amortization by \$15 million, revenue grew 2.8% and adjusted operating income before amortization 7.9%.

Net income was down 5%, from \$86.3 million in the first nine months of 2006 to \$82 million in 2007. The decrease stems primarily from higher restructuring and asset impairment costs, higher amortization costs related to acquisitions and equipment investments since last year, and higher financial expenses. On a per-share basis, net earnings declined 3%, from \$0.99 to \$0.96. Adjusted net income, excluding after-tax asset impairment and restructuring costs of \$5.9 million in 2007 and \$3.3 million in 2006, as well as unusual adjustments to income taxes of 2.4 million in 2006, was down 4%, from \$92 million to \$87.9 million. On a per-share basis, adjusted net income declined 2%, from \$1.05 to \$1.03.



Excluding the negative foreign exchange impact in the first nine months of 2007, adjusted earnings per share would have been \$1.17, up 11% over 2006. This measurement is a good indicator of the Corporation's operating performance for the first nine months of the year.

For more detailed financial information, please see *Management's Discussion and Analysis for the third quarter ended July 31, 2007* at [www.transcontinental.com](http://www.transcontinental.com), under "Investors."

## Operating Highlights

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

- Several acquisitions in the Media sector, including the newspapers *The Grenfell Sun*, *The Broadview Express* and *The Oxbow Herald* in Saskatchewan, as well as *The Seaway News* in Ontario. Also, we completed the acquisition of six construction and renovation magazines from Les Éditions Ma Maison print media group, confirming our position as the leader in this market in Quebec. We also launched Transcontinental Custom Communications, a joint venture with the U.K. agency Seven Squared, to offer custom publishing services to Canadian and U.S. clients, an important growth segment for Transcontinental moving forward.
- On the printing side, Transcontinental was selected to print *Harry Potter et les reliques de la mort* (*Harry Potter and the Deathly Hallows*), the over-800-page seventh and final volume in the Harry Potter series. Transcontinental, for the third consecutive volume, was the designated printer of the French edition for the Canadian market. Furthermore, work on the project to print the *San Francisco Chronicle* is on schedule. The team is in place, the site has been chosen and the printing equipment ordered. Transcontinental is also in discussions with several other daily newspaper publishers. The expansion of Transcontinental Metrolitho in Sherbrooke, which specializes in short-run book printing, will be completed in the first quarter of 2008. We also started to print flyers for Provigo on the new equipment in our Saint-Hyacinthe plant, under the new agreement signed with Loblaw Company Ltd. in 2006.
- Recognized as a leader in the protection of the environment and sustainable development, Transcontinental plans to continue exercising this leadership by mobilizing its employees and implementing concrete action. Among other things, in the third quarter, Transcontinental Direct Montreal became Transcontinental's first Web printer to obtain "chain-of-custody" certification under the Forest Stewardship Council (FSC). This certification identifies products that are produced responsibly for society and the environment. Six sheetfed printing plants in Manitoba, Ontario and Quebec have already obtained this certification. We also published the second issue of the magazine *Vision durable*, whose mission is to educate business people about sustainable development.



## 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 that reconciles GAAP financial measures to non-GAAP financial measures.

(in millions of dollars, except per share amounts)	Three months ended July 31		Nine months ended July 31	
	2007	2006	2007	2006
<b>Net income</b>	\$ 27.8	\$ 24.7	\$ 82.0	\$ 86.3
Non-controlling interest	-	-	0.3	0.5
Income taxes	13.2	10.3	36.7	39.5
Discount on sale of accounts receivable	2.9	1.9	8.8	5.8
Financial expenses	7.2	8.0	23.1	22.1
Impairment of assets and restructuring costs	0.9	1.7	8.7	4.9
Amortization	29.3	28.2	90.2	86.3
<b>Adjusted operating income before amortization</b>	\$ 81.3	\$ 74.8	\$ 249.8	\$ 245.4
<b>Net income</b>	\$ 27.8	\$ 24.7	\$ 82.0	\$ 86.3
Impairment of assets and restructuring costs (after tax)	0.6	1.2	5.9	3.3
Unusual adjustments to income taxes	-	2.4	-	2.4
<b>Adjusted net income</b>	28.4	28.3	87.9	92.0
Average number of shares outstanding	84.5	86.9	85.2	87.6
<b>Adjusted earnings per share</b>	\$ 0.34	\$ 0.33	\$ 1.03	\$ 1.05
<b>Cash flow related to (used in) operating activities</b>	113.5	71.3	136.0	(11.4)
Changes in non-cash operating items	47.1	16.7	(69.3)	(199.6)
<b>Cash flow from operating activities before changes in non-cash operating items</b>	\$ 66.4	\$ 54.6	\$ 205.3	\$ 188.2
<b>Long-term debt</b>			\$ 459.4	\$ 468.9
Current portion of long-term debt			10.4	7.7
Bank overdraft			-	0.1
Cash and temporary investments			(46.8)	(29.1)
<b>Net indebtedness</b>			\$ 423.0	\$ 447.6



## **Corporate Affairs**

On August 21, 2007, Transcontinental announced that it was making a takeover bid to acquire PLM Group, the fourth largest printer in Canada. Transcontinental is making an all-cash offer to acquire all of PLM's approximately 29.5 million shares outstanding, on a fully diluted basis, at C\$3.50 per share, for a total enterprise value of about \$130 million including debt. Transcontinental and PLM have signed a Support Agreement pursuant to which the PLM Board of Directors has unanimously agreed to recommend that shareholders accept the offer of Transcontinental. Barry N. Pike, founder and Chairman of the Board and Chief Executive Officer of PLM, and Pike Holdings Inc., a holding company controlled by Mr. Pike, which combined hold approximately 51.2% of the shares outstanding, have signed a hard Lock-Up Agreement pursuant to which they have agreed to tender the shares they hold and accept the offer of Transcontinental.

On September 10, Transcontinental sent PLM shareholders a takeover bid circular. During that same period, the PLM Board of Directors sent its shareholders a circular that recommends, among other things, acceptance of the offer of Transcontinental.

Transcontinental's offer is subject to certain usual conditions, including the deposit of 66 2/3% of shares outstanding and obtaining regulatory approvals. In this regard, the Corporation received approval from the Competition Bureau on September 10, 2007. The transaction is expected to close in October 2007.

## **Dividend**

At its September 13, 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. These dividends are payable on October 26, 2007 to shareholders of record at the close of business on October 5, 2007. On an annual basis, this represents a dividend of \$0.28 per common share. Dividends paid by Transcontinental to Canadian residents are eligible dividends under federal and provincial Income Tax laws.

## **Additional Information**

Upon releasing its quarterly results, Transcontinental will hold a conference call for the financial community today at 2:15 p.m. Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on Transcontinental's website, which will be archived for 30 days. For media requests for information or interviews, please contact Nessa Prendergast, Director, Media Relations, at (514) 954-2809.

## **About Transcontinental**

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 and the Corporation's capacity to implement its strategic plan and cost-reduction program and make and integrate acquisitions into its activities. The risks, uncertainties and other factors that could influence actual results are described in the Corporation's *Management's Discussion and Analysis* and the *Annual Information Form*.

The forward-looking information in this release is based on current expectations and information available as of September 13, 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 third quarter ended July 31, 2007

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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 September 13, 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 16.

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, security of data, 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 September 13, 2007.

## HIGHLIGHTS OF THIRD QUARTER RESULTS

- 3% growth in revenues principally as a result of acquisitions coupled with an increase in sales volumes of certain businesses, notably the Retail Group, the Mexico Group and the Commercial Products Group. This was partially offset by the negative paper and foreign exchange impact, the impact of divestitures and closings and reduced volumes and product mix changes from our Direct Marketing Group.
- 9% increase in adjusted operating income before amortization due to the contribution from acquisitions, the benefit of recent reorganizations and cost reduction initiatives, partially offset by the foreign exchange impact. Excluding the exchange rate effect, the increase would have been 17%.
- Adjusted operating income margin before amortization of 14.9% in the third quarter of 2007, as compared to 14.1% in the third quarter of 2006. Excluding the exchange rate effect, the margin would have been 15.8%.
- Ongoing restructuring plan for commercial printing operations, in both the Printing Products and Services and Marketing Products and Services sectors, announced in the first quarter of 2007, for a revised total cost of \$9.5 million (\$9.2 million previously). Restructuring costs totalling \$0.9 million before tax (or \$0.6 million after tax) were charged to income for the third quarter, related to this restructuring plan for the most part and to previously announced plans.
- Net income for the third quarter increased by \$3.1 million, or 13%, from \$24.7 million in the third quarter of 2006 to \$27.8 million in the third quarter of 2007. On a per-common-share basis, it increased 18%, from \$0.28 to \$0.33.
- Adjusted net income, which does not take into account impairment of assets, restructuring costs and unusual adjustments to income taxes in 2006, slightly increased from \$28.3 million in the third quarter of 2006 to \$28.4 million in the third quarter of 2007. On a per-common-share basis, it increased 3% from \$0.33 to \$0.34.
- On August 21, 2007, the Company announced an agreement to make a takeover bid to the shareholders of PLM Group, Canada's fourth-largest printer. Since then, the Competition Bureau approved the transaction and the takeover bid circular has been sent confirming Transcontinental's all-cash offer to acquire all of PLM's outstanding shares at C\$3.50 per share, for a total enterprise value of approximately C\$130 million, including debt. The transaction is expected to close in October 2007.
- Solid financial position to pursue growth, with a net indebtedness to total capitalization ratio of 27% as at July 31, 2007. Pro-forma the PLM acquisition, the net indebtedness to total capitalization ratio would have been approximately 32%.
- Taking into consideration a constant exchange rate of 1.05 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 fourth quarter to be superior to what it has been historically due to the trend towards greater seasonality from some of our business segments. Even with an exchange rate at parity for the remainder of the year, management would maintain its stated earnings per share objective.

## STRATEGIC ORIENTATION UPDATE: *EVOLUTION 2010*

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.

*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 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 better serve our advertisers, readers and website visitors. Furthermore, we will be stressing organic growth, based on the innovative and creative initiatives of our people, while continuing to target strategic acquisitions.

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 progress. 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 sector: increase our revenues coming from the Internet and other digital platforms; print sectors: expand our offer by adding value added services); exploit organic growth opportunities (Media sector: launch new products and services that complement our activities; print sectors: exploit opportunities such as outsourcing, cross selling etc.). Below is a description of our initiatives since the start of the fiscal year.

