

For Immediate Release

**SOLID PERFORMANCE FOR TRANSCONTINENTAL IN THIRD QUARTER
AND FIRST NINE MONTHS OF FISCAL 2008**

- Growth of 6% in revenues for the third quarter and 4% for the first nine months of fiscal 2008; excluding the foreign exchange rate impact, growth of 8% and 7%, respectively.
- Increase of 2% in adjusted operating income before amortization for the quarter and for the first nine months of the year; excluding the foreign exchange rate impact, growth of 4% and 8%, respectively.
- Increase of 9% in net income for the third quarter and 25% for the first nine months; on a per-share basis, net income rose from \$0.33 to \$0.38 in third quarter, a 14% increase, and from \$0.96 to \$1.25 in the first nine months, an increase of 29%.
- Increase of 7% in adjusted net income for the third quarter and 6% for the first nine months of the year.
- On a per-share basis, adjusted net income rose from \$0.34 to \$0.38 in the third quarter, up 12%, and from \$1.03 to \$1.14 in the first nine months, up 11%; excluding the foreign exchange rate impact, growth was 12% and 17%, respectively.
- Announcement in August of an 18-year contract valued at \$1.7 billion, coming into effect at the end of 2010, to print *The Globe and Mail* in most of its major markets in Canada, and of a \$200 million investment in a new and innovative Canada-wide platform for newspaper and flyer printing.
- Announcement today of a multi-year arrangement, valued at approximately \$25 million per year, to print flyers for Shoppers Drug Mart (Pharmaprix in Quebec) all across Canada and to deliver other value-added services.
- Acquisition of Rastar, a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing.
- Excellent financial position with a view to continuing growth.

Montreal, September 11, 2008 – Transcontinental today announced a solid financial performance for its third quarter ended July 31, 2008, and for the first nine months of fiscal 2008. Despite the negative impact of the foreign exchange rate, nearly all financial performance indicators are up compared to the same period in 2007. The acquisition of PLM Group, as well as a series of smaller but strategic acquisitions in 2007 and 2008, combined with the strong performance of newspapers, Publi-Sac (Ad-Bag), flyer and book printing, and Mexican operations, as well as strict cost controls and disciplined financial management, more than offset the negative exchange rate impact and the backlash of the U.S. credit crunch on the Corporation's direct mail operations.



"We are very pleased with our performance for the third quarter and the first nine months of the year, which shows clear growth compared to 2007," said François Olivier, President and Chief Executive Officer of Transcontinental. "Two areas in particular are very encouraging for the future: we have continued to invest in organic growth, especially in strategic segments such as digital media and newspaper printing; and we have continued to attract major customers in Canada in our printing sectors. We fully intend to maintain this momentum in the quarters ahead."

After signing the six-year contract, valued at \$35 - \$40 million per year, to print all of Rogers Communications' magazines starting February 1, 2009, Transcontinental today confirms another major advance in the context of the consolidation of Canada's printing industry. Since last April, Transcontinental has been printing Shoppers Drug Mart flyers all across Canada. The work is handled by Transcontinental's Canada-wide network of printing plants in Vancouver, Calgary, Toronto, Montreal, and Halifax. This multi-year arrangement, valued at about \$25 million per year, is new business for the Corporation with no additional investment required. Shoppers Drug Mart will also benefit from other value-added services, including door-to-door distribution in Quebec with Publi-Sac (Ad-Bag).

The Corporation is in a solid financial position to pursue its development, including growth through acquisitions, with a net indebtedness to total capitalization ratio of 35% as at July 31, 2008, at the bottom end of the target range of 35% to 50% set by management.

Financial Highlights

In the third quarter, Transcontinental recorded consolidated revenues of \$584.9 million, compared to \$551.1 million in the same quarter of 2007, an increase of 6%. Adjusted operating income before amortization was up by 2%, from \$81.3 million in 2007 to \$82.7 million in 2008. Excluding the exchange rate fluctuations between the Canadian dollar and its U.S. and Mexican counterparts, which had a negative impact of \$9.3 million on revenues and \$2 million on adjusted operating income before amortization, growth would have been 8% in revenues and 4% in adjusted operating income before amortization. Thus, the acquisitions made in 2007 and 2008, in addition to organic growth in a number of niches, more than offset the negative impact of the foreign exchange rate.

Net income rose from \$27.8 million to \$30.3 million, an increase of 9%; on a per-share basis, net income grew 14%, from \$0.33 to \$0.38. Adjusted net income, which does not take into account impairment of assets, restructuring costs, and unusual adjustments to income taxes, increased 7%, from \$28.4 million to \$30.3 million; on a per-share basis, adjusted net income rose 12%, from \$0.34 to \$0.38.

In the first nine months of fiscal 2008, consolidated revenue rose 4%, from \$1.708 billion to \$1.776 billion, while adjusted operating income before amortization increased 2%, from \$249.8 million to \$255.8 million. Excluding the foreign exchange rate impact, which reduced revenues by \$49.6 million and adjusted operating income before amortization by \$13.8 million, growth would have been 7% for revenues and 8% for adjusted operating income before amortization.



Net income rose 25%, from \$82 million in the first nine months of 2007 to \$102.1 million in 2008. This substantial increase is primarily due to a favourable change in unusual items, the contribution of business acquisitions, and a decrease in financial expenses. On a per-share basis, net income increased 29%, from \$0.96 to \$1.25. Adjusted net income, which does not take into account impairment of assets, restructuring costs, and unusual adjustments to income taxes, increased 6%, from \$87.9 million to \$93.6 million. On a per-share basis, adjusted net income increased 11%, from \$1.03 to \$1.14.

Excluding the adverse effect of the exchange rate in the first nine months of 2008, adjusted earnings per share would have been \$1.21, for an increase of 17% compared to the same period of 2007. This measure provides a good indicator of the Corporation's operating performance in 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, 2008* at www.transcontinental.com, under "Investors."

Operating Highlights

The main operating highlights for the third quarter of 2008 are as follows.

- In the third quarter, Transcontinental invested approximately \$2 million in digital and interactive initiatives in the Media sector. Other developments include the acquisition of the most important marketplace in Canada for buying and selling businesses, Acquisition.biz, a site that also makes it easier to find strategic or financial partners; the launch of recipefeast.com, the English-language counterpart of the highly popular site recettes.qc.ca, which receives close to a million visitors a month; and the introduction of mobile technology (mobile phone, BlackBerry and Apple's iPhone) to the popular thehockeynews.com site, which receives close to 300,000 visitors a month and has a readership of over two million for its print publication.
- On August 26, 2008, Transcontinental announced that it was awarded a \$1.7 billion contract to print *The Globe and Mail* in most of its major markets in Canada until 2028. This contract, which comes into effect at the end of 2010, represents an extension of existing contracts with *The Globe and Mail* in the Atlantic Provinces, Quebec, and Ontario, and adds two new markets: Alberta and British Columbia. For Transcontinental, this represents approximately \$95 million per year in revenue, of which about \$25 million per year is new revenue. The printing will be done in Halifax, Montreal, Toronto, Calgary and Vancouver. In 2009 and 2010, Transcontinental will invest approximately \$200 million in a new and innovative Canada-wide platform for newspaper and flyer printing, the first Canadian network to integrate the printing of these two products. This network will provide the capacity to deliver colour on every page for *The Globe and Mail*, and it will also address the needs of Transcontinental's retail customers on the flyer side.
- On September 4, 2008, Transcontinental announced the acquisition of Rastar, Inc. This U.S.-based direct marketing company, headquartered in Salt Lake City, Utah, specializes in interactive database marketing and variable data digital printing, which enable it to offer fully personalized marketing communications services. Rastar's industry experience, combined with its digital printing



expertise, will allow Transcontinental to further expand its integrated marketing services offering and enable its clients to achieve the best possible returns on their marketing campaigns. A privately-owned company with approximately US\$50 million in annual revenue and 350 employees, Rastar counts many Fortune 500 companies among its clients in verticals such as the auto, consumer goods, and retail industries.

Reconciliation of Non-GAAP Financial Measures

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



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

Reconciliation of non-GAAP financial measures
For the Third Quarter Ended July 31
(unaudited)

(in millions of dollars, except per share amounts)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Net income	\$ 30.3	\$ 27.8	\$ 102.1	\$ 82.0
Non-controlling interest	(0.7)	-	(0.4)	0.3
Income taxes	12.3	13.2	23.7	36.7
Discount on sale of accounts receivable	1.9	2.9	7.1	8.8
Financial expenses	7.0	7.2	22.6	23.1
Impairment of assets and restructuring costs	0.1	0.9	4.4	8.7
Amortization	31.8	29.3	96.3	90.2
Adjusted operating income before amortization	\$ 82.7	\$ 81.3	\$ 255.8	\$ 249.8
Net income	\$ 30.3	\$ 27.8	\$ 102.1	\$ 82.0
Impairment of assets and restructuring costs (after tax)	-	0.6	3.0	5.9
Unusual adjustments to income taxes	-	-	(11.5)	-
Adjusted net income	30.3	28.4	93.6	87.9
Average number of shares outstanding	80.8	84.5	82.0	85.2
Adjusted earnings per share	\$ 0.38	\$ 0.34	\$ 1.14	\$ 1.03
Cash flow related to operating activities	\$ 77.9	\$ 113.5	\$ 134.2	\$ 136.0
Changes in non-cash operating items	2.0	47.1	(87.7)	(69.3)
Cash flow from operating activities before changes in non-cash operating items	\$ 75.9	\$ 66.4	\$ 221.9	\$ 205.3
Long-term debt			\$ 589.7	\$ 459.4
Current portion of long-term debt			109.4	10.4
Cash and cash equivalents			(57.3)	(46.8)
Net indebtedness			\$ 641.8	\$ 423.0

Environment

Transcontinental plans to continue exercising its leadership in sustainable development in its own way: by mobilizing its employees and taking concrete action. Achievements in the third quarter include the sponsorship, in cooperation with its *Métro* daily newspaper, of the National Environment Show, the largest event of its kind in Quebec, held at the Old Port of Montreal, June 13-15, 2008; publication of the seventh issue of *Vision durable*, the business magazine aimed at bridging the gap between the concept and implementation of sustainable development for Quebec business people; distribution to customers of Transcontinental's printing plants of the seventh issue of *EnviroTerms and Trends*, focusing on printing industry issues, trends, and terms; and the ongoing systematic presentation on the corporate intranet of new environmental initiatives completed by employees from the operating sectors as well as head office. Transcontinental management is solidly committed to sustainable development and firmly believes that the outcome of all these initiatives will be the creation of long-term value for Transcontinental's employees, customers, and shareholders.



Corporate Affairs

On May 23, 2008, Transcontinental announced the appointment of François R. Roy to the company's board of directors. Mr. Roy is Vice Principal (Administration and Finance) at McGill University, and was previously Chief Financial Officer at Télémedia, Avenir, and Quebecor Inc. He also has a long history of involvement in the Montreal arts community and has been a board member of the Opéra de Montreal, the Montreal Museum of Fine Arts, the Canadian Centre for Architecture, and the International Festival of Films on Art. Mr. Roy earned his BA and MBA from the University of Toronto.

On June 18, 2008, Rémi Marcoux, the founder and Executive Chairman of the Board of Transcontinental, was invested as an Officer of the National Order of Quebec by the Premier, Jean Charest. This prestigious award of merit was presented at a ceremony at the Hôtel du Parlement in Quebec City.

Dividend

At its September 11, 2008 meeting, the Corporation's Board of Directors declared a quarterly dividend of \$0.08 per share on Class A Subordinate Voting Shares and Class B shares. These dividends are payable on October 24, 2008 to shareholders of record at the close of the Toronto Stock Exchange on October 6, 2008. On an annual basis, this represents a dividend of \$0.32 per share.

Additional Information

Upon releasing its quarterly results, Transcontinental will hold a conference call for the financial community today at 4:15 p.m. (ET). Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on 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 is also 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 15,000 employees in Canada, the United States and Mexico, and reported revenues of C\$2.3 billion in 2007. For more information about the Corporation, please visit www.transcontinental.com.



Note: This press release contains certain forward-looking statements concerning the future performance of the Corporation. Such statements, based on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors, many of which are beyond the Corporation's control, including, but not limited to, the economic situation, 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 11, 2008. The Corporation's management disclaims any intention or obligation to update or revise any forward-looking statements unless otherwise required by the Securities Authorities.

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Management's Discussion and Analysis

For the third quarter ended July 31, 2008

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 11, 2008.

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 18.

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 either amortized cost or marked-to-market through comprehensive income depending on their classification as either financial assets held to maturity or available-for-sale.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *Securities Act* (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to our medium-term goals, our outlook, 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 impact from raw material and energy prices; 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; the effects of new media and the corresponding shift of advertising revenue to new platforms; judicial judgments and legal proceedings; our ability to successfully realign our organization, resources and processes; our ability to hire qualified personnel and maintain a good reputation; 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; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies, technological changes and new regulations.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Corporation, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf. See "Risks and Uncertainties" for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on current expectations and information available as of September 11, 2008.

FINANCIAL HIGHLIGHTS

- Revenues for the third quarter of fiscal 2008 increased 6% over the third quarter of fiscal 2007, to \$584.9 million, from \$551.1 million, principally as a result of the contribution from acquisitions as well as organic growth. This growth was partially offset by the exchange rate effect. Excluding the exchange rate effect, revenues would have increased 7.8%.
- Adjusted operating income before amortization increased 2% to \$82.7 million, from \$81.3 million, principally as a result of the contribution from acquisitions, divestitures and closures. This growth was partially offset by the negative exchange rate effect. Excluding the exchange rate effect, adjusted operating income before amortization would have increased 4.2%.
- Adjusted operating income margin before amortization decreased to 14.1% in the third quarter of fiscal 2008, from 14.8% in the third quarter of fiscal 2007. Excluding the exchange rate effect, adjusted operating income margin would have been 14.3% in the third quarter of fiscal 2008.
- Net income increased \$2.5 million, or 9%, from \$27.8 million in the third quarter of fiscal 2007 to \$30.3 million in the third quarter of fiscal 2008. This increase is primarily due to the decrease in financial expenses, income taxes and impairment of assets and restructuring costs partially offset by the negative exchange rate effect as well as higher amortization expenses. On a per-common-share basis, it increased 14%, from \$0.33 to \$0.38.
- Adjusted net income, which does not take into account impairment of assets and restructuring costs and unusual adjustments to income taxes, increased \$1.9 million, or 7%, from \$28.4 million in the third quarter of fiscal 2007 to \$30.3 million in the third quarter of fiscal 2008. On a per-common-share basis, it increased 12%, from \$0.34 to \$0.38. This higher percentage reflects the positive effect of the Corporation's share buy-back program.
- On September 4, 2008 we announced the acquisition of Rastar, Inc., a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing, which enable fully personalized marketing communications.
- On August 26, 2008 we announced that we had been awarded a \$1.7 billion contract to print *The Globe & Mail* in most of its major markets in Canada until 2028. This contract, which comes into effect at the end of 2010, represents an extension of existing contracts with *The Globe and Mail* in the Atlantic provinces, Quebec and Ontario and adds two new markets: Alberta and British Columbia. In line with this announcement we will invest approximately \$200 million in a new and innovative Canada-wide platform for newspaper and flyer printing, the first Canadian network to integrate the printing of these two products.
- Today we announced that we had gained new business with Shoppers Drug Mart® (Pharmaprix® in Québec) to print its retail flyers and deliver value-added services and strategic media opportunities. The multi-year arrangement, valued at approximately \$25 million per year, took effect at the end of April and represents all new business for us.
- We invested approximately \$2.0 million in strategic investments related to our digital initiatives in the third quarter. Our unique monthly visitors increased 10% versus the third quarter of last year while our reach into the total Canadian internet advertising market increased from 13.2% to 14.7%.
- Solid financial position to pursue growth, with a net indebtedness to total capitalization ratio of 35% as at July 31, 2008, at the bottom end of our target range.

STRATEGIC ORIENTATION UPDATE: *EVOLUTION 2010*

The largest printer in Canada and sixth-largest in North America, Transcontinental is also 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 integrated marketing 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 Corporation whose values, including respect, innovation and integrity, are central to its operation. Transcontinental (TSX: TCL.A, TCL.B) has more than 15,000 employees in Canada, the United States and Mexico, and reported revenues of C\$2.3 billion in 2007.

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. *Evolution 2010*, our business project, 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. In effect, *Evolution 2010* will focus on four issues: Talent, Sales Growth, Efficiency and Digital. Below is a description of our latest initiatives related to *Evolution 2010*.

- We announced the acquisition of Rastar, Inc., a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing, which enable fully personalized marketing communications. It is a privately-owned company with approximately US\$50 million in revenue. Rastar's industry experience, combined with its digital printing expertise, will allow us to further expand our integrated marketing services offering and enable our clients to achieve the best possible returns on their marketing campaigns.
- We announced that we were awarded a \$1.7 billion contract to print *The Globe and Mail* in most of its major markets in Canada until 2028. This contract represents an extension of existing contracts with *The Globe and Mail* in the Atlantic provinces, Quebec and Ontario and adds two new markets: Alberta and British Columbia. This represents approximately \$95 million per year in revenue, of which about \$25 million is new revenue. The printing will be done in Halifax, Montreal, Toronto, Calgary and Vancouver. The contract comes into effect at the end of 2010. The current contracts for Quebec and the Atlantic provinces expire at the end of 2010 while the contract for Ontario expires in 2015 (it will be replaced by the new contract). In 2009 and 2010, we will invest approximately \$200 million in a new and innovative Canada-wide platform for newspaper and flyer printing, the first Canadian network to integrate the printing of these two products. This will result in a number of synergies as overall efficiency will increase through equipment productivity, higher capacity utilization and a reduction in paper waste. This network will provide the capacity to deliver colour on every page for *The Globe and Mail*, and it will also address the needs of our retail customers on the flyer side.
- We announced that we gained new business with Shoppers Drug Mart® (Pharmaprix® in Québec) to print its retail flyers and deliver value-added services and strategic media opportunities. Shoppers Drug Mart is Canada's largest retail drug store group meeting Canadians' health care needs for over 30 years. The multi-year arrangement, valued at approximately \$25 million per year, took effect at the end of April and represents all new business for us. Shoppers Drug Mart® printed products will be produced using our Canadian network of facilities in five markets: Vancouver, Calgary, Toronto, Montreal and Halifax. This new business required no additional investments. Shoppers Drug Mart® will also benefit from our suite of value-added services such as the Ad-Bag (Publi-Sac in Québec).

- We discussed development plans for our high-potential and promotable executives at the bi-annual Leadership Review process. To ensure execution, each senior leader established specific objectives and committed to provide operational growth opportunities and challenges to further accelerate his/her development.
- We acquired Acquization.biz, Canada's largest Web-based platform for buying and selling businesses. Acquization.biz offers more than 1,500 listings representing over 20 sectors of activity, including services, manufacturing, warehousing, processing, technology, retail, transport, the restaurant industry and lodging. We are committed to serving targeted communities of interest – in this case business people, and more specifically entrepreneurs. Integrating a digital platform like this with our business publications truly complements our offering for this community.
- We launched recipefeast.com, an English version of the French-language recipe site, recettes.qc.ca, which attracts close to a million web surfers every month. The website boasts over 1,500 recipes, half of which originate from canadianliving.com. The rest are translated from Recettes.qc.ca, and the goal is to have that percentage grow to include 90% user-generated content.
- We moved the popular thehockeynews.com Web site to the mobile technology (mobile phone, BlackBerry and the iPhone). The Web site receives close to 300,000 visitors each month and the printed publication counts more than two million readers.
- We completed the four-year roll-out plan for *Mission: Leadership*, our management training program. It was deployed to over 85% of our managers. It provided professional training on competencies such as communication, development plans, decision making, coaching and feedback. More than 300 training sessions were given for all our sites.
- We signed an exclusive six-year contract for the printing of Rogers Communications' complete magazine portfolio. This contract, valued at \$35 to \$40 million per year, represents all new business. The contract takes effect on February 1, 2009 and will be printed in our network across Canada but mainly in our Transcontinental RBW Graphics plant in Owen Sound, Ontario. As a result, we are investing approximately \$20 million to expand this plant and acquire a new press and peripheral equipment.
- We announced plans to invest \$60 million in state-of-the-art equipment at our Transcontinental Transmag newspaper printing facility in Montreal. This new technology will add color capacity and improve production quality and efficiency. In order to accommodate the new press and peripheral equipment, the facility will be expanded. This project is expected to be completed in 2009 and is part of our newspaper printing outsourcing strategy.
- We announced plans to invest \$20 million in state-of-the-art equipment at our Transcontinental Interweb Montreal newspaper and magazine printing facility. This new technology as well as the redesign of the facility will maximize efficiency and workflow, part of our commitment to continuous improvement and efficiency.
- We announced that, in the fall of this year, we will introduce *Vita*, the French edition of *More* magazine for the Canadian market. This addition builds on the success of our *More* magazine in English, which was launched last year.
- We closed our newspaper the *Daily News* in Halifax and launched a free daily newspaper, *Metro*, in partnership with Metro International S.A. and Torstar Corporation. This new product is better aligned with the new market needs of Halifax.

- We acquired ThinData Inc., Canada's leading permission-based email marketing services firm. ThinData's offering fits perfectly with our integrated marketing services growth strategy which includes expanding our premedia, database management, direct marketing and analytics and e-marketing capabilities to deliver unique solutions to our clients and our media properties.

Selected financial data Unaudited

(in millions of dollars, except per share data)	Three months ended July 31			Nine months ended July 31		
	2008	2007	Change in %	2008	2007	Change in %
Operations						
Revenues ⁽¹⁾	\$ 584.9	\$ 551.1	6	\$ 1,776.0	\$ 1,708.0	4
Adjusted operating income before amortization ^{(2) (3)}	82.7	81.3	2	255.8	249.8	2
Operating income	50.8	51.1	(1)	155.1	150.9	3
Net income	30.3	27.8	9	102.1	82.0	25
Adjusted net income ^{(2) (4)}	30.3	28.4	7	93.6	87.9	6
Cash flow from operating activities before changes in non-cash operating items ⁽²⁾	75.9	66.4	14	221.9	205.3	8
Cash flow related to operating activities	77.9	113.5	(31)	134.2	136.0	(1)
Investments						
Acquisitions of property, plant and equipment	62.0	28.2	120	153.5	83.0	85
Business acquisitions ⁽⁵⁾	5.4	5.3	2	22.3	15.5	44
Financial condition (restated)⁽⁶⁾						
Total assets				2,514.7	2,203.1	14
Net indebtedness ^{(2) (7)}				641.8	423.0	52
Shareholders' equity				1,216.8	1,150.3	6
Net indebtedness / Total capitalization				35%	27%	28
Per share data (basic)						
Net income	\$ 0.38	\$ 0.33	14	\$ 1.25	\$ 0.96	29
Adjusted net income ^{(2) (4)}	0.38	0.34	12	1.14	1.03	11
Cash flow from operating activities before changes in non-cash operating items ⁽²⁾	0.93	0.79	18	2.71	2.41	12
Cash flow related to operating activities	0.95	1.34	(29)	1.63	1.60	2
Dividends on shares	0.080	0.070	14	0.230	0.205	12
Shareholders' equity				15.06	13.73	10
Average number of shares outstanding (in millions)	80.8	84.5		82.0	85.2	
Number of shares at end of period (in millions)				80.8	83.8	

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

⁽²⁾ Please refer to the section "Reconciliation of Non-GAAP Financial Measures" on page 18 in this Management's Discussion and Analysis.

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

⁽⁴⁾ Adjusted net income refers to net income before impairment of assets and restructuring costs, net of income taxes, and unusual adjustments to income taxes (See Notes 5 and 7 to the consolidated financial statements for the nine-month period ended July 31, 2008).

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

⁽⁶⁾ Balance sheet as at July 31, 2007 was restated (See Note 2 to the annual consolidated financial statements for the year ended October 31, 2007).

⁽⁷⁾ Net indebtedness refers to long-term debt plus current portion of long-term debt plus bank overdraft less cash and cash equivalents.

DETAILED ANALYSIS OF THIRD QUARTER 2008 OPERATING RESULTS

Analysis of Main Variances - Consolidated Results For the Third Quarter Ended July 31, 2008 (unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income before amortization ⁽¹⁾	%	Net income	%
Results - Third Quarter 2007	\$ 551.1		\$ 81.3		\$ 27.8	
Acquisitions/Divestitures/Closures	24.5	4.4 %	5.0	6.2 %	0.6	2.2 %
Existing operations						
Paper effect	(0.9)	(0.2) %	(0.7)	(0.9) %	(0.6)	(2.2) %
Exchange rate	(9.3)	(1.7) %	(2.0)	(2.5) %	(0.3)	(1.1) %
Impairment of assets, restructuring costs and unusual adjustments to income taxes	-	-	-	-	0.6	2.2 %
Organic growth	19.5	3.5 %	(0.9)	(1.1) %	2.2	7.9 %
Results - Third Quarter 2008	\$ 584.9	6.1 %	\$ 82.7	1.7 %	\$ 30.3	9.0 %

⁽¹⁾ 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 fiscal 2008 and the third quarter of fiscal 2007.

- The acquisition of PLM Group, the fourth largest printer in Canada, as well as small but strategic acquisitions completed in 2008 and 2007, net of divestitures and closures (notably the *Daily News* in Halifax), contributed \$24.5 million to revenues and \$5.0 million to adjusted operating income before amortization. Net of amortization, financing and income taxes, the contribution to net income was \$0.6 million.
- The paper effect had a \$0.9 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 negative impact of \$0.7 million on adjusted operating income before amortization and \$0.6 million on net income.
- Variations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts had a significant impact on the results of the third quarter, causing a \$9.3 million decrease in revenues and a \$2.0 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 fiscal 2008 versus the third quarter of fiscal 2007 was 7.5% for the CAD/USD and 3.3% for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of approximately \$6.3 million. For export sales from Canadian plants, net of the currency hedging program, the negative impact was \$3.0 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 \$3.5 million on adjusted operating income before amortization. Finally, the positive impact of the conversion of balance-sheet items related to the operation of Canadian units denominated in foreign currency was \$2.0 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 \$0.3 million, representing a 1.1% negative variation on net income.

- Organic revenue growth was \$19.5 million, or 3.5%, in the third quarter of fiscal 2008. This growth was primarily generated from our Marketing Products and Services sector, with the Retail Group; followed by the Printing Products and Services sector, with the Book Group and Mexico Group; and finally the Media sector with the Distribution Group and Newspaper Group. This growth was partially offset by the loss of a customer in the Catalogue and Magazine Group and difficult market conditions in the Commercial Products Group.
- Organic growth on adjusted operating income before amortization was slightly negative at \$0.9 million or 1.1% in the third quarter of fiscal 2008. In essence, organic growth generated in the Book Group, the Retail Group and the Mexico Group was compensated by the Catalogue and Magazine Group, strategic investments in the Digital Media Group and the Direct Marketing Group.

Amortization

Amortization expense increased by \$2.5 million, or 8.5%, in the third quarter of fiscal 2008, to \$31.8 million, compared to \$29.3 million in the third quarter of fiscal 2007. This increase results mostly from acquisitions, more specifically of PLM Group acquired in October 2007, partially offset by the exchange rate effect.

Impairment of assets and restructuring costs

In the third quarter of fiscal 2008, an amount of \$0.1 million before tax, or a marginal amount after tax, was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. This amount is related to the restructuring plan for our commercial printing operations initiated in 2007.