- 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 set up a new division responsible for the management of newspaper printing operations in the U.S. A dedicated team is already in place to further develop sales in this unique newspaper outsourcing model.
- 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 re-launched a number of web portals including LesAffaires.com, LeBelAge.ca and Servicevie.com. Furthermore, we are currently working on launching new web portals in upcoming months, such as the *Constructo* portal which is scheduled to be up and running before the end of 2007.
- We launched the Canadian edition of *More* magazine, targeting women over 40. It exceeded our expectations as the number of subscriber copies reached 80,000, almost double what we had initially expected. As of today, we have over 100,000 subscribers and have published three issues. The U.S. version has tripled its circulation since Meredith Corporation launched it in 1998 and it was named 2006 Magazine of the Year by *Advertising Age*. This promising partnership with a major American publisher is a step forward in our strategy to develop innovative products and services.
- We continue to build on our talent management strategy. Teams, objectives and processes are in place to execute this strategy, as is the structure to monitor its progress: we completed the succession plans for executive level positions; we began gathering employee feedback related to our company branding as an employer of choice; we launched *Talent Greenhouse*, a group of 20 Transcontinental employees selected to work on the hiring of employees for the *San Francisco Chronicle* project; and we launched *TransFormation*, an Intranet website dedicated to online training. Besides these latest initiatives, we continue to focus on accelerating the development and acquisition of skills and talent and we continue to offer the *Mission: Leadership* training program, which was deployed to over 85% of our managers to date.
- We completed our Continuous Improvement Roadmap, a tool that will allow business units to determine their strengths and weaknesses in order to develop action plans to improve productivity and efficiency. This tool will also facilitate benchmarking between business units. The Roadmap has been given to plant managers and they will start implementing it in the months to come. In addition, we continue to deploy our integrated manufacturing software across all our printing plants.
- We launched a new sustainable development magazine (printed on 100% recycled paper): *Vision durable*, which aims at bridging the gap between the concept and implementation of sustained development for Quebec business people. As a companion to the magazine, Transcontinental Media also launched a new website [www.visiondurable.com](http://www.visiondurable.com). In addition, the Book Group now promotes a new paper made from a premium quality 100% post-consumer recycled material at price parity, an environmentally friendly choice for trade book publishers with short, medium and long runs, or even in specialty publications.
- We launched Transcontinental Custom Communications, a joint venture with UK agency Seven Squared to provide custom publishing services to clients in Canada and the U.S. Custom publishing involves strategic and creative services that achieve a company's marketing objectives by delivering unique branded content to customers using print or digital channels.
- We continued to focus on numerous cross-selling initiatives supported by different venues such as sales contests, best practices sharing and annual sales events that have resulted in additional sales in our various businesses.

## Selected financial data Unaudited

(in millions of dollars, except per share data)	Three months ended July 31			Nine months ended July 31		
	2007	2006	Change in %	2007	2006	Change in %
<b>Operations</b>						
Revenues <sup>(1)</sup>	\$ 546.5	\$ 528.9	3	\$ 1,695.4	\$ 1,665.1	2
Adjusted operating income before amortization <sup>(2) (3)</sup>	81.3	74.8	9	249.8	245.4	2
Operating income	51.1	44.9	14	150.9	154.2	(2)
Net income	27.8	24.7	13	82.0	86.3	(5)
Adjusted net income <sup>(2) (4)</sup>	28.4	28.3	1	87.9	92.0	(4)
Cash flow from operating activities before changes in non-cash operating items <sup>(2)</sup>	66.4	54.6	22	205.3	188.2	9
Cash flow related to (used in) operating activities	113.5	71.3	-	136.0	(11.4)	-
<b>Investments</b>						
Acquisitions of property, plant and equipment	28.2	28.7	(2)	83.0	80.6	3
Business acquisitions <sup>(5)</sup>	5.3	2.7	-	15.5	3.0	-
<b>Financial condition</b>						
Total assets				2,188.8	2,080.4	5
Net indebtedness <sup>(2) (6)</sup>				423.0	447.6	(5)
Shareholders' equity				1,168.2	1,117.7	5
Net indebtedness / Total capitalization				0.27	0.29	(7)
<b>Per share data (basic)</b>						
Net income	\$ 0.33	\$ 0.28	18	\$ 0.96	\$ 0.99	(3)
Adjusted net income <sup>(2) (4)</sup>	0.34	0.33	3	1.03	1.05	(2)
Cash flow from operating activities before changes in non-cash operating items <sup>(2)</sup>	0.79	0.63	25	2.41	2.15	12
Cash flow related to (used in) operating activities	1.34	0.82	-	1.60	(0.13)	-
Dividends on shares	0.070	0.065	8	0.205	0.185	11
Shareholders' equity				13.94	12.91	8
Average number of shares outstanding (in millions)	84.5	86.9		85.2	87.6	
Number of shares at end of period (in millions)				83.8	86.6	

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

<sup>(2)</sup> Please refer to the section "Reconciliation of Non-GAAP Financial Measures" on page 16 in this Management's Discussion and Analysis.

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

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

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

<sup>(6)</sup> 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 THIRD QUARTER 2007 OPERATING RESULTS

### Analysis of Main Variances - Consolidated Results For the Third Quarter Ended July 31, 2007 (unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income before amortization <sup>(1)</sup>	%	Net income	%
<b>Results - Third Quarter 2006</b>	<b>\$ 528,9</b>		<b>\$ 74,8</b>		<b>\$ 24,7</b>	
Acquisitions/Divestitures/Closures	14,9	2,8 %	7,6	10,2 %	2,9	11,7 %
Existing operations						
Paper effect	(7,9)	(1,5) %	1,1	1,5 %	0,8	3,2 %
Exchange rate	(7,6)	(1,4) %	(6,3)	(8,4) %	(4,7)	(19,0) %
Impairment of assets, restructuring costs and unusual adjustments to income taxes	-	-	-	-	3,0	12,1 %
Organic growth	18,2	3,4 %	4,1	5,5 %	1,1	4,5 %
<b>Results - Third Quarter 2007</b>	<b>\$ 546,5</b>	<b>3,3 %</b>	<b>\$ 81,3</b>	<b>8,7 %</b>	<b>\$ 27,8</b>	<b>12,6 %</b>

<sup>(1)</sup> Adjusted operating income before amortization refers to operating income before amortization, impairment of assets and restructuring costs.

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

- The acquisition of educational book publisher Chenelière Éducation and small but strategic acquisitions completed in 2007 and 2006, net of divestitures and closings (notably *TV Hebdo* and the web strategy for *TV Guide*), contributed \$14.9 million to revenues and \$7.6 million to adjusted operating income before amortization. Net of amortization, financing and income taxes, the contribution to net income was \$2.9 million.
- The paper effect had a \$7.9 million negative impact on revenues. This effect includes the variation in the price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for printing operations, these elements affect revenues without impacting adjusted operating income before amortization. For the Media sector, the variation in the price of paper had a positive impact of \$1.1 million on adjusted operating income before amortization and \$0.8 million on net income.
- Variations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts caused a \$7.6 million decrease in revenues and a \$6.3 million decrease in adjusted operating income before amortization. It is important to note that the variation in average spot exchange rates in the third quarter of 2007 versus the third quarter of 2006 was 2.4% for the CAD/USD and 1.0% for the CAD/MXP. 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 \$5.3 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 \$4.5 million on adjusted operating income before amortization. Finally, the negative impact of the conversion of balance-sheet items related to the operation of Canadian units denominated in foreign currency was \$1.6 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 \$4.7 million, representing a 19% negative variation on net income.

- Organic revenue growth was \$18.2 million, or 3.4%, in the third quarter of 2007. The increase comes mainly from our Retail Group, Mexico Group and Commercial Products Group. These activities more than offset lower volume, partially the result of an important customer involved in the sub-prime mortgage business in the U.S. going out of business, and product mix changes from the Direct Marketing Group.
- Organic growth in adjusted operating income before amortization was \$4.1 million, or 5.5% in the third quarter of 2007. The increase comes mainly from the benefits of the reorganizations in the Commercial Products Group and the Catalogue and Magazine Group. These groups more than compensated for lower volume and product mix changes from the Direct Marketing Group and disruptions related to the new press and equipment installations in the Retail Group.

### ***Amortization***

Amortization expense increased by \$1.1 million, or 4%, in the third quarter of 2007, to \$29.3 million compared to \$28.2 million in the third quarter of 2006. The increase results mostly from acquisitions and new machinery and equipment acquired for the book and retail printing manufacturing platform last year.

### ***Impairment of assets and restructuring costs***

During the third quarter of fiscal 2007, the Corporation continued a restructuring plan for its commercial printing operations in the Printing Products and Services and Marketing Products and Services sectors initiated in the first quarter. Total restructuring costs related to this plan were initially expected to reach \$9.2 million within the twelve months following the announcement, but were subsequently revised to \$9.5 million in the third quarter, of which \$3.6 million are for an impairment of assets for building and equipment that are no longer necessary in the ongoing operations of the Corporation, \$3.3 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 \$0.9 million before tax (\$0.6 million after tax) was accounted for separately in the consolidated statement of income for the third quarter of 2007 as "Impairment of assets and restructuring costs". This amount is in large part related to the aforementioned restructuring plan and is for impairment of assets, workforce reduction costs and the transfer of printing equipment and other costs.

In the third quarter of 2006, an amount of \$1.7 million before tax (\$1.2 million after tax) was accounted for as "Impairment of assets and restructuring costs." This amount was related to the consolidation of printing operations in the Book Group in 2005 and in Toronto in 2006.

### ***Financial expenses and discount on sale of accounts receivable***

When combined, financial expenses and discount on the sale of accounts receivable slightly increased by \$0.2 million, or 2%, from \$9.9 million in the third quarter of 2006 to \$10.1 million in the third quarter of 2007. This limited variation is the result of two offsetting factors: the increase in indebtedness related to acquisitions and the decrease in indebtedness related to the strong cash flow generated from operations.