In the third quarter of fiscal 2007, an amount of \$0.9 million before tax, or \$0.6 million after tax, was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of this amount, \$0.7 million relates to the restructuring plan for our commercial printing operations initiated in 2007 and \$0.2 million relates to the consolidation of our commercial products and direct-marketing printing facilities located in the Toronto area initiated in 2006.

Financial expenses and discount on sale of accounts receivable

When combined, financial expenses and discount on sale of accounts receivable decreased \$1.2 million, or 11.9%, from \$10.1 million in the third quarter of 2007 to \$8.9 million in the third quarter of fiscal 2008. This decrease is mainly due to a reduction in interest rates, the exchange rate effect and capitalized interest, partially offset by the increase in net indebtedness related to the purchase of property, plant and equipment, business acquisitions and the share buy-back program.

Income taxes

Income taxes decreased by \$0.9 million, from \$13.2 million in the third quarter of fiscal 2007 to \$12.3 million in the third quarter of fiscal 2008. The effective income tax rate also decreased from 32.2% in the third quarter of 2007 to 29.4% in the third quarter of 2008. This decrease is mainly due to the effect of changes in statutory tax rates and the geographic distribution of pre-tax earnings

Net income

Net income increased \$2.5 million, or 9.0%, from \$27.8 million in the third quarter of 2007 to \$30.3 million in the third quarter of fiscal 2008. This increase is primarily due to the contribution from acquisitions combined with the decrease in financial expenses, income taxes and impairment of assets and restructuring costs partially offset by the negative

exchange rate effect as well as higher amortization expenses. On a per-common-share basis, it increased 14%, from \$0.33 to \$0.38. This higher percentage reflects the positive effect of the Corporation's share buy-back program.

Adjusted net income, which does not take into account impairment of assets and restructuring costs as well as unusual adjustments to income taxes, increased \$1.9 million, or 7%, from \$28.4 million in the third quarter of fiscal 2007 to \$30.3 million in the third quarter of fiscal 2008. On a per-common-share basis, it increased by 12%, from \$0.34 to \$0.38. This higher percentage reflects the positive effect of the Corporation's share buy-back program.

REVIEW OF OPERATING SECTORS FOR THE THIRD QUARTER OF 2008

Analysis of Main Variances – Sector Results For the Third Quarter Ended July 31, 2008 (unaudited)

(in millions of dollars)	Marketing Products and Services Sector	Printing Products and Services Sector	Media Sector	Inter-segment and Other Results	Consolidated Results
Revenues - for the Third Quarter 2007	\$ 266.4	\$ 149.5	\$ 156.5	\$ (21.3)	\$ 551.1
Acquisitions/Divestitures/Closures	24.8	0.2	(0.5)	-	24.5
Existing operations					
Paper effect	(2.0)	1.1	-	-	(0.9)
Exchange rate	(6.9)	(2.4)	-	-	(9.3)
Organic growth	9.6	5.9	3.1	0.9	19.5
Revenues - for the Third Quarter 2008	\$ 291.9	\$ 154.3	\$ 159.1	\$ (20.4)	\$ 584.9
Adjusted operating income before amortization⁽¹⁾ - for the Third Quarter 2007	\$ 29.2	\$ 24.0	\$ 34.0	\$ (5.9)	\$ 81.3
Acquisitions/Divestitures/Closures	3.4	0.1	1.5	-	5.0
Existing operations					
Paper effect	-	-	(0.7)	-	(0.7)
Exchange rate	(1.6)	(0.4)	-	-	(2.0)
Organic growth	(0.7)	3.0	(2.1)	(1.1)	(0.9)
Adjusted operating income before amortization⁽¹⁾ - for the Third Quarter 2008	\$ 30.3	\$ 26.7	\$ 32.7	\$ (7.0)	\$ 82.7

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

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 19) to the consolidated financial statements for the third quarter ended July 31, 2008.

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.

It is important to note that fiscal 2007 segmented results have been reclassified to reflect the transfer of the Boucherville plant from the Commercial Products Group, in the Printing Products and Services sector, to the Catalogue and Magazine Group, in the Marketing Products and Services sector.

Marketing Products and Services Sector

Revenues in the Marketing Products and Services sector increased from \$266.4 million in the third quarter of fiscal 2007 to \$291.9 million in the third quarter of fiscal 2008, an increase of \$25.5 million, or 9.6%. Acquisitions (PLM Group and ThinData), net of divestitures and closures, contributed \$24.8 million to revenues. Excluding acquisitions, divestitures, closures, paper and exchange rate effects, revenues increased \$9.6 million, or 3.6%. Organic growth was primarily generated in the Retail Group as a result of our recently announced new business with Shoppers Drug Mart which came into effect at the end of April. This new business more than compensated for the reduced volume from certain customers of our base business. Organic growth was also generated from our Premedia Group following the ramp-up of its five-year agreement with Loblaws. These two groups more than compensated the lower volume from the Catalogue and Magazine Group which was largely attributed to the loss of one customer at the beginning of

the year. Finally, our Direct Marketing Group generated marginal organic growth as an increase in volume was partially compensated by pricing pressures and changes in product mix as a result of the ongoing credit market turmoil in the U.S.

Adjusted operating income before amortization increased from \$29.2 million in the third quarter of fiscal 2007 to \$30.3 million in the third quarter of fiscal 2008, an increase of \$1.1 million, or 3.8%. Acquisitions, net of divestitures and closures, contributed \$3.4 million. Excluding acquisitions, divestitures, closures and exchange rate effects, adjusted operating income before amortization decreased \$0.7 million, or 2.4%. In essence, organic growth generated in the Retail Group due to increased volume as well as improved efficiency from the installation of new presses last year was more than compensated by lower volume from the Catalogue and Magazine Group and margin erosion in the Direct Marketing Group related to the product mix changes and pricing pressures mentioned above. As a result, the adjusted operating income margin before amortization decreased from 11.0% in the third quarter of fiscal 2007 to 10.4% in the third quarter of fiscal 2008. Excluding the exchange rate effect, adjusted operating income margin would have been 10.7% in the third quarter of fiscal 2008.

After the end of the quarter, we announced that we had gained new business with Shoppers Drug Mart® (Pharmaprix® in Québec) to print its retail flyers and deliver value-added services and strategic media opportunities. Shoppers Drug Mart is Canada's largest retail drug store group meeting Canadians' health care needs for over 30 years. The multi-year arrangement, valued at approximately \$25 million per year, took effect at the end of April and represents all new business for us. Shoppers Drug Mart® printed products will be produced using Transcontinental's Canadian network of facilities in five markets: Vancouver, Calgary, Toronto, Montreal and Halifax. This new business required no additional investments. Shoppers Drug Mart® will also benefit from our suite of value-added services such as the Ad-Bag (Publi-Sac in Québec).

For the balance of the year, the Retail Group should continue to benefit from the new business from Shoppers Drug Mart as well as the full ramp-up of its new presses installed last year. It will also focus on the planning and execution of the \$200 million investment for the combination of the retail and newspaper platforms. The Catalogue and Magazine Group will continue to focus on the PLM Group integration, the \$40 million investments in two of its plants, which includes the investment for the new Rogers contract, as well as sales development efforts to compensate the loss of a customer at the beginning of the year. The Premedia Group will focus on the integration of ThinData, the ramp-up of its contract with Loblaws and the expansion of its customer base.

Finally, for the balance of the year, the Direct Marketing Group is expected to face a challenging operating environment as the ongoing credit market turmoil in the U.S. has further deteriorated in the last few weeks. In fact, we have seen some of our customers substantially reduce their programs and in some cases postpone them altogether. In order to mitigate the effect of these market conditions on our operations, we took measures to quickly adjust capacity: we consolidated some facilities in Pennsylvania and reduced our direct and indirect labour force. We continue to monitor the market carefully and are ready to react with additional adjustments if the environment demands it. At this point, it is difficult to determine when the market will turnaround.

Printing Products and Services Sector

Revenues in the Printing Products and Services sector increased from \$149.5 million in the third quarter of fiscal 2007 to \$154.3 million in the third quarter of fiscal 2008, an increase of \$4.8 million, or 3.2%. Excluding acquisitions, divestitures, closures, paper and exchange rate effects, revenues increased \$5.9 million, or 3.9%. This increase is mainly due to sales development efforts in the educational segment in the Book Group, following the full ramp-up of its manufacturing platform, combined with successful sales development efforts in the retail segment of our Mexican operations. The results of these two groups were partially offset by lower volume in the Commercial Products Group and a slight reduction in page count, color and inserts in the Newspaper Group stemming from a soft advertising market.

Adjusted operating income before amortization increased from \$24.0 million in the third quarter of 2007 to \$26.7 million in the third quarter of fiscal 2008, an increase of \$2.7 million, or 11.3%. Excluding acquisitions, divestitures, closures and exchange rate effects, it increased \$3.0 million, or 12.5%. Organic growth from higher volumes in the Book Group and the Mexico Group more than compensated the slightly lower volume in the Newspaper Group. As a result, the adjusted operating income margin before amortization increased from 16.1% in the third quarter of fiscal 2007 to 17.3% in the third quarter of fiscal 2008.

After the end of the third quarter, we announced that we had been awarded a \$1.7 billion contract to print *The Globe and Mail* in most of its major markets in Canada until 2028. This contract represents an extension of existing contracts with *The Globe and Mail* in the Atlantic provinces, Quebec and Ontario and adds two new markets: Alberta and British Columbia. This represents approximately \$95 million per year in revenue, of which about \$25 million is new revenue. The printing will be done in Halifax, Montreal, Toronto, Calgary and Vancouver. The contract comes into effect at the end of 2010. The current contracts for Quebec and the Atlantic provinces expire at the end of 2010 while the contract for Ontario expires in 2015 (it will be replaced by the new contract). In 2009 and 2010, we will invest approximately \$200 million in a new and innovative Canada-wide platform for newspaper and flyer printing, the first Canadian network to integrate the printing of these two products. This will result in a number of synergies as overall efficiency will increase through equipment productivity, higher capacity utilization and a reduction in paper waste. This network will provide the capacity to deliver colour on every page for *The Globe and Mail*, and it will also address the needs of our retail customers. The contract builds on our strategy to become North America's leader in newspaper printing outsourcing. In line with this strategy, the construction for our San Francisco Chronicle project is progressing well. Moreover, we continue to have discussions with many newspaper publishers in North America.

For the balance of the year, the Book Group is expected to continue to benefit from sales development efforts and efficiency improvement following the revamp of its manufacturing platform. The Newspaper Group is expected to continue to be affected by the soft advertising market. It will also focus on the planning and execution of the \$200 million investment for the combination of the retail and newspaper platforms and the \$60 million investment in its Transmag facility, while continuing to develop the newspaper outsourcing model in the US. 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 to grow its revenues across its different market segments as well as leverage its existing customer base while continuing to focus on manufacturing efficiency.

Media Sector

Revenues in the Media sector rose from \$156.5 million in the third quarter of fiscal 2007 to \$159.1 million in the third quarter of fiscal 2008, an increase of \$2.6 million, or 1.7%. Divestitures and closures, net of small but strategic acquisitions completed in 2007 and 2008, had a negative impact of \$0.5 million on revenues. Excluding acquisitions, divestitures and closures, revenue growth was \$3.1 million, or 2.0%. Organic growth was primarily generated by the Distribution Group, driven by national sales, as well as the Newspaper Group driven by higher volume from the weeklies and new products. This growth was partially compensated by the Magazine Group which was negatively affected by a decrease in national advertising in certain titles of the consumer segment. In fact, the difficult economic environment in the U.S. is having a spill-over effect in Canada as large multi-national corporations reduce their overall advertising spending.

Adjusted operating income before amortization slightly decreased from \$34.0 million in the third quarter of fiscal 2007 to \$32.7 million in the third quarter of fiscal 2008, a decrease of \$1.3 million, or 3.8%. Excluding acquisitions, divestitures and closures, and paper effect, it decreased by \$2.1 million, or 6.2%. In essence, organic growth generated in the Distribution Group, the Newspaper Group and the Educational Publishing Group was more than offset by strategic investments made in the Digital Media Group and lower national advertising in the Magazine Group. It is important to highlight that investments made in the Digital Media Group are bearing fruit. For instance, our

unique monthly visitors increased 10% versus the third quarter of last year while our reach into the total Canadian internet advertising market increased from 13.2% to 14.7%. As a result, the adjusted operating income margin before amortization slightly decreased to 20.6% in the third quarter of fiscal 2008 from 21.7% in the third quarter of fiscal 2007.

In the quarter we purchased Acquisition.biz, Canada's largest Web-based platform for buying and selling businesses. Acquisition.biz offers more than 1,500 listings representing over 20 sectors of activity, including services, manufacturing, warehousing, processing, technology, retail, transport, the restaurant industry and lodging. We are committed to serving targeted communities of interest – in this case business people, and more specifically entrepreneurs. Integrating a digital platform like this with our business publications truly complements our offering for this community. In addition, we acquired *L'Express le journal d'ici*, a French newspaper published every two weeks that serves the city of Saint-Lin-Laurentides in Quebec. The acquisition brings our newspaper total to 172 community publications across Canada, with approximately 250 million copies annually.

For the balance of the year, the Distribution Group should continue to grow driven by strong national and local sales as well as through the diversification of its customer base. The Newspaper Group is expected to gain from the contribution from acquisitions, the closure of the *Daily News* in Halifax and the subsequent launch of *Metro* as well as the development of additional innovative products. The Magazine Group will continue to leverage its strong brands, launch its new magazine *Vita*, the French version of *More*, in the Canadian market, and should benefit from growth in custom publishing. However, it will continue to be affected by a soft national advertising environment. The Digital Media Group is expected to pursue the development of its multiplatform offering with the \$8 million investment that it will make throughout the year. Finally, the Educational Publishing Group will continue to gain market share particularly through the growth of the new ethical and religious programs in Quebec. It will also continue to invest in editorial, production and sales development for school books.

Inter-Segment and Other Results

Inter-segment and other revenues went from a negative \$21.3 million in the third quarter of fiscal 2007 to a negative \$20.4 million in the third quarter of fiscal 2008. The variation is attributable to a slight decrease in inter-segment revenues. Adjusted operating income before amortization went from a negative \$5.9 million in the third quarter of fiscal 2007 to a negative \$7.0 million in the third quarter of fiscal 2008 due to investments in Evolution 2010 initiatives and to an increase in various other expenses.

DETAILED ANALYSIS OF NINE-MONTH PERIOD ENDED JULY 31, 2008 OPERATING RESULTS

Analysis of Main Variances – Consolidated Results For the Nine-Month Period Ended July 31, 2008

(in millions of dollars)	Revenues	%	Adjusted operating income before amortization ⁽¹⁾	%	Net income	%
Results - Nine-month 2007	\$ 1,708.0		\$ 249.8		\$ 82.0	
Acquisitions/Divestitures/Closures	75.1	4.4 %	17.0	6.8 %	3.6	4.4 %
Existing operations						
Paper effect	(12.1)	(0.7) %	(0.4)	(0.2) %	(0.3)	(0.4) %
Exchange rate	(49.6)	(2.9) %	(13.8)	(5.5) %	(6.0)	(7.3) %
Impairment of assets, restructuring costs and unusual adjustments to income taxes	-	-	-	-	14.4	17.6 %
Organic growth	54.6	3.2 %	3.2	1.3 %	8.4	10.2 %
Results - Nine-month 2008	\$ 1,776.0	4.0 %	\$ 255.8	2.4 %	\$ 102.1	24.5 %

⁽¹⁾ 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 variance between results for the first nine months of fiscal 2008 and the first nine months of fiscal 2007.

- The acquisition of PLM Group, the fourth largest printer in Canada, as well as small but strategic acquisitions completed in 2008 and 2007, net of divestitures and closures (notably the *Daily News* in Halifax and conversion of *TV Guide* to a web-only product), contributed \$75.1 million to revenues and \$17.0 million to adjusted operating income before amortization. Net of amortization, financing and income taxes, the contribution to net income was \$3.6 million.
- The paper effect had a \$12.1 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 negative impact of \$0.4 million on adjusted operating income before amortization and \$0.3 million on net income.
- Variations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts had a significant impact on the results of the first nine months of fiscal 2008, causing a \$49.6 million decrease in revenues and a \$13.8 million decrease in adjusted operating income before amortization. It is important to note that the variation in average spot exchange rates in the first nine months of fiscal 2008 versus the first nine months of fiscal 2007 was 11.5% for the CAD/USD and 9.4% for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of approximately \$33.7 million. For export sales from Canadian plants, net of the currency hedging program, the negative impact was \$15.9 million. The negative impact of the conversion of results for the U.S. and Mexican units was \$3.1 million on adjusted operating income before amortization. The negative impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was \$15.5 million on adjusted operating income before amortization. Finally, the positive impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was \$4.8 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 \$6.0 million, representing a 7.3% negative variation on net income.

- Organic revenue growth was \$54.6 million or 3.2% in the first nine months of fiscal 2008. This growth was primarily generated from the Marketing Products and Services sector with the Retail Group; followed by the Media sector with the Distribution Group and Newspaper Group; and finally the Printing Products and Services sector with the Book Group and the Mexico Group. The growth in these groups more than offset lower volume in the Commercial Products Group due to difficult market conditions.
- Organic growth was \$3.2 million, or 1.3% on adjusted operating income before amortization in the first nine months of fiscal 2008. Organic growth was primarily generated from the Retail Group and the Book Group. This growth was partially offset by strategic investments made in the Digital Media Group, product mix changes and pricing pressures in the Direct Marketing Group due to the ongoing credit market turmoil in the U.S. and finally by lower volume from the Commercial Products Group.

Amortization

Amortization expense increased by \$6.1 million, or 6.8%, in the first nine months of fiscal 2008, to \$96.3 million compared to \$90.2 million in the first nine months of fiscal 2007. This increase results mostly from acquisitions, more specifically of PLM Group acquired in October 2007, partially offset by the exchange rate effect.

Impairment of assets and restructuring costs

In the first nine months of fiscal 2008, an amount of \$4.4 million before tax, or \$3.0 million after tax, was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of this amount, \$4.2 million relates to the restructuring plan for our newspaper operations, initiated in the first quarter of fiscal 2008, which includes the closing of the *Daily News* in Halifax and the launch of a free daily newspaper, *Metro*, for the Halifax market; and \$0.2 million relates to the restructuring plan for our commercial printing operations initiated in 2007.

In the first nine months of fiscal 2007, an amount of \$8.7 million before tax, or \$5.9 million after tax, was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of this amount, \$8.0 million relates to the restructuring plan for our commercial printing operations initiated in 2007; \$0.6 million relates to the consolidation of our commercial products and direct marketing printing facilities located in the Toronto area initiated in 2006; and \$0.1 million relates to the consolidation of certain book printing operations initiated in 2005.

Financial expenses and discount on sale of accounts receivable

When combined, financial expenses and discount on sale of accounts receivable decreased \$2.2 million, or 6.9%, from \$31.9 million in the first nine months of 2007 to \$29.7 million in the first nine months of fiscal 2008. This decrease is mainly due to the exchange rate effect, the decrease in interest rates and the capitalized interest, partially offset by the increase in net indebtedness related to the purchase of property, plant and equipment, business acquisitions and the share buy-back program.

Income taxes

Income taxes decreased by \$13.0 million, from \$36.7 million in the first nine months of fiscal 2007 to \$23.7 million in the first nine months of fiscal 2008. The effective income tax rate also decreased from 30.8% for the first nine months of 2007 to 18.9% for the first nine months of 2008, mainly due to unusual adjustments to income taxes and the effect of changes in statutory tax rates. During the second quarter of fiscal 2008, the Corporation entered into an agreement with the tax authorities and settled its obligation regarding Bill 15 enacted in June 2006 for an amount of \$3.9 million. An amount of \$8.4 million had been provided for in the third quarter of fiscal 2006 with regards to this obligation. A decrease of \$4.5 million in current income tax expense has therefore been recorded to reflect this settlement. In addition, on December 13, 2007, Bill C-28 received third reading in the House of Commons. Accordingly, the federal

corporate income tax rate reductions announced in the October 30, 2007 Economic Statement became substantively enacted for the purpose of preparing the consolidated financial statements in accordance with Canadian GAAP. This decrease in federal tax rate reduced both income tax expense and net future income tax liabilities by \$7.0 million during the first quarter of fiscal 2008. Excluding these two items, income taxes would have been \$35.2 million with an income tax rate of 28.1%, lower than 30.8% in the first nine months of 2007. This decrease is mainly due to the effect of changes in the statutory tax rate and the geographic distribution of the pre-tax earnings.

Net income

Net income increased by \$20.1 million or 25%, from \$82.0 million in the first nine months of fiscal 2007 to \$102.1 million in the first nine months of 2008. This increase is primarily due to a favourable variation in unusual items (related to income taxes and impairment of assets and restructuring costs), the contribution from acquisitions and the reduction in financial expenses, partially offset by the negative exchange rate effect as well as higher amortization expenses. On a per-common-share basis, it increased 29%, from \$0.96 to \$1.25. This higher percentage reflects the positive effect of the Corporation's share buy-back program.

Adjusted net income, which does not take into account impairment of assets and restructuring costs and unusual adjustments to income taxes, increased \$5.7 million, or 6%, from \$87.9 million in the first nine months of 2007 to \$93.6 million in the first nine months of 2008. On a per-common-share basis, it increased 11% from \$1.03 to \$1.14. This higher percentage reflects the positive effect of the Corporation's share buy-back program.

Excluding the negative exchange rate effect in the first nine months of fiscal 2008, adjusted earnings-per-share would have been \$1.21, representing an increase of 17.5% over the first nine months of fiscal 2007. 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 Canadian Generally Accepted Accounting Principles (GAAP). However, certain measures used in this discussion and analysis do not have any standardized meaning under GAAP and could be calculated differently by other companies. The Corporation believes that certain non-GAAP financial measures, when presented in conjunction with comparable GAAP financial measures, are useful to investors and other readers because that information is an appropriate measure for evaluating the Corporation's operating performance. Internally, the Corporation uses this non-GAAP financial information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. Below is a table reconciling GAAP financial measures to non-GAAP financial measures.

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	
	2008	2007	2008	2007
Net income	\$ 30.3	\$ 27.8	\$ 102.1	\$ 82.0
Non-controlling interest	(0.7)	-	(0.4)	0.3
Income taxes	12.3	13.2	23.7	36.7
Discount on sale of accounts receivable	1.9	2.9	7.1	8.8
Financial expenses	7.0	7.2	22.6	23.1
Impairment of assets and restructuring costs	0.1	0.9	4.4	8.7
Amortization	31.8	29.3	96.3	90.2
Adjusted operating income before amortization	\$ 82.7	\$ 81.3	\$ 255.8	\$ 249.8
Net income	\$ 30.3	\$ 27.8	\$ 102.1	\$ 82.0
Impairment of assets and restructuring costs (after tax)	-	0.6	3.0	5.9
Unusual adjustments to income taxes	-	-	(11.5)	-
Adjusted net income	30.3	28.4	93.6	87.9
Average number of shares outstanding	80.8	84.5	82.0	85.2
Adjusted earnings per share	\$ 0.38	\$ 0.34	\$ 1.14	\$ 1.03
Cash flow related to operating activities	\$ 77.9	\$ 113.5	\$ 134.2	\$ 136.0
Changes in non-cash operating items	2.0	47.1	(87.7)	(69.3)
Cash flow from operating activities before changes in non-cash operating items	\$ 75.9	\$ 66.4	\$ 221.9	\$ 205.3
Long-term debt			\$ 589.7	\$ 459.4
Current portion of long-term debt			109.4	10.4
Cash and cash equivalents			(57.3)	(46.8)
Net indebtedness			\$ 641.8	\$ 423.0

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Results (unaudited)

(in millions of dollars, except per share amounts)	2008				2007			2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	\$ 585	\$ 595	\$ 596	\$ 618	\$ 551	\$ 585	\$ 572	\$ 605
Adjusted operating income before amortization	83	91	82	101	81	93	76	97
Adjusted operating income margin before amortization	14.2 %	15.3 %	13.8 %	16.3 %	14.8 %	15.9 %	13.2 %	16.1 %
Operating income	\$ 51	\$ 56	\$ 48	\$ 67	\$ 51	\$ 62	\$ 38	\$ 61
Net income	30	38	34	39	28	34	20	51
Per share	0.38	0.46	0.41	0.46	0.33	0.40	0.24	0.59
Adjusted net income	30	35	28	39	28	34	25	42
Per share	0.38	0.43	0.34	0.47	0.34	0.41	0.29	0.48
% of fiscal year	- %	- %	- %	31 %	23 %	27 %	19 %	32 %

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 media and printing operations. The fall is also the strongest period for book printing and for our business segment of educational resources publishing.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Principal Cash Flows and Financial Condition For the Third Quarter Ended July 31, (unaudited)

(in millions of dollars)	2008	2007
Operating activities		
Cash flow from operating activities before changes in non-cash operating items	\$ 75.9	\$ 66.4
Changes in non-cash operating items	2.0	47.1
Cash flow related to operating activities	77.9	113.5
Investing activities		
Business acquisitions, net of disposals	(5.4)	(5.3)
Acquisitions of property, plant and equipment, net of disposals	(61.6)	(27.2)
Other	(16.1)	(5.6)
Cash flow used in investing activities	(83.1)	(38.1)
Financing activities		
Reimbursement of long-term debt, net	(7.7)	(106.0)
Increase in revolving term credit facility	47.9	74.0
Redemption of shares, net	(3.6)	(34.3)
Dividends on shares	(6.4)	(5.8)
Other	(1.1)	(0.1)
Cash flow related to (used in) financing activities	29.1	(72.2)
Other relevant information		
Net indebtedness	641.8	423.0
Shareholders' equity	1,216.8	1,150.3
Net indebtedness / Total capitalization ratio	35 %	27 %
Credit rating		
DBRS	BBB high Stable	BBB high Negative trend
Standard and Poor's	BBB Stable	BBB Stable

Operating activities

Cash flow from operating activities before changes in non-cash operating items increased from \$66.4 million in the third quarter of fiscal 2007 to \$75.9 million in the third quarter of fiscal 2008, primarily due to the increase in future income taxes and net income. Changes in non-cash operating items resulted in an inflow of \$2.0 million in the third quarter of fiscal 2008, compared to an inflow of \$47.1 million in the third quarter of fiscal 2007. These changes result mainly from variations in the Corporation's securitization program as well as the timing of the recovery of accounts receivable and payment of accounts payable. As a result, cash flow from operating activities decreased from a cash generation of \$113.5 million in the third quarter of fiscal 2007 to a cash generation of \$77.9 million in the third quarter of fiscal 2008.

Investing activities

In the third quarter of fiscal 2008, \$61.6 million was invested in property, plant and equipment, net of disposals, an increase of \$34.4 million compared to the \$27.2 million invested in the third quarter of fiscal 2007. We invested over \$50 million in the four major projects we previously announced, namely the San Francisco Chronicle project, the Transmag project, the investment for the new Rogers contract and the Interweb Montreal project.

Financing activities

The Corporation paid \$6.4 million, or 8 cents per share, in dividends in the third quarter of fiscal 2008 compared to \$5.8 million, or 7 cents per share, in the third quarter of fiscal 2007, an increase of 14%. Dividends paid by Transcontinental to Canadian residents are eligible dividends as per the provincial and federal income tax laws.

The Corporation was authorized to purchase for cancellation on the open market, between December 20, 2007 and December 19, 2008, up to 3,333,994 of its Class A Subordinate Voting Shares, representing 5% of the 66,679,889 issued and outstanding Class A Subordinate Voting Shares as at December 10, 2007, and up to 845,271 of its Class B Shares, representing 5% of the 16,905,432 issued and outstanding Class B Shares as at December 10, 2007.