### ***Income taxes***

The income tax rate increased from 29.4% in the third quarter of 2006 to 32.2% in the third quarter of 2007. In order to clearly understand this variation, it is important to highlight two unusual items that affected income taxes and the income tax rate in the third quarter of 2006. First, following the Quebec government decision to amend the Taxation Act and other legislative provisions (Bill 15), Transcontinental had to account for an unusual charge for retroactive

taxes and related charges of \$8.4 million. This item was partially offset by the effect of the change in statutory tax rates, which resulted in a decrease in future income tax liabilities, thus reducing income tax expense by \$6.0 million. In fact, if we exclude the impact on last year's rate of the enactment of Bill 15 as well as the change in statutory rates, the income tax rate would have effectively increased from 22.7% in the third quarter of 2006 to 32.2% in the third quarter of 2007. This increase is mainly due to favourable adjustments in 2006 and unfavourable adjustments in 2007 to the estimated tax charge of prior periods, the geographic distribution of pre-tax earnings as well as various other factors. Excluding the impairment of assets and restructuring costs, the income tax rate increased from 22.8% to 32.3%, when compared to the third quarter of 2006. For a better view on the Corporation's ongoing income tax rate please refer to note 3 to the financial statements for the nine-month period ended July 31, 2007.

### *Net income*

Net income increased by \$3.1 million, or 13%, from \$24.7 million in the third quarter of 2006 to \$27.8 million in the third quarter of 2007. This growth comes mainly from the increase in adjusted operating income before amortization and reduced impairment of assets and restructuring costs. It is partially offset by a higher amortization expense and income tax rate. On a per-common-share basis it increased by 18% from \$0.28 to \$0.33.

Adjusted net income, which does not take into account impairment of assets and restructuring costs and unusual adjustments to income taxes in 2006, increased slightly, from \$28.3 million in the third quarter of 2006 to \$28.4 million in the third quarter of 2007. On a per-common-share basis, it increased 3% from \$0.33 to \$0.34.

Excluding the negative foreign exchange impact in the third quarter of 2007, adjusted earnings-per-share would have been \$0.39, representing an increase of 18% over the third quarter of 2006. This measure gives a good indication of the net operational performance in the third quarter.

## REVIEW OF OPERATING SECTORS FOR THE THIRD QUARTER OF 2007

### Analysis of Main Variances – Sector Results For the Third Quarter Ended July 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
<b>Revenues - Third Quarter 2006</b>	<b>\$ 166.3</b>	<b>\$ 250.1</b>	<b>\$ 136.5</b>	<b>\$ (24.0)</b>	<b>\$ 528.9</b>
Acquisitions/Divestitures/Closures	-	-	14.9	-	14.9
Existing operations					
Paper effect	(3.4)	(4.5)	-	-	(7.9)
Exchange rate	(3.2)	(4.4)	-	-	(7.6)
Organic growth	8.1	6.9	5.1	(1.9)	18.2
<b>Revenues - Third Quarter 2007</b>	<b>\$ 167.8</b>	<b>\$ 248.1</b>	<b>\$ 156.5</b>	<b>\$ (25.9)</b>	<b>\$ 546.5</b>
<b>Adjusted operating income before amortization - Third Quarter 2006</b>	<b>\$ 25.2</b>	<b>\$ 30.8</b>	<b>\$ 23.2</b>	<b>\$ (4.4)</b>	<b>\$ 74.8</b>
Acquisitions/Divestitures/Closures	-	-	7.6	-	7.6
Existing operations					
Paper effect	-	-	1.1	-	1.1
Exchange rate	(4.0)	(2.3)	-	-	(6.3)
Organic growth	4.7	(1.2)	2.1	(1.5)	4.1
<b>Adjusted operating income before amortization - Third Quarter 2007</b>	<b>\$ 25.9</b>	<b>\$ 27.3</b>	<b>\$ 34.0</b>	<b>\$ (5.9)</b>	<b>\$ 81.3</b>

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 15) to the Consolidated Financial Statements for the three-month period ended July 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 \$166.3 million in the third quarter of 2006 to \$167.8 million in the third quarter of 2007, an increase of \$1.5 million, or 0.9%. Excluding foreign exchange and paper, revenues increased by \$8.1 million, or 4.9%. Organic growth was mainly generated in our Mexico and Commercial Products groups. The Mexico Group continued to develop business with existing customers and had strong success with the retail market this quarter, while the Commercial Products Group generated stronger sales mainly due to a significant special order. On the other hand, the Book Group had relatively stable revenues as many orders were pushed back into the fourth quarter. Finally, the Newspaper Group also had relatively stable revenues as the trend towards declining page counts, circulation and width of newspapers was compensated by an increase in the use of color and inserts.

Adjusted operating income before amortization rose from \$25.2 million in the third quarter of 2006 to \$25.9 million in the third quarter of 2007, an increase of \$0.7 million, or 2.8%. Excluding foreign exchange, it increased \$4.7 million, or 18.7%. Organic growth was primarily generated from the ongoing reorganization in the Commercial Products Group announced at the beginning of the year. While the market for commercial products remains soft, our efficiency improvement initiatives are bearing fruit. As a result, the adjusted operating income margin before amortization increased from 15.2% in the third quarter of 2006 to 15.4% in the third quarter of 2007.

In the quarter, we announced an investment of \$2 million for the expansion of our Transcontinental Metrolitho printing plant, based in Sherbrooke, which specializes in short-run books. The expansion is expected to be completed by the first quarter of 2008 and will enable us to increase our digital capacity, a service offering in high demand. In addition, we announced that we were chosen to print the French version of the seventh and final book in the *Harry Potter* series for Canada. This represents the third volume of the *Harry Potter* series in French that we have been awarded since 2003. Furthermore, the *San Francisco Chronicle* project continues to progress well and is on schedule. The land site has been selected, the printing equipment has been ordered and the complete project team is in place. The ancillary equipment is in the process of being selected. Construction is slated to begin in the fall as planned. In addition, discussions are ongoing with a number of daily newspaper publishers.

For the balance of the year, the Newspaper Group should continue to pursue the development of its newspaper outsourcing model and benefit from an increase in the use of color and inserts. The Book Group is expected to leverage its new manufacturing platform in order to meet the strong demand for the fall book printing season. The Commercial Products Group will continue to look for new ways to improve its competitiveness within the current market environment. Finally the Mexico Group is expected to continue sales development initiatives across its different market segments as well as leverage its existing customer base.

### ***Marketing Products and Services Sector***

Revenues in the Marketing Products and Services sector decreased from \$250.1 million in the third quarter of 2006 to \$248.1 million in the third quarter of 2007, a decrease of \$2.0 million, or 0.8%. Excluding paper and foreign exchange, revenues increased \$6.9 million, or 2.8%. Organic growth was primarily generated in the Retail Group as a result of the start of the new Provigo contract announced last quarter. This contract more than compensated for the

softness in volume from a certain number of retailers. Organic growth was also generated from our Catalogue and Magazine Group due to successful business development initiatives in both Canada and the U.S. These two groups more than offset the Direct Marketing Group which was plagued with reduced volumes, partially the result of an important customer involved in the sub-prime mortgage business in the U.S. going out of business, and product mix changes following the negative impact of the postal rate increase announced in May and recent turmoil in credit markets.

Adjusted operating income before amortization decreased from \$30.8 million in the third quarter of 2006 to \$27.3 million in the third quarter of 2007, a decrease of \$3.5 million, or 11.4%. Excluding foreign exchange, it decreased \$1.2 million, or 3.9%. The organic growth in the Catalogue and Magazine Group, partly the result of the reorganization in the Ontario facilities last year, was unable to compensate for the reduced volume and product mix changes in the Direct Marketing Group, as well as disruptions related to the new press and equipment installations in the Retail Group. As a result, the adjusted operating income margin before amortization decreased from 12.3% in the third quarter of 2006 to 11.0% in the third quarter of 2007.

After the end of the quarter we announced that we were making an all cash offer to acquire PLM Group, Canada's fourth largest printer. The transaction is expected to close in October. PLM has 470 employees in four facilities in the Greater Toronto Area. In 2006, it reported revenues of \$126 million. PLM is a fast-growing company that has skilfully anticipated the new marketing needs of major financial institutions, retailers and publishers. Its primary niche is direct marketing products and services, which are increasingly in demand by businesses. PLM also offers leading edge services such as premedia and digital printing and prints a wide range of marketing-related commercial printing products. PLM boasts state-of-the-art equipment and a diversified customer base that includes many leading companies. With PLM we will become a leader in Canada's direct marketing industry while expanding our North American platform in a fast-growing segment.

Currently credit markets are in turmoil creating concern and cost containment philosophies with companies involved in the sub-prime mortgage market and this is having a ripple effect across the financial services vertical. Considering that the large part of our customer base in direct marketing is in this vertical, we expect the next few months to be more volatile than usual in terms of volume, type of packages and timing of orders. Moreover, this credit crunch is striking at a time when the direct marketing industry is still reeling from the postal rate hike in early May.

These two factors have pushed us to accelerate our growth strategy in this niche in two ways: first, over the past few months, we have doubled our capacity in terms of commingling equipment in order to meet the growing demand for these services among our customer base. It is our belief that customers will increasingly be looking for postal optimization solutions and those players that are able to offer these services will benefit from a competitive advantage. Second, over the past year, we have been developing sales in other verticals in order to diversify away from financial services and these sales development efforts are starting to bear fruit. While we face some challenges in the short term, we are still convinced that the growth trend in this industry will resume.

For the balance of the year, the Direct Marketing Group is expected to leverage its postal optimization solutions and continue its vertical diversification strategy but current market conditions will make it difficult to achieve results ahead of last year in the fourth quarter. The Retail Group should benefit from the full ramp-up of its presses and equipment and continue to develop non-traditional customers and offer more value-added services in order to gain market share. Furthermore, the Retail Group should continue to successfully develop cross-selling opportunities within the Transcontinental network. Finally, the Catalogue and Magazine Group is expected to continue to grow sales in both Canada and the U.S.

## *Media Sector*

Revenues in the Media sector rose from \$136.5 million in the third quarter of 2006 to \$156.5 million in the third quarter of 2007, an increase of \$20.0 million, or 14.7%. The Chenelière Éducation acquisition and small but strategic acquisitions completed in 2006 and 2007, net of divestitures and closings (notably the sale of *TV Hebdo* and the transition of the paper publication of *TV Guide* to web-only) contributed \$14.9 million to revenues. Excluding acquisitions, divestitures and closings, revenue growth was \$5.1 million, or 3.7%. Organic growth was generated by all groups: the Magazine Group was driven by a stellar performance of its flagship magazine *Canadian Living* as well as its new magazine *More*, the Distribution Group was driven by national sales and the Newspaper Group was fuelled by new and special products.