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

Purchases were 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 2008, the Corporation purchased 191,500 of its Class A Subordinate Voting Shares at a weighted average price of \$19.80 for a total consideration of \$3.8 million and none of its Class B Shares. Of the total consideration of \$3.8 million, \$1.1 million corresponds to the book value and \$2.7 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

During the third quarter of 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. 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.

For the first nine months of fiscal 2008, the Corporation purchased 2,894,100 of its Class A Subordinate Voting Shares at a weighted average price of \$16.77 for a total consideration of \$48.5 million and 8,000 of its Class B Shares at a weighted average price of \$18.34 for a total consideration of \$0.2 million. Of the total consideration of \$48.7 million, \$16.2 million corresponds to the book value and \$32.5 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings. Therefore, year-to-date, over 85% of the authorized repurchases has been completed for the Class A Subordinate Voting shares.

For the first nine months of fiscal 2007, the Corporation purchased 2,213,900 of its Class A Subordinate Voting Shares at a weighted average price of \$21.29 for a total consideration of \$47.1 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. 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.

Debt instruments

As at July 31, 2008, the Corporation's net indebtedness stood at \$641.8 million and its net indebtedness to total capitalization ratio was 35%, compared to 29% at the end of fiscal 2007 and 27% in the third quarter of fiscal 2007. This ratio is at the bottom end of the range of our *Evolution 2010* objective to maintain a net debt to total capitalization ratio between 35% and 50%.

As at July 31, 2008, the Corporation had a committed line of credit in the form of a term revolving credit facility, totalling \$550 million or the U.S. - dollar equivalent. An amount of \$344.2 million of this credit facility was used at the end of the third quarter of fiscal 2008. Under the terms and conditions of the credit agreement, the Corporation must comply with certain restrictive covenants, including the requirement to maintain certain financial ratios. The Corporation is in compliance with all the covenants under the credit agreements governing these facilities and would continue to be in compliance even if it drew all the facilities at its disposal.

As of July 31, 2008, letters of credit amounting to C\$0.7 million and US\$4.5 million were drawn on the committed line of credit in addition to the amount presented in the previous paragraph. During the first nine months of fiscal 2008, the Corporation has not been in default under any of its obligations. Other than long-term debt obligations, the Corporation has commitments, mainly comprised of operating leases.

The Corporation is committed to acquire machinery and equipment. As at July 31, 2008, these commitments represented \$58.4 million, including US\$47.5 million, CHF0.5 million, €1.5 million and C\$7.3 million. Minimum payments required in 2008 and 2009 are equivalent to \$23.2 million and \$35.2 million, respectively.

During the third quarter of fiscal 2008, the Corporation entered into interest rate swaps on the long-term debt denominated in Canadian dollars, on a notional amount of C\$75 million, maturing in September 2012. These swaps convert the variable interest rate, based on bankers' acceptance rate, into an average fixed interest rate of 4.49% including the applicable margin. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the third quarter of fiscal 2008.

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, 2008, \$265 million of accounts receivable (\$273 million as at October 31, 2007) had been sold under the accounts receivable securitization program, of which \$37 million (\$37 million as at October 31, 2007) was kept by the Corporation as retained interest, resulting in a net consideration of \$228 million, including C\$195 million and US\$32 million (\$236 million as at October 31, 2007, including C\$209 million and US\$29 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 \$1.9 million and \$7.1 million, respectively, for the three-month and nine-month periods ended July 31, 2008 (\$2.9 million and \$8.8 million for the same periods in 2007).

Critical Accounting Policies and Estimates

No major changes have occurred in the third quarter of fiscal 2008. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Changes in Accounting Policies

Financial Instruments – Disclosures

On November 1, 2007, the Corporation adopted Section 3862, Financial Instruments – Disclosures, replacing Section 3861 – Financial Instruments – Disclosure and Presentation. This Section 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 from 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 adoption of this Section implied that the Corporation now presents sensitivity analysis regarding foreign exchange risk, interest rate risk, commodity prices risk and stock-based compensation costs risk. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted.

Financial Instruments – Presentation

On November 1, 2007, the Corporation adopted Section 3863, Financial Instruments – Presentation, replacing Section 3861 – Financial Instruments – Disclosure and Presentation. This Section establishes standards for presentation of financial instruments and non-financial derivatives.

The adoption of this Section did not have a significant impact on the consolidated financial statements.

Capital Disclosures

On November 1, 2007, the Corporation adopted Section 1535, Capital Disclosures. This Section 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 adoption of this Section implied that information on capital management is now included in the notes to the consolidated financial statements. This information is included in Note 17, Capital management.

Accounting changes

On November 1, 2007, the Corporation adopted the revised version of Section 1506 of the CICA Handbook, Accounting changes. This Section establishes criteria for changing accounting policies and treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors.

The adoption of this Section implied that the Corporation makes voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information. Changes in accounting policy made by the Corporation are applied retrospectively unless doing so is impracticable or the change in accounting policy is made on the initial application of a primary source of GAAP in accordance with specific transitional provisions in that primary source. A change in accounting estimate is generally recognized prospectively and material prior period errors are corrected retrospectively.

Risks and Uncertainties

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

One of our major competitors has filed for creditor protection and the outcome of this proceeding remains uncertain. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Credit

No major changes have occurred in the third quarter of fiscal 2008. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Difficulty in Hiring Qualified Personnel

No major changes have occurred in the third quarter of fiscal 2008. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Economic Cycles

The U.S. economy continues to be on fragile ground spurred by housing, credit and financial troubles. While the diversification of the Corporation helps to reduce its exposure to economic cycles, it remains exposed to some degree. In fact, we are more particularly exposed in our direct mail activities in the U.S. where approximately 65% of our customers are financial institutions. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Environment

No major changes have occurred in the third quarter of fiscal 2008. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Exchange of Confidential Information

No major changes have occurred in the third quarter of fiscal 2008. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Geographic Distribution and Exchange Rate

Our net exposure to the exchange rate between the Canadian dollar and the U.S. dollar and Mexican pesos has not changed materially in the quarter. However, the exchange rate between the Canadian dollar and its U.S. counterpart has fluctuated significantly in the past few years and particularly in our third quarter. The spot exchange rate was 1.0072 CAD/USD on average in the third quarter of fiscal 2008 and 1.0883 CAD/USD on average in the third quarter of fiscal 2007, for a variation of 7.5%.

The Corporation has a currency-hedging program in place to mitigate the risk from foreign exchange. The policy approved by the Corporation's Board of Directors allows hedging of 50% to 100% of net cash flows for a period of one to 12 months, of 25% to 50% for the next 12 months and up to 33% for the subsequent 12 months. The Corporation may also use collars to limit the risk of losses related to the 1- to 12-month portion that is not covered by forward contracts.

As at July 31, 2008, the Corporation entered into foreign exchange forward contracts to sell US\$84 million, (US\$87.3 million as at October 31, 2007) of which US\$14 million, US\$59 million and US\$11 million will be sold in 2008, 2009 and 2010, respectively. The terms of these forward contracts range from one month to 21 months, with rates varying from 1.0087 to 1.1643. The Corporation did not have any collars in place as at July 31, 2008 (US\$6 million as at October 31, 2007). Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the third quarter of fiscal 2008.

During the third quarter of fiscal 2008, to mitigate the foreign exchange risk related to purchases of machinery and equipment in Euros, the Corporation entered into a foreign exchange forward contract. As at July 31, 2008, the Corporation entered into a foreign exchange forward contract to purchase, in 2008, 1.3 million Euros (none in 2007). The term of this forward contract is for three months, with a rate of 1.5747. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the third quarter of fiscal 2008. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Integration of Acquisitions

No major changes have occurred in the third quarter of fiscal 2008. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Interest Rate

The U.S. and Canadian central banks have reduced their bank rates since the beginning of the year. The Corporation benefits from such reductions in its floating rate debt. However, we believe interest rates for the Canadian and U.S. economies are likely to trend upward in the next several months. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Loss of Reputation

No major changes have occurred in the third quarter of fiscal 2008. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

New Media

No major changes have occurred in the third quarter of fiscal 2008. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Canadian and U.S. Postal Systems' Future Policies

No major changes have occurred in the third quarter of fiscal 2008. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Raw Materials and Energy Prices

Raw materials such as paper and ink as well as energy prices, primarily oil, are starting to negatively impact our operations. First, the current tightening in the paper market, resulting from paper mill closures, has now resulted in a decrease in the supply of paper and an increase in paper prices. While paper is a pass through for our two printing sectors, the increase in the price of paper can have a negative effect on our printing operations if it changes the purchasing habits of our customers in terms of number of pages printed for example. Moreover, the increase in the price of paper negatively affects the profitability of the Media sector.

Second, the recent spike in the price of oil, a core ingredient in the composition of ink, has now resulted in an increase in ink prices. While our contracts with our customers provide for escalation clauses based on the fluctuation in the price of ink, this increase can have a negative effect on our operations if it changes the purchasing habits of our customers in terms of the number of pages printed or a reduction in the use of color for example. Finally, the recent spike in the price of oil has resulted in a significant increase at the pump. This increase in gasoline prices is negatively affecting our distribution activities in our Media sector. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2007.

Subsequent Events

Acquisition of Rastar

On September 4, 2008, the Corporation acquired 100% of the outstanding shares of Rastar Inc, a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing. The company has approximately US\$50 million in revenue and 350 employees.

Interest Rate Swap

On August 14, 2008, the Corporation was party to interest rate swaps on long term debt in Canadian dollars, on a nominal amount of \$50 million, maturing in September 2012. These swaps convert the variable interest rate, based on bankers' acceptance rate, into an average fixed interest rate of 3.92%, including applicable margin.

Disclosure Controls and Procedures

Transcontinental's President and Chief Executive Officer and its Vice President and Chief Financial Officer are responsible for establishing and maintaining the Corporation's disclosure controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and the Vice President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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 third quarter ended July 31, 2008 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, the Corporation will focus on three primary objectives. First, planning and executing the numerous investments announced in the past few months including *The Globe and Mail* and Transmag projects, in our newspaper and retail operations and the Rogers project, in our Catalogue and Magazine Group, while continuing to execute the *San Francisco Chronicle* project. Second, the Corporation will focus on integrating the acquisitions it has made recently including Rastar and ThinData while finalizing the integration of PLM Group. Finally, the Corporation will focus on organic growth by stressing sales development efforts including the launch of Vita, the French version of *More*, the launch of exciting websites for our communities of interest and cross selling opportunities within our different groups, to name just a few.

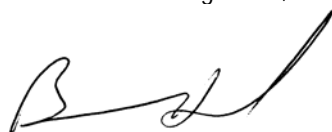
Notwithstanding this, it is important not to neglect the effect of the current state of the Canadian and U.S. economies on our operations. In fact, the weak U.S. economy has started to spill-over in Canada resulting in a soft national advertising market. Furthermore, the deteriorating credit market turmoil is negatively affecting our U.S. direct mail operations.

Below is a non-exhaustive list of factors that are likely to influence fiscal 2008 results:

- (-) a negative pre-tax exchange-rate effect from export sales of Canadian plants, net of the currency hedging program, of approximately \$20 million using a constant exchange rate of 1.00 CAD/USD for the year;
- (-) additional spending of approximately \$8 million (\$4 million of which will be capitalized) in our Media sector, relating to a number of new digital initiatives;
- (-) capital expenditures of approximately \$275 million, including approximately \$100 million for the *San Francisco Chronicle*;
- (-) increase in raw materials and energy prices;
- (+) the positive effect from our share buy-back program;
- (+) lower income tax rate, we expect 29-30% for the full year, excluding unusual items;
- (+) reduction in interest rates;
- (+) contribution from acquisitions;
- (+) contribution from market share gains in the Canadian printing market.

Having said this, we would like to reiterate our commitment to our *Evolution 2010* business project and related financial objectives, in particular: to grow adjusted earnings per share, excluding the exchange rate effect, 10% on average per year from 2006-2010.