Adjusted operating income before amortization increased from \$23.2 million in the third quarter of 2006 to \$34.0 million in the third quarter of 2007, an increase of \$10.8 million, or 46.6%. The net contribution from the acquisitions, divestitures and closings mentioned above was \$7.6 million. Excluding acquisitions, divestitures, closings and paper, it increased \$2.1 million, or 9.1%. Organic growth was generated by all groups. Consequently, the adjusted operating income margin before amortization increased to 21.7% from 17.0%.

In the quarter, we were very active on the acquisition front: we acquired various newspapers including *The Grenfell Sun*, *The Broadview Express* and *The Oxbow Herald* in Saskatchewan and *The Seaway News* in Ontario. In addition, we acquired six home building and renovation magazines from print media group *Les Éditions Ma Maison* which truly complement our existing *Décormag* and *Mon chalet* titles and confirm our leading position in the Quebec market. Furthermore, we launched *Transcontinental Custom Communications*, a joint venture with UK agency Seven Squared to provide custom publishing services to clients in Canada and the U.S.

For the balance of the year, the Distribution Group should continue to grow driven by strong national sales. The Newspaper Group is expected to gain from the development of additional innovative products and the contribution from acquisitions. The Magazine Group should continue to leverage its strong brands and launch new digital products and services. 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 is expected to benefit from the upcoming back-to-school period, its strongest quarter. Finally, the Digital Media Group should pursue the development of new growth platforms.

## *Inter-Segment and Other Results*

Inter-segment and other revenues went from a negative \$24.0 million in 2006 to a negative \$25.9 million in 2007. The variation is attributable to an increase in inter-segment revenues. Adjusted operating income before amortization went from a negative \$4.4 million to a negative \$5.9 million. The variation is explained by certain expenses concerning the *Evolution 2010* business project.

REVIEW OF CONSOLIDATED AND OPERATING SECTOR RESULTS FOR THE NINE-MONTH PERIOD ENDED JULY 31, 2007

Analysis of Main Variances – Sector Results  
For the Nine-Month Period Ended July 31, 2007

(in millions of dollars)	Printing Products and Services Sector	Marketing Products and Services Sector	Media Sector	Inter-segment and Other Results	Consolidated Results
<b>Revenues - Nine months 2006</b>	\$ 523.8	\$ 802.3	\$ 418.7	\$ (79.7)	\$ 1,665.1
Acquisitions/Divestitures/Closures	-	-	25.3	-	25.3
Existing operations					
Paper effect	(5.8)	(7.0)	-	-	(12.8)
Exchange rate	(7.7)	(8.5)	-	-	(16.2)
Organic growth	22.3	(2.4)	10.6	3.5	34.0
<b>Revenues - Nine months 2007</b>	\$ 532.6	\$ 784.4	\$ 454.6	\$ (76.2)	\$ 1,695.4
<b>Adjusted operating income before amortization - Nine months 2006</b>	\$ 83.1	\$ 106.5	\$ 69.5	\$ (13.7)	\$ 245.4
Acquisitions/Divestitures/Closures	-	-	12.1	-	12.1
Existing operations					
Paper effect	-	-	2.7	-	2.7
Exchange rate	(8.6)	(6.4)	-	-	(15.0)
Organic growth	16.5	(9.2)	0.2	(2.9)	4.6
<b>Adjusted operating income before amortization - Nine months 2007</b>	\$ 91.0	\$ 90.9	\$ 84.5	\$ (16.6)	\$ 249.8

As shown in the above table, a number of factors contributed to the variance between results for the first nine months of 2007 and the first nine months of 2006.

- The acquisition of educational book publisher Chenelière Éducation and small but strategic acquisitions completed in 2006 and 2007, net of divestitures and closings (notably *TV Hebdo* and the web strategy for *TV Guide*), contributed \$25.3 million to revenues and \$12.1 million to adjusted operating income before amortization.
- The paper effect had a \$12.8 million negative impact on revenues. This effect includes the decrease 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 decrease in the price of paper had a positive impact of \$2.7 million on adjusted operating income before amortization.
- Variations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts caused a \$16.2 million decrease in revenues and a \$15.0 million decrease in adjusted operating income before amortization during the first nine months of the year. It is important to note that the spot exchange rate was 1.13 CAD/USD on average in the first nine months of 2007 versus 1.15 CAD/USD on average in the first nine months of 2006, a variation of 1.7%. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of approximately \$5.2 million. For export sales from Canadian plants, net of the currency hedging program, the negative impact was \$11.0 million. The negative impact of the conversion of results for the U.S. and Mexican units was \$0.5 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 \$11.6 million on adjusted operating income before amortization. Finally, the negative impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was \$2.9 million on adjusted operating income before amortization.

- Organic revenue growth was \$34.0 million, or 2% for the first nine months of 2007. The increase primarily comes from our Mexico, Book and Distribution groups.
- Organic growth in adjusted operating income before amortization was \$4.6 million, or 1.9% for the first nine months of 2007. The increase primarily comes from the contribution from Commercial Products, Mexico, Catalogue and Magazine and Distribution groups. These groups more than compensated for the Retail, Direct Marketing and Newspaper (media) groups.

### ***Amortization***

Amortization expense increased by \$3.9 million, or 4.5%, in the first nine months of 2007, to \$90.2 million compared to \$86.3 million in the first nine months of 2006. This increase results mostly from acquisitions and new machinery and equipment acquired for the book and retail printing manufacturing platform last year.

### ***Impairment of assets and restructuring costs***

An amount of \$8.7 million before tax (\$5.9 million after tax) was accounted for separately in the consolidated statement of income for the first nine months of 2007 as "Impairment of assets and restructuring costs." The main portion of this amount is related to the restructuring plan for our commercial printing operations in the Printing Products and Services and Marketing Products and Services sectors. Total restructuring costs related to this plan were initially expected to reach \$9.2 million within the twelve months following the announcement, but were subsequently revised to \$9.5 million in the third quarter, of which \$3.6 million are for an impairment of assets for building and equipment that are no longer necessary in the ongoing operations of the Corporation, \$3.3 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.

In the first nine months of 2006, an amount of \$4.9 million before tax (\$3.3 million after tax) was accounted for as "Impairment of assets and restructuring costs." This amount is related to the consolidation of printing operations in Winnipeg in 2004, the Book Group in 2005 and Toronto in 2006.

### ***Financial expenses and discount on sale of accounts receivable***

When combined, financial expenses and discount on sale of accounts receivable increased \$4.0 million, or 14%, from \$27.9 million in the first nine months of 2006 to \$31.9 million in the first nine months of 2007. This increase is due to the increase in indebtedness related to acquisitions and the share buyback program, as well as the increase in interest rates, partially offset by the decrease in indebtedness related to the strong cash flow generated from operations.

### ***Income taxes***

The income tax rate decreased from 31.3% in the first nine months of 2006 to 30.8% in the first nine months of 2007. In fact, if we exclude the impact on last year's rate of the enactment of Bill 15 as well as the change in statutory rates, the income tax rate would have effectively increased from 29.4% in the first nine months of 2006 to 30.8% in the first nine months of 2007. This increase is mainly due to unfavourable adjustments in 2007 to the estimated tax charge of prior periods, the geographic distribution of pre-tax earnings as well as various other factors.

### *Net income*

Net income decreased by 5%, from \$86.3 million in the first nine months of 2006 to \$82.0 million in the first nine months of 2007. This decrease is primarily due to higher amortization expenses, impairment of assets and restructuring costs and financial expenses and the discount on sale of accounts receivable. It is partially offset by the increase in adjusted operating income before amortization and a lower income tax rate. On a per-common-share basis, it decreased from \$0.99 to \$0.96.

Adjusted net income, which does not take into account impairment of assets and restructuring costs and unusual adjustments to income taxes in 2006, decreased by 4%, from \$92.0 million for the first nine months of 2006 to \$87.9 million in the first nine months of 2007. On a per-common-share basis, it decreased 2% from \$1.05 to \$1.03.

Excluding the negative foreign exchange impact in the first nine months of 2007, adjusted earnings-per-share would have been \$1.17, representing an increase of 11% over the first nine months of 2006. This measure gives a good indication of the net operational performance in the first nine months of the year.

## 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 (unaudited)

(in millions of dollars, except per share amounts)	Three months ended July 31		Nine months ended July 31	
	2007	2006	2007	2006
<b>Net income</b>	\$ 27.8	\$ 24.7	\$ 82.0	\$ 86.3
Non-controlling interest	-	-	0.3	0.5
Income taxes	13.2	10.3	36.7	39.5
Discount on sale of accounts receivable	2.9	1.9	8.8	5.8
Financial expenses	7.2	8.0	23.1	22.1
Impairment of assets and restructuring costs	0.9	1.7	8.7	4.9
Amortization	29.3	28.2	90.2	86.3
<b>Adjusted operating income before amortization</b>	\$ 81.3	\$ 74.8	\$ 249.8	\$ 245.4
<b>Net income</b>	\$ 27.8	\$ 24.7	\$ 82.0	\$ 86.3
Impairment of assets and restructuring costs (after tax)	0.6	1.2	5.9	3.3
Unusual adjustments to income taxes	-	2.4	-	2.4
<b>Adjusted net income</b>	28.4	28.3	87.9	92.0
Average number of shares outstanding	84.5	86.9	85.2	87.6
<b>Adjusted earnings per share</b>	\$ 0.34	\$ 0.33	\$ 1.03	\$ 1.05
<b>Cash flow related to (used in) operating activities</b>	\$ 113.5	\$ 71.3	\$ 136.0	\$ (11.4)
Changes in non-cash operating items	47.1	16.7	(69.3)	(199.6)
<b>Cash flow from operating activities before changes in non-cash operating items</b>	\$ 66.4	\$ 54.6	\$ 205.3	\$ 188.2
<b>Long-term debt</b>			\$ 459.4	\$ 468.9
Current portion of long-term debt			10.4	7.7
Bank overdraft			-	0.1
Cash and temporary investments			(46.8)	(29.1)
<b>Net indebtedness</b>			\$ 423.0	\$ 447.6

## SUMMARY OF QUARTERLY RESULTS

### Selected Quarterly Financial Results (unaudited)

(in millions of dollars, except per share amounts)	2007				2006			2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	\$ 547	\$ 581	\$ 568	\$ 601	\$ 529	\$ 571	\$ 565	\$ 610
Adjusted operating income before amortization	81	93	76	97	75	91	79	103
Adjusted operating income margin before amortization	14.9 %	16.0 %	13.3 %	16.2 %	14.1 %	16.0 %	14.0 %	16.9 %
Operating income	\$ 51	\$ 62	\$ 38	\$ 62	\$ 45	\$ 59	\$ 50	\$ 73
Net income	28	34	20	52	25	34	28	45
Per share	0.33	0.40	0.24	0.60	0.28	0.39	0.31	0.50
Adjusted net income	28	35	25	42	28	36	28	45
Per share	0.34	0.41	0.29	0.49	0.33	0.41	0.32	0.50
% of fiscal year	-	-	-	31 %	21 %	27 %	21 %	31 %