On behalf of Management,



Benoît Huard
Vice President and Chief Financial Officer

September 11, 2008



CONSOLIDATED STATEMENTS OF INCOME
unaudited

(in millions of dollars, except per share data)	Three months ended		Nine months ended	
	July 31		July 31	
	2008	2007	2008	2007
Revenues	\$ 584.9	\$ 551.1	\$ 1,776.0	\$ 1,708.0
Operating costs	431.5	403.9	1,307.3	1,260.7
Selling, general and administrative expenses	70.7	65.9	212.9	197.5
Operating income before amortization, impairment of assets and restructuring costs	82.7	81.3	255.8	249.8
Amortization (Note 4)	31.8	29.3	96.3	90.2
Impairment of assets and restructuring costs (Note 5)	0.1	0.9	4.4	8.7
Operating income	50.8	51.1	155.1	150.9
Financial expenses (Note 6)	7.0	7.2	22.6	23.1
Discount on sale of accounts receivable (Note 9)	1.9	2.9	7.1	8.8
Income before income taxes and non-controlling interest	41.9	41.0	125.4	119.0
Income taxes (Note 7)	12.3	13.2	23.7	36.7
Non-controlling interest	(0.7)	-	(0.4)	0.3
Net income	\$ 30.3	\$ 27.8	\$ 102.1	\$ 82.0
Per share (basic) (Note 11)				
Net income	\$ 0.38	\$ 0.33	\$ 1.25	\$ 0.96
Per share (diluted) (Note 11)				
Net income	\$ 0.37	\$ 0.33	\$ 1.24	\$ 0.96
Average number of shares outstanding (in millions)	80.8	84.5	82.0	85.2

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



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
unaudited

(in millions of dollars)	Three months ended		Nine months ended	
	July 31		July 31	
	2008	2007 (restated Note 2)	2008	2007 (restated Note 2)
Net income	\$ 30.3	\$ 27.8	\$ 102.1	\$ 82.0
Other comprehensive income (loss):				
Unrealized net change in fair value of derivatives designated as cash flow hedges, net of income taxes of (\$0.6) million and (\$1.4) million for the three-month and nine-month periods ended July 31, 2008 (\$0.9 million and \$1.5 million for the same periods in 2007)	(1.5)	1.8	(2.5)	3.0
Reclassification adjustment for net gains on derivatives designated as cash flow hedges in prior periods transferred to net income in the current period, net of income taxes of \$0.6 million and \$2.5 million for the three-month and nine-month periods ended July 31, 2008 (\$0.5 million and \$1.5 million for the same periods in 2007)	(1.3)	(1.2)	(5.5)	(3.4)
Net change in fair value of derivatives designated as cash flow hedges	(2.8)	0.6	(8.0)	(0.4)
Unrealized net gains (losses) on translation of financial statements of self-sustaining foreign operations	3.0	(6.3)	10.5	(7.9)
Other comprehensive income (loss)	0.2	(5.7)	2.5	(8.3)
Comprehensive income	\$ 30.5	\$ 22.1	\$ 104.6	\$ 73.7

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

(in millions of dollars)	Nine months ended	
	July 31	
	2008	2007 (restated Note 2)
Balance, beginning of period, as previously reported	\$ 806.4	\$ 769.0
Adjustments to opening retained earnings (Note 2)	-	(19.9)
	806.4	749.1
Financial Instruments - Recognition and Measurement	-	(0.2)
Restated balance, beginning of period	806.4	748.9
Net income	102.1	82.0
	908.5	830.9
Premium on redemption of shares (Note 11)	(32.5)	(37.2)
Dividends on shares	(18.8)	(17.4)
Balance, end of period	\$ 857.2	\$ 776.3

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



CONSOLIDATED BALANCE SHEETS
unaudited

(in millions of dollars)

	As at July 31, 2008	As at October 31, 2007
Current assets		
Cash and cash equivalents	\$ 57.3	\$ 48.5
Accounts receivable (Note 9)	196.8	196.9
Income taxes receivable	15.7	28.8
Inventories	91.3	91.0
Prepaid expenses and other current assets	20.5	18.4
Future income tax assets	13.6	16.6
	395.2	400.2
Property, plant and equipment	823.5	739.7
Goodwill	965.8	934.6
Intangible assets	168.0	172.5
Future income tax assets	70.3	64.6
Other assets	91.9	90.3
	\$ 2,514.7	\$ 2,401.9
Current liabilities		
Accounts payable and accrued liabilities	\$ 327.8	\$ 400.5
Income taxes payable	48.7	59.8
Deferred subscription revenues and deposits	45.1	52.9
Future income tax liabilities	2.0	4.8
Current portion of long-term debt	109.4	14.2
	533.0	532.2
Long-term debt	589.7	523.3
Future income tax liabilities	112.7	108.4
Other liabilities	62.4	58.2
	1,297.8	1,222.1
Non-controlling interest	0.1	2.2
Commitments (Note 18)		
Shareholders' equity		
Share capital (Note 11)	379.5	395.1
Contributed surplus (Note 13)	10.7	9.2
Retained earnings	857.2	806.4
Accumulated other comprehensive loss (Note 14)	(30.6)	(33.1)
	826.6	773.3
	1,216.8	1,177.6
	\$ 2,514.7	\$ 2,401.9

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



CONSOLIDATED STATEMENTS OF CASH FLOWS
unaudited

(in millions of dollars)	Three months ended		Nine months ended	
	July 31		July 31	
	2008	2007	2008	2007
Operating activities				
Net income	\$ 30.3	\$ 27.8	\$ 102.1	\$ 82.0
Items not affecting cash and cash equivalents				
Amortization (Note 4)	37.6	38.4	112.5	108.8
Impairment of assets (Note 5)	-	0.1	1.9	3.6
Loss (gain) on disposal of assets	0.3	-	0.7	(0.2)
Future income taxes	13.0	(2.6)	4.1	1.3
Non-controlling interest	(0.7)	-	(0.4)	0.3
Net change in accrued pension benefit asset and liability	(3.8)	1.6	1.9	6.8
Stock-based compensation (Notes 12 and 13)	0.6	0.6	2.4	1.8
Other	(1.4)	0.5	(3.3)	0.9
Cash flow from operating activities before changes in non-cash operating items	75.9	66.4	221.9	205.3
Changes in non-cash operating items	2.0	47.1	(87.7)	(69.3)
Cash flow related to operating activities	77.9	113.5	134.2	136.0
Investing activities				
Business acquisitions (Note 15)	(5.4)	(5.3)	(22.3)	(15.5)
Acquisitions of property, plant and equipment	(62.0)	(28.2)	(153.5)	(83.0)
Disposals of property, plant and equipment	0.4	1.0	0.9	2.0
Increase in other assets	(16.1)	(5.6)	(29.1)	(19.1)
Cash flow used in investing activities	(83.1)	(38.1)	(204.0)	(115.6)
Financing activities				
Reimbursement of long-term debt	(7.7)	(106.0)	(10.9)	(108.8)
Increase in revolving term credit facility	47.9	74.0	152.9	113.5
Dividends on shares	(6.4)	(5.8)	(18.8)	(17.4)
Redemption of shares (Note 11)	(3.8)	(34.6)	(48.7)	(49.7)
Issuance of shares (Note 11)	0.2	0.3	0.6	0.7
Other	(1.1)	(0.1)	(0.2)	(0.6)
Cash flow related to (used in) financing activities	29.1	(72.2)	74.9	(62.3)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	1.4	(0.5)	3.7	(0.6)
Increase (decrease) in cash and cash equivalents	25.3	2.7	8.8	(42.5)
Cash and cash equivalents at beginning of period	32.0	44.1	48.5	89.3
Cash and cash equivalents at end of period	\$ 57.3	\$ 46.8	\$ 57.3	\$ 46.8
Additional information				
Interest paid	\$ 10.8	\$ 13.1	\$ 27.6	\$ 27.1
Income taxes paid (recovered)	(9.4)	10.2	18.8	55.2

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 3 to the consolidated financial statements for the year ended October 31, 2007, except for the changes in accounting policies disclosed in Note 3. 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 media and printing operations are significantly influenced by the advertising market, which is stronger in the second and fourth quarters. The fall is also the strongest period for book printing and for our business segment of educational resources publishing.

2. Restatement

In the context of the preparation of its consolidated financial statements for the year ended October 31, 2007, the Corporation's management identified two accounting errors in prior years' financial statements relating to the amortization of property, plant and equipment and income taxes.

Amortization of property, plant and equipment

For the nine-month period ended July 31, 2007, opening retained earnings and accumulated other comprehensive loss have been reduced by \$10.1 million and \$2.0 million, respectively. For the three-month and nine-month periods ended July 31, 2007, comprehensive income has been increased by \$0.5 million and \$0.8 million, respectively.

Income taxes

For the nine-month period ended July 31, 2007, opening retained earnings have been reduced by \$9.8 million.

3. Changes in accounting policies

a) Financial Instruments – Disclosures

On November 1, 2007, the Corporation adopted Section 3862, Financial Instruments – Disclosures, replacing Section 3861 – Financial Instruments – Disclosure and Presentation. This Section 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 from 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 adoption of this Section implied that the Corporation now presents sensitivity analysis regarding foreign exchange risk, interest rate risk, commodity prices risk and stock-based compensation costs risk. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted.

b) Financial Instruments – Presentation

On November 1, 2007, the Corporation adopted Section 3863, Financial Instruments – Presentation, replacing Section 3861 – Financial Instruments – Disclosure and Presentation. This Section establishes standards for presentation of financial instruments and non-financial derivatives.

The adoption of this Section did not have a significant impact on the consolidated financial statements.

c) Capital Disclosures

On November 1, 2007, the Corporation adopted Section 1535, Capital Disclosures. This Section 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 adoption of this Section implied that information on capital management is now included in the notes to the consolidated financial statements. This information is included in Note 17, Capital management.

d) Accounting changes

On November 1, 2007, the Corporation adopted the revised version of Section 1506 of the CICA Handbook, Accounting changes. This Section establishes criteria for changing accounting policies and treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors.

The adoption of this Section implied that the Corporation makes voluntary changes in accounting policies only if they result in the financial statements providing reliable and more relevant information. Changes in accounting policies made by the Corporation are applied retrospectively unless doing so is impracticable or the change in accounting policies is made on the initial application of a primary source of GAAP in accordance with specific transitional provisions in that primary source. A change in accounting estimates is generally recognized prospectively and material prior period errors are corrected retrospectively.



4. Amortization

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Property, plant and equipment	\$ 29.3	\$ 27.3	\$ 88.5	\$ 83.6
Intangible assets	2.2	1.5	6.1	4.7
Deferred charges	0.3	0.5	1.7	1.9
	31.8	29.3	96.3	90.2
Deferred charges, presented in revenues, operating costs and financial expenses	5.8	9.1	16.2	18.6
	\$ 37.6	\$ 38.4	\$ 112.5	\$ 108.8

5. Impairment of assets and restructuring costs

The following tables present the detail of the impairment charge of assets and restructuring costs:

(in millions of dollars)	Three months ended July 31					
	2008			2007		
	Liability as at April 30, 2008	Charged to income	Liability as at July 31, 2008	Charged to income	Liability as at July 31, 2007	Charged to income
(a) Newspaper operations						
Media						
Workforce reduction costs	\$ 0.1	\$ -	\$ -	\$ 0.1	\$ -	\$ -
(b) Commercial printing						
Printing Products and Services						
Workforce reduction costs	\$ 0.8	\$ -	\$ 0.2	\$ 0.6	\$ -	\$ 0.3
Transfer of printing equipment and other costs	-	-	-	-	0.4	0.4
Marketing Products and Services						
Workforce reduction costs	-	-	-	-	0.2	0.3
Transfer of printing equipment and other costs	-	0.1	0.1	-	-	-
	0.8	0.1	0.3	0.6	0.6	1.0
Printing Products and Services						
Impairment of assets	n/a	-	n/a	n/a	0.1	n/a
	\$ 0.8	\$ 0.1	\$ 0.3	\$ 0.6	\$ 0.7	\$ 1.0
(c) Toronto printing operations						
Workforce reduction costs	\$ 0.4	\$ -	\$ -	\$ 0.4	\$ 0.2	\$ 0.2
Total	\$ 1.3	\$ 0.1	\$ 0.3	\$ 1.1	\$ 0.9	\$ 1.2



5. Impairment of assets and restructuring costs (continued)

Nine months ended July 31

(in millions of dollars)	Total		2008				2007	
	Charged to income	Forecasted	Liability as at October 31, 2007	Charged to income	Paid	Liability as at July 31, 2008	Charged to income	Paid
(a) Newspaper operations								
Media								
Workforce reduction costs	\$ 1.4	\$ 1.4	\$ -	\$ 1.4	\$ 1.3	\$ 0.1	\$ -	\$ -
Transfer of printing equipment and other costs	0.6	0.9	-	0.6	0.6	-	-	-
Printing Products and Services								
Workforce reduction costs	0.3	0.3	-	0.3	0.3	-	-	-
	2.3	2.6	-	2.3	2.2	0.1	-	-
Media								
Impairment of assets	1.9	1.9	n/a	1.9	n/a	n/a	-	n/a
	\$ 4.2	\$ 4.5	\$ -	\$ 4.2	\$ 2.2	\$ 0.1	\$ -	\$ -
(b) Commercial printing								
Printing Products and Services								
Workforce reduction costs	\$ 1.8	\$ 1.8	\$ 1.1	\$ -	\$ 0.5	\$ 0.6	\$ 1.8	\$ 0.6
Transfer of printing equipment and other costs	1.4	1.7	-	-	-	-	1.1	1.1
Marketing Products and Services								
Workforce reduction costs	1.6	1.6	0.3	-	0.3	-	1.5	1.1
Transfer of printing equipment and other costs	0.8	0.8	-	0.2	0.2	-	-	-
	5.6	5.9	1.4	0.2	1.0	0.6	4.4	2.8
Printing Products and Services								
Impairment of assets	0.3	0.3	n/a	-	n/a	n/a	0.3	n/a
Marketing Products and Services								
Impairment of assets	3.3	3.3	n/a	-	n/a	n/a	3.3	n/a
	\$ 9.2	\$ 9.5	\$ 1.4	\$ 0.2	\$ 1.0	\$ 0.6	\$ 8.0	\$ 2.8
(c) Toronto printing operations								
Workforce reduction costs	\$ 3.0	\$ 3.0	\$ 0.6	\$ -	\$ 0.2	\$ 0.4	\$ 0.2	\$ 1.0
Transfer of printing equipment and other costs	1.0	1.0	-	-	-	-	0.4	0.4
	4.0	4.0	0.6	-	0.2	0.4	0.6	1.4
Impairment of assets	0.2	0.2	n/a	-	n/a	n/a	-	n/a
	\$ 4.2	\$ 4.2	\$ 0.6	\$ -	\$ 0.2	\$ 0.4	\$ 0.6	\$ 1.4
(d) Book printing operations								
Workforce reduction costs	\$ 1.3	\$ 1.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer of printing equipment and other costs	3.9	3.9	-	-	-	-	0.1	0.1
	5.2	5.2	-	-	-	-	0.1	0.1
Impairment of assets	1.6	1.6	n/a	-	n/a	n/a	-	n/a
	\$ 6.8	\$ 6.8	\$ -	\$ -	\$ -	\$ -	\$ 0.1	\$ 0.1
Total			\$ 2.0	\$ 4.4	\$ 3.4	\$ 1.1	\$ 8.7	\$ 4.3

a) On February 11, 2008, the Corporation initiated a restructuring plan for its newspaper operations in the Media sector which includes the closing of the *Daily News in Halifax* and the launch of a free daily newspaper, *Metro*, for the Halifax market. The restructuring is expected to be completed by the end of fiscal 2008. During the first quarter of fiscal 2008, the Corporation performed an impairment test on the assets of the *Daily News in Halifax*, mainly comprised of non-amortizable intangible assets, and, as a result, recorded an impairment charge of \$1.9 million.