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 the 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 Third Quarter Ended July 31 (unaudited)

(in millions of dollars)	2007	2006
<b>Operating activities</b>		
Cash flow from operating activities before changes in non-cash operating items	\$ 66.4	\$ 54.6
Changes in non-cash operating items	47.1	16.7
Cash flow related to (used in) operating activities	113.5	71.3
<b>Investing activities</b>		
Business acquisitions, net of disposals	(5.3)	(2.7)
Acquisitions of property, plant and equipment, net of disposals	(27.2)	(28.0)
Other	(5.6)	(6.7)
Cash flow used in investing activities	(38.1)	(37.4)
<b>Financing activities</b>		
Reimbursement of long-term debt	(106.0)	(5.5)
Increase in revolving term credit facility	74.0	-
Redemption of shares, net	(34.3)	(10.2)
Dividends on shares	(5.8)	(5.7)
Other	(0.1)	-
Cash flow from financing activities	(72.2)	(21.4)
<b>Other relevant information</b>		
Net indebtedness	423.0	447.6
Shareholders' equity	1,168.2	1,117.7
Net indebtedness / total capitalization ratio	27 %	29 %
Credit rating		
DBRS	BBB high Negative trend	BBB high Negative trend
Standard and Poor's	BBB Stable	BBB Stable

#### *Operating activities*

For the third quarter of 2007, cash flow from operating activities before changes in non-cash operating items increased to \$66.4 million from \$54.6 million in the third quarter of 2006, primarily due to increases in net income and amortization. Changes in non-cash operating items increased to \$47.1 million in the third quarter of 2007 compared to \$16.7 million in the third quarter of 2006, mainly due to the timing of the payment of accounts payable. As a result, cash flow from operating activities generated \$113.5 million in the third quarter of 2007 compared to \$71.3 million in the third quarter of 2006.

#### *Investing activities*

In the third quarter of 2007, \$27.2 million was invested in property, plant and equipment, net of disposals, a slight decrease compared to \$28.0 million invested in 2006. This limited variance is due to two offsetting factors: an

increase in capital expenditures for the Printing Products and Services sector directly related to the San Francisco Chronicle project and a decrease in capital expenditures for the Marketing Products and Services sector.

### *Financing activities*

The Corporation paid \$5.8 million, or 7 cents per share, in dividends in the third quarter of 2007 compared to \$5.7 million, or 6.5 cents per share, in the third quarter of 2006, an increase of 8%. Dividends paid by Transcontinental to Canadian residents are eligible dividends as per the provincial and federal Income Tax laws.

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.

During the third quarter of fiscal 2007, the Corporation purchased 1,554,900 of its Class A Subordinate Voting Shares at a weighted average price of \$21.26 for a total consideration of \$33.0 million and 72,200 of its Class B Shares at a weighted average price of \$21.75 for a total consideration of \$1.6 million in accordance with its renewed Normal Course Issuer Bid. Of the total consideration of \$34.6 million, \$8.8 million corresponds to the book value and \$25.8 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. Between November 21, 2006 and July 31, 2007, the Corporation purchased 2,174,300 of its Class A Subordinate Voting Shares at a weighted average price of \$21.31 for a total consideration of \$46.3 million and 119,800 of its Class B Shares at a weighted average price of \$21.76 for a total consideration of \$2.6 million in accordance with its renewed Normal Course Issuer Bid. Of the total consideration of \$49.7 million, \$12.5 million corresponds to the book value and \$37.2 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

During the third quarter of fiscal 2006, the Corporation purchased 399,300 of its Class A Subordinate Voting Shares at a weighted average price of \$19.19 for a total consideration of \$7.7 million and 170,551 of its Class B Shares at a weighted average price of \$18.95 for a total consideration of \$3.2 million 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 \$10.9 million, \$2.6 million corresponds to the book value and \$8.3 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

During the nine-month period ended July 31, 2006, the Corporation purchased 2,408,600 of its Class A Subordinate Voting Shares at a weighted average price of \$19.06 for a total consideration of \$46.0 million and 575,651 of its Class B Shares at a weighted average price of \$18.87 for a total consideration of \$10.8 million 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 \$56.8 million, \$14.3 million corresponds to the book value and \$42.5 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

### ***Debt instruments***

As at July 31, 2007, the Corporation's net indebtedness stood at \$423.0 million and its net indebtedness to total capitalization ratio was 27%, compared to 29% in the third quarter of 2006 and 25% at the end of 2006. Pro-forma the PLM acquisition, the net debt to total capitalization ratio would have been approximately 32%

As at July 31, 2007, the Corporation had a committed line of credit in the form of a term revolving credit facility, totalling \$400 million or the U.S. dollar equivalent. An amount of \$115.8 million of this credit facility was used at the end of the third quarter of 2007. Moreover, letters of credit amounting to C\$0.3 million and US\$3.5 million were drawn on the committed line 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*. In the third quarter of 2007 and during the years ended October 31, 2006 and 2005, the Corporation has not been in default under any of its other obligations. Other than long-term debt obligations, the Corporation has commitments, mainly comprised of operating leases.

On June 1<sup>st</sup>, 2007, Unsecured Senior Debentures totalling \$100 million matured. These debentures have been reimbursed using the existing term revolving credit facility described above.

During the nine-month period ended July 31, 2007, the Corporation entered into new commitments to acquire machinery and equipment. As at July 31, 2007, \$36.4 million (US\$26.3 million, €0.2 million and C\$8.2 million) remained committed and unaccounted for. Minimum payments required in 2007, 2008 and 2009 are \$9.4 million, \$23.6 million and \$3.4 million, 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 July 31, 2007, \$276 million of accounts receivable (\$282 million as at October 31, 2006) had been sold under the accounts receivable securitization program, of which \$39 million (\$39 million as at October 31, 2006) were kept by the Corporation as retained interest, resulting in a net consideration of \$237 million, including C\$206 million and US\$29 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 those dates 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 \$2.9 million and \$8.8 million, respectively, for the three-month period and the nine-month period ended July 31, 2007 (\$1.9 million and \$5.8 million, respectively, for the same periods 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 third 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 consolidated 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 amortized 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 consolidated financial statements are

restated to reflect the application of this Section only 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 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 third 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 third 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 third quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

### ***Economic Cycles***

Currently, credit markets are in turmoil creating concern and cost containment philosophies with companies involved in the sub-prime mortgage market and this is having a ripple effect across the financial services vertical. The large part of our customer base in our direct marketing segment is in this vertical, pressuring short term results. The direct marketing segment represents about 12% of total Company revenues. 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 third 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 peso 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. The variation in average spot exchange rates in the third quarter of 2007 versus the third quarter of 2006 was 2.4% for the CAD/USD and 1.0% for the CAD/MXP .

As at July 31, 2007, the Corporation had entered into contracts to sell US\$90.3 million, of which US\$17.0 million, US\$52.3 million and US\$21.0 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 24 months, with rates varying from 1.0384 to 1.1744. The Corporation was also party to collars totalling US\$6.0 million (US\$9.5 million in fiscal 2006). The terms of these collar contracts range from six month to eleven months, with floor rates at 1.0400 and cap rates from 1.0708 to 1.0885. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the third quarter of 2007. In addition, the Corporation bought €1.0 million at an average rate of 1.3958 CAD/EUR for the next month 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***

On August 21, 2007, the Company announced an agreement to make a takeover bid to the shareholders of PLM Group, Canada's fourth-largest printer. Since then, the Competition Bureau approved the transaction and the takeover bid circular has been sent confirming Transcontinental's all-cash offer to acquire all of PLM's outstanding shares at C\$3.50 per share, for a total enterprise value of approximately C\$130 million including debt. The transaction is expected to close in October 2007. The integration of acquisitions is always a risk and could cause temporary disruptions to operations and/or potential loss of business. Furthermore, the identified synergies may not be fully realized or may take longer to realize than originally anticipated. 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 third 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 third 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 third 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 third quarter of 2007. For more information, please refer to *Management's Discussion and Analysis for the year ended October 31, 2006*.

## **SUBSEQUENT EVENTS**

The Corporation purchased 11,100 of its Class A Subordinate Voting Shares at a weighted average price of \$18.60 for a total consideration of \$0.2 million and 200 of its Class B Shares at a weighted average price of \$20.37 for a negligible total consideration between August 1, 2007 and September 12, 2007 in accordance with its Normal Course Issuer Bid as described in Note 9 of the consolidated financial statements.

On August 21, 2007, the Corporation announced an agreement to make a takeover bid to the shareholders of PLM Group Ltd., a printer in the Greater Toronto Area. Since then, the Competition Bureau approved the transaction and the takeover bid circular has been sent confirming Transcontinental's all-cash offer to acquire approximately 29.5 million shares of PLM Group Ltd, on a fully diluted basis, at C\$3.50 per share, for a total enterprise value of approximately C\$130 million, including debt. The transaction is expected to close in October 2007.

On August 21, 2007, the Corporation entered into new commitments to acquire machinery and equipment for a total consideration of US\$33.6 million. Minimum payments required in 2007, 2008 and 2009 are US\$10.1 million, US\$13.1 million and US\$10.4 million, respectively.

## **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 July 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.

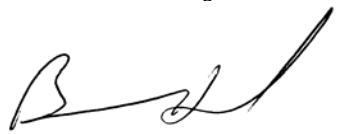
## **OUTLOOK**

For the balance of the year, we will put greater emphasis on businesses that have strong fall seasons: we will ensure that our Book Group fully leverages its new manufacturing platform and that our new Educational Publishing Group is geared up to meet the strong demands of the busy back-to-school period; we will continue to focus on vertical diversification and postal optimization services in our Direct Marketing Group in order to face the challenges related to the postal rate increase and downturn in the credit market; and finally we will make sure our Retail Group's operations are fully ramped-up to meet the usually strong fall and Christmas seasons.

We are expecting the fourth quarter to be superior to what it has been historically when we take into consideration the change in our business mix, driven by the Chenelière Éducation acquisition last year, as well as a trend towards greater seasonality from some of our other business groups.