5. Impairment of assets and restructuring costs (continued)

- b) 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. The restructuring is expected to be completed in 2008.
- c) 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. The consolidation is expected to be completed in 2008.
- d) During the second quarter of fiscal 2005, the Corporation announced the consolidation of certain book printing operations in the Printing Products and Services sector. The consolidation was completed during the first quarter of 2007.

6. Financial expenses

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Financial expenses on long-term debt	\$ 7.3	\$ 6.8	\$ 21.9	\$ 21.4
Other expenses (revenues)	(0.3)	(0.6)	0.7	0.1
Foreign exchange loss	-	1.0	-	1.6
	\$ 7.0	\$ 7.2	\$ 22.6	\$ 23.1

For the three-month and nine-month periods ended July 31, 2008, capitalized interest on property, plant and equipment amounted to \$1.2 million and \$3.2 million, respectively (\$0.5 million and \$1.3 million for the same periods in 2007).

7. Income taxes

	Three months ended July 31		Nine months ended July 31	
	2008	2007	2008	2007
Statutory tax rate	28.4 %	32.4 %	30.4 %	32.2 %
Effect of foreign tax rate differences	(4.8)	(2.8)	(4.6)	(3.3)
Other	5.8	2.6	2.3	1.9
Effective tax rate before the following items:	29.4	32.2	28.1	30.8
Effect of changes in statutory tax rates (a)	-	-	(5.6)	-
Retroactive taxes (b)	-	-	(3.6)	-
	-	-	(9.2)	-
Effective tax rate	29.4 %	32.2 %	18.9 %	30.8 %

- a) On December 13, 2007, Bill C-28 received third reading in the House of Commons. Accordingly, the federal corporate income tax rate reductions announced in the October 30, 2007 Economic Statement became substantively enacted for the purpose of preparing the consolidated financial statements in accordance with Canadian GAAP. This decrease in federal tax rate reduced both the income tax expense and net future income tax liabilities by \$7.0 million during the first quarter of fiscal 2008.
- b) During the second quarter of fiscal 2008, the Corporation entered into an agreement with the tax authorities and settled its obligation regarding Bill 15 enacted in June 2006 for an amount of \$3.9 million. An amount of \$8.4 million had been provided for in the third quarter of fiscal 2006 with regards to this obligation. A decrease of \$4.5 million in current income tax expense has therefore been recorded to reflect this settlement.

8. 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	
	2008	2007	2008	2007
Pension plans				
Defined benefit pension plans	\$ 2.4	\$ 6.3	\$ 14.1	\$ 17.5
Defined contribution pension plans	0.8	0.8	2.3	2.4
	\$ 3.2	\$ 7.1	\$ 16.4	\$ 19.9

9. Accounts receivable

As at July 31, 2008, \$265 million of accounts receivable (\$273 million as at October 31, 2007) had been sold under the accounts receivable securitization program, of which \$37 million (\$37 million as at October 31, 2007) was kept by the Corporation as retained interest, resulting in a net consideration of \$228 million, including C\$195 million and US\$32 million (\$236 million as at October 31, 2007, including C\$209 million and US\$29 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 \$1.9 million and \$7.1 million for the three-month and nine-month periods ended July 31, 2008, respectively (\$2.9 million and \$8.8 million for the same periods in 2007).

10. Revolving credit

During the third quarter of fiscal 2008, the Corporation amended its credit agreement to provide an additional tranche ("Tranche B") to the current revolving credit facility. Tranche B amounts to \$150 million, for a total amount of revolving credit facility of \$550 million. Tranche B is available for a 364-day period. The applicable interest rate on Tranche B is based on the credit rating assigned by Standard & Poor's Ratings Services. Depending on the form of borrowing chosen by the Corporation for Tranche B, the interest rate applicable is, either bank prime rate, bankers' acceptance rate + 0.575% or LIBOR + 0.575%, based on the current credit rating. Facility fees of 0.225% are applicable on Tranche B, whether it is drawn or not. The other terms and conditions of Tranche B are as disclosed in Note 14 of the latest annual consolidated financial statements.

11. 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	
	2008	2007	2008	2007
Numerator (in millions of dollars)				
Net income	\$ 30.3	\$ 27.8	\$ 102.1	\$ 82.0
Denominator (in millions)				
Weighted average number of shares outstanding - basic	80.8	84.5	82.0	85.2
Dilutive effect of stock options and warrants	0.1	0.2	0.1	0.2
Weighted average number of shares outstanding - diluted	80.9	84.7	82.1	85.4
Basic earnings per share	\$ 0.38	\$ 0.33	\$ 1.25	\$ 0.96
Diluted earnings per share	\$ 0.37	\$ 0.33	\$ 1.24	\$ 0.96

Stock options presented below were considered to be anti-dilutive in the calculation of the diluted earnings per share since their exercise price was greater than the average stock price during those periods.

	Three months ended July 31		Three months ended April 30		Three months ended January 31	
	2008	2007	2008	2007	2008	2007
Stock options	1,385,495	612,600	1,387,495	629,420	1,519,340	638,340

During the first quarter of 2008, the 350,000 warrants giving right to acquire Class A Subordinate Voting Shares expired.

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, 2008, the amounts received were \$0.2 million and \$0.6 million, respectively, and no amount was transferred from contributed surplus to share capital for the same periods. 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 were transferred from contributed surplus to share capital for the same periods.

Redemption of shares

The Corporation was authorized to purchase for cancellation on the open market, between December 20, 2007 and December 19, 2008, up to 3,333,994 of its Class A Subordinate Voting Shares, representing 5% of the 66,679,889 issued and outstanding Class A Subordinate Voting Shares as at December 10, 2007, and up to 845,271 of its Class B Shares, representing 5% of the 16,905,432 issued and outstanding Class B Shares as at December 10, 2007.

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

Purchases were 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.



11. Share capital (continued)

During the three-month and nine-month periods ended July 31, 2008 and 2007, the following purchases have been made:

	Number of shares purchased	Weighted average price	Total consideration (in millions of dollars)	Number of shares purchased	Weighted average price	Total consideration (in millions of dollars)
Three months ended July 31						
	2008			2007		
Class A	191,500	\$ 19.80	\$ 3.8	1,554,900	\$ 21.26	\$ 33.0
Class B	-	-	-	72,200	\$ 21.75	1.6
			\$ 3.8			\$ 34.6
Book value			\$ 1.1			\$ 8.8
Premium paid			2.7			25.8
			\$ 3.8			\$ 34.6
Nine months ended July 31						
	2008			2007		
Class A	2,894,100	\$ 16.77	\$ 48.5	2,213,900	\$ 21.29	\$ 47.1
Class B	8,000	\$ 18.34	0.2	119,800	\$ 21.76	2.6
			\$ 48.7			\$ 49.7
Book value			\$ 16.2			\$ 12.5
Premium paid			32.5			37.2
			\$ 48.7			\$ 49.7

12. Stock-based compensation plans

Share unit plan

The Corporation offers a share unit plan to its senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted.

There were no share units granted for the three-month periods ended July 31, 2008 and 2007. For the nine-month period ended July 31, 2008, 194,850 RSU were granted (138,310 DSU and 30,788 RSU in 2007).

As at July 31, 2008, 103,282 DSU and 221,357 RSU were outstanding (165,478 DSU and 26,507 RSU in 2007). The expenses recorded in the consolidated statements of income for the three-month periods ended July 31, 2008 and 2007 were \$0.1 million and \$0.2 million, respectively. For the nine-month periods ended July 31, 2008 and 2007, the expenses recorded in the consolidated statements of income were \$0.9 million and \$0.6 million, respectively. An amount of \$0.4 million has been paid under the plan for the three-month and nine-month periods ended July 31, 2008 (no amount paid in 2007).

Stock option plan

As at July 31, 2008, 1,820,621 stock options were outstanding, of which 1,215,951 could be exercised.

No stock options were granted for the three-month periods ended July 31, 2008 and 2007. For the nine-month periods ended July 31, 2008 and 2007, 159,700 and 160,100 stock options were granted with a weighted average exercise price of \$15.51 and \$20.90, respectively.



12. Stock-based compensation plans (continued)

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

	2008	2007
Fair value of stock options	\$ 4.04	\$ 5.16
Assumptions:		
Dividend rate	1.2 %	1.1 %
Expected volatility	26.0 %	22.6 %
Risk-free interest rate	3.65 %	3.96 %
Expected life	5 years	5 years

13. Contributed surplus

	Nine months ended July 31	
(in millions of dollars)	2008	2007
Balance, beginning of period	\$ 9.2	\$ 6.9
Compensation costs relating to stock option plan (Notes 11 and 12)	1.5	1.8
Exercise of stock options (Note 11)	-	(0.2)
Balance, end of period	\$ 10.7	\$ 8.5

14. Accumulated other comprehensive loss

(in millions of dollars)	Foreign Currency Translation Adjustment	Cash Flow Hedges	Accumulated Other Com- prehensive Loss
Balance as at November 1, 2007	\$ (42.3)	\$ 9.2	\$ (33.1)
Net change in unrealized gains/losses, net of income taxes	10.5	(8.0)	2.5
Balance as at July 31, 2008	\$ (31.8)	\$ 1.2	\$ (30.6)
Balance as at November 1, 2006, as previously reported	\$ -	\$ -	\$ -
Unrealized losses, net of income taxes (restated)	(26.0)	-	(26.0)
Financial instruments - Recognition and measurement	-	3.8	3.8
Restated balance as at November 1, 2006	(26.0)	3.8	(22.2)
Net change in unrealized gains/losses, net of income taxes (restated)	(7.9)	(0.4)	(8.3)
Balance as at July 31, 2007	\$ (33.9)	\$ 3.4	\$ (30.5)

As at July 31, 2008, the amounts expected to be reclassified to net income are as follows:

	2008	2009	2010	Total
Gains (losses) on derivatives designated as cash flow hedges	\$ 1.4	\$ 0.6	\$ (0.2)	\$ 1.8
Income taxes	(0.5)	(0.2)	0.1	(0.6)
	\$ 0.9	\$ 0.4	\$ (0.1)	\$ 1.2

15. Business acquisitions

During the nine-month period ended July 31, 2008, the Corporation made the following acquisitions:

Operating sector	Acquisition	Date of acquisition
Marketing Products and Services	90% of the shares of ThinData Inc., Canada's leading permission-based email marketing services firm	March 11, 2008
Media	100% of the shares of <i>L'express le journal d'ici</i> , a French newspaper serving the city of Saint-Lin-Laurentides in Quebec	June 13, 2008
	Assets of Acquisition.biz, Canada's largest Web-based platform for buying and selling businesses	May 7, 2008
	Assets of <i>L'Autre Voix</i> , weekly newspaper in the eastern Quebec City region	December 21, 2007
	Assets of <i>Corriere Italiano</i> , weekly newspaper serving the Italian community in Montreal area	December 20, 2007
	Assets of <i>The Springhill-Parrsboro Record</i> , weekly newspaper in Nova Scotia	November 23, 2007



15. Business acquisitions (continued)

During the first quarter of 2008, the Corporation acquired an additional 2% of the shares of PLM Group Ltd, for a total cash consideration of \$1.9 million. The Corporation now owns 100% of the shares of PLM Group Ltd.

During the third quarter of 2008, adjustments were made to the purchase price allocation of PLM Group Ltd., acquired on October 16, 2007.

(in millions of dollars)	PLM	Other	Total
Assets acquired			
Working capital	\$ 0.4	\$ 0.7	\$ 1.1
Property, plant and equipment	-	0.6	0.6
Goodwill (tax basis of \$2.2 million)	(2.5)	20.5	18.0
Amortizable intangible assets	3.5	-	3.5
Future income tax assets	0.7	-	0.7
Other assets	-	0.2	0.2
	\$ 2.1	\$ 22.0	\$ 24.1
Liabilities assumed			
Notes payable	\$ -	\$ 2.6	\$ 2.6
Long-term debt	-	0.5	0.5
Other liabilities	1.9	-	1.9
Future income tax liabilities	1.1	-	1.1
Non-controlling interest	(1.9)	-	(1.9)
	1.1	3.1	4.2
	\$ 1.0	\$ 18.9	\$ 19.9
Consideration			
Cash paid	\$ 5.1	\$ 19.0	\$ 24.1
Cash in acquired operations	-	(1.8)	(1.8)
	5.1	17.2	22.3
Short-term liabilities (amounts paid)	(4.1)	0.2	(3.9)
Long-term liabilities - bearing no interest	-	1.5	1.5
	\$ 1.0	\$ 18.9	\$ 19.9

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

16. Financial instruments

Credit risk

The Corporation is exposed to credit risk with respect to trade receivables and derivative financial instruments.

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

The Corporation is protected against any concentration of credit risk through its products, clientele and geographic diversity. As at July 31, 2008, no single customer accounts for more than 5% of its consolidated accounts receivable, and the Corporation's 20 largest customers account for less than 20% of its consolidated accounts receivable. As at July 31, 2008, the maximum credit risk exposure for receivables corresponds to their carrying value. The Corporation also has a credit insurance policy covering most of its major customers, for a maximum amount of \$27 million. The policy contains the usual clauses and limits regarding the amounts that can be claimed by event and year of coverage. The Corporation did not file any claim against this credit insurance policy for the nine-month period ended July 31, 2008.

In addition, the Corporation has concluded long-term contracts with most of its major customers. These contracts contain cost-escalation clauses equivalent to those required by the Corporation's suppliers. The Corporation determines past due receivables by considering the type of clients, historical payment terms and in which sector the clients conduct business. On a quarterly basis, allowance for doubtful accounts and past due receivables are reviewed by management. The Corporation records impairment only on receivables for which the recoverability is not reasonably certain.