Therefore, taking into consideration a constant exchange rate of 1.05 CAD/USD for the remainder of the year, the positive effect from the share buy-back program, the previously announced 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. Even with an exchange rate at parity for the remainder of the year, management would maintain its stated earnings per share objective.

On behalf of Management,

A handwritten signature in black ink, appearing to read 'B. Huard', is written over a thin red vertical line.

Benoît Huard  
Vice President and Chief Financial Officer

September 13, 2007



**CONSOLIDATED STATEMENTS OF INCOME**  
unaudited

(in millions of dollars, except per share data)	Three months ended July 31		Nine months ended July 31	
	2007	2006	2007	2006
Revenues	\$ 546.5	\$ 528.9	\$ 1,695.4	\$ 1,665.1
Operating costs	399.3	392.5	1,248.1	1,231.9
Selling, general and administrative expenses	65.9	61.6	197.5	187.8
Operating income before amortization, impairment of assets and restructuring costs	81.3	74.8	249.8	245.4
Amortization	29.3	28.2	90.2	86.3
Impairment of assets and restructuring costs (Note 4)	0.9	1.7	8.7	4.9
Operating income	51.1	44.9	150.9	154.2
Financial expenses	7.2	8.0	23.1	22.1
Discount on sale of accounts receivable (Note 7)	2.9	1.9	8.8	5.8
Income before income taxes and non-controlling interest	41.0	35.0	119.0	126.3
Income taxes (Note 3)	13.2	10.3	36.7	39.5
Non-controlling interest	-	-	0.3	0.5
<b>Net income</b>	<b>\$ 27.8</b>	<b>\$ 24.7</b>	<b>\$ 82.0</b>	<b>\$ 86.3</b>
<b>Per share (basic) (Note 9)</b>				
Net income	\$ 0.33	\$ 0.28	\$ 0.96	\$ 0.99
<b>Per share (diluted) (Note 9)</b>				
Net income	\$ 0.33	\$ 0.28	\$ 0.96	\$ 0.98
Average number of shares outstanding (in millions)	84.5	86.9	85.2	87.6

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



**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
unaudited

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2007	2006	2007	2006
<b>Net income</b>	\$ 27.8	\$ 24.7	\$ 82.0	\$ 86.3
Other comprehensive (loss) income:				
Unrealized gains on derivatives designated as cash flow hedges, net of income taxes of \$0.9 million and \$1.5 million for the three-month and nine-month periods ended July 31, 2007, respectively	1.8	-	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 \$0.5 million and \$1.5 million for the three-month and nine-month periods ended July 31, 2007, respectively	(1.2)	-	(3.4)	-
Change in gains on derivatives designated as cash flow hedges	0.6	-	(0.4)	-
Unrealized (losses) gains on translation of financial statements of self-sustaining foreign operations	(6.8)	2.5	(8.7)	(5.9)
<b>Other comprehensive (loss) income</b>	<b>(6.2)</b>	<b>2.5</b>	<b>(9.1)</b>	<b>(5.9)</b>
<b>Comprehensive income</b>	<b>\$ 21.6</b>	<b>\$ 27.2</b>	<b>\$ 72.9</b>	<b>\$ 80.4</b>

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
unaudited

(in millions of dollars)	Nine months ended July 31	
	2007	2006
<b>Balance, beginning of period, as previously reported</b>	<b>\$ 769.0</b>	<b>\$ 703.1</b>
Financial instruments - recognition and measurement (Note 2)	(0.2)	-
<b>Restated balance, beginning of period</b>	<b>768.8</b>	<b>703.1</b>
Net income	82.0	86.3
	<b>850.8</b>	<b>789.4</b>
Premium on redemption of shares (Note 9)	(37.2)	(42.5)
Dividends on shares	(17.4)	(16.2)
<b>Balance, end of period</b>	<b>\$ 796.2</b>	<b>\$ 730.7</b>

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



**CONSOLIDATED BALANCE SHEETS**  
unaudited

(in millions of dollars)

As at July 31, 2007

As at October 31, 2006

<b>Current assets</b>		
Cash and temporary investments	\$ 46.8	\$ 89.3
Accounts receivable (Note 7)	132.5	176.3
Income taxes receivable	2.2	2.2
Inventories	83.3	92.8
Prepaid expenses and other current assets	18.7	17.4
Future income tax assets	6.2	6.3
	<b>289.7</b>	<b>384.3</b>
<b>Property, plant and equipment</b>	<b>700.4</b>	<b>713.6</b>
<b>Goodwill</b>	<b>879.7</b>	<b>881.5</b>
<b>Intangible assets</b>	<b>159.8</b>	<b>165.8</b>
<b>Future income tax assets</b>	<b>63.3</b>	<b>59.1</b>
<b>Other assets</b>	<b>95.9</b>	<b>70.4</b>
	<b>\$ 2,188.8</b>	<b>\$ 2,274.7</b>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 324.5	\$ 417.4
Income taxes payable	30.5	53.3
Deferred subscription revenues and deposits	46.2	54.2
Current portion of long-term debt	10.4	12.7
	<b>411.6</b>	<b>537.6</b>
<b>Long-term debt</b>	<b>459.4</b>	<b>467.9</b>
<b>Future income tax liabilities</b>	<b>77.2</b>	<b>70.1</b>
<b>Other liabilities</b>	<b>71.6</b>	<b>42.0</b>
	<b>1,019.8</b>	<b>1,117.6</b>
<b>Non-controlling interest</b>	<b>0.8</b>	<b>0.8</b>
<b>Commitments (Note 14)</b>		
<b>Shareholders' equity</b>		
Share capital (Note 9)	396.0	407.6
Contributed surplus (Notes 9 and 10)	8.5	6.9
Retained earnings	796.2	769.0
Accumulated other comprehensive loss (Note 11)	(32.5)	(27.2)
	<b>763.7</b>	<b>741.8</b>
	<b>1,168.2</b>	<b>1,156.3</b>
	<b>\$ 2,188.8</b>	<b>\$ 2,274.7</b>

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



**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
unaudited

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2007	2006	2007	2006
<b>Operating activities</b>				
Net income	\$ 27.8	\$ 24.7	\$ 82.0	\$ 86.3
Items not affecting cash and cash equivalents				
Amortization	38.4	31.9	108.8	97.8
Impairment of assets (reversal) (Note 4)	0.1	-	3.6	(0.5)
Gain on disposal of assets	-	(0.2)	(0.2)	(1.1)
Future income taxes	(2.6)	(3.4)	1.3	(2.7)
Non-controlling interest	-	-	0.3	0.5
Accrued pension benefit asset and liability	1.6	1.2	6.8	6.8
Stock-based compensation and other stock-based payments (Note 10)	0.6	0.6	1.8	1.4
Other	0.5	(0.2)	0.9	(0.3)
Cash flow from operating activities before changes in non-cash operating items	66.4	54.6	205.3	188.2
Changes in non-cash operating items	47.1	16.7	(69.3)	(199.6)
Cash flow related to (used in) operating activities	113.5	71.3	136.0	(11.4)
<b>Investing activities</b>				
Business acquisitions (Note 12)	(5.3)	(2.7)	(15.5)	(3.0)
Acquisitions of property, plant and equipment	(28.2)	(28.7)	(83.0)	(80.6)
Disposals of property, plant and equipment	1.0	0.7	2.0	8.1
Increase in other assets	(5.6)	(6.7)	(19.1)	(25.0)
Cash flow used in investing activities	(38.1)	(37.4)	(115.6)	(100.5)
<b>Financing activities</b>				
Reimbursement of long-term debt	(106.0)	(5.5)	(108.8)	(7.5)
Increase in revolving term credit facility	74.0	-	113.5	-
Dividends on shares	(5.8)	(5.7)	(17.4)	(16.2)
Redemption of shares (Note 9)	(34.6)	(10.9)	(49.7)	(56.8)
Issuance of shares (Note 9)	0.3	0.7	0.7	2.9
Other	(0.1)	-	(0.6)	(0.5)
Cash flow used in financing activities	(72.2)	(21.4)	(62.3)	(78.1)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	(0.5)	0.2	(0.6)	(3.0)
Increase (decrease) in cash and cash equivalents	2.7	12.7	(42.5)	(193.0)
Cash and cash equivalents at beginning of period	44.1	16.3	89.3	222.0
Cash and cash equivalents at end of period	\$ 46.8	\$ 29.0	\$ 46.8	\$ 29.0
Cash and cash equivalents are comprised of				
Cash and temporary investments	\$ 46.8	\$ 29.1	\$ 46.8	\$ 29.1
Bank overdraft	-	(0.1)	-	(0.1)
	\$ 46.8	\$ 29.0	\$ 46.8	\$ 29.0
<b>Additional information</b>				
Interest paid	\$ 13.1	\$ 12.4	\$ 27.1	\$ 25.8
Income taxes paid	10.2	22.2	55.2	86.2

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 consolidated 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 amortized 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 consolidated financial statements are restated to reflect the application of this Section only for changes in the balances for foreign currency translation of self-sustaining foreign operations.

**2. Changes in accounting policies (continued)**
**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**

	Three months ended July 31		Nine months ended July 31	
	2007	2006	2007	2006
Statutory tax rate	32.4%	34.6%	32.2%	33.1%
Manufacturing and processing profits tax credits	(0.7)	(0.8)	(0.6)	(0.8)
Effect of foreign tax rate differences	(2.8)	(4.3)	(3.3)	(3.7)
Other	3.4	(6.7)	2.6	0.8
Effective tax rate before the following items:	32.3	22.8	30.9	29.4
Impairment of assets and restructuring costs	(0.1)	(0.1)	(0.1)	-
Effect of changes in statutory tax rates (a)	-	(16.3)	-	(4.5)
Retroactive taxes (b)	-	23.0	-	6.4
Effective tax rate	32.2%	29.4%	30.8%	31.3%

a) On June 6, 2006, Bill C-13, an act to implement certain provisions of the budget tabled in Parliament on May 2, 2006, was submitted for a third reading in the House of Commons and then became law as Bill C-13 received royal assent on June 22, 2006. A decrease of \$6.0 million in future income tax liabilities was recorded in the third quarter of fiscal 2006 to reflect the changes in statutory tax rates.

b) On June 9, 2006, the Quebec government enacted Bill 15 in the Quebec National Assembly to amend the Taxation Act and other legislative provisions. An unusual charge for retroactive taxes and related charges of \$8.4 million was recorded in the third quarter of fiscal 2006.

**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			
	Three months ended July 31		Nine months ended July 31		Three months ended July 31		Nine months ended July 31	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>Commercial printing operations (a)</b>								
Impairment of assets	\$ 0.1	\$ -	\$ 3.6	\$ -	\$ n/a	\$ n/a	\$ n/a	\$ n/a
Workforce reduction costs	0.2	-	3.3	-	0.6	-	1.7	-
Transfer of printing equipment and other costs	0.4	-	1.1	-	0.4	-	1.1	-
<b>Toronto printing operations (b)</b>								
Workforce reduction costs	0.2	0.6	0.2	2.8	0.2	0.7	1.0	0.8
Transfer of printing equipment and other costs	-	0.3	0.4	0.3	-	0.3	0.4	0.3
<b>Book printing operations (c)</b>								
Workforce reduction costs	-	-	-	-	-	-	-	0.8
Transfer of printing equipment and other costs	-	0.8	0.1	2.3	-	0.8	0.1	2.3
<b>Manufacturing strategy (d)</b>								
Workforce reduction costs	-	-	-	-	-	-	-	0.4
<b>Winnipeg printing operations (e)</b>								
Impairment of assets (reversal)	-	-	-	(0.5)	n/a	n/a	n/a	n/a
Workforce reduction costs	-	-	-	-	-	-	-	0.1
Transfer of printing equipment and other costs	-	-	-	-	-	-	-	0.2
	\$ 0.9	\$ 1.7	\$ 8.7	\$ 4.9	\$ 1.2	\$ 1.8	\$ 4.3	\$ 4.9

**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, which initially resulted in total restructuring costs of \$9.2 million to be incurred within the twelve months following the announcement. During the third quarter of fiscal 2007, total restructuring costs were revised to \$9.5 million, of which \$3.3 million is for workforce reductions costs instead of \$3.1 million initially planned, \$3.6 million is for an impairment of assets for building and equipment that are no longer necessary in the outgoing operations of the Corporation instead of the \$3.5 million initially planned and \$2.6 million for the transfer of printing equipment and other costs. Of the \$9.5 million, an amount of \$8.0 million was charged to income during the first nine-months of fiscal 2007, of which an amount of \$3.6 million is for an impairment of assets, \$0.3 million in the Printing Products and Services sector and \$3.3 million in the Marketing Products and Services sector, an amount of \$3.3 million is for workforce reduction costs, \$1.8 million in the Printing Products and Services sector and \$1.5 million in the Marketing Products and Services sector and an amount of \$1.1 million is for the transfer of printing equipment and other costs, \$1.0 million in the Printing Products and Services sector and \$0.1 million in the Marketing Products and Services sector. As at July 31, 2007, an amount of \$1.6 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 2006 and then revised to \$4.3 million during the third quarter of fiscal 2007, of which \$3.0 million is for workforce reduction costs instead of the \$2.8 million previously planned, \$1.1 million for the transfer of printing equipment and other costs instead of the \$1.0 million previously planned and \$0.2 million for an impairment of assets. As at July 31, 2007, an amount of \$0.6 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 was for workforce reduction costs and \$2.5 million for the transfer of printing equipment and other costs. During the second and fourth quarters of fiscal 2006, amounts of \$1.0 million and \$0.4 million, respectively, were added to the expected restructuring costs related to the transfer of printing equipment and other costs, which increased the total restructuring costs 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.



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**4. Impairment of assets and restructuring costs (continued)**

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 July 31:

(in millions of dollars)	Nine months ended July 31	
	2007	2006
<b>Balance, beginning of period</b>	<b>\$ 1.4</b>	<b>\$ 1.5</b>
Additions		
Workforce reduction costs	3.5	2.8
Transfer of printing equipment and other costs	1.6	2.6
Reductions		
Amount paid for workforce reduction	(2.7)	(2.1)
Amount paid for transfer of printing equipment and other	(1.6)	(2.8)
<b>Balance, end of period</b>	<b>\$ 2.2</b>	<b>\$ 2.0</b>

**5. Discontinued operations**

On October 8, 2004, the Corporation announced that an unfavourable ruling was rendered by a California court in the lawsuit brought by Softbank Content Services, Inc. against 9112-0691 Québec inc. (previously named MPO Canada inc.), a holding company owned equally by Transcontinental inc. and 3093-8195 Québec inc., a subsidiary of MPO S.A. The lawsuit involved a guarantee awarded to Softbank Content Services, Inc. by MPO Canada inc. in 1999 on behalf of Americ Disc Inc., its then wholly-owned subsidiary. During the second quarter of fiscal 2007, following a ruling on appeal, the Corporation paid a total amount of US\$5.8 million to Softbank Content Services, Inc. in final settlement of the lawsuit. This amount was provided for in 2004.

**6. 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)	Three months ended July 31		Nine months ended July 31	
	2007	2006	2007	2006
<b>Pension plans</b>				
Defined benefit pension plans	\$ 6.3	\$ 5.7	\$ 17.5	\$ 18.7
Defined contribution pension plans	0.8	0.7	2.4	2.2
	<b>\$ 7.1</b>	<b>\$ 6.4</b>	<b>\$ 19.9</b>	<b>\$ 20.9</b>



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### 7. Accounts receivable

As at July 31, 2007, \$276 million of accounts receivable (\$282 million as at October 31, 2006) had been sold under the accounts receivable securitization program, of which \$39 million (\$39 million as at October 31, 2006) was kept by the Corporation as retained interest, resulting in a net consideration of \$237 million, including C\$206 million and US\$29 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 those dates 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 \$2.9 million and \$8.8 million, respectively, for the three-month and nine-month periods ended July 31, 2007 (\$1.9 million and \$5.8 million for the same periods in 2006), which are presented under "Discount on sale of accounts receivable" in the consolidated statements of income.

### 8. Debt instruments

On June 1, 2007, Unsecured Senior Debentures totalling \$100 million matured. These have been reimbursed using the existing term revolving credit facility.

### 9. Share capital

#### Earnings per share

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

	Three months ended July 31		Nine months ended July 31	
	2007	2006	2007	2006
<b>Numerator (in millions of dollars)</b>				
Net income	\$ 27.8	\$ 24.7	\$ 82.0	\$ 86.3
<b>Denominator (in millions)</b>				
Weighted average number of shares	84.5	86.9	85.2	87.6
Dilutive effect of stock options and warrants	0.2	0.1	0.2	0.2
Weighted average diluted number of shares	84.7	87.0	85.4	87.8
<b>Basic earnings per share</b>	<b>\$ 0.33</b>	<b>\$ 0.28</b>	<b>\$ 0.96</b>	<b>\$ 0.99</b>
<b>Diluted earnings per share</b>	<b>\$ 0.33</b>	<b>\$ 0.28</b>	<b>\$ 0.96</b>	<b>\$ 0.98</b>

A total of 612,600 stock options were considered to be anti-dilutive in the calculation of the diluted earnings per share for the three-month period ended July 31, 2007, since their exercise price was greater than the average stock price during this period.

A total of 629,420 stock options were considered to be anti-dilutive in the calculation of the diluted earnings per share for the three-month period ended April 30, 2007, since their exercise price was greater than the average stock price during this period.

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 942,600 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 July 31, 2006, since their exercise price was greater than the average stock price during this period.

A total of 1,406,380 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 April 30, 2006, 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.

**9. Share capital (continued)****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 and nine-month periods ended July 31, 2007, the amounts received were \$0.3 million and \$0.7 million, respectively, and \$0.1 million and \$0.2 million, respectively, were transferred from contributed surplus to share capital for the same periods. For the three-month and nine-month periods ended July 31, 2006, the amounts received were \$0.7 million and \$2.9 million, respectively, and a negligible amount and \$0.3 million, respectively, were transferred from contributed surplus to capital stock for the same periods.

**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.

During the third quarter of fiscal 2007, the Corporation purchased 1,554,900 of its Class A Subordinate Voting Shares at a weighted average price of \$21.26 for a total consideration of \$33.0 million and 72,200 of its Class B Shares at a weighted average price of \$21.75 for a total consideration of \$1.6 million in accordance with its renewed Normal Course Issuer Bid. Of the total consideration of \$34.6 million, \$8.8 million corresponds to the book value and \$25.8 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. Between November 21, 2006 and July 31, 2007, the Corporation purchased 2,174,300 of its Class A Subordinate Voting Shares at a weighted average price of \$21.31 for a total consideration of \$46.3 million and 119,800 of its Class B Shares at a weighted average price of \$21.76 for a total consideration of \$2.6 million in accordance with its renewed Normal Course Issuer Bid. Of the total consideration of \$49.7 million, \$12.5 million corresponds to the book value and \$37.2 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

During the third quarter of fiscal 2006, the Corporation purchased 399,300 of its Class A Subordinate Voting Shares at a weighted average price of \$19.19 for a total consideration of \$7.7 million and 170,551 of its Class B Shares at a weighted average price of \$18.95 for a total consideration of \$3.2 million 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 \$10.9 million, \$2.6 million corresponds to the book value and \$8.3 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

During the nine-month period ended July 31, 2006, the Corporation purchased 2,408,600 of its Class A Subordinate Voting Shares at a weighted average price of \$19.06 for a total consideration of \$46.0 million and 575,651 of its Class B Shares at a weighted average price of \$18.87 for a total consideration of \$10.8 million 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 \$56.8 million, \$14.3 million corresponds to the book value and \$42.5 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.



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10. Stock-based compensation plans

Share unit plan

On December 14, 2006, the Corporation modified its 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.

No share units were granted for the three-month period ended July 31, 2007. For the nine-month period ended July 31, 2007, 138,310 DSU and 30,788 RSU were granted.

As at July 31, 2007, 165,478 DSU and 26,507 RSU were outstanding. The expenses recorded in the consolidated statements of income for the three-month and nine-month periods ended July 31, 2007 were \$0.2 million and \$0.6 million, respectively. The impact on the consolidated statements of income for the three-month and nine-month periods ended July 31, 2006 was negligible. No amount has been paid under the plan for the three-month and nine-month periods ended July 31, 2007 and 2006.

Stock option plan

As at July 31, 2007, 1,880,306 stock options were granted, of which, 979,756 could be exercised.

There were no stock options granted for the three-month period ended July 31, 2007 and 50,000 stock options were granted with a weighted average exercise price of \$19.38 for the same period in 2006. For the nine-month periods ended July 31, 2007 and 2006, 160,100 and 570,400 stock options were granted with a weighted average exercise price of \$20.90 and \$19.26, respectively.