The Corporation is exposed to credit risk arising from derivative financial instruments if a counterparty fails to meet its obligations; however, it does not foresee such an occurrence since it deals only with recognized financial institutions with superior credit ratings. As at July 31, 2008, the maximum exposure to credit risk is \$2.8 million, which represents the carrying value of the financial instruments on the balance sheet of the Corporation.



16. Financial instruments (continued)

Past due accounts receivable

(in millions of dollars)	As at July 31, 2008
Not past due	\$ 136.0
Past due 1-60 days	17.7
Past due 61-90 days	4.2
Past due more than 90 days	15.5
	173.4
Allowance for doubtful accounts	(9.4)
Other receivables	32.8
	\$ 196.8

Allowance for doubtful accounts

(in millions of dollars)	
Balance as at November 1, 2007	\$ 10.1
Bad debt expense	2.7
Amounts written off and recoveries	(3.4)
Balance as at July 31, 2008	\$ 9.4

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

Liquidity risk

The Corporation has contractual obligations and financial liabilities, thus, is exposed to liquidity risk.

The Corporation believes that future cash flows generated by operations and access to additional liquidity through capital and banking markets will be adequate to meet its financial obligations.

Interest rate risk

The Corporation is exposed to market risks related to interest-rate fluctuations. In order to mitigate this risk, the Corporation aims to maintain an adequate balance of fixed versus floating rate debt. As at July 31, 2008, considering the effect of derivative financial instruments used to lock the interest rate, the floating rate portion of the Corporation's long-term debt represented 53% of the total while the fixed rate portion represented 47%.

The Corporation is also exposed to interest rate fluctuations through its securitization program, since the discount on the sale of accounts receivable is based on the rate of the commercial paper issued by the trust. The trust generally issues its commercial paper on a monthly basis.

During the third quarter of fiscal 2008, the Corporation entered into interest rate swap agreements on long-term debt denominated in Canadian dollars, on a notional amount of \$75 million, maturing in September 2012. These swap agreements convert the variable interest rate, based on bankers' acceptance rate into an average fixed interest rate of 4.49% including the applicable margin. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the third quarter of fiscal 2008.

For the three-month and nine-month periods ended July 31, 2008, all things being equal, an hypothetical increase of 0.5% in interest rates would have had the following impact on net income and on other comprehensive income:

(in millions of dollars)	Three months ended July 31, 2008		Nine months ended July 31, 2008	
	Net income	Other com- prehensive income	Net income	Other com- prehensive income
	\$ (0.5)	\$ 1.4	\$ (1.5)	\$ 1.4

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

Foreign exchange risk

The Corporation has operations in the United States and Mexico, exports its products to the United States and purchases machinery and equipment in U.S. dollars and Euros. In addition, as at July 31, 2008, the Corporation has long-term debt in U.S. dollars for a total amount of US\$336.8 million (US\$227.9 million as at October 31, 2007). The Corporation is therefore exposed to foreign exchange risk.

16. Financial instruments (continued)

To mitigate the foreign exchange risk related to its exports to the United States, the Corporation enters into foreign exchange forward contracts. As at July 31, 2008, the Corporation had entered into foreign exchange forward contracts to sell US\$84 million (US\$87.3 million as at October 31, 2007), of which US\$14 million, US\$59 million and US\$11 million will be sold in 2008, 2009 and 2010, respectively. The terms of these forward contracts range from one month to 21 months, with rates varying from 1.0087 to 1.1643. As at July 31, 2008, the Corporation was not party to any collar to sell U.S. dollar (US\$6 million as at October 31, 2007). Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the third quarter of fiscal 2008.

During the third quarter of fiscal 2008, to mitigate the foreign exchange risk related to purchases of machinery and equipment in Euros, the Corporation entered into a foreign exchange forward contract. As at July 31, 2008, the Corporation was party to a foreign exchange forward contract to purchase €1.3 million in 2008 (none in 2007). The terms of this forward contract is three months, with a rate of 1.5747. Hedging relationships was effective and in accordance with the risk management objectives and strategies throughout the third quarter of fiscal 2008.

For the three-month and nine-month periods ended July 31, 2008, all things being equal, an hypothetical strengthening of 5.0% of the U.S. dollar, Euro and Mexican peso against the Canadian dollar would have had the following impact on net income and on other comprehensive income:

(in millions of dollars)	Three months ended July 31, 2008		Nine months ended July 31, 2008	
	Net income	Other com- prehensive income	Net income	Other com- prehensive income
U.S. dollar	\$ 1.8	\$ (2.9)	\$ 6.9	\$ (2.9)
Euro	\$ n/a	\$ (0.1)	\$ n/a	\$ (0.1)
Mexican peso	\$ 0.1	\$ n/a	\$ 0.2	\$ n/a

An hypothetical weakening of 5.0% of the U.S. dollar, Euro and Mexican peso against the Canadian dollar would have had an opposite impact on net income and other comprehensive income.

Commodity prices risk

The Corporation is exposed to a financial risk related to fluctuations in natural gas prices and manages it in order to minimize the impact on the Corporation's results and financial position. The Corporation entered into commodity swap agreements to manage a portion of its natural gas price fluctuation exposure and is now committed to exchange, on a monthly basis, the difference between a fixed price and a floating natural gas price index calculated by reference to the notional amounts. Under this program, 30% of the expected natural gas consumption is hedged for the next thirty six months. Hedging relationships were effective and in accordance with the risk management objectives and strategies of the Corporation throughout the third quarter of fiscal 2008.

As at July 31, 2008, the Corporation had purchased commodity swap agreements for 550,000 Gigajoules (533,000 Gigajoules as at October 31, 2007), of which 90,000, 335,000 and 125,000 Gigajoules will mature in 2008, 2009 and 2010, respectively. The terms of these commodity swap agreements range from one month to 24 months, with prices varying from \$7.51 to \$9.31 per Gigajoule.

For the three-month and nine-month periods ended July 31, 2008, all things being equal, an hypothetical strengthening of 25.0% in gas prices would have had the following impact on net income and on other comprehensive income:

(in millions of dollars)	Three months ended July 31 2008		Nine months ended July 31 2008	
	Net income	Other com- prehensive income	Net income	Other com- prehensive income
	\$ (0.3)	\$ 0.8	\$ (0.6)	\$ 0.8

An hypothetical weakening of 25.0% in gas prices would have had an opposite impact on net income and other comprehensive income.

Stock-based compensation costs risk

The Corporation is exposed to a financial risk related to stock-based compensation costs. Potential fluctuations in its Class A Subordinate Voting Share price would have an impact on the charge related to its share unit plan as described in Note 12. During the first quarter of fiscal 2007, the Corporation entered into a total return swap agreement with a financial institution in order to minimize this financial risk. 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. During the second quarter of fiscal 2008, the Corporation modified the total return swap to increase the total number of share units covered by the total return swap. As at July 31, 2008, the total return swap agreement covered 154,000 Class A Subordinate Voting Shares at an average fixed price of \$16.54. The remaining term of this total return swap agreement is 42 months, with an option to terminate it before its maturity date without any costs.

16. Financial instruments (continued)

The fair value of the swap agreement as at July 31 is recorded in the Corporation's consolidated balance sheet with changes in fair value recognized in net income.

For the three-month and nine-month periods ended July 31, 2008, all things being equal, an hypothetical strengthening or weakening of 5.0% of the Class A Subordinate Voting Share price would have had a negligible impact on net income.

Fair value

The book value of certain financial instruments maturing in the short-term approximates their fair value. These financial instruments include accounts receivable, accounts payable and accrued liabilities. The table below shows the fair value and the book value of other financial instruments.

The fair value of long-term debt is determined essentially by discounting cash flows, based on actual loan rates for long-term debt with similar characteristics, or quoted market prices. The fair value of derivative financial instruments is approximately the amounts for which the financial instruments could be settled between consenting parties, based on current market data for similar instruments. As estimates must be used to determine fair value, they must not be interpreted as being realizable in the event of an immediate settlement of the instruments.

(in millions of dollars)	July 31, 2008		October 31, 2007	
	Fair value	Book value	Fair value	Book value
Long-term debt	\$ 699.1	\$ 699.1	\$ 539.5	\$ 537.5
Foreign exchange forward contracts and collars	\$ 2.6	\$ 2.6	\$ 14.3	\$ 14.3
Commodity swap agreements	\$ 0.2	\$ 0.2	\$ (0.6)	\$ (0.6)
Interest rate swap agreements	\$ (1.0)	\$ (1.0)	\$ -	\$ -
Total return swap agreement	\$ -	\$ -	\$ -	\$ -

17. Capital management

The Corporation's primary objectives in managing capital are:

- Optimize leverage position by targeting a 35% to 50% net indebtedness/total capitalization ratio;
- Maintain an investment grade credit rating;
- Preserve its financial flexibility in order to benefit from potential opportunities as they arise.

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

The Corporation monitors capital on the basis of net indebtedness/total capitalization ratio. For calculation purposes, net indebtedness refers to long term debt, current portion of long term debt plus bank overdraft, less cash and cash equivalents. Total capitalization comprises net indebtedness as just described and shareholders' equity.

As at July 31, 2008, the net indebtedness/total capitalization ratio was 35%. As at October 31, 2007, the net indebtedness/total capitalization ratio was 29%. The variation of this ratio was mainly the result of the increase in net indebtedness related to the purchase of property, plant and equipment and the redemption of shares. Capital management objectives, policies and procedures were unchanged since the last period.

For the nine-month periods ended July 31, 2008, the Corporation has not been in default under any of its obligations regarding the term revolving credit facility, the securitization program and other financial obligations.

18. Commitments

Machinery and equipment

The Corporation is committed to acquire machinery and equipment. As at July 31, 2008, these commitments represented \$58.4 million, including US\$47.5 million, CHF0.5 million, €1.5 million and C\$7.3 million. Minimum payments required in 2008 and 2009 are the equivalent of \$23.2 million and \$35.2 million, respectively.



19. Segmented information

Comparative figures of Printing Products and Services and Marketing Products and Services sectors have been reclassified to reflect the transfer of the Boucherville plant from the Commercial Products Group, in the Printing Products and Services sector, to the Catalogue and Magazine Group, in the Marketing Products and Services sector as of November 1, 2007.

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		Nine months ended	
	July 31		July 31	
	2008	2007	2008	2007
Revenues				
Printing Products and Services	\$ 154.3	\$ 149.5	\$ 454.8	\$ 471.0
Marketing Products and Services	291.9	266.4	920.5	845.9
Media	159.1	156.5	464.3	454.6
Other activities and unallocated amounts	2.8	3.2	11.1	11.0
Inter-segment sales				
Printing Products and Services	(12.7)	(13.9)	(38.8)	(40.1)
Marketing Products and Services	(5.1)	(5.5)	(21.0)	(22.0)
Media	(5.4)	(5.1)	(14.9)	(12.4)
Total inter-segment sales	(23.2)	(24.5)	(74.7)	(74.5)
	\$ 584.9	\$ 551.1	\$ 1,776.0	\$ 1,708.0
Operating income before amortization, impairment of assets and restructuring costs				
Printing Products and Services	\$ 26.7	\$ 24.0	\$ 82.8	\$ 83.5
Marketing Products and Services	30.3	29.2	110.1	98.4
Media	32.7	34.0	82.5	84.5
Other activities and unallocated amounts	(7.0)	(5.9)	(19.6)	(16.6)
	\$ 82.7	\$ 81.3	\$ 255.8	\$ 249.8
Operating income				
Printing Products and Services	\$ 18.7	\$ 15.2	\$ 56.9	\$ 55.1
Marketing Products and Services	12.1	13.0	55.6	44.0
Media	28.8	30.1	66.8	72.4
Other activities and unallocated amounts	(8.8)	(7.2)	(24.2)	(20.6)
	\$ 50.8	\$ 51.1	\$ 155.1	\$ 150.9
Acquisitions of property, plant and equipment ⁽¹⁾				
Printing Products and Services	\$ 32.9	\$ 16.9	\$ 106.7	\$ 33.2
Marketing Products and Services	29.1	8.7	47.8	45.1
Media	3.8	0.1	8.0	3.0
Other activities and unallocated amounts	1.2	1.4	2.6	4.1
	\$ 67.0	\$ 27.1	\$ 165.1	\$ 85.4
Amortization of property, plant and equipment, intangible assets and deferred charges				
Printing Products and Services	\$ 8.0	\$ 8.4	\$ 25.6	\$ 25.7
Marketing Products and Services	18.1	15.7	54.3	48.8
Media	3.8	3.8	11.8	11.7
Other activities and unallocated amounts	1.9	1.4	4.6	4.0
	\$ 31.8	\$ 29.3	\$ 96.3	\$ 90.2

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

19. Segmented information (continued)

(in millions of dollars)	As at July 31, 2008	As at October 31, 2007
Assets		
Printing Products and Services	\$ 610.1	\$ 512.4
Marketing Products and Services	1,024.7	995.0
Media	809.0	773.4
Other activities and unallocated amounts	70.9	121.1
	\$ 2,514.7	\$ 2,401.9
Goodwill		
Printing Products and Services	\$ 93.6	\$ 93.3
Marketing Products and Services	364.0	336.8
Media	507.4	504.3
Other activities and unallocated amounts	0.8	0.2
	\$ 965.8	\$ 934.6

20. Subsequent events

Interest rate swaps

On August 14, 2008, the Corporation entered into interest rate swap agreements on long-term debt denominated in Canadian dollars, on a notional amount of \$50 million, maturing in September 2012. These swaps convert the variable interest rate, based on bankers' acceptance rate, into an average fixed interest rate of 3.92%, including the applicable margin.

Business acquisition

On September 4, 2008, the Corporation acquired 100% of the outstanding shares of Rastar, Inc., a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing. The company has approximately US\$50M in revenues and 350 employees.

21. Effect of new accounting standards not yet implemented

a) 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 prescribes 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.

b) General standards of financial statement presentation

In June 2007, Section 1400, General standards of financial statement presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

c) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, which supersedes Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. This Section applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets.

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

22. Comparative figures

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