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

	2007	2006
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%	4.00%
Expected life	5 years	5 years

Stock-based compensation costs of \$0.6 million was charged to income for the three-month periods ended July 31, 2007 and 2006. For the nine-month periods ended July 31, 2007 and 2006, \$1.8 million and \$1.4 million were charged to income, respectively.

11. Accumulated other comprehensive loss

(in millions of dollars)	Nine months ended July 31	
	2007	2006
<b>Balance, beginning of period, as previously reported</b>	\$ —	\$ —
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	—
<b>Restated balance, beginning of period</b>	<b>(23.4)</b>	<b>(23.8)</b>
Other comprehensive loss	(9.1)	(5.9)
<b>Balance, end of period</b>	<b>\$ (32.5)</b>	<b>\$ (29.7)</b>

As at July 31, 2007, gains on derivatives designated as cash flow hedges of \$2.7 million, net of income taxes of \$1.3 million, reported under “Accumulated other comprehensive income” in the consolidated balance sheet are expected to be reclassified to net income within the next twelve months. The remaining gains of \$0.7 million, net of income taxes of \$0.4 million, are expected to be reclassified to net income over a three-year period.



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12. Business acquisitions

During the nine-month period ended July 31, 2007, the Corporation made the following acquisitions:

Operating sector	Acquisitions	Date of acquisition
Media	Assets of Seaway News, owner of a weekly newspaper in Cornwall, <i>Seaway news</i> , serving the eastern Ontario region	July 28, 2007
	Assets of Résonat Distribution Ltée, Québec Site Web.com Ltée and Condo Direct Ltée., owners of <i>Condo Direct</i> and <i>Condo and Loft D'aujourd'hui</i> , magazines related to home building and renovation in Quebec	June 18, 2007
	100% of the shares of <i>Les Productions Ma Maison Direct Ltée</i> and <i>Magazine des Maisons Neuves du Grand Montréal Ltée</i> , owners of <i>Maison D'aujourd'hui</i> , <i>Maison Directe</i> , <i>MaisonMax.com</i> , <i>MaisonNeuve.com</i> and <i>www.maisonmax.com</i> Web site, magazines and web site related to home building and renovation in Quebec	June 18, 2007
	100% of the shares of The Oxbow Herald Ltd, owner of <i>The Oxbow Herald</i> , weekly newspaper in SouthEast Saskatchewan	June 14, 2007
	Assets of <i>The Broadview express</i> and <i>The Grenfell Sun</i> , weekly newspapers in Southern Saskatchewan	May 1, 2007
	100% of the shares of Radville Star Management, owner of <i>The Radville Star</i> and <i>The Deep South Star</i> , newspaper in Southern Saskatchewan	December 19, 2006

(in millions of dollars)	Chenelière Éducation Inc.	Others	Total
<b>Assets acquired</b>			
Working capital	\$ (0.5)	\$ 0.4	\$ (0.1)
Property, plant and equipment	-	0.4	0.4
Goodwill	0.5	8.9	9.4
Amortizable intangible assets	(0.7)	-	(0.7)
	(0.7)	9.7	9.0
<b>Liabilities assumed</b>			
Future income tax liabilities	0.4	-	0.4
	0.4	-	0.4
	\$ (0.3)	\$ 9.7	\$ 9.4
<b>Consideration</b>			
Cash paid	\$ 9.8	\$ 5.7	\$ 15.5
Balance of sale payable, maturing within one year, bearing no interest	(9.6)	4.0	(5.6)
Short-term liabilities	(0.5)	-	(0.5)
	\$ (0.3)	\$ 9.7	\$ 9.4

**12. Business acquisitions (continued)****Chenelière Éducation Inc.**

During the nine-month period ended July 31, 2007, adjustments were made to the purchase price allocation of Chenelière Éducation Inc, which was acquired on August 31, 2006, to reflect the final valuation of the assets acquired and the final determination of the costs related to the acquisition.

During the nine-month period ended July 31, 2007, the Corporation paid an amount of \$9.8 million, of which \$0.5 million was included in short-term liabilities and \$9.3 million in balance of sale payable as at October 31, 2006. As at July 31, 2007, the balance in short-term liabilities is \$0.3 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 is included in "Current portion of long-term debt" and \$3.1 million is included in "Long-term debt" in the consolidated balance sheet.

**Others**

The purchase price allocations of the other acquisitions are preliminary and could change once the valuation of the assets acquired is concluded and the final determination of the costs related to the acquisition has been made.

**13. 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 10. 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 July 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 fair value of the swap agreement, which is negligible as at July 31, 2007, is recorded on the Corporation consolidated balance sheet with changes in fair value recognized in net income.

**14. Commitments**

During the nine-month period ended July 31, 2007, the Corporation entered into new commitments to acquire machinery and equipment. As at July 31, 2007, \$36.4 million (US\$26.3 million, €\$0.2 million and C\$8.2 million) remained committed and unaccounted for. Minimum payments required in 2007, 2008 and 2009 are \$9.4 million, \$23.6 million and \$3.4 million, respectively.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

unaudited

For the three-month and nine-month periods ended July 31

15. 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 July 31		Nine months ended July 31	
	2007	2006	2007	2006
<b>Revenues</b>				
Printing Products and Services	\$ 167.8	\$ 166.3	\$ 532.6	\$ 523.8
Marketing Products and Services	248.1	250.1	784.4	802.3
Media	156.5	136.5	454.6	418.7
Other activities and unallocated amounts	3.0	3.3	10.8	9.6
Inter-segment sales				
Printing Products and Services	(16.7)	(14.3)	(49.0)	(46.2)
Marketing Products and Services	(7.3)	(9.4)	(25.6)	(31.4)
Media	(4.9)	(3.6)	(12.4)	(11.7)
Total inter-segment sales	(28.9)	(27.3)	(87.0)	(89.3)
	\$ 546.5	\$ 528.9	\$ 1,695.4	\$ 1,665.1
<b>Operating income before amortization, impairment of assets and restructuring costs</b>				
Printing Products and Services	\$ 25.9	\$ 25.2	\$ 91.0	\$ 83.1
Marketing Products and Services	27.3	30.8	90.9	106.5
Media	34.0	23.2	84.5	69.5
Other activities and unallocated amounts	(5.9)	(4.4)	(16.6)	(13.7)
	\$ 81.3	\$ 74.8	\$ 249.8	\$ 245.4
<b>Operating income</b>				
Printing Products and Services	\$ 15.9	\$ 15.2	\$ 59.0	\$ 52.3
Marketing Products and Services	12.3	14.4	40.1	56.6
Media	30.1	20.9	72.4	62.5
Other activities and unallocated amounts	(7.2)	(5.6)	(20.6)	(17.2)
	\$ 51.1	\$ 44.9	\$ 150.9	\$ 154.2
<b>Acquisitions of property, plant and equipment <sup>(1)</sup></b>				
Printing Products and Services	\$ 17.1	\$ 9.0	\$ 33.6	\$ 31.5
Marketing Products and Services	8.4	16.0	44.7	40.4
Media	2.8	2.5	5.7	5.7
Other activities and unallocated amounts	1.3	1.2	4.1	3.0
	\$ 29.6	\$ 28.7	\$ 88.1	\$ 80.6
<b>Amortization of property, plant and equipment</b>				
Printing Products and Services	\$ 9.2	\$ 8.5	\$ 27.5	\$ 26.5
Marketing Products and Services	14.2	15.0	44.1	45.7
Media	2.9	2.2	8.7	6.6
Other activities and unallocated amounts	1.1	1.1	3.4	3.1
	\$ 27.4	\$ 26.8	\$ 83.7	\$ 81.9

<sup>(1)</sup> Those amounts represent total expenditures for additions to property, plant and equipment for the three-month and nine-month periods ended July 31, 2007, regardless whether they are paid or not.

(in millions of dollars)	As at July 31	As at October 31
	2007	2006
<b>Assets</b>		
Printing Products and Services	\$ 556.4	\$ 544.2
Marketing Products and Services	764.1	787.4
Media	802.4	773.3
Other activities and unallocated amounts	65.9	169.8
	\$ 2,188.8	\$ 2,274.7
<b>Goodwill</b>		
Printing Products and Services	\$ 110.3	\$ 110.5
Marketing Products and Services	264.0	273.2
Media	504.5	496.9
Other activities and unallocated amounts	0.9	0.9
	\$ 879.7	\$ 881.5

**16. Subsequent events****Redemption of shares**

The Corporation purchased 11,100 of its Class A Subordinate Voting Shares at a weighted average price of \$18.60 for a total consideration of \$0.2 million and 200 of its Class B Shares at a weighted average price of \$20.37 for a negligible total consideration between August 1, 2007 and September 12, 2007 in accordance with its Normal Course Issuer Bid as described in Note 9.

**Takeover bid**

On August 21, 2007, the Corporation has agreed to make a takeover bid to the shareholders of PLM Group Ltd., a printer in the Greater Toronto Area, in the Marketing Products and Services sector. The Corporation is making an all-cash offer to acquire approximately 29.5 million shares of PLM Group Ltd, on a fully diluted basis, at \$3.50 per share, for a total consideration of approximately \$130 million, including debt. The transaction is expected to close in October 2007.

**Purchase of machinery and equipment**

On August 21, 2007, the Corporation entered into new commitments to acquire machinery and equipment for a total consideration of US\$33.6 million. Minimum payments required in 2007, 2008 and 2009 are US\$10.1 million, US\$13.1 million and US\$10.4 million, respectively.

**17. Effect of new accounting standards not yet implemented****Inventories**

In March 2007, the CICA issued Section 3031, Inventories, replacing Section 3030, Inventories. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Section prescribed the accounting treatment for inventories such as measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and reversal of previous write-downs of inventories arising from an increase in net realizable value. It also provides guidance on the cost methodologies that are used to assign costs to inventories and it describes the required disclosures on the carrying amount of inventories, the amount of inventories recognized as an expense and the amount of write-downs or reversal of write-downs of inventories. The Corporation is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.

**Financial Instruments – Disclosures**

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosures, replacing Section 3861 – Financial Instruments – Disclosure and Presentation. 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, the CICA issued Section 3863, Financial Instruments – Presentation, replacing Section 3861 – Financial Instruments – Disclosure and 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. The Corporation is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.

**Capital Disclosures**

In December 2006, the 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 an 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.

**18. Comparative figures**

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